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# THE GST OF IT

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Your queries on the Goods and Services Tax  
answered by The Hindu

## Answers provided by:

**Krishan Arora**, Director, Grant Thornton India LLP

**Rajeev Dimri**, Leader, Indirect Tax, BMR & Associates LLP

**B Sriram**, Tax Partner, EY India

**Saloni Roy**, Senior Director, Deloitte Haskins & Sells LLP

**Mausumi Saikia**, Manager, Deloitte Haskins & Sells LLP

## Research and production

Deepalakshmi K

Dhivya Solomon

P J George

Sanjay Vijayakumar

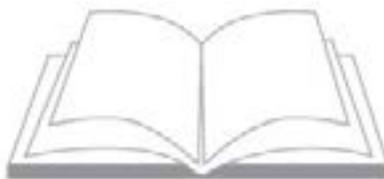
Sriram Srinivasan

Vidya Venkat



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# What is GST?

## Chapter One

## What is GST?

The Goods and Services Tax is meant to be a unified indirect tax across the country on products and services. In the current system in India, tax is levied at each stage separately, by the Centre and the State, at varying rates, on the full value of the goods. But under the Goods and Services Tax system that is set to be introduced, tax will be levied only on the value ADDED at each stage. It is a single tax (collected at multiple points) with a full set-off for taxes paid earlier in the value chain.

Thus, the final consumer will bear only the GST charged by the last dealer in the supply chain with set-off benefits at all the previous stages.

## What is State GST and Central GST?

For transaction within a State, there will be two components of GST – Central GST (CGST) and State GST (SGST) – being levied on the value of goods and services. Both the Centre and States will simultaneously levy GST across the value chain.

In case of inter-state transactions, the Centre would levy and collect the Integrated Goods and Services Tax (IGST). The IGST would roughly be equal to CGST plus SGST.

## Why was GST established?

The GST was established to subsume various indirect taxes levied at different levels, reducing the red-tape, plugging leakages and paving the way for a transparent indirect tax regime.

## What are the benefits of implementing the GST?

### **For business and industry**

**Easy compliance:** A robust and comprehensive IT system is to be the foundation of the GST regime in India. Therefore, all services such as registrations, returns, and payments would be available to the taxpayers online, making compliance easy and transparent.

**Uniformity of tax rates and structures:** GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax-neutral, irrespective of the choice of place of doing business.

**Removal of cascading:** A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.

**Improved competitiveness:** Reduction in transaction costs of doing business would

eventually lead to improved competitiveness for the trade and industry.

**Gain to manufacturers and exporters:** The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services, and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

### **For Central and State governments**

**Simple and easy to administer:** Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.

**Better controls on leakage:** GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.

**Higher revenue efficiency:** GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

### **For the consumer**

**Single and transparent tax proportionate to the value of goods and services:** Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.

**Relief in overall tax burden:** Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

## **What are disadvantages of GST?**

The main disadvantage is that tax on services is likely to go up. The second disadvantage as feared by manufacturing States such as Maharashtra, Gujarat and Tamil Nadu, is that they will lose a major chunk of revenue earned from taxes on manufacturing. Since the tax structure will be uniform in the entire nation, States that traditionally attract investments may now lose some since manufacturers may turn to other States as well.

## Which are the items that could become costlier and which are those that could become cheaper?

Broadly, services are expected to become costlier under the GST regime, as the expected GST rate would be higher than the existing service tax rate of 15%. Clearly, GST is expected to bring down prices of indigenously manufactured goods on account of current effective indirect taxes (central excise at 12.5%, state VAT at 5-15%) being higher as compared to the recommended GST rate of 17-18%. Thus, the supply of certain category of goods may come down depending on the effective rate of indirect taxes being paid at present.

- Deloitte Haskins & Sells LLP

**THE GST OF IT**

**Short to medium term effects**

**Costlier**  
Services like hotels, cellphone bills, air and train tickets set to cost more

**Cheaper**  
Goods like cars, two-wheelers, SUVs, fans, lighting products, water heaters, air coolers set to become cheaper

**18%**  
GST if set at 18% will be lower than current 24-26% tax on **goods**

**20-70 bps**  
CPI inflation will go up by 20-70 bps in the year of implementation due to costlier services

**15%**  
But it will be higher than the current 15% effective tax on **services**

**60%**  
Services make up 60% of GDP; higher taxes will hit services, which will hurt growth

**Long term effects**

- Will eliminate multiple taxes on firms, **help ease of doing business**
- Will **reduce logistics costs** for firms due to elimination of inter-State taxes
- Capital goods prices could fall by **12-14%**, boosting GDP growth by **0.5%**
- Will reduce black money; need for financial documentation will increase

**GST rates must come down, we'll strive for a reasonable rate** – Arun Jaitley

**The heart of this Bill is the tax rate, it should be low** – P Chidambaram

## How will it impact inflation?

The impact of GST on inflation can be assessed only when the government decides the rate at which various goods and services will be taxed. Going by the definition of GST in the Bill, the tax burden on products will come down because only value addition will be taxed. In

the case of services, taxes are likely to go up since both State and Centre will levy tax, while presently only Centre charges tax for services.

## What will be the impact of GST on GDP of the country?

According to Nomura, the short term impact of GST could be mixed. It could temporarily hurt growth owing to an increase in taxes on services, which account for 60% of India's GDP. It could also drive up headline CPI inflation by 20-70bps in the year of implementation due to incomplete pass-through of tax savings by firms, while it could also raise general government (Centre + State) tax collection with the central government's share (within the GST tax base) most likely rising and that of the State falling. However, in the long term, the GST will be clearly positive as gains from a more efficient tax system, greater price competitiveness (reduced costs), and the removal of interstate tax barriers should boost growth via higher exports and investments, structurally lower inflation, and higher government (Centre + State) tax revenues, enabling greater general government fiscal consolidation.

## How will GST affect the common man?

The impact of GST on the prices of goods and services will largely depend on the item in question. It will also depend upon the respective State governments and their intervention with respect to controlling prices of essential commodities. Milk, for example, which is likely to see a spike in prices after GST is implemented, can still be sold at cheaper rates, if the state government offers a subsidy on it.

Whether the GST will be beneficial for the poor or not only time can tell. Prices of vegetables and fruits are likely to rise under the GST regime and services such as eating at restaurants will get more expensive. What will likely get cheaper are items such as clothes, as cascading taxes at various stages of manufacturing would no longer apply to them.

## Is GST going to benefit people below the poverty line?

With respect to people living below the poverty line, while there might not be a direct impact of GST as such since basic necessities like food are unlikely to attract GST, increased collections of GST with a larger tax base shall provide an impetus to the Government to allocate more money toward social and poverty alleviation programmes. Thus, GST should benefit all sections of the society.

Additionally, GST, being a nationwide tax, could lead to possibly higher inflation in the first few years of its introduction but would gradually increase the overall GDP.

*- Grant Thornton India LLP*

## How will GST affect tax deductions of a salaried person?

GST is an indirect tax collected from customers who buy manufactured goods or services. So whether you are earning a salary or not, as long as you buy something, you'll be paying tax.

## What are the international lessons from GST implementation?

As of 2014, 160 nations have implemented VAT/GST. We have a company in China, which is yet to implement a uniform GST.

According to a Crisil report, when implemented in many countries, GST caused a spike in inflation with the impact lasting 10-12 months. The duration of the impact on retail sales varied, with consumer spending growth normalising within 3 months in Japan, Australia and China, but taking as long as a year in Singapore. Also, most countries witnessed a pre-GST spending rush. Malaysia, which implemented it in April 2015, saw a spending rush -- but not on big-ticket items. Sales of electronics & telecommunications equipment, departmental and general stores, jewellery and watches, furniture, and apparel rose. This was reflected in the rise in credit card transactions and rise in narrow money supply, which captures the transactions demand for money. Consumer spending also surged in Australia, Japan, China and Singapore just before GST kicked in.

## What are the issues that other countries have faced while implementing GST?

Countries have faced initial bottlenecks, such as finding the VAT model to be very complicated on account of huge diversity in application of exemptions. In the European Union, there was a problem of reduced rates among member states. There have also been challenges pertaining to interpretation. Canada's challenge was the presence of a variety of tax rates under the GST/harmonised sales tax regime. There were post-implementation issues in Malaysia. Canada's British Columbia, after having harmonised its provincial retail sales tax with the GST in July 2010 rolled back to its earlier tax regime in 2013.

Despite these challenges, GST/VAT has emerged as the preferred form of indirect tax system, being tax neutral, and offering a larger and more stable source of revenue. It is also potentially self-enforcing in nature. Gross domestic production of major economies such as New Zealand, Canada, Singapore, Australia, and so on, have reported annual increases in gross domestic production by 2.43%, 0.87%, 7.02% and 2.57%, respectively.

*- Deloitte Haskins & Sells LLP*

## Would the implementation of GST impact the federal structure?

The GST structure proposed for India is synchronised with the constitutional framework of the country, enabling concurrent levy and collection of GST by the Centre and the States.

Therefore, considering the constitutional amendments carried out by the government, autonomy of the States is not expected to be impacted by the implementation of GST.

*- Deloitte Haskins & Sells LLP*

## Why is the GST Bill a Constitutional Amendment and not a Finance Bill or Tax Bill or Money Bill?

The Indian Constitution enumerates the taxation powers of the Centre and State under List I and List II of the Seventh Schedule. The Centre can pass laws on the heads mentioned under List I such as income tax and the States can pass laws on the heads mentioned in List II such as sales tax. To introduce the GST, which will subsume many of these taxes, hence requires amendment of the Constitution. The Bill that will include the exact form and processes of the GST will be drafted and moved in both Houses after consulting with the States. We have to wait and watch how the government is going to move it, though the Opposition wants the Bill to be a Finance Bill and not a Money Bill.

## Why does the GST Bill require ratification from at least half of the States?

A Constitution Amendment can be carried out only if both Houses of Parliament pass it with two-thirds majority and at least half of the States approve it. This is to safeguard the federal nature of our set-up.

## Once GST is implemented, it will rationalise processes and thus result in surplus manpower. Has anyone thought of this and what is the plan to get them employed?

The administrative part of the Bill has not been discussed yet. The Bill cleared in Parliament will only facilitate setting up a GST that will replace host of indirect taxes levied by States and Centre. Three more Bills will be drafted in due course of time. One of those Bills will hopefully address the issue you have raised.

## How will GST help in getting rid of tax evasion?

A comprehensive IT system, GSTN, will allot universal GST numbers (similar to PAN) to all manufacturers, traders, stockists, wholesalers and retailers. This will simplify the administration of indirect taxes and plug leakages. The government also plans to incentivise tax compliance by traders.

## Is GST going to make things tough for a CA final student?

The GST Bill may reduce the burden of a CA student as it will reduce the number of taxes.

The GST will replace Central Excise Duty. Duties of Excise, Additional Duties of Excise, Additional Duties of Customs, Special Additional Duty of Customs, Service Tax, Cesses and surcharges, State taxes such as VAT, Central Sales Tax, Purchase Tax, Luxury Tax, Entry Tax, Entertainment Tax and so on. But taxes and levies by local bodies will continue.

# The Structure of GST

## Chapter Two

## What are the differences between VAT and GST?

VAT is Value Added Tax, which is considered the first step towards moving to a GST regime. VAT is charged on the increase in value of an article at each stage of its production or distribution. This is exactly how GST will be levied on products. However, VAT applies to goods sold and not services, which comes under service tax. GST is applicable for both goods and services, and at a uniform rate.

Also, a host of other indirect taxes are levied at various levels along with VAT. When GST is introduced, all of them will go.

## What are the benefits and demerits of GST in comparison to the current VAT regime?

Principally, GST is going to be a destination-based consumption tax and shall operate on the premise that value addition shall be taxed and input tax credit can be claimed at each stage of the economic supply chain. If a comparison of GST is done with the current State VAT/CST regime, there are multiple benefits, and some of the key benefits have been stated below:

- Uniform tax law across the States
- Elimination of tax cascading effect; no tax on tax
- Elimination of the concept of concessional forms (like Form C, Form I, Form H)
- Minimisation of rate classification disputes
- No CST cost to buyers in other States
- No input tax credit reversal in cases of stock transfers from one State to another
- More credits to businesses as compared to now (i.e. a service provider can claim input GST credit on goods, which isn't allowed today)
- Simpler compliances

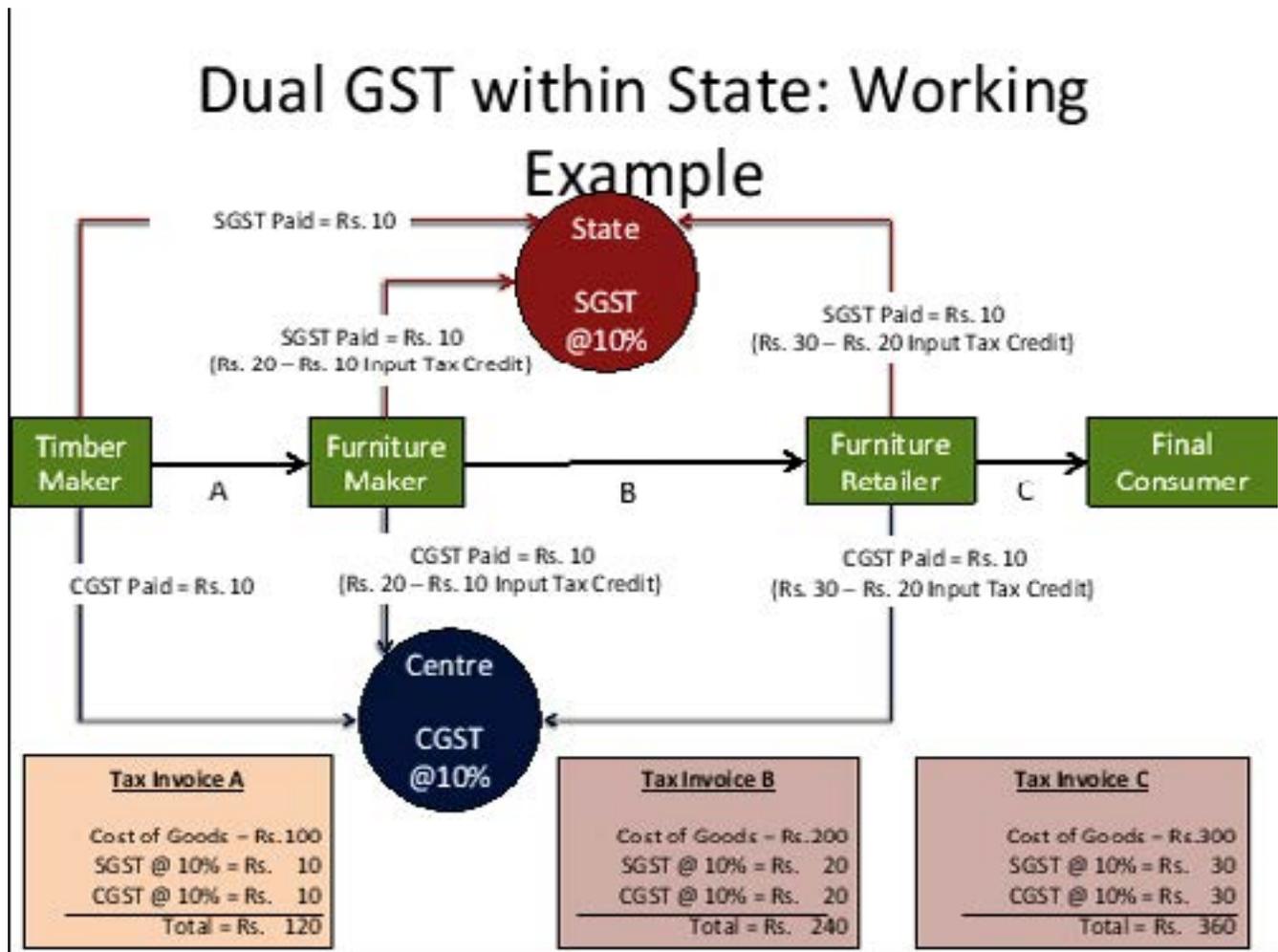
- *Grant Thornton India LLP*

## There are two types of rates being mentioned, a general rate of 18 % and the RNR. What is the difference between the two?

Currently, the model GST law does not specify any tax rates in the draft GST legislation. Precise tax rates on supply of goods and/or services are yet to be notified by the government, and consensus between the Centre and State governments has not been reached yet. Further, RNR (which stands for revenue neutral rate) is an economic rate at which the Centre and States would collect the same amount in taxes as is collected currently. Once a consensus is achieved on RNR, the rate for levying GST shall be

considered, keeping in mind other factors.

- Grant Thornton India LLP



(Infographic from pib.nic.in)

## Will GST mean two separate registration numbers or a single PAN-based registration across India?

Taxpayers will be required to take separate CGST and SGST registrations in each State from where supply of goods and services are being carried out. The registration would be linked to the Permanent Account Number (PAN) of the business allotted as per the Income-Tax Act 1961. There is no concept of centralised registration envisaged under the proposed GST regime. Further, existing taxpayers under the present indirect tax regime would be migrated to the GST common portal and may be required to furnish additional information or documents if deemed required by the authorities.

- Deloitte Haskins & Sells LLP

## What would be the percentage of service tax now?

Service tax would be subsumed under the GST regime. As per the report of the chief economic advisor, a revenue neutral rate at 15-15.5% and a standard GST rate (to be applied on all goods and services) at 17-18% have been recommended. The GST rate shall be prescribed by the GST Council which shall be constituted after enactment of the Constitutional Amendment Bill, 2014. At present, no GST rate has been recommended as the GST Council is yet to be formed.

*- Deloitte Haskins & Sells LLP*

## What is the GST rate in other countries?

As per a Crisil report, except for Scandinavian countries, where the tax is levied at a standard rate of 25%, few others have been successful in sustaining high VAT/GST rates. For example, New Zealand introduced a tax rate of 10% on a base consisting of all goods and services except financial services. And in Singapore, it started as low as 3% and was raised gradually. Globally, the average rate is close to 16.4%, in Asia-Pacific 9.88%. Canada and Nigeria have the lowest rate of 5%.

## When there are two types of GST Central GST and State GST how can it be called a unified tax?

Unified Tax does not mean a single tax. It means a uniform tax rate across the country. The Central GST, State GST and Inter-State GST, if needed, will be levied concurrently and will be administered by a single body.

## Why should there be an SGST and CGST, and not one GST governed by a single body?

The Indian Constitution has a federal structure that gives the Centre and States powers to legislate and govern on several subjects. Under this structure, the Centre and States have been empowered to levy taxes on goods and services under different indirect tax laws. The dual GST that is proposed in India would give equal powers to both the Centre the States to levy GST. This will ensure that the fiscal autonomy of the States and the overall spirit of co-operative federalism are maintained.

Given the fact that a dual GST shall be implemented in India on account of the federal structure of the Constitution, it is not possible to have a single body administering the levy and collection of GST across the country.

*- Grant Thornton India LLP*

## What will happen to various cesses such as Swachh Bharat cess and Krishi Kalyan cess?

Cesses such as the Swachh Bharat cess and Krishi Kalyan cess, which are in relation to supply of goods and services, are proposed to be subsumed by the GST. This also emerges from a reading of the GST Constitutional Amendment Bill passed by both Houses of Parliament.

- *Grant Thornton India LLP*

## What are the taxes that will be eliminated after implementation of GST?

The following taxes will go:

At the Central level:

- Central Excise Duty
- Additional Excise Duty
- Service Tax
- Additional Customs Duty commonly known as Countervailing Duty, and
- Special Additional Duty of Customs

At the State level:

- State Value Added Tax/Sales Tax
- Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States)
- Octroi and Entry tax,
- Purchase Tax,
- Luxury tax, and
- Taxes on lottery, betting and gambling.
- Fat tax imposed in Kerala

## Will there be taxes imposed by States in addition to the GST rate that consists of CGST and SGST?

As a promise under GST, States cannot impose separate rates unless it is recommended by the GST Council. However, for certain sectors, the States shall continue to levy current taxes like VAT or State Excise duty over and above the GST. It may be noted that at present,

no consensus has been achieved for the tax rate to be applicable on taxable supply of goods and/or services under the GST regime. It is, however, expected that the standard rate of GST (sum of CGST and SGST) could be around 18%-21% and a merit rate of 12% may be prescribed for select goods.

*- Grant Thornton India LLP*

## How will the Centre distribute the collected tax to the states?

The tax collected as CGST goes to the Centre, while SGST goes to States. Only in the case of inter-State transactions, the Centre will intervene. In such cases, the Centre will levy and collect the Integrated Goods and Services Tax (IGST).

The inter-State seller would pay IGST to the Central Government on the sale of his goods after adjusting credit of IGST, CGST and SGST on his purchases (in that order). The exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The importing dealer will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST. Since GST is a destination-based tax, all SGST on the final product will ordinarily accrue to the consuming State.

## I am a retailer of readymade garments. Earlier I used to pay 5% of VAT at the time of purchase of garments from the wholesaler. How much tax do I have to pay after implementation of GST?

As per the report of the chief economic advisor, a revenue neutral rate at 15-15.5% and a standard GST rate (to be applied on all goods and services) at 17-18% have been recommended. The GST rate shall be prescribed by the GST Council constituted within 60 days of the enactment of the Constitutional Amendment Bill, 2014. At present, no GST rate has been recommended as GST Council is yet to be formed.

*- Deloitte Haskins & Sells LLP*

## Small-scale industries have a Rs. 1.5-crore exemption from excise duty. Will there be any such exemption under GST?

The model GST law has a common exemption threshold for both CGST and SGST with an aggregate turnover of Rs. 10 lakh in a given financial year with an exception of Rs. 5 lakh in the case of north eastern states, including Sikkim. At present, there is no specific provision regarding any special treatment to Small-Scale Industry (SSI) in the model GST law, nor is there is any such threshold exemption proposed. This marks a departure from the existing practice of exemptions granted to SSI under Central Excise (rules), with a clear intention to expand the tax base. Further, it may also be difficult to grant such exemption purely at

the CGST level since the intention under GST regime is to keep both SGST and CGST base standard, as also taxability of inter-State and intra-State transactions.

*- Grant Thornton India LLP*

## Now there are separate offices for Excise and Sales Tax. Under GST, to whom will they report?

For the implementation of GST in the country, the Central and State governments have jointly registered the Goods and Services Tax Network (GSTN) as a not-for-profit, non-Government Company to provide shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders.

## What will be the role of commercial tax offices under GST?

In the GST regime, the role of commercial tax officers is likely to remain the same. All persons appointed by the State governments for carrying out functions under State tax laws relating to taxes on goods or services (such as State Value Added Tax, Sales Tax, CST, Entry tax all of which are being subsumed in GST) shall be deemed to have been appointed as GST officers or competent authorities under provisions of the respective SGST Act to be enacted. Similarly, the role of Central Government officers administering Central indirect tax levies may also remain the same under GST. Further, all the officers shall be imparted formal GST trainings before the implementation of GST.

*- Grant Thornton India LLP*

## What will happen to the district and State border check posts?

It is expected that district and State border check posts may continue for the time being primarily for the purposes of controlling illegal movement and to administer movement within municipal limits where certain municipal levies are likely to continue. However, compliances prevalent in the current regime such as waybills, road-permits and so on are eventually proposed to be done away with since all supplies shall get electronically mapped and tracked by an IT framework across States.

*- Grant Thornton India LLP*

## Will it be a jolt to the service sector, with tax rates set to increase compared to the current rate?

While it is correct to say that the tax rate under GST on supply of services may go up from 15% to 18%, the precise impact of the increase on the service sector shall depend on the specific business models of each service provider, since credits of GST paid on most of the

supplies may be available for adjustment against output GST liability and may no more be added to the overall tax cost.

- *Grant Thornton India LLP*

## For imports, which duty component will exist post GST?

Post GST, basic custom duty would continue to exist and would be governed under the Customs laws. However, additional Customs duty (also known as countervailing duty in lieu of Central Excise) and special additional duty (in lieu of VAT), presently being levied on imports, shall be subsumed under GST. Hence, on import of goods, basic customs duty and GST shall be applicable unless specifically exempted.

- *Grant Thornton India LLP*

## Will the current duty remission and duty exemption on imports continue?

With regard to duty remission and duty exemption, which are currently provided by the government to specific industries or on specified goods through several schemes such as EPCG, MEIS/SEIS, no specific clarity has been provided in the model GST law. Modalities surrounding issues like continuation of incentives, exemptions under Customs or foreign trade policy laws, is being re-worked out by the authorities to ensure that exporters continue to get adequately encouraged to earn foreign exchange for the country.

- *Grant Thornton India LLP*

## What will happen to local body taxes? If they are to be compensated by either State Government or Central Government, what will be the principle for comparing two cities say Chennai and Mumbai or Mumbai and Pune?

While most of the State indirect tax levies such as VAT, CST, entry tax, and so on, would be subsumed into GST, some of the taxes and levies by municipal bodies may continue. The GST Constitutional Amendment Bill provides for compensation to States by the Central Government for losses to the State exchequer due to the implementation of GST in initial years. The Centre and States have together tried to individually assess the quantum of revenue losses that may arise on account of implementation of GST and such quantum of loss of revenue shall depend upon factors such as state economy, economic conditions, and so on.

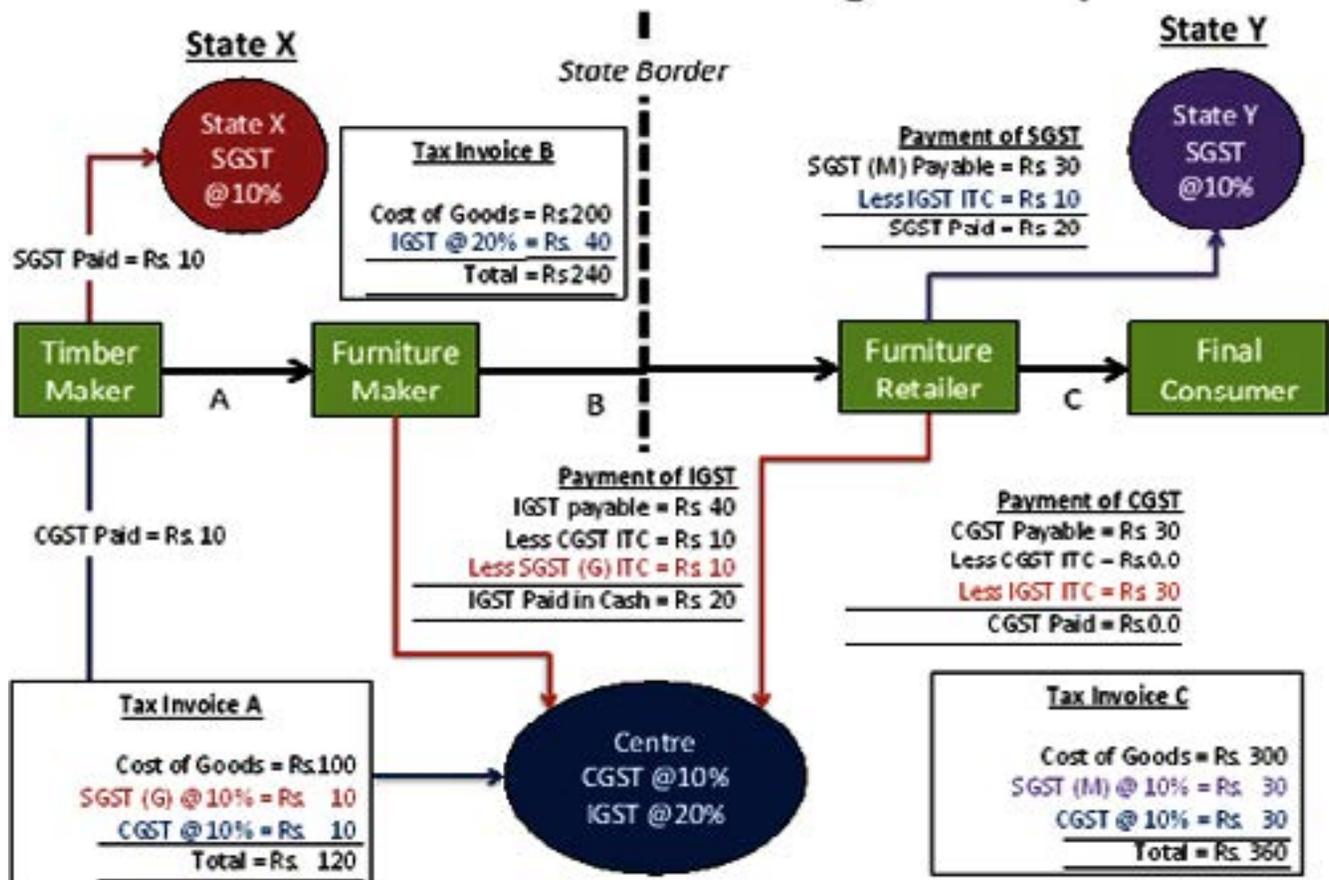
- *Grant Thornton India LLP*

## Who will levy the Integrated GST and who will collect it, State or Centre?

It may be noted that the term Integrated GST has been removed from the Constitutional Amendment Bill passed by the Rajya Sabha and has been replaced by GST levied on supplies in the course of inter-State trade or commerce. GST on inter-State supplies shall be governed by the Integrated GST Act, 2016 (though the name of the Act may be changed in line with the Constitution) and collected by the Centre, which shall be distributed between the Centre and the States.

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## IGST Model: Working Example



(Infographic from pib.nic.in)

# GST and the Consumer

## Chapter Three

## What would be the tax structure on consumer durable products post-GST?

In GST, we can expect to have a standard rate (not yet finalised) of 18%-20%. This is based on the Chief Economic Advisor's suggestion. We understand that there is discussion going on between the Centre and the States to firm up the rate. Assuming that the standard rate is 18%, typically the same will apply to all goods except certain goods of essential nature as well as demerit goods. Consumer durable products are generally understood as goods that will attract a standard rate (exceptions could be for goods which are subject to higher rate as demerit goods).

For example, if we take washing machine, the current rate of excise duty for manufacture of washing machine is 12.5% and on its sale the same would be subject to a VAT of 14.5% (in Tamil Nadu). The combined tax would come up to 27%. However, under GST, if the same is considered under standard goods, it would be subject to a levy at 18%. To that extent, there would be a lower tax impact under GST. Thus, an individual product specific comparison would be required to be done.

- *EY India*

## Prices in which sectors are likely to increase post GST?

There are sectors which are enjoying exemption or a lower rate of excise duty or VAT (example: tractors are exempted from excise duty and attract a TNVAT rate of 5%).

In the GST context, the same may be taxed at a general rate or perhaps at 12% or any other lower rate. Accordingly, the rate of 12% (if fixed) can result in higher tax.

Let us take another example: There are sectors which are presently subject to a peak rate of duty (example: ready-to-eat food packets, which attract an excise duty of 12.5% and TNVAT of 14.5%). Under the GST context, assuming a rate of 18% is fixed, it can result in lower tax.

An increase or decrease in prices on account of tax will be a function of not only the rate-related impact but also other factors like unlocking of credit or seamless availability of credit and the decision of the manufacturer or the trader to absorb the GST impact.

- *EY India*

## Will the spending on Internet, phone calls, DTH television be less or more after GST?

Internet, mobile services and DTH television will get more expensive after GST is implemented as these constitute services and the rate of taxation is going to be higher for services.

## How will GST affect e-commerce?

A recent report by Crisil explains the impact of GST on e-commerce. E-commerce players have a large number of sellers listed on their platform. These sellers will have cash-flow issues as they will have to claim refunds for tax paid on inputs, which e-tailers will not be able to account for. Thus, this will increase the compliance burden for e-commerce players. Further, any payment made to a supplier would be subject to tax collected at source at the notified rate. This might create a rift between sellers and e-commerce companies.

## Is GST going to make education cheaper?

Schools and colleges are services that are not taxable. However, privately offered educational services such as tuitions and coaching institutes will likely get more expensive with GST.

## What will be the impact on bus and train fares?

The impact on train and bus fares is yet to be determined.

## What would be the impact on land prices and farming?

Purchase and sale of land will not be part of GST. As per the draft GST law, agriculture, an activity, will not be taxed under GST. For the purpose of GST, agriculture shall not include dairy farming, poultry farming, stock breeding, the mere cutting of wood or grass, gathering of fruit, raising of man-made forest or rearing of seedlings or plants.

*- EY India*

## Will GST cause a rise in the price of essential commodities?

Typically, basic items like milk are not subject to either excise duty or VAT. If assuming they are brought under GST, there will be an impact. Processed foods (such as fruit jam, jelly, and so on), which are currently subject to a 6% excise duty and 5% VAT under Tamil Nadu VAT, can attract a GST rate of 18%.

*- EY India*

## Why are petroleum products not included in GST?

It was a decision made by the Empowered Committee as these (basic petroleum products such as petroleum crude, high speed diesel, motor gas, and aviation turbine) are the main sources of income for the States.

The State governments were apprehensive of significant losses of revenue on account of GST. The petroleum products would continue to be taxed separately by the Central Government (excise duty) and State Government (VAT).

- *EY India*

## How will GST alter the logistics of business?

According to foreign brokerage Nomura, GST will lead to the elimination of Central Sales Taxes and inter-state VAT arbitrage possibilities. This will lead to the consolidation of warehouses and increased efficiencies in the logistics chain. Overall, it expects significant reduction in logistics costs across the value chain. CRISIL Research expects the rollout of GST to bring down the logistics costs of companies engaged in the production of non-bulk goods by as much as 20%. Savings will accrue as a result of gradual phasing out of the central sales tax (CST), consolidation of warehouse space, faster transit of goods since local taxes will be subsumed into the GST and as state level check posts will be dismantled.

## What will be effect of GST on prices of medicine?

There are some lifesaving medicine drugs which are currently enjoying lower duty rates under the excise duty regime and VAT. We will have to wait and watch whether such lower rates continue under GST as well.

- *EY India*

## How will real estate prices change post-GST?

A typical real estate offering (i.e. building construction) is expected to have combination of both goods and service (assumption: 40% service portion and 60% goods). The combined rate of both service tax and VAT would be 14.7%, whereas under GST the same could be subject to a levy of 18%. GST shall not be applicable on immovable property (i.e. land).

- *EY India*

## Is GST applicable on flight bookings?

GST is applicable for aviation sector and accordingly flight bookings would be subject to GST.

- *EY India*

## Will GST make eating out more expensive?

In the case of food served in a restaurant, the rate of 14.5% will be prevalent in case of star hotels and a rate of 5% in the case of other hotels. In case of small hotels, where the

turnover doesn't exceed Rs. 50 lakh, a concessional rate of 2% is charged. The rates given are from the perspective of the Tamil Nadu Value Added Tax structure. In case of branded foods served in a restaurant or otherwise, the same shall be subject to tax at the applicable rate. Example: branded pizzas are subject to a levy of VAT at 14.5% in Tamil Nadu. In some States like Kerala, there is also a separate fat tax on pizzas and burgers. Also, when food is served in A/C restaurants, a service tax of 6% (40% on 15%) is presently being levied. Accordingly, the impact can vary under GST.

- *EY India*

## Will road tax have to be paid again for a car purchased in one State and brought to another?

Road tax is not proposed to be subsumed under GST.

- *EY India*

## Would consumer items and other household articles continue to be taxed at 14.5% or would that increase to 18%?

The rates of tax and exemptions are still being discussed by the Central and State governments. We understand that representations are being made to keep the rates as low as possible for daily needs.

- *EY India*

# GST and the Government

## Chapter Four

## What would be the implications of GST on the financial relationship between States and the Centre?

Aligned with India's federal structure, the GST model is proposed to be a dual structure, under which taxes will be levied and collected by the Union Government (Central GST) as also the respective State governments (State GST). This dual GST model would be implemented and governed by the CGST Act, IGST Act, and the SGST Acts of each State as also common rules determining valuation, place of supply, place of origin, and so on. This would imply that the Centre and the States would have concurrent jurisdiction on the entire value chain.

Under the GST regime, the Central Government and the State governments would be required to work closely in a coordinated manner, as the IGST collected by the Central Government to be apportioned to the respective States and Central government has to mandatorily compensate the State governments for 5 years for losses that may be incurred on account of the implementation of GST.

*- Deloitte Haskins & Sells LLP*

## How one can say that government revenue will increase once GST is implemented?

The proposed GST structure in India is expected to be broad based. GST is expected to harmonise and consolidate multiple indirect taxes in India by widening the tax-base and cutting down exemptions, lowering the exemption thresholds particularly for central excise from Rs 1.5 crore to Rs. 10 lakh, mitigating cascading and double taxation, and promoting voluntary compliances through the lowering of the overall tax burden. GST is expected to tax services which are not being taxed at present and also encourage voluntary compliance, which on the other hand would encourage sectors currently under parallel economy to become part of the mainstream. All these factors are expected to boost tax revenues.

*- Deloitte Haskins & Sells LLP*

Under the present indirect tax regime, the Central Government levies tax on services at the rate of 15% whereas the Centre and the State Governments together charge taxes (excise duty, value added tax, entry tax, and so on) on goods at a variable range of 6 to 40%.

Under the GST regime, it has been proposed that the GST Council will decide GST rates with the consensus of the Centre and the States. Presently, there is no clarity on the GST rates that are likely to be proposed by the GST Council. In this regard, reference can be made to the report issued by the chief economic advisor (Arvind Subramanian). The report suggests a revenue neutral rate of 18% (the rate at which the Government would continue earning what it has been earning under the existing tax regime), a standard GST rate in the range of 15 to 15.5%, and a lower rate of 12% on certain goods. Further, a higher rate of 40%

has been proposed on certain de-merit goods such as aerated beverages, luxury cars, and so on. Therefore, one can infer that the standard GST rate is likely to be in the range of 16-18% with a lower/higher rate on certain goods.

Given that most of the taxes presently being charged are likely to be subsumed under the GST, it is being expected that the revenues earned by the governments will increase for the following reasons:

- Exemptions under the GST regime will be substantially reduced to allow free flow of credits in the supply chain. Presently, numerous goods and services enjoy exemptions, resulting in lower tax revenues to the exchequer.
- GST will broad base the tax-paying population. It is pertinent to note that even at the time of the introduction of VAT (value-added tax), tax revenues of the states actually went up instead of falling. Tax evasions are currently prevalent in the form of fallacious claim of exemptions or lower duty rates or as attempts to escape the levy of non-creditable taxes. Since GST will have the same rate for almost all the products and services, with no or least exemptions and free flow of credits, it is likely to encourage compliance.
- The revenues from services sector are likely to increase. The sector presently attracts a lower rate of 15%, which is expected to go up.
- Further, the State Governments which were only entitled to earn taxes arising on sale of goods in their respective States will now earn GST on the services being received by the assesses in their States.
- States will be entitled for their portion of SGST on the Integrated GST ( IGST ) applicable on all inter-State trade. This will include IGST on import transactions, which presently belongs to the Central Government only. Further, a part of CGST and Centre's share of IGST will also be apportioned to the States.

*- BMR & Associates LLP*

## What will happen to excise-free zones such as Uttarakhand and those who have permission not to pay excise duty till 2020?

The proposed GST structure intends to widen the tax base and eliminate exemptions, as exemptions break the continuous chain of set-offs. The empowered committee has proposed to convert all industrial-related incentives into a cash-refund scheme after collection of tax, so that the chain of set-offs is not disturbed. It was clarified that such exemptions or remissions would continue up to their legitimate expiry time both for the Centre and the States. Any new exemption, remission, or continuation of an earlier exemption or remission would not be allowed. However, further clarity is required from the Government in this regard.

*- Deloitte Haskins & Sells LLP*

## What is the State legislation required for GST to take full effect?

Pursuant to the enactment of The Constitutional Amendment Bill, 2014, CGST, IGST and SGST Acts for each State would be required to be enacted to govern GST, once introduced. Additionally, rules determining valuation, place of supply, place of origin, and so on, would also be required to implement GST.

- *Deloitte Haskins & Sells LLP*

## What happens when some States don't pass those bills in their Assemblies?

In case some States refrain from passing the Bills required for enacting the above discussed legislatures, the situation is not clear.

- *Deloitte Haskins & Sells LLP*

There cannot be a situation where GST is implemented without the States passing the GST bill.

- *EY India*

## Once the GST is rolled out, what will be the tax benefits for Special Category States?

The GST Council has been entrusted the power to recommend tax benefits. However, as of now, no tax benefits specifically for Special Category States have been provided.

- *Deloitte Haskins & Sells LLP*

## GST has promised a compensation for five years to the States but what if the compensation needs to be there after five years?

The Constitutional Amendment Bill, 2014 enables the Parliament to frame laws as per the recommendation of the GST Council by virtue of which Central Government shall be mandatorily required to compensate for the loss of revenue to States on account of implementation for a period of five years. At present, compensation for a period beyond five years has not been envisaged.

- *Deloitte Haskins & Sells LLP*

## Why are some States worried about compensation, and why is compensation needed?

Under the proposed GST regime, the foremost amongst the continuing worries of various State Governments is the potential loss of revenues. Manufacturing States are most worried regarding loss of revenues, since the current taxation regime which is an origin-based tax will shift to being a destination-based tax. In an origin-based tax system, tax is collected where the supplier of goods is located while in a destination based system, tax is collected where the consumer of a product is located. Thus, States with a greater manufacturing set-up fear a big revenue loss on account of movement of goods from their States.

Further, the States currently levy taxes like VAT, entry tax, luxury tax, and so on, on the sale of goods which will get subsumed under GST. Under GST, the States may not have complete autonomy to introduce any new tax at will. Further, any change to tax rates would have to be within a narrow band prescribed by the GST Council and will need to be agreed to with three-fourth majority at the GST Council. On account of the above reasons, many States fear a fall in their revenues and, thus, are seeking to be compensated for such loss.

*- BMR & Associates LLP*

## What is going to be the effect of GST on the States?

States are going to experience a major change in the entire tax administration and levy structure due to the advent of GST. Introduction of GST will have the following major effects on the States:

- Movement of GST revenues from the origin States to the destination States.
- Loss of revenue due the abolishment of State levies like VAT, entry tax, luxury tax, and so on, which will get subsumed under GST.
- Dilution of fiscal autonomy, as the States will not be allowed to introduce any new taxes, change rates of tax, or give exemptions to any class of goods or services as they will.
- A potential increment in the State revenues on account of collection of GST on services being received in their States, as also with IGST being applicable on import, and inter-State trade, the State portion of which will belong to them.
- States will need to learn taxation of services. It would be particularly relevant for state authorities to educate themselves with the place of supply rules for services and the principles governing intra-state and inter-state supply of services. Ensuring no evasion and dual taxation of service transactions across state boundaries could be a colossal task for the States.

*- BMR & Associates LLP*

## How will GST impact local bodies?

Under the GST regime, it is expected that all the current State specific levies like Octroi, local body tax, entry tax, and so on, may subsume into one common tax net, wherein the revenues would be divided between the Centre and the States based on a mutually-accepted formula. However, under Article 243X of the Constitution of India, the States have the power to authorise a municipality to levy, collect, appropriate, or assign taxes, duties, tolls and fees.

In this regard, it is pertinent to note that the Ministry of Urban Development has also been expressing its concerns regarding its loss of revenue in the unified tax regime in case all the local body, municipality taxes are subsumed in the new regime. The Ministry of Urban Development had suggested that 25 to 30% of the States share of the GST should be attributed to the urban local bodies to compensate for the huge fiscal gap. With such an approach, the Finance Minister, during the Parliament session on August 3, 2016, had also hinted at the continuity of Octroi under the GST regime. Thus, there still remains a lack of clarity on this aspect.

- *BMR & Associates LLP*

## What are the loopholes for the States or the Centre to put more taxes such as cesses, local body taxes or a pollution tax?

Under Articles 270 and 271 of the Constitution of India, the government still has the power to levy cess or surcharge for any special purpose. Further, in terms of Article 243X of the Constitution of India, the States have the power to authorise a municipality to levy, collect, appropriate or assign taxes, duties, tolls and fees. Hence, additional levies like cess, surcharge, and State-specific local body taxes like Octroi and so on may constitutionally continue to be levied in the GST regime. That said, as things stand, it is proposed that all the existing cesses, surcharges and local body taxes are to be subsumed into GST.

- *BMR & Associates LLP*

## The Kerala government has imposed a fat tax on fast foods. With the implementation of GST, will it be applicable any more?

The Kerala government has imposed fat tax on cooked food items like burgers, pizza, tacos, doughnuts, sandwiches, etc., sold by restaurants having a brand name or a trade mark registered under the Trade Marks Act, 1999. The levy of 14.5% tax is on these food items under the Kerala VAT Act, 2003, which is proposed to be subsumed under the GST regime. Hence, a fat tax may not be levied on these goods under the GST regime. However, since the intention of the government seems to be to motivate healthy eating habits in the State, the possibility of these food items attracting standard or higher rates (as opposed to merit rate,

which should apply on food items in general) of tax cannot be ruled out under GST.

*- BMR & Associates LLP*

**Under GST, if State 1 manufactures a product and it is consumed in State 2, then State 2 will get the portion of GST and State 1 will get nothing. So what is the incentive for State 1 to carry out manufacturing?**

GST is a destination-based tax which implies that the taxes will belong to the States where the goods or services would eventually be supplied to. Thus, the current origin-based tax system in which the manufacturing States receive the taxes will change and those taxes will now be received by the destination State. However, the revenue loss on this count should get duly counterbalanced by the following factors:

Manufacturing States generally also have a high consumer base. This should lead to a default increase in GST revenues given that part of the production will be consumed within the State, and also these States will be the consumer States for a variety of goods and services not originating therein.

- Petroleum and alcohol products will be outside GST (at least in the initial years). With this, a major share of State's tax revenue would still come from existing taxes.
- The State portion of GST on services will add on to State's revenue kitty.
- An increment in the State revenues is also expected on account of IGST being applicable on import and inter-State trade (the State portion of which will belong to them).

A proposal to levy an additional 1% tax in manufacturing States has been done away with vide the 101st Constitution Amendment Bill, 2016, as it would have led to a cascading effect of taxes.

On an overall basis, the States revenue should generally increase under GST. In any case, the States have a Constitutional assurance to be compensated for their losses (if any) suffered in the initial five years of the introduction of GST. So they do not have any reason to worry.

*- BMR & Associates LLP*