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# Basic Insights on GST



**ROHIT**  
on 10 July 2017

Hi,

The numerous queries which I have been receiving as well as the various rumours floating in the market regarding GST, has instigated me to write a small note on it. I thought the best way to clarify the basics on [GST](#) would be by way of an article. We know that GST has kicked in from 1st of July, 2017, so, let's be ready with some basic information about how our businesses will transform post-GST.

## What exactly is GST?

GST refers to Goods & Services Tax which has been brought in with an intention to replace the current tax structure which includes Excise Duty, Service Tax, Countervailing Duty (CVD), Special Additional Duty of Customs, Central Charges & cesses and local sales tax i.e. Value Added Tax (VAT), Central Sales Tax (CST), Octroi, Entry Tax, Purchase Tax, Luxury Tax, Taxes on Lottery, betting and gambling. Simply put, GST is the tax in place of all other numerous indirect taxes!

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So, to cut things short, GST is a Consumption/ Destination based tax on supply of goods or services which excludes supply of alcoholic liquor for human consumption but includes stock transfers, branch transfers and also goods given as free samples. This means Stock transfers or branch transfers which were not taxed in the State Laws earlier will now be taxed under GST (credit will of course be available on such tax paid.)

### **Sorry, but what's Consumption or Destination based tax?**

Destination Based Taxation, as the name suggests is the taxation based on destination or consumption of the goods or services.

For example : If ABC Ltd in Maharashtra produces the goods and sells the goods to XYZ Ltd in Gujarat, then in such case the tax should be levied and collected and should accrue on the goods in the State of Gujarat and not in the State of Maharashtra. The revenue in the case of destination based taxation belongs to the place where the goods are finally consumed and not to the State where the goods are produced.

### **The question people keep asking me is about 'One Nation One Tax'. Will there be a single tax structure or a single rate?**

Please make a note that **Nothing in the GST Act is one**, other than the slogan, be it the Act, which is as of now CGST (Central GST), SGST (State GST), IGST (Integrated GST), UTGST (Union Territory GST) or the rates which were earlier proposed to be 0%, 5%, 12%, 18%, 28% but are now 0%, 0.25%, 3%, 5%, 12%, 18%, 28%.

(You may refer the following link <http://www.gstcouncil.gov.in/gst-rates> to determine under what rate of GST does your product or service fall.) Doing this exercise now will help reduce chaos in issuing invoices from 1st July 2017.

### **Will GST increase or decrease the price of goods or services? (especially the fees of a Chartered Accountant :-P )**

There is no straight-jacket answer to this question as the price of some goods may increase and some may decrease but the price of most of the services will surely increase, thus,

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increasing the burden on the consumer.

### **What will be the tax structure regime in GST? (Under which Act will we charge GST out of the lot mentioned above?)**

In case of an **Intra State Sale / Sale Within the same State** - The dealer has to charge **CGST + SGST** (Percentage of which is yet to be declared, expected to be 50-50, so if you fall under the 12% tax slab you will charge 6% CGST & 6% SGST)

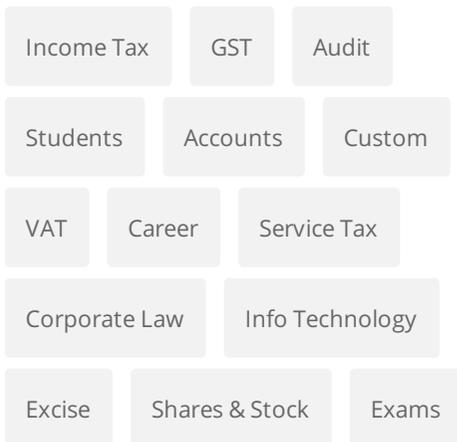
If there is an **Inter State Sale/ Sale to another State** - The dealer has to charge IGST or UTGST (If made to a union territory) **(so if you fall under the 12% tax slab you will charge 12% IGST)**

### **Can credit of GST paid on purchase of goods be adjusted against GST collected on supply of service and vice versa? (This is good news to most of us as this will help us reduce our cost to some extent)**

Yes, credit of GST paid either on purchase of goods or for services availed can be adjusted against GST collected on sale of Goods or supply of services. This was not allowable in the earlier laws. VAT paid on Goods could not be adjusted against service tax paid on services and vice versa. But now, there is no distinction between credit on goods or services. But like every other law, this is subject to certain conditions and limitations.



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## On what goods/ services Input Credit cannot be claimed?

- Purchase of Motor Vehicles (unless you are a dealer of motor vehicles or are in the business of transportation of goods/ passengers).
- Food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery. (But if the goods and/or services are taken to deliver the same category of services or as a part of a composite supply, credit will be available)
- Membership fees paid in a club, health, fitness centre.
- Rent a cab, health and life insurance (except goods and/or services are taken to deliver the same category of services or as a part of a composite supply, credit will be available)
- Goods and/or services where tax have been paid under composition scheme
- Goods and/or services used for personal use
- Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples

I have mentioned only a list of exceptions which most of us will incur in our routine business operations; business specific exceptions have been ignored.

## Is there any change in the mechanism in which an Invoice should be issued?

Yes, the government has notified the prescribed particulars which needs to be mentioned in every invoice.

- Type of Invoice (Tax Invoice, Revised Invoice or Supplementary Invoice)
- Name, address and **GSTIN** of the supplier
- A consecutive serial number unique for a financial year (can have alphabets and/or numerals or '-' and '/' and any combination thereof)
- Date of issue of Invoice
- Name, address and GSTIN/ Unique ID Number, if registered, of the recipient.
- Name and address of the recipient and the address of delivery, along with the name of State and its code, if such recipient is unregistered and where the taxable value of supply is fifty thousand rupees or more.
- HSN code of goods or Accounting Code of services.

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- Description of goods or services.
- Quantity in case of goods and unit or Unique Quantity Code thereof.
- Total value of goods or services.
- Taxable value of goods or services taking into account discount or abatement, if any.
- Rate of tax (CGST, SGST/UTGST, Cess or IGST)
- Amount of tax charged in respect of taxable goods or services (CGST, SGST/UTGST, Cess or IGST)
- Place of supply along with the name of State, in case of a supply in the course of inter-State trade or commerce.
- Place of delivery where the same is different from the place of supply.
- Whether the tax is payable on reverse charge.
- Signature or digital signature of the supplier or his authorized representative.

**Can we enter into a business transaction with an unregistered dealer (a person who does not have a GST number)?**

Yes, you can enter into business transactions with an unregistered person **but** in that case, you will be required to pay GST on reverse charge mechanism basis to the Government.

So for example if you enter into a transaction with an unregistered person X for Rs.10,000/-. Since he is not registered, he will not charge you GST on it. In that case it will be your responsibility to pay the amount of GST on that goods/ services to the government from your pocket. So, in our example if the service is taxed @18% then we will be required to pay Rs.1800/- from our own pocket to the government at the time of filing of returns.

**Will we get Input Tax Credit on the amount paid by us on behalf of the unregistered dealer?**

Yes, you will be eligible for Input tax credit but in order to avail input tax credit you will have to raise an invoice in your name for the services/ goods taken by the unregistered dealer. File that invoice with the GST Authorities and after receiving an approval from the GST Authorities you can take the credit in the next following month.

Yes, it is a task. Also, your working capital gets blocked since you have to pay the GST upfront out of your pocket and issuing and uploading such invoices is an additional work. So, it is up to you if you want to work with an unregistered dealer or not.

### **What are the returns to be filed?**

Every dealer will have to file 3 returns every month and 1 annual return at the end of the financial year. Yes, you got it right. From filing 4 or 12 returns every year, we will now be filing a whopping 37 returns every year. This may increase based on your business requirement.

### **What is the due date for such returns?**

<b>Form No</b>	<b>Purpose</b>	<b>Due Date of filing return</b>
GSTR - 1	All outward supplies/ sales of Goods and services	10th of the next month
GSTR - 2	All Inward Supplies/ Purchases of Goods and services.	15th of the next month
GSTR - 3	Consolidated Monthly Return along with payment	20th of the next month
GSTR - 9	Annual Return i.e A consolidated return for the entire year.	31st December of Next Financial Year.

So, if we take an example for the month of July, then the dates will be as follows:

<b>Form No</b>	<b>Due Date</b>
GSTR - 1	10th of August 2017
GSTR - 2	15th of August 2017
GSTR - 3	20th of August 2017
GSTR - 9	31st December 2018

### **Is filing NIL Return mandatory?**

If in any month there are no purchase or sale invoices then too the dealer has to file NIL return or else he will be liable for Penalty.

### **What is the rate of interest and penalty under GST?**

The department has divided the interest levy into 2 scenarios:

<b>Case</b>	<b>Percentage</b>
Case where the tax payable is not paid	Interest shall be paid @18% p.a
Case where sales are reduced or excess	Interest shall be paid @24% p.a

purchases are shown	
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Penalty for non-filing of returns are Rs.100/- day per return up to a maximum of Rs.5,000/- per return. So, the amount of penalty payable for not filing one month's return can run up to Rs.15,000/-, being delay in filing for 3 returns for a month.

### **How is the Tax to be paid under the GST Act?**

Please note that tax can only be paid by electronic means under the GST Act. You can no longer visit the branch and make payment across the counter. So, internet banking is a must.

### **When will we receive our GST Certificate?**

The government has announced that they will start releasing the GST certificates online from 27th June 2017.

Do start collating the GST numbers of all your customers as you will be required to mention them in your sale invoices from 01st July 2017, so it will be better if you keep your database ready rather than struggling at the last moment.

Feel free to shoot if any of your queries are left unattended. Wish you a very Smooth Transition ahead.

***The author is a Chartered Accountant and can also be reached at [rrco1905@yahoo.com](mailto:rrco1905@yahoo.com)***

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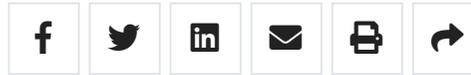
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AVINASH KARMARKAR

[3 years ago](#)

Very nice and informative article. But I have one confusion. How can reverse charge mechanism effect the working capital ? Because had the supplier of service was a registered dealer, then the receiver would have paid GST to the supplier. In reverse charge, he pays the GST to Govt. So there is no working capital blocking. Just some additional documentation and filing task.

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AKHILESH KUMAR BHUCHAR

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Sir, what will be incidence of GST on intra state supplies of goods by a registered person to his another unit having same PAN/ under same vertical ? Will it be considered as supply and Taxable ?

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As regards purchase from an unregistered person, one is required to pay GST under RCM. To put it that you have to pay from your own pocket is not the correct interpretation. If the supplies are from a registered person, you pay GST to the supplier who in turn pays to the Govt. It amounts to the same thing. However, the difference is that the price from an unregistered dealer includes the GST in total that he has paid to his supplier and you will have to pay GST on that amount also. So your purchases from an unregistered dealer will be more costly to that extent. Secondly, you have to pay the GST in cash. This can not be made by use of your ITC credit.

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HARI KRISHNAN

[3 years ago](#)

I am running a grocery store under composition tax. How can I change my COT to Vat registration? And how do I make input credit? Please advise me!

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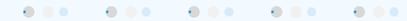
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