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GST BY CA SUDHIR HALAKHANDI

(English Version)



GOODS AND SERVICE TAX- FOR TAX PAYERS

(FOR SMALL TRADERS AND MSMEs)

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(USE ONLY FOR WhatsApp)

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PART -1

The Government is fully prepared to introduce the Goods and Service Tax in India on 1st July 2017 and for this purpose the which are required to be passed by the Parliament have been passed and the required assent of the Hon. President of India is also obtained. Hence sooner or later GST will be a reality in India.

For small Traders and MSME Industries it is now essential to know what is GST hence we are starting from today a series in this respect. Our series on GST in Hindi is already going on with part -1 to part -5 are already released.



1. VAT AND GST

What will be effect of GST on the State VAT because in all the states VAT as a major state tax is in operation .VAT was introduced in our country in 2005 and 2006 in almost all the states and Goods and Service Tax is the logical extension or in other words GST is the final Destination of the VAT. Vat and other state indirect Taxes will be converted or subsumed in SGST along with taxing the Services at the state level and it will be called “State Goods and Service tax”-SGST.

2. GST AND CENTRAL EXCISE

Central excise is a very important indirect tax in the country and it is a central tax .It is applicable on the manufacturing stage of the goods and in GST regime it will be scrapped and CGST will come into force which is destination based tax on selling stage. It means all the dealers (not involved in manufacturing activities) will have to pay this central tax in the name of CGST.

Here at taxing the “sale of goods” was the sole right of the states and centre was not able to tax the sale of goods .To give power to Central Government to tax the sale of goods the much talked GST

Constitutional amendment Act is here which has given this power to centre. This bill has also given power to states to tax “services” which was the sole right of centre before it.

Here One point should be kept in mind that there was a certain question in the mind of our Lawmakers since inception of Central Excise that why central Government is taxing the Goods up to the stage of Manufacturing instead of “Stage of sale” hence they have selected GST to tax the “Sale of Goods” in the form of CGST by the Central Government as the answer of this question.

The other factor which is very widely described as reason of introducing the GST is removing the “Cascading effect” i.e. effect of Tax on tax i.e. payment of central excise on VAT and vice versa.

Since the Central Excise is payable up to the stage of Manufacturing hence Traders are not liable to pay it but since CGST will be payable up to the stage of Sale hence now all the traders will be covered by Central Indirect system. At present the dealers who are only paying VAT will now have to pay central Tax i.e. CGST the “Central Goods and Service Tax”.

Further there is a threshold limit of Rs.150 Lakhs in Central Excise but in GST it will be reduced drastically to Rs.20.00 Lakhs so it will also give boost to the Central Government’s revenue from the Central Indirect tax system but it will create a problem to Small scale Industries who are at present not paying Central Excise due to this Rs.150.00 Lakhs threshold.

Now all the big and small Industries have a pay the same tax so there will be a problem for the Small scale industries while competing with the big Industries.

How Our GST with work in Federal system of Governance

The proposed GST in India is a dual tax. The reference of GST was first made in Indian Budget in 2006 by Mr. P Chidambaram as a single centralized indirect Tax in which tax is to be collected by centre and then it is to be distributed between centre and States. This was the standard format of Goods and service Tax.

In our country states have also right to collect indirect taxes on sale of goods hence this “single centralized” form of GST was rejected by the states at the initial stage itself.

Hence a compromise is made on Dual GST in this respect in which both states and centre will impose and collect tax on a single transaction of sale and service in the form of State Goods and service tax "SGST" and Central Goods and service tax "CGST"

Hence this Compromised format of Dual GST is going to be introduced in our country.

EXAMPLE OF GST- SGST AND CGST

FIRST STAGE SALE

If X of Mumbai sells Goods to Y of Mumbai for Rs. 10 Lakhs and suppose the rate of Tax under SGST is 8% and CGST is also 10% then X will collect and deposit Rs. 80000.00 Lakhs as SGCT and Rs.1.00 Lakhs as CGST from Y.

SECOND STAGE SALE

If Y of Mumbai sells the same Goods to Z of Mumbai for Rs. 10.50 Lakhs then he will collect a sum of Rs. 84000.00 as SGST and Rs. 1.05 as the CGST. Now he will deposit Rs. 4000.00 as SGST (Rs. 84000.00 collected from Z – Rs.80000.00 input credit from his purchases from X) and Rs. 5000.00 as CGST (Rs.1.05 Collected from Z – Rs. 1.00 Lakhs input credit from his purchases from X).

WHAT THE STATE AND CENTRE COLLECT AS REVENUE

Now you can cross check the total tax collected by State is Rs. 84000.00 i.e. 8% of Rs. 10.50 Lakhs and by centre is Rs. 1.05 Lakhs i.e. 10% of Rs. 10.50 Lakhs because Rs. 10.50 Lakhs is the cost to the consumer and he has paid Rs.84000.00 as SGST and Rs. 1.05 as CGST which was collected and deposited by X and Y at different stages of sales. It is also clear from this example that the input credit of SGST can be taken against the SGST and input credit of CGST can be taken against the CGST and total tax burden on the consumer is Rs. 189000.00 even though the sale is within the state. Inter-head adjustment is not permissible.

The system will be applicable on all the supply of “Goods and Services”.

You may ask Some questions in this Regard

Q.1:- whether SGST and CGST both will be applicable on a sale which has been made within the state.

Ans: - Yes both will be applicable even if the sale is made within the state.

Q.2:- How the Set off of these taxes will be taken? Is credit of SGST can be taken against CGST?

Ans: - The Set off of SGST can be taken against SGST and set off of CGST can be taken against CGST. Both these taxes are not interchangeable. One cannot set off of SGST against CGST and vice versa.

Q.3:- If sale is made from one state to another then which tax will be applicable.

Ans: - IGST, Integrated Goods and Service Tax and the rate of IGST will be a combined rate of SGST and CGST. In fact IGST is not a third tax along with SGST and CGST but it is a mechanism by which one part of the Tax will go to the consuming state and the other part of the tax will go to the central Government. It will not increase the cost of the goods to the consumer.

We will discuss later in Second part how IGST will be applicable and how this mechanism will work. Please wait for part-2 of the series GST by CA Sudhir Halakhandi.

Note- The material has been prepared keeping in mind the requirement of Small Traders and MSME Industries. Please submit your comment and suggestions to 9828067256 through WhatsApp.

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