Overview of GST

BY
Ashima Bansal.
Joint Secretary, GSTCS.
Outline

1. Objectives, Salient Features and Uniqueness of Indian GST
2. GST Revenue Performance
3. Initiatives in GST
4. Challenges and Way forward
1. Objectives, Salient Features & Uniqueness of Indian GST
GST in India – One Nation, One Tax

Indirect Tax regime in India was highly fragmented
  • Multiple taxes levied by multiple tiers of Government
  • Non-uniformity in legal provisions, compliance framework, rates etc.

Indian GST is a unique model
  • Concurrent laws & powers
  • Unification through IGST & GST Council
Objectives of GST:

‘Good and Simple Tax’..

- Raise Tax revenues
- Broaden the tax base
- Uniformity in Tax Rates across the Country
- Minimize the Cascading effect of Taxes
- Transparency in Incidence of tax
- Establishment of a Common National Market
Benefits for Trade, Industry and Exports

- **Ease in Compliance**
  - Multiple returns & agencies, around 500 forms
  - Common compliance framework
  - One compliance portal for all services

- **Smother Interstate Trade & Commerce**
  - No tax arbitrage
  - No check posts, no statutory forms
  - Seamless flow of credit across State border
  - No cascading of taxes

- **Reduced taxation**
  - Cascading of taxes led to exports not being fully tax-free
  - Post GST, no cascading allows exports to be zero rated
  - Makes them more competitive

- **Faster refunds**
  - Higher scrutiny due to difficulties in verifying ITC
  - System verified input tax credit – less hassle in refunds
  - Refunds processed though a single source
Benefits for Government, trade & Industry

Clarity in taxation leading to lower disputes
- Different events of taxation pre-GST – manufacturing, sale, purchase, entry, services, luxury → to one event of supply
- Goods and services treated differently; sectors with overlap → goods and services treated similarly

Uniformity of taxes
- Race to the bottom – adverse impact on revenues
- No competition among states and steal thy neighbour policies
Formalization of Economy

1. More and more businesses moving in the formal economy is evident from the significant increase in the GST taxpayer base.

2. Moving to the formal economy will bring in more visibility and hence more opportunities for MSMEs. For instance, new GST registrations have also increased MSMEs credit uptake.

3. Common set of data available to both Centre and the States making tax collections more effective. Tax Revenue on Rise.
Salient features

Unique Federal Body called GST Council – Article 279A
- 31 Independent States and Union Territories come together with the Central Government to pool their sovereign indirect tax powers. Chaired by Union FM with States FM or Minister nominated as Members. Power to recommend principles of levy of tax, exemptions, floor rates, rates, special rates.

Cooperative Federalism – Dual concurrent levy
- Dual levy of taxes on the same transaction with the Central Government handholding the States in the initial years of implementation through compensation.

Non-Intrusive IT based System
- All compliance, return filing and payments made through one common portal for all taxpayers.
## Salient Features: Four Pillars Of the GST Council

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Committee</th>
<th>Functions</th>
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</table>
| 01     | Law Committee | - Proposes changes in the GST laws taking into account various feedbacks about the problems being faced by various industries/trades/taxpayers.  
- Preparing draft Rules/notifications  
- Examining all representations of trade on Legal issues |
| 02     | Fitment Committee | - tasked with evolving a principle and a subsequent methodology to determine rates for various supplies under GST. Recommending any other rate provided in Act or Rules  
- Examining all representations of trade on rate, classification and other issue related to rates like inverted duty structure |
| 03     | GIC | - decision-making body at the top tier  
- takes decisions to the extent possible and where necessary, on issues of urgent and procedural nature |
| 04     | ITGRC | - The IT Grievance Redressal Committee was envisaged to address the difficulties faced by a section of taxpayers owing to technical glitches on GST Portal.  
- SoP to submit the issues of data fixation to the GST Council. |
Salient features of Indian GST:

- Dual GST – Concurrent taxation by the States and Centre
- Multiple rate slabs – Allowing for the consumption of goods by different income groups to be taxed differently
- IT based system- GST portal-registration, returns and refunds
- Inherited complexity due to pre-GST structure. Separate registrations in each State as opposed to single nationwide registration in pre-GST regime in service sector.
- Legal provisions and GST rates kept close to the pre-GST regime. Tax rates below the revenue neutral rate.
Estimated Benefits to the Public

The GST rate is about 3.9% lower than the Revenue Neutral Rate.

This has resulted in estimated savings of Rs. 18 lakh cr to the public.

The average savings are about Rs. 28,000 crore per month.

This translates to a savings of Rs. 12,000 per household per year.
Salient Features

**Free flow of goods – No Check posts - No physical barriers - E-way bill**
- Moving from 31 different fractured markets to establishing one common market with no physical barriers between States for movement of goods – Reducing travel time considerably
- Electronic Way-Bills that can be generated online, SMS, Mobile App (~2Mn generated every day, ~1 Bn till date)

**Feedback based taxation policy design**
- Responsive to challenges faced by taxpayers and providing solutions on a real time basis
Salient Features

The Tax Credit System
• A truly value added tax system where cross utilization of all GST paid taxes is available

Streamlining Imports and Exports
• Easing imports and exports through easy payment systems, refund processes and tax credits

One Authority – One Administration
• All taxpayers to have a single window tax authority for all compliance purposes
salient Features

Restriction on input tax credit
• ITC restricted to 100% of the eligible credit as per the GSTR-2B return.

Leaner Supply Chains
• With same incidence of taxes across the country, supply chains are leaner and more efficient

Lower Cost of Doing Business
• With fungible credit and reduced incidence of taxes - Cost of doing business is reduced
Salient Features GSTN Portal

**Compliance:** Return Filing, Tax Payment, filing ITC forms

**GST services:** Registration, Refund, Appeal, Revocation App., Advance Ruling, Clarification and Replies,

**Taxpayers’ Needs:** Engage/dis-engage GSTP, Accounting & Billing software

**Grievance Redressal:** Help Desk, Extensive Error list, reasons and solutions, Self-Help Portal

**Statutory Conformity:** Demand, Recovery, Audit, Assessment, Adjudication, ITC/EWB blocking, Enforcement Actions, Declarations

**Taxpayers Education:** CBT, User Manuals, Webinars, Twitters, e-mails, Advisories

**Tracking Status:** Refund, LUT, Return, Registration etc. & view filing Status

**Updates:** News, Updates, Alerts, Notifications, SMS and e-mails

**View and Download:** GSTR-2A, GSTR-2B, GSTR-3B, Import BE etc.

**Empowerment:** Ledgers’ View, Return Dashboard, Comparison Report, Risk Rating, Matching tools,

Facilities to Opt-in, Opt-out, Withdrawal, Cancellations etc.

**Nudging:** Alerts, Deadlines, Red-flags,
Dual Concurrent GST Model

Supply

Intra State
- CGST
- SGST/UTGST

Inter State
- IGST

When UTGST would be charged?

List of UT –
1. Andaman and Nicobar,
2. Chandigarh,
3. Dadra and Nagar Haveli and Daman and Diu,
4. Lakshadweep,
5. Ladakh and

With Legislature
1. Puducherry.
2. National Capital Territory of Delhi,
3. Jammu and Kashmir,
Levy of CGST, SGST, UTGST & IGST

Foreign Territory

IGST

State 1

CGST + SGST

Union Territory without Legislature

IGST

State 2
Union territory with legislature

CGST + SGST
GST - Impact on Cost and ITC

<table>
<thead>
<tr>
<th>A Ltd</th>
<th>B Ltd</th>
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<tbody>
<tr>
<td>Selling Price</td>
<td>1000</td>
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<tr>
<td>GST @ 12%</td>
<td>?</td>
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<tr>
<td>Total</td>
<td>?</td>
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<td></td>
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<tr>
<td>Tax Payable</td>
<td>?</td>
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<tr>
<td>Less: Input tax Credit</td>
<td>80</td>
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<td>Net Payment</td>
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<tr>
<td>Cost</td>
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<tr>
<td>Profit</td>
</tr>
<tr>
<td>Total Taxable Value</td>
</tr>
<tr>
<td>GST @18%</td>
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<tr>
<td>Total Invoice</td>
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<tr>
<td></td>
</tr>
<tr>
<td>Tax Payable</td>
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<tr>
<td>Less: Input tax Credit</td>
</tr>
<tr>
<td>Net Payment (in Cash)</td>
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Type of Ledger in GST?
# GST - Impact on Cost and ITC

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<tr>
<td>Selling Price</td>
<td>1000</td>
<td>1,000</td>
</tr>
<tr>
<td>GST @ 12%</td>
<td>120</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1120</td>
<td></td>
</tr>
<tr>
<td>Tax Payable</td>
<td>120</td>
<td></td>
</tr>
<tr>
<td>Less: Input tax Credit</td>
<td>80</td>
<td>360</td>
</tr>
<tr>
<td>Net Payment</td>
<td>40</td>
<td>240</td>
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<td>Net Payment (in Cash)</td>
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GST System statistics as on 31st Jan 2023

GST System Statistics
As on 31st January, 2023

1.37 Cr.
Registered Tax Payer

104.57 Cr.
Total Return Filed

336.25 Cr.
E-way Bill

1580 Cr.
Total Invoice Upload

54.19 Lakh Cr.
Payment Through the Portal
(Excluding IGST on Imports)

27.34 Cr.
Total No. of Payment Transactions

24.85 Lakh
Highest Returns Transactions in a day

9.55 Lakh
Highest Payment Transactions in a day
Unique Feature - Compensation Cess

- At the time of introduction of GST, the Constitution amendment provided that the Parliament, by law shall provide compensation to States for a period of five years for loss of revenue due to introduction of GST.
- Accordingly, the GST Compensation to States, 2017 was legislated which provides for release of compensation against 14% year-on-year growth over revenues in 2015-16 from taxes subsumed in GST. Provision for levy of cess on certain luxury items and demerit goods and this cess collected is to credited into a Public Account known as GST Compensation Fund.
- The States were compensated for loss of revenue due to implementation of GST (w.e.f. 01.07.2017) for 5 years’ period till June, 2022.

To safeguard that States have adequate and timely resources to combat Covid and related issues, Centre borrowed ₹ 1.1 lakh crore in 2020-21 and ₹ 1.59 lakh crore in 2021-22 and passed it on to States on a back-to-back basis. All the States agreed on this decision. Pertinently, the Government issued Notification No. 1/2022–Compensation Cess dated 24.06.2022 extending the Goods and Services Tax (GST) compensation cess until March 31, 2026 in order to meet the GST revenue shortfall as well as servicing the abovementioned loan borrowed through special window scheme.
2. GST Rate Structure & Rationalization
Principles Guiding the GST Rate Structure

Rate of incidence should not increase from Pre-GST tax structure

Need to protect revenues of Centre and States

The rate structure should not be regressive in nature

Items of mass consumption should not be taxed at higher rates

The prices of goods of basic necessities (CPI basket) should not increase

Many items could not be taxed at 40%, as they were consumed by the middle class

As decided in the 3rd meeting of GST Council - October 2016
<table>
<thead>
<tr>
<th>S. No.</th>
<th>Goods with Combined tax rate of Central Excise and VAT</th>
<th>Proposed GST rate bands for such goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Between 3% and less than 9%</td>
<td>5%</td>
</tr>
<tr>
<td>2</td>
<td>Between 9% and less than 15%</td>
<td>12%</td>
</tr>
<tr>
<td>3</td>
<td>Between 15% and less than 21%</td>
<td>18%</td>
</tr>
<tr>
<td>4</td>
<td>Equal to or more than 21%</td>
<td>28%</td>
</tr>
</tbody>
</table>

As decided in the 4th GST Council Meeting - November 2016
## Fitment of various Goods and Services into the Rate Structure

<table>
<thead>
<tr>
<th>Rate</th>
<th>Goods / Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>Vegetables, fruits, cereals, milk products, hearing aids, agricultural implements etc.</td>
</tr>
<tr>
<td>0.25%</td>
<td>Diamonds and precious stones</td>
</tr>
<tr>
<td>1%</td>
<td>Construction service in relation to affordable housing</td>
</tr>
<tr>
<td>3%</td>
<td>Gold and Semi precious stones</td>
</tr>
<tr>
<td>5%</td>
<td>Fertilizers, Footwear, Renewable equipment, Man-made yarns, Tractors, Fabrics, Pharma, RMG and Made-ups, Generators / inverters, Edible oil, Specified Job work services, Aggarbatti, Construction service other than affordable housing, Restaurant services etc.</td>
</tr>
<tr>
<td>12%</td>
<td>Agri machinery, Utensil, Bicycles, LED light, Milling machines, Ink, Ethyl alcohol, Medical equip, PP_bags, Water pumps, Other Misc items</td>
</tr>
<tr>
<td>18%</td>
<td>Mobile phones, Metals, Organic chemicals, Services etc.</td>
</tr>
<tr>
<td>28%</td>
<td>Automobiles, Cement, Cigarettes etc.</td>
</tr>
</tbody>
</table>
3. GST Revenue Performance
Trends in GST Revenue

Monthly average GST Revenue (₹ crore)

- 2017-18: 89,885
- 2018-19: 98,114
- 2019-20: 1,01,845
- 2020-21: 94,734
- 2021-22: 1,23,608
- 2022-23: 1,48,924
3. Initiatives in GST

a. E-invoicing
b. QRMP
c. MSME
E-Invoicing

GST Council in its 35th meeting held on 21st June 2019 proposed to introduce an e-invoicing system in India in a phased manner on a voluntary basis.

- Accelerating business process automation
- Reducing compliance burden
- Enhancing ease of doing business and
- Reducing tax evasion

E-invoicing was mandatorily introduced for all taxpayers with an annual aggregate turnover of above Rs. 500 crores from October 01, 2020, and those with an annual aggregate turnover of above Rs. 10 cr at present.
## Exempted Sectors & Businesses from E Invoice

- **a government department, a local authority,**
- SEZ Units (However SEZ Developer not exempted from E Invoice)
- Insurance, Banking, FI [including NBFCs] Rule 54(2)
- **Goods Transport Agency – Rule 54(3)**
- Passenger Transport Services– Rule 54(4)
- Multiplex Cinema – Rule 54(4A)
Auto-population of GST Returns

E-way Bill

GSTR-1

GSTR-2A

GSTR-2B

GSTR-3B

E-Invoice
MSMEs

Quarterly Return and Monthly Payment (QRMP) Scheme and Invoice Furnishing Facility (IFF)

Composition Scheme

NIL Return Filing Facility

Exemption from Annual Return,
<=2 Cr: GSTR-9/9A (Optional)
<= 5 Cr: GSTR-9C (Not required)
QRMP Scheme

Registered Person
Turnover up to 5 Cr

- Quarterly Return
  (GSTR 1 and GSTR 3B)

- Month 1 & Month 2
  Monthly Payment of Tax (PMT-06) by 25th

- Month 1 & month 2
  Invoice Furnishing Facility (IFF) for B2B
Introducing Quarterly Return Monthly Payment (QRMP) Scheme

Can quarterly filers file Nil return through SMS?

Yes, Quarterly taxpayers may send the following SMS to 14409 to file a Nil GSTR-1 or Nil FORM GSTR-3B

NIL 3B GSTIN MMYYYY
NIL R1 GSTIN MMYYYY

MM should be the last month of the quarter for which the return is being filed. For example, for the month of June 2020, taxpayer shall send
NIL 3B XXXXXXXXXX062020 to 14409

To opt in for the scheme ➔ Login ➔ Services ➔ Returns ➔ Opt-in for quarterly return
4. Challenges and Way Forward
Challenges and Way Forward

Rate rationalisation.
GoM on rate rationalization
GoM on casinos, online gaming and horse racing

Fake invoicing & ITC Fraud
- Risk profiling of taxpayers
- Database analysis
- Limiting ITC to 100% of the reported invoices
- Enhanced KYC norms like using Aadhaar
- Fetching Pan based e-mail and mobile number from CBDT database (to be introduced)
- Freezing of assets, bank accounts

Perception of Law, Compliance burden
- GST Suvidha Kendras
- Document Identification Numbers mandated for all communication with taxpayer
Challenges and Way Forward

### Tax evasion
- Red Flag Reports shared daily with tax administrators.
- BIFA
- E-way Bill and FASTag integration

### Reduce Blockage of working capital
- Special Refund weeks
- Complete online refund process eliminating physical interaction
- Single disbursement authority

### Reduce Pending legal cases
- Legacy dispute resolution scheme to pre-GST disputes
- Early establishment of GSTAT
Enforcement Measures taken to Curb Fraud

**Registration:**
- Suspension of registration Rule 21A
- Verification of new registration

**Min Cash Payment**
- Minimum cash payment of 1% of liability if the taxable supply of the registered assessee is more than 50 lakh in a month- Rule 86B

**E-way bill**
- Distance covered 200 km / day
- No e-way bill if two GSTR-3Bs are not filed
Way forward

- Broad basing GST and Revenue optimization
- Sealing leakages & Enforcement
- Rationalization of GST rates & structure
- Pre population of returns
- Simplification of Reports
Uniform backend application

Dynamic Law Review

Capacity Building & awareness – GST practitioners with facilitation centres

Bottom Line: Co-operative Federalism & Consensus based decision making