

# Goods and Services Tax

*Basic concepts and terminologies for year 2020*



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# Concept of GST

- GST stands for “Goods and Service tax”
- The tax came into effect from 1 July 2017 through the implementation of the One Hundred and First Amendment of the Constitution of India by the Indian government. The GST replaced existing multiple taxes levied by the central and state governments.
- A major change in administering GST is the tax incidence is at the point of sale as against the present system of point of origin.



# Reason for Introduction of GST

- GST is a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level.
- Main objective:
  - ✓ consolidates all indirect tax levies into a **single tax**, except customs (excluding SAD) replacing multiple tax levies;
  - ✓ overcoming the limitations of existing indirect tax structure, and creating efficiencies.



# Outward supply

- Outward Supply” in relation to a person, shall mean supply of goods or services, whether by sale, transfer, barter, exchange, license, rental, lease or disposal or any other means made or agreed to be made by such person in the course or furtherance of business.
- Outward supply can be of following category:
  - ✓ Supplies made to unregistered persons (B2C)
  - ✓ Supplies made to registered persons (B2B)
  - ✓ Zero rated supply (Export) on payment of tax (except supplies to SEZs)
- The invoice reflecting outward transaction must consist of
  - ✓ Date of invoice
  - ✓ GSTIN number of supplier and receiver, both
  - ✓ HSN code
  - ✓ Taxable value
  - ✓ Rate of GST
  - ✓ Total invoice value



# Goods kept out of GST

- Alcohol for human consumption but not for commercial use.
- Petrol and petroleum products; though GST will apply at a later products i.e. petroleum crude, high-speed diesel, motor spirit (petrol), natural gas, aviation turbine fuel.
- Electricity



# Struggle for Implementation





- A single common "Goods and Services Tax (GST)" was proposed and given a go-ahead in 1999 during a meeting between the Prime Minister Atal Bihari Vajpayee and his economic advisory panel.
- A 21-member selected committee was formed to look into the proposed GST laws.
- After GST Council approved the CGST Bill, 2017, The IGST Bill, 2017, the UTGST Bill, 2017. These Bills were passed by the Lok Sabha on 29 March 2017.
- The Rajya Sabha passed these Bills on 6 April 2017 and were then enacted as Acts on 12 April 2017.
- The GST was launched at midnight on 1 July 2017 by the President of India, and the Government of India.



# Timeline

- **2000:** The Vajpayee begins talks on GST. An empowered committee is headed by Asim Dasgupta.
- **2003:** A task force is formed under Vijay Kelkar to suggest tax reforms.
- **2004:** Vijay Kelkar recommends replacing the existing tax regime with GST.
- **2006:** In Budget 2006-07, FM P. Chidambaram proposed implementation of GST by April 1, 2010.
- **2008:** The Empowered Committee hands over a report on the roadmap of GST in the country.
- **2009:** Finance Minister Pranab Mukherjee announces the basic structure of GST.
- **2010:** FM commences mission-mode computerization of commercial taxes. GST postponed to April 1, 2011.
- **2011:** Congress party introduces Constitution (115th Amendment) Bill to implement GST. After protests by the opposition, the Bill is passed to a Standing Committee.
- **2012:** Meetings held with state FM. Deadline for issues to be resolved set at December 31, 2012.
- **2013:** In Budget speech, P. Chidambaram makes provision for INR. 9K crore to compensate states for losses.
- **2014:** Finance Minister, Arun Jaitley, introduces the Constitution (122nd) Amendment Bill at the Lok Sabha.
- **2015:** New deadline for new tax regime set as April 1, 2016. GST bill passed in Lok Sabha, but not Rajya Sabha.
- **2016:** Rajya Sabha passes the Constitution Amendment Bill. GST Council agrees on four slab tax structure
- **2017:** Four supplementary GST bills passed in March and Final GST implemented on July 1, 2017.

**GST  
TIMELINE  
(1999 - 2017)**

# Time of Supply in GST



# What section says on goods?

## ***Time of supply (TOS) of goods Section 12 (1) & (2).***

- (1) The liability to pay tax on goods shall arise at the time of supply, as determined in accordance with the provisions of this section.
- (2) The time of supply of goods shall be the **earlier** of the following dates, namely:—
  - (a) the date of issue of invoice by the supplier or the last date on which he is required, under subsection (1) of section 31, to issue the invoice with respect to the supply.

**SECTION**



Example: If invoice is issued on 28th July, 2019 and goods are delivered on 31st July, 2019 and payment is received on 10th August, 2019. TOS is 28th July, 2019 but if invoice is issued on 01st August, 2019, TOS is 31st July 2019.

# What section says on services?

## ***Time of supply of services Section 13 (1) & (2).***

- (1) The liability to pay tax on services shall arise at the time of supply.
- (2) The time of supply of services shall be the earlier of the following dates, namely:—
  - a) If the invoice is issued within the period prescribed; date of invoice or date of receiving payment
  - b) If the invoice is not issued within the period prescribed; the date of provision of service or date of receipt of payment



Sub-clause (2) is applicable on the companies other than insurance or banking companies, or financial institution.

Example: If services are rendered on 23rd July, 2019 and invoice issued 10th August, 2019 and payment received 20th September, 2019. TOS shall be 10th August 2019 but if invoice is issued on 27th August 2019, TOS shall be 23rd July, 2019.

# TOS in case of additional consideration

As per Section 12 (6), the time of supply, to the extent it relates to an addition in the value of supply by way of interest, late fee or penalty for delayed payment of any consideration, shall be the date on which the supplier receives such addition in value.

Example: Mr. X sold certain goods on credit and because of delay beyond the permitted time, interest of ₹ 10,000 was charged, such additional consideration shall also be considered to be value of supply and TOS shall be the time when such payment is received.



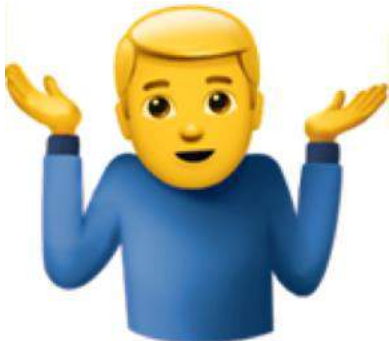
# Section 31

- As per section 31 of the CGST Act, 2017, an invoice for supply of goods needs to be issued before or at the time of removal of goods for supply to the recipient where the supply involves movement of goods. However, in other cases, invoice needs to be issued before or at the time of delivery of goods or making available goods to the recipient.
- Similarly, an invoice for supply of services needs to be issued before or after the provision of service but not later than thirty days from the date of provision of service.
- Time of supply of goods (Default Rule) Earliest of the following dates:
  - ✓ Date of issue of invoice by the supplier. If invoice is not issued, then the last date on which supplier is legally bound to issue the invoice with respect to the supply.
  - ✓ Date on which supplier receives the payment



# Undetermined time of Supply

- If it is not possible to determine the time of supply by the above provisions, then it will be:
  - ✓ The date on which a periodical return has to be filed or
  - ✓ The date on which the CGST/SGST is paid, in any other case.
- In GST regime, the tax collection event will be earliest of the dates as given above.
- The various events like issuing invoice/making payment in case of supply or completion of event-in case of supply of service triggering the tax levy, confirms that the Government wants to ensure tax is **collected at the earliest point of time**.



*There are multiple parameters in determining time' of supply. Thus, businesses will face a challenge in maintaining here and reconciling between revenue as per financials and as per GST.*



# Place of Supply in GST





# Nature of Supply

**Section 7 and 8 of IGST Act** defines the nature of supply which has the vital role in the GST. To know the nature of supply, one should know the place of supply to determine the nature of supply.

<b>Intra State Supply (Sec 8)</b>	<ul style="list-style-type: none"> <li>• Supply of goods within the State or Union Territory</li> <li>• Supply of services within the State or Union Territory</li> </ul>
<b>Inter State Supply (Sec 7)</b>	<ul style="list-style-type: none"> <li>• Supply of goods from one State or Union Territory to another State or Union Territory</li> <li>• Supply of services from one State or Union Territory to another State or Union Territory</li> <li>• Import of goods till they the cross customs frontier</li> <li>• Import of services</li> <li>• Export of goods or services</li> <li>• Supply of goods/services to/by SEZ</li> <li>• Supplies to international tourists</li> <li>• Any other supply in the taxable territory which is not intra-State supply</li> </ul>

# Determination of POS

There are two terms which mainly determines the nature of Supply:

1. Location of the Supplier - where the person is registered under GST or the fixed establishment of the supplier from where the supply is made.
2. Location of the Place of Supply - determined in Sections 10, 11,12 and 13 of the IGST Act.

<b>Section 9</b>	Supplies in territorial waters.
<b>Section 10</b>	Place of supply of goods other than supply of goods imported into, or exported from India.
<b>Section 11</b>	Place of supply of goods imported into, or exported from India.
<b>Section 12</b>	Place of supply of services where location of supplier and recipient is in India.
<b>Section 13</b>	Place of supply of services where location of supplier or location of recipient is outside India.

# Examples for better understanding

## Movement of Goods

### ***Example 1 - Intra-state sales***

Mr. Raj of Mumbai, Maharashtra sells 10 TV sets to Mr. Vijay of Nagpur, Maharashtra  
The POS is Nagpur in Maharashtra. Since it is the same state CGST & SGST will be charged.

### ***Example 2 - Deliver to a 3rd party as per instructions***

Anand in Delhi buys goods from Mr. Raj in Surat. The buyer requests the seller to send the goods to Surat .  
POS will be Delhi and IGST will be charged.

### ***Example 3- Receiver takes the goods from supplier himself***

Mr. Ravi of Delhi gets an order of 100 TV sets from Heaven Ltd. of Chennai, Tamil Nadu. Heaven mentions that it will arrange its own transportation and take TV sets from Mr. Ravi's factory.  
POS will be Chennai, Tamil Nadu

### ***Example 4 – E-commerce sale***

Mr. Raj of Delhi orders a mobile from Amazon to be delivered in Maharashtra as a gift. M/s ABC (registered in Gujarat) processes the order, sends the mobile and Mr. Raj is billed by Amazon.  
It will be assumed that the buyer in Delhi and thus POS id Delhi has received the goods & IGST will be charged.

# Non - Movement of Goods

## ***Example - No movement of goods***

Heaven Ltd. (Delhi) opens a new showroom in Bangalore. It purchases a building for showroom from ABC Realtors (Bangalore) along with pre-installed workstations

### ***Place of supply: Bangalore***

There is no movement of work stations, so the place of supply will be the location of such goods at the time of delivery (handing over) to the receiver.

There is no GST on purchase of building or part thereof. RENT of commercial space attracts CGST & SGST.

## ***Example 2- Installing goods***

Strong Iron & Steel Ltd. (Delhi) asks M/s SM Constructions (West Bengal) to build a blast furnace in their Jharkhand steel plant.

### ***Place of supply: Jharkhand***

Although M/s SM is in West Bengal, the blast furnace is being installed at site in Delhi which will be the place of supply. GST: CGST& SGST

Note: M/s SM have to be registered in Delhi to take up this contract. They can opt to register as a casual taxable person which will be valid for 90 days (extendable by 90 days more, on basis of a reasonable cause).

## Goods Supplied on a Vessel/Conveyance

### ***Example - Airplane***

Mr. Ajay is travelling from Mumbai to Delhi by air. He purchases coffee and snacks while on the plane. The airlines is registered in both Mumbai and Delhi.

Place of supply: Mumbai with CGST & SGST charged.

## Imports & Exports

### ***Example 1 - Import***

Ms. Mari imports school bags from China for her shop registered in Delhi.

Place of supply: Delhi with IGST.

### ***Example 2 - Export***

Ms. Anita in Kolkata exports Indian perfumes to UK.

Place of supply: Kolkata and GST shall be exempted if LUT available.



# Place of Supply for Services

- Supplier and Recipient in India

Section	Particulars	Place of Supply
12 (2)(a)	Supply of Services made to a Registered Person	Location of such person (Recipient)
12 (2)(b)	Supply of Services made to a Unregistered Person	(i) The location of the recipient where the address on record exists; and (ii) the location of the supplier of services in other cases.

- Other Services place of supply

Architects, Estate agent, Hotel, lodge, accommodation for marriage, Resturant or catering services, Training, event, - **Where the immovable property is situated or activities are performed**

- Place of Supply for Recipient outside India**

Section	Particulars	Place of Supply
13 (2)	Supply of Services except the services specified in sub-sections (3) to (13)	> Location of the Recipient of Services. > Where the location of the recipient of services is not available in the ordinary course of business, the place of supply shall be the location of the supplier of services.

# Value of Supply in GST



# What section says?

## ***Value of taxable supply Section 15 (1) &(2)***

- (1) The value of a supply of goods or services or both shall be the transaction value, which is the price actually paid or payable for the said supply of goods or services or both where the supplier and the recipient of the supply are not related and the price is the sole consideration for the supply.
  
- (2) The value of supply shall include:
  - a) Any tax or duty except GST; for instance custom duty, and
  - b) Any amount that the supplier is liable to pay in relation to such supply but ***which has been incurred by the recipient*** of the supply and not included in the price actually paid or payable for the goods or services or both.

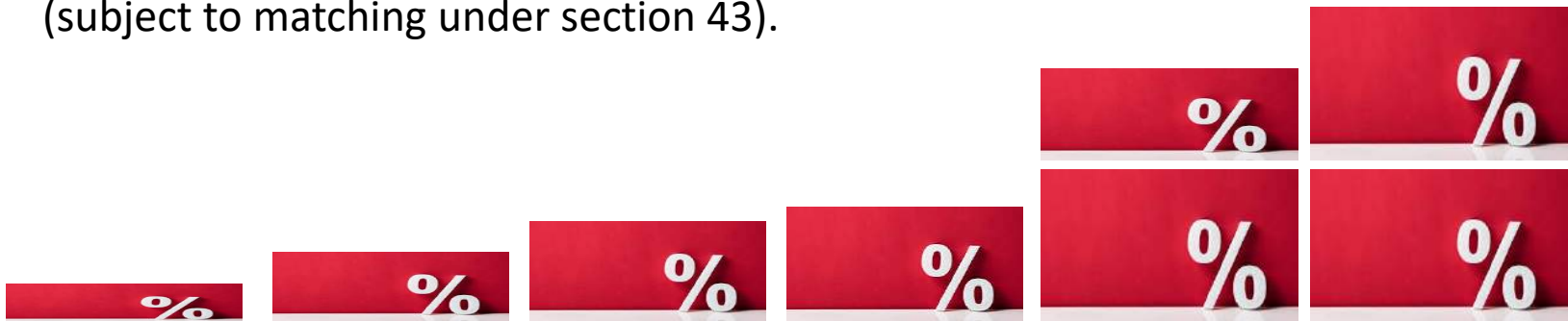




# Discount on transaction

Discount while computing transaction Value of Supply

- If the supplier has given any discount ***before or at the time of supply***, it will be allowed to be deducted, if such discount has been duly recorded in the invoice issued in respect of such supply; and
- Discount ***allowed after supply*** shall also be allowed to be deducted *provided* such discount is established in terms of an agreement entered into at or before the time of such supply and specifically linked to relevant invoices and further the supplier shall issue credit note for such discount and shall be allowed to reduce his tax liability but the recipient should also reverse / reduce tax credit taken by him (subject to matching under section 43).



# Receipt of Supply

Recipient of supply of goods or services or both, means:

- where a **consideration** is payable for the supply of goods or services or both, the person who is liable to pay that consideration;
- where **no consideration** is payable for the supply of goods, the person to whom the goods are delivered or made available, or to whom possession or use of the goods is given or made available; and
- where no consideration is payable for the supply of a service, the person to whom the service is rendered, and any reference to a person to whom a supply is made shall be construed as a reference to the recipient of the supply and shall **include an agent acting** as such on behalf of the recipient in relation to the goods or services or both supplied.

RECEIVED  
Or Deemed

# Other Terminologies



# Components of GST

There are 3 taxes applicable under this system ***based on place of supply***:

- **CGST:** Collected by the Central Government on an intra-state sale. Eg: transaction happening within Delhi
- **SGST:** Collected by the State Government on an intra-state sale. Eg: transaction happening within Delhi
- **IGST:** Collected by the Central Government for inter-state sale. Eg: Delhi to Tamil Nadu

<i>Transactions</i>	<i>GST</i>	<i>Old Regime</i>	<i>Income for</i>
<i>Intra Sale</i>	<i>CGST + SGST</i>	<i>VAT + Central Excise / Service tax</i>	<i>Revenue will be shared equally between the Centre and the State</i>
<i>Inter Sale</i>	<i>IGST</i>	<i>Central Sales Tax + Excise / Service Tax</i>	<i>There will only be one type of central tax. The Centre will then share the IGST revenue based on the destination of goods.</i>

# HSN Code

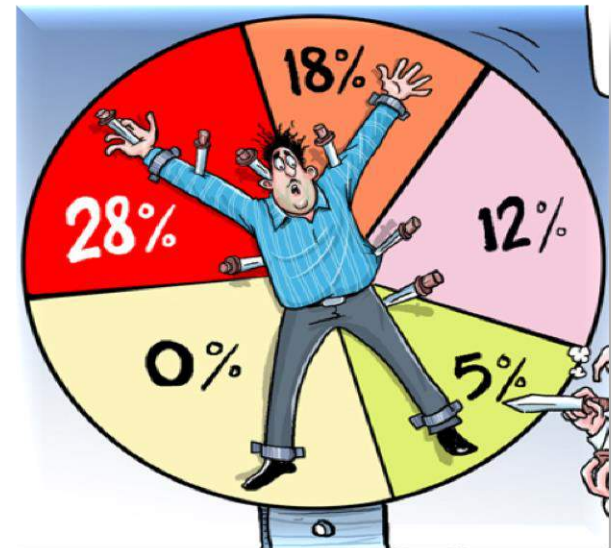
- India is a member of World Customs Organization(WCO) since 1971 and adopted Harmonized System Nomenclature called HSN.
- HSN Code is an internationally accepted goods classification system used in over 200 countries. Under the HSN code system, goods have been classified into 97 different chapters. HSN code consists of 6 digits.
- HSN codes will remove the need to upload the detailed description of the goods. This will save time and make filing easier since GST returns are automated.
- If a company has turnover up to INR 1.5crore in the preceding financial year then they did not mention the HSN code while supplying goods on invoices.
- HSN 6 digit code is formed having following bifurcation:
  - ✓ First two digits of the HSN code represent chapter
  - ✓ Third and fourth digit of the HSN code represent headings
  - ✓ Fifth and sixth digit of the HSN code represent sub-headings



# Tax Rates in GST

The GST is imposed at variable rates on variable items. In India, there are 4 types of rates.

- **GST Tax 5%** - Under this slab, the goods of basic amenities are covered such as sugar, oil, spices, coffee, coal, life-saving drugs, etc. The services include railways, restaurants and special flights for pilgrims.
- **GST Tax 12%** - Under this slab, products like sewing machine, umbrella, jewelry box, frozen meat, fruit juices, butter, cheese, ghee are covered. The services under this slab include business class flight tickets and movie tickets below INR.100.
- **GST Tax 18%** - Under this slab most products are covered like hair oil, safety glass, pasta, ice-cream, mineral water, washing machine, leather clothing, etc. The services include movie tickets above INR.100, etc.
- **GST Tax 28%** - Under this slab, luxury products are covered like cars, cigarettes, high-end motorcycles, pan masala, etc. The services include racing, betting in casinos. A special rate of 0.25% is levied on semi-polished and cut stones
- **No tax** - *There are goods & services which are not covered under GST like rakhis without precious metals, bread, salt, sanitary napkins, curd, sindoor, newspapers, kajal, manuscripts, etc. And, Services of hotels and lodges with tariff below INR.1,000, IMM course books, bank charges on the savings account.*



# Input Tax Credit

Input Tax Credit (ITC) is the tax that a business pays on a purchase and that can be used to reduce its tax liability when it makes a sale. In other words, businesses can reduce their tax liability by claiming credit **to the extent of GST paid on purchases**.

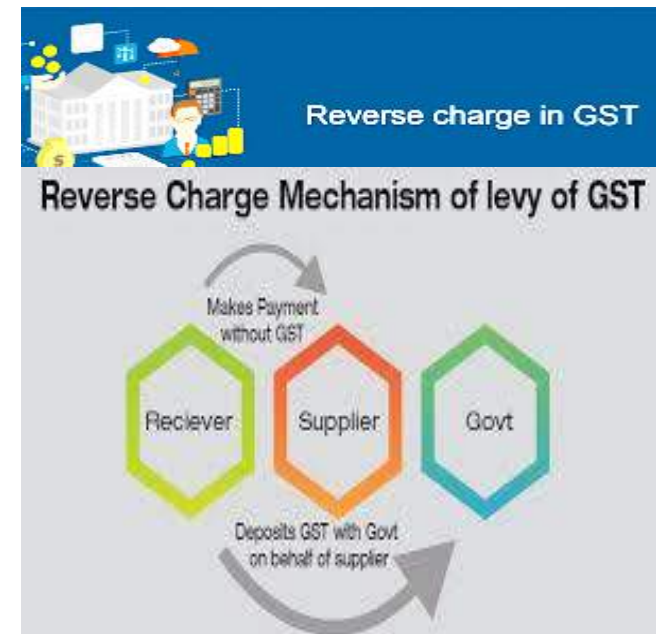
Following points to be considered before claiming ITC:

- You must be registered under the GST law and must have filed return
- Input tax credit is available only upon the receipt of goods
- ITC can be availed only on receipt of last instalment
- ITC on motor vehicles is disallowed except when they are used for transportation of goods.
- Membership of a club is disallowed.
- ITC on food is disallowed unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply.
- ITC cannot be taken on missing invoice.
- If you have claimed depreciation on the tax part of the cost of your capital goods, then you cannot avail ITC on the said tax component.



# Reverse Charge Mechanism

- Reverse Charge Mechanism (RCM) is a system in GST where the receiver pays the tax on behalf of unregistered, smaller material and service suppliers.
- The receiver of the goods is eligible for Input Tax Credit, while the unregistered dealer is not.
- In case of reverse charge, the time of supply shall be the earliest of the following dates :
  - ✓ the date of receipt of goods or
  - ✓ the date of payment or
  - ✓ the date immediately after 30 days from the date of issue of invoice by the supplier or 60 days for services.
- If it is not possible to determine the time of supply, then the date of entry in the books of account of the recipient.





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