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**ECONOMIC LAWS PRACTICE**

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**Goods and Services Tax  
Discussion Paper**

**10<sup>th</sup> November 2009**

# Salient features of GST model

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*“The GST shall have two components: one levied by the Centre (hereinafter referred to as Central GST), and the other levied by the States (hereinafter referred to as State GST). Rates for Central GST and State GST should be prescribed appropriately, reflecting revenue considerations and acceptability. This dual GST model would be implemented through multiple statutes (one for Central GST and a separate statute for every State). However, the basic features of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification etc. should be uniform across these statutes as far as practicable.”*

# Levies under GST

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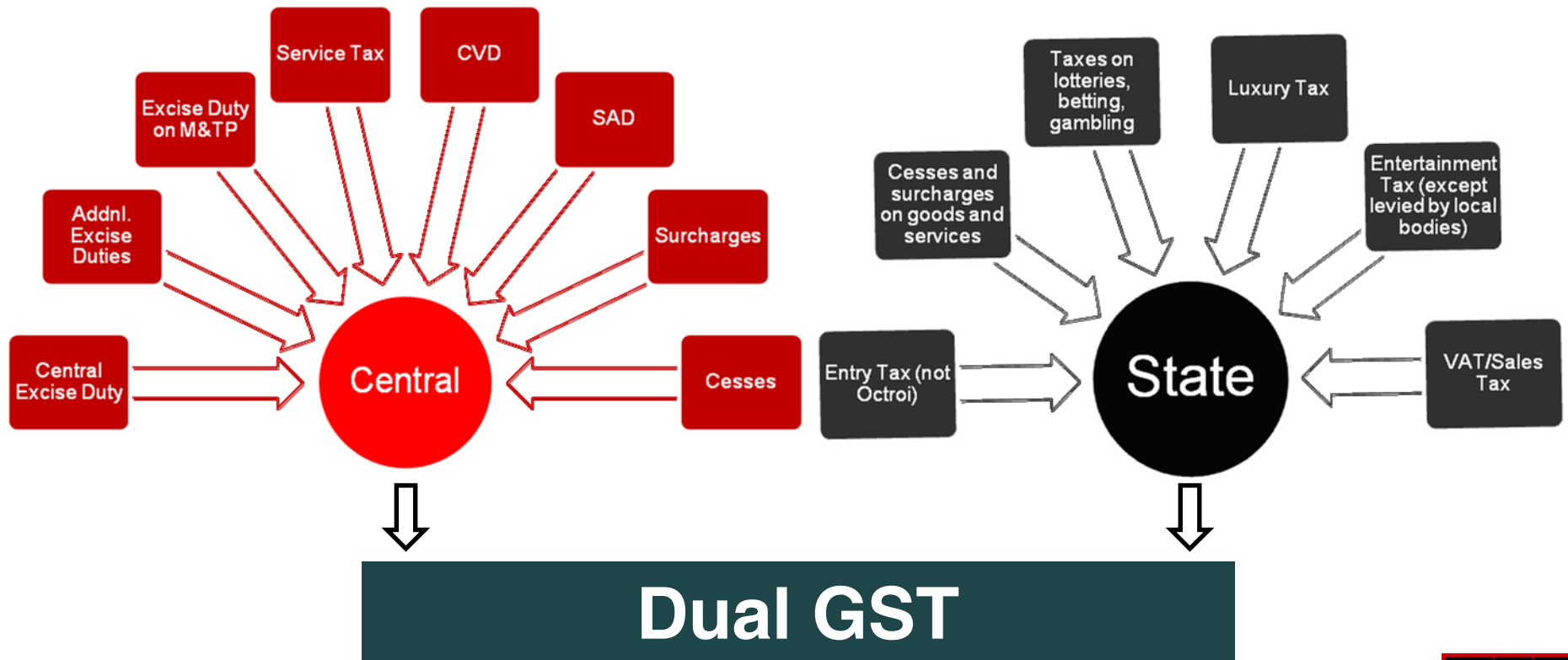
- Central GST (CGST)
  - Intra-State sale of goods and provision of services
- State GST (SGST)
  - Intra-State sale of goods and provision of services
- Integrated GST (IGST)
  - Inter-State sale of goods and provision of services
- GST on imports in the form of CGST and SGST

# Inter-State supplies

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- Integrated GST (IGST) to be levied on inter-State supplies by the Centre
  - IGST will combine CGST and SGST
  - To be collected by the Centre in the Origin State
  - Tax passed over to Destination State via a clearing house mechanism
- Stock transfers and consignments
  - Appropriate provisions to be introduced

# Taxes to be subsumed into CGST and SGST

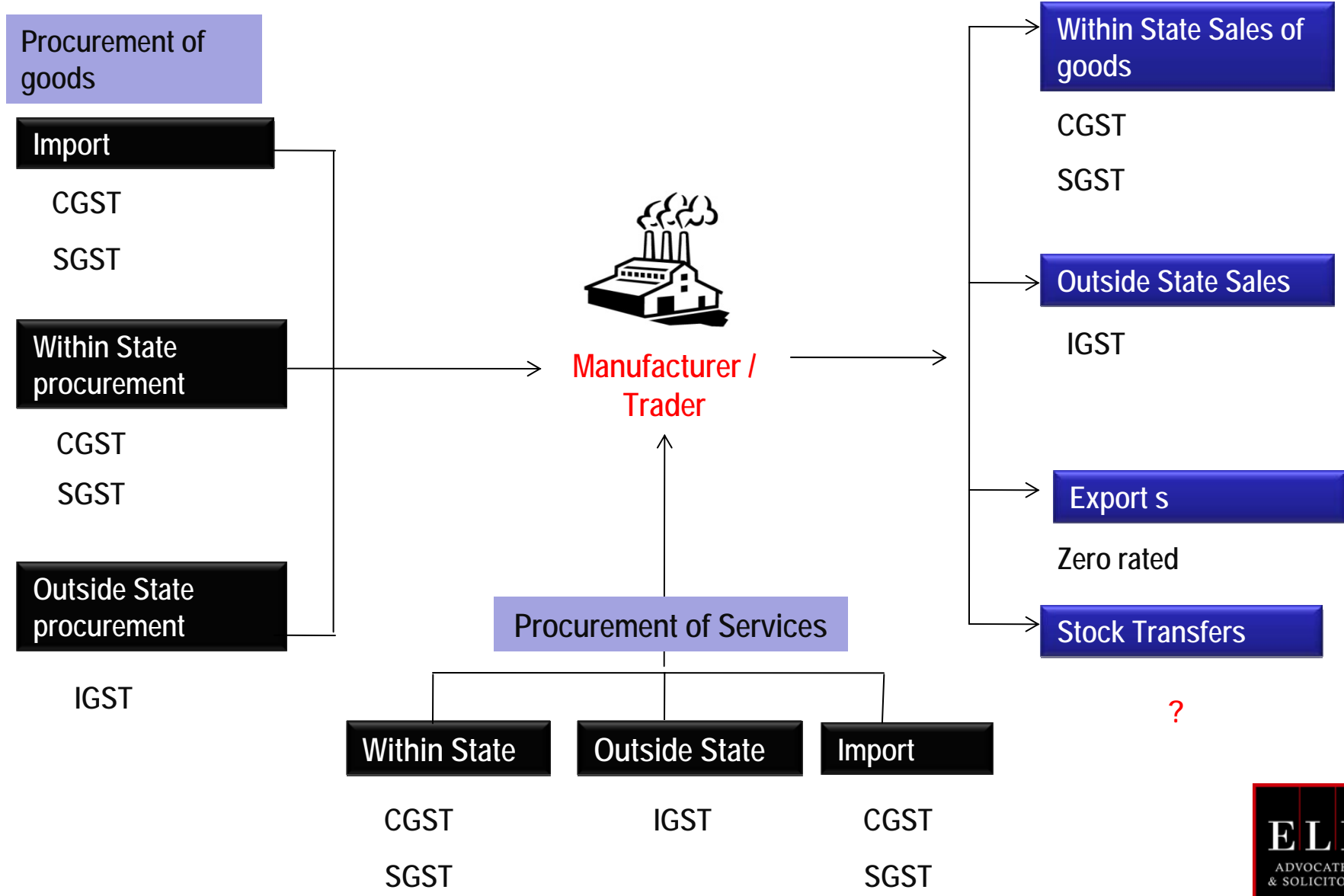


# Scope of GST

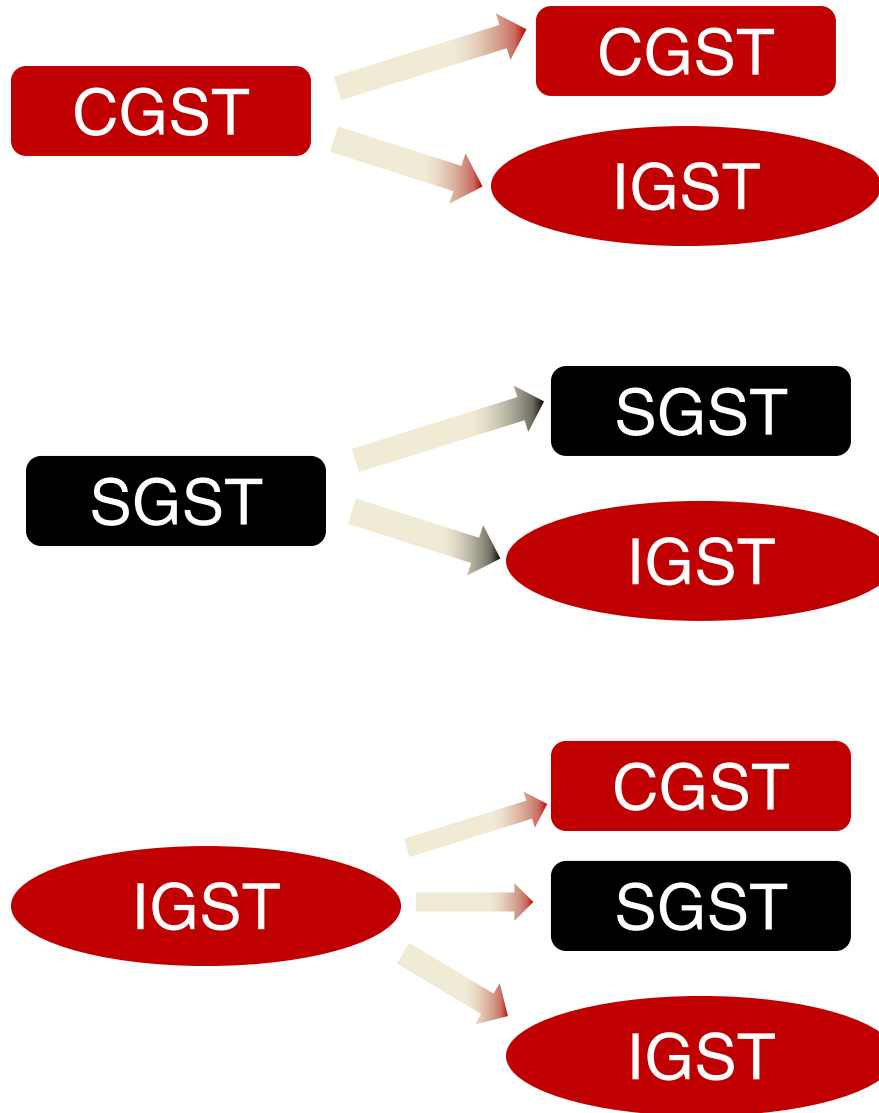
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- All goods and services except:
  - Exemptions
    - ❖ Industrial incentives to be converted into cash refund schemes
    - ❖ Special Industrial Area Schemes will continue through their validity period
  - Goods outside the purview of GST
    - ❖ Alcoholic beverages and petroleum products
  - Transactions which are below threshold limits

# Structure of GST



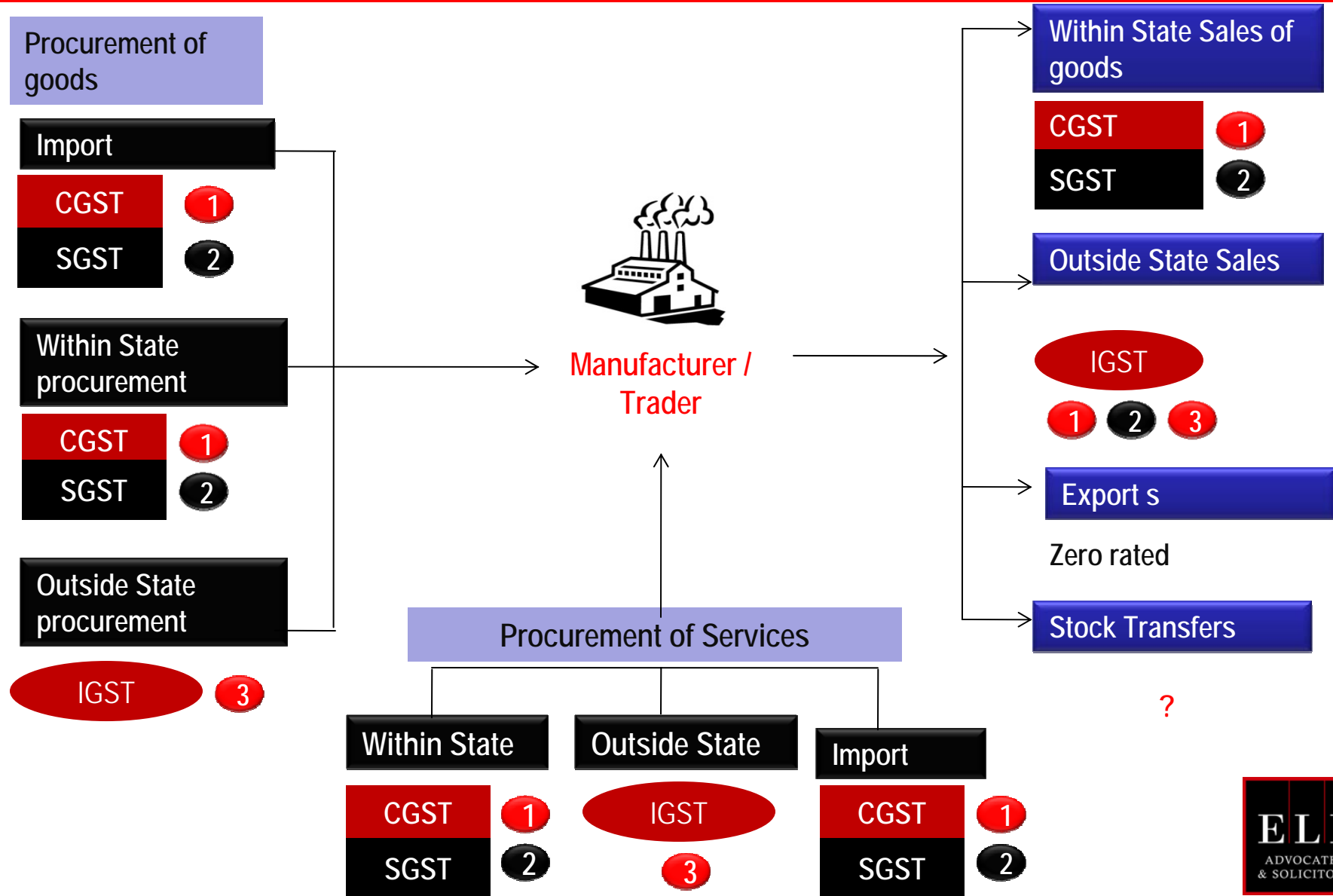
# Tax credit mechanism



Time-bound refunds of credits will be allowed in cases such as exports and inverted duty structures

Though cross utilisation of tax credit between CGST and SGST is in general not allowed, the IGST mechanism will make these credits fungible

# Impact of credits



# Rate structure

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- Rates for CGST and SGST yet to be decided
  - “Harmonious rate structure”
  - Rates to reflect revenue considerations and acceptability
  - 4 rate structure for goods
    - ❖ Standard rate
    - ❖ Lower rate – necessary items
    - ❖ Special rate – precious metals
    - ❖ Exempted items
      - ▶ Exempted list under VAT may be retained in initial years
      - ▶ Centre may adopt a similar approach
  - Rates to be made known in the course of legislative action
- Exports of goods and services to be zero-rated
- Composition/compounding schemes – Rs. 50 lakh threshold
  - 0.5 floor rate (option to assessee not to avail compounding)

# Threshold limit

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- SGST – Goods and services
  - Rs. 10 lakh
  
- CGST
  - Goods – Rs. 1.5 crore
  - Services – Appropriate threshold to be decided

# Open issues

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- Taxing event and taxing jurisdiction
- Credits
  - Treatment of accumulated credits on switchover
  - Fungibility of accumulated credits on an ongoing basis
- Constitutional amendments
- Drafts of legislations
- Rate structure
- IT infrastructure readiness

# Points of concern

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- Ambiguity regarding switchover date
  - No reaffirmation of 1<sup>st</sup> April 2010 date
  - Many open issues
- Possibility of a fractured implementation
  - Some States may make the transition before others, given different levels of preparation and political will
- Lack of uniformity in Legislations



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## Mumbai

1502, A Wing, Dalamal Towers, Nariman Point, Mumbai 400 021

Phone: + 91 22 6636 7000, Fax: + 91 22 6636 7172, Email: [mumbai@elp-in.com](mailto:mumbai@elp-in.com)

## Delhi

405-406, 4th Floor, World Trade Centre, Barakhamba Lane, New Delhi 110 001

Phone: + 91 11 4152 8400, Fax: + 91 11 4152 8404, Email: [delhi@elp-in.com](mailto:delhi@elp-in.com)

## Ahmedabad

801, Abhijeet III, Mithakali Six Roads, Ellisbridge, Ahmedabad-380 006

Phone: +91 79 6605 4480 / 8, Fax: +91 79 6605 4482, Email: [ahmedabad@elp-in.com](mailto:ahmedabad@elp-in.com)

## Pune

2nd Floor, 208, Gera Legend, North Main Road, Koregaon Park, Pune 411001

Phone: + 9520 6640 8000, Fax: + 9520 66407239, Email: [pune@elp-in.com](mailto:pune@elp-in.com)