



# clearTax *gst*

E - Book

A Comprehensive Guide Book on GST India  
by ClearTax

# **GST in INDIA - A Comprehensive Guide Book by ClearTax**

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**GST is a huge reform for indirect taxation in India, the likes of which the country has not seen post Independence.** GST will simplify indirect taxation, reduce complexities, and remove the cascading effect. Experts believe that it will have **a huge impact on businesses both big and small, and change the way the economy functions.**

This ebook will help you understand the basics of GST, important terminologies and concepts, and how this might affect your business in the long run. Students of finance, business professionals, entrepreneurs, tax practitioners and accountants will find this e-book comprehensive and helpful in understanding GST.

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## Content

1. **GST vs the Current Indirect Tax Structure**
2. **Why is GST a big deal?**
3. **Time, Place, and Value of Supply**
4. **Registering under GST**
5. **GST Returns-How and When to File Them**
6. **Mixed Supply and Composite Supply**
7. **Composition Levy**
8. **What is Aggregate Turnover**
9. **Input Tax Credit in Detail**
10. **Reverse Charge**
11. **What is GST Compliance Rating?**
12. **Impact of GST on Manufacturers and FMCG industry**

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## 1. GST VS CURRENT INDIRECT TAX STRUCTURE

To understand GST, it is important that we understand the current indirect taxation system. **Direct taxes such as income tax are borne by the person liable to pay the tax; this means that the tax burden cannot be shifted to anyone else.** The liability of an indirect taxes on the other hand, can be shifted to another person. So, the person liable to pay the tax can collect the tax from someone else and then pay it to the government; thus shifting the tax burden. The GST tax falls in this category.

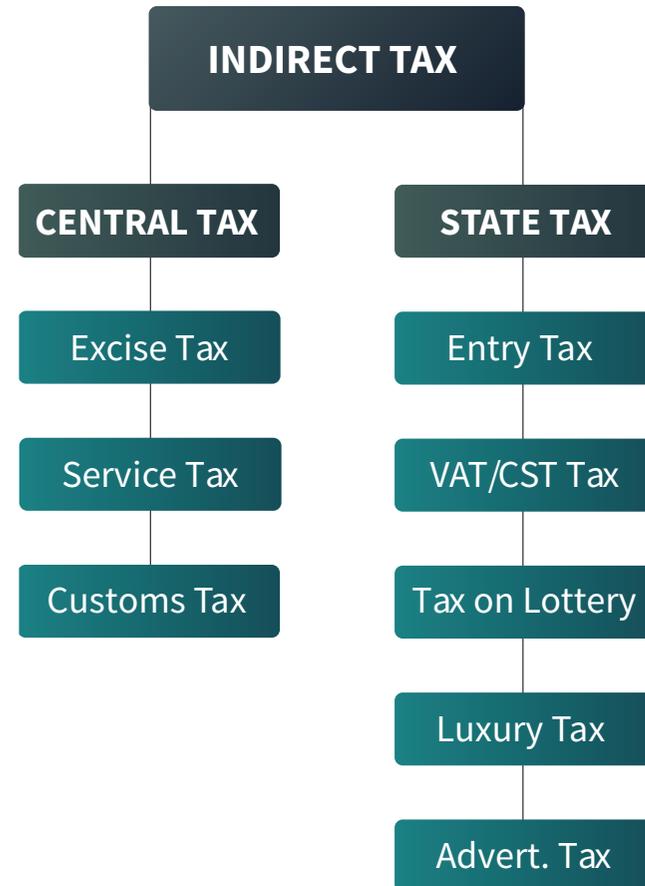
The current indirect tax structure, which comprises of so many different taxes, can be classified as:

**Central taxes:** levied by the Central govt (includes Central Sales Tax, Excise Duty etc.)

**State taxes:** levied by the various state govts (VAT, Service Tax, Octroi)

The current indirect tax has one major problem - **the cascading effect.** When you buy something, you pay a tax on tax itself.

Let's understand this with a hypothetical numerical example



**STAGE 1**

Say a shirt manufacturer pays INR 100 to buy raw materials. If the rate of taxes is set at 10%, and there is no profit or loss involved, then he has to pay INR 10 as tax. So, the final cost of the shirt now becomes INR **(100+10=) 110**.

**STAGE 2**

At the next stage, the wholesaler buys the shirt from the manufacturer at INR 110, and adds labels to it. When he is adding labels, he is adding value. Therefore his cost increases by INR 40. On top of this, he has to pay a 10% tax, and the final cost therefore becomes INR **(110+40=) 150 + 10% tax = 165**.

**STAGE 3**

Now, the retailer pays INR 165 to buy the shirt from the wholesaler because the tax liability had passed on to him. He has to package the shirt, and when he does that, he is adding value again. This time, let's say his value add is INR 30. Now when he sells the shirt, he adds this value plus the VAT he has to pay the government to the final cost. So the cost of the shirt becomes INR 214.5 Let's see a breakup for this:

**Cost = INR 165 + Value add = INR 30 + 10% tax = INR 195 + INR 19.5 = INR 214.5**

So, the customer pays INR 214.5 for a shirt the cost price of which was basically only INR 170. Along the way the tax liability was passed on at every stage of transaction and the final liability comes to rest with the customer. This is called the Cascading Effect of Taxes where a tax is paid on tax and the value of the item keeps increasing every time this happens.

Action	Cost	10% Tax	Total
Buys Raw Material	100	10	110
Manufactures @ 40	150	15	165
Adds Value @ 30	195	19.5	214.5
Total	170	44.5	214.5

**GST aims to solve this problem by introducing seamless Input Tax Credit (ITC).** Today, the tax that you pay on material purchases cannot be claimed from output tax. This is set to change with ITC.

In our example, when the wholesaler buys from the manufacturer, **he pays a 10% tax on his cost price because the liability has been passed on to him. Then he adds value of INR 40 on his cost price of INR 100** and this brings up his cost to INR 140. Now he has to pay 10% of this price to the government as tax. But he has already paid one tax to the manufacturer. So this time what he does is, instead of paying INR **(10% of 140=) 14** to the government as tax, he subtracts the amount he has paid already. So he deducts the INR 10 he paid on his purchase from his new liability of INR 14, and pays only INR 4 to the government. So the INR 10 becomes his input credit.

When he pays INR 4 to the government, he can pass on its liability to the retailer. So, the retailer pays **INR (140+14=) 154** to him to buy the shirt. At the next stage, the retailer adds value of INR 30 to his cost price and has to pay a 10% tax on it to the government. When he adds value, his price becomes INR 170. Now, if he had to pay 10% tax on it, he would pass on the liability to the customer. But he already has input credit because he has paid INR 14 to the wholesaler as the latter's tax. So, now he reduces INR 14 from his tax liability of **INR (10% of 170=) 17** and has to pay only INR 3 to the government. And therefore, he can now sell the shirt for INR **(140+30+17) 187** to the customer.

Action	Cost	10% Tax	Actual Liability	Total
Buys Raw Material	100	10	10	110
Manufactures @ 40	140	14	4	154
Adds Value @ 30	170	17	3	187
Total	170		17	187

**In the end, every time an individual was able to claim input tax credit, the sale price for him reduced and the cost price for the person buying his product reduced because of a lower tax liability.** The final value of the shirt also therefore reduced from INR 214.5 to INR 187, thus reducing the tax burden on the final customer.

So essentially, **GST is going to have a two-pronged benefit.** One, it will reduce the cascading effect of taxes, and second, by allowing input tax credit, it will reduce the burden of taxes and, hopefully, prices.

## 2.SO, WHY IS GST A BIG DEAL?

**GST is a comprehensive, multi-stage, destination-based consumption tax** on levied at every stage of value addition in the lifecycle of a product. To understand this better, let us look at each of the terms in detail:



**Comprehensive:** GST will subsume all of the current indirect taxes. Plus, by bringing in a unified taxation system, across the country, it will ensure that there is no more arbitrariness in tax rates.



**Multi-stage:** GST is levied each stage in the supply chain, where a transaction takes place.  
Value-addition: This is the process of addition to the value of a product/ service at each stage of its production, exclusive of initial costs. Under GST, the tax is levied only on the value added. This is done through



**Destination-based consumption:** Unlike the current indirect taxes, GST will be collected at the point of consumption. The taxing authority with appropriate jurisdiction in the place where the goods/ services are finally consumed will collect the tax

For example: Let's say that cotton garments are being shipped from Karnataka to Maharashtra. Karnataka is the producer state and Maharashtra is the consumer state. Tax revenue under GST

Let's understand how this will impact imports and exports. Exports are not taxable, because the place of consumption is outside India. Imports are taxable, because the place of consumption is in India.

**The tax on imported goods will therefore be just the same as domestically-produced goods. Imports would be costlier because of additional custom duties.** Thus, the export industry will become more competitive. **Also, domestic goods will be protected by making imports at par with domestic goods.**

## WHAT IS SGST, CGST, AND IGST?

Suppose goods worth INR 10,000 are sold by manufacturer A in Maharashtra to Dealer B in Maharashtra. B resells them to trader C in Rajasthan for INR 17,500. Trader C finally sells to End User D in Rajasthan for INR 30,000.

Suppose **CGST= 9%, SGST=9%. Then, IGST= 9+9=18%**  
 Since A is selling this to B in Maharashtra itself, it is an intra-state sale and **both CGST and SGST will apply, at the rate of 9% each.**

B (Maharashtra) is selling to C (Rajasthan). Since it is an inter-state sale, **IGST at the rate of 18% will apply.**

C (Rajasthan) is selling to D also in Rajasthan. Once again it is an intra-state sale and **both CGST and SGST will apply, at the rate of 9% each.**

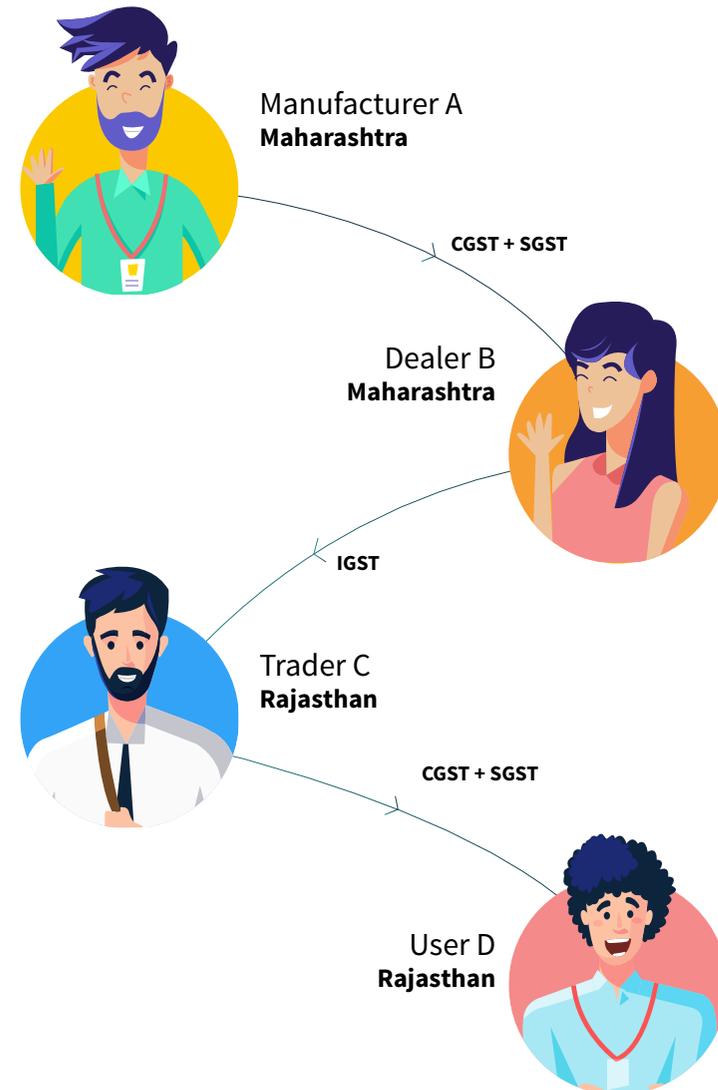
**\*\*\* Any IGST credit will first be applied to set off IGST then CGST. Balance will be applied to setoff SGST.**

Since, GST is a consumption based tax, i.e., the state where the goods were consumed will collect GST. By that logic, Maharashtra (where goods were sold) should not get any taxes. Rajasthan and Central both should have got  **$(30,000 * 9\%) = 2,700$  each instead of only 2,250.**

Maharashtra (exporting state) will transfer to the Centre the credit of **SGST of INR 900 used in payment of IGST.**

**The Centre will transfer to Rajasthan (importing state) INR 450 as IGST credit used.**

\*\*Do note, that custom duties are not part of this tax structure.



## When is Tax Levied?

A taxable event such as manufacture, sale and provision of a good has to occur for tax to be collected. Under the current system, each taxable event is subject to multiple taxes such as excise, VAT/ CST and service tax. But under GST, products will no longer have multiple taxes, and will not incur excise duty as well as VAT at different points of time. There will no longer be any difference between goods and services in terms of taxation.

An example of this is when we go out to eat at a restaurant. Earlier, the customer paid both VAT and service tax on a single bill, but after GST is implemented there will be a single tax charge on the bill amount.

This leads us to an important concept in GST - Time, Place, and Value of Supply of goods and services. Let us look at these provisions in detail in the next chapter.

BEFORE			AFTER		
ABC FOOD CORNER			ABC FOOD CORNER		
TABLE NO. 4 BILL NO. 34321			TABLE NO. 4 BILL NO. 34321		
DATE			DATE		
Dish	Qty.	Price	Dish	Qty.	Price
TOTAL		Rs. 2000	TOTAL		Rs. 2000
SERVICE CHARGE @ 10%		200	SERVICE CHARGE @ 10%		200
SERVICE TAX @ 5.6%		123.2	GST @ 18%		396
KKC @ 0.2%		4.40			
SBC @ 0.2%		4.40			
VAT @ 14.5%		319			
TOTAL AMOUNT PAYABLE		2651	TOTAL AMOUNT PAYABLE		2596

### 3. REGISTERING UNDER GST

Now that we know the basics of GST calculation, the process of ITC claims and filing of returns, let us look at how a taxpayer can register for GST.

If you meet any of the conditions listed below, you should obtain your GST registration when the enrollment reopens again [GST is expected to apply from 1st July 2017]:

- Your aggregate turnover in a financial year exceeds INR 20 lakhs (INR 10 lakhs for Special category states)\
- If your turnover includes supply of only those goods/services which are exempt under GST, this clause does not apply

To calculate this threshold, your **turnover should include the aggregate value of all taxable supplies, exempt supplies, export of goods and/or services and inter-state supplies of a person having the same PAN.**

#### Important Points to Remember when

- Every person who is registered under an earlier law will take registration under GST too.
- Where a business which is registered has been transferred to someone, **the transferee shall take registration with effect from the date of transfer.**
- **Registration is mandatory for anyone who makes inter-state supply of goods and/or services.**
- Registration is mandatory for:
  - Casual Taxable Person
  - Non-Resident Taxable Person
  - Agents of a supplier
  - Taxpayers paying tax under reverse charge mechanism
  - Input Service Distributors
  - E-commerce operator or aggregator and their suppliers
  - Person supplying online information and database access or retrieval services from a place outside India to a person in India, other than a registered taxable person

### **Other Notable Points Regarding Registration**

- A person with multiple business verticals in a state will need to obtain a separate registration for each business vertical.
- PAN is mandatory to apply for GST registration (except for non-resident person who can get GST registration on the basis of other documents).
- A registration which has been rejected under CGST Act/SGST Act shall also stand rejected for the purpose of SGST/CGST Act.

### **Who is a 'Casual Taxable Person'?**

If you occasionally make supply of goods/services as a principal or agent or any other capacity, in a taxable territory, where GST applies but where you don't have a fixed place of business. As per GST, you will be treated as a casual taxable person.

### **Who is a Non- Resident Taxable Person**

When you occasionally make supply of goods/services as a principal or agent or any other capacity, in a taxable territory, where GST applies but you don't have a fixed place of business in India. As per GST, you will be treated as a non-resident taxable person.

Here are the rules for registration for these persons:

- Registration shall be valid for 90 days.
- It can be further extended by 90 days.
- An advance deposit of tax liability for the period of registration must be made. Additional tax must be deposited if extension of registration is sought.
- This tax deposited shall be used like 'input credit'

## Exemption from GST Registration

The following shall not be required to obtain registration and will be allotted a UIN (Unique Identification Number) instead. They can receive refund of taxes on notified supplies of goods/services received by them:

- Any specialised agency of UNO (United Nations Organisation) or any multilateral financial institution and organisation notified under the United Nations Act, 1947
- Consulate or Embassy of foreign countries
- Any other person notified by the Board/Commissioner  
The central government or state government may be based on the recommendation of the GST council, notify exemption from registration to specific persons.

## Should You Opt for Voluntary Registration?

A person may opt for voluntary registration under GST even if he is not liable to be registered. All the provisions of GST applicable to a registered taxable person will similarly apply to such a voluntarily registered person also, i.e. he will be treated as a normal taxable person.

For example, assume there is a small grocery dealer with a limited turnover of Rs. 12-15 lakh. Such a dealer may not be required to register under GST. However, he may be supplying inputs to a nearby restaurant which has a turnover exceeding Rs. 20 lakh, is registered as a normal taxpayer, and is thus eligible for input credit. In such a scenario, a small dealer may register voluntarily to pass on the benefit of input credit to his buyer.

Check the Positive and the Negative aspects of Voluntary Registration

## Positive

- In spite of composition levy, many small organisations are planning to voluntarily register themselves under GST. This is because composition levy has certain drawbacks. Voluntary registration will mitigate such drawbacks and give the following advantages:
- Provide input tax credit to customers: Since your business is legally recognised, you can issue taxable invoices. Buyers, in turn, can take input credit on their purchases. This will help expand the customer base and make it more competitive.
- Take input credit: Voluntarily registered persons can take input credit on their own purchases and input services like legal fees, consultation fees etc. This will eventually increase their business margin and profitability.
- Make inter-state sales without many restrictions: Businesses registered under GST can make inter-state sales without many restrictions. Thus, it widens the potential market for SMEs. These SMEs can also opt for selling their goods online through the e-commerce platform.
- Be compliant and have good rating: Registration for GST will ensure that the business is compliant and scalable without any barrier of future registration. Also under GST, compliance rating will be maintained and if this is done correctly, it can attract additional business.

## Negative

- We discussed the benefit of getting registered under the Goods and Services Tax, however, there is a flip-side to it. Businesses registering voluntarily under GST may have to face extra compliance and working capital liquidity. Some of these consequences are:
- Multiple return filing: Businesses registered under Goods and Services Taxes are required to file three returns every month. These returns are GSTR-1, GSTR-2, GSTR-3 and include the details of all purchases, sales, and final tax liability after setting off Input Tax Credit. Failure to file these returns will not only deny the input credit to our buyer but also attract penalty. Further Compliance rating will get affected negatively.
- Payment of tax liability: Once registered under GST, the supplier will have the additional responsibility of collecting and depositing taxes with the authorities. This will not only inflate the cost for the buyer but also leverage similar sellers who are not registered under GST.
- Registration in every state of business activity: Further under the new law, obtain registration in each state of business activity. Return needs to be filed in the jurisdiction of the state where goods are supplied for consumption. In other words, if a small dealer is supplying in five states, he needs to register in all five states to fully take benefit of input tax credit. This can increase the cost of compliance to business.

### 3. Time, Place and Value of Supply under GST Explained

According to the law, the point of taxation means the point in time when goods have been deemed to be supplied or services have been deemed to be provided. The point of taxation enables us to determine the rate of tax, value, and due dates for payment of taxes.

The liability to pay CGST / SGST will arise at the time of supply as determined for goods and services. There are separate provisions for time of supply for goods and time of supply for services. The liability to pay CGST / SGST on the services shall arise at the time of supply as determined by GST provisions.

#### How to Determine Time of Supply

The time of supply of goods/services shall be the earlier of the following dates:

the date of issuing invoice (or the last day by which invoice should have been issued)

OR

the date of receipt of payment, whichever is earlier

If the supplier of taxable goods/service receives an amount up to INR 1000 in excess of invoice amount, the time of supply for the extra amount shall be the date of issue of invoice (at the option of the supplier).

For both the above clauses, the supply shall be assumed to have been made to the extent it is covered by the invoice or the payment (as the case may be).

For the second clause, the date of receipt of payment shall be the earlier of:

the date on which the dealer enters the payment in their books

OR

the date on which the payment is credited to their bank account

**For example, if the date of invoice is 15th May 2018, and date of receipt of payment is 10th July 2018. The date when the supplier recorded the receipt in his books is 11th July 2018.**

**Thus, the time of supply will be 15th May 2018.**

## How to Determine Place of Supply

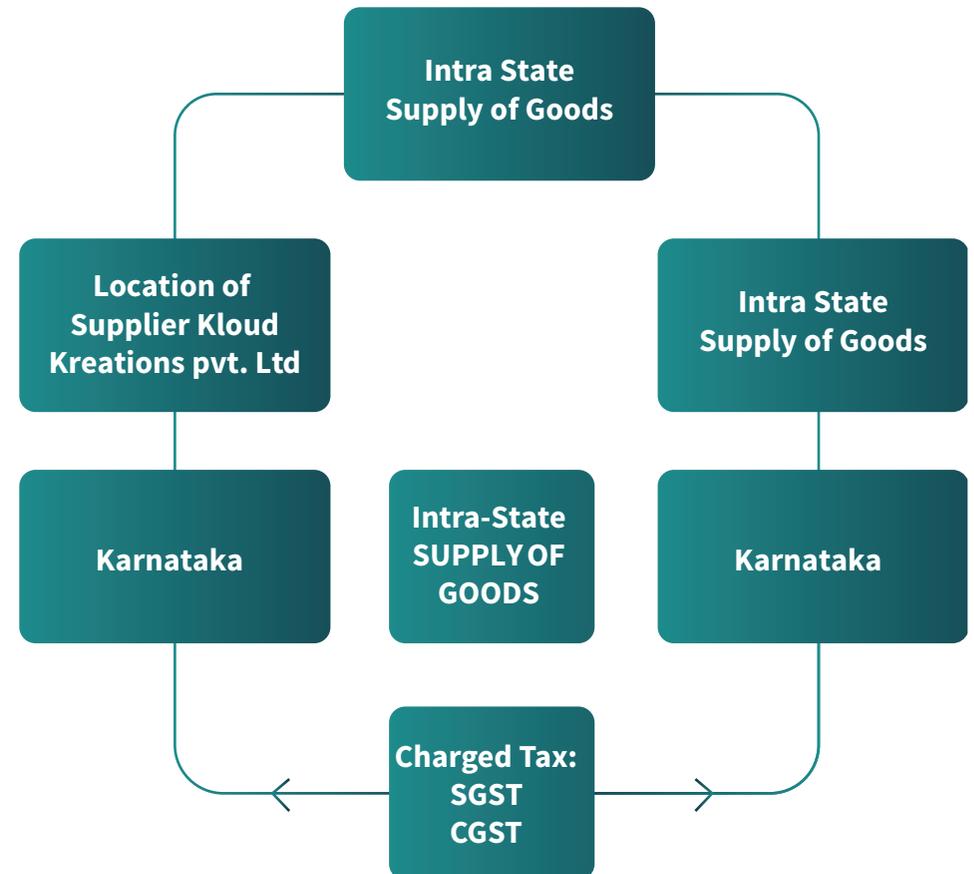
**‘Place of Supply’ under GST is an important factor as it defines whether the transaction will be counted as intra-state (i.e within the same state) or inter-state (i.e. between two states) and accordingly the changeability of tax, i.e levy of **SGST, CGST & IGST will be determined.**** While determining the levy of taxes based on place of supply, two things are considered:

- Location of Supplier: It is the registered place of business of the supplier
- Place Of Supply: It is the registered place of business of the recipient

Let’s understand this with the help of two examples

### **Example 1:** Determining Place of Supply for Intra-State Supply of Goods

Let us assume there is a supplier of craft products, Kloud Kreations Pvt. Ltd with the registered office in Bangalore, Karnataka. It supplies goods to schools in Manipal, Karnataka. Here, since the supplier as well as the recipient are located in same state i.e Karnataka, it will be counted as ‘Intra-State Supply Of Goods’ and hence SGST and CGST will be levied.

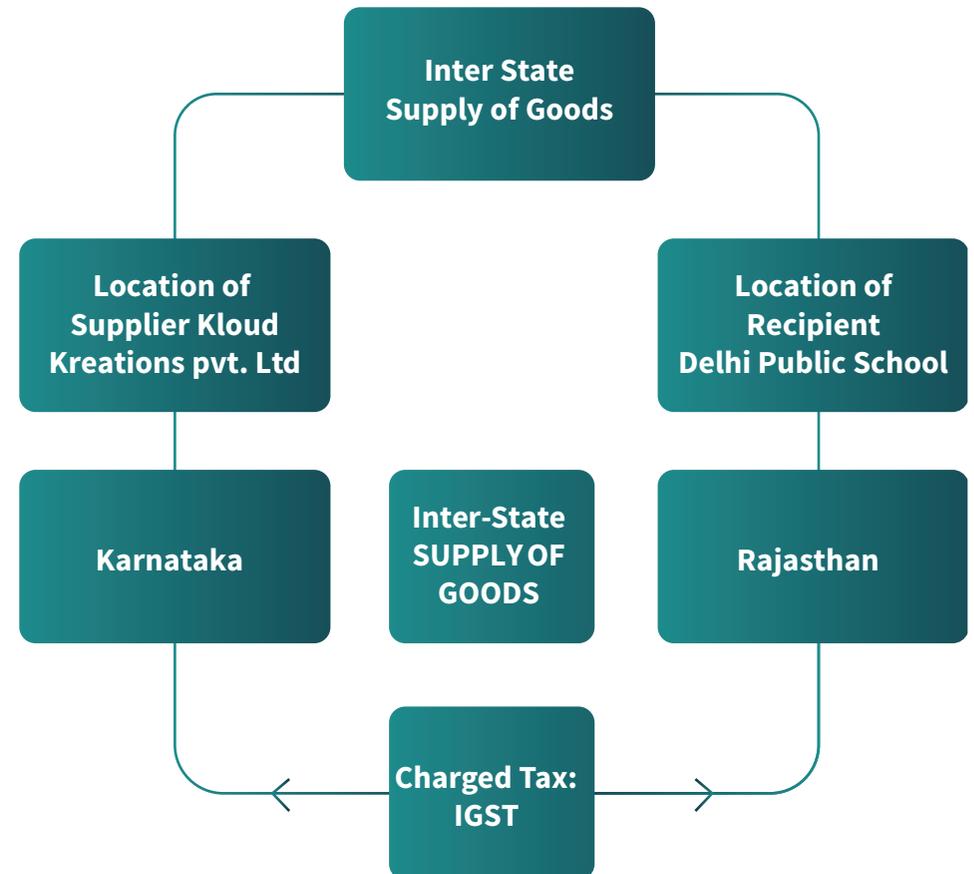


**Example 2:** Determining Place of Supply for Inter-State Supply of Goods

Let us assume the supplier of craft products, Kloud Kreations Pvt. Ltd has their registered office in Bangalore, Karnataka and the recipient i.e Delhi Public School is located in Jaipur, Rajasthan. Here, since the supplier and the recipient are located in different states i.e Karnataka and Rajasthan, it will be counted as 'Inter-State Supply Of Goods' and hence IGST will be levied.

There are specific provisions for determination of place of supply of goods which depend on:

- The place of supply of goods: where the supply involves movement of goods
- The place of supply of goods: where the supply involves no movement of goods
- The place of supply of goods: in case of export and import of goods



## Calculating Place of Supply of Services under GST

Let us first understand why an accurate determination of place of supply is important for businesses. The reasons for this are listed below:

- Wrong classification of supply between interstate or intra-state and vice-versa may lead to hardship to the taxpayer as per section 19 of IGST Act and section 70 of CGST Act
- Where wrong taxes have been paid on the basis of the wrong classification, refund will have to be claimed by the taxpayer
- The taxpayer will have to pay the correct tax along with interest for delay on the basis of revised/correct classification
- Also, correct determination of place of supply will help us in knowing the incidence of tax. As if place of supply is determined as a place outside India, then tax will not have to be paid on that transaction

## How to Determine the Place Of Supply Of Services

GST is destination based tax i.e consumption tax, which means tax will be levied where goods and services are consumed and will accrue to that state.

**Under GST, there are three levels of Tax, IGST, CGST and SGST and based on the ‘place of supply’ so determined, the respective tax will be levied. IGST is levied where transaction is inter-state, and CGST and SGST are levied where the transaction is intra-state.** For understanding Place of Supply for Services the following two concepts are very important namely:

- location of the recipient of services
- location of the supplier of services

Let’s understand these two concepts in detail as they will form the base for determining the place of supply in case of supply of services:

**1. a) Location of the recipient of services:**

<b>S.No</b>	<b>Case</b>	<b>Location of Recipient of Service</b>
A	where a supply is received at a place of business for which the registration has been obtained	such place of business
B	where a supply is received at a place other than the place of business for which registration has been obtained (a fixed establishment elsewhere)	such fixed establishment
C	where a supply is received at more than one establishment, whether the place of business or fixed establishment	the location of the establishment most directly concerned with the receipt of the supply
D	in absence of such places	the location of the usual place of residence of the recipient

**1. b) Location of the provider/supplier of services:**

<b>S.No</b>	<b>Case</b>	<b>Location of Recipient of Service</b>
A	where a supply is made from a place of business for which the registration has been obtained	the location of such place of business
B	where a supply is made from a place other than the place of business for which registration has been obtained (a fixed establishment elsewhere)	the location of such fixed establishment
C	where a supply is made from more than one establishment, whether the place of business or fixed establishment	the location of the establishment most directly concerned with the receipt of the supply
D	in absence of such places,	the location of the usual place of residence of the supplier

The transactions in terms of supply of services can be broadly categorized as below:

### 1. Domestic Transactions

These are the transactions where both the parties i.e the supplier as well as recipient of service are in India. Domestic transactions can be further categorized as below:

Inter-State (i.e between two different states)

Intra-State (i.e within the same state)

General Rule for Domestic Transactions

**In general, the place of supply for services will be the location of the service recipient** (the recipient needs to be a registered person). In cases, where service is provided to an unregistered person, the place of supply will be the:

**location of the service recipient** (if the address is available on record)

**location of service provider** (if location of recipient is not available)

The special cases under this classification will be discussed in detail in next article.

### 2. International Transactions

These are the transactions where either of the service recipient or the provider is outside India. Transactions in which both the recipient as well as provider are outside India are not covered here.

#### General Rule for International Transactions

The place of supply, for services treated as international transactions, will be:

the location of service recipient

the place of supply shall be location of the supplier, in case where the location of service recipient is not available

### Time of Supply under Reverse Charge

**Reverse charge means the liability to pay tax is by the recipient of goods/services instead of the supplier.** In case of reverse charge, the time of supply shall be the earliest of the following dates:

- the date of payment  
OR
- the date immediately **after sixty (60) days from the date of issue of invoice by the supplier (30 days for goods)**

If it is not possible to determine the time of supply using the above rules, **then the time of supply shall be the date of entry in the books of account of the receiver of service.**

For the first clause, the date of payment shall be earlier of:

- the date on which the recipient entered the payment in his books  
OR
- the date on which the payment is debited from his bank accounts

### When Supplier is Located Outside India

In case of ‘associated enterprises’, where the supplier of service is located outside India, the time of supply shall be:

- the date of entry in the books of account of the receiver  
OR
- the date of payment, whichever is earlier

Let’s understand this with an example. Assuming for a transaction:

Date of payment	15th July 2018
Date of invoice	1st July 2018
Date of entry in books of receiver	18th July 2018
Time of supply of service	15th May 2018

If for some reason the time of supply could not be determined supply using the above clauses, then it would be 18th July 2018 i.e., date of entry in books.

### Time of supply for vouchers

In the case of supply of vouchers, the time of supply is determined as:

- the date of issue of voucher, if the supply can be identified at that point  
OR
- the date of redemption of voucher, in all other cases

When the time of supply cannot be determined, 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 the GST regime, the tax collection event will be the earliest of the dates as given above. The various events like issuing an invoice or making a payment in case of supply of goods/services or completion of event, in case of supply of service triggering the tax levy, confirms that the government wants to ensure the tax is collected at the earliest point of time. This will be altogether a new concept for the current VAT and central excise taxpayers.

### Calculating Value of Supply under GST

Currently the taxes are calculated on the value of goods/services:

Tax	Value of goods/services
Excise	Transaction value of goods or MRP
VAT	Sale Value
Service Tax	Taxable value of service rendered

### Valuation of supply under GST

GST will be charged on the 'transaction value'. Transaction value is the price actually paid (or payable) for the supply of goods/services between unrelated parties (i.e., price is the sole consideration).

### Valuation of supply under GST

**GST will be charged on the ‘transaction value’.** Transaction value is the price actually paid (or payable) for the supply of goods/services between unrelated parties (i.e., price is the sole consideration).

The value of supply under GST shall include:

- Any taxes, duties, cess, fees and charges levied under any act, except GST. GST Compensation Cess will be excluded if charged separately by the supplier.
- Any amount that the supplier is liable to pay which has been incurred by the recipient and is not included in the price.
- The value will include all incidental expenses in relation to sale such as packing, commission etc.
- Subsidies linked to supply, except Government subsidies will be included.
- Interest/late fee/penalty for delayed payment of consideration will be included.

Let us consider an example of ABC, a manufacturer, selling tools and hardwares like drills, polishers, spades etc. It sells a power drill to XYZ a wholesaler. **The MRP is INR 5,500 but ABC sells it for INR 3,000.**

Power Drill	3000
Add: Excise @12.5%	375
Subtotal	3375
Add VAT @14.5% on Subtotal	490
Total	3865

Under GST, the value of goods and/or services supplied is the transaction value, i.e. the price paid/payable, **which is INR 3,000 in the example. Assuming CGST=9% and SGST= 9%, the invoice will look like this:**

Power Drill	3000
Add: CGST @9%	270
Add: SGST @9%	270
Total	3540

## Discounts

Discounts will be treated differently under GST. **Discounts given before or at the time of supply will be allowed as deduction from transaction value.** Discounts given after supply will be allowed only if certain conditions are satisfied.

Tax	Treatment of Discounts
Excise	Before/on time of sale are allowed
VAT	Different treatment in diff. states
Service Tax	Allowed

Under GST, discounts given before or at the time of supply will be allowed as deduction from transaction value. Such discounts must be clearly mentioned on the invoice.

### Discounts given after supply will be allowed only if:

it is mentioned in the agreement entered into before sale **input tax credit proportionate to the discount has been reversed by the recipient of the supply** and it can be clearly tracked to relevant tax invoice

To continue with our previous example, XYZ is a wholesaler selling tools like drills, polishers, spades etc. XYZ now sells the power drill to a trader **TDR for INR 4,000 offering a 1% discount. XYZ incurs INR 150 packing charges**

To encourage prompt payment, XYZ offers additional 0.5% discount if WHL pays within 7 days.

Power Drill	4000
Packing Charges	150
Discount @1%(on sale vlaue)	(40)
<b>Subtotal</b>	<b>4,110</b>
Add: CGST @9%	370
Add: SGST @9%	370
<b>Total</b>	<b>4850</b>

Discount of 0.5% is not deducted in the invoice because it will be given at the time of payment. However, since this discount was known at the time of supply, and can be linked to this specific invoice, and the discount amount can be reduced from the transaction value.

For this, XYZ Ltd. will issue a credit note to TDR for INR 20 **(0.5% of INR 4,000 = INR 20+ GST@ 18% on INR 20 = INR 3.60)**, and this must be linked to the relevant tax invoice. Here, discount has been given after supply. But it was agreed upon at the time of supply and can be traced to the relevant invoice. So it will be allowed to be deducted from the transaction value.

### When Discount is Given AFTER Supply AND it is NOT KNOWN at the Time of Supply

XYZ is facing serious liquidity problems and requests WHL to pay within 2 days. It offers additional 1% discount. WHL agrees and pays.

Discount is Given	Allowed as Deduction from Transaction Value?
On or before time of supply	✔
After supply but it was known before/at time of supply and can be traced to relevant invoice	✔
Given after supply but it was NOT agreed upon before/at time of supply (whether or not traceable to relevant invoice)	✘

### Value of Supply where Consideration is Not Wholly in Money

Businesses operate in a dynamic model and we have witnessed innovative schemes wherein a buyer is required to pay the partial amount in cash and the rest in kind, such as when exchanging used goods for a new product. As a general principal, value of supply will be the amount of consideration received in money from the buyer.

However, there can be cases when partial consideration is in money and the rest is in kind. In such scenario, the value of supply shall be:

- Open Market Value of such supply. OMV will be the amount which is fairly available in open market.
- If the open market value is not available, the value of supply will be the sum of the total of consideration in money and any such further amount in money as is equivalent to the consideration not in money if such amount is known at the time of supply. In simple words the monetary value of partial consideration will be added to monetary consideration, to sum up to total consideration.
- If the value is not determinable under the points above, the value of supply of goods or service or both will be equivalent to that of like kind and quantity. Here the taxable person can refer to similar goods or services or both for determining the value of supply.
- If the value is not determinable under all the above clause, the value shall be the sum total of consideration in money and such further amount of money that is equivalent to consideration not in money as determined on the basis of Cost Method or Residual Method.

**Here's an example to help you understand this better:**

Where a new TV is supplied for **INR 20,000 along with the exchange of an old TV and if the price of the new TV without exchange is INR 24,000 the open market value of the new TV is INR 24,000.**

Where a laptop is supplied for INR 40,000 along with a barter of printer that is manufactured by the recipient and the value of the printer known at the time of supply is INR 4,000 but **the open market value of the laptop is not known, the value of the supply of laptop is INR 44,000.**

This discount was not known at the time of supply, and so it cannot be claimed as a deduction from the transaction value for GST calculation. So the invoice will be same as above.

**Value of Supply of Goods or Services Between Related Person Under GST**

Many businesses have multiple branches across states. Under the new GST law, they are required to register separately in each state they are operable in. **Also, there can be multiple entities within a conglomerate which would also require multiple registrations under GST.** For instance, TATA Steel and TATA Motors are both considered separate legal entities under TATA Sons, even though the former supplies inputs to the latter. Such business entities which may have separate legal existence while sharing a common control, fall under the definition of 'related person' under GST law.

In case of supply between such related person under GST, value of supply will be:

- The Open Market Value (OMV) of such supply. OMV will be the amount which is fairly available in open market.
- If the open market value is not available, it will be the value of supply of goods or services of like, kind and quantity. Here, the taxable person can use as reference similar goods or services or both for determining the value of supply.
- If the value is not determinable in the above two cases it shall be determined by either by the Cost Method or Residual Method.

**If the recipient of goods or services (or both) is eligible for full input tax credit, the value declared in the invoice shall be deemed to be the open market value of goods or service.** The above provisions have been included to safeguard the transactions done during the normal course of business between related persons, in good faith.

Taking our aforementioned example of related person under GST Law, let's say that TATA Steel supplies goods worth INR 1,50,000 (which is the OMV of the goods) to TATA Motors for INR. 1,00,000; and TATA Motors claims the full amount of GST charged in the invoice which is INR 18,000 (@18% of INR 1,00,000) as input tax credit, then this invoice value will hold true for valuation purpose. Eventually, when TATA Motors sell their products to their end consumers they will only get input credit of what was paid earlier as tax i.e. **INR 18,000 (and not the tax that should have been paid if the goods were sold at OMV).**

### **Value of Supply of Goods Made or Received Through an Agent**

The recently introduced GST valuation rules specifically cover situations where goods are supplied by the Principal to an agent or vice versa. Such supplies are chargeable under GST. **In simple words, any supply from Principal to an agent or otherwise will attract GST and thus either of the parties need to refer to these valuation rules to avoid a dispute with tax administrative authorities.**

### **Who is a Principal?**

As per the definition provided in the GST law, the term "Principal" means a person on whose behalf an agent carries on the business of supply or receipt of goods or services, or both. For instance, a dealership store of an automobile company is an excellent example of Principal-Agent relationship.

### **Who is a Principal?**

As per the definition provided in the GST law, the term "Principal" means a person on whose behalf an agent carries on the business of supply or receipt of goods or services, or both. For instance, a dealership store of an automobile company is an excellent example of Principal-Agent relationship.

1. Either of:

**a)** Open Market Value, or;

**b)** Ninety percent (90%) of the price charged for the supply of goods of like kind and quality by the recipient to his customer not being a related person, where goods are intended for further supply by the said recipient.

Example: Let's assume that the principal Mr. X, supplies groundnuts to his agent. The agent Mr. Y, supplies groundnuts of like kind and quality in subsequent supplies at a price of INR 5,000 per quintal on the day of supply. Another independent supplier Mr. Z, is supplying groundnuts of like kind and quality to the said agent at the price of INR 4,550 per quintal. The value of the supply made by the principal Mr. X, shall therefore be INR 4,550 per quintal (the open market value of groundnuts) or where he exercises the option the value shall be 90% of INR 5,000 i.e. is INR 4,500 per quintal.

2. In case if it can not be determined on the basis of the rule above, the value shall be determined on the basis of Cost Method or Residual Method.

## Value of Supply of Services in Case of Pure Agent

In our series of articles detailing the valuation rules laid down by the GST council, we will now talk about the last valuation rule which is, the valuation of supply in the case of services to a pure agent.

### Who is a Pure Agent?

Pure Agent means a person who:

- (a)** enters into a contractual agreement with the recipient of supply to act on their behalf and incur expenditure or costs in the course of supply of goods or services or both;
- (b)** neither intends to hold nor holds any title to the goods or services (or both) procured on behalf of or provided to the recipient of supply;
- (c)** does not use the goods or services so procured for his own interest; and
- (d)** receives only the actual amount incurred to procure such goods or services.

A practising Chartered Accountant incorporating a private limited company on behalf of his client is an example of a pure agent.

### What does the Valuation Rule say?

According to the valuation rule, **the expenditure or costs incurred by the supplier as a pure agent (contracted to the recipient of the supply of services) shall be excluded from the value of supply, if all of the following conditions are satisfied:**

the pure agent makes a payment to a third party, on behalf of the recipient, for procuring a supply when the contract for the supply of services procured is between the third party and the recipient. For example, legal charges paid to Registrar of Companies (RoC) in above case.

- the recipient of the supply is the only user of the services procured by the pure agent from the third party;
- the recipient of the supply is liable to make payment to the third party;
- the recipient of the supply authorizes the pure agent to make payment on his behalf;
- the recipient of the supply knows that the services (for which payment has been made by the pure agent) are provided by the third party;
- the payment made by the pure agent on behalf of the recipient of supply has been separately indicated in the invoice issued by the agent;
- the pure agent recovers from the recipient only such amount as has been paid by him to the third party; and
- the services procured by the pure agent from the third party are in addition to the supply/service he provides on his own

**Let's understand with the help of this example:**

Corporate services firm A is engaged to handle the legal work pertaining to the incorporation of a company run by B. Other than its service fees, the firm A also recovers from B the registration fee and approval fee for the name of the company which was paid to Registrar of Companies. The fees charged by the Registrar for the company's registration, and approval of the name are compulsorily levied on B. A is merely acting as a pure agent in the payment of those fees. Therefore, A's recovery of such expenses is a disbursement and not part of the value of supply made by A to B.

**Valuation of Supply Rule Under GST – Cost Method**

In our previous articles, we discussed the valuation rules of supply between related entities, principal-agent etc. Continuing our discussion further, here we are providing the analysis of Cost Method of Valuation of supply under Goods and Services Tax Law.

Cost method has also been referred in each valuation rule where there is no direct method for valuation possible. Cost method says that “where the value of a supply of goods or services or both is not determinable by any of the preceding rules, the value shall be one hundred and ten percent of the cost of production or manufacturing or cost of acquisition of such goods or cost of provision of such services”.

**Valuation of Supply Using Cost Method**

In simple terms, 110% of the cost of manufacturing or cost of provision of goods or services shall be considered for the purpose of the valuation and accordingly Goods and Services Tax will be charged on such amount. Suppose Nilkamal Limited is manufacturing office chairs and the cost of manufacturing is INR 4,000 per chair. Similar chair in open market is valued at INR 4,500. These chairs are supplied to a furniture showroom at the rate INR 3,000 and balance in non-monetary consideration. Now since the open market value is available, INR 4,500 will be considered for valuation of supply. However, in case if Open Market Value is not available, the value of supply as per cost method will be followed which says it has to be 110% of the cost of manufacturing i.e.  $INR\ 4,000 * 110\% = INR\ 4,400$ .

Thus GST will be charged on INR 4,400 in this case.

**Residual Method of Valuation**

As per the residual method, where the value of supply of goods or services or both cannot be determined under the cost method, the same shall be determined using reasonable means consistent with the principles and general provisions of the Goods and Services Tax law.

A simple interpretation of this rule suggests that supplier can use any method to determine the value of supply under GST, provided such method is justifiable in the case of inquiry. The registered taxable person should not exploit this method to displace the GST liability as the penal provisions are strict

under the new indirect tax regime.

One example of the residual method is valuation on the basis of per unit when the cost of manufacturing can not be determined in principle. The number of man hours required to complete a job can be another example of such valuation method.

### **Determination of Value for Certain Businesses**

Apart from the above rules, there are certain businesses which have been notified for which a separate valuation method will be applicable. Here, we will discuss these businesses and the value of supplies from such businesses. These shall be determined in the manner provided below.

### **Purchase or Sale of Foreign Currency, Including Money Changing**

The value of supply of services when purchasing or selling foreign currency, including money changing, shall be determined by the supplier of service in the following manner:-

1. For a currency, when exchanged from, or to, Indian Rupees (INR), the value shall be equal to the difference in the buying rate or the selling rate, as the case may be, and the Reserve Bank of India (RBI) reference rate for that currency at that time, multiplied by the total units of currency.

For example, on 20th July 2017, **Mr. A converted USD 100 into INR 6,200 (INR 62 per USD) through Akbar Travel Group. RBI's reference rate for buying and selling was INR 61/61.5 respectively on such date.** Now the value of supply

will be:  **$(62-61)*100 = \text{INR } 100.$**

Thus the value of supply for Akbar Travel will be INR 100 and GST will be levied on this amount.

In cases where the RBI reference rate for a currency is not available, the value shall be 1% of the gross amount of Indian Rupees provided or received by the person changing the money.

In above example, if **the reference rate is not available then 1% of INR 6,200 i.e INR 62 will be the value of supply of service.**

2. If neither of the currencies exchanged is Indian Rupee, the value shall be equal to 1% of the lesser of the two amounts the person changing the money would have received by converting any of the two currencies into Indian Rupee on that day at the reference rate provided by RBI.

For example, let's assume that USD is converted against EURO. Now as per the above rule, both these currencies will be converted into INR terms and the value of supply will be 1% of the lesser amount.

Also at the option of the supplier of services, the value in relation to a supply of foreign currency, including money changing, shall be deemed to be:

- (i) one per cent. of the gross amount of currency exchanged for an amount up to one lakh rupees, subject to a minimum amount of two hundred and fifty rupees;
- (ii) one thousand rupees and half of a per cent. of the gross amount of currency exchanged for an amount exceeding one lakh rupees and up to ten lakh rupees; and
- (iii) five thousand rupees and one-tenth of a percent of the gross amount of currency exchanged for an amount exceeding ten lakh rupees, subject to maximum amount of sixty thousand rupees

However, once opted, this option cannot be withdrawn during the remainder of the financial year.

### **Services in Relation to Booking of Tickets for Travel by Air Provided by an Air Travel Agent**

The value of supply of services in relation to booking of tickets for travel by air provided by an air travel agent such as Yatra or MakeMyTrip, shall be deemed to be an amount calculated at the rate of five percent of the basic fare in the case of domestic bookings, and at the rate of ten percent of the basic fare in the case of international bookings of passage for travel by air.

Note: For this rule, the expression “basic fare” means that part of the airfare on which commission is normally paid to the air travel agent by the airline.

### **Life insurance business**

The value of supply of services in relation to life insurance business shall be:

- (a) the gross premium charged from a policyholder reduced by the amount allocated for investment, or savings on behalf of the policyholder, if such amount is intimated to the policyholder at the time of supply of service;

Example: If INR 50,000 is gross premium, of which INR 45,000 is invested in funds, then the value of supply shall be INR 5,000.

- (b) in the case of single premium annuity policies other than (a), ten percent of single premium charged from the policyholder; or
- (c) in all other cases, twenty-five percent of the premium charged from the policyholder in the first year and twelve and a half percent of the premium charged from policyholder in subsequent years

This rule will not be applicable if the entire premium paid by the policyholder is only towards the risk cover in life insurance.

### **Valuation of Supply when Buying and Selling of Second-Hand Goods**

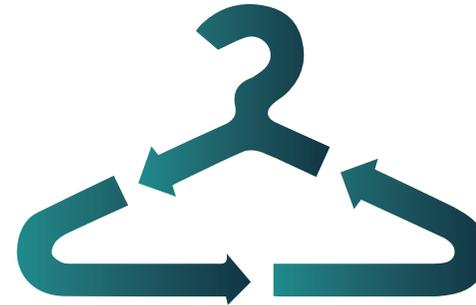
Where a taxable supply is provided by a person dealing in buying and selling of second-hand goods i.e. used goods, or goods which have undergone minor processing which does not change their nature, and where no input tax credit has been availed on purchase of such goods, the value of supply shall be the difference between the selling price and purchase price and where the value of such supply is negative it shall be ignored.

This rule will be applicable when the selling price exceeds the purchase price which is quite unlikely in second-hand goods. This also includes buying and selling on online platforms such as OLX and Quikr.

### **Value of a Token, or a Voucher, or a Coupon, or a Stamp (other than postage stamp)**

**The value of a token, or a voucher, or a coupon, or a stamp (other than postage stamp) which is redeemable against a supply of goods or services, or both, shall be equal to the money value of the goods or services, or both, redeemable against such token, voucher, coupon, or stamp.**

Example: If INR 1,500 worth of Sodexo is supplied by the taxable person, the value of supply under GST law will also be INR. 1,500.



**Second-Hand Goods**



**Redeemable Token**

## 5. GST Returns - How and When to File Them

A return is a document that a taxpayer is required to file as per the law with the tax administrative authorities. Under the GST law, a normal taxpayer will be required to furnish three returns monthly and one annual return. Similarly, there are separate returns for a taxpayer registered under the composition scheme, taxpayer registered as an Input Service Distributor, a person liable to deduct or collect the tax (TDS/ TCS)

In the table below, we have provided details of all the returns which are required to be filed under the GST Law.



<b>Return Form</b>	<b>What to file?</b>	<b>By Whom?</b>	<b>By When?</b>
GST R-1	Details of outward supplies of taxable goods and/or services effected	Registered Tax Supplier	10th of next month
GST R-2	Details of inward supplies of taxable goods and/or services effected claiming input tax credit	Registered Taxable Recipient	15th of the next month
GST R-3	Monthly return on the basis of finalization of details of outward supplies and inward supplies along with the payment of amount of tax.	Registered Taxable Person	20th of the next month
GST R-4	Quarterly return for compounding taxable person.	Compostion Supplier	18th of month succeeding quarter
GST R-5	Return for Non-Resident foreign taxable person	Non-Resident Taxable Person	20th of the next month

**GST R(1-5)**

<b>Return Form</b>	<b>What to file?</b>	<b>By Whom?</b>	<b>By When?</b>
GST R-6	Return for Input Service Distributor	Input Service Distributor	13th of next month
GST R-7	Return for authorities deducting tax at source	Tax Deductor	15th of the next month
GST R-8	Monthly return on the basis of finalization of details of outward supplies and inward supplies along with the payment of amount of tax.	Registered Taxable Person	20th of the next month
GST R-9	Details of supplies effected through e-commerce operator and the amount of tax collected	E-commerce Operator/Tax Collector	10th of the next month
GST R-10	Return for Non-Resident foreign taxable person	Non-Resident Taxable Person	20th of the next month

**GST R(6-10)**

<b>Return Form</b>	<b>What to file?</b>	<b>By Whom?</b>	<b>By When?</b>
GST R-10	Final Return	Taxable person whose registration has been surrendered or cancelled.	Within three months of the date of cancellation or date of cancellation order, whichever is later.
GST R-11	Details of inward supplies to be furnished by a person having UIN	Person having UIN and claiming refund	28th of the month following the month for which statement is filed

**GST R(11-12)**

All these returns are required to be filed digitally online through a common portal to be provided by GSTN, non-government, private limited company promoted by the central and state governments with the specific mandate to build the IT infrastructure and the services required for implementing Goods and Services Tax (GST).

### HSN and GSTIN - Abbreviations We Need To Know

The Harmonized Commodity Description and Coding System generally referred to as “**Harmonized System of Nomenclature**” or simply “**HSN**” is a multipurpose international product nomenclature developed by the World Customs Organization (WCO). **It comprises about 5,000 commodity groups; each identified by a six digit code, arranged in a legal and logical structure and is supported by well-defined rules to achieve uniform classification.** The system is used by more than 200 countries and economies as a basis for their Customs tariffs and for the collection of international trade statistics. **Over 98 % of the merchandise in international trade is classified in terms of the HS.** The HS contributes to the harmonization of Customs and trade procedures, and the non-documentary trade data interchange in connection with such procedures, thus reducing the costs related to international trade.

#### HSN in Indian context

In the Indian Context, **a taxpayer having a turnover exceeding INR 5 crore is required to follow the HSN code of 4 digits.** In the return form, rate of tax shall be auto populated based on the HSN codes used in furnishing invoice level purchase or sale information. After completing first year under GST, the turnover for previous year will be considered as baseline for using HSN codes of 4 digits. The use of HSN codes will make GST systematic and globally accepted.

For taxpayers with turnover between **INR 1.5 Crores and INR 5 Crores in the preceding financial year**, HSN codes may be specified only at 2 digit chapter level as an optional exercise to start with. From the second year of GST operations, mentioning 2 digit chapter level HSN Code will be mandatory for all taxpayers whose turnover in previous financial year between **INR 1.5 Crores and INR 5.0 Crores.** Indian authorities have further categorized the six digit HSN into two digit sub-chapters, thus increasing the total number of digits to be eight. **This eight-digit code will be mandatory in case of export and imports under the GST regime.**

#### What is GSTIN?

**For any dealer registered under state VAT law, a unique TIN number is issued by the state tax authorities.** A service provider is assigned a service tax registration number by the Central Board of Excise and Custom (CBEC).

Going forward, in the new GST regime, **all these taxpayers will get consolidated into one single platform for compliance** and administration purposes and will be assigned registration under a single authority. The government has set up GSTN—a special purpose vehicle to provide the IT infrastructure necessary to support GST digitally. All of these businesses will be assigned a unique Goods and Services Tax Identification Number (GSTIN). But most are yet not aware of the new registration process and the identification number.

### Proposed GST Identification Number (GSTIN)

Here's a complete break-up of the proposed GST Identification Number. Each taxpayer will be allotted a state-wise PAN-based 15-digit Goods and Services Taxpayer Identification Number (GSTIN).

- The first two digits of this number will represent the state code as per Indian Census 2011
- The next ten digits will be the PAN number of the taxpayer
- The thirteenth digit will be assigned based on the number of registration within a state
- The fourteenth digit will be Z by default  
The last digit will be for check code

### 6. How to Determine the Place Of Supply Of Services

This is a new concept introduced in GST which will cover supplies made together whether the supplies are related or not. The concept of composite supply in GST regime is similar to the concept of bundled services under Service tax laws. However, the concept of mixed supply is entirely new.

#### Composite supply

Composite supply means a supply is comprising two or more goods/services, which are naturally bundled and supplied in with each other in the ordinary course of business, one of which is a principal supply. The items cannot be supplied separately.

Any supply of goods or services will be treated as composite supply if it fulfils BOTH the following criteria:

- The supply consists of 2 or more goods or services together, AND
- It is a natural bundle, i.e., goods or services are usually provided together in normal course of business. They cannot be separated.

As per the Revised GST Law, where goods are packed, and transported with insurance, the supply of goods, packing materials, transport and insurance is a composite supply. Insurance, transport cannot be done separately if there are no goods to supply. Thus, the supply of goods is the principal supply. Tax liability in such cases will be the tax on the principal supply i.e., GST rate on the goods.

**If the second condition is not fulfilled then the supply is treated as a Mixed Supply.**

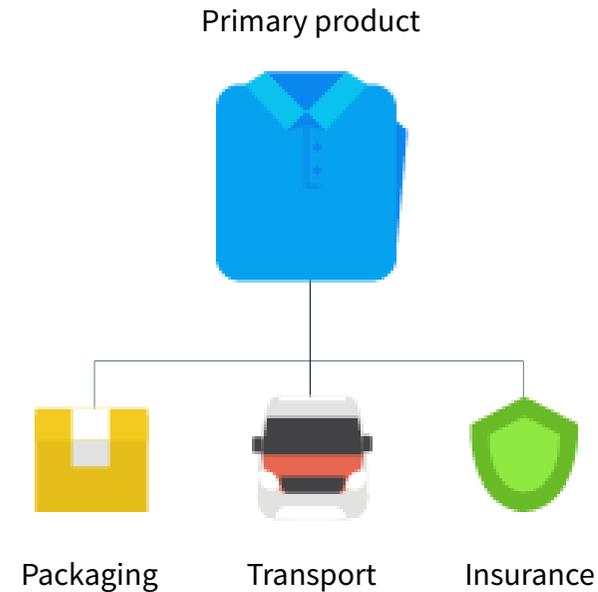
### Mixed supply

Mixed supply under GST means two or more individual supplies of goods or services, or any combination, made together with each other by a taxable person for a single price. Each of these items can be supplied separately and is not dependent on any other.

**It shall not be a mixed supply if these items are supplied separately.**

For tax under GST, a mixed supply comprising two or more supplies shall be treated as supply of that item which has the highest rate of tax.

As per the Revised GST law, a supply of a package consisting of canned foods, sweets, chocolates, cakes, dry fruits, aerated drink and fruit juices when supplied for a single price is a mixed supply. All of these can be sold separately. Assuming



### Composite Supply



Different Independent Products

**Mixed Supply**

**It shall not be a mixed supply if these items are supplied separately.**

For tax under GST, a mixed supply comprising two or more supplies shall be treated as supply of that item which has the highest rate of tax.

**As per the Revised GST law, a supply of a package consisting of canned foods, sweets, chocolates, cakes, dry fruits, aerated drink and fruit juices when supplied for a single price is a mixed supply.** All of these can be sold separately. Assuming aerated drinks have the highest GST rate, aerated drinks will be treated as principal supply.

Let us consider another set of examples:

**1. Booking Train Tickets:** You are booking a Rajdhani train ticket which also includes the meals on the train. This is treated as a bundle of supplies. It is a composite supply where the products cannot be sold separately. You will not buy the meal and the train ticket separately. The transportation of passenger is, therefore, the principal supply. **The rate of tax applicable to the principal supply will be charged to the whole composite bundle.** Therefore, the rate of GST applicable to the transportation of passengers by rail will be charged by IRCTC on the booking of Rajdhani ticket.

**2. Discount Offers in Shops:** Many shops offer freebies during festivals; say a body soap on the purchase of a shampoo. This is considered a mixed supply as it does not satisfy the second condition, i.e., all of these items can be sold separately. You can buy either just a soap or just a shampoo. **The highest rate of GST will apply on this transaction. Assuming that shampoos have the higher rate, this rate will apply on the whole mixed bundle.**

## 7.Composition Levy

Goods and Services Tax is set to bring along a new regime of business compliance in India. Large organizations have the requisite resources and expertise to address these requirements. **On the flip side, many startups and Small and Medium Enterprises (SMEs) may struggle to comply with these provisions.** To resolve such scenarios, the government has introduced **Composition Scheme under GST, which is merely an extension of the current scheme under VAT law.** When opting for the Composition Scheme under GST, a taxpayer will be required to file summarized returns on a quarterly basis, instead of three monthly returns (as applicable for normal businesses).

In this section, we have addressed some of the basic queries around Composition Scheme under Goods and Services Tax Law.

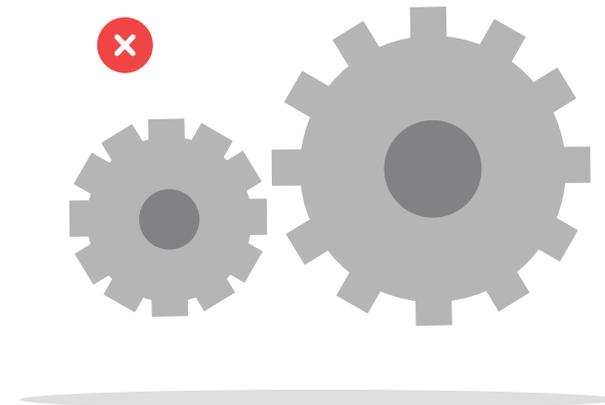
### Who can opt for Composition Scheme?

Businesses dealing only in goods can only opt for composition scheme. Services providers have been kept outside the scope of this scheme. **However, restaurant sector taxpayers may also opt for the scheme.**

This holds true if your annual turnover is below INR 50 Lakhs.



Goods



Services

**What is the tax rate applicable on a composition dealer?**

A registered taxpayer, who is registered under the Composite Scheme will pay tax at a rate not more than 1% for manufacturer, 2.5% for restaurant sector and 0.5% for other suppliers of turnover.

**Must a Composition Dealer maintain detailed records?**

No, a dealer registered under composition scheme is not required to maintain detailed records as in the case of a normal taxpayer.

**Do Composition Dealers have the option to avail Input Tax Credit?**

No, a Composition Dealer is not allowed to avail input tax credit of GST paid to their supplier.

**Can a Composition Dealer issue a tax invoice?**

Ans. No. Since a Composition Dealer is not allowed to avail input tax credit, such a dealer cannot issue a tax invoice as well. A buyer from composition dealer will not be able to claim input tax on such goods.

**Which returns are required to be filed by a taxable person registered under Composite Scheme?**

The taxable person is required to furnish only one return i.e. GSTR-4 on a quarterly basis and an annual return in FORM GSTR-9A.

**Is liability to pay taxes under Reverse Charge Mechanism covered under the Composite Scheme?**

Any tax payable under Reverse Charge Mechanism will not be covered under the scheme. These taxes will be liable to be paid as a normal taxpayer.

**Can a Composition Dealer collect composition tax separately?**

No, a Composition Dealer is not allowed to collect composition tax from the buyer.

**What is the threshold limit to be eligible for Composition Scheme?**

Any dealer whose aggregate turnover in a financial year does not exceed INR 50 Lakh can opt for composition scheme

**Can a dealer involved in interstate supplies opt for Composition Scheme?**

No, Composition Scheme is available only for intra-state supplies. If a dealer is involved in inter-state supplies, then he cannot opt for the scheme.

**What are the penalties applicable on Composition Dealer in case of any default in tax payment?**

If the tax administration has reason to believe that a composition dealer has wrongly availed the benefit under the composition scheme, then such a person shall be liable to pay all the taxes which he would have paid under the normal scheme. Also, he will be liable to pay a penalty equivalent to an amount of tax payable. This penalty will not be levied without giving a show cause notice to the dealer.

**What are the transition provisions if a business transits from Composition Scheme under current regime to Regular Taxation under GST?**

Taxpayers registered under composition scheme under the current regime will be allowed to take credit of input held in stock, or in semi-finished goods or in finished goods on the day immediately preceding the date from which they opt to be taxed as a regular tax payer.

**What are the conditions for availing input credit on stock lying at the time of transition?**

Following are the conditions which must be addressed by the taxpayer to avail credit on input at the time of transition from composition scheme to the normal scheme:

Such inputs or goods are intended to be used for making taxable supplies under GST law.

- Taxpayer was eligible for CENVAT Credit on such goods under the previous regime, however, couldn't claim it being under composition scheme.

- Such goods are eligible for input tax credit under GST regime. The taxpayer has legal evidence of input tax paid on such goods.
- Such invoices were issued within a period of 12 months from GST applicable date.

**What is the treatment for input credit availed when transitioning from normal scheme to Composition Scheme?**

When switching from normal scheme to composition scheme, the taxpayer shall be liable to pay an amount equal to the credit of input tax in respect of inputs held in stock on the day immediately preceding the date of such switch-over. The balance of input tax credit after payment of such amount, if any lying in the credit ledger shall lapse.

### Taxable Persons Excluded from the Composition Scheme

Following taxable persons are not granted permission to opt for the scheme who:

- supply goods not leviable under the Act
- supply services
- make a supply of goods other than intra-state i.e. **inter-state or import/ export**
- make a supply of goods through Electronic Commerce Operator i.e. **e-commerce and liable to collect taxes**
- manufacture such goods as may be notified

Further, it is also if in case a taxable person has different **business segments having same PAN as held by the taxable person**, they must register all such businesses under the scheme.

If an **individual** operates different businesses such as textiles, electronics and accessories, as well as a grocery store, then they must **register all the above segments collectively under the Composition Scheme**, or simply opt not for the scheme.

### No Tax, No Credit

#### No Credit of Input Tax

**There has been no provision of input credit on B2B transactions.** Thus, if any taxable person is carrying out business on B2B model, such person will not be allowed the credit of input tax paid from the output liability. Also, the buyer of such goods will not get any credit of tax paid, resulting in price distortion and cascading. This will further result into a loss of business as buyers might avoid purchases from a taxpayer under composition scheme. Scheme holder cannot claim input tax credit even if he makes taxable purchases from a regular taxable dealer. Ideally, the taxable amount would be added to the composite tax payer's cost.

#### No Collection of Tax

**Though the rate of composition tax is kept very nominal at 1% or 2.5%**, a taxpayer under composition scheme is not allowed to recover such tax from his buyer, as he is not allowed to raise a tax invoice. **Consequently, the burden of such tax is kept on the taxpayer himself and this must be paid out of his own pocket.** Thus, the fundamental principle of limited compliance and tax burden on small taxpayer is defeated here.

### **Compliances Related to Composition Scheme**

A normal taxpayer is required to submit a minimum of three returns on monthly basis and one yearly consolidated return i.e. 37 returns in a whole year; non-filing of which will attract penalty. Under the scheme a taxpayer is required to file one return in each quarter, they need not worry about record keeping and focus more on his business. Since a scheme holder is not required to pay taxes at regular rates, he is not liable to issue a tax invoice; rather the scheme holder should issue a Bill of Supply making this a more convenient option for SMEs.

### **Penal Provisions Related to Composition Scheme**

Under GST, if in the opinion of proper officer, it is found that a taxable person not being eligible for the scheme has opted for the scheme, they shall be liable to pay differential taxes along with penalty and provisions of demand and recovery will apply to him.

This means that before opting for the scheme a taxable person must be free from any or all doubts of his eligibility for the scheme to avoid such penal provisions. However, if a small taxpayer who has limited knowledge of tax laws and compliances makes any mistake under composition scheme, he shall be liable to pay tax at standard rate on his total turnover along with a penalty which will be equal to the total tax liability.

### **Payment of Tax in Composition Scheme**

Under the Composition Scheme, the taxpayer will pay tax at prescribed percentage to govt. The GST law has prescribed a lower limit of 2.5% for manufactures and 1% for others for 1%. There has been no upper limit set as of now. It is estimated that it will always remain below 5% and will go beyond only in rare cases.

Though the compliances for Composition Scheme are easier than those for normal taxpayers, B2B sellers may lose out on customers if their customers want to claim input tax credit, since they will not be able to provide input credit on the same.

### ● Merits of the Composition Scheme

Below are some of the prominent reasons why you should choose to get registered as a supplier under the composition scheme:

- **Limited Compliance:** Lesser compliance w.r.t. furnishing of returns, maintenance of books of records, issuance of invoices more focus on business.
- **Limited Tax Liability:** on comparison with regular taxpayers, person taxed under Composite Scheme will be liable to pay tax at a rate not less than 2.5% for manufacturer and 1% in any other cases instead of a standard rate of 18%.
- **High Liquidity:** Unlike normal tax payers, tax payers under Composite Scheme will be liable to pay taxes at a lower rate resulting in lesser chunk on his working capital.

### ● Demerits of the Composition Scheme

The demerits of registering under Composite Scheme by a taxable person are as follows:

- **Limited Territory for Business:** A taxpayer registered under the composition scheme is barred from carrying out inter-state transactions and cannot affect import-export of goods and services.
- **No Credit of Input Tax:** Under the scheme, the credit of input tax paid on the purchases of inputs from a normal taxpayer will not be allowed. The buyer of goods supplied by scheme holder will also not enjoy input tax credit resulting in price distortion, cascading, loss of business to scheme holders.
- **No Collection of Tax:** Though the rate of tax for a scheme holder is lower the burden of such tax is kept on the taxpayer himself, leading to higher cost of sales.
- **Penal Provision:** As per the Model GST Law, if the taxpayer who has previously been given registration under composition scheme is found to be not eligible to the composition scheme or if the permission granted earlier was incorrectly granted, then such taxpayer will be liable to pay the differential tax along with a penalty.

Not applicable to the supplier supplying goods through e-commerce.

## 8.What is Aggregate Turnover?

Now, since we understand how the Composition Scheme works, let us look at another concept introduced in GST which is closely associated with Composition Scheme. This is called **'Aggregate Turnover'** and we will look at in detail

The law says that **"aggregate turnover"** means the aggregate value of all taxable supplies, **excluding the value of inward supplies on which tax is payable by a person on reverse charge basis**, exempt supplies, exports of goods or services or both and inter-state supplies of persons having the same Permanent Account Number, to be computed on all India basis but excludes Central tax, State tax, Union territory tax, Integrated tax and cess.

### For Normal Category States under GST

Here's an example to help you understand the concept of aggregate turnover. So Mr. A is a farmer with an annual turnover of INR 55 lakh. Since this income is agriculture-related, the turnover is exempt from GST. However, Mr. A also supplies plastic bags along with his crop and charges separately for this. His turnover from the sale of plastic bags is INR 1 lakh and we know that this transaction (sale of plastic bags) is chargeable to GST. In simple words, his taxable turnover is

only INR 1 lakh. Going by the definition of aggregate turnover, Mr. A is required to register under GST because his aggregate turnover exceeds the threshold limit of INR 20 lakh. Further, Mr. A does not have the option to register as a composition dealer because this aggregate turnover exceeds the threshold limit of INR 50 lakh.

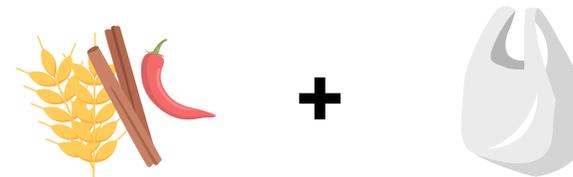


**Mr.A**

Occupation: Farming

Annual Turnover: **INR 55 Lakh**

Since this income is agriculture-related, the turnover is exempt from GST



However, Mr. A also supplies plastic bags along with his crop and charges separately for this. His turnover from the sale of plastic bags is INR 1 lakh



GST is chargeable on the transaction of Plastic bags .

Below is the list of states which are assigned special status under Goods and Services Tax Law:

- 
1. Arunachal Pradesh
  2. Assam
  3. Jammu & Kashmir
  4. Manipur
  5. Meghalaya
  6. Mizoram
  7. Nagaland
  8. Sikkim
  9. Tripura
  10. Himachal Pradesh
  11. Uttarakhand

The threshold limit of aggregate turnover for all the above states has been kept at INR 10 lakh. So the same example will apply here too, but the numbers will get modified. Let's assume that the turnover of the farmer Mr. A living in Nagaland is INR 15 lakh from agriculture. His taxable turnover from the sale of plastic bags is only INR 50,000. Mr. A will still have to register under GST as his aggregate turnover exceeds the threshold limit of INR 10 lakh for special category states.

### How Does Aggregate Turnover Affect the Status Quo?

**It's been highly anticipated that GST is going to expand the taxpayer base in India.** The concept of aggregate turnover may also attract businesses which otherwise may not be genuinely required to register. This has been a concern for a while, however, the government is reluctant to make any change in existing provisions. **It is important to note that just by registering, the exempt businesses will not have to pay taxes.** But registering will mean that they will have to file mandatory returns and follow all other compliances. **As a business you may not have attracted the interest of tax authorities up till now, but the GST Law gives authorities the power to inspect and compel small businesses to register under GST.** This will definitely increase the cost of compliance for small business in the short term. In the long run, though this could prove to be a good thing. The data thus collected may help the government come up with better policies for small businesses in the future.

## 9. Input Tax Credit in Detail

When you buy a product/service from a registered dealer you pay taxes on purchase, while making sales, tax is collected and periodically the same is adjusted with the tax you already paid at time of purchase and balance liability of tax (tax on sales (minus) tax on purchase) is to be paid to the government. This mechanism is called utilisation of input tax credit (tax on purchase adjustment against tax liability on output i.e. sales).

### Following are some of the conditions that need to be addressed for availing ITC:

**1. Input credit is to be availed within one year:** Businesses will not be entitled to take input tax credit under GST law, in respect of any supply of goods and/ or services after the expiry of one year from the date of issue of tax invoice in respect of such supply.

**2. Generally accepted accounting principles should be followed:** The amount of credit under GST law will be calculated in accordance with generally accepted accounting principles. Further rules in this regard are yet to be notified.

**3. ITC is attributable to the purpose of business only:** In case goods and/or services supplied are used by the taxable person partly for the purpose of any business and partly for any other purpose, the the ITC shall be restricted to the

extent of the input tax as is attributable to the purpose of business.

**4. ITC is attributable to taxable supply:** There can be a business scenario when the goods and /or service are used by the registered taxable person partly for effecting taxable supplies and partly for the purpose of non-taxable supplies. In such cases, input credit attributable to exempt/ non-taxable supply will not be available. However, the amount of input tax on zero-rated supplies will be available as credit.

**5. Proper tax invoice must be furnished:** Businesses registered under GST will not be provided the credit of any input tax in respect of any supply of goods and/or services unless:

- the business is in possession of a tax invoice, debit note, supplementary invoice or such other taxpaying document as may be required under the notified GST law
- the business has actually received mentioned goods and/ or services
- GST charged in respect of such supply has been actually paid to the credit of government against such supply
- The business has furnished the proper return under GST law

Also, where the goods against an invoice are received in lots or installments, the registered taxable person shall be entitled to the credit upon receipt of last lot or installment.

### Input Tax Credit on Job Work

Manufacturers today are operating in a competitive business environment. **These manufacturing units are now focusing on their core products and most of the work is outsourced to outsiders or Job workers.** Such practices often ensure cost efficient products while simultaneously accelerating the production cycle.

**Job work is understood as the processing or working on of goods supplied by the principal, to complete a part or whole of the process.** The work may be in the initial process, intermediate process, assembly, packing or any other completion process. The goods sent for job work maybe raw material, component parts, semi finished goods and even finished goods. The resultant goods could also be a variation of the same or the complete product.

### Tax Liability under Current Regime

In case, if the process undertaken by the job worker amounts to manufacture/ deemed manufacture, **the job worker is liable to pay excise on the final product.** However, the principal manufacturer who has supplied the goods for job work may furnish a declaration which exempts goods manufactured by a job worker from paying this duty. **This declaration also puts certain conditions on the principal manufacturer which are:**

1. the goods produced by the job worker must be used in the manufacturing process by the principal manufacturer, and

2. The manufacturing process should result in a dutiable product on which the government can charge excise duty.

The activity undertaken by job worker is not liable for service tax as well because the process amounting to manufacture or production of goods is covered by the Negative list of Services Tax.

### Tax Liability under GST Regime

The GST law has exclusive provisions on Job Work and related activities. **The GST law allows the principal to send taxable goods, without payment of tax, to a job worker.** There can be further movement of such goods from one job worker to another. **However, such goods must be brought back to principal's place of business and must be removed after payment of tax thereon.**

In simple words, a principal can remove goods from the place of supply without payment of tax, provided such goods are sent for job work and are intended to be brought back for a taxable supply. Such removal of goods is allowed only after a declaration stating the same is made.

## Claiming Input Tax on Job Work

There are three different scenarios that can affect the ITC on job work:

### 1. Capital goods are sent for job work after the appointed day

The principal can send capital goods to the job worker after the appointed day of GST implementation (July 1st) and these will have to be sent back within 3 years from the date of movement. Such goods will not be taxed to the job worker.

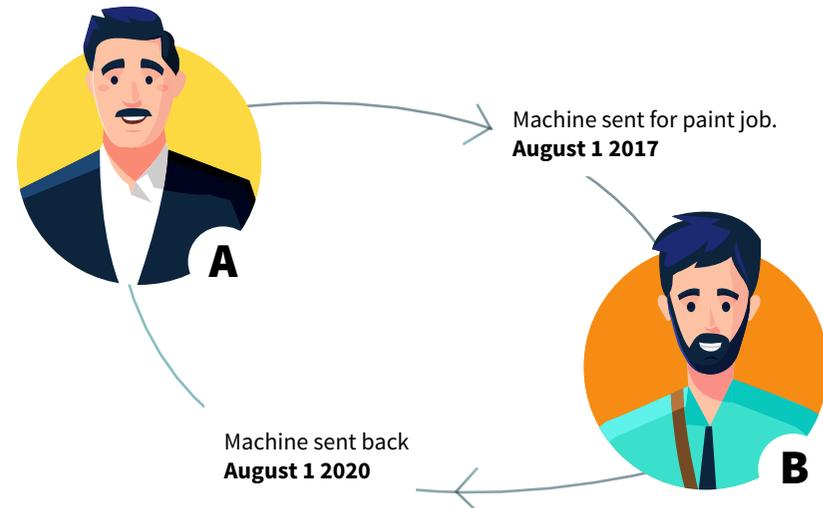
For example: Let's say A sends a machine to job worker B for paint work on 1 August 2017. If B sends the machine back to A by 1 August 2020 then there will be no tax applicable to B and input tax credit will be available to A.

### 2. Other goods are sent for job work after the appointed day

All other goods (except capital goods) sent to job worker after GST implementation have to be returned to the manufacturer within a period of 1 year and are not liable to be taxed to the job worker.

For example: X sends plastic glasses to a job worker Y packaging on 15 July 2017. No tax will be applicable to Y if the goods are returned by 15 July 2018, and the input tax credit of the same will be available to X.

### Example 1



there will be no tax applicable to B and input tax credit will be available to A.

### 3. Goods were sent before the appointed day and are returned after the appointed date

Input tax credit will be allowed on those inputs which are sent for job work but are returned within a period of six months from the appointed date (July 1st). **An extension of two months may be granted if there is sufficient cause.** A job worker will not be liable to deduct tax on goods in both these cases provided that both the principal and job worker declare their stock on the appointed date.

**For example:** P had sent goods to a job worker Q on 10 January 2017. Q delivers the goods back to P on 25 November 2017. There will be no tax liability on Q as the goods were sent back within a period of 6 months from appointed date (July 1) and input tax credit on this transaction will be available to P.

### Cases where ITC cannot be Availed by the Dealer

There are certain cases in which ITC will not be available. These have been listed below.

#### 1. ITC will not be available for motor vehicles and conveyances except when:

the vehicle is used for the supply of other vehicles or conveyances

the rule shall not apply if the vehicle is used for transportation of passengers

the vehicle is used for imparting training on driving, flying, navigating such vehicle or conveyances

No ITC is available for motor vehicles or conveyances used for transportation of goods.

#### 2. No ITC will be available for the supply of following goods or services, or both:

food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery except where the category of inward and outward supply is same or the component belongs to a mixed or composite supply under GST

sale of membership in a club, health, fitness centre

ITC will not be available for rent-a-cab, health insurance and life insurance except the following

any services which are made obligatory for an employer to provide its employee by the Indian Government under any current law in force

where the category is same for the inward supply and outward supply or it is a part of the mixed or composite supply in the case of travel, benefits extended to employees on vacation such as leave or home travel concession.

**3. ITC will not be available for any work contract services. ITC for the construction of an immovable property cannot be availed,** except where the input service is used for further work contract services.

**4. No ITC will be provided for materials used in the construction of immovable property or for furtherance of business.** ITC will not be available for the goods or services or both provided to a taxable person used in the construction of an immovable property on his own account including when such goods or services or both are used in the course or furtherance of business.

**For example:** Raj is the chairman of XYZ construction private limited. He ordered certain input goods or services like cement, or labour to be used for the construction of his house. Cement purchased was also used partly for the official company projects. ITC would not be available for the above input goods or services.

**5. No ITC will be available to the person who has made the payment of tax under Composition Scheme in GST law.**

**6. ITC cannot be availed on goods or services or both received by a non-resident taxable person** except for any of the goods imported by him.

**7. No ITC will be available for the goods and services or both used for personal consumption and not for business purposes.**

**8. Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples are not available for ITC under GST.**

**9. ITC will not be available in the case of any tax paid due to non or short tax payment,** excessive refund or ITC utilised or availed by the reason of fraud or willful misstatements or suppression of facts or confiscation and seizure of goods.

It is therefore imperative for companies to make the necessary operational and financial changes for accommodating the above cases of ineligibility of ITC.

## Special Circumstances of ITC Transfer

There are three types of transfers or transactions where the government will transfer the ITC which was previously not granted to the taxpayer. These transfers are named on the basis of their actions vis a vis Retrospective Relief, Corporate Actions and Retrospective Taxation respectively.

**Retrospective Relief:** In this case, the government will give credit of an earlier ineligible input credit to the taxpayer either based on registration or if a previous exempt supply becomes newly taxable.

**Corporate Actions:** If a business transfers all its liabilities and assets to another business due to a change in constitution (as in the case of a sale, merger, demerger, amalgamation, lease or transfer of the business) then ITC will be available.

**Retrospective Taxation:** If a taxpayer forfeits credit earlier claimed from the government. It is opposite of the first situation. This means the taxable supplies are now exempt or chose composition scheme or is disposed of capital goods.

## Input Service Distributors under GST

**The concept of Input Service Distributors or ISDs is present even in the current tax scenario. Under GST, an Input service distributor (ISD) can be the head office, registered office, branch office, or the regional office of an organisation which receives the invoice for the purchase of input goods or services, or both, and distributes the available input tax credit from IGST, CGST, and SGST, for each recipient.**

The conditions listed in the GST Law for the distribution of ITC by the ISD are:

1) **ITC available for the month has to be distributed by the input service distributor (ISD) in the same month.**

Details are to be furnished by the ISD in the Form GSTR-6 on the basis of information available in the form GSTR-6A. **Form GSTR 6 should contain the details of the tax invoices on which ITC has been received and is to be filed through the common portal either directly or from a Facilitation Centre, notified by the Board or Commissioner.**

2) **ITC on any goods or services or both used by the taxable person for the construction of immovable property (other than machinery or plant) on his own account including any goods or services or both used in the course or expansion of business has to be distributed separately for the ineligible ITC and eligible ITC.**

\*Cases of ineligible ITC are already mentioned above.

3) ITC available has to be distributed by the ISD among the major categories of IGST, CGST SGST, and UTGST

4) Input tax credit has to be distributed by the ISD in a proportionate ratio which is calculated in the below manner:  
C – Input tax credit available for distribution.

C1 – Input tax credit available for distribution for recipient of ITC

T1 – Turnover of the recipient for whom ITC is calculated

T – Turnover of all the recipients summed up

$$C1 = C * T1/T$$

- 5) In the event of the distribution of ITC to CGST and SGST, the following process has to be observed:  
ITC available is to be distributed between CGST and SGST if the recipient of goods or service, or both, is located in the same state as the Input Service Distributor.  
For example, ABC Constructions is located in Punjab and the ISD is also in Punjab. ITC available to the ISD is INR 1,00,000. The ISD would need to divide the amount into CGST (INR 50,000) and SGST (INR 50,000).
- If the recipient is located in a state different than the ISD provider then the input tax credit available would need to be distributed as IGST. The amount distributed should be equal to the aggregate of ITC on CGST and SGST.  
In the above example, if ABC Constructions was located outside Punjab than the ITC available would need to be distributed as IGST.

**6) An ISD invoice or, as the case may be, an ISD credit note issued by an Input Service Distributor must contain the following details:**

- name, address, and GSTIN of the Input Service Distributor
- a consecutive serial number containing alphabets or numerals or special characters hyphen or dash and slash symbolised as, “-”, “/”, respectively, and any combination thereof, unique for a financial year
- date of its issue
- name, address, and GSTIN of the recipient to whom the credit is distributed
- the amount of the credit distributed  
signature or digital signature of the ISD or his authorised representative

**7) Any additional amount of input tax credit on account of issuance of a debit note to an Input Service Distributor**

The supplier shall be distributed in the manner and subject to the conditions specified in above 6 points and the calculation for the amount shall be done as per point 4 above. The input service distributor is responsible for filling the form GSTR-6. Any change in the amount of ITC by the ISD for any of the recipients and including the distribution of ITC to the wrong recipient has to be distributed in the month for which credit note was issued by the ISD

## 10.Reverse Charge

Reverse charge, where the recipient is liable to pay tax, is common to many countries like Canada where it is applicable on imports of services and intangible properties. Normally, the supplier pays the tax on supply. In certain cases, the receiver becomes liable to pay the tax, i.e., the chargeability gets reversed which is why it is called reverse charge.

In India, this is a partly new concept introduced under GST. The purpose of this charge is to increase tax compliance and tax revenues. Earlier, the government was unable to collect service tax from various unorganized sectors like goods transport. Compliances and tax collections will therefore be increased through reverse charge mechanism.

The concept of reverse charge mechanism is already present in service tax. In GST regime, reverse charge may be applicable for both services as well as goods.

### Current scenario

- At present, reverse charge under Service Tax is applicable to
- services like:
  - Insurance agent
  - Services of a director to a company
  - Supply of manpower
  - Goods Transport Agencies
  - Non-resident service providers
  - Any service involving aggregators

- Currently there is no reverse charge mechanism for the supply of goods.

### Reverse Charge under GST

Reverse charge means the liability to pay tax is directed to the recipient of goods/services instead of the supplier. Reverse charge may be applicable for both services as well as goods once GST is live. Situations where reverse charge will apply include:

#### 1. Unregistered dealer selling to a registered dealer:

In such a case, the registered dealer has to pay GST on the supply.

**2. Services through an e-commerce operator:** If an e-commerce operator supplies services then the reverse charge will apply on the e-commerce operator who will be liable to pay GST.

For example, an online operator provides services of plumbers, electricians, teachers, beauticians etc. The operator will be liable to pay GST and collect it from the customers, instead of the registered service providers listed on its site. If the e-commerce operator does not have a physical presence in the taxable territory, then a person representing such electronic commerce operator for any purpose will be liable to pay tax. If there is no representative, the operator will need to appoint a representative who will be held liable to pay GST.

**3. Other categories of supplies applicable for reverse charge as notified by the Centre or State Government.**

### Registration for Taxpayers who Pay Reverse Charge

All persons who are required to pay tax under reverse charge have to register for GST irrespective of the threshold.

[Threshold: turnover in a financial year exceeding INR 20 lakhs (INR 10 lakhs for North eastern and hill states)]

Time of supply for goods under reverse charge

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 THIRTY days from the date of issue of invoice by the supplier (60 days for services)

If it is not possible to determine the time of supply with the above rules then the time of supply will be the date of entry in the books of account of the recipient.

When calculating the date of payment, the earlier of the following will be taken into account:

1. the date on which the recipient entered the payment in their books

OR

2. the date on which the payment is debited from his bank account

For example: Let's say the date of receipt of goods is 15th May 2018, and the date of payment is 15th July 2018. The date of invoice generation is 1st June 2018, and the entry in the books of the receiver is dated 18th May 2018.

The time of supply of goods in this case will be 15th May 2018. If for some reason the time of supply could not be determined, then it would be the 18th May 2018 i.e., the date of entry in the books of the recipient.

Time of supply for services under reverse charge

In case of reverse charge, the time of supply shall be the earliest of the following dates:

the date of payment

OR

the date immediately after SIXTY days from the date of issue of invoice by the supplier (30 days for goods)

If it is not possible to determine the time of supply under (a) or (b), the time of supply shall be the date of entry in the books of account of the receiver of service.

For clause (a)- the date of payment shall be earlier of-

1. The date on which the recipient entered the payment in his books

OR

2. The date on which the payment is debited from his bank account

When supplier is located outside India

In case of 'associated enterprises', where the supplier of service is located outside India, the time of supply shall be-

- the date of entry in the books of account of the receiver OR

- the date of payment, whichever is earlier

### Example to Understand Reverse Charge

Let us assume that supply of cement will attract Reverse Charge. Now a supplier dispatched the goods on 1st August, received by the buyer on August 5, payment was made on 25th July (Advance Payment) and invoice raised by supplier on 1st August.

**Time of Supply under reverse charge would be 25th July and must be included in the return for July period though the goods were received in August.**

#### For Services

Nothing has been yet prescribed in GST. We should also look at the present reverse charge provisions under Service Tax, applicable on certain services.

For example, a manpower supplier XYZ Guard has provided services to a company ABC and charged bill of INR 1,00,000. Service tax liability is  $\text{INR } 1,00,000 * 15\% = \text{INR } 15,000$ .

Service provider XYZ Guard will send a bill of INR 1,00,000 mentioning at the bottom that the service tax will be borne by the receiver.

**So ABC will pay 1,00,000 to XYZ Guard and deposit INR 15,000 to the Government.**

While nothing has been yet prescribed, it is expected reverse charge mechanism for services under GST will follow the same procedure.

#### For Goods

For the first time under GST, reverse charge is applicable on goods.

For example, unregistered dealer sells for INR 100. Buyer will deduct GST of say 5% = INR 5 and deposit it under reverse charge. So now, will seller receive INR 100 or INR 95?

Now if we look at the **present VAT laws, some states treat purchases from unregistered dealers as 0% transaction**, i.e, VAT is not applied. For other states such as Karnataka, purchase tax is applicable on all purchases made by a registered dealer from an unregistered dealer, irrespective of the purpose for which such goods are purchased.

Further, such tax paid by a registered dealer will be available as input tax credit, subject to certain conditions as per Karnataka VAT Act.

Nothing has been yet prescribed for reverse charge mechanism for goods under GST. It is expected that it will follow the same treatment as reverse charge mechanism for services above.

So, by the above treatment, the seller will receive INR100.

**The buyer will deposit rs. 5 with the government on his own.**

### Input Tax Credit on Reverse Charge

Tax paid on reverse charge basis will be available for input tax credit if such goods and/or services are used, or will be used, for business. The service recipient (i.e., who pays reverse tax) can thus avail input tax credit.

### Tax Invoice

The supplier must mention in his tax invoice whether the tax is payable on reverse charge

### GST Compensation Cess

GST Compensation Cess will also be applicable on reverse charge. GST Compensation Cess will be levied and collected at a rate which will be notified later. **This will apply on all supplies of goods and services, including imports and reverse charge supplies.** The purpose is to compensate States for loss of revenue on implementation of GST. This will be applicable for 5 years from the date GST gets implemented.

## 11. What is GST Compliance Rating?

Simply put, the GST compliance rating is akin to a performance ranking of all registered taxable persons which tells you how compliant they are with respect to the GST provisions. This will be irrespective of nature, size, or turnover of the business.

### Why is the GST Compliance Rating Introduced?

**The idea behind this concept of tax administration is to compel people to be fully GST compliant and on time with uploading invoices and other necessary documents.**

Under GST, a person can claim input tax credit in GSTR-2 (return with purchase details for the month) only when the seller has also filed his GSTR-1 (return with monthly sales details), and the details on both these forms match or reconcile with each other.

**Now, under the current regime, businesses often delay return filing and payment of taxes to gain time.** Continuing this practice under GST will result in delay in input tax credit across the chain and severely affect the working capital of businesses. The rating system will prevent the delay of credit for bona fide buyers due to the non-compliance of certain persons.

### How will the Rating System Work?

GST Compliance Rating will be based on certain criteria which are yet to be prescribed. However, **experts believe that the following factors could play a key role in deciding compliance ratings:**

- Timely payment of taxes
- Timely filing of returns
- Timely reconciliations
- Compliance of various other time limits under GST
- Cooperating with the GST authorities

Based on your rating, you and your business will enjoy certain benefits. It has been proposed that refunds to a taxpayer will be made on percentage basis of these ratings.

Let us take an example.

Supposing a taxpayer has a rating of 8. He is eligible to claim a refund of INR 10,000. Based on his compliance rating (which is 8), he will get an instant provisional refund of INR 8,000 when he applies for refund. The balance of INR 2,000 will be paid later after scrutiny.

Similarly, **a person with a rating of 6 will get only 60% of refund. Only a person with a minimum of GST rating of 5 on 10 can avail provisional refund.**

Note: The final rules regarding this are not yet to be notified.

### What are the Benefits that You Can Enjoy?

- Some of the benefits that compliant vendors may be able to enjoy include:
- Get refunds immediately
- Buyers can get input tax credit immediately
- Attract more business
- Reduce chances of audit by the tax authorities.
- A low GST rating will attract higher scrutiny from the department.
- Enjoy better reputation

### How will Businesses be Benefited by Becoming GST compliant?

The easiest way to understand this is through an example. Ajay requires office stationery. He has shortlisted 2 sellers - ABC & XYZ.

**ABC has a rating of 9 whereas XYZ's rating is 6.** Ajay hears from his good friend Vijay that the company XYZ does not file its GST returns on time resulting in input credit being blocked, while the company ABC is well rated and highly compliant.

Based on his friend's suggestions and the vendor's ratings, Ajay places an order with the company ABC.

#### Effect on buyer:

Buyers will look for sellers with higher rating which will ensure they can avail input tax credit faster.

**Effect on sellers:**

Sellers with a higher rating will attract more customers. Thus, the GST rating will bring in a healthy competition between businesses. A prospective client will enquire about the compliance ratings of suppliers before entering deals.

**What are the Disadvantages of this Rating Scheme?**

Businesses will need to be compliant in order to remain competitive. This may prove to be a burden especially to the small businesses who do not have the resources to be fully compliant; at least in the initial days. GST is a completely new tax regime and businesses will inevitably be prone to errors. Errors, delays and non-compliance will affect the vendor's rating, and therefore the business may suffer. On the other hand, compliant vendors will be at an advantage as they will be easily distinguished from their competitors. This will also prove beneficial to the large players who have more resources at their disposal.

**How will You Know Your GST Rating?**

The compliance rating score will be updated periodically. It will be intimated to the taxpayer and also be available publicly.

Our Finance Minister, Mr. Arun Jaitley has rightly said that India is largely a non-compliant country when it comes to taxes. Thus, GST rating is a brilliant scheme which will urge businesses to become more compliant and help to prevent tax evasion.

**12. Impact of GST on Manufacturers and FMCG Industry**

GST is expected to boost competitiveness and performance in India's manufacturing sector. Declining exports and high infrastructure spending are just some of the concerns of this sector. Multiple indirect taxes have also increased the administrative costs for manufacturers and distributors and it is being hoped that with GST in place, the compliance burden will ease and this sector will grow more strongly. The Indian FMCG sector is the fourth largest sector in the economy with a total market size in excess of US\$ 13.1 billion. Fast Moving Consumer Goods (FMCG) goods are popularly named as consumer packaged goods. Items in this category include all consumables (other than groceries/pulses) people buy at regular intervals. FMCG is also one of the most fastest growing sectors among all the sectors in the Indian economy.

As per the current tax regime, FMCG sector has to pay many taxes like VAT, Service Tax, Excise duty, Central Sales Tax. Once the GST law will be implemented it will cover all the above taxes under one single point of tax in form of GST. The current tax rate for the FMCG industry including all the taxes is around 22-24%. GST might be implemented with the expected rate of 18-20%. It would be welcomed by all the major players in the FMCG industry. No input credit was available for certain taxes like CST, CVD and SAD under the

current tax regime. Whereas under GST, there would be input credit available for all the GST payments made in the course of business.

### **Reduction in Logistics Cost**

FMCG sector would also benefit from GST in the form of saving considerable amount of expenses on logistics. Distribution cost of the FMCG sector currently amounts to 2-7% of total cost, which is expected to drop to 1.5% after implementation of GST. Due to the smoother supply chain management, payment of tax, claiming input credit, removal of CST under the GST regime there will be cost reduction in terms of transportation and storage of goods. It is expected that the reduction in cost and taxes would make the consumer goods cheaper.

### **Stock Transfers**

Stock transfers outside the State will be subject to GST. It is unclear whether stock transfers within the State will also be subject to GST. It is to be noted that the GST framework was intended to tax only inter-state stock transfers, and not intra-state stock transfers. Additionally, with respect to the valuation of stock transfers, the GST Valuation Rules provide that the value of goods shall be the transaction value. Transaction value is the price paid or payable for the supply of goods. As stock transfers do not have a consideration, this provision cannot be implemented. In addition GST valuation

rules provide that if the transaction value is not available then the value for the good/service would be considered as the transaction value of good/service of same kind and quality.

### **The Final Word**

GST is more than just a tax change. It is also a 'behaviour change' and its successful implementation will depend on how well we as a nation adapt to the new requirements of doing business. Post the initial teething troubles, it is expected that GST will bring in much good for all sectors, including the FMCG industry.

**Thank you**

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