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WELCOME TO THE STATE
LEVEL INTERACTION ON
GST

10th November 2009

What is GST?

- GST is a Tax on Goods and Services.
- Tax is levied at every point of value chain- from production/import point to consumption point.
- Tax is levied only on value addition-with input tax credit facility, no tax cascading at any stage.



Current Central taxes on goods and services

- Excise duty on manufacture of goods with input tax credit facility-input tax credit available only on procurement from another manufacturer or under excise net-tax paid on services used as inputs also available for rebate.
- Customs Duties on import of goods.
- Tax on certain identified services with credit towards tax paid on both services and goods used as inputs.

Current State taxes on goods

- Karnataka Sales Tax on sale or purchase of petrol, aviation fuel, diesel and sugarcane-single point levy-tax levied even on Central Excise Duty component of the sale price.
- Karnataka Value Added Tax on sale or purchase of all other goods at all points with a facility of input tax rebate - tax levied even on Central Excise Duty component of the sale price.
- Entry tax on certain notified goods into local areas-single point levy-is in lieu of Octroi.
- Tax on inter-State sale of goods though a Central tax, collected and retained by the State.



Current State taxes on services

- Entertainments tax on cinema shows, video shows, amusements, recreation parlours, entertainment provided by multi system operators, DTH operators and cable operators, horse races, etc.
- Luxury tax on luxuries provided in hotels, clubs, marriage halls, hospitals, etc.
- Betting tax on bets placed on horse races.



Salient features of proposed GST

- Dual GST on all goods and services-two components-Central GST (CGST) & State GST (SGST) on the same tax base-no SGST on CGST component of sale price-facility of input tax rebate-however, no cross input tax rebate-between SGST and CGST.
- Separate legislations for levy of CGST and SGST-State legislations, rules and formats to be uniform.
- Certain goods and services to be exempted uniformly in all the States.

Salient features of proposed GST

- Uniform threshold of annual turnover of Rs.10 lakhs proposed for SGST for both goods and services
- Threshold of Rs.1.5 Crores for CGST on goods recommended – an appropriately high threshold for CGST on services recommended.
- Composition scheme for annual turnovers upto Rs.50 lakhs under SGST- a floor rate of 0.5% recommended.



Salient features of proposed GST

- Two rates of SGST and CGST for goods-a lower and higher standard rate, with a nominal rate for noble metals and articles-single rate recommended for services.
- Concurrent administration by both Central and State tax authorities-common formats of returns for CGST and SGST-however, to be filed separately to Central and State authorities.
- Co-ordination between Central and State authorities in assessment, enforcement, etc.
- Taxpayer Identification Number to be based on PAN-13/15 digits likely.



Salient features of proposed GST

- Central taxes to be subsumed under GST-Excise Duties, Additional Customs Duty (CVD), Special Additional Customs Duty and related surcharges and cesses.
- State taxes to be subsumed under GST-KST on sugarcane, VAT, Entertainments Tax, Luxury Tax and Betting Tax.
- KST on petrol, aviation fuel and diesel to continue-crude to be brought under KST.
- Inclusion of natural gas under GST under discussion.
- Taxable event to be supply or acquisition and not sale or purchase.
- Imports of goods and services subject to CGST and SGST.

Salient features of proposed GST

- Current CST on inter-State sales to discontinue- goods and services taken out of a State for consumption in the another State to be taxed in the State of consumption- refund of any SGST paid on such goods and services in the exporting State.
- Zero rating of exports- no SGST or CGST on exports goods and services - SGST paid on inputs including goods exported refundable to the exporter.



TAXATION OF INTER-STATE TRANSACTIONS

- Levy of IGST on inter-State sales and transfers-a combined rate of SGST and CGST.
- IGST to be paid to the Central authorities-seller/supplier can pay IGST out of his IGST, CGST or SGST credit –seller/supplier to file details of inter-State transactions and IGST payments electronically.
- Purchaser/receiver to use IGST credit to pay his IGST, CGST or SGST liability.
- Reconciliation of payments/receipts to be handled by a Central Agency.
- IGST basically on goods.
- In respect of services where supplier and receiver or supply and consumption are in different States, rules to be framed to determine the place of supply of services for taxation by a State.



Salient features of proposed GST

- Zero rating of sales/supplies to SEZ developers/units recommended.
- Unavailed incentives to new industries to continue till expiry period-however, no exemption as under current VAT.



Requirements for introduction of GST

- Suitable Constitutional amendments.
- Central and State legislations.
- Central and State regulations/rules.
- Finalisation of forms/formats.
- Re-organisation of State Tax Department to administer GST.



Benefits to Trade and Industry

- Seamless input tax credit.
- Removal of current restrictions on input tax credit.
- Higher thresholds to benefit small businesses.
- Input tax credit even on tax paid on inter-State procurement.
- Uniform tax rates, legislations, procedures and formats across all the States.
- Common returns/formats under CGST and SGST making compliance easier and economical.

Challenges to Trade and Industry

- To pay two levies-CGST and SGST.
- To comply with two legislations and regulations.
- Service providers operating in more than one State to comply with SGST requirements in such States.
- Apportionment of input tax credit on inputs consumed in more than one State.
- IGST on stock/branch/consignment transfers.
- Designing and switching over to new accounting/documentation requirements.



Challenges before the State

- Determination of Revenue Neutral Rate.
- Likely revenue loss on account of lower average RNR of all the States as compared to higher RNR of Karnataka and because of higher thresholds under GST.
- To minimise revenue loss/tax evasion on wrong/false input tax credit claims especially under IGST.
- To handle transition issues.
- To widen tax base by bringing all taxable businesses under tax net.
- To minimise the time required to stabilise new tax scheme.



Expectations from Trade and Industry

- Better tax compliance.
- Passing on the benefit of lower tax and removal tax cascading to the consumers.
- Suggestions to improve tax compliance and administration.



Expectations from Consumers

- To bear with temporary price variations during transition period.
- To help in improvement of tax compliance by insisting on tax invoices.

