

GST

Goods and Services Tax in India

Taking stock and setting expectations

For private circulation



FOREWORD



ASSOCHAM has been undertaking various studies on issues of topical interests from time to time and facilitate Government, policy makers, opinion makers and the investors in formulating the policies. We took an early lead in facilitating introduction of Value Added Tax (VAT) by organizing over 40 conferences all over the country and produced 7 expert papers extensively disseminated amongst the policy makers, Parliamentarians, Legislatures, Centre & State Governments and other stakeholders. The then Finance Minister Shri P Chidambaram had greatly appreciated ASSOCHAM Contribution in this regard.

Similarly in the case of GST, ASSOCHAM brought out 6 study papers on GST and has so far organized 40 Conferences with the support of the Ministry of Finance covering not only the major cities but also 2 tier cities as well. Our contribution was acknowledged by the then Finance Minister Shri Pranab Mukherjee during his interaction with the Industry leaders at Vigyan Bhawan in 2011.

We are happy to present to the Government & the other stake holders the ASSOCHAM's 7th Study paper on Goods & Service Tax (GST). We would specially like to thank and appreciate the initiative of Deloitte, our Partner for this study paper without whose intellectual support; it would not have been possible to come out with this Report. We hope this will be useful, informative and will create conducive environment for the introduction of Goods & Service Tax at the earliest.

We shall welcome any comments / suggestions on the Report.

A handwritten signature in black ink, appearing to be 'D.S. Rawat', written over a horizontal line.

D.S. Rawat

Secretary General



Contents

| | |
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| Global Value Added Tax (VAT)/ Goods and Service Tax (GST) Trends | 2 |
| Proposed GST Structure for India | 6 |
| Key Concepts under Proposed GST structure for India | 11 |
| Role of Goods and Services Tax Network (GSTN) | 17 |
| Summary of expectations from proposed GST regime in India | 20 |
| About Deloitte | 23 |
| About ASSOCHAM | 24 |

Global Value Added Tax (VAT)/ Goods and Service Tax (GST) Trends

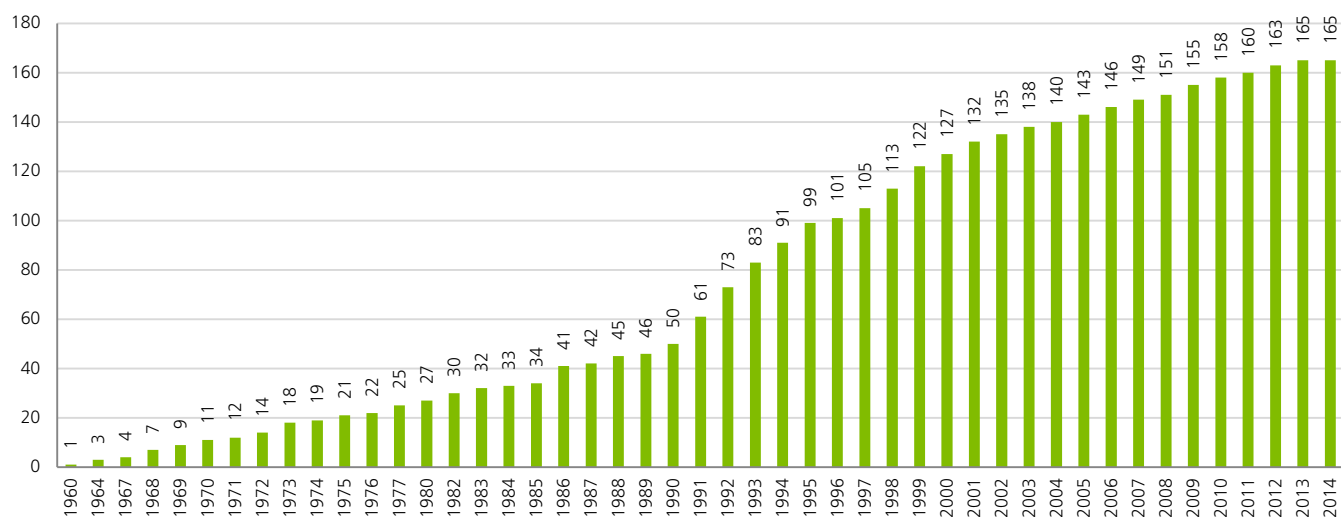
The spread of Value Added Tax (VAT) or Goods and Services Tax (GST) system of Indirect taxes across the globe is showing an increasing trend with more than 160 countries, including 33 of the 34 member countries of Organization for Economic Co-operation and Development (OECD), employing VAT as the preferred form of consumption tax¹ (refer Graph 1 below). Malaysia is the recent country to implement GST effective 1 April 2015 and current Indian government has announced a timeline to introduce GST in India by 1 April 2016.

Countries introduced VAT/GST for different reasons depending on their existing tax system and in case of European Union (EU) to replace turnover taxes on account of the ease of handling cross border-transactions, facilitating development of common market and reducing trade and economic distortions. Another reason of countries adopting VAT/GST was to increase revenue from general consumption to cut down rate of income taxes. Revenue neutral approach was another reason (Norway, New Zealand etc.). Other countries moved to VAT/GST to consolidate and modernize existing tax structure comprising of multiple sales tax at different rates.

This increasing trend towards VAT/GST can be attributed to key factors such as

1. VAT/GST preserves neutrality by taxing the value added by each factor equally;
2. Consumption tax is large and more stable source of revenue; and
3. Potentially self-enforcing in nature.

Graph 1: Increase in the VAT/GST Geographies



Source: OECD report on Countries with VAT 1960-2014

As economists, Richard M. Bird & Pierre-Pascal Gendron noted in their book², IMF played a key role in this spread by consistently supporting and advocating this form of taxation and facilitating its adoption by countries with less developed economic and administrative structures as well. OECD has also launched a project to develop International VAT/GST Guidelines to apply VAT to cross border trade, with an aim to reduce uncertainty and risks of double taxation and unintended non-taxation that result from inconsistencies and the third meeting of the OECD Global Forum on VAT is scheduled to be held in Paris in November 2015.

¹ OECD (2014), Consumption Tax Trends 2014, OECD Publishing; <http://dx.doi.org/10.1787/ctt-2014-en>

² The VAT in Developing and Transitional Countries role of International Monetary Fund ("IMF") in spreading VAT to developing countries

A roundup of VAT/GST structure of some of the major economies and taking stock as to rate of tax, threshold limits, exemptions, zero-rated transactions etc. would provide a guidance and allow legislators of jurisdictions, planning to introduce new tax regime or replace existing structure with revised structure, to learn from other consumption tax systems and adopt the best practice in laying the groundwork.

European Union (EU)

European Economic Community adopted VAT throughout Europe, replacing cascading multi-stage turnover tax, owing to the ease with which it handled cross-border transactions and facilitated development of a common market.

Council Directive 2006/112/EC adopted in 2007 ('VAT Directives') codifies the provisions implementing the common system of VAT and Council Regulation (EU) No 282/2011 (VAT Implementing Regulation) lays down binding implementing measures to ensure uniform application of the VAT Directive. The VAT Directive sets the framework for the VAT structure in the EU, but it gives national governments freedom to set the number and level of rates they choose and transport provisions of VAT Directives into national legislation, subject to below basic rules:

- Supply of all goods and services in the course of business by a taxable person within EU is subject to VAT at a standard rate not lower than 15%³, unless specifically exempt. EU member states can opt to apply one or two reduced rates not less than 5%⁴ for supplies of goods or services, such as foodstuff, water supplies, pharmaceutical, books, admission to cultural/amusement/sporting services, social services, medical services and equipments, agricultural inputs etc., listed in Annex III of the VAT Directive. Member states may continue to charge any lower rates, including zero rates, which were in place on 1 January 1991, though they cannot introduce any new rate under 5%.
- Activities and supplies in public interest, such as medical care, services linked to welfare and social security work by public entities or charitable organizations, certain education and cultural services; specific financial and insurance services; certain supplies of land and buildings; export of goods, intra-EU supplies etc.⁵ are exempt from VAT.

Canada

In Canada, GST is applicable on supply of most goods and services including real property and intangible personal property and is governed by Excise Tax Act. Canada has a federal government (like in India) and a federal GST was introduced in 1991 replacing the existing federal sales tax imposed on manufacturers and certain licensed wholesalers at a general rate of 13.5%. However, all provinces continued with the provincial retail sales tax ('PST') thereby having two levels of levy. The harmonized sales tax (HST) is imposed in provinces that have harmonized their provincial sales tax with the GST (New Brunswick, Nova Scotia, Newfoundland and Labrador, Ontario, Prince Edward Island) and is a combination of a federal component and a provincial component (i.e., 5 percent to 8 percent) applicable generally on same base of property and services as the GST. In the remaining provinces, GST is imposed on taxable goods and services alongwith provincial sales tax or a retail sales tax. The three territories (Northwest Territories, Nunavut and Yukon and Province of Alberta charge GST at the rate of 5%.

Most goods and services supplied in or imported into Canada are taxable supplies and are subject to GST at the rate of 5% or HST in the range of 13% to 15% (federal component of 5% and provincial component of 8 to 10%) with certain exceptions based on policy decisions such as:

- Exports and supplies of goods and services relating to basic needs of individuals such as drugs and biologicals, medical and assistive devices, basic groceries, agriculture and fishing, transportation and travel etc. are taxed at the rate of 0% (zero-rated)⁶.
- Supplies of goods and services supporting public needs such as certain real property, healthcare, educational, child and personal care, legal aid, public sector bodies, financial services, ferry/road/bridge tolls etc. are exempted from GST/HST⁷.

³ Article 96 and Article 97 of VAT Directives. As per Council Directive 2010/88/EU dated 7 December 2010, standard rate shall be not lower than 15% until 31 December 2015

⁴ Article 98 (1), Article 98 (2) and Article 99 of VAT Directives

⁵ Article 132 to Article 153 of VAT Directives

⁶ Schedule VI [Subsection 123(1)] of Excise Tax Act

⁷ Schedule V [Subsection 123(1)] of Excise Tax Act

New Zealand

The New Zealand GST, enacted in 1988, was designed as a comprehensive tax base including many difficult-to-tax goods and services. The New Zealand GST became an international benchmark for indirect tax design, for instance, the Institute of Fiscal Studies of United Kingdom, considered the New Zealand GST model as the benchmark for evaluation of the European VAT Directives⁸.

In New Zealand, GST governed by GST Act, 1985 is applicable on most indigenous goods and services, most imported goods, and certain specified imported services at a rate of 15%⁹.

- Goods includes all types of personal and real property except actionable claims, money and products transmitted by a non-resident to a resident by means of wire, cable, radio etc. and by other such technical systems. Services covers everything other than goods or money.
- Supply of certain goods and services such as exported goods and services, telecommunication services, supplier is a territorial authority and the consideration for the supply is proceeds from the local authorities, sales of going concern (slump sale), sale of land etc. are subject to GST at the rate of 0%¹⁰.
- Supply of certain goods and services such as private property (car or home not used for business), financial services such as interest payment on loan or bank fees, donated products and services sold by not-for-profit organization, rental on residential property, penalty interest etc. are exempt¹¹ from GST.

Australia

Implementation of New Tax System package in Australia including New Tax System (Goods and Services Tax) Act, 1999 is considered as a landmark change to the Australian tax system. The new GST replaced the federal wholesale sales tax and some state and territory taxes with a single tax rate of 10% tax on supply of most goods and services with some exceptions.

- The basic rule of GST in Australia is destination-based consumption tax with limited tax base exclusions.
- Certain supplies such as certain food products, most medical and health services, drugs, medical aids and appliances, most education courses, child care, exports, religious services, international transport etc. are known as GST-free¹² on which GST not payable (other countries refer to these as zero-rated).
- Certain supplies such as financial supplies, residential rent, residential premises, precious metals, school tuckshops and canteens and fund raising events conducted by charities etc. are known as input-taxed supplies¹³ (other countries refer to these as exempt) and no GST is applicable on such supplies.

⁸ Popularly known as Mirrlees Review led by economists James Alexander Mirrlees cited by Richard Krevier and David White in their book 'GST in Retrospect and Prospect'

⁹ Section 8 (1) of GST Act, 1985

¹⁰ Section 11, 11 A, 11B, 11 AB, of GST Act, 1985

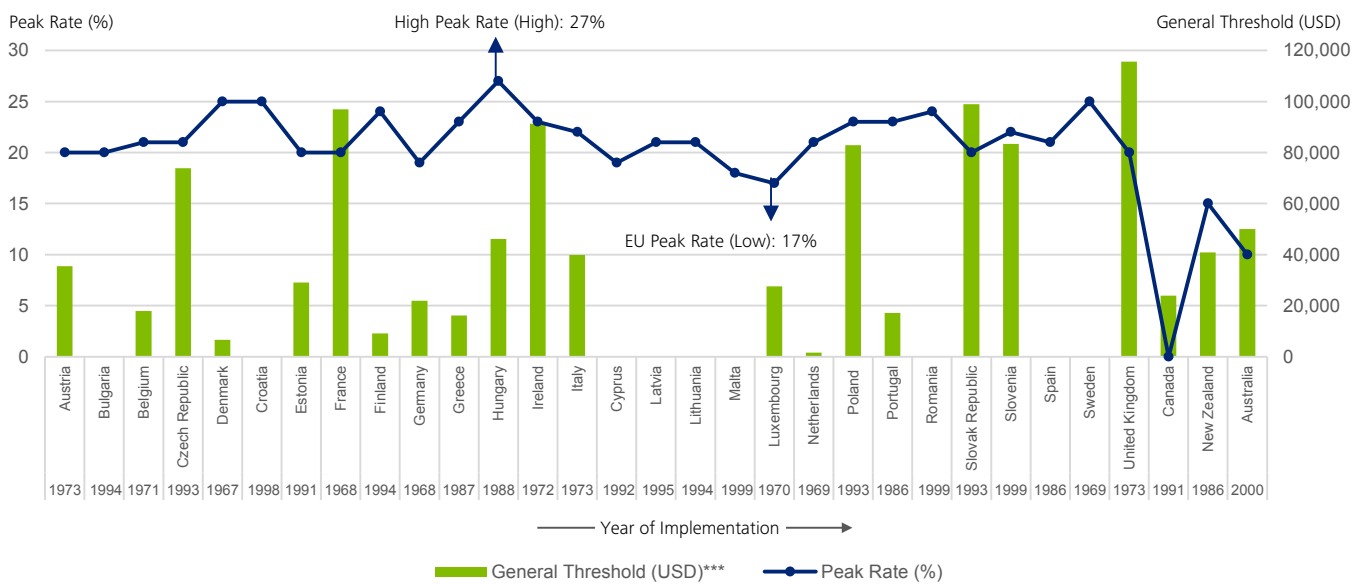
¹¹ Section 14 of GST Act, 1985

¹² Division 38 of New Tax System (Goods and Services Tax) Act, 1999

¹³ Division 40 of New Tax System (Goods and Services Tax) Act, 1999

Graph 2 below summaries VAT/GST rates and threshold limits applicable to above discussed jurisdictions:

Graph 2: VAT/GST Rates And Threshold Limit - 2015



Source: OECD and European Commission report on VAT/GST rates and threshold applicable in member countries

Observations From VAT /GST In Other Jurisdictions

Review of the VAT/GST legislations and provisions prevailing in the above mentioned jurisdictions, a similar trend has been observed in terms of the underlying principles. VAT/GST being destination based and therefore applicable on consumption that takes place in the respective country/region and therefore exempts exports and taxes imports. Further, input tax credit can be claimed for the cost of procuring and producing in case of zero-rated supplies and cannot be claimed in case of exempted supplies.

VAT/GST reform has proved to be a robust source of tax revenue in all jurisdictions. Notwithstanding that VAT/GST has emerged successful and supreme over the other forms of indirect taxation, these jurisdictions are continuously working towards reforming structural issues such as in December 2010¹⁴, European Commission published a Green Paper on the future of VAT and argued that there were “numerous shortcomings in the current VAT system which create obstacles to the Internal Market, cause burdens for businesses and prevent Member States from benefitting from the true potential of this tax” and also pointed out the system is susceptible to fraud. Businesses are reported to find VAT model in European Union very complicated on account of huge diversity in application of exemptions and reduced rates among member states causing distortion in competitiveness and additional compliance costs (reported to be around 11%¹⁵) borne by businesses that conduct cross-border trade when compared to those businesses that only trade domestically. In Canada, businesses are reported to be facing challenges under GST/HST on account of interpretation issues and multiple provinces having variety of tax rates. British Columbia, though harmonized its PST with the GST in July 2010 re-implemented PST in 2013. Like in all other jurisdictions, even in New Zealand and Australia the compliance cost under VAT/GST has been reported to be relatively more burdensome for small size business entities.

¹⁴ Green Paper: On the Future of VAT, COM (2010) 695 final, 1 December 2010. Responses to the Green Paper were invited by 31 May 2011

¹⁵ European Commission: Feasibility and economic evaluation study; AXUD/2013/DE/319 dated 30 June 2015

Proposed GST Structure for India

In India, GST was conceived in 2004 by the Task Force on implementation of the Fiscal Responsibility and Budget Management Act, 2003¹⁶ (Kelkar Committee) while analyzing prevailing indirect tax system both at Central and State level. The Kelkar Committee observed that a tax reform of nationwide dual GST which would comprehensively tax the consumption of almost all goods and services in the economy would be able to achieve 'a common market, widen the tax base, improve the revenue productivity of domestic indirect taxes and enhance welfare through efficient resource allocation'.

The existing Indian Indirect tax structure empowers levy of taxes by Central government on manufacturing of goods and supply of services like Customs duties, Central Excise duty, Service tax etc; and State governments on goods at point of sale such as state VAT, Entry Tax, Octroi etc. Multiplicity of taxes and tax base being fragmented between Centre and States have resulted in a complex system of interconnected legislations leading to substantial distortions, cascading of taxes and adversely effecting growth in Gross Domestic Production (GDP). Some of the limitations of the prevailing Indirect tax structure are:

- Central Value Added Tax (CENVAT) structure does not tax value addition post the stage of production,
- CENVAT portion of input goods remains included in the value of goods to be taxed under State VAT contributing to that extent a cascading effect on account of CENVAT element.
- No integration of VAT on input goods with service tax on services at the State level thereby causing cascading effect of service tax.

The proposed GST is consumption type VAT where only final consumption is treated as the final use of a good. GST is expected to integrate taxes on goods and services across all supply chain for availing set-off and capture value addition at each stage. A continuous chain of set-off is expected to be established from the original producer's/ service provider's level upto the retailer's level which would eliminate the burden of all cascading effects. Suppliers at each stage would be permitted to set-off the GST paid on the purchase of input goods and services against GST to be paid on the supply of goods and services.

GST Model Proposed for India

Based on the recommendations, the Government constituted an Empowered Committee comprising of State Finance Ministers (Empowered Committee) to prepare a Design and Road Map for the implementation of GST.

Salient features of the proposed GST model based on reports of Empowered Committee are summarized below:

1. Aligned with the federal structure of the Indian government, GST model is proposed to be a dual structure (like in Canada) to be levied and collected by the Union government [referred to as Central GST (CGST)] and respective State governments [referred to as State GST (SGST)]. This dual GST model would be implemented and governed by one CGST/IGST statute applicable across the country, SGST statutes for each State, common rules determining valuation, place of supply, place of origin etc. This would imply that the Centre and the States would have concurrent jurisdiction for the entire value chain and the basic principles of law such as chargeability, definition of taxable event and taxable person, measure of levy including valuation provisions, basis of classification, etc. shall be uniform across State statutes. It has been reported that draft laws are already ready and under internal discussions. Also, various allied rules are in the process of being drafted and finalized.
2. CGST and SGST would be comprehensively applicable to all goods and services upto the final consumer (retail level), reflecting the tax base of a typical consumption VAT. Thus, CGST and SGST would be applicable to all

¹⁶ Headed by Dr. Vijay L. Kelkar published its report on July 2004

transactions involving supply of goods and services made for a consideration (except alcoholic liquor for human consumption) and the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits. Based on recommendations of both the 13th Finance Commission and Empowered Committee, GST on following products shall be levied from a date to be notified by the GST Council

- Petroleum Crude
 - High Speed Diesel
 - Motor Spirit (commonly known as Petrol)
 - Natural Gas
 - Aviation Turbine Fuel
3. GST to be structured on the destination principle so that the tax base shifts from production to consumption whereby imports will be liable to tax and exports will be relieved of the burden of GST. Consequently, revenues will accrue to the State in which the consumption takes place or is deemed to take place.
 4. Taxes paid on input goods/services against CGST shall be allowed to be utilized as input tax credit (ITC) against output tax liabilities under CGST and same principle applies to SGST. Cross utilization of input tax credit between the Central GST and the State GST would not be allowed except in case of inter-state supply of goods and services. Therefore, a taxpayer or exporter shall be required to maintain separate details in books of account for utilization or refund of credit.
 5. In order to maintain uninterrupted credit chain, CST would be phased out in case of inter-state transactions of taxable goods. On such transactions, Centre would levy Integrated GST (referred to as IGST which would be CGST plus SGST) with appropriate provision for consignment or stock transfer of goods and services. The inter-state seller will pay IGST on value addition after adjusting available credit of IGST, CGST, and SGST on his purchases. The importing dealer will claim credit of IGST while discharging his output tax liability in his own State. The relevant information will also be submitted to the Central Agency which will act as a clearing house mechanism, verify the claims and inform the respective governments to transfer the funds.
 6. An uniform threshold across all States and Union territories is being considered with adequate compensation for the States (particularly, the States in North-Eastern Region and Special Category States) where lower threshold had prevailed in the VAT regime.
 7. In view of the fact that the CGST and SGST are intended to be levied on consumption of all goods and services, these two taxes must subsume all taxes presently levied on various goods and services by the Centre and the States, respectively. With an objective of free flow of tax credit in intra and inter-State levels, following indirect taxes as presented in Table 1 (existing under the current structure) are proposed to be subsumed:

Table 1: Indirect Taxes to be Subsumed into GST

| CENTRAL INDIRECT TAXES | STATE INDIRECT TAXES |
|--|--|
| Central Excise duty | Value Added Tax/Sales Tax |
| Service tax | Entertainment Tax (other than the tax levied by the local bodies) |
| Additional Excise duties | Central Sales Tax |
| Excise Duty levied under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955 | Octroi and Entry Tax |
| Additional Duty and Special Additional Duty of Customs | Purchase Tax |
| Central cesses and surcharges in so far as they relate to supply of goods and services | <ul style="list-style-type: none"> • Luxury Tax • Taxes on lottery, betting and gambling • State cesses and surcharges in so far as they relate to supply of goods and services |

Source: First Discussion Paper on Goods and Services Tax in India submitted by the Empowered Committee of State Finance Ministers submitted on 10 November 2009; Constitution (122nd Amendment) Bill, 2014

Legislative Initiatives

Based on the federal character of Indian government, fiscal powers are also equitably distributed between Central government and State governments¹⁷. As per the current scheme of Constitution of India, 1949, only Central government has been empowered to levy duties on manufacturing of goods and taxes on supply of services. Therefore, in order to introduce a national GST in India a Constitutional amendment empowering the states to levy and collect taxes would be a pre-requisite. Therefore, to address these issues and give concurrent taxing powers to both the Union and States, the Government introduced Constitution (115th Amendment) Bill, 2011 (GST Bill) in the Lower House of Parliament on 22 March 2011 seeking to amend the Constitution of India, 1949 for the introduction of GST in India based on the model proposed by the Empowered Committee. The said Bill was referred to the Parliamentary Standing Committee on Finance on 29 March 2011 for detailed examination and the Standing Committee tabled its report before Parliament on August 2013. However, the said Bill lapsed with the dissolution of the Lower House in 2014. On formation of the new government, GST Bill was revised [Constitution (122nd Amendment) Bill, 2014] and got approval from the Union Cabinet to be presented before the Lower House of Parliament on 19 December 2014. The Lower House accord it's approved to the GST Bill on May 6, 2015 which was then referred to a Select Committee of the Upper House (Select Committee) for examination. The Select Committee after accepting most of the clauses in the GST Bill submitted its Report to the Upper House on July 22, 2015 with certain recommendations in few clauses. Union Cabinet has approved the amendments to the GST Bill as per recommendations of the Select Committee on 29 July 2015 and the GST Bill was placed for discussion before the Upper House on 10 August 2015. However, the Upper House was adjourned sine die on the last day of the monsoon session (13 August 2015) without any business being conducted.

¹⁷ Article 246 of the Constitution of India, 1949

Table 2: Summary of the Amendments sought by the GST Bill and Recommendations of the select Committee

| Amendments sought by the GST Bill | Select Committee Recommendations |
|--|---|
| Taxes to be subsumed: Various central indirect taxes including Central Excise Duty, Countervailing Duty, Service Tax, etc. and state VAT, octroi and entry tax, luxury tax, etc. to be subsumed. | Adopted with no Change |
| Concurrent powers to Centre and States on GST: Insertion of a new Article ¹⁸ in the Constitution of India to empower Parliament and State Legislatures to make laws on taxation of goods and services. | Adopted with no Change |
| Levy of IGST on inter-state transactions of goods and services. Insertion of new Article ¹⁹ in the Constitution to empower levy and collection of GST on supplies in the course of inter-state trade or commerce (including imports from outside India) by Central government and apportion between the Centre and the States in a manner to be prescribed by law, on the recommendations of the GST Council. Principles for determining the place of supply and when a supply takes place in the course of interstate trade or commerce shall be formulated by the Parliament, by law | Adopted with no change |
| <p>Constitution, Composition and functioning of the GST Council: Insertion of new Article²⁰ for constitution of GST Council. The President of India to constitute a GST Tax Council within 60 days of this Act coming into force. The GST Council is to consist of the following three members: (i) the Union Finance Minister (as Chairman), (ii) the Union Minister of State in charge of Revenue or Finance, and (iii) the Minister in charge of Finance or Taxation or any other, nominated by each state government. Provision has been made with respect to matters relating to the constitution of the Council, conduct of its functions, quorum, decision making process etc.</p> <p>The Council shall examine issues relating to GST and make recommendations on</p> <ol style="list-style-type: none"> 1. The taxes, cesses and surcharges levied by the Union, the States and the local bodies which may be subsumed in GST; 2. The goods and services that may be subjected to or exempted from GST; 3. Model GST laws, principles of levy and apportionment of IGST including principles governing Place of Supply 4. Threshold limit of turnover for imposition of GST 5. Rate of tax including floor rates with bands of goods and services tax 6. Special rates for a specified period, to raise additional resources during any natural calamity or disaster 7. Special provisions with respect to North Eastern States, Jammu & Kashmir, Himachal Pradesh and Uttarakhand. 8. Any other matter relating to GST, as the Council may decide | <p>GST Council to consider following recommendations of Select Committee.</p> <ol style="list-style-type: none"> 1. Define the term ‘bands’ (of GST) to include the range of GST rates over the floor rate, within which CGST and SGST may be levied on specific goods or services or class of good or services. 2. GST rate for other banking services should be kept minimum. If the GST rate on banking services is higher than 14%, then the cost of doing business in India would be much higher as compared to other competing Countries. Therefore, to ensure international competitiveness, banking services may be kept outside GST, if possible. If it is not possible, then some specified banking services such as interest, trading in securities and foreign currency and services to retail customers should not be liable to GST and. 3. In the drafting of state GST laws, revenue sources of Panchayats, Municipalities etc. must be protected. State governments must also take measures to ensure adequate revenue flow to local bodies. |

¹⁸ Article 246A of the Constitution of India, 1949

¹⁹ Article 269A of the Constitution of India, 1949

²⁰ Article 279A of the Constitution of India, 1949

Amendments sought by the GST Bill

Select Committee Recommendations

Resolution of disputes: The GST Council may decide upon the modalities for the resolution of disputes arising out of its recommendations.

Adopted with no Change

Additional Tax on supply of goods: An additional tax of up to 1% on supply of goods in the course of inter-state trade or commerce is proposed to be collected by the Government of India for a period of two years or such other period as the GST Council may recommend. Such tax is to be assigned to the States from where the supply originates. Power to exempt such goods from levy of tax shall be with the Government of India. Principles to determine the place of origin from where supply of goods takes place in the course of interstate trade will be formulated by the Parliament, by law.

Select Committee has recommended that the provision of 1% additional tax is likely to lead to cascading of taxes. Hence, it is recommended that the term "supply" be explained to mean "all forms of supply made for a consideration" which will exclude inter-company supplies such as branch transfer and free of cost supplies.

Compensation to states: Parliament may, by law, on the recommendation of GST Council, provide for compensation to the States for losses of revenue arising on account of implementation of GST for a period which may extend to five years.

Select Committee has recommended that compensation would be provided to states for a period of five years.

Goods exempted: Alcoholic liquor for human consumption is exempted from the purview of the GST.

Adopted with no Change

Further, the GST Council to recommend the date on which GST be levied on: (i) petroleum crude, (ii) high speed diesel, (iii) motor spirit (petrol), (iv) natural gas, and (v) aviation turbine fuel.

GST to be imposed on tobacco. Centre to impose additional levy on tobacco.

Source: Constitution (122nd Amendment) Bill, 2014; Report of the Select Committee on GST Bill presented to the Rajya Sabha on 22 July 2015

Key concepts under proposed GST structure

This chapter deals with key concepts that emerge from the GST structure proposed for India based on the objectives behind introduction of GST in India, principles emerging from the amendments sought in the GST Bill, various studies commissioned by Empowered Committee, the treatment accorded to similar concepts in other jurisdictions and OECD's guidelines on International VAT/GST.

Taxable Event-Supply of Goods and Services

Under prevailing indirect tax structure there are multiple taxable events on account of multiple levies at Central and State level. That is, taxable event occurs on 'manufacturing of goods' in case of Central Excise laws, 'sale of goods' in case of State VAT laws, 'supply/provision of services' in case of Service tax laws. In addition, taxable event in case of other state levies such as Entry Tax/Octroi etc. are on 'entry' to goods into a particular jurisdiction. Therefore, the taxable event under the existing structure depends on the levy and are defined independently without any harmonious reference to other indirect tax legislations.

GST is envisaged to be levied on all supplies of goods and services on same taxable event by both Centre and State governments. The term 'supply' is expected to be defined in the CGST, SGST and IGST laws being prepared in this regard. It is critical that the terms 'supply' is defined in the Central and State GST legislations in an identical manner to avoid the challenge of multiple taxable events at Central and State level in GST.

GST Rate

The Kelkar Committee²¹ recommended multiple tax structure restricting the structure to three ad valorem rates, in addition to the zero rate, such as

1. Floor Rate for goods of basic importance (with Central rate @ 6% and States @ 4%)
2. Standard Rate for supply of most goods and services (with Central rate @ 12% and States @ 8%)
3. Higher Rate for luxury or demerit goods (with Central rate @ 20% and States @ 14%)

Products such as cement, mineral products etc. subject to specific tax rates under current regime of indirect taxation was recommended to be converted to ad valorem except petroleum and tobacco products. Based on recommendation of the Kelkar Committee, and GST structure proposed by the Empowered Committee following principles emerge:

- a) GST structure to comprise of a lower rate for supply of goods and services of basic importance (amounting to total CGST and SGCT levy of 10% as per Kelkar Committee report), a standard rate for supply of goods and services in general (amounting to total CGST and SGCT levy of 20% as per Kelkar Committee report), a special rate for precious metals and a list of exempted items. During discussions with the Select Committee, Ministry of Finance noted that certain demerit goods such as tobacco or luxury goods may, if the GST Council so decides, be subject to higher rate of GST. Based on a study carried out by National Institute of Public Finance (NIPF) taking into consideration revenue collection figures of 2011-2012, a Working Committee submitted a report to Empowered Committee, before introduction of GST Bill, recommending a GST rate of almost 27% (CGST @ 12.77% and SGST @ 13.91%) under the GST regime. However, the Union Finance Minister, during his discussion on the GST Bill before Lower House, indicated that GST rate (including Central GST and State GST) would be much lower than recommended rate of 27%. At present, Empowered Committee is working out GST rate in consultation with Chief Economic Advisor and revised study of NIPF based on revenue collection figures for 2013-14. It is essential that the rate or the rate structure arrived at should be one that will be acceptable, does not lead to spiraling costs and encourages compliance.

²¹ Report of the Task Force on Implementation of the Fiscal Responsibility and Budget Management, 2003 submitted on July 2004

- b) As per the report of Empowered Committee, for taxation of services, single rate has been proposed for both CGST and SGST. As per recent reports, government is considering tax rate structure to include same standard rate for goods and services, merit rate depending on nature of goods and service, special rates for only goods viz. metals and minerals and lower rate for essential goods and services. However, stakeholders have expressed their view in the deposition before Select Committee that GST rate may be kept in the range of 16-18% for both goods and services. Not discriminating among goods and services in respect of applicability of rates would also be essential to avoid disputes as to whether a particular supply is of goods or services.
- c) Exports and supply outside tax jurisdiction would be zero-rated including supply to Special Economic Zones (SEZs). However, such benefits will only be allowed to the processing zones of the SEZs.
- d) Imports would be subject to GST based on the principle of destination tax principle with necessary Constitutional Amendments. Both CGST and SGST will be levied on import of goods and services into the country. Full and complete set-off should be made available of the GST paid on import on goods and services.

During Select Committee discussion, few States proposed to insert the words 'not exceeding 18%' in newly inserted Article 246A of the Constitution of India, 1949 to desist GST Council from levying GST higher than 18% to ensure GST rates are moderate, particularly small businesses.. It remains the view of the Government that the rates of GST would have to be recommended by the GST Council depending on various factors such as economic conditions, revenue buoyancy, etc.

It is essential that the recommendations of the select panel are codified in some manner which will provide a legal basis for guidance of the GST Council in fixing rates.

Observations on VAT/GST rates on supply of goods and services across countries discussed in Chapter 1 which are also members of OECD, have been presented in Table 3 below:

Table 3 - GST Rates In OECD Countries

| European Union | Canada | New Zealand | Australia |
|--|--|-------------------------|----------------------------|
| Average standard rate among other EU member states is about 21% with Hungary having the highest standard rate of VAT @ 27% and Luxembourg having the lowest standard rate of 17%. Reduced rates are in the range of 2.1% to 18%. | Levy of GST/HST ranges from 13% to 15% in case of provinces which have harmonized PST with federal GST. Other provinces applies GST at the rate of 5% alongwith PST on certain goods and services. | Peak rate of tax is 15% | Peak rate of tax being 10% |

Source: OECD and European Commission report on VAT/GST rates and threshold applicable in member countries

Threshold Limits and Exemptions

Threshold Limits

Objectives behind threshold limit are to:

1. Reduce cost of administering of large numbers of small taxpayers
2. Relieve small taxpayers from compliance cost and compliance administration
3. Give advantage to small taxpayers over large enterprises on account of lower tax incidence.

It has been recommended a uniform threshold limit for both CGST and SGST across states with dealers having annual aggregate turnover of supply of all goods and services less than Rs.10 lakh being exempted from the purview of both CGST and SGST. While GST laws including threshold limit, exemptions etc. are evolving and concerned groups are finalizing the principles and laws, following principles on threshold limit should be adhered to:

- a) Threshold limit of gross annual turnover of Rs.10 lakh both for goods and services for all the States and Union Territories be specified.
- b) Further, composition scheme for small scale traders and industries under GST should be with an upper ceiling on Rs. 50 lakh gross annual turnover and a floor tax rate of 0.5% across all States. The Composition scheme should also allow registration of dealers below composition cut-off.

It has been reported that minimum threshold limit would be Rs. 25 lakh and composition upper ceiling would be Rs. 75 lakh of aggregate annual turnover of a dealer for supply of goods and services.

Review of the threshold limits prevailing in the countries discussed in Chapter 1 (Refer Graph 2), it is observed that a uniform threshold limit is preferred by most of the VAT/GST countries and businesses are not required to charge and collect VAT/GST if their annual turnover does not exceed the threshold limit. However, EU has provisions for separate threshold limits for application of the special scheme²² of acquisition by taxable persons not entitled to deduct ITC, by non-taxable legal person and for application of the special scheme²³ of distance selling. Also, member states of EU like Malta, Sweden and Spain has no threshold limit while countries like Belgium, Germany, Greece, Hungary, Luxembourg, Netherlands and Portugal requires businesses below the threshold limit to register for VAT/GST, though not required to charge and collect VAT/GST. It has also been observed that all EU member states except Netherlands allows voluntary registration prior to exceeding the prescribed threshold while many countries have restrictions on the availing of threshold limit.

Exemptions

Exemptions are granted from VAT/GST on supply of goods and services because they are of a particular value to the society or country as a whole or in order to reduce burden of the tax on low income-families. Exemption from VAT relieves a dealer from payment of VAT on supply of goods and services whereas procurements would be subject to VAT leading to huge accumulation of input tax incurred. It has been recommended that ordinarily, there should not be any exemption from CGST or SGST. If for some reason, it is considered necessary to provide exemption, the Centre and the States should draw up a common exemption based on following principles:

1. All public services of government (Centre, State and municipal/panchayati raj) including civil administration, health and formal education services provided by government schools and colleges, defence, para-military, police, intelligence and government departments excluding railways, post and telegraph, other commercial departments, public sector enterprises, banks and insurance, health and education services;
2. Any service transactions between an employer and employee either as a service provider, recipient or vice versa;
3. Any unprocessed food article which is covered under the public distribution system should be exempt regardless of the outlet through which it is sold; and
4. Education services provided by non-Governmental schools and colleges; and
5. Health services provided by non-Governmental agencies.

²² Article 3 (2) (a) of VAT Directives

²³ Article 34 of VAT Directives

Proposed GST structure intends to widen the tax base and eliminate exemptions as exemptions break the continuous chain of set-off. Therefore, the list of exempted items should be meticulously prepared based on the principles behind exemptions and practice in other jurisdictions. Empowered Committee has proposed to convert all industrial related incentives into cash refund scheme after collection of tax, so that the chain of set-off is not disturbed. It was clarified that such exemptions, remissions etc. would continue up to legitimate expiry time both for the Centre and the States. Any new exemption, remission etc. or continuation of earlier exemption, remission etc. would not be allowed.

Review of the exemptions prevailing in the countries discussed in Chapter 1 it has been observed that various types of items are exempted from VAT/GST in these jurisdictions. In case of EU, very few exemptions are provided under VAT by member states. Indicative list of items exempted under these countries has been presented in the Table 4²⁴ below:

Table 4 - Exemptions

| European Union* | Canada | New Zealand | Australia |
|---|--|--|--|
| Pay TV/Cable TV of public radio and TV broadcasting, excluding those of a commercial nature, TV license, Domestic, International and Intra-community transport via air, sea, inland waterway, rail and road, Social housing, Building land, Supplies of new buildings, Ingots, bars and coins | Certain real property; Health, medical, and dental services performed by licensed physicians or dentists; Educational services such as vocational training etc.; Child and personal care services; Legal Aid Services, Most goods and services provided by charities and public sector bodies; Financial Services; Ferry, road, and bridge tolls (ferry tolls are taxed at 0% if the ferry service is to or from a place outside Canada) | Financial Services; Donated goods and services by non-profit body; Renting/lease of residential dwelling or land; Fine metal; Penalty Interest | Financial supplies; Sale of residential premises; Residential rent; Precious metals; School tuckshops and canteens if supplied by non-profit body, Fund raising events conducted by charities etc. |

Source: EU - European Commission report on VAT rates applicable in Member States; Canada - Excise Tax Act; New Zealand - Goods and Service Tax Act, 1985 and Australia - A New Tax System (Goods and Services Tax) Act 1999.

* The list under European Union is consolidated for exemptions available in different Member States and the list is not applicable to each Member State.

Input Tax/Credit

From the GST structure proposed by the Empowered Committee, following principles emerge and should be strictly adhered to in framing of legislations:

- Since the Central GST and State GST are to be treated separately, taxes paid against the Central GST shall be allowed to be taken as ITC for the Central GST and should be utilized only against the payment of Central GST. The same principle will be applicable for the State GST. Cross utilisation of ITC between the Central GST and the State GST would not be allowed except in the case of inter-State supply of goods and services under the IGST model.
- Availability of uninterrupted ITC chain on inter-State transactions as a contrary to the existing indirect tax structure where ITC on CST is not available.
- Seamless credit and complete utilization of input credit thereby avoiding cash blockage. No distinction between capital goods and other inputs, and no depreciation need be computed. Like most countries under VAT/GST, full and immediate credit for the VAT/GST on capital goods should be allowed unlike existing regime wherein credit for CENVAT paid on capital goods or CVD on imported capital goods is spread over two years resulting in undue blockage of funds.

²⁴ OECD and European Commission report on VAT/GST rates and threshold applicable in member countries as at 1 January 2015

- Under existing indirect tax structure, credit of taxes paid on office expenses including furniture, laptops and other equipment is not permitted by various State VAT legislations. Under GST regime any expense which qualifies as a business expense, i.e. used for the purpose of the business, is expected to be eligible for credit.
- At present, under various state VAT laws, there is no uniformity and clarity on the quantum of ITC to be availed in case the goods are finally sold at a discounted value. Many states like Tamil Nadu, have specific provision for reversal of excess ITC availed by dealers in such cases. Under GST regime full ITC should be allowed without any correlation to the price of output sale.
- Transitional provisions on treatment of closing balance of ITC/CENVAT available prior to GST should be protected in all cases and made available for utilization against GST liability and demands that may be raised at a later date pertaining to pre GST period.

Valuation

Determination of the price of an imported or domestically manufactured good and value of services under the existing indirect tax structure is governed by separate valuation rules for Customs, Central Excise, Service tax, State VAT etc. Arriving at a value for the purpose of levy of indirect taxes has been a very complex and contentious matter under the existing indirect tax. Instances of multiple levies on the common base abound. Therefore double taxation on the same transaction as 'sale of goods' under State VAT laws and 'provision of services' under Service tax has been a concern under the existing structure.

Based on GST structure proposed by the Empowered Committee following principles emerges and should be considered for framing of provisions relating to valuations:

- Valuation of supply of goods and services to be simple and based on Transaction value principle.
- Uniform valuation provisions to be made applicable across the States with clear explanation on treatment of price adjustments by issue of credit notes and debit notes, post-sale discounts. This will remove the uncertainties existing in the current system.
- Supply of goods and services being the basis of taxation, GST to be applicable on the consideration paid on account of a said supply thereby eliminating the double taxation issues being faced in case of composite supplies such as software, taxation of restaurant supplies, catering, etc
- Works contract concept to be simplified to address issues pertaining to method of valuation and free supplies.
- With abolishing of specific duty rate and moving towards ad valorem duty rate, special valuation rules for goods subject to special duty rate to be deleted and harmonised with the common valuation provisions.

Place of Supply

In the proposed GST structure, determination of 'place of supply' and 'when a supply amounts to inter-state supply of goods and services' would be very crucial to determine applicability of IGST. Rules need to be formulated covering all tangible/intangible goods and services in order to avoid conflicts and confusions of existing Indirect tax regime. Determination of place of supply would be the backbone of the IGST model as place of supply would determine the taxing jurisdiction and apportionment of the revenues between States. It has been recommended that 'Place of supply' rules for goods and services should be based on international best practice, and be carefully framed to ensure consistency, credibility and relevance. Based on the GST structure proposed for India and the Draft Place of Supply Rules as proposed by the Empowered Committee following principles should be adhered to:

- Place of Supply of all services, except as specified services, made to a registered person shall be the location of the service receiver and made to unregistered person shall be location of the service provider.
- Exception to the above basic rule to be made on account of services to immovable property, performance based services, services relating to events, hiring of tangibles, transfer of rights to use any intangible property etc.

- Place of Supply for transactions which envisage movement of goods would be place where goods are delivered to the receiver and in case of transaction which do not envisage any movement of goods, place where goods are located at the time of delivery to the receiver.
- Exception to the above basic rule to be made in respect of supplies on board ships, aircraft, trains, etc. or continuous supply of goods through pipeline such as oil, gas etc.
- Place of Supply rules to determine the destination in case of certain services which operate on sector specific model such as the Telecommunication industry.

The above suggestions on rates, threshold, exemptions, input tax credits, valuation principles and place of supply determination will go a long way in making the indirect tax system under GST simple and litigation free.

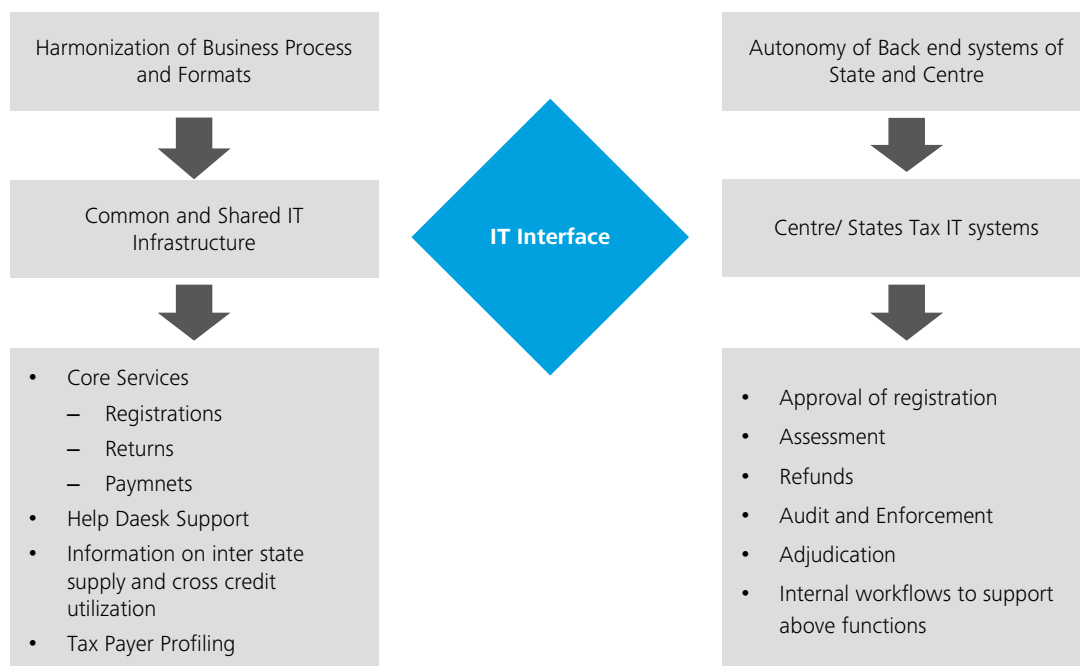
Role of Goods and Services Tax Network (GSTN)

The broad framework of GST model proposed for India now being clear, well-designed and well-functioning Information Technology (IT) infrastructure facility would be a precondition and pre-requisite for smooth administration of taxpayers, processing of returns, controlling collections, making refunds, auditing taxpayers, levying penalties etc. in the new regime. On the IT front, all stakeholders had agreed for a common PAN-based taxpayer ID, a common return, and a common challan for tax payment and therefore a common portal providing three core services (registration, returns and payments) would ease compliance.

Information Technology Strategy for GST Implementation

In India, an Empowered Group on IT Infrastructure for GST (EG-IT) was formed in 2010 comprising of members of the Central Board of Excise and Customs (CBEC), members of the State Finance Ministers, Commissioner of State commercial tax department etc. EG-IT was formed to establish requisite IT infrastructure for facilitating roll out of proposed GST. The EG-IT made recommendations²⁵ on appropriate structure and roadmap for creating a special purpose vehicle (SPV) and recommended the feasibility of incubating the SPV in National Securities Depository Limited (NSDL). Based on the endorsements of EG-IT recommendations by Empowered Committee and Union Finance Minister, NSDL was assigned a pilot project for GST implementation and developing and managing the GST Portal comprising of activities such as 'As-Is' Study of Centre and States/Union Territories, setting up of common GST Pilot Portal with core services of registration, tax payments and returns filing, verification of dealer PAN details, preparation for dealer data migration etc.. During the pilot phase, NSDL conducted workshops for dealers and officials of the Commercial Tax Department of identified States and Centre.

Snapshot of IT Strategy



²⁵ EG-IT Report submitted on July 2010

Special Purpose Vehicle (SPV) for Goods and Services Tax Network (GSTN)

Union Cabinet approved a proposal to set up the SPV, namely GSTN, as an exclusive nodal agency for enabling IT infrastructure for smooth introduction of GST²⁶. GSTN was incorporated on 28 March 2013 under Section 25 of the Companies Act, 1956 (as non-Government, not-for-profit, private limited Company) promoted jointly by Central and State governments (refer Table 5 below). GSTN has a self-sustaining revenue model, based on levy of user charges on tax payers and tax authorities availing its services.

GSTN has been set-up with the following objectives to act as a pass through interface for dealers.

- Integration of the common GST Portal with the existing tax administration systems of the Central/State governments and other stakeholders.
- Facilitation, implementation and set standards for providing services to the taxpayer through common GST portal State Governments and other stake holders;
- Build efficient and convenient interfaces between with tax payers to increase tax compliance;
- Carry out research, study best practices and provide training to the stakeholders;

GSTN has been entrusted with the responsibility to develop, operate and maintain a common GST portal which would provide a common and shared IT infrastructure between Central and State Governments, Banks, CBEC, Reserve Bank of India etc. For the purpose of simplicity for taxpayer, uniformity of tax administration, it is also proposed to have digitization of all documents and automation of related processes such as common PAN-based registration; common standardized return for all taxes (with different account heads for CGST, SGST, IGST); common standardized challan for all taxes (with different account heads for CGST, SGST, IGST) etc. Each tax authority will have full flexibility in using this data for in-house automation, integration, and enforcement.

Considering the broad role of GSTN in reforming Indirect tax system in India, it is understood that GSTN shall be performing following broad services in a phased manner towards implementation of GST:

Phase 1: Registration/Return/Payments

- Common PAN-based registration (Centre as well as State): GST portal will be the single window for registration of new dealers. Online applications submitted shall be transmitted online to tax authorities and approved as per prescribed timelines. (It has been reported that registration of dealers is expected to be automatically approved within three days without any pre-verification by the state government). On approval GSTN user id and password shall be assigned to dealers. Existing Central Excise/Service tax/VAT dealer data shall be migrated to GST system and no fresh registration under GST would be required.
- Common standardized return for all taxes (with different account heads for CGST, SGST and IGST): All GST returns to be submitted online at GST portal using prescribed common format. GST portal shall reconcile the returns and verify and settle ITC claims by matching transactions reported in the returns of paired dealers on a monthly basis.
- Common standardized challan for all taxes (with different account heads for CGST, SGST and IGST): GST payment to be made online through GST portal using various modes such as internet banking/debit or credit cards/RTGS/NEFT etc. GST portal would be integrated with prescribed agency banks for internet payments. The taxpayer pays the actual duty in the bank, which uploads only the challan details into the GSTN. Actual funds never pass through the GSTN.
- Provide common system of inter-state and intra-state transactions: GST portal shall facilitate processing/settlement of ITC claim between Centre and States based on sales and purchases data filed by paired dealers and shall have previous year data of taxpayers.

²⁶ Press Information Bureau – release dated 12 April 2012

- Maintain and display taxpayer ledger which will be accessible to each taxpayer 24x7. Ledger will contain information on
 - Tax liability, tax dues and tax deposited
 - ITC earned and utilized
 - Refund granted
 - Interest and Penalty
- Support States, if required, by preparing necessary software for front-end modules which would include registration and returns.

Phase 2: Review of pilot and project developed by NSDL

- Review of pilot GST common portal developed by NSDL
- Finalize detailed Project Report developed by NSDL and IT strategy for GST for implementation and roll out of national GST Portal/Application
- Develop requirements for back end modules for Tax administration which include Assessment, Audit, Refunds, Appeals and Enforcement etc. which would be required by various States,
- Reconciliation system for accounting agencies, etc.

Phase 3: GST Implementation Planning

- Interact with the stake holders and identify the requirements and expectation in terms of integration, IT interoperability, process challenges so that seamless data sharing is possible with relevant stake holders. An indicative list of stake holders are Small taxpayers, Corporate taxpayers, State tax authorities, CBEC, RBI, Banks, CAG, TRPs and facilitation agencies.
- Carry out research, study best practices and provide training to the stakeholders;

Phase 4: GST Solution Development and implementation

- Roll out of full-fledged GST portal/application would involve transfer of data both from current systems (State / Centre) that are in electronic form as well as paper documents.
- Map existing data items to possible new codifications schemes/structures that could be introduced as part of the new processes.
- Draft and finalize guidelines related to the migration of data, estimation of data volumes.
- Devise formats/standards to be adopted for data elements (including digitization of documents, if applicable), data/document retention period and approach to be adopted in respect of data migration
- Data Centre, Disaster Recovery and Business Continuity Strategy for GST portal
- Suggest and ensure the physical and logical security strategy for GST portal;

The Select Committee has noted in the Report on GST Bill that GSTN is expected to complete the development of IT infrastructure and services by March, 2016 i.e. exactly one month before the date from which the Government of India intends to implement it throughout the country. The Select Committee further recommended that GSTN should implement comprehensive training programmes at all levels to allay the fears of consumers, stakeholders, organizations etc. The Select Committee also recommended that it is imperative that not only IT preparedness is at very high level but also prerequisites like IT infrastructure, unified tax credit clearing mechanism, etc. may be put in place for implementation of GST.

Summary of expectations from proposed GST regime

The global spread of VAT/GST reinforces the success of VAT/GST system of indirect tax over any other form of taxation. With India inching towards a GST regime, a set of key expectations surrounds economic development, growth in international trade, moderate taxes, stability in prices etc. Further, expectations of taxpayers are in the form of simplicity and uniformity of the tax structure, clarity and transparency, ease of taxpayer's compliance, administrative improvements, faster and simpler grievance redressal mechanism etc. This chapter highlights the key expectations from the proposed GST regime from economy standpoint as well as taxpayers perspectives.

Economic Expectations

Existing indirect tax regime of multiple levies across sectors of production is reported to be leading to distortions in the allocation of resources as well as production inefficiencies. Non recoverable taxes built into the costs are making the Indian products more expensive than their global competitors and therefore affecting competitiveness. Therefore GST is expected to provide boost to exports by mitigating costs which could increase exports in the range of 3.2 to 6.3 per cent. .

The broad objectives behind introducing a comprehensive GST in India is to harmonise and consolidate multiple indirect taxes in India and make India a common national market by widening the tax base and cutting down exemptions; mitigate cascading and double taxation and promote voluntary compliances through the lowering of overall tax burden on business and end consumers. Today in the GST design there are aberrations like 1 per cent additional tax, exclusion of certain sectors of economy and exclusion of certain taxes that makes the design deviate from these objectives. It is expected that these aberrations would be temporary and the GST would finally be an all-encompassing tax that would fulfil the expectations. It is hoped that with GST encouraged compliance, the sectors of the economy that currently constitute the parallel economy would enter the mainstream and further boost the GDP.

Taxpayers Expectations

As per OECD guidelines²⁷, the generally accepted principles of tax policy applicable to consumption taxes are applicable to domestic as well as international trade; some of which are 1) Neutrality, 2) Efficiency, 3) Certainty and Simplicity, 4) Effectiveness and fairness etc. The proposed GST structure in India is expected to be as per the best practices across all VAT/GST countries and some of the expectations are as follows:

- 1. Tax Neutral:** Tax neutrality ensures that tax ultimately collected on a particular supply chain is proportionate to the amount of tax paid by the final consumer. A credit mechanism that prevents breakages in credit chain anticipated under GST regime in India is one which, with moderate rates, will be tax neutral and does not lead to any increase in prices of goods and services and serves the interests of producers' caterings to domestic and international markets without undue advantage to one over another.

²⁷ OECD (2001), Taxation and Electronic Commerce - Implementing the Ottawa Taxation Framework Conditions, OECD, Paris referred in OECD – International VAT/GST guidelines submitted during Global Forum on VAT on April 2014.

2. Simple, efficient and uniform GST is expected to overcome the issues and shortcomings of the existing indirect tax structure. Historically, Indirect tax regime in India has been very complex with multiple levies at multiple taxable events. GST is expected to introduce a simple, efficient and uniform Indirect tax structure in India with a comprehensive tax leviable on supply of all goods and services on the same tax base and expectations from such system of taxation are:

- a) Taxable event would occur simultaneously on supply of goods and services and taxability would not be dependent on 'goods' or 'services (existing in current regime).
- b) Existing complexities relating to 'works contract', software, intellectual property etc., are expected to be eliminated making taxation of such transactions simpler, and reducing their tax burden.
- c) Challenges being faced at present by sectors such as E-commerce, Telecom, Financial services, Real Estate etc. will be addressed and resolved.
- d) The complexities of the existing system concerning valuations and classification of goods and services on account of the varied interpretations and rulings will be eliminated.
- e) Lower administrative burden and provide simplicity by standardizing GST return/challans and payments and provide for easy access through a central web-portal for registration, refund etc.

3. Clarity in GST legislations: Benefits of a comprehensive national GST can be best derived with common laws and rules applicable across States and Centre. Therefore, GST legislations are expected to be

- a) Formulated with clear and specific explanations on key concepts like 'taxable event'; 'when a supply amounts to inter-state supply of goods and services'; 'determination of origin of in case of inter-state trade of goods'; 'availment and utilization of ITC; 'Transitional Provisions', 'List of exempted supplies of goods and services' etc.
- b) Minimal use of terms such as 'in relation to', 'such as' 'including' to avoid interpretational issues that may lead to litigation.

4. Conciliation and Redressal Mechanism: Conciliation is a process in which the Conciliator plays a proactive role to bring about a settlement and is considered to be a more informal redressal process. World over the GST laws have conciliation mechanism whereas Indian indirect tax system is heavily reliant upon dispensing justice through medium of Courts. In such a system the decisions are delegated upwards by authorities who ought to be fair and equitable. It is expected that the new legislation will have conciliation mechanism that would not necessitate a tax payer to seek expensive and delayed justice through judiciary.

GST being simple, efficient and successful form of indirect taxations globally, its introduction by target date i.e., 1st April, 2016, would contribute significantly towards economic growth and is keenly awaited by all who have lived through the maze of inefficient, irrational and complex indirect tax system in India.

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