

# THE GST FRAMEWORK

The discussion paper on the proposed goods and services tax (GST) released by the empowered committee of state finance ministers dealt with specifics such as reimbursements and tax credits. If the devil lies in the detail, the specifics may play as big a role as overarching ideas in determining the success of GST. Ernst and Young analysed the specifics presented in the discussion paper and compared it with the architecture of the prevailing value-added tax (VAT).



## CURRENT SYSTEM

- Trading community cannot take input tax credit (ITC) of CST, CVD paid on imported goods, excise duty on domestically manufactured goods, service tax on input services
- Service providers cannot take credit of VAT or CST paid on domestically procured goods; and SAD paid on imported goods
- Service providers are paying one single uniform tax for providing services (barring a few exceptions where state tax is also levied)
- At the state level, there are multiple taxes—luxury tax, entertainment tax, tax on lottery, entry tax
- The threshold limits for attracting liability to state VAT varies from state to state

## PROPOSAL UNDER GST REGIME

- The GST paid on goods and services, whether procured from within or outside the state, would be eligible as ITC against the output GST, hence would not be a cost
- The new regime proposes to combine tax on goods as well services in the same bucket and ITC would be available on SGST, CGST or IGST (as the case may be) paid on goods procured
- Services would be taxed both by Centre (CGST) and state (SGST)
- Many of the states taxes would be subsumed in the SGST
- The new regime proposes to have a common threshold limit of Rs10 lakh as annual turnover

## IMPACT

- Would eliminate the non-creditable Central taxes, which are today a cost to the trading community
- Service providers will be able to claim ITC of state taxes which are currently not creditable
- Increased output tax where the combined rate of CGST and SGST is higher than the current service tax rate of 10.3%
- Single tax at state level would simplify tax payment, compliance and its administration
- Standardization among all states for small businesses

SAD: special additional duty; CST: Central sales tax; CGST: Central GST; SGST: proposed state GST; IGST: integrated GST; CVD: countervailing duty