Goods and Service Tax

Unit 1

Constitutional framework of Indirect Taxes before GST

Introduction

A tax is a compulsory contribution from a person to the expenses incurred by the state in common interest of all without reference to specific benefits conferred on any individual. The tax cannot be regarded as voluntary payment or donation. Rather, it is enforced contribution which is exacted through legislative authority. The word tax has been derived from the Latin word "Taxo" which means touch sharply or charge.

As per Wikipedia, "*A tax is a mandatory financial charge or some other type of levy imposed upon a tax payer (an individual or other legal entity) by the Government in order to fund various public expenditure*". It may be noted that the tax is a mandatory payment because a failure to pay or evasion of or resistance of taxation, is punishable by law.

Types of Taxes

The taxes are generally classified into direct tax and indirect tax.

1. **Direct Tax**: A direct tax is paid directly by an individual or organization to an imposing entity. The direct tax is a type of tax where the incidence and impact of taxation falls on the same entity. It means brunt of direct tax cannot be shifted by the taxpayer to someone else. The significant direct tax imposed in India is Income Tax.
2. **Indirect Tax**: The indirect taxes are imposed on goods/services. The immediate liability to pay indirect taxes lies on the manufacturer/service provider/seller, etc. but the burden is ultimately transferred to the consumers. Since this tax is indirectly borne by the consumer, it is called as indirect tax. Hence, an indirect tax is collected by an intermediary from the person who bears the ultimate economic burden of the tax. It may be noted that the burden of indirect tax is transferred not in the form of taxes but as a part of the price of such goods/services.

Features of Indirect Taxes

1. **Taxable Event:** The indirect taxes are levied on purchase/sale/manufacture of goods and provision of services.
2. **Incidence & Impact:** In case of indirect taxes, the incidence and impact fall on two different persons. It means the tax burden is shifted by the supplier to the buyer or recipient of goods or services.
3. **Regressive Taxation:** The indirect taxes do not depend on paying capacity as tax payable on commodity is same whether it is purchased by a poor man or rich person. Therefore, indirect taxes are regressive in nature. There are exceptions to this argument as higher taxes may be imposed on luxury goods.
4. **Impact of Indirect Tax:** The indirect tax on goods and services increases its price. This leads to inflationary trend.

5. **Promotes Welfare:** The harmful or sin products like alcohol, tobacco, etc. may be taxed at higher rate. This practice not only discourages consumption of such goods but also increases the revenue of the State.
6. **Major Source of Revenue:** In India, the contribution of indirect taxes to total tax revenue is more than 50%. Therefore, it is a major source of tax revenue for the Government.

Taxation Powers of Union & State Government

In India, the constitution is Supreme, and all laws and actions of the Government are sub-ordinate to it. The constitution provides that no tax shall be levied or collected except by authority of law. The Structure of Government in India is federal in nature. As per article 1(1) of constitution, India shall be union of States. There is a bifurcation of powers between union and states. Government of India (Central Government) has certain powers in respect of whole country. Each state (and union territory) has certain powers in respect of that particular state (Union territory).

Indian constitution

India has a three-tier federal structure, comprising the following:

a) The Union Government
b) The State Government
c) The Local Government

The power to levy taxes and duties is distributed among the three tiers of Government, in accordance with the provisions of Indian Constitution. The constitution consists of a preamble, 25 parts containing 448 articles and 12 Schedules.

Provisions of constitution regarding taxation

The power to levy and collect taxes emerges from the constitution of India. The following are the significant provisions of the constitution regarding taxation:

1. **Article 265:** It states that no tax shall be levied or collected except by authority of law. In fact, it prohibits arbitrary collection of tax.
2. **Article 246:** The authority to enact law and levy taxes and duties is given by constitution vide Article 246. The Parliament may make laws for the whole of India or any part of the territory of India, the State legislature may make laws for whole or part of the State.
3. **Seventh Schedule (to Article 246):** The Seventh Schedule contains three lists which enumerate the matters under which the union and the State Governments have the authority to make laws.
   (a) **List I (Union List):** The **Central Government** has the exclusive right to make laws in respect of any matter covered in this list. Parliament makes law in this regard. Some of the items in List I are defence of India, naval, military and air forces, atomic energy and mineral resources, central bureau of intelligence and investigation, railways, highways, currency, RBI, post office saving bank, taxes on income other than agricultural income, duties of customs, corporation tax, etc.
   (b) **List II (State List):** It contains the matters in respect of which the State Government has the exclusive right to make laws. These matters include public order, police, local government, public health and sanitation, hospital, burials and burial grounds, cremation ground, libraries, water, fisheries, betting, and gambling, etc.

(c) **List III (Concurrent List):** It contains the matters in respect of which both Central & State Governments have powers to make laws. This list includes criminal laws, criminal procedure, marriage and divorce, contracts including partnership, agency, bankruptcy and insolvency, trust and trustees, trade unions, industrial and labour disputes, etc.

Concept of Value Added Tax (VAT)

The value added tax (VAT) was introduced in India in 2005. It is a multi point system of taxation on sale of goods wherein a mechanism is provided to grant credit for tax paid on inputs. Under VAT, the tax is collected in Stages an transactions involving sale of goods. The input tax (*i.e.* paid on purchases) is rebated against output tax (*i.e.* tax payable on sales).

Under the VAT system, the net tax payable is calculated in the following manner:

VAT = Tax collected on sales - Tax paid on purchases

The VAT was state level tax, prevailing in Pre-GST era. At present, it has been subsumed in GST.

What is Cascading Effect?

The cascading effect implies charging tax on tax. In other words, at the time of levy of tax, the total value is considered which is inclusive of all taxes paid up to that point. In this manner, if the tax is always charged on the selling price of the product, the burden of tax keeps on increasing at each point of sales. In this process, the effect of taxation magnifies as at each level tax is calculated on value, which includes taxes already levied and paid. The charging of tax on tax is called as 'Cascading Effect of tax'.

VAT has Eliminated Cascading Effect

VAT has been developed to avoid cascading effect of taxes. This has become possible as tax is effectively charged only on value addition at each stage and not on the entire sale price. The cascading effect has been prevented through tax credit system, called as Input Tax Credit.

Input Tax Credit

If any registered dealer is purchasing goods within a particular state and has paid value added tax and subsequently the goods were sold in the same state, in that case such registered dealer shall be allowed to take credit for input tax, subject to certain conditions. In other words, the tax is imposed at each stage on the entire Sales value and the tax paid at the earlier stage is allowed as set off. This credit availability is called as "Input Tax Credit". **For example:** Mr. Bhuvan is a registered dealer and has purchased inputs worth ₹ 5,00,000 (plus VAT @ 4%). The actual sales in the month were ₹ 9,00,000 (plus VAT @ 10%). It means:

VAT paid on purchases = ₹ 20,000 [Calculated as ₹ 5,00,000 × 4%]

Output VAT payable = ₹ 90,000 [Calculated as ₹ 9,00,000 × 10%]

Since, VAT paid on purchases can be adjusted against output VAT payable; the net VAT payable for the month shall be ₹ 90,000 minus ₹ 20,000. It means after adjusting ITC, the net VAT liability is ₹ 70,000.

Scope of Input Tax Credit Under VAT

In Pre-GST era, the concept of ITC was prevailing in VAT, Excise and Service Tax. The following important points may be noted about the entitlement of ITC under VAT:

(a) It is allowed to a registered dealer.
(b) It is also allowed in respect at VAT paid on purchase of capital goods.
(c) The Central Sales Tax (CST) paid on purchases made from outside state is not allowed as ITC.
(d) It is allowed only if the purchases are made from a registered dealer.
(e) The ITC is not available in respect of purchases from a dealer who has opted for composition scheme.
(f) If goods have been used to manufacture the exempted goods, ITC is not available.

Variants of Value Added Tax (VAT)

(a) Gross Product Variant
(b) Income Variant
(c) Consumption Variant

a) Gross Product Variant: This allows deduction for taxes on all purchases of raw materials and components, but no deduction is allowed for taxes on capital inputs. That is tax on capital goods such as plant & machinery are not deductible from the tax base in the year of purchase and tax on the depreciated part of plant & machinery is not deductible in the subsequent years. Capital goods carry a heavier tax burden as they are taxed twice. Modernization and upgrading of plant & machinery is delayed due to this double tax treatment.

b) Income variant: This allows deduction on purchase of raw materials and components as well as depreciation on capital goods. This method provides incentives to classify purchases as current expenditure to claim set-off.

c) Consumption variant: This allows deduction on all business purchases including capital assets. Thus, gross investment is deductible in calculating value added. It neither distinguishes b/w capital and current expenditures nor specifies the life of assets or depreciation allowances for different assets. This form is neutral b/w the methods of production; there will be no effect on tax liability due to the method of production (i.e. substituting capital for labour or vice versa). The tax is also neutral b/w the decision to save or consume.

Methods of Computing Value Added Tax (VAT)

1. Addition Method
2. Subtraction Method
3. Direct Subtraction Method
4. Indirect/Intermediate Subtraction Method
5. Invoice Method

1. **Addition Method:**
    - Under the addition method, VAT is added at each stage of production or distribution.
    - It involves calculating VAT based on the value added at each stage of the production process.
    - The tax is levied on the difference between the selling price and the cost of materials used in production.
2. **Subtraction Method:**
    - The subtraction method is based on deducting the value of inputs (purchases) from the value of outputs (sales).

- VAT is calculated by subtracting the value of goods and services used in production from the total sales revenue.
- The tax is levied on the added value at each stage of production or distribution.

3. **Direct Subtraction Method:**
   - In the direct subtraction method, businesses deduct the total value of purchases (inputs) from the total value of sales (outputs).
   - The difference represents the value added at each stage, on which VAT is levied.
4. **Indirect/Intermediate Subtraction Method:**
   - The indirect or intermediate subtraction method involves deducting the value of purchases (inputs) from the value of sales (outputs) at each stage of production.
   - VAT is calculated on the difference, which represents the value added by the business.
5. **Invoice Method:**
   - The invoice method is widely used and involves calculating VAT based on invoices issued by suppliers and invoices issued to customers.
   - Input VAT is calculated based on the VAT shown on purchase invoices, while output VAT is calculated based on the VAT shown on sales invoices.
   - Businesses keep records of VAT paid on purchases and collected on sales to determine their VAT liability.

Major Defects in the Structure of Indirect Taxes Prior to GST

Over the period of almost six decades the prevailing indirect tax regime created complexities and showed several shortcomings forcing Government to overhaul the existing system. These short comings are summarised below:

1. **Cascading Effect**: Both central and state Government levy tax on the same goods. Former levy tax on manufacture of goods and the later levy VAT on sale of very same goods. State Government does not permit credit of excise duty paid by the manufacture to the dealer on sale of goods. Thus, VAT is also payable on excise duty component of the price resulting in cascading effect. Similarly, service tax is payable on rendering of service. No credit of service tax paid on input service used in selling of goods is provided by the state government. So tax is levied on tax. It boosted inflation.
2. **Multiplicity of Tax/Cess**: Multiple taxes were levied in pre-GST regime like Excise duty, VAT, Entry tax, luxury tax, Entertainment tax, Service tax, Octroi etc. These taxes were in additions to various cesses imposed by State and Central Government like Krishi Kalyan Cess, clean energy cess etc. All this made the tax structure very cumbersome.
3. **Overlapping of Jurisdiction**: Over the years, distinction between goods and services has become hazy, due to which there is overlapping of state VAT and Central Service tax on transactions like works contract, food related services of restaurants, caterers, computer software, SIM cards, renting of movable property etc. In these cases, it was difficult to judge whether the transaction was sale of goods or rendering of service. Therefore, both the central and state Government would impose tax.
4. **Rivalry amongst states**: Pre-GST regime of indirect tax was not destination-based tax but origin-based tax. In that regime taxes are collected and utilized by the state administration where goods/services are transacted/manufactured or supplied. This would encourage state to provide sales tax/VAT relief to attract industries and at the same time discourage supply of

goods from other state by imposing entry tax, octroi, luxury tax etc. on goods coming from other states.

5. **Hindrance to Integrated market system**: India despite being one nation could not develop into a national market due to invisible barriers of Central State tax, VAT, entry tax etc. as mentioned in last point. These invisible barriers were visible in the form of check posts on the boundaries of states.
6. **Loss of Man and Truck hours**: Due to check posts mounted by states on entry point millions of man hours and Truck hours were lost Besides that huge corruption was involved which made logistics management a costly affair.
7. **Difficulty in Compliance for Taxpayers**: As mentioned already pre-GST regime had multiplicity of Tax and consequently tax laws. Moreover, each tax had a different taxable event like manufacture for Excise, VAT for sales etc. Also, there were multiple of Tax authorities. Compliance required voluminous efforts on the part taxpayers. It also promoted Inspector raj.
8. **Difficulty in Cross Verification of Credit availed by Assessee**: Earlier it was difficult for the tax department to get the verification report from supplier of goods to know whether the supplier has issued particular invoice on the basis of which input tax credit has been taken by the purchaser. Due to lack of online data the verification was done offline. Often the report of supplier was not received or received after considerable lapse of time. Many scrupulous dealers exploited this and availed fraudulent credit.
9. **Tax Evasion**: Burden of compliance, multiplicity of tax laws increased the propensity to evade taxes. Fudging of records, concealment of transaction, bribing the tax officials were the tools adopted to remain out of tax net.
10. **Huge Amount of litigation**: With multiple tax laws each having different taxable events result was lot of disputes regarding availment of credit, determining manufacture of goods, value of goods, classification of goods etc. Dispute settlement mechanism is almost choked with such disputes resulting in pendency of tax demands.

Overview of GST

GST is a comprehensive indirect tax levy on manufacture, sale, and consumption of goods as well as services at the national level. GST is an indirect tax for the whole of India to make it one unified common market. GST is designed to give India a world class tax system and improve tax collections. It would end the long-standing distortions of differential treatment of manufacturing sector and services sector. GST will facilitate seamless credit across the entire supply chain and across all States under a common tax base.

Salient Features of GST in India

The salient features of GST in India have been highlighted below:

1. **Supply as the base**: GST would be applicable on “**supply**” of goods or services as against the erstwhile concept of tax on the manufacture of goods or on sale of goods or on provision of services.
2. **Destination-based tax**: As opposed to the previous principle of origin-based taxation, GST would be based on the principle of destination-based consumption taxation.
3. **Dual GST**: The Centre and the States would simultaneously levy tax on a common base. The GST to be levied by the Centre would be called Central GST (CGST) and the GST to be levied by the States (including Union territories with legislature) would be called State GST (SGST). Union territories without legislature would levy Union territory GST (UTGST).

4. **Inter-State supply**: An integrated GST (IGST) would be levied on inter-State supply of goods or services. This would be collected by the Centre so that the credit chain is not disrupted. Imports of goods and services would be treated as inter-State supplies and would be subject to IGST. (This would be in addition to applicable customs duties).
5. **Central taxes subsumed**: GST would subsume the following taxes that were levied and collected by the Centre: Central excise duty; Additional duties of excise; Additional duties of customs (commonly known as countervailing duty); special additional duty of customs (SAD); service tax; and cesses and surcharges insofar as they relate to supply of goods or services.
6. **State taxes subsumed**: GST would subsume the following taxes that were levied and collected by the State: State VAT; Central Sales Tax; purchase tax; luxury tax; entry tax; entertainment tax (except those levied by the local bodies); taxes on advertisements; taxes on lotteries, betting, and gambling; and State cesses and surcharges insofar as they relate to supply of goods or services.
7. **Applicability**: GST would apply to all goods and services except alcohol for human consumption. GST on five specified petroleum products (crude, petrol, diesel, aviation turbine fuel, natural gas) would be applicable from a date to be recommended by the GST Council.
8. **Threshold for GST**: A common threshold exemption would apply to both CGST and SGST. Taxpayers with an annual turnover of ₹ 20 lakh (₹ 10 lakh for special category States (except J&K) as specified in article 279A of the Constitution) would be exempt from GST. A compounding option (*i.e.* to pay tax at a flat rate without credits) would be available to small taxpayers (including to manufacturers other than specified category of manufacturers and service providers) having an annual turnover of up to ₹ 1 crore (₹ 75 lakh for special category States (except J&K and Uttarakhand) enumerated in article 279A of the Constitution). The threshold exemption and compounding scheme is optional.
9. **Exports**: All exports and supplies to Special Economic Zones (SEZs) and SEZ units would be zero-rated.
10. **Input tax credit**: Credit of CGST paid on inputs may be used only for paying CGST on the output and the credit of SGST/UTGST paid on inputs may be used only for paying SGST/ UTGST. In other words, the two streams of input tax credit (ITC) cannot be cross utilized, except in specified circumstances of inter-State supplies for payment of IGST.
11. **Electronic filing of returns**: There will be electronic filing of returns by different class of persons at different cut-off dates. Various modes of payment of tax available to the taxpayer including internet banking, debit/credit card and National Electronic Funds Transfer (NEFT)/Real Time Gross Settlement (RTGS).
12. **Tax deduction on payment made**: While the provision for TDS has not been notified yet, it is obligatory on certain persons including government departments, local authorities, and government agencies, who are recipients of supply, to deduct tax at the rate of 1% from the payment made or credited to the supplier where total value of supply, under a contract, exceeds ₹ 2,50,000.
13. **Tax collection at source by E-commerce operators**: While the provision for TCS has not been notified yet, it is obligatory for electronic commerce operators to collect 'tax at source', at such rate not exceeding 2% of net value of taxable supplies, out of payments to suppliers supplying goods or services through their portals.
14. **Refund**: Refund of tax can be sought by taxpayer or by any other person who has borne the incidence of tax within two years from the relevant date. Refund is to be granted within 60 days

from the date of receipt of complete application and interest is payable if refund is not sanctioned within 60 days.

15. **Anti-profiteering clause**: An anti-profiteering clause has been provided in order to ensure that business passes on the benefit of reduced tax incidence on goods or services or both to the consumers.

Proposed benefits of GST

The implementation of GST is expected to bring in various benefits as discussed below:

1. **Dynamic common market**: GST would make India a dynamic common market and result in generation of positive externalities. By ensuring uniformity of indirect tax rates across the country, it will substantially improve the ease of doing business.
2. **Elimination of cascading effect**: Under GST, provision of seamless input tax credit across transactions will avoid tax cascading, eliminate double taxation, and improve resource allocation.
3. **Efficiency**: Subsuming of all major indirect taxes will result in the removal of inefficient taxes. With as single tax to be paid, manufacturers will become more competitive, and this could lead to growth in exports.
4. **Reduced compliance costs:** Harmonisation of tax rates and laws along with seamless input tax credits and a sound IT infrastructure is expected to lead to reduced compliance costs. As all the taxpayer services like registrations, payments, returns etc. will be available online, the compliance process would become simpler.
5. **Reduction in tax evasion:** Uniform rates of taxation would reduce the incentive for tax evasion by eliminating rate arbitrage opportunities between neighbouring states and that between intra-State and inter-State sales.
6. **Improved collection efficiency**: GST is also desirable from the point of view of tax policy and collection. Even if the taxes are lowered, the revenue of the Union and the states is expected to be buoyant due to less evasion. A single rate across all goods and services will eliminate classification disputes and make tax assessment more predictable. Harmonisation of tax assessment, levy and collection procedures across states will reduce compliance costs, limit evasion, enhance transparency and improve collection efficiency.
7. **Revenue generation**: By controlling tax leakage from the system and having a wider base, GST would generate more tax revenues for both the Central and State Governments.
8. **Encourages savings and investment**: As GST is a tax on consumption and not on income, so the tax system inherently encourages savings and investments instead of consumption. Further, input tax credit would lead to a decrease in the cost of capital goods and provide boost to investments.
9. **Improved efficiency of logistics:** Due to GST implementation, the restriction on inter-State movement of goods is likely to be lessened and the logistics sector is anticipated to start consolidating warehouses across the country. In the erstwhile indirect tax structure, decisions related to logistics and distribution centres were based on tax considerations as opposed to operational efficiency. With GST in place, these decisions will now be based on operational efficiency and warehouses would be set up at locations that would help in reaching customers faster and reduce costs.
10. **Regulation of the unorganized sector:** For a large unorganized sector that exists in business, GST has provisions for online compliances and payments, and availing of input credit only

when the supplier has accepted the amount, thereby bringing accountability and regulation to these businesses.

11. **Export competitiveness:** With GST in place, the export industry in India would be able to have internationally competitive prices due to the smooth process of claiming input tax credit and the availability of input tax credit on services. The exports of goods or services would be a zero-rated supply under GST implying that GST would not be levied on export of goods or services. All this, in turn, would provide a push to government's 'Make in India' campaign.
12. **Higher threshold for registration:** As per the current VAT structure, any business with a turnover of more than ` 5 lakh (in most states) is liable to pay VAT (different rates in different states). Similarly, for service tax, service providers with turnover less than ` 10 lakhs are exempted. Under GST this threshold has been increased to ` 20 lakhs thus exempting many small traders and service providers.
13. **Composition scheme for small businesses:** The composition scheme under the GST regime is a method of levy of tax designed for small taxpayers whose turnover is up to ` 1 crore (` 75 lakhs in case of 9 Special Category States). Those who opt for this scheme can file returns on a quarterly basis unlike the others who have to file returns on a monthly basis. Under the scheme, small businesses, manufacturers, and restaurants will be subject to a GST rate of 0.5%, 1% and 2.5% respectively on turnover. The Composition scheme has been designed to simplify and reduce the burden of compliance for smaller taxpayers.
14. **Benefits to consumers**: The final price of goods is expected to be lower due to seamless flow of input tax credit between the manufacturer, retailer, and supplier of services. Average tax burden on companies is likely to come down which is expected to reduce prices and hence benefit the consumer.

Concerns regarding GST

1. **Lack of preparedness**: The understanding of the provisions of GST is still at a nascent stage for many people engaged in business. They are still trying to assess the mandated GST compliance provisions that their relevant functional departments (such as IT Department, Legal department) need to adhere to.
2. **Compliance related issues**: Businesses need to file multiple returns which may increase manifold in accordance with business models. Clients will need to ensure timely compliance by registered suppliers to ensure there is no loss of input credit. This will necessitate correct data and reports to fill accurate GST returns.
3. **Increased costs due to software purchase:** Businesses have to either update their existing accounting or ERP software to a GST-compliant software or buy a GST software so that they can keep their business going. Both the options lead to increased cost of software purchase and training of employees for an efficient utilization of the new billing software.
4. **Small businesses:** Small and medium-sized enterprises (SMEs) who have not yet signed for GST have to quickly grasp the nuances of the GST tax regime. They will have to issue GST-complaint invoices, be compliant to digital record-keeping, and of course, file timely returns. This means that the GST-complaint invoice issued must have mandatory details such as GSTIN, place of supply, HSN codes, and others.
5. **Lack of skilled resources and re-skilling existing workforce:** As GST has been introduced recently, skilled staff with complete and updated subject knowledge of GST is not easily available. This has resulted in an urgent need for adequate skilled human resources wellversed

with GST to ensure swift implementation. In addition, businesses will need to re-train their employees in GST compliance, further increasing their overhead expenses.

6. **Multiple rate structure:** The GST presently has a four slab structure with tax rates kept at 5%, 12%, 18% and 28%. The multiple tax structure has been justified on the ground that necessary items of mass consumption should be taxed at a lower rate while luxury items should be taxed at higher rates. However, multiple rates are likely to increase administrative complexity as well as create classification disputes. Such a system makes it difficult to evaluate the overall effects of the tax design.

Structure of GST

The Four Different Types of GST Tax in India are:

- Integrated Goods and Services Tax (IGST)
- State Goods and Services Tax (SGST)
- Central Goods and Services Tax (CGST)
- Union Territory Goods and Services Tax (UTGST)

Integrated Goods and Services Tax or IGST

- The Integrated Goods and Services Tax or IGST is a tax under the GST regime that is applied on the interstate (between 2 states) supply of goods and/or services as well as on imports and exports.
- The IGST is governed by the IGST Act. Under IGST, the body responsible for collecting the taxes is the Central Government. After the collection of taxes, it is further divided among the respective states by the Central Government.
- For instance, if a trader from West Bengal has sold goods to a customer in Karnataka worth Rs.5,000, then IGST will be applicable as the transaction is an interstate transaction.

State Goods and Services Tax or SGST

- The State Goods and Services Tax or SGST is a tax under the GST regime that is applicable on intrastate (within the same state) transactions. In the case of an intrastate supply of goods and/or services, both State GST and Central GST are levied.
- However, the State GST or SGST is levied by the state on the goods and/or services that are purchased or sold within the state. It is governed by the SGST Act. The revenue earned through SGST is solely claimed by the respective state government.
- For instance, if a trader from West Bengal has sold goods to a customer in West Bengal worth Rs.5,000, then the GST applicable on the transaction will be partly CGST and partly SGST.

Central Goods and Services Tax or CGST

- Just like State GST, the Central Goods and Services Tax of CGST is a tax under the GST regime that is applicable on intrastate (within the same state) transactions. The CGST is governed by the CGST Act. The revenue earned from CGST is collected by the Central Government.
- As mentioned in the above instance, if a trader from West Bengal has sold goods to a customer in West Bengal worth Rs.5,000, then the GST applicable on the transaction will be partly CGST and partly SGST.

Union Territory Goods and Services Tax or UTGST

- The Union Territory Goods and Services Tax or UTGST is the counterpart of State Goods and Services Tax (SGST) which is levied on the supply of goods and/or services in the Union Territories (UTs) of India.
- The UTGST is applicable on the supply of goods and/or services in Andaman and Nicobar Islands, Chandigarh, Daman Diu, Dadra, and Nagar Haveli, and Lakshadweep. The UTGST is governed by the UTGST Act.

GST Council

GST Council is a constitutional body that is responsible to make recommendations to the Union or State government regarding issues involving the Goods and Service Tax. GST Council plays a crucial role in taking decisions regarding the Goods and Service Tax in India. The vision of the GST Council is to uphold the greatest norms of cooperative federalism in the Council's operations. The GST Council is the first constitutional federal body with the authority to make all significant GST decisions.

- GST Council is constituted as per Article 279-A of the Indian Constitution.
- The GST Council Secretariat is located in New Delhi.
- Union Revenue Secretary is the ex-officio secretary of the GST Council.
- GST Council is responsible for dictating the tax exemption, tax rate, tax laws, and the due date of forms, keeping in mind the special rates, tax deadlines, and provisions.
- The main goal of the GST Council is to ensure to have one uniform tax rate for Goods and Services across India.

Composition of GST Council

The composition of the GST Council is a crucial part of the GST Council UPSC Notes. The council is a joint forum of the centre and states, and it consists of the following members:

- The chairperson of the GST Council is Union Finance Minister. The other members of the GST Council include the Union State Minister of Revenue or Finance and Ministers in charge of Finance or Taxation of all the States.
- The Council members from the states have to choose one member amongst themselves who would become the Vice-Chairperson of the GST Council. They have also the power to decide his term.
- GST Council has 33 members, out of which 2 members are from the centre and 31 members are from 3 Union territories and 28 states with legislation.
- Chairperson of the CBEC (Central Board of Excise and Customs) as a permanent invitee (non-voting) to all the proceedings.

Functions of GST Council

The GST Council has to make recommendations to the States and Union on the following matter

- The cesses, taxes, and surcharges levied by the States and Union and the local bodies which are under the Goods and Services Tax
- Any special rates for a certain period to raise additional resources during any natural disaster or calamity.

- Model GST laws, Principles of the levy, apportionment of Goods and Services Tax levied on supplies in the course of commerce or Inter-state trade under article 269A, and the principles that control the place of supply.
- The goods and services that may be exempted or subjected from the Goods and Services tax.
- The threshold limit of turnover below which the services and goods mat be exempted from GST.
- The rates include the floor rates with the bands of Goods and Service Tax,
- Special provision with respect to the states- Arunachal Pradesh, Jammu and Kashmir, Mizoram, Nagaland, Tripura, Assam Sikkim, Manipur, Meghalaya, Himachal Pradesh, and Uttarakhand.
- Additionally, the GST Council has the power to recommend the date on which the GST may be levied on petrol, high-speed diesel, petroleum crude, aviation turbine fuel, and natural gas.
- Furthermore, the GST Council has to recommend compensation to the states for the loss of revenue due to the introduction of GST for a period of 5 years. According to the recommendation, the parliament decided on the compensation.