GOODS AND SERVICES TAX

(CBCS in Accordance with NEP 2020)



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COURSE INTRODUCTION

This course offers a comprehensive understanding of indirect taxation in India, tracing the evolution from the pre-GST regime to the implementation of the modern dual Goods and Services Tax (GST) model. Learners will explore the fundamental concepts, legal framework, and practical compliance mechanisms of GST, including supply dynamics, Input Tax Credit (ITC), invoicing, registration, and return filing. By analyzing contemporary issues, assessment procedures, and sector-specific impacts, the course equips learners with the essential knowledge and practical skills required to navigate the complexities of modern tax administration and its profound impact on the economy.

Unit 1: Introduction to Indirect Taxation

This unit introduces the concept of direct versus indirect taxes and traces the evolution of indirect taxation in India leading up to the need for GST. It explains the dual GST model (CGST, SGST, IGST, UTGST) and the role of the GST Council, helping learners grasp the foundational structure, features, and primary advantages of the current GST regime.

Unit 2: Pre-GST Indirect Taxes

This unit delves into the historical framework of indirect taxes in India, covering VAT, Service Tax, Excise Duty, and Custom Duty. By examining the features, limitations, and structural challenges of these older systems, learners will better understand the historical context and the administrative complexities that necessitated the shift to a unified GST system.

Unit 3: GST Structure & Key Definitions

This unit outlines the foundational terminology and structural concepts of the GST framework, focusing heavily on the meaning of 'supply', aggregate turnover, and various types of taxpayers. This provides learners with the essential legal vocabulary and conceptual clarity needed to correctly interpret and apply GST laws in practical scenarios.

Unit 4: Levy and Collection of Tax under Act

This unit examines the core mechanisms for levying and collecting GST, including the overall rate structure and the specific scope of supply. It also introduces the Composition Scheme,

enabling learners to understand how basic tax liabilities are determined and what alternative compliance options are available for eligible small businesses.

Unit 5: Exemption from Goods and Services Tax (GST)

This unit focuses on the concept, objectives, and legal provisions surrounding GST exemptions. It clearly distinguishes between nil-rated, zero-rated, and non-taxable supplies, helping learners navigate the compliance requirements for exempt goods and services and accurately identify when tax liabilities do not apply.

Unit 6: Input Tax Credit (ITC)

This unit explains the critical concept of Input Tax Credit (ITC), detailing the eligibility criteria, conditions for claiming, and the principle of matching. By covering blocked credits and reversal rules, it equips learners with the practical knowledge required to efficiently manage tax liabilities and prevent the cascading effect of taxes.

Unit 7: Tax Invoices, Credit & Debit Notes

This unit details the strict legal requirements for documentation under GST, including the structure of tax invoices, bills of supply, and the rules governing credit and debit notes. It also introduces the modern e-invoicing system and QR codes, ensuring learners understand the crucial compliance standards required for everyday business transactions.

Unit 8: GST Rates & HSN/SAC Codes

This unit covers the classification of goods and services using HSN and SAC codes and how these codes determine the applicable GST rate structure. It also explores the Reverse Charge Mechanism (RCM), teaching learners how to accurately classify supplies and apply the correct tax rates in both standard and reverse charge scenarios.

Unit 9: GST Returns and Compliance

This unit outlines the mandatory framework for filing GST returns, specifically focusing on GSTR-1, GSTR-3B, and the Annual Return. This guides learners through the reporting cycles and reconciliation processes, which are absolutely essential for maintaining legal compliance and avoiding government penalties.

Unit 10: GST Registration

This unit provides a step-by-step guide to the GST registration process, detailing who is liable, who is exempt, and the specific threshold limits. It covers special categories like casual and non-resident taxable persons, ensuring learners know how to legally establish and amend a business entity's presence within the GST network.

Unit 11: E-Way Bills

This unit explores the mechanics of the e-way bill system, which is used to track the physical movement of goods. By understanding the structure, validity rules, and threshold limits, learners will acquire the skills to ensure the seamless and legally compliant transportation of consignments across state and national borders.

Unit 12: GST Payment & Ledger Management

This unit focuses on the financial administration of GST through electronic ledgers—liability, cash, and credit. It walks learners through various payment modes, challan generation, and refund processes, providing highly practical skills for managing a taxpayer's day-to-day financial obligations with the government portal.

Unit 13: Assessment, Audit & Appeals

This unit breaks down the administrative and judicial procedures of GST, including various types of assessments, government audits, and the appeals hierarchy. It also outlines the penalties for offences and anti-profiteering measures, preparing learners to handle official scrutiny, legal disputes, and compliance enforcement effectively.

Unit 14: Contemporary Issues, Challenges and Future Trends in GST

This unit critically analyzes the ongoing implementation challenges, sector-specific impacts, and the intersection of GST with the digital economy. By exploring recent reforms, anti-evasion measures, and global comparisons, learners gain a forward-looking perspective on the evolving landscape of indirect taxation and future policy directions.

Each unit includes some alongside boxes to help you know some of the difficult, unseen terms. Some “EXERCISES” have been included to help you apply your own thoughts. You may find some boxes marked with: “LET US KNOW”. These boxes will provide you with some additional interesting and relevant information. Again, you will get “CHECK YOUR PROGRESS” questions. These have been designed to self-check your progress of study. It will be helpful for you if you solve the problems put in these boxes immediately after you go through the sections of the units and then match your answers with “ANSWERS TO CHECK YOUR PROGRESS” given at the end of each unit.

UNIT 1: INTRODUCTION TO INDIRECT TAXATION

UNIT STRUCTURE

1.1 Learning Objectives
1.2 Introduction
1.3 Meaning of Indirect Tax
1.4 Direct Vs. Indirect Taxes
1.5 Pre GST Indirect Taxes
1.6 Evolution and need for GST
1.7 Dual GST Model in India
1.8 Overview of GST Council
1.9 GST Schemes: Feature and Scope
1.10 Advantage of GST

1.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- Understand the concept and meaning of Indirect Taxes in India.
- Differentiate clearly between Direct and Indirect Taxes.
- Gain an overview of the pre-GST tax structure including VAT, Service Tax, and Excise Duty.
- Explain the evolution, need, and advantages of the Goods and Services Tax (GST).
- Comprehend the Dual GST Model (CGST, SGST, IGST, UTGST) and the role of the GST Council.
- Identify the key features and scope of various GST Schemes.

1.2 INTRODUCTION

Taxation is the primary source of revenue for the government, enabling it to fund public infrastructure, defense, healthcare, and education. The Indian tax system is structurally divided into two main categories: Direct Taxes and Indirect Taxes. Historically, the Indian indirect tax system was highly fragmented, with multiple taxes levied by both the Central and State Governments. This complexity led to a cascading effect of taxes (tax on tax), increasing the final cost of goods and services. To streamline this and create a unified national market, the Goods and Services Tax (GST) was introduced as a landmark reform, operationalizing the vision of "One Nation, One Tax."

1.3 MEANING INDIRECT TAX

An indirect tax is a tax levied on the consumption of goods and services rather than on an individual's income or wealth. The defining characteristic of an indirect tax is that the burden of the tax can be shifted. While the seller or service provider is responsible for paying the tax to the government, they collect this amount from the final consumer by including it in the Maximum Retail Price (MRP) or the final invoice. Therefore, the incidence (ultimate burden) and the impact (initial payment) of the tax fall on two different entities.

1.4 DIRECT VS INDIRECT TAXES

Understanding the distinction between these two forms of taxation is fundamental to studying the Indian financial system.

Basis of Difference	**Direct Tax**	**Indirect Tax**
Meaning	Tax levied directly on the income or wealth of a person.	Tax levied on the supply of goods and services.
Incidence and Impact	Falls on the same person. The taxpayer bears the burden directly.	Falls on different persons. The burden is shifted to the final consumer.
Nature	Progressive in nature (higher income earners pay more).	Regressive in nature (everyone pays the same amount on a product, regardless of income).
Examples	Income Tax, Corporate Tax.	Goods and Services Tax (GST), Customs Duty.
Evasion	Tax evasion is comparatively easier.	Tax evasion is difficult as the tax is embedded in the price of the goods/services.

1.5 PRE-GST INDIRECT TAXES

To understand pre-GST indirect tax regime, it is essential to understand that under the old system, taxes were levied based on highly specific "taxable events"such as the act of manufacturing a product, the act of providing a service, or the act of selling a good. This created a highly fragmented system divided between the Central and State governments.

Here is a detailed breakdown of these three major pre-GST taxes:

1. Central Excise Duty: The Tax on Manufacturing

Central Excise Duty was an indirect tax levied exclusively by the Central Government. The critical taxable event here was the **manufacturing or production of goods** within India.

The liability to pay this tax arose the moment a product was manufactured and cleared from the factory premises, regardless of whether the product was immediately sold to a customer or just moved to a warehouse.

Because it was a central tax applied at the factory gate, it became part of the base cost of the good before it even reached the wholesale market. For instance, if a factory manufactured a batch of ceiling fans, Central Excise Duty was calculated on their production value. When the manufacturer later sold these fans to a distributor, the next tax (like VAT) would be calculated on a price that *already included* this Excise Duty. This overlapping is what created the inflationary "tax on tax" or cascading effect.

2. Service Tax: The Tax on Intangibles

While Excise Duty dealt with physical goods, **Service Tax** was levied by the Central Government on the **provision of services**.

Initially introduced in 1994 on just three basic services (telephones, non-life insurance, and stockbrokers), it eventually expanded to cover almost all services in the economy.

Whenever a consumer used a telecom network, hired a chartered accountant, or consulted an architect, they paid Service Tax. However, a major flaw in this era was the strict, sometimes confusing boundary between goods and services. A restaurant bill, for example, involved both the sale of physical goods (food) and the provision of a service (hospitality, waiting tables), which often led to complex disputes and the overlapping application of both State VAT and Central Service Tax on the exact same transaction.

3. VAT and CST: The Taxes on Sales

Once a product was manufactured (taxed via Excise) and was ready to be sold to consumers, the taxation power shifted. The tax applied depended entirely on where the goods were moving:

This was a state-level tax levied on the **intra-state sale** of goods (sales occurring entirely within the borders of a single state, like a sale from Guwahati to Jorhat). While VAT allowed businesses to claim credit for VAT paid at earlier stages of the supply chain *within* that state, it did not allow them to claim credit for the Central Excise Duty already paid.

4. **Central Sales Tax (CST)**

When goods were sold across state borders (**inter-state sales**, like a sale from Maharashtra to Assam), CST was applied. Although CST was governed by Central legislation, the revenue was collected and retained by the state from where the goods originated. The biggest drawback of CST was that it was a "non-creditable" tax. The buyer in the destination state could not claim any Input Tax Credit for the CST paid, which created major economic barriers between states and inflated final consumer prices.

In summary, this fragmented framework meant businesses had to comply with multiple different tax authorities, maintain entirely separate records for manufacturing, services, and sales, and navigate the burden of overlapping taxes—all of which GST ultimately resolved by merging these taxable events into a single concept called "supply."

Other Taxes: Entry tax, luxury tax, entertainment tax, and octroi were also prevalentBefore the implementation of GST, India's indirect tax structure was a complex web of various laws.

- **Central Excise Duty:** Levied by the Central Government on the manufacturing or production of goods within India.
- **Service Tax:** Levied by the Central Government on the provision of specified services.
- **Value Added Tax (VAT) / Central Sales Tax (CST):** VAT was levied by State Governments on the intra-state sale of goods, while CST was levied by the Central Government (but collected by states) on inter-state sales.
- **Other Taxes:** Entry tax, luxury tax, entertainment tax, and octroi were also prevalent.

1.6 EVOLUTION AND NEED FOR GST

The primary need for GST arose from the flaws in the pre-existing system. The old system suffered from the "cascading effect"where a product was taxed at every stage of production without the seamless availability of input tax credits across different tax types. For example, a manufacturer paying Excise Duty could not offset it against the VAT paid during the sale.

The evolution of GST spanned over a decade, beginning with the Kelkar Task Force in 2004, which strongly recommended a comprehensive GST. After years of legislative debate and consensus-building among states, the Constitution (101st Amendment) Act, 2016 was passed. GST was officially rolled out in India on July 1, 2017, absorbing almost all major indirect taxes into a single, unified tax framework.

1.7 DUAL GST MODEL IN INDIA

India’s GST system is unique because of the country's federal structure. This means both the Central and State governments need a steady flow of revenue to run the country, build infrastructure, and provide public services. To make sure taxes are shared fairly without causing confusion, the GST framework is divided into four distinct components. Let’s look at each one in detail.

1. **CGST (Central Goods and Services Tax)** The Central Goods and Services Tax (CGST) is the portion of the tax that goes directly into the accounts of the Central Government. It is levied on "intra-state" transactions, which simply means the buying and selling of goods or services strictly within the borders of a single state. For example,

if a manufacturer in Mumbai sells a batch of laptops to a retail store in Pune, both cities are located in Maharashtra. Therefore, CGST will apply to this sale. The Central Government relies on this revenue to fund major national responsibilities, such as maintaining the armed forces, building national highways, and running nationwide welfare schemes. However, CGST never works alone; it is always collected as a team alongside the state's tax.

2. **SGST (State Goods and Services Tax)** The State Goods and Services Tax (SGST) is the direct partner to CGST. It is also levied on the exact same "intra-state" transactions (sales happening within the same state), but this portion of the tax revenue goes directly to the respective State Government. Let's look at a practical, everyday example: if you walk into a local electronics shop in Guwahati and purchase a television, the entire transaction happens within Assam. If the total GST rate for that television is 18%, your bill will show it split evenly right down the middle: 9% as CGST (for the Central Government) and 9% as Assam SGST. The Assam government uses its share of this money to maintain local roads, fund state police departments, and support public schools and hospitals.
3. **IGST (Integrated Goods and Services Tax)** Things change a bit when a product crosses state borders. The Integrated Goods and Services Tax (IGST) comes into play for "inter-state" transactions—meaning a sale that happens between two different states. It also applies whenever goods are imported into India or exported out. Unlike the previous two taxes, IGST is collected entirely by the Central Government. However, the Centre doesn't keep all the money. Because GST is a "destination-based consumption tax," the final tax revenue rightfully belongs to the state where the product is finally consumed. For instance, if a factory in Gujarat sells machinery to a business in Assam, the Centre collects the IGST to avoid any disputes between the two states. It then keeps its central share and securely transfers the remaining state share to the Assam Government, since the machinery ended up there.
4. **UTGST (Union Territory Goods and Services Tax)** Finally, there is the Union Territory Goods and Services Tax (UTGST). This functions exactly the same way as SGST, but it is specifically designed for Union Territories that do not have their own separate state legislature (law-making body) or Chief Minister. Examples of such territories include Ladakh, Chandigarh, Lakshadweep, the Andaman and Nicobar Islands, and Daman and Diu. When a local sale happens completely within one of these specific territories, the tax levied on the bill is a combination of CGST and UTGST. The local administration uses the UTGST funds for regional development. It is worth noting that Union Territories which *do* have a legislature, such as Delhi and Puducherry, operate more like regular states under this system and apply SGST instead.

1.8 OVERVIEW OF GST COUNCIL

The GST Council is the apex constitutional body responsible for making recommendations on all vital issues related to GST in India.

- **Establishment:** It was constituted under Article 279A of the Constitution.
- **Composition:** It is chaired by the Union Finance Minister. Other members include the Union Minister of State in charge of Revenue and the Minister in charge of Finance or Taxation of each State Government.
- **Functions:** The Council decides on tax rates, exemptions, threshold limits, dispute resolution mechanisms, and any special rates during natural calamities.

- **Voting and Decision Making:** Every decision made by the Council requires a three-fourths (75%) majority of the weighted votes of the members present and voting. The Central Government's vote carries a weight of one-third of the total votes cast, while all the State Governments combined hold a weight of two-thirds.
- **Significance:** This unique voting structure is a prime example of cooperative federalism in India. It ensures that neither the Centre nor the States can make unilateral changes to the tax laws. Instead, they must actively collaborate and build consensus to keep the GST framework fair and beneficial for the entire nation.

1.9 GST SCHEMES: FEATURES AND SCOPES

To facilitate ease of doing business and reduce compliance burdens on different types of taxpayers, the GST law provides specific schemes:

- **Regular Scheme:** For standard taxpayers who must file monthly/quarterly returns and can claim Input Tax Credit (ITC).
- **Composition Scheme:** Designed for small businesses (turnover up to ₹1.5 Crore for goods, ₹50 Lakhs for services).
    - *Features:* Taxpayers pay a fixed, nominal percentage of their turnover as tax (e.g., 1% for traders, 5% for restaurants).
    - *Scope:* They are not required to maintain extensive records or file monthly returns (they file quarterly). However, they cannot issue tax invoices to collect GST from customers, nor can they claim Input Tax Credit.

1.10 ADVANTAGES OF GST

Elimination of Cascading Effect: Seamless flow of Input Tax Credit across the value chain ensures tax is only paid on the value addition.

Creation of a Unified Market: By absorbing multiple state and central taxes, GST has removed economic barriers between states, creating a unified national market.

Ease of Compliance: The robust IT infrastructure (GSTN portal) ensures that registrations, return filings, and tax payments are completely online, reducing manual interface.

Higher Revenue Efficiency: Better compliance and transparency have broadened the tax base, leading to increased revenue for the government.

Boost to Exports: Under GST, exports are zero-rated, meaning exporters can claim refunds on the taxes paid on inputs, making Indian goods highly competitive globally.

CHECK YOUR PROGRESS

1. What is the fundamental difference between the incidence and impact of an indirect tax?
2. Mention any two taxes that were absorbed into GST.
3. Which tax is levied on an inter-state supply of goods and services?
4. Who is the chairperson of the GST Council?

5. State whether the following statement is True or False: "Tax evasion is generally easier in the case of indirect taxes compared to direct taxes."
6. Fill in the blanks: a. GST was officially implemented in India on 1st _____, 2017. b. The burden of an indirect tax can be shifted to the final _____. c. For small businesses, GST provides a simplified compliance option known as the _____ Scheme. d. Direct taxes are progressive, whereas indirect taxes are _____ in nature.

1.11LET US SUM UP

 The Indian tax framework is primarily divided into Direct Taxes (levied directly on an individual's income or wealth) and Indirect Taxes (levied on the supply and consumption of goods and services).

 The defining feature of an indirect tax is that its incidence and impact fall on different entities, meaning the seller pays the tax to the government but shifts the actual financial burden to the final consumer.

 Before GST, the indirect tax structure was highly fragmented, consisting of Central Excise Duty, Service Tax, State VAT, and other local taxes, which created a costly "cascading effect" or tax-on-tax.

 The Goods and Services Tax (GST) was introduced on July 1, 2017, to consolidate these multiple taxes, remove the cascading effect, and establish a unified national market under the vision of "One Nation, One Tax."

 To maintain India's federal structure, a Dual GST Model was adopted, which includes CGST (Central tax on intra-state sales), SGST/UTGST (State/UT tax on intra-state sales), and IGST (Integrated tax collected by the Centre on inter-state sales).

 The GST Council serves as the apex constitutional decision-making body, chaired by the Union Finance Minister, and is responsible for determining tax rates, exemptions, and administrative rules.

 The GST framework offers different compliance avenues, notably the Regular Scheme for standard taxpayers and the Composition Scheme, which simplifies compliance and lowers the tax rate for eligible small businesses.

 Ultimately, GST has modernized the Indian economy by eliminating overlapping taxes, simplifying online compliance through the GSTN portal, widening the tax base, and making Indian exports more competitive globally.

1.12 FURTHER READING

Singhania, V.K., & Singhania, M. (Current Edition). *Students' Guide to Income Tax including GST*. Taxmann Publications.

Institute of Chartered Accountants of India (ICAI). *Study Material on Taxation - Indirect Taxes*.

Official GST Portal of India: https://www.gst.gov.in/

1.13 ANSWERS TO CHECK PROGRESS

Answer to Q1: In an indirect tax, the impact (initial payment) falls on the seller, but the incidence (ultimate financial burden) is shifted to the final consumer.

Answer to Q2: Central Excise Duty, Service Tax, and Value Added Tax (VAT).

Answer to Q3: Integrated Goods and Services Tax (IGST) is levied on inter-state supplies.

Answer to Q4: The Union Finance Minister chairs the GST Council.

Answer to Q5: False. Tax evasion is difficult in indirect taxes as the tax is already embedded in the price of the goods or services.

Answer to Q6: a. July b. consumer c. Composition d. Regressive.

1.13 MODEL QUESTIONS

Q1. Define Indirect Tax. How is it different from Direct Tax?
Q2. Distinguish between Direct and Indirect Taxes with suitable examples.
Q3. Give a brief overview of the pre-GST indirect tax structure in India (VAT, Service Tax, Excise). Q4. Explain the "Cascading Effect" of taxes. How has GST addressed this issue?
Q5. Discuss the evolution and need for the introduction of GST in India.
Q6. Explain the Dual GST Model adopted by India.
Q7. Differentiate between CGST, SGST, and IGST. When is IGST applicable?
Q8. Write a short note on the constitution and functions of the GST Council.
Q9. Explain the features and scope of the Composition Scheme under GST.
Q10. What are the major advantages of GST for the Indian economy?

UNIT 2: Pre-GST Indirect Taxes

UNIT STRUCTURE

1.1 Learning Objectives
1.2 Meaning and Definition of Indirect Tax
1.3 Evolution and History of Indirect Tax in India
1.4 Pre-GST Indirect Tax Structure in India
1.5 Need for GST in India
1.6 Advantages of GST over Pre-GST System
1.7 Limitations of Pre-GST Tax System
1.8 Let's Sum Up
1.9 Check Your Progress
1.10 Further Reading

1.1 Learning Objectives

After studying this unit, students should be able to:

1. Define **Indirect tax** and differentiate it from direct tax.
2. Explain the **Evolution of Indirect taxes in India**.
3. Identify major **Pre-GST taxes** (VAT, CST, Excise Duty, Service Tax, Customs Duty).
4. Understand the features, objectives, and limitations of **VAT and CST**.
5. Explain **Central Excise Duty**, concept of manufacture, and CENVAT credit.
6. Describe **Service Tax**, its features, and related issues.
7. Understand **Customs Duty** and its types.
8. Identify the **limitations of the Pre-GST System**.
9. Explain the **Need and Advantages of GST** over the earlier tax system.

1.2 Meaning and Definitionof Indirect Tax

An indirect tax is a tax levied on goods or services, where the burden of tax can be shifted from the person who pays it to another person (usually the consumer).

According to the Institute of Chartered Accountants of India (ICAI):

"Indirect taxes are taxes that are levied on goods and services and are collected by intermediaries from the consumers who ultimately bear the tax burden."

In simple words:

The tax is imposed on one person but its burden is passed on to someone else, usually the consumer

Example:

Sales tax, VAT, Excise duty, Service tax

Features of Indirect Taxes

i. Tax Burden is Transferable
The person who pays the tax to the government can shift the burden to another person, usually the consumer.
ii. Levied on Goods and Services
Indirect taxes are imposed on the production, sale, purchase, or consumption of goods and services.
iii. Collected by Intermediaries
The tax is collected by manufacturers, sellers, or service providers and then paid to the government.
iv. Included in Price
Indirect tax is included in the price of goods or services, so consumers often pay it unknowingly.
v. Regressive in Nature
It affects all consumers equally, regardless of income, and hence places a higher burden on low-income groups.
vi. Convenient to Collect
Collection is easy for the government as it is collected at various stages of production and distribution.
vii. Wide Coverage
Since it is levied on goods and services, it covers a large section of the population.
viii. Inflationary Effect
Increase in indirect taxes may lead to an increase in prices of goods and services.
ix. Promotes Social Welfare (Selective Use)
Higher taxes on harmful goods (like tobacco) can discourage consumption.
x. Major Source of Government Revenue
Indirect taxes contribute significantly to government income.

Direct Tax vs Indirect Tax

Basis	Direct Tax	Indirect Tax
Meaning	Paid directly to govt.	Paid through intermediaries
Burden	Cannot be shifted	Can be shifted
Example	Income Tax,Corporate tax, Property tax	VAT, Excise, Service Tax,GST,Customs duty
Nature	Progressive ((higher income = higher tax)	Regressive (same tax for all)

1.3 Evolution and History of Indirect Tax in India

India has a long history of indirect taxation, evolving from ancient times to a modern unified tax system.Each stage of evolution aimed at improving revenue collection, reducing complexityi.e. maintain simplicity, and promoting economic growth. The introduction of GST marks a historic milestone in India's indirect tax reforms.Here is the brief explanation on the same:-

1. Ancient Period

In ancient India, indirect taxes existed in the form of customs duties, tolls, and market taxes.

References to such taxes are found in Arthashastra by Kautilya, which mentioned taxes on trade, manufacture, and imports.

These taxes were mainly imposed to support the kingdom's administration and defense.

2. Medieval Period

During the medieval era, rulers imposed customs duties, octroi, and trade taxes.

Taxes were levied on goods entering cities and on commercial activities.

The system was unorganized and varied from region to region which created complexity in trade and commerce.

3. British Period (1858–1947)

A structured indirect tax system was introduced during British rule.

Major developments:

Customs duty became a significant source of revenue.

Excise duty was levied on salt, sugar, tobacco, and textiles.

Salt tax was one of the most controversial taxes during this period.

Indirect taxes were mainly designed to serve British economic interests rather than the development of India.

4. Post-Independence Period (1947–1991)

After independence, India retained many indirect taxes introduced by the British.

Major indirect taxes included:

Central Excise Duty

Customs Duty

Sales Tax (levied by State Governments)

Multiple taxes resulted in:

Cascading effect of taxes (tax on tax)

Complex compliance proceduresand increased the cost of goods

5. Reform Period (1991–2016)

Economic reforms of 1991 emphasized simplification and rationalization of indirect taxes.

Key reforms:

Introduction of MODVAT and CENVAT to reduce cascading effect broaden the tax base.

Introduction of Service Tax in 1994.

Despite reforms, the system remained fragmented with multiple central and state taxes.

6. Introduction of GST (From 1 July 2017)

The most significant reform was the introduction of Goods and Services Tax (GST).

GST replaced multiple indirect taxes such as:

Excise Duty

Service Tax

VAT

Entry Tax, Octroi, etc.

Features of GST:

One Nation, One Tax

Removal of cascading effect

Uniform tax structure across the country

Improved tax compliance through technology.

It aims to eliminate the cascading effect of taxes, ensure uniformity, and improve tax compliance.

1.4 Pre-GST Indirect Tax Structure in India

Before GST, multiple indirect taxes were levied by Centre and States, leading to complexity and cascading effect.

Major Pre-GST Taxes

Value Added Tax (VAT)

Central Sales Tax (CST)

Central Excise Duty

Service Tax

Customs Duty

Entry Tax / Octroi

Luxury Tax, Entertainment Tax

1. **Value Added Tax (VAT)**

Introduction and Meaning

Value Added Tax (VAT) was introduced in India in 2005. It is a multi-point system of taxation on the sale of goods, under which tax is levied at each stage of the supply chain. The system provides a mechanism for granting credit of tax paid on inputs. Under VAT, the input tax paid on purchases is set off against the output tax payable on sales. Thus, the net VAT liability is determined by deducting the tax paid on purchases from the tax collected on salesi.e

VAT = Tax collected on sales - Tax paid on purchases

VAT is a multi-point tax levied on the value added at each stage of production or distribution within a state.

One of the primary objectives of Value Added Tax (VAT) is to improve the purchasing power and standard of living of the poorer sections of society. Under the single-point tax system, indirect taxes lead to a cascading effect, resulting in higher prices that disproportionately affect the poor. VAT, by avoiding the cascading effect, does not increase inflation and therefore benefits low-income groups.

Another important objective of VAT is to ensure uniformity in the state-level tax system. India, being a federal country, allows both the Central and State governments to levy and collect taxes. While Central taxes are uniform throughout the country, State taxes such as sales tax, entertainment tax, and State excise duty differ from one State to another. VAT was introduced to bring uniformity among State taxes and to promote a common national market.

Cascading Effect of Tax

The cascading effect of tax refers to a situation where tax is levied at every stage of sale on a value that already includes tax paid at earlier stages, resulting in the final consumer paying tax on previously paid tax.In short,Cascading effect means tax on tax, i.e., tax is levied on a value that already includes tax.

Example

Excise duty included in cost

VAT charged on cost + excise→ Double taxation

Result

Higher prices

Increased burden on consumers

Inefficiency in tax system

Features of Value Added Tax (VAT)

i. Levied by State Governments

VAT was imposed and administered by individual State Governments in India. Each state had the authority to frame its own VAT laws, rates, and procedures, leading to some variation across states.

ii. Applicable Only on Intra-State Sales

VAT was charged only on the sale of goods within the same state. Inter-state sales were outside the scope of VAT and were governed by the Central Sales Tax (CST).

iii. Input Tax Credit (ITC) Available

VAT allowed dealers to claim credit for the tax paid on purchases (inputs). This credit could be adjusted against the VAT payable on sales, thereby reducing the overall tax burden.

iv. Tax Levied at Each Stage of Value Addition

VAT was charged at every stage of the supply chain—manufacturer, wholesaler, and retailer—but only on the value added at that stage.

v. Partial Elimination of Cascading Effect

By allowing input tax credit, VAT reduced the problem of tax-on-tax. However, since VAT applied only to goods and not services, the cascading effect was not completely eliminated.

vi. Multiple VAT Rates

Goods were classified into different categories such as exempt goods, essential goods, standard-rated goods, and luxury or sin goods, each attracting different VAT rates.

vii. Self-Assessment Based System

VAT operated on a self-assessment basis, where dealers calculated their own tax liability and filed returns periodically, subject to audit by tax authorities.

viii. Increased Transparency

VAT required proper invoicing at each stage of sale, which improved transparency and reduced chances of tax evasion.

ix. Encouraged Compliance and Record Keeping

Since input tax credit could be claimed only with valid purchase invoices, dealers were encouraged to maintain proper books of accounts.

x. Restricted Scope

VAT covered only the sale of goods and did not include services, which were taxed separately under Service Tax, leading to fragmentation in the indirect tax system.

Limitations of Value Added Tax (VAT)

i. No credit of central taxes

Under the VAT system, credit was allowed only for state VAT paid on purchases. Taxes levied by the Central Government such as excise duty and service tax were not eligible for input tax credit. This led to partial cascading of taxes and increased the overall tax burden on goods.

ii. Different VAT rates across states

VAT rates varied from state to state since each state had the power to fix its own rates. This lack of uniformity created confusion, compliance difficulties, and encouraged tax arbitrage and trade distortions across state borders.

iii. CST credit not available

Central Sales Tax (CST) paid on inter-state purchases was not eligible for input tax credit under VAT. As a result, inter-state trade became costlier, discouraging free movement of goods and leading to higher prices for consumers.

iv. Cascading effect not fully eliminated

Although VAT reduced the cascading effect at the state level, it did not eliminate it completely because credit of central taxes and CST was not available.

v. Complex compliance procedures

VAT involved multiple registrations, periodic return filing, assessments, and audits at the state level. This increased the compliance burden, especially for small and medium enterprises.

vi. High administrative cost

Implementation and administration of VAT required a strong IT and monitoring system. For many states and small dealers, the cost of administration was relatively high.

vii. Issues in inter-state trade

VAT was applicable only on intra-state sales, while inter-state sales were governed by CST. This dual system created barriers to seamless national trade.

Scope for tax evasion

Despite the input tax credit mechanism, fake invoices and under-reporting of sales were common, reducing the effectiveness of VAT in preventing tax evasion.

Not suitable for a unified national market

Since VAT was a state-level tax with varying rules and rates, it failed to create a truly integrated national market, which later necessitated the introduction of GST.

Rate Structure

Under the Value Added Tax (VAT) system adopted in India before the introduction of GST, different rates of tax were prescribed for different categories of goods. The VAT rate structure was designed to ensure equity, reduce the cascading effect of tax, and protect essential commodities. The main components of the VAT rate structure are explained below:

i. Zero-Rated Goods

Zero-rated goods are those on which VAT is charged at a rate of 0%. Although no tax is collected on the sale of such goods, input tax credit is generally allowed. These goods mainly include items of basic necessity such as fresh fruits and vegetables, milk, and unprocessed food grains.

ii. Exempted Goods

Exempted goods are completely outside the scope of VAT. No VAT is levied on their sale, and input tax credit is not available on the inputs used. Examples include unbranded bread, handloom products, and certain books and educational materials.

iii. Lower Rate of VAT

Goods of mass consumption and essential importance are taxed at a lower rate of VAT, generally ranging between 1%, 2%, 4%, or 5%. This rate is intended to reduce the tax burden on common consumers. Items such as medicines, agricultural implements, capital goods, and mobile phones (in the earlier period) fall under this category.

iv. Standard Rate of VAT

The standard rate of VAT, usually 12.5% or 14.5%, is levied on most goods. This rate constitutes the main source of revenue for state governments. Consumer durables, electrical goods, garments, and footwear are commonly taxed at this rate.

v. Higher Rate of VAT

A higher rate of VAT, generally 20% or more, is imposed on luxury goods and demerit goods. The objective of this higher rate is to discourage the consumption of such goods. Liquor, tobacco products, and certain petroleum products are examples of goods taxed at higher rates.

vi. Special Rates of VAT

Special VAT rates are prescribed for specific commodities and may vary from state to state. Precious metals such as gold and silver, bullion, and precious stones are usually taxed at special lower rates, commonly between 1% and 2%.

2. Central Sales Tax (CST)

Introduction and Meaning

CST was levied on inter-state sale of goods by the Central Government, but collected by states.Central Sales Tax is a tax levied on the sale of goods between two different states. Although it is a central tax, it was collected and retained by the state from which the sale originated.

CST is applicable only when the sale involves the movement of goods from one state to another. Under this tax system, input tax credit is not allowed, which often results in a cascading effect of tax.

Key Features of Central Sales Tax (CST)

i. Central Sales Tax (CST) was levied on inter-state sales of goods, i.e., sales involving the movement of goods from one state to another.

ii. CST was applicable only when there was a physical movement of goods across state boundaries pursuant to a sale.

iii. The tax was levied by the Central Government, but the collection and retention of revenue were carried out by the State Governments.

iv. Input Tax Credit (ITC) was not available under the CST regime, which led to a higher tax burden.

v. CST followed a form-based system to determine tax liability and exemptions, such as Form C, Form F, and Form H.

vi. A concessional rate of 2% was applicable when the purchasing dealer was a registered dealer and issued Form C to the seller.In the absence of Form C, CST was charged at a higher rate, usually equal to the VAT rate applicable in the originating state.

vii. Exports were exempt from CST when supported by Form H.Stock transfers or branch transfers were not treated as sales if supported by Form F.

viii. Since ITC was not allowed, CST resulted in the cascading effect of tax, increasing the final cost of goods.

Limitations of Central Sales Tax (CST)

i. The non-availability of Input Tax Credit increased the overall cost of goods.
ii. CST acted as a barrier to free flow of inter-state trade and commerce within the country.

iii. It led to tax inefficiencies and price distortions, affecting market competitiveness.

iv. The shortcomings of CST were among the major reasons for the introduction of the Goods and Services Tax (GST), which aimed to create a unified and efficient indirect tax system.

3.Central Excise Duty

Introduction and Meaning

Central Excise Duty was an indirect tax levied on the manufacture or production of goods within India. The liability to pay excise duty arose as soon as goods were manufactured, regardless of whether they were sold or not. It was governed by the Central Excise Act, 1944 and was one of the major sources of revenue for the Central Government before the introduction of GST.

While Central Excise Duty played a significant role in indirect tax collection, its limitations such as cascading effect, higher production costs, and complex compliance highlighted the need for a comprehensive tax reform. These shortcomings ultimately led to its subsumption into the Goods and Services Tax (GST) system.

Important Features of Central Excise Duty

i. Levied by the Central Government

Central Excise Duty was imposed and collected by the Central Government and applied uniformly across the country.

ii. Taxable Event – Manufacture

The duty became payable at the stage of manufacture or production of goods, not at the time of sale.

iii. Applicable to Movable Goods

Only excisable, movable goods manufactured within India were subject to excise duty.

iv. CENVAT Credit Facility Available

Manufacturers were allowed to avail credit of excise duty paid on inputs and input services under the CENVAT Credit system, which helped reduce the cascading effect of taxes.

v. Uniform Rate Structure

Rates of excise duty were generally uniform throughout the country, unlike state-level taxes.

Limitations of Central Excise Duty

i. No Credit of VAT on Goods

Credit of Value Added Tax (VAT) paid on goods was not allowed against excise duty, leading to partial cascading of taxes.

ii. Increase in Cost of Production

Due to non-availability of cross-credit between excise duty and VAT, the overall cost of production increased, which ultimately affected consumer prices.

iii. Complex Compliance Procedures

The excise system involved multiple registrations, returns, records, and frequent assessments, making compliance complicated for manufacturers, especially small units.

iv. Narrow Tax Base

Excise duty applied only to manufacturing activities and excluded services, limiting its scope and efficiency.

Concept of Manufacture

The Central Excise Act of 1944 defines "manufacture" as any process that creates a new, distinct, and marketable product from the original raw materials with a different name, character, or use. It includes unit container packing and repacking, labeling, and incidental or ancillary processes.

Key aspects of the concept of manufacture include:
Creation of a New Commodity: The process must produce a distinct, new product for the market (e.g., converting raw materials to finished goods).

Incidental/Ancillary Processes: Manufacturing includes any activity necessary to complete the finished product.

Deemed Manufacture: According to Parliament, some procedures—like packing, repackaging, labelling, or re-labelling containers—are considered to be manufacturing even if they don't significantly change the final product.

Marketability: The final product needs to be able to be purchased and sold in the marketplace.

Non-Manufacturing Activities: Simple procedures that don't alter the nature of the product, like repairing, reconditioning, or adding value without alteration, don't qualify as manufacturing.

Types of Excise Duties

i. Basic Excise Duty (BED)

Levied under the Central Excise Act.

Calculated as a percentage of the value of goods.

Levied on most manufactured goods under the Central Excise Act, 1944

ii. Additional Excise Duty

Levied in place of sales tax/VAT on certain goods.

Shared between Centre and States.

Charged on certain goods, such as textiles or goods in place of sales tax, under the Additional Duties of Excise Act, 1957.

iii. Special Excise Duty

Imposed during emergencies or special revenue needs.

Imposed on specific, often luxury or demerit goods (e.g., tobacco, pan masala) as listed in the Second Schedule of the Central Excise Tariff Act, 1985.

iv. Countervailing Duty (CVD)

Levied on imported goods to counterbalance excise duty on similar domestic goods.

v. Supplementary Duty

Levied on specific goods like petroleum products.

vi. National Calamity Contingent Duty (NCCD): Applied to specific items like cigarettes and pan masala.

Other Classifications include:

i. Ad Valorem Duty: Tax calculated as a percentage of the value of the product.

ii. Specific Duty: Tax calculated based on the quantity or volume of the product

Tariff Structure under Excise

The tariff structure under excise duty is governed by the Central Excise Tariff Act. This Act provides a systematic framework for classifying excisable goods and prescribing applicable duty rates.

Classification of Goods

Excisable goods are classified in a hierarchical manner:

Chapters – Broad categories of goods

Headings – Sub-classification within chapters

Sub-headings – Detailed classification of specific products

Each product must be correctly placed in the appropriate chapter, heading, and sub-heading.

Types of Tariff Rates

Every classified product is assigned a specific rate of duty, which may be:

i. Specific Rate – It is calculated as a percentage of the value of the excisable goods and is a charged based on quantity (e.g., ₹10 per kg, ₹5 per litre)

ii. Ad Valorem Rate –It is calculated as a percentage of the value of the excisable goods.It is basically duty charged as a percentage of value (e.g., 12% of assessable value)

iii. Compound (or Mixed) Rate: It is a combination of both ad valorem and specific duties. It involves a percentage of the product's value plus a fixed amount per unit.

Importance of Proper Classification

Correct classification is essential because it:

Determines the rate of excise duty applicable

Decides eligibility for exemptions, concessions, or rebates

Helps avoid disputes, penalties, and litigation

4.CENVAT Rules (Conceptual Overview)

CENVAT stands for Central Value Added Tax. It was a credit mechanism under the excise and service tax regime to avoid double taxation.

Scope of CENVAT Credit

Manufacturers were allowed to claim credit of excise duty or service tax paid on:

Inputs (raw materials, components)

Capital Goods (machinery, equipment)

Input Services (transport, advertising, consultancy, etc.)

Key Features

Prevented the cascading effect of taxes

Allowed credit to be adjusted against output excise duty

Required proper records, invoices, and documentation

Credit was not allowed on exempted goods or services

Current Status

CENVAT has been abolished and replaced by the Input Tax Credit (ITC) mechanism under GST, which provides a unified credit system.

5. Valuation of Excisable Goods

Excise duty was generally charged on the transaction value of goods, i.e., the value at which goods are sold for delivery at the time and place of removal.

Components Included in Transaction Value are:

i. Price actually paid or payable by the buyer

ii. Packing charges necessary for sale

iii. Commission, advertising, and marketing expenses (if related to sale)

Components Excluded are:

i. Excise duty itself

ii. GST or VAT

iii. Trade discounts, provided they are clearly shown on the invoice

Correct determination of transaction value ensures accurate duty calculation.

Valuation Challenges under Excise

Valuation under excise often involved practical and legal difficulties, such as:

Major Challengesare-

i. Related party transactions may result in undervaluation

ii. Free supplies by buyers complicate cost determination

iii. Captive consumption (goods used within the factory) has no sale price

iv. Job work arrangements create confusion regarding the manufacturer and assessable value

v. Discounts and incentives may be disputed by tax authorities

Importance of Proper Valuation

Accurate valuation is crucial to the following:

i. Avoid penalties and interest

ii. Prevent prolonged litigation

iii. Ensure correct and lawful payment of excise duty

6.Service Tax

Introduction and Meaning

With the expansion of the service sector in the Indian economy, the government recognized the need to tax services as a source of revenue. Service Tax was introduced to bring services within the indirect tax net and to ensure a broader and more equitable tax base.Service tax was levied on specified services provided in India.Service Tax was an indirect tax levied on specified services provided or agreed to be provided in India. The tax burden was borne by the consumer, while the responsibility for collection and payment rested with the service provider.

Emergence and Growth

Service Tax was introduced in India in 1994 under the Finance Act, initially covering only three services. Over time, its scope widened significantly as more services were added. The tax was administered and collected by the Government of India through the Central Board of Excise and Customs (CBEC, now CBIC).

Service Tax continued until 30 June 2017, after which it was subsumed into the Goods and Services Tax (GST) regime.

Features

i. Levied by the Central Government

Service Tax was a central levy, applicable uniformly across India.

ii. Tax on Provision of Services

It was imposed on the activity of providing services, not on goods.

iii. Destination-Based Tax

The tax burden ultimately fell on the final consumer of services.

iv. Multi-stage Levy with Credit Mechanism

Tax was collected at various stages of service provision, with credit available for taxes already paid on inputs and input services.

v. CENVAT Credit Available

Service providers could avail credit of taxes paid on inputs and input services, reducing cascading of taxes.

Positive List of Services (Initial Phase)

Under the positive list system, Service Tax was levied only on services specifically mentioned in the law.

Any service not listed was not taxable.

This system led to frequent amendments as new services emerged.

It also resulted in ambiguity and litigation due to narrow definitions.

Negative List of Services (Later Phase)

To simplify taxation, the negative list approach was introduced in 2012.

Meaning

Under this system, all services were taxable, except those specifically mentioned in the negative list.

Examples of Negative List Services

Services by the government or local authorities (excluding commercial services)

Services relating to agriculture

Educational services

Health care services

Advantages

Broader tax base

Reduced classification disputes

Simpler and more comprehensive coverage.

7. CENVAT Credit System

Meaning

The CENVAT (Central Value Added Tax) Credit system is a mechanism under Service Tax in India that allows a service provider to set off the Service Tax paid on inputs and input services against the Service Tax payable on output services. This system ensured that tax is levied only on the value added at each stage of service provision. It eliminates the “cascading effect” (tax on tax), reducing production costs.

Key Aspects of CENVAT Credit:

i. Purpose: The CENVAT credit mechanism aims to eliminate double taxation by allowing taxpayers to claim credit for duties and taxes already paid on inputs used in production or service provision.

ii. Eligible Items: Credit is available on inputs such as raw materials and packing materials, capital goods like machinery and equipment, and input services that are used in providing taxable output.

iii. Utilization: The accumulated credit can be used to discharge excise duty on manufactured final products or service tax on output services.

iv. Rules: The system was regulated by the CENVAT Credit Rules, 2004 (effective until 2017) and replaced the earlier MODVAT scheme.

v. Refund: When credit cannot be utilized against output tax liability, particularly in the case of exports, the unutilized credit may be claimed as a refund.

Objectives of CENVAT Credit

i. Avoidance of Cascading Effect of Taxes

The primary objective of CENVAT credit was to prevent the levy of tax on tax by allowing credit of taxes already paid on inputs and input services.

ii. Reduction in Overall Tax Burden

By permitting set-off, the effective tax incidence on service providers was reduced, resulting in lower costs and more competitive pricing of services.

iii. Ensuring Tax Neutrality

The system ensured that taxation did not influence business decisions regarding sourcing of inputs or services, thereby maintaining neutrality in the production and service chain.

Limitations of CENVAT Credit System

i. Complex Rules and Documentation

The provisions relating to CENVAT credit were highly technical, requiring strict documentation, detailed records, and regular reconciliation.

ii. Restrictions on Inputs and Input Services

Credit was not allowed on certain specified inputs and services, leading to partial denial of credit and increased cost for service providers.

iii. Frequent Disputes on Eligibility

Differences in interpretation between taxpayers and tax authorities often resulted in disputes regarding the admissibility of credit, leading to litigation.

Issues and Challenges of Service Tax

i. Overlapping with VAT

Service Tax frequently overlapped with State Value Added Tax (VAT), particularly in the case of composite transactions involving both goods and services.

Major Areas of Overlap

Works contracts, where supply of goods and provision of services were inseparable

Restaurant and catering services, involving both food (goods) and service elements

This overlap led to double taxation, as the same transaction was subjected to Service Tax by the Central Government and VAT by State Governments, increasing the tax burden on consumers.

ii. Classification Issues

One of the most significant challenges under Service Tax was the classification of transactions.

Difficulty in determining whether a transaction constituted a service, sale of goods, or a composite contract

Similar services being taxed differently due to varying interpretations by authorities

Frequent amendments and unclear definitions aggravated the problem

These issues resulted in uncertainty, litigation, and lack of clarity for taxpayers.

Following are the key Classification Issues in Service Tax:

Composite/Bundled Services: Determining whether a number of services are "naturally bundled" (taxed according to the primary service) or artificially separated (taxed at the maximal rate).

General vs. Specific Description: Conflicts occur when a service falls into a broad category but there is a more specialized, though disputed, category (e.g., differentiating between "Management Consultant" and "Business Auxiliary Service").

Ownership vs. Service Usage: Distinguishing between leasing (for example, renting an e-bike) and offering a service using that equipment.

Similar Service Overlaps: Misunderstandings between related services, like cleaning services versus site formation, or Mandap Keepers versus Convention Services. "Principal" versus " ancillary.

Services: In complex contracts, it is common to misclassify an ancillary service as the primary service or vice versa.

Compliance Burden

Service Tax compliance imposed a substantial burden on service providers.

Requirement of multiple registrations for operations in different locations

Complex return filing procedures and frequent audits

Frequent changes in tax rates, exemptions, and procedures, making compliance difficult

This increased administrative costs and reduced ease of doing business.

8.Customs Duty

Introduction and Meaning

The term Customs has derived its essence from the Custom, which means a customary practice or any course of action that is observed and repeated in the like circumstances. Customs Duty has been in Vogue from ancient times.

In the present time, customs duty means a tax which is levied by the Government on import of goods in India and export out of India. It is a central tax and mainly imposed on imported goods. Basically government levies export duty on a very few items due to export promotion.

In short,Customs duty is an indirect tax levied by the Central Government on goods imported into or exported from a country. In India, customs duty is mainly imposed on imports to protect domestic industries and generate revenue.

Basis of Determination of Customs Duty

Customs Duty on imports and exports may be determined on the following bases:

i. Ad Valorem Duty

When the duty is levied on the basis of the value of the goods, it is known as Ad Valorem Duty. The amount of duty payable varies according to the value of the goods.

ii. Specific Duty

When the duty is levied on the basis of quantity, weight, volume, or measurement of goods, it is called Specific Duty. The value of goods is not relevant under this method.

Main Features of Customs Duty

Customs Duty is a tax on the import and export of goods. It is levied, collected, and utilized by the Central Government of India. The main features of customs duty are as follows:

i. Duty on Import and Export

Customs Duty is an indirect tax imposed by the Central Government on goods imported into or exported from India. It plays an important role in foreign trade and is a major source of revenue as well as a regulatory instrument for controlling imports and exports.

Customs Duty is levied on:

Goods imported from outside India (Import Duty)

Goods exported from India to other countries (Export Duty)

ii.Levy of Customs Duty

Based on the nature of transactions, customs duty may be classified as:

Import Duty: Duty payable on goods imported into India from foreign countries.

Export Duty: Duty payable on goods exported from India to other countries.

iii. Indirect Tax

Customs Duty is an indirect tax, as the burden of tax can be shifted to the consumer. Import duty is generally higher than export duty.

iv. Goods under the Customs Act

Customs Duty is levied on goods as defined under Section 12 read with Section 2(22) of the Customs Act. The term goods includes:

Vessels, aircraft, and vehicles

Stores

Baggage

Currency and negotiable instruments

Any other kind of movable property

Objectives of Customs Duty

The primary objective of customs duty is to raise revenue for the government. In addition, it serves several other purposes:

i. Regulation of imports and exports

ii. Conservation of foreign exchange

iii. Regulation of supply of goods in the domestic market

iv. Protection of domestic industries from foreign competition

v. Export duties are also levied to regulate exports when required.

vi. To promote indigenous production

vii. Important Source of Revenue

Initially, customs duty rates were very low (around 5%). After independence, due to scarcity of foreign exchange and the need to protect domestic industries, customs duty rates were increased. Additional levies such as auxiliary duty and countervailing duty were also introduced.

Rates of Customs Duty

Customs Duty has been widely used not only to generate revenue but also to protect domestic industries. Although the duty started at a low rate, at one stage the total burden of customs duty reached very high levels, sometimes exceeding 100%, and in certain cases even 200% to 300%.

Customs Duty ranks second after Central Excise Duty among indirect taxes levied by the Central Government. It is an important component of India's indirect tax system

Types of Customs Duties

i. Basic Customs Duty (BCD)

Meaning

Basic Customs Duty is the primary duty levied on imported goods under the Customs Act, 1962.Basic Customs duty is levied on the value of the goods is fixed in accordance with the provisions of Sec. 14 of the Act. Features

Charged on the assessable value of imported goods

Rates are prescribed in the Customs Tariff Act

Applicable to almost all imported goods

Collected at the time of import

Purpose

Protects domestic industries

Acts as a source of government revenue

ii. Countervailing Duty (CVD)

Meaning

Countervailing Duty was levied on imported goods to counterbalance the excise duty payable on similar goods manufactured in India.

Features

Imposed to ensure tax parity between imported and domestic goods

Rate was equal to the central excise duty on similar goods in India

Prevented imported goods from gaining an unfair price advantage

Note

CVD was subsumed under GST with effect from 1 July 2017.

iii. Special Additional Duty (SAD)

Meaning

Special Additional Duty was imposed on imports to counterbalance VAT or sales tax levied on domestic goods.The main aim of the Additional Duty is to counter-balance sales tax, VAT, local tax or other charges leviable on articles on its sale, purchase or transaction in India

Features

Generally levied at a fixed rate

Prevented discrimination between imported and locally sold goods

Refundable under certain conditions

Note:

SAD was also abolished after the introduction of GST.

iv. Additional Custom Duty (ACD)

If an article which is produced in India is imported then an additional customs duty will be levied on it. This duty will be equal to the excise duty leviable on that article in India. Where a like article is not manufactured in India, the duty would be liviable on the class of articles to which the imported article belongs. Where such duty is leivable at different rates, the highest duty shall be levied.

v. Countervailing Duty (CVD)

This levy has use when goods manufactured indigenously are exempt from excise duty. In such case, the indigenous manufacturer will be loser to the extent of duty paid on inputs. This duty paid on his inputs is lost as final product is exempt from duty. This becomes additional cost to indigenous manufacturer. On the other hand, the imported goods do not have to pay CVD as the product is exempt from duty.

vi. Anti-Dumping Duty

Meaning

Anti-dumping duty is imposed on imported goods that are sold at a price lower than their normal value in the exporting country.

Where any article is exported from any country into India at less than its normal value, then, upon the importation of such article in India, the Central Government may impose an antidumping duty not exceeding the margin of dumping in relation to such article.

This duty shall be in addition to other custom duties.

Features of Anti-Dumping Duty

a.Imposed to protect domestic industries from unfair trade practices

When foreign companies export goods at very low prices (sometimes even below their cost of production), domestic industries may suffer heavy losses. Anti-dumping duty is imposed to protect local producers from such unfair competition.

b.Levied for a specific period

Anti-dumping duty is not permanent. It is imposed only for a limited time after proper investigation. The duty remains in force as long as the dumping and its harmful effects continue.

c. Country-specific and product-specific

The duty applies only to a particular product and only to the country found guilty of dumping. It is not imposed on all imports or on all countries.

Purpose of Anti-Dumping Duty

a.Prevents dumping

Dumping occurs when goods are exported at a price lower than their normal value (usually lower than the price in the exporter’s home market). Anti-dumping duty prevents such unfair pricing practices.

b. Ensures fair competition in the domestic market

By neutralizing the unfair price advantage of dumped goods, anti-dumping duty creates a level playing field. This allows domestic industries to compete fairly in the market.

In simple terms, Anti-Dumping Duty protects domestic industries from unfair foreign competition and promotes fair trade practices.

1.5 Need for GST in India

GST was introduced to overcome the defects of the pre-GST system.

Reasons for GST

i. To remove cascading effect

ii. To create a single national market

iii. To ensure seamless tax credit

iv. To simplify tax structure

v. To increase transparency and compliance

Dual GST Model in India

India follows a Dual GST Model, meaning both Centre and States levy GST.

Components

CGST – Central GST

SGST – State GST

IGST – Inter-State GST

UTGST – Union Territory GST

GST Council

The GST Council is the highest decision-making body for GST in India.

Composition

Union Finance Minister (Chairperson)

State Finance Ministers

Functions

Recommends GST rates

Exemptions and thresholds

Model GST laws

Resolves disputes

GST Schemes

Composition Scheme

For small taxpayers

Lower tax rate

No input tax credit

Limited compliance

Regular Scheme

Normal taxpayers

Full ITC available

Higher compliance

1.6 Advantages of GST over Pre-GST System

i. One Nation, One Tax

Before GST, different states charged different taxes such as VAT, entry tax, octroi, etc., along with central taxes like excise and service tax. This created a complex system. GST combined most indirect taxes into a single tax structure, making taxation uniform across the country and creating a common national market.

ii. Elimination of Cascading Effect

Earlier, tax was imposed on top of an already taxed amount (tax on tax). For example, excise duty was added to the cost, and then VAT was charged on the total including excise. GST removes this cascading effect because tax is charged only on the value added at each stage.

iii. Uniform Tax Rates

Under GST, the same tax rates apply across all states for the same goods and services. This prevents price differences due to state-level taxes and ensures consistency in the tax system.

iv. Seamless Input Tax Credit (ITC)

Businesses can claim credit for the GST paid on purchases (inputs) and deduct it from the GST collected on sales (output). This reduces the overall tax burden and avoids double taxation.

v. Lower Cost of Goods

Since GST removes multiple taxes and allows input tax credit, the overall tax burden decreases. This can reduce production costs, which may lead to lower prices for consumers.

vi. Improved Ease of Doing Business

GST simplifies the tax process with online registration, filing, and payment systems. A uniform tax structure across India reduces compliance difficulties and makes it easier for businesses to operate.

1.7 Limitations of Pre-GST Tax System

i. Multiple Taxes at Different Levels

Before GST, both Central and State governments imposed different taxes such as excise duty, service tax, VAT, entry tax, luxury tax, etc. These taxes were charged at different stages of production and distribution, making the system complicated and burdensome for businesses.

ii.Lack of Uniformity Across States

Each state had its own tax rates and rules, especially for VAT. This meant the same product could be taxed differently in different states. It created confusion, price differences, and barriers to smooth interstate trade.

iii.Cascading Effect of Taxes

The old system led to “tax on tax.” For example, VAT was charged on a value that already included excise duty. Because of this cascading effect, the final price of goods increased, and consumers had to bear a higher cost.

iv. Complex Compliance Procedures

Businesses had to register separately and file different returns for each tax. There were multiple authorities and a lot of paperwork involved. This increased administrative burden and compliance costs.

v.High Cost of Goods and Services

Due to multiple taxes and the cascading effect, the overall tax burden was high. This increased production costs, which ultimately raised the prices of goods and services for consumers.

vi.Restricted Input Tax Credit

Input tax credit was limited and could not always be adjusted across different taxes. For example, credit of one type of tax could not be used to pay another type. This increased the effective tax burden on businesses.

1.8Let’s Sum Up

i. Indirect tax is a tax on goods and services where the burden is shifted to the consumer. Before GST, India had multiple indirect taxes such as VAT, CST, Central Excise Duty, Service Tax, and Customs Duty, levied by the Centre and States.

ii. The pre-GST system suffered from major problems like cascading effect (tax on tax), lack of uniformity, complex compliance, and restricted input tax credit.

iii. To overcome these issues, GST was introduced on 1 July 2017 as a unified tax system. It removed cascading effect, ensured seamless input tax credit, created a single national market, and simplified the indirect tax structure.

iv. The pre-GST indirect tax system in India was complex, fragmented, and inefficient. Multiple taxes, lack of coordination between Centre and States, and cascading effect increased the tax burden. GST was introduced as a comprehensive reform to simplify the indirect tax structure and promote economic growth.

1.9 Check Your Progress

PART A: Multiple Choice Questions (MCQs)

1. An indirect tax is a tax whose burden:

a) Cannot be shifted

b) Is borne by the government

c) Can be shifted to another person

d) Is paid only by companies

Answer: c

2. VAT was introduced in India in:

a) 1991

b) 2000

c) 2005

d) 2012

Answer: c

3. VAT was levied on:

a) Income

b) Manufacture only

c) Intra-state sale of goods

d) Inter-state services

Answer: c

4. CST was levied on:

a) Intra-state sales

b) Inter-state sales

c) Imports only

d) Services only

Answer: b

5. The taxable event under Central Excise Duty was:

a) Sale

b) Manufacture

c) Purchase

d) Export

Answer: b

6. CENVAT credit was available on:

a) Personal expenses

b) Exempt goods

c) Inputs and input services

d) Agricultural income

Answer: c

7. Service Tax was introduced in:

a) 1994

b) 2005

c) 2010

d) 2017

Answer: a

8. Anti-dumping duty is imposed to:

a) Increase exports

b) Protect domestic industries

c) Promote imports

d) Reduce inflation

Answer: b

9. Cascading effect means:

a) Double taxation

b) Tax on tax

c) Tax rebate

d) Tax refund

Answer: b

10. GST was introduced in India on:

a) 1 April 2016

b) 1 July 2017

c) 1 April 2018

d) 1 January 2017

Answer: b

PART B: Short Answer Questions (3–5 Marks)

1. Define indirect tax and state its main features.

2.Distinguish between direct tax and indirect tax.

3.What is the cascading effect of tax?

4.Explain the concept of Input Tax Credit under VAT.

5.What is Central Sales Tax (CST)?

6.Define manufacture under Central Excise Law.

7.State any four limitations of VAT.

8.What is CENVAT credit?

9.Mention the objectives of Customs Duty.

10.State the need for introduction of GST in India.

11.What is the difference between Ad Valorem Duty and Specific Duty?

12.Write a short note on Anti-Dumping Duty.

13.What were the major problems of the pre-GST tax system?

14.Explain the Negative List concept under Service Tax.

15.What is Basic Customs Duty (BCD)?

PART C: Long Answer Questions (8–15 Marks)

1.Explain the meaning, features, and advantages of indirect taxes.

2.Describe the evolution of indirect taxation in India.

3.Discuss the features, objectives, and limitations of VAT.

4.Explain Central Sales Tax (CST) and its limitations.

5.Discuss Central Excise Duty, including the concept of manufacture and CENVAT credit.

6.Explain Service Tax, its features, and major issues faced under the system.

7.Describe Customs Duty and explain its various types.

8.Discuss the limitations of the pre-GST indirect tax system in India.

9.Explain the need for GST and its advantages over the pre-GST tax structure.

10.Explain the Dual GST Model in India and the role of the GST Council.

11.Discuss the cascading effect under the pre-GST regime with suitable examples.

12.Explain valuation of excisable goods and challenges involved.

1.10 Further Reading

1. **The Central Excise Act, 1944** – Bare Act and amendments relating to levy and collection of excise duty.
2. **The Customs Act, 1962** – Legal provisions relating to import and export duties in India.
3. **The Central Sales Tax Act, 1956** – Provisions governing inter-state sale of goods.
4. **The Finance Act, 1994** – Legislative framework for levy of Service Tax in India.
5. **CENVAT Credit Rules, 2004** – Detailed rules relating to availment and utilization of CENVAT credit.
6. **Report of the Kelkar Task Force on Indirect Taxes (2002)** – Recommendations for indirect tax reforms in India.
7. **Empowered Committee of State Finance Ministers – First Discussion Paper on GST (2009)** – Background and framework for GST implementation.
8. **The Constitution (One Hundred and First Amendment) Act, 2016** – Constitutional amendment paving the way for GST.
9. Government of India publications on **Indirect Tax Reforms in India** (Ministry of Finance reports).
10. Textbooks on Indirect Taxes and GST by reputed authors such as:

- Dr. Girish Ahuja & Dr. Ravi Gupta – *Indirect Taxes (GST & Customs Law)*
- B.B. Lal – *Indirect Taxes including GST*

11. Annual Economic Survey of India – Chapters relating to tax reforms and GST transition.
12. Official website of the Central Board of Indirect Taxes and Customs (CBIC) for notifications, circulars, and updates.

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UNIT 3: GST STRUCTURE & KEY DEFINITIONS

UNIT STRUCTURE

3.1 Learning Objectives

3.2 Introduction

3.3Structure of GST

3.4 Concept of Supply

3.5 Key Definitions under GST

3.6 Composite and Mixed Supply

3.7 Types of GST Taxpayers

3.8 Taxable Event in GST

3.9 Exempt, Zero-Rated and Non-Taxable Supply

3.10 Check Your Progress

3.11 Let Us Sum Up

3.12 Answers to Check Your Progress

3.13 Further Reading

3.14 Model Questions

3.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

• Explain the structural framework of GST in India.

• Understand the concept of supply as the foundation of GST.

• Identify and explain the taxable event under GST.

• Interpret important statutory definitions under the CGST Act.

• Differentiate between goods and services in practical situations.

• Distinguish composite supply from mixed supply.

• Classify different types of GST taxpayers.

• Differentiate exempt, zero-rated and non-taxable supplies.

3.2 INTRODUCTION

The Goods and Services Tax (GST) is one of the most significant reforms in the history of indirect taxation in India. Before the introduction of GST on 1st July 2017, India had a complex and multi-layered indirect tax system. The Central Government levied taxes such as Central Excise Duty and Service Tax, while the State Governments imposed Value Added Tax (VAT), Entry Tax, Luxury Tax and several other local taxes. This multiplicity of taxes created confusion, increased compliance burden and led to cascading effect of taxation, where tax was charged on tax.

GST was introduced to remove these inefficiencies and to establish a unified tax structure across the country. It is a destination-based tax, which means tax is collected by the state where goods or services are consumed rather than where they are produced. GST ensures seamless flow of input tax credit throughout the supply chain, thereby reducing the overall tax burden on the final consumer.

One of the most important features of GST is that it introduced a single taxable event known as 'supply'. Under the earlier regime, manufacture was taxed under excise law, sale was taxed under VAT law and services were taxed under service tax law. GST unified these concepts by making supply the basis of taxation. Therefore, understanding the concept of supply and related definitions is essential for B.Com students studying indirect taxation.

3.3 CONCEPT OF SUPPLY

India follows a dual GST model. Under this model, tax is levied by both Central and State Governments simultaneously on a common base.

CGST (Central Goods and Services Tax) is levied by the Central Government on intra-State supplies of goods and services.

SGST (State Goods and Services Tax) is levied by the State Government on intra-State supplies.

IGST (Integrated Goods and Services Tax) is levied by the Central Government on inter-State supplies and imports.

For example, if a trader in Assam sells goods within Assam, CGST and SGST will be charged. If the trader sells goods to another state, IGST will be charged. This mechanism ensures smooth credit transfer between states and avoids tax cascading.

3.4 CONCEPT OF SUPPLY

Section 7 of the CGST Act defines supply in an inclusive manner. Supply includes all forms of supply of goods or services such as sale, transfer, barter, exchange, license, rental, lease or disposal made for consideration in the course or furtherance of business.

The term consideration includes any payment made or to be made in money or otherwise in respect of supply. However, certain transactions even without consideration are treated as supply under Schedule I, such as permanent transfer of business assets where input tax credit has been availed.

Schedule II clarifies whether a particular transaction is supply of goods or supply of services. For example, transfer of title in goods is treated as supply of goods, whereas renting of immovable property is treated as supply of services.

Schedule III lists activities which are neither supply of goods nor services. For instance, services by an employee to employer in the course of employment are not treated as supply.

The essential elements of supply are:

• There must be goods or services or both.

• There must be consideration, except in specified cases.

• The supply must be in the course or furtherance of business.

• The activity must not fall under Schedule III exclusions.

Thus, supply is the foundation of GST and determines tax liability.

3.5 KEY DEFINITIONS UNDER GST

3.5.1 Adjudicating Authority:

The term Adjudicating Authority refers to any authority appointed or authorized to pass any order or decision under the GST Act. In simple terms, it is the authority responsible for deciding disputes, determining tax liability, imposing penalties, and issuing orders under the Act.

However, the definition specifically excludes certain bodies such as:

- The Central Board of Indirect Taxes and Customs (CBIC)
- The Appellate Authority
- The Appellate Tribunal
- The Authority for Advance Ruling

This distinction is important because adjudicating authorities function at the primary level of decision-making, whereas appellate authorities review decisions made by adjudicating authorities.

The role of the adjudicating authority becomes significant in cases involving tax disputes, incorrect input tax credit claims, short payment of tax, or violation of GST provisions. Their decisions form the basis for further appeal proceedings.

3.5.2 Agent:

Agent is a person who carries on the business of supply or receipt of goods or services on behalf of another person, known as the principal.

Agents may include:

- Commission agents
- Brokers
- Auctioneers
- Consignment agents
- Del credere agents

Under GST, transactions between principal and agent are specifically recognized. In certain cases, even supply of goods between principal and agent without consideration may be treated as supply under Schedule I.

The concept of agent is important because GST liability may arise at different stages in agency transactions. The law ensures that supplies made through agents are properly accounted for and taxed.

3.5.3 Aggregate Turnover:

Aggregate Turnover means the total value of all taxable supplies, exempt supplies, exports of goods or services and inter-State supplies made by a person having the same PAN, computed on an all-India basis. It excludes the value of CGST, SGST, IGST and cess. Aggregate turnover is important for determining the requirement of GST registration and eligibility for the composition scheme.

3.5.4 Agriculturist:

Agriculturist means an individual or a Hindu Undivided Family (HUF) who undertakes cultivation of land:

- By own labor, or
- By the labor of family members, or
- By hired labor under personal supervision.

Agricultural activities occupy a special position under GST. In general, supply of agricultural produce directly by an agriculturist is exempt from GST, subject to prescribed conditions.

The rationale behind granting exemption to agriculturists is to protect the agricultural sector and prevent additional tax burden on farmers. However, if agricultural produce undergoes processing beyond basic operations, GST may become applicable.

Thus, the definition of agriculturist determines whether a person is liable to register under GST or eligible for exemption

3.5.5Business:

The term Business under GST is defined in a very wide and inclusive manner. It includes:

- Trade
- Commerce
- Manufacture
- Profession
- Vocation

- Adventure or similar activity

Importantly, the definition states that business includes such activities whether or not they are carried out for pecuniary benefit. This means even non-profit organizations, clubs and associations may fall under the definition of business if they supply goods or services.

The definition also includes:

- Incidental or ancillary activities
- Activities by clubs, societies or associations
- Admission of persons to facilities for consideration

3.5.6 Business Vertical:

A Business Vertical means a distinguishable component of an enterprise that is engaged in supplying specific goods or services and is subject to risks and returns different from other business components. In simple terms, if a company has different divisions operating independently (for example, manufacturing division and service division), each may be considered a business vertical.

Earlier, this concept was relevant for obtaining separate GST registrations for different verticals within the same state. Although the law has been amended and the concept has reduced practical relevance, it remains important for academic understanding of organizational structure under GST. Business vertical classification helps in better accounting, risk management and tax compliance.

3.5.7 Capital Goods:

Capital goods are goods whose value is capitalized in the books of account of the person claiming input tax credit and which are used or intended to be used in the course or furtherance of business. Input tax credit on capital goods is allowed subject to conditions.

3.5.8 Goods:

Goods mean every kind of movable property other than money and securities but include actionable claims, growing crops, grass and things attached to or forming part of land which are agreed to be severed before supply. The definition emphasizes movability as a key characteristic.

3.5.9 Services:

Services mean anything other than goods, money and securities but include activities relating to the use of money for consideration. Thus, services cover a wide range of intangible activities such as professional services, banking, insurance, transportation and digital services.

3.5.10 Supply:

Supply is the taxable event under GST. As per Section 7 of the CGST Act, supply includes all forms of supply of goods or services such as sale, transfer, barter, exchange, license, rental, lease or disposal made for consideration in the course or furtherance of business.

Certain transactions made without consideration are also treated as supply as specified in Schedule I of the Act. Activities listed in Schedule III are neither supply of goods nor services.

3.6 COMPOSITE AND MIXED SUPPLY

Composite supply refers to a supply consisting of two or more taxable supplies which are naturally bundled and supplied in conjunction with each other in the ordinary course of business, one of which is a principal supply. The tax rate applicable to the principal supply applies to the entire transaction.

Mixed supply refers to two or more individual supplies of goods or services made together for a single price, which are not naturally bundled. In such cases, the highest rate of tax applicable to any of the items in the package is charged.

3.7 TYPES OF GST TAXPAYERS

GST classifies taxpayers into various categories depending upon the nature and scale of business operations.

• Regular Taxpayer: A person registered under normal scheme and eligible to claim input tax credit.

• Composition Taxpayer: A small taxpayer opting to pay tax at prescribed lower rate without input tax credit, subject to turnover limits.

• Casual Taxable Person: A person supplying occasionally without fixed place of business in taxable territory.

• Non-Resident Taxable Person: A person residing outside India but occasionally undertaking taxable supply in India.

• E-Commerce Operator: A person who owns, operates or manages digital platform facilitating supply of goods or services.

• Input Service Distributor: An office of supplier which distributes input tax credit to its branches.

3.8 TAXABLE EVENT IN GST

Under the pre-GST regime, different taxable events existed such as manufacture under Central Excise, sale under VAT, and provision of service under Service Tax. GST has unified these concepts and introduced 'supply' as the single taxable event.

Tax liability under GST arises at the time of supply, as determined by the provisions relating to time of supply. Therefore, once a transaction qualifies as supply under Section 7, GST becomes leviable subject to other conditions such as place of supply and valuation.

3.9 EXEMPT, ZERO-RATED AND NON-TAXABLE SUPPLY

- Exempt supply refers to supply of goods or services which attract nil rate of tax or are wholly exempt from tax under Section 11 of CGST Act or Section 6 of IGST Act.
- Zero-rated supply includes export of goods or services and supply to Special Economic Zone (SEZ) units or developers. Such supplies are taxable but at zero rate and allow full input tax credit.
- Non-taxable supply refers to supply of goods or services which are not leviable to GST at all. These supplies fall completely outside GST charging provisions.

3.10 CHECK YOUR PROGRESS

Q1. Explain the objectives behind introduction of GST.

Q2. Describe the constitutional amendment that enabled GST.

Q3. Explain the dual structure of GST in India.

Q4. Define supply and explain its essential elements.

Q5. What is taxable event under GST?

Q6. Define business under GST.

Q7. Explain aggregate turnover and its significance.

Q8. Differentiate composite supply and mixed supply.

Q9. Differentiate exempt, zero-rated and non-taxable supply.

Q10. Fill in the blanks:

(i) GST was introduced on _____.

(ii) The taxable event under GST is _____.

(iii) IGST is levied on _____ supplies.

(iv) Capital goods must be _____ in the books of account.

(v) Export of goods is treated as _____ supply.

3.11 LET US SUM UP

- Concept of Supply – Meaning and scope of supply under GST, including goods, services, and taxable events.
- Important Authorities & Persons – Adjudicating authority, agent, agriculturist, casual taxable person, and different types of GST taxpayers.
- Key Business Terms – Definitions of business, business vertical, capital goods, goods, services, and supply.
- Turnover Concepts – Meaning and calculation of aggregate turnover and its relevance under GST.
- Types of Supply – Composite supply and mixed supply and their tax implications.
- Nature of Supplies under GST – Difference between exempt supply, zero-rated supply, and non-taxable supply
-

3.12 ANSWERS TO CHECK YOUR PROGRESS

Answer to Q1: GST was introduced to remove cascading effect of taxes, simplify tax structure, create unified national market and ensure seamless input tax credit.

Answer to Q2: GST was enabled through the Constitution (One Hundred and First Amendment) Act, 2016 which inserted Articles 246A, 269A and 279A.

Answer to Q3: India follows a dual GST model where CGST and SGST apply on intra-State supplies and IGST applies on inter-State supplies.

Answer to Q4: Supply includes sale, transfer, barter, exchange, lease or disposal of goods or services for consideration in the course or furtherance of business.

Answer to Q5: The taxable event under GST is supply of goods or services or both.

Answer to Q6: Business includes trade, commerce, manufacture, profession or similar activity whether or not for profit including incidental activities.

Answer to Q7: Aggregate turnover is the total value of taxable, exempt, export and inter-State supplies having same PAN computed on all-India basis excluding taxes.

Answer to Q8: Composite supply consists of naturally bundled supplies where principal supply rate applies, whereas mixed supply consists of independent supplies where highest rate applies.

Answer to Q9: Exempt supply attracts nil rate, zero-rated supply includes exports with ITC benefit, and non-taxable supply is not leviable to GST.

Answer to Q10:

(i) 1st July 2017

(ii) Supply

(iii) Inter-State

(iv) Capitalized

(v) Zero-rated

3.13 FURTHER READING

- Ahuja, G. K., & Gupta, R. (2023). Systematic approach to goods and services tax (GST). Bharat Law House.
- Bansal, K. M. (2023). GST & customs law. Taxmann Publications.
- Datey, V. S. (2023). Indirect taxes law and practice. Taxmann Publications.

- Singhania, V. K., & Singhania, M. (2023). Students' guide to income tax including GST. Taxmann Publications.
- Bangard, V. S., & Bangard, Y. S. (2023). Handbook of GST (Goods and Services Tax). Taxmann Publications

3.14 MODEL QUESTIONS

Q1. Explain the concept of supply in detail with reference to Section 7 of CGST Act.

Q2. Discuss the taxable event under GST and compare it with pre-GST regime.

Q3. Define and explain aggregate turnover and its significance.

Q4. Discuss important definitions under GST Act.

Q5. Differentiate between goods and services under GST.

Q6. Explain various types of GST taxpayers.

Q7. Distinguish between composite and mixed supply with tax implications.

Q8. Explain exempt, zero-rated and non-taxable supplies.

Q9. Discuss the role of key definitions in interpreting GST law.

Q10. Explain the importance of supply as the backbone of GST structure.

UNIT 4: LEVY AND COLLECTION OF TAX UNDER ACT

UNIT STRUCTURE

4.1 Learning Objectives

4.2 Introduction

4.3 Levy and Collection of Tax under Act

4.4 Rates Structure of GST

4.5 Scope of Supply

4.6 Composition Scheme under GST

4.7 Let Us Sum Up

4.8 Further Reading

4.9 Answers to Check Your Progress

4.10 Model Questions

4.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- Understand the fundamental charging sections under the GST framework.
- Outline the rate structure applicable to different goods and services under GST.
- Define and analyze the "Scope of Supply" as per Section 7 of the CGST Act.
- Identify the conditions, eligibility, and benefits of the Composition Scheme for small taxpayers.

4.2 INTRODUCTION

The foundation of any tax law lies in its charging section, which gives the government the legal authority to levy and collect taxes. Under the Goods and Services Tax (GST) regime, the entire architecture revolves around a single taxable event: "Supply". Unlike the pre-GST era where multiple taxable events like manufacturing, sale, or provision of service existed, GST simplifies this by taxing the supply of goods or services. This unit will guide you through how this tax is levied, the rates at which it is charged, the

broad scope of what constitutes a "supply," and the simplified Composition Scheme designed to ease the compliance burden for small-scale businesses.

4.3 LEVY AND COLLECTION OF TAX UNDER ACT

The levy and collection of Central GST (CGST) form the cornerstone of the GST regime and are strictly governed by Section 9 of the CGST Act, often referred to as the "Charging Section." This section grants the government the statutory authority to impose and collect tax on business transactions.

The levy is imposed on all intra-state supplies of goods and services (or both) based on their transaction value determined under Section 15 of the Act. The government, upon the recommendations of the GST Council, notifies the specific rates at which this tax is to be collected, subject to a statutory maximum cap of 20% for CGST (making the maximum total GST rate 40% when combined with SGST).

However, there are notable exceptions to this levy:

- **Alcoholic Liquor:** The supply of alcoholic liquor for human consumption is constitutionally kept completely outside the purview of GST.
- **Petroleum Products:** Five specified petroleum products (petroleum crude, high-speed diesel, motor spirit/petrol, natural gas, and aviation turbine fuel) are temporarily excluded from GST. Tax on these items will be levied from a future date to be notified by the Government on the recommendation of the GST Council.

The mechanisms through which the government collects this levied tax are categorized as follows:

- **Forward Charge Mechanism (FCM) [Section 9(1)]:** This is the standard and most common method of tax collection. In typical business transactions, the liability to pay the tax falls directly on the supplier of the goods or services. The supplier charges GST on the invoice, collects it from the recipient (buyer), and remits it to the government.
- **Reverse Charge Mechanism (RCM) [Section 9(3) & 9(4)]:** In certain notified scenarios, the traditional tax collection method is flipped. Under RCM, the liability to pay GST is shifted from the supplier to the recipient of the goods or services. This is commonly applied to:
    - **Notified Services [Section 9(3)]:** Services provided by a Goods Transport Agency (GTA), services of an individual advocate or senior advocate provided to a business entity, and sponsorship services.
    - **Purchases from Unregistered Dealers [Section 9(4)]:** When specified classes of registered persons purchase specified goods or services from unregistered suppliers, the registered buyer is liable to self-assess and pay the tax directly to the government.
- **Electronic Commerce Operators (ECO) [Section 9(5)]:** To capture tax revenue in the rapidly growing digital economy, the government has mandated that for certain specific

services supplied through an e-commerce platform, the platform operator (ECO) is liable to pay the GST. This applies to services like passenger transport (e.g., Uber, Ola), hotel accommodation (e.g., OYO), and restaurant services (e.g., Swiggy, Zomato). The law treats the ECO as if they are the actual supplier liable for paying the tax.

4.4 RATES STRUCTURE OF GST

GST rates are recommended by the GST Council and are broadly categorized into a multi-tier structure to differentiate between essential items, standard goods, and luxury or demerit goods. The primary rate slabs under the regular GST levy are:

- **0% (Nil Rate / Exempt):** Essential commodities like fresh milk, unbranded flour, and fresh fruits fall under this category, ensuring they remain affordable.
- **5% Slab:** Applicable to goods of mass consumption (like sugar, spices, and tea) and certain services like small restaurants.
- **12% Slab:** Covers standard items and services, including processed foods and certain electronic parts.
- **18% Slab:** This is the most common standard rate, covering a vast majority of goods and services, including IT services, financial services, and consumer durables.
- **28% Slab:** Applied to luxury goods (like high-end automobiles) and demerit goods (like tobacco and aerated drinks). Additionally, a Compensation Cess is levied on certain items in this bracket.

4.5 COMPOSITION SCHEME UNDER GST

To reduce the compliance burden on small businesses, the government introduced the Composition Scheme under Section 10 of the CGST Act. It allows eligible taxpayers to pay tax at a nominal fixed percentage of their turnover rather than paying standard GST rates.

- **Turnover Limits:** * For normal category states, the aggregate turnover in the preceding financial year must not exceed Rs. 1.5 crore for traders and manufacturers.
    - For special category states (such as North-Eastern states and Himachal Pradesh), the limit is Rs. 75 lakh.
    - For eligible service providers, the turnover limit is Rs. 50 lakh.
- **Applicable Rates:**
    - **Manufacturers and Traders (Goods):** 1% (0.5% CGST + 0.5% SGST).
    - **Restaurants (not serving alcohol):** 5% (2.5% CGST + 2.5% SGST).
    - **Service Providers:** 6% (3% CGST + 3% SGST).
- **Key Conditions and Restrictions:**
    - **No Input Tax Credit (ITC):** A composition dealer pays tax out of their own pocket and cannot claim ITC on their purchases.
    - **No Tax Collection:** They cannot issue a standard "Tax Invoice" and are prohibited from collecting tax from the buyers; instead, they must issue a "Bill of Supply".

- **Geographical Restriction:** Composition dealers cannot make inter-state outward supplies (they cannot sell goods outside their state), though they are allowed to purchase goods from other states.
- **E-Commerce Restriction:** They cannot supply goods through an e-commerce operator who is required to collect tax at source.

CHECK YOUR PROGRESS

A. Fill in the Blanks

1. The standard GST rate structure broadly consists of four main slabs: 5%, 12%, 18%, and _____.
2. Under the Composition Scheme, the tax rate for eligible service providers is fixed at _____.
3. A taxpayer under the Composition Scheme cannot issue a Tax Invoice; instead, they must issue a _____.
4. Schedule _____ of the CGST Act lists activities that are treated as neither a supply of goods nor a supply of services.

B. True or False 5. An employer providing services to their employee in the course of employment is fully taxable under GST. 6. A business registered under the Composition Scheme is strictly prohibited from claiming Input Tax Credit (ITC). 7. The import of services for a consideration is treated as a supply under GST, even if it is not for business purposes.

4.6 LET US SUM UP

- The entire premise of GST taxation relies on the concept of "Supply" as detailed under Section 7. If a transaction lacks the elements of supply (and isn't explicitly listed in the Schedules), it remains outside the GST net.
- GST is categorized into multiple rate slabs (Nil, 5%, 12%, 18%, and 28%) to balance revenue collection with consumer affordability.
- The Composition Scheme is a massive relief mechanism for small taxpayers (up to Rs. 1.5 crore for goods / Rs. 50 lakh for services), allowing them to bypass complex monthly returns and standard rate calculations in exchange for paying a low, fixed percentage of their turnover.
- However, choosing the Composition Scheme comes with trade-offs, primarily the loss of Input Tax Credit and the inability to sell goods across state borders.

4.7 ANSWERS TO CHECK YOUR PROGRESS

Answer to Q1: 28%

Answer to Q2: 6%

Answer to Q3: Bill of Supply

Answer to Q4: Schedule III

Answer to Q5: False. (It is listed in Schedule III and treated as neither a supply of goods nor services).

Answer to Q6: True.

Answer to Q7: True

4.8 FURTHER READING

- Singhania, Dr. V. K., & Singhania, Dr. Monica. *Students' Guide to Income Tax including GST* (Latest Assessment Year). Taxmann Publications.
- The Institute of Chartered Accountants of India (ICAI). Study Material for Taxation (Indirect Taxes - GST). Available on the ICAI Board of Studies (BoS) Knowledge Portal: www.icai.org.
- Official Government GST Portal: www.gst.gov.in.
- CBIC Tax Information Portal for Bare Acts (CGST Act, 2017).

6.16 MODEL QUESTIONS

• Define the term "Supply" under Section 7 of the CGST Act. What are its essential characteristics?

• Explain the significance of Schedule I, II, and III in determining the scope of supply under GST.

• Discuss the eligibility criteria and turnover limits for opting into the Composition Scheme under Section 10 of the CGST Act.

• Mr. Sharma runs a small local grocery store in Assam with an annual turnover of Rs. 60 Lakhs. Can he opt for the Composition Scheme? If yes, what will be his applicable GST rate, and what major restrictions will apply to his business operations?

• Differentiate between the regular GST levy and the Composition levy, highlighting at least three major differences.

UNIT 5: EXEMPTION FROM GOODS AND SERVICES TAX (GST)

UNIT STRUCTURE

5.1 Learning Objectives

5.2 Introduction

5.3 Concept and Objectives of GST Exemption

5.4 Legal Provisions and Authority for Exemption

5.5 Types of Exemptions

5.6 Exempt Supply: Nil-Rated, Zero-Rated, and Non-Taxable Supply

- 5.6.1 Nil-Rated Supply
- 5.6.2 Zero-Rated Supply
- 5.6.3 Non-Taxable Supply

5.7 Threshold Exemption

5.8 Registration and Compliance for Exempt Supplies

5.9 Withdrawal and Amendment of Exemptions

5.10 Let Us Sum Up

5.11 Answers to Check Your Progress

5.12 Further Reading

5.13 Model Questions

5.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- Understand the core concept and socio-economic objectives behind granting GST exemptions.
- Identify the legal provisions and statutory authorities empowered to grant these exemptions under the CGST and IGST Acts.
- Classify the different types of exemptions (absolute and conditional).
- Clearly differentiate between highly confusing terms: Exempt Supply, Nil-Rated Supply, Zero-Rated Supply, and Non-Taxable Supply.
- Analyze the threshold limits for registration and the criteria for threshold exemptions.
- Explain the compliance requirements, invoicing rules, and Input Tax Credit (ITC) implications for businesses dealing in exempt supplies.
- Understand the legal procedure for the withdrawal or amendment of tax exemptions.

5.2 INTRODUCTION

The Goods and Services Tax (GST) is a comprehensive, destination-based indirect tax levied on the supply of most goods and services in India. Its primary philosophy is to widen the tax base and ensure that a uniform tax is applied across the country. However, taxing every single good and service at a standard rate would create severe economic hardships, especially for the lower-income segments of society.

Imagine if basic daily necessities like fresh milk, unpacked wheat, or life-saving healthcare services were taxed at 18%. The cost of living would skyrocket, making survival difficult for the common man. To prevent this, the GST law incorporates a highly structured mechanism called "Exemptions."

An exemption simply means that the government, through legal provisions, completely or partially waives the right to collect tax on specific goods, services, or types of businesses. Exemptions act as a balancing tool. While the government needs revenue to run the country, it also has a constitutional duty to protect public welfare, promote specific economic sectors, and ensure basic necessities remain affordable. In this unit, we will deeply explore how exemptions work, who authorizes them, and the strict compliance rules that businesses must follow when dealing with exempted items.

5.3 CONCEPT AND OBJECTIVES OF GST EXEMPTION

The concept of exemption in taxation refers to a deliberate exclusion of certain taxable events, goods, services, or persons from the burden of paying tax. Under the GST regime, if a supply is exempted, it means that the supplier does not have to charge GST to the customer on that specific bill. However, it also means that the supplier generally cannot claim Input Tax Credit (ITC) for the taxes they paid on their own purchases related to that exempt supply.

The GST Council and the Government do not grant exemptions arbitrarily. Every exemption is carefully calculated based on specific socio-economic and strategic objectives:

1. Protecting the Common Man and Ensuring Affordability: The primary objective of most exemptions is to make essential goods and services cheaper. Unbranded food grains, fresh vegetables, meat, salt, and basic healthcare and educational services are kept out of the tax net so that the poorest citizens are not burdened by indirect taxes on their basic survival needs.

2. Reducing the Regressive Nature of Indirect Taxes: Indirect taxes are inherently regressive, meaning a rich person and a poor person pay the exact same amount of tax on a packet of biscuits. By exempting everyday essentials, the government softens this regressive impact, ensuring that the tax burden falls heavier on luxury and semi-luxury items rather than basic necessities.

3. Promoting Specific Sectors and Economic Growth: The government often uses exemptions as an economic tool to boost specific industries. For instance, certain services provided to agricultural sectors (like warehousing of agricultural produce) are exempt to support farmers. Similarly, to promote public transport and reduce pollution, certain types of passenger transportation services are exempted.

4. Encouraging Exports and Foreign Exchange Earnings: While exports are technically "Zero-Rated" (which we will discuss later), the objective is similar: Indian goods must not carry the burden of domestic taxes into the international market. Exempting or zero-rating exports ensures Indian products remain competitively priced globally.

5. Administrative Feasibility (Threshold Exemptions): The government exempts very small businesses (micro-enterprises) from even registering for GST. The administrative cost for the government to track and collect tiny amounts of tax from a street vendor or a small village shop outweighs the revenue collected. Hence, threshold exemptions simplify compliance for small traders and save administrative bandwidth for the government.

5.4 LEGAL PROVISIONS AND AUTHORITY FOR EXEMPTION

In India, the power to grant exemptions is not absolute; it is tightly regulated by specific sections of the GST Acts. The Central Government and State Governments cannot grant exemptions on their own whims. They must act strictly on the recommendations of the **GST Council**.

The primary legal authority to grant exemptions is derived from two main sections:

1. **Section 11 of the CGST Act, 2017** (for intra-state supplies).

2. **Section 6 of the IGST Act, 2017** (for inter-state supplies).

Let us break down how Section 11 of the CGST Act operates (Section 6 of IGST mirrors this):

A. General Exemption [Section 11(1)]: If the Government is satisfied that it is necessary in the "public interest" to do so, it may, on the recommendations of the GST Council, completely or partially exempt specific goods or services from the whole or any part of the tax leviable. This is done by issuing an official **Notification** in the Official Gazette. *Example:* A general notification exempting the services provided by a veterinary clinic for the healthcare of animals.

B. Special Exemption [Section 11(2)]: Under exceptional circumstances, the government can issue a **Special Order** to exempt the payment of tax in a specific, unique case. This is not a general rule for the public but applies to a specific scenario, usually driven by public interest or an emergency. *Example:* If a massive earthquake strikes a state, the government might issue a special order exempting GST on the supply of rescue equipment or relief materials specifically donated to that state for a limited period.

C. Power to Clarify [Section 11(3)]: Sometimes, a notification granting an exemption is written in complex legal language, causing confusion among businesses and tax officers. Section 11(3) gives the government the power to insert an "explanation" into the original notification to clarify its scope. Crucially, if this explanation is inserted within one year of the original notification, it is treated as if it was there from the very beginning (retrospective effect).

Mandatory Nature of Absolute Exemptions: An important legal principle to remember is that if the government has granted an *absolute exemption* (an exemption without any conditions), the registered person **cannot** choose to pay tax. They are legally bound to supply the goods or services without charging GST. They cannot voluntarily pay tax just so they can claim Input Tax Credit.

5.5 TYPES OF EXEMPTIONS

Exemptions under the GST framework can be broadly classified into two categories based on how they are applied.

1. Absolute Exemption

An absolute exemption is a blanket waiver of tax that applies without any strings attached. There are no pre-conditions that the buyer or the seller needs to fulfill. If the item or service falls under this category, it is unconditionally exempt for everyone, everywhere in India.

- **Example:** The supply of fresh fruits and vegetables, postal items like postcards and inland letters, or human blood. It does not matter who is selling the apple or who is buying it; it is absolutely exempt from GST.
- **Rule:** As mentioned earlier, if an absolute exemption exists, the supplier *must* not charge GST. It is mandatory.

2. Conditional Exemption

A conditional exemption is granted subject to specific restrictions, circumstances, or conditions being fulfilled. If the condition is not met, the standard GST rate will apply. These conditions could be related to the identity of the supplier, the identity of the recipient, or the end-use of the product.

- **Example 1 (End-use condition):** Certain equipment might be exempt from GST *only if* it is being supplied specifically for use in a national defense project. If the exact same equipment is sold to a private manufacturing company, it will be fully taxable.
- **Example 2 (Recipient condition):** Services provided by a hotel might be exempt *only if* the declared tariff of a room is below ₹1,000 per day (Note: this threshold has been altered in recent times, but serves as a conceptual example).
- **Example 3 (Supplier condition):** Charitable activities are exempt, but *only if* they are provided by an entity registered under Section 12AA or 12AB of the Income Tax Act.

5.6 Is UNDERSTANDING EXEMPT SUPPLY: NILRATED, ZERO RATED AND NON-TAXABLE SUPPLIES

One of the most confusing areas for students of taxation is distinguishing between various terms that sound like "no tax." In everyday language, we might use them interchangeably, but under GST law, they have vastly different legal and financial consequences, especially regarding Input Tax Credit (ITC).

Under Section 2(47) of the CGST Act, the term **"Exempt Supply"** is an umbrella term that includes three distinct things:

1. Nil-rated supply
2. Wholly exempt supply (through notifications)
3. Non-taxable supply

Let us analyze these, along with the distinct concept of "Zero-Rated Supply."

5.6.1 Nil-Rated Supply

A nil-rated supply is a supply of goods or services where the legal tariff rate listed in the GST schedules is literally 0% (Nil).

- **Concept:** These are items that the government has consciously decided to keep in the GST net, but at a zero rate.
- **Examples:** Jaggery, salt, fresh milk, grains.
- **ITC Implication:** Because the output tax is 0%, the law does not allow the supplier to claim any Input Tax Credit. For instance, if a dairy farmer buys a milking machine

(paying 18% GST) to produce fresh milk (Nil-rated), the farmer cannot claim back the 18% GST paid on the machine. It becomes a cost to the business.

5.6.2 Zero- Rated Supply (A very Category)

This is where maximum confusion occurs. **Zero-rated supply is NOT the same as Nil-rated supply.** Zero-rated supply is specifically defined under Section 16 of the IGST Act and applies to only two specific types of transactions:

1. **Export of goods or services** out of India.
2. Supply of goods or services to a **Special Economic Zone (SEZ)** developer or an SEZ unit.

- **Concept:** The logic here is that India wants to export its products, not its taxes. Therefore, the government completely zeroes out the tax burden on exports to make them internationally competitive.
- **ITC Implication (The Big Difference):** Unlike Nil-rated or Exempt supplies, a supplier making Zero-rated supplies **IS allowed** to claim Input Tax Credit. The exporter can buy raw materials, pay GST on them, manufacture the product, export it without charging GST, and then ask the government for a full refund of the GST paid on the raw materials. This ensures the entire supply chain is entirely free of tax.
- to the business.

5.6.3 Non- Taxable Supply

A non-taxable supply (often called an out-of-scope supply) refers to the sale of items that are completely outside the legal jurisdiction of the GST Act. The GST law simply does not apply to them.

- **Concept:** These items are usually subject to the old tax regime (State Excise Duty and State VAT).
- **Examples:** There are currently six major items strictly kept out of GST:
    1. Alcoholic liquor for human consumption.
    2. Petroleum Crude.
    3. High-Speed Diesel.
    4. Motor Spirit (commonly known as Petrol).
    5. Natural Gas.
    6. Aviation Turbine Fuel (ATF).
- **ITC Implication:** Since these are entirely outside GST, no Input Tax Credit can be claimed under the GST framework for any expenses related to these supplies.

5.7 THRESHOLD EXEMPTION

Apart from exempting specific *items*, the government also exempts specific *people* (small businesses) based on their annual turnover. This is known as the Threshold Exemption.

If a business's aggregate turnover (total sales) in a financial year falls below a certain limit, they are exempt from the mandatory requirement of taking GST registration and collecting/paying GST. This relieves millions of small shopkeepers, freelancers, and artisans from complex compliance burdens.

The Threshold Limits: The GST Council has structured the threshold limits based on the type of business (Goods vs. Services) and the geographical location of the business (Special Category States vs. Normal States).

- **For Services (or mixed supply of Goods and Services):**
  - The standard threshold exemption limit is **₹20 Lakhs**.
  - However, for specified Special Category States (such as Manipur, Mizoram, Nagaland, and Tripura), the limit is reduced to **₹10 Lakhs** due to their smaller economy sizes.
- **For Exclusive Supply of Goods:**
  - To boost small-scale manufacturing and trading, the government increased the threshold limit for businesses dealing *exclusively* in goods to **₹40 Lakhs**.
  - For some states (like Arunachal Pradesh, Meghalaya, Sikkim, Uttarakhand, Puducherry, and Telangana), the limit remains **₹20 Lakhs**.
  - For the four specific Special Category States (Manipur, Mizoram, Nagaland, Tripura), the limit is **₹10 Lakhs**.

Important Note: Even if a business is below the threshold limit, they are *compelled* to register if they engage in certain specific activities, such as making inter-state taxable supplies (selling goods to another state) or selling through an e-commerce operator like Amazon or Flipkart.

5.8 REGISTRATION AND COMPLIANCE FOR EXEMPT SUPPLIES

Just because a business deals in exempt goods does not mean it can completely ignore the law. There are strict compliance rules to prevent tax evasion and ensure transparency.

1. Exemption from Registration (Section 23 of CGST Act): If a person is engaged **exclusively** in the business of supplying goods or services that are wholly exempt from tax or are non-taxable, they are completely exempt from taking GST registration, regardless of their turnover. *Example:* A farmer exclusively selling fresh vegetables grown on his land with a turnover of ₹1 Crore does not need to register for GST because his entire supply is exempt.

2. The Concept of "Bill of Supply": When a registered business sells taxable goods, they must issue a "Tax Invoice" showing the GST charged. However, if a registered person supplies *exempt* goods or services, they are legally forbidden from issuing a Tax Invoice and cannot collect any tax from the buyer. Instead, they must issue a document called a **"Bill of Supply."** This document acts as a commercial receipt but explicitly indicates that no tax is being charged.

3. Mixed Businesses and ITC Reversal (Rule 42 and 43): The most complex compliance arises when a business sells *both* taxable and exempt goods (e.g., a supermarket selling both taxable cosmetics and exempt fresh fruits).

- The law states that Input Tax Credit (ITC) can only be utilized for making taxable supplies.
- Therefore, the supermarket cannot claim the ITC on the electricity bill, rent, or accounting software used for the entire store, because a portion of those resources helped sell the exempt fruits.
- The business must use specific formulas (under Rule 42 for inputs/services and Rule 43 for capital goods) to proportionately calculate and **reverse** (give back) the ITC attributable to the exempt supplies. This requires meticulous accounting and monthly compliance.

5.9 WITHDRAWAL AND AMENDMENT OF EXEMPTIONS

Economic conditions change constantly. What requires an exemption today might become a thriving, profitable sector tomorrow. Therefore, exemptions in GST are rarely permanent.

1. Power to Withdraw: The Central or State Government, based on the GST Council's recommendations, retains the absolute power to withdraw, modify, or amend any exemption notification at any time.

2. Prospective vs. Retrospective Effect:

- Generally, when an exemption is withdrawn, it takes effect **prospectively** (from the date the new notification is published). For instance, if an exemption on a specific fabric is withdrawn on October 1st, businesses must start charging GST on sales from October 1st onwards. Past transactions remain untouched.
- As discussed in Section 5.4, if the government inserts an *explanation* to an existing notification within one year to clarify its meaning, it has a **retrospective** effect, meaning it is applied as if it was written into the law from day one.

3. Compliance Impact of Withdrawal: When an exemption is suddenly withdrawn, a previously exempt item becomes taxable. This triggers immediate compliance actions for businesses. They must suddenly start issuing Tax Invoices instead of Bills of Supply, recalibrate their billing software, and, more positively, they can now start claiming Input Tax Credit on the raw materials used to make that newly taxable product.

CHECK YOUR PROGRESS

1. Which section of the CGST Act grants the Central Government the power to exempt supplies?
2. Can a registered supplier voluntarily choose to pay tax on a product that has been granted an absolute exemption?

3. State whether true or false: "A supplier can claim full Input Tax Credit (ITC) on the raw materials used to manufacture a Nil-rated supply."
4. Name any two items that are classified as "Non-taxable supply" (outside the purview of GST).
5. What document must a registered person issue when supplying exempted goods instead of a Tax Invoice?
6. Why are exports termed as "Zero-Rated" rather than "Exempt"?
7. What is the standard threshold limit for GST registration for a business engaged exclusively in the supply of goods in a normal state?

5.10 ANSWERS TO CHECK YOUR PROGRESS

Answer to Q1: Section 11 of the CGST Act, 2017.

Answer to Q2: No. If an absolute exemption applies, the supplier is legally bound to supply the item without charging GST. It is mandatory.

Answer to Q3: False. Input Tax Credit (ITC) is blocked and cannot be claimed for expenses related to Nil-rated or exempt supplies.

Answer to Q4: Alcoholic liquor for human consumption and Petroleum Crude (or Petrol, Diesel, Aviation fuel, Natural gas).

Answer to Q5: A "Bill of Supply."

Answer to Q6: Exports are "Zero-Rated" so that the exporter can claim a refund on the Input Tax Credit (ITC) paid on raw materials, ensuring Indian products are globally competitive. If they were merely "Exempt," the exporter would lose the ITC, increasing the product's final cost.

Answer to Q7: ₹40 Lakhs.

5.11 FURTHER READING

- Institute of Chartered Accountants of India (ICAI). *Study Material on Taxation - Indirect Taxes (GST)*.

- Singhania, V.K., & Singhania, M. (Current Edition). *Students' Guide to Income Tax including GST*. Taxmann Publications.

- The Central Goods and Services Tax Act, 2017 (Bare Act).

- Official GST Portal of India

5.12 MODEL QUESTIONS

Q1. Define the concept of GST exemption. What are the primary socio-economic objectives behind granting exemptions in an indirect tax system?
Q2. Explain the legal provisions and the role of the GST Council under Section 11 of the CGST Act regarding the granting of exemptions.
Q3. Differentiate clearly between Absolute Exemptions and Conditional Exemptions with suitable examples for each.
Q4. "All Zero-rated supplies are Exempt supplies, but not all Exempt supplies are Zero-rated." Critically evaluate this statement, focusing specifically on the treatment of Input Tax Credit (ITC).
Q5. A dairy farmer produces fresh milk (exempt) and also manufactures cheese (taxable). Discuss the compliance requirements he must follow regarding invoicing and Input Tax Credit.
Q6. What do you understand by "Non-taxable supply" under the GST regime? List the major items that fall under this category.
Q7. Detail the threshold limits for GST registration. How do these limits vary based on the type of supply (goods vs. services) and the location of the business?
Q8. Discuss the circumstances under which a person dealing entirely in goods is completely exempt from taking GST registration. State the relevant legal section.
Q9. What is a "Bill of Supply," and under what specific circumstances must a registered taxpayer issue it instead of a standard Tax Invoice?
Q10. Explain the legal procedure for the withdrawal of a GST exemption. Does an explanation added to an exemption notification act prospectively or retrospectively?

UNIT 6: INPUT TAX CREDIT

UNIT 5: STRUCTURE

5.1. Learning Objectives

5.2. Introduction

5.3. Introduction to Input Tax Credit (ITC)

5.3.1. Definition

5.3.2. Eligibility

5.3.3. Conditions for Claiming ITC

5.4.Matching principles and documentations

5.5.Blocked credits under Section 17(5)

5.6. ITC on capital goods and utilization rules

5.7. Reversal, re-claim and common issues in ITC

5.8 Answers to Check Your Progress

5.9 Further Reading

5.10 Model Questions

5.1. LEARNING OBJECTIVES

After going through this unit, you will be able to:

- Learn the concept of Input Tax Credit,understanding its eligibility, and condition for claiming ITC.
- Learn about the concept of matching principle and documentations.
- Familiarize with blocked credit under section 17(5).
- Learn about howITC is applied on capital goods and utilization rules.
- Learn the concept of Reversal, re-claim and common issues in ITC.

5.2. INTRODUCTIONS

GST is set to revolutionize the world of Indian indirect taxation and Input Tax Credit is one of its key features which will help in eliminating cascading effect of taxes. GST is ca comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. In simple words, Input Credit means at the time of paying tax on sales, you can reduce the tax you have already paid on purchases. When you buy a products/service from a registered dealer you pay tax on the purchase. On Selling you Collect the Tax. You adjust the taxes paid at the time of purchase with the amount of output Tax (Tax on Sales) & balance Liability of Tax (Tax on sales minus tax on purchase) has to be paid to the government. This mechanism is called Utilization of Input Tax Credit.

5.3. INTRODUCTION TO INPUT TAX CREDIT

Input Tax Credit is a mechanism to avoid cascading of taxes. Cascading effect means'tax on tax'. Previous taxation, credit of taxes being levied by Central Government was not available as set-off for payment of taxes levied by State Governments, and vice versa. Under GST system, ITC provide a platform for the entire supply chain that subject to GST to be levied by Central and State Government concurrently. As the tax charged by the Central or the State Governments would be part of the same tax regime, credit of tax paid at every stage would be available as set-off for payment of tax at every subsequent stage.

5.3.1.DEFINITIONS

Input Tax Credit (ITC) is a feature of reducing the tax burden which was already paid by a business on inputs (purchases) from the tax payable on output (sales), aiming to eliminate the cascading effect of "tax on tax". It is a core GST feature, requiring registered taxpayers to hold valid invoices for goods/services received and used for business. In order to understand Input Tax Credit, we have to learn the following terminologies:

- **Input Goods:** Input Goods means any goods other than capital goods used or intended to be used by a supplier in the course or furtherance of business.
- **Input Service:**Input Service means any service used or intended to be used by a supplier in the course of furtherance of business.
- **Input Tax:**Input tax in relation to a registered person, means the Central Tax, State Tax, Integrated Tax or Union territory tax charged on any supply ofgoods or services or both which includes –
    a. The integrated goods and services tax charged on import of goods;
    b. The tax payable under the provisions of sub sections (3) and (4) of section 9;
    c. The tax payable under the provisions of sub sections (3) and (4) of section 5 of the integrated goods and services tax;
    d. The tax payable under the provisions of sub sections (3) and (4) of section 9of the respective State goods and services Tax Act;or
    e. The tax payable under the provisions of sub sections (3) and (4) of section 7of the Union Territory goods and services TaxAct.

Input Tax Credit: The input tax credit that is self-assessed in the monthly returns will be reflected here under three categories i.e. IGST, CGST & SGST. The Tax Payer will be able

to utilize the balance shown in this account only for payment of Tax as per the credit utilization rules and no other amount such as Interest, Penalty etc.

5.3.2. ELIGIBILITY FOR CLAIMING ITC

The eligibility for claiming Input Tax Credit (ITC) under GST is allowed to only registered businesses for taxes paid on business inputs (goods/services) against their output tax liability, preventing tax cascading, but requires meeting conditions like having valid invoices, receiving goods, using them for taxable supplies, and filing returns, with specific exclusions for personal use or certain blocked credits. Key conditions include possessing valid tax documents, ensuring the supplier paid the tax, timely payment (within 180 days), and matching GSTR-3B with GSTR-2B, with strict time limits for claiming.

The following are the conditions required to avail ITC:

- **Registration:** In order to avail ITC a business must be registered under GST.
- **Valid Document:** Possess a valid tax invoice, debit note, or bill of entry.
- **Receipt:** Must have received the goods or services (or the last instalment).
- **Business Use:** Goods/services must be used for furtherance of business, not personal use or exempt supplies.
    - **Supplier Compliance:** The supplier must have paid the tax to the government and filed their returns.
    - **Return Filing:** Must file all required GST returns (like GSTR-3B).
    - **Payment:** Pay the supplier for the invoice value plus tax within 180 days.

5.3.3. CONDITIONS FOR CLAIMING ITC

Who can claim ITC:

The claim of ITC is available to any registered person who paid tax on the inward supply of goods orservices or both which is used or intended to be used in the course or furtherance of business.

A. Following are the conditions for availing ITC by registered person are:

1. He is in possession of tax invoice or any other specified tax paying document.
2. He has received the goods or services. “Bill to ship to” scenarios also included.

3. Tax is actually paid by the supplier.
4. He has furnished the return under section 39.
5. If the inputs are received in lots, he will be eligible to avail the credit only when the last lot of the inputs is received.
6. He should pay the supplier the value of the goods or services along with the tax within 180 days from the date of issue of invoice, failing which the amount of credit availed by the recipient would be added to his output tax liability, with interest [rule 37(1) & (2) of CGST Rules, 2017]. However, once the amount is paid, the recipient will be entitled to avail the credit again. In case part payment has been made, proportionate credit would be allowed.

B. However, the value of supplies in respect of following shall be deemed to have been paid and ITC shall not be reversed in such cases:

1. Value of supplies made without consideration as specified in Schedule-I.
2. Value of supplies on account of any amount added in accordance with the provisions of section 15(2) (b), i.e. any amount that the supplier is liable to pay in relation to such supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods or services or both (Notification No. 26/2018-Central Tax, dated 13.06.2018).
3. Value representing discount for which financial credit notes have been issued by the supplier.

C. Special circumstances under which ITC is available:

1. A person who has applied for registration within 30 days of becoming liable for registration is entitled to ITC of input tax in respect of goods held in stock (inputs as such and inputs contained in semi-finished or finished goods) on the day immediately preceding the date from which he becomes liable to pay tax.
2. A person who has taken voluntary registration under section 23(3) of the CGST Act, 2017 is entitled to ITC of input tax in respect of goods held in stock (inputs as such and inputs contained in semi-finished or finished goods) on the day immediately preceding the date of registration.
3. A person switching over to normal scheme from composition scheme under section10 of the CGST Act, 2017 is entitled to ITC in respect of goods held in stock (inputs as such and

inputs contained in semi-finished or finished goods) and capital goods on the day immediately preceding the date from which he becomes liable to pay tax as normal taxpayer.

4. Where an exempt supply of goods or services or both become taxable, the person making such supplies shall be entitled to take ITC in respect of goods held in stock (inputs as such and inputs contained in semi-finished or finished goods) relatable to exempt supplies. He shall also be entitled to take credit on capital goods used exclusively for such exempt supply subject to reductions for the earlier usage as prescribed in the rules.
5. ITC, in all the above cases, is to be availed within 1 year from the date of issue of invoice by the supplier.
6. In case of change of constitution of a registered person on account of sale, merger, demerger etc., the unutilised ITC shall be allowed to be transferred to the transferee.
7. A person switching over from composition scheme under section 10 of the CGST Act, 2017 to normal scheme or where a taxable supply becomes exempt, the ITC availed in respect of goods held in stock (inputs as such and inputs contained in semi-finished or finished goods) as well as capital goods will have to be paid.
8. In case of supply of capital goods or plant and machinery, on which ITC is taken, an amount equivalent to ITC availed minus the reduction as prescribed in rules (5% for every quarter or part thereof shall have to be paid). However, in case the tax on transaction value of the supply is more than the ITC payable, the same would have to be paid.
9. Input tax credit is allowed on inputs and Capital goods sent to a job worker for jobwork. Input tax credit can be taken on inputs and capital goods even if they aredirectly sent to a job worker for job work without being first brought to his place of business. However, the same are required to be brought back or cleared on payment of tax, within the time-limit specified in section 143 of the CGST Act, 2017.

5.4. MATCHING PRINCIPLES AND DOCUMENTATION

Matching principles and documentation are two important concepts of ITC. The matching principles revels the supply of goods/services inward of suppliers and to the outward supply of goods/services to the suppliers. Documentation refers to the supporting documents provided for inward of supply of goods/services by the suppliers and outward supply of goods/services by the suppliers. These concepts can be better understood by explanations given below:

5.4.1 MATCHING PRINCIPLES:

Section 42, of the CGST Act prescribed the procedure for matching the outwards liability & Input Tax Credit thoroughly filled up of GSTR 1, GSTR 2 & GSTR 3. According to this section, the details of every inward supply furnished in GSTR 2 shall be matched with corresponding details of outward supply furnished in GSTR 1 of the corresponding supplier.

When you buy a product/service from a registered dealer you pay taxes on the purchase. On selling, you collect the tax. You adjust the taxes paid at the time of purchase with the amount of output tax (tax on sales) and balance liability of tax (tax on sales *minus* tax on purchase) has to be paid to the government. This mechanism is called utilization of input tax credit.

Invoice matching is a mechanism under which all the taxable supplies made under GST will be matched against all the taxable supplies received by the buyer.

Invoice matching is relevant because, under the Goods and Services Tax law, input tax credit of purchase of goods and/or services will only be available if the details of inward supply filed under GSTR-2 return of buyer matches with the details of outward supplies filed in GSTR-1 of the supplier. This interlinking has been done by way of auto-population of data filed in GSTR-1 of supplier into GSTR-2 of the buyer.

Unless this matching reconciles the buyer will not be able to claim the input tax credit of taxes paid on purchase of input goods and/or services or both. Thus, it becomes highly critical for businesses to be highly compliant under the GST regime. Compliance rating has been devised to tempt all the businesses for timely return filing and related compliance.

The concept of matching of ITC may not be new to the taxpayers, especially for the dealers who are currently operating under the Value Added Tax (VAT) regime.However, the same is alien or relatively new to non-VATtaxpayers and hence there is a need to understand the concepts of ITC matching, ITC reversals and re-claim of ITC inGST regime.

Under GST regime, in order to claim input tax credit paid on purchases, there has to be corresponding outward supply entry from a registered taxable person. It means every input tax credit should be matched with the output tax liability. This may create a lot of burden both on the receiver and supplier for matching the transactions.

For all transactions between registered persons, invoice wise details shall be uploaded while filing GST returns and the same shall be matched. In case of any discrepancy found by the system, the said invoice will be treated as mismatched invoice which should be rectified either

by supplier or receiver. The system shall match following items in every tax invoice uploaded in GST Network in order to pass on the input tax credit:

- GSTIN of Supplier or Receiver
- Invoice or Debit Note Number & Date
- Taxable Value & Tax Amount

5.4.2. DOCUMENTATION:

As discuss in earlier topics, documentation is one of the most important aspects of ITC. Documentation for claiming Input Tax Credit (ITC) under GST in India includes a valid tax invoice, debit note, or bill of entry, along with proof of receipt of goods/services and, ideally, payment to the supplier within 180 days. ITC is legally claimed based on GSTR-2B, requiring reconciliation with the purchase register, supported by e-way bills and bank statements.

1. The following are the documents that are eligible for claiming ITC under GST: -
   a. An invoice issued by the supplier of goods or services or both in accordance withthe provisions of section 31;
   b. An invoice issued in accordance with the provisions of clause (f) of sub-section (3) of section 31, subject to payment of tax;
   c. A debit note issued by a supplier in accordance with the provisions of section 34;
   d. A bill of entry or any similar document prescribed under the Customs Act, 1962 orrules made thereunder for assessment of integrated tax on imports;
   e. An ISD invoice or ISD credit note or any document issued by an Input Service distributor in accordance with the provisions of sub-rule (1) of rule invoice.7.

2. Input tax credit shall be availed by a registered person only if all the applicableparticulars as prescribed in Chapter ---- (*Invoice Rules*) are contained in the said document, and the relevant information, as contained in the said document, is furnished in **FORMGSTR-2** by such person.

3. No input tax credit shall be availed by a registered person in respect of any tax thathas been paid in pursuance of any order where any demand has been confirmed on account of any fraud, wilful misstatement or suppression of facts.

5.5. BLOCKED CREDITS UNDER SECTION 17(5)

In order to avail ITC under GST, the above mention documents are required for claiming ITC. However, there are certain conditions under which ITC is blocked for claim or is not available in some cases as mentioned in section 17(5) of CGST Act, 2017.

Some of the conditions under which ITC is blocked are as follows:

a. Motor vehicles and other conveyances, having seating capacity of more than 13 persons (including driver), except under specified circumstances.
b. Goods and/or services provided in relation to:
    1. Food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery, except under specified circumstances;
    2. membership of a club, health and fitness centre;
    3. Rent-a-cab, life insurance, health insurance except where it is obligatory for an employer under any law;
    4. Travel benefits extended to employees on vacation such as leave or home travel concession.
c. Works contract services when supplied for construction of immovable property, other than plant & machinery, except where it is an input service for further supply of works contract;
d. Goods/Services received by a taxable person for construction of immovable property on his own account, other than plant & machinery, even when used in course or furtherance of business;
e. Goods/Services on which tax has been paid under composition scheme;
f. Goods/Services used for private or personal consumption, to the extent they are so consumed;
g. Goods lost, stolen, destroyed, written off, gifted, or free samples;
h. Any tax paid due to short payment on account of fraud, suppression, mis-declaration, seizure, detention.

5.6. ITC ON CAPITAL GOODS AND UTILIZATION RULES

Capital goods are assets such as buildings, machinery, equipment, vehicles and tools that an organization uses to produce goods or services. For example, a blast furnace used in the iron and steel industry is a capital asset for the steel manufacturer.

ITC on capital goods (GST) can be claimed if they are used for taxable business purposes, with the full credit available in the year of purchase. If used for both exempt and taxable supplies, the credit must be apportioned over a 5-year (60-month) useful life. ITC is blocked if depreciation is claimed on the tax component under the Income Tax Act.

5.6.1. Credit on capital goods

When you purchase anything, you are required to pay GST on it. Later, you can claim input tax credit on the GST paid on your purchases. Similarly, when you are purchasing any machinery for your factory, you will pay the applicable GST rate. This GST paid can be claimed as credit in the same way as inputs. However, if you claim depreciation on the GST paid while purchasing the capital asset, you cannot claim input tax credit.

5.6.2. Key Rules for ITC on Capital Goods

- **Eligibility:** Must be a registered taxpayer using goods for business purposes; cannot claim ITC on personal use or exclusively exempt supplies.
- **Depreciation Restriction:** If depreciation is claimed on the GST component (tax amount) under the Income Tax Act, 1961, ITC cannot be availed.
- **Apportionment (Rule 43):** If capital goods are used for both taxable and exempt/non-business purposes, the ITC is reversed proportionately over a deemed 5-year life. The formula is $T_m = \frac{T_c}{60}$, Where Tm is the credit per month and Tc is the total credit.
- **Reversal:** If capital goods used for exempt supplies are later used for taxable supplies, ITC can be claimed for the remaining life.
- **Time Limit:** ITC must be claimed by November 30th following the end of the financial year.

5.6.3. Utilization Rules

- **Electronic Credit Ledger:** Eligible ITC is credited to the electronic credit ledger.
- **Order of Utilization:** ITC can be used to pay Output Tax Liability (IGST, CGST, CGST, SGST/UTGST).
- **Restriction (Rule 86B):** If taxable turnover exceeds ₹50 Lakhs per month (with some exceptions), at least 1% of output tax liability must be paid in cash, limiting 99% ITC utilization.

- **Sale of Capital Goods:** Upon sale, tax must be paid, or the ITC reversed,whichever is higher.

5.7.REVERSAL, RE-CLAIM AND COMMON ISSUES IN ITC

Reversal of Input Tax Credit:

1. Proportionate amount of ITC will bereversed if goods or services are used forbusiness or non-business purposes.
2. Where the recipient fails to pay theamount of value of supply along with thetax payable thereon within a period of180 days from the date of invoice by thesupplier, an amount equal to ITC availedby the recipient.
3. Reversal of ITC if goods or servicesbecome wholly exempt or GSTregistration cancelled.
4. Reversal of ITC if taxable person switchesto composition Scheme.

Section 43 of CGST Act: Matching, reversal and reclaim ofreduction in output tax liability:

1) The details of every credit note relating tooutward supply furnished by a registered person(hereafter in this section referred to as the“supplier”) for a tax period shall, in such mannerand within such time as may be prescribed, bematched–

(a) with the corresponding reduction in theclaim for input tax credit by thecorresponding registered person(hereafter in this section referred to asthe “recipient”) in his valid return forthe same tax period or any subsequent tax period; and

(b) for duplication of claims for reductionin output tax liability.

2) The claim for reduction in output tax liability bythe supplier that matches with the correspondingreduction in the claim for input tax credit by therecipient shall be finally accepted andcommunicated, in such manner as may beprescribed, to the supplier.
3) Where the reduction of output tax liability inrespect of outward supplies exceeds thecorresponding reduction in the claim for input taxcredit or the corresponding credit note is notdeclared by the recipient in his valid returns, thediscrepancy shall be communicated to both suchpersons in such manner as may be prescribed.
4) The duplication of claims for reduction in outputtax liability shall be communicated to the supplierin such manner as may be prescribed.
5) The amount in respect of which any discrepancy iscommunicated under sub-section (3) and which isnot rectified by the recipient in his valid return forthe month in which discrepancy is communicatedshall be added to the output tax liability of thesupplier, in such manner as may

be prescribed, inhis return for the month succeeding the month inwhich the discrepancy is communicated.

6) The amount in respect of any reduction in outputtax liability that is found to be on account ofduplication of claims shall be added to the outputtax liability of the supplier in his return for themonth in which such duplication is communicated.
7) The supplier shall be eligible to reduce, from hisoutput tax liability, the amountadded under subsection(5)if the recipient declares the details ofthe credit note in his valid return within the timespecified in sub-section (9) of section 39.
8) A supplier in whose output tax liability anyamount has been added under sub-section (5) orsub-section (6), shall be liable to pay interest atthe rate specified under sub-section (1) of section50 in respect of the amount so added from thedate of such claim for reduction in the output taxliability till the corresponding additions are madeunder the said sub-sections.
9) Where any reduction in output tax liability isaccepted under sub-section (7), the interest paidunder sub-section (8) shall be refunded to thesupplier by crediting the amount in thecorresponding head of his electronic cash ledgerin such manner as may be prescribed:Provided that the amount of interest to becredited in any case shall not exceed the amountof interest paid by the recipient.
10) The amount reduced from output tax liability incontravention of the provisions of sub-section (7)shall be added to the output tax liability of thesupplier in his return for the month in which suchcontravention takes place and such supplier shallbe liable to pay interest on the amount so addedat the rate specified in sub-section (3) of section50.

Common Issues in Input Tax Credit:

1. **Mismatch and Documentation Issues:**
    a. **GSTR-2B Mismatch:** Claiming ITC without matching invoices with the auto-populated GSTR-2B, leading to discrepancies.
    b. **Missing Invoices:** Claiming ITC without possessing a valid Tax Invoice, Debit Note, or Bill of Entry.
    c. **Non-compliant Suppliers:** Failing to follow up with suppliers who have not filed their GSTR-1, preventing the credit from appearing in the recipient's 2B.
    d. **Debit/Credit Note Errors:** Incorrect treatment or timing of debit and credit notes.
2. **Eligibility and Blocked Credits (Section 17(5)):**

a. **Personal Consumption:** Claiming ITC on goods or services used for personal purposes rather than business.
b. **Blocked Credits:** Claiming ITC on restricted items, such as motor vehicles (with exceptions), food and beverages, catering, club memberships, or health insurance.
c. **Construction:** Claiming ITC on goods/services used for constructing immovable property on one's own account (except for plant and machinery).
d. **Goods Lost/Destroyed:** Claiming ITC on goods that are stolen, destroyed, written off, or given as free samples.

3. **Compliance and Timing Issues:**

a. **180-Day Rule:** Failure to reverse ITC if payment is not made to the supplier within 180 days from the date of invoice issuance.
b. **Delayed Claims:** Missing the deadline for claiming ITC, which is typically the earlier of November 30th of the following financial year or the date of filing the annual return.
c. **Non-Receipt of Goods:** Availing ITC before actually receiving the goods or services.
d. **Depreciation Claimed:** Claiming ITC on the tax component of capital goods when depreciation has already been claimed on the total value under the Income Tax Act.

4. **Procedural and Manual Errors:**

a. **Manual Reconciliation Errors:** Errors in manual reconciliation processes.
b. **Reversal Failures:** Not reversing ITC properly in cases of exempt supplies or common credit usage.
c. **Wrong Reporting:** Misreporting Input Tax Credit figures in GSTR-3B.

5.8. MCQ TO CHECK YOUR PROGRESS

Q1. Whether credit on inputs should be availed based on receipt of documents or receipt of goods_____

A. Receipt of Goods. B. Receipt of Documents. C. Both

Q2. The tax paying documents in section 16(2) is___

A. Bill of entry, Invoice raised on RCM supplies, etc.

B. Acknowledged copy of tax paid to department.

C. Any of the above.

Q3. The time limit to pay the value of supply with taxes to avail the input tax credit?

A. Three Months. B. Six Months. C. 180 days.

Q4. ITC can be availed on__

A. Possession of prescribed invoice/ debit note.

B. Receipt of goods/services.

C. Fulfilling all the above conditions.

Q5. ITC can be claimed by a registered person for__

A. Taxable supplies for non-business purpose.

B. Taxable supplies for business purpose.

C. Exempted supplies.

Q6. As per Section 17(5), in respect of Goods / services used for personal consumption then ITC cannot be availed:

A. No. B.Yes. C. Depends on supplier.

Q7. Eligibility of credit on capital goods in case of change of scheme from Composition scheme to Regular scheme___

A. Yes, immediately before the date from which he becomes liable to pay tax under theRegular scheme.

B. Eligible during application for Regular scheme.

C. Not eligible.

Q8. Sale of Capital Goods can be utilised Upon sale, tax must be paid, or the ITC reversed, whichever is____

A. Higher. B. Lower. C. Anyway.

Answers:

Q1. C. Q2. A. Q3. C. Q4. C. Q5. B. Q6. B.

Q7. A. Q8. A.

Essay type Questions and Answers:

Q1. What is input tax?

Answer: Input tax means the central tax (CGST), State tax (SGST), integrated tax(IGST) or Union territory tax (UTGST) charged on supply of goods or services or bothmade to a registered person. It also includes tax paid on reverse charge basis andintegrated goods and services tax charged on import of goods. It does not include taxpaid under composition levy.

Q2. Mention four conditions necessary for obtaining ITC?

Answer: Following four conditions are to be satisfied by the registered taxable personfor obtaining ITC:

1. He is in possession of tax invoice or any other specified tax paying document.
2. He has received the goods or services. “Bill to ship to” scenarios also included.
3. Tax is actually paid by the supplier.
4. He has furnished the return under section 39.

Q3. What is the tax implication of supply of capital goods by a registered person whohad taken ITC on such capital goods?

Answer: In case of supply of capital goods or plant and machinery on which ITC hasbeen taken, the registered person shall pay an amount equal to the ITC taken on thesaid capital goods or plant and machinery reduced by 5% per quarter or part thereoffrom the date of invoice or the tax on the transaction value of such capital goods,whichever is higher. However, in case of refractory bricks, moulds and dies, jigs andfixtures when these are supplied as scrap, the person can pay tax on the transactionvalue.

Q4. Discuss the Key Rules for ITC on Capital Goods?

The following are the key rules for ITC on Capital Goods:-

- **Eligibility:** Must be a registered taxpayer using goods for business purposes; cannot claim ITC on personal use or exclusively exempt supplies.
- **Depreciation Restriction:** If depreciation is claimed on the GST component (tax amount) under the Income Tax Act, 1961, ITC cannot be availed.

- **Apportionment (Rule 43):** If capital goods are used for both taxable and exempt/non-business purposes, the ITC is reversed proportionately over a deemed 5-year life. The formula is $T_m = \frac{T_c}{60}$, Where Tm is the credit per month and Tc is the total credit.
- **Reversal:** If capital goods used for exempt supplies are later used for taxable supplies, ITC can be claimed for the remaining life.
- **Time Limit:** ITC must be claimed by November 30th following the end of the financial year.

Model Questions:

Q1. Define ITC? Discuss eligibility criterion for claiming ITC?

Q2. What are matching principles? Discuss the mechanism of matching principles?

Q3. Discuss the conditions for Blocked credit under section 17(5)?

Q4. What are capital goods? Discuss the utilization rules for capital goods under ITC?

Q5. Discuss the Matching, reversal and reclaim of reduction in output tax liability under section 43 of the CGST Act?

Q6. Discuss the common issues in ITC?

5.9. FURTHER READING

- Goswami, A. (2017). Overview of Input Tax Credit. The Institute of Cost Accountants of India, Tax Bulletin October, 2017, Volume – 2.
- Motiyani, S. (2017). Matching of Input Tax Credit (ITC) Under GST. The Institute of Cost Accountants of India, Tax Bulletin December, 2017, Volume – 6.
- GST Council. (2017). Input Tax Credit Mechanism. National Academy of Customs, Indirect Taxes & Narcotics. www.cbic.gov.in
- Shridhar, B. (2025). Handbook onInput Tax Credit – GST. National Academy ofCustoms, Indirect Taxes& Narcotics, Palasamudram, 2025, Volume - 1.

UNIT 6: TAX INVOICES, CREDIT & DEBIT NOTES

UNIT 6: STRUCTURE

6.1. Learning Objectives

6.2. Introduction to Tax Invoices

6.2.1. Definition
6.2.2. Types of Tax Invoices
6.3. Time of Supply
6.3.1. Time of Supply for Goods
6.3.2. Time of Supply for Services
6.4. Bill of Supply
6.4.1. Purpose of bill of supply
6.4.2. Requirements of bill of supply
6.5. E-invoicing
6.5.1. Concepts and Threshold limits
6.5.2. IRN and QR Codes
6.6. Credit and Debit Notes and its Rules, Adjustments, and Reporting.
6.6.1. Credit Notes
6.6.2.Debit Notes,
6.7. Model Questions
6.8. Questions to Check Your Progress
6.9. Further Reading

6.1. LEARNING OBJECTIVES

In this unit you will be able to:

- Learn the concept of Tax Invoices and the types of Tax Invoices.
- Familiarized with the concept of Time of supply of Goods and Services and the purpose of these concepts under GST.
- Learn how the bill of supply is used, the purpose of bill of supply and the requirements.
- Learn about Credit and Debit Notes, its rules, adjustments and reporting under GST.

6.2. INTRODUCTION TO TAX INVOICES

Invoice is documentary evidence in support of a transaction between two parties where the seller issues the invoice against the sale made to the buyer who can present the purchase as legal. An Invoice entered into books of account for the purpose of recording revenue and confirm among the nature of supplies made by the supplier to the buyer and vice-vase. A “Tax

Invoice" is a document issued to the addressee/recipient specifying, along with the GSTIN, the description of taxable goods or services or both as well as value of taxable supply. "Tax Invoice" is usually issued after the completion of the supply of goods or services or both. GST Acts give immense importance to invoice and named it as tax invoice because it is one of the most important documents on the basis of which tax credit is availed by the recipient of goods or services or both (GSB).

6.2.1.DEFINITIONS

Subject to rule 7, a tax invoice is defined in section 31 shall be issued by the registered person containing the following particulars-

(a) Name, Address and GSTIN of the supplier;

(b) A consecutive serial number not exceeding sixteen characters, in one or multiple series, containing alphabets or numerals or special characters symbolised "-" and "/" respectively, and any combination thereof, unique for a financial year;

(c) Name, date, address and GSTIN of receiver; if registered.

(d) HSN code of goods or Accounting Code of services;

(e) Description and quantity of goods or services;

(f) Taxable value of supply of goods or services or both taking into account discount or abatement, if any; including, rate of tax (central tax, State tax, integrated tax, Union territory tax or cess);

(g) Amount of tax charged in respect of taxable goods or services (central tax, State tax, integrated tax, Union territory tax or cess);

(h) Place of supply along with the name of State, in case of a supply in the course of inter-State trade or commerce;

(i) Whether the tax is payable on reverse charge basis; and

(j)Signature or digital signature of the supplier or his authorized representative:

- Provided that the Commissioner may, on the recommendations of the Council, by notification, specify -

  (i) the number of digits of HSN code for goods or the Accounting Code for services, that a class of registered persons shall be required to mention, for such period as may be specified in the said notification, and

  (ii) the class of registered persons that would not be required to mention the HSN code for goods or the Accounting Code for services, for such period as may be specified in the said notification:

- ❖ Provided further that where an invoice is required to be issued under clause (f) of sub-section (3) of section 31, it shall bear the signature or digital signature of the recipient or his authorized representative.
- ❖ Provided also that in case of export of goods or services, the invoice shall carry an endorsement “Supply means for export on payment of integrated tax” or “Supply means for export under bond or letter of undertaking without payment of integrated tax”.
- ❖ Provided also that a registered person may not issue a tax invoice in accordance with the provisions of clause (b) of sub-section (3) of section 31.

6.2.2. Types of Tax Invoices

- **Tax Invoice**: All registered persons other than the supplier of exempted goods or services or both and composition dealer shall issue tax invoice for making taxable supply of goods or services or both including zero rated supplies. Tax invoice should contain various particulars as specified in rule 46 and rule 54.
- **Bill of Supply**: A registered person supplying exempted goods or services or both or paying tax under composition scheme shall, instead of a tax invoice, issue a bill of supply. There is no specified format for Bill of supply. Bill of supply should contain the particulars as specified in rule 49.
- **Invoice cum Bill of Supply**: A registered person making supply of goods or services or both to an unregistered person which consist of both taxable and exempted supply, may issue only one document i.e. invoice cum bill of supply for both taxable and exempted supply as specified in rule 46A.
- **Receipt Voucher**: A registered person shall, on receipt of advance payment with respect to any supply of goods or services or both, shall issue a receipt voucher. The receipt voucher should contain various particulars as specified in rule 50.
- **Refund Voucher**: A registered person, on receipt of advance payment with respect to any supply of goods or services or both shall issue a receipt voucher, but subsequently if no supply is made and no tax invoice is issued in pursuance thereof, the said registered person may issue to the person who had made the payment, a refund voucher against such payment. Refund voucher should contain the particulars as specified in rule 51.
- **Payment Voucher**: A registered person who is liable to pay tax under reverse charge shall issue a payment voucher at the time of making Handbook on Invoicing under GST

5 payment to the supplier. Payment voucher should contain the particulars as specified in rule 52.

- **Debit Note**: Every registered person shall issue debit note where the taxable value or tax charged in respect of supply is more than the taxable value or tax payable mentioned in the tax invoice. Debit note should contain the particulars as specified in rule 53.
- **Credit Note**: Every registered person may issue credit note to the recipient, where the taxable value or tax charged in the tax invoice is found to exceed the taxable value or tax payable in respect of any supply or where the goods are returned or where goods or services or both are found to be deficient. The credit note should contain the particulars as specified in rule 53.
- **Self-Invoice**: Section 31(3)(f) states that every registered person shall in respect of inward supplies which are covered under reverse charge mechanism under sub-section (3) or (4) to section 9 from an unregistered person, then such recipient shall raise a 'Self Invoice'. The self-invoice should contain the particulars as specified in rule 46.
- **Delivery Challan**: In case there is movement of goods for the following reasons and no tax invoice/debit note/credit note/bill of supply is being issued then delivery challan can be issued for such situations:

  ♦ Supply of liquid gas where the quantity at the time of removal from the place of business of the supplier is not known;
  ♦ Transportation of goods for job work;
  ♦ Transportation of goods for reasons other than by way of supply;
  ♦ Transportation of goods in a semi-knocked down or completely knocked down condition or in batches or lots; or
  ♦ Such other supplies as may be notified by the Board.

Delivery challan should contain the particulars as specified in rule 55of CGST Rules.

6.3.Time of Supply

The GST is payable on supply. This supply may be of goods or services or both. A supply consists of various elements that can be separated in time like when:

(1)An agreement to supply of goods or services is made.

(2)These services are rendered or the goods are delivered.

(3) The invoice is issued.

(4) The payment is made.

(5) The due date for issue of invoice arises.

Now, a question arises at which of the above points of time will GST become payable? The concept of time of supply provides answers to all such and other questions that arise on the timing of the liability to pay GST.

MEANING OF TIME OF SUPPLY

The time of supply means the point in time when a supply shall be deemed to have been provided. This determines the time when the liability to pay would arise. In other words, the time of supply fixes the point in time when the liability to pay tax arises. The supply under GST includes both goods and services. The CGST Act provides separate provisions for the supply of goods (vide section 12) and supply of services (vide section 13).

KEY CONCEPTS FOR UNDERSTANDING TIME OF SUPPLY (TOS):

The time of supply under GST has been linked with events like issue of invoice, receipt of payment, due date of issue of invoice, etc. The basic philosophy of time of supply, as appears from the provisions, reflects that the law desires to collect the tax to the earliest possible time. Before analysing the related statutory provisions given in sections 12 and 13, there are certain terms and concepts which must be understood first. These points have been discussed here so as to maintain the significance and depth of the specific provision.

Meaning of Supplier [Section 2(105)]

The supplier in relation to any goods or services or both, shall mean the person supplying the said goods or services or both and shall include an agent acting as such on behalf of such supplier in relation to the goods or services or both supplied.

Meaning of Recipient [Section 2(93)]

The recipient of supply of goods or services or both, means-
(a) Where a consideration is payable for the supply of goods or services or both, the person who is liable to pay that consideration;
(b) Where no consideration is payable for the supply of goods, the person to whom the

goods are delivered or made available, or to whom possession or use of the goods is given or made available; and

(c) Where no consideration is payable for the supply of a service, the person to whom the service is rendered, and any reference to a person to whom a supply is made shall be construed as a reference to the recipient of the supply and shall include an agent acting as such on behalf of the recipient in relation to the goods or services or both supplied.

Forward and Reverse Charge

Usually, the supplier is liable to pay tax, popularly called as Forward Charge. The Government is empowered under section 9(3) of the CGST Act, to specify the categories of supply of goods and/or services, the tax on which shall be paid by the recipient of such goods/services. When the liability to pay tax lies with the recipient, instead of supplier, it is termed as Reverse Charge.

Time of issue of invoice for supply

As per section 31 of the CGST Act, an invoice for supply of goods needs to be issued before or at the time of removal of goods for supply to the recipient, where the supply involves movement of goods. However, in other cases, an invoice needs to be issued before or at the time of delivery of goods or while making goods available to the recipient.

Similarly, an invoice for supply of services needs to be issued before or after the provision of service but not later than thirty days from the date of provision of service.

6.3.1. Time of supply of goods

Earliest of the following dates:

- Date of issue of invoice by the supplier. If the invoice is not issued, then the last date on which the supplier is legally bound to issue the invoice with respect to the supply;
- Date on which the supplier receives the payment;

Section 148 of the CGST Act, 2017, confers powers on the government (on the recommendation of the GST Council) to notify certain classes of registered persons and the special procedures to be followed by such persons including those with regard to registration, furnishing of return, payment of tax and administration of such persons. In exercise of powers conferred by this section, the government on the recommendations of the GST Council has notified the registered persons (who have not opted for composition levy) as the class of persons who shall pay GST on outward supply of goods at the time of supply specified in clause (a) of sub-section (2) of Section 12. Thus, in respect of supply of goods by normal registered

persons (other than composition dealers), the time of supply will be the issue of invoice (or the last date by which invoice has to be issued in terms of Section 31) Therefore, all taxpayers (except composition taxpayers) are exempted from paying GST at the time of receipt of advance in relation to supply of goods. The entire GST shall be payable only when the invoice is issued for such supply of goods. The special procedure will be applicable to this class of persons (registered persons making supplies of goods other than composition dealers) even in situations governed by Section 14 of the Act (change in rate).

Time of supply of goods when tax is to be paid on reverse charge basis

Earliest of the following dates:

- Date of receipt of goods;
- Date on which the payment is entered in the books of accounts of the recipient or the date on which the payment is debited in his bank account, whichever is earlier;
- Date immediately following 30 days from the date of issue of invoice or any other legal document in lieu of invoice by the supplier

However, if it is not possible to determine the time of supply in aforesaid manner, then the time of supply is the date of entry of the transaction in the books of accounts of the recipient of supply.

6.3.2. Time of supply of services

Earliest of the following dates:

- Date of issue of invoice by the supplier (If the invoice is issued within the legally prescribed period under section 31(2) of the CGST Act) or the date of receipt of payment, whichever is earlier;
- Date of provision of service (If the invoice is not issued within the legally prescribed period under section 31(2) of the CGST Act) or the date of receipt of payment, whichever is earlier;
- Date on which the recipient shows the receipt of service in his books of account, in case the aforesaid two provisions do not apply

The supply of goods or services shall be deemed to have been made to the extent it is covered by the invoice or by the payment, as the case may be.

Time of supply of services when tax is to be paid on reverse charge basis

Earliest of the following dates:

• Date of payment as entered in the books of account of the recipient or the date on which the payment is debited in his bank account, whichever is earlier

• Date immediately following 60 days from the date of issue of invoice or any other legal document in lieu of invoice by the supplier

However, if it is not possible to determine the time of supply in aforesaid manner, then the time of supply is the date of entry of consideration shall be the date on which supplier receives such addition in value.

Change in Rate of Tax in respect of supply of goods or services

The normal time of supply rules changes if there is a change in the rate of tax of supply of goods or services. In this scenario, time of supply has to be determined in the following manner:

Supply is completed before the change in rate of tax

Invoice issued before the date of change in tax rate	Payment received before the date of change in tax rate	Time of supply	Applicable rate of tax
No	No	Earliest of the date of invoice or payment	New rate of tax
Yes	No	Date of issue of invoice	Old tax rate
No	Yes	Date of receipt of payment	Old tax rate

However, the special procedure for payment of tax by suppliers of goods (other than composition dealers) notified by Government vide notification no. 66/2017-Central Tax dated 15.11.2017 under section 148 of the CGST Act, 2017, will continue to govern even in the above situation. In a nutshell, suppliers of goods other than composition dealers will have to pay tax at the time of issue of invoice only.

Date of receipt of payment in case of change in rate of tax

Normally the date of receipt of payment is the date of credit in the bank account of the recipient of payment or the date on which the payment is entered into his books of account, whichever is earlier. However, in cases of change in rate of tax, the date of receipt of payment is the date of

credit in the bank account if such credit is after four working days from the date of change in rate of tax.

6.4.1. Invoice-cum-bill of supply

Where a registered person is supplying taxable as well as exempted goods or services or both to an unregistered person, a single-invoice-cum-bill of supply may be issued for all such supplies.

Contents of Bill of Supply

A bill of supply shall be issued by the supplier containing the following details:

a) Name, address and GSTIN of the supplier;
b) A consecutive serial number, in one or multiple series, containing alphabets or numerals or special characters, hyphen or dash and slash symbolised as "-" and "/" respectively, and any combination thereof, unique for a financial year;
c) Date of its issue;
d) Name, address and GSTIN or UIN, if registered, of the recipient;
e) HSN Code of goods or Accounting Code for services;
f) Description of goods or services or both;
g) Value of supply of goods or services or both taking into account discount or abatement, if any; and
h) Signature or digital signature of the supplier or his authorized representative.

Difference between Bill of Supply and Tax Invoice

Aspects	Bill of supply	Tax invoice
Purpose	Used when GST is not applicable to the transaction	Used when GST is applicable and charged
Who can issue	Composition dealers, exempt suppliers, and exporters without ITC	Regular registered businesses making taxable supplies
GST mention on	GST is not shown on the bill	GST must be mentioned (CGST, SGST/UTGST, IGST)
Input Tax Credit (ITC)	Buyer cannot claim ITC	Buyer can claim ITC
HSN/SAC code requirement	Required if applicable based on turnover	Required for most taxable supplies

6.4.2. Requirements of bill of supply

(a) Name, address and GSTIN of the supplier;

(b) A consecutive serial number not exceeding sixteen characters, in one or more multiple series, containing alphabets or numerals or special characters;

(c) Date of its issue;

(d) Name, address and GSTIN or UIN, if registered, of the recipient;

(e) HSN Code of goods or Accounting Code forservices;

(f) Description of goods or services or both;

(g) Value of supply of goods or services or both taking into account discount or abatement, if any; and

(h) Signature or digital signature of the supplier or his authorized representative.

6.5. E-invoicing

E-Invoice means electronic invoice which is to be generated by the taxpayer. It is a system in which B2B invoices are authenticated electronically by Goods and Services Tax Network ("GSTN") for further use on the common GST portal. It doesn't mean generation of invoice by a government portal.

Its applicable to-

- Taxpayers whose aggregate turnover (based on PAN) in a financial year >500 Crores.
- Few Sectors/persons exempted: SEZ units, Insurance, Banking (including NBFCs), Goods Transport Agency (transporting goods by rood in goods carriage), Passenger transport services, Multiplex Cinema Admissions.

The timeline of e-Invoicing coverage is traced below:

Notification Ref (CGST)	Effective Date	Turnover limit forcoverage underE-Invoicing
13/2020 dt. 21st March 2020 read with 61/2020 dt. 30th July 2020	1st October 2020	Above500 crores
14/2020 dt. 21st March 2020 (For QR Code)	1st October 2020	Above500 crores

71/2020 dt. 30th September 2020 (For QR Code)	1st December 2020	Above500 crores
88/2020 dt. 10th November 2020	1st January 2021	Above100 crores
05/2021 dt. 08th March 2021	1st April 2021	Above50 crores
01/2022 dt. 24th February 2022	1st April 2022	Above20 crores
17/2022 dt. 01st August 2022	1st October 2022	Above 10 crores
10/2023 dt. 10th May 2023	1st August 2023	Above 5 crores

The basic objectives for bringing e-invoice system from GST perspective is to provide better services to the taxpayer, reduction of tax evasion and bringing efficiency in tax administration. There is a myth among the trade that generation of e-invoice in GST means the generation of invoice in GSTN portal, but it is not so. The registered persons can generate invoice in their own accounting or billing software but what has been introduced to bring uniformity in trade is to upload specified particulars of invoice in Form GST INV-01 on Invoice Registration Portal (IRP) and will then generate a unique Invoice Reference Number (IRN) and quick response code. This system of e-invoicing will only be applicable to those whose aggregate turnover is above the prescribed limit.

Its benefits include-

- Reporting and authentication of B2B invoices from the common portal will ensure that GST ANX-1 and ANX-2 are auto-prepared in the new format. It also auto prepares GSTR 1 for B2B supplies.
- E-invoicing can be further used for creating e-way bills by providing only vehicle details.
- Invoices uploaded by suppliers for authentication will be automatically shared with buyers for reconciliation.
- The system will auto-match input credit liability with output tax.
- E-invoice can be created for Debit/Credit Notes, Invoices, and other eligible documents.

GSTN's e-invoice will contain the following parts:

1. E-invoice scheme: As per a paper published by the GSTN, India has adopted the SIMPoL (Standard Invoice Messaging Protocol) standard for flow of information during the e-invoice generation process. The scheme was separately adopted. It consists of the technical fieldname, description of each field, whether it is mandatory or not, andhas a few sample values along with explanatory notes.

a) Some mandatory fields are invoice type, invoice no., date, bill to, GSTIN, State code, address, item, taxable value, advance adjusted, total invoice value, GST rate, tax amounts etc.
b) Some of the optional fields are supplier email, phone no., batch details, pre-tax details, payee name, mode of payment etc.

2. Masters: Masters will specify the set of inputs for certain fields, that are pre-defined by GSTN itself. It includes fields like UQC, State Code, invoice type, supply type, etc.

3. E-invoice template: The template is as per the GST Rules and enables the reader to correlate the terms used in other sheets. The mandatory fields are marked in green and optional fields are marked in yellow.

a) Businesses are required to generate an electronic invoice on every sale on their respective ERPs. Creating an e-invoice is the prior responsibility of the taxpayer (dealer);
b) The standard invoice format is pre-fixed by authorities for every business so that proper details are extracted;
c) The e-invoice thus generated needs to be reported to the Invoice Registration Portal (IRP) of GST;
d) On the portal, the Invoice Reference Number (IRN) will be generated and the invoice will be signed digitally;
e) Then a QR code will be generated. The code contains all the vital information related to the invoices which will be re-directed to the taxpayer who filed the invoices;
f) The IRP will send a copy of the signed invoices to the provided email id of the recipient of the document as provided in the e-invoice.

Threshold limits

Threshold Limit	***Type of invoice to be issued ase-invoice***
5 Cr < Aggregate Turnover < 500 Cr	B2B and exports
Aggregate Turnover > 500 Cr	All i.e. B2B and exports + B2C*

6.5.2. IRN and QR Codes

Invoice Reference Number (IRN): The IRN is a unique number, also known as hash, generated by the IRPusing a hash generation algorithm, under the e-invoicing system. For every document such as an invoice or debit or credit note to be submitted on the Invoice Registration Portal, a 64-character invoice reference number shall be generated. This number shall be unique for every invoice raised in a financial year by a Goods and Services Tax Identification Number ("GSTIN") in the entire GST system. Further, every invoice being issued by supplier to his recipient must contain the IRN.

The IRP will then generate a unique Invoice Reference Number ("IRN") after which invoice details are transferred from the IRP to GST portal and e-way bill portal. Therefore, it eliminates the need for manual data entry each time.

Invoice Registration Portal allows invoice registration on the GST system through API mode in addition to other modes.

- IRP helps to integrate its e-invoicing system to the taxpayer's business invoicing system;
- The portal even helps the taxpayer to get the credentials through which he can access APIs. Registration for API access is complete once the OTP sent on the verified mobile number and email id is entered;
- RP provides details related to integrating the business systems to their-invoice systems through APIs;
- Code extracts and master data are provided to have proper knowledge of logic and concepts;
- With the help of the portal, developers can improve the performance of APIs by understanding and testing the API methods.

QR Codes: The QR code will enable quick view, validation and access of the invoices from the GST system. It will be generated by IRP after uploading JSON of invoices. The QR code will consist of the following e-invoice parameters:

1. GSTIN of supplier;
2. GSTIN of recipient;
3. Invoice number as given by supplier;
4. Date of generation of invoice;
5. Invoice value (taxable value and gross tax);
6. Number of line items;
7. HSN Code of main item (the line item having highest taxable value);

8. Unique Invoice Reference Number (hash);

6.6. CREDIT AND DEBIT NOTES

6.6.1. Credit Notes

Definition

Where a tax invoice has been issued for supply of any goods or services or both and the taxable value or tax charged in that tax invoice is found to exceed the taxable value or tax payable in respect of such supply, or where the goods supplied are returned by the recipient, or where goods or services or both supplied are found to be deficient, the registered person, who has supplied such goods or services or both, may issue to the recipient what is called as a credit note.

Rules

Under section 34(1) of the GST Act, the following are the rules in which a credit note is to be issued, With effect from 01.02.2019 –

A registered person, who has issued one or more tax invoices for supply of any goods or services or both, may issue to the recipient of the supply one or more credit notes for the supplies made in a financial year under any of the following situations:

a) Where the taxable value or tax charged in the tax invoice exceeds the taxable value or tax payable in respect of such supply; or
b) Where the goods are returned by the recipient; or
c) Where goods or services or both supplied by the supplier are found to be deficient.

Thus, a registered person may issue a credit note for multiple tax invoices in respect of supplies made in a financial year. Looking from a different perspective, a credit note cannot be issued for multiple tax invoices in respect of supplies made during different financial years.

Adjustment of tax liability

The person who issues a credit note in relation to a supply of goods or services or both must declare the details of such credit note in the return for the month during which such credit note has been issued but not later than September following the end of the financial year in which such supply was made, or the date of furnishing of the relevant annual return, whichever is earlier. In other words, the output tax liability cannot be reduced in cases where credit note has been issued after September.

The output tax liability of the supplier gets reduced once the credit note is issued and it is matched. The details of the credit note relating to outward supply furnished by the supplier for a tax period shall, be matched:

a) With the corresponding reduction in the claim for input tax credit by the recipient in his valid return for the same tax period or any subsequent tax period; and
b) For duplication of claims for reduction in output tax liability.

Reporting

Credit notes in GST must be reported in GSTR-1 (Table 9B) for the month of issuance, allowing suppliers to reduce output tax liability. They must be issued and reported by the earlier of November 30th following the end of the financial year or the date of filing the relevant annual return.

Key Aspects of GST Credit Note Reporting

- **Reporting Mechanism:** Suppliers report credit notes in GSTR-1, which auto-populates the recipient's GSTR-2A/2B for Input Tax Credit (ITC) reversal.
- **Time Limit:** To claim tax reduction, the credit note must be declared in GSTR-1 by November 30th after the financial year of the original supply or the annual return filing date, whichever is earlier.
- **B2B vs. B2C:**
  - **B2B:** Report in GSTR-1 Table 9B, specifying the original invoice number and date.
  - **B2C:** Reported in GSTR-1 Table 7 as a consolidated value or net of sales.
- **Impact on Liability:** The supplier’s tax liability is reduced in GSTR-3B after reporting in GSTR-1.
- **Recipient Action:** The recipient must reverse the ITC corresponding to the credit note received, as per the Finance Act 2025 updates.

6.6.2. Debit Notes

Definition

A GST debit note is a legal document issued by a supplier to increase the taxable value or tax amount charged in an original invoice. Debit Note is used for any kind of reimbursement or Debit Note is used in any kind of Sales or Purchase Invoice. Debit Note is issued against any

Purchase which will be Part of GSTR2 whereas Debit Note against any Sales will be Part of GSTR1.

Rules

- **When to Issue:** When the taxable value/tax in the original invoice is lower than the actual supply value.
- **Who Issues:** Only the registered supplier can issue a debit note.
- **Mandatory Particulars:**
    - Document header ("Debit Note").
    - Name, address, and GSTIN of the supplier.
    - Unique serial number (16 characters, alphanumeric/hyphens) for the financial year.
    - Date of issue.
    - Name, address, and GSTIN/Unique ID of the recipient.
    - Reference to the original tax invoice/bill of supply number and date.
    - Taxable value, tax rate, and tax amount.
    - Signature/Digital Signature.
- **Time Limit:** There is no specific time limit for issuing a debit note; it can be issued anytime for an upward revision.
- **ITC Claim:** As per 2021 amendments, input tax credit (ITC) for a debit note is tied to the date of the *debit note*, not the original invoice.

Tax liability

- The issuance of a debit note or a supplementary invoice creates additional tax liability. The treatment of a debit note or a supplementary invoice would be identical to the treatment of a tax invoice as far as returns and payment are concerned.

Key Aspects of Reporting Debit Notes in GST:

- **When to Report:** A debit note is reported in the GSTR-1 return for the same month it is issued by the supplier.

- **Where to Report (GSTR-1):** The details are entered in the **"Credit/Debit Notes"** section, specifically under **Table 9B** for registered (B2B) or unregistered (B2C) recipients.
- **Information Required:**
    - Original Tax Invoice Number and Date.
    - Debit Note Number (consecutive, max 16 characters).
    - Date of Issue.
    - Recipient's GSTIN (if registered).
    - Taxable value and tax amount (IGST/CGST/SGST/Cess).

6.7. MCQ TO CHECK YOUR PROGRESS

Q1. Tax Invoice must be issued within _____from the date of removal of goods sent or taken on approval for sale or return.

a. 3 months

b. 30 days

c. 15 days

d. 6 months

Q2. Which documents is to be issued by the consignor instead of tax invoice for transportation of goods for job work?

a. E – way bill

b. Delivery Challan

c. Debit Note

d. Receipt Voucher

Q3. Bill of Supply is issued by the registered person –

a. Paying tax under composition scheme

b. Supplying exempted goods or services or both

c. (a) and (b) both

d. None of the above

Q4. If prices are increased renegotiations, the supplier should issue

a. Credit note with GST

b. Debit note without GST

c. Credit note without GST

d. Debit note with GST

Q5. Which document is issued when goods are returned by the recipient?

A. Debit Note.

B. Tax Invoice.

C. Credit Note.

D. Bill of Supply.

Q6. E-invoicing is mandatory for businesses with a turnover exceeding:

A. ₹1 Crore.

B. ₹5 Crore.

C. ₹10 Crore.

D. ₹50 Crore.

Q7. What document must a registered person issue when supplying exempted goods or services?

A. Tax Invoice

B. Bill of Supply

C. Delivery Challan

D. Receipt Voucher

Q8. Refund Voucher shall be issued if supply is not made and tax in voice not issued against-

A. Debit note

B. Receipt voucher

C. Credit note

D. Bill of supply

Q9. A bill of supply can be issued in case of inter-State and intra-State-

A. Exempted supplies

B. Supplies to unregistered persons

C. Both of above

D. None of the above.

Q10. The receipt voucher must contain-

A. Details of goods or services

B. Invoice reference

C. Full value of supply

D. None of the above

6.8. QUESTIONS TO CHECK YOUR PROGRESS

Q1. What is tax invoice? Discuss the various types of tax invoice used in GST?

Q2. What is time of supply? Discuss the key components of time of supply?

Q3. What is bill of supply? How time of supply is different from tax invoice?

Q4. Explain e-invoicing? What are contains required in an e-invoice under GSTN?

Q5. Explain Credit note and Debit Note?

Q6. What are IRN and QR Codes? How IRN and QR Codes different from its other?

6.9. FURTHER READING

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UNIT 8 GST RATES & HSN/SAC CODES

UNIT STRUCTURE

8.1 Learning Objectives

8.2 Meaning and Importance of HSN and SAC

8.3 Structure and Classification of Goods and Services

8.4 Determination of Correct HSN/SAC Codes

8.5 GST Rate Structure (0%, 5%, 12%, 18%, 28%)

8.6 Nil-Rated and Zero-Rated Supplies

8.7 Reverse Charge Mechanism (RCM) with Reference to GST Rates& its applicability

8.8 Let Us Sum Up

8.9 Further Readings

8.10 Answer to Check Your Progress

8.11 Model Questions

8.1 LEARNING OBJECTIVES

In the Goods and Services Tax (GST) framework, one of the most critical aspects is the **classification of goods and services**. Proper classification ensures that the correct tax rate is applied, compliance is uniform, and disputes are minimized. To achieve this, two standardized coding systems are used:

- **HSN (Harmonized System of Nomenclature)** for goods.
- **SAC (Services Accounting Code)** for services.

These codes act as a universal language for identifying products and services across industries, countries, and jurisdictions. They bring structure, clarity, and consistency to the taxation process.

8.2 MEANING AND IMPORTANCE OF HSN AND SAC

8.2.1 Meaning & Purpose:

HSN (Harmonized System of Nomenclature)is an internationally accepted coding system developed by the **World Customs Organization (WCO)**. It provides a standardized method for classifying goods across countries and industries. By using HSN codes, goods are identified in a uniform manner, which simplifies taxation, trade, and compliance processes.

The primary purpose of HSN is to classify goods systematically based on their **nature,composition, and usage**.

- It ensures that similar goods are grouped together under a common code.
- It helps governments and businesses apply the correct tax rates.
- It facilitates international trade by providing a common language for product identification.
- It reduces ambiguity and disputes in taxation by offering clear guidelines for classification.

8.2.2 Importance of HSN in GST

1. **Uniformity:** HSN codes provide a common classification system for goods across industries and countries. This uniformity ensures that the same product is identified in the

same way, regardless of where it is manufactured, traded, or consumed. For example, rice classified under HSN 1006 will be recognized as rice in India, Europe, or the United States. This consistency eliminates confusion, promotes standardization, and makes taxation more predictable and reliable.

2. **Correct Taxation:** Each HSN code is directly linked to a specific GST rate. By using the correct code, businesses can ensure that the right tax rate is applied to each product. This prevents both underpayment and overpayment of taxes. For instance, basic food items may fall under the 0% GST category, while luxury cars under HSN 8703 attract 28% GST plus cess. Accurate classification protects businesses from penalties and ensures that consumers are charged fairly.
3. **Trade Facilitation:** HSN is an internationally recognized system, which means it aligns with global standards of trade. Exporters and importers benefit from this system because goods are classified uniformly across borders. This simplifies customs procedures, reduces delays in shipments, and ensures smooth clearance of goods. For example, an exporter in India using HSN codes can easily match product descriptions with customs authorities in Europe, making international trade more efficient and transparent.
4. **Dispute Reduction:** One of the major challenges in taxation is ambiguity in product identification. HSN codes minimize this risk by providing clear and precise product descriptions. This reduces disputes between taxpayers and authorities regarding applicable tax rates. For example, if a business classifies a product incorrectly, it may face litigation or denial of input tax credit. With HSN, such disputes are minimized because the classification is standardized and universally accepted.
5. **Compliance:** Under GST law, it is mandatory for businesses to mention HSN codes on invoices and returns. This requirement ensures transparency in transactions and helps tax authorities track goods effectively. Compliance with HSN codes also builds credibility for businesses, as it shows adherence to legal requirements. Moreover, proper classification helps in audits, reduces the risk of penalties, and ensures smooth functioning of the tax system.

8.2.3 Practical Implications

- Businesses must use HSN codes in invoices, GST returns, and customs documentation.

- Incorrect classification can lead to penalties, denial of input tax credit (ITC), or disputes with tax authorities.

1. Use of HSN Codes in Business Documentation

Under the GST regime, businesses are required to **mention HSN codes** in all key compliance documents.

- **Invoices**: Every invoice issued must carry the correct HSN code for the goods supplied. This ensures that the product is properly classified and the right GST rate is applied.
- **GST Returns**: Monthly or quarterly GST returns filed by businesses must include HSN details. This helps tax authorities verify the accuracy of tax payments and input tax credits.
- **Customs Documentation**: For import and export transactions, HSN codes are mandatory. Customs authorities use these codes to identify goods, apply duties, and facilitate clearance.

By consistently using HSN codes, businesses maintain transparency and align with both domestic and international trade practices.

2. Risks of Incorrect Classification

Incorrect use of HSN codes can have serious consequences for businesses:

- **Penalties**: Misclassification of goods may attract fines or penalties under GST law. Authorities treat incorrect coding as non-compliance.
- **Denial of Input Tax Credit (ITC)**: If goods are wrongly classified, the input tax credit claimed by the buyer may be disallowed. This increases the cost burden on businesses.
- **Disputes with Tax Authorities**: Wrong classification often leads to disputes during audits or assessments. Businesses may have to justify their classification, which can result in litigation and financial stress.
- **Loss of Credibility**: Frequent errors in classification can damage a company's reputation with customers, suppliers, and regulators.

3. Importance of Accurate Classification

Accurate classification of goods using HSN codes is not just a compliance requirement—it is a **business necessity**.

- It ensures smooth audits and inspections.
- It protects businesses from unnecessary penalties and litigation.
- It builds trust with stakeholders by showing adherence to legal and regulatory norms.
- It facilitates seamless trade, especially in international markets where HSN is universally recognized.

8.2.4 SAC (Services Accounting Code)is a classification system introduced in India under the Goods and Services Tax (GST) framework. It is designed to identify and categorize services for taxation purposes. Just as goods are classified using the Harmonized System of Nomenclature (HSN), services are classified using SAC. This ensures that every service is properly recognized and taxed according to its category.

The purpose of SAC is to bring **clarity and uniformity** in the taxation of services.

- It helps categorize services systematically, ensuring that similar services are grouped under the same code.
- It enables businesses and tax authorities to apply the correct GST rate to each service.
- It simplifies compliance and reporting by providing a standardized reference for service classification.
- It reduces ambiguity, making taxation more transparent and minimizing disputes.

These examples show how SAC codes help in identifying services clearly, ensuring that the right GST rate is applied.

8.2.5 Importance of SAC in GST

1. Uniformity: The Services Accounting Code (SAC) provides a common classification system for services across industries. This uniformity ensures that similar services are grouped under the same code, regardless of the sector or business type. For example, consultancy services,

legal services, and accounting services all fall under specific SAC codes, which makes it easier for tax authorities and businesses to identify them consistently. This standardization eliminates confusion and promotes fairness in taxation.

2. Correct Taxation: Each SAC code is linked to a specific GST rate. By using the correct SAC, businesses can ensure that the right tax rate is applied to each service. This prevents errors such as underpayment or overpayment of taxes. For instance, transport services under SAC 9961 may attract a different GST rate compared to professional services under SAC 9983. Accurate classification protects businesses from penalties and ensures that consumers are charged fairly for the services they use.

3. Compliance: Under GST law, it is mandatory for businesses to mention SAC codes in invoices and GST returns. This requirement ensures that services are properly classified and reported to tax authorities. Compliance with SAC codes also helps businesses claim input tax credit (ITC) correctly, as authorities can easily verify the nature of services. Failure to mention SAC codes can lead to rejection of returns, denial of ITC, or penalties for non-compliance.

4. Transparency: SAC codes build trust between taxpayers and authorities by reducing ambiguity in service classification. When services are clearly identified with standardized codes, both parties have a common understanding of the tax liability. This transparency strengthens the credibility of businesses, improves communication with regulators, and enhances the overall efficiency of the tax system. It also reassures customers that businesses are adhering to legal requirements.

5. Dispute Reduction: Ambiguity in service classification often leads to disputes between businesses and tax officials. SAC codes minimize this risk by offering clear and precise identification of services. For example, if a company provides IT consultancy, the SAC code ensures that it is taxed under the correct category, leaving little room for disagreement. This reduces litigation, saves time and resources, and allows businesses to focus on growth rather than resolving tax disputes.

8.2.6 Practical Implications

- Businesses must use SAC codes in invoices, GST returns, and compliance documents.
- Incorrect classification of services can lead to penalties, denial of input tax credit (ITC), or disputes with tax authorities.
- Accurate use of SAC codes ensures smooth audits, proper ITC claims, and credibility in financial reporting.

1. Use of SAC Codes in Business Documentation

Under the GST regime, businesses are required to **mention SAC codes** in all compliance-related documents.

- **Invoices**: Every invoice for services must carry the correct SAC code. This ensures that the service is properly classified and the right GST rate is applied. For example, transport services under SAC 9961 must be clearly mentioned on invoices to avoid confusion.
- **GST Returns**: Monthly or quarterly GST returns filed by service providers must include SAC details. This helps tax authorities verify the accuracy of tax payments and input tax credits claimed.
- **Compliance Documents**: SAC codes are also used in audit reports, contracts, and other statutory filings. Their inclusion ensures transparency and consistency in reporting.

By consistently using SAC codes, businesses demonstrate adherence to GST rules and maintain credibility with regulators.

2. Risks of Incorrect Classification

Incorrect classification of services can have serious consequences for businesses:

- **Penalties**: Misclassification may attract fines or penalties under GST law. Authorities treat incorrect coding as non-compliance.
- **Denial of Input Tax Credit (ITC)**: If services are wrongly classified, the input tax credit claimed by the recipient may be disallowed. This increases the cost burden on businesses and disrupts cash flow.

- **Disputes with Tax Authorities**: Wrong classification often leads to disputes during audits or assessments. Businesses may have to justify their classification, which can result in litigation and financial stress.
- **Loss of Credibility**: Frequent errors in classification can damage a company's reputation with customers, suppliers, and regulators.

3. Benefits of Accurate Classification

Accurate use of SAC codes is not just a compliance requirement—it is a **business necessity**.

- **Smooth Audits**: Proper classification ensures that audits are completed quickly and without disputes.
- **Proper ITC Claims**: Correct SAC codes allow businesses to claim input tax credit seamlessly, reducing tax liability.
- **Credibility in Financial Reporting**: Accurate classification builds trust with stakeholders, including customers, suppliers, and tax authorities.
- **Operational Efficiency**: Businesses save time and resources by avoiding disputes and penalties, allowing them to focus on growth.

8.3 STRUCTURE AND CLASSIFICATION OF GOODS AND SERVICES

In the GST regime, the correct classification of goods and services is essential for determining the applicable tax rate, ensuring compliance, and avoiding disputes. To achieve this, India follows internationally recognized systems for goods and a domestic classification system for services:

- **HSN (Harmonized System of Nomenclature)** for goods.
- **SAC (Services Accounting Code)** for services.

These systems provide a structured framework that categorizes products and services from broad groups to specific items, ensuring uniformity and transparency in taxation.

8.3.1 STRUCTURE OF GOODS CLASSIFICATION (HSN)

The **HSN code** is a globally recognized system developed by the World Customs Organization (WCO). It classifies goods based on their nature, composition, and usage.HSN codes are structured in a hierarchical format, making classification precise and easy to understand.

- **2-digit → Chapter** Represents a broad category of goods. *Example: Chapter 10 – Cereals.*
- **4-digit → Heading** Specifies a group of goods within the chapter. *Example: Heading 1006 – Rice.*
- **6-digit → Sub-heading** Provides a more detailed classification of goods. *Example: Sub-heading 1006.30 – Semi-milled or wholly milled rice.*
- **8-digit → Tariff item (India-specific)** Used in India for precise product description and tariff application. *Example: 1006.30.10 – Basmati rice.*

This layered structure ensures that goods are classified from general to specific, making taxation and trade more accurate.

Example of HSN Codes:

- HSN Code 1006 → Rice
- HSN Code 8703 → Motor Cars and Passenger Vehicles

8.3.2 STRUCTURE OF SERVICES CLASSIFICATION (SAC)

The **Services Accounting Code (SAC)** is used in India to classify services under GST. It provides a systematic way to identify services for taxation.SAC follows a **4-digit code system** that is simple yet comprehensive:

- **First two digits → Major service category** These digits represent the broad sector of services, such as transport, professional services, or education.
- **Next two digits → Specific service type** These digits provide a more detailed classification within the major category.

This hierarchical structure ensures that services are classified from general to specific, making taxation precise and easy to administer.

Examples of SAC Codes:

- **SAC 9983 → Other Professional, Technical, and Business Services** This category includes consultancy, legal, accounting, and other specialized professional services.
- **SAC 9961 → Transport Services** This category covers passenger transport, freight services, and other related activities.

8.4 DETERMINATION OF CORRECT HSN/SAC CODES

8.4.1. INTRODUCTION

In the Goods and Services Tax (GST) regime, the **correct classification of goods and services** is the foundation for applying the right tax rate, ensuring compliance, and avoiding disputes. Goods are classified using the **HSN (Harmonized System of Nomenclature)**, while services are classified using the **SAC (Services Accounting Code)**. Determining the correct code requires a systematic approach, as errors can lead to penalties, denial of input tax credit (ITC), or even litigation. Thus, businesses must carefully identify and apply the appropriate codes in all invoices, returns, and compliance documents.

8.4.2. STEPS FOR DETERMINING CORRECT HSN CODE (GOODS)

Step 1: Identify the Nature of Goods

- Understand the product's physical characteristics, composition, and intended use.
- Example: Rice is a cereal, so it falls under Chapter 10 of the HSN classification.

Step 2: Refer to GST Tariff Notifications

- Consult GST schedules and notifications issued by the government.
- These documents link HSN codes with applicable GST rates, ensuring accuracy in taxation.

Step 3: Match Product Description with HSN List

- Compare the product description with the official HSN classification.
- Example: HSN 1006 → Rice; HSN 8703 → Motor cars.

Step 4: Check Sub-Headings and Tariff Items

- Narrow down classification to 6-digit sub-headings and 8-digit tariff items for precision.
- Example: 1006.30.10 → Basmati rice.

Step 5: Verify with Customs/Trade References

- For imports/exports, cross-check with customs tariff schedules to ensure global alignment.
- This step ensures consistency in international trade and avoids misclassification at customs.

8.4.3. STEPS FOR DETERMINING CORRECT SAC CODE (SERVICES)

Step 1: Identify the Nature of Service

- Define the type of service provided (consultancy, transport, education, healthcare, etc.).
- Example: Consultancy services fall under professional categories, while freight services fall under transport.

Step 2: Refer to GST Service Classification List

- Use the official SAC list provided by the GST Council.
- Each service category is assigned a unique **4-digit code**.

Step 3: Match Service Description with SAC Code

- Compare the service description with SAC categories.
- Example:
    - **SAC 9983 → Professional, technical, and business services.**
    - **SAC 9961 → Transport services.**

Step 4: Apply Correct GST Rate

- Each SAC code is linked to a specific GST rate.
- Example: Transport services may attract **5% GST**, while consultancy services may attract **18% GST**.

Step 5: Ensure Consistency in Documentation

- Use the same SAC code across invoices, GST returns, and compliance documents.
- Consistency avoids discrepancies during audits and ensures smooth ITC claims.

8.5GST RATE STRUCTURE (0%, 5%, 18%, and 28% + cess)

The Goods and Services Tax (GST) in India is designed as a **multi-tier tax structure** to balance revenue collection with affordability for consumers. Different categories of goods and services are taxed at different rates depending on their nature, necessity, and impact on the economy. India's GST framework has moved towards simplification. The GST Council, in its 56th meeting (September 2025), introduced **GST 2.0**, a simplified regime aimed at reducing complexity and boosting compliance. The earlier five-slab system (0%, 5%, 12%, 18%, 28%) has now been consolidated into **three main slabs**: **0%, 5%, 18%, and 28% + cess**

8.5.1 GST RATE SLABS

Current GST Slabs (2026)

GST Slab	Applicability	Examples	Purpose
0% (Nil/Exempt)	Essential items, welfare goods, some medicines	Fresh fruits, vegetables, milk, bread, life-saving drugs	To protect consumers and ensureaffordability of basic necessities
5%	Everyday essentials and mass consumption items	Packaged food, edible oils, tea, sugar, economy-class air travel, transport services	To keep commonly used items affordable while generating moderate revenue

18% (Standard Rate)	Majority of goods and services	Industrial products, telecom services, financial services, restaurants, consumer durables	Considered the default rate, ensuring significant revenue collection
28% + cess (Luxury/Sin Goods)	Luxury and harmful products	Luxury cars, tobacco products, aerated drinks, premium consumer durables	To discourage consumption of luxury/sin goods and generate higher revenue

(a) 0% GST Rate (Nil/Exempt)

- Applicability: Essential items of daily use.
- Examples: Fresh fruits, vegetables, milk, bread, salt, life-saving drugs.
- Purpose: To protect consumers and ensure affordability of basic necessities.

(b) 5% GST Rate

- Applicability: Goods and services of mass consumption.
- Examples: Packaged food items, edible oils, sugar, tea, economy-class air travel, transport services.
- Purpose: To keep commonly used items affordable while generating moderate revenue.

(c) 12% GST Rate

- Applicability: Standard goods and services that are neither essential nor luxury.
- Examples: Processed food, computers, business-class air travel, certain household appliances.
- Purpose: Balanced taxation on items of regular consumption.

(d) 18% GST Rate (Standard Rate)

- Applicability: Majority of goods and services.
- Examples: Industrial products, telecom services, financial services, restaurants, consumer durables.
- Purpose: Considered the default GST rate, ensuring significant revenue collection.

(e) 28% GST Rate + cess**(Special Category)**

- Applicability: Luxury goods and sin items.
- Examples: Luxury cars, tobacco products, aerated drinks, premium consumer durables.
- Purpose: To discourage consumption of luxury/sin goods while generating higher revenue.
- Additional Cess: Tobacco, coal, and luxury cars attract cess over and above 28%

COMPARISON OF GST SLABS: OLD VS PRESENT

Aspect	Old GST Slabs (2017–2024)	Present GST Slabs (2025–26 onwards)	Key Change / Rationale
Exempt / Nil Rate	0% (essential goods & services)	0% (essential goods & services)	No change – essentials remain tax-free to protect consumers
Lower Rate	5%	5%	Retained for mass consumption items (food, transport, economy travel)
Intermediate Rate	12%	12%	Retained for standard goods/services (processed food, appliances)
Standard Rate	18%	18%	Retained as the default slab covering majority of goods/services
Luxury / Sin Rate	28% + cess (luxury cars, tobacco, aerated drinks)	28% + cess (luxury cars, tobacco, aerated drinks)	Retained but restricted only to luxury/sin goods; scope narrowed
Overall Structure	5 slabs (0%, 5%, 12%, 18%, 28%)	4 slabs (0%, 5%, 12%, 18%) + special 28%	Simplification: Reduced slabs for easier compliance

8.6NIL-RATED AND ZERO-RATED SUPPLIES

The Goods and Services Tax (GST) framework in India provides special treatment for certain categories of supplies to ensure fairness, promote exports, and protect consumers. Two important categories are **Nil-Rated Supplies** and **Zero-Rated Supplies**. While both are taxed at 0%, they differ significantly in terms of eligibility for input tax credit (ITC) and their impact on businesses.

8.6.1 NIL-RATED SUPPLIES

Meaning

Nil-rated supplies are goods or services that attract **0% GST**. This means no tax is charged on their sale. However, businesses dealing in nil-rated supplies **cannot claim input tax credit (ITC)** on the taxes paid for inputs used in producing these goods or services.

Examples

- Unbranded food items such as rice, wheat, and pulses.
- Fresh fruits and vegetables.
- Salt and other essential commodities.

Key Features

- Tax rate is 0%.
- No ITC available to the supplier.
- Primarily applied to essential goods to keep them affordable for consumers.

Implication

Nil-rated supplies reduce the tax burden on consumers but may increase costs for businesses since ITC cannot be claimed. This makes them different from zero-rated supplies.

8.6.2 ZERO-RATED SUPPLIES

Meaning

Zero-rated supplies are also taxed at **0% GST**, but unlike nil-rated supplies, businesses are **eligible to claim ITC** or even seek a refund of the taxes paid on inputs. This ensures that exports and supplies to Special Economic Zones (SEZs) remain competitive in the global market.

Examples

- Export of goods (e.g., textiles, machinery, agricultural products).
- Export of services (e.g., IT services provided to foreign clients).
- Supplies made to SEZ units or SEZ developers.

Key Features

- Tax rate is 0%.
- ITC/refund is available to the supplier.
- Encourages exports by removing tax burden and making Indian goods/services globally competitive.

Implication

Zero-rated supplies promote international trade and economic growth. Businesses benefit by claiming ITC or refunds, ensuring that taxes do not become a cost component in exports.

8.6.3 Difference Between Nil-Rated and Zero-Rated Supplies

Aspect	**Nil-Rated Supplies**	**Zero-Rated Supplies**
GST Rate	0%	0%
ITC Availability	Not allowed	Allowed (refund possible)
Examples	Unbranded food items, fresh vegetables	Exports, supplies to SEZ units
Purpose	To keep essentials affordable	To promote exports and global competitiveness

8.7REVERSE CHARGE MECHANISM (RCM) WITH REFERENCE TO GST RATES& ITS APPLICIBILITY

The **Reverse Charge Mechanism (RCM)** is a unique provision under the Goods and Services Tax (GST) where the **liability to pay tax shifts from the supplier to the recipient of goods or services**. Normally, the supplier collects GST from the buyer and deposits it with the government. However, under RCM, the recipient is responsible for paying GST directly. This mechanism is applied in specific cases to ensure tax compliance, especially in situations where the supplier may be unorganized, located outside India, or exempt from registration.

8.7.1. Applicability of RCM

RCM applies in the following scenarios:

- **Specified goods and services** notified by the GST Council (e.g., legal services, goods transport agency services).
- **Import of services** from outside India.
- **Supply by unregistered dealers** to registered persons (in certain cases).
- **Transactions with government or local authorities** in specified categories.

8.7.2. RCM and GST Rate Structure

RCM does not have a separate tax rate. Instead, the **same GST rate applicable to the goods or services under normal supply** is applied under RCM. The difference lies in **who pays the tax**.

- **0% GST Rate**: If the supply falls under exempt or nil-rated category, RCM does not apply since no tax is payable.
- **5% GST Rate**: Commonly applied to services like goods transport agency (GTA). Under RCM, the recipient pays 5% GST instead of the supplier.
- **12% GST Rate**: Certain services such as renting of immovable property by government to business entities may attract 12% GST under RCM.
- **18% GST Rate**: Professional services like legal consultancy, IT services, or import of services often fall under this slab. The recipient pays 18% GST under RCM.

- **28%+ cess GST Rate**: Rare under RCM, but if notified goods or services fall in this category (e.g., luxury items), the recipient must pay 28% GST.

Thus, RCM ensures that the correct GST rate is applied to the transaction, but the responsibility of payment lies with the recipient.

8.7.3. Input Tax Credit (ITC) under RCM

- The recipient who pays GST under RCM can **claim ITC** on the tax paid, provided the goods or services are used for business purposes.
- This ensures that while the recipient bears the initial tax burden, they can offset it against their output tax liability.
- Example: A company availing legal services pays 18% GST under RCM but can claim ITC in its GST return.

8.7.4. Importance of RCM

1. **Ensures Tax Compliance**: The Reverse Charge Mechanism brings **unorganized sectors** into the tax net. Many service providers such as goods transport agencies (GTA), lawyers, or small suppliers may not be registered under GST. Under RCM, the responsibility to pay tax shifts to the recipient, who is usually a registered business. This ensures that even transactions involving unregistered suppliers are taxed correctly, thereby widening the tax base and strengthening compliance.
2. **Revenue Protection**: RCM acts as a safeguard against **tax evasion**. In cases where suppliers are unregistered or difficult to monitor, the government ensures revenue collection by shifting liability to registered recipients. For example, if a company avails legal services from an independent lawyer, the company pays GST under RCM. This mechanism prevents leakage of revenue and ensures that every taxable transaction contributes to government collections.
3. **Uniformity**: RCM applies the **same GST rate** as normal supply, ensuring fairness and consistency. Whether tax is paid by the supplier or the recipient, the rate remains unchanged (5%, 12%, 18%, or 28% + cess depending on the nature of goods/services).

This uniformity avoids confusion and maintains parity in taxation, ensuring that businesses are not disadvantaged simply because liability shifts under RCM.

4. **Transparency**: By making the recipient responsible for tax payment, RCM ensures that transactions are **traceable and accountable**. Every RCM transaction must be recorded in invoices, GST returns, and compliance documents. This transparency builds trust between taxpayers and authorities, reduces ambiguity, and makes audits more efficient. It also reassures customers and stakeholders that businesses are adhering to legal requirements.
5. **Encourages Registration**: RCM indirectly encourages suppliers to **register under GST**. Since registered businesses prefer dealing with compliant suppliers to avoid complexities, unregistered suppliers are motivated to register. This expands the GST network, improves compliance, and integrates more businesses into the formal economy. Over time, this strengthens the tax system and promotes a culture of accountability.

8.7.5. Practical Example

- A registered company hires a lawyer for consultancy.
- Legal services attract **18% GST**.
- Under RCM, the lawyer (supplier) does not charge GST. Instead, the company (recipient) pays 18% GST directly to the government.

8.8 LET US SUM UP

- HSN and SAC codes are essential for classification and correct GST rate application.
- GST follows a structured rate system: 0%, 5%, 12%, 18%, 28% + cess.
- Nil-rated supplies attract 0% GST without ITC, while zero-rated supplies (exports/SEZ) allow ITC/refund.
- Reverse Charge Mechanism shifts tax liability to the recipient, ensuring compliance in sensitive sectors.
- Accurate classification and rate application are crucial for avoiding disputes and ensuring smooth GST compliance.

8.9FURTHER READINGS

- *GST Law and Practice* by V.S. Datey
- *Concept of Goods and Services Tax in India* by Dr. Sanjiv Agarwal
- ICAI (Institute of Chartered Accountants of India) publications on GST.
- Taxation journals and online platforms like Taxmann and ClearTax for practical insights.

8.10ANSWER TO CHECK YOUR PROGRESS

Short Answer Questions

1. **Define HSN and SAC codes.**
    - HSN (Harmonized System of Nomenclature) is an internationally accepted coding system for classifying goods.
    - SAC (Services Accounting Code) is a classification system introduced in India to categorize services under GST.
2. **Differentiate between nil-rated and zero-rated supplies.**
    - Nil-rated supplies attract 0% GST but do not allow input tax credit (ITC).
    - Zero-rated supplies also attract 0% GST but allow ITC/refund, mainly applicable to exports and SEZ supplies.
3. **What is Reverse Charge Mechanism under GST?**
    - RCM is a provision where the liability to pay GST shifts from the supplier to the recipient of goods or services.
4. **State the GST rate applicable to luxury goods.**
    - Luxury goods generally fall under the 28% GST slab, often with an additional cess.
5. **Give one example each of goods under 0% and 28% GST.**
    - 0% GST: Fresh fruits and vegetables.
    - 28% GST: Luxury cars, tobacco products, aerated drinks.

Long Answer Questions

1. **Explain the structure and importance of HSN and SAC codes in GST.**
    - HSN provides a globally recognized classification for goods, ensuring uniformity, correct taxation, trade facilitation, and compliance.
    - SAC provides a systematic classification for services, ensuring clarity, transparency, and dispute reduction.
    - Both are mandatory in invoices, GST returns, and customs documents.
2. **Discuss the GST rate structure with examples of goods/services under each slab.**
    - 0%: Essential items (milk, cereals).
    - 5%: Mass consumption items (tea, sugar, GTA services).
    - 12%: Standard goods/services (processed food, computers).
    - 18%: Majority of services (legal consultancy, IT services).
    - 28% + cess: Luxury/sin goods (cars, tobacco, aerated drinks).
3. **Describe the concept of Reverse Charge Mechanism and its applicability with examples.**
    - RCM shifts tax liability to the recipient.
    - Applicable to legal services (18%), GTA services (5%), import of services, and certain government supplies.
    - Ensures compliance, revenue protection, and transparency.
4. **Compare nil-rated and zero-rated supplies, highlighting their impact on ITC.**
    - Nil-rated: No GST, no ITC.
    - Zero-rated: No GST, ITC/refund allowed.
    - Impact: Nil-rated supplies keep essentials affordable, while zero-rated supplies promote exports and global competitiveness.
5. **Analyze the importance of correct classification of goods/services in GST compliance.**
    - Ensures correct tax rate application.
    - Prevents penalties and disputes.
    - Facilitates ITC claims.
    - Builds credibility and transparency in business operations.

8.11 MODEL QUESTIONS

Short Answer

1. Define HSN and SAC codes.
2. Differentiate between nil-rated and zero-rated supplies.
3. What is Reverse Charge Mechanism under GST?
4. State the GST rate applicable to luxury goods.
5. Give one example each of goods under 0% and 28% GST.

Long Answer

1. Explain the structure and importance of HSN and SAC codes in GST.
2. Discuss the GST rate structure with examples of goods/services under each slab.
3. Describe the concept of Reverse Charge Mechanism and its applicability with examples.
4. Compare nil-rated and zero-rated supplies, highlighting their impact on ITC.
5. Analyze the importance of correct classification of goods/services in GST compliance.

UNIT 9: GST RETURNS & COMPLIANCE

Meaning and Framework of GST Returns; GSTR-1: Outward Supply Return; GSTR-3B: Monthly Summary Return; Annual Return and Reconciliation.

UNIT STRUCTURE

9.1 Learning Objectives
9.2 Meaning and Framework of GST Returns
9.3 GSTR-1: Outward Supply Return
9.4 GSTR-3B: Monthly Summary Return
9.5 Annual Return and Reconciliation
9.6 Check Your Progress
9.7 Let Us Sum Up
9.8 Answers to Check Your Progress
9.9 Further Readings
9.10 Model Questions

9.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- Explain the concept and purpose of GST returns
- Understand the legal framework governing GST return filing
- Describe the structure and contents of GSTR-1
- Explain the features and importance of GSTR-3B
- Understand the significance of the Annual Return and reconciliation process
- Analyse compliance requirements under the GST regime

9.2 MEANING AND FRAMEWORK OF GST RETURNS

9.2.1 Meaning of GST Returns

Under India's Goods and Services Tax (GST) framework, every business or individual registered under GST has a legal obligation to file periodic statements known as GST returns. These returns act as formal records submitted to the tax authorities and contain comprehensive details about a taxpayer's financial activities during a given period.

In GST return, the main elements included are:

- **Outward supplies** – This section covers all sales made by the taxpayer. It specifies the value of goods or services sold and the amount of GST collected from customers. In simple terms, it reflects the revenue side of the business.
- **Inward supplies** – Here, details of purchases are reported. It shows the goods or services acquired from other suppliers and the GST paid on those transactions. This helps in calculating the eligible input tax credit.
- **Tax liability** – This is the total tax amount that the taxpayer owes to the government after adjusting credits. It represents the net responsibility of the business to pay GST based on its transactions.
- **Input Tax Credit (ITC)** – ITC allows businesses to reduce their tax burden by claiming credit for the GST already paid on purchases. For example, if a manufacturer pays GST on raw materials, that amount can be deducted from the tax payable on the final product.

By filing these returns electronically, taxpayers ensure transparency in their transactions and compliance with GST law. The return serves as the **primary tool for assessment**, allowing authorities to verify whether the correct amount of tax has been collected, paid, and credited. In essence, GST returns form the backbone of the GST system, enabling smooth administration, accountability, and fair taxation.

9.2.2 Legal Framework Governing GST Returns

The process of filing GST returns in India is not random; it is carefully regulated by law. The rules and procedures are laid down in the **Central Goods and Services Tax Act, 2017** along with the respective **State GST Acts**. These legislations ensure that taxpayers across the country follow a uniform system, making GST administration consistent and reliable.

To make this system efficient, India uses a strong technological platform called the **Goods and Services Tax Network (GSTN)**. GSTN acts as the digital backbone of the GST regime and provides a one-stop solution for taxpayers. Through this online portal, businesses can:

- **Register under GST** – apply for and obtain a GST identification number.
- **File returns electronically** – submit details of sales, purchases, tax collected, and tax paid.
- **Make tax payments** – pay their GST dues directly through the portal.
- **Claim and reconcile Input Tax Credit (ITC)** – match purchase details with supplier records to ensure accuracy.

By combining legal provisions with modern technology, the GST return filing system ensures transparency, reduces paperwork, and minimizes errors. It also helps tax authorities monitor compliance more effectively while giving taxpayers a convenient way to meet their obligations.

The framework of GST returns is based on the following principles:

The framework of GST returns in India is built on a few core principles that make the system fair, transparent, and easy to manage. These principles guide how taxpayers file their returns and how the government ensures compliance.

- **Self-Assessment of Tax Liability** Under GST, taxpayers are responsible for calculating their own tax liability. This means businesses must assess how much tax they owe based on their sales, purchases, and input tax credit. It encourages accountability and reduces dependence on manual assessments by authorities.
- **Periodic Reporting of Transactions** GST returns are filed at regular intervals—monthly, quarterly, or annually depending on the type of taxpayer. This ensures that all transactions are reported in a timely manner, keeping records up to date and preventing tax evasion.
- **Matching of Input Tax Credit (ITC)** One of the unique features of GST is the ITC mechanism. Purchases made by one taxpayer must match with the sales reported by another. This cross-verification helps prevent fraudulent claims and ensures that credits are only given for genuine transactions.
- **Electronic Filing and Payment** The entire GST return process is digital. Taxpayers file returns, make payments, and claim credits online through the GST portal. This reduces paperwork, saves time, and minimizes errors compared to manual filing.
- **Transparency and Audit Trail** Every return filed creates a digital record that can be tracked and audited. This audit trail ensures transparency in the system, making it easier for authorities to detect irregularities and for businesses to maintain clean compliance records.

9.2.3 Objectives of GST Return System

The GST return system aims to:

•**Accurate Reporting of Taxable Transactions:** The system ensures that businesses record all sales and purchases correctly. This accuracy helps maintain reliable data and prevents under-reporting or misreporting of transactions.

•**Proper Calculation and Payment of Tax:** By filing returns, taxpayers can calculate their exact tax liability and pay the right amount to the government. This reduces mistakes and ensures fairness in tax collection.

•**Seamless Flow of Input Tax Credit (ITC):** GST returns allow businesses to claim credit for the taxes they have already paid on purchases. This smooth flow of ITC prevents double taxation and reduces the overall tax burden on businesses.

•**Detection of Tax Evasion Through Data Matching:** Since returns from buyers and sellers are cross-verified, any mismatch in reported data can highlight irregularities. This mechanism helps authorities identify and curb tax evasion effectively.

•**Transparency and Accountability:** Every return filed creates a digital record that can be tracked and audited. This ensures openness in the system and holds taxpayers accountable for their declarations.

Thus, GST returns are not merely compliance documents but are instruments of tax administration and revenue monitoring.

9.3 GSTR-1: OUTWARD SUPPLY RETURN

9.3.1 Meaning and Purpose of GSTR-1

GSTR-1 is a GST return that every registered taxpayer must file either monthly or quarterly, depending on their turnover. GSTR-1 is a return that contains detailed information about outward supplies of goods and services made by a registered taxpayer during a tax period. It captures invoice-wise details of sales and is the foundation for input tax credit claims by recipients.

This includes:

- Sales invoices issued to customers (both B2B and B2C).
- Debit and credit notes related to sales.
- Exports and supplies to special economic zones (SEZs).
- Any other outward supply transactions.

In simple terms, GSTR-1 is the form where businesses declare what they have sold and the GST they have collected from customers

The primary purpose of GSTR-1 is to report:

- Taxable outward supplies: This includes all sales of goods and services on which GST is applicable. Businesses must report invoice-wise details such as GSTIN of the recipient, invoice number, date, taxable value, and tax charged. This ensures accurate tax liability calculation.

- Zero-rated supplies (exports):Exports of goods and services are considered zero-rated under GST. Even though no tax is charged, these transactions must be reported in GSTR-1. This allows exporters to claim refunds of input tax credit or IGST paid, thereby encouraging international trade.
- Nil-rated and exempt supplies:Supplies that attract a 0% GST rate (nil-rated) or are exempt under GST law must also be declared. Reporting these ensures that the government has a complete picture of all outward supplies, even those not contributing to tax liability.
- Debit and credit notes: Businesses often issue debit or credit notes to adjust the value of previously issued invoices—for example, correcting errors, offering discounts, or handling returns. GSTR-1 requires these adjustments to be reported so that tax liability is updated accordingly.
- Amendments to previously reported invoices:If any mistakes were made in earlier returns, such as incorrect GSTIN, invoice number, or taxable value, amendments can be made in subsequent GSTR-1 filing. This helps maintain accuracy and compliance over time.

9.3.2 Frequency and Filing Requirements

Taxpayers with aggregate turnover up to ₹5 crore in the preceding financial year may opt for the QRMP Scheme, under which GSTR-1 is filed quarterly, but tax is paid monthly through PMT-06 challan.The due date is prescribed by law and may vary depending on the category of taxpayer.

Timely filing of GSTR-1 is crucial because:

- It determines the availability of input tax credit to recipients
- Delays may attract late fees and interest
- Continuous default may lead to suspension of registration

Timely filing of **GSTR-1** is extremely important for businesses under GST because it directly impacts compliance, credibility, and financial standing. The foremost reason is that GSTR-1 determines the availability of **input tax credit (ITC)** to the recipients of supplies. When a supplier files GSTR-1 on time, the details of outward supplies get reflected in the recipient's

GSTR-2A/2B, enabling them to claim ITC smoothly. Any delay or non-filing creates a mismatch, which can block the recipient's credit and strain business relationships.

Another critical aspect is the **financial penalty** associated with late filing. The GST law prescribes late fees and interest for delays, which can accumulate over time and increase the compliance burden. Even if the tax liability is low, the late fee is mandatory, making timely filing not just a legal requirement but also a cost-saving measure.

Moreover, continuous default in filing GSTR-1 can have severe consequences, including the **suspension of GST registration**. Suspension restricts a business from making taxable supplies legally and can disrupt operations, damage reputation, and affect customer trust. In extreme cases, prolonged non-compliance may even lead to cancellation of registration, which is detrimental to business continuity.In essence, timely filing of GSTR-1 is not just about avoiding penalties—it ensures smooth flow of input tax credit across the supply chain, protects businesses from unnecessary financial liabilities, and safeguards their registration status. It is a cornerstone of GST compliance that every registered taxpayer must prioritize to maintain transparency, efficiency, and trust in their business dealings.

9.3.3 Contents and Structure of GSTR-1

The structure of GSTR-1 includes:

- B2B (Business-to-Business) supplies
- B2C (Business-to-Consumer) supplies
- Export invoices
- Credit and debit notes
- Tax liability details

The structure of GSTR-1 is designed to capture every type of outward supply made by a registered taxpayer in a systematic manner, ensuring that all transactions are properly accounted for under GST law. One of the key sections is B2B (Business-to-Business) supplies, where details of sales made to other registered businesses are reported. This includes invoice-wise

information such as GSTIN of the recipient, taxable value, and tax charged. Accurate reporting here is crucial because it directly affects the recipient's ability to claim input tax credit.

Another important section is B2C (Business-to-Consumer) supplies, which covers sales made to end consumers who are not registered under GST. These transactions are generally reported in a consolidated manner, though high-value invoices may require detailed reporting. This ensures that even consumer-level sales are captured in the GST system.

The return also includes export invoices, which are treated as zero-rated supplies under GST. Even though no tax is levied on exports, reporting them in GSTR-1 is essential for businesses to claim refunds of input tax credit or IGST paid, thereby supporting international trade and compliance.

Additionally, the structure accommodates credit and debit notes, which are issued to adjust the value of previously reported invoices. For example, a credit note may be issued for returned goods or discounts, while a debit note may be used to increase the taxable value. Including these ensures that tax liability is correctly updated and reconciled.

Finally, GSTR-1 requires disclosure of tax liability details, which summarize the total GST payable on outward supplies for the period. This section provides a clear picture of the taxpayer's obligations and ensures that the government has accurate records of tax collections.

In essence, the structure of GSTR-1 is comprehensive, covering business-to-business and business-to-consumer transactions, exports, adjustments through notes, and overall tax liability. This systematic reporting framework not only helps businesses remain compliant but also strengthens transparency and efficiency in the GST ecosystem.

The return requires invoice-level reporting for most taxable supplies. The details furnished in GSTR-1 are auto-populated in the recipient's **GSTR-2A (dynamic)** and **GSTR-2B (static monthly statement)**. Input Tax Credit (ITC) can be availed subject to the conditions of Section 16 of the CGST Act and must be reflected in GSTR-2B.

9.3.4 Importance in GST Compliance

GSTR-1 forms the backbone of the GST return system because it ensures transparency in reporting outward supplies. Proper reporting reduces mismatches and strengthens compliance through system-based validation.

GSTR-1 plays a pivotal role in the Goods and Services Tax (GST) framework as it serves as the primary document for reporting outward supplies. As mentioned above, it is essentially the backbone of the GST return system because it ensures that every taxable transaction is recorded in a transparent and structured manner. By accurately filing GSTR-1, businesses provide the government with a clear picture of their sales, which helps in maintaining accountability and reducing the chances of tax evasion.

Proper reporting through GSTR-1 minimizes mismatches between the supplier's and recipient's records, thereby avoiding unnecessary disputes and notices. Since the GST system is designed with automated checks and validations, compliance becomes stronger when data is correctly reported. This system-based validation not only enhances trust between taxpayers and authorities but also streamlines the process of claiming input tax credits.

In short, GSTR-1 is not just a statutory requirement but a critical compliance tool. It strengthens the integrity of the GST ecosystem, promotes transparency, and ensures smooth functioning of the tax system for both businesses and regulators.

9.4GSTR-3B: MONTHLY SUMMARY RETURN

9.4.1 Meaning of GSTR-3B

GSTR-3B is a self-declared summary return that registered taxpayers are required to file on a monthly basis. Unlike GSTR-1, which captures invoice-wise details of outward supplies, GSTR-3B consolidates figures into a summarized format. This makes it a practical tool for taxpayers to declare their overall tax liability without going into transaction-level reporting.

The return includes key components such as outward supplies, inward supplies liable to reverse charge, eligible input tax credit (ITC), and the net tax payable. By filing GSTR-3B, businesses ensure timely payment of taxes and maintain compliance with GST regulations. It acts as a

bridge between detailed reporting in GSTR-1 and the actual discharge of tax liability, thereby supporting the smooth functioning of the GST system.

In essence, GSTR-3B simplifies compliance by allowing taxpayers to report consolidated data, while still ensuring that the government receives accurate information on tax dues. This dual mechanism of detailed (GSTR-1) and summary (GSTR-3B) returns strengthens transparency, reduces errors, and ensures that tax credits and liabilities are properly aligned.

9.4.2 Components of GSTR-3B

The major components of GSTR-3B include:

- **Details of outward taxable supplies:** Taxpayers must declare the value of goods and services supplied outward, which forms the basis of their tax liability.
- **Details of inward supplies under reverse charge:**Any purchases that attract reverse charge liability are reported here, ensuring that tax obligations on such transactions are met.
- **Eligible input tax credit:**Businesses can claim ITC on inputs, input services, and capital goods, which helps reduce their overall tax burden.
- **Payment of tax (CGST, SGST, IGST, Cess):**The consolidated tax liability is declared and discharged through the return, ensuring compliance with all categories of GST.
- **Interest and late fees, if any:**Any delay in filing or payment attracts interest and late fees, which must also be reported in GSTR-3B.

The tax liability declared in GSTR-3B must be discharged either through the **electronic cash ledger** (actual payment of tax) or the **electronic credit ledger** (utilization of ITC). This dual mechanism ensures flexibility for taxpayers while maintaining accuracy in tax settlement.

9.4.3 Significance of GSTR-3B

GSTR-3B is a crucial return under the GST framework because it directly impacts the monthly settlement of tax liabilities. Its importance can be understood through the following points:

- **Ensures monthly payment of tax**: By mandating taxpayers to declare and pay their tax dues every month, GSTR-3B helps maintain a steady flow of revenue to the government. This regularity strengthens fiscal discipline and avoids accumulation of liabilities.
- **Acts as a summary of overall tax liability**: Unlike GSTR-1, which provides invoice-level details, GSTR-3B consolidates figures into a summary format. This makes it easier for taxpayers to declare their net liability while still ensuring accuracy in reporting.
- **Prevents revenue leakage**: Since taxpayers must declare outward supplies, inward supplies under reverse charge, and eligible input tax credit, the return minimizes chances of under-reporting or evasion. It ensures that the government receives its rightful share of taxes.
- **Forms the basis for departmental scrutiny**: The figures reported in GSTR-3B are used by tax authorities to monitor compliance. Any inconsistencies between GSTR-1 and GSTR-3B can trigger scrutiny, making it a vital tool for enforcement and transparency.

In essence, GSTR-3B is not just a compliance requirement but a safeguard for the GST system. It ensures timely tax collection, strengthens accountability, and supports the government in maintaining a robust and transparent tax regime.

Any discrepancy between GSTR-1 and GSTR-3B may trigger notices or demand proceedings. Therefore, reconciliation between these returns is essential.

9.5ANNUAL RETURN AND RECONCILIATION

Under the GST framework, every registered taxpayer—except for certain specified categories such as casual taxpayers, non-resident taxpayers, and input service distributors—is required to file an **annual return** at the end of the financial year. This return serves as a consolidated statement that brings together all the information furnished in monthly or quarterly returns throughout the year.

The annual return provides a comprehensive overview of the taxpayer's activities and compliance status. It typically contains:

- **Aggregate turnover**: The total value of supplies made during the financial year.

- **Details of outward and inward supplies**: A summary of sales and purchases, including supplies liable to reverse charge.
- **Tax paid during the year**: Information on the taxes discharged under CGST, SGST, IGST, and Cess.
- **Input tax credit availed and reversed**: A record of ITC claimed during the year and any reversals made in compliance with GST rules.

By consolidating this data, the annual return ensures transparency, helps reconcile discrepancies, and provides the government with a clear picture of a taxpayer's overall compliance. It is not just a reporting requirement but an important mechanism for accountability and accuracy in the GST system.

9.5.2 Purpose of Annual Return

The annual return under GST is more than just a statutory filing requirement—it serves several important functions that strengthen compliance and transparency in the tax system.

- **Provides a consolidated summary of yearly transactions**: By compiling data from monthly or quarterly returns, the annual return gives a complete picture of a taxpayer's activities over the entire financial year.
- **Facilitates self-review and correction**: Filing the annual return allows taxpayers to revisit their records, identify any errors or omissions, and make necessary corrections before finalizing their compliance for the year.
- **Assists tax authorities in risk assessment**: The consolidated data helps authorities evaluate the accuracy of reporting and identify potential risks or irregularities. This makes the annual return a valuable tool for monitoring compliance.
- **Enhances transparency in reporting**: Since the return captures all major aspects of turnover, supplies, taxes paid, and input tax credits, it ensures that both taxpayers and authorities have a clear and reliable record of yearly transactions.

Overall, the annual return ensures that taxpayers conduct a thorough review of their compliance for the year, reconcile discrepancies, and maintain accountability. It acts as a safeguard against inconsistencies and strengthens the integrity of the GST framework.

9.5.3 Reconciliation Statement

In certain cases, taxpayers are required to furnish a **reconciliation statement** certified by a Chartered Accountant or Cost Accountant. This statement is an important compliance document because it ensures that the figures reported in GST returns are consistent with the financial records maintained by the business.

The reconciliation statement involves a comparison of:

- **Audited financial statements** – the verified accounts of the business prepared at the end of the financial year.
- **Annual return filed under GST** – the consolidated return submitted by the taxpayer.
- **Turnover declared in books of accounts** – the figures recorded in the taxpayer's own accounting records.

The objective of this reconciliation is to confirm accuracy and consistency between financial records and GST returns. If any differences are identified, they must be explained clearly and appropriately.

This process enhances transparency, reduces the scope for discrepancies, and provides tax authorities with confidence in the reliability of reported data. For taxpayers, it serves as a safeguard against errors and strengthens credibility in both financial and tax reporting practices.

9.5.4 Importance of Reconciliation in Compliance

Reconciliation under GST is a critical compliance mechanism that ensures accuracy and consistency between a taxpayer's financial records and GST returns. It strengthens the overall reliability of the GST framework by addressing potential gaps and errors.

Reconciliation serves the following purposes:

- **Detecting under-reporting or excess credit claims**: By comparing financial statements with GST returns, reconciliation helps identify cases where outward supplies may have been understated or input tax credit overstated.

- **Identifying errors in tax computation**: Mistakes in calculating tax liability can be spotted and corrected during reconciliation, ensuring that the correct amount of tax is paid.
- **Ensuring alignment between accounting records and GST filings**: Reconciliation confirms that the figures in the books of accounts match those reported in GST returns, thereby maintaining consistency and transparency.
- **Reducing the risk of penalties and litigation**: By detecting and rectifying discrepancies early, reconciliation minimizes the chances of disputes with tax authorities and avoids unnecessary penalties.

Thus, the **annual return and reconciliation together act as the final compliance check** under the GST framework. They provide taxpayers with an opportunity to review the entire year's transactions, correct inconsistencies, and demonstrate accountability, while also giving tax authorities confidence in the accuracy of reported data.

9.6CHECK YOUR PROGRESS

Q1. What is meant by a GST return?

Q2. What is the primary purpose of GSTR-1?

Q3. How does GSTR-3B differ from GSTR-1?

Q4. Why is reconciliation important in GST compliance?

Q5. Who provides the technological backbone for GST return filing inIndia?

9.7LET US SUM UP

This unit explained the concept and framework of GST returns as an essential component of the GST regime in India. GST returns are statutory statements filed electronically by registered taxpayers to report transactions and discharge tax liability.

The unit discussed GSTR-1 as the detailed outward supply return that ensures invoice-level reporting and enables input tax credit flow. It examined GSTR-3B as a monthly summary return used for declaring and paying tax liability.

Further, the unit highlighted the significance of the Annual Return and reconciliation process, which provide a consolidated view of yearly transactions and ensure consistency between financial statements and GST filings.

Overall, GST returns form the backbone of compliance under the GST system, promoting transparency, accountability, and effective revenue administration.

9.8ANSWERS TO CHECK YOUR PROGRESS

Answer to Q1: A GST return is a periodic statutory statement filed electronically by a registered taxpayer containing details of supplies, tax liability, and tax payment.

Answer to Q2: The primary purpose of GSTR-1 is to report detailed information about outward supplies made during a tax period.

Answer to Q3: GSTR-1 contains invoice-wise details of outward supplies, whereas GSTR-3B is a summarized monthly return of tax liability and input tax credit.

Answer to Q4: Reconciliation is important to ensure consistency between financial records and GST returns and to detect errors or mismatches.

Answer to Q5: The Goods and Services Tax Network (GSTN) provide the technological backbone for GST return filing in India.

9.9FURTHER READINGS

- GST Law and Practice by V.S. Datey
- Indirect Taxes – GST by Dr. Vinod K. Singhania
- Official GST Portal (India) – Guidance Notes and Return Filing Manuals
- ICAI Study Material on GST

9.10MODEL QUESTIONS

Q1. Explain the meaning and framework of GST returns under the GST regime.

Q2. Discuss the structure, contents, and significance of GSTR-1 in GST compliance.

Q3. Describe the features of GSTR-3B and analyse its role in tax payment and compliance.

Q4. Explain the importance of the Annual Return and reconciliation statement in ensuring transparency under GST.

Q5. Compare GSTR-1 and GSTR-3B with reference to structure, purpose, and compliance implications.

Goods and services tax

Unit 10- GST registration

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1.1 LEARNING OBJECTIVES OF GST REGISTRATION-

After studying this topic ,learner will be **able to**:

*Understand the concept and significance of GST registration.

*Identify the Eligibility criteria,Threshold limits, and types of GST registration.

*Gain knowledge about the document required and the procedure for obtaining GST registration,

*Understand the benefit of GST registration.

*Understand the consequences of non registration and provisions for cancellation of GST registration

1.2 Introduction:

The procedure through which a company or individual becomes a registered taxpayer under the Goods and Services Tax (GST) statute is known as GST registration. It gives the taxpayer a distinct Goods and Services Tax Identification Number (GSTIN) that allows them to comply with legal requirements, claim input tax credits, and collect taxes. Businesses that operate in certain supplier categories or whose turnover surpasses the specified threshold are required to register for GST. In order to comprehend and apply GST in practice, proper registration is crucial since it guarantees the tax system's transparency, legal recognition, and seamless operation.

1.3 Registration under GST:

The process of registering a firm to lawfully collect GST from customer and obtain input tax credits is known as GST(Goods and services tax) registration.Depending on sort of operation or turnover,it is required for some firm .
A GSTIN(GST Identification number),a special 15 digit number ,is given to the company after company

1.3.1 Meaning and importance of GST Registration:

GST registration is the process by which a business gets officially registered under the **Goods and Services Tax (GST)** law. Once registered, the business is assigned a **unique GST Identification Number (GSTIN)**. This allows the business to legally collect GST from customers and claim input tax credit on purchases.

In India, GST registration is **mandatory** for businesses whose turnover exceeds the prescribed threshold or who fall under specific categories (such as inter-state suppliers, e-commerce sellers, etc.).

Importance of GST Registration

1. **Legal Recognition**: Makes the business a legally recognized supplier of goods or services under GST law.

2. **Right to Collect Tax:** Only GST-registered businesses can charge GST to customers and pass it on to the government.

3. **Input Tax Credit (ITC)**:Enables businesses to claim credit for GST paid on purchases, reducing the overall tax burden.

4. **Inter-State Trade**: GST registration is mandatory for businesses engaged in inter-state supply, allowing seamless trade across India.

5.Increased Business Credibility: Registered businesses are considered more reliable by customers, suppliers, and financial institutions.

6. Avoidance of Penalties: Operating without GST registration when required can lead to heavy penalties and legal action.

7. Access to E-commerce Platforms: GST registration is compulsory for selling goods or services through online marketplaces like Amazon or Flipkart.

8. Uniform Tax Structure: Helps simplify indirect taxes and ensures transparency in taxation.

1.3.2 GSTIN and its structure :

Meaning of GSTIN

The Goods and Services Tax Identification Number is known as a GSTIN. Every company or taxpayer registered under the GST system in India is assigned a unique 15-digit identification number. GSTIN is used for all GST-related compliance, tax payment, and return filing.

Structure of GSTIN (15 Degit)

Each digit in the GSTIN has specific meaning as follows
Example GSTIN:`27ABCDE1234F1Z5`

Digits 1–2: State Code

- Represents the state in which the taxpayer is registered.
- Based on the Indian Census 2011 state codes.
- Example: 27 = Maharashtra, 09 = Uttar Pradesh.

Digits 3–12: PAN of the Taxpayer

- These 10 digits represent the Permanent Account Number (PAN) of the taxpayer.
- PAN is issued by the Income Tax Department.
- Example format: ABCDE1234F.

Digit 13: Entity Number

• Indicates the number of registrations the taxpayer has within the same state.
• It is alphanumeric (1–9, then A–Z).
• Example: 1 for first registration, 2 for second.

Digit 14: Default Alphabet (Z)

• This digit is currently fixed as the letter 'Z'.
• Reserved for future use.

Digit 15: Check Code

• An alphanumeric digit used for error detection.
• Helps verify the correctness of the GSTIN.

1.4Person not liable for registration.:

Person Not Liable for Registration refers to a person who is not required to register under the GST Act due to the nature of their business or turnover. Such individuals are involved in activities that are exempt from GST, non-taxable, fall below the prescribed threshold limit, or are otherwise specifically exempted by the government. Because their supplies do not attract GST, registration is not required; nevertheless, voluntary registration may be obtained if necessary.

1.4.1 Exempted persons:

An Exempted Person under India's Goods and Services Tax (GST) system is a person or company that, according to the nature of their suppliers or turnover,

is not required to pay GST or register for GST.

Under GST law, an exempted person is not subject to the same requirements as a registered taxable person.

Categories of Exempted Persons under GST Registration:

• **Agriculturists:** To the extent that a person or Hindu Undivided Family (HUF) supplies produce from land cultivation, they are not required to register.

• Individuals/Entities Making Only Exempt or Non-Taxable Supplies: Regardless of their total turnover, anyone solely involved in the business of providing goods or services that are either completely exempt from GST (such as fresh milk, healthcare services, or educational services) or not subject to tax (such as alcohol for human consumption or petroleum products) is not required to register.

- **Businesses Below the Threshold Limit:**

- Usually, an individual is not required to register if their total yearly revenue does not over the designated threshold limit.

For products, the limit is generally ₹40 lakhs (or ₹20 lakhs in states that fall under a separate category).

For services: The limit is generally ₹20 lakhs (₹10 lakhs for special category states).
Note: This threshold exemption is not available for certain categories that require compulsory registration, such as inter-state suppliers or casual taxable persons.

- **Persons Liable for Tax under Reverse Charge Mechanism (RCM):** A person who makes only supplies where the recipient is required to pay the tax under the reverse charge mechanism is exempt from obtaining registration.

- **Employees Providing Services to Employers:** Services rendered by an employee to the employer in the course of or in relation to employment are outside the scope of GST and do not require registration.

- **Specific Government Functionaries:** Duties performed by Members of Parliament (MPs), Members of Legislative Assemblies (MLAs), and individuals holding constitutional posts are exempt.

1.4.2 Agriculturists and notified categories.

Agriculturalists and GST Registration
Section 23 of the Central Goods and Services Tax (CGST) Act of 2017 offers a clear exemption for farmers.

Definition of Agriculturist: An "agriculturist" is an individual or a Hindu Undivided Family (HUF) who cultivates land using their own labor, the labor of their family, or contracted labor under their personal supervision or that of a family member**.**

Scope of exemption:

The exemption is limited to the supply of produce deriveded from land cultivation

Conditions and Limitations:

Processing:

The exemption only cover primary processing that does not change the producer orginal qualities(e.gTending,cutting, cleaning,bulk,packaging to make it viable for the primary market, additional processing such as grinding paddy into rice,or producing jam from fruit is typically taxed.

Other Activities:

If an agriculturist engages in other commercial activities (such as horse breeding or running a dairy farm for commercial milk processing above the basic level), those activities may require GST registration if the turnover exceeds the general threshold.

Notified categories of special Threshold:

A notified category refers to persons or classes of person that the government notified as exempt from tax.

Following are the some notified categories of special threshold

* Farmer producer organizations:

(FPOs) are eligible for a 1.5 crore registration concession under FPO Act,2022

* Persons exclusively supplying exempt goods or services:

Registration is not necessary if all supplies are completely exempt or zero-rated. Example include Educational services provided by qualified organization, Healthcare services by clinical establishments

*Persons below threshold limit

If aggregate turnover is below:

₹20 lakh (most States)

₹10 lakh (Special Category States)

Not required to register

(Unless compulsory registration applies)

*Government departments / local authorities :

When engaged in sovereign function.

1.5Compulsory registration

Regardless of their turnover limit, some individuals are required to register under the Goods and Services Tax Act. This is known as compulsory registration under GST. Certain groups, including interstate suppliers, casual taxable individuals, non-resident taxable individuals, individuals obligated to pay tax under reverse charge, e-commerce operators, and individuals providing goods or services through e-commerce platforms, are required to register under Section 24 of the CGST Act. Ensuring appropriate tax compliance, expanding the revenue base, and preventing tax evasion under the GST regime are the goals of mandatory registration.

1.5.1 Categories of Persons Required to Obtain Mandatory Registration under GST

As per Section 24 of the CGST Act, the following categories of persons are required to obtain compulsory GST registration irrespective of their turnover:

1. Persons making inter-State taxable supply.
2. Casual taxable persons.
3. Non-resident taxable persons.
4. Persons liable to pay tax under reverse charge mechanism.
5. Electronic commerce operators required to collect tax at source (TCS).
6. Persons who supply goods or services through an e-commerce operator.
7. Persons required to deduct tax at source (TDS) under GST.
8. Input Service Distributors (ISD).
9. Persons supplying online information and database access or retrieval (OIDAR) services from outside India to persons in India.
10. Such other persons as may be notified by the Government.

1.5.2 Inter-State Suppliers and Special Cases (Compulsory GST Registration)

Inter-state suppliers are persons who supply goods or services from one State or Union Territory to another. Under Section 24 of the CGST Act, inter-state taxable suppliers are required to obtain compulsory GST registration, irrespective of their aggregate turnover.

Special cases requiring mandatory registration include casual taxable persons who occasionally undertake taxable supplies in a State where they do not have a fixed place of business, and non-resident taxable persons who supply goods or services in India from outside the country. Additionally, persons supplying through e-commerce platforms, those liable to pay tax

under the reverse charge mechanism, and electronic commerce operators required to collect tax at source must also register compulsorily.

1.6 Threshold Limits for Registration under GST

Threshold limit for registration under GST refers to the minimum aggregate turnover beyond which a person is required to obtain GST registration. Under the GST law, a supplier is liable to register if the aggregate turnover in a financial year exceeds **₹20 lakh** in the case of supply of services and **₹40 lakh** in the case of supply of goods.

For **special category States** (such as northeastern states and hilly states), the threshold limit is lower, i.e., **₹10 lakh** for both goods and services. Aggregate turnover includes all taxable supplies, exempt supplies, exports, and inter-state supplies, but excludes GST itself.

However, these threshold limits do not apply to persons who are required to obtain **compulsory registration** under Section 24 of the CGST Act.

1.6.1 Turnover Limit for Goods and Services under GST:

Under the GST law, registration becomes mandatory when a supplier's aggregate turnover exceeds the prescribed threshold limit in a financial year. For suppliers of **goods**, the turnover limit is **₹40 lakh**, while for suppliers of **services**, the limit is **₹20 lakh**.

In the case of **special category States**, the threshold limit is **₹20 lakh for goods** and **₹10 lakh for services**. Aggregate turnover includes taxable supplies, exempt supplies, exports, and inter-state supplies, but excludes GST.

These limits are not applicable to persons who are required to obtain **compulsory registration** under Section 24 of the CGST Act.

1.6.1 In Special Category States,

The threshold limit for GST registration is lower than that applicable in normal States. A supplier is required to obtain GST registration if the aggregate turnover in a financial year exceeds **₹10 lakh** in case of supply of **services**. For supply of **goods**, the threshold limit is **₹20 lakh**, where applicable.

Special Category States include certain northeastern and hilly states as notified under the GST law. However, these threshold limits do not apply to persons who are required to obtain **compulsory registration** under Section 24 of the CGST Act.

1.7Procedure for GST registration:

The procedure of GST registration in India is a systematic and online process governed by the Central Goods and Services Tax Act, 2017. Any person liable to be registered under GST must apply through the official GST portal. The process begins with the submission of basic details such as Permanent Account Number (PAN), mobile number, and email address in Part A of Form GST REG-01, which are verified through One Time Passwords (OTP).

After successful verification, the applicant proceeds to Part B of Form GST REG-01, where detailed information regarding the business, place of business, nature of goods or services supplied, bank account details, and authorized signatory is provided. Supporting documents including proof of constitution of business, address proof, photographs, and bank details are uploaded along with the application.

The application is then examined by the proper officer. If the information furnished is complete and accurate, a Certificate of Registration in Form GST REG-06 containing the Goods and Services Tax Identification Number (GSTIN) is issued. In case of any discrepancy, the officer may seek clarification, and the applicant is required to respond within the prescribed time. Upon approval, the applicant becomes a registered person under GST

and is required to comply with statutory obligations such as tax payment, return filing, and record maintenance.

1.7.1 Online registration process:

Online GST Registration Process

The online GST registration process is a procedure through which eligible persons obtain registration under the Goods and Services Tax (GST) law. The entire process is carried out electronically through the official GST portal.

Firstly, the applicant has to visit the GST portal and select the option for new registration. In **Part A of Form GST REG-01**, basic details such as PAN, mobile number, email ID, and state are submitted. After this, an OTP is sent to the registered mobile number and email ID for verification.

Once the verification is completed, a **Temporary Reference Number (TRN)** is generated. Using this TRN, the applicant proceeds to **Part B of Form GST REG-01**, where detailed information regarding the business is filled in. This includes the name of the business, constitution, address of the place of business, nature of business activities, and bank account details.

After entering the details, the applicant uploads the required documents such as PAN, Aadhaar, address proof, bank account proof, and photographs. The application is then authenticated using a **Digital Signature Certificate (DSC)**, **Aadhaar authentication**, or **Electronic Verification Code (EVC)**.

The submitted application is examined by the GST officer. If the officer finds the details to be correct and complete, the registration is approved. In case of any discrepancy, clarification or additional information may be sought from the applicant.

Finally, upon approval, a **GST Registration Certificate (Form GST** issued and a **15-digit GST Identification Number (GSTIN)** is allotted to the applicant. This enables the registered person to collect tax and comply with GST provisions.

1.7.2 Document required

Documents Required for GST Registration

The following documents are required to be submitted at the time of online GST registration:

1. **PAN Card** of the applicant or business entity.
2. **Aadhaar Card** of the proprietor, partner, or director.
3. **Photographs** of the proprietor, partners, or directors.
4. **Proof of Business Address**, such as electricity bill, water bill, or rent agreement.
5. **Bank Account Details**, including first page of passbook or cancelled cheque.
6. **Proof of Constitution of Business**, such as:
    - Partnership Deed (for partnership firm)
    - Certificate of Incorporation (for company)
7. **Authorization Letter or Board Resolution** for authorized signatory.
8. **Digital Signature Certificate (DSC)** in case of companies and LLPs.
9. **Email ID and Mobile Number** of the applicant for verification.

These documents are uploaded online on the GST portal while filing **Form GST REG-01**.

1.7.3 Time Limit and Verification of GST Registration

Time Limit for Approval

1. If the application is complete and correct, the GST officer shall approve the registration **within 7 working days** from the date of submission.
2. If clarification or additional documents are required, the officer issues a notice in **Form GST REG-03** within **7 working days**.
3. The applicant must reply to the notice in **Form GST REG-04** within **7 working days** from the date of receipt of notice.
4. After receiving the reply, the GST officer shall approve or reject the application **within 7 working days**.

Deemed Approval
If the GST officer does not take any action within the prescribed time limit, the application is deemed to be approved and the **GST Registration Certificate (Form GST REG-06)** is issued automatically.

Verification of Application
After submission of the GST registration application in **Form GST REG-01**, the application is verified by the GST officer. The officer examines the correctness of the details and documents submitted by the applicant. If any discrepancy or deficiency is found, the officer may issue a notice seeking clarification or additional information.

1.8 Deemed Registration

1.8.1 Meaning and condition:

The term **"deemed"** means **considered or treated as something by law**, even if it is not actually done or formally declared.

Deemed registration refers to a situation where an application for GST registration is treated as approved automatically by law due to inaction by the proper officer within the prescribed time limit. In such cases, the registration is considered granted even without an explicit approval order.

In such cases, the GST Registration Certificate (Form GST REG-06) is issued electronically, and the applicant is allotted a GST Identification Number (GSTIN). Deemed registration ensures timely grant of registration and prevents unnecessary delay in the registration process.

Conditions of Deemed Registration

1. The applicant has submitted a complete GST registration application in **Form GST REG-01**.
2. All required details and documents are correctly furnished.
3. The proper officer does not take any action—approval, rejection, or request for clarification—within the prescribed time limit.
4. Due to such inaction, the registration is automatically approved by law.

5. A **GST Registration Certificate (Form GST REG-06)** is issued electronically.

1.8.2 Legal implication:

The legal implication of deemed registration is that the applicant is **legally treated as a registered person under GST** from the effective date of registration. Once registration is deemed to be approved, the applicant becomes bound by all provisions of the GST law. He is required to **collect GST**, **issue tax invoices**, **file GST returns**, and **pay tax** as applicable. The GST authorities also gain the power to **verify, inspect, and assess** the registered person. Any non-compliance after deemed registration may attract **penalties and legal action** under the GST Act.

1.9 Casual taxable person:

1.9.1 Meaning and registration procedure:

Meaning of Casual Taxable Person:

A **Casual Taxable Person** is a person who occasionally undertakes transactions involving the supply of goods or services in a taxable territory where he has no fixed place of business. Such a person supplies goods or services temporarily, for example, during exhibitions, fairs, or seasonal business activities.

Procedure of Registration for Casual Taxable Person

A casual taxable person is required to apply for GST registration at least **5 days prior** to the commencement of business. The application is made online in **Form GST REG-01**. At the time of registration, the applicant must make an **advance deposit of estimated GST liability** for the period for which registration is sought. The registration granted to a casual taxable person is **temporary** and is valid for a period of **90 days**, which may be extended for a further period of **90 days**. After registration, the casual taxable person must comply with all GST provisions such as issuing tax invoices, filing returns, and paying GST.

1.9.2 Validity period :

The GST registration granted to a Casual Taxable Person is temporary in nature. It is valid for a period of 90 days from the effective date of registration. The validity period may be extended once for a further period of 90 days on request by the registered person. Thus, the maximum validity period of registration for a casual taxable person is 180 days.

2.1 Non resident taxable person:

2.1.1 Concept and registration requirement:

Concept of Non-Resident Taxable Person:
A Non-Resident Taxable Person (NRTP) is a person who occasionally supplies goods or services in India but does **not have a fixed place of business or residence in India**. Such a person may be a foreign individual, company, or business entity supplying goods or services in India for a temporary period.

Registration Requirement
A non-resident taxable person is **compulsorily required to obtain GST registration**, irrespective of the turnover limit. The application for registration must be made **at least 5 days before the commencement of business** in India. Registration is applied for online in **Form GST REG-09**. At the time of registration, the non-resident taxable person must make an **advance deposit of estimated GST liability** for the period of registration. The registration granted is **temporary**, valid for **90 days**, and may be extended for a further **90 days**. After registration, the non-resident taxable person must comply with GST provisions such as payment of tax and filing of returns.

2.1.2 Advance tax payment:

A **Non-Resident Taxable Person (NRTP)** is required to make an **advance payment of GST** at the time of registration. The amount payable is an **estimated tax liability** for the period for which registration is sought. This advance tax must be paid **before the registration is granted** and is deposited electronically through the GST portal. The advance amount so paid is credited to the **electronic cash ledger** of the non-resident taxable

person and can be adjusted against the actual GST liability. If any balance remains after adjustment, it may be refunded as per GST provisions.

2.2 Spacial category state :

2.2.1 Meaning and list of special category state:

In the GST (Goods and Services Tax) system of India, a Special Category State is a group of states that are given special consideration because of their geographical difficulty, economic backwardness, hilly terrain, strategic location, or low revenue base.

For GST purposes, these states have different (usually lower) turnover limits for compulsory GST registration compared to normal category states.

Why Special Category Status Matters in GST

Lower GST registration threshold

Special Category States:

GST registration is compulsory if annual turnover exceeds ₹10 lakh

Normal Category States:

Threshold is ₹20 lakh (or ₹40 lakh for goods in some cases)

Policy support

These states often receive fiscal support and flexibility to promote business and development.

List of Special Category States under GST :

As per the GST Act (Section 22 explanation), the Special Category States are:

Arunachal Pradesh

Assam

Manipur

Meghalaya

Mizoram

Nagaland

Sikkim

Tripura

Himachal Pradesh

Uttarakhand

These states are officially treated as Special Category States for GST registration and compliance purposes.

2.2.2Threshold limits applicable:

Under the Goods and Services Tax (GST) framework in India, certain states are classified as Special Category States due to their distinct geographical, economic, and developmental conditions. To ensure ease of compliance and encourage small businesses in these regions, the GST law prescribes a lower threshold limit for registration.

For a taxable person operating in a Special Category State, GST registration becomes mandatory when the aggregate annual turnover exceeds ₹10 lakh. This threshold applies uniformly to suppliers of goods, services, or a combination of both.

The term aggregate turnover includes the total value of all taxable supplies, exempt supplies, exports, and inter-state supplies made by a person having the same Permanent Account Number (PAN), calculated on an all-India basis, but excludes GST and cess.

3.1 Amendment of registration:

Amendment of GST registration refers to the process by which a registered person updates or modifies the details furnished at the time of registration under the Goods and Services Tax (GST) law. Since business information may change over time, the GST framework allows such changes to ensure accuracy and legal compliance.

A registered person is required to apply for amendment when there is any change in core particulars such as legal name of the business, address of the principal place of business, or details of promoters and partners. Changes in non-core details, including contact information or bank account details, can also be updated through the GST portal.

Certain amendments, especially those relating to core fields, require approval from the proper GST officer, while non-core amendments are generally auto-approved. The amendment becomes effective from the date of occurrence of the change, as specified by the applicant.

3.1.1 Situation requiring amendment:

Amendment of GST registration is required whenever there is a change in the particulars originally furnished by a registered person at the time of GST registration. Such amendments ensure that the information available with the tax authorities remains accurate and up to date.

Amendment is required in the following situations:

1. Change in legal name of the business, without change in PAN.
2. Change in address of the principal place of business or additional places of business.
3. Change in details of promoters, partners, directors, or authorized signatories.
4. Change in business constitution, such as conversion from proprietorship to partnership, where PAN remains the same.
5. Addition, deletion, or modification of bank account details.
6. Change in contact details, including mobile number or email address of the registered person.

7. Change in contact details, including mobile number or email address of the registered person.
8. Change in nature of business activities, such as addition of goods or services supplied.

   However, if a change results in change of PAN, a fresh GST registration is required instead of amendment.

3.1.2 procedure and effect:

Procedure for Amendment of GST Registration

The procedure for amendment of GST registration is prescribed to enable a registered person to update any change in the particulars furnished at the time of registration. The amendment process is carried out online through the GST portal.

First, the registered person must submit an application for amendment in the prescribed form on the GST portal within the specified time from the date of change. The applicant is required to select the relevant fields to be amended and provide necessary supporting documents, wherever applicable.

Second, amendments relating to non-core particulars, such as contact details or bank account information, are generally processed on an automatic basis and do not require approval from the tax authorities.

Third, amendments involving core particulars, such as the legal name of the business or the address of the principal place of business, are examined by the proper GST officer. The officer may approve or reject the application after due verification.

Once the amendment is approved, the updated details are incorporated into the GST registration certificate, and the registered person is required to use the amended particulars in all future GST returns, invoices, and compliance documents.

Effect of Amendment of GST Registration:

The amendment takes effect from the date of occurrence of the declared by the registered person, unless otherwise specified by the tax authorities. After amendment, all GST returns, invoices, and compliance records must reflect the updated particulars.

The amendment does not affect the GSTIN, tax liability, or continuity of registration, provided there is no change in PAN. Thus, amendment ensures legal accuracy, administrative transparency, and uninterrupted business compliance under GST.

4.1 cancellation of registration:

Cancellation of GST registration means the official termination of a person's registration under the Goods and Services Tax (GST) law. After cancellation, the registered person is no longer recognized as a GST-registered taxpayer and is not permitted to collect GST or issue tax invoices.

Cancellation may occur at the request of the registered person or on the initiative of the tax authorities. It generally takes place when a business is discontinued, transferred, or no longer liable to be registered under GST, or when the taxpayer fails to comply with GST provisions.

Even after cancellation, the taxpayer remains liable for payment of tax, interest, or penalty relating to the period prior to cancellation and must file the final return as prescribed.

Thus, cancellation of GST registration represents the formal closure of GST obligations under the law.

4.1.1 Ground for cancellation:

GST registration may be cancelled when a registered person no longer fulfills the conditions prescribed under the Goods and Services Tax

law or fails to comply with its provisions. Cancellation can be initiated either by the taxpayer or by the tax authorities.

The main grounds for cancellation of GST registration are as follows:

1. Discontinuance or closure of business, whether temporary or permanent.
2. Transfer of business due to sale, merger, demerger, or amalgamation.
3. Change in constitution of business resulting in change of PAN.
4. Turnover falling below the prescribed threshold limit, making registration no longer mandatory.
5. Non-filing of GST returns for a continuous prescribed period.
6. Violation of GST provisions or rules, including misuse of input tax credit.
7. Obtaining GST registration by fraud, wilful misstatement, or suppression of facts.
8. Voluntary registrant failing to commence business within the specified time.

4.1.2 Voluntary and compulsory cancellation:

Cancellation of GST registration may take place either voluntarily at the request of the registered person or compulsorily by the tax authorities, depending on the circumstances.

Voluntary Cancellation of GST Registration:

Voluntary cancellation occurs when a registered person applies for cancellation on his or her own initiative. This usually happens when the business is discontinued, transferred, or merged with another entity, or when the aggregate turnover falls below the prescribed threshold limit. A taxpayer who has obtained GST registration

voluntarily may also seek cancellation if business activities are not commenced within the prescribed period.

Compulsory Cancellation of GST Registration:

Compulsory cancellation is initiated by the GST authorities when a registered person fails to comply with the provisions of the GST law. Such cancellation may occur due to continuous non-filing of returns, violation of GST rules, misuse of input tax credit, or when registration has been obtained through fraud, wilful misstatement, or suppression of facts.

4.1.3 Revocation of cancellation:

Revocation of cancellation of GST registration refers to the restoration of a GST registration that has been cancelled by the tax authorities. It allows a registered person to resume business as a registered taxpayer under the GST law, provided the prescribed conditions are fulfilled**.**

An application for revocation can be made by the registered person only when the cancellation has been initiated by the tax authorities on their own motion. The application must be submitted within the prescribed time limit and should be accompanied by compliance with all pending requirements, such as filing of returns and payment of outstanding tax, interest, and penalty.

Upon examination of the application, the proper GST officer may revoke the cancellation if satisfied that the reasons for cancellation no longer exist. Once revocation is granted, the GST registration is restored with effect from the date of cancellation, and the registered person is required to continue compliance with GST provisions.

Exercise

Objective type Mark Questions:

a) What is meant by GST registration?
b) Who is a casual taxable person under GST?
c) Define threshold limit under GST.
d) What is deemed registration?
e) Name any one Special Category State under GST.

Short answer type Questions:

a) Explain the procedure for GST registration under the GST Act.
b) Discuss the concept of threshold limit for GST registration.
c) Who are persons not liable for GST registration? Explain briefly.
d) Explain the meaning and features of a casual taxable person and a non-resident taxable person.
e) Describe the grounds for cancellation of GST registration.

Long answer type Question

a) Explain in detail the provisions relating to GST registration under the GST Act.
b) Discuss compulsory registration under GST and state the categories of persons required to obtain compulsory registration.
c) Explain the procedure, effect, and revocation of cancellation of GST registration.
d) What is deemed registration under GST? Explain the circumstances and legal implications.

e) Discuss the concept of Special Category States under GST and explain the threshold limits applicable to such states.

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UNIT 11: E-Way Bills-

UNIT STRUCTURE

11.1 Learning Objectives.

11.2Introduction to E-Way Bills
11.3 Purpose and Legal Requirement of E-Way Bills
11.4 Threshold Limits and Exemptions
11.5 Structure of E-Way Bill
11.5.1 Part A of E-Way Bill
11.5.2 Part B of E-Way Bill
11.6 Validity Rules of E-Way Bills
11.7 Updating of Vehicle Details
11.8 Verification and Movement Rules.

11.9 Let us Sum Up

11.1 LEARNING OBJECTIVES

After studying this unit, students will be able to:

1. Understand the meaning and concept of an e-way bill under the GST system.
2. Explain the purpose and legal requirement of e-way bills in the movement of goods.
3. Identify the threshold limits for generation of e-way bills and the categories of exemptions.
4. Describe the structure of an e-way bill, including the details required in Part A and Part B.
5. Understand the validity period of e-way bills and the rules for their extension or updating.
6. Explain the procedure for updating vehicle details during transit.
7. Analyse the verification and movement rules prescribed by the GST authorities.

8. Appreciate the role of e-way bills in ensuring transparency, compliance, and prevention of tax evasion under GST.

11.2INTRODUCTION

The movement of goods across India requires proper documents to ensure compliance with GST rules. Without correct documentation, goods in transit may be stopped and penalties may be imposed.

The e-way bill system has changed the way businesses transport goods by replacing manual paperwork with a fast and easy digital process. It allows the movement of goods to be recorded online in a uniform manner across the country.

The system offers different ways to generate an e-way bill such as through the web portal, SMS, mobile app, and API integration. This provides flexibility to businesses depending on their size and operational needs.

Whether a business is small or involved in large-scale transportation, understanding the e-way bill rules is important to ensure smooth movement of goods and to avoid fines or legal issues.

What is an E-Way Bill?

An E-Way Bill is an electronic document that must be generated for transporting goods valued at more than ₹50,000. It must be created on the E-Way Bill Portal before the goods are moved in any vehicle when the value exceeds this limit.

Apart from generating it online, an e-way bill can also be created or cancelled using SMS, a mobile app, or through API integration, which helps businesses transfer data easily between systems. It is important to ensure that the correct GSTIN is entered, and this can be verified using the GST search tool available on the portal.

Once the e-way bill is generated, a unique E-Way Bill Number (EBN) is issued. This number is important for the supplier, recipient, and transporter, as it serves as a common reference for tracking and verifying the movement of goods.

Why Do We Need an E-Way Bill?

Before GST, every state had its own system to check goods such as octroi, entry tax, and transport permits. This caused long delays at check-posts and required a lot of paperwork. The E-Way Bill system introduced one common digital method across India to track the movement of goods easily and smoothly.

1. Prevents Tax Leakage

The e-way bill records the movement of goods in an online system. This helps the tax department verify whether GST has been properly paid. As a result, it reduces chances of tax evasion and unreported sales.

2. Reduces Waiting Time at State Borders

Earlier, vehicles had to stop at different state borders for document checks. With e-way bills available online, physical checking is reduced, allowing vehicles to move faster and saving time and fuel.

3. Simplifies Compliance for Businesses

Businesses no longer need to carry multiple paper documents for different states. A single e-way bill works across India, making the process easier, faster, and more convenient for traders and transporters.

11.3 REQUIREMENT OF e-WAY BILL-

An e-way bill must be generated when the value of the goods exceeds ₹50,000. This rule applies to the movement of goods for sale (supply), returns, transfers, or any other business purpose.

When is an E-Way Bill Required?

1. **When the Value Exceeds ₹50,000**
   If the value of the goods being transported is more than ₹50,000, an e-way bill must be generated. This helps in tracking the goods and ensures proper GST compliance.

2. **When the Supplier is Not GST-Registered but the Receiver is Registered**
   If the supplier is not registered under GST but the buyer or receiver is registered, then the registered receiver is responsible for generating the e-way bill.

3. **When the Supplier Has Not Generated the E-Way Bill**
   If the supplier has not created the e-way bill, the transporter must generate it before moving the goods. This rule applies to all modes of transport and ensures that goods are not moved without proper documentation.

11.4 Threshold limits and exemptions-

Under GST, transporters must carry an e-way bill when goods are moved from one place to another, whether the movement is for supply or for any other reason, if the value is above the limit set under the CGST Rules.

According to these rules, an e-way bill is generally required when the value of goods exceeds ₹50,000, especially for inter-state movement of goods. The e-way bill system was implemented across India from 1st April 2018.

However, states were allowed to decide their own limits for intra-state movement. As a result, different states introduced the e-way bill system at different times during the first half of 2018.

states set varying thresholds for intra-state goods movement. Inter-state transport requires bills above ₹50,000, but states determine their own limits for within-state transportation.

State	**Goods Type**	**Threshold for E-Way Bill (INR)**
Andhra Pradesh	All taxable goods	50,000
Arunachal Pradesh	All taxable goods	50,000
Assam	All taxable goods	50,000
Bihar	All taxable goods	1,00,000
Chhattisgarh	specified goods only	50,000
Delhi	Taxable and non-taxable goods	1,00,000
Goa	22 specified goods	50,000
Gujarat	Most taxable goods (except notified items)	50,000
Haryana	All taxable goods	50,000
Himachal Pradesh	All taxable goods	50,000
Jammu and Kashmir	Intra-state	Not required
Jharkhand	All taxable goods (except notified items)	1,00,000
Karnataka	All taxable goods	50,000
Kerala	All taxable goods	50,000
Madhya Pradesh	Most taxable goods	1,00,000
Maharashtra	All taxable goods	1,00,000
Manipur	All taxable goods	50,000

Meghalaya	All taxable goods	50,000
Mizoram	All taxable goods	50,000
Nagaland	All taxable goods	50,000
Odisha	All taxable goods	50,000
Puducherry	All taxable goods	50,000
Punjab	All taxable goods	1,00,000
Rajasthan	All taxable goods (except certain items)	2,00,000 (within city) / 1,00,000 (cross-city)
Sikkim	All taxable goods	50,000
Tamil Nadu	All taxable goods	1,00,000
Telangana	All taxable goods	50,000
Tripura	All taxable goods	50,000
Uttar Pradesh	All taxable goods	50,000
Uttarakhand	All taxable goods	50,000
West Bengal	All taxable goods	50,000

E-Way Bill Distance Limit Exemption

In some special situations, an e-way bill is not required, even when the general rules would normally apply. These exemptions are given to make the movement of goods easier in practical cases.

Common exemptions include:

- **Perishable Goods:** Items such as fruits and vegetables often do not require an e-way bill because they need to be transported quickly to avoid spoilage.
- **Short-Distance Movement:** When goods are moved over a very short distance, such as within **10 km** or between nearby warehouses, an e-way bill may not be necessary in certain cases.
- **Goods Returned to the Original Place:** If goods are sent back to the supplier or original location, an e-way bill may not be required, depending on the distance and route.

Understanding the distance limits and validity rules of the e-way bill helps businesses follow GST rules properly and ensures smooth transportation of goods. By using the exemptions

correctly and applying for extensions when delays occur, businesses can avoid penalties while maintaining flexible and efficient logistics.

11.5 Structure: Part A and Part B

The e-way bill consists of two parts in Form GST EWB-01, each capturing specific information for goods movement.

Part A: Document & Goods Details	Part B: Transport Details
GSTIN of supplier and recipient	Transporter ID or GSTIN
Document type, number, and date	Vehicle number
From and to location with PIN codes	Transport mode
Product name and HSN code	Approximate distance
Quantity and taxable value	Transport document number
CGST, SGST, IGST, Cess amounts	Vehicle type
Reason for transportation	Transporter name

Part A is filled by the person causing goods movement typically the supplier or recipient. This section captures invoice and goods details before transportation begins.

Part B contains vehicle and transporter information, filled by the transporter once goods are handed over. If the supplier arranges their own transport, they complete both parts.

Businesses with turnover above ₹5 crore must provide six-digit HSN codes. Those below this threshold can use four-digit codes.

11.6 Validity rules and updating vehicle details

Validity depends on distance and cargo type, starting from generation time.

Goods Type	Distance	Validity
Standard Goods	Up to 200 km	1 day
Standard Goods	Beyond 200 km	Additional 1 day per 200 km
Over-Dimensional Cargo	Up to 20 km	1 day
Over-Dimensional Cargo	Beyond 20 km	Additional 1 day per 20 km

Extension Rules:

- Request extensions eight hours before or within eight hours after expiry.
- From 1st January 2025, extensions cannot exceed 360 days from original generation
- Example: Bill generated on 1st January 2025 can extend only until 25th December 2025

Validity expires at midnight on the last valid day. Plan transportation carefully, factoring in potential delays.

Documents or Details Required to Generate an E-Way Bill

To generate an e-way bill, certain basic details about the goods and their transport are required:

- Invoice / Bill of Supply / Delivery Challan related to the goods being transported
- For road transport: the Vehicle Number or Transporter ID
- For transport by rail, air, or ship: the Transporter ID, transport document number, and the date mentioned on that document

Note: During transportation, a vehicle may be stopped by a GST officer to verify documents such as the e-way bill and to inspect the goods. Therefore, it is important to keep all required details accurate and available while goods are in transit.

11.7 Verification and Movement Rules of E-Way Bill

1. Carrying of E-Way Bill During Movement

The driver or person in charge of the vehicle must carry the e-way bill or the E-Way Bill Number (EBN). It can be in physical or electronic form. This is required for checking during transit.

2. Verification by GST Officers

GST officers can stop the vehicle to check the e-way bill and related documents. This helps ensure that goods are being transported legally and GST rules are followed.

3. Physical Inspection of Goods

Physical inspection of goods is usually avoided unless there is suspicion of tax evasion. Once inspected, the vehicle should not be checked again during the same journey without valid reason.

4. Reporting of Inspection

After inspection, the officer must upload a brief report within 24 hours and a final report within 3 days on the portal. This maintains transparency and avoids repeated checking.

5. Detention of Vehicle

If a vehicle is detained for more than 30 minutes, the transporter can report the delay on the e-way bill portal. This helps protect transporters from unnecessary delays.

6. Compliance During Movement

Goods must match the details in the e-way bill and invoice and be transported within the validity period. Any mismatch or expired e-way bill may lead to penalties or seizure.

11.8 Let Us Sum Up

- The e-way bill system is an important part of GST that regulates the movement of goods in India.
- It is required when the value of goods exceeds ₹50,000 and applies to movement for supply, returns, transfers, and other business purposes. The system has replaced manual paperwork with a single online platform, making transportation faster and more transparent.
- It also helps in preventing tax evasion, reducing delays at state borders, and simplifying compliance for businesses and transporters.
- Proper understanding of e-way bill generation, validity, documents, and verification rules is essential to avoid penalties and ensure smooth movement of goods.

CHECK YOUR PROGRESS-

A. Fill in the Blanks-

1. An e-way bill is required when the value of goods exceeds ₹_____.
2. The unique number generated after creating an e-way bill is called the _____.
3. The e-way bill system became effective across India from _____ 2018.
4. Part B of the e-way bill contains details of the _____ used for transport.

5. If a vehicle is detained for more than _____ minutes, the transporter can report it on the portal.

Answers

1. ₹50,000
2. EBN (E-Way Bill Number)
3. 1st April
4. Vehicle / conveyance
5. 30

B. Match the Following-

List A	List B
1. EBN	a. Movement without sale
2. Part A	b. Unique e-way bill number
3. Part B	c. GSTIN, invoice details
4. Job work	d. Vehicle details
5. Return of goods	e. Goods sent for processing

Answers

1 – b
2 – c
3 – d
4 – e
5 – a

C. Short Answer Questions -

1. Explain the meaning of an e-way bill.
2. State the purpose of introducing the e-way bill system under GST.
3. What documents are required to generate an e-way bill?
4. Explain the concept of ‘supply’ in relation to the e-way bill.
5. Describe the role of transporters in generating an e-way bill.

ANSWERS TO CHECK YOUR PROGRESS

Answer to Q1-An E-Way Bill is an electronic document required for the movement of goods under GST. It is generated on the GST portal when the value of goods exceeds ₹50,000. It contains details of goods, supplier, recipient, and transporter. It helps in tracking goods and preventing tax evasion.

Answer to Q2-The e-way bill system was introduced to ensure smooth movement of goods across India. It helps in reducing tax evasion and improving transparency. It also replaces multiple state-level permits. Overall, it makes transportation faster and more efficient.

Answer to Q3- To generate an e-way bill, an invoice or bill of supply is required. Transport details like vehicle number or transporter ID are also needed. In case of transport by road, rail, air, or ship, relevant transport documents are required. These details must be entered on the GST portal.

Answer to Q4- 'Supply' refers to the transfer of goods for sale, exchange, or other purposes under GST. It includes both taxable and non-taxable transactions. An e-way bill is required when goods are moved due to supply. It ensures proper reporting of such transactions

Answer to Q5-Transporters play a key role in generating or updating the e-way bill. If the supplier or buyer does not generate it, the transporter can do so. They must carry the e-way bill during transit. They also update vehicle details in case of changes during transportation.

FUTURE READING

1. Central Board of Indirect Taxes and Customs (CBIC). GST Rules, 2017 (Rules 138 to 138E – E-Way Bill Provisions). Government of India.
2. Goods and Services Tax Council. E-Way Bill System – User Manuals and FAQs. GSTN Portal.
3. Datey, V. S. Indirect Taxes: GST. New Delhi: Taxmann Publications.
4. Singhania, V. K. Students' Guide to Indirect Taxes (GST). New Delhi: Taxmann Publications.
5. Central Board of Indirect Taxes and Customs (CBIC). Notifications, Circulars and Clarifications on E-Way Bills under GST.
6. Goods and Services Tax Network (GSTN). E-Way Bill Portal Documentation and Guidelines.

MODEL QUESTIONS

1. Explain the e-way bill system under GST. Discuss its objectives, importance, and benefits for businesses and tax authorities.

2. Describe in detail the structure of an e-way bill. Explain the information required in Part A and Part B.
3. Explain the verification and movement rules of e-way bills. How do these rules help in preventing tax evasion?
4. Discuss the circumstances under which an e-way bill is required. Also explain special cases where it is mandatory even if the value is below ₹50,000.
5. Analyse the impact of the e-way bill system on trade and logistics in India. Highlight its advantages and practical challenges.

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UNIT 12: GST PAYMENT & LEDGERS

UNIT STRUCTURE

12.1 Learning Objectives

12.2 Introduction

12.3 The Triple Ledger System

12.3.1 Electronic Liability Register (Form GST PMT-01)

12.3.2 Electronic Credit Ledger (Form GST PMT-02)
12.3.3 Electronic Cash Ledger (Form GST PMT-05)

12.4 Rules for ITC Utilization (Set-Off)

12.5 The Payment Process: CPIN, CIN, and BRN

12.6 Transfer of Cash Balance (Form GST PMT-09)
12.7 Let Us Sum Up
12.8 Further Readings
12.9 Answer to Check Your Progress

12.10 Model Questions

6.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- Understand the digital payment mechanism under the GST regime.
- Identify the three types of **Electronic Ledgers** and their specific functions.
- Explain the process of generating a **GST Challan (PMT-06)**.
- Distinguish between the utilization of **Input Tax Credit (ITC)** and **Cash** for tax settlement.
- Understand the rules regarding interest, penalties, and the order of discharging tax liabilities.

12.2 INTRODUCTION

In the pre-GST era, tax payments involved physical challans, multiple portals, and manual reconciliation. GST has revolutionized this by introducing a **fully electronic payment system**. There is no "manual" payment; every rupee paid to the government must flow through the GST Common Portal.

The payment system is built on a "transparent accounting" model where the government maintains virtual accounts for every taxpayer. These accounts, known as **Electronic Ledgers**, ensure that every credit claimed and every rupee deposited is tracked in real-time.

12.3 THE TRIPLE LEGDER SYSTEM

The heart of GST accounting lies in three electronic ledgers maintained on the dashboard of every registered taxpayer.

12.3.1 Electronic Liability Ledger (Form GST PMT-O1)

This ledger records the total tax debt of a taxpayer.

- **Debits:** Any tax, interest, penalty, or fee payable as per returns (GSTR-3B) or department notices is added here.
- **Credits:** When a payment is made using cash or credit, the liability is reduced.
- **Purpose:** It shows exactly "how much you owe" to the government at any given time.

12.3.2 Electronic Credit Ledger (Form GST PMT-02)

This ledger stores the **Input Tax Credit (ITC)**.

- **Source:** When your suppliers file their returns, the tax you paid to them "drifts" into this ledger automatically.
- **Restriction:** You can *only* use this balance to pay **Output Tax**. You cannot use credit to pay interest, penalties, or fees.
- **Self-Correction:** If you mistakenly claim more credit than you are eligible for, you must reverse it from this ledger.

12.3.3 Electronic Cash Ledger (Form GST PMT-05)

This functions like a "digital wallet."

- **Source:** You deposit money into this ledger via Net Banking, NEFT, or Over-the-Counter (OTC) payments.

- **Flexibility:** This money can be used to pay any liability—tax, interest, penalty, or late fees.
- **RCM Requirement:** Tax payable under the **Reverse Charge Mechanism (RCM)** must be paid strictly through this Cash Ledger.

12.4 RULES FOR ITC UTILIZATION (Set-Off)

You cannot use any credit to pay any tax. There is a legal "hierarchy" of payment that a learner must master:

1. **IGST Credit:** Must be used first for IGST liability. Remaining balance can pay CGST and SGST in any order.
2. **CGST Credit:** Used for CGST first, then IGST. **Note:** It cannot be used to pay SGST.
3. **SGST Credit:** Used for SGST first, then IGST. **Note:** It cannot be used to pay CGST.

Key Rule: The "cross-utilization" between CGST and SGST is strictly prohibited. They are like parallel tracks that never meet.

12.5 THE PAYMENT PROCESS: CPIN, CIN, and BRN

The journey of a GST payment involves three distinct identifiers:

Term	Full Form	Definition
CPIN	Common Portal Identification Number	A **14-digit** number generated when you create a challan. It is valid for 15 days.
CIN	Challan Identification Number	A **17-digit** number generated by the bank once the payment is successful. It confirms the money has reached the government.
BRN	Bank Reference Number	The transaction ID provided by the bank for the specific digital transfer.

12.6 TRANSER OF CASH BALANCE (Form GST PMT-09)

One of the biggest pain points for taxpayers was accidentally depositing money under the wrong "head" (e.g., paying into CGST instead of IGST). To solve this, the government introduced **Form GST PMT-09**. This allows a taxpayer to shift money between various heads (Tax, Interest, Penalty) or between different types of taxes (IGST, CGST, SGST) within the **Cash Ledger** only.

CHECK YOUR PROGRESS

Q1) **Name the three electronic ledgers** maintained on the GST portal.
Q2) **Which form** is used for the generation of a GST Challan?
Q3) **True or False:** Input Tax Credit (ITC) can be used to pay the late fee for filing GSTR-3B.
Q4) **What is the full form of CPIN**, and how many digits does it contain?
Q5) **What is the validity period** of a GST challan once it is generated?
Q6) **Can CGST credit be utilized** to discharge an SGST liability?
Q7) **What is a CIN**, and who generates it?
Q8) **Under which ledger** is the tax liability under the Reverse Charge Mechanism (RCM) recorded?
Q9) **Explain the use of Form GST PMT-09** in one sentence.
Q10) **Which ledger acts as a "digital wallet"** for the taxpayer?
Q11) **What does "Debit" signify** in the Electronic Liability Register?
Q12) **Is it possible to pay GST** using a Credit Card?

12.7 LET US SUM UP

- **The Triple Ledger System:** GST operates through three electronic ledgers maintained on the Common Portal. The **Electronic Liability Register** tracks what the taxpayer owes; the **Electronic Credit Ledger** maintains the balance of Input Tax Credit (ITC); and the **Electronic Cash Ledger** acts as a digital wallet for actual money deposits.

- **The Payment Process:** All cash payments must be initiated by generating a **GST Challan (Form GST PMT-06)**. This system has replaced physical tax payments with a transparent, trackable digital workflow involving unique identifiers like the **CPIN** (generated at challan creation) and the **CIN** (generated after successful payment).

- **ITC Utilization Hierarchy:** The law prescribes a strict order for using credit to pay taxes. **IGST credit** is the most flexible and must be exhausted first. Crucially, **CGST and SGST credits are "water-tight" compartments**—they can never be used to pay each other's liabilities.

- **Cash vs. Credit Restrictions:** While ITC can only be used to pay **Output Tax**, the Cash Ledger is mandatory for paying **Interest, Penalties, Fees, and Reverse Charge (RCM)** liabilities.

- **Flexibility through PMT-09:** To reduce the burden of clerical errors, **Form GST PMT-09** allows taxpayers to shift existing balances within the Cash Ledger from one head (e.g., Interest) to another (e.g., Tax) or across different tax types (e.g., from SGST to CGST).

- **Statutory Compliance:** Taxpayers must follow a mandatory **"Order of Discharge,"** ensuring that arrears from previous tax periods are settled before the current month's liabilities. Payments

are primarily digital, with a strict limit of **₹10,000** placed on physical "Over-the-Counter" (OTC) cash deposits.

12.8 ANSWERS TO CHECK YOUR PROGRESS

Answer to Q1: Three Electronic Ledgers: 1. Electronic Liability Register, 2. Electronic Credit Ledger, and 3. Electronic Cash Ledger.

Answer to Q2: Form for GST Challan: Form GST PMT-06 is used to generate the challan for depositing money into the Cash Ledger.

Answer to Q3: **True or False (ITC for Late Fee): False.** Input Tax Credit (ITC) can *only* be used to pay Output Tax; late fees must be paid in cash.

Answer to Q4: CPIN Full Form & Digits: Common Portal Identification Number; it is a **14-digit** unique number.

Answer to Q5: Challan Validity: A GST challan is valid for **15 days** from the date of generation.

Answer to Q6: CGST to SGST Utilization: No, CGST credit can never be used to pay SGST liability (and vice versa).

Answer to Q7: **CIN & Generation: Challan Identification Number** (17 digits); it is generated by the **Authorized Bank** once the payment is successful.

Answer to Q8: **RCM Ledger:** Tax liability under the Reverse Charge Mechanism (RCM) is recorded in the **Electronic Liability Register** and must be discharged using the **Electronic Cash Ledger**.

Answer to Q9: OTC Limit: The maximum limit for Over-the-Counter (cash/cheque) payments is **₹10,000** per tax period, per challan.

Answer to Q10: Use of Form GST PMT-09: It is used to **transfer money** within the Electronic Cash Ledger from one major/minor head to another (e.g., from Interest to Tax).
Answer to Q11: "Debit" in Liability Register: A debit entry signifies an **increase in tax liability** (amount owed to the government).
Answer to Q11: GST via Credit Card: Yes, payment through Credit Cards/Debit Cards is an available mode under the "E-payment" option on the portal.

6.15 FURTHER READING

- **V.S. Datey:** *GST Ready Reckoner* (Taxmann Publications).
- **CA Raj K. Agrawal:** *Handbook on GST* (Bharat Law House).

- **Dr. Vinod K. Singhania:** *Students' Guide to Income Tax including GST* (Taxmann).
- **www.gst.gov.in:** The official GST Common Portal for ledgers and payments.
- **www.cbic-gst.gov.in:** Official site for GST Acts, Rules, and latest Notifications.
- **www.taxguru.in:** For simplified analysis and updates on GST procedures.

6.16 MODEL QUESTIONS

Q1. State any four services offered through online banking.
Q2. Evaluate the factors that affect the acceptance of internet banking among customers.
Q3. What information should customers avoid sharing?
Q4. “ATM reduces both cost and time for customers.” Discuss.
Q5. Examine the role of NEFT, RTGS, IMPS, in promoting digital payments.
Q6. What are the risks associated with credit card usage?
Q7. Analyse the role of NACH in improving bulk payment systems.
Q8. Analyse the security risks associated with online debit card payments.

UNIT 13 : Assessment, Audit, Offences, Appeals and Anti-Profiteering under GST-

UNIT STRUCTURE

13.1 Learning Objective

13.2 Introduction

13.3 Types of Assessment under GST

13.4 GST Audit

13.5 Seizure under GST: An Overview

13.6 Offences and Penalties under GST

13.7 Anti-Profiteering Provisions

13.8 GST Council

13.1 Learning Objectives-

After studying this unit, students will be able to:

1. Understand the concept and types of assessment under GST, including self, provisional, scrutiny, and best judgment assessment.
2. Explain the meaning, purpose, and types of GST audit and its role in ensuring tax compliance.
3. Understand the concept of seizure and its application under GST law.
4. Describe the appeals system, including the hierarchy of authorities and the procedure for filing appeals.
5. Identify different types of offences under GST, and distinguish between minor and major offences.
6. Understand the penalty provisions applicable for non-compliance under GST.
7. Explain the concept and working of anti-profiteering provisions to protect consumer interests.
8. Become aware of recent developments and GST Council decisions affecting GST administration.

13.2 Introduction

The Goods and Services Tax (GST) is designed not only to simplify indirect taxation but also to ensure transparency, accountability, and compliance in business transactions. For the GST system to function effectively, it is essential that taxpayers correctly assess their tax liability, maintain proper records, and follow the prescribed legal procedures. To achieve this, the GST law provides a detailed framework covering assessment, audit, enforcement, appeals, and penalties.

Assessment under GST helps determine the correct tax payable by a registered person, while audits are conducted to verify the accuracy of returns and records. In cases of non-compliance, the law empowers authorities to take actions such as seizure of goods, imposition of penalties, and initiation of proceedings for offences. At the same time, the GST system ensures fairness by providing taxpayers the right to appeal against decisions of tax authorities.

Another important feature of GST is the anti-profiteering mechanism, which ensures that any reduction in tax rates or benefit of input tax credit is passed on to consumers by way of reduced prices. Further, the GST Council regularly introduces changes and updates to improve administration and address practical issues faced by businesses.

This unit provides a comprehensive understanding of types of assessment, GST audit, seizure provisions, appeals,offences, penalties, anti-profiteering measures, and recent GST developments. A clear knowledge of these aspects is essential for students, professionals, and businesses to comply with the law and avoid legal complications.

13.3 Income Tax Assessment

The Income Tax Department (ITD) checks the Income Tax Returns (ITR) filed by taxpayers. It verifies the details given in the return and compares them with information available in AIS, TIS, Form 26AS, and other records.

If all details are found correct, the department processes the return and issues a refund (if any). If there are mistakes or differences, a tax demand notice is issued.

Income Tax Assessment means examining the income, deductions, taxes paid, and other details mentioned in the ITR to ensure they are correct and as per law.

Types of Income Tax Assessments

1. Self Assessment

In self-assessment, the taxpayer calculates his own tax liability.Income from all sources is added, and deductions, exemptions, losses, TDS, TCS, and advance tax are adjusted.The remaining tax payable is called self-assessment tax, which must be paid before filing the ITR.

2. Summary Assessment (Section 143(1))

This assessment is done automatically by the computer system without human involvement. The return is checked for calculation errors, incorrect claims, and mismatches with department records.

If any difference is found (for example, excss TDS claimed), an intimation under Section 143(1) is sent to the taxpayer showing tax payable or refund due.

3. Regular Assessment

In this assessment, an Assessing Officer checks whether the taxpayer has shown correct income and paid correct tax.Cases are selected based on criteria fixed by the CBDT.

A notice is sent to the taxpayer, who must submit books of accounts and supporting documents. After verification, the officer may accept the return or make additions, which may result in extra tax demand.

4. Scrutiny Assessment (Section 143(2))

If the Income Tax Department wants a detailed examination of the return, it issues a notice under Section 143(2). The taxpayer must provide documents, records, and explanations as asked.

After scrutiny, the officer determines the correct tax. If the taxpayer disagrees, he can apply for rectification or revision, or file an appeal to higher authorities like CIT (Appeals), ITAT, High Court, and Supreme Court.

5. Best Judgment Assessment

A Best Judgment Assessment is made by the Income Tax Department when the taxpayer does not cooperate or fails to comply with the requirements of the law. In such cases, the Assessing Officer (AO) is empowered to determine the taxpayer's income based on available information and his best judgment.

This type of assessment is generally applied in the following situations:

- When the taxpayer fails to file the income tax return within the prescribed due date or extended time allowed by the authorities.
- When the taxpayer does not respond to notices issued by the Income Tax Department asking for information, documents, or books of accounts.
- When the taxpayer fails to produce books of accounts or evidence required for assessment.
- When the taxpayer does not comply with a special audit ordered by the Income Tax Department.
- When the taxpayer fails to comply with the terms mentioned in the notice issued under summary assessment.

Before passing a best judgment order, the Assessing Officer must give the taxpayer a reasonable opportunity to be heard. This means the taxpayer is allowed to explain his position and submit relevant details, if any.

If the taxpayer still does not cooperate, the Assessing Officer proceeds to assess the income using all relevant materials available, such as past returns, comparable cases, bank information, or third-party data. The assessment made may result in higher tax liability, interest, and penalties.

Therefore, a best judgment assessment acts as a penal and corrective measure, encouraging taxpayers to comply with tax laws and respond to departmental notices on time.

13.3 GST Audit-

A GST audit means checking the records, returns, and documents of a taxpayer to make sure that the turnover shown, tax paid, refunds claimed, and input tax credit taken are correct. It

helps confirm that the business is following GST rules properly. The rules for GST audit are given under the CGST Act, which ensures transparency and compliance.

Types of GST Audit

GST audit can be categorized into three primary types:

Type of GST Audit	Description	Key Requirements
Turnover-based Audit (GST Audit u/s 35(5))	Applicable to businesses with annual turnover above ₹2 crore. The audit is conducted by a Chartered Accountant (CA) or Cost Accountant.	Filing of GSTR-9C is required, which includes the audit report and reconciliation statement.
General Audit (GST Audit by Tax Authorities u/s 65)	Conducted by GST officers to check records and GST compliance. Initiated by the tax department.	Taxpayer is informed at least 15 days in advance. All relevant books, documents, and returns are examined.
Special Audit (GST Audit u/s 66)	Ordered when the tax officer suspects errors or irregularities in records or returns.	Conducted by a CA or Cost Accountant appointed by the Commissioner with prior approval of higher authority.

Turnover-based Audit

This audit is required for businesses whose yearly turnover is more than ₹2 crore. It is done by a Chartered Accountant (CA) or Cost Accountant chosen by the taxpayer. The business must file GSTR-9C, which contains the audit report and a statement matching GST returns with actual accounts.

General Audit

This audit is carried out by GST officers to check whether a business is following GST rules properly. The taxpayer is informed at least 15 days before the audit starts. During the audit, officers examine returns, accounts, and other related records.

Special Audit

This audit is ordered when a GST officer suspects mistakes or differences in the taxpayer's records. It is conducted by a CA or Cost Accountant appointed by the Commissioner, after approval from higher authorities. The aim is to identify errors and ensure they are corrected.

GST Audit Threshold Limit-

As of 2025, the turnover limit for a turnover-based GST audit is ₹2 crores. This means that any business whose total turnover in a financial year is more than this amount must get its accounts audited under GST.

Current Threshold Limit-

- **Turnover-based Audit**
  Businesses with an annual aggregate turnover above ₹2 crores must get their accounts audited by a Chartered Accountant (CA) or Cost Accountant (CMA).
- **Self-Certification:**
  If the turnover is above ₹5 crores, the audit report GSTR-9C can be self-certified by the business instead of being certified by a CA.
- **Regional Variations**
  Although the national audit limit is ₹2 crores, some states may follow different rules based on special categories.
- **Special Category States:**
  States such as **Arunachal Pradesh and Assam** may have lower limits for GST registration and compliance. These limits depend on local GST rules.

How to Calculate Aggregate Turnover?

Aggregate turnover is calculated using the following formula:

Aggregate Turnover = Taxable supplies + Exempt supplies + Export supplies + Inter-state supplies – Inward supplies under reverse charge

This means all types of sales and supplies are added, except purchases where tax is paid under reverse charge.

Key Components of Aggregate Turnover

Taxable Supplies:

All goods and services on which GST is charged.

Exempt Supplies:

Goods and services that are not taxed under GST.

Export Supplies:

Goods and services sold outside India.

Inter-state Supplies:

Supplies made from one state to another within India.

Threshold Limits for Various Types of GST Registrations

The registration limits depend on the type of business:

Goods:
The limit is ₹40 lakhs for normal states and ₹20 lakhs for special category states.

Domestic Services:

The limit is generally ₹20 lakhs in most states.

Export of Services:

There is no minimum limit. All exporters must register under GST, regardless of turnover.

GST Composition Scheme:

Businesses under this scheme have a different limit, usually ₹1.5 crores.

13.4 Seizure: Meaning

In legal terms, seizure means the taking of goods, property, or assets by authorities under the law. It is usually done when there is a violation of legal provisions, such as non-payment of tax, illegal movement of goods, or fraud. Seizure is carried out following prescribed legal procedures.

Appeals against Seizure: Overview

If a person is not satisfied with a seizure order, the law provides the right to appeal. Appeals follow a step-by-step system, moving from lower authorities to higher judicial bodies.

Appeals Hierarchy

The appeal process generally follows this order:

1. Initial Review / Lower Authority

The first appeal is made before a lower authority or administrative body. Here, the legality of the seizure or assessment is examined.

2. Intermediate Appellate Authority

If the person is still dissatisfied, the case can be appealed to a higher appellate authority or court. This level reviews the decision taken by the lower authority.

3. Supreme / Highest Court

The final appeal lies before the **highest court** of the country. Such appeals are accepted only in important cases involving serious legal or constitutional questions.

General Procedure for Filing an Appeal-

The appeal process usually involves the following steps:

1. Filing a Notice of Appeal

The affected person must file a notice of appeal within the prescribed time limit. Delay may result in rejection of the appeal.

2. Payment of Fees

A prescribed appeal fee must be paid to initiate the appeal process.

3. Submission of Documents

All relevant documents, records, and orders related to the seizure must be submitted along with the appeal.

4. Intimation to Opposing Authority

A copy of the appeal must be served to the concerned authority, usually the department that carried out the seizure.

13.5 Offences and Penalties under GST -

Offences and penalties under GST are explained in the CGST Act from Section 122 to Section 128. These provisions define what actions are considered illegal and the punishment for such actions.

What is an Offence?

An offence means breaking a law or rule. Similarly, an offence under GST means not following the rules of the GST Act and GST Rules.

What are Offences under GST?

A person commits an offence under GST when he violates GST provisions. There are 21 offences under GST, which can be grouped into the following main categories:

Offences	Examples

Issuing a false or a wrong invoice or not issuing any invoice at all for any type of goods or services being supplied	• M/S ABC Ltd. sold goods worth INR 50,000 to M/S XYZ Limited. However, they prepared an invoice of INR 40,000 only • M/S ABC Ltd. did not sell any goods to M/S XYZ Ltd. but issued an invoice of INR 50,000 • M/S ABC Ltd. sold goods worth INR 50,000 to M/S XYZ Limited but did not issue an invoice for the sale
Issuing the GST invoice without actually supplying the corresponding goods and services	M/S ABC Ltd. created a GST invoice for INR 10,000 for the month of July 2019 but they did not actually supply any goods or services in that month
Issuing an invoice or a document which contains the GSTIN (Goods and Services Tax Identification Number) of another individual or entity registered under GST	M/S ABC Ltd. supply goods worth INR 50,000 and the GSTIN quoted by them on their bills is the GSTIN of M/S XYZ Ltd.
If the taxpayer avails of Input Tax Credit using such fake invoice referred in the above point.	The GST invoice of Rs.10,000 issued is further used for claiming ITC benefit, when there has been no actual supply of goods.

Offences with an intention to defraud

Offences	Examples
Submitting incorrect information when registering for GST or at any other time	M/S ABC Ltd. provided the wrong address of their registered office when registering for GST
Availing GST refund by furnishing fraudulent information	M/S ABC Ltd. claim for GST refund on transactions which have not been done by them
Falsifying documents or records to furnish incorrect information to evade tax	M/S ABC Ltd. make false Profit and Loss Accounts to underreport their turnover so that they can save on GST payments
Not registering for GST	M/S ABC Ltd. should have a GST registration for their business but they do not register

Tampering with goods or disposing them off when they have been attached, detained or seized under the provisions of the GST Act	M/S ABC Ltd. try and auction off the stock which has been attached under GST Act.
Deliberate supply, transport or storage of goods which would be confiscated under the provisions of GST rules	M/S ABC Ltd. transport those goods which can be confiscated knowing about such possible confiscation

Offences with regards to tax evasion

Offences	Examples
Underreporting or hiding the correct amount of turnover for the year to evade GST	M/S ABC Ltd. had a turnover of INR 25 lakhs in the financial year 2018-19. However, for GST purposes, they showed a turnover of INR 15 lakhs
Non-payment of GST to the Government within 3 months of collecting the same from the buyer of goods and services	M/S ABC Ltd. sold goods on 1st May 2019 and collected GST on the same. However, the collected GST was not deposited within 31st July 2019
Non-payment of GST to the Government within 3 months of collecting the same from the buyer of goods and services when GST has been collected in contravention of the provisions of the GST Act	M/S ABC Ltd. sold goods on 1st April 2019 and collected GST on the same in contravention of the GST Act. However, the collected GST was not deposited within 30th June 2019
Availing Input Tax Credit or utilising it without actually supplying the relevant goods and services	M/S ABC Ltd. availed an Input Tax Credit of INR 10,000 but they did not sell any goods which qualified for availing the corresponding amount of Input Tax Credit
Failing to abide by the provisions of tax liability under Section 52 (2) of the GST Act. This section specifies the tax amount to be deducted or the tax amount payable to the Government for supplying goods and services	M/S ABC Ltd. was supposed to deduct tax @10% under Section 52 (2) of the GST Act on the goods and services that it supplied. However, it did not deduct the required tax.
Failing to abide by the provisions of tax liability under Section 52 (3) of the GST Act. This section specifies the tax amount to be deducted or the tax amount payable to the Government for supplying goods and services	M/S ABC Ltd. was supposed to deduct tax @10% under Section 52 (3) of the GST Act on the goods and services that it supplied. However, it did not deduct the required tax.

Availing Input Tax Credit which is in breach of Section 20 of the GST Act	M/S ABC Ltd. availed Input Tax Credit against the rules contained under Section 20 of the GST Act.

Miscellaneous Offences

Offences	Examples
Obstructing or not allowing an officer from doing his/her duties as specified under the GST Act	M/S ABC Ltd. did not allow an officer of the Government to investigate their financial statements to find out GST related discrepancies
Tampering with or destroying documents which serve as an evidence	M/S ABC Ltd. destroyed the original invoices which prove that the company evaded the applicable GST by under reporting their turnover
Providing incorrect documents or not providing the required documents to the officer authorised to act under the GST Act	• M/S ABC Ltd. furnish fabricated invoices to the GST officer so that their GST evasion cannot be detected • M/S ABC Ltd. do not provide the GST officer with the required invoices to estimate the extent of tax evasion done by them

Common Offences Under GST and Their Penalties

Type of Offence	Amount of Penalty
Penalty for delay in filing GSTR	Late fee is **₹100 per day under CGST + ₹100 per day under SGST** (total ₹200/day). Maximum penalty is **₹5,000**.
Penalty for not filing GSTR	Penalty is **10% of tax due or ₹10,000, whichever is higher**.
Penalty for committing fraud	Penalty is **100% of tax due or ₹10,000, whichever is higher**. In serious cases, **jail** may also apply.
Penalty for helping a person to commit fraud	Penalty can be **up to ₹25,000**.
Penalty for opting for composition scheme when not	**Fraud case:** 100% of tax due or ₹10,000 (higher). **Non-**

eligible	**fraud case:** 10% of tax due or ₹10,000 (higher).
Penalty for wrongly charging GST at a higher rate	Penalty is **100% of tax due or ₹10,000, whichever is higher**, if extra tax collected is not paid to government.
Penalty for not issuing an invoice	Penalty is **100% of tax due or ₹10,000, whichever is higher**.
Penalty for not registering under GST	Penalty is **100% of tax due or ₹10,000, whichever is higher**.
Penalty for incorrect invoicing	Fixed penalty of **₹25,000**.

Situations Where There Is No Penalty (But Interest May Apply)

Type of Offence	Action
Wrong type of GST charged (CGST/SGST instead of IGST)	No penalty. Pay the correct tax and claim refund of the wrong tax paid earlier.
Incorrect filing of GST return	No penalty. But interest @18% must be paid on the short amount.
Delay in payment of invoice	No penalty. But Input Tax Credit (ITC) will be reversed if payment is not made within 6 months.
Charging lower GST rate wrongly	No penalty. But interest @18% must be paid on the tax shortfall.

Minor Breach and Major Breach under GST Act

Under GST penalty rules, a minor breach means a small mistake where the tax amount involved is less than ₹5,000. It also includes small documentation errors or omissions that can be easily corrected. In such cases, authorities usually do not impose heavy penalties and may only give a warning instead of a fine.

If the tax amount involved is more than ₹5,000, it is treated as a major breach under the GST Act. In major breaches, penalties are applicable, and in serious cases, imprisonment may also be imposed, depending on the amount of tax involved.

This rule of distinguishing between minor and major breaches is meant to protect small businesses and SMEs from being punished for genuine mistakes, while still taking strict action against serious violations.

GST Penalties for High-Value Frauds

High-value fraud under GST refers to cases where the amount of tax not paid is more than ₹1 crore (₹100 lakhs). In such cases, strict penalties apply.

The monetary penalty is 10% of the unpaid tax or ₹10,000, whichever is higher. Since the tax amount is large, imprisonment (jail) may also be imposed in addition to the penalty.

Jail Punishment for High-Value Frauds

- **Up to 1 year in jail** if the tax amount involved is **₹1 crore to less than ₹2 crores**.
- **Up to 3 years in jail** if the tax amount involved is **₹2 crores to less than ₹5 crores**.
- **Up to 5 years in jail** if the tax amount involved is **₹5 crores or more**.

These strict provisions are meant to discourage serious tax evasion and ensure that large-scale frauds under GST are punished firmly.

13.6 Anti-Profiteering under GST

The government introduced anti-profiteering rules under GST to make sure that businesses pass on tax benefits to customers. This means that when GST rates are reduced or when businesses get more Input Tax Credit (ITC), they must lower their prices accordingly.

Under Section 171 of the CGST Act, 2017, authorities have the power to check, investigate, and penalize businesses that do not pass on GST benefits to consumers.

However, as per the GST Council's decision, 1st April 2025 has been fixed as the last date for accepting new anti-profiteering complaints. After this date, pricing will be mostly left to market forces.

What is the Anti-Profiteering Law?

According to **Section 171(1) of the CGST Act**, whenever:

- **GST rates are reduced**, or
- **Input Tax Credit (ITC) benefit increases**,

the business must reduce the price of goods or services by the same amount. The benefit must be passed on to the customer.

The law mainly covers two situations:

1. Reduction in Tax Rate

If GST on a product or service is reduced, the price must also be reduced. Keeping the old price is treated as profiteering.

2. Benefit of Input Tax Credit (ITC)

If a business gets more ITC under GST, it should lower prices to share this benefit with consumers.

Practical Examples of Anti-Profiteering

Example 1: Reduction in Tax Rate

Restaurants:
Earlier, food was taxed at about 20.5%. Under GST, most restaurants charge 5% without ITC. Restaurants inside hotels with room rent above ₹7,500 charge 18% with ITC. If the tax rate falls, restaurants must reduce prices accordingly.

App-based Taxis: If GST on cab rides is reduced by 1%, taxi companies must reduce fares by that amount.

FMCG Products:

If GST on a product is reduced, the MRP must also be lowered. Not doing so is considered profiteering.

Example 2: Passing on ITC Benefit

Retail Stores:

Retailers can claim ITC on more items under GST. This should result in lower prices or special discounts. If they do not pass this benefit to customers, action can be taken.

Manufacturers:
If a manufacturer saves tax due to better ITC, the price of the final product should be reduced.

Example 3: When Price Increase is Allowed

Domestic LPG:

If a product that was earlier tax-free becomes taxable under GST, then a price increase is allowed. This is not considered profiteering.

Anti-Profiteering Authority Structure

- **Until September 2024:**

  Anti-profiteering cases were handled by the National Anti-Profiteering Authority (NAA) and the Competition Commission of India (CCI).

- From 1st October 2024 onwards:

  All new and pending anti-profiteering cases are now handled by the Principal Bench of the GST Appellate Tribunal (GSTAT).

How to Complain About Anti-Profiteering?

- Consumers can file complaints with the Standing Committee or State Screening Committees.
- The complaint must include proof or evidence that the GST benefit has not been passed on (such as bills, price details, etc.).
- From 1st October 2024 onwards, all anti-profiteering matters are dealt with by the GST Appellate Tribunal (GSTAT).
- Complaints can be submitted online through the GST portal or through the designated authorities.

13.7 GST Council

The GST Council is the highest decision-making body for GST in India. It controls and guides all matters related to GST. It was created under Article 279A of the Indian Constitution to allow the Central and State governments to work together on indirect taxes.

The Council has 33 members. The Union Finance Minister is the Chairperson. Other members include the Union Minister of State for Finance/Revenue and the Finance or Tax Ministers of all States and Union Territories.

The GST Council decides and recommends important issues such as GST tax rates, exemptions, threshold limits, and GST laws. It also gives special provisions for certain states, handles tax changes during natural disasters, and takes decisions on whether petroleum products should be brought under GST.

Recent Developments in GST (2026)

By early 2026, India's GST system has changed significantly due to the major reforms called "GST 2.0", which were approved in the 56th GST Council meeting in late 2025.

1. Major Structural Reforms (GST 2.0)

From 22 September 2025, the old GST rate system was simplified.

New Rate Structure

- **Two main slabs introduced:**
    - **5%** – for essential goods
    - **18%** – for most goods and services
- **12% and 28% slabs removed:**
    - Items earlier taxed at 12% (like ghee and packaged snacks) were shifted to 5%.

- Most items under 28% (TVs, ACs, small cars) were moved to 18%.

- **New 40% "Sin Tax" slab:**
  - Luxury and harmful goods such as high-end cars, soft drinks, and gambling are now taxed at 40%, replacing the old 28% + cess system.

2. Key Rate Changes and Exemptions

- **Insurance:**
  Life and health insurance premiums are now fully exempt from GST.
- **Healthcare:**
  - 33 life-saving medicines are now zero-rated (0% GST).
  - Medical devices like thermometers and diagnostic kits are taxed at 5%.
- **Consumer Goods:**

  Daily use items such as soap, toothpaste, shampoo, and hair oil were reduced from 18% to 5%.

- **Tobacco and Pan Masala:**

  These continue to be taxed at 28% plus cess until government loans are cleared (expected by mid-2026).

3. Compliance and Technical Updates

- **GST Appellate Tribunal (GSTAT):**

  GSTAT became operational by end of 2025. Old appeals must be filed by 30 June 2026.

- **Return Filing Time Limit:**

  GST returns older than 3 years from the due date cannot be filed.

- **Mandatory Security (MFA):**

  All users must use multi-factor authentication while logging into the GST portal.

- **E-Way Bill 2.0:**

  A new portal was launched in July 2025 for faster processing and real-time data.

- **Invoice Management System (IMS):**

  A new "Import of Goods" feature allows taxpayers to manage Bills of Entry (BoE) directly online.

4. Recent GST Council Meetings

- **56th Meeting (September 2025):**

  Approved GST 2.0 reforms, rate simplification, and full launch of GSTAT.

- **55th Meeting (December 2024):**

  Reduced rates on essential items like packaged water and finalized reports on insurance GST and compensation cess.

Let Us Sum Up

- GST provides a structured system of assessment including self, provisional, scrutiny, and best judgment to determine correct tax liability.
- GST audit helps verify the accuracy of returns, turnover, tax paid, and input tax credit claimed by taxpayers.
- The law empowers authorities to conduct inspection, search, and seizure to prevent tax evasion and protect government revenue.
- The appeals mechanism under GST ensures fairness by allowing taxpayers to challenge departmental orders through various appellate authorities.
- GST law clearly defines offences and penalties, distinguishing between minor and major breaches to ensure proportional punishment.
- High-value frauds attract strict penalties, including monetary fines and imprisonment, to deter serious tax violations.
- Anti-profiteering provisions ensure that the benefit of tax rate reduction or input tax credit is passed on to consumers.
- The role of institutions like the GST Council and GST Appellate Tribunal (GSTAT) strengthens transparency and dispute resolution.
- Recent GST developments aim to simplify compliance, improve technology, and promote a more efficient tax system.

CHECK YOUR PROGRESS-

A. Fill in the Blanks (10 Questions)

1. Self-assessment under GST is done by the _____ himself.
2. Provisional assessment under GST is governed by Section _____ of the CGST Act.
3. Scrutiny of returns under GST is carried out under Section _____.
4. Best Judgment Assessment is made when the taxpayer fails to _____ with notices.
5. GST audit by tax authorities is conducted under Section _____ of the CGST Act.

6. Seizure of goods is carried out when goods are found to be liable for _____.
7. Appeals against GST orders can be filed before the _____ Authority.
8. Minor breaches under GST generally involve tax amounts less than ₹_____.
9. Anti-profiteering provisions are covered under Section _____ of the CGST Act.
10. The GST Appellate Tribunal became operational after the _____ GST Council meeting.

Answers

1. taxpayer
2. 60
3. 61
4. comply
5. 65
6. confiscation
7. Appellate
8. 5,000
9. 171
10. 56th

B. Match the Following (5 Questions)

List A	**List B**
1. Self Assessment	a. Section 65
2. Provisional Assessment	b. Section 171
3. GST Audit	c. Section 60
4. Anti-Profiteering	d. Section 59
5. Best Judgment Assessment	e. Section 62

Answers

1-d
2-c
3-a
4-b
5- e

C. Short Answer Questions

1. Explain the types of assessment under GST.
2. Describe the purpose and importance of GST audit.
3. Explain the concept of seizure under GST.
4. Discuss the hierarchy of appeals under GST.
5. Distinguish between minor and major offences under GST.

ANSWERS TO CHECK YOUR PROGRESS

Answer to Q1GST provides different types of assessment such as self-assessment, provisional assessment, summary assessment, and best judgment assessment. Self-assessment is done by the taxpayer himself. Provisional is used when value or rate is uncertain. Best judgment is applied when returns are not filed properly.

Answer to Q2GST audit ensures that taxpayers correctly report their turnover, taxes, and input tax credit. It helps in detecting errors, fraud, or tax evasion. Audit improves transparency and compliance. It also ensures proper maintenance of records as per GST law.

Answer to Q3 Seizure means taking possession of goods or documents by GST authorities if they believe tax evasion has occurred. It is done to protect government revenue. Seized goods may be released after payment of tax and penalty. It acts as a control measure against illegal activities.

Answer to Q4 The appeal system under GST starts with the Appellate Authority. Further appeals can be made to the Appellate Tribunal, then High Court, and finally the Supreme Court. It provides taxpayers a fair chance to challenge decisions. This ensures justice and proper dispute resolution.

Answer to Q5 Minor offences involve small mistakes like incorrect filing without intention to evade tax. Major offences include fraud, fake invoices, and deliberate tax evasion. Minor offences attract lower penalties. Major offences may lead to heavy penalties and even imprisonment.

FUTURE READINGS-

- https://www.gstcouncil.gov.in/sites/default/files/2024-02/anti-prof-faq.pdf
- https://cleartax.in/s/anti-profiteering-gst-law
- **Government of India.***The Central Goods and Services Tax Act, 2017*. Ministry of Finance, New Delhi.
- **Central Board of Indirect Taxes and Customs (CBIC).***GST Rules, Notifications, and Circulars*. Government of India.
- **Datey, V. S.***Indirect Taxes – GST*. Taxmann Publications, New Delhi.

MODEL QUESTIONS

1. Explain Self, Provisional, Scrutiny, and Best Judgment Assessment under GST.
2. Discuss GST Audit – meaning, objectives, and types.
3. Explain the provisions relating to seizure under GST and safeguards available to taxpayers.
4. Describe the appeals mechanism under GST, including hierarchy and procedures.
5. Explain offences and penalties under GST, highlighting minor and major offences.
6. Discuss the anti-profiteering provisions under GST – concept, mechanism, and recent changes.
7. Analyse the role of the GST Council in recent GST reforms (GST 2.0).
8. Explain high-value frauds under GST and related penalties and punishments.
9. Discuss the recent developments in GST, including GSTAT and compliance changes.
10. Critically examine how GST enforcement provisions ensure compliance and fairness.

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UNIT 14: CONTEMPORARY ISSUES, CHALLENGES AND FUTURE TRENDS IN GST

Unit Structure

14.1 Learning Objectives
14.2 Introduction
14.3 Implementation Challenges of GST In India
14.4 GST and The Digital Economy
14.5 Impact of GST On Different Sectors
14.6 Recent Reforms in GST
14.7 Anti Evasion Measures In GST
14.8 Global Perspectives and Comparison
14.9 Future Trends and Proposed Reforms
14.10Let Us Sum Up
14.11Further Readings
14.12 Answers to Check Your Progress
14.13 Model Questions

14.1 LEARNING OBJECTIVES

After studying this unit, the learner will be able to:

- Explain the main implementation challenges faced in rolling out GST in India.
- Describe how GST interacts with the growing digital economy.
- Discuss the impact of GST on major sectors such as manufacturing, services, MSMEs and consumers.
- Identify key recent reforms in GST design, rates and procedures.
- Outline common anti evasion tools used in GST, such as e invoicing and analytics.
- Compare India's GST with similar value added tax systems in other countries at a broad level.
- Comment on likely future trends and proposed reforms in the GST framework.

14.2 INTRODUCTION

Goods and Services Tax is one of the most important tax reforms in independent India. It replaced a wide range of central and state indirect taxes with a unified system that aims to tax value addition at each stage of the supply chain and avoid tax on tax. When it was introduced, GST promised simplicity, a common national market and better transparency.

However, changing a large federal country's entire indirect tax structure is not easy. The implementation journey has shown many challenges. Technology systems have had to support millions of returns and invoices. Businesses have had to re learn compliance, while governments have had to adjust to new revenue sharing patterns. New issues have arisen in areas like digital trade and online platforms that were not central under earlier tax systems.

This unit looks at these contemporary realities. It does not attempt to cover detailed law, but focuses on concepts, trends and practical issues. It first discusses the main difficulties in implementation and then examines the link between GST and the digital economy. It then turns to sector wise effects, recent policy changes and anti-evasion tools. Finally, it places India's GST in a global context and considers future directions such as rate rationalization, better technology and deeper integration of remaining sectors.

14.3 IMPLEMENTATION CHALLENGES OF GST IN INDIA

From the start, GST in India has faced a tension between the goal of simplicity and the need to reflect the country's social and economic diversity. This has created several practical challenges.

One major challenge has been the complex rate structure. GST has multiple slabs for goods and services, along with a separate list of exempt items and some special rates. For a small or medium business, deciding the correct rate is not always straightforward, especially when classification rules are unclear or change over time. This can lead to errors, disputes and even penalties.

Another difficulty is the compliance burden. Registered taxpayers must file returns monthly or quarterly, and also an annual summary. For many, there are separate returns for outward supplies, inward supplies, tax payment and sometimes additional forms for tax deducted or collected at source. While digital tools help, small businesses often need expert help to keep up with these requirements, which increases their costs.

Technology has been a third area of challenge. The GST system heavily depends on an online portal to handle registration, return filing, payment and refund applications. In peak periods near due dates, users have often reported slow speeds, error messages and difficulty in uploading data. Any glitch can cause missed deadlines and late fees, and can disrupt business planning.

The input tax credit mechanism, which is central to GST, has also brought challenges. The law aims to allow credit only when the supplier has correctly reported the invoice and paid the tax. In practice, buyers sometimes lose credit or face delays because suppliers have not filed returns or have made mistakes. This affects cash flow and can create tension between suppliers and customers.

Finally, coordination between the Union and the States within the GST Council has at times been difficult, especially when revenues fell or compensation payments were delayed. Differing views on rate cuts, exemptions and procedure changes can slow decision making, though the Council has usually reached compromise after discussion.

14.4 GST AND THE DIGITAL ECONOMY

The digital economy has grown very quickly in India, with e commerce, app based services, online content and digital platforms becoming part of daily life. GST had to adapt to these models because traditional indirect taxes were largely designed for physical goods and local services.

One key issue is the place of supply. When a buyer in one state purchases a service hosted on a server in another state from a provider who may be located in a third state or even outside India, deciding which tax applies and which government should receive the revenue becomes complex. GST law uses detailed place of supply rules to handle these cases and decide whether a supply is intra state or interstate.

E commerce operators have a special role under GST. In many cases, they are required to collect tax at source on the net value of supplies made through their platform. This helps the tax administration track the activities of many small sellers who use these platforms to reach customers across the country. It also creates extra compliance tasks for the platforms, which must report and deposit the collected amounts.

Digital services supplied by foreign companies to Indian consumers, such as online streaming, app purchases or cloud storage, pose another challenge. GST tries to tax these as import of services, with rules that require foreign suppliers or intermediaries to register and pay tax in India in some situations, or place the liability on the recipient in others. Enforcing these rules is not simple, as it often depends on cooperation, information exchange and practical possibilities of collection.

Based on the **Finance Bill 2026** and the **ELP Union Budget Analysis**, below is an explanation of how **GST** impacts the **Digital Economy**, with a focus on recent changes.

The Digital Economy involves businesses that operate online, such as software companies, BPOs (Business Process Outsourcing), e-commerce platforms, and digital service providers. The Budget 2026 has introduced significant changes to help these businesses, particularly those serving clients outside India.

Feature / Area	**Old Rule**	**New Rule / Change (2026)**	**Benefit**
Intermediary Services (BPOs & KPOs)	Previously, if an Indian company provided "back-end" support or acted as an agent (intermediary) for a foreign client, the **Place of Supply** was considered to be **India** (location of supplier). This meant they had to pay GST in India and were often denied "Export" status.	**Section 13(8)(b) Omitted:** The Budget proposes to delete the rule that taxed these services in India. Now, the **Place of Supply** will be the **location of the recipient** (the foreign client).	**Huge Benefit:** Indian BPOs and support firms serving foreign clients will now be treated as **Exporters**. They will not have to pay GST on these services (or can claim refunds), making them more competitive globally.
Post-Sale Discounts (E-commerce/Retail)	To claim a tax reduction for a discount given *after* a sale, a business had to prove there was a **pre-existing written agreement** linked to that specific invoice.	**Section 15(3) Amended:** The requirement for a pre-existing agreement is removed. Businesses can now issue a **Credit Note** for discounts, provided the buyer reverses the	**Easier Compliance:** Digital platforms and retailers often give discounts later. Now, they can easily reduce their tax liability for these discounts without needing old contracts for every single

		Input Tax Credit.	sale.
Cross-Border Services (IGST)	Service providers in one state selling to another state (or importing services like software) paid taxes that were often complex to track.	**IGST (Integrated GST):** The Centre collects IGST on inter-state digital trade and imports. The constitutional amendment ensures this tax is shared between the Centre and States.	**Unified Market:** Whether a digital service is bought from another state or imported, IGST applies, ensuring a single tax system for online transactions.
Refunds for Exporters	Small digital exporters often faced issues claiming refunds if the amount was small (below ₹1,000).	**Threshold Removed:** The minimum limit of ₹1,000 for claiming a refund on exports with payment of tax has been removed.	**Small Exporters Help:** Small e-commerce sellers or freelancers exporting services can now claim refunds for even small amounts of tax paid.

Importance for the Digital Economy

• **Boost for Outsourcing:** The removal of the "Intermediary" tax trap is a major relief for the Indian IT and BPO sector. It solves years of litigation where companies were denied export status despite earning foreign exchange.

• **Ease of Business:** Removing the need for prior agreements on discounts helps e-commerce platforms and fast-moving consumer goods (FMCG) companies that operate digitally and offer dynamic pricing.

14.5 IMPACT OF GST ON DIFFERENT SECTORS

GST has had different effects across sectors. Some have seen clear benefits, others have faced adjustment costs, and for some the picture is mixed.

In manufacturing, GST removed many earlier taxes such as central excise, entry tax and state VAT, which used to create tax on tax and made goods more expensive. A uniform credit chain across states has helped reduce the total tax burden in many cases and has eased movement of goods by removing most check posts. This has supported logistics efficiency and encouraged companies to design supply chains based on business logic rather than tax considerations alone. On the other hand, sectors with inverted duty structures, where tax on inputs is higher than tax on outputs, still face working capital stress because refunds may be slow or limited.

In services, the move from a central service tax to dual GST (central and state) increased the number of registrations and returns for firms with operations in many states. A service provider who earlier filed

under one registration now often needs to register in each state where it has a place of business. This has raised compliance costs, especially for mid-sized service firms. For some segments, however, clearer rules on place of supply and a uniform rate structure have reduced confusion compared to the earlier mix of taxes.

Micro, small and medium enterprises have seen both opportunities and burdens. On the positive side, GST has made it easier to sell across state borders without dealing with a patchwork of local taxes. It has also given small firms input tax credit on purchases, which was not always available earlier. On the negative side, continuous compliance, the need for digital literacy and the cost of professional help have weighed heavily on smaller units. Composition schemes and quarterly filing options are intended to relieve some of this pressure but do not solve all problems.

For consumers, GST's impact depends on the product basket. Some goods and services became cheaper due to lower combined tax rates and better credit chains. Others became costlier, especially where earlier effective tax was low. Over time, as rate adjustments took place, the system tried to balance revenue needs with inflation and social welfare concerns, placing essential items in lower slabs and luxury items in higher ones.

Impact of GST on Different Sectors

Sector	Old Rule / Challenge	New Impact / Change (2026)	Benefits
1. IT, BPO & KPO (Service Sector)	**The "Intermediary" Problem:** Previously, if an Indian BPO provided back-end services to a foreign company, the tax department often treated them as "Intermediaries." This meant the "place of supply" was considered **India**, and they had to pay GST (18%) instead of being treated as tax-free exports.	**Omission of Section 13(8)(b):** The Budget proposes to remove this rule. Now, the "place of supply" will be the **location of the recipient** (foreign client).	**Huge Relief:** Indian call centers and back-office support firms serving foreign clients are now clearly **Exporters**. They do not have to pay GST on these services, making them more profitable and competitive globally.
2. FMCG, Retail & Automobiles	**Discount Confusion:** Companies often give discounts *after* a sale (Post-Sale Discount). To claim a tax reduction on this, they previously had to prove there was a **pre-existing written agreement** linked to every single invoice. This was very difficult for sectors like cars and consumer goods.	**Amendment to Section 15(3):** The government has removed the condition of a "prior agreement." Now, a business can issue a **Credit Note** for discounts, provided the buyer reverses the Input Tax Credit.	**Easier Discounts:** Car makers and shampoo sellers can give discounts to dealers later without worrying about finding old contracts. This reduces litigation and tax demands.

3. Manufacturing (Textiles, Leather)	**Inverted Duty Structure:** In these sectors, the tax on raw materials (inputs) is often higher than the tax on the final product. This results in unused tax credit piling up. Getting a refund for this was slow and difficult.	**Provisional Refunds:** The refund facility has been improved. Businesses can now get a **provisional refund (up to 90%)** of their claim quickly, even for cases of Inverted Duty Structure.	**Better Cash Flow:** Factories will get their blocked tax money back from the government much faster, which they can use to run their business.
4. Export Sector (MSMEs)	**Refund Threshold:** Small exporters often could not claim tax refunds if the amount was small (less than ₹1,000).	**Removal of Threshold:** The minimum limit of ₹1,000 for claiming a refund on exports has been removed.	**Every Penny Counts:** Even small sellers exporting via courier or post can now claim every rupee of tax refund due to them.
5. Digital Economy (Data Centers)	**Taxation Risks:** Foreign companies worried that using Indian data centers for cloud services might force them to pay tax in India due to "permanent establishment" rules.	**Tax Holiday:** A specific exemption/holiday is proposed for foreign companies providing cloud services using Indian data centers till 2047.	**Investment Boost:** It encourages global tech giants to set up and use data centers in India without fear of extra taxes.
6. Logistics & Warehousing	**Border Delays:** Before GST, trucks spent hours at state borders paying Entry Tax and Octroi.	**Unified Market:** GST removed check-posts. The Budget 2026 further pushes for **Digital Governance** and unified systems for trade to reduce manual checks.	**Faster Movement:** Trucks move faster, and goods reach customers quicker because there are fewer physical checks and taxes at state borders.

Check your progress

Q1. Mention two major implementation challenges that businesses have faced under GST.

Q2. Why does the digital economy create special issues for GST place of supply rules

14.6 RECENT REFORMS IN GST

Since its launch, the GST framework has been continuously updated. Reforms can be broadly grouped into rate changes, procedural simplification and strengthening of technology and administration.

On rates, the Council has reduced GST on many items from higher slabs to lower ones, especially where industry or consumer impact was strong. It has also worked on correcting inverted duty structures in certain sectors by adjusting rates on outputs or inputs. These changes aim to reduce anomalies, though the multiple slab system remains.

On procedure, several steps have been taken to ease compliance. Examples include allowing quarterly returns with monthly payment for small taxpayers, reducing the number of forms for many categories, and offering amnesty schemes to resolve old disputes with lower penalties. There has also been a push to pre fill more details based on data already available in the system, so that taxpayers only verify and correct instead of typing everything from scratch.

The introduction of e invoicing for medium and large businesses is another major reform. Under this system, certain taxpayers must generate invoices in a standard format through a central portal. The data from these invoices flows into return systems, supporting matching and reducing manual work. E invoicing also makes it harder to generate fake invoices, which were a common tool for input tax credit fraud.

The **Finance Bill 2026**, **Budget 2026 Analysis**, and **ELP Union Budget Analysis**, below shows the detailed outlook of the recent reforms in Goods and Services Tax (GST).

Recent Reforms in GST (Budget 2026)

Area of Reform	**Old Rule / The Problem**	**New Rule / The Change (2026)**	**Explanations& Benefit**
Post-Sale Discounts (Credit Notes)	To claim a tax reduction for a discount given *after* a sale, businesses had to prove there was a **pre-existing written agreement** linked to that specific invoice. This was very difficult for many businesses to prove.	**Section 15(3) Amended:** The condition of a "prior agreement" has been removed. Now, a supplier can issue a **Credit Note** for discounts, provided the buyer reverses the Input Tax Credit (ITC) related to that discount.	**Easier Discounts:** Companies (like FMCG or Auto) can give discounts to dealers later without worrying about old contracts. As long as the buyer reduces their tax credit, the seller gets the tax benefit.
Intermediary Services (BPOs/Agents)	If an Indian agent or BPO provided services to a foreign client, the **Place of Supply** was treated as the *location of the supplier* (India). This meant they had to pay 18% GST and were denied "Export" status.	**Section 13(8)(b) Omitted:** The rule that taxed these services in India is deleted. Now, the **Place of Supply** will be the **location of the recipient** (the foreign client).	**Boost for Exports:** Indian agents and BPOs serving foreign clients will now be treated as **Exporters**. They will not have to pay GST on these services, making them more competitive globally.

Refunds for Inverted Duty Structure	"Inverted Duty" means paying higher tax on raw materials than on the final product. Refunds for this were often delayed because the **provisional refund** (getting 90% money back quickly) was not allowed for this category.	**Section 54(6) Amended:** The facility of **provisional refund** (up to 90% of the claim) is now extended to refund claims arising from Inverted Duty Structures.	**Better Cash Flow:** Manufacturers (like textile or leather) who pay high tax on inputs will get their blocked money back from the government much faster.
Refunds for Small Exporters	Exporters could not claim a tax refund if the amount was less than **₹1,000**. This hurt small exporters who sent low-value consignments via courier or post.	**Section 54(14) Amended:** The minimum threshold of ₹1,000 for claiming a refund on exports with payment of tax has been removed.	**Help for Small Sellers:** Small exporters can now claim every rupee of tax refund due to them, even for small shipments.
Appeals and Advance Rulings	If two different state authorities gave conflicting rulings on a tax issue, there was no active **National Appellate Authority** to resolve the dispute, leading to confusion and litigation.	**Section 101A Amended:** The Government is empowered to notify an **"existing Authority"** (like a Tribunal) to hear these appeals until the National Appellate Authority is fully set up.	**Faster Dispute Resolution:** If tax officers in different states disagree on a rule, a designated authority can now resolve the conflict quickly instead of waiting for a new body to be formed.

14.7 ANTI EVASION MEASURES IN GST

Because GST relies heavily on input tax credit and self-assessment, it is vulnerable to evasion strategies such as under reporting of sales, over reporting of purchases and use of fake firms to claim credits without real business activity. To address these, the system uses a mix of technology based and traditional tools.

One key measure is matching of invoices and returns. When a supplier uploads invoice data and the buyer claims credit, the system can compare these two sets of information. Mismatches may trigger warnings, blocking of credit or further enquiry. This encourages both sides to report correctly.

E way bills are another tool. For movement of goods beyond a certain value and distance, transporters and suppliers must generate an online document with details of the goods, value, tax and vehicle. Check posts and mobile enforcement teams can verify these documents to ensure that goods on the road match the reported data. This helps detect unreported movement of goods.

Risk based analytics also form part of the anti-evasion strategy. Large volumes of data from registrations, returns, e invoices, e way bills and other sources are analyzed to identify patterns that suggest possible

evasion, such as round tripping of invoices, repeated high value transactions by firms with little genuine presence, or sudden spikes in input credit claims. Cases with high-risk scores can be selected for audit or investigation.

Traditional investigation, search and seizure powers remain available for serious cases, such as when authorities suspect fake firms, bogus credits or large-scale suppression of turnover. The combination of new technology and older legal tools is intended to create a strong deterrent while focusing enforcement on higher risk cases rather than routine taxpayers.

Anti-Evasion Measures in GST, Finance Bill & Budget 2026

Measure / Rule	How it Stops Evasion	Explanation
Input Tax Credit (ITC) Reversal	**Prevents Double Benefits**	When a supplier gives a discount *after* a sale (Post-Sale Discount), the government ensures it does not lose money. The supplier can only reduce their tax if the **buyer reverses (returns)** the Input Tax Credit they had previously claimed on that discount amount. If the buyer doesn't reverse it, the supplier cannot claim the tax benefit, ensuring the tax trail remains intact.
Credit Notes Linkage (Section 34)	**Validating Adjustments**	The law has been amended to specifically link **Credit Notes** to the reversal of ITC. A business cannot simply issue a credit note to reduce tax liability; it must be backed by proof that the recipient has adjusted their records accordingly. This stops businesses from issuing fake credit notes to lower taxes.
Self-Monitoring Mechanism	**Automatic Tracking**	Unlike older tax systems, GST (being a Value Added Tax) has a **"built-in mechanism"** for monitoring itself. Since one person's tax payment is another person's credit, buyers demand invoices to claim credit, which forces sellers to report sales. This structure naturally reduces the scope for evasion compared to the old system.
Unified Digital Systems	**Better Surveillance**	The government is moving towards **"Unified systems for trade"** and **"Digital Governance"**. By integrating systems (like Customs and GST), the government creates a single touchpoint. This allows them to cross-verify data automatically, making it harder for businesses to hide transactions or misreport figures across different government departments.
Restriction on Refunds	**Verification of Claims**	While refunds have been simplified, specific rules ensure they are genuine. For example, ensuring that refunds on exports or inverted duty structures are backed by valid Input Tax Credits prevents people from claiming cash back from the government for taxes they never actually paid or were not eligible for.

14.8 GLOBAL PERSPECTIVES AND COMPARISON

India's GST is part of a wider family of value added tax systems used in many countries. At a conceptual level, all VAT or GST systems aim to tax value addition at each stage and to ensure that exports are zero rated while imports are taxed like domestic goods.

Compared with many countries, India's GST is more complex in structure. It has multiple tax rates and a dual system with central and state components on the same base. Federal countries like Canada and some others also use dual models, but often with fewer slabs and simpler rules. Smaller countries often have a single rate or only a few rates, which simplifies administration but may not easily reflect social and political choices in a large diverse economy.

On the positive side, India's GST has been ambitious in using technology, with a single online portal for registration, return filing and payments across the country. Many countries still rely more on paper and separate systems for different regions. India's push for e invoicing and real time data use is also in line with global best practices, though the scale and pace create unique challenges.

Globally, there is also a trend towards broader bases with fewer exemptions, which makes the tax more neutral and efficient. India still keeps some important areas such as petroleum and alcohol outside GST, which reduces the potential benefits of a fully unified indirect tax system. Future reforms may look more closely at global experience in handling such items.

14.9 FUTURE TRENDS AND PROPOSED REFORMS

Looking ahead, several trends and ideas are likely to shape the future of GST in India.

First, there is ongoing discussion about rate rationalization. Many experts argue for moving towards fewer slabs, perhaps three main rates plus zero-rated items, to reduce classification disputes and compliance complexity. Any such move will need careful balancing of revenue, inflation and distributional effects.

Second, the technology layer will continue to deepen. E invoicing may be expanded to more taxpayers, and real time data analysis will likely guide risk-based audits, refunds and enforcement. This can improve efficiency but will also require constant investment in infrastructure and strong data governance.

Third, there may be gradual steps to bring more items into the GST net, such as certain petroleum products, to strengthen the common market and reduce distortions between sectors. This will depend on political consensus and arrangements to protect state revenues during transition.

Fourth, efforts to ease compliance for small taxpayers will likely continue. Simpler return forms, better mobile based interfaces, clearer guidance and support centres can help reduce the gap between technical design and on ground reality. Some proposals suggest more generous thresholds, simpler composition schemes or flat rate options for very small businesses.

Finally, GST will remain closely tied to broader economic policy goals. Decisions on rates and exemptions may be used to encourage specific sectors such as manufacturing, exports or green technology, even while the system tries to stay neutral overall. The long-term success of GST will depend on achieving a balance between revenue collection, ease of doing business, social equity and political acceptability.

Check your progress

Q3. Give one positive and one negative impact of GST on small and medium enterprises.

Q4. What is the purpose of e invoicing and e way bills in the GST system

Q5. Why do many experts call for rate rationalization in GST in the coming years

14.10LET US SUM UP

In this unit we have explored how GST, as a living system, faces many contemporary issues and continues to evolve. Implementation has been challenging due to complex rate structures, high compliance demands, technology limitations and the need for close coordination between the Union and the States. At the same time, GST has brought important gains in terms of a more unified market, reduction of cascading taxes and the possibility of using real time data for better administration.

We have seen that the rise of the digital economy, sector specific conditions and the presence of a large small business base all shape how GST works in practice. Reforms such as e invoicing, simplified returns and targeted rate changes aim to improve both compliance and fairness, while anti evasion tools use a mix of analytics, documentation and traditional powers. Comparing with other countries shows that India shares common goals with global VAT systems but has its own distinctive features due to its federal structure and diversity. Future trends point towards further simplification, broader coverage, deeper use of technology and continued efforts to balance revenue, growth and equity as GST matures.

14.11 FURTHER READINGS

1. Government and professional guides on “Challenges in GST Implementation in India” and “Problems of Implementation of GST in India” for more detail on practical issues.
2. Policy papers and working papers on “GST Implementation in India: Some Unresolved Issues” for academic analysis of revenue sharing, IGST settlement and data quality.
3. Articles and reports on “GST and the Digital Economy” covering place of supply, e commerce operators and cross border digital services.
4. Sector studies on GST impact in manufacturing, services, MSMEs and agriculture from think tanks and industry associations.

5. Official notes and commentaries on recent GST reforms, including e invoicing rollout, simplification schemes and rate changes.
6. Overviews of GST anti evasion strategies focusing on e way bills, analytics and investigation practices.
7. International studies comparing India's GST with VAT models in countries like Canada, Australia and members of the European Union.
8. Budget and pre budget analysis pieces discussing proposed GST reforms, rate rationalisation and integration of excluded sectors.

14.12 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1:
Two major implementation challenges are the complex multi-slab rate structure, which makes classification and rate selection difficult, and the heavy compliance burden of frequent online returns and reconciliations, especially for small businesses.

Ans to Q2:
The digital economy creates special issues because suppliers, servers and customers may be in different states or countries, so deciding where a supply takes place and which government should get the tax is harder than for local, physical transactions.

Ans to Q3:
A positive impact on MSMEs is easier access to markets across states with a single tax framework and availability of input tax credit. A negative impact is the higher cost and effort of regular digital compliance and return filing.

Ans to Q4:
E invoicing helps standardize invoices and feed data directly into returns, making fake invoices harder to use. E way bills help track movement of goods and detect unreported supplies by requiring online documentation for certain consignments.

Ans to Q5:
Experts call for rate rationalization because having many slabs and exemptions increases confusion, disputes and compliance costs. Fewer, more uniform rates would make GST simpler and more predictable while still allowing basic differentiation.

14.13MODEL QUESTIONS

1. Explain the main implementation challenges of GST in India and suggest practical steps that could help reduce these problems for small and medium businesses.
2. Discuss how GST law deals with e commerce and cross-border digital services. What are the key compliance obligations for digital platforms and foreign service providers

3. Analyze the impact of GST on at least three sectors of the Indian economy, such as manufacturing, services and MSMEs, highlighting both benefits and difficulties.
4. Describe recent reforms introduced in GST, including e invoicing and return simplification measures. How do these reforms aim to improve compliance and reduce evasion
5. Compare India's GST framework with VAT or GST systems in one or two other countries. In your view, what lessons can India draw from global practice for future GST reforms