

INTRODUCTION TO GOODS AND SERVICE TAX (GST)

Goods and Services Tax (GST) is a landmark reform which has made effect on taxation system of India. It is an indirect tax levied on the supply of Goods and Services. A trader adds the GST to the price of product and collects from a customer along with the sales price. The GST collected is then forwarded to the Govt.

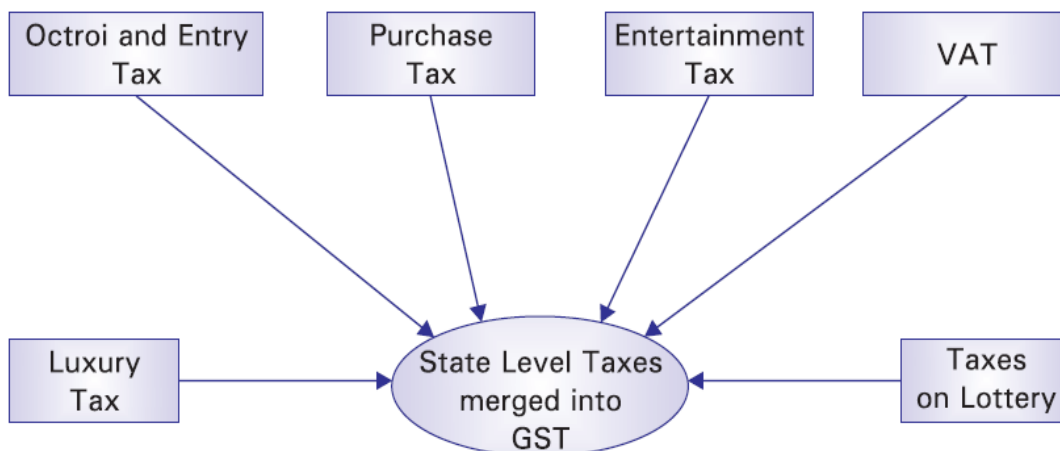
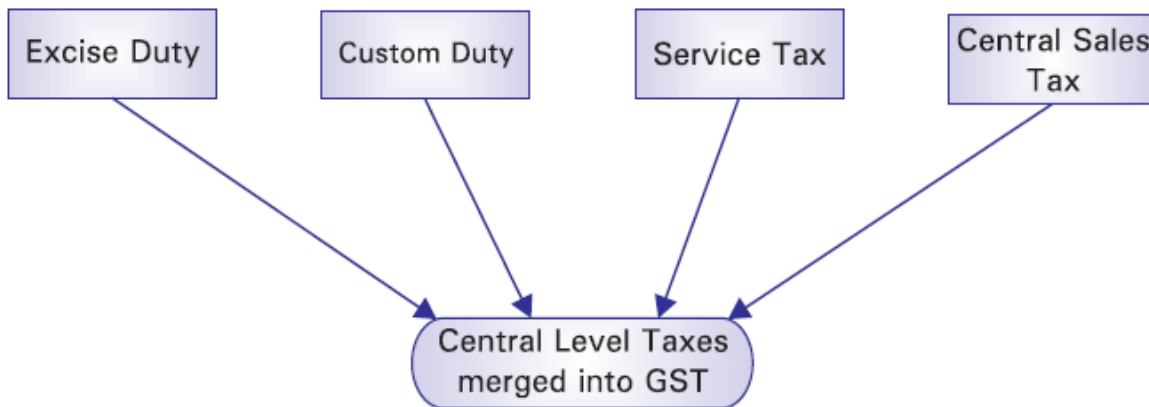
It was introduced on **24th March 2017** as the Constitution Act 2017 and it came into effect from **1st July 2017**. GST replaced multiple taxes levied by State Government and Central Government. It has brought us to the 'One Nation One Tax Regime'.

Taxes Merged under GST

The following Indirect Taxes levied by Central and State Governments have been replaced by GST.

Central Level Taxes: Excise Duty, Customs Duty, Service Tax, Central Sales Tax

State Level Taxes: Octroi & Entry Tax, Purchase Tax, Entertainment Tax, VAT, Luxury Tax, Taxes on Lottery....



*****At present Petroleum products, Alcohol, Electricity etc., are excluded from GST**

Slabs under GST Rate Structure

Goods and services are divided into five slabs for collection of GST:

Items	slabs
Essential items including food	0%
Common use items	5%
Standard Rate	12%
Maximum Goods and all services Standard Rate	18%
Luxury items and Tobacco	28%

GST is **paid on purchase of goods** and services and it is **collected from customers on sale of goods** and services. GST paid (termed as Input GST) is setoff against GST collected (Termed as Output GST).

As such, Input GST is not a cost for the purchaser, but it is an **Asset** since it can be set off against Output GST. Similarly Output GST is not an income for the seller, but it is a **Liability**.

IMPORTANT NOTES

- (1) Usually, GST Paid on purchase of goods and services (*i.e.*, Input GST) is not a **Cost** for the purchaser but is an **Asset** because it can be set off against GST Collected (*i.e.*, Output GST)
- (2) However, in certain cases GST Paid cannot be set off against GST collected. In such cases, GST Paid on purchase of goods and services is a **Cost** for the purchaser. Following are the cases where GST Paid on purchase of goods and services cannot be set off against GST collected :
 - (i) Food and Beverages Expenses (Restaurant Bills);
 - (ii) Payment for health insurance;
 - (iii) Payment of Membership Fee of a Club, health and Fitness Centre;
 - (iv) Repairs and Maintenance of Building;
 - (v) Purchase of Vehicles;
 - (vi) Free gift to Staff;
 - (vii) Payment for goods and services for personal use.
- (3) **GST Paid (*i.e.*, Input GST) is Reversed in the following cases :**
 - (i) Goods lost or stolen;

- (ii) Goods destroyed or written off;
 - (iii) Goods distributed as free samples;
 - (iv) Goods given away as gift or charity.
- (4) **Following goods and services are exempt from levy of GST :**
 - (i) Payment of Wages and Salaries;
 - (ii) Supply of Services to Government or to Embassies of other countries;
 - (iii) Electricity and water bills;
 - (iv) Educational Services; and
 - (v) Health Services.

Benefits of GST

- **Ease of Doing Business-** Under GST all taxes (excise, VAT, CST and service tax etc.) are subsumed into one. There will be only three accounts SGST, CGST, IGST. The tax administration between the State and Centre is easy to manage and ensures smooth functioning of business.
- **Decrease in the Cost of Goods-** In the Pre-GST regime, there were many indirect taxes levied by both State and Central Government. For Example, Central Government charged Excise Duty on goods manufactured and State Government charged VAT on the same Goods. This leads to a tax on Tax also known as cascading effect of taxes. It removes cascading effect *i.e.* no tax on tax even if goods move across state borders. Under GST the tax is calculated on the value added at each stage of transfer of ownership. This helps in reducing the cost of goods to the consumers.

- **Reduce Tax Evasion**-Electronic return filing and assessment, offer a free integrated tool for a GST registered business to track and check their compliance level for GST returns filed. This will result in reduction of Tax Evasion.
- GST taxes will be paid only at the point of consumption so there is transparency. Tax system becomes transparent regular and certain.

Types of Taxes under GST

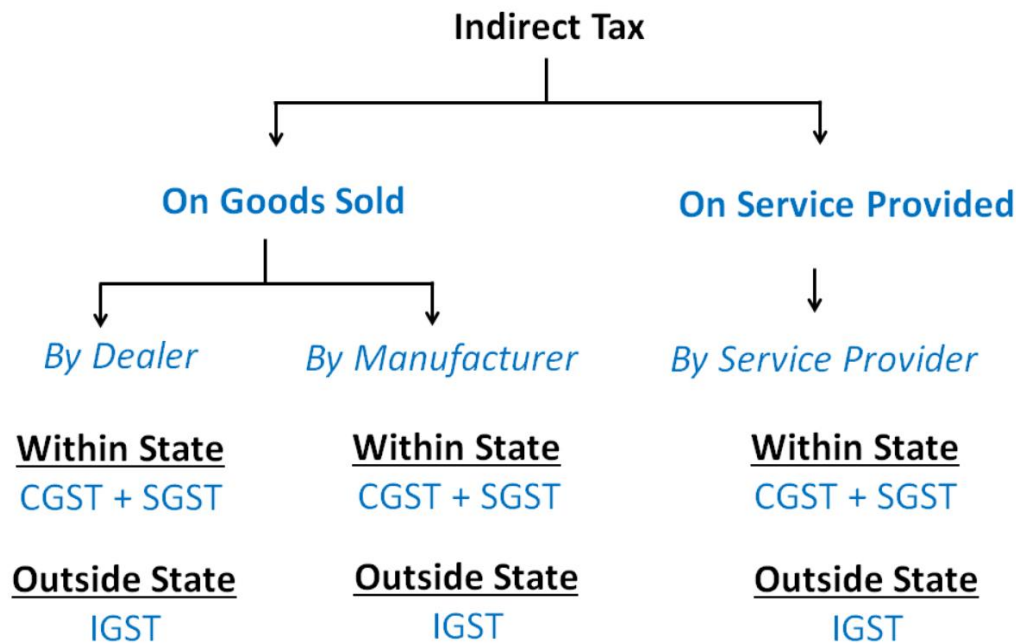
- ❖ Central GST (CGST)
- ❖ State GST (SGST) or Union Territory GST (UTCST)
- ❖ Integrated GST (IGST)

****SGST & CGST are levied on intra-state trades (trade within the same state)**

Example: M/s Kamat traders from Panjim-Goa, sells goods worth Rs. 2,00,000 with GST rate of 18% to M/s Arolkar & Sons from Ponda-Goa. Out of Rs. 36,000 collected Rs. 18,000 i.e.9% SGST will go to Goa Govt. and Rs. 18,000 i.e. 9% CGST will go to central Govt.

****IGST is levied on interstate trade (Trade between different states of India) or foreign trade(for Imports in India and export from India.)**

Example: M/s Sarvoday Traders from Margao-Goa sells goods Rs.3,50,000 with GST rate of 12% to M/s Pawar & Sons from Mumbai-Maharashtra. The seller will charge IGST Rs.42,000, entirely will go to Central Govt.



Reverse Charge Mechanism:

Certain Purchases of Goods and services are placed under Reverse Charge Mechanism.

Here, seller of goods and services will not charge GST but instead the Purchaser of goods and services will deposit GST in the Government Account and claim it as Input GST. Examples- Payment of Fees to lawyers, transport of goods, Insurance commission etc.

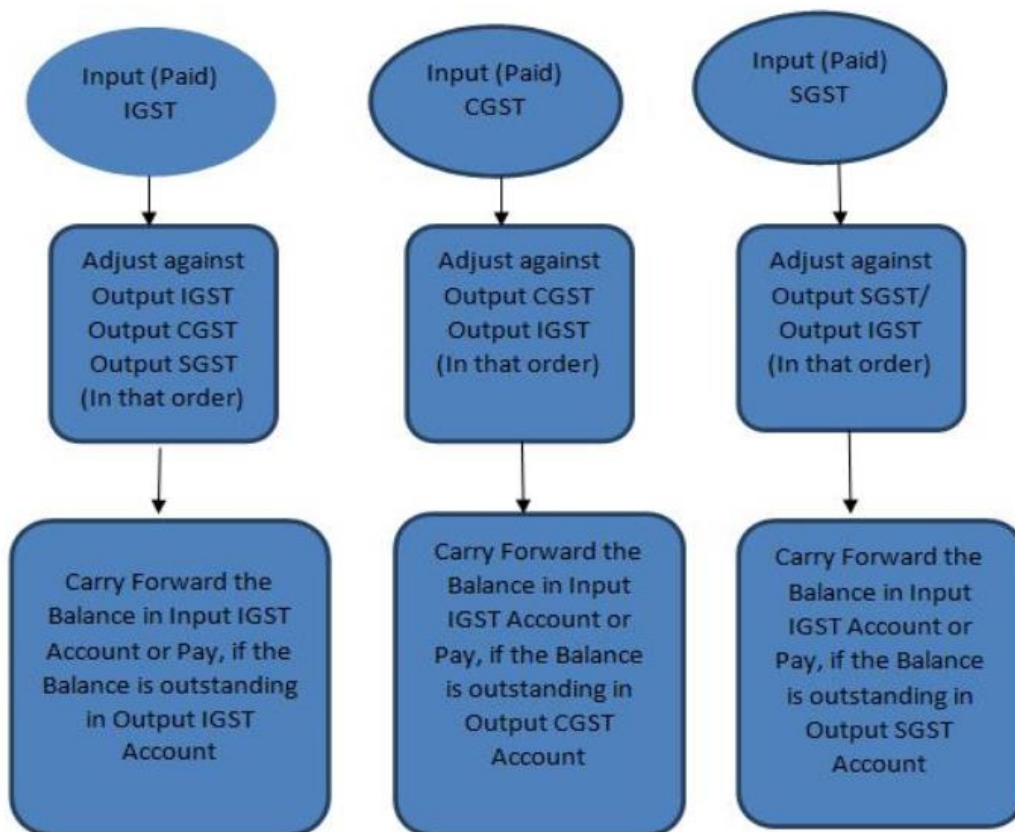
Accounting Entries under GST

A trader must maintain following Accounts under GST Act:

- Input SGST A/c
- Output SGST A/c
- Input CGST A/c
- Output CGST A/c
- Input IGST A/c
- Output IGST A/c

Order for Setting Off Input GST against Output GST

Input GST (CGST/SGST/IGST) is set off against Output GST (CGST/SGST/IGST) in a prescribed order. It is explained below in the below diagram:



Accounting Procedure :

In case of Intra-state supply of goods and services (*i.e.*, sales within the same state)

(i) For Purchase of goods :

Purchases A/c	Dr.
Input CGST A/c	Dr.
Input SGST A/c	Dr.
To Bank/Creditors A/c	
(Goods Purchased)	

(ii) For Sale of goods :

Bank/Debtors A/c	Dr.
To Sales A/c	
To Output CGST A/c	
To Output SGST A/c	
(Goods Sold)	

(iii) For Purchase Returns :

Creditors A/c	Dr.
To Purchase Returns A/c	
To Input CGST A/c	
To Input SGST A/c	
(Purchase Returns)	

In case of purchase returns, Input CGST A/c and Input SGST A/cs are credited because at the time of purchase Input CGST A/c and Input SGST A/cs were debited.

(iv) For Sales Returns :

Sales Returns A/c	Dr.
Output CGST A/c	Dr.
Output SGST A/c	Dr.
To Debtors A/c	
(Sales Returns)	

In case of sales returns, Output CGST A/c and Output SGST A/cs are debited because at the time of sale Output CGST A/c and Output SGST A/cs were credited.

(v) For Purchase of Fixed Assets :

Fixed Asset A/c	Dr.
Input CGST A/c	Dr.
Input SGST A/c	Dr.
To Bank A/c	
(Purchase of fixed assets)	

(vi) For Expenses :

Expense A/c	Dr.
Input CGST A/c	Dr.
Input SGST A/c	Dr.
To Bank A/c	
(Expenses incurred)	

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- (vii) **For Income** (for example commission received)
Bank A/c Dr.
 To Commission Received A/c
 To Output CGST A/c
 To Output SGST A/c
(Income received)
- (viii) **For goods withdrawn by the Proprietor for personal use :**
Drawings A/c Dr.
 To Purchases A/c
 To Input CGST A/c
 To Input SGST A/c
(Goods taken for personal use)
- (ix) **For goods given as free samples, loss of goods by fire or goods stolen :**
Advertisement A/c (Free Samples) Dr.
Loss by Fire A/c Dr.
Loss by Theft A/c Dr.
 To Purchases A/c
 To Input CGST A/c
 To Input SGST A/c
(Goods distributed as free samples, goods stolen and goods destroyed by fire and Input CGST and Input SGST reversed)
- (x) **For Setting off Input CGST against Output CGST :**
Output CGST A/c Dr.
 To Input CGST A/c
(Input CGST set off against Output CGST)
- (xi) **For setting off Input SGST against Output SGST :**
Output SGST A/c Dr.
 To Input SGST A/c
(Input SGST set off against Output SGST)
- (xii) **For payment of GST :**
Output CGST A/c Dr.
Output SGST A/c Dr.
 To Bank A/c
(Balance amount of Output GST deposited with the Government)

In Case of Inter-State supply of goods and services (*i.e.* sales from one-state to another state)

(i) **For Purchase of Goods :**

Purchases A/c	Dr.
Input IGST A/c	Dr.
To Bank/Creditors	

(ii) **For Sale of Goods :**

Bank/Debtors A/c	Dr.
To Sales A/c	
To Output IGST A/c	

(iii) **For Purchase of Assets :**

Asset A/c	Dr.
Input IGST A/c	Dr.
To Bank A/c	

(iv) **For Expenses incurred Outside the state :**

Expenses A/c	Dr.
Input IGST A/c	Dr.
To Bank A/c	

(v) **For Income earned from outside the state :**

Bank A/c	Dr.
To Income A/c	
To Output IGST A/c	

(vi) **For adjustment of IGST :**

Output IGST A/c	Dr.
To Input IGST A/c	

(vii) In case Input IGST exceeds the Output IGST, the excess Input IGST will be first adjusted against CGST and the balance of Input IGST, if any, will be applied to set off SGST. It is explained in Illustration 4 and 5.