

CHAPTER-10

ACCOUNTING FOR GOODS AND SERVICE TAX (GST)

Meaning of GST

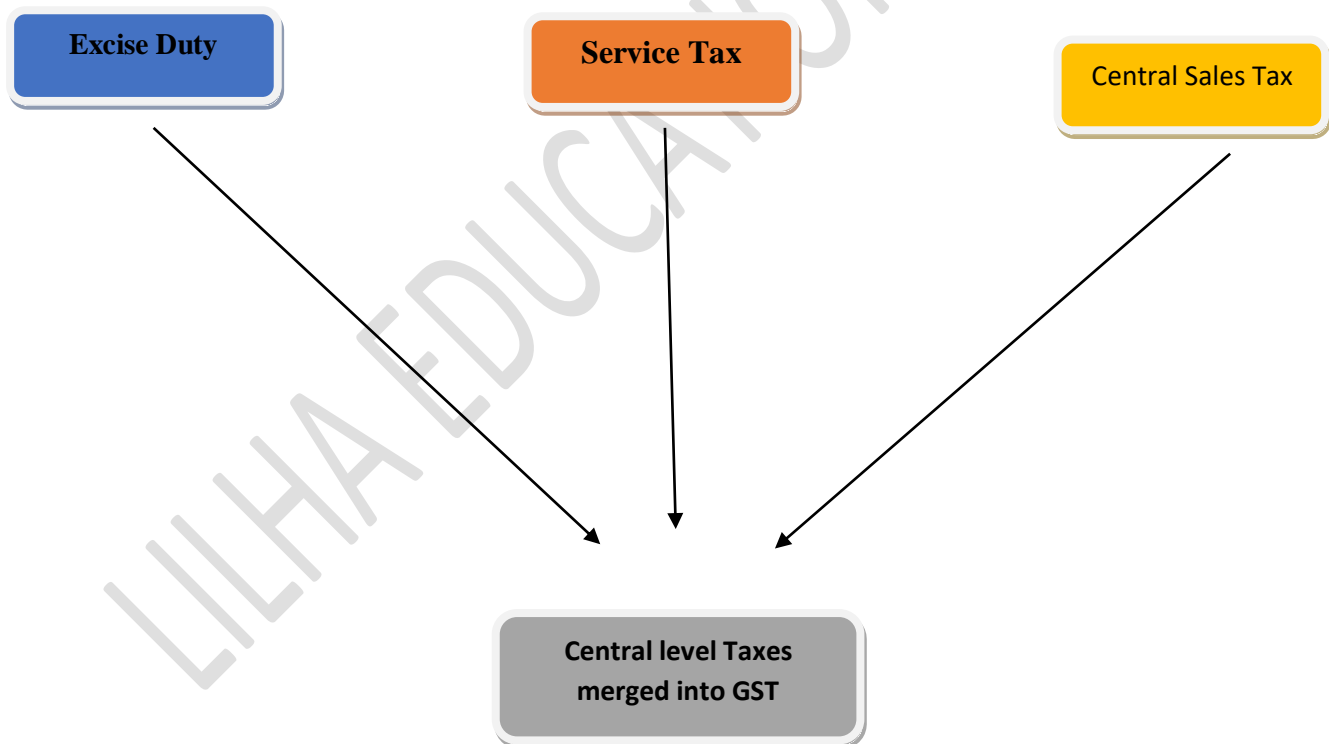
Goods and services except on petroleum and alcohol for human consumption. Supply of goods means sale of goods and supply of services means rendering of services. It is a nation-wide tax seeking to unify several indirect taxes and is based on the principle of 'One Nation one Tax'.

GST Act was passed in the Parliament on 24th March, 2017 and it came into effect from 1st July, 2017.

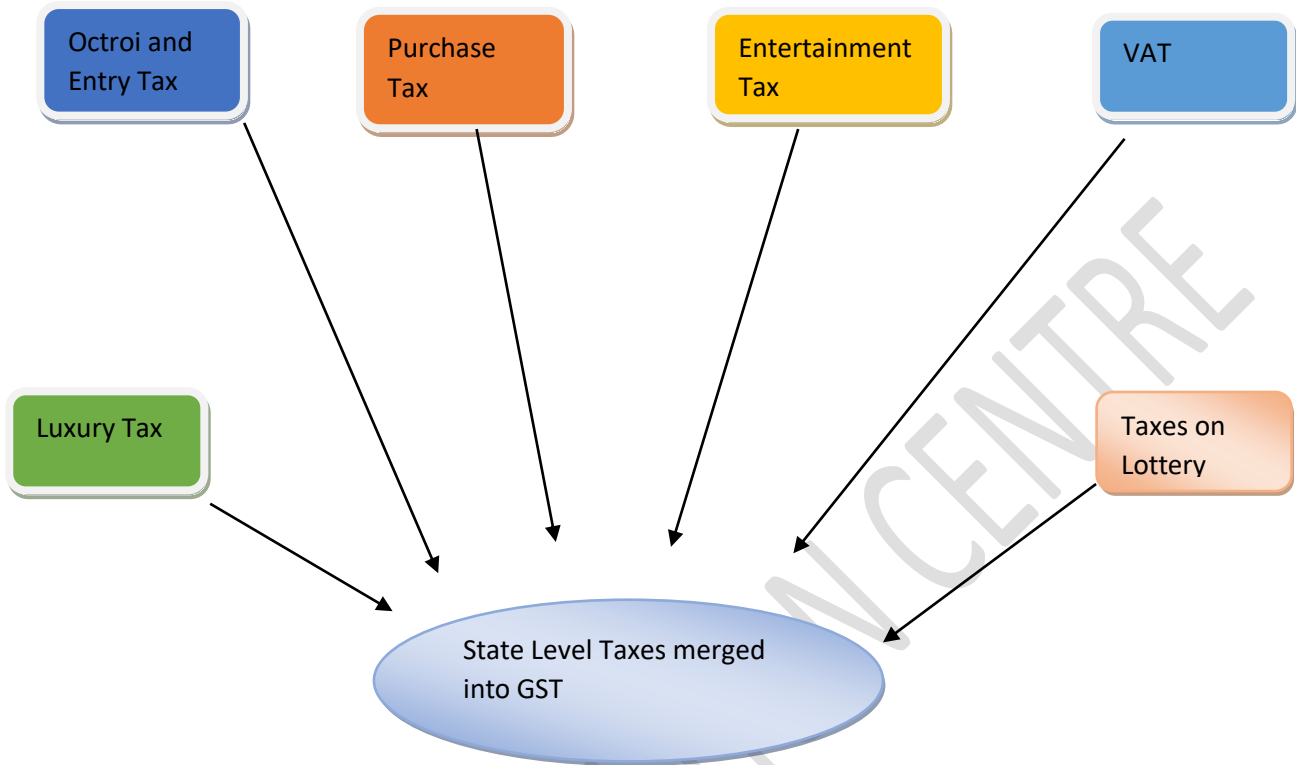
Taxes Merged into GST:

GST has replaced many indirect taxes levied by Centre and State Governments.

Central level taxes that have merged into GST are as under:



State level taxes that have merged into GST are as under



GST Rate Structure: Goods and Services are divided into five slabs collection of GST:

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 set off against GST Collected (termed as Output GST).

As such, GST Paid on Purchase (Input GST) is not a Cost for the purchaser but is an Asset since it can be set off against GST Collected on Sales (i.e., Output GST).

Similarly, GST Collected on Sales (Output GST) is not an income of the seller but is a liability

IMPORTANT NOTES

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- (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 (Credited) in the following cases :
- (i) Purchase Returns;
 - (ii) Goods taken by the proprietor;
 - (iii) Goods lost or stolen;
 - (iv) Goods destroyed or become not saleable (written off);
 - (v) Goods distributed as free samples;
 - (vi) Goods given away as gin or charity.

Similarly, Output GST is Reversed (Debited) in case of Sales Returns.

(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;
- (v) Health Services;
- (vi) Travelling Expenses; and
- (vii) Interest.

Characteristics of Goods and Service Tax (GST):

- (i) GST is a Comprehensive Indirect Tax
- (ii) Uniform GST Rates
- (iii) GST Paid is not a Cost
- (iv) GST is a Value Added Tax

Objectives or Advantages of GST:

- (1) Decrease in the Cost of Goods
- (2) Ease of Doing business

- (3) Developing Common National Market
- (4) Reduction in Tax Evasion
- (5) Goods Becoming Cheaper
- (6) Attracting Foreign Investment
- (7) Tax system becomes more transparent, regular and predictable.

Type of Taxes under GST:

There are 3 taxes applicable under GST

- (i) **Central GST (CGST)**
- (ii) **State GST (SGST) or Union Territory GST (UTGST)** -Both of these taxes are levied on intra-state sales, i.e. within the same state. For example, a dealer of Rajasthan sells goods to a dealer (or consumer) in Rajasthan worth 50,000. Suppose, the GST rate on the goods is 12%. This rate will comprise of CGST at 6% and SGST at 6%. The seller has to collect 12% of 50,000 i.e. 36,000 out of which 3,000 will be CGST which will go to the Central Government and 3,000 will be SGST which will go to the Rajasthan Government.
- (iii) **Integrated GST (IGST):** It is levied on inter-state sales, i.e. sales of goods and services outside the state. It is also levied on import of goods and services into India and export of goods and services from India.