

## 36 What is Goods & Service Tax (GST)?

- GST is a comprehensive *Value Added Tax (VAT)* on supply of goods & services. And shall be levied at each sales/service point when the price of sales/service increases .
- Consistent with the federal structure of the country, GST will have 2 components: one levied by the Centre (as Central GST), and the other levied by the States (as State GST).
- Taxes paid against the Central GST shall be allowed to be taken as *Input Tax Credit (ITC)* for the Central GST and could be utilized only against the payment of Central GST. The same principle will be applicable for the State GST. Cross utilisation of ITC between the Central GST and the State GST would, in general, not be allowed.
- Threshold exemption is built into a tax regime to keep small traders out of the GST net.
- Central Taxes to be merged under GST: Central Excise Duty, Additional Excise Duties, Service Tax, Additional Customs Duty, Commonly known as Countervailing Duty (CVD) and *Special Additional Duty of Customs (SAD)* 4% Surcharge, Cesses
- *State Taxes to be merged under GST:* VAT / Sales tax, Entertainment tax (unless it is levied by the local bodies), Luxury tax, Taxes on lottery, betting and gambling, State Cesses and Surcharges, Entry tax not in lieu of Octroi.

Existing				GST			
Particulars	Rate	Tax	Total payable	Particulars	Rate	Tax	Total payable
<b>Step I - Manufacturer to Wholesaler</b>							
Base price			1,000	Base price			1,000
Excise duty	8.2%	82	1,082	Central GST	8%	80	1,080
State VAT	12.5%	135	<b>1,217</b>	State GST	8%	80	<b>1,160</b>
<b>Step II - Wholesaler to Retailer</b>							
Wholesaler sale price (5 % profit)			1,278	Wholesaler sale price (5 % profit)			1,218
				Central GST	8%	97	
State VAT	12.5%	160		Input tax credit - CGST		80	
				Net tax added for CGST		17	1,235
State VAT - input tax credit		135		State GST	8%	97	
				Input tax credit - SGST		80	
Net tax Added		25	<b>1,303</b>	Net tax added for SGST		17	<b>1,253</b>
<b>Step III - Retailer to Customer</b>							
Retailer sale price ( 10 % profit)			1,433	Wholesaler sale price ( 5 % profit)			1,378
				Central GST	8%	110	
State VAT	12.5%	179		Input tax credit - CGST		97	
				Net tax added for CGST		13	1,391
State VAT - Input tax credit		135		State GST	8%	110	
				Input tax credit - SGST		97	
Net tax Added		44	<b>1,477</b>	Net tax added for SGST		13	<b>1,404</b>
Thus net reduction in price after GST may be Rs. 74 i.e. almost of 5%							