Goods and Service Tax (GST)

1. Introduction to GST

Goods and Services Tax (GST) is a comprehensive, multi-stage, and destination-based indirect tax levied on the supply of goods and services in India. It was introduced to replace multiple indirect taxes such as VAT, Service Tax, Excise Duty, etc., and to create a unified tax system across the country. GST is charged at every stage of value addition, but the burden of tax is borne by the final consumer. It also allows for Input Tax Credit (ITC), which eliminates the cascading effect of taxes and ensures that tax is levied only on the value added at each stage.

2. Why GST replaced other taxes in India

- ✓ GST was introduced in India to replace the earlier indirect tax system, which was complex and inefficient due to the presence of multiple taxes such as VAT, Service Tax, and Excise Duty. These taxes were levied separately by the central and state governments, leading to confusion, duplication of work, and increased compliance burden for businesses.
- ✓ One of the major problems with the previous system was the cascading effect of taxes, also known as "tax on tax." This meant that tax was charged on a value that already included previous taxes, ultimately increasing the cost of goods and services for the final consumer. There was no proper mechanism to claim credit for taxes paid at earlier stages, which made the system inefficient.
- ✓ Additionally, different states had different tax rates and rules, which created barriers to the free movement of goods across the country. Businesses had to deal with multiple registrations, returns, and procedures, making compliance time-consuming and costly. The lack of transparency in the system also increased the chances of tax evasion.
- ✓ To overcome these issues, GST was introduced as a unified tax system that simplifies taxation, reduces the cascading effect through Input Tax Credit, and promotes ease of doing business by creating a single national market.

3. Key features of GST

✓ **One nation, One tax**

Before GST, India had multiple indirect taxes like VAT, excise duty, service tax, and entry tax, which varied from state to state. This created complexity and barriers to trade. GST replaced these multiple taxes with a single, unified tax system applicable across the entire country. As a result, the same tax structure and rates are followed throughout India, reducing confusion and ensuring uniformity. It has helped in creating a common national market by eliminating inter-state tax differences and simplifying the movement of goods and services across states. This not only makes compliance easier for businesses but also promotes transparency and efficiency in the taxation system.

✓ **Destination based tax**

Under GST, taxation follows a destination-based system, meaning tax is levied at the place where goods or services are finally consumed rather than where they are produced. The revenue collected under GST is therefore allocated to the state where consumption occurs. For instance, if goods are manufactured in one state but sold in another, the tax will be received by the consuming state. This approach ensures a fair distribution of tax revenue among states and aligns taxation with actual consumption.

✓ **Multiple slab rates**

Under GST, a system of multiple tax slabs has been introduced instead of a single uniform rate. Goods and services are taxed at different rates such as 0%, 5%, 12%, 18%, and 28%, depending on their nature and importance. Essential items are taxed at lower rates or exempted, while luxury and demerit goods attract higher rates. This structure ensures equity in taxation by placing a lower burden on necessities and a higher burden on non-essential goods.

✓ **Comprehensive coverage**

GST provides comprehensive coverage by including almost all goods and services under a single tax system. It has subsumed multiple indirect taxes such as excise duty, service tax, VAT, and others into one unified frame work. This wide coverage reduces the complexity of the tax structure, minimizes tax cascading, and ensures a more transparent and efficient taxation system across the country.

✓ **Input tax credit**

Under GST, businesses are allowed to claim credit for the tax paid on inputs (purchases) against the tax payable on output (sales). This ensures that tax is levied only on the value added at each stage of the supply chain, thereby eliminating the cascading effect of taxes. For example, if a manufacturer purchases raw materials worth ₹1,000 and pays ₹180 as GST, and later sells the finished goods for ₹2,000 charging ₹360 as GST, the manufacturer can claim input tax credit of ₹180 and will pay only ₹180 (₹360 – ₹180) to the government. This mechanism reduces the overall tax burden and promotes transparency in the taxation system.

4. Types of GST

✓ **CGST**

CGST is the component of GST that is levied and collected by the Central Government on intra-state supply of goods and services (i.e., when the transaction takes place within the same state). It is charged along with SGST, where the total GST rate is equally divided between the Centre and the State. The revenue collected under CGST goes to the Central Government.

For example, if goods are sold within Gujarat for ₹1,000 and the applicable GST rate is 18%, then ₹90 will be charged as CGST and ₹90 as SGST. The ₹90 collected as CGST will be paid to the Central Government. CGST also allows the benefit of Input Tax Credit, which means a taxpayer can set off the CGST paid on purchases against the CGST payable on sales. However, CGST credit cannot be directly used to pay SGST; it can be adjusted against CGST and IGST liabilities only. This system ensures proper allocation of tax revenue and avoids overlapping of tax credits between the Centre and the States.

✓ **SGST**

SGST is the component of GST that is levied and collected by the State Government on intra-state supply of goods and services, i.e., transactions occurring within the same state. It is charged along with CGST, and the total GST rate is equally divided between the Centre and the State. The revenue collected under SGST is retained by the respective State Government.

For example, if goods are sold within Gujarat for ₹1,000 at a GST rate of 18%, ₹90 will be charged as SGST and ₹90 as CGST. The ₹90 collected as SGST will be paid to the Gujarat State Government.

SGST also allows Input Tax Credit, which means the SGST paid on purchases can be set off against SGST payable on sales. However, SGST credit cannot be used to pay CGST; it can be adjusted against SGST and IGST liabilities only. This ensures proper distribution of revenue between the Centre and the States and maintains clarity in tax administration.

✓ **UTGST**

UTGST is the component of GST that is levied and collected by the Central Government on intra-Union Territory supply of goods and services (in Union Territories without a legislature, such as Chandigarh, Lakshadweep, etc.). It is charged along with CGST, similar to how SGST is charged in states. The revenue collected under UTGST is allocated to the respective Union Territory.

For example, if goods are sold within Chandigarh for ₹1,000 at a GST rate of 18%, ₹90 will be charged as UTGST and ₹90 as CGST. The ₹90 collected as UTGST will be received by the Union Territory administration. UTGST also allows Input Tax Credit, where the UTGST paid on purchases can be set off against UTGST payable on sales. However, UTGST credit cannot be used to pay CGST; it can be adjusted against UTGST and IGST liabilities only. This ensures proper tax distribution and smooth functioning of GST in Union Territories.

✓ **IGST**

IGST is the component of GST that is levied and collected by the Central Government on inter-state supply of goods and services, i.e., when the transaction takes place between two different states or involves imports and exports. Unlike intra-state transactions where tax is split into CGST and SGST/UTGST, IGST is charged as a single tax.

For example, if goods are sold from Maharashtra to Gujarat for ₹1,000 at a GST rate of 18%, ₹180 will be charged as IGST. The Central Government collects this tax and later distributes the appropriate share to the destination state (Gujarat), as GST is destination-based.

IGST also allows Input Tax Credit, which can be used to set off IGST liability first, and then against CGST and SGST/UTGST, in that order. This mechanism ensures smooth flow of credit and proper distribution of tax revenue between states while facilitating inter-state trade.

5. Who needs to register?

GST registration is the process through which a business or supplier is officially recognized under the GST system by obtaining a unique Goods and Services Tax Identification Number (GSTIN). Conditions / persons that are required to obtain GST registration compulsorily :

✓ **Threshold limit for goods & services**

It is mandatory for businesses whose aggregate turnover exceeds the prescribed threshold limit:

➡ For goods, ₹40 lakhs and

➡ For services, ₹20 lakhs

For special category states like Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh, and Uttarakhand:

➡ For goods, ₹20 lakhs and

➡ For services, ₹10 lakhs

✓ **Person making inter-state supplies**

Any person who supplies goods or services from one state to another is required to compulsorily register under GST, irrespective of their turnover. This means that even if the business does not cross the prescribed threshold limit, registration becomes mandatory once it engages in inter-state transactions. For example, if a supplier based in Gujarat sells goods to a customer in Maharashtra, it is considered an inter-state supply and IGST is applicable. Such suppliers must obtain GST registration to legally collect and pay tax, ensuring proper tracking and distribution of tax revenue between states.

✓ **E-commerce operators**

An e-commerce operator is a person or company that owns, operates, or manages a digital or electronic platform through which goods or services are supplied. Such operators are required to compulsorily register under GST irrespective of their turnover. They are also responsible for collecting Tax Collected at Source (TCS) on supplies made through their platform and depositing it with the government. Examples include platforms like Amazon, Flipkart, etc., where multiple sellers list and sell their products. This provision ensures better compliance, transparency, and proper tracking of online transactions under the GST system.

✓ **Casual taxable person**

A casual taxable person is someone who occasionally undertakes transactions involving the supply of goods or services in a state or Union Territory where they do not have a fixed place of business. Such persons are required to compulsorily register under GST irrespective of their turnover. For example, a trader from Gujarat setting up a temporary stall in Maharashtra for an exhibition or fair would be treated as a casual taxable person. They must obtain GST registration before starting business in that state.

✓ **Non-resident taxable person**

A non-resident taxable person is an individual or business that does not have a fixed place of business or residence in India but occasionally undertakes the supply of goods or services within India. Such persons are required to compulsorily register under GST irrespective of their turnover. They must obtain registration before commencing business in India and are also required to pay tax in advance based on their estimated turnover. For example, a foreign company participating in an exhibition in India and selling goods would be treated as a non-resident taxable person. This provision ensures proper taxation and compliance for cross-border business activities conducted within India.

✓ **Agent of suppliers**

An agent is a person who supplies goods or services on behalf of another person (the principal). Under GST, such agents are required to obtain compulsory registration irrespective of their turnover. This includes commission agents, brokers, or any intermediary who acts on behalf of the supplier in supplying goods or services. For example, if an agent in Gujarat sells goods on behalf of a principal located in another state, the agent must register under GST even if their own turnover is below the prescribed limit. This provision ensures proper reporting and taxation of transactions carried out through intermediaries.

✓ **Input service distributors**

An Input Service Distributor is an office of a business that receives invoices for input services and distributes the Input Tax Credit (ITC) to its various branches or units. Such persons are required to compulsorily register under GST irrespective of turnover. The ISD does not supply goods or services directly but only distributes the credit of tax paid on input services to units having the same PAN. For example, a head office receiving an invoice for advertising services can distribute the ITC to its branches located in different states. This mechanism ensures proper utilization and allocation of input tax credit within an organization.

✓ **Business under reverse charge**

Normally, under GST, the supplier of goods or services collects the tax from the buyer and deposits it with the government. However, in certain cases, the liability to pay tax shifts from the supplier to the recipient—this is called the reverse charge mechanism (RCM). Businesses receiving goods or services under reverse charge must compulsorily register under GST, irrespective of turnover.

Example: If a company in Delhi hires a transporter in Rajasthan to move goods, and the transport service is notified under reverse charge, the Delhi company (recipient), not the transporter, has to pay GST. This mechanism ensures that GST is collected even when the supplier is unregistered or when the government wants specific transactions to be taxed at the recipient's end.

This is mainly applied to services like legal services, goods transport services, or certain notified goods and services to prevent tax evasion.

6. Composition scheme

- ✓ The Composition Scheme under the Goods and Services Tax is a simplified taxation scheme introduced for small taxpayers to reduce the burden of compliance and encourage ease of doing business.
- ✓ Under this scheme, eligible taxpayers with an aggregate turnover of up to ₹1.5 crore in normal states and ₹75 lakh in special category states can opt to pay GST at a fixed, lower rate on their turnover instead of the normal GST rates.
- ✓ It is available to manufacturers, traders, and restaurants not serving alcohol, while certain service providers can also opt for the scheme up to a turnover of ₹50 lakh.
- ✓ The applicable tax rates are generally 1% for manufacturers and traders, 5% for restaurants, and 6% for eligible service providers.
- ✓ However, the scheme is subject to certain conditions and restrictions, as it is not available to inter-state suppliers, e-commerce operators, manufacturers of notified goods like ice cream and tobacco, casual taxable persons, and non-resident taxable persons.
- ✓ A composition taxpayer cannot collect GST from customers separately nor claim Input Tax Credit (ITC), and is required to issue a Bill of Supply instead of a tax invoice, along with mentioning “Composition Taxable Person” on such bills.
- ✓ The scheme significantly reduces compliance requirements, as it involves simplified procedures and lesser return filing, making it suitable for small businesses.
- ✓ For example, a small trader with a turnover of ₹50 lakh can opt to pay tax at 1% on total turnover without charging GST separately.
- ✓ While the scheme offers advantages such as lower tax rates, reduced paperwork, and ease of compliance, it also has limitations like non-availability of ITC and restriction on inter-state business, making it suitable mainly for small-scale taxpayers.

7. Reverse charge mechanism

- ✓ The Reverse Charge Mechanism under the Goods and Services Tax is a system where the liability to pay GST shifts from the supplier to the recipient of goods or services, unlike the normal mechanism where the supplier is responsible for paying tax. This provision is introduced to ensure better tax compliance, prevent tax evasion, and bring unorganized or unregistered sectors within the tax framework.
- ✓ RCM applies in specific situations such as when a registered person purchases goods or services from an unregistered supplier, in the case of notified goods and services like legal services provided by advocates, services of goods transport agencies (GTA), sponsorship services, and services provided by directors to companies, as well as in the import of services where the recipient in India is liable to pay GST.
- ✓ Under this mechanism, the recipient must pay tax in cash (not through Input Tax Credit), issue a self-invoice if the supplier is unregistered, and can later claim Input Tax Credit (ITC) subject to eligibility. The mechanism is generally applicable to registered persons and ensures that tax is collected even when the supplier is not liable or is difficult to track.
- ✓ For example, if a company avails legal services from an advocate, the company itself is required to pay GST directly to the government instead of the advocate charging it. Thus, the Reverse Charge Mechanism plays an

important role in strengthening compliance and widening the tax base under GST.

8. GST Rates

Under the Goods and Services Tax, goods and services are taxed at different rates as notified by the government based on their nature and necessity, ensuring a balanced and structured tax system. GST in India is broadly classified into multiple tax slabs, namely 0%, 5%, 12%, 18%, and 28%.

- ✓ **0% -** Under the Goods and Services Tax, the 0% GST rate refers to goods and services that are either exempt from tax or fall under the zero-tax slab, meaning no GST is charged on their supply. This category mainly includes essential goods and services that are necessary for daily living, such as fresh fruits and vegetables, milk, eggs, and certain educational and healthcare services, ensuring affordability for the general public. In such cases, the supplier does not charge GST from the customer; however, an important distinction must be noted that in exempt supplies, the supplier is not eligible to claim Input Tax Credit (ITC) on inputs used in providing such goods or services. The objective behind keeping certain items under the 0% slab is to reduce the tax burden on basic necessities and promote social welfare. Thus, the 0% GST rate plays a crucial role in making essential commodities accessible and affordable while maintaining equity in the tax system.
- ✓ **5% -** The 5% GST slab is one of the lower tax rates applicable to goods and services that are considered essential but not entirely tax-free. This slab includes items of mass consumption to ensure affordability while still contributing to government revenue. Goods such as packaged food items, edible oils, sugar, tea, and certain household necessities generally fall under this category, along with services like transport services including railways and economy class air travel. The objective of the 5% slab is to strike a balance between making essential goods accessible to the public and maintaining a steady flow of tax revenue. Businesses supplying goods or services under this slab can charge GST at 5% and are eligible to claim Input Tax Credit (ITC) on their inputs, subject to conditions. Thus, the 5% GST rate plays an important role in covering widely used goods and services while keeping the tax burden relatively low for consumers.
- ✓ **12% -** The 12% GST slab is a moderate tax rate applicable to goods and services that are neither basic necessities nor luxury items, but fall in the category of standard consumption. This slab typically includes processed food products, certain packaged goods, computers, and business-related items, along with some services that are not classified under the lower or higher tax brackets. The purpose of the 12% slab is to maintain a balance between affordability and revenue generation by taxing semi-essential goods at a reasonable rate. Businesses supplying goods or services under this category are required to charge GST at 12% and are eligible to claim Input Tax Credit (ITC) on inputs used in the course of business, subject to prescribed conditions. Thus, the 12% GST rate acts as an intermediate slab, ensuring that commonly used goods and services are taxed fairly without imposing a heavy burden on consumers.
- ✓ **18% -** The 18% GST slab is the most widely applicable and standard tax rate covering a majority of goods and services in India. This slab includes a broad range of items such as consumer goods, electronics, industrial products, and various services like banking, insurance, telecom, and professional services. The 18% rate is designed to generate significant revenue for the government while maintaining a reasonable tax burden on commonly used non-essential goods and services. Businesses supplying goods or services under this slab are required to charge GST at 18% and are eligible to claim Input Tax Credit (ITC) on inputs used in their operations, subject to prescribed conditions. As it covers the largest portion of economic activity, the 18% GST rate plays a crucial role in the overall GST structure by balancing revenue generation and economic growth.
- ✓ **28% -** The 28% GST slab is the highest tax rate applicable to luxury goods and sin goods, which are considered

non-essential or harmful to society. This category includes items such as high-end consumer goods, luxury cars, tobacco products, aerated drinks, and certain premium appliances. In many cases, these goods also attract an additional compensation cess over and above the 28% GST rate. The objective of imposing a higher tax rate on such items is to discourage their consumption while generating higher revenue for the government. Businesses dealing in goods under this slab are required to charge GST at 28% and are eligible to claim Input Tax Credit (ITC) subject to conditions. Thus, the 28% GST rate ensures that luxury and demerit goods are taxed heavily, maintaining equity in the taxation system by placing a higher burden on non-essential consumption.

9. Exemptions under GST

Under the Goods and Services Tax, exemptions refer to goods and services on which no GST is levied, meaning the supply is not taxable and the supplier is not required to charge tax from the customer. These exemptions are provided mainly for essential goods and socially important services to ensure affordability and public welfare.

✓ **Exempted Goods -** Examples are fresh fruits and vegetables, milk, eggs, curd, natural honey, and other unprocessed food items. Additionally, certain products related to agriculture and basic necessities are also kept under exemption to support farmers and ensure affordability for the general public.

✓ **Exempted Services -** Examples include healthcare services provided by hospitals and medical practitioners, educational services by schools and certain educational institutions, services related to agriculture, and specific charitable activities. The government grants such exemptions to support critical sectors of the economy and to reduce the financial burden on individuals.

10. E-Way Bill

Under the Goods and Services Tax, an E-Way Bill (Electronic Way Bill) is a document required for the movement of goods of value exceeding the prescribed limit (generally ₹50,000) from one place to another. It is generated electronically on the GST portal before the commencement of movement of goods and contains details of the consignor, consignee, goods, and transporter. The e-way bill system is introduced to ensure proper tracking of goods in transit and to prevent tax evasion. It can be generated by the supplier, recipient, or transporter, depending on the situation. The document consists of two parts: Part A, which includes details of goods and parties involved, and Part B, which includes transporter details such as vehicle number. The validity of an e-way bill depends on the distance the goods are to be transported. It is mandatory for both inter-state and intra-state movement (subject to state rules), and failure to generate it when required may result in penalties. Thus, the e-way bill system enhances transparency and ensures smooth movement of goods under GST.

11. E-Invoicing

It is a system where a business must first upload its invoice details on a government portal before issuing it to the customer. The portal verifies the invoice and generates a unique Invoice Reference Number (IRN) along with a QR code, which makes the invoice valid. Only after this authentication can the invoice be shared with the customer. This system is applicable to specified classes of taxpayers based on their aggregate turnover, as notified by the government from time to time (currently applicable to businesses exceeding the prescribed turnover limit). It is mainly used for B2B transactions and helps in auto-population of GST returns and e-way bills. The objective of e-invoicing is to reduce errors, prevent fake invoicing, and improve transparency in the GST system. In simple terms, the invoice is first approved by the government and then issued to the buyer, making the entire process more reliable and streamlined.

12. Types of returns under GST

Registered taxpayers are required to file various returns depending on the nature of their business and registration.

They are as follows:

- ✓ **GSTR-1 -** It contains details of all outward supplies (sales) of goods and services made by a registered taxpayer during a particular tax period. It includes information such as invoices issued, debit and credit notes, details of taxable and exempt supplies, and exports. It is generally filed monthly by regular taxpayers, while small taxpayers under the QRMP (Quarterly Return Monthly Payment) scheme can file it quarterly.
- ✓ **GSTR-2B -** It is an auto-generated, static return that provides a summary of inward supplies (purchases) for a specific tax period. It is generated monthly and remains unchanged, unlike GSTR-2A which is dynamic. GSTR-2B helps taxpayers determine the eligible Input Tax Credit (ITC) for a particular month, as it clearly shows available and ineligible ITC. It is considered more reliable for ITC calculation and reconciliation, making it an important tool for ensuring accurate tax credit claims.
- ✓ **GSTR-3B -** It is a summary return that must be filed by registered taxpayers to declare their total outward supplies, inward supplies liable to reverse charge, and the Input Tax Credit (ITC) claimed during a tax period. It is used for the payment of GST liability, as taxpayers calculate their net tax payable after adjusting ITC and pay the balance tax while filing this return. GSTR-3B is generally filed monthly, although small taxpayers under the QRMP scheme can file it quarterly. Unlike GSTR-1, it does not require invoice-level details and is a simplified return for quick compliance. Thus, GSTR-3B plays a crucial role in tax payment and overall GST compliance.
- ✓ **GSTR-4 -** It is an annual return to be filed by taxpayers registered under the Composition Scheme. It contains details of outward supplies, inward supplies, tax paid during the year, and other relevant information. Composition taxpayers are required to file quarterly statements in CMP-08 for tax payment, and GSTR-4 serves as a consolidated annual return summarizing all transactions of the financial year. This return helps ensure proper compliance and reporting by composition dealers under GST.
- ✓ **GSTR-5 -** It is a return to be filed by non-resident taxable persons who carry out taxable transactions in India for a temporary period. It contains details of outward supplies, inward supplies, imports, tax liability, and tax paid during the registration period. This return is required to be filed monthly for the duration of the registration or within the prescribed time after the registration expires. Thus, GSTR-5 ensures proper reporting and tax compliance by non-resident taxpayers operating in India.
- ✓ **GSTR-6 -** It is a return to be filed by an Input Service Distributor (ISD), which distributes Input Tax Credit (ITC) of input services to its branches or units having different GST registrations. It contains details of ITC received and the manner in which such credit is distributed to various units. This return is filed monthly and ensures proper allocation and utilization of ITC within an organization having multiple branches.
- ✓ **GSTR-7-** It is a return to be filed by persons who are required to deduct tax at source (TDS) under GST, such as government departments and notified entities. It contains details of TDS deducted, TDS payable, and TDS actually paid to the government, along with details of suppliers from whom tax has been deducted. This return is filed monthly and ensures proper reporting and compliance of TDS provisions under GST.
- ✓ **GSTR-8 -** It is a return to be filed by e-commerce operators who are required to collect tax at source (TCS) on supplies made through their platform. It contains details of supplies made through the operator, amount of TCS collected, and TCS payable and paid to the government. This return is filed monthly and helps in proper reporting and compliance of TCS provisions under GST, ensuring transparency in transactions carried out through e-commerce platforms.
- ✓ **GSTR-9-** It is the annual return that must be filed by registered taxpayers to provide a consolidated summary of all outward supplies, inward supplies, Input Tax Credit (ITC) claimed, and taxes paid during the financial year.

It includes details declared in monthly or quarterly returns such as GSTR-1 and GSTR-3B and serves as a reconciliation statement for the entire year. This return helps ensure accuracy, transparency, and proper compliance by summarizing all GST transactions of the taxpayer in a single document.

- ✓ **GSTR-10 -** It is a final return that must be filed by a registered taxpayer whose GST registration has been cancelled or surrendered. It contains details of inputs, semi-finished goods, finished goods, and capital goods held in stock on the date of cancellation, along with the tax payable on such stock. This return is required to be filed within the prescribed time after cancellation and ensures proper closure of GST liabilities and compliance at the time of exit from the GST system.

13. Impact of GST

The implementation of the Goods and Services Tax has brought significant changes to the Indian taxation system by creating a unified and simplified tax structure. GST has replaced multiple indirect taxes, leading to the formation of a single national market and eliminating the cascading effect of taxes through the availability of Input Tax Credit (ITC). It has improved transparency and reduced tax evasion through systems like e-way bill and e-invoicing. GST has also simplified compliance procedures, especially for small taxpayers through schemes like the composition scheme and QRMP. Additionally, it has boosted ease of doing business, streamlined logistics, and reduced overall tax burden in many sectors. However, it also introduced challenges such as initial compliance difficulties, increased reliance on technology, and frequent changes in rules. Overall, GST has played a crucial role in modernizing the indirect tax system and promoting economic growth in India.