



Module-D Unit-2

JAIIB PAPER-3

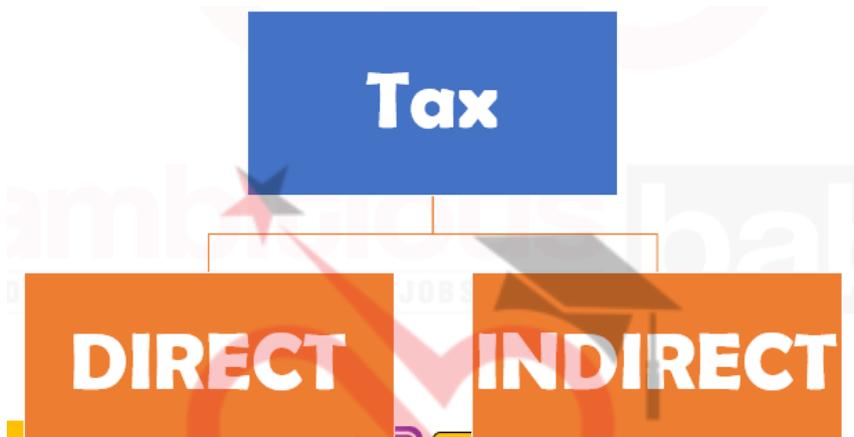
Accounting & Financial Management for Bankers(AFM)



JAIIB Paper 3 (AFM) Module D Unit 2 – Goods & Services Tax

Introduction

- Taxation is the process adopted by a government to levy and collect taxes from individuals, business entities and other organisations in the country.
- Due to Federal structure, both the Central and State governments are involved in determining the various aspects of taxation, in India.
- Over the last few years, various policy reforms have been undertaken by the Central and State governments to streamline the process of taxation



Direct tax

- Tax imposed directly on a taxpayer and it is required to be paid to the government directly by the taxpayer.
- Cannot be transferred or shifted to another person.

For example, the income tax paid by an individual is considered a direct tax because the burden of the tax falls solely on the individual who has a taxable income and he cannot shift the tax to others.

- ❑ **Others:** corporate tax, wealth tax, property tax, capital gains tax, and securities transaction tax (STT).

Indirect taxes

Which can be shifted to another person/entity. It is not the tax levied on the income or profit but on the goods and services rendered. Can be shifted from one individual/entity to another.

For example, a sales tax paid by the buyer in a retail setting is not paid directly by the buyer.

- ❑ It is collected by the seller from the buyer and paid to the government.

- implementation of goods and services tax (GST) regime from 01 July 2017 has resulted in replacing all forms of indirect taxes, imposed on goods and services by the state and central governments.
- Other levies which were applicable on inter-State transportation of goods have also been done away in the GST regime.

Difference Between Direct Tax and Indirect Tax

Parameter	Direct tax	Indirect tax
Tax Imposition	This tax is directly the taxpayer's income.	This tax on taxpayers for the <u>goods and services</u> availed or purchased.
Payment course	This tax is directly paid to the government.	This tax is indirectly paid to the government through an intermediary.
Paying Entity	These taxes are paid by individuals and businesses.	These <u>taxes</u> are paid by end-consumers.
Rate of Payment	The rate of tax is decided by the government based on profit and income.	<u>Tax rates</u> are the same for everyone.
Transferability of tax	This type of tax is non-transferrable.	This type of tax is transferable.
Nature of Tax	This is a progressive type of tax. This tax rate increases with an individual's profit and income.	This is a regressive type of tax, which means the tax rate is not affected by the individual's income.
Types of tax	<u>Income tax</u> , wealth tax, corporate tax, etc.	Sales tax, service tax, value added tax, etc.
Tax Collection	Collecting this type of tax is difficult.	Tax collection is relatively easier.

Goods And Services Tax (GST)

- **Introduced:** From 01 July 2017
- A large number of Central and State taxes got amalgamated into a single tax.
- Easier to administer and encourages a shift from the informal to formal economy.
- GST is intended for the unification of the various indirect taxes, prevailing in the country.
- Also aims at reducing the physical interface and lower the cost of compliance.
- GST is levied on all transactions such as sale, transfer, purchase, barter, lease, or import of goods and/or services.

- Comprehensive tax subsuming almost all the indirect taxes except a few State taxes.
- Not in regime: crude oil, petroleum products, electricity and Alcoholic liquor for human consumption.
- India adopted a dual GST model, meaning that taxation is administered by both the Union and State Governments.

There are 4 types of GST in India, as mentioned below:



- Transactions made within a **single state** are levied with **Central GST (CGST)** by the **Central Government** and **State GST (SGST)** by the State governments.
- For inter-State transactions and imported goods or services, an **Integrated GST (IGST)** is levied by the Central Government and they give the share of State or Union Territory.
- **UGST** is applicable for Union Territories like Chandigarh, Andaman and Nicobar Islands etc.
- GST is a destination based tax on consumption of goods and services. Therefore, taxes are paid to the state where the goods or services are consumed and not to the state in which they were produced.
- The tax would accrue to the taxing authority which has jurisdiction over the place of consumption, which is also termed as place of supply.

GST Council

- It is the Governing body
- **Chairman:** Union Finance Minister
- Includes the Minister of State (Revenue) and the State Finance Ministers.
- Main decision making body
- Recommendation on issues like which goods and services may be taxed, or exempt from GST, GSR rates, etc.

Input tax credit

- The concept of GST is based on permitting set-off for the tax paid on the inputs and this is given effect through the input tax credit against the amount of a dealer's output tax. The related tax liability of the dealer can be arrived at by

deducting input tax credit from tax collected on supplies during the payment period.

Who is liable to pay GST?

Supplier of goods or services

- In specified cases like imports and other notified supplies, the liability may be cast on the recipient under the reverse charge mechanism.
- In cases of intra-State supply of services, the liability to pay GST may be cast on e-commerce operators through which such services are supplied.
- Also Government Departments making payments to vendors above a specified limit, are required to deduct tax (TDS) and E-commerce operators are required to collect tax (TCS) on the net value [i.e. aggregate value of taxable supplies of goods and/ or services but excluding such value of services on which the operator is made liable to **pay GST under Section 9(5) of the CGST Act, 2017**] of supplies made through them and deposit it with the Government.
- **Under the system of GST, the threshold limit is ₹ 20 lakh (₹ 10 lakh for north eastern states, Uttarakhand, Sikkim and Himachal Pradesh).** Suppliers below the threshold limit are not required to register or pay tax.

When does liability to pay GST arise?

- **Section 12:** Liability to pay arises at the time of supply of Goods as
- **Section 13:** At the time of supply of services
- The time is generally the earliest of one of the three events, namely receiving payment, issuance of invoice or completion of supply.
- Different situations envisaged and different tax points have been explained in the aforesaid sections.

Who has to file GST Returns?

Every person registered under GST will have to file returns in some form or other.

- A registered person will have to file returns either
 - ✓ monthly (normal supplier)
 - ✓ quarterly basis (Supplier opting for composition scheme).
- An Input Service Distributor will have to file monthly returns showing details of credit distributed during the particular month.
- A person required to deduct tax (TDS) and persons required to collect tax (TCS) will also have to file monthly returns showing the amount deducted/collected and other specified details.

- A non-resident taxable person will also have to file returns for the period of activity undertaken.
- There are separate returns required to be filed by special cases such as composition dealers.
- Since Banks are service providers, Composite Scheme is not applicable to them.

The returns to be filed are as under:

- ✓ Details Return Forms Periodicity Return for registered persons with aggregate turnover of more than ₹ 1.50 crores GSTR-1 and GSTR-3B Monthly Return for registered persons with aggregate turnover up to ₹ 1.50 crores GSTR-1 Quarterly Return for registered persons with aggregate turnover up to ₹ 1.50 crores GSTR-3B Monthly
- ✓ The system requires that one must manually enter details in the return - GSTR-1.

Late Fees :

- ✓ If GST Returns are not filed within time, interest on delayed payment of tax is payable @ 18% per annum.
- ✓ It has to be calculated on the amount of tax liability from the next day of due date of return till the date of payment

Advantages Of GST

- **Less complex and administer:** Complexity of the tax structure due to multiplicity of taxes and tax rates will be reduced considerably. Administration of taxation system in the country will be more effective.
- **Make industry more competitive:** GST will make the Indian trade and industry more competitive as it is expected to reduce cost of production and inflation in the economy.
- **Better compliance:** GST is aimed at broadening the tax base and also at better tax compliance.
- **Online form:** The foundation of the GST regime in India is a comprehensive IT system. All tax payer services such as Registrations, Payments, Returns etc. will be available to the taxpayers online. This will make the compliance easy and transparent.
- **Uniform structure:** It will improve the ease of doing business as the GST will ensure that indirect tax rates and structures are uniform across the country.
- **Reduction in price:** Elimination of cascading of taxes will result in reduction in prices of goods and services
- GST is charged only on the component of value addition at each stage to ensure that there is no 'tax on tax'.

GST Provisions With Respect To Banks

Service sectors are impacted more by the GST than the manufacturing or trading sectors.

Owing to the nature and volume of operations provided by banks, GST compliance is quite difficult to implement.

Some of the issues and impacts pertaining to the provisions of GST Law are as below.

Due to widespread number of branches, the registration is a hassle. However, under GST, such Banks are required to obtain a separate registration for each state where they operate.

compliance burden about filing of returns has also increased substantially in terms of payments of taxes, the periodicity of returns, number of return formats and level of details required in these returns.

Input Tax Credit is leveraged and de-leveraged

- Earlier, Banks and NBFCs by and large, opted for the option of reversal of 50% of the CENVAT credit availed against inputs and input services whereas CENVAT credit on capital goods could be availed with no reversal conditions.
- Under GST, 50% of the CENVAT credit availed against inputs, input services, and capital goods is to be reversed, which leaves them with a position of reduced credit of 50% on capital goods thereby increasing cost of capital.

Assessment and Adjudication has become bothersome The assessment is done by the respective state regulators under which the respective branch is registered.

Now, every registered branch of banks must justify its position on chargeability in the respective State and reason for utilizing input tax credit in different States.

As more than one adjudicating authority is involved under GST, each authority may hold a different opinion on the same underlying issue.

Issues related to revenue recognition under GST

- Account Linked Financial Services
- Non-Account Linked Financial Services
- Actionable Claims
- GST on banking Transaction fees
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