

## UNIT – 4: INDIRECT TAX (GST)

### What is Indirect Tax?

- Indirect tax means tax on goods and services.
  - The person who pays it first can **shift the burden** to another person.
  - Finally, the **consumer** bears the tax.
  - Example: When you buy something, GST is included in the price.
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### What is GST (Goods and Services Tax)?

- GST is a **comprehensive, multi-stage, destination-based** indirect tax.
- It was introduced in **India on 1st July 2017**.
- It replaced many taxes like **VAT, Service Tax, Excise Duty, etc.**

### Need Of GST?

\* Q. Explain the Need of GST.

#### 1 Eliminate Cascading

- GST removes the problem of “tax on tax”.
  - It ensures that tax is charged only on the value added, not on the total amount.
  - This helps to reduce the overall tax burden on consumers.
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#### 2 Unify Tax System

- Before GST, India had many indirect taxes (VAT, Excise, Service Tax, etc.).
  - GST replaced all these with one single tax system, making it simpler and uniform across the country.
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#### 3 Simplify Compliance

- GST makes it easier for businesses to follow tax rules.
- All tax filing and payments are done online through a single portal.

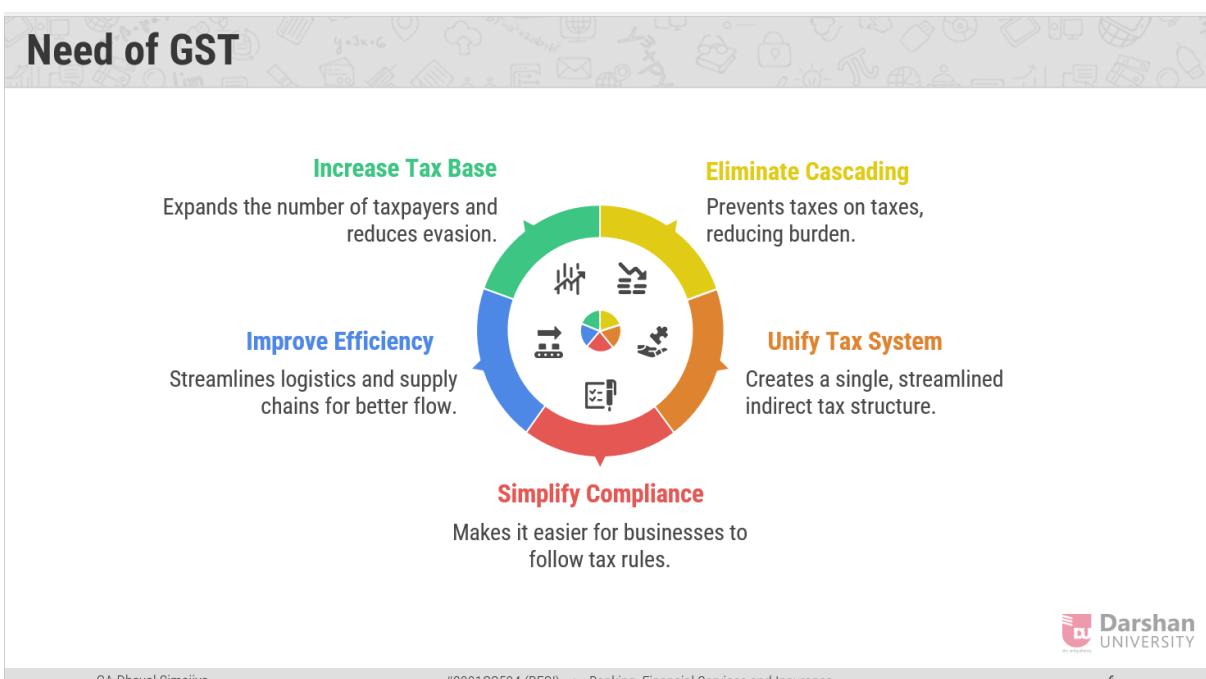
- This saves time and reduces confusion.
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## 4 Improve Efficiency

- GST helps in smooth movement of goods across states.
  - It improves the logistics and supply chain system, which helps businesses operate faster and cheaper.
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## 5 Increase Tax Base

- GST brings more people under the tax system, reducing tax evasion.
- It increases the number of taxpayers and helps the government collect more revenue fairly.



## Key Features of GST

Feature	Meaning
Indirect Tax	Collected indirectly from intermediaries (like shopkeepers).

<b>Feature</b>	<b>Meaning</b>
<b>Destination-Based</b>	Tax goes to the place where goods/services are used (not produced).
<b>Comprehensive</b>	Applies to almost all goods and services.
<b>Multi-Stage</b>	Collected at each stage of production and distribution.
<b>Value Addition Tax</b>	Tax applies only on the <b>value added</b> at each stage.
<b>Dual Model</b>	Both <b>CGST + SGST/UTGST</b> (for within state) and <b>IGST</b> (for between states).
<b>GSTIN</b>	Every business has a unique GST Identification Number.
<b>Input Tax Credit (ITC)</b>	Credit for tax already paid on purchases (inputs).
<b>GSTN</b>	GST Network for online registration and return filing.

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### How GST Works (Example)

1. Manufacturer buys raw materials worth ₹100 + ₹10 GST.
  2. He sells goods to wholesaler for ₹150 + ₹15 GST.  
→ Pays ₹5 (₹15 – ₹10) to government.
  3. Wholesaler sells to retailer for ₹200 + ₹20 GST.  
→ Pays ₹5 (₹20 – ₹15).
  4. Retailer sells to consumer for ₹250 + ₹25 GST.  
→ Pays ₹5 (₹25 – ₹20).
- Finally, government receives total ₹25 tax.
- Each dealer pays only on **value added**.

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### Types of GST

1. **CGST** – Central Goods & Services Tax (within a state).
2. **SGST/UTGST** – State/Union Territory GST (within a state).

### 3. **IGST** – Integrated GST (between states).

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#### Inter-State vs Intra-State Supply

- **Intra-State:** Seller and buyer in the **same state** → **CGST + SGST** apply.
  - **Inter-State:** Seller and buyer in **different states** → **IGST** applies.
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#### \* Q. What is the *Limit for GST Registration?*

##### Meaning:

- **GST registration** means getting a legal number (called **GSTIN**) from the government to collect and pay GST.
  - It is **compulsory** for certain businesses once their **annual turnover** (total sales) crosses a fixed limit.
  - Registration gives a business a legal identity under the GST law.
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##### Limit for GST Registration:

Type of Supply / Business	State Category	Turnover Limit (per year)	Remarks
Supplier of Goods	Normal States	₹40 lakh	Must register if turnover > ₹40 lakh
Supplier of Goods	Special Category States*	₹20 lakh	Lower limit for hilly or small states
Supplier of Services	All States	₹20 lakh	Must register if turnover > ₹20 lakh
Supplier of Services	Special Category States*	₹10 lakh	Lower limit for service providers in small states

*Special Category States include:*

Arunachal Pradesh, Assam, Himachal Pradesh, Meghalaya, Manipur, Mizoram, Nagaland, Sikkim, Tripura, and Uttarakhand.

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### **Other Important Points:**

#### **1. Compulsory Registration even below limit if:**

- You make **inter-state supply** of goods or services.
- You supply through **E-commerce operators** (like Amazon, Flipkart).
- You are an **agent or input service distributor (ISD)**.
- You are a **non-resident taxable person**.

#### **2. Voluntary Registration:**

A person may also **register voluntarily**, even if turnover is below the limit — to claim **Input Tax Credit (ITC)** or to appear more compliant.

#### **3. PAN-based Registration:**

Registration is **based on PAN** and must be obtained **state-wise** if business operates in more than one state.

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### **Procedure for Registration (as per PPT):**

1. Apply online at the **GST common portal** – [www.gst.gov.in](http://www.gst.gov.in)
  2. Fill **Form GST REG-01**
  3. Apply within **30 days** from the date you become liable.
  4. Get your **GSTIN (GST Identification Number)** after approval.
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### **Example:**

If a trader in Gujarat sells goods worth ₹45 lakh in a year,  
→ turnover > ₹40 lakh limit → **GST registration is compulsory**.

If a service provider in Assam earns ₹18 lakh in a year,  
→ turnover < ₹20 lakh limit → **registration not needed**.

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## **Supply under GST**

### **Meaning:**

Any sale, transfer, exchange, rental, lease, or disposal of goods/services for consideration in business.

### **Non-Supplies (Not Treated as Supply):**

- Services by employee to employer.
  - Services by courts or tribunals.
  - Duties by President, PM, Governors, CJI, etc.
  - Services of funeral, burial, cremation.
  - Sale of land.
  - Grant of liquor license.
  - Movement of conveyance between states (like trucks, vessels, aircrafts).
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## **Composite & Mixed Supplies**

- **Composite Supply:** Two or more goods/services naturally bundled together (e.g. laptop with charger).
- **Mixed Supply:** Two or more independent goods/services sold together (e.g. gift hamper).

### **\* Q. Explain the concept of *Composite Supply* under GST.**

#### **Meaning:**

- A **Composite Supply** means a **combination of two or more goods or services** that are **naturally bundled together** and **supplied together** in the ordinary course of business.
- In such a case, one of the items is called the "**principal supply**" and others are **supporting (secondary) supplies**.

#### **In simple words:**

When two or more goods/services are sold together as one package, and they are normally supplied together, it is called a *Composite Supply*.

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### **Example 1:**

A customer buys a mobile phone along with a warranty and charger.

- Mobile phone = **Principal Supply**
  - Charger and warranty = **Secondary Supplies**  
👉 Since they are naturally sold together, this is a **Composite Supply**.
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### **Example 2:**

A travel package includes **air travel + in-flight meals + luggage transport**.

- All these services are supplied together.
  - The **main service (principal supply)** is transportation.  
👉 So, the whole package is treated as **Composite Supply**.
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### **Key Points:**

1. **Supplies are naturally bundled** — they usually come together.
  2. **Single price** is charged for the whole package.
  3. **Principal supply** decides the GST rate for the entire supply.
  4. **Tax rate of the main item** (principal supply) applies to all items in that package.
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### **GST Treatment:**

- The **rate of GST** applicable to a **Composite Supply** is the **rate of the principal supply**.
- This makes taxation simple and avoids confusion of applying different rates.

👉 **Example:**

If goods transport service (main) attracts 18% GST,

and packing & loading (secondary) are part of it, then **18% GST** will apply to the entire composite supply.

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### Difference Between Composite and Mixed Supply:

Basis	Composite Supply	Mixed Supply
<b>Nature</b>	Naturally bundled	Not naturally bundled
<b>Price</b>	Single combined price	Single combined price
<b>Tax Rate</b>	GST rate of principal supply	Highest GST rate among items
<b>Example</b>	Mobile with charger	Gift pack (chocolates, perfume, etc.)

### \* Q. Explain the concept of *Mixed Supply* under GST.

#### Meaning:

A **Mixed Supply** means **two or more goods or services** that are **sold together** for a **single price**, but each item **can be supplied separately** and **is not naturally bundled**.

In simple words —

- A mixed supply is a combination of items that are sold together, but they **don't depend on each other** and **can exist separately**.
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#### Example (from PPT / GST concept):

 A **gift hamper** containing chocolates, a soft drink bottle, and a toy sold together for ₹500.

- Each of these items (chocolates, soft drink, toy) can be sold **separately**.
  - They are **not naturally bundled**, just sold together for convenience.  
👉 Hence, this is a **Mixed Supply**.
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#### Tax Treatment:

In a **Mixed Supply**, the **highest GST rate** among the items included is applied to the **entire bundle**.



Gift hamper includes —

- Chocolates (18%),
- Toy (12%),
- Cold drink (28%).

👉 The entire gift hamper will be taxed at **28% (highest rate)**.

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### Difference Between Composite Supply and Mixed Supply:

Basis	Composite Supply	Mixed Supply
<b>Meaning</b>	Two or more goods/services that are naturally bundled and supplied together.	Two or more goods/services supplied together but not naturally bundled.
<b>Example</b>	Supply of a laptop with charger (both used together).	Gift hamper with chocolates, juice, and toys.
<b>Tax Rate</b>	GST rate of <b>principal item</b> is applied.	GST rate of <b>highest-taxed item</b> is applied.

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### Important Points:

- Mixed supply = **artificial bundle** (for convenience).
  - Each item has **independent use**.
  - **Single price** charged for all items together.
  - Taxed at **highest applicable GST rate**.
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### Charge of GST

- GST is **levied and collected** on every taxable supply.

- For **reverse charge**, recipient pays tax (not supplier).
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## **Input Tax Credit (ITC)**

\* Q. Explain the concept of **Input Tax Credit (ITC)**.

### **Meaning:**

Input Tax Credit (ITC) means reducing the tax you already paid on your purchases (inputs) from the tax you have to pay on your sales (outputs). In simple words — you can claim credit for the GST paid while buying goods or services used in your business.

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### **Example:**

<b>Stage</b>	<b>Purchase/Sale</b>	<b>GST Paid</b>	<b>Credit/Payable</b>
Manufacturer	Buys raw materials ₹100 + ₹10 GST	₹10	—
Sells to wholesaler ₹150 + ₹15 GST	₹15	Pays ₹5 (15–10)	

→ The manufacturer pays only ₹5, not ₹15, because he already paid ₹10 as input tax — this is the benefit of ITC.

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### **Key Points:**

- ITC is available on inputs, services, and capital goods used for business.
  - It helps to avoid double taxation (tax on tax).
  - It is claimed on a self-assessment basis through your GST return (GSTR-3B).
  - The claimed amount is credited to the electronic credit ledger.
  - Blocked credits (like personal use, motor vehicles for personal purpose) are not eligible for ITC.
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### **Order of Utilization:**

1. **IGST credit** → used for IGST, then CGST, then SGST.
  2. **CGST credit** → used for CGST, then IGST (not SGST).
  3. **SGST/UTGST credit** → used for SGST/UTGST, then IGST (not CGST).  
 Cross use between CGST and SGST is not allowed.
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### **Importance of Input Tax Credit:**

- Avoids **double taxation** or “tax on tax.”
  - Reduces overall **tax burden** on businesses.
  - Promotes **transparency** and **compliance**.
  - Helps in maintaining a **seamless flow of credit** throughout the supply chain.
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### **Place of Supply**

Helps decide whether **CGST+SGST** or **IGST** will apply.

<b>Type</b>	<b>Place of Supply</b>
Involves movement	Location where goods reach the buyer
No movement	Location where goods are available/delivered
Unregistered buyer	Address on invoice or supplier's location

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### **Time of Supply**

#### **For Goods:**

Earliest of:

1. Date of issue of invoice
2. Date of receiving payment

#### **For Services:**

Earliest of:

1. Date of invoice or payment
  2. Date of providing service
  3. Date when receiver records the service in books
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### Examples

- If goods move on **2nd March**, invoice can be issued on or before **2nd March** (even 1st March).
  - For **gift vouchers**, if the item isn't decided at purchase time → Time of supply is **when the voucher is used**.
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### \* Q. Explain GSTR-1 and GSTR-3B under GST.

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#### Meaning of GST Return

A **GST Return** is a report that every registered taxpayer must file to the government.

It shows:

- Details of sales and purchases
- Taxes collected and paid
- Input Tax Credit (ITC) claimed

These returns help the government verify tax liability and maintain transparency in the GST system.

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### \* 1 GSTR-1 – Statement of Outward Supplies

**Meaning:**

- **GSTR-1** is a return that contains the details of **all outward supplies (sales)** made during a month or quarter.
- It includes all invoices issued, credit/debit notes, and exports made by the taxpayer.

### **Purpose:**

- To report **sales data** and **tax collected** from customers.
- The details filed in GSTR-1 are used by buyers to claim their **Input Tax Credit** through GSTR-2B.

### **Important Details in GSTR-1:**

- GSTIN, Name, and Period
- Invoice-wise details of **B2B** (business-to-business) and **B2C** (business-to-customer) supplies
- **HSN/SAC codes**
- Details of **exports** (with or without payment of tax)
- Details of **nil-rated, exempt, or non-GST supplies**
- **Credit and debit notes** linked to original invoices
- **Amendments** of earlier filed returns

### **Due Date:**

- **11th of next month** – for monthly filers
- **13th of next month** – for quarterly filers (under QRMP scheme)



If you are filing GSTR-1 for April, you must file it by **11th May** (monthly) or **13th May** (quarterly).

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## **2 GSTR-3B – Summary Return**

### **Meaning:**

- **GSTR-3B** is a **self-declared summary return** filed monthly (or quarterly under QRMP).
- It shows summary figures of:
  - **Total sales and purchases**
  - **Input Tax Credit (ITC)** claimed
  - **Tax payable and tax paid**

### Purpose:

- To declare **GST liability** for a given period and make payment to the government.
- It is a **summary** of data from GSTR-1 (sales) and GSTR-2B (ITC statement).

### Key Points:

- Must be filed **for every GSTIN** separately.
- **Even if there are no sales**, a **Nil Return** must be filed.
- **Once filed, it cannot be revised**, but errors can be adjusted in future returns.
- GST liability must be paid **on or before filing** GSTR-3B.

### Due Date:

- **20th of next month** – for monthly filers
- **22nd or 24th of next month** – for quarterly filers (QRMP scheme)
  - Category X States/UTs – 22nd
  - Category Y States/UTs – 24<sup>th</sup>



### 3 Comparison between GSTR-2B and GSTR-3B

Basis	GSTR-2B	GSTR-3B
Type of Return	Auto-generated ITC statement	Self-declared summary return
Purpose	Shows eligible Input Tax Credit	Used to declare tax liability and claim ITC
Generated By	GST system (auto from suppliers' GSTR-1, 5, 6)	Taxpayer manually files
Editable	✗ Not editable	✓ Editable before filing
Frequency	Monthly (available on 14th)	Monthly / Quarterly

<b>Basis</b>	<b>GSTR-2B</b>	<b>GSTR-3B</b>
<b>Usefulness</b>	Helps to check eligible ITC before filing	Used to pay GST and claim ITC
<b>Reconciliation</b>	Compared with GSTR-3B to ensure correct ITC claim	Must match with GSTR-2B to avoid errors
<b>Revision Option</b>	Not required (auto-generated)	Cannot be revised once filed