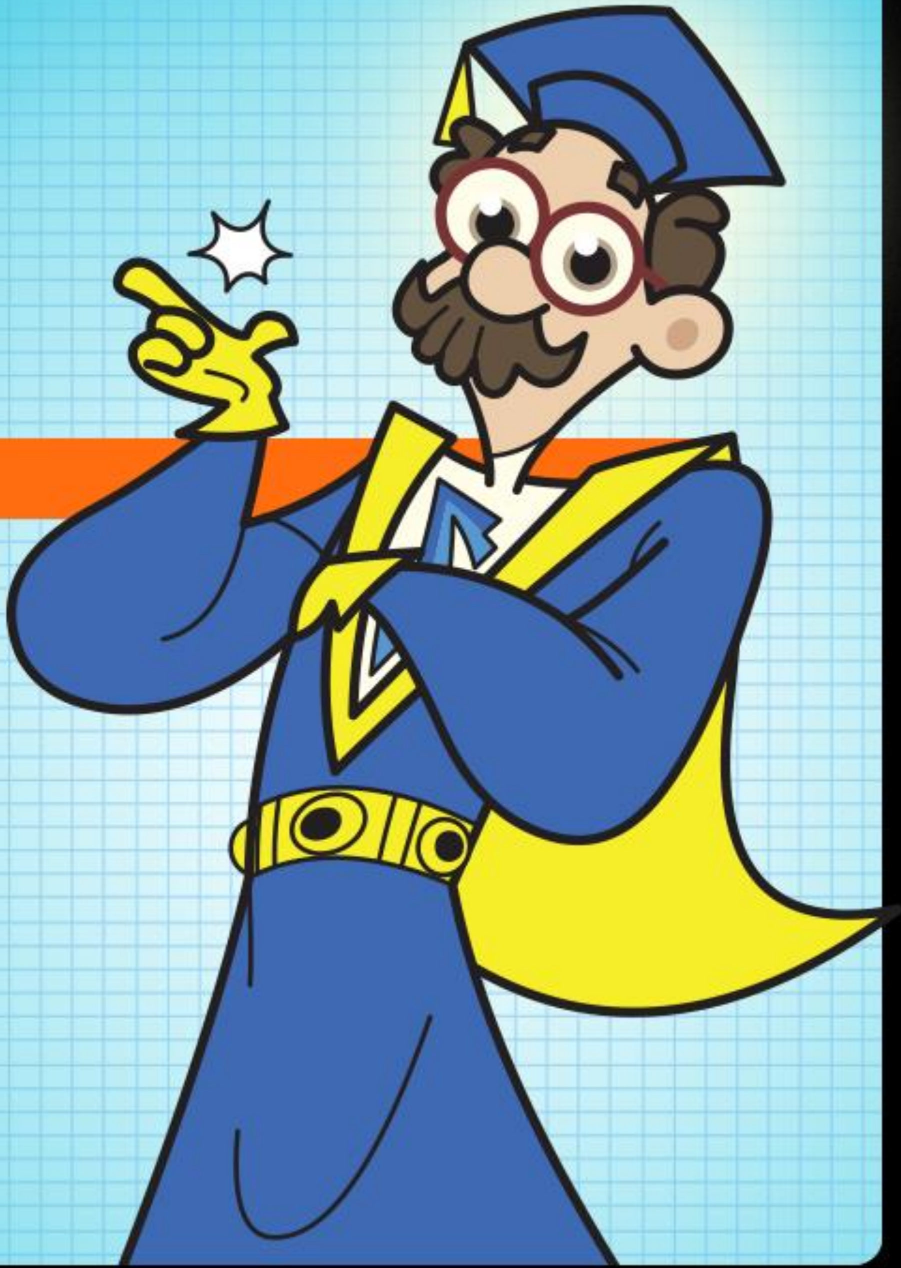
GOODS & SERVICE TAX



GOODS & SERVICE TAX

The Finance Minister of India, Mr. Pranab Mukherjee in his Union Budget 2010 had come up with a string of reforms including the GST (Goods and Services Tax).

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While GST is successfully implemented in countries like Brazil and China, it is somewhat new to India and requires huge operational and administration efforts.

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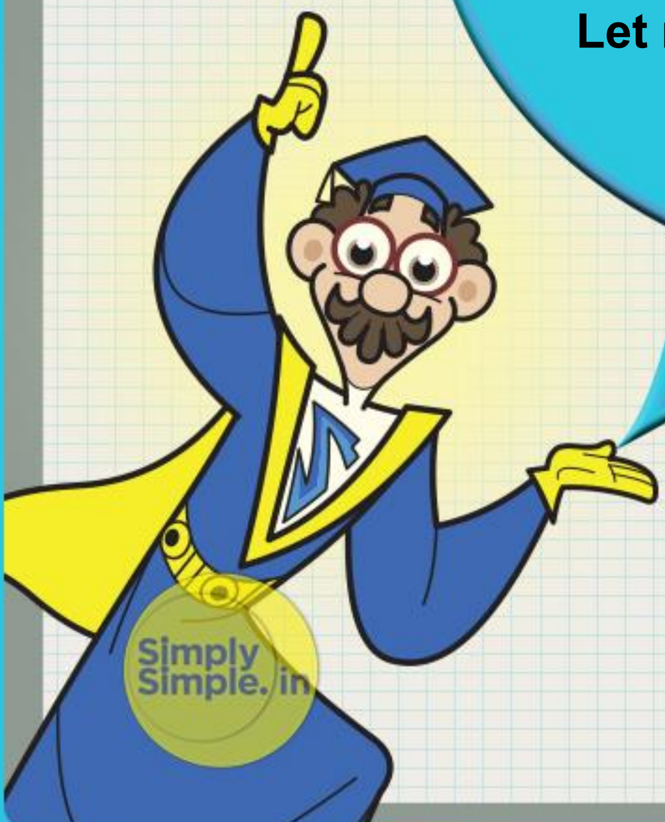
So what is GST?

GST means Goods & Service Tax.

How does it make life simpler?

Let me explain…



Understanding GST

– By Prof. *Simply* Simple ™

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- Let's take a look at Mr. A.
- He owns a leather factory in Maharashtra.
- He sells raw leather worth Rs.10,000 to Mr. B.
- Mr. B provides a value addition to the leather by tanning it.
- After doing so, Mr. B sells the tanned leather to Mr. C for Rs.12,000.

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- Mr. C stitches the tanned leather into a shoe & sells the finished product to the retail shop at Rs.15,000.
- Now, in the absence of GST, each of these parties would have to pay taxes on union excise duties, customs duties, service tax and state VAT "individually".
- But the GST aims to eliminate multiplicity of these taxes & integrate them under one head.
- It includes CENVAT, Additional Excise Duties, Service Tax, Surcharges, Cesses, Octroi among others at the Central Level & State VAT, Luxury Tax, Entertainment Tax among others at the State Level.

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But with the advent of GST, a proposed standard rate of 20% would be charged from MR. A, Mr. B & Mr. C "collectively" in the first year.

Out of this 20%, 10% would go the Central Govt. (CGST) & 10% would go to the State Govt. (SGST).

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So now, when Mr. A sells leather worth Rs.10,000 to Mr. B he is taxed 20% i.e. Rs.2,000.

Mr. B provides value addition to the process by tanning & sells the tanned leather to Mr. C for Rs.12,000.

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In the absence of GST, when Mr. B sells the tanned leather to Mr. C he would have been taxed 20% too individually.

He would then need to pay tax of Rs.2,400 (20% of Rs.12,000).

However with the advent of GST, when Mr. B sells the tanned leather to Mr. C he will be taxed 20% but will get credit on the tax paid by Mr. A.

As Mr. A has already paid Rs.2000, Mr. B would then need to pay tax of Rs.2,400 - Rs.2,000 = Rs.400 only.

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Now similarly, when Mr. C sells the stitched shoe to the retail shop, his selling price is Rs.15,000. Without GST, he would have been taxed 20% on Rs.15,000 & would have to pay tax of Rs.3,000.

But since he gets credit on the tax paid by Mr. A (Rs.2,000) & Mr. B (Rs.400) he pays tax of just Rs.600 (Rs.3,000 - Rs.2,400).

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Thus, GST would remove the hassle of filing & claiming refunds for individual taxes later on for manufacturers, which would greatly improve the cash flow situation for producers of goods and services.

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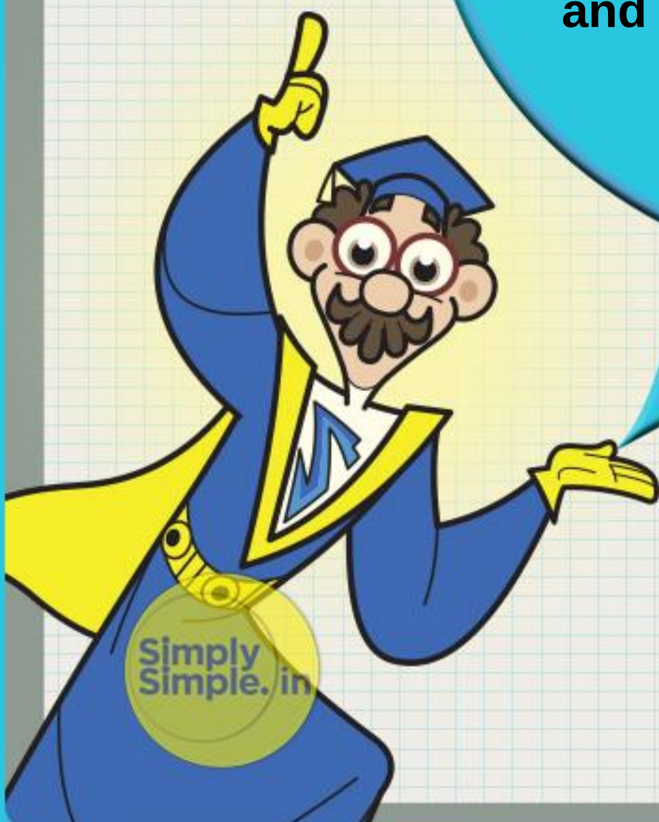
Thus, by merging all levies on goods and services into one, GST acquires a very convenient and transparent character.



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One more advantage of GST is that earlier if a manufacturer had to set up his plant, he would look at a city/state where the state tax was less.

For e.g. today, Mr. A would set up a plant in Tamil Nadu even if his target market was, say, Punjab because, after accounting for transportation costs too, it might still be cheaper to run this plant from TN.

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But after GST comes in, Mr. A will find that the tax laws are the same all over the country.

He would then be free to set up his plant where his target audience is.

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This saving will then be passed on to you leading to lower operating costs for businesses and lower prices for consumers.

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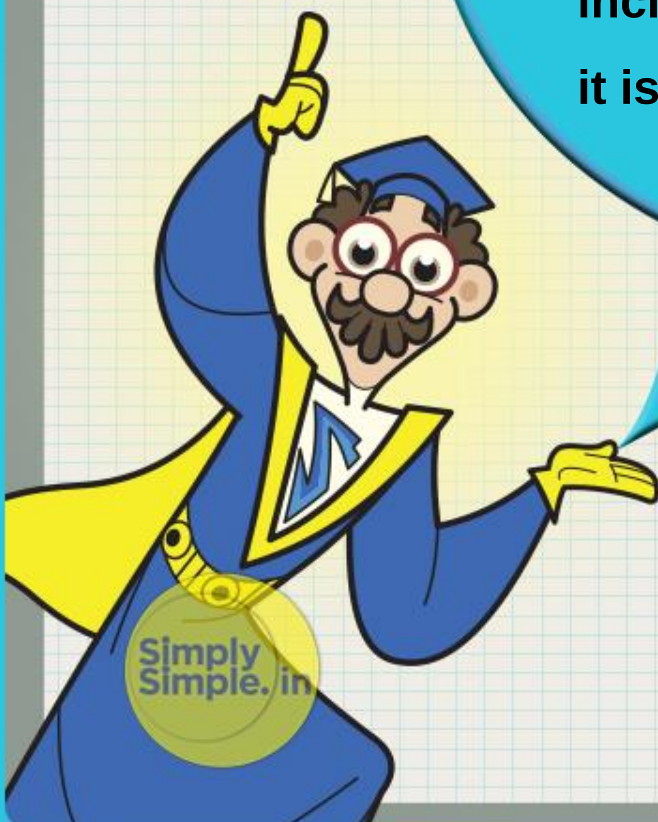
One important thing to note: the current VAT system does not include services but the GST will include Goods & Services, when it is introduced.



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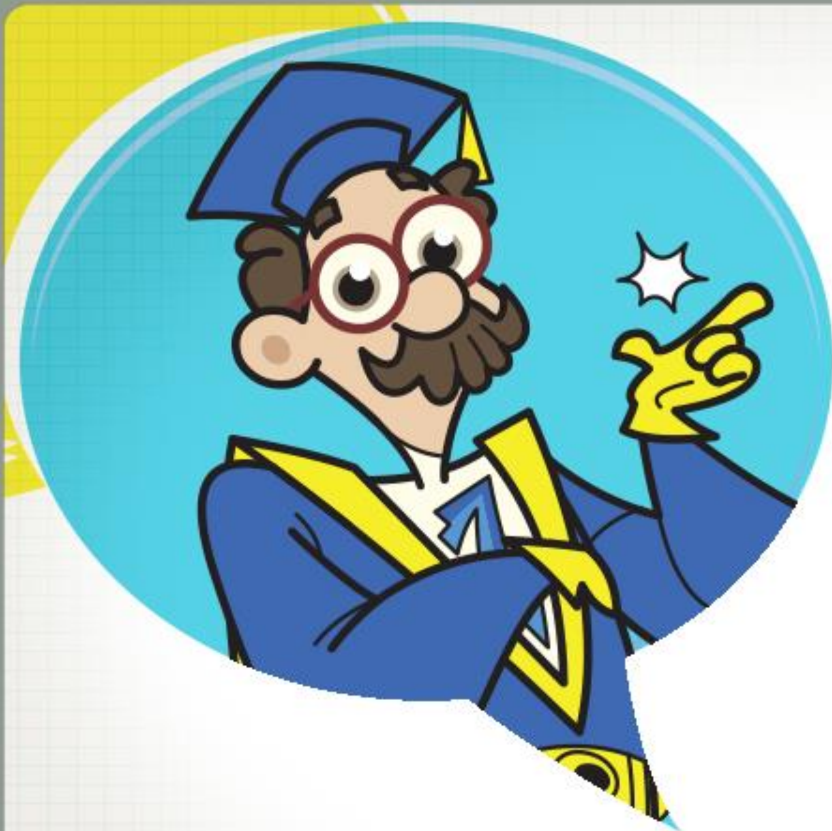

Hope you have now understood the concept of GST

Thinking of Investment

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