DegreeLive

B.Com Honours | Semester V | Calicut University

Indirect Tax Laws and Practice

Course Code: COM5EJ314 (7) • Module 2 Notes

MODULE II: THE GOODS AND SERVICES TAX (GST) ARCHITECTURE

THE UNIFIED VALUE-ADDED CONSUMPTION TAX & COOPERATIVE FEDERALISM

MODULE OVERVIEW

The introduction of the Goods and Services Tax (GST) on July 1, 2017 fundamentally reorganized the indirect taxation landscape of India. By replacing an archaic, fragmented maze of cascading central and state levies with a unified, dual-structured destination tax, GST unified India into a common national market. This module provides a rigorous, comprehensive exploration of the GST architecture: the constitutional framework under the 101st Constitutional Amendment Act (Articles 246A, 269A, and the GST Council under Article 279A), the dual GST model (CGST, SGST, UTGST, and IGST), the concept of supply as the sole taxable event under Section 7, the distinction between intra-state and inter-state supplies, the classification of goods and services using HSN and SAC codes, statutory registration rules and thresholds (Sections 22 to 25), the simplified Composition Scheme for small taxpayers under Section 10, the role of the digital GST Common Portal (GSTN), GST Suvidha Providers (GSPs), and the operational mechanics of the GST Compensation Cess.

Dual Framework

Articles 246A & 279A, GST Council, concurrent powers, CGST, SGST, UTGST, and IGST operational boundaries.

Supply & Classification

Section 7 taxable event, Schedules I, II, III (Negative List), HSN & SAC codes, and intra-state vs inter-state supply rules.

Compliance & Schemes

Registration thresholds, Section 24 mandatory cases, Section 10 Composition Scheme, GSTN portal, GSPs, and Compensation Cess.

1. Constitutional Framework and Institutional Architecture of GST

Prior to GST, the constitutional division of fiscal powers prevented both the Centre and the States from taxing the entire value chain. The Centre could not tax retail sales (exclusive State domain), while the States could not tax manufacture or services (exclusive Union domain). The **101st Constitutional Amendment Act, 2016** resolved this historic impasse:

CONSTITUTIONAL FOUNDATIONS OF THE INDIAN GST REGIME

CONSTITUTIONAL PILLARS

Constitutional Article	Constitutional Mandate & Power	Fiscal & Practical Significance
Article 246A (Concurrent Taxing Power)	Empowers both Parliament and every State Legislature concurrently to make laws with respect to Goods and Services Tax imposed by the Union or by such State.	Dismantled the classical separation of taxing powers. Grants concurrent sovereign jurisdiction over the entire supply chain from factory gate to retail checkout.
Article 269A (Levy & Apportionment of IGST)	Goods and Services Tax on supplies in the course of **inter-state trade or commerce** shall be levied and collected by the Government of India and apportioned between the Union and the States.	Establishes the legal machinery for **Integrated GST (IGST)**, ensuring that cross-border and import transactions are taxed centrally and revenue is transferred to the consuming destination State.
Article 279A (The GST Council)	Mandates the creation of a joint constitutional federal body—the **GST Council**—empowered to make recommendations to the Union and States on tax rates, exemptions, thresholds, and dispute resolution.	**Epitome of Cooperative Federalism:** Neither the Centre nor the States can unilaterally alter GST rates or rules without consensus in the Council.

The Voting Mechanism and Federal Balance in the GST Council

The GST Council embodies a delicate constitutional balance between the Union and the States:
• **Composition:** Union Finance Minister (Chairperson), Union Minister of State for Finance (Member), and State Finance/Taxation Ministers of all 28 States and 3 UTs with legislatures.
• **Weighted Voting Structure:** The Central Government holds **one-third (33.33%)** of the total votes cast. All State Governments combined hold **two-thirds (66.67%)** of the total votes cast.
• **Decision Threshold:** Every decision requires a **three-fourths (75%) weighted majority** of the members present and voting. Consequently, neither the Centre alone nor the States acting collectively can force a decision without partial cross-consensus.

2. The Dual GST Model: CGST, SGST, UTGST, and IGST

To preserve fiscal federalism, India adopted a **Dual GST Model** where both the Union and the State Governments concurrently levy tax on a common taxable base:

1. Central GST (CGST)

Governing Statute: The Central Goods and Services Tax Act, 2017.
Levied on: Intra-state supplies of goods and services.
Revenue Accrual: Collected by and credited 100% to the Central Government Consolidated Fund.

2. State GST (SGST)

Governing Statute: Respective State Goods and Services Tax Acts (e.g., Kerala SGST Act, 2017).
Levied on: Intra-state supplies within the respective State.
Revenue Accrual: Collected by and credited 100% to the State Government Consolidated Fund.

3. Union Territory GST (UTGST)

Governing Statute: The Union Territory Goods and Services Tax Act, 2017.
Levied on: Intra-UT supplies in Union Territories without legislatures (Chandigarh, Lakshadweep, Ladakh, D&NH, Daman & Diu, A&N Islands).
Function: Acts as the constitutional equivalent of SGST in non-legislative Union Territories.

4. Integrated GST (IGST)

Governing Statute: The Integrated Goods and Services Tax Act, 2017.
Levied on: Inter-state supplies, cross-border imports, and supplies to/by SEZs.
Rate Equivalence: IGST Rate ≈ CGST Rate + SGST Rate. Collected by the Centre and transferred electronically to the destination consuming State.

3. Supply: The Sole Taxable Event under GST (Section 7 of CGST Act)

Under the pre-GST regime, multiple taxable events generated confusion: excise was triggered by manufacture, VAT by sale, and service tax by provision of service. GST eliminated this fragmentation, establishing a single comprehensive taxable event: **SUPPLY**.

SCOPE OF SUPPLY UNDER SECTION 7 AND THE THREE STATUTORY SCHEDULES

SUPPLY DOCTRINE

Statutory Provision	Core Legal Definition & Parameters	Practical Applications & Manifestations
Section 7(1)(a) **Standard Commercial Supply**	All forms of supply of goods or services or both such as sale, transfer, barter, exchange, license, rental, lease, or disposal made for a **consideration** in the course or **furtherance of business**.	A retail showroom selling a television for cash, an automobile company leasing a car to a corporate client, or a professional firm providing architectural design services for a fee.
Schedule I **[Section 7(1)(c)]** **Supply Without Consideration**	Specified transactions deemed to be supplies even if executed **without any monetary consideration**:	• Permanent transfer of business assets where Input Tax Credit (ITC) was availed. • Transactions between related persons or distinct entities (e.g., stock transfers between branches in different States). • Principal-agent transactions.
Schedule II **[Section 7(1A)]** **Classification of Activities**	Clarifies whether an ambiguous commercial activity constitutes a supply of goods or a supply of services:	• Transfer of title in goods = **Supply of Goods**. • Any lease, tenancy, or license to occupy land/building = **Supply of Services**. • Restaurant catering services = **Supply of Services**. • Works contract for immovable property = **Supply of Services**.
Schedule III **[Section 7(2)]** **The Negative List**	Activities or transactions which shall be treated **neither as a supply of goods nor as a supply of services** (Zero GST):	• Services by an employee to an employer in the course of employment. • Services by courts, tribunals, MPs, MLAs, and Constitutional post-holders. • Funeral, burial, crematorium, or mortuary services. • Sale of land and completed building (subject to stamp duty).

4. Nature of Supply: Intra-State vs. Inter-State Supply

Determining whether a transaction attracts **CGST + SGST** or **IGST** depends upon the territorial relationship between the **Location of the Supplier (LOS)** and the **Place of Supply (POS)**:

RULES FOR DETERMINING NATURE OF SUPPLY UNDER THE IGST ACT, 2017

SUPPLY NATURE

Intra-State Supply (Section 8 of IGST Act)

Statutory Rule: Where the Location of the Supplier and the Place of Supply are in the **SAME State** or **SAME Union Territory**.
Tax Applicable: CGST + SGST (or CGST + UTGST).
Example: A wholesaler in Kochi (Kerala) sells air conditioners to a retailer in Kozhikode (Kerala). Both LOS and POS are in Kerala. The seller charges 9% CGST + 9% SGST.

Inter-State Supply (Section 7 of IGST Act)

Statutory Rule: Where the Location of the Supplier and the Place of Supply are in **different States**, different Union Territories, or a State and a UT.
Special Deemed Inclusions: All imports of goods/services into India and all supplies to or by Special Economic Zone (SEZ) units.
Tax Applicable: IGST (18%).
Example: A manufacturer in Chennai (Tamil Nadu) delivers machinery to a factory in Bengaluru (Karnataka). Attracts 18% IGST.

5. Classification of Goods and Services: HSN and SAC Coding

To eliminate ambiguity in tax rate determination across millions of traded products, the GST framework adopted standardized international nomenclature:

- **Harmonized System of Nomenclature (HSN):** An 8-digit international product coding system developed by the World Customs Organization (WCO). Used for classifying all tangible goods. Businesses with turnover up to ₹5 Crore must report 4-digit HSN codes on B2B invoices; businesses with turnover above ₹5 Crore must report 6-digit HSN codes.
- **Services Accounting Code (SAC):** A 6-digit classification scheme created by the Central Board of Indirect Taxes and Customs (CBIC) for all service categories (e.g., SAC 9983 for IT software services, SAC 9963 for hotel accommodation).
- **Standard GST Slabs: 0%** (unpacked food grains, fresh vegetables), **5%** (packaged tea, spices, life-saving medicines), **12%** (processed food, computers), **18%** (industrial machinery, capital goods, business services), and **28%** (automobiles, cement, aerated drinks, air conditioners) plus Compensation Cess.

6. Registration under GST Law (Sections 22 to 25 of CGST Act)

Registration under GST is the foundational legal step that confers the status of a registered taxable person, granting the legal authority to collect tax from buyers and pass on Input Tax Credit (ITC):

STATUTORY THRESHOLD LIMITS FOR GST REGISTRATION (SECTION 22)

REGISTRATION THRESHOLDS

Category of Taxable Supplier	Standard States Threshold	Special Category States Threshold
Exclusive Suppliers of Goods	**₹40 Lakhs** aggregate annual turnover. (Supplier must not engage in supply of services).	**₹20 Lakhs** (Uttarakhand, Meghalaya, Sikkim, Arunachal, Nagaland, Manipur, Mizoram, Tripura).
Suppliers of Services & Mixed Suppliers	**₹20 Lakhs** aggregate annual turnover.	**₹10 Lakhs** (Manipur, Mizoram, Nagaland, Tripura).

Compulsory Registration Irrespective of Turnover Threshold (Section 24)

Under **Section 24 of the CGST Act**, certain categories of commercial persons must register mandatorily, even if their annual turnover is merely ₹1:

- Persons making any **inter-state taxable outward supply** of goods.
- **Casual Taxable Persons** and Non-Resident Taxable Persons making taxable supplies in India.
- Persons required to pay tax under **Reverse Charge Mechanism (RCM)**.
- **Electronic Commerce Operators (ECOs)** (e.g., Amazon, Flipkart) and suppliers selling through ECOs.
- **Input Service Distributors (ISD)** distributing credit across multi-state branch offices.
- Persons deducting tax at source (TDS under Section 51) or collecting tax at source (TCS under Section 52).

STRUCTURAL ANATOMY OF THE 15-DIGIT GOODS AND SERVICES TAX IDENTIFICATION NUMBER (GSTIN)

GSTIN FORMAT

Digits 1 & 2	Digits 3 to 12	Digit 13	Digit 14	Digit 15
State Code (Census 2011 code: e.g., 32 for Kerala, 27 for Maharashtra, 07 for Delhi)	**Permanent Account Number (PAN)** (10-digit statutory alphanumeric PAN of the taxable entity)	**Entity Number** (1 to 9, then A to Z representing registration count in State)	**Default Character** (Alphabet 'Z' by default)	**Checksum** (Algorithmic check digit for fraud detection)

7. The Composition Scheme under GST (Section 10 of CGST Act)

Small local businesses, micro-traders, and standalone diners find standard GST accounting compliance (maintaining complex ledgers, filing multiple monthly returns, computing detailed ITC) excessively burdensome. **Section 10 of the CGST Act** provides a simplified, low-tax compliance avenue known as the **Composition Scheme**:

ELIGIBILITY CRITERIA AND CONCESSIONAL TAX RATES UNDER THE COMPOSITION SCHEME COMPOSITION SCHEME

Eligible Category of Business	Turnover Ceiling (Preceding FY)	Concessional Composition Tax Rate
Eligible Manufacturers	Up to **₹1.5 Crores** (₹75 Lakhs in Special Category States)	**1.0% of turnover in State** (0.5% CGST + 0.5% SGST).
Eligible Retail Traders	Up to **₹1.5 Crores** (₹75 Lakhs in Special Category States)	**1.0% of turnover of taxable supplies** (0.5% CGST + 0.5% SGST).
Restaurant Services (Non-Alcoholic)	Up to **₹1.5 Crores** (₹75 Lakhs in Special Category States)	**5.0% of turnover in State** (2.5% CGST + 2.5% SGST).
Small Service Providers [Section 10(2A)]	Up to **₹50 Lakhs** aggregate annual turnover	**6.0% of turnover in State** (3.0% CGST + 3.0% SGST).

Severe Legal Restrictions Imposed on Composition Dealers

While the Composition Scheme provides immense relief through quarterly tax payments (CMP-08) and single annual returns (GSTR-4), it carries strict statutory limitations:
1. **No Tax Collection from Customers:** The composition dealer cannot issue a Tax Invoice or charge GST on bills; they must issue a **Bill of Supply** and pay the composition tax out of their own pocket.
2. **Zero Input Tax Credit (ITC):** The dealer cannot claim any ITC on inward purchases of goods or services.
3. **Strict Prohibition on Inter-State Outward Supply:** Composition dealers cannot execute inter-state outward sales; supplies must remain strictly intra-state.
4. **E-Commerce Prohibition:** Cannot supply goods through e-commerce operators like Amazon or Flipkart.
5. **Notified Ineligible Goods:** Manufacturers of ice-cream, pan masala, aerated water, and tobacco cannot opt for the Composition Scheme.

8. The GST Common Portal (GSTN), GSPs, ASPs, and Compensation Cess

The operational scale of the Indian GST system is powered by an unprecedented digital public infrastructure:

The GST Common Portal (GSTN)

• **Goods and Services Tax Network (GSTN):** A non-government, non-profit digital technology corporation managing the national GST portal (**www.gst.gov.in**).
• Manages real-time processing of over 1.4 crore registered taxpayers, processing billions of e-invoices, electronic credit ledgers, automated input tax matching, and tax disbursements between Centre and States.

GSPs and ASPs Ecosystem

• **GST Suvidha Providers (GSPs):** Authorized technology intermediaries granted secure direct API access to the GSTN server.
• **Application Service Providers (ASPs):** Software developers who build enterprise accounting applications (Tally, SAP, Zoho) that interface through GSPs, automating return filing (GSTR-1, GSTR-3B) and e-way bill generation for businesses.

The GST Compensation Cess Architecture

To persuade heavily manufacturing States (such as Gujarat, Tamil Nadu, and Maharashtra) to surrender their origin-based sales tax revenues in favor of a destination-based model, Parliament enacted the **Goods and Services Tax (Compensation to States) Act, 2017**:

- **Guaranteed Revenue Growth:** The Centre guaranteed States an annual revenue growth rate of **14%** over the base year 2015–16 for a transition period of five years (July 2017 to June 2022). Any shortfall was compensated from the dedicated Compensation Fund.
- **Levy of Compensation Cess:** Financed through an earmarked **GST Compensation Cess** levied on luxury and sin commodities (large SUVs, luxury sedans, aerated caffeinated beverages, cigarettes, unmanufactured tobacco, coal) over and above the peak 28% GST rate.

9. Comprehensive Worked Numerical Problems and Practical Applications

WORKED NUMERICAL PROBLEM 1: FINANCIAL EVALUATION: REGULAR GST SCHEME VS. COMPOSITION SCHEME

SCHEME COMPARISON

Context: Merchant Suresh operates a standalone retail grocery store in Thrissur, Kerala. His annual turnover of taxable goods is ₹80,00,000. His inward purchases from registered wholesalers amount to ₹60,00,000 (taxed at 12% GST: ₹7,20,000). Compare his net annual tax liability under: (A) The Regular Scheme (12% GST on outward supplies with full ITC), versus (B) The Composition Scheme (1% flat tax on turnover with zero ITC).

Financial Parameter	Regular GST Scheme (12%)	Composition Scheme (Section 10 - 1%)
Annual Taxable Sales Turnover	₹80,00,000	₹80,00,000
Output Tax Charged to Customers	₹9,60,000 (12% collected from buyers)	**₹0 (Cannot collect tax from buyers)**
Inward Purchases from Wholesalers	₹60,00,000	₹60,00,000
Input Tax Paid to Wholesalers	₹7,20,000 (Available as ITC)	₹7,20,000 (Treated as business cost)
Input Tax Credit (ITC) Available	**(₹7,20,000) Full ITC claimed**	**₹0 (Zero ITC allowed under law)**
Gross Tax Payable to Government	Output Tax (₹9,60,000) - ITC (₹7,20,000) = **₹2,40,000**	1.0% of ₹80,00,000 Turnover = **₹80,000**
Net Out-of-Pocket Tax Cost Borne by Suresh	**₹0** *(Entire ₹2,40,000 was collected from consumers!)*	**₹80,000** *(Must be paid out of his own business profit margin!)*

Critical Analytical Takeaway: While the Composition Scheme requires paying only ₹80,000 in cash, that ₹80,000 is an out-of-pocket operating deduction from Suresh's profits, whereas under the Regular Scheme, the entire ₹9,60,000 tax is collected from customers and fully offsets the ₹7,20,000 purchase tax, resulting in zero net tax cost to the merchant!

WORKED NUMERICAL PROBLEM 2: INTRA-STATE VS. INTER-STATE SUPPLY & CROSS-UTILIZATION OF ITC

ITC UTILIZATION

Context: Delta Manufacturers Ltd. (Kochi, Kerala) executes the following commercial transactions during October 2026:

• Inward Purchase (Inter-State from Tamil Nadu): ₹1,000,000 + 18% IGST = ₹180,000 IGST credit available.

• Outward Supply 1 (Intra-State to Kozhikode, Kerala): ₹800,000 taxable at 18% (9% CGST = ₹72,000; 9% SGST = ₹72,000).

• Outward Supply 2 (Inter-State to Bengaluru, Karnataka): ₹500,000 taxable at 18% IGST = ₹90,000 IGST.

Compute the net tax payable in cash using the statutory ITC utilization sequence under Section 49 and Rule 88A.

Statutory Sequence of ITC Utilization (Section 49 & Rule 88A):

1. IGST Credit (₹180,000) must first be utilized 100% against IGST Output Liability.

• IGST Output Liability = ₹90,000.

• IGST Credit used against IGST = ₹90,000 => Remaining IGST Credit = ₹90,000.

2. Remaining IGST Credit can be utilized towards CGST and SGST in any order or proportion.

• Output CGST Liability = ₹72,000 => Offset by IGST Credit (₹72,000) => CGST Net Payable = **₹0**.

• Remaining IGST Credit = ₹90,000 - ₹72,000 = ₹18,000.

• Output SGST Liability = ₹72,000 => Offset by remaining IGST Credit (₹18,000).

• Remaining SGST Liability Payable in Cash = ₹72,000 - ₹18,000 = **₹54,000**.

Final Summary:

• Net CGST Paid in Cash = **₹0**

• Net IGST Paid in Cash = **₹0**

• Net SGST Paid in Cash = **₹54,000** (Paid via Electronic Cash Ledger).

Synthesis: The Digital Engine of Indian Economic Integration

The Goods and Services Tax represents far more than an indirect tax reform; it is a monumental structural transformation of the Indian macroeconomic union. By eliminating border check-posts, establishing a seamless national digital supply chain through the GSTN portal, and anchoring tax policy in the cooperative federalism of the GST Council, GST has dismantled internal trade barriers and established an integrated, transparent economic continent. Through its destination-based consumption model and multi-stage input tax credits, GST fosters enterprise efficiency, formalizes the national economy, and provides buoyant fiscal revenues to propel the collective progress of modern India.