GST –
A Boon for Indian Economy
(Concept & Benefits)

The Institute of Chartered Accountants of India
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PRESIDENT'S MESSAGE

In India, Goods & Services Tax (GST) would be a comprehensive tax to be levied on manufacture, sale and consumption of goods & services. GST is one of the biggest tax reforms in the country post-independence which will integrate all the state economies and boost overall growth.

One of the reasons to go the GST way is to facilitate seamless credit across the entire supply chain and across all States under a common tax base which is not available in the current scenario. GST would introduce a uniform taxation law across states and different sectors in respect to indirect taxes which would make supply of goods and services hassle free throughout the country. This will help in removing economic distortions, promote exports and bring about development of a common national market which in turn would definitely give a boost to India's tax-to-gross domestic product ratio and thus help in promoting economic efficiency and sustainable long term economic growth.

The Institute of Chartered Accountants of India (ICAI) in sync with its motto of being a partner in Nation Building has committed itself to play a pivotal role to support the government in the smooth implementation of GST in India. ICAI has undertaken various initiatives to spread awareness about GST among its members and other stakeholders which includes organising programmes/ seminars, releasing publications, inviting suggestions, making representations, etc.

In continuation of these initiatives, the Indirect Taxes Committee of ICAI has come up with this publication named ***'GST – A Boon for Indian Economy"*** which briefly elucidates features & benefits of GST with examples along with concepts of Revenue Neutral Rate, IT Strategy of GST, Comparison between present & proposed tax regime, etc.

I sincerely appreciate CA. Atul Gupta, Chairman, CA. Shyamlal Agarwal, Vice Chairman and other members of the Indirect Taxes Committee for their efforts in bringing out this publication.

I am sure you will find this publication highly useful.

Date: 26.06.2015
Place: New Delhi

CA. Manoj Fadnis
President, ICAI

VICE - PRESIDENT'S MESSAGE

GST is a tax leviable on supply of goods and services wherein supplier may claim credit of tax paid by him while procuring goods or services. It is designed to simplify present indirect tax system by integrating the union excise duties, customs duties (CVD/SAD), service tax and state VAT into a *single* structure.

Implementation of GST in India will have an extensive impact on almost all aspects of business operations in a country, including pricing; supply chain optimization; IT, accounting and tax compliance systems. It will address the major problems of the current system like tax cascading, complexities, exclusion of services from state levy, burden of tax on supply chain etc. The paradigm shift from current system to a simpler regime will benefit the trade which in turn will improve compliance & reduce tax evasion.

To exemplify the concept and benefits of GST, the Institute of Chartered Accountants of India has brought out this publication named ***'GST – A Boon for Indian Economy"*** specifically for Members of Parliament & Legislative Assemblies of State as a contribution towards its initiative to support the Government with implementing GST in India. This publication may help you understand the basic framework of GST and its benefits to the Indian Economy.

I wholeheartedly laud the efforts of CA. Atul Gupta, Chairman, CA. Shyamlal Agarwal, Vice-Chairman and Other Members of the Indirect Taxes Committee for bringing out this publication. I hope our joint efforts will make the Implementation of GST in India a hassle free process.

Date: 26.06.2015 — CA. M. Devaraja Reddy

Place: New Delhi — Vice-President, ICAI

CHAIRMAN'SMESSAGE

Indian economy is at the behest of implementing by far the most radical taxation reforms in India -- the Goods and Services Tax (GST) which will remove the cascading effects under present structure & pave the way for Common National Market to make India globally competitive. Introduction of GST would rationalize tax content in product price and possibly trickle down the benefit to the ultimate consumer.

One of the major reasons to implement GST in India would be the provision of having a concurrent fiscal autonomy between the Centre & States which would empower both levels of the Government to apply tax to a comprehensive base of goods & services at all the points in supply chain. This would also promote economic efficiency and pave a way for establishment of common market with India.

The Indirect Taxes Committee has brought out this publication named **''GST – A Boon for Indian Economy'** 'exclusively for the Members of Parliament & Legislative Assemblies of State. This publication broadly explains the concept of GST, GST model in India, Benefits of GST, Illustrations, GST in other countries etc.

At this juncture, I would like to express my sincere gratitude and thanks to CA. Manoj Fadnis, President, ICAI, CA. Devaraja Reddy, Vice-President, ICAI and other members of the committee for their guidance and support in this initiative and bringing this material to its being.

I trust this material would prove to be useful in your endeavours.

Date: 26.06.2015
Place: New Delhi

CA. Atul Gupta
Chairman
Indirect Taxes Committee

VICE - CHAIRMAN'SMESSAGE

The 122nd Constitution Amendment Bill, 2014 has been passed in Lok Sabha on 6th May 2015 which marks another step of the government towards implementing GST with effect from 1st April 2016. GST in India would be one of the most comprehensive tax reforms which would subsume the present gamut of taxes like excise, service tax, VAT, Central Sales Tax etc. and create an integrated & a unified national market which would make India more competent globally.

In order to broadly outline the concepts and benefits of GST in India, the Indirect Taxes Committee of ICAI has come up with this publication **''GST – A Boon For Indian Economy''** designed explicitly for the Members of Parliament & Legislative Assemblies of State. Various illustrations in this publication are used to showcase the benefits of GST for Indian Economy.

This researched material is a result of efforts Indirect Taxes Committee of ICAI with due support from CA. Manoj Fadnis, President & CA. Devaraja Reddy, Vice-President, ICAI. I would also like to commend the efforts of Indirect Taxes Secretariat for bringing out this publication.

I wish to extend ICAI's support for GST implementation in India.

Date: 26.06.2015

Place: New Delhi

CA. Shyamlal Agarwal

Vice-Chairman

Indirect Taxes Committee

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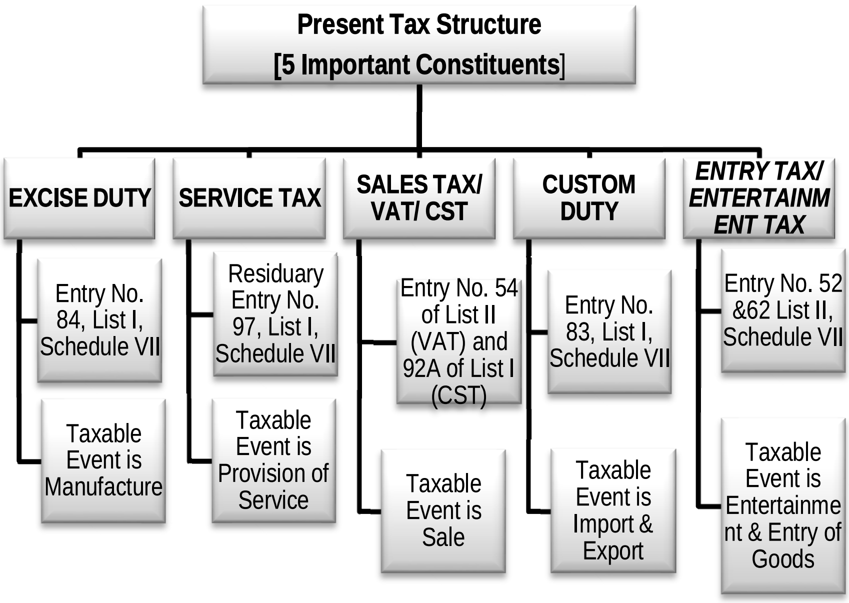
Chapter-1
Present Indirect Tax Structure of India

The Indirect tax structure in India is multifaceted and layered. Currently, there is a dual system of taxation of goods and services. The taxes on Goods and Services are charged on value added tax principle with input tax credit mechanism for taxation of goods and services, respectively, with limited cross-levy set-off.

The present tax structure can best be described by the following chart:



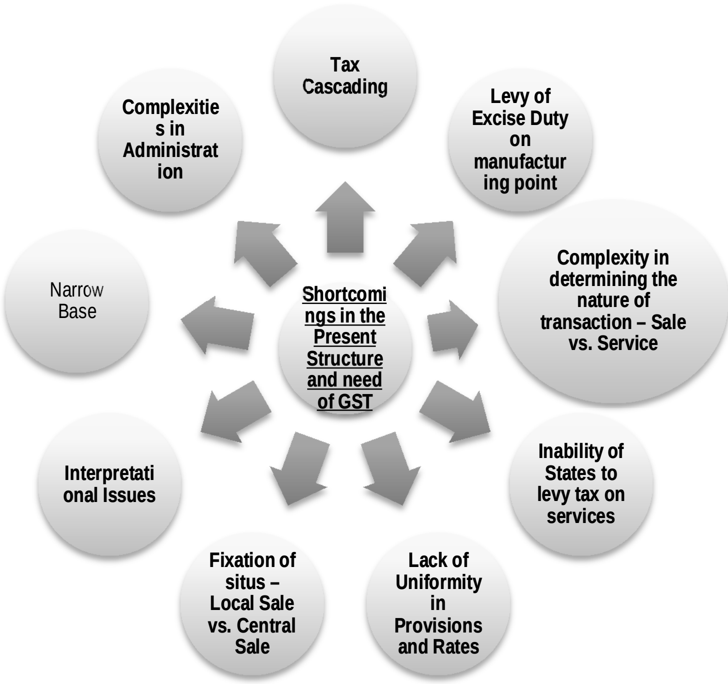
It is important to note that the taxes levied under the present tax structure are not mutually exclusive. For example, if the goods are manufactured and sold by manufacturer, then both Central Excise and VAT are applicable.

Until the introduction of MODVAT (now CENVAT) Scheme in 1986 in respect of Central Excise Duty, duty was levied as origin based single point tax on manufacture of goods with some exceptions where set off scheme was used to reduce the cascading effect of taxes. CENVAT is only at manufacturing level and does not go up to retail level.

At State level, varieties of schemes were framed like origin based single point system (first point tax), multi-point system with set off, last point (retail level) system, and so on. This was, again, not uniform even within a State. States adopted different systems for different commodities too. Cascading effect at that time was reduced to a great extent with the use of declaration forms, though, that by itself was a complex system. With the introduction of State VAT, there is combination of origin based (Central Sales Tax) and destination based multipoint system of taxation.

Similarly, there was no Union level tax on services till the introduction of Service Tax in 1994 although, selective levy by the States on specified services like entertainment tax, is continuing. Service tax is currently charged on all the services except the services mentioned in the Negative List and specifically exempted from the service tax, although initially tax was charged on selected services. The VAT at Union (CENVAT) as well as State Level (VAT) is on goods only, except that at the Union level, there is input tax credit mechanism between CENVAT and Service Tax.

Shortcomings in the Present Structure and need of GST



(a) Tax Cascading

Tax cascading occurs under both Centre and State taxes. The most significant contributing factor to tax cascading is the partial coverage by Central and State taxes. Oil and gas production and mining, agriculture, real estate construction, infrastructure projects, wholesale and retail trade, and range of services remain outside the ambit of the CENVAT and the Service Tax levied by the Centre. The exempt sectors are not allowed to claim any credit for the CENVAT or the Service Tax paid on their inputs. Similarly, under the State VAT, no credits are allowed for the inputs to the exempted sectors, which include the entire service sector. Another major contributing factor to tax cascading is the Central Sales Tax (CST) on inter-State sales, collected by the Origin State for which no credit is allowed by any State Government.

(b) Levy of Excise Duty on manufacturing point

The CENVAT is levied on goods manufactured or produced in India. Limiting the tax to the point of manufacturing is a severe impediment to an efficient and neutral application of tax. Taxable event at manufacturing point itself forms narrow base. For example, valuation as per excise valuation rules of a product, whose consumer price is Rs. 100/-, is, say, Rs. 70/-. In such a case, excise duty as per the present provisions is payable only on Rs.70/-, and not on Rs.100/-.Further, definitional issues as to what constitutes manufacturing, and valuation issues for determining the value on which the tax is to be levied, are other concerns. However, these concepts have evolved through judicial rulings to a great extent.

(c) Complexity in determining the nature of transaction – Sale vs. Service

The distinctions between goods and services found in the Indian Constitution have become more complex. Today, goods, services, and other types of supplies are being packaged as composite bundles and offered for sale to consumers under a variety of supply-chain arrangements. Under the current division of taxation powers in the Constitution, neither the Centre nor the States can apply the tax to such bundles in a seamless manner. Each Government can tax only parts of the bundle, creating the possibility of gaps or overlaps in taxation. Example:- In case of Installation of AC(Air Conditioner) where a bundle of services are provided like wood and other material used for installation , VAT is charged on such material and on labour part service tax is applicable, but no value is defined separately. VAT and Service Tax are charged on percentage basis as defined by State and Central Govt.

(d) Inability of States to levy tax on services

Exclusion of services from the State taxation powers is its negative impact on the buoyancy of State tax revenues. With no powers to levy tax on incomes or the fastest growing components of consumer expenditures, the States have to rely almost exclusively on compliance improvements or rate increases for any buoyancy in their own-source revenues. Alternatives to assigning the taxation of services to the States include assigning to the States a share of the Central VAT (including the tax from services).

(e) Lack of Uniformity in Provisions and Rates

Present VAT structure across the States lacks uniformity, which is not restricted only to the rates of tax, but also extends to procedures and, sometimes, to the definitions, computation and exemptions.

(f) Fixation of situs – Local Sale vs. Central Sale

Whether a sale takes place in one State or another, i.e. to fix the situs of a sale transaction, is the major conflict, as its taxability affects the revenue of the State. Though CST is a tax levied by the Central Government, it is collected and retained by the collecting State. Whether a transaction is a direct inter-State sale from State 'X' to the customer 'ABC' located in State 'Y'; or is a stock transfer from State 'X' to branch in State 'Y' first, and then a local sale to the customer 'ABC' in the State 'Y', will have a bearing on the revenue of the State 'X' or State 'Y', as the case may be.

A significant number of litigations pertain to this issue. Ultimately, the Central Government made provisions under the Central Sales Tax Act, 1956 and created a Central Appellate Authority to resolve such matters.

(g) Interpretational Issues

Another problem arises in respect of interpretation of various provisions and determining the category of the commodities. We find a significant number of litigation surrounding this issue only. To decide whether an activity is sale or works contract; sale or service, is not free from doubt in many cases.

(h) Narrow Base

The starting base for the CENVAT is narrow, and is being further eroded by a variety of area-specific and conditional exemptions. Earlier the service tax was applicable on selective services but after the implementation of Finance Act, 2012 the system of comprehensive taxation of services was implemented, while excluding few service by specifying them in "negative list". The complexities under the State VAT relate primarily to classification of goods to different tax rate Schedules. Theoretically, one might expect that the lower tax rates would be applied to basic necessities that are consumed largely by the poor. This is not the case under the State VAT. The lowest rate of 1% applies to precious metals and jewellery, and related products. The middle rate of 5% applies to selected basic necessities and also a range of industrial inputs and IT products. In fact, basic necessities fall into all three categories – exempted from tax, taxable at 5%, and taxable at the standard rate of 12.5%. Higher rate of 20% is also applicable mainly to petroleum products and liquor.

However, most retailers find it difficult to determine the tax rate applicable to a given item without referring to the legislative schedules. Consumers are even less aware of the tax applicable to various items.

(i) Complexities in Administration

Compounding the structural or design deficiencies of each of the taxes is the poor or archaic infrastructure for their administration. Taxpayer services, which are a lynchpin of a successful self-assessment system, are virtually non-existent or grossly inadequate under both Central and State administrations. Many of the administrative processes are still manual, not benefiting from the efficiencies of automation. All these not only increase the costs of compliance, but also undermine the revenue collection.

Chapter-2
What is GST and How It Works?

What is GST?

GST stands for "Goods and Services Tax", and is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. Its main objective is to consolidates all indirect tax levies into a single tax, except customs (excluding SAD) replacing multiple tax levies, overcoming the limitations of existing indirect tax structure, and creating efficiencies in tax administration.

One of the reasons to go the GST way is to facilitate seamless credit across the entire supply chain and across all States under a common tax base. The current framework allows limited inter-levy credits between CENVAT (tax on manufacture) and service tax. However, no cross credits are available across these taxes and the sales tax/VAT paid (on input) or payable (on output). Introduction of GST would thus rationalize the tax content in product price, enhance the ability of business entities to compete globally, and possibly trickle down to benefit the ultimate consumer.

Example: - A product whose base price is Rs.100 and after levying excise duty @ 12% value of the product is Rs. 112. On sale of such goods VAT is levied @ 12.5% and value to the ultimate consumer is Rs. 126. In the proposed GST system on base price of Rs.100 CGST and SGST both will be charged, say @ 8% each, then the value to the ultimate consumer is Rs. 116. So, in such a case the industry can better compete in global environment. Therefore, GST is a broad based and a single comprehensive tax levied on goods and services consumed in an economy. GST is levied at every stage of the production distribution chain with applicable set offs in respect of the tax remitted at previous stages. It is basically a tax on final consumption.

To put at a single place, GST may be defined as a tax on goods and services, which is leviable at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or procuring the service.

Internationally, GST is a single levy for all transactions related to goods and services. In India, however, currently the power to prescribe the taxation framework, and levy and collect taxes has been segregated between the Centre and States under the Constitution. For resolving disputes regarding GST, its implementation etc. a GST Council would be setup. Given this uniqueness, learnings of other countries cannot be directly implemented in India.

Illustration of GST [All parties are located in one State]

Assumptions: (1) Rate of Excise Duty – 12%; (2) VAT Rate – 14.5%; (3) Central GST Rate – 12%; (4) State GST Rate – 12%; (5) Profit Margin – Rs. 10,000/ 5,000 (before tax)

Particulars	**Under VAT**	**Under GST**
(I) Manufacturer (D1) to Wholesaler (D2)		
Cost of Production	90,000	90,000
Input Tax Credit (Assuming nil)	-	-
Add : Profit Margin	10000	10000
Producers Basic Price	1,00,000	1,00,000
Add: Central Excise Duty @ 12%	12,000	
Add : Value Added Tax @ 14.5% on Rs. 1,12,000/-	16,240	
Add : Central GST @ 12%		12,000
Add : State GST @ 12%		12,000
Sale Price	1,28,240	1,24,000
(II) Wholesaler (D2) to Retailer (D3)		
Cost of Goods to D2	1,12,000	1,00,000
Available Input Tax Credit for set off	*16,240*	*24,000*
Add : Profit Margin	5,000	5,000
Total	1,17,000	1,05,000
Add : Value Added Tax @ 14.5%	16,965	
Add : Central GST @ 12%		12,600
Add : State GST @ 12%		12,600
Total Price to the Retailer	1,33,965	1,30,200

Particulars	**Under VAT**	**Under GST**
(III) Retailer (D3) to Final Consumer (C)		
Cost of Goods to D3	1,17,000	1,05,000
Input Tax Credit	*16,965*	*25,200*
Add : Profit Margin	5,000	5,000
Total	1,22,000	1,10,000
Add : Value Added Tax @ 14.5%	17,690	
Add : Central GST @ 12%		13,200
Add : State GST @ 12%		13,200
Total Price to the Consumer	**1,39,690**	**1,36,400**
Total Tax Payable in All Transactions	**29,690**	**26,400**
*Verification:- VAT @14.5% [139,690 * 14.5 / 114.5] = 17,690 + 12,000 (CENVAT) = 29,690*		
D1 (12,000 + 16,240)	*28,240*	
D2 (16,965 - 16,240)	*725*	
D3 (17,690 - 16,965)	*725*	
*Verification:- GST @ 24% [136400 *24 / 124] =26400*		
D1 (12,000 + 12,000)		*24,000*
D2 (25,200 - 24,000)		*1,200*
D3 (26,400 - 25,200)		*1,200*

Note: *As per the above illustration the major benefit to the consumer in the GST regime is that GST is charged always on producer basic price.*

It is insignificant to ascertain who the gainer is in monetary terms – Government or the Consumer but certainly, GST is a better system which is self-disciplined. Moreover, the net impact would be marginal in most of the cases since the RNR (Revenue Neutral Rate) would be determined by the Government after taking the monetary impact into consideration.

Features of an Ideal GST

GST is a comprehensive value added tax on goods and services. It is levied and collected on value addition at each stage of sale or purchase of goods or supply of services based on input tax credit method but without State boundaries. There is no distinction between taxable goods and taxable services and they are taxed at a single rate in a supply chain of goods and services till the goods / services reach the consumer. The administrative power generally vests with a single authority to levy tax on goods and services. The main features of GST are as under:-

(a) GST is based on the principle of value added tax and either "input tax method "or "subtraction" method, with emphasis on voluntary compliance and accounts based system.

(b) It is a comprehensive levy and collection on both goods and services at the same rate with benefit of input tax credit or subtraction of value of penultimate transaction value.

(c) Minimum number of floor rates of tax, generally, not exceeding two rates.

(d) No scope for levy of cess, re-sale tax, additional tax, special tax, turnover tax etc.

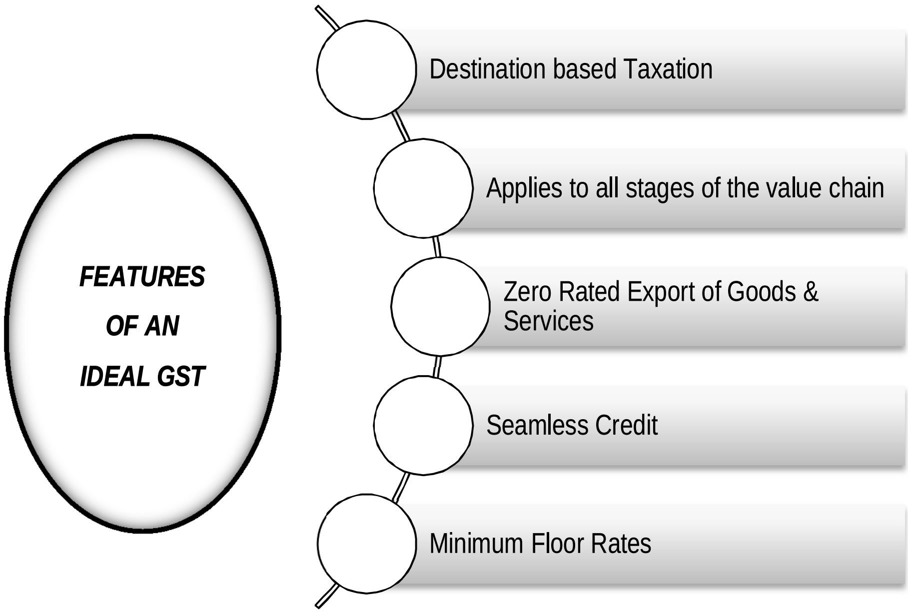
(e) No scope for multiple levy of tax on goods and services, such as, sales tax, entry tax, octroi, entertainment tax, luxury tax, etc.

(f) Zero rating of exports and inter State sales of goods and supply of services.

(g) Taxing of capital goods and inputs whether goods or services relatable to manufacture at lower rate, so as to reduce inventory carrying cost and cost of production

(h) A common law and procedures throughout the country under a single administration.

(i) GST is a destination based tax and levied at single point at the time of consumption of goods or services by the ultimate consumer.



Revenue Neutral Rate

In the proposed GST regime, the revenue of the Government would not be the same in comparison with the present tax structure due to tax credit mechanism or otherwise. Therefore, an adjustment in tax rate is required to avoid reduction in revenue of the Government. Hence, the rate of tax will have to be suitably adjusted to ensure that tax revenue does not reduce. This rate is termed as 'Revenue Neutral rate' (RNR). It is the rate at which tax revenue remains the same despite giving credit of duty paid on inputs and other factors.

Success of GST would depend upon the RNR

The success of GST will largely depend on the determination of ideal rate at Central level as well as State level which should be acceptable to the public and revenue neutral to Government.

The golden rule for collection of tax is given by world's oldest economist Sage Kautilya alias Chanakya Muni more than 2000 years ago. He said that the King should collect tax from different persons as the humble bee collects honey from different flowers without making any harm to them. Thus, all efforts should be made to keep the GST rate as low as possible.

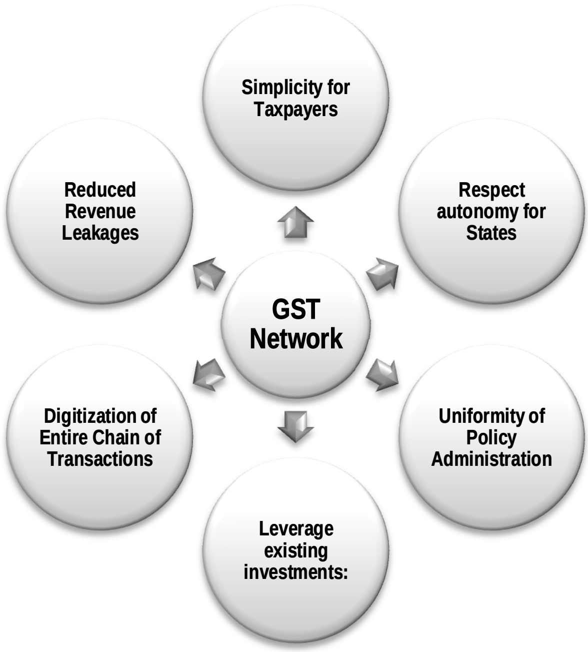
Elaborating on why the tax rates are lower in some countries, Dr. P. Shome said that voluntary compliance even by large corporations in India was not at the desirable level and that countries that had reduced VAT/GST rates have subsumed many taxes in that framework and tax structure was made linear by doing away with tax breaks.

Therefore, the GST rates would be fixed after ensuring that there would be no revenue loss from the proposed changes and a normal growth is maintained.

IT Strategy for GST

The broad IT plan for enabling GST was presented to the Government of India and the Empowered Committee of State Finance Ministers under the Chairmanship of Dr. Asim Dasgupta on July 21, 2010. The Empowered Group on IT Infrastructure on GST is headed by Shri Nandan Nilekani.

Without a well-designed and well-functioning IT system, the benefits of GST will remain elusive. It is important that the design and implementation of the GST IT systems start without any further delay, and consensus is achieved on the unresolved policy issues in the earliest possible timeframe. Some of the features of the GST Network are as follows:



- **Simplicity for taxpayers:** The process of filing of tax returns and payment of tax should be simple and uniform and should be independent of taxpayer's location and size of business. In addition, the compliance process should not place any undue burden on the taxpayer and should be an integral part of his business process.
- **Respect autonomy of states:** The design of the IT system should respect the constitutional autonomy of the states. Several business processes will be re-engineered as a new IT system for GST is put into place. There should be no dilution of the autonomy of states as a result of the IT system, or the re-engineering. On the contrary, it should strengthen the autonomy of states. This is a key factor in the design of the IT system presented in the rest of this document.
- **Uniformity of policy administration:** The business processes surrounding GST need to be standardized. Uniformity of policy administration across states and centre will lead to a better taxpayer experience, and cut down costs of compliance as well as tax administration.
- **Enable digitization and automation of the whole chain:** All the business processes surrounding GST should be automated to the extent possible, and all documents processed electronically. This will lead to faster processing and reconciliation of tax information and enable risk based scrutiny by tax authorities. For small taxpayers, facilitation centres can be set up to ease the migration.
- **Reduce leakages:** A fully electronic GST can dramatically increase tax collections by reducing leakages. Tools such as matching the input tax credit, data mining and pattern detection will deter tax evasion and thus increase collections.
- **Leverage existing investments:** Existing IT investments of states should be leveraged. The Mission Mode Project on Commercial Tax should be aligned with the GST implementation going forward.

Following would be the stakeholders of GST Network:

- Taxpayers – Small & Corporate
- State Tax Authorities
- CBEC

- RBI
- Banks
- Other Authorities

The GST Network would support the following:

- Registrations
- Returns
- Challans
- Interstate transfer of Goods
- Refunds
- Audits
- Appeals
- Flow of Information between Authorities

Matter for GST IT Strategy extracted from:
http://finmin.nic.in/gst/IT_Strategy_for_GST_ver0.85.pdf

Chapter 3
Benefits of GST

In India, the GST model will be "dual GST" having both Central and State GST component levied on the same base. All goods and services barring a few exceptions will be brought into the GST base. Importantly, there will be no distinction between goods and services for the purpose of the tax with common legislations applicable to both.

For Example, if a product have levy at a base price of Rs. 100 and rate of CGST and SGST are 8% then in such case both CGST and SGST will be charged on Rs 100 i.e. CGST will be Rs 8 and SGST will be Rs.8. Interestingly, as per the recommendations of Joint Working Group (JWG) appointed by the Empowered Committee in May 2007, the GST in India may not have a dual VAT structure exactly but it will be a quadruple tax structure. It may have four components, namely –

(a) a Central tax on goods extending up to the retail level;

(b) a Central tax on service;

(c) a State-VAT on goods; and

(d) a State-VAT on services

The Economic Survey 2008-09 recommended the Government to implement the goods and services tax (GST) throughout the country as a part of continuing fiscal reforms, while favouring a dual GST structure to be levied concurrently by both the Centre and State. Citing the recommendation on a dual GST by the empowered committee of State Finance Ministers, the survey said a dual GST strikes a good balance between Centre and State fiscal autonomy, along with eliminating tax cascading.

"It empowers both levels of Government to apply the tax to a comprehensive base of goods and services, at all points in the supply chain. It also eliminates tax cascading, which occurs because of truncated or partial application of the Centre and State taxes," said the survey.

Despite improvements in the country's tax design and administration over the past few years, the systems at both Central and State levels are still complex, said the survey. The complexities, it says, are policy related and also due to the present system of multiple rates and exemptions at State and Centre level. The survey noted that deficiencies in CENVAT (Central value added tax) and service tax are grave and need to be looked at. For instance, CENVAT's already narrowed base is being further eroded by a variety of area-specific exemptions. "The introduction of GST would thus be opportune for deepening the reform process already underway," the survey said.

GST will create a single, unified Indian market to make the economy stronger. In totality GST will benefit the Government as well as the consumers in the long run thus creating a win-win situation for both. Some of the benefits of GST are enlisted as follows:

(a) Abolition of multiple layer of taxes

Implementation of GST in India will integrate the existing line of taxes like Central Excise, Service Tax, Sales Tax, Value Added Tax etc. into one tax i.e. GST. This will help avoiding multiple taxes currently being levied on products and services. For Example in case of Restaurant Services we end up paying both Service tax and VAT making taxable amount approximately 140% for the total amount (VAT on 100% Value and Service Tax on abated 40% Value).

(b) Mitigation of Cascading Taxation

Under the GST regime the final Tax would be paid by the Consumer of the goods/ services but there would be an input tax credit system in place to ensure that there is no cascading of taxes. GST would be levied only on the value added at every stage unlike the present scenario wherein Tax is also required to be paid on Tax in few cases i.e. VAT is payable on Excise duty.

(c) Development of Common National Market

GST would introduce a uniform taxation law across states and different sectors in respect to indirect taxes which would make it easier to supply goods and services hassle free across the country. This will help in removing economic distortions, promote exports and bring about development of a common national market. This will definitely give a boost to India's tax-to-gross domestic product ratio and thus help in promoting economic efficiency and sustainable long term economic growth.

(d) Increase in Voluntary Compliance

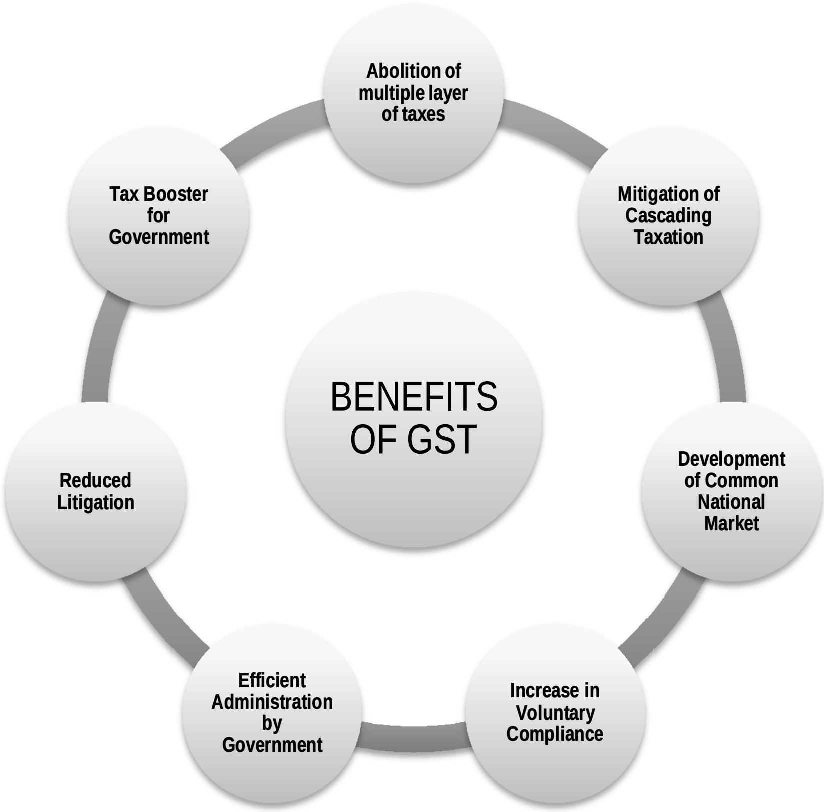
Under GST regime, the process will be simple and articulate with a lesser scope for errors. As all the information will flow through the common GST network it would make tax payment and compliances a regular norm with lesser scope for mistakes. It will only be upon the payment of tax, the consumer will get credit for the taxes they pay on inputs. This will generate an automatic audit trail of value addition and income across the production chain, creating a unified base of tax potential that can be tapped. Thus GST model will do away the need of the current patchwork of indirect taxes that are fractional.

(e) Reduced Litigation

Taxation under GST would reduce litigation on account of clarity regarding the jurisdiction of taxation as against the present structure where there still exists an uncertainty regarding jurisdiction of taxation by Centre and State in few cases like in case of Software, Right to use of Goods etc. In GST Regime, with a single tax law in place, there would be smooth assessments as compared to the present multiple assessments in different tax laws.

(f) Efficient Administration by Government

Presently, on account of multiplicity of taxes and there cascading effects, lack of integrated network, the administration of indirect taxes is a mammoth task for the government which also adds to the compliance & administration costs. Under proposed GST regime, with unified tax rate, simple input tax credit mechanism and integrated GST Network, information would be readily available and administration of resources would be easy and efficient for the Government. There would be a single tax, reduced errors and litigations thus resulting in reduced administration costs too.



(g) Will act as a Tax Booster for Government

With a wider tax base, minimum floor rates, facility of seamless credit the Goods & Services Tax would prove to be an efficient tax booster for the Government. With ease of compliance and integrated network data tax collection would be much easier for the government.

Chapter 4

Present Tax Structure v/s GST – A Comparative Study

The proposed GST regime focuses upon integration of the existing tax system and creates a unified tax structure. While the present form of taxation is multi-layered, the same would be subsumed into one under the GST regime. GST is broader based, unified and beneficial in terms of implementation and applicability.

Below is a table comparing various features of GST *viz a viz* Present Tax Structure:

S.N.	Particulars		GST (Expected)
1.	Structural Difference	• Two separate VAT systems operate simultaneously at two levels, Centre and State, and tax paid (input tax credit) under one is not available as set off against the other • Tax on services is levied under separate legislation by Centre • No comprehensive taxation of services at the State level; few services are taxed under separate enactments • Imports in India are not subjected to State VAT	A dual tax with both Central GST (CGST) & State GST (SGST) levied on the same base. Thus, all goods and services, barring a few exceptions, will be brought into the GST base. There will be no distinction between goods and services for the purpose of tax with a common legislation applicable to both It allows seamless tax credit amongst Excise Duty, Service Tax & VAT

S.N.	Particulars		GST (Expected)
2.	Place of Taxation	Taxable at the place of sale of goods or rendering of service	It is consumption (destination) based tax
3.	Excise Duty	Imposed by Centre under separate Act; Taxable event: Manufacture; Taxed up to manufacturing point	To be subsumed in CGST; Taxable event : Sale; To be taxed up to retail level
4.	Basic Customs Duty	Imposed by Centre, under separate Act; Taxable event: Import	- No Change -
5.	CVD/SAD	Imposed by Centre under separate Act; Taxable event: Import	To be subsumed in CGST; Taxable event : Import
6.	Service Tax	Imposed by Centre under separate Act; Taxable event: Provision of Service	To be subsumed in CGST & SGST ; Taxable event : Provision of Service
7.	Central Sales Tax	Imposed by Centre under CST Act; Collection assigned to States; Taxable event : Movement of goods from one State to another	To be phased out
8.	State VAT	Imposed by States; Taxable event : Sale within the State	To be subsumed in SGST; Taxable event : Sale within State
9.	Inter-State Transactions	Goods & Services : Imposed by the Centre	To be subsumed in GST & subject to IGST
10.	Powers to levy Tax on Manufacture	As Excise Duty (CENVAT) :Centre	No such powers in GST

S.N.	Particulars		GST (Expected)
11.	Powers to levy Tax on Sale of Goods	- Inter-State: Centre - Local: State	Concurrent powers to Centre & State
12.	Powers to levy Tax on Provision of Services	Centre	Concurrent powers to Centre & State;
13.	Tax on Import in India	- Goods : Under Customs Duty (comprises Basic Customs Duty, CVD & SAD); - Services : Under Service Tax	- Basic Custom Duty on goods : No Change; - CVD & SAD on import of goods and import of services : To be subsumed in GST
14.	Tax on Export of Goods & Services	Exempt/Zero-rated	- No Change -
15.	Tax on inter-State Transfer of Goods to Branch or Agent	Exempt against Form F	To be taxable
16.	Cascading Effect	Allows tax credit between Excise Duty& Service Tax, but not with VAT	Allows seamless tax credit amongst Excise Duty, Service Tax & VAT
17.	Non-Creditable Goods	Exists	Might exist
18.	Credit on Inputs used for Exempted Activities	Not allowed	Will not be allowed
19.	Various Exemptions – Excise Free Zone	Exists	Will go in a phased manner

S.N.	Particulars		GST (Expected)
	or VAT Exemption		
20.	Exemption for transit Inter-State Sale and High Seas Sale	Exists	Might be taxable
21.	Transactions against Declaration Forms	Exists under the CST Act	Forms will be abolished
22.	Taxation on Govt. and Non-Profit Public Bodies	Partially taxed	Might not Change
23.	Tax Base	Comparatively, Narrow	Wider
24.	Excise Duty – Threshold Limit	Rs. 1.5 crores	- Rs.10 lacs to 20 lacs
25.	VAT - Threshold Limit	Rs. 5 lacs to 10 lacs	Rs. 10 lacs to Rs. 20 lacs
26.	Service Tax - Threshold Limit	Rs. 10 lacs	Rs. 10 lacs to Rs. 20 lacs
27.	Classification of Commodities	- Excise Duty : HSN; - VAT : None	HSN
28.	VAT/GST Registration Number	Simple TIN (some States : PAN based)	PAN based number
29.	Procedures for Collection of Tax and Filing of Return	CENVAT & Service Tax: Uniform VAT : Vary from State to State	Will be uniform
30.	Use of Computer Network	Just started by the States; very minimum	Extensive; It is necessity for

S.N.	Particulars		GST (Expected)
			implementation of GST
31.	Nature of Present Litigations	a. Sale *vs.* Service b. Classification of goods c. *Situs* issue : between States d. Interpretation of provisions e. Sale *vs.* Works Contract f. Valuation of Composite Transactions, etc.	Will be reduced

Probable Taxes to be subsumed in GST

- Central Excise Duites
- Additional Duties of Excise
- CVD, SAD & other domestic taxes on imports
- Service Tax
- Central Sales Tax
- Value Added Tax
- Purchase Tax
- Entertainment & Luxury Tax
- Octroi & Entry Tax in lieu of Octroi
- Taxes on Lottery, Betting & Gambling

Probable Taxes NOT to be subsumed in GST

- Basic Customs Duty
- Excise Duty on Tobacco Products
- Export Duties
- Specific Cesses
- Taxes on Liquors
- Toll Tax
- Environment Tax
- Property Tax

Chapter 5

Illustrations to Showcase Benefits of GST

In this chapter we will understand, with the help of some illustrations, how GST will benefit the consumers eventually:

Illustration 1: Intra State (within the state) Trading of Goods

Particulars		Present Scenario	Particulars		GST Scenario
Input Manufacturer			***Input Manufacturer***		
Cost	90		Cost	90	
Margin	10		Margin	10	
Value		100	Value		100
Excise @ 10%		10	CGST@ 10%		10
VAT @ 10%		11	SGST @ 10%		10
Total		**121**	**Total**		**120**
Output Manufacturer			***Output Manufacturer***		
Cost	100		Cost	100	
Margin	20		Margin	20	
Value		120	Value		120
Excise @ 10%	12	12	CGST@ 10%	12	12
CENVAT Credit	(10)		Input Tax Credit	10	
Total Excise Paid	**2**		**Total CGST Paid**	2	
VAT @ 10%	13.2	13.2	SGST @	12	12

			10%		
Input Tax Credit	(11)		Input Tax Credit	10	
Total VAT Paid	**2.2**		**Total SGST Paid**	2	
Total		**145.2**	**Total**		**144**
Dealer			***Dealer***		
Cost	132		Cost	120	
Margin	10		Margin	10	
Value		142	Value		130
VAT @ 10%	14.2	14.2	CGST@ 10%	13	13
Input Tax Credit	13.20		Input Tax Credit	12	
Total VAT paid	1		**Total CGST Paid**	1	
			SGST @ 10%	13	13
			Input Tax Credit	12	
			Total SGST Paid	1	
Total Amount paid by Customer		**156.2**	**Total Amount paid by Customer**		**156**
Total Tax Paid by Customer		**26.20**	**Total Tax Paid by Customer**		**26**
Total Tax paid to Centre		**12.00**	**Total Tax paid to Centre**		**13**
Total Tax paid to State		**14.20**	**Total Tax paid to State**		**13**

Thus it is evident from the illustration that the consumer is required to pay a lesser amount and tax during the course of sale of goods within the state. The Net benefit ensued by GST will permeate to the End Consumer; benefitting all the parties down the line.

Illustration 2: Inter State (outside the state) Trading of Goods

Particulars		Present Scenario	Particulars		GST Scenario
Input Manufacturer			***Input Manufacturer***		
Cost	90		Cost	90	
Margin	10		Margin	10	
Value		100	Value		100
Excise @ 10%		10	CGST@ 10%		10
VAT @ 10%		11	SGST @ 10%		10
Total		**121**	**Total**		**120**
Output Manufacturer			***Output Manufacturer***		
Cost	100		Cost	100	
Margin	20		Margin	20	
Value		120	Value		120
Excise @ 10%	12	12	IGST@ 20%	24	24
CENVAT Credit	(10)		Input Tax Credit (CGST + SGST)	20	
Total Excise Paid	**2**		**Total IGST Paid**	4	
CST @ 2%	2.64	2.64	**Additional Tax @ 1%**	**1.2**	**1.2**
Input Tax Credit	(2.64)				
VAT Refund	(8.36)				

Claim					
Total VAT Paid	**0.00**				
Total		**134.64**	**Total**		**145.2**
Dealer			***Dealer***		
Cost	138.24		Cost	121.2	
Entry Tax	3.60		Entry Tax	Nil	
Margin	10		Margin	10	
Value		**148.24**	**Value**		**131.2**
VAT @ 10%	14.82	14.82	CGST@ 10%	13.12	13.12
Total VAT paid	14.82		Input Tax Credit	13.12	
			Total CGST Paid	0	
			SGST @ 10%	13.12	13.12
			Input Tax Credit – IGST	10.88	
			Total SGST Paid	2.24	
Total Amount paid by Customer		**163.06**	**Total Amount paid by Customer**		**157.44**
Total Tax Paid by Customer		**30.42**	**Total Tax Paid by Customer**		**26.24**
Total Tax paid to		**12.00**	**Total Tax paid to**	**(10+10+4-10.88)**	**13.12**

Centre			**Centre**		
Total Tax paid to State		**18.42**	**Total Tax paid to State**	**(10-10+2.24+10.88+1.2)**	**14.32**

Illustration 3: Intra State (within the state) Trading of Services

Particulars		**Present Scenario**	**Particulars**		**GST Scenario**
Input Service Provider			***Input Service Provider***		
Cost	90		Cost	90	
Margin	10		Margin	10	
Value		100	Value		100
Service Tax @ 10%		10	CGST@ 10%		10
			SGST @ 10%		10
Total		**110**	**Total**		**120**
Output Service Provider			***Output Service Provider***		
Cost	100		Cost	100	
Margin	20		Margin	20	
Value		120	Value		120
Service Tax @ 10%	12	12	CGST@ 10%	12	12
CENVAT Credit	(10)		Input Tax Credit	10	
Total Service Tax Paid	**2**		**Total CGST Paid**	2	
			SGST @ 10%	12	12
			Input Tax Credit	10	
			Total SGST Paid	2	

Total		**132**	**Total**		**144**
Total Amount paid by Customer		**132**	**Total Amount paid by Customer**		**144**
Total Tax Paid by Customer		**12**	**Total Tax Paid by Customer**		**24**
Total Tax paid to Centre		**12**	**Total Tax paid to Centre**		**12**
Total Tax paid to State		**0**	**Total Tax paid to State**		**12**

Illustration 4: Inter State (outside the state) Trading of Services

Particulars		**Present Scenario**	**Particulars**		**GST Scenario**
Input Service Provider			***Input Service Provider***		
Cost	90		Cost	90	
Margin	10		Margin	10	
Value		100	Value		100
Service Tax @ 10%		10	CGST@ 10%		10
			SGST @ 10%		10
Total		**110**	**Total**		**120**
Output Service Provider			***Output Service Provider***		
Cost	100		Cost	100	
Margin	20		Margin	20	
Value		120	Value		120
Service Tax @ 10%	12	12	IGST@ 20%	24	24
CENVAT Credit	(10)		Input Tax Credit (CGST +	20	

			SGST)		
Total Service Tax Paid	**2**		**Total IGST Paid**	4	
Total		**132**	**Total**		**144**
Agent			***Dealer***		
Cost	132		Cost	120	
Margin	10		Margin	10	
Value		**142**	**Value**		**130**
Service Tax @ 10%	14.2	14.2	CGST@ 10%	13	13
CENVAT Credit	(12)		Input Tax Credit	13	
Total Service Tax paid	2.2		**Total CGST Paid**	0	
			SGST @ 10%	13	13
			Input Tax Credit – IGST	11	
			Total SGST Paid	2	
Total Amount paid by Customer		**156.2**	**Total Amount paid by Customer**		**156**
Total Tax Paid by Customer		**14.2**	**Total Tax Paid by Customer**		**26**
Total Tax paid to Centre		**14.20**	**Total Tax paid to Centre**	**(10+4+10*-11)**	**13**
Total Tax paid to State		**0**	**Total Tax paid to State**	**(10+2-10+11**)**	**13**

***** State 1 will transfer SGST used for payment of IGST to Centre
******Centre will transfer IGST used for payment of SGST to State 2

Benefits of GST to the Central Government

As far as services are concerned, the Central Government will be in a neutral state with regards to taxes. However, in case of Trading of Goods, the Central Government will gain from the taxes levied under GST as CGST will be levied at every stage of a transaction unlike the excise duty which is only levied at the event of manufacture of goods. The same has been explained in the example cited earlier.

Benefits of GST to the States

Introduction of GST is going to benefit the States also. We can understand the same with the help of an example. Let us suppose in State A the service provider provides a service valuing Rs. 1,00,000 on which he pays 12% CGST and 12% SGST. Thus the State gains Rs. 12,000 on account of SGST. As per 14th Report of Finance Commission 36% of Centres earnings are to be allocated to States. Let us suppose the share of State A is 10% of the same. Now the total state earning calculation goes as follows:

Particulars	***Present Scenario***		***GST Scenario***	
	Centre's Share	***States Share***	***Centre's Share***	***States Share***
Service Tax @ 12% Received on Services	12,000	-	-	-
CGST Received on Services	-	-	12,000	-
SGST Received on Services	-	-	-	12,000
Total Share of all the States @ 36% - 14th Fin. Comm. Report	-	4,320	-	4,320
Share of State A @ 10%		432		432
Total Earnings of State A	**-**	**432**	**-**	**12,432**
Total Earnings of Centre	**12,000**	**-**	**12,000**	**-**

Hence, initially as it may appear, states would be losing out due to abolition of Entry Tax, Octroi etc. but it is not so. The states in addition to tax on services will get 1% additional tax on interstate transaction of goods. Over and above this the Centre has taken upon itself to compensate the loss faced by any state for initial 5 year period. Thus, with such initiatives, it has been ensured that the States revenues are kept intact under GST Regime.

Chapter 6
GST in Other Countries

GST/HST in Canada

The goods and services tax (GST) is a tax that applies to the supply of most goods and services in Canada. Three provinces (Nova Scotia, New Brunswick, and Newfoundland and Labrador, referred to as the participating provinces) harmonized their provincial sales tax with the GST to create the harmonized sales tax (HST). The HST applies to the same base of taxable goods and services as the GST.

Effective from January 1, 2008, the GST rate was reduced from 6% to 5%, and the HST rate from 14% to 13%.

Almost everyone has to pay GST/HST on purchase of taxable supplies of goods and services (other than zero-rated supplies). Some sales and supplies are exempt from GST/HST.

Although the consumer pays the tax, businesses are generally responsible for collecting and remitting it to the government. Businesses that are required to have a GST/HST registration number are called registrants.

Registrants collect the GST/HST on most of their sales and pay the GST/HST on most purchases they make to operate their business. They can claim a credit, called an input tax credit (ITC), to recover the GST/HST they paid or owe on the purchases they use in their commercial activities.

***Taxable supplies*:** Taxable supplies refer to supplies of goods and services that are provided in the course of a commercial activity and are subject to GST/HST, or are 0% (zero-rated).

***Zero-rated supplies*:** Zero-rated supplies refer to a limited number of goods and services that are taxable at the rate of 0%. This means there is no GST/HST charged on the supply of these goods and services, but GST/HST registrants can claim an ITC for the GST/HST they pay or owe on purchases and expenses made to provide them.

Exempt supplies: Exempt supplies are goods and services that are not subject to GST/HST. Registrants cannot claim input tax credits to recover the GST/HST they pay or owe on expenses related to such supplies.

What is HST?

Three provinces - Nova Scotia, New Brunswick and Newfoundland and Labrador - harmonized their provincial sales tax with GST to create HST. These three provinces are known as participating provinces. Effective from January 1, 2008, the GST rate was reduced from 6% to 5%, and the HST rate from 14% to 13%.

The HST is composed of the GST and the 8% provincial tax and applies to the same base of goods and services that are taxable under GST. HST follows the same general rules as GST.

GST/HST registrants continue to collect GST on taxable supplies (other than zero-rated supplies) of goods and services made in Canada outside the participating provinces. On supplies made within the participating provinces, they collect HST. All GST registrants are automatically registered for HST.

[Source: http://www.cra-arc.gc.ca]

Australian GST

In Australia, the GST is a broad-based tax of 10% on most goods and services. In most cases, GST is included in the price which is paid. Only registered business entities are entitled to a tax credit. The effect of this provision is that consumers are not reimbursed for the GST paid on purchased goods and services.

Most food items, including meat, fruit and vegetables, are GST-free. However, some food and beverages have been included in GST — for example, prepared food, takeaway food, restaurant meals, confectionery, ice cream, snack foods, alcoholic beverages and soft drinks. Other GST-free items include most education and health services, eligible child care, and a range of other goods and services.

Supply

A sale in GST terms is referred to as a "supply". The definition of supply has been drafted very widely to cover most receipts so that all revenue of business is subject to GST. A supply includes: -

- Supplying goods
- Providing services
- Providing advice or information.
- Granting, assigning or surrendering real property.

- Creating, granting, transferring, assigning or surrendering any right.
- Financial services.
- Entering into an obligation to do something, refrain from doing something, or to tolerate something, or releasing someone from such an obligation.
- Any combination of these, that involves value (money, or goods/services, or in-kind) changing hands is a supply for GST purposes.

Categories of Supplies

There are three types of GST sale or supply:

- Taxable supplies
- GST-free supplies
- Input taxed supplies

It is important to mention that collection and payment of GST or entitlement to claim GST credits depends upon the category of sales/ supply, as foretasted.

Taxable Supplies

It means supplies of goods and services, connected with Australia, made by registered persons or entities, for consideration. Entities that are registered for GST must charge GST on their taxable supplies, and will be entitled to input tax credits on the GST they have paid on purchases to make those supplies. Such entities which are not registered for GST cannot charge GST on their invoices.

A taxable supply specifically excludes supplies that are GST-free and supplies that are input taxed. The main elements, which must exist in order for the supply to be a taxable supply, are:

- Supply must be for consideration
- Supply must be made in the course of or furtherance of an enterprise
- Supply must be connected with Australia
- The supplier must be registered or required to be registered for GST.

Therefore, a taxable supply is:

- a supply made for consideration

- in the course and furtherance of an enterprise,
- of a registered entity
- And the supply is connected with Australia.

Unless the supply is -

- GST-free
- Input-Taxes.
- outside the scope

GST-Free Supplies

GST is not charged, or payable on GST-Free supplies. The major categories of GST-free supplies are:

- Child care
- Exports (goods and services)
- Religious services
- Non commercial activities of charitable institution
- Raffles and bingo conducted by charitable institutions
- Water, sewerage and drainage
- Overseas transport
- Sale of a continuing business
- Grants of freehold or similar interests by Governments
- Certain farmland
- Cars for use by disabled people
- International mail
- Certain transitional arrangements

Input Taxed Supplies

If a person provides input taxed suppliers, GST is not charged to the purchaser, and the seller is unable to claim any input tax credit for GST paid on purchases made for the input taxed supply. The major categories of input taxed supplies are:

- Residential rents
- Certain residential premises
- Financial Services such as interest, loans, dealings in shares Superannuation, life insurance and other financial instruments.

Collecting and claiming GST on different types of sales

Type of sale	*Whether to collect GST?*	*Whether to claim GST credits?*
Taxable	Yes	Yes
GST-free	No	Yes
Input taxed	No	No

Out of Scope Supplies

All supplies do not fall into the three categories listed above. Some supplies will be outside the scope of reporting as far as GST is concerned if they do not meet one of the tests outlined for a taxable supply.

Examples of transactions outside the scope of GST include: -

- supplies made by unregistered persons
- supplies made for no consideration
- payments of certain Government taxes and charges
- unconditional grants and donations (no supply is made in these circumstances by the recipient of the grant/donation)
- Salaries and wages.

GST will not be included in the price of supplies outside the scope of GST. However, if a person is registered for GST purposes, he will be entitled to claim input tax credits for GST included in the price of things acquired for the purpose of making these types of supply.

Indirect Tax in U.K.

In U.K., the indirect tax structure comprises excise duty as well as VAT. However, the scope of excise duty is restricted to limited commodities.

Excise duties are charged on certain goods, such as, motor fuel, alcohol, tobacco, betting and vehicles. Taxable event in case of excise duty is manufacture of goods.

Value Added Tax (VAT) is a tax that is charged on most goods and services that VAT-registered businesses provide in the UK. It is also charged on goods and some services that are imported from countries outside the European Union (EU), and brought into the UK from other EU countries.

VAT is charged when a VAT-registered business sells to either another business or to a non-business customer. When VAT-registered businesses buy goods or services, they can generally reclaim the VAT they have paid.

There are three rates of VAT, depending on the goods or services the business provides. The rates are: -

- Standard - 15 %
- Reduced - 5 %
- Zero - 0 %

There are also some goods and services that are: -

- exempt from VAT, or
- Outside the UK VAT system altogether.

VAT is a tax that is charged on most business transactions in the UK. Businesses add VAT to the price they charge when they provide goods and services to: -

- business customers - for example a clothing manufacturer adds VAT to the prices they charge a clothes shop;
- Non-business customers - members of the public or 'consumers' - for example a hair-dressing salon includes VAT in the prices they charge members of the public.

If a person is a VAT-registered business, in most cases, he: -

- charges VAT on the goods and services he provides
- Reclaims the VAT he pays when he buys goods and services for his business.

If he is not a VAT-registered business or organization, then he cannot reclaim the VAT he pays when he purchases goods and services.

If he is VAT-registered, the VAT he adds to the sale price of his goods or services is called his 'output tax'. The VAT he pays, when he buys goods and services for his business, is called his 'input tax'.

GST in Singapore

In Singapore, Goods and Services Tax (GST) is a tax on domestic consumption. The tax is paid when money is spent on goods or services, including imports. It is a multi-stage tax which is collected at every stage of the production and distribution chain.

"Output tax" is the GST a registered trader charges on his local supplies of goods and services. The tax is collected by him on behalf of the Comptroller of GST. "Input tax" is the GST that the trader has paid on purchases of goods and services for the purpose of his business. The input tax is deductible from output tax to arrive at the GST payable by the trader, or amount to be refunded to him.

Overview of Singapore GST

GST was first introduced in Singapore on 1st April 1994 at 3%. The GST rate was increased to 4% in 2003 and to 5% in 2004. As announced in Budget 2007, the GST rate was raised to 7% in 2007.

GST is levied on:

- goods and services supplied in Singapore by any taxable person in the course or furtherance of a business; and
- goods imported into Singapore by any person.

In general, a supply is either taxable or exempt. A taxable supply is one that is standard-rated or zero-rated. Only a standard-rated supply is liable to GST at 7%.

Zero-rating a supply means applying GST at 0% for the transaction. A GST registered trader need not charge GST on his zero-rated supplies, but he is, nevertheless, allowed a refund of the tax he has paid on his inputs. In Singapore, only "export" of goods and "international" services are zero-rated.

If a supply is exempt from GST, no tax is chargeable on it. A GST registered trader does not charge his customer any GST on his exempt supplies. At the same time, he is not entitled to claim input tax credits for any GST paid on goods and services supplied to him for the purpose of his business. The "sale and lease of residential properties" and "financial services" are exempt from GST in Singapore.

[*Source: http://www.mof.gov.sg*]