



सत्यमेव जयते

# GST

(GOODS AND SERVICES TAX)

## Integrated Goods and Services Tax

The introduction of Goods and Services Tax (GST) is a significant reform in the field of indirect taxes in our country. Multiple taxes levied and collected by the Centre and States have been replaced by one tax called Goods and Services Tax (GST). GST is a multi-stage value added tax on consumption of goods or services or both.

### 2. A "dual GST"

A dual GST model has been adopted in view of the federal structure of our country. Centre and States will simultaneously levy GST on every supply of goods or services or both which takes place within a State or Union territory. Thus, there shall be two components of GST as under: -

- (i) Central tax (CGST) :  
(levied & collected under the authority of CGST Act, 2017 passed by the Parliament); and
- (ii) State tax (SGST)  
(levied & collected under the authority of SGST Act, 2017 passed by the respective State); or
- (ii) Union territory tax (UTGST)  
(levied & collected under the authority of UTGST Act, 2017 passed by the Parliament)

### 3. Why the third tax in the name of IGST ?

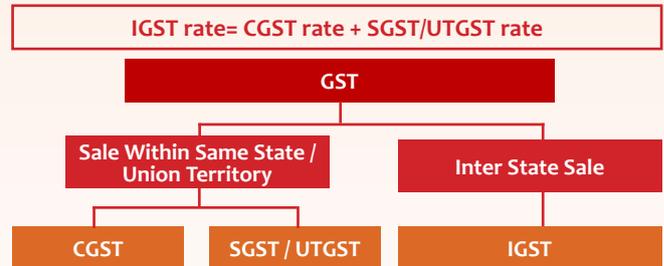
Before discussing the IGST Model and its features it is important to understand how inter-State trade or commerce was regulated in the erstwhile indirect tax system. It is significant to note that earlier the Central Sales Tax Act, 1956 regulates the inter-State trade or commerce (hereinafter referred to as "CST") the authority for which is constitutionally derived from Article 269 of the Constitution. Further as per article 286 of the Constitution of India, no State can levy sales tax on any sales or purchase of goods that takes place outside the State or in the course of the import of the goods into, or export of the goods out of, the territory of India. Only Parliament can levy tax on such transactions. The Central Sales Tax Act was enacted in 1956 to formulate principles for determining when a sale or purchase of goods takes place in the course of inter-State trade or commerce. The Act also provides for the levy and collection of taxes on sale of goods in the course of inter-State trade.

### 4. The CST had following shortcomings:

- (i) CST is collected and retained by the origin state, which is an aberration. Any indirect tax, by definition is a consumption tax, the incidence of which is borne by the consumer. Logically, the tax should accrue to the destination State having jurisdiction over such consumer.
- (ii) Input Tax Credit (ITC) of CST is not allowed to the buyer which results in cascading of tax (tax on tax) in the supply chain.
- (iii) Various accountable forms were required to be filed in CST viz, C Form, E1, E2, F, I, J Forms etc. which adds to the compliance cost of the business and impedes the free flow of trade.
- (iv) Another negative feature of CST is the opportunity it provides for "arbitrage" because of the huge difference between tax rates under VAT and CST being levied on intra-State sales and inter-State sales respectively

### 5. The IGST model

The IGST model removes all these deficiencies. IGST is a mechanism to monitor the inter-State trade of Goods and services and further to ensure that the SGST component accrues to the destination / consuming State although the tax is paid in the originating State. It maintains the integrity of Input Tax Credit (hereinafter referred to as "ITC") chain in inter-State supplies. The IGST rate is equal to CGST rate plus SGST/UTGST rate. IGST is levied by the Central Government on all inter-State transactions of taxable goods or services.



### 6. Prescribed order of utilization of IGST/CGST/SGST credit

The IGST payment can be done by utilizing ITC. The amount of ITC on account of IGST is allowed to be utilized first towards payment of IGST and balance for payment of CGST, SGST and UTGST in any order. It has additionally been provided that the IGST balance in the electronic credit ledger needs to be exhausted before using any CGST, SGST or UTGST balance for payment of any outward tax liability.



Directorate General of Taxpayer Services

**CENTRAL BOARD OF INDIRECT TAXES & CUSTOMS**

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### 7. Nature of Supply

It is very important to determine the nature of supply – whether it is inter-State or intra- State, as the type of tax to be paid (IGST or CGST+SGST) depends on that.

#### (i) Inter-State Supply:

Subject to place of supply provisions, where the location of the supplier and the place of supply are in–

- (a) two different States;
- (b) two different Union territories; or
- (c) a State and a Union territory

Such supplies shall be treated as a supply of goods or services in the course of inter-State trade or commerce.

Any supply of goods or services in the taxable territory, not being an intra-State supply shall be deemed to be a supply of goods or services in the course of inter-State trade or commerce. Supplies to or by SEZ are defined as inter-State supply. Further supply of goods exported out of India or imported into territory of India, till they cross the customs frontiers of India or supply of services imported into the territory of India or exported out of India shall be treated as supplies in the course of inter-State trade or commerce. Even supplies to international tourists are to be treated as inter-State supplies.

#### (ii) Intra-State supply:

It has been defined as any supply where the location of the supplier and the place of supply are in the same State or Union territory.

Thus, the nature of the supply depends on the location of the supplier and the place of supply. Both these terms have been defined in the IGST Act.

|                           |   |
|---------------------------|---|
| <b>Intra-State supply</b> | <ul style="list-style-type: none"><li>• Supply of goods within the State or Union Territory.</li><li>• Supply of services within the State or Union Territory</li></ul>   |
| <b>Inter-State supply</b> | <ul style="list-style-type: none"><li>• Supply of goods from one State or Union Territory to another State or Union Territory</li><li>• Supply of service from one State or Union Territory to another State or Union Territory</li><li>• Import of goods till they the cross customs frontier</li><li>• Import of service</li><li>• Export of goods or service</li><li>• Supply of goods/services to/by SEZ</li><li>• Supplies to international tourists</li><li>• Any other supply in the taxable territory which is not intra-State supply</li></ul> |

### 8. Location of Supplier

Broadly is the registered place of business or the fixed establishment of the supplier from where the supply is made. It has to be either regular place of business or fixed establishment which is having sufficient degree of permanence and suitable structure in terms of human and technical resources.

### 9. Place of supply

**9.1** Place of supply provisions have been framed for goods & services keeping in mind the destination/consumption principle. In other words, place of supply is based on the place of consumption of goods or services. As goods are tangible, the determination of their place of supply based on the consumption principle is not difficult. Generally, the place of delivery of goods becomes the place of supply. However, the services being intangible in nature, it is not easy to determine the exact place where services are acquired, enjoyed and consumed. In respect of certain categories of services, the place of supply is determined with reference to a proxy.

**9.2** A distinction has been made between B2B (Business to Business) & B2C (Business to Consumer) transactions as B2B transactions are those transactions on which ITC is availed by the registered person (recipient) and no real revenue accrues to the Govt., except the tax paid in cash. In some cases, however, the registered recipient may not be eligible for ITC although the transaction would be B2B transaction.

**9.3** Separate provisions for supply of goods and services have been made for determination of their place of supply. Separate provisions for determination of place of supply in respect of domestic supplies and cross border supplies have been framed.

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### A. Place of supply of goods other than import and export (Section-10)

| S. No. | Nature of Supply  | Place of Supply   |
|--------|---|---|
| 1.     | Where the supply involves movement of goods, whether by the supplier or the recipient or by any other person  | Location of the goods at the time at which the movement of goods terminates for delivery to the recipient |
| 2.     | Where the goods are delivered to recipient or any person on the direction of third person by way of transfer of title or otherwise, it shall be deemed that third person has received the goods | The principal place of business of such person  |
| 3.     | Where there is no movement of goods either by supplier or recipient   | Location of such goods at the time of delivery to recipient   |
| 4.     | Where goods are assembled or installed at site  | The place where the goods are assembled or installed  |
| 5.     | Where the goods are supplied on board a conveyance, like vessel, aircraft, train or motor vehicle   | The place where such goods are taken on board the conveyance  |
| 6.     | Where the place of supply of goods cannot be determined   | It shall be determined in such manner as may be prescribed  |

### B. Place of supply of goods in case of Import & Export (Section-11)

| S. No. | Nature of Supply of Goods | Place of Supply        |
|--------|---------------------------|------------------------|
| 1.     | Import                    | Location of importer   |
| 2.     | Export                    | Location outside India |

### C. Place of supply of services in case of Domestic Supplies (Section 12) (Where the location of supplier of services and the location of the recipient of services is in India)

- In respect of following 12 categories of services, the place of supply is determined with reference to a proxy. Rest of services are governed by a default provision.
- For the rest of the services other than those specified above, a default provision has been prescribed as under:

| S. No. | Nature of Service   | Place of Supply   |
|--------|---|---|
| 1.     | (i) Immovable property related to services, including hotel accommodation<br><br>(ii) Accommodation by a house boat or any other vessel and services ancillary to such services | (i) Location at which the immovable property or boat or vessel is located or intended to be located and in proportion to the number of nights stayed in such property If located outside India: Location of the recipient<br><br>(ii) In proportion to the time spent by the boat or vessel in each such State or Union territory |
| 2.     | Restaurant and catering services, personal grooming, fitness, beauty treatment, health service  | Location where the services are actually performed  |
| 3.     | Training and performance appraisal  | B2B: Location of such registered person<br>B2C: Location where the services are actually performed  |
| 4.     | Admission to an event or amusement park   | Place where the event is actually held or where the park or such other place is located   |
| 5.     | Organisation of an event  | B2B: Location of such registered person<br>B2C: Location where the event is actually held<br>In case of multi-state event - By application of the generally accepted accounting principles<br>If event is held outside India: Location of the recipient   |
| 6.     | Transportation of goods including mails   | B2B: Location of such registered person<br>B2C: Location at which such goods are handed over for their transportation   |

Following proviso clause has been added to section 12(8) vide the IGST (Amendment) Act, 2018 so as to change the place of supply from location of recipient to destination of goods, if the transportation is to a place outside India.

“Provided that where the transportation of goods is to a place outside India, the place of supply shall be the place of destination of such goods.”

This has come into force w.e.f. 01.02.2019 vide Notification no. 01/2019-Integrated Tax dated 29.01.2019.

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| S. No. | Nature of Service  | Place of Supply  |
|--------|--|--|
| 7.     | Passenger transportation   | B2B: Location of such registered person<br>B2C: Place where the passenger embarks on the conveyance for a continuous journey   |
| 8.     | Services on board a conveyance   | Location of the first scheduled point of departure of that conveyance for the journey  |
| 9.     | Telecommunication services Leased circuits- where the leased circuit is installed in more than one State or Union territory and a consolidated amount is charged | Services involving fixed line, circuits, dish etc., place of supply is location of such fixed equipment. In case of mobile/ internet post-paid services, it is location of billing address of the recipient. In case of sale of pre-paid voucher, place of supply is place of sale of such vouchers. In other cases, it is address of the recipient in records In proportion to the number of points lying in the State or Union territory                                   |
| 10.    | Banking and other financial services   | Location of the recipient of services on the records of the supplier<br>Location of the supplier of services if the location of the recipient of services is not available   |
| 11.    | Insurance services   | B2B: Location of such registered person<br>B2C: Location of the recipient of services on the records of the supplier   |
| 12.    | Advertisement services to the Governments, a statutory body or a local authority.  | i. The place of supply shall be taken as located in each of such States and in case of multiple states, in proportion to value, as may be determined in terms of contract or agreement<br>ii. In the case of advertisements over internet, the service shall be deemed to have been provided all over India, and the amount attributable to the value of advertisement service shall be calculated on the basis of the internet subscribers in such State or Union territory |

| Default Rule for the services other than the 12 specified services |                       |  |
|--|-----------------------|--|
| S. No.   | Description of Supply | Place of Supply  |
| 1.   | B2B                   | Location of such Registered Person   |
| 2.   | B2C                   | (i) Location of the recipient where the address on record exists<br>(ii) Location of the supplier of services in other cases |

### D. Place of supply of services in case of cross-border supplies: (Section 13)

Where the location of the supplier of services or the location of the recipient of services is outside India

(i) In respect of following category of services, the place of supply is determined with reference to a proxy. Rest of the services are governed by a default provision.

| S. No. | Nature of Service   | Place of Supply  |
|--------|---|--|
| 1.     | i. Services supplied in respect of goods that are required to be made physically available<br>ii. From a remote location by way of electronic means, (Not Applicable in case of goods that are temporarily imported into India for repairs and exported.) | i. The location where the services are actually performed<br>ii. The location where goods are situated |

A phrase "or for any other treatment or process" has also been added to repairs above. Following proviso clause substituted-

"Provided further that nothing contained in this clause shall apply in the case of services supplied in respect of goods which are temporarily imported into India for repairs or for any other treatment or process and are exported after such repairs or treatment or process without being put to any use in India, other than that which is required for such repairs or treatment or process;"

This has come into force w.e.f. 01.02.2019 vide Notification no. 01/2019-Integrated Tax dated 29.01.2019.

| S. No. | Nature of Service  | Place of Supply  |
|--------|--|--|
| 2.     | Services supplied to an individual which require the physical presence of the receiver | The location where the services are actually performed |
| 3.     | Immovable property related services including hotel accommodation                      | Location at which the immovable property is located    |

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|--------|--|--|
| 4.     | Admission to or organisation of an event   | The place where the event is actually held                                   |
| 5.     | Banking, financial institutions, NBFC Intermediary services, hiring of vehicles services etc | Location of the supplier of service  |
| 6.     | Transportation of goods  | The place of destination of the goods  |
| 7.     | Passenger transportation   | Place where the passenger embarks on the conveyance for a continuous journey |
| 8.     | Services on board a conveyance   | The first scheduled point of departure of that conveyance for the journey    |
| 9.     | Online information and database access or retrieval services                                 | The location of recipient of service   |

(ii) For the rest of the services other than those specified above, a default provision has been prescribed as under.

| Default Rule for the cross border supply of services other than nine specified services |                       |  |
|---|-----------------------|--|
| S. No.  | Description of supply | Place of Supply  |
| 1.  | Any                   | Location of the Recipient of Service<br>If not available in the ordinary course of business: The location of the supplier of service |

### 10. Supplies in territorial waters

Where the location of the supplier is in the territorial waters, the location of such supplier; or where the place of supply is in the territorial waters, the place of supply is be deemed to be in the coastal State or Union territory where the nearest point of the appropriate baseline is located.

### 11. Export / Import of services

A supply would be treated as Import or export if certain conditions are satisfied. These conditions are as under:

| Export of services   | Import of services  |
|--|---|
| <p>means the supply of any service where</p> <ol style="list-style-type: none"> <li>the supplier of service is located in India</li> <li>the recipient of service is located outside India</li> <li>the place of supply of service is outside India</li> <li>the payment for such service has been received by the supplier of service in convertible foreign exchange, or in Indian currency where permitted by the RBI and</li> <li>the supplier of service and recipient of service are not merely establishments of a distinct person in accordance with explanation 1 of section 8</li> </ol> | <p>means the supply of any service, where</p> <ol style="list-style-type: none"> <li>the supplier of service is located outside India</li> <li>the recipient of service is located in India, and</li> <li>the place of supply of service is in India</li> </ol> |

### 12. Zero rated supply

Exports and supplies to SEZ are considered as 'zero rated supply' on which no tax is payable. However, ITC is allowed subject to such conditions, safeguards and procedure as may be prescribed. Refund in respect of such supplies may be claimed by following either of these options:

- Supply made without payment of IGST under Bond and claim refund of unutilised ITC or
- Supply made on payment of IGST and claim refund of the same

### 13. Refund of integrated tax paid on supply of goods to tourist leaving India

Section 15 of the IGST Act provides for refund of IGST paid to an international tourist leaving India on goods being taken outside India subject to such conditions and safeguards as may be prescribed. An international tourist has been defined as a non-resident of India who enters India for a stay of less than 6 months. IGST would be charged on such supplies as the same is in the course of export.

The date of bringing this Section into force will be notified at a later date once the ecosystem for the same is ready. A scheme, however, for tax free supply of indigenous goods to international tourist against foreign exchange by Duty Free Shops / Duty Paid Shops established at departure area of international airport beyond immigration counters has been brought into force w.e.f. 01.07.2019 vide Circular No. 106/25/2019-GST dated 29.06.2019.



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