



TREATMENT OF INTER STATE TRANSACTIONS IN GOODS AND SERVICE TAX (GST)

INTEGRATED GST MODEL

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Treatment of Inter State transactions in GST

- Backdrop

- i The recommendations of the Committee of Principal Secretaries / Secretaries (Finance / Taxation) and Commissioners of Trade Taxes on the 'Model and Road Map for GST in India', contains the mechanism based on the existing vast Banking network known as the Bank model.

- i The Empowered Committee of State Finance Ministers constituted a Sub Working Group (III) of the Principal Secretaries / Secretaries (Finance / Taxation) and Commissioners of Trade Taxes of all States / UTs and senior representatives from the Gol on 21.1.2009 to -
 - i deliberate and finalise the model suggested for inter State transactions including Stock transfers in consultation with SBI and other nationalized Banks;

 - i recommend the minimum level of Computerization to be done by each State / UT to facilitate the adoption of GST.



PRINCIPLES

For any inter State transaction,

- i Goods and Service Tax (GST) is destination based.
- i Central GST is a common thread.



SCOPE

The inter state model shall address

- i Business to Business (B2B) and Business to Consumer (B2C) transactions
- i Transaction in Services
- i Intra State transactions



Critical concerns for success of the Model

- i Transition from the existing model to be easier.
- i No breakage of Input tax credit (ITC) chain
- i Low compliance cost and collection cost
- i Simple business processes
- i Low requirement of automation in the beginning
- i Keeping ITC refund cases minimum
- i B2C issues to be addressed
- i Branch transfer and stock transfer issues to be addressed



Critical concerns for success of the Model

– contd..

- | Zero rating and Tax gap

- | Smooth flow of credit
 - | Upfront payment of tax
 - | Net tax or gross tax
 - | refunds

- | Smooth flow of information - Seller, buyer, States

- | Need for portal or agency - TINXSYS, NSDL

- | Automation of process by e-returns, e-payment

- | Automation of verification for Exporting and Importing States

- | Treatment of Stock transfers and sales to exporters



Critical concerns for success of the Model

– contd..

- i Willingness of dealers - cash flow, accounting and reporting information
- i Willingness of IT developing States
- i Administrative efficiency, ease of compliance, self-policing.
- i Prevent camouflaging of intra-State transaction as inter-State transaction.
- i Minimize the risk of tax evasion by controlling bogus transactions and dealers



Models considered

1. Bank model
2. Tax Deduction at Source (TDS) Model
3. State GST (SGST) Authority
4. Central GST (CGST) Authority
5. TINXSYS (Demat 'C' form) model
6. TINXSYS model with Reverse charge mechanism
7. Demat Model
8. Inter-State Demat Model
9. Integrated GST (IGST) Model



1. Bank model

The components of this model are:

- i Collection of SGST by the seller of the selling State.
- i Remittance of SGST collected by the seller of the selling State in the respective buying State's Account in the designated bank, along with the details of buyers and invoices.
- i Transfer of remitted tax money to the respective buying State by the designated bank.
- i Refund of SGST on inputs in the event of inter-state transactions by the selling state to the seller.
- i Allowance of Input tax rebate to the buyer in the buying State to the extent of the SGST received by remittance and transfer of tax amount.



Bank model

- contd..

- i Requires the inter-State seller to make upfront payment of the full tax on inter-state sales without adjustment of input tax credit.
- i The tax rate applicable to the local sales applies to inter-State sales also. This also means that there is no incentive to the selling dealer to misclassify sales.
- i The selling dealer is to furnish certain details regarding his inter-state sales to the Bank while paying his inter-State tax.
- i In particular, he is to furnish the dealer-wise tax collection figures in respect of his inter-State sales. Ideally this information may be furnished in electronic format. [soft copy]



Bank model

- contd..

- i The Bank credits the tax amount to the account of the importing State.
- i The dealer-wise tax details are to be communicated by the branch of the Bank in the exporting State to the corresponding branch of the Bank in the importing State.
- i The importing State is to get from the Bank the details of the tax paid on inter-State purchases of the importer.
- i The importer can claim ITC of the tax paid on his inter-State purchases.



Bank model

- contd..

- i For branch transfers the dealer raises an invoice at cost price on his own branch in the importing State.
- i The branch transfers get the same tax treatment as inter-State sales .
- i The inter-State exporter claims refund from his State Government of the ITC which he has not adjusted.
- i Each State needs to refund the unadjusted ITC to inter-State exporters at the earliest.



Draw backs of the Bank model

- i Causes blockage of funds for trade as it requires full upfront payment of tax on inter-State transactions without adjustment of ITC.
- i Every export necessarily results in refund in the exporting State to the extent of unadjusted ITC. This creates an administrative burden on the State Government.
- i Banks are required to do non-banking functions such as collecting, processing and transferring huge data.



2. Tax Deduction at Source (TDS) Model

- i The seller in the exporting State issues an invoice to the inter-State purchaser charging tax at the local applicable rate.
- i The importer will deduct the tax at source and pay the amount deducted to the importing State.
- i The importer will be allowed to claim ITC only from the amounts that he has deducted and paid as TDS. The scheme is self-policing.



TDS Model

- Contd..

- i While making the payment of TDS to the designated Bank, the importer will provide the details of the supplier to his Bank.
- i The details will include the names of the suppliers, their TINs and the names of the respective State.
- i The branch will transfer the details to the branches of the Bank in the respective States and also upload these details on its website.
- i The suppliers in the different States will get a certificate from the respective branches of the Bank to the effect that the tax on the transaction has been deducted at source and paid to the importing State.
- i On the basis of the certificate, the seller in State A will claim exemption from payment of tax on his inter-State sales.
- i The proposal is akin to VAT on imports.



Drawbacks of TDS Model

- i The buyer retains an upper hand vis-à-vis the seller since he may not pay the TDS in time, thus delaying the certificate that the seller is to get.
- i Or he may not pay the TDS at all, thus requiring the seller to pay the tax.
- i As the seller does not have a modicum of control over the purchaser in the matter of ensuring payment of TDS to the importing State, it introduces an asymmetrical element in the commercial transaction.
- i There are always more buyers than sellers. Therefore, the State Government will have a much larger number of tax payers to monitor for ensuring the payment of tax.
- i This would lead to an increase in administrative costs.



SGST authority model

- i Levy of additional SGST equivalent to CGST by the selling State on the seller.
- i Adjustment of the ITC towards additional SGST payable on inter-state transactions by the sellers.
- i Crediting the additional SGST in the account of each buying State.
- i Allowance of Input tax rebate to the buyers in the buying State to the extent of Additional SGST levied in the selling State.
- i Reconciliation between the States to ascertain the balance of payments.



CGST authority model

- i In every interstate transaction of goods / services, the CGST and SGST at the prescribed rates may be collected by the Seller and remitted to the CGST authority.
- i The SGST component may be appropriated to the respective States by the CGST authority.
- i The remittances can be availed by the States as per the prevailing RBI norms without any delay due to banks or reconciliation process of the individual states.



CGST authority model – contd..

- i The selling dealer has to furnish the State wise, dealer wise, invoice wise details of interstate transactions in the returns to the CGST authority along with payment of tax (Both CGST and SGST).
- i The amount shall be credited to the respective state account by the CGST authority immediately. Consequently, the buyer State shall allow credit to the dealer buyer and lapse the credit to a non dealer buyer.
- i The flow of information and tax remittance and credit can be supplemented by a GST portal or TINXSYS.



TINXSYS (Demat C form) Model

- i The tax treatment of inter-State transactions can be regulated by the use of dematted electronic declarations in form 'C'.
- i The implementation of the proposal requires a fully automated centralized system facilitating communication between inter-State seller and purchaser on the one hand and their own respective State governments on the other hand.
- i The seller and the purchaser need to have internet connection to access TINXSYS, e-mail id and need to have a digital signature each.
- i The digital signature can perhaps be substituted by a password.



TINXSYS (Demat C form) Model

- contd..

- | The Seller and purchaser needs to open an account with TINXSYS.
- | The seller initiates the process. For this purpose he uses internet and logs in to the automated centralized system.
- | The seller provides the transaction details which includes the TIN of the purchaser, invoice number, invoice date and invoice amount. (Ideally in electronic format or soft copy)
- | The seller digitally signs the details provided.
- | The system intimates both the purchaser and the importing State through e-mail.
- | For this purpose the seller may need to give e-mail id of the purchaser.



TINXSYS (Demat C form) Model

- contd..

- ‡ The purchaser then logs in to the system and checks the details provided.
- ‡ He then confirms the transaction by using his digital signature.
- ‡ The State government in the importing State checks [or causes to be checked] certain details regarding the importer.
- ‡ This details include – validity of registration, return position, tax compliance vis a vis inter-State purchases in the previous twelve months, Outstanding dues, Adverse notice on account of enforcement / assessment.



TINXSYS (Demat C form) Model

- contd..

- i The State government will either grant the permission or refuse to grant the permission within a stipulated time.
- i If no action is taken by the importing State government within the stipulated time then it will be presumed by default that permission has been granted.
- i On permission being received the system issues an electronic 'C' form.
- i The 'C' form and its copy are supplied electronically to - the seller, the State government of the seller, the purchaser, the State government of the purchaser.
- i If the goods are being transported by road or rail a printout of the electronic 'C' form can be sent with the goods which may work as a way bill.



TINXSYS (Demat C form) Model

- contd..

- i The seller can claim exemption in his return in his own State from payment of tax on the transactions which are so acknowledged by the purchaser as well as purchaser's State government.
- i Inter-State purchaser can disclose in his return such inter-State purchase.
- i Both state governments will have to check in respective returns whether inter-State transaction is duly recorded.
- i If States have automated systems the checking can be done online.




Drawbacks of TINXSYS (Demat C form) Model

- i Break in the ITC chain
- i Refund generation in the exporting State
- i Evasion prone
- i Cross checking required
- i Not a self-policing mechanism




TINXSYS Model with Reverse charge mechanism

- i Complete zero rating under SGST on all interstate transaction of goods by levying no tax and refund of Input tax rebate to the sellers of the selling State.
- i Imposing the compensatory SGST on the inter-state purchases, as tax on import, by the buying states to commence the flow of Input tax rebate in the State. This is similar to the Reverse tax system adopted in EU.
- i A new form similar to C/ F Form may be prescribed for certifying the interstate transactions of goods including Stock transfers and consignment sales.
- i Such form may be de-matted and issued by the SGST/ CGST authorities on application by the buyers in the buying States after entering the invoice wise details of the transactions in the form.
- i Receipt of the above de-mated form should be made mandatory to allow zero rating and refund of unutilized input tax rebate to the seller in the selling state.
- i By appropriate linking, the present “TINXSYS” should be updated instantaneously while issuing de-matted form.
- i Under this model, there would not be any need for any third agency.



TINXSYS Model with Reverse charge mechanism – contd..

- i Every inter-State seller and purchaser needs to open an account with TINXSYS.
- i The seller initiates the process. For this purpose he uses internet and logs in to the automated centralized system TINXSYS.
- i He provides the transaction details which includes the TIN of the purchaser, invoice number, invoice date and invoice amount (Ideally in electronic format or soft copy).
- i The seller digitally signs the details provided. The system intimates both the purchaser and the importing State through e-mail. For this purpose the seller may need to give e-mail id of the purchaser.



TINXSYS Model with Reverse charge mechanism – contd..

- i Every inter-State seller and purchaser needs to open an account with TINXSYS.
- i The seller initiates the process. For this purpose he uses internet and logs in to the automated centralized system TINXSYS.
- i He provides the transaction details which includes the TIN of the purchaser, invoice number, invoice date and invoice amount (Ideally in electronic format or soft copy).
- i The seller digitally signs the details provided. The system intimates both the purchaser and the importing State through e-mail. For this purpose the seller may need to give e-mail id of the purchaser.



TINXSYS Model with Reverse charge mechanism – contd..

- i The purchaser then logs in to the system, checks the details provided and then confirms the transaction by using his digital signature.
- i Once the inter-State purchaser acknowledges the transaction the State government will grant the permission within a stipulated time unless it is denied for specific reasons.
- i If no action is taken by the importing State government within the stipulated time then it will be presumed by default that permission has been granted.



TINXSYS Model with Reverse charge mechanism – contd..

- i On permission being received the system issues an electronic 'C' form.
- i Copies of 'C' form are supplied electronically to - the seller, the State government of the seller, the purchaser, the State government of the purchaser.
- i After confirming the transaction, purchaser pays tax at local applicable rate to his State government on say the 20th of the following month in which the transaction was confirmed.
- i Payment of tax is not transactionwise but a consolidated payment for all transactions approved by the purchaser and the importing government in the previous month.
- i Inter-State purchaser can claim ITC of the tax so paid on his inter-State purchases while filing his return on say 30th of the month.



TINXSYS Model with Reverse charge mechanism – contd..

- i If the importing State does not get its due tax by 20th on the inter-State transactions which are approved on the TINXSYS system, it can initiate action to secure its revenue.
- i If the goods are being transported by road or rail a printout of the electronic 'C' form can be sent with the goods which may work as a way bill.
- i The seller can claim exemption in his return in his own State from payment of tax on the transactions which are so acknowledged by the purchaser as well as purchaser's State government.



Drawbacks of the **TINXSYS Model** with **Reverse Charge** mechanism

- i Purchaser to make payment first.
- i Adjustment against the tax liability subsequently.



De-mat model

- i The de-mat account of any dealer gets credited in two ways:
 - | his supplier transfers input tax credit to his de-mat account.
 - | tax paid by himself to the bank which transfers an equal credit to his demat account.
- i there will be transfer of credit automatically to the respective demat accounts and the liability to pay arises after deducting the credit in one's de-mat account.
- i There is no room for refunds other than refund on export to foreign destination.
- i The retail sales and compounding options will not have no transfer of input tax credit further.
- i The bank transfers the amount of money to each of the importing state equal to the cumulative amount of tax charged by the seller.
- i The only source of money that is available to the bank is the amount of money received by it in the tax account but not yet remitted to the State Government treasury.



De-mat model

- i Every dealer will have a de-mat account for Input tax credit with an agency
- i The seller pays value added tax to a tax account in his bank and in his own name.
- i The bank credits seller's de-mat account with an equal amount which is in numbers only and not in money.
- i The seller will provide the agency, the details of the de-mat account numbers of his buyers and the total tax charged by him to the buyer.
- i The agency provides the bank with State wise details of the total tax collected by the seller.
- i The agency will transfer an amount of De-mat input tax credit to the tax charged in the invoices to the de-mat account of the respective buyers.



Drawbacks of the DEMAT Model

- i The bank will not be able to transfer the tax money to the importing State, on failure or default on the part of the seller of the exporting State.
- i The exporting State would be in a disadvantageous position due to priority in transfer of the tax amount equal to the Input tax credit transferred to the de-mat accounts of the buyers.
- i The level of automation of business and administrative processes needed for de-mat account model is found to be equal as that of the Bank Model for its successful implementation and continued existence.



IGST Model

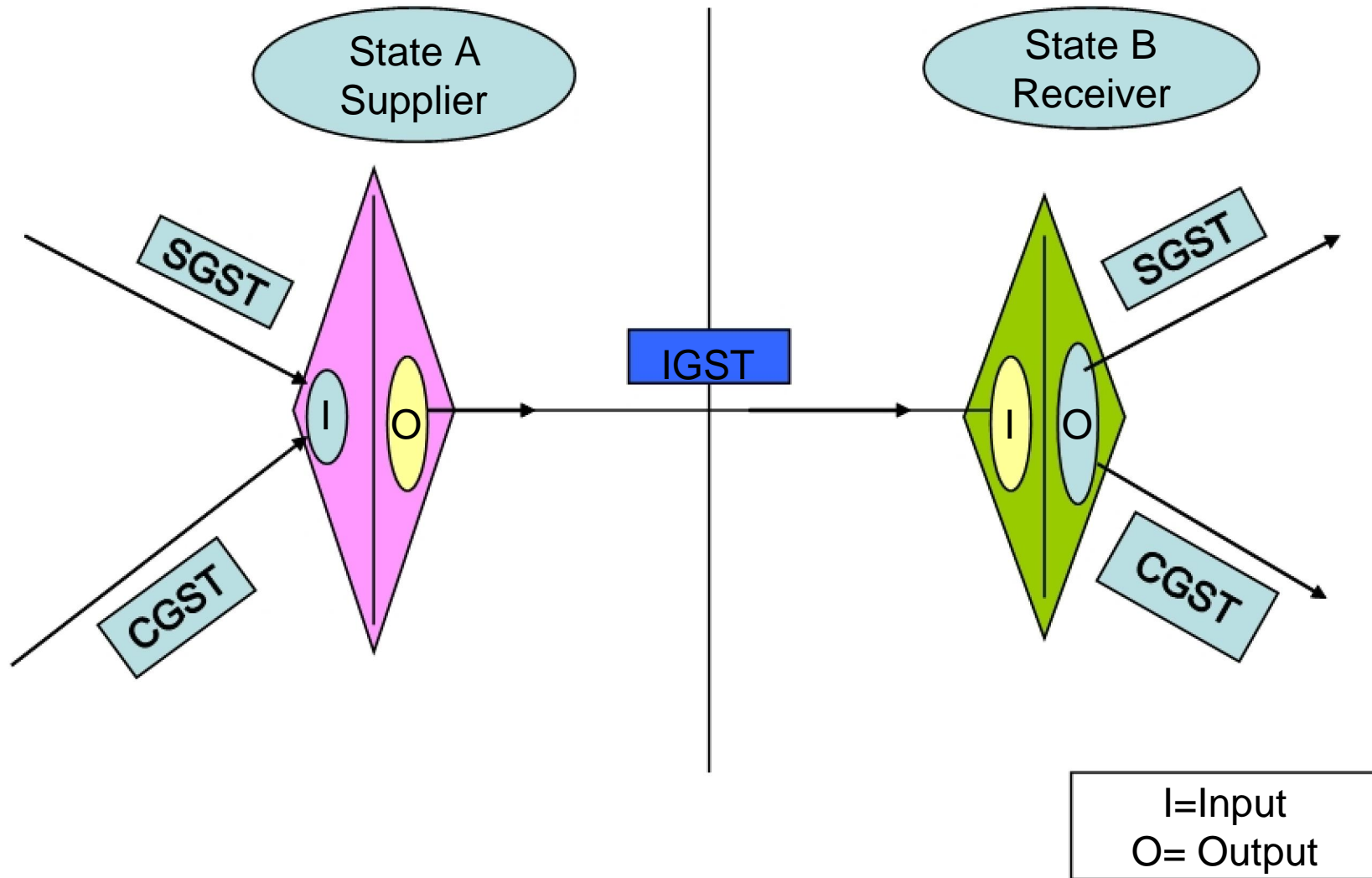
- i Each model tried to improve upon the weaknesses of the other model.
- i It was difficult to construct commonly accepted flawless model.
- i Finally, the **Inter-State GST Model or Integrated GST Model** was found to be the most widely acceptable model by the Sub Working Group III of the EC Working Group
- i The IGST model meets the requirements of a destination based system offering a continuous chain of GST with minimum refund, equal treatment with intra State transactions, self compliant and cost effective way of treatment of inter State transaction of Goods.



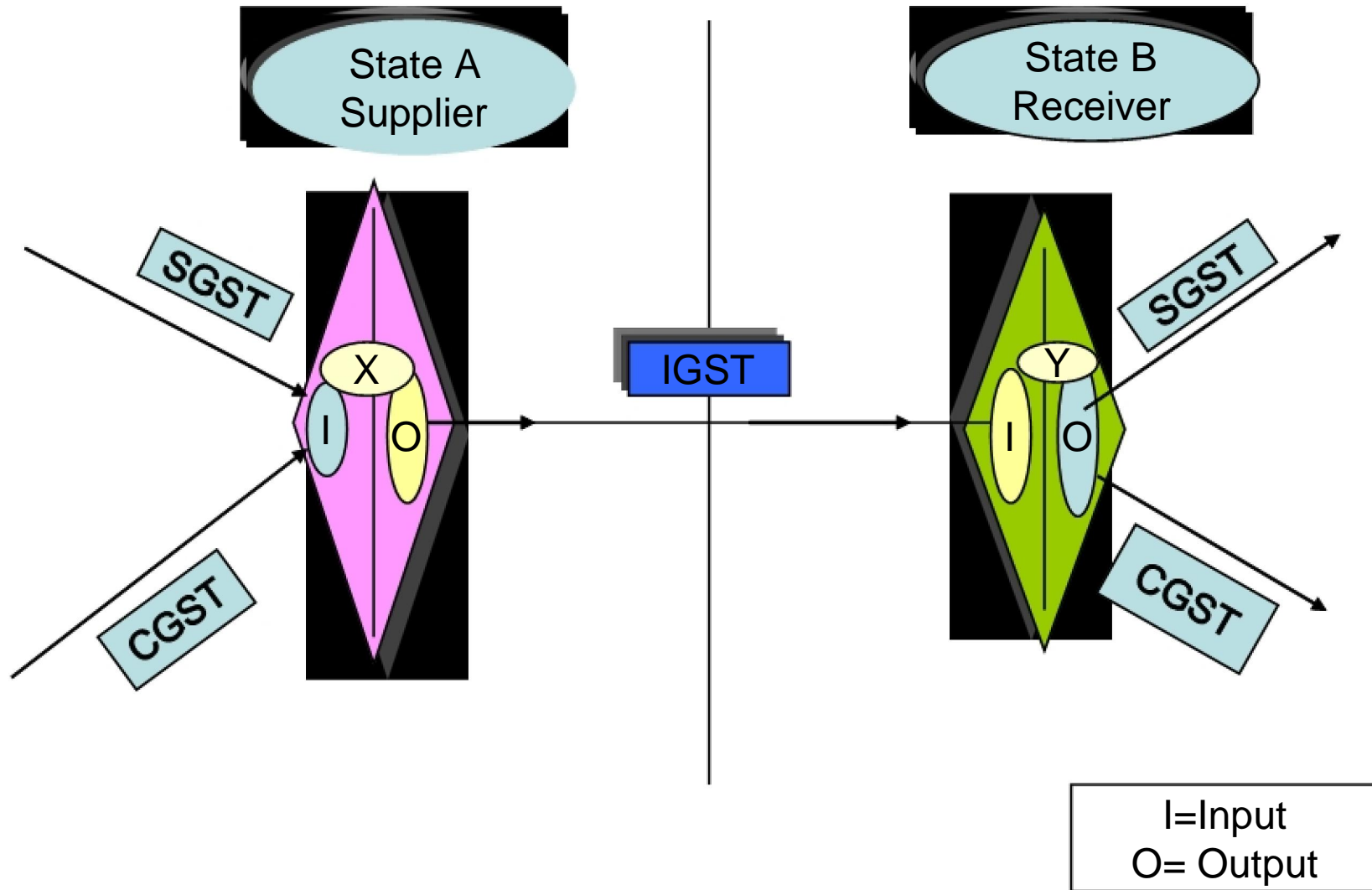
IGST Model – Basic features

- i Centre to levy IGST on all inter-State transactions,
- i IGST equal to CGST + SGST
- i Seller to pay IGST on value addition after adjusting available credit of IGST, CGST, SGST on his purchases
- i Exporting State to transfer to Centre the credit of SGST used in payment of IGST
- i Centre to transfer to importing State the credit of IGST used in payment of SGST.
- i Importing dealer to claim credit of IGST while discharging his tax liability

Basic concept of IGST



Point X and Y- Significance





IGST Model - Procedural aspects

- Inter-State seller pays IGST after taking credit of input SGST.
- Credit of SGST so availed becomes due to Central Government from the exporting State.
- Inter-State purchaser uses IGST credit to pay his IGST, CGST or SGST liability.
- Credit of IGST so availed for payment of SGST becomes due to importing State Government from the Central Government.
- The transfer is essentially only between the Centre and the State. Fund transfer from one State to another is not required.
- Transfer of funds will be on the basis of returns filed by the dealer
- In case of wrong transfer of funds, a reverse mechanism to be evolved.
- As each State is importer as well as exporter- only the net sum needs to be transferred which will be calculated by the clearing house every month.



IGST model – Revenue calculation

- i Every dealer engaged in inter-state supply / receipt of goods has to furnish the following information in his periodical return prescribed for this purpose.
- i Input SGST (ITC) used for payment of Output IGST – i.e., “**a**”
- i Input IGST (ITC) used for payment of Output SGST – i.e., “**b**”
- i The quantum of Difference between “**a**” and “**b**”- i.e., “**d**”
- i “**d**” will decide who has to compensate whom or to cancel each other over a period of time and over a number of transactions.
- i If the “**d**” is **positive** for a State, the State concerned has to pay the center
- i If “**d**” is **negative** for a State, the centre has to pay the State concerned.
- i “**d**” would attribute to **zero** as the positive (a-b) would cancel out the negative (a-b) over a large number of transactions over period of time.

State 'A', has 10 traders who are engaged in interstate supply of goods and services. The details furnished by them for a particular month/period is tabulated below:

Registered Trader No.	ITC of SGST used for payment of IGST on Interstate supplies ("Gain" of State)	ITC of IGST used for payment of SGST on local supplies ("Loss" of State)
(1)	(2)	(3)
I	20034	5406
II	0	23712
III	1256	2417
IV	5897	0
V	10890	14256
VI	0	4576
VII	15237	12657
VIII	2345	0
IX	12378	1890
X	3080	8330
Total	71117	73224

Net Loss of State A: (3)-(2)= 73224-71117=Rs 2107

In this case settlement of account would be as follows.

Centre and State A: Centre will pay Rs 2107 to state A

State 'B' has 20 traders who are engaged in interstate supply/acquisition of goods and service. The details furnished by them is as follows.

Registered Trader	ITC of SGST used for payment of IGST on Interstate supplies ("Gain" of State)	ITC of IGST used for payment of SGST on local supplies ("Loss" of State)
(1)	(2)	(3)
I	12365	23651
II	23456	12352
III	34562	28364
IV	0	2341
V	2345	6782
VI	12345	0
VII	3456	0
VIII	0	5023
IX	0	5531
X	457	17192
XI	23670	4516
XII	456	9821
XIII	7890	4927
XIV	5674	11200
XV	12457	0
XVI	0	15678
XVII	23451	18546
XVIII	12456	0
XIX	4589	12834
XX	17890	12700
TOTAL	197519	191458

Net gain of State 'B': (2)-(3)= 197519-191458=Rs 6061

In this case settlement of account would be as follows.

Centre and State 'B': State 'B' will pay Rs 6061 to Centre.



IGST model

Role of Inter-State Seller

- i The inter-State seller will collect tax on his inter-State sales at aggregate rate equal to CGST plus SGST which is called Inter-State GST
- i Seller will make **e-payment of IGST** after adjusting IGST, CGST and SGST credit available to him on his local as well as inter-State purchases, in same sequence.
- i For seller in exporting State, tax is payable only on value addition and only to Central Government
- i He will file single monthly **electronic return** along with e-annexure containing details of dealer wise sales during the return period
- i The return will contain info of input credit of IGST, CGST and SGST used for payment of output IGST.
- i Filing of return to Central Government with copy to Exporting State Government and outsourced 'Clearing house' agency (to be appointed by the Empowered Committee and the Central Government)
- i When level of computerisation improves, transaction wise details can be obtained.



IGST model

Role of Inter-State Purchaser

- i Inter-State purchaser can avail ITC of IGST charged to him while filing his return on the basis of invoice as in VAT.
- i ITC of IGST can be used for payment of his own IGST, CGST or SGST in the same sequence
- i He will file electronic return monthly to the Central Government with copy to importing State Government and the clearing house agency.
- i He will submit information electronically of dealer wise purchase details during the return period and ITC of IGST, used for payment of output IGST, CGST and SGST.



IGST Model

Role of Clearing house agency

- i The work of settlement of accounts between the Centre and the States is assigned to a centralized external agency appointed by the Empowered Committee and the Central Government.
- i On the basis of the e-return and dealer wise details, the external Agency shall workout the net transfer of funds between the Centre and each State.
- i Accordingly, the funds to be transferred either from the centre to the State or from the State to the centre.
- i The settlement of accounts will be done monthly with a gap of ten days from the date of filing of return.
- i The inter state dealers have to get themselves e-registered with the Central agency and give their email addresses for correspondence.



IGST Model

Role of Clearing House agency

- ; The clearing house will co-relate between the e-payments and e-returns and give info to Central Govt. on short payments.
- ; Clearing house to match IGST paid by seller and IGST claimed by purchaser.
- ; The clearing house will give info about the matching of IGST credit claimed by the purchaser and the IGST paid by the seller to Central Govt. and both the State Governments.
- ; Mismatch to be informed to the Centre which will audit the mismatch
- ; On ascertaining the mismatch, appropriate State will be informed to take corrective action.
- ; Mismatches will be informed to the purchaser and his credit will be reduced.
- ; The purchaser will be liable to pay the Govt. where credit had been taken.



IGST Model

┆ Branch Transfer

- ┆ Branch transfer (inter unit transfer) will have the same treatment as inter-State sale.
- ┆ Price of branch transfer to be defined properly at the time of drafting the Act.

┆ Supply to Government

- ┆ Any tax on supply of services to Government will accrue to the recipient State.



Essential Condition for IGST model to succeed

A – For State Government

- ; Automation to an extent to receive e-return, e-annexure
- ; Transfer funds of SGST credit utilised in IGST payment
- ; Unique TIN with application of validated software like MOD 97
- ; Single e-return with common periodicity for State and Centre for all inter-State dealers
- ; Uniform rules & procedure for treatment of inter-State transaction.
- ; Uniform rate of tax on commodities and services



Essential Condition for IGST model to succeed

B – For Central Government

- i Creation of joint agency to tackle issues of dispute and action
- i Automatic fund transfer after an intimation from the central Agency.
- i Strong and automated clearing house mechanism for fund transfer
- i Mechanism for dispute redressal
- i Mechanism for fund reversal
- i Central Agency automation to handle huge number of returns and data



Essential Condition for IGST model to succeed

C- For dealer

- i E-enrollement
- i E-payment
- i E-return with annexure
- i Access to PC with net connectivity

Computerisation requirements of the model

	Tasks to perform	Requirements
Inter -State Dealer	E-registration E- payment E-return e-annexure	Access to PC with net connectivity
State Government	Receive e-return with annexure	Preferable to have DATA server if not available Central agency to provide access or MIS reports
Gol	Receive e-return with annexure	<ul style="list-style-type: none"> i PC with net connectivity i Data server
Central Agency	<ul style="list-style-type: none"> i Receive e-return with annexure i Matching the return data and generate reports (for transfer of funds) 	<ul style="list-style-type: none"> i High end server i Data warehouse i Data mining tools



Role of TINXSYS

- | Presently TINXSYS is grossly under utilised
- | TINXSYS can significantly -
 - | Enable States to provide input tax credit based on the digitally signed declarations provided by dealers through TINXSYS or user based access and payment information
 - | Provide timely business intelligence to the Government of India and the EC to take decisions regarding tax base, rate and revenue sharing mechanisms.



Role of TINXSYS –contd..

- | Act as a central repository of dealers permitted to carry out inter-state transactions in Goods & Services in India
- | Provide a live querying service to Officers and to citizens on the status of registration of dealers permitted to carry out inter-state transactions in Goods & Services in India
- | Provide an online facility for dealers to provide a digitally signed declaration of inter-state transactions they have carried out in goods and services which will include
 - | Details of parties involved in the transaction
 - | Nature of goods/services transacted in
 - | Date of transaction
 - | Value of the transaction
 - | Invoice details pertaining to the transaction



Advantages of the IGST model

- i Maintains uninterrupted ITC chain on inter-State transactions.
- i No upfront payment of tax, blockage of funds for the inter-State seller.
- i No refund claim in exporting State as ITC is used up while paying the tax.
- i Self monitoring model like the banking model as the purchaser has to claim ITC.
- i Level of computerisation is limited to Inter-state dealers and Central Government. The State Govts. can take their time to computerize.
- i As all inter-state dealers will be e-registered and correspondence with them will be by email, the compliance levels will improve substantially.
- i System will minimise the role of road check-posts.



Thank you



IGST Model

Areas needing special attention

Interstate B2C Transactions

- i In principle, GST should apply on destination - consumption basis. Therefore, the tax should accrue to the importing State.
- i But, no appropriate administrative mechanism could be found. Hence two alternatives were discussed.



IGST Model

Areas needing special attention- contd..

Interstate B2C Transactions – Alternative 1

- i The seller to declare the State of consumer and the Central Government will transfer the credit to that importing State.
- i Many States had strong objection for this proposition for following reasons.
 - | consumer is not on record and the seller in other State is outside the jurisdiction of the importing State.
 - | Unless all States act fair the system may not work.
 - | if any purchaser who does not want to come on record may give fake Destination State.



IGST Model

Areas needing special attention- contd..

Interstate B2C Transactions – Alternative 2

- i The exporting State should retain the revenue on inter-State B2C transactions.
- i This was justified for two reasons.
 - | As number of such transactions is likely to be limited, for ease of administration exporting State may keep the revenue.
 - | It is international practice followed by European Union.
- i Some States particularly consuming States, had strong objection for deviating from destination-consumption principle.
- i Final decision pending with the Empowered Committee.



IGST Model

Areas needing special attention- contd..

- i Dealers effecting interstate transactions will face two authorities viz. Centre and State Government.
- i Audit mechanisms to be worked out to check hawala transactions.
- i In case of purchases from hawala dealer, credit reversal mechanism for ITC needs to be devised.
- i Joint action Group of Centre and State may be required for monitoring inter-State hawala.



IGST Model

Areas needing special attention

- i Huge number returns and information collected with Central Agency as all inter State dealers will be filing monthly returns.
- i Matching of the enormous data on month to month basis and its reconciliation will be challenging for the external agency.
- i Dealer to file single e-return disclosing all details submitted to Centre, State and Central Agency
- i A system will have to be worked out to take into account revised returns.



IGST Model

Areas needing special attention- contd..

- i Matching of e-payment and disclosure in e-return on real time basis
- i Fund management of IGST with the Central Government.
- i Funds transferred from State to Centre and Centre to State monthly only on the basis of return / information.
- i A mechanism for dispute resolution needs to be provided particularly for settlement of accounts.



IGST Model Scenarios Discussed

Case 1 -	Exporter - Non filer
Facts -	Exporter issues an invoice of inter-State sale but does not file a return or make payment of tax.
Consequence -	<ul style="list-style-type: none">- Importing dealer will claim ITC in his return based on the invoice- Hence the importing State will claim the money from the Centre. (Through the external agency, calculations after ten days of return filing)
Action to be taken -	<ul style="list-style-type: none">- Centre to follow the non filer as being defaulter under IGST- Centre inform importing State to disallow ITC by initiating assessment proceedings after six months of importer as exporter being defaulter. However if the default is made good by the Centre importing dealer can avail full ITC of IGST

IGST Model - Scenarios Discussed

Case 2 -	Exporter – Short filer
Facts -	Exporter issues an invoice of inter-State sale but makes only a part payment of IGST liability
Consequence -	<ul style="list-style-type: none"> Importing dealer will claim ITC in his return based on the invoice Hence the importing State will claim the money from the Centre. As the liability is disclosed and accepted by the exporting dealer, the exporting State to transfer SGST credit used for payment of IGST liability.
Action to be taken -	<ul style="list-style-type: none"> Centre to follow short filer and make the default good from defaulter under IGST Centre to allow full ITC to importing dealer Transfer credit to the importing State of IGST – ITC used for payment of SGST liability in importing State. If money could not recovered from the seller upto one year, ITC credit of importer to be disallowed and reverse mechanism of funds to follow

IGST Model - Scenarios Discussed

Case 3 -	Exporter - Hawala - Dealer with no means
Facts -	Exporter issues only invoices to the importer or the exporter takes bogus credit of SGST ITC to pay IGST liability.
Consequence -	<ul style="list-style-type: none"> i Importing dealer will claim ITC in his return based on the invoice i Hence the importing State will claim the money from the Centre. i Exporting State needs to transfer funds to the Centre equal to SGST credit used for payment of IGST.
Action to be taken -	<p>Exporting State to pursue the dealer for payment at tax. If failed to recover any amount as dealer being hawala, then</p> <p>Exporting State to intimate Centre Government and Central Agency regarding wrong transfer of money.</p> <p>Central Government to intimate importing State to disallow ITC of importer.</p> <p>Importing State assess importer and disallow ITC to the extent of hawala purchases intimated by Central Government.</p> <p>Money so received on the account to be reversed by importing State to Centre and subsequently to exporting State.</p>

IGST Model - Scenarios Discussed

Case 4 -	Exporter – Partial Hawala – Dealer with means
Facts -	<ul style="list-style-type: none"> - Exporter issues invoices, based on which Importer claims ITC in his return.
	<ul style="list-style-type: none"> - Exporter files returns. - Money transfer from exporting State to Centre and subsequently to importing State. - Exporting State finds out after a period (may be at the time of audit) that exporter has claimed wrong ITC to an extent by incorporating bogus bills.
Action to be taken -	<ul style="list-style-type: none"> - Exporting State to assess exporter and raise tax demand to the extent at wrong ITC. - Importing State to allow full ITC to importer based on invoices - When the exporting State finds that ITC claim is bogus and the exporter is a Hawala (i.e. man of no means) then transfer of credit to importing State of IGST –ITC used for payment of SGST liability - If money not recovered to an extent of bogus claim of ITC upto one year, ITC credit of importer to be disallowed and reverse mechanism of funds to follow