

# MASTERING THE FUNDAMENTALS OF GST LAW

**FROM SUPPLY TO SELF-COMPLIANCE**

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# GST

- ▶ "Goods and Services Tax, or GST, is a **comprehensive, destination-based indirect tax** that was introduced in India on **1st July 2017**, replacing a complex web of central and state taxes.
- ▶ It aims to create '**One Nation, One Tax, One Market**' by eliminating cascading effects and ensuring a uniform tax structure across the country."

# KEY COMPONENTS OF TAX PLANNING

"Earlier, we had multiple indirect taxes – Excise, VAT, Service Tax, Entry Tax, CST – levied at different stages, by different authorities.

This led to:

» CASCADING OF TAXES (TAX ON TAX)

» COMPLEX COMPLIANCE

» BARRIERS TO INTER - STATE TRADE

GST simplified this by **merging over 17 taxes and 13 cesses into a single structure."**

# KEY FEATURES OF GST

Key features that define GST:

- Dual Structure: Both Centre and States levy GST
- Destination-Based: Tax accrues where goods/services are consumed
- Multi-stage: Applies at every point of supply
- Input Tax Credit: Seamless flow of credit across the chain

# GOVERNING LAWS UNDER GST

GST is governed through a structured legal framework comprising:

1. **CGST Act** – Central Goods and Services Tax
2. **SGST/UTGST Act** – State or Union Territory GST
3. **IGST Act** – Integrated GST for inter-state supplies
4. **Compensation Cess Act** – For compensating states' revenue loss

All these are harmonized via the **GST Council**, the apex decision-making body under Article 279A.

# DUAL GST MODEL IN INDIA

India follows a **dual GST model** – which means both the **Centre and States/UTs levy tax** on every transaction.

- For intra-state supplies: **CGST + SGST/UTGST**
- For inter-state supplies: **IGST**

This system maintains federal structure and revenue independence of both Centre and States.

# FLOW OF CREDIT

Input tax credit can be cross-utilized in a restricted way:

- **IGST** credit: Can be used across IGST, CGST, SGST, UTGST
- **CGST** credit: Can be used for CGST & IGST
- **SGST/UTGST** credit: Only for SGST/UTGST & IGST

However, **cross-utilization between CGST and SGST** is not allowed.

# SUPPLY - IMPORTANT IN GST?

Understanding when **GST kicks in** is the first step toward proper compliance. And that starts with **Section 7**.

In GST, **everything revolves around the concept of 'supply'**. Tax is levied only if there is a supply.

Understanding what constitutes supply determines:

- Whether GST is applicable
- Who is liable to pay
- What rate and value should be considered

So, **Section 7 of the CGST Act becomes the trigger point** of GST applicability.



# STATUTORY DEFINITION – SEC 7(1)(A)

Section 7(1)(a) defines supply to include:

- Sale
- License
- Transfer
- Rental
- Barter
- Lease
- Exchange
- Disposal

Only if done:

- **For a consideration, and**
- **In the course or furtherance of business**

This means not every transaction is a supply under GST – both conditions must be satisfied.

## SEC 7(1)(B) – IMPORT OF SERVICES

Even **import of services for consideration** is treated as supply whether or not in the course of business.

- ✓ Example: Payment made to foreign software consultant – taxable
- ✗ Importing a free YouTube tutorial – not a supply

## SEC 7(1)(C) – SCHEDULE I (SUPPLY WITHOUT CONSIDERATION)

Certain transactions are treated as supply **even without consideration**, such as:

- Permanent transfer of business assets, where ITC has been claimed on such asset
- Supply between related/distinct persons
- Import of services by a business from a related person

Example:

- Branch in Kerala transfers machinery to branch in Tamil Nadu – **distinct persons** → **taxable**

## SCHEDULE II – 7(1A) CLASSIFICATION OF SUPPLY

Schedule II helps to **classify whether a supply is goods or services.**

- ✓ Renting of immovable property → Service
- ✓ Sale of under-construction flat → Service
- ✓ Transfer of business assets → Can be goods or services

## SCHEDULE III – 7(2) NOT A SUPPLY

Certain transactions are **outside the scope of GST** entirely:

- Services by employee to employer
- Sale of land and completed building
- Functions performed by MP, MLA, court, etc.
- Funeral services

Example: Salary paid to staff is **not a supply**, hence not taxable.

## COMPOSITE OR MIXED ?

In GST, multiple items or services are often bundled together. The tax rate and classification depend on whether the bundle is **Composite or Mixed**.

Section 8 provides clarity and ensures the right tax rate is applied.

# COMPOSITE SUPPLY

## Definition:

- **Two or more taxable supplies** naturally bundled and supplied in conjunction
- In the **ordinary course of business**
- One is a **principal supply**, others are ancillary
- Tax rate of **principal supply** applies

## ☒ Examples:

- Buying AC with installation
- Hotel accommodation with breakfast
- Mobile phone with warranty

"In these cases, the additional service is incidental to the main supply."

## MIXED SUPPLY

### Definition:

- Two or more **individual supplies, not naturally bundled**
- Supplied for a **single price**, supply **does not constitute a composite supply**
- **Highest rate** among all items applies

### ☑ Examples:

- Diwali gift box (perfume, chocolate, dry fruits)
- Hamper with soap, shampoo, and razor sold at a combo price

These items can be sold separately. So, they are taxed at the highest applicable rate.



# LEVY IN GST

In taxation, **levy means the authority to impose tax**. Section 9 of the CGST Act provides the legal basis for levy of GST.

GST shall be levied on the supply of goods or services, or both, on the value determined under Section 15, and at such rate as notified."

☒ **Supply is the taxable event**, and value and rate are critical.

# COMPONENTS OF SECTION 9

Section 9 has four parts:

- 1.Sec 9(1):** Levy of GST on intra-state taxable supplies
- 2.Sec 9(2):** Alcoholic liquor for human consumption is excluded
- 3.Sec 9(3):** Reverse Charge on notified categories (e.g. legal services, GTA)
- 4.Sec 9(4):** Reverse charge for unregistered to registered supply (limited use now)

- CA firm receiving legal services from another firm → **RCM u/s 9(3)**

# COLLECTION MECHANISM

Tax is:

- **Collected by supplier** from recipient
- Paid to government
- Deposited under correct heads: CGST, SGST, IGST

Ensure correct rate, HSN/SAC code, and place of supply to avoid misclassification.

# TAXABLE SUPPLY

A **taxable supply** means:

- Supply of goods/services
- Not exempt
- Not nil rated
- Not outside the scope (like petroleum, alcohol)

☒ **Example:**

Sale of steel rods → **Taxable**

Renting of commercial property → **Taxable**

# EXEMPT SUPPLY

Exempt supply = **No GST payable**, includes:

1. **Wholly exempted by notification** (e.g., education services)
2. **Nil-rated goods** (e.g., fresh milk)
3. **Non-taxable under GST law** (e.g., petrol, liquor)

➡ ☒ **Input Tax Credit not available** for exempt supplies

☒ **Example:**

- Sale of fresh vegetables – **Exempt**
- Health services by a hospital – **Exempt**

## WHEN, WHERE, HOW MUCH

Once a transaction is a supply under GST, three key questions arise:

- 1.When** to pay tax? → Time of Supply
- 2.Where** is the tax payable? → Place of Supply
- 3.How much** is the tax? → Value of Supply

## TIME OF SUPPLY – GOODS

### Section 12(2): Time of supply of goods

Tax is payable at the **earliest of:**

1. Date of issue of **invoice**
2. **Last date** to issue invoice

#### ☒ **Practical Example:**

- Invoice Date: 1st May
- Date of removal of goods : 28th April

👉 **Time of supply = 28th April**

# TIME OF SUPPLY – SERVICES

## Section 13 (2): Time of supply of services

- If invoice issued **within 30 days** of service → **Earlier of invoice date or payment**
- **If not issued** in time → **Date of provision of service or payment, whichever is earlier**

### ☒ Example:

- Service completed: 10th May
- Invoice issued: 5th June
- Payment: 3rd June

☞ **Time of supply = 3rd June**



## RCM – TIME OF SUPPLY

- **Goods (RCM) – Sec 12(3):** Date of receipt of goods OR payment\* OR the date immediately after 30 days from the date of issue of an invoice by the supplier, whichever earlier
- **Services (RCM) – Sec 13(3):** Date of payment OR date immediately following sixty days from the date of issue of invoice or similar other document.

☒ **Example:**

- Advocate bill dated 1st June, paid on 20th August
- ☞ Time of supply = **31st July (61st day rule)**

## PLACE OF SUPPLY – WHY IT MATTERS

Place of supply determines which GST applies:

- **Intra-state = CGST + SGST**
- **Inter-state = IGST**

Applicable under **Sections 10 to 13** of the IGST Act

# PLACE OF SUPPLY – GOODS

## Sec 10 Where no Import/Export of goods - (Where movement is involved)

- POS = Location where **goods are delivered**

### ☒ Example:

- Seller in Kochi, buyer in Chennai, goods shipped → POS = Chennai → IGST

## Sec 11 (Import/Export)

- Imports → POS = Location of **importer**
- Exports → POS = Location outside India - **Zero-rated**

# PLACE OF SUPPLY – SERVICES

**Sec 12 – When supplier and recipient is in India**

**Sec 13 – When supplier or recipient is outside India**

**Generally**

**B2B → Place = Location of recipient**

**B2C → Place = Location of supplier (unless exceptions)**

**Special cases:**

- Immovable property → Location of property
- Events → Location where event is held

☒ **Example:**

- Architect in Kerala designs a building in Karnataka
- 📍 POS = Karnataka → IGST

## VALUE OF SUPPLY – SEC 15

**Value = Transaction value, i.e. price actually paid or payable**

Must include:

- Taxes (other than GST)
- Incidental expenses (freight, packing)
- Interest, late fee
- Subsidies linked to price (except Govt.)

☒ **Example:**

- Invoice = ₹1,00,000
- Freight charged = ₹5,000

☞ Taxable value = ₹1,05,000

## DISCOUNTS – BEFORE VS AFTER SUPPLY

- **Before supply:** Deducted if shown in invoice

- **After supply:** Deducted only if:

- ☐ Established by agreement
- ☐ ITC reversed by recipient

☒ **Example:**

- Post-sale discount ₹10,000 offered → Taxable value remains unchanged unless above conditions met

## COMMON MISTAKES & TIPS

- Not accounting for **advance received** in time of supply
- Wrong place of supply → Wrong tax (CGST/SGST instead of IGST)
- Ignoring incidental charges in valuation
- Applying discounts without ITC reversal

## RCM

Under normal GST, **supplier collects and remits** the tax. But under **RCM**, the **recipient** is liable to pay GST.

This reverses the usual chain – hence the name **Reverse Charge**.

☒ **Key Points:**

- Recipient pays GST to Govt.
- No need for supplier to register
- ITC is available to recipient (if eligible)



## SECTION 9

### Under CGST Act:

- **Sec 9(3):** Notified supplies by CBIC → Recipient pays tax
- **Sec 9(4):** Supply by unregistered to registered person (limited scope now)

## COMMON NOTIFIED RCM CASES (SEC 9(3))

### ☒ Services:

- Goods Transport Agency (GTA)
- Legal services from advocate to business entity
- Sponsorship services
- Director's remuneration (non-employee)
- Security services

### ☒ Goods:

- Cashew nuts (not shelled)
- Bidi wrapper leaves (tendu)
- Tobacco leaves
- Supply of lottery

"The list of RCM items is notified via notification, and is regularly updated."

## RCM UNDER SECTION 9(4) – URD TO RD

This was earlier applicable to **all inward supplies** from unregistered to registered persons.

### Now limited to:

- **Promoters** procuring goods/services from URDs
- Applies in **Real estate sector above 20%** threshold

### ☒ **Example:**

Builder buys cement or second hand capital goods from unregistered dealer → RCM applies.

## RCM COMPLIANCE CHECKLIST

Recipient must:

- Issue **self-invoice**
- Make **payment of tax** under RCM
- Report in **GSTR-3B under 3.1(d)**
- Claim **ITC in 4A(3)** (if eligible)

# THANK YOU & FINAL THOUGHTS

## Key Takeaways:

- Understand what triggers GST: the concept of Supply.
- Apply correct structure: CGST, SGST, IGST, UTGST.
- Identify time, place, and value to ensure compliant invoicing.
- Know when RCM applies and how to report it.
- Distinguish taxable vs exempt to manage ITC and documentation.

# STAY CONNECTED

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