

# IGST model in Goods & Service Tax (GST)

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## GOODS AND SERVICE TAX THE IGST MODEL IN GST

**Q. What is IGST and how this will monitor the interstate trade of Goods in GST? Will IGST replace the existing CST? Please explain with suitable example.**

A new model is developed under proposed GST to monitor the interstate trade of Goods and Services and this is called IGST. Let me clear first thing it will not replace the existing CST and there will be long awaited goodbye to Central Sales Tax in the GST regime.

Now it should also be noted that IGST will not be a Tax in addition to the SGST and CGST so one should not be presumed that IGST is a third tax but it is only a mechanism to monitor the interstate trade of Goods and services and further to ensure that the ultimate SGST is gone to the consumer state since the GST is a destination based tax.

Let us try to understand this IGST mechanism step by step:-

1. Dealer of the selling state will collect IGST from the purchaser on Interstate Transaction and the rate of IGST will be the combined rate of SGST and CGST, Say if the rate of SGST is 12% and CGST is 14% then the rate of IGST will be 26%.

2. While depositing the IGST the seller will take credit of SGST and CGST paid by him on purchase of such Goods or services within the state.

3. The selling state will transfer the amount of input credit of SGST taken by the selling dealer against the IGST to the centre. This will ensure that selling state will not get any revenue out of this transaction.

4. The interstate buyer shall take credit of IGST against his liability of SGST / CGST or IGST. For this purpose the total amount of IGST will be bifurcated in two parts SGST and CGST.

5. Now come to the mechanism of transferring the SGST to the consumer state in which the central agency will transfer the amount of input credit of IGST used by selling dealer of consumer state while paying his liability of SGST. This will be clear from the example given below.

This whole mechanism will be known as a system of monitoring the interstate trade of Goods and services and will be called IGST. It is interstate Goods and service tax and also mentioned as integrated Goods and service tax in the discussion paper issued by the Empowered committee of the state Finance Ministers.

It seems that it is very complicated system which also appeared to me at also but what is written above and also see the example below very carefully it will be clear that this is only a mechanism to keep the chain of dealers intact and uninterrupted during the interstate trade and commerce and further ensure that the ultimate revenue of SST is gone to the consumer state.

## **EXAMPLE**

The transaction under study is as under:-

**TRANSACTIONS OF SALES** X of Mumbai sold Goods worth Rs. 10.00 Lakhs to Y of Mumbai and Y of Mumbai sold the same goods to Z of Rajasthan at Rs. 10.50 Lakhs. Now at second stage Z of Rajasthan sold the same goods to a consumer in Rajasthan at Rs.11.00 Lakhs. Suppose the rate of SGST is 12% and rate of CGST is 14%.

## **TAXABILITY**

1. X has to collect Rs. 1.20 Lakhs as SGST and Rs. 1.40 as the CGST on his sales to the dealer of same state on the sale of Rs. 10 Lakhs @ 12% and 14% CGST.
2. The input credit for Y is Rs. 1.20 Lakhs as SGST and Rs.1.40 Lakhs as CGST paid by him to X the dealer of same state. .
3. The rate of IGST will be 26% (SGST 12% + CGST 14%).
4. Y will charge Rs. 2.73 Lakhs as IGST since the rate of IGST is 26% and the sale value is Rs. 10.50 Lakhs which he sold to the dealer of Rajasthan during the course of Interstate Trade. Y will deposit a sum of Rs. 13000.00 after claiming the input credit of SGST and CGST of Rs. 2.60 Lakhs as mentioned in point no. 2 above.
5. The state of Maharashtra will transfer the amount of SGST as per point No.1 amounting to Rs. 1.20 Lakhs to the centre which is used by Y while paying his IGST.

6. Z of Rajasthan sold these Goods to a consumer in Rajasthan on a sum of Rs.11 Lakhs and will collect from him Rs. 1.32 Lakhs as SGST and Rs. 1.54 Lakhs as CGST. Z has paid Rs. 2.73 Lakhs as IGST hence his input credit is Rs. 2.73 Lakhs which he will claim while paying his Liability of SGST and CGST. We can calculate his available input credit against SGST is Rs. 1.26 Lakhs and CGST Rs. 1.47 Lakhs out of his total IGST credit of Rs. 2.73 Lakhs. He will deposit Rs. 6000.00 as SGST and Rs. 7000.00 Lakhs as the CGST.

7. A central agency will transfer the amount of input credit of SGST while discharging the liability to pay the SGST in the state of Rajasthan i.e. Rs. 1.26 Lakhs to the consumer state i.e. Rajasthan. That will complete the full circle of IGST.

## THE ULTIMATE EFFECT OF IGST

1. The consumer state is Rajasthan and Sale price to the Consumer is Rs. 11.00 Lakhs hence the state of Rajasthan should get Rs. 1.32 Lakhs as SGST @ 12% on Rs. 11.00 Lakhs which this state will get as under:- Amount paid as SGST in Rajasthan by Z = Rs.0.06 Lakhs Amount of SGST transferred by the central agency from the State of Rajasthan =Rs.1.26 Lakhs Total Amount to Rajasthan Exchequer Rs. 1.32 Lakhs

2. The central will get a sum of Rs. 1.54 as CGST on the sale price of Rs. 11.00 Lakhs @14% and centre will get this amount as under:-

Amount deposited by X in state of Maharashtra as CGST = Rs. 1.40 Lakhs

Amount deposited by Y as IGST (only part of CGST taken) = Rs. 0.07 Lakhs

Amount deposited by Z of Rajasthan as CGST =Rs.0.07 Lakhs Total Amount to Central Exchequer Rs. 1.47 Lakhs

3. The state of Maharashtra is the Supplier state in this transaction and since GST is consumer and destination based tax hence Maharashtra should not get any Tax out of this transaction which can be explained as under:-

Amount paid by first dealer X as SGST = Rs. 1.20 Lakhs

Less:- Transferred to the Centre by Maharashtra as per IGST Model = Rs. 1.20 Lakhs

Total amount to Maharashtra Exchequer = NIL

The overall calculation is showing that the IGST is not a third tax but a model to monitor the interstate Trade of Goods since both state and the centre is ultimately getting the amount of Tax as SGST and GCST on the Last consumer price (Nothing more or Nothing less) and further the GST is destination based tax hence besides centre the consumer state will get the whole amount of SGST and the revenue out of a interstate transaction to the selling state will be Zero.

The IGST system will be based on information technology system and both interstate seller and the purchaser will report their interstate transactions to a system based on IT system and will be controlled by a central agency.

**Note:-** Every care has been taken by the author in describing the system of IGST but since this system is too much complicated in understanding hence there may be more better ways to describe this system more intelligently hence readers may come and suggest some improvement in this article.

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