Study notes: GST Basics

LEARNING OBJECTIVES

Explain the dual GST structure and the role of CGST, SGST, UTGST and IGST
Identify a taxable supply, including composite and mixed supplies
Decide whether a supply is intra-State or inter-State
Work out the time and value of supply
Know who must register and what a GSTIN means
Claim input tax credit correctly and avoid blocked credits
Know the main returns, due dates, interest and the composition scheme

WHAT GST IS AND HOW THE DUAL STRUCTURE WORKS

GST (Goods and Services Tax) is a destination-based tax on the supply of goods and services. It came into force on 1 July 2017, replacing excise duty, service tax, VAT, entry tax and several other taxes.

India has a dual GST: both the Centre and the States levy tax on the same transaction.

Tax | Levied by | When it applies
CGST | Centre | Supply within a State (with SGST)
SGST | State | Supply within a State (with CGST)
UTGST | Union Territory without legislature | Supply within such a UT (with CGST)
IGST | Centre (shared with the destination State) | Supply between States, imports and exports

Constitutional basis: Article 246A gives the Centre and States power to levy GST; Article 279A creates the GST Council, which recommends rates and rules. Recommendations become law only when notified.

Main laws: CGST Act, 2017; IGST Act, 2017; UTGST Act, 2017; each State's GST Act; CGST Rules, 2017; and rate notifications.

SUPPLY: THE TAXABLE EVENT

Tax is charged on supply (section 7, CGST Act). Supply includes sale, transfer, barter, exchange, licence, rental, lease or disposal, made for consideration in the course or furtherance of business. Import of services for consideration is also a supply.

Supplies without consideration (Schedule I) are still taxable, for example:
- Permanent transfer of business assets on which ITC was claimed
- Supplies between related persons or distinct persons (such as branches in different States)
- Supply of goods by a principal to an agent

Composite and mixed supply (section 8)

Type | Meaning | Tax rate
Composite supply | Two or more naturally bundled supplies with one principal supply (e.g. goods with transport and insurance) | Rate of the principal supply
Mixed supply | Separate items sold together for a single price, not naturally bundled (e.g. a gift hamper) | Highest rate among the items

Activities in Schedule III (such as services by an employee to the employer) are neither supply of goods nor services.

GST RATES, INCLUDING THE 2025 RATIONALISATION

From 22 September 2025, rates were rationalised. Most goods and services now fall under:

Rate | Typical use
Nil / exempt | Essential items and exempt services (as notified)
5% | Many essential and mass-consumption goods and specified services
18% | Most goods and services (standard rate)
40% | Specified luxury and demerit goods

0.25% and 3% | Special rates (for example rough diamonds; gold and jewellery)

The 12% and 28% slabs were removed for most supplies. The correct rate depends on the HSN (goods) or SAC (services) classification and the rate notification in force on the time of supply.

Reverse charge (section 9(3) and 9(4)): for notified supplies, the recipient pays GST instead of the supplier. Examples include legal services by an advocate to a business entity and goods transport agency services in specified cases. Reverse charge tax must be paid in cash; ITC can be claimed afterwards if otherwise eligible.

INTRA-STATE OR INTER-STATE: PLACE OF SUPPLY

Whether CGST + SGST or IGST applies depends on the location of the supplier and the place of supply, determined under the IGST Act.

- Same State: intra-State supply, charge CGST + SGST.
- Different States, imports, exports, supplies to SEZs: inter-State supply, charge IGST.

Examples

Situation | Place of supply | Tax
Hyderabad trader sells goods delivered in Hyderabad | Telangana | CGST 9% + SGST 9% (at 18%)
Hyderabad trader ships goods to a buyer in Bengaluru | Karnataka | IGST 18%
Hyderabad consultant serves a registered client in Pune | Maharashtra (recipient's location) | IGST 18%
Hyderabad supplier sells to an SEZ unit in Telangana | Treated as inter-State | IGST (or zero-rated under LUT)
Export of software services to the USA | Outside India | Zero-rated (IGST with refund, or under LUT without tax)

Charging the wrong type of tax is costly: tax paid under the wrong head must be paid again under the correct head, and the earlier payment claimed as a refund (section 77, CGST Act; section 19, IGST Act).

TIME AND VALUE OF SUPPLY

Time of supply decides when tax becomes payable and which rate applies.

- Goods (section 12): generally the date of issue of the invoice (or the last date on which it should have been issued). GST on advances received for goods is not payable for most taxpayers.
- Services (section 13): generally the earlier of the invoice date (if issued within 30 days of supply) and the date of receipt of payment. GST is payable on advances received for services.

Value of supply (section 15) is the transaction value: the price actually paid or payable, if the parties are not related and price is the sole consideration. It includes incidental charges (packing, commission), interest or late fee for delayed payment, and subsidies linked to price (other than government subsidies). It excludes discounts given before or at the time of supply if shown on the invoice.

Example: goods priced at Rs 1,00,000 with a 5% trade discount on the invoice and Rs 2,000 packing. Taxable value = 95,000 + 2,000 = Rs 97,000. At 18% intra-State: CGST Rs 8,730 + SGST Rs 8,730; invoice total Rs 1,14,460.

REGISTRATION AND THE GSTIN

Who must register (section 22 and 24)
- Suppliers whose aggregate turnover exceeds the threshold: Rs 20 lakh for services (Rs 10 lakh in special category States). For goods, Rs 40 lakh where the State has adopted the higher limit; Rs 20 lakh in other States (including Telangana).
- Regardless of turnover: inter-State suppliers of goods, persons liable under reverse charge, casual and non-resident taxable persons, e-commerce operators and most sellers through them, persons deducting GST TDS and input service distributors.

Apply within 30 days of becoming liable. There is no government fee.

Reading a GSTIN: 36ABCDE1234F1Z5

Part | Meaning
36 | State code (36 = Telangana; 37 = Andhra Pradesh)
ABCDE1234F | PAN of the business

1 | Entity number for the same PAN in the State
Z | Default character
5 | Check digit

Registration is State-wise: a business operating from Telangana and Karnataka needs a GSTIN in each State.

INVOICES, NOTES, E-INVOICE AND E-WAY BILL

Tax invoice (section 31; Rule 46) must show supplier and recipient GSTIN, invoice number and date, description, HSN/SAC, quantity, taxable value, rate and amount of each tax, place of supply and signature. Goods: issue before or at the time of removal. Services: within 30 days of supply (45 days for banks and similar entities).

Credit note (section 34) reduces value or tax, for example sales returns or post-supply discounts agreed in advance. Debit note increases value or tax.

E-invoicing (Rule 48(4)): businesses above the notified aggregate turnover threshold must report B2B invoices to the Invoice Registration Portal (IRP) to get an IRN and QR code. An invoice without an IRN, where required, is not a valid invoice.

E-way bill (Rule 138): needed before moving goods worth more than Rs 50,000 (with specified exceptions). It has Part A (invoice details) and Part B (vehicle details), and validity depends on distance.

INPUT TAX CREDIT (ITC)

ITC lets a registered person set off GST paid on business purchases against GST payable on sales, so tax is paid only on value added.

Conditions (section 16): you can claim ITC only if
1. You hold a tax invoice or debit note
2. You have received the goods or services
3. The supplier has furnished the invoice, so it appears in your GSTR-2B
4. The tax has actually been paid to the government
5. You have filed your return
6. You pay the supplier within 180 days of the invoice date (otherwise reverse the ITC with interest; re-claim on payment)

Time limit (section 16(4)): ITC for a financial year must be claimed by 30 November of the next year or the date of filing the annual return, whichever is earlier.

Blocked credits (section 17(5)), examples: motor vehicles for personal transport (with exceptions), food and beverages, club memberships, health services, works contract and construction of immovable property (other than plant and machinery), goods lost, stolen or given as free samples, and personal consumption.

Order of utilisation (sections 49, 49A, 49B and Rule 88A): IGST credit must be used first, for IGST and then CGST and SGST. CGST credit cannot pay SGST, and SGST credit cannot pay CGST.

Example: output tax CGST Rs 50,000 and SGST Rs 50,000. Credit available: IGST Rs 30,000, CGST Rs 40,000, SGST Rs 20,000.

Approach | CGST liability | SGST liability | Cash paid
IGST Rs 30,000 used against CGST | 50,000 - 30,000 IGST - 20,000 CGST credit = 0 (Rs 20,000 CGST credit left unused) | 50,000 - 20,000 SGST credit = Rs 30,000 cash | Rs 30,000
IGST Rs 30,000 used against SGST | 50,000 - 40,000 CGST credit = Rs 10,000 cash | 50,000 - 30,000 IGST - 20,000 SGST credit = 0 | Rs 10,000

IGST credit must be used up first, but Rule 88A lets you split it between CGST and SGST in any proportion. Allocating it where your own credit is short saves Rs 20,000 of cash in this example.

RETURNS, PAYMENTS, INTEREST AND THE COMPOSITION SCHEME

Main returns

Return | Purpose | Due date
GSTR-1 | Outward supplies | 11th of the next month (13th after the quarter under QRMP)
GSTR-3B | Summary return and tax payment | 20th of the next month (22nd or 24th after the quarter

under QRMP; 22nd for Telangana)
GSTR-9 | Annual return | 31 December after the year
GSTR-9C | Reconciliation statement | With GSTR-9, where turnover exceeds Rs 5 crore
CMP-08 / GSTR-4 | Composition taxpayers | 18th after the quarter / 30 April

QRMP scheme: taxpayers with turnover up to Rs 5 crore can file returns quarterly and pay tax monthly through PMT-06 by the 25th.

Interest (section 50): 18% a year on tax paid late, on the net cash liability. Late fee (section 47): Rs 50 a day (Rs 20 for nil returns), within notified caps.

Composition scheme (section 10): a simple scheme for small taxpayers. Turnover limit Rs 1.5 crore (Rs 75 lakh in some special category States) for manufacturers, traders and restaurants, at 1%, 1% and 5% respectively; service providers up to Rs 50 lakh at 6% (section 10(2A)). Composition taxpayers cannot charge GST on invoices, cannot claim ITC and cannot make inter-State supplies of goods.

FURTHER READING

CGST Act, 2017: sections 7-10, 12-17, 22-24, 31, 34, 37-39, 44, 47-50
IGST Act, 2017: sections 5 and 7-13
CGST Rules, 2017: Rules 36, 46, 48, 59-61, 88A, 138

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