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FREE EBOOK

ACCOUNTING AND BUSINESS

GST Basics for Students and Small Shops

How Goods and Services Tax works, explained with simple examples

INSIDE THIS BOOK

- Taxes in India: direct and indirect
- What GST is and how it works
- CGST, SGST and IGST
- Registration and the GSTIN
- ...and 7 more chapters, practice questions and a glossary

Beginner

Commerce students, shop owners and accounts assistants

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GST Basics for Students and Small Shops

A plain-English guide to Goods and Services Tax for commerce students, shop owners and accounts assistants. Learn how GST moves along a chain of sellers, when to charge CGST and SGST or IGST, how to read a GSTIN and a tax invoice, how input tax credit works, and what HSN codes, returns, e-invoices and e-way bills are for, with worked examples in rupees.

WHO IT IS FOR	Commerce students, shop owners and accounts assistants
LEVEL	Beginner
SUBJECT AREA	Accounting and business
WHAT IS INSIDE	11 chapters, practice questions with answers, and a glossary

HOW TO USE IT

Read one chapter at a time and try the examples as you go: on a computer, at your workbench or in your notebook. The boxes give tips, safety points and short activities. When you finish, test yourself with the practice questions and check your answers at the end. Words you may not know are explained in the glossary.



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Taxes in India: direct and indirect

The government needs money to build roads, run schools and hospitals, pay the army and do many other things. Most of this money comes from **taxes**: amounts that people and businesses must pay by law.

Direct taxes

A **direct tax** is paid by the person who earns the income, straight to the government. **Income tax** is the best example. If Sunita earns a salary, the income tax on it is her own tax, and she cannot pass it on to anyone else.

Indirect taxes

An **indirect tax** is collected by a seller from the buyer, and then paid to the government by the seller. The buyer bears the tax, but the seller does the paperwork.

EXAMPLE

Rahul buys a school bag from a shop in Indore. The bill shows the price of the bag plus tax. Rahul pays both. The shop keeps the price and later pays the tax to the government. Rahul has paid an indirect tax without ever visiting a tax office.

Goods and Services Tax, or **GST**, is an indirect tax.

Life before GST

Before GST, a business had to deal with many separate indirect taxes. The central government charged excise duty on goods made in factories and service tax on services. Each state charged its own VAT (value added tax) on sales inside the state, and there were other taxes too, such as central sales tax, entry tax and octroi.

This caused two big problems:

1. **Too many laws.** A trader selling in several states had to follow several sets of rules.

- 2. Tax on tax.** Often a business could not get back the tax it had paid on its purchases. It added that tax to its costs, and the next seller charged tax again on the higher price. This piling up of tax is called the **cascading effect**.

GST came into force in India on **1 July 2017**. It replaced most of those indirect taxes with one system.

DID YOU KNOW

A few items were kept outside GST. At the time of writing these include petrol, diesel and alcohol for drinking, which are still taxed under older central and state laws.

TRY THIS

Sort these into direct and indirect taxes: income tax, GST, customs duty on imported goods. Answer: income tax is direct; GST and customs duty are indirect.

CHAPTER 2

What GST is and how it works

GST is a tax on the **supply** of goods and services. "Supply" is the word the GST law uses for selling, and also for things like exchanging or bartering goods in business. Every time something is supplied in the course of business, GST may be charged on it.

GST is charged at every stage

Goods usually pass through a chain before they reach you: a maker, a wholesaler, a retailer and then the customer. GST is charged at each step. But each registered business in the chain can usually get back the GST it paid on its own purchases. This is called **input tax credit**, and it has a whole chapter later in this book. Because of it, each business really pays tax only on the value it adds, and the full tax is finally borne by the last buyer, the **consumer**.

Who collects GST?

A business **registered** under GST charges GST on its sales, collects it from customers and pays it to the government. A business that is not registered must not charge GST. Who must register is explained in a later chapter.

Who decides the rates?

The **GST Council** recommends GST rates and rules. It is chaired by the Union Finance Minister, and its members include the finance ministers of the states. Different goods and services have different rates, and some are **exempt**, which means no GST is charged on them. Fresh vegetables are an example of exempt goods.

REMEMBER

GST rates change from time to time when the GST Council recommends it, and the rate for an item depends on exactly what it is. In this book, every rate is only an example to make the maths easy. Always check the current rate on gst.gov.in.

A destination-based tax

GST is a **destination-based** tax. This means the tax finally goes to the state where the goods or services are **used**, not the state where they were made.

EXAMPLE

A shoe factory in Agra, Uttar Pradesh, sells shoes to a retailer in Jaipur, Rajasthan, who sells them to customers in Jaipur. The shoes are used in Rajasthan. So the state's share of the GST on these shoes goes to Rajasthan, not to Uttar Pradesh.

Useful words

Word	Meaning
Supply	Selling or providing goods or services in business
Taxable value	The value on which GST is worked out, usually the price after discount
Output tax	GST a business charges on its sales
Input tax	GST a business pays on its purchases
Registered person	A business that has a GST registration

Word	Meaning
Turnover	The total value of a business's sales in a period

DID YOU KNOW

In a few cases, the **buyer** pays the GST to the government instead of the seller. This is called **reverse charge**. The law lists the goods and services where it applies.

CHAPTER 3

CGST, SGST and IGST

India has a central government and state governments, and both share GST. So GST comes in parts.

Part	Full name	Goes to
CGST	Central Goods and Services Tax	Central government
SGST	State Goods and Services Tax	The state government
UTGST	Union Territory Goods and Services Tax	Used instead of SGST in some union territories
IGST	Integrated Goods and Services Tax	Collected by the centre and shared with the destination state

The simple rule

- 1. Sale within the same state** (an intra-state supply): charge **CGST + SGST**, in two equal halves.
- 2. Sale from one state to another** (an inter-state supply): charge **IGST**, at the full rate.

Which one applies depends on the **place of supply**. For an ordinary sale of goods, the place of supply is usually where the goods are delivered.

Worked examples

Use **18% only as an example rate**. Within the state, that is 9% CGST plus 9% SGST. Between states, it is 18% IGST.

EXAMPLE

Ankit's electronics shop in Lucknow sells a mixer for ₹ 4,000 to a customer in Kanpur. Both cities are in Uttar Pradesh, so it is an intra-state sale. CGST at 9% = ₹ 360 and SGST at 9% = ₹ 360. Total tax ₹ 720. The customer pays ₹ 4,720.

EXAMPLE

The same shop sells the same mixer to a shop in Patna, Bihar. That is an inter-state sale. IGST at 18% = ₹ 720. The buyer still pays ₹ 4,720. The total tax is the same; only the label is different.

Seller in	Buyer in	Type of supply	Tax to charge
Lucknow, UP	Kanpur, UP	Intra-state	CGST + SGST
Lucknow, UP	Patna, Bihar	Inter-state	IGST
Pune, Maharashtra	Mumbai, Maharashtra	Intra-state	CGST + SGST
Chennai, Tamil Nadu	Bengaluru, Karnataka	Inter-state	IGST

Why IGST exists

When goods cross a state border, the tax must reach the state where they are used. IGST does this. The centre collects it, and the state's share is sent on to the destination state. This is how the destination idea from the last chapter works in practice.

NOTE

Charging CGST and SGST when IGST was due, or the other way round, is a costly mistake. The tax paid under the wrong head is not simply moved across. The correct tax has to be paid and the wrong one claimed back as a refund, which takes time. Check the buyer's state on every bill.

TRY THIS

A seller in Ahmedabad, Gujarat, sells goods worth ₹ 10,000 to a buyer in Surat, Gujarat, and another lot worth ₹ 10,000 to a buyer in Udaipur, Rajasthan. Using an example rate of 18%, what tax goes on each bill? Answer: Surat: CGST ₹ 900 + SGST ₹ 900. Udaipur: IGST ₹ 1,800.

CHAPTER 4

Registration and the GSTIN

A business must **register** under GST when its turnover crosses a limit set by the law. The limit is not the same for every kind of business and every state, and it can change. Some kinds of business must register whatever their turnover. A business below the limit may also register voluntarily, for example to claim input tax credit or because big customers want to buy from registered suppliers.

Registration is done online on gst.gov.in. The business gives details such as its PAN, contact details, address and the kind of business it runs.

REMEMBER

Do not try to remember the registration limits from a book, because they change. Check gst.gov.in, or ask a qualified tax adviser, before deciding whether to register.

What a GSTIN is

After registration, the business gets a **GSTIN** (Goods and Services Tax Identification Number). It is 15 characters long, and every part has a meaning.

Position	What it shows
1 and 2	State code of the state where the business is registered
3 to 12	The PAN (Permanent Account Number) of the business owner or entity
13	Entity number: 1 for the first registration under that PAN in that state, then 2, 3 and so on
14	The letter Z, by default

Position	What it shows
15	A check character, worked out from the other 14, to catch typing mistakes

Some state codes

Code	State	Code	State
07	Delhi	24	Gujarat
08	Rajasthan	27	Maharashtra
09	Uttar Pradesh	29	Karnataka
10	Bihar	33	Tamil Nadu

Reading a GSTIN

Take the made-up GSTIN **27ABCPK1234M1Z5**.

- **27:** registered in Maharashtra.
- **ABCPK1234M:** the PAN. In a PAN, the fourth letter shows the type of holder. Here it is P, which means an individual. C would mean a company and F a firm.
- **1:** the first registration under this PAN in Maharashtra.
- **Z:** the default letter.
- **5:** the check character.

TIP

Before you record a purchase bill, check the supplier's GSTIN with the **Search Taxpayer** option on gst.gov.in. It shows whether the GSTIN is real and active, and the name it belongs to. A wrong or fake GSTIN can cost you your input tax credit.

TRY THIS

In the made-up GSTIN 09AAACR5678K2Z3, what are the state, the type of holder and the entity number? Answer: Uttar Pradesh (09); the fourth letter of the PAN is C, so a company; entity number 2, its second registration in UP.

The tax invoice

A registered business that sells taxable goods or services must give a **tax invoice**. It is the proof of the sale, and the buyer needs it to claim input tax credit.

What a tax invoice must show

- The supplier's name, address and GSTIN.
- An invoice number, unique for the financial year, in a running series, and the date.
- The buyer's name and address, and the buyer's GSTIN if the buyer is registered. (For small sales to customers who are not registered, the rules ask for fewer buyer details.)
- The HSN or SAC code of each item (codes explained in a later chapter).
- A description, quantity and unit of each item.
- The taxable value, after any discount.
- The rate and amount of tax, split into CGST and SGST, or shown as IGST.
- The place of supply, with the state name, for an inter-state sale.
- Whether tax is payable under reverse charge.
- The signature of the supplier or an authorised person.

A sample invoice

Every name and number below is made up.

Detail	Example
Supplier	Sharma Electricals, Aminabad, Lucknow, Uttar Pradesh
Supplier GSTIN	09ABCP51234D1Z7
Invoice number and date	SE-0154, 12 August
Buyer	Gupta Builders, Kanpur, Uttar Pradesh
Buyer GSTIN	09ABCFG5678H1Z2
Item	LED bulbs, 200 Nos at ! 80

Detail	Example
Taxable value	! 16,000
CGST at 9% (example rate)	! 1,440
SGST at 9% (example rate)	! 1,440
Invoice total	! 18,880
Reverse charge	No

Both businesses are in Uttar Pradesh, so the invoice shows CGST and SGST.

Prices that include GST

Shops often show prices that already include GST. To find the tax inside such a price:

Tax = Price including tax × Rate ÷ (100 + Rate)

EXAMPLE

A pressure cooker is priced at ! 590, including GST at an example rate of 18%. Tax = $590 \times 18 \div 118 = ! 90$. The price before tax is $590 - 90 = ! 500$.

Other documents

- A **bill of supply** is given instead of a tax invoice when no tax is charged on the bill: by a business in the composition scheme, or for exempt goods.
- A **credit note** is issued by the seller when the value of a sale goes down after the invoice, for example when goods are returned. It reduces the tax too.
- A **debit note** is issued by the seller when the value goes up after the invoice, for example when an item was billed at less than the agreed price.

REMEMBER

A tax invoice is not a rough bill. The number series, the GSTINs and the tax split must be exact, because the buyer's input tax credit depends on them.

Input tax credit

Input tax credit (ITC) is the heart of GST. A registered business that pays GST on its purchases can use that tax to reduce the GST it must pay on its sales. It pays the government only the difference.

Tax to pay = Output tax – Input tax credit

A chain of four businesses

School bags travel from Nashik to Mumbai, all within Maharashtra, so every sale carries CGST and SGST. Use **18% only as an example rate**.

1. A cloth supplier sells cloth and zips to Imran, a bag maker, for ₹ 10,000.
2. Imran makes bags and sells them to Vikas, a wholesaler in Pune, for ₹ 20,000.
3. Vikas sells them to Pooja, a retailer in Mumbai, for ₹ 25,000.
4. Pooja sells them to her customers for ₹ 30,000.

Seller	Sale value ₹	Output tax ₹	Input tax credit ₹	Tax paid to government ₹
Cloth supplier	10,000	1,800	0	1,800
Imran	20,000	3,600	1,800	1,800
Vikas	25,000	4,500	3,600	900
Pooja	30,000	5,400	4,500	900
Total				5,400

(For simplicity, the cloth supplier is shown with no input tax of his own.)

Look at the last column. The government gets ₹ 5,400 in all, which is exactly 18% of the final price of ₹ 30,000. Each business paid tax only on the value it added: Imran added ₹ 10,000 of value and paid ₹ 1,800, which is 18% of ₹ 10,000. The customers who finally use the bags bear the whole tax.

Without input tax credit

Suppose Imran could not claim back the ₹ 1,800 he paid. It would become a cost, so he would raise his price to cover it. Vikas would then pay tax on a price that already had tax inside it: tax on tax. By the time the bags reached Pooja's customers, the total tax would be well above ₹ 5,400. Input tax credit stops this cascading effect.

Conditions for claiming ITC

A business can usually claim ITC only when:

1. it has a proper tax invoice or debit note from the supplier;
2. it has received the goods or services;
3. the supplier has reported the sale and paid the tax to the government, so it shows in the buyer's monthly ITC statement (explained in the returns chapter); and
4. the purchase is used for the business.

ITC is not allowed on some things, which the law calls **blocked credits**. Goods bought for personal use are one example. The law lists others.

Using the credit

The credit sits in the business's **electronic credit ledger** on the GST portal. IGST credit is used first, for IGST and then for CGST or SGST. CGST credit can pay CGST or IGST, and SGST credit can pay SGST or IGST. But CGST credit can never pay SGST, and SGST credit can never pay CGST.

EXAMPLE

In a month, Pooja collects CGST ₹ 2,700 and SGST ₹ 2,700 on her sales. Her purchases had CGST ₹ 2,250 and SGST ₹ 2,250. She pays CGST ₹ 450 and SGST ₹ 450.

TIP

Keep every purchase invoice safe and enter it on time. A lost invoice is lost credit, and lost credit is money out of your pocket.

HSN and SAC codes

Words can be confusing. One trader calls an item a "copy", another a "notebook", a third an "exercise book". To avoid this, GST uses number codes to identify goods and services.

HSN codes for goods

HSN stands for Harmonized System of Nomenclature. It is a world-wide system of codes for goods, used by customs departments in many countries, and India uses it for GST. The code gets more detailed as it gets longer.

Digits	Level	Example
2	Chapter	48: paper and paperboard, and things made of them
4	Heading	4820: registers, notebooks, exercise books and similar items
6	Sub-heading	A narrower group inside the heading
8	Tariff item	The most detailed level, used in India

A few more chapters: 09 is coffee, tea and spices; 10 is cereals; 61 and 62 are clothing; 84 includes machines and computers; 85 is electrical machinery and equipment.

SAC codes for services

SAC stands for Services Accounting Code. SAC codes for services begin with 99. For example, 9954 covers construction services, 9963 covers accommodation, food and drink services, and 9992 covers education services.

Why the codes matter

- The rate of GST depends on the code, so a wrong code can mean the wrong rate.
- Invoices and returns must show the codes. How many digits a business must show depends on its turnover and the current rules.
- Codes help the GST system match the seller's records with the buyer's.

Finding the right code

1. Describe the item exactly: what it is made of and what it is used for.
2. Search for it on gst.gov.in, which has a search for HSN and SAC codes.
3. Check the rate linked to that code, and note the date you checked it.
4. When in doubt, ask a qualified tax adviser. Guessing is risky.

REMEMBER

A code tells you what an item is. The rate for that code can change. Check both from the official source, and check again when you hear that rates have been revised.

DID YOU KNOW

Up to six digits, HSN codes mean the same thing in most countries of the world. Each country adds its own digits after that. This shared system makes buying and selling across borders easier.

CHAPTER 8

The composition scheme

Running a small shop is hard work, and GST paperwork can feel heavy. The **composition scheme** is an easier option for small businesses whose turnover is below a limit set by the law.

How it works

- The business pays tax at a **fixed low percentage of its turnover**, instead of charging GST on every bill.
- It **cannot collect GST** from customers. The tax comes out of its own earnings.
- It **cannot claim input tax credit** on its purchases.
- It gives a **bill of supply**, not a tax invoice.
- It **cannot sell goods to other states**.
- It must write "composition taxable person" on its signboard and on its bills, so customers know it cannot charge GST.

- It files fewer returns. At the time of writing, these are a quarterly statement (form CMP-08) and an annual return (form GSTR-4).

Some businesses cannot choose this scheme at all, for example makers of certain goods listed by the law. The turnover limit and the rates are set by the law and can change, so check gst.gov.in.

EXAMPLE

Meera runs a small general store in Ranchi and has chosen the composition scheme. In one quarter her sales are ₹ 8,00,000. If the composition rate for her were 1% of turnover (an example only), she would pay ₹ 8,000 for the quarter from her own earnings. Her bills show no GST, and the GST she paid on her purchases is simply part of her cost.

Is it a good choice?

Good points	Points to think about
Very little paperwork	No input tax credit, so GST paid on purchases becomes a cost
Fewer returns to file	Cannot sell goods to other states
Simple to work out the tax	Registered business buyers cannot claim credit on her bills, so some may prefer other suppliers
Prices can stay simple for local customers	Must leave the scheme if turnover crosses the limit

A shop selling mostly to local households may find the scheme suits it. A shop that sells to other businesses, or wants to grow fast, may be better off in the regular scheme.

TIP

The choice depends on the numbers of your own business. Work out the tax both ways for a year, and talk to a qualified tax adviser before you decide.

GST returns and payments

A **return** is a form a registered business files on the GST portal to report its sales, purchases and tax. The portal is gst.gov.in. Returns let the government check that the right tax has been paid, and they let buyers claim input tax credit.

The main returns, in general

Return	What it is for
GSTR-1	Details of outward supplies : the sales the business made, invoice by invoice for sales to registered buyers
GSTR-3B	A summary return : total sales, input tax credit claimed and tax payable, with the tax paid along with it
GSTR-2B	Not filed by you. A statement the portal prepares from your suppliers' GSTR-1, showing the credit available to you
Annual return	A yearly return for registered businesses, with some smaller businesses excused

How the pieces fit together

1. The seller files GSTR-1, listing a sale to you.
2. That sale appears in your GSTR-2B.
3. You compare GSTR-2B with your own purchase records.
4. You file GSTR-3B, claiming the matching credit and paying the balance tax.

This is why it matters that your suppliers file on time. If a supplier does not report a sale, it may not appear in your GSTR-2B, and you may not get the credit.

Paying the tax

Tax not covered by credit is paid in cash through the portal. You create a payment form called a **challan** and pay by net banking or another mode listed on the portal. The money goes into your **electronic cash ledger** and is then used against your tax due. Some small businesses can choose to file returns every quarter while paying tax every month.

Due dates

Every return has a due date. Filing late brings a **late fee**, and paying tax late brings **interest**. A business must file returns even in a month with no sales; this is called a **nil return**. Due dates and rules change, and the government sometimes extends them.

REMEMBER

Never rely on a date from a book or a forwarded message. Check due dates on gst.gov.in, and mark them on a calendar at the start of each month.

TRY THIS

List three things you must have ready before filing GSTR-3B. Possible answer: the month's sales figures, the purchase invoices matched with GSTR-2B, and the amount of tax payable after credit.

CHAPTER 10

E-invoice and e-way bill

As India's tax system has gone digital, two online systems have been added to GST: the e-invoice and the e-way bill.

E-invoice

An **e-invoice** does not mean an invoice sent by e-mail. It means an invoice that is **reported to a government system** as soon as it is made.

1. The business makes its invoice in its own accounting software.
2. The details are sent to an **Invoice Registration Portal (IRP)**.
3. The IRP checks the details and gives back an **Invoice Reference Number (IRN)** and a **QR code**.
4. The business prints the QR code on the invoice and gives it to the buyer.

The details then flow into the GST system, which helps fill in the seller's GSTR-1 and the buyer's GSTR-2B. This cuts down typing and fake invoices.

E-invoicing is compulsory for invoices to other businesses by businesses whose turnover is above a limit set by the law. The limit has been lowered in steps over the years, so check the current one on gst.gov.in.

E-way bill

An **e-way bill** is an electronic document needed when goods worth more than a set value are moved from one place to another, for example by truck or tempo. It is made online on the government's e-way bill portal, by the supplier, the buyer or the transporter.

It has two parts:

- **Part A:** details of the goods: the GSTINs, the place of delivery, the invoice number and date, the value, the HSN code and the reason for moving the goods.
- **Part B:** transport details, such as the vehicle number.

An e-way bill is valid for a limited time, which depends on the distance. Tax officers can stop a vehicle on the road and check its e-way bill against the goods.

EXAMPLE

A furniture dealer in Ludhiana sends a load of office chairs to a customer in Chandigarh by truck. Before the truck leaves, the dealer makes an e-way bill with the invoice details in Part A and the truck number in Part B. The driver carries the e-way bill number.

The value limit, the exceptions and the validity rules are set by the law, and some limits differ from state to state for movement inside a state. Check the current rules before moving goods.

NOTE

Goods moved without a required e-way bill, or with wrong details, can be held, and a penalty can be charged. Check the vehicle number and the invoice details before the vehicle leaves.

DID YOU KNOW

The QR code on an e-invoice can be scanned to check that the invoice was really registered.

Records to keep and common mistakes

Good records make GST easy. Poor records make it painful and costly. A registered business must keep its GST records for several years, as the law requires, so never throw old papers or files away without checking the rules.

Records to keep

- Every sales invoice and bill of supply, in number order.
- Every purchase invoice, with the supplier's GSTIN.
- Credit notes and debit notes, issued and received.
- Stock records: goods in, goods out and goods in hand.
- E-way bills and transport documents.
- Payment challans and bank statements.
- Copies of every return filed, with the acknowledgement.

A simple monthly routine

1. Keep sales and purchase invoices in two separate files or folders as soon as they arrive.
2. Enter them in your accounts within the week.
3. Compare your purchase records with GSTR-2B and follow up with any supplier whose invoice is missing.
4. Work out the tax payable and keep the money ready.
5. File the returns before the due date, and save the acknowledgements.

Folder	What goes in it
Sales	Tax invoices, bills of supply, credit notes issued
Purchases	Supplier invoices, debit notes, credit notes received
Returns	GSTR-1, GSTR-3B and their acknowledgements
Payments	Challans and bank proofs
Transport	E-way bills and transport documents

Common mistakes

- 1. Wrong tax type.** Charging CGST and SGST on an inter-state sale, or IGST on a local sale. Always check the buyer's state.
- 2. Wrong GSTIN on the invoice.** One wrong character and the buyer may lose the credit. Copy GSTINs carefully and verify them.
- 3. Charging GST without registration.** Only a registered business may charge GST. Collecting it otherwise is against the law.
- 4. A composition dealer charging GST.** Composition businesses must not show GST on their bills.
- 5. Claiming credit on personal items.** ITC is only for business use.
- 6. Not checking GSTR-2B.** Claiming credit that your supplier has not reported leads to notices and repayment with interest.
- 7. Using an old rate.** Rates change. Check the current rate for each item.
- 8. Missing due dates.** Late fees and interest add up quickly, and nil returns must be filed too.
- 9. Losing invoices.** No invoice usually means no credit.

REMEMBER

When in doubt, check gst.gov.in or ask a qualified tax adviser. A five-minute check costs much less than a mistake.

TIP

Keep a scanned copy of every invoice in a cloud folder as well as the paper copy. Water, termites and lost files have cost many small shops their records.

CHECK YOURSELF

Practice questions

1. What is the difference between a direct tax and an indirect tax? Give one example of each.
2. On what date did GST come into force in India?

3. What is the cascading effect?
4. What does it mean to say GST is a destination-based tax?
5. Who chairs the GST Council?
6. A trader in Pune sells goods to a buyer in Nagpur. Which taxes go on the bill?
7. A trader in Jaipur sells goods to a buyer in Delhi. Which tax goes on the bill?
8. Using an example rate of 18%, work out the tax on a sale of ₹ 5,000 from Kolkata to Howrah, both in West Bengal.
9. How many characters does a GSTIN have?
10. What do the first two digits of a GSTIN show?
11. Which characters of a GSTIN are the PAN?
12. In the made-up GSTIN 33AAFT9876L1Z4, which state is it, and what kind of holder is it?
13. Name five things that must appear on a tax invoice.
14. A shirt is priced at ₹ 1,180 including GST at an example rate of 18%. Find the tax and the price before tax.
15. When is a bill of supply given instead of a tax invoice?
16. What is input tax credit?
17. A business collects output tax of ₹ 9,000 in a month and has input tax credit of ₹ 6,500. How much tax must it pay in cash?
18. Can CGST credit be used to pay SGST?
19. What do HSN and SAC stand for?
20. Give three features of the composition scheme.
21. What is GSTR-1 for, and what is GSTR-3B for?
22. What is a nil return?
23. What does an IRP give back for each e-invoice?
24. What are Part A and Part B of an e-way bill?

25. Name four records a GST-registered shop should keep.

ANSWER KEY

Answers

- 1.** A direct tax is paid by the earner straight to the government, such as income tax. An indirect tax is collected by a seller from the buyer and paid to the government, such as GST.
- 2.** 1 July 2017.
- 3.** Tax charged on a price that already includes tax, so that tax piles up along the chain.
- 4.** The tax finally goes to the state where the goods or services are used, not where they were made.
- 5.** The Union Finance Minister.
- 6.** CGST and SGST, because both cities are in Maharashtra.
- 7.** IGST, because it is an inter-state sale.
- 8.** CGST at 9% = ₹ 450 and SGST at 9% = ₹ 450, total ₹ 900.
- 9.** 15.
- 10.** The state code of the state where the business is registered.
- 11.** Characters 3 to 12.
- 12.** Tamil Nadu (33). The fourth letter of the PAN is F, so it is a firm.
- 13.** Any five of: supplier's name, address and GSTIN; invoice number and date; buyer's name and address (and GSTIN if registered); HSN or SAC code; description and quantity; taxable value; rate and amount of tax; place of supply; reverse charge; signature.
- 14.** Tax = $1,180 \times 18 \div 118 = ₹ 180$. Price before tax = ₹ 1,000.
- 15.** When no tax is charged on the bill, for example by a composition scheme business or for exempt goods.
- 16.** The GST a business pays on its purchases, which it can use to reduce the GST it must pay on its sales.
- 17.** $9,000 - 6,500 = ₹ 2,500$.
- 18.** No. CGST credit can pay only CGST or IGST.
- 19.** HSN: Harmonized System of Nomenclature. SAC: Services Accounting Code.
- 20.** Any three of: tax at a fixed low percentage of turnover; cannot collect GST from customers; no input tax credit; gives a bill of supply; cannot sell goods to other states; must show "composition taxable person" on the signboard and bills; fewer returns.

- 21.** GSTR-1 reports details of outward supplies (sales). GSTR-3B is the summary return of sales, credit and tax payable, with which the tax is paid.
- 22.** A return filed for a period in which the business had no sales or purchases to report.
- 23.** An Invoice Reference Number (IRN) and a QR code.
- 24.** Part A has the details of the goods and the invoice. Part B has the transport details, such as the vehicle number.
- 25.** Any four of: sales invoices, purchase invoices, credit and debit notes, stock records, e-way bills, payment challans, copies of returns.

WORD LIST

Glossary

Bill of supply

a bill without tax, given by composition businesses and for exempt goods.

Cascading effect

tax charged on a price that already contains tax, so that tax piles up.

CGST

Central Goods and Services Tax, the centre's share on a sale within a state.

Composition scheme

a simpler scheme for small businesses, which pay tax at a fixed low percentage of turnover.

Credit note

a document from the seller that reduces the value and tax of an earlier invoice.

Destination-based tax

a tax that goes to the state where the goods or services are used.

E-invoice

an invoice reported to the Invoice Registration Portal, which returns an IRN and a QR code.

E-way bill

an electronic document needed to move goods worth more than a set value.

Exempt supply

a supply on which no GST is charged.

GST Council

the body of central and state finance ministers that recommends GST rates and rules.

GSTIN

the 15-character GST number of a registered business.

HSN code

a number from a world-wide system that identifies goods.

IGST

Integrated Goods and Services Tax, charged on sales between states.

Indirect tax

a tax collected by a seller from the buyer and paid to the government.

Input tax credit (ITC)

GST paid on purchases, used to reduce the GST payable on sales.

Output tax

the GST a business charges on its sales.

Place of supply

the place that decides whether a sale is within a state or between states.

Return

a form filed on the GST portal to report sales, purchases and tax.

Reverse charge

a case where the buyer, not the seller, pays the GST to the government.

SAC

Services Accounting Code, the code that identifies a service.

SGST

State Goods and Services Tax, the state's share on a sale within the state.

Tax invoice

the bill a registered seller gives for a taxable sale, showing the tax charged.



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