Tax Alerts cover significant tax news, developments and changes in legislation that affect Indian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your Ernst & Young advisor.

Executive summary
The Goods and Services Tax (GST) Council in its 28th meeting held on 21 July 2018 has recommended reduction in tax rates, exemption of certain goods and services, and amendments to the GST law. It also approved the new return formats.

The key recommendations of the Council are:
- Exemption to services supplied by an establishment of a person in India to any establishment of that person outside India.
- Supply of food and drinks in office, factory, hospital and educational institutions’ canteen on contractual basis to attract GST @ 5%.
- Exemption on outward transportation of all goods by air and sea to be extended till 30 September 2019.
- Taxpayers having turnover below INR5 crore to have an option to file return on a quarterly basis with monthly payment of tax. Other taxpayers shall be required to file one return on a monthly basis instead of three returns.

The changes in GST rate on goods and services are proposed to be made effective from 27 July 2018.

Sources: Press Information Bureau
Background

- The 28th meeting of the Goods and Services Tax (GST) Council was held on 21 July 2018.
- The Council has recommended the reduction in the tax rates and provided exemptions for certain goods and services. It further approved the new return formats.
- The Council also recommended certain amendments in the Central GST (CGST) Act, Integrated GST (IGST) Act, Union Territory GST (UTGST) Act and the GST (Compensation to States) Act which had been earlier released in public domain for comments.

Key recommendations

Changes in GST rate of goods

- Exemption to be granted to certain goods such as stone/ marble/ wood deities, rakhi (other than those of precious or semi-precious material), sanitary napkins, etc.
- Reduction in GST rate from 28% to 18% on items like paints, refrigerators, washing machines, domestic electrical appliances, televisions up to the size of 68 cm, special purpose motor vehicles (such as crane lorries, concrete mixer lorries), etc.
- Footwear having a retail sale price up to INR 1,000 per pair to be taxed @ 5%. Others will continue to attract GST @ 18%.
- GST rate on ethanol for sale to oil marketing companies for blending with fuel or fuel pellets to be reduced from 18% to 5%.
- GST rates also to be reduced for certain handicraft items.
- Exemption from compensation cess to be granted to coal rejects from washery. The condition, however, is that the input tax credit (ITC) should not have been taken in respect of coal rejects.

Changes in GST rate of services

- Exemption to be granted to services supplied by an establishment of a person in India to any establishment of that person outside India, which are treated as establishments of distinct persons under IGST Act. This is subject to the condition that the place of supply is outside the taxable territory of India.
- Composite supply of food and drinks in restaurant, mess, canteen, eating joints and such supplies to institutions (educational, office, factory, hospital) on contractual basis to be taxed @ 5%.
- It has been clarified that the scope of outdoor catering is restricted to supplies in case of outdoor/indoor functions that are event-based and occasional in nature.
- A new category to be inserted for composite supply of multimodal transportation. It will be taxed @ 12% with full ITC under forward charge.
- e-books for which print version exist to be taxed @ 5%.
- GST rate slabs on accommodation service to be based on transaction value instead of declared tariff.
- Services provided by individual direct selling agents to banks/non-banking financial companies to be taxed under reverse charge.
- Exemption granted on outward transportation of all goods by air and sea is extended up to 30 September 2019.

The changes in GST rate on goods and services are proposed to be made effective 27 July 2018.

Simplified GST Return

- All taxpayers other than small taxpayers and a few exceptions like input service distributor, etc. shall file one return on a monthly basis instead of three returns.
- The return is simple with two main tables. One table for reporting outward supplies and another for availing input tax credit based on invoices uploaded by the supplier.
- In the new process, the invoices can be uploaded continuously by the supplier which can be viewed and locked by the recipient for availing ITC.
- A taxpayer would have the facility to create its profile based on nature of supplies made and received.
- Nil return filers (no purchase and no sale) shall be given facility to file return by way of SMS.

Return for small taxpayers

- Small taxpayers, having turnover below INR 5 crore, will have an option to file returns on quarterly basis with monthly payment facility.
- There shall be two returns:
  - Sahaj, for small traders making only B2C supply, and
- Such returns will require lesser information to be filled in as compared to that of the regular return.

Amendment of returns

- The new return design provides the facility for amendment of invoice and other details filed in the return by filing an amendment return.
- Payment would be allowed to be made through the amendment return which will help to save interest liability for the taxpayers.

Amendments to the GST Law

- The GST Council has recommended amendments in the CGST Act, IGST Act, UTGST Act and the GST (Compensation to States) Act which had been earlier released in the public domain for comments.
- The Council has suggested a few changes in the earlier proposed amendments which are as follows:
  - Tax under reverse charge mechanism (RCM) to be levied on receipt of supplies from unregistered suppliers, is proposed to be applicable to only
specified goods as against all taxable goods and services proposed earlier.

- The threshold limit for registration in the states of Assam, Arunachal Pradesh, Himachal Pradesh, Meghalaya, Sikkim and Uttarakhand is proposed to be increased to INR20 lakhs from INR10 lakhs. The increase was proposed only with reference to Assam earlier.

**Opening of migration window**

- The Council approved the proposal to open the migration window for taxpayers, who received provisional IDs but could not complete the migration process, till 31 August 2018.
- The late fee payable for delayed filing of return in such cases will be waived off.
- Taxpayers who intend to complete the migration process are requested to approach their jurisdictional central tax/state tax nodal officers in this regard.

**Other recommendations**

- Refund of accumulated ITC on account of inverted duty structure will be allowed to fabric manufacturers in respect of purchases effected after the issuance of notification.
- The applicability of reverse charge in case of procurements from unregistered dealers has been further extended by a period of one year i.e., till 30 September 2019. (Press release in this regard is awaited).

**Comments**

The government’s effort in rationalizing GST rates for different products and services has been commendable. It may significantly help the industry and the end consumers.

The clarifications on the applicable rate of tax in respect of certain goods and services and the extension of RCM for procurements from unregistered suppliers might facilitate ease of doing business.

The increase in threshold for quarterly return filing and simplified return formats will go a long way in reducing the compliance burden of the taxpayer. However, the detailed mechanism to match and claim ITC, in cases where the supplier and recipient have different return filing periods, will need to be prescribed.

The major issues like taxability of factory/office canteen, services between offices of same legal entity located in different territories, hotel accommodation services, refund on account of inverted duty structure to fabric manufacturers, etc., which were represented by the industry have been favourably addressed by the government.