# <u>GST ACT</u>

**GST** is the biggest tax-related reform in the country bringing uniformity in the taxation structure and eliminating the cascading of taxes that was levied in the past. The GST Council meets from time to time to revise the GST rates for various products. Several states and industries recommend reduction in GST tax rate for various items which are discussed in these meetings.

**GST stands for Goods and Services Tax. It is classified into three types:**

- **CGST –Central GST**
- **SGST –State GST**
- **IGST –Integrated GST**

Finance Minister Arun Jaitley said that the government wanted to keep the GST rates close to the original rates. But there were differences in case of some items because of the changes in the economy as well as customer preferences. Some commodities were kept in the high tax bracket (18-28%) but on scrutinizing the list, they found that these commodities should be considered as necessities and not luxuries. This is why the GST rates were revised for commodities such as notebooks, exercise books, spectacles and lenses and some other items.

# GST Tax Rates on some common items

| Tax Rates | Products |
|---|---|
| 5% | Household necessities such as edible oil, sugar, spices, tea, and coffee (except instant) are included. Coal , Mishti/Mithai (Indian Sweets) and Life-saving drugs are also covered under this GST slab |
| 12% | This includes computers and processed food |
| 18% | Hair oil, toothpaste and soaps, capital goods and industrial intermediaries are covered in this slab |
| 28% | Luxury items such as small cars , consumer durables like AC and Refrigerators, premium cars, cigarettes and aerated drinks , High-end motorcycles  are included here. |

# GST Rates on Goods

The government has proposed a 4-tier tax structure for all goods and services under the slabs- 5%, 12%, 18% and 28%. After the recent revision of GST rates, these are the commodities that fall under the four tax slabs along with those that do not attract any tax. Please note that only those commodities are included in this list whose rates have been revised in various council meetings.

Let us have a look at various products and the tax slab in which they fall into :

## ***No Tax (Exempted / 0 Rates)***

Apart from other items that enjoy zero GST tax rate, these are the commodities added to the list after 11th June rate revision –

- Hulled cereal grains like barley, wheat, oat, rye, etc.
- Bones and horn-cores unworked and waste of these products.
- Palmyra jaggery
- All types of salt
- Dicalcium Phosphate (DCP) of animal feed grade conforming to IS specification No. 5470 :2002
- Kajal [other than kajal pencil sticks]
- Picture books, colouring books or drawing books for children
- Human hair – dressed, thinned, bleached or otherwise worked
- Sanitary Napkins
- Unit container-packed frozen branded vegetables (uncooked/steamed)
- Vegetables preserved using various techniques including brine and other preservatives that are unsuitable for immediate human consumption.
- Music Books/manuscripts

## ***5% Tax Slab***

Given below are the items that have been added to the 5% GST tax rate slab along with the other existing items-

- Cashew nuts/cashew nuts in shell
- Ice and snow
- Bio gas
- Insulin
- Aggarbatti
- Kites
- Coir mats, matting and floor covering

- Pawan Chakki that is Wind-based Atta Chakki
- Postage or revenue stamps, stamp-postmarks, first-day covers, etc.
- Numismatic coins
- Braille paper, braille typewriters, braille watches, hearing aids and other appliances to compensate for a defect or disability
- Fly-ash blocks
- Walking sticks
- Natural cork
- Marble rubble
- Accessories/parts for carriages designed for differently-abled individuals

## ***12% Tax Slab***

After the GST council meeting on 11th June, the following items were added to the 12% GST rates category-

- Preparations of vegetables, fruits, nuts or other parts of plants, including pickle, murabba, chutney, jam, jelly
- Ketchups, sauces and mustard sauce but excluding curry paste, mayonnaise and salad dressings, mixed condiments and mixed dressings
- Bari made of pulses including mungodi
- Menthol and menthol crystals, peppermint, fractionated/de-terpenated mentha oil, dementholised oil, Mentha piperita oil and spearmint oil
- All diagnostic kits and reagents
- Plastic beads
- Exercise books and note books
- Glasses for corrective spectacles and flint buttons
- Spoons, forks, ladles, skimmers, cake servers, fish knives, tongs
- Fixed Speed Diesel Engines
- Two-way radio (Walkie talkie) used by defence, police and paramilitary forces etc.
- Intraocular lens
- Corrective spectacles
- Playing cards, chess board, carom board and other board games, like ludo, etc.
- Debagged/roughly squared cork
- Items manufactured from natural cork
- Agglomerated cork

## ***18% Tax Slab***

The items mentioned below have been added to the 18% GST tax rate slab among the other existing items-

- Kajal pencil sticks
- Dental wax
- Plastic Tarpaulin
- School satchels and bags other than of leather or composition leather; toilet cases, Hand bags and shopping bags of artificial plastic material, cotton or jute; Handbags of other materials excluding wicker work or basket work
- Headgear and parts thereof
- Precast Concrete Pipes
- Salt Glazed Stone Ware Pipes
- Aluminium foil
- All goods, including hooks and eyes
- Rear Tractor tyres and rear tractor tyre tubes
- Rear Tractor wheel rim, tractor centre housing, tractor housing transmission, tractor support front axle
- Weighing Machinery other than electric or electronic weighing machinery
- Printers other than multifunction printers
- Ball bearing, Roller Bearings, Parts & related accessories
- Transformers Industrial Electronics
- Electrical Transformer
- Static Converters (UPS)
- CCTV including CCTV with video recorders
- Set top Box for TV
- Computer monitors not exceeding 17 inches
- Electrical Filaments or discharge lamps
- Winding Wires, Coaxial cables and Optical Fiber
- Perforating or stapling machines (staplers), pencil sharpening machines
- Baby carriages
- Instruments for measuring length, for use in the hand (for example, measuring rods and tapes, micrometers, callipers)
- Bamboo furniture
- Swimming pools and paddling pools
- Televisions/Monitors (upto 32 inches)
- Power banks powered by Lithium-ion batteries
- Sports goods, games consoles and related items with HS code 9504
- All items with HS code 8483 including gear boxes, transmission cranks and pulleys
- Used or retreaded pneumatic rubber tires

## ***28% Tax Slab***

The council meeting was held to 'reduce' the tax rates on certain items based on customer preferences. Hence, no additional items were added to the highest GST rates slab of 28%.

# GST Rates on Services

Government has also impose GST on Services with the same 4-tier tax structure as of goods. GST rates on services comprising of 5%,  12%, 18% and 28% comes with various pros and cons for the consumers. However, government has exempted healthcare and educational services from the purview of the GST.

The Goods and Services Tax council has passed the rate slabs at NIL, 5%, 12%, 18%, 28%. Some of the services categorized under different slabs are mentioned below :

## ***Nil GST (Exempted)***

- Chargeable services offered on Basic Savings Bank Deposit (BSBD) account opened under the PMJDY (Pradhan Mantri Jan Dhan Yojana)

## ***5% Tax Slab***

- Railways-Transportation of goods, passengers
- Goods transported in a vessel from outside India
- Renting a motor cab without fuel cost
- Transport services in AC contract/stage or radio taxi
- Transport by air (scheduled)/air travel for purpose of pilgrimage via chartered/non-scheduled flights
- Tour operator services
- Leasing of aircrafts
- Print media ad space
- Working for printing of newspapers

## ***12% Tax Slab***

- Rail transportation of goods in containers from a third party other than Indian Railways
- Air travel excluding economy

- Food /drinks at restaurants without AC/heating or liquor license
- Renting of accommodation for more than Rs.1000 and less than Rs.2500 per day
- Chit fund services by foremen
- Construction of building for the purpose of sale
- IP rights on a temporary basis
- Movie Tickets less than or equal to Rs. 100

## ***18% Tax Slab***

- Food/drinks at restaurants with liquor license
- Food /drinks at restaurants with AC/heating
- Outdoor catering
- Renting for accommodation for more than Rs.2500 but less than Rs.5000 per day
- Supply of food, shamiyana, and party arrangement
- Circus, Indian classical, folk, theatre, drama
- Supply of works contract
- Movie Tickets over Rs. 100

## ***28% Tax Slab***

- Entertainment events-amusement facility, water parks, theme parks, joy rides, merry-go-round, race course, go-carting, casinos, ballet, sporting events like IPL
- Race club services
- Gambling
- Food/drinks at AC 5-star hotels
- Accommodation in 5-star hotels or above

# Model Questions For Examine under Corporate Tax Planning

**01.** Mr. X and Y are establishment of business, compute the tax liability of the business under **Partnership firm** OR **Sole proprietorship** and decide which form of organization is suitable from tax incidence point of view.

Tax Rate of Firm @30% + H.EC @4% & Sole Proprietor ship on Individual Slab Rate.

(a) Partnership firm of Two partners X & Y ( **Indian Residents and aged not more than 60 years**) who would like to share profits equally,

(b) Sole proprietorship of Y where X acts as an employee and agrees to lend loan.

*Other Details*:

i) Capital contribution: Rs 5,00,000 each

ii) Estimated Profit before deduction of interest and Salary: Rs 800000

iii) Remuneration Received Rs. 15000 P.M Each

iv) Both the parties do not have any other sources

v) Both the parties have savings u/s 80C amounted to Rs 50000 each.

**02.** Anil, Babu, & Chandru, would like to set up a new business either as a

**partnership Firm** or as a **private limited company**.

Tax Rate @ 30% and H. EC @ 4% and DDT rate @20.55% (Inclusive)

a. Remuneration Received Rs. 20000 P.M Each

b. They are entitled to simple interest @ 12% on the capital contribution of Rs 30,00,000.

c. Partners do not have any other income.

d. Taxable income before deduction of salary and interest: Rs 30,00,000.

Advise as to which form of business is beneficial from tax planning point of view.

**03.** Anand company wants to raise capital of Rs 4000000 for a project. The expected return on capital employed will be 30%. The company can raise debt fund @ 12% p.a.

The company's Tax rate is 30%+H.EC4% and DDT@20.55% Suggest, which of the following 3 alternatives should it opt for:

a) Only **equity** share capital

b) Rs 32 Lakhs **equity** capital and Rs 8 Lakh **debt** @13%

c) Rs 8 Lakhs **equity** and Rs 32 Lakh **debt**. @12%

**04.** Cost of the asset under consideration: Rs. 5,00,000
Life of the asset: 5 years with the residual value of Rs 20,000.
Rate of Depreciation: 15% p.a (additional depreciation at 20% is applicable for 1st year)

Effective Marginal tax rate: @30 % + H&EC @4%
Consider the Present Value factor at 10 per cent. (Identify Your Self )
The Assessee has two alternatives for decision making.
**a.** To purchase the asset out of his **own fund**

b. To take the asset on **lease** by paying lease rentals of Rs 90,000 p.a payable at the end of every year of lease period.

Select the best of the options from tax planning point of view. Assume then the assessee is entitled to set off STCL against LTCG. Then there will be Tax savings on account of Set off of STCL against LTCG. (If Given)

**05.** MRF Tyres Ltd. an Indian Company negotiates for the **purchase (Instalment) OR taking on hire a machine** Instalment from German Company .

- where in the total cost of the machine will be INR 60,00,000.
- Payable in 5 annual equal installments of INR 1200000 (interest free) from September 2015 every year.
- INR 800000 shall be payable as annual rent from September 2015 each year of use of the asset if it is taken on hire.
- The company is a widely held company and its effective marginal tax rate is 31.2% per cent. Assuming that the rate of depreciation is 15% per annum, and cost of capital at 10%,

The management of the company seeks your advice to select the best possible alternative from tax planning point of view.
The company proposes to use the machine for 10 years from September 2017
P V Factors @ 10%

| Year : 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 0.909 | 0.826 | 0.751 | 0.683 | 0.621 | 0.564 | 0.513 | 0.467 | 0.424 | 0.386 |

**Note:- Under the hire purchase method Present Value consider form the 1st year. like Year 0 is 1 and year 1 is 0.909 etc......**

**06.** A company requires 40000 units of a component every year for next five years. The can either be manufactured by the company or be bought from the market. From the information given below, suggest to the company whether it **should make the component or buy** it from the market.

| | Cost per unit (Rs) |
|---|---|
| Cost of material | 8 |
| Direct labour cost: | 12 |
| Variable overhead | 4 |

a) If the company manufactures the component, it requires purchasing a machine. It proposes to purchase the machinery by borrowing a loan from the bank. The present value of cash outflow for 5 years on account of loan borrowed would be Rs 200000

b) The component is available in the market at Rs 22, per unit.

What will be the decision if the market price of the component is Rs 28 per unit.

## Under Installment Option: Example

| year | Installment | PVF @10% | PV OF COF |
|---|---|---|---|
| 0 | | 1 | |
| 1 | | 0.909 | |
| 2 | | 0.826 | |
| 3 | | 0.751 | |
| 4 | | 0.683 | |
| **4.169** | | Total | |

| COST /WDV | DEPN | | PV OF TS : (D x PV x TR) | PV OF NCOF |
|---|---|---|---|---|
| 0 | | 0 | 0 | |
| 1 | | 0.909 | | |
| 2 | | 0.826 | | |
| 3 | | 0.751 | | |
| 4 | | 0.683 | | |
| 5 | | 0.621 | | |
| 6 | | 0.564 | | |
| 7 | | 0.513 | | |
| 8 | | 0.467 | | |
| 9 | | 0.424 | | |
| 10 | | 0.386 | | |
| WDV | | | Total | |
| **Total PV OF TAX SAVINGS** | | | | XXX |
| **Add: PV of sale of scrap or residual value (Value x PV)** | | | | XX |
| **Add: Tax saving on Set off of STCL (WDV x TR x PV )** | | | | XX |
| PRESENT VALUE OF Total Tax Savings | | | | XXXXX |

## Under Hire Purchase System:

| YEAR | HIRE CHARGES | PV of COF | TR: | PVF @10% | PV OF TS =(HC XTR X PVF) |
|---|---|---|---|---|---|
| 0 | | | | 1 | |
| 1 | | | | 0.909 | |
| 2 | | | | 0.826 | |
| 3 | | | | 0.751 | |
| 4 | | | | 0.683 | |
| 5 | | | | 0.621 | |
| 6 | | | | 0.564 | |
| 7 | | | | 0.513 | |
| 8 | | | | 0.467 | |
| 9 | | | | 0.424 | |
| total | XXXXXX >A | | | | XXXXXX>B |
| | | | | | |
| TOTAL PV OF COF (A) | | | | | XXX |
| LESS:<br>TAX SAVINGS (B) | | | | | XX |
| PV OF NCOF | | | | | XXXX |

## 1.1 Income Tax Slab Rate for AY 2020 - 21

### [1] Individuals:

**1.1** **Individual** (resident or non-resident), who is of the age of less than 60 years on the last day of the relevant previous year:

| Net income range | Income-Tax Rate* |
|---|---|
| Up to Rs. 2,50,000 | Nil |
| Rs. 2,50,000- 5,00,000 | 5% |
| Rs. 5,00,000 - 10,00,000 | 20% |
| Above Rs. 10,00,000 | 30% |

**1.2** **Resident senior citizen**, i.e., every individual, being a resident in India, who is of the age of 60 years or more but less than 80 years at any time during the previous year:

| Net income range | Income-Tax Rate* |
|---|---|
| Up to Rs. 3,00,000 | Nil |
| Rs. 3,00,000- 5,00,000 | 5% |
| Rs. 5,00,000 - 10,00,000 | 20% |
| Rs. Above Rs. 10,00,000 | 30% |

**1.3** **Resident super senior citizen**, i.e., every individual, being a resident in India, who is of the age of 80 years or more at any time during the previous year:

| Net income range | Income-Tax Rate* |
|---|---|
| Up to Rs. 5,00,000 | Nil |
| Rs. 5,00,000 - 10,00,000 | 20% |
| Rs. Above Rs. 10,00,000 | 30% |

**Surcharge:**

- 10% of income tax where total income exceeds Rs. 50,00,000.
- 15% of income tax where total income exceeds Rs. 1,00,00,000.

***Health and Education cess :**

- 4% of income tax and surcharge.

Note: - A resident individual is entitled for rebate under section 87A if his total income does not exceed Rs. 5,00,000. The amount of rebate shall be 100% of income-tax or Rs. 12,500, whichever is less.

### [2] Income Tax Rate for Partnership Firm:

- A partnership firm (including LLP) is taxable at 30%*.

**Surcharge:**

- 12% of tax where total income exceeds Rs. 1 crore.

***Health and Education cess :**

- 4% of income tax and surcharge.

### [3] Tax Rate for Companies:

***Domestic Companies:***

| Particulars | Tax Rates |
|---|---|
| Total turnover or gross receipts during the previous year 2017-18 doesn't exceed Rs. 250 Crore | **25%** |
| Other domestic companies | **30%** |

***Foreign Companies :***

The tax rate for foreign company is **40%**

# 1.5 REMUNERATION TO PARTNERS

- Remuneration is allowed only to working partners.
- It is not allowed if tax is paid on presumptive basis under section 44AD or section 44ADA.
- Remuneration should be within the permissible limits as mentioned below. Please note that this limit is for total salary to all partners and not per partner.

*CALCULATION OF BOOK PROFIT

| | |
|---|---|
| ***Profit as per Profit & Loss a/c –*** | **XXX** |
| **Add :** | |
| Remuneration to partners if debited to Profit and loss a/c | **XXX** |
| **Add :** | |
| Brought forward business loss, deduction under section 80C to 80U if debited to P&L a/c | **XXX** |
| **Less :** | |
| Income under house property, capital gain, other sources if credited to profit and loss a/c | **XXX** |
| ***Book Profits*** | **XXX** |

| **Book Profit*** | **Amount deductible as remuneration under section 40(b)** |
|---|---|
| If book profit is negative | Rs. 1,50,000 |
| If book profit is positive- On first Rs. 3 lakh of book profit | Rs. 1,50,000 or 90% of book profit whichever is more |
| On the balance of book profit | 60% of book profit |

**CORPORATE TAX PLANNING FOR FORMING A BUSINESS**

# Introduction

Every business person strives to select a suitable form of organization with the aim of earning profit. A business person has to consider all the factors that influence his choice of form of organization. Among the various factors such as requirement of finance, resources, personal liability of the owners, level of operation, technical expertise required, probable risk of the business, profitability etc, tax implications play a very important role. Tax implications are important factors for business decision making. It is quite obvious that every business person has to identify the areas of tax planning or scope of tax planning and decide has to which form of business organization is suitable that attracts minimum tax incidence. In other words, a suitable business organization is one in which the tax liability of the business is minimum and also the tax liability of the individual owner is the least.

# Areas of tax planning or Scope of Tax planning

Tax planning depends on the tax provisions applicable to the respective financial year and the Finance Act. Tax planning can be made effective in every area of business management. The following are the important areas where tax planning can be attempted by a business person:

1. Residential Status
2. Employee remuneration
3. Nature and size of the business
4. Location of the business
5. Form of business organization and ownership pattern
6. Financial management decision
7. Specific management decisions
8. Mergers/ amalgamation of companies
9. Corporate restructuring
10. Double taxation Relief
11. Advance ruling

## OBJECTIVES OF TAX PLANNING

Tax planning is a guide in decision making. Tax planning basically aims at adopting an arrangement so as to bring about least tax incidence within the corners of the law. The fundamental objective of tax planning is to minimize the tax burden. However, the following are also the objectives of tax planning;

a) To reduce the tax liability and save the surpluses for one's personal and social needs
b) To minimize the litigation between tax administrators and tax assessees.
c) To bring about the fiscal discipline in one's life and thereby retaining the income for productive investment.
d) To reduce the overall cost of production, by not paying the tax that forms a part of cost of production.
e) To promote the healthy growth of economy through saving and tax planning.
f) To generate employment by investing and commencing the new business.
g) To create job opportunities since large number of tax payers depend on the services of the Chartered Accountants

## LIMITATIONS OF TAX PLANNING

a) *The Assessee is not allowed to claim the exemptions and deductions after the completion of the assessment*. In such cases, he is not eligible for appeals, rectification of mistakes and revisions.
b) The ability of an assessee to reduce his tax burden depends on his competency in other economic factors and other relevant laws in force. *Tax planning alone does not help an Assessee in this regard*.
c) Tax planning *requires the devotion of adequate time* that might have been used for some productive purposes which may yield higher benefits.
d) There is *no certainty in long term tax planning* due to frequent changes and amendments by the Finance Act. This hesitation of tax payers in making long-term planning results in a slow growth of the economy.
e) The tax payers are required to fulfill certain conditions to avail Exemptions, incentives and deductions. Sometimes *tax payers may find it very difficult to comply with all the conditions* to avail these benefits.
f) Sometimes tax planning may become costly affair to small business persons who cannot afford to pay *fees to the professionals* who guide them in making use of tax provisions to reduce the tax burden.

## TAX PLANNING FOR CAPITAL STRUCTURE DECISIONS

Capital structure decision is a vital managerial decision taken before commencing a new project. Capital structure is the combination of debt and equity mix in different proportion. Financial manager has to decide an optimum capital structure which maximizes shareholders' net worth. By having an optimum capital structure, the value of company's assets and wealth of the owner can be maximized, and the cost of capital can be minimized. The borrowings contribute to tax saving, and this benefit results in higher rate of return on shareholders' equity. Further, These advantages raise the ability of the company to find additional investment opportunities. The capital structure decision is important and it has long-term implications. Capital structure decision has to be taken by keep in view the following:

a) Serving the capital base,(interest or dividend) with consistent dividend policy
b) Cost of capital to be raised
c) Risk involved
d) Impact of direct and indirect taxes
e) Margin of ploughing back of profits for future expansion, diversification, modernization and other development strategies.

## SOLE PROPRIETORSHIP Vs FIRM Vs COMPANY

### SOLE PROPRIETORSHIP Vs FIRM

**A Computation of Tax liablitiy of the Firm**

Step 1: Calculate Book Profit of the Firm
Step 2: Calculate Business Income of the Firm
Step 3: Calculate the tax liability of the Firm and Net Income After Tax
Step 4: Calculate the net Income of the Partners

**B Computation of Tax liability under Sole Proprietorship**

Step 5: Calculate the tax liability of individual partners
Step 6: Calculate the savings of the partner in comparison with Sole proprietorship and Partnership

# FIRM Vs COMPANY

## Steps Involved

**A** **Computation of Tax liablitiy of the Firm**

Step 1: Calculate Book Profit of the Firm

Step 2: Calculate Business Income of the Firm

Step 3: Calculate the tax liability of the Firm and Net Income After Tax

Step 4: Calculate the net Income of the Partners

**B** **Computation of Tax Liability of the Company**

Step 5: Computation of PGBP or Business Income/ Total Income of Company

Step 6: Compute Tax on Total Income

Step 7: Compute Income After Tax

Step 8: Compute Dividend Distribution Tax

Step 9: Compute Profit after Dividend Tax

Step 10: Computation of Tax Liability of Individual Shareholders

Step 11: Compute Net Income of individual shareholders

**C** **Compare the Net Income of the shareholders between the two options**

**D** **DECISION-MAKING**