

Best Practice Principles for Design and Administration of VAT/GST in a Federal State System

- VAT/GST will be a tax on **Supply of All Goods and Services** above a **Threshold**, based on Annual Turnover
- It will be a **Destination-based Consumption Tax**
- All Indirect Taxes including those currently levied by the Federal Center and the States will be subsumed in one tax – VAT
- VAT will facilitate a **seamless flow of Input Tax Credit** in the Supply-Chain of Goods & Services; Tax paid on Inputs will be available as Credit to the recipient for its utilization in payment of output tax in Supply Chain
- For **Intra-State Trade**, VAT will have two parts: Central VAT (C-VAT) and State VAT (S-VAT)
- For **Inter-State Trade**, it will be an **Integrated VAT (I-VAT)**, which will be a summation of C-VAT and S-VAT; C-VAT will go to the Federal Center, and the S-VAT component will go to the Destination State; **Place of Supply Rules** will help determine the Destination in the supply chain, and thus help in its operation.
- Various Rules will help in implementing the following:
 - Concepts of **Supply, Input Tax Credit** and **Integrated VAT (I-VAT)**;
 - Business Processes: e.g., Registration, Payment, Filing of Returns, Claims of Refund;
 - Other Activities: e.g., **Scrutiny & Audit, Levy & Collection, Demand & Recovery, Enforcement**, etc.
 - **Transition Provisions**
- **Single Standard VAT** rate for most of the goods and services, with one higher rate for a limited number of **Demerit and Luxury Goods** and one lower rate for essential goods and services (general consumption by population)
- VAT to be **administered jointly by the Federal Center and all the States**, with the tax collected to be shared equally between the Center and the States
- Decisions on Design, Policy and Administration of VAT to be made by a **VAT Council** comprising Finance Ministers of the States and Chaired by the Federal Finance Minister
- Robust IT infrastructure, effectively a “**VAT Net**,” will provide a common portal for taxpayers and tax authorities to interact in administering the tax collection through various business processes
- The new VAT system will be taxpayer friendly, with deterrence for tax-evaders through effective and extensive use of technology