GST CASE Study 2

DEF Industries, a large-scale manufacturer of household appliances based in Chennai, India, had to adapt to the Goods and Services Tax (GST) regime introduced in 2017. The company's operations involved various scenarios requiring careful GST compliance.

One day, DEF Industries received an order from a retailer in Coimbatore, Tamil Nadu, for 100 washing machines. The total invoice amount was INR 1,50,000. Since both the supplier and the customer were located within Tamil Nadu, the sale was considered an intra-state supply. To comply with GST regulations, DEF Industries applied Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST) on the invoice amount. The CGST and SGST rates were both set at 9%, resulting in a total tax amount of INR 27,000 (INR 13,500 CGST and INR 13,500 SGST).

In another instance, DEF Industries shipped a large batch of refrigerators to a distributor in Kochi, Kerala. The total invoice amount for this inter-state sale was INR 2,00,000. Since the transaction was between different states, Integrated Goods and Services Tax (IGST) was applicable. The IGST rate for this transaction was 18%, leading to a tax amount of INR 36,000. Therefore, the distributor's total payment was INR 2,36,000.

DEF Industries also engaged in exporting products to international markets. Recently, they exported air conditioners to a client in the USA, with the invoice amounting to INR 5,00,000. Under GST laws, exports are zero-rated, meaning no GST is charged on exports. However, DEF Industries was eligible to claim a refund for the input taxes paid on the exported goods, which helped in making their products competitively priced in the global market.

In addition to domestic sales and exports, DEF Industries imported raw materials from Germany. The invoice for this import was INR 3,00,000. As per GST regulations, imports are subject to IGST, and the applicable rate for these raw materials was 18%. This resulted in a total IGST payment of INR 54,000. The company had to ensure that this IGST was correctly paid at the time of importation.

Input Tax Credit (ITC) is a significant feature of the GST regime that allows businesses to claim credit for taxes paid on inputs used in their operations. DEF Industries recently purchased raw materials worth INR 1,00,000, with an 18% GST charged on these materials. Since the materials were used for manufacturing, DEF Industries could claim ITC of INR 18,000, which reduced their overall tax liability.

Another scenario involved DEF Industries availing security services from an unregistered supplier. The invoice for these services was INR 50,000. Under the Reverse Charge Mechanism (RCM), DEF Industries was responsible for paying GST on services received from unregistered suppliers. The applicable GST rate under RCM was 18%, resulting in a GST amount of INR 9,000.

DEF Industries also operated a small retail outlet in a different state, which opted for the Composition Scheme under GST. The outlet had an annual turnover of INR 75 lakhs. Under the Composition Scheme, a simplified tax rate of 1% was applied, allowing the outlet to pay a total of INR 75,000 in GST annually without the benefit of claiming ITC.

Monthly compliance was another crucial aspect of GST for DEF Industries. The company needed to file GSTR-1 by the 10th of each month, detailing all outward supplies. Additionally, GSTR-3B had to be filed by the 20th of each month, summarizing the tax liability. For annual compliance, DEF Industries had to file GSTR-9 by the 31st of December of the following financial year, consolidating all the returns filed throughout the year.

To ensure accuracy in their GST filings, DEF Industries reconciled their purchase records with GSTR-2A, which is auto-populated based on their suppliers' GSTR-1. This reconciliation process helped verify that all ITC claims were accurate and that there were no discrepancies.

Questions

1. DEF Industries received an order for washing machines worth INR 1,50,000 from a retailer in Coimbatore, Tamil Nadu. What taxes are applicable?
2. DEF Industries sold refrigerators worth INR 2,00,000 to a distributor in Kochi, Kerala. What tax is applied on this sale?
3. DEF Industries exported air conditioners to the USA with an invoice amount of INR 5,00,000. How is GST applied to this transaction?
4. DEF Industries imported raw materials from Germany worth INR 3,00,000. What tax is applicable?
5. DEF Industries hired an unregistered security service provider for INR 50,000. What is the GST implication under RCM?