

CENTRAL SALES TAX ACT--1956

C.S.T. is an **Indirect Tax** on sale of goods. Therefore the seller of goods can collect it from his buyer.

1) **Imports & Exports** of goods may be taxed by Central Govt., which is done by levy of **Custom Duties**.

2) **Intra State** (within the particular state) sale of goods is taxed by the concerned State Govt. by levy of **State VAT**. These sales are popularly called as local sales.

3) **Inter state sale** of goods is taxed by Central Govt. by levy of **C.S.T.**

- The C.S.T. Act 1956 is a Central Act, enacted by Parliament i.e. by Govt. of India. It contains 18 sections. It is applicable to the **whole of India, including Jammu & Kashmir**.
- The preamble of the Act says that it is enacted for **three purposes**.-

1) To formulate principles for determining as to when a Sale / Purchase of goods takes place -a) In the course of inter-state trade

b) Outside a particular State

c) In the course of import into / export from India

2) To provide for levy, collection & distribution of tax on Inter state sale of goods.

3) To declare certain goods to be of special importance in interstate trade & specify the restrictions on state Govts. while they impose taxes on sale/ purchase of such goods, even within their respective states.

CST Act 1956 becomes applicable when the following conditions are satisfied

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- 1) There must be a sale
- 2) Sale must be of goods
- 3) Sale must be by a dealer
- 4) Sale must be in course of inter-state trade or commerce
- 5) Sale must be between states not within a state
- 6) Sale must not take in course of import or export.

Section 3 --**Sale is deemed to take place in the course of inter state trade**

if the sale—

a) There is **movement of goods from one state to another**

OR

b) Sale is made by **transfer of title documents**, when such goods are being moved in interstate movement (E.g. endorsing the Lorry receipt, Railway receipt, Bill of lading, Warehouse certificates etc.)

- The movement is deemed to start when goods are delivered to carrier & is deemed to end when delivery of goods is taken from the carrier.
- CST not applicable if goods start movement and end in the same state though passing through other state.
- Buying and selling dealers can be in different or same state.

Sec. 5:- When a Sale or Purchase takes place in the course of Import/ Export.

Neither local sales tax nor C.S.T. is leviable on purchase/ sale in the course of import or export.

IMPORT:- The purchase/ sale is deemed to be in the course of import if

a) it occasions such import
OR

b) it is a resale during the import i.e. effected by transfer of title documents **before** the goods cross customs frontiers of India.

EXPORT:- The purchase / sale is deemed to be in the course of export if

a) it occasions such export
OR

b) it is resale during the export i.e. effected by transfer of title documents **after** the goods cross customs frontiers of India.

DEEMED EXPORT [Sec. 5(3)] :-

- Even the **earlier sale** of goods to the exporter is **deemed to be sale in the course of export**, if that exporter was already having the order/ agreement for export & the goods are purchased by him for complying that export order. Of course the seller has to submit the declaration from exporter to this effect & furnish it to the concerned taxing authorities. **(Form H)**, is to claim exemption from CST. The actual export outside India must occur after this deemed export.
- Similarly **Aviation Turbine Fuel sold** to designed Indian Carriers, for their **International flights** is also considered as deemed export.

CST does not apply to exports/imports.

Sec. 6 --The Charging Sec 6 charges the tax on a)inter state sale of b) goods c) by a dealer .

Liability for Tax

- **Dealer--**Every Dealer is liable to pay tax (C.S.T.)
- **On Inter state Sale of Goods**—movable and not immovable property.
- Sales by dealer the course of inter-state trade – not on sale within the state.
- **CST not payable – on inter state sale of electricity.**
- **CST not payable on Exports** --Exports exempted—CST not applicable on sales in the course of exports out of India.
- **CST not payable on Second Sale**--Second sale exempted-- No CST on subsequent sales , by transfer of documents of title if , second sale is by Registered Dealer to Registered Dealer, sale made by transfer of documents when the goods are in movement from one state to another.
- **No basic turnover exemption limit** is prescribed.
- **Dealer liable even if no tax payable under State Sales Tax**--This liability arises even if the sale could have been not taxable had it taken place in that appropriate state, where the dealer has Place of Business(POB).
- **However the following inter-state sales are exempted.:-**
 - 1) **Subsequent “In Transit” Resale of goods by transfer of title documents** during the inter state movement of goods. (Subject to submissions of Forms C, E1 & E2 etc). Form C by Registered purchasing Dealer to seller and , Form E-I from 1st Seller, Form E-II from subsequent Seller to buyer.
Form C not required if -- sale is exempt from tax generally, or is taxed at lower than 2% or seller satisfies the authorities that the buying dealer is a Registered Dealer.
 - 2) **Sale to personnel of any foreign diplomat mission / consulate, U.N.O. or similar international body** (against declaration in Form J).
- As per **sec. 6**, only Dealers are liable to pay tax under this Act on Sale of Goods.
- **Dealer**-- means any person who carries on Business in Goods, which need not be a regular one. Mercantile agents and auctioneers are also dealers. Even a Government is said to be a dealer.

- **Goods**-- Include all movable properties except newspapers, shares, securities & actionable claims. **Electricity** is not excluded in definition of goods. But the charging section 6 **excludes** it from levy of tax. **Immovable properties** are not goods.
- **SALE**--Sale of goods made for cash or on credit basis, for valuable consideration. Transfer of property ie. ownership in goods . But sale does not **include mortgage/hypothecation/charge/pledge of goods.**

Deemed sale—

- 1) Transfer ownership in goods **otherwise than under a contract ..**
- 2) Transfer ownership in **goods in execution of works contract.**
- 3) **Hire purchase/instalment sale.**
- 4) **Rental or lease of goods .**
- 5) Supply of goods **by association to members.**
- 6) Supply of **food , drinks or articles for human consumption.**

Sec. 6A : Branch transfer :- Dealer may transfer his goods to other state to his own P.O.B (branch) or to his agent / principal, for sale in future. In this case, movement is only transfer and isn't by reason of sale & so not liable for C.S.T. Of course, this can happen only for standard goods and not for special/tailormade goods. But the burden of proving such non-sale movement is on the transferor.

He has to submit the declaration filled & signed by his principal officer at branch or agent or principal (**Form F**) & also proof of dispatch of goods. If he fails in this then such movement shall be deemed to have been occasioned as a result of sale & it will be taxed.

Sec. 7 --Registration --says that every dealer liable to pay tax under this Act shall apply for Registration under C.S.T. Act. It also says that a dealer liable to pay tax under Sales Tax Laws of his appropriate state, may voluntarily apply for Registration under C.S.T. Act. The Registration authority will register the dealer & grant him Registration Certificate specifying the classes of goods the dealer intends to deal in. If the dealer wants to get the Registration Certificate cancelled, he has to apply for it's **cancellation before Sept. end & the**

authorities will cancel it w.e.f. next 31st March, if they are satisfied that dealer is now not liable to pay C.S.T.

- The authorities may cancel it on their own, if they find that dealer has ceased to exist / to carry the business or has failed to pay tax / penalty etc. under the C.S.T. Act.

Sec. 8-- says that tax shall be on interstate turnover of sales. Turnover is defined as the aggregate of sale prices.

- **SALE PRICE** is defined as the amount payable as consideration, less
 - 1) any **Cash discount/ trade discount** as per normally prevailing trade practice
 - 2) **freight** separately charged
 - 3) **installation charges** separately charged.
 - 4) All other sums charged by dealer for anything done by him w.r.t. goods, upto the time of delivery of goods, are included in sale price.

Sale price includes-- Excise duty, Transit insurance, Octroi, Packing charges, Weighing charges, Incentive by Manufacturer, etc. will be part of the taxable price. Refundable deposits will be excluded.

Sec. 8 talks about rate at which C.S.T. is payable. The rates are as follows :-

- 1) **C.S.T. rate when sale to Registered Dealer against Form C will be 2% or VAT rate of tax** of that state, whichever is less.
- 2) **C.S.T. rate when sale not to Registered Dealer will be at VAT rate of tax** of that state.
- 3) The **rate of CST will be NIL** if goods are **sold to a R.D.**, for using them for his unit located in **SEZ** or for developing / operating / maintaining the SEZ itself. Here also, the goods must have been of the class specified in **Registration Certificate** of the purchasing dealer & he furnishes a declaration to that effect. (Form I)
- 4) The **State Govts. are empowered to reduce the applicable rate of tax or to make it NIL**, by issuing notifications to that effect. Such notifications can be for the particular goods or for the P.O.B. of seller or for the class of dealers.

Sec.8A : Deductions while calculating taxable turnover . As already discussed, customary **cash discounts** and separately charged **freights & installation charges** are basically excluded from taxable sale price. Further to this, following two deductions are also allowed.

i) Amt. of **C.S.T.** included in sale price, calculated by applying the formula

$$= [\text{price}] \times [\text{rate of tax} / (100 + \text{rate of tax})]$$

ii) Sale price of **Sales Returns**, if the goods sold are returned **within 6 months** from the date of delivery of goods. Of course, the dealer has to provide satisfactory evidence about return of goods & refund / adjustment of sale price.

Sec. 9 : Which State to collect C.S.T. & tax / penalties under this Act?

Though C.S.T. is a union levy, it is to be **actually collected by Govt. of that State from which the inter-state movement of goods has commenced.**

If the in-transit goods are further resold by Registered Dealer, CST on that resale (if leviable) is to be collected by Govt. of that State (where sale takes place) from which the reseller has to obtain the prescribed declaration forms w.r.t. purchase of such goods. If the resale is by URD, the state from which it is effected shall collect the CST

Once it is decided to which State Govt. is to collect C.S.T. on a particular sale, those authorities of that state govt., which are empowered to assess & collect local sales tax, shall have the powers to assess & collect C.S.T. also (and even int. & penalties under C.S.T. Act). They will do this on behalf of Govt. of India.

Relevant provisions of local sales tax laws also become applicable so as to empower them for doing this.

The amt. of C.S.T. as well as penalties & int. under this Act collected by a particular state Govt., is to be assigned to & **retained by that State.** Proceeds attributable to U.Territories will become part of Consolidated Fund of India

- **Sec. 9A** says that **only Registered Dealers can collect the CST** & that too, in accord with CST Act & Rules.
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Sec. 14 : Declared Goods-- Goods of special importance

Declared Goods--Certain goods are declared to be of special importance in inter state trade. These include certain cereals like **paddy, rice, wheat, bajra & Jawar etc., coal & coke, cotton, cotton yarn, crude oil, hides & skins, iron & steel, jute, domestic LPG, oilseeds, pulses, fabrics, sugar etc,** as specified in this section. Tax on declared goods within the state cannot exceed 4%.

Sec. 15 : Restrictions in regard to tax on sale / purchase of declared goods within the states :

Powers of State Govts. to tax sale / purchase of these goods are made subject to following restrictions :

- a) **Local rate** of sales tax / vat for these goods **can not be more than 5%**
 - b) Local tax levied on sale / purchase of these goods is to be **reimbursed to the person , if he sells** those goods in the course of **inter state trade & pays C.S.T** on it.
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State whether TRUE or FALSE.....

1. CST Act applies even in Jammu & Kashmir.
2. CST is levied on sale from one state to another.
3. Though movable, newspapers are not goods.
4. CST is applicable even if turnover is small.
5. Only registered dealers can collect CST.
6. The rate of CST is always 2%.
7. Sales returns are deductible if within 3 months
8. Officers of CG collect CST.
9. Goods of special imp. Can't be taxed.
10. Mr. A of Mumbai, instructs Mr. B of Bangalore to deliver the goods at Belgaon. This is interstate sale, taxable under CST.

11. Mr. X of Delhi, sends goods to his agent Mr. Y of Mumbai for sale thereat. Mr. X has to obtain Form C from Mr. Y.
12. Mr. X of Delhi, sends goods to exporter Mr. Y of Mumbai for export to UK. Mr. X has to obtain Form F from Mr. Y.
13. Freight & installation charges, charged by seller, are always exempt from CST.
14. Calculate CST on the following interstate sale.

Basic price 1,00,000,

Excise duty 20,000

Freight 2,000

Transit insurance 1,000

Installation charges 3000

Octroi 4,000

Assume : a) The buyer is URD

b) The buyer is RD giving Form C

Note : The local VAT rate is 12.5%.

15. Calculate CST payable by Mr. A of Mumbai for May 2014
 - a) Sale in Maharashtra 1,00,000
 - b) Sale to other states 5,10,000 (Form C recd)
 - c) Non sale dispatch to agent in Delhi 1,00,000 (Form F not to be received).
 - d) Sale to Mr. G of Gujrat, who exports the goods to Canada, against the export order in his hand (Form H received) : 1,00,000.
 - e) Returns of C-Form sale of April' 14 : 10,000
 - f) Returns of C-Form sale of Sept' 14 : 10,000

16. R of Rajasthan purchased goods from G of Gujarat. While in transit, R resold them to B of Bihar. R claims this as an exempt in-transit resale. Which formalities are necessary?

17. M of Mumbai, sells goods to K of Karnataka. After 1 month, K gets export order and exports the same goods. Can M claim his sale as deemed export?

18. P of Punjab comes to Hyderabad & purchased goods. He then carries them to Punjab, on his own risk. Is CST leviable on this?

1. **True**
2. **True**
3. **True**
4. **True**
5. **True—Sec 9(A)**
- 6.
- 7.

Sale Outside the State

A State Govt. can not levy VAT on those sales which are outside its state. Sale inside a particular state is deemed to be outside all other states. A sale is deemed to take place inside the particular state if.....

- 1) If the goods are within that state at the time of contract of sale, in case of specific or ascertained goods. Specific goods means goods existing at the time of sale & are identified for that contract of sale.
- 2) If the goods are within that state at the time they are appropriated towards the contract of sale, in case of unascertained or future goods.

Example : 1) A of Mumbai sold his car to D of Delhi. If the car was in Mumbai at the time of sale, this sale is inside Maharashtra & outside all other States.

2) A of Mumbai has cycle factories in Mumbai & Surat. He agrees to sell 100 cycles to K of Karnataka, which are yet to be manufactured. After 15 days 100 cycles manufactured at Surat are appro. towards this contract. This sale will be inside Gujarat & outside all other states.

Explanation : Single contract for goods located in different different states :- In such a case the provisions will apply as if there were separate contracts w.r.t. goods at each place.

- 3) Example :- A of Mumbai sells his two vehicles to D of Delhi. At the time of sale Maruti car is in Mumbai & Innova Jeep is in Delhi. Then sale of Maruti car is in Maharashtra & that of Innova is Delhi

