

**CENTRAL SALES TAX ACT  
REVIEW OF IMP PROVISIONS  
WITH SIMPLE EXAMPLES**

C.S.T. is an Indirect Tax on sale of goods. Therefore the seller of goods can collect it from his buyer. Before we see the provisions of C.S.T. Act following scheme of taxation is to be understood

- 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 is applicable to the **whole of India**, including Jammu & Kashmir.

Before enacting this law, there were problems about lack of authority for any Govt., to tax the interstate sales. Thereafter the constitution was first amended in 1956 & the CST Act, 1956 was introduced in 1957. Subsequent amendments to constitution widened the scope of the act. Particularly the 46<sup>th</sup> amendment, in 1982, authorized taxation of certain deemed sales e.g. Works contract, Hire Purchase sales, lease, supplies to members by clubs and food supplies by hotels etc .

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.

**Sec. 2** contains definitions of certain imp. words like sale, sale price, turnover, goods, dealer, business, etc. The meaning of these words are to be understood & construed exactly as per these definitions, unless the context otherwise requires.

Some imp points to remember are as follows.:-

As per **sec. 6**, only Dealers are liable to pay tax under this Act on Sale of Goods.

Definition of DEALER is exhaustive & not inclusive. 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, except for sale of surpluses or scraps etc.

**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** is defined as transfer of property in goods from one person to another for valuable consideration but does not include mortgage, hypothecation or pledge. It includes the conventional types of sales and the various forms of deemed sales like tfr without contracts, works contract, HP/installment sales, tfr of right to use, supply of goods by associations to their members and supply of food as a part of hotel service etc.

**Sec. 8** says that tax shall be on interstate turnover of sales. Turnover is defined in section 2 as the aggregate of sale prices. **SALE PRICE** is defined as the amount payable as consideration, less

- 1) any Cash discount as per normally prevailing trade practice
- 2) freight separately charged
- 3) installation charges separately charged.

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. E.g. Excise duty, Transit insurance, Octroi, Packing charges, Weighing charges etc. will be part of the taxable price. Refundable deposits will be excluded.

The Charging **Sec. 6** charges the tax on sale of goods in course of inter-state trade. Section 3 explains as to when it is said to have happened. The sale is deemed to take place in the course of inter state trade if the sale

a) Occasions movement of goods from one state to another

OR

b) is effected by transfer of title documents, during such 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.



**Sec. 6** says that Every Dealer is liable to pay tax (C.S.T.) on all Sales of Goods (other than electrical energy) effected by him in the course of inter-state trade . No basic turnover exemption limit is prescribed. 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)

2) Sale to personnel of any foreign diplomat mission / consulate, U.N.O. or similar international body (against declaration in Form J).

**Sec. 7** 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 S.T.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 31<sup>st</sup> 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. 9A** says that only Registered Dealers can collect the CST & that too, in accord with CST Act & Rules.

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

1) C.S.T. rate will be equal to the general rate of tax which is that rate at which the sale of concerned goods could have been taxed if it was inside the appropriate state (**Local Rate**)

2) The **special rate of tax is 2% or local rate, whichever is less**, if the goods are sold to the RD & if the goods are falling in the classes of goods specified in the certificate of registration of the purchasing dealer (as intended for resale or for use in manufacture / processing of goods for sale or in mining, electricity generation etc.or for use as packing material etc.)

Therefore the purchasing dealer has to furnish a declaration , to the selling dealer. (Form C )

- 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 qua the particular goods or qua the P.O.B. of seller or qua 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. 14 : Goods of special importance**

**Declared Goods**--Certain goods are declared to be of special imp 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



**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.

c) Local Tax leviable on rice is to be reduced by amount of local tax already levied on paddy out of which that rice is procured.

d) Sale of paddy for procuring the rice which is exported shall be considered as sale in the course of export ( & consequently it will not be taxed with local tax or C.S.T. as well)

e) Separation of whole pulses into parts & husking of them won't be considered as manufacturing etc.

**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/penultimate 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/ agreement (Deemed Export). Of course the seller has to submit the declaration from exporter to this effect & furnish it to the concerned taxing authorities. (Form H), as 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.

**Sec. 6A : Branch tfr etc & Burden of proof for that :-**

Dealer may tfr 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 isn't by reason of sale & so not liable for C.S.T. Of course, this can happen only for std goods and not for special/tailormade goods. But the burden of providing such non-sale movement is on the transferor.

He has to submit the declaration filled & signed by his principal officer thereat ( branch) or agent or principle (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.

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.

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%.



Calculate CST payable by Mr. A of Mumbai for  
May 2014

1. Sale in Maharashtra 1,00,000
2. Sale to other states 5,10,000 (Form C recd)
3. Non sale dispatch to agent in Delhi 1,00,000  
(Form F not to be received).
4. 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.
5. Returns of C-Form sale of April'14 : 10,000
6. Returns of C-Form sale of Sept'14 : 10,000

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

# Sale Outside the State

A State Govt. can not levy VAT on those sales which are outside it's 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 sale 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 Gujrat & 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.

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