GSTZONE

GST Basics

GST, explained from zero

The complete guide, plus all 11 sections and rules

Text sourced from the Central Board of Indirect Taxes and Customs

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A Khemchandani Finance initiative

Start here

GST replaced a tangle of older taxes - VAT, service tax, excise and a dozen cesses - with a single tax on 'supply'. That one word does most of the work: if you supply goods or services in the course of business, GST is in play. If you don't, it isn't.

The tax is collected in stages. Every business in a chain charges GST on what it sells, claims credit for the GST it paid on what it bought, and pays the government only the difference. That credit mechanism is what stops tax piling on tax - and it's why so much of GST law is really about protecting the credit chain.

Three taxes share the same base. A sale inside one state attracts CGST (central) plus SGST (state), split roughly half and half. A sale across state lines attracts IGST instead, at the combined rate. Same total, different pockets.

A worked example

Following one shirt through the chain

Mill sells fabric to a tailor	**₹1,000 + 5% GST = ₹1,050**	Mill pays ₹50 to government
Tailor sells shirt to a shop	**₹2,000 + 5% GST = ₹2,100**	Tailor owes ₹100, claims ₹50 credit, pays ₹50
Shop sells shirt to you	**₹3,000 + 5% GST = ₹3,150**	Shop owes ₹150, claims ₹100 credit, pays ₹50

> **The point:** The government collected ₹150 in total - exactly 5% of the final ₹3,000 price. Nobody paid tax on tax. That is the entire design of GST in one line.

The mistakes that cost people money

- Thinking GST only applies to sales. Free samples, stock moved between your own branches in different states, and goods taken for personal use can all be treated as supplies.
- Assuming your accountant's software knows the right rate. Classification is a legal question, and the business - not the software - carries the liability if it is wrong.
- Ignoring the credit chain when choosing suppliers. An unregistered or non-filing supplier can quietly cost you the credit on every invoice they raise.

What this guide covers

Every provision, explained

SECTION 1 · CGST ACT, 2017

Short title, extent and commencement

Section 1 gives the Act its name (Central Goods and Services Tax Act, 2017), extends it to the whole of India, and lets different provisions start on dates the Government notifies.

- Jammu and Kashmir came in from 08-07-2017 under a separate extension Act, which is why some 2017 periods there differ.

RULE 1 · CGST RULES, 2017

Short title and commencement

The CGST Rules came into force on 22 June 2017, ahead of most of the Act, so that registration and migration could start before the levy did. The words 'and Commencement' in the original heading were later omitted; the rule itself is very much in force.

SECTION 2 · CGST ACT, 2017

Definitions

Section 2 is the definitions clause - it defines the terms used throughout the Act (over 120 definitions such as 'supply', 'business', 'input tax credit', 'aggregate turnover', 'taxable person'). Always read a provision together with the relevant definition here.

- The definitions that decide most disputes: 'aggregate turnover' (2(6)) is PAN-level and all-India and includes exempt and export supplies; 'business' (2(17)) is wide enough to cover incidental and ancillary activity; 'consideration' (2(31)) excludes a subsidy given by the Government; 'input service distributor' (2(61)) was rewritten from 01-04-2025 to make ISD compulsory.
- 'Related persons' in the Explanation to section 15 - not section 2 - is what triggers Rule 28 valuation.
- Definitions inserted in 2023 for online gaming: 'online money gaming' (2(80B)), 'specified actionable claim' (2(102A)) and 'virtual digital asset' (2(117A)).
- 'Plant and machinery' is defined in the Explanation to section 17 and excludes land, buildings and other civil structures - the definition on which the whole Safari Retreats question turned.

RULE 2 · CGST RULES, 2017

Definitions

Definitions used across the Rules; anything not defined here takes its meaning from the CGST Act.

SECTION 3 · CGST ACT, 2017

Officers under this Act

Section 3 authorises the Government to appoint classes of officers (Principal Chief Commissioners, Chief Commissioners, Commissioners, and so on) for administering the Act.

- Assignment of functions to a 'proper officer' comes from Circular 3/3/2017-GST and its successors - an order passed by an officer not so assigned is without jurisdiction, which is a threshold objection worth checking on every notice.

SECTION 4 · CGST ACT, 2017

Appointment of Officers

Section 4 lets the Board appoint other officers as needed and empowers senior officers to authorise juniors.

- Monetary limits for adjudication by rank are fixed by circular; a notice adjudicated above the limit of the officer's rank is challengeable.

SECTION 5 · CGST ACT, 2017

Powers of officers under GST

Section 5 sets out the powers of officers - an officer may exercise the powers assigned to him and those of any subordinate, subject to conditions the Board specifies.

- A senior officer may exercise the powers of a subordinate, but the Commissioner cannot exercise powers expressly given to another authority, and delegation must be traceable to an order.

SECTION 6 · CGST ACT, 2017

Authorisation of officers of State tax or Union territory tax as proper officer in certain circumstances

Section 6 provides cross-empowerment: officers of the State/UT GST are also treated as proper officers for CGST (and vice-versa), so a taxpayer is not subjected to parallel proceedings by both administrations on the same subject.

- Cross-empowerment: State and central officers are proper officers under each other's Acts, but section 6(2)(b) bars a second proceeding on the SAME SUBJECT MATTER once one authority has initiated one.
- 'Same subject matter' means the same issue for the same period, not merely the same taxpayer - so a State audit for FY 2020-21 does not bar a central investigation into a different issue.
- Where both authorities issue notices on the same issue and period, the later one is liable to be quashed - raise it at the reply stage with the earlier notice annexed.

SECTION 7 · CGST ACT, 2017

Scope of supply

Section 7 defines the SCOPE OF SUPPLY - the taxable event. 'Supply' includes sale, transfer, barter, exchange, licence, rental, lease and disposal made for consideration in the course of business, plus imports of services and the Schedule I deemed supplies (even without consideration). Schedule III lists activities treated as neither goods nor services.

- Schedule I supplies are taxable WITHOUT consideration: permanent transfer of business assets where credit was taken, supplies between distinct or related persons in the course of business (with the employer-employee gift exception up to Rs 50,000 a year), principal-agent supplies, and import of services from a related person.
- Schedule III is the outside-GST list: employee services to the employer, court and tribunal services, MP/MLA functions, funeral services, sale of land, sale of a completed building, actionable claims other than specified ones, and - inserted from 01-02-2019 - high seas sales and supplies from a bonded warehouse before clearance.
- 7(1A) and Schedule II now only CLASSIFY a supply as goods or services; they no longer decide whether something is a supply. That change is retrospective to 01-07-2017.
- Secondment of employees is the recurring fight: Schedule III protects a genuine employment relationship, but Northern Operating Systems (SC, 19-05-2022) taxed the arrangement on its documents. Read the agreement before answering.

SECTION 8 · CGST ACT, 2017

Tax liability on composite and mixed supplies

Section 8 fixes how COMPOSITE and MIXED supplies are taxed: a composite supply (naturally bundled) takes the rate of its principal supply; a mixed supply (separate items sold together for a single price) takes the highest rate among them.

- Composite supply: two or more supplies naturally bundled and supplied together in the ordinary course of business, one of them principal - it takes the principal supply's rate.
- Mixed supply: items that could be supplied separately, sold for a single price - the HIGHEST rate in the bundle applies to the whole.
- Works contract and restaurant supply are composite supplies declared as SERVICES by Schedule II, so they never get split.
- Freight charged on an invoice for goods usually follows the goods as a composite supply; charging it at the freight rate is a common and expensive error.

SECTION 9 · CGST ACT, 2017

Levy and collection

Section 9 is the CHARGING section - it levies CGST on all intra-State supplies (except alcohol for human consumption) at notified rates on the transaction value, collected from the supplier. It also fixes REVERSE CHARGE (9(3)/(4)) where the recipient pays, and makes notified e-commerce operators liable for certain services (9(5)). Petroleum products are to be taxed from a future notified date.

- The maximum rate in section 9(1) was raised to forty per cent by the Finance (No.2) Act 2025, which is what allows the 40 per cent demerit slab notified on 22-09-2025.
- 9(3) reverse charge applies to notified supplies - GTA, legal services from an advocate, sponsorship, director's services, security services, renting of motor vehicles and others in Notification 13/2017-Central Tax (Rate).
- 9(4) reverse charge on purchases from unregistered persons is confined to notified classes of registered recipients - it is not a general levy.
- 9(5) makes the e-commerce operator liable as if it were the supplier for notified services - passenger transport, accommodation, housekeeping and restaurant service through the platform (Notification 17/2017-CTR as amended by 17/2025).
- Alcoholic liquor for human consumption is permanently outside; petroleum crude, high speed diesel, petrol, natural gas and ATF are inside the Act but not yet notified for levy.

When you need more than a guide

This document tells you what the law says. It cannot tell you what it means for your specific numbers, your notice, or your year - and that is usually where the money is.

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