



IMPACT OF CHANGE IN GST COMPENSATION CESS RATES W.E.F. 1ST APR 2023

Description

01/2023- COMPENSATION CESS

Section 163 of Finance Act 2023 made effective from 1st April 2023. Through this amendment, the schedule to GST (Compensation to States) Act is amended to cap the maximum compensation Cess to Retail Sale Price for specified products (pan masala and tobacco).

Through this, Central Govt. has appointed 1st Apr 2023 as the date on which Section 163 of Finance Act 2023 shall be effective.

Now let's understand section 163 of Finance Act. Through this section, Schedule to GST (Compensation to States) Act, 2017 has been amended to cap the Maximum Collectible Compensation Cess to the retail price of product. GST council in its 49th meeting suggested to change the levy compensation cess on commodities such as Pan Masala, Tobacco etc. from ad valorem to specific tax-based levy to boost the first stage collection of the GST revenues & for plugging tax evasion in Pan Masala and Tobacco business.

Product	Maximum Cap as per existing Schedule	Max. Cap as per Amended Schedule from 1 st Apr 2023
Pan Masala	One hundred and thirty-five per cent. ad valorem.	51 % of retail sale price of U
Tobacco and manufactured tobacco substitutes, including tobacco products.	Rs. 4170 rupees per thousand sticks or 290 per cent. ad valorem or a combination thereof, but not exceeding Rs. 4170 per thousand sticks plus 290 per cent. ad valorem.	Rs. 4170 rupees per thousand sticks or 290 per cent. ad valorem or a combination thereof, but not exceeding Rs. 4170 per thousand sticks plus 290 per cent. ad valorem or 100% of retail price

- The cess is levied over and above highest rate of GST i.e., 28%

- And now since amendment has been made in the enabling provision of the Act regarding Max. Collectible Cess, **notification no. 02/2023-Cess Rate has been issued for levying Compensation Cess based on Retail Sale Price.**
- Retail Sale Price has been added as Explanation (i) to the Schedule to Compensation Cess Act 2017
- 'Explanation.—For the purposes of this Schedule,—
 - (i) “retail sale price” means the maximum price at which the concerned goods in packaged form may be sold to the ultimate consumer and includes all taxes, local or otherwise, freight, transport charges, commission payable to dealers, and all charges towards advertisement, delivery, packing, forwarding and the like and the price is the sole consideration for such sale: Provided that where the provisions of the Legal Metrology Act, 2009 or the rules made thereunder or any other law for the time being in force require to declare on the package, the retail sale price excluding any taxes, local or otherwise, the retail sale price shall be construed accordingly;
 - (ii) where on the package of any concerned goods more than one retail sale price is declared, the maximum of such retail sale price shall be deemed to be the retail sale price;
 - (iii) where the retail sale price, declared on the package of any concerned goods at the time of its clearance from the place of manufacture, is altered to increase the retail sale price, such altered retail sale price shall be deemed to be the retail sale price;
 - (iv) where different retail sale prices are declared on different packages for the sale of any concerned goods in packaged form in different areas, each such retail sale price shall be the retail sale prices for the purposes of determination of the rate of cess for the said goods intended to be sold in the area to which the retail sale price relates.’.

02/2023- COMPENSATION CESS RATE

For Amending the GST Compensation Cess Rate in master compen
Notification No. 01/2017 on Retail Sale Price basis (Specific Duty) f
Valorem basis (% of Value basis) w.e.f. 01/04/23

This notification has 26 entries for amending/specifying rate of goods (corresponding to entry number) to retails sale price basis. Following table contains comparative Cess Rates:-

S.No	Entry No. of Sch.	HSN	Description of Goods	Compensation Rate before Amendment
1.	1.	21069020	Pan-Masala	60%
2.	5.	2401	Unmanufactured tobacco (without lime tube) – bearing a brand name	71%
3.	6.	2401	Unmanufactured tobacco (with lime tube) – bearing a brand name	65%
4.	7.	2401 30 00	Tobacco refuse, bearing a brand name	61%
5.	19.	2403 11 10	'Hookah' or 'gudaku' tobacco bearing a brand name	72%

6.	20.	2403 11 10	Tobacco used for smoking 'hookah' or 'chilam' commonly known as 'hookah' tobacco or 'gudaku' not bearing a brand name	17%
7.	21	2403 11 90	Other water pipe smoking tobacco not bearing a brand name	11%
8.	22	2403 19 10	Smoking mixtures for pipes and cigarettes	290%
9.	23	2403 19 90	Other smoking tobacco bearing a brand name	49%
10.	24	2403 19 90	Other smoking tobacco not bearing a brand name	11%
11.	24A	2403 91 00 2404 11 00	"Homogenised" or "reconstituted" tobacco, bearing brand name	NA. New Entr
12.	25	[2403 91 00 or 2404 11 00]	"Homogenised" or "reconstituted" tobacco, bearing a brand name	72%
13.	26	2403 99 10	Chewing tobacco (without lime tube)	160%
14.	27	2403 99 10	Chewing tobacco (with lime tube)	142%
15.	28	2403 99 10	Filter khaini	160%
16.	29	2403 99 20	Preparations containing chewing tobacco	72%
17.	30	2403 99 30	Jarda scented tobacco	160%
18.	31	2403 99 40	Snuff	72%
19.	32	2403 99 50	Preparations containing snuff	72%
20.	33	2403 99 60	Tobacco extracts and essence bearing a brand name	72%
21.	34	2403 99 60	Tobacco extracts and essence not bearing a brand name	65%
22.	35	2403 99 70	Cut tobacco	20%
23.	36	2403 99 90	Pan masala containing tobacco 'Gutkha'	204%
24.	36A	2403 99 90	All goods, other than pan masala containing tobacco 'gutkha', bearing a brand name	NA. New Entr
	36B	2403 99 90 2404 11 00, 2404 19 00	All goods, other than pan masala containing tobacco 'gutkha', not bearing a brand name	NA. New Entr
25.	37	[2403 99 90 or 2404 11 00 or 2404 19 00]	All goods, other than pan masala containing tobacco 'gutkha', bearing a brand name	96%

		2404 11 00, 240419 00		
26.	38	[2403 99 90 or 2404 11 00 or 2404 19 00]	All goods, other than pan masala containing tobacco 'gutkha', not bearing a brand name	89%

- 'R' appearing in column 4 means 'Retail Sale Price' as provided in Schedule to GST (Compensation to States) Act 2017 (as mentioned in initial part of article) – **Explanation 4 to notification 1/2017 – Compensation Cess Rate**
- In Schedule After explanation an illustration for calculation of GST Compensation Cess on Pan Masala (S.No 1 of above table) has been inserted :-

Rate of goods and services tax compensation cess = 0.32R per unit;

If retail sale price of unit (pouch) of Pan Masala = Rs. 10;

*Goods and Services Tax Compensation Cess leviable = 0.32R = 0.32*10 = Rs. 3.2 per unit (pouch)*

IMPACT OF CHANGE IN GST COMPENSATION CESS RATE

Impact of above amendment in which Cess has been levied on Retail Sale price on Manufacturer and Trader is being explained by following example:-

Product	Pan Masala
Amended Rate	0.32 of Retail Sale Price
Retail Sale Price	50 per pouch

Manufacturer to Wholesale Dealer	Selling 10000 Units @ Rs. 20 each		
Taxable Value	CGST (14%)	SGST CESS (0.32 of Retail Price) (14%)	Cess Calculation
200000	28000	28000	10000*50*0.32

Wholesale Dealer to Retailer	Selling 10000 Units @ Rs. 30 each
Outward	

Taxable Value	CGST (14%) SGST (14%)	CESS (0.32 of Retail Price)	Cess Calculation
300000	420000	160000	10000*50*0.32
ITC on Inward Supplies received from manufacturer	280000	160000	
Payment of Tax in Cash	280000	NIL	

Retailer to Ultimate Consumers Selling 10000 Units @ Rs. 45 each
Outward

Taxable Value	CGST (14%) SGST (14%)	CESS (0.32 of Retail Price)	Cess Calculation
450000	660000	160000	10000*50*0.32
ITC on Inward Supplies received from manufacturer	420000	160000	
Payment of Tax in Cash	220000	NIL	

So from the above example it is evident that entire cess burden is being collected by the govt at the first stage itself i.e. at the stage of manufacturing itself. In remaining further transaction i.e. from whole seller to retailer/retailer to ultimate Consumer, the burden of cess is being transferred to the ultimate consumer.

SUPPLIES OF STOCK IN HAND AS ON 1ST APR 2023

Also it is necessary to discuss as to what the dealers have to do regarding supplies made out of Stock in hand as on 1st Apr 2023 i.e. from the effective date of CESS rate change.

Dealers will have to charge GST Compensation Cess as per amended rates based on retail sale price and they can utilize the balance of GST Compensation Cess lying in the GST Cess credit ledger. This has been explained in the example below:-

Whole sale dealer has purchased Pan Masala from Manufacturer 500 Pouches @ Rs. 25 per pouch bearing Retail Sale price of Rs. 50 per pouch – on 30th March 2023

Taxable Value	CGST (14%)	SGST (14%)	CESS (@ 60%)	Cess Calculation
12500 (500*25)	1750	1750	7500	12500*60%

Now whole sale dealer selling abovementioned goods to the retailer @ Rs. 45 per pouch on 1st April 2023. He will be charging Cess as per amended rates based on Retail Sale price in following manner:–

Outward	Whole Sale to Retailer			
Taxable Value	CGST (14%)	SGST (14%)	CESS (0.32 of Retail Price)	Cess Calcula
22500 (500*45)	3150	3150	8000	500*50*0.32
ITC on Inward Supplies received from manufacturer	1750	1750	7500	
Payment of Tax in Cash	1400	1400	500	

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02/2023- COMPENSATION CESS RATE	For Amending the GST Compensation Cess Rate in master compensation Notification No. 01/2017 on Retail Sale Price basis (Specific Duty) from Valorem basis (% of Value basis) w.e.f. 01/04/23
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IMPACT OF CHANGE IN GST COMPENSATION CESS RATE

Impact of above amendment in which Cess has been levied on Retail Sale price on Manufacturer and Trader is being explained by following example:-

Product	Pan Masala
Amended Rate	0.32 of Retail Sale Price
Retail Sale Price	100 per pouch

Manufacturer to Wholesale Dealer	Selling 10000 Units @ Rs. 20 each (Taxable Value)		
Taxable Value	CGST (14%)	SGST (14%)	Cess Calculation
200000	28000	28000	$10000 \times 100 \times 0.32$

Wholesale Dealer to Retailer	Selling 10000 Units @ Rs. 30 each (Taxable Value)		
Outward			
Taxable Value	CGST (14%)	CESS (0.32 of Retail Price)	Cess Calculation
300000	42000	320000	$10000 \times 100 \times 0.32$
ITC on Inward Supplies received from manufacturer	28000	320000	
Payment of Tax in Cash	14000	NIL	

Retailer to Ultimate Consumers	Selling 10000 Units @ Rs. 45 each (Taxable Value)		
Outward			
Taxable Value	CGST (14%)	CESS (0.32 of Retail Price)	Cess Calculation

Taxable Value	CGST (14%)	SGST (14%)	CESS (0.32 of Retail Price)	Cess Calculation
22500 (500*45)	3150	3150	16000	500*100*0.32
ITC on Inward Supplies received from manufacturer	1400	1400	6000	
Payment of Tax in Cash	1750	1750	10000	

Category

1. GST

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