GOODS AND SERVICES TAX

TAX

A tax is a mandatory fee or financial charge levied by any government on an individual or an organization to collect revenue for public works providing the best facilities and infrastructure. The collected fund is then used to fund different public expenditure programs. If one fails to pay the taxes or refuses to contribute towards it will invite serious implications under the pre-defined law.

TAXATION

Taxation means both the system of tax collection and the set of laws that govern the process of collection. The concept of taxation also refers to all the taxes that are in force in a country at a given time.

OBJECTIVES OF TAXATION

The main Objectives of Taxation in India is to finance the government's expenditure on public goods and services, such as education, health, infrastructure, and defense. Taxation provides the government with the necessary resources to undertake development programs, which, in turn, promote economic growth:

- **Economic Development:** Economic Development is one of the most important objectives of taxes. The expansion of capital formation is the main determinant of the economic progress of any country. Capital formation is considered a fundamental pillar of economic progress. However, lack of capital is common in less developed countries. To address capital shortages, governments in these countries are deploying resources to accelerate capital formation. The government uses tax revenue to increase public and private investment through various expenditures. With proper tax planning, the ratio of savings to national income can be increased, which will further help the economy to develop.

- **Non-Tax Objective:** Non-Tax Revenue is the recurring income of the government from sources other than taxes. They are extremely important because they help the government and improve public finances. Reducing income and wealth inequality is another non-revenue goal of taxes. This can be achieved by taxing the rich at a higher rate than the poor or by introducing a progressive taxation system.

- **Price Stability:** Taxes can be used to maintain price stability, which is the short-term goal of taxation. Taxes are considered a good way to keep inflation under control. Increased direct tax rates can be used to curb private spending, further reducing excess demand. Naturally, the commodity market is therefore under less pressure. As for indirect taxes on products, they worsen inflationary trends.

- **Balance of Payments (BOP) problems are reduced:** Rising current account deficits are sometimes a sign of impending balance of payments problems. Capital inflows, other net currency inflows, or a reduction in foreign exchange reserves are needed to finance current account deficits. Tariffs and other taxes are also used to regulate imports of certain commodities to reduce the severity of balance of payments problems and encourage domestic production of import alternatives.

- **Full Employment:** Because the level of employment is determined by effective demand, a government seeking to achieve full employment must lower its tax rate. As a result, disposable income will increase, and in turn, demand for products and services will also increase. Increased demand will drive investment, leading to increased incomes and employment through a multiplier effect. The greater the barriers to work, the higher the tax wedge.

- **Redistributing Income:** A taxation is a tool that can be used to redistribute income by levying higher taxes on the rich and lower taxes on the poor. This helps to reduce income inequality and promote social justice.

- **Controlling Inflation:** By increasing taxes, the government can reduce the amount of money in circulation, which can help to control inflation. Additionally, certain taxes such as excise duty and customs duty can be used to regulate the prices of goods.
- **Encouraging Investment:** The government can provide tax incentives to encourage investment in specific sectors or regions, which can help to promote economic growth.

CANONS OF TAXATION

By taxation canons, we simply mean the features or attributes that a good tax system should have. In truth, taxation canons are connected to the administrative part of a tax. In 1776, Adam Smith developed concepts or canons of taxes for the first time. Even in the twenty-first century, modern governments use Smithian taxation canons when imposing and collecting taxes.

Adam Smith profounded four Canons of Taxation; viz.,

- Canon of Equity,
- Canon of Certainty,
- Canon of Convenience, and
- Canon of Economy.

While other economists profounded some other canons of taxation other than the four profounded by Adam Smith; viz.,

- Canon of Elasticity,
- Canon of Productivity,
- Canon of Variety,
- Canon of Simplicity,
- Canon of Expediency, and
- Canon of Flexibility.

Canon of Equity or Equality

According to the Canon of Equality, the burden of taxation must be distributed equally or evenly among taxpayers. This type of equality; however, deprives justice because not all taxpayers have the same ability to pay taxes. Rich individuals can afford to pay more taxes than impoverished ones. As a result, justice requires that a person with greater financial ability pay higher taxes.

If everyone is expected to pay taxes based on his or her abilities, then all taxpayers' sacrifices become equal. This is the core of the equality canon (of sacrifice).To ensure equity in sacrifice, taxes will be imposed based on the principle of ability to pay. In this context, the canons of equality and ability are two sides of the same coin.

Canon of Certainty

The tax that an individual must pay should be certain and not arbitrary. According to Adam Smith, the time of payment, the method of payment, and the amount to be paid; i.e., tax liability, should all be apparent to the contributor and everyone. As a result, the canon of certainty encompasses a wide range of concepts. It must be certain for both the taxpayer and the taxing authority.

The taxpayers should be aware of when, where, and how much taxes are due. In other words, the certainty of liability must be anticipated ahead of time. Similarly, there must be certainty about the amount of income that the government wants to collect throughout the specified time period. Any bit of uncertainty in these areas could lead to disaster.

Canon of Convenience

Taxes should be imposed and collected in such a way that it is most convenient for both the taxpayer and the government. As a result, it should be as painless and trouble-free as possible. "Every tax," Adam Smith emphasises, "should be levied at the time or in the manner most likely to be convenient for the contributor to pay it." That is why agricultural income tax is collected after the harvest. Salaried people are taxed at the point of receipt of their salaries.

Canon of Economy

This canon suggests that the cost of collecting a tax should be kept to a minimum. Any tax that has a large administrative cost, extraordinary delays in assessment, and a high collection rate should be avoided at all costs.

According to ***Adam Smith****, "Every tax should be designed to take as little money as possible out of people's pockets while yet contributing to the public treasury of the state."*

Other Canons:

Canon of Elasticity

The canon of elasticity is very important to modern economists. This canon indicates that a tax's yield should be flexible or elastic. It should be levied in such a way that the tax rate can be adjusted in response to changing circumstances. When the government requires funds, it must be able to extract as much revenue as possible without causing any negative repercussions by raising tax rates. This canon is satisfied by income tax.

Canon of Productivity

According to **Charles F. Bastable**, a well-known classical economist on the subject of public finance, taxes must be productive or cost-effective. This indicates that the revenue generated by any tax must be substantial. Furthermore, this canon states that only taxes that do not impede the productive work of society should be imposed. Only when a tax functions as an incentive to produce, it is considered productive.

Canon of Variety

Taxation must be dynamic. This indicates that rather than having single or two taxes, a country's tax structure should be dynamic or diversified. Diversification of a tax structure will necessitate the participation of the majority of the people. If a single tax system is implemented, only a certain sector will be required to pay to the national

exchequer, leaving a big number of people out. Obviously, the impact of such a tax structure will be greatest on particular taxpayers. A dynamic or varied tax system will result in the distribution of tax burdens throughout a large population, resulting in a low degree of incidence of a tax in aggregate.

Canon of Simplicity

Every tax must be straightforward and understandable to the public so that the taxpayer can calculate it without the assistance of tax professionals. A complex and complicated tax is certain to have unfavourable side effects. If the tax system is determined to be difficult, it may encourage taxpayers to evade taxes.

A complicated tax system is costly in the sense that even the most honest and informed taxpayers must seek the guidance of tax professionals. In the end, such a tax structure has the potential for breeding corruption in society.

Canon of Expediency

A tax should be expedient or beneficial so that the government may defend itself against public criticism by arguing for its need. Taxpayers will be outraged if there is no justification for the levy. Every new tax must have a reason to generate a feeling of acceptability in the minds of the taxpayers. An unfair tax will always confront acute refusal on the part of the taxpayers to pay and they will try to avoid them.

Canon of Flexibility

The canon of flexibility states that the entire tax system should be flexible enough to allow taxes to be readily increased or decreased in response to government requirements. This flexibility guarantees that anytime the government wants more money, it can generate it quickly and easily. Similarly, decreasing taxes should not be an issue when the economy is not thriving.

IMPACT, INCIDENCE AND SHIFTING

Impact of Tax

The impact of taxation, specifically the term impact, is used to define the point of the initial burden of the tax. It is common knowledge that tax is divided among parties to spread the burden of the amount. So, the party on whom the tax is originally imposed is signified by tax impact. For instance, when tax is imposed on a good, say coffee, the manufacturer bears the direct burden of that tax. Therefore, the 'impact of tax' is on the coffee manufacturer.

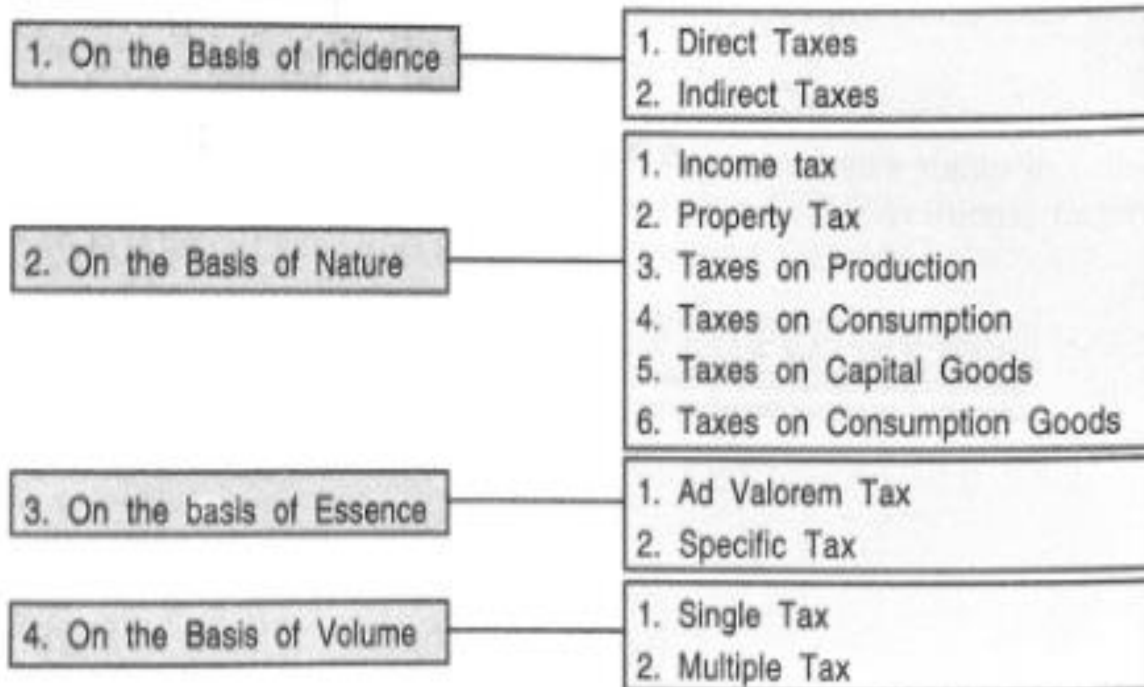
Tax Shifting

As the name suggests, it refers to the act of passing on the burden of tax among involved parties. Shifting can either be done from person to person or among two or more persons. Leading on with the example mentioned above, when the coffee manufacturer shifts the tax burden to a coffee dealer/retailer by increasing the price, it represents the shifting of tax.

Tax Incidence

The term incidence relates to the final resting point of the tax. In simple words, it is about the one who bears the tax burden eventually. For example, if the process of tax shifting continues from the coffee dealer/retailer, the consumer will eventually bear the brunt of taxes by paying a raised price for the product. Thus, the incidence of tax is on the consumer.

- The impact of taxation occurs when the tax is imposed. It is on the person who pays the tax in the first instance.
- Tax incidence, on the other hand, takes place at the end of the cycle. It is on the person who finally bears the tax.
- Shifting is the act of transfer of the tax burden.- can shift the impact but not the incidence of tax.



DIRECT TAX

Direct tax can be defined as a type of tax in which the incidence and impact of the tax are levied on the same person. It can be further explained as a type of tax in which the liability of paying the tax cannot be shifted to someone else. It is directly paid to the government by the assessee and not to anyone else. Direct Taxes are charged on every source of income earned by any individual or business residing in the country. Income Tax, Wealth Tax, Estate Tax, Corporate Tax, and Capital Gain Tax are some examples of Direct Tax in India.

Direct taxation in India is imposed and regulated by the Central Board of Direct Taxes (CBDT). CBDT has all the authority to frame rules for the purpose of levying direct tax in the country. It also issues various circulars from time to time to clarify any specific problem or doubts.

Advantages of Direct Taxes

1. Ensures the Principle of Ability to Pay:

Direct taxes are based on the principle of ability to pay. They fall more heavily on the rich than on the poor. The tax burden is distributed on different sections of the society in a just and equitable manner.

2. Reduces the Social and Economic Inequalities:

Direct taxes reduce a disparity in the distribution of income and wealth. By adopting the progressive tax system, rich people pay on higher rates of adopting the progressive tax system, rich people pay on higher rates of taxation,. While the poor pay on lower rates or given exemptions. This reduces the gap between the poor and rich to a considerable extent.

3. Certainty:

Direct taxes satisfy the canon of certainty. In direct taxes, the time of payment, mode of payment, the amount to be paid etc. are made clear. Both the taxpayers and the Government know the amounts to be paid and the Government can estimate the revenue from these taxes.

4. Economy:

The cost of collection of these taxes is low because the government adopts the different methods of collections like taxing deduction at source, advancing payment of tax etc. Besides, the taxpayers pay the amount of tax directly to government. Thus, the principle of economy is achieved in the case of direct taxes.

5. Elasticity:

Direct taxes are elastic in nature. For example, when the income of the people increases, the tax revenue also increases. Moreover, during the unforeseen situation like flood, war etc. the government can raise its revenue by increasing the tax rates without affecting the poor.

6. Educative Effect:

Direct taxes create civic consciousness among taxpayers. Since the taxpayers feel the burden of tax directly, they are interested in seeing that the Government properly spends the money. They are conscious of their rights and responsibilities as a citizen of the State.

7. Control the Effects of Trade Cycles:

Direct taxes control the effects of trade cycles. They can be used as a tool to mitigate the effects of inflationary and deflationary trends by raising or reducing the tax rates.

Limitations of Direct Taxes

The following are the demerits of direct taxes:

1. Arbitrary in Nature:

Direct taxes tend to be arbitrary because of the difficulty in measuring the ability to pay tax. Paying capacity of the people cannot be measured precisely. The levy is highly influenced by the policies of the Government.

2. Difficulties in the Formulation of Progressive Tax Rates:

Direct taxes take the form of progressive taxation ie. the tax rates increases with the rise in income. It is very difficult to formulate the ideal progressive rate schedules in this regard, since there is no scientific base.

3. Inconvenience:

Under direct taxes, the taxpayer has to adhere to many legal formalities such as submission of the income returns, disclosing the sources of income etc. Moreover, he has to follow numerous accounting procedures, which are difficult to comply with. Further, direct taxes have to be paid in lump sum and at times, advance payment of tax has to be made. This causes much inconvenience to the taxpayers.

4. Possibility of Tax Evasion:

The high rates of direct taxes create the tendency to evade more. There is possibility for tax evasion by fraudulent activities. Thus, it is said that the direct taxes are the taxes on honesty.

5. Limited Scope:

The scope of the direct tax is very limited. In India, most of the people come under the middle-income category. If only direct tax is followed, these people cannot be brought into the tax net because of the basic exemption given. Thus, the Government cannot depend upon direct tax alone.

6. Disincentive to Work, Save, and Invest:

When the taxpayer earns certain level, they have to pay more, because of the higher rate of taxes attributed to …

INDIRECT TAX

The tax imposed by the government on goods and services purchased by anyone in the country is called Indirect Tax. Indirect Tax can be defined as a type of tax in which the incidence and impact of the tax are passed on to another individual or entity i.e. the end consumer of the product.

Unlike **direct taxes**, It is not levied on the income of the person but on the value of goods or services purchased. Generally, Indirect Tax is levied on sellers (Manufacturers, retailers, etc.) on the purchase of raw materials or goods purchased for resale and then they pass it onto the end consumer of the product who has purchased it for final consumption.

Indirect taxation in India is imposed and regulated by the **Central Board of Indirect Taxes and Customs (CBIC)**. CBIC has all the authority to frame rules for the purpose of levying indirect tax in the country. CBIC was constituted under the Central Board of Revenue Act, 1963 for matters relating to the levy and collection of Customs and Central Excise duties and other Indirect Taxes.

Features of Indirect Tax

The features of Indirect Tax are as follows:

1. Tax Liability: In Indirect Tax, the tax liability is borne by the consumer of the product or service. The tax is collected by the manufacturer and seller from the consumer.

2. Payment of Tax: The responsibility of payment of tax to the government under indirect tax is on the seller of the product who collects tax on the behalf of the consumer.

3. Nature: Before the implementation of GST, the nature of indirect taxes was regressive. After the introduction of GST, it became progressive.

4. Saving & Investment: Indirect Tax encourages saving and investment as it is not charged directly on income but on consumer's expenditure.

5. Tax Evasion: It is very difficult to evade tax in this because it is directly charged on the purchase of goods and services and not on income.

Indirect Tax in India

In India, before July 2017, there were many different Indirect Taxes that were applicable on the sale and purchase of goods and services in the country. ***For Example,*** Service Tax was levied on any type of service, Excise Duty was levied on the manufacturing of goods, Customs Duty was levied on the import of goods, etc.

On 29th March 2017, the GST Act was passed in the Parliament of India, which came into effect on 1st July 2017. This was done to merge all the indirect taxes into a single tax, i.e., Goods and Services Tax (GST) that can replace multiple layers of taxation in India. It has replaced 17 indirect taxes (9 State-level taxes and 8 Central level taxes) and 23 cesses of the States and Centres that existed earlier, including Central excise duty, Service tax, Value Added Tax (VAT), Luxury Tax, etc.

Types of Indirect Tax

Before GST there were many taxes prevailing in the market. Here is the list of major taxes that were merged into the Goods and Services Tax:

1. Service Tax: This tax was levied by any entity specifically on any service provided by them. All the services offered by any company if taxable in nature were considered under this.

2. Excise Duty: It was a form of Indirect Tax levied on the production, sale, or license of certain products. It was replaced by GST in July 2017. Currently, only specific items like petrol & diesel, etc., are charged with excise duty.

3. Value-Added Tax: All the movable products that are directly sold to customers was taken into consideration under Value-added Tax. VAT was collected by the respective state government in the scenario of intra-state sales. Currently, only specific items, like petrol & diesel, etc., are charged with VAT.

4. Custom Duty: Any goods imported to India from foreign countries was charged with Custom Duty by the Government of India. It depends on the value and type of goods imported.

5. Stamp Duty: Stamp Duty was levied on the transfer of any immovable property in a state of India. It included all the legal documents also.

6. Entertainment Tax: Any product or transaction related to entertainment, i.e., purchase of any video games, movie shows, sports activities, arcades, amusement parks, etc., were subjected to be charged with Entertainment Tax by the State government of any state of India.

Advantages of Indirect Tax

- **Collectibility:** Compared to direct taxes, indirect taxes are simpler to collect. The government should not worry about the collection of indirect taxes because they are only collected at the time of making purchases.

- **Convenience:** Since indirect taxes are only paid when a purchase is made, they are easy on the taxpayer and handy. Furthermore, because indirect taxes are collected directly at the stores or factories, state authorities find it convenient to levy them. This helps to save a great deal of time and work.
- **Fair contributions:** Costs of goods and services and indirect taxes are closely related. This basically means that luxury things are taxed at higher rates while fundamental requirements are taxed at lower rates, ensuring that contributions are fair.
- **Reduce Negative Consumption:** Products like alcohol, cigarettes, and other comparable ones that are harmful to human health are subject to the greatest indirect taxation.

Disadvantages of Indirect Tax

- **Regressive:** The nature of indirect tax can be regressive. For instance, the salt tax is the same for rich and poor people, but if a rich person doesn't pay, there will be bigger fines as well.
- **Financial Burden:** There may be cumulative indirect taxes charged at times. As a result, middlemen in a point-based transaction system are likely to add their own service tax, which could raise the final price of the goods.
- **Hindrance:** Industry-unfriendly indirect taxes exist. Taxes on commodities and raw materials raise the cost of production, preventing industries from growing because their ability to compete is constrained.

Difference Between Direct and Indirect Taxes

1. Shiftability of the Burden of Tax:

In the direct taxes, the impact and incidence fall on the same person. It is borne by the person on whom it is levied and is not passed on to others. For example, when a person is assessed to income tax, he cannot shift the tax burden to anybody else, and he himself has to bear it.

On the other hand, in the case of indirect taxes, the impact and incidence fall on different persons. It is not borne by the person on whom it is levied. The burden of the tax can be shifted. For example, when the manufacturer of sugar pays excise duty, he can shift the tax burden to the buyers by including the tax in the price of the sugar.

2. Principle of Ability to Pay:

Direct taxes conform to the principle of ability to pay. For example, people having income above certain limit [say, Rs.2,50,000] pm, only is liable to pay income tax.

But, indirect taxes are borne and paid by the weaker sections of the society also. As such, these taxes do not conform to the principle of ability to pay.

3. Measurement of Taxable Capacity:

In the case of direct taxes, tax-paying capacity is di- rectly measured. For example, the taxable capacity for income tax is measured on basis of the income of the individual.

On the other hand, in the case of indirect taxes, taxable capacity is measured indirectly. The luxurious articles are levied at the higher rate of taxes on the assumption that they are pur- chased by the rich people. However, low rate is charged on the articles of common consumption.

4. Principle of Certainty:

Direct taxes ensure the principle of certainty. Both the Government and the taxpayer know what amount is to be paid and the procedures to be followed.

But in the case of indirect taxes, it is not possible. The taxpayer does not know the amount of tax to be paid and the Government cannot predict the quantum of revenue generated from the indirect taxes.

5. Convenience:

Direct taxes cause much inconvenience to the taxpayers since they are to be paid in lump sum.

But the indirect taxes are paid by the consumers in small amounts as and when they purchase the commodities. Moreover, the taxpayers need not follow any legal formalities in the payment of tax. Thus, indirect taxes are more convenient to them.

6. Civic Consciousness:

People felt the burden of direct taxes directly. The taxpayer is con- scious of his contribution to the Government and interested in knowing whether the tax paid by him is properly used or not. In this way, it creates civic consciousness among the taxpayers.

But indirect taxes do not raise such consciousness among the taxpayers, because they pay the taxes indirectly.

7. Nature of Taxation:

Direct taxes are progressive in nature. The rates of taxes go up with the increase in the tax base i.e. income of a tax payer.

But rich and poor irrespective of their income equally pay indirect taxes. Thus, they are regressive in nature.

8. Removal of Disparity in Income and Wealth:

Since the direct taxes are progressive in nature, they reduce the disparities of income and wealth among the people to a considerable extent.

But indirect taxes have a negative effect. Actually they are widening the gap between the rich and poor when they are levied on the goods of common consumption.

9. Focus on Growth:

Direct taxes, being progressive, reduce savings. When savings and investments are discouraged, economic growth is adversely affected. Indirect taxes are more growth oriented than direct taxes.

Indirect taxes discourage consumption and increase savings. Indirect taxes on luxuries reduce conspicuous consumption and channelize the scarce resources in to growth oriented program.

10. Examples:

The examples for direct taxes are income tax, wealth tax, gift tax, estate duty etc. The examples for indirect taxes are customs duty, GST, excise duty, sales tax, service tax etc.

Basis	Direct Taxes	Indirect Taxes
1. Meaning	If a tax levied on the income or wealth of a person is paid by that person (or his office) directly to the Government, it is called direct tax.	If tax is levied on the goods or services of a person is collected from the buyers by another person (seller) and paid by him to the Government it is called indirect tax.
2. Incidence and Impact	Falls on the same person. Imposed on the income of a person and paid by the same person.	Falls on different persons. Imposed on the sellers but collected from the consumers and paid by sellers.
3. Burden	More income attracts more income tax. Tax burden is progressive on people.	Rate of tax is flat on all individuals. Therefore more income individuals pay less and lesser portion of their income as tax. Tax burden is regressive.
4. Evasion	Tax evasion is possible.	Tax evasion is more difficult
5. Inflation	Direct tax helps in reducing the inflation.	Indirect tax contributes to inflation.
6. Shiftability	Cannot be shifted to others	Can be shifted to others
7. Examples	Income Tax, Wealth Tax, Capital Gains Tax, Securities Transaction Tax, Perquisites Tax.	GST. Excise Duty.

GST: The New Taxation Regime

1. GST – The new tax

- GST has been introduced with effect from 1st July, 2017.
  - The idea of GST was first mooted by Kelkar Task Force in 2004.
  - GST was launched at midnight of 30th June, 2017 from Central Hall of Parliament.

Genesis of GST

Global Perspective:

- France was the first country to implement GST in 1954.
- At present, more than 160 countries have implemented it.

Expansion of Governments revenue base and achieving a balance between direct and indirect/consumption tax are often cited as reasons for introducing GST.

Indian Perspective:

Kelkar Task Force in 2004	16-07-2004	Dr. Kelkar Task Force recommended the need of a National GST
GST proposed in 2007-08	28-02-2006	Budget Speech 2007-08: Union FM moots the idea of GST from April, 2010
GST Revival in 2014- Constitution Amendment Bill	19-12-2014	Constitutional (122nd Amendment) Bill, 2014 introduced in Lok Sabha

Constitution Amendment Act	06-05-2014	**Constitutional (122nd Amendment) Bill, 2014 passed** in Lok Sabha
	03-08-2016	**Constitutional (122nd Amendment) Bill, 2014 passed** in Rajya Sabha
	08-09-2016	Subsequent to ratification of bill by more than 50% of the states, **Constitutional (122nd Amendment) Bill, 2014** received the assent of President of India. - It became **Constitutional (101st Amendment) Act, 2016** which paved the way of GST in India
Central GST Act	27-03-2016	**Central GST Legislations introduced** in Lok-Sabha - CGST Bill, 2017, IGST Bill,2017, UTGST Bill,2017, GST (Compensation to states) Bill, 2017 introduced
	29-03-2016	**Central GST Legislations passed** in Lok-Sabha - CGST Bill, 2017, IGST Bill, 2017, UTGST Bill,2017, GST (Compensation to states) Bill, 2017 passed
	12-04-2017	**Central GST Legislations received assent of president and Bills enacted** - CGST Act, 2017, IGST Act, 2017, UTGST Act, 2017, GST (Compensation to States) Act, 2017
State GST Act	Diff dates	**Enactment of the Central Act was followed by the enactment of the State GST laws by various State legislature.**
Roll out from 1st July, 2017	01-07-2017	**GST has been implemented across India w.e.f. 1st July, 2017.**
	08-07-2017	GST in the State of Jammu & Kashmir came into force w.e.f. 8th July, 2017. * On 8th July, 217, **CGST (Extension to J&K) Ordinance, 2017 and IGST (Extension to J&K) Ordinance, 2017** were promulgated making necessary changes in CGST Act and IGST Act and declaring that the said Acts shall be applicable to the State of J&K also.

Delivering success, not lectures

Salient Features of GST

Goods and Services Tax (GST) is a comprehensive indirect tax levied on the supply of goods and services in India. Here are some of the salient features of GST:

a. **One Nation, One Tax:** GST replaced multiple indirect taxes levied by the Central and State Governments, such as excise duty, service tax, value-added tax (VAT), and others. It brought uniformity in the tax structure across India, eliminating the cascading effect of taxes.

b. **Dual Structure:** GST operates under a dual structure, comprising the Central GST (CGST) levied by the Central Government and the State GST (SGST) levied by the State Governments. In the case of Inter-state transactions, Integrated GST (IGST) is applicable, which is collected by the Central Government and apportioned to the respective State. Import of goods or services would be treated as inter-state supplies and would be subject to IGST in addition to the applicable customs duties.

c. **Destination-based Tax:** GST is a destination-based tax, levied at each stage of the supply chain, from the manufacturer to the consumer. It is applied to the value addition at each stage, allowing for the seamless flow of credits and reducing the tax burden on the end consumer.

d. **Input Tax Credit (ITC):** GST allows for the utilization of input tax credit, wherein businesses can claim credit for the tax paid on inputs used in the production or provision of goods and services. This helps avoid double taxation and reduces the overall tax liability.

e. GST would apply on all goods and services except Alcohol for human consumption. GST on five specified petroleum products (Crude, Petrol, Diesel, ATF & Natural Gas) would by applicable from a date to be recommended by the GSTC. Tobacco and tobacco products would be subject to GST. In addition, the Centre would have the power to levy Central Excise duty on these products. Exports are zero-rated supplies. Thus, goods or services that are exported would not suffer input taxes or taxes on finished products.

f. **Threshold Exemption:** Small businesses with a turnover below a specified threshold (currently, the threshold is 20 lakhs for supplier of services/both

goods & services and 40 lakhs for supplier of goods (Intra–Sate) in India) are exempt from GST. For some special category states, the threshold varies between 10-20 lakhs for suppliers of goods and/or services except for Jammu & Kashmir, Himachal Pradesh and Assam where the threshold is 20 lakhs for supplier of services/both goods & services and 40 lakhs for supplier of goods (Intra–Sate). This threshold helps in reducing the compliance burden on small-scale businesses.

g. **Composition Scheme:** The composition scheme is available for small taxpayers with a turnover below a prescribed limit (currently 1.5 crores and 75 lakhs for special category state). Under this scheme, businesses are required to pay a fixed percentage of their turnover as GST and have simplified compliance requirements.

h. **Online Compliance:** GST introduced an online portal, the Goods and Services Tax Network (GSTN), for registration, filing of returns, payment of taxes, and other compliance-related activities. It streamlined the process and made it easier for taxpayers to fulfill their obligations.

i. **Anti-Profiteering Measures:** To ensure that the benefits of GST are passed on to the consumers, the government established the National Anti-Profiteering Authority (NAA). The NAA monitored and ensured that businesses do not engage in unfair pricing practices and profiteering due to the implementation of GST. All GST anti-profiteering complaints are now dealt by the Competition Commission of India (CCI) from December 1, 2022.

j. **Increased Compliance and Transparency:** GST aims to enhance tax compliance by bringing more businesses into the formal economy. The transparent nature of the tax system, with the digitization of processes and electronic records, helps in curbing tax evasion and increasing transparency.

k. **Sector-specific Exemptions:** Certain sectors, such as healthcare, education, and basic necessities like food grains, are given either exempted from GST or have reduced tax rates to ensure affordability and accessibility.

l. Accounts would be settled periodically between the Centre and the States to ensure that the credit of SGST used for payment of IGST is transferred by the

Exporting State to the Centre. Similarly, IGST used for payment of SGST would be transferred by the Centre to the Importing State. Further, the SGST portion of IGST collected on B2C supplies would also be transferred by the Centre to the destination State. The transfer of funds would be carried out on the basis of information contained in the returns filed by the taxpayers.

List of Taxes Subsumed after GST Implementation

Good service tax was introduced as a comprehensive indirect tax structure. With this introduction, the government aimed to consolidate all indirect taxes levied under one umbrella. Thus, except for customs duty that is levied on the import of goods, Goods and Services Tax replaced multiple indirect taxes. This introduction helped overcome the limitations of its previous indirect tax structure regarding implementation and inefficiency in the collection process.

Following is the list of indirect taxes that were subsumed by Goods and Service Tax-

- Indirect Taxes Imposed by the Central Government
  - Central Sales Tax
  - Service Tax
  - Central Excise Duty
  - Excise Duty (Additional)
  - Countervailing Duty or Additional Customs Duty
  - Special Additional Customs Duties
- Indirect Taxes Imposed by the State Government
  - State VAT
  - Entry Tax and Octroi Duty
  - Luxury Tax
  - Amusement and Entertainment Tax
  - Taxes on Advertisements
  - Goods and services related to cess and surcharges
  - Purchase Tax
  - Tax on betting, lottery and gambling.

Types of GST and GST Rules

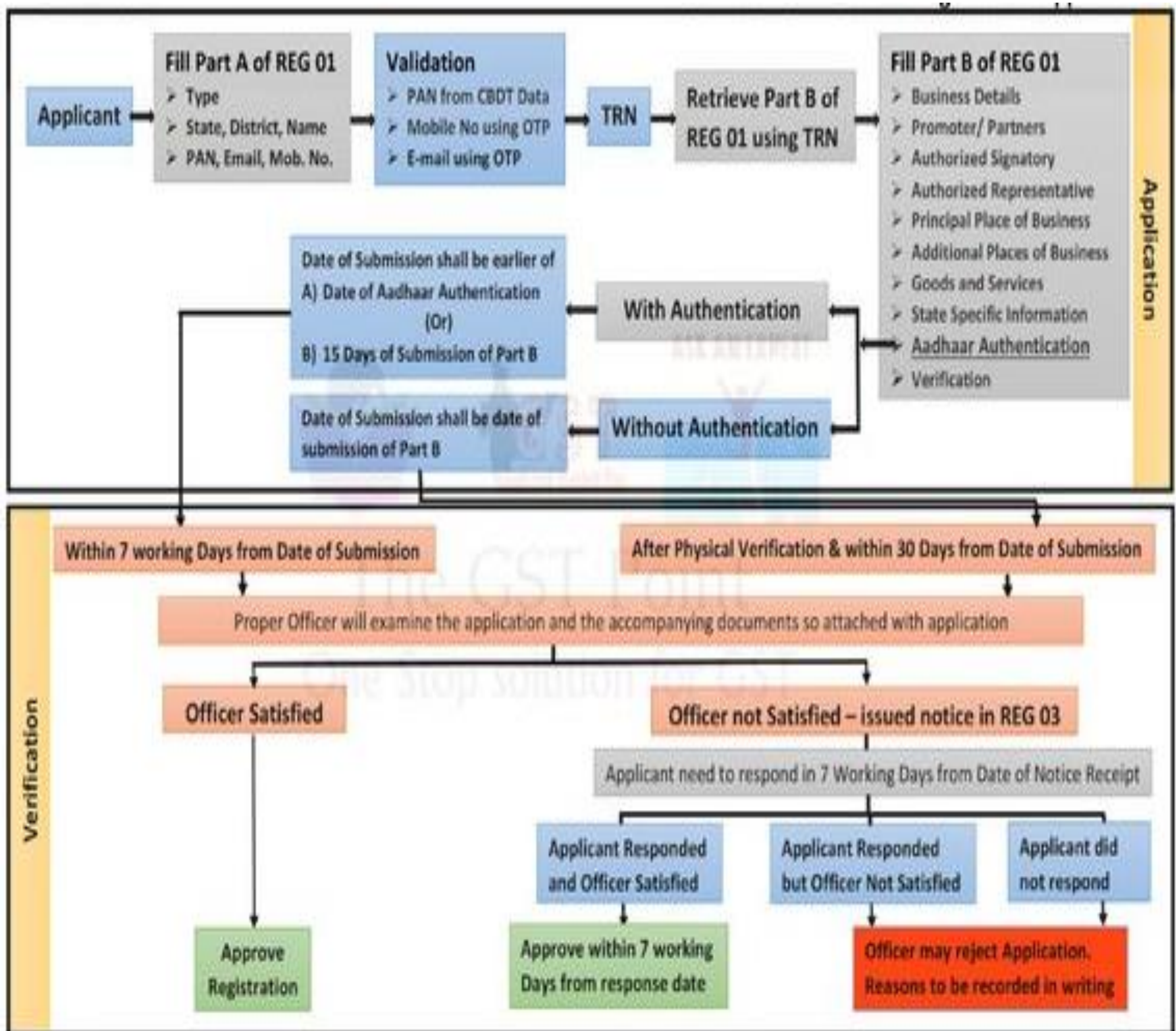
GST can be divided into four sections based on the kind of transaction it involves. Before a business can determine its GST liability, assessing the following table about the Components of GST is essential.

Components of Goods and Services Tax	What does it mean?
State Goods and Services Tax (SGST)	SGST refers to the tax payable on the sale of services and products within a state. It replaces previous taxes, including Value Added Tax, Entry Tax, State Sales Tax, Entertainment Tax, surcharges and cesses.
Central Goods and Services Tax (CGST)	The tax levied on the supply of intra-state products is CGST. The Central Government charges this tax. CGST replaced many taxes levied by the Centre, including Service Tax, Central Excise Duty, CST, SAD, Customs Duty, etc.
Union Territory Goods and Services Tax (UTGST)	Taxes applicable to the sale of products and services in Union Territories, such as Andaman and Nicobar, Daman and Diu, Chandigarh, Dadra, etc.
Integrated Goods and Services Tax (IGST)	The sale of inter-state products and services leads to taxation. This is IGST. Basically, when businesses transfer services and products from one state to another, they need to pay this form of GST.

Collection of tax is thus undertaken in the following way for intra-state and inter-state transactions.

GST Levy and Revenue Share	Intra-State Sale	Inter-State Sale
GST	SGST+CGST	IGST
Share of Revenue	Revenue collected to be shared between state and central government equally.	Revenue collected by the central government. It will then be shared as per the goods' destination.

GST REGISTRATION



GST Identification Number:

- Each taxpayer assigns a 15-digit state-specific GSTIN based on their PAN.
- First, two digits of the GSTIN represent the state code according to the Indian Census 2011. Which says that every state will have a unique two-digit code for example “27” for Maharashtra and “10” for Bihar
- The next ten digits of GSTIN are the PAN number of the taxpayer
- The 13th digit indicates the number of registrations an entity has within a state for the same PAN

- It is an alpha-numeric number (first 1-9 and then A-Z) and is assigned on the basis of the number of registrations a legal entity (having the same PAN) has within one state
- The fourteenth digit at present has no use and therefore will be “Z” by default
- The last digit is a checksum code which is used for the identification of errors by means of summing up.

Composition Scheme under GST

The composition scheme under GST eases the process of indirect tax payment for small taxpayers. As per the CBIC, companies with an annual turnover within Rs. 1 Crore can opt for the scheme to pay their taxes. For North-Eastern states, the turnover limit is Rs. 75 Lakh. Registration under the scheme is, however, voluntary.

The rates applicable under the composition scheme include the following.

Business Type	Rate of CGST	Rate of SGST	Total GST Rate
Goods traders and manufacturers	0.5%	0.5%	1%
Restaurants that do not serve alcohol	2.5%	2.5%	5%

Input Tax Credit (ITC) under GST in India

An Input Tax credit means that when a business person or a trader is paying tax on output, he/she can reduce the tax already paid on input (purchase).

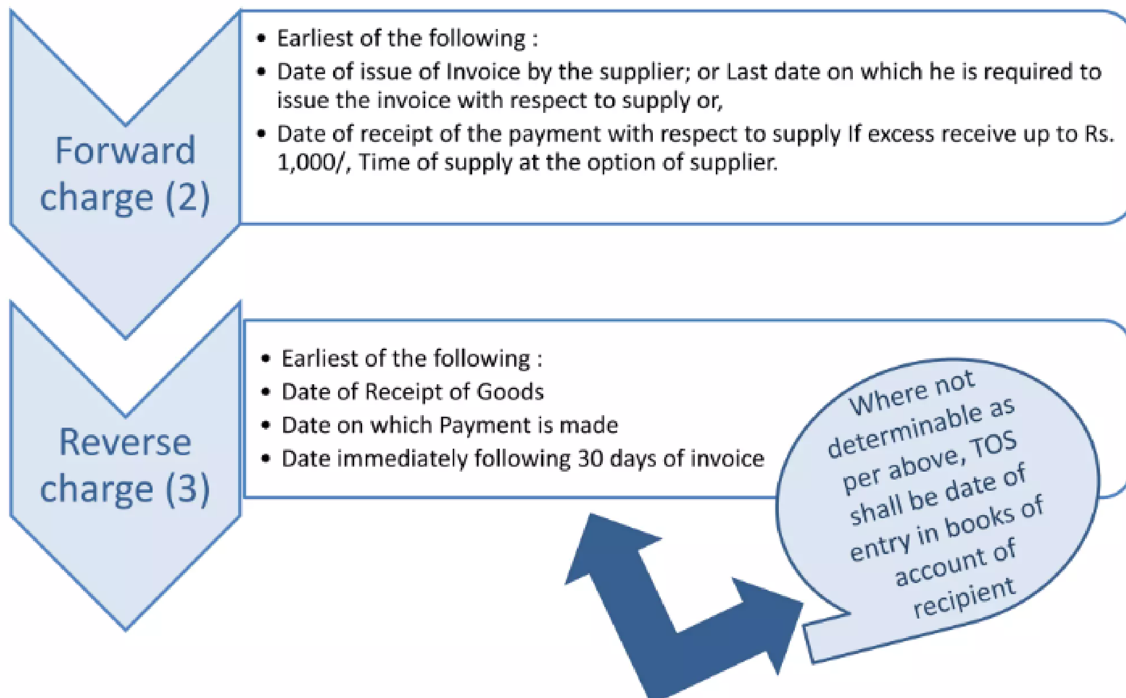
For example:

In the case of a manufacturer selling the final product, the output tax stands at Rs.450. However, he already paid Rs.300 as input tax while purchasing the product. He can thus receive an ITC of Rs.300 on the final product and needs to pay only the difference of Rs.150, i.e., Rs.450 – Rs.300 to the government as Goods and Service Tax.

ITC can be claimed only by businesses registered under the Goods and Services Tax Act. Also, all respective suppliers must be registered under the act for you to be eligible to avail of ITC.

TYPES OF SUPPLIES UNDER GST

Type of Sale/Supply	Meaning	Example
Zero-Rated Supply	Sale outside India or in SEZ areas	Export of Goods/Services
Excempted Supply	Supplies having tax rate higher than 0% but due to exemption notification,they are not taxable	Rent on Residential House Property etc
Nil-Rated Supply	Supplies which are taxable @0%	Specified Vegetables etc
Non-Gst Supply	Supplies for which GST rate is yet to be decided	Petrol,Diesel etc
Negative List	Supplies which does not come under GST-Purview	Salary,Sale of Land etc



Time of supply of goods and services - Section 13

Normal case (2)

- Earliest of the Following :
- Date of issue of Invoice by the supplier if the invoice issue within the period prescribed under section (2) of section 31; or date of receipt of the payment, whichever is earlier.
- Date of provision of service, if the invoice is not issue within the period prescribed under section (2) of section 31; or date of receipt of the payment, whichever is earlier.
- Date on which the recipient shows the receipt of service in his books of accounts, in case where the provision of sec (a) and (b) do not apply. If excess receive up to Rs. 1,000/, Time of supply at the option of supplier.

Reverse charge (3)

- Earliest of the following :
- Date on which Payment is made
- Date immediately following 60 days of invoice

"Associated firm"
•Date of entry in books
•Date of payment

Time of supply of goods and services – Section 14

Section 14 – change in rate of tax

Taxable supply has been provided	Issue of invoice (DOI)	Receipt of payment (DOR)	Time of supply	Rate
Before change in tax rate	after	after	Whichever is earlier	new
	before	after	DOI	old
	after	before	DOR	old
After change in tax rate	before	after	DOR	new
	before	before	Whichever is earlier	old
	after	before	DOI	new

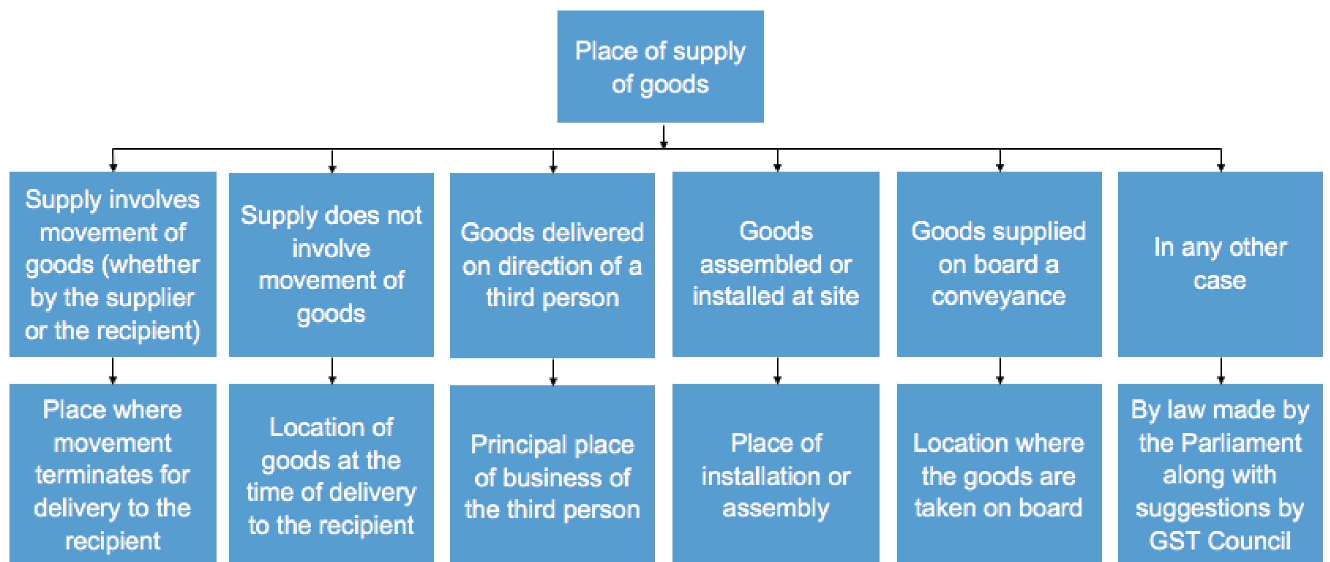
Value of taxable supply

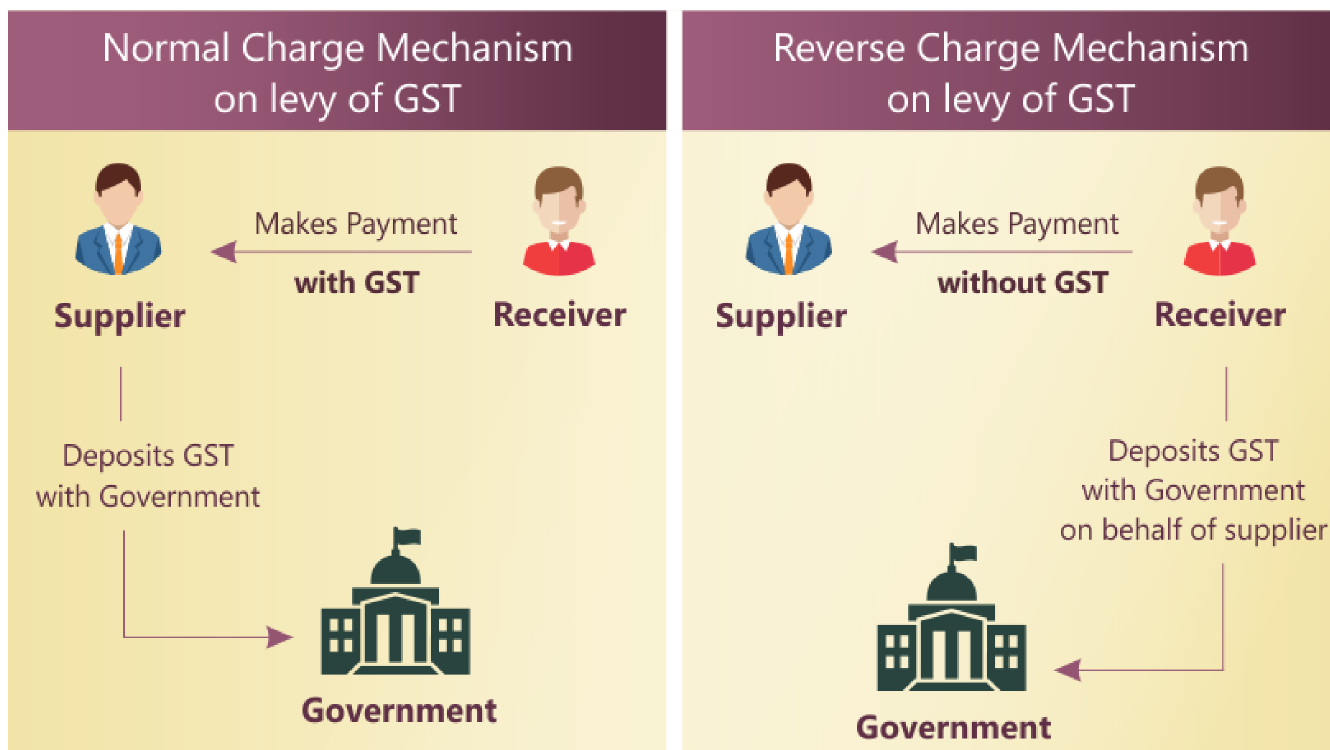
Followings are *included* in value of taxable supply [u/s 15(2)]:

- Transaction value
- any taxes, duties, cesses, fees and charges(other than CGST, IGST, SGST/UTGST)
- Amount paid by recipient on behalf of supplier.(supplier liability discharged by recipient)
- incidental expenses
- interest or late fee or penalty for delayed payment.
- subsidies directly linked to the price *excluding* subsidies provided by the Central Government and State Governments

Following are *excluded* in the value of taxable supply[u/s 15(3)]:

- Discount given before or at the time of supply, provided it is recorded in the invoice.
- Discount given after the supply, provided it is as per the *prior agreement* specifying *relevant invoices* and *ITC being reversed* by the recipient.





DIFFERENCE BETWEEN TDS & TCS

BASIS FOR COMPARISON	Tax Deduction at Source (TDS)	Tax Collection at Source (TCS)
Meaning	An amount that is deducted from the income of the recipient in the form of tax.	TCS is an amount that is collected by the company or seller as tax.
Transactions Covered	It applies to salary, rent, brokerage, professional fee, commission, interest, etc.	TCS is collected on the sale of goods such as timber, minerals, liquor, toll plazas etc
Person Responsible	Deducted by payer or buyer	Collected by payee or seller
Time of Deduction/ Collection	Crediting the account of the payee or during payment, whichever is earlier.	Debiting the account of the buyer or during receipt, whichever is earlier.
Due Dates	The due date to deposit TDS is the 7th of every month.	TCS is deposited within ten days from the end of the month to the credit of the government.
Example	Mr A has to pay the salary of Rs 10000 to Mr B suppose tax rate is 10% then Mr A will pay Rs 9000 as a salary and the remaining Rs 1000 is deposited with the government	Mr X sold gold to Mr Y for Rs 10000 and here the TCS rate is 3 % then Mr X collects Rs 10300 from Mr Y and keeps Rs 10000 and deposit Rs 300 with the government.

TAX HELPDESK

QUESTION BANK

1. Tax is a compulsory charge imposed by the **Government** without any expectation of direct return in benefit.
2. Taxation means **levy of taxes**.
3. Tax is normally payable in the form of **money**.
4. The division of powers and distribution of revenue resources between the central and state government can be termed as **Tax System**.
5. **Private goods** are the goods and services that are consumed by people to satisfy their personal needs and wants.
6. Goods and services that satisfy collective wants of public are known as **public goods**.
7. While framing the tax policy, government should consider eleven principles. These principles are called as **Canons of Taxation**.
8. Canons of Taxation are first proposed by **Adam Smith**.
9. Initial money burden of the tax is called as **impact**.
10. **Incidence** refers to ultimate money burden of tax.
11. The process by which the money burden of a tax is transferred from one person to another is called as **shifting**.
12. Based on nature of tax, it is classified as **direct** and **indirect** taxes.
13. **Direct taxes** refer to those taxes that are paid by the person who earns income.
14. Direct taxes such as income tax, wealth tax gift tax and estate duty are levied by **Central Government.**
15. In direct taxes, **impact and incidence** fall on the same person.
16. **Indirect taxes** refer to those taxes that are borne by someone other than the person responsible for paying them.
17. In indirect taxes, incidence falls on the **final consumers**.
18. Indirect taxes are included in the **selling prices** of goods and services.
19. **Tax evasion** is an illegal activity in which a person or entity deliberately avoids paying a true tax liability.
20. The incidence of tax on tax is called as **Tax Cascading**.

21. GST stands for **Goods and Services Tax**.
22. Goods and Services Tax is an **Indirect** tax.
23. **France** was the first country to implement GST in the year 1954.
24. GST was introduced in India with effect from **1st July 2017**.
25. In India, GST is a **destination** based tax on supply of goods and services.
26. **Union Finance Minister** is the chairman of GST Council.
27. **GST Council** is a governing body to regulate and direct GST related matters.
28. Introduction of GST affects the revenue of **manufacturing** states and increase the revenue of **consumption** states.
29. Under GST, the term ‘goods’ means movable property but it does not include **Securities** and **Money**.
30. Goods and Services Tax are classified into **CGST, SGST/UTGST and IGST**.
31. Taxes levied on inter-state supply of goods and services are called as **IGST**.
32. All the intra-state supply of goods and services made for a consideration would attract two levies namely **CGST** and **SGST/UTGST**.
33. UTGST is applicable when goods and services are supplied from **Union Territory**.
34. GST rates structure for goods and services are under **5%, 12%, 18% and 28%**.
35. Expand HSNC **Harmonized System of Nomenclature Code**
36. HSN coding mechanism is developed by the **World Customs Organisation**.
37. In case of import and export of goods using, **eight digit HSN** code is compulsory.
38. Expand SAC **Service Accounting Code**.
39. The Frontend services of registration, returns and payments to all taxpayers will be provided by **Goods and Services Tax Network (GSTN)**.
40. Goods and Services Tax Network has been incorporated on **28th March 2013**.
41. A person shall register under tax law if he fulfills the conditions specified in the Act for registration, which is called **compulsory registration**.
42. **Voluntary registration** means any person not fulfilling the conditions specified in the Act for registration, may register themself voluntarily.

43. PAN stands for **Permanent Account Number**.
44. **GSTIN** is a 15 digit PAN based unique identification number allotted to every registered person under GST.
45. Every supplier has to register under GST when his aggregate value of taxable supply of goods or services or both exceeds **Rs.40 lakh**.
46. **Aggregate turnover** = Value of all taxable supplies + exempted supplies + exports.
47. **Business Vertical** means a different kind of activities of a person and each activity is not related to each other.
48. Under section 22 of the CGST Act Mizoram, Manipur, Nagaland and Tripura states are recognized as **special category states**.
49. **Casual taxable person** means a person making taxable supply in a state where he is not having permanent place of business.
50. **E-Commerce operator** means any person who owns, operates or manages digital or electronic facility or platform for electronic commerce.
51. Liability to pay tax by the recipient of supply of goods or services is called **Reverse Charge**.
52. Taxpayers making inter-state supplies or paying tax on reverse charge basis are not eligible for **threshold exemption**.
53. Casual taxable person and non-resident taxable person shall apply for registration 5 days prior to the **commencement of business**.
54. The person making supply of goods or services from territorial waters should apply for registration to nearest **coastal state or union territory**.
55. Voluntary registrant cannot file application for cancellation of registration before the expiry of a period of **one year** from the effective date of registration.
56. If an applicant submits application for registration after 30 days from the date he becomes liable to registration, the effective date of registration is **date of grant of registration**.
57. **Time of supply** means the point in time when goods/services are considered to be supplied.

58. Under the CGST Act, sections 12, 13 and 14 deals with the provisions related to **time of supply**.
59. In case of taxable supply of services, invoice shall be issued within a period of **30 days** from the date of supply of services.
60. The date on which the payment is entered in supplier's books of a/c or credited to his a/c whichever is earlier is treated as **date of receipt of payment**.
61. In GST the tax is charged on **ad-valorem** basis.
62. Under GST law, the **taxable value** is the transaction value.
63. Expenses incurred by **recipient** on behalf of supplier will be included in the value of supply.
64. **Penalty** for delayed payment will be included in value of supply.
65. When the supply of goods or services is for a consideration not wholly in money, the value of supply will be the **open market value**.
66. Value of supply of Goods or Services based on **cost** is determined by cost of supply plus 10% Mark – up.
67. The value of the supply of services in relation to international booking for Air Travel is calculated at the rate of **10%** of the basic fare.
68. The value of supply of services in relation to Life Insurance Business is **25%** of the premium charged from the policy holder in the first year.
69. In buying and selling of second hand goods the value of supply shall be the **difference** between the selling price and the purchase price.
70. According to Valuation rules, the supplier act as a **pure agent** of the recipient.
71. The rate of exchange for determination of value of taxable goods shall be the applicable rate of exchange as notified by the Board under **section 14** of the Customs Act, 1962.
72. **Credit on input** should be availed based on receipt of documents or receipt of goods.
73. Banking Company and Financial institution have an option of claiming eligible credit or **50% credit**.
74. It is **mandatory** to capitalize the capital goods in books of Account.

75. The deductions from transaction value are called as **Exclusion** in value of supply.
76. The additions to transaction value are called as **Inclusion** in value of supply.
77. GST is considered as a **remedy** for the problem of double taxation and cascading.
78. The eligibility and conditions for taking Input tax credit are given under **section 16.**
79. Only the **registered persons** under GST are eligible to claim input tax credit.
80. The input tax credit provisions are given in **chapter V.**
81. In India GST made a **paradigm** shift in the indirect taxation.
82. **Levy of tax** means the imposition of taxes as well as assessment of tax.
83. The point of time for payment of tax is called **collection of tax**.
84. The Central Goods and Services Tax is levied on all intra-State supplies of goods or services or both, except on the supply of **alcoholic liquor** for human consumption.
85. To levy GST, supply must be capable of being valued at **u/s 15**.
86. Intra- State supplies are subject to **CGST and SGST/UTGST**.
87. For Inter-State supply of goods and services **IGST** is applicable.
88. As per the recommendations of the GST council **Central Government** will notify the rate of tax to be levied under CGST.
89. The taxes levied on **Imports** are Basic Customs Duty and IGST.
90. According to Sec -10 of SGST and CGST Act, the alternative method of levy of tax designed for small taxpayers is **Composition Levy**.
91. Under Composition scheme the aggregate turnover of small taxpayers in the preceding financial year do not cross **Rs 1.5 crores** for payment of GST.
92. One of the objectives of Composition levy scheme is to **encourage and promote** small and medium entrepreneurs.
93. Under Composition levy scheme rate of tax is **fixed** on the aggregate turnover.
94. Persons who deal only in the **intra-state supply of goods** can eligible for composition levy scheme.

95. Manufacturer of Goods except manufacturing of ice cream, pan masala or tobacco are taxed at the rate of **1%** under composition levy scheme.
96. Persons supplying goods which are not taxable under **GST law** cannot eligible for composition levy scheme.
97. Receiver of goods or services pay tax directly to government is known as **reverse charge**.
98. In **Tax Deducted at Source** receiver of goods and services will recover tax from dues to supplier and pay it Government.
99. Collection of tax directly from the supplier of goods and services is known as **direct charge**.
100. In **Tax Collected at Sources** a person responsible to make payment to supplier will collect tax and pay it to government.