

Goods and Service Tax Fundamentals – I

(B.Com G & CA Sem-5)

Unit – I - Introduction

Topic:-Indirect tax structure in India and its advantages and disadvantages

- **Tax structure in India**

Two Categories of Tax structure:

1. Direct Tax - the burden of which cannot be shifted to anybody else and thus it is levied on the assessee and has to be borne by the assessee himself. ex. Income tax, wealth tax, corporate tax, estate duty, etc.
2. Indirect Tax – is a tax which is levied on one person, but the burden of tax keeps shifting to another person in the production/supply chain and is finally borne by the ultimate consumer.

- **Various indirect taxes levied in India before GST**

- Excise Duty
- Value Added Tax (VAT)
- Central Sales Tax (CST)
- Import/Export Duty
- Service Tax
- Octroi
- Entry Tax
- Luxury Tax
- Stamp Duty
- Property Tax
- Road Tax
- Entertainment Tax
- Taxes on Lottery, betting and gambling

- **Features of Indian indirect taxes**

1. Basis of levy

manufacturing-imports-exports-purchase-sale-rendering of services

2. Paid by tax payers, borne by tax bearer

3. Major source of revenue to the govt.

4. These taxes are paid indirectly to the govt.

5. Taxable event

manufacturing-imports-exports-purchase-sale-rendering of services

- **Advantages of Indian indirect taxes**

1. Role in development of economy

2. Regulation of international trade

3. Regulates wasteful expenditure

4. Psychological advantage for consumer

5. Psychological advantage for dealer

6. Major source for revenue

7. Lesser tax evasion

8. Easier to collect

9. Boosts up exports

10. Protection to indigenous industries

11. Easy records keeping

12. Growth of SSI sector

13. Promotes growth of SEZ

14. Advantage of set-off facility

15. Avoids cascading effect

16. Electronic record keeping

- **Shortcomings of Indian Indirect system**

1. Cascading effect
2. Exemptions and concessions
3. Lack of transparency
4. Multiple points of taxation
5. Lack of uniformity in provisions and rates
6. Double taxation
7. Narrow base
8. No clarity on goods and services
9. Inflationary in nature
10. Impact on domestic industries
11. No difference between rich and poor
12. Tax evasion

Web Links:

1. <https://www.hdfclife.com/insurance-knowledge-centre/tax-saving-insurance/Tax-Structure-in-India>
2. https://en.wikipedia.org/wiki/Taxation_in_India
3. <https://www.investindia.gov.in/taxation>
4. <https://www.bankbazaar.com/tax/differences-between-gst-and-previous-tax-structure.html>

Topic: VAT and its pros and cons

► **Value Added Tax and its mechanism**

VAT is a kind of indirect tax that was levied on Intra State sales done at different stages of movement of goods from the manufacturer to the ultimate consumers. A product may pass through different stages to finally reach the hands of the consumers. Through these different stages, a number of sales transactions take place and at each stage some further value is added to the product. As the product moves from the manufacturer to wholesaler to retailer until to reaches the consumer, these different stages are taxed.

► **Value Added Tax – in brief**

VAT was a multipoint taxing system with a provision of set off (credit) of the tax paid at the earlier stage. Therefore, the incidence of tax (burden of tax) decreases at each stage and is only based on the amount of value addition done at each stage.

► **Tax system before VAT
(under Sales Tax system)**

Stages of Sale	Cost Price (1)	Value added at each stage (2)	Total Cost (3)=(1)+ (2)	Tax @ 10% on Total Cost (4)	Selling Price (5) = (3) + (4)
A	-	100	100	10	110
B	110	40	150	15	165
C	165	55	220	22	242
				47 Total tax	242 Final SP

► **Tax system in VAT**

Stage of Sale	Cost Price 1	Value addition 2	Total cost 1+2= 3	Tax @ 10% on TC 4	SP 3+4 = 5
A	-	100	100	10	110
B	110	40	140	14	154
C	154	55	195	19.5	214.5

► **Advantages of VAT**

1. Elimination of deficiencies of Sales tax

- cascading effect
- double taxation

2. Self assessment under VAT

3. Fall in Price

4. Simple calculation

5. Transparency

6. Fairness in the taxation system

7. Higher revenue growth

8. Less chances of tax evasion

► **Limitations of VAT**

1. Heavy compliance cost
2. Bogus invoices
3. Disadvantageous for lower income group
4. No ITC for Inter-State Purchases
5. Concept of “Acquisition Fraud” or “Missing trader fraud” or “Carousel fraud”

USA – A – B – C – D -- UK

► **Justification/Reasons for introduction of GST**

1. Multiplicity of tax under past tax structure
2. Difficulties in past tax system on goods and services
3. Need of single tax for goods and services
4. Single tax needed legislation
5. To increase the tax base of states & UTs
6. Changes on account of CST
7. Changes on account of purchase tax
8. Changes on account of CENVAT load in VAT
9. Changes on account of uniform state GST threshold limit

10. Independence of the states and union territories in federal structure

Web Links:

1. <https://smallbusiness.chron.com/disadvantages-value-added-tax-66356.html>
2. <https://theintactone.com/2019/07/27/tpm-u5-topic-2-advantages-and-limitations-of-vat/>
3. <http://www.legalserviceindia.com/legal/article-1825-implementation-of-value-added-tax-in-india-advantages-and-disadvantages.html>
4. <https://accountlearning.blogspot.com/2012/01/advantages-and-disadvantages-of-value.html>

Topic: GST – Advantages and disadvantages

Meaning of GST

- GST is a tax that is levied on the value added to a purchased supply (whether goods or service).
- Tax would be levied on the value addition done at each stage of production and distribution.
- GST would be a comprehensive indirect tax which is levied on supply of both goods and services throughout India
- GST is a consumption/destination based tax
- GST on his output supply, he is allowed to claim the credit of GST paid by him on his input supply.
- GST allows a continuous chain of tax credit.

Benefits of GST

1. Boost to 'Make in India' initiatives
2. Elimination of multiple taxes and double taxation
3. Creation of unified national market
4. Mitigation of ill effects of cascading
5. GST has heightened the Tax base
6. Buoyancy to the government revenue
7. Free flow of trade throughout the country

8. Seamless flow of credit
9. Easy tax compliances
10. Uniformity in rates reduce tax evasion
11. Simplified & automated procedures
12. Technology backup of GST
13. Benefits for business, government, consumer and industry
14. Reduction of prices
15. Fair treatment to indigenous industry
16. Harmonising levy and collection of tax
17. Self assessment

Disadvantages of GST

1. Coping with GST
2. Stringent legislative provisions for SMEs
3. Effect on the export industry
4. Technological barriers
5. Lack of clarity about anti profiteering provisions
6. GST defeats the objective of “ease of doing business”
7. Increased compliance requirements
8. Need for centralised single registration
9. Still lot of taxes to be subsumed
10. GST compensation cess
11. Multiple tax rates
12. Dual control hurdles
13. Confusions regarding changing laws
14. Restriction of cross utilisation of CGST & SGST

Web links:

1. <https://www.karvy.com/growth-hub/tax/advantages-disadvantages-of-gst-in-india>
2. <https://www.bajajfinserv.in/insights/what-are-the-top-advantages-and-disadvantages-of-gst-in-india>
3. <https://legaldocs.co.in/blog/advantages-and-disadvantages-of-gst>
4. <https://www.alankit.in/blog/gst-advantages-and-disadvantages-in-india>

Topic: Scope/Features of GST

Scope/ Features of GST

1. GST is a consumption based tax
2. Concurrent dual GST
3. Components of GST
CGST-SGST-IGST-UTGST
4. Legislative framework of GST
5. GST rate structure
6. Taxes to be subsumed under
GST structure
7. IGST for interstate transactions
8. Input tax credit chain
9. Utilisation of credit of ITC
10. Taxable event in GST
11. Common Portal
12. Seam flow of credit
13. Goods outside GST purview
14. Threshold limit for registration
15. Electronic returns
16. Various modes of payment of tax
17. Tax Deducted at Source, Tax Collected at Source
18. Self assessment
19. Anti profiteering authority

20. Meaning of supply
21. Tax rates in GST
22. Composition scheme under GST
23. Classification of goods and services

Web links;

1. <http://gsteservices.com/gst-info/features-and-benefits-of-gst/>
2. <https://www.indianeconomy.net/splclassroom/features-of-the-new-goods-and-service-tax-gst-system/>
3. <https://sites.google.com/site/gstbharatcoin/first-discussion-paper/goods--services-tax-model-for-india/salient-features-of-the-gst-model>
4. <https://gst.caknowledge.com/key-features-gst-benefits-gst/>

Topic: Process of introduction of GST in India

Process of introduction of GST in India

1. The Constitutional Amendments were made so as to empower the Constitution to implement GST:

Inserted the following articles in the Constitution w.e.f. 16-9-2016

- **Article 246A**
- **Article 246 (2)**
- **Article 248**
- **Article 250**
- **Article 268**
- **Article 270**
- **Article 271**

2. Then, the GST Statutes were formed, the GST acts were passed:

- **The CGST Bill, 2017**
- **The IGST Bill, 2017**
- **The UTGST Bill, 2017**
- **The SGST Bill, 2017**
- **The GST (Compensation to States) Bill, 2017**

3. GST Council was empowered to take all prime decisions relating to GST: GST Council was constituted in the following manner;

A. Chairman – Union Finance Minister

B. Members – 1. Union Minister of State in-charge of revenue or finance.

- 2. One member from each state who is minister in charge of finance or taxation or any other minister.**

C. Vice Chairman - anyone of them

4. The role of CBEC was re-defined and became CBIC: Central Board of Excise and Customs became Central Board of Indirect taxes and Customs

- 1. ‘Saksham’ (software reengineering) Project under CBEC**
- 2. Training to Officers of CBEC**
- 3. Administration of CGST & IGST Law**
- 4. Administration of Excise Duty**
- 5. Levy & Collection of Customs Duties**
- 6. Enquiry on Anti-profiteering cases**
- 7. Instrumental in monitoring GST implementation challenges**

5. The IT backbone was created by GSTN

Goods and Service Tax Network (GSTN) was created: GSTN is a Non-profit, non-government, private limited company established under Section 8 under new companies Act incorporated on March 28, 2013 to manage the entire IT system of the GST portal.

Web Links;

1. <https://www.pwc.in/tax-and-regulatory-services/indirect-tax/gst.html>
2. <https://www.slideshare.net/sowj8o8/implementation-of-gst-in-india>
3. [https://en.wikipedia.org/wiki/Goods_and_Services_Tax_\(India\)](https://en.wikipedia.org/wiki/Goods_and_Services_Tax_(India))
4. <https://cleartax.in/s/gst-law-goods-and-services-tax>

Topic: Constitutional Amendments

1. Amendment for Concurrent Power:

Art.246A to give concurrent powers to Centre and States to make laws with respect to GST.

2. Amendment for Exclusive Powers of Central Government for IGST

Art. 246 (2) Parliament will have exclusive powers to make laws with respect to GST in course of interstate trade or commerce.

3. Amendment for Residuary powers of central government

Art.248. Parliament will have residuary powers except in respect of SGST.

4. Amendment for emergency powers

Art.250 to provide for emergency powers of Parliament to make laws for whole or part of India, with respect to GST.

5. Duties levied by union and collected & appropriated by states

Art.268 states that stamp duties covered in Union list shall be levied by GOI but collected by States.

6. Taxes levied and collected by union and distributed between union and states

Art.270 is only for distribution of portion of IGST collected by Union to States.

Earlier it provides that net proceeds of all taxes and duties referred to in Union list, except the specified taxes, shall be levied and collected by Centre and shall be distributed between Centre and States.

7. Apportionment of IGST between Union and States

Art.269 A (1) IGST will be apportioned between Union and States as per law make by Parliament on the recommendation of GST.

8. Surcharge on taxes for purpose of Union

Art.271 If the Union imposes surcharge on GST, it will have to be shared with States.

9. CVD on imports will also be apportioned

Art.269 A (1). CVD imposed on imports (in lieu of IGST) will be apportioned between Union and States/UTs on the basis of recommendation of GST Council.

Web Link;

1. <https://www.prsindia.org/theprsblog/key-amendments-proposed-constitution-amendment-bill-gst>
2. <https://cleartax.in/s/constitution-amendment-gst>
3. <https://taxguru.in/goods-and-service-tax/amendments-constitution-india-implementation-gst.html>
4. https://www.taxmanagementindia.com/visitor/detail_article.asp?ArticleID=5976