

CHAPTER 1

INTRODUCTION TO GST

1. ICAI STUDY MATERIAL QUESTIONS

Concept Problem 1

Differentiate between direct and indirect taxes.

Solution

Difference between direct taxes and indirect taxes:

Direct Taxes	Indirect Taxes
The person paying the tax to the Government directly bears the incidence of the tax.	The person paying the tax to the Government collects the same from the ultimate consumer. Thus, incidence of the tax is shifted to the other person.
Progressive in nature - high rate of taxes for people having higher ability to pay.	Regressive in nature - All the consumers equally bear the burden, irrespective of their ability to pay.

Concept Problem 2

Enumerate major direct and indirect taxes.

Solution

Major indirect taxes are goods and services tax and customs duty and direct tax is income tax.

Concept Problem 3

Explain the salient features of indirect taxes.

Solution

Salient features of indirect taxes are:

An important source of revenue: Indirect taxes are a major source of tax revenues for Governments worldwide and continue to grow as more countries move to consumption-oriented tax regimes. In India, indirect taxes contribute more than 50% of the total tax revenues of Central and State Governments.

- i) Tax on commodities and services: It is levied on commodities at the time of supply or manufacture or purchase or sale or import/export thereof. Hence, it is also known as commodity taxation. It is also levied on supply of services.
- ii) Shifting of burden: There is a clear shifting of tax burden in respect of indirect taxes. For example, GST paid by the supplier of the goods is recovered from the buyer by including the tax in the cost of the commodity.
- iii) No perception of direct pinch: Since, value of indirect taxes is generally inbuilt in the price of the commodity, most of the time the tax payer/consumer pays the same without actually knowing that he is paying tax to the Government. Thus, tax payer does not perceive a direct pinch while paying indirect taxes.
- iv) Inflationary: Tax imposed on commodities and services causes an all- round price spiral. In other words, indirect taxation directly affects the prices of commodities and services and leads to inflationary trend.
- v) Wider tax base: Unlike direct taxes, the indirect taxes have a wide tax base. Majority of the products or services are subject to indirect taxes with low thresholds.

- vi) Promotes social welfare: Higher taxes are imposed on the consumption of harmful products (also known as 'sin goods') such as alcoholic products, tobacco products etc. This not only checks their consumption but also enables the State to collect substantial revenue.
- vii) Regressive in nature: Generally, the indirect taxes are regressive in nature. The rich and the poor have to pay the same rate of indirect taxes on certain commodities of mass consumption. This may further increase the income disparities between the rich and the poor.

Concept Problem 4

Write a short note on lists provide under seventh schedule to the constitution of India.

Solution

Seventh Schedule to Article 246 of the Constitution contains three lists which enumerate the matters under which the Union and the State Governments have the authority to make laws.

- i) List -I (UNION LIST): It contains the matters in respect of which the Parliament (Central Government) has the exclusive right to make laws.
- ii) List -II (STATE LIST): It contains the matters in respect of which the State Government has the exclusive right to make laws.
- iii) List -III (CONCURRENT LIST): It contains the matters in respect of which both the Central & State Governments have power to make laws.

Concept Problem 5

Discuss the deficiencies of the existing indirect taxes which led to the need for ushering into GST regime.

Solution

Deficiencies in the erstwhile indirect tax regime:

- (a) Certain transactions were subject to double taxation and were taxed as both goods and services, since under the earlier regime, distinction between goods and services was often blurred.
- (b) CENVAT did not include chain of value addition in the distributive trade after the stage of production. Similarly, in the State-level VAT, CENVAT load on the goods was not removed leading to the cascading of taxes.
- (c) Though CENVAT and State-Level VAT were essentially value added taxes, set off of one against the credit of another was not possible as CENVAT was a central levy and State-Level VAT was a state levy.
- (d) There were several taxes in the States, such as, Luxury Tax, Entertainment Tax, etc. which were not subsumed in the VAT. Hence for a single transaction, multiple taxes in multiple forms were required to be paid.
- (e) VAT on goods was not integrated with tax on services, at the State level, to remove the cascading effect of service tax. With service sector being the fastest growing sector in the economy, the exclusion of services from the tax base of the States potentially eroded their tax- buoyancy.
- (f) CST was another source of distortion in terms of its cascading nature since it was non-VATABLE. Being an origin-based tax, CST was also against one of the basic principles of consumption taxes that tax should accrue to the jurisdiction where consumption takes place.

Concept Problem 6

Discuss the dual GST model to be introduced in India.

Solution

India has adopted a Dual GST model in view of the federal structure of the country. Consequently, Centre and States simultaneously levy GST on taxable supply of goods or services or both, which takes place within a State or Union Territory. Thus, tax is imposed concurrently by the Centre and States, i.e. Centre and States simultaneously tax

goods and services. Now, the Centre also has the power to tax intra-State sales & States are also empowered to tax services. GST extends to whole of India including the State of Jammu and Kashmir.

Concept Problem 7

List the central and state levies which will be subsumed in GST in India.

Solution

Central levies that are subsumed in GST are as follows:

- Central Excise Duty & Additional Excise Duties
- Service Tax
- Excise Duty under Medicinal & Toilet Preparation Act
- CVD & Special CVD
- Central Sales Tax
- Central surcharges & Cesses in so far as they relate to supply of goods & services

State levies that are subsumed in GST are as follows:

- State surcharges and cesses in so far as they relate to supply of goods & services
- Entertainment Tax (except those levied by local bodies)
- Tax on lottery, betting and gambling
- Entry Tax (All Forms) & Purchase Tax
- VAT/ Sales tax
- Luxury Tax
- Taxes on advertisements

Concept Problem 8

Discuss the functions of the common GST portal.

Solution

GST being a destination-based tax, the inter-State trade of goods and services (IGST) needed a robust settlement mechanism amongst the States and the Centre. A Common Portal was needed which could act as a clearing house and verify the claims and inform the respective Governments to transfer the funds. This was possible only with the help of a strong IT Infrastructure.

Resultantly, Common GST Electronic Portal – www.gst.gov.in – a website managed by Goods and Services Network (GSTN) [a company incorporated under the provisions of section 8 of the Companies Act, 2013] is set by the Government to establish a uniform interface for the tax payer and a common and shared IT infrastructure between the Centre and States.

The functions of the GSTN include facilitating registration; forwarding the returns to Central and State authorities; computation and settlement of IGST; matching of tax payment details with banking network; providing various MIS reports to the Central and the State Governments based on the taxpayer return information; providing analysis of taxpayers' profile.

Concept Problem 9

Briefly explain the leviability of GST or otherwise on petroleum crude, diesel, petrol, Aviation Turbine Fuel (ATF) and natural gas.

Solution

Petroleum crude, diesel, petrol, ATF and natural gas are presently not leviable to GST. GST will be levied on these products from a date to be notified on the recommendations of the GST Council. Till such date, central excise duty

continues to be levied on manufacture/production of petroleum crude, diesel, petrol, ATF and natural gas and inter-State/intra-State sale of the same is subject to CST/ VAT respectively.

Concept Problem 10

Elaborate the principles that were borne in mind while subsuming various central, State and local levies, under GST.

Solution

The various central, state and local levies were examined to identify their possibility of being subsumed under GST. While identifying, the following principles were kept in mind:

- (i) Taxes or levies to be subsumed should be primarily in the nature of indirect taxes, either on the supply of goods or on the supply of services.
- (ii) Taxes or levies to be subsumed should be part of the transaction chain which commences with import/ manufacture/ production of goods or provision of services at one end and the consumption of goods and services at the other.
- (iii) The subsuming of taxes should result in free flow of tax credit in intra and inter-State levels. The taxes, levies and fees that are not specifically related to supply of goods & services should not be subsumed under GST.
- (iv) Revenue fairness for both the Union and the States individually would need to be attempted.

Concept Problem 11

GST is a simplified tax structure. Justify the statement.

Solution

GST is a simplified tax structure. The statement is justified. Simpler tax regime with fewer exemptions along with reduction in multiplicity of taxes under GST has led to simplification and uniformity in tax structure. The uniformity in laws, procedures and tax rates across the country makes doing business easier. Common system of classification of goods and services across the country ensures certainty in tax administration across India.

Concept Problem 12

List the advantages that GST accrues to the trade and industry.

Solution

GST accrues following advantages to the trade and industry

- (i) **Benefits to industry:** GST has given more relief to industry, trade and agriculture through a more comprehensive and wider coverage of input tax set-off and service tax set-off, subsuming of several Central and State taxes in the GST and phasing out of CST. The transparent and complete chain of set-offs which results in widening of tax base and better tax compliance also leads to lowering of tax burden on an average dealer in trade and industry.
- (ii) **Mitigation of ill effects of cascading:** By subsuming most of the Central and State taxes into a single tax and by allowing a set-off of prior-stage taxes for the transactions across the entire value chain, it helps in mitigating the ill effects of cascading, improving competitiveness and improving liquidity of the businesses.
- (iii) **Benefits to small traders and entrepreneurs:** GST has increased the threshold for GST registration for small businesses. Further, single registration is needed in one State. Small businesses have also been provided the additional benefit of composition scheme. With the creation of a seamless national market across the country, small enterprises have an opportunity to expand their national footprint with minimal investment.

Concept Problem 13

List the special category States as prescribed in Article 279A of the Constitution of India.

Solution

There are 11 Special Category States, namely, States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur,

Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand.

Concept Problem 14

Discuss the leviability of GST or otherwise on tobacco.

Solution

Tobacco is within the purview of GST, i.e. GST is leviable on tobacco. However, Union Government has also retained the power to levy excise duties on tobacco and tobacco products manufactured in India. Resultantly, tobacco is subject to GST as well as central excise duty.

2. ICAI RTPS, MTPS AND PAST YEAR QUESTIONS

Concept Problem 15

“State Government has exclusive power to notify a transaction to be supply of goods or services.” Discuss the correctness of the statement.

Solution

The said statement is not correct. State Government can notify a transaction to be supply of goods or services but only on the recommendations of the GST Council. Further, Central Government or State Government, both on the recommendations of the GST Council, can notify an activity to be the supply of goods and not supply of services or supply of services and not supply of goods or neither a supply of goods nor a supply of services.