

# CHAPTER 1

## INTRODUCTION TO GST

### 1. INTRODUCTION TO TAX

- Tax is a money that people pay to the Government, which is used to provide public services.
- It is a pecuniary burden on taxpayers to fulfill the socio-economic objectives of the Government.
- It is not a voluntary payment or donation, but an enforced contribution, exacted as per legislative authority.

Direct Tax	Indirect Tax
1. Burden & Liability to pay Tax lies on Same Person	Burden & Liability to pay lies on Different Person
2. Burden of Tax is not shifted	Burden of Tax is shifted to consumer
3. Progressive Taxation → Higher Income, Higher Tax	Regressive Taxation → Same tax levied on all irrespective of level of income
4. Levied on Income of Assessee	Levied on supply of goods, service or both and also on Imports. Also called Consumption Tax.
5. Concept of 'Previous year' and 'Assessment Year'	No such concept. Financial year is considered.

Economists world over agree that direct and indirect taxes are complementary and therefore, a rational tax structure should incorporate in itself both types of taxes.

### 2. GST

Gabbar Singh Tax

Good & Simple Tax

Goods & Services Tax

It is an indirect tax levied/ imposed/ charged on supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption.

Earlier Tax Regime/ Pre-GST 01/07/2017

1. Excise duty levied on Manufacture/ Prodn. of goods	GST levied on supply of goods/ services/ both
2. Sale Tax on sale of goods	
3. Service Tax on provision of services	
4. Multiple other Central and State taxes	

**3. JOURNEY OF GST**

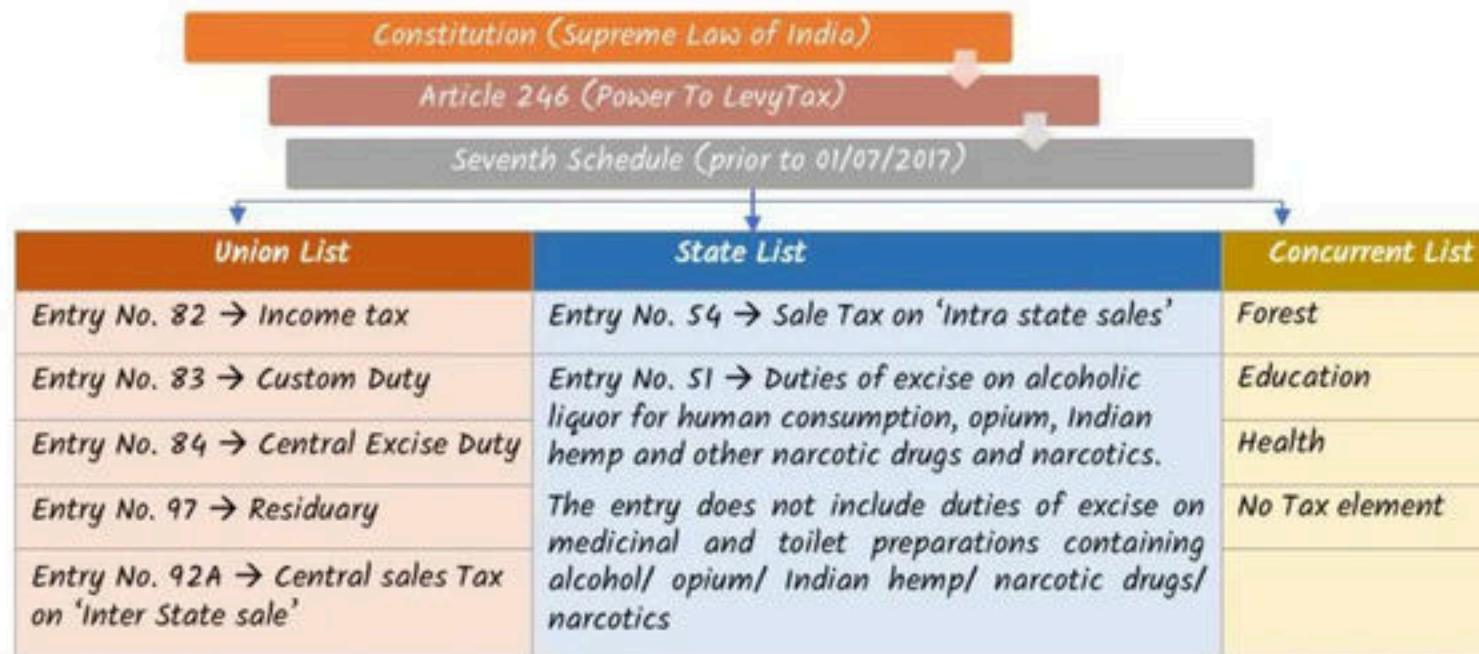
<b>2000</b>	Atal Bihari Vajpayee, Prime Minister of India, set up a committee to design GST model for India
<b>2004</b>	GST Recommended by Kelkar Task Force on national basis
<b>2006</b>	Finance Minister P. Chidambaram announced in 2006-07 budget that GST would be introduced on 1/4/2010
<b>1/07/2017</b>	GST came into effect in Rest of India
<b>8/07/2017</b>	GST came into effect in Jammu & Kashmir

For detailed timeline, refer Pg 1.5 of ICAI Study Material (not relevant for exams)

**4. WHY SO MUCH DELAY / DIFFICULTY IN INTRODUCING GST?**

India has 3-tier federal structure comprising of CG/ SG/ LA. Power to levy taxes is distributed among them.

<b>Article 265</b>	Prohibits arbitrary collection of Tax i.e. no Tax shall be levied or collected except by authority of law.
<b>Article 245</b>	Power for enacting law is conferred on Parliament and State Legislative Assembly.



Inter Nation → Between two Nations	Inter-state → Between two States
Intra Nation → Within the Nation → Inter state	Intra-state → Within the State

CG = National GST → CG shall collect GST & later distribute share to respective State Govts.  
 India adopted Dual GST system. Brazil & Canada also follows 'Dual GST'.

- Initially, focus was to implement National GST model under which CG shall collect full GST and later distribute the share of State Governments to respective State Governments.
- As seen above, in the earlier Indirect Tax regime, fiscal powers between Centre and the States were clearly demarcated.

- CG had exclusive power to levy tax on services & manufacturing of goods, except alcoholic liquor for human consumption, opium, narcotics etc. Similarly, SG had exclusive power to levy tax on sale of goods.
  - State Governments were not willing to let go their power of levying tax on goods.
  - Accordingly, India adopted Dual GST Model, under which both 'CG' and 'SG' has powers to simultaneously/ concurrently levy tax on supply of Goods or Services or both.
  - Hence, it was necessary to amend the constitution for redistribution of powers to levy tax on goods or services or both by CG & SG.
  - This was done through 'Constitution [101<sup>st</sup> Amendment] Act 2016; which introduced "Article 246A" for empowering the CG & SG to simultaneously levy and collect GST.
  - **Note:** For amendment in Constitution, at least 2/3<sup>rd</sup> of Rajya Sabha & Lok Sabha members must vote in its favour.
- All decisions related to GST, viz. rate of tax, exemption etc. is taken by a GST Council [Article 279A].
  - GST Council comprises of
    - a) Union Finance Minister as Chairman;
    - b) Union Minister of State in charge of Revenue or Finance;
    - c) Ministers in charge of Finance/ Taxation or any other Minister nominated by each of the States & UTs with Legislatures. These members may choose one amongst themselves to be the Vice-Chairperson of the Council.
  - To pass any decision in GST council, 3/4<sup>th</sup> votes of members present and voting is required.
 

Weight of CG Votes → 1/3 of total votes cast

Weight of SG Votes combined → 2/3 of total votes cast

Hence, to pass any decision, support of both CG & majority of SG is required. (co-operative federalism)

#### 5. WORKING OF GST

##### 1. Before VAT regime

Manufacturer	Wholesaler/ Dealer	Retailer
Raw Material purchased	Purchase Cost	Purchase Cost
Processing Exp. @ 10%	Profit @ 10%	Profit @ 10%
<b>Cost of production</b>		
Profit @ 10%	Sale Tax @ 10%	Sale Tax @ 10%
	<b>Sale Price</b>	<b>Sale Price</b>
Excise Duty @ 10%		
Sale Tax @ 10%		
<b>Sale Price</b>		
<b>Total Tax Payable</b>		

2. During VAT regime					
Manufacturer		Wholesaler		Retailer	
Raw Material purchased		Purchase Cost		Purchase Cost	
Processing Exp.		Profit @ 10%		Profit @ 10%	
<b>Cost of production</b>					
Profit @ 10%		VAT @ 10%		VAT @ 10%	
		<b>Sale Price</b>		<b>Sale Price</b>	
Excise Duty @ 10%					
Sale Tax @ 10%					
<b>Sale Price</b>					
Tax Payable					
Excise Duty @ 10%		Output Tax Liab.		Output Tax Liab.	
Sale Tax @ 10%		Less: ITC		Less: ITC	
		<b>Net Tax payable</b>		<b>Net Tax payable</b>	

Ideally, every person should pay tax on their own value addition/ contribution.  
 Value Added Taxation is a mechanism of Taxation, where tax is levied at each stage of supply chain &

- tax paid on inputs i.e. purchase, is allowed as credit from Tax liability on sale;
- thereby, taxing only value added at each stage.

Thus, only the final consumer bears the GST charged by the last supplier in the supply chain, with set-off benefits at all the previous stages.  
 This results in no double taxation and no tax on tax (cascading effect).  
 France was the first country to implement VAT/ GST in 1954. Presently, more than 160 countries have implemented VAT/ GST in some form or the other.

Three Rules for lifetime	
<b>Rule 1</b>	Tax paid/ payable on purchase → Purchase made is not the value addition of buyer. Accordingly, such tax paid on purchase is not his liability to pay but still paid. Hence, treat such tax paid/ payable on purchase as 'Tax Asset' and not as part of cost.
<b>Rule 3</b>	Tax charged on Sale/ received on sale → It is Government money which seller as received. Seller must pay it to Government. Hence, treat such tax collected on sale as Tax Liability.
<b>Rule 3</b>	Net Tax payable = Tax on Sales – Tax on purchases

Three Cases on Allowability of Input Tax Credit		
Case I	Case II	Case III

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As seen above, 'tax on input' is allowed as credit from output tax liability, only when both are payable to same Government.

In case Input tax is paid to one Government & output tax is payable to another Government, credit is not allowed. Such tax paid on Input is treated as part of cost.

To resolve this & few other shortcomings of VAT regime, 'GST' was introduced.

3. "During GST" [1/7/2017 onwards] Assume effectiveness rate → 12%

Manufacturer		Wholesaler		Retailer	
Raw Material purchased		Purchase Cost		Purchase Cost	
Processing Expenses		Profit @ 10%		Profit @ 10%	
<b>Cost of production</b>					
Profit @ 10%		CGST @ 6%		CGST @ 6%	
		SGST @ 6%		SGST @ 6%	
CGST @ 6%		<b>Sale Price</b>		<b>Sale Price</b>	
SGST @ 6%					
<b>Sale Price</b>					
			CGST	SGST	
		Output Tax			Output Tax
		(-) ITC			(-) ITC
		<b>Net Tax payable</b>			<b>Net Tax payable</b>

Total Value Addition =

=  
**GST payable** = Total value addition x 12%

=  
 =  
**Total GST paid** =  
 =

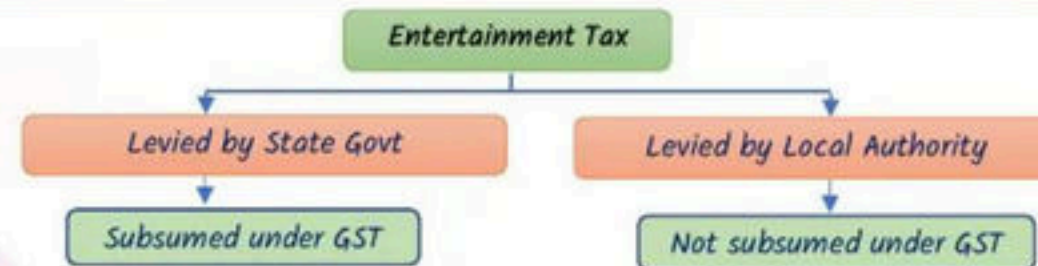
GST → Comprehensive VAT → No double taxation → No tax on tax [cascading effect] → Reduced prices

**6. TAXES SUBSUMED IN GST**

Central Taxes	State Taxes
1. Central Excise duty except on DAMN & Tobacco	1. VAT except on DAMN & alcoholic liquor for human consumption
2. Service tax	2. Luxury Tax
3. Central sales tax except on DAMN & alcoholic liquor for human consumption	3. Entry Tax
4. Countervailing duty (CVD)	4. Octroi Tax
5. Special additional duty (SAD)	5. Entertainment Tax
6. Other central surcharge & cess	6. Tax on Lottery, Betting & Gambling
	7. Tax on Advertisement
	8. Other state surcharge & cess

**7. TAX NOT SUBSUMED UNDER GST**

1.	Central Excise duty on 'DAMN' <ul style="list-style-type: none"> <li>- 'D' - High speed diesel</li> <li>- 'A' - Aviation Turbine Fuel</li> <li>- 'M' - Motor spirit (Petrol)</li> <li>- 'N' - Natural Gas</li> </ul> <div style="display: inline-block; vertical-align: middle; margin-left: 10px;"> <span style="font-size: 2em;">}</span> Petroleum Crude                 </div>
2.	VAT/ CST on "DAMN"
3.	State excise duty on alcoholic liquor for human consumption
4.	VAT/ CST on alcoholic liquor for human consumption
5.	Basic custom duty
6.	Stamp duty. Thus, Real estate sector has been kept out of ambit of GST, i.e. GST will not be levied on sale/purchase of immovable property.
7.	Electricity duty
8.	Entertainment Tax levied by 'Local Authority'



- Note:** 'Tobacco' → Both Central Excise Duty & GST is levied
- Note:** Opium, Indian hemp and other narcotic drugs and narcotics → Both State Excise Duty & GST is levied
- Note:** 'Petroleum Gas' → Already covered under GST

**GST compensation cess on goods and services – only for knowledge**

GST compensation cess is levied by Central Government in case of supply of certain luxury or SIN goods, in order to compensate states for the loss of any revenue due to implementation of GST for a period of 5 years i.e. till June 30, 2022.

This cess will be in addition to GST payable. The ceiling on GST compensation cess is 15%, though higher cess is leviable on pan masala and tobacco products.

The levy of GST Compensation cess was extended till March 31, 2026 to repay the loans taken by the Union Government, of India in the last two fiscal years to make up for the shortfall in their revenue collection. However, the period for which states would be compensated hasn't been extended beyond June 30, 2022.

**8. STATUS AFTER GST**

S No.	Before GST	After GST
1.	Many Central & state taxes	1 GST and few other taxes
2.	Taxable event → manufacture, sale etc.	Supply
3.	Name of taxpayer → Manufacturer, Dealer etc.	Supplier
4.	Double taxation & cascading effect	No double taxation & cascading effect
5.		Article 246A, 269A, 279A, Changes in Schedule VII

Relevant entries of Union List and State List (Post-GST):

Union List (List-I)	State List (List-II)
<b>Customs duties</b> <b>Entry 83:</b> Duties of customs including export duties	<b>State excise duties</b> <b>Entry 51:</b> Duties of excise on <ul style="list-style-type: none"> <li>➤ Alcoholic liquor for human consumption; &amp;</li> <li>➤ Opium, Indian hemp, other narcotic drugs &amp; narcotics.</li> </ul>
<b>Central excise duties</b> <b>Entry 84:</b> Duties of excise on following goods manufactured or produced in India: <ul style="list-style-type: none"> <li>➤ Petroleum crude;</li> <li>➤ High speed diesel;</li> <li>➤ Motor spirit (i.e. petrol)</li> <li>➤ Natural gas;</li> <li>➤ Aviation turbine fuel; and</li> <li>➤ Tobacco and tobacco products</li> </ul>	<b>State level VAT</b> <b>Entry 54:</b> Taxes on intra-state sale of following goods: <ul style="list-style-type: none"> <li>➤ Petroleum crude;</li> <li>➤ High speed diesel;</li> <li>➤ Motor spirit (i.e. petrol)</li> <li>➤ Natural gas;</li> <li>➤ Aviation turbine fuel; and</li> <li>➤ Alcoholic liquor for human consumption.</li> </ul>

**9. FEATURES OF INDIRECT TAXES**

1. <b>An important source of revenue</b>	In India, indirect taxes contribute more than 50% of the total tax revenues of Central and State Governments.
2. <b>Tax on commodities and services</b>	It is known as commodity taxation & also levied on provision of services.
3. <b>Shifting of burden</b>	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.
4. <b>No perception of direct pinch</b>	Value of indirect taxes is generally inbuilt in the price of the commodity, most of the time the tax payer pays the same without actually knowing that he is paying tax to the Government.
5. <b>Inflationary</b>	It directly affects the prices of commodities and services and leads to inflationary trend.
6. <b>Wider tax base</b>	Majority of the products or services are subject to indirect taxes.
7. <b>Regressive in nature</b>	Both rich and the poor have to pay the same rate of indirect taxes on a product/service. Hence, it is more burdensome for poor people.

#### 10. DEFICIENCIES OF EARLIER TAX REGIME/ VAT REGIME & BENEFITS OF GST

1. <b>Several taxes not subsumed in VAT</b>	For a single transaction multiple taxes in multiple forms were required to be paid as taxes like Luxury tax, Entertainment tax etc. which were not subsumed in VAT
2. <b>High Compliance Cost</b>	Large number of taxes created high compliance cost for the taxpayers in form of more returns, payments etc.
3. <b>Double taxation</b>	Earlier some items were treated both as goods and Services that led to double taxation. Example: Earlier, software was subject to both service tax and VAT
4. <b>No set-off of CENVAT &amp; State Level VAT</b>	Both CENVAT and State level VAT were value added taxes but cross utilisation of credit i.e. set off of those were not possible as CENVAT was levied by Central Government and VAT levied by State Government.
5. <b>No CENVAT after Manufacturing Stage</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. This led to the cascading of taxes.
6. <b>Non-Integration of VAT &amp; Service Tax</b>	VAT on Goods was not integrated with service tax at the state level. So the cascading effect of service tax was not removed.
7. <b>Cascading nature of CST</b>	CST was non-vatable (i.e. no credit was allowed) and an origin based tax which had cascading effect.

#### 11. GST – A CURE OF ALL ILLS I.E BENEFITS OF GST

<b>Benefits to economy</b>	a) <b>Creation of unified national market:</b> GST enabled creation of Common market with common tax rates and procedures and remove the economic barriers, thereby paving the way for an integrated economy at the national level.
	b) <b>Boost to 'Make in India' initiative:</b> by making goods and services produced in India competitive in the national as well as international market.
	c) <b>Boost to investments &amp; employment:</b> Subsuming of major Central & State taxes in GST, comprehensive set-off of input tax on goods & services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services, thus boosting Investment and Employment.
<b>Simplified tax structure</b>	a) <b>Ease of doing business:</b> Simpler tax regime with fewer exemptions along with reduction in multiplicity of taxes under GST has led to simplification and uniformity in tax structure.
	b) <b>Certainty in tax administration:</b> Common procedures for registration of taxpayers, refund of taxes, uniform formats of tax return, common tax base, common system of classification of goods or services along with timelines for every activity ensures

	certainty in tax administration across India.
<b>Easy tax compliance</b>	a) <b>Automated procedures with greater use of IT:</b> GST is technology driven. The interface of the taxpayer with the tax authorities is through the common portal (GSTN).
	b) <b>Easier tax compliance:</b> Harmonization of laws, procedures and rates of tax has made compliance easier and simple. There are common definitions, common forms/ formats, common interface through common portal resulting in efficiencies and synergies.
<b>Advantages for trade and industry</b>	a) <b>Benefits to industry:</b> Average tax burden on trade and industry has come down, which has resulted in reduction in prices of goods and services. This has resulted in more consumption, which means more production & thereby boosting growth of industries.
	b) <b>Mitigation of ill effects of cascading:</b> GST is a destination-based consumption tax. It has been designed in a manner so that tax is collected at every stage and the credit of tax paid at the previous stage is available to set off the tax to be paid at the next stage of transaction. This eradicates "tax on tax" & allows cross utilization of ITC.
	c) <b>Benefits to small traders and entrepreneurs:</b> GST has increased the threshold limit for GST registration for small businesses. Small businesses have also been provided the benefit of composition scheme.

**12. GST COMMON PORTAL**

Common GST Electronic Portal – [www.gst.gov.in](http://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 GST portal is accessible over Internet (by taxpayers and their CAs/ Tax Advocates etc.) and Intranet by Tax Officials etc. The portal is one single common portal for all GST related services.

However, common GST Electronic Portal for furnishing electronic way bill is [www.ewaybillgst.gov.in](http://www.ewaybillgst.gov.in)

Further, website for uploading/ reporting of e-invoices by the notified persons is Invoice Registration Portal (IRP.)

These two websites are managed by the National Informatics Centre, Ministry of Electronics & Information Technology, Government of India].

**13. HOW TO STUDY GST**

Laws/ Concepts	Procedures
Taxable Event (Supply)	Registration
Charge Under GST	Tax Invoice, Debit & Credit Note and E-Way Bill
Place of Supply	Accounts and Records
Exemption from GST	Returns
Time of Supply	Payment of GST
Value of Supply	Assessment, Refunds, Audit, Appeals etc.
Input Tax Credit	

# CHAPTER 1

## INTRODUCTION TO GST

### Coverage

- 1) ICAI Study Material Questions & Solutions (100%)
- 2) RTPs & MTPs till May 24 (100%)
- 3) Past Year Questions till May 24 (100%)

### 1. ICAI STUDY MATERIAL QUESTIONS

#### Concept Problem 1

List some of the benefits that GST may accrue to the economy.

#### Solution

GST may accrue following benefits to the economy:

- a) **Creation of unified national market:** GST aims to make India a common market with common tax rates and procedures and remove the economic barriers, thereby paving the way for an integrated economy at the national level.
- b) **Boost to 'Make in India' initiative:** GST may give a major boost to the 'Make in India' initiative of the Government of India by making goods and services produced in India competitive in the national as well as international market. This would make India a manufacturing hub.
- c) **Boost to investments, exports and employment:** Under the GST regime, the principle of exporting only the cost of goods or services and not taxes is being followed. This may boost Indian exports thereby improving the balance of payments position. Exporters are being facilitated by grant of provisional refund of 90% of their claims within 7 days of issue of acknowledgement of their application, thereby resulting in the easing of position with respect to cash flows.

Further, the subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input tax on goods and services and phasing out of Central Sales Tax (CST) may reduce the cost of locally manufactured goods and services. Resultantly, the competitiveness of Indian goods and services in the international market may increase to give boost to investments and Indian exports.

With a boost in exports and manufacturing activity, more employment would be generated and GDP would increase.

#### Concept Problem 2

Explain with the help of examples how a particular transaction of goods and services is taxed simultaneously under Central GST (CGST) and State GST (SGST)?

#### Solution

The Central GST and the State GST is levied simultaneously on every intra-State supply of goods or services or both made by registered persons except the exempted goods and services as well as goods and services which are outside the purview of GST. Further, both are levied on the same price or transaction value. The same can be better understood with the help of following examples:

**Example 1:** Suppose that the rate of CGST is 10% and that of SGST is 10%. When a wholesale dealer of steel in Uttar Pradesh supplies steel bars and rods to a construction company which is also located within the same State for, say INR 100, the dealer would charge CGST of 10 and SGST of 10 in addition to the basic price of the goods. The CGST component will go into a Central Government account while the SGST portion into the account of the

concerned State Government (viz. U.P.).

It is important to note that he might not actually pay INR 20 (10 + 10) in cash as he would be entitled to set-off this liability against the CGST or SGST paid on his eligible purchases (inputs, input services and capital goods) assuming that all his purchases are intra-State. However, for paying CGST, he would be allowed to use only the credit of CGST paid on his purchases while for SGST he can utilize the credit of SGST alone. CGST credit cannot be used for payment of SGST and *vice versa*.

**Example II:** Suppose, again the rate of CGST is 10% and that of SGST is 10%. When an advertising company located in Mumbai supplies advertising services to a company manufacturing soap also located within the State of Maharashtra for, let us say ₹ 100, the ad company would charge CGST of 10 as well as SGST of 10 at the basic value of the service. The CGST component will go into a Central Government account while the SGST portion into the account of the Maharashtra Government.

He might not actually pay 20 (10+10) in cash as it would be entitled to set-off this liability against the CGST or SGST paid on his eligible purchases (say, of inputs such as stationery, office equipment, services of an artist etc.) assuming that all his purchases are intra-State. However, for paying CGST, he would be allowed to use only the credit of CGST paid on its purchase while for SGST, he can utilise the credit of SGST alone. CGST credit cannot be used for payment of SGST and *vice versa*.

### Concept Problem 3

Why was the need to amend the Constitution of India before introducing the GST?

#### Solution

Earlier, the fiscal powers between the Centre and the States were clearly demarcated in the Constitution with almost no overlap between the respective domains. The Centre had the powers to levy tax on the manufacture of goods (except alcoholic liquor for human consumption, opium, narcotics etc.) while the States had the powers to levy tax on the sale of goods. In the case of inter-State sales, the Centre had the power to levy the Central Sales Tax but the tax was collected and retained entirely by the States. As for services, it was the Centre alone that was empowered to levy service tax.

Introduction of the GST necessitated the amendments in the Constitution so as to simultaneously empower the Centre and the States to levy and collect this tax. The Constitution of India was amended by the Constitution (101<sup>st</sup> Amendment) Act, 2016 for this purpose. Article 246A of the Constitution introduced thereby empowered the Centre and the States to simultaneously levy and collect the GST.

### Concept Problem 4

GST is a destination-based tax on consumption of goods or services or both. Discuss the validity of the statement.

#### Solution

The given statement is valid. GST is a destination-based tax on consumption of goods or services or both. GST is known as destination-based tax since the tax would accrue to the taxing authority which has jurisdiction over the place of consumption which is also termed as place of supply.

For example, if A in Delhi produces the goods and sells the goods to B in Haryana. In this case, the tax would accrue to the State of Haryana and not to the State of Delhi. On the other hand, under pre-GST regime, origin-based taxation was prevailing in such cases.

Under origin-based taxation, the tax used to accrue to the State from where the transaction originated. In the given case, under origin-based taxation, the central sales tax would have been levied by Centre and collected by the State of Delhi and not by the State of Haryana.

### Concept Problem 5

Discuss the leviability of GST or otherwise on the following:

- Alcoholic liquor for human consumption
- Petroleum crude, diesel, petrol, Aviation Turbine Fuel (ATF) and natural gas

- c) Tobacco
- d) Opium, Indian hemp and other narcotic drugs and narcotics

**Solution**

- a) **Alcoholic liquor for human consumption:** is outside the realm of GST. The manufacture/production of alcoholic liquor continues to be subjected to State excise duty and inter-State/intra-State sale of the same is subject to CST/VAT respectively.
- b) **Petroleum crude, diesel, petrol, ATF and natural gas:** As regards petroleum crude, diesel, petrol, ATF and natural gas are concerned, they are not presently 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.
- c) **Tobacco:** 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.
- d) **Opium, Indian hemp and other narcotic drugs and narcotics:** Opium, Indian hemp and other narcotic drugs and narcotics are within the purview of GST, i.e. GST is leviable on them. However, State Governments have also retained the power to levy excise duties on such products manufactured in India. Resultantly, Opium, Indian hemp and other narcotic drugs and narcotics are subject to GST as well as State excise duties.

**Concept Problem 6**

Under Goods and Services Tax (GST), only value addition is taxed and burden of tax is to be borne by the final consumer. Examine the validity of the statement.

**Solution**

The statement is correct. Goods and Services Tax is a destination-based tax on consumption of goods and services. It is levied at all stages right from manufacture up to final consumption with credit of taxes paid at previous stages available as setoff. Resultantly, only value addition is taxed and burden of tax is to be borne by the final consumer.

**Concept Problem 7**

Which are the commodities which have been kept outside the purview of GST? Examine the status of taxation of such commodities after introduction of GST.

**Solution**

Article 366(12A) of the Constitution as amended by 101st Constitutional Amendment Act, 2016 defines the Goods and Services tax (GST) as a tax on supply of goods or services or both, except supply of alcoholic liquor for human consumption. Therefore, alcohol for human consumption is kept out of GST by way of definition of GST in the Constitution. Five petroleum products viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel have temporarily been kept out of the purview of GST; GST Council shall decide the date from which they shall be included in GST. The erstwhile taxation system (CST/VAT & central excise) still continues in respect of the said commodities.

**Concept Problem 8**

A dual GST has been implemented in India. Elaborate.

**Solution**

A dual GST has been implemented in India with the Centre and States simultaneously levying it on a common tax base. The GST levied by the Centre on intra-State supply of goods and / or services is called the Central GST (CGST) and that levied by the States/ Union territory is called the State GST (SGST)/ Union GST (UTGST). Similarly, Integrated GST (IGST) is levied and administered by Centre on every inter-State supply of goods and/or services.

India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. Both the levels of Government have distinct responsibilities to perform according to the division of powers prescribed in the Constitution for which they need to raise resources. A dual GST, therefore, keeps with the Constitutional requirement of fiscal federalism.

**Concept Problem 9**

Discuss Article 269A pertaining to levy and collection of GST on inter-State supply.

**Solution**

Article 269A of the Constitution stipulates that Goods and Services Tax on supplies in the course of inter-State trade or commerce shall be levied and collected by the Government of India and such tax shall be apportioned between the Union and the States in the manner as may be provided by Parliament by law on the recommendations of the Goods and Services Tax Council.

Here, supply of goods, or of services, or both in the course of import into the territory of India shall be deemed to be supply of goods, or of services, or both in the course of inter-State trade or commerce.

The amount so apportioned to a State shall not form part of the Consolidated Fund of India. Where an amount collected as IGST has been used for payment of SGST or vice versa, such amount shall not form part of the Consolidated Fund of India/State respectively. This is to facilitate transfer of funds between the Centre and the States.

Parliament is empowered to formulate the principles for determining the place of supply, and when a supply of goods, or of services, or both takes place in the course of inter-State trade or commerce.

**Concept Problem 10**

Discuss Article 246A which grants the power to make laws with respect to Goods and Services Tax.

**Solution**

Article 246A stipulates that Parliament, and, the Legislature of every State, have power to make laws with respect to goods and services tax imposed by the Union or by such State.

Parliament has exclusive power to make laws with respect to goods and services tax where the supply of goods, or of services, or both takes place in the course of inter-State trade or commerce.

However, in respect to petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel, the aforesaid provisions shall apply from the date to be notified by the Government on the recommendations by the GST Council.

**2. ICAI RTPS, MTPS AND PAST YEAR QUESTIONS**
**Concept Problem 11**

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 12**

Enumerate major direct and indirect taxes.

#### Solution

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

#### Concept Problem 13

Explain the salient features of indirect taxes.

#### Solution

Salient features of indirect taxes are:

- i) **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.
- ii) **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.
- iii) **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.
- iv) **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.
- v) **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.
- vi) **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.
- vii) **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.
- viii) **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 14

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 15

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 16**

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:

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

State levies that are subsumed in GST are as follows:

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

**Concept Problem 17**

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 18

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 19

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 20

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 21

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

#### Solution

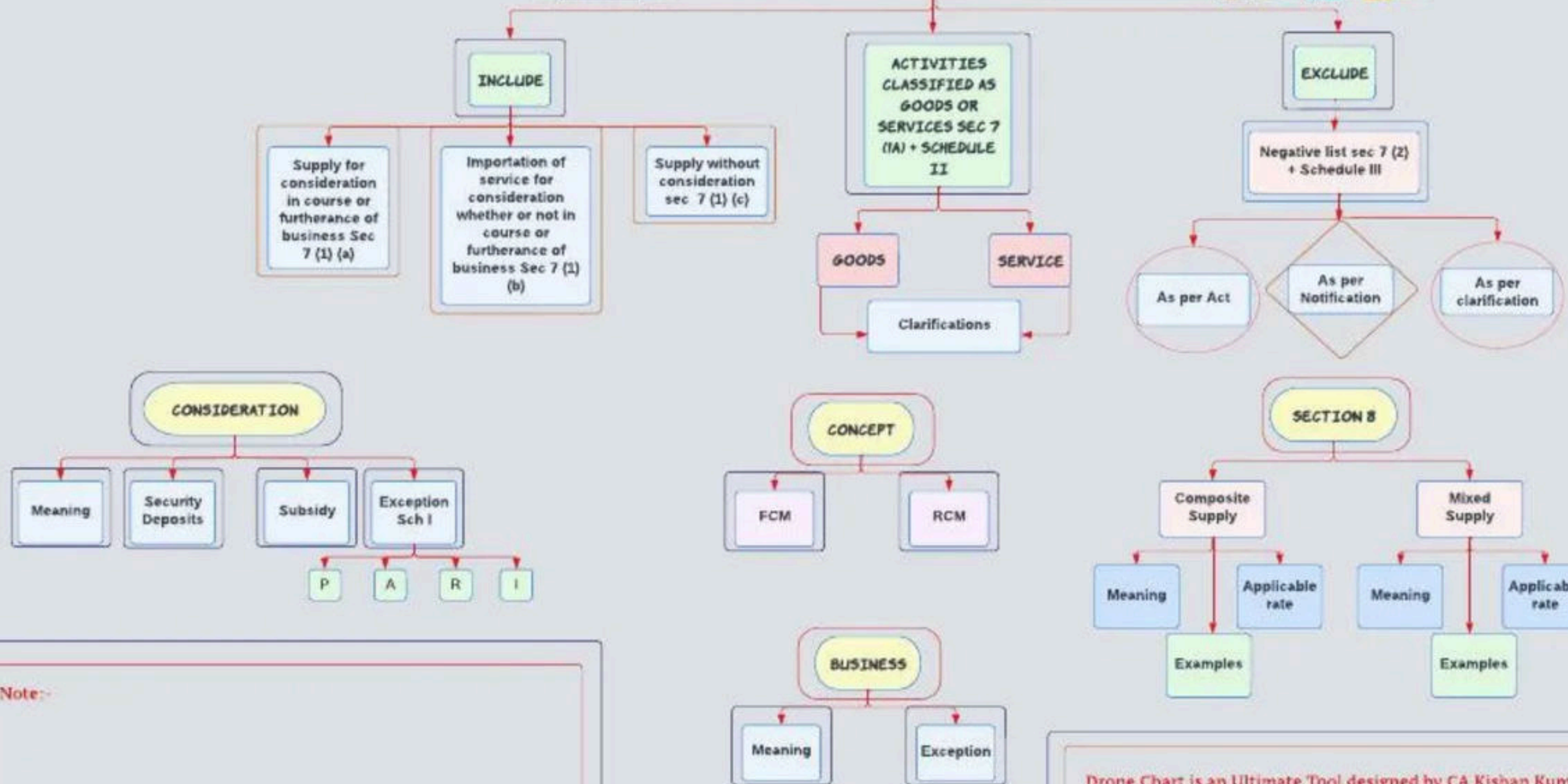
The said statement is not correct. State Government can notify a transaction to be supply of goods or services but only on the recommendations of the GST Council. Further, Central Government or State Government, both on the recommendations of the GST Council, can notify an activity to be the supply of 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.

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