

 **Goods and Service Tax**

# Taxation System Prior to GST in India

**Taxes**

**Impacted by GST**

**Direct Tax**

**Indirect Tax**

**Income Tax**

**Central Tax**

**State Tax**

**Customs Excise Service Tax**

**Entry Tax,**

**VAT Luxury tax, etc**

**A. The Journey of GST**



**B. Concept of GST**

**Value Added Tax**

GST is a value added tax levied on manufacture, sale and consumption of goods and services.

**Comprehensive**

Almost all the previous indirect taxes are subsumed in GST. Earlier, tax was applicable on the manufacture and sale of goods or provision of services, but GST is applicable on the supply of goods or services. A unified taxation system will reduce the arbitrariness in tax rates across the country.

**Continuous Chain of Credits**

GST offers comprehensive and continuous chain of tax credits from the producer's point/service provider's point up to the retailer's level/consumer’s level thereby taxing only the value added at each stage of supply chain.

**Burdon Borne by Final Consumer**

The supplier at each stage is permitted to avail credit of GST paid on the purchase of goods and/or services and can set off this credit against the GST payable on the supply of goods and services to be made by him. Thus, only the final consumer bears the GST charged by the last supplier in the supply chain

**No Cascading of Taxes**

Since only the value added at each stage is taxed under GST, there is no tax on tax or cascading of taxes under GST system. GST does not differentiate between goods and services and thus, the two are taxed at a single rate.

**Destination-based consumption**

Unlike the previous indirect taxes, GST is collected at the point of consumption. The taxing authority with appropriate jurisdiction in the place where the goods/ services are finally consumed will collect the tax.

**C. Impact on Imports and Exports**

Not taxable as the place of consumption lies outside India

Exports

Imports

**Taxable** as the place of consumption lies in India

**Imports would be costlier than domestic goods because of additional custom duties. Export industry will become more competitive.**

**D. Acts Under GST**

|  |  |
| --- | --- |
| **Act** | **Purpose** |
| The Central Goods and Service Tax Act, 2017 (CGST Act) | To levy and collect CGST on intra state/UT supplies |
| The State Goods and Service Tax Act, 2017 (SGST Act) | To levy and collect SGST on intra state supplies |
| The Union Territory Goods and Service Tax Act, 2017 (UTGST Act) | To levy and collect UTGST on intra UT supplies |
| The Integrated Goods and Service Tax Act, 2017 (IGST Act) | To levy and collect IGST on inter state supplies |
| The GST (Compensation to States) Act, 2017 | To compensate the states for the loss of revenue, if any, due to introduction of GST |



**E. Types of Taxes**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **State A** |  |  |  |  | **State A** |  |  |  | **State B** |
|  |  |  |  |  |  |  |  |  |  |
| Place of Supplier | Place of Supply |  |  |  | Place of Supplier |  |  |  | Place of Supply |
|  |  |  |  |  |  |  |  |  |  |
| **CGST and SGST/UTGST** | **IGST** |

**F. Need for GST in India**

* In the earlier indirect tax regime, a manufacturer of excisable goods charged excise duty and value added tax (VAT) on intra-State sale of goods. However, the VAT dealer on his subsequent intra- State sale of goods charged VAT (as per prevalent VAT rate as applicable in the respective State) on value comprising of (basic value + excise duty charged by manufacturer + profit by dealer). Further, in respect of tax on services, service tax was payable on all ‘services’ other than the Negative list of services or otherwise exempted.
* The earlier indirect tax framework in India suffered from various shortcomings. Under the earlier indirect tax structure, the various indirect taxes being levied were not necessarily mutually exclusive.
	+ To illustrate, when the goods were manufactured and sold, both central excise duty (CENVAT) and State-Level VAT were levied. 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.
* Moreover, CENVAT was applicable only at manufacturing level and not at distribution levels. The erstwhile sales tax regime in India was a combination of origin based (Central Sales Tax) and destination based multipoint system of taxation (State-Level VAT). Service tax was also a value added tax and credit across the service tax and the central excise duty was integrated at the central level.
* Let us understand the need of GST with a comparison of old and new taxation system.

**Government**

VAT (SG)

₹ 16 – ₹ 10 = ₹ 6

**Old System of Indirect Tax**

* Excise Duty (ED) - 10%
* Value Added Tax (VAT) - 10%

**Government**

**A**

**Manufacturer**

Sale

**B**

**Trader**

Sale

**C**

**Consumer**

ED (CG) - ₹ 10

VAT (SG) - ₹ 10

Consideration

Consideration

Value

100

Excise Duty (10%) 10 Total 110

VAT (10%) 11

Total Payment 121

Cost

110

Profit 50 Total 160

VAT (10%) 16

Total Payment 176

**Government**

CGST (CG) ₹ 15 – ₹ 10 = ₹ 5 SGST (SG) ₹ 15 – ₹ 10 = ₹ 5

**New System of Indirect Tax**

* CGST - 10%
* SGST - 10%

**Government**

**A**

**Manufacturer**

Sale

**B**

**Trader**

Sale

**C**

**Consumer**

CGST (CG) - ₹ 10

SGST (SG) - ₹ 10

Consideration

Consideration

Value

CGST (10%)

100

10

SGST (10%) 10

Total Payment 120

Cost

100

Profit 50 Total 150

CGST (10%) 15

SGST (10%) 15

Total Payment 180

**G. Taxes Subsumed and Not Subsumed by GST**

GST has brought to an end many central and state tax levies. However, few taxes are still existing in the system. Following is a list of taxes subsumed and not subsumed by GST.

|  |
| --- |
| **Central Taxes** |
| **Subsumed** | **Not Subsumed** |
| Central Excise Duty | Customs Duty |
| Additional Duty of Excise |  |
| Surcharge and Cess |  |
| Central Sales Tax |  |
| Service Tax |  |
| **State Taxes** |
| **Subsumed** | **Not Subsumed** |
| Value Added Tax | State Excise Duty |
| Entry Tax, Octroi, Local Body Tax | Stamp Duty |
| Entertainment Tax | Profession Tax |
| Luxury Tax | Sales Tax on 5 Petroleum Product |
| Betting, Gambling and Lottery Tax |  |



**H. Framework of GST as Introduced in India**

**Dual GST**

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.

**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] has been 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.

Infosys has been appointed as Managed Service Provider (MSP). GSTN has selected certain IT, ITES and financial technology companies, to be called GST Suvidha Providers (GSPs). GSPs develop applications to be used by taxpayers for interacting with the GSTN. They facilitate the taxpayers in uploading invoices as well as filing of returns and act as a single stop shop for GST related services.

**H. Framework of GST as Introduced in India**

**GST Network**

GSTN has been set up by the Government as a private company under Section 8 of the Companies Act, 2013.

**I. Benefits of GST**

GST aims to make India a common market with common tax rates and procedures and remove the economic barriers thus paving the way for an integrated economy at the national level.

**Creation of Unified National Market**

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 would mitigate the ill effects of cascading, improve competitiveness, and improve liquidity of the businesses.

**Mitigation of Ill Effects of Cascading**

GST has subsumed majority of existing indirect tax levies both at Central and State level into one tax i.e., GST which is leviable uniformly on goods and services. This will make doing business easier and will also tackle the highly disputed issues relating to double taxation of a transaction as both goods and services.

**Elimination of Multiple Taxes and Double Taxation**

GST will 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.

**Boost to ‘Make in India' Initiative**

GST is expected to bring buoyancy to the Government Revenue by widening the tax base and improving the taxpayer compliance.

**Buoyancy to the Government Revenue**

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Thank You!

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