

UNIT X DIRECT AND INDIRECT TAXES

CHAPTER

33

INDIRECT TAXATION



Learning Objectives

To enable the students to

- understand the meaning of Indirect tax
- distinguish between direct taxes and indirect taxes
- describe the meaning, kinds and objectives of GST
- learn about the GST council and its functions

33.01 Meaning of Indirect Tax

Indirect Tax is levied on the goods and services. It is collected from the buyers by the sellers and paid by the sellers to the Government. Since it is indirectly imposed on the buyers it is called indirect tax. e.g. GST - Goods and Services Tax, Excise duty. The following picture clearly explains the direct tax and indirect tax concepts.

Differences between Direct Taxes and Indirect Taxes

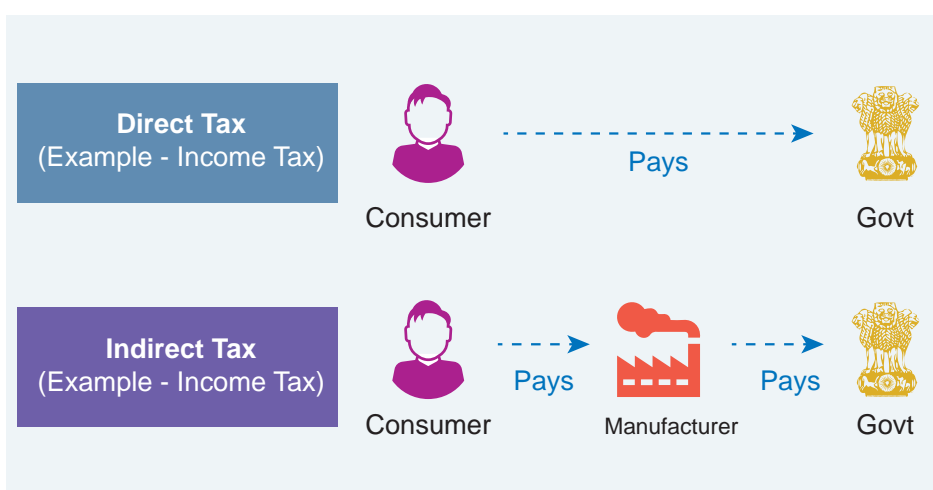
The main differences between direct taxes and indirect taxes are given in table.

33.02 Goods and Services Tax (GST) – Meaning

Goods and Services Tax (GST) is the tax imposed on the supply (consumption) of goods and services. It is a destination based consumption tax and collected on those value-added items at each stage of the supply chain.

A manufacturer in India, need not pay GST wherever he/she manufactures. GST is applicable to all goods and services except alcohol and specified petroleum products. GST Act has proposed four tax rates, i.e. 5%, 12%, 18% and 28%.

Traders having annual turnover, within a state, below Rs.20 lakhs are exempted from GST. These small traders need not





Differences between Direct Taxes and Indirect Taxes

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. Evasion	Tax evasion is possible.	Tax evasion is more difficult
4. Inflation	Direct tax helps in reducing the inflation.	Indirect tax contributes to inflation.
5. Shiftability	Cannot be shifted to others	Can be shifted to others
6. Examples	Income Tax, Wealth Tax	GST, Excise Duty.

register under GST. But the traders having inter-state business should register and pay GST even the turnover is below Rs.20 lakhs. Special provisions are there in the GST Act for the 8 northeastern states and Himschal Pradesh, Uttarakhand and Jammu and Kashmir.

Goods and Service Tax

GST Act was passed on April 12, 2017. GST came into effect from 1st July, 2017. It is the single biggest tax reform since Independence. Several Countries like Russia, Canada, Australia, Singapore, China, etc. have already introduced GST.

The right to levy tax is derived from the Constitution of India. To permit the Centre and the States to levy taxes on the same goods and services needed unique amendment to the Constitution. Accordingly 101st Constitution Amendment Act 2016 was passed and the President's acceptance was received on September 8, 2016. Under this

Act, GST Council, a constitutional body was to be formed to implement GST.

Kinds of GST

GST is of three kinds: CGST, SGST/UGST, and IGST.

- CGST** - Central Goods and Services Tax - imposed and collected by the Central Government on all supply of goods within a state (intra-state) under CGST Act 2017
- SGST** - State Goods and Services Tax - imposed and collected by the State Governments under State GST Act. (Tamil Nadu GST Act 2017 passed by Tamil Nadu Govt.)
- UGST** - Union Territory Goods and Services Tax - imposed and collected by the five Union Territory Administrations in India under UGST Act 2017.
- IGST** - Inter-State Goods and Services Tax - imposed and collected by the



Central Government and the revenue shared with States under IGST Act 2017.

- e. IGST on exports - All exports are treated as Inter-State supply under GST. Since exports are zero rated, GST is not imposed on all goods and services exported from India. Any input credit paid already on exports will be refunded.

33.03 GST Council

The GST Council will oversee the implementation of the GST. But the Central Board of Excise and Customs is responsible for administration of the CGST and IGST Acts. The Council makes recommendations on rate of GST, apportionment of IGST, exemptions, model GST laws, etc.

The Chairman of the Council is the Union Finance Minister. The Minister of State in the Finance Ministry and all Finance Ministers of the State Governments shall be its members. The Central Government shall have 1/3rd voting power and all State Governments shall have 2/3rd voting powers. All decisions of the Council can be passed only with 3/4th of the total votes. Each state has one vote, irrespective of its size or population. Twenty four council meetings were held until 2017.

Apart from the GST Council, GST Secretariat was formed with the following officials

- i. The Secretary (Revenue) will be appointed as the Ex-officio Secretary to the GST Council.
- ii. The Chairperson, Central Board of Excise and Customs (CBEC), will be a permanent invitee (non-voting).

- iii. One post of Additional Secretary to the GST, and
- iv. Four posts of Commissioner in the GST Council Secretariat will also be created.

Objectives of GST

1. The foremost objective of GST is to create a common market with uniform tax rate in India. (One Nation, One Tax, One Market)
2. To eliminate the cascading effect of taxes, GST allows set-off of prior taxes for the same transactions as input tax credit.
3. To boost Indian exports, the GST already collected on the inputs will be refunded and thus there will be no tax on all exports.
4. To increase the tax base by bringing more number of tax payers and increase tax revenue.
5. To simplify tax return procedures through common forms and avoidance of visiting tax departments.
6. To provide online facilities for payment of taxes and submission of forms. Goods and Services Network (GSTN), a robust Information Technology system has been created for the operation of GST.

Benefits of GST

A. To the Society and country

1. Unified common national market will attract more foreign investment. GST has integrated the economy of all States and Union Territories.
2. It brings parity in taxation among imported goods and Indian manufactured goods. All imported goods



will be charged with IGST which will be more or less equivalent to the total of CGST and SGST levied on manufactured goods. Removal of several taxes will make the price of Indian products more competitive at world market.

3. It will boost manufacturing, export, GDP leading to economic growth through increase in economic activity.
4. Creation of more employment opportunities which will result in poverty eradication.
5. It will bring more tax compliance (more tax payers) and increase revenue to the Governments.
6. It is transparent and will improve India's ranking in the 'Ease of Doing Business' in the world.
7. Uniform rates of tax will reduce tax evasion and rate arbitrage between States.

B. To Business Community

1. Simpler Tax System with fewer exemptions. 17 taxes were abolished and one tax exists today.
2. Input tax credit will reduce cascading effect of taxes. Reduction in average tax burden will encourage manufacturers and help "Make in India" campaign and make India as a manufacturing hub.
3. Common procedures, common classification of goods and services and timelines will lend greater certainty to taxation system.
4. GSTN facility will reduce multiple record keeping, lesser investment in manpower and resources and improve efficiency.
5. All interactions will be through common

GSTN portal and will ensure corruption free administration.

6. Uniform prices throughout the country. Expansion of business to all states is made easy.

C. To Consumers

1. Input tax credit allowed will lower the prices to the consumers.
2. All small retailers will get exemption and purchases from them will cost less for the consumers.

Disadvantages of GST

Besides the above listed advantages the GST is also criticized for many reasons. The disadvantages of GST are stated below:

- i. Several Economists says that GST in India would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.
- ii. Another criticism is that CGST, SGST are nothing but new names for Central Excise/Service Tax, VAT and CST. Hence, there is no major reduction in the number of tax layers.
- iii. A number of retail products currently have only four percent tax on them. After GST, garments and clothes could become more expensive.
- iv. The aviation industry would be affected. Service taxes on airfares currently range from six to nine percent. With GST, this rate will surpass fifteen percent and effectively double the tax rate.
- v. Adoption and migration to the new GST system would involve teething troubles and learning for the entire ecosystem.





Key Terms

Indirect Tax
Value Added Tax
Security Transaction Tax
Excise Duty
Custom Duty
Goods and Services Tax
GST Council
Constitution of India



Exercise

I. Choose the Right Answer:

1. Who is the chairman of the GST council?

- a) RBI Governor b) Finance Minister
c) Prime Minister d) President of India

2. GST Stands for

- a) Goods and Supply Tax
b) Government Sales Tax
c) Goods and Services Tax
d) General Sales Tax

3. What kind of Tax the GST is?

- a) Direct Tax
b) Indirect Tax
c) Dependence on the Type of Goods and Services
d) All Business Organisations



4. What is IGST?

- (a) Integrated Goods and Service Tax
(b) Indian Goods and Service Tax
(c) Initial Goods and Service Tax
(d) All the Above

5. In India GST became effective from?

- a) 1st April, 2017
b) 1st January, 2017
c) 1st July, 2017
d) 1st March, 2017

Answers

1. b 2. c 3. b 4. a 5. c

II. Very Short Answer Questions

- What do you mean by Indirect Tax.
- Give any two examples for indirect taxes levied in India.
- What do you mean by Goods and Services Taxes?
- What is CGST?

III. Short Answer Questions

- What are the objectives of GST? (any 3)
- Write any three demerits of GST.

IV. Long Answer Questions

- Distinguish between Direct taxes and Indirect taxes. (any 5)
- Discuss the different kinds of GST.

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