

BHARAT SCHOOL OF BANKING

TAXATION & GST

Taxation in India

Taxes in India are levied by the Central government and the state governments. The authority to levy tax is derived from the Constitution of India.

Generally, there are two type of taxes -

1. **Direct Taxes** - These are directly paid to the government by the taxpayer (individuals and organizations) e.g., Income tax (you pay directly to the government, as Income Tax File return, or Tax Deducted at Source (TDS)), Corporation Tax, Wealth Tax, etc.
2. **Indirect Taxes** - These are indirectly paid to the government, and are applied on the manufacture or sale of goods and services. These are initially paid to the government by an intermediary, who then adds the amount of tax paid to the value of the goods and services, and passes on the total amount to the end user. e.g., Sales Tax, Service Tax, Excise Duty, VAT, etc.

Note that, Central Board of Direct Taxes (CBDT) generally controls the direct taxes, like Income tax, while Central Board of Excise and Custom (CBEC) generally controls indirect taxes like Customs, Excise, Service tax, Narcotics, etc.

Goods and Services Tax (GST)

GST is India's most ambitious indirect tax reform plan. Currently Indirect Taxes are levied by central and state governments in multiple stages of the supply chain, such as excise duty, sales tax, value added tax (VAT), etc. Moreover, the central and state governments (may) have different tax rates.

To bring all the indirect taxes under a single umbrella, goods and services tax (GST) is introduced.

Constitution Amendment

Hon'ble Finance Minister Shri. ArunJaitley introduced Constitution Amendment Bill on GST in Lok Sabha, which proposes a new Article 246A in Constitution of India to confer powers both to the Parliament (Center) and the State legislatures (State) to make laws for levying GST on the supply of goods and services in the same transaction.

Center will compensate States for loss of revenue arising on account of implementation of the GST for a period of 5 years -

- 100 % for first 3 years
- 75 % in the 4th year
- 50 % in the 5th year

GST purview

1. **Center level** - Taxes like Central Excise Duty, Service Tax, Customs Duty, etc will be subsumed in GST
2. **State level** - Taxes like VAT/Sales tax, entertainment tax, octroi and entry tax, luxury tax, etc. would be subsumed in GST.

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All **goods and services**, except **alcoholic liquor** for human consumption, will be brought under the **purview** of **GST**.

GST features

- Both **center** and **states** will simultaneously **levy GST** across the **value chain** - Central GST (**CGST**) and State GST (**SGST**, at respective states)
- The **center** would **levy** and **collect** the **Integrated GST (IGST)** on all **inter-state** supply of **goods and services**, and there will be **seamless flow** of **input tax credit** from one state to another state.
- **GST rates** will be **uniform** across the country, with some few exceptions may be.

GST advantages

- Simple **tax structure**
- Increased **tax revenue** collection
- **Competitive** pricing
- Boost in **export**