Unit 1
Introduction
1. What do you mean by Indirect Taxes? Write its features.

Indirect taxes are taxes that are not directly paid by individuals to the government but are instead collected by intermediaries such as retailers or manufacturers. These taxes are imposed on the manufacture, sale, or consumption of goods and services and are ultimately borne by the final consumer. Unlike direct taxes like income tax, which are directly collected from the income earners, indirect taxes are embedded in the price of goods and services.

Some prominent examples of indirect taxes include Goods and Services Tax (GST), customs duty, excise duty (before GST), service tax (before GST), and value-added tax (VAT).

Features of Indirect Taxes:

- **Shiftable Nature**: The burden of indirect taxes can be shifted from one person to another, generally from producers to consumers.
- **Tax on Consumption**: Indirect taxes are based on consumption, not income or wealth.
- **Uniformity in Collection**: They are uniformly collected across various sectors, making tax collection easier and less evadable.

- **Involuntary Payment**: Consumers pay indirect taxes without directly realizing it, as it's included in the price.
- **Wide Coverage**: Indirect taxes cover a broad base as they are levied on goods and services consumed by the general public.
- **Regressive in Nature**: Since all consumers pay the same tax regardless of income level, indirect taxes are considered regressive.
- **Revenue Generation**: A significant source of revenue for the government.
- **Encourages Savings**: Since taxes are levied on consumption, it indirectly encourages savings and investment.
- **Convenience in Payment**: Since it is included in the transaction price, it is convenient for consumers to pay.
- **Multiple Collection Points**: Indirect taxes are collected at various stages of production and distribution.

In conclusion, indirect taxes play a crucial role in the Indian taxation system and have undergone a major transformation with the implementation of GST. Understanding their features is essential for comprehending their impact on the economy and consumers.

2. Write 10 differences between Direct and Indirect Tax.

Direct and indirect taxes are two major categories of the tax system, differing in terms of implementation, burden, and nature. Below are ten key differences:

- **Definition**:

Direct tax is paid directly by individuals or organizations to the government. Indirect tax is collected by intermediaries and passed on to the government.

- **Burden of Tax**:

In direct tax, the burden cannot be shifted. In indirect tax, the burden is passed on to the end consumer.

- **Examples**:

Income tax, corporate tax are direct taxes. GST, customs duty are indirect taxes.

- **Levying Authority**:

Direct taxes are mostly levied by central and state governments. Indirect taxes are mostly levied at points of sale or import.

- **Tax Base**:

Direct taxes are based on income or profit. Indirect taxes are based on consumption or expenditure.

- **Nature**:

Direct tax is progressive in nature (higher income, higher tax). Indirect tax is regressive (same tax rate regardless of income).

- **Collection**:

Direct taxes are collected annually through returns. Indirect taxes are collected during transactions.

- **Tax Planning**:

Direct taxes allow more scope for planning and legal avoidance. Indirect taxes are harder to avoid.

- **Impact on Inflation**:

Indirect taxes may increase inflation as they raise the cost of goods/services. Direct taxes usually do not affect prices.

- **Visibility**:

Taxpayers are aware when paying direct taxes. Indirect taxes are often hidden in the price of goods/services. In summary, while both types of taxes are essential for revenue generation, indirect taxes like GST ensure widespread coverage and better compliance, while direct taxes promote fairness through progressive rates.

3. Explain the shortcoming of the Indirect Tax System during the pre-GST era.

Before the implementation of Goods and Services Tax (GST), India's indirect tax structure was complex, multilayered, and fragmented. Different taxes were imposed by the central and state governments at various stages of the production and supply chain. This led to several inefficiencies and challenges.

Major shortcomings included:

- **Multiplicity of Taxes**:

There were multiple indirect taxes like excise duty, service tax, VAT, entry tax, CST, octroi, luxury tax, etc., making compliance difficult and time-consuming.

- **Cascading Effect of Taxes**:
The tax-on-tax phenomenon occurred due to no seamless input credit across central and state taxes. This increased the final cost for consumers.
- **Complex Compliance Requirements**:
Businesses had to comply with multiple authorities, laws, and formats, resulting in administrative and financial burdens.
- **Lack of Uniformity**:
VAT rates varied from state to state, leading to an uneven playing field for businesses operating across multiple states.
- **Blocked Input Credit**:
There was no credit for central taxes against state taxes and vice versa, which blocked working capital and increased the cost of doing business.
- **Inefficient Supply Chain**:
Due to CST and entry taxes, businesses made decisions based on tax considerations rather than efficiency, leading to higher logistics costs.
- **Tax Evasion and Leakages**:
The complex system encouraged under-invoicing, tax evasion, and loopholes in tax administration.
- **Litigation and Disputes**:
The overlapping jurisdictions and multiple tax laws led

to a high volume of disputes and litigation.

- **Discouraged Formalization**:

Small businesses often remained outside the tax net to avoid the complexity, reducing the tax base.

In essence, the pre-GST indirect tax system lacked transparency, created distortions, and was not business-friendly. GST was introduced to overcome these issues with a unified, transparent, and efficient tax mechanism.

4. What do you mean by GST? Write its features.

Goods and Services Tax (GST) is a unified, multi-stage, destination-based indirect tax levied on the supply of goods and services across India. It was introduced on **1st July 2017**, subsuming multiple indirect taxes like VAT, excise duty, and service tax into a single tax regime. GST is applicable at every stage of the supply chain, with credit for the tax paid at the previous stage. The final burden of tax is borne by the consumer, while the businesses act as tax collectors.

Key Features of GST:

- **One Nation, One Tax**:

GST replaced various indirect taxes to form a uniform national market.

- **Destination-Based Tax**:

Tax is levied where the goods/services are consumed, not where they are produced.

- **Multi-stage Taxation**:

GST is charged at every point of sale or value addition in the supply chain.

- **Input Tax Credit Mechanism**:

Businesses can claim credit for the tax paid on inputs, reducing cascading effects.

- **Comprehensive Coverage**:

Almost all goods and services are covered, with a few exceptions like alcohol, petroleum (temporarily excluded).

- **Dual GST Model**:

GST in India is divided into CGST (Central), SGST (State), and IGST (Inter-State).

- **Digital Compliance**:

Registrations, return filing, and payments are done through the GST portal, improving transparency.

- **Threshold Exemption**:

Small taxpayers with turnover below a threshold are exempt or can opt for composition scheme.

- **Composition Scheme**:

A simplified scheme for small businesses with lesser compliance and a fixed tax rate.

- **Anti-Profiteering Provisions**:

Ensures businesses pass on the benefit of input tax credit and reduced tax rates to consumers.

GST has brought uniformity, reduced corruption, enhanced tax compliance, and streamlined India's complex indirect tax system into a simplified, efficient model.

5. Write 10 advantages of GST.

Goods and Services Tax (GST) was introduced to streamline India's complex indirect tax system. It offers several benefits to the economy, businesses, and consumers alike. The top 10 advantages of GST are:

- **Elimination of Cascading Effect**:

GST eliminates the tax-on-tax problem by allowing seamless input tax credit at each stage of the supply chain.

- **Unified Tax Structure**:

GST has replaced a host of indirect taxes like VAT, excise, service tax, etc., bringing uniformity across the country.

- **Ease of Doing Business**:

With standardized rules and digital compliance, GST reduces paperwork and promotes ease of doing business.

- **Boost to Indian Economy**:

GST has expanded the tax base, improved compliance, and made the economy more transparent and efficient.

- **Lower Logistics Cost**:

With removal of inter-state check posts and CST, supply chain logistics have become faster and cost-effective.

- **Increased Government Revenue**:

With better tracking of transactions and fewer leakages, GST has contributed to improved tax collection.

- **Encouragement to Formal Sector**:

Businesses prefer being part of the formal economy to avail ITC benefits, which boosts formalization.

- **Support for 'Make in India'**:

GST provides tax neutrality between imported and domestically produced goods, supporting local manufacturing.

- **Consumer Benefit**:

Reduced cascading and rationalized rates have lowered the final cost of many goods and services.

- **Digital Transformation**:

GST has pushed businesses toward digitization of records and tax compliance via the GSTN portal.

In conclusion, GST has simplified the tax regime and brought a more transparent and business-friendly environment to India's indirect tax structure, laying a strong foundation for a more integrated economy.

6. Write 10 disadvantages of GST.

Despite its many benefits, GST also has certain limitations and challenges, particularly in its implementation and compliance structure. Below are 10 notable disadvantages:

- **Compliance Burden for Small Businesses**:

Frequent return filings and maintaining detailed records have increased compliance for small firms.

- **Complex Structure**:

The dual GST model with CGST, SGST, and IGST can be confusing for new or small taxpayers.

- **Technical Glitches**:

In the initial phase, the GST portal experienced slowdowns and system errors during return filings.

- **Impact on Working Capital**:

Businesses have to pay tax at the time of supply even before receiving payment from customers, affecting liquidity.

- **High Penalties**:

Non-compliance leads to heavy penalties and interest, especially for genuine or minor errors.

- **Not Fully Inclusive**:

Key sectors like petroleum and alcohol are still outside GST, limiting its comprehensiveness.

- **Multiple Return Filing Requirements**:

Taxpayers must file monthly and annual returns, which adds to the compliance workload.

- **Increased Cost of Software and Training**:

Businesses have to invest in GST-compliant accounting software and employee training.

- **Uncertainty in Classification**:

Goods and services classification and rate applicability can sometimes be ambiguous, leading to disputes.

- **Reverse Charge Mechanism (RCM)**:

Under RCM, burden of paying tax shifts to recipient, complicating accounting for service recipients.

In summary, while GST aims to modernize India's taxation system, its success depends on regular updates, simplification of procedures, and awareness among stakeholders, especially small businesses.

7. Explain the structure of GST.

The structure of GST in India is unique and follows a **dual model** to accommodate the federal nature of the country. It is structured into **three main components**: CGST, SGST/UTGST, and IGST.

- **CGST (Central Goods and Services Tax)**:

Collected by the Central Government on intra-state supplies of goods and services.

- **SGST (State Goods and Services Tax)**:

Collected by the respective State Governments on intra-state supplies.

- **UTGST (Union Territory GST)**:

Levied in Union Territories without a legislature (like Andaman and Nicobar, Chandigarh).

- **IGST (Integrated Goods and Services Tax)**:

Levied by the Central Government on inter-state supplies of goods and services, including imports and exports. The collected IGST is shared between the Centre and the consuming State.

Key Features of GST Structure:

- **Dual Tax Model**:

Both Centre and State levy taxes simultaneously on the same transaction in case of intra-state supply.

- **Destination-Based Taxation**:

The tax revenue goes to the state where the goods or services are consumed.

- **Input Tax Credit (ITC)**:

ITC can be claimed across CGST, SGST, and IGST, with defined utilization rules.

- **Uniform Tax Rates**:

GST rates are fixed by the GST Council and apply across the country.

- **Common Portal (GSTN)**:

A single online platform for registration, return filing, and tax payments.

In conclusion, the GST structure in India is a harmonized system that allows for uniform taxation, promotes cooperative federalism, and ensures smooth revenue distribution between the Centre and States.

8. Explain the GST Network.

The **Goods and Services Tax Network (GSTN)** is a not-for-profit, non-governmental organization that provides the technological infrastructure to support the implementation and administration of GST in India. It is the backbone of the entire GST system and manages all IT operations, from registration to return filing and payment of taxes.

Structure and Ownership:

GSTN was initially set up as a private company with government ownership. Currently, it is **100% owned by the government**, with 50% by the Central Government and 50% by state governments collectively.

Functions of GSTN:

- **GST Registration**:

GSTN facilitates online registration of businesses for GST via its portal www.gst.gov.in.

- **Return Filing**:

It allows taxpayers to file monthly, quarterly, and annual GST returns electronically.

- **Tax Payment Interface**:

GSTN integrates with various banks for seamless online payment of GST.

- **Invoice Matching**:

GSTN helps in auto-matching invoices for Input Tax Credit claims to prevent fraud.

- **E-Way Bill Integration**:

The E-Way Bill system is integrated with GSTN for tracking movement of goods.

- **Analytics and Data Mining**:

GSTN supports government agencies in tax audits and policy decisions through data analytics.

- **Communication**:

The GSTN portal sends alerts, notifications, and reminders to taxpayers.

- **Third-Party Integration**:

GSTN allows integration with external accounting and

ERP software for smooth compliance.

Security and Infrastructure:

The GSTN platform is built with high-level data encryption and security, ensuring confidentiality and data integrity.

In conclusion, GSTN has revolutionized tax compliance in India. It promotes transparency, efficiency, and accountability through digitization. Without GSTN, the centralized, uniform tax regime envisioned by GST would not be possible.

9. What do you mean by GST Council?

The **GST Council** is a constitutional body established under **Article 279A of the Indian Constitution** to make recommendations to the Union and the States on important issues related to GST. It plays a crucial role in ensuring uniformity in GST laws and administration across India.

Composition of the GST Council:

- **Chairperson**:

The Union Finance Minister is the Chairperson of the Council.

- **Members**:

- The Union Minister of State for Finance or Revenue.
- The Finance Ministers of all the States and Union Territories with legislature.

Voting Structure:

- The central government has **one-third** voting power.

- The state governments collectively have **two-thirds** voting power.
- Decisions require a **75% majority**.

Significance of the GST Council:

- **Rate Recommendations**:

It recommends GST rates, slabs, and exemptions applicable to goods and services.

- **Threshold Limits**:

It sets turnover limits for mandatory GST registration and composition scheme eligibility.

- **Model GST Law**:

It develops a uniform GST law and procedures to be followed by both Centre and States.

- **Dispute Resolution**:

It addresses disputes related to GST between Centre and States.

- **Special Provisions**:

The Council recommends special provisions for certain states like the North-Eastern states and Jammu & Kashmir.

- **Policy Formulation**:

Plays a central role in policy decisions, compliance norms, and procedural reforms under GST.

- **Simplification Initiatives**:

It proposes simplifications like quarterly return filing for small taxpayers, e-invoicing, etc.

The GST Council ensures cooperative federalism and harmonized tax administration. It promotes consensus-based decisions that consider both national and regional interests in the indirect tax regime.

10. Explain the powers and functions of GST Council.

The **GST Council** is a powerful constitutional body under Article 279A, responsible for shaping the entire framework and functioning of the GST system in India. Its decisions impact tax rates, exemptions, procedures, and reforms related to GST.

Powers of the GST Council:

- **Recommend GST Rates and Slabs**:

It decides the tax slabs for different goods and services (e.g., 0%, 5%, 12%, 18%, 28%).

- **Determine Exemptions and Special Rates**:

It has the authority to exempt certain goods or services from tax or provide concessional rates.

- **Fix Threshold Limits**:

It decides the turnover limits for mandatory registration and for opting under the composition scheme.

- **Regulate Model GST Law**:

It develops and modifies the model GST law to ensure uniformity across states and the Centre.

- **Set Compliance Procedures**:

It frames rules for invoicing, return filing, e-way bills, tax payments, etc.

- **Decide on Cross-Empowerment**:

It determines whether Centre or State authorities will assess certain types of taxpayers.

- **Decide on Dispute Resolution Mechanism**:

It suggests mechanisms for resolving disputes between Centre and States.

- **Approve Special Provisions**:

The Council grants special treatment for North Eastern and hilly states.

- **Modify Composition Scheme Rules**:

It revises eligibility, tax rate, and returns under the composition scheme.

- **Promote Digital Governance**:

The Council recommends digital systems like e-invoicing, e-way bills, and ITC matching.

Functions of the Council:

- Harmonization of laws and procedures.
- Promoting cooperative federalism.
- Reviewing implementation issues.
- Ensuring seamless movement of goods across states.

Thus, the GST Council acts as the brain behind the GST system and works towards making GST more taxpayer-friendly, efficient, and uniform across India.

11. Write short notes on CGST.

Central Goods and Services Tax (CGST) is one of the components of India's dual GST system. It is levied by the Central Government on intra-state supply of goods and services. CGST is governed by the **Central Goods and Services Tax Act, 2017**.

Key Features:

- **Applicability**:

CGST applies when the supply of goods or services happens within the same state or Union Territory.

- **Collected by**:

The Central Government.

- **Rate Sharing**:

For intra-state supply, GST is divided equally between CGST and SGST (or UTGST).

Example:

If a product is sold in Assam for ₹1,000 and the GST rate is 18%, then 9% CGST (₹90) and 9% SGST (₹90) are levied.

Input Tax Credit:

Credit of CGST can only be used to pay CGST and IGST (in that order).

Purpose and Importance:

- Provides revenue to the Central Government.
- Ensures uniform taxation throughout India.
- Removes cascading effects of multiple taxes at the central level.

CGST simplifies tax administration, fosters digital compliance, and contributes to cooperative federalism between Centre and States.

12. Write short notes on SGST.

State Goods and Services Tax (SGST) is levied by the State Governments on intra-state supply of goods and services under the **SGST Act** of each state. It is the counterpart of CGST under India's dual GST model.

Key Features:

- **Applicability**:

SGST applies when goods or services are supplied within the same state.

- **Collected by**:

The respective State Government where the supply occurs.

- **Rate Sharing**:

GST on intra-state supply is equally divided into CGST and SGST.

Example:

If an item is sold in West Bengal for ₹1,000 with an 18% GST rate, then ₹90 is CGST and ₹90 is SGST.

Input Tax Credit:

Credit of SGST can only be used to pay SGST or IGST (not CGST).

Purpose and Importance:

- Enhances state revenue.
- Ensures decentralization in GST administration.
- Enables states to remain financially autonomous within the GST framework.

SGST promotes a balanced distribution of tax powers and ensures state participation in GST implementation and monitoring.