

1. Meaning of Tax

In general terms tax defined as a levy of any type of financial charges being imposed by state or central governments on Individuals and Other Entities (includes Education, Corporates and Small and Big Shop keepers) Local authorities like municipal corporations also have the right to impose taxes.

Tax is an important source of generating Revenues to the Government. The Rules, Rates and many other things differ from One state to another. Tax Rate on any commodity fix by the Government. Government can introduce any tax after discussing with Consultants, Ministries and after study of all concept. Taxes in the country are governed by Ministry of Finance, Department of Revenue, Government of India.

In Ancient Times goods entering and exit from any state were marked with seals. For identification of goods they put any symbol on the packets/ boxes. Chanakya introduce the Tax System in India for the first time. He can fix the rates of tax with the commodity. At that time All revenues were collected by the king of that kingdom.

King has appointed person to collect and maintain the revenue generated from Tax. In the Indian subcontinent, we come across a very comprehensive and detailed description of tax system, its rate and its administration in the writings of Arya Chanakya. (around 320BC) as prevalent in the Maurya Dynasty.

In Ancient times taxes are applied on Industrial Goods, Agriculture Produce. Similarly at that time the taxes are applied on the services also.

Broadly the taxes in india are divided in 2 main Categories :

A. Direct Taxes : Tax payers directly paid the taxes to the

Government Examples : Income Tax, Wealth Tax, Corporate Taxes

B. Indirect Taxes : the tax paid indirectly to the government known as Indirect Taxes. It's Levied on the Goods and Services

Providers. Examples : Excise Duty, Custom, Sales Tax, Service Tax

Above taxes are controlled and governed by Central Government with the help of State Government. Many taxes were imposed by the local municipal bodies also.

With Reference to Acticle 246 of the Indian Constitution provides the Powers including Taxation between State Government and Central Government. This also mentioned the 3 Types of List :

A. Union list : Laws made by Central Government known as Union List

B. Concurrent list : Laws made by Central Government and State Government Jointly known as Concurrent List

C. State list : Laws made by State Government known as State List

Following Laws are made and Government by Parliament :

Sr.No.	Tax Levied by Central Legislature
1	Income Tax
2	Customs

3	Excise Duty
4	Corporation Tax
5	Taxes on capital value of the Asset
6	Estate duty other than Agriculture land
7	Terminal Taxes on Goods or Passengers by any mode of transport
8	Taxes on transactions on Stock markets
9	Service Tax
10	Central Sales Tax

Following Laws are made and Government by State Legislature :

Sr.No.	Tax Levied by State Legislature
1	Land Revenue
2	Entry Tax
3	Sale of Electricity Tax
4	Taxes on advertisement
5	Taxes on vehicles
6	Tolls
7	Professional Tax
8	Luxury Tax
9	Entertainment Tax
10	Stamp Duty

2. Direct Tax

A. Income Tax

The first Income-tax Act was introduced in February, 1860 by James Wilson, who became British-India's first Finance Minister. Thenceforth, there were many developments in the field of taxation. The tax system was modeled largely on the lines of the British system prevailing then. James Wilson, while introducing the I-T Act in 1860, quoted from Manu for levying income-tax in the country. The Act received the assent of the Governor General on July 24, 1860, and came into effect immediately. It was divided into 21 parts consisting of no less than 259 sections. The salient features of the Act were:

Income was classified under four schedules:

- i) income from landed property;
- ii) income from professions and trade;
- iii) income from securities, annuities and dividends; and
- iv) income from salaries and pensions.

This first Act of 1860 yielded about Rs. 1.50 crores of tax revenue. This Act continued for five years before lapsing in 1865. The income-tax receipts in 1860-61 was 1.1 millions, in 1861-62, 2 millions; in 1862-63, 1.9 millions; in 1863-64, 1.5 millions ; and in 1864-65, 1.3 millions.

After the expiry of the Act, the important events in the history of tax laws in India were as follows:

- 1886 – licence tax converted into the I-T Act (Act 11 of 1886);
- 1916 – graduated rates of taxation on income above Rs. 2,000 introduced;
- 1917 – super tax introduced;
- 1918 – I-T Act of 1918 passed;
- 1919 – Act X of 1919 imposed duty on excess profits;

1920 – Act X of 1919 abolished;

1922 – Indian I-Tax Act, 1922 passed; 1939 – substantial amendments made to the I-T Act, 1922; and

1961 – A new act titled 'Income-tax Act, 1961' was drafted and came into force from April 1, 1962. This Act, with numerous amendments made from time to time by various Finance Acts, is currently in force.

Objectives of income Taxation :

The power of tax is an important element in such policies and is used not only to generate Revenue but also for attaining various other social and economic goals. Direct taxes, in addition to financing federal government expenditure, serve several functions. They help in resource allocation, encourage or discourage certain kinds of economic and social behaviour, redistribute income and wealth, stimulate and stabilise economic growth and even help in solving certain specific economic problems such as pollution, shortage of accommodation, and so on, through the mechanism of tax incentives.

Thus, taxation has developed into an instrument that promotes economic growth, stability and efficiency and has become a major device through which governments implement their political thinking and secure the participation of the masses in its policies and progress. An well-administered tax system is a good weapon against many odds. In such a tax system, it is the government, and not the taxpayers, which decides the economic sectors to be assisted and which not to.

Personal income tax is often collected on a pay-as-you-earn basis, with small corrections made soon after the end of the tax year. These corrections take one of two forms: payments to the government, for taxpayers who have not paid enough during the tax year; and tax refunds from the government for those who have overpaid. Income tax systems will often have deductions available that lessen the total tax liability by reducing total taxable income. They may allow losses from one type of income to be counted against another. For example, a loss on the stock market may be deducted against taxes paid on wages. Other tax systems may isolate the loss, such that business losses can only be deducted against business tax by carrying forward the loss to later tax years.

Most jurisdictions imposing an income tax treat capital gains as part of income subject to tax. Capital gain is generally a gain on sale of capital assets—that is, those assets not held for sale in the ordinary course of business. Capital assets include personal assets in many jurisdictions. Some jurisdictions provide preferential rates of tax or only partial taxation for capital gains. Some jurisdictions impose different rates or levels of capital gains taxation based on the length of time the asset was held. Because tax rates are often much lower for capital gains than for

ordinary income, there is widespread controversy and dispute about the proper definition of capital. Some tax scholars have argued that differences in the ways different kinds of capital and investment are taxed contribute to economic distortions. Corporate tax refers to income, capital, net worth, or other taxes imposed on corporations. Rates of tax and the taxable base for corporations may differ from those for individuals or other taxable persons.

Many countries provide publicly funded retirement or health care systems.^[6] In connection with these systems, the country typically requires employers and/or employees to make compulsory payments.^[7] These payments are often computed by reference to wages or earnings from self-employment.

Tax rates are generally fixed, but a different rate may be imposed on employers than on employees. Some systems provide an upper limit on earnings subject to the tax. A few systems provide that the tax is payable only on wages above a particular amount. Such upper or lower limits may apply for retirement but not health care components of the tax. Some have argued that such taxes on wages are a form of "forced savings" and not really a tax, while others point to redistribution through such systems between generations (from newer cohorts to older cohorts) and across income levels (from higher income levels to lower income levels) which suggest that such programs are really tax and spending programs. Some tax scholars argue that supporting social security programs exclusively through taxes on wages, rather than through broader taxes that include capital, creates distortions and underinvestment in human capital, since the returns to such investments will be taxes as wages.

Some countries' governments will require declaration of the tax payers' balance sheet (assets and liabilities), and from that exact a tax on net worth (assets minus liabilities), as a percentage of the net worth, or a percentage of the net worth exceeding a certain level. The tax may be levied on "natural" or legal "persons".

Direct Tax collection				Rs. (In Crores)
FY	Total collections			
	Corporate Tax	Income Tax	Other Direct Taxes	Total
2006-07	144,318	85,623	240	230,181
2007-08	192,911	118,962	340	312,213
2008-09	213,395	120,034	389	333,818
2009-10	244,725	132,833	505	378,063
2010-11	298,688	147,560	687	446,935
2011-12	323,224	170,788	787	494,799

B. Wealth Tax

The Wealth tax has been abolished in the union budget presented by Hon. finance minister Mr. Arun Jatuly on 28-Feb-2015. The wealth-Tax has been replaced with additional surcharge of 2 per cent on super rich with a taxable income of over `1 crore annually.

The Wealth Tax Act, 1957 governs the taxation process associated with the Net Wealth that an Individual, a Hindu Undivided Family (HUF), or a Company possesses on the Valuation Date.

The Reserve Bank of India is exempted from paying Wealth Tax though the entity fulfils the requirement of being a corporation in India. It is an Act that provides for the levy of Wealth Tax on liable Assesseees and came into force on April 1, 1957. This Act requires liable Assesseees to file their Wealth Tax Return online in Form BB. The due-date for filing return of Wealth Tax shall be same date as that applicable to an assessee under the Income Tax Act.

Wealth Tax is a direct tax and is to be filed separately. It is not part of the Income Tax Return that is filed at the end of a Financial Year in India.

Wealth tax is calculated at the rate of 1 per cent of the amount of net wealth that exceeds Rs. 30 lakh on the valuation date. The net wealth of an assessee includes the value of specified unproductive assets on the valuation date after subtracting the debt the assessee owes on the said assets. Wealth tax does not attract any Education Cess or surcharge.

C. Corporate Tax

Corporate tax or company tax refers to a tax imposed on entities that are taxed at the entity level in a particular jurisdiction. Such taxes may include income or other taxes. The tax systems of most countries impose an income tax at the entity level on certain type(s) of entities (company or corporation). Many systems additionally tax owners or members of those entities on dividends or other distributions by the entity to the members. The tax generally is imposed on net taxable income. Net taxable income for corporate tax is generally financial statement income with modifications, and may be defined in great detail within the system. The rate of tax varies by jurisdiction. The tax may have an alternative base, such as assets, payroll, or income computed in an alternative manner.

Most income tax systems provide that certain types of corporate events are not taxable transactions. These generally include events related to formation or reorganization of the corporation. In addition, most systems provide specific rules for taxation of the entity and/or its members upon winding up or dissolution of the entity. Most systems also tax company shareholders on distribution of earnings as dividends. A few systems provide for partial integration of entity and member taxation. This is often accomplished by "imputation systems" or franking credits. In the past, mechanisms have existed for advance payment of member tax by corporations, with such payment offsetting entity level tax.

3. Indirect Tax

A. Excise

An excise duty is an indirect tax imposed upon goods during the process of their manufacture, production or distribution, and is usually proportionate to their quantity or value. Excise duties were first introduced into England in the year 1643, as part of a scheme of revenue and taxation devised by parliamentarian John Pym and approved by the Long Parliament. These duties consisted of charges on beer, ale, cider, cherry wine and tobacco, to which list were afterwards added paper, soap, candles, malt, hops, and sweets. The basic principle of excise duties was that they were taxes on the production, manufacture or distribution of articles which could not be taxed through the customs house, and revenue derived from that source is called excise revenue proper. The fundamental conception of the term is that of a tax on articles produced or manufactured in a country. In the taxation of such articles of luxury as spirits, beer, tobacco, and cigars, it has been the practice to place a certain duty on the importation of these articles (a customs duty). Excises (or exemptions from them) are also used to modify consumption patterns (social engineering). This may be combined with hypothecation if the proceeds are then used to pay for the costs of treating illness caused by alcohol abuse. Similar taxes may exist on tobacco, pornography, etc., and they may be collectively referred to as "sin taxes". A carbon tax is a tax on the consumption of carbon-based non-renewable fuels, such as petrol, diesel-fuel, jet fuels, and natural gas. The object is to reduce the release of carbon into the atmosphere.

CENTRAL EXCISE REVENUE (Year-wise)

Rs. (in Crores)

Year	No. of Assessee	Target	Revenue Collection PLA	Duty Paid Through Cenvat
2004-05	5166	1362	1491.00	2550.00
2005-06	1661	850	769.00	3064.00
2006-07	553	460	535.00	3235.00
2007-08	553	560	632.46	3753.59
2008-09	453	500	497.43	3081.45

2009-10	384	660	371.56	1264.38
2010-11	385	336	440.89	1941.24
2011-12	480	716	355.65	2493.49
2012-13	559	376	370.62	2878.57
2013-14	544	450	508	2495
2014-15(upto October 2014)	562	615	246.53	1698.64

(Reference : Taken from site of Central Excise and customs)

B. Custom

Each country has its own laws and regulations for the import and export of goods into and out of a country, which its customs authority enforces. The import or export of some goods may be restricted or forbidden.^[2] In most countries, customs are attained through government agreements and international laws. A customs duty is a tariff or tax on the importation (usually) or exportation (unusually) of goods. Commercial goods not yet cleared through customs are held in a customs area, often called a bonded store, until processed. All authorized ports are recognized customs areas.

Customs is an authority or agency in a country responsible for collecting tariffs and for controlling the flow of goods, including animals, transports, personal effects, and hazardous items, into and out of a country. The movement of people into and out of a country is normally monitored by immigration authorities, under a variety of names and arrangements. The immigration authorities normally check for appropriate documentation, verify that a person is entitled to enter the country, apprehend people wanted by domestic or international arrest warrants, and impede the entry of people deemed dangerous to the country.

C. Service Tax

Service tax is a tax levied by Central Government of India on services provided or to be provided excluding services covered under negative list and considering the Place of Provision of Services Rules, 2012 and collected as per Point of Taxation Rules, 2011 from the person liable to pay service tax. Person liable to pay service tax is governed by Service Tax Rules, 1994 he may be service provider or service receiver or any other person made so liable. Few services are presently exempt in public interest via Mega Exemption Notification 25/2012-ST as amended up to date & few services are charged service tax at abated rate as per Notification No. 26/2012-ST as amended up to date. Presently from 1 June 2015, service tax rate has been increased to consolidated rate @ 14% of value of services provided or to be provided. The service tax rate now is consolidated rate as education cess & secondary higher education cess are subsumed with 2% of "Swachh Bharat Cess(0.50%)" has been notified by the Government.

Service tax is only liable to be paid in case the total value of the service provided during the financial year is more than ₹10 lakh (US\$15,000). If the value of services provided during a financial year is less than ₹10 lakh (US\$15,000), it is optional for he wants to avail this exemption or no .

Financial Year	Revenue Rupees(in crores)	Number of services	Number of Assesseees
2010-2011	71016	117	1372274
2011-2012	97509	119	1535570
2012-2013	132518	Negative List Regime	1712617

D. Central Sales Tax

To carry out the purposes of the Central Sales Tax Act, 1956, three types of rules have been framed under such Act. In the name of the Central Sales Tax (Registration & Turnover) Rules, 1957, rules have been framed by the Central Government, second type of rules have been framed by respective States. They have given then their own name. Common name is "The Central Sales Tax (Name of State) Rules, 1957". For example, the Uttar Pradesh State Government has framed "The Central Sales Tax (Uttar Pradesh) Rules, 1957", State Government of Punjab has framed rules in the name of "The Central Sales Tax (Punjab) Rules, 1957", etc. Third types of rules, in the name of "The Central Sales Tax (Union Territories) Rules, 1957", have been framed by the Central Government for Union Territories.

Certain forms have been prescribed in each type of rules. Forms prescribed in the Central Sales Tax (Registration & Turnover) Rules, 1957 are applicable in all States and Union Territories. Forms prescribed in the rules framed by States are applicable in the respective States and Forms prescribed in the rules "The Central Sales Tax (Union Territories) Rules, 1957" are applicable in all Union Territories.

CST paid on purchase of goods is not available as Input Tax Credit, hence, should be treated as a part of production cost, whereas, Excise Duty paid on purchase of raw materials can be claimed as CENVAT credit while paying Excise Duty on final product, hence, should not be considered as a part of production cost, if the final product manufactured by the unit is subject to Excise Duty.

Forms under CST

A. C-Form or Form 'C'

The C Form comes into picture when interstate trade takes place. The buyer dealer of different state issues C Form for compliance of CST Rules of the state of selling dealer. The buyer can purchase goods at concessional rates, against C Form, in the inter-state sale. C Form can be issued only by a registered dealer to another registered dealer. It can be issued, generally, in respect of raw materials, packing materials goods covered by the certificate of registration of the issuing dealer. If the buyer dealer fails to provide C Form, the seller dealer has to pay full CST in due course, therefore it is advisable to obtain appropriate security until C Form is received by the seller dealer in due course.

B. F-Form or Form 'F'

The F form is required for stock transfer to branches / consignment agents or vice-versa from one state to another without attracting charge of CST. As per section 6A(1) of the CST Act, submission of F form with complete details of movement of goods is mandatory to prove stock transfer. Otherwise, the transaction will be treated as normal central sale for all purposes of CST Act including for charging CST at applicable rates. In fact F Form is an evidence to prove that the goods are sent out to other states on stock transfer basis and not on sale basis. The consignment agent/ branch/ HO receiving such stock transfer consignment is required to issue F Form to the selling outlet (HO/ Branch/ Consignment Agent) or transferrer dealer. It may be noted in this regards that if the movement of goods is occasioned on account of sales, the movement will be treated as interstate sales. There are many

disputes with the VAT Authorities on this issue so the transferrer unit has to take due care to avoid applicability and attraction of CST on such transfers. These matters are open for investigation by the VATO and are not settled until the assessment order is passed by the VATO in due course.

C. H-Form or Form 'H'

The H Form under CST is issued when the buyer is an exporter and buys the goods for the purpose of exports. If the exporter buyer issues H form, the selling dealer is not required to charge or pay any CST on the transaction. The selling dealer should obtain Form H from the exporter buyer in due course along with Bill of Lading for onward submission to the VAT Deptt. or else eventually the selling dealer has to pay CST at full rate as may be applicable. Selling dealer should always obtain security to the extent of amount of applicable CST / VAT which is not charged due to anticipated issuance of Form H and the same may be released after receipt of duly filled up Form H along with copy of the Bill of Lading in due course.

E. Value Added Tax (VAT)

A value added tax (VAT), also known as Goods and Services Tax (G.S.T), Single Business Tax, or Turnover Tax in some countries, applies the equivalent of a sales tax to every operation that creates value. To give an example, sheet steel is imported by a machine manufacturer. That manufacturer will pay the VAT on the purchase price, remitting that amount to the government. The manufacturer will then transform the steel into a machine, selling the machine for a higher price to a wholesale distributor. The manufacturer will collect the VAT on the higher price, but will remit to the government only the excess related to the "value added" (the price over the cost of the sheet steel). The wholesale distributor will then continue the process, charging the retail distributor the VAT on the entire price to the retailer, but remitting only the amount related to the distribution mark-up to the government. The last VAT amount is paid by the eventual retail customer who cannot recover any of the previously paid VAT. For a VAT and sales tax of identical rates, the total tax paid is the same, but it is paid at differing points in the process.

VAT is usually administrated by requiring the company to complete a VAT return, giving details of VAT it has been charged (referred to as input tax) and VAT it has charged to others (referred to as output tax). The difference between output tax and input tax is payable to the Local Tax Authority. The Tax Payer's Identification Number (TIN) is new unique registration number that is used for identification of the dealers registered under VAT. It consists of 11 digit numerals and will be unique throughout the country. First two digit of TIN No. (out of 11 digit) is represented the State Code. By this, on the basis of first two digit of TIN No. one can easily identify that TIN No is from which State

Sr. No.	Name of State or Union Territories	Type	State Code used for VAT / TIN	First 2 Digit of Transport of State	State Capital
1	Jammu and Kashmir	State	01	JK	Srinagar / Jammu
2	Himachal Pradesh	State	02	HP	Shimla
3	Punjab	State	03	PB	Chandigarh
4	Chandigarh	UT	04	CH	Chandigarh
5	Uttarakhand	State	05	UA	Dehradun
6	Haryana	State	06	HR	Chandigarh
7	Delhi	UT	07	DL	Delhi
8	Rajasthan	State	08	RJ	Jaipur
9	Uttar Pradesh	State	09	UP	Lucknow

10	Bihar	State	10	BR	Patna
11	Sikkim	State	11	SK	Gangtok
12	Arunachal Pradesh	State	12	AR	Itanagar
13	Nagaland	State	13	NL	Kohima
14	Manipur	State	14	MN	Imphal
15	Mizoram	State	15	MZ	Aizawal
16	Tripura	State	16	TR	Agartala
17	Meghalaya	State	17	ML	Shillong
18	Assam	State	18	AS	Dispur
19	West Bengal	State	19	WB	Kolkata
20	Jharkhand	State	20	JH	Ranchi
21	Orissa	State	21	OR	Bhubaneswar
22	Chhattisgarh	State	22	CG	Raipur
23	Madhya Pradesh	State	23	MP	Bhopal
24	Gujrat	State	24	GJ	Gandhinagar
25	Daman and Diu	UT	25	DD	Daman
26	Dadra and Nagar Haveli	UT	26	DN	Silvassa
27	Maharashtra	State	27	MH	Mumbai
28	Andhra Pradesh	State	28	AP	Hyderabad
29	Karnataka	State	29	KA	Bangalore
30	Goa	State	30	GA	Panaji
31	Lakshadweep	UT	31	LD	Kavaratti
32	Kerala	State	32	KL	Tiruvananthapuram
33	Tamilnadu	State	33	TN	Chennai
34	Pondichery	UT	34	PY	Puducherry
35	Andaman and Nicobar	UT	35	AN	Port B

F. Professional Tax

Professional Tax is a tax levied on professions and trades in India. It is a state-level tax and has to be compulsorily paid by every member of staff employed in private companies. Article 276 of the Constitution of India lays down that *“there shall be levied and collected a tax on professions, trades, callings and employments, in accordance with the provisions of this Act. Every person engaged in any profession, trade, calling or employment and falling under one or the other of the classes mentioned in the second column of the Schedule shall be liable to pay to the State Government tax at the rate mentioned against the class of such persons in the third column of the said Schedule. Provided that entry 23 in the Schedule shall apply only to such classes of persons as may be specified by the State Government by notification from time to time.”*

PT SLAB – STATEWISE		
ANDHRA PRADESH		
PT GROSS	PER MONTH	
0-5000	0	
5001-6000	60	
6001-10000	80	

10001-15000	100	
15001-20000	150	
20000 & ABOVE	200	
ORISSA		
PT GROSS	PER MONTH	
0 – 5000	0	
5001-6000	30	
6001-8000	50	
8001-10000	75	
10001-15000	100	
15001-20000	150	
20000 & ABOVE	200	
MADHYA PRADESH		
PT GROSS PM	PER MONTH	
0 – 10000	0	
10001 – 12500	83	
(March)	87	
	125	
12501 – 15000		
ABOVE 15000	208	
(March)	212	

KERALA		
PT GROSS	PER MONTH	
0 – 1999	0	
2000 -2999	20	
3000 – 4999	30	
5000 – 7499	50	
7501 – 9999	75	
10000 – 12499	100	
12500 – 16666	125	
16667 – 20833	167	
20834 ABOVE	208	
ASSAM (REVISED)		
PT GROSS	PER MONTH	
0-3500	0	
3500 -5000	30	
5000 -7000	75	

7000 -9000	110	
Above 9000	208	
KARNATAKA		
PT GROSS	PER MONTH	
0 – 9999	0	
10000 – 14999	150	
15000 & ABOVE	200	
GUJARAT		
PT GROSS	PER MONTH	
0 – 2999	0	
3000 – 5999	20	
6000 – 8999	80	
9000 – 11999	150	
12000 & ABOVE	200	
WEST BENGAL		
PT GROSS	PER MONTH	
2001 – 3000	0	
3001 – 5000	30	
5001 – 6000	40	
6001 – 7000	45	
7001 – 8000	50	
8001 – 9000	90	
9001 – 15000	110	
15001 – 25000	130	
25001 – 40000	150	
ABOVE 40001	200	

Pondicherry		
Monthly Income	Tax in Rs.	
301 to 600	1	
601 to 1200	2	
1201 to 1800	4	
1801 to 3000	6	
3001 to 4800	12	
4801 to 6000	25	
6001 to 9000	50	
9001 to 12000	75	
12001 to 15000	100	

15000 & above	125		
MAHARASHTRA			
PT GROSS	P.M		
0 – 5001	0		
5001 – 10000	175		
10001 & ABOVE	200		
(Rs.200 except Feb, Rs.300 in Feb)			
PT TN Corporation			
PT GROSS	REST OF THE MONTHS		
0-3500	0		
3501-5000	15		
5001-7500	38		
7501-10000	85		
10001-12500	125		
12501 above	180		
LEVELS FOR CTC			
0-3000	1		
3001-4000	2		
4001-6000	3		
6001-8000	4		
8001-14000	5		
14001-21000	6		
21001-30000	7		
30001&Abow	8		

NO PT ZONE		
AGRA		
BIHAR		
CHANDGAR		
CHATTISGARH		
DELHI		
GOA		
HARIYANA		
HIMACHAL PRADESH		
JAMMU & KASHMIR		

JHARKHAN		
MANIPUR		
MIZZORAM		
PONDICHERRY		
PUNJAB		
RAJASTHAN		
UTTAR PRADESH		
UTTRACHAL		

4. Roles of Direct and Indirect Tax

The role of taxation in developing economies is stated as follows:

1. Resource Mobilisation :

Taxation enables the government to mobilise a substantial amount of revenue. The tax revenue is generated by imposing: Direct Taxes such as personal income tax, corporate tax, etc., Indirect Taxes such as customs duty, excise duty, etc.

In 2006-07, it is estimated that the tax revenue of the central government (India) was 81% of the total revenue receipts, whereas, non tax revenue was only 19%.

2. Reduction in Inequalities of Income :

Taxation follows the principle of equity. The direct taxes are progressive in nature. Also certain indirect taxes, such as taxes on luxury goods are also progressive in nature. This means the rich class has to bear the higher incidence of taxes, whereas, the lower income group is either exempted from tax (direct taxes) or has to pay lower rate of duty (indirect taxes) on goods consumed by the masses. Thus, taxation helps to reduce inequalities of income and wealth.

3. Social Welfare :

Taxation generates social welfare. The social welfare is generated due to certain undesirable products like alcoholic products, tobacco products and such other products are heavily taxed, which restricts their consumption, which in turn facilitates social welfare.

A part of the tax revenue is utilised for social development activities, such as health, education and family welfare, which also improve social welfare as well as social order in the society.

4. Foreign exchange :

Taxation encourages exports and restricts imports. Generally, developing countries and even the developed countries do not impose taxes on export items. For instance, in India, exports are exempted from excise duty, VAT, customs duty and other duties.

However, there is customs duty on imported goods. Therefore, taxation helps to: Earn foreign exchange through the promotion of exports.

5. Regional Development :

Taxation plays an important role in regional development; Tax incentives such as tax holiday for setting up industries in backward regions, which induces business firms to set up industries in such regions, Tax revenue collected by government is also utilised for development of infrastructure in backward regions.

6. Control of Inflation :

If inflation is due to high rise in prices of essential items, then the Government may reduce the rate of indirect taxes. If inflation is due to increase in demand, the Government may try to cut down the effective demand by increasing the tax rate. Increase in tax rate may restrict consumption, which may reduce demand, and subsequently inflation may be controlled.

5. Introduction to GST

The Central Government of India proposed to implement GST in India with effect from 1st April 2016. Goods and Service Tax is a single comprehensive tax levied on goods and services consumed in the country. Its basically on tax on final consumption.

Goods and Service Tax (GST) term first used by German Economist during 18th Century. In India Kelkar committee has suggested to comprehensive Goods & Service Tax based on VAT Principles.

GST would be levied and collected at each stage of sale or purchase of goods or services based on the input tax credit method. This method allows GST-registered businesses to claim tax credit to the value of GST they paid on purchase of goods or services as part of their normal commercial activity. Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain till the

goods or services reach the consumer. Administrative responsibility would generally rest with a single authority to levy tax on goods and services. [3] Exports would be zero-rated and imports would be levied the same taxes as domestic goods and services adhering to the destination principle.

The introduction of Goods and Services Tax (GST) would be a significant step in the reform of indirect taxation in India. Amalgamating several Central and State taxes into a single tax would mitigate cascading or double taxation, facilitating a common national market. The simplicity of the tax should lead to easier administration and enforcement. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%-30%. As India is a federal republic GST would be implemented concurrently by the central government and by state governments.

The tax-rate under the proposed GST would come down, but the number of assesses would increase by 5-6 times.^[14] Although rates would come down, tax collection would go up due to increased buoyancy.^[15] The government is working on a special IT platform for smooth implementation of the proposed Goods and Services Tax (GST). The IT special purpose vehicle (SPV) christened as GST N (Network) will be owned by three stakeholders—the centre, the states and the technology partner NSDL, then Central Board of Excise and Customs (CBEC) Chairman S Dutt Majumdar said while addressing a “National Conference on GST”. On the possibility of rolling out GST

With heterogeneous State laws on VAT, the debate on the necessity for a GST has been reignited. The best GST systems across the world use a single GST, while India has opted for a dual-GST model. Critics claim that CGST, SGST and IGST are nothing but new names for Central Excise/Service Tax, VAT and CST, and hence GST brings nothing new to the table. The concept of value-added has never been utilised in the levy of service, as the Delhi High Court is attempting to prove in the case of Home Solution Retail, while under Central Excise the focus is on defining and refining the definition of manufacture, instead of focusing on value additions. The Revenue can be very stubborn when it comes to refunds, as the Maharashtra Government proves, and software entities that applied for refunds on excess service tax paid on inputs discovered[[] GST will be divided into three Parts:

1. Central GST (CGST)
2. State GST (SGST)
3. Integrated GST (IGST)

Both Centre and States will simultaneously levy GST across the value chain. Tax will be levied on every supply of goods and services. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. The input tax credit of CGST would be available for discharging the CGST liability on the output at each stage. Similarly, the credit of SGST paid on inputs would be allowed for paying the SGST on output. No cross utilization of credit would be permitted.

The Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supply of goods and services. The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another. The inter-State seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of IGST, CGST and SGST on his purchases (in that order). The exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The importing dealer will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST.

Following Central and State Taxes to be subsumed :

A. Central :

- i. Central Excise Duty
- ii. Additional Excise Duty
- iii. The Excise Duty levied under the Medicinal and Toiletries Preparation Act
- iv. Service Tax
- v. Additional Customs Duty, commonly known as Countervailing Duty (CVD)
- vi. Special Additional Duty of Customs-4% (SAD)
- vii. Cesses and surcharges in so far as they relate to supply of goods and services.

B. State :

- i. VAT/Sales Tax
- ii Central Sales Tax (levied by the Centre and collected by the States)
- iii. Entertainment Tax
- iv. Octroi and Entry Tax (all forms)
- v. Purchase Tax
- vi. Luxury Tax
- vii. Taxes on lottery, betting and gambling
- viii. State cesses and surcharges in so far as they relate to supply of goods and services.

6. Calculation methods under GSTCase 1: Sale in one state, resale in the same state

In the example illustrated below, goods are moving from Mumbai to Pune. Since it is a sale within a state, CGST and SGST will be levied. The collection goes to the Central Government and the State Government as pointed out in the diagram. Then the goods are resold from Pune to Nagpur. This is again a sale within a state, so CGST and SGST will be levied. Sale price is increased so tax liability will also increase. In the case of resale, the credit of input CGST and input SGST (Rs. 8) is claimed as shown; and the remaining taxes go to the respective governments

Case 2: Sale in one state, resale in another state

In this case, goods are moving from Indore to Bhopal. Since it is a sale within a state, CGST and SGST will be levied. The collection goes to the Central Government and the State Government as pointed out in the diagram. Later the goods are resold from Bhopal to Lucknow (outside the state). Therefore, IGST will be levied. Whole IGST goes to the central government.

Against IGST, both the input taxes are taken as credit. But we see that SGST never went to the central government, still the credit is claimed. This is the crux of GST. Since this amounts to a loss to the Central Government, the state government compensates the central government by transferring the credit to the central government

Case 3: Sale outside the state, resale in that state

In this case, goods are moving from Delhi to Jaipur. Since it is an interstate sale, IGST will be levied. The collection goes to the Central Government. Later the goods are resold from Jaipur to Jodhpur (within the state). Therefore, CGST and SGST will be levied.

Against CGST and SGST, 50% of the IGST, that is Rs. 8 is taken as a credit. But we see that IGST never went to the state government, still the credit is claimed against SGST. Since this amounts to a loss to

the *State* Government, the *Central* government compensate

the *State* government by transferring the credit to

the *State* government

7. Advantages of GSTA. Reduction in prices:

Due to full and seamless credit, manufacturers or traders do not have to include taxes as a part of their cost of production, which is a very big reason to say that we can see a reduction in prices. However, if the government seeks to introduce GST with a higher rate, this might be lost.

B. Increase in Government Revenues:

This might seem to be a little vague. However, even at the time of introduction of VAT, the public revenues actually went up instead of falling because many people resorted to paying taxes rather than evading the same. However, the government may wish to introduce GST at a Revenue Neutral Rate, in which case the revenues might not see a significant increase in the short run.

C. Less compliance and procedural cost:

Instead of maintaining big records, returns and reporting under various different statutes, all assesseees will find comfortable under GST as the compliance cost will be reduced. It should be noted that the assesseees are, nevertheless, required to keep record of CGST, SGST and IGST separately.

D. Move towards a Unified GST:

Internationally, the GST is always preferred in a unified form (that is, one single GST for the whole nation, instead of the dual GST format). Although India is adopting Dual GST looking into the federal structure, it is still a good move towards a Unified GST which is regarded as the best method of Indirect Taxes.

8. Tax Structures under GST

An ideal tax system collects taxes at various stages of production, supply and retail. It is based on the value that the producers, suppliers and retailers individually add to the product. However, the current tax regime is unfairly skewed against most producers. Since taxes are distributed across the chain, the consumer prices are likely to rise to maintain the current tax revenue levels. The government has justified this by saying it would provide tax cuts across various brackets. This isn't entirely satisfactory. First, the tax paying population isn't too significant a number to begin with and second, the tax payer is likely to get a meager tax cut for the GST he would pay for all the goods or services he purchases.

In GST, The consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes. GST is levied only on the value-added at every stage of production.

EXAMPLE:

Lets say GST is kept at 15%.

then for Company XYZ pvt ltd ,following scene arises.

It will club almost all Indirect taxes levied by central as well as State like excise duty, service tax, countervailing duty, special additional duty on customs, all cesses and surcharges and state taxes including value added tax(VAT), sales tax, entertainment tax, luxury tax, tax on lottery, betting and gambling, entry tax and state cesses and surcharges.

Hence Taxation simplified and compliance improved = better revenues

9. Statutory forms under GST

The Stock Transfers should be absolved from any kind of tax liability.

All Kind of Road permits and Check Posts may be abolished to treat India as a Free Trade Zone.

All kinds of C Forms, F Forms or any other statutory Forms should be abolished.

10. Comparison between GST and other Important Indirect taxes in India

Sr.No	Particulars	GST	CE	ST	VAT	CST
1	Meaning	Goods and Service Tax	Central Excise	Service Tax	Value Added Tax	Central Sales Tax
2	Applicability of Excise	No	Yes	No	No	No
	Applicability of Taxes	All Transaction of Goods and Services Providers	Manufacturing Entities	Service Providers	Local Sale and Purchase Sale Transaction	Interstate Sale Transaction
4	Cross Utilisation of Input Tax Credit	Central GST & State GST not allowed in case of Interstate Supply	No.	No.	No.	No.
5	Registration Number	13/15 Digit (PAN Link)	15 Digit (PAN Link)	15 Digit (PAN Link)	12 Digit	6 Digit to 12 Digit (Differ from state to State)
6	Rate of Tax	18% (Subject to Finalisation)	12.50%	14.50%	Differ from state to State	Differ from state to State

7	Payment on Account of	Central Govt	Central Govt	Central Govt	State Govt	Central Govt
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11.Benefits of GST to Indian Economy

Simpler tax structure:

As multiple taxes on a product or service are eliminated and a single tax comes into place, the tax structure is expected to be much simpler and easier to understand. Paperwork will become simpler and there will be a reduction in accounting complexities for businesses. A simple taxation regime can make the manufacturing sector more competitive and save both money and time. Experts opine that the implementation of GST would push up GDP by 1%-2%.

Increased tax revenues:

A simpler tax structure can bring about greater compliance, thus increasing the number of tax payers and in turn tax revenues for the Government. The current state of the Indian economy demands fiscal consolidation and reduction in fiscal deficit. A recent report by CRISIL states that GST is the country's best bet to achieve fiscal consolidation. As there is not much scope to reduce Government expenditure, increasing tax revenues is the best alternative to improve the fiscal health.

Competitive pricing:

GST will eliminate all other forms of indirect taxing. This will effectively mean that the tax paid by the final consumer will come down in most cases. Lower prices will help in boosting consumption, which is again beneficial to companies. The biggest positive of GST is that goods and services will be taxed on a common basis.

Boost to exports:

When the cost of production falls in the domestic market, Indian goods and services will be more price-competitive in foreign markets. This can bode well for exporters, who compete with manufacturers abroad facing a lower cost structure.

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