

M. B. A. Semester - IV

ACCORDING TO NEW SYLLABUS  
(CHOICE BASED CREDIT SYSTEM AND GRADING SYSTEM)

# INDIRECT TAXATION

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***A Book Of***

**Special Focus  
on GST**

# **INDIRECT TAXATION**

**Finance Specialisation - Core Subject  
Course Code : 403 (FIN)**

**For  
MBA Semester - IV  
As Per the New Revised Syllabus**

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Our Beloved Parents and  
Guru's*



## Foreword ...

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I am very much delighted to write the foreword for this textbook titled "Indirect Taxation" as per revised syllabus could possibly be described as one stop centre for all your questions and answers regarding the current position of the indirect tax law, GST and practices in India. It is a comprehensive analysis of all concepts, principles, practices and perspectives arising in the indirect taxation on natural and legal persons. This makes it essential reading for anyone with the aspiration of understanding taxation as a student, teacher and practitioner.

The textbook is structured with a view to enabling a proper understanding of the philosophy and principles of indirect tax practices and procedure. It then goes on to explain both legal and economic concepts that underlie in the taxation, laws and practices, touching virtually on all areas of taxation like introduction, overview and evolution of GST, registration under GST, supply under GST and valuation of supply, input tax credit and returns under GST, custom duty etc. with solved practical problems.

The structure and content of the textbook qualify it to be mandatory reading and reference material for any academic effort on indirect taxation practices and procedures including solved practical problems and multiple choice questions.

I particularly like the fact that the textbook is written in simple, lucid and understandable language. This makes it easy reading material for students, teaching fraternity and experienced practitioners who are looking to learn and refresh their knowledge on indirect taxation.

I commend the author for adding valuable material to the body of textbook of indirect taxation that will, without doubt, play a valuable and significant role in guiding and shaping the direction and content of the book.

**Place: Pune**

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Dean

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## Preface ...

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***“Knowledge is like a deep well fed by perennial springs and your mind is the little bucket that you drop into it, you will get as much you can assimilate”.***

It is with great pride and pleasure that we bring our book 'Indirect Taxation' to our young, dynamic and beloved readers, students and teaching fraternity of commerce and management studies.

The book brings out the subject of Indirect Taxation in a very simple and lucid manner for easy and comprehensive understanding of the concepts, acts, sections, legal provisions, practices and procedures and practical problems.

The book of Indirect Taxation is divided into five chapters dealing with important and vital aspects of GST and Custom Duty including multiple choice questions on each chapter in line with the Savitribai Phule Pune University.

We sincerely hope that the students of all the management and commerce related streams of Savitribai Phule Pune University as well as other Universities find this book valuable in their preparations.

We would like to express our deep gratitude towards our Dean, Faculty of Commerce and Management, SPPU Dr. Prafulla Pawar, for his timely guidance and motivation for completion and writing of this book. A successful achiever has to work on all possible parameters to maintain work life balance. One important parameter is 'time'. Our parents kept reminding us about the timely completion of the book.

We take this as an opportunity to express our sincere thanks to Mr. Jignesh Furia, Dhairya Furia and their entire staff of Nirali Prakashan for their encouragement, active co-operation, support and helps in bringing out this publication.

Our students, colleagues and readers have always appreciated our writings. They are the ultimate 'value drivers'. Their 'value expectations' assess our performance towards quality of work. They should decide whether this book is really 'high value storage'. As an author's our indebtedness to all of them is perpetual.

At the end, how do we forget the 'almighty' who reminds us of our inner strength!

Readers are most welcome to help us to improve the contents and presentation of this book. Let 'creative thinking' continue endlessly, so that the purpose and quality of book 'Indirect Taxation' improve perpetually.

**Place: Pune**

**Prof. (Dr.) Devidas B. Bharati**

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**Important Note:** 20% numerical questions and 80% theory questions will be asked.

**\*\*\***

# Chapter 1 ...

## Introduction, Overview and Evolution of GST

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### **Contents ...**

- Introduction of GST
  - 1.1 Indirect Tax Structure in India
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- 

### **Introduction of GST**

**Goods and Services Tax (GST)** is an indirect tax levied in India on the sale of goods and services.

Goods and services tax are divided into five tax slabs for collection of tax that are 0%, 5%, 12%, 18% and 28%. Petroleum products and Alcoholic drinks are taxed separately by the individual State Governments. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 22% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products.

The tax came into effect from 1<sup>st</sup> July 2017 through the implementation of one hundred and first amendments (150) by the Government of India. The tax replaced existing multiple cascading taxes levied by the Central and State Governments. The tax rates, rules and regulations are governed by the Goods and Services Tax Council which comprises of finance ministers of centre and all the States. GST simplified a slew of indirect taxes with a unified tax and is therefore expected to dramatically reshape the country's 2 trillion dollar economy.

The President of India approved the Constitution Amendment Bill for Goods and Services Tax (GST) on 8<sup>th</sup> September 2016, following the bill's passage in the Indian Parliament and its ratification by more than 50% of State legislatures. This law will replace all indirect taxes

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levied on goods and services by the Central Government and State Government and implement GST by April 2017. The implementation of GST will have a far-reaching impact on almost all the aspects of the business operations in India. With more than 140 countries now adopting some form of GST, India has long been a stand-out exception.

GST is a value-added tax levied at all points in the supply chain, with credit allowed for any tax paid on input acquired for use in making the supply. It would apply to both goods and services in a comprehensive manner, with exemptions restricted to a minimum.

In keeping with the federal structure of India, it is proposed that the GST will be levied concurrently by the Central Government (CGST) and the State Government (SGST). It is expected that the base and other essential design features would be common between CGST and SGST for individual States. The inter-State supplies within India would attract an integrated GST (IGST), which is the aggregate of CGST and the SGST of the destination State.

**Salient Features of the Proposed GST System:**

The following are the salient features of the proposed GST system:

- The power to make laws in respect of supplies in the course of inter-State trade or commerce will remain with the Central Government. The States will have the right to levy GST on intra-State transactions, including on services.
- The administration of GST will be the responsibility of the GST Council, which will be the apex policy-making body for GST. Members of GST Council will comprise central and State ministers in charge of the finance portfolio.
- The threshold for levy of GST is a turnover of ₹ 1 million. For a taxpayer who conducts business in a northeastern State of India the threshold is ₹ 5,00,000.
- The Central Government will levy IGST on inter-State supply of goods and services. Import of goods will be subject to basic customs duty and IGST.
- GST is defined as any tax on supply of goods and services (other than on alcohol for human consumption).
- Central taxes such as central excise duty, additional excise duty, service tax, additional custom duty and special additional duty, as well as State-level taxes such as VAT or sales tax, central sales tax, entertainment tax, entry tax, purchase tax, luxury tax and octroi was subsumed in GST.
- A provision was made for removing imposition of entry tax/octroi across India.
- Entertainment tax, imposed by States on movies, theatre, etc., was subsumed in GST, but taxes on entertainment at Panchayat, municipality or district level will continue.
- Stamp duties, typically imposed on legal agreements by States, will continue to be levied.

GST would be levied on the basis of the destination principle. Exports would be zero-rated and imports would attract tax in the same manner as domestic goods and services. In addition to the IGST in respect of supply of goods, an additional tax of up to 1% has been proposed to be levied by the Central Government. The revenue from this tax is to be assigned to the origin States. This tax is proposed to be levied for the first two years or a longer period, as recommended by the GST Council.

With GST, it is anticipated that the tax base will be comprehensive, as virtually all goods and services will be taxable, with minimum exemptions. GST would bring in a modern tax system to ensure efficient and effective tax administration. It will bring in greater transparency and strengthen monitoring, thus making tax evasion difficult. While the process of implementation of GST unfolds in the next few months, it is important for industry to understand the impact and opportunities offered by this reform. GST will affect all industries, irrespective of the sector. It will impact the entire value chain of operations, namely procurement, manufacturing, distribution, warehousing, sales and pricing.

**Tax Structure before GST:**

1. Before the implementation of GST, taxation laws between the Centre and States were clearly demarcated. There were no overlaps between the fiscal powers, whatsoever. The Centre would levy tax on goods manufacture, except alcohol for consumption, narcotics, opium, etc.
2. The States had the power to charge tax on the sale of goods.
3. The Centre would levy the Central Sales Tax that was collected by the originating States.
4. The Centre was also levying service tax on all types of services.
5. Additionally, the Centre was charging and collecting additional duties of customs on goods that were imported into or exported from India. This tax was levied in addition to the Basic Customs Duty. This additional duty of customs is referred to as Countervailing Duty (CVD) and Special Additional Duty (SAD) and it counter balances excise duties, State VAT, sales tax, and other such taxes.

The introduction of the GST regime made amendments to the Constitution so that the Centre and States are empowered at the same time to levy and collect GST. This concurrent jurisdiction of the States and Centre also requires an institutional mechanism that ensures joint decisions are taken about the structure and operation of GST.

**Constitution (One Hundred and First) Amendment Act, 2016:**

In order to address prevalent issues in taxation, the Constitution 122<sup>nd</sup> Amendment Bill was put forth in the 16<sup>th</sup> Lok Sabha on 19<sup>th</sup> December 2014.

- The Bill suggests levy of GST on all goods and services, except alcohol that humans consume.
- The tax is levied as Dual GST by the Centre and States/union territories. The component levied by the Centre is Central Tax - CGST, while that levied by the State is State Tax - SGST. The tax levied by union territories is Union Territory Tax - UTGST.
- The Centre would levy the GST on inter-State trade or imports of services and goods. This tax is referred to as Integrated Tax - IGST.
- The Central Government will also levy excise duty on tobacco products, in addition to GST.
- The tax on five petroleum products, i.e., high speed diesel, crude, petrol, natural gas and Aviation Turbine Fuel (ATF) will be outlined later after a decision is made by the GST Council.

**Decisions taken by GST Council:**

Some of the major decisions taken by the GSTC so far are:

- There would be four tax rates under the GST regime i.e., 0%, 5%, 12%, 18% and 28%. Some goods and services were also classified as exempt from tax.
- A cess above the peak rate of 28% would be levied on certain sin and luxury goods.
- The administrative control over 90% of taxpayers with turnover less than ₹1.5 crores would be with the State tax administration. 10% of control would be with the Central tax administration.
- Administrative control over taxpayers having turnover above ₹1.5 crores would be equally divided between the State and Centre tax administration.

**Goods and Services Tax Network (GSTN):**

Goods and Services Tax Network (GSTN) was set up as a private company in 2013 by the Government under Section 25 of the Companies Act 1956. GSTN is expected to offer the front-end services of registration, payment and returns to taxpayers. It would also develop back-end technical modules that will be utilised by 25 States that have opted in.

GSTN has also identified 34 IT and financial technology companies and tagged them as GST Suvidha Providers (GSPs). These organisations will develop applications that will be used by taxpayers when they interact with GSTN.

**Key features of the GST regime:**

The GST system is characterized by the following features:

- GST is applicable on the "supply" of services or goods as opposed to the earlier concept of taxation on goods manufacture, sale of goods or service provision.
- GST is a destination-based tax structure unlike the origin-based structure that existed previously.
- CGST, IGST and SGST/UTGST are levied at rates that would be mutually agreed upon by the States and Centre.
- GST will replace the central taxes mentioned below:
  - Duties of Excise (medicinal and toilet needs)
  - Central Excise Duty
  - Additional Duties of Excise (Goods of Special Importance)
  - Additional Duties of Customs (CVD)
  - Service Tax
  - Special Additional Duty of Customs(SAD)
  - Additional Duties of Excise (Textiles and Textile Products)
  - Cesses and surcharges

GST will subsume the following State taxes:

- Central Sales Tax
- Entry Tax

- State VAT
- Luxury Tax
- Purchase Tax
- Entertainment Tax, except that levied by local entities
- Taxes on lotteries and gambling
- Taxes on advertisements
- State cesses and surcharges

**Overview of GST:**

The salient features of GST are as under:

- 1. Destination based consumption tax:** The GST would be applicable on the supply of goods or services as against the present concept of tax on the manufacture or sale of goods or provision of services. It would be a **destination based consumption tax**. This means that tax would accrue to the State or the Union Territory where the consumption takes place. It would be a dual GST with the Centre and States simultaneously levying tax on a common tax base. The GST to be levied by the Centre on intra-State supply of goods or services would be called the Central tax (CGST) and that to be levied by the States including Union territories with legislature/Union Territories without legislature would be called the State tax (SGST)/ Union territory tax (UTGST) respectively.
- 2. Applied to all goods other than alcoholic liquor and five petroleum products:** The GST would apply to all goods other than alcoholic liquor for human consumption and five petroleum products viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel. It would apply to all services barring a few to be specified.
- 3. Present Central Taxes:** The GST would replace the following taxes currently levied and collected by the Centre:
  - Central Excise Duty,
  - Duties of Excise (Medicinal and Toilet Preparations),
  - Additional Duties of Excise (Goods of Special Importance),
  - Additional Duties of Excise (Textiles and Textile Products),
  - Additional Duties of Customs (commonly known as CVD),
  - Special Additional Duty of Customs (SAD),
  - Service Tax,
  - Central Surcharges and Cesses so far as they relate to supply of goods and services.
- 4. State taxes to be subsumed under GST:** State taxes that would be subsumed under the GST are:
  - (a) State VAT,
  - (b) Central Sales Tax,
  - (c) Luxury Tax,

- (d) Entry Tax (all forms),
  - (e) Entertainment and Amusement Tax (except when levied by the local bodies),
  - (f) Taxes on advertisements,
  - (g) Purchase Tax,
  - (h) Taxes on lotteries, betting and gambling,
  - (i) State Surcharges and Cesses so far as they relate to supply of goods and services,
  - (j) The list of exempted goods and services would be common for the Centre and the States.
- 5. Threshold Exemption:** Taxpayers with an aggregate turnover in a financial year up to ₹ 20 lakhs would be exempt from tax. Aggregate turnover shall be computed on all India basis. For eleven Special Category States, like those in the North-East and the hilly States, the exemption threshold shall be ₹ 10 lakhs. All taxpayers eligible for threshold exemption will have the option of paying tax with input tax credit (ITC) benefits. Taxpayers making inter-State supplies or paying tax on reverse charge basis shall not be eligible for threshold exemption.
- 6. Composition levy:** Small taxpayers with an aggregate turnover in a financial year up to ₹ 50 lakhs shall be eligible for **composition levy**. Under the scheme, a taxpayer shall pay tax as a percentage of his turnover during the year without the benefit of ITC. The rate of tax for CGST and SGST/UTGST each shall not exceed -
- 2.5% in case of restaurants etc
  - 1% of the turnover in a State/ UT in case of a manufacturer
  - 0.5% of the turnover in State/UT in case of other suppliers.
- A taxpayer opting for composition levy **shall not** collect any tax from his customers nor shall he be entitled to claim any input tax credit. The composition scheme is optional. Taxpayers making inter-State supplies shall not be eligible for composition scheme. The government, may, on the recommendation of GST Council, increase the threshold for the scheme to up to rupees one crores.
- 7. Integrated Tax:** An Integrated tax (IGST) would be levied and collected by the Centre on inter-State supply of goods and services. Accounts would be settled periodically between the Centre and the States to ensure that the SGST/UTGST portion of IGST is transferred to the Destination State where the goods or services are eventually consumed.
- 8. Use of Input Tax Credit:** Taxpayers shall be allowed to take credit of taxes paid on inputs (input tax credit) and utilize the same for payment of output tax. However, no input tax credit on account of CGST shall be utilized towards payment of SGST/UTGST and vice versa. The credit of IGST would be permitted to be utilized for payment of IGST, CGST and SGST/UTGST in that order.
- 9. HSN (Harmonized System of Nomenclature) Code:** HSN shall be used for classifying the goods under the GST regime. Taxpayers whose turnover is above ₹ 1.5 crores but

# Indirect Taxation



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