

INTRODUCTION TO GST
Concept of GST and Difference Between Direct Tax & Indirect Tax

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Lecture 01

Welcome friends! I am Anil Sharma.

So, I'll be discussing with you about GST. See, GST is really important and very relevant tax for Indian economy and now it has contributed a lot and still going on and definitely government is interested in GST and its compliances. So in our today's this session we will talk about:

1. Basic concept of GST;
2. Why GST was needed in the country;
3. How it is different from indirect tax like custom or otherwise;
4. How it is different from income tax, gift tax and wealth tax;
5. How GST is different from direct taxes;
6. What are the main features of GST in India; and
7. What is the basic concept of GST, what we have adopted in India with effect from 1st July 2017.

So friends moving further, our today's agenda will be to discuss:



Introduction to GST

Topics to be covered:

- ✓ **Difference between Direct Tax and Indirect Tax,**
- ✓ **Features of Indian GST**
- ✓ **Concept & Scope of Supply under GST**

Friends, before we discuss about GST and other aspects of GST, I just want to share with you this information.

World GDP Trends

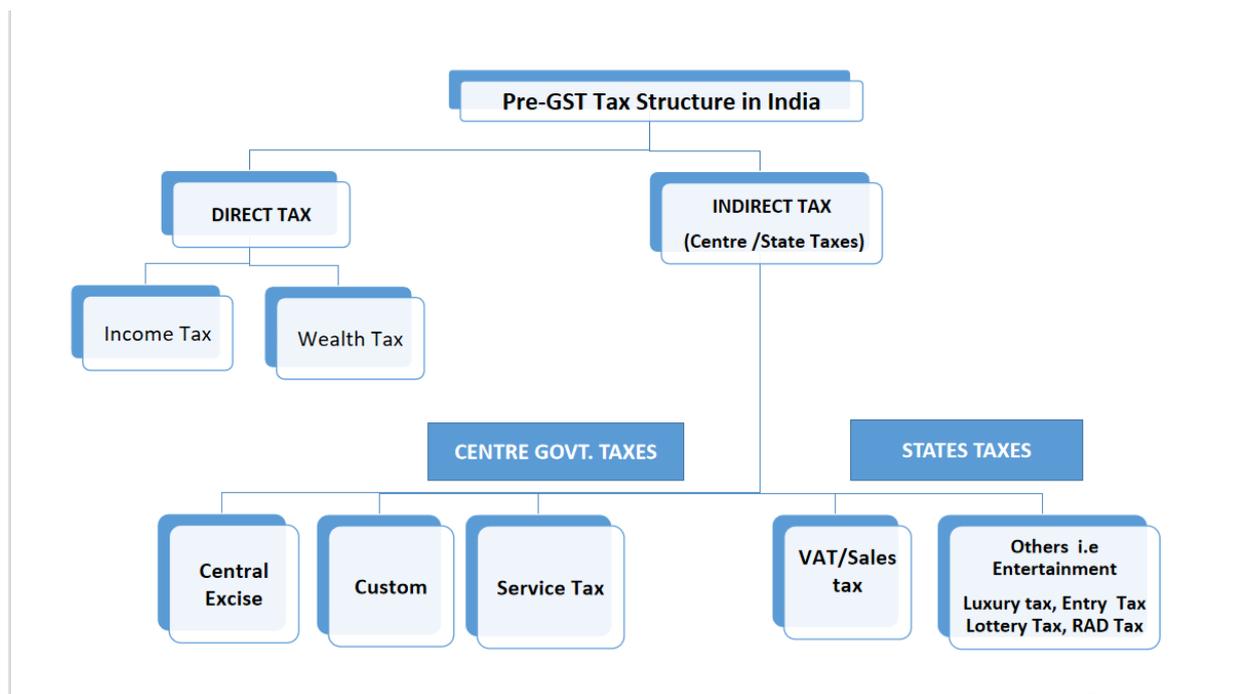
PERIOD	INDIA	CHINA	JAPAN	USA	EUROPE	REST OF THE WORLD
1AD	33	27	1	0	14	25
1500AD	25	25	3	0	21	26
1820AD	15	33	3	2	27	20
1870AD	12	17	2	9	38	22
1950AD	4	5	3	28	31	29
2008AD	6	13	7	21	19	34
2014-15 AD*	6	13.43	5.97	22	18-19	35

Source The Economic Times Dt. 29/01/2008

*International Monetary Fund World Economic Outlook (April-2015)

Today we are in 2024. If I take you 2000 years back, means in 1 AD, and the data available with us shows that during 1 AD, means 2024 years back, India was contributing 33% to the world GDP. China was at second number, that is 27%, Japan at 1% and contribution of USA almost nil, and till 1500 AD India was leading world economy by contributing 25 percent of the world GDP at par with China. But later on, with the political disturbances in India with lot of attacks which ruined, Indian economy, Indian medical system and Indian education system that when India got independence in 1947, India was just contributing 4% to the world GDP.

So, friends, in 2000, means in 2000 years, late Atal Bihari Vajpayee ji talked about GST in India. Then economists estimated that the introduction of GST will give a boost to Indian GDP and Indian GDP will go by or be enhanced by 2%. So maybe this GST is a small step to achieve the lost glory of Indian golden sparrow that we were having 2000 years back. So, GST is so important from Indian economy point of view and also the model adopted by Indian policymakers in India has started giving results. Though it has many shortcomings till today, but still the results are good and economic activities have been plugged in such a way that every transaction is being watched out. So, with the help of artificial intelligence, IT portals, we are capable of and we are in a position to track each and every business transaction so that there should not be any leakage of the taxes.



So friends, when we talk about taxes in India, we have two types of taxes, one is direct tax, another is indirect tax. In direct tax, we talk about income tax, wealth tax, gift tax. That is not a subject matter for today's discussion. But when we will talk about indirect taxes, in indirect taxes further, we divide these taxes into two categories. One is the taxes imposed by Central Government. Another is taxes imposed by State Governments. So, when we talk about Central Government taxes, we have Central excise, we have custom, we have service tax. So, all these taxes are monitored by Central Government. This is pre-GST time, means before 30th of June 2017. So, at that point of time, Central Government was charging excise duty on productions, then custom on imports and service tax on the services.

And on the other side, as per the provisions of Constitution of India, state governments were having power to tax VATs and other taxes like entertainment tax, luxury tax, entry tax, local area development tax like this. So, these governments are having power under the provisions of Constitution, under Law of the Constitution of India, that there are some taxes which are in the domain of Central government and others are for State governments. So, they are empowered. So, both governments have independent tax structures for their local development for the economy of the states. So, this way we were having different taxes, direct taxes-indirect taxes. Direct taxes we are not talking about today. Indirect taxes we will talk about-central, excise, custom, service tax, VAT, entertainment tax, luxury tax, local area development tax like this. So why these are indirect taxes?

When we will talk about indirect taxes, why these are indirect taxes? Indirect taxes mean the consumer/ the assessee/ the taxpayer doesn't pay tax directly to the government. Means, whenever indirect taxes are paid, let's take example of sales tax, which was the terminology which was the tax before GST. When we are talking about sales tax, sales tax was supposed to be paid by customer to the supplier and supplier further paying it to the government. So, it is not this tax was not paid directly by the consumer to the government. Like in income tax assessee or the individual is paying income tax directly to the government. It is the responsibility of the assessee to pay income tax directly to the government. But in indirect taxes central excise, customs, service tax or other taxes, the assessee pays it to the supplier and supplier pays to the government. It is routing through supplier. So, that is why it is indirect taxes.

So, friends, these types of taxes are there mainly in India and we know that after collection of tax by the government, the Government uses this money for development of the country, maybe for bridges, maybe for roads, railway, IT like this. So, payment of tax is the responsibility of each and every individual wherever it is applicable and whosoever is responsible for payment of tax.

So in income tax, every individual who is having income above the threshold limit, they are supposed to pay tax as per income tax provisions. And when we talk about indirect taxes, Central excise is supposed to be paid by Central Excise Act. Custom is supposed to be paid under Customs Act and Service Act was supposed to be paid by Service Act or the Finance Act of Government of India. And similarly in states VAT tax or sale tax is supposed to be paid by each supplier under VAT Act of the respective states because VAT or the taxes by the states are their own domain and each state has its own tax structure. So, as per the requirement of the state, state governments were levying taxes on different products or services within the framework of Constitution of India.

So, friends, this was the pre-GST framework for taxes. And this system of pre-GST regime was having lot of confusions, lot of litigations or lot of shortcomings, which was not helping the economy to move further. So, in 2000, during the tenure of Late Shri Atal Bihari Vajpayee ji, he talked about to bring GST into the country, as per the need of the economy and also with certain modifications as GST is adopted by many other countries in the world. Because India is a federal structure, so, we need such type of GST framework which helps state governments also as well as the central government. So, we started talking about GST, and slowly and slowly, many reports came, many papers were written on GST concept. And finally, we decided one model which we will discuss in our following slides. And on 1st July 2017, GST was introduced in the country.

Difference between Direct tax & Indirect Taxes

Direct Taxes	Indirect taxes
<ul style="list-style-type: none"> ▪ Taxes paid directly by assessee to government are direct taxes ▪ Income tax, Gift TAX, Wealth tax ▪ Income tax is paid on income of the assessee ▪ Income tax is paid by assessee having income above threshold limits- so not by every one ▪ These are progressive in nature 	<ul style="list-style-type: none"> • Taxes paid by consumer to seller and seller pay to government are indirect taxes • GST, Custom, Excise are Indirect taxes • Indirect taxes are paid on value of goods/services or sales of goods/services • Every consumer pay GST or other indirect taxes • These are regressive in nature

So, friends, when we talk about direct taxes or indirect taxes, as I told you in my previous slide that we have two types of taxes in India. One is direct tax; another is indirect tax. Direct tax which is paid by assessee or the individual directly to the government and indirect taxes are paid by assessee or the consumer through supplier to the government.

So, these are the bullet points differentiating or telling us how direct taxes are different from indirect taxes. What is that? First as I told you taxes paid directly by assessee to the government are direct taxes, taxes paid by consumer to the seller and seller paid to the government are indirect taxes. Further examples of **direct** taxes are income tax, gift tax, wealth tax because in income tax individual may be person, may be a HUF, may be a partnership firm, may be a Company. They determine their income tax liability as per the provisions of Income Tax Act, 1961 and calculate the tax liability and pay to the government. Whereas in indirect taxes before GST we were having excise, custom, service tax, VAT, sales tax, CST like this. But now after GST came into picture, we have GST, custom excise some other indirect taxes as of now.

Moving further, friends, it says income tax is paid on income of the assessee. But obvious! Whatever you will earn during the year may be in form of salary, maybe as a profit of the business, maybe some dividend, interest on your FDRs or saving accounts, dividend from companies shares or any other income that is casual in nature, honorarium, any technical consultancy fee you are charging like this. So, all these incomes whatever you earn during the year are subject to income tax and you are supposed to pay tax to the government as the reasons of Income Tax Act as I told you earlier.

Indirect taxes are paid on the 'value of goods or services' or 'sales of good or services'. What does it mean? It means whenever you are selling any product in the market you are charging something. Let's take example of a car. If car is having value of 3 lakh rupees means when you are approaching any dealer for purchase of car as an individual you will ask him for how much this car is? He will say it is for 3 lakh rupees plus GST. So, means 3 lakh is the value of that particular car or the product and GST that is indirect tax will be calculated on 3 lakh rupees at the given rate of tax and you will pay to the dealer.

So, it means what? It means if car is of 3 lakh rupees, suppose let's make a simple calculation that 10% is GST applicable on that, so car's value to you is 3,30,000 rupees where 3 lakh is the value of car and 30,000 is GST. So, you will pay 3,30,000 rupees to the seller, means the dealer of the car. And that dealer of the car will pay 30,000 rupees to the government for the product purchased by you. So, it means tax is paid by dealer on behalf of you on a purchase of car indirectly to the government. That is why it is indirect taxes.

Further friends, income tax is paid by assessee having income above threshold limit. So, means if we go by the provisions of Income Tax Act, 1961, it says that if any individual has income more than 2,50,000 rupees a year, he is supposed to pay tax. So, threshold limit in income tax is 2.5 lakhs for an individual. And on the other side, in GST, every consumer is paying tax, every consumer, because being a consumer, right from morning till evening, I consume so many things, maybe your toothpaste, toothbrush, shaving, breakfast, mobile, internet, pen, stationary items, your clothing, your trouser, shirt, coffee, tea, whatever you call it, whatever amount, whatever item you are consuming in a day, you are paying GST, you are paying taxes, that is indirect tax.

GST is regressive in nature and income tax is progressive in nature. Progressive in nature is why? Because the more the income you have, the more the taxes you have to pay. But it is not like that in GST. Everyone -(may be having lakhs of rupees income in a year or having some thousands of rupees as income) they are paying *at par*. Means if a pen, a stationary item, I am buying this pen at the rate of 100 rupees, and if the rate is 12%, then I, as a salary class employee, will pay 12% GST on 100 rupees pen. And if any billionaire is buying this pen for 100 rupees, he is also supposed to pay 12% only. i.e. 12 rupees. So, it doesn't distinguish higher income group or lower income group. It is at par for everyone. So, this way, that's why we say 'GST is regressive in

nature and income tax is progressive in nature'. So, this is a basic difference between indirect taxes and direct taxes.

And we are talking about indirect taxes, that is GST in this session, in this course. How it is important from a consumer's point of view, government's point of view, or how it has good career opportunities also?

Limitations of pre-GST Tax Structure

- **Cascading Effect** of Taxes (*CST, additional customs duty, surcharges, luxury tax, entertainment tax, etc. etc.,*)
- **Tax on Tax - CENVAT** load on the goods remains included in the value of goods to be taxed under State VAT.
- **Cross utilization** of input tax i.e. CENVAT (Excise & Service Tax) and (VAT etc.) set-off out of reach.
- **State wise VAT**
- **Multiplicity of tax rates**
- **No intimacy between Centre and States agencies**
- **High cost of compliance and difficult to administer.**
- **Lack of proper IT infrastructure**

So, friends, when I talked to you that GST was introduced with effect from 1st July 2017, why it was needed? I told you that there were some, there were some limitations in the pre-GST taxes, means the taxes we were having before 30th of June 2017. At that point of time, we were having taxes like excise, custom, service tax, sales tax, CST tax, local area development tax, octroi, etc. So, all this, means, the system that we were having before 1st July 2017, it was having some limitations. Because of these limitations we were not in a position to improve in our economy. We were not in a position to improve our systems.

So, what were these limitations of that type at that time of taxes?

First was Cascading Effects. Cascading Effect of taxes. I will explain you what are the Cascading Effects. Means when we are paying taxes on tax. This was the major reason why we were asking for, why we were discussing for GST.

Then Tax on Taxes were there.

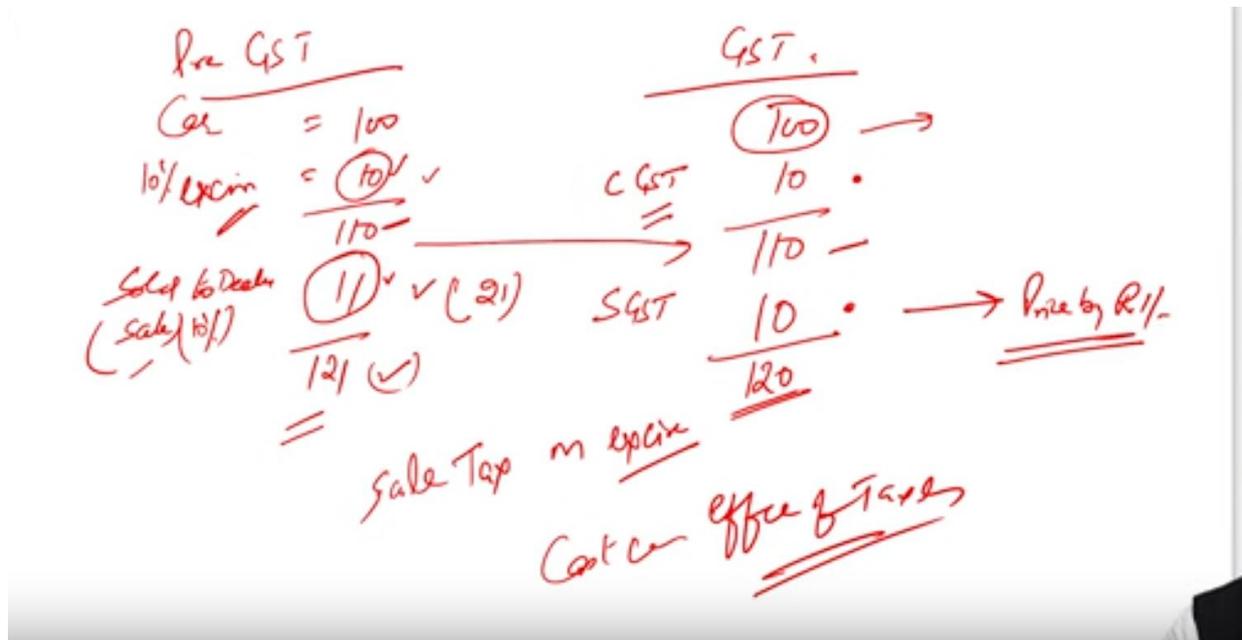
Then Cross-Utilization of input tax credit was not there or was not fully workable under pre-GST regime.

Then state-wise VATs were also another hurdle in the area of economy.

Multiplicity of taxes was another issue. There was no coordination and cooperation among the states and the union territories, state government or the central governments.

High cost of compliances were also there because it was pre-GST regime we were not having IT based infrastructure whereas in GST we are totally IT based. Lack of proper infrastructure in ITC (IT) that was another issue with pre-GST regime era.

So, friends when I was talking to you in this slide about cascading effects let us take example on how cascading effects were there and how it was impacting our economy; to understand, because this point is the base for introducing GST in the country.



So, friends, let us take example when GST was not there, how we were working the value for any product or service under pre-GST regime. So, let us take example that I told you that if I am going to purchase a car, and car is having value of rupees 100. It is just for the simplification of the calculations. So, if car is having value of rupees 100 and I am being a consumer will go to dealer and ask him about purchasing a car. So, he will ask you 'X' amount to pay. So, how the pricing of car was done during pre-GST regime that we will discuss in this example. So, in that particular era of pre-GST, I told you that excise duty was applicable, service taxes were applicable, VAT and sale tax were applicable. So, in manufacturing, there was a duty that is excise duty. So, Excise Duty Act was there in India, which was applicable/ levied on any manufacturing. So, if you are manufacturing anything, it is subject to excise duty. So, the car we are manufacturing, So, when I have manufactured a car worth rupee 100, it is subject to excise duty. Whether it is sold or not, I was supposed to pay excise duty.

So, let us take example that excise was 10 percent of, i.e. 10 percent excise duty was applicable. So, means on 100 rupees, I have to pay 10 rupees as excise. So, the value comes to 110. So, when this excise is applicable or charged on a car when car is in factory. So, car is manufactured in a factory, it is subject to excise duty and value comes to 110. Now, this car is sold to a dealer who is having a business of car selling. So, when it is going to dealer from factory, it is sale. Under sales tax and the VAT, it is sale. So, when it is sale, this car is subject to sale tax. So, what to do?

So, on 110 rupees, 10 percent means (10 percent sales tax means) 11 rupees will be added to the value. So, the car value will come to 121. So, any customer who want to buy this car has to pay 121 rupees to a dealer for a car. So, here at this point of time, I am paying excise duty 10 rupees and at this point of time, I am paying 11 rupees as a tax. So, total tax I am paying is 21 rupees.

So, in a transaction of 100 rupees, a customer was supposed to pay 21 rupees, 10 rupees as an excise, 11 rupees as a sales tax. And in this mechanism of pricing, here, in 11 rupees, I am paying sales tax on excise. In this pricing mechanism, I am paying sales tax on excise also. So, it means I am paying tax on tax. I am paying sales tax. I am paying sales tax on excise. This is cascading effect. Cascading effect of taxes.

Because of government policies, because of the mechanism given by law to calculate a value of any item or a product, I was supposed to pay sales tax on excise. So, here 1 rupee I am paying tax on tax without any reason, without any improvement in the technology, without any improvement in the value addition of the product. So, this was one of the major ambiguity in the existing system before GST.

What GST did in this? How GST is different from it?

Let us take same example. Here I am paying car value is 100 rupees as I told you and excise duty here-10 percent was excise duty. Now GST is there and in GST it is CGST. We will talk about CGST later on also. But here, in place of excise duty, I am having CGST, Central GST.

I told you in my first slide that there are some taxes which are imposed by central government and there are some taxes which are levied by state governments. So, excise duty was a tax levied by central government. So, here excise duty, though it is central tax, but it is replaced by CGST. CGST again is central GST. So, central GST is applicable as it is. Car value is 110. There is no difference till this stage.

Now, further, when dealer will buy a car for selling further to the consumer, here GST makes a difference. Here, in place of sale tax or VAT, we will be having state GST. We will be having State GST. And GST says (this is GST regime, and this is pre-GST regime). In GST, it says we will not pay sale tax on excise. We will not pay sale tax on excise. So, meaning thereby, here when I will calculate sale tax or state GST, it will be 10 rupees, not 11 rupees. Means GST says CGST as well as SGST will be worked out on the same value, will be worked out on the same price, which is the basic price of the car. Earlier what we were doing? Earlier we were paying sale tax on 110. Here we are not paying on 110, we are paying it on 100 rupees only. So, my car value to the customer is 120. So, this simple mechanism of or the change in the pricing mechanism under GST has reduced the value of car, the price of a car by rupee 1. So, friends, by having simple calculation method changing, or pricing mechanism under GST, consumer saved one rupee. So, if your car is of 10 lakh rupees, which we actually we are buying, you can imagine how much I can save when now I am buying a car under GST regime.

So, GST has eliminated the cascading effect, taxes on tax. We are not paying now tax on tax. It means we are not paying VAT or sale tax on excise. We are paying central excise in form of CGST. We are paying sales tax in the form of State GST. But we are not calculating State GST on Central GST. So, this is the major impact of the GST and we were needing this mechanism. It will help the economy at large because same mechanism of pricing, same mechanism of calculation of price of any product or any service will be done.

It has a huge and huge impact on the total economy, because if this mechanism is applicable on my finished products, this mechanism is also applicable on my inputs, means my raw material. If I am in textile industry and buying cotton from different vendors with different suppliers. So, when I am buying cotton, bringing to my factory, processing it and manufacturing yarn, so the yarn value will be workout like this only where we will not calculate State GST on Central GST.

Then yarn is processed further for fabric and then fabric to garments. So, I will be saving 1 rupee on every 100 rupees.

Similarly, in manufacturing of steel, in manufacturing of mobiles, in manufacturing of electric goods, you talk anything, anything which is being manufactured and services being rendered, services of advocates, services of consultants, technical engineers, producers, every service will be worked out only this way under GST, which is giving a savings of one rupee on every transaction.

So, how it will impact our economy? See, when consumers are saving this much of amount, definitely he will be having surplus money with him and when surplus money he will spend to other sectors, to other goods, means here, by having this mechanism of pricing, his purchasing power will increase. And when his purchasing power will increase, he will purchase more and more goods. And if he will start buying more and more goods, definitely the industry of that particular product will flourish. And when industry in that particular product will flourish, they will generate employment. And when they will generate employment, but obvious, people will get money further. And it will be money will be spent in the market and it will boom up the Indian economy. So, this way GDP will also increase. So, by simply changing the mechanism of pricing of products or the services under GST by not charging state GST on central GST, this was the impact on Indian economy. And I told you it impacted each and every business transaction, each and every industry in the country. That's why we were required to replace the old system with GST.

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So, friends, after discussing these cascading facts, let's talk about State wise VAT. This was another issue under pre-GST regime. See, in our country we are having 28-29 states. Each State has its own VAT because Constitution empowers them. So, every state was having own VAT Act or Sale Tax Act.

So, taking the same example of car. If car is manufactured in Karnataka, let us take example, and in Karnataka, the sale tax on car is 15%, in Haryana, the sale tax rate on car is 12%, in UP, it was 17%, in Tamil Nadu, it was 20% and in Maharashtra, it was 25%. So, meaning thereby, same product with the same technical specifications, having same year of manufacturing, same

trademark, but having different-different rates of taxes under VAT in different-different states. So, being an individual or being an Indian citizen, I was supposed to pay different tax rates for same product in different states. So, GST eliminates all these things and it says, if product is same, consumer may be same, the rate will also be same.

So friends in GST today we are having same rate of tax across India. Means if on any product let's take example of car; on car GST is 28 percent. Car is subject to GST at the rate of 28 percent. So here 14 percent CGST going to central government and 14% State GST going to respective state where car is purchased. So, if you now buy a car in Tamil Nadu or Maharashtra or Karnataka or in Kerala or in UP or in Rajasthan, you are supposed to pay state GST at the rate of 14% only. So, uniformity in the rates of taxes of each and every product and services were brought down by GST. So this reduced lot of litigation, it reduced lot of confusions in the mind of the stakeholders and also it helps to grow in the economy by having simplification in the system.

So friends in pre-GST regime as I told you each states were having their own VAT and central government was having own taxes. So there was no intimacy among the governments. Central government was doing what they are looking for from their budget perspectives, and state governments were doing whatever they are looking for from their budget perspectives. So every state was having its own policy for taxes. And similarly central government was having their own policies. But GST brought all these governments together. And today, if any state government wants to change anything in taxes, they cannot do by their own. They are supposed to approach GST Council, which is a central body for GST implementation in India. Without their consent, no state can change any rate of tax or the system of business transaction under GST at their own.

So it makes one country as a whole, one market as a whole, one tax as a whole. So friends, GST brought simplification, fast decision making, effective decision making in the economy. That were the reasons why GST was needed and we were having lot of limitations under pre-GST regime.