**Economics Class 20**

**DUAL GST (09:01 AM)**

- **For intra-state trade**
- The GST levied by the centre is called CGST while that levied by states/UTs is called State GST or UTGST.
- **For Inter-State trade**
- For the inter-state supply of goods and services, an integrated GST is levied and administered by the centre.
- CGST and IGST will be levied and administered by the centre while SGST and UTGST while respective states and UT administration.
- The principle of FIscal Federalism has been adopted where both the Centre and states have been assigned powers to levy and collect taxes under the 101st CAA.

**101ST CONSTITUTIONAL AMENDMENT ACT (09:08 AM)**

- The new articles added by this amendment are Article 246A (special provisions wrt GST), Article 269A (levy and collection of GST in the course of interstate trade); Article 279A (GST Council).
- As per **Article 246A**: Both the Union and states in India now have concurrent powers to make laws with respect to goods and services.
- The intra-state trade now comes under the jurisdiction of both centre and state while inter-state trade is exclusively under the jurisdiction of the centre.
- As per **Article 269A**, in the case of interstate trade, the tax will be levied and collected by the Govt of India and shared between the union and states as per the recommendations of the GST Council.
- The article also makes it clear that the proceeds collected will not be credited to the consolidated fund of India or states, but respective shares shall be assigned to that state or centre.
- Thus under GST, the apportion/sharing of tax revenue will take place outside the Consolidated Fund.
- GST council has to be constituted by the President within 60 days of the commencement of Article 279A.
- The Union Finance Minister is the chairperson and the members constitute the Union Minister of State in charge of revenue or Finance and the minister in charge of finance or taxation or any other minister nominated by each state govt.
- GST council should recommend aspects related to threshold limit, IGST sharing procedure, special provisions wrt states like Arunachal, J&K etc., items excluded out of GST and also sharing procedure between centre and states.
- Decision-making in the GST council is based on voting procedure with states having 2/3rd weightage and centre 1/3rd.

**GST COMPOSITION SCHEME (09:24 AM)**

- The composition scheme under GST is a low-procedure and compliance-friendly tax scheme for small and medium enterprises.
- Under the scheme, firms under a specific threshold limit of turnover can pay a fixed percentage of their turnover as tax.
- The threshold limits are fixed by the GST Council.
- The entities under the composition scheme are not eligible for input tax credits.
- **The concept of Reverse Charge:**
- In a normal charge mechanism generally, service tax is payable by the provider of the service.
- Similarly, the GST has to be paid by the supplier of goods and services.
- But in some cases, the liability to pay the tax falls on the buyer, this reverse charge is applicable only under certain circumstances-
- 1. The most common instance is when a business buys goods or services from a supplier who is not registered under GST.
- 2. An importer is also liable to pay GST under the Reverse Change mechanism (RCM).

**NATIONAL ANTI-PROFITEERING AUTHORITY (NAA) (10:04 AM)**

- It is an institutional mechanism under the GST law to check the unfair profit activities by the trading community.
- **What is profiteering?**
- It means unfair profit realised by traders by manipulating prices, tax rate adjustments, etc.
- In the context of GST, profiteering means that the traders are not reducing the prices of commodities even after the GST council has reduced the tax rates.
- When NAA certifies profiteering in a certain case, it can order the supplier to reduce its prices or return the undue benefits availed by it along with interest to the recipient of goods and services.
- If the undue benefits cannot be passed on to the consumers, they can be ordered to be deposited in the **consumer welfare fund.**
- In extreme cases, NAA can impose a penalty on the defaulting business entity and even order for cancellation of registration under GST.

**ANALYSIS OF GST (10:15 AM)**

- (1) Simple and easy to administer because multiple indirect taxes at the central and the state level are replaced by a simple tax. Moreover, backed by an end-to-end IT system **(GSTN)**, it would be easy to administer.
- (2) Better control of leakages.
- (3) Higher revenue efficiency.
- (4) Relief in overall tax burden for the consumer.
- (5) Simple and transparent tax that will lower inflation in the long run.
- (6) Tax democracy i.e. luxury items will be taxed more and basic necessities will be exempted.
- (7) GST helps in the creation of a national market **(One Nation One Tax).**
- (8) Ease of Doing Business due to better tax compliance.
- (9) Removal of cascading effect, thereby increasing tax efficiency.
- (10) Uniform tax rates will help in better decision-making and increased investments by the corporates.
- (11) Reduction in transaction costs will lead to improved competitiveness.
- (12) It increases specialization and Ancillarisation.
- (13) Helps in boosting foreign investments due to increased transparency.
- (14) Increase in the GDP growth in the long term. 15. It increases logistics efficiency.
- **Negatives of GST**
- Confusion regarding control over taxation.
- The anti-profiteering clause was seen as a backdoor entry to license raj.
- High revenue-neutral rates.

**ISSUES RELATED TO COMPENSATION TO DEVELOPED STATES (10:35 AM)**

- **GST Compensation Cess**
- Due to the consumption-based GST system, manufacturing states like Gujarat, Haryana, Karnataka, Maharashtra, and Tamil Nadu feared revenue losses and therefore, GST Compensation Cess was introduced to compensate for plausible revenue losses suffered by such manufacturing states.
- Under existing rules, GST Compensation cess will be levied only for the first 5 years of the GST regime (July 1st, 2017- July 2022-currently extended to 2026).
- The compensation cess payable to states is calculated based on the methodology specified in the **GST Compensation to States Act 2017.**
- The Compensation Fund so collected is released to the states every 2 months.
- Any unused money from the compensation fund at the end of the transition period shall be distributed between the Centre and states as per any applicable formula.
- Compensation cess is levied on sin or luxury goods as mentioned in the GST Compensation to States Act 2017 and includes items such as Pan Masala, Tobacco, automobiles, etc.

**GST NETWORK (11:04 AM)**

- It is a non-profit organization, established to handle the entire IT system of the GST Portal.
- This portal is used by the government to track every financial transaction and it also provides taxpayers with all services from registration to filing taxes and maintaining all tax details.
- Currently, it is a wholly owned government company with equal shares of central and state governments.

**E-WAY BILL (11:09 AM)**

- Electronic way bill or e-way bill system offers a technological framework to track **intra-state as well as the inter-state movement of goods** of value exceeding Rs. 50,000 for sales beyond 10 km in the GST regime.
- It can be electronically generated through the GSTN.
- When an e-way bill is generated a unique e-way bill number is allocated and is available to the supplier, recipient, and transporter.
- The e-way bill was mainly launched to facilitate faster movement of goods and also to improve logistics efficiency.
- A fine of Rs. 10,000 can be levied if a consignment moves without generating a valid e-way bill. In such a situation, goods & vehicles transporting them can be seized.
- Though the check posts have been abolished under GST, a consignment can be intercepted at any point for the verification of its e-way bill.

**FISCAL POLICY (11:15 AM)**

- Fiscal Policy deals with the government's income and spending (revenues and expenditure).
- From budgeting to taxation, fiscal policy deals with the most important areas of the economy.
- **In India, Fiscal policy is divided into 3 parts:**
- (1) Government receipts
- (2) Government Expenditure
- (3) Public Debt
- The Fiscal Policy is set by the Ministry of Finance with assistance from Niti Aayog.
- Fiscal Policy is also used as a tool to influence economic conditions including macroeconomic indicators like economic growth and inflation.
- There should always be a balance between the monetary policy of RBI and the fiscal policy of the government to achieve macroeconomic goals.

- **OBJECTIVES OF FISCAL POLICY-**
- **(1) Price Stability**
- Fiscal Policy is used to control inflation.
- **(2) Optimum allocation of resources**
- Fiscal policy measures guide public expenditure ie. the government reallocates resources towards equitability and enhanced social security for the weaker sections. For example, subsidies, incentives, etc.
- **(3) Economic Stability**
- The budgeting system should also focus on maintaining economic stability and protecting the domestic economy from external shocks.
- **(4) Capital formation and growth**
- Capital formation is crucial to a developing economy and therefore fiscal policy of the government continues to prioritize investing in capital.
- **(5) Economic development and inclusive growth-** Attainment of full employment.
- The central government is focussing **on reducing the deficit** and is also trying to adhere to the FRBM Act, therefore, the government started reducing subsidies (Give it Up Scheme), removing of administered pricing mechanism with respect to petrol and diesel, etc. To increase revenues government introduced several tax reforms like VAT and GST.

FRBM = Fiscal Policy and Budget Management

**DIRECT TAX (11:47 AM)**

- It is a tax where the burden of the tax can not be shifted.
- It should be paid by the person or entity on whom it is levied (the impact and incidence of the tax are on the same point.)
- **Different types of taxes of the central government are as follows:**
- **(a) Income Tax**
- This is the most common type of tax that an individual pays to the government.
- It is generally progressive in nature. Although it turns out to become degressive after the 30% bracket.
- The government also levies an additional surcharge, if the income crosses Rs. 50 Lakhs.
- **(b) Corporate Tax**
- It is like the Income Tax of corporates.
- A company whether Indian or foreign is liable to taxation under the **Income Tax Act 1961.**
- The registrar of companies and the Company Law Board administers the provisions of the act.
- Several companies try to avoid tax payments using loopholes in the taxing system and therefore, the government decided to levy a minimum percentage of tax on book profits (MAT).

**TOPIC OF THE NEXT CLASS- CONTINUATION OF FISCAL POLICY**