Economics Class 19

INTRODUCTION (09:06 AM)

- A brief overview of the previous class.

INDIRECT TAXES IN INDIA (09:17 AM)

- **Excise duty:** It's a tax on the production of a commodity and not on the sale of the product. Excise duty is explicitly levied by the central government except for alcoholic liquor and narcotics. It is different from customs duty as it is applicable only to things produced in India.
- The challenge of the cascading effect was handled through the introduction of the MODVAT system. **LK Jha committee** recommended MODVAT, which is nothing but excise duty introduced as MANVAT (manufacturing VAT) then it was changed to MODVAT in 1986-87.
- In the MODVAT system, the taxes levied on inputs were refunded back as input tax credit.
- Different tax rates were levied on different goods and subsequently, MODVAT was replaced by CENVAT in 2001 with uniform rates on all goods covered under the tax platform.
- Currently CENVAT is subsumed into CGST.

CUSTOMS (09:49 AM)

- It is a duty levied on the export and import of goods. Import duty is not only a source of revenue but also an instrument to regulate trade.
- Import duties on India are generally levied on an ad valorem basis e.g if an Indian buys Mercedez from abroad he must pay customs duty levied on it i.e. the purpose of customs duty is to ensure that all the goods entering the country are taxed and paid for.
- Just as customs duty ensures that goods from other countries are taxed, octroi ensures that goods crossing state borders within India are taxed appropriately.
- Octroi was levied by the state government.

- **Tax buoyancy:**
- It measures actual or observed changes in tax revenue relative to GDP.
- Tax buoyancy is equal to the proportionate change in tax revenue (delta t) divided by the proportionate change in GDP (delta GDP). Here the change in tax can be due to an automatic increase or due to discretionary changes or both.
- Change in coverage i.e. bringing new groups of economic units (tax base) into or leaving existing groups out of taxation e.g. positive and negative list with respect to service tax, the introduction of GST, etc. These are discretionary changes.
- **Tax elasticity:**
- Proportionate change in adjusted tax revenue divided by the proportionate change in GDP. In some words, it is the proportionate change in tax revenue after nullifying the discretionary changes.
- Adjusted tax revenue is calculated after setting aside changes in tax revenue due to discretionary changes. Tax elasticity is also used to check the tax responsiveness to changes in tax rates.
- **Service tax:**
- It was levied on services provided in India. It was introduced in 1994-95 on three services- telecom, general insurance, and share broking (positive list). Since then every year the service net has been widened by including more and more services. After 2011 the government started implementing a service tax using the negative list concept i.e. very few services are excluded from the tax net.
- Service tax rate was around 15% before being replaced by GST.
- **VAT** (value added tax) (levied by state):
- India's indirect tax structure is weak and there were many problems related to high tax rates and issues of cascading effect. As a result, various committees on taxation recommended VAT.
- VAT has been introduced in India by all states and UT except Andaman and Lakshadweep. The state VAT was implemented till 1 July 2017 after which it is subsumed under GST.

GST (Goods and Services Tax) (10:58 AM)

- **Historical background:**
- France was the first country to introduce the GST system in 1954. The Genesis of GST occurred during the previous NDA government under Atal Bihari Vajpayee Ji. However, it took a very long period of implementation of GST. GST came into existence on 1 July 2017 through the ~~[illegible]~~ constitutional amendment act.
  101st
- **Taxes replaced by GST:**
- Among the taxes levied by the center, GST replaces the following:
- 1. Central exise duty and service tax
- 2. duty on excise,(medicinal, and toilet preparations)
- 3. additional duties on textiles (textiles and textile products)
- 4. additional duties on customs (commonly known as Countervailing duty, CVD)
- 5. ~~special duty on customs~~ Special additional duties on custom
- 6. central sales tax,(is an origin-based tax levied by the central government but the revenues are given to the exporter state.)
- Among the state-level taxes GST has replaced the following:
- 1. State VAT (on sale)
- 2. Entry tax
- 3. taxes on advertisement and gambling
- 4. entertainment tax except when levied by local bodies
- 5. taxes on lotteries

COMMODITIES NOT UNDER GST

- Portable alcohol
- Five petroleum products- crude petrol, motor spirit, high-speed diesel, natural gas, and aviation turbine fuel.
- Electricity - sale, and consumption
- The above arrangement is temporary and the GST council will decide the date from which they shall be included in GST.
- The existing VAT and central excise will continue to operate until they are included in GST.

- NOTE: Tobacco and tobacco products were included in GST and the center will have power to levy GST on tobacco products.
- Apart from the above, there is no GST levied on the sale and purchase of securities which will be governed by a securities transaction tax (STT)

UNDERSTANDING DUAL GST SYSTEM (12:03 PM)

- Most countries have a unified GST system. Brazil and Canada followed a dual GST system where GST is levied by both union and state governments. India also has a dual GST system where the center and state simultaneously levy GST on a common tax base.

The topic for the next class is GST (to continue).