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SUMMARY SHEET

Direct and Indirect Taxes

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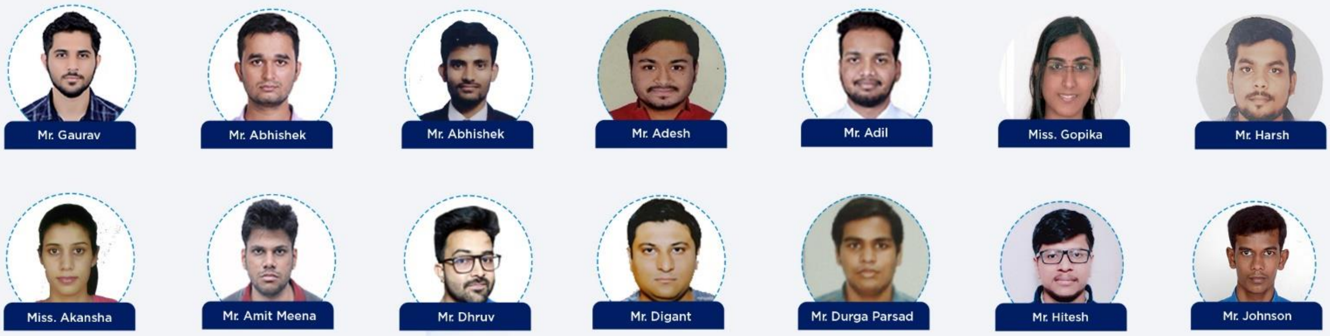


NABARD Grade A 2020
65 Selections Out of 69

+91 8146207241 hello@edutap.co.in www.edutap.co.in Download EduTap App

1 Introduction

The Merriam-Webster dictionary defines the word 'tax' as—**a charge usually of money imposed by authority on persons or property for public purposes.**

Taxes have an indirect redistributive effect, because they are an important revenue source of social transfers (particularly, non-contributory social transfers) and public services. Personal taxation has a direct redistributive role, because the level of taxation depends on the level of income.

1.1 Principles of an Effective Tax System

Although opinions about what makes a good tax system will vary, there is general consensus that these five basic conditions should be maximized to the greatest extent possible.

1. **Fairness, or equity**

2. **Efficiency**

3. **Simplicity**

4. **Transparency**

5. **Administrative ease**

1.2 Tax Impact and Tax Incidence

<u>What is tax impact and tax incidence?</u>

The final burden of tax is known as tax incidence and the initial burden of tax is known as **tax impact**. Tax incidence is upon the person who eventually pays it, and the tax impact is upon the person from whom the tax is collected.

Tax incidence will fall on the consumers who pay the price for buying a product, and the tax impact will fall upon the producers for producing a product.

1.3 Methods of Taxation

There are three main types of taxes, each with very different properties: **progressive, proportional**, and **regressive.**

1. Progressive Taxation

- This method has **increasing rates of tax for increasing value or volume** on which the tax is being imposed.

2. Regressive Taxation

- This is just opposite to the progressive method having decreasing rates of tax for increasing value or volume on which the tax is being imposed.

3. Proportional Taxation

- A proportional tax system, also referred to as a **flat tax system**, assesses **the same tax rate on everyone** regardless of income or wealth.

1.4 Methods of Expenditure

Similar to the methods of taxation the modes of government expenditure are also of three types—**progressive, Regressive and Proportional.**

2 Taxation structure in India

- The tax structure in India is a **three-tier federal structure.**
- The central government, state governments, and local municipal bodies make up this structure.
- **Article 265** of the constitution states that "No tax shall be levied or collected except by the authority of law". Hence, each and every tax that is collected needs to backed by an accompanying law.

The Indian tax structure allows for **two types of taxes—Direct and Indirect Tax**.

Discussed in detail in later part of the chapter.

2.1 Constitutional Provisions

Provisions related to Distribution of Taxes

Taxes Levied by the Centre but Collected and Appropriated by the States (Article 268): This category includes the stamp duties on bills of exchange, cheques, promissory notes, policies of insurance, transfer of shares and others.

Taxes Levied and Collected by the Centre but Assigned to the States (Article 269): Taxes on the sale or purchase of goods (other than newspapers) in the course of inter-state trade or commerce.

Levy and Collection of Goods and Services Tax in Course of Inter-State Trade or Commerce (Article 269-A): The Goods and Services Tax (GST) on supplies in the course of inter-state trade or commerce are levied and collected by the Centre. But, this tax is divided between the Centre and the States in the manner provided by Parliament on the recommendations of the GST Council.

Taxes Levied and Collected by the Centre but Distributed between the Centre and the States (Article 270):

This category includes all taxes and duties referred to in the Union List except the following: Duties and taxes referred to in Articles 268, 269 and 269-A, Surcharge on taxes and duties referred to in Article 271, Any cess levied for specific purposes.

Surcharge on Certain Taxes and Duties for Purposes of the Centre (Article 271): The Parliament can at any time levy the surcharges on taxes and duties referred to in Articles 269 and 270 (mentioned above). The proceeds of such surcharges go to the Centre exclusively. However, the Goods and Services Tax (GST) is exempted from this surcharge. In other words, this surcharge cannot be imposed on the GST.

Taxes Levied and Collected and Retained by the States:
These are the taxes belonging to the states exclusively. They are enumerated in the state list and are 18 in number including land revenue, taxes on agricultural income, duties in respect of succession to agricultural land, estate duty in respect of agricultural land, taxes on lands and buildings, taxes on mineral rights etc.

2.2 Cess and Surcharge

Cess

- A cess imposed by the central government is a tax on tax, levied by the government for a specific purpose.
- Generally, cess is expected to be levied till the time the government gets enough money for that purpose.

Difference between Cess and Usual Tax

- A cess is different from the usual taxes like excise duty and personal income tax as it is imposed as an additional tax besides the existing tax (tax on tax).
- Another difference between cess and the usual tax is the way in which tax revenue from cess is kept. Revenue from main taxes like Personal Income taxes are kept at Consolidated Fund of India (CFI). The government can use it for any purposes. But the tax revenue from Cess is first credited to the CFI and the Central Government may, after due appropriation made by Parliament, utilise the money for the specified purposes.
- Another major feature of cess is that the Centre need not share it with states.

Surcharge

- Surcharge is a charge on any tax. As the name suggests, surcharge is an additional charge or tax.
- A common feature of both surcharge and cess is that the centre need not share it with states.
- The main difference between surcharge and cess is that despite they are not shareable with state governments, surcharge can be kept with the Consolidated Fund of India (CFI) and spent like any other taxes, the cess should be kept as a separate fund after allocating to CFI and can be spent only for a specific purpose

3 Indirect Tax

Indirect tax is defined as the tax imposed by the government on a taxpayer for goods and services rendered.

Indirect tax is a type of tax where the **incidence and impact of taxation does not fall on the same entity.**

Different Types of Indirect Tax

There are different types of indirect tax in India. However, after the implementation of GST, most of these indirect taxes were bundled into one singular tax for the citizens of India. We will have a look at the different types of indirect tax in India:

1. **Service tax:**
   This tax is levied by an entity in return for the service provided by them. The service tax is collected by the Government of India and deposited with them.
2. **Excise duty:**
   When any product or good is manufactured by a company in India, then the tax levied on those goods is called the Excise Duty. The manufacturing company pays the tax on the goods and in turn recover the amount from their customers.
3. **Value Added Tax:**
   Also known as VAT, this type of tax is levied on any product sold directly to customer and are movable. VAT consists of Central Sales Tax which is paid to the Government of India State Central Sales Tax which is paid to the respective State Government.
4. **Custom Duty:**
   This a tax levied on the goods imported to India. Sometimes, Custom Duty is also levied on products which are exported out of India.
5. **Stamp Duty:**
   This is a tax levied on the transfer of any immovable property in a state of India. The state government in whose state the property is located charges this type of tax. Stamp tax is also applicable on all legal documents too.
6. **Entertainment Tax:**

This tax is charged by the state government and is applicable on any products or transactions related to entertainment. Purchasing of any video games, movie shows, sports activities, arcades, amusement parks, etc. are some of the products on which Entertainment Tax is charged.

7. **Securities Transaction Tax:**
   This tax is levied during the trading of securities through Indian Stock Exchange.

Features of Indirect Tax

Here are the key features of indirect taxes:

- **Tax liability:** The service provider or seller pays indirect taxes to the government, and the liability is transferred to the consumer.
- **Payment of tax:** The seller pays indirect taxes to the government and the same is transferred to the consumer.
- **Nature:** Indirect taxes were initially regressive in nature, but thanks to the implementation of the Goods and Services Tax, they are now pretty progressive.
- **Saving and investment:** Indirect taxes are generally growth-oriented considering the fact that they encourage consumers to save and invest.
- **Evasion:** It is difficult to evade indirect taxes because they are now implemented directly through products and services.

Advantages of Indirect Tax

Here are the main advantages of indirect taxes

- **Convenience:** Indirect taxes do not burden the taxpayer and are convenient as they are paid only at the time of making a purchase.
- **Ease of collection:** Since indirect taxes are only collected at the time of making purchases, the authorities need not worry about their collection.
- **Collection from the poor:** Since indirect taxes are charged at the point of sale, all individuals, regardless of the income tax slab under which they fall, contribute towards the growth of the economy.
- **Equitable contributions:** Indirect taxes are directly related to the costs of products and services. What this essentially means that the basic necessities attract lower rates of tax while luxury items are charged at higher tax rates, thereby ensuring that contributions are equitable.

Disadvantages of Indirect Tax

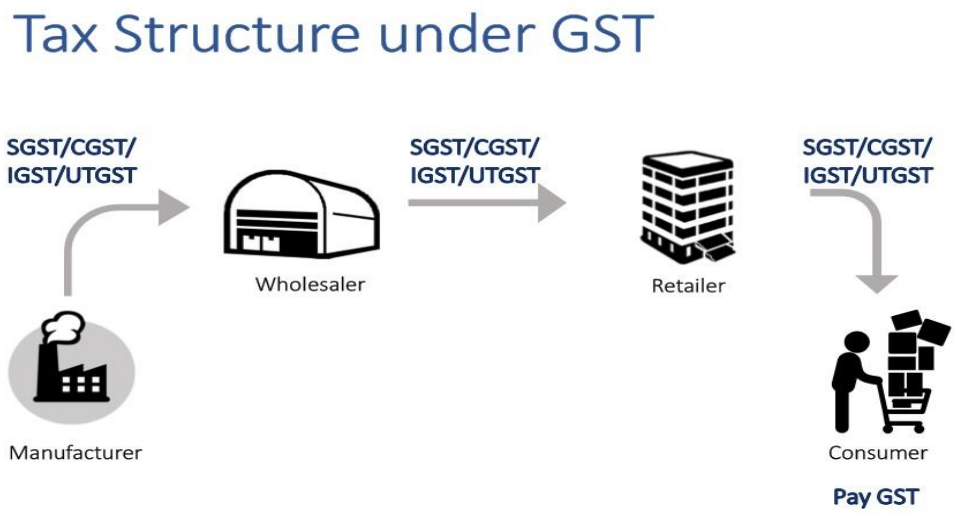
Some of the disadvantages of Indirect Tax are given below:

- Indirect Tax charged sometimes are cumulative. This means that in a point-based transaction system, middlemen involved are likely to charge their own service tax which may result in the overall price of the product increasing.
- Indirect Tax can be regressive in nature. For example, salt tax remains the same for both poor and rich, However, if a rich person defaults the payment, then the penalties imposed will be higher as well.
- Indirect Tax are not industry friendly. Taxes are levied on raw materials and goods which in turn increases the cost of production, thus not allowing industries to expand as their competitive capacity is restricted.

The **Central Board of Indirect Taxes and Customs (CBIC)** is the nodal national agency responsible for administering Customs, GST, Central Excise, Service Tax & Narcotics in India.
Additional Information **Pigovian Tax:** A Pigouvian tax, named after 1920 British economist **Arthur C. Pigou**, is a tax on a market transaction that creates a **negative externality**, or an additional cost, borne by individuals not directly involved in the transaction. Examples include tobacco taxes, sugar taxes, and carbon taxes.

4 GST – Goods and Service Tax

- The Goods and Service Tax Act was passed in the Parliament on **29th March 2017. The Act came into effect on 1st July 2017.** It is a c**omprehensive, multi-stage, destination-based tax that is levied on every value addition.**
- In simple words, Goods and Service Tax is an **indirect tax levied on the supply of goods and services.**
- GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer.
- Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a **tax only on value addition** at each stage.
- The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.
- Before the introduction of GST, there were various different taxes which were levied by both Centre and State on the entire value chain of goods from manufacturer to consumer.
- Now, with introduction of GST, only one tax is levied across the entire value chain and seamless credit of taxes paid at previous stage is available at the subsequent stage till the goods reach the consumer. This is presented in the value chain described in the following diagram:



PRE GST

Manufacturer	
Basic Cost	1,00,000
Excise + Cess (10%)	10,000
VAT @ 10%	11,000
Total	1,21,000

Distributor	
Distributor Cost (Basic + ED)	1,10,000
Margin @ 20%	22,000
Price before Tax	1,32,000
VAT @10%	13,200
Final Price to customer (including 10% VAT)	1,45,200

POST GST

Manufacturer	
Basic Cost	1,00,000
CGST @10%	10,000
SGST @10%	10,000
Total	1,20,000

Distributor	
Distributor Cost (Basic + ED)	1,00,000
Margin @ 20%	20,000
Price before Tax	1,20,000
CGST @10%	12,000
SGST @10%	12,000
Final Price to customer (including 10% VAT)	1,44,000

4.1 Journey of GST

Here is a look at the important timelines that shaped the 'one nation, one tax' system:

- **2000**
  Prime Minister Atal Bihari Vajpyee introduces the concept, sets up a committee headed by the then West Bengal Finance Minister Asim Dasgupta to design a GST model.
- **2006**
  GST appears in the Budget speech for the first time; Finance Minister P Chidambaram sets an ambitious April 1, 2010 as deadline for GST implementation. He says the Empowered Committee of finance ministers will prepare a road map for GST.
- **2008**
  Empowered Committee of State Finance Ministers constituted. The Empowered Committee submits a report titled 'A Model and Roadmap Goods and Services Tax (GST) in India' to the government
- **2009**
  Empowered Committee submits a discussion paper in the public domain on GST welcoming debate. Finance Minister Pranab Mukherjee announces basic structure of GST as designed by Dasgupta committee; retains 2010 deadline.
- **2010**
  Finance Ministry starts mission-mode computerisation of commercial taxes in states, to lay the foundation for GST rollout. Pranab Mukherjee defers GST to April 1, 2011.
- **2014**
  Cabinet approves 122nd Constitution Amendment Bill to GST.
- **September 2, 2016**
  16 states ratify GST Bill; President Pranab Mukherjee gives assent to the Bill.
- **September 12, 2016**
  Union Cabinet clears formation of GST Council
- **November 3, 2016**
  GST Council agrees on four slab tax structure of **5, 12, 18 and 28 %** along with an additional cess on luxury and sin goods.
- **January 16, 2017**
  Finance Minister announces **July 1 as GST rollout deadline**. Centre, states agree on contentious issue of dual control and taxing rights on goods at high sea.
- **May 19, 2017**
  GST Council decides on **5, 12, 18 and 28%** as GST tax slabs.
- **Jun 21, 2017**
  All states except Jammu and Kashmir pass SGST law.
- **June 30 Midnight, 2017**
  GST rolled out.
- **08th July 2017**
  Jammu and Kashmir joins GST

4.2 GST Constitution 101st Amendment Act, 2016

- Constitution (101st Amendment) Act, 2016 was enacted on 8th September 2016.

Significant amendments made by the Constitution (101st Amendment) Act, 2016 are as follows:

- **Concurrent powers** on Parliament and State Legislatures to make laws governing goods and services.

- **Levy of IGST** on inter-State transactions of goods and services to be levied and collected by the Central Government and apportioned between the Union and the States in the manner provided by Parliament by Law as per the recommendation of the GST Council.
- **Principles** for determining the place of supply and when a supply takes place in the course of inter-State trade or commerce shall be formulated by the Parliament, by law.
- GST will be levied on all supply of goods and services **except the following:**
    - **Article 366(12A)** of the Constitution as amended by 101st Constitutional Amendment Act, 2016 defines the Goods and Services tax (GST) as a tax on supply of goods or services or both, **except supply of alcoholic liquor for human consumption**. So, alcohol for human consumption is kept out of GST by way of definition of GST in constitution. **Five petroleum products viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel** have temporarily been kept out and GST Council shall decide the date from which they shall be included in GST. Furthermore, **electricity has been kept out of GST. GST does not subsume stamp duty or registration charges**
    - **The existing taxation system (VAT & Central Excise) will continue in respect of the above commodities.**
- **Tobacco and tobacco** products would be subject to GST. In addition, the Centre would have the power to levy Central Excise duty on these products.
- Article 279A of the Constitution empowers the President to constitute a joint forum of the Centre and States namely, **Goods & Services Tax Council (GST Council).**

Taxes subsumed under GST

At the **Central** level, the following taxes are being subsumed:

- 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

At the **State** level, the following taxes are being subsumed:

- State VAT
- Central Sales Tax
- Luxury Tax
- Entry Tax (all forms)
- Entertainment and Amusement Tax (except when levied by the local bodies)
- Taxes on advertisements
- Purchase Tax
- Taxes on lotteries, betting and gambling
- State Surcharges and Cesses so far as they relate to supply of goods and services.

The GST Council shall make recommendations to the Union and States on the taxes, cesses and surcharges levied by the Centre, the States and the local bodies which may be subsumed in the GST

4.3 GST Structure

As per the newly implemented tax system, there are 4 different types of GST:

Types of GST	Authority which is benefitted	Priority of Tax Credit use	Who is it collected by?	Transactions which are applicable (Goods and Services)
CGST	Central Government	CGST IGST	Central Government	Within a single state, i.e. intrastate
SGST	State Government	SGST IGST	State Government	Within a single state, i.e. intrastate
IGST	Central Government and State Government	IGST CGST SGST	Central Government	Between two different states or a state and a Union Territory, i.e. interstate
UTGST/UGST	Union Territory (UT) Government	UTGST IGST	Union Territory (UT) Government	Within a single Union Territory (UT)

4.4 GST Council

- It is a constitutional body **(Article 279A)** for making recommendations to the Union and State Government on issues related to Goods and Services Tax.

4.4.1 Composition:

The **composition of the GST Council includes**:

- The **Union Finance Minister (as Chairman).**
- The Union Minister of State in charge of Revenue or Finance.
- The Minister in charge of Finance or Taxation or any other Minister nominated by each state government.

In the Union Cabinet meeting held on 12th September 2016, it was also decided to appoint:

- The **Secretary (Revenue) as the Ex-officio Secretary to GST Council.**
- The Chairperson, Central Board of Excise and Custom (CBEC), as a permanent invitee (non-voting) to all proceedings of the Council.
- One post of Additional Secretary to the Council in the GST Council Secretariat (at the level of Additional Secretary to the Government of India).
- Four posts of Commissioner in the GST Secretariat (at the level of Joint Secretary to the Government of India).

The GST Council is managed by the **GST Council Secretariat**.

4.4.2 Quorum and Decision-making:

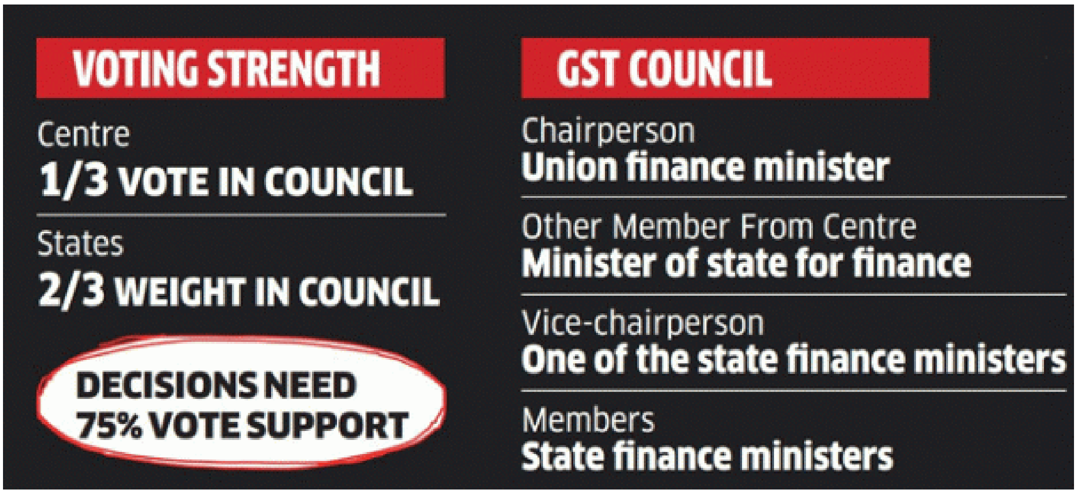
- For a valid meeting of the members of GST Council, **at least 50 percent** of the total number of the member should be present at the meeting.
- Every Decision made during the meeting should be supported by **at least 75 percent majority of the weighted votes of the members who are present** and voting at the meeting.

4.4.3 Functions of GST Council:

The GST Council will make recommendations on:

- Taxes, cesses, and surcharges to be included under the GST
- Goods and services which possibly will be subject to, or exempt from GST; The threshold maximum value of turnover for function of GST

- Rates of GST
- GST laws, principles of levy, apportionment of IGST and principles associated with place of supply
- Special provisions with respect to the eight north eastern states, Himachal Pradesh, Jammu and Kashmir, and Uttarakhand; and other associated matters
- Other matters pertaining to the implementation and regulation of GST in India



4.5 Who is liable to pay GST under the proposed GST regime?

- Under the GST regime, tax is payable by the taxable person on the supply of goods and/or services. Liability to pay tax arises when the taxable person crosses the turnover threshold of **Rs.20 lakhs (Rs. 10 lakhs for NE & Special Category States)** except in certain specified cases where the taxable person is liable to pay GST even though he has not crossed the threshold limit.

Recent Changes

Overview of earlier limits, new limits and the date of applicability

Aggregate Turnover	Registration Required	Applicability
Earlier Limits – For the sale of Goods/Providing Services		
Exceeds Rs.20 lakh	Yes – For Normal Category States	Up to 31st March 2019
Exceeds Rs.10 lakh	Yes – For Special Category States	Up to 31st March 2019
New Limits – For Sale of Goods		
Exceeds Rs.40 lakh	Yes – For Normal Category States	From 1st April 2019
Exceeds Rs.20 lakh	Yes – For Special Category States	From 1st April 2019
New Limits – For Providing Services		
There has been no change in the threshold limits for service providers. Persons providing services need to register if their aggregate turnover exceeds Rs.20 lakh (for normal category states) and Rs.10 lakh (for special category states).		

States who opted for the new limit

- An option was provided to the states to opt for the new limits or continue the earlier ones (status quo).

Normal Category States/UT who opted for a new limit of Rs.40 lakh	Normal Category States who choose status quo	Special Category States/UT who opted for new limit of Rs.40 lakh	Special Category States/UT who opted for new limit of Rs.20 lakh
Kerala, Chhattisgarh, Jharkhand, Delhi, Bihar, Maharashtra, Andhra Pradesh, Gujarat, Haryana, Goa, Punjab, Uttar Pradesh, Himachal Pradesh, Karnataka, Madhya Pradesh, Odisha, Rajasthan, Tamil Nadu, West Bengal, Lakshadweep, Dadra and Nagar Haveli and Daman and Diu, Andaman and Nicobar Islands and Chandigarh	Telangana	Jammu and Kashmir, Ladakh and Assam	Puducherry, Meghalaya, Mizoram, Tripura, Manipur, Sikkim, Nagaland, Arunachal Pradesh and Uttarakhand

Special Category States

Below is the list of states which are assigned special status under Goods and Services Tax Law: Arunachal Pradesh, Assam, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh, Uttarakhand

Aggregate Turnover

The law says that "aggregate turnover" means the aggregate value of all taxable supplies, excluding the value of inward supplies on which tax is payable by a person on reverse charge basis, exempt supplies, exports of goods or services or both and inter-state supplies of persons having the same Permanent Account Number, to be computed on an all-India basis but excludes Central tax, State tax, Union territory tax, Integrated tax and cess.

4.6 Classification of goods and services under GST regime

HSN (Harmonised System of Nomenclature) code shall be used for classifying the goods under the GST regime and Services will be classified as per the **Services Accounting Code (SAC)**

Below are the number of HSN digits to be mentioned based on the turnover:

- businesses with aggregate turnover **up to Rs. 5 crores**, need to input **4 digits of HSN code**, and
- businesses with turnover **more than Rs. 5 crores**, need to **input 6 digits.**

What is HSN code?

HSN stands for Harmonized System of Nomenclature code. It is mandatory for both B2B and B2C tax invoices on the supplies of Goods and Services. **This was introduced in 1988 by the World Customs Organization (WCO).** This was introduced for a systematic classification of goods both national and international. This is a **6-digit code** that classifies various products.

India has been using HSN codes since 1986 to classify commodities for Customs and Central Excise.

Why HSN Code?

HSN codes eliminate the need to enter the product descriptions and standardizes the details mentioned about a particular product, worldwide. Also, the GST percentages are automatically captured, and this makes it very easy for filing the GST returns.

What is Services Accounting Code (SAC)?

The Central Board of Excise and Customs (CBEC) issue codes to categorise the different services under the Goods and Services Tax (GST) regime. These codes are known as Services Accounting Code or SAC. Each of the services under the GST regime have a unique SAC.

4.7 GST Return

A "Tax Return" is a document that showcases the income of a registered taxpayer. Such a document needs to be filed with the tax authorities in order to pay tax to the government.

GST return is a form that a taxpayer registered under the Goods and Services Tax (GST) law must file for every GSTIN that he is registered.

Currently, there are **22 types of GST returns** prescribed under the GST Rules. Out of them, only 11 GST returns are active, 3 suspended, and 8 view-only in nature.

Important Types of GST Return

1	GSTR - 1: Return for Outward Supplies
2	GSTR - 2: Return for Inward Supplies
3	GSTR - 2A: Read Only Document
4	GSTR - 3B: Summary of Inward and Outward Supplies
5	GSTR - 4: Return For Composition Dealers
6	GSTR - 5: Return For Non-Resident Taxable Persons
7	GSTR - 6: Return For Input Service Distributors
8	GSTR - 7: Return For Taxpayers Deducting TDS
9	GSTR - 8: Return For E-Commerce Operators Collecting TCS
10	GSTR - 9: Annual Return For Normal Registered Taxpayer Under GST
11	GSTR - 9A: Annual Return For Composition Dealers
12	GSTR - 9B: Annual Return For E-Commerce Operators Collecting TCS
13	GSTR - 9C: Return For Registered Persons Getting Accounts Audited From CA
14	GSTR - 10: Return For Registered Person Whose GST Registration Gets Cancelled
15	GSTR - 11: Return For UIN (Unique Identification Number) Holders

GSTR-2 & GSTR-3: These two nonexistent. **GSTR-3B**: Singularly the most crucial returns under GST. it involves tax payment. This is a return that every registered person has to file.

4.8 Benefits of GST

4.8.1 For business and industry

- **Easy compliance**

- **Uniformity of tax rates and structures**
- **Removal of cascading**
- **Improved competitiveness**
- **Gain to manufacturers and exporters**
  The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services.

4.8.2 For Central and State Governments

- **Simple and easy to administer**
- **Better controls on leakage**
- **Higher revenue efficiency**

4.8.3 For the consumer

- **Single and transparent tax proportionate to the value of goods and services**
- **Relief in overall tax burden:** Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

4.8.4 For Small Taxpayers

- Taxpayers with an aggregate turnover in a financial year u p t o [Rs.20 lakhs & Rs.10 Lakhs for NE and special category states] would be exempt from tax. Further, a person whose aggregate turnover in the preceding financial year is less than Rs.50 Lakhs can opt for a **simplified composition scheme** where tax will be payable at a concessional rate on the turnover in a state.

4.8.4.1 GST Composition Scheme

- The threshold of annual turnover for composition scheme was increased to **Rs.1.5 crore from 1st April 2019.** The taxpayers registered under the scheme have to pay tax quarterly and file returns annually from 1st April 2019. The limit remains unchanged at **Rs.75 lakh for Northeastern states & Uttarakhand**. The limit also applies to restaurants (not serving alcoholic beverages).
- **Independent service providers**, as well as mixed suppliers of goods and services with an annual turnover of up to **Rs.50 lakh** in the preceding financial year can opt for this scheme.

The following people cannot opt for the scheme-

- Manufacturer of ice cream, pan masala, or tobacco
- A person making inter-state supplies
- A casual taxable person or a non-resident taxable person
- Businesses which supply goods through an e-commerce operator

To opt for composition scheme a taxpayer has to file **GST CMP-02** with the government. Its a simple form filled at the GST portal to intimate the government about it.

Conditions for availing Composition Scheme:

The following conditions must be satisfied in order to opt for composition scheme:

- No Input Tax Credit can be claimed by a dealer opting for composition scheme
- The dealer cannot supply goods not taxable under GST such as alcohol.
- The taxpayer has to pay tax at normal rates for transactions under the Reverse Charge Mechanism

- As per the CGST (Amendment) Act, 2018, a manufacturer or trader can now also supply services to an extent of **ten percent of turnover, or Rs.5 lakhs**, whichever is higher. This amendment will be applicable from the 1st of Feb 2019.

Business Type	Turnover(Goods)		Turnover(Services)
	Normal States	Special category states	
Traders	₹ 1.5 Crores	₹ 75 lacs	Can provide services upto 10% of Turnover or ₹ 5 Lakhs (w.e.f 01.02.2019)
Manufacturers	₹ 1.5 Crores	₹ 75 lacs	
Restaurant Services	₹ 1.5 Crores	₹ 75 lacs	
Other Service Providers			₹ 50 Lacs

What is the tax rate applicable to a Composition taxable person?

Composition scheme : Applicable GST Rate

Type of Business	CGST	SGST	Total
Manufacturers and Traders (Goods)	0.5%	0.5%	1%
Restaurants not serving Alcohol	2.5%	2.5%	5%
Service Providers	3%	3%	6%

4.9 Other Important topics related to GST

4.9.1 Types of Supply Under GST

In the GST system, a taxable event is called a Supply.

Different Types of Supply are as following:

1. Based on location types of supply

A. Intra-State supply

- Intra-State is a type of supply of goods or services where the location of the supplier and the place of supply of goods are in the same State or same Union Territory.

Exceptions –

Supply of goods to or by a Special Economic Zone developer or a SEZ unit; or

Goods imported into the territory of India; or

Supplies made to a tourist (section 15)

B. Territorial waters

- Where the location of the supplier is in the territorial waters; or
- Where the place of supply is in the territorial waters;
- The place of supply will be in the nearest Coastal State or Union Territory.

C. Inter-State supply

- It is a supply of goods or services, where the location of the supplier and place of supply are in- Two different States; Two different Union territories; or A State and a Union territory
- It also includes import of goods or services into the territory of India.

Further, the following shall be treated as an inter-state supply of goods or services:
When the supplier is located in India and the place of supply is outside India;
To or by a Special Economic Zone (SEZ) developer or a SEZ unit; or
In the taxable territory, not being an intra-state supply and not covered elsewhere.

2. Based on combination types of supply

A. Composite Supply

It means a supply made by a taxable person to a recipient consisting of two or more taxable supplies of goods or services or both, or any combination thereof, which are naturally bundled and supplied in conjunction with each other in the ordinary course of business, one of which is a principal supply.

B. Mixed Supply

It means two or more individual supplies of goods or services, made in conjunction with each other by a taxable person for a single price where such supply does not constitute a composite supply.

3. Based on Recipient types of supply

A. Inward Supply

It means receipt of goods or services or both whether by purchase, acquisition or any other means with or without consideration.

B. Outward Supply

It means a supply of goods or services or both, whether by sale, transfer, barter, exchange, license, rental, lease or disposal or any other mode, made or agreed to be made by such person in the course or furtherance of business.

4. Based on Tax treatment types of supply

A. Exempt Supply

Exempt Supply of any goods or services is one which attracts nil rate of tax or which may be wholly exempt from tax. It includes non-taxable supply. In the case of exempt supply in respect of any goods and/or services, the taxable person shall not be required to pay tax.

B. Zero-Rated Supply

It means export or supply of goods or services to a Special Economic Zone developer or a Special Economic Zone unit.

C. Non-Taxable Supply

Non-taxable supply is the sale of any good or service which attracts nil rate of tax and is similar to exempt supply.

D. Taxable Supply

Supply on which tax shall be paid under GST.

4.9.2 GSTN Network

- The Goods and Service Tax Network (GSTN) is a non-profit, non-government organization which manages the entire IT system of the GST portal.
- The key objectives of GSTN are to provide a standard and uniform interface to the taxpayers, and shared infrastructure and services to Central and State/UT governments.

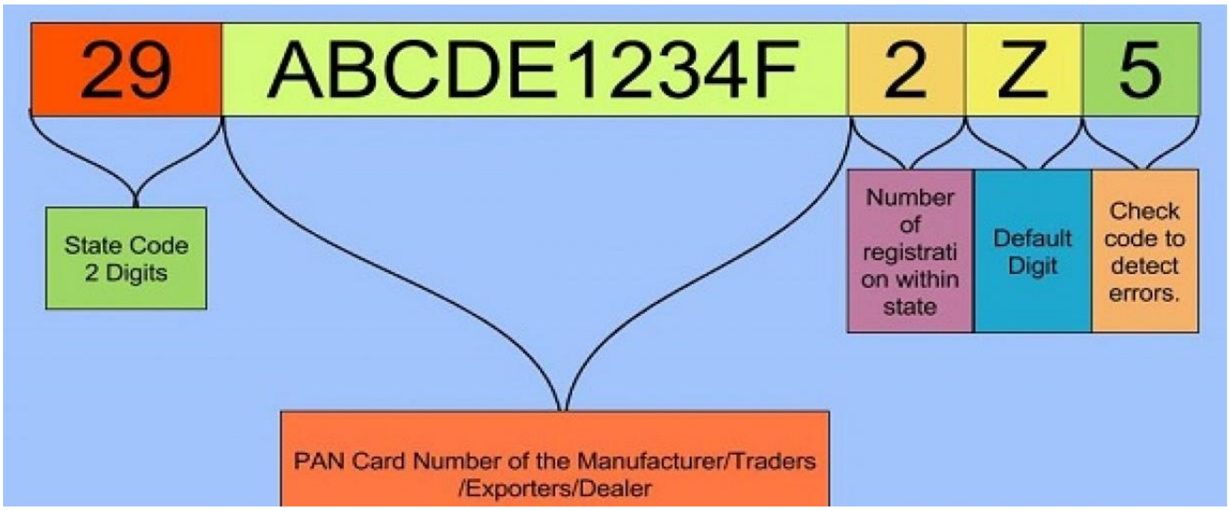
Structure of GSTN

Shareholder	Shareholding
Central Government	24.5%
State Governments	24.5%
HDFC	10%
HDFC Bank	10%
ICICI Bank	10%
NSE Strategic Investment Co	10%
LIC Housing Finance Ltd	11%
Total	100%

Infosys had won the Rs 1,380 crore deal for developing and running the backend of GST in form of GST Network in 2015.

GST Network to become a 100% govt-owned company:
Goods and Services Tax Network - Special Purpose Vehicle (GSTN-SPV) will cease to be a private company and morph into a 100 per cent government owned entity. The GST Council, headed by Union Finance Minister Arun Jaitley, approved a proposal for this conversion at its 27th meeting. Following the GSTN's change, the Centre will hold 50 per cent, and the remaining stake will be held by States governments on a pro rata basis.

What is the GSTIN?
The Goods and Service Tax Identification Number (GSTIN) is the unique number each taxpayer will receive once registered on the common portal. It is based on a **taxpayer's PAN.**
Format of GSTIN



4.9.3 E-Way Bills

- E-Way Bill is a **compliance mechanism** wherein by way of a digital interface the person causing the movement of goods uploads the relevant information prior to the commencement of movement of goods and generates **a e-way bill on the GST portal.**
- An electronic way bill or 'e-way bill' system offers the **technological framework to track intra-state as well as inter-state movements of goods of value** exceeding **Rs 50,000, for sales beyond 10 km** in the Goods and Services Tax (GST) regime.
- When an eway bill is generated, **a unique E-way Bill Number (EBN) is allocated** and is available to the supplier, recipient, and the transporter.

- **Validity:**
  - The rules also specify that the permits for conventional cargo (other than over-dimensional carve) are valid for one day for the movement of goods for 100 km, and in the same proportion for the following days.
- **Penalty for goods moved without generating a valid e-way bill:**
  - A fine of Rs 10,000 or amount of tax sought to be evaded, whichever is higher, may be imposed by tax authorities.

4.9.4 Dispute Resolution Under GST

Any person aggrieved by any order or decision passed under the GST Act(s) has the right to appeal under Section 107. It must be an order or decision passed by an "adjudicating authority".

However, some decisions or orders (as provided for in Section 121) are not appealable.

For the aggrieved person, the time limit is fixed as 3 months from the date of communication of order or decision. For the department (Revenue), the time limit is 6 months within which review proceedings have to be completed and appeal filed before the Appellate Authority (AA).

The government will constitute an Appellate Tribunal known as the Goods and Services Tax Appellate Tribunal to hear appeals against the orders passed by the Appellate Authority or the Revisional Authority.

4.9.4.1 GST Appellate Tribunal

- The **GST Appellate Tribunal (GSTAT)** is the second appeal forum under GST for any dissatisfactory order passed by the First Appellate Authorities.

- The National Appellate Tribunal is also the first common forum to resolve disputes between the centre and the states.
- Being a common forum, it is the duty of the GST Appellate Tribunal to ensure uniformity in the redressal of disputes arising under GST.
- It holds the same powers as the court and is deemed Civil Court for trying a case.

Constitution of the GST Appellate Tribunal

The GSTAT has the following structure:

- **National Bench**: The National Appellate Tribunal is situated in New Delhi, constitutes a National President (Head) along with 2 Technical Members (1 from Centre and State each)
- **Regional Benches**: On the recommendations of the GST Council, the government can constitute (by notification) Regional Benches, as required. As of now, there are 3 Regional Benches (situated in Mumbai, Kolkata and Hyderabad) in India.
- **State Bench and Area Bench**

4.9.4.2 Advance Ruling

As per section 95 of CGST/SGST Law and section 12 of UTGST law, 'advance ruling' means a decision provided by the authority or the Appellate Authority to an applicant on matters or on questions specified in section 97(2) or 100(1) of CGST/SGST Act as the case may be, in relation to the supply of goods and/or services proposed to be undertaken or being undertaken by the applicant.

The broad objectives for setting up a mechanism of Advance Ruling are:

- Provide certainty in tax liability in advance in relation to an activity proposed to be undertaken by the applicant.
- Attract Foreign Direct Investment (FDI).
- Reduce litigation.
- Pronounce ruling expeditiously in a transparent and inexpensive manner.

Authority for advance ruling:

- Authority for Advance Rulings (AAR) is distinct quasi-judicial tribunal which delivers advance rulings in India regarding tax applicable.
- It started initially for foreign investments later on both residents and non-residents could seek advance ruling where substantial tax impact involved.
- It is for both direct and indirect taxes.
- Authority for advance ruling' (AAR) shall comprise one member CGST and one member SGST/ UTGST. They will be appointed by the Central and State government respectively.
- There will be one AAR and AAAR for each State.

4.9.5 National Anti-Profiteering Authority (NAA)

National Anti-Profiteering Authority is constituted under **Section 171** of the **Central Goods and Services Tax Act, 2017.**

Functions of National Anti-profiteering Authority

The Authority's main function is to ensure that traders are not realizing an unfair profit by charging high price from consumers in the name of GST and to examine and check such profiteering activities and recommend punitive actions including the cancellation of Registration.

Governance

- NAA comprises of Chairman, four technical members, a Standing Committee, Screening Committees in every State and the Directorate General of Safeguards in the Central Board of Excise & Customs (CBEC).
- The orders of the NAA can be appealed against only in the high court.

The GST Council has decided to extend the tenure of the National Anti-Profiteering Authority (NAA) for one more year while an alternative will be explored in the Competition Commission of India (CCI). This is a second extension for the Authority whose term will now **continue till November 30, 2022.**

4.9.6 Imports Under GST Regime

- Import of goods or services will be treated as deemed inter-State supplies and would be subject to Integrated tax.
- While IGST on import of services would be leviable under the IGST Act, the levy of the IGST on import of goods would be levied under the Customs Act, 1962 and Custom Tariff Act, 1975.

Import of Services

The importer of services will have to pay tax on reverse charge basis.

WHAT IS REVERSE CHARGE BASIS?

Normally, the supplier of goods or services pays the tax on supply. In the case of Reverse Charge, the receiver becomes liable to pay the tax, i.e., the chargeability gets reversed.

NORMAL GST PAYMENT PROCESS

GST PAYMENT IN CASE OF REVERSE CHARGE

Custom Duty

Customs duty refers to **the tax imposed on goods when they are transported across international borders**. In simple terms, it is the tax that is levied on import and export of goods. The government uses this duty to raise its revenues, safeguard domestic industries, and regulate movement of goods.

Types of Custom Duty

A) Basic Custom Duty:

- Basic custom duty is applicable on imported items that fall under the ambit of Section 12 of the Customs Act, 1962.

- The levied rates may be standard or preferential as per the country of import.

B) Additional Customs Duty (Countervailing Duty (CVD)):

- This duty is levied on imported items under Section 3 of Customs Tariff Act, 1975.
- Countervailing Duties (CVDs) are tariffs levied on imported goods to offset subsidies made to producers of these goods in the exporting country.
- CVDs are meant to level the playing field between domestic producers of a product and foreign producers of the same product who can afford to sell it at a lower price because of the subsidy they receive from their government.

C) Education Cess:

- An education cess of customs has been levied on items imported into India. It is chargeable @ 2% and **higher education cess** at another 1% on the aggregate of duties of customs (except safeguard duty, countervailing duty and anti-dumping duty) leviable on such goods.

D) Anti-dumping Duty:

- Anti-dumping duty may be imposed if the good being imported is at below fair market price and is limited to the difference between export and normal price (dumping margin).
- While the Department of Commerce recommends the anti-dumping duty, it is the Ministry of Finance, which levies such duty.

E) Safeguard Duty/Protective Duty:

- Safeguard duty is levied if the government feels that a sudden increase in exports can potentially damage the domestic industry.

Additional Information
Collection Rate

- Collection rate is the ratio of total customs revenue and the total value of imports for a year. This is an indicator of overall incidence of customs including countervailing duties (CVD) and special additional duties (SAD) on imports.
- Several exemptions are offered by the GoI in customs duty on a variety of imports. This is the reason why India's customs collection does not increase as much as much its imports increase.

4.9.7 GST Compensation Standoff – Centre Vs State

GST Compensation

- Under the GST (Compensation to States) Act, 2017, states are guaranteed compensation for loss of revenue on account of implementation of GST for a transition period of five years between 2017 and 22 using a cess levied on sin and luxury goods.

Background of the Issue

- The total GST revenue shortfall for the current fiscal (2020-21) was estimated at Rs 3 lakh crore. Compensation cess collection for this fiscal is estimated at Rs 65,000 crore, thus leaving a **compensation deficit/shortfall of Rs 2.35 lakh crore.**
- The Centre distinguished the GST shortfall into two types:
  - (1) Due to GST implementation itself;
  - (2) due to the impact of Covid-19 – which was termed as **Act of God**

- The GST Compensation Act, 2017 had not envisaged **Act of God** events like COVID-19 and thus did not have any mechanism to deal with shortfall arising out of such crisis.Thus, the Centre had earlier refused to compensate GST shortfall arising due to covid-19 to the states.

How did Centre try to solve the issue of compensation deficit?

- In August 2020 after GST Council meet, the Centre gave two options to the states

    1. Borrow Rs **1.10 lakh crores** (revised figures) from a **special window** facilitated by the RBI at a reasonable G-Sec-linked interest rate. The amount can be repaid after five years ending 2022 from cess collections (on luxury goods).
    2. Borrow entire Compensation Cess (2.35 Lakh Crores) from the market facilitated by the Centre and RBI. In this case, the burden of repayment is on States and the Union government will provide relaxation of 0.5% in states' borrowing limit under the FRBM Act.

All States choose Option-1 to meet the GST implementation shortfall

Latest Updated:

- Subsequent to the 43rd GST Council Meeting held on 28.05.2021, it has been decided by the Central Government that it would borrow ₹1.59 lakh crore in 2021-22 and release it to States and UTs with Legislature on a back-to-back basis to meet the resource gap due to the short release of Compensation on account of inadequate amount collected in the Compensation Fund. It is in addition to normal GST compensation being released every 2 months out of actual cess collection

A. This amount is as per the principles adopted for a similar facility in FY 2020-21, where an amount of ₹1.10 lakh crore was released to States under a similar arrangement.

B. Also, States have been given assurance in the meeting that there will be a special session on the compensation cess issue beyond July 2022.

For Recent Updates on GST, please refer the monthly Current Affair Magazine.

5 Direct Tax

A type of tax where the impact and the incidence fall under the same category can be defined as a Direct Tax. The tax is paid directly by the organisation or an individual to the entity that has imposed the payment. The tax must be paid directly to the government and cannot be paid to anyone else.

In India, direct taxes are regulated by the Income Tax Department under the Central government. The apex body in the Income Tax Department is the **Central Board of Direct Taxes (CBDT)** which has regional headquarters established in different parts of the country which oversee duties in that part of the country.

Types of Direct Taxes in India

The various types of direct taxes levied on citizens by the Government Of India are as follows:

1) **Corporate Tax**

Under the Indian Income Tax Act, 1961, both Indian as well as foreign organizations are liable to pay taxes to the government. The corporate tax is levied on the net profit of domestic firms. Also, foreign corporations whose profits appear or are deemed to emerge through their operations in India are also liable to pay taxes to the Government of India.

Apart from this, other types of corporate tax include the following:

A. **Minimum Alternative Tax (MAT):** MAT is imposed on "zero tax companies", which typically refer to companies that declare little or no income in order to save tax.

BACKGROUND:

- ❑ Basically, income tax is paid as per the provisions of the Income Tax Act (IT Act), but **companies calculate their profit (through profit and loss account) as per the provisions of the Companies Act.**
- ❑ The **IT Act allows several kinds of exemptions** and other incentives from total income together with deductions on the gross income.
- ❑ These companies might also be paying huge dividends to their shareholders under the companies act. These are allowed as deductions from the companies revenue.
- ❑ As a result of these exemptions, deductions and other incentives, **companies show their taxable income either 'nil' or 'negative',** and this way, the 'zero tax' companies emerge.
- ❑ To bring such companies under the income tax, **Section 115JB was introduced** in the IT Act in 1997–98 and MAT was imposed accordingly.

The tax is applicable on all entities operating in India irrespective of Indian or foreign ownership. **Notable exceptions are life insurance companies and shipping companies liable for tax on tonnage.**

B. **Fringe Benefits Tax (FBT):** Fringe benefit tax (FBT) was a form of tax that companies paid in lieu of benefits they offered their employees in addition to the compensation paid to them. In the year 2009, the Finance Act, after much debate, finally abolished the fringe benefit tax in India and the abolishment became effective from FY 2010-11.
C. **Dividend Distribution Tax (DDT):** A dividend is a return given by a company to its shareholders out of the profits earned by the company in a particular year. Dividend constitutes income in the hands of the shareholders which ideally should be subject to income tax.

- Any **domestic company** which is declaring/distributing dividend is required to pay DDT at the rate of 15% on the gross amount of dividend as mandated under Section 115O. Therefore, the effective rate of DDT is 17.65%* on the amount of dividend.
- Starting with the financial year 2020-21, the Government affected a major change in regard to the DDT—now companies don't need to pay this tax anymore.

D. **Securities Transaction Tax (STT):** STT is a kind of financial transaction tax which is similar to tax collected at source (TCS). STT is a direct tax levied on every purchase and sale of securities that are listed on the recognized stock exchanges in India. STT is governed by Securities Transaction Tax Act (STT Act) and STT Act has specifically listed down various taxable securities transaction i.e., transaction on which STT is leviable. This tax is free of any surcharge.

   Taxable securities include equity, derivatives, unit of equity oriented mutual fund and so on and are issued either by companies or by the Indian government. It also includes unlisted shares sold under an offer for sale to the public included in IPO and where such shares are subsequently listed in stock exchanges. STT is an amount to be paid over and above transaction value and hence, increases transaction value.

EXEMPTIONS:

- Vide Finance Act, 2016 it was stipulated that transactions carried out in a recognized stock exchange located in an International Financial Center, where the payments are carried out in terms of foreign currency, would be exempt from the payment of STT and capital gains.
- As on date, STT is not applicable in case of preference shares, government securities, bonds, debentures, currency derivatives, units of mutual fund other than equity oriented mutual fund, and gold exchange traded funds.
- Transactions of the shares for takeover, buyback, delisting offers, etc., also does not come under STT framework.
- The off-market transactions of securities (which entails changes in ownership records at depositories) also does not attract STT.

Concepts Related to STT

A. Commodities Transaction Tax (CTT)

Commodities Transaction Tax (CTT) is a tax similar to Securities Transaction Tax (STT), levied in India, on transactions done on the domestic commodity derivatives exchanges.

The concept of CTT was first introduced in the Union Budget 2008-09. The Government had then proposed to impose a commodities transaction tax (CTT) of 0.017%. However, it was withdrawn subsequently as the market was nascent then and any imposition of transaction tax might have adversely affected the growth of organised commodities derivatives markets in India

B. Tobin Tax

A Tobin tax was originally defined as a tax on all spot conversions of one currency into another. It was suggested **by James Tobin**, an economist who won the Nobel Memorial Prize in Economic Sciences. Tobin's tax was originally intended to penalize short-term financial round-trip excursions into another currency. By the late 1990s, the term Tobin tax was being applied to all forms of short-term transaction taxation, whether across currencies or not. Another term for these broader tax schemes is **Robin Hood tax,** due to tax revenues from the (presumably richer) speculator funding general revenue (of whom the primary beneficiaries are less wealthy).

India already has a form of Tobin tax in place — called the Securities Transaction Tax (STT).

2) Income Tax

James Wilson (financial member of the Council of India, founder of the Economist magazine and Standard Chartered Bank) introduced income tax in India on 24 July 1860 to compensate the British losses during 1857's Sepoy mutiny. So, **24th July is celebrated as Income Tax Day (Aaykar Diwas).**

Income tax is perhaps the most well-known direct tax imposed by the government on annual income generated by businesses and individuals. The income tax on income generated by the business houses is known as Corporate Tax. Income tax is calculated as per the provisions of Income Tax Act, 1961 and is directly paid to the central government on an annual basis. The income tax rate depends on the net taxable income or the tax bracket.

Income tax is levied on various sources of income including Income from salaries, from capital gains, from business, income from house property or other sources.

TDS/TCS:

TDS and TCS, both are **basically a part of income tax**.

- **Tax Deduction at Source**: A person (deductor) who is liable to make payment of specified nature to any other person (deductee) shall deduct tax at source and remit the same into the account of the Central Government. The TDS rates are applicable under different sections & subsection-(Section 192 to 194LA)
- **Tax Collection at Source**: It is an additional amount collected as tax by a seller of specified goods from the buyer at the time of sale over and above the sale amount and is remitted to the government account. **Section 206C** of the Income Tax Act, 1961 specifies the goods and services on which TCS is applicable.

BASIS FOR COMPARISON	TDS	TCS
Meaning	TDS implies the amount deducted from the recipient's income in the form of tax.	TCS refers to an amount accumulated by the seller or company as tax.
Nature	Expense	Income
Imposition	Specified expenses crosses the prescribed limit.	Sale of specified items is made.
Responsible person	Deducted by payer or buyer	Collected by payee or seller
Occurrence	Crediting the account of the payee or during payment, whichever is earlier.	Debiting the account of the buyer or during receipt, whichever is earlier.

3) Capital Gains Tax

Capital gain can be defined as any profit that is received through the sale of a capital asset. The profit that is received falls under the income category. Therefore, a tax needs to be paid on the income that is received. The tax that is paid is called capital gains tax and it can either be long term or short term.

The formula to calculate the capital gains is:

Capital Gains = Sale Value – Purchase Value

1. STCG (Short-term capital asset) An asset held **for a period of 36 months or less** is a short-term capital asset. The criteria of 36 months have been reduced to 24 months for immovable properties such as land, building and house property from FY 2017-18. For instance, if you sell house property after holding it for a period of 24 months, any income arising will be treated as long-term capital gain provided that property is sold after 31st March 2017.

2. LTCG (Long-term capital asset) An asset that is held for **more than 36 months** is a long-term capital asset. The reduced period of the aforementioned 24 months is not applicable to movable property such as jewellery, debt-oriented mutual funds etc. They will be classified as a long-term capital asset if held for more than 36 months as earlier. Some assets are considered short-term capital assets when these are held for 12 months or less. This rule is applicable if the date of transfer is after 10th July 2014 (irrespective of what the date of purchase is). The assets are:

a. Equity or preference shares in a company listed on a recognized stock exchange in India
b. Securities (like debentures, bonds, govt securities etc.) listed on a recognized stock exchange in India
c. Units of UTI, whether quoted or not
d. Units of equity oriented mutual fund, whether quoted or not
e. Zero coupon bonds, whether quoted or not

When the above-listed assets are held for a period of more than 12 months, they are considered as long-term capital asset.

Refer the Latest Budget for Important tax rates and Tax slab of Different Taxes in India.

5.1 Miscellaneous Concept relating to Direct Taxes

5.1.1 Advance Tax

Advance tax is also known as pay tax as you earn. It should be paid in advance during the financial year instead of a lump sum payment after the end of the year. You need to pay advance tax, if your estimated total tax liability [after TDS] is Rs 10,000 or more in a financial year.

5.1.2 OLTAS

In 2004, the manual process of collection of taxes was replaced by **Online Tax Accounting System (OLTAS)**. It was introduced with an intention to minimize human intervention, thereby reducing errors and facilitating online transmission of details of tax collected, deposited, refunded etc. OLTAS issues a single copy of a Challan and enables taxpayers to track the status of their challans or e-challan deposited in banks online.

There are different types of Challans that are issued:

Challan ITNS 280 – issued for depositing income tax (includes self-assessment tax, advance tax, tax on regular assessment)

Challan ITNS 281 – issued for depositing Tax Deducted at Source (TDS) and Tax Collected at Source (TCS)

Challan ITNS 282 – issued for depositing gift tax, wealth tax, Securities Transaction Tax (STT) and other direct taxes.

Challan ITNS 283 - issued for any taxes relating to fringe benefits or banking cash transactions

Challan ITNS 285 - Issued for payment of equalization levy

Challan ITNS 286 – Issued for payment under Income Declaration Scheme, 2016.

Challan ITNS 287 – Issued for payment under Pradhan Mantri Garib Kalyan Yojana, 2016 (PMGKY)

5.1.3 Important ITR Forms

ITR FORM	WHO IS IT MEANT FOR
ITR-1, also called Sahaj	For individuals boasting total income upto Rs 50 lakh. This covers salary or pension income, income from one house property (not a case of brought forward loss) or from other sources except lottery/horse racing winnings, as well as income related to patents and dividends.
ITR-2	For individuals earning over Rs 50 lakh annually, or those who own more than one house property. It is also applicable for individuals and HUFs not boasting any income from profit and gains from business or profession.
ITR-3	For individuals and HUFs having income from a proprietary business or profession.
ITR-4 (Sugam)	For presumptive income from Business & Profession, and can be used by an Individual/HUF/Firm (other than LLP).
ITR-5	Applies to firms, LLPs, AOPs, BOIs, artificial juridical persons, cooperative societies and local authorities.
ITR-6	For a company, other than those claiming exemption under Section 11 (income from property held for charitable or religious purposes)
ITR-7	For persons including companies required to furnish return under Sections 139(4A to F), covering trusts, political parties, institutions, colleges, investment funds, etc.

5.1.4 Important Documents Related to Income Tax

- **Form 16** is a TDS certificate issued to you by your employer providing details of the total salary paid to you less of tax exemptions you are eligible for, and tax deducted on it.
- **Form 16A** is a **TDS Certificate** carrying all amounts of TDS nature being actually deposited with the Income Tax Department.
- **Form 26AS** is your consolidated annual tax statement. This is like your tax passbook which has information of all the taxes that have been deposited against your PAN.
- **Aadhaar number**: According to section 139AA of the Income-tax Act, an individual is required to quote his/her Aadhaar number while filing ITR.

6 Important Concepts related to Taxes in India

6.1 Tax Expenditure

- It refers to the opportunity cost of taxing at concessional rates, or the opportunity cost of giving exemptions, deductions, rebates, deferrals credits etc. to the taxpayers. Tax expenditures indicate how much more revenue could have been collected by the Government if not for such measures. In other words, it shows the extent of indirect subsidy enjoyed by the taxpayers in the country.
- Tax expenditures or the revenue forgone are sanctioned in the tax laws. A statement of the same, is presented to the Parliament at the time of Union Budget by way of a separate budget document titled “Statement of Revenue Foregone”.

Opportunity costs represent the benefits an individual, investor or business misses out on when choosing one alternative over another. While financial reports do not show opportunity cost, business owners can use it to make educated decisions when they have multiple options before them.

6.2 Income and Consumption Anomaly

- India’s tax to GDP ratio is very low.

- Proportion of direct tax to indirect tax is not optimal from the viewpoint of social justice.
- India's direct tax collection is not commensurate with the income and consumption pattern

Tax to GDP Ratio

- Tax-to-GDP ratio represents the size of a country's tax kitty relative to its GDP. It is a representation of the size of the government's tax revenue expressed as a percentage of the GDP.
- Higher the tax to GDP ratio the better financial position the country will be in. The ratio represents that the government is able to finance its expenditure.
- A higher tax to GDP ratio means that the government is able to cast its fiscal net wide.
- It reduces a government's dependence on borrowings.

6.3 Tax Evasion and Tax Planning

Tax evasion is nothing but any activity that aims to hide, understate, or falsely report income to reduce your tax liability.

Tax planning refers to financial planning for tax efficiency. It aims to reduce one's tax liabilities and optimally utilize tax exemptions, tax rebates, and benefits as much as possible.

6.4 Tax Avoidance

Tax avoidance is **an act of using legal methods to minimize tax liability**. In other words, it is an act of using tax regime in a single territory for one's personal benefits to decrease one's tax burden.

6.4.1 Ways of Tax Avoidance

1) **Round Tripping**

Round tripping refers to money that leaves the country though various channels and makes its way back into the country often as foreign investment. This mostly involves black money and is allegedly often used for stock price manipulation.

a. Round tripping is often done through a series of transactions that don't have any substantial commercial purposes, which makes it fall within the trappings of **GAAR**.

b. As per Government Sources, there was a reasonable apprehension that **Double Taxation Avoidance Agreement (DTAA) agreements** were also being used for round tripping of domestic black money. As a result, Government is Revising its Double Taxations Avoidance Agreements with Different Countries.

GAAR General Anti-Avoidance Rule (GAAR) is an anti-tax avoidance law in India. It came into effect on 1st April 2017. General Anti Avoidance rule (GAAR) is a set of rules or a framework which helps the revenue authorities decides whether a particular transaction has commercial substance or not.
Double Taxation Avoidance Agreement or DTAA Double Taxation Avoidance Agreement or DTAA is a tax treaty signed between India and another country (or any two/multiple countries) so that taxpayers can avoid paying double taxes on their income earned from the source country as well as the residence country. At present, India has double tax avoidance treaties with more than 80 countries around the world.

2) Base Erosion and Profit Shifting (BEPS)

Base Erosion and Profit Shifting (BEPS) refers to the strategies used by multinational companies to avoid paying tax, by exploiting the mismatches and gaps in the tax rules. Base erosion and profit shifting refers to ***the phenomenon where companies shift their profits to other tax jurisdictions, which usually have lower rates, thereby eroding the tax base in India***.

3) Transfer pricing

It basically refers to the pricing rules set for the different subsidiary companies or different branches or business divisions within a single corporation. For instance, when a subsidiary company sells some goods or services to its parent company, the transfer price is the cost of the goods or services the parent pays to the subsidiary company.

6.5 Equalization Levy (Google Tax) And Significant Economic Presence (SEP)

Equalization Levy and widening of tax base through the introduction of concept of 'Significant Economic Presence' are the two measures which have been adopted by India for taxation of digital economy.

1. Equalization Levy (Google Tax)

Equalisation Levy was introduced in India in 2016, with the intention of taxing the digital transactions i.e., the income accruing to foreign e-commerce companies from India. It is aimed at taxing **business to business transactions** only.

Equalisation Levy is a direct tax, which is withheld at the time of payment by the service recipient. The two conditions to be met to be liable to equalisation levy:

a) The payment should be made to a non-resident service provider.
b) The annual payment made to one service provider exceeds Rs. 1,00,000 in one financial year.

2. **Significant Economic Presence (SEP)**: Concepts basically means if a foreign company is making money from Indians through digital ads / streaming services (e.g., NETFLIX videos from overseas servers) then the company has 'SEP' in India, therefore, Indian govt has powers to tax it.

6.6 Angle Tax on Startups

Angel Tax, formally known as **Section 56 (2) (vii b) of the Income Tax Act**, taxes funds raised by startups if they exceed the fair market value of the company. It was introduced in 2012 in order to detect money laundering practices and catch bogus startups.

Angel Tax is a 30% tax that is levied on the funding received by startups from an external investor. However, this 30% tax is levied when startups receive angel funding at a valuation higher than its 'fair market value'. It is counted as income to the company and is taxed.

6.7 Place of Effective Management (Poem) rules

PoEM is aimed at ensuring that sufficient economic activity takes place in a particular country and determining a foreign company's residential status.

It also helps to assess if companies are setting up shell subsidiaries abroad to evade taxes.

In other words, it has been defined to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance made.

6.1 Inverted Duty Structure

The term 'Inverted Tax Structure 'refers to a situation where the rate of tax on inputs purchased is more than the rate of tax on outward supplies. That means Inverted Duty Structure arises when tax paid on Inward Supplies is higher than tax payable on outward supplies.

Imp: - Refer Monthly Current Affair magazine for important Updates regarding different topics covered in the chapter