Report on

Domain Expertise Workshop

Topic: Indian Tax System and GST

Submitted To

Mr. Abin Thomas Mathew

Assistant Professor

Dept. of Computer Application

Marian college Kuttikkanam

Submitted by

Ajil Raju

MCA R & L

17pmc301

Marian college Kuttikkanam

Introduction

As part of the course curriculum, we had a two hour workshop on the topic 'Indian Tax System and GST' which is the hot topic in the economic context on 16th of February 2016. The workshop was led by **Mr. Ashwin Uthaman**, faculty of Department of Commerce. The workshop was really helpful to get to know about principles of Taxation and GST. We all could utilize this opportunity fruitfully. Coming to our main point, Tax is a mandatory financial charge imposed upon a taxpayer (an individual or other legal entity) by government, in order to fund various public expenditures and GST is an indirect tax levied on the supply of goods and services which is a comprehensive, multi-stage, destination-based tax that will be levied on every value addition.

Tax

A fee charged by a government on a product, income, or activity. If tax is levied directly on personal or corporate income, then it is a direct tax. If tax is levied on the price of a good or service, then it is called an indirect tax. The purpose of taxation is to finance government expenditure. One of the most important uses of taxes is to finance public goods and services, such as street lighting and street cleaning. Since public goods and services do not allow a non-payer to be excluded, or allow exclusion by a consumer, there cannot be a market in the good or service, and so they need to be provided by the government or a quasi-government agency, which tend to finance themselves largely through taxes.

Public expenditure

Public expenditure refers to Government expenditure i.e. Government spending. It is incurred by Central, State and Local governments of a country. Public expenditure can be defined as, "The expenditure incurred by public authorities like central, state and local governments to satisfy the collective social wants of the people is known as public expenditure.

In developing countries, public expenditure policy not only accelerates economic growth & promotes employment opportunities but also plays a useful role in reducing poverty and inequalities in income distribution.

Causes of growth of public expenditure

- Defense expenditure due to modernization of defense equipment by navy etc…
- Population growth.
- Welfare activities – welfare, mid-day meals, pension provisions etc.
- Wars and social crises.

Type of tax:

- Direct tax
- Indirect tax

Direct tax

A direct tax is paid directly by an individual or organization to an imposing entity. A taxpayer, for example, pays direct taxes to the government for different purposes, including real property tax, personal property tax, income tax or taxes on assets. Direct taxes are different from indirect taxes, where the tax is levied on one entity, such as a seller, and paid by another, such as a sales tax paid by the buyer in a retail setting.

Example of direct tax

- Income tax
- Wealth tax
- Corporation tax

Heads of Income

An income tax is a tax imposed on individuals or entities (taxpayers) that varies with their respective income or profits (taxable income). Many jurisdictions refer to income tax on business entities as company's tax or corporate tax. Partnerships generally are not taxed; rather, the partners are taxed on their share of partnership items. Tax may be imposed by both a country and subdivisions. Most jurisdictions exempt locally organized charitable organizations from tax.

- Salaries
- House Property
- Profit and Gains of Business or Profession
- Capital Gains
- Other Sources

Indirect Tax

Indirect Tax is referred to as a tax charged on a person who consumes the goods and services and is paid indirectly to the government. The burden of tax can be easily shifted to another person. The tax is regressive in nature, i.e. as the amount of tax increases the demand for the goods and services decreases and vice versa. It levies on every person equally whether he is rich or poor. The administration of tax is done either by the Central Government or the State government.

There are several types of Indirect Taxes, such as:

- Central Sales Tax
- VAT (Value Added Tax)
- Service Tax
- Excise Duty
- Custom Duty

Sales Tax

A sales tax is a consumption tax imposed by the government on the sale of goods and services. Sales tax is levied at the point of sale, collected by the retailer and passed on to the government. Sales taxes are only charged to the end user of a good or service. Because the majority of goods in modern economies pass through a number of stages of manufacturing, often handled by different entities, a significant amount of documentation is necessary to prove who is ultimately liable for sales tax.

Value Added Tax (VAT)

Value-added tax (VAT) is a type of consumption tax that is placed on a product whenever value is added at a stage of production and at the point of retail sale. VAT is levied on the gross margin at each point in the manufacturing-distribution-sales process of an item. The tax is assessed and collected at each stage.

Goods and Services Tax (GST)

Goods and Services Tax (GST) is an indirect tax applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017. Goods & Services Tax is a comprehensive, multi-stage, destination-based tax that will be levied on every value addition.

To understand this, we need to understand the concepts under this definition. Let us start with the term ‘Multi-stage’. Now, there are multiple steps an item goes through from manufacture or production to the final sale. Buying of raw materials is the first stage. The second stage is production or manufacture. Then, there is the warehousing of materials. Next, comes the sale of the product to the retailer. And in the final stage, the retailer sells you – the end consumer – the product, completing its life cycle.

Goods and Services Tax will be levied on each of these stages, which makes it a multi-stage tax. How? We will see that shortly, but before that, let us talk about ‘Value Addition’.

Let us assume that a manufacturer wants to make a shirt. For this he must buy yarn. This gets turned into a shirt after manufacture. So, the value of the yarn is increased when it gets woven into a shirt. Then, the manufacturer sells it to the warehousing agent who attaches labels and tags to each shirt. That is another addition of value after which the warehouse sells it to the retailer who packages each shirt separately and invests in marketing of the shirt thus increasing its value.

How does GST work?

A nationwide tax reform cannot function without strict guidelines and provisions. The GST Council has devised a fool proof method of implementing this new tax regime by dividing it into three categories. Wondering how they work? Let our experts explain this to you in detail.

When Goods and Services Tax is implemented, there will be 3 kinds of applicable Goods and Services Taxes:

- **CGST**: where the revenue will be collected by the central government.
- **SGST**: where the revenue will be collected by the state governments for intra-state sales.
- **IGST**: where the revenue will be collected by the central government for inter-state sales.

Advantages of Goods and Services Tax (GST):

- GST is a single taxation system that will reduce the number of indirect taxes. From now, a single taxation term would cover all of those indirect taxes.
- The Prices of products and services would reduce, thus this system would prove to be beneficial for the people who are fed up of paying high prices.
- This would reduce the burden from the state and the central government. With the introduction of GST, all indirect taxes would come under a single roof.
- GST would not be charged at every point of sale like other indirect taxes so in this way, market would be developed.
- Corruption-free taxation system. GST would introduce corruption-free taxation system.

Disadvantages of Goods and Services Tax (GST):

- The opposition is to the way it is being implemented. It’s complex nature of compliance.
- GST was supposed to simplify taxation and make taxation easier.

Conclusion

Goods and Services Tax or GST is a broad-based consumption tax levied on the import of goods (collected by Singapore Customs), as well as nearly all supplies of goods and services in Singapore. In other countries, GST is known as the Value-Added Tax or VAT.

GST exemptions apply to the provision of most financial services, the sale and lease of residential properties, and the importation and local supply of investment precious metals. Goods that are exported and international services are zero-rated.