GST

What is GST?

GST = Goods and Services Tax

1. It is an indirect tax levied in India on the supply of goods and services. GST is levied at each stage of the supply chain, with the tax burden ultimately borne by the end consumer.
2. It replaced multiple cascading taxes levied by the central and state governments, such as **the excise duty, service tax, value-added tax (VAT),** and others. It was introduced with the aim of simplifying multiple taxes into a singular, unified system.
3. It was implemented in India on July 1, 2017, with the aim of simplifying the tax structure, eliminating tax cascading, enhancing compliance, and creating a unified market across the country.

Excise duty/tax: An excise tax is a indirect tax levied on specific goods or services at the time they are purchased. The tax is collected from the consumer.

Service Tax: Service Tax is is an indirect tax collected from the service provider. The responsibility of bearing the tax is normally passed on by the service provider to his/her client. E.g. travel agents, restaurants, cable providers, cab services etc.

VAT: Value added tax is a consumption tax that is levied on a product repeatedly at every point of sale (supply chain) at which value has been added. The tax is collected from both the consumer and the producer.

- ➔ A raw materials producer sells a product to a factory.
- ➔ The factory sells the finished product to a wholesaler.
- ➔ The wholesaler sells it to a retailer.
- ➔ The retailer sells it to the consumer who will use it.

Raw materials producer $\Rightarrow$ Manufacturer $\Rightarrow$ Wholesaler/Distributor $\Rightarrow$ Retailer $\Rightarrow$ Consumer.

How is Value-Added Tax (VAT) Calculated?

VAT is calculated as the difference between input tax and output tax.

VAT = Output Tax - Input Tax

> Where output tax is the tax received by the seller for the sale of his goods and services and input tax is the tax paid by the seller for raw materials required to manufacture his goods and services.

Under the GST system, goods and services are classified into different tax slabs - 0%, 5%, 12%, 18%, and 28%. Some essential items are taxed at 0% or exempted, while luxury and demerit goods attract higher rates of tax.

GST Slab	Examples
0%	Basic food items, books, healthcare services
5%	Household necessities, clothing, packaged food items
12%	Processed food items, hotel accommodation, apparels, movie tickets
18%	Electronics, restaurant bills, air-conditioned hotels, outdoor gathering
28%	Luxury goods, automobiles, tobacco products

- The Four Different Types of GST Tax in India are:

1. Integrated Goods and Services Tax (IGST)
2. State Goods and Services Tax (SGST)
3. Central Goods and Services Tax (CGST)
4. Union Territory Goods and Services Tax (UTGST)

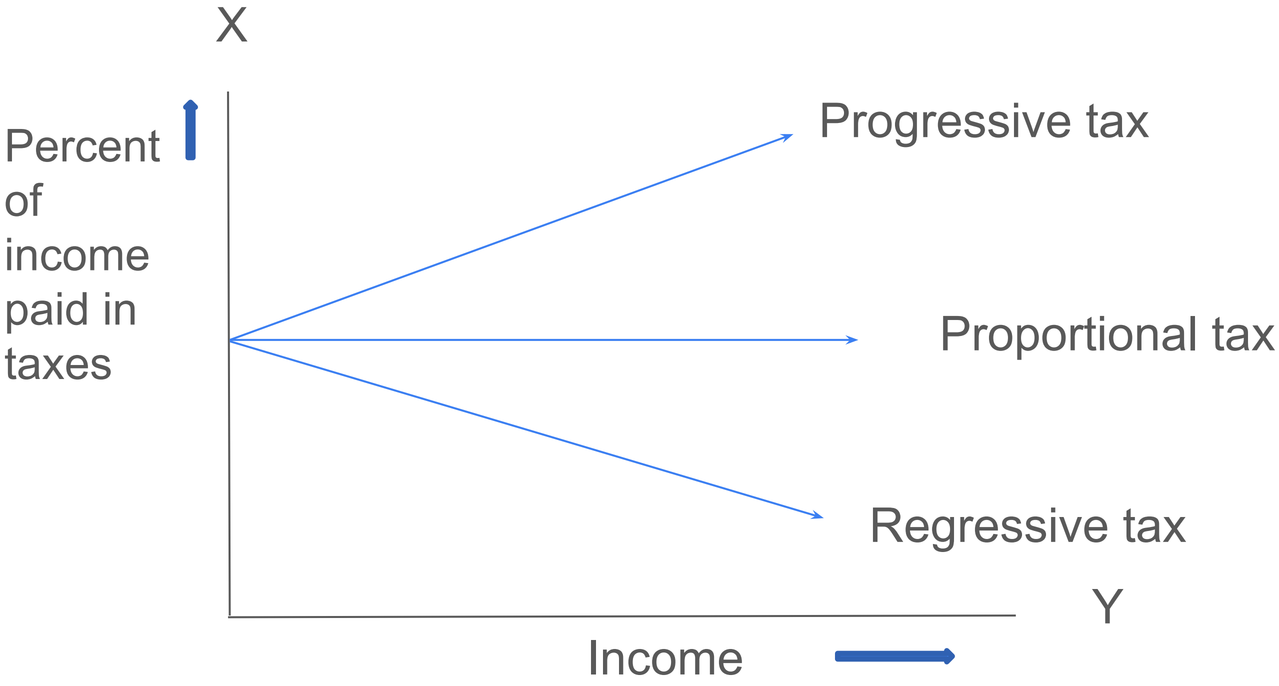
- The Integrated Goods and Services Tax or **IGST** is a tax under the GST regime that is applied on the interstate (between 2 states) supply of goods and/or services as well as on imports and exports.
- The State Goods and Services Tax or SGST is a tax under the GST regime that is applicable on intrastate (within the same state) transactions. In the case of an intrastate supply of goods and/or services, both State GST and Central GST are levied.

- The Central Goods and Services Tax of CGST is a tax under the GST regime that is applicable on intrastate (within the same state) transactions. The CGST is governed by the CGST Act. The revenue earned from CGST is collected by the Central Government.
- The Union Territory Goods and Services Tax or UTGST is the counterpart of State Goods and Services Tax (SGST) which is levied on the supply of goods and/or services in the Union Territories (UTs) of India.

Principles of Taxation

The benefit principle vs **ability to pay principle**

E.g. If the construction of a bridge is funded by tolls on the bridge, that is a reflection of the benefit principle, since you pay for the bridge only if you use it. But if the construction of the bridge is funded out of income-tax collections, that would be an example of the ability to pay principle.


X
Percent of income paid in taxes
Progressive tax
Proportional tax
Regressive tax
Y
Income

Taxes are -

- **Progressive** if they take a larger fraction of income as income rises.
- **Proportional** if they are a constant fraction of income.
- **Regressive** if they place a larger relative burden on low-income families than on high-income families.