



13 PILLAR #2: BUDGET → AN INTRODUCTION

- **Fiscal Policy (राजकोषीय नीति)?** Fiscal Policy means the Govt. decisions regarding Government's taxation, expenditure, subsidies and other financial operations. Using fiscal policy, Govt influences the savings, investment and consumption in an economy to accomplish certain national goals such as income redistribution, socio-economic welfare, inclusive growth etc.
- **Budget (बजट)?** Budget is an annual financial statement containing estimated revenues and expenditures for the next financial year. Budget is the primary tool used by Govt to implement its fiscal policy.

MCQ. "Fiscal policy" means (UPSC-Indian-Engg-Service-2018)

- Balancing the revenue collection and expenditure
- Establishing equilibrium between demand and supply of goods and services
- Use of taxation, public borrowing and public expenditure by Government for purposes of stabilisation or development.
- Deficiency as an instrument of growth

13.1 THREE FUNDS RELATED TO BUDGET

Art. ---	----- Of India संचित निधि	Incoming Taxes, loans raised, loans recovered. Withdrawal need Parliament Permission (- except for Charged Expenditure like Judges' salaries).
Art. ---	----- Of India लोक लेखा	Incoming provident fund, small savings, postal deposit etc. Govt acts like banker transferring fund from here to there so parliament permission not necessary. IF separate fund is to be created for the first time, for a specific expenditure, then needs parliament permission to "create" it e.g. Central Road Fund Act 2000, where Road Cess on Petrol, Diesel would be deposited.
Art. ---	Contingency Fund of India आकस्मिकता निधि	Unforeseen events ₹ 500 cr by FinSecy on behalf of President. Parliament approval "subsequently" obtained, after expenditure. Money refilled from CFI.

MCQ-Prelims-2011. The authorization for the withdrawal of funds from the Consolidated Fund of India must come from:

- The President of India
- The Parliament of India
- The Prime Minister of India
- The Union Finance Minister

13.2 THREE DOCUMENTS RELATED TO BUDGET

Budget comes from a French word '*bougette*' which means a leather bag. Finance Minister would keep the documents in it, & present to the parliament. While term 'budget' is not given in our constitution, but for each Financial Year, the Government is required to present:



Art.	Annual Financial Statement (AFS: वार्षिक वित्तीय विवरण) containing receipt and expenditure of last year (and projections for the next year). The revenue expenditure must be shown separately from other expenditures.
Art.	Finance Bill (धन विधेयक) to obtain Parliament's permission to collect taxes. Parliament can reduce or abolish a tax but cannot increase it.
Art.	Appropriation Bill (विनियोग विधेयक) to obtain Parliament's permission to spend money from Consolidated Fund of India(CFI). Such expenditure can be of two types : <ul style="list-style-type: none">- The expenditures 'charged' upon the Consolidated Fund of India e.g. Judges salaries: They can be discussed but they are non-votable & automatically approved. (भारत की संचित निधि पर भारित व्यय)- The expenditure 'made' from CFI. E.g. funds for a scheme. They're discussed and voted. (भारत की संचित निधि से किये गए व्यय)

- The finance bill and appropriation bill are considered money bills (धन विधेयक) under article ____. Therefore Rajya Sabha approval is _____, at maximum they can discuss it for 14 days and give suggestions to Lok Sabha for amendments, but it's not binding on the Lok Sabha to accept it.
- Sometimes, the ruling party does not have majority in Rajya Sabha to pass other type of ordinary bills (e.g. a bill to transfer NHB's ownership from RBI to Govt. or abolishing some low-profile statutory body or enacting some law to make Aadhar card compulsory), so ruling party packs those ordinary bills' proposals inside Finance Bill to get it approved without Rajya Sabha's obstruction.
- In such scenarios, whether a given bill is money bill or not? = _____
_ 's decision is final [Art.110(3)] and it cannot be enquired by any Court (Art.122).

MCQ-Prelims-2013. What will follow if a Money Bill is substantially amended by the Rajya Sabha?

- The Lok Sabha may still proceed with the Bill, accepting or not accepting the recommendations of the Rajya Sabha
- The Lok Sabha cannot consider the Bill further
- The Lok Sabha may send the Bill to the Rajya Sabha for reconsideration
- The President may call a joint sitting for passing the Bill

MCQ-Prelims-2015: Find correct statement(s)

- The Rajya Sabha has no power either to reject or to amend a Money Bill.
- The Rajya Sabha cannot vote on the Demands for Grants.
- The Rajya Sabha cannot discuss the Annual Financial Statement.

Codes: (a) 1 only (b) 1 and 2 only (c) 2 and 3 only (d) 1, 2 and 3



13.3 SIX STAGES OF PASSING THE BUDGET

The budget goes through the following six stages in the Parliament:

1. _____ of budget (बजट का प्रस्तुतिकरण)
2. _____ Discussion (आम बहस)
3. _____ by departmental committees (विभागीय समितियों द्वारा जांच)
4. _____ on demands for grants, cut motions, guillotine. (अनुदान की मांग पर मतदान)
5. Passing of _____ Bill (विनियोग विधेयक का पारित होना)
6. Passing of _____ Bill (वित्त विधेयक का पारित होना)

For more, Self-Study from Indian Polity by M.Laxmikanth's chapter 22 on Parliament.

13.4 VOTE ON ACCOUNT- (लेखा अनुदान)

- The Constitution does not mandate any specific date for presentation of the Budget but it is presented to the Lok Sabha on such day as the President directs.
- Before 2017, it was presented in the last working day of February. Then it'll pass through aforementioned six stages- consuming all the time upto May month.
- But in between, on 31st March Financial year will be over so previous year's Appropriation Act's validity will be over. Then government cannot withdraw money from the consolidated fund of India even for the routine expenditure like staff salary, electricity bills. So, to avoid such crisis, government will put a motion for vote on account. Here, parliament (= practically Lok Sabha) will allow the government to spend some money from the CFI, till the Appropriation Act for next Financial Year is passed.
- Vote on Account is generally granted for two months for an amount equivalent to one-sixth of the total budget estimation.

Vote on Account is no longer necessary because

- Constitution has no compulsion to put budget on a specific date. So from 2017, Modi Govt. began tabling the budget on the first working day of February.
- All the six stages are completed by the last week of March.
- Appropriation bill gets passed and signed by President before completion of 31st March.
So they do not require vote on account anymore (irrespective of what Yashwant Sinha or TheHindu believes).

Similarly, under our Constitution,

- No compulsion to show _____ Budget separately. So, merged in 2017.
- No compulsion to show _____ Budget separately. So, merged in 2017.

13.5 INTERIM BUDGET (अंतरिम बजट)

- Our constitution does not define or require interim budget. But, during election year or extreme situation (E.g. when coalition government may collapse before its term) then it's considered immoral / unethical for such caretaker / outgoing Govt. to make drastic changes through budget like "1.5 x times MSP to farmer or 2-tola gold for the marriage of every BPL-girl."



- So, while they'll present a budget in the regular fashion i.e. 3 documents (AFS, FinBill, Appro.Bill) & 6 Stages of Passing. But it (should) not have grand populist announcements. Such budgets are called Interim Budgets, and were presented in 2004 (Yashwant S.), 2009 (Pranab M.), 2014 (Chidambaram P.) and 2019 (Piyush G.)
- just like a regular budget, the Interim budget is valid for the whole financial year, however in between if new government is formed they may present another budget to change the things. E.g. 2014-Feb Chidambaram presented (interim) budget in 15th Lok Sabha, but then UPA/Congress defeated in general election → 2014-July: Jaitley presented (general) budget in 16th Lok Sabha.

MCQ-Prelims-2011: difference between “vote-on-account” & “interim budget”?

1. The provision of a “vote-on-account” is used by a regular Government, while an “interim budget” is a provision used by a caretaker Government.
2. A “vote-on-account” only deals with the expenditure in Government's budget, while an “interim budget” includes both expenditure and receipts.

Codes: (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

13.6 ECONOMIC SURVEY (आर्थिक सर्वेक्षण)

- A (two volume) document prepared by Chief Economic Adviser (CEA) in the finance ministry. It shows annual data of past year and prospect / suggestions for the future years. There is no constitutional obligation to prepare or present it but usually it's tabelled in the parliament a day before the Union Budget.
- 2019: No economic survey was presented before the interim budget. However, it's expected that after General Elections 2019 (in April/May), the new Govt may present a (general) budget with an economic survey.
- Similar case happened in 2014: Interim Budget without Economic Survey @Feb-2014, then (General) Budget with Economic Survey @July-2014.
- While Budget is labelled after next financial year, the Economic survey is labelled after previous Financial Year. e.g. The survey table on Feb-2018's is labelled as “Economic Survey 2017-18”.

13.6.1 Chief Economic Advisor (CEA: मुख्य आर्थिक सलाहकार)

- Falls under Finance ministry's Department of _ _ _
- Usual tenure 3 years, reappointment possible, but not a constitutional or statutory body. Has control over Indian Economic Service (IES)
- Notable CEAs in Past: Manmohan Singh, Raghuram Rajan, Arvind Subramanian (2014-18). 2018-Dec: _____ became the new CEA.



13.7 FINANCE MINISTRY AND ITS DEPARTMENTS: (वित्त मंत्रालय और उसके विभाग)

Department (विभाग)	associated with
Department of _____ (आर्थिक कार्य विभाग)	<ul style="list-style-type: none"> - Preparation of budget, interest rates of small saving schemes. - Chief economic advisor (CEA) comes under this dept.
Department of Expenditure (व्यय विभाग)	<ul style="list-style-type: none"> - Controller General of Account (CGA: महालेखा नियंत्रक from ICAS service) prepares the estimate of how much money will have to be spent from the consolidated fund of India
Department of _____ (राजस्व विभाग)	<ul style="list-style-type: none"> - Central Board Direct Taxes (CBDT) - Central Board of Indirect Taxes and Customs (CBIC). Before-2018-March, it was known as Central Board of Excise and Customs (CBEC).
Department of _____ (वित्तीय सेवाएँ विभाग)	<ul style="list-style-type: none"> - Bank board Bureau, PSB recapitalisation, public sector financial intermediaries, financial inclusion schemes.
DIPAM	Department of Investment and Public Asset Management (DIPAM) (निवेश एवं लोक परिसंपत्ति प्रबंधन विभाग) looks after Disinvestment.

The highest official in each of these 5 department is called 'Secretary' (usually an IAS), and among those 5 secretaries, the senior-most is designated as the **Finance Secretary, who signs one rupee note.**

MCQ-Prelims-2015: Find correct Statement(s):

1. The Department of Revenue is responsible for the preparation of Union Budget that is presented to the Parliament.
2. No amount can be withdrawn from the Consolidated Fund of India without the authorization from the Parliament of India.
3. All the disbursements made from Public Account also need the authorization from the Parliament of India.

Codes: (a) 1 and 2 only (b) 2 and 3 only (c) 2 only (d) 1, 2 and 3



14 BUDGET → REVENUE PART → RECEIPTS → TAX RECEIPTS

बजट → राजस्व भाग → प्राप्तियां → कर प्राप्तियां

14.1 TYPES OF TAXES: DIRECT / INDIRECT: प्रत्यक्ष कर/ अप्रत्यक्ष कर

Parameter	Direct Tax (e.g. 5% Tax on your income)	Indirect Tax (e.g. 18% GST on purchase of Biscuit)
Incidence of Tax: Point from where government collects the tax. (करापात)	Income Tax Assessee	Shopkeeper
Impact of Tax: point where the burden of tax is ultimately felt and can't be transferred elsewhere. (कराघात/कर का प्रभाव)	Income Tax Assessee	Customer
The incidence and impact of tax is....	On the same person	Not on the same person.

14.2 TYPES OF TAXES: PROGRESSIVE VS REGRESSIVE VS PROPORTIONAL

Type of Tax	example
Proportional (समानुपाती)	If Govt. had a single flat rate slab 10% income tax irrespective of your whether you're middle class, upper middle class or a rich person. Then each taxpayers' same proportion of income will go into taxes.
Progressive (प्रगामी)	- 5%-20%-30% income tax slabs depending on your income. - Thus, richer the person, bigger proportion of his income will go into taxes.
Regressive (प्रतिगामी)	- 18% GST on Biscuits worth ₹100 = ₹18 paid as (indirect) tax. - When Mukesh Ambani buys one packet, and a poorman buys one packet, greater proportion of poorman's income is gone in taxes.

MCQ. Which one of following is a progressive tax structure? [UPSC-CDS-2015-II]

- Tax rate is the same across all incomes
- Tax rate increases as income increases
- Tax rate decreases as income increases
- Each household pays equal amount of tax

14.2.1 Adam Smith 4 canons of taxation (कराधान के चार सिद्धांत)

- Canon of _____ (समानता का सिद्धांत): Tax should be equal /proportionate to income. Rich people should pay more taxes than poors.
- Canon of _____ (निश्चितता का सिद्धांत): dates, slabs, % should be definite & told in advance. Randomly govt should not demand "x%" tax to build statue, temple or mosque.



3. Canon of _____ (सुविधा का सिद्धांत): tax payer shouldn't be made wait for a mile long queue & fill up 50 pages worth tax forms.
4. Canon of _____ (मितव्ययता का सिद्धांत): to collect 100 crore tax, govt shouldn't be spending 90 crores in salaries of tax officials.

MCQ-UPSC-CDS-2019-1: Which of the following canons of taxation was not advocated by Adam Smith?

- a) Canon of equality b) Canon of certainty
c) Canon of convenience d) Canon of fiscal adequacy

MCQ-UPSC-CDS-2016-1: Find Correct Statements

1. Ability to pay principle of taxation holds that the amount of taxes people pay should relate to their income or wealth
2. The Benefit Principle of taxation states that individuals should be taxed in proportion to the benefit they receive from Government programmes
3. A progressive tax takes a larger share of tax from poor families than it does from rich families
4. Indirect taxes have the advantage of being cheaper and easier to collect

Answer Codes: (a) 1 and 3 only (b) 2 and 4 only (c) 1, 2 and 4 only (d) 1, 2, 3 and 4

14.3 DIRECT TAXES: TYPES (प्रत्यक्ष करों के प्रकार)

Direct Taxes	of Union Govt. * Means Abolished	Of State Govt.
On income (आय पर)	<ul style="list-style-type: none"> - Corporation tax, Minimum Alternative tax (MAT) - Income Tax - Dividend Distribution Tax (DDT) - Capital Gains Tax (CGT) 	<ol style="list-style-type: none"> 1. Agriculture Income tax 2. Professional tax (Although Constitutional ceiling of maximum ₹2500 per year)
On assets, transactions (संपत्ति, लेनदेन पर)	<ul style="list-style-type: none"> - Securities Transaction Tax (STT) & Commodities Transaction Tax (CTT) - *Wealth Tax - *Banking Cash Transaction Tax - *Estate Duty 	<ol style="list-style-type: none"> 1. Land Revenue 2. Stamp/Registration duty 3. Property tax in urban areas
On expenditure (खर्च पर)	<ul style="list-style-type: none"> ➤ *Hotel Receipt Tax, *Gift Tax ➤ *Fringe Benefit Tax i.e. When the employer give benefits to employee apart from salary e.g. subscription to gymkhana or golf-club. 	

Interim-Budget-2019: (Expected collection-wise): _____

MCQ. Corporation tax is imposed by [UPSC-CDS-2013-II]

- (a) State Government (b) Central Government
(c) Local Government (d) State as well as Central Government



14.4 DIRECT TAXES: MERITS AND DEMERITS प्रत्यक्ष करों के लाभ व नुकसान

Merits of Direct Taxes	Demerits
<ol style="list-style-type: none"> 1. _____ (समानुपाती: richer the person higher the tax) So, income inequality can be reduced 2. To encourage savings & investment: Income tax deduction/exemptions can given on NPS/PPF/LIC policy etc. 3. Elasticity, quick results when raised / lowered. 4. Certainty (when and how) 5. Can reduce volatility in International currency exchange rates by imposing <i>Tobin Tax</i> on such transactions. (More in Pillar#3) 	<ol style="list-style-type: none"> 1. Collection expensive (IT staff salary, database Management etc.) so narrow base. 2. _____ (बाह्यता) not counted: Academic Books Company vs Film star promoting cigars [30% Tax on both]. 3. Hardship not counted: Working Carpenter [5%] vs sleeping landlord [5%] 4. High level of direct tax= laziness, less foreign investment. 5. Prone to litigation & loopholes, tax evasion, avoidance. (More in Blackmoney Handout)

14.4.1 Corporation Tax (निगम कर)

Levied on Company's profit, under the Income-tax Act, 1961. (Technically levied on "NET Income" but we're not here for CA-exam)

__%	If Indian company's turnover is upto ₹250 cr.
__%	If Indian company's turnover is higher than ₹250 cr.
__%	foreign company's profit in India

- Additionally "x%" surcharge (अधिभार) amount on above Corporation Tax amount, depending on the company's turnover.
- Additionally 4% _____ cess (उपकर) on above [Corporation Tax + Surcharge] amount. (Before Budget-2018, there was only 3% Education Cess).
- *Related Topics: Laffer Curve, Base Erosion and Profit Shifting (BEPS)- in black money handout.*
- **Interim-Budget-2019:** Gave some tax benefits to real-estate sector for their unsold-inventories. Exact provisions not imp.

14.4.2 Equalisation Levy / Google Tax (समकारी लेवी/ गूगल टैक्स)

- If a foreign company makes profit in India, they have to pay 40% Corporation Tax.
- If an Indian businessman purchases digital advertisement slots in google-adsense / facebook = those (foreign) e-ad companies are making profit. But earlier, they did not pay tax on that profit, claiming this business activity (of displaying digital-ads) is done outside India on global servers.
- So, Budget-2016 imposed 6% tax on such income of foreign technology companies. Officially called "Equalisation Levy", unofficially nicknamed "Google Tax". It's not part



of “Income Tax” or “Corporation Tax” under the Income Tax Act 1961, but a separate levy altogether imposed by the Finance Bill 2016.

- Foreign Company can't dodge it saying we're protected under the Double Taxation Avoidance Agreement in our home country.

MCQ-Prelim-2018: With reference to India's decision to levy an equalization tax of 6% on online advertisement services offered by non-resident entities, which of the following statements is/are correct?

1. It is introduced as a part of the Income Tax Act.
2. Non-resident entities that offer advertisement services in India can claim a tax credit in their home country under the “Double Taxation Avoidance Agreements”.

Answer Codes: a) 1 only b) 2 only c) Both 1 and 2 d) Neither 1 nor 2

14.4.3 Minimum Alternative Tax (MAT: न्यूनतम वैकल्पिक कर), since 1996

- Some industrialists use tax-deduction-exemptions-depreciations and accounting tricks to become “_____ Companies” & escape paying Corporation Tax. So,
- Budget-1996 (Chidambaram) introduced 18.5% MAT on book profit using a different type of formula. (What was the formula, not important).
- **Budget 2017:** not possible to reduce or abolish MAT at present.
- **Budget 2018:** IF such company is in GIFT city IFSC, then for them MAT only 9%. (We'll learn GIFT City-IFSC in Pillar#3.)

14.4.4 Dividend Distribution Tax (DDT: लाभांश वितरण कर), since 1997

- Levied on a shareholder's dividend income. In reality, company (=source) will cut that much portion from shareholders' dividend, and directly deposit that portion to govt. as DDT.
- DDT Rate: 15% + cess + surcharge.
- **Budget-2018:** If equity-Mutual Fund then also 10% + surcharge + cess.
- Previously, big industrialists would form not for profit trust and transfer their dividend from company to the trust so to avoid tax liabilities but Budget-2017 tweaked the norms to fix this loophole. (How exactly, is not important).

14.4.5 Capital Gains Tax (CGT: पूंजीगत लाभ कर)

- When owner makes profit by selling his capital assets such as non-agro-land, property, jewellery, paintings, vehicles, machinery, patents, trademarks, shares, bonds & other securities- then he has to pay CGT.
- CGT is subdivided into _____ capital gains tax (LCGT: 20% दीर्घावधि) and _____ capital gains tax (SCGT: 15% अल्पावधि) depending on how long did the owner keep that asset before selling it.
- **Before-Budget-2018:** Listed companies Shares, Mutual Funds Units etc. were exempt from LCGT. But, since large amount of money is invested here and owners make good profits by selling them so government decided to apply the long term capital gains tax system on them as well @10%.
- In practice, the buyer will deduct that much portion from the payment to seller, and deposit to the government. However, some people form shell companies abroad & do transactions from there to avoid paying taxes to India.
- *Related Topics: DTAA, GAAR, Round Tripping, Angel Tax etc- in black money handout.*



- **Interim-Budget-2019:** IF person sells his house on profit, then he has to pay CGST. However, if he uses the profit to invest in two more residential houses in India, then no need to pay CGST. He can use this scheme only once in his lifetime. (Before Budget-2019, it was for only 1 new residential house.) Similarly the Income Tax computation on the notional rental income from second house also tweaked but we're not here for CA exam.

MCQ-Prelims-2012: Under which of the following circumstances may 'capital gains arise?

1. When there is an increase in the sales of a product
2. When there is a natural increase in the value of the property owned
3. When you purchase a painting and there is a growth in its value due to increase in its popularity

Answer Codes: (a) 1 only (b) 2 and 3 only (c) 2 only (d) 1, 2 and 3

14.4.6 Income Tax on Individuals (आयकर) in Interim Budget-2019

Suppose gross income of **an Indian Resident** (age less than 60) is ₹9 lakhs.

- Out of this gross income, first we have to subtract the tax-deductions and tax-exemptions like income from agriculture, investments made in Provident Fund, NPS, LIC, Medical Insurance etc (upto a certain limit), house rent allowance (HRA), repayment of home/education loan, money donated in eligible charitable funds and so forth.
- Afterward subtracting such things, suppose taxable Income is: ₹5,50,000/-
- From this amount, Salaried individuals get standard deduction of ₹50000. (Previously, it was ₹40,000). So, ₹5,50,000 - 50000 = ₹5 lakh is the taxable income, THEN

Total Taxable Income: ₹5 lakh	Income Tax	Amount
Out of that upto 2.5 lakhs	0%	0%
From 2,50,001 to 5 lakhs = ₹2.5 lakhs left	5% of 2.5 lakhs*	-----
From 5,00,001 to 10 lakhs = ₹5 lakhs	20% of of that 5 lakhs	N/A
From 10,00,001 & above	30% of that amount	N/A
	Total Income Tax	₹12,500
Minus Tax Rebate of ₹12,500 (if taxable income is upto ₹5l)**		-(MINUS) ₹12,500
Total Income Tax to be paid		—
Surcharge (अधिभार): 10%-15% surcharge on Tax amount, IF taxable-income is above ₹50 lakhs		0% of 0% =0%
Cess (उपकर): 4% Health and education cess on (Tax + Surcharge). (Before Budget-2018, there was only 3% Education Cess).		4% x (0+0) = 0.
Total payment to IT Dept: Income Tax + Surcharge + Cess		—



- **Previously, rebate was ₹2500 if taxable income upto ₹3.5 lakhs but Interim-Budget-2019 raised it to keep middle-class voters happy before Gen. Elections.
- ***Before Budget-2017:** there were three tax slabs in income tax: 10%, 20%, 30%; After Budget-2017: 5%-20%-30%.
- Income tax slabs for senior citizens are slightly relaxed. e.g.
 - **Age 60+** but less than 80 Years: upto 3l(0%), 3-5(5%)...remaining slabs are same as youngsters.
 - **Age 80+** years: upto 5l(0%)...remaining slabs are same as youngsters.

14.4.7 _____ (HUF) (हिंदू अविभाजित परिवार):

- A Hindu, Buddhists, Jains, or Sikhs family can come together, pool their assets and form an HUF under the Income Tax Act.
- HUF is taxed separately from its members, & helps saving taxes due to certain provisions/loopholes of Income Tax Act. How exactly? Ans. not here for CA exam.

14.4.8 _____ (प्रकल्पित कराधान)

- Salaried employees can easily compute their taxable income from their annual salary, & pay income tax.
- Companies hire full time accountants to prepare the balance sheets, compute income, expense and pay Corporation tax.
- But self-employed freelance consultants / professionals such as lawyers, doctors, fashion designers face difficulty in keeping such account books. So, for them Income Tax Act has Presumptive Taxation System (प्रकल्पित कराधान प्रणाली) i.e. their 'income' is computed as "x%" of their gross receipts, and on that amount they've to pay income tax (depending on slab 5%, 20%, 30%) + applicable cess and surcharges.
- To encourage less-cash-economy, Budget-2017 had given benefits in this presumptive taxation computation formula, If the entrepreneur received payments in cashless format (NEFT, RTGS, Cheque, Card etc..

14.4.9 _____ ? (अग्रिम कर)

- New financial year starts from 1st April 2019 and ends on 31st March 2020.
- If everyone paid all of their direct taxes at 11:59PM on 31st March 2020, then govt. will face money-shortage for the whole year till 31st March midnight comes.
- So, Advance Tax mechanism requires people to pay their Income tax and Corporation tax in advance-installments on quarterly basis (every 3-3 months), If their annual tax liability is ₹10,000 or more.
- What is authority on advance ruling for direct taxes, Advance pricing mechanism, GAAR, DTAA? Ans. in Blackmoney Handout.

14.4.10 _____ (TDS): (स्रोत पर कर कटौती)

- Suppose a college pays ₹10,000 to a freelance visiting faculty or a bank/NBFC/post-office pays ₹10,000 as interest to a depositor, then how to ensure that payment-recipient reports his income to the tax authorities?
- Hence, Income Tax Act requires such organizations to deduct a portion of the payment at source and deposit it to IT-dept. along with PAN card number of the recipient.



- Then, payment-recipient will be forced to file his tax return, to unlock his TDS amount.
- TDS creates hardship for lower middle class persons, because part of their payment is cut in advance. So, in each budget, government will relax the norms to keep the voters happy. e.g. in Interim-Budget-2019, TDS threshold for interest earned on bank and post office deposits was raised from ₹20,000 to ₹40,000. It means that TDS will not be deducted unless your deposit interest income crosses this limit.
- Similarly, TDS threshold on house rent also tweaked.

14.4.11 _____ (TCS): (स्त्रोत पर संगृहीत कर)

- Mika Singh buys an SUV car worth ₹50 lakhs. How to ensure he is paying Income Tax regularly (apart from TDS mechanism)?
- So, the car showroom owner (seller) is required to collect extra 1% from Mika (Buyer) and deposit to IT-dept. Mika will have to file tax-return to unlock this amount.
- E-commerce sites also required to TCS before releasing money to merchants, Refer to GST subtopic of this handout.
- ~~Does this apply on used cars? Ans. we are not here for CA exam.~~

14.4.12 Tax refund? (कर वापसी)

- A person is eligible to receive income tax refund from IT-dept IF he has paid more tax to the govt than his actual tax liability. e.g. If college deducted 10% TDS from freelance visiting faculty payment, but what if he was in 0% or 5% Income Tax slab? Then, Income Tax Department will refund his money with interest.
- Similarly, GST refund can be claimed by an entrepreneur from GSTN webportal.

14.4.13 Financial Transaction Taxes (वित्तीय लेनदेन कर)

14.4.13.1 (Concept) Tobin Tax / Robinhood Tax

- 1970s: Nobel recipient American economist James Tobin proposed a small tax everytime currency is converted into another currency (e.g. \$ to ₹).
- Such tax will discourage short term speculative investment and flight of capital from one country to another = stabilizing the global economy and currency exchange rates. *More in pillar#3*
- In India, foreign currency conversions are subjected to (previously Service Tax) and now GST.

14.4.13.2 STT & CTT (प्रतिभूति लेनदेन कर और वस्तु लेनदेन कर)

- Securities Transaction Tax (STT: प्रतिभूति लेनदेन कर) is levied on the sale and purchase of shares, ETF-units, derivatives and other securities at stock-exchanges. It's rate (0.001%-2%) varies as per the nature of the securities.
- Commodities Transaction Tax (CTT: वस्तु लेनदेन कर) is levied on non-agricultural commodities traded at Commodities-Exchanges. Rate ~0.01%.



14.5 UNION TAX, CESS AND SURCHARGE (केंद्रीय कर, उपकर और अधिभार)

Any Union Tax (संघ कर)	<ul style="list-style-type: none"> - Computed on taxable income, profit, transaction. Goes to _____ Fund of India → Later divided between Union and states as per the _____ formula. (except if IGST, then divided based on GST Council's formula.)
----- (अधिभार)	<ul style="list-style-type: none"> - Computed on Tax amount. So, it is a 'tax on tax'. This amount will also go to Consolidated Fund of India. It is not divided with States using Finance Commission Formula. - Usually, surcharge will not have any clear objective in 'prefix', so it may be used for any objective. Exception is Budget 2018 that introduced 10% Social Welfare Surcharge (समाज कल्याण अधिभार) on the customs duty on imported goods. So, here the collected money will be specifically used for social welfare schemes of the Union.
----- (उपकर)	<ul style="list-style-type: none"> - Computed on (Tax + Surcharge, if any). - Clear objective is mentioned. E.g. Krishi Kalyan Cess, Swachh Bharat cess, Road & infrastructure Cess, Health & Education Cess, GST compensation cess. - By default, it'll go to Consolidated Fund of India → from there it may go to a specific fund in Public Accounts e.g. Central Road Safety Fund, Prarambhik Shiksha Kosh etc. - Cess is not shared with States using Finance Commission Formula. (Although some of cess money will go to states as a part of scheme implementation e.g. Sarva Shiksha Abhiyan, Pradhan Mantri Jan Arogya Yojana, PM Gram Sadak Yojana etc.) - GST Compensation Cess is shared with States, as per _____ formula. <More in the GST segment of this handout>



15 BUDGET → REVENUE → RECEIPTS → TAX → INDIRECT TAXES

बजट → राजस्व भाग → प्राप्तियाँ → कर → अप्रत्यक्ष कर

- Tax _____ (करापात) = @Person from whom govt collects the tax. (e.g. shopkeeper)
- Tax _____ (कराघात/कर का प्रभाव) = @Person who finally bears the tax & can't pass on further. (e.g. Consumer)
- In the indirect taxes, tax incidence and tax impact does not fall on the same person. E.g. Customs Duty on import and export, Excise duty on manufacturing of goods, Service tax on services, Sales Tax, Value Added Tax (VAT), and Goods and Services tax (GST).
- Indirect taxes fall under the Ambit of FinMin → Department of Revenue (राजस्व विभाग) → Central Board of Excise and Customs (CBEC): (केंद्रीय उत्पाद एवं सीमा शुल्क बोर्ड) → Budget-2018 it was renamed as Central Board of Indirect Taxes and Customs (CBIC): (केंद्रीय अप्रत्यक्ष कर और सीमा शुल्क बोर्ड)

15.1 INDIRECT TAXES: TYPES (अप्रत्यक्ष करों के प्रकार)

Ad- Valorem tax (यथामूल्य कर)	Specific Tax per unit (विशिष्ट कर प्रति यूनिट)
Taxes based on the value of something. E.g. 35% Customs Duty on import of orange juice. So, if juice priced at ₹100 imported, then ₹35 as tax.	Tax based on quantity of items. E.g. ₹ 260 Excise duty on production of every 1000 cigarettes of 65-70mm length. Here we're taxing them irrespective of their manufacturing or selling price.
Easier to administer.	Difficult to administer, leads to inspector-raj & litigation. But, if slight increase in this tax, then greater burden passed on to the consumer so it helps reducing harmful consumption. (How exactly? Ans. microeconomics graph is not imp)

15.2 INDIRECT TAXES: MERITS AND DEMERITS (अप्रत्यक्ष करों के लाभ व नुकसान)

Merits	Demerits
<ul style="list-style-type: none"> → Convenient to collect. Wider base because everyone covered e.g. 18% GST on Biscuit. → Elastic (लचीला): small increase brings large revenue, because everyone is affected. → Can reduce harmful consumption by imposing higher taxes on cigar, alcohol, soft drinks & fast food. 	<ul style="list-style-type: none"> → _____ (प्रतिगामी) in nature, Both poor and rich taxed equally for the same item then poor people end up paying more portion of their income in indirect taxes. → Single point taxes (एकल बिंदु कर) = high level of corruption, evasion, cascading effect. e.g. sales tax.



15.3(CONCEPT) _____ TAX (पिगोवियन कर)

- An externality (बाह्यता) is a positive or negative consequence of an economic activity experienced by unrelated third parties. E.g. Cement company (related parties: labourers & consumers benefit); whereas unrelated third parties (local community, flora and fauna) are harmed by cement company's air-pollution.
- English economist Arthur C. Pigou proposed taxing the companies that create such negative externalities: e.g. polluting industries, cigarettes (passive smoking), alcohol (social disharmony).
- We **HAVE** high level of indirect taxes on petroleum, tobacco and alcoholic products.
- We **HAD** "Clean environment cess" on Rs 400 per tonne of coal (but abolished in GST-regime)

15.4 _____ EFFECT OF INDIRECT TAXES (अप्रत्यक्ष करों का सोपानी प्रभाव)

If a government levies 10% indirect tax everytime an item is sold then customer has to **pay tax on tax**. This 'cascading effect' of tax raises the price of final product. Observe,

Suppose,	Price	10% Tax on price	Total
Retailer bought from wholesaler	₹100	₹10	₹110
Retailer sold to customer with ₹10 profit	₹120	₹12	₹132

Breakdown the ₹132 paid by the final customer: $132 = 100 + 10 + 10 + 10 + 1$

- $132 = 100$ (price of original product) + 10 (tax paid by retailer to wholesaler) + 10 (as retailer's profit margin) + 10 (tax paid by customer to buy from retailer) + **1****.
- **1** this one rupee** is 10% of 10 (tax paid by retailer to wholesaler). So, it's "TAX on TAX paid at previous stage" / cascading effect of tax on the end-customer.
- Then, both buyer and seller will prefer transaction without bills, to entirely avoid tax liability and its cascading effect → Govt.'s revenue collection ↓, Fiscal deficit ↑, black money ↑
- This problem can be solved, if government gives some type of cashback, reward points or input tax credit to the sellers, on the indirect taxes they've already paid in previous stage.
- To claim such input credit or reward, the sellers will have to show the bills/ invoices for each stage = self-policing = black money ↓.

15.5 INPUT CREDIT FOR INDIRECT TAXES (अप्रत्यक्ष कर पर इनपुट कर प्रत्यय)

Time	Who?	Reform in Indirect taxation
1944	Union	Central Excise Act (केंद्रीय उत्पाद शुल्क अधिनियम) to levy Excise duty on goods produced or manufactured in India. Abolished on most items after GST.



1956	Union	Central Sales Tax Act (केंद्रीय बिक्री कर अधिनियम) to levy tax on inter-state commerce. In practice, CST was given to the source/exporting state from where goods went to the destination/importing state. Abolished after GST.
1962	Union	Customs Act (सीमा शुल्क अधिनियम) levy Customs Duty on import and exports <ul style="list-style-type: none"> - Budget 2018: Raised customs duty on a range of imported products—from fruit juice, perfumes, TVs, mobile phones etc. to encourage Make in India programme. It also introduced 10% Social Welfare Surcharge on imported goods. - Budget-2019: revised scheme for duty-free import of capital goods & machinery. Digitalization of export/import transactions for ease of doing biz.
1986	Union	Modified Value Added Tax system (MODVAT: केंद्रीय बिक्री कर अधिनियम संशोधित मूल्य वर्धित कर प्रणाली) based on LK Jha Committee recommendations, Entrepreneur gets Input credit for Excise duty he already paid in previous stage E.g. Ratan Tata getting input credit for rubber, tires and steel he bought to make Nano car. But, he'll NOT get input credit for the States' Indirect taxes like Sale Tax/ VAT.
1994	Union	FM Manmohan Singh introduces 5% _____ Tax (सेवा कर) on telephone bills, non-life insurance and tax brokers. Over the years, more services were subjected to Service Tax, except those in "Negative List". Successive govts. also increased tax amount, and added Swachh Bharat Cess & Krishi Kalyan Cess on it. Ultimately, Service Tax+Cess =15% had to be paid. Abolished after GST.
2004	Union	Central Value Added Tax system (CENVAT: केंद्रीय मूल्य वर्धित कर) Entrepreneur gets Input credit for Excise duty and service tax he already paid in previous stage. But he'll NOT get input credit for the state taxes like Sale Tax/ VAT.
2005	States	<ul style="list-style-type: none"> - Previously, State governments levied sales tax on sale of goods however these rates varied from state to state, no input credit & therefore cascading effects & tax evasion. - From 2005 onwards, State governments begin replacing Sales Tax system with _____ (VAT: मूल्य वर्धित कर) wherein a dealer gets input credit for the VAT he already paid in the previous stage. But he'll not get input credit for Union's Indirect Taxes like Customs Duty, excise duty or Service tax. He'll not even get input credit for various other indirect taxes of the state like Luxury Tax, Entertainment Tax, etc. which were not been subsumed in the VAT. So cascading effect continued. - Uttar Pradesh was the last state to implement it from 2008.
2017	Both	From 1st July, 2017: Goods and Services Tax (GST: वस्तु एवं सेवा कर) became effective. Here, supplier gets input tax credit for (most of the) indirect taxes of Union & States that he paid in the previous stage.



MCQ-UPSC-CDS-2013-I. Which of the following are direct tax in India?

1. Corporation tax 2. Tax on income 3. Wealth tax 4. Customs duty 5. Excise duty

Ans. Codes: (a) 1, 2 and 3 (b) 1, 2, 4 and 5 (c) 2 and 3 (d) 1, 3, 4 and 5

MCQ-UPSC-Pre-2014. The sales tax you pay while purchasing a toothpaste is a:

- (a) tax imposed by the Central Government
- (b) tax imposed by the Central Government but collected by the State Government
- (c) tax imposed by the State Government but collected by the Central Government
- (d) tax imposed and collected by the State Government

MCQ. Which one of the following is not a feature of “Value Added Tax”?(Asked in UPSC-Pre-2011)

- (a) It is a multi point destination based system of taxation.
- (b) It is a tax levied on value addition at each stage of transaction in the production-distribution chain.
- (c) It is a tax on final consumption of goods or services and must ultimately be borne by consumer.
- (d) It is basically subject of the central government and state government are merely facilitator for its successful implementation.

16 GST: TIMELINE (समयरेखा)

2004	Vijay Kelkar Task Force on Fiscal Responsibility and Budget Management (FRBM) recommends GST.
2006	In Budget speech, P.Chidambaram announces the launch of GST from 2010
2011	UPA government introduces 115 th Amendment Bill 2011 to implement GST lapsed with the dissolution of 15th Lok Sabha.
2014-16	<p>Modi govt. introduces 122nd Constitutional Amendment Bill 2014 in 16th Lok Sabha. Since GST aimed to change federal financial relations, hence as per Art.368, this constitutional bill required:</p> <ul style="list-style-type: none">- @Union Parliament Lok Sabha and Rajya Sabha each: __% majority of the total membership, and __ __ majority of all members present and voting.- @State Vidhan Sabha: approval by Majority of state assemblies (i.e. 15 Vidhan-sabhas of India at that time) <p>Ultimately, it passed & became __ __ st Constitutional Amendment Act, 2016.</p>



16.1 ONE HUNDRED & FIRST 101ST CONSTITUTIONAL AMENDMENT ACT, 2016

101 वां संवैधानिक संशोधन अधिनियम, 2016 amended following articles in our Constitution.

246-A	<ul style="list-style-type: none"> - States given power to tax goods and services. (previously, they couldn't tax services.) - But only UNION will have the power to tax inter-state supply of goods and services in the form of "IGST"
268-A	Previously, this article empowered Union to levy Service Tax. But, since tax on services has been brought under GST, this article was deleted.
269-A	IGST (on inter-state trade) will be distributed between Union and states, as per the formula by the _____ (जीएसटी परिषद)
270	CGST (=new indirect tax of Union, which replaced Excise Duty & Service Tax)..this CGST will be distributed between union and states as per the formula by the _____ (वित्त आयोग)
-----	President of India to appoint a constitutional body, "GST Council" (जीएसटी परिषद) headed by Finance Minister.
366	Alcoholic liquor for human consumption is kept out of GST. (i.e. State govt can levy State Excise on its production and State VAT on its sale.)

16.2 GST COUNCIL: COMPOSITION? जीएसटी परिषद

Union representatives (2)	States' representatives (31)
1. Finance Minister as the Chairman 2. Union Minister of State for Finance or revenue.	Each state government (including Delhi & Puducherry) can nominate one minister to GST council- it may be their minister of finance or Dy.CM or any other minister as per their wish. One of them will be selected as the Vice-Chairman of GST council.
Voting power: _ _ _ _	Voting power: _ _ _

- ✓ To pass any proposal, minimum _ _ _ votes required in favour of the proposal.
- ✓ Council Meetings to proceed only with quorum of 50% of total membership.



16.2.1 GST Council: Functions? They'll decide following-

1. List of indirect taxes, cess, surcharge of the union and states to be subsumed under GST-regime.
2. Decide the date from which Crude oil, Petrol, Diesel, Aviation Turbine Fuel and LPG will be put under GST regime. (Until then excise-VAT on these five hydrocarbon fuel products, will be unilaterally decided by Union and individual States).
3. Standard rates for GST (i.e. CGST, SGST and UTGST). $IGST = \{CGST + (SGST \text{ or } UTGST \text{ depending on destination})\}$
4. Special rates for GST, during natural disaster / calamity (if required. E.g. 2019-Jan, GST-Council also allowed Kerala to levy a 1% calamity cess on intra-state trade for next two years, for rehabilitation of 2018's flood-victims).
5. Integrated GST (IGST) system during interstate commerce, and its tax-sharing.
6. Norms related to GST registration of businessmen. If Bizman has turnover above "x" lakhs, he must register @GSTN online portal, he must collect GST from consumers and deposit it there. Originally the "x" was ₹20 lakhs for ordinary states; ₹10 lakhs for Sp.cat states**. However, in 2019-Jan the GST council doubled this limit to ₹40l & ₹20l respectively (Turnover limits are separate J&K but hairsplitters not REQ).
7. Protecting the interests of the special category states i.e. 8 North Eastern states and 3 Himalayan states (JK, Himachal and Uttarakhand.)
8. Compensation to the states for their revenue loss in switching over to GST (through Cess mechanism).
9. Dispute settlement mechanism between Union vs state(s), state(s) vs state(s).

So, Constitutional Amendment → set up GST council → GST council's meeting → laws passed by Parliament and Vidhan Sabhas, to implement the GST related mechanisms.

1. Parliament has passed:
 - ✓ Central Goods and Services Tax Act (CGST: केंद्रीय वस्तु एवं सेवा कर अधिनियम)
 - ✓ Integrated Goods and Services Tax Act (IGST: एकीकृत माल और सेवा कर अधिनियम)
 - ✓ Union Territory Goods and Services Tax Act (UTGST: केंद्र शासित प्रदेश माल और सेवा कर अधिनियम)
 - ✓ Goods and Services Tax (Compensation to States) Amendment Act. माल और सेवा कर (राज्यों को मुआवजा) संशोधन अधिनियम।
 - ✓ Parliament originally passed them 2017, later amended in 2018 As per the recommendations of the GST Council.
2. State Legislatures have passed State Goods and Services Tax Acts. (SGST:
3. **Jammu & Kashmir** passed SGST Act on 8th July, 2017 → then GST system became effective there as well.



16.3 GST INPUT TAX CREDIT (ITC: इनपुट कर प्रत्यय)

GST is a destination based indirect tax on consumption. It is applicable on **supply** of goods or services as against the previous indirect taxes that worked on the concept of manufacture, sale, exchange, transfer etc.

When Goods / Services (produced &) supplied →

in same the State (or UT without legislature) = Intra-state supply (अंतःराज्य)	in another State (or UT w/o LSR) = Inter-state supply (अंतरराज्यीय)
1. Union levies →CGST 2. State / UT without legislature levies →SGST / UTGST	1. Union levies IGST =CGST + (SGST or UTGST depending on destination). 2. From this IGST→ CGST goes to Union, and the other portion goes to the Destination State/UT without legislature.

Suppose in Jan-2019: a Gujarat based Calendar printing company is doing following

Bought (Input) in 2019-January	Price ₹	CGST	SGST (Guj)	IGST, if inter-state supply
Printer from Mumbai @18% GST	1 lakh	N/A	N/A	18k
Ink from a factory in Guj @18% GST	10k	900	900	N/A
Paper from Himachal @12% GST	20k	N/A	N/A	2400
Total	1.30 lac	900	900	20,400

Suppose company manufactures (prints) and sells calendars @₹100 each, @12% GST

Sold (Output) in 2019-January	Price	CGST	SGST Guj)	IGST, if inter-state supply
500 Calendars within Gujarat	50k	3000	3000	N/A
500 Calendars to Rajasthan	50k	N/A	N/A	6000
Total	20k	3000	3000	6000

So, how much tax will the Calendar company have to deposit online at the GSTN webportal?

GST liability in 2019-January	CGST	SGST (Guj)	IGST
GST Taxes collected on Output (from wholesalers, retailers or customers)	3000	3000	6000
MINUS GST Taxes paid on Input (in previous stage for raw material, intermediate goods)	-900	-900	-20,400
=Company must deposit how much tax @GSTN webportal?	2100	2100	-14400**

** this is the input tax credit (ITC) company can use for offsetting its tax-liability in future.

- Suppose in Feb-2019, company did not purchase any inputs and sold 1,500 magazines in Tamilnadu @₹100 each = ₹ 1,50,000 + **18,000** (IGST) it must have collected from the Wholesalers/ retailers/ end-customers of Tamilnadu.



- But in Feb-2019, Company need not deposit ₹18000 @GSTN webportal, because already it has ₹14400 IGST credit so Company only needs to deposit 18000 MINUS 14400= ₹3600.
- **Cross-utilization of ITC:**
 - IGST credit can be used for payment of all GST taxes.
 - CGST credit can be used only for paying CGST or IGST.
 - SGST credit can be used only for paying SGST or IGST.

If the goods or services are sold in union territory without legislature, then instead of SGST, they will levy UTGST but *the funda* will remain similar as above.

MCQ. Goods and Services Tax likely to be levied in India is not a [UPSC-CDS-2017-I]

- (a) gross value tax (b) value-added tax
(c) consumption tax (d) destination-based tax

16.4 CENTRE'S INDIRECT TAXES SUBSUMED IN CGST

केंद्र के अप्रत्यक्ष कर जो केंद्रीय वस्तु एवं सेवा कर (सीजीएसटी) में सम्मिलित / विलीन हो गए

Indirect Tax of Union	Whether replaced by CGST?
For import-export: Basic Customs Duty, cess / surcharge on it. सीमा शुल्क और विभिन्न उपकर / अधिभार)	<ul style="list-style-type: none"> - No. Customs Duty is NOT replaced with GST. It's separate from GST-regime. - Previously, imported goods were subject to Customs Duty + education cess (शिक्षा उपकर) but Budget 2018 replaced it with Customs Duty + 10% Social Welfare Surcharge (समाज कल्याण अधिभार).
On imports: Special Additional Customs Duty (SAD), Countervailing Duty (CVD)	They're not 'replaced' with CGST, but simply abolished.
Central Sales Tax (CST-केंद्रीय बिक्री कर)	CST was the Union tax levied on sale of items in inter-state trade, and it was assigned to the 'Origin state'. It's replaced with IGST (= CGST + SGST)
On providing services: Service tax (सेवा कर) and Krishi Kalyan Cess and Swatchh bharaat Cess	Yes completely replaced by CGST. No cess / surcharge on it.
On manufacturing/production of goods: Excise duty and various Cess / surcharges on it.(उत्पाद शुल्क और विभिन्न उपकर / अधिभार)	<ul style="list-style-type: none"> - Yes completely replaced by CGST (except 5 hydrocarbon fuels petrol, diesel etc.) - Excise on manufacturing medicinal and toilet preparations containing alcohol (e.g. Cough syrups, deodorants and perfumes) also replaced by CGST. - Alcoholic Liquor for human consumption- falls in States' purview so Union Excise / CGST not applicable on it.



Indirect Tax of Union	Whether replaced by CGST?
Excise duty on Tobacco products	<ul style="list-style-type: none"> - It's replaced with 28% CGST. Further, Union also levies + GST Compensation Cess + National Calamity Contingency Duty** (NCCD:-राष्ट्रीय आपदा आकस्मिकता इयूटी) on them - **because 101st Constitutional Amendment allows Union to tax tobacco products separately. - NCCD money goes to Public Account → National Disaster Response Fund set up under Disaster Management Act, 2005.
Excise duty on production/refining of Crude oil, Petrol (Motor Spirit), Diesel, Aviation Turbine Fuel and LPG: कच्चे तेल, पेट्रोल (मोटर स्पिरिट), डीजल, विमानन टरबाइन ईंधन और एलपीजी पर उत्पाद शुल्क	<ul style="list-style-type: none"> - Once GST council decides the date they'll be brought under GST-regime. Until then refineries / oil-drilling companies have to pay excise duty+cess/surcharges to Union for production / manufacturing of these items. (and petrol pump owner, LPG-distributors etc will have to pay VAT to states on their sale.) - Presently, Petrol & Diesel are also subjected to Union's Road and Infrastructure Cess (सड़क और बुनियादी ढांचा उपकर) which goes into Public Account→ Central Road & Infrastructure Fund setup under Central Road Fund Act 2000 (The word "Infrastructure" was added by Budget-2018).
Corporation Tax, Income Tax, Capital Gains Tax, STT, CTT	<i>Arre Bhai</i> , they're DIRECT Taxes of the UNION so not replaced by GST. The GST is meant to replace INDIRECT Taxes only!

Figures taken from Interim Budget-2019

Year	2017-18	2018-19	2019-20
CGST	2 lakh crores. (GST started from July 2017 hence low collection)	Originally projected 6 lakh cr but not revised projection of 5 lakh crores only.	6.1 lakh crores projected.



16.5 STATES' INDIRECT TAXES SUBSUMED IN SGST

राज्यों के अप्रत्यक्ष कर जो राज्य वस्तु एवं सेवा कर (एसजीएसटी) में सम्मिलित / विलीन हो गए

Indirect Tax of State Govt.	whether replaced by SGST?
On sale of goods: State Value Added Tax (VAT) (In some states it is also known as "Commercial tax")	Yes, By default VAT is replaced by SGST, but read below:
State VAT on selling of _ _ _	Once GST council decides the date they'll be brought under GST-regime. Until then, petrol pump owners, LPG gas distributors etc. will have to collect VAT (+ any cess / surcharges) from the customers and deposit to the state government.
<ul style="list-style-type: none"> - State Excise on production of liquor for human consumption. - State VAT on sale of liquor for human consumption. - मानव उपभोग के लिए बनी शराब के उत्पादन पर राज्य उत्पाद शुल्क। - मानव उपभोग के लिए बनी शराब की बिक्री पर राज्य वैट। 	No, they're completely kept out of GST. [unlike above petro items where GST council will implement it after "x" date]. Since inception of our Constitution, the power to tax liquor was with States, & it constituted a major source of revenue for them, so States were unwilling to hand it over in GST regime. Had Modi govt tried to bring liquor in GST-regime, then majority of the Vidhan-Sabhas may not have passed this Constitutional Amendment Bill.
Electricity Duty बिजली शुल्क	No, it's not replaced by SGST
Road Tax on vehicles.	No, it's not replaced by SGST
Purchase tax on vehicle, boats, and animals- खरीद कर	Yes replaced by SGST
Advertisement tax on hoarding, banners etc.- विज्ञापन कर	Yes replaced by SGST
Luxury tax at Hotels, Spas, Resorts etc.- अत्याशी विलासिता कर	Yes replaced by SGST
Entry tax/Octroi for entry of goods in an area - प्रवेश के लिए कर, ऑक्ट्रोई	Yes replaced by SGST
Taxes on Lottery, horse race betting, gambling etc.	Yes replaced by SGST. Since they're 'sinful/demerit goods', they're subjected to highest slab : _____
Entertainment Tax on Cinema, Live Performance shows etc.- मनोरंजन कर	Yes, replaced by SGST unless levied by a local body. e.g. Kerala local bodies 10% on movie tickets.



Indirect Tax of State Govt.	whether replaced by SGST?
<i>Income tax on Agriculture, Professional tax, Property tax, Stamp Duty, Land revenue</i>	<i>Arre Bhai, they're DIRECT Taxes of State so not replaced by GST. The GST is meant to replace INDIRECT Taxes only.</i>

16.6 GST RATES ON SERVICES: सेवाओं पर जीएसटी की दर

What is the difference between NiL rated vs Exempted? **Ans.** CA-giri = Poor cost:benefit.

<0% or NiL GST or Exempt on following services: List is not exhaustive>

1. Services provided by union government, state government, local bodies, constitutional bodies, department of post (except premium services like speed post), Railways (except premium services like first class AC ticket)
2. Services by Reserve Bank of India and other financial regulators.
3. Services by Banks/NBFCs in connection with Government sponsored banking, insurance and pension schemes. (Refer to financial inclusion handout)
4. ESIC, EPFO services to the subscribers
5. Religious, charitable activities, cooperative societies, Public libraries, Public toilets, Crematorium, Burial grounds.
6. Hotel room rent less than 1000 rupees per day, Rent on residential accommodation
7. Aviation Services in Northeastern States
8. Transport services to milk, newspaper, defence equipment, relief material during natural disasters etc.
9. Doctors, para-medics, Ambulance, Blood bank.
10. Agriculture warehouse, cold storage, renting of Agro machinery, Contractor who is supplying farm labourers, APMC (Agricultural produce market committee)
11. Agriculture pre-processing of food e.g. ripening, waxing, retail packing, labelling of fruits and vegetables which do not change or alter the essential characteristics of the said fruits or vegetables.
12. Veterinary doctor, Animal husbandry related services except race horses
13. Educational services by Educational Institutes (like schools colleges universities Vocational institutes. NOT COACHING Institutes)
14. Private training partners in government skill development schemes
15. Sports training and events by recognised sports body
16. Sports, Art, Culture etc. clubs with member-fees less than "X" rupees.
17. Circus, dance, drama or ballet, award function, concert, pageant, musical performance or any sporting event where admission fees is less than "X" rupees.
18. Admission to a museum, national park, wildlife sanctuary, tiger reserve, zoo, ASI-recognized Heritage sites.
19. Any service EXPORTED outside India (technically called "ZERO RATED Export")

In the Pre-GST era, many of above services were in the **"NEGATIVE LIST"** i.e. they were exempt from Service Tax.

If a given service is not in the above list, then it will be subjected to GST: <see next table>



Example of services (List not exhaustive)	If supplied in the same State or UT w/o LSR then	If supplied to another State or UT w/o LSR (: IGST)
plumbing, carpentering, Ads in print media, Ebooks	<ul style="list-style-type: none"> - Union gets 2.5% CGST - State/UT gets 2.5% SGST or UTGST 	IGST 5% (its bifurcation is same like left cell. Union gets half in CGST, and other half goes to “DESTINATION” State/UT as SGST/UTGST amount.
<ul style="list-style-type: none"> - Accommodation in hotels, inns, guest houses with daily charges ₹1,000 to 2499/- - Movie tickets upto Rs. “x” (presently ₹100) 	Similar as above but 6+6	IGST 12%
<ul style="list-style-type: none"> - Real estate services, Coaching Services, - Ads in digital media, Legal and accounting services - DTH/TV channels, Movie tickets above Rs.“x” 	Similar as above but 9+9	IGST 18%
Five Star luxury hotels, Gambling, Horse Race club, Casino	Similar as above but 14+14	IGST 28%

For more, you may refer to: <https://cbec-gst.gov.in/gst-goods-services-rates.html>

16.7 GST RATES ON GOODS : सामान पर जीएसटी की दरें

<0% or Nil GST or Exempt on following Goods: List is not exhaustive>

1. Fresh milk, Pasteurized Milk
2. Live animals (except race horses), poultry, pigs, shrimps, fishes, insects etc. and their “UNBRANDED” eggs, meat, honey, rawsilk etc. fresh products.
3. Fresh flowers, leaves, fruits and vegetables, unroasted coffee beans & tea leaves, Salt.
4. Unbranded grain crops/ cash crops like wheat, maze, rice, oat, barley, coconut, etc & their unbranded flour; seeds for sowing.
5. Bread (**except when served in Restaurant/ pizza)
6. Prasadam supplied by religious places.
7. Deities made of stone, marble or wood; Puja Samagri like Rudraksha, Panchamrit
8. Rakhi, Kumkum, Bindi, Sindur, Plastic / glass bangles without precious metal.
9. Fresh unpacked - water, coconut water, Non-alcoholic Toddy, Neera
10. Human blood, contraceptives, sanitary napkins, tampons, hearing aid
11. Electricity, Firewood
12. Judicial / Non-judicial stamp papers, Court fee stamps, ordinary post cards etc.
13. Printed Books, Maps, Cheque Books; Newspapers, journals and periodicals irrespective of whether they containing advertisement or not.
14. Khadi sold by Khadi and Village Industries Commission(KVIC) certified outlets



15. Gandhi topi, Charkha, national flag, Earthen pot, clay idols
16. Agricultural hand tools like spade, axes, sickle.
17. When a constitutional / public authority auctions the gifts received by him.
18. Spacecraft, satellites and their launch vehicles.
19. Any Goods EXPORTED outside India (technically called “ZERO RATED Export”)

If a given goods is not in the above 0% list (and not kept out the GST-regime like *Petrol-Diesel-Daaru*), then it will be subjected to GST: such as:

Example of Goods (list not exhaustive)	If supplied in the same State or UT w/o LSR	If supplied to another State or UT w/o LSR (: IGST)
Diamond, Semi-precious stones like agate, amber, topaz, lapis lazuli etc.	Union gets 0.125% CGST State/UT gets 0.125% SGST or UTGST	IGST 0.25% (its bifurcation is same as left cell. But “DESTINATION” state/UT gets the SGST/UTGST portion)
Jewellery, Pearls, Gold, platinum, silver etc.	Similar as above 1.5%+1.5%	IGST 3% (funda same as above)
Milk powder, Baby food, Pizza bread, Mineral ores*, certain medicines	2.5%+2.5%	IGST 5%
Fruit Jams, Butter, Cheese, Canned Fish, Sugar cubes, Textile**, certain medicines & surgical items	_____	IGST 12%
<ul style="list-style-type: none"> ➤ Ice cream, cakes, biscuits; ➤ Soap, perfume, paint ➤ Electronics, Computer & Mobile accessories** ➤ Certain medicines ➤ Paint, Polish, Wax and similar petroleum products 	_____	IGST 18%
Luxury goods, Sin Goods, Demerit goods (विलासिता / पाप/ अवगुण सामान): <ul style="list-style-type: none"> ➤ Tobacco products, Pan Masala ➤ Cement, Granite, Marble ➤ Air Conditioners, TVs of “x” size ➤ Motor vehicles, Aircrafts, Yacht ➤ Guns, Lottery ticket. 	_____	IGST 28%
Alcohol for human consumption	— — — —	



Crude oil, Petrol (Motor Spirit), Diesel, Aviation Turbine Fuel and LPG	-----
--	-------

- As of 2018-December, there are only 28 items left in the 28% slab. PM Modi has announced to bring 99% of the items in 18% or lower slab.
- **CAUTION:** As the elections come near, GST Council will bring down more items in lower GST-slabs to keep the voters happy, so above tables/lists are “not static”. Keep following the newspapers, and update as and where necessary. For more, you may refer to: <https://cbec-gst.gov.in/gst-goods-services-rates.html>

MCQ. Consider the following items:(Asked in UPSC-Pre-2018)

- 1) Cereal grains hulled
- 2) Chicken eggs cooked
- 3) Fish processed and canned
- 4) Newspapers containing advertising material

Which of the above items is/are exempted under GST (Good and Services Tax)?

- (a) 1 only
- (b) 2 and 3 only
- (c) 1, 2 and 4 only
- (d) 1, 2, 3 and 4

16.8 GST COMPOSITION SCHEME (जीएसटी संरचना योजना)

GST (Regular) scheme	GST Composition Scheme
If an industrialist or seller is registered with GST, he has to collect the taxes at above varying rates, and deposit them on the monthly basis at GSTN webportal.	Such monthly compliance is very tedious for small entrepreneurs / small merchants so they may opt for GST Composition scheme wherein instead of above (5-12-18-28%) rates they'll have to collect only flatrate GST of 1% on goods, 5% on restaurants, 6% on all services.
Good: He will get input tax credit, Bad: He'll have to deposit tax & forms on monthly basis @GSTN webportal	Bad: He'll _____ Input Tax Credit. Good: He'll not have to deposit tax/forms on monthly basis to GSTN webportal. He'll have to do it on Quarterly basis (3-3-3-3 months)
Compulsory if turnover is above “x” lakhs / crores.	Optional scheme, NOT compulsory. NOT every supplier is eligible. Only if turnover is below “y” lakhs / crores, and doing “z” type of biz, then you'll be eligible.

There are total ~1.30 crore GST registered suppliers, out of them ~17 lakhs have opted for Composition Scheme. (As of Feb 2019).

16.8.1 Tax Collection at Source on E-Commerce (TCS: स्रोत पर संगृहीत कर)

- Merchant Jethalal sells mobiles through Amazon @10k+18% GST.
- Customer pays 10k+18% GST to Amazon.
- Amazon is then required to deduct 1% of 10k & upload to GSTN portal, and gives (remaining amount+GST) to Jethalal. (=1% Tax collection at Source).
- If Jetha wants to get that deducted amount, he'll have to upload things at GSTN portal. TCS ensures nobody can evade taxes while -----



- This norm became effective from 1st October 2018. Further CA/PHD not required like presently, 1% TCS but If GST council wants they may even order upto maximum 2%, and this is not applicable if turnover less than “x” or if supply is related with “y” category of services).

16.8.2 Reverse Charge Mechanism (विपरीत प्रभार की व्यवस्था)

- Normally, a seller has to collect the GST tax from buyer and deposit it to the government.
- However, in selected cases when seller is not registered with GST number, while buyer is registered with GST number, then buyer will have to deposit the tax to government.
- How / when / why = NOT IMPORTANT, EXCEPT the **MCQ word Association** that ‘reverse Charge Mechanism’ is associated with GST, just like ‘E-way bill’ mechanism is associated with GST.

16.8.3 E-way Bill System (ई-वे बिल प्रणाली) from 2018 onwards

- When goods worth ₹50,000/> are moved within a state (intrastate) or from one state to another (inter-state), then the truck/transport/cargo/shipping/aeroplane company has to generate E-way Bill from GSTN Portal / App / SMS.
- E-way bill’s self-declaration (*that our truck is carrying “x” type of goods worth “y” value*) reduces the scope of bribery, delay, red-tape, harassment at the check post, thereby ensuring a hassle free rapid movement for transporters throughout the country.
- E-way bill system became effective from 2018.

16.8.4 Compensation to States: WHY? राज्यों को मुआवजा

- ✓ Recall Definition: GST is a destination based indirect tax on consumption of goods and services. (जीएसटी वस्तुओं और सेवाओं की खपत पर आधारित अप्रत्यक्ष कर है।)
- ✓ For the Union government, largest source of tax collection were corporate tax and personal income tax. Both are direct taxes and therefore kept out of the GST regime.
- ✓ For the state governments, VAT was largest source of tax income, but it is to be subsumed under GST, along with other indirect taxes, cess and surcharges levied by the states. Therefore, states were afraid their revenue income will decline.
- ✓ Secondly, GST is a Destination-based tax, therefore industrialized states are not happy with it. Consider a Nano car manufactured in Tata's Plant in Gujarat and sold in Uttar Pradesh. (Destination) UP gets SGST, While (Source) Gujarat gets nothing. Although reverse is also true- UP's bicycle sold in Gujarat, then Gujarat will earn SGST and UP will get nothing. But the industrialized states such as Gujarat, Maharashtra, Tamil Nadu, Haryana feared they'd get less SGST revenue in absolute terms compared to erstwhile VAT regime.

Notable States that witnessed revenue increase in SGST (compared to VAT)	Notable States that witnessed revenue decline in SGST (compared to VAT)
Andhra Pradesh and five NE states -- Mizoram, Andhra Pradesh, Manipur, Sikkim, Nagaland	Punjab, Himachal, Chattisgarh, Uttarakhand, J&K, Odisha, Goa, Bihar, Gujarat and Delhi and others.



16.8.5 Compensation to States: HOW?

Parliament enacted GST Compensation to States Act 2017 (राज्यों को मुआवजा अधिनियम)

- ✓ Under its provisions, GST council recommended Union Govt to impose “**GST Compensation Cess**” (जीएसटी प्रतिपूर्ति उपकर) on specified luxury & demerit goods, like pan masala (60%), tobacco products (cess varies as per product), aerated water (12%), coal / lignite (₹400 per tonne), motor vehicles-aircraft-yacht (3-22% depending on type of vehicle). [These rates may change/update, but don't worry figures.]
- ✓ The cess thus collected is used for compensating States for their revenue losses during the first five years since inception of GST.
- ✓ The formula uses 2015-16 as base year to measure States' revenue.
- ✓ Liquor Taxes are outside GST-purview so Bihar / Gujarat / Nagaland / Lakshadweep / Parts of Manipur can't ask more ₹ for compensation from this fund for having liquor prohibition (मद्यनिषेध).

Year →	2017-18	2018-19	2019-20 (estimated)
GST Compensation Cess प्रतिपूर्ति उपकर	62k crores	90k crores	1 lakh crores

16.8.6 GST Revenue Collection Figures: जीएसटी राजस्व प्राप्ति के आंकड़े

- GST registered suppliers have to deposit the GST at the GSTN portal on monthly basis (except some of them who opted for the GST composition scheme).
- In monthly collection of GST, there are ups and downs based on seasonality. Still, the average monthly tax collection was ₹ 89,700 crore per month (2017). It has improved to ₹97,100 crore per month (2018). (as per the Interim budget speech 2019).

Figures taken from Interim Budget-2019 (in ₹ crores)

Indirect Taxes of Union →	2017-18 (Actual)	2018-19-revised	2019-20 (Estimated)
CGST, IGST, GST Compensation Cess	4.4 lakh cr	6.4 lakh cr.	7.6 lakh cr.
- Excise Duty (petrol, diesel etc.) & their road infra cess - National Calamity Contingent Duty on Tobacco products	2.58 lakh cr	259612 cr	259600 cr.
Customs Duty & Social Welfare Surcharge	1.29 lakh cr	1.30 lakh cr	1.45 lakh cr

Interim Budget-2019 Projections for Union Taxes in Descending order of Revenue:

- Indirect taxes in ↓ order of revenue: _____ > _____ > _____ .
- Direct taxes in ↓ order of revenue: _____ > _____ > _____ .
- Direct & Indirect taxes: _____ > _____ > _____ > _____ > _____ > _____ . [Before GST-regime, Corporation Tax used to be the highest source of revenue for Union].



16.9 GST RELATED ORGANIZATIONS

We already learnt about the GST council in the previous pages of handout. Apart from that...

16.9.1 Group of Ministers (GoM: मंत्रियों का समूह)

These committees are set up by the GST Council to look into specific issues from time to time

(list not exhaustive) GoM headed by ↓	Objective ↓
2019-Jan: Nitin Patel, Dy.CM of Guj	Real Estate Sector's issues under the GST
2019-Jan: Sushil Modi, Dy.CM of Bihar	Identify the factors responsible for revenue shortfall in SGST faced by several states, & how to solve it.
2018-Sept: Sushil Modi, Dy.CM of Bihar	Modalities for revenue mobilisation in case of natural calamities and disasters.

16.9.2 Distribution of Admin. Responsibilities प्रशासनिक जिम्मेदारियों का विभाजन

	In Excise-VAT regime→	In GST-regime
Union	Central Board of Excise and Customs (CBEC:केंद्रीय उत्पाद एवं सीमा शुल्क बोर्ड) officials looked after the indirect taxes of the union, [They're recruited by UPSC and SSC].	<ul style="list-style-type: none"> - Budget-2018: CBEC renamed into Central Board of Indirect Taxes and Customs (CBIC:केंद्रीय अप्रत्यक्ष कर और सीमा शुल्क बोर्ड) - For tax-payers' with turnover below ₹1.5 crores: their supervision / administrative workload divided between union and state officials in 10:90 ratio. - If turnover ₹1.5 cr/> then 50:50.
State	State department officials would look after the indirect taxes of the state, recruited by respective State PSC.	

16.9.3 _____ (NAA/NAPA)

राष्ट्रीय मुनाफाखोरी निरोधक प्राधिकरण

- GST provides input credit for most of the direct and indirect taxes of the Union and State Government. So, entrepreneur's cost of production should decline, then he should also reduce the prices for consumers, yet many companies have not reduced their prices e.g. Dominos Pizza, Nesle, Hindustan Unilever toothpaste, detergents etc.
- To teach them a lesson, To curb their profiteering, Union govt has **set up NAA under Central Goods and Services Tax Act, 2017.**
- Depending on the case, NAA can order the culprit company to 1) reduce the prices 2) refund money with interest to consumers 3) deposit money to Consumer Welfare Funds at union & state level 4) Impose penalty, cancel registration. Further appeal→ HC.
- This Authority shall cease to exist after two years from its inception, unless GST council renews it.



16.9.4 (AAR-अग्रिम फैसलों के लिए प्राधिकरण)

- Diabetic foods supplements are subjected to 12% GST whereas pasteurized milk is subject to 0% GST. Amul plans to launch 'Amul Camel Milk' with bottle label saying "Camel milk is easy to digest and is high in an insulin-like protein, hence beneficial for diabetic person." So, whether Amul's product be subjected to 0% GST or 12% GST? An entrepreneur would like to such have clarification from Tax authorities before starting the production, lest he gets tangled in raids and litigations afterwards.
- Hence CGST Act, 2017 provides for a **statutory body** called Authority for Advance Ruling (AAR), where entrepreneur can seek such advance clarification.
- **Higher appeal?** Appellate Authority for Advance Ruling (AAAR: अग्रिम फैसलों के लिए अपील प्राधिकरण).
- **Benefit?** reduces litigation & harassment afterwards → Ease of doing business (व्यापार करने में आसानी) → attract Foreign Direct Investment (FDI: प्रत्यक्ष विदेशी निवेश).

16.9.5 GSTN Network (Not for Profit Company- मुनाफ़ा रहित कंपनी)

2013: Goods and Services Tax Network (GSTN) "Not for Profit" Private Ltd. company was set up under the Companies Act.

Original Partners	Ownership from 2013-18	Ownership in future**
Union govt	24.5%	50%
All states of India (incl. Delhi & Puducherry)	24.5%	50%
Non-Government Financial Institutions such as HDFC Bank (20%), ICICI Bank (10%), NSE (10%), LIC Housing Finance (10%)	51%	0%

- ****2018-May:** GST Council approved acquisition of entire 51% equity held by non-Governmental institutions & distribute it equally between Centre and the State Governments.
- This company runs the GSTN online portal, where the suppliers register themselves, pay their GST, claim input tax credits, generate e-way bills etc. [Infosys Ltd. helped develop this portal.]
- GSTN Network Ltd. also provides the IT infrastructure and software services to GST officials for monitoring the tax compliance, issuing notices, data mining etc.
- In future, such data could also be shared with the RBI's _____ so the lenders can have a 360 degree profile / complete picture of the borrower's business. [Homework: the Fill blank from earlier handouts by yourself.]
- **GST Suvidha Providers (GSPs):** These are selected private IT/Fintech companies that develop apps / softwares That help the taxpayers interact with GSTN portal.

16.9.6 Project Saksham: Digital/ICT integration (2016)

- Previously, the CBEC used to collect the excise and service tax online using a digital portal called ACES (Automated Central Excise & Service Tax). For Customs Duty they had another online portal called Indian Customs Single Window Interface for Facilitating Trade (SWIFT).



- In GST-regime, service tax is completely subsumed; Union excise duty is applicable on selected items only (Petrol, Diesel etc), and Customs Duty is out of GST-regime. So accordingly, the previous portals, softwares and digital processes had to be re-engineered to align with the GSTN portal. So,
- **2016:** CBEC/CBIC launched, “Project Saksham” for Digital/ICT re-engineering/web portals’ integration.
- **2018: Indian Railways** also launched Project Saksham but with different objective of employees’ training and skill-upgradation for doing railway related work.
- Recall: **ESIC:** Project _____, **Postal Dept:** Project _____ [**Homework:** Fill blanks from earlier handouts by yourself.]

16.9.7 HSN and SAC Codes

- **Service Accounting Code (SAC)** are used for classifying services for GST rates. e.g. coaching services = SAC Code 999293 = 18% GST.
- **Harmonized System of Nomenclature (HSN)** developed by the World Customs Organization (WCO) is used for classifying goods for GST rates. e.g. Jarda scented tobacco = HAC code 24039930 = 28% GST.
- **Benefit?** HSN-SAC coding helps in accounting, billing, digitization, surveillance & big data analytics by Tax authorities.

16.10 PAN vs GSTIN

Difference	PAN: स्थायी लेखा संख्याक	GSTIN: वस्तु एवं सेवा कर पहचान संख्याक
Full form	Permanent Account Number issued by the Income Tax Department	Goods and Services Tax Identification Number issued by the Central Board of Indirect Taxes & Customs (CBIC, previously known as Central Board of Excise and custom CBEC)
example	Suzlon Energy Ltd: AADCS0472N	Suzlon Energy Ltd: 24AADCS0472N1Z8
Format	10 digit alphanumeric number (=containing both alphabets and numbers)	2 digit state code+ 10 digits PAN number + 3 characters = total 15 characters (=containing both alphabets and numbers)
Who has to get it?	Every income tax assessee- individual, HUF, firm, company, trust (internal different not imp.)	<ul style="list-style-type: none"> - IF Individuals / firms registered under the Pre-GST law (i.e., Excise, VAT, Service Tax etc.) OR - IF your biz. turnover is above a threshold limit of “x” lakhs for ordinary states or “y” lakhs in Sp.cat. States. OR - Merchants who sell through e-commerce aggregators like Amazon.
Do all taxpayers have it?	Every PAN card holder is not REQUIRED to have GSTIN. (e.g. a salaried employee)	Every GSTIN holder is required to have PAN card number. (Because its format is like that, observe “format” row above).



Difference	PAN: स्थायी लेखा संख्याक	GSTIN: वस्तु एवं सेवा कर पहचान संख्याक
How many numbers / cards can one have?	<ul style="list-style-type: none"> Only 1 PAN number allowed per individual. Only 1 PAN number allowed per company. Subsidiary firms will have to get separate PAN numbers. 	<ul style="list-style-type: none"> If firm operates from more than one state, then a separate GST registration is required for each state. If a firm has multiple subsidiaries, they have to get GST number for each e.g. "Faith Hospitality Chain Ltd → Sam's Pizza restaurant, Sankalp Dosa restaurant, Saffron Punjabi restaurant"
Objective	Prevent the evasion of direct taxes.	Prevent evasion of GST, and help the entrepreneurs claim their input credits.

- PAN number is required for various activities like opening of bank account, opening of demat accounts (for trading in securities), obtaining registration for GST, VAT-Excise registration (for Petrol-Liquor dealers) etc.
- So, PAN is slowly becoming a Common Business Identification Number (CBIN) or simply **Business Identification Number** (BIN: सामान्य व्यवसाय पहचान संख्याक)- because if a Department knows your PAN number they can dig all information about you, know whether you're eligible to fill up a particular tender or contract or a scheme application form or not?

16.10.1 PAN/GSTIN vs UID (=Aadhar Card)

PAN and GSTIN	UID (=Aadhar Card)
Issued by the direct and indirect tax authorities that function under Ministry of Finance.	issued by a Statutory body- Unique Identification Authority of India (UIDAI: भारतीय विशिष्ट पहचान प्राधिकरण) that functions under Ministry of Electronics and Information Technology (MeitY).
These Tax authorities derive powers from: <ul style="list-style-type: none"> Income Tax Act 1961 Goods & Service Tax Acts in 2017. 	Aadhaar Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016 ("आधार एक्ट 2016")
Primary objective of these id-numbers is to reduce tax evasion by tracking the transactions.	Primary objective is to eliminate bogus beneficiaries in government schemes & reduce subsidy leakage. Auxiliary benefits: Identifying dead bodies, tracking criminals, mobile number ownership, tax evasion etc.
Their format contains both numbers and alphabets.	Unique Identification number (UID) or Aadhaar is a 12 digit number. No alphabets.
Issued for individual humans, HUF/firms/companies/trusts**.	Only for living resident HUMANS of India. Not given for companies.
One HUMAN → one PAN number only. No age limit. Minors can also join.	same



PAN and GSTIN	UID (=Aadhar Card)
<ul style="list-style-type: none"> - ~₹110 Fees to get PAN card. - No fees to get GSTIN 	No fees to get Aadhar. मुफ्त में मिलता है.
Compulsory to enroll (अनिवार्य है), if your income or turnover is beyond “x” rupees**.	Voluntary to enroll. आधार कार्ड बनवाना स्वैच्छिक है. अनिवार्य / बाध्यकर नहीं है.**
They contain <ul style="list-style-type: none"> - Name - Photograph & Date of Birth (in case of “Human”) - Address. 	Demographic info: <ul style="list-style-type: none"> - Name, Date of Birth, Gender, Address. - Mobile & Email (optional) Biometric info: <ul style="list-style-type: none"> - Ten Fingerprints, Two Iris Scans, and Facial Photograph.

Self-Study? Right to Privacy debate / judgement; Aadhaar virtual ID

16.11 GST: BENEFITS (लाभ)

- ✓ GST covers both goods and services, with standard rates, minimal number of cess/surcharges.
- ✓ GST online portal and e-way bill system reduces the interface between tax-officials and the assesses, thereby reducing the scope of harassment, bribery and Inspector Raj. (=Ease of doing business).
- ✓ GST provides input credits to suppliers thereby incentivizing them to sell with invoice at every stage. Thus, GST will expand our tax base and improve tax collection, and deter tax evasion.
- ✓ GST Input credit system reduces the cascading effect of taxes, ↓ cost of manufacturing & selling, while its anti profiteering authority ensures that such benefits are passed on to the customers in the form of reduced MRP.
- ✓ Federal nations such as Canada and Australia shifted from VAT to GST regime. It helped boosting their revenue, GDP and exports.

Before GST	After GST
Central Sale Tax (CST) was levied on interstate trade of goods. On the “trade” but not “transport”, so car companies, TV/Fridge companies would set up warehouses in multiple States to avoid paying CST.	<ul style="list-style-type: none"> - Company has no incentive to setup warehouses in every state, just to avoid tax burden. Because CST no longer exists and company will get IGST, SGST and CGST credits on their inputs= efficient logistics and transport. - Thus, GST will help to create a unified common national market for India, & catalyse “Make in India”
A car company would aim for “in-house production” of all necessary intermediate-goods and accessories (e.g. tires, windshield, car-stereo player) because if they buy those raw / intermediate goods from outside, they’ll	GST provides input credits in more efficient and comprehensive manner therefore, instead of trying to become Jack of all trades, company will pursue Ancillarisation, Subcontracting and Outsourcing to procure



Before GST	After GST
have to pay variety of taxes / cess / surcharges on which Input credit may not be available.	from MSME industry and freelance professionals.= More jobs.(अनुषंगीकरण, उपठेका और आउटसोर्सिंग)
Suppose, a mobile is manufactured at ₹10,000/- & is subject to 9% Excise duty and 9% VAT. Then - 9% Union Excise duty = 900. (calculated on base of 10,000) - 9% State-VAT = 981 (calculated on base of 10,900 after including excise duty).	Both CGST and SGST are computed on the same base (₹10,000), therefore tax burden on final consumer is less in GST regime, than in Excise-VAT regime. Thus, GST will reduce overall impact of tax on end-customer, so his purchasing power will improve, leading to more demand, more sales, more business expansion and GDP growth & jobs.
State government charged VAT on sale of goods, but VAT rates were not uniform throughout India. A laptop bag might attract 12%VAT in one state and 18%VAT in another. This provided scope for 'rate arbitrage' (दर मध्यस्थता) i.e. buying from another state for profiteering, even if same item available in home state. Then State government will have to deploy more officials at the check posts, leading to bribery, harassment, inspector-raj.	SGST/UTGST rates are uniform throughout India, so there is no scope of rate arbitrage. Whether you buy a laptop from Chennai or Mumbai the GST% tax rate will be same.

16.11.1 GST Benefit: Zero Rated Exports (शून्य रेटेड निर्यात)

- When company buys raw material or intermediate goods it will have to pay GST but if final product is exported outside India (or sent to Special Economic Zone/SEZ in India), it'll be subjected to 0% IGST.
- So, whatever GST the company had paid on the inputs, all of that will become its "Input Tax Credit" (and company can use this ITC to pay for the taxes on the purchase of raw material and intermediate goods in the next time), thus reducing its cost of production.
- This will improve price competitiveness of Indian products in foreign markets.
- Australia and other GST countries also follow similar "zero rated export" regime.

MCQ. What is/are the most likely advantages of implementing 'Goods and Services Tax (GST)'? (Asked in UPSC-Pre-2017)

1. It will replace multiple taxes collected by multiple authorities and will thus create a single market in India.
2. It will drastically reduce the 'Current Account Deficit' of India and will enable it to increase its foreign exchange reserves.
3. It will enormously increase the growth and size of economy of India and will enable it to overtake China in the near future.

Select the correct answer using the code given below:

- (a) 1 only (b) 2 and 3 only
(c) 1 and 3 only (d) 1, 2 and 3



16.12 GST: CHALLENGES FOR MAINS & INTERVIEW (चुनौतियां)

16.12.1 High Rates and Multiple Slabs (उच्च दर और कई स्लैब)

- If Union and States abolished existing indirect taxes (Excise, Custom and VAT), then their revenue income will obviously decline. Therefore, GST rate needed be high enough to sustain any fall in revenue collection. Such 'ideal' rate of GST, is called Revenue Neutral Rate (RNR). In, Singapore GST only 7%, Australia GST only 10%.
- Whereas in India we've 5-12-18-28% slabs. Many daily necessities are in 18% GST slab. Indirect taxes are regressive in nature & harm the purchasing power of poor families.
- Petrol, diesel, electricity are not subjected to GST regime yet, So, businessman cannot claim GST-input credit on them. Even when the crude oil prices are falling in the international market, the Union and State governments donot reduce their Union excise and state VAT on the petroleum fuels, which further aggravates the inflation and business cost.

16.12.2 Inconvenience to Small Traders (छोटे व्यापारियों के लिए असुविधा)

- In GSTN webportal, the traders have to deposit the GST on monthly basis, upload various forms & invoice details, generate e-way bills. While government has tried to keep these online forms/ mechanisms as simple as possible, but since many small traders are not proficient with computer, excel / accounting software, internet, digital payments- GST-compliance creates inconvenience to them, and forces them to hire full time accountants, raising their cost of operations. (**Counter:** Even in erstwhile VAT system they had to upload similar things so, it's not entirely new or alien system imposed upon them. Besides, they can opt for the GST composition scheme where they have to upload things on quarterly basis instead of monthly basis)
- GSTN server crashes often so traders can't upload things on time, and then they've to pay penalty for crossing monthly deadlines. (**Counter:** GST Council has reduced the late-fees, GSTN portal has been given technical upgrades to reduce the glitches/outages.)
- Malaysia scrapped GST in 2018 due to popular uproar against it, So it will not be successful in India either! (**Counter:** Malaysia had subjected all the goods and services to a flat rate of 6% and the opposition parties were blaming it for the inflation, and there were many political dimensions to the entire controversy. Whereas in India, we have kept many daily necessity goods at 0% to 5% GST. RBI has been successful in keeping the inflation within 2-6% CPI limit. GST is implemented through Constitutional Amendment so even if RAGA promises to "UNDO" this Gabbar Singh Tax, he'll have to go for another Constitutional Amendment to scrap the GST which is not so easy.)



16.13 CONCLUSION TEMPLATE: (SUMMARIZE /END ON POSITIVE NOTES)

1. (if asked to examine critically the challenges or obstacles in GST) Any new change is accompanied by difficulties and problems at first. A tax reform as comprehensive as GST is bound to pose certain challenges not only for the government but also for business community, tax authorities and even common. But ultimately, <write any of above benefits>
2. With the aforementioned features / benefits, GST will help India progress towards “ONE NATION, ONE TAX, ONE MARKET”. **OR**
3. Indeed, the introduction of GST is truly a game changer for Indian economy as it has replaced multi-layered, complex indirect tax structure with a simple, transparent and technology-driven tax regime. **OR**
4. Thus, GST eliminates cascading of taxes and reduces transactional and operational costs, thereby enhancing the ease of doing business and catalysing “Make in India” campaign.

16.14 MAINS QUESTIONS ANSWER IN 250 WORDS EACH

1. (Asked in GSM2-2017) Explain the salient features of the constitution (One Hundred and First Amendment) Act, 2016. Do you think it is efficacious enough ‘to remove cascading effect of taxes and provide for common national market for goods and services’? १०१ वे संविधानिक संशोधन अधिनियम, 2016 की मुख्य विशेषताओं को स्पष्ट करें। क्या आपको लगता है कि करों के सोपानी प्रभाव को हटाने और आम राष्ट्रीय बाजार बनाने के लिए यह पर्याप्तरूप से प्रभावकारी है?
2. With respect to ease of doing business in India, discuss the importance of following (1) E-Way Bill System (2) Authority for Advance Ruling. भारत में व्यापार करने में आसानी के संबंध में, निम्नलिखित के महत्व पर चर्चा करें (1) ई-वे बिल प्रणाली (2) अग्रिम फैसलों के लिए प्राधिकरण
3. “Is GST a boon or a bane?” examine critically from the small traders’ perspective. “क्या जीएसटी एक वरदान या अभिशाप है?” छोटे व्यापारियों के दृष्टिकोण से गंभीर रूप से जांच करें।