Chapter – V- Taxation

**Unit -01 – Meaning of Taxation**

Taxation: Taxation may be defined as the process of imposing a specific value of financial liability to the People of the Nation by its Government. There are many factors that contributes to the taxation process. Let’s see them in details provided as under.

1. **Tax Laws:** There is a very deep connection between law and Taxation methods adopted in a Nation. To understand the connection between law and taxation, the first thing is to know that, any Government in the World cannot require from the People residing in its Country, unless such requirement is governed by Law. If there is no Law to support the requirement made by the Government, then such requirement would be considered as illegal and shall not be approved by Government authorities to be taken to its People for any Purpose. This is applicable for Both Democratic Countries and Kingdoms (Royal Ruling). In other words, the method of Government is such that the relevant Law is made first and then the requirement pertaining the matter is taken to the People. Therefore, to require People take obligation to pay money to the Government in the name of tax should also be supported by relevant law. As we have seen above, without such a law, nobody in the Country can be taxed. Let’s see how Government take necessary steps for implementation of Tax in the Country.

**Creation Of law:** There are various methods of Creating and implementing laws in different countries across the World. The most common of these methods amongst Countries across the World is by presenting the need or requirement of the law for a specific purpose at the Higher House of People’s representatives in Democratic Countries (Example Parliament House in India) and at the Higher House of Royal Government Authorities in Kingdoms (Example: House of Lords in U.K.). At these Houses, the requirement for the law is presented in the form of a document called “Bill.” All the aspects of the Law in requirement such as its purpose, Scope, the financial values involved are well narrated in such “Bill.” The topic is taken for discussion by higher authorities. After thorough analysis of the requirement made in the form of discussions and other Government measures, the authorities would arrive at a decision. If most of the authorities are in favor of the requirement is made, then it is approved. If there is no majority favoring the requirement, then it will be disapproved or rejected at the Houses. If the requirement for the law is approved, then the Government authorities will take all necessary steps for the implementation of the law for the purpose. Likewise, the requirement for the law for taxation is also presented at the relevant houses. If the requirement of law for taxation of the people is approved, then such law will be implemented by the Government in its Country. This law is called the Tax Law or tax Act. For example, GST Act India 2017, UK Act, UAE VAT Etc. The year following the name of tax law indicates the year of its implementation.

With topics discussed above, we can stand how Law is related to taxation. It is also very important to understand that different countries have different rules and procedures governing the approval of the requirement for law. These rules and procedures will vary from Country to Country. The method described above is basic and mandatory for all countries across the World.

1. **Levy of tax:** The legal processes by which the Government creates the obligation for payment of tax to the people residing in its Country is termed as Levy of Tax. The levy of tax may vary from Country to Country. The common thing amongst Countries pertaining levy of tax is that, such levy should be thoroughly based on the Tax law that governs the taxation in that Country.
2. **Taxable Person:** Before knowing who is a taxable Person, let’s understand the criterion based on which tax is levied by the Government. The fundamental criteria to levy tax is not based on the Citizenship of the person who is taxed. In other words, the Citizenship of the Person is not the factor that decides his or her taxability under a government. Whereas it is the residential status of the person which counts for his or her taxability. Apart from residential status, the existence of place of business in a Country, is another criterion for taxability of the Person in concern. Note that even if such persons are citizens of another Country, they will be taxed if they meet all the criteria as proposed by the relevant tax laws of the Country in which they reside or have a place of business.

Consider this example for a better understanding of this. Consider that “A” is the Citizen of USA. But he was residing in India for more than 5 years. Then according to Indian tax laws, “A” will be treated as a taxable person in India based on the residential status, even if “A” is not an Indian Citizen. Similar upon the scenario where “A” has a place of business in India, is also a legal reason for Government of India to consider “A” as a taxable person based on relevant tax laws, even if “A” is not an Indian citizen.

Note that residential Status, Taxability of Business existing in the Country etc. are decided based on relevant tax laws implemented in the Country in Concern.

1. **Rates of tax:** Rate of tax is the percentage of amount from the income that is to be paid as tax to the Government. This rate is often expressed in percentages (%). The rate of tax is decided by the authorities who make the laws for tax. These rates vary from Country to Country.
2. **Rules of Taxation:** The rules of taxation are the legal method or procedure using which the taxable person is levied with the tax. These rules are also made by the authorities who make the taxation laws. It is very important to understand that the rules are not different from laws. In fact, rules are those guide lines using which the requirement of the law should be executed.

Seen above are the important components that makes up the meaning of Taxation.

**Multiple Choice Questions**

1. Taxation means
2. Deducting a part of income from all Persons
3. Deduction of a part of income from the Citizens only.
4. Deducting a part of income from the people of the Country as per law.
5. None of the above.

Correct Answer: c

1. Taxation rules means
2. Method using which tax is levied on Citizens of the Country
3. Method using which tax is levied on all persons.
4. Method using which tax is levied on taxable person.
5. None of the above.

Correct Answer: c

1. A Person’s taxability is decided by the Government after considering his or Citizenship.
2. Correct
3. Not Correct
4. Depends on Government Policy
5. None of the above.

Correct Answer: b

1. Residential Status means
2. Number of years the Citizen had spent out of the Country
3. Number of years the Citizen had lived in the Country
4. Number of Years a Person had spent in the Country
5. None of the Above.

Correct Answer: c

1. Rate of tax is decided by
2. Members of the higher Government/Royal Houses.
3. Members who require the implementation of tax.
4. Authorities who make the content of Law.
5. All the Above

Correct Answer: c

1. Law in the Country is implemented by
2. By analyzing majority of support from the Higher Government/Royal Authorities.
3. As per the want of authorities who require law.
4. Decision based on the head/highest ruling Person of the Country.
5. None of the above.

Answer: a

1. Tax law is the law pertaining any financial activity of the Country
2. Correct
3. Not Correct
4. Correct in Some Countries
5. None of the above

Correct Answer: b

1. “Levy of tax” means
2. Collection of Revenue by the authorities.
3. Collection of tax amount by the authority.
4. The legal method of creating obligation to pay tax to the taxable Persons of the Country.
5. All the above.

Correct Answer: c

1. Any person in a Country can be taxed.
2. True
3. False
4. Only those Persons who eligible by law for taxation can only be taxed.
5. Those persons who are decided to be eligible by the Revenue authority of the Country.

Correct Answer: c

1. There is Nothing Common with creation of Law amongst Nations across

The World.

1. Correct
2. Not Correct
3. It is common only with the Continent of the Nation
4. None of the above.

Correct Answer: b

**Unit -02 –Definition of Taxation**

**Definition of Tax:** The taxation may be defined as a process in which the Government or the Ruling authority of a Country receives a part of Money from the People of that Country. The definitions for Tax may not extend far from the meaning of taxation as we have understood earlier. However, there are lot of things pertaining taxation, other than what was learnt above. Let’s see further definition of taxation provided as under

1. Governance & Taxation: Taxation is a very important part of governance of any Country in the World. The reason for this is that the objective of any Government in terms of Governing its people is their wellbeing. So, how does taxation help in the wellbeing of people. To understand this, let’s figure out how do maintain our wellbeing in our day-to-day life. We all know that we do it by exchanging money to fulfill the wants for our wellbeing. Anything we do for our self are basically only for our wellbeing and to do anything, we need Money. In other word nothing can be imagined at present world without the use of Money. The same is with Government also. Government also need Money to fulfill any of its want. As primary objective of any Government is the wellbeing of its People, Money is inevitable for government to fulfill this task. Therefore, taxation may be defined as a legal method adopted by the Government for generating money for the sake of wellbeing of its People.
2. **Government Objectives:** The process of governance carried out by the Government has many objectives. To achieve any objective, there are lot of tasks to be done. We know that money is an essential factor to carry out with any tasks. Since taxation process helps in generating Money for government, it may be defined as a government measure to meet its objectives.
3. **Existence of Government:** As we all know; Money is inevitable for the existence of all human beings in the World. As Governments across the countries have the primary objective of wellbeing of its citizens, Money becomes an inevitable need for its very existence. Therefore, the taxation process may be defined as the fundamental Government measure that paves way for its own very existence.

Seen above are some of the definitions that can be provided for the process of taxation. With this we may understand that the definitions of taxation process indicates that its importance is far more important than what can be understood from its meaning.

**Multiple Choice Questions**

1. Taxation is
2. Collection of Money from citizens
3. Collection of taxes from chosen citizen
4. Legal method of collecting Money for the sake of Governance.
5. None of the above.

Correct Answer: c

1. Taxation Does not help in
2. People’s wellbeing
3. Existence of nation
4. Meeting Government objectives
5. All above.

Correct Answer: d

1. Existence of Government means
2. Power of Government until it needs it
3. Furtherance of governance in consideration of people wellbeing.
4. Furtherance of Governance until it is stopped.
5. None of the Above

Correct Answer: b

**Unit-03- Scope of Taxation**

**Scope of Taxation:** Scope means the extent to which an object may be extended. Therefore, scope of taxation means the extent or range in which taxation processes can be extended. Let’s understand in detail about the scope of taxation provided as under.

1. **Commercial Activities:** We all know that existence of the World is purely based on the commercial activities. End of commercial activity means end of the World. This is because the World is primarily driven by Money. For fulfillment of any requirements for Human beings, Money in one way or the other is inevitable. The only way for making and circulating money is by undertaking and running the commercial activity. This is because, no other activity provides any significant priority to money other than the commercial activities. Therefore Government, the citizens & People with an authorized residential status would indulge in some commercial activity which is generally termed as Business. Such businesses will earn money for both owners and the employees associated with that business. As acquisition of money for people wellbeing, the areas of commercial activities or the businesses is one of the areas where the taxation process is extended. The revenue earned by the Person is taxed under the provisions of relevant tax laws. The taxable persons over this extend will be qualified to be taxed as per the provisions of relevant tax laws. These taxable persons mostly consist of entrepreneurs and business who are artificial persons existing only in the eyes of law. The profit earned out of commercial activity is duly taxed under the provisions of existing tax laws.
2. **Employment Activities:** Employment activity is the core activity that drives all Commercial and noncommercial activities in any part of the World. This is because employment is that activity that under takes all the essential tasks and brings it to a completion such that the commercial activity in concern can earn money. A relevant profit earned out of such earnings is distributed as Salary for the employees. This salary makes up the earnings for employee. If under the purview of taxation laws, if the earning of employee is taxable as per the relevant tax law, then such employee will be considered as Taxable person and a specific rate of tax will be applied on the salary earnings of such employee. Hence this is another area where the scope of taxation is extended.

Seen above is the range or extent to which taxation is extended. Since these are the only two activities where generation of money because of the activities undertaken, the scope of taxation is common across the countries of the World.

**Multiple choice Questions**

1. The Scope of Taxation is
2. Unlimited across the nation
3. Extents only to the relevant areas as defined at taxation law
4. All businesses and its employees
5. None of the above.

Correct Answer: b

1. Commercial Activities means
2. Activities undertaken by the Government to earn money.
3. Any activity including charitable activities.
4. Any activity for which earned money is the result.
5. None of the above.

Correct Answer: c

1. Employees means
2. All persons, who are working for any Commercial and noncommercial activity.
3. Only those who work for any commercial activity
4. Only those who are employed by the Government.
5. None of the above.
6. There is nothing common in the scope of tax across the Globe.
7. True
8. False
9. True to some extent
10. Its common only with in the continents

Correct Answer: b

1. Commercial Activity that can be taxed are
2. All commercial activity
3. Only those activities that indulge in a specific business.
4. All those activities that are liable to pay tax as per the tax law.
5. None of the above.

**Unit-04-Objective of Taxation**

**Taxation objectives:** In unit -01, we have seen the meaning of taxation and in unit-02, we have seen the definitions of taxation. We can notice that in both units, there is one thing that is discussed in common. That is the importance of Money. We have seen in both units that money is the fundamental driving force of the World and everybody, including the Government needs Money for its very existence. This may be extended to the fact that generation of money is the primary objective of any activities, other than those activities that are carried out for some other purposes. But even though money is not the objective of certain activity, money is required to undertake that activity also. Therefore, the importance of money is common, irrespective of the nature of activity undertaken. Likewise, money is very important factor for Government also. To undertake any activity, the need for money will stand right from the primary instance of any activity that is being planned. As we know that Government is required to carry out many activities for the furtherance of its governance. Therefore, taxation process is used as one of the methods of generating money for the government. Hence, we can understand that the primary objective the process of taxation is to generate Money for the government.

Now let’s see and understand the areas where the requirement for money is faced by the Government. Let’s begin with the following details for a better understanding of these factors. Requirement of money for Government arises in the following factors.

1. Well- Being of the Citizen: We have seen in our earlier units that the Government of the Country has the primary objective of Citizens well-being. In this part let’s see what are the factors that are considered by the Government for providing well-being for its citizens.
2. Health Care: The well-being of a human being is primarily based on the health of the Citizen. A strong Nation should have sound and healthy human beings as its citizens. Such Citizens will make up the overall strong societies that constitutes the National Population. The healthier and sounder are the citizens, the more will be the National productivity and development. Above all such a state of health will indicate the satisfaction of the population for being the citizen of the Nation. This is very important for the secure existence of the Nation. The more satisfied are the citizen, the more will be their attachment to their home land. Such attachment shown by the National population is a strong indication of national security. More over the lesser the health of population, lesser will be the National development. This will cause a lot of issues towards the factors that helps for the normal existence of the Nation. These factors are productivity, wealth, Nutrition, Materialistic development etc. Upon analyzing these factors, we can find that these factors are interlinked in the following manner. The reduction in Productivity will lead to reduction in National wealth. The reduction in National wealth will reduce the ability of the Nation to provide balanced nutrition for its Citizen. Here, the point to understand is that the Nation does not directly face the inability as described earlier. What happens is that reduction in National wealth will lead to increase in the cost of essentials for the Citizen. The decrease in wealth also causes decrease in the income. Low income and high cost of living will make the citizens unable to acquire the essentials for their day-to-day life. This is what is reflected as national inability, as it is Citizens who make up the Nation. Lack of proper nutrition will become the cause for lower materialistic development. It’s because, understandably an unhealthy population cannot make a significant contribution relating to the materialistic developments as the activities to achieve such development criteria. It requires immense physical strength, intelligence, and psychological stability. It can be very easily clear that such things cannot be anticipated from an unhealthy Population.

Materialistic development is very important for the Nation. This is because the productivity of the Nation is completely depended on the materialistic development such as advanced infrastructure, advanced Machineries, advanced technologies etc. Since unhealthy population cannot achieve such developments, the productivity of the Nation will be low, which will in turn lead to the chain of undesired factors as described earlier. Therefore, health of the Population is very important for the Government. To achieve a satisfactory level of health for its citizens, the Government implements many policies, Plans, and programs relating to health. These plans will include free medical care, free health insurance, medical allowances, Government Hospitals etc. A lot of money will be required to practically implement all these plans. Therefore, health of the population is a Cost concern for the Government.

Let’s now look into some other factors that is a cost concern for the Government.

1. **Education:** Education of its population is another concern for the Government. This is because, to be a well-developed Nation, the Nation in concern must be highly productive. A nation can achieve significant amount of productivity unless its Citizens, who are the working force behind such productive activities for the nation are highly educated/Qualified and skilled. It’s because, for the production activities to be useful, the people who carry out such activities must be well qualified and skilled. Unless the citizens are well educated, no such qualifications or skills can be expected from them. It’s because education makes the basis of knowledge and only knowledge can only provide needful intelligence and skills for developing a human being into a lucrative person for carrying out any task successfully. Apart from this education plays a vital role in individual development that mainly provides for cultural development and advancement of the civilization of the citizens. This factor is inevitable for the normal and secure existence of the Nation. The reason is that unless a human being is culturally developed and has an advanced civilization, will never have any concern for the thoughts such as the “Home land,” its development, attachment towards the home land etc. As such the terms self explains, it can be well understood that it is very vital for a secure existence of the Nation. The lack of such qualities with in the population of the nation will eventually lead to the state in which the nation would just become a hub of human beings with their own view point and requirements. Also, such people will only be focused on their requirements without providing any concerns for the facts such as who they are and what they are. All this happens due to lack of education that creates a narrow view point amongst Population. This narrow view point prevents them from giving any consideration for the nation they belong to will remain only focused on their individual wants. Education helps in eliminating such narrowness from an individual and leads to think and consider for the nation they belong to, to a genuine limit. This will in turn lead to overall development of the citizen where by developing the Nation.

To implement a good education system in the Country, the government must ensure a lot of facilities such as schools, Colleges, Advanced technology learning center etc. In other words, Government had to facilitate all the necessary things to aid its Citizens for getting educated in the fields of Commerce, History, Medical Science, and Engineering etc. For such facilities, the Government require lot of Money. The cost for educating its citizens do not get limited to facilities. In fact, the cost for providing free educations, Scholarships and any other provisions of this kind will add to the cost for Nation education purposes for the Government. These are the factors that make education of its citizens a Cost concern for the government.

1. **Social wellbeing:**  Another important factor that the Government considers for its Citizens is their social wellbeing. Social wellbeing is nothing other than wellbeing of the people in the society. This has more to do with materialistic world in which the people of the country socialize with each other. Here the term socializing is not limited to getting to know each other on certain occasions. Whereas what does it imply is the activities that are carried out in the public by the people. These activities may include traveling, leisure, recreation etc. To indulge in these activities, the people need facilities such as good roads, buildings, parks, transport recreation centers etc. If the aforesaid things are not in good shape or very low in development, then the result will be that such land scape of the country will be very in attractive for any social purposes of the public. This will take away the attractions of the citizens in those aspect where by causing a sense of dullness in such activity in their own country. The purpose of bringing some relief to day-to-day stress will not be served in these areas. This will be a great failure form the part of government pertaining social happiness of its citizens. Apart from this good roads and Infrastructures are also mandatory for national productivity. Therefore, Government provides due importance to these factors and activities relating to these objectives are always carried out. As we have seen throughout, Money plays an inevitable role in successful completion of all these activities. In other words, without money, these activities cannot be carried out money. Failure in successfully completing those activities specified above will lead to failure in Government objectives for the social happiness of the citizens. Therefore, government provide a significant consideration for these factors and thus it becomes a matter of cost concern for the government.
2. **Commercial/Industrial development:** Commercial or industrial development pertains to national productivity and income. In the previous units, we have seen how important the role of money for government activities are. So, a significant national production is required for a good national income. To achieve a good national productivity, the government had to facilitate and promote Industries and other commercial activities such as imports and exports. For the promotion and development of such commercial activities, the government had to take initiative for facilities such as road, rails, Sea ports, Air ports etc. Understandably, the need for money is unavoidable in this case also. Any compromise made in these areas for any reason will have a direct impact on National Productivity where by decreasing National income. Therefore, government always provide keen consideration for these factors and all such activities for this sake is carried out whenever necessary. This causes another concern of cost for the government.
3. **National defense:** This factor is of at most important for the Government of any Country across the World. It’s because national defense pertains to protection of the nation from Internal and external threats. The protection for Country is always given the highest priority. This is because if the country is not protected from the threats in the first place, any measure taken for the wellbeing of its people will go in vain. So, the Governments provide zero compromise for this factor and always choose the most sophisticated and advanced systems for national defense. It needs no mention that to make necessary arrangements for such Advanced National Defense system, the Government needs a huge amount of money. Apart from this, personals are required to be trained and should be paid for their services pertaining national defense. This will further increase the need for money. Hence National defense is another Cost concern for the Government.

Detailed previously are some of the areas where Government need Money for carrying out important activity for wellbeing of the Nation. Apart from this there are many other areas where government requires money. Some of them are higher officials such as ministers pay, Government office facilities, National elections etc. Abnormal situations such as natural calamities, pandemic, riots etc. will be another cause of surprising expenditure for the Governments.

With the aforesaid details we may very well arrive at the conclusion that money is one of the most required resources of the Government. So, to meet this requirement, the government implements many programsor plans. Taxation is one such government plan proposed by the government for the sake of raising money for the sake of wellbeing of its citizens. Hence, we may conclude that, the primary objective of the taxation policy is to raise fund for

National wellbeing.

**Multiple Choice questions**

1. The fundamental resource that drives the life of Human beings is
2. Employment
3. Money
4. Government Policies
5. None of the above.
6. People’s wellbeing means
7. Financial wellbeing of the people
8. National productivity
9. Health & Education of the People
10. All the Above

Correct Answer: d

1. Population’s health is a very important for
2. National Security
3. National wealth
4. National development
5. None of the Above

Correct Answer: c

1. Materialistic Development is very important because it relates to
2. National productivity
3. Advanced machineries
4. Advanced machineries & technologies
5. All the above

Correct Answer: a

1. Government health policies will include
2. Free medical treatment
3. Free health insurances
4. Hospitals
5. All the above.

Correct Answer: d

1. National productivity depends on
2. Skilled workers
3. Educated & skilled work force
4. Technology used for production
5. None of the Above

Correct Answer: b

1. Individual development is governed by
2. Financial stability
3. Education
4. Advanced technologies
5. None of the above

Correct Answer: b

1. Individual development will lead to
2. National Security
3. Positive and desired thoughts for the Nation
4. Materialistic development
5. None of the above.

Correct Answer: b

1. Social wellbeing is aimed at
2. Materialistic developments
3. Industrial/Commercial development
4. Developments for citizens social happiness
5. None of the above.
6. Building parks is an example of
7. Activity for National productivity
8. Activity for social well being
9. Activity for national productivity
10. None of the above.

Correct Answer: b

1. Roads, Railways, Sea & Air ports etc. helps in
2. Transportation of People
3. Movements of industrial products
4. Both of above
5. None of above

Correct Answer: c

1. National defense priorities more for
2. Productivity of the Nation
3. Security from all internal threats
4. Security from all kind of threats
5. None of the above

Correct Answer: c

1. Expenditure for national defense is includes
2. Advanced defense technologies
3. Defense staff expenses
4. Defense technology installation
5. All the above

Correct Answer: d

1. Government spends are highest in the areas of
2. Social wellbeing
3. National Production
4. National defense
5. All the above

Correct Answer: c

1. Defense personals has connection with
2. National Security
3. Internal Security
4. Both above
5. None of the above.

Correct Answer: a

**Unit-05-Classification of Taxation**

**Classification of Taxes:** The taxation process is broadly classified into two. This classification is based on the nature of taxable person and the activity that is under taxation. Here the term nature means the way in which the money is earned by the prospective taxable person. In previous units we have seen that the money is either by carrying out a commercial activity or by performing as an employee to earn money in the form of salary. The classification taxation process is based on this nature or the way of earning money. The classifications are

1. **Direct Taxes**:In direct taxation, the person who is liable to pay tax on their income must directly pay tax to the Government. Here the liable person the income earner. The money earned out of such Income will be directly paid to the Government tax authorities. The examples of such earnings are Salary, Commissions, and Service Incomes, income that is received by the income earner in exchange of any service provided to his or her clients and any income aroused from gifts, bets, prizes, gambling etc. The examples of such taxes are Income tax, Municipal taxes, and such tax which must pay directly by the income earner to the tax authorities.
2. **Indirect taxes**: In this type of taxation method, the taxable person is not directly responsible for the payment of taxes to the Government. Instead, a third party, other than the tax payer and tax authority is authorized to collect taxes from the income earner and pay it to the government. The peculiarity of this method is that the income earner is not held responsible for nonpayment of tax instead, the person who is authorized to collect taxes and pay to the Government is held responsible for non-collection and nonpayment of tax. This type of taxation is carried out mostly in the areas of commercial activities such as Factories, Whole sales, retails, Service sector industries, Distributors etc. in other words any business entity that qualifies the requirements of the concerned tax law to be the taxable entity, are taxed under this method. The examples of such indirect taxes are VAT, GST, Customs duties etc. We will have a detailed understanding of direct and indirect taxation method in the units to follow.

**Multiple Choice Questions**

1. The taxation process is broadly classified into
2. Two
3. Three
4. One
5. None of the above.

Correct Answer: a

1. Municipal tax is an example of
2. Indirect tax
3. It not a tax
4. Direct tax
5. None of the above.

Correct Answer: c

1. Gifts, prizes etc. are taxed under
2. Its exempted
3. Indirect taxes
4. Direct taxes
5. None of the above

Correct Answer c

1. VAT is an example of
2. Indirect tax
3. Direct tax
4. Commercial tax
5. None of the above.

Correct Answer: a

1. Income earner is directly responsible for payment of tax in Indirect taxes
2. True
3. False
4. True in some cases
5. Depends on taxable person

Correct Answer: b

**Unit -06 – Global trading and Taxation.**

**Global trading & taxation:** In this unit we will see about the impact of tax laws in global trading. Before getting into this, let’s recall the topic law and taxation that we have seen at the previous units. With it, we are very clear that Government cannot seek from its own people or any foreign nationals, unless such requirements are based on the relevant laws of the Country. Now let’s see how this pertains to global trading. Global trading means, trading that is carried out globally. In other words, the Global trading will include trading between two different countries in the World. In Global trading, two types of trading transactions are involved. Let’s look into each of them and the impact of tax laws in it.

1. **Exports:** Exports is that kind of trading in which the goods are sold to another Country or a sale is made outside the Country. With this it is understood that two different nations will be involved in such trading activity. We have seen that different nations will have their different laws. These laws are applicable only within the boundaries of the Country where the law was made. These laws cannot be extended or implemented legally on any other Countries. Tax laws made by a nation is one such example of law that cannot be extended or implemented on any other Country with legal provisions. Now let’s see how this fact affects the international trading. Since tax laws cannot be extended beyond the Country of its origin, we can say that its impact on the buyer outside the Country is nil. This is because the buyer outside the nation cannot be treated as taxable person since that person is outside the purview of the taxation law in concern. Therefore, the taxation will be applicable only to the exporter and not to the importer who imports the goods. The exporter will have the concerned tax implications because, that exporter will fall within the purview of tax laws of the nation, to be considered as taxable person. Hence all tax burden will be imposed on the exporter only. Therefore, we may conclude that there is no impact of tax laws of the country from where the goods are exported as far as the importer is concerned. The taxes and duties that exporter bears are following.
2. **Commercial taxes:** These are the taxes that government imposes on goods that are bought and sold for trading or commercial purposes. Note that such taxes are relevantly imposed on service products and just like in the case of goods, the importer of services are not affected by the tax laws of the country. The taxes that an importer had to face in the lieu of exports are

**ia) Goods & Service Taxes (GST):** The exporter will have to pay GST for the goods that are purchased for export trading. It is very important to note that GST will not be extended to the country where the goods are exported. All amounts paid as GST by the exporter during the purchase of goods for export will be refunded to the buyer by the Government as may be the provisions of law prevailing in that country. So, with this you can see that the impact of commercial tax is limited with in the countries and not beyond its boundaries. Also note that this will be applicable for the taxable persons of those Countries in which GST is implemented as commercial taxation.

**ib) Value Added Tax (VAT):** In the earlier part, the implication of commercial taxes on exports were detailed. In this part the implication commercial tax in the form of VAT will substitute to GST that was discussed earlier. Apart from this there is no other change in definitions of impact of VAT. Also note that this is applicable for the taxable persons of those countries that have implemented VAT as their commercial taxation.

**ic) Customs duties:** This is a kind of tax which is paid in the form of a duty to the customs department of the nation from where the goods are exported. The exporter had to pay the customs duties directly at the point of export from the country of export. The rates and other regulations pertaining customs duties varies from Nation to Nation.

**Id) Other export Duties:** This is another duty that an exporter must pay during the time of export. The other export duties are to be paid other than the customs duties. The rates and other regulations pertaining the other duties also varies from Nation to nation.

Seen above are the implication of taxation laws on exports of goods or services from a country. Let’s now see the impact on tax laws on Imports, which is another component of global trading.

1. **Import:** Import is that kind of a purchase in which the goods are bought from a place that is outside the Nation. The person who makes such purchases are termed as “Importer.” Let’s now see the implications of commercial taxes on Imports of goods. Just like in the case of exports, where the exporter is affected only the impact of commercial law of the country from where the goods are exported, the importer will also have the effect of tax laws of the country in which the goods are imported only and not any impact of tax laws of the country of export. The impact of taxes on the importer will be the impact of commercial taxes and customs duties and other duties of imports as we have seen above. The important point here to note is that the exporter must pay all commercial taxes before the exports which will be refunded after the exports. In case of imports, the importer will pay all the duties and commercial taxes after the import of goods, which the importer will set off the taxes that he had paid during the sales of goods that were imported. Apart from this all the details that we have seen regarding the impact of commercial taxes and other duties are all the same for Imports also.

In the topics detailed above we have seen the components that are involved with Global trading and impact of taxation laws.

**Multiple Choice Questions**

1. Global trading involves
2. Trading activities
3. Purchase and Sales of Goods
4. Imports & Exports
5. All the above.

Correct Answer: c

1. The extension of commercial law of the Country will be
2. Across the Globe
3. Across the World to some extent.
4. Limited to the boundaries of Nation that creates the law.
5. None of the above

Correct Answer: c

1. Global trading is only associated with the commercial taxes of Countries in concern.
2. True
3. True to some extent
4. False
5. False to some extent.

Correct Answer: a

1. Commercial taxes are those levied on
2. Trading of goods or Services
3. Trading of goods or services with employee remunerations
4. Employee remuneration
5. None of the above

Correct Answer: a

1. VAT is a
2. Commercial tax
3. Direct tax
4. Corporate tax
5. None of the above.
6. During exports and Imports
7. Custom duty must be paid
8. Custom duty and commercial taxes are paid.
9. Custom duty along with other charges are paid
10. None of the above

Correct answer: c

1. Exports means
2. Sales with the Country
3. Sales within and outside the Country
4. Sales outside the Country
5. None of the above.

Correct Answer: c

1. Customs duty is
2. Commercial tax
3. Trading tax
4. Is not a tax
5. None of the above

Correct Answer: a

1. During Import, the person who is liable to pay commercial taxes is
2. Exporter
3. Importer
4. Exporter & Importer
5. None of the above.

Correct Answer: c

1. Anything taken out of Country is an export
2. True
3. False
4. True to some extent
5. False to some extent

Correct Answer: b

**INDIAN TAXATION**

**Unit -07 Introduction to GST**

**Introduction to GST:** GST is the commercial taxation system adopted in India since July-01-2017. The expansion of GST is Goods & Service Tax. This taxation system has many benefits or merits when compared to the commercial taxation system prevailed in India before the Introduction of GST. In fact, the main reason of introducing GST in India was to overcome certain difficulties and the disadvantages of the taxation system prevailed before GST. With Introduction of GST in the year 2017, the concept of Indian Commercial Taxation was to a single taxation throughout India for all commercial activities. Therefore, the motto of the GST is “One Nation, One tax and one market. The motto indicates that there is only one taxation system called GST for all commercial activities in India.

**Unit-08-GST Act-2017**

**GST History:** In this unit we will discuss about the history of GST. This topic pertains to the events and developments that have taken place for the implementation of GST Law in India.

The history of GST is more than two decades old. The idea of GST was first considered during the year 2000. Shree Atal Bihari Vajpayee, the then prime minister of India took the first initiative for GST by setting up an empowered committee with State finance ministers as its members was set. The primary objective of this committee was to study about the possibilities and advantages of implementing GST in India. GST had to be made an object of expert studies before the implementation because, the commercial taxation system of VAT was implemented. This was the taxation system that was followed throughout the Nation. Therefore, to remove such a system and to bring in GST in its place was not an easy task. Hence the panel of state finance ministers were chosen as the members of empowered committee because those Ministers had good experience with VAT, that was implemented throughout India. So, the Prime Minister wanted the committee to study all the aspects such as the advantages, disadvantages, legal compliance issues etc. for the successful removal of VAT and its replacement with GST.

The matter of GST was taken for discussion at the house of People’s representatives of India, that is the Parliament House. The matter went through a lot of discussions for about six years and during the budget speech for the year 2006-07, the then Union Finance Minister Shree Chidambaram announced that GST will be introduced in India by April-01, 2010. But the matter was further delayed owing to various reasons and on 2011, the Constitution bill was introduced in the Parliament. This bill was 115th Amendment bill. Before proceeding further with the history of GST let’s understand the legal procedure of implementing a Law in India.

In the previous units we have seen that Government cannot require from the people of the Country unless a relevant law supports such need put forth by the Government. This fact is applicable to all aspects of Governance. We all know that Taxation is a part of Governance and only Government has the right to levy tax on its People. Hence, with what we have seen above, we may very well understand that the relevant law is required for such levy of tax. It is also very important to understand that, there is a legal or Parliamentary process of changing an existing law in the Country. Before, looking into that process, let’s see how a law is made in India.

The law in India is made at the Parliament House. We know that Parliament house is the House of People’s representatives of the Nation, as India is a democratic Country. That is the Country where the rulers are chosen by the people, for the People and from the people. This is the fundamental logic of democracy. Since rulers are chosen by the people itself, the opinion of the chosen ruler is considered as the voice of the People of the Nation. So, any decision made by the rulers are made by the People and for the People. Due to this reason, the decision making for the Nation has a strict legal process as described at the relevant sections of the Indian Constitution. Note that every Country in the World, whether Democratic or Royal Kingdoms, has such Constitution and the process of making decisions for the Country will be made very clear at its relevant sections. So, any such process of making decision in the Country must go through strict constitutional Laws and procedures. Implementing a new law or changing the existing law is also deciding for the Country and the rulers of the Nation comply with all those regulations before making any decision for the Country.

The Parliament house consists of two main houses. The Lok Sabha and the Rajya Sabha. Lok Sabha consists of the representatives who are elected by the people of the Country. The members of Rajya Sabha consists of the representatives who are elected by the representatives of Lok Sabha. The Lok Sabha is led by the Speaker and the Rajya Sabha is led by the Hon. Vice President of India. Any decision made at Lok Sabha will be taken to Rajya Sabha for further discussion and the decision to implement the Law in the Country will be approved by the Hon. President of India with an “assent” for the implementation of the law in concern.

The Parliament will consist of both ruling and opposing parties of the Nation, as India is a democratic Nation. Any decision made at the Parliament house should have the support of the representatives of the people who are present in the Parliament house. These representatives are the Chosen Ministers and other authorized members of the Parliament house called member of Parliament or MP.

As per the Indian constitution, 50% majority of the representatives present at the Parliament house is required to make any decision. Therefore, the need for a new law is presented by the rulers who are interested in its implementation in the form of a “Bill”. The bill will contain the details of law that is proposed. The bill is read at the Parliament and it is submitted for voting to check majority. The opinion of the members is presented in the form of vote. If the favoring votes exceeds 50% of the strength of Members present at the House, then the decision for implementation of the proposed law will be made. If there is no required percentage of favoring vote, then the “Bill” will be rejected at the House and the proposed law will not be implemented. Now let’s see how the changes to an existing law in the Country.

Any changes made to the existing law in the Country is called ‘Amendment’ by the terms of Indian Constitution. For amendment an “amendment bill” will be presented at the parliament house and the bill must go through all the procedures as for the ‘Bill’ proposing a new law. If there is majority at the house, the amendment will be made, if not it will be rejected at the house and the proposed change will not be brought about.

Now let’s recall the 115th Amendment bill introduced at the house during 2011. This bill proposed the change or amendment from the VAT law that was implemented in India during that time. But the house was dissolved in the lieu of discussion in the year 2014. Therefore, the need for a new bill proposing GST for the Nation was aroused.

On the same year which the 115th amendment bill was lapsed, that is on 2014, the 122nd amendment bill for introduction of GST was presented in Lok Sabha. After the discussion, the bill was passed and Lok Sabha and was referred to Rajya Sabha.

In the following year, that is on 2016, the bill was passed at both Rajya Sabha and Lok Sabha. The bill was approved and notified as 101st Amendment bill. This is because the bill was rolled as bill no 122 for approval. The number was changed to 101, because the roll number of last bill approved was 100.

In the same year, that is on 2016, the GST Counsil was set up with an objective of bringing up an empowered body that has all the powers pertaining GST in the Country. The Chairman of this Counsil was the then Union Finance Minister Shree Arun Jaitly. There is total 33 members in GST Counsil including the Chairman. The Chairman and one other minister will be from the Central or Union Government and other 31 members will be from the States and Union territories who have the powers as head of State or Union Territory for Finance.

All the preparations pertaining implementation of GST was initiated by the GST Counsil and finally on 01-July -2017, the GST was officially implemented throughout the Nation expect in the State of Jammu & Kashmir. On 08-July -2017, the GST was implemented in the State of Jammu & Kashmir also. The Prime Minister of the Nation was Shree Narendra Modi when GST was implemented. The aforesaid Prime Minister is still holding the Position.

Since the implementation, GST has gone through various additions, other than the fundamental rules that were implemented. This is the nature of any Law. Laws are always subject to new additions with the basis of the law always kept intact. Recall the process of amendment that we have learnt earlier. Any change or changes made to the existing law is termed as ‘Amendment” of Law as per legal terminology. Such amendments that GST had gone through since its implementation has under gone all the constitutional proceedings that we have learnt earlier.

Seen above are some of the points relating to the History of GST.

**Multiple Choice questions**

1. GST is a
2. Commercial Tax
3. Tax on Income earned from Commercial activities
4. Direct Tax
5. None of the above.

Correct Answer: A

1. GST has many advantages when compared to the previous taxation system
2. True
3. False
4. Partially True
5. Not applicable question.

Correct Answer: a

1. Motto of GST indicates that
2. There will be a State wise commercial taxation
3. The GST will be based on the nature of market
4. A single taxation system throughout the Country
5. None of the above

Correct Answer: c

1. The History of GST dates to
2. 2020
3. 1995
4. 2016
5. 2000

Correct Answer: d

1. The Prime Minister who took the first step for GST in India was
2. Shree P.V. Narasimha Rao
3. Shree V.P. Singh
4. Shree A.B. Vajpayee
5. Shree N. Modi

Correct Answer: c

1. The primary objective of empowered committee set up by Shree A.B Vajpayee was
2. Bring amendments to VAT
3. Create Special GST rules for Union Territories
4. To Implement GST in India
5. To Study the feasibility of GST in India

Correct Answer: d

1. The announcement pertaining GST was first made in the Indian Parliament during
2. 1998-99
3. 2000-05
4. 2010-2016
5. 2006-07

Correct answer-d

1. Indian Parliament consists mainly
2. Two Houses
3. Three Houses
4. One House
5. None of the above

Correct Answer: a

1. Representatives to Rajya Sabha are elected by
2. The People
3. Special elections
4. By members of Lok Sabha
5. None of the above.

Correct Answer: c

1. The Law in India is made at
2. The Prime Minister’s office.
3. The President’s Office
4. The Vice President’s Office
5. The Parliament House

Correct Answer: d

1. The need for new Law in India
2. Comes as an order from the Prime Minister
3. Comes as required by the President of India
4. Proposed as a bill at the Lok Sabha
5. None of the above.

Correct Answer

1. The first bill that was proposed for GST was
2. 101st amendment bill
3. 115th Amendment bill
4. 122nd Amendment bill
5. None of the Above.

Correct Answer: b

1. The first bill for GST was proposed on
2. 2011
3. 2017
4. 2014
5. 2016

Correct Answer: a

1. GST was approved by both houses in the year
2. 2011
3. 2016
4. 2018
5. 2014

Correct Answer: b

1. GST in India was approved as
2. 101st Amendment bill
3. 122 amendment bills
4. 115th Amendment bill
5. None of the Above

Correct Answer: a

1. The Majority required in the Parliament House to pass a bill is
2. 40 %
3. 60%
4. More than 50% of actual strength of the House
5. More than 50% of the strength present at the House.

Correct Answer: d

1. GST was implemented in India
2. On July 1st 2017
3. On July 1st 2016
4. In two phases with first phase on 1st & second phase on 8th of July -2017.
5. None of the above.

Correct Answer: c

1. The activities of GST in India are controlled by
2. Union Finance Minister
3. Chief Ministers of the State
4. State Finance Ministers
5. GST Counsil of India

Correct Answer: d

1. The Head of GST Counsil is
2. The Prime Minister of India
3. Central Finance Minister
4. The President of India
5. The Vice president of India

Correct Answer: b

1. Different States in India has different GST Laws
2. True
3. False
4. It’s True for Union Territories
5. Options cannot be applied

Correct Answer: b

**Unit -09 – Definition of Goods & Service Tax**

**Definition of GST**: GST may be defined as an indirect taxation policy that covers throughout India. As we have seen earlier, the main objective of GST is to provide uniformity across commercial taxation process across the Nation. The definition of GST may be detailed as following

1. **Destination based tax:** GST is a destination-based tax. It means the final burden of GST falls at the end consumer of the product for which GST is levied. The end consumer is the destination of the product and hence it is termed as destination-based tax. Let’s see the example of product “A” given below for a better understanding of this.

See the diagram representing the movement of product “A” from the Factory to the end consumer. This chart shows movement of Product “A” in the supply chain.

|  |
| --- |
| **Phase -01 of Supply Chain**  Consider that a factory purchases raw materials after paying GST. The factory manufactures product “A”. The value of GST paid by the factory for raw materials was Rs 10. The factory sells the Product “A” to a whole seller with selling price of Rs 100 and GST amount Rs. 20/-. That is total Rs.120/- |
| **Phase -02 of Supply Chain**  The Factory pays Rs 10 out of Rs. 120 collected from the whole seller as GST. Rs. 10 will be held by the factory as “set off” amount against the GST paid to the supplier of raw materials. So, in effect, the amount paid as GST, that is Rs 10by the factory is received back by the process of “set off”. The remaining Rs 100 will be retained by the factory as sales receipt. Hence, in the second phase, the whole seller has made a payment of RS. 20 as GST, through the factory |
| **Phase -03 of Supply Chain**  In this phase, the whole seller sells the product “A” to the retailer for the product value of Rs 115 plus 30 Rs as GST. A value of Rs. 145 will be collected by the whole seller from the retailer. Rs 20 out of Rs 145/- will be kept as “Set off” amount by the retailer and remaining Rs10/- will be paid to the Government as GST. The remaining Rs 115/- will be retained as the whole seller as sales receipt. In this phase also we can see that the amount paid as GST by the whole seller is received back by the process of “set off”. It can also be noted that the retailer in this phase has paid GST amount of Rs 30/- to the Government through the whole seller. |
| **Phase -04 of Supply Chain**  In this phase the retailer sells the product to a consumer for a price of Rs.130 plus GST amount of Rs 40, that is a total of Rs.170/-. The retailer will hold Rs 30/- as GST “set off” amount and Rs. 10 will be paid to the Government as GST. So, in this phase also we may observe that the amount paid as GST by the retailer was received back by the process of setoff. We may also note that the GST amount paid by the end consumer will bear the GST of Rs 40/- . This is because the consumer is the end or the destination of the product from where the product will not move further for any setoff. This means the GST will be affected at the destination point of any product in the supply chain, irrespective of the phases it passes through. In other words, no matter how many phases are there in the supply chain of the movement of a product, the GST will be effective only at its destination. |

Let’s understand how does the Government receives the apt amount of GST even if there are set off GST in the lieu of furtherance through the supply chain.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **PHASES** | **SUPPLY CHAIN STATUS** | **GST COLLECTED** | **GST SET OFF AMOUNT** | **RUNNING BALANCE OF GST PAID TO GOVERNMENT** |
| 1 | **Factory.** Purchase of raw materials with payment of GST to the raw material supplier | 10 | 0 | **10** |
| 2 | **Whole Sales**  Sales of goods to whole seller with collection of GST by Factory | 20 | 10 | 10+10=**20** |
| 3 | **Retail Sales**  Sales of goods to retailer by the whole seller with collection of GST | 30 | 20 | 10+20=**30** |
| 4 | **Final Consumer**  Sales of goods to end consumer by retailer with collection of GST | 40 | 30 | 30+10=**40** |

Throughout the table we can observe that the amount collected as GST during any phase equals with the balance total GST amount paid to the Government for the product. This is how the setoff mechanism works. In future units we will be learning more about setoff mechanism. The table above describes why does GST is called the destination-based tax.

1. **Value added tax:** GST is value added tax. This means that the value of GST amount to be paid to the Government increases as the value of product increases. The important thing to note here that the rate at which the GST is levied will not change with the change in the value of goods. The change affects only the amount of GST to be paid to the Government. We will be learning more about the rate of GST levied in future units. Let’s understand the concept of value added tax with the help of table as shown under. This table describes the sales of product “B” in four phases of supply chain.

|  |  |  |  |
| --- | --- | --- | --- |
| **PHASE** | **VALUE OF PRODUCT** | **GST RATE** | **GST AMOUNT** |
| Factory | 100 | 5% | 5 |
| Whole seller | 200 | 5% | 10 |
| Retailer | 300 | 5% | 15 |
| Consumer | 400 | 5% | 20 |

With table above you can we can understand that the rate of the GST for product will remain constant throughout its journey through the supply chain until it reaches its destination. This means that the rate of GST for the product will be constant and the value of GST amount keeps changing in accordance with the change in the value of the product.

1. One Tax for the whole Nation: GST may also be defined as an absolute commercial tax for the whole Nation. This means that the laws of GST will be uniform throughout the Nation. In other words, we can understand that the laws of GST will remain constant in all States and union territories of India. This is also treated as one of the peculiarities of GST.

Seen above are the definitions for GST

**Multiple Choice questions**

1. Destination based tax means
2. There will be different GST at different destinations
3. There will be separate GST on each destination
4. GST is levied at the end of supply chain
5. None of the above

Correct Answer: d

1. Total value of GST collected will be different from Total value of GST paid to the Government.
2. True
3. False

Correct Answer: a

1. Due to value added tax property, the rates of GST
2. Changes with changing values
3. Rates of GST remains constant with changing values
4. The GST amount changes with changing values
5. The rates remain constant and the amount of GST changes with changing values.

Correct Answer: d

1. The application of GST throughout the country is
2. Uniform
3. In consistent
4. Separate for Union Territories
5. None of the above

Correct Answer: a

1. GST covers only large-scale industries
2. True
3. False

Correct Answer: b

**Unit-10-GST -Merits**

**Merits of GST :** Merit or in other words, the most significant advantage of GST is its uniformity throughout the Nation. Apart from this some other advantages of GST are

1. It has subsumed many other taxes into it.
2. It provides ease of Legal compliance for traders
3. Higher threshold
4. Eased Interstate trading with in the Country.

The main advantage of GST , that is its uniformity throughout the Nation has provided overall easiness for business doers throughout the nation. Let’s see about other advantages as listed above in detail as given below.

1. **Subsumption of other Taxes :** GST , with its implementation had subsumed many tax into it. In other word, many taxes were converted into one with the implementation of GST in India. The term “subsumed” into GST means that the other taxes which were levied for a product was completely brought under the purview of GST laws. This meant only GST can be levied on those products in which other taxes were levied before subsumption with GST. After subsuming, GST replaced all other taxes that was levied on the product earlier. Some of the examples of taxes that was subsumed with GST are Central Excise duties (Also called CENVAT), Service taxes, additional Customs duties, Octroi tax , State VAT , Central Sales taxes etc. Let’s see how and on what commercial activity that these taxes were levied.
2. **CENVAT:** This tax was levied on those goods, when the transfer of such goods takes place from the production area to the ware house.
3. **SERVICE TAXES:** This tax was levied when the services were carried out for the clients of a service provider.
4. **ADDITIONAL CUSTOMS DUTIES:** Additional customs duties or countervailing duties is an additional duty that is levied on imported goods that were cheaper than the similar goods produced in India. This duty was levied to sustain the interest on domestic goods against similar imported goods that were cheaper than the Indian make.
5. **CENTRAL SURCHARGES & CESS :** These are those addition charges that Central Government levies on commercial products other than regular taxes.
6. **Octroi Tax :** This tax is levied on those goods by the state government that are brought into the State from other locations. This tax is also levied if the goods are transferred from one city to another with in the State.
7. **STATE VAT :** This is the tax that is levied during the commercial transactions of goods and services or both.
8. **CENTRAL SALES TAX:** This tax is levied on interstate transfer of Goods.

Seen above are some of the details of the taxes that were levied on Goods and Services on various scenarios of commercial activities before the GST implementation in India. With implementation of GST all these taxes mentioned were removed from the levy and they were replaced with GST. This considerably reduced the number taxes levied on a product. As a result, it became much easier for the traders to comply with legal regulations pertaining commercial taxation.

1. **Compliance Easiness :** We have seen earlier that the taxation process involves certain rules and regulation to be complied . No commercial activity that qualifies for levy of any tax , cannot be carried without being compliant with the regulations made by the tax laws in concern. So, if there are more taxation rules to comply, the complications thus arise out of such regulations will be immense. Moreover, the activities relating to taxation often requires expert and professional consultations. So, if there are more taxes to comply , there will be more consultation and more consultation cost. This was very common in India before the implementation of GST. Majority of the products had to go through various scenarios of commercial activities . At all stages they were duly taxed with relevant tax regulations. These taxes often counted more than two or three where by increasing the compliance complications and compliance cost. With implementation of GST , the traders had to care for only one tax through out the nation. This relived a great deal of compliance burden and cost burden from those who are business doers of various capacities or ranges. This is another advantage aroused out of implementation of GST in the Country.
2. **Higher Threshold :** Threshold means limit. Therefore, higher threshold means higher limit. Here the term threshold stands for the limit of annual earning that the business man should have to be qualified under the GST taxation laws , to undergo necessary legal compliance to be the part of GST taxation rules. The current threshold of annual earning is

Rs 40 Lackhs for normal States and Rs. 20 Lackhs for special category States. In the units ahead there will be a detailed explanation of special category States. The aforesaid details pertain to the commercial dealings of Goods. The threshold for the trading of services is as following. For normal category States the threshold is Rs 20 Lackhs and for special category states it is Rs 10 Lackhs.

Above we have seen the threshold for GST registration. Let’s now see how does this threshold becomes as an advantage of GST. To understand stand this, a comparison of threshold for taxation as per the other tax laws that were in implementation must be made. See the table given below for a better understanding of this. The table provides the threshold limits of the taxation system that existed before the merger with GST. It is very important understand that these taxes are not implemented on any commercial activities after the implementation of GST. Only a fewer Goods are taxed under those tax regime for which a detailed discussion is not of any significance on this context. Note that the threshold on trading of goods for taxation are mentioned below

|  |  |  |  |
| --- | --- | --- | --- |
| No | Name of Tax | Threshold | GST Threshold |
| 1 | Value Added Tax (VAT) | 5 lacks | 40 lacks |
| 2 | Service Tax | 10 lacks | 40 lacks |

The two taxes shown at the table has most significance for comparison with GST. Its because they were the two taxes during their regime that covered the commercial taxation of majority of goods and services across India. By comparing the figures on the table, we may understand that the threshold for taxation is very low for GST in comparison. This means that only those businesses that has higher annual turn over need to pay GST, unlike in other taxes, where the taxes are need to be paid even if the annual turn over is very low. This fact makes the threshold of GST an object of advantage.

1. **Ease of Inter State Trading :** During the regime of VAT , there were different taxation rules for trading activities with in the State (Intra State) and Trading activities beyond the State (Inter State) . For intrastate activities VAT was imposed and for interstate activities Central Sales Tax (CST) was imposed. As discussed earlier, this increased the statutory compliance burden of the traders who were mostly on to interstate trading. More over the rules of VAT was different for different States. The GST has one single law for taxation through out the Country. Therefore, both interstate and intrastate trading will not bring in much compliance issues for the traders. Hence “One Nation, One Tax & One Market” policy of GST becomes an object of advantage .

Discussed above are the advantages of GST. Now let’s investigate some of the disadvantages of GST. GST is a taxation system that is carried out through out the Nation using an online platform. No activity pertaining GST has any paper work that is manually carried out. This makes it costlier for those business that are very small and to afford computers and expert operators to operate . Therefore, to meet the compliance requirements, the small business had to depend on professional consultants whose charges are very high. More over being an online platform, the activities relating to GST must be very precise as technology is used. These precision are needed in areas such as compatibility of file format, the nature of application in which the file is made etc. All these issues will generate the need for a special soft ware that can resolve such technical issues and bring ease of activities relating to GST on line. This will add further cost for the business. Another notable disadvantage of GST is with those traders who were liable to pay Excise during the tax regime before GST. Those traders must achieve the turnover of 1.5 Crores to meet the threshold for Excise taxation. With implementation of GST , the threshold was reduced to 40 lacks . This increased the burden of small traders as the threshold was reduced .

The authorities of GST have taken all the possible measures to reduce all these complications. For the first issue, that is the technical issue, the GST under its complete authority has set up online helps such as “GST Suvidha”, which means GST help . These helps are compatible on-line interphases that eases up all activities relating to GST with almost nil complication. For the second issue, that is the threshold, the GST by its law has made a provision for “Composition Scheme” for those traders whose turn over is above 40 lacks but less than or equal to 1.5 Crores. Those traders under this scheme only need to pay 1 to 2.5 % of GST for their total turnover. The only negative part with this scheme is that it does not allow Input tax credits. We will be learning about all these things in detail in units coming ahead.

Seen above are some of the disadvantages of GST.

**Multiple Choice Questions**

1. GST is an addition made to some other existing tax laws
2. True
3. False

Correct Answer : b

1. The main objective of GST is to Provide
2. Compliance easiness
3. Enhance National revenue
4. Provide Tax laws to some special items
5. None of the above.

Correct Answer : a

1. One of the character that make GST an advantageous tax is
2. The tax law covers the entire nation
3. GST can be used for both goods & services
4. Higher threshold
5. None of the above

Correct Answer : c

1. The significant factor that makes GST makes most merited is its
2. Its Uniformity across the Nation
3. Higher Threshold
4. Subsumption of other taxes
5. None of the above

Correct Answer : a

1. GST achieved uniformity across the nation for all commercial products with its
2. Tax Rates
3. Higher threshold
4. Subsumption of other taxes.
5. None of the above.

Correct Answer : c

1. This tax pertained to Manufacturing section during the tax regime before GST
2. Octroi Tax
3. VAT
4. CENVAT
5. None of the above

Correct Answer : c

1. This tax in previous tax regime pertained Inter State sales
2. VAT
3. Excise duties
4. CST
5. None of the above.

Correct Answer : c

1. Compliance easiness in GST was achieved with its
2. Uniformity
3. Higher threshold
4. Subsumption
5. None of the above

Correct Answer : c

1. Consultation charges for tax matters increases due to
2. On line platforms
3. More annual turn over
4. More tax laws to comply with
5. None of the above.

Correct Answer : c

1. Higher Threshold of GST favors
2. Businesses with high turn over
3. Business that focusses on Inter State activities
4. Business with low turn over
5. None of the above.

Correct Answer : c

1. In comparison with taxes of previous regime, the GST threshold is
2. Higher
3. Lower
4. Equals
5. Depends on activity under taken.

Correct Answer : b

1. There is an ease of trading in Inter State activities due to GST because of
2. Its Uniformity
3. Its subsumption of other taxes
4. High Threshold
5. None of the above.

Correct Answer : b

1. The measure taken by GST authorities to reduce technical issue is
2. Special software.
3. GST Suvidha
4. On line network
5. None of the above

Correct Answer : b

1. Composition scheme has provisions for Input tax credit
2. True
3. False

Correct Answer : b

1. Composition scheme was introduced to reduce burdens due to
2. Low turn over
3. Nature of product in concern
4. Compliances for Input tax credit
5. None of the above

Correct Answer : b

**Unit -11- Features of GST**

**Features of GST :** GST has many significant features that may be listed . Some of its unique features may be listed as under.

1. Uniformity in Taxation : This feature and its usefulness were detailed on the previous session. This feature is always listed as the primary feature of GST on all listings of GST feature. . The motto of GST is another expression of its primary feature . The motto is one Nation , One Tax & One Market.
2. GST is a Destination Based Tax : This is another feature that was detailed on previous units. This feature always has place in any listings pertaining the feature of GST.
3. GST is a Value Added Tax : This is another feature that is always mentioned on such listings mentioned above. The details of this feature were discussed on previous units.

Shown above are some of the highlights of GST. In fact, any details pertaining to advantages or Merits of GST are all its features.

**Unit-11- Terms Associated with GST**

**Terms Associated with GST :** “Terms” means special expression used for defining some aspects. It should be noted that such terms used for expressing a particular factor will also have general meaning. For examples the term “students” generally means the children who are learning. But when it said “students of school x” , the term “students” is assigned with a unique meaning that pertains to school x. The first expression generally means students. The later expression means students of school x. Likewise any specific matter will always involve use of certain word with a unique meaning assigned to it in conjunction with matters that are associated with special topic that is in concern. The same is applicable for the GST also. GST being a very vast matter and above all, the taxation law pertaining the Nation, it is associated with lot many terms that has meaning specially assigned to it to meet the specific requirements associated with GST.

Let’s see the terms that are used in GST

1. GST : GST is the short form used for Goods & Services tax . It is the commercial tax implemented in India since 2017.
2. The act : Act here means GST Act-2017. The term ‘act’ means Law. Therefore, GST Act-2017 means the Law pertaining GST. The year 2017 mentioned at the end indicates the year of implementation.
3. Taxable Person : Taxable person in terms of GST means any entrepreneur of the Business who are liable to pay GST or deemed to be liable to pay GST Tax.
4. Registration : Registration is the process of becoming an authentic member of a special policy or program. In terms of GST act, registration means , the statutory registration of a person or business under GST act-2017. Such registration is also termed as GST registration.
5. Registration Threshold : Threshold means the limit. Therefore, registration threshold means the limit after which the person or the business is required to take GST Registration.
6. Registered Dealer : Registered dealer is any dealer who have obtained registration under the GST act-2017.
7. Unregistered Dealer : Unregistered as per the terms of GST are those dealers who have not registered under the provisions of GST Act-2017
8. Sections : Sections as defined at the GST act are the indexes of paragraph where the rules for a specific law under GST will be described. Sections are denoted by “Sec”. Sec(1) in GST act means Sec(1) of GST Act 2017. There are also sub sections for sections. It is denoted by Sec () () . For example, Sec (1) (2) means Section 1 and subsection 2 of section 1 of the act.
9. Article : Article as per the terms of GST is the description of a specific law under GST . The articles in other words are contents of the legal document or text that are divided into sections and subsections.
10. Deemed Taxable Person: Deemed Taxable persons are those dealers who meet the required criteria for GST registration but not yet procured the registration
11. Supply : As per the terms of GST is the transfer of Goods or Services and or both between two registered dealer or between one registered dealer and non-registered dealer whether for a consideration or not
12. Goods : Any items that are supplied as per the norms of GST act -2017 and has tangible dimensions are termed as Goods as per the terms of GST act 2017.
13. Services : Any items that are supplied as per the norms of GST that do not meet the definitions of Goods are termed as Services as per the GST act 2017.
14. Deemed Supplies : Any transaction that takes place between two traders which qualifies to be called as “supply” as per the norms of GST act 2017 is termed as Deemed supply.
15. Inward Supply : In ward services are any supply as per the norms of GST act that is received by a registered dealer whether or not from a registered dealer.
16. Out ward Supply : Out ward supplies are those supplies those supplies made by a registered dealer, whether to a registered dealer or to a non-registered dealer
17. Intra State Supply : Intrastate supplies are those supplies that are made with in States of the Country. For example, a supply made between Ernakulam and Alappuzha in Kerala.
18. Inter State Supply : Inter State supplies are those supplies that are made between two States in the Country. For example, supply made between Kochi Kerala and Coimbatore in Tamil Nadu.
19. CGST : CGST stands for Central Goods & Service Tax
20. SGST : SGST stands for State Goods & Service Tax.
21. UTGST: UTGST stands for Union territory Goods & Service Tax.
22. IGST : IGST stands for Integrated Goods & Service tax.
23. Tax Rates : Tax rates as per the terms of GST is the rate at which the Goods or Services are taxed as per the norms of GST act
24. Taxable Goods : Taxable goods are those goods that are taxable with GST at relevant GST rates.
25. Exempted Goods : Exempted goods are those goods that are fully exempted from taxation under the purview of GST. Examples of such goods are fruits, vegetable, milk, raw meat & fish, medical services, public transportation service etc.
26. Nil Rated Goods : Nil rated goods are those for which no GST is levied at present. But in future there may be GST for such Goods. Examples of such goods are day to day essentials such as grains, salt etc.
27. Zero Rated Goods : Zero rated goods are those that has a GST , but its GST rate will be taken as zero when exported out of the Country and when supplied to certain areas such as special economic zones (SEZ). The special economic zones are those designated areas of commercial activities that are promoted and encouraged for industrial development of the Nation by the relevant Government authorities.
28. Non-GST Goods : These are those goods that are not considered under the taxation laws of GST . Examples of such Goods are Liquor and all types of refined fossil fuels such as Crude oil, Petroleum etc.
29. Out of the Scope : The supplies that are completely out of the scopes of GST are all employment services, Judiciary services, Municipal services etc.
30. GSTIN: This stands for Good & Service Tax Identification Number. This is unique identification number given to the tax dealers in recognition of their registration under GST act -2017. This unique identification number will consist of 15 digits alpha numerical structure. The example of such number is “22BAAAA0000C1P6”. The details of the structure of GSTIN may be found on the table provided under.

|  |  |  |
| --- | --- | --- |
| **Character** | **Meaning** |  |
| First two digits | State Code |  |
| Next 10 digits | PAN allotted to the business |  |
| 13th digit | The number of registrations in a state |  |
| 14th digit | Default character |  |
| Last digit | Checksum digit or number |  |

The table above provides the meaning of each digits in the GSTIN

1. GSTN: This stands for goods and service tax network. This is an online platform using which all the activities pertaining GST is carried out through out India. The GST is that taxation system that completely operated using online means. Therefore, this online network system was approved by Government of India to facilitate all activities pertaining GST in India. GSTN is a nonprofit Government Company . Major part of its shares is owned by the Government. The main purpose of this network is to provide a safe and secure on-line platform to assist the tax payer to carry out activities related to GST such as Registration, Returns, Interaction with GST authorities, Tax Payments etc.
2. R.C.M. : This stands for reverse charge mechanism. As the terms indicates R.C.M is reverse of the regular GST taxation method. In regular GST , as per the provisions of the act, the GST amount is collected by the seller and is paid to the Government. This happens when both buyer and seller are tax dealers. But on the scenario , where the seller is an unregistered dealer and the buyer is a registered dealer, the regular aspect reverses. That is the buyer will pay the GST amount based on the tax rate to the government, contravening the normal procedure in which the seller will collect the amount from the buyer and pay it to the government. This happens because, the seller being an unregistered person, he or she cannot be brought under the purview of GST act. As only the buyer , who is a registered tax dealer , can be required to comply with the regulations of GST Act-2017. Therefore, the responsibility of the seller falls with the buyer and the buyer will comply with all the regulations made by GST act 2017 . This is how R.C.M. works

**Unit -12 – Rules of Taxation**

**Rules of Taxation :**  Rules by word meaning is defined as instructions or guide lines using which a particular matter should be executed. Therefore, Rules of taxation may be defined as the instructions or guide lines using which the taxation law in concern should be executed. The rules for taxation laws are vital. This is because the law will have a vast content matter as it pertains to the whole Nation . Such legal contents cannot be simply executed with out proper guide lines. In other words, the objective of implementing law cannot be attained as it will not be well executed with out a proper guide lines. Therefore, certain rules always remain associated with every law that’s been implemented. Hence the tax law of GST-2017 or the GST Act-2017 also has rules or guidelines that clearly defines the way in which every article of the act should be executed. Let’s see the rules of GST Taxation as provided under.

**Federal System of Government:** Before stepping into the rules, let’s understand the important aspect of Indian Government system based on which the rules are made for GST. It is very important to understand the nature of Government before knowing the rules by which a specific law in the Country is executed. It is also very important to understand that rules made for any legal execution in a Country will be purely based on the nature and structure of its government. The economic nature also plays a very vital role in creation of rules pertaining the tax laws.

Let’s know some thing about the Indian economy. The Indian economy is the fifth largest in the world. India has the highest annual rate of 7.2(Sep-2023) when Compared to the other 4 Nations that are ahead of India in its Gross Domestic Product (GDP). The Country who are ahead of India in GDP are 1) USA(5.2%) 2) Peoples Republic of China(4.9) ( 3) Japan (-2.1%) 4) Germany(-0.4%) . Even these countries have higher GDP values , their GDP growth rate has been considerably low when compared to India during the Second quarter , of the financial year 2023-24. This can be evidenced from the values of annual GDP growth mentioned above.

The Components that make up the GDP of a Nation is its total production (Production includes all types of Goods and services) and investment with in the Country which minuses with the value of Imports, total expenditure, and consumption with in the Country to give the value of GDP.

What is important here is to understand that the growth is more significant than static sustainment. This means that assets with low values and high growth rate is worthier than assets with high values with diminishing growth rates or static or zero growth rate. It’s because the high growth rate shows progression and receding or static growth indicates diminishing or receding values of the asset. Understandably growth adds to the value and lack of it reduces the values. Therefore , a good growth rate of GDP is always desired by any Nation rather than holding a high value , but static or diminishing GDP.

With understanding the importance of growth in GDP, it can be well understood that an economy that India possess currently, any rules made to execute laws that pertains to financial activity will be aimed at economic growth. The rule pertaining GST has covered this objective. The Subsumption of taxes , one uniform tax for the Nation and High threshold are the factors that aims the easiness of investors in commercial activities. This easiness in compliance will encourage more investments. More investments in turn will lead to more productivity where by increasing the National GDP.

Now another question arises. How can the funds thus collected out of Taxation be allocated across the Nation in the way as may be considered relevant by the Government. We all know that only Government Financial bodies can receive and handle the funds for the people of the Nation. The supreme authorities of the Finance of the Nation are the Government body who handle such affair for the Nation. These government bodies of finance will have many other agencies or bodies with various powers to handle and execute such affairs for the main financial authority of the Nation. In India the highest financial authority is the Finance Ministry. The most powerful person pertaining the financial affairs of India is the Union/Central Finance minister. The Finance Ministry is headed by the finance minister. The Finance ministry in India is assisted by the aforesaid bodies or agencies to carry out the tasks associated with management of finance for the Nation. Such agencies in India may be classified into three as per the nature of activity they under take. There are three main aspects of managing finance. They are 1) Collection of money 2) Storage and safety of collected money 3) Its relevant utilization.

As per the Governance policy adopted by the Government of India , following means are adopted in India.

1. **Collection :** Collection of money from people for their own welfare as per democratic or any Royal ruling policy is majorly carried out across the Countries across the World in the form of Taxation and Duties. How ever, it should be noted that , other than taxation and duties, there are many other means for Government raise fund from people for their own welfare. In this unit, we will discuss about the fund collection by the government in the forms of taxes and duties. They are some specific Government bodies that are legally assigned to assist the Ministry of Finance of Government of India for this task. They are:
2. **Income Tax Department of India** : This is a government body formed under the Income Tax act-1961 . This agency is responsible for collection of Direct taxes that are earned by the businesses and Individuals by their respective earnings. These earnings may be in the form of Salary or Profits or any other legal income. What ever be the classification of Income , it will be taxed under the Income tax act-1961 , if the magnitude of such earnings qualifies to be taxed as per the relevant sections of Income tax act 1961.
3. **Department of GST :** This is a Government Body formed under the GST Act-2017. This agency is responsible for collection of all indirect taxes in the Country. The GST is levied on all commercial activities which includes sales and purchases of Goods or Services.
4. **Customs Department :** This is a government body that serves the purpose of security against illegal transitions of goods to a Country outside India and prevents reception of such goods to India from another Country. A part from this , this department also serves the purpose of collection of duties for all commercial transactions such as Exports and Imports. This duty is legally termed as Customs duty. This duty is collected by the department during the time of Imports and Exports in the Country.
5. **Municipal Corporations :** These are the Government bodies in India that take care for the people in a district wise order in every States of the Country. They are responsible for the collection of some direct taxes such as Professional tax, Property tax etc.
6. **Storing & Protection :**We have seen above some authorized Government bodies that are assigned with tasks of collection of taxes and duties from the Country .

Let’s see how does the Government stores and protect the money thus collected from the people in the form of taxes and duties. Let’s see about some of such authorized agencies that are assigned serve this purpose for the Government. They are

1. Banks : Banks are those official place where revenue can be deposited and withdrawn . The Banks also servers many other purposes such as providing financial assistance to those who are need of it under the terms and conditions as may be considered relevant by the Bank. All banks in India comes under the authority of the Reserve Bank of India. This bank is also called the Central Bank of India. There are two types of Banks. One type is Private sector bank owned by private investors and other type is Nationalized Bank that are promoted by the Government . It is mandatory in India that all banks must perform under the legal guidelines and the authority of the Central Bank of India. The funds collected out of Taxations and duties are deposited at the National banks and the Central Bank. Note that only Government can maintain its accounts with Central Bank unlike the other banks that are opened to public. These are the details of those agencies that support the Government for storing and protection of its funds. Let’s see which agency helps the Government for the best utilization of funds for the well being of the people provided as under.
2. **Utilization of Funds :** With above details, we have understood the importance and purpose of tax collection . Another important aspect to discuss now is about the utilization of funds in such relevant manner that its servers the purpose of well being of the people in an optimal manner. Let’s see about such Government Body that is assigned to assist government for this sake.

**Public Work Department (P.W.D.) :** Before stepping into the details of utilization of funds for the sake of welfare of People, let’s see what is most vital to carry out the needful measures that favors the needs of the people most. The answer to this question is the roads and infrastructure. Its because any aspects that pertains to the welfare of the people requires proper means of transportations and infrastructures to aid them with necessary things for their needs. In fact, without both aforesaid things, no activity can be carried out fruitfully. This shows the importance of roads and infrastructures in successful Governance of the Nation. We may easily understand that any measure for People’s welfare such as Hospitals, Schools , Offices, etc. all needs infrastructure and means to arrive at them. This fact makes these two elements the fundamental need for People’s wellbeing of the Nation.

Considering this fact, the Government of India brought into existence an authorized body with name P.W.D. This agency is vested with the assignment of undertaking and carry out all such essential activities for the Construction, Maintenance and development of Roads and Infrastructure in the Country.

Detailed above are the methods using which Government utilizes its fund for the sake of the productive governance. Note that the utilization of funds is not limited with construction, maintenance and development of roads and infrastructure. What specified above is the fundamental areas where it is utilized to build foundations for other activities that are concerned with the welfare of the People of the Nation.

With above , we seen the aspect of Finance Management that significantly influence the creation of rules pertaining the laws that are concerned with Financial Management.

Apart from what is seen above, there is another factor that decides the rules of taxation laws. Those factors are the structure of the Government and the scope of the tax law that is being implemented. Let’s see the structure of the Indian Government first, detailed as under.

**The Structure of Indian Government**

**FEDERAL SYSTEM OF GOVERNMENT :** India has a federal system of Government. This means that India has dual level Government. The first and the supreme level is the Central Government and the next level is the State and Union territory Governments. The constitution of the Indian Government is structured in such a way that the Central Government will have the supreme authority of the Nation and State and Union Governments are assigned with the authority of Governing the States or Union Territories of the Nation with the view that they are the part of Indian Union. This does not imply that the State or Union territory Governments do not have independent powers. This only implies that the activities of these Governments should be in par the articles of the Indian Constitution that defines the act of State and Union territory Governments and that such Governments always remains under the purview of the Central Governments and the requirements made by the Central Government must be complied. This describes the structure and methods of Indian Government. With this, we have seen on factor which influences the rule making procedure . Let’s now investigate the other factor influence the process of rule creation.

The other factor is the scope of the law which in this case is the GST act 2017. We have seen that the scope of this law is spread throughout the nation in those areas where the commercial activities that are eligible to be taxed takes place. Therefore, the rules thus created for GST act -2017 must bear the objectives that covers the whole Nation.

With understanding of the factors that influence rule creation, now let’s understand the taxation rules as provided under.

**RULES OF GST TAXATION**

1. **Taxation based on Nature of Supply :** The taxation of Goods with GST is based on the nature of supply carried out.

**Rule : A** – Any GST collected on the transaction for an Interstate supply will be charged under the taxation head “IGST”. We have seen at the Unit for terms of GST , IGST stands for Integrated Goods & Services tax. Let’s see about this in more details as under

1. **INTERSTATE SUPPLIES:**  Any transaction that takes place beyond the limits of State boundaries are Charged with relevant rates of GST under the taxation head “IGST”. As we know, IGST stands for Integrated Goods and Services tax. Let’s work out a problem below for a better understanding of this rule.

**Example: 01** – Consider that “A” is a registered dealer who is in Kochi Kerala. Also consider that “B” is in Coimbatore Tamil Nadu. A supplies goods with a value of 1,00,000 and with GST rates 12% to B. From the terms discussed above , we know that this is an interstate transaction and IGST will be charged for this. Let’s see how this will be accounted in the Books of “A”. Here A is making supply to B . So, by definition, it is an out-ward supply made by A and hence out put GST will be collected by A. This may be accounted as under.

We have the following information pertaining this transactions.

Total Value of Supply --- 1,00,000

Rate of GST ----12 %

Head of GST ----- IGST

Type of GST ----- Out Put GST

Let's do the working as under

Total value of Goods – 1,00,000

Out Put IGST @ 12% - 12,000

TOTAL - **1,12,000/-**

Of the total 1,12,000 collected from B , A will retain Rs 1,00,000 as Sales revenue and remaining 12,000 will be paid to the Government as GST under the taxation head IGST.

Likewise, let’s see how will B maintain their books.

Let’s find the working of B as under

Total value of Inward supply – 1,00,000

Input IGST @ 12 % - 12,000

TOTAL - **1,12,000/-**

Of the total 1,12,000/- paid to A , B will account 1,00,000 as purchase expense and remaining 12,000 Input tax paid which will be used to compute the GST liability.

Shown above are the rules of GST Taxation for an Interstate transaction is carried out by the both parties involved.

Now let’s see a transaction that are carried out with in the State of Kerala. The rules of GST transaction for any intrastate transactions are levied with CGST and SGST . Of the total GST Charged 50 % will be CGST and other 50 % will be SGST. In the unit describing terms of GST , we have seen what does CGST and SGST Stands for

Consider the example for a better understanding of this rule.

**Example :02-**  Consider that A is a supplier located in Kochi and B is another supplier located in Kottayam. A supplies goods worth 2,00, 000 to B. The rate of GST of the goods supplied is 18%.

Let’s work this problem as under.

We know that that this is an Intrastate transaction and the GST will be shared in the ratio of 50 % each by both taxation heads.

Let’s carry out the workings as under as on the books of A

We have the following information

Total Value of outward supply – 2,00,000

Rate of GST - 18%

Type of Supply - Intrastate

Taxation Heads - CGST & IGST.

With the details above lets, carry out the working

Value of Outward supply – 2,00,000

CGST @ 9% -- 18,000

SGST @ 9% -- 18,000

TOTAL -- **2,36,000/-**

As we saw above, of the total 2,36,000 collected , Rs 2,00,000 will be retained by A and remaining 18,000 will be paid to Government as GST under the taxation head CGST and SGST.

Let’s do the same in the books of B. With the information we have, we may start the working as under

Total inward supply made – 2,00,000

CGST @ 9% - 18000

SGST @ 9% - 18000

TOTAL - **2,36,000/-**

Of total

2,36,000 Paid to A by B, Rs 2,00,000/- will be accounted as purchase expense and the remaining 36,000 will be accounted as input tax paid and will be used for GST liability computation.

With above , we have understood the taxation rule of GST pertaining the collection of taxes . Let’s see the table as provided below for more detailed understanding of this law. The details in table will provide the details of rules of GST taxation applied on the examples that were worked out above. For example, the GST rate of the Item is taken as 28% and value as Rs.100 .See the table below.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| NO | Type of supply | Value of goods | GST Rate | CGST(value of goods multiplied by 50% of the tax rate) | SGST(value of goods multiplied by 50% of the tax rate) | IGST (100%) of the tax rate |
| 1 | Interstate | 100 | 28% | Not Applicable | Not Applicable | 28 |
| 2 | Intrastate | 100 | 28% | 14 | 14 | Not Applicable |

The table above the details of GST tax collection rules on two types of supply using which trading transactions of goods and services takes place in India. This system of tax distribution shown above shows how the GST amount is allocated between the Government that is Federal System which has two levels of Government . This explains how the structure of Government influence the rules created for the laws in the Country.

By analyzing the rules described above, we can see the creation of rules had prioritized all the factors that are influential in the process of rulemaking. We can see that the rules pertaining the compliance factors we made with an objective of increasing National productivity and the rules that we discussed lately gives us an understanding of the methods set as the Government structure for collection, storing and utilization of the funds thus collected as tax. We can also see that the collection process of tax is made according to the dual structure of Government. The collection is done on both Central and State Government accounts such that the funds thus collected is shared smoothly between the governments for their Governance purposes.

Let’s see the fundamental Rules of GST Taxation provided as under.

|  |  |  |
| --- | --- | --- |
| Type of Supply | GST Collected | Sharing Proprtion |
| Intrastate | CGST and SGST/UTGST | 50 % of the amount collected is shared with Central Government and the Remaining 50 % of the amount is shared with State Government or Union Territory Government. |
| Inter State Supply | IGST | 100% of the tax is initially collected by the Central Government and then Shared equally between State and Central Government. |

Before moving further with topics, let’s work out some problems for better understanding rules of GST collection in different types of supplies.

**WORKED OUT PROBLEMS**

1. Mr. Shyam is a registered dealer located in Thrissur Kerala. He sold (made out ward supply)Goods worth Rs. 1,50,000 to Mr. Raghu who is another tax dealer located in Kollam Kerala. The GST rate of the Good is 12%. Prepare the account for both Out ward and Inward Supply.

**Solution-1**

**Account for Out ward Supply**

Total value of Outward supply – 1,50,000

GST Rate 12%

Therefore,

CGST = 6%

SGST = 6%

Hence, Total value collected out of outward supply will be

Value of outward + CGST @ 6% + SGST @ 6%

That is = 1,50,000+9000+9000

= **1,68,000/-**

**Allocation of amount collected by Mr. Shyam with Sales**

Total Amount Collected by Mr. Shyam- 1,68,000/-

Find the table under to know the allocation of this amount.

|  |  |  |  |
| --- | --- | --- | --- |
| Amount retained as sales income | Amount collected as CGST | Amount collected as SGST | TOTAL |
| 1,50,000 | 9000 | 9000 | 1,68,000 |

Now let’s prepare the books of accounts of Mr. Raghu for the Purchase (Inward supply) that he has made.

**Account for Inward Supply**

Total value of Inward supply – 1,50,000

GST Rate 12%

Therefore,

CGST = 6%

SGST = 6%

Hence, Total value paid for inward supply will be supply will be

Value of Inward supply + CGST @ 6% + SGST @ 6%

That is = 1,50,000+9000+9000

= **1,68,000/-**

**Allocation of amount paid by Mr. Raghu with his purchase**

Total Amount paid by Mr. Raghu- 1,68,000/-

Find the table under to know the allocation of this amount.

|  |  |  |  |
| --- | --- | --- | --- |
| Amount accounted as purchase expense | Amount Paid as CGST | Amount Paid as SGST | TOTAL |
| 1,50,000 | 9000 | 9000 | 1,68,000 |

.

1. Mr. Mukesh is a registered dealer located in Kochi, Kerala. He sold Goods worth Rs. 50,000 to Mr. Peter who is another tax dealer located in Alapuzha Kerala. The GST rate of the Good is 5%. Prepare the account for both Out ward and Inward Supply.

**Solution-2**

**Account for Out ward Supply**

Total value of Outward supply – 50,000

GST Rate 5%

Therefore,

CGST = 2.5%

SGST = 2.5%

Hence, Total value collected out of outward supply will be

Value of outward + CGST @ 2.5% + SGST @ 2.5%

That is = 50,000+1250+1250

= **52,500/-**

**Allocation of amount collected by Mr. Mukesh with Sales**

Total Amount Collected by Mr. Mukesh- 50,000/-

Find the table under to know the allocation of this amount.

|  |  |  |  |
| --- | --- | --- | --- |
| Amount retained as sales income | Amount collected as CGST | Amount collected as SGST | TOTAL |
| 50,000 | 1250 | 1250 | 52,500 |

Now let’s prepare the books of accounts of Mr. Peter for the Purchase that he has made.

**Account for Inward Supply**

Total value of Inward supply – 50,000

GST Rate 5%

Therefore,

CGST = 2.5%

SGST = 2,5%

Hence, Total value paid for inward supply will be supply will be

Value of Inward supply + CGST @ 6% + SGST @ 6%

That is = 50,000+1250+1250

= **52,500/-**

**Allocation of amount paid by Mr. Peter with his purchase**

Total Amount paid by Mr. Raghu- 50,000/-

Find the table under to know the allocation of this amount.

|  |  |  |  |
| --- | --- | --- | --- |
| Amount accounted as purchase expense | Amount Paid as CGST | Amount Paid as SGST | TOTAL |
| 50,000 | 1250 | 1250 | 52,500 |

1. Mr. Raj is a registered dealer and a soft ware engineer located in Thiruvananthapuram, Kerala. He sold software worth Rs. 2,00,000 to Mr. Rahim who is another tax dealer located in Bangalore Karnataka. The GST rate of the Good is 28%. Prepare the account for both Out ward and Inward Supply.

**Solution-3**

**Account for Out ward Supply**

Total value of Outward supply – 2,00,000

GST Rate 28%

Therefore,

IGST = 28%

Hence, Total value collected out of outward supply will be

Value of outward + IGST @ 28%

That is = 2,00,000+56000

= **2,56,000/-**

**Allocation of amount collected by Mr. Raj with Sales**

Total Amount Collected by Mr. Ram- 2,56,000/-

Find the table under to know the allocation of this amount.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Amount retained as sales income | Amount collected as CGST | Amount collected as SGST | Amount collected as IGST | TOTAL |
| 2,56,000 | Not Applicable | Not Applicable | 56,000 | 2,56,000 |

Now let’s prepare the books of accounts of Mr. Rahim for the Purchase that he has made.

**Account for Inward Supply**

Total value of Inward supply – 2,00,000

GST Rate 28%

Therefore,

IGST = 28%

Hence, Total value paid for inward supply will be supply will be

Value of Inward supply + IGST@ 28%

That is = 2,00,000+56,000

= **56000/-**

**Allocation of amount paid by Mr. Peter with his purchase**

Total Amount paid by Mr. Raghu- 2,56,000

Find the table under to know the allocation of this amount.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Amount accounted as purchase expense | Amount Paid as CGST | Amount Paid as SGST | Amount Paid as IGST | TOTAL |
| 2,00,000 | Not Applicable | Not Applicable | 56,000 | 2,56,000 |

1. Mr. Sunder is a registered dealer and located in Kozhikode, Kerala. He sold Goods worth Rs. 3,00,000 to Mr. Senthil who is another tax dealer located in Chennai Tamil Nadu . The GST rate of the Good is 18%. Prepare the account for both Out ward and Inward Supply.

**Solution-3**

**Account for Out ward Supply**

Total value of Outward supply – 3,00,000

GST Rate 18%

Therefore,

CSGT = 18%

Hence, Total value collected out of outward supply will be

Value of outward + CGST @ 9%+ SGST @9%

That is = 3,00,000+27000+27000

= **3,54,000/-**

**Allocation of amount collected by Mr. Sunder with Sales**

Total Amount Collected by Mr. Sunder- 3,54,000/-

Find the table under to know the allocation of this amount.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Amount retained as sales income | Amount collected as CGST | Amount collected as SGST | Amount collected as IGST | TOTAL |
| 3,00,000 | 27,000 | 27,000 | Not Applicable | 3,54,000 |

Now let’s prepare the books of accounts of Mr. Senthil for the Purchase that he has made.

**Account for Inward Supply**

Total value of Inward supply – 3,00,000

GST Rate 18%

Therefore,

CGST = 9%

SGST = 9%

Hence, Total value paid for inward supply will be supply will be

Value of Inward supply + CGST @ 9%+SGST @ 9%

That is = 3,00,000+27,000+27,000

= **3,54,000/-**

**Allocation of amount paid by Mr. Senthil with his purchase**

Total Amount paid by Mr. Raghu- 3,54,000

Find the table under to know the allocation of this amount.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Amount accounted as purchase expense | Amount Paid as CGST | Amount Paid as SGST | Amount Paid as IGST | TOTAL |
| 3,00,000 | 27,000 | 27,000 | Not Applicable | 3,54,000 |

With some problems worked out , we have seen how GST collection and payments are computed according to GST Taxation rules . What was worked above pertained to regular GST Taxation . Now let’s see what happens when an unregistered dealer is involved in a Sales transaction with a registered dealer. As we have seen at the terms, under such circumstances the regular scenario reverses. That is the responsibility of collecting GST and submitting it to the government will come to the buyer in contradiction of regular circumstance in which the seller is responsible for this act. Let’s work out an example for a better understanding of R.C.M involving transactions.

**Example-03**

Mr. Deepak is a registered dealer carrying out business in Palakkad. He made a Purchase of taxable goods worth 60,000 from an unregistered dealer. As per the laws of GST , the tax rate of goods purchased is 12 %. Prepare the books of Mr. Deepak for this transaction.

We have the following information pertaining the transaction.

The value of Goods supplied – 60,000

Nature of Transaction -- Purchase from an unregistered dealer

Applicable tax rate -- 12 %

Therefore,

CSGT = 6%

SGST = 6%

Total Value of Purchase - 60,000

GST Payable by R.C.M. – 60000\*12%

That is = 60,000\*12/100

= **7,200/-**

Computed above is the value of R.C.M payable by Mr. Deepak to the Government. The amount must be initially paid to the government. This amount will appear as our cash credit with GST account. This amount may be utilized pay off the GST liability. The allocation of expenses incurred to Mr. Deepak may be shown as at the table below

|  |  |  |  |
| --- | --- | --- | --- |
| **Purchase expense** | **CGST Paid as R.C.M.** | **SGST Paid as R.C.M.** | **TOTAL** |
| 60000 | 3600 | 3600 | **67,200** |

The table above shows the allocation of amount spent by Mr. Deepak

Let’s work out another example

**Example : 04**

Mr. Rajesh is a registered dealer carrying out business in Malappuram. He made a Purchase of taxable goods worth 80,000 from an unregistered dealer. As per the laws of GST , the tax rate of goods purchased is 18 %. Prepare the books of Mr. Deepak for this transaction.

We have the following information pertaining the transaction.

The value of Goods supplied – 80,000

Nature of Transaction -- Purchase from an unregistered dealer

Applicable tax rate -- 18 %

Therefore,

CSGT = 9%

SGST = 9%

Total Value of Purchase - 80,000

GST Payable by R.C.M. – 80000\*18%

That is = 80,000\*18/100

= **28,200**/-

Computed above is the value of R.C.M payable by Mr. Rajesh to the Government. The amount must be initially paid to the government. This amount will appear as cash credit with GST account. This amount may be utilized pay to off the GST liability. The allocation of expenses incurred to Mr. Deepak may be shown as at the table below

|  |  |  |  |
| --- | --- | --- | --- |
| **Purchase expense** | **CGST Paid as R.C.M.** | **SGST Paid as R.C.M.** | **TOTAL** |
| 80000 | 14,400 | 14,400 | **108800** |

Above we have computed some examples of those transactions that involves R.C.M. Let’s work out some problems for such transactions.

1. Mr. Guru is a registered dealer who has business in Ernakulam Kerala. He purchased goods worth Rs. 75,000 from an unregistered dealer. The GST rate of goods is 5% Prepare the account of this transaction.

**Solution-5**

With the information provided, this may be worked out as

Total Value of Inward supply – 75,000

GST rate of Goods -- 5%

Therefore,

R.C.M. Payable = 75000\*5/100

That is = 3750.

CGST Paid as R.C.M. = 3750/2 = **1875**

SGST Paid as R.C.M. = 3750/2= **1875**

1. Mr. Guru is a Raghav is a dealer who has business in Kollam Kerala. He purchased goods worth Rs. 1,00,000 from an unregistered dealer. The GST rate of goods is 12% Prepare the account of this transaction.

**Solution-6**

With the information provided, this may be worked out as

Total Value of Inward supply – 1,00,000

GST rate of Goods -- 12%

Therefore,

R.C.M. Payable = 75000\*12/100

That is = 12,000.

CGST Paid as R.C.M. = 12,000/2 = **6000**

SGST Paid as R.C.M. = 12,000/2= **6000**

Above we have worked out some problem by applying rules of GST taxation. Now we will move further to other rules that are included in GST law.

**SET OFF**

Set off is the rule that helps the taxable person to transfer the GST liability to the consumer. This transfer of liability will take place until the product reaches its destination or end consumer. We have seen about this in detail in the unit in which the destination-based tax is explained. Before understanding the rules of set off , it is very important to understand the meaning of certain terms used in Set off computation. Let’s see the terms as under

1. Out Put Tax : Out put Tax is that tax which is collected by the tax dealer who makes the outward supply from the consumers who receive it. This tax is collected on the supply of both Goods and Services. Let’s see those components that makes up the total out put tax collected as under.
2. Out Put CGST : This is the out put GST collected on outward supplies that are made with in the State or in other words the output GST collected on intrastate supplies. As we have seen above , this forms the share of Central GST
3. Out SGST/UTGST : This is the output GST collected on outward supplies that are made with in the State or in other words the output GST collected on intrastate supplies. This forms the share of State Government or the Union territory Government.
4. Out Put IGST : This is the out put tax collected on all Interstate supplies . This is completely collected by the Central Government initially and then it is shared between the Central Government and State Government.
5. Input Tax : This is the GST that is paid by the tax dealer when an inward supply of purchase is made from another tax dealer. The component that makes up the input tax are
6. Input CGST : This is the input tax paid by the tax dealer when goods are bought from another tax dealer with in the State or in other words on all Intrastate inward supplies. This forms the share of Central Government.
7. Input SGST/UTGST : This is the input tax paid by the tax dealer when goods are bought from another tax dealer with in the State or in other words on all Intrastate inward supplies. This forms the share of State Government and Union Territory Government
8. Input IGST : This is the input tax paid by the tax dealer when an inward supply is received from some other Stata or in other words, the GST paid on all Interstate inward supply
9. R.C.M. : We know R.C.M. stands for Reverse Charge Mechanism. This is the GST paid by all tax dealers on inward supply made from an unregistered dealer. The amount of R.C.M. will be directly based on the rate of tax of the goods or services received.

These are the factors that are considered for Set off Computation which is also called GST Computation.

There are some very important rules pertaining Set off process . They are

1. CGST Liability must be setoff with CGST Input tax credit and then it may be used to set off the liability of IGST
2. SGST/UTGST Liability must be set off with SGST/UTGST Input tax credit and then with IGST
3. IGST Liability must be setoff with IGST input tax credit first. Then it can be used to set off CGST Liability or SGST Liability as may be the option.
4. Under any circumstance, you cannot set off CGST liability with SGST input tax credit or vice versa.

Seen above are some of the mandatory rule that must be followed during the setoff process.

Let’s work out some examples for a better understanding of this process. Before stepping into any problem, let’s understand the important formula using which the GST Computation should always be made. Note that the process of setting off is termed as GST Computation. The formula is as shown below.

GST Payable = Total Out Put Tax Collected – Total Input Tax Paid.

If the value of the total of out put tax collected is higher than the value of input tax paid, there will be GST liability or GST Payable. If the scenario reverses, that is if the total of input tax paid is higher than the total of Out put tax collected, there will be Input tax credit or ITC. In case there is ITC, then it can be carried forwarded to the next return period for setting off . There will be detailing about Returns and Return period in the topics to come. Now, let’s understand the components that make up the ITC detailed as under

1. IGST ITC : This is the input tax credit available after setting off IGST Out put tax with IGST input tax
2. CGST ITC: This is the input tax credit available after setting off CGST Output tax with CGST input tax
3. SGST ITC : This is the input tax credit available after setting off SGST Output tax with SGST input tax

In which,

1. GST Payable is the value of GST liability to be computed.
2. Total out put tax collected is the total of all out put tax collected during the outward supplies made. Note that the total of all out put tax collected will include all the components of out put taxes as defined above.
3. Total input tax collected is the total of all input tax paid during the inward supplies. Note that the total of all input tax paid will include all the components of input tax paid as defined above.