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**INDIRECT TAXATION**

## **Indirect Taxation**

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## **INDIRECT TAXATION**

### **Unit I**

#### **Introduction to Indirect taxes**

Meaning - Features- Types-Merits- Demerits- Major reforms in indirect taxation in India- Direct Tax Vs. Indirect Tax.

#### **Introduction**

The origin of taxation in India can be traced back to ancient times, with evidence of taxation systems dating back thousands of years. Here are some key aspects of the origin of tax in India:

##### **Ancient Period:**

During ancient times, taxation systems existed in various forms in different regions of India. The Arthashastra, written by Chanakya (also known as Kautilya or Vishnugupta), an ancient Indian economist and advisor to Emperor Chandragupta Maurya, provides insights into the taxation system of that era.

Taxes were levied on agriculture, trade, and other economic activities.

### Mauryan Empire:

The Mauryan Empire, under Emperor Ashoka (c. 268 BCE to 232 BCE), implemented a centralized taxation system. The main sources of revenue were land taxes, customs duties, and fines. Ashoka's inscriptions mention various taxes and revenue collection methods.

### Mughal Era:

During the Mughal Empire, which spanned from the 16th to the 18th century, a sophisticated system of taxation was established. The Mughals introduced land revenue systems like the Zamindari and Jagirdari systems, where revenue was collected from agricultural landowners. Other taxes included customs duties, transit duties, and taxes on trade and commerce.

### British Colonial Rule:

The British colonial era, which lasted from the 18th to the mid-20th century, saw significant changes in India's taxation system. The British introduced a formal tax administration, with the establishment of departments like the Board of Revenue and the introduction of new taxes such as income tax, salt tax, and excise duties. Land revenue collection continued under various systems like the Permanent Settlement and the Ryotwari System.

### Post-Independence:

After India gained independence in 1947, the Indian government undertook various reforms to modernize the tax system.

The Income Tax Act, 1961, consolidated and standardized income tax laws. The introduction of the Goods and Services Tax (GST) in 2017 brought about a significant reform in indirect taxation, replacing multiple indirect taxes at the central and state levels.

Over time, the tax system in India has evolved to meet changing economic and social needs. The government continues to refine tax laws and administration to ensure efficient revenue collection and promote economic development while addressing the welfare of the citizens.

India has undergone several significant reforms in its taxation structure over the years. These reforms have aimed to simplify the tax system, broaden the tax base, enhance compliance, and promote economic growth.

Here are some key reforms of the taxation structure in India:

### **Introduction of Goods and Services Tax (GST):**

One of the most significant tax reforms in India was the implementation of the Goods and Services Tax (GST) from July 1, 2017.

GST replaced multiple indirect taxes, such as central excise duty, service tax, VAT, and others, with a single unified tax. It streamlined the indirect tax structure, reduced cascading effects, and created a common market across states.

#### Direct Tax Reforms:

In recent years, India has taken various steps to reform the direct tax system. This includes the reduction in corporate tax rates to attract investments and boost economic growth. The introduction of the Direct Tax Code (DTC) aimed to simplify tax laws and improve efficiency. However, as of now, the DTC is yet to be implemented.

#### Introduction of Faceless Assessment and E-Assessment:

To enhance transparency and reduce tax evasion, India introduced the concept of faceless assessment and e-assessment. Under this system, tax assessments are conducted in a centralized manner, minimizing direct interaction between taxpayers and tax officers. It promotes efficiency, fairness, and reduces corruption.

#### Rationalization of Tax Rates and Exemptions:

Efforts have been made to rationalize tax rates and exemptions to simplify the tax structure. In the past, there have been initiatives to review and streamline the list of exemptions, deductions, and incentives

available under the income tax regime. The aim is to eliminate unnecessary complexities and ensure a level playing field.

#### Digital Initiatives:

The government has implemented various digital initiatives to facilitate tax compliance and improve efficiency. The introduction of online tax filing portals, e-payment systems, and electronic verification processes have made it easier for taxpayers to comply with their tax obligations. Digital initiatives also help in better tracking of transactions and reducing tax evasion.

#### International Taxation Reforms:

India has undertaken measures to align its tax framework with international standards, particularly in areas like transfer pricing, base erosion, and profit shifting (BEPS). These reforms aim to prevent tax avoidance and ensure fair taxation in cross-border transactions.

#### Tax Administration Reforms:

The government has emphasized tax administration reforms to improve efficiency, transparency, and taxpayer services. Measures such as the Centralized Processing Centres (CPC) for processing income tax returns, taxpayer facilitation centres, and initiatives for taxpayer education and outreach have been introduced.



These are some of the key reforms in the taxation structure in India. The government continues to assess and implement reforms to ensure a robust and taxpayer-friendly tax system that promotes economic growth and fiscal sustainability.

Taxes play a crucial role in generating revenue for the government. They are a primary source of income for governments at various levels, including the central government, state governments, and local authorities. Here are some key taxes that contribute to revenue generation for the government:

#### Income Tax:

Income tax is a direct tax imposed on the income earned by individuals, businesses, and other entities. It is one of the significant sources of revenue for the government. The income tax rates vary based on income levels and the tax slab applicable.

#### Goods and Services Tax (GST):

GST is an indirect tax levied on the supply of goods and services. It replaced various indirect taxes such as central excise duty, service tax, VAT, and others. GST is collected at each stage of the supply chain, and the revenue generated is shared between the central and state governments.

### Corporate Tax:

Corporate tax is a tax levied on the profits earned by companies and corporations. It is a significant source of revenue for the government and is usually calculated based on the company's taxable income and applicable tax rates.

### Customs Duty:

Customs duty is a tax imposed on goods imported into or exported out of a country. It is levied to protect domestic industries, regulate imports and exports, and generate revenue for the government. Customs duties are collected by the customs department at ports of entry or exit.

### Excise Duty:

Excise duty is a tax imposed on the production or manufacture of certain goods within the country. It is generally levied on goods such as alcohol, tobacco, petroleum products, and other specified goods. Excise duty is collected by the central government.

### Sales Tax/VAT:

Sales tax or value-added tax (VAT) is a tax levied on the sale of goods within a particular state. It is collected by the respective state governments and contributes to their revenue.

### Property Tax:

Property tax is a tax levied on the value of properties such as land, buildings, and houses. It is primarily collected by local authorities or municipal corporations and is an important source of revenue for them.

### Wealth Tax:

Wealth tax is a tax levied on the net wealth or assets owned by individuals and HUFs (Hindu Undivided Families). However, in India, wealth tax was abolished in the Finance Act, 2015.

These are some of the major taxes that contribute to revenue generation for the government.

The government utilizes these tax revenues to fund public services, infrastructure development, social welfare programs, defence, and other essential functions of governance. The tax rates and structures may vary depending on the country's fiscal policies and economic priorities.

The tax structure in India consists of several types of taxes imposed by the central government, state governments, and local authorities. These taxes are levied on individuals, businesses, and goods and services. Here is a detailed overview of the Indian tax structure:

## **Direct Taxes:**

### **Introduction**

Direct taxes are levied on individuals and companies by the country's supreme tax body. Direct taxes are directly paid by those on whom it is imposed. For instance, taxpayers directly pay income tax, property tax, tax on assets and gifts to the government.

### **What are Direct Taxes?**

Direct taxes are imposed on the basis of individuals ability to pay principle, which says that those individuals or entities having access to more resources and earning a higher income need to pay higher taxes. The direct rules are framed such that taxes turn out to be a method to redistribute money in the country.

Direct taxes are transferable to another person or organisation. The companies and individuals on whom the direct taxes are applied are solely responsible for paying the taxes. Failure to pay taxes on time may result in fines and imprisonments.

Direct tax system, based on the brackets system, may turn out to be discouraging as it imposes higher taxes on those working hard to earn a higher income. Hence, people, with the view of needing to pay higher taxes, may settle and cap their productivity to reduce their outgo.

Indirect taxes are another form of taxes that are indirectly imposed on individuals when they make transactions on goods and services. Indirect taxes are collected from retail and wholesale dealers on a periodic basis.

### **Who is eligible to pay?**

Income tax can be filed by filling applicable forms. Salaried individuals earning less than Rs 50 lakh a year through income from salary, residential property, other sources, and agriculture, should file their taxes by filing ITR-1 form.

Individuals and HUFs with no income from gains and profits of profession and business must file their taxes by filing ITR-2 form.

Individuals and HUFs with income from gains and profits of profession and business should file their taxes by filing ITR-3 form.

Individuals, HUFs, firms (excluding LLP) having an overall income of less than Rs 50 lakh with income from profession and business computed as per Sections 44AD, 44ADA, and 44AE, should file their taxes by filing ITR-4.

For entities and persons other than companies, individuals, and HUFs should file their taxes by filing ITR-5.

Those companies that are not claiming exemptions under Section 11 should file their taxes by filing ITR-6.

For individuals including firms needed to furnish their return under Section 139(4A) or 139(4B) or 139(4D) should file their taxes by filing ITR-7

For persons including companies required to furnish return under sections 139(4A) or 139(4B) or 139(4C) or 139(4D) only

The Government of India levies two types of taxes on the citizens of India – Direct Tax and Indirect Tax. The indirect taxes can be transferred to another person and its common example is Goods and Services Tax (GST). The GST is levied on the manufacturers or service providers as a direct tax, which is then transferred to the consumers by levying it on the final price of the goods or services, thus, making it an indirect tax for the consumers.

On the other hand, direct taxes cannot be transferred to another person, such as Income Tax, which every individual is supposed to pay

on their own directly to the government of India. Both indirect and direct taxes are vital components that play an essential role in changing the course of the Indian economy.

### **What is a Direct Tax?**

Direct taxes, usually levied on a person's income and wealth, are paid directly by people or an organization to an imposing institution like the Government of India. The person or the organization in question cannot transfer this type of tax to another person or entity for payment.

### **Types of Direct Taxes in India**

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

#### **1) Corporate Tax**

Under the Indian Income Tax Act, 1961, both Indian as well as foreign organizations are liable to pay taxes to the government. The corporate tax is levied on the profit of domestic firms that are different from the shareholders. Also, foreign corporations whose profits appear or are deemed to emerge in India are also liable to pay taxes to the Government of India. The income of a company, be it in the form of dividends, interest and royalties, is taxable.

Corporate tax also includes the following:

**Minimum Alternative Tax (MAT):**

The MAT is imposed by the Government on Zero Tax companies. The accounts of these companies are made according to the Companies Act.

**Fringe Benefits Tax (FBT):**

The FBT tax is imposed on the fringe benefits like drivers and maids provided by companies to their employees.

**Dividend Distribution Tax (DDT):**

An amount that is declared, distributed or paid as a dividend to the shareholders by a domestic company is taxed under the Dividend Distribution Tax. It is applicable to domestic companies only; foreign companies are exempted from this tax rule.

**Securities Transaction Tax (STT):**

The SST is imposed on the income which the companies get through taxable securities transactions. This tax is free of any surcharge.

Corporate tax is a tax levied on the income of companies registered in India. The corporate tax rates vary based on the turnover and type of company. In recent years, the government has introduced



measures to reduce the corporate tax rates to promote investment and economic growth.

## **2) Wealth Tax**

The wealth tax is imposed on property owners. It does not matter if your property is generating an income or not. If you own a property, you are liable to pay wealth tax yearly to the Government of India on the basis of the current market value of the property. Individuals, Hindu Undivided Family (HUF) and corporate taxpayers are liable to pay wealth tax on the basis of their residential status. Not everything is taxable under the wealth tax law. The working assets are exempted from the wealth tax law.

Some of the examples of working assets are as follows:

Gold Deposit Bonds

Stock Holdings

Commercial Complex Properties

House property (rented for more than 300 days yearly)

House property owned for business or professional requirement

House property held for business or profession

### **3) Capital Gains Tax**

The capital assets of an individual refer to anything owned for personal use or to make an investment. For businesses, the capital asset is anything that can be used for more than a year and is not intended to be sold or liquidated during the course of business operation. Machinery, cars, homes, shares, bonds, art, businesses and farms are some of the examples of capital assets.

The capital gains tax is imposed on the income derived from the sale of investments or assets.

On the basis of the holding period, capital tax is categorised under short-term gains and long-term gains.

The formula to calculate the capital gains is:

$$\text{Capital Gains} = \text{Sale Value} - \text{Purchase Value}$$

Only those capital assets are liable to short-term gain, which are sold within 3 years of acquisition. The exception to this rule is securities. The capital assets sold after being held for more than 3 years fall under long-term gains.

### **Wealth tax**

Wealth tax has been abolished in India since April 1, 2016. However, individuals and companies are still required to disclose their assets and liabilities as per the provisions of the Income Tax Act.

### **Income Tax:**

Income tax is levied on the income earned by individuals, Hindu Undivided Families (HUFs), companies, firms, and other entities. The tax rates for individuals and HUFs are progressive, with higher rates applicable to higher income slabs. For companies, a flat tax rate is applied.

### **Online Payment of Direct Taxes**

It is compulsory for all individuals to pay direct taxes. However, following persons cannot use the physical mode of payment of direct tax and need to pay it through online mode :

All companies

All taxpayers other than companies who are liable to get their accounts audited as per section 44AB

One can visit the relevant government website and can pay taxes online.

Mentioned below are steps to pay direct taxes online.

Step1: Visit the official website of NSDL e-Governance here

Step 2: Choose the relevant challan – ITNS 280, ITNS 281, ITNS 282 or ITNS 283, as per the payment criteria of direct taxes

Step 3: Provide the PAN/TAN, as applicable

Step 4: After the online check of the validity of PAN/TAN, you will be allowed to fill in other challan details

Step 5: Once the challan details are confirmed, you will be directed to the net-banking site for payment

Step 6: After the successful payment, a challan counterfoil will be issued as proof of payment.

### **Benefits of Direct Tax**

The direct taxation has its share of benefits.

Some of them are listed as follows :

1) Economic: The direct tax such as the income tax is collected annually and is mostly deducted at the source. For example, the income tax is deducted from an employee's salary every month. This saves a great amount of administrative costs as here the employer acts as the tax collector. This system makes direct tax more economical than other types of taxes where a lot of administrative costs are involved.

2) Productive: The direct taxes are also very productive. The revenue generated from direct tax is directly proportional to the changes in the national wealth of the country. In simple words, the increase in a country's population and/or prosperity will consequently increase the returns on direct tax.

3) Certain: In case of direct tax, a taxpayer is certain about the amount of tax to be paid. In addition, the tax authorities can also precisely estimate the revenue they can expect from the direct tax. There is no ambiguity in the tax amount as it is decided before the tax submission date. This certainty on the tax amount from both the sides helps in eliminating corruption from the tax collection system.

4) **Equitable:** The direct taxes are imposed on the basis of a taxpayer's income. The taxpayers with high income need to pay more taxes compared to the taxpayers with lesser income. In other words, the rich pay more taxes than the poor. This is, however, applicable to all the sections of the society. People belonging to similar economic conditions are taxed under the same rate. The equitable trait of the direct tax serves the purpose of equality and justice across all sections of the population.

5) **Progressive:** The direct taxes play an important role in reducing the gap of financial inequalities across the country. These taxes are progressive as the government imposes tax on people according to their income. The money collected from these taxes helps implement policies and rules for the uplift of the poor in the society, helping achieve the aim of social and economic equality.

6) **Anti-inflationary:** Direct taxes can be used as an anti-inflationary tool to stabilize the price level in the market. It can be used to control the use and demand of products. The increase in demand of the product and services during inflation can be decreased by increasing the direct tax. Doing this will force people at large to spend less money to purchase the products and services, thus, reducing their demand and consequently the inflation rate.

**Indirect Taxes:**

a. Goods and Services Tax (GST): GST is a comprehensive indirect tax levied on the supply of goods and services. It replaced multiple indirect taxes like excise duty, service tax, value-added tax (VAT), and others. GST has two components: Central Goods and Services Tax (CGST) levied by the central government and State Goods and Services Tax (SGST) levied by the state governments. Integrated Goods and Services Tax (IGST) is applicable on interstate supplies and imports.

b. Customs Duty: Customs duty is imposed on goods imported into India and exported out of India. It is governed by the Customs Act, 1962. The rates of customs duty vary depending on the nature of goods and their classification under the Customs Tariff Act.

c. Excise Duty: Excise duty is a tax levied on the production and manufacture of goods within the country. It is applicable to goods like petroleum products, tobacco, alcoholic beverages, and certain luxury items. Excise duty has been subsumed under GST since its implementation.

d. Service Tax: Service tax was a tax levied on the provision of specified services. It has been subsumed under GST.

**Other Taxes:**

a. **Property Tax:** Property tax, also known as house tax, is levied by local authorities on the value of property owned. The tax amount is based on factors such as property size, location, and usage.

b. **Capital Gains Tax:** Capital gains tax is imposed on the profit earned from the sale of capital assets like property, stocks, and mutual funds. The tax rate depends on the holding period of the asset and the type of capital gain (short-term or long-term).

c. **Securities Transaction Tax (STT):** STT is levied on the purchase or sale of securities such as stocks, derivatives, and equity-oriented mutual funds. It is applicable to both resident and non-resident entities.

It's important to note that the tax structure and rates are subject to change as per government policies and amendments to tax laws.

**Indirect tax**

Indirect tax refers to a type of tax imposed by the government on the consumption, spending, or use of goods and services. It is called "indirect" because the tax burden is shifted onto the end consumer, even though the tax is initially levied on producers, suppliers, or intermediaries involved in the supply chain.



Unlike direct taxes such as income tax or property tax, which are levied directly on individuals or businesses, indirect taxes are embedded in the price of goods and services. They are typically included in the selling price and collected by businesses on behalf of the government. These taxes are then remitted to the government by the businesses after deducting any input tax credits they may be eligible for.

Indirect taxes are commonly used by governments to generate revenue and regulate certain aspects of the economy. They can be applied at various stages of the production and distribution process, depending on the specific tax system of a country. Some common types of indirect taxes include:

#### Value Added Tax (VAT) or Goods and Services Tax (GST):

This is a consumption tax imposed on the value added at each stage of production and distribution. It is one of the most common forms of indirect tax worldwide and is levied by many countries.

#### Excise Tax:

Excise taxes are imposed on specific goods or services, often those considered to be harmful or luxury items. Examples include taxes on alcohol, tobacco, gasoline, and luxury goods.

#### Customs Duty:

These are taxes imposed on goods imported into a country. Customs duties are typically based on the value or quantity of the

imported goods and are intended to protect domestic industries, regulate trade, and generate revenue.

#### Sales Tax:

Sales taxes are imposed on the final sale of goods and services. They can be levied at the state, provincial, or local level and vary in rates and applicability across jurisdictions.

#### Sin Tax:

Sin taxes are specifically targeted at products that are deemed harmful to health or society, such as alcohol, tobacco, and sugary beverages. They serve the dual purpose of generating revenue and discouraging consumption.

The specific rates and regulations governing indirect taxes vary from country to country. Governments use indirect taxes as a means to control consumption patterns, promote public health, influence economic behaviour, and generate revenue to fund public services and infrastructure development.

It is important for businesses and consumers to understand the implications of indirect taxes as they can impact the overall cost of goods and services, pricing strategies, and consumer behavior.

## **Indirect taxes**

### **Features**

Indirect taxes are taxes levied on goods and services rather than directly on individuals or entities. They are typically collected by businesses on behalf of the government and are included in the prices of goods and services. Here are some features of indirect taxes:

#### **Indirect nature:**

Indirect taxes are imposed on the consumption, production, or sale of goods and services, rather than on individuals or organizations directly. The burden of the tax is passed on to the end consumer, who pays the tax indirectly through higher prices.

#### **Wide tax base:**

Indirect taxes have a broad tax base as they are levied on a wide range of goods and services. They can be applied to everyday items such as food, clothing, fuel, electronics, and services like telecommunications and transportation.

#### **Multiple types:**

Indirect taxes can take different forms, including sales tax, value-added tax (VAT), goods and services tax (GST), excise tax, customs duties, and tariffs. Each type of tax may have specific rules and rates.

Revenue generation:

Indirect taxes serve as a significant source of revenue for governments. They help fund public services, infrastructure development, and other government initiatives. The amount of revenue generated depends on the tax rates, the size of the tax base, and the level of economic activity.

Regressive impact:

Indirect taxes are often considered regressive because they tend to impose a higher burden on low-income individuals or households. Since the tax is embedded in the price of goods and services, it affects a larger proportion of the income of those with lower incomes.

Economic policy tool:

Indirect taxes can be used as a tool to influence consumer behavior and economic activities. Governments may implement taxes or exemptions to encourage or discourage the consumption of specific goods and services. For example, higher taxes on tobacco products aim to reduce smoking rates.

International trade implications:

Indirect taxes, such as customs duties and tariffs, are imposed on goods and services imported or exported between countries. These taxes affect the cost and competitiveness of internationally traded

goods, and they can be used to protect domestic industries or generate revenue.

Administration and compliance:

Collecting indirect taxes can be complex and requires businesses to comply with tax laws, maintain proper records, and calculate and remit the taxes to the government. Governments often establish systems and guidelines to facilitate tax collection and ensure compliance.

It's important to note that the specific features and characteristics of indirect taxes can vary between countries and jurisdictions. Different countries may have different tax systems, rates, and regulations governing indirect taxes.

## **Indirect taxes**

### **Types**

Indirect taxes are taxes imposed on goods, services, or transactions rather than directly on individuals or organizations. These taxes are usually collected by intermediaries, such as businesses or retailers, who then pass on the tax burden to the final consumer in the form of higher prices. Here are some common types of indirect taxes:

Value Added Tax (VAT)/Goods and Services Tax (GST):

VAT or GST is a widely used type of indirect tax in many countries. It is levied on the value added at each stage of production or distribution of goods and services. Businesses are responsible for collecting the tax from customers and remitting it to the government. VAT/GST rates can vary depending on the country and the type of goods or services.

#### Sales Tax:

Sales tax is a tax imposed on the sale of goods and services at the point of sale. Unlike VAT or GST, sales tax is typically imposed at a single rate and is collected by the retailer or seller. The tax amount is added to the selling price of the goods or services, and the final consumer bears the tax burden.

#### Excise Tax:

Excise taxes are levied on specific goods and services that are considered to be harmful or non-essential, such as tobacco, alcohol, gasoline, or luxury items. The tax is usually included in the price of the product, and the burden falls on the consumer. Excise taxes are often used as a means to discourage consumption or to raise revenue for specific purposes, such as public health initiatives or infrastructure projects.

### Customs Duty:

Customs duty is a tax imposed on goods imported into a country. It is designed to protect domestic industries, regulate international trade, and generate revenue for the government. Customs duties are typically based on the value or quantity of the imported goods and are collected by customs authorities at the point of entry.

### Fuel Tax:

Fuel taxes are imposed on the sale of fuels, such as gasoline and diesel. These taxes are often used to fund transportation infrastructure projects or promote environmental goals. Fuel taxes can vary depending on the type of fuel and are usually included in the retail price at gas stations.

### Sin Tax:

Sin taxes are specific types of excise taxes imposed on goods or activities that are considered socially undesirable, such as tobacco, alcohol, or gambling. The primary purpose of sin taxes is to discourage consumption or participation in these activities while generating revenue for the government.

These are just a few examples of indirect taxes. Different countries may have their own variations and additional types of indirect taxes based on their specific tax systems and policies.

## **Indirect taxes**

### **Merits**

Indirect taxes are taxes imposed on goods, services, and transactions rather than on individuals or businesses directly. These taxes are usually levied by the government and are ultimately passed on to the end consumers or users. Indirect taxes have several merits or advantages, which are given in detail below:

#### **Simplicity:**

Indirect taxes are generally easier to administer and collect compared to direct taxes. They are typically applied at the point of sale or production, making the collection process more straightforward. This simplicity reduces administrative costs and minimizes the compliance burden for both taxpayers and tax authorities.

#### **Broad-based taxation:**

Indirect taxes can be applied to a wide range of goods and services, allowing for broad-based taxation. By levying taxes on various goods and services consumed by the population, governments can distribute the tax burden more evenly across different segments of society.



Revenue stability:

Indirect taxes often provide a more stable source of revenue for governments compared to direct taxes. Since indirect taxes are based on consumption, they tend to be less affected by economic downturns or changes in income levels. People still need to purchase goods and services even during economic hardships, ensuring a relatively consistent stream of tax revenue.

Economic efficiency:

Indirect taxes can be used to influence consumer behavior and promote economic efficiency. For example, governments may impose higher taxes on products with negative externalities, such as cigarettes or carbon-intensive fuels, to discourage their consumption. This can lead to a more efficient allocation of resources and a reduction in negative societal impacts.

Hidden taxation:

Indirect taxes are often embedded in the price of goods and services, making them less visible to consumers compared to direct taxes. This hidden nature of indirect taxes can sometimes make them more politically feasible for governments to implement. Additionally, it allows governments to collect taxes without necessarily creating a strong perception of additional financial burden on individuals or businesses.

**Tax evasion reduction:**

Indirect taxes can help in curbing tax evasion to some extent. Since these taxes are typically collected at the point of sale or production, it becomes difficult for individuals or businesses to evade them without attracting attention. This aspect of indirect taxes can contribute to a more efficient and equitable tax system.

**Flexibility:**

Indirect taxes provide governments with flexibility in terms of adjusting tax rates and coverage to meet specific policy objectives. They can be modified more easily than direct taxes, allowing policymakers to respond quickly to changing economic conditions or address specific issues in the economy.

It is important to note that while indirect taxes have these advantages, they also have certain limitations and potential drawbacks. For example, they tend to be regressive, meaning that they can disproportionately affect low-income individuals and households. Governments need to carefully design and implement indirect tax systems to mitigate such inequities and ensure fairness.

Overall, the merits of indirect taxes lie in their simplicity, broad-based nature, revenue stability, economic efficiency, hidden nature, evasion reduction, and flexibility. However, it is crucial for governments to strike the right balance and consider the potential impact on different

segments of society when implementing and adjusting indirect tax policies.

### **Advantages of Indirect Tax**

Here are the main advantages of indirect taxes

**Convenience:** Indirect taxes do not burden the taxpayer and are convenient as they are paid only at the time of making a purchase. Moreover, state authorities find it convenient to levy indirect taxes because they are collected directly at the stores/factories which helps in saving a lot of time and effort.

**Ease of collection:** Indirect taxes are easy to collect in comparison with direct taxes. Since indirect taxes are only collected at the time of making purchases, the authorities need not worry about their collection.

**Collection from the poor:** Those who earn less than Rs.2.5 lakh p.a. are exempt from income tax, which means that they do not contribute to the government. Since indirect taxes are charged at the point of sale, all individuals, regardless of the income tax slab under which they fall, contribute towards the growth of the economy.

**Equitable contributions:**

Indirect taxes are directly related to the costs of products and services. What this essentially means that the basic necessities attract lower rates of tax while luxury items are charged at higher tax rates, thereby ensuring that contributions are equitable.

### Reduce Negative Consumption:

The highest indirect taxes are placed on goods that are bad for our health, like alcohol, tobacco and other similar products. Thus, they are more expensive which helps curb the spending and consumption of such harmful commodities.

### **Disadvantages of Indirect Tax**

Some of the disadvantages of Indirect Tax are given below:

Indirect Tax charged sometimes are cumulative. This means that in a point-based transaction system, middlemen involved are likely to charge their own service tax which may result in the overall price of the product increasing.

Indirect Tax can be regressive in nature. For example, salt tax remains the same for both poor and rich, However, if a rich person defaults the payment, then the penalties imposed will be higher as well.

Indirect Tax are not industry friendly. Taxes are levied on raw materials and goods which in turn increases the cost of production, thus not allowing industries to expand as their competitive capacity is restricted.

Indirect Tax is unpredictable: The amount of indirect taxes collected fluctuates. It is based on the buying of goods and services. As a result, it is impossible for the government to predict how much money will be raised through indirect taxes.

### **Why GST is Indirect Tax?**

The Goods and Services Tax, or GST as it is commonly known, was implemented on July 1st, 2017 to subsume the various indirect taxes in the country. The taxes that were once compulsory are now done away with due to the introduction of the new tax regime. One of the main benefits of GST is that it has eliminated the cascading effect of tax, thereby ensuring that they do not end up paying for every value addition.

The taxes subsumed under GST on the state level include service tax, state excise duty, countervailing duty, additional excise duty, and special additional custom duties.

The taxes subsumed under GST at the central level include sales tax, central sales tax, purchase tax, entertainment tax, luxury tax, octroi and entry tax, and taxes on betting and lottery gambling. In July 2017, the GST law went into effect, bringing 17 indirect taxes under its purview. The GST now includes all significant services and service tax.

**GST at the state level**

**GST at the central level**

**service tax**

**sales tax**

**state excise duty**

**central sales tax**

**countervailing duty**

**purchase tax**

**additional excise duty**

**entertainment tax**

**special additional custom duties**

**luxury tax**

**octroi**

**entry tax**

**taxes on betting and lottery gambling**

## **GST on Insurance Policies**

Unless specifically exempted by the GST Law, almost all sectors and services, including life insurance policies, are subject to the Goods and Services Tax (GST). The life insurance premiums are subject to an 18% GST based on the most recent rates. Although the rate may appear to be high enough to interfere with investment return policies, its overall impact is minimal.

GST in insurance policies only applies to the full or partial protection premium.

**The following is a summary of how GST affects various types of insurance plan premiums:**

Type of Insurance Plan

### **GST on Part of Premium**

#### **Unit Linked Insurance Plans (ULIPs)**

#### **Total Premium – Investment part**

**Term Insurance**

**100%**

**Guaranteed Savings**

**1st year 25% and the rest 12.5%**

**Health Insurance**

**100%**

**Single-Premium Pension Scheme**

**10%**

**Is Indirect tax subject to change?**

Yes, indirect tax is subject to change. It depends on the economy and various other factors based on which the Government of India can decide to rise or cut the tax rates.



Common Questions:

If I purchase a ticket for a cricket match, will I have to pay any indirect tax?

Yes, you will be charged Entertainment Tax on purchasing a ticket for a cricket match. However, it will be integrated under GST.

**Some food items were purchased for personal use. Will it be charged custom duty?**

No, you will not be charged custom duty on food items if they are intended to be used for personal use. Custom Duty will not be charged on food items worth up to Rs.12,000.

Does a manufacturer of goods require to obtain a license from the Central Excise department for payment of Central Excise duty?

No, you don't need any license to pay your Excise Duty. A simple registration with the Central Excise department will be enough.

What is the duty-free allowance for someone of Indian Origin (British passport holder flying to India from the UK) returning to India for a short holiday?

The duty-free allowance for a person of Indian Origin (British Passport Holder) is up to Rs.12,000.

### **Difference between Direct and Indirect Tax**

Direct tax is assessed on the income and profits of individual taxpayers and is directly paid to the government. Indirect tax is charged on services and products provided by HUFs/businesses and paid through an intermediary to the government.

### **Do direct and indirect taxes have different rates of payment?**

Yes, rates for direct taxes are determined by an individual's income /profits while the rates for indirect taxes are the same for everyone.

### **News about Indirect Tax in India**

The tax rates went up on personal and corporate income.

The gross tax rates went up 31% on corporate and individual earnings in the current fiscal year. Out of this 31%, 41% accounts for income tax and 22% for corporate tax revenues. According to the direct collection as of 10 November, the gross collection is 30.69% higher than the previous year, and the amount stands at Rs.10.54 lakh crore. The net direct tax collection is 61.31% more than the budgeted estimate for the full year, and after adjusting the refunds, the amount stands at Rs.8.71 lakh crore.

Indirect tax collections by the government up by 12% in FY21

The central government has collected Rs.10.71 lakh crore as indirect tax including GST and non-GST for the 2020-2021 fiscal year. The total collections had increased by 12% compared to the previous fiscal year at Rs.9.54 lakh crore. According to the statement released by the finance ministry, the provisional collections show 108.2% of the revised estimates of Rs.9.89 lakh crore for FY21.

The net GST collections which include central GST, compensation cess, and integrated GST was Rs.5.48 lakh crore in FY21. The net GST collections were 8% lower than the amount collected in FY20 at Rs.5.99 lakh crore.

An all-time high GST collection was seen in March at Rs.1.24 lakh crore after the collections crossed the Rs.1 lakh crore in January and February 2021. The net tax collections on central excise and service tax which were arrears were Rs.3.91 lakh during FY21 compared to Rs.2.45 lakh crore during the same period in FY20.

### **Are there any disadvantages of Indirect tax?**

Yes, Indirect taxes can be regressive and unpredictable. These taxes can cause inflation and discourage industries from growing.

## **Indirect taxes**

### **Demerits**

Indirect taxation refers to the levying of taxes on goods and services, rather than on individuals or their income. While indirect taxes are an important source of revenue for governments, they also have certain demerits or disadvantages. Here are some key drawbacks associated with indirect taxation:

#### **Regressive nature:**

Indirect taxes tend to be regressive in nature, meaning they impose a higher burden on lower-income individuals and households compared to higher-income individuals. Since indirect taxes are usually applied uniformly, regardless of income level, they consume a larger proportion of the income of lower-income individuals, leading to a disproportionate impact on their overall well-being. This regressive nature can exacerbate income inequality and hinder efforts to achieve social welfare objectives.

#### **Disproportionate impact on the poor:**

Indirect taxes disproportionately affect the poor because they tend to spend a larger proportion of their income on essential goods and services. Basic necessities such as food, clothing, and healthcare are often subject to indirect taxes, which can place a heavy burden on

individuals already struggling to meet their basic needs. This can further perpetuate poverty and hinder economic development.

Lack of transparency:

Indirect taxes are often embedded in the prices of goods and services, making it less transparent for consumers to understand the actual tax burden they are bearing. This lack of transparency can lead to a perception of unfairness and a lack of accountability. It also makes it difficult for consumers to make informed choices based on the tax implications of their purchases.

Reduced consumer purchasing power:

Indirect taxes increase the cost of goods and services, reducing the purchasing power of consumers. As the prices of goods rise due to taxes, consumers may have to allocate a larger portion of their income to meet their basic needs or desired purchases. This can have a negative impact on consumer spending, which is a crucial driver of economic growth.

Potential for tax evasion and avoidance:

Indirect taxes can create opportunities for tax evasion and avoidance. Since these taxes are usually collected at various stages of production and distribution, there may be chances for businesses to underreport or manipulate their transactions to reduce their tax liabilities.

This can result in revenue losses for the government and undermine the effectiveness of the tax system.

Economic distortion:

Indirect taxes can distort economic behavior and market outcomes. Depending on the specific design of the tax, it can influence consumer choices, production decisions, and market dynamics. For example, high taxes on certain goods might lead to a decline in their consumption, affecting related industries and potentially causing market inefficiencies.

Administrative complexity and compliance costs:

Indirect taxes can be complex to administer and enforce, requiring a robust infrastructure and efficient tax administration systems. Compliance costs can be significant for businesses, especially small and medium enterprises, as they may need to invest in specialized accounting systems and personnel to comply with the tax requirements. These costs can create a burden, particularly for businesses with limited resources.

It's important to note that while indirect taxation has its demerits, it also offers certain advantages, such as simplicity of administration, broad tax base, and potential for revenue generation. The overall impact of indirect taxation depends on the specific tax policies, exemptions, and measures taken to mitigate the potential drawbacks. Governments often

strive to strike a balance between revenue generation and addressing the social and economic concerns associated with indirect taxes.

### **Major reforms in indirect taxation in India**

Goods and Services Tax (GST) was the major reform in indirect taxation in India. The GST was introduced on July 1, 2017, replacing multiple indirect taxes such as the Central Excise Duty, Service Tax, VAT, and others.

The GST is a comprehensive indirect tax levied on the supply of goods and services across India. It aims to create a unified and transparent tax system, eliminating the cascading effect of taxes and promoting ease of doing business. Under the GST regime, taxes are levied at each stage of the supply chain, and input tax credits are provided to businesses to offset the taxes paid on inputs.

The GST system in India is a dual GST model, comprising both the Central GST (CGST) levied by the central government and the State GST (SGST) levied by the state governments. Additionally, an Integrated GST (IGST) is levied on inter-state supplies and imports.

The introduction of GST has brought several benefits, such as the simplification of tax compliance procedures, reduction in tax evasion, and the creation of a common market across India. However, it has also

faced challenges related to the complexity of the tax structure, technical glitches in the online portal, and the adjustment process for businesses.

### Indirect Taxation – Reforms

GST, or Goods and Services Tax, is a comprehensive indirect tax reform implemented in many countries, including India, Canada, Australia, and Malaysia, among others. It is designed to replace multiple indirect taxes levied by the central and state governments with a single tax, thereby simplifying the taxation system and reducing complexities for businesses and taxpayers.

Here are some key details about GST:

#### Objective:

The primary objective of GST is to create a unified and simplified taxation structure by eliminating the cascading effect of taxes (tax on tax) and fostering a common national market.

#### Taxable Goods and Services:

GST is levied on the supply of goods and services. It applies to all stages of the supply chain, from the manufacturer to the consumer, ensuring that the tax burden is shared across all participants in the production and distribution process.



#### Dual Structure:

GST typically follows a dual structure, wherein both the central and state governments have the power to levy and collect GST. The central GST (CGST) is levied by the central government, and the state GST (SGST) is levied by the respective state governments.

#### Integrated GST (IGST):

In cases involving inter-state transactions, where the supply of goods or services crosses state boundaries, an integrated GST (IGST) is levied. IGST is a combination of both CGST and SGST and is collected by the central government.

#### Input Tax Credit (ITC):

One of the key features of GST is the availability of input tax credit. Businesses can claim credit for the GST paid on inputs or raw materials used in the production process. This helps eliminate the cascading effect and reduces the tax burden on businesses.

#### Threshold Exemption:

GST typically provides a threshold exemption limit, below which businesses are not required to register for GST or collect GST from their customers. This threshold varies from country to

country but is usually determined based on the annual turnover of the business.

#### Compliance and Filing:

Under GST, businesses are required to register, maintain proper records of their transactions, and file regular GST returns. The frequency and details of returns vary depending on the turnover and nature of the business.

#### Impact on Economy:

GST aims to create a more transparent and efficient tax system, leading to several positive impacts on the economy. It helps in reducing the overall tax burden, eliminating tax barriers between states, curbing tax evasion, promoting ease of doing business, and attracting foreign investment.

#### Challenges:

Implementing GST can pose various challenges, including technological integration, taxpayer awareness, training and capacity building, coordination between central and state governments, and addressing the concerns of different industries and sectors.

#### Global Adoption:

GST has gained popularity worldwide, with many countries adopting or considering its implementation. While the structure and

rates may vary, the underlying principles of simplifying taxation and creating a unified market remain consistent.

It is important to note that while this answer provides a general overview of GST, the specific details and implementation may vary from country to country.

### Direct tax Vs Indirect Tax

#### Direct Tax:

Direct taxes are levied directly on individuals or entities and are borne by the person or entity on which they are imposed. These taxes cannot be shifted to another party. They are based on the ability to pay principle, meaning that the tax burden is determined by the income or wealth of the taxpayer. Some common examples of direct taxes include income tax, corporate tax, wealth tax, and property tax.

#### Income Tax:

It is a tax imposed on individuals or entities based on their income or profits. The tax rates typically vary depending on the level of income earned.

#### Corporate Tax:

This tax is imposed on the profits earned by companies or corporations. The tax rate is generally based on the company's net income.

#### Wealth Tax:

Wealth tax is levied on the net wealth or assets owned by individuals or entities. It is calculated based on the total value of assets such as real estate, investments, bank deposits, and personal belongings.

#### Property Tax:

Property tax is a tax imposed on the value of real estate properties owned by individuals or entities. The tax rate is usually based on the assessed value of the property.

#### Indirect Tax:

Indirect taxes, on the other hand, are imposed on the sale, consumption, or use of goods and services. These taxes can be passed on to the final consumer or user of the goods or services. Indirect taxes are not based on the ability to pay principle but are typically included in the price of the goods or services. Some common examples of indirect taxes include sales tax, value-added tax (VAT), excise duty, customs duty, and service tax.

#### Sales Tax:

Sales tax is levied on the sale of goods and is usually imposed at the point of sale. The tax rate may vary depending on the jurisdiction and the type of goods being sold.

**Value-Added Tax (VAT):**

VAT is a type of consumption tax imposed at each stage of the supply chain, from the manufacturer to the retailer. It is based on the value added at each stage of production and distribution.

**Excise Duty:**

Excise duty is a tax imposed on the production or sale of specific goods, such as alcohol, tobacco, and petroleum products. It is often included in the price of the goods and paid by the manufacturer or importer.

**Customs Duty:**

Customs duty is a tax imposed on goods that are imported or exported. The tax is based on the value or quantity of the goods and is paid at the border by the importer or exporter.

**Service Tax:**

Service tax is levied on certain services provided by service providers. The tax rate is usually a percentage of the value of the service provided.

In summary, direct taxes are imposed directly on individuals or entities and are based on their income, wealth, or property, while indirect taxes are imposed on the sale, consumption, or use of goods and services and are typically included in the price of the goods or services.

## Direct tax Vs Indirect Tax

Direct and indirect taxes are two broad categories of taxes that governments use to generate revenue. The distinction between direct and indirect taxes lies in how they are imposed and who ultimately bears the burden of the tax. Here's a detailed explanation of each type:

### Direct Taxes:

Direct taxes are levied directly on individuals or entities based on their income, profits, or wealth. These taxes are paid by the person or entity on whom they are imposed. The key characteristics of direct taxes are as follows:

#### a) Imposed on Individuals or Entities:

Direct taxes are directly imposed on individuals or entities, such as individuals, corporations, partnerships, or trusts.

#### b) Based on Income or Wealth:

Direct taxes are typically calculated as a percentage of an individual's income, profits, or wealth. Examples of direct taxes include income tax, corporate tax, capital gains tax, wealth tax, inheritance tax, and property tax.

#### c) Progressive Nature:

Direct taxes are often progressive, meaning that the tax rates increase as the income or wealth of the individual or entity increases. This progressive nature aims to redistribute wealth and reduce income inequalities.

d) Burden on Taxpayer:

Since direct taxes are paid directly by the taxpayer, the burden of these taxes falls on the individuals or entities that are subject to taxation. For example, individuals pay income tax on their earnings, and corporations pay corporate tax on their profits.

Indirect Taxes:

Indirect taxes are imposed on the production, sale, or consumption of goods and services. Unlike direct taxes, the burden of indirect taxes can be shifted from the entity that pays the tax to someone else. The key characteristics of indirect taxes are as follows:

a) Imposed on Goods and Services:

Indirect taxes are levied on the production, sale, or consumption of goods and services. These taxes are typically included in the price of the goods or services and are collected by intermediaries, such as businesses or retailers.

b) Based on Consumption:

Indirect taxes are often calculated as a percentage of the value of goods or services consumed. Examples of indirect taxes include value-added tax (VAT), sales tax, excise tax, customs duties, and goods and services tax (GST).

c) Regressive Nature:

Indirect taxes tend to have a regressive impact as they are applied uniformly to all consumers regardless of their income level. This means that the tax burden represents a higher proportion of income for lower-income individuals compared to higher-income individuals.

d) Burden on Consumers:

While businesses or intermediaries collect indirect taxes, the burden of these taxes is ultimately borne by the consumers. The cost of the tax is passed on to the buyers in the form of higher prices for goods and services.

In summary, direct taxes are imposed directly on individuals or entities based on their income or wealth and the burden is borne by the taxpayer, while indirect taxes are levied on the production, sale, or consumption of goods and services and the burden can be shifted to the consumers.

### Summary

The Indian taxation system is a complex framework of rules and regulations that govern the collection and management of



taxes in India. The system is primarily governed by the Income Tax Act, 1961, which outlines the provisions related to income tax.

Additionally, there are various other tax laws and regulations that cover different types of taxes.

Here are some key aspects of the Indian taxation system:

#### Direct Taxes:

Direct taxes are levied on the income or wealth of individuals and entities. The major direct tax in India is the income tax, which is imposed on the income earned by individuals, companies, and other entities. The income tax rates vary based on the income slab and the type of taxpayer.

#### Indirect Taxes:

Indirect taxes are levied on the manufacture, sale, or consumption of goods and services. The Goods and Services Tax (GST) is a significant indirect tax in India, introduced in July 2017. GST replaced various indirect taxes like excise duty, service tax, and value-added tax (VAT). GST has multiple tax rates based on the type of goods or services.

#### Corporate Taxes:

Companies in India are subject to corporate taxes on their profits. The corporate tax rates differ based on the type and size of the company. In recent years, the government has introduced

measures to reduce corporate tax rates to promote investment and economic growth.

#### Wealth Tax:

Wealth tax was abolished in India with effect from April 1, 2016. Previously, individuals and Hindu Undivided Families (HUFs) with a specified net wealth were liable to pay wealth tax.

#### Tax Filing and Compliance:

Taxpayers are required to file tax returns and comply with various reporting and disclosure requirements. The tax filing deadline for individuals is typically July 31st of each year, subject to changes by the government. Businesses and companies have different filing deadlines.

#### Tax Deductions and Exemptions:

The Indian tax system provides certain deductions and exemptions to encourage savings, investments, and specific activities. These include deductions for expenses such as medical insurance, education, housing loans, and contributions to certain savings schemes.

#### Tax Authorities:

The administration and collection of taxes in India are primarily carried out by the Central Board of Direct Taxes (CBDT) for direct taxes and the Central Board of Indirect Taxes and

Customs (CBIC) for indirect taxes. These authorities are responsible for formulating policies, implementing tax laws, and conducting tax audits.

It's important to note that the Indian taxation system is subject to changes and amendments by the government from time to time.

**Unit II**

**Goods & Service Tax Goods and Service Tax Act 2016**

Introduction – Meaning- Definition- objectives - features--  
Application - Administration of GST- VAT and indirect taxes Vs. GST-  
Advantages and Disadvantages

## Unit II

### **Goods & Service Tax Goods and Service Tax Act 2016**

#### **INTRODUCTION**

Goods and Services Tax (GST) is a comprehensive indirect tax imposed on the supply of goods and services in many countries around the world. It is designed to replace multiple cascading taxes levied by different authorities, such as excise duty, service tax, value-added tax (VAT), and others.

The main objective of implementing GST is to create a unified and simplified tax system that reduces the complexity and burden of multiple taxes.

GST is a destination-based tax, meaning it is levied at the point of consumption rather than at the point of origin. It follows a multi-stage collection mechanism where tax is collected at each stage of the supply chain, and the tax paid at previous stages can be used as a credit for offsetting against the tax liability at subsequent stages. This mechanism helps in reducing the tax burden on businesses and prevents the cascading effect of taxes.

The implementation of GST typically involves the collaboration of the central and state governments. It requires the enactment of a

comprehensive GST law, which sets out the provisions for tax rates, exemptions, input tax credits, registration requirements, and other aspects related to the tax system. Additionally, a robust technological infrastructure is essential for effective implementation, including a common online platform for registration, return filing, and tax payment.

GST has several advantages. It simplifies the tax structure, improves compliance, and promotes ease of doing business by eliminating the need for businesses to comply with multiple tax laws. It also helps in curbing tax evasion and black market activities, as the entire supply chain is captured within the tax net. Moreover, GST promotes the free flow of goods and services across state boundaries, creating a common market and fostering economic integration.

It's important to note that the specific features and rates of GST can vary from country to country. Different countries may have different thresholds for registration, exemption limits, and tax rates applicable to various goods and services. Therefore, it is necessary to refer to the specific GST law and regulations of a particular country to understand the detailed provisions and implications of the tax system.

Goods and Services Tax (GST) is a consumption-based tax levied on the supply of goods and services in many countries around the world. It is designed to replace multiple indirect taxes that were previously imposed at different stages of the supply chain, such as sales tax, value-

added tax (VAT), excise duty, and service tax. GST is intended to streamline the taxation system, reduce tax evasion, and promote a unified market by ensuring a common tax structure across the country or region where it is implemented.

Under the GST system, businesses and individuals are required to register for GST and collect the tax from their customers when they sell goods or provide services. They can claim input tax credits to offset the GST they have paid on their purchases or expenses related to their business activities. This mechanism ensures that the tax is levied only on the value added at each stage of the supply chain, rather than being applied at multiple points as in the previous system.

GST is generally categorized into two components: Central GST (CGST) and State GST (SGST) or Union Territory GST (UTGST), depending on the specific structure implemented in a country or region. These components are levied by the central and state governments, respectively, and the revenue collected is shared between them based on predetermined formulas. In some cases, a separate Integrated GST (IGST) may be levied on inter-state transactions to avoid complications and ensure smooth movement of goods and services between states or territories.

The introduction of GST aims to simplify taxation, remove cascading effects, enhance compliance, and create a common national

or regional market. By consolidating multiple taxes into a single tax, it reduces the burden of businesses, eliminates tax barriers, and promotes economic efficiency. However, the specific details and implementation of GST can vary between different countries or regions, including the tax rates, exemptions, and thresholds.

### **Goods and Services Tax (GST) Act 2016**

The Goods and Services Tax (GST) Act 2016 is a tax legislation in India that was implemented on July 1, 2017. It replaced multiple indirect taxes levied by the central and state governments, such as excise duty, service tax, VAT, and others. The GST Act aims to simplify the taxation system by introducing a unified tax structure across the country.

#### **Key Features of the GST Act 2016:**

##### **Unified Tax Structure:**

The GST Act introduced a single tax system that applies to the supply of goods and services throughout India. It is categorized into Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST) for intra-state transactions and Integrated Goods and Services Tax (IGST) for inter-state transactions.

##### **Threshold Limits:**

The GST Act specifies threshold limits for businesses to determine if they need to register under GST. Currently, the threshold limit for



businesses is an annual turnover of INR 40 lakhs for most states, while for certain states, it is INR 20 lakhs.

#### Input Tax Credit:

Under the GST Act, businesses can claim input tax credit for taxes paid on purchases, which can be set off against the output tax liability. This ensures that taxes are levied only on the value addition at each stage of the supply chain.

#### Compliance:

The GST Act requires businesses to maintain proper records of their transactions, including invoices, receipts, and returns. It also mandates regular filing of GST returns and payment of taxes within the prescribed timelines.

#### Composition Scheme:

The GST Act provides a composition scheme for small businesses with an annual turnover up to INR 1.5 crores. Such businesses can opt for a simplified tax regime and pay taxes at a lower rate based on their turnover.

#### Anti-Profiteering Measures:

The GST Act includes provisions to prevent businesses from profiteering by reducing prices due to the implementation of GST. The Anti-Profiteering Authority was established to ensure that the benefits of GST are passed on to consumers.

#### E-commerce Operators:

The GST Act imposes certain responsibilities on e-commerce operators. They are required to collect and deposit tax (TCS) on behalf of sellers, maintain records of transactions, and file regular returns.

The Goods and Services Tax (GST) is a value-added tax system implemented in various countries to replace multiple indirect taxes and streamline the taxation process. The objectives of implementing GST generally include:

#### Simplification of the tax system:

One of the primary objectives of GST is to simplify the taxation structure by replacing multiple indirect taxes such as excise duty, service tax, sales tax, and others with a single comprehensive tax. This simplification reduces the compliance burden on businesses and improves overall efficiency.

#### Broadening the tax base:

GST aims to broaden the tax base by bringing more businesses into the formal tax system. By eliminating various exemptions and

thresholds present in previous tax systems, GST reduces tax evasion and enhances tax compliance.

**Elimination of cascading effect:**

The cascading effect, also known as "tax on tax," occurs when taxes are levied on each stage of production and distribution. GST is designed to eliminate this cascading effect by providing input tax credits, allowing businesses to claim credit for taxes paid on inputs or purchases. This helps reduce the overall tax burden on businesses and promotes efficiency in the supply chain.

**Promoting a common national market:**

GST aims to create a common national market by removing inter-state barriers to trade. It replaces the earlier system where each state had its own tax laws, rates, and compliance requirements. This simplification encourages the free movement of goods and services across state boundaries, facilitating trade and economic integration.

**Enhancing competitiveness:**

GST seeks to enhance the competitiveness of businesses, both domestically and internationally. By reducing the tax burden, improving ease of doing business and eliminating barriers to interstate trade, GST fosters a more business-friendly environment and promotes economic growth.

Formalization of the economy:

GST encourages businesses to operate within the formal economy by providing incentives for tax compliance. It helps in reducing the size of the informal or unregulated economy and brings more economic activities under the tax net, leading to increased transparency and accountability.

Increased revenue collection:

The implementation of GST aims to boost government revenue by expanding the tax base and improving compliance. The simplified and efficient tax structure helps in better administration and enforcement, resulting in increased tax collections for the government.

It's important to note that the specific objectives and design of GST may vary from country to country based on their economic and administrative considerations.

### **Goods and Services Tax**

The Goods and Services Tax (GST) is a comprehensive indirect tax levied on the supply of goods and services in many countries around the world. It aims to streamline the taxation system by replacing multiple indirect taxes, such as sales tax, service tax, excise duty, and value-added tax, with a single tax.

Here are some key features of the Goods and Services Tax:

Single tax:

GST replaces multiple indirect taxes, unifying them under a single tax regime. This simplifies the tax structure and reduces the compliance burden for businesses.

Destination-based tax:

GST is a destination-based tax, which means it is levied based on the location of consumption rather than the location of production. This ensures that the tax revenue goes to the state where the goods or services are consumed, promoting fair distribution of tax revenue among states.

Input tax credit:

One of the significant features of GST is the provision of input tax credit. Businesses can claim a credit for the GST paid on inputs (goods and services used in the production process) against the GST liability on output supplies. This eliminates the cascading effect of taxes and helps reduce the overall tax burden.

Threshold exemption:

GST typically has a threshold exemption limit, which means small businesses with turnover below a certain threshold are exempt from registering and paying GST. This helps to ease the compliance burden for small businesses.

**Multiple tax rates:**

GST usually employs a multi-tiered tax structure with different tax rates for different goods and services. This classification helps in the proper taxation of goods and services based on their nature and essentiality. For example, essential items like food and basic necessities may attract lower tax rates, while luxury goods may be taxed at a higher rate.

**Integrated tax system:**

GST integrates the taxation of goods and services across the entire supply chain. It covers the various stages of production and distribution, including procurement, manufacturing, sale, and consumption. This ensures that tax is levied at each stage, giving a comprehensive view of the entire supply chain.

**Online tax filing and compliance:**

GST implementation typically involves the use of online platforms for tax filing, registration, and compliance. Businesses are required to maintain proper records, file regular returns, and adhere to the online compliance mechanisms. This helps in improving transparency, reducing tax evasion, and facilitating easier administration and monitoring of taxes.

### Goods and Services:

GST covers both goods and services, bringing them under a common tax framework. This eliminates the differentiation between goods and services for tax purposes and promotes a uniform taxation system.

It's important to note that specific features of GST may vary from country to country, as each nation may have its own unique implementation and regulations related to the Goods and Services Tax.

### **Administration of GST**

GST, or Goods and Services Tax, is an indirect tax system implemented in many countries around the world, including India, Canada, Australia, and New Zealand. It is designed to replace multiple indirect taxes like sales tax, service tax, and excise duty with a unified tax regime. The administration of GST involves various aspects, including registration, filing returns, payment of taxes, and compliance enforcement. Here's a detailed explanation of the administration of GST:

#### Registration:

Under the GST regime, businesses meeting certain turnover thresholds are required to register themselves with the tax authorities. The registration process involves providing relevant information about the business, such as the nature of activities, turnover details, and other

required documents. Once registered, a unique Goods and Services Tax Identification Number (GSTIN) is assigned to the business.

#### Tax Calculation and Invoicing:

Businesses registered under GST are required to calculate the tax liability on their supplies of goods and services. The tax is generally calculated based on the value of the taxable supply and the applicable tax rate. Registered businesses issue tax invoices to their customers, which include details like the GSTIN of the supplier, description of goods/services, quantity, value, and tax charged.

#### Filing Returns:

Registered businesses need to periodically file GST returns, which provide details of their taxable supplies, input tax credit (ITC) claimed, and tax liability. The frequency of return filing varies based on the turnover of the business. Typically, returns need to be filed monthly, quarterly, or annually. The GST returns are filed electronically through the designated GST portal or software.

#### Payment of Taxes:

After filing the returns, businesses are required to pay the tax liability to the government within the specified due dates. The payment can be made online through the authorized banking channels, with the tax amount being credited to the appropriate government account.



### Input Tax Credit (ITC):

GST allows registered businesses to claim input tax credit on the taxes they have paid on their purchases. This credit can be set off against the tax liability on their sales. The ITC mechanism ensures that tax is levied only on the value added at each stage of the supply chain.

### Audits and Assessments:

The tax authorities have the power to conduct audits and assessments to ensure compliance with GST regulations. They may verify the books of accounts, records, and other relevant documents of businesses to assess the correctness of tax calculations, claim of ITC, and overall compliance with GST laws.

### Compliance Enforcement:

The tax authorities also undertake compliance enforcement activities to deter tax evasion and promote voluntary compliance. This includes conducting inspections, investigations, and taking legal actions against non-compliant businesses. Penalties and fines can be imposed for non-compliance, including late filing of returns, non-payment of taxes, or incorrect reporting.

### Technology Infrastructure:

The administration of GST relies heavily on a robust technology infrastructure. Governments establish online portals and systems for registration return filing, payment processing, and other GST-related activities. These systems facilitate seamless interaction between taxpayers and the tax authorities, ensuring efficient administration and compliance.

It's important to note that the administration of GST may vary to some extent in different countries, as each jurisdiction may have its own specific rules and procedures. The above description provides a general overview of the key aspects involved in the administration of GST.

### VAT

VAT, which stands for Value Added Tax, is a consumption tax levied on the sale of goods and services

It is commonly used by many countries around the world as a way to generate revenue for the government. VAT is typically imposed at each stage of the supply chain, from the manufacturer to the wholesaler, retailer, and finally to the end consumer.

**Here are some key details about VAT:**

**Purpose:**

VAT is designed to be a tax on consumption, meaning it is ultimately borne by the end consumer. Unlike other types of taxes, such as income tax or corporate tax, which are levied on the earnings or profits of individuals or businesses, VAT is applied to the value added at each stage of production and distribution.

**Taxable Goods and Services:**

VAT applies to a wide range of goods and services, including but not limited to, physical products like electronics, clothing, and vehicles, as well as services such as consulting, repairs, and transportation. However, some essential items like basic food, healthcare, and education may be exempted or subject to a reduced VAT rate in certain jurisdictions.

**VAT Rates:**

Different goods and services can be subject to varying VAT rates. Most countries have multiple VAT rates depending on the type of product or service. For example, a higher rate might be applied to luxury goods, while a lower rate could be imposed on essential items. There may also be zero-rated goods or services that are technically subject to VAT but taxed at a 0% rate.

### Registration and Compliance:

Businesses that reach a certain threshold of annual turnover are typically required to register for VAT and collect the tax from their customers. They must maintain proper records of their transactions and submit regular VAT returns to the tax authorities. These returns outline the VAT collected from sales and the VAT paid on purchases, with the difference usually resulting in either a payment to the tax authority or a refund.

### Input Tax Credit:

One of the key features of VAT is the concept of input tax credit. Businesses can generally offset the VAT they have paid on their purchases (input tax) against the VAT they have collected on their sales (output tax). This helps prevent cascading taxes, where the same tax is levied multiple times on the same value, and ensures that the tax burden is borne by the final consumer.

### International Trade:

VAT also plays a significant role in international trade. When goods or services are imported, VAT may be levied at the point of entry. However, many countries allow for VAT exemptions or deferments for certain types of imports to avoid double taxation. Exported goods and services are typically zero-rated for VAT, ensuring that the tax is not exported along with the product.

### Revenue Generation:

VAT is an important source of revenue for governments, contributing to public expenditure on infrastructure, healthcare, education and other essential services. The revenue generated from VAT can be used to fund various government initiatives and programs.

It's important to note that VAT laws and regulations can vary significantly from one country to another.

### Indirect Taxes Vs GST

Indirect taxes and the Goods and Services Tax (GST) are both forms of taxation imposed on goods and services, but they differ in their structure, administration, and impact. Here's a detailed explanation of the differences between indirect taxes and GST:

#### Structure:

##### Indirect Taxes:

Indirect taxes are typically levied at different stages of the supply chain, from production to distribution to consumption. Examples include excise duty, customs duty, sales tax, value-added tax (VAT), and service tax.

**GST:**

The Goods and Services Tax, on the other hand, is a comprehensive, destination-based tax levied on the supply of goods and services. It aims to subsume various indirect taxes into a single tax structure. GST is designed to be a multi-stage tax, where the tax burden is passed on to the end consumer.

**Taxable Events:**

**Indirect Taxes:**

Indirect taxes are imposed on specific events, such as the manufacture or sale of goods, import/export of goods, or provision of services. Each tax event may have its own tax rate and rules.

**GST:**

GST is applicable to the supply of goods and services. Any time a good or service is supplied, whether it involves production, distribution, or consumption, GST is levied. This provides a comprehensive and uniform tax structure across the supply chain.

**Tax Calculation:**

**Indirect Taxes:**

Indirect taxes are often calculated based on the value or quantity of goods or services being taxed. The tax rates may vary depending on

the nature of the goods or services, and they are usually applied at each stage of the supply chain.

**GST:**

In the case of GST, the tax is calculated based on the value added at each stage of the supply chain. It follows a credit mechanism where businesses can claim input tax credit for the GST paid on purchases, thereby reducing the tax liability. This helps in avoiding cascading effects and promotes a more efficient and transparent tax system.

**Administration:**

**Indirect Taxes:**

Indirect taxes are usually administered by different authorities at the national, state, or local levels. Each tax may have its own set of rules, rates, and reporting requirements, leading to a complex and fragmented system of taxation.

**GST:**

GST, on the other hand, is administered by a single authority, the Goods and Services Tax Council, at the national level in India (the country where GST is implemented). It aims to bring uniformity in tax administration, rates, and procedures across the country.

Transparency and Compliance:

Indirect Taxes:

Indirect taxes can sometimes be complex, with varying rates and regulations. This complexity can lead to difficulties in understanding and complying with the tax requirements, increasing the chances of non-compliance and tax evasion.

GST:

GST is designed to simplify the tax structure and enhance transparency. With a single tax applied across the supply chain, it becomes easier for businesses and consumers to understand and comply with the tax requirements. GST also promotes digitalization and electronic filing, making the process more efficient and reducing the scope for tax evasion.

Overall, while indirect taxes are diverse and applied at different stages, GST provides a unified tax structure that aims to simplify taxation, promote transparency, and reduce cascading effects. GST streamlines the tax system, eases compliance burdens, and fosters a more efficient business environment.

### **Advantages of GST**

The Goods and Services Tax (GST) is a comprehensive indirect tax levied on the supply of goods and services in India. Implemented on



July 1, 2017, GST has several advantages that have positively impacted the Indian economy. Here are some of the key advantages of GST:

**Streamlined Tax Structure:**

GST replaced multiple indirect taxes levied by the central and state governments, such as central excise duty, service tax, value-added tax (VAT), and others. It streamlined the tax structure by integrating these taxes into a single unified tax, reducing the complexity and compliance burden for businesses.

**Elimination of Cascading Effect:**

Under the pre-GST regime, taxes were levied on taxes, leading to a cascading effect or "tax on tax." GST eliminated this cascading effect by providing input tax credit across the value chain. Businesses can claim credit for the GST paid on inputs, resulting in a more efficient and transparent tax system.

**Boost to Ease of Doing Business:**

GST has simplified the tax compliance process for businesses. With a unified tax system and a common online portal (GSTN), businesses can easily register, file returns, and claim input tax credit. This has reduced the procedural complexities and improved the ease of doing business in India.

#### Expansion of the Tax Base:

GST has widened the tax base by bringing more businesses into the formal economy. Previously unregistered small businesses are now required to register under GST if their turnover exceeds the threshold limit. This has increased tax compliance and expanded the taxpayer base, thereby reducing tax evasion.

#### Reduction in Tax Disputes:

GST follows a self-assessment mechanism with an online return filing system. It provides clear guidelines for tax calculation, input tax credit, and compliance. This has reduced tax disputes and litigation between taxpayers and tax authorities, promoting a more transparent and efficient tax administration.

#### Removal of Interstate Barriers:

With the implementation of GST, the concept of interstate taxes, such as entry tax and octroi, was abolished. This has facilitated the movement of goods across state borders, reducing transportation time and costs. It has also led to the creation of a unified national market, promoting economic integration.

#### Boost to Export Competitiveness:

GST provides various export incentives and refunds to promote exports. It allows for zero-rated supplies for exports, wherein exporters

can claim refunds for the GST paid on inputs used in the export process. This has enhanced the competitiveness of Indian goods and services in the international market.

**Promotes Make in India:**

GST incentivizes domestic manufacturing and the "Make in India" initiative by providing input tax credit on capital goods and raw materials. This has encouraged investments in manufacturing sectors, promoting domestic production, and reducing dependence on imports.

**Enhanced Transparency and Accountability:**

GST has increased transparency in the tax system through digital record-keeping and online transactions. The use of technology has reduced cash transactions and improved the accountability of businesses. It has also facilitated data analytics and risk-based tax assessments, leading to more effective tax administration.

**Positive Economic Impact:**

Overall, GST has had a positive impact on the Indian economy. It has contributed to higher tax collections, improved fiscal discipline, and enhanced government revenue. The simplified tax structure and increased compliance have stimulated economic growth, investment, and job creation.

It's important to note that while GST has numerous advantages, its implementation and subsequent reforms continue to address challenges and concerns raised by various stakeholders.

### **Disadvantages of GST**

The Goods and Services Tax (GST) is a comprehensive indirect tax system implemented in many countries, including India. While GST has several advantages, it also has some disadvantages. Here are some of the main disadvantages of GST:

#### Increased compliance burden:

GST introduces a complex tax structure that requires businesses to maintain detailed records and comply with various compliance procedures. Small businesses, in particular, may find it challenging to cope with the increased compliance burden, leading to additional administrative costs and time-consuming processes.

#### Initial implementation challenges:

When GST is initially introduced, there can be significant challenges in terms of technology infrastructure, training, and adaptation to the new system. This can result in disruptions and difficulties for businesses in the initial phase of implementation.

Multiple tax rates:

GST typically involves multiple tax rates for different goods and services. This can lead to confusion and complexities in determining the correct tax rate for a particular product or service. It requires businesses to classify their products correctly and keep track of the applicable tax rates, which can be burdensome, especially for small businesses.

Impact on small businesses:

GST may have a disproportionate impact on small businesses. The compliance requirements and associated costs can be more burdensome for small-scale enterprises with limited resources and infrastructure. It can lead to increased costs, decreased profitability, and potential barriers to the growth of small businesses.

Inflationary pressure:

The introduction of GST can lead to short-term inflationary pressures. While GST aims to streamline the tax system and eliminate cascading effects, the initial implementation phase may result in price fluctuations as businesses adjust their pricing strategies and account for changes in input tax credits.

Potential for tax evasion:

Despite efforts to create a more transparent and efficient tax system, GST also presents opportunities for tax evasion. Unscrupulous businesses may attempt to manipulate invoices, underreport sales, or

engage in other fraudulent practices to avoid paying the correct amount of GST. This poses challenges for tax authorities in effectively monitoring and enforcing compliance.

Sector-specific challenges:

Certain sectors, such as real estate and financial services, face unique challenges under the GST regime. The treatment of land and building transactions, input tax credits, and valuation methods can be complex and may result in increased costs and administrative complexities for these sectors.

It's important to note that the disadvantages of GST can vary depending on the specific implementation and context of the tax system. Governments continually work to address these challenges and refine the GST framework to minimize the negative impacts and enhance its effectiveness.

### **Unit III**

#### **Types of GST**

Strengths, Weaknesses, Opportunities and Challenges (SWOC)

Analysis in India- Types of GST- Central GST- State GST- Integrated GST- Union Territory GST

#### **Types of GST**

GST, or Goods and Services Tax, is a consumption-based tax levied on the supply of goods and services. It is designed to replace multiple indirect taxes such as excise duty, service tax, VAT, and others. GST has been adopted by many countries around the world, and while the basic principles remain similar, there can be variations in its implementation and structure.

Here are some types or models of GST that exist:

Single-rate GST:

In this model, a single rate is applied to all goods and services. It simplifies the tax structure and minimizes classification disputes. However, it may not be able to accommodate varying tax rates for different goods and services.

#### Multi-rate GST:

This model involves applying different tax rates to different categories of goods and services. It allows for differentiation based on the essentiality of products, their value, or any other criteria. For example, essential goods may be taxed at a lower rate compared to luxury items. The multi-rate GST system provides flexibility but can be more complex to administer.

#### Dual GST:

This model involves the imposition of two components of GST: Central GST (CGST) and State GST (SGST). It is adopted by countries like India. Under dual GST, the central government and the state governments both have the authority to levy and collect GST on intra-state supplies of goods and services. This model helps maintain fiscal federalism and allows for revenue sharing between the central and state governments.

#### Integrated GST (IGST):

This model is also adopted by India and is applicable to inter-state supplies of goods and services. Under IGST, the central government collects the tax, and the revenue is shared between the central and state governments based on the destination principle. It ensures seamless movement of goods across state borders and avoids cascading taxes.



### Value-Added Tax (VAT) based GST:

This type of GST is structured similarly to a value-added tax system. It allows businesses to claim input tax credits for taxes paid on inputs used in the production process. The tax is applied at each stage of the supply chain, and the tax liability is based on the value added at each stage. VAT-based GST promotes transparency and minimizes the cascading effect of taxes.

### Regressive GST:

In a regressive GST system, the tax burden falls disproportionately on lower-income individuals or households. This occurs when essential goods and services are subject to higher tax rates compared to luxury goods, affecting the affordability of basic necessities.

It's important to note that the specific structure and rates of GST can vary from country to country. The examples provided above offer a general overview of the different types of GST models that exist, but each country may adopt its own unique system based on its economic priorities and administrative requirements.

### **Strengths – GST**

Goods and Services Tax (GST) has several strengths that make it an effective taxation system. Some of the key strengths of GST include:

**Simplicity:**

GST aims to simplify the taxation structure by replacing multiple indirect taxes, such as excise duty, service tax, VAT, and others, with a single tax. This simplification reduces the complexity of tax compliance for businesses and makes it easier for taxpayers to understand and comply with the tax regulations.

**Streamlined administration:**

GST establishes a unified tax administration by centralizing the tax collection process. It eliminates the need for businesses to deal with multiple tax authorities, as a single authority oversees the GST implementation. This streamlined administration leads to better coordination, reduced administrative burden, and improved efficiency in tax collection.

**Elimination of cascading effect:**

One of the significant advantages of GST is its ability to eliminate the cascading effect of taxes. Cascading effect refers to the taxation of taxes, where taxes are levied on taxes paid in the earlier stages of the supply chain. GST allows businesses to claim input tax credit for the taxes paid on inputs, which reduces the cascading effect and ultimately leads to a more transparent and fair tax system.

Increased tax base and revenue:

GST expands the tax base by bringing more businesses under the tax net. It reduces the scope for tax evasion by promoting better compliance through the use of technology, such as online tax filing and real-time reporting. This broadening of the tax base results in increased tax revenue for the government, allowing for more funds to be allocated for public welfare and development initiatives.

Promotes ease of doing business:

With the simplification of tax procedures and reduction in compliance requirements, GST improves the ease of doing business. It reduces the bureaucratic hurdles and paperwork associated with multiple tax regimes, making it more convenient for businesses to operate across state boundaries. This leads to increased trade, investment, and economic growth.

Harmonization and uniformity:

GST harmonizes the indirect tax structure across different states and brings about uniformity in tax rates and regulations. This uniformity reduces tax barriers and creates a seamless national market, enabling the free flow of goods and services across the country. It fosters economic integration, reduces market distortions, and promotes fair competition.

Boosts exports and competitiveness:

GST provides benefits to exporters by allowing zero-rated tax on export of goods and services. This zero-rating mechanism reduces the tax burden on exports, making them more competitive in the global market. It also simplifies export procedures and reduces compliance costs, thereby boosting export-oriented industries and enhancing overall competitiveness.

These strengths of GST contribute to its effectiveness as a taxation system, promoting transparency, efficiency, and economic growth. However, it is important to note that the implementation and impact of GST can vary across different countries, depending on their specific contexts and policies.

### **Weaknesses of GST**

Goods and Services Tax (GST) is a comprehensive indirect tax levied on the supply of goods and services in many countries. While GST has several advantages, it also has some notable weaknesses. Here are some key weaknesses of GST:

Complexity:

One of the major weaknesses of GST is its inherent complexity. GST involves multiple tax rates, classifications, and

intricate compliance requirements. The tax structure includes various slabs, exemptions, and different tax rates for different goods and services, leading to a complex framework. This complexity poses challenges for businesses, particularly small and medium-sized enterprises (SMEs), in understanding and adhering to the tax regulations.

#### Compliance Burden:

The implementation of GST places a significant compliance burden on businesses. Enterprises are required to maintain detailed records, file multiple returns, and reconcile various invoices and tax credits. Compliance with GST regulations requires significant time, resources, and expertise, which can be burdensome for smaller businesses with limited capabilities. Failure to comply with the complex requirements can result in penalties and legal issues.

#### Classification Challenges:

GST relies on proper classification of goods and services to determine the applicable tax rates. However, classification can be subjective and prone to interpretation, leading to disputes and litigation. Different interpretations of classification by tax authorities and businesses can create confusion and inconsistencies in tax application, causing compliance challenges and legal disputes.

#### Impact on Prices:

While GST aims to streamline and rationalize the tax structure, it can sometimes lead to an increase in prices. The introduction of GST often results in the elimination or reduction of previous tax incentives and exemptions. As a result, some goods and services that were previously taxed at lower rates or exempted may now attract higher tax rates. This can lead to an immediate increase in prices, affecting the cost of living and potentially impacting certain sectors or vulnerable sections of society.

#### Administrative Challenges:

The successful implementation of GST requires a robust and efficient administrative setup. Tax authorities need to be adequately trained and equipped to handle the complexities of GST. However, the administrative capacity may be lacking, especially during the initial phase of implementation. Insufficient resources, delays in system upgrades, and inadequate training can lead to administrative inefficiencies, delays in processing refunds, and difficulties for businesses seeking clarifications or resolving disputes.

#### Economic Impact:

While GST aims to promote economic growth, it can initially have a disruptive impact on businesses, particularly small-scale enterprises. The transition to GST may require businesses to

restructure their operations, systems, and pricing strategies, leading to short-term disruptions and additional costs. Additionally, the higher tax burden on some sectors or industries can affect their competitiveness and profitability.

**Informal Sector Challenges:**

The informal sector, which constitutes a significant portion of the economy in many countries, may face challenges in adapting to the GST regime. Informal businesses often lack the necessary infrastructure, accounting systems, and compliance mechanisms to smoothly transition into a formalized tax system. Bringing them into the GST framework and ensuring compliance can be difficult, leading to potential revenue leakages and compliance gaps.

It is important to note that the weaknesses mentioned above are not inherent flaws of the GST concept itself but rather challenges associated with its implementation and administration. Countries implementing GST need to address these weaknesses through effective planning, simplification of processes, robust training programs, and regular feedback mechanisms to ensure smooth compliance and mitigate the impact on businesses and the economy.

## **GST – Opportunities**

Goods and Services Tax (GST) is a value-added tax levied on the supply of goods and services in many countries around the world. It aims to streamline the indirect tax system, promote transparency, and boost economic growth. Implementing GST presents various opportunities for different stakeholders, including businesses, consumers, and the government. Here are some potential opportunities associated with GST:

### **Simplification and Harmonization:**

GST replaces multiple indirect taxes like sales tax, service tax, excise duty, and others, leading to a simplified tax structure. This streamlining reduces the compliance burden on businesses, making it easier for them to navigate the tax system. It also brings uniformity across states or regions, promoting harmonization of tax laws.

### **Improved Competitiveness:**

GST eliminates cascading taxes or tax-on-tax, which reduces the overall tax burden on businesses. This reduction in taxes can result in lower production costs, making products and services more competitive in the market. It encourages domestic industries to become more efficient, enhances export competitiveness, and attracts foreign investment.



**Increased Tax Compliance:**

GST's integrated system allows for better tracking and monitoring of transactions. It reduces tax evasion opportunities and encourages tax compliance by businesses. This increased compliance can lead to higher tax collections, which can be used for infrastructure development, public services, and social welfare programs.

**Expansion of the Tax Base:**

GST brings more sectors and activities under the tax net, broadening the tax base. It reduces the scope for tax leakage and enhances revenue generation for the government. Previously unorganized sectors may come into the formal economy to avail themselves of input tax credits, resulting in increased transparency and accountability.

**Simplified Supply Chain Management:**

With the implementation of GST, businesses can optimize their supply chains and logistics. Removal of state-level entry taxes and checkpoints reduces transportation delays and associated costs. This enables smoother movement of goods across state borders, leading to improved efficiency and reduced inventory holding costs.

**Enhanced Ease of Doing Business:**

GST simplifies various business processes, such as registration, filing returns, and claiming input tax credits. The introduction of online portals and electronic systems makes it more convenient for businesses to comply with tax requirements. This ease of doing business can attract investment and stimulate economic growth.

**Opportunities for Service Sector:**

Under the previous tax regime, the service sector faced multiple taxes and complexities. With GST, services are brought into the tax net, allowing service providers to claim input tax credits on their purchases. This can reduce the overall tax burden on service-oriented businesses and create opportunities for growth.

**Boost to E-commerce:**

GST has a specific provision for e-commerce operators, making it easier to collect and remit taxes on online transactions. This helps regulate the e-commerce sector, brings more players into the formal economy, and ensures a level playing field for both online and offline retailers.

### Transparent Pricing for Consumers:

GST replaces the multiple layers of taxes with a single tax, making product prices more transparent for consumers. They can better understand the tax components included in the price and compare prices across brands. This transparency empowers consumers to make informed purchasing decisions.

Overall, GST presents opportunities for businesses to streamline operations, improve competitiveness, and expand their market reach. It benefits consumers through transparent pricing and better quality of goods and services. The government can benefit from increased tax compliance, broader tax base, and higher revenue collection.

### **GST – Challenges**

Goods and Services Tax (GST) is a value-added tax system implemented by many countries around the world, including India, Australia, and Canada, to simplify the taxation process and promote economic growth. While GST offers several benefits, it also poses some challenges. Here are some of the challenges associated with GST:

**Complex Implementation:**

Implementing GST requires significant changes in the tax structure and administration systems of a country. It involves coordination between various stakeholders, including the central and state governments, tax authorities, businesses, and consumers. The complexity of transitioning from the existing tax regime to GST can pose challenges and lead to initial confusion and compliance issues.

**Multiple Tax Rates:**

GST typically involves multiple tax rates for different goods and services, such as standard rates, lower rates for essential goods, and higher rates for luxury items. Determining the appropriate tax rate for each product or service can be subjective and challenging, leading to classification disputes and potential litigation.

**Compliance Burden for Small Businesses:**

GST compliance involves regular filing of returns, maintaining records, and fulfilling various legal obligations. Small and medium-sized enterprises (SMEs) and microenterprises may face challenges in adapting to the new compliance requirements, especially if they lack the necessary resources and infrastructure. Compliance costs can be a burden for such businesses.

#### Technological Infrastructure:

Effective implementation of GST requires a robust technological infrastructure, including an efficient online portal for registration, filing returns, and processing refunds. Developing and maintaining such infrastructure can be a significant challenge, particularly in countries with limited technological capabilities or inadequate IT systems.

#### Tax Evasion and Fraud:

GST, like any tax system, faces the risk of tax evasion and fraud. Businesses may attempt to manipulate invoices, underreport sales, or claim false input tax credits to reduce their tax liabilities. Tax authorities need to establish robust enforcement mechanisms, including real-time data analytics and effective audit procedures, to combat tax evasion effectively.

#### Inter-State Transactions:

In countries with a federal structure, GST involves taxation on inter-state transactions. Determining the place of supply and allocating tax revenues between states can be complex, leading to disputes and administrative challenges. Clear guidelines and mechanisms for resolving such issues are essential for smooth inter-state trade.

Public Awareness and Education:

GST is a significant tax reform that requires public awareness and education to ensure smooth implementation. Lack of awareness among businesses and consumers about the GST rules, procedures, and benefits can hinder compliance and lead to confusion. Governments need to invest in public outreach programs and disseminate accurate information to address this challenge.

Revenue Neutrality:

GST aims to be revenue neutral, meaning it should not significantly impact the overall tax revenue of the government. Achieving revenue neutrality can be challenging, especially during the initial phases of implementation when tax collections may fluctuate due to changes in consumer behavior and business practices. Governments need to monitor and adjust tax rates and exemptions to ensure revenue stability.

Addressing these challenges requires a comprehensive approach involving effective policy design, stakeholder engagement, technological advancements, and robust enforcement mechanisms. Continuous evaluation and refinement of the GST framework can help mitigate these challenges and enhance the efficiency and effectiveness of the tax system.

## **SWOC Analysis- GST**

Strengths:

Simplification of tax structure:

GST replaces multiple indirect taxes levied by the central and state governments, resulting in a simpler and unified tax structure. It reduces the cascading effect of taxes and promotes ease of doing business.

Increased tax compliance:

GST's implementation has helped in widening the tax base by bringing previously unregistered businesses into the formal economy. This has resulted in increased tax compliance and revenue collection for the government.

Removal of tax barriers:

GST eliminates inter-state barriers and allows seamless movement of goods and services across state borders, leading to the creation of a common national market. This boosts trade and promotes economic integration.

Technology-driven administration:

GST leverages technology for online registration, return filing, and tax payment processes. This reduces paperwork, improves transparency, and minimizes opportunities for tax evasion.

**Weaknesses:**

Complex implementation:

GST implementation involved a significant overhaul of the tax system, leading to initial confusion and challenges for businesses. The complex tax structure, multiple tax slabs, and frequent changes in rules and rates have made compliance burdensome for some small businesses.

Transition issues:

The switch from the previous tax regime to GST posed transition challenges for businesses, particularly those with old inventory or unutilized input tax credits. It took time for businesses to adapt and align their operations with the new tax system.

Increased compliance costs:

GST compliance requires businesses to maintain detailed records, file regular returns, and reconcile invoices. This imposes additional administrative and financial burdens, especially on small and medium-sized enterprises (SMEs).

**Opportunities:**

Boost to economic growth:

GST aims to streamline the tax system and create a more business-friendly environment. It has the potential to boost



economic growth by attracting investments, promoting exports, and facilitating the ease of doing business.

Integration with digital economy:

GST implementation has facilitated the digitalization of transactions and tax administration. This opens up opportunities for innovation, increased efficiency, and the development of new digital services in the tax ecosystem.

Tax revenue growth:

As the tax base expands and compliance improves, GST can lead to higher tax revenues for the government. This revenue can be utilized for public welfare programs and infrastructure development.

**Threats:**

Economic impact on specific sectors:

The impact of GST varies across industries, and some sectors may face challenges in adjusting to the new tax structure. Industries with complex supply chains or high taxation rates may experience short-term disruptions or increased costs.

Tax evasion and fraud:

GST's success depends on effective enforcement and prevention of tax evasion. There is a risk of fraud through fake

invoices, input tax credit scams, or underreporting of sales. Constant monitoring and strict enforcement are essential to mitigate this threat.

Political and regulatory changes:

Changes in the political or regulatory environment can introduce uncertainties in the GST framework. Amendments in tax rates, rules, or exemptions may impact business planning and operations, creating challenges for businesses.

### **Central GST**

Central GST (CGST) stands for Central Goods and Services Tax. It is a component of the Goods and Services Tax (GST) system implemented in India. GST is a comprehensive indirect tax levied on the supply of goods and services throughout the country. It replaced multiple indirect taxes levied by the central and state governments.

CGST is levied by the central government on intra-state supplies of goods and services. In other words, it is applicable when the supply of goods or services happens within a single state or union territory of India. The revenue collected from CGST goes to the central government.

### **Key features of Central GST (CGST):**

#### **Applicability:**

CGST is applicable on the supply of goods and services within a state or union territory, including both intra-state transactions and imports.

#### **Rate Structure:**

The rate of CGST is determined by the GST Council, which consists of representatives from the central and state governments. The rates may vary for different goods and services, with four main slabs - 5%, 12%, 18%, and 28%.

#### **Input Tax Credit (ITC):**

Registered businesses can claim input tax credit on the CGST paid on inputs (purchases) used in the production or supply of goods and services. This helps avoid the cascading effect of taxes and reduces the overall tax burden.

#### **Compliance:**

Businesses registered under GST are required to maintain proper records of their inward and outward supplies, file regular returns, and pay the CGST liability on time.

#### **Integrated GST (IGST):**

In case of inter-state supplies or imports, IGST is levied instead of CGST. IGST is a combination of CGST and State GST (SGST), and the revenue is shared between the central and state governments.

Administration:

The administration and collection of CGST are managed by the central tax authorities, such as the Central Board of Indirect Taxes and Customs (CBIC) and the Goods and Services Tax Network (GSTN).

It's important to note that CGST is only one component of the overall GST system. The other component is the State GST (SGST) levied by the respective state governments. Together, CGST and SGST form the total GST liability on intra-state supplies of goods and services.

The implementation of GST, including CGST, aims to simplify the taxation structure, eliminate tax barriers between states, promote ease of doing business, and create a unified national market for goods and services in India.

State GST

State Goods and Services Tax (GST) is a comprehensive indirect tax levied by the state governments in India on the supply of goods and services within their respective territories. It is part of the overall GST system implemented in India to streamline the taxation structure and replace multiple indirect taxes previously levied by the central and state governments.

Here are some key details about State GST:

**Tax Structure:**

State GST is levied on intra-state supplies of goods and services. It is implemented under the authority of the State GST Act, which is enacted by each state or union territory in India. The tax rates and regulations may vary slightly between different states, but the fundamental structure remains the same across the country.

**Composition:**

State GST is a dual tax system where both the central government and state governments levy and collect GST concurrently. The state component of GST is referred to as State Goods and Services Tax (SGST). The central component is known as Central Goods and Services Tax (CGST).

**Revenue Sharing:**

The revenue collected through SGST is retained by the respective state government. It provides the states with greater financial autonomy and allows them to have control over their tax revenues. The funds collected under SGST are utilized by the state governments for various developmental and administrative purposes.

#### Registration:

Any business or individual involved in the supply of goods or services within a state and meeting the prescribed turnover threshold is required to register for State GST. The registration process is carried out through the state's GST portal, and a unique Goods and Services Tax Identification Number (GSTIN) is issued to the registered entities.

#### Tax Calculation:

The calculation of State GST is based on the value of the goods or services supplied within the state's jurisdiction. It is levied as a percentage of the transaction value and is added to the selling price or consideration amount. The tax liability is determined by multiplying the applicable SGST rate with the taxable value of the supply.

#### Input Tax Credit:

Registered businesses are eligible to claim input tax credit for the SGST paid on their purchases of goods or services. The input tax credit can be set off against the output SGST liability, thereby reducing the overall tax burden. This mechanism helps in avoiding the cascading effect of taxes and promotes a seamless credit flow throughout the supply chain.

### Compliance and Return Filing:

Under State GST, registered taxpayers are required to comply with various compliance procedures. This includes maintaining proper books of accounts, issuing tax invoices, filing regular returns, and paying the tax liabilities within the prescribed timeframes. Failure to comply with these obligations may attract penalties and legal consequences.

### Integrated GST

Integrated Goods and Services Tax (IGST) is a type of indirect tax levied on the interstate supply of goods and services in India. It is a component of the Goods and Services Tax (GST) system implemented in India from July 1, 2017.

Under the GST regime, the country has adopted a dual GST model, which consists of two components: Central GST (CGST) and State GST (SGST). However, when goods or services are supplied from one state to another or from India to a foreign country, an integrated GST (IGST) is levied.

Here are some key points about IGST:

Applicability:

IGST is applicable to the supply of goods and services between different states within India and also to imports and exports.

**Collection and Distribution:**

IGST is collected by the Central Government, and the revenue generated is shared between the Central Government and the destination state (where the goods or services are consumed). The sharing of IGST revenue between the Central Government and the destination state is governed by the provisions of the GST law.

**Taxation Authority:**

The administration of IGST is carried out by the Central Government, which is responsible for collecting and enforcing the tax.

**Destination Principle:**

Unlike CGST and SGST, where tax revenue is collected by the originating state, IGST follows the principle of the destination-based tax system. This means that the tax revenue is received by the state where the goods or services are consumed or utilized.



#### Input Tax Credit:

IGST allows for the seamless flow of input tax credit across states. When an interstate supply of goods or services occurs, the IGST paid can be utilized as input tax credit by the recipient against their output tax liability.

#### Compliance:

The compliance requirements for IGST include registration under GST, filing of periodic returns, payment of tax, and maintaining proper records of interstate transactions.

#### Customs Duties:

IGST is also applicable to imports and exports. In the case of imports, IGST is levied along with customs duties at the time of clearance of goods. For exports, IGST is generally not applicable, and exporters can claim a refund of the GST paid on inputs or utilize it as a credit against their output GST liability.

#### Union Territory GST

The Union Territory Goods and Services Tax (UTGST) is a form of indirect tax levied on the supply of goods and services within the Union Territories of India. It was introduced as part of the Goods and Services Tax (GST) regime, which came into effect on July 1, 2017.

Under the GST framework, India is divided into two types of territories:

States and Union Territories.

While States have their own State Goods and Services Tax (SGST) laws, Union Territories, including Delhi and Puducherry, have their own separate UTGST laws.

The UTGST is governed by the Central Goods and Services Tax Act, 2017, which is applicable to all Union Territories. However, certain provisions of the act may be modified or amended by the Union Territory's own UTGST law.

Here are some key features and details about UTGST:

Applicability:

UTGST is applicable within the Union Territories of India, including Andaman and Nicobar Islands, Chandigarh, Dadra and Nagar Haveli, Daman and Diu, Lakshadweep, and Puducherry.

Tax Rate:

The UTGST tax rates are aligned with the corresponding rates under the Central GST (CGST) and State GST (SGST). The rates are determined by the GST Council, which consists of the Finance Ministers of the central and state governments.

**Collection and Administration:**

The UTGST is collected and administered by the respective Union Territory administration or authority designated by the government. The revenue generated from UTGST is shared between the Union Territory administration and the Central Government.

**Registration:**

Any business or individual engaged in the supply of goods or services in a Union Territory may be required to register under the UTGST if their turnover exceeds the threshold specified by the government. The registration process and requirements are similar to those of GST registration in other parts of India.

**Input Tax Credit (ITC):**

Registered businesses under UTGST can claim input tax credit on the taxes paid on inputs used in the course of business. This helps to avoid the cascading effect of taxes and promotes the seamless flow of credit across the supply chain.

**Compliance:**

Registered taxpayers under UTGST are required to comply with various compliance procedures, including filing regular GST

returns, maintaining proper records, and undergoing audits as prescribed by the GST law.

Integrated Goods and Services Tax (IGST):

In the case of transactions involving the movement of goods or services between Union Territories or between a Union Territory and a State, the IGST may be applicable instead of UTGST.

Superiority of GST

Goods and Services Tax (GST) is an indirect tax system implemented in many countries, including India, Canada, Australia, and several others.

While opinions on the superiority of GST may vary, there are several arguments that highlight its potential advantages:

Simplification and uniformity:

GST aims to replace multiple indirect taxes, such as excise duty, sales tax, and service tax, with a single comprehensive tax. This simplification reduces compliance burdens for businesses by streamlining the tax structure and eliminating multiple tax layers. It also promotes uniformity across states or regions, facilitating inter-state trade and creating a common market.

Transparency and accountability:

GST operates on a digitized platform, making it easier to track and monitor transactions. This digital trail enhances transparency, reduces tax evasion, and helps in curbing the

shadow economy. By implementing GST, governments can strengthen their tax administration and enforce better accountability.

Elimination of cascading effect:

The cascading effect, also known as the "tax on tax" phenomenon, occurs when taxes are levied on top of already taxed inputs. GST follows a value-added tax (VAT) system, allowing businesses to claim input tax credits for taxes paid on inputs. This mechanism prevents the cascading effect and ensures that taxes are levied only on the value added at each stage of the supply chain, thereby reducing the overall tax burden on consumers.

Boost to economic growth:

GST can have a positive impact on the economy by encouraging trade and investment. With the elimination of inter-state barriers and reduced compliance costs, businesses can expand their operations across regions more easily. The simplified tax structure also attracts foreign direct investment (FDI) and improves the ease of doing business, fostering economic growth.

Increased tax revenues:

The implementation of GST can potentially lead to increased tax revenues for the government. By broadening the tax base and reducing the scope for tax evasion, GST helps in capturing a larger portion of economic activity within the tax net. This expanded tax

base provides governments with additional resources to fund public services, infrastructure development, and social welfare programs.

International compatibility:

GST is prevalent in many countries, making it compatible with international trade. By aligning with global standards, countries adopting GST can facilitate smoother trade relationships, reduce trade barriers, and enhance competitiveness in the international market.

It's important to note that the success and superiority of GST depend on various factors, including its design, implementation, and effectiveness of the tax administration. Additionally, the impact of GST can vary across different sectors and regions.

## **UNIT IV**

### **Goods & Service Tax Registration Procedure**

Tax invoice-GST rates for Goods and Services - Payment of Tax-input Tax Credit (ICT) - Returns - types - Due date - Penalty - GST on e-commerce - Simple problems on Goods and Services Tax.

**Here are the general steps involved in the GST registration procedure:**

#### **Determine Eligibility:**

The first step is to determine whether you are required to register for GST. Typically, businesses that meet certain turnover thresholds or engage in specific activities specified by the tax authorities are obligated to register for GST. Check the guidelines provided by your country's tax authority or consult a tax professional to determine your eligibility.

#### **Gather Required Information:**

Before starting the registration process, gather all the necessary information and documents that will be required. This may include:

Business registration documents (such as Certificate of Incorporation, Partnership Deed, or Proprietorship documents)

Identity and address proof of the business owner(s) or authorized signatories

Bank account details

Financial statements

Details of business activities, such as the nature of goods or services provided

Online Registration:

In many countries, GST registration can be done online through the tax authority's website. Visit the relevant GST portal or online registration portal provided by the tax authority and create an account if required.

Fill Application Form:

Fill out the GST registration application form with accurate information. The form typically requires details such as business name, address, contact information, type of business entity, directors/partners/proprietor details, and other relevant information.

Attach Supporting Documents:

Upload the required supporting documents as specified by the registration form. Make sure the documents are clear, readable, and in the specified file format and size limits.



#### Verification and Clarifications:

After submitting the application, the tax authority will review the information provided and may seek clarification or request additional documents if required. This may involve communication through email, phone calls, or notices on the online portal.

#### Verification and Approval:

Once the tax authority is satisfied with the application and supporting documents, they will proceed with the verification process. This may involve scrutiny of the application, background checks, and verification of the provided information. If everything is found to be in order, they will issue a GST registration certificate.

#### GST Identification Number (GSTIN):

Upon approval, the tax authority will issue a unique GST Identification Number (GSTIN) for your business. The GSTIN is a 15-digit alphanumeric code that serves as your business's identification for GST purposes.

#### Compliance Requirements:

Once registered, you will be required to comply with the GST regulations and fulfil various obligations, such as filing regular GST

returns, maintaining proper records, collecting and remitting GST on taxable supplies, and other compliance-related activities as specified by the tax authority.

### Tax Invoice – GST

A tax invoice is a document issued by a registered supplier to their customer, providing details of the goods or services sold and the applicable Goods and Services Tax (GST). In many countries, including India and Australia, GST is a value-added tax levied on the supply of goods and services.

Here are some key components typically included in a tax invoice for GST purposes:

#### Supplier details:

The tax invoice should contain the supplier's name, address, and GST identification number (GSTIN).

#### Customer details:

The invoice should also include the customer's name, address, and GSTIN, if applicable.

#### Invoice number:

A unique identification number is assigned to each tax invoice for proper tracking and reference.

Invoice date:

The date on which the invoice is issued

Description of goods/services:

A clear and accurate description of the goods or services provided, including the quantity and unit price.

Total amount payable:

The tax invoice should state the total amount payable for the goods or services, inclusive of GST.

GST details:

This section specifies the GST-related information, including the rate of GST charged, the total GST amount for each item, and the total GST amount payable.

Payment terms:

The invoice may include the payment due date and any applicable terms or conditions.

Terms and conditions:

Any additional terms and conditions related to the sale may be included on the tax invoice.

Supplier's signature/stamp:

Depending on the jurisdiction, the tax invoice may require the supplier's signature or stamp to validate its authenticity.

It's important to note that the specific requirements for tax invoices, including the format and content, can vary by country.

### GST rates for Goods and Services

Goods and Services Tax (GST) rates for different types of goods and services in India are as follows:

#### Goods:

Most goods fall under the four main tax slabs: 5%, 12%, 18%, and 28%.

Essential goods such as food grains, milk, fruits, and vegetables are either exempt from GST or charged at a nominal rate of 0%.

Some goods attract higher rates due to luxury or sin taxes, such as aerated drinks, tobacco products, and automobiles.

#### Services:

Services also have different GST rates depending on the category.

The standard GST rate for most services is 18%.

Some services are taxed at 5% or 12%.

Essential services like healthcare and education are generally exempt from GST.

It's important to note that the GST rates are subject to change as per the decisions of the GST Council.

### Payment of Tax

In India, the Goods and Services Tax (GST) is a comprehensive indirect tax levied on the supply of goods and services. It is governed by the Goods and Services Tax Act, 2017. When it comes to the payment of GST, there are certain procedures and guidelines to follow. Here's an overview of the payment process for GST in India:

### Registration:

Before making GST payments, businesses are required to register under the GST regime. The registration can be done online through the Goods and Services Tax Network (GSTN) portal.

### GSTIN:

Upon registration, businesses receive a unique Goods and Services Tax Identification Number (GSTIN). This 15-digit number is used for all GST-related transactions.

#### Filing of returns:

Registered businesses are required to file regular GST returns based on the type of registration and turnover. The returns can be filed monthly, quarterly, or annually. It is important to file the returns on time to avoid penalties.

#### Calculation of GST liability:

Businesses need to calculate their GST liability by determining the output tax (tax collected on sales) and input tax (tax paid on purchases). The difference between the two is the GST liability.

#### Generation of challan:

After calculating the GST liability, businesses need to generate a challan. This can be done through the GSTN portal. The challan contains details such as the GSTIN, taxpayer's name, the amount to be paid, and the relevant tax heads (CGST, SGST/UTGST, IGST, or Cess).

#### Payment modes:

GST payments can be made online through various modes, such as internet banking, debit card, credit card, or over-the-counter (OTC) payment through authorized banks.

#### Electronic Cash Ledger:

Once the payment is made, the amount gets credited to the Electronic Cash Ledger of the taxpayer. This ledger can be viewed

on the GSTN portal, and the amount can be used for making future tax payments.

Offset and utilization:

The balance in the Electronic Cash Ledger can be used to offset the liability of future tax payments. For example, the input tax credit can be utilized against the output tax liability.

Late payment:

If a business fails to make the GST payment on time, it will attract interest and penalties. The interest rate is prescribed by the government and is calculated on the outstanding tax amount for the period of delay.

It is important for businesses to comply with the GST payment procedures and timelines to avoid any penalties or legal implications.

Input Tax Credit

Input Tax Credit (ITC) is a mechanism under the Goods and Services Tax (GST) system that allows businesses to claim credit for the taxes they have paid on inputs (purchases of goods or services) used in the course of their business. In simpler terms, it allows businesses to reduce their tax liability by offsetting the tax paid on inputs against the tax collected on outputs (sales).

Here's how the ITC process works:

**Eligibility:**

To claim ITC, a business must be a registered taxpayer under the GST regime and must have a valid tax invoice or other prescribed documents for the eligible inputs.

**Taxpayer Identification Number (TIN):**

The TIN or GSTIN of the supplier and recipient must be mentioned on the tax invoice or other relevant documents for the ITC to be valid.

**Input Tax:**

When a business purchases goods or services from a registered supplier, it pays GST on those inputs. This GST paid on inputs is known as input tax.

**Matching and Filing Returns:**

The recipient of the goods or services reconciles the invoices uploaded by the supplier with their own purchase records. This matching process ensures that the supplier has reported the sale and paid the appropriate tax to the government.



Claiming ITC:

After the matching process is completed, the recipient can claim ITC for the eligible input taxes paid. The ITC amount is credited to the electronic credit ledger of the recipient.

Utilizing ITC:

The ITC can be utilized to offset the output tax liability of the business. The output tax liability is the tax collected by the business on its sales.

Set-off and Refunds:

If the ITC is more than the output tax liability, the excess credit can be carried forward to future tax periods or claimed as a refund in certain cases as per the GST laws.

It's important to note that there are certain conditions and restrictions for claiming ITC under the GST system. For example, ITC cannot be claimed for goods or services used for personal purposes or for goods or services specifically excluded from the ITC provisions.

Businesses need to maintain proper records and follow the guidelines set by the tax authorities to ensure compliance with the ITC provisions under the GST system.

## GST – Returns

GST returns refer to the regular filing of information and tax details by registered businesses under the Goods and Services Tax (GST) system. In many countries, including India, GST has been implemented as a unified indirect tax system that replaced various state and central taxes.

Under the GST regime, businesses are required to file periodic returns that provide information about their sales, purchases, and tax liabilities. These returns enable tax authorities to track and verify the tax compliance of registered businesses. The frequency of filing returns varies based on the turnover and nature of the business.

Here are some key points regarding GST returns:

### Types of Returns:

There are several types of GST returns that businesses need to file, such as GSTR-1, GSTR-3B, GSTR-4, GSTR-9, etc. The specific return forms to be filed depend on the type of business and its turnover.

**GSTR-1:** It is a monthly or quarterly return that contains details of outward supplies or sales made by the taxpayer. It includes information about the taxable value, tax collected, and invoices issued.

**GSTR-3B:** This is a monthly return that summarizes the input tax credit (ITC) and tax liability of a business. It provides a summary of outward supplies, ITC, and payment of taxes.

**GSTR-4:** This is a quarterly return filed by businesses opting for the Composition Scheme. It includes details of outward supplies, tax paid, and ITC availed.

**GSTR-9:** It is an annual return filed by regular taxpayers, providing a consolidated summary of the monthly or quarterly returns filed during the financial year.

**Due Dates:**

Each type of GST return has specific due dates for filing. These dates are typically based on the turnover and registration type of the taxpayer.

**Online Filing:**

GST returns need to be filed electronically through the GST portal provided by the tax authorities. Businesses need to register on the portal and use their GST identification number (GSTIN) to file returns.

### Late Filing and Penalties:

Delayed filing of GST returns may attract penalties and interest charges. It is essential to file returns within the specified due dates to avoid any penalties.

### Reconciliation:

Businesses need to reconcile the data reported in their returns with the corresponding data of their suppliers and recipients to ensure accuracy and avoid discrepancies.

### GST Audit:

In addition to regular returns, businesses with a turnover above a certain threshold are required to undergo a GST audit by a qualified Chartered Accountant or Cost Accountant.

It's important to note that the specifics of GST return filing can vary from country to country, as each jurisdiction may have its own rules and procedures.

## **GST – Types**

GST, or Goods and Services Tax, is a value-added tax system implemented in many countries worldwide. It is designed to streamline

the taxation process by replacing multiple indirect taxes with a single tax on the supply of goods and services. While the specifics of GST can vary between countries, here are some common types of GST structures:

**Central GST (CGST):**

This component of GST is levied by the central government of a country. It applies to intra-state supplies of goods and services, meaning transactions that occur within the boundaries of a particular state or region.

**State GST (SGST):**

State governments levy SGST on intra-state supplies of goods and services. It is applicable within a specific state or region and is collected in addition to CGST.

**Integrated GST (IGST):**

IGST is applicable to inter-state supplies of goods and services, meaning transactions that occur between different states or regions within a country. It is collected by the central government but is distributed among the respective states or regions involved.

### Dual GST:

Some countries, like India, have adopted a dual GST model. Under this system, both the central and state governments impose separate taxes on the same transaction. CGST and SGST are collected simultaneously on intra-state supplies, while IGST is levied on inter-state supplies.

It's important to note that the specific structure and nomenclature of GST can vary between countries. Different nations may have their own unique names and classifications for the types of GST implemented.

### Due Date – GST

The due date for Goods and Services Tax (GST) can vary depending on the country or jurisdiction in which it is applicable. Since you haven't specified a particular country, I'll provide some general information about GST due dates.

In countries like India, under the Goods and Services Tax regime, the due date for filing GST returns depends on the type of taxpayer and the turnover. Generally, regular taxpayers are required to file monthly or quarterly returns, while composition scheme taxpayers have different due dates.

Here are some common due dates for GST returns in India:

**GSTR-1:** It is the return for outward supplies and needs to be filed by the 11th of the subsequent month.

**GSTR-3B:** This is a monthly summary return, and the due date is generally the 20th of the subsequent month.

**GSTR-4:** It is a return for composition scheme taxpayers, and the due date is the 18th of the month following the quarter.

**GSTR-9:** It is the annual return and needs to be filed by the 31st of December of the subsequent financial year.

### **GST – Penalty**

GST, or Goods and Services Tax, is a consumption-based tax levied on the supply of goods and services in many countries around the world. The specific rules and regulations regarding GST, including penalties for non-compliance, vary from country to country.

Penalties for non-compliance with GST can be imposed when businesses or individuals fail to meet their obligations under the GST law. These penalties are typically designed to ensure compliance and deter non-compliant behaviour.

Some common situations that may attract penalties include:

Late filing:

If a taxpayer fails to file their GST returns within the prescribed time limit, they may be liable to pay penalties. The penalty amount can vary depending on the country's regulations and the duration of the delay.

Incorrect or false information:

Providing incorrect or false information in GST returns or other related documents can lead to penalties. This includes misrepresentation of taxable supplies, false input tax credit claims, or any other deliberate attempt to evade tax.

Non-registration:

Businesses that are required to register for GST but fail to do so can face penalties. Operating without proper registration can result in penalties and legal consequences.



Non-payment or underpayment of tax:

Failing to pay the correct amount of GST or intentionally underpaying tax can lead to penalties. Penalties are usually calculated based on the amount of tax evaded or underpaid.

Non-compliance with record-keeping requirements:

GST laws often mandate businesses to maintain proper books of accounts and records. Failure to comply with these requirements can result in penalties.

### **GST on e-commerce**

GST on e-commerce typically refers to the application of goods and services tax to online transactions, including the sale of goods and services over the internet. The implementation of GST on e-commerce varies from country to country, so it's important to consider the specific regulations of the relevant jurisdiction.

**Here are a few examples of how GST on e-commerce is handled in certain countries:**

India: In India, the Goods and Services Tax was introduced in July 2017. The GST regulations for e-commerce involve the concept of Tax Collection at Source (TCS), where e-commerce

platforms are required to collect and remit taxes on behalf of sellers. Additionally, the GST applies to certain e-commerce operators as well.

**Australia:**

In Australia, the Goods and Services Tax applies to supplies of goods and services, including those made through e-commerce. Overseas businesses that meet certain thresholds are also required to register for GST and collect the tax on sales to Australian consumers.

**European Union (EU):**

In the EU, the Value Added Tax (VAT) rules apply to e-commerce transactions. The EU has introduced specific regulations under the "VAT on e-commerce" package, which became applicable from July 1, 2021. These regulations aim to simplify VAT compliance for cross-border e-commerce and create a level playing field for businesses.

**United States:**

The United States does not have a nationwide GST or VAT system. However, individual states may impose sales tax on e-commerce transactions based on their own regulations. The specifics of sales tax collection for e-commerce vary depending on

the state and various factors such as nexus, which determines the presence or connection of a business within a state.

It's important to note that GST regulations can be complex and subject to change.

GST (Goods and Services Tax) is a consumption-based tax system implemented in many countries, including India. It is designed to replace multiple indirect taxes levied by the central and state governments. In the context of e-commerce, GST also applies to the sale of goods and services conducted through online platforms.

Here are some key points regarding GST in e-commerce:

Registration:

E-commerce businesses meeting the turnover threshold specified by the government are required to register for GST. This threshold may vary depending on the country.

Tax Collection at Source (TCS):

In certain cases, e-commerce platforms are mandated to collect tax at source from the sellers on their platforms. This ensures that the sellers comply with their GST obligations.

### Input Tax Credit (ITC):

E-commerce businesses can claim input tax credit on the GST paid on their purchases, such as inventory, packaging materials, or other business-related expenses. However, there may be restrictions or specific rules governing ITC in certain cases.

### Compliance and Returns:

E-commerce businesses need to file regular GST returns, typically on a monthly or quarterly basis, depending on the turnover. They are required to provide details of their sales, purchases, and taxes collected.

### Reverse Charge Mechanism (RCM):

Under RCM, for certain specified services or goods, the liability to pay GST is shifted from the supplier to the recipient. E-commerce businesses may have to pay GST under RCM for certain services they avail.

### Place of Supply:

GST is levied based on the place of supply rules. In the case of e-commerce transactions, the place of supply can vary depending on the type of goods or services and the location of the supplier and recipient.

### Simple Problems on GST

Problem: A shopkeeper purchases goods worth Rs. 10,000 from a wholesaler. If the GST rate is 18%, what is the total amount payable by the shopkeeper?

Solution:

$$\text{GST amount} = 10,000 * 18/100 = \text{Rs. } 1,800$$

$$\begin{aligned} \text{Total amount payable} &= \text{Purchase amount} + \text{GST amount} = \text{Rs. } 10,000 \\ &+ \text{Rs. } 1,800 = \text{Rs. } 11,800 \end{aligned}$$

Problem: A restaurant bill amounts to Rs. 2,500, including GST at the rate of 5%. What is the actual cost of food before adding GST?

Solution:

Let  $x$  be the cost of food before GST.

$$\text{GST amount} = x * 5/100 = \text{Rs. } 2,500 - x$$

Solving the equation, we find:

$$x * 5/100 = \text{Rs. } 2,500 - x$$

$$5x/100 = \text{Rs. } 2,500 - x$$

$$5x = 250,000 - 100x$$

$$105x = 250,000$$

$$x = 250,000/105$$

$$x \approx \text{Rs. } 2,380.95$$

So, the actual cost of food before adding GST is approximately Rs. 2,380.95.

Problem: A company sells a product for Rs. 500, excluding GST. If the GST rate is 12%, what is the total amount paid by the customer?

Solution:

$$\text{GST amount} = 500 * 12/100 = \text{Rs. } 60$$

$$\text{Total amount paid by the customer} = \text{Selling price} + \text{GST amount} = \text{Rs. } 500 + \text{Rs. } 60 = \text{Rs. } 560$$

Problem: A retailer sells a shirt for Rs. 1,200, inclusive of GST at the rate of 10%. What is the selling price of the shirt before adding GST?

Solution:

Let  $x$  be the selling price of the shirt before GST.

$$\text{GST amount} = x * 10/100 = \text{Rs. } 1,200 - x$$

Solving the equation, we find:

$$x * 10/100 = \text{Rs. } 1,200 - x$$

$$10x/100 = \text{Rs. } 1,200 - x$$

$$10x = 120,000 - 100x$$

$$110x = 120,000$$

$$x = 120,000/110$$

$$x \approx \text{Rs. } 1,090.91$$

So, the selling price of the shirt before adding GST is approximately Rs. 1,090.91.

**Problem:** A mobile phone is priced at Rs. 15,000, inclusive of GST at the rate of 12%. What is the GST amount and the cost of the phone before adding GST?

**Solution:**

$$\text{GST amount} = 15,000 * 12/100 = \text{Rs. } 1,800$$

$$\text{Cost of the phone before GST} = \text{Selling price} - \text{GST amount} = \text{Rs. } 15,000 - \text{Rs. } 1,800 = \text{Rs. } 13,200$$

**Problem:** A furniture store sells a sofa set for Rs. 25,000, excluding GST. If the GST rate is 18%, what is the total amount paid by the customer?

**Solution:**

$$\text{GST amount} = 25,000 * 18/100 = \text{Rs. } 4,500$$

$$\text{Total amount paid by the customer} = \text{Selling price} + \text{GST amount} = \text{Rs. } 25,000 + \text{Rs. } 4,500 = \text{Rs. } 29,500$$

Problem: A trader imports goods worth Rs. 50,000 and pays customs duty of 10% on the imported value. If the GST rate on these goods is 28%, what is the total amount paid by the trader?

Solution:

Customs duty amount =  $50,000 * 10/100 = \text{Rs. } 5,000$

Imported value + Customs duty amount =  $\text{Rs. } 50,000 + \text{Rs. } 5,000 = \text{Rs. } 55,000$

GST amount =  $55,000 * 28/100 = \text{Rs. } 15,400$

Total amount paid by the trader = Imported value + Customs duty amount + GST amount =  $\text{Rs. } 50,000 + \text{Rs. } 5,000 + \text{Rs. } 15,400 = \text{Rs. } 70,400$

Problem: A service provider charges Rs. 2,500 for a professional consultation, excluding GST. If the GST rate is 18%, what is the total amount payable by the client?

Solution:

GST amount =  $2,500 * 18/100 = \text{Rs. } 450$

Total amount payable by the client = Service charge + GST amount =  $\text{Rs. } 2,500 + \text{Rs. } 450 = \text{Rs. } 2,950$

Problem: A retailer sells a television for Rs. 20,000, inclusive of GST at the rate of 18%. What is the selling price of the television before adding GST?



Solution:

Let  $x$  be the selling price of the television before GST.

$$\text{GST amount} = x * 18/100 = \text{Rs. } 20,000 - x$$

Solving the equation, we find:

$$x * 18/100 = \text{Rs. } 20,000 - x$$

$$18x/100 = \text{Rs. } 20,000 - x$$

$$18x = 2,000,000 - 100x$$

$$118x = 2,000,000$$

$$x = 2,000,000/118$$

$$x \approx \text{Rs. } 16,949.15$$

So, the selling price of the television before adding GST is approximately Rs. 16,949.15.

Problem: A wholesaler purchased goods worth Rs. 50,000 from a manufacturer. If the GST rate is 12%, what is the total amount payable by the wholesaler?

Solution:

$$\text{GST amount} = 50,000 * 12/100 = \text{Rs. } 6,000$$

$$\text{Total amount payable by the wholesaler} = \text{Purchase amount} + \text{GST amount} = \text{Rs. } 50,000 + \text{Rs. } 6,000 = \text{Rs. } 56,000$$

Problem: A hotel bill amounts to Rs. 5,000, including GST at the rate of 5%. What is the actual cost of accommodation before adding GST?

Solution:

Let  $x$  be the cost of accommodation before GST.

$$\text{GST amount} = x * 5/100 = \text{Rs. } 5,000 - x$$

Solving the equation, we find:

$$x * 5/100 = \text{Rs. } 5,000 - x$$

$$5x/100 = \text{Rs. } 5,000 - x$$

$$5x = 500,000 - 100x$$

$$105x = 500,000$$

$$x = 500,000/105$$

$$x \approx \text{Rs. } 4,761.90$$

Problem: A retailer sells a pair of shoes for Rs. 2,500, excluding GST. If the GST rate is 12%, what is the total amount paid by the customer?

Solution:

$$\text{GST amount} = 2,500 * 12/100 = \text{Rs. } 300$$

$$\text{Total amount paid by the customer} = \text{Selling price} + \text{GST amount} = \text{Rs. } 2,500 + \text{Rs. } 300 = \text{Rs. } 2,800$$

Problem: A company purchases machinery for Rs. 1,00,000, inclusive of GST at the rate of 18%. What is the cost of the machinery before adding GST?

Solution:

$$\text{GST amount} = 1,00,000 * 18/118 = \text{Rs. } 15,254.24$$

$$\text{Cost of the machinery before GST} = \text{Purchase price} - \text{GST amount} = \text{Rs. } 1,00,000 - \text{Rs. } 15,254.24 = \text{Rs. } 84,745.76$$

Problem: A consumer pays Rs. 2,500 for a service, inclusive of GST at the rate of 5%. What is the GST amount and the cost of the service before adding GST?

Solution:

$$\text{GST amount} = 2,500 * 5/105 = \text{Rs. } 119.05$$

$$\text{Cost of the service before GST} = \text{Selling price} - \text{GST amount} = \text{Rs. } 2,500 - \text{Rs. } 119.05 = \text{Rs. } 2,380.95$$

Problem: A trader exports goods worth Rs. 1,00,000 and claims a GST refund of 6% on the exported value. What is the refund amount?

Solution:

$$\text{GST refund amount} = 1,00,000 * 6/100 = \text{Rs. } 6,000$$

Problem: A grocery store sells goods for Rs. 25,000, excluding GST. If the GST rate is 5%, what is the total amount paid by the customer?

Solution:

$$\text{GST amount} = 25,000 * 5/100 = \text{Rs. } 1,250$$

$$\text{Total amount paid by the customer} = \text{Selling price} + \text{GST amount} = \text{Rs. } 25,000 + \text{Rs. } 1,250 = \text{Rs. } 26,250$$

Problem: A construction company purchases raw materials worth Rs. 1,50,000 from a supplier. If the GST rate is 12%, what is the total amount payable by the construction company?

Solution:

$$\text{GST amount} = 1,50,000 * 12/100 = \text{Rs. } 18,000$$

$$\text{Total amount payable by the construction company} = \text{Purchase amount} + \text{GST amount} = \text{Rs. } 1,50,000 + \text{Rs. } 18,000 = \text{Rs. } 1,68,000$$

Problem: An electronics store sells a refrigerator for Rs. 30,000, inclusive of GST at the rate of 18%. What is the selling price of the refrigerator before adding GST?

Solution:

Let x be the selling price of the refrigerator before GST.

$$\text{GST amount} = x * 18/100 = \text{Rs. } 30,000 - x$$

Solving the equation, we find:

$$x * 18/100 = \text{Rs. } 30,000 - x$$

$$18x/100 = \text{Rs. } 30,000 - x$$

$$18x = 3,000,000 - 100x$$

$$118x = 3,000,000$$

$$x = 3,000,000/118$$

$$x \approx \text{Rs. } 2,542.37$$

So, the selling price of the refrigerator before adding GST is approximately Rs. 2,542.37.

Problem: A retailer purchased goods worth Rs. 40,000 from a wholesaler. If the GST rate is 12%, what is the total amount payable by the retailer?

Solution:

$$\text{GST amount} = 40,000 * 12/100 = \text{Rs. } 4,800$$

$$\begin{aligned} \text{Total amount payable by the retailer} &= \text{Purchase amount} + \text{GST amount} \\ &= \text{Rs. } 40,000 + \text{Rs. } 4,800 = \text{Rs. } 44,800 \end{aligned}$$

Problem: A restaurant bill amounts to Rs. 1,500, including GST at the rate of 5%. What is the actual cost of food before adding GST?

Solution:

Let  $x$  be the cost of food before GST.

$$\text{GST amount} = x * 5/100 = \text{Rs. } 1,500 - x$$

Solving the equation, we find:

$$x * 5/100 = \text{Rs. } 1,500 - x$$

$$5x/100 = \text{Rs. } 1,500 - x$$

$$5x = 150,000 - 100x$$

$$105x = 150,000$$

$$x = 150,000/105$$

$$x \approx \text{Rs. } 1,428.57$$

So, the actual cost of food before adding GST is approximately Rs. 1,428.57.

Problem: A trader sells a computer for Rs. 60,000, excluding GST. If the GST rate is 18%, what is the total amount paid by the customer?

Solution:

$$\text{GST amount} = 60,000 * 18/100 = \text{Rs. } 10,800$$

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Total amount paid by the customer = Selling price + GST amount = Rs.  
60,000 + Rs. 10,800 = Rs. 70,800

Problem: A service provider charges Rs. 3,000 for a repair service, inclusive of GST at the rate of 10%. What is the GST amount and the cost of the service before adding GST?

Solution:

GST amount =  $3,000 * 10/110 = \text{Rs. } 272.73$

Cost of the service before GST = Selling price - GST amount = Rs.  
 $3,000 - \text{Rs. } 272.73 = \text{Rs. } 2,727.27$

Problem: A retailer sells a laptop for Rs. 50,000, including GST at the rate of 18%. What is the selling price of the laptop before adding GST?

Solution:

Let  $x$  be the selling price of the laptop before GST.

GST amount =  $x * 18/100 = \text{Rs. } 50,000 - x$

Solving the equation, we find:

$x * 18/100 = \text{Rs. } 50,000 - x$

$18x/100 = \text{Rs. } 50,000 - x$

$18x = 5,000,000 - 100x$

$118x = 5,000,000$

$x = 5,000,000/118$

$$x \approx \text{Rs. } 4,237.29$$

So, the selling price of the laptop before adding GST is approximately Rs. 4,237.29.

Problem: A jewellery store purchased gold worth Rs. 2,00,000 from a supplier. If the GST rate is 3%, what is the total amount payable by the jewellery store?

Solution:

$$\text{GST amount} = 2,00,000 * 3/100 = \text{Rs. } 6,000$$

$$\text{Total amount payable by the jewelry store} = \text{Purchase amount} + \text{GST amount} = \text{Rs. } 2,00,000 + \text{Rs. } 6,000 = \text{Rs. } 2,06,000$$

Problem: A car showroom sells a car for Rs. 8,00,000, excluding GST. If the GST rate is 28%, what is the total amount paid by the customer?

Solution:

$$\text{GST amount} = 8,00,000 * 28/100 = \text{Rs. } 2,24,000$$

$$\text{Total amount paid by the customer} = \text{Selling price} + \text{GST amount} = \text{Rs. } 8,00,000 + \text{Rs. } 2,24,000 = \text{Rs. } 10,24,000$$



Problem: A service provider charges Rs. 5,000 for a consultation service, excluding GST. If the GST rate is 12%, what is the total amount payable by the client?

Solution:

GST amount =  $5,000 * 12/100 = \text{Rs. } 600$

Total amount payable by the client = Service charge + GST amount =  
 $\text{Rs. } 5,000 + \text{Rs. } 600 = \text{Rs. } 5,600$

## UNIT V

### **Customs Procedure**

Definitions - Circumstances of levying duty - Circumstances under which no Duty will be levied - Types of Duties- Exemption from Customs Duty- Valuation of Imported Goods Valuation of Export Goods - Import Procedure - Warehousing - Export Procedure - Duty Drawback- Simple problems on computation of customs value and duty.

### **Customs Procedure**

Customs procedures in India refer to the regulations and processes followed by the Indian Customs authorities for the import and export of goods. These procedures are in place to ensure compliance with customs laws, facilitate trade, and collect customs duties and taxes. Here is an overview of the customs procedure in India:

#### Customs Documentation:

Importers and exporters need to prepare and submit the necessary customs documentation for clearance of goods. The key documents include the Bill of Entry (for imports) or Shipping

Bill (for exports), commercial invoice, packing list, and relevant permits or licenses.

#### Customs Valuation:

Customs valuation determines the assessable value of imported goods on which customs duties are levied. The valuation is done based on the transaction value (the price actually paid or payable) unless there are specific reasons to doubt the accuracy of the declared value.

#### Customs Duty and Tariffs:

India imposes customs duties on imported goods. The rates of duty vary based on the nature of goods, their classification under the Harmonized System (HS) codes, and any applicable exemptions or preferential tariffs under free trade agreements.

#### Importer-Exporter Code (IEC):

To engage in import or export activities, businesses must obtain an Importer-Exporter Code (IEC) from the Directorate General of Foreign Trade (DGFT). It is a unique identification number required for customs clearance.

#### Customs Clearance Process:

Upon arrival of goods, importers are required to file a Bill of Entry with the customs authorities. The Bill of Entry includes details such as the description of goods, quantity, value, and classification. Customs officials examine the documents and may physically inspect the goods based on risk assessment.

#### Customs Examination:

Goods may undergo different types of customs examination, such as documentary examination, physical inspection, or laboratory testing, depending on the nature of the goods, declared value, and risk profile.

#### Customs Assessment and Payment:

After examination, customs officials assess the customs duties, taxes, and any applicable penalties. Importers must pay the assessed amount before the release of goods. Various methods are available for duty payment, including cash, bank drafts, or electronic payment systems.

#### Customs Clearance and Release:

Once the duties and taxes are paid, customs issues an Out of Charge order, allowing the goods to be cleared for release. The importer can take delivery of the goods after fulfilling any other regulatory requirements, such as obtaining permits or clearances from other government agencies if necessary.

#### Post-Clearance Compliance:

After clearance, importers and exporters must maintain records and comply with post-clearance obligations, such as filing

periodic returns, maintaining books of accounts, and addressing any customs queries or audits.

#### Dispute Resolution:

In case of disputes regarding customs valuation, classification, or any other customs-related matters, businesses can avail of the dispute resolution mechanisms provided under Indian customs laws, including appeals to higher authorities and customs tribunals.

#### Definition

Customs duty, also known as import duty or tariff, refers to a tax imposed by the government on goods that are imported into a country. It is a form of indirect tax collected by the customs authorities at the point of entry or importation of goods. Customs duties are levied to accomplish various objectives, including protecting domestic industries, generating revenue for the government, regulating imports, and promoting trade policy goals.

Customs duties are typically based on the value or quantity of the imported goods. The duty rates can be specific (based on the quantity or weight of goods) or ad valorem (based on a percentage of the value of goods).

Duty rates can vary depending on the nature of the goods, their classification under the Harmonized System (HS) codes, and any applicable preferential or free trade agreements.

The revenue collected from customs duties contributes to the government's budget and can be used to fund public services, infrastructure development, and other government initiatives. Customs duties also serve as a trade barrier, making imported goods relatively more expensive compared to domestically produced goods. This protectionist measure aims to promote domestic industries, protect local employment, and balance trade.

Customs authorities are responsible for the administration and collection of customs duties. They verify the accuracy of the declared value, classification, and quantity of imported goods through documentation checks, physical inspections, and risk-based assessments. Non-compliance with customs duties can result in penalties, fines, or seizure of goods.

It's important to note that customs duties and their rates can vary from country to country and are subject to international trade agreements and bilateral or regional trade arrangements. Importers and exporters should be aware of the customs duty rates and regulations applicable to their specific goods and trade routes.

## Features

Customs duty, also known as import duty or import tariffs, is a tax imposed by a government on goods that are imported into a country. It is one of the ways governments regulate international trade and protect domestic industries. Here are some key features of customs duty:

### Tax on imported goods:

Customs duty is levied on goods that are brought into a country from abroad. It is applied at the point of entry, such as ports, airports, or land border crossings.

### Revenue generation:

Customs duty serves as a significant source of revenue for many governments. The revenue generated from customs duties can be used to fund public services, infrastructure development, and other government expenditures.

### Trade protection:

Customs duty can be used to protect domestic industries from foreign competition. By imposing higher duties on imported goods, governments can make them more expensive compared to domestically produced goods, thereby giving local industries a competitive advantage.

#### Tariff rates:

Customs duties can vary depending on the type of goods, their value, country of origin, and trade agreements between countries. Tariff rates can be specific (a fixed amount per unit) or ad valorem (a percentage of the goods' value).

#### Classification of goods:

Goods subject to customs duty are classified under a tariff schedule or tariff code system. Each product is assigned a specific code that determines the applicable duty rate. Harmonized System (HS) codes are commonly used for this purpose.

#### Exemptions and preferential treatment:

Certain goods may be exempted from customs duty based on specific criteria. Additionally, countries may have preferential trade agreements or free trade agreements with specific nations, reducing or eliminating customs duties on goods traded between them.

#### Customs valuation:

Customs duties are generally based on the value of the imported goods. Customs authorities employ various methods to determine the customs value, including transaction value (the price actually paid), the



value of identical or similar goods, or other methods prescribed by national laws.

Customs procedures:

Importers are required to comply with customs procedures, including submitting customs declarations, providing necessary documentation (such as invoices and certificates of origin), and paying the applicable customs duties. Customs authorities conduct inspections and assessments to ensure compliance.

Anti-dumping and countervailing duties:

In cases where foreign goods are being sold below their market value (dumping) or benefiting from unfair subsidies, countries may impose anti-dumping or countervailing duties, respectively, to level the playing field for domestic industries.

Trade policy tool:

Customs duty is an essential instrument for governments to implement trade policies and protect national interests. Governments may adjust customs duties to achieve economic objectives, such as promoting local industries, addressing trade imbalances, or responding to global trade disputes.

### Circumstances of levying customs duty

Customs duties are levied by governments under various circumstances. Here are some common circumstances that may lead to the imposition of customs duty:

#### Importation of goods:

Customs duties are typically levied when goods are imported into a country from abroad. The purpose is to generate revenue for the government and regulate international trade.

#### Protection of domestic industries:

Governments may impose customs duties to protect domestic industries from foreign competition. By making imported goods more expensive, customs duties can give domestic producers a competitive advantage and encourage local production.

#### Trade policy objectives:

Customs duties can be used as a tool to achieve specific trade policy objectives. Governments may impose higher duties on certain goods to promote domestic production, encourage exports, or address trade imbalances.

Revenue generation:

Customs duties serve as a significant source of revenue for governments. By imposing taxes on imported goods, governments can generate income to fund public services, infrastructure development, and other government expenditures.

Tariff retaliation:

In response to trade disputes or unfair trade practices, governments may impose customs duties as a form of retaliation. If a country believes its industries are being harmed by another country's trade practices, it may impose higher duties on goods imported from that country.

Anti-dumping and countervailing measures:

Governments may impose customs duties in cases of dumping, where imported goods are sold at prices lower than their normal value, or in response to subsidies provided to foreign producers. Anti-dumping and countervailing duties are intended to address unfair trade practices and protect domestic industries.

National security considerations:

Customs duties can be imposed on certain goods to address national security concerns. Governments may impose restrictions

or higher duties on goods that are considered strategically sensitive or have potential security risks.

Preferential trade agreements:

Customs duties can be reduced or eliminated under preferential trade agreements between countries. Such agreements aim to promote trade by granting favorable customs treatment to goods originating from partner countries, typically through lower or zero customs duties.

Environmental and health regulations:

Customs duties can be levied on goods that do not comply with specific environmental or health regulations. Governments may impose higher duties on goods that are deemed harmful to the environment or public health to discourage their importation.

It's worth noting that the circumstances for levying customs duties can vary between countries and may change over time based on evolving trade policies and international agreements.

Circumstances under which no customs duty will be levied

There are certain circumstances under which no customs duty will be levied on imported goods. These exemptions or

exceptions vary between countries and are subject to specific conditions and regulations. Here are some common circumstances where customs duty may not be levied:

Duty-free allowances:

Many countries provide duty-free allowances for certain goods or specific quantities of goods carried by individuals for personal use. These allowances are often limited and may include items like clothing, personal effects, or gifts. If the value or quantity of the goods falls within the duty-free allowance, no customs duty is levied.

Duty-free shops: Airports, seaports, and other designated areas often have duty-free shops where travelers can purchase goods without paying customs duties. These shops are typically intended for goods meant to be consumed or used outside of the country.

Free trade agreements:

Countries that have entered into free trade agreements or preferential trade agreements may offer reduced or eliminated customs duties on goods traded between them. These agreements aim to promote trade and economic cooperation by reducing barriers to commerce.

Temporary importation:

Goods that are imported temporarily for specific purposes, such as exhibitions, trade shows, or repairs, may be exempted from customs duty. However, the goods are expected to be re-exported within a specified timeframe.

Diplomatic and military imports:

Imports by diplomatic missions, consulates, and military entities are often granted exemption from customs duties. These exemptions are based on international agreements and diplomatic conventions.

Humanitarian aid and charitable imports:

Goods imported for humanitarian purposes, such as disaster relief efforts or charitable donations, may be exempted from customs duties. Governments often provide these exemptions to facilitate assistance during emergencies or for philanthropic activities.

Transshipment and transit:

When goods are merely passing through a country's territory without being consumed or used there, customs duty may be

waived. Transshipment and transit goods are typically not subject to customs duties as they are in temporary movement.

Exemptions for specific industries or goods:

Some countries provide customs duty exemptions or reduced rates for specific industries or goods to promote economic development, attract investment, or meet specific policy objectives. These exemptions may be granted through special economic zones, export processing zones, or targeted industry incentives.

It's important to note that the specific circumstances and conditions for exemptions from customs duties vary between countries. Importers should consult the customs regulations and guidelines of the respective country to determine whether goods qualify for duty exemptions or reductions.

### Types of Customs duty

There are different types of customs duties that can be imposed on imported goods. These duties may vary in nature and purpose. Here are some common types of customs duty:

#### Ad valorem duty:

Ad valorem duty is a type of customs duty that is calculated as a percentage of the value of the imported goods. For example, if the ad valorem duty rate is 10% and the value of the imported goods is \$1,000, the customs duty would be \$100.

#### Specific duty:

Specific duty is a fixed amount of customs duty imposed per unit of the imported goods. It is not based on the value of the goods. For example, if the specific duty on a particular item is \$5 per kilogram, and the imported goods weigh 100 kilograms, the customs duty would be \$500.

#### Compound duty:

Compound duty is a combination of ad valorem and specific duty. It involves both a percentage of the value and a fixed amount per unit of the imported goods.



**Anti-dumping duty:**

Anti-dumping duty is imposed to address the issue of dumping, which occurs when goods are exported to another country at prices lower than their normal value or below the cost of production. Anti-dumping duties are intended to counteract the unfair competition created by dumped goods and protect domestic industries.

**Countervailing duty:**

Countervailing duty is imposed on imported goods that are benefiting from foreign government subsidies. It is designed to neutralize the impact of subsidies and create a level playing field for domestic producers.

**Protective duty:**

Protective duty, also known as safeguard duty, is imposed temporarily to protect domestic industries from a surge in imports that could harm domestic production. It is typically used as a safeguard measure to provide relief to domestic industries facing serious injury due to increased imports.

**Additional duties:**

Additional duties may be imposed for specific purposes, such as revenue generation or to fund specific projects or programs. These duties are not directly linked to the value or type of imported goods but are imposed as an additional tax.

Preferential duty:

Preferential duty refers to reduced or eliminated customs duty rates that are granted under preferential trade agreements or free trade agreements between countries. These agreements aim to promote trade by providing more favorable customs treatment to goods originating from partner countries.

It's important to note that the specific types and rates of customs duties can vary between countries and are subject to change. Importers should consult the customs regulations and tariff schedules of the respective country to determine the applicable customs duty types and rates for their goods.

### **Exemption from Customs Duty**

Exemptions from customs duty refer to specific circumstances or goods that are not subject to the payment of customs duties upon importation. These exemptions can vary between countries and are typically based on certain criteria or regulations. Here are some common examples of exemptions from customs duty:

**Personal effects and household goods:**

Many countries provide exemptions for personal effects and household goods that are being imported by individuals for personal use. These exemptions often have limits on the value or quantity of goods allowed, and they are intended to facilitate the movement of personal belongings during relocation or travel.

**Gifts and samples:**

Some countries offer exemptions for gifts received from abroad or samples of goods that are imported for promotional purposes. These exemptions are typically limited in value and quantity.

**Diplomatic and consular imports:**

Imports made by diplomatic missions, consulates, and their personnel may be exempt from customs duties. These exemptions are granted based on international agreements and diplomatic conventions.

**Humanitarian aid and charitable imports:**

Goods imported for humanitarian purposes, such as disaster relief efforts or charitable donations, may be exempted from customs duties. These exemptions are often granted to facilitate assistance during emergencies or support philanthropic activities.

Temporary importation:

Goods imported temporarily for specific purposes, such as exhibitions, trade shows, or repairs, may be eligible for exemptions from customs duty. However, these goods are generally expected to be re-exported within a specified timeframe.

Scientific and educational materials:

Many countries provide exemptions or reduced customs duties for scientific, educational, or cultural materials, such as books, scientific instruments, or artworks. These exemptions aim to facilitate access to knowledge and promote academic and cultural exchanges.

Imports for industrial processing or manufacturing:

Some countries offer duty exemptions or reliefs for goods imported for industrial processing, manufacturing, or subsequent re-export. These exemptions encourage value-added activities and promote international trade in intermediate goods.

Goods for specific industries or sectors:

Some countries may grant customs duty exemptions or reduced rates for specific industries, sectors, or economic zones to promote economic development, attract investments, or support strategic sectors.

It's important to note that the specific exemptions from customs duty can vary between countries and may be subject to conditions, limitations, or documentation requirements.

Importers should consult the customs regulations and guidelines of the respective country to determine whether their goods qualify for duty exemptions and the necessary procedures to claim such exemptions.

### **Valuation of imported goods**

The valuation of imported goods refers to the process of determining the customs value, which is the basis for calculating the customs duties and taxes payable on imported goods. The valuation is conducted according to established rules and methods defined by customs authorities. Here are key points related to the valuation of imported goods:

#### Transaction value:

The primary method for determining the customs value is the transaction value. This method uses the price actually paid or payable for the imported goods when sold for export to the country of importation. The transaction value should include all costs incurred up to the point of importation, such as transportation, insurance, commissions, and royalties.

Customs valuation methods:

In cases where the transaction value cannot be determined or is deemed unacceptable, customs authorities may employ alternative valuation methods. These methods include the transaction value of identical or similar goods, deductive value (based on the sale price in the importing country), computed value (cost of production, profit, and general expenses), or other reasonable means consistent with international valuation standards.

Related-party transactions:

If the buyer and seller have a relationship that may influence the price, customs authorities may scrutinize the transaction value and examine whether the relationship affects the value declared. They may require additional documentation or investigate the pricing arrangement to ensure the declared value is consistent with the arm's length principle.

Valuation database and information:

Customs authorities often maintain databases or reference sources that provide information on the prices or values of imported goods. These databases help customs officials verify the declared value by comparing it with similar goods or market prices.

#### Documentation requirements:

Importers are typically required to provide specific documentation to support the declared value of the imported goods. This may include invoices, contracts, bills of lading, insurance documents, and other relevant commercial documents. Accurate and complete documentation is essential for customs authorities to assess the customs value correctly.

#### Post-importation adjustments:

In certain cases, adjustments to the customs value may be required after the goods have been imported. This can occur when additional costs or charges are incurred post-importation but are directly related to the imported goods, such as royalties or license fees.

#### Customs audit and verification:

Customs authorities have the right to conduct audits or verification procedures to ensure the accuracy of the declared customs value. These procedures may involve examining the importer's records, requesting additional information, or conducting on-site inspections.

It's important to note that customs valuation practices and regulations can vary between countries, and importers should refer to

the specific customs regulations of the country in question for accurate and up-to-date information on valuation methods and requirements.

### **Valuation of Export Goods**

The valuation of export goods refers to the process of determining the value of goods to be exported. The valuation is crucial for various purposes, including customs procedures, taxation, trade statistics, and pricing decisions. Here are key points related to the valuation of export goods:

#### **Export transaction value:**

The primary method for determining the value of export goods is typically the transaction value. This method involves using the price actually paid or payable for the goods when sold for export. It includes the cost of the goods, any commissions, royalties, packing costs, and other expenses incurred up to the point of exportation.

#### **Commercial invoice:**

The commercial invoice is the key document that provides details of the exported goods, their description, quantity, unit price, and total value. It serves as the basis for determining the transaction value of the goods.



**Incoterms:**

The International Commercial Terms (Inco terms) define the rights and responsibilities of buyers and sellers in international trade. The chosen Inco term specifies the point at which the risk and cost of the goods transfer from the seller to the buyer. The agreed-upon Inco term helps determine the value of the goods, including transportation costs and insurance.

**Currency conversion:**

If the transaction is conducted in a currency different from the exporter's local currency, the value of the goods needs to be converted into the exporter's currency using an appropriate exchange rate. The exchange rate should reflect the prevailing market rate on the date of valuation.

**Export packaging and labelling:**

The value of the goods should account for any costs associated with packaging, labelling, or preparing the goods for export. These costs contribute to the overall value of the exported goods.

Valuation for customs and trade purposes:

The valuation of export goods is important for customs procedures, including export declarations and documentation. It also plays a role in trade statistics, determining the value of exports for economic analysis, reporting, and monitoring purposes.

Transfer pricing considerations:

In cases where the exporter and the importer are related parties, the transfer pricing regulations of both countries may come into play. The transaction value should be consistent with the arm's length principle, which requires that the price be similar to what would be charged between unrelated parties in an open market.

Documentation requirements:

Exporters are typically required to provide accurate and complete documentation to support the declared value of the exported goods. This may include the commercial invoice, packing list, export licenses, and any other relevant commercial or customs documents.

It's important to note that the valuation of export goods can be subject to regulations and requirements specific to the exporting country and the destination country. Exporters should consult the customs regulations, trade policies, and guidelines of the respective countries involved to ensure compliance with the valuation requirements.

## **Import Procedure**

The import procedure refers to the process involved in bringing goods into a country from abroad. The specific steps and requirements can vary between countries, but here is a general overview of the import procedure:

### **Research and compliance:**

Before importing goods, it's important to research and understand the import regulations and requirements of the destination country. This includes identifying any restrictions, permits, licenses, or certifications that may be necessary to import the specific goods.

### **Determine customs classification:**

Goods are classified according to a standardized system such as the Harmonized System (HS) code, which assigns a unique code to each product based on its characteristics. Determining the correct HS code is essential for accurate customs declaration and assessment of duties and taxes.

### **Obtain necessary documentation:**

Depending on the country and the nature of the goods, various documents may be required for customs clearance. Common

documents include commercial invoice, packing list, bill of lading or airway bill, insurance documents, and any necessary permits or licenses.

**Customs declaration:**

The importer or their customs agent must complete a customs declaration form or electronic filing to provide information about the imported goods. This includes details such as the description, quantity, value, origin, and intended use of the goods.

**Payment of customs duties and taxes:**

Upon customs clearance, the importer is typically required to pay applicable customs duties, taxes, and fees. The amount is calculated based on the customs value of the goods, which includes the cost of the goods, transportation, insurance, and other charges.

**Customs inspection and clearance:**

Customs authorities may conduct inspections to verify the accuracy of the customs declaration and ensure compliance with import regulations. This may involve physical examination of the goods, review of documentation, or other verification procedures.

#### Additional inspections or requirements:

Depending on the nature of the goods, certain products may be subject to additional inspections, such as health or safety inspections by relevant authorities. Some goods may require specific certifications or compliance with specific standards before they can be imported.

#### Customs duties and tax payment:

Once the customs declaration is processed and the customs duties and taxes are paid, the goods can be released from customs custody and delivered to the importer. Customs authorities issue a release order or customs clearance document to confirm the completion of the import process.

It's important to note that the import procedure can be more complex and involve additional steps, especially for certain goods or in specific countries. Importers should consult the customs regulations and guidelines of the destination country and consider seeking assistance from customs brokers or freight forwarders to ensure smooth and compliant import operations.

#### Warehousing

Warehousing refers to the storage of goods in a designated facility or warehouse. It is an essential component of the supply chain and

logistics process, providing a secure and controlled environment for the storage, management, and distribution of goods. Here are key points related to warehousing:

#### Storage and inventory management:

Warehouses are used to store goods for varying durations, from short-term storage to long-term warehousing. They provide space and facilities to organize and manage inventory, ensuring proper storage conditions and inventory control.

#### Types of warehouses:

Warehouses can vary in size, layout, and purpose based on the specific needs of the goods being stored. Common types of warehouses include distribution centres, fulfilment centres, bonded warehouses, cold storage warehouses, and specialized warehouses for specific industries or products.

#### Security and safety:

Warehouses are equipped with security measures to protect the stored goods from theft, damage, and unauthorized access. These measures may include surveillance systems, access controls, alarm systems, and trained security personnel. Warehouses also adhere to safety regulations to minimize the risk of accidents, such as fire prevention and safety protocols.

#### Inventory tracking and management systems:

Warehouses utilize various technologies and systems to track and manage inventory effectively. These may include barcode or RFID systems, warehouse management software, and automated inventory control systems. These tools enable accurate inventory tracking, picking, packing, and shipping operations.

#### Value-added services:

Warehouses often provide value-added services to enhance the efficiency and functionality of the storage and distribution process. These services may include labelling, kitting, assembly, product customization, repackaging, quality control inspections, and order fulfilment services.

#### Cross-docking and transshipment:

Some warehouses facilitate cross-docking and transshipment activities, where goods are received, sorted, and immediately dispatched to their final destinations without being stored for an extended period. This facilitates streamlined logistics operations and faster orders fulfilment.

#### Bonded warehouses:

Bonded warehouses are specialized facilities where imported goods can be stored temporarily without paying customs duties or taxes.

These warehouses are regulated by customs authorities and provide storage for goods awaiting customs clearance or undergoing further processing.

Just-in-time (JIT) inventory management:

Warehousing plays a crucial role in JIT inventory management, where goods are received and stored in warehouses in close proximity to the production or distribution facilities. This minimizes inventory holding costs and allows for timely delivery of goods as per demand.

Warehousing is an integral part of the supply chain and logistics infrastructure, providing storage, inventory management, and value-added services to ensure the efficient flow of goods from production to distribution. The specific warehousing practices and capabilities can vary depending on the industry, the nature of goods, and the specific requirements of the supply chain.

Export Procedure

The export procedure refers to the process involved in shipping goods from one country to another for the purpose of trade. While the specific steps and requirements may vary between countries, here is a general overview of the export procedure:



Market research and compliance:

Before exporting goods, it's important to research and identify potential export markets, understand the target country's import regulations, and ensure compliance with export controls and trade restrictions.

Obtain necessary documentation:

Exporters need to gather and prepare various documents required for customs clearance and transportation. These documents typically include commercial invoice, packing list, bill of lading or airway bill, export licenses or permits (if applicable), certificates of origin, and any other specific documents required by the destination country.

Determine customs classification and export controls:

Goods need to be classified according to a standardized system, such as the Harmonized System (HS) code, to determine the applicable customs duties and regulatory requirements. Exporters should also ensure compliance with export controls and obtain any necessary export licenses or permits for goods subject to export restrictions.

Pricing and Inco terms:

Determine the pricing and commercial terms of the export transaction, including the agreed-upon Incoterms (International Commercial Terms), which define the rights and responsibilities of buyers and sellers in international trade. The chosen Incoterm specifies the point at which the risk and cost transfer from the seller to the buyer.

Customs declaration and documentation:

Prepare and submit the necessary customs declaration and supporting documents to the appropriate customs authorities. The customs declaration provides information about the exported goods, their description, quantity, value, and destination. It should accurately reflect the details of the shipment and comply with customs regulations.

Compliance with export controls and regulations:

Ensure compliance with any export control requirements, such as restrictions on the export of certain goods, technology, or services. Exporters may need to obtain export licenses, certificates, or permits from the relevant authorities, especially for sensitive goods or destinations subject to trade sanctions or embargoes.

Freight and transportation:

Arrange for the transportation of the goods from the point of origin to the destination. This includes selecting the appropriate mode of

transportation (air, sea, road, or rail), engaging with freight forwarders or shipping companies, and ensuring proper packaging, labeling, and documentation for transport.

Customs clearance and export documentation:

Complete customs formalities at the port of departure, which may involve customs inspections, verification of documentation, and payment of any applicable export duties or taxes. Obtain the necessary export clearance or customs export declaration to confirm compliance with export requirements.

Export financing and payment:

Arrange for export financing and consider the appropriate payment methods, such as letters of credit, bank transfers, or other payment terms agreed upon with the buyer. Ensure compliance with international trade finance regulations and consider insurance options to mitigate risks associated with international trade transactions.

Shipment and delivery:

Coordinate the shipment of the goods, monitor their transportation, and ensure timely delivery to the buyer or their designated location. Maintain communication with the buyer or their representative to track the progress of the shipment and address any potential issues or delays.

It's important to note that the specific export procedure and requirements can vary between countries and depend on the nature of the goods being exported. Exporters should consult the customs regulations, trade policies, and guidelines of their own country and the destination country to ensure compliance with all applicable export procedures and regulations.

### Duty Drawback

Duty drawback is a mechanism or program provided by many countries to refund or waive customs duties and taxes paid on imported goods that are subsequently re-exported or used in the manufacturing of exported products. It is designed to promote and support export activities by reducing the cost burden on exporters. Here are key points to understand about duty drawback:

#### Purpose:

The primary purpose of duty drawback is to encourage and incentivize exports by providing relief from customs duties and taxes paid on imported materials or components used in the production of exported goods.

#### Eligibility:

Duty drawback programs typically have specific eligibility criteria. These criteria may include requirements related to the type of goods,

their use, the value added during the manufacturing process, and compliance with applicable regulations and procedures. Eligibility may vary depending on factors such as the destination country, the nature of the goods, and the specific drawback program.

Types of drawback:

Duty drawback programs can be classified into different types based on the nature of the drawback claim:

a. Manufacturing drawback:

This type of drawback is applicable when imported materials or components are used in the manufacturing process, and the finished goods are subsequently exported. The drawback claim can be based on the customs duties and taxes paid on the imported inputs.

b. Unused merchandise drawback:

This type of drawback is applicable when imported goods are re-exported without being used or processed. The drawback claim is based on the customs duties and taxes paid on the imported goods.

c. Rejected merchandise drawback:

This type of drawback is applicable when imported goods are found to be defective, damaged, or not meeting the specified quality

standards and are subsequently exported or destroyed. The drawback claim can be based on the customs duties and taxes paid on the defective or rejected goods.

**Application and documentation:**

To claim duty drawback, exporters need to follow specific procedures and submit relevant documentation. This typically includes providing evidence of the imported goods, proof of their subsequent export or use in the manufacturing process, and documentation related to customs duties and taxes paid. The exporter needs to file a drawback claim with the customs authorities and adhere to prescribed timelines and requirements.

**Drawback rates and calculations:**

Duty drawback rates can vary depending on factors such as the type of goods, their value, and the applicable customs duties and taxes. The rates may be fixed or calculated based on specific formulas or percentages. The drawback amount is typically a portion of the customs duties and taxes paid, aiming to provide a partial or full refund of the amounts.

**Compliance and verification:**

Customs authorities may conduct audits or verification procedures to ensure the accuracy and legitimacy of duty drawback claims. This

may involve inspections, record checks, and reconciliation of the claimed amounts with actual export data and import declarations.

It's important for exporters to familiarize themselves with the specific duty drawback programs and regulations of their own country and the destination country. This will help ensure compliance with eligibility criteria, documentation requirements, and claim procedures to benefit from duty drawback provisions.

#### Simple Problems on Computation of Customs Value and Duty

##### Problem 1:

A company imports a shipment of electronic goods with a total cost, insurance, and freight (CIF) value of \$10,000. The applicable customs duty rate is 5%. Calculate the customs duty payable.

##### Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = CIF Value

##### Given:

CIF Value = \$10,000

Duty Rate = 5% or 0.05

Customs Value = CIF Value = \$10,000

Customs Duty = Customs Value x Duty Rate = \$10,000 x 0.05 = \$500

Therefore, the customs duty payable is \$500.

Problem 2:

An importer brings in a shipment of textiles with a customs value of \$8,000. The customs duty rate for textiles is 10%, but there is a preferential duty rate of 5% applicable due to a free trade agreement with the exporting country. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = \$8,000

Duty Rate = 5% or 0.05 (preferential duty rate)

Customs Duty = Customs Value x Duty Rate = \$8,000 x 0.05 = \$400

Therefore, the customs duty payable is \$400.



It's important to note that these examples provide a simplified illustration of customs duty calculation. In practice, there may be additional factors to consider, such as specific duty rates for different goods, exemptions, or preferential trade agreements that can affect the computation of customs value and duty. It's always advisable to consult the customs regulations and guidelines of the specific country to accurately calculate customs duty.

Problem 1:

A company imports a shipment of electronic goods with a total cost, insurance, and freight (CIF) value of \$10,000. The applicable customs duty rate is 5%. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = CIF Value

Given:

CIF Value = \$10,000

Duty Rate = 5% or 0.05

Customs Value = CIF Value = \$10,000

Customs Duty = Customs Value x Duty Rate = \$10,000 x 0.05 = \$500

Therefore, the customs duty payable is \$500.

Problem 2:

An importer brings in a shipment of textiles with a customs value of \$8,000. The customs duty rate for textiles is 10%, but there is a preferential duty rate of 5% applicable due to a free trade agreement with the exporting country. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = \$8,000

Duty Rate = 5% or 0.05 (preferential duty rate)

Customs Duty = Customs Value x Duty Rate = \$8,000 x 0.05 = \$400

Therefore, the customs duty payable is \$400.

Problem 1:

An importer brings in a shipment of machinery with a total cost, insurance, and freight (CIF) value of ₹50,000. The applicable customs duty rate is 10%. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = CIF Value

Given:

CIF Value = Rs. 50,000

Duty Rate = 10% or 0.10

Customs Value = CIF Value = Rs. 50,000

Customs Duty = Customs Value x Duty Rate = Rs. 50,000 x 0.10 =Rs. 5,000

Therefore, the customs duty payable is Rs. 5,000.

Problem 2:

A company imports a shipment of garments with a customs value of Rs. 80,000. The customs duty rate for garments is 12%, but there is a preferential duty rate of 8% applicable due to a trade agreement. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value =Rs. 80,000

Duty Rate = 8% or 0.08 (preferential duty rate)

Customs Duty = Customs Value x Duty Rate = Rs.80,000 x 0.08 =  
Rs.6,400

Therefore, the customs duty payable is Rs.6,400.

Problem 1:

An importer brings in a shipment of electronic components with a total cost, insurance, and freight (CIF) value of Rs.1,20,000. The

applicable customs duty rate is 15%. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = CIF Value

Given:

CIF Value = Rs.1,20,000

Duty Rate = 15% or 0.15

Customs Value = CIF Value = Rs.1,20,000

Customs Duty = Customs Value x Duty Rate = Rs.1,20,000 x 0.15 =  
Rs.18,000

Therefore, the customs duty payable is Rs.18,000.

Problem 2:

A company imports a shipment of raw materials with a customs value of Rs.2,50,000. The customs duty rate for raw materials is 7.5%. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = Rs.2,50,000

Duty Rate = 7.5% or 0.075

Customs Duty = Customs Value x Duty Rate = Rs.2,50,000 x 0.075 =  
Rs.18,750

Therefore, the customs duty payable is Rs.18,750.

Problem 1:

An importer brings in a shipment of luxury watches with a total cost, insurance, and freight (CIF) value of Rs.3,00,000. The applicable customs duty rate for luxury watches is 20%. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = CIF Value

Given:

CIF Value = Rs.3,00,000

Duty Rate = 20% or 0.20

Customs Value = CIF Value = Rs.3,00,000

Customs Duty = Customs Value x Duty Rate = Rs.3,00,000 x 0.20 = Rs.  
60,000

Therefore, the customs duty payable is Rs.60,000.

Problem 2:

A company imports a shipment of pharmaceutical products with a customs value of Rs.5,50,000. The customs duty rate for pharmaceutical products is 5%. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = Rs.5,50,000

Duty Rate = 5% or 0.05

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Customs Duty = Customs Value x Duty Rate = Rs.5,50,000 x 0.05 =  
Rs.27,500

Therefore, the customs duty payable is Rs.27,500.

Problem 1:

An importer brings in a shipment of fruits with a total cost, insurance, and freight (CIF) value of Rs.1,50,000. The applicable customs duty rate for fruits is 10%. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = CIF Value

Given:

CIF Value = Rs.1,50,000

Duty Rate = 10% or 0.10

Customs Value = CIF Value = Rs.1,50,000

Customs Duty = Customs Value x Duty Rate = Rs.1,50,000 x 0.10 =  
Rs.15,000



Therefore, the customs duty payable is Rs.15,000.

Problem 2:

A company imports a shipment of steel pipes with a customs value of Rs.4,50,000. The customs duty rate for steel pipes is 7.5%. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = Rs. 4,50,000

Duty Rate = 7.5% or 0.075

Customs Duty = Customs Value x Duty Rate = Rs. 4,50,000 x 0.075 =  
Rs.33,750

Therefore, the customs duty payable is Rs.33,750.

Problem 1:

An importer brings in a shipment of cosmetics with a total cost, insurance, and freight (CIF) value of Rs.2,00,000. The applicable customs duty rate for cosmetics is 18%. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = CIF Value

Given:

CIF Value = Rs.2,00,000

Duty Rate = 18% or 0.18

Customs Value = CIF Value = Rs.2,00,000

Customs Duty = Customs Value x Duty Rate = Rs.2,00,000 x 0.18 =  
Rs.36,000

Therefore, the customs duty payable is Rs.36,000.

Problem 2:

A company imports a shipment of automobiles with a customs value of Rs.20,00,000. The customs duty rate for automobiles is 30%. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = Rs.20,00,000

Duty Rate = 30% or 0.30

Customs Duty = Customs Value x Duty Rate = Rs.20,00,000 x 0.30 =  
Rs.6,00,000

Therefore, the customs duty payable is Rs.6,00,000.

Problem 1:

An importer brings in a shipment of cosmetics with a total cost, insurance, and freight (CIF) value of Rs.2,00,000. The applicable customs duty rate for cosmetics is 18%. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = CIF Value

Given:

CIF Value = Rs.2,00,000

Duty Rate = 18% or 0.18

Customs Value = CIF Value = Rs.2,00,000

Customs Duty = Customs Value x Duty Rate = Rs.2,00,000 x 0.18 =  
Rs.36,000

Therefore, the customs duty payable is Rs. 36,000.

Problem 2:

A company imports a shipment of automobiles with a customs value of Rs.20,00,000. The customs duty rate for automobiles is 30%. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = Rs.20,00,000

Duty Rate = 30% or 0.30

Customs Duty = Customs Value x Duty Rate = ₹20,00,000 x 0.30 =  
Rs.6,00,000

Therefore, the customs duty payable is Rs.6,00,000.

Problem 1:

An importer brings in a shipment of electronic appliances with a total cost, insurance, and freight (CIF) value of Rs.1,50,000. The applicable customs duty rate for electronic appliances is 12%. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = CIF Value

Given:

CIF Value = Rs.1,50,000

Duty Rate = 12% or 0.12

Customs Value = CIF Value = Rs.1,50,000

Customs Duty = Customs Value x Duty Rate = Rs.1,50,000 x 0.12 =  
Rs.18,000

Therefore, the customs duty payable is Rs.18,000.

Problem 2:

A company imports a shipment of luxury goods with a customs value of Rs.5,00,000. The customs duty rate for luxury goods is 25%. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = Rs.5,00,000

Duty Rate = 25% or 0.25

Customs Duty = Customs Value x Duty Rate = Rs.5,00,000 x 0.25 =  
Rs.1,25,000

Therefore, the customs duty payable is Rs.1,25,000.

Problem 1:

An importer brings in a shipment of textiles with a total cost, insurance, and freight (CIF) value of Rs.2,50,000. The applicable customs duty rate for textiles is 5%. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = CIF Value

Given:

CIF Value = Rs.2,50,000

Duty Rate = 5% or 0.05

Customs Value = CIF Value = Rs.2,50,000

Customs Duty = Customs Value x Duty Rate = Rs.2,50,000 x 0.05 =  
Rs.12,500

Therefore, the customs duty payable is Rs.12,500.

Problem 2:

A company imports a shipment of pharmaceutical products with a customs value of Rs.3,00,000. The customs duty rate for pharmaceutical products is 10%. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = Rs.3,00,000

Duty Rate = 10% or 0.10

Customs Duty = Customs Value x Duty Rate = Rs.3,00,000 x 0.10 =  
Rs.30,000

Therefore, the customs duty payable is Rs.30,000.

Problem 1:

An importer brings in a shipment of machinery with a total cost, insurance, and freight (CIF) value of ₹10,00,000. The applicable customs duty rate for machinery is 15%. Calculate the customs duty payable.



Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = CIF Value

Given:

CIF Value = Rs10,00,000

Duty Rate = 15% or 0.15

Customs Value = CIF Value = Rs.10,00,000

Customs Duty = Customs Value x Duty Rate = Rs.10,00,000 x 0.15 =  
Rs.1,50,000

Therefore, the customs duty payable is Rs.1,50,000.

Problem 2:

A company imports a shipment of steel rods with a customs value of Rs.5,00,000. The customs duty rate for steel rods is 8%. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = Rs.5,00,000

Duty Rate = 8% or 0.08

Customs Duty = Customs Value x Duty Rate = Rs.5,00,000 x 0.08 =  
Rs.40,000

Therefore, the customs duty payable is Rs.40,000.

Problem 1:

An importer brings in a shipment of electronic gadgets with a total cost, insurance, and freight (CIF) value of Rs. 4,50,000. The applicable customs duty rate for electronic gadgets is 20%. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = CIF Value

Given:

CIF Value = Rs.4,50,000

Duty Rate = 20% or 0.20

Customs Value = CIF Value = Rs. 4,50,000

Customs Duty = Customs Value x Duty Rate = Rs.4,50,000 x 0.20 =  
Rs.90,000

Therefore, the customs duty payable is Rs.90,000.

Problem 2:

A company imports a shipment of textiles with a customs value of Rs.2,00,000. The customs duty rate for textiles is 10%. Calculate the customs duty payable.

Solution:

Customs Duty = Customs Value x Duty Rate

Customs Value = Rs.2,00,000

Duty Rate = 10% or 0.10

Customs Duty = Customs Value x Duty Rate = Rs.2,00,000 x 0.10 =  
Rs.20,000

Therefore, the customs duty payable is Rs.20,000.

## **Customs regulations and guidelines of India**

The customs regulations and guidelines in India are governed by the Central Board of Indirect Taxes and Customs (CBIC), which is a part of the Department of Revenue under the Ministry of Finance. These regulations are outlined in various acts, rules, and notifications. Here are some key aspects of the customs regulations and guidelines in India:

### **Customs Act, 1962:**

The Customs Act serves as the primary legislation governing customs procedures, duties, and related matters in India. It provides the legal framework for customs administration and enforcement.

### **Customs Tariff:**

The Customs Tariff contains the classification and duty rates for imported and exported goods. It is based on the Harmonized System of Nomenclature (HSN) and is periodically updated through customs notifications.

### **Valuation of Goods:**

The customs regulations prescribe methods for determining the customs value of imported and exported goods. The transaction value method, which is based on the price actually paid or payable, is the primary method. However, alternative methods may be used in certain circumstances.

#### Exemptions and Concessions:

Certain goods may be eligible for exemptions or concessional rates of customs duty based on their nature, purpose, or intended use. These exemptions and concessions are granted through various notifications and schemes such as the Duty-Free Import Authorization (DFIA) and the Export Promotion Capital Goods (EPCG) scheme.

#### Import and Export Procedures:

The customs regulations outline the procedures and documentation requirements for importing and exporting goods. This includes processes such as filing of import/export declarations, assessment of duties, examination of goods, and clearance from customs.

#### Anti-Dumping and Safeguard Measures:

India has provisions for imposing anti-dumping duties and safeguard duties on imported goods to protect domestic industries from unfair trade practices and sudden surges in imports that may cause injury to domestic producers.

#### Customs Audit and Enforcement:

The customs authorities have the power to conduct audits and investigations to ensure compliance with customs laws and regulations. They may also take enforcement actions, such as seizure of goods, penalties, and prosecution in case of violations.