

MANONMANIAM SUNDARANAR UNIVERSITY
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TIRUNELVELI – 627 012

Directorate of Distance & Continuing Education



COURSE MATERIAL

BUSINESS TAXATION

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SYLLABUS :

BUSINESS TAXATION		
Learning Objectives		
CLO 1	To understand the basic concepts of Taxes.	
CLO 2	To provide insights on the Income Tax Act.	
CLO 3	To evaluate the procedure for assessment and methods of valuation for customs.	
CLO 4	To discuss on Goods and Service Tax.	
CLO 5	To analyze and apply the returns, Tax payment and Penalties under Goods and Service Tax.	
UNIT	DETAILS	LEARNING OBJECTIVES
I	Objectives Of Taxation – Canons of Taxation – Tax System In India – Direct And Indirect Taxes – Meaning And Types	CLO 1
II	Income Tax Act 1961 – Basic Concepts and Definitions – Income, Assessee, Person, Previous Year, Assessment Year, Gross Total Income, Total Income. Meaning of Permanent Account Number, Return of Income, TDS - Meaning - Rates - Filing and Return, Advance Tax, Rates of Taxation, Assessment Procedure	CLO 2
III	Customs Act 1962 - Introduction, Objectives, Definitions, Functions and powers of customs authorities, different types of custom duties. Classification of goods, procedure for assessment and methods of valuation for customs, demand and recovery of customs duty, procedure for claiming customs duty drawback	CLO 3
IV	Definitions of GST – business related person’s capital goods – levy and collection of tax – mixed supply, composite supply – meaning, advantages and disadvantages of unregistered supplier – time and value of supply – goods, services – input tax credit – Registration of GST – person liable for registration, not liable for registration, Registration of casual taxable person, deemed on cancellation of	CLO 4

	registration, revocation of cancellation of registration- VAT	
V	Tax Invoice, Credit and Debit notes –Return of GST, Refunds, payment of tax, assessment and audit. An Overview of Tax Audit – Tax Incentives and Export Promotions, Deductions and Exemptions.	CLO 5
Reading List		
1	V.S. Datey, Central Excise, JBA Publishers, Edition 2024. Reddy. T. S and Y. Hari Prasad Reddy.	
2	Business Taxation (Goods & Services TAX - GST), Margam Publication, Edition2024	
3	Srinivasan N.P and Priya Swami. M, Business Taxation, Kalyani publishers Edition 2024.	
4	VISION: Journal of Indian Taxation	
References Books		
1	Senthil and Senthil, Business Taxation, Himalaya Publication, 4thEdition.	
2	Vinodk.Singania, Indirect Tax, Sultan Chand and Sons, Edition2024.	
3	Dr. Rajani Bhat& Dr. Dhamodharan V, Indirect Taxation , TR Publications , Chennai , 2024	
4	DR. VandhanaBangar ,YogendraBangar , Indirect tax laws, AadhyaPrakasam Allahabad 2024	
5	T.S. Reddy &Y.HariprasadReddy , Business Taxation, Margham Publications, Chennai 2025.	
Web Resources		
1	https://www.gst.gov.in	
2	https://gstcouncil.gov.in	
3	https://taxguru.in/custom-duty/types-du	
4	https://www.indiantradeportal.in/vs.jsp?lang=0&id=0,25,857,390	

UNIT – I**INTRODUCTION TO TAXATION****UNIT – I – INTRODUCTION TO TAXATION**

Objectives of Taxation – Canons of Taxation –Tax System in India – Direct and Indirect Taxes – Meaning and Types

UNIT – I**INTRODUCTION TO TAXATION****Learning Objectives****After studying this unit, students will be able to:**

1. Understand the concept of taxation and explain its importance in the economic system.
2. Identify and explain the objectives of taxation, such as revenue generation, economic development, reduction of income inequality, and economic stability.
3. Describe the canons (principles) of taxation proposed by Adam Smith, including equality, certainty, convenience, and economy.
4. Explain the structure of the tax system in India, including the role of central and state governments in tax administration.
5. Differentiate between direct and indirect taxes based on their nature, incidence, and examples.
6. Identify the major types of taxes in India, such as income tax, corporate tax, GST, and customs duty.
7. Analyze the role of taxation in economic planning and public welfare.

8. Evaluate the advantages and limitations of direct and indirect taxes in the Indian taxation system.

1.1. INTRODUCTION

The word tax is based on the latin word *taxo* which means to estimate. To tax means to impose a financial charge or other levy upon a taxpayer, an individual or legal entity, by a state or the functional equivalent of a state such that failure to pay is punishable by law.

Taxation has existed since the birth of early civilization. In ancient times taxes were either material or money like goods or services in the primitive society. The subjects used to pay a share of their income to the Head of a tribe or to the King who in return provided them with the administration security from foreign aggression and other civic amenities.

In the medieval centuries feudalism was founded, so the origin of modern tax system also was founded. Feudal market dues, tolls for protection and use of road, bridges, ferries, land rent, and other payment in goods and services were gradually transferred into money payment with the rise of money economy, Kings liked to receive money and the people preferred to pay money instead of goods and services. Step by step the old feudal revenue system changed into taxation.

Then with the development of economic sciences and with the passage of time, the functions of modern state appeared and taxation gradually became a tool of usage with more than one goal and became important source of revenue. During 19th and 20th centuries, there has been both qualitative and quantitative change in the public expenditures. Taxation has passed through the stages with passage of time, and tax's functions and objectives also have changed from the ancient communities to medieval societies to modern societies also, so the tax system has evolved with the evolution of the functions of the modern state.

Taxation is a payment from natural persons or legal entity and it is levied by government, for which no goods or services is received directly in return, so taxes is that amount of money, the people pay which is not related directly to the benefit of people obtained from the provision of a particular goods or services.

Until the early 1930s, it was universally accepted in principle that governments should balance their budgets. Thus, the principle reason for taxation was to pay for government expenditures. Of course, governments had from time to time resorted to borrowing in order to pay for their expenditures and government borrowing was relatively quite large during some war periods. Government borrowing may be from the private sector or from abroad. Alternatively, governments may borrow from the central bank of the Country. A portion of taxes also goes to pay off the state's debt and the interest accumulates.

The taxes collected have been used by the government to carry out many functions. Some of these include:

- Expenditures on war,
- The enforcement of law and public order,
- Protection of property,
- Economic infrastructure (roads, legal tender, enforcement of contracts, etc.),
- Public works, • social engineering, and
- The operation of government itself.

Governments also use taxes to fund welfare and public services. These services can include

- Education systems,
- Health care systems,
- Pensions for the elderly,
- Unemployment benefits, and
- Public transportation, energy, water and waste management systems, common public utilities, etc.

Governments have also financed expenditures in recent years through the sale of publicly owned assets. Although asset sales were an important source of funds to the government, however, they are necessarily limited since assets can only be sold once. Thus, governments still have to raise most of the revenue needed to finance their expenditures through taxation or by charging directly for government services (user charges). Governments use different kinds of taxes and vary the tax rates, this is done to distribute the tax burden among individuals or classes of the population involved in taxable activities, such as business, or to redistribute resources between individuals or classes in the population.

Modern social security systems are intended to support the poor, the disabled, or the retired person by taxes on those who are still working. In addition, taxes are applied to fund foreign aid and military ventures, to influence the macroeconomic performance of the economy or to modify patterns of consumption or employment within an economy, by making some classes of transaction more or less attractive. Thus, there is no doubt that most government expenditures must be paid through the taxation system and it is reasonable to see this as the principle function of taxation. Yet there have always been a variety of subsidiary objectives of taxation.

In the present time, taxation is not just a means of transferring money to the government to spend it for meeting the public expenditures or raise revenue to the government, but taxes have become beside that, as a tool for reduce demand in the private sector, redistribution of income and wealth in the societies in the countries. It is also a means for economic development and for playing very important role in the case of stabilization of income, protection industrial home from foreign industrials. Taxation helps to find out solution for some economic problems that face the state, like unemployment, inflation, and depression. Taxation finds out solution for some economic problems, but not alone, but there are also a lot of another fiscal instruments. They are working together for solution of those economic problems. Countries practice sovereignty authority upon its citizens, through levying of Taxes

Definitions

There is no precise and accurate definition for the tax and the concept of tax has been defined differently by different economists. Some definitions are as follows.

According to Prof Seligman – A tax is compulsory contribution from the person to the government to defray the expense incurred in the common interest of all without reference to special benefits conferred.

According to Bastable – A tax as a compulsory contribution of the wealth of a person, or body of persons for the service of public powers.

Deviti. De Marco defines – A tax as a share of the income of citizens which the state appropriate in order to procure for itself the means necessary for the production of general public services.

Hugh Dalton – A tax is a compulsory charges imposed by a public authority irrespective of the exact amount of service rendered to the tax payer in return and not imposed as a penalty for legal offence. **Jom Bouvier** defined a tax as “A pecuniary burden imposed for support of the government, the enforced proportional contribution of persons and property of the government and for all public needs” **According to Trussing**, “The essence of Tax as distinguished from other charges by government is the absence direct quid pro quo- tit for tat between the tax payers and the public authority”.

From the above definitions we may conclude that *a tax is compulsory contribution, levied by government from owner of income without direct benefit but for public benefit, and taxes should be arranged by the law.*

1.2. CHARACTERSTICS OF TAXES

The characteristics of taxes are as follows:

1. Tax is compulsory

A tax is imposed by law. So tax is compulsory payment to the governments from its citizens. *Tax is duty from every citizen to bear his share for supporting the government. The*

tax is compulsory payment, refusal or objection for paying tax due leads to punishment or is an offence of the court of law. Government imposes tax when somebody buys commodities, or when uses services or earns income or any other condition for compulsion is found. The government practices its sovereign when levying the tax from its citizens.

2. Tax is contribution

Contribution means in order to help or provide something. Tax is contribution from members of community to the Government. A tax is the duty of every citizen to bear their due share for support to government to help it to face its expenditures. Some wants are common to everybody in the society like defence and security, so these wants cannot be satisfied by individuals. These social wants are satisfied by governments, hence the people support government for these social wants. Contribution involves loss or sacrifice from the side of contributor.

3. Tax is for public benefit

Tax is levied for the common good of society without regard to benefit to special individual. Government proceeds are spent to extend common benefits to all the people such as natural disaster - like floods, famine - defence of the country, maintenance of law and establish infrastructure and order. Such benefits are given to all people.

4. No direct benefit

Government is compulsorily collecting all types of taxes and does not give any direct benefits to the tax payer for taxes paid. The essence of tax as distinguished from other charges by governments is the absence of a direct quid-pro-que between the taxpayer and the public authority. Tax is different from another government charges which may give direct benefits to payers such as prices, fees, fines etc where the direct benefits are available. Taxes are for common benefits to all the members of the society.

5. Tax is paid out of income of the tax payer

Income means money received, especially on regular basis, for work or through investment. *Tax is paid out of income as long as the income becomes realized, here the tax is imposed. Income owner has profit from any business, so he should pay his share for support to the government.*

6. Government has the power to levy tax

Governments are practicing sovereign authority upon its citizens through levying of taxes. Only Govt. can collect tax from the people. *Tax is transferring resources from the private sector to the public sector. Government is levying the tax to cover its expenditures. The government use these taxes for increasing social welfare & economy development.*

7. Tax is not the cost of the benefit

Tax is not the cost of benefit conferred by the government on the public. *Benefit and taxpayer are independent of each other, and payment of taxation is of course designed for conferring of benefits on general public.*

8. Tax is for the economic growth and public welfare

Major objective of the government is to maximize economic growth and social welfare. *Developmental activities of the nations generally involve two operations, the raising of revenue and the spending of revenue, so the government spent taxes for economic benefit, for entire community and for aggregate welfare of the society*

1.3. OBJECTIVES OF TAXATION

The basic objective of taxation is to raise resources for the state. Taxation is for revenue only and a so called tax which looks to anything besides the securing of revenue is not a tax, but an unconstitutional exercise of the taxing power. However, all the modern states in the post second world war era have realized that taxation is a powerful instrument with multiple applications. It can be used to reduce inequalities, to accelerate economic

development, as a tool to regulate consumption, imports and exports, in addition to its basic objective raising revenues.

The Objectives of taxation in brief are as under:

1. Objectives of Raising Revenue.

2. Regulatory Objectives.

- (a). Regulating Consumption.
- (b). Regulating Production.
- (c). Regulating Imports and Exports.
- (d). Regulating the effects of inflation, depression etc.

3. Developmental Objectives.

- (a). Objective of Economic Development.
- (b). Objective of Capital Formation.
- (c). Objectives of increasing employment opportunities.

4. Objectives of Reducing Inequalities.

- (a). Reduction in Economic Disparities.
- (b). Reduction in Regional Imbalances.

1. Objectives of Raising Revenue.

The basic and primary objective of taxation is raising revenue. Enormous amounts needed by modern governments for National Defence, Creation of Infrastructure and Social upliftment schemes make regular and systematic resource mobilization compulsory. *Taxes are imposed so as to produce the necessary amount of revenue to meet the requirement of the government, as the public expenditures is increasing in scope and size day by day. Therefore, the main objective of taxes is to raise revenue to meet the Govt. expenditures adequately*

2. Regulatory Objectives.

Taxation performs an important regulatory role in different socio economic aspects.

(a). Regulating Consumption.

State can discourage consumption of harmful and undesirable goods by levying prohibitive rates of tax. *For example, high rates of tax on Tobacco products, Liquors etc., are intended to minimize their usage by the public.*

(b).Regulating production.

Production may be encouraged by exempting new industries from tax for some time, reducing tax on capital goods, increasing tax on imported goods to encourage local production, etc.

(c). Regulating imports and exports.

Imports of undesirable products can be curbed by imposing prohibitively high import duties. Exports can be encouraged by cutting duties and taxes on exports. Duties can be minimised on materials etc., for manufacturing goods for export.

(e). Regulating effects of Inflation, depression etc.

Raising tax rates can reduce consumption of goods and the demand in general. High levels of taxation can reduce the purchasing power of people and the funds collected can be used by the state for productive purposes to increase supply of goods, thus stabilizing supply and demand equation. Inflation is automatically in check when demand

and supply are in equilibrium. In periods of economic depression, the state can reduce tax rates to augment the purchasing power of people. It in turn, creates additional demand, thus reviving production and industries resulting in higher levels of economic activity and employment.

3. Developmental Objectives.

Taxation can be used as an effective tool to achieve higher levels of economic development and employment.

(a). Economic development.

Economic Development is measured in terms of GNP (Gross National Product) i.e., the output achieved in all the major sectors of the economy i.e., Agriculture, Industry and Services. Taxation can be used as a stimulant to any one or all the three sectors by judicious changes in the tax rates. For example, capital gains on sale of long term assets are exempted if they are reinvested in approved securities. Agricultural incomes are fully exempted from Income tax. Tax policies can growth encourages higher investments.

(b). Capital formation

Indian household savings rate is around 26%, one of the highest in the world. Savings can be channeled into investment avenues through appropriate policy measures. *Taxation plays a major role in high level of savings by providing different kinds of exemptions from tax on contributions to provident funds, Insurance premiums, National savings certificates, etc. Capital formation through people's savings can be encouraged by Tax incentives.*

(c). Increasing employment opportunities.

Small and medium enterprises usually have maximum potential for employment. Industrial estates, special economic zones, export oriented parks, etc., have high employment potential. *Tax concessions to start small scale and medium scale units result in creation of jobs on large scale. Similarly, tax incentives and exemptions to export*

oriented units and industrial units in SEZs (Special economic zones) also increase employment opportunities.

4. Objectives of Reducing Inequalities.

Inequalities are common in several aspects. Inequalities in Income, inequalities in regional development etc., can be reduced with the help of taxation.

(a). Reduction in economic disparities.

Income levels of individuals vary wildly in India. It is claimed that rich are becoming richer and the poor are becoming poorer year by year. *Taxation can be a powerful weapon in tackling income disparities. High levels of taxation on the rich which cannot be evaded and diversion of the resulting funds for the benefit of poor is the best way of reducing income disparities.*

(b). Reduction in Regional Imbalances.

Some regions may become well developed compared to others in a country. *Tax incentives and exemptions to start industries in the backward regions can be a good method of dealing with the problem. Urban areas are usually well developed whereas rural areas are backward. Tax incentives of different kinds to start small scale and cottage industries in rural areas, tax incentives for infrastructural undertakings in rural areas etc., can be helpful in developing rural areas.*

1.4. CANONS OF TAXATION

Dictionary meaning of 'Canon' is "general law, rule, principle or criterion". A 'Canon' in the context of taxation can be taken as a general rule or principle. While devising a tax system, canons of taxation *act as guidelines. They can make a tax system effective.*

1. Canon of Equality

2. Canon of Certainty

3. Canon of Convenience

4. Canon of Economy**5. Canon of Productivity****6. Canon of Elasticity****7. Canon of Diversity****8. Canon of Simplicity****9. Canon of Expediency****10. Canon of Co-ordination****1. Canon of Equality**

The first canon of Adam Smith is the canon of equality. This is also the starting point for “Ability to pay” principle in taxation. Adam Smith says “The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion of their respective abilities, that is in proportion to the revenue which they respectively enjoy under the protection of the state. In the observation or neglect of the maxim consists what is called the equality or inequality of taxation”.

2. Canon of Certainty

The second canon of Adam Smith is the Canon of certainty”. Adam Smith says “The tax which each individual is bound to pay, ought to be ‘certain’ and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor and to every other person.” This canon aims at elimination of uncertainty and arbitrariness in taxation. The tax payer should know exactly when to pay the tax, to whom to pay the tax and also the exact amount to be paid by him. Nothing is left to the discretion of the tax officials which can lead to corruption and harassment of the assesses. Usually this canon is ensured through the publicity of the annual Budget of the Government, the discussions in Parliament or assembly on every detail of taxation. Everyone comes to know certainly about the new taxes imposed, the rates of tax etc.

3. Canon of Convenience

The third canon of Adam Smith is that of “convenience”. Smith says *“Every tax ought to be so levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it.”* The object of this canon is to reduce the “psychic burden” and inconvenience of paying tax. The canon urges that the timing and the manner of collection should both be convenient to the tax payer to ensure maximum compliance.

This canon is widely practiced in every country due to its practical utility. For example, Import duty is collected at the time of handing over the goods to the importer; Income Tax is usually deducted from salaries of employees; Land revenue in rural areas is collected after the harvesting of crops. Sales tax and excise duty are paid by consumers whenever they buy goods to consume in small quantities.

4. Canon of Economy

The fourth canon of Adam Smith is that of economy. According to Adam Smith *“Every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state.”* This canon signifies that the administrative cost of tax collection should be minimized. It means that the difference between the money which comes out of the pockets of people and that which is deposited in the public treasury should be as small as possible.

5. Canon of Productivity

The canon of productivity was proposed by Bastable who said “In the first place taxation should have productivity”.

Productivity of a Tax may be observed in two ways. In the first place, a tax should yield a satisfactory amount for the requirements of a government. *As bastable expressed it, “the very object, for which the revenue system exists is to provide for the maintenance of the state and therefore, the minister in charge of finance naturally estimate the merits of a tax by the amount of its yield”*

6. Canon of Elasticity

The structure of taxation should be elastic in character and capable of expansion and contraction in times of change. The State should be able to increase its revenue by way taxation when the situation demands. During periods of war, national calamities like floods, earthquakes and famine, the State needs more funds immediately. Govt. can raise funds quickly only when the tax system is flexible and elastic. There should be scope for contraction of taxes also when the citizens are over burdened with tax.

For example, taxes on property and commodities are not so, elastic as Income Tax.

7. Canon of Diversity

Tax system should not rely upon a single tax or a chosen few for raising entire resources needed to run the State. The tax burden should be widely distributed on the entire economy without causing much harm to anyone. *Modern economists emphasize upon a Multiple Taxation policy with diverse character. There should be a combination of Direct and Indirect taxes so that all the citizens of the country are involved and contribute for the development of the country.* Of course, diversity does not mean that there should be too many taxes. The emphasis is on judicious mix of different taxes which can produce required amount of revenue without sacrificing the character of productivity and economy.

8. Canon of Simplicity

This canon means that taxes and tax system should be such that they are easily understood by the tax payer. The nature, aim, time of payment, method and basis of estimation of each tax should be followed by each tax payer. The taxation rules and regulations should be simple, intelligible, and easily understandable. The process of tax administration should also be simple. Complex tax system and confusing tax laws may make people avoid paying taxes. Simplicity invariably improves the efficiency of tax systems.

9. Canon of Expediency

“Expediency” means convenience. A tax may be desirable and it may have most of the characteristics of a good tax but the Govt. may not find it expedient or convenient to impose it, may be for political reasons or “Vote Bank Politics”. For example, Tax on

Agricultural Income in India. While considering the possibility of imposing a tax, it should be examined from different angles, including the reaction of the tax payers. Imposition of every tax is required to be justified from the point of view of social, political and economic ground realities.

10. Canon of Co-ordination

In democratic countries taxes are imposed by Central, State and local Governments. It is very much desirable that there must be coordination between different taxes imposed by the tax authorities. *The coordination is needed in the interests of tax payer and the government. Otherwise, overlapping of taxes, double taxation etc., can lead to hardship to tax payers and encourage them to avoid, or evade taxes.*

1.5 TAX SYSTEM IN INDIA

Indian tax system had been unorganized, unregulated and unplanned due to historical reasons. India's alien rulers taxed the people to the benefit of their coffers and also for Royal luxuries of the state. Land revenue was the major part of income for the royal treasury. Other taxes used to be levied on adhoc basis.

During the British rule, no effort was made for uniformity in the tax system. Vast differences were there between the tax policies of the native kings and the British provinces. Social justice, social welfare and economic development were not linked to tax system in anyway.

After independence, each and every, aspect of the Indian Tax system was studied thoroughly and all possible attempts were made to make the system equitable, just and economic, besides yielding adequate revenue to finance the administration and also cater to the needs of economic development.

The Constitution of India is the supreme law of India. It consists of a Preamble, 22 parts containing 444 articles and 12 schedules. Any tax law, which is not in conformity with the Constitution, is called ultra vires the Constitution and held as illegal and void. Some of the provisions of the Constitution are given below:

Article 265 of the Constitution lays down that no tax shall be levied or collected except by the authority of law. It means tax proposed to be levied must be within the legislative competence of the legislature imposing the tax.

Article 246 read with Schedule VII divides subject matter of law made by legislature into three categories:

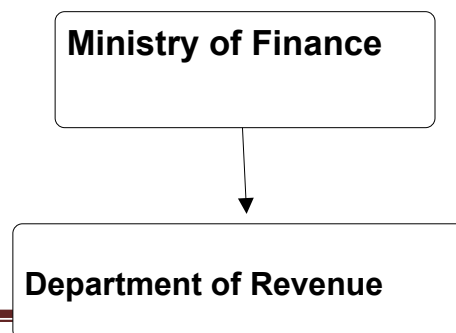
- Union list (only Central Government has power of legislation on subject matters covered in the list)
- State list (only State Government has power of legislation on subject matters covered in the list)
- Concurrent list (both Central & State Government can pass legislation on subject matters).

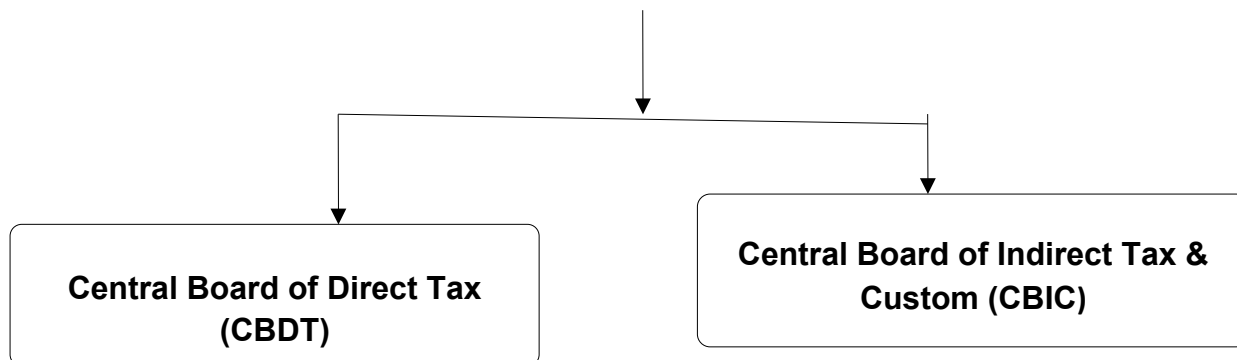
If a state law relating to an entry in List III is repugnant to a Union law relating to that entry, the Union law will prevail, and the state law shall, to the extent of such repugnancy, be void. (**Article 254**). Following major entries in the respective list enable the legislature to make law on the matter:

Union List (List I)	Entry 82 - Taxes on income other than agricultural income i.e. Income-tax
State List (List II)	Entry 46 - Taxes on agricultural income.

1.6 ADMINISTRATION OF TAX LAWS

The administrative hierarchy of tax law is as follows:





1.7 CLASSIFICATION OF TAXES

Modern Tax systems comprise of many types of taxes. Proper classification of the sundry taxes is essential to understand the nature and significance of different taxes.

1. Direct Tax

2. Indirect Tax.

(1). Direct Tax

Based on 'Shifting of Tax', Dalton says "A direct tax is one which is really paid by a person on whom it is legally imposed or If tax is levied directly on the income or wealth of a person, then, it is a direct tax. The person who pays the tax to the Government cannot recover it from somebody else i.e. the burden of a direct tax cannot be shifted. e.g. Income- tax.

TYPES OF DIRECT TAXES.

Several kinds of Direct Taxes are levied in India by Central Government, State Governments and Local Governments. The following are the most important of them.

(I). Direct taxes levied by Central Government.

Direct taxes are those taxes directly imposed on individuals or organizations, and the burden of payment cannot be shifted to another person. In India, direct taxes are

primarily levied and collected by the Central Board of Direct Taxes (CBDT) under the Income Tax Act 1961 and other related laws.

The following are the major direct taxes levied by the Central Government:

1. Income Tax.

Income tax in India is levied and collected on the basis of Finance Act passed every year under Central budget and the Income Tax Act 1961, aided by the Income Tax rules, 1962. Income Tax is payable by individuals, HUF, AOP, BOI, AJP, Cooperative societies, partnership firms, companies etc. Income tax is a major source of income to the Central government.

Example:

If an individual earns ₹8,00,000 per year, income tax will be calculated based on the applicable tax slab.

2. Corporation Tax or Corporate Tax or Company Tax.

Income Tax paid by Limited companies is called Corporation Tax or Corporate Tax or Company Tax. It is levied on the profits made by companies as per the rates given in the Finance Act passed by Parliament annually. All profitable companies are required to make advance payment of Income Tax every year. Corporation Tax forms the major chunk of Income Tax in India.

Example:

If a company earns a profit of ₹1 crore, it must pay corporate tax according to the prescribed rate.

3. Dividend tax.

Limited companies in India are required to pay dividend tax at 10% on the dividend paid by them to their shareholders. This tax is in addition to the Corporation Income Tax.

Example:

If a company declares a dividend of ₹10 per share and a shareholder holds 1,000 shares, the shareholder will receive ₹10,000 as dividend income.

4. Capital gains tax : Capital gains tax is levied on the profit earned from the transfer or sale of capital assets. Capital assets such as :

- Land and buildings
- Shares and securities
- Gold and jewellery
- Mutual funds
- Bonds and debenture

Example:

If a person buys shares for ₹1,00,000 and sells them for ₹1,50,000, the gain of ₹50,000 is subject to capital gains tax.

5. Wealth tax.

Wealth tax is imposed on the wealth or assets held by individuals. It is levied every year on the total value of a person's property or wealth or capital. It was introduced in 1957 in India on the recommendation of Prof.Kaldor. Since wealth increases an individual's tax paying ability, wealth tax is progressive in nature. It is payable at 1% on the net wealth exceeding rupees 15 lakhs. Wealth tax no longer leviable from AY. 2016 – 2017.

Example:

If a person owned luxury assets such as expensive houses, jewellery, and cars beyond a specified limit, wealth tax was charged on the net value of those assets.

6. Gift Tax

A gift is the voluntary transfer of money, movable property, or immovable property from one person to another without consideration. It was originally introduced in 1956. However with effect from 1st November 1998 gift tax was abolished due to its low yield to the union government

Example:

If a person transfers ₹1,00,000 to a friend without receiving anything in return, it is considered a gift.

7. Estate duty or Inheritance tax or death duty

Death taxes assume two major forms. One is called Estate Duty which is levied upon the entire estate left by a deceased person. The other form is Inheritance tax which is levied on the separate shares of the estate transferred to the beneficiaries. It was imposed and collected by the Central government but the proceeds were transferred to the state governments Estate duty was introduced in India from Oct. 1953. It was abolished from 16th March 1985 because of its low yield and higher cost of collection.

Example:

If a person dies leaving property worth ₹50 lakh, estate duty was calculated on the total value of the estate before the property was transferred to heirs.

(II). Direct Taxes at State level.

Direct taxes at the State level are those taxes that are imposed and collected by State Governments and where the burden of the tax cannot be shifted to another person. These taxes are mainly related to property, land, and agricultural income. The power of states to levy such taxes is provided under the Constitution of India.

The important direct taxes levied by State Governments are explained below.

1. Land Revenue

Before independence, Land revenue was the most important source of revenue to the government. In fact even in the historical times, land revenue was the most important tax in most of the countries in the world.

Land Revenue is purported to be the state's share in the output from land. In India, land revenue is abolished in some states and in others the rate varies from state to state. However, Land revenue has lost its prominence as a revenue raising tax because of its lack of elasticity and strong bias against taxing the agricultural sector in India.

Example:

A farmer owning agricultural land may pay a fixed amount of revenue per acre to the state government.

2. Agricultural Income Tax

Agricultural income tax is defined as a tax on income earned from agriculture or other related activities. Indian constitution specifically provides for levy of agricultural income tax by the State governments. However, no State government has actually passed legislation to tax agricultural incomes.

Example:

If a plantation owner earns income from tea, coffee, or rubber plantations, the state government may impose agricultural income tax on such income.

3. Professional tax

This is a tax on professionals, payable annually. State government fixes a specified amount to be paid by each category of professionals. Irrespective of actual income, each professional pays the professional tax as a lumpsum, one time payment per year. It may be paid in two installments. In case of professionals working as salaried employees, the employer deducts the amount of tax in two installments from the salary of the employees.

Example:

Doctors, lawyers, chartered accountants, and salaried employees may have to pay professional tax to the state government.

(III). Direct Taxes at local Government level.

Direct taxes at the local government level are those taxes that are levied and collected by local authorities **such as municipalities, municipal corporations, and panchayats**. In these taxes, the person who pays the tax bears the burden directly, and it cannot be transferred to another person.

Local governments collect these taxes to finance local public services such as sanitation, roads, water supply, street lighting, and waste management. The authority to levy these taxes is derived from the Constitution of India and various state municipal laws.

The important direct taxes at the local government level are explained below.

1. Property Tax (House Tax)

Property tax is the most important direct tax collected by local governments. It is levied on owners of residential, commercial, or industrial buildings and land. Property tax Collected by municipal corporations, municipalities, or panchayats. Property tax Calculated based on property value, area, location, and usage and Usually paid annually or semi-annually.

Example:

A person owning a house in a city must pay annual property tax to the municipal corporation.

2. Tax on Land and Buildings

Local authorities may levy tax on ownership of land and buildings within their jurisdiction. Applied to both residential and commercial properties. Tax on land and building helps local governments maintain urban infrastructure and public utilities.

Example:

Owners of commercial complexes or apartment buildings may be required to pay taxes to the local municipality.

3. Professional Tax (in some local bodies)

In certain states, local bodies collect professional tax from individuals engaged in professions, trades, or employment under state authorization. Professional tax is collected from salaried employees and professionals. The maximum limit generally does not exceed ₹2,500 per year under provisions of the Constitution of India.

Example:

An employee working in a private company may have professional tax deducted from salary and paid to the local authority.

4. Tax on Advertisements

Local governments may impose taxes on advertisements displayed on buildings, hoardings, and public places. Tax on advertisements paid by businesses or advertisers displaying advertisements. It helps regulate outdoor advertising and generate revenue for local administration.

Example:

A company placing a large billboard advertisement in a city may have to pay advertisement tax to the municipal authority.

Merits of Direct Tax

It is levied on supplier of Goods & Services.

1. Equity

Direct taxes have equity of sacrifice, depend upon the volume of income. They are based on the progressive principle, so rates of tax increase as the level of income of a person rises.

2. Elasticity and productivity

Direct taxes have elasticity because when the government faces some emergency, like earthquake, floods and famine, the government can collect money for facing those problems through the mode of Direct tax.

3. Certainty:

Direct tax has certainty on both sides 'tax-payer' and 'government'. The tax-payers are aware of the quantity of tax. They have to pay and rate, time of payment, manner of payment, and punishment from the side of government is also certain about the total amount they are getting.

4. Reduce inequality

Direct taxes follow progressive principles so it is taxing the rich people with higher level of taxation and the poor people with a lower level of taxation.

5. Good instrument in the case of inflation

Tax policy as fiscal instrument plays important role in the case of inflation, so government can absorb the excess money by raising in the rate of existing taxes or imposition of new taxes.

6. Simplicity

The rules, procedures, regulations of income tax are very clear and simple.

Demerits of Direct Taxes

1. Evasion

Direct tax is lump sum therefore tax payers may try evasion.

2. Uneconomically

Expenses of collection are higher in the case of direct taxes, because they require wide - spread staff for collection.

3. Little incentive to work and save

In Direct taxes, rates are of progressive nature. A person with higher earning is taxed more, in turn he is left little with amount. So the tax payer feels disincentive to work hard and save money after reaching a certain level of income.

4. Not suitable for a poor country

Direct taxes are not enough to meet its expenditure.

5. Arbitrary

Due to absence of logical or scientific principle to determine the degree of progression in the taxation, the direct taxes are arbitrary.

(2). Indirect Taxes

Indirect taxes are taxes levied on goods and services rather than on income or profits. The tax is collected from the manufacturer, seller, or service provider, but the burden of the tax is ultimately borne by the final consumer.

In other words, the person who pays the tax to the government is different from the person who actually bears the burden of the tax.

Example: When a consumer buys a product such as a mobile phone or clothing, the price includes tax. The seller collects the tax from the consumer and pays it to the government.

The following are the most important of them. Indirect taxes levied by Central Government:

1. Central Excise Duty

An “excise duty” is a tax on goods produced or manufactured within the country either in the process of their manufacture or before their sale to customers. ***It is levied on commodities like Beverages, Sugar, Petrol, Tobacco, Cloth etc.***

An excise duty should be considered as a tax on a commodity than a tax on transaction. The burden of excise duty lies on the consumers in proportion to the consumption of the commodities.

2. Customs Duty.

Customs duties are taxes imposed on goods as they cross a national boundary. They are levied on goods imported into India from other countries (Import duties) and also on goods exported from India to other countries (Export duties). Import duties perform the dual functions of protecting domestic industries from foreign competition and also earn foreign exchange. Export duties are levied to earn large amount of revenues.

Example:

When electronic goods are imported from another country, customs duty is charged at the port.

3. Goods and Service Tax

The Goods and Service Tax (GST) is a tax levied on most goods and services sold for consumption. The GST is paid by consumers but it is remitted to the Government by the business selling goods and services. In effect, GST provides revenue for the government, borne by the consumers.

Example:

When a person purchases a laptop, GST is added to the price and paid by the consumer.

Merits of Indirect Taxes

1. High revenue production

Nature of indirect taxes is imposition on the commodities and services. Here indirect taxes cover a large number of essential goods and luxurious goods which are consumed by the mass both rich and poor people, these help in collecting large revenue.

2. No evasion

Nature of indirect tax is that, it is included in the price of commodity, so tax evasion or tax avoidance is difficult.

3. Convenient

Indirect taxes are small amount and indirect taxes are hidden in the price of goods and services, hence the burden of these taxes is not felt very much by the tax-payers, and not lump sum like direct taxes.

4. Economy

Indirect taxes are economical in collection and the administrative costs of collection are very low. Also the procedure of collection of these taxes is very simple.

5. Wide coverage:

Indirect taxes cover almost all commodities like essential commodities, luxuries, and harmful ones.

6. Elasticity

Since a large number of commodities and services are covered by indirect taxation there is great scope for modifying of taxes, goods and tax rate, much depends on nature of goods and on their demands.

Demerits of Indirect Taxes

1. Regressive in effect

Essential commodities are used by all members of community. When taxing these commodities the burden would be equal, and no distinction is made between the rich and poor people.

2. Uncertainty in collection

Discourage savings and Increase inflation. Indirect taxes are payable when people spend their income or when people buy goods and services, so tax authorities cannot accurately estimate the total yield from different indirect taxes.

3. Discourage savings

Indirect taxes are included in the price of commodity, so people have to spend more money on essential commodities, when levied indirectly. That means the customers cannot save some of their money.

1.8 REVIEW QUESTIONS

1. MULTIPLE CHOICE QUESTIONS (MCQS)

1. Taxation refers to:

- a) Voluntary payment to government
- b) Compulsory contribution imposed by government
- c) Donation to government
- d) Private payment

Answer: b) Compulsory contribution imposed by government

2. The main objective of taxation is:

- a) Revenue generation for government
- b) Increase unemployment
- c) Reduce trade
- d) Reduce investment

Answer: a) Revenue generation for government

3. The canons of taxation were propounded by:

- a) Alfred Marshall
- b) Adam Smith

- c) David Ricardo
- d) Keynes

Answer: b) Adam Smith

4. Which of the following is a direct tax?

- a) GST
- b) Customs duty
- c) Income tax
- d) Excise duty

Answer: c) Income tax

5. GST is an example of:

- a) Direct tax
- b) Indirect tax
- c) Corporate tax
- d) Wealth tax

Answer: b) Indirect tax

6. In indirect taxes, the tax burden is borne by:

- a) Producer
- b) Government
- c) Consumer
- d) Exporter

Answer: c) Consumer

7. Which of the following is an objective of taxation?

- a) Economic development
- b) Reduction of inequality
- c) Control of inflation
- d) All of the above

Answer: d) All of the above

8. The Indian tax system includes:

- a) Only direct taxes
- b) Only indirect taxes
- c) Both direct and indirect taxes
- d) Local taxes only

Answer: c) Both direct and indirect taxes

9. A tax imposed directly on income or wealth is called:

- a) Indirect tax
- b) Direct tax
- c) Corporate tax
- d) Production tax

Answer: b) Direct tax

10. Taxation is mainly used by governments to:

- a) Collect revenue
- b) Regulate economic activities
- c) Redistribute income
- d) All of the above

Answer: d) All of the above

11. The canon of certainty means:

- a) Tax should be flexible
- b) Tax amount and time of payment should be clear
- c) Tax should be high
- d) Tax should be voluntary

Answer: b) Tax amount and time of payment should be clear

12. The canon of convenience suggests that:

- a) Tax should be collected at a convenient time and manner
- b) Tax should be collected anytime
- c) Tax should be collected annually only

d) Tax should be optional

Answer: a) Tax should be collected at a convenient time and m

13. Which of the following is an indirect tax in India?

a) Income Tax

b) Corporate Tax

c) GST

d) Wealth Tax

Answer: c) GST

14. Direct taxes are generally imposed on:

a) Goods

b) Services

c) Income or wealth

d) Imports

Answer: c) Income or wealth

15. The canon of economy means:

a) Cost of tax collection should be minimum

b) Taxes should be high

c) Taxes should be collected monthly

d) Taxes should be voluntary

Answer: a) Cost of tax collection should be minimum

Small Questions – LOCF Mapping Table

S.No	Small Question	CO	Bloom's Level	PO
1	Define taxation.	CO1	Remember	PO1
2	State any two objectives of taxation.	CO1	Understand	PO2
3	What is meant by direct tax?	CO2	Remember	PO1
4	Give two examples of indirect taxes.	CO2	Remember	PO1
5	Explain the canon of certainty.	CO3	Understand	PO2

Big Questions – LOCF Mapping Table

S.No	Big Question	CO	Bloom's Level	PO
1	Explain the objectives of taxation in detail.	CO1	Analyze	PO4
2	Discuss the canons of taxation with examples.	CO3	Analyze	PO4
3	Describe the structure of the tax system in India.	CO2	Understand	PO3
4	Differentiate between direct and indirect taxes with examples.	CO2	Analyze	PO4
5	Explain the types of taxes in India and their importance.	CO2	Evaluate	PO5

UNIT – II**BASIC CONCEPTS AND DEFINITIONS****UNIT II - Basic Concepts and Definitions**

Income Tax Act 1961 – Basic Concepts and Definitions – Income, Assessee, Person, Previous Year, Assessment Year, Gross Total Income, Total Income. Meaning of Permanent Account Number, Return of Income, TDS - Meaning Rates - Filing and Return, Advance Tax, Rates of Taxation, Assessment Procedure.

UNIT – II

Basic Concepts and Definitions

Learning Objectives

After studying this unit, students will be able to:

1. **Understand the basic concepts of the Income Tax Act, 1961** and explain its importance in the Indian taxation system.
2. **Define and explain key terms** such as *Income, Assessee, Person, Previous Year, and Assessment Year*.
3. **Identify the components of income computation**, including *Gross Total Income and Total Income*.
4. **Explain the meaning and purpose of Permanent Account Number (PAN)** and its role in tax administration.
5. **Understand the concept of Return of Income** and the procedure for filing income tax returns.
6. **Explain the concept of Tax Deducted at Source (TDS)** and understand the applicable rates and provisions.
7. **Describe the concept of Advance Tax** and identify the situations in which it is applicable.
8. **Understand the basic rates of taxation** applicable under the Income Tax Act.
9. **Explain the assessment procedure** followed by income tax authorities for determining tax liability.

2.1. INTRODUCTION

Taxation is the backbone of any modern economy. In India, the taxation system has evolved from ancient revenue collection practices to a modern, technology-driven system governed by constitutional and statutory provisions.

The present taxation framework in India is structured under:

- Constitutional provisions
- Central and State tax laws
- Administrative mechanisms
- Judicial interpretation

2.2 BACKGROUND OF TAXATION SYSTEM OF INDIA OR HISTORICAL EVOLUTION OF TAXATION IN INDIA

Historical Evolution of Taxation In India is classified in two stages :

1. Taxation in India during Ancient Times

2. Income Tax in Modern India

1. Taxation in India during Ancient Times

It is a matter of general belief that taxes on income and wealth are of recent origin but there is enough evidence to show that taxes on income in some form or the other were levied even in primitive and ancient communities. The origin of the word "Tax" is from "Taxation" which means an estimate. Nearly 2000 years ago, there went out a decree from Ceaser Augustus that all the world should be taxed. In Greece, Germany and Roman Empires, taxes were also levied sometime on the basis of turnover and sometimes on occupations. For many centuries, revenue from taxes went to the Monarch.

In Northern England, taxes were levied on land and on moveable property such as the Saladin title in 1188. Later on, these were supplemented by introduction of poll taxes, and indirect taxes known as “Ancient Customs” which were duties on wool, leather and hides. These levies and taxes in various forms and on various commodities and professions were imposed to meet the needs of the Governments to meet their military and civil expenditure and not only to ensure safety to the subjects but also to meet the common needs of the citizens like maintenance of roads, administration of justice and such other functions of the State.

In India, the system of direct taxation as it is known today, have been in force in one form or another even from ancient times. There are references both in Manu Smriti and Arthasastra to a variety of tax measures. Manu, the ancient sage and law-giver stated that the king could levy taxes, according to Sastras. The wise sage advised that taxes should be related to the income and expenditure of the subject. He, however, cautioned the king against excessive taxation and stated that both extremes should be avoided namely either complete absence of taxes or exorbitant taxation. According to him, the king should arrange the collection of taxes in such a manner that the subjects do not feel the pinch of paying taxes.

He laid down that traders and artisans should pay 1/5th of their profits in silver and gold, while the agriculturists were to pay 1/6th, 1/8th and 1/10th of their produce depending upon their circumstances.

The detailed analysis given by Manu Smriti and Arthasastra on the subject clearly shows the existence of a well- planned taxation system, even in ancient times. Taxes were paid in the shape of gold-coins, cattle, grains, raw- materials and also by rendering personal service. Most of the taxes of Ancient India were highly productive. The admixture of direct taxes with indirect taxes secured elasticity in the tax system, although more emphasis was laid on direct tax. The tax-structure was a broad based one and covered most people within its fold. The taxes were varied and the large variety of taxes reflected the life of a large and composite population.

2. Income Tax in Modern India

Income Tax in modern India represents a **structured, technology-driven, and policy-oriented fiscal system** aimed at revenue generation, economic development, and social justice.

1. Income Tax Act, 1860

Consequent upon the financial difficulties created by the events of 1857, Income Tax was introduced in India for the first time by the British in the year 1860. The Act of 1860 was passed only for five years and therefore it lapsed in 1865. It was replaced in 1867 by a licence tax on professions and trades and the latter was converted into a certificate tax in the following year. It was later abolished in 1873. Licence tax traders remained in operation till 1886 when it was merged in the Income tax Act of that year.

2. Income Tax Act, 1886

The Act of 1886 levied a tax on the income of residents as well as non residents in India. The Act defined agricultural income and exempted it from tax liability in view of the already existing land revenue a kind of direct taxes. The Act of 1886 exempted life insurance premiums paid by assessee policies of his own life. Another important provision of this Act were that the Hindu undivided family was treated as a distinct taxable entity.

3. Income Tax Act, 1918

The Act of 1918 brought under change also receipts of casual or non recurring nature pertaining to business or professions. Although income tax in India has been a charge on net income since inception, it was in the Act of 1918 that specific provisions were inserted for the first time pertaining to business deductions for the purpose of computing net income.

The Act of 1918 remained in force for a short period and was replaced by new Act (Act XI of 1922) in view of the reforms introduced by the Govt. of India Act, 1919.

4. Income Tax Act, 1922

The organizational history of the income tax department dates back to the year 1922. "One of the important aspects of the 1922 Act was that, it laid down the basis, the mechanism of administering the tax and the rates at which the tax was to be levied would be laid down in annual finance acts. This is the procedure brought in much needed in adjusting the tax rates in accordance with the annual budgetary requirements and in securing a degree of elasticity for the tax system. Before 1922 the tax rate were determined by the Income Tax Act itself and to revise the rates, the Act itself had to be amended. The Income Tax Act, 1922 gave for first time a specific nomenclature to various income tax authorities and laid the foundation of a proper system of administration as per provisions of Income Tax Act 1922 thus, it is the Income Tax Act, 1961, which is currently operative in India

5. Income Tax Act, 1961

The present law of income tax in India is governed by the Income Tax Act, 1961 which is amended from time to time by the Annual finance Act and other legislations pertaining to direct tax. The act which came into force on April 1, 1962, replaced the Indian Income Tax Act, 1922, which had remained in operation for around 40 years. Furthermore, a set of rules known as Income Tax Rules, 1962 have been framed for implementing the various provisions of the Income Tax Act, 1961.

2.3. TAX STRUCTURE

The tax structure of a country refers to the framework or system through which taxes are imposed, collected, and administered by the government. It determines who pays taxes, what types of taxes are levied, and how the tax revenue is distributed among different levels of government. ***In India, the tax structure is designed to ensure efficient revenue generation, economic development, and social welfare.***

The **tax structure** is the **overall arrangement of different types of taxes levied by the government and the manner in which these taxes are administered and collected.**

In India, the tax structure is divided among three levels of government:

1. **Central Government**
2. **State Governments**
3. **Local Governments**

Each level has the authority to impose certain taxes according to the Constitution of India.

Objectives of Tax Structure

The main objectives include:

1. **Raising Government Revenue**
2. **Promoting Economic Growth**
3. **Reducing Income Inequality**
4. **Encouraging Savings and Investments**
5. **Providing Public Welfare Services**

1. CONSTITUTION OF INDIA

The roots of every law in India lies in the Constitution, therefore understanding the provisions of Constitution is foremost to have clear understanding of any law. Let us first understand what it talks about tax:

1. Article 265: no tax shall be levied or collected except by the Authority of Law.
2. Article 246: distributes legislative powers including taxation, between the parliament of India and the State Legislature.
3. Schedule VII- enumerates powers under three lists

- a. Union List: Powers of Central Government
- b. Legislative List: Powers of State Government
- c. Concurrent List: Both Central and State Government have powers, in case of conflict; law made by Union Government prevails.

Some of the major taxes under respective lists are:

1. Central Government	<ul style="list-style-type: none"> • Customs including export duties • Excise on Tobacco and other goods manufactured in India except alcoholic liquors for human consumption, opium, narcotic drugs • Corporation Tax • Taxes on inter-state trade of goods other than newspapers • Taxes on inter-state consignment of goods • Any other matter not included in List II or III
2. State Government	<ul style="list-style-type: none"> • Taxes on agricultural income • Excise duty on alcoholic liquors, opium and narcotics • Octroi or entry Tax • Tax on intra state trade of goods other than newspapers • Tax on advertisements other than that in newspapers • Tax on goods and passengers carried by road or inland waterways • Tax on professionals, trades, callings and employment

2. TAX ADMINISTRATION

The Central Board of Revenue or department of Revenue is the apex body charged with the administration of taxes. It is a part of Ministry of finance which came into existence as a result of the Central Board of Revenue Act, 1924.

Initially the Board was in charge of both direct and indirect taxes. However, when the administration of taxes became too unwieldy for one Board to handle, the Board was split up into two, namely the

1. Central Board of direct Taxes (CBDT) and

2. Central Board of Indirect Tax and Customs (CBIC).

1. Central Board of Direct Taxes

The Central Board of Direct Taxes (CBDT) provides essential inputs for policy and planning of direct taxes in India and is also responsible for administration of the direct tax laws through Income Tax department. The CBDT is a statutory authority functioning under the Central Board of Revenue Act, 1963. It is India's official Financial Action Task force (FATF) unit.

(a). Organizational Structure

The CBDT is headed by CBDT Chairman and also comprises six members. The Chairperson holds the rank of Special Secretary to Government of India while the members rank of Additional Secretary to Government of India.

- Member (Income Tax)
- Member (Legislation and Computerization)
- Member (Revenue) I
- Member (Personnel & Vigilance)
- Member (Investigation)
- Member (Audit & Judicial)

The CBDT Chairman and Members of CBDT are selected from Indian Revenue Service (IRS), a premier civil service of India, whose members constitute the top management of Income Tax department.

(b). Income Tax Department

Income Tax department functions under the department of Revenue in Ministry of finance. It is responsible for administering following direct taxation acts passed by parliament.

- Income Tax Act, 1961
- Various Finance Acts (passed every Year in Budget Session)

Income Tax department is also responsible for enforcing double Taxation Avoidance Agreements and deals with various aspects of international taxation such as Transfer pricing. Income Tax department has powers to combat aggressive Tax avoidance by enforcing General Anti Avoidance Rules.

2. Central Board of Indirect Tax and Customs

Central Board of Indirect Tax and Customs (CBIC) is a part of the Department of Revenue under the Ministry of finance, Government of India. It deals with the tasks of formulation of policy concerning levy and collection of Customs and GST, prevention of smuggling and administration of matters relating to Customs, GST and narcotics to the extent under CBIC's purview.

(a). GST Council

A GST Council consisting of representatives from the Centre as well as State has been formulated under the GST Law of indirect taxes. The Council will make recommendations to the union and the States on Goods and Service Tax laws, on any other matter relating to GST.

Till date, numerous conclusive meetings of GST Council have been undertaken. Decisions have been taken regarding rates, composition scheme, exemption schemes to north-eastern and hilly areas, compensation method for loss of revenue to states etc. Rules

regarding return, refund, registration, payment, invoicing and the like have been finalized by the same. However, various other issues and modalities regarding the GST are constantly being discussed at the GST Council Meetings for smoothening the law and making it easy to implement for society at large.

2.4. BASIC CONCEPTS AND DEFINITIONS OR DEFINITION OF IMPORTANT TERMS OR IMPORTANT TERMS USED IN INCOME TAX CALCULATIONS

(1). Assessee [Section 2(7)]

“Assessee” means a person by whom any tax or any other sum of money is payable under this Act. In addition, it includes –

(a). Every person in respect of whom any proceeding under this Act has been taken for the assessment of

- his income; or
- the income of any other person in respect of which he is assessable; or
- the loss sustained by him or by such other person; or
- the amount of refund due to him or to such other person

(b). Every person who is deemed to be an assessee under any provision of this Act;

(c). Every person who is deemed to be an assessee-in-default under any provision of this Act.

1. TYPE OF ASSESSEE:

The term assessee is divided into three categories as under:

- i.. Ordinary Assessee**
- ii. Deemed Assessee and**
- iii. Assessee in Default.**

i. Ordinary Assessee:

1. Any person against whom some proceedings under IT Act are going on.
2. Any person who has filed Return of Loss under sec. 139(3).
3. Any person, by whom any amount of penalty or interest is payable.

4. Any person, who is eligible to get refund of tax.

ii. Deemed Assessee:

A person who is deemed to be an assessee for some other person is called "Deemed Assessee". **For example:** Deceased person, Minor or Lunatic, Non-resident etc.

iii. Assessee in Default:

Any person who fails to perform any statutory obligations as per the Act is called as an assessee in default. For example, any employer who is liable to deduct tax before of salary to his employees, fails to do so, he will be assessed as assessee in default.

(2). Assessment [Section 2(8)]

This is the procedure by which the income of an assessee is determined. It may be by way of a normal assessment or by way of reassessment of an income previously assessed. Assessment Procedure will be dealt with in detail at the Final level.

(3). Assessment Year (AY) [Section 2(9)]

Assessment year means the period of 12 months commencing on the 1st day of April every year. It is the year (just after the previous year) in which income earned in the previous year is charged to tax. E.g., the current assessment year starting on 1st April 2025 and ending on 31st 2026

Taxpoint:

- Duration: Period of 12 months starting from 1st April.
- Relation with Previous Year: It falls immediately after the Previous Year.
- Purpose: Income of a previous year is assessed and taxable in the immediately following Assessment Year.

(4). Previous Year or Uniform Previous Year (PY) [Section 3]

Previous Year means the financial year immediately preceding the Assessment Year. Income earned in a year is assessed in the next year. The year in which income is earned is known as Previous Year and the next year in which income is assessed is known

as Assessment Year. It is mandatory for all assessee to follow financial year (from 1st April to 31st March) as previous year for Income-Tax purpose.

(5). Financial Year (FY).

According to sec. 2(21) of the General Clauses Act, 1897, a Financial Year means the year commencing on the 1st day of April. Hence, it is a period of 12 months starting from 1st April and ending on 31st March of the next year. It plays a dual role i.e. Assessment Year as well as Previous Year.

(6). Person [Section 2(31)]

There are seven categories of persons chargeable to tax under the Act:

(a). **Individual;**

(b). **Hindu Undivided Family (HUF);**

(c). **Company;**

(d). **Firm or Partnership firm**

(e). **Association of Persons (AOP) or a Body of Individuals (BOI), whether incorporated or not;**

(f). **Local authority; and**

(g) **.Every artificial juridical person** not falling within any of the preceding categories

(a). Individual.

The word 'individual' means a natural person, i.e. human being. "Individual" includes male or femae, a minor or a person of unsound mind. However, Deities are assessable as juridical person. Trustee of a discretionary trust shall be assessed as an individual

(b). Hindu Undivided Family (HUF)

A Hindu Undivided Family (on which Hindu law applies) consists of all persons lineally descended from a common ancestor & includes their wives & unmarried daughters.

Taxpoint:

- Only those undivided families are covered here, to which Hindu law applies. It also includes Jain and Sikh families.
- Once a family is assessed as Hindu undivided family, it will continue to be assessed as such till its partition.

(c). Company [Sec. 2(17)]

Company means:

- i. any *Indian company*; or
- ii. anybody corporate, incorporated under the laws of a foreign country; or
- iii. any institution, association or body which is or was assessable or was assessed as a company for any assessment year on or before April 1, 1970; or
- iv. any institution, association or body, whether incorporated or not and whether Indian or non-Indian, which is declared by general or special order of the Central Board of Direct Taxes to be a company.

i. Indian Company [Sec. 2(26)]

An Indian company means a company formed & registered under the Companies Act, 1956 & includes

- a company formed and registered under any law relating to companies formerly in force in any part of India other than the state of Jammu & Kashmir and the Union territories specified in (c) infra;
- a company formed and registered under any law for the time being in force in the State of Jammu & Kashmir;
- a company formed and registered under any law for the time being in force in the

Union territories of Dadar & Nagar Haveli, Goa, Daman & Diu and Pondicherry;

- a corporation established by or under a Central, State or Provincial Act; any institution, association or body which is declared by the Central Board of Direct Taxes (CBDT) to be a company u/s 2(17).

In the aforesaid cases, a company, corporation, institution, association or body will be treated as an Indian company only if its registered office or principal office, as the case may be, is in India.

ii. Domestic Company [Sec. 2(22A)]

Domestic company means:

i) an Indian company; or

ii) any other company, which in respect of its income liable to tax under the Act, has made prescribed arrangements for the declaration and payment of dividends (including dividend on preference share), payable out of such income, within India.

iii. Foreign Company [Sec. 2(23A)]

Foreign company means a company which is not a domestic company.

Company in which public are substantially interested [Sec. 2(18)]

Following companies are said to be a company in which public are substantially interested:

1. Government Company;
2. A company u/s 8 of the Companies Act, 2013;
3. Mutual benefit finance company;
4. Listed company;
5. Company in which shares are held by co-operative societies;
6. Company which is prescribed by CBDT

iv. Firm or Partnership firm.

As per sec. 4 of Indian Partnership Act, 1932, partnership means “relationship between persons who have agreed to share profits of the business carried on by all or any one of them acting for all”. Persons, who enter into such business, are individually known as partners and such business is known as a Firm. A firm is, though not having a separate legal entity, but has separate entity in the eyes of Income-tax Act.

Taxpoint:

- Partnership firm is a separate taxable entity apart from its partners.
- In Income tax, a Limited liability partnership shall be treated at par with firm.

v. Association of Persons (AOP) or Body of Individuals (BOI)

a. Association of Persons (AOP)

When persons combine together for promotion of joint enterprise they are assessable as an AOP, if they do not in law constitute a partnership. In order to constitute an association, persons must join for a common purpose or action and their object must be to produce income; it is not enough that the persons receive the income jointly. Co-heirs, co-legatees or co-donees joining together for a common purpose or action would be chargeable as an AOP. For e.g., Mr. Yash, AB & Co. (Firm) and X (P) Ltd. join together to carry on construction activity otherwise than as a partnership firm, such an association will be recognized as an association of persons.

b. Body of Individuals (BOI)

Whereas, **BOI** means a group of individuals (individual only) who join together for common purpose(s) whether or not to earn income. Co-heirs, co-donees, etc joining together for a common purpose or action would be chargeable as an AOP or BOI. In case of income of AOP, the AOP alone shall be taxed and the members of the AOP cannot be taxed individually in respect of the income of the AOP For e.g., mutual trade associations, members club, etc.

Difference between AOP and BOI

- In case of BOI, only individuals can be the members, whereas in case of AOP, any person can be its member i.e. entities like Company, Firm etc. can be the member of AOP but not of BOI.
- In case of an AOP, members voluntarily get together with a common will for a common intention or purpose, whereas in case of BOI, such common will may or may not be present.

v. Local Authority

As per Sec. 3(31) of the General Clause Act, a local authority means a municipal committee, district board, body of Port Commissioners, Panchayat, Cantonment Board, or other authorities legally entitled to or entrusted by the Government with the control and management of a municipal or local fund.

(h). Artificial Juridical Person Artificial juridical person are entities

Which are not natural person;

- has separate entity in the eyes of law;
- may not be directly sued in a court of law but they can be sued through person(s) managing them for Example: Deities, Idols, University, Bar Council, etc.

Example: Determine the status of the following:

Case Status	Status of Person
a). Tirunelveli Municipal Corporation.	Local authority
b). Corporation Bank Ltd.	Company
c). Mr. Amitabh Bachchan.	Individual
d). Amitabh Bachchan Corporation Ltd.	Company
e). A joint family of Sri Ram, Smt. Ram and their son Lav and Kush.	HUF

f). Calcutta University.	Artificial juridical person
g). X and Y who are legal heirs of Z.	BOI
h). Sole proprietorship business.	Individual
i). Partnership Business.	Firm

(7). Income [Section 2(24)]

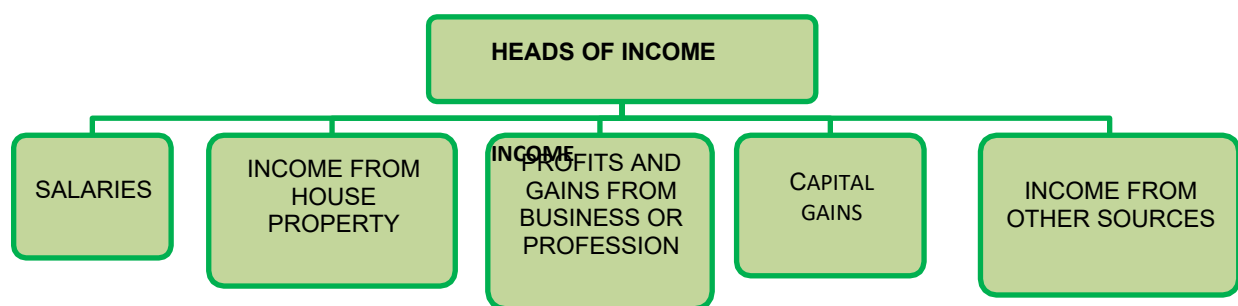
Income tax is charged on the income of a person. The term income has not been defined in the Income Tax Act. But Sec.2(24) explains what is included in income. As per Sec.2(24), income included

- **Profits and Gains**
- **Dividend**
- **Voluntary Contribution received by a trust**
- **Value of any perquisite or profit in like of salary**
- **Any allowance, special allowance or benefit.**
- **Perquisite or benefit to a director.**
- **Perquisite or benefit to a representative assessee.**
- **Any amount received as obligation by the company.**
- **Capital gain.**
- **Insurance Profit.**
- **Wining from lottery.**
- **Amount received under keyman insurance Policy.**
- **Gift of an amount exceeds Rs.50,000.**

(8).Heads of Income. [Sec.14]

A person may earn income from different sources. For example, a salaried person earns income by way of salary. He also gets interest from bank savings account/fixed deposit. Apart from this, if he has invested in shares, he would be getting dividend and when he sells these shares, he may earn profit on such sale. If he owns a residential property which he has let out, he would earn rental income.

Under the Income-tax Act, 1961, for computation of total income, all income of a tax payer are classified into five different heads of income. These are shown below –



There is a charging section under each head of income which defines the scope of income chargeable under that head. These heads of income exhaust all possible types of income that can accrue to or be received by the tax payer. Accordingly, income earned is classified as follows:

1. Income received from Salary

The provisions relating to salary are provided under Sections 15 to 17 of the Income Tax Act, 1961. Income that is chargeable under the head Salaries is deemed to accrue or arise in India in all the cases when earned in India; for this purpose, income is said to be earned in India if the services are rendered in India. The actual place of accrual of the salaries, the residential status of the employer, the citizenship or nationality of the employee, and whether the employee is a government servant or an employee of private enterprises are immaterial. However, according to Section 9(2) of this Act, any pension payable outside India to a person residing permanently outside India should not be deemed to accrue or arise in India.

2. Income received from House Property

The provisions relating to income received from house property are provided under Sections 22 to 27 of the Income Tax Act, 1961. Income received from the let-out buildings or lands adjoining to or forming a part of the building is chargeable under income tax. For example, Mr. X is the owner of a building. The building is given on rent. Income generated from the building is taxable under the head of House Property.

3. Income received from Profits and Gains of Businesses and Professions

The provisions relating to income received from PGBP are provided under Sections 28 to 44DB of the Income Tax Act, 1961. The profits and gains of any business or profession carried on by the assessee at any time during the previous year are chargeable under this head of income.

4. Income received from Capital Gains

The provisions relating to income received from capital gains are provided under Sections 45 to 55A of the Income Tax Act, 1961. Section 45 of the Act provides that any profits and gains arising from the transfer of a capital asset in the previous year shall be chargeable under this head of income.

5. Income received from Other Sources

The provisions relating to income received from other sources are provided under Sections 56 to 59 of the Income Tax Act, 1961. Income from other sources means it is not chargeable under the head of salary, house property, PGBP, and capital gains are chargeable under this head. Dividends, keyman insurance policy, winning from lotteries, contribution to provident fund, income by way of interest on securities, gifts, etc.

Nature of Income

The income under the Income Tax Act is not limited to cash receipts alone but includes other forms of income such as:

- i) **Monetary Income:** Monetary income is direct income that is received in the form of cash or equivalents such as salary, interest, dividends, etc.
- ii) **Non-Monetary Income:** Non-monetary income means benefits received in kind, such as gifts, perks, services, and free accommodations, which have some monetary value in the context of taxation.

(9). Gross Total Income.(GTI). [Sec.80B(5)]

Gross total income is the aggregate of income under all the five heads of income after adjusting the set-off & carry forward of losses. Deductions under chapter VIA are provided from GTI, to arrive at Total income or taxable income is given in the following format:

Computation of Total Income for the A.Y.____

Particulars	Amount
1. Income from Salaries	***
2. Income from House property	***
3. Income from Business or Profession	***
4. Income from Capital gains	***
5. Income from other sources	***
Gross Total Income	****
Less: Deduction u/s 80C to 80U	***
Total Income Or Taxable Income	****
<u>Computation of Tax Liability:</u>	
<u>LESS : (1). Tax on Income liable to tax at Special Rates :</u>	
(a). Long term Capital Gain on shares exceeding Rs.1,00,000 (u/s 112A) @ 10%	***
(b). Long term Capital Gain on Others (u/s 112) @ 20%	***
(c). Short term Capital Gain on Shares (u/s 111A) @ 15%	***
(d). Casual income : (Lottery, Card game , Betting, Horse Race etc @ 30%	***
<u>(2). Tax on Other Income (Normal Rates):</u>	
On balance Total Income @ Normal Tax Rate applicable (Apply tax rate of A.Y 2024 - 25 on Taxable Income)	***
Gross Tax Liability	****
Less : Rebate u/s 87 A if any	***
Adjusted Tax Liability	****
Add : Health and Education Cess @ 4% on Gross Tax	****
Net Tax Liability	*****

Less : Relief u/s 89:		
(a). Tax Deducted at Source (TDS)	****	
(b). Advance Tax paid	****	****
TAX PAYABLE		*****

(10). Casual Income.

Any receipt which is of a casual and non-recurring nature is called casual income. Casual income includes the following receipts:

- a. Winning from lotteries,
- b. Winning from crossword puzzles,
- c. Winning from races (including horse races),
- d. Winning from card games and other games of any sort
- e. Winning from gambling or betting of any form or nature.

Tax treatment:

Casual income are fully taxable under the head income from other sources, Further, in case of winnings from lotteries exceeding crossword puzzles or card games Rs. 10,000 and winnings from races exceeding Rs. 5,000 are subject to TDS @30%.

(11). Agriculture Income.

The income tax does not define the term agriculture income. Instead it gives a list income that can be treated as agricultural income. Section 2(1A) of the Act defines agricultural income as follows:

1. Any rent or revenue derived from land that is situated in India and is used for agricultural purpose;

Any income derived from such land by-

- a) Agriculture; or
- b) Any process ordinarily employed by a cultivator or receiver of rent-in-kind to make the produce fit to be taken to market or
- c) The sale by a cultivator or receiver of rent in kind of the produce in respect of which no process has been performed other than a process of the nature described in the above paragraph.

2. Any income derived from farm house.

Criteria to determine agricultural income

- Income received from land situated in India.
- Land is used for agricultural purpose.
- Land is situated in India.

Examples of Agricultural Income:

- (i) Income from growing and selling paddy, wheat, flowers, trees.
- (ii) Insurance money received for destruction of agricultural produce.
- (iii) Income from sale of dried Tobacco leaves.
- (iv) Income from sale of straw.
- (v) Income from growing and maintaining nursery, tea leaves.

Examples of Non-Agricultural Income:

- Income from sale of wild grass and reeds of spontaneous growth
- Income derived from land let out for storing crops
- Income from fisheries
- Maintenance allowance charged on agricultural land
- Royalty income of mines
- Income from butter and cheese making
- Income from poultry farming
- Income from brick making
- Income from stone quarries
- Income from breeding of live stock.

Illustration- 01.

State, whether the following incomes are agricultural or non-agricultural income:

- a) Income from growing flowers and creepers.
- b) Income from agricultural land situated in Australia
- c) Income from sale of forest trees of spontaneous growth
- d) Rent received from house property situated in a village.
- e) Remuneration received as manager of an agricultural farm house
- f) Income from dairy farm, poultry farming etc.

Solution:

- a) Agricultural Income,

- b) Non-Agricultural Income
- c) Non-Agricultural Income
- d) Non-Agricultural Income
- e) Non-Agricultural Income
- f) Non-Agricultural Income

3. Partly Agricultural Income and Partly Business Income:

Partly agricultural income consists of both the element of agriculture and business, so non agricultural part of the income is taxed. Some examples for partly agricultural income are given below:

Sl. No	Crop	Rule	Agricultural Income	Business Income
1	Growing and Manufacture of Tea	8	60%	40%
2	Rubber manufacturing business:	7A	65%	35%
3	Coffee grown and cured by seller	7B(1)	75%	25%
4	Coffee grown, cured, roasted and grounded by the seller in India with or without mixing chicory or other flavoring ingredients.	7B (1A)	60%	40%
5	In case of other commercial crops, if agriculture produces is used as raw material.	7	Market value of the produce	Balance amount

ILLUSTRATION: 02

Mr. Raman had estates in Rubber, tea and coffee. He derives income from them. He furnishes the following particulars of his income for the year ending 31-3-2025.

Manufacture of rubber Rs: 5, 00,000

Manufacture of coffee grown and cured Rs: 3, 50,000

Manufacture of tea Rs: 7, 00,000

Compute taxable income of Raman for the A.Y. 2025-2026.

Solution: Computation of Taxable income for the A.Y.2025 -26

Particulars	Rs
1. Manufacture of rubber (35% is non-agricultural income)	1, 75,000
2. Manufacturing of Coffee (25% is non-agricultural income)	87,500
3. Manufacturing of tea (40% is non-agricultural income)	2, 80,000
Taxable Income	5, 42,500

12. Tax Deducted at Source (TDS)

Tax Deducted at Source (TDS) is a one of the mode or mechanism of collecting income tax under the Indian Income Tax Act of 1961 i.e. 'the Act'. As per the provision of section 191 of the Act, notwithstanding the regular assessment in respect of any income take place in a subsequent year called as assessment year, but in case of certain specified income, tax is deducted at source by the payer at the prescribed rate at the time of accrual or payment of such incomes to the payee. The tax so deducted is required to be deposited with the government within the specified time limit.

Tax deducted at source (TDS) is an indirect mechanism of collecting tax which combines twin concepts of "pay as you earn" and "collect as it is being earned." Its value lies in the fact that it provides the Government with a continuous flow of funds and at the same time eases the burden on the taxpayer.

TDS rates are reduced vide amendment in Finance Act, 2024 to improve ease of doing business and better compliance by the taxpayers.

Scheme of Tax Deduction at Source

The obligation to deduct/collect tax at source is upon the person responsible for paying the income/amount which is subject to TDS. Therefore such person, i.e., the payer is required to follow the procedure for deducting/ collecting tax at source mentioned as under :

Step- 1

The payer has to apply for tax deduction account number (TAN) in Form No-49B.

Step- 2

He is required to deduct tax from the income/payment mentioned in the various sections, i.e., Section 192 to 196D.

Step- 3

The amount so deducted/collected should be deposited within the requisite stipulated time to the credit of central government.

Step- 4

The payer should prepare TDS Return statements for every quarter and file the same with the authority designated by the Income-Tax department (NSDL in this case) in such form and verified in such manner as may be prescribed.

Step- 5

Lastly, the payee should be issued certificate of tax deduction/collected at source within the specified date. The TDS certificate to be downloaded from tax portal.

13. ADVANCE TAX

Section 207-219 of the Income Tax Act deals with the provisions relating to advance payment of tax. As per the provision, the assessee has to pay tax in a financial year on estimated income which is to be assessed in the subsequent assessment year. It follows the doctrine known as pay as you earn scheme. It is obligatory for an assessee to pay advance tax where the advance tax payable is Rs. 10,000 or more (Section 208).

In order to reduce the compliance burden on senior citizens, an exemption from payment of advance tax has been provided as per which resident individual not having any income chargeable under the head "Profits and gains of business or profession" and of age

60 years or more need not pay advance tax and are allowed to discharge their tax liability (other than TDS) by payment of self-assessment tax.

Due Dates for Payment of Advance Tax

Particulars	In case of all assessee
On or before June 15 of the Previous year	Up to 15% of the Advance Tax due
On or before September 15 of the previous year	Up to 45% of the Advance Tax due as reduced by amount paid in earlier instalments
On or before December 15 of the previous year	Upto 75% of the Advance Tax due as reduced by amount paid in earlier instalments

14. FILING OF RETURNS

It is mandatory for every taxpayer to communicate the details of his income to the Income-tax Department. These details are to be furnished in the prescribed form known as return of income.

1. Person required to file the return of income [Section 139 (1)]

The procedure under the Income-tax Act for making an assessment of income begins with the filing of a return of income. Section 139 of the Act contains the relevant provisions relating to the furnishing of a return of income.

According to that section, it is statutorily obligatory for

(a) . Every person being a company or a firm or

(b). being a person other than a company or firm to furnish a return of his total income or the total income of any other person in respect of which he is assessable under the Income-tax Act, in all cases where his total income or the total income of any other person for which he is liable to be assessed before claiming any deduction under chapter

VI-A exceeds and before claiming exemption benefits under sections 54, 54B, 54D, 54EC, 54F, 54G, 54GA and 54GB, in any relevant previous year, the maximum amount which is not chargeable to income-tax

Due date for filing return of Income.

Status of the Tax Payer	Due Date
1. Any company other than a company who is required to furnish a report in Form No. 3CEB under section 92E (i.e. other than covered in 2 below)	31st October of the assessment year
2. Any person [including the partners of the firm or the spouse of such partner (if the provisions of section 5A applies to such spouse], being such assessee who is required to furnish a report in Form No. 3CEB under section 92E[See Point 2]	30th November of the assessment year
3. Any person (other than a company) whose accounts are to be audited under the Income-tax Law or under any other law	31st October of the assessment year
4. A working partner of a firm whose accounts are required to be audited under this Act or under any other law or the spouse of such partner if the provisions of section 5A applies to such spouse [See Point 1)	31st October of the assessment year
5. Any other assessee	31st July of the assessment year

15. PERMANENT ACCOUNT NUMBER (PAN)

Permanent account number is a number allotted by income tax authorities to an income tax assessee which is to be quoted in all documents and correspondence with any income tax authorities. PAN is meant for identification of income tax assessee .Quoting of PAN is made compulsory in transaction relating to sale of movable property for 5,00,000 or more, time deposit with bank or post office exceeding Rs. 50,000 and for other transactions.

Objectives of PAN

1. To identify taxpayers uniquely
2. To prevent tax evasion
3. To track financial transactions
4. To maintain transparency
5. To widen the tax base

16. ASSESSMENT / ASSESSMENT PROCEDURE

Every assessee has to submit his income details to the income tax department by filing his Income tax return. After submission of return of income, the next step is the processing of the income tax return by the income tax department. While processing, department verifies and examines the correctness of the income details provided by assessee. This process of examining the income tax return by the Income Tax Department is called "Assessment".

However, there are certain cases wherein if assessee does not submit his return of income then still assessment can be done by assessing officer.

OBJECTIVES OF ASSESSMENT

The main objectives of assessment are:

- To **determine the correct taxable income** of the assessee.
- To **verify the accuracy of the income tax return filed**.
- To **calculate the exact amount of tax payable**.
- To **ensure compliance with tax laws**.
- To **prevent tax evasion and detect undisclosed income**.

_Different types of assessment under the Income Tax act are summarized below:

TYPES OF ASSESSMENT OR STAGES IN ASSESSMENT PROCEDURE.

- 1. Self-Assessment 2 143(1)**
- 2. Summary Assessment / Refund Order or Demand Order 3 143(3)**
- 3. Scrutiny Assessment / Regular Assessment 4 144**
- 4. Best Judgement Assessment 5 144B**
- 5. Faceless Assessment 6 147**
- 6. Income Escaping Assessment**

1. SELF-ASSESSMENT

Section 140A of income tax act deals with “Self-Assessment Tax” wherein a person himself assesses his tax liability on the income earned during the particular previous year and submit income tax return to the Income tax department.

It mandates that taxpayers to calculate and pay the remaining tax due after considering advance tax, TDS, TCS, and other credits before filing their Income Tax Return (ITR).

If there is any tax liability, the same must be paid before submitting the return under section 139. Failure to pay this tax may result in interest under Section 234A, 234B, and 234C and penalties.

Total tax payable by the assessee is calculated after considering the following.

I. the amount of tax already paid under any provision of the Income Tax Act, 1961;

- II. any tax deducted or collected at source;
- III. any relief of tax or deduction of tax claimed under section 90 or section 91 on account of tax paid in a country outside India;
- IV. any relief of tax claimed under section 90A on account of tax paid in any specified territory outside India referred to in that section;
- V. any tax credit claimed to be set off in accordance with the provisions of section 115JAA or section 115JD;
- VI. any relief of tax claimed u/s 89;
- VII. any tax or interest payable as per provision of section 191(2).

2. SUMMARY ASSESSMENT/ PROCESSING OF RETURN

Summary assessment is the assessment without human intervention. Assessment under section 143(1) is like preliminary checking of the income tax return. Where a return has been made under section 139(1) or in response to notice issued u/s 142(1) such return shall be processed in the following manner.

The total income or loss is computed after making the following adjustments (if any),

- i. any arithmetical error in the return; or
- ii. an incorrect claim, if such incorrect claim is apparent from any information in the return; or
- iii. inconsistency in the return, with respect to the information in the return of any preceding previous year
- iv. disallowance of loss claimed, if return of the previous year for which set-off of loss is claimed was furnished beyond the due date specified under section 139(1); or
- v. disallowance of expenditure or increase in income indicating in the audit report but not taken into account in computing the total income in the return.

3. SCRUTINY ASSESSMENT [SECTION 143(2) / 143(3)]

If Assessee files his return of income u/s 139 or in response to a notice received u/s 142(1), The assessing officer not below the rank of ITO shall serve a notice on the assessee if AO considers it necessary to ensure that,

i. The assessee has not understated the income

ii. Has not computed excessive loss or

iii. Has not short paid the tax

However, no such notice can be issued after the expiry of 3 months from the end of the financial year in which the return is furnished.

For example: If assessee files his return of income for FY 2024-25 in July 2025, since return of income for FY 2024-25 is filed in FY 2025-26 which ends on 31st March 2026, hence notice must be issued within 3 months from the date 31st March 2026 i.e., upto 30th June 2026. If assessee does not complying with the notice issued u/s 143(2), may entail an ex-parte, best judgement assessment u/s 144

4. BEST JUDGEMENT ASSESSMENT

Best judgement assessment is a procedure where the assessing officer determines the Income and tax liability based on their own judgement and knowledge, generally best judgement assessment can be done in case of the following scenario:

i. If assessee fails to furnish return of income u/s 139(1) or u/s 139(4) i.e., belated return, or u/s 139(5) i.e., Revised return, or u/s 139(8A) i.e., updated return to correct the errors and omissions.

ii. If assessee fails to comply with notice issued u/s 142(1) i.e., notice requiring the taxpayer to submit certain information, books of accounts, or documents. Assessment 256 PP-ADTL&P

iii. If assessee fails to comply with direction issued u/s 142(2A) i.e., Direction for Special Audit and Inventory valuation. iv. If assessee fails to comply with notice u/s 143(2) i.e., Scrutiny Notice.

5. FACELESS ASSESSMENT [SECTION 144B]

The Faceless Assessment Scheme, introduced by the Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020, came into effect from April 1, 2021. It aims to make tax assessment transparent, efficient, and technology-driven by eliminating physical interaction between taxpayers and tax officers.

1. Fully digital process for tax assessment through the Income Tax portal www.incometax.gov.in.
2. It is conducted under Section 144B for regular assessments, best judgment assessments, and reassessments.
3. No physical meetings between taxpayers and tax officers.
4. All notices, documents, and communications happen electronically
6. Income Escaping Assessment

This assessment is made when the Income Tax Department discovers that some income has escaped assessment in earlier years. **For example** : If a taxpayer hides income from investments and it is later detected, the department may reopen the case.

Features

- The department can reopen the assessment.
- A notice is issued to the taxpayer.
- The previously unassessed income is brought to tax.

(17). Tax Planning, Tax Evasion and Tax Avoidance

(a).Tax planning is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief. In other words, it is a way to reduce tax liability by applying script & moral of law. It is the scientific planning so as to attract minimum tax liability or postponement of tax liability for the subsequent period by availing various incentives, concessions, allowance, rebates and relief provided in the Act.

(b).Tax evasion is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee. Tax evasion is illegal, both in script & moral. It is the cancer of modern society and work as a clog in the development of the nation.

(c).Tax avoidance is an exercise by which the assessee legally takes advantages of loopholes in the Act. Tax avoidance is a practice of bending the law without breaking it. It is a way to reduce tax liability by applying script of law only. Most of the amendments are aimed to curb such loopholes. There are two thoughts about tax avoidance.

DISTINGUISH BETWEEN TAX PLANNING, TAX EVASION, TAX AVOIDANCE AND TAX MANAGEMENT

Points of distinction	Tax planning	Tax Avoidance	Tax Evasion	Tax Management
Definition	It is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief.	It is an exercise by which the assessee legally takes advantage of the loopholes in the Act.	It is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the	It is a procedure to comply with the provisions of the law.

			assessee.	
Feature	Tax planning is a practice to follow the provisions of law within the moral framework.	Tax avoidance is a practice of bending the law without breaking it	Tax evasion is illegal, both in script & moral.	It is implementation or execution part of taxation department of an organization.
Object	To reduce tax liability by applying script & moral of law.	To reduce the tax liability to the minimum by applying script of law only	To reduce tax liability by applying unfair means.	To comply with the provisions of laws.
Benefit	Generally, arises in long run.	Generally, arises in short run.	Generally, benefits do not arise but it causes penalty and prosecution.	Penalty, interest & prosecution can be avoided.
Treatment of Law	It uses benefits of the law.	It uses loopholes in the law.	It over rules the law.	It implements the law.
Practice	It is tax saving.	. It is tax hedging.	. It is tax concealment.	It is tax administration.

(d). Diversion of income and Application of income

There is a very thin line of difference between Diversion of income & Application of income.

(e). Diversion of income: Where by virtue of an obligation, income is diverted before it reaches to the assessee, it is known as diversion of income & it is not taxable (i.e. even if the assessee were to collect the income he does so on behalf of the person to whom it is payable). **Example:** A, B and C are co-authors of a book. The publisher of the book gave the whole royalty of `6,00,000 to A. A paid `2,00,000 to B and C each. Such payment is not application of income but diversion of income.

(f). Application of income: Whereas, application of income means to discharge an obligation (which is gratuitous or self-imposed) after such income reaches the assessee & hence it is taxable.

(13). EXEMPTED INCOME UNDER SECTION 10

The Government of India provides some exemptions to reduce the tax burden on the taxpayers. Section 10 of the Income-tax Act, 1961 talks about those exemption provisions and the terms and conditions on which one can avail a tax exemption. These exemptions help the taxpayer to reduce their tax liability. While calculating the tax liability of an individual, there are certain incomes which is exempt and do not form a part of the total income. Section 10 of the Income-tax Act 1961 includes all those exemptions that a taxpayer can claim while paying income tax. The list of exempted income under Section 10 is given below:

1. Agricultural Income [Section 10(1)]: (Fully exempted)

The following agricultural income exemptions are provided under Section 10(1) of the Income Tax Act:

1. Sale of agricultural produce
2. Agricultural operations such as sowing, cultivation, and tilling
3. Income from agricultural land in India, including rent or revenue
4. Earnings from farm buildings used for agricultural purposes
5. Income from agricultural operations aimed at preservation and growth, such as weeding, pruning, and cutting

2. Partner's Share in Profits [Section 10(2A)]:

The partner's share in the profits of the firm or Limited Liability Partnership (LLP) is fully exempt.

3. Leave Travel Allowance [Section 10(5)]:

Section 10(5), or leave travel allowance exemption, is applicable for individual taxpayers. The LTA exemption applies only to the domestic travel expenses, such as airfare, train or bus fare, incurred by the employee. Other expenses, such as transportation within the destination, sightseeing, hotels, and food, are not covered. Additionally, the exemption is limited to LTA provided in your CTC by the employer. For example, if an employee is given LTA of Rs 30,000 and incurs travel expenses of Rs 20,000, only the amount actually spent on travel would be exempt from taxes and the remaining Rs 10,000 would be included as taxable income.

4. Gratuity Section [10(10)]:

Any income by way of gratuity received by the government, but in the case of employees working in the private sector, depends on whether they are covered under the Payment of Gratuity Act or not.

5. Commuted Pension [Section 10(10A)]:

If you are a Government employee, under this section, you receive tax exemption on the money you get from accumulated pensions.

6. Leave Encashment [Section 10(10AA)]:

Employees are allowed a certain number of leaves during the period of their service. It is upto the employees to avail such leaves or not. In case the leaves are not availed, they either get lapsed to get accumulated for future or are allowed to be encashed at the end of every year or at the time of retirement/resignation. If the employee wished to encash such leave during the period of service then it is fully taxable. However, if such leaves are encashed at the time of resignation/retirement, they are eligible for deduction under section 10(10AA). Further, leave encashment for government employees is completely exempt. In case of a non-government employee, the exemption will be the lower of the follows:

- (i). Rs. 25, 00,000
- (ii). Leave Salary Actually Received
- (iii). Average 10 Months Salary

(v). Cash Equivalent of Unavailed Leave Credit at the time of retirement

7. Retrenchment Compensation [Section 10(10B)]: Retrenchment compensation is the amount paid at the time of transfer of employment or closing down of the industrial undertaking. Taxpayers receiving such compensation can claim an exemption u/s 10(10B) of the lower of the following:

- (i) Compensation Received
- (ii) Rs. 5,00,000
- (iii) 15 days Avg pay x Completed years of service

8. Voluntary Retirement [Section 10(10C)]:

Any amount received by an employee at the time of voluntary retirement would be taxed as profit in lieu of salary. The taxpayer can avail an exemption u/s 10(10C) as least of the following: Compensation Received

- (i) Rs. 5,00,000
- (ii) 3 months' salary x Completed years of service
- (iii) Last drawn salary x Remaining months of service

9. Exemption on Life Insurance Policy [Section 10(10D)]:

Under this section, you get an exemption for the income you receive from a life insurance policy or bonus. However, the below insurance policies shall not be eligible: Life insurance policy has taken on a specially-abled dependent family member, Key man insurance policy. Insurance policies where the premium amount is more than 10% of the sum assured.

10. Exemption on Payment Made to Provident Fund and Sukanya Samriddhi Account [Section 10(11)]:

Under this section, you receive exemptions for interest from a provident fund upon resignation or retirement. **Note:** From 1st April 2021 onwards, the exemption under section

10(11) will not apply to interest income accrued during the previous year on contributions exceeding Rs. 2,50,000 made by the person/employee to that fund in any previous year.

11. House Rent Allowance [Section 10(13A)]:

Section 10(13A) of the Income Tax Act covers House Rent Allowance (HRA). The part of your salary you receive to cover house rent and accommodation expenses is exempted from taxation. However, a few exceptions are included in Section 10(13A) Rule 2A. The exemption is allowed for the least of the following amounts:

- (i). Actual HRA received
- (ii). Actual rent paid (-) 10% of [basic salary + DA]
- (ii). 50% of [basic salary + DA] for those living in Delhi, Mumbai, Chennai, Kolkata or
- (iv). 40% of [basic salary + DA] for those living in other cities

12. Exemption of Special Allowance [Section 10(14)]:

Section 10(14) also includes a tax exemption of Rs.26,400 in a year for food allowance provided by your employer assuming two meals a day and 22 working days in a month. Under Section 10(14), the Internet allowance provided by your employer is exempted from taxation.

This section provides exemptions for expenses incurred due to your employer's business. It includes travelling, conveyance, research allowance and more, provided such expenses are actually spent for the given purposes.

13. Children Education Allowance [Section 10(14)(ii)]:

Taxpayers with children's education allowance can an exemption of Rs. 100 per month for two children every year. In case the taxpayer is blind or deaf and dumb or handicapped, and receiving a transport allowance can also claim an exemption of Rs. 3,200 per month.

14. Interest on Savings Certificate [Section 10(15)]:

Interest income earned on post office savings bank account, premium on redemption or other payment on notified securities, bonds, annuity certificates or other savings certificates is exempt up to the following limits:

1. Rs. 3,500 for individuals
2. Rs. 7,000 for joint account holders.

15. Tax Exemption for Educational and Medical Institutions Section [10(23C)]:

Educational or medical institutions whose aggregate annual receipts do not exceed Rs.5 crore are eligible for exemption under this section.

16. Tax Exemptions for Scheduled Tribe Members in Specific Northeastern States [Section 10(26)]:

If you are a member of a Scheduled Tribe in Tripura, Nagaland, Mizoram, Manipur, and Arunachal Pradesh, you are eligible for tax exemptions against income earning either from any source in the states mentioned above or earning through dividends or interest on securities under Section 10(26) Of the Income Tax Act.

17. Exemption on Dividends [Section 10(34)]:

This section includes exemptions from the dividends that you receive from investing in an Indian company. However, this exception is only limited to an amount of Rs.10,000, exceeding which you have to pay tax.

Note: This is applicable only for the dividends received till 31st March 2020.

18. Exemption on Buy-Back of Shares [Section 10(34A)]:

The amount received on shares bought back by a domestic company before 01.10.2024 is fully exempt from tax u/s 10(34A).

19. Exemption on Income from Specified Mutual Funds [Section 10(35)]:

Any income that you gain from the sale of specified mutual fund units.

Note: This is applicable only for the income earned till 31st March 2020.

20. Exemption on Capital Gains from Compulsory Acquisition of Urban Agricultural Land [Section 10(37)]:

This section provides exemptions for capital gains due to the compulsory acquisition of urban agricultural land, provided the below conditions are fulfilled:

1. land should be used for agricultural purposes for 2 years before its sale date
2. compulsory acquisition scheme should be approved by the central government or RBI

21. Exemption on Long-Term Capital Gains from Sale of Equity Shares and Equity-Oriented Mutual Funds [Section 10(38)]:

When you get long-term capital gains by selling equity shares of an equity-oriented mutual fund, it is exempted from Income Tax calculation. However, the Securities Transaction Tax must be paid. Note: This is applicable only for the long-term capital gain earned till 31st March 2018.

22. Units in Special Economic Zones [Section 10AA]:

An assessee being an entrepreneur conducting business in an SEZ, set up after 01/04/2006 and before 01/04/2021 will be eligible for deduction as follows:

For the first consecutive five assessment years, one can claim a deduction of 100% of profit and gains derived from exports and 50% of profit and gains for the next five assessment years.

50% of profit as debited in the profit and loss account and credited to reserves will be allowed as a deduction for the next consecutive five assessment years.

2.5. REVIEW QUESTIONS

1. MULTIPLE CHOICE QUESTIONS (MCQS)

1. The Income Tax Act in India was enacted in:

- a) 1956
- b) 1961
- c) 1975
- d) 1985

Answer: b) 1961

2. Income tax is classified as a:

- a) Direct tax
- b) Indirect tax
- c) Corporate tax
- d) Excise tax

Answer: a) Direct tax

3. The term assessee refers to:

- a) Person liable to pay tax or any other sum under the Income Tax Act
- b) Government officer
- c) Auditor
- d) Tax consultant

Answer: a) Person liable to pay tax or any other sum under the Income Tax Act

4. Previous year means:

- a) Financial year in which income is earned
- b) Year in which tax is paid
- c) Year of assessment

d) Calendar year

Answer: a) Financial year in which income is earned

5. Assessment year refers to:

a) Year in which income is earned

b) Year in which income is assessed and taxed

c) Year of audit

d) Year of accounting

Answer: b) Year in which income is assessed and taxed

6. Gross Total Income (GTI) is the:

a) Total income after deductions

b) Aggregate of income under different heads before deductions

c) Income after tax payment

d) Net profit of business

Answer: b) Aggregate of income under different heads before deductions

7. Permanent Account Number (PAN) consists of:

a) 8 digits

b) 10 characters

c) 12 digits

d) 15 digits

Answer: b) 10 characters

8. TDS stands for:

a) Tax Deduction System

b) Tax Deducted at Source

c) Tax Data System

d) Total Deduction Scheme

Answer: b) Tax Deducted at Source

9. Advance tax is payable when tax liability exceeds:

a) ₹5,000

b) ₹10,000

c) ₹15,000

d) ₹20,000

Answer: b) ₹10,000

10. The document used to report income to the government is called:

a) Audit report

b) Return of income

c) Balance sheet

d) Income statement

Answer: b) Return of income

Small Questions – LOCF Mapping Table

S.No	Small Question	CO	Bloom's Level	PO
1	Define "Assessee" under the Income Tax Act.	CO1	Remember	PO1
2	What is meant by Previous Year and Assessment Year?	CO1	Understand	PO2
3	Explain Gross Total Income and Total Income.	CO2	Understand	PO2
4	What is a Permanent Account Number (PAN)?	CO2	Remember	PO1
5	Define TDS and state who is responsible for deducting it.	CO3	Understand	PO3

Big Questions – LOCF Mapping Table

S.No	Big Question	CO	Bloom's Level	PO
1	Explain the basic concepts and definitions under the Income Tax Act 1961, including Income, Assessee, and Person.	CO1	Understand	PO2
2	Discuss the meaning and significance of Previous Year and Assessment Year with examples.	CO1	Analyze	PO4
3	Describe Gross Total Income, Total Income, and their components under the Income Tax Act.	CO2	Understand	PO3
4	Explain the meaning, purpose, and procedure of PAN, TDS, and Advance Tax, including rates and filing.	CO3	Analyze	PO4
5	Outline the Income Tax assessment procedure in India and the steps involved for filing returns and tax payment.	CO3	Evaluate	PO5

UNIT – III**CUSTOMS ACT 1962****UNIT III - CUSTOMS ACT 1962**

Customs Act 1962 - Introduction, Objectives, Definitions, Functions and powers of customs authorities, different types of custom duties. Classification of goods, procedure for assessment and methods of valuation for customs, demand and recovery of customs duty, procedure for claiming Customs duty drawback.

UNIT – III**CUSTOMS ACT 1962****Learning Objectives**

After studying this unit, students will be able to:

1. **Understand the concept and importance of the Customs Act, 1962** in regulating international trade and protecting the economic interests of the country.
2. **Explain the objectives of customs laws**, including revenue generation, regulation of imports and exports, prevention of smuggling, and protection of domestic industries.
3. **Define key terms and concepts** related to customs law such as customs duty, importer, exporter, customs area, and customs station.
4. **Describe the functions and powers of customs authorities** in administering customs laws and controlling the movement of goods across national borders.
5. **Identify and explain the different types of customs duties** levied on imported and exported goods.
6. **Understand the classification of goods** under the customs tariff and its importance in determining applicable duties.
7. **Explain the procedure for customs assessment** and the process followed by customs authorities to determine duty liability.

8. **Understand the methods of valuation of imported goods for customs purposes**, including the principles used to determine the assessable value.
9. **Describe the procedures for demand and recovery of customs duty** when duties are not paid or are short-paid.
10. **Explain the procedure for claiming customs duty drawback**, including eligibility, documentation, and the process for obtaining refunds of duties on exported goods.

3.1. INTRODUCTION

In the ancient days it was a "custom" that any merchant entering any kingdom with his goods had to present a valuable gift to the king. Over the years, this 'custom was regularized and legalized into 'customs duty'

The word customary" is derived from "customs" which means a habitual practice. It refers to duty imposed on imports or exports of goods. History reveals that tax on various goods was levied from Veda period. However, origin of customs duty is traced to British rule. In 1786, a Board of revenue was created with its headquarters at Calcutta. Collection of customs duties was entrusted by the British Government to the Board of revenue.

In 1812, regulations were made for the Madras customs house and two customs houses were established in western India, one at Mahim and the second at Bombay Island under the control of the Surat council of East India company. During the British rule in India they had three residencies, namely, Bombay, Bengal and Madras. Each of these had its own customs rules and regulations. Thus duties charged by these residencies varied from each other. In order to provide uniform rates of duties for all the three provinces, the customs duties Act was passed in 1859. Subsequently number of enactments were made in customs tariff structure, namely Indian customs Act 1867, and 1870, Indian Tariff Act 1871, and 1875, sea customs Act 1878 etc.

Indian Textile Industry used to import cotton fabrics and yarn, from 1894, Import duty on yarn was imposed in 1894 at 5% advalorem. Customs duty received a great impetus during world war 1. The general rate of import duty was raised from 5% to 7 5%

advalorem. Subsequent to % 2 world war 1, the financial requirements led to the raising of the tariff rates.

The Indian Fiscal Commission in 1921 and the Taxation enquiry committee in 1924 made a number of recommendations regarding Tariff policy. Thus land customs Act was passed in 1924. The great depression of late 1920^s caused a heavy deficit in the central finances, which led to the additional taxation imposed by the Indian Finance Act 1931 and Indian Tariff Act 1934.

After independence Indian manufacturing industry grew and there was expansion in the trade Customs Tariff Act, 1934 was found to be inadequate to at the expansion of industry and trade. Tariff revision committee was formed, which recommended adoption of Brussels Trade Nomenclature of customs cooperation council. *Accordingly customs Act was passed in 1962 and Tariff Act 1975 was also passed which came into effect in 1976.*

Customs Tariff Act provided explanatory clarificatory, and interpretative rules for proper classification of goods. However, later on customs cooperation council developed a new system of Nomenclature known as "*Harmonised commodity description and coding system*" which takes into account the latest changes in technology and pattern of International trade

HSN (Harmonised system of Nomenclature) schedule is expected to derive the following benefits

- (a). Reducing classification disputes**
- (b). Common code for goods in international trade**
- (c). Facilitating computerization of customs classification and assessment work. Central excise tariff was also replaced by a new Tariff based on HSN on 28th February, 1986.**

Growth in customs revenue:

Customs duty was initially started with 5% prior to independence. After independence, need arose for reducing imports and save scarce foreign exchange and also to protect

Indian industry from foreign competition, customs duty rates were increased. The total duty burden was over 100% and in some cases even more than 200% or 300%. During 1970 - 71, revenue from customs was Rs. 524 corers, and Rs. 3.350 corers during 1980-81. The revenue rose to Rs. 25,500 corers during 1992-93 which is 32.5% of tax revenue of Central Government.

3.2. OBJECTIVES OF CUSTOMS ACT

1. Restricting Imports for conserving foreign exchange.
2. Protecting Indian Industry from undue competition.
3. Prohibiting imports and exports of goods for achieving the policy objectives of the Government.
4. Regulating exports.
5. Prevent Smuggling.
6. Facilitate implementation of laws relating to Foreign Trade Act, Foreign Exchange, Conservation of Foreign Exchange, Prevention of Smuggling Act, etc

3.3. ORIGIN AND HISTORY OF THE CUSTOMS ACT OR SCOPE OF THE CUSTOMS ACT:

The Customs Act 1962, was passed by Parliament on 13th December 1962 The Act came into force from February 1, 1963. It is a simple, crisp and lucid piece of legislation. Customs Act is primarily treated as a Revenue Act which consists of 17 chapters and 161 sections. Section 156 of the customs Act empowers the Central Government to enact rules consistent with provisions to implement the purposes of the Act.

The rules under the Customs Act are as under :

- (a). The customs valuation Rules, 1988

- (b). Duty Drawback rules 1995
- (c). Re-export of imported goods Drawback of customs rules, 1995
- (d). The Baggage rules, 1998.

(1). Regulations under customs Act, 1962.

The Central Board of customs and Excise has been empowered by Section 157 of the Customs Act to make regulations to carry out the purpose of the Act The regulations under the Customs Act are

- (a). Project import regulations, 1986.
- (b). Provisional assessment regulations, 1963
- (c). Import manifest (vessels) Regulation, 1976
- (d). Bill of Entry form Regulations, 1976
- (e). Customs House Agents Regulations, 1984
- (f). Bill of Entry (Electronic Declaration) Regulations, 1995

(2). Customs Tariff Act, 1975.

Customs Tariff Act was passed in 1975, which came into effect in 1976. The Act contains two schedules Schedule 1 gives classification and rate of duties for imports, while schedule 2 gives classification and rates of duty for exports. In addition, the customs Tariff Act makes provision for duties like additional duty (CVD), preferential duty, anti dumping duty. protective duties etc

Notifications under Customs Act 1962: Various Sections of Customs Act, authorize Central Government to issue notifications. The main sections giving scope for notifications are

(a). Section 25(1) : To grant partial or full exemption from duty.

(b). Section 11 : To prohibit import or export of goods.

(c). Section 11B. : To notify goods

(d). Section 11(1) : To list out specified goods

Board Circulars:

Section 151A of Customs Act empowers Central Board of Excise and Customs sue for purpose of uniformity in classification of goods or with respect to ty of duty thereon, issue such instructions and directions to officers of customs and they are required to observe and follow such orders, instructions and directions of Board CBE & C issues circulars giving various instructions / prescribing various procedures etc. Normally these instructions should be followed.

(3). Customs Manual 2001.

Customs manual, 2001 was released by CBE & C in September, 2001. The manual gives an over view of customs law and procedures. It is not stated that the customs manual is issued under any provisions of Customs Act or Rules. However, normally, instructions in customs manual, 2001 should be followed.

(4). Functions of Customs Department:

Indian customs department handles important tasks as given below

1. Collection of customs duties on imports and exports
2. Enforcement of customs act covering imports and exports
3. Discharge of agency functions and enforcing prohibitions and restrictions on imports and exports.

4. Prevention of smuggling
5. International passenger clearance

(5). Officers of customs - Appointment, Functions and Powers:

Following are the different classes of officers of customs:

- (a). Chief commissioners of customs
- (b). Commissioners of customs
- (c). Commissioners of customs (Appeals)
- (d). Joint commissioners of customs
- (e). Deputy commissioners of customs
- (f). Assistant commissioners of customs
- (g). Such other class of officers of customs as may be appointed for the purpose of the customs act.

(6). Appointment of officers of customs.

The Central Government is empowered to appoint customs officers. The Central Government may authorize Board or Commissioner of customs or Deputy commissioner or Assistant commissioner to appoint officers of customs below the rank of commissioner of customs.

(7). Functions of customs officers

Custom's officers handle various important functions which are as under

- 1. Collection of duty:** Collection of customs duty on imports and exports as per basic customs laws.

2. Enforcement of various provisions: Enforcement of various provisions of customs Act governing imports and exports of cargo, baggage, postal articles and arrival and departure of vessel, aircraft etc.

3. Discharge of various agency functions: Discharge of various agency functions and enforcing various prohibitions and restrictions on imports and exports under customs act and other allied enactments

4. Prevention of Smuggling: Prevention of smuggling including interception of Narcotics drug trafficking.

5. International passenger processing: Processing of arrival and departure of International passengers.

(8). Powers of Customs Authorities

(I). Appointment of customs ports, airports, etc.

The Board may appoint the following by notification in the Official Gazette-

1. Customs ports and customs airports: The ports and airports which alone shall be customs ports or customs airports for the unloading of imported goods and the loading of export goods or any class of such goods.

2. Inland container depots: The places which alone shall be inland container depots for unloading of imported goods and loading of export goods or any class of such goods.

3. Land customs stations: The places which alone shall be land customs stations for the clearance of goods imported or to be exported by land or inland water or any class of such goods.

4. Routes: The routes by which alone goods or any class of goods specified may pass by land or inland waters into or out of India, or to or from any land customs station from or to any land frontier

5. Coastal ports: The ports which alone shall be coastal ports for the carrying on of trade in coastal goods or any class of such goods with all or any specified ports of India.

(II). Approval of Landing places and specifying limits of customs area:

1. The commissioner of customs may approve proper places in any customs port or customs airport or coastal airport for the loading and unloading of goods.
2. He may specify the limits of any customs area.

(III). Powers to declare places to be warehousing stations:

The customs board may, by notification in the official Gazette, declare places to be warehousing stations at which alone public ware houses may be established and private warehouses may be licensed

(IV). Appointment of boarding stations:

The commissioner of customs may, by notification in the official Gazette, appoint in or near any customs port, a loading station for the purpose of boarding of or disembarkation from vessels by officers of customs.

3.4. DEFINITION OF CONCEPTS.

1. “Adjudicating authority” means any authority competent to pass any order or decision under this Act, but does not include the Board, Commissioner (Appeals) or Appellate Tribunal.

2. “Appellate Tribunal” means the Customs, Excise and Gold (Control) Appellate Tribunal constituted under section 129.

3. “Assessment” means determination of the dutiability of any goods and the amount of duty, tax, cess or any other sum so payable, if any, under this Act or under the Customs

Tariff Act, 1975 (hereinafter referred to as the Customs Tariff Act) or under any other law for the time being in force, with reference to—

- (a). the tariff classification of such goods as determined in accordance with the provisions of the Customs Tariff Act;
- (b). the value of such goods as determined in accordance with the provisions of this Act and the Customs Tariff Act;
- (c). exemption or concession of duty, tax, cess or any other sum, consequent upon any notification issued therefore under this Act or under the Customs Tariff Act or under any other law for the time being in force;
- (d). the quantity, weight, volume, measurement or other specifics where such duty, tax, cess or any other sum is livable on the basis of the quantity, weight, volume, measurement or other specifics of such goods;
- (e). the origin of such goods determined in accordance with the provisions of the Customs Tariff Act or the rules made thereunder, if the amount of duty, tax, cess or any other sum is affected by the origin of such goods;
- (f). any other specific factor which affects the duty, tax, cess or any other sum payable on such goods, and includes provisional assessment, selfassessment, re-assessment and any assessment in which the duty assessed is nil.

4. “Baggage” Baggage includes unaccompanied baggage but does not include motor vehicles. Baggage means

- (a). all durable articles, imported by passenger or a member of crew in his

baggage

- (b). un- accompanied baggage, if dispatched previously or subsequently within prescribed period. Baggage does not include motor vehicles, alcoholic drinks and goods imported through courier. Baggage also does not include articles imported under an import license for own use or on behalf of others.

5. **“Bill of entry”** means a bill of entry referred to in section 46, i.e. entry of goods for importation [Section 2(4)].

6. **“Bill of export”** means a bill of export referred to in section 50 i.e. entry of goods for exportation [Section 2(5)].

7. **“Coastal goods”** means goods, other than imported goods, transported in a vessel from one port in India to another [Section 2(7)];

8. **“Conveyance”** includes a vessel, an aircraft and a vehicle.

9. **“Customs area”** means the area of a customs station and includes any area in which imported goods or export goods are ordinarily kept before clearance by Customs Authorities; Customs area includes warehouse [Section 2(11)]. Note: Since customs area covers warehouse, no IGST is payable for goods removed from customs station to warehouse.

10. **“Dutiable goods”** means any goods which are chargeable to duty and on which duty has not been paid.

11. **“Entry”** in relation to goods means an entry made in a bill of entry, shipping bill or bill of export and includes the entry made under the regulations made under section 84.

12. **“Exporter”** in relation to any goods at any time between their entry for export and the time when they are exported, includes any owner, beneficial owner or any person holding himself out to be the exporter.

13. **“Foreign-going vessel or aircraft”** means any vessel or aircraft for the time being engaged in the carriage of goods or passengers between any port or airport in India and any port or airport outside India, whether touching any intermediate port or airport in India or not, and includes - (i) any naval vessel of a foreign Government taking part in any naval exercises; (ii) any vessel engaged in fishing or any other operations outside the territorial waters of India; (iii) any vessel or aircraft proceeding to a place outside India for any purpose whatsoever.

14. “Goods” includes - (a) vessels, aircrafts and vehicles (b) stores (c) baggage (d) currency and negotiable instruments and (e) any other kind of movable property.

15. “Imported goods” means any goods brought into India from a place outside India but does not include goods which have been cleared for home consumption.

16. “Foreign-going vessel or aircraft” means any vessel or aircraft for the time being engaged in the carriage of goods or passengers between any port or airport in India and any port or airport outside India, whether touching any intermediate port or airport in India or not, and includes - (i) any naval vessel of a foreign Government taking part in any naval exercises; (ii) any vessel engaged in fishing or any other operations outside the territorial waters of India; (iii) any vessel or aircraft proceeding to a place outside India for any purpose whatsoever.

17. “Importer” in relation to any goods at any time between their importation and the time when they are cleared for home consumption, includes any owner, beneficial owner or any person holding himself out to be the importer.

18. “India” - India includes territorial waters of India. The territorial water of India extends to 12 nautical miles into sea from the appropriate base line. [Section 2 (27)] Goods are deemed to have been imported if the vessel enters the imaginary line on the sea i.e. 12th nautical miles. India includes not only surface of the sea into territorial water but also the air space above and the ground at the bottom of the sea.

19. “Indian Customs Waters” means the waters extending into the sea up to the limit of contiguous zone of India and includes any bay, gulf, harbour, creek or tidal river.

“Indian Customs Waters” means the waters extending into the sea up to the limit of Exclusive Economic Zone under section 7 of the Territorial Waters, Continental Shelf, Exclusive Economic Zone and other Maritime Zones Act, 1976, and includes any bay, gulf, harbour, creek or tidal river”

3.5. LEVY OF CUSTOM DUTY

There are three stages of imposition of taxes and duties

1. Levy.

Levy is the stage where the declaration of liability is made and the persons or the properties in respect of which the tax or duty is to be levied is identified and charged.

2. Assessment.

Assessment is the procedure of quantifying the amount of liability. The liability to tax or duty does not depend upon assessment

3. Collection.

The final stage is where the tax or duty is actually collected

3.6. TAXABLE EVENT

The basic condition for levy of customs duty is import/export of goods i.e. *goods become liable to duty when there is import into (bringing into India from a place outside India [Section 2(23)] or export from India (taking out of India to a place outside India [Section 2(18)]. In the words of Supreme Court “the event, the occurrence of which immediately attracts charge. “India” includes the territorial waters of India [Section 2(27)].*

“Territorial Waters” according to section 3 (2) of The Territorial Waters, Continental Shelf, Exclusive Economic Zones and other Maritime Zones Act, 1976, means the line every point of which is at a distance of twelve nautical miles from the nearest point of the appropriate baseline.” Indian customs waters are now extended to the Exclusive Economic Zone.

Therefore, the ‘taxable event’ under the Customs Act requires the following ingredients essentially:

1. Goods must be in physical form.
2. Must be brought by human beings for specific purpose.
3. Resulting in entry into India but at the customs barrier.

3.7. TYPES OF DUTIES UNDER CUSTOMS ACT, 1962

The tariff rates for customs duties are specified in customs Tariff Act, 1975. The types of duties are as under

1. Basic Customs Duty.

2. National Calamity Contingent Duty.

3. Special Additional Duty of customs

4. Additional Customs Duty

5. Protective Duties

6. Countervailing Duty on Subsidised Goods

7 Anti - Dumping duty on dumped articles

8. Safeguard Duty

The above duties are explained below

1 Basic customs duty..

Basic customs duty is levied under Section 12 of customs Act. Normally it is levied as a percentage of value of goods. The rates of Basic customs duty vary for different items. The general basic customs duty rate is 20%. The rates range from 5% to 20% for different commodities. The basic customs duty is reduced to 10% by the Finance Act, 2007.

2. National calamity contingent duty.

This rate is called "NCCD" of customs and it is imposed from 2001 It is imposed on pan masala, chewing tobacco and cigarettes. The rate varies from 10% to 45%. NCCD of 1% was imposed on Motor Cars, multiutility vehicles and Two wheelers and NCCD of Rs. 50 per ton was imposed on domestic crude oil during 2003.

3. Special Additional Duty of Customs.

Special additional duty @ 4% was introduced from 2nd June 1998. This additional duty was introduced to offset the effect of local sales tax payable by Indian manufacturers. This duty was leviable upto 8-1-2004 Special additional customs duty was applicable on all goods imported except Baggage, Gold and Silver, News print. Crude petroleum etc

4. Additional customs duty (CVD).

This is called "Counter vailing duty". It is imposed when excisable articles are imported in order to offset the excise duty livable on similar goods manufactured within the state Additional customs duty is imposed to keep the prices of home products with the imported products. Additional customs duty is livable on alcoholic liquor imported and some other goods like stainless steel manufactured for household use and transformer oil

5. Protective duties.

Protective duties are recommended by Tariff commission to Central Government when immediate action is necessary to interests of Indian industry. Protective duties are imposed by a notification which should be introduced in parliament. The protective duty is valid till the date prescribed in the notification. The duty can be reduced, rescinded or increased by a notification.

6. Countervailing duty on subsidised goods.

If other countries pay any subsidy directly or indirectly to their exporters for exporting goods to India, Central Government can impose countervailing duty up to the amount of such subsidy under section 9 of customs Tariff Act. Incase subsidy cannot be ascertained, provisional duty is collected and on subsequent determination, the difference is refunded. Imposition of countervailing duty should be by way of notification

7. Anti dumping duty on dumped articles

A large manufacturer from a foreign country may export goods at lower prices compared to prices in his home market. This may be done to cripple Indian domestic

market or dispose of their excess stock. This kind of activity is called dumping. The Central Government can avoid this kind of dumping by imposing anti-dumping duty upto margin of dumping on such articles. Margin of dumping means the difference between normal value and export price. Normal value means comparable price in ordinary course in trade for consumption in the exporting country or territory.

8. Safeguard Duty

As per section 8B of the customs act the central government can impose safeguard duty. Safeguard duty can be imposed on specified imported goods if the central government is satisfied that goods are imported in such increase quantities that they are causing injury to domestic industry.

9. Provisional Countervailing Duty on Subsidized Articles

When the amount of subsidy is not determined central government may impose a provisional countervailing duty not exceeding the amount of such subsidy as provisionally estimated by it. If on determination government finds that it is less than the subsidy provisionally determined it may reduce such duty and also may refund the excess duty collected.

10. Anti Dumping Duty (SECTION 9 OF CUSTOMS TARIFF ACT, 1975)

Dumping: Dumping means exporting goods to India, at prices lower than the price in the domestic market of the exporting country, subject to certain adjustments.

When the export price of a product imported into India is less than the normal value of like articles sold in the domestic market of the exporter the Central Government may, by notification in the Official Gazette, impose an anti-dumping duty not exceeding the margin of dumping in relation to such article.

Anti dumping duty is country specific i.e. it is imposed on imports from a particular country. Normal value means comparable price in the ordinary course of trade, in the

exporting country, after making adjustments to the extent of conditions of sale, taxation, etc.

11. Provisional Anti Dumping Duty

The Central Government may impose Anti dumping duty on provisional basis if determination of normal value and margin of dumping of an article is pending in accordance with the provisions of this section and rules made there under and if such anti-dumping duty exceeds the margin as so determined,-

Central Government shall reduce the anti dumping duty and shall also refund the excess duty.

3.8. PROHIBITION ON IMPORTATION AND EXPORTATION OF GOODS

Section 11 of the Customs Act empowers, the Central Government to prohibit the import or export of specified goods. Prohibition is to be done by notification in the official Gazette. Prohibition may be absolute or subject to such conditions.

1. Purposes for prohibition of Imports/Exports:

The reasons for prohibition of imports/Exports are enumerated below

- 1. Maintenance of security of India**
- 2. Maintenance of public order and standard of decency or morality.**
- 3. Prevention of smuggling.**
- 4. Prevention of shortage of goods of any descriptions.**
- 5. Conservation of foreign exchange and the safeguarding of balance of payments.**

6. Prevention of injury to the economy of the country by the uncontrolled import or export of gold or silver
7. Prevention of surplus of any agricultural product or the product of fisheries.
8. Maintenance of standards for the classification, grading or marketing of goods in international trade
9. Establishment of any industry.
10. Prevention of serious injury to domestic production of goods of any description.
11. Protection of human, animal or plant life or health
12. Protection of national treasures of artistic, historic or archaeological value.
13. Conservation of exhaustible natural resources.
14. Protection of patents, trademarks and copy rights.
15. Prevention of deceptive practices.
16. Carrying on of foreign trade in any goods by the state
17. Fulfillment of obligations under the charter of the united nations for the maintenance of international peace and security.
18. Implementation of any treaty, agreement or convention with any country
19. Compliance of imported goods with any laws which are applicable

similar goods produced or manufactured in India.

20. Prevention of the contravention of any law for the time being in force.

21. Any other purpose conducive to the interests of the general public

2. Items of Imports and Exports being prohibited:

i. Prohibited Exports:

Sandalwood oil, Cardamom, obscene books and other publications, Tussar/ mugasilks, Indian made wood and Animal casings, specified fruits, mechanical lighters, books containing maps/diagrams showing borders of India erroneously

ii. Prohibited imports:

Explosives, Arms and ammunition, Narcotic drugs, Counterfeit coins, Quinine, Saccharine, matches, Fictitious stamps, Armoured Cars and Antiquities.

iii. Detection and Prevention of Illegal Import and Export:

According to Section 11B of the Customs Act, if having regard to the magnitude of the illegal import of goods of any class or description, the Central Government is satisfied that in the public interest to take special interest for the purpose of checking the illegal impact, circulation or disposal of such goods, or facilitating the detection of such goods, it may specify the goods by notification.

iv. Goods notified by the Central Government:

Some of the goods that have been notified by the Government are as follows: Alcoholic liquors, perfumes, cosmetics, synthetic yarn and metalised yarn. photographic cameras, electronic calculators, watches, fabrics, cigars, VCR. VCR.

3.9. VALUATION OF GOODS UNDER CUSTOMS ACT

Most of the customs duties are advalorem. Goods are to be valued for purposes of customs duty assessment. The customs valuation rules, 1988 follow the GATT provisions for valuation of goods. As per the GATT provisions the value of the goods for duty purpose is transaction value or fully commercial and genuine invoice price. Imported goods are to be valued in accordance with rules for customs valuation made by the Central Government under Section 14(1A).

(1). Customs Value

According to Section 14(1) the value of dutiable goods shall be deemed to be the price at which such goods are ordinarily sold at the time and place of importation or exportation in the course of international trade where:

1. The buyer and seller have no interest in the business of each other.
2. One of them has no interest in the business of the other.
3. The price is the sole consideration for the sale or offer
4. The sale is to be calculated with reference to the rate of exchange as in force on the date on which a bill of entry is presented or a shipping bill or bill of export is presented.
5. The Board is empowered to fix the Tariff value for any class of goods whether imported or exported.

(2). Fundamental Elements to determine Customs value

The important ingredients as per Section 14(1) to determine the value of goods for customs purpose are as follows:

- 1. Price ordinarily offered:** The price at which such or similar goods are ordinarily sold or offered for sale. Similar goods shall be like kind and quality.
- 2. Price for delivery:** The price for delivery at the time and place of importation and exportation. Time and place do not refer to precise movement of time when goods are

unloaded from the ship. All expenses upto the destination port including unloading, handling charges, freight and Transit insurance have to be included.

3. Price in the course of International trade : refers to price during the movement of goods from one country to another and implies not only a period of time during which movement is in progress, but also connected relation.

4. No interest in each other's business: The buyer and seller should have no interest in the business of each other.

5. Price to be the sole consideration: The price should be the sole consideration for the sale or offer for sale. Either the buyer or seller should have no interest in the business of the other

6. Rate of exchange : Price shall be calculated with reference to rate of exchange which is determined by the Central Government.

(3). Fixation of Tariff value by Central Government

For any class of goods imported or to be exported, the tariff value can be determined by the Central Government. The Government fixes the value having regard to the trend of the value of such similar goods. When the tariff values are fixed by the Government, the duty will be chargeable with reference to such values only.

(4). GATT Valuation

According to Article VII, of General Agreement on Tariffs and Trade, Customs value of imported goods shall be based on their actual value or the actual value of similar goods but not based on the value of the goods of national origin or an arbitrary or fictitious value.

(5). Methods of valuation for customs:

Based on GATT valuation code, the new valuation Rules, 1988 were framed. The new valuation Rules consist of many independent methods of valuation to be used in "hierarchical order". The following are the methods of valuation

1. Transaction value of same goods

2. Transaction value of Identical goods

3. Transaction value of similar goods

4. Deductive value method

5. Computed value method

6. Residual method

These methods are explained below. They are used in hierarchical order.

1. Transaction value of same goods : As per Rule 3 of customs valuation rules, 1988, the value of any imported goods shall be the transaction value. This is the primary method of valuation. Transaction value means the actual price at which the goods are sold. The actual price shall be inclusive of

(a). Specified costs and services such as commission, brokerage, cost of containers and package.

(b). Proportionate value of goods and services supplied by the buyer, free of cost or at concessional rate, for use in production/sale for export of the goods, like tools, materials etc.

(c). Royalties and licence fees related to the imported goods required to be paid by the buyer.

(d). Other payments made or to be made by the buyer as a condition of sale. When the transaction value cannot be ascertained, then other alternative methods can be used in hierarchical order. If the first method cannot be used, then the second should be used and so on.

2. Transaction value of identical goods

As per rule 5, if the transaction value of goods cannot be ascertained, their value shall be the value of identical goods. Identical goods according to Rule 2(c): "Imported goods according to Rule 2(c) means imported goods which are similar in all respects", in the sense physical characteristics, quality and reputation of the goods valued except for minor differences which do not affect the value of goods. The identical goods should have been produced in the same country in which goods being valued are produced. Sale of identical goods taking place under any of the three conditions may be used:

1. A sale at same commercial level but in different quantities.
2. A sale at a different commercial level but in substantially the same quantities or
3. A sale at a different commercial level and different quantities.

On ascertaining sale under any one of the above conditions, value of goods shall be made by making adjustments for (a) quantity factors only (b) Commercial level factors only (c) quantity and commercial level factors

3. Transaction value of similar goods (Rule 6)

If Actual price cannot be ascertained and value of identical goods can not be determined as per Rule 5, then the goods will be valued at transaction value of similar goods.

Features of similar goods Similar goods are defined in Rule 2(e) as under:

(a) Similarity: Imported goods which though not identical in all respects. have identical characteristics and components such as, quality, reputation and existence of trademark and are commercially interchangeable with the goods being valued.

(b) Production in the same country: The similar goods should have been produced in the same country as in the case of goods to be valued.

(c) Engineering and art work Imported goods in respect of which certain services like engineering, art work etc., were undertaken in India free of charge or at concessional rates will be excluded from the preview of similar goods.

4. Deductive value method (Rule 7)

When the goods cannot be valued under the above three methods, Deductive value as per Rule 7 is used to value the imported goods. If the imported goods being valued are sold in India in the same condition as they are imported, and this is at or about the same time when valuation of the goods in question is to be done, then the value of goods shall be based on the unit price at which the imported goods or identical or similar imported goods are sold in the greatest aggregate quantity to persons who are not related to the seller in India. From the unit price the following deductions shall be made

- (a).** The usual Commission that is paid or the usual additions to profits and general expenses for such class or kind.
- (b).** The usual cost of transport, insurance etc.
- (c).** Customs duties and taxes payable on account of import or sale of the goods.

If similar goods or identical goods are not sold in India, then the value of goods shall be based on the unit price at which identical or similar goods are sold after further processing. However, due allowance will be made in respect of the value added for processing and the deductions referred above.

5. Computed value method (Rule 7A)

This method is not incorporated in the customs Rules 1988, thereby it is not a permissible method of valuation. The GATT provides for reversing the sequence of the computed value method with that of deductive value method at the option of the importer. Computed value is the sum of the cost or value of materials, fabrication or other processing, profit and general expenses, cost of transport, loading and unloading and cost of insurance.

6. Residual method (Rule 8)

This is the last method of valuation and known as the residual method. This method is used when all the above methods of valuation of goods fail to arrive at the valuation goods. Under this method, the basis of valuation is the selling price for export to India. The value of the imported goods under this method should be based on previously determined customs values to the extent possible. While valuing goods the following shall not be taken as base:

- (a). Selling price of the goods produced in India.
- (b). System of accepting highest of the alternative values.
- (c). The price of the goods on the domestic market of the country of exportation.
- (d). The price of the goods for export to a country other than India.
- (e). Minimum customs value.
- (f). Arbitrary or fictitious values.

3.10. PROCEDURE FOR ASSESSMENT OF CUSTOMS DUTY

Assessment refers to the determination of duty payable on imported or exported goods.

Step 1 – Filing of Bill of Entry

Importer submits the **Bill of Entry** to customs authorities.

Step 2 – Verification of Documents

Customs officers verify documents such as:

- Invoice
- Packing list
- Import license
- Bill of lading

Step 3 – Examination of Goods

Customs authorities may physically examine goods to verify their description.

Step 4 – Classification and Valuation

Goods are classified under the tariff and their value is determined.

Step 5 – Calculation of Duty

Customs duty is calculated based on classification and valuation.

Step 6 – Payment of Duty

Importer pays the duty.

Step 7 – Clearance of Goods

After payment, goods are released for home consumption.

3.11. IMPORT AND EXPORT PROCEDURE

Imports and exports of any country are subject to control for reasons of revenue and to provide protection to home made goods and also regulate the development of economy. Customs duties are levied on goods imported into or exported from India. Import and export of goods takes place by sea, air, rail or road It can also take place through post parcel or as baggage with passengers Procedure for clearance of goods imported by post differs in various aspects from that applicable for imports by sea and air. The differences are essentially in the mode of payment of duty. The Customs Act, 1962 has clearly specified a set of procedures in respect of imports by land, air or sea.

(1). IMPORT PROCEDURE:**1. Arrival at customs port/airport only**

Section 29 provides that person-in- charge of vessel of an aircraft entering India shall call or land at customs port or customs airport only. It can land at any other place by accident, stress of weather or other unavoidable cause. In such case he shall report to

nearest police station or customs office. While arriving by land route, the vehicle should come by approved route on land customs station' only.

2. Import Manifest/Report

Person-in-charge of vessel, air craft or vehicle has to submit Import-Manifest/Report or Import General Manifest (IGM). In case of vessel or aircraft, it is called import manifest, while in case of vehicle, it is called import report. IGM can be submitted electronically through floppy where EDI facility is available. Form of manifest has been prescribed in various regulations issued by CBE & C. The manifest/report provides details of cargo to be unloaded.

3. Grant of Entry Inward by customs officer (Section 31)

Unloading of cargo can start after customs officer grants 'Entry Inward' which is granted only when berthing accommodation is granted to a vessel.

4. Unloading of Reported Goods only (Sec. 32, 33 and 34).

According to section 32 only those goods specified in the imported manifest can be unloaded. Unloading can be done only at approved place and under supervision of Customs Officer.

5. Filing of Import bills of Entry (Sec. 46(1))

Bill of entry is a very vital and important document which every importer has to submit under section 46. The Bill of entry should be in prescribed form. Bill of entry should be submitted in quadruplicate. Original and duplicate are to be submitted to Customs Triplicate is for the importer and fourth copy is meant for bank making remittances. Bill of entry contains details in the form of (1) Importer's name (2) Address (3) Vessel's name (4) Line number (5) Port of Shipment (6) Country of origin (7) Nature of quality of packages (8) Customs Tariff heading (9) Exemption notification number (10) Total Duty

6. Assessment of Goods

Appraisers of the customs department assess the goods on submission of bill of entry

In the process of assessment the customs department may check the following documents.

(a) Invoices (b) packing specifications (c) payment particulars (d) catalogues (e) broker's note (f) Insurance policy. These documents will be helpful in proper classification and valuation of the goods. The declaration made in the bill of entry is verified by physical examination of the cargo before the duty is assessed.

7. Approval of Assessment.

The assessment has to be approved by Assessment Commissioner, if the value is more than Rs. One lakh. After the approval, duty payable is typed by a 'pin point typewriter so that it cannot be tampered with.

8. Customs Clearance from view point of Import Policy

Customs Authorities also check goods from the other acts regulating imports and exports. Import licences and import restrictions are checked. Each importer and exporter has to get Import and export code number (ICENo) from the Director General of Foreign trade. The code is based on the PAN of Income tax.

9. Payment of Duty

If goods are to be removed to a ware house, duty payment is not required. Goods can be taken to a warehouse under a bond without payment of duty. However if goods are to be removed for home consumption, payment of customs duty is required. Duty can be paid either in cash or through P.D account. A P.D. account means provisioned duty account. This is a current Account. The importers pay lumpsum amount in the account and get credit on the amount paid. The importer can pay customs duty by debiting the amount in P.D. Account. If the importer does not have an account, he can pay duty by cash using TR-6 Challan. If payment is made by cheque or demand draft, the payment will be deemed to have been received on the date on which the cheque or D.D is cleared. The payment is

to be made within 5 working days after the bill of entry is returned to the importer for payment of duty. If the duty is not paid within 5 working days, interest is payable.

10. Disposal if goods are not cleared in 30 days

According to section 48 of Customs Act, goods must be cleared within 30 days after unloading however customs officer can grant extension. Otherwise, goods can be sold after giving notice to importer. However, animals, perishable goods and hazardous goods can be sold any time-even before 30 days. Arms and ammunition can be sold only with permission of Central Government.

(2). EXPORT PROCEDURE:

1. Initial steps to be taken by the Exporter

- (a) Obtain Business Identification number.
- (b) Open current account with designated bank for credit of duty drawback claim.
- (c) Register licences / advance licences at the customs station if exports are under Export promotion scheme

2. Shipping Bill to be submitted by Exporter

Shipping Bill and Bill of Export regulations form shall be submitted along with packing list, invoices, export contract, letter of credit.

3. Declaration of exporter

Exporter has to make appropriate declaration in prescribed form in case of export of goods for drawback and other appropriate declarations.

4. Export duty

If payable Export duty is levied on very few articles and cess is payable on certain commodities under various acts. The duty and cess is to be paid before export is allowed.

5. Entry of goods for exportation (Section 50)

As per section 50 of the customs act, the exporter is required to present a shipping bill to proper officer of Customs. The shipping bill is filed only after an entry outwards has been granted for the particular vessel or aircraft by which the goods are to be exported.

6. Clearance of goods for exportation [Section 51]

After the shipping bill being filed, goods are presented for the customs appraisal. Appraisal is done by scrutinising documents and physical check. If the Customs officer is satisfied that goods are not prohibited and the exported has paid the duty, the order for shipment is made on the duplicate copy of the shipping bill. This is know as "Let Export" orders.

7. Check in customs

Documents submitted are processed by customs authorities and the following are checked

(a). Value and classification of goods under draw back schedule.

(b). Export duty/Cess if payable

(c). Advance Licence and shipping bill are checked to ensure that description in invoice and Final product specified in advance licence matches.

8. Examination of goods before Export

On passing of the shipping bill, the goods are presented to shed appraiser (exports) in dock for examination. Goods will be examined by examiner. This inspection is necessary to ensure that prohibited goods are not exported and goods tally with description of invoice.

9. "Let export" order by customs authorities

Customs officer will verify the contents and after he is satisfied that goods are not prohibited for exports and that export duty, if applicable is paid, will permit clearance by giving 'Let ship' or 'Let export' order.

10. Goods not to be loaded on vessel until entry outward granted Section [39 &40)

The master of vessel will load goods on entry outward being granted. by proper officer

11. Conveyance to leave on written order

The vessel or aircraft which carries export goods can leave on a written order given by customs officer which is given only after (a) export manifest is submitted (b) Shipping bill or bills of export are submitted (c) duties on stores consumed are paid (d) no penalty is leviable (c) export duty is paid.

12. Notice of Short Supply

As per notice of "short export Rules, 1963, if any goods mentioned in shipping bill or bill of export and cleared for exportation are not exported, the exporter shall, within 7 days from the date of departure of the conveyance by which the goods are intended to be exported, furnish the particulars to the customs authorities. The notice is known as short-shipment/shut out notice. Any exporter who fails to comply with this provision is liable to pay penalty not exceeding Rs. 100.

3.12. PROCEDURE FOR CLAIMING CUSTOMS DUTY DRAWBACK

Customs Duty Drawback is a refund of customs duty paid on imported materials used in the manufacture of export goods. The objective of the drawback system is to reduce the cost of exports and promote international trade by ensuring that exported goods are not burdened with domestic taxes or duties.

1. Application for Import Export Code (IEC)

Before claiming duty drawback, an exporter must obtain an Import Export Code (IEC) from the Directorate General of Foreign Trade.

Importance of IEC:

- It is mandatory for all import and export transactions.
- It helps customs authorities identify the exporter.
- Without IEC, exporters cannot claim duty drawback benefits.

2. Registration with Customs Authorities

The exporter must register with the customs department through the ICEGATE electronic system operated by the Central Board of Indirect Taxes and Customs.

During registration, the exporter provides the following information's:

- IEC number
- PAN number
- Bank account details
- Digital signature certificate

3. Filing of Shipping Bill

The exporter must file a Shipping Bill with customs authorities before exporting goods.

Types of Shipping Bills:

- Free Shipping Bill
- Dutiable Shipping Bill
- Drawback Shipping Bill
- Export Promotion Shipping Bill

For claiming drawback, the exporter must select the drawback option while filing the shipping bill.

Information included in the shipping bill:

- Name and address of exporter

- Description of goods
- Quantity and value of goods
- Classification of goods
- Drawback rate applicable

4. Submission of Export Documents

Along with the shipping bill, the exporter submits supporting documents such as:

- Commercial invoice
- Packing list
- Export contract or purchase order
- Bill of lading or airway bill
- Export declaration form
- Insurance certificate (if required)

These documents help customs verify the authenticity of the export transaction.

5. Examination and Verification of Goods

Customs authorities examine the export goods to verify:

- Quantity and quality of goods
- Classification and value
- Compliance with export regulations

In some cases, goods may be examined physically, while in other cases, documentary verification may be sufficient.

6. Grant of Let Export Order (LEO)

After examination and verification, the customs officer issues the Let Export Order (LEO).

Importance of LEO:

- It is official permission granted by customs for export.
- Without LEO, goods cannot be loaded for export.
- The drawback claim is processed only after LEO is issued.

7. Export of Goods

After receiving LEO:

- Goods are loaded onto the ship, aircraft, or transport vehicle.
- The carrier issues a Bill of Lading or Airway Bill as proof of shipment.

The export process is considered complete when goods leave the customs territory.

8. Determination of Drawback Rate

The drawback amount is calculated based on rates notified by the government.

TYPES OF DRAWBACK RATES:**(a) All Industry Rate (AIR)**

- Fixed by the government for various export products.
- Applies to all exporters in the same industry.
- Simplifies the drawback claim process.

(b) Brand Rate

- Determined for a specific exporter.
- Used when AIR is not available or not sufficient.
- Exporter must apply separately for fixation of brand rate.

(c) Special Brand Rate

- Applied when the exporter proves that actual duty paid is higher than AIR.

9. Processing and Sanction of Drawback

After export:

- Customs authorities process the drawback claim through the electronic system.
- The claim is verified with shipping bill details and export documents.
- If everything is correct, the claim is approved and sanctioned.

10. Payment of Drawback Amount

The sanctioned drawback amount is credited directly to the exporter's bank account through electronic transfer.

This system ensures:

- Faster processing of claims
- Transparency in payments
- Reduction in manual procedures

11. Post-Verification and Audit

Customs authorities may conduct post-export verification to ensure that:

- Export goods were correctly declared.
- Drawback claim is genuine.
- No double benefit or false claim has been made.

If any irregularity is found:

- The drawback amount may be recovered, and
- Penalties may be imposed under the Customs Act, 1962.

3.13 IMPORTANT CONDITIONS FOR CLAIMING DUTY DRAWBACK

1. Goods must be exported outside India.
2. Exporter must file the drawback claim in the shipping bill.
3. Duty must have been paid on imported inputs used in manufacturing export goods.
4. Exporter must not claim double benefits under other schemes.
5. Export proceeds must be realized in foreign exchange.

Advantages of Duty Drawback

- Encourages export trade
- Reduces production cost for exporters
- Increases competitiveness of Indian goods in global markets
- Improves foreign exchange earnings
- Promotes industrial growth

3.14. REVIEW QUESTIONS

1. MULTIPLE CHOICE QUESTIONS (MCQS)

1. The Customs Act in India was enacted in

- a) 1956
- b) 1962
- c) 1975
- d) 1985

Answer: b) 1962

2. Customs duty is a type of

- a) Direct tax
- b) Indirect tax
- c) Corporate tax
- d) Wealth tax

Answer: b) Indirect tax

3. Customs duty is levied on

- a) Production of goods
- b) Import and export of goods
- c) Sales of goods
- d) Income

Answer: b) Import and export of goods

4. The authority responsible for administering customs law in India is

- a) RBI
- b) GST Council
- c) Central Board of Indirect Taxes and Customs
- d) Finance Commission

Answer: c) Central Board of Indirect Taxes and Customs

5. Classification of goods for customs duty is based on

- a) Income Tax Act
- b) GST law
- c) Harmonized System of Nomenclature
- d) Companies Act

Answer: c) Harmonized System of Nomenclature

6. The document filed by an importer for clearance of goods is

- a) Bill of Entry
- b) Invoice
- c) Delivery challan
- d) Export invoice

Answer: a) Bill of Entry

7. Customs duty drawback means

- a) Extra tax on imports
- b) Refund of duty paid on imported inputs used in exports
- c) Penalty on exporters
- d) Additional export tax

Answer: b) Refund of duty paid on imported inputs used in exports

8. The valuation of imported goods is mainly based on

- a) Retail price
- b) Transaction value
- c) Production cost
- d) Market demand

Answer: b) Transaction value

9. If customs duty is not paid, authorities may

- a) Confiscate goods
- b) Impose penalty

- c) Recover dues
- d) All of the above

Answer: d) All of the above

10. Customs officers have the power to

- a) Inspect goods
- b) Search vehicles
- c) Seize smuggled goods
- d) All of the above

Answer: d) All of the above

Small Questions – LOCF Mapping Table

S.No	Small Question	CO	Bloom's Level	PO
1	Define customs and explain its main objectives.	CO1	Remember	PO1
2	What are the functions and powers of customs authorities?	CO2	Understand	PO2
3	List and briefly explain the different types of customs duties.	CO2	Remember	PO1
4	What is meant by classification of goods under the Customs Act?	CO3	Understand	PO2
5	Explain the procedure for claiming customs duty drawback.	CO3	Understand	PO3

Big Questions – LOCF Mapping Table

S.No	Big Question	CO	Bloom's Level	PO
1	Explain the basic concepts and definitions under the Customs Act 1962, including Customs, Import, Export, and Assessee.	CO1	Understand	PO2
2	Discuss the objectives and importance of the Customs Act 1962 in regulating international trade and revenue collection.	CO1	Analyze	PO4
3	Describe the different types of customs duties, including Basic Customs Duty, Countervailing Duty, Safeguard Duty, and Anti-Dumping Duty, with examples.	CO2	Understand	PO3
4	Explain the functions and powers of customs authorities, including assessment, seizure, investigation, and recovery of duties.	CO3	Analyze	PO4
5	Outline the procedure for classification of goods under the Customs Tariff, and explain the methods of valuation for customs purposes.	CO3	Apply	PO2

UNIT – IV**GOODS AND SERVICE TAX****UNIT – IV - GOODS AND SERVICE TAX**

Definitions of GST –business related person's capital goods –levy and collection of tax – mixed supply, composite supply – meaning,

advantages and disadvantages of unregistered supplier – time and value of supply – goods, services – input tax credit – Registration of GST – person liable for registration, not liable for registration, Registration of casual taxable person, deemed on cancellation of registration, Revocation of cancellation of registration - VAT

UNIT – IV

GOODS AND SERVICE TAX

Learning Objectives

After studying this unit, students will be able to:

1. **Understand the concept and definitions of Goods and Services Tax (GST)** and explain its significance in the Indian taxation system.
2. **Explain the meaning of business and related persons under GST** and identify transactions involving related parties.
3. **Define capital goods under GST** and describe their role in business taxation and input tax credit.

4. **Understand the levy and collection of GST** and explain how tax is imposed and collected by the government.
5. **Differentiate between composite supply and mixed supply** with suitable examples.
6. **Explain the concept of an unregistered supplier** and evaluate its advantages and disadvantages in business transactions.
7. **Understand the time of supply under GST** and determine when tax liability arises for goods and services.
8. **Explain the value of supply** and understand the rules used to determine the taxable value of goods and services.
9. **Define goods and services under GST** and identify their importance in determining tax applicability.
10. **Understand the concept of Input Tax Credit (ITC)** and explain its role in avoiding the cascading effect of taxes.
11. **Explain the procedure for GST registration** and identify the steps involved in obtaining registration.

4.1. INTRODUCTION

Broadly, the previous indirect tax regime consisted of Central and State laws. For the Central Government, Central Excise, Customs and Service tax were the three main components of indirect taxes. *While for State Government, Value Added Tax (VAT) and Central Sales Tax (CST) were the major taxes along with Octroi, Entertainment Tax etc.* Taxation of goods and services was governed under separate legislatures. In respect of goods, the Centre had the powers to levy tax on the manufacture of goods (except

alcoholic liquor for human consumption, opium, narcotics etc.) while the states had the powers to levy tax on the sale of goods. In the case of inter-State sales, the Centre had the power to levy a tax (Central Sales Tax) but, the tax was collected and retained entirely by the states. As far as services were concerned, it was the Centre alone that was empowered to levy service tax governed by the Finance Act. Introduction of the Value Added Tax (VAT) was considered to be a major step and an essential breakthrough in the field of indirect taxes.

Although primarily VAT was successful, there were certain shortcomings in the structure of VAT. The reasons for such shortcomings was that there was a mosaic of taxes being levied on goods and services, such as luxury tax, entertainment tax, etc., which were not subsumed in the VAT thereby marginalizing the benefits of comprehensive tax credit mechanism. Further to this, many other taxes were levied by both the Central Government and the State Government on production, manufacture and distributive trade, where no set-off was available in the form of input tax credit. *These taxes added to the cost of goods and services and led to tax on tax i.e., cascading of taxes and the erstwhile indirect tax regime was ineffective to remove this cascading effect of taxes* and introduced new tax regime for all states,

The Constitution of India envisages a federal nature of power bestowed upon both Union and States in the Constitution itself. As a natural corollary of this, any unit of the taxation system required a dual GST, levied and collected both by the Union and the States.

4.2. JOURNEY OF GST IN INDIA

The Kelkar Task Force on Fiscal Responsibility and Budget Management (FRBM) in 2005 recommended the introduction of a comprehensive tax on all goods and services replacing the Central-level VAT and State-level VATs

- **1986 - Viswath started India Indirect Tax Regime.**
- **2000 - A Committee was organized to design the GST.**

- 2002 - A Government formed a task force to recommend to tax reforms.
- 2006 – Government proposed a GST rollout by 1st April 2010.
- 2008 – A Election Commission finalize a dual GST Structure.
- 2010 – A Government launched Computerized taxes project and postponed GST.
- 2011 - The head of GST Assiam Dasgupta resigned.
- 2012 – A discussion started GST but objected and it over clause 279B.
- 2014 – A Government introduce GST Bill approved by the Standing Committee.
- 2015 – A Government re proposed GST roll out by April 01, 2015.
- 2016 - GST was live and GST got approval from both houses.
- 2017 – GST got live on the historic midnight 30th June and 1st July 2017.

4.3. HISTORY OF GST

The origin of Goods and Services Tax is traced back to July 17, 2000, when the Government of India set up the Empowered Committee of State Finance Ministers with the Hon'ble State Finance Ministers of West Bengal, Karnataka, Madhya Pradesh, Maharashtra, Punjab, Uttar Pradesh, Gujarat, Delhi and Meghalaya as members with the following objectives:

1. Uniform Sales tax Rates

To monitor the implementation of uniform rates of sales tax by States and Union Territories,

2. Phasing out of incentive schemes

To monitor the phasing out of the sales-tax based incentive schemes

3. Switch over to VAT

To decide milestones and methods of States to switch over to VAT, and

4. Reformation of CST

To monitor reforms in the Central Sales Tax system existing in the country.

4.4. WHAT IS GST?

'G - Goods . 'S' - Services ' T-Tax

"Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level under which no distinction is made between goods and services for levying of tax". It will mostly substitute all indirect taxes levied on goods and services by the Central and State governments in

GST is a tax on goods and services under which every person is liable to pay tax on his output and is entitled to get input tax credit (ITC) on the tax paid on its inputs (therefore, a tax on value addition only) and ultimately the final consumer shall bear the tax"

4.5. MEANING OF GOODS AND SERVICES TAX

The Goods and Services Tax (GST) is a tax levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services. In effect, GST revenue for the government, and ultimately borne by the consumers.

(1). OBJECTIVES OF GST

One of the main objectives of Goods & Service Tax (GST) would be to eliminate the double taxation i.e, cascading effects of taxes on production and distribution cost of goods and services. The exclusion of cascading effects, be tax on tax till it, reaches final consumers will significantly improve the competitiveness of original goods and services in market which leads to beneficial impact to the GDP growth of the country. *Introduction of a*

GST to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative. Integration of taxes into a GST system would make it possible to give full credit for inputs taxes collected GST, being a destination-based consumption tax based on VAT principle.

- 1. One Country - One Tax.**
- 2. Consumption based tax instead of Manufacturing.**
- 3. Uniform GST Registration, payment and Input tax Credit.**
- 4. To eliminate the cascading effect of Indirect taxes on single transaction.**
- 5. Subsume all indirect taxes at Centre and State Level.**
- 6. Reduce tax evasion and corruption.**
- 7. Increase productivity.**
- 8. Increase Tax to GDP Ratio and revenue surplus.**
- 9. Increase Compliance.**
- 10. Reducing economic distortions.**

(2). SALIENT FEATURES OF THE GST MODEL

(i). The GST shall have two components. One levied by the Centre (referred to as Central GST), and the other levied by the States (referred to as State GST). Rates for Central GST and State GST would be approved appropriately, reflecting revenue considerations and acceptability.

(ii). The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services

(iii). The Central GST and State GST are to be paid to the accounts of the Centre and the States individually.

(iv). Since the Central GST and State GST are to be treated individually, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST

(v). Cross utilization of ITC between the Central GST and the State GST would not be permitted except in the case of inter-State supply of goods and services.

(vi). Ideally, the problem related to credit accumulation on account of refund of GST should be avoided by both the Centre and the States except in the cases such as exports, purchase of capital goods, input tax at higher rate than output tax etc

(vii). To the extent feasible, uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislation for Central GST and State GST

(viii). The States are also of the view that Composition/Compounding Scheme for the purpose of GST should have an upper ceiling on gross annual turnover and a floor tax rate with respect to gross annual turnover.

(ix). The taxpayer needs to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities.

(x). Each taxpayer would be allotted a PAN- linked taxpayer identification number with a total of 14/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax. Facilitating data exchange and taxpayer compliance.

4.6. TYPES OF GST IN INDIA - CGST, SGST, IGST AND UTGST

India is currently going through major reforms in its overall economic sectors. The growth trajectory of India is so high that it is poised to become the third- largest economy of the world by 2030. Government is taking significant initiatives to boost the overall economic growth of the country Introduction to GST and its types- *CGST, SGST, IGST AND UTGST are effectively supporting such major economic development programs.*

GST stands for Goods and Services Tax. It is considered as the biggest taxation reform in the history of Indian economy. It will subsume multiple taxes like VAT, Service Tax, CST, excise and additional excise duty, entertainment and luxury tax, etc. It is a single uniform taxation system which will help in eliminating time, cost and effort

GST is introduced in the parliament as The Constitution Amendment Act 2016 and it is regulated by the Union Finance Ministry of India. It is a consumption based tax levied on the supply of goods and services which mean that it will be imposed at each stage of sale or purchase of goods or services based on the input tax credit method.

GST will transform Indian economy, turning it into a common market based on a uniform taxation system. It will enhance the ease of doing business in India Industries will make substantial savings in terms of logistics and supply chain due to GST. Some companies will benefit more as the GST rate will be lower than the current taxation. On the other hand, few sectors will have to pay more tax as GST will replace the old taxes uniformly, which may increase the rate respectively.

The overall impact of GST on India's economy is expected to be positive. As GST will be applicable from July 2017, industries and business organizations have already started to create future strategies. Both the central as well as the state government are focusing on regulating GST and major changes are being made in the organized monetary framework.

Government has joined hands with the National Securities Depository Limited (NSDL) and together they have created Goods and Services Tax Network (GSTN). It's a non-government firm which will provide IT infrastructure services to the central and state governments, stakeholders and taxpayers for proper implementation and regulation of GST

Indian economy is highly diverse due to numerous industries operating in different sectors having the different location, supply chain and target consumers. To understand the detailed impact of GST, let's discuss its three types:

1. Central Goods & Service Tax (CGST)

As per the Central Goods & Services Tax Act 2016, CGST is the centralized part of GST that subsumes the present central taxations and levies - Central Sales Tax, Central Excise Duty, Services Tax, Excise Duty under Medical & Toiletries Preparation Act, Additional Excise Duties Countervailing Duty (CVD), Additional Custom Duty and other centralized taxations.

CGST is applicable on the supply of goods and services of standard services and commodities which can be amended periodically by a specialized body under the central government. The revenue collected under CGST belongs to the central government. The input tax is given to the state governments which they can utilize only against the payment of CGST.

2. State Goods & Services Tax (SGST)

SGST is an important part of GST It stands for State Goods & Services Tax as per the 2016 GST bill. Various taxations and levies under the state authority are subsumed by SGST as one uniform taxation. It includes the amalgamation of State Sales Tax, Luxury Tax, Entertainment Tax, Levies on Lottery, Entry Tax, Octroi and other taxations related to the movement of commodities and services under state authority through one uniform taxation.

Revenue collected under SGST belongs to the State Government. However, the mainstream framework of the state governing body will be supervised by the central government. Each state will be having their own State Authority to collect SGST

3. Integrated Goods & Services Tax (IGST)

GST focuses on the concept of one tax, one nation. *IGST stands for Integrated Goods and Services Tax which is charged on the supply of commodities and services from one state to another state. For example, if the supply of goods and services occurs between Gujarat and Maharashtra, IGST will be applicable.*

Under Article 269A of the Indian Constitution, the inter-state trade and commerce activities that involve the movement of commodities and services shall be levied with an

integrated tax (IGST) under the GST regime The Government of India will collect the revenue under IGST. Further changes can be made by the Goods and Services Tax Council of India,

4. Union Territory Goods & Services Tax (UTGST)

As we have already learned about CGST and SGST which are intra-state taxations and IGST which is inter-state, *the union territories in India are accounted under a specialized taxation called Union Territory Goods and Services Tax as per the GST regime 2016. It will subsume the various taxations, levies and duties with one uniform taxation in Union Territories as well.*

Delhi (India's Capital Territory), Chandigarh, Dadra & Nagar Haveli, Andaman & Nicobar Islands, Daman & Diu, Lakshadweep and Puducherry are the union territories in India. UTGST will account for all the taxations under these union territories in India. The parliament is looking forward to implement a separate act to impose and supervise GST in Union Territories under the name of UTGST Act. The bill will be presented in respective union territories for further changes in the implementation of GST.

4.7. ADMINISTRATION OF GST

Keeping in mind the federal structure of India, there will be two components of GST- *Central GST (CGST) and State GST (SGST).* Both Centre and States will simultaneously levy GST across the value chain. Tax will be levied on every supply of goods and services. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. The input tax credit of CGST would be available for discharging the CGST liability on the output at each stage. Similarly, the credit of SGST paid on inputs would be allowed for paying the SGST on output. No cross utilization of credit would be permitted Imports are taxed under GST:

The Additional Duty of Excise or CVD and the Special Additional Duty or SAD presently being levied on imports will be subsumed under GST As per explanation to

clause (1) of article 269A of the Constitution, IGST will be levied on all imports into the territory of India. Unlike in the present regime, the States where imported goods are consumed will now gain their share from this IGST paid on imported goods.

(1). GST COUNCIL

GST council is a governing body to regulate and direct each and every step for the implementation of goods and service tax in the nation with decisions over tax rates and further implementation measures. GST council assimilates suggestions and regulation into one form and improvise the changes formally through notifications and circulars with its departments and finance ministry.

Goods & Services Tax Council is a constitutional body for making recommendations to the Union and State Government on issues related to Goods and Service Tax. The GST Council is chaired by the Union Finance Minister and other members are the Union State Minister of Revenue or Finance and Ministers in-charge of Finance or Taxation of all the States

Cabinet Ministry has given approval for the establishment of GST Council while the notification regarding the establishment of Council was issued on Saturday the 10th day September 2016 and the provisions came into force on Monday the 12th day of September 2016. Also, the Article 279A having provisions regarding establishment of GST Council was inserted after Article 279 of THE CONSTITUTION (ONE HUNDRED AND FIRST AMENDMENT) ACT, 2016. The Union Finance Minister Mr.Arun Jaitley who is the head of GST Council First Meeting of the council was held on 22nd and 23rd September 2016 in New Delhi

(2). CONSTITUTION OF GST COUNCIL

According to the Article 279A, it is on the part of Prime Minister to give the order to constitute the council of GST within the 60 days from the 12th September 2016 which is already notified by the Government Following are the designated personnel, who will form the GST Council

The **Union Finance Minister** who will be the CHAIRMAN of the council;

(i).The Union Minister of State in charge of Revenue or Finance, who will be the **MEMBER** of council,

(ii). **ONE MEMBER** from each state who is Minister in charge of Finance of Taxation or any other Minister and anyone of them will be *VICE CHAIRMAN of the GST Council who will be mutually elected by them*

Note:

1. The Secretary of Revenue Department will work as EX-Officio Secretary to the GST Council,
2. The Chairperson of Central Board of Excise and Customs will be the permanent invite in all the proceedings of the GST Council who will not have the voting rights.

(3). FUNCTIONS OF THE GST COUNCIL

The GST council will be supposed to make the recommendation to the Union and State on the following matters..

1. **Subsuming:** On subsuming of various taxes, cess, and surcharge in GST.
2. **Exemptions:** Details of services and goods that will be subjected to GST or which will be exempted from GST.
3. **Threshold Limit:** On Threshold limit below which, services and goods will be exempted from GST.
4. **GST rates:** On GST rates including floor rate with bands of GST and any special rate for time being to arrange resources to face any natural calamity.
5. **Special Provisions:** Making special provisions for the following states: Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand

6. Model Plan: On model law on GST, Principal of levy of GST and the principals which will govern the place of Supply.

In the GST Council a decision is taken by a three-fourth majority with the Centre having a one-third vote and the states the remaining two-third.

The GSTC has been notified with effect from 12th September, 2016. GSTC is being assisted by a Secretariat.

(4). POWER OF GST COUNCIL

As per Article 279A (4), the Council will make recommendations to the Union and the States on important issues related to GST, like

(a). The goods and services that may be subjected or exempted from GST.

(b). Principles that govern Place of Supply.

(c). Threshold limits.

(d). GST rates including the floor rates with bands, special rates for raising additional resources during natural calamities/disasters.

(e). Special provisions for certain States, etc.

(f). Transition Provisions.

4.8. GST IMPACT ON CENTRAL GOVERNMENT & STATE GOVERNMENTS:

GST Impact on Central Government & State Governments An Analysis GST Bill is passed in Lok and Rajya Sabha and it rolled out from 1st July 2017. The Government has already provided GST Registration Procedure and now everyone wants to know about Impact of GST on business, it is provided here a complete analysis for GST Impact on Central Government and GST Impact of State Government.

(1). GST Impact on Central Government:

(a). Increased collection of CGST and IGST

The collection of taxes-CGST and IGST would increase when more and more assessee register and pay taxes due to simplified tax laws under GST regime.

(b). Loss of CST revenues.

The CST which was 2% accruing to the State of collection has been subsumed into GST. This revenue would not be available to the States

(c). Refunds under GST.

The refunds under Central excise and service tax laws take a longer time. However, in GST Regime, refunds are expected to be processed faster with 90% of the total refund amount being available on submission of proper documents.

(d). Reduced corruption.

When the laws are simplified, then the chances of multiple interpretations would get reduced, leading to reduction in disputes and consequent litigation. Also, the automation of the payments/returns filing and other compliances could mean that the interaction between the assessee and the department officers would come down to minimum This would reduce corruption and increase ethics gradually

(e). Compensation for loss of revenues to States.

The compensation of loss of tax revenues to the States on account of implementation of GST would be an outgo. In reality, there may be minimal outgo except for the weaker States. All are expected to gain due to increased compliance.

(2). GST Impact on State Governments

(a). Proliferation of computerization leading to fall in transaction costs

Due to increase in computerization due to GSTN, the tax administration would be easier and cost of collection would be less.

(b). The Destination Principle.

States which are net consumers would benefit due to the accrual on destination. The producing States may have a comparative disadvantage.

(3). Other Impacts

(a). A unified common national market to boost Foreign Investment and "Make in India" campaign.

(b). Boost to export/manufacturing activity, generation of more employment. leading to reduced poverty and increased GDP growth

(c). Improving the overall investment climate in the country which will benefit the development of states.

(d). Uniform SGST and IGST rates to reduce the incentive for tax evasion.

(e). Reduction in compliance costs as no requirement of multiple records keeping

4.9. EXEMPTIONS UNDER GST

Under GST, the Government has fixed GST rates on 1,211 goods and 500 services in the range of five to 28 per cent. *Certain items such as alcohol, petrol, diesel and natural gas will be exempt under the GST. In addition to these, the GST Council has also classified certain items under the 0 per cent tax rate, implying that GST will not be levied on them. This list includes items of daily use such as wheat, rice, milk, eggs, fresh vegetables, meat, fish, indoor, bindi, stamps. judicial papers, printed books, newspapers, bangles, handloom, bones and horn cores, bone grist, bone meal, kaja, children's picture, drawing or colouring books, human hair.*

4.10. GST RATES

The GST Council, headed by Jaitley and of which all states Finance Ministers are members, have approved four main tax slabs - 5 per cent, 12 per cent, 18 per cent and 28 per cent that aim to lower tax incidence on essential items and to keep the highest rate for luxury goods. *The lowest rate of 5 per cent will be on items of mass consumption which are used particularly by common people. The second and third category of standard rates of 12 and 18 per cent will accommodate most of the goods and services. The fourth slab of 28 per cent is levied mainly on white goods such as refrigerators, washing machines etc.*

GST@0% Unpacked Food grains, Unbranded Maida, Milk, Lassi, Salt, Children Drawing and Health Service.	Fresh vegetables Unbranded besan, Eggs Unpacked Paneer, Kajal colour Books	Unbranded Atta Gur, Curd, Palmya jiggery, Phool Bhari Jhadoo, Education Services.
GST @ 5% Roasted Coffee Beans Packed Paneer, PDS Kerosene, Apparels (Up to Rs 1000).	Edible Oils Sugar, Cashew Nuts, Domestic LPG, Agarbatti.	Tea, Skimmed Milked Powder Raisin, Footwear (up to Rs.500) Coir Mats
GST @ 12% Butter, Fruit Juice Preparation of Vegetables, Plants including Pickle, Jam and Jelly.	Ghee, Packed Coconut Water Fruits, Murabba.	Almonds Nuts or other Parts, Chutney.
GST@ 18% Hair oil , Corn Flakes Computers.	Tooth paste, Soups, Printers.	Soap, Ice – cream, Pasta, Toiletries.
GST @ 28% Pan masala, Cigars, Cigarettes Port land cement.	Air conditioning Machines, computer, monitor, TV set Screen exceeding 32 inches	Projectors, road tractors, motor cars, racing cars, motor vehicle air crafts for personal use, Yachts etc.

GST @ 3% Pearls, Silver Gold, Platinum.	Articles of Jewellery, Imitation Jewellery.	Coins, articles of gold smiths, silver smiths of precious metal Semi precious metal.
GST @ 0.25% Diamonds, precious stones	Semi- Precious stones ungraded precious stones	

4.11. REGISTRATION, TAX INVOICE, ACCOUNTS, RECORDS AND RETURNS

(1). Importance of registration

In order to identify the tax payer for tax compliance, registration is mandatory. Registration under GST of any business entity implies in acquiring a unique number i.e., GSTIN from the authorities for collecting GST on behalf of Central Government / State Government / Union territory and also to avail input tax credit inward supplies. Otherwise without registration neither it is possible to collect GST and nor one can claim input tax credit of GST paid.

(2). Advantage of registration:

Registration under GST leads to the following advantages to a tax payer

- 1. Legal recognition:** GST registered person is legally recognised as supplier of Goods and Services
- 2. Legal Authorisation:** GST registered person is authorised to collect taxes from customers and give credit of the taxes paid the goods or services supplied to the purchaser or recipient.
- 3. Eligibility to claim Input tax credit:** GST registered person is eligible to claim input tax credit in respect of GST paid on Inward supplies and utilize the same for payment of taxes due on outward supply of goods or services.
- 4. Flow of Input tax credit:** GST registration leads to seamless flow of Input tax credit from suppliers to recipients at the national level.

(3). Persons Liable for Registration

Section 22 mentions suppliers liable for registration: As per Section 22, every supplier having an aggregate turnover exceeding Rs. 20 lakhs (10 lakhs in special category states) is liable to be registered under GST Act in the State or Union territory from where the taxable supply of goods and services is done.

(4). Aggregate Turnover

As per Section 2(6) the aggregate turnover is the aggregate value of :

- All taxable supplies
- Exempt supplies
- export of goods or services or both,
- Inter state supplies

Exclusions are:

- Central tax
- State tax

- Union territory tax
- Integrated tax and
- Cess

(5). Persons exempt from Registration (Section 23)

As per Section 23(1) the following persons are not liable for registration under GST Act.

(a). Persons making supply of non taxable or wholly exempted goods or services or both are not liable for registration.

(b). An individual or Hindu undivided family who undertakes cultivation of land by own labour or by the labour of family or by servants on wages payable or by hired labour under personal supervision are not liable for registration.

(c). GST payable by the recipient under reverse charge mechanism: In the case of supplier is engaged in making taxable supply of goods or services and GST paid on reverse charge mechanism by the recipient, registration is not required even if aggregate turnover exceeds the threshold limit of 20 lakhs /10 lakhs.

(6). Notified category of persons:

On the recommendation of the council, the Government by notification exempt specific category of persons from registration under the GST Act.

(7). Compulsory registration under Section 24:

The following persons are required to be registered under this Act:

- (i). Persons making inter-state supply.
- (ii). Casual taxable person making taxable supply.
- (iii). Persons who are required to pay tax under reverse charge.

- (iv). E-commerce operator who is required to pay tax on specified services.
- (v). Non resident person making taxable supply.
- (vi). Persons who are required to deduct tax.
- (vii). Persons who are agent or otherwise who make taxable supply of goods of services or both on behalf of other taxable persons.
- (viii). Input service distributor.
- (ix). Every person supplying online information and database access from outside India to a person in India.
- (x). Such other persons notified by the Government on the recommendations of the council.

4.12. PROCEDURE FOR REGISTRATION

Section 25 of GST Act provides procedure for registration as below:

1. Section 25(1) Application to be made within 30 days: Every person who is liable to register shall apply for registration in every state or union territory where the person is liable for registration.

2. Section 25(2): Grant of single registration: Registration under GST Act is granted single registration in a state or union territory. However persons having multiple business verticals in a state or union territory is granted separate registration for each business vertical.

Business vertical: As per section 2(18) Business vertical means a distinguishable component of an enterprise that is engaged in the supply of individual goods or services or a group of related goods or services

3. Section 25(3) voluntary registration: In case a person though not liable under the GST Act may Get registered voluntarily and all the provisions are applicable to such person.

4. Section 25(4) more than one registration. A person who has obtained more than one registration shall be treated as distinct person in respect of each such registration.

5. Section 25(5) Establishment in different states: If a person has obtained in respect of an establishment in a state or a union territory and also has establishment in another state or union territory those establishments are treated as distinct persons.

6. PAN shall be mandatory for registration: Section 25(6) Permanent Account number issued under the Income Tax Act is compulsory for registration. However in the case of persons who are to deduct tax may have tax deduction and collection account number (TAN) instead of PAN.

7. Section 25(7) Registration of taxable person. Non resident persons may be granted registration as per prescribed documents.

8. Section 25(8) Mandatory registration: In case a person fails to obtain registration proper officer may grant registration in a prescribed manner

9. Section 25(9) Unique identity number (UIN): Specialised agency of UNO /consulate/Foreign embassy / other notified persons are to be granted unique identify number for all purpose under the GST Act for refund of taxes.

10. Section 25(10): Registration certificate and unique identification number to be granted or rejected after verification.

11. Section 25(11): Registration certificate to be issued. The registration certificate to be issued in prescribed form.

12. Section 25(12) Deemed registration: A registration or unique identity number is deemed to be granted after lapse of a specific period if a communication is received.

4.13. PROCEDURE FOR MAKING APPLICATION FOR REGISTRATION

Rule 8 of the Act provides rules for applying for Registration under the GST Act.

(1) Rule 8(1): As per rule 8(1) Every person who is liable for registration is to file in the Form GST REG: 01 and declare the following:

Permanent Account Number

- Mobile Number
- E-mail address
- State or Union territory

2. Validation:

As per rule 8(2) the following are verified:

- (a). PAN number is validated on line by the common portal of Central Board of Direct taxes.
- (b). Mobile number declared is verified through password sent to the mobile number.
- (c). E-mail address declared is verified through password sent to the e-mail address.

3. Granting of Temporary reference number:

As per Rule 8(3) on successful validation of PAN number and verification of mobile number and E-mail a temporary reference number is granted to the applicant and communicated on the mobile number and e-mail.

4. Submission of application:

As per Rule 8(4) based on the reference number the applicant shall electronically submit application in part B of Form GST REG- 01 along with specified documents at the common portal or through a facilitation centre.

5. E-acknowledgement:

As per Rule 8(5) an acknowledgement is issued electronically on receipt of the application in Form Reg-02.

6. Temporary reference number for casual taxable person:

A casual taxable person is a person who occasionally undertakes transactions involving supply of goods or services or both in the course or furtherance of business. The casual taxable person who applies for registration is granted a temporary reference number by the common portal for making advance deposit of tax.

4.14. CANCELLATION OF REGISTRATION

Section 29 of CGST Act has laid down the provisions for cancellation of registration.

1. Cancellation of registration.

As per section 29(1) the officer may cancel registration either on his own or on application filed by the registered person or his legal heirs due to the following circumstances:

(A). (a). Discontinuing of business

(b). Transfer of business

(c). Amalgamation

(d). Demerger

(e). Disposal of business

(B). Change in the constitution of business.

(C). Taxable person is no longer liable for registration.

2. Cancellation of registration by proper officer:

As per section 29(2) the proper officer may cancel registration due to the following reasons:

- (a). Registered person has contravened any provisions of the act
- (b). A person having composite levy has not furnished return for 3 consecutive tax periods
- (c). A registered person has not furnished return for a continuous period of 6 months.
- (d). A person who has taken voluntary registration has not commenced business within 6 months from the date of registration.
- (e). A person acquired registration by fraud, willful misstatement or suppression of facts.

4.15. DOCUMENTS USED IN RESPECT OF GOODS AND SERVICES.

(1). Invoice

Invoice is a commercial instrument issued by a seller to a buyer. An invoice provides identification of the buyer and seller, description of the product or supply. It also provides quantities sold, date of supply, method of transport, value of supply and any discount given there on delivery schedule and terms payment.

Invoice under, GST regime is titled as "invoice" or "tax invoice" as referred in section 31. As per section 31 it is mandatory to issue an invoice or a bill of supply for every supply of goods or services. The invoice may be issued by the supplier of goods or service, even if it is not necessary that it is to be issue supplier of goods or service. However, it is mandatory that if a registered by the buys goods or services from an unregistered person

has to issue a voucher for payment and also a tax invoice. Based on the category of the registered person making the supply the type of invoice is issued.

For example, receipt or supply of goods or services from unregistered person, then the tax invoice is to be issued by registered person. Similarly if registered person deals with only exempted supplies or he is a composition dealer, he has to issue a bill of supply in lieu of invoice. In the case of supply of goods the invoice is required to contain description, quantity and value of goods Similarly in the case of supply of services the invoice is required to contain details in the form of description, Value and other particulars specified; However if the value of supply is less than Rs 200 an invoice or bill of supply need not be issued.

Contents of Tax invoice

As per Rule 46 the Tax invoice has to contain the following details:

- (a). Name, address and GSTIN of the supplier*
- (b). Consecutive serial number not exceeding sixteen characters.*
- (c). Date of issue*
- (d). Name, address and GSTIN or UIN, if registered, of the recipient.*
- (e). If the recipient is unregistered and value of taxable supply is fifty thousand rupees*

or more, then the following details are shown:

- Name and address of the recipient
- Address of delivery
- Name of the state and its code

Similar details are provided on the request of the recipient even if value of taxable supply is less than fifty thousand rupees,

- (f). HSN code of goods or services**

- (g). Description of goods or services
- (h). Quantity of goods and unit or unique quantity code
- (i). Total value of supply of goods or services or both
- (j). Taxable value of supply of goods or services
- (k). Rate of tax
- (l). Tax amount charged
- (m). Place of supply and name the state in the case of Inter-State trade of commerce.
- (n). Address of deliver
- (o). Any tax payable on reverse charge basis
- (p). Signature or digital signature of the supplier or authorized representative supplier.

(2). Delivery Challan.

Contents of delivery challan are as follows:

- Date and number of the delivery challan.
- Name, address and GSTIN of the consigner, if registered.
- Name address and GSTIN, or UIN of the consignee, if registered.
- HSN code and description of goods.
- Quantity.
- Taxable value.
- Tax rate and tax amount.
- Place of supply in case of Inter-State movement.
- Signature.

(3). Payment Voucher

A registered person who is required to pay GST under reverse charge mechanism has to issue a payment voucher at the time of making payment to the supplier. The payment voucher contains following details.

- Name, address, and GSTIN of the supplier, if registered,
- A Consecutive serial number (Not exceeding 16 characters in one or numerals / or special multiples or series containing Alphabets / characters hyper or dash and slash symbolized as " and " respective and any combination thereof unique for a financial year).
- Date of Issue
- Name, address and GSTIN of the recipient
- Description of goods or services
- Amount paid
- Rate of Tax
- Amount of tax payable
- Place of supply along with the name of state and its code in case of supply in the course of interstate trade or commerce.
- Signature or digital signature of the supplier or his authorized agent

(4). Credit note and Debit note

Millions of purchase and sale transactions happen in day to day life and so does the returns are made by many customers when they find that products are not suitable to their requirements. *Debit note and Credit note are used while the return of goods is made between two business entities. While Debit note issued by the purchaser at the time of returning the goods to the vendor and the vendor issues a credit note to inform that he/she has received the returns goods.*

When the goods are returned to the seller or supplier, a debit note is issued to him which indicates that his/her account has been debited with the respective amount. On the other hand when a customer returns goods, a credit note issued to him which shows that his account has been credited with the amount indicated in the note

(5). Accounts and Records (Section 35)

List of Records to be maintained by registered person

As per section 35(1) the following are the true and correct accounts to be maintained at the principal place of business.

- (a). Production or manufacture of goods
- (b). Inward supply of good or services or both
- (c). Outward supply of goods or services or both
- (d). Stock of goods
- (e). Input tax credit availed

4.16. FILLING OF RETURNS OR FURNISHING OF RETURNS

GST has been implemented in India from 1st July 2017. Under the new GST regime, nearly one crore business entities in India's have obtained registration. All entities having GST registration are required to file GST returns. GST return is mandatory for all entities having registration irrespective of business activity or sales or profitability during the return filing period. Hence, even a dormant business entity that obtained GST registration must file GST return. Types of GST Returns and Due Dates

GST return must be filed by all persons having GST registration The following are different types of GST returns and the due dates.

1. GSTR- 1 Return-Due on 10th of Every Month

Form GSTR-1 or return of outward supplies is normally due on the 10th of every month. For the month of July 2018, GSTR 1 is due on the 10th of October The GSTR I due date for all other months will be announced by the GST Council.

In GSTR 1 return, details of Invoices, debit notes, credit notes and revised Invoices issued in relation to outward supplies made during the tax period must be provided. This e-

return can be filed online on the GST portal or using LEDGERS GST Software within 10 days from the end of the tax period. The registered person shall not be allowed to furnish any details of outward supplies during the period from the eleventh day to of the month succeeding the tax period. Content of GSTR-01 (a) GSTIN, Name & Period (b) Aggregate the fifteenth day over in de Content of Reconsolidated level details of outward supply (Supply to RD):

In GSTR 1 return, the details of all invoices issued by the taxpayer that are B2B or B2C must be uploaded to the GSTIN.

The details of FORM GSTR-1 Furnished by the supplier will be made available to the recipients in PART-A of FORM GSTR-2A, Form GSTR 4A and in Form GSTR-6A.

2. GSTR- 2 Return-Due on 15th of Every Month

GSTR 2 or return of inward supplies must be filed before the 15th of each month. In GSTR 2, the return for outward supplies filed by the supplier and the receiver is required to match his receipts with the details of supplies filed by the supplier. The receiver is required to verify, validate, modify or even delete, if necessary the details furnished by the suppliers.

Any modification, deletion or inclusion of inward supplies by the receiver in his inward return i.e. FORM GSTR-2 will be communicated to the Outward supplier which will be visible to them as GSTR 1

3. GSTR- 3 Return-Due on 20th of Every Month

GSTR 3 or monthly GST return is due on the 20th of every month. Part A of GSTR 3 return will be automatically generated based on information furnished through FORM GSTR-1, FORM GSTR-2 and based on other liabilities of preceding tax periods. The taxpayer can discharge his liability towards tax, interest, penalty, fees or any other amount payable under the Act or the provisions of this Chapter by debiting the electronic cash ledger or electronic credit ledger and include the details in Part B of the return in FORM GSTR-3

4. GSTR- 4 Return - Quarterly Return for Composition Suppliers Due on 18th

GSTR 4 or GST quarterly return for composition supplier is due 18 days front the end of quarter Hence, GSTR 4 return will be due on 18th April, 18th July, 18th October and 18th January. Based on details contained in FORM GSTR-4A, and where required, after adding, correcting or deleting the details, the taxpayer can file the quarterly return in FORM GSTR-4.

5. GSTR- 5 Return - Monthly Return for Non-Resident Taxable Persons

GSTR 5 return must be filed by persons registered under GST as a non resident taxable person before the 20th and within 7 days from last day of registration. In GSTR-5, the taxpayer must file information and details of outward supplies and inward supplies.

6. GSTR- 6 Return Monthly Return for Input Service Distributors

GSTR-6 return must be filed by persons registered as an Input Service Distributor on or before the 13th of every month. Based on FORM GSTR-6A. the taxpayer can file the return after adding, correcting or deleting the details and furnish return, containing the details of tax invoices on which credit has been received and those issued.

7. GSTR- 7 Return-Monthly Return for Tax Deductors

GSTR-7 return must be filed by persons registered under GST for TDS GSTR 7 return is due on or before the 10th of every month. The details furnished in Form GSTR-8, will be made available in Part C of Form 24 and Form 4A to other taxpayers.

8. GSTR- 8 Return-Monthly Return for E-Commerce Operator

GSTR-8 return must be filed by E-Commerce Operator on or before the 10th of every month. E-Commerce operators must provide details of outward supplies of goods or services or both made through it, including the supplies returned through it and the amount collected by it. Details furnished by E-commerce operators will be made available to each of the suppliers in Part C of FORM GSTR-2A.

9. GSTR-9 Return-Annual GST Return

GSTR-9 return or annual GST return must be filed by taxpayers on or before the 31st of December. GSTR-9 return need not be filed by those registered under composition scheme, non-resident taxable persons, casual taxable persons, TDS deductors, TCS collectors. In case the annual turnover is more than Rs.2 crores the annual return filed by the taxpayer must be audited by a Chartered Accountant or Cost Accountant.

10. GSTR-10 Return-Final GST Return

GSTR 10 or final GST return must be filed within 3 months from the date of cancellation of GST registration.

11. GSTR-11 Return- GST Return for UIN Holders

Form GSTR-11 or GST return for UIN holders must be filed by persons having UIN under GST to claim refund of taxes paid on his inward supplies.

Payment of Tax:

Provisions relating to payment of tax, Interest, penalty and other payments are provided in section 49 of the GST Act as given below:

1. Credit to electronic cash ledger: As per section 49(1) every payment made in the form of tax, interest, penalty, fee by a person by internet banking or by using credit card, or by NEFT or by RTGS or by other specified mode is to be credited to the electronic cash ledger of such person.

2. Input tax credit (ITC) to be credited to electronic cash ledger: As per section the input tax credit self assessed in the return of registered person is to be credited to his electronic credit ledger.

3. Usage of amount in Electronic Cash Ledger: As per section 49(3) the amount in the electronic credit ledger can be utilised for payment towards tax, interest penalty, fees or any other amount payable

4. Use of amount in Electronic credit ledger : Payment under section 49(4) towards output tax.

5. Manner of usage of amount in Electronic credit ledger: As per section 49(5) the amount of input tax credit available in the electronic credit ledger of the registered person on account of :

(a) Credit of IGST can be used for payment of IGS1, COST, SGST and UTGST sequentially

(b) Credit of CGST is to be used for payment of CGST and IGST sequentially.

(c) Credit of SGST to be used for payment of SGST and IGST sequentially

(d) Credit of UTGST is to be used for payment of SGST and UTGST

(e) Credit of SGST/UTGST cannot be used for payment of CGST

6. Refund : as per Section 49(6) the balance in electronic ledger or cash ledger after payment of tax, interest, penalty, fee is to be refunded.

7. Electronic liability ledger: As per section 49(7) all liabilities of a taxable person are to be recorded in an electronic liability register.

8. Order of payment of liabilities: As per section 49(8) the taxable person is to discharge his liabilities as under:

(a) Self assessed tax, and other dues related to returns of previous periods

(b) Self assessed tax and other dues related to the return of the current tax period.

(c) Any other amount payable under the GST Act.

9. Incidence of Tax: As per Section 49(9) every person who has passed tax on goods or services or both be deemed to have passed on full Incidence of tax to the recipient of such goods or services or both.

4.17. INPUT TAX CREDIT

Exporters and SEZ units or Developer receiving zero rated supply shall be eligible to claim refund of IGST paid by the registered taxable person on such supply subject to the prescribed conditions, safeguards and procedure. As per section 16 of IGST law provides that credit of input tax shall be allowed even when no tax is paid at the time of clearance for export of goods or services and supply of goods or services to SEZ.

Therefore, even if goods are exported under a bond, the input tax credit on input/input services shall be allowed. It may be noted that section 16 further provides that the credit of input tax shall also be allowed even if such supply is exempt supply. 'Exempt supply' is defined in section 2(47) of GST law.

Exempt supply shall include following –

(a). Value of non-taxable supply

(b). Supply attracting nil rate of tax

(c). Supply exempt from tax (as provided in section 11 of GST law or under section 6 of

IGST law (d) Non-taxable supply

While certain conditions are prescribed for a ailment of credit, conditions are that the person should have taxpaying documents and should received goods and/or services and tax charged by the supplier, on which the recipient is entitled to credit should be paid to the appropriate Government, which shall bring onerous compliance requirements upon the recipient to verify whether the supplier has discharged its tax liability.

While the GSTN system could enable fulfilment of this requirement based on the matching principle, inserting this as a condition may require discharge of responsibility on the recipient.

Accordingly, a taxable person may claim refund of any unutilized input tax credit at the end of any tax period. In other words, Exporters and SEZ units or Developer shall be eligible to get refund on eligible inputs including capital goods and input services.

As per section 2(19) of the CGST Act, 2017, definition of 'capital goods' has been defined liberally time which is relief in terms of eligibility of claiming input tax credit in respect of capital goods. Accordingly, 'capital goods' means goods, the value of which is capitalized in the books of accounts of the person claiming the credit and which are used or intended to be used in the course or furtherance of business.

Accordingly, input tax credit will be eligible for capital goods only on those goods, the value of which is capitalized in the books of accounts.

4.18 Value Added Tax (VAT)

Value Added Tax (VAT) is an indirect tax imposed on the value added to goods at each stage of production and distribution. Every dealer in the supply chain collects tax on sales and receives credit for the tax paid on purchases. Thus, the final burden of VAT is borne by the ultimate consumer.

1. Historical Background of VAT

The concept of VAT was first introduced in France in 1954 to improve the efficiency of the tax system and to avoid cascading taxes. Later, many countries adopted VAT because of its transparency and efficiency in tax collection.

In India, VAT replaced the traditional sales tax system in 2005. It was introduced by state governments to modernize the indirect tax structure. Later, the VAT system was

largely replaced by the Goods and Services Tax in July 2017. However, VAT is still applicable to certain goods such as petroleum products and alcoholic beverages.

2. Components of Value Added Tax

1. Input Tax

Input tax refers to **tax paid on purchases of goods or raw materials** used in production.

Example:

A manufacturer purchases raw materials worth ₹1,000 and pays VAT of ₹100. This ₹100 is called input tax.

2, Output Tax

Output tax refers to tax collected on sales of goods.

Example:

If the manufacturer sells goods for ₹1,500 and charges VAT of ₹150, this is output tax.

3. VAT Payable

VAT payable is calculated as:

$$\text{VAT Payable} = \text{Output Tax} - \text{Input Tax}$$

3. Advantages of VAT

1. Eliminates Cascading Effect

VAT prevents tax on tax by allowing credit for input taxes.

2. Improves Revenue Collection

Governments can collect taxes more efficiently.

3. Encourages Proper Accounting

Businesses maintain proper records to claim input tax credit.

4. Promotes Transparency

Each stage of the transaction is documented.

5. Boosts Economic Growth

By reducing tax burden on production, VAT encourages trade and industry.

4. Importance of VAT

- Reduces tax burden on production
- Encourages exports
- Improves government revenue
- Promotes transparency in taxation
- Supports efficient tax administration

5. VAT Calculation Example

Suppose a product moves through three stages:

Stage	Price (₹)	VAT 10% (₹)	Input Credit (₹)	VAT Paid (₹)
Manufacturer	100	10	–	10
Wholesaler	150	15	10	5
Retailer	200	20	15	5

Total VAT paid to government = ₹20, which is borne by the **final consumer**.

4.19. REVIEW QUESTIONS

1. Multiple Choice Questions (MCQs)

1. **GST stands for:**

- a) General Sales Tax
- b) Goods and Services Tax
- c) Government Service Tax
- d) Goods Supply Tax

Answer: b) Goods and Services Tax

2. Under GST, the term business includes:

- a) Trade and commerce only
- b) Manufacturing only
- c) Any trade, commerce, profession, or vocation
- d) Personal activities

Answer: c) Any trade, commerce, profession, or vocation

3. Capital goods under GST refer to:

- a) Goods used for personal consumption
- b) Goods used in the course of business for producing goods or services
- c) Finished goods for sale
- d) Raw materials

Answer: b) Goods used in the course of business for producing goods or services

4. Composite supply consists of:

- a) Independent supplies
- b) Naturally bundled supplies supplied together
- c) Goods only
- d) Services only

Answer: b) Naturally bundled supplies supplied together

5. Mixed supply refers to:

- a) A combination of naturally bundled supplies
- b) Supplies made independently but sold together for a single price
- c) Export supplies
- d) Imports

Answer: b) Supplies made independently but sold together for a single price

6. Input Tax Credit means:

- a) Tax paid on sales
- b) Credit of tax paid on inputs used in business
- c) Tax paid by government
- d) Tax paid on exports

Answer: b) Credit of tax paid on inputs used in business

7. Time of supply determines:

- a) Place of supply
- b) Tax liability arises
- c) Value of goods
- d) Rate of discount

Answer: b) Tax liability arises

8. The value of supply under GST includes:

- a) Packing charges
- b) Subsidies linked to price
- c) Commission charges
- d) All of the above

Answer: d) All of the above

9. GST registration is compulsory when turnover exceeds the prescribed limit or when:

- a) Inter-state supply is made
- b) Goods are exported
- c) Goods are imported
- d) Personal goods are purchased

Answer: a) Inter-state supply is made

10. VAT is a:

- a) Direct tax
- b) Indirect tax on value addition
- c) Income tax
- d) Wealth tax

Answer: b) Indirect tax on value addition

Small Questions – LOCF Mapping Table

S.No	Small Question	CO	Bloom's Level	PO
1	Define GST and explain its basic concepts.	CO1	Understand	PO2
2	Explain the meaning of 'business' and 'person' under GST.	CO1	Understand	PO2

3	Define capital goods and explain their significance under GST.	CO2	Understand	PO2
4	Describe the levy and collection mechanism of GST.	CO2	Apply	PO3
5	Differentiate between mixed supply and composite supply with examples.	CO2	Analyze	PO4

Big Questions – LOCF Mapping Table

S.No	Big Question	CO	Bloom's Level	PO
1	Explain the definitions of GST, business, and person, and discuss their significance in the taxation framework.	CO1	Understand	PO2
2	Describe capital goods under GST and explain the levy and collection mechanism of tax.	CO2	Apply	PO3
3	Differentiate between mixed supply and composite supply with examples, and discuss their impact on tax calculation.	CO2	Analyze	PO4
4	Explain the advantages and disadvantages of dealing with unregistered suppliers under GST.	CO3	Analyze	PO4
5	Discuss the concepts of time of supply, value of supply, and input tax credit for goods and services.	CO3	Apply	PO3

UNIT – V

GOODS AND SERVICE TAX (GST) DOCUMENTS

UNIT – V - GST DOCUMENTS

Tax Invoice - Credit and Debit notes – Return of GST - Refunds, payment

of tax, Assessment and audit. An Overview of Tax Audit – Tax Incentives and Export Promotions, Deductions and Exemptions.

UNIT – V

GOODS AND SERVICE TAX (GST) DOCUMENTS

Learning Objectives

After studying this unit, students should be able to:

1. **Understand the concept and importance of a Tax Invoice** under GST and identify the mandatory particulars required in a tax invoice.
2. **Explain the meaning and purpose of Credit Notes and Debit Notes** and the circumstances in which they are issued.
3. **Describe the procedure for filing GST Returns** and understand different types of returns under GST.
4. **Explain the process of payment of GST** including modes of payment and electronic ledgers.
5. **Understand the concept and procedure of GST Refunds** and the situations in which refunds can be claimed.
6. **Examine the process of GST assessment and audit**, including types of assessment and audit conducted by tax authorities.
7. **Gain an overview of Tax Audit**, its objectives, scope, and significance in ensuring tax compliance.
8. **Understand the concept of Tax Incentives** provided by the government to promote economic growth and investment.
9. **Explain Export Promotion measures** and the role of tax benefits in encouraging exports.
10. **Identify various Deductions and Exemptions** available under the taxation system and understand their importance in reducing tax liability.

5.1 INTRODUCTION

The Goods and Services Tax (GST) is a comprehensive indirect tax system introduced in India in 2017. It replaced multiple indirect taxes such as VAT, excise duty, and service tax with a unified tax system. GST aims to create a transparent, efficient, and technology-driven tax administration system.

Understanding documentation, compliance procedures, assessment, and audit mechanisms is essential for businesses and tax professionals operating under GST

5.2. TAX INVOICE

Section 2(66) of Central Goods & Services Tax Act, 2017 mandates “invoice” or “tax invoice” as the tax invoice referred to in section 31. Tax Invoice is mandated to be issued in the event of taxable supplies.

A Tax Invoice is an official document issued by a registered supplier when goods or services are supplied. It contains details of the transaction and enables the buyer to claim Input Tax Credit (ITC).

1. IMPORTANCE OF TAX INVOICE

A tax invoice serves several purposes:

1. It acts as legal proof of supply of goods or services.
2. It helps the buyer claim input tax credit.
3. It provides the government with transaction records for tax compliance.
4. It forms the basis for GST return filing and reconciliation.

2. MANDATORY PARTICULARS OF A TAX INVOICE OR CONTENTS OF INVOICE

According to the Central Goods and Services Tax Act, 2017, a tax invoice must contain the following details:

- 1. Name, address, and GSTIN of the supplier**
- 2. Consecutive serial number of the invoice**
- 3. Date of issue**
- 4. Name and address of the recipient**
- 5. GSTIN of the recipient (if registered)**
- 6. Description of goods or services**
- 7. Quantity and value of goods or services**
- 8. Taxable value after discounts**
- 9. Rate and amount of GST (CGST, SGST, IGST)**
- 10. Place of supply**
- 11. Signature or digital signature of supplier**

3. TIME LIMIT FOR ISSUING A TAX INVOICE [SECTION 31(1)]

In case of registered person supplying taxable goods, the invoice must be issued before or at the time of

(a). removal of goods for supply, where the supply involves movement of goods.

(b). or delivery of goods or making available thereof to the recipient in any other case "Removal", in relation to goods, means dispatch of the goods for delivery by the supplier or collection of the goods by the recipient.

5.3 CREDIT NOTES AND DEBIT NOTES

In business transactions, especially under the Goods and Services Tax (GST) system in India, adjustments to the value of a supply may become necessary after the

original invoice has been issued. These adjustments may arise due to factors such as return of goods, price revisions, discounts, or errors in the invoice. To record such corrections formally, businesses issue Credit Notes or Debit Notes.

Credit notes and debit notes are important accounting and tax documents that help maintain accurate *financial records and ensure proper tax compliance*.

1. CREDIT NOTE

A Credit Note is a document issued by a seller to the buyer indicating that the buyer's account has been credited in the books of the seller. It is issued when the seller needs to reduce the value of the original invoice.

Under GST law (Section 34 of the GST Act), a credit note can be issued when the taxable value or tax charged in the invoice exceeds the actual amount payable.

A credit note is a written instrument issued by the supplier to adjust or reduce the value of a previously issued tax invoice due to returns, discounts, or overcharging.

(A). CIRCUMSTANCES OR REASONS FOR ISSUING CREDIT NOTES

A credit note may be issued in the following situations:

1. Return of Goods

When the buyer returns goods due to damage, defects, or non-conformity.

2. Excess Amount Charged

If the supplier mistakenly charges more than the actual value or tax amount.

3. Post-Sale Discount

When a discount is allowed after the invoice has been issued.

4. Cancellation of Transaction

If the transaction is partially or completely cancelled.

5. Defective or Substandard Goods

If goods supplied are of lower quality than agreed.

(B). CONTENTS OF A CREDIT NOTE

A credit note generally includes the following details:

1. Name, address, and GSTIN of the supplier
2. Nature of the document (Credit Note)
3. Unique serial number and date of issue
4. Name and GSTIN of the recipient
5. Reference to the original tax invoice
6. Description of goods or services
7. Taxable value and tax amount being reduced
8. Signature or digital signature of the supplier

Example

A company sells goods worth Rs.50,000 to a customer. Later, goods worth Rs.10,000 are returned due to defects. The seller issues a credit note for Rs.10,000, reducing the buyer's liability and adjusting the tax accordingly.

(c) IMPORTANCE OF CREDIT NOTES

- Corrects excess billing
- Facilitates tax adjustment under GST
- Maintains transparency in business transactions
- Helps maintain accurate accounting records

2. DEBIT NOTE

A Debit Note is a document issued by the buyer to the seller to indicate that the buyer's account has been debited in the books of the buyer due to certain

adjustments. Under GST provisions, a debit note may also be issued by a supplier when the taxable value or tax charged in the original invoice is less than the actual amount payable.

A debit note is a commercial document issued to increase the amount payable for a previously issued invoice.

(A). REASONS OR SITUATIONS FOR ISSUING DEBIT NOTES

1. Undercharging in the Original Invoice

When the seller charges less than the correct amount.

2. Additional Quantity Supplied

If additional goods are supplied but not included in the original invoice.

3. Increase in Price

If the price of goods or services increases after the invoice.

4. Correction of Invoice Errors

If the invoice contains incorrect taxable value or tax.

5. Additional Charges

When freight, packing, or service charges are added later.

(B). CONTENTS OF A DEBIT NOTE

A debit note usually contains:

1. Name and address of the supplier
2. GSTIN of supplier and recipient
3. Serial number and date
4. Reference to the original invoice
5. Description of goods/services
6. Amount being increased
7. Applicable tax details
8. Signature of the issuer

Example

A supplier issues an invoice for Rs.40,000, but later discovers that Rs.5,000 worth of goods were not included. The supplier issues a debit note for Rs.5,000, increasing the buyer's payable amount.

(C) . DIFFERENCES BETWEEN CREDIT NOTE AND DEBIT NOTE

Basis	Credit Note	Debit Note
Meaning	Document issued to reduce the invoice value	Document issued to increase the invoice value
Purpose	Adjust excess amount charged	Adjust short amount charged
Issued By	Generally issued by the seller	Can be issued by buyer or seller
Effect on Buyer	Reduces amount payable	Increases amount payable
Accounting Effect	Reduces sales	Increases purchase value
GST Impact	Reduces tax liability	Increases tax liability

5.4. RETURN OF GST, REFUNDS, PAYMENT OF TAX, ASSESSMENT AND AUDIT

The mechanisms of **GST returns, refunds, payment of tax, assessment, and audit** form the backbone of the GST administration system. These processes ensure that taxpayers comply with the law while enabling the government to monitor transactions and

collect revenue efficiently. A well-structured GST compliance system promotes transparency, reduces tax evasion, and supports the overall growth of the economy.

1. GST RETURNS

A GST return is a document containing details of income, purchases, sales, input tax credit (ITC), and tax liability that a taxpayer must file with the tax authorities. GST returns enable the government to track transactions and verify the tax liability of registered taxpayers.

(a). Objectives of GST Returns

1. To provide information about business transactions
2. To determine tax liability of taxpayers
3. To allow adjustment of Input Tax Credit (ITC)
4. To ensure transparency in tax administration
5. To prevent tax evasion

(b). Types of GST Returns

1. GSTR- 1

- Filed by registered taxpayers to report details of outward supplies (sales).
- Contains invoice-wise details of goods and services supplied.

2. GSTR- 3B

- A summary return showing total sales, purchases, ITC claimed, and tax payable.
- Filed monthly by most registered taxpayers.

3. GSTR-2A / GSTR-2B

- Auto-generated statement showing inward supplies (purchases).

4. GSTR-9

- Annual return filed by registered taxpayers summarizing yearly transactions.

5. GSTR-9C

- Reconciliation statement between financial statements and GST returns, generally certified by a Chartered Accountant.

(c) . Importance of Filing GST Returns

- Ensures legal compliance
- Helps claim input tax credit
- Facilitates tax reconciliation
- Avoids penalties and interest
- Maintains transparency in business operations

2. REFUNDS UNDER GST

A GST refund refers to the return of tax paid in excess or wrongly paid to the taxpayer by the government. Refunds help prevent the unnecessary blocking of working capital and promote export competitiveness.

(a). Reasons or Situations Where Refunds Can Be Claimed:

1. Excess payment of GST

2. **Export of goods or services (Zero-rated supply)**
3. **Accumulated Input Tax Credit**
4. **Tax paid on advance but supply not completed**
5. **Refund of tax to international tourists**
6. **Refund due to order of appellate authority or court**
7. **Incorrect classification or tax payment**

(b). Procedure for Claiming Refund

1. Filing Application

- Refund application is filed online in **Form GST RFD-01**.

2. Submission of Supporting Documents

- Invoices
- Shipping bills (for exports)
- Proof of tax payment

3. Verification by Tax Authorities

- Tax officer examines the claim.

4. Sanction or Rejection

- If valid, refund is sanctioned and credited to the taxpayer's bank account.

(c). Time Limit for Refund

Refund applications must generally be filed within two years from the relevant date.

(d). Importance of GST Refunds

- Improves liquidity of businesses
- Encourages exports
- Reduces tax burden on taxpayers
- Ensures fairness in taxation

3. PAYMENT OF TAX UNDER GST

Payment of GST refers to the process by which taxpayers discharge their tax liability to the government for the supplies made during a particular tax period.

(a). Modes of Payment

Taxpayers can pay GST through the following modes:

1. **Internet Banking**
2. **Debit or Credit Card**
3. **NEFT / RTGS**
4. **Over-the-counter payment through banks**

4. ASSESSMENT UNDER GST

Assessment refers to the process of determining the tax liability of a taxpayer under GST. Assessment ensures that the correct amount of tax is paid to the government.

Importance of Assessment

- Ensures correct tax calculation

- Prevents tax evasion
- Improves compliance
- Strengthens tax administration

(a). Types of Assessment under GST

The following types of assessment under GST :

1. Self-Assessment

- Taxpayer assesses his own tax liability and files returns accordingly.
- This is the most common form of assessment.
-

2. Provisional Assessment

- Applied when the taxpayer is unable to determine the value or tax rate.
- Tax officer allows payment of tax on a provisional basis.

3. Scrutiny Assessment

- Tax authorities examine the GST returns filed by taxpayers to verify their accuracy.

4. Best Judgment Assessment

- Conducted when a taxpayer fails to file returns.
- Tax officer determines tax liability based on available information.

5. Summary Assessment

- Conducted in special cases to protect government revenue.

5. AUDIT UNDER GST

A GST audit refers to the examination of financial records, returns, and other documents of a taxpayer to verify the correctness of turnover, taxes paid, and input tax credit claimed.

(a). Objectives of GST Audit

1. To ensure compliance with GST laws

2. To verify the accuracy of tax payments
3. To detect tax evasion or fraud
4. To ensure proper utilization of input tax credit

(b). Types of GST Audit

1. Audit by Tax Authorities

- Conducted by GST officers at the taxpayer's place of business.

2. Special Audit

- Ordered by tax authorities when the complexity of accounts requires examination by a **Chartered Accountant or Cost Accountant**.

3. Annual Audit

- Certain taxpayers must submit audited accounts along with annual GST returns.

(c). Procedure of GST Audit

- Issue of Notice
- Examination of Books of Accounts
- Verification of Returns and ITC
- Identification of discrepancies
- Preparation of audit report

(d). Importance of GST Audit

- Ensures tax transparency
- Promotes voluntary compliance
- Improves accuracy of financial reporting
- Protects government revenue

5.4. TAX AUDIT

Tax audit plays a crucial role in maintaining the integrity of the taxation system. It ensures that businesses maintain proper accounts, report income accurately, and comply with tax laws. Tax audits also help the government detect tax evasion and improve revenue collection.

In the modern taxation framework, tax audit serves as an essential tool for ensuring **financial discipline, regulatory compliance, and efficient tax administration**

A Tax Audit is an examination of the financial records of a taxpayer to ensure that the accounts are properly maintained and that the income, deductions, and taxes reported are accurate according to tax laws. In India, tax audits are mainly governed by the Income Tax Act, 1961, particularly under Section 44AB.

The main purpose of tax audit is to **ensure compliance with taxation laws, prevent tax evasion, and verify the correctness of financial statements submitted to tax authorities**. Tax audits enhance transparency and help the government assess the correct tax liability of taxpayers.

A Tax Audit refers to the verification of books of accounts and financial records of a taxpayer by a qualified professional such as a Chartered Accountant, to confirm that the taxpayer has complied with the provisions of tax laws.

It involves the systematic examination of:

- Books of accounts
- Financial statements
- Income and expenditure records
- Tax returns filed by the taxpayer

The auditor evaluates whether the taxpayer has correctly computed taxable income and paid the required taxes.

(a). Objectives of Tax Audit

The major objectives of tax audit include the following:

1. Verification of Financial Records

To verify whether the books of accounts maintained by the taxpayer are accurate and complete.

2. Compliance with Tax Laws

To ensure that the taxpayer complies with provisions of the **Income Tax Act, 1961** and other applicable regulations.

3. Detection of Errors and Fraud

To identify mistakes, misstatements, or fraudulent practices in financial records.

4. Determination of Correct Tax Liability

To assist tax authorities in determining the correct amount of tax payable by the taxpayer.

5. Prevention of Tax Evasion

To discourage taxpayers from concealing income or inflating expenses.

(b). Legal Provisions for Tax Audit

Tax audit provisions are mainly governed by Section 44AB of the Income Tax Act, 1961. According to this section, certain taxpayers must get their accounts audited if their turnover or receipts exceed prescribed limits.

(c). Threshold Limits for Tax Audit

Category	Turnover Limit
Business	₹1 crore (may be increased to ₹10 crore if cash transactions are limited)
Profession	₹50 lakh

Category	Turnover Limit
Presumptive Taxation (certain cases)	Audit required if income declared is lower than prescribed percentage

These limits may be revised by the government from time to time.

(d). Types of Tax Audit

1. Audit under Income Tax Act

Conducted under Section 44AB for taxpayers whose turnover exceeds the prescribed limit.

2. Audit under Other Laws

Certain businesses may also be subject to audit under other statutes such as:

- **Companies Act, 2013**
- **Goods and Services Tax Act**

3. Special Audit

In complex cases, tax authorities may order a special audit by a Chartered Accountant nominated by the government.

(E). Forms Used in Tax Audit

Tax audit reports are submitted in specific forms prescribed under the Income Tax Rules.

Form	Purpose
Form 3CA	When accounts are already audited under another law
Form 3CB	When accounts are not audited under any other law
Form 3CD	Detailed statement of particulars required for tax audit

These forms provide detailed information about financial transactions, deductions, compliance with tax provisions, and other relevant data.

(F). Procedure of Tax Audit

The process of conducting a tax audit generally involves the following steps:

1. Appointment of Auditor

The taxpayer appoints a **Chartered Accountant** to conduct the tax audit.

2. Examination of Books of Accounts

The auditor reviews financial records such as:

- Cash book
- Ledger
- Purchase and sales registers
- Bank statements

3. Verification of Income and Expenses

The auditor checks whether income and expenses are properly recorded and supported by evidence.

4. Compliance Verification

The auditor ensures compliance with tax provisions including:

- Deduction of Tax at Source (TDS)
- GST compliance
- Allowable deductions and exemptions

5. Preparation of Audit Report

The auditor prepares the tax audit report in prescribed forms.

6. Submission of Report

The report is electronically submitted to the Income Tax Department through the income tax e-filing portal.

(G). Advantages of Tax Audit

Tax audit offers several benefits to both taxpayers and the government.

1. Ensures Transparency

It promotes transparency in financial reporting.

2. Improves Accuracy

It helps in identifying accounting errors and correcting them.

3. Facilitates Tax Compliance

It ensures that taxpayers comply with tax laws.

4. Reduces Tax Disputes

Accurate reporting reduces disputes between taxpayers and tax authorities.

5. Strengthens Financial Management

It encourages proper maintenance of books of accounts.

(D). Penalty for Non-Compliance

If a taxpayer fails to conduct a tax audit when required, a penalty may be imposed under Section 271B of the Income Tax Act, 1961.

The penalty may be:

1. **0.5% of total turnover or gross receipts**, or
2. **₹1,50,000**, whichever is lower.

However, penalties may not apply if the taxpayer can prove **reasonable cause** for failure to conduct the audit.

5.5 TAX INCENTIVES AND EXPORT PROMOTIONS

Tax incentives and export promotion measures play a vital role in strengthening a country's international trade. By reducing the tax burden on exporters and providing supportive policies, the government encourages businesses to expand their presence in global markets. These initiatives contribute significantly to economic growth, foreign exchange earnings, and industrial development

1. TAX INCENTIVES

Tax incentives and export promotion measures are important tools used by governments to encourage **economic growth, industrial development, and international trade**. In India, the government provides several tax benefits and policy measures to promote exports and improve the country's balance of payments.

Export promotion policies aim to make domestic goods competitive in the global market by reducing tax burdens, providing financial support, and simplifying trade procedures. These incentives are implemented through laws such as the Income Tax Act, 1961, Customs Act, 1962, and the Central Goods and Services Tax Act, 2017.

Tax incentives **refer to concessions or relief provided by the government through the tax system to encourage certain economic activities such as exports, investments, research and development, and industrial growth.**

Tax incentives reduce the tax burden on businesses and encourage them to expand operations, invest in new technologies, and explore international markets.

(a). Objectives of Tax Incentives

1. To promote exports and foreign trade
2. To attract domestic and foreign investment
3. To encourage industrial development
4. To increase employment opportunities
5. To improve economic competitiveness

(b). Types of Tax Incentives

1. **Tax Holidays** – Exemption from tax for a specified period for new industries.
2. **Investment Allowances** – Deduction allowed for investment in plant and machinery.

3. **Accelerated Depreciation** – Higher depreciation rate allowed to reduce taxable income.
4. **Deductions and Exemptions** – Certain incomes are partially or fully exempt from tax.
5. **Concessional Tax Rates** – Reduced tax rates for specific industries or sectors.

(c) . Major Tax Incentives for Exporters in India

1. Duty Drawback Scheme

Under this scheme, exporters receive a refund of customs duties paid on imported inputs used in the production of export goods. The scheme is governed under the Customs Act, 1962.

Example:

If an exporter imports raw materials and pays customs duty, the duty paid can be refunded when the finished goods are exported.

2. GST Refund on Exports

Exports are treated as **zero-rated supplies** under the **Central Goods and Services Tax Act, 2017**. Exporters can claim:

- Refund of **Input Tax Credit (ITC)**
- Refund of GST paid on export goods or services. This reduces the tax burden on exporters.

3. Export Promotion Capital Goods (EPCG) Scheme

The EPCG scheme allows exporters to import capital goods at **zero or concessional customs duty** for producing export goods. Exporters must fulfill certain **export obligations** within a specified period.

4. Special Economic Zones (SEZ)

Special Economic Zones are designated areas where businesses receive various tax and regulatory benefits. These benefits include:

- Tax exemptions
- Duty-free imports
- Simplified customs procedures

SEZs are regulated under the Special Economic Zones Act, 2005.

5. Advance Authorization Scheme

This scheme allows duty-free import of raw materials used in the production of export goods. Exporters are required to fulfill export obligations after importing the inputs.

2. EXPORT PROMOTIONS

Export promotion refers to the various policies, incentives, and support measures provided by the government to encourage domestic producers to export goods and services to foreign markets. It helps increase foreign exchange earnings and strengthens the country's economy.

(a). Objectives of Export Promotion

- To increase foreign exchange earnings.
- To improve the balance of payments.
- To promote economic growth and industrial development.
- To expand international trade.
- To encourage domestic production.
- To create employment opportunities.
- To improve the global competitiveness of Indian products.

(b). Importance of Export Promotion

1. Helps in earning foreign currency.
2. Promotes large-scale production.
3. Improves technology and quality standards.

4. Expands market opportunities for producers.
5. Encourages industrialization and economic development.

(c). Export Promotion Measures in India

1. Duty Drawback Scheme

Under this scheme, exporters receive a refund of customs duties and excise duties paid on imported or domestically produced inputs used in the manufacture of export goods.

2. Export Promotion Capital Goods (EPCG) Scheme

This scheme allows the import of capital goods at concessional or zero customs duty for the production of export goods.

3. Special Economic Zones (SEZs)

SEZs are special areas where business and trade laws differ from the rest of the country. Industries located in SEZs receive tax benefits and better infrastructure to promote exports.

4. Export Processing Zones (EPZs)

EPZs are industrial zones established to encourage export-oriented industries by providing facilities and incentives.

5. Merchandise Exports from India Scheme (MEIS)

This scheme provides incentives to exporters of specified goods to enhance the competitiveness of Indian exports.

6. Service Exports from India Scheme (SEIS)

This scheme provides incentives to service providers in India who export services to other countries.

7. Export Credit Guarantee

The government provides insurance and credit facilities to exporters to protect them from risks such as non-payment by foreign buyers.

8. Export Finance

Banks provide financial assistance such as pre-shipment and post-shipment credit to exporters.

9. Free Trade Zones

Free trade zones are designated areas where goods can be imported, manufactured, and re-exported without customs duties.

10. Trade Promotion Organizations

Government agencies and export promotion councils help exporters by providing market information, training, and promotional support.

5.6. DEDUCTIONS AND EXEMPTIONS

In the taxation system, deductions and exemptions are important provisions that reduce the tax burden on taxpayers. These provisions are designed to encourage savings, investments, and socially desirable economic activities. In India, deductions and exemptions are mainly governed by the Income Tax Act, 1961.

Deductions and exemptions help individuals and businesses lower their taxable income, thereby reducing the amount of tax payable to the government. They also promote economic development by encouraging investments in sectors such as housing, insurance, education, and infrastructure.

1. EXEMPTIONS

Exemption refers to income that is completely excluded from taxation. Such income is not included in the computation of total income and therefore no tax is payable on it. Exemptions are provided to promote certain activities or provide relief to taxpayers.

(a). Features of Exemptions

1. Fully excluded from taxable income
2. Granted under specific provisions of tax law

3. Usually related to particular sources of income
4. Encourages economic or social welfare activities

(b). Types of Exemptions

1. Agricultural Income

Agricultural income earned in India is fully exempt from income tax. However, it may be considered for rate purposes in certain cases.

2. House Rent Allowance (HRA)

A portion of HRA received by salaried employees is exempt depending on:

- Salary, Rent paid and Place of residence

3. Leave Travel Allowance (LTA)

Exemption is allowed for travel expenses incurred by employees while travelling within India.

Conditions:

Available only for travel costs and Allowed for two journeys in a block of four years

4. Gratuity

Gratuity received by employees at the time of retirement or resignation is partially exempt depending on the category of employee.

5. Provident Fund

Amounts received from recognized provident funds are exempt subject to conditions such as minimum service period.

6. Scholarships

Scholarships granted to students for education purposes are fully exempt from tax.

7. Income of Charitable Institutions

Income earned by registered charitable or religious trusts may be exempt if it is used for charitable purposes.

(c). Purpose or Objectives of Exemptions

- Promote agriculture and rural development
- Encourage education and research
- Support charitable and social institutions
- Provide relief to specific categories of taxpayers

2. DEDUCTIONS

Deductions and exemptions are essential components of the income tax system. They reduce the tax burden on taxpayers while promoting savings, investments, and socially beneficial activities. By providing financial incentives, the government encourages economic growth and supports public welfare. Understanding these provisions helps taxpayers make better financial decisions and comply effectively with tax regulations

A deduction refers to an amount that is subtracted from the gross total income of a taxpayer to arrive at the taxable income. Deductions reduce the tax liability by allowing taxpayers to claim expenses, investments, or payments specified under tax laws.

$$\text{Taxable Income} = \text{Gross Total Income} - \text{Deductions}$$

Example : Gross Total Income = Rs.7,00,000

Deductions under different sections = Rs.2,00,000

Taxable Income = Rs.7,00,000 – Rs.2,00,000 = Rs.5,00,000

2. Objectives of Deductions

1. To encourage savings and investments.
2. To promote insurance and pension schemes.
3. To support education and healthcare expenditure.
4. To encourage charitable donations.

5. To reduce the tax liability of taxpayers.
6. To promote economic development and financial security.

3. Important Features of Deductions

1. Deductions are allowed after calculating Gross Total Income.
2. They are mainly available under Chapter VI-A of the Income Tax Act.
3. Most deductions are available to individuals and Hindu Undivided Families (HUFs).
4. Certain deductions are subject to maximum limits.
5. The taxpayer must satisfy specific conditions to claim deductions.

4. Major Deductions under the Income Tax Act

1. Section 80C – Deduction for Investments

Section 80C is the most widely used deduction. Maximum deduction allowed: ₹1,50,000. This deduction encourages long-term savings and investments.

Eligible Investments

- Life Insurance Premium
- Public Provident Fund (PPF)
- Employee Provident Fund (EPF)
- National Savings Certificate (NSC)
- Equity Linked Savings Scheme (ELSS)
- Sukanya Samriddhi Scheme
- 5-year tax saving bank deposits
- Tuition fees for children
- Repayment of housing loan principal

2. Section 80CCC – Pension Fund Contribution

Deduction is allowed for contributions made to pension funds of insurance companies. Purpose of these deductions is encourage individuals to build retirement savings.

3. Section 80CCD – National Pension System (NPS)

Deduction is allowed for contributions made to the following National Pension System and also encourages retirement planning. . Such as:

- **80CCD(1)** – Employee contribution
- **80CCD(1B)** – Additional deduction up to ₹50,000
- **80CCD(2)** – Employer contribution

4. Health-Related Deductions

i. Section 80D – Medical Insurance Premium

Deduction is allowed for **health insurance premiums** paid for Self, Spouse, Children , Parents and higher deductions are allowed for **senior citizens**. Purpose of this deductions is Promote **health insurance coverage** among taxpayers.

ii. Section 80DD – Disabled Dependents

Deduction is allowed for expenses incurred for **maintenance or medical treatment of disabled dependents**.

iii. Section 80DDB – Treatment of Specified Diseases

Deduction is allowed for **medical expenses for specified diseases** such as cancer or neurological diseases.

5. Education-Related Deductions - Section 80E – duction Loan Interest

Deduction is allowed for interest paid on loans taken for higher education.

Features:

- Available for **8 assessment years**
- No maximum deduction limit

- Loan must be taken from a **financial institution or approved charitable institution**

6. Deductions for Donations

Section 80G – Donations to Charitable Institutions

Deduction is allowed for donations made to approved funds and charitable institutions and to promote charitable and social welfare activities.

Types of Deduction

- 100% deduction without limit
- 50% deduction without limit
- 100% deduction with qualifying limit
- 50% deduction with qualifying limit

Examples:

- Prime Minister's National Relief Fund

7. Deductions for Interest Income –

i. Section 80TTA

Deduction allowed up to Rs. **10,000** for interest earned from savings bank accounts.

ii. Section 80TTB

Available for senior citizens. Maximum deduction: Rs. **50,000** on interest income from deposits.

9. Other Important Deductions

i. Section 80U

Deduction available for individuals with disabilities.

ii. Section 80GGC

Deduction for donations made to political parties.

5. Difference Between Deductions and Exemptions

Basis	Exemptions	Deductions
Meaning	Income not included in taxable income	Amount reduced from gross total income
Tax Impact	Completely tax-free	Reduces taxable income
Stage of Application	Before calculation of total income	After calculation of gross total income
Example	Agricultural income	Investments under Section 80C

5.7. REVIEW QUESTIONS

1. MULTIPLE CHOICE QUESTIONS (MCQS)

1. **A tax invoice under GST is issued by**

- a) Buyer
- b) Supplier
- c) Government
- d) Bank

Answer: b) Supplier

2. **A credit note is issued when**

- a) Goods are returned by the customer
- b) Goods are sold
- c) Payment is received
- d) Tax is paid

Answer: a) Goods are returned by the customer

3. **A debit note is issued when**

- a) Tax liability decreases
- b) Tax liability increases
- c) Goods are exported
- d) Goods are destroyed

Answer: b) Tax liability increases

4. **GST returns are filed through**

- a) Income Tax Portal
- b) GST Portal
- c) RBI Portal
- d) Customs Portal

Answer: b) GST Portal

5. **GSTR-1 contains**

- a) Details of outward supplies (sales)
- b) Details of inward supplies

- c) Details of tax payment
- d) Details of refunds

Answer: a) Details of outward supplies

6. Refund of GST can be claimed in case of

- a) Excess tax payment
- b) Export of goods or services
- c) Accumulated input tax credit
- d) All of the above

Answer: d) All of the above

7. Payment of GST is made through

- a) Electronic Cash Ledger
- b) Electronic Credit Ledger
- c) Electronic Liability Ledger
- d) All of the above

Answer: d) All of the above

8. Assessment under GST refers to

- a) Determination of tax liability
- b) Filing of returns
- c) Payment of tax
- d) Registration

Answer: a) Determination of tax liability

9. Tax audit under income tax is conducted when turnover exceeds the prescribed limit under

- a) Section 80C
- b) Section 44AB
- c) Section 10
- d) Section 139

Answer: b) Section 44AB

10. Tax incentives are provided mainly to

- a) Increase tax burden
- b) Encourage investment and exports
- c) Increase imports
- d) Reduce production

Answer: b) Encourage investment and exports

11. Deductions reduce

- a) Gross income
- b) Taxable income
- c) Sales turnover
- d) Capital

Answer: b) Taxable income

12. Agricultural income in India is

- a) Fully taxable
- b) Partially taxable
- c) Fully exempt from income tax
- d) Taxed under GST

Answer: c) Fully exempt from income tax

Small Questions – LOCF Mapping Table

S.No	Small Question	CO	Bloom's Level	PO
1	Define a tax invoice and explain its key components under GST.	CO1	Understand	PO2
2	Explain the purpose and procedure for issuing credit and debit notes in GST.	CO1	Understand	PO2
3	Describe the procedure for filing GST returns and their significance.	CO2	Apply	PO3
4	Explain the process of payment of GST and the modes of payment.	CO2	Apply	PO3
5	Discuss the procedure for claiming GST refunds and eligibility conditions.	CO3	Analyze	PO4

Big Questions – LOCF Mapping Table

S.No	Big Question	CO	Bloom's Level	PO
1	Explain the concept and components of a tax invoice under GST, and the purpose of credit and debit notes.	CO1	Understand	PO2
2	Describe the procedure for filing GST returns, including timelines and types of returns.	CO2	Apply	PO3
3	Explain the process of GST payment and the procedure for claiming refunds, including eligibility and documentation.	CO3	Analyze	PO4
4	Describe the assessment and audit process under GST, including types of assessment and objectives of tax audit.	CO4	Analyze	PO4
5	Discuss the tax incentives, export promotion schemes, deductions, and exemptions under GST, and their impact on businesses.	CO5	Evaluate	PO5

SUGGESTED FOR FURTHER READINGS

1. TEXT BOOKS	
1	V.S. Datey, Central Excise, JBA Publishers, Edition 2024. Reddy. T. S and Y. Hari Prasad Reddy.
2	Business Taxation (Goods & Services TAX - GST), Margam Publication, Edition 2024
3	Srinivasan N.P and Priya Swami. M, Business Taxation, Kalyani publishers Edition 2024.
4	VISION: Journal of Indian Taxation
2. REFERENCES BOOKS	
1	Senthil and Senthil, Business Taxation, Himalaya Publication, 4th Edition.
2	Vinodk.Singania, Indirect Tax, Sultan Chand and Sons, Edition 2024.
3	Dr. Rajani Bhat & Dr. Dhamodharan V, Indirect Taxation , TR Publications , Chennai , 2025
4	DR. Vandhana Bangar , Yogendra Bangar , Indirect tax laws, Aadhya Prakasam, Allahabad 2025
5	T.S. Reddy & Y. Hari Prasad Reddy , Business Taxation, Margham Publications, Chennai 2024.

3.WEB RESOURCES

1	https://www.gst.gov.in
2	https://gstcouncil.gov.in
3	https://taxguru.in/custom-duty/types-du
4	https://www.indiantradeportal.in/vs.jsp?lang=0&id=0,25,857,390