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TAX STRUCTURE IN INDIA

What is Tax?

Tax is a compulsory payment to be made by every resident of India.

Judge Cooley in his work on the “**Law of Taxation**” stated that Taxation is-

- A mode of raising revenue
- for public purpose
- the power of taxation is an essential and inherent attribute of sovereignty
- which belongs as a matter of right to every independent government.

Features of Tax

- ▶ Imposed under statutory power
- ▶ Compulsory payment
- ▶ Tax is made for public purpose
- ▶ No element of “Quid Pro Quo”
- ▶ Quantum of tax depends on capacity to pay
- ▶ Tax is the source of revenue to the government
- ▶ Evasion of tax is a crime

Taxes on basis of Incidence & Impact

Direct Taxes

Incidence & Impact of tax on same person

Burden of tax cannot be shifted.
For example:
Income Tax

Indirect Taxes

Incidence of tax on one person & Impact of tax on other person. Thus burden can be shifted
For example: GST

Incidence of Tax:
means the first
burden of tax.

- Falls on a person on whom tax levied for the first time
- Can be shifted to other persons

Impact of Tax:
means final
burden of tax.

- Falls on a person who ultimately bears the burden of tax i.e. the consumer

Direct Tax

Vs.

Indirect Tax

- First and final burden is on the same person.
- Example: say Income tax is levied on income of X, then X will have to pay it & bear it.
- These taxes are paid after the income reaches the hands of taxpayers.
- Tax evasion is comparatively more in unorganised sector.
- These taxes do not affect prices of goods & services.
- Control is relatively difficult. Therefore, these are difficult to collect.

- First and final burden of every indirect tax is on the consumer.
- Example: GST levied on the seller who sells the goods, the seller can shift it to his buyers.
- These taxes are paid before the goods/services reach the taxpayer.
- Tax evasion is comparatively less due to presence of organised sector.
- Tax on goods & services increase its price & reduces demand.
- Control is relatively easy. Therefore, these are easier to collect.

What is GST?

- GST is a comprehensive indirect tax which is levied on supply of goods or services or both which includes manufacturing, sale and consumption of both goods and services throughout India.
- It is a **consumption/destination based tax** i.e. tax will be payable in the state in which goods and services are finally consumed. It implies the destination state shall earn the tax revenue of GST.

- ▶ GST was implemented in India on 1st July, 2017.
- ▶ It is the biggest indirect tax reform in India since Independence.
- ▶ India has adopted Concurrent Dual GST Model for implementing GST, where both Central & State Govt. will levy tax concurrently.
- ▶ 23 taxes and 17 cesses have been subsumed in GST.
- ▶ There are 4 types of taxes under GST-
 - * SGST
 - * CGST
 - * UTGST
 - * IGST

SGST

- Levied by the respective state govt. on supply within state

CGST

- Levied by the central govt. on supply within state

UTGST

- Levied by central govt. on supply within UT

IGST

- Levied by central govt. on supply in the course of Inter state Trade or commerce

Tax levied on supply of goods or services or both

Intra-state
supply

- CGST & SGST shall be levied

Intra-UT
supply

- CGST & UTGST shall be levied

Inter-
state/Inter-UT
supply

- IGST shall be levied

Products outside the scope of GST in India

- ▶ **Manufacture of alcoholic beverages.**
- ▶ **Tobacco & tobacco products**
- ▶ **Specified Petroleum products such as-**
 - Crude Petroleum**
 - Diesel**
 - Petrol (motor spirit)**
 - Natural Gas**
 - Aviation turbine fuel**
- ▶ **Tax on Entertainment**

Pre-GST Regime

- I. Separate laws for separate levy. For e.g. Central Excise Act, respective State VAT laws.
- II. Tax is levied on manufacture & sale of goods & provision of services.
- III. Goods & services were taxed separately.
- IV. Tax burden on tax payer is high.
- V. Only intra-state transactions get input credit set-off.
- VI. Tax compliance was complex due to multiplicity of laws & various provisions.

GST Regime

- I. Only one law as GST has subsumed various taxes.
- II. GST is a destination based tax collected on final consumption.
- III. Goods & services both are subject to one tax.
- IV. Tax burden is expected to reduce since all taxes are integrated.
- V. Input credit set-off to be available for intra-state as well as inter-state transactions.
- VI. Tax compliance would be easier as only one law needs to be followed.

Thank
You!