B.COM.SEMESTER–3		
3	MAJOR7	PERSONAL TAX PLANNING & MANAGEMENT–1

Name of the Course: **PERSONALTAXPLANNING&MANAGEMENT– 1**
Total marks: **100**

PARTICULAR	NO.OF LECTURES
UNITNO.1: BASIC CONCEPTS	
- Introduction to Income Tax Act1961 - **Basic concepts (Only Theory):** Person, Assessee, Income, Gross Total Income, Total income, Exempted Incomes, Previous year, Assessment Year, Types of calculating Tax, Need of Tax Planning- Principles and objectives of Tax Planning, Obligations of parties to Tax Planning, Tax Avoidance and Tax Evasion- Legal thinking on Tax Planning, Tax Planning-Scope of Tax Planning. - **Tax Planning with reference to residential status:** Introduction, Residential status, Total income and Taxability, Deduction from Total Income, Exempted Income under section 10, Tax planning through exempted income for residents/ non-residents, Tax planning through permissible deductions for residents/non-residents, Practical Problems of Residential Status only. - **Theory + Practical Questions**	**15**
UNITNO.2: TAX PLANNING UNDER THE HEAD OF SALARYIN COME	
- Introduction - Income under the head “Salary” - Tax planning for salary income - Computation/Determination of income tax under the head of salary - Practical Questions	**15**
UNITNO.3: TAX PLANNING UNDER THE HEAD OF HOUSE PROPERTY	
- Introduction - Income under the head “House Property” - Tax planning for House Property incomes - Computation/Determination of income tax under the head of House Property - Practical Questions	**15**
UNITNO.4: TAX PLANNING UNDER THE HEAD OF INCOME FROM OTHER SOURCES	
- Introduction - Income under the head “Other Sources” - Tax planning for Income from other sources - Computation/Determination of income tax under the head of Other Sources - Practical Questions	**15**
Total Lectures/Hours	**60**

Q.1) Give a brief historical account of the Indian income tax act”

The Indian Income Tax Act has evolved from a temporary British colonial measure to a comprehensive modern fiscal system. Its development can be traced through four major historical phases:

- **The Birth of Income Tax (1860):**

Sir James Wilson, British India's first Finance Minister, introduced the first Income Tax Act in February 1860. It was enacted to cover the massive financial losses the British government suffered during the Military Mutiny of 1857.

- **Early Evolution (1886–1918):**

A formalized and separate Income Tax Act was passed in 1886. Following the economic fallout of World War I, this was replaced by the Income Tax Act of 1918.

- **The Foundation (1922):**

The Indian Income Tax Act of 1922 laid the groundwork for modern tax administration in India. It shifted tax administration from the provincial governments to the central government and gave specific nomenclature to income tax authorities.

- **The Modern Era (1961 to Present):**

After numerous amendments to the 1922 Act, the current **Income Tax Act, 1961** was enacted and came into effect on April 1, 1962. It governs all direct taxation in India today, categorizing taxable income into 5 distinct heads.

Q.2) Difference between direct tax and indirect tax giving illustration. which are the direct taxes levied in India:

Direct taxes are levied directly on an individual's or entity's income and assets, and the burden cannot be shifted. **Indirect taxes** are levied on goods and services, and the financial burden is passed along to the end consumer.

Key Differences & Illustrations

Feature	Direct Tax	Indirect Tax
Who Pays	The person or entity earning the income.	The end consumer at the time of purchase.
Burden Transfer	Cannot be shifted to anyone else.	Can be passed on through the supply chain.
Nature	**Progressive**; higher earners pay a higher percentage.	**Regressive**; everyone pays the same flat tax amount, regardless of income.
Administered By	Central Board of Direct Taxes (CBDT).	Central Board of Indirect Taxes and Customs (CBIC).

- **Illustration of Direct Tax:**

If you earn a salary, your employer deducts **Income Tax** and deposits it with the government. You alone bear the cost of this tax; you cannot ask your landlord or your local shop to pay a portion of it for you.

- **Illustration of Indirect Tax:**

When you buy a smart phone, the retailer charges you **Goods and Services Tax (GST)** on the total price. The retailer pays this collected tax to the government, but the financial burden has been passed from the manufacturer down to you, the end consumer.

Q.3) SHORT NOTE:

A. Direct Taxes Levied in India

In India, direct taxes are governed by the Income Tax Act. The major direct taxes include:

- **Income Tax:**

Levied on the annual income of individuals, Hindu Undivided Families (HUFs), and other non-corporate entities.

- **Corporate Tax:**

Levied on the net profits and gains made by domestic and foreign companies operating in India.

- **Capital Gains Tax:**

Incurred when you profit from the sale of a capital asset, such as real estate, gold, or shares.

- **Securities Transaction Tax (STT):**

A tax levied on the purchase and sale of securities listed on recognized stock exchanges in India

B. Write a note on merits and demerits of direct tax

Direct taxes are levied directly on an individual's or organization's income and wealth (e.g., income tax, corporate tax). Their primary advantage is that they promote **economic equality** through progressive tax structures, where wealthier individuals pay a higher percentage of their earnings to help redistribute wealth.

Merits of Direct Tax

- **Equitable and Progressive:**

Based on the principle of ability to pay, meaning those who earn more contribute more. This helps bridge the wealth gap.

- **Certainty:**

Taxpayers know exactly how much they owe and when it is due, which allows for better financial and expense planning.

- **Civic Consciousness:**

Because the tax is felt directly, citizens are often more aware of government spending and hold officials more accountable.

- **Reduces Inflation:**

By siphoning excess disposable income from circulation during economic booms, direct taxes can help cool down market demand and stabilize prices.

- **Productive and Elastic:**

Revenues tend to grow automatically alongside national wealth and income increases.

Demerits of Direct Tax

- **Possibility of Evasion:**

Since it relies on self-reporting, direct taxation can be subject to tax evasion and underreporting of income.

- **Inconvenient:**

Unlike taxes built into retail goods, paying a large lump sum directly from income can cause financial strain and is often unpopular among taxpayers.

- **Disincentive to Work and Save:**

High tax rates in higher income brackets may discourage individuals from working extra hours, pursuing career advancement, or making significant investments.

- **Administrative Complexity:**

Filing direct tax returns requires extensive documentation, and calculating tax liabilities can be time-consuming and complicated for the average citizen.

C. Give two examples each of direct tax and indirect taxes

Direct taxes are paid directly by individuals or entities to the government, while indirect taxes are levied on goods and services and collected by intermediaries.

Examples of Direct Tax

- **Income Tax**:

Levied directly on the earnings, salary, or business profits of individuals and organizations.

- **Corporate Tax**:

Imposed on the net profits or revenue earned by companies.

Examples of Indirect Tax

- **Goods and Services Tax (GST)**:

An umbrella consumption tax added to the price of most goods and services at the point of sale.

- **Customs Duty**:

A tariff or tax placed on goods imported (and sometimes exported) across international borders.

Q.4) Slab system is just and progressive as compared to step system explain with illustration:

The income **slab system** is fairer and more progressive than the **step system** because it taxes only the portion of income that falls within a specific bracket rather than subjecting a taxpayer's *entire* income to a single, suddenly higher rate. **The Step System (The Flawed Method)** Under a theoretical step system, your entire income is taxed at the rate determined by the highest bracket you reach. This can cause a "tax cliff" where earning an extra dollar results in taking home less net pay.

The Slab System (The Just and Progressive Method)

Under a slab system, income is divided into ranges (slabs), and each range has its own distinct rate. You pay a specific percentage only on the portion of your earnings that fits within that specific slab, entirely eliminating the tax cliff.

Step-by-Step Illustration

Let's use a simplified hypothetical tax framework to illustrate both systems:

- **Slab 1:** Income up to \(\$10,000\) taxed at **\(0\%\)**
- **Slab 2:** Income between \(\$10,001 - \$50,000\) taxed at **\(10\%\)**
- **Slab 3:** Income above \(\$50,000\) taxed at **\(20\%\)**

Scenario 1: A taxpayer earns \(\$55,000\)

- **Under the Step System:**

Since the total income (\(\$55,000\)) exceeds \(\$50,000\), the **entire** amount is taxed at the highest rate (\(20\%\)).

Total Tax = \(20\% \times \$55,000 = \mathbf{\$11,000}\)

- **Under the Slab System:**

The income is divided into portions and taxed individually:

- **First portion \((\$0 - \$10,000)\):** \(0\% \times \$10,000 = \$0\)
- **Second portion \((\$10,001 - \$50,000):\)** \(10\% \times \$40,000 = \$4,000\)
- **Third portion \((\$50,001 - \$55,000):\)** \(20\% \times \$5,000 = \$1,000\)

Total Tax = \(\$0 + \$4,000 + \$1,000 = \mathbf{\$5,000}\)

Q.5) Short note :

1. Finance act

The Finance Bill is a crucial part of India's Union Budget, outlining all the legal changes needed for proposed adjustments in taxation set by the Finance Minister. To make these changes official, the lower house of Parliament, Lok Sabha, must approve the Finance Bill as a Money Bill. Once Lok Sabha gives the green light, the Finance Bill transforms into the Finance Act.

In this article, we'll break down what is Finance Act and take a closer look at the different sections that make up this yearly financial legislation.

What Is the Finance Act?

The Finance Act involves essential adjustments in both direct taxes (like income tax and wealth tax) and indirect taxes (including excise duties, customs duties, and service tax), representing the policy decisions of the Union Government.

Usually unveiled in the final week of February each year, the Finance Bill carries amendments for direct and indirect taxes. It was introduced in Parliament by the Finance Minister.

After being presented, the finance bill undergoes examination and necessary changes in both houses of Parliament. Once Parliament approves it, the bill heads to the President for their approval. Upon receiving the President's nod, the finance bill transforms into the Finance Act.

The effective date for applying the provisions outlined in the Annual Finance Act is typically mentioned in the official gazette or within the Act itself. Generally, the changes introduced by the Finance Act become applicable from the start of the next financial year. In the context of indirect taxes, the ad valorem tax rates (tax rates based on value) become effective from midnight of the date of the Union Budget presentation.

2. Income tax act 1961

The **Income Tax Act, 1961** is the foundational legal framework governing the levy, collection, and administration of direct taxes in India. Enacted to enforce progressive taxation, it ensures equitable wealth distribution while generating essential revenue for the central government.

1) Key Concepts

- **Applicability**:

Extends across the whole of India and came into force on April 1, 1962. It currently features over 900 sections divided into 23 chapters.

- **Direct Tax**:

Borrows the primary principle that the burden is borne by the taxpayer directly and cannot be transferred.

- **Previous Year vs. Assessment Year**:

Income is earned in the **Previous Year** and evaluated/taxed in the following **Assessment Year**.

2) Charging Section (Section 4)

This is the heart of the Act. It establishes that income tax must be charged for every assessment year at the rates prescribed by the **Annual Finance Act** on the total income of the previous year of every person.

3) Five Heads of Income

All taxable income is classified into specific categories:

- **Salary**:

Remuneration from employment.

- **House Property**:

Rental income derived from a building or land appurtenant thereto.

- **Profits and Gains of Business or Profession (PGBP)**:

Income earned from commercial or professional activities.

- **Capital Gains**:

Profits made from the transfer of a capital asset.

- **Income from Other Sources**:

Residual incomes like lottery winnings or bank interest.

4) **Residential Status (Section 6)**

An assessor's tax liability in India is heavily dependent on their residential status, which dictates whether domestic or global income is taxed:

- **Resident and Ordinarily Resident (ROR)**:

Taxed on global income.

- **Resident but Not Ordinarily Resident (RNOR)**:

Taxed on Indian income and foreign income from a business controlled/profession set up in India.

- **Non-Resident (NR)**:

Taxed only on income that accrues, arises, or is received in India.

5) **Essential Administrative Bodies**

- **CBDT**:

The Central Board of Direct Taxes manages and administers the Act.

- **Finance Act**:

Passed by Parliament annually to tweak tax slabs, rates, and limits based on the economic situation

3. Methods of assessing income tax

Income tax assessment is the process by which the tax authorities verify the income reported by a taxpayer, calculate the tax liability, and check for any discrepancies. Under the Income-Tax Act, 1961, this is broken down into five primary methods or types of assessments.

Here is a quick overview of the different methods:

- **Self-Assessment (Sec. 140A):**

Taxpayers calculate their own total income, claim eligible deductions, and pay any remaining tax due *before* filing their Income Tax Return (ITR).

- **Summary Assessment (Sec. 143(1)):**

A preliminary, automated review of the filed ITR. The department cross-checks the data to adjust for mathematical errors, arithmetical inconsistencies, and incorrect claims without requiring the taxpayer's presence.

- **Scrutiny Assessment (Sec. 143(3)):**

A detailed, in-depth examination of the ITR. Tax officers may require the taxpayer to submit books of accounts, bills, and other evidence to verify the genuineness of the income and deductions claimed.

- **Best Judgment Assessment (Sec. 144):**

Conducted if a taxpayer fails to file a return, respond to statutory notices, or maintain reliable accounting records. The Assessing Officer computes the income to the best of their judgment based on all available material.

- **Income Escaping / Reassessment (Sec. 147):**

Initiated if the Income Tax Department has reasons to believe that some of the taxpayer's income has escaped assessment (e.g., unreported foreign income or undisclosed assets)

4. Slab system

The income tax slab system is a progressive taxation structure where higher income levels are taxed at higher rates. Tax is applied to specific *portions* of income rather than the entire amount. Taxpayers can choose between the **New Tax Regime** (default) or the **Old Tax Regime**.

➢ **<u>Quick Features of the Slab System</u>**

- **Progressive Nature:**

As your income increases, the percentage of tax you owe increases in steps.

- **Basic Exemption:**

Income up to a specific limit (e.g., up to ₹4 lakh in the new regime) is tax-free.

- **Marginal Calculation:**

You do not pay the highest tax rate on your *total* income; you only pay a higher rate on the amount that exceeds the lower slab.

- **Rebates:**

Taxpayers with low taxable income can receive full tax rebates (e.g., under Section 87A) to zero out their tax liability.

- **Cess & Surcharge:**

A Health & Education Cess (4%) is added to your total tax liability, and a Surcharge applies to very high-income earners.

➢ **<u>Current Slab Rates</u>**

Tax rates and exemption limits depend on which of the two regimes you fall under:

1. New Tax Regime (Default)

Taxable Income Range	Tax Rate
Up to ₹4,00,000	Nil
₹4,00,001 to ₹8,00,000	5%
₹8,00,001 to ₹12,00,000	10%
₹12,00,001 to ₹16,00,000	15%

₹16,00,001 to ₹20,00,000	20%
₹20,00,001 to ₹24,00,000	25%
Above ₹24,00,000	30%

2. **Old Tax Regime (Optional)**

Taxable Income Range	Tax Rate
Up to ₹2,50,000	Nil
₹2,50,001 to ₹5,00,000	5%
₹5,00,001 to ₹10,00,000	20%
Above ₹10,00,000	30%

(Note: Under the old regime, basic exemption limits vary depending on age; it is ₹3 lakh for senior citizens (60-80 years) and ₹5 lakh for super senior citizens (80+ years).)

➢ **New vs. Old Regime**

- **New Regime:**

Features lower slab rates and a higher basic exemption, but restricts the use of most deductions (like Section 80C) and exemptions. Salaried taxpayers also get a flat standard deduction.

- **Old Regime:**

Allows for popular tax-saving deductions (Section 80C, HRA, home loan interest, etc.) but has higher slab rates.

5. Income tax and surcharge

An **income tax** is a direct tax levied by the government on an individual's or entity's earnings. A **surcharge** is an additional tax on top of your income tax liability. It applies only to high-income earners to promote economic equity, and it is calculated as a percentage of the calculated tax, not your gross income.

Here is a quick breakdown of how these concepts work:

1) **Income Tax**
- **Definition:**

A percentage of your taxable income paid to the government. It funds public services, infrastructure, and defense.

- **Calculation:**

In India, this is computed by subtracting allowable deductions and exemptions from your gross total income and applying the applicable Income Tax Slab Rates.

2) **Surcharge**
- **Definition:**

An additional charge or "tax on tax" levied exclusively on taxpayers falling into higher income brackets.

- **Application:**

It applies only if your taxable income crosses a specific threshold (e.g., in India, it generally applies to incomes over ₹50 lakh).

- **Calculation:**

If your income is ₹60 lakh, and your calculated income tax is ₹15 lakh, the surcharge is applied to the ₹15 lakh, not the ₹60 lakh.

- **Rates:**

Surcharge rates are **progressive**, meaning they increase as your income tier increases.

Q.6) SCHEME OF INCOME-TAX

The **Scheme of Income-Tax** refers to the step-by-step legal framework used to calculate and collect tax in India. It begins by determining an entity's residential status, classifying income across **5 heads**, calculating gross taxable income, and applying either the **Old or New Tax Regime** to arrive at the final tax liability.

1) Residential Status

Tax liability depends strictly on a person's residency. Indian tax laws define three categories based on physical stay:

- **Resident and Ordinarily Resident (ROR)**
- **Resident but Not Ordinarily Resident (RNOR)**
- **Non-Resident (NR)**

2) The 5 Heads of Income

All taxable income is categorized into one of five specific buckets:

- **Salary:** Income from employment.
- **Income from House Property:** Rental income.
- **Profits and Gains of Business or Profession (PGBP):**

Profits from running a business or practicing a profession.

- **Capital Gains:**

Profits from the sale of assets (like property or shares).

- **Income from Other Sources:**

Interest income, dividends, lottery winnings, etc.

3) Computation Process

- **Gross Total Income:**

The sum of incomes computed across all 5 heads.

- **Net Taxable Income:**

Subtracting eligible tax deductions from the Gross Total income.

4) Tax Regimes (Slab Rates)

Taxpayers can calculate their tax using two distinct systems:

- **Old Tax Regime:**

Features a lower basic exemption limit (typically ₹2.5 - ₹3 lakhs depending on age) but allows claiming various deductions and exemptions (such as 80C, 80D, and HRA).

- **New Tax Regime:**

The default regime, which offers higher basic exemption thresholds and a **Standard Deduction** but restricts almost all other tax-saving investments and deductions.

5) Surcharge and Cess

After calculating the preliminary tax based on the slab rates, the following are applied:

- **Surcharge:**

An additional percentage levied on higher-income brackets (varies by income).

- **Health and Education Cess:**

A flat **4%** applied to the total sum of Income Tax and Surcharge.

6) Advance Tax, TDS, and ITR Filing

- **TDS/TCS:**

Tax is deducted at the source of income to ensure the early flow of revenue to the government.

- **Advance Tax:**

Taxpayers pay their tax liability in installments throughout the financial year if their total tax liability exceeds a specific threshold.

- **ITR Filing:**

Taxpayers must formally declare their income and claim refunds (if excess tax was deducted) by filing an Income Tax Return (ITR) at the end of the year.

Q.7) Custom duty:

Custom duty is an indirect tax levied by governments on goods and services as they cross international borders. It generally takes the form of **import duty** (on incoming goods) or **export duty** (on outgoing goods) and is primarily used to generate revenue and protect domestic industries from foreign competition.

Key Objectives

- **Revenue Generation:**

Functions as a significant income source for the government to fund public services and infrastructure.

- **Protecting Domestic Industries:**

Shields local businesses by making foreign goods relatively more expensive, preventing unfair pricing or "dumping".

- **Trade Regulation:**

Controls the inflow and outflow of restricted or prohibited items to protect national security and the environment.

Common Types of Customs Duty

Depending on the country and product type (e.g., within India), duties are generally calculated as a percentage of the item's assessable value (cost, insurance, and freight):

- **Basic Customs Duty (BCD):**

The standard core tax imposed on imported goods.

- **Integrated Goods and Services Tax (IGST):**

A multi-stage tax applied on imported goods at the point of entry to ensure parity with domestic taxation.

- **Social Welfare Surcharge:**

An additional charge levied on the BCD to fund specific public welfare initiatives.

- **Protective/Anti-Dumping Duty:**

Special, higher duties imposed if a product is being imported at prices significantly lower than its fair market value.

<u>Regulatory Framework (India Context)</u>

In India, the levy and collection of these taxes are primarily governed by the **Customs Act of 1962** and the **Customs Tariff Act of 1975**. The administration is managed by the Central Board of Indirect Taxes and Customs (CBIC).

Q.8) Explain Direct taxes:

A direct tax is a levy paid straight to the government by the individual or entity on whom it is imposed. The **burden cannot be shifted** to anyone else. In India, these taxes are governed by the Central Board of Direct Taxes (CBDT) under the Ministry of Finance.

<u>Key Characteristics</u>

- **Non-transferable:**

The taxpayer is solely responsible for discharging the liability.

- **Progressive Nature:**

Taxes generally increase as income or profit increases.

- **Wealth Redistribution:**

Helps bridge the economic gap by taxing high earners more to fund public welfare.

<u>Major Types of Direct Taxes</u>

1. **Income Tax:**

Levied on the annual earnings of individuals, Hindu Undivided Families (HUFs), and firms based on specific tax slabs.

2. **Corporate Tax:**

Imposed on the net profits earned by domestic and foreign companies operating within the country.

3. **Capital Gains Tax:**

Charged on profits made from selling capital assets like real estate, stocks, or mutual funds (classified into Short-Term and Long-Term).

4. **Securities Transaction Tax (STT):**

Collected directly when buying or selling shares and securities on stock exchanges.

Core Benefits

- Promotes **economic equality**.
- Brings **certainty and clarity** to tax liabilities.
- Provides the government with a powerful tool to **control inflation.**

Q.9) Value added tax

Value Added Tax (VAT) is a multi-stage indirect consumption tax levied on goods and services. It is applied at each stage of the supply chain—from production to final sale—based on the value added to the product at that specific step.

How VAT Works (The Tax Credit System)

Unlike traditional sales tax, which taxes the entire gross price at retail, VAT eliminates the "cascading effect" (tax-on-tax) by taxing only the value added by each business.

- **Input Tax:**

The VAT a business pays when purchasing raw materials or goods for its operations.

- **Output Tax:**

The VAT a business collects from consumers when selling the finished product.

- **Calculation:**

Businesses calculate their liability using the formula: \(\$ \text{VAT Liability} = \text{Output Tax} - \text{Input Tax} \$ \)

Key Characteristics

- **Indirect Tax:**

Consumers ultimately bear the cost, while businesses act as tax collectors, remitting the collected amounts to the government.

- **Multi-stage:**

Applied across manufacturing, distribution, and retail.

Context in India

Before the implementation of the Goods and Services Tax (GST) in 2017, VAT was the primary state-level tax on the sale and purchase of goods in India. While GST has subsumed most VAT, a few specific items (such as petroleum products and alcohol for human consumption) are still governed by the state-level VAT regime.

Q.10) Excise duty:

An excise duty is an **indirect tax** levied on the **manufacture, production, or domestic sale of specific goods** within a country. Unlike sales tax, which applies at the point of purchase, excise duty is imposed at the factory or production level, though the cost is usually passed on to the final consumer.

Core Characteristics

- **Taxable Event:**

The actual act of manufacturing or producing the goods. It is triggered when items are removed from the production facility or warehouse.

- **Indirect Tax:**

Paid directly to the government by the manufacturer, but the economic burden is absorbed by the consumer through the retail price.

- **Targeted Products:**

Typically applied to specific, heavily regulated items like **alcohol, tobacco, and petroleum products**.

How It Works in India

- **Central Excise Duty:**

Traditionally levied by the central government on goods manufactured in India.

- **GST Impact:**

With the implementation of the Goods and Services Tax (GST), central excise duties were subsumed for most manufactured goods.

- **Current Application:**

Today, it primarily remains applicable to non-GST items, such as **petroleum products** and **alcoholic beverages**.

Excise vs. Customs

- **Excise Duty:**

Charged on goods produced **domestically**.

- **Customs Duty:**

Charged on goods that cross international borders (imports and exports).

Q.11) Indirect taxes

An indirect tax is a levy applied to the consumption of goods and services rather than on personal income or wealth. The financial burden is **shifted from the seller to the end consumer**. The seller collects the tax and remits it to the government, making the person who pays the tax different from the one who bears its cost.

Key Features

- **Burden Shifting:**

The primary burden falls on the supplier, who passes it onto the consumer by embedding the tax in the retail price.

- **Included in Price:**

Unlike direct taxes (which are paid separately), indirect taxes are invisible to the consumer at the point of purchase, as they are part of the total price.

- **Regressive Nature:**

Indirect taxes affect all consumers equally, meaning lower-income individuals pay the same absolute tax amount as high-income earners for the same item.

- **Commodity-Based:**

They are triggered during the production, sale, or import of a product or service.

Common Examples

- **Goods and Services Tax (GST):**

The primary indirect tax used in India, which consolidated multiple previous taxes (like VAT and Service Tax) into a unified framework.

- **Customs Duty:**

A tax levied on goods and services imported into or exported out of the country.

- **Excise Duty:**

A tax imposed on the production or licensing of specific goods within a country.

Q.12) Good and service tax(GST)

Goods and Services Tax (GST) is a comprehensive, multi-stage, destination-based indirect tax levied on the supply of goods and services. Introduced in India on July 1, 2017, it replaced numerous indirect taxes like VAT, Service Tax, and Excise Duty, uniting the country under the "One Nation, One Tax" system.

Core Concepts

- **Multi-Stage:**

Tax is applied at every point of value addition in the supply chain, from manufacturer to the final consumer.

- **Destination-Based:**

Tax revenue goes to the state or region where the goods or services are consumed, rather than where they were manufactured.

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

Businesses can claim credit for the GST paid on raw materials and business expenses, eliminating the "tax-on-tax" (cascading) effect.

Types of GST

For domestic transactions, GST is categorized into three main components:

- **CGST (Central GST):**

Collected by the Central Government for intra-state sales.

- **SGST (State GST):**

Collected by the State Government/Union Territories for intra-state sales.

- **IGST (Integrated GST):**

Collected by the Central Government on inter-state sales and imports. The revenue is subsequently shared between the Centre and the destination state.

Tax Slabs

In India, GST rates are broadly classified into standardized slabs to keep essentials affordable and luxuries highly taxed:

- **Standard Rates:** 5%
- **Standard Rates:** 18%

- **Standard Rates:** 40%
- **Special Rates:** 3% (e.g., gold) and 0.25% (e.g., precious stones)

Key Benefits

- **Removes Cascading Effect:**

Eliminates "tax on tax," thereby lowering the final cost of goods for consumers.

- **Unified Market:**

Created a common national market, streamlining the movement of goods.

- **Simplified Compliance:**

Replaced a complex web of varying state taxes with a centralized, digital system.

Registration and Compliance

Businesses are generally required to register when their annual turnover exceeds specific thresholds. Upon registration, they are allotted a 15-digit, PAN-based **GST Identification Number (GSTIN)**.