Unit 5 — Goods and Services Tax (GST)

Tax Planning & Management | BMB FM 02 / KMB FM 02

Unit 5: Goods and Services Tax (GST)

Syllabus: Introduction to GST — GST concepts; advantages and limitations of VAT; GST as the preferred tax structure; model of GST; need for tax reforms; GST principles — single GST and dual GST; transactions covered under GST; impact of GST; registration and filing; rates of tax in foreign countries and in India; assessment and administration of GST.

> **YAHAN 90% STUDENTS GALTI KARTE HAIN**
>
> GST rates aur thresholds GST Council ke faislon se badalte rehte hain. Ye notes **structure, concepts aur mechanism** par focus karte hain, jo stable hain. Current rates confirm kar lena.

Exam Blueprint (2025-26 paper)

Topic	2025-26 paper	Marks
GST meaning + advantages and limitations of VAT	Section B	7
GST structure — CGST, SGST, IGST	Syllabus weight	7
Registration and returns	Syllabus weight	7
Input Tax Credit	Syllabus weight	7

> **YE QUESTION BAAR-BAAR AAYA HAI**
>
> 2025-26 me ek combined question aaya — *"What do you understand by GST? Discuss their advantages and limitations of VAT."* Matlab GST aur VAT dono ek hi answer me. Section 2 aur 3 milakar padhna.

1. The Need for Tax Reform — the pre-GST problem

1.1 Indirect Taxes Before GST

Before 1 July 2017, India had a fragmented indirect tax system:

Central taxes: Central Excise Duty, Additional Excise Duty, Service Tax, Countervailing Duty (CVD), Special Additional Duty (SAD), central surcharges and cesses. **State taxes:** VAT/Sales Tax, Central Sales Tax (CST), Entertainment Tax, Luxury Tax, Entry Tax/Octroi, Purchase Tax, taxes on lottery and betting, state cesses.

1.2 Problems with the Old System

1. **Cascading effect — "tax on tax"** — the single biggest problem. Credit of central taxes could not be set off against state taxes and vice versa, so tax accumulated at every stage and became part of the cost of the next stage
2. **Multiplicity of taxes** and of authorities, each with its own return, rate and procedure

3. **No uniformity** — every state had different rates and rules for the same product
4. **Barriers to inter-state trade** — CST was non-creditable, and check-posts caused long delays
5. **Complex compliance** — separate registrations, returns and assessments for each tax and each state
6. **Narrow tax base** with many exemptions, and consequent **high rates**
7. **Litigation** over classification (goods vs services, manufacture vs sale)
8. **India was not a single common market** despite being one country

> **EXAM TIP - AISE LIKHO**
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> Ek line jo GST ke har answer me fit hoti hai: *"GST was introduced to convert India into **'One Nation, One Tax, One Market'** by removing the cascading effect and unifying a fragmented indirect tax system."*

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2. Value Added Tax (VAT) — concepts, advantages and limitations

2.1 What is VAT

> **DEFINITION - RATTA MAARO**
>
> **Value Added Tax (VAT)** is a **multi-point indirect tax levied on the VALUE ADDED at each stage of production and distribution**, with a **credit (set-off) allowed for the tax paid on inputs**, so that the tax is effectively borne only on the incremental value created at each stage and ultimately by the **final consumer**.

VAT replaced the old single-point sales tax in Indian states from **2005**, and was itself subsumed into GST in **2017**.

2.2 How VAT Works — the value-addition principle

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Stage         Purchase   Value    Sale    VAT @10%    Input    VAT
                price     added   price   on sale     credit   PAID
──────────────────────────────────────────────────────────────────
Manufacturer     0         100     100       10          0       10
Wholesaler     100          50     150       15         10        5
Retailer       150          50     200       20         15        5
──────────────────────────────────────────────────────────────────
TOTAL VAT collected by the government                          = 20
(= 10% of the final price of 200 — no cascading)
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The key insight: each dealer pays tax only on **his own value addition**, because he gets credit for the tax already paid by the previous stage. The final consumer bears the whole Rs. 20.

2.3 Advantages of VAT — 7-mark question

1. **Removes the cascading effect** within its scope — tax is charged only on value added, not on tax
2. **Neutrality** — the tax does not distort the choice of production method or the number of stages in the chain
3. **Transparency** — the buyer knows exactly how much tax is included in the price
4. **Self-policing mechanism** — to claim input credit, a dealer must produce the seller's invoice; this creates an **automatic audit trail** and encourages compliance across the chain
5. **Broader tax base** and higher revenue for the government at lower rates
6. **Reduces tax evasion**, because of the invoice-matching trail
7. **Certainty and simplicity** compared with a cascading turnover tax
8. **Encourages exports** — exports are **zero-rated**, so no domestic tax is exported
9. **Fewer rates and fewer exemptions**, reducing classification disputes