

CORPORATE TAX AND GST (AMENDED ON 03.05.2018) – UNIT – IV

Corporate Tax Planning, Income Tax, Goods and Services Tax, Introduction and Objectives - Classification of GST, Practical Implications of GST.

Table of Contents

4.1 Corporate Tax Planning	3
4.1.1 Tax Planning Meaning	3
4.1.2 Tax Avoidance Meaning	3
4.1.3 Tax Evasion Meaning	3
4.1.4 Tax Management Meaning.....	3
4.1.5 Objectives of Tax Planning	4
4.1.6 Factors serving as basis for Tax Planning	4
4.1.7 Specific Management Decisions	4
4.1.8 Tax planning in case of employee’s remuneration	5
4.1.9 Assessment Year: [SEC. 2(9)]	6
4.1.10 Previous Year: [Sec. 3]	6
4.1.11 Assessee: [Sec. 2(7)]	6
4.1.12 Assessment: U/S 2(8)	6
4.1.13 Residential Status	7
4.1.14 Different Kinds of Residential Status	7
4.1.15 Scope or Areas of Tax Planning in Income Tax	8
4.1.16 The Function of the Tax Management Department	10
4.1.17 Corporate Taxation in India	11
4.1.18 Corporate Tax Rates	12

KV Institute of Management and Information Studies
BA5104 – Legal Aspects of Business

4.2 Income Tax	15
4.2.1 Agricultural Income	15
4.2.2 Documents required for tax filing	15
4.2.3 Income tax slab rates	16
4.2.4 Income tax returns (ITR)	16
4.2.5 Claiming refund of taxes paid	16
4.2.6 Late filing of income tax returns	16
4.2.7 Permissible deductions from gross total income	16
4.2.8 Amendment in income tax	17
4.3 GST – GOODS AND SERVICE TAX IN INDIA	20
4.3.1 What is GST?	20
4.3.2 Why is GST needed in India?	21
4.3.3 Impact of GST on Indian Economy	21
4.3.4 Impact of GST on Consumers	21
4.3.5 Impact of GST on Traders	22
4.3.6 What are the Different Types of GST?	22
4.3.7 GST Explained with the Help of Example	24
4.3.8 PRACTICAL IMPLICATIONS OF GST:	25
4.4 REFERENCE	32

4.1 CORPORATE TAX PLANNING

4.1.1 Tax Planning Meaning

- Tax planning is the arrangement of financial activities in such a way that maximum tax benefits are enjoyed by making use of all beneficial provisions in the tax laws. It entitles the assessee to avail certain exemptions, deductions, rebates and reliefs, so as to minimize his tax liability.
- Tax planning imply compliance with the taxing provisions in such a manner that full advantage is taken of all exemptions, deductions, concessions, rebates and reliefs permissible under the Act so that the incidence of tax is the least.

4.1.2 Tax Avoidance Meaning

- Tax avoidance is minimizing the incidence of tax by adjusting the affairs in such a manner that although it is within the four corners of the taxation laws but the advantage is taken by finding out loopholes in the laws. The shortest definition of tax avoidance is that it is the art of dodging tax without breaking the law.
- In the case of tax avoidance, the tax payer apparently circumvents the law, without giving rise to a criminal offence, by the use of a scheme, arrangement or device, often of a complex nature but where the main purpose is to defer, reduce or completely avoid the tax payable under the law.

4.1.3 Tax Evasion Meaning

- Unscrupulous citizens evade their tax liability by dishonest means. Some of which are:
 - Concealment of income;
 - Inflation of expenses to suppress income;
 - Falsification of accounts;
 - Conscious violation of rules
- These devices are unethical and have to be condemned. The courts also do not favour such unethical means. Evasion, once proved, not only attracts heavy penalties but may also lead to prosecution.

4.1.4 Tax Management Meaning

- Tax management refers to the compliance with the statutory provisions of law.
- While tax planning is optional, tax management is mandatory. It includes maintenance of accounts, filling of return, payment of taxes, deduction of tax at source, timely payment of advance tax, etc.

- Poor tax management may lead to levy of interest, penalty, prosecution, etc. In some cases it may lead to heavy financial loss if proper compliance is not made, e.g. if a loss return is not filed in time it will result in a financial loss because such loss will not be allowed to be carried forward.

4.1.5 Objectives of Tax Planning

1. Reduction of tax liability
2. Minimization of litigation
3. Productive investment
4. Healthy growth of economy
5. Economic stability

4.1.6 Factors serving as basis for Tax Planning

The following factors are helpful for effective tax planning:

1. Residential status and citizenship of the assessee.
2. Heads of income/Assets to be included in computing net wealth.
3. Latest legal position.
4. Form v Substance.

4.1.7 Specific Management Decisions

1. Capital Structure:

While selecting a particular capital structure the entrepreneur has to keep in view the following considerations:

- serving the capital base with consistent dividend policy
- cost of capital to be raised from the market
- chargeability or otherwise of taxes, i.e., direct and indirect taxes
- keeping a margin for ploughing back of profits for future plan towards diversification, expansion, modernization and other development aspects.

2. Means of financing:

Generally, the following means of finance are available for a new project:

- Equity share capital;
- Debentures/Loans and borrowings/Lease Finance;

KV Institute of Management and Information Studies
BA5104 – Legal Aspects of Business

3. Capital mix:

A capital structure is said to be optimum when it has a mix of debt and equity that will yield the lowest weighted average cost of capital. At the same time, a capital mix should not have high debt equity ratio. A high debt/equity ratio has its own advantages and disadvantages.

4. Lease or buy decisions:

In recent years, leasing has become a popular source of financing in India. From the lessee's point of view, leasing has the attraction of eliminating immediate cash outflow, and the lease rentals can be claimed as admissible expenditure against the business income. On the other hand, buying has the advantages of depreciation allowance and interest on borrowed capital being tax-deductible. Thus, an evaluation of the two alternatives is to be made in order to take a decision.

5. Make or buy decision:

Now a decision regarding the manufacturing of these components is to be taken. It is decided whether the product/part/component of product should be bought from the market or should be manufactured by having necessary manufacturing facilities. The main consideration affecting such a decision is cost. In a make or buy decision, the variable cost of making the product or part/component of product is compared with its purchase price prevailing in the market.

6. Repair/Renewal or Replacement of an asset:

Repairs/Renewal: Deduction for expenditure on repairs/renewal will be allowed as revenue expenditure in computation of business income as under:

- a. If the building is a rented building, any expenditure on repairs shall be allowed as deduction.
- b. It may be noted that if the repairs expenditure are of capital nature it shall not be allowed as deduction either under section 30, 31 or 37.

Replacement of assets: If the asset has to be replaced, the expenditure incurred on replacement shall be capital expenditure and the assessee shall only be entitled to depreciation on such assets and as such, the entire expenditure cannot be claimed as deduction which was allowed in case of repairs.

4.1.8 Tax planning in case of employee's remuneration

This requires consideration from the point of view of:

Employer: While calculating the business income of the employer, the remuneration payable to the employee, in whatever form, should be fully deductible otherwise the employer will

KV Institute of Management and Information Studies

BA5104 – Legal Aspects of Business

have to pay tax on such remuneration also as the same will not be allowed as deduction while computing his business income. In some cases, the employer shall have to pay fringe benefit tax on certain benefits given to the employees.

Employee: The salary received by the employee, whether in cash or kind, should attract minimum income-tax liability. He should be in a position to avail maximum exemption/concession in respect of such salary received by him.

Some of the exemptions/concessions available to employee under Income-tax Act are as under:

- Section 10(10) exemption in case of death-cum-retirement gratuity.
- Section 10(10A) exemption of commuted pension.
- Section 10(10B) exemption of retrenchment compensation.
- Section 10(10C) exemption of compensation on voluntary retirement.
- Section 10(13A) exemption of House rent allowance.
- Section 10(14) exemption of specified/notified special allowance.
- Tax free perquisites, like medical facility, reimbursement of medical expenses, telephone at the residence of employee, free lunch or dinner/free refreshment, leave travel concession, etc.
- Contribution by the employer to the provident fund or other welfare fund of the employee.
- Perquisites taxable at concessional rate, like rent free accommodation, motorcar, etc.

4.1.9 Assessment Year [SEC. 2(9)]

Assessment year means the period of 12 months starting from April 1 of every year and ending on March 31 of the next year. The Period of assessment year is fixed by statute. Income of the previous year of an assessee is taxed during the following assessment year at the rates prescribed for such assessment year by the relevant finance act.

4.1.10 Previous Year: [Sec. 3]

Income earned in a year is taxable in the next year. The year in which income is earned is known as previous year and the next year in which income is taxable is known as assessment year.

4.1.11 Assessee [Sec. 2(7)]

Assessee means a person by whom any tax or any other sum of money (i.e., penalty or interest) is payable under the act.

4.1.12 Assessment

U/S 2(8) The word assessment is defined to include re-assessment. In general context the word assessment means computation of tax and procedure for imposing tax liability.

KV Institute of Management and Information Studies
BA5104 – Legal Aspects of Business

4.1.13 Residential Status

Different Taxable Entities U/S 6 Lays down the test of residence for the following entities:

1. An Individual
2. A Huf (Hindu Undivided Family)
3. A Company And
4. Every Other Persons
5. A Firm or An association of persons or body of individuals

4.1.14 Different Kinds Of Residential Status

Assesses are either:

1. Resident In India
2. Non - Resident In India

Resident individuals and hindu undivided families (HUF) can be further divided into two categories:

- a. Resident And Ordinary Resident
- b. Resident But Not Ordinary Resident

All other assesses (a firm, an association of persons, a company and any other persons) can simply be either resident or non-resident.

Onus of Proof:

Whether an assessee is a resident or a non-resident is a question of fact and it is the duty of the assessee to place all relevant facts before the income-tax authorities.

Incomes exempt from tax:

The following incomes are absolutely exempt from tax U/S 10 as they do not form part of total income.

- Agricultural Income [Sec.10(1)]
- Receipts by members from HUF [Sec.10(2)]
- Share of profit from partnership firm [Sec. 10(2A)]
- Casual and non-recurring receipts [Sec. 10(3)]

[Rs. 2500/- in respect of winnings from races including horse races, the exemption of Rs. 5000/- in respect of casual and non-recurring receipts]

- Interest to non-residents [Sec. 10(4),4(B)]
- Leave travel concession to an Indian citizen [Sec. 10(5)]

KV Institute of Management and Information Studies
BA5104 – Legal Aspects of Business

- Value of concessional passage to a foreign national employee [Sec. 10(6)(i)]
- Remuneration received by a foreign diplomat and other foreign nationals [Sec. 10(6)(ii)/(vi)]

Allowance:

Allowance is generally defined as fixed quantity of money or other substance given regularly in addition to salary for the purpose of meeting some particular requirement connected with the services rendered by the employee or as compensation for unusual condition of that service.

E.g.:

- City compensatory allowance
- House rent allowance
- Entertainment allowance
- Special allowance

Perquisites [Sec. 17(2)]:

Perquisite signifies some benefits in addition to the amount that may be legally due by way of contact for services rendered.

E.g.:

- Provision of medical facilities
- Refreshment provided to all employees
- Free meals
- Leave travel concession
- Reimbursement of car expenses
- Interest free loan
- Expenses of telephone bill / mobile bill

4.1.15 Scope or Areas of Tax Planning in Income Tax

There are many areas in which tax planning can be of great benefit. It is not possible to give a complete list of them here but certain selected important areas of the whole spectrum are presented.

1. Choice of Forms of Business Organization:

The Income tax Act recognises seven forms of business organisation namely:

- a. individuals
- b. Hindu undivided Families
- c. Companies
- d. Partnership firms
- e. Association of persons and bodies of individuals whether incorporated or not
- f. local authorities and
- g. Artificial judicial person.

KV Institute of Management and Information Studies

BA5104 – Legal Aspects of Business

Different tax rates are applicable to these different forms of organization.

2. Choice of Business:

There are certain businesses which receive preferential treatment in taxes. Hence the choice of business should be carefully made. Shipping industry, Hotel industry, etc., engaged in the processing of any article, which is made from some product of agriculture, animal husbandry, dairy or poultry fanning, are given a special incentive called agricultural development allowance.

3. Choice of Area Location:

Tax concessions provided under various provisions of the Income Tax Act

- a. for profits and gains of industrial units established in free trade zones at Kandla in Gujarat and Santa Cruz at Bombay (Sec. I OA).
- b. for profits and gains of industrial units or of the business of a Hotel set up in backward areas, (See 80 HH) and (c) for profits and gains of small scale industrial units established in rural areas (Sec.80HHA).

4. Choice of proper Capital Structure:

The interest paid on debt i.e., borrowed funds is deductible in computing taxable income. On the other hand, dividends declared and paid on preferred stock and common stock is not deductible. This fact definitely influences the choice of a financing method to expand the firm. When the management and the board of directors of a corporation are comparing alternative financing methods, they generally choose the method that yield the greatest increase in earnings per share of equity stock.

5. Capital budgeting:

Investment decisions (investing in a new plant, for example) have considerable tax consequences. And, in turn, the tax laws directly affect the decisions to invest in such assets.

6. Expansion and New business:

Under Sec. 80 J of the Income Tax Act, whenever an existing assessee or a new assessee starts a new industrial undertaking or new hotel or completes a year since the commencement of commercial production, then he is eligible for tax concession benefit. This special benefit is computed at 7.5% of the capital employed in the new business (capital employed does not include loans). This benefit can be deducted from the taxable profits. This benefit is available for expansion of existing activities also. To claim this benefit, a new company need not be incorporated.

7. Choice of Accounting year:

Management has a considerable variety of choices of accounting methods for tax purposes. If the company's accounting year ends on 31st March, it has to file its tax return before 31st July of the same year. But on the other hand, if the accounting year ends on 30th June, it has time up to next year 30th June to file the tax return.

8. Depreciation and the investment Allowance:

Erosion of capital is found to be more explicit if the retention and ploughing back of profit is not adequate. Charging depreciation on the historical cost method and valuing closing stock at an inadequate rate are the main causes of erosion of capital.

9. Capital Gains:

Short term capital gains are taxed as any other income whereas long term capital gains are treated concessionally. It is important to note that if the asset has been retained for a period of 36 months or less, the resulting gain will be short term in nature and where the period exceeds 36 months, the gain will be long term in nature. Income tax on long term capital gains can be saved if the amount is reinvested.

10. Merger of business units:

Foreign collaboration agreements should be carefully drafted keeping various tax implications in mind. It is also necessary that separate contracts should be entered into for payment of technical services and for royalties. Mergers between companies should be planned well considering problems of tax treatment of resultant dividends, capital unabsorbed depreciation and losses.

4.1.16 The Function of the Tax Management Department

1. Setting up of producers and forms for getting and controlling necessary data and for filing returns; deciding on the form of presentation, review, appraisal, revision and improvement procedures from year to year.
2. Maintenance of adequate tax records with regard to tax liabilities as well as the chronological record of all action taken on tax matters;
3. Preparation of studies relating to tax legislation, rules, etc., as they affect the company;
4. Approval of all tax bills and custody of tax receipts;
5. Review of returns and other tax counsel, and interpreting and analysing tax facts;

4.1.17 Corporate Taxation in India

Corporate Taxes are annual taxes payable on the income of a corporate body operating in India. The provisions relating to corporate income tax are contained in the Income-tax Act, 1961. There are specific statutes for other taxes levied on companies. It should be noted that a new draft Direct Tax Code to simplify and rationalize the direct tax system of India is currently being reviewed by the government. If passed it will mark a paradigm shift in the tax regime of India, by moderating, consolidating and simplifying the direct tax provisions and enhance compliance levels. The following article discusses the key provisions for corporate tax, rules and regulatory requirements relating to it.

For the purpose of taxation companies in India are broadly classified into domestic companies and foreign companies or in other words resident or non-resident. Depending on their residence they are subjected to different tax treatment. Companies that are registered in India according to the Companies Act of 1956 are deemed to be domestic companies and a company whose chief control and management are wholly located within India is also known as domestic company. A domestic company may be a public company or a private company. A company which is not registered in India and if its management control is exercised from a foreign country then it is treated as a foreign company.

Key Provisions:

- A domestic/ resident company is taxed on:
 1. Any income which is received or is deemed to be received in India in the relevant Previous Year by or on behalf of such company.
 2. Any income which accrues or arises or is deemed to accrue or arise in India during the relevant Previous Year.
 3. Any income which accrues or arises outside India during the relevant Previous Year.
- A Foreign/non-resident company is taxed on:
 1. Any income which is received or is deemed to be received in India during the relevant Previous Year by or on behalf of such company.
 2. Any income which accrues or arises or is deemed to accrue or arise to it in India during the relevant previous year.
- A domestic/ resident company would be subjected to an additional tax called dividend tax on the amount of dividend declared, distributed or paid. Dividends tax is charged on the company and not charged on the hands of the shareholders. Such tax must be paid within 14 days of declaration or distribution, whichever is earlier. Any deduction on account of such tax is not allowed to the company.

KV Institute of Management and Information Studies
BA5104 – Legal Aspects of Business

- Companies with more than INR 10 million total incomes are subjected to a surcharge on their taxes. Domestic companies pay a surcharge of 5% as against foreign companies that pay a surcharge of only 2%.
- Withholding tax is applicable on payments made to foreign companies operating in India without permanent establishment.
- Capital gains are subjected to tax.

4.1.18 Corporate Tax Rates

- 1. Individual resident below 60 years of age** (i.e. born on or after 1st April 1953) or any NRI / HUF / AOP / BOI / AJP *

a. Income-tax:

S. No.	Income Slabs	Income Tax Rate
1.	Where the total income does not exceed Rs. 2,00,000/-.	NIL
2.	Where the total income exceeds Rs. 2,00,000/- but does not exceed Rs. 5,00,000/-.	10% of amount by which the total income exceeds Rs. 2,00,000/-
3.	Where the total income exceeds Rs. 5,00,000/- but does not exceed Rs. 10,00,000/-.	Rs. 30,000/- + 20% of the amount by which the total income exceeds Rs. 5,00,000/-.
4.	Where the total income exceeds Rs. 10,00,000/-.	Rs. 1,30,000/- + 30% of the amount by which the total income exceeds Rs. 10,00,000/-.

b. Surcharge: Nil

c. Education Cess: 3% of the Income Tax.

* Abbreviations used: NRI - Non Resident Individual; HUF - Hindu Undivided Family; AOP - Association of Persons; BOI - Body of Individuals; AJP - Artificial Judicial Person.

- 2. Individual resident who is of the age of 60 years or more but below the age of 80 years** at any time during the previous year (i.e. born on or after 1st April 1933 but before 1st April 1953)

a. Income-tax:

S. No.	Income Slabs	Income Tax Rate
1.	Where the total income does not exceed Rs. 2,50,000/-.	NIL
2.	Where the total income exceeds	10% of the amount by which the total income

KV Institute of Management and Information Studies
BA5104 – Legal Aspects of Business

	Rs. 2,50,000/- but does not exceed Rs. 5,00,000/-.	exceeds Rs. 2,50,000/-.
3.	Where the total income exceeds Rs. 5,00,000/- but does not exceed Rs. 10,00,000/-.	Rs. 25,000/- + 20% of the amount by which the total income exceeds Rs. 5,00,000/-.
4.	Where the total income exceeds Rs. 10,00,000/-.	Rs. 125,000/- + 30% of the amount by which the total income exceeds Rs. 10,00,000/-.

b. **Surcharge:** Nil

c. **Education Cess:** 3% of the Income Tax.

3. Individual resident who is of the age of 80 years or more at any time during the previous year (i.e. born before 1st April 1933)

a. **Income-tax:**

S. No.	Income Slabs	Income Tax Rate
1.	Where the total income does not exceed Rs. 5,00,000/-.	NIL
2.	Where the total income exceeds Rs. 5,00,000/- but does not exceed Rs. 10,00,000/-.	20% of the amount by which the total income exceeds Rs. 5,00,000/-.
3.	Where the total income exceeds Rs. 10,00,000/-.	Rs. 100,000/- + 30% of the amount by which the total income exceeds Rs. 10,00,000/-.

b. **Surcharge:** Nil

c. **Education Cess:** 3% of the Income Tax.

4. Co-operative Society

a. **Income-tax:**

S. No.	Income Slabs	Income Tax Rate
1.	Where the total income does not exceed Rs. 10,000/-.	10% of the income.
2.	Where the total income exceeds Rs. 10,000/- but does not exceed Rs. 20,000/-.	Rs. 1,000/- + 20% of income in excess of Rs. 10,000/-.
3.	Where the total income exceeds Rs. 20,000/-.	Rs. 3,000/- + 30% of the amount by which the total income exceeds Rs. 20,000/-.

b. **Surcharge:** Nil

KV Institute of Management and Information Studies
BA5104 – Legal Aspects of Business

- c. **Education Cess:** 3% of the Income-tax.

5. Firm

- a. **Income-tax:** 30% of total income.
b. **Surcharge:** Nil
c. **Education Cess:** 3% of the Income Tax.

6. Local Authority

- a. **Income-tax:** 30% of total income.
b. **Surcharge:** Nil
c. **Education Cess:** 3% of the Income Tax.

7. Domestic Company

- a. **Income-tax:** 30% of total income.
b. **Surcharge:** The amount of income tax as computed in accordance with above rates, and after being reduced by the amount of tax rebate shall be increased by a surcharge at the rate of 5% of such income tax, provided that the total income exceeds Rs. 1 crore.
c. **Education Cess:** 3% of the total of Income Tax and Surcharge.

8. Company other than a Domestic Company

- a. **Income-tax:**
- @ 50% of the total income consisting of:
 - i. royalties received from Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern after the 31st day of March, 1961 but before the 1st day of April, 1976; or
 - ii. fees for rendering technical services received from the Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern after the 29th day of February, 1964 but before the 1st day of April, 1976, and where such agreement has, in either case, been approved by the Central Government.
 - @ 40% of the balance.

KV Institute of Management and Information Studies
BA5104 – Legal Aspects of Business

- b. **Surcharge:** The amount of income tax as computed in accordance with above rates, and after being reduced by the amount of tax rebate shall be increased by a surcharge at the rate of 2% of such income tax, provided that the total income exceeds Rs. 1 crore.
- c. **Education Cess:** 3% of the total of Income Tax and Surcharge.

4.2 INCOME TAX

The Constitution of India has given the power to the Central Government to levy a tax on any income other than agricultural income, which is defined in Section 10(1) of the Income Tax Act, 1961.[1] The Income Tax Law consists of Income Tax Act 1961, Income Tax Rules 1962, Notifications and Circulars issued by Central Board of Direct Taxes (CBDT), Annual Finance Acts and judicial pronouncements by the Supreme Court and High Courts.

The government imposes a tax on taxable income of all persons who are individuals, Hindu Undivided Families (HUF's), companies, firms, LLP, association of persons, body of individuals, local authority and any other artificial juridical person. Levy of tax on a person depends upon his residential status. Income tax is a key source of funds that the government uses to fund its activities and serve the public.

The Income Tax Department is the biggest revenue mobilizer for the Government.

4.2.1 Agricultural income

Agricultural income is exempt from tax as per section 10(1) of the Act. Section 2(1A) defines agricultural income as:

- Any rent or revenue derived from land, which is situated in India and is used for agricultural purposes.
- Any income derived from such land by agricultural operations including processing of agricultural produce, raised or received as rent-in-kind so as to render it fit for the market or sale of such produce.
- Income attributable to a farm house (subject to some conditions).
- Income derived from saplings or seedlings grown in a nursery.

4.2.2 Documents required for tax filing

There are different documents required for income tax filing that need to be kept ready before you file your taxes. These include Form 16, Form 16A, investment receipts and proofs. Read our guide on document checklist that will help you be ready to file taxes.

4.2.3 Income tax slab rates

Indian Income tax laws, tax individuals per different slab rates of income. The basic exemption limit is Rs 2,50,000. Income tax department charges different tax slabs at the rates ranging from 10% up to 30%.

Our guide on income tax slab rates will explain these in detail. You can easily estimate your tax liability by using our tax calculator and know how much taxes you owe to the government.

4.2.4 Income tax returns (ITR)

Tax returns are a statement of your earnings from various sources of income that include the tax liability, details of tax paid, and other refunds that are eligible to receive from the government. Our guide on Which ITR to File will help you choose the correct ITR form for tax filing.

4.2.5 Claiming refund of taxes paid

You are eligible for refunds to be claimed from the tax department in case you have paid excess taxes. These can be claimed on filing your tax returns. Once you have claimed a refund, you need to keep checking the status of your refund to make sure that your refunds are credited to your account in time. Our guide on tax refund will help you understand different statuses of refund and know your refund status.

4.2.6 Late filing of income tax returns

It is necessary to file the income tax returns before the deadline to avoid a penalty for non-filing of tax returns. Our guide on penalties and late filing fees for will help you understand the different charges levied by the government.

4.2.7 Permissible deductions from gross total income

Ministry of Finance has notified certain deductions from gross total income of an assessee. Below are deductions as updated by Finance Act, 2015.

Provident Fund (PF) & Voluntary Provident Fund (VPF)

Public Provident Fund (PPF):

KV Institute of Management and Information Studies
BA5104 – Legal Aspects of Business

Life Insurance Premiums

Equity linked saving Schemes

Home Loan Principal Repayment:

Stamp Duty and Registration Charges for a home

National Savings certificate

Infrastructure bonds

Pension Funds

Senior citizens savings scheme etc

4.2.8 Amendment in Income tax:

4.2.8.1 Computation of Total Income and Tax Liability

1. Slab Rate for Individual

Tax liability of an individual shall be computed at the slab rates given in the relevant Finance Act i.e.

Finance Act, 2017 and the rates are as given below:

- Resident individual of the age of 60 years or more at any time upto the end of relevant previous year but less than eighty years (senior citizen)

If total income is upto 3,00,000	NIL
On next 2,00,000	5%
On next 5,00,000	20%
On Balance amount	30%

“Senior Citizen” means an individual resident in India who is of the age of 60 years or more at any time during the relevant previous year. If date of birth is 1st April, 1958, 60 year will be completed on 31-03-18 and assessee shall be senior citizen in previous year 2017-18.

4.2.8.2 Marginal Relief

If there is marginal increase in income over 50 lakhs/ 100 lakhs, surcharge is applicable on entire amount of income tax and as a result increase in tax is more than the increase in income. In order to remove this defect, assessee shall be allowed relief to the extent increase in tax is more than the increase in income and it is called marginal relief.

4.2.8.3 Rebate in case of Resident Individual Section 87A

- Rebate i.e. concession from income tax shall be allowed only to RESIDENT INDIVIDUAL (not to
- Non-resident individual or any other person).
- Rebate shall be allowed only if total income is not exceeding `3,50,000
- Rebate shall be allowed upto `2,500.
- Primary Education Cess and Secondary and Higher Education Cess shall be applied only after
- Permitting rebate under section 87A.
- Rebate shall be allowed even from tax

4.2.8.4 Advance tax in case of a Dividend Income in excess of ` 10,00,000 Section 234C

If any Assessee has received Dividend in excess of `10,00,000 then excess amount is taxable u/s 115BBDA @ 10% and in such case advance tax is payable on actual receipt of Dividend income.

4.2.8.5 House lying vacant for full year

As per section 23(1)(c), if any House Property is lying vacant throughout the year, it will be considered to be deemed to be let out and income shall be computed in the similar manner as in case of a let out house.

Expected Rent shall be considered to be Gross annual value.

4.2.8.6 Fee for default in furnishing return of income. Section 234F

Where a person required to furnish a return of income under section 139, fails to do so within the time prescribed u/s 139(1), he shall pay, by way of fee, a sum of,—

- Rs.5,000, if the return is furnished on or before the 31st day of December of the assessment year;
- Rs. 10,000 in any other case.

Provided that if the total income of the person does not exceed Rs. 5,00,000 the fee payable under this section shall not exceed Rs. 1,000.

4.3 GST - GOODS AND SERVICES TAX IN INDIA

4.3.1 What is GST?

GST (Goods and Services Tax) is the biggest indirect tax reform of India. GST is a single tax on the supply of goods and services. It is a destination based tax. GST has subsumed taxes like Central Excise Law, Service Tax Law, VAT, Entry Tax, Octroi, etc. GST is one of the biggest indirect tax reforms in the country. GST is expected to bring together state economies and improve overall economic growth of the nation.

GST is a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by states and Central. Businesses are required to obtain a GST Identification Number in every state they are registered.

There are around 160 countries in the world that have GST in place. GST is a destination based taxed where the tax is collected by the State where goods are consumed. GST has been implemented in India from July 1, 2017 and it has adopted the Dual GST model in which both States and Central levies tax on Goods or Services or both.

KV Institute of Management and Information Studies

BA5104 – Legal Aspects of Business

- SGST – State GST, collected by the State Govt.
- CGST – Central GST, collected by the Central Govt.
- IGST – Integrated GST, collected by the Central Govt.
- UTGST – Union territory GST, collected by union territory government

4.3.2 Why is GST needed in India?

Introduction of GST is considered to be a significant step in the reform of indirect taxation in India. Amalgamating of various Central and State taxes into a single tax would help mitigate the double taxation, cascading, a multiplicity of taxes, classification issues, taxable event, etc., and leading to a common national market.

VAT rates and regulations differ from state to state. On the other hand, GST brings in uniform tax system across all the states. Here, the taxes would be divided between the Central and State government.

4.3.3 Impact of GST on Indian Economy

GST offers several benefits to our economy. Here are some key advantages:

- Create unified common national market for India, giving a boost to Foreign investment and “Make in India” campaign
- Boost export and manufacturing activity and leading to substantive economic growth
- Help in poverty eradication by generating more employment
- Uniform SGST and IGST rates to reduce the incentive for tax evasion

4.3.4 Impact of GST on Consumers

GST is also beneficial for consumers. Here is how it impacts the Indian consumers:

- Simpler Tax system

- Reduction in prices of goods & services due to elimination of cascading
- Uniform prices throughout the country
- Transparency in taxation system
- Increase in employment opportunities

4.3.5 Impact of GST on Traders

GST also has some positive impact on traders. Let's see how it affects the traders:

- Reduction in multiplicity of taxes
- Mitigation of cascading/ double taxation through input tax credit
- More efficient neutralisation of taxes especially for exports
- Development of common national market
- Simpler tax regime
- Fewer rates and exemptions
- Distinction between Goods & Services no longer required

4.3.6 What are the Different Types of GST?

In India, there are 4 components of GST. The following table explains the 4 types of GST and compares them on various parameters:

KV Institute of Management and Information Studies
BA5104 – Legal Aspects of Business

Tax Levied By	Central Government Central GST - CGST	State Government State GST (SGST)	Union Government UTGST	territory	Combined levy, collected by Central Government Integrated GST (IGST)
Taxes that it will replace	Service tax, excise duty, countervailing duty (CVD), special additional duty (SAD), Additional duties of excise(ADE), and any other indirect central levy	VAT, sales tax, luxury tax, entry tax, entertainment tax, purchase tax, Octroi, taxes on lottery	VAT, sales tax, luxury tax, entry tax, entertainment tax, purchase tax, Octroi, taxes on lottery		Central sales tax (CST)
Applicability	Supplies within a state	Supplies within a state	Supplies within a union territory		Interstate supplies and import
Input Tax Credit	Against CGST and IGST	Against SGST and IGST	Against UTGST and IGST		Against CGST, SGST and IGST
Tax Revenue Sharing	Central government	State government	Union government	territory	Shared between state and central governments
Exemption Limit	Rs 20 lakh annual turnover	Rs 20 lakh annual turnover	Rs 20 lakh annual turnover		Exemption limit not defined
Composition Scheme	The dealer may use the benefit of turnover of Rs 50 lakh	The dealer may use the benefit of turnover of Rs 50 lakh	The dealer may use the benefit of turnover of Rs 50 lakh		Composition Scheme is not available in this regard
Free Supplies	CGST is applicable on free supplies	SGST is applicable on free supplies	UTGST is applicable on free supplies		IGST is applicable on free supplies
Registration	Not applicable till the turnover	Not applicable till the	Not applicable till the turnover exceeds Rs 20		Registration is necessarily

KV Institute of Management and Information Studies
BA5104 – Legal Aspects of Business

exceeds Rs 20 turnover lakh
lakh exceeds Rs 20
lakh

mandatory if supply
is made outside the
states

4.3.7 GST Explained with the Help of Example

Let's assume that a manufacturer of shirts buys raw materials like cloth, zips, thread, buttons and other equipment that is required to stitch the pants. This raw material costs the manufacturer Rs 200. This Rs 200 includes a 10% tax of Rs 20. Once the shirt is made, the manufacturer has added his own value to the input material. As a part of this example, if one were to assume that the value added is Rs 60, then the total cost of the trouser is now Rs 260 (Rs 200 + Rs 60). With a 10% tax rate, the tax on this trouser would be Rs 26. However, since the manufacturer has already paid Rs 20 as tax while purchasing raw material, under GST, the tax incidence will now be only Rs 6 (Rs 26 – Rs 20).

Now, let's see how GST works at the second stage, which is for the wholesaler. Now, the wholesaler would buy the shirts at Rs 260 and would keep a margin on it to make a profit. Assuming that the margin is kept at Rs 40, the cost of the clothing item now becomes Rs 300. Applying the same 10% principle, the tax would amount to Rs 30. But, out of this Rs 30, Rs 26 are already accounted for from stage one. So the effective tax incidence for the wholesaler would be Rs 4 (Rs 30 – Rs 26).

The final stage is that of the retailer. Now that the retailer has bought the shirts at Rs 300, he would also keep a profit margin. Say the margin that the retailer decides on is Rs 20. The total cost now becomes Rs 320. Using the 10% rule, the tax would be Rs 32. However, with Rs 30 already accounted for in the earlier two stages, the tax incidence would be Rs 2 (Rs 32 – Rs 30). To sum up, the total GST for the entire chain, from manufacturer to retailer is Rs (20 + 6 + 4 + 2 = 32). The suppliers of inputs would be able to claim no tax credit, given the fact that they have themselves not purchased any item.

KV Institute of Management and Information Studies
BA5104 – Legal Aspects of Business

4.3.8 PRACTICAL IMPLICATIONS OF GST:

1. GST eliminates the cascading effect of tax

GST is a comprehensive indirect tax that was designed to bring the indirect taxation under one umbrella. More importantly, it is going to eliminate the cascading effect of tax that was evident earlier.

Cascading tax effect can be best described as ‘Tax on Tax’. Let us take this example to understand what is Tax on Tax:

Before GST regime:

A consultant offering services for say, Rs 50,000 and charged a service tax of 15% (Rs 50,000 * 15% = Rs 7,500).

Then say, he would buy office supplies for Rs. 20,000 paying 5% as VAT (Rs 20,000 * 5% = Rs 1,000).

He had to pay Rs 7,500 output service tax without getting any deduction of Rs 1,000 VAT already paid on stationery.

His total outflow is Rs 8,500.

Under GST

GST on service of Rs 50,000 @ 18%	9,000
Less: GST on office supplies (Rs 20,000*5%)	1,000
Net GST to pay	8,000

2. Higher threshold for registration

Earlier, in the VAT structure, any business with a turnover of more than Rs 5 lakh (in most states) was liable to pay VAT. Please note that this limit differed state-wise. Also, service tax was exempted for service providers with a turnover of less than Rs 10 lakh.

Under GST regime, however, this threshold has been increased to Rs 20 lakh, which exempts many small traders and service providers.

KV Institute of Management and Information Studies
BA5104 – Legal Aspects of Business

Let us look at this table below:

Tax	Threshold Limits
Excise	1.5 crores
VAT	5 lakhs in most states
Service Tax	10 lakhs
GST	20 lakhs (10 lakhs for NE states)

3. Composition scheme for small businesses

Under GST, small businesses (with a turnover of Rs 20 to 75 lakh) can benefit as it gives an option to lower taxes by utilizing the Composition scheme. This move has brought down the tax and compliance burden on many small businesses.

4. Simple and easy online procedure

The entire process of GST (from registration to filing returns) is made online, and it is super simple. This has been beneficial for start-ups especially, as they do not have to run from pillar to post to get different registrations such as VAT, excise, and service tax.

Our *ClearTax GST* software is already on a roll filing GST returns.

5. The number of compliances is lesser

Earlier, there was VAT and service tax, each of which had their own returns and compliances. Below table shows the same:

KV Institute of Management and Information Studies
BA5104 – Legal Aspects of Business

<u>Tax</u>	<u>Return Filing</u>
Excise	Monthly
Service tax	Proprietorship/Partnership- Quarterly
	Company/LLP- Monthly
VAT	*Different for different states* Some states require monthly returns over a threshold limit. Some states like Karnataka require a monthly return

Under GST, however, there is just one, unified return to be filed. Therefore, the number of returns to be filed has come down. There are about 11 returns under GST, out of which 4 are basic returns which apply to all taxable persons under GST. The main GSTR-1 is manually populated and GSTR-2 and GSTR-3 will be auto-populated.

6. Defined treatment for E-commerce operators

Earlier to GST regime, supplying goods through e-commerce sector was not defined. It had variable VAT laws. Let us look at this example:

Online websites (like Flipkart and Amazon) delivering to Uttar Pradesh had to file a VAT declaration and mention the registration number of the delivery truck. Tax authorities could sometimes seize goods if the documents were not produced.

Again, these e-commerce brands were treated as facilitators or mediators by states like Kerala, Rajasthan, and West Bengal which did not require them to register for VAT.

All these differential treatments and confusing compliances have been removed under GST. For the first time, GST has clearly mapped out the provisions applicable to the e-commerce sector and since these are applicable all over India, there should be no complication regarding the inter-state movement of goods anymore.

Read a more detailed analysis of the impact of GST on e-commerce.

7. Improved efficiency of logistics

Earlier, the logistics industry in India had to maintain multiple warehouses across states to avoid the current CST and state entry taxes on inter-state movement. These warehouses were forced to operate below their capacity, giving room to increased operating costs.

KV Institute of Management and Information Studies

BA5104 – Legal Aspects of Business

Under GST, however, these restrictions on inter-state movement of goods have been lessened.

As an outcome of GST, warehouse operators and e-commerce aggregators players have shown interest in setting up their warehouses at strategic locations such as Nagpur (which is the zero-mile city of India), instead of every other city on their delivery route.

Reduction in unnecessary logistics costs is already increasing profits for businesses involved in the supply of goods through transportation.

Visit [here](#) to read more about the impact of GST on logistics.

8. Unorganized sector is regulated under GST

In the pre-GST era, it was often seen that certain industries in India like construction and textile were largely unregulated and unorganized.

Under GST, however, there are provisions for online compliances and payments, and for availing of input credit only when the supplier has accepted the amount. This has brought in accountability and regulation to these industries.

Let us now look at disadvantages of GST. Please note that businesses need to overcome these disadvantages to run the business smoothly.

4.3.9 LIST OF GST TAX RATES 2018 | UPDATED GST TAX SLAB IN INDIA JUNE

GST Rate in India:

Here are the tax rates for all goods and services. GST Rates in India 2018 (Item Wise GST List PDF) GST tax slabs range from 0% (Nil) to 31%. ✓ Tax Exemptions under GST 2018 ✓ GST Bill ✓ Goods and Services tax ✓ Act ✓ GST calculator ✓ GST Features.

Last Updated as on 20 Feb 2018:

GST rules set to be simplified further. GST Council likely to make compliance easier, revamp tax returns filing process soon council takes it up on 1 March for approval.

In New GST Changes, 28% Tax Only For 50 Items Now:

Daily use items like shampoo, deodorant, toothpaste, shaving-cream, aftershave lotion, shoe polish, chocolate, chewing gums and nutritious drinks would become cheaper. Lowering tax rates on food served in air-conditioned restaurants to 12 per cent, down from 18 per cent.

- Service providers with turnover up to Rs.20 lakh need not register even if making interstate supplies.

KV Institute of Management and Information Studies

BA5104 – Legal Aspects of Business

- More time for filling returns for those under composition scheme.
- Refunds to be released every month
- E-wallet facility by APR
- No Tax on duty free scrips
- Merchant exporters need to pay 0.1% tax on domestic goods procurement.
- E-way bill to be rolled out from 1 April, 2018
- A committee to review the levy on restaurants.

GST Tax Slab Rates List 2018:

5%, 12%, 18% and 28%. Taxes to be subsumed under GST are Excise Duty, Service Tax, Central Sales Tax, Surcharge & Fees, VAT, Taxes on Lottery, Luxury Tax, Entry Tax, Entertainment Tax (These are the parts of Central Tax & State Tax). Category wise products GST Rates List updated (Click Here).

Updated New GST Rates as on 18 June 2018

Items	OLD Tax Rate	NEW Tax Rate
Second-hand medium and large cars and SUVs	28%	18%
LPG supply for household domestic consumers by private LPG distributors	18%	5%
Bio Fuels Powered buses	28%	18%
Sugar boiled confectionery	18%	12%
Drinking water packed in 20 litre bottle	18%	12%
Drip irrigation system	18%	12%
Cigarette filter rods	12%	18%

KV Institute of Management and Information Studies
BA5104 – Legal Aspects of Business

Tailoring Service	18%	5%
The admission to Theme parks, water parks etc.	28%	18%

GST Rates as on June 2018

The GST council on Friday announced major cuts in taxes of 27 items along with a slew of relief measures to support exporters and small businesses. Here are some items that are set to get cheaper under GST:

Description	Present GST Rate	New GST Rate
Mangoes sliced dried	12%	5%
Khakra & plain chapati / roti	12%	5%
Packaged Food	18%	5%
Namkeens	12%	5%
Ayurvedic, Unani, Siddha, Homeopathy medicines	12%	5%
Poster Color	28%	18%
Modelling Paste for children amusement	28%	18%
Plastic Waste, Pairing & Scraps	18%	5%
Rubber Waste, Paring & Scrap	18%	5%
Hard Rubber Waste	28%	5%
Paper Waste & Scrap	12%	5%

KV Institute of Management and Information Studies
BA5104 – Legal Aspects of Business

Duty Credit scrips	5%	Nil
Sewing thread of manmade filaments	18%	12%
All synthetic filament yarn, such as nylon, polyester, acrylic	18%	12%
All artificial filament yarn, such as viscose rayon, cuprammonium	18%	12%
Sewing thread for manmade staple fibres	18%	12%
Yarn of manmade staple fibres	18%	12%
Real Zari	12%	5%
Floor Tiles	28%	18%
Cullet or other waste of glass	18%	5%
Fittings for loose leaf binders, or files, letter clips, letter corners, paper clips, staple in strips,	28%	18%
Plain shaft bearing 8483	28%	18%
Parts suitable for use solely or principally with fixed speed diesel engine of power not exceeding 15HP	28%	18%
Parts for Pumps	28%	18%
E-waste	28% / 18%	5%
Biomass briquettes	18%	5%

Firms face ban for not passing on GST gains. **HIGHLIGHTS** = (1) The cancellation of registration is in addition to the power to levy penalty, (2) Tax practitioners said that cancellation of registration is too harsh, (3) The tax regime will get a mega launch on the night of June 30.

KV Institute of Management and Information Studies
BA5104 – Legal Aspects of Business

Update of 19 June 2017:

GST Council relaxes filing norms for 2 months – GST Council has announced the relaxation of 2 months for filing GST returns by the taxpayers. It means no late fees will be charged till September, 2017 from the taxpayers who going to fill GST.

Impact of GST on Household Expenses

Category	Before GST	After GST
Food	12.5%	5.00%
Entertainment	30.00%	28.00%
Transportation	15.00%	18.00%
Household – Personal Care	28.00%	18.00%
Mobile Phone	15.00%	18.00%
Insurance Premium	15.00%	18.00%
Credit Card Bills	15.00%	18.00%

4.4 REFERENCE

1. Elements of Mercantile Law – N.D. Kapoor
2. Business Law for Managers – P.K. Goel
3. Legal Aspects of Business – Akhileshwar Pathack
4. Legal Aspects of Business – Balachandran V.