

INDIRECT TAXES

UNIT- 1

PART- A

1. Define the term Tax?

The term “tax” may be defined as compulsory exaction of money by public authorities for public purposes enforceable by law and does not mean payment for services rendered.

2. What is fine?

Fine is the compulsory payment made by a person for doing something which is prohibited under any law and for not doing something which is required to be done under any law.

3. State any two characteristics of tax?

1. Tax is levied by the State by virtue of its powers conferred under the Constitution
2. Tax is used for public purposes.

4. What are the types of taxes?

Basically taxes can be classified as direct and indirect taxes.

1. Direct tax is demanded from the person who should pay it.

2. Indirect taxes are those which demanded from one person to indemnify himself at the expense of another.

5. What is ‘canon of taxation’?

The term ‘Canons’ refer to Principles of Taxation. A tax system should be based on sound principles. Adam smith expressed four such principles viz. canon of equality, canon of certainty, canon of economy, canon of convenience.

6. What is taxation?

Taxation is a system through which the Governments with appropriate powers, levy tax and mobilize revenue from its public for achieving various objectives.

7. Explain any two main objective of taxation?

1. Government needs huge finance for providing social services.

2. Imposing more tax on rich people to confer benefit on the poor reduces the inequality of income and wealth.

PART-B

1. Explain the elements of tax?

The following are the elements of tax, namely

a) It is an enforced contribution

b) It is generally payable in money

c) It is proportionate in character

d) It is levied on persons, property, or the exercise of right
or privilege

e) It is levied by the law making body of the State

f) It is levied for public purpose or purposes.

2. Explain the objectives of taxation?

The following are the objectives of taxation, viz.,

- Enhance savings and investment
- Rapid economic development and

- Creation of employment opportunities
- The distribution of tax burden should be progressive
- Improve efficiency of market rather than distort it.
- Use of fiscal policy for stabilization and growth objectives.
- Easy to implement the tax system administratively
- Low cost of collection of taxes.

3. What are the regulatory objectives of taxation?

Regulatory Objectives of taxation include

- (a) Regulating Consumption;
- (b) Regulating Production;
- (c) Regulating Imports and Exports; and
- (d) Regulating the Economic condition such as inflation or depression.

Consumption of Negative goods such as tobacco can be regulated by imposing very high rates, so as discourage its consumption by the public. Tax incentives or concession to local industries help industrial growth, and imposing higher taxes on imported goods may regulate production. Imposing lesser tax or exempting exports from tax and imposing higher tax on imports may regulate export and import of goods. Levy of more taxes or at higher rates of tax, on the public will reduce the money circulation hence inflation can be regulated.

4. Explain the characteristics of tax?

The following are the characteristics of a tax

- Tax is levied by the State by virtue of its sovereign powers conferred under the Constitution.
- The Government is alone empowered to impose tax on its public
- The ultimate purpose of imposition of tax is to raise sufficient revenues for the state.
- Tax may be assessed on capital or income, but paid out of income.
- Every citizen is responsible to pay tax as it is a personal obligation.
- Evading the payment of tax is criminal offence.

- Modern Governments use tax as an instrument to achieve structural changes and also for socio-economic objectives.

5. What are the merits of indirect taxes?

The following are the advantages of imposing indirect taxes:

- **Source of revenue:** Indirect taxes are the main source for the government to augment its resources.
- **Convenient:** Since the amount of tax included in the price of goods.
- **Less Evasion:** Nobody can evade tax because they are collected in the form of prices.
- **Productive:** These are highly productive and elastic.
- **Social Welfare:** Curtailment of consumption of harmful of goods (negative goods) is possible through indirect taxes.

UNIT-2
CENTRAL EXCISE ACT
PART-A

1. What is excise duty?

Central excise duty is imposed on goods manufactured or produced in India. When these excisable goods are produced within the Indian Territory, it attracts excise duty.

2. What is 'Goods'?

The Word 'goods' has not been defined in Central Excise Act, 1944 or Central Excise Rules. However goods includes all materials, commodities and articles subject to two basic requirements viz. Goods must be movable and Goods must Marketable (capable of being bought and sold).

3. Define Valuation?

Earlier valuation of goods was based on Specific or Ad valorem duty. Specific duty is based on weight, length, volume and number of units produced, whereas ad valorem is based on the 'assessable value' of goods.

4. Write a note on 'Clearance'?

Clearance means removing goods out of the place where the goods are produced or manufactured. Only on payment of excise duty, such goods can be removed from the factory. Proper records and invoices are to be maintained for the removal of goods from the factory.

5. What is CENVAT?

CENVAT refers to Central Excise Value Added Tax. The duty is paid on inputs, qualifies for cenvat when the final product attract the excise duty.

6. Write a note on 'Ad valorem' duty?

If central excise duty is computed on the basis of the value of goods, its known as Ad valorem duty. It is also known as 'Transaction Value' generally expressed as a percentage of the value of the commodity irrespective of its size, weight etc.

7. What do you mean by specific duty?

A specific duty is one which is levied with reference to particular unit of measure of the commodity such as weight, length etc. ignoring the value of such article.

PART-B

1. What are the objectives of levying excise duty?

The Central Excise Duty is levied, primarily for the achievement of following broad objectives, viz.,

- To raise tax revenues on production or manufacture of goods in India;
- To control the inflationary tendencies or to regulate prices of goods in India;
- To ensure sufficient supply of essential goods to the needy people in India;
- To facilitate the industrial growth in India;
- To discourage the consumption or production of certain negative goods;
- To achieve the socio economic objective such as maintaining regional balance, providing employment opportunities and etc.,

2. What are the different categories of manufacture under central excise?

The following are some of the examples of categories considered as manufacture under the Central Excise Act. They are as follows:

- Production
- Processing
- Change
- Packing
- Labeling and Branding of goods
- Process of Embossing and plating
- Marking and Hallmarking of Jewellery

3. Explain the procedure for registration of dealer under central excise?

Registration Procedure under Central Excise:

Application for Registration: A duly filled and signed application in Form A-1 should be submitted in the office of Jurisdictional Assistant of Deputy Commissioner in duplicate. This application must be accompanied by self-attested copy of PAN Card.

Granting of Registration: The submitted application is scrutinized by officers of central excise, and fed into computer through a website called SACER(System for Allotment of Central Excise Registration) Registration Certificate being 15 digit PAN based registration number known as Excise Control Code (ECC) as generated by computer will be delivered to the assessee. On verification of address, Registration Certificate is granted. The ECC has to be mentioned in every invoice raised by the registered person and also in returns submitted to the department.

4. Bring out the features of CETA 1985?

* The Central Excise Tariff Act, 1985 (CETA) classifies all the goods under 96 chapters and specific code is assigned to each item. There are more than 1000 traffic headings and 2000 sub-headings. This classification serves as a guide for classifying the goods under particular Chapter head and sub-head to prescribe duty to be charged on that particular product.

* CETA consists of two schedules i.e., the first schedule gives basic excise duties leviable on various products, while second schedule gives list of items on which special excise duty is payable.

* CETA is divided into 20 sections. Section is a grouping of a number of Chapters which codify a particular class of goods. Each of the sections is divided into various chapters and each chapter contains goods of one class. Each chapter is further divided into various headings depending on different types of goods belonging to same class of products

* With effect from 28-02-2005, the excisable goods are classified by using 8 digits system. The first two digits refer to the chapter number of the tariff, the next

two digits refer to heading of the goods in the chapter, the next two digits indicate chapter sub heading and the last two digits refers to the chapter sub-sub heading.

PART- C

1. Discuss the nature of incidence of excise duty?

There shall be levied and collected in such manner as may be prescribe, a duty of excise duty to be called the “Central Value Added Tax”.

- There should be manufacture or production.
- As a result of manufacture/ production, goods emerged as output.
- **Movability:** The goods should be such that they are capable of being moved to the market.
- **Marketability:** The goods should be capable of being sold and sold.
- Such goods should appear in the first schedule to the Central Excise Tariff Act, ie., goods must be covered under the term ‘excisable goods’
- The manufacture or production should take place in India.
- Central Excise Duty is conveniently collected when the goods are cleared from the factory for various purposes other than production.
- Goods manufactured in Units of Special Economic Zone are exempted.
- Goods attract excise duty as soon as they are produced.

2. What are the provisions regarding registration under Central Excise?

Provision for registration:

Persons requiring registration: Any manufacturer of excisable goods which are subject to excise duty: person who desire to issue Cenvat invoices; persons holding private warehouse.

In case of multiple premises: There will be a separate registration for separate premises. Separate registration will also be necessary for each depot, godown etc and for persons issuing cenvat invoices.

Exemption from Registration: persons who manufacture excisable goods, which are chargeable to nil rate to excise duty or fully exempt from duty by a notification; a by 100% export oriented undertakings or any unit in free trade zone or special economic zone, licensed under the customs act; any person who uses excisable goods for any purpose other than for processing or manufacture of goods availing benefit of concession duty exemption.

3. Bring out the differences between excise duty and sales tax?

Excise duty:

- It is a tax on production/ manufacture of excisable goods.
- Excisable goods have been classified by Central Excise Tariff Act 1985 for the purpose of levy rates of duty.
- State Government is empowered to impose State Excise duty on alcoholic liquors for human consumption, opium, Indian hemp, narcotics etc, as there is no uniform policy about prohibition between the sales.
- Main objectives of this levy are curbing consumption, encouraging exports, ensuring growth of small scale and cottage industries. It is levied on the value of the goods, even when the manufactured goods remain unsold.

Sales Tax:

- It is imposed by the State Governments with the sole objective of revenue generation and appropriated for the purpose of that State.
- It is imposed on the sale price of goods excluding trade/cash discount, at the time of First Sale from the Manufacturer to Distributor/Dealer hence it is called as Single Point Taxation.
- There are multiplicities of rates in this Act to impose on different types of goods.
- It allows tax holidays for certain new industries.
- This act does not allow any Input tax credit like Excise Act.
- There is a provision to improve surcharge and additional tax in tax regime.

UNIT – III – Customs Act, 1962.

2 Marks

1. What is 'Board Circular'?

- Issue for purpose of uniformity.
- Issue such instructions and directions to officers.

2. Write a note on "goods" under the Customs Act 1962.

- Vessals, aircrafts and vehicles, Baggage, Stores.
- Currency and negotiable instruments and any other kind of movable property.

3. Explain "Person in charge" under the Customs Act 1962.

- In relation to a vessel, aircraft.
- In relation to a railway train, any other conveyance.

4. What is “Taxable event”?

- “Import into/Export from India”.

5. What is HSN schedule of classification?

- Minimize areas of disputes between assessee and department.
- Effect on Feb. 28th 1986.

6. What is ‘Reassessment of Duty’?

- Also called ‘Second Check Procedure’.
- Assessment is done, and then goods are examined.

7. Briefly Explain EDI assessment.

- Processing and computations are done in electronic form.
- Tele – enquiry about status of documents.

8. What is ‘Customs value’?

- Value of dutiable goods shall be deemed.
- Goods are ordinarily sold at the time and place.

9. What is ‘unjust enrichment’?

- Not be equitable to refund the duty.
- Double benefit first customer and government.

10. What is ‘Advance Ruling’?

- Authoritative rulings in relation to imports and exports.
- Non residents in advance of commencement.

5 Marks

1. What are the objectives of Customs Act?

Objectives of Customs Act:

- Safeguarding domestic trade.
- Reducing Imports.
- Revenue resources.
- Protection of Indian industry.
- Prevention smuggling activities.
- To prevent dumping of goods.

2. Explain in detail the scope of customs law in India.

Scope of Customs Law

- Passed by parliament on 13 Th Dec. 1962.
- Force from Feb. 1, 1963.
- Simple, crisp and lucid piece of legislation.

Rules

- The customs valuation Rules, 1988.
- Duty Drawback rules 1995.
- Re-export of imported goods Drawback of customs rules, 1995.
- The Baggage rules, 1998.

3. Explain the powers of customs authorities.

Powers of Customs Authorities

- Appointment of customs ports, airports, etc.
 - ✓ Customs ports and customs airports.
 - ✓ Inland container depots.
 - ✓ Land customs stations.
 - ✓ Routes.
 - ✓ Coastal ports.
- Approval of Landing places and specifying limits of customs area.
 - ✓ Proper places in any customs port.
- Powers to declare places to be warehousing stations.
 - ✓ Official Gazette, declare places to be warehousing stations.
- Appointment of boarding stations.
 - ✓ Official Gazette, appoint in/customs port, loading station for purpose of boarding.

4. What is HSN schedule of classification? What are its features?

HSN Schedule of Classification

- Minimize disputes between assessee and department.
- Effect on Feb. 28 Th 1986.
- Developed by customs co-operation council.
- Internationally adopted “Nomenclature standard”.

Features

- Multipurpose nomenclature.
- Helps in standardization and transmission of data.
- Computerization of customs classification.

Content of HSN

- Six digit code with headings.

Multi-purpose Nomenclature

- Multipurpose nomenclature.

- Helps in standardization and transmission of data.

Pattern of HSN

- Rules, section, chapter and sub-heading notes.

Special Needs

- Special needs like project imports, chemicals, etc.

5. Explain the methods of classification of goods under Customs Act.

Methods of Classification

- **The principle of classification**
 - ✓ Excise tariff are applicable to customs Tariff.
- **Principle for classification of parts**
 - ✓ Similar to excise tariff.
 - ✓ Camera cases, drawing instruments and items.
- **Classification of goods in the sub-heading of a heading**
 - ✓ Heading no, sub-heading no, description of article.
 - ✓ Sub-heading of heading shall be determined.

10 Marks

1. Explain the different kinds of duties leviable under the customs Act.

Levy and Collection of Customs Duty

- Sole prerogative of Indian parliament.
- Exclusive power to enact laws.
- Regulated by customs Act 1962.
- Empowers central board of excise and customs.
- Movements of goods and persons across the borders.

Taxable Event

- Import into/Export from India.

Taxable Event for Import Duty

- Crossing of customs barrier and not the date.

- Warehouse the customs barriers would be crossed.

Taxable event for Export Duty

- Export is completed when it crosses territorial waters.

Territorial Waters of India

- Portion of sea which is adjacent to shores of country.
- Extend up to 6 nautical miles; 12 nautical miles 30 Th Sep. 1967.

Levy of duty on imports and exports

- Import duty is levied on all items.
- Export duty is levied only on few items.

2. What is customs duty? What are the different types of customs import duties?

Different Types of Customs Duty

- **Basic customs duty**
 - ✓ Levied as a percentage of value of goods.
 - ✓ Rates from 5 % to 20 %.
 - ✓ Reduced to 10 % by the Finance Act 2007.
- **National calamity contingent duty**
 - ✓ Called NCCD; Imposed from 2001.
 - ✓ Imposed on pan masala, chewing tobacco and cigarettes.
 - ✓ Rates from 10 % to 45 %. 1 % imposed on motor cars, multiutility vehicles and 2 wheelers.
- **Special additional duty of customs**
 - ✓ 4 % introduced 2nd June 1998.
 - ✓ Introduced to offset effect local sales tax.
 - ✓ All goods except baggage, gold, silver etc.
- **Additional customs duty**
 - ✓ Called Counter vailing duty.
 - ✓ Imposed to keep the prices for home products.
 - ✓ Levi able on alcoholic liquor imported and other goods.
- **Protective duties**
 - ✓ Recommended by tariff commission to central government.
 - ✓ Imposed by notification should introduced in parliament.

- ✓ Valid till date prescribed in notification.
- **Countervailing duty on subsidized goods**
 - ✓ Upon the amount of such subsidy.
 - ✓ Cannot be ascertained duty is collected.
 - ✓ Way of notification imposed.
- **Anti dumping duty on dumped articles**
 - ✓ Export goods at lower prices.
 - ✓ Difference between normal value and export price.
 - ✓ Comparable price in ordinary course in trade.

3. Explain the import procedure and export procedure briefly.

❖ **Import Procedures**

- **Arrival at customs port/airport only**
 - ✓ Land at customs port/customs airport only; other place by accident.
- **Import manifest/report**
 - ✓ Submit import general manifest.
 - ✓ Submitted electronically through floppy.
 - ✓ Provides details of cargo to be unloaded.
- **Grant of entry inward by customs officer**
 - ✓ After customs officer grants 'entry inward'.
- **Unloading of reported goods only**
 - ✓ Imported manifest can be unloaded; done only at approved places.
- **Filing of import bills of entry**
 - ✓ Very vital and important document; prescribed form.
 - ✓ Forms – Importer's name, address, vessel's name, line number, port of shipment, country of origin, nature of quality of packages, customs tariff heading, exemption notification number, total duty.

❖ **Export Procedures**

- **Initial steps to be taken by the exporter**

- ✓ Identification number, current account with designated bank, registers licenses.
- **Shipping bill to be submitted by exporter**
 - ✓ Submitted along with packing list, invoices, export contract, letter of credit.
- **Declaration of exporter**
 - ✓ Appropriate declaration in prescribed form.
- **Export duty if payable**
 - ✓ Very few articles and cess is payable.
- **Entry of goods for exportation**
 - ✓ Present a shipping bill to proper officer.

UNIT – IV – Central Sales Tax.

2 Marks

1. What are the ingredients/essential features of sale under CST Act?

- Applicability, registration by dealer.
- Dealer to pay sales tax, definition of terms.

2. Briefly explain 'Nexus theory' in the context of CST Act.

- Connection/link; must be 'territorial connection'.
- Territorial limits of state.

3. What is meant by Interstate sale?

- Goods sent through agent/branch to buyer.

4. What is the meaning of “Customs frontiers of India”?

- Crossing the limits of area of customs station.

5. What is ‘Penultimate sale’ in the course of export under the CST Act 1956?

- Sale preceding the sale occasioning export.
- Deemed to be in the course of such export.

6. What is ‘Compulsory Registration’ under CST Act?

- Sale in the course of interstate trade/commerce is liable to pay.
- Obligation to register himself.

7. Who can register as dealer under CST Act voluntarily?

- Liable to pay sales tax.
- Dealing in tax free goods.

8. What is ‘Subsequent Sale’?

- Exempt from tax to avoid multiple tax.
- Made to government, registered dealer.

9. What is taxable turnover?

- Charged on basis turnover; Based on sale price.
- Not on aggregate selling price.

10. What is “Penalty in Lieu of Prosecution”?

- Levied only upon the purchaser of goods.
- Fine exceeding 1 ½ times.

5 Marks

1. What are the objectives of CST Act 1956?

Objectives of Central Sales Tax Act

- Course of inter-state trade/commerce/outside an India.
- Levy, collection and distribution of taxes.
- Certain goods to be special importance.
- Restrictions and conditions to state laws imposing taxes.

2. Who is a “Dealer” under the CST Act 1956?

Dealer

- Any person who carries the business.
- Distributing goods directly/indirectly for cash.
- A local authority, a company.
- A factor, broker, commission agent.
- An auctioneer who carries on business.

3. What are all included under ‘Sale’ in CST Act?

Sale

- Transfer of property in goods.
- Transfer of property in any goods for cash.

- Delivery of goods on hire purchase.
- Supply of goods by any unincorporated association.
- Other valuable consideration.

4. What are “Goods” and “Declared goods” under CST Act?

Goods

- All materials, articles, commodities.
- Not include newspapers, money, shares.
- Goods includes animal object, incorporeal, standing timber, air and water made available, old newspaper sold as waste paper.

Declared Goods

- Declared under section 14 to be of special importance.

10 Marks

1. Discuss in detail sale/purchase of goods in the course of import/export.

Sale/purchase of goods in the course of import/export

❖ Export of goods

• **Goods to cross the customs frontiers of India**

- ✓ Transfer of documents of title to goods after goods have crossed.

❖ Imports

• **Before the goods crossed the customs frontiers of India**

- ✓ Transfer of documents of title to goods before the goods crossed.

❖ Territory of India shall deem to be in export.

❖ Dealer selling the goods furnishes to prescribed authority.

Export of goods outside India

Sale/purchase which occasions export

- ✓ Called 'direct export sale'
- ✓ Elements – Sale of goods, transshipment of goods between two countries.

Sale/purchase being affected by transfer of document

- ✓ Called 'a sale in the course of export'.
- ✓ Essential – Transfer of document of title to goods, goods crossed the customs frontier of India.

2. What are the benefits of Registration of dealers under CST Act? Is such registration compulsory for every dealer?

❖ **Compulsory Registration**

- ✓ Sale in the course of interstate trade/commerce is liable to pay.
- ✓ Obligation to register himself.

❖ **Voluntary Registration**

- ✓ Liable to pay sales tax.
- ✓ Dealing in tax free goods.

❖ **Benefits of Registration**

• **Benefits of Purchasing Dealer**

- ✓ Goods for manufacturing/resale.
- ✓ CST @ 4 %; Otherwise pay tax @ 10 %.

• **Benefits to Selling Dealer**

- ✓ No direct benefit for registration.
- ✓ Seller can recover CST payable.
- ✓ Seller's subsequent sale of goods exempt from CST.

3. What are the powers of the authorities in appropriate states in relation to CST?

Powers of the Authorities of Appropriate States

- ✓ Empowered under the central sales tax.

Functions

- ✓ Assessment of central sales tax
- ✓ Reassessment of central sales tax
- ✓ Collection of central sales tax
- ✓ Enforcement of payment of central sales tax
- ✓ Enforcement of interest payable by a dealer
- ✓ Enforcement of penalty by a dealer

Liability to Pay Interest

- ✓ Central sales tax has to pay the tax in time.
- ✓ Not paid in time the dealer is liable to pay.

Provisions

- ✓ Delayed payment of tax
- ✓ Due date of payment of tax
- ✓ Rate of interest for delayed payment of tax
- ✓ Assessment and collection of interest for delayed payment of tax.

UNIT – V – Service Tax

2 Marks

1. What is taxable service?

- Payable on 'value of service'
- Gross amount charged by service provider.

2. Give a list of services exempted from payment of service tax.

- Non-resident, insurance auxiliary service, goods transport agency.
- Sponsorship services, auxiliary service of distribution of mutual fund.

3. What is 'Self Assessment' of service tax?

- Liable to pay service tax shall himself assess,
- Prescribed form will be submitted to superintendent of central excise.

4. Write a note on 'Refund of Service Tax paid'.

- File application for refund in "form R".
- Provisions of "unjust enrichment".

5. What are the Penalties levied for offences under the Service tax Act?

- For nonpayment of service tax, for not filing prescribed return.
- Penalty for suppressing value of taxable service, evasion of tax by suppression of facts.

5 Marks

1. What is 'Service Tax'? Explain its significance in the Indian context.

Service Tax

- ✓ Tax on service.
- ✓ Addition to an intangible product.

Significance of Service Tax

- ✓ Source of revenue
- ✓ Part of finance act
- ✓ Administration
- ✓ Uniform rate of service tax
- ✓ Taxable service

- ✓ Exemption of small service provider
- ✓ Tax to be paid by service provider
- ✓ Self assessment

2. What is 'Value of taxable service'? How is it determined?

Value of Taxable Service

- ✓ Payable on 'value of service'
- ✓ Gross amount charged by service provider.
- Service tax to be assessed on service and not on reimbursement.
- Service tax is not chargeable on goods and material supplied by service provider.
- Service tax is not payable on services provided on sub-contract.
- Service tax is payable only on actual amount received.
- Service tax is payable on advance received.

10 Marks

1. Describe the procedure for registration of service providers under service tax rules.

Procedures of Service Tax

- Registration
- Maintenance of records
- Payment of service tax
- Filing of returns
- Assessment
- Demand of tax
- Rectification of mistakes
- Revision of assessment order

- Recovery of tax
- Refund of service tax

2. Who is an assessee for service tax? Explain different kinds of assessment of service tax.

Assessment

- ✓ Person liable to pay the service tax

Kinds of Assessment

- **Self Assessment**
 - ✓ Liable to pay service tax shall himself assess,
 - ✓ Prescribed form will be submitted to superintendent of central excise.
- **Provisional Assessment**
 - ✓ Make request in writing for provisional assessment to assistant.
- **Best Judgment Assessment**
 - ✓ Assessee fails to submit the return.