

Connection Between VAT, Central Excise, Service Tax & GST

The GST law is a mixture of the old indirect tax laws to a great extent. There are many provisions which are not as per the old provisions of VAT, Central Excise or Service tax where one needs to unlearn those aspects.

We discuss on which aspects of old law is relevant and the unresolved issues which were there in old law which have been carried forward. Some reforms needed in that area.

A. Relevance of Earlier Indirect Tax Laws in GST

The old law had settled position for many issues which have now resurfaced GST Practitioners may find knowing where the provisions were lifted or adapted from useful.

They may be able to understand and interpret based on the earlier interpretations and refer to the Court decisions relevant. The reference to the provisions, development of provision, decided judicial decisions available in the old law could be referred in case of doubts or disputes.

Topics	VAT	CE	ST	Others
Definitions	Many	Many	Many	Yes
Levy	Yes	Yes	Yes	No
Composition	Yes	No	No	No
E- Commerce	No	No	Yes	No
Time of Supply- Goods	Partial	Removal	No	No
TOS- Services	No	No	Partial	No
POS – Goods	No	Removal	Partial	No
POS- Services	No	No	POS Rules	EU- VAT
RCM- Goods	URD Purchases	No*	X	XA
RCM- Services	X	X	RCM	EU- VAT
Tax Credit	Yes	Yes	Yes	No
ITC Reversal	Yes	Yes	Yes	No
Registration	Yes	No	No	No
Classification -	No	CE Tariff	No	Customs

Goods				
Classification - Services	No	No	Partial	No
Exemption - Goods	No	CE Tariff	No	
Exemption- Services	No	No	Some directly copied	No
Valuation Goods	Transaction Value partly	CE Valuation Rules	No	No
Valuation Services	No	No	ST Valuation Rules	No
Job Work	No	Yes	No	No
Audit- Professional	Yes (in most States)	No	No	No
Audit- Revenue	Yes	Yes	Yes	No
Demand	No	Yes	Yes	No

Under Central Excise on Molasses there was a reverse charge.

B. Common Difficulties carried forward from Indirect Taxation

The above chart indicates a number of principles have been borrowed from the earlier indirect tax laws. Some of the important aspects which favour the tax collection mechanism but are not in line with the business ease could be as under:

1. GST is a far more complex law than any of the erstwhile laws as it is an amalgam of all. The checks and balances to collect tax early and fully with unreasonable compliances is expected to lead to large scale non compliances. The resistance to filing of the GSTR-1 in the past indicates the deep rooted suspicion of the trade.
2. The levy being attracted on registration is from the VAT laws. This is creating a number of issues in regard to the procurement from the unregistered suppliers.
3. The concept of composite, non-composite and mixed supply is from the service tax concept of "naturally bundled or not". The interpretation being subjective would see a number of disputes going upto the apex court.
4. Threshold exemption of Rs. 20 lakhs is a via media of the Rs. 150 lakhs under Central Excise, Rs. 10 Lakhs in service tax and lower in VAT. This higher threshold with the common practice of several PAN based files in every family may find many leakages in the business to consumer [B2C] segment in goods.

5. The composition scheme is mainly from VAT which was a much abused scheme with high level of corruption. Multiple PAN based files as above could see much higher leakages as the threshold here is quite high.
6. The tax on advances has been from the service tax regime introduced in 2011. This method which is against all business and accounting norms has witnessed in 7 years only partial compliance in service tax and bound to result in large scale non compliance in GST.
7. The place of supply is based on the EU VAT law to some extent for goods and for services the earlier service tax- place of provision of services rules. The impact is not limited to import and export but between each of the States and Union Territories. Unless an automatic adjustment is provided, demands and refund method suggested is unworkable for SMEs today.
8. The valuation provisions have primarily been adapted from central excise unfortunately for both goods and services. The services have a bit a service tax concepts adapted. The knee jerk amendments and clarifications could lead to reinventing the fairly settled valuation issues.
9. The enabling of the input tax credit across trading and manufacture/ service and reduction in some restrictions has reduced the cascading. However, the continuing restrictions and very complex method of reversing credit would again be a major challenge to the SMEs.

The GST law in bits and pieces is an improvement over the VAT law and also to some extent the service tax provisions. However this dilution maybe due to the consensus approach adopted as well as over dependence on the executive which has resulted in a law which is loaded against the tax compliant and honest tax payer. This article is part of introduction chapter - work in progress of book on GST audit to be published in a month after audit is notified.

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