BAOU Education for All
॥ चैतन्य ॥
CHAITANYA
ISSN : 2582 2802
A Refereed and Peer - Reviewed International e-Journal of Humanities and Social Sciences
by School of Humanities and Social Sciences
Dr. Babasaheb Ambedkar Open University, Ahmedabad

Central Excise Duty: Before & After GST

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Abstract

Indirect tax is one in which the burden can be shifted to others. The tax payer is not the tax bearer. While a Direct tax is a tax which is paid by a person on which it is legally imposed and the burden of which cannot be shifted to any other person important direct taxes are Income Tax, Gift Tax, and Wealth Tax and important indirect taxes like GST, Central Excise Duty, Customs Duty etc. the duty of excise is levied on a manufacturer or producer in respect of the commodities produced or manufactured by him. Central excise duty and goods and service tax (GST) are both forms of indirect taxes levied on the production, manufacture and sale of goods. However, there are significant differences between the two. Here's an overview of how central excise duty and GST relate to each other. This paper is an attempt to discuss and examine how central excise duty and GST relate to each other.

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Central Excise Duty

Excise duty was a pre-GST indirect tax levied by the central government in India on the production or manufacture of goods. It was levied at the central level and applied to the goods produced within the country. The duty was calculated based on the quantity or value of goods produced and was payable by the manufacturer or producer. Central excise duty was levied on goods falling under specific chapters and headings of the Central Excise Tariff act. Manufacturers were required to register with the Central Excise Department, maintain records, and file regular excise returns.

Goods and Service Tax (GST)

GST is a comprehensive indirect tax that replaced multiple indirect taxes, including central excise duty, in India. It was implemented from July 1,2017. GST is levied on the supply of goods or services or both. It is a destination-based tax applicable to the entire supply chain, from production to the final consumer. GST is levied at both the central and state levels, with Central GST (CGST) and State GST (SGST) components. For interstate transactions, Integrated GST (IGST) is applicable. Under GST, the tax is calculated on the value of the goods or services supplied, including any applicable taxes, and is payable by the supplier. GST has a comprehensive input tax credit mechanism, allowing businesses to claim credits for the GST paid on inputs, capital goods, and services used in the supply chain. GST implementation simplified the tax structure, reduced tax cascading, and improved efficiency and transparency in the tax system.

Transition from Central Excise Duty to GST

The introduction of GST in India resulted in the subsuming of central excise duty into the GST regime. Central excise duties, along with other indirect taxes such as service tax, value-added tax (VAT), and additional customs duty, were replaced by GST. Manufacturers who were previously liable to pay central excise duty became liable to pay GST on their supplies. The credit balance available under the central excise regime was allowed to be carried forward as input tax credit under GST. Before the implementation of Goods and Services Tax (GST) in India, central excise duty was a significant indirect tax levied by the central government on the production or manufacture of goods. Here's an overview of central excise duty before and after the introduction of GST:

BEFORE GST

Levy and Scope

Central excise duty was levied on the manufacture or production of goods within the country. It was applicable to a wide range of goods falling under specific chapters and headings of the Central Excise Tariff Act.

Taxable Event

Central excise duty was imposed when goods were removed from the place of production or a licensed warehouse for sale, consumption, or for use in manufacturing other goods.

Excise Duty Liability

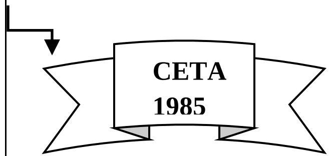
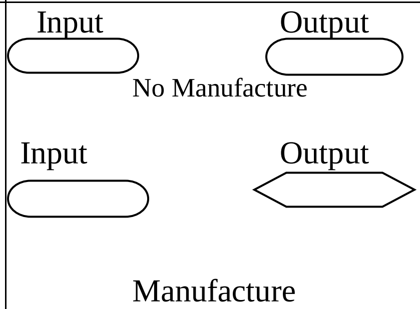
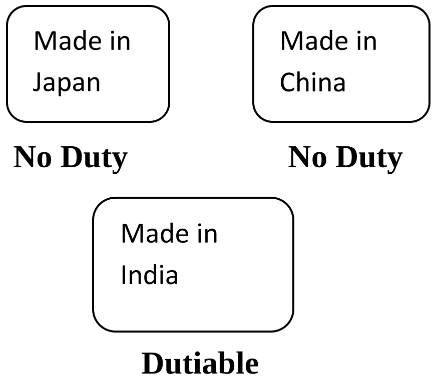
Before the implementation of Goods and Services Tax (GST), Basic excise duty is levied under section 3 of central excise act at rates specified in first schedule to central excise tariff act, 1985. Section 3 of central excise act clearly signifies that there are four basic conditions for levy of central excise duty.

1. ***The duty is on goods***
2. ***The goods must be excisable***
3. ***The goods must be manufactured or produced***
4. ***Such manufacture or production must be in India***

Excise Duty Liability

(Taxable event is manufactured or produced in India)

Article must be 'goods' i.e. the article must be movable and marketable	Article must be **movable** Article must be **marketable**

Article must be 'excisable goods' i.e. It must be mentioned in Central Excise Tariff Act, 1985 (CETA)	 Must be mentioned in Central Excise Tariff Act
The goods must be manufactured or produced i.e. new and identifiable product having a distinctive name, character or use must emerge	
Such Manufacture or Production must be in India	

Credit Mechanism

The MODVAT (Modified Value Added Tax) system was introduced to allow manufacturers to take credit for the duty paid on inputs used in the manufacturing process. However, the credit was not available for inputs used in exempted products.

CENVAT (Central Value Added Tax)

CENVAT has its origin in the system of VAT (Value Added Tax), which is common in West European Countries. France was the first country to introduce VAT in 1954. Indian government adopt it with some modification. MODVAT (Modified Value Added Tax) was introduced in India in 1986. MODVAT was renamed as CENVAT w.e.f. 1-4-2000. The Finance Act, 2000 had introduced the new Central Value Added Tax (CENVAT) Scheme replacing the Modvat Scheme w.e.f. 1-4-2000. Further, New CENVAT Scheme, 2004 has been introduced w.e.f. 10-09-2004.

CENVAT is basically an input duty relief scheme under Central Excise designed to reimburse the user manufacturer with the duty paid on the input which he has absorbed as part of purchase price when buying the same for producing finished products. This scheme was introduced with the explicit objective of reducing the cascading impact on the price of finished product due to levy of excise on successive stages of manufacture.

Tax Credit System to Avoid Cascading Effect

Particulars	**Transaction Before CENVAT**			**Transaction After CENVAT**		
Details	**A**	**B**	**C**	**A**	**B**	**C**
Purchases	-	110	165	-	100	140
Value Added	100	40	10	100	40	10
Sub-Total	100	150	175	100	140	150
Add Tax @10%	10	15	17.5	10	14	15
Total	110	165	192.5	110	154	165
Tax Payable (Total Tax – CENVAT Credit	10 (No cenvat credit)	15 (No cenvat credit)	17.5 (No cenvat credit)	10 (No input tax, hence no credit	14-10=4 (after deducting input tax)	15-14=1 (after deducting input tax)

In the above table 'Tax Credit System of CENVAT is illustrated. It shows the tax system Before CENVAT and After CENVAT.

Before CENVAT System, as we saw in the above table, 'B' will purchase goods from 'A' @ Rs. 110, which is inclusive of duty of Rs. 10. Since 'B' is not going to get credit of duty of Rs. 10 'Before CENVAT Tax System', he will consider this amount for his costing. He will charge conversion charges of Rs. 40 and sell his goods to 'C' at Rs. 165 inclusive of duty @ 10% which is Rs. 15 (10% +40=150x10/100=15). Since 'C' is not going to get credit of input duty, he will consider this amount for his costing and value added by 'C' of Rs. 10 and sell his goods at Rs. 192.50 inclusive of duty @ 10% which is 17.50(165+10=175x10/100=17.50). In fact value added by 'C' only Rs. 10, tax on which would have been only Rs. 1, while the tax paid was Rs. 17.50. As stage of production or sale continues, each subsequent purchaser has to pay tax again and again on the material which has already suffered tax. This is called cascading effect.

After CENVAT System, as we saw in the above table 'B' will purchase goods from 'A' @ Rs. 110, which is inclusive of duty of Rs. 10. Since After CENVAT Tax System, 'B' is going to get credit of duty of Rs. 10; he will not consider this amount for his costing. He adds value of Rs.

40 and sells his goods at Rs. 140. He will charge 10% tax and raise invoice of Rs. 154 to 'C' (140 plus10% tax) in the invoice prepared by 'B', the duty shown will be Rs. 14. However, 'B' will get credit of Rs. 10 paid on the raw material purchased by him from 'A'. Thus, effective duty paid by 'B' will be only Rs. 4. 'C' will get the goods at Rs. 154 and not at Rs. 165 which he would have got in absence of CENVAT. 'C' will charge conversion charges of Rs. 10 and sell his goods at Rs. 150. He will charge 10% tax and raise invoice of Rs. 165 to customer (150 plus tax @ 10%). In the invoice prepared by 'C', the duty shown will be Rs. 15. However, 'C' will get credit of Rs. 14 paid on the raw material purchased by him from 'B'. Thus, effective duty paid by 'C' will be only Rs.1. Customer will get the goods at Rs. 165 and not at Rs 192.50 which he would have got in absence of CENVAT. Thus, in effect, 'C' has to pay duty only on Rs. 10, which is the value added by him.

Duty Calculation

Central excise duty was calculated based on the assessable value of the goods. The assessable value was determined based on various valuation methods prescribed under the excise law.

Procedural Requirements

Manufacturers were required to register with the Central Excise Department, maintain records of inputs, manufacturing processes, and duty payments. They had to file regular excise returns and comply with procedural requirements.

AFTER GST

Introduction of GST

GST was implemented in India from July 1, 2017, replacing multiple indirect taxes, including central excise duty. GST is a comprehensive indirect tax levied on the supply of goods or services.

Subsuming Central Excise

Central excise duty, along with other indirect taxes such as service tax, value-added tax (VAT), and additional customs duty, was subsumed into the GST regime.

Single Tax Regime

GST replaced the fragmented tax structure with a single tax applicable throughout the supply chain, from production to the final consumer. It includes Central GST (CGST), State GST (SGST), and Integrated GST (IGST) for interstate transactions.

Input Tax Credit

GST introduced a comprehensive input tax credit mechanism, allowing businesses to claim credit for the GST paid on inputs, capital goods, and services used in the supply chain. This helped in mitigating the cascading effect of taxes.

Simplified Compliance

GST implementation streamlined the compliance process by introducing a unified return filing system, reducing the number of returns, and introducing online platforms for registration and filing.

Impact of Manufactures

Under GST, manufacturers became liable to pay GST on their supplies, including the value addition at each stage of the supply chain. The credit balance available under the central excise regime was allowed to be carried forward as input tax credit under GST.

Concluding Observation

From the above finding it is clear that The introduction of GST brought significant changes to the taxation landscape in India, replacing the central excise duty system with a comprehensive and unified tax structure. These changes aimed to simplify the tax system, reduce tax cascading, and promote ease of doing business.

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