

## Chapter I: Indirect Taxes Administration and Revenue Trend

This chapter gives an overview of the indirect taxes administration and the revenue trends in indirect tax collection.

### 1.1 Nature of Indirect Taxes

This Audit Report deals mainly with the issues involving levy and collection of Goods and Services Tax. A few audit findings with respect to Central Excise collections and legacy Service Tax have been included to present a full picture of audit of indirect taxes. Audit findings on levy and collection of Customs duty are presented in a separate report. The indirect taxes covered in this report are discussed below:

- a) **Goods and Services Tax:** Goods and Services Tax (GST) is a tax on supply of goods or services or both except taxes on the supply of alcoholic liquor for human consumption. GST came into effect from 1 July 2017<sup>8</sup>. Central Excise duty (except five Petroleum products), Service Tax, Countervailing duty (CVD), Special Additional duty (SAD) components of customs and most of the indirect taxes of States have been subsumed into GST. Central Excise duty is continued on five Petroleum products as these products are out of GST at present, and will be brought under GST later. Tobacco products are subject to both Central Excise and GST. GST is a consumption based tax i.e. tax is payable in the State where goods or services or both are finally consumed. In addition to GST, a cess named GST Compensation Cess is levied on some goods i.e. Tobacco products, Coal, Aerated water, Motor cars etc.

There are three components of GST as follows:

- **Central Goods and Services Tax (CGST):** payable to the Central Government on supply of goods and services within the State/Union Territory.
- **State/Union Territory Goods and Services Tax (SGST/UTGST):** payable to the State/Union Territory Government on supply of goods and services within the State/Union Territory.
- **Integrated Goods and Services Tax (IGST):** In case of inter-state supply of goods and services, IGST is levied by Government of India. Equivalent IGST is also levied on imports into India. IGST shall be apportioned between the Union and the States in the manner as

---

<sup>8</sup> With effect from 8 July 2017 in Jammu and Kashmir

may be provided by Parliament by law on the recommendations of the Goods and Services Tax Council.

- b) **Central Excise duty:** Central Excise duty is levied on manufacture or production of goods that have not been brought under the GST regime. Parliament has powers to levy excise duties on tobacco and five petroleum products (Entry 84 of List 1 of the Seventh Schedule of the Constitution).
- c) **Service Tax (legacy):** Service Tax was levied on services provided within the taxable territory. Section 66B of the Finance Act, 1994 envisaged that there shall be a tax levied at the rate of 14 *per cent* on the value of all services, other than those specified in the negative list, provided or agreed to be provided in the taxable territory by one person to another and collected in such manner as may be prescribed.<sup>9</sup> ‘Service’ had been defined in section 65B (44) of the Finance Act, 1994 to mean any activity for consideration (other than the items excluded therein) carried out by a person for another and to include a declared service.<sup>10</sup>

## 1.2 Organizational Structure

The Department of Revenue (DoR) of Ministry of Finance (MoF) functions under the overall direction and control of the Secretary (Revenue) and coordinates matters relating to all the Direct and Indirect Union Taxes through two statutory Boards namely, the Central Board of Indirect Taxes and Customs (CBIC<sup>11</sup>), and the Central Board of Direct Taxes (CBDT) constituted under the Central Board of Revenue Act, 1963. Matters relating to the levy and collection of GST are looked after by the CBIC.

Indirect Tax laws are administered by the CBIC through its field offices. In view of implementation of GST, CBIC restructured its field offices into 21 Zones of GST headed by the Principal Chief Commissioner/Chief Commissioner vide circular dated 16 June 2017. Under these 21 Zones of GST, there are 107 GST Taxpayer Services Commissionerates that deal with GST and Central Excise, headed by the Principal Commissioner/Commissioner. Divisions and Ranges are the subsequent formations, headed by Deputy/Assistant Commissioner and Superintendents, respectively. Apart from these Commissionerates, there are 49 GST Appeal Commissionerates, 48 GST Audit Commissionerates and 22 Directorates dealing with specific functions such as DG (Systems) for

---

<sup>9</sup> Section 66B was inserted by the Finance Act, 2012 with effect from 1 July 2012; section 66D lists the items the negative list comprises of.

<sup>10</sup> Section 66E of the Finance Act, 1994 lists the declared services.

<sup>11</sup> Formerly Central Board of Excise and Customs (CBEC).

management of Information Technology projects and DG, National Academy of Customs, Indirect Taxes & Narcotics (NACIN)<sup>12</sup> for training needs.

### 1.3 Revenue Trend

#### 1.3.1 Indirect Taxes revenue trend

Tax revenue of the Union Government consists of revenue receipts from Direct and Indirect Taxes. In the pre GST regime, Indirect Taxes comprised of Central Excise, Service Tax and Customs duties. After the implementation of GST, Service Tax and duties of Central Excise, other than Petroleum products, have been subsumed<sup>13</sup> in GST. Central Excise continues to be levied on petroleum products, and tobacco has been subjected to both GST as well as Central Excise. The overall resources of the Government of India and details of tax revenue of the Union Government from 2016-17 to 2020-21 have been given in Table No.1.1 below:

**Table 1.1: Resources of the Government of India**

	(₹ in crore)				
Tax component	2020-21	2019-20	2018-19	2017-18	2016-17
A. Total Revenue Receipts**	24,59,510	25,98,705	25,67,917	23,64,148	22,23,988
i. Direct Tax Receipts	9,47,174	10,50,685	11,37,718	10,02,738	8,49,801
ii. Indirect Tax Receipts including other taxes	10,79,929	9,59,374	9,42,747	9,16,445	8,66,167
iii. Non-Tax Receipts	4,30,654	5,88,273	4,86,388	4,41,383	5,06,721
iv. Grants-in-aid & contributions	1,752	373	1,063	3,582	1,299
B. Miscellaneous Capital Receipts	37,897	50,349	94,979	1,00,049	47,743
C. Recovery of Loans and Advances	29,923	18,647	30,257	70,639	40,971
D. Public Debt Receipts	81,62,910	73,01,386	67,58,482	65,54,002	61,34,137
<b>Receipts of Government of India (A+B+C+D)</b>	<b>1,06,90,240</b>	<b>99,69,087</b>	<b>94,51,635</b>	<b>90,88,838</b>	<b>84,46,839</b>

Source: Union Finance Accounts of respective years.

\*\* Total Revenue receipts include share of net proceeds of direct taxes and indirect taxes directly assigned to States.

The indirect taxes collections increased by ₹ 1, 20,555 crore (12.56 per cent) during FY21 over FY20. The annual growth of Indirect Taxes (Y-o-Y), which constantly decreased from 21.33 percent in FY 17 to 1.76 per cent in FY20, saw an upward trend in FY 21. The growth in indirect taxes was due to increase in

<sup>12</sup> Formerly National Academy of Customs Excise & Narcotics (NACEN)

<sup>13</sup> Both Central Excise and Goods and Services Tax are levied on Tobacco products.

the receipts from Central Excise Duty and Customs duty, which increased, respectively, by ₹ 1,50,215 crore and ₹ 25,467 crore over the previous year (FY20). The receipts from the Central GST taxes<sup>14</sup>, however, decreased by ₹ 50,243 crore (8.34 per cent) in FY21 over the previous year.

The share of Indirect taxes in total revenue receipts had constantly declined from 38.95 per cent in FY17 to 36.92 per cent in FY20. The share of indirect taxes in total receipts, however, increased to 43.90 per cent in FY21 from 36.92 per cent in FY20.

### 1.3.1.1 Growth of Indirect Taxes - Trends and Composition

Table 1.2 below depicts the relative growth of Indirect Taxes during FY17 to FY21, with respect to GDP and Gross Tax Revenue.

Table 1.2: Growth of Indirect Taxes

(₹ in crore)					
Year	Indirect Taxes*	GDP (At Current prices)	Indirect Taxes as per cent of GDP	Gross Tax revenue	Indirect Taxes as per cent of Gross Tax revenue
FY17	8,61,812	1,51,83,709	5.68	17,15,968	50.24
FY18	9,13,486	1,67,73,145	5.45	19,19,184	47.59
FY19	9,40,099	1,89,71,237	4.96	20,80,465	45.18
FY20	9,56,574	2,03,51,013	4.70	20,10,058	47.58
FY21	10,77,597	1,97,45,670	5.45	20,27,104	53.15

Source: Tax revenue - Union Finance Accounts, GDP – Press note of CSO<sup>15</sup>.

\*Indirect Taxes include revenue from CX, ST, GST, Customs and other taxes on commodity and services.

Indirect Taxes as a percentage of GDP had continued to decline from 5.68 per cent in FY 17 to 4.70 per cent in FY20. However, during FY 21 there was a rise in the Indirect taxes to GDP ratio when it increased to 5.45 per cent. The increase in the Indirect taxes as a percentage of GDP may be attributed mainly to the significant increase in the Central Excise Revenue in FY 21, which increased to ₹ 3,89,667 crore in FY 21 from ₹ 2,39,452 crore in FY 20, an increase of 62 per cent.

Indirect Taxes as a percentage of gross tax revenue showed a declining trend from FY17 to FY19. However, from FY 20 onwards, the percentage of Indirect Taxes to Gross Tax revenue showed an upward trend from 45.18 per cent in FY 19 to 53.15 per cent in FY 21.

<sup>14</sup> GST revenue included Central Goods and Service Tax, Integrated Goods and Service Tax, UT Goods and Service Tax and GST Compensation Cess.

<sup>15</sup> Press note on GDP released on 31 May 2021 by Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation.

When pointed out (December 2021), the Ministry stated (February 2022) that higher growth in Indirect Taxes during 2015-16 to 2016-17 was inter-alia contributed by change in tax policy/structure such as increase in service tax rate and introduction of new levy/cess like Infrastructure Cess<sup>16</sup>, Swachh Bharat Cess<sup>17</sup>, Clean Environment Cess<sup>18</sup> and Krishi Kalyan Cess<sup>19</sup>. For short fall in Indirect Taxes between 2017-18 and 2019-20, Ministry cited policy related factors such as reduction in duty rates on Free Trade Agreements (FTA) imports, impact of Export Promotional Schemes, reduction in Basic Excise Duty on Petrol and Diesel (during 2017-18 and 2018-19) and impact of transitional credits under GST regime. Ministry also stated that Index of Industrial Production (IIP) for 2019-20 registered negative growth and import volumes started declining towards the end of financial year due to onset of Covid-19 across the globe.

As for 2020-21, Ministry stated that since March 2020 GST collections had been severely hit by low economic growth due to Covid-19. However, GST collections had gained momentum in the second half of FY 2020-21 after V-shaped recovery. Further, Excise Duty was raised on Petrol and Diesel in March and May 2020, which contributed to healthy growth in Central Excise revenue. With respect to Customs, Ministry stated that Government had made concerted efforts to rationalise customs exemptions and a large number of exemptions had been removed. Further, policy changes like introduction of Customs (Administration of Rules of Origin under Trade Agreements) Rules, 2020 (CAROTAR)<sup>20</sup>, extensive application of Risk Management System (RMS)<sup>21</sup>, etc., had helped in garnering additional revenue.

### **1.3.2 Comparative growth of various components of Indirect Taxes**

During 2020-21, the Indirect Taxes revenue grew by 12.65 *per cent* from ₹ 9, 56,574 crore in FY 20 to ₹ 10, 77,597 crore in FY 21.

Table 1.3 and Chart 1.1 below depict the relative growth of various components of Indirect Taxes during FY 19 to FY 21:

---

<sup>16</sup> Infrastructure cess came into effect from 1 March 2016.

<sup>17</sup> With effect from 15 November 2015 and abolished on 1 July 2017.

<sup>18</sup> Earlier Clean Energy Cess and introduced with effect from 1 July 2010.

<sup>19</sup> Krishi Kalyan Cess came into effect on 1 June 2016 and abolished on 1 July 2017

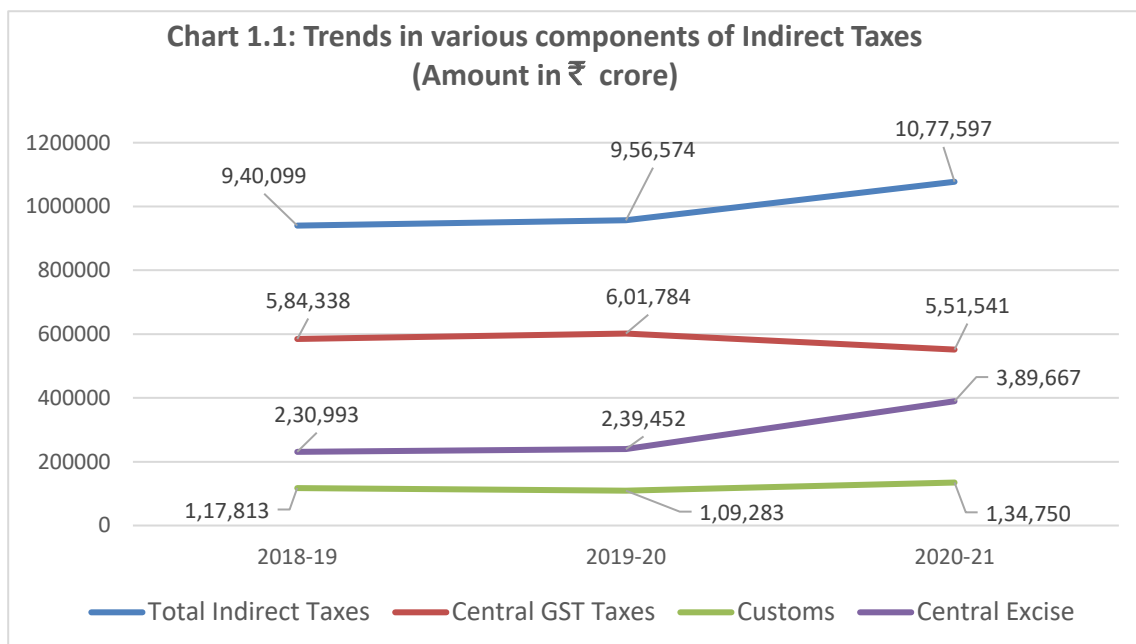
<sup>20</sup> Chapter VAA and section 28DA were inserted in the Customs Act, 1962, vide clause 110 of Finance Act, 2020.

<sup>21</sup> Risk Management System is an IT driven system with the primary objective to strike an optimal balance between facilitation and enforcement and to promote a culture of self-compliance in customs clearances.

**Table 1.3: Comparative growth of various components of Indirect Taxes**

(₹ in crore)			
Tax component	2018-19	2019-20	2020-21
<b>Central GST Taxes<sup>22</sup></b>	5,84,338 <sup>23</sup>	6,01,784 <sup>24</sup>	5,51,541 <sup>25</sup>
<b>Customs</b>	1,17,813	1,09,283	1,34,750
<b>Central Excise</b>	2,30,993	2,39,452	3,89,667
<b>Service Tax</b>	6,904	6,029	1,615
<b>Other taxes and duties</b>	51	26	24
<b>Indirect Taxes</b>	<b>9,40,099</b>	<b>9,56,574</b>	<b>10,77,597</b>

Source: Union Finance Accounts of the respective years.



As evident from the table above, Central GST taxes<sup>26</sup> revenue fell by 8.34 per cent (₹ 50,243 crore) during FY 21 over FY 20, whereas the other two major components of Indirect taxes viz. Customs and Central Excise grew by 23.30 per cent and 62.73 per cent, respectively, during the same period. As a result, during FY21, the share of Central GST taxes fell to 51 per cent of the total indirect tax collections. The share of Central GST taxes in indirect taxes during the previous two years, FY 19 and FY 20, was constant at 62 per cent. The decrease in the Central GST taxes during FY21 may be largely attributed to

<sup>22</sup> GST revenue included Central Goods and Service Tax, Integrated Goods and Service Tax, UT Goods and Service Tax and GST Compensation Cess.

<sup>23</sup> ₹ 13,944 crore was retained by the Centre from IGST account in contravention of the IGST Act, which requires apportionment of IGST between Centre and States.

<sup>24</sup> ₹ 9,125 crore was retained by the Centre from IGST account in contravention of the IGST Act, which requires apportionment of IGST between Centre and States.

<sup>25</sup> ₹ 7,251 crore was retained by the Centre from IGST account in contravention of the IGST Act, which requires apportionment of IGST between Centre and States.

<sup>26</sup> GST revenue included Central Goods and Services Tax, Integrated Goods and Services Tax, UT Goods and Services Tax and GST Compensation Cess.

the negative impact of Covid-19 pandemic on Indian economy, which affected manufacturing, trade and service activities.

Audit further noticed that the Central GST taxes revenue as a percentage of GDP continued to decline during the last three years to 2.79 *per cent* in FY 21 from 2.95 *per cent* in FY 20 and 3.02 *per cent* in FY19. Buoyancy in Central GST taxes revenue, therefore, is an area of concern and needs to be addressed by the GST Council.

It may be pertinent to mention that out of all the major components of the Indirect taxes, the Central Excise Duty, which, after implementation of GST, is leviable only on five petroleum products and tobacco products<sup>27</sup>, increased significantly by ₹ 1,50,215 crore (62.73 *per cent*) during 2020-21 from ₹ 2,39,452 crore in FY 20 to ₹ 3,89,667 crore in FY 21. Increase in Central Excise revenue was due to increase in the Central Excise duty on Petrol and Diesel in March and May 2020. Central Excise Revenue as a percentage of Indirect Taxes, therefore, grew to 36 *per cent* in FY 21 from 25 *per cent* in FY20.

When pointed out (December 2021), the Ministry stated (February 2022) that as per GST laws and procedure, the GST rates on goods and services are determined by the GST Council. Initially, the GST rates were fixed based on pre-GST tax incidence and revenue neutrality of the rates. Since the inception of GST, a number of rate rationalisations have been done on the recommendations of the GST Council, which has led to a shortfall in GST revenue. Rates have been reduced significantly, where relief of about ₹ 92,000 crore per year till July 2019 had been given. As regards FY21, Ministry attributed the shortfall in GST collections to nation-wide and regional lockdowns to contain the spread of Covid-19.

### **1.3.3 GST revenue of Government of India: Budget Estimates vs Actual Receipts**

Table 1.4 below presents a comparison of the Budget Estimates and the corresponding actuals for GST receipts.

---

<sup>27</sup> After implementation of GST from 1 July 2017, Tobacco products are subject to both GST and Central Excise Duty.

**Table 1.4: Budget, Revised estimates and Actual receipts (GST)**

(₹ in crore)

Year	Budget Estimates (BE)				Revised Estimates (RE)				Actual Receipts			
	CGST	IGST	Cess	Total	CGST	IGST	Cess	Total	CGST	IGST	Cess	Total
2017-18	No BE, only RE				2,21,400	1,61,900	61,331	<b>4,44,631</b>	2,03,261	1,76,688 <sup>28</sup>	62,612	<b>4,42,561</b>
2018-19	6,03,900	50,000	90,000	<b>7,43,900</b>	5,03,900	50,000	90,000	<b>6,43,900</b>	4,57,534	28,945 <sup>29</sup>	95081	<b>5,81,560</b>
2019-20	5,26,000	28,000	1,09,343	<b>6,63,343</b>	5,14,000	--	98,327	<b>6,12,327</b>	4,94,070	9,125	95,553	<b>5,98,748</b>
2020-21	5,80,000	---	1,10,500	<b>6,90,500</b>	4,31,000	---	84,100	<b>5,15,100</b>	4,56,334	7,251	85,192	<b>5,48,777</b>

Source: Union Finance Accounts and receipt budget documents of respective years.

As could be seen from the table above, the Central GST revenue<sup>30</sup> was short of the Budget Estimates for the years 2018-19, 2019-20 and 2020-21. The shortfall vis-à-vis budget estimates was 22 per cent, 10 per cent and 21 per cent for the years 2018-19, 2019-20 and 2020-21, respectively. The actuals for 2018-19 and 2019-20 were also short of the Revised Estimates. During 2020-21, however, the actuals exceeded the Revised Estimates and were 106.54 per cent of the Revised Estimates.

When pointed out (December 2021), the Ministry attributed (February 2022) shortfall in GST revenue to impact on account of transitional credits (2017-18), negative growth in Index of Industrial Production (IIP) (2019-20), and low economic growth owing to nation-wide and regional lockdowns to contain the spread of Covid-19 (2020-21).

#### 1.4 Conclusion

Indirect Taxes collections increased by ₹ 1, 20,555 crore (12.56 per cent) during FY21 over FY20. The annual growth of Indirect Taxes (Y-o-Y), which constantly decreased from 21.33 percent in FY 17 to 1.76 per cent in FY20, saw an upward trend in FY 21. Further, during FY 21 there was a rise in the Indirect taxes to GDP ratio when it increased to 5.45 per cent in FY 21 from 4.70 per cent in FY 20. The growth in indirect taxes was due to increase in the receipts from Central Excise Duty and Customs duty, which increased, respectively, by ₹ 1,50,215 crore and ₹ 25,467 crore over the previous year (FY20).

Central GST taxes revenue, however, decreased by 8.34 per cent from ₹ 6,01,784 crore in FY 20 to ₹ 5,51,541 crore in FY21. Central GST taxes as a percentage of GDP also decreased to 2.79 per cent in FY 21 from 2.95 per cent in FY 20 and 3.02 per cent in FY19.

<sup>28</sup> ₹ 67,998 crore was assigned to the States and balance ₹ 1,08,690 crore retained by the Centre

<sup>29</sup> ₹ 15,001 crore was assigned to the States and balance ₹ 13,944 crore retained by the Centre

<sup>30</sup> CGST, IGST and GST Compensation Cess