

Constitutional framework of Indirect Taxes before GST (Taxation Powers of Union & State Government):

- Article 265 of the Constitution of India provides that no tax shall be levied or collected except by authority of law.
- As per Article 246 of the Constitution, Parliament has exclusive powers to make laws in respect of matters given in Union List (List I of the Seventh Schedule) and;
- State Government has the exclusive jurisdiction to legislate on the matters containing in State List (List II of the Seventh Schedule).
- In respect of the matters contained in Concurrent List (List III of the Seventh Schedule), both the Central Government and State Governments have concurrent powers to legislate.

Important indirect taxes for the Union were:

- ✓ Customs duty (entry 83 of Union List).
- ✓ Central excise duty (entry 84 of Union List).
- ✓ Service tax (entry 92C/97 of Union List). (levied under the residual entry, i.e. entry 97)
- ✓ Central Sales Tax (CST) on inter-State sale and purchase of goods (entry 92A).
- ✓ Central Sales Tax (CST) on inter-State consignments of goods (entry 92B).

Important indirect taxes for the States were:

- ✓ VAT tax on sale and purchase (entry 54 of the State List),
- ✓ Excise duty on alcoholic liquors, opium and narcotics (entry 51 of the State List),
- ✓ Taxes on luxuries, entertainments, amusements, betting and gambling (entry 62 of the State List),
- ✓ Octroi or entry tax (entry 52 of the State List) and
- ✓ Electricity tax (entry 53 of the State List).

Note: CST was also an important source of revenue though the same was levied by the Union.

Major Defect in the structure of indirect taxes prior to GST:

- Tax on tax
- Conflict between revenue interest of the different state governments
- Lack of co-ordination in providing input tax credit
- High administration expenses
- Tax evasion
- Problem in facing competition in national and international market
- Difficulty in determination of goods and services