

# GST Basics

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## Background:

- Before the GST regime, the Central government used to impose its own indirect taxes like Service Tax, Excise Duty etc. and the State governments imposed their own indirect taxes like VAT, Entertainment Tax etc.
- When a producer used to produce a product then he used to pay Excise Duty to the Centre as well as VAT to the state which used to create tax on tax and when B used to sell the product to some other supplier it resulted in cascading effect and makes the product more costly in the market.
- Even in the case of VAT, the credit was not available across the States. Further, different states had different VAT rates (1%, 4%, 12.5%, 20%) and gave exemptions on different categories of products.
- Due to the above issues, effective tax used to be different in different states on the various goods and services and ultimately resulted in different prices of goods and services in different States.
- This fragmented the whole of India into a heterogeneous market affecting business and investment.