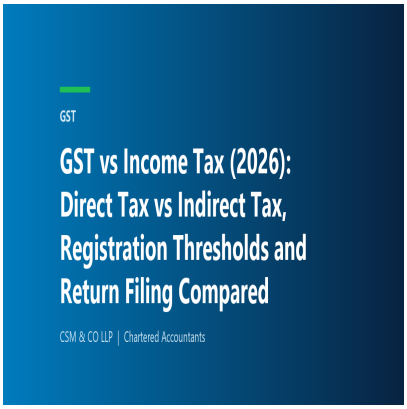

GST vs Income Tax (2026): Direct Tax vs Indirect Tax, Registration Thresholds and Return Filing Compared

Description

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Quick summary

- GST is an indirect tax on the supply of goods and services, governed by the CGST Act, 2017; income tax is a direct tax on a person's income, governed by the Income-tax Act, 2025 (Tax Year 2026-27 onward).
- GST registration is compulsory once aggregate turnover crosses Rs 20 lakh (Rs 40 lakh for an exclusive goods supplier in States that have notified the higher limit), or Rs 10 lakh in a special category State - this is a one-time registration, not an annual filing.
- Income tax applies to every person who earns income above the basic exemption limit - Rs 4 lakh a year under the new, default tax regime for 2026-27 - and the return is filed once a year for the whole year's income.
- GST can be collected at multiple points of a supply chain, with credit flowing between them; income tax is a personal, non-transferable liability that cannot be passed on to anyone else.
- A single business routinely deals with both: GST on what it sells and buys, income tax on what it earns as profit - they are not alternatives to each other.

GST and income tax are both taxes a business or individual deals with in India, but they tax completely different things, under completely different laws, and neither one substitutes for the other. Confusing the two - thinking GST registration covers income tax, or that filing an income tax return means GST is taken care of - is a common and costly mistake.

New to terms such as "aggregate turnover" or "basic exemption limit"? See the technical terms explained in simple words further down.

The core difference: direct tax vs indirect tax

	GST	Income Tax

Type of tax	Indirect	Direct
What it taxes	Supply of goods and services	A person's income
Who ultimately bears it	The final consumer	The person who earned the income
Can the burden be shifted?	Yes - it is built into the price charged to the buyer	No - it cannot be transferred to anyone else
Governing law	CGST Act, 2017 (plus SGST, UTGST and IGST Acts)	Income-tax Act, 2025
Collected by	Central and State/UT Governments jointly	Central Government only

An **indirect tax** is collected by a registered supplier from the buyer, and deposited with the Government - the supplier is only a collection agent in substance, since the cost sits in the price the buyer pays. A **direct tax** is paid straight by the person who earns the income, with no one else in between.

When GST registration becomes compulsory

Under section 22 of the CGST Act, 2017 (Persons liable for registration):

Category	Threshold (aggregate turnover in a financial year)
Most suppliers (not in a special category State)	Rs 20 lakh
Supplier dealing exclusively in goods, in a State that has notified the higher limit	Up to Rs 40 lakh
Special category States	Rs 10 lakh (may be raised up to Rs 20 lakh if that State requests it)

Crossing this threshold means **registering once**, not filing anything annually by itself - GST compliance (returns, payments) follows from being registered, the same way income tax compliance follows from earning taxable income.

When income tax becomes payable

Income tax applies to anyone - individuals, HUFs, firms, companies and more - whose income exceeds the applicable exemption limit for the Tax Year. The current figures, under the new (default) tax regime for Tax Year 2026-27, are:

	New regime (default)	Old regime (optional)

Basic exemption (nil-tax slab)	Up to Rs 4 lakh	Up to Rs 2.5 lakh
Effective tax-free income (after rebate)	Up to Rs 12 lakh, for most individuals	No equivalent rebate at that level

See our full guide to Income Tax for Tax Year 2026-27 for the complete slab table and special rates.

How return filing differs

	GST	Income Tax
Who files	A GST-registered person or business	Anyone whose income exceeds the exemption limit, or who otherwise must file
How often	Monthly, quarterly or annually, depending on the return and the taxpayer's scheme	Once a year, for the whole financial year
What is reported	Outward and inward supplies, tax collected and paid, input tax credit	Total income from all heads, deductions, tax computed
Where filed	GST Portal	Income Tax e-filing portal

GST's filing cadence is much tighter because it tracks transactions as they happen through the year, while an income tax return is a once-a-year summary of total income.

Why a business usually deals with both

A GST-registered business is almost always also an income tax assessee, because the two taxes apply to different things happening in the same business:

- **GST** applies to every taxable sale the business makes, and it can claim credit for the GST it paid on its own purchases.
- **Income tax** applies separately to the **profit** the business actually makes after all its expenses - GST paid or collected does not itself form part of taxable income or a deductible expense (it passes through the electronic credit ledger, not the profit and loss account).

A shopkeeper below the GST threshold may still owe income tax on their profit. A business well above the GST threshold may, in a loss-making year, owe no income tax at all. The two run on entirely separate rules.

How CSM & Co LLP can help

Many small businesses either register for GST too late, because they did not track aggregate turnover against the section 22 threshold, or assume GST compliance covers their income tax obligation, which it never does. Please reach out to our team and we will be happy to assist with GST registration, GST return filing, andincome tax return filing, so neither obligation is missed.

Technical terms explained in simple words

Term	What it means
Aggregate turnover	The total value of all taxable, exempt and export supplies made by a person under one PAN, across all their GST registrations, added together - the figure checked against the section 22 threshold.
Basic exemption limit	The slice of total income on which income tax is charged at a nil rate, before the first taxable slab begins.
Special category State	A State listed under Article 279A(4)(g) of the Constitution (mostly the North-Eastern States, plus Himachal Pradesh, Sikkim and Uttarakhand), given a lower GST registration threshold.
Input tax credit	The GST already paid on a business's own purchases, which it can subtract from the GST it owes on its own sales.
Rebate under section 87A	A deduction straight from the income tax payable (not from income) that can bring the tax to nil for a total income up to a set limit.
Assessee	The legal term under the Income-tax Act for any person liable to pay income tax, or in respect of whom any proceeding under the Act has been taken.

Frequently asked questions

Is GST a direct tax or an indirect tax?

Indirect. GST is levied on the supply of goods and services, and the person who actually bears the cost (the final consumer) is not the one who deposits it with the Government - the registered supplier collects and deposits it on the consumer's behalf.

Is income tax a direct tax or an indirect tax?

Direct. Income tax is levied straight on the income of the person who earns it, and that person pays it themselves - the liability cannot be shifted to anyone else.

At what turnover does a business have to register for GST?

Under section 22 of the CGST Act, registration becomes compulsory once aggregate turnover in a financial year exceeds Rs 20 lakh for most suppliers, or Rs 10 lakh in a special category State. States can notify a higher Rs 40 lakh limit specifically for a supplier dealing exclusively in goods.

At what income does a person have to pay income tax?

Under the new tax regime (the default from Tax Year 2026-27), income up to Rs 4 lakh is taxed at nil, and a rebate under section 87A brings the effective tax-free limit to Rs 12 lakh of total income for most individuals. The old regime, if chosen, has a basic exemption of Rs 2.5 lakh.

How often is GST paid and filed, compared to income tax?

GST liability is typically paid and reported monthly or quarterly through GST returns (GSTR-1, GSTR-3B and others), depending on the taxpayer's turnover and scheme. Income tax is computed and reported once a year, for the full financial year, in an income tax return.

Can the same business be liable for both GST and income tax?

Yes, and almost every GST-registered business is. GST applies to what the business supplies (its sales), and income tax applies separately to what the business earns as profit after expenses - they tax two different things and neither replaces the other.

Official sources

- CBIC Tax Information Portal - Section 22, CGST Act, 2017 (Persons liable for registration)
- GST Portal
- csmllp.in - What is Income Tax? (Tax Year 2026-27)

Disclaimer

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Date
25/11/2026
Date Created
10/04/2026
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