

Indirect Tax

for B.Com. III (Semester V)



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Introduction to Tax

Let's start with basics of Taxation.



What is tax ?

Introduction

The word 'Tax' is derived from the Latin word 'Taxore', which mean to estimate or find the value. Tax is a compulsory payment levied on individuals or corporations enforced by a government entity, whether local, regional or national in order to finance government activities without any direct benefit attached to it.

Definition

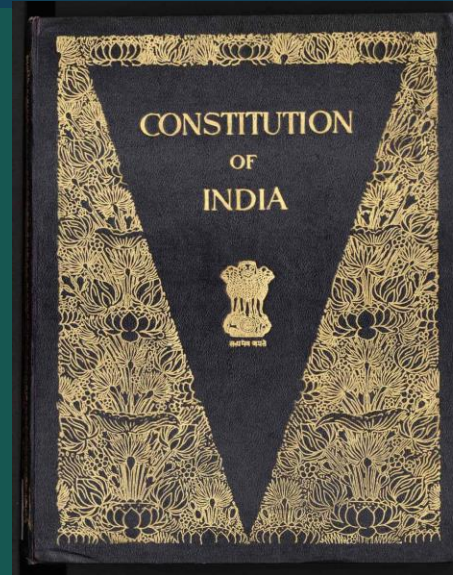
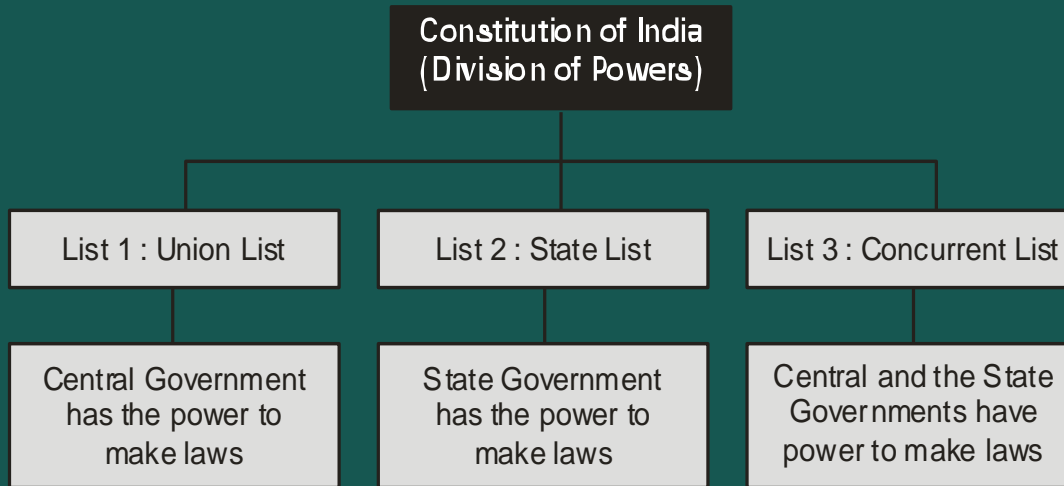
According to Hugh Dalton, "a tax is a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the taxpayer in return, and not imposed as penalty for any legal offence.



Features of tax

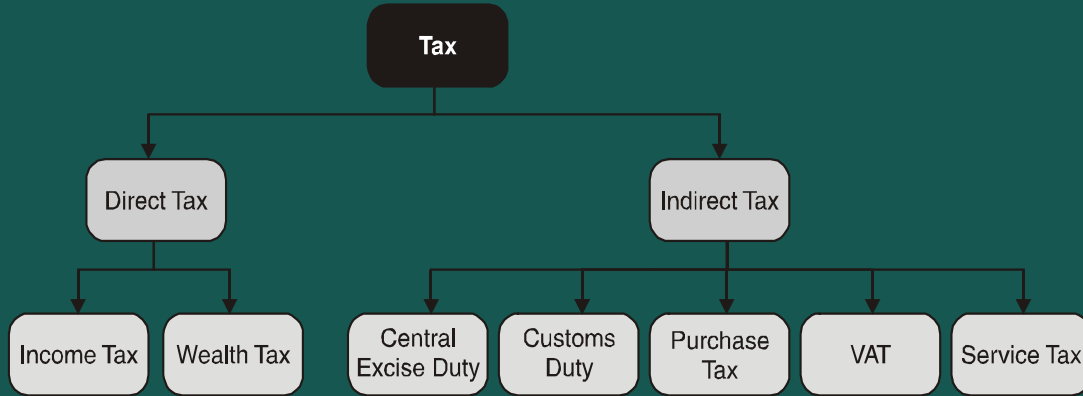
1. It is a compulsory contribution.
2. It is generally payable in money.
3. Tax payment is a personal obligation.
4. Tax is levied as per the authority given to government by the law or statute.
5. The amount of tax does not depend upon the exact benefit which a taxpayer receives from government.
6. Government spends the tax money for the general or common benefits of the public.
7. Normally tax is proportionate in character and based on the ability to pay.

Constitutional Provisions of Tax



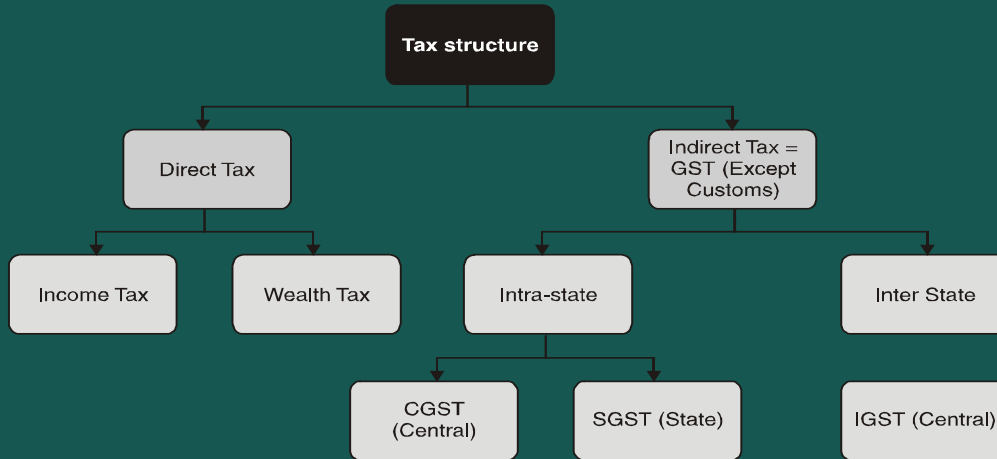
Classification of Tax

Taxation system in India before GST



Classification of Tax

Taxation system in India after GST





Direct Taxes

Different Direct Taxes

1. Income Tax
2. Corporate Tax
3. Estate Tax
4. Gift Tax:
5. Wealth Tax
6. Securities Transaction Tax

Features of Direct Taxes

1. Major source of revenue
2. Tax on Income and property
3. No Shifting of burden
4. Certainty in Amount of Tax
5. Progressive in nature
6. Balanced Regional Development
7. No Intermediaries
8. Difficult Administration
9. More Tax Evasion
10. More Cost of collection
11. Collection at end of Year
12. More Resistance to Pay



Direct Taxes

Advantages of Direct Taxes

1. In Accordance with the Canon of Equality
2. Certainty
3. Economical
4. Relatively Elastic
5. Controls inflation
6. Creates Public Consciousness
7. Affects Savings and investments

Limitations of Direct Taxes

1. More Tax Evasion
2. Impacts capital formation
3. Arbitrary rate of taxation
4. Inconvenient
5. Imbalance in Sectoral taxation
6. Narrow Coverage



Indirect Taxes

Different Indirect Taxes

1. Custom Duty
2. Central Excise Duty
3. Service Tax
4. Central Sales Tax
5. Value Added Tax (VAT)
6. Goods and Service Tax (GST)

Features of Indirect Taxes

1. Major source of revenue
2. Tax on commodities and services
3. Shifting of burden
4. Uncertainty of Amount of Tax
5. Regressive in nature
6. Balanced Regional Development
7. Lot of Intermediaries
8. Wider Tax Base
9. Convenient Administration
10. Less Tax Evasion
11. Less Cost of collection
12. Collection for whole year



Indirect Taxes

Advantages of Indirect Taxes

1. Convenient
2. Difficult to evade
3. Wide Coverage
4. Elastic
5. Influence on Production
6. Social Welfare

Limitations of Indirect Taxes

1. High Cost of Collection
2. Increase income inequalities
3. Affects Consumption
4. Lack of Social Consciousness
5. Uncertainty
6. Inflationary



Difference between Direct and Indirect Tax

BASIS	DIRECT TAX	INDIRECT TAX
Meaning	Direct tax is referred to as the tax, levied on person's income and wealth and is paid by person himself.	Indirect Tax is the tax levied on a person by government on the person who consumes the goods and services and is paid indirectly to the government.
Nature	Direct taxes help in reducing inequalities and are considered to be progressive in nature.	Indirect taxes enhance inequalities and are considered to be regressive in nature.
Incidence and Impact	Incidence of tax and burden of tax falls on the same person.	Incidence of tax and burden of tax falls on different persons.
Types	Wealth Tax, Income Tax, Property Tax, Corporate Tax.	Goods and Services Tax (GST) Value Added Tax (VAT, Service Tax, Excise Duty, Custom Duty.
Evasion	The rate of tax evasion is high in direct taxes.	Tax evasion is not easy because it is included in the price of the goods and services.
Inflation	Direct tax reduce the inflation by decreasing the consumption due to less disposable income.	Indirect taxes promotes the inflation as it is included in the price of the goods/services.
Imposition	Imposed on and collected from assessees, i.e. Individual, HUF (Hindu Undivided Family), Company, Firm etc.	Imposed on and collected from consumers of goods and services but paid and deposited by the assessee.
Burden	Cannot be shifted.	Can be shifted
Event	Taxable income or wealth of the assessee	Purchase/sale/manufacture of goods and provision of services
Time of Collection	Direct tax is collected when the income for the financial year is earned or the assets are valued at the date of valuation.	Indirect taxes are collected, when the purchase or sale of goods or services are rendered

THANKS!

Any questions?

