Economics Class 18

TAX (DISCUSSION CONTINUES) (09:05 AM)

- All the important taxes (high revenue generating) were made part of list-1 but states also have to perform some developmental functions and therefore states were requesting the centre share the revenues from the divisible pool of taxes.
- After the 80th CAA, all the taxes were made part of the divisible pool except those mentioned under Article 270.
- Article 270 covers taxes mentioned under Article 268 (levied by the centre but collected and appropriated by states), Article 269 (levied by the centre and shared between the states), Article 269A (IGST system), cesses and surcharges levied by the centre.
- **Surcharge**
- It is a tax on tax to reduce the disparity between rich and poor.
- In India, a surcharge is levied when the income crosses a certain limit.
- E.g. Income above 50 lakhs to 1 crore, a 10% surcharge was levied.
- Surcharges are not for a specific purpose and generally become part of the consolidated fund of India.
- **Cess**
- It is levied for a specific purpose and cess has its reference in Article 270 of the constitution.

TOPIC OF NEXT CLASS- DISCUSSION ON TAX (TO CONTINUE)

- **Tax base:**
- The legal description of the object with reference to which the tax is payable.
- **Example-**base of excise duty is the production of commodities.
- The base of income tax is the income of the individual.
- **Impact of tax:**
- The impact of the tax is on its first point of contact with its taxpayer.
- It is upon those who bear the first responsibility of paying it to the government.
- In the case of income tax, is the income recipient and in the case of sales tax/GST, it is the seller or supplier of goods and services.
- **Incidence of tax:**
- its final resting place i.e. the economic units that finally bear the monetary burden of the tax.
- **For example-** in sales tax, the tax is paid by the seller but ultimately it is collected from the final consumer.
- **Cascading effect-** Tax on tax.
- It increases the cost of the product and is seen as an inefficient tax mechanism.
- **Tax evasion:**
- Illegal activity in which a person/entity deliberately escapes from paying tax.
- **Tax Avoidance;**
- Use of legal methods to minimize the amount of tax owned by an individual or a business by claiming as many deductions as possible.
- **Example-**Vodafone India selling shares to Vodafone Mauritius resorts to transfer pricing mechanism. Thereby reducing the tax liability.
- **Transfer Pricing:**
- The setting of prices for goods and services sold between related legal entities situated in different countries.
- It is a price setting between 2 known entities.
- Companies resort to transfer pricing to shift their profits from high-tax countries to tax havens.

- **Tax Haven:**
- An offshore country that offers little or no tax liability.
- The source of income is also not questioned.
- **Example-**Caymen Islands, Singapore, Mauritius, etc.
- **Base Erosion and profit shifting:**
- Companies shift their profits to other tax jurisdictions having lower tax rates thereby eroding the tax base in India.
- **Shell companies:**
- These are typically corporate entities that do not have any active business operations or significant assets in their possession.
- The government views them with suspicion as some of them can be used for money laundering, tax evasion, tax avoidance etc.
- **Money laundering:**
- The illegal process of making large amounts of money generated by criminal activity such as drug trafficking or terrorist funding appears to have come from a legitimate source.

METHODS OF TAXING (11:18 AM)

- **Advalorem tax**
- If tax is levied as a percentage of the value of goods regardless of the number of units produced, sold, or imported.
- **Example**: 10% on the value of a car, revenue increases with an increase in price
- If the price of the car is 2 lakhs, then the tax amount is 20,000; but if the car price increases to 4 lakhs, the tax amount is 40,000
- **Specific duty or specific tax**
- If tax is levied at a flat rate per unit of goods produced/sold/imported regardless of the value then it is called specific duty.

- **Example**: Rupees 2 per 1 kg of iron, rupees 3 per 1 metre of cloth
- Revenue increases only with the number of units and not with the value.
- In the above example, if the car price increases from 2 lakhs to 4 lakhs and the govt collects a tax of rupees 10,000 per car, the tax revenue will only increase if the sale of cars increases.
- In some cases, both types of taxes can be levied on the same good.
- **Example**: Rupees 10,000 per car + 10% on the value of the car.

INDIRECT TAXES IN INDIA (11:33 AM)

- **Excise Duty:**
- It is a tax on the production of commodities.
- Excise duty is excessively levied by the central govt except for alcoholic liquor and narcotics. It is different from custom duty as it is levied on to things which is produced in India
- The challenge of cascading effect was addressed through the introduction of the MODVAT system.
- Different tax rates were levied on different goods and subsequently, MODVAT was replaced with CEN-VAT in 2000-01 with a uniform rate on all goods covered under the tax platform.
- Currently, CENVAT is subsumed into CGST.
- **VAT**
- VAT has been introduced in India by all states and UTs except Andaman and Lakshadweep.
- The state VAT was implemented till 1st July 2017 after which it is subsumed under SGST.

TOPIC OF NEXT CLASS- DISCUSSION ON TAX (TO CONTINUE)