DAY-4

TAXES AND BASICS OF GST

FEBS, IIT BHUBANESHWAR
Secyfebs.sg@iitbbs.ac.in

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The course contains material for a total of 6 days. The materials are designed in such a way that it will give an overview to Macroeconomics. The materials designed as a part of bootcamp are self-explanatory. Video linkshave been added wherever needed. Team FEBS wishes you a happy learning!

For any queries please contact:
secyfebs.sg@iitbbs.ac.in

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TAXES

Overview - What is TAX?

Taxes are a kind of income redistribution. When people think about taxes, they typically imagine that the government imposes them in order to fulfil significant expenditure responsibilities. We will give you an example to determine how taxes re-allocate income:

Imagine an economy where the income tax is charged at a flat rate of 30%. Just consider this tax's effects. Based on the income difference between A and B, who each make 50,000 and 80,000, respectively.

Individual	Nominal Income	Income Disparity before Tax	Income after Paying Tax	Income Disparity after Tax
A	₹50,000	₹30,000	₹35,000	₹21,000
B	₹80,000		₹56,000	

Credit- Dr. Ramesh Singh

We see here through the above-given Table as how the income disparity between two individuals A and B decreases from ₹30,000 to ₹21,000 after paying taxes—this is the first level when incomes of these individuals have got re-distributed.

After these people's incomes have been redistributed. Now, the amount that the government has received through taxation is 39,000 (or 15,000 plus 24,000) will be invested in a variety of fields, such as infrastructure, education, and health, which would offer services offered to all customers equally. In this case, secondary revenue distribution is taking place. Think about a taxpayer who doesn't enrol their children in government-run schools despite paying income taxes. neither attends government hospitals for medical care nor educates children, and contrast him with someone who has no choice but to attend government-run schools and hospitals—the

A lower tax payer receives all government benefits, whereas a greater tax payer receives none. From the consumption side, it appears that income has been redistributed here.

Progressive and Regressive Tax system

Progressive Tax System

For growing value or volume on which the tax is being imposed, Progressive tax system has increasing tax rates. An example of it is the Indian income tax. The objective behind this classification of income earners into different slabs is to impose more taxes on those who earn more and lower taxes on those who earn less. This approach is thought to inadvertently inhibit an individual from earning more money as he/she will have to pay more tax. Richness is punished while poverty is rewarded.

Additionally, tax payers begin dodging taxes by claiming smaller unreal income. However, this tax favors the poor and levies taxes on individuals based on their ability to pay and sustainability. The most common and populist method of taxation in the entire globe is this one.

Regressive Tax System

This is the exact reverse of the progressive technique, which lowers tax rates as the value or volume subject to the tax increases. Such levies are neither permanent nor limited to any particular industry. Regressive taxes may be placed on some sectors as a promotion measure. For instance, India once imposed regressive excise duties on its producers' outputs in an effort to encourage the expansion and development of small-scale companies; as production volume increased, the tax burden decreased.

While this approach is praised for rewarding better earners or producers, it is criticized for placing an increased burden on the poor and low-producers. This taxing method is unpopular and goes against the ethos of contemporary democracies.

An interesting insight

At this point, we want to clear a myth. Suppose, in an economy If you earn above Rs. 50, you will have to pay 10 % Tax. Now, let us assume you earn Rs. 100. How much tax will you pay ? Rs. 10 ? No.

Understand that till Rs. 50, it is tax free. So, If you earn Rs 100. It will be divided into two parts – Rs. 50 (Tax Free) + Rs. 50 (10 % will be charged above Rs. 50). So, total tax you will pay is Rs. 5.

Similarly, If 15 % is charged above Rs. 100 and you earn Rs. 120, then distribution will look like - Rs. 50 (Tax Free) + Rs. 50 (10 % will be charged on Rs. 50) + Rs. 20 (15 % will be charged on it)

VALUE ADDED TAX (VAT):

Value added tax (VAT) is the name of a state level tax in India that is currently levied at the state level and a method of tax collection. Value added tax is a tax that is gathered at each stage of value addition, whether it be during manufacturing or distribution. The word alone implies that this tax is imposed on value additions (i.e., production).

Production of goods or services is nothing more than steps of value addition, where industrialists or manufacturers produce the goods. Prior to reaching the consumers, these products must first undergo value addition by various service providers/producers (agents, wholesalers, and retailers). There are numerous locations where value is added to all things, from the level of manufacturing to the level of sale. The VAT method of tax collecting differs from the non-VAT approach in that it is imposed and collected at various locations along the value-adding chain, or in other words, it is a multi-point tax collection. Due to the single point tax collection used in the non-VAT technique, there is no prospect of imposing tax on tax. Because of this, VAT does not have a "cascading impact" on the pricing of commodities and does not cause inflation, making it ideal for an economy like India where a huge number of people lack the market-level purchasing power due to a high degree of poverty. Due to the fact that wealthy individuals do not suffer, the tax system is pro-poor without being anti-rich.

BASICS OF GST

What is GST ?

The majority of products and services sold for domestic use are subject to the goods and services tax (GST), a value-added tax (VAT). Consumers pay the GST, but businesses that sell the products and services are responsible for remitting it to the government.

The cost of certain goods and services is subject to the goods and services tax (GST), an indirect federal sales tax. When a customer purchases a product, they pay the sales price inclusive of the GST after the firm has added the GST to the product's cost. The company or seller is responsible for collecting and remitting the GST part to the government. In some nations, it is also known as value-added tax (VAT).

The majority of nations that use the GST have a single, integrated GST system, which implies that a single tax rate is used across the board. In a nation with a single GST platform, state-level taxes like the entertainment tax, entry tax, transfer tax, sin tax, and luxury tax are combined with central taxes like sales tax, excise duty tax, and service tax to be collected as a single tax. These nations impose a single rate of taxation on almost everything.

This article contains one of the best explanation of GST - https://cleartax.in/s/gst-law-goods-and-services-tax

Watch Video - https://www.youtube.com/watch?v=auPWG6yyP24&ab_channel=CAGouravJashnani

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