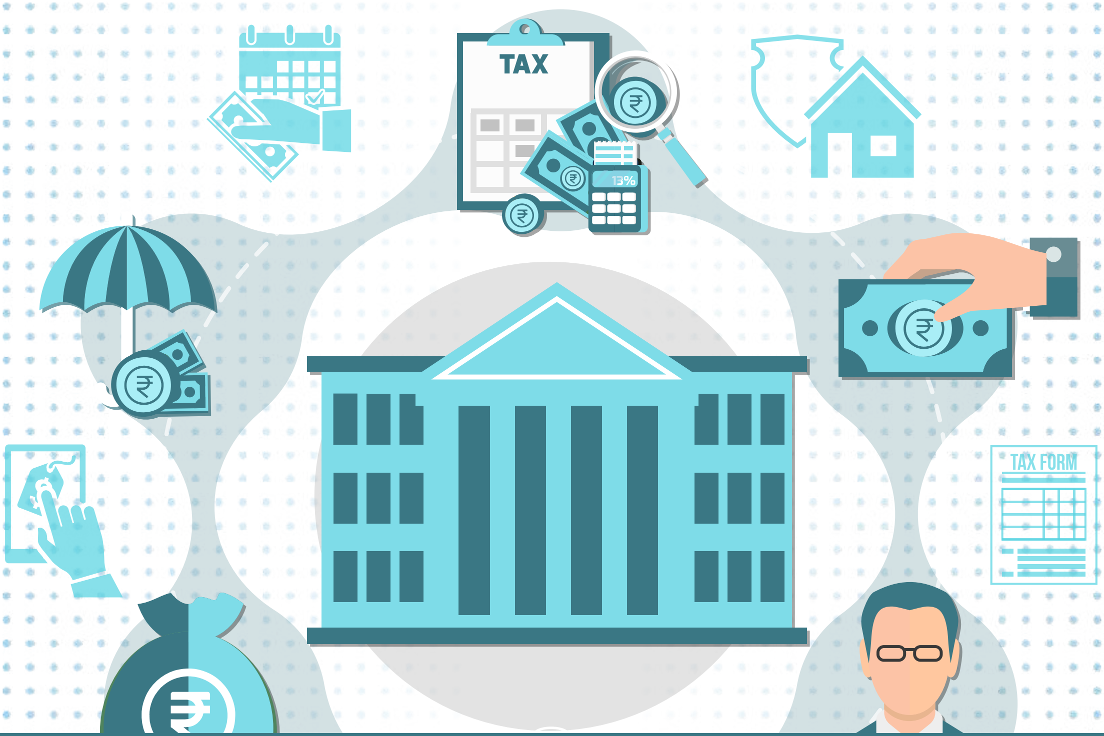

QUICK REVISION MODULE (UPSC PRELIMS 2024) ECONOMICS QRM

TAXATION

TAXES CAN BE DEFINED AS A "COMPULSORY CONTRIBUTION FROM A PERSON TO THE GOVERNMENT TO THE EXPENSES INCURRED IN THE COMMON INTEREST OF ALL, WITHOUT REFERENCE TO SPECIAL BENEFITS CONFERRED".

TYPES OF TAXES

DIRECT TAXES

DIRECT TAX IS ONE THAT THE TAX PAYER PAYS DIRECTLY TO THE GOVERNMENT EXAMPLE

- INCOME TAX
- CORPO-RATION TAX
- PROPERTY TAX

INDIRECT TAXES

INDIRECT TAX IS A TAX THAT CAN BE PASSED ON TO ANOTHER PERSON OR GROUP EXAMPLE ENTERTAINMENT TAX, GSTC

- VAT
- MODVAT
- CENVAT

DIRECT TAXES

1.INCOME TAX

It is a tax charged by central government on the income earned by individuals during a financial year currently its slabs

30% ON INCOME ABOVE RS 10 LAKH

20 % ON INCOME BETWEEN RS 5 LAKH-10 LAKH

5 % BETWEEN RS 2.5 LAKH - 5 LAKH

NO TAX- UP TO RS 2.5 LAKH

2. CORPORATE INCOME TAX

It is levied on the incomes of corporates). Budget 2020-21 has proposed to reduce the corporate tax rate for new companies in the manufacturing sector to an 15%. For existing companies, to 22%.

3. MINIMUM ALTERNATE TAX (MAT)

All companies having book profits under the Companies Act shall have to pay a minimum alternate tax at 18.5%. MAT is a way of making companies pay minimum amount of tax, Budget 2020-21 reduced the rate of MAT from 18.5 percent to 15 percent.

INDIRECT TAXES

1. VAT:

Is an ad-valorem tax on domestic final consumption, levied and collected at all stages between production and the point of final sale. It covers both manufacturing as well as distribution stages and does away with the multiplicity of domestic indirect taxes like sales tax, excise duty, wholesale tax, turnover tax etc

2. MODVAT:

Under MODVAT, a producer has to pay tax on the value of final output but the excise duty paid on inputs in earlier stages of production is reimbursed back to the producer on the presentation of sales invoices

3. CENVAT:

It was introduced in the form of revamped MODVAT. It had all the features of MODVAT, for only exception of uniform tax rate and its coverage was extended to include capital goods

SPECIFIC AND ADVALOREM TAXES

Specific Tax – imposed on the basis of specific attributes of commodities like unit, weight, length, size or volume. For ex: cloth in its length units.

Advalorem Taxes – Under this, tax is imposed on the basis of the value of the commodity. An example for ad valorem tax is imposition of 28% GST on luxury cars..

CONSTITUTIONAL STATUS OF TAXATION

- The government of India is authorized to levy taxes on individuals and organisations according to the Constitution.
- Article 265 of the Indian constitution states that the right to levy/charge taxes hasn't been given to any except the authority of law.
- 7th schedule has defined the list upon which centre/state or both Centre and state can levy taxes.
- limited financial powers have been given to the local governments which are enshrined IX and IX A of the constitution.

TAXATION UNDER CENTRE/STATE LIST

- Union List (List 1 of the 7th schedule) contains those matters on which the Central Government has the power to make laws
- The State List has only those matters on which the State Government has the power to make laws art 246(3)
- The Concurrent List has those matters on which both the Central and State Governments have the power to make laws art 256(2)

DISTRIBUTION OF TAX

- **List 1** in the 7th schedule to the constitution has the powers of the Central Government listed in enteries 82-92B
- **List 2** in the schedule has the powers of the State Government listed in enteries 45-63
- Entry 97 of List 1 in the 7th Schedule contains residuary powers of taxation belonging only to the centre

DISTRIBUTION OF TAX REVENUES

Recommendations of fifteenth finance commission BY NK Singh

The share of states in the central taxes for the 2021-26 period is recommended to be 41%, same as that for 2020-21

This is less than the 42% share recommended by the 14th Finance Commission for 2015-20 period.

The adjustment of 1% is to provide for the newly formed union territories of Jammu and Kashmir, and Ladakh from the resources of the centre

TAXATION SYSTEM

Taxes can also be categorized as either regressive, proportional, or progressive, and the distinction has to do with the behaviour of the tax as the taxable base

PROGRESSIVE TAX

A tax that takes a larger percentage of income from high-income groups than from low-income groups

PROPORTIONAL TAX

A tax that takes the same percentage of income from all income groups

REGRESSIVE TAX

A tax that takes a larger percentage of income from low-income groups than from high-income groups

DEGRESSIVE TAX

The rate of progression in taxation does not increase in the same proportion as the increase in income

GST

It is single tax on the supply of goods and services, right from the manufacturer to the consumer. It is essentially a tax only on value addition at each stage as input taxes credit paid at each stage will be available in the next stage of value addition.

Under GST consumer will bear only the GST charged by the last dealer in the supply chain, thus eliminating the cascading effects.

GST TAX SLABS

5%
Household necessities such as edible oil, sugar, spices, tea, and coffee

12%
This includes computers and processed food

18%
Hair oil, toothpaste and soaps, capital goods and industrial

28%
Luxury items such as small cars, consumer durables like AC etc

GOODS AND SERVICES TAX NETWORK (GSTN)

The Central and State Governments have jointly registered Goods and Services Tax Network (GSTN) as a not-for-profit, to provide shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders.

- Initially, the Centre and the states together hold a 49% stake in the company.
- Cabinet in 2018, converted the GST Network into a government-owned company.
- The stake of the private companies will be acquired by the Centre and the state governments
- The restructure GSTN, with 100% government ownership shall have equity structure between the Centre (50%) and the States (50%).

TAXES SUBSUMED UNDER GST

At Central Level	At State level
Central Excise Duty	State Value Added/Sales Tax
Additional Excise Duty	Entertainment Tax
Service Tax	Octroi and Entry tax
Countervailing Duty	Purchase Tax
Special Additional Duty of Customs	Luxury tax, Taxes on Lottery, Gambling

COMPONENTS OF GST

- Central GST
- State GST
- Integrated GST

GST COUNCIL

Chairperson	Union FM
Vice Chairperson	To be chosen amongst the Ministers of State Government
Members	MOS (Finance) and all Ministers of Finance / Taxation of each State
Quorum	50% of total members
Decision	By 75% majority

KEY CHANGES IN THE GST BY THE BUDGET 2021-22

Objective of the changes	Aimed at helping small and medium businesses to tide over pandemic-induced disruptions.
Interest Payable Only On Net Liability	In case of a delay in depositing tax, businesses need to shell out interest up to the rate of 18%
Mandatory Audit Requirement Relaxed	businesses having a turnover above Rs 5 crore won't be required to get their accounts audited

CASCADING EFFECTS OF TAXATION: MODVAT AND CENVAT

- Taxation of inputs, like raw materials and other intermediaries had a number of limitations The tax burden goes on increasing as raw material and final product passes from one stage to other because, each subsequent purchaser has to pay tax again and again on the material which has already suffered tax. **This is called cascading effect or double taxation**

- **MODVAT (Modified Value Added Tax):** To avoid cascading effects it was introduced Under MODVAT, a producer has to pay tax on the value of final output but the excise duty paid on inputs in earlier stages of production is reimbursed back to the producer on the presentation of sales invoices.

- **CENVAT:** it was introduced in the form of revamped MODVAT. It had all the features of MODVAT, for only exception of uniform tax rate and its coverage was extended to include capital goods.

TAX REFORMS

In the year 1991 Tax reforms were initiated in India, following the economic crisis of 1991

1. 1992: Dr. Raja J. Chelliah tax reform committee was established

Recommendations: broadenthe Tax base, lower marginal tax rates, reduce rate differentiation, simplify the tax structure

2. 2002 : KELKAR COMMITTEE (2002)The government setup two Task Forces i.e. on Direct and Indirect Taxes under chairmanship of Dr. Vijay L. Kelkar

a) Recommendations : Task force for direct taxes - to raise the basic exemption limit in income tax from Rs 50,000 to Rs 1 lakh

b) Task Force on Indirect Taxes: The committee recommended widening the tax net by expanding the service tax base and improving the tax-payers' compliance.

-Both the recommendation were accepted by the government.

3. In 2013 : under the Chairmanship of Dr.ParthasarathiShome Tax Administration Reforms Commission (TARC)

Recommendations :

1. CBDT and CBEC should coordinate and eventually be merged within 10 years
2. Taxpayer's services to be included
3. Taxpayers should be treated as customers
4. Tax payers council to be established under Finance Minister
5. The scope of Pan card needs to be increased

KEY CHANGES MADE IN THE TAXATION IN BUDGET 2021-22

Faceless Assessment and Faceless Appeal introduced

Exemption from filing tax returns for senior citizens over 75 years

Agriculture and Infrastructure Development Cess : it will be levied on petrol and diesel at the rate of Rs 2.5 and Rs 4 per litre respectively

The tax holiday for startups has been extended by to 31st March 2022

SOCIAL AND ECONOMIC OBJECTIVES OF TAXES

- To aid to economic development like roads, bridges, flyovers, railways, ports, etc.ke
- To provide welfare policies for the marginalized section of the society example Pensions for the elderly and benefits schemes to the unemployed or the ones below the poverty line
- To fund public health and education expenses like schools, hospitals, housing projects for the poor, etc.
- To improve income distribution
- To bring about rapid economic growth, reduce inequalities of incomes, promote stability and to achieve other socio-economic objectives

KEY TERMS	DEFINITIONS
Capital Gains tax:	It is levied on capital gains incurred by individuals and corporations. For example sale of stocks, bonds, precious metals and property
Presumptive tax	Imposed on assumption of the government that a firm or a person possesses tax paying capacity but avoiding the. Ex. MAT, Alternate minimum tax.
Tax Deducted at Source	TDS is deducted from an individual's income on a periodical or occasional basis. Can be applicable for regular as well as irregular incomes Ex salary, commission, interest, rent
Angel tax	It refers to income tax payable on capital raised by unlisted companies via issue of shares where the share price is seen in excess of the fair market value of the shares sold.
Round Tripping	It means transfer of funds (usually black money) to a foreign country (usually a tax heaven or low tax jurisdiction) for investing them back in the home country. It is done for conversion of black money into white money and to avoid tax
Tax Buoyancy	It is the responsiveness of tax revenue to the overall change in national income/GDP and change in tax provisions
Tax Havens	These are countries, usually small, which maintain secrecy of capital flows, liberal economic laws and very low tax rates Example: Mauritius
Pigovian Tax	It is imposed on commodities which has negative externality (harmful for society). For e.g-Pollution tax
Tax Terrorism	When government puts illegal and extra-legal pressure on taxpayers to extract more tax from honest taxpayer, this enthusiasm of government is referred to as tax terrorism.
Sin tax	levied on certain goods deemed harmful to society and individuals. For e.g- Cigarettes, Gutka, Fat tax
Tax to GDP	Tax to gross domestic product (GDP) ratio is the ratio of taxes collected by a government and the GDP of the nation.India's tax-GDP ratio plunges **to 9.88% in FY20, lowest in 10 year**
Tax Avoidance	It means reducing tax liability through legal means by misusing exemptions, deductions and loopholes of taxation system.