Government and Taxes



GOVERNMENT AND TAXES



MIND MAP

5. Regional

Development Taxes and

Role

- mobilisation 1. Resource
- equalities of income 2. Reduction in
- 4. Foreign exchange

3. Social welfare

- development
- 6. Control of inflation

Evasion Tax

- 2. Inflating deductions or expenses
- offshore accounts 4. Hiding interest in

- 1. Underreporting income
- 3. Hiding money

Money Black

Tax

Types

Causes

Types of Taxes

1. Shortage of goods

2. Licensing proceeding 3. Contribution of the industrial sector

Corporate tax

ncome tax Wealth tax

3. Conduct of periodic

elections

2. Foreign policy

1. Defence

Direct Taxes

- 4. Smuggling
- 5. Tax structure

Indirect Taxes

Entertainment tax

Excise duty Stamp duty

Redistribution of income

and provision of public

spood

5. Public administration

4. Law and order

Services tax

7. Regulates the economy and poverty alleviation

Goods and

Progressive tax

CGST SGST (GST)

Proportionate taxes

Regressive taxes

Role of Government in Development Policies



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POINTS TO REMEMBER

- Tax is levied by Government for the development of the state's economy.
- Taxation is a means by which governments finance their expenditure by imposing charges on citizens and corporate entities.
- A tax imposed on an individual or organisation, which is paid directly, is a direct tax.
- Income tax is the most common and most important tax levied on an individual in India.
- If the burden of the tax can be shifted to others, it is an indirect tax.
- Goods and service tax is defined as the tax levied when a consumer buys a good or service.
- The unaccounted money that is cancelled from the tax administration is called black money.
- Smuggling is one of the major sources of black money.
- Tax evasion is the illegal evasion of taxes by individuals, Corporations and trusts.

ABBREVATIONS

- ◆ GST Goods and service tax
- ♦ VAT value-added tax
- ♦ SGST State Goods and Service Tax
- ◆ CGST Central Goods and Service Tax
- ♦ IGST Integrated Goods and Service Tax
- ♦ SIT Special Investigation Team
- MAG Multi-Agency Group
- ◆ CBDT Central Board of Direct Taxes
- RBI Reserve Bank of India
- ◆ ED Enforcement Directorate
- ♦ FIU Financial Intelligence Unit
- ♦ DTAAs Double Taxation Avoidance Agreements
- ♦ TIEAs Tax Information Exchange Agreements
- ◆ FATCA Foreign Account Tax Compliance Act

I. Choose the correct answer:



1. The three levels of government in India are

- a) Union, state and local
- c) Union, municipality and panchayat
- b) Central, state and village
- d) None of the above

2. In India, taxes are including

- a) Direct taxes
- b) Indirect taxes
- c) Both (a) and (b)
- d) None of these





ECONOMICS 10th Standard - SOCIAL SCIENCE 3. Which is the role of government and development policies? a) Defence b) Foreign policy d) All the above c) Regulate the economy 4. The most common and important tax levied on an individual in India is b) Excise duty d) Central sales tax a) Service tax c) Income tax 5. Under which tax one nation, one uniform tax is ensured? a) Value added tax (VAT) b) Income tax c) Goods and services tax d) Sales tax 6. Income tax was introduced in India for the first time in the year_____ a) 1860 b) 1870 c) 1880 d) 1850 7. _____ tax is charged on the benefits derived from property ownership a) Income tax b) Wealth tax c) Corporate tax d) Excise duty 8. What are identified as causes of black money? a) Shortage of goods b) High tax rate c) Smuggling d) All the above 9. Tax evasion is the illegal evasion of taxes by a) Individuals b) Corporations c) Trusts d) All the above 10. Payments are a) Fees and fines b) Penalties and forfeitures c) None of the above d) a and b ADDITIONAL QUESTIONS 11. This is an essential security function to protect our nation from our enemies. a) Defence b) Foreign policy c) a, b d) None of these 12. In India Income Tax was introduced by a) Adam Smith b) Amartya Sen c) C.V. Raman d) Sir James Wilson 13. 'One which is demanded from the very person who it is intended or desired should pay it' who said these words? a) J. S. Mill b) Adam Smith c) Amartya Sen d) C.V.Raman 14. Taxes on goods and services are collected by _____. a) Union Government b) Both Union and State Government c) State Government d) None of these ____was the first country to implement GST in 1954. a) Germany b) Italy c) France d) Netherland

ANSWER

1.	aj	Official, state and focal
2.	c)	Both (a) and (b)
3.	d)	All the above
11		

1 a) Union state and local

- 4. c) Income tax
- 5. c) Goods and Services tax
- 6. a) 1860

- 7. b) Wealth tax
- 8. d) All the above
- 9. d) All the above
- 10. d) (a) and (b)
- 11. a) Defence
- 12. d) Sir James Wilson
- 13. a) J.S.Mill
- 14. b) Both Union and State Government
- 15. c) France



GOVERNMENT AND TAXES

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II. Fill in the Blanks:

2	LIVA		QUESTIONS
	=/4	TEXTUAL	QUESTIONS
٦		ILMIONE	GOLOTION

1 is lev	ied by government	for the development	t of the state's economy.
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- 2. The origin of the word 'tax' is from the word ______.
- 3. The burden of the tax cannot be shifted to others.
- 4. _____ tax is levied on companies that exist as separate entities from their shareholders.
- 5. The Goods and Services Tax Act came into effect on _____.
- 6. The unaccounted money that is concealed from the tax administrator is called _____.

ADDITIONAL QUESTIONS

- 7. Tax is levied by Government for the development of the state's _____.
- 8. is responsible for creating and maintaining defence forces.
- 9. Taxation in India has its roots from the period of _____ and ____.
- 10. The present Indian tax system is based on this _____ tax system.
- 11. Taxation means an _____.
- 12. _____ is the most common and most important tax levied on an individual in India.
- 13. _____ is charged on the benefits derived from property ownership.
- 14. _____ is a very opposite of progressive taxation.
- 15. The direct taxes are _____ in nature.

ANSWER

- 1. Tax
- 2. Taxation
- 3. Direct
- 4. Corporate
- 5. 1 July 2017

- 6. Black money
- 7. Economy
- 8. The Union Government
- 9. Manu Smriti, Arthasastra
- 10. Ancient

- 11. Estimate
- 12. Income tax
- 13. Wealth tax
- 14. Regressive taxes
- 15. Progressive

III. Choose the correct statement:

TEXTUAL QUESTIONS

- 1. Which of the following statement is correct about GST?
 - i) GST is the 'one point tax'
 - ii) This aims to replace all direct taxes levied on goods and services by the Central and State governments.
 - iii) It will be implemented from 1 July 2017 throughout the country
 - iv) It will unify the tax structure in India.
 - a) (i) and (ii) are correct

- b) (ii), (iii) and (iv) are correct
- c) (i), (iii) and (iv) are correct
- d) All are correct



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- 2. Choose the incorrect statements.
 - i) Shortage of goods, whether natural or artificial, is the root cause of black money.
 - ii) Industrial sector has been the major contributor to black money
 - iii) Smuggling is one of the major sources of black money
 - iv) When the tax rate is low, more black money is generated
 - a) (i) and (ii)

b) (iv)

c) (i)

d) (ii) and (iii)

ADDITIONAL QUESTIONS

- 3. Which of the following statement is correct about 'Taxes and Development'?
 - i) Taxation follows the principle of equity
 - ii) Taxation generates social welfare
 - iii) The Indirect taxes are progressive in nature
 - iv) Taxation can be used as an instrument for controlling inflation
 - a) (i) and (iii) are correct

b) (ii) and (iii) are correct

c) (i), (ii) and (iv) are correct

- d) All are correct
- 4. Choose the incorrect statements:
 - i) In India almost all the direct taxes are collected by the Union government
 - ii) The taxes on properties are collected by local government
 - iii) The major direct taxes in India are customs duty and GST
 - iv) Indian tax system adheres to all the canons of taxation
 - a) (i) and (ii)

b) (iii)

c) (iii) and (iv)

d) (ii) and (iii)

ANSWER

- 1. c) (i), (iii) and (iv) are correct

2. b) (iv)

4. b) (iii)

3. c) (i), (ii) and (iv) are correct

IV. Match the following:

TEXTUAL QUESTIONS

- A) 1. Income tax
 - Excise duty
 - 3. VAT
 - 4. GST

 - 5. Black money

- Value Added Tax a.
- 1 July 2017 b.
- Smuggling
- d. Direct tax
- Indirect tax

Ans: 1) d

 e 3) a

4) b

5) c



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ADDITIONAL QUESTIONS

B)	1.	Tax
B)	L	Tax

- Income Tax
- GST
- Entertainment tax
- 5. VAT

- Multipoint tax

- d. One nation, one market, one tax

France C) 1.

- Tax evasion
- Wealth tax
- Taxation
- Stamp duty

- Estimate
- Sir James Wilson
- Movie tickets

a. Hiding money

- b. 1954
- c Marriage Registration
 - d. Direct tax
- e. Maintain the stability of the currency

1)b

1)b 2) c

3) d

4) a 5) e

2) a 3) d

4) e 5) c

V. Give short answer:



Taxation is a means by which governments finance their expenditure by imposing charges on citizens and corporate entities.

2. Why do we pay tax to the government?

- The leving of taxes aims to raise, revenue to fund governance or to alter prices in order to affect demand.
- > States use the money for carrying out many functions.
- > Some of these include expenditures on economic infrastructure (transportation, sanitation, public safety, education, healthcare system, military, scientific research, culture and arts, public works, public insurance and for the operation of government itself.

3. Write the canons of tax system.

- Canon of equality
- Canon of certainty

- > Canons of Economy and convenience
- > Canons of Productivity and elasticity

4. What are the types of tax? Give examples

There are two types of taxes, direct tax and Indirect tax.

Direct Tax

Direct tax is a tax paid directly to the Union government or to state or local governments, such as Income tax, property tax and corporate tax.

Indirect Taxes

- If the burden of the tax can be shifted to others, it is an indirect tax.
- > Some indirect taxes are stamp duty, entertainment tax, excise duty and goods and services tax (GST).



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5. Write short note on Goods and Services Tax.

- The Goods and services tax (GST) is one of the indirect taxes.
- > Goods and services tax is levied when a consumer buys a good or service.
- That aims to replace all indirect taxes levied on goods and services by the central and state governments.
- GST would eliminative the cascading effect of taxes on the production and distribution of goods and services.
- > It is also a "one-point tax".

6. What is progressive tax?

- Progressive tax rate is one in which the rate of taxation increases (multiplier) as the tax base increases (multiplicand)
- > The amount of tax payable is calculated, by multiplying the tax base with the tax rate.
- In the case of a progressive tax, the multiplicand (Income) increases.
- When income increases, the tax rate also increases.
- This is known as a progressive tax.

7. What is meant by black money?

- Black money is funds earned on the black market on which income and other taxes have not been paid.
- The unaccounted money that is concealed from the tax administractor is called black money.

8. What is tax evasion?

- Tax evasion is the illegal evasion of taxes by individuals, corporations and trusts.
- Tax evasion often entails taxpayers deliberately misrepresenting the true state of their affairs to the tax authorities to reduce their tax liability. It includes dishonest tax reporting, such as declaring less income, profits or gains than the amounts actually earned, or overstating deductions.

9. Write some causes of tax evasion.

- Tax evasion resulting in black money prevents the resource mobilisation efforts of the Union government.
- > Shortage of funds distorts implementation. of developmental plans and forces the government to resort to deficit financing in case public expenditure is inelastic.
- Tax evasion and black money encourage the concentration of economic power in the hands of undeserving groups in the country, which, in turn, is a threatening to the economy in its way.
- Evasion of tax consumes time and energy of tax administration to disentangle the intricate manipulations of tax dodgers.



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10. What is the difference between tax and payments?

S.No	Tax	Payments	
1.	Tax is compulsory to the government without getting any direct benefits.	Fee is the payment for getting any service.	
2.	If the element of revenue for general purpose of the state predominates, the levy becomes a tax.		
3.	Tax is a compulsory payment	Fee is a voluntary payment.	
4.	If tax is imposed on a person, he has to pay it; otherwise he has to be penalised.	On the other hand fee is not paid if the person do not want to get the service.	
5.	In this case, tax payer does not expect any direct benefits. Example: Income tax, gift box, wealth tax, VAT, etc.	Example: Stamp fee, driving licence fee,	

ADDITIONAL QUESTIONS

11. What are proportionate taxes?

- Tax levied on goods and service in a fixed portion is known as proportionate taxes.
- All tax payers contribute the same proportion of their incomes.
- In this method, the rate of taxation is the same regardless of the size of income.
- The tax amount realised varies in the same proportions that of income.

12. What are Regressive taxes?

- It implies that higher the rate of tax lower the income groups than in the case of higher income groups.
- > It is a very opposite of progressive taxation.

13. Mention some tax evading activities.

- Underreporting income
- Inflating deductions or expenses.
- Hiding money
- Hiding interest in offshore accounts.

VI. Answer in brief:



1. Briefly explain the role of government in development policies.

In India, the three levels of governments namely, Union, state and local, have been carrying out various functions for the benefit of people and society at large. These roles are divided into seven categories for easy understanding.

i) Defence:

- This is an essential security function to protect our nation from our enemies.
- We know that we have three services, namely, army, navy and air force.
- The Union government is responsible for creating and maintaining defence forces.



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ii) Foreign policy:

- > India is committed to world peace.
- We should also maintain cordial economic relationships through exports and imports, sending and receiving investments and labour.
- > This service is also provided by the Union government.

iii) Conduct of periodic elections:

- > We elect our representatives to Parliament and state assemblies.
- The Union government creates laws and administrative system and conducts elections to these two legislature institutions.
- > Similarly the state governments conduct elections to local bodies within the state.

iv) Law and order:

- > Both the Union and state governments enact numerous laws to ptotect our rights, properties and to regulate our economy and society.
- > To settle disputes, the Union government has a vibrant Judicial system consisting of courts at the national, state and lower levels and state governments take the responsibility for administering the police force in respective states.

v) Public administration and provision of public goods:

- The government generally administers the economy and society through various departments, for example, revenue department, schools, hospitals, rural development and urban development.
- The local governments provide public goods like local roads, drainage, drinking water and waste collection and disposal.

vi) Redistribution of income and poverty alleviation:

- ➤ The government also spend money such that the poor are given some basic necessities of life like food, shelter, clothing, education, health care and monthly income to the very poor persons.
- Thus collecting taxes and spending for the poor is how the government redistributes income and introduces measures to reduce poverty.

vii) Regulate the economy:

- The Union government, through the Reserve Bank of India, controls money supply and controls the interest rate, inflation and foreign exchange rate.
- The Union also controls the economy through various other agencies such as Securities Exchange Board of India and Competition Commission of India.
- All the governments in India run public sector enterprises to provide important goods and services at affordable rates to the people.

2. Explain some direct and Indirect taxes.

1. Direct Taxes:

- > A tax imposed on an individual or Organisation, which is paid directly, is a direct tax.
- The burden of a direct tax cannot be shifted to others.
- Some direct taxes are income tax, wealth tax and corporation tax.



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a. Income tax:

- Income tax is the most common and most important tax levied on an individual in India.
- > It is charged directly based on the income of a person.
- > The rate at which it is charged varies, depending on the level of income.

b. Corporate tax:

- This tax is levied on companies that exist as separate entities from their shareholders.
- It is charged on royalties, interest gains from sale of capital assets located in India and fees for a technical services and dividends.
- Foreign companies are taxed on income that arises or is deemed to arise in India.

c. Wealth tax:

- Wealth tax is charged on the benefits derived from property ownership.
- The same property will be taxed every years on its current market value.
- The tax is levied on the individuals and companies alike.

2. Indirect Taxes

- If the burden of the tax can be shifted to others, it is an indirect tax.
- The impact is on one person while the incidence is on the another person.
- Therefore, in the case of indirect taxes, the tax payer is not the tax bearer.
- Some indirect taxes are stamp duty, entertainment tax, excise duty and goods and service tax (GST).

a. Stamp duty:

Stamp duty is a tax that is paid on official documents like marriage registration or documents of property and in some contractual agreements.

b. Entertainment tax:

- Entertainment tax is a duty that is charged by the government on any source of entertainment provided.
- This tax can be charged on movie tickets, tickets to amusement parks, exhibitions and even sports events.

c. Excise duty:

- An excise tax is any duty on manufactured goods levied at the movement of manufacture, rather than at sale.
- Excise is imposed in addition to an indirect tax such as a sales tax.

3. Write the structure of GST

1. State Goods and services Tax (SGST): Intra state (within the state)

VAT /Sales tax, purchase tax, entertainment tax, luxury tax, lottery tax and state surcharge and cesses.

2. Central Goods and services Tax (CGST): Intra state (with the state)

Central Excise Duty, Service tax, countervailing duty, additional duty of customs, Surcharge, education and secondary /higher secondary cess.

3. Integrated Goods and services Tax (IGST): Interstate (integrated GST)

There are four major GST rates: 5 %, 12 %, 18 %, and 28 %.

Almost all the necessities of life like vegetables and food grains are excempted from this tax.



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4. What is black money? Write the causes of black money.

Black money is funds earned on the black market on which income and other taxes have not been paid.

The unaccounted money that is concealed from the tax administrator is called black money Causes of Black money:

Several sources of black money are identified as causes.

a. Shortage of goods:

- > Shortage of goods, whether natured or artificial, is the root cause of black money.
- > Controls are often introduced to check black money.

b. Licensing proceeding:

It is firmly believed that the system of controls permits, quotes and licences are associated with maldistribution of commodities in short supply, which results in the generation of black money.

c. Contribution of the industrial sector:

- Industrial sector has been the major contributor to black money.
- For example, the Controller of Public Limited Companies tries to buy commodities at low prices and get them billed at high amounts and pockets the difference personally.

d. Smuggling:

- > Smuggling is one of the major sources of black money.
- When India had rigid system of exchange controls, precious metals like gold and silver, textiles and electronics goods were levied a heavy excise duty.
- Bringing these goods by evading the authorities is smuggling.

e. Tax structure:

> When the tax rate is high, more black money is generated.

5. Explain the role of taxation in economic development.

> The role of taxation in developing economics is as follows.

1. Resource mobilisation:

- > Taxation enables the government to mobilise a substantial amount of revenue.
- The tax revenue is generated by imposing direct taxes such as personal income tax and corporate tax and indirect taxes such as customs duty, excise duty, etc.

2. Reduction in equalities of income:

- Taxation follows the principle of equity.
- The direct taxes are progressive in nature.
- Indirect taxes on luxury goods are also progressive in nature.

3. Social welfare:

- Taxation generates social welfare.
- Social welfare is generated due to higher taxes on certain undesirable products like alcoholic products.



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4. Foreign exchange:

Taxation encourages exports and restricts imports, Generally developing countries and even the developed countries do not impose taxes on export items.

5. Regional development:

Taxation plays an important role in regional development, Tax incentives such as tax holidays for setting up industries in backward regions, which induces business firms to set up industries in such regions.

6. Control of inflation:

- > Taxation can be used as an instrument for controlling inflation.
- The government controls inflation by reducing the tax on the commodities.

(ADDITIONAL QUESTIONS

6. What are the penalties for Tax evaders? or What are the Tax evasion penalties?

- If a person wilfully commits the act of tax evasion, he may face felony charges. Tax evasion penalties include imprisonment of upto five years and high amount as fines.
- > The defendant may also be ordered to pay for the costs of prosecution.
- Other tax evasion penalties include community service, probation and restitution depending on the circumstances of the case.
- Tax evasion penalties can be harsh, depending on the severity of the crime.

7. What are the recent Legislative initiatives to curb Black money in India?

- i) Constitution of the Special Investigation Team [SIT] on Black money.
- ii) Enactment of a comprehensive law- The Black money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.
- iii) Constitution of Multi-Agency Group (MAG) consisting of officers of central Board of Direct Taxes [CBDT], Reserve Bank of India [RBI], Enforcement Directorate [ED] and Financial Intelligence Unit [FIU] for the investigation of recent revelations in panama paper leaks.
- iv) Double Taxation Avoidance Agreements (DTAAs) /Tax Information Exchange Agreements [TIEAs] / Multilateral conventions.
- v) Foreign Account Tax compliance Act [FATCA].
- vi) Money laundering Act, 2002 through the Finance Act, 2015.
- vii) Enactment of the Benami Transactions [Prohibition] Amendment Act, 2016.
- viii) Launching of 'Operation Clean Money' on 31 January 2017.
- ix) Lokpal and Lokayukta Act.
- x) The Real Estate (Regulation and Development) Act, 2016.





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1	0	Uni	t lest			
Time :	1.00 hr.	UNIT - IV - Go	vernment and Taxes	Marks: 30		
I.	Choose the co	rrect answer:		$7 \times 1 = 7$		
1.	Which is the role					
	a) Defence	b) Foreign policy	c) Regulate the economy	y d) all the above		
2.	Under which tax					
	a) Value Added T	ax	b) Income tax			
	c) Goods and Ser	vices Tax	d) Sales tax.			
3.	Payments are					
	a) Fees and fines		b) Penalties and forfeitu	res		
	c) None of the ab	pove	d) a and b			
4.	In India, taxes are	eincluding				
	a) Direct taxes	b) Indirect taxes	c) Both (a) and (b)	d) None of these		
5.	In India Income tax was introduced by					
	a) Adam Smith	b) Amartya Sen	c) C.V. Raman	d) Sir James Wilson		
6.						
	a) 1860	b) 1870	c) 1880	d) 1850		
7.	I. Shortage of g	of black money.				
	II. Industrial sector has been the major contributor to black money.					
	The state of the s	one of the major sources	** 120 00 C TOO (100 C 40 00 C 5 4 1 4 1 4 0 C 10 0 A A A A A A A A A A A A A A A A A			
	IV. When the tax rate is low, mole black money is generated.					
	a) II, and III are	e correct	b) I, II and III are corre			
	c) I, is correct		d) I, and III are correct			
II.	Fill in the blan	nks:		$5 \times 1 = 5$		
1.	tax is levie	ed on companies that exist	as separate entities from the	heir shareholders.		
2.	The Goods and So	ervices Tax Act came into	effect on			

3. The burden of the ___ tax cannot be shifted to others.

5. ______ is responsible for creating and maintaining defence forces.

4. _____ is a very opposite of progressive taxation.



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III. Match the following:

 $5 \times 1 = 5$

1. Income tax - Estimate

2. Black money - 1954

3. GST - Smuggling

4. France - I July 2017

5. Tax - Direct tax

IV. Give short answer (ANY FOUR):

 $4 \times 2 = 8$

1. Define tax.

- 2. Why do we pay tax to the Government?
- 3. What is progressive tax?
- 4. What is tax evasion?
- 5. Write some causes of tax evasion
- 6. What is meant by black money?

$1 \times 5 = 5$

V. Brief Answer:

1. Explain some Direct and Indirect taxes.

(or)

What is Black money? Write the causes of black money.

