

15.10.20

(1)

Taxation System in India

Terminology →

1. Tax → A compulsory payment by individuals & firms to the government imposed by way of legislation for the following purposes —

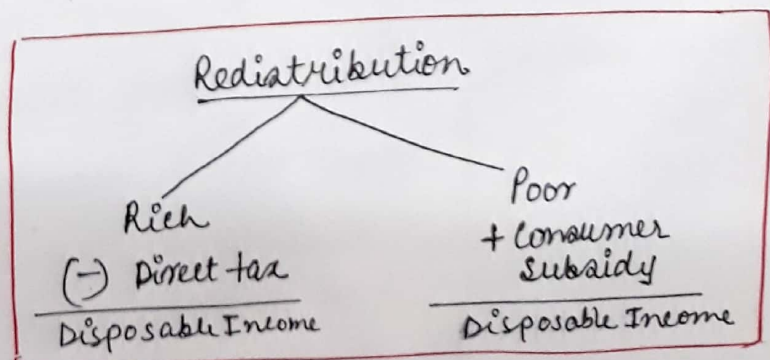
i) Revenue to government for public expenditure

ii) Pricing of goods & services

e.g.

	Khadi	vs	Polyster
	↓		↓
Producer	200		100
Subsidies	+ 50		+ 100 → Indirect Tax
	<u>150</u>		<u>200</u>

iii) Redistribution of Resources of the country



- iv) Representation by making people more responsible to govt. more accountable.

Question :-

"Taxation is the economic glue that binds citizens with the govt." Explain

Answer :- Representation

e.g. Ticket-less passenger

↓
No Demand for services

Same → Non-Tax Payer

↓
No Demand for govt. services

Taxpayer → Responsible citizens & demands are made to govt. is also accountable to provide services.

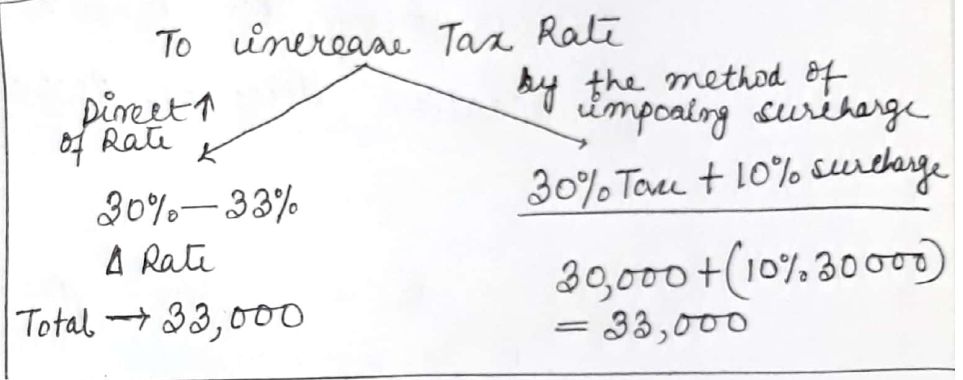
In India, less than 5% people pay Income Tax (Direct Tax)

2) Surcharge :-

Any Additional Tax which is imposed in different forms to increase the tax Revenue is called Surcharge.

e.g. high income surcharge on rich people

e.g.



The Tax is usually computed as a percentage of Income or Price but Surcharge is generally a percentage of amount of Tax.

3) Cess :- Cess is any tax or Surcharge collected for a specific purpose

e.g. Swachh Bharat Cess
Health & Education Cess
Krishi Kalyan Cess

4. Duty & levy:

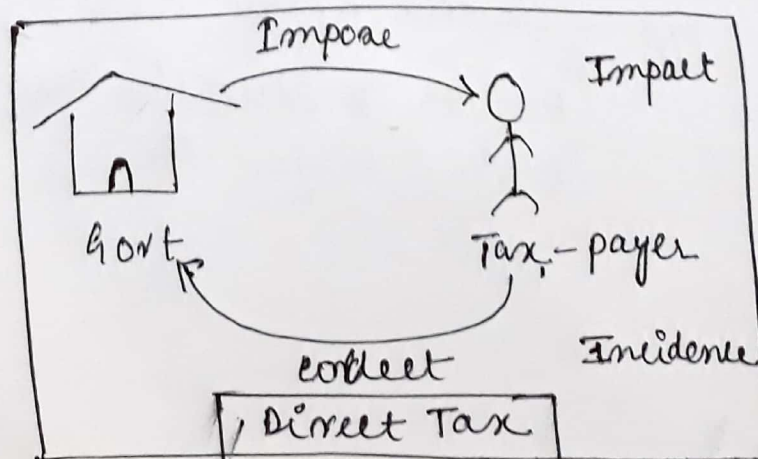
Duty & levy are the other names of Tax. e.g. Excise Duty on goods manufactured in India, Custom Duty on Imports or Exports, Equilisation levy on Revenue of some digital companies.

5. Fee → Amount paid for any chargeable ~~sees~~ services.

e.g. tuition fee.
passport fee.
license fee.

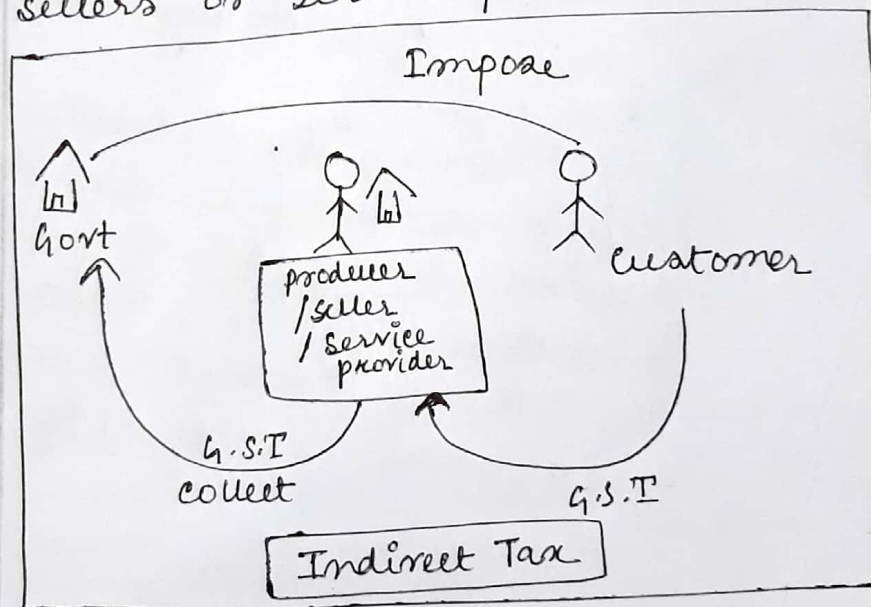
Direct Vs Indirect Tax

When Tax is imposed on any person (individual or firm) & collected from the same person then it is called as Direct Tax
e.g. Income Tax.



The Impact & the incidence of the tax is on the same person.

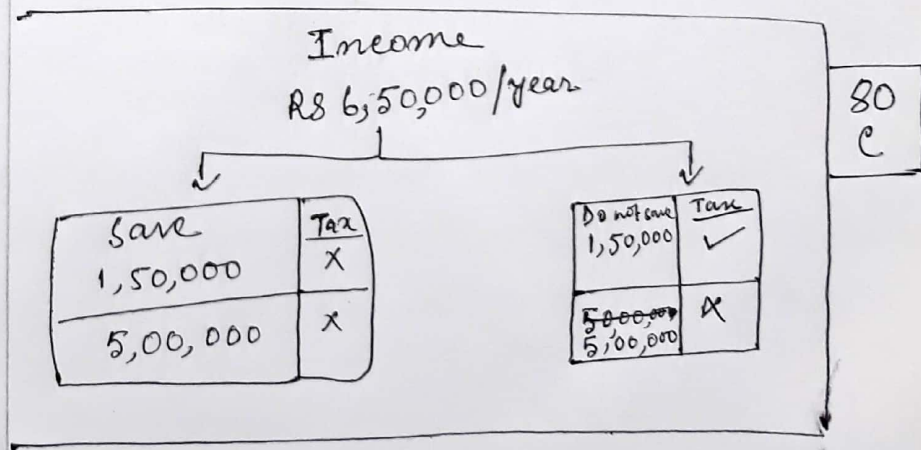
But when Impact & Incidence lie on different persons then it is called Indirect Tax. e.g. G.S.T is imposed on customers but collected from producers, sellers or service providers.



Tax Planning
Tax Evasion
Tax Avoidance } Purpose
↓
Reduction/minimising
Tax ~~liabilities~~
Liabilities

Tax Planning → Reducing Tax liability
by purely legal means is called

Tax Planning
e.g. Savings by individuals in the
recognised schemes like Public Provident Fund,
National Saving Schemes, National Saving
Certificates upto RS 1,50,000/annum
are totally exempt under Section 80C
of Income Tax Act 1961.



• **Tax Evasion** → Reducing tax liability by illegal means such as understating income or overstating expenses. It leads to creation of Black Money.

• **Tax Avoidance** → Reducing tax liability by using legal loopholes is called Tax Avoidance. It is presented in a legal way although the substance of the matter is not legal.
e.g. Money Laundering.

	Form	Substance	e.g
Evasion	Illegal	Illegal	Black Money
Avoidance	Illegal Legal	Legal Illegal	Money Laundering
Planning	Legal	Legal	White Money

Tax Regimes →

	Save	Yearly Interest scheme	Maturity Income
EEE	E	E	E
EET	E	E	T
ETE	E	T	E

⊗ E → Exempt (Not Taxable)

T → Taxable

The Tax Regimes of saving schemes like PPF, NPS ~~differ~~ differ on the basis of yearly taxation of yearly Interest Income & of maturity values.

e.g. PPF is exempted at all the 3 stages of saving, annual income & even maturity while other schemes are mostly taxable at one of the stages.

→ Table Drawing

Benefits

Deduction	Section 80C-80D
Exemption	Section 10...
Rebate	86...

Tax Expenditure →

The total amount of loss of Tax Revenue to the Govt. because of providing Benefits to the tax payer in the form of Exemption, Deduction & Rebate is called Tax Expenditure.

The Taxation system in India is very complicated because of multiple incentives. However, according to data such incentives are used or enjoyed by people who have substantial income although they are meant for people who are not well-off. There was a proposal in year 2010 to introduce "Direct Tax Code" which was simplified Tax laws without incentives & benefits or tax expenditure.

Tax Cascading →

The problem of multiple taxation of goods & services throughout the value chain of production & sales is called tax cascading. This problem arises when intermediate goods are

taxed with the final goods in the different stages.

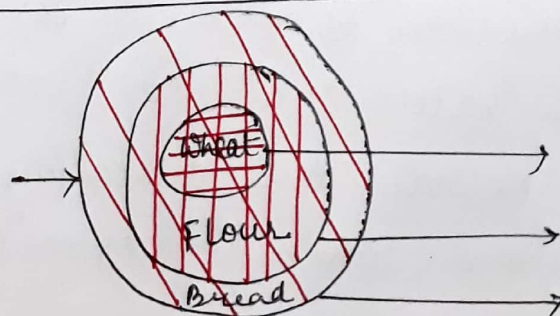
To solve this problem we have Value Added Taxation System which imposes indirect taxes only on Value added instead of value of Output.
e.g.

	Input	Output	Earlier 20% Product Taxes	Value Added Output Input
A	0	100	20	
B	100	300	60	
C	300	600	120	

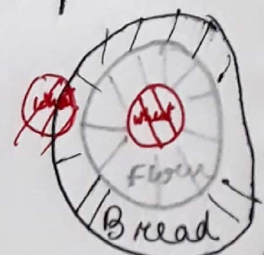
e.g.
Table

	Input	Output	Earlier 20% Product Taxes	Value Added (Output-Input)	20% VAT or GST
A	0	100	20	100	20
B	100	300	60	200	40
C	300	600	120	300	60
Total → 200					Total → 120

Cascading effect



Value Added System



(only value addition)

Tax Cascading in India

1986—MODVAT

2000—CenVAT

2005—S.VAT

2016—GST

To solve the problem of tax cascading Govt. of India introduced Modified Value Added Tax (MODVAT) in 1986. which was improved into central Value Added Tax (VAT) in year 2000. (CenVAT)

It was replaced by GST in year 2016 but in the preceeding decade Sales Tax was replaced with SVAT (state VAT).