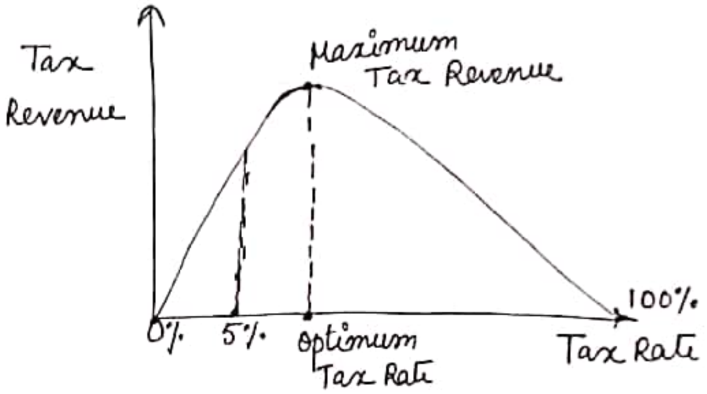
17.10.20

LAFFER CURVE



Relationship between tax rate & total tax Revenue is graphically shown as Laffer Curve. The point of maximum tax revenue decides the "Optimum Tax Rate.

Tax Buoyancy

Ratio of ~~percha~~ percentage change in tax collection to the percentage change in G.D.P

$$\left[\frac{\%\Delta \text{ in Tax Revenue}}{\%\Delta \text{ in GDP}} \right]$$

Tax System

e.g. $= \left(\frac{+10\%}{+7\%} \right) > 1 \longrightarrow$ good

or. $\left(\frac{+2\%}{+7\%} \right) < 1 \longrightarrow$ Bad

It reflects the improvement in Tax to GDP ratio as a measure of efficiency of taxation system.

$$\boxed{\text{Tax to GDP ratio} = \frac{\text{Tax Revenue}}{\text{GDP}}}$$

$$= \frac{20 \text{ trillion Rs}}{200 \text{ trillion Rs}}$$

$$= 10\% \rightarrow 11\%, \ 12\%$$

Efficien

Tax Elasticity

$$= \left| \left(\frac{\% \Delta \text{ in Tax Revenue}}{\% \Delta \text{ in Tax Rate}} \right) \right|$$

$$= \left| \frac{+10\%}{-6\%} \right|$$

$$> 1$$

Tax Terror

Use of severe measures like high penalty or imprisonment by the govt. for improving the tax compliance in the economy.

Tax Amnesty

A general pardon in respect of violation of taxation laws granted on the basis of payment of due taxes with penalty. e.g. under the Black Money Act 2015, govt offered amnesty in respect of foreign assets on payment of 30% tax + 30% penalty

Later in 2016, Income Declaration Scheme (IDS) was offered for the Black Money in India on payment of (30% tax + 7.5% penalty + 7.5% krishi kalyan cess).

Progressive v/s Regressive Taxation

When the burden of tax increases with increase in income then taxation system is said to be Progressive.
On the other side, it is called Regressive.
The benefit of Income Tax in India is that its progressivity. But on the other other, the burden of GST is regressive.
e.g.

	Income	2,00,000	6,00,000	60,00,000
Progressive ←	Income Tax Approx.	0%	5%	30% +
	Expenditure on Goods & Services GST (18%)	2,00,000 36,000	5,00,000 90,000	20 L 3.6 L
	Burden % (GST / Income)	18% of Income	15%	6% of Income

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Features of Indian Taxation System

Taxes in India can be imposed at multiple levels as Article 246 of the Constitution of India distributes powers amongst central govt, state govt, municipalities & panchayats on several matters including taxation. List I of Schedule VII is the Union list, List II is the State List, List III is the concurrent list. Hence, multiple taxes were imposed at multiple levels making the whole system very complicated in India. For the centre the major heads of taxation have been Income Tax, Excise Duty, Custom Duty & Service tax. While the states were depending upon Sales Tax or VAT, entertainment tax, Utility taxes & so on. Major tax reforms started in India in 1990s on the recommendations of experts like Dr. Raja J. Chelliah & Dr. Vijay Kelkar & the major headings of focus of the tax reforms were as follows —

i) high tax rates
ii) multiplicity of taxes
iii) complexity of procedures of tax payment & tax filing.
iv) Tax cascading
v) Double Taxation
vi) use of technology
vii) State wise tax regimes.
viii) High tax expenditure
ix) ~~viii)~~ poor tax administration
x) Narrow Tax Base
xi) Difficulty in Tax Compliance

Govt. of India has tried to solve most of these problem through the Tax Reform in the past. & the major ~~milestones~~ milestones— were as follows —

1986 — MODVAT
1994 — Service Tax
2000 — CenVAT
2005 — SVAT
2017 — GST

Goods & Service Tax (GST)

GST has been one of the biggest reform in the history of Indian Taxation System. As it has replaced 8 central Taxes, 9 State taxes & 23 different cesses & surcharges. The major heads have been —

i) Union Excise Duty
ii) Additional Excise Duty on certain items
iii) Additional Custom Duty on certain items
iv) Special custom Duty on certain items
v) Service Tax
vi) SVAT
vii) Central ~~SD~~ Sales Tax
viii) State Entry Taxes like Octroi
ix) Entertainment Tax
x) Luxury Tax
xi) Tax on gambling, lottery & ~~bate~~ betting

Small firms/individuals who are manufacturers, traders or service providers with turnover less than the exemption limit are not liable to ~~pay or~~ collect & pay G.S.T.

update with change

Exemption limit → 20 lakhs/yr servies
40 " Goods
10 " Special states

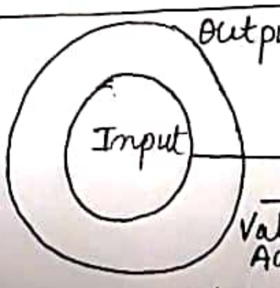
Tax liability is computed after giving the benefit of taxes already paid on Inputs under the heading "Input Tax Credit"

GST = Output Tax − Input Tax.

e.g. (on car 5 L × 18%) − (on components 4 L × 18%)

= 90,000 − 72,000 [Input Tax Credit]

= 18,000 //



Output → (5L) Car

(4L) Component

Value Added 1 L

Value Added Tax (VAT) = 18% × 1 L = 18,000 Rs

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Intra-state sale of goods & provision of services is subject to a dual GST i.e. CGST for Centre & SGST for the State.
e.g. 9% + 9%

Inter-state sale however is subject to an integrated rate of "IGST" which shall be divided among the centre & among the source & destination state. & the ratio will be decided by the Council.

ESZ ← Exports & supplies to ESpecial Economic Zones are zero rated. Hence, the exporters get the reimbursement of taxes paid on their Inputs. It is similar to "Duty Drawback"

Export of Car

Value	5 L
GST	NIL
Sale Price	5 L

(So as to be competitive)

Inputs	4 L
+GST	72,000
	4,72,000

Refund of I.T.C. 72,000
(Duty Drawback)

Alcohol ~~for~~ for human consumption is constitutionally out of GST but certain products like Petrol & Diesel are out of GST till the GST council notifies.

Q1. National Anti-Profiteering Authority
Q.2. G.S.T. council
Q.3. G.S.T. Network

Objectives & Functions

Reports too

Q.	FATF	Objectives/Functions
Q.	FIU	"
Q.	E.D	Reports if any

Some Important terms

1. **Income tax**
A Direct tax imposed on different heads of Incomes such as salary, rent, profit, professional fee, capital gains & other sources

2. **Capital Gain** → Profit on sale of Assets other than stocks. e.g. land, building, machinery, shares not held as stocks.

3. **T.D.S** → Tax Deduction at Source. Income tax deducted by the payer on behalf of payee & deposited to the govt. e.g. Employers are required to deduct & deposit TDS on

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~~Salaries of Employees.~~

Salaries of employees.

Tax Collection at Source (TCS)

On certain incomes TCS is applicable instead of TDS. e.g. land deals. For payment to foreigners withholding tax is applicable.

Minimum Alternate Tax

Income Tax imposed on estimated basis on the profits of company that paid Dividend to their shareholders but shows zero taxable income by claiming various tax benefits. For non-corporate tax-payers the same is called AMT. (Alternate Minimum Tax)

Presumptive Taxation

When tax is imposed on the basis of estimates of Income instead of Actual Income then it is called Presumptive Tax.
In a country like India with massive informal sector where huge number of taxpayers are not keeping proper records presumptive tax is good for increasing tax base & tax Revenue.

Pigovian Tax

(Robert Pigo gave the idea) ← Tax imposed on entities that have negative externalities like pollution.

e.g. Carbon Tax,
Clean Energy Cess

Tobin Tax

(to put a check on "Round tripping) ← Tax imposed on the foreign transactions of inflow & outflow of foreign currency.

Angel Tax

Introduced in 2012. It is a tax on the capital raised by unlisted companies through shares in off market transactions where Issue Prices are greater than fair market prices.

GAFA Tax (DST)

Named after Digital companies Google Apple, Facebook & Amazon, it is a digital tax on the technology companies providing E-commerce services etc. online. France has recently proposed 3% GAFA

Tax. However, India has already imposed Digital Services Tax (DST) in the name of Equilisation Levy at the rate of 6% on the gross revenue of online advertisement services provided from outside India. (with effect from June 2016).

From 1st April, 2020, it is expanded to all digital companies providing E-Commerce Services at 2% rate subject to conditions.

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