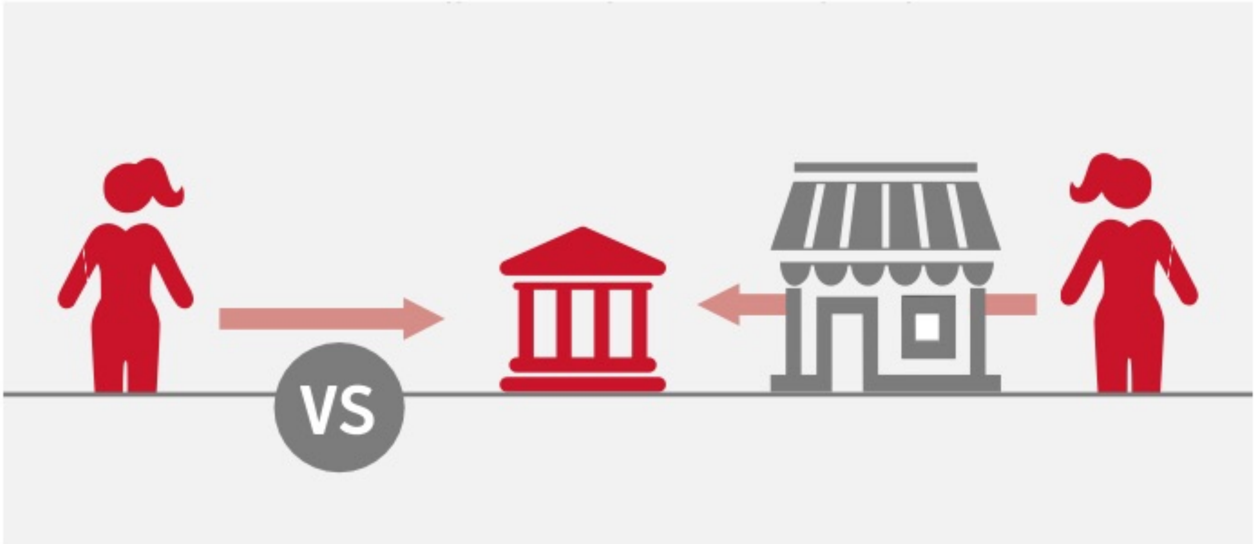

WHAT IS DIRECT TAX?

In simple words, a direct tax is a tax that you directly pay to the authority imposing the tax. For instance, income tax is imposed by the government, and you pay it directly to the government. These taxes cannot be transferred to any other entity or person. There are several acts which govern direct taxes.

In India, CBDT (Central Board of Direct Taxes) which is governed by the Department of Revenue is responsible for the administration of direct taxes. The department is also involved in planning and providing inputs to the government regarding the implementation of direct taxes.

COMMON TYPES OF DIRECT TAXES IN INDIA

Some of the most common types of **direct tax** implemented in India are as follows-

1. Income Tax

The most common type of direct tax in India is income tax. It is imposed on the income you earn in a financial year based on the income tax slabs of the IT department. The tax is paid by individuals as well as businesses directly to the IT department. For individual taxpayers, there are also several tax deductions available under various sections of the IT Act.

2. Securities Transaction Tax

If you are involved in stock trading, each of your trade also has a small constituent known as the securities transaction tax. Irrespective of whether you made money on the trade or not, you will have to pay this tax. The broker collects this tax from you and passes on to the securities exchange, which then pays it to the government.

3. Capital Gains Tax

Every time you make capital gains, you will be required to pay capital gains tax. This capital gain could come from the sale of a property or from investments. Based on the capital gains and the duration for which you held the investment, you will be required to pay either LTCG (Long-Term Capital Gains) tax or STCG (Short-Term Capital Gains) tax.

WHAT IS INDIRECT TAX?

While direct taxes are imposed on income and profits, indirect taxes are levied on goods and services. A major **difference between direct and indirect tax** is the fact that while direct tax is directly paid to the government, there is generally an intermediary for collecting indirect taxes from the end-consumer. It is then the responsibility of the intermediary to pass on the received tax to the government.

Unlike a direct tax, indirect taxes do not depend on the income of an individual. The tax rate is the same for everyone. The CBIC (Central Board of Indirect Taxes and Customs) is mostly responsible for handling indirect taxes in India. Just like CBDT, CBIC also works under the Department of Revenue.

COMMON TYPES OF INDIRECT TAXES IN INDIA

Some of the most important types of **indirect tax** in India are as follows-

1. Goods and Services Tax (GST)

GST subsumed as many as 17 different indirect taxes in India like Service Tax, Central Excise, State VAT, and more. It is a single, comprehensive, indirect tax which is imposed on all the goods and services as per the tax slabs laid by the GST council. One of the biggest benefits of GST is that it mostly eliminated the cascading or tax-on-tax effect of the previous tax regime.

2. Customs Duty

When you purchase something that needs to be imported from a foreign country, you are required to pay customs duty on it. Irrespective of whether the product has come to India by air, land, or sea, you will have to pay the customs duty on it. The goal of imposing this indirect tax is to make sure that every product entering India is taxed.

3. Value Added Tax (VAT)

A VAT is a type of consumption tax imposed on products whenever its value increases throughout the supply chain. It is imposed by the state government, which also decides the VAT percentage on different goods. While GST has mostly eliminated VAT, it is still imposed on some products such as items that contain alcohol.

Context	Direct Tax	Indirect Tax
1. Imposed on	Income and profits	All the goods and services
2. Who pays	Individuals and businesses	End-consumers
3. How much	Depends on income and profits	Same for everyone
4. Transferability	Not transferable	Transferable
5. Tax Evasion	Possible	Not possible
6. Nature	Progressive	Regressive
7. Collections	Complex	Convenient
8. Common examples	Income tax and securities transaction tax	GST, excise duty, and VAT

What is a Subsidy?

A subsidy is an incentive given by the government to individuals or businesses in the form of cash, grants, or tax breaks that improve the supply of certain goods and services. With subsidies, consumers are able to access cheaper products and commodities. Markets that have positive externalities, which are extra benefits to society, tend to be favored in policy to provide a greater supply of that good and service.

Basically, subsidies are provided by the government to specific industries with the aim of keeping the prices of products and services low for people to be able to afford them and also to encourage production and consumption.

Types of Subsidies

1. Production subsidy

This type of subsidy is provided in order to encourage the production of a product. In order for manufacturers to increase their production output, the government compensates for some of its parts in order to lessen their expenses while increasing their output. As a result, production and consumption grow, but the price remains the same. The drawback of such an incentive is that it may promote overproduction.

2. Consumption subsidy

This happens when the government offsets the costs of food, education, healthcare, and water.

3. Export subsidy

An obvious fact is that a country or state earns from its exports and exports help to balance its economy. That is why, to encourage exports, the government subsidizes the cost. However, this can be easily abused, especially by exporters who exaggerate the prices of their goods so that they receive a larger incentive, eventually raising their profits at the expense of taxpayers.

4. Employment subsidy

This incentive is given by the government to companies and organizations in order to enable them to provide more job opportunities.

GOVERNMENT CONTROL: FISCAL POLICY

Any government has two types of tools through which they control macroeconomic environment of the country. They are monetary policy and fiscal policy. Monetary policy has been discussed in the chapter ' Macroeconomics'. Fiscal policy refers to the management of volume of currency in circulation or purchasing power in the hands of public through tax and subsidy. Though tax is a major source of income for the government but sometimes it is used for controlling inflation also. The government imposes high rate of taxation which decreases purchasing power of people. Imposition of tax does not mean that the government does not want people to use a particular commodity. However, imposition of tax or subsidy is to induce people to use or not to use. Subsidy is given on fertilizers to induce farmers to use fertilizers in their farms, which will ultimately increase the farm productivity. Similarly, tax rebate is given to income tax payee on investing money on schemes of Life Insurance Corporation. Taxpayers will invest money to take tax rebate but ultimately, their life will be insured.