UNIT–III

Tax-Meaning-Features-Objectives of Taxation-Principles-Typesb of tax-Direct Tax Features, Merits and Demerits .Indirect Tax-Features, Merits and Demerits.

MEANING

Taxation is the means by which a government or the taxing authority imposes or levies a tax on its citizens and business entities. From income tax to goods and services tax (GST), taxation applies to all levels.

DEFENITION

A tax is a compulsory financial charge or some other type of levy imposed on a taxpayer by a governmental organization in order to fund government spending and various public expenditures.

Taxation, imposition of compulsory levies on individuals or entities by governments. Taxes are levied in almost every country of the world, primarily to raise revenue for government expenditures, although they serve other purposes as well

FEATURES

1. Tax is a legal collection. A tax has "statutory sanction". It cannot be imposed arbitrarily Certain legal requirements are to be followed in imposing a tax.

2. Tax is a personal obligation A tax is a personal obligation and it creates personal responsibility on the tax payer.

3. Tax is a compulsory contribution : Nobody can refuse to pay taxes claiming that he does not derive any benefit from payment of tax .Refusal to pay tax is a punishable offence

4. Element of Sacrifice In the payment of taxes

5. Tax is imposed by Government alone

6. Revenue collection The power of taxation is used to raise sufficient revenues for the State, apart from achieving other collateral objectives.

7. Socio-economic objectives. Modern governments use tax as an instrument to achieve structural changes and also realising socio-economic objectives.

8. Tax is a contribution for the common benefit of the society

9. Benefit is not a condition for tax payment : The tax payer is not promised any specific benefit.

10. Tax is not imposed to realise cost of benefit

11. Taxes may be assessed on capital or Income but they are paid out of income.

12. A tax may be imposed on a commodity or property or individual. But tax is actually paid by individuals.

OBJECTIVES OF TAXATION

The basic objective of taxation is to raise resources for the State. It can be used to reduce inequalities, to accelerate economic development, as a tool to regulate consumption, imports and exports, in addition to its basic objective of raising revenues.

Different objectives of taxation may be summed up as under:

1. Objective of raising revenue

2. Regulatory objectives :

(a) Regulating consumption

(b) Regulating production

(c) Regulating imports and exports

(d) Regulating the effects of inflation, depression etc.

3. Developmental objectives :

(a) Objective of economic development

(b) Objective of capital formation

(c) Objective of increasing employment opportunities.

4. Objectives of reducing inequalities :

(a) Reduction in economic disparities

(b) Reduction in regional imbalances.

PRINCIPLES OF TAXATION

1. Principle or Canon of Equality:

The first canon or principle of a good tax system emphasised by Adam Smith is of equality. According to the canon of equality, every person should pay to the Government according to his ability to pay, that is in proportion of the income or revenue he et jove onder the protection of the State.

Thus under the tax system based on equality principle the richer persons in the society will pay more than the poor. On the basis of this canon of equality or ability to pay Adam Smith argued that taxes should be proportional to income, that is, everybody should pay the same rate or percentage of his income as tax.

2. Canon of Certainty:

Another important principle of a good tax system on which Adam Smith laid a good deal of stress is the canon of certainty. To quote Adam Smith, 'The tax which each individual is bound to pay ought to be certain and not arbitrary.

3. Canon of Convenience:

Payment of a tax should not only be certain but the time and manner of its payment should also be convenient to the contributor. If land revenue is collected at the time of harvest, it will be convenient since at this time farmers reap their crop and obtain income.

In recent years efforts have made to make the Indian income tax convenient to the tax payers by providing for its payments in installments as advance payments at various times during the year. Further, income tax in India is levied on the basis of income received rather than income accrued during a year. This also makes the income tax system convenient.

4. Canon of Economy:

The Government has to spend money on collecting taxes levied by it- Since collection costs of taxes add nothing to the national product, they should be minimized as far as possible. If the collection costs of a tax are more than the total revenue yielded by it, it is not worthwhile to levy it. Even for achieving economy in the tax collection, the taxes should be as simple as possible and tax laws should not be subject to different interpretations.

TYPES OF TAXES

DIRECT TAXES AT CENTRAL LEVEL

- Income tax
- Corporation tax
- Divident tax
- Capital gain tax
- Wealth tax
- Gift tax
- Estate duty

DIRECT TAXES AT STATE LEVEL

- Land revenue tax
- Agricultural income tax
- Professional tax

DIRECT TAXES AT LOCAL LEVEL

• House property tax

INDIRECT TAXES

LEVIED BY CENTRAL GOVERNMENT

• Central exercise duty

• Customs duty

• Central sales tax

• Service tax

LEVEID BY STATE GOVERNMENT

• State sales tax

• Value added tax

• Entertainment tax

• State exercise duty

• Other indirect taxes

LEVEID BY LOCAL GOVERNMENT

• Octroi

FEATURES OF DIRECT TAXES

1. Single Destination for all Direct Tax laws

It can be said that all direct tax law which are in force gets replaced by the direct tax code. DTC will emerge as a single window solution for all taxpayers. It will eventually paves the way for unified direct tax reporting system.

2. Digitalization in legal prosecution.

Introduction of the assessment unit for tax proceedings to deal with individual & corporate taxpayers, will turns to be a big step by that one may get rid from the harassment faced by taxmen. All communication between taxpayers and taxmen will be in digital form. Moreover, all digital communication shall bears a unique document identification number.

3. Easy to Amend.

The New direct tax code has been designed in such a manner where the statue have been reflected by the essential and general principles, upto the extent possible and the detail matter are contained in the rules/schedules.

4. No dividend distribution Tax

The new tax law brings another good concept that might help companies to get relieves from paying Dividend Distribution Tax which is (15% +12% surcharge+3% cess) therefore Effective is 20.35% as well. There is a possibility that dividend shall be taxed only in the hands of shareholders. It may encourage the companies to declare higher rate of dividend in contrast with early trends.

5. Simplified language

The expansion of Indian economy boosts the number of taxpayers in last six decade. But the amount of tax collections was increased moderately in the meantime which forces the department think over the cost of compliance incurred by them. In order to curtails the cost, one must facilitate to design such architecture where taxpayers are facilitating to voluntary compliance the law. This is sought to be achieved by keeping the law in simple language with clarity of intent. The new DTC are very simple with less than 400 section and also replace the number of odd sections in current IT Act 1961.

6. Stable Tax rates

In Current scenoario, there is a lot of uncertainty regarding tax rates of relevant year which are stipulated to finance act of that year due to which taxpayers face difficulties in tax planning for each year. But this issue also get resolve in DTC under which all tax rates are proposed to be prescribed in schedules which obviating the needs of the finance act of every relevant year. Further, any changes is proposed in rate schedules of new tax law shall firstly brought before the parliament in form of amendment bill for approval to commence such changes.

MERITS OF DIRECT TAXES

(i) Equitable:

The burden of direct taxes cannot be shifted. Hence equality of sacrifice can be attained through progression. Of course, the very low incomes can be exempted. This cannot be achieved- by taxes on commodities which fall with equal force on the rich and the poor. The tax raises the price of the commodity, and the price of a commodity is the same for every person, rich or poor.

(ii) Economical:

The cost of collection of direct taxes is low. They are mostly collected "at the source". For instance,-the income tax is deducted from an officer's pay every month. This saves expense. The employer acts as an honorary tax collector. This means great economy.

(iii) Certain:

In the case of a direct tax, the payers know how much is due from them and when. The authorities also know the amount of revenue they can expect. There is certainty on both sides. This minimises corruption on the part of collecting officials.

(iv) Elastic:

If the State suddenly stands in need of more funds in an emergency, direct taxes can well serve the purpose. The yield from income tax or death duties can be easily increased by raising their rate. People cannot stop dying for fear of paying death duties.

(v) Productive:

Another virtue of direct taxes is that they are very productive. As a community grows in numbers and prosperity, the return from direct taxes expands automatically. The direct taxes yield a large revenue to the State.

(vi) A means of developing civic sense.

In the case of a direct tax, a person knows that he is paying a tax, he feels conscious of his rights. He claims the right to know how the Government uses his money and approves or criticizes it. Civic sense is thus developed. He behaves as a responsible citizen.

DEMERITS OF DIRECT TAXES

(i) Inconvenient:

The great disadvantage of a direct tax is that it pinches the payer. He 'squeaks' when a lump sum is taken out of his pocket. The direct- taxes are thus very inconvenient to pay. Nobody can help feeling the pinch.

(ii) Evadable:

The assessee can submit a false return of income and thus evade the tax. That is why a direct-tax is "a tax on honesty." There is a lot of evasion. Many of those who should be paying taxes go scot-free by concealing their incomes.

(iii) Arbitrary:

If taxes are progressive, the late of progression has to be fixed arbitrarily; and if proportional, they fall more heavily on the poor. Thus, both are bad. The rate of taxes depends upon the whim of the Finance Minister. This is arbitrary.

(iv) Disincentive:

If the taxes are too heavy, they discourage saving-sand investment. In that case the country will suffer economically. A high level of taxation discourages investment and enterprise in the country. It inflicts a lot of damage, on business and industry.

FEATURES OF INDIRECT TAXES

Features of Indirect Taxes

Payment and Tax Load - The service provider makes payment of indirect taxes and this is transferred to a final consumer.

Liability of Tax – Here the seller or service provider makes payment on indirect taxes which are transferred to final consumer.

Nature – Initially, indirect taxes used to have a regressive nature. Yet, now with the coming of GST, they have become quite progressive.

Evasion - Indirect taxes are hard to evade due to direct implementation through goods and services.

Investment and Saving - Most indirect taxes are largely growth-oriented since they de-motivate the consumer and encourage savings.

Social Coverage - The indirect tax has a much larger coverage since their charge falls upon each individual buying products or services.

MERITS OF INDIRECT TAXES

Everyone can contribute

Unlike Income Tax, which has to be paid by individuals in certain income brackets and not others, Indirect Taxes have to be paid by each and everyone who purchases the commodity. Persons not working in India like tourists and persons of lower economic strata also have to pay it because they will in some form purchase commodities.

They are convenient

Indirect taxes are very convenient as far as charging them is concerned. Firstly, the taxes can be very nominal and consumers do not feel burdened when paying such small amounts. Secondly, these indirect taxes are said to be ‘hidden in the price’, which means that the consumer only effectively sees the price of the commodity itself.

They cannot be evaded

Indirect taxes cannot be evaded, because they are part of the price of the commodity. So anyone who buys the commodity, will pay the tax.

They are spread over a wide range

Heavy taxation in any one aspect of a service or commodity will be highly noticeable as well as a burden on the consumer. In this regard, indirect taxes can be beneficial since they are spread out over a wide range of products in smaller amounts.

DEMERIT OF INDIRECT

Indirect Tax can be regressive

Since indirect tax is the same for both the rich and the poor, it can be deemed unfair to the poor. Indirect tax is applicable to anyone who makes a purchase, and while the rich can afford to pay the tax, the poor will be burdened by the same amount of tax. Thus, indirect taxes may be seen as regressive.

They raise price of commodities

Sellers cannot always calculate and collect the exact fraction of tax applicable on all commodities that they sell. And hence they consciously charge more than the tax amount so they can be sure that every buyer paid the indirect tax. But this has a cumulative effect and increases the price of commodities.

No civic consciousness

Indirect taxes do not raise civic awareness because millions are not even aware that they're paying a tax because it is hidden in the price.