For XAT , CMAT , SNAP , MAT , IIFT Exam

TAX STRUCTURE IN INDIA

- Tax is a compulsory payment by the citizens to the government to meet the public expenditure. It is legally imposed by the government on the taxpayer and in no case, taxpayers can refuse to pay taxes to the
  Example: Income tax, Corporate tax, Sales tax
- Modern economics defines tax as a mode of income redistribution.

Direct Tax

- Direct tax is referred to as the tax, levied on person's income and wealth and is paid directly to the government.
  Example: Income tax, Corporate tax, etc.

Indirect Tax

- Indirect Tax is referred to as the tax, levied on a person who consumes the goods and services and is paid indirectly to the government.
  Example: Sales Tax, Entertainment Tax, Service Tax etc.

Methods of Taxation

- There are three methods of taxation prevalent in economies with their individual merits. These are
  1. Regressive taxation
  2. Proportional taxation
  3. Progressive taxation

Progressive taxation

- A progressive tax is a tax that imposes a lower tax rate on low-income earners compared to those with a higher income, making it based on the taxpayer's ability to pay. That means it takes a larger percentage from high-income earners than it does from low income individuals.
- Indian income tax is a typical example of Progressive tax. The idea here is less tax on the people who earn less and higher taxes on the people who earn more
- This is the most popular taxation method in the world and a populist one, too

Regressive taxation

- A regressive tax is a tax applied uniformly, taking a larger percentage of income from low-income earners than from high-income earners. It is in opposition to a progressive tax
- This method while appreciated for rewarding the higher producers or income earners is criticised for being more taxing on the poor and low-producers.

Proportional taxation

- A proportional tax system also referred to as a flat tax system, assesses the same tax rate on everyone regardless of income or wealth.
- The sales tax is one of the best examples of proportional tax because all consumers regardless of income pay the same fixed rate

TAXATION IN INDIA

- Article 256 of the constitution of India states that “No tax shall be levied or collected except by the authority of law”. Hence, each and every tax that is collected needs to backed by an accompanying law.
- The taxation system in India is such that the taxes are levied and collected by the Central Government and the State Governments. Some minor taxes are also levied and collected by the local authorities such as the Municipality and the Local Governments.
- Major Central Taxes
  1. Income Tax
  2. Central Goods & Services Tax (CGST)
  3. Integrated Goods & Services Tax (IGST)
  4. Customs Duty
  5. Corporate tax
  6. Gift Tax
- Major State Taxes
  1. State Goods & Services Tax (SGST)
  2. Stamp Duty & Registration
  3. Professional tax
- Local Bodies Taxes
  1. Property tax
  2. Water tax
- The tax structure in India is divided into direct and indirect taxes

Direct Taxes

- A direct tax is referred to as a tax levied on person’s income and wealth and is paid directly to the government; the burden of such tax cannot be shifted.

- The tax is progressive in nature. It is levied according to the paying capacity of the person, i.e. the tax is collected more from the rich and less from the poor people
- The plans and policies of the Direct Taxes are being recommended by the Central Board of Direct Taxes (CBDT) which is under the Ministry of Finance, Government of India.
- Example: Income-tax, corporation tax, property tax and gift tax

Merits of Direct Taxes

- Direct taxes are progressive i.e. rate of tax varies according to tax base. For example, income tax satisfies the canon of equity.
- The cost of collection of direct taxes is relatively low. The tax payers pay the tax directly to the state.
- Direct taxes also satisfy the canon of elasticity. Income tax is income elastic in nature. As income level increases, the tax revenue to the Government also increases automatically
- Direct tax helps in controlling the inflation.

Demerits of Direct Taxes

- Direct tax adversely affects productivity. Citizens are not willing to earn more income because in that case they have to pay more taxes.
- The burden of direct tax is so heavy that tax payers always try to evade taxes. This leads to the generation of black money, which is harmful to the economy

Indirect Tax

- Indirect Tax is referred to as a tax charged on a person who purchases the goods and services and it is paid indirectly to the government. The burden of tax can be easily shifted to another person. It is levied on all persons equally whether rich or poor. Example: GST, Customs Duty, etc.

Merits of Indirect Taxes

- All the consumers, whether they are rich or poor, have to pay indirect taxes. For this reason, it is said that indirect taxes can cover more people than direct taxes.
- The Government imposes indirect taxes on those commodities which are harmful to health e.g. tobacco, liquor etc. They are known as sin taxes.

Demerits of Indirect Taxes

- Indirect taxes are sometimes unjust and regressive in nature since both rich and poor persons have to pay same amount as taxes irrespective of their income level.
- Indirect taxes are less elastic compared to direct taxes. As indirect taxes are generally proportional.

GST (Goods and Service Tax)

- GST is an Indirect Tax which has replaced many Indirect Taxes in India
- GST is one indirect tax for the entire country.
- The Goods and Service Tax Act was passed in the Parliament on 29th March 2017. The Act came into effect on 1st July 2017. The motto is one nation, one market, one tax.
- Goods & Services Tax in India is a comprehensive, multistage, destination-based tax that is levied on every value addition.
- GST is one of the biggest indirect tax reforms in the Country.

Destination Based

- GST is a destination-based tax

  Example: Consider goods manufactured in Telangana and are sold to the final consumer in Karnataka. Since Goods & Service Tax is levied at the point of consumption, in this case, Karnataka, the entire tax revenue will go to Karnataka and not Telangana.

Components of GST

- Components of GST The component of GST are of 3 types. They are: CGST, SGST & IGST.
  1. CGST: Collected by the Central Government on an intra-state sale (Eg: Within state/ union territory)
  2. SGST: Collected by the State Government on an intra-state sale (Eg: Within state/ union territory)
  3. IGST: Collected by the Central Government for inter-state sale (Eg: Maharashtra to Karnataka)

The tax structure under the GST regime will be as follows

Transaction	New Regime	Old Regime	Remarks
Goods or services (Sale within the State)	CGST + SGST	VAT + Central Excise/Service tax	1. Revenue will be shared equally between the Centre and the State

Goods or services (Sale to another State)	IGST	Central Sales Tax + Excise/Service Tax	1. IGST tax is levied when there is an inter-state transfer of goods and services. 2. The Central Government will then share the IGST revenue based on the destination of goods

Other important Details

- The GST is applicable on all goods and services other than following:
  1. Alcoholic liquor for human consumption
  2. Petroleum products (Petroleum crude, high-speed diesel, motor spirit, natural gas and aviation turbine fuel).
- Single Tax to replace multiple levies, right from manufacturer/supplier to consumer. GST incorporates many of the indirect taxes levied by states and the central government. The following is the list of indirect taxes in the pre-GST regime:
  1. State VAT/Sales Tax
  2. Central Sales Tax
  3. Purchase Tax
  4. Luxury Tax
  5. Entertainment and Amusement Tax
  6. Central Excise Duty
  7. Service Tax
  8. Additional Duties of Customs
  9. Additional Duties of Excise
  10. Taxes on advertisements

11. Taxes on lotteries, betting, and gambling

Current GST Rates in India

- Currently, the GST rate in India for various goods and services is divided under 7 slabs; these are 0% (Nil) GST, 0.25%GST, 3%GST,5% GST, 12% GST, 18% GST, and 28% GST

Advantages of GST

1. Removing cascading tax effect
2. Single point tax
3. Regulating the unorganized sector
4. Online simpler procedure under GST
5. Increased efficiency in logistics