Topic: Introduction, Meaning and Definitions of Tax

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Introduction

The important aim of any country economic policy is to achieve economic growth of the nation and equitable distribution of the wealth for the betterment of the country. Growth depends upon the sources of revenues.In spite of several revenues of Government, Government generates revenues directly or indirectly through the biggest source of public revenue is called Taxation. It is an important weapon for attaining a proper model of resources allocution, distribution of income and wealth, reduction of poverty among people and economic stability, in order that the benefits of economic development are evenly scattered tax-payer is not entitled to claim any return against the payment of his taxes though modern taxation policy aims at the fulfillment of the objectives of social welfare.

Meaning and Definitions

The term tax is derived from the Latin word “Taxo” which means touch sharply or charge. Tax is a kind of money which is compulsory imposed by a public authority and the legal duty of every citizen of a country to pay honestly. It may belevied on income,property,services and even at the time of purchasing commodity.

Many economists like Adams, Taylor, Bastable, Seligman, Taussing, Dalton etc. tried to define taxation in a different way as stated below.

1. Adams: “A tax is a contribution from citizens for the support of the state.”

2. P. E. Taylor: ‘A compulsory payment to Government without expectation of direct return in benefit to the taxpayer is known as tax’.

3. Prof. Bastable: ‘A tax is compulsory contribution of the wealth of a person or body of persons for the services of public powers’.

4. According to Seligman: “A tax is compulsory contribution from the person to the Government to defray the expenses incurred in the common interest of all, without reference to special benefits conferred”.

5. Taussing: “The essence of a tax as distinguished from other charges by government in the absence of a direct quid pro quo between the tax-payer and public authority.”

6. Dalton. “A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the taxpayer in return”.

7. The dictionary of Modern Economic: "Taxation means “Compulsory levies on private individuals and organs tons made by government to raise revenue to finance expenses on public goods and services and to control the volume private expenditure in the economy”.

The unanimous opinion of the above authors describes that “the tax is a compulsory payment to the Government by taxpayer without any expectation of some specified return.

Thus, in a simple word we can say that tax is a mandatory payment by the citizen to the government whenever imposed by the Government. If a person denies the tax payment,he may be punished in the court of law.

<u>Types of Taxes</u>

The taxes are generally classified into Direct Tax and Indirect Tax

A. **Direct Tax:** A Direct tax is a kind of charge, which is imposed directly on the assesses and paid directly to the government by the persons (juristic or natural) on whom it is imposed. A direct tax is that tax where the incidence and impact of taxation falls on the same entityi.e. direct tax cannot be shifted by the taxpayer to someone else. Income Tax, Corporation Tax, Property Tax, Inheritance (Estate) Tax, and Gift Tax are examples of direct tax.

<u>Characteristics of Direct Tax</u>

1. **Economy:** Direct taxes are usually collected at source and make the payment of taxes direct to the tax authority. Therefore, the cost of collecting of taxes for the governmentis relatively low. In this sense the direct taxes are economical.
2. **Elasticity: Income** from direct taxes depends upon the increase and decrease in income of the people. Income from these taxes also increased by increasing the rate of taxation in appropriate way. In this way direct taxes also satisfy the canon of elasticity.
3. **Educative Value:** Direct taxes have also the educative value among the common masses. People are aware about the amount collected from them and can check the wastage in public expenditure.
4. **Certainty:** Every taxpayer knows about his income before paying the tax. The taxpayer is certain as to how much he is expected to pay as the tax rate are decided in advance. The Government can also estimate the tax revenue from direct tax with a fair accuracy.
5. **Equity:** Direct taxes are based upon the principle of ability to pay. Persons are in a similar income group are taxed at the same rate. Persons with different income group are taxed at different rate. Thus, there is both vertical and horizontal equity under direct taxation.
6. **Reduction in Inequality:** As direct taxes are progressive in nature, the persons belonging to higher income groups are imposed higher rate of taxation. on the other hand, the low-income groups are ever exempted of some taxes.

B. **Indirect Tax:** In reverse of direct tax where the incidence and impact of taxation does not fall on the same entity i.e. burden of tax can be shifted by the taxpayer to someone else is called indirect tax. The indirect taxes are imposed on goods/services. Indirect tax has the effect to raising the price of the products on which they are imposed. Thus the immediate liability of pay indirect taxes lies on the manufacturer/service provider/seller, etc. but the burden is ultimately transferred to the consumers. Tax on sale, service tax, and custom duty is examples of Indirect tax.

<u>Characteristics of Indirect Taxes</u>

1. An important source of revenue: Indirect taxes are a major source of tax revenues for Governments worldwide and continue to grow as more countries move to consumption-oriented tax regimes. In India, indirect taxes contribute more than 50% of the total tax revenues of Central and State Governments.

2. Tax on commodities and services: It is levied on commodities at the time of manufacture or purchase or sale or import/export thereof. Hence, it is also known as commodity taxation. It is also levied on provision of services.

3. Shifting of burden: There is a clear shifting of tax burden in respect of indirect taxes. For example, GST paid by the supplier of the goods is recovered from the buyer by including the tax in the cost of the commodity.

4. No perception of direct pinch: Since, value of indirect taxes is generally inbuilt in the price of the commodity, most of the time the tax payer pays the same without actually knowing that he is paying tax to the Government. Thus, tax payer does not perceive a direct pinch while paying indirect taxes.

5. Inflationary: Tax imposed on commodities and services causes an all-round price spiral. In other words, indirect taxation directly affects the prices of commodities and services and leads to inflationary trend.
6. Wider tax base: Unlike direct taxes, the indirect taxes have a wide tax base. Majority of the products or services are subject to indirect taxes with low thresholds.
7. Promotes social welfare: High taxes are imposed on the consumption of harmful products (also known as 'sin goods') such as alcoholic products, tobacco products etc. This not only checks their consumption but also enables the State to collect substantial revenue.
8. Regressive in nature: Generally, the indirect taxes are regressive in nature. The rich and the poor have to pay the same rate of indirect taxes on certain commodities of mass consumption. This may further increase the income disparities between the rich and the poor.

Difference between direct taxes and indirect taxes

The distinction between direct and indirect taxes is the common and popular one Prof. Dalton made a distinction between direct and indirect taxes as "that a direct tax is really paid by a person on whom it is legally imposed, while an indirect tax is imposed on one person, but paid partly or wholly by another owing to consequential change in the terms of some contact or bargaining between them."

According to J.S Mill, "A direct tax is one, demanded from every person who is intended or desired should pay it. Indirect taxes are those which are demanded from one person in the expectation and intention that he shall identify himself at the expenses of another,"

Serial. No.	Based	Direct Tax	Indirect Tax
1.	Incident of Tax	The person paying the tax to the Government directly bears the incidence of the tax (i.e. impact and incidence on the same person)	The person paying the tax to the Government collects the same from the ultimate consumer. Thus, incidence of the tax is shifted to the other person (i.e. impact and incidence on different persons)
2.	Nature	Progressive in nature – high rate of taxes for people having higher ability to pay.	Regressive in nature - All the consumers equally bear the burden, irrespective of their ability to pay.
3.	Levied	Direct taxes are levied on income or property	Indirect taxesare levied on home trades and foreign trades and also on services.
4.	Rate	Rate of taxes are different at range of income.	Rate of duties are varying with the type of commodity & Service
5.	Distribution of Revenue	Entire revenue goes to Central Government of India.	Revenue goes to Central Government of India, State Government and Union Territories.

6.	Previous year	Previous year income assessed in the assessment year	There is no previous year and assessment year concept
7.	Monitored	Monitored by Central Board of Direct Taxes (CBDT)	Monitored by Central Board of Indirect Taxes & Customs (CBIC)
8.	Occurrence	Direct taxes become payable after the benefit/ income reaches the tax payer	Indirect taxes are payable even before the goods/services reach the tax payer.
9.	Examples	Income tax, corporation tax are main sources of direct tax	Customs and GST are major indirect taxes in India.

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