Indian Tax System

Public Finance

Part 2

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Direct Tax

Levied on individuals and Organizations

The impact and incidence will fall on the same person

Shifting of tax is not possible

Indirect Tax

Are collected by the government on purchasing goods and services

The impact and incidence will fall on different persons

One can shift the tax to someone else

Income Tax

- Imposed on individuals in respect of the income or profits earned
- Progressive in nature
- The first income tax is generally attributed to Egypt
- In India, it was introduced in 1860

Effects of Income Tax

- the positive effect of tax rate cuts arises as lower tax rate raises the reward to working, saving and investing.

- However a tax cut also increases an individual’s income which means that individuals can maintain their lifestyle by working less, saving less and investing less.

- Tax cuts designed to target new economic activity and are not deficit financed are more likely to lead to economic growth

Corporate Tax

- Also called Corporation tax or company tax
- A direct tax imposed on the income or capital of entrepreneur
- A corporate income tax affects investment in two ways-
    - by reducing the funds available for re-investment
    - by reducing the incentive to expand

Tax Reforms: Goods and Services Tax (GST)

- Was introduced in 1st July, 2017
- Destination based consumption tax
- Petroleum products, alcoholic drinks and electricity are not taxed under GST
- Revenue earned from GST is shared equally on 50-50 basis between central and respective state governments

Thank You