

# **Impact, Shifting and Incidence of Tax**

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# Impact of Tax

- **Who bears the money burden of tax in the first instance?**
- **It refers to the point of original assessment**
- **It is on that person who pays the tax in the first instance**
- **It is the immediate money burden of tax**



# Shifting of Tax

- **Is it possible to transfer the money burden of tax to some one else ?**
- **The person who bears the immediate burden need not continue to bear the burden.**
- **He will try to transfer the burden to others i.e. shift the tax**
- **If he is able to transfer the tax burden to some one else, then shifting of tax has taken place**



# Incidence of Tax

- **Who ultimately bears the money burden of tax?**
- **Shifting ends in incidence**
- **Incidence is the ultimate money burden of tax**
- **The person who bears the tax burden in the first instance need not be the person who ultimately bears it**

# Example of these three situations

- **An excise tax is levied on cloth.**
- **The impact is on the manufacturer who pays the tax to tax authority**
- **If he is able to transfer the burden to wholesaler by raising the price, tax shifting has taken place**
- **The wholesaler may be able to shift the money burden to the retailer**
- **The retailer may pass on the burden to the consumer**
- **The consumer may become the ultimate bearer of tax, incidence will be on him**



# Forward Tax Shifting

- **It indicates shifting of tax burden by the seller to the ultimate consumer**
- **He can do this by changing the price of the commodity taxed**
- **If the seller is able to pass the burden to the buyer by raising its price, he has shifted the tax forward**
- **Partial and total forward tax shifting**



# Backward Tax Shifting

- **Tax burden is shifted from buyer to seller**
- **In labour market, the producer is the buyer who demands factors of production like land, labour, capital and organization**
- **If the producer is unable to shift the tax forward to the consumer, he may try backward shifting by reducing rewards of factors of production**
- **Thus a buyer of factors of production, say labour, through wage cut, can shift the tax backward to the labour factor**



**Thank You**