CHAPTER : Taxation System

Tax : It is the compulsory payment which is paid by individual and company to the government.

why government imposes tax ?

(i) To generate revenue.

(ii) for economic growth and economic develo-pment.

(iii) for controlling import and export.

(iv) for equal distribution of income.

(v) for controlling inflation in the economy.

Incidence of tax	Impact of tax
Imposition or levy of taxes.	payment of taxes.

Two types of taxes :

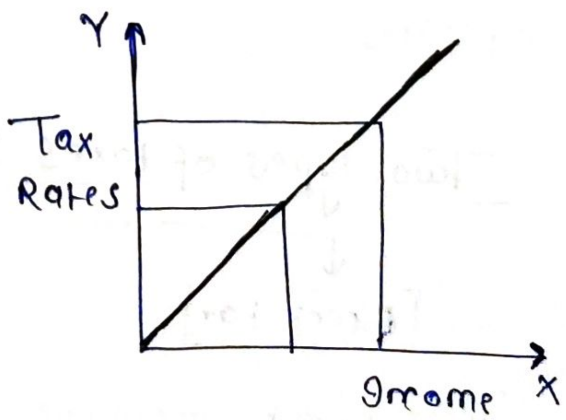
Direct tax	Indirect tax
It is paid by the same individual on which it is levy.	It is levy on some-one but partially or wholly paid by some-one.

Incidence and Impact borne by same individual.	Incidence and Impact borne by different individuals.
The burden cannot be shifted from one person to another.	The burden of taxes can be shifted from one person to another.
These are imposed on individuals or companies	These are imposed on goods and services.
Ex: Income tax and corporate tax	Ex: GST

Taxation System

progressive Taxation system

- more income more tax, less income less tax.
- more burden on rich and less buden on poor. i.e it is a poor favourable taxation system.
- Generally, all the direct taxes are progressive in nature.

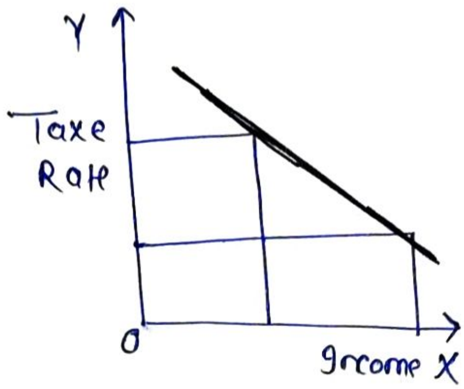


Regressive Taxation system :

* more income less tax and less income more tax.

* more burden on poor and less burden on rich. i.e. it favours rich people.

* Generally all the indirect taxes are regressive in nature.



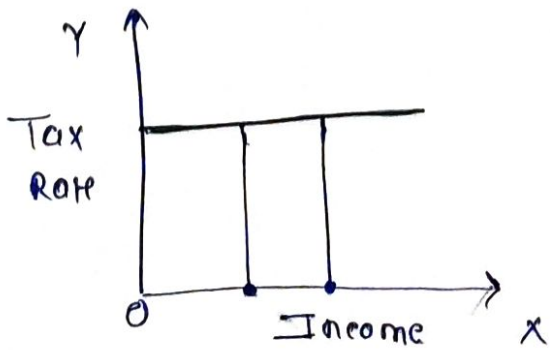
Proportional Taxation system :

* Either the income is more or less tax rate would be same.

* It is not an independent taxation system in any country because —

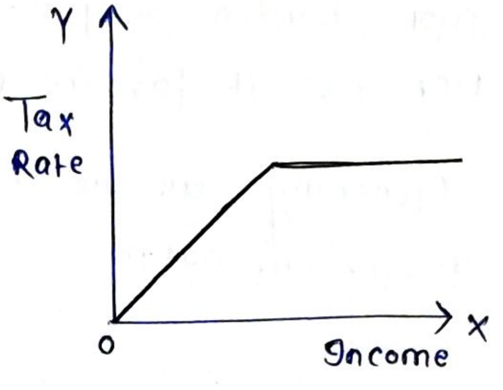
  * after reaching a certain limit the direct taxes became proportional in nature.

  * indirect taxes are by default proportional in nature.



Degressive Taxation system

* Initially, it is progressive in nature but later on it converted into proportional.



Taxes in India

Central government

Direct tax

1. Income tax
2. Corporate tax
3. Capital gain tax
4. Wealth tax
5. Gift tax
6. Dividend distribution tax
7. Fringe benefit tax
8. Security transaction tax
9. Minimum alternate tax
10. Global minimum tax

Indirect tax

1. Central excise duty.
2. Custom duty.
3. Countervailing tax
4. Anti-dumping duty
5. Service tax
6. Central sales tax

State government

Direct tax

1. Agricultural Income tax
2. Professional tax
3. Land revenue.

Indirect tax

1. State excise duty.
2. Electricity tax
3. Entertainment tax
4. Value added tax

GST

Central Government Direct tax

Income Tax

1. **Income Tax slab :**

Old tax reigm :

upto. 2,50,000 → Nil

2,50,001 - 3,00,000 → 5 %

3,00001 - 5,00000 → 5 %

5,00,000 - 10,00,000 → 20 %

Above 10,00,001 → 30 %

New tax reigm :

upto 3 lac → Nil

3 - 6 lac → 5 %

6 - 9 lac → 10 %

9 - 12 lac → 15 %

12 - 15 lac → 20 %

above 15 lac → 30 %

* In India the Income tax is imposed as per the Income tax Act, 1961.

Taxable amount : The amount on which tax has to be paid

Tax Amount : The amount which we pay as tax.

Tax Reduction :

- There are different provision in Income tax Act, 1961 and by using tax deduction we can reduce tax. taxable income

- Example : Section 80(C)

  Includes :

  - NSC
  - Tution fee
  - PF
  - FD of 5year and more in bank
  - Life insurance
  - Sukanya Samridhi Yojana etc.

Standard deduction :

Tax exempted on travelling and medical allowances → 50000.

Tax Rebate :

- upto a particular income people need not to pay any tax.

- As per budget 2023-24, tax Rebate is upto ₹ 25,000.

Tax avoidance :

Not paying taxes legally

Tax Evasion :

Not paying taxes illegaly.

Cess

- It is tax on tax
- paid by everyone.
- It is imposed by any particular name.

Health and education cess : 4 %

Surcharge

- Tax on tax
- It is paid by those person who earn income upto a particular level upto 50 lacs or more
- Not imposed with any particular name
- current surcharge in India

₹ 50L - ₹ 1cr : 10%.

₹ 1cr - 2cr : 15 %.

above 2cr : 25%.

Note : Budget 2023-24 maximum limit of sur-charge is 25%., earlier it was 37 %.

Old Tax slab

₹ 25 lakh - 50,000
- 1,50,000
- 1,00,000

22,00,000

0 — 2.5 — 5 — 10 — 22 — 25 lakh

NILL

2.5 × 5%
⇒ 12,500

5 × 20%
⇒ 100000

12 × 30%
⇒ 3,60,000

₹ 4,72,500

⇓

Tax (4% Health and educational cess)

New Tax slab

₹ 25 lakh - 50,000 (SD)

24,50,000

0 — 3 — 6 — 9 — 12 — 24.5 — 25

NILL

3 × 5%
15,000

3 × 10%
30,000

3 × 15%
45,000

3 × 20%
60,000

9.5 × 30%
28,5000

₹ 4,35,000/-

Corporate tax :

It is a tax which is imposed on the net income of the company. that is profit

* currently it is :-
    - for old companies (more than one year) → ~~22%~~ 22%. (earlier it was 30%)
    - for new companies (Less than one year) → 15%. (earlier it was 25%.)

Capital gain Tax :

* Capital gains means the income earned by investing money on lands, golds, shares etc.

* capital gains capital is of two type :-
    - ⓐ Short term capital gain
    - ⓑ Long term capital gain

$\boxed{\text{Shares}}$
→ Short term capital gain - Less than 12 month
→ Long term capital gain - more than 12 month

$\boxed{\text{Immovable Asset (Land)}}$
→ Short term capital gain - Less than 24 month
→ Long term capital gain - more than 24 month

Movable Assets (gold) → Short term capital gain - Less than 36 month
→ Long term capital gain - more than 36 month

Securities Transction Tax

- It is imposed on the transction of buying and selling of securities like share, debantures bond etc.
- It was introduced in 2004.

Dividend Distribution Tax

- when a country distributes dividend then it needs to pay this tax.
- In 2020 it has been abolished and it was 15%.

Minimum Alternate Tax

- Introduced in 1997 - 98.
- It is imposed on those companies which shows 0 profit.
- Currently it is 15%. (earlier it was 18.5%)

Global minimum Tax

- Announced by $\boxed{\text{OECD}}$ in Oct 2021
  ⇓
  organisation for economic cooperation Development.
- currently, it has been aggreed by approx 136 countries.

* It is proposed at the rate of 15%.

Fringe Benefit Tax

* Introduced in 2005.
* It is imposed on the employer when he/she provides fringe benefits like home, car, mobile phoes, laptops etc to the employee.
* It was abolished in 2009, and it was at the rate of 30%.

Wealth Tax

* It was governed under wealth Tax Act, 1957.
* It was imposed on the wealth of the individual
* In 2016 it was abolished for temporary period of time

Central Government Indirect Tax

Central excise duty

* It is a kind of specific tax beacuse it is imposed on size, quantity, weight, shape etc of

Custom duty

* It is imposed on the export and import of any commodity.

Note: usually the government impose tax on import and called import duty but unsually government also impose tax on export

Countervailing Duty (CVD)

* It is imposed by government on those commodities which gets subsidy by the government of originating country.

Anti - Dumping Duty

* when the company of any country stopped selling the product in his own country or selling at higher prices and sells the same product in another country at lowered price is called dumping.

* when the government in collobration with WTO imposes duty on dumb product is called anti-dumping duty.

Service tax

* It was imposed on the service provided by the Company

Central sales tax

* when we buy commodity in one state and sales the same commodity in another state

State Government Direct Tax

Agricultural Income Tax

* It is imposed on the income generated after selling agricultural product by the farmer.

Note: As it is given in the state list of the Indian constitution here, it depend on the state government either they are imposing or not.

Land Revenue

- It is imposed on the sizes of agricultural land.

Proffesional Tax

- It is imposed on proffesionals like doctor, lawyer etc and collected by respective state government.

State government indirect tax

State excise duty

- It is imposed on the production of alcohol, Narcotics, petroleum, pharmaceuticles, toiletries etc.

Value added Tax

- It is imposed on the intra state trade, i.e., when we buy and sell the commodity in same state.
- Earlier it was called sales tax.

Equalisation levy → (By Akhil Ranjan committee)

Equalisation 1.0

- Finance Bill, 2016
- It is imposed on those foreign company which provide digital advertisment services
- Ex: FaceBook, Twitter, google etc.
- Also called google tax
- At the rate of 6 %.
- It is imposed on those companies which have total bill of more than 1 lakh.

Equalisation 2.0

- Financial Bill, 2020
- It is imposed on those foreign company which sells their good to the Indian people

Ex: Amazon, Alibaba etc

- Also called Amazon tax
- At the rate of 2 %.
- It is imposed on those companies which have annual turnover of 2 crore.

Direct Tax

(i) Regulating authority:
CBDT
(Central Board of Direct Taxes)

(ii) For solving disputes:
Vivad se viswas Tax

Indirect Tax

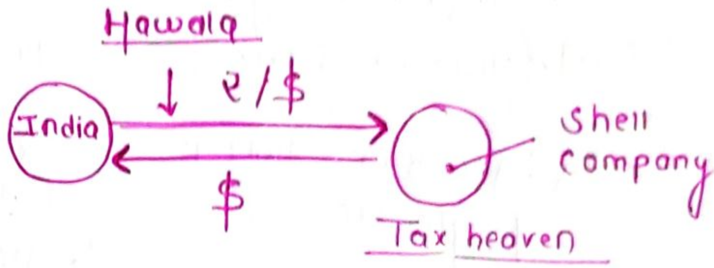
(i) Regulating authority:
CBIC
(Central Board of Indirect Taxes and customs)

(ii) For solving dispute:
Sbka viswas scheme

Round Tripping

- when a company transfers money from one country to another on establishes a company in another country and invests the same money back in the origin country.

- Generally, the money sent to tax heaven country.



Double Taxation Avoidance Agreement

- It is a type of tax related agremeent between one country and another.

- under this if any individual or company paid tax in any country and from which if we signed DTA then need not to pay tax on same money in another country.

- currently India signed DTA with 88 countries and out of them in 86 are in operational.

General Anti-Avoidance Rule (GAAR)

- Introduced in Budget 2012-13.

- It came into effect from 1 April 2017.

- It is used to curve tax evasion under DTA.

- under this the IT commissioner can also send notice for those deals which occured outside the country

- under this Indian citizen, NRI, foreign countries etc can get the notice.

- It is also imposed on retrospective deals mean those deals which happed before GAAR.

- under this the IT commissioner have to take decision within 12 month.

- The liability of proving not guilty is on the company not on IT commissioner.

- If the company is not satisfied with GAAR decision then can reach to dispute resolution panel (DRP) then Income Tax Appellate Tribunal (ITAT) then High court and finally supreme court.

Border Adjustment Tax

- Suggested by NITI Aayog.
- would be imposed on all exports.
- After imposing BAT on those goods which are importing at cheaper prices then Indian company's product will be able to compete with foreign product.

GST

- GST is an new indirect tax in India and which has implemented by abolishing all the indirect taxes ~~by ab~~ - except —

  (A) crude oil
  (B) petrol
  (C) disel
  (d) crude oil
  (e) Aveation turbine fuel
  (F) Alcohol
  (g) electricity
  (h) Tobacco etc.

- GST is an destination based consumption tax.

- It is an ad - valorem tax i.e it is imposed on value added.

- GST elemenate caseading effect.

- GST is an one nation one tax.

- In GST there is an input tax credit mecha -nism.

- GST introduced by 122nd CAB.
- for GST 101st CAA enacted.

GST and constitution

- for GST 101st CAA enacted and with this act the following constitution amendment took place

ⓐ Article 366 (12 A) : GST is defined in this article.

ⓑ Article 246 (A) : This article is related with Law making power of GST.

- for CGST and SGST the law making power held with both centre and state.

- for IGST the centre has exclusive right for law making.

ⓒ Article 269 (A) : Related with IGST.

- for IGST centre is responsible for imposition and collection. but the collected revenu divides between both centre and state.

ⓓ Article 279 (A) : GST council

GST council

- This body is responsible for deciding GST rates in India.

- members :
  (i) chairman : finance minister
  (ii) minister of state finance.
  (iii) finance minister or tax minister of each state nominated by cm.

- ⓐ state government → 2/3rd voting right
- central government → 1/3rd voting right.

Notes : If the ~~majority~~ 75 % of the majority is in favour then the rate would be Changed.

GST → Dual nature

- Central government
- State government

Intra-state trade → CGST

Inter-state trade → IGST

- GST Rate : 5 %, 12 %, 18 %, 28 %
- Gold Jewellary : 3 %
- precious stones ;
- In the GST following taxes have been subsum -ed. :
  - (i) CGST → central excise duty, Additional duty on excise, service tax etc
  - (ii) SGST → VAT, purchase tax, luxary tax, octra duty etc.
  - (iii) IGST → CST, countervailing duty etc.

finance Commission

- Established on 22 nov 1951
- It is a constitutional body (Article 280)
- formed by president for 5 year.

- finance commission gave recommendation to the president.

- The recommendations make by the finance commissions are not binding on the government.

- first finance commission → 1952-57
  Chairman → KC Neogi

- current finance commission → 15th (2021-26)
  Chairman → NK singh

  14th finance commission → 2015-20
  chairman → Yv Reddy.

  13nt finance commission → 2010-15
  chairman → vijay L kelkar

  12th finance commission → 2005-10
  Chairman → C Rangrajan

- members of 15th finance commission
  (i) chairman : NK singh
  (ii) 4 other members:
    (a) Ajay Narayan Jha
    (b) Anup singh
    (c) Ashok Lahiri
    (d) Ramesh Chand
  (iii) secretary : Arvind mehta.

- finance commission divides revenue between centre and state.

* finance commission has two modes of devolution

(i) Vertical devolution :-

As per this devolution finance commission divides revenue centre to state and i.e 41 % and 1 % to Jammu and kashmir, Ladakh.

(ii) Horizontal devolution :-

under this the revenue is divided among states.

14th finance commission	15th finance commission
(i) Income distance - 50 %.	(i) Tax effort - 2.5 %.
(ii) forest and ecology - 7.5 %.	(ii) Demographic performance :
(iii) Area - 15 %.	
(iv) population - 27.5 %.	