

## Study notes for Economics topic Taxation

Today blog will be dealing with Tax & its types, Direct & Indirect taxes, GST, Revenue Authorities. Firstly let's know what tax exactly means.

What is tax?

In layman's terms, a tax is any payment on behalf of the individual to the government for certain services. Taxes are the primary source of revenue for most governments. It is a mechanism to establish income equity and modify consumption decisions.

Now, broadly speaking, **there are three types of taxes:**

## 1. Proportional tax

It imposes the same percentage of taxation on everyone, regardless of income. It means if the rate is set at 5%, then a person earning Rs 1000 will pay 5% of Rs 1000 = Rs 50 in taxes, and a person earning Rs 1000000 will pay 5% of Rs 1000000 = Rs 50000 in taxes. If a person's income goes up the percentage of total income paid in taxes doesn't change.

## 2. Progressive tax

It imposes a higher percentage rate of taxation on those with higher incomes. For example, 5% tax for people earning Rs 100000 and 10% tax on people earning Rs 1000000. The percentage of income paid in taxes increases as income goes up.

## 3. Regressive tax

It imposes a higher percentage rate of taxation on low incomes than on high incomes. For example, if a middle-class person and a billionaire dine out, everyone has to pay the same GST on dining out. The lower income would pay a greater percentage of their total income in sales tax.

Some of the common taxes are:

- Income Tax: A percentage of individual earnings filed to the government.
- Corporate Tax: A percentage of corporate profits taken as tax.
- Sales Tax: Taxes levied on goods and services
- Property Tax: Tax based on the value of land and property.
- Tariff: Taxes on imported goods.

## Direct and indirect taxes

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No.	Direct Tax	Indirect tax
1	Tax on the income of the wage earner.	It is not taken from wages. It is a tax placed on goods and services.
2	This is avoidable, many people hide their income and many are not on the payroll.	This is unavoidable. Whatever payment you make for a good includes an indirect tax.
3	Ex: Income tax, Corporate tax	Ex: GST
4	It is progressive in nature.	It is regressive in nature.

## GST in India : Important points

1. The first country to implement GST is France.
2. In India, it was implemented on 1 July 2017.
3. It is the 101st Constitutional Amendment.
4. The major components are: CGST: levied by centre, SGST: levied by states, IGST: levied on interstate supply of goods and services, collected by the centre and distributed among states and centres.
5. Tax slabs are decided as 0%, 5%, 12%, 18%, and 28% along with categories of exempt and zero-rated goods for different types of goods and services.
6. Taxation for certain items such as Alcohol, Tobacco etc. is still not under the GST domain.

## Revenue authorities

**CBDT:** The Central Board of Direct Taxes provides inputs for policy and planning of direct taxes in India and is also responsible for the administration of direct tax laws through the Income Tax Department.

**CBIC:** The Central Board of Indirect Taxes & Customs supervises the work of all its field formations and directorates and assists the government in policy making in relation to GST, continuing central excise levy and customs functions.

**Ad Valorem tax:** It is a tax based on the assessed value of an item. The most common ad valorem taxes are property taxes levied on real estate.

This was all about taxation topic in economy section. Hope you learned well.