

TAXATION

3rd SEMESTER

TOPIC:

**TAXATION IN INDIA
AN OVERVIEW**

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TAX

DEFINITION:

Tax is one of the most important sources of revenue to every government. In the earlier days, payment of taxes was optional. A choice was given to the people to pay the tax and to avail the benefit of social amenities in the form of education, health and sanitation, utilities and recreation facilities. Naturally, everyone interested in availing social amenities used to evaluate the benefit derived by him in exchange for the tax to be paid by him.

But the option in the payment of tax created lot of problems for the government in fulfilling their obligations to society. Hence, in modern times, option was withdrawn and tax became a compulsory contribution by every citizen to the government to enable the government to fulfill its commitments towards society.

Every Government imposes two kinds of taxes:

- (1) Direct taxes, and
- (2) Indirect taxes

A tax, in the modern times, therefore is a compulsory levy and those who are taxed have to pay the sums irrespective of corresponding return of services or goods by the government. It is not a price paid by the tax-payer for any definite service rendered or a commodity supplied by the government.

The tax-payers do get many benefits from the government but no tax-payer has a right to any benefit from the public expenditure on the ground that he is paying a tax. The benefits of public expenditure may go to anyone irrespective of the taxes paid. Therefore, we may say that taxes are compulsory payments to government without expectation of direct return or benefit to the tax-payer.

Objectives of Taxation

Initially, governments impose taxes for three basic purposes: to cover the cost of administration, maintaining law and order in the country and for defense. But now government's expenditure pattern changed and gives service to the public more than these three basic purpose and it restore social justice in the society by providing social services such as public health, employment, pension, housing, sanitation and other public services.

Therefore, governments need much amount of revenue than before. To generate more revenue a government imposes taxes on various types. In general objective of taxations are:

1. Raising revenue: to render various economic and social activities, a government needs large amount of revenue and to meet this government imposes various types of taxes.

2. Removal of inequalities in income and

wealth: government adopts progressive tax system and stressed on canon of equality to remove inequalities in income and wealth of the people.

3. Ensuring economic stability: taxation affects the general level of consumption and production. Hence, it can be used as effective tool for achieving economic stability. Governments use taxation to control inflation and deflation

4. *Reduction in regional imbalances:* If there is regional imbalance within the country, governments can use taxation to remove such imbalance by tax exemptions and tax concessions to investors who made investment in under developed regions.

5. *Capital accumulation:*

Tax concession or tax rebates given for savings or investment in provident funds, life insurance, investment in shares and debentures lead to large amount of capital accumulation, which is essential for the promotion of industrial development.

6. Creation of employment opportunities:

Governments might minimize unemployment in the country by giving tax concession or exemptions to small entrepreneurs and labor intensive industries.

7. Preventing harmful consumptions:

Government can reduce harmful things on the society by levying heavy excise tax on cigarettes, alcohols and other products, which worsen people's health.

8. Beneficial diversion of resources:

Governments impose heavy tax on non-essential and luxury goods to discourage producers of such goods and give tax rate reduction or exemption on most essential goods. This diverts producer's attention and enables the country to utilize the limited resources for production of essential goods only.

9. Encouragement of exports:

Governments enhance foreign exchange requirement through export-oriented strategy.

These provide a certain tax exemption for those exporters and encourage them with arranging a free trade zones and by making a bilateral and multilateral agreement

10. Enhancement of standard of living:

The government also increases the living standard of people by giving tax concessions to certain essential goods.

Characteristics of a Good Tax System

(1) Tax is a Compulsory Contribution

A tax is a compulsory payment from the person to the Government without expectation of any direct return. Every person has to pay direct as well as indirect taxes. As it is a compulsory contribution, no one can refuse to pay a tax on the ground that he or she does not get any benefit from certain public services the government provides.

(2) The Assesses will be required to pay Tax if is due from him

No one can be forced by any authority to pay tax, if it is not due from him. Suppose, if there is a tax on liquor, the state can force an individual to pay the tax only when he drinks liquor. But, if he does not drink liquor, he cannot be forced to pay the tax on liquor. Similarly, if an individual's income is below the exemption limit, he cannot be forced to pay tax on income.

For example individuals earning monthly salary below birr 150 cannot be forced to pay tax on income.

(3) Taxes are levied by the Government

No one has the right to impose taxes. Only the government has the right to impose taxes and to collect tax proceeds from the people.

(4) Common Benefits to All

The tax, so collected by the Government, is spent for the common benefit of all the people. In other words, when the government collects a tax, its proceeds are spent to extend common benefits to all the people.

The Government incurs expenditure on the defense of the country, on maintenance of law and order, provision of social services such as education, health etc. Such benefits are given to all the people- whether they are tax-payers or non-taxpayers. These benefits satisfy social wants. But the Government also spends on subsidies to satisfy merit wants of poor people.

(5) No Direct Benefit

In the modern times, there is no direct relationship between the payment of tax and direct benefits. In other words, there is absence of any benefit for taxes paid to the Governmental authorities.

The government compulsorily collects all types of taxes and does not give any direct benefit to taxpayers for taxes paid. For example, when taxable income is earned by an individual or a corporation, he or it simply pays the tax amount at the specified rate cannot demand any benefit against such payment.

(6) Certain Taxes Levied for Specific Objectives

Though taxes are imposed for collecting revenue for the government to meet expenditure on social wants and merit wants, certain taxes are imposed to achieve specific objectives.

For example, heavy taxes are imposed on luxury goods to reduce their consumption so that resources are directed to the production of essential goods, such as cheaper variety of cloth, less costly goods of mass consumption, etc. Thus, taxes are levied not only to earn revenue but also for diversion of resources or saving foreign exchange. Certain taxes are imposed to reduce inequalities of income and wealth.

(7) Attitude of the Tax-Payers

The attitude of the tax-payers is an important variable determining the contents of a good tax system. It may be assumed that each tax-payer would like to be exempted from taxpaying, while he would not mind if other bears that burden. In any case, he would want his share to be within the general level of tax burden being borne by others. In other words, it is essential that a good tax system should appear equitable to the tax-payers. Similarly, overall burden of the tax system is of equal importance.

The attitudes of the tax-payers in this regard are influenced by a host of other factors like the political situation such as war or peace, natural calamities like floods and droughts, economic situations like prosperity or depression and so on.

(8) Good tax system should be in harmony with national objectives

A good tax system should run in harmony with important national objectives and if possible should assist the society in achieving them.

It should try to accommodate the attitude and problems of tax payers and should also take into consideration the goals of social and economic justice.

It should also yield adequate revenue for the treasury and should be flexible enough to move with the changing requirements of the State and the economy.

(9) Tax-system recognizes basic rights of tax-payers

A good tax system recognizes the basic rights of the tax-payers.

The tax-payer is expected to pay his taxes but not undergo harassment. In other words, the tax law should be simple in language and the tax liability should be determined with certainty.

The mode and timings of payment should be convenient to the tax-payer. At the same time, a tax system should be equitable between tax-payers. It should be progressive and burden of taxation should be equitable on all the tax-payers.

THANK YOU