TAXATION

3rd SEMESTER

TOPIC:

Blanket Rate Method – Slab Rate Method – Surcharge – Cess

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Tax Evasion, Tax Avoidance and Flat Rate of Tax

Tax Evasion

Tax evasion is the general term for efforts by individuals, firms, and other entities to evade the payment of taxes by breaking the law.

Tax evasion means fraudulent action on the part of the taxpayer with a view to violate civil and criminal provisions of the tax laws. It can be defined as "tax evasion implies the activities involving an element of deceit, mis-representation of facts, and falsification of accounts including downright fraud".

Thus, it may be said that the tax evasion is tax avoidance by illegal means i.e. tax evasion is against the law and is an unsocial act.

There are two forms of tax evasion. They are as follows:

- 1. Suppression of income, and
- 2. Inflation of expenditure.

Examples for Tax Evasion: The following are the examples for tax evasion:

1. A trader makes a sale for Birr.20, 000 and does not account it, in his books under sales. He is evading tax.
2. An individual lends his money of Birr.50, 000 to another person at 20% interest per annum and does not include this income in his total income.
3. Under-invoicing of sales and inflation of purchases.

4. A manufacturing business employs 30 workers but include 2 more additional namesake workers (not in actual) in the muster roles. The sum shown as paid to such additional namesake workers will amount to evasion.

Human intelligence devices new methods of evasion and the Governments are constantly trying to remove the loopholes in the tax laws.

Causes of tax evasion

High rates of taxation;- Prevalence of high tax rates is the first and foremost reason.

Complexity of tax laws;- Complicated tax laws are another reason for tax evasion. The tax laws contain a number of exemptions, deductions, rebates, relief, surcharges and so on. So, such complication in tax-laws is also a root-cause for the tax evasion.

Inadequate Information as to Sources of Tax Revenue:-Lack of adequate information as to the sources of revenue also contributes to tax evasions. In Ethiopia, small businessmen and farmers rarely maintain any accounts of their income.

Lack of publicity;-Lack of publicity of information of a person's return or assessment, is yet another reasons for tax evasion.

- Moral and Psychological factors;- moral and psychological factors have also been pointed out as responsible for tax evasion. Every person should realize his responsibility towards the govt.
- Unfortunately, all citizens do not realize their duties to the govt. and the necessity of paying the correct amount of taxes and paying them in time.

Officers of the department should be men of integrity;- Lack of integrity in some of the officers of the department is also responsible for tax evasion.

FLAT RATE OF TAX

Definition: A flat tax, also called a proportional tax, is an income tax that enacts a constant proportional rate to all taxpayers regardless of income. In other words, all taxpayers would pay the same percentage of their income to the government irrespective of their total earnings.

Meaning:-

The concept of a flat tax rate has been discussed as an option for the US tax code for many years it's an appealing and intriguing concept because it does away with the unfair and disproportionate progressive tax system that we have today.

Under a flat system each taxpayer would pay the rate of tax on all of their income. There wouldn’t be an incremental income bracket system. It simplifies all of the current brackets down to one.

Many leading economists, financiers, and political figures view this system as a fairer taxing policy than the current one.

Many also believe that a flat taxing system would be easier to comply with and more equitable for taxpayers.

The main argument against this system is that it disproportionately burdens the poor because they have less disposable income to pay the same rate at the rich.

TAX PLANNING

Tax planning is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief. In other words, it is a way to reduce tax liability by applying script & moral of law. It is the scientific planning so as to attract minimum tax liability or postponement of tax liability for the subsequent period by availing various incentives, concessions, allowance, rebates and relief provided in the Act.

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.

Budget 2020 has proposed to introduce new income tax slabs with reduced rates for those foregoing 70 tax exemptions and deductions under a "simplified tax regime".

This new system is optional and will co-exist with the old one with three slabs and various exemptions and deductions available to the taxpayer.

As per the budget proposals, if a taxpayer opts for the new regime, then his income will be taxed as per the following tax slabs:

TAX RATES IN INDIA

Total income (Rs)	Income tax rate
Up to 2.5 Lakh	Nill
From 2,50,001 to Rs 5,00,000	5 percent
From 5,00,001 to Rs 7,50,000	10 percent
From 7,50,001 to 10,00,000	15 percent
From 10,00,001 to Rs 12,50,000	20 percent
From 12,50,001 to 15,00,000	25 percent
Above 15,00,000	30 percent

Individuals with a net taxable income of up to Rs 5 lakh will be able to avail tax rebate of Rs 12,500 under section 87A in both, the existing and new, tax regimes. Effectively, this would mean that individual taxpayers having net taxable income of up to Rs 5 lakh will continue to pay zero tax.

However, individuals opting for the new tax regime would not be able to avail common tax breaks such deductions under section 80C for maximum of Rs 1.5 lakh by investing in specified instruments, s ..

Given below are the three tables for the alternative

Income Tax Slabs:

1. Income Tax Slab for Individual who are below 60 years:

Income Tax slab	Tax Rate
Up to Rs.2.5 lakh	Nil
From Rs.2,50,001 to Rs.5,00,000	5% of the total income that is more than Rs.2.5 lakh + 4% cess
From Rs.5,00,001 to Rs.10,00,000	20% of the total income that is more than Rs.5 lakh + Rs.12,500 + 4% cess
Income of above Rs.10 lakh	30% of the total income that is more than Rs.10 lakh + Rs.1,12,500 + 4% cess

2. Income Tax Slab between 60-80 years:

Income Tax slabs	Tax Rate
Up to Rs.3 lakh	Nil
From Rs.3,00,001 to Rs.5,00,000	5% of the total income that is more than Rs.3 lakh + 4% cess
From Rs.5,00,001 to Rs.10,00,000	20% of the total income that is more than Rs.5 lakh + Rs.10,500 + 4% cess
Income of above Rs.10 lakh	30% of the total income that is more than Rs.10 lakh + Rs.1,10,000 + 4% cess

3. Income Tax Slabs for individual above 80 years:

Income Tax slabs	Tax Rate
Up to Rs.5 lakh	Nil
From Rs.5,00,001 to Rs.10,00,000	20% of the total income that is more than Rs.5 lakh + 4% cess
Above Rs.10 lakh	30% of the total income that is more than Rs.10 lakh + Rs.1,00,000 + 4% cess

Cess: 4% of corporate tax

Surcharge: In case the taxable income is more than Rs.1 crore but less than Rs.10 crore, the surcharge that will be levied is 7%. In case the taxable income is more than Rs.10 crore, the surcharge that will be levied is 12%.

IMPORTANT POINTS:

1. Non-resident Indians: For non-resident Indians, irrespective of their age, the exemption limit is up to Rs.2.5 lakh.

In case your net income is more than Rs.50 lakh but less than Rs.1 crore, apart from a 4% cess, a 10% surcharge is also levied. If the net is above Rs.1 crore, a 15% surcharge is levied.

2. Compared to last year's budget, cess has increased from 3% to 4%.

BLANKET RATE METHOD

A blanket rate is a single rate that is applied to a number of different insurance products or offerings. For example, a property insurance company may offer a blanket rate to a chain restaurant for coverage of all of its properties in a certain area.

Offering a blanket rate can make the underwriting process simpler when multiple properties are involved.

Income Tax Slab?

Indian Income Tax System follows Income Tax slabs for levying the tax on the income of an individual or non-individual. Various slabs are accounted for.

In India, the income tax is charged on the income earned. This tax applies to the range of income, which is called Income Tax Slabs. The slabs of income tax keep changing from year to year

The Finance Minister announces the slab rates of Income Tax in the Union Budget each year. The Income Tax Slabs can be categorized into four slabs,

- Income is chargeable to Nil rate of Tax;
- Income is chargeable to 10%;
- Income is chargeable to 20%; and
- Income is chargeable to 30%.

Surcharge (EC) and secondary and higher secondary education cess (SHEC) are also charged over and above the tax

CESS

Cess /sɛs/ is a tax. The term is a shortened form of "assess". The spelling is due to a mistaken connection with *census*. It was the official term used in Ireland when it was part of the United Kingdom of Great Britain and Ireland, but has been superseded by "rate".

The term was formerly particularly applied to local taxation. In colonial India it was applied, with a qualifying prefix, to any taxation, such as irrigation-cess, educational-cess, and the like. They are collectively referred to as "cesses" in government censuses, e.g. "land revenue and cesses".

SURCHARGE

A surcharge is a fee, charge, or tax added to the cost of a good or service. A surcharge is typically added to an existing tax and may not be included in the stated price of the good or service. It may be a temporary measure to defray the cost of increased commodity pricing, such as with a fuel surcharge, or it may be permanent.

THANK YOU