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Paper- 4
Topic- Types of Tax
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Meaning of TAX:

Tax is a compulsory payment to be made by every resident of India. It is a charge or burden laid upon persons or the property for the support of a Government. Government decided the rates and the items on which tax will be charged, like income tax, GST, etc

Tax can be defined in very simple words **as the government's revenue or source of income**. The money collected under the taxation system is put into use for the country's development through several projects and schemes.

TYPES OF TAXES:

There are four ways to classify different types of taxes in India:

1. Taxes Levied by the Central Government and State Governments
2. On the Basis of Relationship between Tax Base and Tax Rates
3. On the Basis of Method of Assessment
4. On the Basis of Incidence and Impact of Taxes

TYPES OF TAXES:

1. Taxes Levied by the Central Government and State Governments

- **By the Central Government:** These include Income taxes, GST, Customs duties, Corporation taxes, Excise duties, Estate duty and more
- **By the State Government:** These include State GST, Excise on Liquor, VAT(value Added Tax) on Petrol & Diesel, Tax on Agricultural Income, land revenues, tolls and more.
- **By the Local Civic Bodies:** Municipal corporations and other local governing bodies collect taxes like property taxes, Water Taxes, etc.

2. On the Basis of Relationship between Tax Base and Tax Rates:

On this basis the Taxes are classified into Four types, such as:

- **Proportional Tax:** A proportional tax, also referred to as a flat tax, impacts low-, middle-, and high-income earners relatively equally. They all pay the same tax rate, regardless of income. Taxes which vary in direct proportion to the change in Tax Bases. The Tax base could be income, Value of Goods and Value of Wealth or Property.

Example: Wealth Tax and Sales Tax.

- **Progressive Taxes:** A progressive tax has more of a financial impact on higher-income individuals and businesses than on low-income earners. That means A progressive tax imposes a greater percentage of taxation on higher income levels, operating on the theory that high-income earners can afford to pay more.
- **Regressive Taxes:** Low-income individuals pay a higher amount of their incomes in taxes compared to high-income earners under a regressive tax system because the government assesses tax as a percentage of the value of the asset that a taxpayer purchases or owns. This type of tax has no correlation with an individual's earnings or income level.

Example: Taxes on Goods & Services, Such as GST, Excise Duty, etc.

- **Digressive Taxes:** A tax is called Digressive when the rate of progression in taxation does not increase in the same proportion as the income increases. In this case, the rate of tax increases up to certain limit, after that a uniform rate is charged and become constant.

3. On the Basis of Method of Assessment

On this basis, taxes are classified into two types, Such as:

- **Specific Duty:** Taxes levied according to some unit of a product is called as Specific Duty. **For example**, Excise Duty on cigarettes are levied on the basis of length of the cigarettes.
- **Ad-Valorem Tax:** Taxes levied on the basis of value of the goods is called as **Ad-Valorem Duty**. It is generally expressed in percentage form.

4. On the Basis of Incidence and Impact of Taxes:

Before discussion on the types of taxes in this basis, you have to understand the meaning of two important terms, i.e. 'Incidence' and 'Impact' of Tax are as follows;

- **Incidence of Tax:** Incidence of Tax means the first burden of tax. Incidence of tax falls on a person on whom the tax levied for the first time. Incidence of tax can be shifted to another person.
- **Impact of Tax:** Impact of tax means the ultimate/final burden of tax. Impact of tax falls on the person who ultimately bears the burden of tax, i.e. the Consumer.

On the basis of incidence and impact of tax, a tax can be either, 'Direct Tax' or 'Indirect Tax'

On the Basis of Incidence and Impact of Taxes:

- **Direct Taxes:** The individuals directly pay these taxes to the respective governments. In this case the both Incidence and Impact will fall in a single person, i.e. an assessee. The most notable examples include Income tax, Capital gains tax, Corporate tax, Wealth Tax and Securities transaction tax.
- **Indirect Taxes:** These taxes are not directly paid to the governments but are collected by the intermediaries who sell or arrange products and services. In this case, the Incidence and impact of taxes will fall on two different persons. GST (Goods and Service Tax), Service tax, sales tax, octroi, customs duty, value-added tax, and excise duty, customs duty, are some of the top examples.