Mona
Assistant Professor (Guest Faculty)
Department of Economics
Maharaja College
Veer Kunwar Singh University,Ara
B.A. Economics
B.A. Part - 2
Paper-4
Topic - Direct and Indirect Tax
Email address: monapryal2223@gmail.com

Direct and Indirect Tax

The Government of India imposes two types of taxes on its citizens – **direct** and **indirect taxes.** Before we delve into the details of differences between the two taxes, let's quickly recap the two types of taxes:

Direct taxes: These taxes have to be paid directly to the government and cannot be transferred to anyone else. Different acts govern these taxes.

Indirect taxes: These taxes are imposed on all the goods and services, and not on income and profits. It is collected by a retail store or an intermediary from the consumer or one bearing the ultimate burden of the tax.

Some of the important direct taxes imposed in India are mentioned below:

Income Tax- It is imposed on an individual who falls under the different tax brackets based on their earning or revenue and they have to file an income tax return every year after which they will either need to pay the tax or be eligible for a tax refund.

Estate Tax– Also known as **Inheritance tax,** it is raised on an estate or the total value of money and property that an individual has left behind after their death.

Wealth Tax– Wealth tax is imposed on the value of the property that a person possesses. However, both Estate and Wealth taxes are now abolished.

Advantages of direct tax

Direct taxes do have a certain advantage for a country's social and economic growth. To name a few,

It curbs inflation: The Government often increases the tax rate when there is a monetary inflation which in turn reduces the demand for goods and services and as a result of descending demand, the inflation is bound to condense.

Social and economic balance: Based on every individual's earnings and overall economic situation, the Government has well-defined tax slabs and exemptions in place so that the income inequalities can be balanced out.

Disadvantage of direct tax

Direct taxes come with a handful of disadvantages. But, the very time-consuming procedures of filing tax returns is a taxing task itself.

Let's discuss a few indirect taxes that were earlier imposed in India:

Customs Duty- It is an Import duty levied on goods coming from outside the country, ultimately paid for by consumers and retailers in India.

Central Excise Duty– This tax was payable by the manufacturers who would then shift the tax burden to retailers and wholesalers.

Service Tax– It was imposed on the gross or aggregate amount charged by the service provider on the recipient.

Sales Tax– This tax was paid by the retailer, who would then shifts the tax burden to customers by charging sales tax on goods and service.

Value Added Tax (VAT)– It was collected on the value of goods or services that were added at each stage of their manufacture or distribution and then finally passed on to the customer.

GST (Goods and services tax) -
The tax came into effect from **1 July 2017** through the implementation of the One Hundred and First Amendment of the Constitution of India by the Indian government. The GST replaced existing multiple taxes levied by the central and state governments

With the implementation of GST, we have already witnessed a number of positive changes in the fiscal domain of India. The various taxes that were mandatory earlier are now obsolete, thanks to this new reformed indirect tax. Not just that, GST is making sure the slogan **"One Nation, One Tax**, **One Market"** becomes the reality of our country and not just a dream.

That said, with the dawning of the 'Goods & Services Tax (GST), the biggest relief so far is clearly the elimination of the **'cascading effect of tax'** or the **'tax on tax'** quandary.

Cascading effect of tax is a situation wherein the end-consumer of any goods or service has to bear the burden of the tax to be paid on the previously calculated tax and as a result would suffer an increased or inflated price.

Under the GST regime, however, the customer is exempted from the tax they would otherwise pay as a result of the cascading effect.

Advantages of indirect taxes:

1- Relative abundance of proceeds.

2- Lack of a sense of taxpayer and thus reduce tax evasion.

3- Gradual collection over the year and not associated with the end of the calendar year or financial.

4- Lower collection costs.

The disadvantages of indirect taxes :

1- Indirect taxes do not create civic awareness among senior taxpayers because a person who buys a commodity does not know that he pays taxes to the government.

2- Uneconomical because its cost is high.

3- unfair to some because the rich and the poor are buying goods at the same price.