Pinky Rani

Assistant Professor (Guest Faculty)

Department of Economics

Maharaja College

Veer Kunwar Singh University, Ara

B.A. Economics

B.A. Part-02

Paper-04

Topic:-Direct Tax

Introduction

Classes of taxes

Direct and indirect taxes

In the literature of public finance, taxes have been classified in various ways according to who pays for them, who bears the ultimate burden of them, the extent to which the burden can be shifted, and various other criteria. Taxes are most commonly classified as either direct or indirect, an example of the former type being the income tax and of the latter the sales tax. There is much disagreement among economists as to the criteria for distinguishing between direct and indirect taxes, and it is unclear into which category certain taxes, such as corporate income tax or property tax, should fall. It is usually said that a direct tax is one that cannot be shifted by the taxpayer to someone else, whereas an indirect tax can be.

Direct Tax

Direct taxes are primarily taxes on natural persons (e.g., individuals), and they are typically based on the taxpayer's ability to pay as measured by income, consumption, or net wealth. What follows is a description of the main types of direct taxes.

Individual income taxes are commonly levied on total personal net income of the taxpayer (which may be an individual, a couple, or a family) in excess of some stipulated minimum. They are also commonly adjusted to take into account the circumstances influencing the ability to pay, such as family status, number and age of children, and financial burdens resulting from illness. The taxes are often levied at graduated rates, meaning that the rates rise as income rises. Personal exemptions for the taxpayer and family can create a range of income that is subject to a tax rate of zero.

Taxes on net worth are levied on the total net worth of a person—that is, the value of his assets minus his liabilities. As with the income tax, the personal circumstances of the taxpayer can be taken into consideration.

Personal or direct taxes on consumption (also known as expenditure taxes or spending taxes) are essentially levied on all income that is not channeled into savings. In contrast to indirect taxes on spending, such as the sales tax, a direct consumption tax can be adjusted to an individual’s ability to pay by allowing for marital status, age, number of dependents, and so on. Although long attractive to theorists, this form of tax has been used in only two countries, India and Sri Lanka; both instances were brief and unsuccessful. Near the end of the 20th century, the “flat tax”—which achieves economic effects similar to those of the direct consumption tax by exempting most income from capital—came to be viewed favourably by tax experts. No country has adopted a tax with the base of the flat tax, although many have income taxes with only one rate.

Taxes at death take two forms: the inheritance tax, where the taxable object is the bequest received by the person inheriting, and the estate tax, where the object is the total estate left by the deceased.Inheritance taxes sometimes take into account the personal circumstances of the taxpayer, such as the taxpayer’s relationship to the donor and his net worth before receiving the bequest. Estate taxes, however, are generally graduated according to the size of the estate, and in some countries they provide tax-exempt transfers to the spouse and make an allowance for the number of heirs involved. In order to prevent the death duties from being circumvented through an exchange of property prior to death, tax systems may include a tax on gifts above a certain threshold made between living persons (see gift tax). Taxes on transfers do not ordinarily yield much revenue, if only because large tax payments can be easily avoided through estate planning.