

BHARAT SCHOOL OF BANKING

TAXATION IN INDIA

Taxation in India

Paying **tax** to the **government** is duty of the **citizens**. This collected tax is used for **building** the **nation** in terms of **infrastructure** or other **developments**, paying **salary** to public servants, and provide uncountable **services** to the general public. In other words, it is the **taxpayer's** money which is utilized to **benefit** them, where the **government** merely works as the **manager** of the fund.

Constitutional point of view on Taxes

According to **Indian Constitution**, **central** or **state** governments can impose **taxation** and make **laws** regarding it. There are total **3 lists** -

1. **List I** - specific areas where **only** the **central government** (by **Parliament**) can make laws
E.g., Income tax (except agricultural income), Customs duty, Corporation tax, etc.
2. **List II** - specific areas where **only** the **state governments** (by **State Legislature**) can make laws
E.g., Agricultural income tax, Land revenue, Stamp duty, etc.
3. **List III** - some common areas, where both **central** and **state governments** can make laws, known as **concurrent list**.

Classification of Taxes

Taxes are classified into **2** broad **categories** depending on the **ultimate bearer** and **transferability** of the tax -

1. Direct Taxes

If the **liability to pay** a tax and the **burden** of the tax falls on the **same person**, then it is known as **Direct Tax**. Now try to understand it with the example of Income tax -

Income tax is imposed on you, it means that you are **liable** to pay the **tax** (you will **directly pay** the tax to the government) and you **cannot shift** the **burden** to others.

2. Indirect Taxes

If the **liability to pay** a tax is imposed on **one person** and the **burden** of the tax falls on some **other person**, then it is known as **Indirect Tax**. Now try to understand it with the example of Sales tax -

In case of **Sales tax**, the **liability** to pay the tax to the government is on **shopkeeper**, who in turn **shifts** the **tax amount** to the **customer** by including it in the **price** of the **commodity**. (He pays the tax to the government, but **recovers** the amount from the customer, thus **shifting** the **burden** to the customer)

So, in case of **Indirect Tax**, the **liability** is on someone (here, shopkeeper), but the **burden** is actually **shifted** to another person (here, customer).