Taxation in India

Taxes are the main and greatest source of funding for the government. The government uses tax money for a variety of programmes designed to advance the nation. The Indian tax system is effectively structured with a three-tier federal framework.
Taxation in India is a payment transfer that the government of the nation collects from people or any other taxable entity for the growth and security of the country. They are typically an unavoidable tax, fine, or other charge placed on people or businesses to pay for government operations.

Tax Structure in India

The Central Government and the State Governments each levy their own taxes under the taxation system in India. A few small taxes are also collected by local governments like the Municipality and other local governments. The two main types of taxes in India levied by the Central and State governments are as follows:

- Direct Taxes
- Indirect Taxes

In India, direct taxes are taken out of your paycheck, and indirect taxes are taken out of your expenses. The earning party, whether an individual, HUF, or business, is accountable for depositing the direct tax liability.
Most indirect taxes are collected by corporations and companies that provide goods and services. Therefore, it is these entities' responsibility to submit indirect taxes.

Direct Tax and Indirect Tax

Let us learn the definition and difference between direct tax and indirect tax in India with examples. A direct tax is imposed directly upon the taxpayer and is paid by individuals directly to the Government. The Central Board of Direct Taxes is responsible for levying and collecting direct taxes as well as creating other direct tax rules.
There is no transferable right to direct taxes. The most significant form of direct tax for individual taxpayers is income tax. Each year there is an assessment of this fee (1st April to 31st March). The Income Tax Act of 1961 states that you must pay income tax if your yearly income exceeds the minimum exemption threshold.
Examples of direct taxes: Income Tax, Wealth Tax, Corporate Tax, Capital Gain Tax, Property Tax, and Gift.

Indirect Taxes in India:
Instead of the taxpayer's income, profit, or revenue, the tax is based on how they consume the goods and services. Unlike direct taxes, indirect taxes can be passed from one person to another.
In the past, indirect taxes against taxpayers included service tax, sales tax, value-added tax (VAT), central excise duty, and customs duty. But as of July 1, 2017, the goods and services tax (GST) regime has replaced all indirect taxes levied by the state and federal governments on goods and services.
Examples include sales tax, excise tax, VAT, stamp duty, and customs duty.

Features of Direct and Indirect Tax

The features of direct and indirect taxes are given below.

Features of Direct Tax:

- In this case, the individual who is subject to the tax is also responsible for paying it.
- Direct tax has the distinct advantage that the tax burden is carried by the taxpayer.
- The amount of tax due and the deadline for payment are both certain. Therefore, the taxpayer is aware of how much and when to pay their taxes.
- The nature of direct tax is flexible. The tax rate may be altered (increased or decreased) at any time by the authority or government.
- The tax rates rise in accordance with the rise in the income of the taxpayer.

Features of Indirect Tax:

- Tax payment responsibilities may be transferred. This implies that the tax is paid first by producers, retailers, or service providers. After that, they collect it from their client.
- The taxable product is always a finished good or service, and the taxpayer is always the main consumer.
- Indirect taxes encourage people to invest and save money, which helps the economy thrive.
- This tax cannot be avoided because it is included in the product's market price.

Different Types of Direct Tax

The different types of direct taxes in India are given below.

1. **Income Tax:** It is levied on the income earned by individuals, Hindu undivided families or other legal people. In India, it is a progressive tax. To calculate it, we add income from all sources and tax as per the income tax slabs, which are mentioned below:
    - If the total income exceeds Rs 50 lakh and it is below Rs 1 Crore, then a Surcharge of 10% of income tax will be levied additionally.
    - If the total income exceeds Rs 1 Crore, then a Surcharge of 15% of income tax will be levied additionally.

2. **Corporate Tax:** They are levied on the income of corporate firms or industries. For taxation purposes, a company is considered a separate entity. Therefore, they have to pay a separate tax apart from the personal income tax of their owner. All Companies registered in India under the Companies Act 1956 are liable to pay corporate tax.

3. Tax on Wealth and Capital:

- **Wealth Tax:** It was first levied in 1957. It was made on the excess of net wealth (over 30 lakhs rs) of individuals and companies. It got abolished in 2015.
- **Gift Tax:** it was introduced in 1958. It was levied on all donations except the one given by the charitable institution. It got abolished in 1998.
- **Capital Gain Tax:** Capital gain is any profit that arises from the sale of the capital asset. The profit from the sale of any capital is taxed by the government. Capital Asset includes both moveable as well as immovable properties like land, building, house, jewellery, patents, copyrights, shares etc. they are of 2 type -
    - **Short-term capital asset** are those assets which are held for not more than 36 months or less.
    - **Long-term capital assets** are those assets that are held for more than 36 months. But from FY 2017-18 onwards – The criteria of 36 months

have been decreased to 24 months in the case of immovable property being building, land and house property.

Different Types of Indirect Tax

The different types of indirect taxes in India are given below.

1. **Custom Duty:** It is a tax the government imposes on commodities exported and imported. Import taxes are used to control trade as well as provide the government with revenue. Most of them are assessed on an ad valorem basis. It is a duty levied by the government on exports and imports of goods.
2. **Excise Duty:** All goods produced or manufactured in India are subject to this tax as per the taxation in India policy. Because it only applies to items created in India, it differs from customs duty and is frequently referred to as CENVAT, or Central Value Added Tax. The government collects this tax from the company that makes the goods. It can also be acquired through companies that buy manufactured goods and employ people to transport those goods from the producer to the receiving company.
   Since it is assessed on the manufacturing of goods in India, it is essentially a commodities tax. Unlike GST, they are not based on the product's sale. It is expressly imposed by the central government on all manufactured goods, with the exception of alcoholic beverages and illegal drugs.

3. **Service Tax:** Service tax is added to the price of services provided in India, much like sales tax is charged to the cost of goods sold in India. According to the budget for 2015, the service tax will rise from 12.36 per cent to 14 per cent. It is paid every month or once every three months, depending on how the services are provided, and is only relevant to companies who provide services, not commodities.

As per the policy of taxation in India, regardless of whether the customer pays the bill, firms must pay the service tax at the moment the invoice is raised. If there is only one service provider at the facility, the service tax is only paid when the client settles their account.

4. **Value-Added Tax:** The VAT eliminates distortions as a result of the manner it is created. India's states and union territories have therefore implemented VAT (except the UTs of Andaman Nicobar and Lakshadweep). The tax, which is assessed on a variety of products sold in the state, is set by the state. It is an indirect tax that was first used in the 2000s.

As a self-monitoring tool, it eliminates distortions and facilitates the work of tax administrators. VAT was imposed in place of the state's sales tax, other states and UTs in India (apart from Andaman Nicobar and Lakshadweep).

5. GST (Goods and Services Tax): It is an indirect tax with many levels, based on the destination, and with a set-off for tax paid on input purchases. Since there is a mechanism to deduct or credit taxes paid for earlier inputs, there is no cascading (tax on tax) effect. It is a consumption-based tax and a value-added tax. Thus, only domestic consumers are responsible for paying the entire tax.

It is a thorough indirect tax levy on the production and sale of both goods and services. Under the tax system in India, the Union Government has exempted the following indirect tax from the ambit of GST, and it also has the exclusive power to levy excise duty on the manufacture or production of the following:

- Petroleum Crude
- Natural Gas
- Aviation Turbine Fuel
- High-Speed diesel
- Petrol

- Tobacco and Tobacco Products

Difference Between Direct Tax and Indirect Tax

Both the direct and indirect taxes are significant to the government. They provide a sizable portion of government revenue. However, these taxes have different impacts on society. The difference between direct tax and indirect tax is mentioned in the table below.

Direct Tax	**Indirect Tax**
People and corporations both pay these taxes.	End users pay these taxes.
The government determines the tax rate based on revenue and profit.	Everyone pays the same amount of indirect taxes.
Transfer of liability is not possible in direct tax.	Transfer of liability is possible in indirect tax.
This kind of tax is progressive. The profit and income of an individual affect the tax rate.	As a regressive tax, the rate of this tax is unaffected by an individual's income.
It is challenging to collect this kind of tax.	It's comparatively easier to collect indirect taxes.
Direct tax includes income tax, wealth tax, corporate tax, etc.	Indirect tax includes value-added tax, sales tax, service tax, etc.

Benefits of Tax System in India

Money is needed to handle a state's business and administer its government. Therefore, the government levies taxes in many different ways on the revenues of people and businesses. The benefits of taxation in India are as follows.

- Infrastructure funding for the public sector
- Projects for development and welfare
- Defense spending
- Public insurance based on scientific research
- Employees of the state and government are paid a variety of salaries.