

# VIDYA BHAWAN BALIKA VIDYA PITH

## शक्तिउत्थानआश्रमलखीसरायबिहार

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Teacher name – Ajay Kumar Sharma

Revision Notes

### Types Of Taxes:

**1. Direct Taxes:** When (a) liability to pay a tax (Impact of Tax), and (b) the burden of that tax (Incidence of tax), falls on the same person, it is termed as direct tax. A direct tax is paid directly by the same person on whom it has been levied. It means a tax in which impact and incidence of tax falls on the same persons, then it is termed as direct tax. In other words, burden of a direct tax is borne by the person on whom it is imposed which means the burden cannot be shifted to others. Alternatively, the person from whom the tax is collected is also the person who bears the ultimate burden of the tax. Income tax and corporate (profit) tax are most appropriate examples of direct tax.

**2. Indirect Tax:** When (a) liability to pay a tax (Impact of tax) is on one person; and (b) the burden of that tax (Incidence of tax), falls on the other person, it is termed as indirect tax. It means a tax in which impact and incidence of tax lie on two different persons, then it is termed as indirect tax. In other words, indirect taxes are the taxes of whose burden can be shifted to others. In case of an indirect tax, person first pays the tax but he is able to transfer the burden of the tax to others. For instance, sales tax is an indirect tax because indirect tax is collected by government from the seller of the commodity who in turn realizes the tax amount from the buyer by including it in the price of the commodity. Other examples of indirect taxes are excise duty, custom duty, entertainment tax, service tax etc.

**3. Progressive Tax:** A tax the rate of which increases with the increase in income and decreases with the fall in income is called a progressive tax. The higher is the income of a taxpayer, the higher is proportionate tax he pays. For example, in India income tax is considered a progressive tax because its rate goes on increasing with the increase in annual income. For example, presently (2012-2013) there is no tax up to annual income of Rs. 2,00,000 but the rate of income tax increases with the increase in incomes. It is 10% on incomes between Rs. 2,00,000 and Rs. 5,00,000; 20% on incomes between Rs. 5,00,000 and Rs. 10,00,000 and 30% on incomes above Rs. 10,00,000.

**4. Proportional Taxation:** A tax is called proportional when the rate of taxation remains constant as the income of the taxpayer increases.

Example: If tax rate is 10% and the annual income of a person is Rs. 2,00,000, then he will have to pay Rs. 20,000 per year as tax. If income rises to Rs. 3,00,000 per annum, then the tax liability will rise to Rs. 30,000 per year. In this case, burden of tax is more on the poor section as compared to rich section.

**5. Regressive Tax:** In a regressive tax system, the rate of tax falls as the tax base increases.

<b>Level of Income (₹)</b>	<b>Tax Rate (%)</b>	<b>Tax Amount (₹)</b>
1,00,000	10%	10,000
2,00,000	8%	16,000
3,00,000	7%	21,000

In this case, we find that (a) the amount of tax to be paid increases, and (b) the rate at which tax is to be paid falls.