

FACULTY OF JURIDICAL SCIENCES

Lecture-20



MEANING OF TAX

A tax is a compulsory payment levied on the persons or companies to meet the expenditure incurred on conferring common benefits upon the people of a country. Tax can be defined in very simple words as the government's revenue or source of income. The money collected under the taxation system is put into use for the country's development through several projects and schemes.

Taxes are levied by governments on their citizens to generate income for undertaking projects to boost the economy of the country and to raise the standard of living of its citizens. The authority of the government to levy taxes in India is derived from the Constitution of India, which allocates the power to levy taxes to the Central and State governments. All taxes levied within India need to be backed by an accompanying law passed by the Parliament or the State Legislature.

The payment of tax is beneficial on multiple levels including the development of the nation, betterment of infrastructure, the upliftment of the society, and even for welfare activities for the nation.

CLASSIFICATION OF TAX

1. Direct Tax

Direct tax is tax that is to be paid directly to the government by the individual or legal entity. Direct taxes are overlooked by the Central Board of Direct Taxes (CBDT). Direct taxes cannot be transferred to any other individual or legal entity.

Sub-categories of Direct Taxes

The following are the sub-categories of direct taxes:

1. **Income tax:** This is the tax that is levied on the annual income or the profits which is directly paid to the government. Everyone who earns any kind of income is liable to pay income tax. For individuals below 60 years of age, the tax exemption limit is Rs.2.5 lakh per annum. For individuals between the age of 60 and 80, the tax exemption limit is Rs.3 lakh. For individuals above the age of 80, the tax exemption limit is Rs.5 lakh. There are different tax slabs for different income amounts.

Apart from individuals, legal entities are also liable to pay taxes. These include all Artificial Judicial Persons, Hindu Undivided Family (HUF), Body of Individuals (BOI), Association of Persons (AOP), companies, local firms, and local authorities.

2. **Capital gains:** Capital gains tax is levied on the sale of a property or money received through an investment. It could be from either short-term or long-term capital gains from an investment. This includes all exchanges made in kind that is weighed against its value.
3. **Securities transaction Tax:** STT is levied on stock market and securities trading. The tax is levied on the price of the share as well as securities traded on the ISE (Indian Stock Exchange).
4. **Prerequisite Tax:** These are taxes that are levied on the different benefits and perks that are provided by a company to its employees. The purpose of the benefits and perks, whether it is official or personal, is to be defined.
5. **Corporate tax:** The income tax paid by a company is defined as the corporate tax. It is based on the different slabs that the revenue falls under. The sub-categories of corporate taxes are as follows:
 - **Dividend distribution tax (DDT):** This tax is levied on the dividends that companies pay to the investors. It applies to the net or gross income that an investor receives from the investment.
 - **Fringe benefit tax (FBT):** This is tax levied on the fringe benefits that an employee receives from the company. This include expenses related to accommodation, transportation, leave travel allowance, entertainment, retirement fund contribution by the employee, employee welfare, Employee Stock Ownership Plan (ESOP), etc.
 - **Minimum Alternative Tax (MAT):** Companies pay the IT Department through MAT which is governed by Section 115JA of the IT Act. Companies that are exempt from MAT are those that are in the power and infrastructure sectors.

2. Indirect tax

Taxes that are levied on services and products are called indirect tax. Indirect taxes are collected by the seller of the service or product. The tax is added to the price of the products and services. It increases the price of the product or service. There is only one indirect tax levied by the government currently. This is called GST or the Goods and Services Tax.

GST: This is a consumption tax that is levied on the supply of services and goods in India. Every step of the production process of any goods or value-added services is subject to the imposition of GST. It is supposed to be refunded to the parties that are involved in the production process (and not the final consumer).

GST resulted in the elimination of other kinds of taxes and charges such as Value Added Tax (VAT), octroi, customs duty, Central Value Added Tax (CENVAT), as well as customs and excise taxes. The products or services that are not taxed under GST are electricity, alcoholic

drinks, and petroleum products. These are taxed as per the previous tax regime by the individual state governments.

3. Other taxes

Other taxes are minor revenue generators and are small cess taxes. The various sub-categories of other taxes are as follows:

- **Property tax:** This is also called Real Estate Tax or Municipal Tax. Residential and commercial property owners are subject to property tax. It is used for the maintenance of some of the fundamental civil services. Property tax is levied by the municipal bodies based in each city.
- **Professional tax:** This employment tax is levied on those who practice a profession or earn a salaried income such as lawyers, chartered accountants, doctors, etc. This tax differs from state to state. Not all states levy professional tax.
- **Entertainment tax:** This is tax that is levied on television series, movies, exhibitions, etc. The tax is levied on the gross collections from the earnings. Entertainment tax also referred as amusement tax.
- **Registration fees, stamp duty, transfer tax:** These are collected in addition to or as a supplement to property tax at the time of purchasing a property.
- **Education cess:** This is levied to fund the educational programs launched and maintained by the government of India.
- **Entry tax:** This is tax that is levied on the products or goods that enter a state, specifically through e-commerce establishments, and is applicable in the states of Delhi, Assam, Gujarat, Madhya Pradesh, etc.
- **Road tax and toll tax:** This tax is used for the maintenance of roads and toll infrastructure.