



Tax System in India

- A compulsory contribution given by a citizen or organization to the Government is called Tax, which is used for meeting expenses on welfare work.
- Tax imposing and Tax collecting is at three levels in India - Central level, State Level and Local Level.
- The distribution of tax between Centre and State has been clearly mentioned in the provisions of Indian Constitution. For rationalising it from time to time, Finance Commission has been constituted.
- The tax system has been divided into two Parts.
 - **Tax by Central Government** : Custom Duty, Income Tax and Corporate Tax etc.
 - **Tax by State Government** : The state government has right to collect all the taxes in this category and to spend them.
- There are two different type of taxes : 1. **Direct Taxes** 2. **Indirect Taxes**:
 - **Direct Taxes** : The taxes levied by the central government on incomes and wealth are important direct taxes. The important taxes levied on incomes are- corporation tax and income tax. Taxes levied on wealth are wealth tax, gift tax etc.
 - **Indirect Taxes** : The main forms of indirect taxes are customs and excise duties and sales tax. The central government is empowered to levy customs and excise duties(except on alcoholic liquors and narcotics) whereas sales tax is the exclusive jurisdiction of the state governments.
- However, the union excise duties form the most significant part of central taxes. The major tax revenue sources for states are their shares in union excise duties and income tax, commercial taxes, land revenue, stamp duty, registration fees, state excise duties on alcohol and narcotics etc. Sales tax forms the most important component of commercial taxes.
- **Progressive Tax** : A tax that takes away a higher proportion of one's income as the income rises is known as progressive tax. Indian Income Tax is a progressive and direct tax.
- **R. Chelliah Committee** was constituted in August 1991 for suggesting reforms in Tax Structures. It recommended Income Tax for agricultural

income of more than Rs 25,000 p.a Chelliah Committee also recommended for lowering down the tax rates and reducing the tax slabs.

- **K.L. Rekhi Committee** was constituted in 1992 for suggesting uniform regulations for indirect taxation(Custom Duty and Excise Duty).

Important Taxes Imposed in India

- **Tax on Income and Wealth :** The central Government imposes different types of tax on income and wealth, viz. income tax, corporate tax, wealth tax and gift tax. Out of them income tax and corporate tax are more important from the revenue point of view.
- **Personal Income Tax :** Personal Income tax is generally imposed on an individual combined Hindu families and total income of people of any other communities.
- In addition to tax, separate surcharges are also imposed some times.
- Agricultural income in India is free from income tax.
- **Corporate Tax :** Corporate Tax is imposed on Registered Companies and Corporations. The rate of corporate tax on all companies is equal. However, various types of rebates and exemptions have been provided.
- **Custom Duties :** As per the Constitutional Provisions, the central government imposes import duty and export duty both. Import and Export duties are not only sources of income but with the help of it the central government regulates the foreign trade.
- **Import Duties :** Generally import duties are ad-velorem in india. It means import duties are imposed on the taxable item on percentage basis.
- **Export Duties :** Export duties are more important, compared to Import Duties in terms of revenue and regulation of foreign trade.
- **Excise Duties :** Excise Duties are commodity tax as it is imposed on production of an item and it has no relevance with its sale. ***This is the largest source of revenue for the Central Government.*** Except liquor, opium and other drugs, production of all the other items is taxable under Central Excise Duties.

Types of Tax

Direct Tax	Income Tax, Property Tax, Gift Tax etc
Indirect Tax	Sales Tax, Excise Duty, Custom Duty etc
Taxes imposed by the Central Government	Income Tax, Corporate Tax, Property Tax, Succession Tax, Wealth Tax, Gift Tax, Custom Duty, Tax on agriculture wealth etc
Taxes imposed by the State Government	Land and Revenue Tax, Agricultural Income Tax, Agricultural Land Revenue , State Excise Duty, Entertainment Tax, Stamp Duty, Road Tax, MotorVechile Tax etc.

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