**Public Finance Unit: - 5**

**Indian Tax System**

**Class: - 4th**

Semester: - V (H) Date- 02-09-22

Time- 09:15 pm

Topic: -Indirect Tax Types, Features, Advantages and disadvantages

The concept of tax has been prevailing since ancient times. Previously the apex of the socio-political system used to charge a share of crops or liquid money from the citizens. Even in present days, governments impose taxes to generate fiscal revenue.

Indirect tax is named in contrast to direct tax. This means the government does not impose it on an individual's income or the revenue or profit of an entity, unlike direct tax. It is a tax that an intermediate like a retailer collects from a customer. It passes on from one person to another

## What Is an Indirect Tax?

It is a tax levied upon goods or services by the Indian government on the end consumer. Typically, the market price of the goods or services includes this tax. Indirect taxes in India are not well defined by any Act. However, our government brings out notifications and circulars to impose indirect taxes on tangible and intangible products.

## What Are the Types of Indirect Taxes?

There are various types of indirect taxes in India. Though all these taxes came under one group after the introduction of GST, the pre-existing types are as follows -

### 1. Service Tax

A consumer pays service tax to purchase a service from any entity. The Indian government collects service tax on certain transactions that a service provider performs to sell a service.

### 2. Value Added Tax

State governments collect this tax on a good or service at each point of purchase where a value has been added. This tax is applicable from the point of a raw material purchase to the sale of a finished product.

### 3. Custom Duty

The Union government collects this indirect tax on an import of a product in India. Timely, it is applicable on products exported from India.

### 4. Excise Duty

Our government collects excise duty from the manufacturers of goods manufactured in an Indian company. The manufacturers collect it from their buyers through the price of the goods.

### 5. Sales Tax

Central government imposes this tax on an Inter-state sale and the State government on an Intra-state sale of a good.

### 6. Entertainment Tax

State government charges this tax on the purchase of any entertainment-related goods and services. This can be purchasing goods like video games or services like movies, theatres, sports, amusement parks

## What Are the Features of Indirect Tax?

Below are some salient features of indirect tax -

* Initially, its nature was regressive. This is because it formerly imposed a significant burden on a taxpayer's income, whether high or low. However, it turned progressive after the introduction of the Goods and Services Tax.
* The liability of tax payment can be transferable. This means retailers, service providers or manufacturers pay the tax first. Then they accrue it from their customer.
* The taxpayer is always the end consumer, and the taxable product is a finished good and service.
* Indirect tax encourages an individual to save and invest and boost growth.
* It is impossible to escape this tax as it comes under the market price of a product.

## Advantages of Indirect Taxes

Below are some benefits of this tax -

### 1. Easy to Fetch

It is relatively easier to collect than direct tax. Retailers or service providers add this tax to a product's market price and collect it only upon purchase. Therefore, the initial taxpayer (retailer or service provider) need not worry about recollecting it from their customers.

### 2. Convenient and Time-Saving

One of the merits of indirect tax is that it is transferable from one person to another. Since the taxpayer is the end buyer, retailers or service providers can collect it directly at their stores. This makes the collection of this tax time-saving and convenient.

### 3. Mitigation of Stress of Tax Payment

The taxpayers do not need to pay this tax directly from their salary. Our government implements it through the market value of a product and collects it at a point of purchase. Hence, it does not feel like a burden to the taxpayers.

### 4. Fair Distribution of Tax

This tax is inversely related to the necessity of any commodity. Therefore, items that serve our essentials and basic needs have a lower tax. Conversely, luxurious and valuable commodities will hold higher taxes.

### 5. Inevitable to Escape

It is not easy to escape indirect tax as it comes included in a good and service price tag. Therefore, you pay this tax automatically whenever you make a purchase.

### 6. Equal Collection from All

An income of less than ₹2.5 lakhs annually does not fall under any income tax slab. People having this earning do not need to pay direct tax. However, they pay our government indirect tax and contribute to the development of our country.

## Disadvantages of Indirect Taxes

Along with the bright sides, this tax comes with some drawbacks. Below are some

### 1. Regressive Nature

This tax remains regressive to some extent even after the introduction of the Goods and Services Tax. The tax on a commodity or service is the same for all, disregarding the poor or rich. This makes commodities expensive for a poor person and affects his net operating income.

### 2. Cumulative Nature

Charging this tax sometimes works cumulatively. Intermediaries tend to charge high tax at every point of transactions, from raw material to the finished product. This increases the price of a commodity.

### 3. Unfavourable for Industries

One of the demerits of indirect tax is it is not favourable for rising industries. As discussed in the previous pointer, intermediaries charge high on the raw material. This leads to a high cost of production that discourages industries from expanding.

## What Are Some Examples of Indirect Taxes?

Some examples of indirect tax are service tax, sales tax, central sales tax, state excise duty, countervailing duty, octroi and entry tax, purchase tax.

Hopefully, the above discourse on indirect taxes' types, features, and pros and cons has helped you gain a clear idea.