Class! 10th
Economics
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Tender Heart High School.
Public Revenue

classmate
Date 5/8/24
Page 1

Good Morning Students,
This lesson is for Class 10th for the subject of "Economics". The topic for today is "Types of Taxes" which is covered in chapter 10 titled "Public Revenue" of your book.
This lesson is being submitted to you on 5.8.24.
All the students now please open page number 167 of your book and listen carefully.

Direct Taxes:-
Direct taxes refer to those taxes which are really paid by those on whom they are legally imposed. The assessee (taxpayer) is not entitled to shift the burden of tax onto the shoulder of any other person. In case of such taxes, the impact of tax (i.e the immediate burden) and its incidence (the ultimate burden) falls on same person. Income Tax, Wealth Tax, Gift tax are important examples of direct taxes in India

Merits of Direct Taxes:-
(i) Economy (ii) Equity
(iii) Certainty (iv) Elasticity
(v) Civic Consciousness (vi) Reduction in Inequalities

Demerits of Direct Taxes
(i) Unpopular (ii) Inconvenience
(iii) Possibility of Evasion (iv) Uneconomical
(v) Arbitrary (vi) Narrow in Scope
Refer to page 167 and 168 for explanation.

1

Class: 10th
Loreto House
Public Revenue
Economics

Indirect Taxes:-
Indirect taxes refers to those taxes which is imposed on one person but is paid partly or wholly by another. The impact of tax (immediate burden) and incidence of tax (ultimate burden) falls on different persons. The burden of such taxes can be shifted to other person. For example VAT (value added Tax), GST (Goods and Services Tax) ~~etc~~, excise duty etc.
The impact of excise duty on soap is on the producer, but when he realises the tax amount from the customer by raising the price of the soap, the incidence will be on the consumer. Here in this example, the immediate burden (impact) is borne by the producer but the ultimate burden (incidence) is borne by the consumers.

Merits of Indirect Taxes

(1) Convenient
(2) Elastic
(3) Wide Coverage
(4) Equity
(5) No Evasion
(6) Protection against Foreign Competition
(7) Checks on Consumption of Harmful commodities

For explanation refer to page 168 of your book.

Demerits of Indirect Taxes

(1) Regressive
(2) Discourage Savings

Class: 10th
Economics
Lokesh Arora

Public Revenue.

classmate
Date 5/8/24
Page 3

(3) Uncertain (4) Inflationary.
(5) No civic Consciousness.

For explanation refer to page 169 of your book.

Difference Between Direct Taxes and Indirect Taxes

Basis	Direct Taxes	Indirect Taxes
1. Base	These taxes are imposed on income and wealth of people.	These taxes are imposed on goods and services.
2. Shift of Burden	Tax burden cannot be shifted.	Tax burden can be shifted.
3. Nature	These taxes are generally progressive in nature. The rate of tax increases as the tax base increases. **Examples :** Income Tax, wealth Tax, Corporation Tax (i.e., tax on company's income), Estate Duty.	These taxes are often regressive as their burden fall on all persons indiscriminately. **Examples :** GST, Excise Duty, Customs Duty, etc.

Before going further, lets take a short break. Write the answers of following question during the break.

Qu 1. What are Direct Taxes?
2 Give two merits of Direct Taxes.
3. What are Indirect Taxes?

GST → G - Goods
S - Services
T - Tax

GST means Goods and Services Tax

Goods and Services Tax is an indirect tax used in India on the supply of goods and services. It is a comprehensive multistage and destination based tax. It is comprehensive because it has submerged almost all the indirect taxes. Multistaged - as it is imposed at every stage in the production process, but is meant to be refunded to all parties in the various stages of production rather than final consumer. and as a destination based tax, it is collected from the point of consumption and not from the point of origin like previous taxes.

GST is the biggest tax reform in independent India which was launched on July 1, 2017.

Objectives of GST:-

GST has been introduced to achieve the following objectives:-

(1) To reduce multiple taxes.
(2) To Reduce overall Tax Burden.
(3) To Boost-up Economic Growth.
(4) To improve Tax Compliance

For explanation refer to page 202 of your book

Other Kinds of Taxes:-

(1) **Specific Taxes:-**

Taxes which are imposed on the weight or on some external measures of commodity are called. Specific Taxes. For example, tax on sugar on the basis of weight, on cloth on the basis of length etc.

(2) Advalorem Taxes!.
Taxes which are imposed on the basis of value of commodities are called advalorem taxes. For example import or export duties are charged in terms of value not on the basis of quantity.

Different Systems of Income Tax !-

(1) Proportional Tax!.
Under the proportional tax system, all incomes are taxed at a uniform rate. In this system, tax rate remains same. Tax amount is simply calculated by multiplying the tax base with the rate of tax. Each tax payer has to pay an equal proportion of his income in the form of taxes.
It can be explained with the help of following example!-

Individual	Tax Base (Income)	Rate of Tax %.	Amount of Tax ₹
A	10,000	5%.	500
B	15,000	5 %.	750
C	20,000	5%.	1,000
D	25,000	5 %.	1,250
E	30,000	5%.	1,500

In this system ~~Amer~~ percentage increase in ~~a~~ tax is equal to percentage increase in income. Like Income increases from 10000 to 20000 i.e. 100%. and tax amount increases from 500 to 1000 i.e. 100%. So ~~equal~~ all the tax payers have to pay an equal proportion of their income as tax.

(2) Progressive Tax :-
In this system of tax, rate of tax increases as the income of tax payer increases. In this system, percentage increase in tax amount more than the percentage increase in income. That means tax payer has to pay more proportion of his income as tax as his income increases. This can be understood from the following example

Tax Base (Income)	Tax Rate (%)	Tax Amount ₹
10,000	5%	500
15,000	10%	1,500
20,000	15%	3,000
25,000	20%	5,000
30,000	25%	7,500

As the income increases from 10,000 to 20,000 i.e. 100%, tax amount increases from 500 to 3000 i.e. 500%. Thus, as the income increases, taxpayer has to pay higher proportion of his income as tax.

(3) Regressive Tax :-
In this system of tax, rate of tax decrease as the income of the tax

payer increases. This is opposite of progressive tax. In this system, percentage increase in tax amount is less than percentage increase in income. This can be explained with the help of following example:

Tax Base (Income) (₹)	Rate of Tax (%)	Amount of Tax (₹)
10,000	10%	1,000
15,000	9%	1350
20,000	8%	1,600
25,000	7%	1,750
30,000	6%	1,800

As the income increases from 10,000 to 20,000 i.e. 100%, tax amount increases from 1000 to 1600 i.e. 60%. Thus, we can say that in this system the tax payer has to pay a lesser proportion of income as tax as his income increases.

This method of taxation is not appropriate. In this method, burden of tax falls more on poor than on rich. Therefore, regressive taxes are unjust and inequitable. They tend to promote inequalities of income in the society.

(4) Degressive Tax:-

The degressive system is mixture of proportional and progressive tax system. Under this system, the rate of tax increases upto a certain

Lokesh Arora
Economics
10th

Ch - 10
Public Revenue

classmate
Date 5/8/24
Page (8)

limit but after that a uniform rate is charged. Degressive taxes can be explained with the help of following example:

Tax Base Income (₹)	Tax Rate (%)	Amount of Tax (₹)
10,000	5%	500
15,000	6%	900
20,000	7%	1,400
25,000	7%	1,750
30,000	7%	2,100

Rate of tax increases with the increase in income from 10,000 to 15,000 and then to 20,000 and tax rate increases from 5% to 6% and then to 7% and thereafter it becomes constant. This type of system is followed in India.

Answer the following questions!

1. Explain the difference between Direct Tax (Tax on income) and Indirect tax (Tax on commodities).
2. Explain any two merits and two demerits of Direct taxes.
3. What ~~are~~ is Degressive Taxation?
4. What is GST? What are its objectives?

last Page