



Taxation

- Government controls inflation through **fiscal and administrative measures**.
- Tax is a **legal payment** imposed by the government on a **legally defined tax base**.
- Taxation is also used as a **tool of income redistribution**.
- **Incidence of tax** is where tax is legally imposed, while impact of tax is where the real burden is felt.
- **Direct tax** has incidence and impact on the **same person**.
- **Indirect tax** has incidence and impact on **different persons**.
- Adam Smith gave 4 canons of taxation: **equity, certainty, economy and convenience**.
- **Tax buoyancy measures** how tax revenue responds to GDP.
- **Progressive tax** rates rise with income or tax base.
- **Regressive taxes** place a higher relative burden on poorer sections.
- **Proportional tax** has a constant rate.
- **Laffer Curve** explains the relationship between tax rate and tax revenue.


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- **Cess** is imposed for a **specific purpose**, while surcharge is an additional tax.
 - **Customs duty** protects **domestic industries** and raises revenue.
 - **Anti-dumping duty** protects domestic producers from unfairly cheap imports.
 - **Countervailing duty** protects against subsidised imports.
 - GST is a **destination-based indirect tax** that reduces cascading effect through input tax credit.
 - Some items such as **alcohol** for human consumption and **petroleum** products **remain outside GST**.
 - **Tax-to-GDP** ratio shows the tax collection capacity of an economy.




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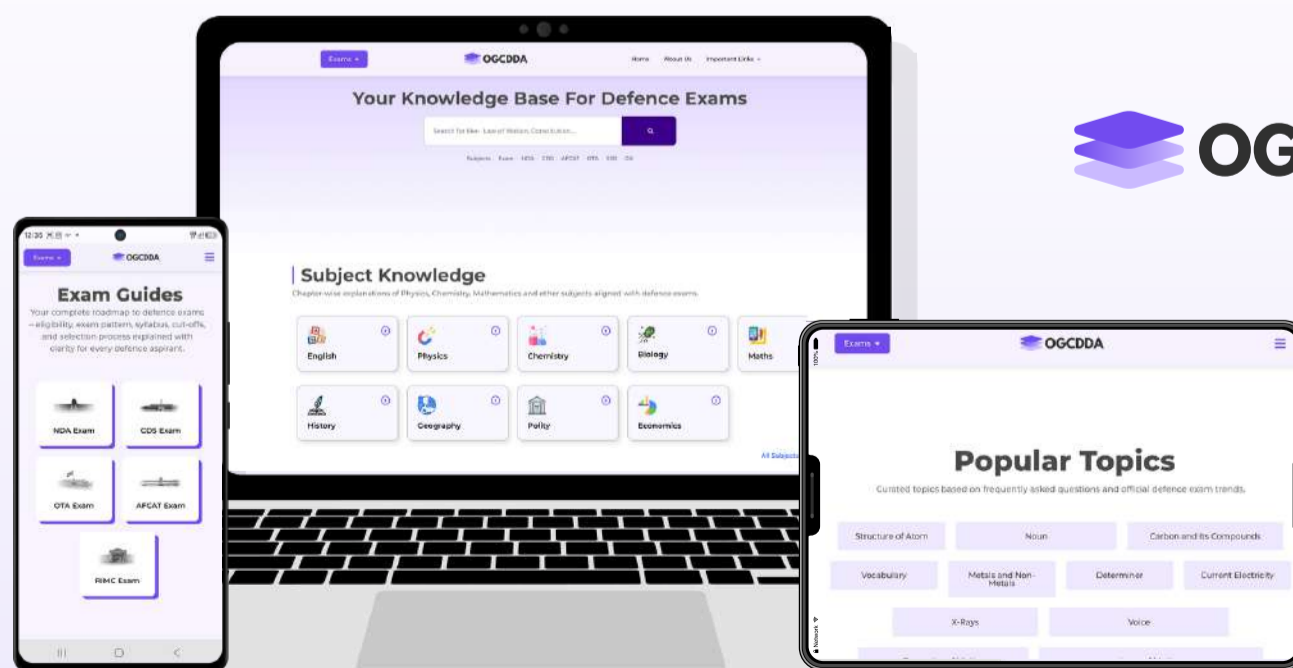
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