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## **DIRECT AND INDIRECT TAXES**

A direct tax is one whose impact and incidence are on the same person. It cannot be shifted to someone else. Income tax is a good example of a direct tax because the person from whom it is collected has to bear its burden.

On the other hand, indirect tax is one whose impact is on one person but the incidence is on the other. Sales tax is a good example of an indirect tax because it is collected initially from sellers of goods but they do not pay it from their own pockets. They add the tax to the selling price of their goods and recover it from the buyers of the goods.



The distinction between direct and indirect taxes is based on that burden of a direct tax can be cannot be shifted wholly or partly from the who pays it to other while burden of a indirect tax can be cannot be shifted wholly or partly from the who pays it to other.

## **IMPACT OF TAX**

The impact of tax is borne by a person on whom a tax is imposed. For instance, the impact of an excise duty is on the producer, and the impact of an import duty is on the importer of the goods. The impact of a tax refers to the immediate burden of the tax and not ultimate burden of the tax.

## **SHIFTING OF TAX**

Shifting is a process by which a tax is passed from one person to another. The producer may pass the tax burden imposed on him, to the wholesaler; the wholesaler to the retailer and the retailer to the consumer. The shifting of a tax can be done through the changes in the price of goods.

## **INCIDENCE OF TAX**

A tax is not always borne by the person who pays it in the first instance. It can sometimes be shifted on the other person. Incidence of a tax, therefore, means the final settling place of a tax

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thus the incidence of a tax is the final money burden on a person who cannot shift it to someone else.

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### **ADVANTAGES OF DIRECT TAXES (MERTS)**

#### **JUSTIFY PRINCIPLE OF EQUITY**

Direct taxes such as income tax, property tax are progressive in their nature. Higher incomes are taxed heavily and lower incomes lightly.

#### **JUSTIFY THE CANON OF ECONOMY**

Direct taxes also justify the Canon of Economy, because the administrative cost of collecting these taxes is low. They require a small number of officers who assess and collect these taxes.

#### **JUSTIFY CANON OF ELASTICITY**

Direct taxes also fulfill the demands of Canon of Elasticity because it is so flexible that the required amount of revenue can be increased or decreased.

#### **JUSTIFY THE CANON OF CERTAINTY**

Direct taxes also justify the Canon of Certainty. The taxpayer is certain as to how much he is expected to pay, and similarly, the state is certain as to how much it has to receive as its income from direct taxes.

#### **JUSTIFY THE DISTRIBUTIVE JUSTICE**

Direct taxes are progressive because rates of taxes increase as the income level of taxpayers rise. They help in taking incomes from rich people by income tax, wealth tax and property tax etc. the revenue so collected can be used for providing subsidized food, clothing and housing to the poor people.

#### **CREATE CIVIC CONSCIOUSNESS**

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Direct taxes help in creating civic consciousness among the taxpayers. A taxpayer, considering himself directly related to the government activities begins to take keen interest in the way the public expenditures are made.

### **DISADVANTAGES OF DIRECT TAXES (DEMERITS)**

#### **ENCOURAGE LARGE-SCALE EVASION**

It is an open secret that the people belonging to higher income groups do not reveal their entire income. They do not hesitate to submit false statements. They usually conceal a big part of their incomes. A large-scale tax evasion has become a part of tax culture of today in almost every country.

#### **UNPOPULAR AND PAINFUL**

The direct taxes are generally not shiftable and, therefore, they are considered painful by the taxpayers. These are not popular among taxpayers.

#### **INCONVENIENCE**

Being subject to some complications, direct taxes practically are taken as inconvenient to pay, because a taxpayer has to submit the statement of his total income along with the source of income, from which it is derived.

#### **CREATE NON-CIVIC CONSCIOUSNESS AMONG NON-TAX-PAYERS**

Direct taxes create non-civic consciousness among the non-taxpayers. The majority of the people do not pay direct taxes; therefore they are unconscious about the way of spending of the government.

#### **NON-RELIABLE SOURCE OF REVENUE IN A POOR COUNTRY**

There is a small section of rich people who pay direct taxes, particularly in an under-developed country; it is not possible to fully rely upon direct taxes for government revenue.

### **ADVANTAGES OF INDIRECT TAXES (MERITS)**

#### **CONVENIENT TO PAY**

Indirect taxes are very convenient to pay. When a person purchases a packet of milk and pays the price to the shopkeeper, he never feels that he is also paying some money for tax. Moreover,

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nobody presses the buyer to pay these taxes. If we have money to buy goods it means we have to pay for taxes.

### **DIFFICULT TO BE EVADED**

Indirect taxes are generally difficult to be evaded because they are included in the price of the goods. They can be evaded only when goods are not purchased.

### **REVENUE PRODUCTIVE**

Direct taxes are taken as highly revenue productive in under-developing countries where incomes of majority of the people are low, therefore direct taxes do not contribute too much state revenue. Indirect taxes cover a large number of essential items, which are consumed by all the section of the people; these taxes can help in collecting a large amount of revenue.

### **RATIONAL ALLOCATION OF SCARE RESOURCE**

Direct taxes can effectively be used for securing rational and equitable allocation of scarce resources of the country. By taxing luxuries heavily, resources can be diverted for the production of necessities.

### **MAINTAIN THE PURPOSE OF SOCIAL VALUE**

Indirect taxes are helpful in maintaining the purpose of social value. With their help government can restrict the consumption of socially undesirable goods like wine by imposing heavy taxes on them.

### **PROVE TO BE MORE PRODUCTIVE**

Indirect taxes are more productive compared to direct taxes. They enable the government to collect revenue from different sources as much as it stands in need.

### **DISADVANTAGES OF INDIRECT TAXES (DEMERITS)**

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### **THEY ARE INEQUITABLE**

Indirect taxes are said to be inequitable. The burden of these taxes falls more heavily on the poor than the rich because they are charged at proportional rate by all the section of a society.

### **THEY ARE UNECONOMICAL**

Indirect taxes are also considered uneconomical. The collection of these taxes involves a number of stages. The cost of collecting them becomes greater.

### **DISCOURAGE HONESTY**

Indirect taxes discourage honesty because they provide chances for cheating by the seller of goods. Because they have an opportunity to rise more than they actual pay for it. Besides, the old unsold stock, which was not taxed early, is also sold at new price including the amount of tax.

### **CREATE CIVIC CONSCIOUSNESS**

Indirect taxes do not help in creating civic consciousness among the taxpayers. Taxpayers never fell whether they paying tax or not.

### **HARMFUL TO THE CUSTOMERS**

Indirect taxes are also harmful to the interests of the consumers. The sellers usually charge a particular tax from them several times at different stages but do not pay it to the government.

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