

**TOPIC: TYPES OF INDIRECT TAX, MERITS AND DEMERITS**

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## **Meaning of Indirect Taxes**

Indirect tax is the tax levied on a person upon consumption of goods and services. Indirect tax is not directly levied on the income of a person. He needs to pay the tax in addition to the actual price of goods or services purchased by the seller. Indirect is a tax that is passed on to another person. Generally, indirect tax is levied on sellers who pass it on to the final consumer.

In indirect taxes, the person on which the burden falls and the person who pays the tax are different. The sellers are required to pay these taxes to the government (e.g., manufacturers, retailers,). But since they sell goods to the consumers, they pass the burden of paying the tax to you.

Thus, when you purchase goods, you pay the amount inclusive of tax to the seller. The seller then pays the tax to the government.

### **Different Types of Indirect Taxes in India**

There are different types of indirect taxes in India. Listed below are some popular examples of indirect taxes, explained in brief:

#### **1. Service Tax**

Service tax is applicable on the services provided by a company and paid by the recipient of their services, collected by and deposited with the central government.

#### **2. Value Added Tax**

Value added Tax, popularly known as VAT, is levied on the sale of movable goods or goods sold directly to the customers. VAT is exacted by the respective state governments on intra-state sales.

#### **3. Excise Duty**

Excise duty is levied on the goods produced or manufactured in India, paid by the manufacturers of different goods. Excise duty is often recovered from the customers.

#### **4. Custom Duty**

Custom duty is applicable on the goods which are imported into India from other countries. In some cases, it is also levied on the goods being transported out of India.

## **5. Entertainment Tax**

Entertainment tax is levied on all financial transactions related to entertainment such as movie shows, amusement parks, video games, arcades, and sports activities, and is charged by the respective state governments.

## **6. Stamp Duty**

Stamp duty is levied on the transfer of immovable property located within the state, and is charged by the State Government and may vary in rates. It is also applicable on all legal documents.

## **7. Securities Transaction Tax**

Securities Transaction Tax is levied at the time of trade of securities through Indian Stock Exchange.

### **Merits and Demerits of Indirect Taxes**

Let us make an in-depth study of the merits and demerits of indirect taxes.

#### **(A) Merits:**

##### **1. Wide Coverage:**

The main merit of an indirect tax is that it touches all income groups. Direct tax, like income tax, is imposed on persons having a certain minimum level of income.

People having income below that level are exempted from the payment of tax. But indirect taxes, such as sales tax or excise duty, are equally imposed on all consumers or purchasers irrespective of their incomes.

##### **2. Consumption Control:**

By imposing an indirect tax, the consumption of an undesirable thing can be discouraged. For example, by imposing excise duties on wine and opium, the government discourages the consumption of such harmful products.

##### **3. Popularity:**

People are not always conscious of indirect taxes because, in most cases, it is combined with the price. When people purchase cinema tickets they may well remain un-aware of the fact that the price of a ticket also includes the amusement tax. Again, the price of a match-box includes the excise duty imposed on it.

But the consumer does not at all bother to know how much he is paying as price and how much he is paying as an indirect levy. He thinks that he is paying the price, although he pays the indirect tax, too. He is not, therefore, consciously affected by the indirect tax and so he does not resent it much.

#### **4. Productivity:**

Like a direct tax, an indirect tax also enlarges the revenue receipts of the government. Indirect taxes in India today provide the bulk of government revenue. Such taxes have been imposed on sugar, cooking gas, textiles, shoes, petrol, cigarettes, and many other essential articles of consumption. By the levy of indirect taxes, the tax net is cast wider and all people are made to contribute to the national fund.

#### **(B) Demerits:**

But indirect taxes have certain demerits also. These are the following:

##### **1. Regressive Character:**

The main drawback of an indirect tax is that it is now an equitable tax. It is regressive in nature. It affects the poorer section more than the rich. A commodity tax imposed on foodstuff will affect a poorer family in a much greater degree than a rich family. A poor man feels the burden of a sales tax much more than a rich man. A rich man does not at all mind paying a few rupees as sales tax, but a poor man is greatly burdened by it.

##### **2. Administrative Difficulties:**

Indirect taxes create various administrative problems. The collection of an indirect tax like customs duty often involves large expenses. There is also the possibility of evasion. In India, it is well known that dealers evade the payment of sales tax to the government, although they realise it from their customers.