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## Tax System

1. A compulsory contribution given by a citizen or organisation to the Government is called Tax, which is used for meeting expenses on welfare work.
2. Tax imposing and Tax collecting is at three levels in India - Central level, State level and Local level.
3. The distribution of tax between Centre and State has been clearly mentioned in the provisions of Indian Constitution. For rationalising it from time to time, Finance Commission has been constituted.
4. The tax system has been divided into two parts : Tax by Central Government : Custom Duty, Income Tax and Corporate Tax etc. Tax by State Government : The state government has right to collect all the taxes in this category and to spend them.
5. There are two types of taxes : 1. Direct Taxes 2. Indirect Taxes : ? Direct Taxes : The taxes levied by the central government on incomes and wealth are important direct taxes. The important taxes levied on incomes are - corporation tax and income tax. Taxes levied on wealth are wealth tax, gift tax etc. ? Indirect Taxes : The main forms of indirect taxes are customs and excise duties and sales tax. The central government is empowered to levy customs and excise duties (except on alcoholic liquors and narcotics) whereas sales tax is the exclusive jurisdiction of the state governments.
6. However, the union excise duties form the most significant part of central taxes. The major tax revenue sources for states are their shares in union excise duties and income tax, commercial taxes, land revenue, stamp duty, registration fees, state excise duties on alcohol and narcotics etc. Sales tax forms the most important component of commercial taxes.
7. Progressive Tax : A tax that takes away a higher proportion of one's income as the income rises is known as progressive tax. Indian Income Tax is a progressive and direct tax.
8. R. Chelliah Committee was constituted in August 1991 for suggesting reforms in Tax Structure.
9. Chelliah Committee recommended Income Tax for agricultural income of more than Rs. 25,000 p.a. Chelliah Committee also recommended for lowering down the tax rates and reducing the tax slabs.
10. K.L. Rekhi Committee was constituted in 1992 for suggesting uniform regulations for indirect taxation (Custom Duty and Excise Duty).

## Finance Commission

1. Finance Commission is constituted by the President under Art 280 of the constitution. Since Independency, 12 Finance Commissions have submitted their reports.
2. 1st Finance Commission was constituted under chairmanship of K. C. Neogi while 12th Finance Commission was constituted under chairmanship of Dr. C. Rangarajan. The recommendations of 12th Finance Commission cover period 1st April, 2005 to 31st March, 2010.
3. 13th Finance Commission, for the period 2010 - 2015, has been constituted in November, 2007 with Dr. Vijay L. Kelkar as the Chairman.

## Important Taxes imposed in India

1. **Tax on Income and Wealth :** The central government imposes different types of tax on income and wealth, viz. income tax, corporate tax, wealth tax and gift tax. Out of them income tax and corporate tax are more important from the revenue point of view.
2. **Personal Income Tax :** Personal income tax is generally imposed on an individual combined Hindu families and total income of people of any other communities.
3. In addition to tax, separate surcharges are also imposed some times.
4. Agricultural income in India is free from income tax.
5. **Corporate Tax :** Corporate Tax is imposed on Registered Companies and Corporations.
6. The rate of corporate tax on all companies is equal. However, various types of rebates and exemptions have been provided.
7. **Custom Duties :** As per the Constitutional provisions, the central government imposes import duty and export duty both. Import and Export duties are not only sources of income but with the help of it the central government regulates the foreign trade.
8. **Import Duties :** Generally import duties are ad-velorem in India. It means import duties are imposed on the taxable item on percentage basis.
9. **Export Duties :** Export Duties are more important, compared to Import Duties in terms of revenue and regulation of foreign trade.

- 10. Excise Duties :** Excise duties are commodity tax as it is imposed on production of an item and it has no relevance with its sale. This is the largest source of revenue for the Central Government.
- 11.** Except liquor, opium and other drugs, production of all the other items is taxable under Central Excise Duties.
- 12.** On July 15, 2010 Indian rupee got the much awaited symbol, just like other leading currencies of the world Viz. Dollar, Euro, Pound Sterling and Yen.
- 13.** The new symbol is an amalgamation of Devanagari 'Ra' and the Roman 'R' without the stem- Till now the rupee was written in various abbreviated forms in different languages.
- 14.** On March 5, 2009 the Government announced a contest to create a symbol for the Rupee.
- 15.** Over 3000 entries received only 5 entries had been selected by the jury, headed by the Deputy Governor of R.B.I.
- 16.** The new symbol designed by D. Udaya Kumar, a post-graduate of IIT Bombay, was finally selected by the Union Cabinet on July 15, 2010.
- 17.** Though the symbol '₹' will not be printed or embossed on currency notes or coins, it would be included in the 'Unicode Standard' and major scripts of the world to ensure that it is easily displayed and printed in the electronic and print media.
- 18.** One Coin and One Rupee note belong to "Legal Tender Money" category.
- 19.** M1 is known as Narrow Money.
- 20.** M3 is known as Broad Money.