

Unit -1: Tax and its Importance

Class: VII

Subject: Economics - Social Science

I. Choose the correct answer:

- Taxes are _____ payment.
a) Voluntary **b) Compulsory** c) a & b d) None of the above
- Minimum possible amount should be spent in the collection of taxes is
a) canon of equality b) canon of certainty
c) canon of economy d) canon of convenience
- This taxation is a very opposite of progressive taxation.
a) degressive b) proportional **c) regressive** d) none
- Income tax is a
a) direct tax b) indirect tax c) a & b d) degressive tax
- Which tax is raised on provision of service?
a) Wealth b) corporate c) wealth **d) service**

II. Fill in the blanks:

- Taxation** is a term for when a taxing authority usually a government levies or imposes a tax.
- Proportional Taxation** is the method, where the rate of tax is same regardless size of the income.
- Gift Tax** is paid to the Government by the recipient of gift depending on value of gift.
- Direct** tax burden cannot be shifted by tax payers.
- Indirect tax is **more** elastic

III. Match the following:

- | | | |
|--------------------------|---|-----------------------|
| 1. Principle of taxation | - | Adam Smith |
| 2. Estate tax | - | Direct Tax |
| 3. Excise Tax | - | Indirect Tax |
| 4. 01.07.2017 | - | Goods and Service Tax |
| 5. Direct Tax | - | Less elastic |

IV. Odd one out:

- Which one of the following is not a indirect tax?
a) Service tax b) Value Added Tax (VAT) **c) Estate duty** d) Excise duty

V. Correct one out:

1. Which one of the following tax is a direct tax?

- a) Service tax **b) Wealth tax** c) Sales tax d) Progressive tax

VI. Give short answer:

1. Define tax.

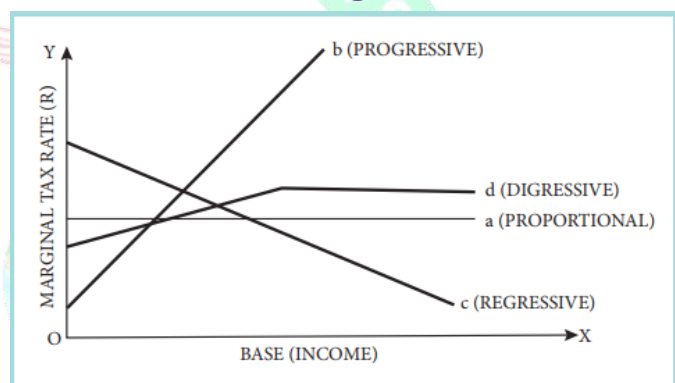
Taxes are compulsory payments to the government without expectations of direct or return or benefit to the tax payers.

2. Why taxes are imposed?.

- For the welfare of the society, the government has to perform various functions so it requires revenue.
- The main source of revenue is tax.

3. Write name of taxation types and draw its diagram.

- Proportional Tax
- Progressive Tax
- Regressive Tax.



Taxation Types

4. Write any three importance of tax.

- Health
- Education
- Governance.

5. What are the types of tax? and explain its. Taxes are classified into two types.

There are:

1. Direct Tax:

A Direct tax is paid directly by an individual or organisation to imposing entity. Eg: Income tax, Wealth Tax, etc.

2. Indirect Tax:

Indirect Tax is a tax whose burden can be shifted to others.

Eg: Service tax, Value added tax, etc.

6. Write short note on Gift Tax and Service Tax.

Gift Tax:

It is paid to the Government by the recipient of gift depending on value of gift.

Service Tax:

It is raised on provision of Service.

This tax is collected from the service recipients and paid to the Central Government.

7. What is Goods and Service Tax?.

- Goods and Services Tax is a kinds of tax imposed on sale, manufacturing and usage of goods and services.
- This is applied to achieve overall economic growth.
- GST is particularly designed to replace the indirect taxes.

8. Distinguish between the direct and indirect tax.

Direct Tax	Indirect Tax
Burden cannot be shifted by taxpayers.	Easily be shifted to another person.
Tax is imposed on personal income and corporate income.	Taxes imposed on various goods and services.
Direct tax has no inflation pressure.	This tax has inflation pressure
The impact and incidence are the same in case of direct tax.	The impact and incidence are different in case of indirect tax
Direct tax is less elastic.	Indirect tax is more elastic.

VII. Give brief answer:

1. Write briefly about the principles of taxation.

Adam Smith's four Canons of Taxation:

- Canon of Equality
- Canon of Certainty
- Canon of Convenience
- Canon of Economy.

1. Canon of Equality:

- The government should impose taxes in such a way that people have to pay according to their ability.
- It does not mean equal amount of tax but it means that the burden of a tax must be fair and just.

2. Canon of Certainty:

Certainty creates confidence in the tax payers cost of collection of taxes and increases economic welfare because it tends to avoid all economic waste.

3. Canon of Convenience:

Taxes should be levied and collected in such a manner that it provides a maximum of convenience to the tax payers.

It should always be kept in view that the tax payers suffer the least inconvenience in payment of the tax.

4. Canon of Economy:

Minimum possible money should be spent in the collection of taxes. Collected amount should be deposited in the Government treasury.

2. Explain the taxation types.

There are three types of Taxation:

- Proportional Tax
- Progressive Tax
- Regressive Tax

Proportional Taxation:

- The rate of tax is same regard less the size of the income.
- The tax amount realized will vary in the same proportion as that of income.

Progressive Taxation:

- The rate of tax will also increase with the increase of income of the person.

Regressive tax;

A regressive tax is a tax applied uniformly, taking a larger percentage of income from low income earners than from high income earners.

It is in opposition to a progressive tax.

3. Explain the importance of tax.

Importance of Tax

Taxes are crucial because governments collect this money and use it to finance under the following social projects.

1. Health

- Without taxes, government contributions to the health sector would be impossible.
- Taxes got of unding health services such as social health care, medical research, social security, etc.

2. Education

- Education could be one of the most deserving recipients of tax money.
- Governments put a lot of importance in the development of human capital and education is central in this development.

3. Governance

- Governance is a crucial component in the smooth running of country affairs.
- Poor governance would have far reaching ramifications on the entire country with a heavy toll on its economic growth.
- Good governance ensures that the money collected is utilized in a manner that benefits citizens of the country.
- Other important sectors are infrastructure development, transport, housing, etc.
- Apart from social projects, governments also use money collected from taxes to fund sector that are ' crucial for the well being of their citizens such as security, scientific research, environmental protection, etc. .
- Some of the money is also channeled to fund projects such as pensions, unemployment benefits, childcare, etc. Taxes can affect the state of economic growth of a country. '
- Taxes generally contribute to the gross domestic product (GDP) of a country.

4. Explain the direct and indirect tax with examples.

Taxes are classified into two types. There are:

(i) Direct Tax: A Direct tax is paid directly by an individual or organization to imposing entity. Eg: Income tax, Wealth Tax, etc.

(ii) Indirect Tax: Indirect Tax is a tax whose burden can be shifted to others.
Eg: Service tax, Value added tax, etc.

Direct Tax

(i) Gift Tax:

It is paid to the Government by the recipient of gift depending on value of gift.

(ii) Estate Duty:

- It is charged from success or of inherited property.
- It is not desirable to avoid payment of taxes

(iii) **WealthTax:** It is imposed on property of individuals depending up on the value of property.

Indirect Tax :

(i) ServiceTax:

- It is raised on provision of Service.
- This tax is collected from the service recipients and paid to the Central Government.

(ii) **Sales Tax or VAT:**It is an indirect tax on sale of goods because liability to collect tax is that of shopkeeper but the burden of that tax falls on the customer.

(iii) Goods and Services Tax (GST):

- Goods and Services Tax is a kinds of tax imposed on sale, manufacturing and usage of goods and services.
- This is applied to achieve overall economic growth.
- GST is particularly designed to replace the indirect taxes.

5. Why need for tax on people welfare? And explain it.

- The levying of taxes aims to raise revenue to fund governing.
- It helps alter prices in order to balance the affect of demand.
- Some of these include expenditures on economic infrastructure like, transportation, sanitation, public safety, education, health-care systems, military, scientific research, culture and the arts, public works, public insurance, etc. ,
- A government's ability to raise taxes is called its fiscal capacity.
- When expenditures exceed tax revenue, a government accumulates debt.
- A portion of taxes may be used to serve past debts.
- Governments also use taxes to fund welfare and public services.
- These services can include education systems pensions for the elderly, unemployment benefits, and public transportation. Energy, water and waste management systems are also common public utilities.
- The purpose of taxation is to maintain the stability of the currency, express public policy regarding the distribution of wealth, subsidizing certain industries or population groups or isolating the costs of certain benefits, such as high ways or social security.