# Chapter Two: Theoretical Framework of Taxation and Indian Tax System

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2 Chapter Two: - Theoretical Framework of Taxation and Indian Tax System

2-1-Introduction:-
In the previous chapter (one) the researcher studied introduction and research methodology used by him for conducting this study. It consists of the following sections, Introduction, Problem of study, Significance of the study, Objectives of the study, Hypotheses of the study, Scope of the study, Methodology, Limitations of the study and Summary.
In this chapter the researcher will study basic principles relating to taxation, like, Definition of tax, Characteristics of Taxes, Canons of taxes, objectives of taxes, classification of taxes, shifting, incidence, and impact of taxes, taxable capacity, double taxes. Then the researcher has to do a brief study of Indian tax system and at the end of this chapter The researcher will do analytical study of taxes revenue trends in India for ten years from 2000-2001 to 2009-2010.

Taxation has existed since the birth of early civilization. The first known system of taxation was in ancient Egypt around 3000 BC-2800BC in the first dynasty of the old kingdom. But the taxes were either material or money like goods or services in the primitive society. The subjects used to pay a share of their income to the Head of a tribe or to the King who in return provided them with the administration security from foreign aggression and other civic amenities.
In the medieval centuries feudalism was founded, so the origin of modern tax system also was founded. Feudal market dues, tolls for protection and use of road, bridges, ferries, land rent, and other payment in goods and services were gradually transferred into money payment with the rise of money economy, Kings liked to receive money and the people preferred to pay money instead of goods and services. Step by step the old feudal revenue system changed into taxation ( G.Bllehler,1936,page 209 )

Then With the development of economic sciences and with the passage of time, the functions of modern state appeared and taxation gradually became a tool of usage with more than one goal and became important source of revenue. During 19th and 20th centuries there has been both qualitative and quantitative change in the public expenditures. Taxation has passed through the stages with passage of time, and tax's functions and objectives also have changed from the ancient communities to medieval societies to modern societies also, so the tax system has evolved with the evolution of the functions of the modern state.
A common euphemism goes that only two things in life are inevitable: death and taxes. This certainly seems to be true, and as gloomy as death may be, taxes elicit a large amount of moaning and groaning.

Taxation is a payment from natural persons or legal entity and it is levied by government, for which no good or service is received directly in return, so taxes is that amount of money the people pay which is not related directly to the benefit people obtained from the provision of a particular good or service. Until the early 1930s, it was universally accepted in principle that governments should balance their budgets. Thus, the principle reason for taxation was to pay for government expenditures.

Of course, governments had from time to time resorted to borrowing in order to pay for their expenditures and government borrowing was relatively quite large during some war periods. Government borrowing may be from the private sector or from abroad. Alternatively, governments may borrow from the central bank of the country.

Money provided by taxation has been used by the Government and their functional equivalents throughout history to carry out many functions. Some of these include expenditures on war, the enforcement of law and public order, protection of property, economic infrastructure (roads, legal tender, enforcement of contracts, etc.), public works, social engineering, and the operation of government itself.

Governments also use taxes to fund welfare and public services. A portion of taxes also goes to pay off the state's debt and the interest this debt accumulates. These services can include education systems, health care systems, and pensions for the elderly, unemployment benefits, and public transportation, energy, water and waste management systems, they also common public utilities.

Governments have also financed expenditures in recent years through the sale of publicly owned assets. Although asset sales were an important source of funds to the UK government in the 1980s, they are necessarily limited since assets can only be sold once. Thus, governments still had to raise most of the revenue needed to finance their expenditures through taxation or by charging directly for government services (user charges). Governments use different kinds of taxes and vary the tax rates, this is done to distribute the tax burden among individuals or classes of the population involved in taxable activities, such as business, or to redistribute resources between individuals or classes in the population.
Modern social security systems are intended to support the poor, the disabled, or the retired by taxes on those who are still working. In addition, taxes are applied to fund foreign aid and military ventures, to influence the macroeconomic performance of the economy or to modify patterns of consumption or employment within an economy, by making some classes of transaction more or less attractive. Thus, there is no doubt that most government expenditures must be paid for through the taxation system and it is reasonable to see this as the principle function of taxation. Yet there have always been a variety of subsidiary objectives of taxation.

In the present time, taxation is not just a means of transferring money to the government to spend it for meeting the public expenditures or raise revenue to the government, but taxes have become beside that, as a tool for reduce demand in the private sector, redistribution of income and wealth in the societies in the countries. It is also a means for economic development and for playing for very important role in the case of stabilization of income, protection industrial home from foreign industrials.

Taxation helps to find out solution for some economic problems that face the state, like unemployment, inflation, and depression cases. It become as a stake in the election between the competing parties in the side of state. (Dr.A.senthilrajian, and other, 2006,page no 1)

The researcher have to mention that, taxation finds out solution for some economic problems, but not alone, but there are also a lot of another fiscal instruments. They are working together for solution of those economic problems. the researcher should be mention that, countries are practicing sovereignty authority upon its citizens, through levying of Taxes.
2-2- Definition of Tax:-

After brief introduction the researcher will state some tax definitions. There is no precise and accurate definition for the tax and the concept of tax has been defined differently by different economists. So there are a lot of definitions of taxes, and some definitions go back to the oldest sciences Economists in the world like Prof. Seligman, Bastable, Deviti de Marco and Hugh Dalton and so on. The researcher has searched for some of definitions from website, some definitions are as follows.

According to Prof Seligman “A tax is compulsory contribution from the person to the government to defray the expense incurred in the common interest of all without reference to special benefits conferred”.

Bastable defines it as “A tax as a compulsory contribution of the wealth of a person, or body of persons for the service of public powers”

"Taxation is the act of levying a tax, i.e. the process or means by which the sovereign, through its law making body, raises income to defray the necessary expenses of government. It is merely a way of apportioning, the cost of government among those who in some measure are privilege to enjoy its benefits, therefore must bear its burden" (, Hectors. Deleon, 2002,p 1)

Deviti.De Marco defines “A tax as a share of the income of citizens which the state appropriate in order to procure for itself the means necessary for the production of general public services”

Hugh Dalton “A tax is a compulsory charges imposed by a public authority irrespective of the exact amount of service rendered to the tax payer in return and not imposed as a penalty for legal offence”

JomBouvier defined a tax as "A pecuniary burden imposed for support of the government, the enforced proportional contribution of persons and property of the government and for all public needs"

Australia justice Dwyer wrote "A tax a compulsory contribution, or an imposed, may be nonetheless a tax, thought not so called. Contribution imposed by a sovereign authority on, and required from the general body of subjects or citizens as distinguished from isolated levies an individual's" For the various definitions taxes given by eminent writers on Public finance, we have to give definition.
From the researcher’s point of view definition of tax is “A tax is compulsory contribution, levied by government from owner of income without direct benefit but for public benefit, and taxes should be arranged by the law”

From all definitions mentioned earlier, it is clarified that, there is not one formula for definition. After our discussion of the definition of tax the researcher will discuss characteristics of tax..

2-3- Characteristics of Taxes:

The researcher known that, public revenue is divided into tax revenue and non tax revenue. Non-tax revenue like revenue comes from administrative activities like fines, fees, gifts & grants, Surplus from Public Enterprises, Special assessment of betterment levy, and deficit financing, but tax revenue has some other characteristics. We will discuss it in this section.

1- A Tax is compulsory.
A tax is imposition by law, the law practice in the societies becomes an important thing, hence compulsory element existed by legislation. So tax is compulsory payment to the governments from its citizens. Tax is duty from every citizen to bear his share for supporting the government. The tax is compulsory payment, refusal or objection for paying tax due leads to punishment or is an offence of the court of law. All the people like minors and aliens are taxed. Government imposes when somebody buys commodities, or when uses services then the condition of compulsion is found. The government practices its sovereign when levying the tax from its citizens.

2- Tax is contribution.
Contribute Means order to help or provide something. Tax is contribution from members of community to the Government. A tax is the duty of every citizen to bear their due share for support of government; these contribute to help the government to face its expenditures. Some wants are common to everybody in the society like defense and security, so these wants cannot be satisfied by individuals. These social wants are satisfied by governments, hence the people support government for these social wants. Contribution involves loss or sacrifice from the side of contributor. These sacrifice touch his income.

3- Tax is amount of money
Tax is case of money, the money as a tool for exchange and measure for prices and efforts (alribyidy , 2008,p 20)
4-Tax is for public benefit.
Tax is levied for the common good of society without regard to benefit to special individual. Government proceeds are spent to extend common benefits to all the people such as natural disaster - like floods, famine - defense of the country, maintenance of law and establish infrastructure and order. Such benefits are given to all people.

5-No direct benefit
Government is compulsorily collecting all types of taxes and does not give any direct benefits to the tax payer for taxes paid. Professor Taussing said. “The essence of tax as distinguished from other charges by governments is the absence of a direct quid proque between the taxpayer and the public authority” (Dalton, 1965, p 17)
Tax is different from another government charges, which gives no direct benefits to taxpayers, another charges like prices, fees, fines, hence the direct benefits are available. They are common benefits to all the members of the society.

6-Tax is paid out of income or wealth of the taxpayer.
Income means money received, especially on regular basis, for work or through investment (Oxford Dictionary, 720). Tax is paid out of income as long as the income becomes realized, here the tax is imposed. Income owner has profit from any business, so he should pay his share for support the government.

7-Government is levying the taxes.
Government is levying the tax; Governments are practicing sovereign authority upon its citizens through levying of taxes, because the tax is sovereign revenue. Nobody can collect tax from the people but the government because it has all power for that. Tax is transferring resources from the private sector to the public sector. Government is levying the tax to cover its expenditures. The government targets for this expenditures for increase of social welfare, economy development and stabilization.

8-Tax is not the cost of the benefit.
Tax is not the cost of benefit conferred by the government on the public. Benefit and taxpayer are independent of each other, and payment of taxation is of course designed for conferring of benefits on general public.

9-A tax is for the economic growth and public welfare.
Major objectives for the government are to maximizing economic growth and also maximize social welfare. Development activities of nations generally involve two operations, the
raising of revenue and the spending of revenue, so the government spent taxes for economic benefit, for entire community, for aggregate welfare of the society.

Conclusion:- there are several characteristics of taxes. these are  A Tax is compulsory, Tax is contribution, Tax is amount of money, Tax is for public benefit, No direct benefit, Government is levying the taxes and Tax is not the cost of the benefit. These characteristics distinguish the taxes revenue from non-tax revenue like price, fess, penalties and fines, gifts and grants, forfeiture, tributes and indemnity, escheat, loans, deficit spending. In the following pages the researcher will talk about canons of taxes.

2-4- Canons of taxes:-
Canons of taxation refer to the administrative aspect of a tax. They are related to the rate, amount, method of levy, and collection of a tax.

Despite the modern development of economic sciences, Adam smith’s canons of taxation, still continue to be widely accepted as providing a good basis by which to judge taxes and these principles still apply today.

Adam Smith in his book the Wealth of Nation, published in 1776, has prescribed certain principles known as canons of taxation. The canons of Adam Smith are not free from objections. The fundamental canons of taxation are as follows.

1- Canon of equity.
2- Canon of certainty.
3-Canon of convenience
4- Canon of economy.

That the basic principle of taxation has reminded more or less unchanged for 220 years. Since then, there has been a lot of change in the economic activities, so modern economists like Charles F Bastable, H Dalton have added some canons to these to update and expand them.

1- Canon of equity:-
This canon implies that any tax system should be based on the principle of social justice. Equity refers to both horizontal and vertical equity.

Horizontal equity describes the concept that, taxpayers with equal abilities to pay should pay the same amount of tax. Vertical equity means that taxpayers with a greater ability to pay should pay more tax. The question of how much more tax people with higher income should pay is not an issue for the framework to resolve. Instead the framework serves to note the importance of the principle, rather than to state how equity is achieved. How equity is to be defined and achieved for a tax system is a matter of political, social and economic debate.
The presence of both horizontal and vertical equity in a tax system is thought to make the system fair. However, the term fair has different meanings to people owing to differing opinions on what “similarly situated” means and how progressive a tax should be. For example, some would view an income tax system as “fair,” if there were deductions for basic items such as medical expenditures and child care. Others would view the system as “fair” if there were almost no deductions. In addition, some view an income tax as “fair” if it represents a higher percentage of a high-income taxpayer’s income relative to a lower income taxpayer (that is, the system is progressive). On the other hand, some view an income tax system as “fair” if everyone pays at the same rate (the tax is the same percentage of every taxpayer’s income yet high-income taxpayers pay more because they have more income). Because taxpayers usually pay a range of different types of taxes, equity is best measured by considering the range of taxes people pay, rather than looking at only a single tax.

2. Certainty:-

The tax rules should clearly specify when the tax is to be paid, how it is to be paid, and how the amount to be paid is to be determined. This canon is made trust between two parties, first party taxpayer who is pay the tax and second party the authority whom receipt tax. If taxpayers have difficulty measuring the tax base or determining the applicable tax rate or the tax consequences of a transaction, then certainty doesn’t exist. Certainty might also be viewed as the level of confidence a person has that the tax is being calculated correctly.

3. Convenience of Payment:-

A tax should be due at a time or in a manner that is most likely to be convenient for the taxpayer. Convenience in paying a tax helps ensure compliance. The appropriate payment mechanism depends on the amount of the liability and the how easy or difficult it is to collect. Discussion of this principle in designing a particular rule or tax system would focus on whether it is best to collect the tax from the manufacturer, wholesaler, retailer or customer, as well as the frequency of collection.

4. Economy in Collection:-

This canon implies that decreasing the administrative cost of collection of the tax at the lowest level. The costs to collect a tax should be kept to a minimum for both the government and taxpayers. This principle considers the number of revenue officers needed to administer
a tax. Compliance costs for taxpayers should also be considered. This principle is closely related to the following principle of simplicity.

5. Simplicity:-
The tax law should be simple so that taxpayers can understand the rules and comply with them correctly and in a cost-efficient manner. A tax should be simple in nature so that the tax-payer is able to calculate it and pay it conveniently. Simplicity in a tax system reduces the number of errors. Simplicity increases respect for the system and therefore improves compliance. A simple tax system better enables taxpayers to understand the tax consequences of their actual and planned transactions. Simplicity includes a clear understanding of the time of payment, the mode of payment, the place of payment and the amount to be paid.

6. Transparency and Visibility:-
Taxpayers should know that a tax exists and how and when it is imposed upon them and others. Transparency and visibility in a tax system enable taxpayers to know the true cost of transactions. These features enable taxpayers to know when a tax is being assessed or paid and to whom. This principle relates to fairness because taxpayers should be able to, Know what type of taxes they are paying and how much. On the other hand, consumers indirectly pay various excise taxes when they buy gasoline, but they typically do not know how much of the total amount paid represents excise taxes. Consumers would most likely perceive that the price of gas had increased rather than realizing that the manufacturer’s excise tax had increased.

7. Neutrality:-
The effect of the tax law on a taxpayer’s decisions as to how to carry out a particular transaction or whether to engage in a transaction should be kept to a minimum. The principle of neutrality stands for the proposition, that taxpayers should not be unduly encouraged or discouraged from engaging in certain activities due to the tax law. The primary purpose of the tax system is to raise revenue, not to change behavior. Of course, a completely neutral tax system isn’t really possible. the neutrality principle would come into play in determining how to measure income or ability to pay.

8. Appropriate Government Revenues:-
The tax system should enable the government to determine how much tax revenue will likely be collected and when. A tax system should have some level of predictability and reliability
to enable governments to know how much revenue will be collected and when. Generally, a government realizes better stability with a mix of taxes.

9- Economic Growth and Efficiency:-
The tax system should not impede or reduce the productive capacity of the economy. A tax system should be aligned with the economic goals of the jurisdiction imposing the tax. Generally, the system should not favor one industry or type of investment at the expense of others. The principle of economic growth and efficiency might seem to be in conflict with the principle of neutrality. This principle just recognizes that rules to calculate the tax base and tax rate have economic effects. For example, if the income tax system calls for a 30-year depreciable life for semiconductor manufacturing equipment, the jurisdiction must recognize that such a rule will have an effect (here, an adverse one) on the cost of semiconductors and site location decisions of semiconductor manufacturing companies.

10- Canon of co-ordination.
In some countries taxes are imposed by central and state governments, it is therefore, very much desirable that, there must be co-ordination between different taxes that are imposed by different tax authorities.

From the data, the researcher found out that, any tax system should include all those tax canons till become plentiful revenue, easy to apply, clear in the procedures, simply for understanding. Governments should incorporate those canons for increase taxes revenue. We have to mention that those canons are not enough to structure good tax system, but there are some other factors, like political system, stability of economics as well.

2-5- Objectives of taxation
After the researcher has studied the definitions of tax, Characteristics of Taxes, Canons of taxes, in this section he will study objectives of taxes.

Objectives of taxes have been developed when the functions of the Government are developed. In the primitive communities a member was to pay his share to the Head of the tribe, who in return provided them with administration, security from foreign aggression and other civic amenities. But today taxation besides being the main resource for supporting government has became a tool for economic growth, social welfare; attract foreigner investment, economic stability, and income distribution. The researcher will explain objectives of taxes in brief.
1- Revenue
This objective is the oldest, uppermost and primary objective, so the taxes are imposed so as to produce the necessary amount of revenue to meet the requirement of the government since the public expenditures is increasing in scope and size day by day. So the main objective of taxes is to raise revenue to meet the expenditures adequately. The provision of public services and infrastructure is a key for economic development and growth, so the Government seeks to secure a huge amount for protection, education, public health, etc.

2- Social objectives
Taxes became as main goal for some of social objectives. The researcher will discuss the objectives as follows

2-1- Redistribution of income and wealth
Income is deferent from one person to another in the society, inequity in income leads to many evils, and the government aims to reduction of inequalities between members of the society to secure social justice, so tax is a means of ensuring the redistribution of income and wealth in order to reduce poverty and promote social welfare, (kathnightingale, 1998, p 4)
For the achievement of these goals government follows these ways
a) Imposition of high rate tax upon luxury commodities.
b) Applying progressive tax system when levying taxes from taxpayers.
c) Imposition of tax exemption to basic goods.

2-2 social welfare
Social welfare is the basic need of the society in the modern age. The government functions have become very important to the society, because the society needs saving, protection, education, health, and so on. All these functions are necessary to make social welfare, so the government levies revenue from tax, and expends it for those function. Therefore revenue from taxes is fuel to the government for social welfare. Social welfare is indicator of development of the countries, so almost all the countries have competition to introduce these services in the societies.

2-3 –Safety of society from bad and injurious customs
Fighting the bad customs in the society is the primary task of the government, so tax is a tool for fighting some of those customs. From this angle tax imposition of very high percentage on the goods like tobacco and alcohol is an effort to reduce. Those habits have reaction on
the health of people in the society its use because those goods are main reasons to some
diseases.
3- Economic significance of taxes.
Taxes are used from economic point of view, so taxation helps to encourage some economic
activities, and as a tool to solve some economics problems. Tax is also a means for directing
of scarce economic activities. Taxation helps to accelerate economic growth, and taxation
plays very important role in case of economic stability.
3-1 Economic growth
Taxes are considered as a tool for economic growth and it helps at to accelerate growth of
economic development. Economic development has placed considerable emphasis on
objectives of taxation policy. Economic development is the main objective in all the
countries of the world. Economic development depends ton mobilization of resources and
efficient use of such resources between different sectors of the economy activities. Tax
policy must be designed so as to mobilize the internal resources and avoid use of these resource in the un-useful filed. Taxation policy helps to increase production through raising
the rate of capital formation, so it helps improve the economic welfare through better
distribution of income and it becomes an important instrument for regional inequalities
through imposition rate of tax from regional to another. Tax policy may serve directly to
mobilize resources for capital formation in the public sector and indirectly to promote
private saving and investment (G.sllall , , p 65)
3-2 Enforcing government policy:-
Government policy can be easily enforced by adoption of suitable tax policy, (N.P. srin,
vason, , p 29)
The Government can encourage investment, saving, consumption, export, protection of
home industry, employment, production, protection of society from harmful customs, and
economic stability through suitable tax policy. Therefore, the government gives tax
exemption to the investment and saving.
3-3 Direction limited scarce resources into effective and essential channels
Tax policy plays crucial role for direction scarce resources into essential commodities. This
is achieved by giving tax exemption to certain industries and imposition of heavy duties on
other industries, so with the adoption of suitable tax policy, economic resources may be
diverted to the production of necessary articles and investors will go to the exemption industries.

3-4 Economic stability
To maintain economic stability is one of the tax objectives, Economic stability is a very important factor for the government’s economic growth. Government can use taxes in the case of inflation and depression. Here taxation has different roles in times of inflation and depression, in the case of inflation when the prices are rising. Tax can play very important role, which the government reduces, the purchasing power in the hands of people. Thus arise in the rates of existing taxes and the imposition of new taxes would check consumption, decrease the level of effective demand and therefore help in bringing up stability in prices. Heavy taxation transfer purchasing power from the hand of people to the government which if used for productive purpose will increase the level of economic activity and employment (D.senth.lkumar, p 5)

In the case of depression taxes play a different role Purchasing power in the hand of people is reduced and they are able to spend less and the demand for commodities and services is reduced. All these lead to a shrinkage of business activity and employment. In this case government should increase the purchasing power in the hand of public through reducing the burden of taxation on the people and impose tax upon saving and hoarding so that people may be encouraged to spend more and thus help to create more demand for goods and more business activity and employment.

Conclusion: - The researcher have seen that, the main objectives of taxes are three, revenue objective, social objective, and economic objective. Objective revenue is the oldest, uppermost, and primary objective for supporting government for enforcing its functions of public goods and services. Taxes raise money to spend on armies, roads, schools and hospitals, and on more indirect government functions like market regulation or legal systems. Social objective is for Redistribution of income and wealth between rich class and poor class in the community, social welfare to the member of society, and society safe from bad and injurious customs. Economic objective, taxes are use more than one objective in the economic field, economic growth, enforcing government policy, direction limited scarce resources into effective and essential commodities, and economic stability.
2-6- Taxes classification:-

Tax is the main source for the Government revenue. The government business can’t perform without funds, therefore it needs money, earlier we have known that, government sources dividend into tax revenue and none tax revenue. There is one fact that, revenue of tax is represent majority from total public revenue.

There are more than one classification of taxation. A study of the classification of taxes helps us to understand the nature and significance of deferent taxes.(D. Senthilkumar and Dr. A. Senthil, 2006, p 8)

So taxes are classified on various bases, such as nature, form, aim essence and methods of taxation, the following classification is commonly found in modern tax system

1- As who bears the burden are direct taxes and indirect taxes.

2- As to subject of matter are personal, property, and excise.

3- As to determination of account are Specific and Ad-valorem Duties.

4- As basis of method are Progressive, proportional, regressive and regressive taxes.

5- As to purpose are Single and multiple taxes.

6- As to scope are national tax and local tax.

One classification does not contradict the other but they are complementary and supplementary to one another and all classifications don’t come out from one, that who bears the burden, so the researcher will discuss only one classified tax according to who bears the burden of tax (direct and indirect taxes)

2-6-1- Direct and indirect taxes:-

This is the best classification for revenue tax and it is well known among scientists of public finance. The main source of revenue for the government is tax revenues (direct & indirect taxes). The usual distinction between direct and indirect taxes is that a direct tax is one for which the formal and economic incidence are essentially the same - that is, the taxpayer is not able to pass the burden on to someone else.

Thus income tax counts as a direct tax but VAT counts as an indirect tax because the tax burden may easily be passed on. Direct taxation is defined as the tax which is directly levied on the citizens of a country.
The above chart shows structure taxes revenue, all individuals and concerns have to pay direct taxes to the government on a regular basis. These direct taxes are calculated on every source of income that accrues to the business of individual. On the other hand, the citizens of a country are charged certain levies indirectly as well. These indirect levies are known as indirect tax. These are the taxes payable on an activity or a commodity. Some common examples of indirect taxes are sales tax, excise tax and service tax.

The classification of taxes has been defined from scientists of economics, but the writers differ from the side of the basis and the terms direct and indirect are vague and are never given standard interpretation.

The distinction between direct and indirect taxes is not always satisfactory or a consistent one. There has been a long tradition in economic literature to classify taxes into those two categories (HL Bhatiaa, 2006, p134)

Classification into direct and indirect taxes is very essential because their effects on production, distribution, and consumption are different and social welfare is also different (D.M. Mithani, 2004, page 75)

Direct and indirect tax according to Dr. Dalton, depend upon who bear the impact and incidence. As a person bears impact and incidence that is direct taxes, while the impact and the incidence are not different persons, the tax is indirect. Thus income and property taxes are direct taxes, while customs and excise duties are indirect taxes.
According to Dr. Nicholas Kaldor there are taxes which are levied on persons and corporation and taxes levied on transactions. Thus income tax or the ownership of property would be direct taxes and taxes on the purchase or sale of property like stamp duties would be indirect tax. According to J.S M taxes are direct or indirect depending upon whether the ultimate burden of the tax fall upon the person who actually pays the tax or not.

Prf. P.E Taylor thinks in terms of shift ability. When the tax don’t shifted is direct, but when tax is shifted, it is indirect tax. Thus there seems to be no scientific or logical basis for the distinction of taxes into direct and indirect and there is a lot of confusion and vagueness regarding the basis of classification of direct and indirect taxes. There is no precise scientific or logical criterion to decide whether a tax is direct tax or an indirect. (Dr. A. senth. I. Rajan, p9)

2-6-2-Differences between Direct tax and Indirect tax:-

There are some differences between direct tax and indirect tax. They are as follows.

1. Allocation Effect:-

   The allocate effects of direct taxes are superior to those of indirect taxes. When a particular amount is raised through a direct tax like income tax, it would imply a lesser burden than the same amount raised through an indirect tax like excise duty. An indirect tax involves excessive burden as it distorts the consumer's preference regarding goods due to price changes. Thus an indirect tax has an adverse effect on the allocation of resources than a direct tax. (Gaurav Akrani, 12/30/2010 01, website)

2. Distributive Effect:-

   Direct taxes are progressive and they help to reduce inequalities. But indirect taxes are regressive and they widen the gap of inequalities. Hence, direct taxes are regarded to be superior to indirect taxes in effecting a more equitable distribution of income and wealth. But this is not always true. Even indirect taxes can be made progressive by levying them on luxuries and exempting them on necessaries. Both direct and indirect taxes are alternative methods of achieving any particular redistribution of income.

3. Administrative Costs:-

   The administrative costs of direct taxes are more than that of indirect taxes. Direct taxes are narrowing based and have many exemptions. Indirect taxes can be conveniently collected and cost of collection is constant overtime. Indirect taxes are easier to administer than direct taxes.
From the point of view of efficiency and productivity, indirect taxes are better. Indirect taxes are wrapped up in prices and hence they cannot be easily evaded. They are more productive as their cost of collection is the least. Thus, from the point of view of administrative costs, indirect taxes are relatively superior.

4- Built-in Flexibility and Stability:-

Direct taxes are more flexible than indirect taxes. During a period of prosperity, direct taxes fetch more revenue as they are progressive. But indirect taxes are proportional and they do not fetch as much revenue as direct taxes.

Direct taxes help to reduce the inflationary pressure by taking away the excess purchasing power and hence they promote stability. But indirect taxes are inflationary. Hence, from the point of stability, direct taxes are preferred to indirect taxes.

5. Growth Orientation:-

Indirect taxes are more growth oriented than direct taxes. Direct taxes, being progressive, reduce savings. When savings and investments are discouraged, economic growth is adversely effected. (GauravAkrani,, 12/30/2010 01, website)

Indirect taxes discourage consumption and increase savings. Indirect taxes on luxuries reduce conspicuous consumption and channelize resources in to growth oriented program.

Conclusion Thus from the above points, allocation, distribution and stability, direct taxes are superior. From the view of productivity and economic growth, indirect taxes superior. But the use of both direct and indirect taxes is indispensable in modern public finance.

2-6-3- Direct taxes:-

Direct taxes are those which are paid once for all by the persons from whom they are collected and not passed on to another. In the direct taxes the impact and the incidence of a direct tax are the same person.

J .S.Mill Direct tax is demanded from the person who is intended or desired to pay it(N. P. Srinivasan, ,1982,p 19) . Direct taxes are including all merits, they cannot be shifted directly, satisfy equity principle, are elastic increase. Direct taxes don’t lead to increase in prices of commodities, have progressive in nature, have satisfy the canons of economy, convenience and certainly, and finally, direct taxes are taxes on income, so all incomes from various sources are direct taxes, like, personal income, corporate income, income from land, properties income, income from capital, income from investment, wealth tax, and gift tax.
**Merits of direct tax**

1- Equity: - Direct taxes have equity of sacrifice, depend upon the volume of income. They are based on the principle of progressive, so rates of tax increase as the level of income of a person rises.

2- Elasticity and productivity: - Direct taxes have elasticity because when the government faces some emergency, like earthquake, floods and famine the government can collect money for facing those problems by direct tax.

3- Certainty.: - Direct taxes have certainty on both sides’ tax-payer and government. The tax-payers are aware of the quantity of tax. They have to pay and rate, time of payment, manner of payment, and punishment from the side of government is also certain about the total amount they are getting.

4- Reduce inequality: - Direct taxes follow progressive principles so it is taxing the rich people with higher of taxation and the poor people with a lower level of taxation.

5- Good instrument in the case of inflation.: - Tax policy as fiscal instrument plays important role in the case of the inflation, so government can absorb the excess money by arising in the rate of existing taxes or imposition of new taxes.

6- Simplicity: - Direct taxes are simplicity, while levy the rules, procedures, regulations of income tax are very clear and simple.

**Demerits of direct taxes**

1-Evasion: - Direct tax is lump sum therefore tax payers try evasion.

2- Uneconomically.: - Expenses of collection are larger in the case of indirect taxes, because they require widely- spread staff for collection

3- Unpopular: - Direct tax is required to be paid in lump sum for the whole year, so the tax payers feel the painful payment, these taxes are therefore unpopular.

4- Little incentive to work and save: - In direct taxes, rates are of progressive nature. A person with higher earnings taxed more, in turn he is left little amount. So the tax payer feels disincentive to work hard and save money after reaching a certain level of income.

5- Not suitable to a poor country: - Direct taxes are not enough to meet its expenditure.

6- Arbitrary: - Due to absence of logical or scientific principle to determine the degree of progression in the taxation, the direct taxes are arbitrary.
2-6-4- Indirect taxes:-
Second half of tax revenue is indirect taxes, Indirect taxes are paid by the producer or importer and passed on to the consumer. In the case of indirect taxes the impact and incident of tax are on different persons. Indirect taxes are taxes on commodities and services other than personal services. Relationship between taxpayer and tax authority is absent. All people whether rich or poor are charged fixed rate. These taxes shift to another person, effect in income of poor people more than rich people. Indirect tax, like excise duties, customs duties, sales tax and service tax

**Merits of indirect taxes:-**

1- High revenue production. :-Nature of indirect taxes is imposition on the commodities and services. Here indirect taxes cover a large number of essential goods and luxurious goods which are consumed by the mass both rich and poor people, these help in collecting a large revenue. (senthil, 2006,page 13)

2- No evasion. Nature of indirect tax is that, it is included in the price of commodity, so tax evasion or tax avoid is difficult.

3- Convenient:-Indirect taxes are small amount and indirect taxes are hidden in the price of goods or service, hence the burden of these taxes is not felt very much by the tax-payers, and not lump sum like direct taxes.

4- Economy- Direct taxes are economical in collection and the administrations costs of collection are very low, also the procedure of collection of these taxes is very simply. Direct taxes are taxes at source.

5- Wide coverage:-Indirect taxes cover almost all commodities like essential commodities, luxuries, and harmful ones.

6- Elasticity:-Since a large number of commodities and services are covered by indirect taxation there is great scope for modification of taxes, goods and tax rate, much depends on nature of good and on its demands.(A.senthl,2006, 13)
Demerits of indirect taxes:-

1- Regressive in effect:-Essential commodities are used from all members of community. When taxing these commodities the burden would be equal, and no distinction is made between the rich and poor people.

2- Uncertainty in collection- Discourage savings and Increase inflation:-Indirect taxes are payable when people spent their income or when people buy goods and services, so tax authorities cannot accurately estimate the total yield from different indirect taxes.

3- Discourage savings- Increase inflation:-Indirect taxes are included in the price of commodity, so people have to spend more money on essential commodities, when levied indirectly. In this case that means the customers cannot save some of their money.

4- Increase inflation:-Indirect taxes increase the cost of input and output, increase in production cost, push the price of goods. These reflect in increase in the wages of the workers.

Conclusion:-

Direct and indirect taxes represent taxation system in modern times, a combination of both the taxes would be very necessary to streamline the financial aspects of the government. The direct taxes the impact and the incidence of a direct tax are the same person. In the case of indirect taxes the impact and incident of tax are on different persons. Advantages of direct tax are Equity, Elasticity and productivity, Certainty, Reducing inequality, good instrument in the case of inflation, Simplicity. Disadvantages of direct taxes are Evasion and corruption, Uneconomical, Unpopular, Little incentive to work and saving, not suitable to poor country Arbitrary. Advantages of indirect tax are high revenue production, No evasion, Convenience, Economy, Wide coverage and Elasticity. Disadvantages of indirect taxes are regressive in effect, Uncertainty in collection, Discouraging savings, and increasing inflation. Tax authority should always maintain balance between direct and indirect taxes. These two taxes are complementary one to each other, as they remove the financial forces operating in the economic system.
2-7- The shifting, incidence, and impact of taxation:-

Introduction:-
After our discussion of the classification of taxes according to who bears the burden(direct taxes and indirect taxes). The researcher will study some tax items, like impact, incidence and shifting. As we know, tax is sacrifice from taxpayer to government and tax is transfer money from private sector to public sector, but when tax transfer to the government is passing through some stages and here no one knows who will pay the tax and who will be the last person to pay the tax, so three concepts are involved. Firstly bears the impact of the tax which a tax imposed on some person, Secondly the incidence of the tax it may ultimately be borne by this second person or transferred to another by whom it is finally assumed. Thirdly the shifting of tax here, it may be transferred by him to second person.

2-7-1- Impact:-
The impact of tax is on the person, who has to find the money and deposit it with the state treasury. Impact of tax is on the person who pays it in the first instance, hence there is person have a businesses and the impact find by reason that’s business, in other words, the man who pays the tax to the government in the first instance bears its impact. Impact of tax therefore refer to the immediate burden of the tax and to the ultimate burden of the tax.(B.P.Tyagi,2007,p 251)

2-7-2- Incidence of taxation:-
Incidence of a tax is on person who finally bears burden of a tax. Tax incidence research about who bears the cost of taxation, incidence is the ultimate result of the shifting tax incidence and also it refers to the final resting place of tax burden as against the impact which means the first place where a tax is imposed(dictionary of taxation ,1997,p 87). Incidence of taxation which is one of the effects of the tax system, which incidence refers to the burden of a tax , the incidence of tax is on the person who ultimately pay it, who cannot shifted it any further.

2-7-3- Shifting of tax:
It means the transfer of the tax burden from the original payer to some other. Tax shifting is the study of a way in which the burden of taxation is shifted among person and organization in the economy. Shifting is process of transferring money burden of tax to someone else. Shifting finally ends in incidence, shifting of a tax refers to the process by which the money burden of a tax is transferred from one person to another, wherever there is shifting of the
tax the tax may be shifted forward or backward, may be full or partial, if the tax shifted the price of the taxed commodity increases. The incidence of personal income –tax cannot be shifted to another and the burden always remains where it is imposed. In the case of direct taxes there is no shifting of the tax burden but the case of indirect taxes, the tax burden may be shifted from one person to another person, the tax can be shifted. It depends on some factors, including, elasticity of demand and supply, coverage of the tax and the time period allowed for adjustment.

Conclusion:-Impact of a tax is on person from whom government collects money in first instance. While incidence of a tax is on person who finally bears burden of a tax, while shifting is process of transferring money burden of tax to someone else. Shifting finally ends in incidence.

2-8- Taxable capacity:-
After The researcher explaining the shifting, incidence, and impact of taxation, in this section we will study tax capacity and Factors of Taxable Capacity, Kinds of taxable capacity.

The term taxable capacity refers to the maximum capacity of the burden of tax that a country can bear and contribute to the expenses of the national exchequer during normal and abnormal situation. The concept of taxable capacity has been defined differently by different economists. According to Sir Josiah Stamp: - “Taxable capacity is that maximum amount which the community is in a position to bear towards the expenses of public authorities without having a really unhappy and down-trodden existence and without dislocating the economic, organization too much”

And According to Findlay Shiraz: "It is the optimum tax ability of a nation, the maximum amount of taxation that can be raised and spent on the economic welfare in that community".

Dalton calls it a dim and “confused conception”. He writes in his book "Principles of Public Finance": "Absolute taxable capacity is a myth and should be banished from all serious discussions of public finance”.

For the various definitions of taxable capacity given by eminent writers on Public Finance, we gather that by taxable capacity is meant the maximum amount which a nation can contribute towards the support of the government without inflicting damage on the power and produce.
The amount of tax burden which the citizens of a country are ready to bear is not rigidly fixed. It can increase or decrease with a change in the distribution of wealth, the size of population, method of taxation, etc.

In other words, we can say that the limit of taxable capacity is a relative and not an absolute quantity. Taxable capacity is different in different countries, therefore as a first step, it is necessary to identify variable which influence taxable capacity, list of such variable including, per capita capital, composition of gross domestic product, degree of openness of the economy and so on.

2-8-1- Kinds of taxable capacity:-
There are two types of taxable capacity.

1) Absolute taxable capacity:- The absolute taxable capacity refers to the maximum amount of tax paying capacity of the economy or country as a whole or a region or industry or a group of individuals, which can be raised from a community without effecting the productive effort and efficiency.

2) Relative taxable capacity:- Relative taxable capacity is a comparative term, relative taxable refers to the comparison between the absolute taxable capacity of different tax payer, industries or groups of tax payers or between two countries.

2-8-2- Importance of taxable capacity: there are some points of importance for taxable capacity.
1- It helps the country estimate the amount of money it could collect by way of taxation.
2- It helps the country to mobilize revenue from different sources.
3- It shows the participation of each section to share in the provide of government revenue.
4- It helps to the government to develop the economy of the country as a whole.
5- It helps the country to identify those taxes that are very harmful and highly detrimental to the state.
6- It is useful for the purpose of comparison of the burden of taxation as between different state of federal government.

2-8-3- Factors of Taxable Capacity:
There are various factors of economic and non- economic nature that influence the taxable capacity of the country.

1) The size of population: Taxable capacity is very much affected by the increase in national income and by the rate of growth in population. If the increase in national income is
greater than the growth in population, the per capita income goes up. The taxable capacity of the individuals rises. If the rate of growth of population is higher than the national income, the taxable capacity decreases.

(2) The distribution of national income: Taxable capacity is also influenced by the distribution of national income within a country. If there is unequal distribution of wealth in the country, the taxable capacity of the nation will be high, but if the income is equally distributed, then the taxable capacity will be low. A man earning an income of ₹ 50,000 a month is able to pay more to the government than thirty persons earning ₹ 300 per month.

(3) Standard of living of people: If standard of living of people is high, they work more efficiently so that they may enjoy a still better standard of living. When they work enthusiastically, they receive higher wages from their employers. Taxable capacity tends to increase then.

(4) Character of taxation: If taxes are devised wisely, then they give less resentment from people and bring forth a large yield.

(5) Purpose of taxation: Purpose of taxation has a direct bearing on taxable capacity of a nation. If citizens of a country are satisfied with purpose, of taxation i.e., the increase in welfare of people, then they show greater willingness to pay taxes to government, whereas, if they find that revenue will be spent for unproductive purposes, they hesitate to pay taxes.

(6) Psychological factor: Psychological factor is a very important factor in determining taxable capacity of a nation. If people are satisfied that government is doing its utmost to raise standard of living of masses and in maintaining prestige of country, then they try to sacrifice their lives, not only money for the government. A simple approach to patriotism brings forth tons of gold.

(7) Nature of public expenditure: When the revenues collected by way of taxation are spent on the social and economic overheads or on the economic development, the taxable capacity will increase, and on the other hand if the revenues are used on unproductive projects the taxable capacity will not increase.

(8) The stability of income: When the state is in the good condition stability helps to mobilize more taxes and increase the taxable capacity of the national. Besides that the industrial sector has more taxable capacity from agriculture.
(9) The pattern of taxation adopted:-The taxable capacity is greater where multiple tax system is adopted. If there is a single tax system, when new source of taxes are tapped, and a progressive tax system yields large revenue (Gupta, page 128)

(10) Administrative efficiency:-If the administration of taxation has plains for increasing efficiency of employes and its collection machinery is efficient, here the tax evasion may be reduced and the taxable capacity will increase.

(11) Economic situation:-Taxable capacity depends upon the economic case. During the period of boom or prosperity and when manufacturers make huge profits, the taxable capacity will be high, contrary to this in the period of depression taxable capacity will be low.

(12) Political conditions:-A stable government and peaceful conditions have a favorable effect on the taxable capacity of a country tax yield is low where the government is unstable or where the government is undemocratic.

(13) Effect of inflation: If the country is in grip of inflation, purchasing power of people is reduced, taxable capacity of nation shrinks considerably. But if value of money is high and country is not faced with unemployment, then taxable capacity of people is quite high.

2-8-4 Measurement of tax capacity:-
The taxable capacity mostly depends upon the national dividend or national income. There are two methods available for measuring taxable capacity and they are

1- The personal or aggregate income method:- Under this method, all the income of all individuals are added, that is income from land, building, profits from business enterprises, income from employment to get the national income if the national income increase the taxable capacity increases and vice versa.

2- The production method:-This method, the net produce in terms of money from various souces is estimated and added up. The produce from agriculture, industry and trade, is estimated in term of money and is added to get the national income. If net production increases, taxable capacity also increases and vice versa.

Conclusion:
The researcher discussed in the above definition of tax capacity and kinds of taxable capacity (Absolute taxable capacity and Relative taxable capacity), various factors on which taxable capacity of a nation depends. We cannot single out any factor and say that taxable capacity is determined solely by this factor alone. The fact is that various factors influence
taxable capacity and we have to take them all into consideration while judging maximum amount which citizens of a country can pay. In the end taxable capacity is of great importance to the theory of public finance in view of its contribution in estimating the capacity of the nations to bear the burden of taxation to help the state to estimate the amount of money.

2-9- Double taxation:-
After our discussion on the topic of tax capacity in the previous section, we should study double taxation; therefore we will single out this section to the issue of double taxation. Double taxation is a problem in the modern times. It is one from the unequal taxation. It consists either of taxing some source of wealth twice in the same country or in the different countries. Double taxation is considered as obstacle before the tax –payer and it also hinders the mobility of capital from one country to another. It is inconsistent with the canon of equity laid down by Adam Smith, therefore from time to time efforts have been made to avoid internal and international double taxation.

Definition of Double taxation:-A situation may arise where a person is subject into two different tax regimes in two countries with respect to the same subject matter for the same period (wikipedia. Origination).

Double taxation is the imposition of two or more taxes on the same income (in the case of income taxes), asset (in the case of capital taxes), or financial transaction (in the case of sales taxes). It refers to taxation by two or more countries of the same income, asset or transaction.

Double taxation means that the taxing authority taxes the same base in more than one way. Double taxation means the taxing of a person twice by one or two authorities in the same way that is on the same income or taxing the same base twice (B.P.Tyag 2007p105 ) From our point of view Double taxation: is imposition tax of any income, on the same source of wealth twice or more, In the same period of time. This levy of taxation may be in the inside the country or may be outside the country.

2-9-1- Characteristics of double taxation:
1- Income is there:-That means there is increase in the wealth of somebody, for that no taxation in the case of loss, which means the wealth of people increased as before.
2- Same tax-payer:-That means the tax-payer paid twice taxation on his income. For instance if somebody has income from his businesses but his income is objected to central
authorities and state authorities, In this case the same person objected his income two taxation.

3- Same source of wealth:-That means two taxation is done on same Income.

4- Same period:-That means levying two taxes in the same period, for example if the central government levies tax in the profits of businesses and the state also levies once in the same period, that means twice taxation in the same period.

5- Same taxation:-That means same taxation is imposed on the same base, in other words the twice same taxation. Suppose if the taxpayer paid taxation for his business and taxation of his professional here double taxation is not available because there are two types from income.

6- Twice taxation may be inside the state or outside the state:- Either imposition of twice taxation inside the country or outside the country means the income is objected twice inside the country like some of the federation country or as between the different independents countries.

Disadvantages of double taxation:-

1- Double taxation plays an artificial impediment on the free flow of capital and another resource such as services of technicians and expert between the different countries.

2- The tax system does not secure equity between the various tax payers and it is inconsistent with the canon of equity.

2-9-2- Kinds of double taxation:-

1- Internal double taxation:-Double taxation by the same taxing authorities is as internal double that is all conditions of double taxation are in existence inside the country, for example in a federation country there are two taxations, first by central government and second by state government.

2- International double taxation:-This double taxation appears in which two taxes authorities impose taxes in the same base, in the same period, the same tax-payer but in the two independent countries. This type of double taxation is fighting by double taxation avoidance agreement between countries.

Conclusion: - There are two types of double taxation, internal and external, whatever the type of double taxation, but it doesn’t fulfill the principle of tax equity, also double taxation is an obstacle to the transfer of technology between countries and capital, so most of the countries resort to sign bilateral agreements to prevent double taxation.
2-10-Overview of Indian tax system:-

2-10-1-Introduction:-

After talking about taxes definition, characteristics of taxation, cannons of taxation, kinds of taxes, and objectives of taxation. The shifting, incidence, impact of taxation, Taxable capacity, Double taxation, the researcher will briefly describe the Indian tax system, the most important features of the tax system in India. In the next pages we will focus on the Indian tax system.

The Indian tax system has become comprehensive and complicated since independence in 1947. Besides being the main source of revenue, both for the central and state governments, it is an effective instrument to realize various socio-economic objectives of national policies (M.M.Sury, 1997, 1)

India has a well-developed tax structure with clearly demarcated authority between Central and State Governments and local bodies. Central Government levies taxes on income (except tax on agricultural income, which the State Governments can levy), customs duties, central excise and service tax. Value Added Tax (VAT), (Sales tax in States where VAT is not yet in force), stamp duty, State Excise, land revenue and tax on professions are levied by the State Governments. Local bodies are empowered to levy tax on properties, octroi and for utilities like water supply, drainage etc. In the last 10-15 years, Indian taxation system has undergone tremendous reforms. The tax rates have been rationalized and tax laws have been simplified resulting in better compliance, ease of tax payment and better enforcement. The process of rationalization of tax administration is ongoing in India. Since April 01, 2005, most of the State Governments in India have replaced sales tax with VAT.

Comparison of India’s indicators of effective tax rates and tax revenue productivity with other countries shows that the Indian tax system is characterized by:

(1) A high dependence on indirect taxes,
(2) low average effective tax rates and tax productivity, and
(3) high marginal effective tax rates and large tax-induced distortions on investment and financing decisions. While the ratio of tax revenue to GDP in India is low by international standards marginal rates are high. Economic theory suggests that high tax rates may depress employment, investment, and growth (H. Poirson 1, April 2006, 1)
2-10- 2- Constitutional division of financial power between the union and States:–

The constitution of India is the supreme law; it is foundation and source of power to all laws in India. Power to levy and collect tax by union or state is derive from constitution, articles 245 to 255 provide for the distribution of taxation powers between the union and the states. It may be recalled at this stage that India is having a quasi-federal Constitution in which the powers of legislation are shared between the union and the states. In briefly, the parliament has exclusive power to make laws with respect to any of the matters enumerated in list I in the seventh Schedule of the constitution; this list is referred to usually as union list. The legislature of every state has exclusive power to make laws for such state or any part thereof with respect to any of the matters enumerated in list II in the seventh schedule to the constitution. This list is popularly called as state list. Both the parliament and the legislature of any state have power to make laws with respect to any of the matters enumerated in list III in the seventh schedule to the constitution. This list is referred to as the concurrent list. (The institute of company secretaries,2009, p 337)

2-10- 3- Direct and indirect taxes in Indian tax system:–

There is no legal definition of direct and indirect taxes in India. Taxes under the charge of central board direct taxes are direct taxes while those administered by the central board of excise, customs and services are indirect taxes. Direct taxes at central level are income tax, corporation tax, capital gains tax, wealth tax, gift tax, estate duty, expenditure tax, tonnage tax, securities transaction tax, banking cash transaction tax, fringe benefit tax direct taxes at state level, land revenue, agricultural income tax. Indirect taxes at central level are central excise duties, customs duties, service tax, central sales tax, indirect taxes at state level are state sales tax, state excise duty, entertainment tax, motor vehicle tax, passenger tax, professional tax, electricity duty.
The following table shows direct and indirect taxes and law that rule them and the board for each tax.

<table>
<thead>
<tr>
<th>Nature of tax</th>
<th>Government Act</th>
<th>Authority</th>
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<tbody>
<tr>
<td>Direct tax</td>
<td></td>
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<tr>
<td>Income tax</td>
<td>Income Tax Act, 1961</td>
<td>Central Board of Direct Tax</td>
</tr>
<tr>
<td>Wealth tax</td>
<td>Wealth TAX Act, 1957</td>
<td>Central Board of Direct Tax</td>
</tr>
<tr>
<td>Gift tax</td>
<td>Gift Tax Act, 1958</td>
<td>Central Board of Direct Tax</td>
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<tr>
<td>Indirect tax</td>
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<tr>
<td>Central excise</td>
<td>Central Excise &amp; Salt Act, 1944</td>
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<tr>
<td>Customs</td>
<td>Customs Act, 1962</td>
<td>CBEC</td>
</tr>
<tr>
<td>Central Sales Tax</td>
<td>Central Sales Tax Act, 1956</td>
<td>Union Government</td>
</tr>
<tr>
<td>State Sale Tax</td>
<td>Respective State Sales Tax Acts</td>
<td>Respective State Sales</td>
</tr>
</tbody>
</table>

2-10-3-1- Direct Taxation in India:-

Direct taxation in India is taken care of by the Central Board of Direct Taxes (CBDT); it is a division of Department of revenue under Ministry of Finance. CBDT is governed by the revenue act 1963. CBDT is given the authority to create and control direct taxes in India. The most important function of CBDT is to manage direct tax law followed by Income Tax department. In India the tax structure is divided amongst the central government and state government. The central government levies taxes on income, custom duties, central excise and service tax. While the state government levies tax like state excise, stamp duty, VAT (Value Added Tax), land revenue and professional tax.

2-10-3-1-1- Income Tax in India:-

Income tax in India is levied by the Central government and is monitored and controlled by Central Board of Direct Taxes under Ministry of Finance in allay with the provisions of the Income Tax Act. Income earned in a given financial year is subject to tax as per the rates prescribed for that year. A financial calendar is from April 1 to March 31 of the following year. Income tax, a tax that is levied on income individuals/corporations/legal entities is known as Income Tax. The Central Board for Direct Taxes (CBDT) governs the Indian Income Tax department. Income tax is imposed by Govt. of India on taxable income of
individuals, Hindu Undivided Families (HUFs), companies, firms, co-operative societies and trusts (Identified as body of Individuals and Association of Persons) and any other artificial person. Levy of tax is different for different entities and it is governed by the Indian Income Tax Act, 1961.

**Heads of Income:-**

Income tax is an annual tax on income. The Indian Income Tax Act (Section 4) provides that in respect of the total income of the previous year of every person, income tax shall be charged for the corresponding assessment year at the rates laid down by the Finance Act, for that assessment year. Section 14 of the Income tax Act further provides that for the purpose of charge of income tax and computation of total income all income shall be classified under the following heads of income:

a. Salaries
b. Income from house property
c. Profits and gains of business or profession.
d. Capital gains e. Income from other sources.

The total income from all the above heads of income is calculated in accordance with the provisions of the Act as they stand on the first day of April of any assessment year. In the discussion to follow we well explain every one mention above

**Income from Salary**:

Under this head, income received as salary under Employer-Employee relationship is taxed. Salaries: It covers those monetary gains that are obtained for services performed and would include wages, pension, fees and commission. Standard deduction is taken from the salary and the amount of deduction depends upon the income received. If income exceeds minimum exemption limit, then Employers must withhold tax compulsorily as Tax Deducted at Source (TDS). The employees should also be provided with a Form 16 which shows the tax deductions and net paid income. Form 16 also contains any other deductions provided from salary as follows: Medical reimbursement up to Rs. 15,000 per year is tax exempt. Provided bills are given Conveyance allowance up to 9600 per year is tax free Professional taxes which are usually a slabbed amount based on gross income are deductible from income tax. House rent allowance: the minimum of the following is available as deduction, The actual HRA received, 50%/40 % (metro/non-metro) of ‘salary’, Rent paid minus 10% of 'salary'
Income from House Property:-
Section 22 provides for taxation of ‘annual value’ of a property consisting of any buildings or lands appurtenant thereto, of which the assessee is owner, under the head “income from House Property”. Tax imposed under section 22 is a tax on ‘annual value’ of house property and is not a tax on “House Property”. However, if a house property is occupied by a taxpayer for the purpose of business or profession carried on by him (the profits of which are chargeable to income tax), annual value of such property is not chargeable to tax under the head 'Income from House Property'. Income from House property is calculated by considering the Annual Value. The annual value (for a let out property) will be maximum of the following: HRA Rent received, Municipal Valuation Fair Rent (as determined by the I-T department), However if a house is not let out and not self-occupied, then annual value is assumed to have accrued to the owner. In case of a self occupied house, annual value is to be taken as NIL. But if there is more than one self occupied house then the annual value of the other house/s is taxable. From this, Municipal Tax paid is deducted to arrive at the Net Annual Value. From this Net Annual Value, the following are deducted: 30% of Net value as repair cost - mandatory deduction Interest paid or payable on a housing loan for the house.

Income from Business or Profession:
Income arising from profits and gains of any Business or Profession; income derived by a Trade/ Professional/ similar Association by performing specific services for its members; any benefit from business whether convertible into money or not, incentives for exporters; any salary, interest, bonus, commission or remuneration received by Partner of a firm; any amount received under a Key man Insurance Policy which also covers Bonus; income from managing agency and speculative transactions; is taxable.

Income from Capital Gains:-
Under section 2(14) of the I.T. Act, 1961, Capital asset is defined as property of any kind held by an assessee such as real estate, equity shares, bonds, jewelers, paintings, art etc. but does not consist of items like stock-in-trade for businesses or for personal effects. Capital gains arise by transfer of such capital assets. Long term and short term capital assets are considered for tax purposes. Long term assets are those assets which are held by a person for three years except in case of shares or mutual funds which becomes long term just after one year of holding. Sale of long term assets give rise to long term capital gains which are
taxable as below: As per Section 10(38) of Income Tax Act, 1961 long term capital gains on shares/securities/ mutual funds on which Securities Transaction Tax (STT) has been deducted and paid, no tax is payable. Higher capital gains taxes will apply only on those transactions where STT is not paid. For other shares & securities, person has an option to either index costs to inflation and pay 20% of indexed gains, or pay 10% of non indexed gains. For all other long term capital gains, indexation benefit is available and tax rate is 20%

**Income from other Sources:**

There are some specific incomes which are to be taxed under this category such as income by way of dividends, horse races, winning of bull races, winning of lotteries, amount received from key man insurance policy. So as we can see the Indian Income Tax law is a subject which is filled with legal jargons and complexities that keep on changing every new financial year and the importance of this law in our routine life simply cannot be ignored. Whether it is filing of Income Returns on due dates or whether it's a financial investment decision to be taken, every where the Income Tax provisions play a major role in driving of the cost factor.

**2-10-3-1-2- Corporate Tax:**

A company has been defined as a juristic person having an independent and separate legal entity from its shareholders. Income of the company is computed and assessed separately in the hands of the company. However the income of the company which is distributed to its shareholders as dividend is assessed in their individual hands. Such distribution of income is not treated as expenditure in the hands of company, the income so distributed is an appropriation of the profits of the company. The tax levied on a company’s income is based on its legal residence. Companies of Indian origin are levied tax in India, while International companies are levied tax on earnings from their Indian operations. For International companies’ royalty, interest, gains from sale of capital assets within India, dividends from Indian companies and fees for technical services are all treated as income arising in India. Companies resident in India are taxed on their worldwide income arising from all sources in accordance with the provisions of the Income Tax Act. Non-resident corporations are essentially taxed on the income earned from a business connection in India or from other Indian sources. A corporation is deemed to be resident in India if it is incorporated in India or if it’s control and management is situated entirely in India.
### Table No. 2-2 Tax Rate for Partnership firms and Domestic companies

<table>
<thead>
<tr>
<th>Type of company</th>
<th>Partnership/ LLP</th>
<th>Domestic company with income of less than one crore</th>
<th>Domestic company with income of more than one crore</th>
<th>Foreign company with income of less than one crore</th>
<th>Foreign company with income of more than one crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic tax rate</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>surcharge</td>
<td>-</td>
<td>-</td>
<td>10%</td>
<td>-</td>
<td>2.5%</td>
</tr>
<tr>
<td>E.Cess</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>S&amp;H E cess</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>30.9%</td>
<td>30.9%</td>
<td>33.99%</td>
<td>41.2%</td>
<td>42.23%</td>
</tr>
</tbody>
</table>

#### 2-10-3-1-3- Wealth Tax in India:

The wealth taxation in India is known as the wealth tax act, 1957. It applies to all the citizens of the country. It is one of the most important direct taxes. It is paid on the property ownership benefits. It extends to the whole of India. It shall be deemed to have come into force on the 1st day of April, 1957. Wealth tax is an annual tax like income tax. It is charged for every assessment year for net wealth of corresponding valuation date on every individual, Hindu Undivided Family and company at the rate of 1% of the amount by which net wealth exceeds Rs. 15 lakhs. The Wealth Tax Act is important direct tax legislation. Wealth tax is tax on the benefits derived from property ownership. The tax is to be paid year after year on the same property on its market value, whether or not such property yields any income. Till a person retains the ownership of a property, he or she has to pay wealth tax based on the prevailing market rate. Even if the property is not yielding any income, Wealth tax would have to be paid.
2-10-3-1-- Gift tax in India:-
A gift tax can be simply defined as the tax imposed upon the individual giving any value to the other individual. It may be defined as a tax imposed on the value of a gift. The person who gives the gift generally pays the gift tax in most cases. So it is a tax on the monetary gifts to another person.

Gift tax in India is regulated by the Gift Tax Act which was constituted on April 1, 1958. It came into effect in all parts of the country except Jammu and Kashmir. As per the Gift Act 1958, all gifts in excess of Rs. 25,000, in the form of cash, draft, check or others, received from one who doesn't have blood relations with the recipient, were taxable. However, with effect from October 1, 1998, gift tax got demolished and all the gifts made on or after the date were free from tax. But in 2004, the act was again revived partially. A new provision was introduced in the Income Tax Act 1961 under section 56 (2). According to it, the gifts received by any individual or Hindu Undivided Family (HUF) in excess of Rs. 50,000 in a year would be taxable. (web site, income tax department)

According to the law, individuals can receive gifts from the following sources: Relatives or Blood Relatives, At the time of Marriage, As inheritance, In contemplation of death Gifts

Exempted from Tax Gifts are exempted from India gift tax in the following cases: The gift was given by a blood relative, irrespective of the gift value Immovable properties located outside the country. (web site, income tax department)

2-10- 3-2- Indirect Tax System in India:-

2-10-3-2-1—Introduction:-
Charge levied by the State on consumption, expenditure, privilege, or right but not on income or property. Customs duties levied on imports, excise duties on production, sales tax or value added tax (VAT) at some stage in production-distribution process, are examples of indirect taxes because they are not levied directly on the income of the consumer or earner.

Indirect Taxes Pre Reforms:-
The indirect tax structure was extremely irrational between the reforms. The Constitution gives the permission to levy a multitude of indirect taxes. But the most important ones are customs and excise duties charged by the Central government and sales tax excepting inter state sales tax to be charged by the state government. The indirect taxes levied by the centre like customs, excise and central sales tax and the major indirect taxes levied by the states and
civic bodies like passenger and goods tax, electricity duty and octroi when taken together did not present a rational system

**Indirect Taxes Post Reforms:**

Even post reforms, the indirect tax regime in India is still in the early stages of growth. Both the Central and State governments charge a multitude of indirect taxes. The central government charges tax on goods at the point of import (Customs duty), manufacture (Excise duty), inter state sales (Central sales tax or CST) and on provision of services (Service tax). The state governments charge tax on goods sold within the state (Sales tax/Value Added Tax or VAT), and on the goods that enter the state (Entry tax). In the present scenario corporate would have to analyze the tax cost involved in a transaction, have enough backup documentation to support their tax positions and keep looking for ways for tax maximization

**2-10-3-2-2- Custom Duties:**

The Central Board of Excise and Customs under the Ministry of Finance manages the customs duty process in the country. Customs duty in India falls under the Customs Act 1962 and Customs Tariff Act of 1975. Usually, the goods that are imported to the country are charged customs duty along with educational cess. For industrial goods, the rate has been slashed to 15%. The customs duty is evaluated on the value of the transaction of the goods.

It came into existence to check illegal imports and exports of goods. All imports into the country would be charged a duty, to give protection to the Indian industries and to check the amount of imports with a view to secure the exchange rate of the country. The Central government has the authority to inform the ports and airports for the unloading of the imported goods and loading of the exported goods, the location for clearance of goods imported or exported, the routes by which above goods may pass by land or inland water into or out of Indian ports. According to the custom laws, the following are the various types of duties which can be charged.
2-10-3-2-3 -Excise Duty:-

Excise Duty- Manufacture of goods in India attracts Excise Duty under the Central Excise act 1944 and the Central Excise Tariff Act 1985. Herein, the term Manufacture means bringing into existence a new article having a distinct name, character, use and marketability and includes packing, labeling etc. Most of the products attract excise duties at the rate of 16%. Some products also attract special excise duty and an additional duty of excise at the rate of 8% above the 16% excise duty. 2% education cess is also applicable on the aggregate of the duties of excise. Excise duty is levied on ad valorem basis or based on the maximum retail price in some cases.

Central excise duty is an indirect tax which is charged on such goods that are manufactured in India and are meant for domestic consumption. The taxable fact is "manufacture" and the liability of central excise duty arises as soon as the goods are manufactured. The tax is on manufacturing, it is paid by a manufacturer, which is then passed on to the customer. The term "excisable goods" means the goods which are specified in the First Schedule and the Second Schedule to the Central Excise Tariff Act 1985.

The term "manufacture" refers to any process, related or supplementary to the combination of a manufactured product, Which is specified in relation to any goods in the Section or Chapter Notes of the First Schedule to the Central Excise Tariff Act 1985 as amounting to manufacture or, Which in relation to the goods specified in the Third Schedule involves packing or repacking of such goods in a unit container or labeling or re-labeling of containers including the declaration or alteration of retail sale price on it or adoption of any other treatment on the goods to render the product marketable to the consumer.

In the recent budget, a number of tax exemptions have been initiated. Tax relied has been created in sectors which create jobs like small scale industries, cottage industries, food processing sectors, bio diesel and so on. In order to provide access of electricity and purified water, the water plans and purification technology sectors are also exempt from tax. Excise duty has been increased by around 5% on cigarettes and other tobacco products.

Three different types of Central Excise Duties exist in India. They are:- a)Basic Excise Duty In India b)- Additional Duty of Excise, c)- Additional Duty of Excise
2-10-3-2-5- Sales Tax in India:-

Sales Tax in India is a form of tax that is imposed by the government on the sale or purchase of a particular commodity within the country. Sales Tax is imposed under both, Central Government (Central Sales Tax) and State Government (Sales Tax) Legislation. Generally, each state follows its own sales tax act and levies tax at various rates. Apart from sales tax, certain states also imposes additional charges like works contracts tax, turnover tax and purchaser tax. Thus, sales tax acts as a major revenue-generator for the various State Governments. Sales tax is an indirect form of tax, wherein it is the responsibility of the seller of the commodity to collect and recover the tax from the purchaser. Generally, sale of imported items and sales by way of export are not included in the range of commodities which requires payment of sales tax. Moreover, luxury items (like cosmetics) are levied heavier sales tax rates. Central Sales Tax (CST) Act that falls under the direction of the Central Government takes into account all the interstate sales of commodities. Thus, sales tax is to be paid by every dealer on the sale of any commodity, made by him during inter-state trade or commerce, irrespective of the fact that no liability to pay tax on the sale of goods arises under the tax laws of the appropriate state. He is to pay sales tax to the sales tax authority of the state from which the movement of the commodities commences. However, from April 01, 2005, most of the states in India have supplemented sales tax with a new Value Added Tax (VAT). The practice of VAT executed by State Governments is applied on each stage of sale, with a particular apparatus of credit for the input VAT paid. VAT in India can be classified under the following tax slabs:
a)- 0% for essential commodities  
b)- 1% on gold ingots and expensive stones  
c)- 4% on industrial inputs, capital merchandise and commodities of mass consumption  
d)-12.5% on other items Variable rates (state-dependent) are applicable for petroleum products, tobacco, liquor etc

2-10-3-2-6 - Service Tax:-

Dr. Manmohan Singh, the Union Finance Minister, in his Budget speech for the year 1994-95 introduced the new concept of Service Tax. The Service Tax assessee is the person/firm who provides the service. Hence, the Service Tax must be paid by the person/firm providing the service. Service tax is levied at the rate of 10% (plus 2% education cess)and 1% secondary &higher education cess. On certain identified taxable services provided in India
by specified service providers. Service tax on taxable services rendered in India are exempt, if payment for such services is received in convertible foreign exchange in India and the same is not repatriated outside India. The Cenvat Credit Rules allow a service provider to avail and utilize the credit of additional duty of customs/excise duty for payment of service tax. Credit is also provided on payment of service tax on input services for the discharge of output service tax liability.

**2-11- Analytical study of tax revenue for ten years in India:**

In this section the researcher will study the trends of tax revenue for ten years from 2000-2001 to 2009-2010, first step He collected data for tax revenue. The researcher used excel windows for processing the data , then he analyzed and interpreted tables and graphs, compared between direct tax and indirect tax revenues. The sources of data (amounts for direct taxes and indirect taxes) are from website from Revenue Department, Finance Ministry in India.

**2-11-1-- Analytical total revenue for ten years from the year 2000-2001 to 2009-2010**

Table No.2-3 Public and taxes revenue in India from 2000-2001 to 2009-2010

<table>
<thead>
<tr>
<th>Fin. Year</th>
<th>Total revenue</th>
<th>Total tax revenue(Direct and indirect tax)</th>
<th>Proportion of tax revenue into total revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-2001</td>
<td>98018.82</td>
<td>87723.28</td>
<td>89.49%</td>
</tr>
<tr>
<td>2001-2002</td>
<td>347111.19</td>
<td>305320.24</td>
<td>87.96%</td>
</tr>
<tr>
<td>2002-2003</td>
<td>417353.50</td>
<td>356638.23</td>
<td>85.45%</td>
</tr>
<tr>
<td>2003-2004</td>
<td>490183.05</td>
<td>414084.77</td>
<td>84.47%</td>
</tr>
<tr>
<td>2004-2005</td>
<td>579940.86</td>
<td>494370.10</td>
<td>85.24%</td>
</tr>
<tr>
<td>2005-2006</td>
<td>687018.87</td>
<td>587687.81</td>
<td>85.54%</td>
</tr>
<tr>
<td>2006-2007</td>
<td>861198.47</td>
<td>736707.71</td>
<td>85.54%</td>
</tr>
<tr>
<td>2007-2008</td>
<td>1000171.65</td>
<td>870329.09</td>
<td>87.01%</td>
</tr>
<tr>
<td>2008-2009</td>
<td>1045034.83</td>
<td>915449.99</td>
<td>83.28%</td>
</tr>
<tr>
<td>2009-2101</td>
<td>1173934.31</td>
<td>987509.75</td>
<td>84.20%</td>
</tr>
</tbody>
</table>
Figure No. 2-2 total revenue trends for ten year (from 2000-2001 to 2009-2010), (crores rupees)

From above chart the researcher note that total revenue was increasing from year to year.

Figure No. 2-3 total revenue and taxes revenue from 2000-2001 to 2009-2010
From above table and figure No.3and 4, we note that Tax revenues represent the vast majority of public revenues in Indian Government for ten years (2001/2001—2001/2010). We also note that contribution of tax revenue into public revenues has decreased from year to year, ratio of tax revenue from public revenue in the year 2000-2001 was more than 89% and in the year 2001-2002 was 87.96% but in the year 2008-2009 was very low, it was 83.28% and remaining ratio was from non-tax revenue.

2-11-2- Trends of tax revenue for ten years from 20000-2001 to 2009-2010

Table No. 2-4 Total taxes revenue (direct taxes and indirect taxes) 2000-2001 to 2009-2010

<table>
<thead>
<tr>
<th>Fin. Year</th>
<th>Direct tax</th>
<th>Indirect tax</th>
<th>Total taxes revenue</th>
<th>Increasing taxes revenue growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>57959</td>
<td>112450</td>
<td>113409</td>
<td>29062</td>
</tr>
<tr>
<td>2000-01</td>
<td>68305</td>
<td>116125</td>
<td>184430</td>
<td>71021</td>
</tr>
<tr>
<td>2001-02</td>
<td>69198</td>
<td>131284</td>
<td>200482</td>
<td>16052</td>
</tr>
<tr>
<td>2003-04</td>
<td>104678</td>
<td>147294</td>
<td>251972</td>
<td>51490</td>
</tr>
<tr>
<td>2004-05</td>
<td>131454</td>
<td>171101</td>
<td>302555</td>
<td>50583</td>
</tr>
<tr>
<td>2005-06</td>
<td>164093</td>
<td>198767</td>
<td>362860</td>
<td>60305</td>
</tr>
<tr>
<td>2006-07</td>
<td>230181</td>
<td>240876</td>
<td>471057</td>
<td>108197</td>
</tr>
<tr>
<td>2007-08</td>
<td>314468</td>
<td>276696</td>
<td>591164</td>
<td>120107</td>
</tr>
<tr>
<td>2008-09</td>
<td>328931</td>
<td>264565</td>
<td>593496</td>
<td>2332</td>
</tr>
<tr>
<td>2009-2010</td>
<td>370,439</td>
<td>241,939</td>
<td>612378</td>
<td>18882</td>
</tr>
<tr>
<td>total</td>
<td>1886306</td>
<td>1996968</td>
<td>3883274</td>
<td></td>
</tr>
</tbody>
</table>
Figure No.2-5 Trends of tax revenue for ten years from 2000-2001 to 2009-2010 (Rscrores)

From the Table and graph show that, revenue from taxes was in increasing from year to year.

Table No.2-5 comparison between direct taxes revenue and indirect taxes revenue

<table>
<thead>
<tr>
<th>FIN. YEAR</th>
<th>Direct tax</th>
<th>Indirect tax</th>
<th>Increase Direct tax</th>
<th>increase Indirect tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-99</td>
<td>46600</td>
<td>95871</td>
<td>-----</td>
<td>49271</td>
</tr>
<tr>
<td>1999-00</td>
<td>57959</td>
<td>112450</td>
<td>----</td>
<td>54491</td>
</tr>
<tr>
<td>2000-01</td>
<td>68305</td>
<td>116125</td>
<td>----</td>
<td>47920</td>
</tr>
<tr>
<td>2001-02</td>
<td>69198</td>
<td>131284</td>
<td>-----</td>
<td>62086</td>
</tr>
<tr>
<td>2003-04</td>
<td>104678</td>
<td>147294</td>
<td>-----</td>
<td>42616</td>
</tr>
<tr>
<td>2004-05</td>
<td>131454</td>
<td>171101</td>
<td>-----</td>
<td>39647</td>
</tr>
<tr>
<td>2005-06</td>
<td>164093</td>
<td>198767.</td>
<td>-----</td>
<td>34674</td>
</tr>
<tr>
<td>2006-07</td>
<td>230181</td>
<td>240876</td>
<td>-----</td>
<td>10693</td>
</tr>
<tr>
<td>2007-08</td>
<td>314468</td>
<td>276696</td>
<td>37772</td>
<td>-----</td>
</tr>
<tr>
<td>2008-09</td>
<td>328931</td>
<td>264565</td>
<td>64366</td>
<td>-----</td>
</tr>
<tr>
<td>2009-2010</td>
<td>370,439</td>
<td>241,939</td>
<td>128500</td>
<td>-----</td>
</tr>
</tbody>
</table>
From the table and chart, we note that, revenue from indirect taxes revenues were more than revenues from direct taxes revenue from the year 1999-2000 till 2006-2007, but from the year 2007-2008 till 2009-2010 revenue from direct taxes revenue were more than revenue from indirect revenue taxes.

Figure No.2-7 the proportion of direct taxes and indirect taxes from the total of tax revenue

Of the graph shows that, the total indirect tax revenue more than the total direct tax revenues for the last ten years from 2000-2001 to 2009-2010, the indirect tax revenue was represents 51% of the total tax revenue, while the direct tax revenue was represents 49% of the total income tax for ten years.
2-11-3-Direct Taxes trends for ten years from 2000-2001 to 2009-2010

Table No.2-6 Direct taxes revenue

<table>
<thead>
<tr>
<th>FIN. YEAR</th>
<th>Actual Collections (Rs in crores)</th>
<th>Corporate tax</th>
<th>Income tax</th>
<th>Other DT</th>
<th>Total</th>
<th>Increase</th>
<th>Direct taxes revenue growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td></td>
<td>30692</td>
<td>25655</td>
<td>1612</td>
<td>57959</td>
<td>11359</td>
<td>27.38%</td>
</tr>
<tr>
<td>2000-01</td>
<td></td>
<td>35696</td>
<td>31764</td>
<td>845</td>
<td>68305</td>
<td>11359</td>
<td>19.60%</td>
</tr>
<tr>
<td>2001-02</td>
<td></td>
<td>36609</td>
<td>32004</td>
<td>585</td>
<td>69198</td>
<td>893</td>
<td>1.30%</td>
</tr>
<tr>
<td>2003-04</td>
<td></td>
<td>63882</td>
<td>40703</td>
<td>93</td>
<td>104678</td>
<td>35480</td>
<td>51.27%</td>
</tr>
<tr>
<td>2004-05</td>
<td></td>
<td>83429</td>
<td>47202</td>
<td>823</td>
<td>131454</td>
<td>26776</td>
<td>25.80%</td>
</tr>
<tr>
<td>2005-06</td>
<td></td>
<td>99047</td>
<td>64739</td>
<td>307</td>
<td>164093</td>
<td>32639</td>
<td>24.83%</td>
</tr>
<tr>
<td>2006-07</td>
<td></td>
<td>144318</td>
<td>85548</td>
<td>315</td>
<td>230181</td>
<td>66088</td>
<td>40.27%</td>
</tr>
<tr>
<td>2007-08</td>
<td></td>
<td>190653</td>
<td>123433</td>
<td>382</td>
<td>314468</td>
<td>84287</td>
<td>36.62%</td>
</tr>
<tr>
<td>2008-09</td>
<td></td>
<td>209725</td>
<td>118802</td>
<td>404</td>
<td>328931</td>
<td>14463</td>
<td>4.60%</td>
</tr>
<tr>
<td>2009-10</td>
<td></td>
<td>241,921</td>
<td>128,235</td>
<td>283</td>
<td>370,439</td>
<td>41508</td>
<td>12.62</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1135972</td>
<td>698085</td>
<td>5649</td>
<td>1839706</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The above table and figure show, the direct tax increasing from year to year.

Figure No.2-9- The ratio between each type of direct taxes to total direct taxes
As we note the graph shows that the ratio of revenue from corporate taxes was a majority in direct taxes revenue in Indian tax system. The corporate percentage was 62% from total of direct taxes, then income taxes ratio was 38%, for a period ten years of 1999-2000 to 2009-2010.

FigureNo.2-10 Revenue of direct taxes according to types of direct taxes

From the above chart, it is seen that majority of direct taxes came from corporate taxes, then taxes from income taxes and last taxes from other direct taxes like, capital gains tax, wealth tax, gift tax, estate duty, Corporate taxes represent main taxes in direct taxes in Indian tax system.
2-11-4-Indirect Taxes trends for ten years from 1999-2000 to 2009-2010

Table no.2-7 indirect tax revenue in Indian tax system

<table>
<thead>
<tr>
<th>Fin. Year</th>
<th>Actual Collection (Rs in crores)</th>
<th>Customs</th>
<th>Union Excise</th>
<th>Service Tax</th>
<th>Total</th>
<th>Increase in indirect taxes</th>
<th>Taxes revenue growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>48420</td>
<td>61902</td>
<td>2128</td>
<td>112450</td>
<td>16579</td>
<td>17.29%</td>
<td></td>
</tr>
<tr>
<td>2000-01</td>
<td>40268</td>
<td>72555</td>
<td>3302</td>
<td>116125</td>
<td>3675</td>
<td>3.27%</td>
<td></td>
</tr>
<tr>
<td>2001-02</td>
<td>44852</td>
<td>82310</td>
<td>4122</td>
<td>131284</td>
<td>15159</td>
<td>13.10%</td>
<td></td>
</tr>
<tr>
<td>2003-04</td>
<td>48629</td>
<td>90774</td>
<td>7891</td>
<td>147294</td>
<td>16010</td>
<td>12.19%</td>
<td></td>
</tr>
<tr>
<td>2004-05</td>
<td>57566</td>
<td>99401</td>
<td>14134</td>
<td>171101</td>
<td>23807</td>
<td>16.16%</td>
<td></td>
</tr>
<tr>
<td>2005-06</td>
<td>65049</td>
<td>110664</td>
<td>23052</td>
<td>198767</td>
<td>27666</td>
<td>16.17%</td>
<td></td>
</tr>
<tr>
<td>2006-07</td>
<td>86304</td>
<td>117088</td>
<td>37484</td>
<td>240876</td>
<td>42109</td>
<td>2.11%</td>
<td></td>
</tr>
<tr>
<td>2007-08</td>
<td>102852</td>
<td>122711</td>
<td>51133</td>
<td>276696</td>
<td>35820</td>
<td>14.87%</td>
<td></td>
</tr>
<tr>
<td>2008-09</td>
<td>99708</td>
<td>104141</td>
<td>60716</td>
<td>264565</td>
<td>12131</td>
<td>4.38%</td>
<td></td>
</tr>
<tr>
<td>2009-10</td>
<td>84,542</td>
<td>101,666</td>
<td>55,731</td>
<td>241,939</td>
<td>22626</td>
<td>8.55%</td>
<td></td>
</tr>
<tr>
<td>total</td>
<td>84,542</td>
<td>101,666</td>
<td>259693</td>
<td>1901095</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
We note that indirect taxes revenue increased from the year 1999-2000, it was (Rs. crores) 112450 to the year 2007-2008, it was 276696, but after the year 2007-2009 indirect taxes revenue decreased. Tax revenue in the year 2008-2009 was 264565 and in the year 2009-2010 indirect taxes was (Rs. crores) 241939.

Figure 2-12- The ratio between each type of indirect taxes and total indirect taxes
FIGURE 2-13 Trends of Kinds of indirect taxes in for ten years from 1999-2000 to 2009-2010

As the researcher noted that, the graph shows that the ratio of revenue from union excise was a majority in indirect taxes revenue in Indian tax system, union excise ratio was 62% from total of indirect taxes, then customs, and its ratio was 38% from total of indirect taxes and service taxes was last, and it was 13% of total indirect taxes revenue for a period of ten years of 1999-2000 to 2009-2010.

2-11-1-5- Taxes Revenue –GDP ratio:-

Direct and indirect tax- GDP Ratio from the year 2003-2004 to the year 2009-2010 Table 2-2-8 Taxes Revenue –GDP ratio

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>Total Taxes GDP Ratio</td>
<td>9.21%</td>
<td>9.64%</td>
<td>10.18%</td>
<td>11.38%</td>
<td>12.54%</td>
<td>11.50%</td>
<td>10.94%</td>
</tr>
</tbody>
</table>

Figure 2-14- total taxes -GDP Ratio
The researcher note that tax revenue to GDP ratio differs from year to year, it was on the increase year after year, from 2003-2004, until the year 2007-2008, from the 2008-2009 it has started to decrease gradually.

**Conclusion:**

In the foregoing we have presented the information regarding the theoretical framework of taxes. The researcher have shown that taxes revenues are considered the core of many countries to achieve general functions they provide to people, and we found that there is no specific definition of taxes, but all definitions focus on differentiating between tax revenues and non-tax revenues. The researcher found that the tax revenues have characteristics that distinguish them from the non-tax revenue, After that we have explained the canons that must be available in any tax system, such as ,Canon of equity, Canon of certainty, Canon of convenience, Canon of economy, Simplicity and Neutrality. We have showed Objectives of taxes and we found that objectives of taxation have developed when the functions of the state developed and in the present time Tax is no longer a means of financing the Government, but has become economic, social and political goals. Taxes have various objectives such as economic growth, social welfare; attracting foreigner investment, economic stability, and income distribution. There are more than one tax classifications so taxes are classified on various bases, such as nature, form, aim essence and methods of taxation, but classification of taxes into direct and indirect tax still continue as the main and first classification and direct and indirect taxes represent majority of taxes in the modern times, a combination of both the taxes would be very necessary to streamline the financial aspects of the government. Then we found out some definitions of concepts such as shifting, incidence, and impact of taxation, after that we talked about taxable capacity, Kinds of taxable capacity, Importance of taxable capacity, Factors determining of taxable capacity, then we discussed double taxation problem, characteristics of double taxation, Disadvantages of double taxation, Kinds of double taxation .

The researcher analyzed taxes revenue in Indian tax system for ten years from 2000-2001 to 2009-2010 he found these results

1- Total public revenue was increasing from year to year
2- Tax revenues represent the vast majority of public revenues in Indian Government, it reached to 90% of total public revenues in the year 2000-2001
3- The revenue from taxes was increasing during the period of ten years. The increase in the first seven years of the period of ten years was weak, but in the last four years, the increase in the tax revenue was significantly huge.
4- Indirect taxes were more than direct taxes from the year 2000-2001 till 2006-2007, but from the year 2007-2008 till 2009-2010 revenue from direct taxes was more than revenue from indirect taxes.
5- The indirect tax represents 51% of the total tax revenue, while the direct tax was represents 49% of the total tax revenue for ten years
6- corporate taxes was a majority in direct taxes, corporate percentage was 62% from the total of direct taxes , then income taxes ratio, it was 38%, for a period ten years of 2000-2001 to 2009-2010 .
7- Indirect taxes have increased from the year 2000-2001, it was (Rs.crores) 112450 in the year 2007-2008, it was 276696, but after the year 2007-2009 revenue from indirect taxes decreased
9- union excise was a majority in indirect taxes in Indian tax system, union excise ratio was 51% from total of indirect taxes, then customs, and its ratio was 36% from total of indirect taxes .service taxes was last, and it was 13% of total indirect taxes revenue for a period of ten years of 2000-2001 to 2009-2010.
10- Tax revenue to GDP ratio, differed from year to year, it was on the increase year after year, from 2003-2004, until the year 2007-2008, and from the 2008-2009 started to decrease gradually