DegreeLive

B.Com Honours | Semester V | Calicut University

PRINCIPLES OF TAXATION

Course Code: COM5EJ313 • Module 2 Notes

Module II: Classification of Taxes & Indian Tax Structure

Covers direct vs indirect taxes, OECD classification (Progressive, Proportional, Regressive), Ad-Valorem vs Specific duties, overview of Indian tax structure, and constitutional tax powers under the 7th Schedule.

Unit 5: Direct vs Indirect Taxes & Relative Role in Economy

Direct Tax: Tax liability & impact fall on the same person (e.g. Personal Income Tax, Corporation Tax). Cannot be shifted.
Indirect Tax: Tax liability & impact fall on different entities (e.g. GST, Customs Duty). Tax shifted to end consumers.
Relative Role: Direct taxes promote equity; indirect taxes generate high-volume yield but are regressive unless rate-differentiated.

Unit 6: OECD Rate Structure Classification & Tax Base Types

1. Progressive Tax: Tax rate increases as tax base rises ($\frac{dT}{dY} > \frac{T}{Y}$).
2. Proportional Tax: Flat tax rate constant across all income levels ($\frac{T}{Y} = c$).
3. Regressive Tax: Effective tax rate decreases as income rises.
4. Ad-Valorem vs Specific: Ad-valorem levied as % of asset monetary value; specific tax levied per physical unit (liter, kg, pack).

Unit 7: Overview of Direct & Indirect Tax Architecture in India

Direct Taxes: Income Tax Act 1961 (CBDT administration). Indirect Taxes: Goods and Services Tax (GST Act 2017 - CBIC administration), Customs Act 1962.

Unit 8: Central vs State Constitutional Tax Powers (7th Schedule)

Constitutional Powers: 7th Schedule of Indian Constitution distributes tax powers. Union List (Entry 82 - Income Tax except Agri, Entry 83 - Customs). State List (Entry 46 - Agricultural Income, Entry 53 - Electricity duty). Concurrent GST (Article 246A).

Practical Case Framework 1 (Direct vs Indirect Taxes Structural Comparison Matrix): Compare incidence shifting, equity impact, administrative cost, and inflation sensitivity.

Direct vs Indirect Taxes Comparison Table:

Structural Dimension	Direct Taxes (e.g. Income Tax)	Indirect Taxes (e.g. GST)
Impact & Incidence	Falls on the same person (Non-shiftable)	Shifted to final consumer via price
Equity & Redistribution	Progressive (Promotes social equity)	Regressive unless essential goods exempt
Tax Evasion Vulnerability	High vulnerability via under-reporting	Lower vulnerability (Embedded in sale price)
Constitutional Admin	CBDT (Central Board of Direct Taxes)	CBIC & State GST Authorities

Practical Case Framework 2 (OECD Tax Rate Progressivity Calculation): Determine whether Tax Schedule A is Progressive, Proportional, or Regressive.

Tax Rate Progressivity Matrix:

Income Level (Y)	Tax Amount (T)	Average Tax Rate (T/Y)	Progressivity Classification
₹5,00,000	₹25,000	5.0%	Base Tier
₹10,00,000	₹1,00,000	10.0%	Progressive (ATR Increasing)
₹20,00,000	₹3,00,000	15.0%	Progressive (ATR Increasing)