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B.Com Honours | Semester V | Calicut University

PRINCIPLES OF TAXATION

Course Code: COM5EJ313 • Module 3 Notes

Module III: Incidence of Taxation, Tax Burden, & Tax Evasion

Covers distinction between tax impact and incidence, mechanics of tax shifting, price elasticity of demand and supply, deadweight loss (excess burden), tax evasion vs avoidance vs planning, and statutory enforcement tools.

Unit 9: Impact and Incidence of Taxation (Tax Shifting)

Impact of Tax: Initial monetary point of tax levy (on who pays the tax authority).
Incidence of Tax: Ultimate resting place of tax burden (who bears the real monetary loss).
Tax Shifting: Forward shifting (to consumers via higher prices) vs Backward shifting (to suppliers via lower input prices).

Unit 10: Taxation & Economic Efficiency (Deadweight Loss)

Excess Burden (Deadweight Loss): Distortion in consumer & producer surplus exceeding revenue collected ($ \text{DWL} = \frac{1}{2} \times t^2 \times \frac{\eta_d \cdot \eta_s}{\eta_d + \eta_s} \times P \cdot Q $).

Unit 11: Tax Evasion vs Tax Avoidance vs Tax Planning in India

Tax Planning: Legal minimization of tax using explicit statutory deductions (Sec 80C, 80D).
Tax Avoidance: Minimizing tax by exploiting legal loopholes (Legal but unethical).
Tax Evasion: Illegal non-payment of tax via fraud, false accounts, & black money.

Unit 12: Statutory Methods to Curb Tax Evasion

Enforcement Tools: Faceless Assessments, Tax Deduction at Source (TDS/TCS), Permanent Account Number (PAN-Aadhaar linking), Black Money Act 2015, & Benami Transactions Prohibition Act.

Practical Case Framework 1 (Tax Shifting & Price Elasticity Matrix): Detail elasticity conditions, forward/backward tax shifting ratio, and final incidence burden.

Elasticity & Tax Shifting Distribution Table:

Elasticity Condition	Tax Shifting Mechanism	Final Tax Incidence Burden
Perfectly Inelastic Demand ($ E_d = 0 $)	100% Forward Shifting	Consumer bears 100% of tax burden
Perfectly Elastic Demand ($ E_d = \infty $)	100% Backward Shifting	Producer bears 100% of tax burden
$ E_d < E_s $ (Demand less elastic than supply)	Majority Forward Shifting	Consumer bears higher share of tax

Practical Case Framework 2 (Tax Planning vs Avoidance vs Evasion Comparative Matrix): Compare legality, ethical status, statutory mechanism, and legal consequences.

Tax Minimization Practices Comparison Table:

Practice Dimension	Tax Planning	Tax Avoidance	Tax Evasion
Legality Status	100% Legal & Approved	Legal form, violates intent	100% Illegal Fraud
Method Employed	Using statutory exemptions	Exploiting legal loopholes	
Legal Consequences	Tax savings & bonuses	GAAR penalty invocation	Prosecution & Imprisonment