



## Direct and Indirect Taxes.

[11:51 PM, 8/1/2017] +92 346 9661636: KINDS OF TAXES

Basically there are two types of taxes i.e. direct tax and indirect taxes. However, there are further types of direct and indirect taxes.

### 1. Direct Taxes

The taxes for which the burden of taxes cannot be transferred are called direct taxes. According to H. Dalton a direct tax is really paid by the person on whom it legally imposed. Income tax, wealth tax, property tax are examples of direct tax.

#### i. Proportional Tax

This taxation system is advocated by classical economist. If a uniform tax rate is imposed on all the levels of income and no difference is made between higher income and lower income groups. It is known as proportional tax. It is imposed on all income groups with the same proportion. For example if in a country the tax rate is 10% then all the persons will pay 10% tax irrespective of their income.

#### ii. Progressive Tax

The progressive tax is one whose rate increases with the increase of income level. Any change in income levels leads to change in tax rate. There is a positive relationship between income and tax rate. The tax rate on higher income is higher and lower income is lower. In such a system the individual income is divided into different slabs and rate of tax is different for each slab.

[11:54 PM, 8/1/2017] +92 313 6288672: Indirect tax ka bi bta do

[12:01 AM, 8/2/2017] +92 346 9661636: An indirect tax (such as sales tax, per unit tax, value added tax (VAT), or goods and services tax (GST)) is a tax collected by an intermediary (such as a retail store) from the person who bears the ultimate economic burden of the tax (such as the consumer). The intermediary later files a tax return and forwards the tax proceeds to government with the return. In this sense, the term indirect tax is contrasted with a direct tax, which is collected directly by government from the persons (legal or natural) on whom it is imposed. Some commentators have argued that "a direct tax is one that cannot be changed by the taxpayer to someone else, whereas an indirect tax can be." [1]

An indirect tax may increase the price of a good to raise the price of the products for the consumers. [2] Examples would be fuel, liquor, and cigarette taxes. An excise duty on motor cars is paid in the first instance by the manufacturer of the cars; ultimately, the manufacturer transfers the burden of this duty to the buyer of the car in the form of a higher price. Thus, an indirect tax is one that can be shifted or passed on. The degree to which the

burden of a tax is shifted determines whether a tax is primarily direct or primarily indirect. This is a function of the relative elasticity of the supply and demand of the goods or services being taxed. Under this definition, ev

[12:03 AM, 8/2/2017] +92 346 9661636: Federal Board of Revenue known as FBR is semi-autonomous federal agency of Pakistan that is concern with Tax Collection i.e. Sales Tax, Federal Excise and Customs its responsibility is create the formulation and administration tax policies. FBR is Pakistan largest federal department having more than 2 thousands employees. FBR basically works through main collection containing Customs collectorates, Regional Offices (RTOs) and Large Taxpayer Units all over the country. For tax collection purpose FBR empower all functions also includes takes public actions. FBR has two major wings on which its operate they are the Inland Revenue & Customs. The first deals with domestic taxation including Sales Tax, Income Tax and Federal Excise Duties and that of customs deals with import duties and other taxes collected at import stage.

[12:04 AM, 8/2/2017] +92 346 9661636: The basic difference between a Direct tax and an indirect tax is: ... For example, Income tax is a form of direct tax. The person who bears Income tax and deposits the tax with the government is the same person i.e. the person who earns income. On the other hand, VAT, Excise duty etc are examples of Indirect taxes.

[12:07 AM, 8/2/2017] +92 346 9661636: A more realistic differentiation between the two taxes may be as following. Direct Taxes are the taxes that are levied on the income of individuals or organisations. They include Income tax, corporate tax, wealth tax and inheritance tax. Indirect taxes are those paid by consumers when they buy goods and services.

[12:08 AM, 8/2/2017] +92 346 9661636: A. Direct Tax

Direct tax is paid directly by an individual or organization to an imposing entity like government

Direct Taxes are based on the ability-to-pay principle, which means that if you earn more, your rate of tax is also more.

The purpose of Direct Tax is to redistribute the wealth of a nation (taking from rich, thus making them poorer)

Direct taxes cannot be passed on to a different person or entity;

The individual or organization upon which the tax is levied is responsible for the fulfillment of the full tax payment.

It is considered to be progressive tax since you tax depending upon the ability of the taxpayer to pay

## **B: Indirect Tax**

An indirect tax is a tax that is shifted from one taxpayer to another i.e. collected by one person but actually born by another person

An indirect tax is levied on goods or services, which increases the price of a good or services

The tax is actually paid by the end consumer, by way of a higher retail price.

Indirect taxes are levied equally upon all taxpayers irrespective of their income.

Indirect taxes are passed on, as the price of the tax is compensated for by simply increasing the overall price of the good or service.

It is considered to be a regressive tax since all taxpayers whether rich of poor have to bear the same burden

*Indirect taxation is policy commonly used to generate tax revenue. Indirect tax is so called as it is paid indirectly by the final consumer of goods and services while paying for purchase of goods or for enjoying services. It is broadly based since it is applied to everyone in the society whether rich or poor. Since the cost of the tax does not vary according to income, indirect taxation includes Ad Valorem tax and Specific tax, of which Ad Valorem(VAT, GST) is proportional and Specific tax is fixed. However, indirect taxation can be viewed as having the effect of a regressive tax as it imposes a greater burden (relative to resources) on the poor than on the rich, as both rich and poor pay the same tax amount for consumption of a certain quantity of a specific good. The taxpayer who pays the tax does not bear the burden of tax; the burden is shifted to the ultimate consumers. In the case of a direct tax, the taxpayer has to bear the burden of tax personally; in case of indirect tax the taxpayer and the taxbearer are not the same person*

*Muhammad Junaid Inspector*