Government Arts College for Women, Salem-8

Department of Economics

Unit-I

Public Finance- Introduction

Class: II B.A Economics

What is Public Finance?

In simple terms, public finance is the study of funds associated with government agencies. It revolves around the share of government revenue and expenditure in the economy.

Professor Dalton, in his book The Principles of Public Finance, states that "public finance is concerned with the income and expenditure of public officials and their adjustment."

The purpose of the public fund

Professor Dalton classifies the purpose of the public fund into four parts:

General income

As the name implies, public revenue refers to government revenue. The government generates revenue in two ways, tax revenue and non-tax revenue. Tax revenue is easy to identify, it is the tax paid by the people of the country in the form of income tax, sales tax, obligations etc. Non-tax income on the other hand includes interest income, rental and government property income from lending to other countries, and donations from world organizations.

This section examines taxation methods, revenue classification, methods of increasing government revenue, and its impact on the overall economy.

Public cost

Public spending is money spent by government agencies. Logically, the government is going to spend money on infrastructure, security, education, health, etc. for the development and welfare of the country.

Public loan

When public spending exceeds public income, the gap is filled by borrowing from the public or from other countries or from global organizations such as the World Bank. These funds borrowed are public debt.

This part of the public fund explains the burden of public debt, why it is necessary and its impact on the economy. It also recommends guidelines for managing public debt.

Financial management

As the name implies, this part of the public fund is about the management of all public funds, namely public revenue, public expenditure and public debt. Financial management includes the preparation, implementation and implementation of government budgets and various government policies. It also examines the impact of policy on the socio-economic environment, intergovernmental relations, and foreign relations.

Functions of the Public Fund

The three main functions of the public fund are as follows -

Allocation function

In an economy there are two types of goods - private goods and public goods. Private products have a kind of uniqueness of their own. Only those who pay for these goods can get the benefits of such goods, for example - a car. In contrast, public goods are non-exclusive. Everyone, whether they pay or not, can benefit from public goods, for example - a road.

The allocation function refers to the allocation of such public goods. The government should perform various functions such as maintaining law and order, protection against foreign attacks, providing health and education, and building infrastructure. The list is endless. The performance of these operations requires a large amount of cost, and it is necessary to allocate costs effectively. The allocation process explores how to allocate public spending more efficiently to maximize benefits with available public wealth.

Distribution function

Every country in the world has huge inequalities in income and wealth. These income inequalities affect the community and increase the country's crime rate. The distribution function of the public fund is to reduce these inequalities as much as possible by redistributing income and wealth.

In public finance, the first three steps to achieve this goal are outlined -

Use of a tax transfer scheme or progressive taxation, in simple terms, higher taxes on the rich and subsidies on lower incomes

Progressive taxes can be used to fund public services such as affordable housing and health care.

Luxury goods or items purchased by a high-income group may be taxed higher, for example, luxury cars.

Confirmation function

Every economy goes through periods of boom and bust. These are the most common and common business cycles that lead to this situation. However, these periods cause instability in the economy. The purpose of the stabilization process is to eliminate or reduce these business fluctuations and their impact on the economy. Policies such as a deficit budget during a recession and a surplus budget during a boom can help achieve the desired economic stability.

Why public funding is needed

Governments provide government-funded goods and services such as roads, troops, lighthouses and street lights. Private citizens do not voluntarily pay for these services, so businesses are not encouraged to produce them.

Public finance helps governments to correct or offset the undesirable side effects of the market economy. These side effects are called spillovers or outliers. For example, homes and businesses can create pollution and release it into the environment. If it costs less than pollution, people and businesses have the financial incentive to continue to pollute. Pollution is a leak because it affects irresponsible individuals. To fix a spillover, governments can encourage or restrict certain actions. For example, governments can finance recycling projects and enact laws to prevent less pollution.

Similarities between public finance and private finance:

The points of similarity between public finance and private finance are as follows:

(A) The same welfare objective:

Both types of funds broadly have the same goal. While public finance is concerned with maximizing the well-being of a community from a given resource, private finance is concerned with maximizing individual well-being.

(B) Rational:

All types of funds are based on rationality. A rational person tries to maximize his personal profit by allocating his given income.

Similarly, the government behaves rationally, which seeks to maximize the welfare of the community from the expenses incurred in various activities. Any irrational behavior - on the part of the individual or the government - can be catastrophic for individuals and society as a whole.

(C) Lack of resources:

Both have limited resources. Public and private individuals need to match their income and expenses, both of which make optimal use of scarce resources.

(D) Loans are repayable:

Private and public loans must be repaid. A person borrows from various sources to meet personal needs. But that too cannot be unlimited. He has to repay his debts. Like individuals, government cannot live beyond its means. Refunds may be suspended.

There are some fundamental differences between private and public finance. Some of the important differences are:

(A) The objectives are really different:

Objectives vary by the nature of public and private funds. The government should determine an objective standard from a given public expenditure, while an individual determines an objective standard application from his personal expenses.

Private individuals or companies are primarily concerned with private consumption or profits, while the government aims to promote the welfare of the community. Again, an individual or a

company is primarily concerned with current profits and opportunities, not with the distant future. But the government must serve the social generation from generation to generation.

(B) Public expenditure determines public revenue:

A person adjusts his expenses with income, while the government adjusts income with expenses.

A person usually prepares his family budget according to the income he expects to receive. Therefore, income is an important determinant of the personal budget. On the other hand, the government usually prepares its own expenditure budget, which then seeks to raise the necessary funds to meet the costs.

Therefore, expenditure is an important determinant of the general budget. In view of this difference, the code in the private fund is said to be cut in line with the fabric available and the opposite is said to happen in the public fund The size of the line is first determined, and then the authorities set out to collect the required fabric (through taxation, borrowing and deficit funding).

However, there may be some situations in which a person can adjust his expenses with income as well as government. In unforeseen emergencies, a person may have to spend more than the amount they receive from their current income.

Under the circumstances, he would have to work hard and sacrifice leisure time or borrow from different sources in addition to his current income. Similarly, when government spending exceeds government revenue, the government borrows. Or reduce costs when it falls short of its expected revenue target.

(C) The general budget is not necessarily balanced:

A person tries to maintain a balanced budget and maintaining a surplus budget is a virtue. Instead of a balanced or surplus budget, it is desirable to have a government deficit budget to increase the country’s productivity. In other words, a surplus budget does not stimulate economic activity. Conversely, a deficit budget is often made to finance the economy.

An individual does not have this right. Moreover, the government can raise money from its own citizens and from outside sources such as the International Monetary Fund, the World Bank and foreign countries. No individual like this is enjoyed by individuals. The government may force people to buy its own bonds to mobilize resources, especially in times of war.

(C) Public finance is transparent:

Private finance is a confidential matter related to sources of revenue and expenditure. A person tries to maintain the secrecy of his accounts. Usually, a person does not disclose his financial status. Such expression has no significance to others.

No such secrecy is maintained in the case of public finances. The government places its budget (i.e., accounts calculated as income, expenditure, and fiscal deficit patterns) in parliament.

Principles of maximum social benefit

The financial or budgetary activities of the state have multiple effects on the economy. The decay of revenue collected by the state and public expenditure through taxation may have a significant influence on the consumption, production and distribution of the national income of the country.

The financial activities of the government settle themselves with the constant transfers of purchasing power from one part of society to another, and with variations in the total income available to society. In fact, the financial activities of the state affect the allocation of resources and the use of resources from one channel to another and, therefore, affect the level of revenue, output and employment.

Therefore, it is desirable that certain standards or criteria be set to determine the suitability of a particular function of the public fund - government revenue and expenditure. In a modern welfare state, such a criterion is apparently nothing more than the economic welfare of the people.

Therefore, the specific financial activity of the state leading to an increase in economic welfare is considered desirable. Such activity does not result in an increase in well-being or in some cases may even be considered undesirable.

It is obvious that taxation is a loss of use to the people, while public spending is a benefit of the use to the community. When the government imposes taxes, there is some dissatisfaction or dissatisfaction in the community. This inaction is in the form of the sacrifice involved in paying taxes - in separating from purchasing power.

Similarly, when the government spends money, some use is created in the community. There is some satisfaction in the fact that public spending is spent by the government on who, or for whom, a group in society. This is the social benefit of public spending.

Therefore, the maximum social benefit is achieved when the government increases the surplus of social gain or utilization (as a result of public spending) on social sacrifice or futility (involved in paying taxes) in its financial activities. Public finance policy should, therefore, compare the sacrifices and benefits of the states

Dalton says, "Public spending in every direction has yet to be carried out, and the benefits to society of even a small increase in any direction are offset by the small taxation associated with it or the disadvantages of any receipt. Public spending and other sources of public revenue. "

Therefore, a rational government seeks to maximize the net social benefit of its financial activities. The social net benefit is maximized when the total social benefits resulting from public spending are maximized and the overall social sacrifice involved in raising public revenue is minimized. According to the principle of maximum social benefit, the last unit taxed on public expenditure should be carried out up to a certain social sacrifice.

Map Representation: In technical terms, some social sacrifice (ineffectiveness) and some social benefit of taxation

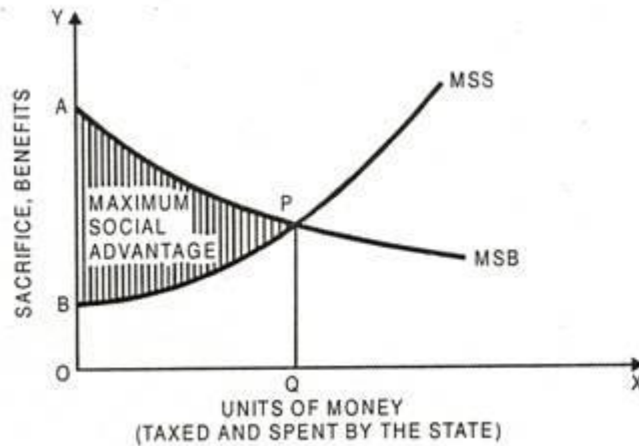

Fig. 1. The Maximum Social Advantage

In Figure 1, MSS is somewhat of a social sacrifice curve. This is an upward curve, indicating that the social sacrifice for a unit of taxation increases with each additional unit of money. MSP is a

partial social benefit curve. This is a downward curve, which indicates that the social benefits per unit decrease as the general cost increases.

The MSS and MSP curves intersect at point B. This equality of MSS and MSP curves (b) is considered to be the optimal limit for the financial activities of the State. As long as the MSP curve is above the MSS curve, it is easy to see that each additional unit of revenue accumulated and spent by the state leads to an increase in net social benefit.

This beneficial process will continue until Margin Social Sacrifice (MSS) becomes equal to Margin Social Benefit (MSP). Beyond this point, a further increase in the state's financial activities means a partial social sacrifice that goes beyond petty social welfare. Therefore, only under the condition of MSS = MSB, maximum social benefit is achieved. Graphically, the shaded area APB (the area between the MSS and MSB curves, until both intersect) represents the maximum level of social benefits. OQ is the optimal amount of financial activity in the state.

The principles of financial operation are followed in the budget.

1. All taxpayers should distribute taxes in such a way that the partial use of the money sacrificed is uniform.

2. General expenses are made, i.e. the benefits derived from the last unit of money spent on each item are equal.

3. To some extent the benefits and sacrifices have to be balanced.

Unit-II

Public Revenue

Meaning of Public Revenue:

Government revenue from all sources is called general revenue or general revenue.

However, according to Dalton, the term "general income" has two senses - broad and narrow. In its broadest sense, it includes all receipts or receipts that a public authority can obtain at any time. However, in its narrowest sense, it only includes the sources of income of the public power, which

are commonly referred to as "revenue resources". To avoid ambiguity, the former is called "public receipts" and the latter "general revenue".

Therefore, receipts obtained from the sale of public debt (or public debt) and public property are mainly deducted from public revenue. For example, the budget of the Government of India is classified as "Revenue" and "Capital". “Revenue Leaders” Revenue leaders are referred to as “receipts” under the capital budget. Therefore, the term “receipts” includes sources of public revenue that are excluded from “revenue”.

In a modern welfare state, there are two types of general income tax revenue and non-tax revenue.

Tax revenue:

Funds raised through various taxes are referred to as tax revenue. It is the compulsory contributions that the government imposes on its citizens to deal with public costs incurred for the public good, without any benefit to the taxpayer. As TheAwsick puts it, "The essence of a tax is that, as it differs from other government fees, there is no direct bizarre bias between taxpayers and public power."

Celigman defines a tax as: “A tax is a compulsory contribution from one person to the government that represents spending for the common good of all.

The main characteristic features of the line are:

1. Tax is a compulsory tax payable by citizens. Therefore, refusing to pay taxes is a punishable offense.

2. There is no direct, bizarre relationship between taxpayers and public power. In other words, taxpayers cannot claim mutual benefits against taxes paid. However, as Seligman points out, the government must do something for the community as a whole for what taxpayers have contributed in the form of taxes.

3. "But this mutual duty of the government is not to the individual, but to the individual as part of a larger whole."

4. Tax is levied to meet the public expenditure incurred by the government for the public good of the nation. This is the fee for the indirect service that the government has to do for the community as a whole.

5. A tax shall be paid regularly and from time to time as determined by the taxing authority.

Tax on public income is a significant part of the modern public fund. Taxes have macro-economic consequences. Taxation affects the quantity and method of consumption, the mode of production and the distribution of income and wealth.

Progressive taxes can help reduce income and wealth inequality by reducing the disposable income of the higher income group. Disposable income is the income that remains in the hands of taxpayers to pay after tax. Tax refers to compulsory savings in a developing economy. Therefore, tax development is an important source of funding.

Non-tax revenue:

General revenue received through administration, businesses, gifts and grants is the source of non-tax revenue for the government.

(i) Administrative Revenue

(ii) Profit of Government Institutions

(iii) Gifts and Grants

Executive Revenue:

Under public administration, public authorities can raise certain funds in the form of fees, fines and penalties and special assessments.

Fee:

Beneficiaries are charged by the government or public authorities for providing a service. Celikman was quoted as saying, "Fees are the cost of every continuous service provided by the government, mainly for the public good, but also for providing a measurable benefit to the payer."

Court fees, passport fees, etc. fall under this category. Similarly, a license fee is charged by the regulatory authority to issue a permit, e.g., driving license fee, import license fee, liquor license

fee, etc. Payment must be made by the recipient of certain special benefits. Usually the amount of the fee depends on the price of the services provided.

Fees are a by-product of administrative activities

State Company Profit:

Profits of state-owned enterprises are also a major source of revenue these days due to the expansion of the public sector. For example, the central government operates the railways. Surplus from railway revenue can generally contribute to the revenue budget of the central budget.

Similarly, the profits of the State Transport Corporation and other public bodies may be the main sources of revenue for the budgets of the State Governments. Similarly, in the public sector other business entities like Hindustan Machinery, Bokaro Steel Plant, State Chamber of Commerce may make a profit to support the federal budget.

The revenue of government agencies depends on the prices they charge for their goods and services and the surplus derived from it. Therefore, the pricing policy of state-owned enterprises should be self-supporting and reasonably profitable. Again, prices are charged with an element of Quit Pro, i.e. in direct proportion to the benefits provided by Cher

However, in some cases, when there is a complete monopoly on the state, prices with higher profit margins are charged. Such monopoly profits of a state-owned enterprise are in the nature of a tax. The difference between price and fee is this: the former is usually less than the cost of production or service, while the cost of service should not be offset.

Gifts & Grants:

These are usually the smallest part of the general revenue. Often, patriotic people or organizations can give gifts to the state. These are purely voluntary contributions. Gifts have some significance, especially in times of war or emergency.

In modern times, however, subsidies from one government to another have become more important. Local governments receive grants from the state governments and state governments from the center. The Central Government provides grants to the State Governments for the execution of their functions. When grants are issued by the government of a country

What is a direct line?

In simple terms, direct tax is the tax you pay directly to the taxing authority. For example, income tax is levied by the government, and you pay it directly to the government. These taxes cannot be transferred to any other company or person. There are many processes that manage direct taxes.

In India, the CPDT (Central Board of Direct Taxes) administered by the Department of Revenue is responsible for direct tax administration. The department is involved in planning and providing inputs to the government in connection with the implementation of direct taxes.

Common types of direct taxes in India

The following are some of the types of direct taxes implemented in India:

1. Income tax

Direct tax is the most common type of income tax in India. It is levied on the income you earn in a financial year based on the income tax brackets of the IT sector. This tax is paid directly by individuals and merchants to the IT sector.

2. Bond transaction tax

If you are involved in stock trading, each of your trades has a small volume called the bond transaction tax. Regardless of whether or not you made money in the trade, you will have to pay this tax. The broker collects this tax from you and sends it to the bond dealer, who then pays it to the government.

3. Capital Gains Tax

Every time you earn capital gains, you have to pay capital gains tax. This capital gain can come from the sale of a property or from investments. Depending on the capital gains and the period in which you have invested, you will have to pay LDCG (Long Term Capital Gains) tax or SDCG (Short Capital Gains) tax.

Advantages of direct taxes

There are some key benefits of direct taxes-

Controls Inflation- If there is inflation, the government can increase direct tax rates, thus reducing the demand for goods and services. When demand falls, it helps suppress inflation.

Direct taxes are also known as equals because the principle of equality-progress is at its core. Low-income people pay lower taxes and higher-income people pay higher taxes.

Reduces inequality- The higher taxes levied on the rich are used by the government to launch new initiatives for the poor. These initiatives provide income sources for low-income people and help improve their quality of life.

Disadvantages of direct taxes

Direct lines also have some drawbacks

Considered a burden- Taxpayers are considered a burden because they have to pay direct taxes such as income tax on the same amount each year. Moreover, even the documentation process is usually complicated and time consuming.

Possibility of evasion- As the government has now made tax evasion more difficult, there are still many fraudulent practices that individuals and businesses can avoid or pay lower taxes.

Restricts Investments- Many people avoid investing because they impose direct taxes such as bond transaction tax and capital gains tax. So, in a way, direct tax controls investments.

What is an indirect tax?

Income and profits are directly taxed, while goods and services are indirectly taxed. One big difference between direct and indirect taxes is that while direct taxes are paid directly to the government, there is usually an intermediary to collect indirect taxes from the end consumer. It is the responsibility of the intermediary to send the tax received to the government.

Unlike direct tax, indirect tax does not depend on a person's income. The tax rate is the same for everyone. The CBIC (Central Board of Indirect Taxes and Customs) is largely responsible for handling indirect taxes in India. Like CPDT, CBIC operates under the Revenue Department.

Common types of indirect taxes in India

The most important types of indirect tax in India are-

1. Goods and Services Tax (GST)

GST included 17 different indirect taxes in India such as service tax, central excise, state VAT and so on. It is a single, comprehensive, indirect tax levied on all goods and services according to the tax brackets imposed by the GST Council.

2. Customs tax

When you buy something that you want to import from abroad, you have to pay customs duty on it. Regardless of whether the product has arrived in India by air, land, or sea, you must pay the appropriate customs duty. The aim of imposing this indirect tax is to ensure that every product entering India is taxed.

3. Value Added Tax (VAT)

A VAT is a type of consumption tax levied on products whenever its value increases. It is levied by the state government, which also determines the percentage of VAT on different goods. Although GST has largely eliminated VAT, it is still levied on certain products, such as products containing alcohol.

Advantages of indirect tax

Listed below are some notable advantages of indirect taxes-

Poor contributions are very high- it is essential for the country that every person contributes to its development. Since the poor are often exempted from paying direct taxes, indirect taxes ensure that even the poor contribute to nation building.

Facility- Unlike direct taxes, which are usually paid in bulk, indirect taxes such as GST are also paid in small amounts. When you buy a product or service, a small amount of GST is already included in the price, and it makes its payment very convenient for the taxpayer.

Collection is easy- if you want to know what the difference is between direct and indirect tax, the biggest of them is how they are delivered. Unlike direct taxes, there are no documents or complicated procedures for paying indirect taxes. You must pay tax when you purchase a product or service.

Disadvantages of indirect taxes

Some of the disadvantages of indirect taxes are:

Regression- Indirect tax is widely known as reactionary in nature. Although everyone is guaranteed to pay taxes regardless of their income, they are not equal. Each income group must pay indirect taxes at the same rate.

Bringing goods and services more expensive- They are more expensive because indirect taxes are added to the price of goods and services. For example, products such as cigarettes, high-end bikes and premium cars are included in the 28% tax bracket of GST.

Civic-Lack of Consciousness- Because indirect taxes are added to the price of a product or service, consumers are generally unaware of the tax they pay. This is in contrast to direct taxes, where the taxpayer clearly knows the taxes he / she pays.

Unit-III

Taxable Capacity

What is the ability to tax?

The ability to tax is a highly debatable concept. Indicates the maximum potential a country can contribute through taxation in normal and extra ordinary circumstances.

Definitions of taxable ability

According to Dalton, the term "taxable ability" is a vague and confusing concept. He argues that the term "absolute competence" is a myth and that discussion of it should be banned.

But Findlay says Shiraz

The ability to tax is of great practical importance. It would be useful for a government to know in general the maximum amount that the people of the country can contribute through taxation.

The term taxable ability is used in two senses.

In the absolute sense and

In the pro sense.

What is the full taxable capacity?

The term completeness refers to the maximum tax that a community can pay without experiencing any unpleasantness. It refers to the maximum tax that can be levied and the maximum income that can be collected from the population of a country.

Absolute taxation capacity refers to anything that the government can take away after allowing citizens a very low standard of living, or, as Shiraz puts it, "full taxation is the limit of pressure."

The main difficulty of this interpretation is to determine the standard of living of the country. It is very difficult to measure the minimum standard of living. If the entire amount received after deducting the subsistence level from the total production is taken in the form of tax, it will affect not only the well-being of the people but also the productivity and efficiency of the community.

After realizing these difficulties, Sir Josiah Stamp suggested an alternative measure, namely the difference between total production and total consumption. There are other indicators of the ability to fully tax. If additional taxation results in lower productivity or lower productivity or if it does not increase state revenue, it indicates that the full taxation capacity of the population has already been reached.

What is dependent taxation capacity?

The term refers to the respective contributions of the two communities to the general expenditure of the government. That is, it is the community's ability to make some common expenses in relation to the capabilities of other communities. E.g. There are two communities, namely rich and poor communities. The rich can contribute more to a common expense than the poor. The rich have the ability to pay considering their high income.

Professor Musgrave associates the concept of taxable ability with the concept of personal income. The higher the personal income, the higher the ability to pay taxes. According to Dr. Dalton, the ability to fully tax is a myth, while the ability to tax is a fact.

Dr. Dalton cannot fully accept the criticism raised against the ability to fully tax. Although the full taxable potential cannot be accurately measured, it cannot be completely ignored. It serves as a useful guide when the government imposes new taxes on its citizen.

Factors affecting taxable capacity

The concept of taxable capacity is not very difficult. This is a moving concept. As the prosperity of the nation increases, so does the taxation capacity of the people. The taxation capacity of the population of a country is affected by many factors. They are as follows:

1. The Psychology of Taxpayers

It is said that if people are willing to make more sacrifices, the ability to tax will increase. During wartime, people had to pay higher taxes. People are generally optimistic during times of prosperity and are willing to pay higher taxes.

2. Distribution of wealth

It is evenly distributed, reducing the ability to tax. If it accumulates with a few, they can carry a huge burden on paying taxes.

3. The nature of taxation

If the tax system is scientifically designed, the ability to tax increases. If the tax system adversely affects the productivity of the people, it will reduce the taxable capacity.

4. The purpose of taxation

If the purpose of taxation [in agriculture, industry and infrastructure development] is to mobilize resources to bring about economic growth, then the people of the country are willing to pay taxes. Conversely, if it spends huge sums of money on stockpiles and ammunition and warheads, it will inevitably reduce the taxing capacity of the population.

5. Status of economic growth

The taxable capacity of the people is determined by the level of economic growth of the country. Most developed countries have the potential to levy higher taxes than poorer countries.

6. Political conditions

It depends on political stability and inner prosperity. If there is peace inside and outside the country, there will be an environment conducive to expanded economic activity, which will increase the ability to tax.

7. Population

It depends on the size and rate of population growth. As the population grows faster than the national income rate, the ability to tax becomes poorer.

8. The amount of national income

The taxable capacity of any community depends on the size of the national income, the amount of natural and other resources, the amount of resources utilized, the level of technology and many other factors. The richer a community is, the greater the ability to pay taxes.

Therefore, taking all these factors together determines the upper limit of taxation. As the economy achieves prosperity and wealth, so does the ability to tax. The ability to tax varies from country to country and from time to time in the same country. But there is no mathematical formula for measuring taxable capacity.

The importance of the concept of taxable capacity

Knowledge of the taxing capacity of the community can be very useful to the government in many ways and in different situations.

1. Information can be useful for mobilizing economic resources for economic planning purposes.

2. In times of war, it is important for the government to know the maximum amount of people who can contribute to the war.

3. Even in normal times, the government will prevent the imposition of unnecessary taxes, which may prove to be more complicated than production, which may cause dissatisfaction among the people.

4. Feedback is valuable in the federal fund. In a federal fund, not only should the burden of taxation be set aside, but the block should also be compared between different contributors to facilitate the resolution of various issues related to financial relations between the state and the central government.

Taxation event

Taxes cannot always be accepted by people who pay them on the first occasion. They are often transferred to others. The tax event is the final placement of a line. Eventually incidents occur on

the person carrying the tax burden. According to modern theory, the event is a change in the distribution of income brought about by changes in budget policy.

Impact and Events: The impact of a tax is on the payer in the first instance and finally on the bearer of that event. So, this event is on the end consumer.

Events and Consequences: The effect of a line refers to the accidental results of the line. Taxation has many consequences, for example, low demand.

Cash Load and Actual Load: The cash burden of a tax is denoted by the total amount of money received by the treasury. For example, consumers spend Rs. 50 rupees per month for sugar, which is the cash burden he has to carry. But if he wants to reduce sugar consumption it means that there is a decline in economic well-being. The real burden of the tax is on this difficulty, pinching, sacrifice or, in short, loss of economic benefit.

Theories of tax change and events

Previous theories can be categorized as follows:

(A) Concentration or surplus theory: According to the concentration theory, each line tends to focus on a specific class of people who enjoy surplus from their products.

(B) Diversion or diffusion theory: The diffusion theory states that the line eventually spreads throughout the community. That is, the final tax is not one, but many. The diffusion process took place either by modification or by the transfer process.

Modern theory: According to modern theory, theories of concentration and diffusion are somewhat true. Both the concentration and distribution of the lines are subject to existing conditions. Modern theory seeks to analyze the conditions that bring about concentration or diffusion.

Factors determining tax events

(A) Flexibility: When considering events, we consider both the flexibility of demand and the flexibility of supply. If the demand for the taxable goods is resilient, it will be transferred to the tax maker, but if there is an unavoidable demand, it will often be accepted by the consumer. In

the case of re-supply, the load will be on the buyer and in the case of unsecured supply to the manufacturer.

(B) Price: Price is the most important factor as changing the tax burden can only happen through price change. If the tax price does not change, the tax will not change.

(C) Time: In the short term, the manufacturer will not be able to make any changes to the plant and equipment. Therefore, if the demand arises due to the price increase resulting from the tax, he may not be able to reduce the supply and will have to bear the tax to some extent. However, in the long run, the entire adjustment can be made and the tax transferred to the consumer.

(D) Cost: raises the tax price; Rising prices reduce demand and output decreases as demand decreases. The change in the level of production affects the cost and the effect will vary as the industry decreases, increases or becomes a fixed cost industry. For example, if the industry is subject to declining costs, reducing the volume of production will increase costs, and therefore the price will shift the tax burden to consumers.

(C) Tax nature: Taxation events certainly depend on the nature of the tax. For example, the burden of an indirect tax falls on consumers.

(D) Market format: Another factor that determines taxation events is market form. Under proper competition, no single manufacturer or single buyer will be affected by the price; So changing the line in both directions is questionable. But under the monopoly, a manufacturer is in a position to halve the price, so the tax will change.

Difference between the impact of taxation and events:

1. Impact refers to the initial load of the line, while events refer to the final load of the line.

2. The impact is in the imposition phase, the events occur in the settlement event.

3. The impact of a tax falls on the fr6m person to whom the tax is levied and events will eventually be on the payer of it. For example, suppose a tax is levied on excise duty on soap. Its impact is on the producers, who, in the first instance, are forced to pay it to the government. But makers can succeed in collecting it from consumers by raising the tax level on the price of soap. As such, consumers ultimately pay taxes, so events fall on them.

4. Vulnerability can change, but events cannot. Because, event is the end of the transformation process. However, sometimes, when no change is possible, as with income tax or other direct taxes, the impact coincides with the events of the same person.