

## TAX IS WEALTH

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**Abstract** - Tax is a word that comes from the Latin word taxare. This word means to estimate and hence income tax means income estimate. Taxes help government to realize of the people economic strength. Income tax is the tax that is collected from the individual's income. If you collect tax from wealth or land, it is called wealth tax or land tax. There are two types of tax: first one is direct tax and second one is indirect tax. If government collect tax from direct tax or indirect, it is called direct tax or indirect tax. The word "person" here refers to seven person: individual, Hindu undivided family, company, firm, association of person/body of individual (AOP/BOI) local authority, artificial person. The person who legally is forced to pay tax is called the assessee. The tax calculated for previous year is payable in the financial year in which it gets calculated. The year preceding the financial year is called the previous year. Whenever the individual earns income and pays the tax at the same times it is called tax deducted at source (TDS). Under the previous year whose total income exceed to the exemption limit, he is liable to pay tax but he is not willing to pay tax. The government introduced recovery of tax to alleviate this situation and to recover lost money total income is a income left after making lawful deduction of that country from gross total income. Gross total income is the income from five heads that is income from salary, income from house property, income from profit & gains of business or profession, income from capital gains, income from other source.

Tax is source of income for the government. The ultimate goal of the government to implement the tax is increase government revenue. Taxation is also an example of the idea of treating everyone equally, because big and tiny income group alike pay taxes here. High income group pay high rate of tax and its similar to low income group. It means, the low income group pay low rate of tax. This eliminates the discrimination between large and small income group. The government is using this money for the welfare of the people and its used for meet the expenditure of government in day to day activity. This will enable the government to have better governance. There is no immediate benefit when paying individual tax but there will certainly

be future benefit. Most of the income in government comes from taxes. Tax helps the government to meet the free education, better infrastructure and health care facility, pension and basic needs of man. It covers a lot of things like importance of tax, salient features, advantage & disadvantage, objectives of taxation direct tax, merits and demerits of direct tax, indirect tax, merits and demerits of indirect tax, factors influencing tax, how the tax affects the individual's life.

**Key words** - Importance of tax, Salient features, Advantage & Disadvantage, Objectives of taxation, Direct tax, Merits and Demerits of direct tax, Indirect tax, Merits and Demerits of indirect tax, Difference between direct tax and indirect tax, Factors influencing tax, Affects on individual life in tax, Reference.

### 1. INTRODUCTION

Tax is wealth of nation. Tax is one of the factors is driving the country towards prosperity. Revenue from taxes makes it easier for governments to govern. Tax do not set the stage for the concentration of wealth in few hands. Tax can help prevent income discrimination and increase individual saving habits, resulting in new business ventures is commence and booming. The technology and tax rates change every year as the environment changes. Technology paves the way for new innovation through which individual incomes increase government decide the tax rates will be proportional to the individual. Tax helps the government to meet the basic needs to man. The government generates most of its income through taxes. Therefore tax collections is an easy method used to increase income in every country.

### 2. IMPORTANCE OF TAX

- Eliminate class discrimination : Taxes causes the elimination of racial divide. Large and small alike need to pay tax. Those with higher income group pay higher rates of tax accordingly.
- It provide equal status : Tax provide equal status in our nation. This mean that

everyone pay different taxes for example land tax, gift tax, income tax etc .

- Inhibit of concentration of money :Tax result in the elimination of accumulation of money in just one person.
- It create service attitude :Tax bringing a service spirit in the human mind. Every person donates to charities like charitable institution to reduce their tax burden. Donation tax under 80-G is exempt from income tax rule.
- Revenue of government :Tax is a ultimate source of government. Government utilize the amount for smooth function of administration to the enter department.
- Increase the size of business: The government collects tax from the business industry and utilizes that amount to provide infrastructure required for the business. Infrastructure means good transportation facility, market facility, good economic condition etc. with this the business grows.
- Increase standard of living: Provides infrastructure to the tax people, thereby increasing human income and increasing the standard of living.
- Earning physiological needs: Tax is one of the factor that helps the government to meet the basic needs of man. Through this food, water, shelter, health care, and education provides people with all the benefits.
- Increase economic growth: Government provides better service to the nation on the basic of income(Tax). This will spur the new business industry and increase economic growth.
- Discourage the unhealthy items: Tax helps to reduce the use of unhealthy items. The central government charges high rate of taxes to reduce the use of alcohol and other substances. For this reason they discouraged until they are used.
- Compulsory payment: Tax is collected in accordance with the laws of that country, so if the tax is a compulsory payment, this is punishable off.
- Universal applicable: The law of one country is interconnected with the law of another country. Especially the recovery of tax cause ,if you cut taxes and move

from one country to another country or in the country where he now resides, without any other asset holdings in his name , but if the occur abroad he will have to sell his asset abroad and pay tax amount. For example India collect tax as per Income tax rule under section 228A “Recovery of tax in pursuance of an agreement with foreign countries”

- Meet the challenges of changes :We are living in rapid changing world. New technology, innovation, and creativity are introduced at any time. Similarly the tax rate will change. Therefore the tax rate varies depending on environment change.
- Income stability : In order to maintain the income stable, the govt increase or decrease the tax rate according to the circumstances of its country. Income is stable through this process.
- Human development :The government spends its country’s tax money on the welfare of the people by giving them free education, better health care facility, new technology and skill. This leads to human development.
- Continuous process : Taxes like land tax, municipal tax have to pay continual tax and this will never end . If they deliver these goods to someone, they will then have to pay tax out.
- Flexible and elastic :Tax rates change every year so the tax rate is flexible.
- Effective administration : Tax plays a central role in meeting the day to day needs of the government. This enables the effective administration of the government.
- Generation of employment opportunity: Tax provides new job opportunity through central government forms different department to collect taxes.
- Increase saving habit :Taxes increase the saving habit of each person. People are investing money in something like LIC, RPF, PPF in order to reduce tax burden. Through this reduce the tax burden and increase the saving habit.
- It help to attain common purpose : The government is implementing the tax to get common purpose of the people.

### 3. SALIENT FEATURES

1. Emphasis on environment structure :Tax additionally focuses on the growth of environment structure. It is for this reason that the central government introduced tax .With the tax credit, the central government provides the people with free education, infrastructure development and better economic condition.
2. Applied science :Tax causes the environment to eliminate the problem and find solution .Growth in the modern world will affect every country's tax. The government is using tax money to alleviate this situation and they are using new innovation and technology to drive the growth of the country.
3. Formal communication/up ward flow :The relationship between "person" and tax authority is established through formal communication. The tax will be paid by the person directly, there will be no middle man. In some case you can remit money on behalf of someone else. Being non intermediary, the tax authority can address individual tax disputes face to face. This is why the tax is called upward flow.
4. Motivated by economic reward :Here, the economic reward means better economic condition and infrastructure facility. A tax payer wants to grow his or her economic status, infrastructure and increase income. It motivates the people by showing the tax economic reward.
5. Goal oriented :Tax collecting is also a means of carrying out of the government's objectives. Once the government figure its revenue expenditure, it has the most income from taxes. Therefore, tax is goal oriented process.
6. Forward looking / regulatory function : The calculation of the what the government will do in the future will be based on tax or otherwise. The very purpose of tax meet future events effectively.
7. Flexible and elastic : Government calculate the tax amount are prepared in anticipation of future situation. But actual situation may differ from what has been forecasted earlier. Therefore, tax requires modification, so the tax have to flexible.
8. Dynamic nature : The tax rate may increase or decrease depending on the environment. Hence the tax is called dynamic nature.
9. Not transferable : It is not possible to transfer one person 's tax to another . anyone who transfer is called" clubbing of income". Once the tax authority realizes this, who actually pays the tax will be taxed from them. This does not apply in the cause of indirect tax.
10. A continuing obligation/ confined to single function. Every person whose total income exceeds the emptied limit is liable to pay income for the previous financial year the exemption limit for the ordinary assessee is rupees 2,50,000 that means the of an assessee's income exceeds rupees 2,50,000.He is liable to pay income tax under this limit. It is our responsibility to pay tax. Tax may be continuing obligation or confined to the performance of a single function. There is only one process is called confined to single function.
11. Attention on people : Taxes are more focused on people and people's needs. It is a process where people use their money for their own needs.

#### 4. ADVANTAGE & DISADVANTAGE OF TAX

##### ADVANTAGE & DISADVANTAGE OF TAX

Points	Advantage	Disadvantage
Create	Good economic condition.	Black money
Affects on individual life	Saving habit increase.	Affects low income group.
High rate	Government income increase.	Tax evasion increase.
Money value decrease	Government implement high rate of tax & it helps to reduce inflation.	Increase the consumption habit of individuals and its reduce tax amount.
Affects on government	Government revenue increase.	Administration burden of government increase.
Tax planning	Tax planning is helps to reduce tax liability.	Reduce government revenue.
Helps	Tax helps to reveal the actual income of assesseees.	There is no element of choice about paying tax. It is unavoidable.

Table 4.1

#### 5. OBJECTIVES OF TAXATION

- The government is able to raise the money for its duties through taxes.
- Taxes help prevent the accumulation of money in few hands.
- Saving habits and investments are increasing in individuals.
- The country's economy is rapidly developing.
- It also opens up the possibility of employment opportunity to improve the financial position of the government.

#### 6. DIRECT TAX

This is called direct tax if the government collect the tax directly from the individual. There will be no middleman here. Tax pay is based on the

person's income or wealth. This tax burden cannot be transferred to another person. Government income earn from individuals is based on the slab rate. Individuals are classified in to three groups on the basis of age: super senior citizen (age: 80 above), senior citizen (age: 60-80), and individual (age: less than 60) and the slab rates they pay are different. For example income tax, wealth tax, capital gain tax,

##### 6.1 MERITS

- ❖ Maintain equality :under the previous year whose total income exceed to the exemption limit, he is liable to pay tax. Everyone pays taxes on the basis of slab rate. Therefore, there is no distinction between high income group or low income group which helps to maintain equality.
- ❖ Very easy to clarify: since there is no intermediary the tax payer and tax authority will be directly involved in the

money truncation. So, it is easy to clarify without mistake and check whether the document is valid.

- ❖ Income Inelastic : the amount of tax he has to pay varies depending on whether individuals increasing or decreasing their income. The tax rate affects the tax amount of that year. Therefore, it is income elastic.
- ❖ It prevent concentration of money in one person.
- ❖ Goal oriented : Tax help the government to achieve its goal. Every year, the government has a calculation of how much income in the government gets in taxes and accordingly the government plans and achieve them.
- ❖ Build faith : since there is no middleman, the tax payer can ask questions face to face to the tax authority. This will help clear up doubts. Therefore, direct tax causes more confidence and build faith.

## 6.2 DEMERIT

- ❖ Tax burden cannot be transfer to any other person.
- ❖ Direct tax encourage people to tax evasion, clubbing of income, and benami truncation.
- ❖ The individual not willing to get more income because, if you get more income, he liable to pay high rate of tax.
- ❖ Black money is arising to the country.

## 7. INDIRECT TAX

If government collect tax from indirect it is called indirect tax. In other wards tax imposed on any goods or service it is known as indirect tax form such as manufacturing companion or service provides such a percentage of the tax liability is imposed on the buyers. This is done to compensate for the loss caused by tax liability. They pay a fixed percentage to the government before they sell the product. When selling products, he actual price, profit and tax will be added to their product. People pay the sum of these. When do we enjoy a product or service at the time the original owner will get bade the lost money. Tax liability can be transferred to anyone . Whoever enjoys the product or service, he liable to pay tax. The tax amount will be very small. For example excise duty, customs duty, sales tax, goods & service tax (GST).

### 7.1 MERITS OF INDIRECT TAX

- A meager sum : Tax liability on indirect taxes is a small amount we can bear. No need to pay a lump sum amount like direct tax. We pay a meager sum in indirect tax.
- Easy to implement : Indirect tax is not a hefty amount like direct tax. It is also capable of transferring the burden and it is very easy to implement.
- Increase in savings & investments : this is not a huge amount, so the income group can cover the costs. Transfer of tax liability can therefore reduce the tax burden. This has resulted in more savings and investments.
- Tax evasion is impossible: tax evasion is impossible because, tax pay here is with the price of commodity.
- Convenient: whenever people enjoy a product or service, the person has to pay the tax on the goods he has enjoyed. As the quality of the product increase, so does the price of product. Tax pay here is with the price of commodity. So it is much more convenient.

### 7.2 DEMERITS OF INDIRECT TAX

- Price elastic: Each seller sells his product at a different price, but the product will be the same. When buying and selling goods in the hands of a wholesaler there will be a different amount. So, indirect tax is elastic.
- Directly affects in low income group: For the low income group, this would be a huge amount. So, it is directly affect in low income group.
- Class discrimination: high income group purchase a prestige goods but the low income group purchase only a consumer goods. The low income group cannot buy products targeted at the high income group. Because the price very high. This causes the separation of the high income group and low income group.
- It create a cheating mentality: Low income group has a felling that people are cheating. The high income group buys things for a modest amount of money, but for the low income group this is a huge

amount. Therefore it create a cheating mentality.

- Concentration of money in few hands: They pay a modest of tax on the high income group and don't have to spend too

much amount to buy a consumer product. Decrease in expenses of purchasing goods allows them to collect the balance. This can leads to accumulation of money with in one person.

**8. DIFFERENCE BETWEEN DIRECT TAX AND INDIRECT TAX**

<b>BASIS FOR COMPARISON</b>	<b>DIRECT TAX</b>	<b>INDIRECT TAX</b>
Meaning	If the government collect tax from direct, it is called direct tax.	If the government collect tax from indirect, it is called indirect tax.
Transfer	The tax burden cannot be transfer to any other person.	The tax burden is transfer to any other person.
Middleman	There will be no middleman.	There is an intermediary in indirect taxation.
Types	They are generally progressive.	They are generally regressive.
Evasion	Paying the individual tax can be a hefty sum and therefore the tax is likely to opt.	Tax evasion is impossible tax pay here is with the price of commodity.
Burthen	The individual pay is a hefty which is a burden to them.	Tax liability on indirect tax is a small amount we can bear.
Affect	It prevent concentration of money in few hands.	It leads to accumulation of money in few hands.

Feelings	High income group may seem cheating.	Low income group may seem cheating
Expenses	Extremely easy to collect tax no extra expense.	Taxes are very different to collect because there will additional expense here.
Example	Income tax, co operative tax, wealth tax	Sales tax, custom duty, excise duty

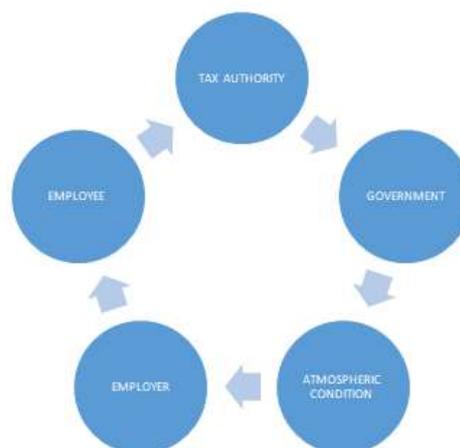
Table 8.1

**9. FACTORS INFLUENCING TAX**

- ❖ Individual savings: Increasing saving habit in individual will result in reducing the tax amount. They try to save every person from losing the hard earned money. So they invest in income that allows them to deduction for more income. Therefore so the savings increase and the tax amount goes down. For example below are some of the deduction in India’s income tax regime: (DEDUCTION U/S 80C)
  - Deduction in respect of LIC premium.
  - Contribution by employ to recognized provident fund (RPF).
  - Contribution to public provident fund (PPF).
  - Interest due on the national savings certificates.
  - Deposits in five year post office time deposit account.
  - Deposit in senior citizen savings scheme 2004.
  - Deposit in Sukanya Samriddhi account.

Atmospheric condition :atmospheric condition is the one of the factors affecting tax money. Better atmospheric conditions the new innovation, technology and business industry is booming when the government provides. This leads to economic growth. During this time, individuals accumulate money and the tax increase. Individuals will able to

return their tax money to themselves, demonstrating how it is :



In this world, every person will be making money with their talents. Sometimes they serve as employer and employee. If both of them cross the income exemption limit, they have to pay tax. Both of them pay a percentage of their income to the tax authority. Tax authority hands over the money to the government and government spends the revenue to grow the good atmospheric condition. Through this the money is rotated and returned to their own hands.

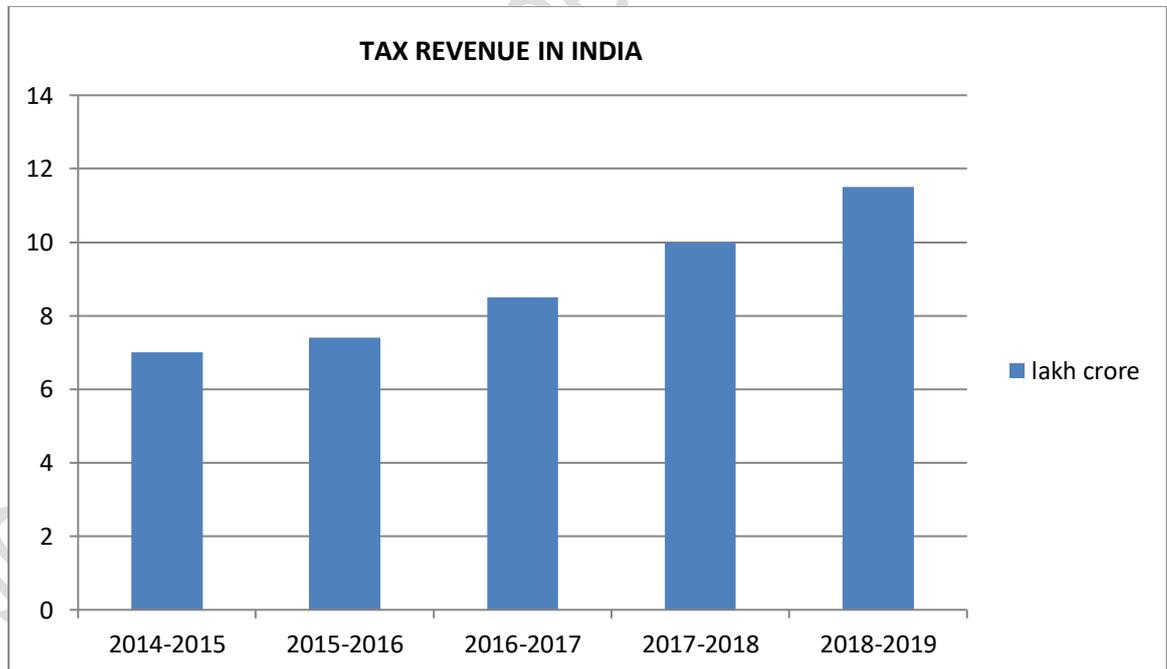
- ❖ Individual consumption: Purchasing power of the consumer or individual depend up on his income. when the income of person increase he may demand more quality product. This increase individual consumption and reduce

income. The expenditure in this case will be higher and the receipts less, thus reducing the tax amount.

- ❖ Individual income : A person has income from five heads. There are income from salary, income from house property, income from business, income from capital gain, income from other source. This will increase individual and he will have to pay tax at the rate of the year if he crosses the income exemption limit . As a individual income increase, so does the amount of tax
- ❖ Money value : Money value affects tax amounts in some circumstances, the value of money may increase or decrease. This also affects the economic conditioning. It is important to understand that when money value increase, people have less money. This time tax rate will be reduced. On the country, if the values goes down and the money goes up in the hands of the

people, the government is charging the higher rate of tax from the people.

- ❖ Technology : Technology is changing every year and these are becoming more and more popular. People use this technology to suit their needs and lose burden. Each technology will evolve over time. Therefore, it cause more income for people. When income increase, so does the tax amount.
- ❖ Government policy :Government policy will affect the tax amount substantially. Every year the government increase or decrease the tax rate. The government doing this to create better economic condition. Only through this will the country develop. The government sets the tax rate based on people's income. If the government sets the tax rate, they will have to obey it literally for example the income from tax in India is shown below.



If such a growth is to take place each year. It is only because their incomes are growing so much. for a person to have income, he needs good atmospheric condition, technology, creativity minded and government support. This result reflects the combined from of these.

Factors	Increase/decrease	Tax amount
Individual income	increase	Increase
Individual savings	Increase	Decrease
Individual consumption	Increase	Decrease
Government policy	Increase	Increase
Money value	Decrease	Increase
Technology	increase	increase

Table 9.1

### 10. AFFECTS ON INDIVIDUAL LIFE IN TAX

Tax affects so much on individual life. Tax provides better infrastructure facility, but tax burden on every person. Every rupee people earn is through hard work. When you work hard and dedicate money to government, your efforts are waste. There are only two ways to mitigate this situation. One is reducing income or making the government cheat. They do not dare to cheat the government because it is punishable offence but rather they are trying to reduce the income. Realizing that the tax is in order to meet their needs they encourage tax. Others see the tax through negative thinking. Less than half the people are opposed to collecting tax. Tax specifies how individual will be impacted. Tax influence people in two ways-one negative and the other positive.

1. Negative : if a negative impact is created by tax in the tax payer, there can be no doubt that the tax negative action. Tax affects middle income group and the higher income group negatively. but most of this affect the middle income group. Because they can only save income up to the exemption limit. Once the exemption limit over they will have to pay tax fore income. This a huge loss for the middle group who have only a modest income. For a high income group, the tax payable is a small amount but they claim maximum deduction and do whatever they can to reduce the tax . Some negative impacts are given below.

a) Discourage : Taxes discourage people from thinking that they should get more income if you

earn more income, you will have to pay more tax. This condition is more frequent in the middle group. Because of a percentage of the hard earned money is paid to government as a tax, that money loses. More than that, effort is a waste. They think it is better not to earn income then to waste his hard work. Therefore tax is discouragement factor.

- B) Benami transaction : when another person acts as a agent fore one person and no one recognizes him. That agent will do the transaction for the principal. This transaction is known as benami transaction. The agent shall have only the possession right, principal is real owner of property. Benami transaction are mostly carried out by the higher income group. Because they have to pay huge amount of tax. To get out of this, they are conducting a benami transaction. Benami transaction are done to reduce tax liability. The tax liability on asset will be paid on combination with agent income.
- C) Black money : Black money is money that is not accounted. if this is done to reduce taxes, this a punishable offense. In other wards, black money is income generated from illegal business or illegal activity. Therefore it is very difficult to pay tax because of the income it receives from the illegal source. If you can't tell from which source the income came from, it is black money.

- D) Clubbing of income: clubbing of income means adding one's income to another's income on the basis of reduce total income. Clubbing of income is a growing phenomenon in the society. Under this case of asset or income delivered to a person with no income or to a person that is lacking in tax. Person doing this work to reduce the tax amount. The asset or income will transferred on the basis of agreement. Agreement must be oral or written. The agreement states "pay back what I handed over to you as soon as you pay the tax pay". The owner then returns the tax money to the tax payer.
- E) Tax evasion: if the actual information is hoarding or the wrong information is filed to the tax authority in order to reduce the individual total income. Tax authority checks the information if the information is found to be credible. Otherwise it becomes a punishable offence. This is called tax evasion.

2. Positive: More than half the people are agreed to collecting taxes. They know that the government is collecting tax to provide infrastructure and eliminate the concentration of wealth in few hands. The ultimate goal of the government is welfare of the people, that is why the people is so supportive of collecting tax. Below is how tax impacts people.

- ❖ Increase the saving habit.
- ❖ Eliminates the concentration of wealth.
- ❖ It provide infrastructure facility.
- ❖ Free education & Health care facility provide.
- ❖ It causes economy growth grows
- ❖ It is turning point of new innovation.
- ❖ Standard of living increase.
- ❖ Through this, the country grows.

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