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Government Budget and Taxation

- What role does the government play in your neighbourhood? Discuss in class.
- Do you know where the government gets the money to make public facilities available and conduct other activities?
- Read the newspapers in your area and find out where the government spends money. Make a list.

Role of the government

In the modern age, the government is responsible for several important functions. These include protecting the country against external attacks and maintaining the rule of law within the country with help of its police force. Another major responsibility of the government is to provide public facilities. The special characteristic about public facilities is that once they are set up, they can be used by everyone. For example, if electricity is supplied to an area, it can benefit all the people living in the area. The farmer can operate his pump-set for irrigation. Factories, offices, shops and houses can use the electricity. The government should try to ensure that no citizen is deprived of the use of public facilities. To make this possible, the cost of these facilities should be minimal within the buying power of the people. Only then can they enjoy and pay for these facilities.



Figure 19.1: Public facilities

The government is also responsible to ensure the livelihoods of the people. You may have heard about the right to work and the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA). The Act puts the onus on the government to provide 150 days of employment in a year to every family that demands work. This work has to be in the area where the people demanding employment live and the government should pay the capital costs and labour wages for the work. Many socially useful projects such as check dams, water harvesting structures, roads, ponds etc can be undertaken to create assets in rural areas by guaranteeing employment under MNREGA.

In the same way, the government plays an important role in ensuring food security. You will learn about the actions it undertakes in the chapter on food security.

Explain the role of the government in ensuring food security.

Why does the government provide public facilities?

The Government of India has played an important role in establishing heavy industries in the past, such as heavy engineering, electricity generation, steel production and petroleum refineries. Without these basic industries, it would have been difficult to industrialise the country. Farm production, too, has increased only because of agricultural extension activities in rural areas and the investments made in developing irrigation facilities.

The government also has an important **regulatory function**. It enacts laws to control and regulate trade. For example, the packaged food you buy carries an FSSAI stamp. It means the packaged food sold in shops by companies complies with the safety standards approved by the Food Safety and Standards Authority of India. It means the FSSAI is answerable for public health security, hence it monitors all foodstuff under various laws and regulations to ensure it is safe for human consumption. These laws are enacted to regulate the manufacture, storage, distribution and sale of foodstuff to ensure its quality. The FSSAI also sets standards for the preservatives used in various processed foods such as chips, noodles, fruit juices and soft drinks. The regulatory body periodically tests samples of foodstuff sold in the market to ensure that its guidelines are being followed. It also ensures that the sealed and packaged foodstuff is stamped with the manufacturing and expiry dates.

There are many other areas in which the government plays a regulatory role. You learned about the Reserve Bank of India (RBI) in the chapter on money and credit. The RBI regulates the functioning of all commercial banks in India.

Make a list of the public facilities that everybody can use. Do you think everyone has equal access to these facilities? Discuss in class.

What are the government activities that are directly linked to alleviating poverty?

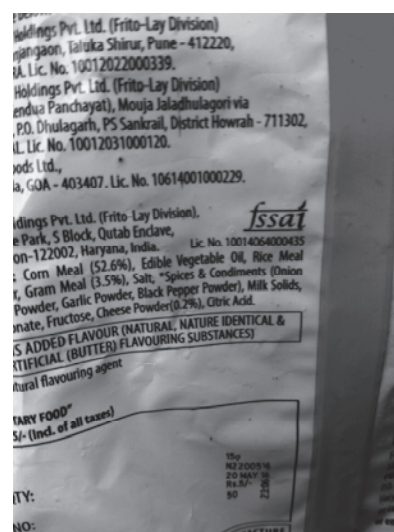


Figure 19.2: FSSAI stamp on a manufactured product

Government budget

The government has many responsibilities. It has to undertake many activities, some of which we have discussed earlier. It needs to collect and spend money to do these activities. The money required to carry out these activities is collected from the people in the form of taxes. The government levies many different kinds of taxes, which we shall discuss in the section on taxation. The tax that the government collects adds to its pool of funds available-the revenue. The government needs revenue for its expenditure. The account of the government's revenue and expenditure is called the budget. A budget contains the following details:

1. How much money the government plans to spend.
2. Details of the amount of money to be given to different departments to cover their expenditure under different heads such as education, food security, defence etc.
3. The different taxes to be levied and the amount to be collected under each tax. It also indicates the changes, if any, made in the rates of different taxes.
4. How much money the government would have to borrow if its expenditure exceeds its revenue.

The details of the main aspects of the 2016-17 budget of Chhattisgarh state that are given below will help you gain some idea of what a budget is:

Proposed provisions of the Chhattisgarh government budget presented in the Vidhan Sabha

- Total expenditure for 2016-17 is Rs70000 crores, which is 6% more than in 2015-16.
- Total revenue collected during 2016-17 is estimated to be Rs62000 crores, which is 5% more than in 2015-16.
- The amounts disbursed in 2016-17 for education, roads and bridges, pension, and medicines and public health have been increased while the amount disbursed for food and warehousing has been considerably reduced.
- The sales tax collection for 2016-17 is estimated at Rs12000 crores.



Source: <http://cgfinance.nic.in/budget doc/2016-17>

Figure 19.3: The budget discussion in the Chhattisgarh Vidhan Sabha

Why does the government increase its estimated public expenditure every year?

Why did the government increase expenditure in some sectors in its 2016-17 budget while reducing expenditure in some sectors?

The revenue from sales tax in 2016-17 is estimated at Rs12000 crores. What could the government do if the revenue collected is only Rs6000 crores?

The government prepares and presents the budget but the Vidhan Sabha plays an important role in approving it. The Constitution of India stipulates that the central budget should be presented to and passed by the Parliament. The state budgets should be presented to and passed by the respective Vidhan Sabhas. The governments have to get the approval of the Parliament or Vidhan Sabha for all taxes and expenditures.

Discuss in class

1. Why is it necessary to get the approval of the Vidhan Sabhas to pass the budget?
2. Why doesn't the government have total freedom to incur expenditure or levy taxes?

The concept of parliamentary control of the budget is based on the fact that our country is a democracy in which the elected representatives are given certain powers. They would like proper utilisation of government revenues and an ethical and transparent system of tax collection. The government should be answerable to the people for the budget it presents. It should also be for the people's welfare and should match with their aspirations. The budget is a mirror of the government's plans and thinking hence the elected representatives need to ensure that the government continues to pursue the path of development and does not stray from this goal.

The parliamentary budget session is an important part of the democratic process. The budget is discussed at length over several days before it is approved. The opposition plays an important role in the process by debating, analysing and giving constructive suggestions on the budget. The common people can also directly demand that the government be answerable for the budget, as seen in the following example:

People's participation in the budget process

The government makes many promises to the people during and after the election process. The budget is a medium to fulfil its policies and programmes. If the budget provisions are inadequate or if the required revenue is not available, these plans and programmes remain as mere promises.

Right to food campaign for effective implementation of the National Food Security Act:

Some NGO activists held a meeting with the Delhi government where they complained that by not including *dal* and oil in the public distribution system (PDS) despite it being one of its election promises was not correct. They pointed out that many states already distribute *dal* and oil through the PDS. The activists also pointed out that the government had discontinued the public audit held every Saturday and stopped sending SMS alerts giving information on when the rations would reach the fair price shops. The charter of demands they presented to the Delhi government included a demand to provide daily mid-day meals for children or to supply eggs, bread and milk to the *anganwadis*. The charter also highlighted that the rights of mothers remained to be implemented in all the districts of Delhi. It stated that "pregnant and lactating mothers should be given Rs6,000 as their maternal right under article 4 of the NFSA.

Source: *The Hindu*, March 24, 2016

What all methods do the common people have to get their demands included in the budget? Discuss.

Tax

The biggest revenue source for the government is taxes. The government levies different kinds of taxes to collect revenue. You may have heard about some of these taxes, such Goods and Services tax, income tax, etc. These taxes can be broadly classified into two categories – direct and indirect taxes

Indirect Taxes

Indirect taxes are charged on goods and services. You would have seen that alongside the printed Maximum Retail Price (MRP) of goods it is written “inclusive of all taxes”. It means that the price includes taxes. Similarly, for most services like telephone and mobile phone services, the price that consumers pay includes taxes.

Let us look at the example of sale of a television to see **how the taxes add up to the price**. All figures are in Rupees.

Suppose the cost of manufacturing a television set is Rs.10,000. This includes profit of the manufacturer. At the time of sale, the company pays a tax of Rs. 1,800 which is added to the price of the television set. The final price paid by the consumer includes the costs, profits and the taxes paid. We will find out more about the method of taxation and principle guiding it in the next section.

Cost of manufacturing including profit of the manufacturer	Rs.10,000
Tax	1,800
Price for the consumer	11,800

The proportion earned as profits and the taxes paid would vary from one good to another. The important thing to remember is that most goods and services carry an element of tax as part of its price.

While all taxes on goods and services add to the price, taxing certain goods and services raises the overall prices more. For example, to manufacture bicycles, steel pipes are needed. In order to make

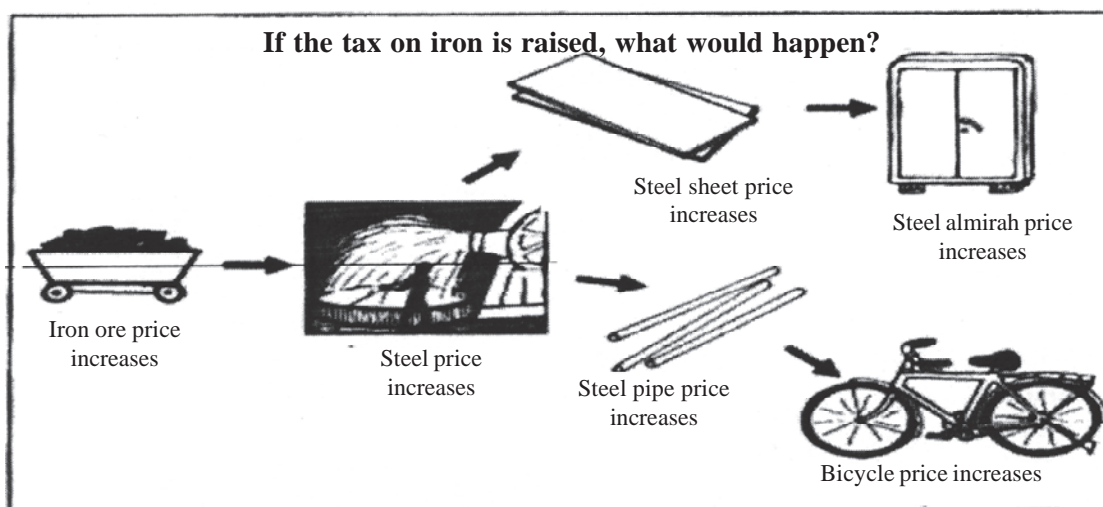


Figure 19.4: Chain effect of increasing tax

steel, the steel factory needs iron and coal. If tax on iron is increased, it will have an effect on cycles as well. The prices of all goods made of iron will go up. And since iron is used to make steel, the prices of all things made of steel will also go up. In this way, a tax increase on iron has far reaching effects.

Thus, taxing heavily basic raw materials and intermediate products that are used by many other factories – sets up a chain reaction. All things which are connected to these products, in one way or the other, are affected.

1. In the example of the TV, what proportion of the cost of the TV did the consumer pay as tax?
2. If two manufacturers make a similar product but one of them does not pay taxes, how is this system unfair?
3. If the tax on intermediate goods increases, how is the price of final products affected? Explain using a new example from your region.

Goods and Services Tax (GST) as Value Added Tax

GST was launched in India in 2017, though the preparations have taken across several years. Till recently, we had a variety of indirect taxes. Excise duty was charged on the production of goods. Sales tax was charged on the sale of goods. Service tax was charged on the sale of services such as mobile service, restaurant service, etc. With the launch of GST, most of the indirect taxes have been replaced by one system of Goods and Service Tax. It encompasses taxation of both production and sale of goods and services.

Modern production and sale process is a complex one and may involve many stages. Even the simplest product would comprise of atleast a few stages in production and then sale. At each stage, there is some added value. Let us understand it using the following example.

A biscuit manufacturer buys his raw materials from an unbranded source. He buys materials such as wheat flour, sugar etc on which no tax is charged. Suppose he makes Rs. 450 worth of biscuits. All his costs are included in this figure – raw materials, labour charges, salaries, office and factory rent etc. If he adds his profit margin of Rs. 50, the total value of the output is Rs. 500. This is his sale price. He sells the biscuits to a trader. At the time of sale, the biscuit manufacturer has to charge GST at the prescribed tax rate.

If the GST rate is 18%, the biscuit manufacturer would have to pay Rs. 90 as tax (18% of Rs.500) that he would charge to the trader, who buys the biscuits. This tax is collected by the biscuit manufacturer from the trader and paid to the government. The bill to the trader reads as:

Value of biscuits	500
GST	90
Total	590

The trader stocks the goods, maintains a shop and hires staff to do the work. She sells these biscuits to a retail store at Rs 700. This amount includes all her costs and profit margin. Rs. 700 may be considered the value of her output. At 18% GST rate, you may think she has to charge Rs. 126 as GST.

However, recall that she has paid a GST of Rs. 90 already. When she bought the biscuits from the biscuit manufacturer, the price she paid included Rs. 90 as tax. What was paid previously (Rs. 90) is thus deducted from Rs. 126 to calculate the tax that the trader charges. She gets a credit of Rs. 90 for the tax she has paid on her input (also called input tax credit).

The trader's bill will read as:

Value of biscuits	700
GST	36
Total	736

There is another way of looking at this. For the trader, the value of goods sold or sale price is 700 and the total value of input purchased is Rs. 500. Value added is Rs 200. Value added is simply the difference between value of goods and services sold (output) and the value of physical inputs purchased. Tax rate of 18% on Rs.200 is Rs. 36. This is the same amount as in the trader's bill! Tax is paid by the trader on value added (Rs. 200), and not on the total value (Rs.700). The inputs used in production that have already been taxed once are not taxed again. As a proof that the inputs have been taxed, the trader must show the bill of the biscuit manufacturer.

Three things are noteworthy here.

- The tax paid under value added tax system on any good is lesser as one does not have to pay tax on inputs. The total tax would have been higher if there was no input tax credit. Under GST, the tax element in the price is thus expected to be lower.
- Bills (invoices) have a crucial role in GST. It provides proof that the buyer has paid the GST on her inputs. For the trader in our example, unless she furnishes proof of her purchase, she will have to pay to the government Rs. 126 as tax instead of Rs.36. Thus she will remember to ask the biscuit manufacturer for the bill. Similarly, the retail store owner will remember to demand a bill from the trader to show the taxes paid already. Under the GST, every intermediary has an incentive to maintain a proper bill of the transaction and pay tax. Thus it is more likely that people will pay the required tax and there will be less evasion of taxes.
- Though tax is charged by the manufacturer or trader, ultimately it is the consumer who pays the tax. The consumer is often unaware of the tax hidden in the price since it is collected indirectly from the consumer. The manufacturer and traders collect the tax and forward the

tax proceeds to the government, while the final consumer bears the final burden of tax. Isn't it an interesting system?

If in the above example of biscuits the retailer who bought these from the trader sells the biscuits to a customer for Rs 800, how would GST be charged? Prepare the bill made by the retailer.

In the above example if tax is charged in the older system on total value at 5% for biscuits what is the cost to the shopkeeper who purchased this from the trader

Moving to a transparent GST system has certain other advantages. When multiple taxes were used, these were hidden in the price as the good moved from one stage to another in the long chain from production to final consumption. All the taxes that were paid were not disclosed. It would be mentioned "Price inclusive of all taxes" but how much taxes were not stated. Under GST, tax on a product will be specifically mentioned in the bill.

Another important difference is the one tax for the whole country. Under GST, the goods and services carry the same tax rate across the country. Whether it is sold next to the factory where it is produced or thousands of kilometers away the tax rate charged would be the same. Earlier the tax rates would differ across states. Medicines or motorcycles were cheaper in one state than another. As a result, there was unwanted competition between states, with industry and trade migrating from one state to another. People smuggled goods from one state to another, without paying the required tax. Further, for the movement of goods across states, there was entry tax which would be collected at the border. You may have noticed the long line of trucks that at state borders or at the entry point of cities. Under GST, these problems will be avoided. This will save a lot of time, and energy.

GST, however, still has some way to go. For instance, petrol and diesel, two important intermediate products, have not been included in GST and these products continue to be taxed as before.

Sales Tax Rate (in percentage) on Petrol and Diesel as on 1st Nov.2017 (rounded off)

	Petrol	Diesel
Andhra Pradesh	39	31
Telangana	35	27
Chattisgarh	29	27
Odisha	26	26
Maharashtra	43	23

Discuss in class:

What do you think would be the effect of levying multiple indirect taxes on petrol and diesel rather than a single GST?

How do you think people respond to the difference in sales tax rate on petrol and diesel between Chattisgarh and Maharashtra?

You may wonder why there is no GST on petrol and diesel yet. For the states, sales tax on petrol and diesel constitute major revenues such that the states loathe to lose their power to tax these products at rates they deem suitable. After all, every government wants to keep the maximum share of revenues for oneself and use them in ways that they want. Unlike GST, revenues from sales tax can be retained wholly by the states and do not have to be shared with the central government. This is one of the many problems that GST has to overcome in future.

- **Kabir goes to Atul Electricals. He finds that there are three tax rates on electrical products. Products like mixer, juicer, iron and other consumer durables are charged at a GST rate of 28%. Water purifier machine are charged at 18%. LED bulbs are charged a GST rate of 12%. Can you guess why?**
- **Find out what is meant by CGST and SGST.**

Project work

- **Collect different bills and make a poster of bills to show how GST is levied on goods and services that are sold. Are there some goods that are exempt from GST?**
- **GST is charged at different rates 0, 5, 12, 18 and 28 percent. Visit the market and find out two examples for each rate. Draw up a table. Discuss why different rates are charged for different goods and services?**

Speak to a few producer of goods and some traders. Do you think that the market environment could be changed so that there is more compliance and less tax avoidance? Explain your view in two paragraphs.

Find out how states would get their revenue under the new system where there's no sales tax or entry tax?

Direct taxes

Until now, we have learned about indirect taxes that are levied on goods and services but it is the consumer who eventually pays them. But there are some taxes that individuals have to pay directly to the government. These taxes are levied on the income of individuals or companies or on the income of business firms. These are called direct taxes.

We have two direct taxes – income tax and corporate tax.

Corporate tax: Companies or commercial firms pay corporate tax. This tax is paid on the earned income of the company, which is calculated after deducting all expenses incurred (raw material costs, employee wages etc).

Income tax: It is levied on the personal income of individuals. There are many income sources such as salary and allowances. In addition, people can earn interest on their bank deposits. They can also give property they own on rent and earn an income. Income tax has to be paid on all this income.

Income tax has to be paid on all income earned above a specified income. The tax is a fixed percentage of the total income. The higher the income, the higher is the tax that has to be paid.

What is the most appropriate method of levying tax on income?

Should all individuals be taxed equally?

Take a look at the following three cases:

Name	Work	Monthly income (Rs)	Fixed income tax (Rs)
Jyothi	Daily labourer	1,500	50
Asif	School teacher	8,000	50
Jatinder	Trader	30,000	50

Is it justifiable to levy the same income tax for all three individuals? If Jyothi cannot feed her children two square meals a day, is it right to tax her Rs50?

You can now consider taking a fixed percentage of each individual's income as tax. But is this also justified? Assume that each of these three individuals gives 10% of their income as tax. Calculate how much each of them would pay as tax.

Name	Monthly income (Rs)	10% income tax
Jyothi	1,500
Asif	8,000
Jatinder	30,000

We can see from the above table that it would not be justified to levy the same percentage of tax from all three because even now Jyothi would not have enough money for her family expenses. Maybe even Asif would not have enough money to spare to repair his house. But if Jyotinder were to be taxed 20% of his income he would still have enough money in hand to look after his basic needs and still have a surplus.

To make income tax more just we can say that income tax should be levied only on those who earn above a certain specified income. Suppose we specify the minimum limit of this income as Rs7,000 per month. We can also say that those who earn more income should be taxed more. Let's try to understand this with the help of an example:

If you earn this monthly income	Then you pay tax at this rate
Less than Rs7,000	0%
Rs7001 to Rs15,000	10%
Rs15001 to Rs25,000	20%
Above Rs25000	30%

Now calculate how much tax each of these individuals will pay:

Name	Monthly income (Rs)	Income tax
Jyothi	1,000
Asif	6,000
Jatinder	20,000

Is the tax rate in the above table justifiable? Discuss this with your teacher.

We have read about some of the taxes collected by the government. Complete the table given below with the help of the following information:

Income tax 12%, corporate tax 21%, custom duty 9%, excise duty 14%, services tax 10%, sales tax 25%, other indirect taxes 9%

Taxes collected by the government

Tax	% of total taxes
Direct taxes	
1. Corporate tax	21%
2.	
Total	
Indirect taxes	
1.	
2.	
3.	
Total	
Grand total	100%

Which type of taxes earn more revenue for the government?

Kanti's annual income is Rs1,00,000 and he has to pay Rs3,000 as income tax. Kamlesh's annual income is Rs2,00,000 and he has to pay Rs5,500 as income tax. Now answer the following:

- Who pays more income tax among these two?
- Who has to pay a greater percentage of his income as tax?
- In this situation, the person who has a larger income pays
(less/more/equal) tax.

Equitable taxation system

Which taxation system should we adopt? That depends on what the people living in our society think and want. Many people feel that a few select people possess property worth crores of rupees while a large section of society finds it difficult to get two square meals a day. Such glaring inequality in the distribution of income is not right. Hence, the government should collect more taxes from these rich people and very little or no taxes from the poor. If it desires, the government could use the taxes it collects to provide more opportunities to the poor to raise their standard of living. As in the example of Jyothi, Asif and Jatinder, the governments of many countries levy a higher rate of taxation on higher income groups. According to income tax rules, the largest share of the total taxes should be collected from those who earn more income and those with less income should contribute the smallest share. However, when people purchase things they need, both rich and poor pay indirect taxes at the same rate. Indirect taxes are a burden on the poor. If equity in taxation is to be ensured between rich and poor, then there should be no taxes levied on essential commodities required for daily living and taxes should be levied only on luxury goods like laptops, air-conditioners, food in restaurants, etc.

The government should keep one more thing in mind while levying taxes on goods and services. There are some goods and services that people do not directly use, like diesel, aluminium, steel, machinery, truck tyres, etc. But when taxes on these items are raised, then the prices of things made from them also increases. So do the costs of all goods that are transported from place to another. Thus, even if the poor buy only essential commodities like food-grain and clothing, they share a part of the burden when the price of diesel or steel increases.

Tax evasion

Many people don't disclose details of their real income but reveal only a small portion of what they earn. Such hidden income is called black money. Many factory owners, rich landlords and traders declare a much lower income than they really earn. It is easy to calculate the income of people who receive a monthly salary. The tax they have to pay is deducted directly at source, that is from where they receive their salary. Hence, it is more difficult for salaried people to evade taxes. But these people could also have other sources of income. Because income from agriculture is not taxed, many people declare their income from other sources as agricultural income and, thus, easily evade paying taxes on that income.

There are many such people from different walks of life who evade taxes and accumulate black money. The income tax department periodically conducts tax raids on the premises of such people to unearth their hidden wealth. The department constantly seeks to simplify the taxation process so that people do not face any problem in paying their taxes.

It is easier to collect indirect taxes because there are fewer points from where they are collected. For example GST is collected from factories and traders whose sale per year is more than twenty lakhs. All small businesses are exempt. Compared to crores of working individuals this is a small set of people collecting indirect taxes that are paid by ALL people purchasing goods and services. However there is tax evasion here because actual sales are not recorded. One reason for GST is to move to a transparent system where bills are kept and taxes paid as per law..

International comparison of tax and expenditure

The total taxes collected in India are much lower than in other countries because of the many tax concessions that are given and widespread tax evasion. That is why the government expenditure, which is based on the taxes collected, is also much lower compared to other countries. The table below compares the total tax collected and the total expenditure incurred in India with several other countries:

Table 19.1: Tax collection and total expenditure (as % of GDP)

Name of country	Total tax collection	Total expenditure	Expenditure on human capital
China	19.4	29.7	7.2
India	16.6	26.6	5.1
Brazil	35.6	40.2	11
Korea	24.3	20	8.4
Vietnam	22.2	28	8.8
South Africa	28.8	32	10.7
Turkey	29.3	37.3	7.2
Russia	23	38.7	7.2
Britain	32.9	41.4	13.4
USA	25.4	35.7	13.3

(Source: Economic Survey 2015-16)

The table shows that tax collection (as % of GDP) is low in India compared to other countries. The reason given for this meagre collection is that India is a poor country, hence the people have a limited capacity to pay taxes. But this reason isn't totally true.

The tax collection directly impacts the expenditure of the government. When tax collection is low, the government gets less revenue. It does not have enough money to spend. Column 3 of the table shows the total expenditure of the countries and column 4 shows the expenditure on human capital. The expenditure on human capital includes the expenditure in providing universal health and education. We can see that the expenditure on human capital is linked to the total tax collection. Low expenditure on human capital directly impacts human development.

Summary

Taxes are needed for the government to develop the country. The government delivers public facilities to the people, provides them livelihoods, and spurs economic activities in the country. It presents a

budget every year in which it details its expenditure during the year and accounts for its revenue collection to meet this expenditure. The revenue is obtained by levying various kinds of taxes, which include direct and indirect taxes. Indirect taxes are levied on goods and services, which means that the government collects taxes from all the people indirectly. Direct taxes are personal taxes. Individuals pay tax on the income they earn while companies pay tax on the profits they make. Direct taxes are more just and equitable but they constitute only 36% of the total revenue collection. Both direct and indirect tax collection are affected by tax evasion. If tax evasion can be minimised, the government can work in better ways for the rights of the people.

EXERCISES

1. Choose the correct option in the following:

1. The number of days of employment guaranteed under MNFREGA is
 - a) 50 days
 - b) 100 days
 - c) 150 days
 - d) 200 days
2. The government's biggest revenue source is
 - a) Loans
 - b) Profits of public sector companies
 - c) Taxes
 - d) None of these
3. It contains the government's income and expenditure statement
 - a) Revenue
 - b) Taxes
 - c) Profit
 - d) Budget
4. The central budget is approved by
 - a) Parliament
 - b) Vidhan Sabha
 - c) Rajya Sabha
 - d) None of these
5. Direct taxes include
 - a) Entertainment tax
 - b) Services tax
 - c) Sales tax
 - d) None of these
6. Which of these is not an example of public facilities
 - a) Car
 - b) Electricity
 - c) Roads
 - d) Railways

2. Fill in the blanks in the following:

1. The government is responsible for providing facilities for the people.
 2. FSSAI is the acronym for
 3. The gives details of the government's annual income and expenditure.
 4. is the tax levied on goods produced in factories.
 5. tax is the tax levied on films shown in cinema halls.
 6. Individuals pay tax directly to the government.
 7. Indirect taxes are levied on and
3. Why does the government need a budget? Why are the taxes proposed in the budget discussed?
 4. What is the difference between income tax, excise duty and GST?
 5. Match the following:

GST	Tax on personal income
Custom's duty	Tax on goods and services bought
Income tax	Tax on profits earned
Corporate tax	Tax on goods imported from abroad
 6. How and why does an increase in the tax on steel, matches, watches, apparel, iron ore etc impact other consumer goods? The tax increase on which of these goods has the greatest impact on the prices of other goods?
 7. Most people normally consume common commodities like food-grain, *dal*, oil etc. Why is it claimed that a tax on these commodities affects the poor the most?
 8. Four friends together take a house on rent. The monthly rent is Rs2,000. How will the rent be divided among them?

Two of them have a monthly income of Rs3,000 while the other two have a monthly income of Rs7,000. Is there any way of dividing the rent so that the burden on all four will be the same?

Which of these alternative ways of sharing the rent do you prefer and why?
 9. Tax on income and tax on goods – which of these two affects the rich the most and which affects the poor the most? Give reasons for your answer.
 10. How can GST reduce tax evasion?