Date
28/10/22

PART :- 2

INCOME TAX :-

An income tax is a tax imposed on individuals in respect of the income or profits earned by them. The tax rate may increase as taxable income increases referred to as progressive tax rate. Individual income is often taxed at progressive rates where the tax rate applied to its additional unit of income increases. Income from investments may be taxed at different rate than other types of income. Generally only net gain from the sale of property, including goods

help for sale, it included in income. Tax payers not timely paying tax are generally subject to significant penalties, which may include jail for individuals. Taxable income of tax payers is generally total income less income producing expences and other deductions. The first income tax is generally attributed Egypt In India it was introduced in 1860. There are certain basic principles common to most income tax systems. Individuals are often tax at different rates. multiple conflicting theories helping proposed regarding the economic impact of income taxes.

(1) In regard to the effect of income tax on capacity to work, it depends upon stiffness of the tax. Income tax always exempts a certain amount of income which is determined with reference to the standard of living. Therefore this tax need not affect the capacity to work of the lower income groups.

(2) The effect of income tax on willingness to work and safe depends on the tax payers attitude to work and living standard. The high rates of income tax may affect it

and reduce the tax payers incentive since a considerable part of income is taken away by tax.

(3) It is argued that income tax is a differential tax, discriminating against savings i.e. future consumption. As the tax is imposed on every kind of saving, tax payers are induced to spend more and save less i.e. to prefer present consumption to future consumption.

(4) Income tax has an important role to play in maintaining economic stability. When inflation or the price level departs from the normal situation, the progressive tax rate schedule associated with income tax helps bringing back the price level to normalcy. So there is a built in flexibility in the progressive rate structure of income tax.

__Corporate tax :-__ A corporate tax also called corporation tax or company tax, is a direct tax imposed on the income or capital of corporations. Many countries impose such taxes at the national level, at a similar tax may be imposed at state or local levels. A countries's corporate tax may apply to, (1) corporations in the country (2) corporations doing business in the

country on income from that country.

(3) Foreign corporations who have a permanent establishment in the country.

Generally corporate tax is imposed on net profits. Net profit for corporate tax is generally the financial statement with modifications.

EFFECT OF CORPORATE TAX ON ECONOMY :-

(1) In regard to the effect of corporate tax on prices and wages, it is necessary to know who is the ultimate bearer of the burden of tax. Economist are of the opinion that incidence normally falls on the buyers of the product though sometimes the burden may be shifted backward to the workers.

(2) In so far as corporate tax raises the price of commodities, it will reduce the consumption level of poorer classes. Such effect will lead to considerable inequality if the corporation is engaged in manufacture of essential goods.

(3) This tax affects savings of the companies. Since the tax reduces company profits, it follows that the dividend payments and retained

earning are reduced. It means declined in net savings of the corporation.

(4) The corporate income tax affects investment in two ways, firstly by reducing the funds available for re-investment and secondly by reducing the incentive to expand.

(5) Since the imposation of tax will reduce money income of the private economy and hence will reduced demand, it will lead to reduced production. It means less income and less employment of production factors like labour and capital.