UNIT – IV

Public revenue and taxation

Sources · Canons · Classification · GST

Explanatory Lecture Slides

Economic Theory & Public Finance · Major-3 · Semester III

ECONOMIC THEORY & PUBLIC FINANCE

LEARNING OBJECTIVES

Topics covered in this unit

01 **List sources of public revenue**

02 **State Adam Smith’s canons**

03 **Classify taxes**

04 **Define taxable capacity**

05 **Place GST in the Constitution**

06 **Note incidence and shifting**

How this unit is organised

01	02	03	04	05	06
Sources	Canons	Direct / indirect	Taxable capacity	GST	Incidence

Sources

Tax revenue and non-tax revenue (fees, fines, surplus of PSUs, interest, grants, seigniorage).

- Tax: a compulsory contribution without a direct quid pro quo. Fee: a payment for a service (court fee).
- The Kewal Krishan Puri / Synthetics line: a tax is not a fee merely because you call it one.

Sources

TAX

- No direct return.
- Art. 265.

FEE

- Correlation with a service.
- Can be high, not arbitrary.

Adam Smith's canons

Equality (ability), certainty, convenience, economy of collection. Later: elasticity, diversity, productivity.

- A 10-mark: four Smith canons + two modern + one Indian illustration each (TDS is certainty+convenience; GST is economy vs the old inspector raj).

Adam Smith’s canons

SMITH	MODERN
• Equality. • Certainty. • Convenience. • Economy.	• Elasticity. • Diversity. • Productivity.

Classification

Direct (income, wealth — intended incidence on the person hit) v indirect (GST, excise, customs — intended to be shifted). Proportional, progressive, regressive, degressive.

- Progressive income tax is the distribution function. GST on food is a political fight because a uniform rate is regressive.
- Specific v ad valorem. Central v State v concurrent (GST).

Classification

DIRECT

- Income-tax.
- Harder to shift.

INDIRECT

- GST.
- Built into price.

Taxable capacity

Absolute (what the community can bear) v relative (compared with another community). Factors: NI size and distribution, nature of income, wealth, population, price level.

- Shirras / Dalton. A 6-mark. Do not confuse with ‘tax effort’ (what is actually raised).

Taxable capacity

ABSOLUTE

- Upper bound of burden.

RELATIVE

- India v a similar-income country.

GST — the 2016–17 rewrite

101st Amendment: Arts. 246A, 269A, 279A. One destination-based value-added tax on goods and services. CGST+SGST (intra), IGST (inter).

- Input-tax credit is the economic idea (avoid cascading). The legal idea is a concurrent tax with a Council.
- Mohit Minerals: Council recommendations are not a third legislative chamber.

GST — the 2016–17 rewrite

ARTICLES

- 246A.
- 269A.
- 279A.

ECONOMIC GAIN

- No cascading.
- One market.

Incidence and shifting

Statutory incidence (who the Act names) v economic incidence (who is poorer). Shifting: forward into price, backward onto wages/inputs.

- Elasticity decides who pays. Inelastic demand → buyer pays. That is the 6-mark diagram in words.

Incidence and shifting

FORWARD

- Into the price of the good.

BACKWARD

- Onto labour or the supplier.

Taxable capacity

Absolute (what the community can bear) v relative (compared with another community). Factors: NI size and distribution, nature of income, wealth, population, price level.

- Shirras / Dalton. A 6-mark. Do not confuse with ‘tax effort’ (what is actually raised).

LANDMARK AUTHORITIES

Cases a KSLU answer should name

CASE

K.P. Varghese v ITO

(1981) 4 SCC 173

A tax is a compulsory take; two readings, prefer the fairer — ability-to-pay is not a blank cheque to the officer.

CASE

Jindal Stainless v State of Haryana

(2017) 12 SCC 1

State tax power v Art. 301/304 — fiscal federalism with a free-trade brake.

CASE

Union of India v Mohit Minerals

(2022) 10 SCC 700

GST Council is a constitutional body, not a super-Parliament.

STATUTE / SECTION MAP

Provisions & materials to quote

Art. 265	No tax except by law.
Art. 246A	Concurrent GST power of Union and States.
Art. 269A	IGST levy and apportionment.
Art. 279A	GST Council.
Income-tax Act 1961	The principal direct tax — progressive rates in the Finance Act.

WRITE IT IN THE HALL

10 / 16-mark frames from this unit

Q1 Explain the canons of taxation.

Q2 Distinguish tax, fee and non-tax revenue. Classify taxes.

Q3 What is GST? Explain its constitutional basis.

Q4 Write a note on taxable capacity and on incidence of taxation.

BEFORE YOU CLOSE THE FILE

Unit recap

1. Tax ≠ fee: compulsion without a quid pro quo.
2. Smith’s four canons, then two modern.
3. Direct/indirect is about intended shifting, not ‘on income v on goods’ only.
4. GST = 101st Amendment + ITC + destination.
5. Incidence follows elasticity.