Public Revenue

Meaning of Public Revenue

Public revenue refers to the income or earnings of the government of any country. It is very significant for financing developmental programmes such as construction of roads, railways, schools and hospitals. It requires a large amount of money to maintain the administrative structure of the government. Hence, the government should plan the amount of revenue for promoting the economic growth of a nation.

Sources of Public Revenue

- Tax revenue: Tax revenue is the most important source of income for the government. A tax is a compulsory payment imposed on individuals or companies by the government to meet expenditures.
- Non-tax revenue: Revenue to the government from sources other than taxes is known as non-tax revenue. It is collected to provide administrative services to the people.

Taxes

A tax is a compulsory payment imposed on persons or companies by the government to meet the expenditure incurred on providing common benefits to the people.

Characteristics of Tax

- Compulsory payment: A tax is a compulsory payment to the government by the citizens of a nation. It is imposed only by the government. No one can deny paying the tax. Refusal to pay the tax is subjected to legal action by the government.
- General welfare: Tax collected by the government is used for the common benefits of the taxpayers. The government incurs expenditure for the welfare of the nation.

Commercial Revenues

Revenues which are derived by the government from public enterprises by selling their goods and services are called commercial revenues.
Differences between tax and price:

- Tax is a compulsory payment made by the people to the government. Taxes are imposed only by the government. For price, it is paid only by those people who purchase the goods and services provided by the government.
- People are not guaranteed with any benefit for the tax paid by them, whereas price is directly paid for goods consumed in the market.

Administrative Revenues

- A fee is imposed for a specific reason. For instance, the school management imposes a fee for the admission of a student to the school. A fee is not a compulsory payment towards the government. There will not be any legal punishment against the non-payment of a fee.
- When an individual fails to appear in the court, the penalty imposed by the court is called forfeiture.
- Under the Right of Escheat, when a person dies without making a will or without having any legal heirs, the bank balance or the property of the person is acquired by the government.

Objectives and Significance of Taxes

Taxes are very significant to generate revenue for financing developmental programmes. The government provides tax relief to entrepreneurs to manage the production of a commodity. Such tax policies help in the expansion of certain industries and trade. Custom duties help to reduce the import of goods which are domestically available within the country. Thus, taxes can be used for promoting the economic growth of a nation.

The taxation policy helps in regulating the production and consumption of goods and services in a country. Heavy taxes can be imposed on non-essential goods such as wines, cigarettes and so on. This will reduce the production and consumption of such harmful goods. It also helps in allocating scarce resources to the desired line of production. Thus, differential commodity taxation helps in regulating the production and consumption of goods.

Direct and Indirect Taxes

Differences between direct taxes and indirect taxes:

Direct Taxes	Indirect Taxes
Direct taxes refer to taxes which are really paid by those on whom they are legally imposed.	Indirect taxes refer to taxes which are imposed on an individual but are paid by another person either partly or wholly.
The tax burden cannot be shifted to any other individual or firm by the taxpayer.	The tax burden can be shifted by the taxpayer.
It is progressive because the tax rate increases with an increase in the income slabs.	It is regressive because the common people bear this tax burden.
The impact and incidence of tax fall on the same person.	The producer bears the impact and incidence of tax on the consumer.

Merits of Direct Tax

- Equity: Direct tax is imposed on the income of a person based on the principle of ability to pay. The income tax burden is equitably distributed on different people and institutions; thereby the tax burden falls more on the rich than on the poor.
- Certainty: An individual knows how much of tax is due and when it is due. The government knows with certainty how much tax revenue is to be collected from direct tax. Accordingly, the government can adjust its income and expenditure.
- Elasticity: Direct tax is more elastic. During the period of crisis, the government can yield more revenue by increasing the tax rates.

Demerits of Direct Tax

- Tax evasion: There is a greater possibility of tax evasion of direct taxes as these taxes are collected based on honesty of the taxpayers. Business groups try to evade direct tax by misrepresenting their income statements to the income tax authorities.
- Narrow in scope: Direct taxes are imposed heavily on rich people. The government cannot approach the low income group through these taxes. Hence, they have limited scope in collecting tax.

Merits of Indirect Tax

- Broad coverage: In the tax on commodity, all the buyers of the commodity have to pay the indirect tax irrespective of the income level whether they belong to the high income group or the low income group. By widening the tax net, the government can yield more revenue for public expenditure.
- Convenient: Indirect taxes are paid in small portion at regular intervals. It is not a burden to the taxpayer as it is included in the price of the commodity.

Demerits of Indirect Tax

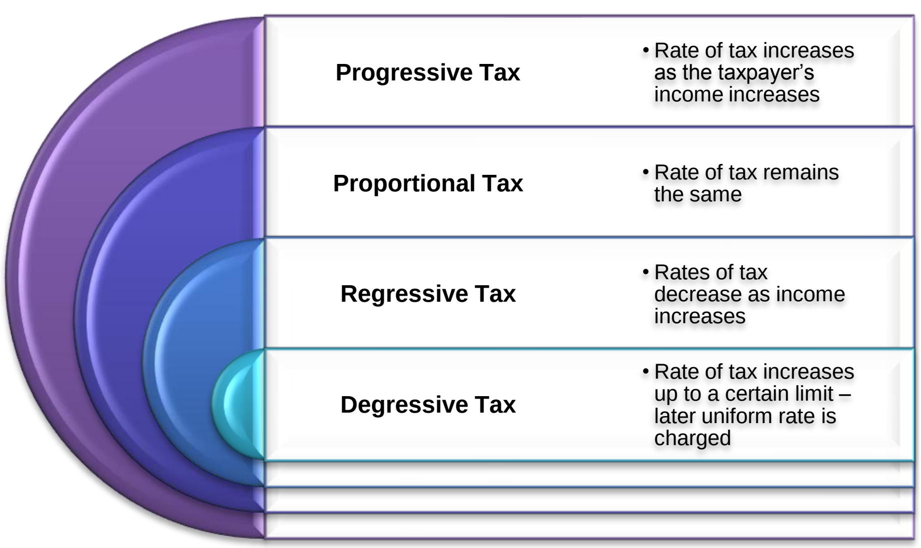
- Uncertain: Taxes on goods with elastic demands are very uncertain. When the commodity is taxed, prices of the commodity increase which reduces the demand for the commodity in the market. Hence, the revenue from indirect tax is uncertain.
- Discourage savings: Most of the income is spent on consumption of goods where the price of goods includes indirect tax, thus making savings impossible.

Concepts of Impact and Incidence of Taxation

Tax imposes a burden on the taxpayer. Generally, the burden of tax falls on someone other than a person from whom the government collects the tax. The impact of the tax falls on a person from whom the tax is first collected, but the burden of taxation may not fall on the same person and is shifted to another person; this is called the incidence of taxation. Therefore, when the government imposes a tax, a person or institution which bears the burden of tax at the first incidence is called the impact of tax. On the other hand, when the tax burden can be shifted to another person, the final point of the tax burden is called the incidence of tax.

Example: For income tax, the tax burden cannot be shifted to any other person. The person on whom the government imposes the tax must pay a part of income as tax to the government.
Let us consider sales tax. Here the government imposes tax on the seller and collects tax from the seller. But the seller adds the sales tax to the price of the commodity in the market. The consumer has to pay a higher price for the commodity. Thus, the tax burden is shifted to the consumer.

Other Kinds of Taxes



- Progressive tax: When the percentage of income collected as tax increases with an increase in income, it is called progressive income tax.

Income per month	Rs 2000	Rs 4000
Tax rate	10%	5%
Tax collection	Rs 200	Rs 200

- Proportional tax: In proportional tax, the tax rate is constant irrespective of an increase in the income. All taxpayers pay an equal proportion of their income in the form of taxes.

Income per month	Rs 2000	Rs 4000
Tax rate	10%	10%
Tax collection	Rs 200	Rs 400

- Regressive tax: In regressive tax, the average tax rate decreases with an increase in income of an individual. The absolute amount of tax collection increases with an increase in the income.

Income per month	Rs 2000	Rs 4000
Tax rate	10%	7.5%
Tax collection	Rs 200	Rs 300

- Degressive tax: Degressive tax means the rate of tax which increases up to a certain limit after which a uniform rate is charged. This system is a mixture of proportional tax and progressive tax. The absolute amount of tax collection falls with an increase in the income.

Income per month	Rs 2000	Rs 4000
Tax rate	10%	2.5%
Tax collection	Rs 200	Rs 100