

# **Role of Indirect Tax in Economic**

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**Abstract:** *Because they provide the government with income and have an impact on consumer behavior, indirect taxes are essential to the formation and maintenance of a country's economy. These taxes affect a number of different economic sectors and are imposed on products and services. The capacity of indirect taxes to produce large amounts of government money, which goes toward funding public programs for infrastructure, healthcare, education, and other necessities, is one important feature of these taxes. Indirect taxes can also be employed by governments as tools for fiscal policy, enabling them to regulate inflation and promote or prohibit particular economic activities.*

*Although lower-income people may be disproportionately affected by some indirect taxes, such sales taxes, due to their regressive nature, these taxes are nevertheless necessary for the stability of the economy as a whole. Furthermore, changes in consumer preferences and market demand may result from indirect taxation. Businesses may then be impacted by this, changing their methods for distribution and manufacturing as a result. In general, indirect taxes play a variety of roles in the economy, including generating income, implementing fiscal policy, and influencing consumer behavior and market dynamics.*

**Keywords:** Tax

## **I. INTRODUCTION**

India's economic environment is greatly shaped by indirect taxes, which also boost government coffers and have an impact on consumer choices. In the end, consumers bear the cost of these taxes, which are imposed on products and services. Indirect taxes in the Indian economy comprise excise duties, customs duties, the Goods and Services Tax (GST), and other levies. A significant change was brought about by the 2017 implementation of the Goods and Services Tax (GST), which unified several taxes and produced a more efficient and transparent tax system. In addition to being an essential source of funding for the government, indirect taxes also help to manage and regulate the economy. They can be strategically employed to support or oppose certain economic endeavors, so affecting the patterns of general production and consumption. In addition, indirect taxes are a vital part of India's fiscal strategy because the money they bring in is used to pay infrastructure development, public services, and other important government expenses. The function of indirect taxes is still dynamic as the Indian economy develops, influencing economic policies and bolstering the country's fiscal stability

### **Objectives**

Indirect taxes have a variety of functions in an economy that support social welfare, economic stability, and revenue creation. The following are some main goals:

### **Generating Revenue:**

Value-added taxes (VAT), excise taxes, and sales taxes are examples of indirect taxes that make up a sizable portion of government revenue. This income is essential for paying for infrastructure improvements, public services, and other government expenses.

### **Income Redistribution:**

Although indirect taxes are often regressive, meaning that those with lower incomes are disproportionately affected, governments frequently take steps to lessen this effect. More equitable tax burden redistribution can be achieved, for instance, by offering targeted subsidies or exempting necessities from taxation.

**Stabilization of Prices:**

One tactic for managing demand is the use of indirect taxes. Governments may encourage or discourage expenditure in particular industries and affect consumer behavior by changing the tax rates on particular goods and services. This may aid in stabilizing prices and reducing inflation.

**Encouraging Business Activity:**

Tax laws can be used by governments to promote particular businesses or economic endeavors that they see fit. Reducing taxes on eco-friendly goods, for example, can encourage sustainability.

**Modifications in Behavior:**

Impacting Consumption Patterns: By raising the price of some products and services, indirect taxes can have an impact on the decisions made by consumers. For instance, greater prices on alcohol and tobacco are intended to promote public health by discouraging use.

**Simple Administration:**

Since indirect taxes are imposed on transactions rather than income or assets, they are frequently less difficult to collect than direct taxes. This ease of use can lower administrative expenses and improve the effectiveness of tax collection.

**Global Competitiveness:**

Harmonization with International Standards: A nation's tax structure can be brought into compliance with international standards by using indirect taxes, including customs charges. Both international trade and competitiveness may benefit from this.

**Tool for Fiscal Policy:**

One way to counteract economic cycles in fiscal policy is to modify indirect taxes. For example, governments may reduce specific taxes to encourage expenditure and increase economic activity during economic downturns.

**Stopping Tax Avoidance:**

By collecting money from a variety of transactions, indirect taxes can aid in expanding the tax base. This may make it more challenging for people and companies to avoid paying taxes.

**Environmental Factors to Be Considered:**

By imposing taxes on goods or activities that have a detrimental influence on the environment, indirect taxes may be used to encourage ecologically responsible behavior. This tackles externalities and advances sustainability goals.

Explanation



Indirect taxes have a wide range of complex roles in the economy, including social welfare, economic management, revenue generation, and fiscal policy. This is a thorough description of how indirect taxes work:

Generating Revenue:

The government receives a large portion of its revenue via indirect taxes such sales tax, value-added tax (VAT), excise tax, and customs charges. By being imposed on the use of goods and services, these taxes increase the total amount of money collected in taxes.

**Income Redistribution:**

Effect on Different Income Groups: Because indirect taxes often take a bigger percentage of low-income people's income than they do from high-income people, they are generally seen as regressive. Governments, however, frequently take action to lessen this effect, such as granting targeted subsidies to disadvantaged groups or exempting necessities from taxes.

**Controlling prices and managing demand:**

Demand management and price stabilization are two strategies that may be employed using indirect taxes. Governments may influence consumption and assist to limit inflation by varying the tax rates on specific goods and services. This can also help to stabilize prices in particular industries.

**Encouraging Economic Activity:**

Indirect taxes might be designed to support certain sectors of the economy or sectors of activities that are in line with government aims. Reduced taxes, for instance, on particular products or services may boost business activity in specific areas and support general economic expansion.

**Modifications in Behavior:**

Promoting Socially Responsibly: By raising the price of some products and services, indirect taxes can affect how consumers behave. The goal of higher taxes on goods like alcohol, tobacco, and carbon-intensive products is to deter usage and encourage socially conscious decisions.

**Simple Administration:**

Compared to direct taxes, indirect taxes are frequently easier to administer and collect. They are usually imposed at the point of sale or manufacture, which simplifies the collection procedure and lowers overhead.

**Global Competitiveness:**

One way to bring a nation's tax system into compliance with international standards is through the employment of indirect taxes, especially customs charges. This guarantees fair trade practices and keeps businesses competitive in international marketplaces.

**Tool for Fiscal Policy:**

Counter-Cyclical Measures: One way to counteract economic cycles in fiscal policy is to modify indirect taxes. For example, governments may lower specific taxes during economic downturns in an effort to increase consumer spending and economic activity.

**Stopping Tax Avoidance:**

Broad Tax Base: By collecting money from a variety of transactions, indirect taxes help to create a broad tax base. Because it is more difficult for people and corporations to avoid paying taxes on consumption, this lessens the possibility of tax evasion.

**Environmental Factors to Be Considered:**

By imposing taxes on goods or activities that have a detrimental influence on the environment, indirect taxes can be used to solve environmental issues. This strategy internalizes the external expenses related to certain goods or services while supporting sustainability goals.

## II. CONCLUSION

In conclusion, indirect taxes play a variety of roles in the economy that go beyond just providing the government with income. Indirect taxes have a significant impact on market dynamics, consumer behavior, and economic stability. Governments may promote or discourage specific consumption patterns by levying taxes on products and services, which helps to maintain the health of the economy as a whole. In addition, governments rely heavily on indirect taxes as a source of income to support infrastructure and other necessary public services. To maintain justice and an equal distribution of the tax burden, it is important to carefully evaluate how indirect taxes affect various income groups. Indirect tax policies must be carefully balanced in order to promote economic development, lessen income disparity, and create a robust and sustainable economic environment. In general, indirect taxes play a vital part in the complex

web of economic policy, and maximizing their potential advantages while minimizing their possible disadvantages requires careful consideration.

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