) Nature of govt expenditure :- If the govt incurs a major portion of its expenditure on encouraging production and increasing the level of efficiency of the workers, this will raise the taxable capacity of the country.

) Size of income and wealth of the country :- The greater the income, and wealth of country, the greater is its taxable capacity.

) Stage of economic development :- ordinarily the taxable capacity in industrially adv countries is higher than that of the backward and under-developed countries.

) Distribution of wealth in the country :- The greater the inequality in wealth distribution in a country, the greater shall be its taxable capacity. The reason is that the taxable capacity refers to the maximum capacity of the people of a country to bear the burden of taxation without much hardship. In simple words, taxable capacity indicates the limit to which a govt. can tax the citizens.

Inflation :- The prices of goods and services in rise on account of inflationary forces but the money income of the people remains more or less unchanged. This will reduce the taxable

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capacity of the country.

) Stability of income.

) Increase in population.

) Standard of living.

What do you mean by incidence of tax?

Incidence of tax refers to the ultimate money burden of tax. It is the shifting of tax burden that ends in incidence. Hence, incidence of tax lies on that person who is the ultimate bearer of the tax burden.

What do you mean by regressive tax?

Regressive taxation refers to that system under which the ratio of tax liability to tax base decreases along with increase in tax base.

Define taxable capacity.

Taxable capacity maybe defined as the total surplus of production over the minimum consumption required to produce that level of production. So that standard of living remains unchanged.

Define govt budget.

Govt budget is an annual statement, showing item wise estimates of receipts and expenditures during a fiscal year.

State one important objective of fiscal policy.

One of the important objective of fiscal policy

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is to mobilise resources for public sector and to encourage public saving and investment.

Bring out the meaning of federal finance.

federal finance means the finance of the central govt as well as the state govts and the relationship between the two.

What do you mean by tax-sharing as far as fiscal federalism is concerned?

Tax-sharing under fiscal federalism refers to an arrangement whereby tax may be levied and collected by one layer of govt and distributed either wholly or partly to other federating units.

what are the various canons of taxation.

) canon of equity :- The subjects of every state ought to contribute towards the support of the govt in proportions to their respective abilities. In other words, every person will pay the taxes to the govt in proportion to his ability to pay.

canon of certainty :- According to Adam Smith the tax an individual has to pay should be certain, not arbitrary. The tax payers should know in advance how much tax he has to pay, at what time he has to pay the tax, and in what form the tax is to be paid to the govt. The

time of payment and manner of payment should also be predetermined.

) canon of convenience :- As per this canon, every tax should be levied in such a manner and at such a time that it affords the maxi-mum of convenience to the taxpayers. The govt should ensure that the tax payer suffers no inconvenience on account of the payment of tax.

) canon of economy :- According to this canon every tax should be levied in such a manner and at such a time that it affords the maxi-mum of convenience to the tax payers. The govt should ensure that the tax payers the cost of tax collection should be minimum. If the major portion of the tax proceeds is spent on the collection of the tax itself, then such a tax cannot be considered a good tax.

) canon of elasticity :- This canon implies that the income from the tax should be capable of increase or decrease according to the requi-rements of the country.

) canon of productivity :- The tax should be of such nature that it yields sufficient income to the govt. If a tax yield poor income it can-not be considered as a productive tax. But it is very complex to define productive and

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unproductive tax.

11) canon of variety :- This canon requires that the tax system should contain a large variety of taxes.

9. Critically analyze the distributional effect of taxation.

= Taxation is widely used as a policy instrument for making equitable distribution of income and to reduce the gap between rich and poor. Modern govts make use of taxation to reduce the inequalities of wealth and income in society. In almost all the countries, efforts are being made to reduce economic inequalities through the imposition of progressive taxation. direct taxes which are based on progressive rate structure have large redistributive effect. All taxes which fall heavily on upper income class result in reduction of inequality in distribution.

However, indirect taxes like GST sales tax or vat are regressive in nature. These taxes are generally imposed on consumer goods. The poor people have to pay as much by way of indirect taxes on those goods as the richer people. This is clearly unjust and inequaitable Since, indirect taxes are mostly levied on necessaries of life and a poor person spends.

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a major portion of his income on necessaries of life therefore he bears a greater burden of indirect taxes than the rich person. Consequently the indirect taxes degenerate into regressive taxes which results in economic inequality. Hence, such taxes are likely to increase inequality of income instead of reducing it.

Thus, it can be concluded that if commodities are not judicially selected then it may result in adverse effect on society and create inequalities of income among rich and poor.

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