

# "Impact & Incidence of Tax"

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## Impact and Incidence of Tax:-

### Introductory:-

My dear students, first of all we should know what is a tax? Then the concept of impact and incidence of a tax will be clear to us.

### What is a tax?

Tax is a Compulsory Contribution.

Why Compulsory? Because tax is a kind of money which it is the legal duty of every citizen of a country to pay honestly. It may be levied on income, property and even at the time of purchasing a commodity. Thus tax imposes a burden on the tax payer, i.e. a tax has its effects.

It is highly important to understand

the economic and social effects of particular taxes. Some of these effects result directly from the payment of the tax (Direct tax), while others are the indirect consequences of the imposition of the tax (Indirect tax). In order to analyse the effects of taxes, we will have to determine:

- a) Who pays the tax in the first instance, and
- b) Who actually bears the burden of the tax

According to law, the tax is collected from a particular individual or business unit. But it may be possible for the person or business unit which has paid the tax to transfer it to someone else. Here originates the impact and incidence of tax.

The impact and Incidence of tax :-

Impact of a tax is its first point of contact with the tax-payers. It is upon those who bear the first responsibility of paying it to the authorities. Thus the term impact is used to express the immediate result of original imposition of the tax. The impact of a tax is on the person on whom it is imposed

and who have the statutory responsibility of paying it to the Government.

The term incidence refers to the location of the ultimate or the direct money burden of the tax. It signifies the settlement of the tax burden on the ultimate tax payer. Incidence emerges when the tax finally settles or comes to rest on the person who actually bears it.

It is thus easy to distinguish between the impact and incidence of taxation :-

- 1) Impact refers to the initial burden of the tax, while incidence refers to the ultimate burden of the tax.
- 2) Impact is at the point of imposition, incidence occurs at the point of settlement.
- 3) The impact of a tax falls upon the person from whom the tax is collected and the incidence rests on the person who pays it eventually. For example,

Suppose the Government levied a tax on Sugar and collects the amount from the manufacturer of Sugar. The impact of the tax is on the manufacturer. If the Sugar manufacturer is able to pass on the money burden of the tax to another person, say the wholesaler, the wholesaler to the retailer and then finally to the consumer and if there is no more possibility to transfer the money burden, the incidence is said to be on the final consumer, who finally pays the tax.

↓ Impact may be shifted but incidence cannot. For incidence is the end of the shifting process. Sometimes, however, when no shifting is possible, as in the case of income tax or such other direct taxes, the impact coincides with incidence on the same person.

To Sum up: It is therefore clear that it is necessary to have a correct idea of the concept of money burden of tax to know the impact and incidence of tax.

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