

## "Shifting of Tax: Concept & types"

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### Shifting of a tax :-

What is ? The process by which the burden of a tax is transferred from one person to another (that is from the producer to the consumer or from the importer to the buyer) it refers to the shifting of a tax. The burden, at least the monetary burden of a tax, is wholly on the first payer, when he is not able to shift it to other people. This process of passing monetary burden of a tax to another person is called shifting of a tax. So Tax shifting is the redistribution of tax burden. If there is no shifting, the monetary burden of the tax is wholly on the man from whom the tax is collected by the Govt. He is the man who faces the impact of the tax and bears the entire monetary burden. Thus the importer of motor cars may pay the tax is the first

instance and then shift the burden to the middle man. The middle man, in his turn, would shift the tax to consumers - who purchase motor cars. Shifting of tax cannot continue forever. Sooner or later a person will be found who will not be able to shift the tax any further and shall have to bear the burden itself. Thus shifting ultimately ends in incidence.

An analysis of the process of shifting further shows that it can occur only in connection with a transaction in which the price variation exists. When a tax is shifted, the prices of taxed object or activity will be adjusted to include the tax. This change in price can, of course, also be made through a change in the quality of the product.

Direct tax and indirect tax are the two characteristics of the tax system. A direct tax is a tax where the impact and incidence are on the same person.


But an indirect tax is a tax where the impact and incidence are on different persons. In case of the direct tax shifting is not possible but in case of indirect tax shifting of a tax is possible.

Types: — Tax shifting is of two types: —

i) Forward ii) Backward. Forward shifting, which is the most common, is said to take place when the producer of a good is able to shift the money burden of the tax completely on to someone else, say the wholesaler, who may, in turn, pass it on to the retailer who ultimately passes it on to the final consumer. When the tax is shifted forward the price which constitutes the medium of shifting increases. The amount of a tax shifted forward depends on the price elasticity of demand for the taxed good. Conversely, backward shifting occurs when a tax on the commodity is shifted back to the agents of production. When the tax is shifted backward, the price

Which is the medium of shifting decreases as compared with what it would have been without the tax. The buyer of a taxed commodity may shift the tax or a part of it, backward to the seller in the form of a lower buying price. However, backward shifting is not as common as forward shifting. Finally, a combination of forward and backward shifting may take place when a producer of a taxed commodity is able to pass on part of the money burden to the factor owners by compelling them to accept lower wages. It is also possible that the producer of the taxed commodity may have to absorb part of the money burden (if he is not completely successful in shifting the burden forward or backward.)

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