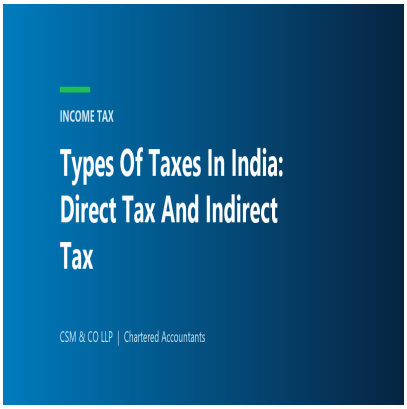

Types Of Taxes In India: Direct Tax And Indirect Tax

Description

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Quick summary

- Taxes in India are direct (income tax, Securities Transaction Tax) or indirect (GST, customs duty, limited central excise, state VAT on petroleum and alcohol).
- Direct taxes are borne by the person on whom they are levied; indirect taxes are passed on to the final consumer.
- Wealth tax, gift tax and fringe benefit tax no longer exist, and GST replaced service tax, sales tax, state VAT on most goods and octroi.
- The note compares both kinds with advantages, disadvantages and a difference table.

Taxes in India are broadly classified into direct taxes, such as income tax, and indirect taxes, such as GST and customs duty. Direct taxes are paid by the person on whom they are levied. Indirect taxes are included in the price of goods and services, and the burden passes to the final consumer. Knowing the types of taxes helps taxpayers comply with the law and plan their finances.

Types Of Taxes In India

Direct taxes are administered by the Central Board of Direct Taxes (CBDT). Indirect taxes (GST, customs and central excise) are administered by the Central Board of Indirect Taxes and Customs (CBIC).

Direct Taxes

A direct tax is levied on the income or profits of a person, who has to bear it and cannot pass it on to someone else. The main direct taxes in force are:

- **Income tax:** charged on the income of individuals, HUFs, firms, companies and other persons. Capital gains tax is part of income tax. Surcharge and the 4% health and education cess are added on top of income tax.
- **Securities Transaction Tax (STT):** charged on specified transactions in listed securities. It is a direct tax collected at the time of the transaction.

Several direct taxes that older books still list no longer exist: wealth tax (abolished from AY 2016-17), gift tax (abolished in 1998; gifts above the prescribed limit are now taxed as income) and fringe benefit tax (abolished from AY 2010-11).

Indirect Taxes

An indirect tax is charged on goods and services. It is collected by the seller and the burden is passed on to the end consumer. The main indirect taxes in force are:

- **Goods and Services Tax (GST):** a single tax on the supply of goods and services, in force since 1 July 2017. It replaced service tax, central excise on most goods, state VAT on most goods, central sales tax, octroi and entry tax, and removed the cascading effect.
- **Customs duty:** charged on goods imported into India.
- **Central excise duty:** now limited to a small set of goods, mainly petroleum products.
- **State VAT:** still levied by states on petrol, diesel and alcohol for human consumption.

Other levies

Some levies are neither central direct nor indirect taxes: **property tax** (local municipal), **stamp duty and registration fees** (state), and **professional tax** (state, capped at Rs 2,500 a year under the Constitution). A toll is a fee for using a road, not a tax.

Direct taxes	Indirect taxes	Other levies
Income tax (including capital gains)	GST	Property tax
Securities Transaction Tax	Customs duty	Stamp duty and registration fees
	Central excise (limited goods)	Professional tax
	State VAT (petroleum, alcohol)	Toll (a fee)

Advantages And Disadvantages Of Direct Tax

Advantages	Disadvantages
Progressive in nature: people with lower incomes pay less tax than people with higher incomes.	Some taxpayers evade or avoid tax.

Advantages	Disadvantages
Helps reduce income inequality.	Compliance and documentation can be complex and time-consuming.
Certainty: the government and the taxpayer both know what is to be paid and when.	The burden cannot be transferred to anyone else.

Advantages And Disadvantages Of Indirect Tax

Advantages	Disadvantages
Everyone who spends contributes to nation-building.	Raises the overall price of goods and services.
Easy to collect from the end consumer.	Consumers often do not know how much tax they pay.
Lower rates can be applied to essential goods and higher rates to luxury goods.	Regressive in nature, as it takes a larger share of low incomes.
The burden can be passed to the end consumer.	Revenue is hard to predict because it depends on what people buy.

Difference Between Direct Tax And Indirect Tax

Basis	Direct Tax	Indirect Tax
Definition	Tax levied directly on the income or profits of a person.	Tax levied on the supply of goods and services.
Burden of Tax	Cannot be shifted; borne by the person on whom it is imposed.	Can be shifted; ultimately borne by the end consumer.
Governing Body	Central Board of Direct Taxes (CBDT).	Central Board of Indirect Taxes and Customs (CBIC).
Examples	Income tax, Securities Transaction Tax.	GST, customs duty, central excise.
Impact on Prices	Does not directly affect the price of goods and services.	Forms part of the price of goods and services.
Payment	Paid directly to the government by the taxpayer.	Collected by the seller or service provider and paid to the government.

Now that you know the main types of taxes in India, it is easier to see which ones apply to you.

Frequently asked questions

What are the two main types of taxes in India?

Direct taxes, such as income tax, which are paid by the person on whom they are levied, and indirect taxes, such as GST and customs duty, which are passed on to the final consumer.

Is wealth tax still charged in India?

No. Wealth tax was abolished with effect from AY 2016-17. Gift tax was abolished in 1998 and gifts above the prescribed limit are now taxed as income.

Which taxes did GST replace?

GST replaced service tax, central excise on most goods, state VAT on most goods, central sales tax, octroi and entry tax.

Who administers direct and indirect taxes?

Direct taxes are administered by the Central Board of Direct Taxes (CBDT) and indirect taxes such as GST, customs and central excise by the Central Board of Indirect Taxes and Customs (CBIC).

Official sources

- Income Tax Department: e-Filing portal
- CBIC: Central Board of Indirect Taxes and Customs
- GST Portal: Goods and Services Tax

Related reading

- What is Income Tax? Meaning, Rules, Tax Slabs, Types and Tax Guide for Tax Year 2026-27
- AS 22 Accounting for Taxes on Income
- Deferred Tax Asset and Deferred Tax Liability

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