TAXES TYPES, METHODS & BUDGETING PROCESS BASED INDIAN ECONOMY MCQ PRACTICE QUESTIONS AND ANSWERS PDF WITH EXPLANATION

For All Competitive SSC, Bank, IBPS, UPSC, Railway, IT & Other Govt. Exams

Created By Careericons Team

Q1. Consider the following statements regarding **Goods and Services Tax (GST)**:

i. Taxes need to be paid at each point in the value chain
ii. It will have an input tax credit mechanism
iii. The total taxes will be passed on to the consumers

Select the **correct** answer using the code given below:
a) (i) & (iii) only

b) (ii) & (iii) only

c) (i) & (ii) only

d) All of the above

Q2. Which of the following is **not** a direct tax in India?

a) Wealth Tax

b) Estate duty

c) Income Tax

d) Sales Tax

Q3. Consider the following statements regarding '**Contingency Fund of India**'

i. The fund is at the disposal of the president of India
ii. The fund is at the disposal of the Prime Minister of India
iii. The funds spent shall ultimately be approved by the parliament
iv. The funds spent are recouped from the Consolidated Fund of India

Select the **correct** answer using the code given below:
a) (ii) & (iv) only

b) (i), (iii) & (iv) only

c) (i) only

d) (i) & (iv) only

Q4. Tax revenue collection in our country mainly depends on which of the following:

i. Nominal GDP
ii. Real GDP

Select the **correct** answer using the code given below:
a) (ii) only

b) Both (i) & (ii)

c) (i) only

d) Neither (i) nor (ii)

Q5. Consider the following items.

- Cereal grains hulled
- Chicken eggs cooked
- Fish processed and canned
- Newspapers containing advertising material

Which of the above item is/are exempted under GST (Goods and Service Tax)?
a) Only 2 and 3

b) Only 1, 2 and 4

c) Only 1

d) 1, 2, 3 and 4

Q6. Which of the following taxes is levied by the Gram Panchayats?

a) Land Revenue Tax

b) Tax on local fairs

c) Sales Tax

d) None of the above

Q7. The representation of the relationship between possible rates of taxation and the resulting levels of government revenue is called

a) Philips curve

b) Laffer curve

c) Griffin curve

d) Gini’s curve

Q8. Which one of the following sets of sources of revenue belongs to the Union Government alone?

a) Sales tax, Income tax

b) Custom duties, Corporation tax

c) Gift tax, Holding tax

d) Wealth tax, Land revenue

Q9. The tax on Import and Export is known as

a) Trade Tax

b) Custom Duty

c) Income Tax

d) None of the above

Q10. Which one of the following is **correctly** matched?

a) Custom Duty - Indirect Tax

b) Excise Duty - Highest source of tax revenue to the centre

c) Income Tax - Indirect Tax

d) Entertainment Tax - Highest source of tax to revenue states

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Q11. Consider the following statements regarding the **use of Aadhar for benefit transfer**:

i. The money can be drawn only from the Consolidated Fund of India
ii. The States can also use Aadhar to transfer benefits from the Consolidated Fund of States
iii. The central government can make Aadhar mandatory for authentication to provide any subsidy
iv. It can be used for the transfer of benefit to individuals who are residing in India for more than 182 days

Select the **correct** answer using the code given below:
a) (ii) & (iv) only

b) (i), (iii) & (iv) only

c) (i) only

d) (ii), (iii) & (iv) only

Q12. Consider the following important sources of tax revenue for the Central Government in India.

- Union Excise Duty
- Corporation Tax
- Income Tax
- Service Tax

Which of the following is the **correct** descending order in terms of Gross Tax Revenue?
a) 2, 4, 1, 3

b) 2, 3, 1, 4

c) 1, 2, 4, 3

d) 4, 1, 2, 3

Q13. Consider the following statements regarding the Corporate Income Tax which the government reduced effectively to 25.17%:

i. It is applicable for Indian Companies
ii. It is applicable for domestic companies
iii. It is applicable only if the companies are not availing of various exemptions

iv. The above rate is including Cess and Surcharge

Select the **correct** answer using the code given below:
a) (ii) & (iv) only

b) (ii), (iii) & (iv) only

c) (i) & (iii) only

d) All of the above

Q14. Chelliah committee is related to

a) Reforms in Banking system

b) Import-Export policy

c) Reforms in direct and indirect tax systems

d) None of the above

Q15. Which of the following are part of India's External Debt?

i. External Commercial Borrowing (ECB)
ii. NRI Deposits
iii. Investments made by Portfolio Investors in debt securities
iv. Portfolio Investors purchasing government securities

Select the **correct** answer using the code given below:
a) (iv) only

b) (i), (iii) & (iv) only

c) (i) only

d) All of the above

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Answers to the above questions :

Q1. Answer: (d)

Q2. Answer: (d)

Q3. Answer: (b)

This fund is in the nature of an imprest (a fixed fund for a specific purpose) account and is kept at the disposal of the President of India (by the Secretary to the Government of India, Ministry of Finance, Department of Economic Affairs) to enable the government to meet unforeseen expenses pending authorization by the Parliament.

The money is used to provide immediate relief to victims of natural calamities and also to implement any new policy decision taken by the Government pending its approval by the Parliament.

Q4. Answer: (c)

Most of the taxes in the country are imposed on value (Quantity X Price) and not on quantity.

So, tax revenue collection depends on the value of production i.e. Nominal GDP

Q5. Answer: (c)

Q6. Answer: (b)

Q7. Answer: (b)

Laffer curve is a representation of the relationship between possible rates of taxation and the resulting levels of government revenue.

It illustrates the concept of taxable income elasticity-i.e., taxable income will change in response to changes in the rate of taxation.

Phillips Curve is a supposed inverse relationship between the level of unemployment and the rate of inflation.

Q8. Answer: (b)

Q9. Answer: (b)

Q10. Answer: (a)

Q11. Answer: (d)

The Aadhaar (Targeted Delivery of Financial and other Subsidies, Benefits and Services) Act 2016 is an Act to provide for, as good governance, efficient, transparent, and targeted delivery of subsidies, benefits and services, the expenditure for which is incurred from the Consolidated Fund of India or Consolidated Fund of States (States were allowed to transfer benefit through an amendment done 2019) to individuals residing in India (for more than 182 days) through assigning of unique identity numbers.

As per section 7 of the Aadhar Act:

“The Central Government or, as the case may be, the State Government may, for the purpose of establishing the identity of an individual as a condition for receipt of a subsidy, benefit or service for which the expenditure is incurred from, or the receipt therefrom forms part of, the Consolidated Fund of India, require that such individual undergo authentication, or furnish proof of possession of Aadhaar number or in the case of an individual to whom no Aadhaar number has been assigned, such individual makes an application for enrolment: Provided that if an Aadhaar number is not assigned to an individual, the individual shall be offered alternate and viable means of identification for delivery of the subsidy, benefit or service.”

Pursuant to the Act, the government made Aadhaar Regulations 2016:

“Any Central or State department or an agency which requires an individual to undergo authentication or furnish proof of possession of Aadhar number as a condition of receipt of any subsidy, benefit or service pursuant to Section 7 of the Aadhar Act, shall ensure enrolment of its beneficiaries who are yet to be enrolled, through appropriate measures.”

Q12. Answer: (b)

Q13. Answer: (b)

Indian Company means a company registered in India under The Company’s Act 2013. A Foreign Company means a company registered outside India.

A Domestic Company means an Indian Company or it can be a Foreign Company but it should have made arrangements for the declaration and payment of Dividends in India under the Income Tax Act 1961.

The 25.17% tax rate is applicable to Domestic Companies only.

Standard Tax Rate = 22%

Surcharge = 10% of 22% = 2.2%

Cess = 4% of (22% + 2.2%) = 0.968%

Effective Tax Rate = 22% + 2.2% + 0.968% = 25.168% = 25.17%

This rate of 25.17% is applicable to those companies which do not opt for various exemptions provided by the government (and hence there will be no MAT). Govt. gives a lot of tax exemptions because of which even if the official tax rate was 30% plus cess and surcharge, effectively the tax rate was 25-26% after claiming various exemptions.

But it was giving a wrong image to the outside world that India has such a high rate of 30%. So, govt. removed the exemptions and brought the official tax rate down to 25.17%.

To promote manufacturing, for new manufacturing firms set up after 1st October 2019 and commencing its operations before 31st March 2023, the Standard Corporate Income Tax is 15% (after Cess and Surcharge it will be 17.01%).

Q14. Answer: (c)

Q15. Answer: (d)

India's external debt includes the debt of the Central Government, State Governments, companies (ECB), NRI deposits, debt investments in India like FPIs purchasing bonds etc.

So, all the statements are true.