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 about the **Agriculture Income Tax**

- Agriculture Income Tax is levied and collected by the Union Government.
- Agriculture Income Tax is levied throughout the country in India.

Which of the statements given above is/are **correct**?
a) Both 1 and 2

b) 1 only

c) 2 only

d) Neither 1 nor 2

Q2. MODVAT is related to

a) Wealth Tax

b) Excise duty

c) Value added Tax (VAT)

d) Income Tax

Q3. Which of the following are the indirect tax?

a) Income tax and Wealth tax

b) Sales tax and Excise tax

c) Sales tax and Income tax

d) Income tax and Excise tax

Q4. The term ‘**Crowd-out**’ in the economy is related to which of the following:

i. Increased public sector spending replaces private sector spending

ii. Governments deficit spending through borrowed money leads to hardening of interest rates
iii. Government spending uses up financial resources that would otherwise be used by private firms
iv. Government providing a service or good that would otherwise be a business opportunity for private industry

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

b) (ii) & (iii) only

c) (i) only

d) All of the above

Q5. Consider the following statements regarding the "**Inverted Duty Structure**" in international trade:

i. It makes domestic manufactured goods less competitive against finished product imports in the domestic market.
ii. Finished goods are taxed at a higher rate than the raw materials
iii. Raw materials are taxed at a higher rate than the finished products
iv. This has reference to Customs Duty

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

b) (i) & (iv) only

c) (i) & (ii) only

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

Q6. Value Added Tax was first introduced in India in

a) 2006

b) 2005

c) 2007

d) 2008

Q7. Which of the following receipts goes to the Public Account of India:

i. Treasury Bills
ii. Kisan Vikas Patra
iii. Sukanya Samriddhi Account
iv. Public Provident Fund

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

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

c) (i) & (iv) only

d) All of the above

Q8. Which one among the following is **not** a source of tax revenue for the Central Government in India?

a) Service tax

b) Income tax

c) Customs duties

d) Motor Vehicle tax

Q9. Direct Tax Code in India is related to which of the following?

a) Income Tax

b) Excise Tax

c) Sales Tax

d) Service Tax

Q10. Consider the following actions by the government.

- Cutting the tax rates
- Increasing the government spending
- Abolishing the subsidies

In the context of economic recession, which of the above actions can be considered a part of the 'fiscal stimulus' package?
a) Only 2

b) 1 and 3

c) 1 and 2

d) 1, 2 and 3

Q11. Consider the following statements:

i. FRBM Act 2003 has provided for an escape clause in which the central government can deviate from the fiscal deficit target by 0.5%
ii. The central government has also approved for additional fiscal deficit to States by 0.5% over and above the normal limit of 3%
iii. The States require Finance Commission approval to deviate from their fiscal deficit target

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

b) (i) & (iii) only

c) (i) & (ii) only

d) All of the above

Q12. The Government of India earns maximum revenue from

a) Customs duty

b) Income tax

c) Union excise duty

d) Corporation tax

Q13. Consider the following taxes.

- Sales Tax
- Income Tax
- Corporate Tax
- Entertainment Tax

Which of the above taxes are levied by the state government and **not** shared by central

government?
a) Only 2 and 3

b) Only 3 and 4

c) Only 1 and 2

d) Only 1 and 4

Q14. The Grants-in-aid given by the Central Government to the State Governments and local bodies for creation of capital assets are classified in the Union budget under?

a) Capital Expenditure

b) Both Revenue and Capital expenditure

c) Revenue expenditure

d) None of the above

Q15. Which one of the following agencies assigns the Agricultural Income Tax to states in India?

a) Agriculture Finance Corporation

b) Inter – State council

c) National Development Council

d) Finance commission

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Answers to the above questions :

Q1. Answer: (d)

Agricultural income tax is levied on the income from Agriculture.

At present agriculture is subjected to – two direct taxes and they are Agricultural Income Tax and Land Tax.

They are levied by the state governments. Not all states levy agricultural income tax.

Q2. Answer: (c)

MODVAT e.g. modified value added tax is related to Value added tax e.g. VAT.

Q3. Answer: (b)

Q4. Answer: (d)

When the government borrows more, then there may be a decrease in private investment due to a reduction in the amount of savings available to the private sector.

This is because if the government decides to borrow from the private citizens by issuing bonds to finance deficits, these bonds (which are risk-free) compete with corporate bonds and other financial instruments for the available supply of funds.

If people decide to buy government bonds, the funds remaining to be invested in the private sector will be less.

Thus, some private/corporate borrowers will get "crowded out" of the financial markets as the government claims an increasing share of the economy's total savings.

This also increases the interest rate for the private sector.

Q5. Answer: (d)

When the import duty on raw materials is quite higher than the import duty on finished goods then it makes the domestic manufacturers less competitive because then traders start importing manufactured goods in the country rather than manufacturing the goods domestically.

India levies the highest duties on the import of raw rubber and one of the lowest duties on the import of finished rubber goods i.e. tyres. This has created an inverted duty structure.

Q6. Answer: (b)

Q7. Answer: (b)

Receipts under the Public Account account mainly flow from the sale of Savings Certificates, contributions into General Provident Fund, Public Provident Fund, Security Deposits and Earnest Money Deposits (a kind of security deposits) received by the government.

It also includes schemes like Kisan Vikas Patra, Sukanya Samridhi Scheme etc. In respect of such deposits, the government is acting as a Banker or Trustee and refunds the money after the completion of the contract/ event.

All government borrowings through Treasury bills and Dated securities go to the Consolidated Fund of India.

Q8. Answer: (d)

Motor Vehicle tax is not a source of tax revenue for the Central Government in India. It is type of revenue part of State tax.

Q9. Answer: (a)

Q10. Answer: (c)

Q11. Answer: (c)

New provisions were introduced in FRBM Act 2003 (through Finance Act 2018) and Escape Clause (in which govt. can deviate the targets of FRBM act 2003) was added: (for some conditions slippage was allowed earlier also) Following is the new escape clause:

"On grounds of national security, the act of war, national calamity, the collapse of agriculture severely affecting farm output and incomes, structural reforms in the economy with unanticipated fiscal implications, the decline in real output growth of a quarter by at least three per cent. points below its average of the previous four quarters" And in the above conditions, central govt. can deviate fiscal deficit by 0.5%. Govt. of India had earlier set a target of Fiscal Deficit as 3.3% for 2019-20 and 3% for 2020-21.

When GoI presented budget for 2020-21, it said that it is using the escape clause and revising the fiscal deficit target as 3.3% + 0.5% = 3.8% for 2019-20 and 3% + 0.5% = 3.5% for 2020-21. And GoI also said that it has maintained fiscal prudence.

This is so because the FRBM Act 2003 (with amendments in 2018) allowed slippage in fiscal deficit by 0.5% from the targeted (the target was 3.3% for 2019-20 and 3% for 2020-21) by using the escape clause.

As per the recommendation of the Fourteenth Finance Commission, the Union Government has approved year-to-year flexibility for additional fiscal deficit to States for the period 2016-17 to 2019-20 to a maximum of 0.5 per cent over and above the normal limit of 3 per cent in any given year to the States subject to ……..the States maintaining the debt GDP ratio within 25 per cent and Interest Payments to the Total Revenue Receipts ratio within 10 per cent in the previous year.

However, the flexibility in availing the additional fiscal deficit will be available to State if there is no revenue deficit in the year in which borrowing limits are to be fixed and immediately preceding the year. (no need to remember the things after subject to…….)

As per the XV Finance Commission Chairman, no approval of the Finance Commission is required to amend the FRBM rules of the centre or States.

Some additional information

[As per article 293 of Constitution, A State may not without the consent of the Government of India raise any loan if there is still outstanding any part of a loan which has been made to the State by the Government of India or by its predecessor Government.

Like Centre, every state has also a fixed Fiscal deficit limit of 3% as per their law.

Now as such it's nowhere written that if States want to breach the 3% Fiscal Deficit limit then they require Central Govt approval. But everywhere and in Economic Survey of this year also it is written that "Centre has approved extra borrowing by states and it has allowed states to borrow beyond 3% of their FD).

This Central Govt. approval was required because practically every State till now has some sort of debt from Central Govt. and as per article 293 above, States require centre approval if there is some debt due from the Centre.]

Q12. Answer: (c)

The Government of India earns maximum revenue from Union Excise Duty which is the indirect tax levied and collected on the goods manufactured in India and consumed within the country.

Custom Duty: It is a variation of Indirect tax and is applicable on all goods imported and a few Goods exported out of the country.

Corporation tax: It is a direct tax imposed by jurisdiction on the income or capital of Income.

Q13. Answer: (d)

Q14. Answer: (c)

Grants in aid by the Centre to the States will always be revenue expenditure for the Centre. Whether States spend it on capital expenditure or revenue expenditure, does not matter.

Q15. Answer: (d)

Agricultural income tax to states in India is assigned by the Constitution of India.

The agency responsible for it is the Finance Commission whose function is the distribution of net proceeds of taxes between the Centre and the States, to be divided as per their respective contributions to the taxes.

Finance commission: It is mainly to give its recommendation on the distribution of tax revenues between the union & the states and amongst the states themselves.

Interstate council: It is established to facilitate coordination of policies and their implementation between the Union & the state govt.

IFC: Its main objective is to foster a measurable increase in the availability of agriculture finance in IFC’s client portfolio globally.