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. Which one of the following is **not** related with income from corporate sector in India?

a) Minimum alternate tax

b) Capital Gain tax

c) Fringe Benefit tax

d) Tax on company profit

Q2. Corporation Tax is on

a) sale of goods

b) income of a company

c) production of a company

d) stock of goods

Q3. Which of the following items had the highest share of expenditure in the overall budget of GoI in 2019-20?

a) Interest payment

b) Capital Expenditure

c) Salary and Pension

d) Explicit Subsidies

Q4. Consider the following statements regarding "**Vivad se Viswas**" scheme proposed in the budget:

i. It is only for direct taxes
ii. The objective is to generate timely revenue for the government

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. Which of the following taxes is levied and collected by the Union but distributed between Union and States?

a) Tax on income other than on agricultural income

b) Tax on railway fares and freight

c) Corporation Tax

d) Customs

Q6. Service tax was introduced in India on the recommendation of

a) Raja J. Chelliah Committee

b) Manmohan Singh Committee

c) Kelkar Committee

d) Yashwant Sinha Committee (E) None of the above/More than one of the above

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Q7. Which of the following is the characteristic of progressive tax?

- Marginal tax rate should be increasing.
- Marginal tax rates should be more than average tax rate.

Select the **correct** answer using the code given below:
a) Both 1 and 2

b) 1 only

c) 2 only

d) Neither 1 nor 2

Q8. As per the **FRBM Act 2003**, Central Government shall endeavour to ensure that:

i. The general government debt shall not exceed 60% of GDP by 2024-25
ii. The central government debt shall not exceed 40% of GDP by 2024-25
iii. The central government shall not give additional guarantees on loans in excess of 0.5% of GDP in any financial year

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

b) (i) & (ii) only

c) (ii) only

d) All of the above

Q9. The government can influence private sector expenditure by

- taxation
- subsidies
- macro-economic policies
- grants

Select the **correct** answer using the codes given below
a) 1, 2 and 3

b) 1, 2, 3 and 4

c) 1, 2 and 4

d) 3 and 4

Q10. Which of the following statements are true regarding "**fiscal stimulus**":

i. It is a strategy to boost the sluggish economy
ii. RBI pumps money into the economy
iii. Government reduces subsidies
iv. Public spending increases

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

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

c) (i) & (ii) only

d) (i) & (iv) only

Q11. Which of the following should be considered for ‘Pigovian taxation’?

- Consumption of cigarettes
- Research for new technologies
- Burning of fossil fuels
- Restoration of lost cultural heritage

Choose the **correct** answer using the codes given below:
a) 1, 2 and 3

b) 1 and 3 only

c) 2, 3 and 4 only

d) 2 and 4 only

Q12. Consider the following statements regarding ‘**Fiscal Consolidation**’ policy:

i. It is an effort by the government to bring down the fiscal deficit
ii. It is an effort to reduce public debt
iii. It is an effort to reduce the current account deficit
iv. It is an effort to raise revenues and bring down wasteful expenses

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

b) (iv) only

c) (i), (ii) & (iii) only

d) All of the above

Q13. If Sales tax on a commodity is raised, but the revenue earned through its sale decrease sharply, which one of the following statements about the nature of this commodity would be **correct**?

a) Price elasticity of demand for it is high

b) Price elasticity of demand for it is unity

c) It must be an essential goods

d) Price elasticity of demand for it is low

Q14. Consider the following regarding **India's external debt**:

i. It is around 20% of GDP
ii. Sovereign Debt is less than 5% of GDP
iii. External Commercial Borrowings (ECB) has the highest share in India's external debt

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

Q15. Consider the following statements regarding "**Tax Avoidance**" and "**General Anti Avoidance Rules (GAAR)**":

i. Tax avoidance is legal
ii. Tax avoidance is illegal
iii. GAAR targets business transactions that are entered into with the objective of avoiding tax
iv. GAAR target transactions entered into for tax evasion and tax avoidance both

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

b) (ii) & (iii) only

c) (i) & (iii) only

d) (ii) & (iv) only

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Answers to the above questions :

Q1. Answer: (a)

Q2. Answer: (b)

Q3. Answer: (a)

The following are the various expenditure of Govt. of India out of the total expenditure of Rs. 27 lakh crores in 2019-20.

Salary and Pension Rs. 3.1 lakh crore

Interest payment Rs. 6.6 lakh crore

Capital Expenditure Rs. 3.5 lakh crore

Explicit subsidies Rs. 3 lakh crore

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Q4. Answer: (b)

The ‘Vivad se Vishwas’ Scheme was announced during the Union Budget, 2020-21, to provide for dispute resolution in respect of pending income tax litigation. Pursuant to the Budget announcement, the Direct Tax Vivad se Vishwas Bill, 2020 (hereinafter called Vivad se Vishwas) was introduced in the Lok Sabha on the 5th of February, 2020 and passed by it on 4th of March, 2020.

The objective of Vivad se Vishwas is to inter alia reduce pending income tax litigation, generate timely revenue for the Government and benefit taxpayers by providing them peace of mind, certainty and savings on account of time and resources that would otherwise be spent on the long-drawn and vexatious litigation process.

As per the scheme, the taxpayer is required to pay only the amount of the disputed taxes and will get a complete waiver of interest and penalty provided he pays by March 31, 2020. Those who avail of this scheme after 31st March 2020 will have to pay some additional amount. The scheme will remain open till June 30, 2020.

This scheme covers taxpayers whose case appeals are pending at any level.

Q5. Answer: (a)

Q6. Answer: (a)

Q7. Answer: (a)

A progressive tax is a tax in which the tax rate increases as the taxable base amount increases Regarding progressive tax, marginal tax rate should be increasing and it should be more than average tax rate.

Q8. Answer: (d)

The N.K. Singh committee recommendations of Central Govt. debt of 40% of GDP and General Government (Centre and States combined) debt of 60% of GDP has been put under the FRBM Act 2003 by introducing an amendment through Finance Act 2018.

The additional guarantee of 0.5% of GDP was there from the beginning of the FRBM Act 2003.

Basically, the central government acts as a guarantor when PSUs borrow and States borrow from abroad.

Q9. Answer: (a)

The government influences private sector expenditure by taxation, subsidies and macro-economic policies.

Q10. Answer: (d)

A 'stimulus' is an attempt by policymakers to kickstart a sluggish economy through a package of measures.

In the case of fiscal stimulus, the Government increases its spending and or slashes tax rates to put more money in the hands of consumers.

A monetary stimulus will see the central bank expanding money supply or reducing the cost of money (interest rates), to spur consumer spending.

Q11. Answer: (b)

A Pigovian tax is applied to a market activity that is generating negative externalities (costs for somebody else) like cigarette consumption, burning of fossil fuel.

Q12. Answer: (a)

Fiscal Consolidation policy is an effort by the Government to bring down the fiscal deficit.

It is an effort to reduce public debt, raise revenues and bring down wasteful expenses.

Q13. Answer: (a)

The price elasticity of demand for goods also depends on the proportion of the income the buyers spend on the goods.

Therefore, if the sales tax on a commodity is raised, but the revenue earned through its sale decrease sharply, the price elasticity of demand for the commodity would be high.

Q14. Answer: (d)

As of June 2019, India’s external debt to GDP ratio stood at approximately 20%. And out of it, Sovereign debt (Govt. of India’s external debt) was around 3.5%.

Total India’s External Debt as of the end of June 2019 stood at $557 billion (20% of GDP) and out of it around more than 200 billion USD was external commercial borrowing (ECB).

Q15. Answer: (c)

The tax liability of a person can be reduced through Tax Planning, Tax avoidance and Tax Evasion. Although in common parlance these terms are used interchangeably, these terms are technically different from each other and should not be used interchangeably. Although the objective of all three is to reduce the taxes, the method adopted by them is different.

Tax Planning is the art of reducing the tax liability of a person by making use of the various provisions of law. The government in many cases provides various deductions and exemptions which can be used by a person to reduce his tax liability. Tax planning is 100% legal and all taxpayers are advised to make use of the same to reduce their tax burden.

Tax Avoidance basically means the use of the loopholes in the tax law to one's own advantage to reduce the tax burden.

Although tax avoidance is legal, it is not advisable as the taxpayer has defeated the intention of the lawmaker and used this to his own advantage. Although both tax planning and tax avoidance are legal ways to reduce tax, there is only a thin line of difference between tax planning and tax avoidance. In tax planning, a taxpayer is doing what the government wants him to do whereas, in tax avoidance, a taxpayer is doing something which the government did not expect the taxpayer to do.

Tax evasion involves breaking the law, not paying one's taxes where the law clearly states that they must be paid. Tax evasion is the method by which a person illegally reduces his tax burden by either deflating their income or inflating their expenses.

General Anti Avoidance Rules (GAAR) refer to the rules that target any transaction or business arrangement that is entered into with the objective of avoiding tax.

Tax avoidance is legal; but now, large scale revenue loss is occurring due to aggressive tax planning by corporate using avoidance opportunities. Governments in many countries are introducing anti-avoidance rules to check this revenue loss from excessive avoidance. GAAR has come into effect from 1st April 2017.

After the implementation of GAAR, the Income-tax Department will have powers to deny tax benefits if a transaction was carried out exclusively for the purpose of avoiding tax.

For example, if an entity is set up in Mauritius with the sole intention of claiming exemption from the capital gains tax, the tax authorities will have the right to deny the claim for the exemption provided under the India-Mauritius tax treaty.