

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

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Created By [Careericons](#) Team

Q1. What has been kept under the purview of Goods and Services Tax (GST)?

- a) Electricity
 - b) Petroleum products
 - c) Alcohol for human consumption
 - d) Ghee
-

Q2. Consider the following taxes.

- Corporation Tax
- Customs Duty
- Wealth Tax
- Excise Duty

Which of these is/are indirect taxes?

- a) 2 and 4
 - b) 1 and 3
 - c) Only 1
 - d) 2 and 3
-

Q3. The Minimum Alternate Tax (MAT) was introduced in the Budget of the Government of India for the year

- a) 1995-96
 - b) 1993-94
 - c) 1991-92
 - d) 1996-97
-

Q4. Corporation tax in India is levied on income of a company. Which one of the following does **not** include Corporation tax?

- a) Interest on securities
- b) Profit from business
- c) Capital gain
- d) Sale proceed of assets

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Q5. A redistribution of income in a country can be best brought through

- a) Progressive taxation combined with regressive expenditure
- b) Regressive taxation combined with regressive expenditure
- c) Progressive taxation combined with progressive expenditure
- d) Regressive taxation combined with progressive expenditure

Q6. Consider the following statements regarding **Forex Reserves**:

- i. The country's Forex Reserves fully covers the external debt
- ii. The country's Forex Reserves fully covers its one-year imports of goods and services

Select the **correct** answer using the code given below:

- a) (ii) only
- b) Both (i) & (ii)
- c) (i) only
- d) Neither (i) nor (ii)

Q7. Which of the following is associated with fiscal policy?

- a) Consumption
- b) Inflation

- c) Taxation
 - d) Money supply
-

Q8. The most important source of revenue for Indian Government is

- a) Indirect Tax
 - b) Deficit financing
 - c) Direct Tax
 - d) Loans from RBI
-

Q9. Consider the following statements regarding the "**Composition Scheme**" in GST:

- i. It exempts small taxpayers from payment of GST
- ii. It allows small businesses to pay tax at a fixed per cent of their turnover
- iii. It reduces the compliance cost for small businesses

Select the **correct** answer using the code given below:

- a) (i) & (iii) only
 - b) (ii) only
 - c) (i) only
 - d) (ii) & (iii) only
-

Q10. Which among the following are true for Central Sales Tax?

- It is levied on interstate trade.
- It is levied in the Union Territories.
- It is levied in the SEZ.

Select the **correct** answer from the codes given below.

- a) Only 2
 - b) Only 2 and 3
 - c) Only 1 and 2
 - d) All of these
-

Q11. Corporation tax is imposed by

- a) Local Government
 - b) State Government
 - c) Central Government
 - d) State as well as Central Government
-

Q12. Which one of the following is **not** a tax/duty levied by the Government of India?

- a) Education Cess
- b) Custom Duty
- c) Service Tax
- d) Toll Tax

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Q13. Surplus reserve of RBI transferred to Government of India (GOI) will come under which of the following?

- a) Non-tax revenue receipts
 - b) Non-debt capital receipts
 - c) Market borrowings and other liabilities
 - d) Debt receipts
-

Q14. The term '**Crowd-in**' in the economy is related to which of the following?

- i. Targeted government spending acts as an engine of growth in the short run
- ii. Government spending complements the private investment
- iii. Government spending substitutes the private investment
- iv. Government spending boosts demand for goods which in turn increases private demand

Select the **correct** answer using the code given below:

- a) (i) & (iii) only
- b) (i), (ii) & (iv) only
- c) (i) & (ii) only
- d) (i), (iii) & (iv) only

Q15. Consider the following statements regarding the presentation of the **Budget in the Parliament**:

- i. Finance Bill is introduced on the very first day when the Finance Minister presents Budget in the Parliament
- ii. Appropriation Bill is introduced after the voting on demand for grants is over

Select the **correct** answer using the code given below:

- a) (ii) only
- b) Both (i) & (ii)
- c) (i) only
- d) Neither (i) nor (ii)

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Answers to the above questions :

Q1. Answer: (d)

Q2. Answer: (a)

Q3. Answer: (d)

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Q4. Answer: (d)

Generally, the income of a company falls under any of the following 4 heads of income:

- Profits or gains from the business
- Income from property, whether it is housing, commercial, self-occupied or let-out. If the property is used in the company's business operations, it does not fall under this head.
- Capital gains
- Income from other sources including winnings from lotteries, races and interest on securities.

Q5. Answer: (a)

Q6. Answer: (d)

The country's forex reserves as of the end of Feb 2020 stood at \$476 billion, but India's external debt crossed 557 billion USD as of June 2019 (and it is still increasing with time).

So, at any point in time, if we want to pay off the complete external debt, it is not possible as forex reserve is only \$476 billion.

(As all external debt is denominated in foreign currencies and hardly \$1 billion is in rupee debt (Masala bonds), so it has to be paid only through our Forex reserve).

Since the ratio of Forex to External debt is $\$476 / 557 = 85\%$, that means our forex reserves don't cover the external debt.

If it would have been greater than 100% then we say that our external debt is fully covered (with forex reserves).

The country's one-year imports are around \$630 billion (2018-19). So again, our forex reserves don't fully cover imports also.

Q7. Answer: (a)

Fiscal policy is the use of government revenue collection (taxation) and expenditure (spending) to influence the economy. The two main instruments of fiscal policy are changes in the level and composition of taxation and government spending in various sectors.

Q8. Answer: (c)

Q9. Answer: (d)

Composition levy is an alternative method of levy of tax designed for small businesses whose turnover is up to Rs. 1.5 crore (and above 40 lacs). The objective of the composition scheme is to bring simplicity and to reduce the compliance cost for small businesses.

Moreover, it is optional and the eligible person opting to pay tax under this scheme can pay tax at a 1% flat rate, of his turnover, instead of paying tax at the normal GST rate.

Similarly, small service providers with a turnover of Rs. 50 lakhs can opt for a composition scheme and pay GST at 6%. In the case of a composition scheme, the businesses can't claim an input tax credit.

Q10. Answer: (c)

Q11. Answer: (c)

Corporation Tax is imposed by Central Government.

Q12. Answer: (d)

Q13. Answer: (a)

The RBI transferred its (accumulated) surplus reserve to its annual income and then this annual income was transferred to Govt. of India as a dividend.

Dividend from PSUs (RBI is a PSU which is 100% owned by Govt. of India) is considered as non-tax revenue receipts.

Q14. Answer: (b)

The opposite of crowding out is "crowding in" where private investment increases as debt-financed government spending increases.

If the economy is in a slowdown phase or the demand in the economy is less, then an increased government spending boosts the demand for goods which in turn increases the private sector demand for new output sources such as factories, equipment.

Thus, the private sector crowds in to satisfy increasing consumer needs.

Q15. Answer: (b)

The budget is discussed in two stages - the general discussion followed by a detailed discussion.

1st Feb 31st March Detailed Discussion On 1st Feb, the Finance bill is also introduced after the budget presentation.

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