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. The recommendation of the Kelkar Task Force related to

a) Banking

b) Taxes

c) Trade

d) Foreign Investment

Q2. With a view to redress the grievances of tax payers speedily, Income Tax department has started a new electronic platform which is known as

a) e-bharat

b) e-grievances

c) e-IT

d) e-nivaran

Q3. Which of the following taxes does **not** directly increase the price of a commodity to buyers?

a) Trade Tax

b) Import Duty

c) Income Tax

d) Excise Duty

Q4. GST will lead to formalization of the Indian economy because of the following reasons.

a) GST has input tax credit mechanism

b) All the businesses have to pay GST without any threshold limit

c) GST is consumption/ destinationbased tax

d) GST will be levied on goods and services both

Q5. The largest sources of tax revenue to Central Government of India are

a) Custom duty and corporate tax

b) Union excise duty and custom duty

c) Union excise duties and corporate tax

d) Custom duty and income tax

Q6. Which one of the following states is the first state to impose Agriculture Income Tax in India?

a) West Bengal

b) Madhya Pradesh

c) Uttar Pradesh

d) Bihar

Q7. Which is the biggest source of budgetary receipts in the year 2019-20 for Govt. of India?

a) Income Tax

b) Goods and Services Tax

c) Corporation Tax

d) Borrowings

Q8. Consider the following statements regarding "**counter-cyclical**" fiscal policy:

i. The government uses the countercyclical policy to cool down the economy during the boom period
ii. In countercyclical policy, the government increases spending and reduces taxes during the economic slowdown

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

b) Both (i) & (i)

c) (i) only

d) Neither (i) nor (ii)

Q9. Consider the following statements:

I. Government disinvesting its share in various public sector undertakings
II. Process of disinvestment is very fast
III. Process of disinvestment is very slow and government always falls short of target

Which of above statements is/ are true about government policy of disinvestment
a) I and II

b) Only I

c) I and III

d) I, II and III

Q10. 'Basel III' norms target at which of the following?

- Improve the banking sector's ability to absorb shocks arising from financial and economic stress.
- Improve risk management and governance.
- Strengthen banks' transparency.

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

b) 1 only

c) 1 and 2 only

d) 1, 2 and 3

Q11. "**Central Government Debt**" includes which of the following?

i. Outstanding liabilities on the security of the Consolidated Fund of India
ii. Outstanding liabilities in the Public Account of India
iii. Off-budget liabilities

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

Q12. Consider the following statements in regard to the **Goods and Service Tax**:

- The GST shall have two components: one levied by the centre, and the other levied by the states.
- The central GST and state GST are to be paid to the joint accounts of the centre and the states.
- While the imports would be zero-rated, the exports would be subjected to the GST.

Which of the above statements is/are **correct**?
a) 1 and 3

b) 1 only

c) 2 and 3 only

d) 1 and 2 only

Q13. The largest tax collected at the federal government level is the:

a) Property tax

b) Income tax

c) Sales tax

d) Social security tax

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Answers to the above questions :

Q1. Answer: (b)

Q2. Answer: (d)

The Income Tax department has launched a special electronic grievance redressal system called ‘e–nivaran’ in order to fast track taxpayer grievances and ensure early resolution of their complaints.

Q3. Answer: (c)

Q4. Answer: (a)

Consider an example to understand GST in a better way (GST rate 18%):

Consumer 100 + 118 300 + 54 Tax = Rs.18 Tax

= Rs. 36 (Rs.54 - Rs.18) (CGST = 9, SGST = 9) (CGST = 18, SGST = 18) Govt. Govt.

In the above example, A is doing a value addition of Rs. 100 and selling the product to B in Rs. 118 and paying Rs. 18 GST to the government. B is doing a value addition of Rs. 200 and is paying Rs. 36 GST to the government. Since GST is a value-added tax, so every entity in the value chain shall pay the government tax only on their value addition.

Practically B shows the invoice of Rs. 354 to the government and pays a tax of Rs. 54 to the government but when it produces the tax receipt obtained from A to the government worth Rs. 18 then government credits/refunds Rs. 18 to B. This is called Input Tax Credit Mechanism as the taxes paid by B on the purchase of inputs from A i.e. Rs. 18 is credited by the government back to B.

Since there is only one tax i.e. GST and credits of input taxes paid at each stage is available in the subsequent stage of value addition across India (whereas in the case of VAT input credit was available only within the State), hence it will prevent the dreaded cascading effect of taxes. This is the basic feature and advantage of GST.

Important aspects regarding the implementation of GST:

If A belongs to one State (say UP) and B and the consumer belong to another State (say Bihar) then all the State GST i.e. Rs. 9 and Rs. 18 (=Rs. 27) will be passed on to the State where the product is being consumed by the consumer

i.e. Bihar and the State where A belongs i.e. UP will not get any SGST.

This is why GST is also called consumption-based and destination-based tax as all the SGST is passed on to the consuming State i.e. Bihar.

If A and B belong to different states then rather than GST, IGST will be levied by the Centre on the transaction between A and B which is again equal to the sum of CGST and SGST and ultimately distributed to the Centre and the consuming State equally. Practically everything remains the same, only the tax name changes to Integrated GST (IGST)

If B, rather than selling the product to the consumer in India, exports the products then IGST will be imposed as IGST is levied on inter-State supplies. The GST paid in the entire value chain and the IGST paid at the border is refunded/credited back to the suppliers. So effectively there is no tax on exports and hence we say that exports are "zero-rated" supplies. Supplies to SEZs are also zero-rated.

If a trader is importing a product into India then he will have to pay first customs duty and then IGST on the imported product as imports are also considered to be InterState supplies.

Q5. Answer: (c)

Q6. Answer: (d)

Bihar is the first state to impose agricultural income tax in India. 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.

Agricultural Income-tax treatment: It is characterised as a valid source of income from sources that comprise Agriculture land, buildings on or related to Agricultural land card commercial product from an Agriculture land.

Q7. Answer: (d)

Q8. Answer: (b)

The government's fiscal policy has a big role in stabilizing the economy during business cycles. The two important phases of business cycles are boom and recession. A recession should not be allowed to grow into a deep recession.

Similarly, a boom should not explode bigger. We may say that amplifying the business cycle is dangerous (growing boom and deepening recession).

Practically fiscal policy responses using taxation and expenditure can go in two ways in response to the business cycle: Countercyclical and pro-cyclical.

Business Cycle Fiscal Policy Boom Recession Pro-Cyclical Expenditure increases Tax decreases Expenditure decreases Tax increases Counter-Cyclical Expenditure decreases Tax increases Expenditure increases Tax decreases

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Q9. Answer: (c)

The government of India is disinvesting its share from public sector undertakings. Most of the government undertakings were incurring losses during the pre liberalization period.

Hence, after the introduction of new economic policy in 1991, the government started downsizing its share in PSU. But the process of disinvestment is very slow due to a host of legal and political hurdles.

Q10. Answer: (d)

Basel III is basically a regulatory accord designed specifically for the banking sector. It aims to improve the supervision, regulation and risk management within the sector. It also targets at strengthening the transparency of the banks.

Q11. Answer: (d)

As per the FRBM Act 2003, Central Government debt includes the following:

Total outstanding liabilities of the Central Government on the security of Consolidated Fund of India, including external debt. (This is also called Public Debt)

The outstanding liabilities in the Public Account of India

Such financial liabilities of any corporate or other entity owned or controlled by the Central Government, which the government is to repay or service from the Annual Financial Statement.

(This is also called off-budget liabilities, explained later)

Q12. Answer: (b)

The Goods and Services Tax (GST) is a Value Added Tax (VAT) replacing all indirect taxes levied on goods and services by the Indian Central and State governments.

India is a federal republic, and the GST is thus implemented concurrently by the central and state governments as the Central GST and the State GST respectively.

Exports will be zero-rated and imports will be levied the same taxes as domestic goods and services adhering to the destination principle.

Q13. Answer: (b)

Roughly 80% comes from the individual income tax and the payroll taxes that fund the social insurance programmes.

Another 11% comes from corporate income tax and the rest is a form of a mixed course.