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Excise Duties and its Effects On International Trade

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Abstract: The need to increase governmental revenue in the economies of underdeveloped countries is keenly felt, but it is not clear how to do it quickly. In the underdeveloped countries the tax system of is characterized exclusively on the fact that it does not provide high revenues to the Government, not only in absolute value but also in relative value to national income. For countries with low income the median percentage of central government revenue to national income was less in comparison with high incomed countries. In the underdeveloped countries the low level of tax revenue is explained on the basis of low tax rates and the difficulties faced in collecting taxes due to the poor development of the monetary sector, illiteracy, absence of systematic accounting, insufficient fiscal organization, tax evasion and embezzlement, the existence of rules of social conduct that do not require voluntary submission, and political influences.

Studies or hands on expertise show that it is easier for the underdeveloped countries to collect indirect taxes than the direct taxes. However, to expand the finance & economic and control inflation, the implementation of a progressive direct tax system is necessary. The proportion of total revenue from direct taxes is low. The Direct tax systems in underdeveloped countries are similar to those in developed countries. For personal income taxation, both, the schedule method and the unitary tax system are applied. In practice, the difference between the two systems has diminished.

In many countries capital gains taxes are starting up to be applicable, but property taxation are declining in importance. In most underdeveloped countries, taxes on foreign trade (import duties, export duties and exchange taxes) play an important role; in many countries this category accounts for between 25 and 50 percent of total revenue. In addition, taxes have a significant return; they hit products such as tobacco, alcoholic beverages, matches, petroleum and its derivatives.

Governments have used export duties and market stabilization funds as counter-cyclical fiscal measures to cushion the effects of fluctuations in exports on the domestic economy. Tax systems that work in one country may not work in another. However, there are three avenues in which Governments could progress, namely, the basics of the tax system, tax administration and the social and political will, to succeed.

Excise duty is a form of indirect tax that is levied by the Central Government for the production, sale, or license of certain goods. Excise duty charges are also collected by state governments for alcohol and narcotics. It is a kind of indirect tax charged on the sale of certain products. The customer does not pay excise duty directly to the authorities, but it is added to the cost of the product by the producer or merchant and then passed on to the consumer by way of increased prices.

Types of Excise Duty

Basic Excise Duty: Basic Excise Duty is levied under Section 3 of the Central Excises and Salt Act, 1944. Under this section, all excisable products apart from salt, all other manufactured or produced products in India, are subject to Basic Excise Duty. Central Value

Added Tax or CENVAT, as it is also called, is charged at the rates mentioned in the Central Excise Tariff Act.

Special Excise Duty: is charged under Section 37 of the Finance Act, 1978. It is levied on all excisable products that are subject to Basic Excise Duty under Section 3 of the Central Excises and Salt Act, 1944. The rate at which Special Excise Duty is charged is mentioned in the Second Schedule to Central Excise Tariff Act, 1985.

Education Cess on Excise Duty: According to Section 93 of Finance (No. 2) Act, 2004, Education Cess is an excise duty that must be computed on the aggregate of all excise duties including special excise duty or other excise duties, but not including Education Cess of excisable goods.

Natural Calamity Contingent Duty: Section 136 of the Finance Act, 2001, has imposed the Natural Calamity Contingent Duty under clause 129 of the Finance Bill, 2001. The Natural Calamity Contingent Duty is charged on cigarettes, chewing tobacco, and pan masala.

Excise Duty in case of clearances by Export Oriented Units: The Export Oriented Units have an obligation to export all the goods produced by them. However, if their final product is cleared in a domestic tariff area, the rate at which excise duty is charged will be the same as customs duty on a similar article if imported in India.

Duties under other Acts: Certain duties as well as cesses are charged on manufactured goods under other Acts. The taxes, however, are collected under the administrative machinery of central excise. The rules and provisions of the Central Excise Act are responsible for the levy as well as collection of these duties and/or cesses.

Additional Duty on Goods of Special Importance: Additional Excise under Additional Duties of Excise (Goods of Special Importance) Act, 1957 is levied on certain goods of special importance. The 'Additional Duty' is charged along with excise duty. The Additional Duty on Goods of Special Importance scheme was implemented due to the suggestions made to the Government by manufacturers. The suggestions were made to avoid multiple taxes and duties at different levels. The levy of all taxes as well as their collection at one stage by one authority was expected to make it convenient to not only pay the tax, but to also administer it. Therefore, the Central and State Governments agreed to charge additional duty on certain items instead of charging sales tax. The additional duty was distributed among different states, and the State Government share the revenue from this duty based on the percentages specified in the second schedule of the Act.

Additional Customs Duty commonly known as Countervailing Duty (CVD): This duty is charged on imports.

Additional Duty on Mineral Products: Under the Mineral Products (Additional Duties of Excise and Customs) Act, 1958, additional duty must be paid on mineral products such as motor spirit, furnace oil, diesel and kerosene.

Duty on Medical and Toilet Preparations: Under the Medical and Toilet Preparations (Excise Duties) Act, 1955, excise duty is charged on medical preparations.

Special Additional Duty of Customs: Special Additional Duty of Customs is charged on items that are bound under the Information Technology Agreement (apart from information technology software), and also on certain raw materials or inputs for the manufacture of IT or electronic products.

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Reasons for collection of Excise Duty/ Importance

Excuse duty, or excise tax, is an imposed tax on particular goods, products, activities, or services at purchase. Although businesses are responsible for collecting excise taxes and sending them to the proper authorities, the cost of the tax is typically passed on to the consumer in the form of increased prices. At times, consumers wont be aware that they are taking on the cost of excise duty in their purchase.

- Excise taxes are a good way to generate revenue without increasing income or sales taxes, which is often seen as a politically charged move.
- The money collected from excise taxes most often goes towards maintaining the systems or processes used by those paying the tax.
- Excise taxes can deter consumers from using certain products. This may be for health reasons (excise taxes on tobacco or alcohol) or environmental reasons (excise taxes on chemicals and gasoline).

Excise taxes can be charged in one of the following ways:

- Percentage of Price: Also known as an ad valorem tax, percentage of price excise taxes are charged as a set percentage of the total value of the product or service.

- Per Unit Tax: Under per unit tax, or a specific excise tax, an excise tax is charged for each unit sold regardless of the base price.

People and corporations are required to pay levies on imports and exports to the governments in the form of customs duties and other taxes. This is done in order to collect revenue and to satisfy other economic reasons. Duties are enforceable by law and may be imposed on commodities or financial transactions instead of individuals. Duty rates are a percentage determined by the total value of the goods paid for in another country.

Excise duties provide a form of commerce protection for jobs, the economy, the environment, and other interests by controlling the inflow and the outflow of merchandise. It may also be someone's moral or fiduciary responsibility. Excise duty rates are defined as a percentage determined by the total value of the goods paid for in another country. The quality, size, or weights of the product are not determining factors the only factor that decides the Excise duty is the percent termed on the total value of the product irrespective of the other parameters. The Harmonized Tariff System of the Government is taken as a reference for applicable tariffs on merchandise imported to the country. Thus drastically adding to the country's revenue. Excise duties have two distinct purposes: raise income for the local government and to give a market advantage to locally grown or produced goods that are not subject to import duties. A third related goal is sometimes to penalize a particular nation by charging high import duties on its products.

Conclusion:

Countries that are open to international trade tend to grow faster, innovate, improve productivity and provide higher income and more opportunities to their people. As Excise duty is levied on worth price of the product it opens trade benefits and also benefits lower-income households by offering the consumers more affordable goods and services. By focusing on duty only on Import goods it integrates with the world economy through trade and global value chains thus helping to drive economic growth and reducing poverty—locally and globally. With its streamlined procedure it makes easier customs clearance across the borders.

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