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A tax is a compulsory payment from a person to the government to defray the expenses incurred in the common interest of all.

In the process of taxing three concepts are involved.

Firstly, a tax may be imposed on some person secondarily it may be wholly or partially transferred by him to another person/persons.

Thirdly, it may be ultimately borne by the same person or the second person or transferred to other.

Hence in this way three words are used in the process of taxation, i.e impact, incidence and shifting.

The impact of tax is the immediate money burden on the person who pays the tax to the authorities.

The process of the transfer of a tax from one person to another is called the shifting of the tax.

The incidence of the tax is the final settlement of the burden on the ultimate tax payers who actually pays the tax.

Thus the study on incidence, impact & shifting of tax is crucial to determine the social and economic effects of a particular tax.

IMPACT OF A TAX → Impact of a tax is the immediate money burden of the tax.

The impact of a tax is on the person on whom

it is imposed first,
thus the person who is liable to pay the tax to government bears its impact.
For eg - If a tax is levied on the producer of clothes, he is said to bear the impact of tax. The producer can however raise the price of its products in an attempt to pass whole or part of the tax on the cloth buyers, thus the incidence is said to be on buyers but the impact is only on the producer as he is responsible for paying taxes to the government.
Thus the impact of a tax is on the producer person who has to find the money and deposit it in state treasury.
According

SHIFTING OF TAX → shifting of taxation is the process by which the money burden of a tax is transferred from one person to another.
The incidence of a tax depends upon to what extent the money of the tax is shifted to another person.
Generally tax shifting is of two types -
(a) Single point shifting - In this case a producer shifts the burden of a tax on his product to the consumer's shoulders. The producer thus passes the burden of tax to the consumer in shape of high prices.
(b) Multipoint shifting - Here a producer shifts the burden of tax from one point to several points

In this situation when government imposes an excise duty on cloth, it is paid by the producer in the first instance, but producer further shifts the burden to the wholesale dealer who in-turn shifts to the retailer & finally to the consumer

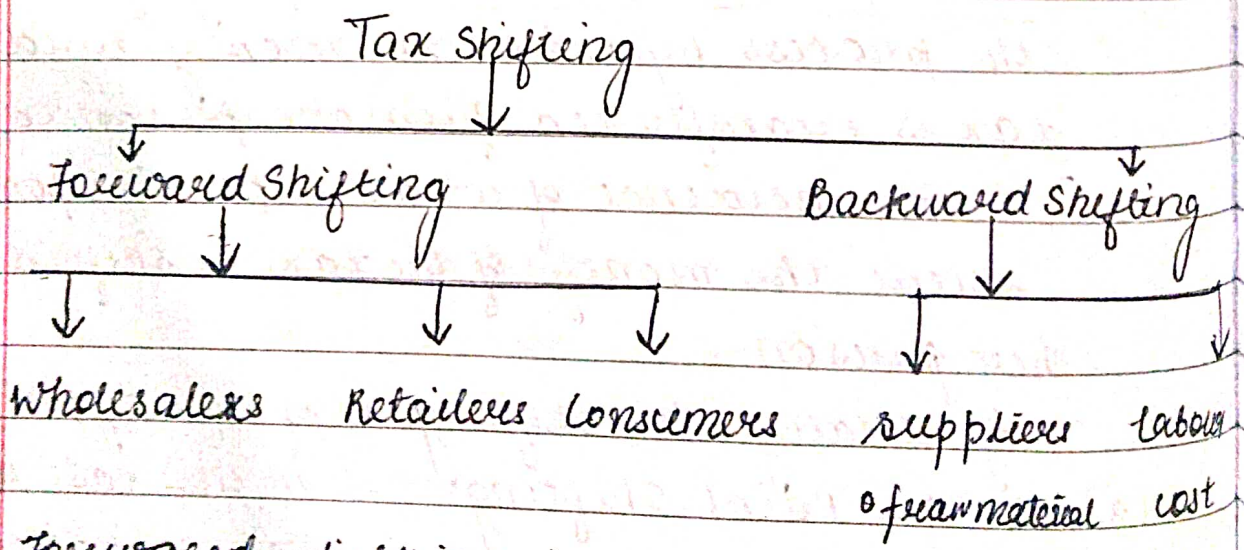
Process of Tax shifting :

There are three main ~~pur~~ processes of tax shifting.

Shifting of Tax;

1. Forward & Backward Shifting - The shifting of tax is done through manipulation of price of the taxed commodity

This type of shifting takes place in two direction Forward & Backward shifting



Forward shifting is the most common form of tax shifting.

It takes place when the producer of a commodity shifts the money burden of a tax onwards to the middleman, wholesaler, retailer & customers.

In forward shifting, the price is so raised or quality & quantity of the commodity are reduced that the entire amount of tax is shifted from the original tax payer to the consumers.

Backward shifting occurs when the taxed the commodity is shifted backward to the factors of production.

Thus under backward shifting price remains unchanged & tax burden is borne by factor inputs.

Let us suppose that a tax is imposed on the wholesaler of a commodity. The wholesaler could not secure higher prices, but tax induces him to force his workers to accept lower wages or force other factors of production to accept lower remunerations.

2. Shifting Through Price – Shifting of tax is usually done through price. A seller always tries to raise the productivity of the commodity to shift the tax burden on the consumer. The ability of tax shifting depends on economic factors.

3. Shifting Through Tax Capitalisation → Tax capitalization is a special type of backward shifting. It occurs in cases where goods are durable ones & thus are subject to a series of successive annual tax during their lifetime.