

INTRODUCTION TO TAXATION

Definition of Taxation

- 'Compulsory contribution to the support of the government, levied on persons, property, income, commodities, transactions, etc.'
- Tax are also called:
 - o Duties
 - o Levies
 - o Tariffs
 - o Charges
- Taxpayers are compelled by law to pay taxes even though they may not necessarily receive any direct benefit from it.
- GST was introduced in Australia in 2000

Functions of Taxation

- Revenue raising function
 - o Redirects resources from citizens to government
 - o Provides government with revenue for use in its spending programs
- Social and political functions
 - o Used to promote government objectives
 - Tax incentives – encourage certain behaviour
 - Tax burdens – discourage certain behaviour
- Economic Functions
 - o Modifies consumer behaviour
 - Higher taxation leads to less spending
 - Lower taxation leads to more spending
- Redistribution function
 - o Redistributes wealth among citizens

Tax system design

- Tax system underpins a country's economic, social and political stability
 - o Unpopular taxes can lead to social and political unrest
- Society more likely to accept taxation if it:
 - o They can see the benefits and has a direct effect on them
 - o Considers the level of tax appropriate

Adam Smith Maxims

- The amount of tax paid relies on the revenue incurred by an individual.
- Tax is meant to take as little as possible, but enough from everyone needed by the State

Features of a good tax system

- Clear fiscal and policy objectives, Simplicity, Stability, Transparency and Integrity, Efficiency and flexibility, Neutrality, Equity.

Structural features of Tax

- Taxpayers: The legal entities who are liable to pay the tax and from whom unpaid tax can be recovered
- Tax Base: The property, transaction, activity or concept on which the tax is imposed
- Tax period: the period in relation which tax is paid
- Tax rates: May be single rate (flat rate) or differing rates (progressive rates)