



- Governments have no money of their own
- They obtain money through taxes
- Adam Smith, in his famous book “The Wealth of Nations” (1776) stated that there are 4 “canons” of taxation
- They were that taxes should:
 - Be fair
 - Be cheap to collect
 - Be easy to pay
 - Be certain, so you know what you have to pay

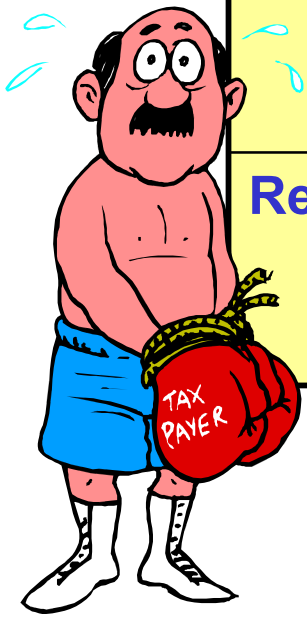




Systems of Taxation

- There are 3 types of tax systems that governments can use:

Proportional	A tax where people pay the same proportion of their income in tax, irrespective of their income or spending
Progressive	A tax where people who earn more have a higher proportion of their income taken from them in tax
Regressive	A tax where people who earn less have a higher proportion of their income taken from them in tax





Types of Taxation

● There are two broad types of taxation:

■ Direct Taxes:

- ◆ Taxes charge on individuals or organisations that are paid directly to the government
- ◆ These tend to be **progressive**

■ Indirect Taxes:

- ◆ Taxes charged on goods and services that are paid to a third party in the first instance
- ◆ These tend to be **regressive**





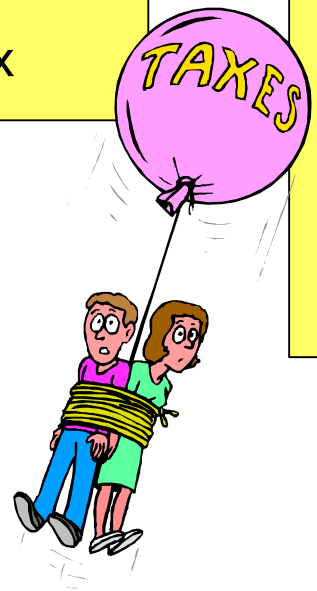
UK Taxes

Direct

- Income Tax
- National Insurance
- Corporation Tax
- Inheritance Tax
- Capital Gains Tax
- Council Tax

Indirect

- Value Added Tax (VAT)
- Excise Duties
- Air Passenger Duty
- Betting & Gaming Duty
- Insurance Premium Tax
- Stamp Duty
- Vehicle Excise Duty
- Landfill Levy
- Climate Change Levy





The Effects of Taxation

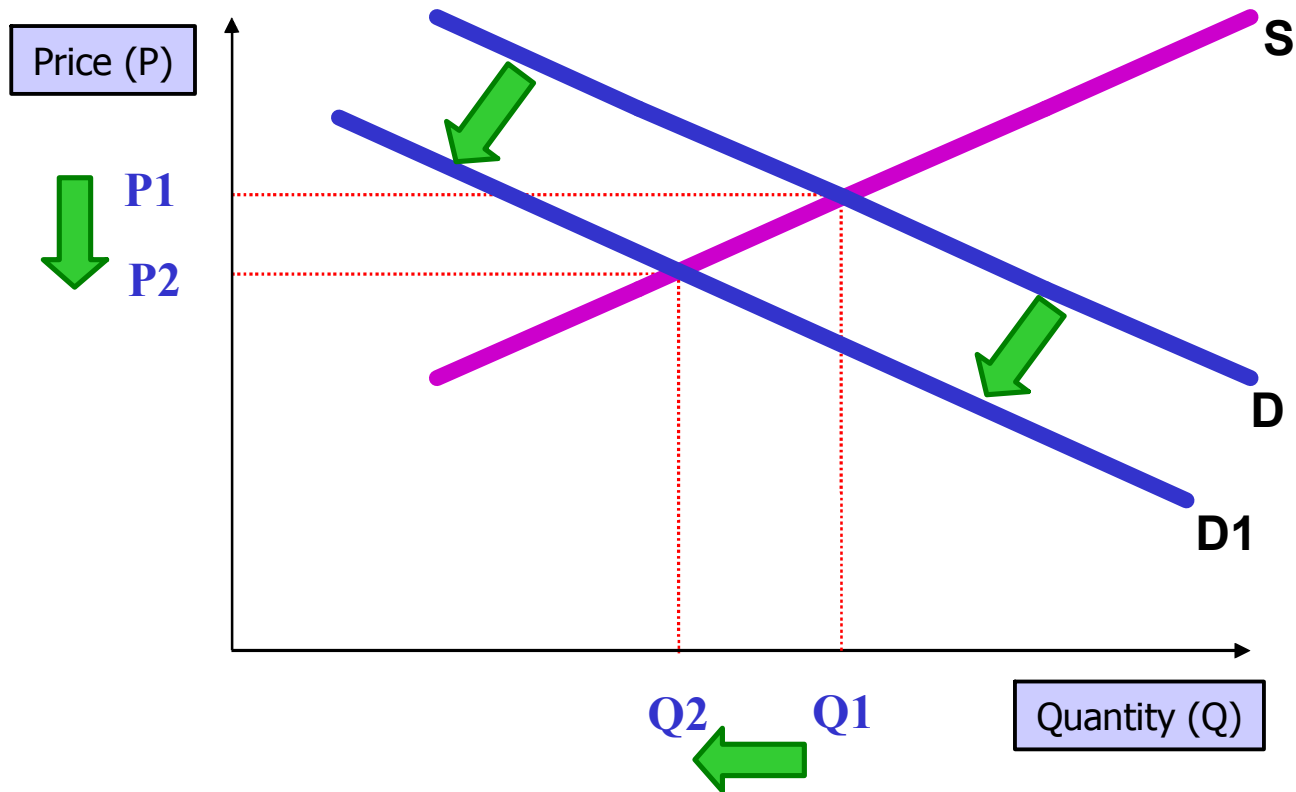


- Taxation is another form of government intervention
- As such it will effect supply and demand
- There are 2 main impacts to be aware of:
 - The effect of income tax
 - The effect of corporation tax
- To see the effect of taxation we must return to our theories of demand and supply



The Effect of Income Tax

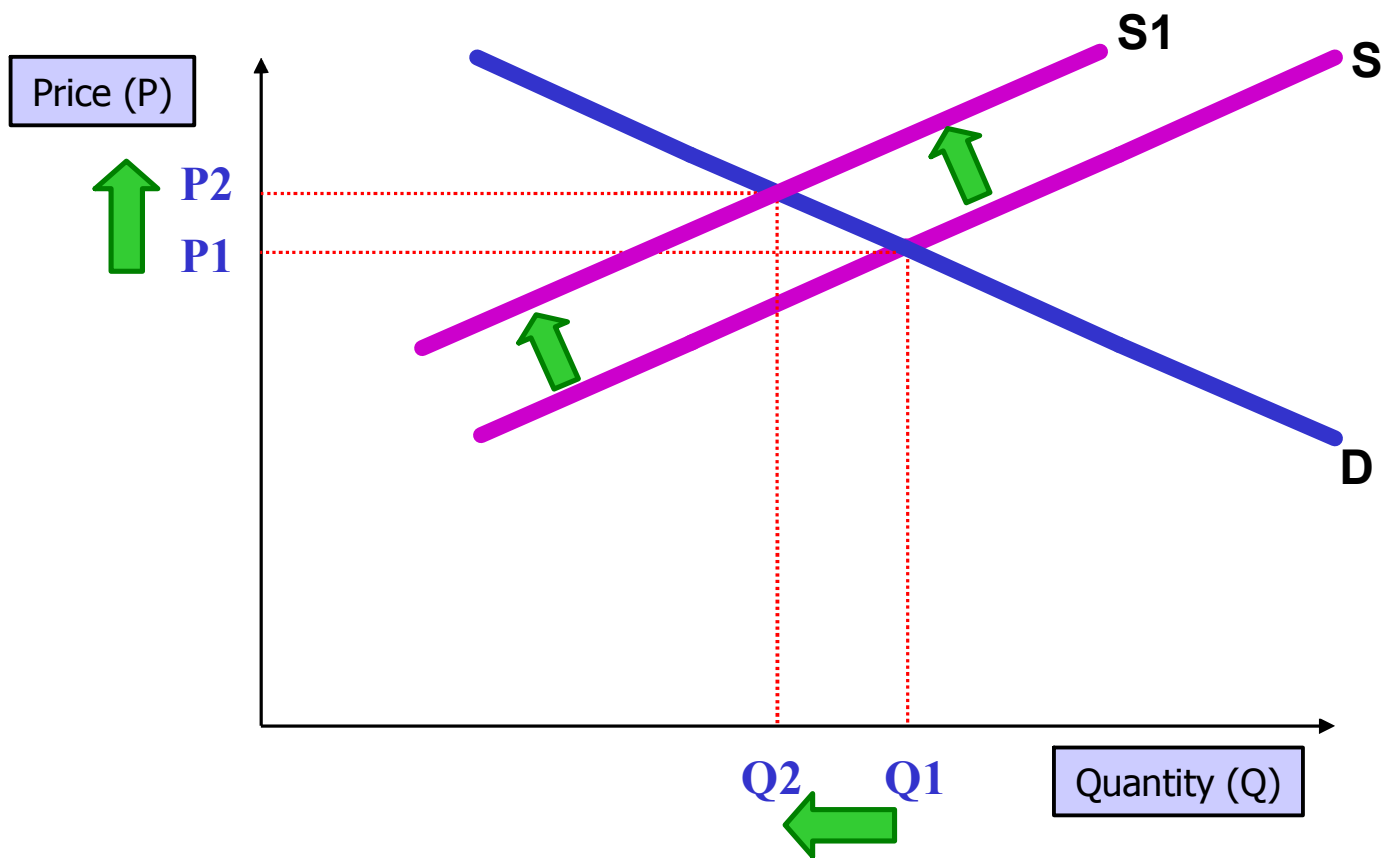
- If people have to pay more tax, then they will have less money to spend
- The demand curve will shift as follows:





The Effect of Corporation Tax (1)

- Corporation tax is a tax on company profits
- So any increase would shift the supply curve:



The Effect of Corporation Tax (2)



- However, some of this can be passed on to consumers in the form of higher prices
- The proportion paid by consumers can be shown:

