

Intro: this Study Guide explains the various economic and social purposes of taxation.

Fundamental purpose of taxation: to finance government expenditure

Purpose (economic, social etc.) of taxation in a modern economy

Economic purpose is to finance government spending & to decide the portion of economic resources that have to be left for the private sector after the government has fulfilled its spending plans.

Government imposes taxation policies

Encourage		Discourage	
<ul style="list-style-type: none"> ▪ Saving by individuals ▪ Entrepreneurs taking risk in investments ▪ Entrepreneurs building their own business ▪ Donations to charities ▪ Investment in industrial buildings (e.g. factories, warehouses) 		<ul style="list-style-type: none"> ▪ Motoring ▪ Smoking and alcohol ▪ Office buildings 	

Environmental concerns (Green taxes): the government aims to protect the environment through taxation and spending policies. These policies include:

- Taxation on vehicles and fuel provided by companies: taxable benefits are based on the CO₂ emissions.
- Climate change levy which relates to the proportion of energy consumed by businesses.
- Landfill tax charged on operators of landfill sites to encourage recycling.



Overall Function & Purpose of Taxation in a Modern Economy 1

The UK Tax System 2



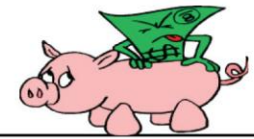
Social purpose: Taxation policies are used to encourage social justice

Principles of social justice

The progressive / regressive principle

Progressive	Regressive
As income rises, proportion of tax increases	As income rises, the proportion of tax decreases

The income / capital / expenditure principle

Income	Capital	Expenditure
<p>Tax is payable by people who have income, the people with lower income can be taken out of the tax net by using the personal allowance & effective tax rates</p>	<p>Tax on capital ensures that people cannot avoid tax by having no income & living off the disposal of capital assets</p>	<p>Tax on expenditure is only incurred by those who spend, not those who save</p>
		

Ability to pay / benefit principle


Ability to pay	Benefit
Tax is only paid by those who have the income to pay	People should only contribute to the types of government expenditure from which they will benefit

Intro: this Study Guide explains the different types of taxes levied on the public. It introduces capital & revenue taxes & the core difference between direct & indirect taxation.

Capital & revenue taxes

Revenue taxes: levied on income of an individual

Capital taxes: levied on profit on sale of assets / transfer of assets

Revenue taxes		Capital taxes	
Tax	Suffered by	Tax	Suffered by
Income tax	Individuals, partnerships	Capital gains tax	Individuals, corporations (tax paid on profit from the sale of an asset / gains)
Corporation tax	Companies		Inheritance tax
NIC	employees, employers, individuals and partners		Individuals
VAT	Final consumers of a product		

Different Types of Taxes 3

The UK Tax System 4

Direct & indirect taxes

Direct taxes	Indirect taxes
<ul style="list-style-type: none"> ▪ Tax on income or capital ▪ Imposed directly on taxpayer ▪ Progressive ▪ E.g. income tax, corporation tax, NIC 	<ul style="list-style-type: none"> ▪ Tax on spending ▪ Imposed on what people spend rather than what they earn ▪ Regressive ▪ E.g. VAT, stamp duty

