Research Journal of Economics

Editorial A SCITECHNOL JOURNAL

Different Types of Taxation

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Received date: December 08, 2021; **Accepted date:** December 22, 2021; **Published date:** December 30, 2021

Editorial Note

An amount of money levied by a government on its citizens and used to run the government, the country, a state, a county, or a municipality is called Tax. Taxation, a system of raising money to finance the government. All governments require payments of money taxes from people. Governments use tax revenues to pay soldiers and police, to build dams and roads, to operate schools and hospitals, to provide food to the poor and medical care to the elderly, and for hundreds of other purposes. Without taxes to fund its activities, the government could not exist. Taxation is the most important source of revenues for modern governments, typically accounting for 90 percent or more of their income. The remainder of government revenue comes from borrowing and from charging fees for services. A proportional tax takes the same percentage of income from all people. A proportional tax is one in which whatever the size of income, same rate or same proportional % is charged. If all taxpayers have to pay to say 1% of their income as the tax is known as the Proportional tax. A progressive tax takes a higher percentage of income as income rises rich people not only pay a larger amount of money than poor people but a larger fraction of their incomes. The principle is 'higher the income; higher the rate. A regressive tax takes a smaller percentage of income as income rises poor people pay a larger fraction of their incomes in taxes than rich people. It is the opposite of the progressive tax. Community tax, when government increases sugar rate from 60 Rs/kg to 70 Rs/kg, it is for both poor and rich but it is the burden on poor people. A tax is called digressive when the higher incomes do not make a due sacrifice, or when the burden imposed on them is relatively less *i.e.* the tax may be progressive up to a certain limit beyond which a uniform rate is changed. So there will be a lower relative sacrifice on the larger incomes than on the smaller incomes. Governments impose many types of taxes. In most developed countries, individuals pay income taxes when they earn money, consumption taxes when they spend it, property taxes when they own a home or land, and in some cases estate taxes when they die. An individual income tax, also called a personal income tax, is a tax on a person's income. Income includes wages, salaries, and other earnings from one's occupation; interest earned by savings accounts and certain types of bonds; rents (earnings from rented properties); royalties earned on sales of patented or copyrighted items, such as inventions and books; and dividends from stock. Income also includes capital gains, which are profits from the sale of stock, real estate, or other investments whose value has increased over time. Each taxpayer must compute his or her tax liability the amount of money he or she owes the government. (This computation involves four major steps. The taxpayer computes adjusted gross income one's income from all taxable sources minus certain expenses incurred in earning that income. The taxpayer converts adjusted gross income to taxable income the amount of income subject to tax by subtracting various amounts called exemptions and deductions. Some deductions exist to enhance the fairness of the tax system. For example, the U.S. government permits a deduction for extraordinarily high medical expenses. Other deductions are allowed to encourage certain kinds of behavior. For example, some governments permit deductions of charitable contributions as an incentive for individuals to give money to worthy causes.

Consumption Taxes

The taxpayer calculates the amount of tax due by consulting a tax table, which shows the exact amount of tax due for most levels of taxable income. People with very high incomes consult a rate schedule, a list of tax rates for different ranges of taxable income, to compute the amount of tax due. The taxpayer subtracts taxes paid during the year and any allowable tax credits to arrive at final tax liability). After computing the amount of tax due, the taxpayer must send this information to the government and enclose the amount due. In 2001 the average taxpayer in the United States paid about 15 percent of his or her income in income taxes.