

Rate Schedule of Taxation

Every form of government needs resources for the nation's development. It is by taxing its citizens the government generates revenue to meet its expense for nation's developmental activities.

In the literature of public finance, taxes have been classified in various ways and criteria. On the basis of tax rate, taxes are most commonly classified into the following types:

1. Proportional Taxes
2. Progressive Taxes
3. Regressive Taxes
4. Degressive Taxes

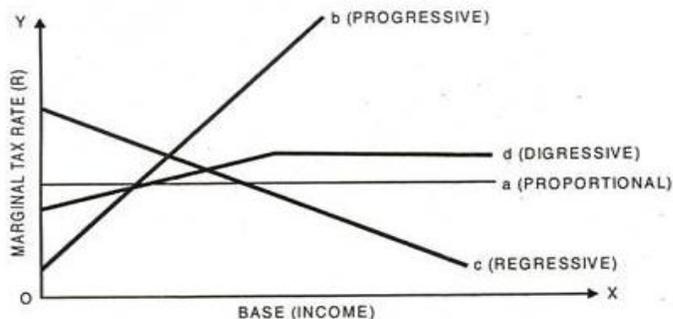
1. Proportional Taxes: A tax that takes the same percentage of income from all income groups. Since Proportional tax is charged at a flat rate for everyone, whether earning higher income or lower income, it is also called flat tax. Proportional tax is based on the theory that since everybody is equal, taxes should also be charged the same way. The sales tax is an example of a proportional tax.

2. Progressive Taxes: A tax that takes a larger percentage of income from high-income groups than from low-income groups. Here individual who get high income pay higher proportion of their income as tax. Thus, Income Tax tax on interest earned, rental earnings, etc are example of progressive tax.

3. Regressive Taxes: A tax that takes a larger percentage of income from low-income groups than from high-income groups. In other words, Regressive Taxes is a tax in which people with higher incomes pay a smaller share of their income in tax. Among many others, examples of a regressive tax include sales tax, property tax, excise tax, tariffs and government fees.

4. Degressive Taxes: In digressive taxation, a tax may be progressive up to a certain limit but after that it may be charged at a flat rate. In other words, degressive tax is a mix of between the progressive tax and proportional tax. In the case of degressive tax, the tax rate is increased firstly with increase in income and then, the rate remains flat or constant with further increase in income. This type of tax rate is usually applied in income tax.

Diagrammatically, differences in progressive, proportional, regressive and degressive taxation are shown in below figure:



The above figure depicts the proportion of income taken away in taxation under different tax rates. Tax line a represents a progressive tax rate, tax line b represents a proportional tax rate, tax line c shows a regressive tax rate and tax line d denotes a degressive tax rate.

The proportional tax rate has a constant slope, graphically, while the progressive tax rate has a rising positive slope. The steeper the slope of the tax line, the progressive the tax regime. The regressive tax rate line has a declining negative slope. The steeper the negative slope of the tax line, the more regressive the taxation. The degressive tax rate line has a rising slope initially, but it becomes constant after a point.