

Government Economics (Public Finance) [Unit 8]

Econ-Hub

Combined

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KEY TO SUCCESS

'SHOW YOUR GRIT'

	Essentials Area	Selected Questions [for Econ-Hub Answer Review Process]
	Essentials [1]	02, 06, 08, 12, 14, 15 & 16
	Essentials [2] – [3]	02, 04 & 07
	Essentials [1] – [3]	All MCQs

Government Economics

Government Revenue (Taxation)

[Unit 8] [Chapter 2...]

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Tax Concepts

- ❑ Tax Base
 - ❑ Tax Rate
 - ❑ Average Tax Rate [ATR]
 - ❑ Marginal Tax Rate [MTR]
 - ❑ Progressive Taxes
 - ❑ Regressive Taxes
 - ❑ Proportionate Taxes
 - ❑ Shifting of Tax Burden & Tax Incidence [STI Vs. ETI]
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- ```
graph LR; ATR_MTR[ATR, MTR] -.-> ATR[Average Tax Rate [ATR]]; ATR_MTR -.-> MTR[Marginal Tax Rate [MTR]]; PT[Progressive Taxes]; RT[Regressive Taxes]; PT_T[Proportionate Taxes]; TRS[Tax Rate Structures]; PT --- BRACKET[]; RT --- BRACKET; PT_T --- BRACKET; BRACKET -.-> TRS; TRS -.-> ATR_MTR;
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SM (P): 34

# **TYPES OF TAX COMPLIANCE**

- (1) Compliance in tax filing:**
  
- (2) Compliance in tax payments:**
  
- (3) Compliance in tax reporting:**

## Special Note

# LOW TAX COMPLIANCE IN SL: OUTLINE OF PRINCIPAL REASONS

- Complicated tax structure
- High value of marginal tax rate
- Lack awareness of tax liability
- Problems with social perception towards tax evasion (society accepting tax evasion as a norm)
- Problems with neutrality and equality of the tax system
- Inefficiency of tax administration

SM (P): 35

# TYPES OF TAX RATES

**Average Tax Rate (ATR):**

**Marginal Tax Rate (MTR):**

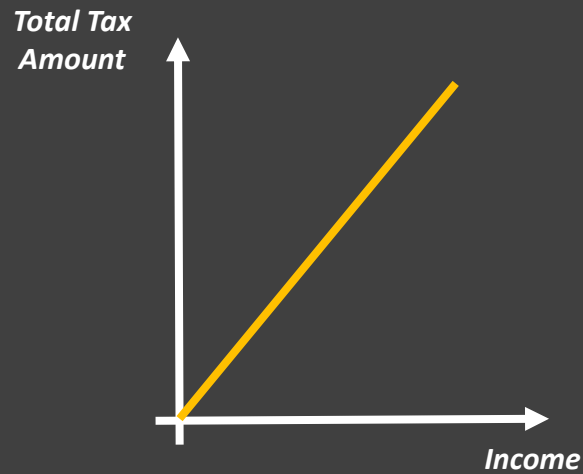
# PROPORTIONATE TAXES

- A proportionate tax rate structure refers to a situation where the tax rate remains constant even as the tax base (or income) increases.

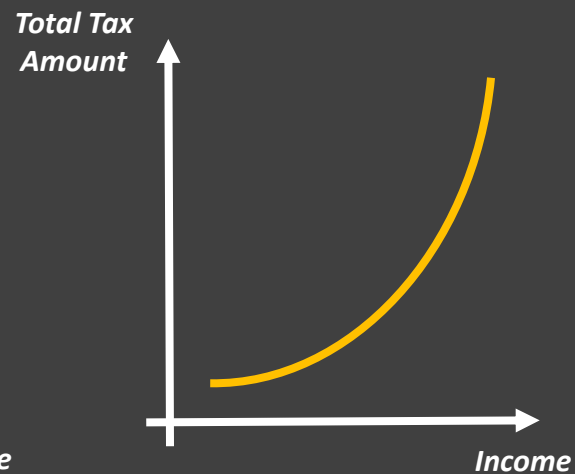
**Note on Progressive & Regressive Tax in Study Material**



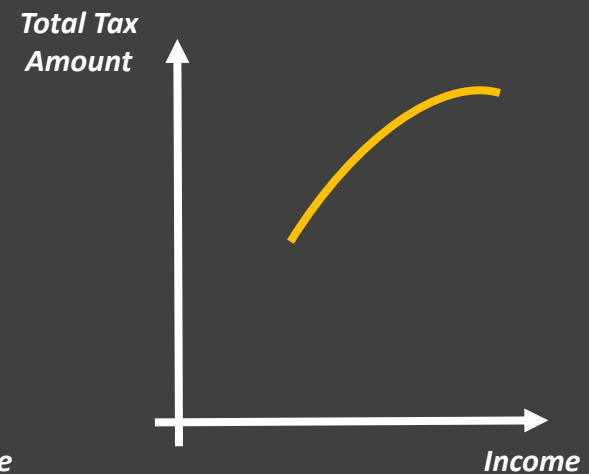
# Types of Tax Rate Structures



*Proportionate Tax*



*Progressive Tax*



*Regressive Tax*

# Learning Keys

## Tax Incidence:

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Exact placement of the tax burden [‘who is supposed to and actually pays, and how much of the tax’]

### Statutory (Legal) Tax Incidence (STI)

- ❑ Who is legally responsible for the tax
- ❑ Administrative and immediate tax burden

### Economic Tax Incidence (ETI)

- ❑ Change in the distribution of private real income, due to the tax
- ❑ Actual burden of a tax is the economic burden
- ❑ Ability ‘shift the tax burden’, change in mkt. price ( $\Delta P$ )
- ❑ Nature of the market, price elasticity [PED] & [PES]

SM (P): 39

# INDIRECT TAX

Taxes implemented on goods and service are generally or practically identified as indirect taxes

SM (P): 40

# **SOURCES OF NON-TAX REVENUE OF GOSL**

**Government Economics**  
**Government Budgetary Process**  
**& Related Issues**  
**[Unit 8] [Chapter 3]**

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# PUBLIC DEBT SERVICING RATE

$$\text{DSR} = \frac{\text{DEBT SERVICING PAYMENTS}}{\text{NOMINAL GDP AT MARKET PRICE}} \times 100$$

$$\begin{array}{l} \text{Debt} \\ \text{Servicing} \\ \text{Payments} \end{array} = \begin{array}{l} \text{Amortization /} \\ \text{Installment} \\ \text{(Capital Repayment)} \end{array} + \begin{array}{l} \text{Interest} \\ \text{Component} \end{array}$$

# FOREIGN DEBT SERVICING RATE

$$\text{FDSR} = \frac{\text{FOREIGN DEBT SERVICING PAYMENTS}}{\text{EXPORT INCOME}} \times 100$$

SM (P): 47

# FISCAL POLICY & INEQUALITIES

- ❑ Implementing a **progressive tax system**
- ❑ Establishing **Social Protection (Safety) Networks** and other provision of financial and material transfer payments
- ❑ Providing merit goods at sufficient levels (health care, education)
- ❑ Minimizing incidence of **tax evasion** and the opportunities available to engage in underground activities
- ❑ Direct price control policies (price ceiling, guaranteed and floor pricing)
- ❑ Incorporating **'Pro Poor Pro Growth'** strategies within the government development policy framework
- ❑ Implementing wealth and property control regulations and other rules and regulations to promote economic equality



