"Rate Schedule of Taxation"

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Introductory: —

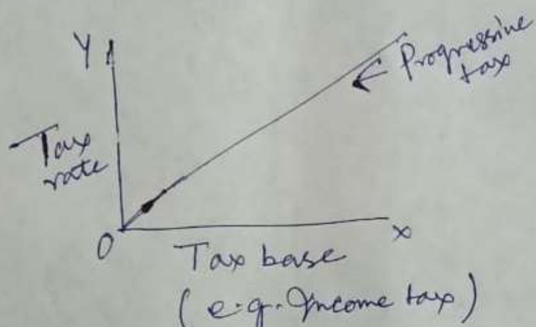
A tax schedule is an official format that spells out how much taxes are due for a particular taxpayer. The schedule provides tax rates for given ranges of taxable income, as well as for particular circumstances. The tax schedule is also called the rate schedule or tax rate schedule.

Rate schedule of taxation is based on two words — Tax rate & Tax base. The base of a tax is the legal description of the object to which the tax applies such as net income of an individual, the value of a property and so on.

The term tax rate is used to denote the amount of a tax per unit of the tax base.

According to Rate Schedule of taxation, a Common classification is adopted, i.e. on the basis of degree of Progression of a tax.

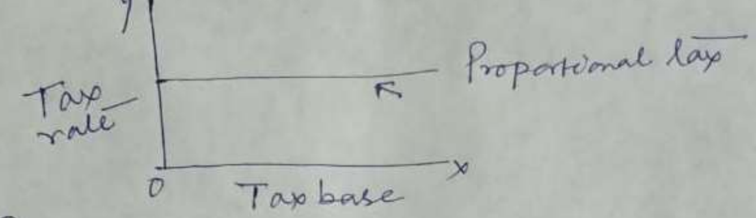
Progressive tax :- Progressive taxation implies that the rate of taxation should increase with the increase in tax base. e.g. Income tax. The higher the income (tax base), the higher should be the rate of tax.



Progression is now widely recognised as desirable. But the Principle cannot be applied to all taxes. It is essential to select proper taxes, rates and exemptions, so that arbitrariness, which can always be levelled against any Progressive tax or rate, may be reduced to the minimum. The Principle of Progression is rationally applicable only in a few cases. Income and death taxes (Direct taxes) are the best examples of progressive taxes. Progressive taxes have proved their worth through their revenue productivity, social usefulness and assumed justice. In almost all countries, a progressive income tax has become the backbone of the tax system. But the progressive tax has only limited applicability in an underdeveloped country because of the limited scope of direct taxation. Underdeveloped countries main reliance has to be placed on indirect taxation.

Proportional Tax:—

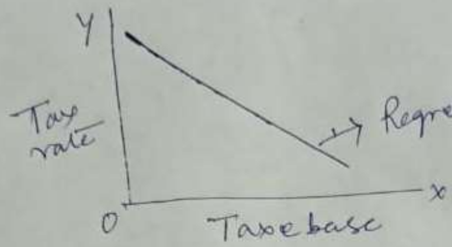
Proportional tax implies that the rate of taxation should be the same regardless of the size of tax base. In other words, when the tax rate remains unchanged for each unit of the tax base, it would be called proportional. e.g. in case of income tax, the tax liability increases in the same proportion as the increase in income, then it is proportional taxation.



Proportional taxation has been advocated mainly on grounds of our inability to decide upon a Precise and appropriate degree of Progression. It is argued that the case for Progressive rates is based only upon the hypothesis that marginal utility of income is lower for the richer Sections. It is claimed that this Cannot be Proved because utility, being a Subjective thing Cannot be measured and inter-Personal Comparisons of utility are not Possible. The merit of Proportional taxation is that it leaves the taxpayers in the Same relative Status as they were before the taxes were imposed. Proportional taxation is Simple and Uniformly applicable to all incomes.

Regressive Tax :- Regressive tax implies

When there is a declining degree of Progression as the tax base increases.



Two forms of regression are generally found. In the first case a certain amount of the tax base is exempted, and a single rate is applied to the rest. Another form of regression is where the rate schedule does not rise enough as the tax base increases, more precisely where the degree of Progression is not Constant throughout so that the addition to tax rate becomes slower as the tax increases. A regressive tax is higher at lower incomes. It hurt the poor. The inequitable effects of regressive taxes are often mitigated by Payments to the Poor and by exempting essential Products and Services, Such as food from regressive taxes.

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