Introduction

In any developed economy, and in many underdeveloped economies, there exists a government which provides many goods and services that society deems necessary; and in the case of education, a human right. Any service that the government provides costs money. The government, unlike a business, does not provide these services (like health and education) at a profit and if they are to continue to provide such services they need to have a revenue stream. The government does not make any money of its own, so it has to take money from private individuals in the form of taxation.

The imposition of taxes on society has caused revolutions, riots and the overthrowing of monarchies. In spite of these historical facts, every government continues to tax its citizens. We will now look at why governments tax, how to design a tax system so that governments can avoid its citizens rioting etc, the types of taxes that exist and the costs of taxation.

Functions of Taxation

1) **Finance Government Activities:** To finance all government activities e.g. running of civil service, wages of Public Sector workers.
2) **Economic Objectives:** To achieve economic objectives: reducing inflation, favourable balance of payments.
3) **Redistribution of National Wealth:** To redistribute the national wealth through transfer payments/social welfare payments.
4) **Automatic Stabiliser:** It acts as an automatic stabiliser for the economy. It helps to avoid wide fluctuations in the economic cycle by automatically taking more tax when economy is doing well and taking less when economy is performing poorly.
5) **Social Objectives:** To achieve social objectives e.g. discourage smoking, drinking / decrease pollution/damage to environment.
6) **Promote Enterprise:** To help industry through subsidies/grants and other services can be provided to help industry and encourage enterprise e.g. County Enterprise Boards.

Canon's of Taxation

It was Adam Smith (the father of Classical Economics) who proposed that any "good" tax system should follow certain rules. He called these rules Canons which is what we turn our attention to now.

1) **Equity:** Taxes should be fair. The ability of each person to pay the tax must be taken into account. Therefore, taxes should take a higher proportion of income in tax as income rises.
2) **Economy:** Taxes should be efficiently collected. This means that the revenue collected should exceed the costs of collection **and** the costs of tax collection should be small relative to the yield.
3) **Certainty:** The amount of taxes paid should be certain and clear right from the beginning of the year to allow people to plan their economic actions and reduce the possibility that they can be taken advantage by the government imposing arbitrary taxes.
4) **Convenience:** The tax should be collected in a way and at a time which suits the taxpayer.

Since Smiths time, there have been a few more canons of taxation added. Again these canons are rules that should be followed in order for a tax system to be considered "good".

5) **Taxes should not act as a Disincentive to Work:** If the Marginal Rate of Tax is high, then people might (and will eventually be(reluctant to take on extra work. E.g. A tax rate of 90% would make people less likely to work and as such reduce the supply of Labour.
6) **Taxes should not act as a Disincentive to Investment:** Entrepreneurs take the inherent risk of investment in order to make money. Taxes reduce the potential profit earned by entrepreneurs and as such reduce the likelihood taking place.
7) **Taxes should not act as a Disincentive to Saving:** Savings provide the funds necessary for investment to take place (at least in the Long Run). If the tax on interest earned on savings reduces the reward to savers to a large enough extent, then savings will reduce meaning less funds available for investors.

In spite of all of these canons of taxation, it is very difficult to imagine a tax system that fulfills all or even most of them, especially the last three. Taxes on wages, profits or interest have the exact effect of being a disincentive to engage in work, investment or saving. Reducing the monetary reward of any action makes people less likely to engage in that action.

Characteristics of a Good Tax System

Below is a list that most modern economists believe would be the ideal goal of any tax system, no matter how impossible it would be in reality for a tax system to simultaneously satisfy all of these characteristics.

1) **Taxes should be Equitable:** The tax levied should be related to the person's ability to pay.
2) **Taxes should be Economic:** The cost of collection should be small in relation to the amount of revenue to be collected.
3) **Taxes should be Certain:** The amount of tax which a person must pay (the state collects) should be certain and clear.
4) **Taxes should be Convenient:** The manner or timing of payment of the taxes should be convenient to the taxpayer e.g. the PAYE system of tax is convenient because it is deducted at regular intervals rather than one lump sum.
5) **Taxes should Not Act as a Disincentive:** The marginal rates of tax should not discourage workers from working overtime / tax rates on profits should not discourage investment by entrepreneurs / savings should not be discouraged.

The Marginal Tax Rate: is the percentage of an increase in income that is taxed away.

6) **Taxes should Aid the Redistribution of Income:** A good tax system should help the government redistribute income from the rich to the poor /progressive taxes allow the government to do this.
7) **Tax Rates should be Consistent with National Economic Objectives:** The taxes levied should help the government achieve other economic/ social objectives. E.g. raising excise rates on cigarettes will help discourage smoking.
8) **Should have a Stabilising Influence on the Economy:** A good system of taxation can prevent the level of economic activity rising as fast as it otherwise would when the economy is on an upturn, and prevent the level of economic activity falling as fast as it otherwise would in a recession.
9) **Evasion should be Impossible:** A good tax should be impossible to evade, otherwise the tax is not fair

Types of Taxation

As the government has a tendency to try to get it's hands on as much money as possible, there are a huge number of terms and definitions that come with taxation. There are direct taxes and indirect taxes, proportional, regressive and progressive taxes; taxes on imports, savings and exports. There are a huge number of different types of taxes which we will now turn our attention to.

Progressive Tax: is a tax that takes proportionately more in tax as a person's income increases

This means that an increasing proportion of income is taken, by the government, from the tax payer, as the taxpayer's income rises. Lets look at the hypothetical example below.

Gavin and Jonathan are both teachers. Gavin earns €100,000 a year and Jonathan earns €50,000 a year.

They both pay tax at 20% of the first €30,000 and 40% on any income earned above €30,000.

Lets work out their tax liabilities.

Gavin:

Gross Pay = €100,000

€30,000 @ 20% = €6,000

€70,000 € 40% = €28,000

Total Tax Liability = €34,000

Jonathan:

Gross Pay = €50,000

€30,000 @ 20% = €6,000

€20,000 @ 40% = €8,000

Total Tax Liability = €14,000

Conclusion: Even though Gavin earns twice as much as Jonathan, he ends up paying over 2.4 times the amount of tax as Jonathan. PAYE is an example of a progressive tax, as it took proportionately more from a higher earner like Gavin (34% of total income) then from a lower earner like Jonathan (28% of total income). Progressive taxes take into account the taxpayer's ability to pay and as such satisfy's the canon of equity.

Leaving Cert Question (L.C.Q.)

You are appointed Economic Advisor to the Minister for Finance. Outline the economic arguments you would identify for the Minister in favour of lowering Irish income taxation rates.

Solution

1) **Maintain Standards of Living during Falling Wages:** With wages falling at the moment, standards of living are falling. To alleviate this hardship it may be appropriate to reduce income tax rates – leading to greater disposable incomes.
2) **Incentivise the Workforce:** By allowing workers to take home more of their income it may act as a further incentive for more people to join the labour market or encourage existing workers to increase their level of work.
3) **Encourage Continuation of Social Partnership:** It would show trade unions that the government is committed to the continuation of social partnership and encourage the partners to enter new negotiations.
4) **Improve Competitiveness:** If workers have higher disposable income they may moderate their demands for wage increases, reducing the costs for employers and thus maintain / improve the competitiveness of Irish industry.
5) **Enable Ireland attract Foreign Industry or Encourage Investment:** By lowering income tax rates Ireland may continue to be attractive to mobile foreign investment.
6) **Stimulate Economic Activity:** With lower tax rates, disposable income rises and so should spending – possibly increasing the indirect tax revenues collected. This will increase demand and may lead to higher employment and economic growth. [The adverse effects of this is that it could result in inflation and greater imports].
7) **Discourages the Black Economy:** The reduction in income tax rates may encourage workers to avoid tax avoidance and tax evasion measures and so legitimise their activities.

Regressive Tax: is a tax that takes proportionately more in tax as a person's income decreases

This means that an increasing proportion of income is taken, by the government, from the tax payer, as the taxpayer's income rises.

An example of a regressive tax is VAT or Value Added Tax. Lets look back at the Jonathan and Gavin example.

Gavin: Gross Pay = €100,000

Jonathan: Gross Pay = €50,000

Jonathan and Gavin buy a television each. Included in each of the prices of their televisions is a VAT bill of €1,000 euro. Both have to give €1,000 to the government even though Gavin earns twice as much as Jonathan.

When Gavin is paying this regressive tax, he is giving the government 1% of his income. When Jonathan is paying this regressive tax he is giving the government 2% of his income.

Regressive taxes do not take into account the tax payer's ability to pay and as such do not satisfy the canon of equity. However, regressive taxes do satisfy the canons of economy and convenience. Regressive taxes are cheap to collect and are easy to pay.

In general, the more equitable (fair) a tax is, the less efficient (the more of a disincentive) it is. Also, the more efficient (the less of a disincentive a tax is to work, investment and savings) a tax, the less equitable it is.

Proportional Tax: is a tax that takes the same percentage from taxpayers regardless of their income or wealth.

A Proportional Tax is sometimes called a Flat Tax. It takes the same percentage of your income whether you are rich or poor. If there is a tax that is set at 2% of the value of the property, whether the property is worth €10,000 or €10,000,000; this would be an example of a proportional tax.

A Proportional Tax seems to satisfy more of the characteristics of a good tax system than either regressive or progressive taxes. The reasons that governments do not pursue proportional taxes as a rule are only political. Firstly, the majority of the population get annoyed seeing millionaires paying the same level of tax as them. Secondly, the government see rich citizens with a lot of money which the government want for their own use and as such pretend to have legitimate reasons (like fairness) to take it from them.

Leaving Cert Question (L.C.Q.)

The Irish government introduced a carbon tax in its latest Budget (9th December 2009).
(i) Is this tax an example of a **progressive** or a **regressive** tax? Explain your answer.
(ii) State and explain **two** possible economic advantages and **two** possible economic disadvantages of the new carbon tax.

Solution

(i) It is a regressive tax because it does not take into account your ability to pay the tax/ people on lower incomes would pay a greater proportion of their income in tax.

(ii)

Advantages of the Carbon Tax

1) **Government Revenues:** Increased government revenue through increased revenues from this carbon tax.
2) **Investment in R&D / Encourage Innovation:** Greater investment in R&D into alternative sources of energy / renewables /transport. Government could promote 'green industries' and thereby create jobs.
3) **Change Consumer Behaviour:** Consumers may be more aware of the scarcity of these resources and so become more efficient in their consumption.
4) **Environmental Protection:** The revenue collected can offset the cost of our collective carbon footprint / result in fewer emissions. Also the revenue may be targeted for specific environmental projects.

Disadvantages of the Carbon Tax

1) **Inflationary Pressures:** Higher fuel prices will mean consumer prices increase, leading to a rise in the CPI
2) **Loss of Competitiveness:** Industry will now be paying higher prices and this may reduce the international competitiveness of Irish firms. Increased costs may act as a disincentive to attracting foreign direct investment.
3) **Decrease in the Standard of Living:** Higher prices means less disposable income and so standard of living will fall.
4) **Regressive form of Taxation:** This tax would not take a person's ability to pay into account.

Leaving Cert Question (L.C.Q.)

Ireland must reduce its 'carbon footprint' (i.e. the level of greenhouse emissions from fossil fuels by 20% over the next 12 years.
Explain **two** ways in which the tax system could be used to meet this target.

Solution

1) **Environmentally Friendly Vehicles:** The government could give tax exemptions for environmentally friendly vehicles such as electric cars, hybrids, and vehicles using bio-diesel.
2) **Vehicle Registration Tax:** A reduction in Vehicle Registration Tax could be given for vehicles with low CO_2 emissions and an increase in Vehicle Registration Tax for high emission vehicles.
3) **Road Tax:** Increase the amount of road tax paid to discourage the use of vehicles.
4) **Public Transport:** Reduce any taxation on prices paid for public transport.
5) **Polluter Pays:** Introduce a polluter pays principle/tax those who are environmentally unfriendly at a higher rate e.g. weight per bin
6) **Offer tax incentives to firms to develop/supply alternative sources of energy:** The government has increased expenditure in this area with the long term aim of reducing dependence on fossil fuels.
7) **Offer tax incentives to households to switch to alternative sources of energy:** The government could increase the tax rebates to those households who switch to solar energy; wood pellet heating etc.
8) **Increase Excise Duty on Fuel:** Increase taxes on petrol, diesel and home heating oil to encourage people to change their consumption patterns towards more environmentally friendly solutions.

What is important to note about taxes is that they discourage the action being taxed. Taxes on labour discourage working, taxes on savings discourages saving etc. These taxes are bad as we want people to work, in order to produce goods and services, so we can have a higher standard of living on average. We want people to save, so there are funds available for future entrepreneurs to use for investment. These taxes are destructive to the economy as we lose out on production now and in the future.

However, if the government is to tax an undesired activity like pollution, smoking or drinking, then this can both raise money for the government which can be used in other areas and also reduce the undesired activity. Economists believe that for taxes to be as little as a disincentive as possible, governments should only tax the undesirable actions. Al Gore, the former US Vice President, advocated replacing Corporation Tax (a tax on company profits) with a Carbon Tax. By pursuing a policy like this, the government could raise revenue for their spending, pollution would be reduced and economic activity would be increased.

Other Names for Taxes

As was said previously, there are many different terms used in taxation that you must become familiar with. We have already discussed Progressive, Regressive and Proportional Taxes. Now we are going to look at other ways to categorise taxes.

Direct Taxes

Direct Taxes: are taxes on all forms of Income and Wealth

A Direct Tax is any tax on income or assets.

Examples of Direct Taxes are

1) Income Tax (Pay As You Earn, PAYE)
2) Deposit Interest Retention Tax (DIRT)
3) Capital Gains Tax (CGT)
4) Capital Acquisition Tax (CAT)
5) Corporation Tax (A Tax on Company Profits)

We will now look at the definitions of each of these taxes.

Income Tax (PAYE): is a tax on wages or salaries

This is a Progressive Tax in Ireland, as it takes a higher proportion of your wages as your income rises. There are 2 different tax bands. Currently these are 20% and 41%.

Deposit Interest Retention Tax (DIRT): This is a tax on the interest on your savings.

Currently it can be between 27% - 33%. This is a Proportionate tax as it does not depend on the level of savings.

Capital Gains Tax (CGT): is the tax paid on the gains made from the disposal of an asset.

In Ireland Capital Gains Tax Currently stands at 25% of assets in Ireland. E.g. If an Irish person bought his home for €100,000 and then sold it for €300,000, this person would have to €50,000 in Capital Gains Tax. (25% of the €200,000 profit = €50,000). This is a Proportionate tax as it does not depend on the amount gained.

Capital Acquisition Tax (CAT): is a tax on items Acquired by an individual that he did not pay for.

Examples include a tax on gifts received worth over a certain amount or a tax on inheritance over a certain amount. There are exceptions to both of the examples listed above but currently Capital Acquisitions Tax stands at 30%. This is a Proportionate tax as it does not depend on the value of the gifts or inheritance.

Corporation Tax: This is a tax on company profits

Again there are exceptions, but for the most part, the Irish Corporation Tax rate is at 12.5%. This is a Proportionate tax as it does not depend on the level of profits.

Indirect Taxes

Indirect Taxes: are taxes on goods and services. Indirect taxes are paid indirectly to the government by final consumers.

Examples of Indirect taxes are

1) Value Added Tax (VAT)
2) Excise Duty
3) Tariff/ Customs Duty
4) Stamp Duty

It is important to note that all indirect taxes are regressive taxes. They take a higher percentage of your income as your income falls. Direct Taxes can be progressive, proportionate or even regressive. It depends on how the tax system is set up.

Value Added Tax (VAT): is a tax on the buying of goods and services

VAT is also known as an **Ad Valorem** tax.

An Ad Valorem Tax: is an indirect tax which takes a given percentage of the price of a good. E.g. VAT

An Excise Duty: is a tax which is put on products that have undesired effects. Such products include alcohol, tobacco and petrol.

An excise duty is an example of a tax that the government can use to generate revenue for itself and also reduce the consumption of undesired products. An excise duty, if properly used, is the most efficient and equitable tax.

A Tariff or Customs Duty: is a tax on imports

There has long been a debate over whether imports should be taxed. This is because they represent a leakage from the Circular Flow of Income. In general most economists understand that an Open Economy (one that has no barriers to Trade) results in greater efficiency and higher economic growth for the open economy that would occur in an economy that employs protectionist (tries to deter trade with other countries) could achieve. In short international trade (which includes imports) makes an economy better off and as such should not be taxed.

Stamp Duty: is a tax on transactions and certain documents

Examples

1) Stamp Duty (a tax that is paid to the government) must be paid on the purchase on homes. The amount of the stamp duty payable depends on the value of the house. A Proportionate Tax.
2) €0.15 stamp duty is payable on a cheque. A Regressive Tax.
3) €10 stamp Duty is payable on an ATM card, €20 stamp duty is payable on a combined ATM/Laser card, while €40 stamp duty is payable on a credit card annually. All Regressive Taxes.

A Lump-Sum (Specific) Tax: is a tax levied on a person or firm irrespective of the person or firm's level of income or profit

We have looked at many different types of taxes, but which ones should the government use. Unfortunately, there is no simple answer to this question. The more efficient a tax is (this means the less of a disincentive a tax is to work, investment and savings) the less equitable the tax (the greater the proportion of income that poorer individuals would have to pay in tax). The more equitable (fair) a tax, the less efficient (the more it would discourage desired actions like work, investment and saving)

So instead of having a hard and fast rule, we will now look at the advantages and disadvantages of Direct and Indirect Taxes.

Advantages of Direct Taxes

1) **Equity:** Direct taxes can be progressive and as such satisfy the canon of equity.
2) **Convenient:** they are a convenient form of taxation (especially for PAYE workers as they are deducted by the employer so the worker does not have to make any calculations or even send the taxes to the government.
3) **Economic:** As the employer collects the tax for the government, they are the ones legally responsible for collecting and sending this revenue to the government for which they do not receive a fee.
4) **Certainty:** Tax rates and tax bands are announced by the government, in the budget, before the commencement of the tax year.
5) **Adjustable:** Direct taxes can easily be changed from one year to the next, in the budget announced by the government, in order to aid the economic objectives of the government.
6) **Simplified Government Forecasting:** As national levels of income are relatively easy to estimate, this simplifies the forecasting of revenue the government will receive from income taxes.

Disadvantages of Direct Taxes

1) **Discourages Desirable Activities:** taxes on wages profits and savings act as a deterrent to work, investment and saving, which are the things that increase the standard of living and cause economic growth.
2) **Potentially Avoidable:** Those working in the black economy can avoid paying direct taxes. Also, when there is a rise in direct taxes, there may be an increase in the size of the black economy.

The Black Economy: refers to unrecorded economic activity

3) **Small Tax Base:** If there is a small tax base, then the burden of tax might be great on those paying the taxes.

The Tax Base: is the number of people paying tax, or the areas on which tax is levied.

If the government only taxes a certain group of people or only taxes a certain type of goods, that would mean that there is a small tax base. It is said by many that the government could increase its tax revenues by broadening the tax base.

Taxatation Revenues: Income received by the government in the form of direct & indirect taxes, and used in the running of the country.

Broaden The Tax Base: Increasing the number of people paying tax or increase the areas on which tax is levied.

Narrow The Tax Base: Reducing the number of people paying tax or reduce the areas on which tax is levied.

You might wonder why the government would wish to narrow the tax base, especially if they are usually only interested in getting money for themselves. In 1974, economist Arthur Laffer, suggested that the government could actually increase its tax revenue by lowering tax rates. In theory this is correct but there has been very little real world evidence to support this.

Tax Rates: is the amount of tax people are required to pay per unit of whatever is being taxed.

Sometimes tax rates are defined in terms of euro amounts per good or service (€4.66 per pack of 20 cigarettes sold in Ireland, a specific tax) or they can be defined as a percentage of the price (as well as the €4.66 per pack of 20 cigarettes, there is an extra tax of 9.04% of the sales price as well, an ad valorem tax).

Advantages of Indirect Taxes

1) **Evasion is more difficult:** As the indirect tax in included in the selling price of the good or service it is impossible to evade.
2) **No disincentive to work:** A taxpayer can adjust their expenditure patterns to reduce their tax liability and thus it does not act as a disincentive to work unlike direct taxes.
3) **Convenient for taxpayer:** They are included in the selling price and paid when the good/service is bought.
4) **Used by government to change consumption patterns:** The government could increase the tax on those commodities which it deems harmful to the public i.e. cigarettes, alcohol. The introduction of the plastic bag tax has reduced demand.
5) **Economic:** The cost of collection is borne by retailers and producers not by the state.
6) **Fewer complaints from taxpayers:** As the tax is included in the selling price the taxpayer may be unaware of the rate of tax s/he is paying and so the government may face less criticism that if rates of direct taxation were increased.

7) **Acts a built in Stabiliser:** As the economy expands spending rises and so too will the revenue collected from taxation.

Disadvantages of Indirect Taxes

1) **Will increase inflation:** Indirect taxes raise the prices of goods and services and hence the cost of living, possibly causing demands for further wage increases.
2) **Regressive:** Lower income groups may end up paying a greater proportion of their income in this form of tax because they spend a greater proportion of their income on goods/services.
3) **Revenue collected is not as certain:** The revenue to be collected is not as predictable as that from direct taxation. This may hinder the government's financial planning.
4) **Burden of collection passed to retailers/traders:** These now act as revenue collectors and procedures must be put into practice to collect, record and remit the revenue, increasing costs for the firms.
5) **Inequitable:** Indirect taxes ignore ability to pay. A person who earns a high income but doesn't drink, smoke or drive a car will pay a lower proportion of his/her income in tax than a person on the same income who consumes these commodities.

Who Actually Pays the Tax

This might seem to be somewhat of a silly question as it must be the person on whom the tax is levied is the one that pays the tax. The result might be suprising. It does not matter who the tax is levied on, what actually decides on who pays it is the PED of the buyer and the PES of the seller. Who pays the tax (or the incidence of the tax) follows one simple rule.

The Higher the Price Elasticity of Supply (Elastic Supply) and the Lower the Price Elasticity of Demand (Inelastic Demand) the heavier the burden of an Excise Tax on Consumers.

The Lower the Price Elasticity of Supply (Inelastic Supply) and the Higher the Price Elasticity of Demand (Elastic Demand) the heavier the burden of an Excise Tax on Producers.

In economics, we have a term for who pays the tax. Its called the Incidence of Tax.

The Incidence of Tax: refers to the person who actually pays the tax. This is not necessarily the person on whom the tax was levied or placed.

Knowing that PED has a huge part to play in the incidence of taxation, it might be somewhat clearer now why the government continually taxes goods like cigarettes, petrol and alcohol in its budget.

Why the Minister for Finance regularly taxes goods such as alcohol, cigarettes and petrol in the Government's annual budget.

1) **Inelastic Demand:** These goods have inelastic demand therefore the quantity demanded will only reduce slightly because of the increase in tax. The government will therefore collect more tax revenue
2) **Goods with Social Consequences:** The consumption of these goods has other consequences e.g. health issues with the use of tobacco and alcohol/social problems from excess alcohol/environmental damage. The government can use the tax system to try to discourage the consumption of these goods/could use the revenue to provide for extra healthcare etc.
3) **To Discourage Private Car Transport and Encourage Public Transport:** By making petrol dearer, the use of public transport may be more attractive and by encouraging its use, the environment is protected by reducing emissions.
4) **To Discourage Tax Evasion:** Since goods like alcohol, tobacco and petrol have inelastic demand people continue to purchase these goods and by including the tax in the price it makes it more difficult to evade taxes on these products.

How do you Stop Paying Tax

As we have seen there are many different types of taxes that the government use to take money from Irish people. In an attempt to end up keeping at least some of their money, Irish people engage can engage in either tax evasion or tax avoidance. One is legal, the other is not.

Tax Evasion: Reducing tax liabilities by making false returns or no returns.

Tax Evasion is reducing your tax bill by illegal means.

Tax Avoidance: Arranging ones affairs within the law so as to minimise tax liabilities.

Tax Avoidance is reducing your tax bill by legal means.

Back To Adam Smith

Now that we know the different types of taxation and their effects on the economy, we will look back at the Canons of Taxation from Adam Smith and see how useful they are at analysing the Irish Tax System today.

Leaving Cert Question (L.C.Q.)

Do you consider the Canons of Taxation proposed by Adam Smith, useful for analysing the taxation system in Ireland?

Solution

YES

1) **Equity:** With PAYE, people on higher incomes pay a greater proportion in tax. One of the accepted functions of taxation is the redistribution of wealth, which is an argument for equity.

   Highlights that indirect taxes are regressive as a taxpayers' ability to pay is not taken into account.

2) **Economy:** If a tax does not collect more than the cost of administering the tax is should not be introduced. This is one of the advantages of direct taxes.

   One of the arguments against indirect taxation is the complexity of the collection system.

3) **Certainty:** The main advantage of direct taxes is that the amount to be collected is clear to the state, thereby helping financial planning.

   A difficulty of administering indirect taxes is that the amount to be collected is unclear and makes planning by the state difficult.

4) **Convenience:** This is one of the justifications for the PAYE system of income tax, where the tax is deducted at source from income. VAT is paid at the time of purchase.

   If the method of paying and the timing of the tax does not suit the taxpayer is can lead to evasion.