

Taxation. Its types and principles

It goes without saying that taxation is a necessity because it's a means to pay for the services that the government provides us with. Policemen, soldiers, ministers are payed from this money; schools, hospitals, kindergartens are built with the help of this money as well. It seems to me, that this is the main function of taxes.

Another purpose of taxation is to dissuade people from certain harmful habits like smoking, drinking alcohol and so on, because excise taxes are very high in all countries of the world.

As it was said earlier all people are aware of the necessity to pay taxes but nevertheless they try to avoid it. Some people prefer to do it illegally I mean so called tax evasion. For example, there are people, who are self-employed, and it's very difficult for the government to control their income; some criminal organizations tend to pass money through a series of companies in very complicated transactions in order to disguise its origin from tax inspectors and the police (this is known as money laundering). But there are also legal ways that are called tax avoidance, for instance a company can give its employees some perks like a company car, subsidized lunches, free health insurance, etc. in order to reduce income tax liability. It's only one of the ways; companies have a variety of ways of avoiding tax on profit. They can also spend money on buying new equipment (it's usually called capital expenditure). Multinational companies often set up their head offices in countries such as Liechtenstein, Monaco, the Cayman Islands, and the Bahamas, where taxes are low, such countries are known as tax havens.

As far as types of taxes are concerned here it's necessary to admit next types:

Progressive taxes implement that those whose income is higher pay more. Here can be used a principle that "the more you earn, the more you pay". Among such taxes there is an income tax, a property tax, an inheritance tax, etc.

Regressive taxes are the same for all people, but if we compare incomes of a person who earns 500 dollars and a person who earn 800 dollars per month in percents, we will see that that person who earns 500\$ pays more for a loaf of bread, for instance, in comparison with a person who earns 800\$. Regressive taxes include sales taxes, value added taxes, excise taxes, etc.

Proportional taxes implement that people pay a certain percentage regardless of the size of their incomes (they pay the same percents but different sums of money). For instance, people pay 3% of their incomes but sums of money will be different for different people.

It's also necessary to mention two principles of taxation:

The benefit received principle states that those who benefits from government programs are to pay taxes.

The ability-to-pay principle states that only those people who are able to pay taxes should pay them.

In the end I'd like to say that taxation is important and today it's almost impossible to imagine how the government would provide all public services that it gives us today if there is no taxation.