

Progressive V Regressive Tax Models

Presentation by:

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Presentation outline



- ❑ Canons of Taxation
- ❑ Distribution of taxes
- ❑ Progressive V Regressive taxes
- ❑ Recap

Canons of Taxation



Adam Smith presented the four canons of taxation in his book 'The Wealth of Nations' in 1776. The canons are:

- ❑ Certainty: Should not be arbitrary;
- ❑ Economy: Collection cost should be minimum;
- ❑ Convenience: To taxpayers (payment & timing);
- ❑ Equity: Tax levied depending on ability.

Distribution of taxes



Canon of equity can be analysed through the distribution effect of taxes. Taxes may be either:

- Progressive;
- Regressive; or
- Proportional

This presentation focuses on the progressive & regressive tax models.

Progressive taxes



- ☐ A tax that takes a larger percentage of income from high-income groups than from low-income groups.
- ☐ The tax rate in this case increases with an increase in income.
- ☐ Pay as You Earn is an example of progressive tax in Kenya. It is progressive up to a point (highest tax bracket) where it becomes proportional.

Progressive taxes



PAYE Chart

Tax Bracket	Tax Rate
On the first KES 147,580	10%
On the next KES 139,043	15%
On the next KES 139,043	20%
On the next KES 139,043	25%
On all income over KES 564,709	30%

Progressive Tax (Merits and demerits)



Merits

- ☐ Equitable as higher income means higher tax paid
- ☐ More economical as cost of collection does not rise with an increase in income
- ☐ Better distribution of income?

Demerits

- ☐ Seems to punish success?
- ☐ Greater scope for tax evasion?

Regressive Tax



- ❑ A tax that takes a larger percentage of income from low-income earners than from high-income earners.
- ❑ Percentage of income paid in taxes decreases with a rise in income.
- ❑ Indirect taxes in Kenya (VAT and Excise Duty) are regressive as low income earners pay a higher % of their income.

Regressive Tax (Merits and demerits)



Merits

- ❑ Reduces social evils and destructive behaviour (e.g. Excise duty on Cigarettes)
- ❑ Bringing in the informal sector into the tax bracket?
- ❑ Government imposes someone else to collect tax

Demerit

- ❑ It is an inequitable model of taxation as people with less disposable income have a higher effective tax rate than people with more disposable income

Progressive Vs Regressive



When plot on a graph, the different tax models are as presented below:

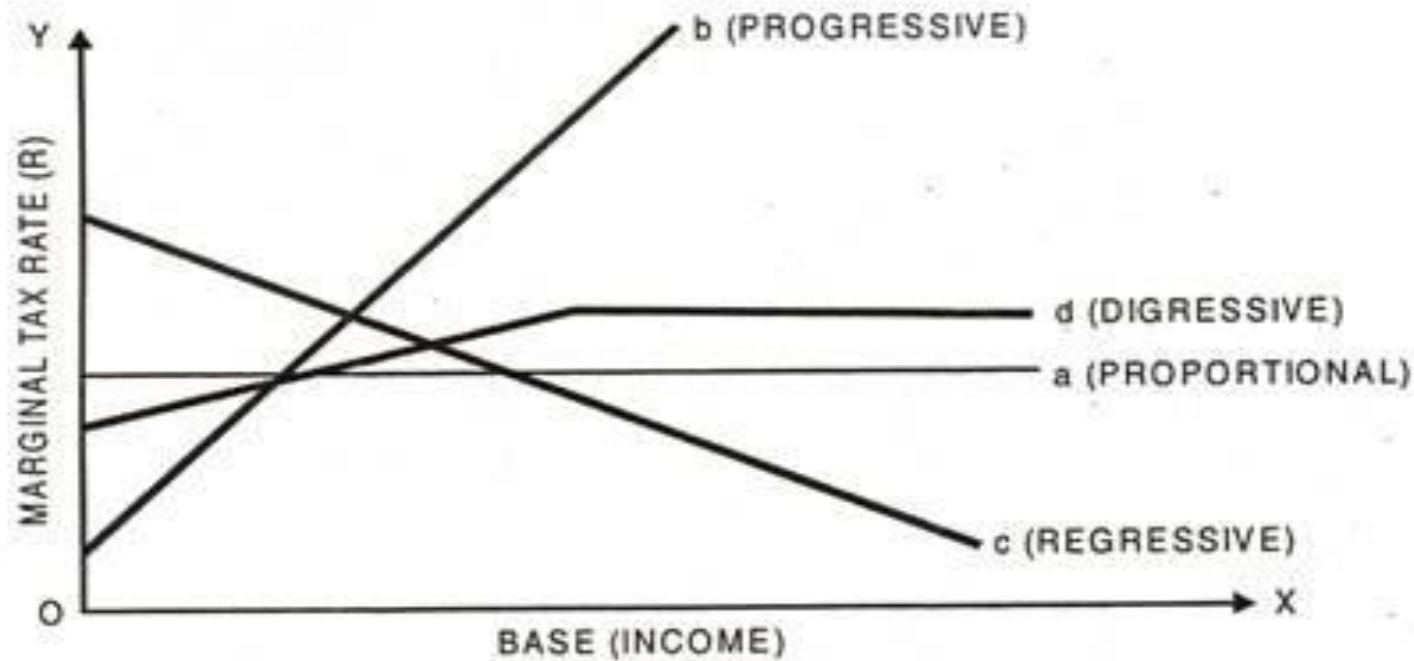


Fig. 1. Different Tax Rates.

Progressive Vs Regressive



Globally, tax on employment income mostly follows the progressive model. See UK employment tax bands below:

Band	Taxable income	Tax rate
Personal Allowance	Up to £11,500	0%
Basic rate	£11,501 to £45,000	20%
Higher rate	£45,001 to £150,000	40%
Additional rate	over £150,000	45%

Progressive Vs Regressive



- ❑ However, some countries use different models on taxing employment income e.g Russia has a flat tax rate of 13% for residents and 30% for non residents.

Progressive Vs Regressive



- ❑ Most indirect taxes globally are regressive taxes.
- ❑ Just like Kenya's VAT, US Sales Tax and UK's VAT, which are consumption taxes are regressive in nature.
- ❑ A number of scholars claim that taxes deemed "regressive" cause unequal distribution of income. Is this so?

Conclusion



- ❑ Generally, the progressive system is deemed more fair as it factors individuals ability to pay in accordance with the canon of equity.
- ❑ The regressive system, on the other hand is in conflict with the equity canon.

Interactive Session



Interactive Session



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