

# OGUN DIGICLASS

**CLASS: SECONDARY SCHOOL**

**SUBJECT: ECONOMICS**

**TOPIC: TAXATION**



**[www.ogundigiclass.ng](http://www.ogundigiclass.ng)**

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# Learning Objectives

To differentiate  
between tax  
and taxation

List the types  
of tax with  
examples

Itemize the  
forms of  
indirect tax

State the  
reasons for  
imposing tax

Solve data  
response on  
tax

# What is Tax?

- Tax is a compulsory levy imposed by the government on individuals, business firms as well as goods and services.
- Taxation is the act of imposing a compulsory levy by the government on individuals, business organizations, goods and services

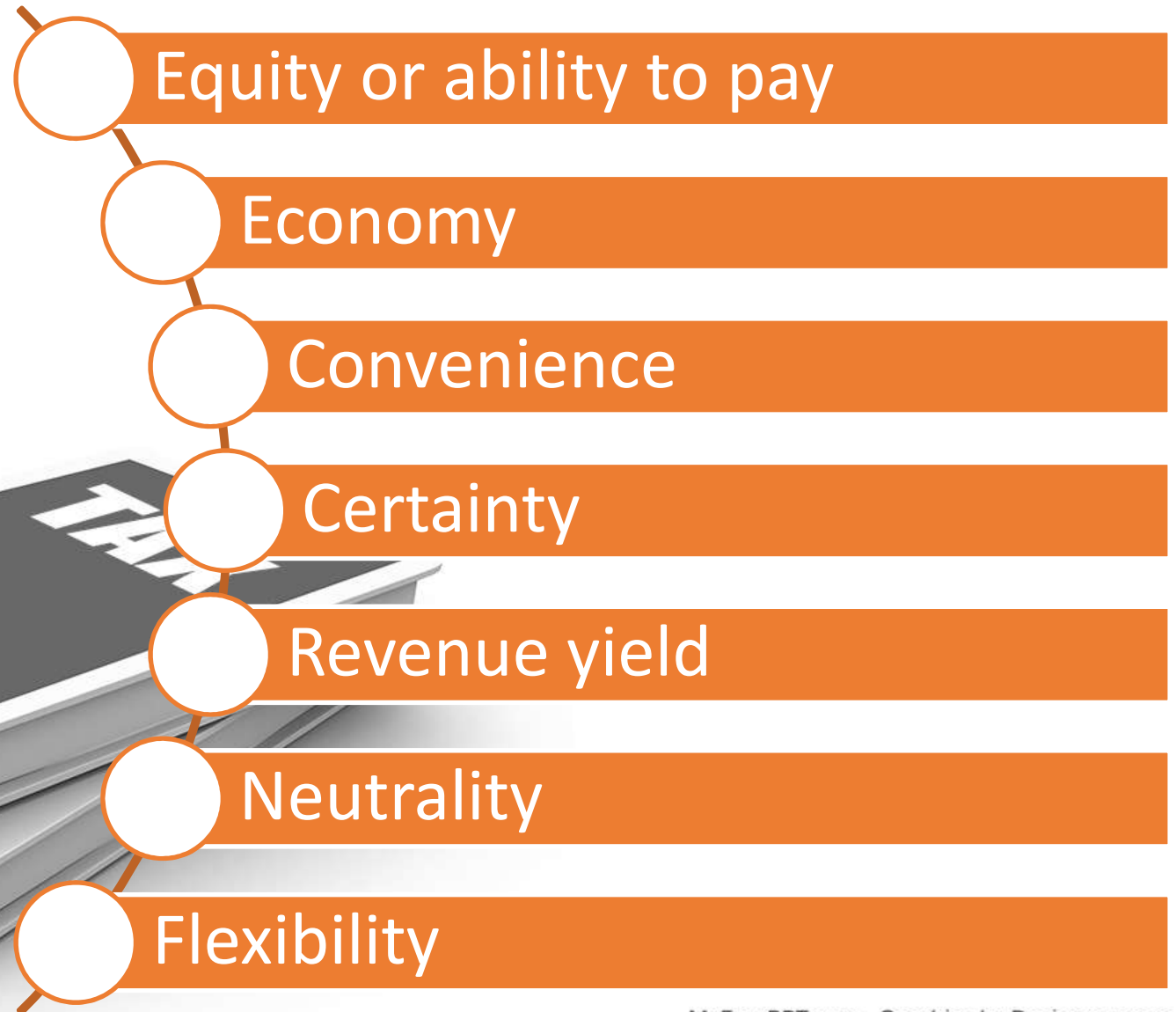


# Principles/Canons of a Good Tax



- Make Effective Presentations
- Using Awesome Backgrounds
- Engage your Audience
- Capture Audience Attention

# Principles/Canons of a Good Tax



# Reasons Why Government Impose Taxes

- To raise revenue
- To redistribute income(PAYE)
- Discourage production and consumption of harmful goods
- To control inflation
- To protect infant industries
- To prevent dumping
- To correct adverse b.o.p

# PROBLEMS OF TAX COLLECTION

- ☐ Failure to declare real income
- ☐ Tax evasion
- ☐ Lack of book of account
- ☐ Failure to meet people's expectation
- ☐ Insincerity of tax collectors
- ☐ Mismanagement of government fund



# TAX INCIDENCE

This is the final resting place of tax payed i.e who bears the burden of tax payed.

For goods with perfectly elastic demand, the supplier or producer bears all the tax burden

For goods with perfectly inelastic demand, consumers bears all the tax burden

For goods with fairly elastic demand, suppliers bear greater tax burden, while consumers bear lesser tax burden

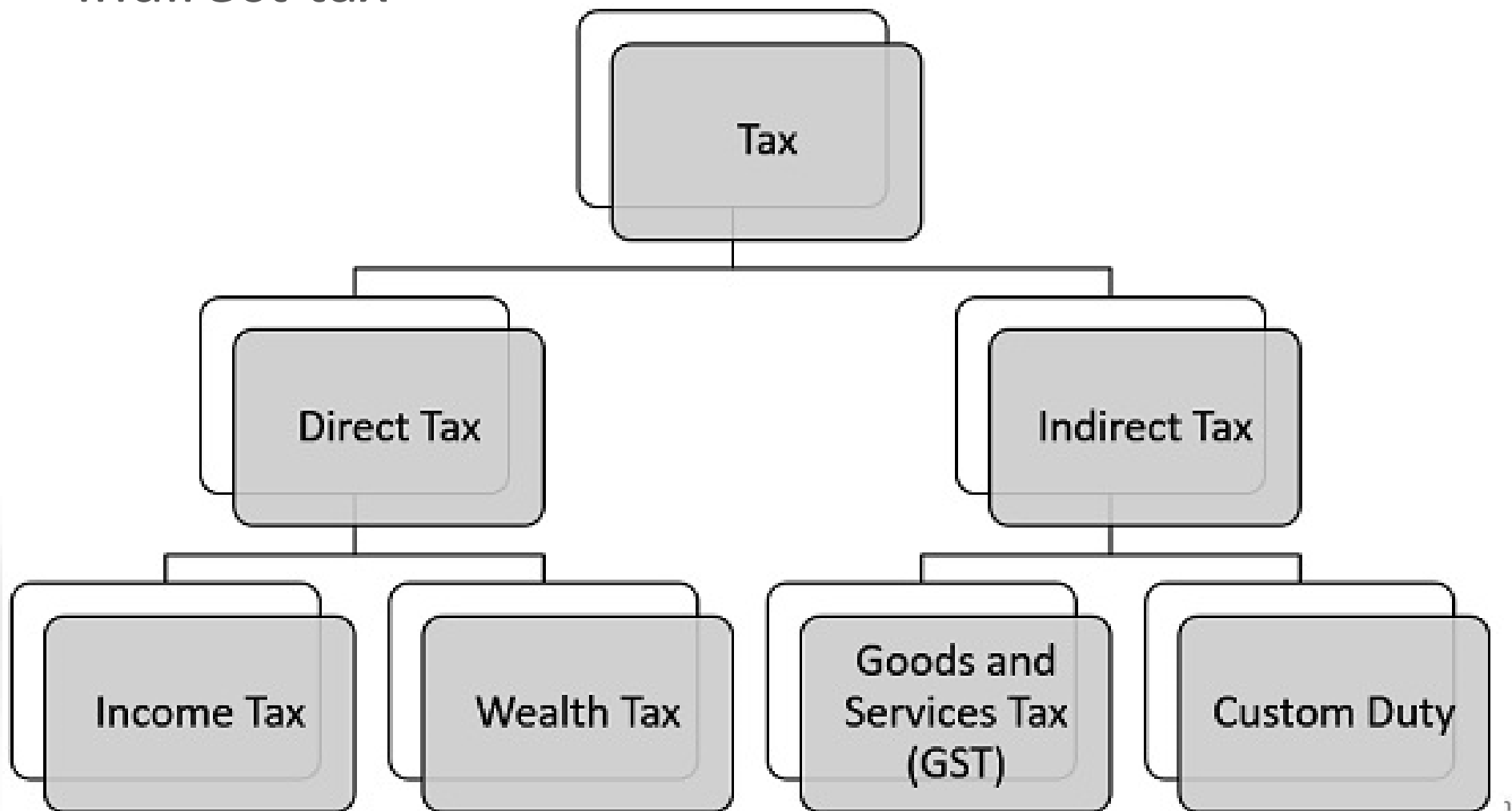
For goods with fairly inelastic goods, consumers bear greater tax burden, while suppliers bear lesser tax burden

For goods with unitary elastic demand, both the supplies and the consumers bear equal tax burden



# Types of Tax

- Direct
- Indirect tax



# Direct Tax

This type of tax is directly imposed on incomes and properties of individuals and organizations e.g **personal income tax, company (profit) tax, capital tax, capital gains tax, poll tax e.t.c**



# ADVANTAGES OF DIRECT TAX

- It is progressive nature
- Cheap to collect
- Convenient to pay
- Easy estimation of revenue
- Reduce inequality of income

## DISADVANTAGES OF TAX

- It reduces savings
- It discourages investment
- It is prone to evasion
- Disincentive to hard work
- It reduces purchasing power

# INDIRECT TAX

This is the type of tax imposed on goods and services e.g custom duties, excise duties, sales tax, purchase tax e.t.c

## Classification of indirect tax

(i)Ad valorem tax

(ii)Specific tax



# ADVANTAGES OF INDIRECT TAX

Protection of infant industries

Not easy to evade

Source of government revenue

To correct b.o.p

Easy and cheap to collect

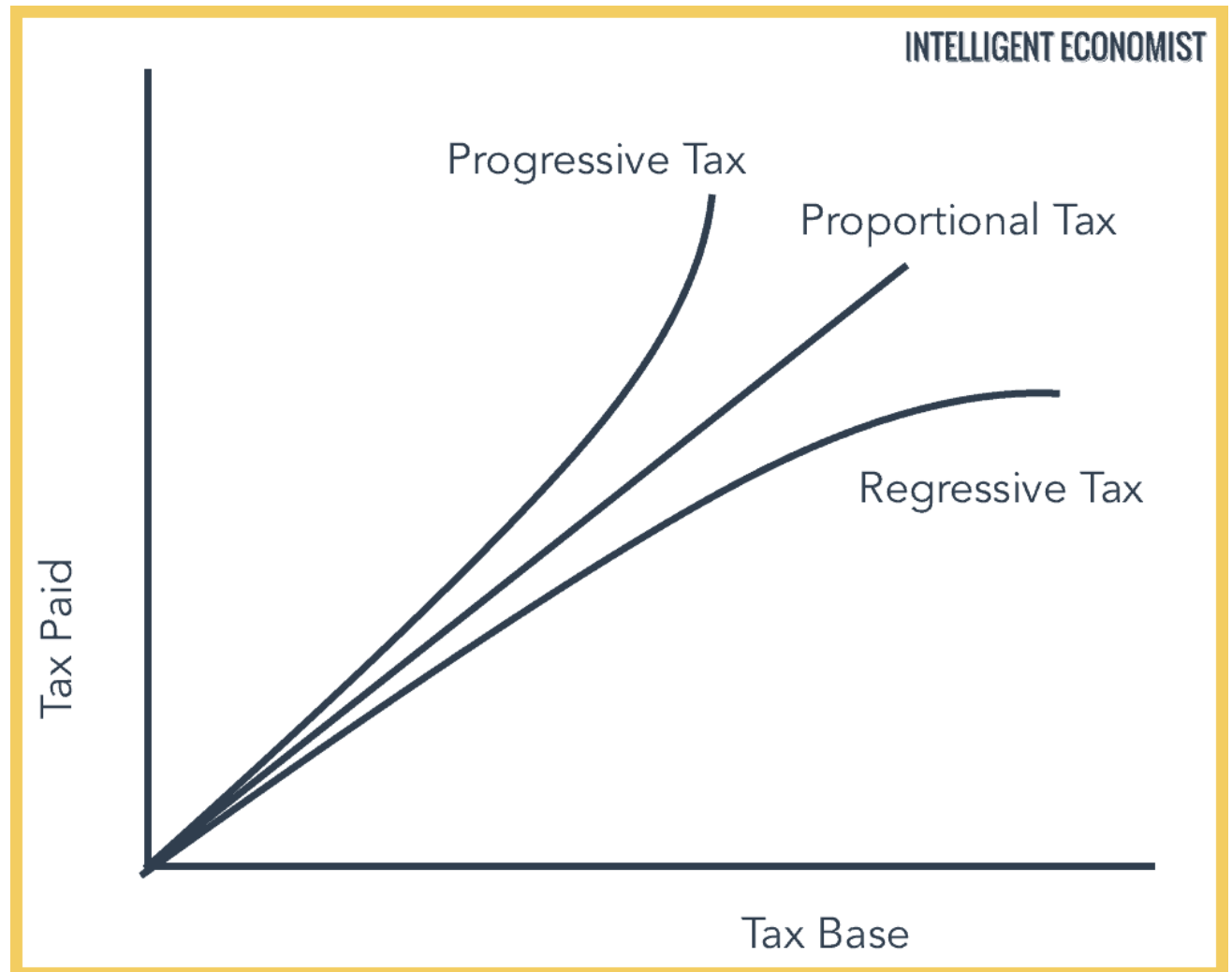
To prevent dumping

## DISADVANTAGES OF INDIRECT TAX

- It is regressive
- It is inflationary in nature
- It increases prices of commodities
- High cost of collection
- Uncertainty in revenue generation

# SYSTEMS OF TAXATION

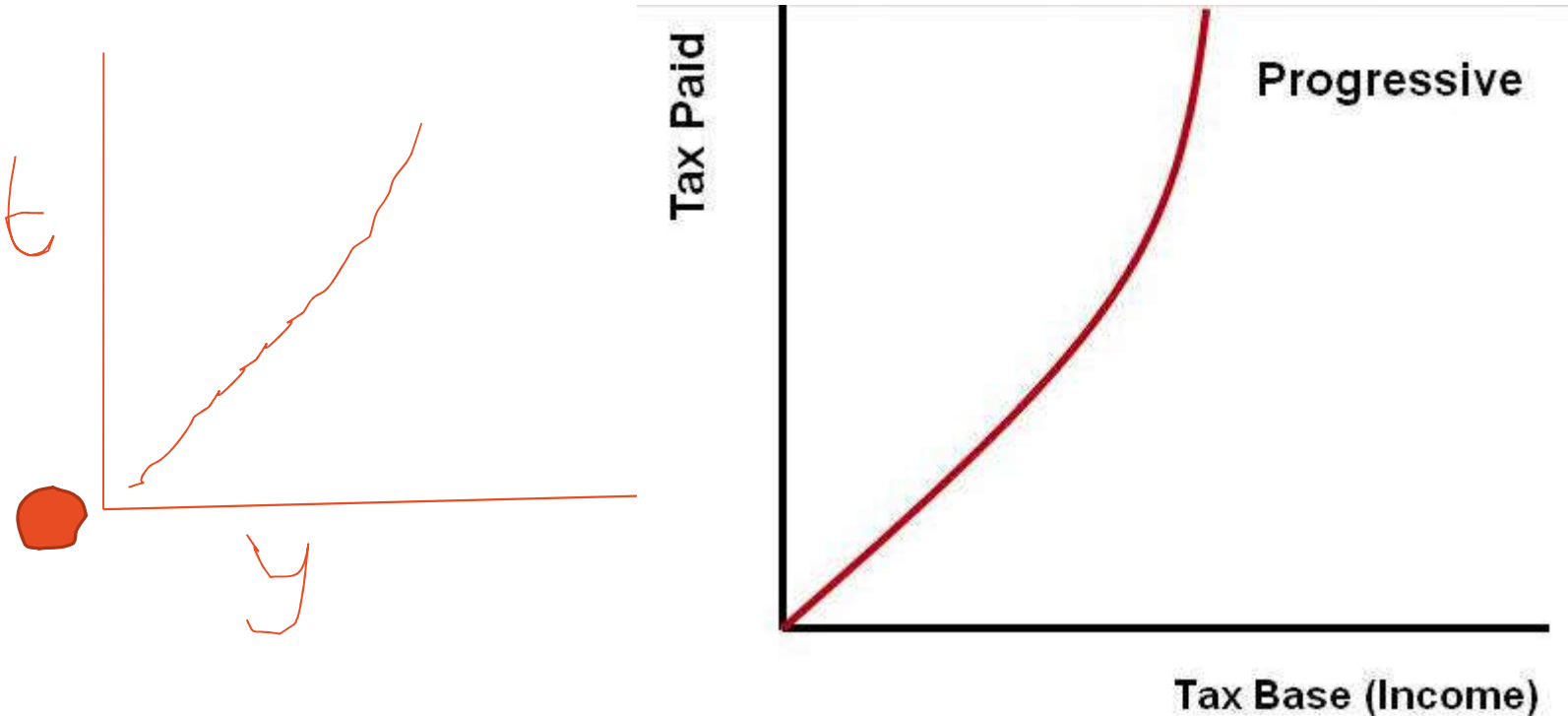
- Progressive Tax
- Proportional Tax
- Regressive Tax





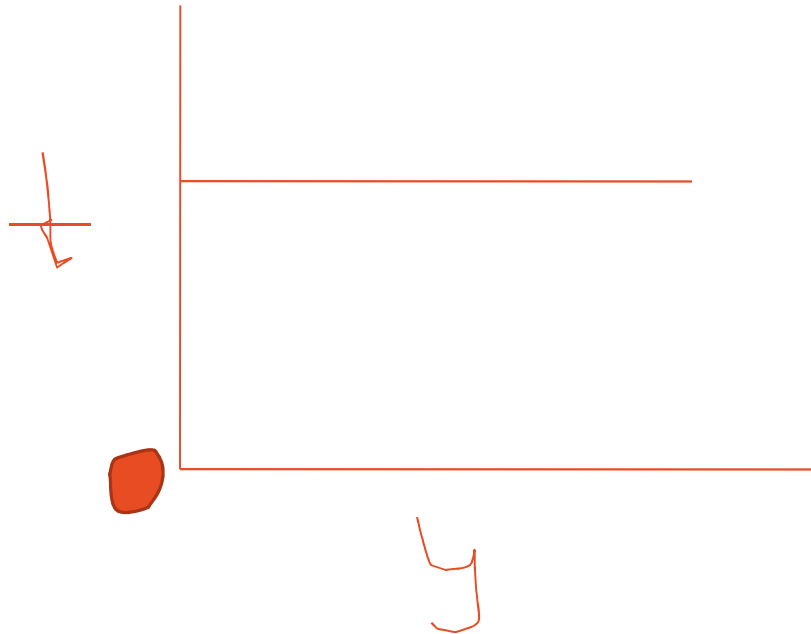
# PROGRESSIVE TAX SYSTEM

The rate of tax increases as income increases  
i.e where the rich pay more than the poor.



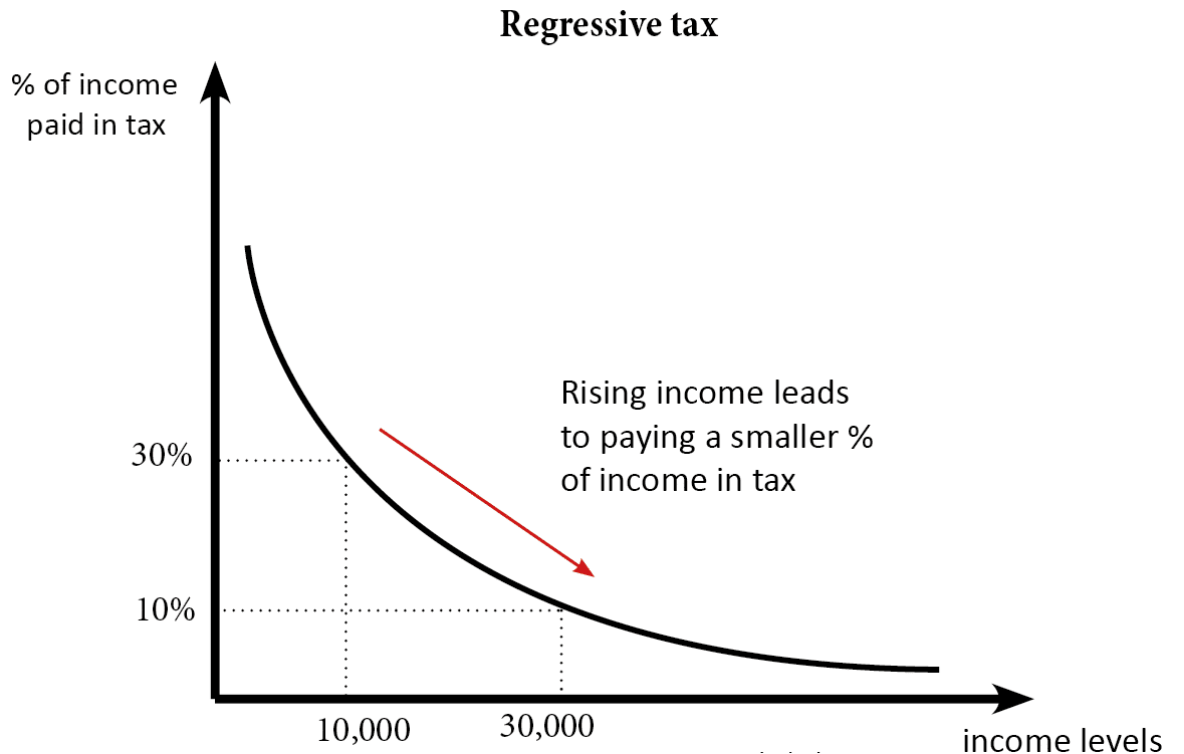
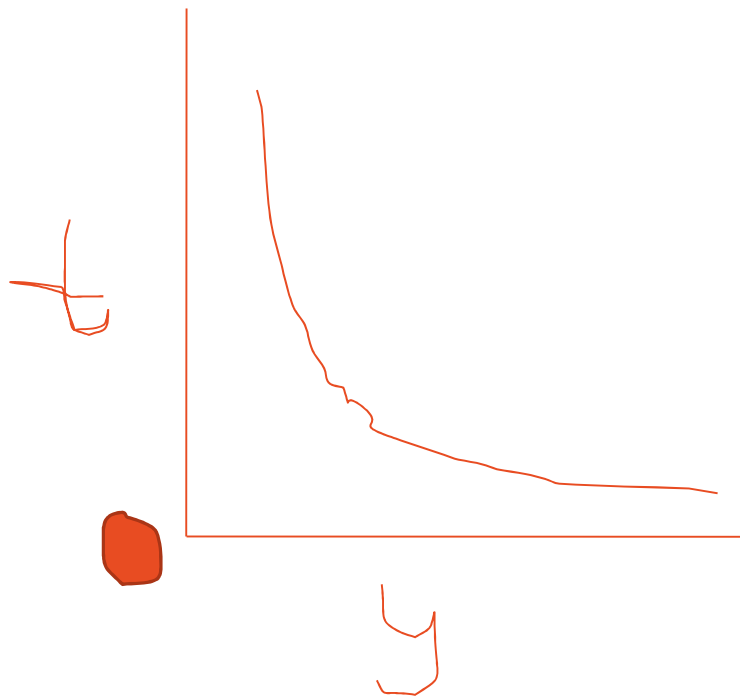
# PROPORTIONAL TAX SYSTEM

The rate of tax is the same irrespective of income, i.e., both the rich and the poor pay equal percentage of income as tax.



# REGRESSIVE TAX SYSTEM

The tax rate falls as income rises i.e the poor pay more than the rich.



# Data Response

Workers	income	Tax rate
Doctor	#8,000	10%
Engineer	#7,000	12%
Civil Servant	#5,000	18%
Nurse	#6,000	15%

Use the table above to answer the questions that follows:

- Find the disposable income of each worker
- What system of tax was employed?
- Explain your answer in b (May/June)

## SOLUTION

Tax Paid = Tax rate  $\times$  Tax base(income)

For Doctor =  $10\% \times 8,000 = \text{₦}800$

For Engineer =  $12\% \times 7,000 = \text{₦}840$

For Civil Servant =  $18\% \times 5,000 = \text{₦}900$

For Nurse =  $15\% \times 6,000 = \text{₦}900$

(a) Disposable income = Personal income -  
Personal Tax

$$\text{Doctor} = 8,000 - 800 = 7,200$$

$$\text{Engineer} = 7,000 - 840 = 6,160$$

$$\text{Civil Servant} = 5,000 - 900 = 4,100$$

$$\text{Nurse} = 6,000 - 900 = \text{₦}5,100$$

(b) From the percentage of payment and the actual money paid, the system of taxation used is Regressive.

(c) This is because the lesser income earners e.g Civil Servant and Nurse pay more in tax than higher income earners e.g Doctor and Engineer.

# ASSIGNMENT

1 a. Differentiate direct and indirect taxation

1 b. Highlight any five advantages of indirect taxation to developing countries. (M/J, 2013, NO.6)

1 a. What is incidence of taxes? 1 b. Explain four principles of taxation (M/J 2010, NO12)