Classification of Taxes

There are several bases used in the classification of taxes. However, we shall recognize three broad classifications as follows:
(i) Classification based on Incidence
(ii) Classification based on Tax base; and
(iii) Classification based on Tax rate.

Classification Based on Incidence of Tax
The final or ultimate money burden of a tax is called incidence of tax .
Under this classification of tax, two forms of taxes are evident ---Direct tax and Indirect tax

Direct Taxes: Direct taxes are those which are paid by persons on whom these are imposed and the real burden is also borne by them.The burden of such taxes cannot be transferred or shifted to some other persons.That is, in the case of direct taxes both impact and incidence fall upon the same person**.**
Examples of direct taxes are income tax, wealth tax, corporation tax,gift tax etc.

Indirect Taxes: Indirect taxes are imposed on one person but are paid either partly or wholly by another. The person who pays the tax in the first instance, transfers its burden on theshoulders of another person. In other words,an in the case of indirect tax, the impact and incidence of the tax fall on different persons**..** examples of Indirect taxes are Sales tax, excise duty, VAT etc .

Classification Based on Tax Base
A Tax base is the object or item on which tax is collected. This could be income, capital, consumption etc.

(i) **Income**: These are taxes levied on the income of Individual and companies. the common classifications are: Personal Income Tax, Companies Income Tax
(ii) **capital**: These are taxes levied on asset. The asset could be human or other forms of assets. Capital Gains Tax and Capital Transfer Tax..
iii)Consumption: These are taxes levied on goods and services. The most common forms of consumption tax are the Value Added Tax, Excise Duties and Customs duties

Classification Based on Tax Rate
Under this classification, the following can be identified.

Progressive Tax: A progressive tax is that in which the rate of the tax increases with the increase in the income. The higher the level of income, the higher the tax rate will be and vice- versa.

Table-1Progressive Tax Rates

Taxable income	Tax Rate%	Amount of tax
3000	10	300
4000	15	600
5000	20	1000
6000	25	1500

Proportional Taxes A proportional tax is one in which the rate of tax remains the same irrespective of the level of income. Here, the same percentage of tax is levied on all income groups. The tax amount is simply calculated by multiplying the tax base with the tax rate. This is illustrated in Table 2.

Table 2;Proportional Tax Rates

Tax Base	Tax Rate %	Amount of tax
1000	10	100
2000	10	200
3000	10	300

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Regressive Taxes

In regressive taxation,the higher the income of the tax payer, the smaller is the proportion of income he contributes to the government in the form of taxes. That is, in the regressive taxation, the tax rate declines as income increases. This type of taxation is against the objective of welfare state in modern time. (Table 3)

Table 3.Regressive Tax Rates

Tax Base in Rs.	Tax Rate %	Amount of tax in Rs.
1000	10	100
2000	8	160
3000	6	180

Degressive Taxes

Under this tax system, the tax is mildly progressive up to a certain limit. After that the tax may be charged at a flat rate. In other words, degressive tax system is a mixture of proportional as well as progressive tax system. In this, the higher income group people have to make little sacrifice in comparison with lower income group. (Table 4)

Table 4.Degressive Tax Rates

Tax Base in Rs.	Tax Rate %	Amount of Tax in Rs.
1000	10	100
2000	12	240
3000	13	390
4000	13	520