
3.5

Exploring Business

The purpose of Taxation

Learning Outcome Notes

LO 3.5 - Examine the purpose of taxation from a financial, social, legal and ethical perspective

CHAPTER QUESTIONS

By the end of this learnign outcome you should be able to do the following

1. Define the term Taxation?
2. Explain the term Taxation?
3. Outline the principle of a fair tax system?
4. Loot at the purpose of taxation from a financial, social, legal and ethical appoint of view?

WHAT IS TAXATION

Taxation ^{Def} This is how the Government collects money from people and business which is then used to pay for public services.

The office of the revenue commissions looks after the assessment and collection of tax in Ireland. It is also known a Revenue.

The money collected is used by the government to run the country and to provide important services like build roads and schools and to pay the wages of teacher and doctors. The taxes collected include the following -

1. Tax on income - PAYE, PRSI and USC
2. Corporation tax on companies' profits (12.5%)
3. VAT on goods and services (23%)
4. Excise duty on petrol and diesel

(Have a look and 1.4 to remind yourself of the different taxes)

[Click here](#) to see how much tax is in the price of diesel.

PRINCIPELS OF A TAX SYSTEM

A fair tax system should have the following -

1. Equality - The tax the person pays should take into consideration their ability to pay the amount.
2. Certainty - The person should know how much tax they are paying. It should be clear and predictable - the same each time.
3. Economy - The cost of collecting the tax should not be more that how much is collected.
4. Convince - It should be easy to pay the taxes when they are due.

Tax should not be a disincentive. This means that that is taxes are too high people may not work because they will be given away most of their wage to Revenue in the form of a tax.

A fair tax system is when the government charges tax to the higher earners in a country and then redistributes it to the less well off

THE PURPOSE OF TAXATION

Taxes are used for the following reasons - 1. Financial, 2. Social, 3. Legal, 4. Ethical

1. Financial

Financial reasons include the following -

1. Provide and revenue for the Government.
2. For economy purposes - control inflation.
3. Aid enterprise - Provide grants.
4. Repay the national debt (servicing).

2. Social

Social reasons include the following -

1. Redistribute wealth - provide less well off (social welfare payments)
2. Discourage bad behaviour - tax on tobacco.

3. Legal

Legal reason Included -

1. It is compulsory under Irish law.

4. Ethical

Ethical Reason Included

1. Fairness - applies to everyone depending on their ability to pay.

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Past Exam Questions and Answers

NOTE - Very Important

It is very important when answering exams question that you use the following steps -

1. That you know the information for the learning outcome
2. That you understand the information form the learning outcome
3. That you can apply the information form the learning outcome to the question
4. Be able to give at least two full sentences for your answer (Fill up the space)

Questions are changing from rote learning to applying the knowledge to the Question

QUESTIONS**2022 - Question 11**

Carbon tax has increased from €33.50 to €41.00 per tonne. The Government expects this increase to raise an additional €108 million in revenue for 2022.

- (i) What is the social benefit to Irish people of an increase in carbon Tax

- (ii) Identify who will be negatively by this increase in carbon tax

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SUGGESTED SOLUTIONS**2022 - Question 11**

Carbon tax has increased from €33.50 to €41.00 per tonne. The Government expects this increase to raise an additional €108 million in revenue for 2022.

(i) What is the social benefit to Irish people of an increase in carbon Tax

Discourage bad behaviour - A Carbon tax is a penalty on all fuels that emits CO₂ when burned

Increasing the carbon tax will force people to use alternative more sustainable energy

Sources like electric cars. This will mean less pollutants in the air and improve the air quality

For Irish people

(ii) Identify who will be negatively by this increase in carbon tax

People who use Fuels that emit CO₂ when burned. Fuels such as oil, gas, coal and peat

