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# Progressive tax or flat tax

A. Man, V.A Boglea

**Aureliana Man, Vanina Adoriana Boglea**
Faculty of Economics
"Aurel Vlaicu" University of Arad, Romania

**Abstract**
The state tries to achieve a balance between efficiency and equity, by using fiscal tools. On the one hand, the state must ensure through fiscality, the collection of funds for social, economic, international cooperation, etc. programs. On the other hand, taxation should be organized so that it does not put excessive pressure on the disadvantaged, which translates in a redistribution of income.
**Keywords:** fiscal tax, flat tax, progressive tax

## Introduction

Progressive taxation defines a system of imposing a progressive tax on personal income by which the tax rate increases as the taxable base amount increases. Taxation using percentage rates of income tax is widely applied, being contemporarily the main method used as it ensures a proper correlation between tax burden and both: the taxpayer's economic strength and personal financial status.

## Material and Methods

Taxation is complex in measures and operations, conducted by law, aimed at determining the tax to be imposed on an individual or legal entity. Taxation involves both - a political side which identifies the taxpayer and the tax base and a technical side which includes the methods and techniques for measuring the taxation base and for determining the tax amount.

Through taxation, the state tries to achieve a balance between efficiency and equity. On the one hand, the state must ensure, through fiscality the collection of funds for social, economic, international cooperation, etc. programs. On the other hand, taxation should be organized so that it does not put excessive pressure on the disadvantaged, which translates in a redistribution of income. As for efficiency and equity, some financial and economic theories emphasize efficiency, while other focus on equity. Taxation is achieved by virtue of principles which have been defined by many economists over time.

**Literature review**

The modern financial theory formulates and promotes principles of fiscal equity, financial policy principles, economics principles, social and political principles, each translated into several components which emphasize certain attributes and characteristics of their content.

Based on the fiscal equity principle, there are two main taxation methods: the lump sum taxation and the percentage tax rate. The lump sum taxation is quite limited because it does not properly address the correlation between fiscal burden and the taxpayer's economic strength. It is used with indirect taxes, such as excise duty on cigarettes and alcohol or on certain local taxes.

The percentage tax rate is widely used today as it ensures a proper correlation between tax burden and both, the taxpayer's economic strength and personal financial status. There are three basic types:

- proportional tax;
- progressive tax, with the following variations:
  - simple progressive tax,
  - compound progressive tax or progressive tax in installments;
- regressive tax.

*The proportional tax* implies using the same percentage rate regardless of the taxable base amount.

*The progressive tax* requires different percentage rates according to the taxable base amount variation. It allows the division of taxable base using tax brackets, which are cutoff values for taxable income.

*The regressive tax* does not appear as a practical way of taxation, but only as a consequence of indirect taxes. These taxes are calculated as marginal percentage or lump sum rates, becoming a constant burden for each consumer of a certain product indirectly imposed.

The variety of consumer's income types relatively implies that taxes should be smaller as the income increases. Thus, taxation becomes regressive. Tax calculation is a set of operations regarding identification of tax base, determination of tax amount and tax collection.

When referring to flat tax, one can say that it involves replacing the complex set of various taxation types depending on income with a system in which the state declares a single tax rate for all income exceeding a certain predetermined level. In general, the minimum taxation level is quite low in order to stimulate the taxpayers to fulfill their tax obligations. Thus, global income is subject to single taxation. A smaller tax rate implies a better cash flow and leads to an increased willingness' to pay due taxes, a decrease in taxes leading inevitably to lower revenues for the state budget. Many economists consider that implementing a progressive taxation system will have a negative impact on the economy. Reviving the economy requires increased consumption and investment, a higher level of taxation leading to opposite results. The current volatile international context limits the capital flows needed for financing economic growth and the saving rate of those with higher earnings will strongly decrease, further reducing the funds available for domestic investment.

## Results and Discussion

Statistics show that the budget revenues collected from income tax are higher for the period in which the flat tax applied, compared to the period when Romania applied the progressive taxation system.

Introducing progressive taxation rates, which will probably require a set of tax deductions, will increase bureaucracy.

The experience of the European countries shows that progressive taxation is useful only accompanied by a deductions system that allows the state to direct private expenditures toward certain areas of social interest, such as education, health or to reward families with children.

Most European countries apply substantial deductions for employees with dependent children. In countries with progressive taxation, these deductions are managed by the global income statement. Some economists suggest, in the case of progressive taxation, a deduction system for the employees with high earnings, taking into account the amounts voluntarily paid to private pension and health funds. It is a good proposal considering the tendency of concealing high incomes, leading to tax evasion.

**Conclusions**

A differentiated taxation system will level financial inequalities, generating additional social benefits. In this regard, Richard Wilkinson argues that the more unequal a society, the more damaged the lifestyle of middle and lower class people becomes: they are likely to be less healthy, less likely to be involved in community life, more likely to be obese and more likely to be victims of domestic violence.

Differentiated taxation is a solution for governments with budgetary issues, as it allows determining a more efficient number of taxes to be collected, but at the same time, these governments are exposed to the risk of enabling fraudsters to identify new ways for tax evasion.

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