2.19 Taxation: Types, Principles and the Incidence of Tax: Test Pack

AQA 7136 · Calculators not allowed · about 20 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer all questions in full sentences where required. Show any working for calculations and draw any required diagrams carefully. Time guidance: 20 minutes.

1 Multiple choice on tax classification in a UK context: which of the following is an example of an indirect tax?

- ☐ Income tax
- ☐ Council tax
- ☐ Value added tax (VAT)
- ☐ National Insurance contributions

(Total for Question 1 is 1 mark)

2 Explain, using elasticities, why a per-unit tax on a good with perfectly elastic supply but inelastic demand leads to most of the tax burden falling on consumers in a UK market example.

(Total for Question 2 is 3 marks)

3 State briefly what the Laffer curve suggests about the relationship between marginal tax rates and tax revenue, and name one behavioural response at high marginal rates that can reduce revenue.

(Total for Question 3 is 2 marks)

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4 Define a 'direct tax' in the context of public finance and give one UK example of a direct tax.

(Total for Question 4 is 2 marks)

5 Distinguish between a progressive and a regressive tax system, naming one practical implication for income distribution in a UK context.

(Total for Question 5 is 3 marks)

6 State the canon of tax 'certainty' and explain briefly how certainty reduces administration costs for taxpayers and the government.

(Total for Question 6 is 2 marks)

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Mark scheme · 2.19 Taxation: Types, Principles and the Incidence of Tax: Test Pack

Question 1

selecting 'Value added tax (VAT)', which is collected on transactions and levied on spending, therefore an indirect tax **B1**

Answer: Value added tax (VAT).

Question 2

with perfectly elastic supply, suppliers will not accept a lower net-of-tax price, so the supply curve is horizontal and any tax must raise the price paid by consumers by nearly the full amount **M1**

with inelastic demand, quantity demanded changes little when price rises, so consumers end up paying most of the tax as higher prices **A1**

therefore economic incidence falls mainly on consumers: producers cannot pass on less than the tax because supply is perfectly elastic, and consumers cannot avoid buying much because demand is inelastic **A1**

Answer: Perfectly elastic supply forces the industry to accept a fixed net price, so the tax appears as a higher consumer price; inelastic demand means quantity changes little, so consumers bear most of the tax burden.

Question 3

Laffer curve suggests tax revenue rises with tax rates up to a point, beyond which higher rates reduce revenue **B1**

behavioural response example: increased tax avoidance or tax evasion, or reduced labour supply or effort, which shrink the taxable base **B1**

Answer: The Laffer curve shows revenue increases with rates to a peak then falls; at high rates taxpayers may avoid or evade tax or work less, reducing revenue.

Question 4

a direct tax is levied on the income or wealth of an individual or firm and is paid directly to the tax authority **B1**

example: income tax (UK), paid by individuals on earnings **B1**

Answer: A direct tax is charged on income or wealth and paid directly to the tax authority; example: income tax.

Question 5

progressive tax: average tax rate rises as income rises **B1**

regressive tax: average tax rate falls as income rises **B1**

implication: progressive taxes (like graduated income tax bands) can reduce income inequality, while regressive taxes (for example flat-rate consumption taxes that take a larger share of low incomes) can worsen inequality **B1**

Answer: Progressive taxes have rising average rates with income and can reduce inequality; regressive taxes have falling average rates with income and can increase the burden on lower earners.

Question 6

certainty: taxpayers should know when, how and how much tax is to be paid **B1**

certainty reduces time spent resolving disputes and avoids unexpected liabilities, lowering compliance and enforcement costs **B1**

Answer: Certainty requires clear rules on tax timing and amount; it reduces disputes and unexpected payments, lowering compliance and enforcement costs.

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