Table 4.1. Key Characteristics of Different Taxes

	Type of Tax	Description	Advantages	Disadvantages
Direct Taxes	Personal income tax	Tax levied on incomes/wages/earnings	• Progressive - use a marginal tax rate that increases as the amount of taxable income increases, thus effective in income distribution. • Efficient - more revenue can be raised at a lower cost through withholding of income tax at source, allowing for a stable revenue stream to the government. • Simple - if designed properly (with fewer income tax brackets), it can be easy to understand and comply with.	• A poorly designed income tax system could be very complex and difficult to understand, raising costs for the government (enforcement and compliance) and taxpayers (time and money). • An income tax that gets progressively more burdensome reduces the incentive to work harder, reducing the overall revenue collected (Laffer curve)
Direct Taxes	Corporate income tax	Tax levied on earnings (net profits & dividends) or capital of corporations	• Simple - Can be varied without adding complex tax brackets to incentivize investors, creating jobs and supporting growth. • Progressive - If well structured, larger and more profitable firms pay more taxes.	• In the absence of an agreement, double taxation (on net profits and dividends of foreign-owned companies) could reduce incentives to save and invest. • Complex - numerous deductions and exemptions to attract investment can make it very complex and prone to abuse, reducing revenues collected.
	Wealth taxes (e.g. property, inheritance, capital gains)	Taxes based on wealth/value (tangible (e.g. art, land, real estate,) and intangible (e.g. financial assets).	• Progressive – taxable value goes up the more valuable the asset (bigger/wealthier houses are taxed more). • Efficient – with accurate records, more revenue can be raised at a lower cost (lump-sum). • Simple -with no tax brackets, easier to understand and comply.	• Challenging to implement where no accurate records exist; difficult to assess value of property; easy to evade unless asset is immobile. • Difficult to enforce in countries with weaker laws/rights (e.g. weak land ownership laws)

Indirect Taxes	Consumption taxes (e.g. Value added (VAT), sales tax, goods and services tax (GST)	Taxes added to the purchase price the consumer pays, and the seller collects at the time of sale. • VAT - imposed on the value added at each stage of production of goods and services. Consumer VAT levied on final purchases. • Sales taxes apply only to tangible goods sold - services are usually excluded. • Goods and services tax (GST) - a sales tax that applies not only to finished products but also to services.	• Efficient - Higher compliance because it is collected at the point of sale. Also, through a system of tax credits, intermediaries are relieved of any final tax cost. • Simple - It is easy to comply with as the tax is collected at the point of sale, and, because it is included in the price, may not be apparent to the consumer.	• Can be regressive[1] because it is the same for each sale amount, regardless of the purchaser's income (also due to cascading effect). • If poorly designed (e.g., more exemptions/zero-ratings) could be complex and contribute to informality and increased tax avoidance and evasion – qualified purchases directed to buyers not intended to receive the benefit.
	Excise tax (on domestic and imported goods and services)	Specific tax levied on luxurious goods or to curb consumption of certain products (sin tax). These are taxes paid on purchases of specific good identified by the government and are often included in the price of the good in addition to VAT. Common examples are excise taxes on gasoline, alcohol, cigarettes, luxury imports of cars, yachts, airplanes etc.	• Efficient - Difficult to avoid. • Simple - It is easy to comply with as the tax is collected at the point of sale, and, because it is included in the price, may not be apparent to the consumer. • Progressive – can be used to target higher income households through their consumption of luxury goods. Especially useful in the absence of, or weak implementation of, personal income tax. • Equity – where used to curb consumption of certain products can be used to generate revenues to cover the cost of associated health services.	• Can be regressive, especially where intended to curb consumption, because it is the same for each purchase amount, regardless of the purchaser's income.
	Import/Customs tax/duty	Tax levied on value of imported goods and services	• Efficient – With proper enforcement, difficult to avoid, raising more revenues at a lower cost.	• If poorly designed, more exemptions make it more complex and contribute to increased tax avoidance and evasion.
	Other taxes and fees	Other taxes (e.g. stamp duty, social security contributions, financial transactions) and fees (e.g. user fees on government services)	• Helps to broaden the tax base.	• Regressive (paid regardless of income) and distortive (competitiveness of the private sector). • Complex and inefficient leading to higher administrative costs.