

Free impact of tax on income essay example

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The article examines the challenges of the tax reform mechanism. The author argues that it is difficult to achieve tax reform in the current situations because it seems tax reform is not a priority for president Obama. The current tax system does not promote economic growth because it focuses on the labor instead of the capital gains. Here, the rich continue becoming richer at the expense of workers because they pay lower taxes despite having a high income. He analyzes the financial crisis of 2009 when prices of asset reduced significantly, and affected the super rich because they depend disproportionately on assets (Stewart, 2013). Despite economic decline, the superrich paid a lower tax rate than the top 1 percent, which was the category of people with adjusted gross income.

The super rich have extremely high incomes even during the economic recession and continue paying at a lower tax rate. Despite this, the federal tax code for the rich people is still regressive and not progressive. Similarly, the article argues that superrich are better off during bad years because their capital gains are taxed at a preferential rate, and continue paying lower taxes (Stewart, 2013). This is so because their income is comprised of capital gains and dividends. Imposing a tax on capital gains and unearned income has led to conflict between democratic and republicans. He argues that Republicans are fighting for lower tax rate and are against higher revenue whereas democrats are proposing for lower rates and higher revenue.

One method used by the government to increase the revenue is via taxation. The tax increases the national revenue, but it affects the consumers and producers' income. When government imposes a tax on the price of consumer goods, the producer of such goods ends up increasing the price of

goods. Tax rate affects the people earning low income because they end up paying higher prices due to the excise tax. A slight increase in excise tax shifts up the supply curve in the market. It increases the price consumers pay for such goods, and reduces the amount that producers receive when federal imposes the tax on consumers.

On the other hand, when a tax is imposed that consumers are responsible for paying, the demand for such goods decreases because producers increase the price. The total good supplied in the market reduces because producers receive less because of the imposed tax. Thus, it makes no difference whether the government collects revenue from buyers or sellers. This is so because the burden of the tax falls almost entirely on producers and consumer. The workers are severely affected because the forces of demand and supply operate in the labor market and not on congress who determines the incidence of the tax.

Therefore, the government should apply proper tax reforms that will not benefit rich people at the expense of the workers. I support government policy of imposing a tax rate because it increases revenue used for in economic development. However, a fair economic system must give an opportunity to succeed, therefore is it economical to tax capital gains because they benefit from financial markets, a credit boom and low interest rate. On the other hand, the imposing tax on income earned should consider the forces of demand and supply in the market, which affect workers.

However, despite the challenges, if implemented properly the tax reform can be a positive aspect for the recent government shutdown. Therefore, federal

tax system should impose progressive tax on the rich people to promote equality.

Work Cited

Stewart, James. " High Income, Low Taxes and Never a Bad Year - NYTimes. com." The New York Times - Breaking News, World News & Multimedia. N. p., 1 Nov. 2013. Accessed from: <http://www.nytimes.com/2013/11/02/business/high-earnings-low-taxes-and-never-a-bad-year.html>