

Hypothecated taxes
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Law



Taxation By Due Hypothecated taxes are easy to administer and as effective in terms of revenue as any other tax. They can be also useful tool for politicians.

Hypothecation of taxes means that the revenue taxes collected from a specific source is used for a specific purpose. An example is that of television license in which the owners of television sets pay an obligatory fee to the Government which in turn uses the collected revenue to fund public broadcasting. A very important feature of taxation is how the benefit of collected tax is returned to the taxpayers. History is full of prolonged debates and disputes regarding this issue. When it comes to hypothecated taxes, these are indeed very easy to administer because of the fact that the collected revenue has to be utilized in a particular sector. The authorities are relieved of the worry to distribute the tax revenue among various sectors. These taxes can be very effective. For instance, there are times when the economy is booming but a particular sector of the economy is facing a consistent decline. In such cases, the revenue collected from a specific tax can be used in the development of that sector. Also, it provides the authorities with a clear mechanism for the preferences of the public. When it comes to the monitoring of the working of these taxes, it is a very helpful tool. There is a direct accountability in the sense that it can easily be seen whether the revenue is being allocated in the correct direction or not.

Politically, it can be very useful. In UK, there was a suggestion by the Liberal Democrat party that a rise of one penny in the marginal rate of income taxation would be hypothecated for expenditure on education. Assuming that this suggestion was accepted and put into effect, the people who want

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more Government expenditure on education would have welcomed a rise in taxation. This suggestion falls into the category of weak hypothecation. The aforementioned example of television licenses pertains to strong hypothecation.

It is commonly believed that people are more willing to pay a tax when they know what this tax would be used for. If they are deprived of this knowledge, they are less willing to pay. Hypothecation of tax allocates the collected revenue in a specific direction and people normally know what they are paying for and they are more willing to pay. There are occasions when Government faces a shortfall in the hypothecated taxes but there are also occasions when there are surpluses. In such cases, the surplus can be appropriated for the development of other sectors.

Hypothecation is a tool that is neither right nor wrong by itself. It depends on the ability of the Government to utilize the collected revenue efficiently. Its success also depends on the trust of people in their Government. These taxes have especially been the most helpful in allocating revenue for health services in UK. It makes the health services independent of the annual budget to a great degree. Hypothecation of taxes can also educate people about the cost of certain services. Therefore, it can serve as a strong political tool.

The given statement highlights the benefits of hypothecation of taxes but it ignores certain disadvantages of this system such as its exemption from review and the fact that collected tax can be allocated to a completely unrelated sector. But again, the success of this system depends largely on the ability of the Government. The Government can make this system easily

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thrive and it can also cause it to fail.

References

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