Taxation impacts on international business

Business

Tax system Taxes are some of the major contributions to the national as well as global treasury. It can be used to determine the nature of the global economy. There are regional and international taxes which are all determined by specific agencies under the monitor of the central bank. The amounts generated from taxations of various products or services are channeled to the national treasury then used to meet governmental or national expenses like paying the civil servants, establishing national projects, and procuring national defense facilities among others. This work focuses on some tax issues including comparison between two countries with different tax management and strategies. The aspect of taxation has great implications for the international business. International business relies on financial institutions like international banks for debit capital. The loan interest rate is a subject of taxation; hence it would be right to say that taxation determines the funds available in such banks for loaning purposes. It is worth mentioning that major contributions to the national and global treasury are from taxation. Global economy determines the prevailing exchange rates, currency values, and interest rates among other international business elements, and all these determine the prosperity of international business. It also determines the international competitiveness which means the economic ability of a certain region or domestic business to compete with other international business in the global market arena (Feldstein, 2007). A business should be able to maintain sustainable balances irrespective of the adopted business strategies. Salaries of a majority of citizens are always subjected to some percentage of taxes. Reduced tax rates would imply increases in income and ability to purchase international products, and this promotes the international business. The

following discussion would compare the taxation schemes between two countries which are the United States and Kenya. The US is a developed nation and the super power while Kenya is a third world nation. The United States is among the countries with high tax rates to strengthen its economy. The irony is that despite the stable economy and advanced infrastructure, the U. S would always invest in other countries and enjoy low tax rates in such countries. The U. S multinationals are likely to make huge profits in other nations than when such businesses were established in the U. S (Lessambo, 2009). Then it would always create space to be occupied by other multinationals from other countries and enable the government earn extra payments from foreign exchange. The U. S tax system is organized into two basic categories namely the federal and state level. The country has different taxes and this include the income, sales as well as capital or profit taxes. The constitution of the United States provides different authorities to the State and federal governments when it comes to tax management, and none is capable in meddling in the affairs of the other. Every state has different taxations schemes or systems. The State may also have some institutions mandated to charge taxes and these include county and major township jurisdictions. Kenya, on the other hand, has its tax system managed by the central government. The country has a body named Kenya Revenue Authority (KRA) which is mandated to collect and manage the taxes. All the funds generated from taxes are channeled to the national treasury through the ministry of finance (Thirsk, 2000). KRA has to liaise with the ministry of finance and the Central bank of Kenya and determine the taxation charges. The national treasury determines how the collected taxes are used to meet national projects. Both countries charge some taxes on

citizens' income. The countries deduct some amounts from the employees' paychecks. However, income tax is managed differently by the two countries. In the United States, an employee is to pay some taxes to the both the federal and the state levels. This is one of the factors making it be the highest tax charging nation in the universe. Federal taxes are collected in the form of social security fund as well FICA among others. Each state is subjected to some portion of the employees' income depending on the salary scale (Slemrod, 2004). The country requires the highest paid employees pay more taxes than the lowest paid. The constitution of the United States requires every employee including the top political class to pay taxes. In Kenya, the income tax is directed towards the federal government. KRA is mandated to liase with registered governmental and private employers and charge every employee some reasonable amounts. These amounts are directed to the national treasury. The government of Kenya also collects income tax through the Social Security Fund among others. However, the government then deposits collected taxes to fixed deposit accounts then later pay some pensions fee to the employees upon their retirements. Sales Tax is another form of taxes in both developed and developing nations. This tax is charged on every single item one purchases. Each State has different rates of sales taxes, for instance, New Jersey States charges 3% while Albany charges 8% of the product price as sales tax. Each state has different rules or regulations with regards to taxations of different products. For instance, New York imposes some taxes on junk food but not on basic food items like milk, while New Jersey state charges taxes on food but not on clothing. The states may also impose different rates of taxes on varying business entities depending on its contributions to the State and federal government

economy. Kenya sales taxes are subject of the national government. However, there are some commons with regard to the two nations' sales taxes. Both countries impose high taxes to unwarranted commodities. For instance, Kenya imposes high sales taxes on cigarettes, alcohol and imported sugar. However, the country charges subsidized or no sales tax on food stuff like domestically manufactured floor and sugar among others. Kenya charges no sales tax on environmentally friendly fuel like LPGs, Biogas, and solar panel gadgets among others. Each state should have its own authority to determine its tax rates. This is because at the end of the day, the taxes will be charged in accordance to the state or national economy. It would be uneconomical to use some international economic factors to impose certain tax percentages (Leymer, 2002). Employees would be able to pay reduced taxes should the national or state economy thrives. However, this may not be realized on the basis of international factors to determine sales, income, and corporate taxes among others. Among the two nations, Kenya tax management is far much better than that of the U. S from the fact that the latter's taxes is managed at both State and federal levels.

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