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What is a progressive tax system?

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WHAT DOES IT MEAN?

The term "progressive tax system" is often used by the authorities to indicate whether they tax high-income earners proportionately more than low-income earners.

The term is often relative as one country's system might be regarded as more progressive than another's. It could also apply to different tax types.

For example, in Singapore, the first $20,000 of taxable income is exempted from tax in the case of a tax resident individual. Taxable income beyond the first $20,000 is taxed at graduated rates ranging from 2 per cent to 22 per cent, ensuring that our personal income tax system is progressive.

In the case of corporate income tax, although it is levied at a flat rate of 17 per cent on corporations, a two-tiered partial tax exemption of up to $152,500 helps to bring down the effective tax rate of companies, making it progressive too.

WHY IS IT IMPORTANT?

A progressive tax system is more equitable as it taxes the rich proportionately more when they can afford it. Such a system also narrows the income gap between rich and poor individuals.

For companies, a progressive tax system is again more acceptable as less profitable firms can benefit from the lower tax liabilities, helping them to preserve their cash flows and to grow. Current trends point to an increasing trend for governments to make their tax systems more progressive.

If you want to use the term, just say: "This country adopts a progressive tax system for its corporate income tax payers."

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