

## Direct and Indirect Taxes:

There are a series of linked documents that can be used here to bring out some of the differences between direct and indirect taxes.

It is important that students know the difference between the two before the exercise is used.

Students will need the following:

- 1) The two sheets on income tax rates from 1973 to the present
- 2) The sheet on VAT rates
- 3) The sheet on direct and indirect tax as a percentage of income.

You may also want to have ready to use:

- 1) The sheet on the proportion of tax paid by the richest 1%
- 2) The professional footballer's pay slip
- 3) Something on comparative tax rates across the globe:

<http://www.bbc.co.uk/news/magazine-26327114>

The obvious follow-up to this exercise will then be to discuss the advantages and disadvantages of direct and indirect taxes, but there won't be time within one lesson. This is another exercise best done in pairs.

## **Question sheet:**

**What was the top (highest) rate of income tax in 1974?**

**Describe what has happened to income tax rates between 1973-74 and 2014-15**

**What about VAT?**

**Looking at income tax and indirect tax payable as a percentage of income (the second sheet), what is the main difference between direct and indirect taxes as you get richer?**

**Why is this?**

**Who (do you think) pays more (in total £) VAT – rich people or poor people?**

**What proportion of total income tax do you think the richest 1% pay?**