**TaxDev Tax Expenditure Workshop**

**Session 6: Tax Expenditures under the Pay-As-You-Earn (PAYE).**

Employees in TaxDevLand are taxed at the following marginal rates, per month.

|  |  |  |
| --- | --- | --- |
| **From** | **To** | **Rate** |
| - | $50 | 0% |
| $50 | $300 | 10% |
| $300 | $550 | 20% |
| $550 | - | 30% |

The Income Tax Act includes the following exceptions:

* All employees of the armed forces are exempt from paying PIT.
* A tax credit is allowed at the rate of $10 per month, per dependent child. A tax credit is an amount that can be deducted off the amount of tax otherwise due.

Both the armed forces exemption and the dependent child tax credit were identified as tax expenditures during the benchmarking process.

**Monthly PIT returns are provided for private-sector workers** for September 2022-23. For simplicity, assume that each month’s returns from July 2022 – June 2023 are identical (i.e. no changes in salary, dependent allowance claimed etc.).

**There are no PAYE returns for soldiers of the TaxDevLand armed forces.** However, the Ministry of Defence provided you with the following data on employment:

|  |  |  |
| --- | --- | --- |
| **TaxDevLand Armed Forces** | | |
| **Rank** | **# of soldiers** | **Monthly Salary at rank** |
| Private | 25 | $250 |
| Corporal | 15 | $400 |
| Sergeant | 4 | $750 |
| Sergeant Major | 1 | $1500 |

**Question (i)**: **What is the value of revenue foregone under (i) the tax credit and (ii) the armed forces exemption for the financial year 2022-23?**

* **Hints:** 
  + ***Calculate these separately.***
  + ***The amount of credit per worker cannot exceed their PIT liability.***

**Question (ii): Would revenue foregone be higher, lower, or the same if the dependent child tax credit were allowed as a deduction, rather than a credit?** A deduction is an amount that can be deducted from taxable income before calculating tax due.

Discussion Point: If you had data on the number of children of members of the armed forces, how would this affect the way in which revenue foregone was calculated in (i). *NB. It is not necessary to do the calculation for this discussion point.*