

Retrieved December 14, 2008, from http://en.wikipedia.org/wiki/Value_added_tax

The “value added tax” has been criticized as the burden of it relies on personal end-consumers of products and is therefore a regressive tax (the poor pay more, in comparison, than the rich). However, this calculation is derived when the tax paid is divided not by the tax base (the amount spent) but by income, which is argued to create an arbitrary relationship. The tax rate itself is proportional with higher income people paying more tax but at the same rate as they consume more. If a value added tax is to be related to income, then the unspent income can be treated as deferred (spending savings at a later point in time), at which time it is taxed creating a proportional tax using an income base. Such taxes can have a progressive effect on the effective tax rate of consumption by using exemptions, rebates, or credits.