The incidence of direct and indirect taxes on households in Israel and the impact on income inequality

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Abstract

The aim of this paper is to empirically evaluate the direct and indirect taxes paid by households in Israel, using the CBS "Household Expenditure Survey". The paper estimates the amount of tax paid and the incidence of the tax on different income deciles, for each tax separately. The paper also assesses the progressivity of each tax. Main findings are:

1. In 2003 - The Israeli household paid an average of 3,923 NIS a month for taxes, out of a 11,022 NIS income, which represents 37% of the average gross income.
2. The Israeli household paid an average of 2,312 NIS a month for direct taxes. Income tax and National social insurance tax are progressive taxes.
3. The Israeli household paid an average of 1,782 NIS a month for indirect taxes (those examined in this paper), 20.5% of the average net income.
4. V.A.T tax is the largest indirect tax paid by households: an average of 1,068 NIS a month, 12/3% of the average net income.
5. Indirect taxes are regressive. The incidence of the tax declines as income grows. Gini flexibility of the tax is below 1, meaning: an increase in marginal tax will increase income inequality. The most regressive indirect taxes are: purchase tax on cigarettes, fees and V.A.T

Key words:
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