

Taxation

Principles of Taxation

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- To achieve certain desired objectives, a good tax system is required to follow certain principles which becomes its characteristics.
- Conflicting objectives of taxes require consideration of more important objectives and accordingly suggesting important principles of taxation.
- Adam Smith, a believer of laissez faire system, recommended important principles known as Canon of taxation.

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■ Canons of Taxation:

1. **Canon of Equity:** The contribution of the subjects should be in proportion to the their abilities.
 - Everyone should contribute at least in proportion to the income earned under state protection.

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- In terms of utility sacrificed, one can recommend equal marginal sacrifice.
- Two possibilities:
 - i. Proportional taxes – in case of constant marginal utility of income
 - ii. Progressive taxes – in case of diminishing marginal utility of income

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2. Canon of Certainty:

- This principle is to protect the taxpayers from harassment by the tax officials.
- Tax amount should be certain and not arbitrary.
- Time, manner, amount ought to be clear and plain to every person.

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3. Cannon of Convenience:

- The mode and timing of tax payment should be convenient to the taxpayers to the extent possible.
- Unnecessary trouble to the taxpayers should be avoided.

To be Continued -----