

Note on Taxation system

Introduction

Today an important problem against each government is that how to get income temporarily by debt also, but they have to return it after some time. Some government income is received from government enterprises, administrative and judicial tasks and other such sources, but a big part of government income is received from taxation.

Taxes: - Taxes are those compulsory payments which are used without any such hope towards government by tax payers that they will get direct benefit in return of them.

According to **Prof. Seligman**, ‘‘ Tax is that compulsory contribution given to Government by individuals which is paid in the payment of expenses in all general favours and no special benefit is given in lieu of that.’’

According to **Trussing**, ‘‘The special thing is that in regard of tax in comparison to all amounts taken by government, quid pro quo is not found directly between taxpayer and government administration in it.’’

Characteristics of a Tax

It is clear by above mentioned definitions that some specialties are found in tax which are as follows: -

(1) Compulsory Contribution—Tax is a contribution given to state by people living within the premises of country due to residence and property etc. or by citizens and this contribution is given for general use only. Though it is a compulsory contribution, therefore, no individual can deny from the payment of tax. For example, no person can say that he is not getting benefit from some services provided by that state or he didn’t get the right to vote, therefore, he is not bound to pay tax.

(2) Personal Obligation —Tax casts personal obligation on taxpayer. Its meaning is that if tax has been imposed on some person then it is his duty or obligation to pay it and don’t try to avoid it in any condition.

(3) The Tax is Imposed for the General and Common Benefit —The contribution that is received from taxpayers in the form of taxes, it can be possible that it cannot be spent for their profit only, but it must be spent in favour of common people. It can be possible that a person is not capable to fulfil all his needs specially to fulfil those needs where huge amount is spent there such as construction of hospital. In that condition the state arranges for such services for the benefit of all people.

(4) No Relation between Taxation and State Services —Payment of taxes not done by state for the payment of any special service given to a person and tax is not paid for this purpose that some special benefit has been given to taxpayer by state. In this way, taxes are not paid because taxpayer has received benefit from state or state has provided service for it.

Canons of Taxation

Adam Smith has described the following canons of Taxations

1. The Canon of Equality: - Canon of equality or equity is the first canon presented by **Adam Smith**. According to this, “The citizens of every state must contribute for the aid of government in proportion to their ability, means in proportion of that income whose enjoyment; they receive in security of state. By following this principle, the equality of taxation can be received and by neglecting this, the principle of inequality. Taxation tells clearly that government have to receive accordingly from each citizen for the fulfilment of their expenditure.”

2. Canon of Certainty: -**Second** canon of Adam Smith is canon of certainty. According to this, “Every individual who pays taxes, must be certain. The time of payment of tax, method of payment and amount of payment etc., must be clear to taxpayer and each other individual. In the matter of tax, the payment which is paid to any individual, its certainty is very important that on the basis of experience of all countries, but my view is that the inequality of large amount is not so dangerous so that the certainty of less amount.”

3. Canon of Convenience: -The **third** canon of Adam Smith is canon of convenience. According to this canon, “Every tax must be paid at such time and according to such ritual that the payment of this is more convenient for the taxpayer.” Its meaning is that the tax must be imposed in such a way and must be imposed at such a time when the taxpayer can pay it more conveniently.

4. Canon of Economy: -The **fourth** and last canon of **Smith** is canon of economy. According to this, “Every tax must be imposed and received in such a way so that the money which comes by it in the treasure of state, people must have to pay less for it.” The objective of this canon is that the administrative cost of tax payment must be kept minimum, means there must be minimum difference between the money coming from the pocket of people and money deposited in treasure.

Classification of tax

Taxes can be divided into four main sections according to their structure, nature and the way of putting them.

1. Direct and Indirect Tax.
2. Proportional, Progressive and Regressive Taxes.
3. Single Tax System and Multiple Tax System.
4. Specific Tax and Ad valorem Tax.

Direct and Indirect Taxes

Direct Taxes: - The Direct Taxes are those Taxes paid in one time and these taxes are payable to those person getting there taxes it means they can't avoid its pressure on others like Income tax.

Indirect Taxes: - Indirect Taxes the taxes are paid by producer but after that they moved to manufacturers. Through this only one person is getting the pressure of Impact of Taxation and Incidence of Taxation, like Income Tax but in Indirect Taxes the pressure of taxes is on different people like **sale tax**.

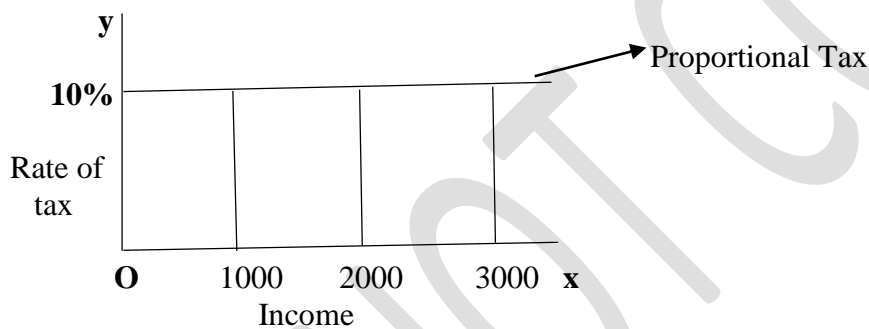
Proportional, Progressive and Regressive Taxes.

Proportional Tax- In proportional taxation system, the tax rate remains the same. All the tax payers will pay to the Government in the proportional ratio.

According to **Dalton**, “In proportional taxation all the tax payers pay their taxes according to the equal proportion of this income”.

Table of Proportional Taxation

Income (₹)	Tax (%)	Amount of Tax (₹)
1000	10	100
2000	10	200
3000	10	300
4000	10	400

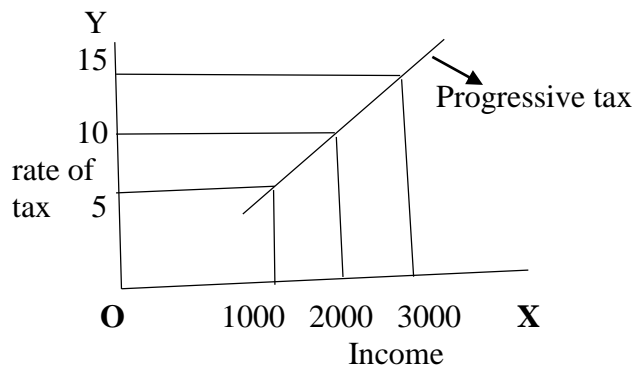


Progressive Tax- Progressive tax system is a system in which not only the income increases as well as the rate of tax. Its principle is, “More income, more rate of tax”.

According to **Dalton**, “In progressive taxation whatever increase in income of tax payer have, in that particular rate, he pays the tax”.

Table of Progressive Taxation

Income (₹)	Tax (%)	Amount of Tax (₹)
1000	5	50
2000	10	200
3000	15	450
4000	20	800

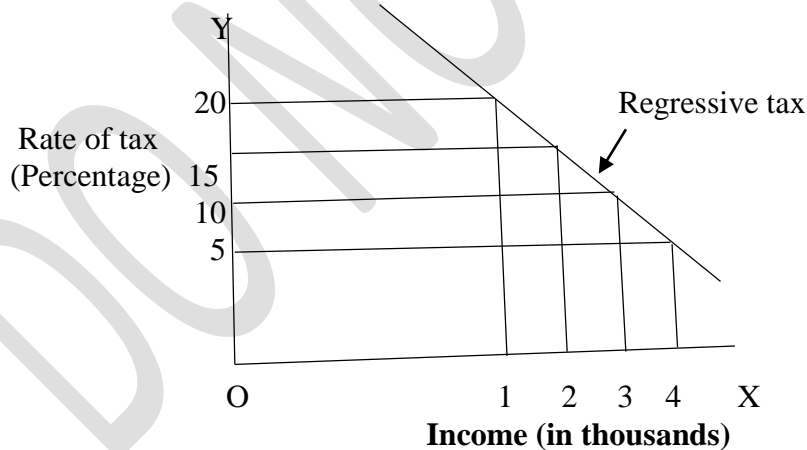


Regressive Tax- A tax system is regressive when there is increase in the income and property of taxpayer and the rate of tax payer are low. Like, if there is ten percent tax on low income and five percent tax on high income then this is the example of regressive taxation.

In **Dalton's** words, "In regressive taxation whatever high income a tax payee has the ratio of giving tax is that much low".

Table of Regressive Taxation

Income (₹)	Tax (%)	Amount of Tax (₹)
1000	20	200
2000	15	300
3000	10	300
4000	5	200

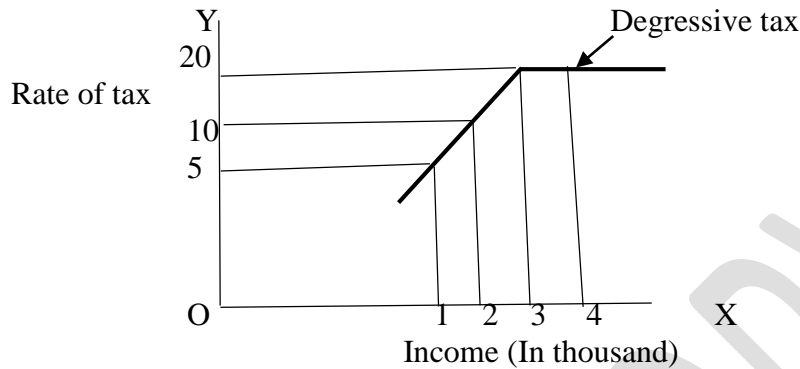


Degressive Tax: - The degressive tax is progressive to a fixed point. But after this point these taxes becomes proportional. In present time developing economies are using these taxes more.

Table of Regressive Taxation

Income (₹)	Tax (%)	Amount of Tax (₹)
1000	05	50
2000	10	200

3000	20	600
4000	20	800



Single Tax System and Multiple Tax System

Single Tax System: -There is only one tax from the state which is on the production of agriculture, is on income or any other thing. A group of economists called **Physiocrats** thought is that there should be tax on agriculture production because agriculture is the only production business.

Multiple Tax System: -When state collect revenue by imposing different types of taxes is called multiple taxes. Today, almost in all the countries multiple tax system is popular. In these taxes, it can be justified by including the merit of progressiveness. Today, government is adopting different types of taxes like - income tax, debit tax, property tax, gift tax, death tax, production tax, import tax etc.

Specific Tax and Ad valorem Tax.

Specific Tax: - Specific taxes are to put on figure of thing, shape and weight like if there is a tax according to ` 50 each metric term on anything's weight.

Ad valorem Tax: - Ad-Valorem Taxes are those getting according to the cost of things like if there is a tax of 10% rate on the cost of anything then it will be Ad-Valorem Tax. Debit taxes are normally according to this process.

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