"Taxable Capacity"

For 6th Semester
Economics (Major)
Paper – 6.1

Aparna Sengupta
Associate Professor
HOD, Department of Economics

Taxable Capacity: —

Taxable capacity means the maximum capacity of the people of a country to bear the burden of taxation. It denotes the extent to which a person can be taxed.

Despite its great importance in modern public finance, it is a much debated concept and lacks precision. Various definitions of taxable capacity have been given by numerous writers. According to the Taxation Enquiry Commission of India, "Taxable capacity of different sections of the community may be said to refer to the degree of taxation, broadly speaking, beyond which productive effort and efficiency as a whole begin to suffer." Josiah Stamp, a well known authority on public finance, has stated that taxable capacity is the total production minus the amount required to maintain the population at subsistence level. The volume of production, in this definition is statistically measurable but the amount necessary for subsistence is not definite or precise since this will change according to persons, place, time and circumstances.

Besides the above definition, Stamp has given two other definitions of taxable capacity. According to him, taxable capacity is the minimum amount which the citizens can contribute towards the expenses of the public authorities "without having a really unhappy and downtrodden existence and without dislocating the economic organisation, too much." But it is difficult to state clearly the meaning of such phrases as "without having a really unhappy and downtrodden existence" or "without dislocating the economic organisation too much." In another context, Stamp speaks about the income produced and distributed as factors on which taxable capacity will depend. However, the concept of taxable capacity cannot be based on only one criterion, viz. of income produced and distributed. How much the people will be able to pay to the State by way of taxes, will depend upon other considerations besides the total income people have received.

Findlay Shirras has defined as follows: "Taxable capacity is the limit of squeezability. It is total surplus of production over the minimum consumption required to produce that level of production, the standard of living remaining unchanged." But the concept of "minimum of consumption" is vague and cannot be given precise meaning or measurement.

Prof. Musgrave suggests that instead of having a one-sided narrow concept of taxable capacity of the taxation potential of a country, we must hold a broad view regarding the overall effect of the budget. In his opinion, "the very term taxable capacity invites bias."

Absolute and Relative Taxable Capacity:

The term taxable capacity is used in two senses:—

1. In the absolute sense and
2. In the relative sense

While the concept of taxable capacity is difficult to measure, economists like Dalton and Shirras distinguish between absolute taxable capacity and relative taxable capacity.

Absolute taxable Capacity:

Absolute taxable capacity refers to whatever could be taken away by the State after allowing for the barest of subsistence to the citizens, or as Shirras has stated, "Absolute taxability is the limit of squeezability." But there can be no unanimity as regards the precise scope of "minimum of subsistence" or that of the "limit of squeezability." Absolute taxable capacity implies that over and above what is really necessary for a citizen, whatever is left over can be appropriated by the State.

Absolute taxable Capacity Can affect not only the well-being of the People, but also the Productivity and efficiency of the Community.

Relative taxable Capacity :-

Relative taxable capacity refers to the taxable Capacity of one Community as Compared to that of another. For instance, the rich Can bear more burden (i.e their taxable Capacity is more) as Compared to the Poor. Thus if two Separate Communities have to meet Some Common expenditure, it Can be in proportion to their relative taxable Capacities.

This Principle is Commonly applied in a federal System of Govt. in which different States are expected to Contribute to the Common expenditure of the Country. But the Problem is to determine the relative taxable Capacity of a given Community. The relative taxable

Capacity of a Community will depend upon Such factors as the share of the national income, the Pattern of distribution of income, the Size of the Population, the rate of growth of income taken together with the rate of increase in Population, the Conventional Standards of living, the quality of the government administration, the Patriotism and the Sense of Purpose which the government may inspire and so on.

Dr. Dalton says that absolute taxable Capacity is a myth, while relative taxable Capacity is a reality. But the Criticism leveled against absolute taxable capacity by Dr. Dalton Cannot be accepted Completely. Though it is not Possible to measure the absolute taxable Capacity accurately, it Cannot be ignored Completely. It Serves as a useful guideline for the government when it levies new taxes on its citizens. But the Concept of relative taxable Capacity has more usefulness than that of absolute taxable Capacity so as to raise Capital formation.