

"Taxation: Principles of Taxation"

For 6th Semester
Economics (Major)
Paper - 6:1

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Introductory:

What follows from the Title "Taxation: Principles of Taxation", is today we will have a discussion of some of the leading principles that can shape decisions about taxation.

Taxation principles are the guidelines that a governing entity should use when devising a system of taxation. The principle recognises that the purpose of taxation is to pay for government services.

Over the centuries, authors have developed two approaches to taxation viz, taxation according to benefits received and taxation according to ability to pay.

The Ability to Pay Principle:— The ability

approach is based on the broad assumption that those who possess income or wealth should contribute to the support of public functions according to their relative abilities. Those who have should pay, and those who have not need not pay. It is a progressive taxation principle.

As far back as the 16th Century, Giucciar dini and Jean - Bodin argued for taxation on the basis of ability. William Petty and Adam Smith spoke of the ability concept. But the most classic statement of ability principle comes from the pen of J. S. Mill.

Justification for Ability Approach:-

Supporters of the ability approach have sought to justify it on three grounds. First is the sacrifice interpretation of ability.

The second justification of ability is in terms of diminishing marginal utility

of income.

The third justification of ability is known as the faculty interpretation.

Faculty is the capacity of an individual to produce and consume and this is represented by the income and the accumulated wealth of an individual.

Index of Ability to pay:-

What is the index of ability to pay? (1) At one time property or accumulated wealth was considered as the best index of ability to pay. A family's wellbeing would depend upon the accumulated wealth possessed by it. Wealth was considered a better index of ability than income because in addition to being a source of income, wealth provided security and insurance against risk.

(2) Income has come to be accepted, as an index or criterion of a person's

ability to pay. For purposes of taxation, gross income is considered as unsuitable for it is composed of cost elements, but net income is regarded as the best measure of taxpaying ability because it reflects the sum of net receipts over costs. Taxable income should be defined as "clear income" above subsistence.

Though income has come to be accepted as the proper index of ability, for instance, income tax on personal income is regarded as the most equitable of all taxes, it is said to be defective. The modern society has become increasingly complex and the income index of ability is not adequate.

- ③ Consumption has been suggested as an index of calculating tax paying capacity on the assumption that such expenditures measure the true utility or satisfaction derived from income. In recent years, expenditure tax has been imposed in countries like India

Complementing the personal income-tax.

As the main index of ability, it seems to be agreed generally is income, while supplementary indices can be both property and consumption.

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04.5.2020