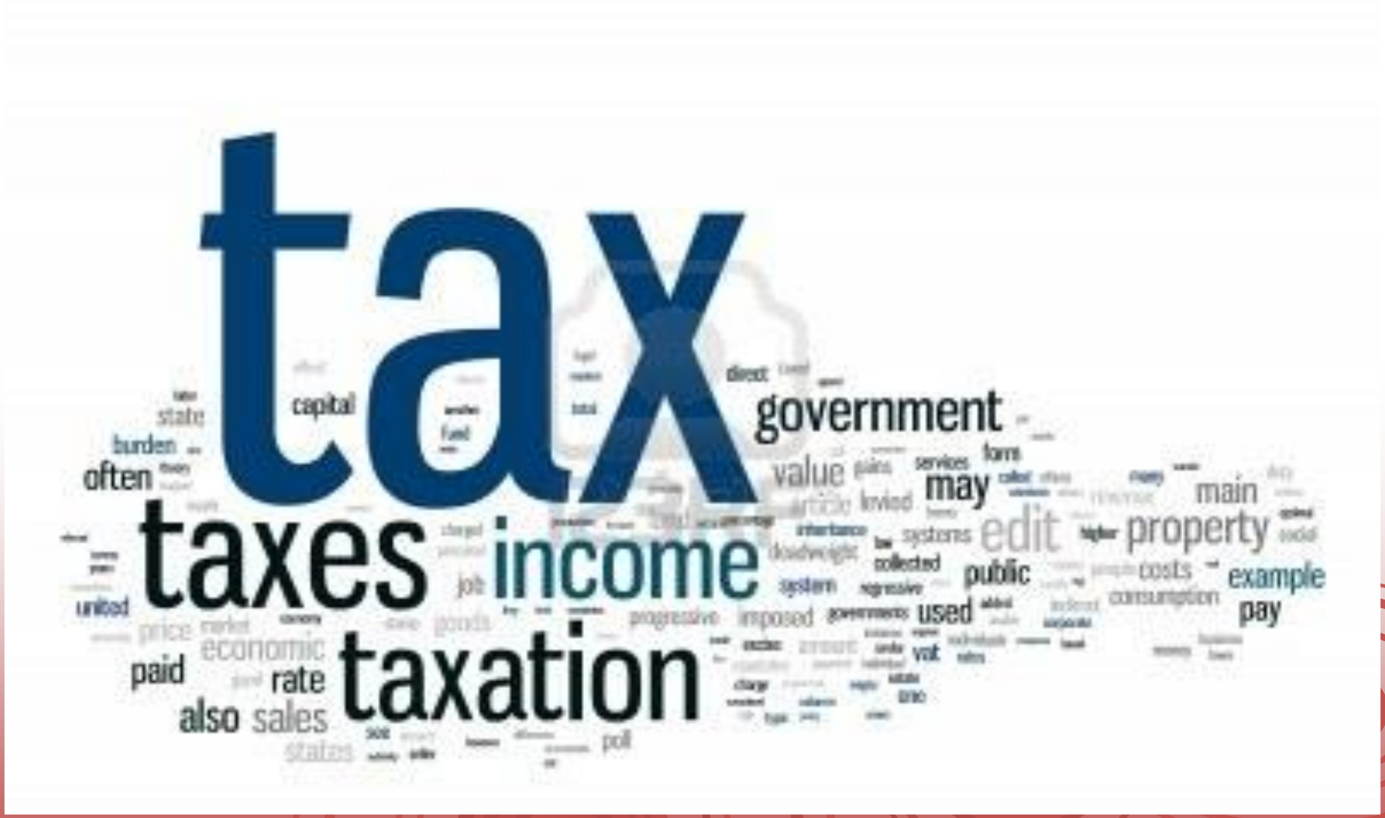
# TAXATION



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- What is Public Finance?

According to Dalton,’ Public finance is the branch of knowledge which is concerned with the income and expenditure of public authorities and with the adjustment of one to another.’ It deals with the study of revenue and expenditure of the government at the centre, state and local bodies.

The public authorities have to perform various functions such as maintenance of law an order, provision of defence, production for bringing in economic development. The performance of these functions require large amount of funds which is raised through taxes, fees, fines, commercial revenues and loans.

- **Public Revenue**

This is one of the branches of public finance. It deals with the various sources from which the state might derive its income. These sources include incomes from taxes, commercial revenues in the form of prices of goods and services supplied by public enterprises, administrative revenues in the form of fees, fines etc and gifts and grants.

# Difference between Public revenue and Public receipts

Public revenue includes that income which is not subject to repayment by the government. Public receipts include all the income of the government including public borrowing and issue of new currency. In this way public revenue is a part of public receipts.

**Public Receipts = Public revenue + Public borrowing + issue of new currency**

# Taxation

The most important source of revenue of the government is taxes. The act of levying taxes is called taxation. A tax is a compulsory charge or payment imposed by government on individuals or corporations. The persons who are taxed have to pay the taxes irrespective of any corresponding return from the goods or services by the government. The taxes may be imposed on the income and wealth of persons or corporations and the rate of taxes may vary.

## ▪ Canons of Taxation

A good tax system should adhere to certain principles which become its characteristics. A good tax system is therefore based on some principles. Adam Smith has formulated four important principles of taxation. A few more have been suggested by various other economists. These principles which a good tax system should follow are called canons of taxation.

# Adam Smith's four canons of taxation

- **Canon of Equality**
- **Canon of Certainty**
- **Canon of Convenience**
- **Canon of Economy**

- **Canon of Equality**

This states that persons should be taxed according to their ability to pay taxes. That is why this principle is also known as the canon of ability. Equality does not mean equal amount of tax, but equality in tax burden. Canon of equality implies a progressive tax system.

- **Canon of Certainty**

According to this canon, the tax which each individual is required to pay should be certain and not arbitrary. The time of payment, the manner of payment and the amount to be paid should be clear to every tax payer. The application of this principle is beneficial both to the government as well as to the tax payer.

## ➢ Canon of Convenience

According to this canon, the mode and timings of tax payment should be convenient to the tax payer. It means that the taxes should be imposed in such a manner and at the time which is most convenient for the tax payer. For example, government of India collects the income tax at the time when they receive their salaries. So this principle is also known as ‘the pay as you earn method’.

## ➢ Canon of Economy

Every tax has a cost of collection. The canon of economy implies that the cost of tax collection should be minimum.

# CLASSIFICATION OF TAXES

**Taxes can be classified into various types on the basis of form, nature, aim and method of taxation. the most common and traditional classification is to classify into direct and indirect taxes.**

- **Direct Tax**
- **Indirect tax**

## Direct taxes

A direct tax is that tax whose burden is borne by the same person on whom it is levied. The ultimate burden of taxation falls on the person on whom the tax is levied. It is based on the income and property of a person. Thus income tax, corporation tax on company's profits, property tax, capital gains tax, wealth tax etc are examples of direct taxes.

## Indirect taxes

An indirect tax is that tax which is initially paid by one individual, but the burden of which is passed over to some other individual who ultimately bears it. It is levied on the expenditure of a person. Excise duty, sales tax, custom duties etc are examples of indirect taxes.

# CONCLUSION

It is true that we cannot measure the absolute taxable capacity of a country with any degree of accuracy. But it would be wrong to deny the existence of the concept of absolute taxable capacity in public finance. There are a number of concepts in economics which cannot be measured accurately and yet they play an important role in the formulation of economic laws. Concept of absolute taxable capacity is one of such concepts

Thank you