

TAX LAWS

CHAPTER ONE

GENERAL INTRODUCTION

Definition of tax

- Different scholars define it in various manner

Adam Smith the father of economics puts his idea

“The [citizen] of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities”

- A tax is a financial charge or other levy imposed on individuals' or legal entities property by government.
- A tax is compulsory contribution of persons towards the need of government.

Theories of taxation

The theories answer the questions of how much, from whom and for what purpose shall be tax levied.

Accordingly there are two major theories

1. Individualistic or benefit theory
2. Faculty or ability to pay theory

Individualistic theory

- It asserts tax shall be paid according to rendered service by government at individual level. Thus individuals expect direct beneficiary for each payments of tax from government.
- The amount of tax is measured per acquired benefit for the taxpayer or individual person.

- This theory is criticized for its assertion since it seems marketing, taking the benefit whether it is good or service and paying the cost.
- per to this theory who pays more tax, the poor or rich?

Ability to pay theory

- This theory argue payment of tax shall be according to the earned amount of revenue of tax payer.
- It depends in two concepts

Ability to pay: Endowment

It assumes the potential earn of a person, not consider the actual income rather potential. It taxes the human power.

Ability to pay: sacrification

- It asserts equal pain shall be created among the tax payers, the more earn shall pay more tax.
- Equal Marginal sacrifice: utilitarian idea
- Equal Proportional sacrifice: egalitarian idea

Principles of a good tax system

Although there are various connation of principles of good tax system, the following principles are selected for this course

Equity or fairness principle

- Burden of tax shall be fairly distributed among tax payers.
- Horizontal equity: persons in similar position of income shall pay equal tax.
- Vertical equity: persons in different income position shall pay tax differently.

Simplicity principle

The tax system shall be simple to be understood in capacity of laymen.

Efficiency principle

The tax system shall be more effective in cost of administration, and compliance.

Neutrality principle

The tax system shall not be influence the mind of the taxpayer to change the means of income.

Purpose of taxation

- Raising revenue for the government expenditure
- To keep the sustainable development
- To keep the health of society