Canons principles of taxation by adam smith:

Economics, Tax

Canons/Principles of Taxation By Adam Smith: Adam smith, the father of modem political economy, has laid down four principles or cannons of taxation in his famous book " Wealth of Nations". These principles are still considered to be the starting point of sound public finance. Adam Smith's celebrated cannons of taxation are: (1) Cannon of equality or ability, (2) Cannon of certainty, (3) Cannon of convenience, and (4) Cannon of economy. (1) Canon of equality or ability: Canon of equality, or ability is considered j to be a very important canon of taxation. By equality we do not mean that people should pay equal amount by way of taxes to the government. By equality is meant equality of sacrifice, that is people should pay taxes in proportion to their incomes. This principle points to progressive taxation. It states that the rate or percentage of taxation should increase with the increase in income and decrease with the decrease in income. In the words of Adam Smith: " The subject of every state ought to contribute towards the support of the government as early as possible in proportion to their respective abilities that is in proportion to the revenue which they respectively enjoy under the protection of the State". (2) Canon of certainty: The Canon of certainty implies that there should be certainty with regard to the amount which taxpayer is called upon to pay during the financial year. If the taxpayer is definite and certain about the amount of the tax and its time of payment, he can adjust his income to his expenditure. The state also benefits from this principle, because it will be able to know roughly in advance the total amount which it is going to obtain and the time when it will be at its disposal. If there is an element of arbitrariness in a tax, it will then encourage misuse of power and corruption Adam smith in this connection remarks: " The tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid all ought to be clear and plain to the contributor and to every other person". (3) Canon of convenience: By this canon, Adam smith means that the tax should be levied at the time and the manner which is most convenient for the contributor to pay it. For instance, if the tax on agricultural land is collected in installments after the crop is harvested, it will be very convenient for the agriculturists to pay it. Similarly, property tax, house tax, income tax, etc., etc., should be realized at a time when the taxpayer is expected to receive income. The manner of payment of tax should also be . convenient. If the tax is payable by cheques, the contributor will be saved from much inconvenience. In the Words of Adam Smith: " Every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it". (4) Canon of Economy: The canon of economy implies that the expenses of collection of taxes should not be excessive. They should be kept as little as possible, consistent with administration efficiency. If the government appoints highly salaried, staff and absorbs major portion of the yield, the tax will be considered uneconomical. Tax will also to regarded as uneconomical if it checks the growth of capital or causes it to emigrate to other countries, In the words of Adam Smith: " Every tax is to be so contrived as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state". Some other Canons/Principles of Taxation Rather Than Adam Smith: Some writers on Public Finance have formulated four other important canons/principles of taxation. They, in brief, are as follows: (1) Canon of productivity: The canon of productivity indicates that a tax when levied should produce sufficient revenue to the government. If a few taxes imposed yield a sufficient fund for the state, then they should be preferred over a large number of small taxes which produce less revenue and are expensive in collection. (2) Canon of elasticity: Canon of elasticity states that the tax system should be fairly elastic so that if at any time the government is in need of more funds, it should increase its financial resources without incurring any additional cost of collection. Income tax, railway fares, postal rates, etc., are very good examples of elastic tax. The government by raising these rates a little, can easily meet its rising demand for revenue. (3) Canon of simplicity: Canon of simplicity implies that the tax system should be fairly simple, plain and intelligible to the tax payer. If it is complicated and difficult to understand, then it wilt lead to oppression and corruption. (4) Canon of diversity: Canon of diversity says that the system of taxation should include a large number of taxes whish are economical. The government should collect revenue from its citizens by levying direct and indirect taxes. Variety in taxation in desirable from the point of view of equity, yield and stability.