

# Business taxation



Definition of Tax Evasion Tax is basically a tool used by the government to generate revenues for itself, nonpayment of taxes in most countries is punishable by the law. Tax evasion refers to the illegal means by which firms and individuals in a society look to evade the taxes imposed by the government, the tools of tax evasion are basically that the reporting of assets or earnings is deliberately lesser than the actual value, this implies that they would have to pay a lesser tax because taxes are usually in percentage terms.

#### Definition of Tax Avoidance

Tax avoidance refers to the term when the tax regime is legally used to the tax payers advantage to reduce the amount of tax that is to be paid to the government but this is all done while staying within the boundaries of law, just the tax regime is manipulated in a manner so as to reduce the amount of tax.

#### Comparison of Evasion and Avoidance

The difference between evasion and avoidance as highlighted above is that evasion is something which is outside the boundaries of law and can be punished by law if the evidence for tax evasion is found out by the tax authorities of the country but tax avoidance is something which is done within the prescribed boundaries of the law and the tax regime and is not punishable by the law of the country, the difference can be slight but it could lead to severe consequences, for example in countries like the USA tax evasion is a serious matter and could lead to imprisonment if evidence is found of tax evasion against a company or a person.

#### Canons of Taxation

The canons of taxation were developed by Adam Smith and are still widely

<https://assignbuster.com/business-taxation/>

regarded as the best parameter to judge the effectiveness of a tax regime in a country. It is a set of rules to judge whether the tax regime is a good one or not or if any changes need to be made to the tax regime, it also helps identify in which areas the changes have to be made.

The four canons of Adam Smith were as following:

- 1) The cost of collection of the taxes must be relatively low compared to the yield of the taxes
- 2) The timing and the amount of the taxes that a payer has to make must be certain to him and they should be known well before the payment time so that gives him adequate time to calculate and make arrangements for the payments.
- 3) The means by which a tax payer pays taxes should be convenient for him and the timing should be appropriate, keeping in mind the needs of the tax payers
- 4) The payer should have the ability to pay the taxes, tax payers should not be burdened with such an amount that they are unable to pay the taxes and hence face punishment and fine for doing so.

(Source: [http://www. bized. co.](http://www.bized.co.uk/virtual/economy/policy/tools/income/inctaxth1.htm)

[uk/virtual/economy/policy/tools/income/inctaxth1. htm](http://www.bized.co.uk/virtual/economy/policy/tools/income/inctaxth1.htm))

The canons of taxes have provided the guidelines for any government to follow and develop a fair and a convenient tax regime and tax collection and implement it with the point of view of being convenient to the tax payers.

#### Bibliography

Cope, J. Business Taxation: Policy and Practice. 1988. Print.

Stein, N. Business Taxation. 1990. Print.

<https://assignbuster.com/business-taxation/>