

Canons of Taxation

By canons of taxation we simply mean the characteristics or qualities which a good tax system should possess. It refers to the guiding rules and principle to make tax collection system effective and functional. In fact, canons of taxation are related to the administrative part of a tax as it is related to the rate, amount, method and collection of a tax. Canons of Taxation are broadly classified into two heads as:

A) Adam Smith's canons of taxation

B) Additional canons of Taxation

A) Adam Smith's canons of taxation: In his famous book '*Wealth of Nation*', Adam Smith presented 4 canons of taxation which are also commonly referred to as the Main Canons of Taxation. They are as follows:

1) Canon of equality or equity: By equality is meant equality of sacrifice. Accordingly, Canon of equality states that the burden of taxation must be distributed equally or equitably in relation to the ability of the tax payers. Hence, to ensure canons of equality, taxes are to be imposed in accordance with the principle of ability to pay.

2) Canon of Certainty: This canon argues that the tax which an individual has to pay should be certain and not arbitrary with respects to the time of payment, the manner of payment, the quantity to be paid (tax liability) etc. In other words, Canon of Certainty states that there must be certain to the taxpayer as well as to the tax-levying authority in respect to certainty of revenue the government intends to collect over the given time period.

3) Canon of Economy: This canon implies that the cost of collecting a tax should be as minimum as possible. Any tax that involves high administrative cost and unusual delay in assessment and high collection of taxes should be avoided altogether.

4) Canon of Convenience: According to this canon, taxes should be levied and collected in such a manner that it provides the greatest convenience not only to the taxpayer but also to the government. For example, it is convenient to pay a tax when it is deducted at source from the salaried classes at the time of paying

B) Additional canons of Taxation: Some modern writers on Public Finance such as Charles Francis Bastable (Irish classical economist:1855–1945) provided additional canons of taxation which are as follows:

1) Canon of Productivity: A tax is said to be a productive one only when it acts as an incentive to production. Accordingly, this canon implies that a tax must yield sufficient revenue and not adversely affect production in the economy.

2) Canon of Elasticity: According to this canon, an ideal system of taxation should be fairly flexible in nature in accordance with the requirement of the country. Flexible taxes are more suited for bringing social equality and achieving equal distribution of wealth.

3) Canon of Simplicity: The system of taxation should be made as simple as possible as complicated tax is bound to yield undesirable side-effects. In other words, every tax must be simple and intelligible to the people so that the taxpayer is able to calculate without any difficulty.

4) Canon of Diversity: This canon simply implies that taxation must be dynamic which means that there should be a multiple tax system of diverse nature rather than having a single tax system. A dynamic or a diversified tax structure will result in the allocation of burden of taxes among the vast population resulting in a low degree of incidence of a tax in the aggregate.

5) Canon of Expediency: This canon states that a tax should be determined on the ground of its economic, social and political expediency. For instance, a tax on agricultural income lacks social, political or administrative expediency in India and that is why the government of India had to discontinue it.

From the above discussion, it follows that taxation serves the following purposes: (i) To raise revenue for the government (ii) To redistribute income and wealth from the rich to the poor people (iii) To protect domestic industries from foreign competition (iv) To promote social welfare.