The philosophy of taxation is broadly based on three basic considerations:

a) to raise revenue,
b) to bring about certain economic and social results,
c) to discourage the consumption and use of articles which the State regards an obnoxious. Most taxes fulfil the first consideration. The second consideration is achieved by taxes like Income Tax, wealth tax, Corporation tax, which try to reduce disparity between wealth and poverty. Third consideration is discernible in taxes like those on liquor, tobacco and gambling.

In ancient India, taxes were levied according to certain principles. These principles have been enunciated in the Dharma Shastras, The Smrities, and the celebrated Arthashastra of Kautilya.

The taxation in ancient India, was to be reasonable, the king was never to forget that nothing exposed him to greater hatred than oppressive taxation. The gardener plucks fruits and flowers, but does not harm the trees, the bee sucks the honey but does not damage the flowers, in the same manner the king should collect his taxes but should not cause any sufferings to his subjects."\(^{14}\)

\(^{14}\) A.S. Altekar- "State and Government in Ancient India".
Almost all authorities on taxation have emphasised the criterion of justice. Adam Smith, in the 18th Century in his classic,\(^{15}\) pointed out that four main objectives should be borne in mind by the State in levying taxes. Equity, Convenience of the taxpayers, Economy, certainty and Elasticity. Lord Macaulay, in the famous minute which he wrote in India when he was here between 1834 and 1838, subscribed to the same thought when he said that all taxes are evil and the onus is on the Government to prove that a particular levy is justified.

While tax policy in India aims at achieving a number of objectives such as raising of revenue, payment for goods and services provided collectively through State, serving as an instrument of social policy, the principles of taxation, i.e. equity, ability to pay, stability, certainty, Efficiency, flexibility etc are very closely related to these considerations. Let us briefly discuss the above principles.

(1) **Equity**: The taxes must be equitable and fair as between different classes of society. A good system should be horizontally equitable, i.e. like should be treated alike. A modern tax system must be so constructed as to be capable of use for vertical redistribution between rich and poor.\(^{16}\) However, the concept of equity is not fixed and settled. It

\(^{15}\) An inquiry into the Nature and causes of Wealth of Nations 1937, p.-777.
\(^{16}\) The structure and Reform of Direct Taxation. (Meade Committee Report, 1978.)
depends upon the social and political ideas prevalent and accepted in a community. What was deemed to be just and fair in the past may be regarded as inequitable today. Historically, the concept of equity has been used to justify proportional and progressive taxation. It is now generally realised that ultimately what is of real importance is the equity of the tax system as a whole and not the equity of any one tax alone. The fault of one tax may be balanced by virtues of another. Thus as long as the tax system as a whole is progressive it is not a matter of great concern if a few of the taxes alone are regressive.

2) Ability to pay: The general opinion is that taxes should be levied according to ability to pay. In practice, principle of equity is usually related to the ability to pay. Dan Throop Smith has pointed out that "The concept of ability to pay" is almost universally taken to justify some degree of progression in effective tax burdens. But the pattern of progression in spite of numerous attempts at rationalisation, seems to rest on personal value judgements for each individual's opinion and on political compromise in the world affairs.¹⁷ It is evident that a large majority of people find taxes less burdensome when they have larger incomes or more funds. When the pre-tax income at his disposal is so small, that the imposition of a tax leaves the tax payer with barely enough for his food, the tax

is a genuine hardship, but when its payment means giving up relatively un-important luxuries or when it does not affect the style of living at all, no real hardship result.

3) Efficiency: Another principle of taxation is efficiency. Generally it is understood that a tax system is inefficient in so far as it distorts the free choices of the individual. A tax which reduces the supply of labour because it distorts the choice between work and leisure is inefficient in this sense. Similarly, a commodity tax which distorts the pattern of consumption is also inefficient. This is the principle of least price distortion, that tax A is more efficient than tax B if, for an equal revenue to exchequer, it involves less loss of satisfaction to the tax payer. In other words, efficient tax system is that which causes least excess burden on welfare loss.

According to Kaldor, the purpose of an efficient tax is to restrain private expenditure.

4) Flexibility: Flexibility is important in view of the use of taxation as a means of regulating the economy. This is specially so in a developing economy where revenues must rise with increase in incomes.

5) Convenience of the taxpayer: Taxes must not be so complicated and so cumbersome in their operation as to cause needless and avoidably inconvenience and hardship to the people. Unfortunately in India, this objective has been overlooked by the Union and by the State.

6) Certainty: The Law, imposing taxes, must be so precisely and clearly worded as to make the tax payer understand what exactly is the burden he is called upon to bear. Certainty is a principle in the tax system which we are apt to take for granted, that the individual's tax liability should not be arbitrary and should be calculable in advance, retrospective legislation may infringe this principle. It contributes significantly to voluntary tax compliance and reduces compliance costs.

7) Simplicity: A tax system should be sufficiently simple both in content and terminology for the tax payer or average intelligence to comprehend, at least its main principles. Similarly also embraces the need for a tax to be relatively inexpensive to assess and collect.

In calculating cost of collection or tax operating cost, we must take into account not only 'administrative' costs to the Revenue but also 'compliance costs' incurred by tax payers in meeting the requirement of the tax laws.

None of these above principles of taxation is absolute.
There is a possibility of conflict of objectives in the tax structure. It is likely to arise particularly between simplicity and equity and between equity and efficiency. Many of the complications of the tax systems spring from exemption and provisions for special treatment which seek to remove inequities, yet their very existence not only reduce simplicity but also increases inequities for those whom the circumstances have placed on the wrong side of the special provisions. Frequent changes in taxation associated with flexibility create inequities. But thoughtful application of harmonized principles would practically remove the problems of interpretations. As a particular kind of taxation proposals do not act or operate in vacuum, it is always possible to remove the practical angularities by resorting to a different set of taxation proposals which are found to work better in a tandem than in isolation.