

CANONS OF TAXATION

The qualities or attributes of a good tax are called canons of taxation. It was none other than Adam Smith who gave first a detailed and comprehensive statement of the principles of taxation. According to Findlay Shirras, "No genius, however, has succeeded in condensing the principles into such clear and simple canons as has Adam Smith."

Adam Smith has given the following four canons of taxation.

1) Canon of Equality 2) Canon of Economy 3) Canon of Certainty and 4) Canon of Convenience.

CANON OF EQUALITY

Canon of equity or equality is the most important and basic Canon of taxation. It is based on the principle of social justice and ability to pay. Tax burden should be equally distributed among the tax payers according to their ability to pay. That is, the rich people should bear a heavy burden and the poor a less burden. Hence, the tax system should be progressive. According to Adam Smith, **"The subject of every state ought to contribute towards the support of the government, as nearly 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."**

CANON OF ECONOMY

Canon of economy explains that taxes should be collected at minimum cost. The tax laws and procedures should be simple. The administrative machinery should not be elaborate and costly. According to Adam Smith, **"Every tax ought to be so contrived as little to take out and to keep out of the pockets of the people as possible over and above what it brings in to public treasury of the state."**

Adam Smith argued that lack of economy would result when:

- 1) Tax administration is costly on account of complicated taxes.
- 2) Taxes are unduly heavy which would discourage investment, so that the income level reduces, hence the relative tax yields.
- 3) Taxes are having elaborate and complicated administrative supervision and
- 4) Taxes are unproductive in yielding sufficient revenue.

CANON OF CERTAINTY

Taxation must have an element of certainty. That is, there must be certainty about the tax which an individual has to pay. Things like the time of payment, the manner of payment, and the quantity to be paid etc. should be plain and clear to the tax payer. It should not be arbitrary. According to Adam Smith, **"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 ought to be clear and plain to the contributor and to every other person."**

CANON OF CONVENIENCE

It explains that a tax should be levied in such manner or in such a time that it is convenient for the tax payer to pay it. 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."**

OTHER CANONS OF TAXATION

Besides the four canons put forward by Adam Smith, there are some other canons given by writers like Charles F. Bastable. They are canon of productivity, canon of elasticity or flexibility, canon of simplicity, canon of diversity, canon of coordination etc.

CANON OF PRODUCTIVITY

Tax should be productive of large revenue. According to this canon it is desirable to have a few taxes yielding large revenue rather than having a large number of taxes yielding small revenue. It also implies that instead of imposing large number of unproductive taxes, it is advisable to have a few productive taxes.

CANON OF ELASTICITY

It means that taxation should be flexible or elastic. That is, it should be capable of increasing or decreasing the tax revenue depending on the need of the government.

In other words, the tax revenue may increase automatically whenever needed by an upward revision of tax rates or by extension of its coverage.

CANON OF DIVERSITY

This implies that there should be a number of different taxes in the country.

This will make every citizen of a country to pay something to the national exchequer.

As the number of taxes increases it will increase the administrative costs, reducing the revenue. Hence, too many taxes are to be avoided.

CANON OF SIMPLICITY

This canon implies that the tax should be simple to understand even to a layman. It should be free from all ambiguities and provisions to avoid differences in interpretation and legal disputes.

CANON OF CO-ORDINATION

There should be co-ordination among different layers of governments in imposing taxes. Especially, in a federal country like India there should be coordination among the central, state and local governments regarding taxes, since each of these is having legal right to impose taxes.