

"A good Tax System: Characteristics"

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Characteristics of a Good Tax System

Introductory :-

Characteristics or Features of a good tax system may be formulated from various objectives, principles or Canons of a tax system, that I have already discussed in my previous classes. Additional features may be searched in the issues associated with its administration, effects, kinds and forms and timing etc.

What is a good tax system?

A good tax system is one which has predominantly good taxes and which fulfils most of the Canons of ^{taxation} and yields sufficient revenue but cause minimum aggregate sacrifice to the people and minimum obstruction to incentives for production.

A good tax system should possess the following

Characteristics :-

- 1) A good tax system recognizes that the tax-payer has some basic rights. He is expected to pay his taxes but not undergo harassment. It should cause minimum aggregate sacrifice. The allocation of taxes among the general public should be made according to the ability of the taxpayer to pay.
- 2) The attitude of the tax-payers is an important variable in determining the contents of a good tax system. It should effectively balance the weight and burden of taxation. The weight refers to absolute sacrifice in terms of purchasing power surrendered by the tax-payer. The burden implies the relative capacity of the tax-payer to bear the tax.
- 3) A good tax system should ensure the best possible distribution. It should be reasonably progressive so as to minimize the gap of inequality of income and wealth in the community.
- 4) A good tax system should be fine-tuned

to ensure maximum social advantage.
Taxation should be used to finance public services.

5) A good tax system should satisfy most of the canons of taxation. The taxes imposed should be equitable, convenient to pay, economical, certain and productive, simple and elastic or flexible as far as possible.

6) The entire structure of the tax system should have built-in flexibility. It should be possible to add or withdraw a tax without destroying the entire system and its balancing effect. In fact changes in a tax system can be brought about only slowly and in stages.

7) A tax system has many dimensions, its volume, composition, rates, coverage, timings of collection, mode of collection and so on. A good tax system should be a balanced one, it should not contain only progressive, regressive or proportional taxes, but a healthy combination of all

Such taxes. It should have a balance of direct and indirect taxes.

8) A good tax system should run in harmony with important national objectives and if possible should assist the society in achieving them. It should try to accommodate the attitudes and problems of the taxpayers and should not lose sight of the administrative practicability or the goals of social and economic justice.

9) Dynamism of the tax system is more relevant for a developing economy where the structure and rates of taxes have to be constantly reviewed. The interest of the administrative machinery, the economy, the state and the individual tax-payers can be in conflict with each other and a good tax system tries to accommodate them all in the best possible manner.

10) A good tax should not hamper the development of trade and industry of the economy. Tax system should be

designed to mobilise the surplus resources in the economy and not deprive the private sector of its resources.

11) A developing economy like India faces the problem of regional disparity. Tax measures should be so devised as to counteract this tendency and bring about a more equitable economic growth. In the process of economic growth, a developing country is likely to face the problem of inflation. A good tax system should help in counteracting the inflationary forces. It should be designed to discourage unnecessary consumption and boost up production along desired lines.

To Sum up: Thus, from the above discussion we can fairly conclude that a good tax system is one which strengthens the confidence in the fiscal basis of the state, designed to meet the requirements of equity, efficiency and convenience and simultaneously encourage community productive effort and promote social welfare.

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