

Unit - I

Q. What do you understand by cannon of taxation?
Discuss various cannon of taxation as pronounced by various jurists.

Introduction:-

The term "cannon of taxation" refers to the set of principles or rules that guide a good tax system. The concept was first introduced by Adam Smith in his famous work "The Wealth of Nations" (1776). These cannon help government design a taxation policy that is fair, efficient, and beneficial for both the government and taxpayers. Later, several jurists and economists like J. S. Mill, Dalton and Bastable also contributed additional cannon to modernise tax principles.

canons of taxation by Adam Smith

Adam Smith laid down four basic canons known as the classical canons of taxation

① Cannon of equality or equity :-

According to Adam Smith, every citizen should contribute to state revenue in proportion to his ability to pay.

This means the burden of taxation must be just and fair.

This cannon establishes the principle of progressive taxation.

② Cannon of convenience :-

Taxes should be levied and collected in a way that is most convenient to taxpayers.

This cannon ensure smooth collection without resistance.

Example — income tax is deducted at source (TDS) from salary, which is easy and timely.

③ Cannon of certainty :-

A taxpayer must know how much tax, when to pay, and how it will be collected. If there is any uncertainty related to tax payers, it leads to harassment, corruption and evasion. This cannon ensures transparency and accountability in taxation.

Example → Income tax law prescribes the exact rate, time of payment, and method of collection, making it clear to the taxpayers.

④ Cannon of economy :-

The cost of tax collection should be as low as possible. A good tax system ensures that a major portion of tax collected goes to the government and not wasted in the collection process.

This canon leads efficiency and minimal administrative expenses. Example → if the government spends ₹20 to collect ₹100 tax, it is economical; but if it spends ₹80 to collect ₹100, it is inefficient.

Summary of Adam Smith canon

- Equity → fairness in taxation.
- Certainty → clarity and transparency.
- Convenience → easy payment for taxpayers.
- Economy → low cost of collection.

Others canon by later jurist

- ① According to J.S. Mill — canon of productivity: a tax should yield sufficient revenue to the government without much difficulty. A tax system that brings in very little revenue is useless, even if it is fair. Example → GST in India is highly productive because it contributes a major share of revenue.

to government revenue.

② According to Prof. Dalton – Canon of elasticity :-

A tax system should be flexible and able to generate more revenue whenever the government needs extra funds (e.g., during war, disaster, or economic crisis).

③ According to Bastable – Canon of simplicity :-

Tax law should be simple, clear, and easily understandable to taxpayers. Complicated taxation leads to confusion, errors and corruption.

Example – simple direct tax filling system (online portal).

④ According to modern jurist – Canon of diversity :-

The government should not depend on a single source of taxation. A mix of direct taxes (income tax, corporate tax) and indirect taxes ensures a stable and wider source of revenue.

(GST, excise, custom) ensure stability of revenue.

Example → if the government depends only on custom duty and imports fall, revenue will suffer. A diverse tax system avoids risk.

5 According to modern view – Canon of expediency :-

A tax must be acceptable to the majority of the people and should not face strong public resistance.

Example → Taxes on luxury goods are more acceptable than taxes on essential goods like food and medicine.

Conclusion :-

The canon of taxation ensures that a tax system is fair, certain, convenient, economical and productive. Adam Smith's classical canon still remain the foundation, while later jurists expanded them to meet the needs of a modern economy. A good tax system must balance equity, efficiency, and revenue needs.

Q1. Various classification of taxation

Direct and indirect tax ? Merit and Demerits ?
Multiple tax and Single tax merit and demerit ?

Introduction : —

Taxation is the primary source of revenue for the government, used to meet public expenditure and promote economic development. Taxes are broadly classified into direct taxes and indirect taxes.

Meaning of Direct tax : —

A tax where the liability to pay and the burden of the tax fall on the same person. It is imposed directly on income, wealth or property.

Example — income tax, wealth tax.

Key features of Direct tax : —

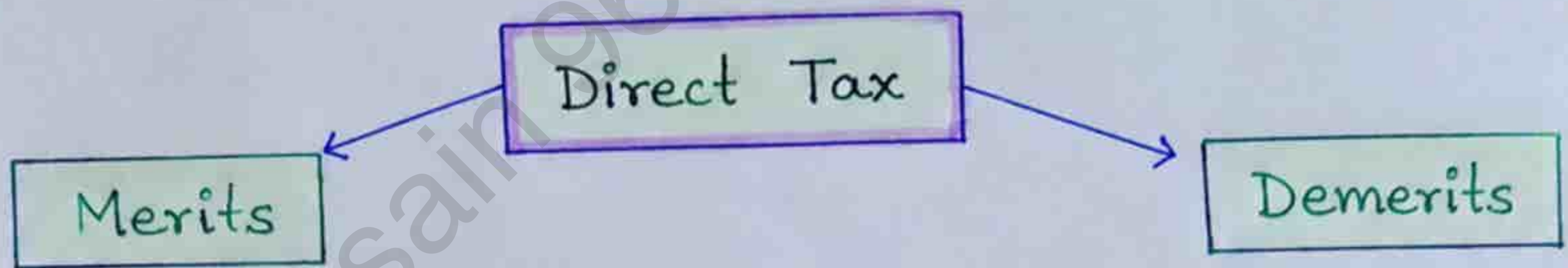
- Imposed on income or property.
- Non-transferable burden.
- Progressive in nature.
- Collected periodically.

Meaning of indirect tax

An indirect tax is a tax that is levied on goods and services rather than on income or property, and the burden of the tax can be shifted from one person to another. The seller or service provider collects it from the consumer and then deposits it with the government. Example → GST.

Key features of Indirect Tax

- Levied on goods and services.
- Shiftable burden.
- Regressive in nature.
- Collected during transaction.
- Revenue elastic.



- ① Equity
- ② Certainty
- ③ Economy
- ④ Reduces inequality
- ⑤ Civic consciousness

- ① Possibility of evasion
- ② Inconvenience
- ③ Disincentive to work and save
- ④ Unpopular
- ⑤ Administrative difficulties

Merits of Direct taxes

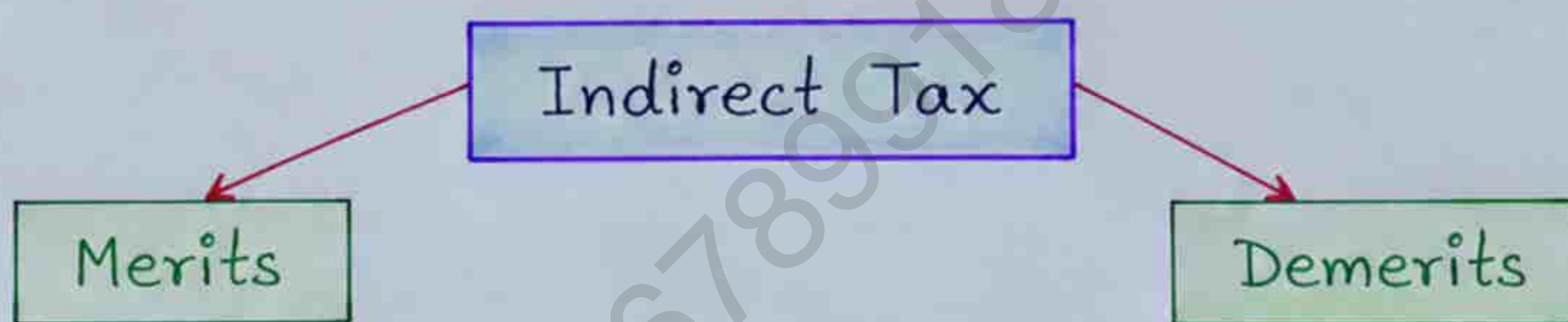
- ① **Equity** :- Direct taxes follow the principle of ability to pay. Hence, individuals with higher incomes or property contribute more, reducing inequality.
- ③ **Certainty** :- Both the taxpayers and government know the exact amount, time and method of payment, reducing confusion.

- ③ Economical :- The cost of collection is lower because taxes are collected directly from income or property by government agencies.
- ④ Reduces inequality :- Progressive tax rates redistribute wealth from rich to poor by funding welfare schemes.
- ⑤ Civic sense :- Since people pay directly, they feel their responsibility towards the nation and demand accountability from the government.

Demerit of Direct tax

- ① Possibility of evasion :- People may under-report income, conceal wealth, or use loopholes to avoid taxes.
- ② Inconvenient :- Paying lump-sum tax directly feels burdensome and creates resentment among taxpayers.

- ③ Disincentive to work :- High tax rates may discourage extra effort, investment or saving.
- ④ Unpopular :- As the burden is visible, people often resent and criticize government taxation policies.
- ⑤ Administrative difficulties :- Proper assessment of income or wealth requires skilled officials, increasing complexity.



- ① Convenient
- ② Wider coverage
- ③ Elastic source of revenue
- ④ Hard to evade
- ⑤ Encourage saving

- ① Regressive
- ③ Inflationary effect
- ③ Uncertainty in revenue
- ④ Cascading effect
- ⑤ No civic awareness

Merits of indirect tax

- (i) Convenient:- Paid automatically at the time of purchase, so taxpayers do not feel the burden directly.
- (ii) Wider coverage:- Even those outside the income tax net (like poor people or small vendors) contribute indirectly when they buy goods.
- (iii) Elastic source of revenue:- Government income from indirect taxes increases automatically as consumption rises and production increases.
- (iv) Hard to evade:- Since it is included in the price of goods/services, consumers cannot easily escape paying it.
- (v) Encourage saving:- Because the burden is hidden, people feel less reduction in their income and may save more.

Demerits of indirect tax

- ① Regressive :- Same tax rate applies to both rich and poor, so a poorer section bears a heavier burden relative to their income.
- ② Uncertainty in revenue :- Collection depends on demand and consumption, which may fall during recessions.
- ③ Inflationary effect :- Taxes on goods/services increase prices, leading to a higher cost of living.
- ④ Cascading effect :- Multiple layers of taxes increase costs.
- ⑤ No civic awareness :- Since taxpayers do not feel the burden directly, they remain unaware of their contribution and are less demanding of government accountability.

Multiple Tax

Meaning :-

Multiple tax means a system in which more than one tax is imposed on the same person, income, property, transaction or economic activity, either by the same or different taxing authorities.

Multiple Tax

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graph TD; A[Multiple Tax] --> B[Merits]; A --> C[Demerits];
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Merits

- ① Higher revenue
- ② Wider tax base
- ③ Greater flexibility
- ④ Revenue stability
- ⑤ Distribution of tax burden

Demerits

- ① Heavy tax burden
- ② Complexity
- ③ Higher administrative costs
- ④ Possibility of double taxation
- ⑤ Discourages economic activity

Single Tax

Meaning :-

Single tax means a system in which one principal tax is imposed to meet the revenue requirement of the government, instead of relying on several different taxes.

