Theories of Distribution of Tax Burden

Ability to Pay Theory of Taxation

Theories of Distribution of Tax Burden

- This approach considers the tax liability as a compulsory payment to the state without any quid pro quo. It does not assume any commercial or semi commercial relationship between the state and the citizens.
- The theory is based on principle of equity and justice and so is supported by socialist thinkers.

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- The basic tenet of the ability to pay doctrine is that the burden of taxation should be shared by the members of the society on the principle of justice and equity. And these principles necessitate that the tax burden is apportioned according to their relative ability to pay.

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- **Measurement of Ability to Pay**

  A. Objective Indices

  B. Subjective Indices

- An objective index may be measured on the basis of wealth, property, consumption expenditure or income etc. of the tax payers.

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- A subjective index is based on some measure of sacrifice of utility by the tax payers.

- **Objective indices of the ability to pay**

(i) Property:

  - One of the indices, though an insufficient index.

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- Has the demerit of adverse effect on will to work, save and invest and its consequent effect on the growth and capital accumulation in the economy.

(ii) Consumption:

- Choices of this index assume that people with greater consumption expenditure have more ability and derive smaller marginal utility from their expenditure.

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- The criteria suffers from the fact that people with more income may spend less and divert income towards saving and investment.
- Thus, increase inequality in distribution of income and wealth.

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(iii) Income

- Income is one of the most accepted indices of ability to pay, though it is usually supplemented by other tax indices also. A citizen receiving a larger income is made to pay a larger state bill and vice-versa.

To be Continued ………..