

Generic Tax Principles

“Benchmark” Principles

- Equity
- Efficiency
- Certainty
- Ease of Collection

Equity - Horizontal

“Similarly situated taxpayers should receive similar tax treatment, e.g. taxpayers who earn the same amount of income or capital should be taxed the same way.”

- IBFD International Tax Glossary

Equity - Vertical

“Differently situated taxpayers should be treated differently, e.g. taxpayers with more income and/or capital should pay more tax.”

- IBFD International Tax Glossary

Efficiency/Neutrality

“Economic decisions should be made without regard to tax consequences. In other words, tax considerations should be irrelevant in choosing between various forms of investment or business organisation.”

- IBFD International Tax Glossary

Certainty

“The taxpayer should know exactly what is being taxed, how much he has to pay, and how and when he has to pay it...”

- IBFD International Tax Glossary

Ease of Administration

- Tax policy must be administrable and underpinned by the tax administration.
- In developing countries, “tax administration *is* tax policy”.
 - M. Casanegra de Jantscher

Trade-Offs

- Principles may conflict with one another, requiring trade offs or ruling out certain forms of taxation.
- Consider a poll tax of R500 p.a.
 - Horizontally equitable?
 - Vertically equitable?
 - Efficient?
 - Certain?
 - Easy to Administer?

Another View

“For an adequate tax structure the basic characteristics (where the one does not conflict with the other or others) are neutrality, simplicity, certainty, administrative efficiency, cost-effectiveness, flexibility, stability, distributional effectiveness, and a fair balance from the point of view of taxpayers between the respective burdens of direct and indirect tax.”

- Margo & Katz Commissions

Yet Another View

J. Stiglitz' characteristics of good taxes:

- Economic efficiency: The tax should not prevent efficient allocation of resources.
- Administrative simplicity: The tax should be easy and inexpensive to administer.
- Flexibility: The tax system should respond easily to changes in economic conditions.
- Transparency: Individuals should be able to ascertain their tax burdens.
- Fairness: The tax system should be fair in its treatment of different individuals. (Horizontal equity & vertical equity.)

Minding the Gap

“Regardless of the social desirability or otherwise of any deviation from economic norms, such deviations induce others to arrange their affairs so as to utilise the provisions for their own ends.

Progressive rates of taxation encourage income splitting techniques; tax expenditures in favour of activities deemed worthy of encouragement, lead to the creation of tax-inspired shelters; preferential or tax-free status to capital gains, encourages commercial gains to be described as such;”

Minding the Gap

“administrative necessities such as limiting the taxing exercise to a particular period, encourage manipulations of the timing of deductions and receipts of income streams; those jurisdictions which prefer to tax beneficiaries rather than controllers of income streams, encourage the use of discretionary trusts and other partial alienations.”

- J. Waincymer