

Characteristics of Good Tax System

To judge the merits of a tax system, it must be looked at as a whole. A good tax system is one which has predominantly good taxes and which fulfills most of the canons of taxation: it must yield sufficient revenue, but cause minimum aggregate sacrifice to the people and minimum obstruction to incentives for production. The following are the characteristics of sound tax system of any state:

- 1. Maximum Social Benefit:** According to Dr. Dalton, that system of taxation is the best which is based on the principle of maximum social advantage. To achieve this, the taxes should be on different sections of people in such a way that the marginal sacrifice of different taxes should be the same. Every tax system should promote the greatest good of the greatest number.
- 2. Equality in the distribution of tax burden:** There are two aspects to the problem of the tax system equality. The first is the proper treatment of persons in like circumstances. The rate in this case is 'equal treatment of equals'. All those persons who are placed in similar circumstances should bear the same burden of taxation. The second aspect of equality in taxation is the desirable relative treatment of persons in unlike circumstances. That is, those who are better off should pay more taxes and they should bear a great burden of taxation.
- 3. Multi-taxation system or diversity system:** A multiple tax refers to the tax system in which taxes are levied on various items. The tax system should be diversified instead of being concentrated in one or two taxes. At the same time, care should be taken to avoid multiplicity of taxes.
- 4. Productivity of the tax system:** The term 'productivity' is interpreted in two senses. First, the taxation system should be such as to provide adequate income to the government to meet its expenditure. As the needs of the public authorities increase continually of the tax system should yield increased revenues.
- 5. Rights of tax-payers:** A sound tax system will have to safeguard the interests of the tax payers. In a democratic set-up, the rights of the tax payers have to be continuously kept in mind. Besides, the present level of taxation as well as the further prospects of taxation necessitate that the interest and rights of tax-payers should be given adequate recognition.
- 6. Universal application of taxes:** Each individual should pay according to his ability to pay, and the individual possessing the same ability to pay should contribute the same amount by way of taxes without any discrimination. In India, income tax is lacking these characteristics because income from agriculture is not taxed to the extent the incomes have been taxed in the non-agriculture sector.
- 7. Elasticity:** The taxation system should provide to the government increased income with the increase in the national income of the country. The taxation system should also yield more income when the government expenditure goes up. Two things are essential to bring about elasticity in the tax system. First there should be proper blending of direct and indirect taxes. Secondly, certain sources of income should be exclusively reserved for emergencies.
- 8. Convenience:** The government should keep in view the convenience of the tax-payer while devising the taxation system of the country. Since the tax-payers make sacrifices when they pay the taxes, it is essential for the government to see that they are not put to any avoidable inconvenience