

ABSTRACTS

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TAXATION AND THEORIES OF EQUITY

Universality is one of principles of equitable taxation. According to this principle, tax burdens should be universal, that is each citizen should be covered by a tax, if conditions for tax relationship are met. The second principle is the principle of equality. It is a mistake to use the term 'principle of equality' in the primary meaning of this word.

To realize equal absolute sacrifice, tax progression is beneficial when the utility function is characterized by flexible marginal utility in relation to income, with a 'minus' on the level above one.

When realizing equal relative sacrifice, progression can be justified theoretically when the function of nominal income utility for each taxpayer will meet the following condition: the difference between flexibility of total and marginal utility in relation to income is higher than one.

The economic sense of this difference is a reflection of the speed of extreme usefulness decline accompanying income growth. The equivalence rule assumes that the state is controlled by the taxpayers. The state generates such volume of public goods as was agreed in democratic procedures.

The rule of payment capacities assumes legitimization of not tax collection itself, but the scale of taxpayers' participation in particular, arbitrarily set tax burden. Justification of this burden is beyond the sphere of legitimization. Thus we can assume that the equivalence rule is a general principle (each equivalent tax is acceptable), while the rule of payment capacities may be used in legitimization of a specific type of tax and only when argumentation of equivalent exchange does not appear. Wherever there is a chance that individual preferences will be revealed, we should use the idea of equivalence in order to justify tax collection (local level or goods that are not purely public goods). Equivalent taxes are equitable, economically effective and neutral to market mechanism.

With reference to the rule of payment capacities we can state that the idea of equal sacrifice deserves recognition and has the value of social equity, as tax decisions, apart from allocation effects, also generate redistribution effects, vital for taxpayers' perception of equity. Moreover, the theory of equal sacrifice provides arguments against tax progression.

Observation of the contemporary tax disputes allows us to state that it is under pressure of maximizing current revenues of the budget in a short time period. The effects of taxation (tax choices) will be revealed in the long term. If current tax decisions divert from theoretical principles of equitable and effective taxation, the tax system they will shape will be destructive. Due to material or psychological reasons, equity seen as equality may be a necessary condition for the survival of a given economic system. It is not possible to precisely determine the scope in which greater income or assets inequality contributes to increasing (not decreasing) effectiveness, due to subjective nature of the equality concept.