ФІНАНСИ І БУХГАЛТЕРСЬКИЙ ОБЛІК

УДК 336.01

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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.

Key words: equity, equality, taxation, tax burden, justice, effectiveness, direct taxes, indirect taxes.

Introduction. 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. It is characteristic that A. Smith does not use the term «equity» but «equality», and does it in a social, not ethical context. From the principle of equality we cannot derive the postulate of proportional taxation (although one of possible implementations of the principle of equality is to tax taxpayers proportionally to their income). Adam Smith states that «*the subjects of each state should contribute to maintaining their government as closely to their capabilities as possible, that is proportionally to their income which they obtain under the protection of the state*» [17]. It is worth noticing that, as some authors claim, Smith found the idea of progressive taxation close to him. This is what A. Gomułowicz and J. Małecki claim, as they found such opinions: *«it is not an unreasonable thing for the rich to participate in public expenses not only proportionally to their income, but slightly above this proportion»* [10].

This is an economic argumentation, not an ethical one. Similarly, R. Gwiazdowski claims that Smith clearly stated that *«the subjects of each state should contribute to maintaining their government as closely to their capabilities as possible, that is proportionally to the income they obtain under the protection of it. Individuals, who make up a great nation, see government expenses similar to administrative expenses of tenants of a large property; they all have to participate in them proportionally to the size of their lease. What we call equality or inequality of taxation consists in whether we observe this rule or not*» [13]. The issue of tax equality was seen differently by J.B. Say, whose argumentation was of ethical nature. J.B. Say uses the concept of equitable distribution of tax burdens. He believes that an equitable tax is a progressive tax and he tries to explain it in the following way: tax is a sacrifice we make for the society and public order. This sacrifice cannot lead to some families resignation from some indispensable things. As he writes: *«who will dare say that a father should deprive his children of bread and warm clothes in order to pay tax? […] What use is such social order to him that takes the goods which are his property, indispensable to his existence, in order to exchange it for* *the benefit of something that is uncertain and distant and what he would abhor? [...] If we were to establish tax for each family so that it was lighter as it burdens the most necessary incomes, it should be decreased not proportionally but also progressively*» [16].

The development of the concept of economic and social equity. The development of the concept of economic and social equity was greatly affected by «the Edinburgh principle – leave them as you find them» formulated by D. Ricardo in 1823. Ricardo points at negative effects of taxation in economic and social sphere. He postulates to evaluate the 'evil' of taxation through the scope of tax interference in tax and wealth distribution shaped as a result of the market mechanism. Ricardo notices that from the perspective of the principle of rationality the whole tax system should be analyzed, not only particular taxes. The Edinburgh rule shows some premises of rational tax policy. The maxim derived from this rule states that taxation should leave everyone in relatively the same income situation as they were before. According to Edinburgh rule, taxes should not cut into sources of tax income. Tax should not be detrimental to production, it should not fight or hinder the process of savings accumulation by households. The Edinburgh rule is thus a germ of the idea of tax neutrality.

Analyzing the implication of the «Edinburgh rule» for contemporary understanding of the equity principle, we can state that now the principle of equity is considered in theory in a deeper and more complex way. Our interpretation of the principle of equity assumes that «equality» of taxation, due to various conditions of taxpayers, may lead to disproportionate burdens. Thus we cannot clearly state whether a tax system that is equal to all taxpayers is equitable, without analyzing all burdens imposed on a taxpayer (consumption taxes, social insurance contributions, property taxes, etc) and the possibility of shifting them.

Literature brings another thesis that the basic criterion differentiating direct and indirect taxation is the ability to shift the latter, while the former cannot be shifted. This is an erroneous thesis, as the phenomenon of tax shifting allows us to state that in the long run also direct taxation can be shifted. Direct taxes are characterized by the real shifting that takes place in the market as a result of a sovereign decision of a subject on whom the tax was imposed. Indirect taxes have apparent shifting capacity, as lawmakers assume that the actual burden will be carried by someone else than those on whom it was placed, as the tax is price-generating (added to prices). Obviously the course of this phenomenon and its consequences are different in different market conditions. Shifting income taxes is complicated and difficult, but some economists claim that in the long run even corporate income tax may be fully shifted [18, 19]. A wider analysis of the shifting phenomenon allows us to claim that income taxes can also be shifted, though the process is much more difficult from an economic and technical point of view.

Thus we can indicate advantages and disadvantages of household and company taxation with direct and indirect taxes, from the perspective of theoretical principles of taxation. Although the tax doctrine has not found a clear and satisfactory – from the perspective of relations between economic effectiveness and equity understood objectively and subjectively – an answer to the question concerning taxation equity [11, 12]. Equity has always been referred to a particular era, as there have been time conventions of tax equity typical for a particular period of history. Tax doctrine has not been free from the problem of valuation. Tax equity should also be perceived in this context. Changes concerning the concept and the role of the state in economy, prevailing views on social and economic issues have affected evolution of tax equity concept.

Direct taxes – due to their advantages – more widely implement the principle of tax equity (especially personal income tax). Why?

1) as taxation forms imposed directly on taxpayer's income or revenue, they are more difficult to shift than income taxes;

2) it is easier to shape finance policy through direct taxes, taking into account the

way and strength of taxes influence on particular taxpayers;

3) relative resistance to economic crises, manifested in stability in budget tax revenues (Analyzing the influence of income tax share in 1991–2003 in fiscal revenues on the GDP growth rate (calculated according to purchasing power parity per capita), we obtain a line correlation ratio *Pearson* on the level of rxy = 0.12. The obtained ratio value means that there is not a statistically significant relationship between the share of income taxes in fiscal revenues and the average annual GDP growth rate. Similar results were obtained for the above relationship in particular years (with an exception of the Netherlands). Examining the strength and direction of correlation between PIT and CIT separately and the average annual GDP growth rate, we also obtain statistically insignificant relationships. The obtained correlation ratios amount, respectively rxy = 0,05 and rxy = 0,37. Thus the share of income taxes in budget fiscal revenue structure does not influence the dynamics of economic growth) [6, 21];

4) flexibility to legal regulations, through influence of changes in statutory rate(s) on fiscal efficiency of tax;

5) income taxes directly burden the source of income or revenue, which allows us to establish, in advance, appropriate tax rates – this allows us to establish tax in an equitable way, taking into account social and economic aspects of taxation, including the principle of tax capacity (efficiency);

6) adjusting the height of tax burden to individual tax capacities of a taxpayer (tax personalization) – by using various increases, decreases, reliefs and exemptions, including a zero rate or tax-free amounts, as well as differentiated costs of obtaining revenue. Income tax construction takes into account such elements (different in different tax systems) shaping the taxpayer's tax capacity as: their age, ability to work, number of maintained children, type of performed work, family status of a taxpayer. Personalization and directness of especially personal income tax allows to take into consideration non-economic aspects of taxation, including the principle of adjusting the tax burden level to the individual situation of a taxpayer. The taxation construction can be created in a way reflecting economic and social policy, and more widely, the principle of social equity of taxation [15];

7) presentation of the issue of the economy of tax subject taxation – technique of determining income by defining a catalogue of costs and losses that are deductible and non-deductible in order to obtain income allows the lawmakers to influence the rational economic activity of the taxed subject;

8) relative savings in collection costs.

The concept of Say was criticized by J.S. Mill, for whom equity was equality in sacrifice made. The sacrifice should be equal, not the tax. It is based on an idea that an affluent taxpayer should pay higher taxes than a poor person, as the former does not feel the financial loss as much as the latter. He refers to similar principles, such as the theory of paying capacity and decreasing borderline usefulness. The share of each individual in covering government expenses «*should be so that the person felt neither more nor less distress than any other individual experiences from their participation*» [14]. The loss of direct benefits equals the value of loss in an income caused by payment of tax; therefore taxpayers with the same income should pay the same taxes. The premise of tax burden equity for Mill is the principle of equal treatment of taxpayers. This principle means (1) the same financial sacrifice or (2) the same loss of wealth. The loss of wealth is equal to the loss of income caused by payment of tax. So the wealth level is always a function of income. Thus – due to the above – taxpayers with the same income level should pay the same that is equal taxes. It is obvious then that the differentiated level of income translates into different amount of tax paid. Mill also emphasized the necessity of exempting the poorest taxpayers from tax. We cannot talk of equal sacrifice when we demand 10% for public goals from an affluent person and from a poor man. The required sacrifice made by the latter would not only be higher than the one imposed on the former, but would be totally non-comparable, as it would deprive him of the means ensuring the basic existence level. Tax should be paid on income being a surplus over determined minimum, which is necessary to get hold of «*what is needed to survive and to preserve health and to protect against common body harms, but not enough to indulge oneself*»[14]. The requirements of equity force Mill to formulate a demand for shaping tax burdens so as equal financial sacrifice caused equal loss of benefits among people taxed. It is worth noticing that in the classic economy, represented by A. Smith and J.S. Mill, the prevailing concept was that of proportional taxation as well; as equal and equitable burden.

Cohen and Edgeworth conception. After Mill, the doctrine of equal sacrifice developed in several directions. A.J. Cohen and C. Stuart proposed that everyone should suffer the same relative percentage loss of usefulness [19]. This criterion is known as «*equal proportional sacrifice*». If the usefulness function is logarithmic, it gives a tax scale in form of $t(x) = x - c(x/c)^{1-r}$ for $x \geq c$, we call it the Cohen-Stuart tax scale. The level of income C (minimum borderline of poverty) is a zero tax rate, while above c the tax rate grows, gradually approaching 100% for high incomes [23].

Mill's views were developer and expanded by F.Y. Edgeworth. Using the concept of border usefulness of taxpayer's income, the scientist concludes that taxes should be imposed so as to obtain as equal as possible income after taxation. The thesis is founded on the premise that the border usefulness of each person's income is identical, so tax should be imposed mostly on the rich, as their lost benefits as a result of taxation (redistribution) of income will be lower than in case of the poor [5]. The concept of equal sacrifice contains the so-called alternative rules, as it can be interpreted as: equal marginal (border) sacrifice, equal absolute sacrifice or equal proportional sacrifice. Assuming different functions of usefulness, the marginal (border) sacrifice would be a synonym to regressive income taxation. So taxpayers with lower incomes and relatively low loss of benefits from wealth, would be burdened with tax to a greater degree than taxpayers with higher income and greater intensity of benefits. With equal absolute sacrifice, all taxpayers experience loss of benefits in the same absolute amount, regardless of how unequal their incomes are. In a situation of equal proportional sacrifice, taxpayers experience the same sacrifice in relation to joint benefits from income. The course of the benefits curve does not exclude the application of progression.

Adolf Wagner made a significant contribution to the theory of taxation. He focused on redistributive function of taxation. The task of tax policy is to correct extreme social injustices that are correction of domestic product. He believed that thanks to redistribution, the incomes of the poorest, which have the greatest inclination to consume, will strengthen global demand. This is important for economic growth. The nature of legal functions of tax boils down to the fact that apart from income (fiscal) function, taxes also perform some non-fiscal functions – intervention ones (economic, social, political). Universality of taxation and tax progression are, according to Wagner, the basic indicators of taxation equity [22]. Universality must take into consideration covering all tax sources and subjects with tax obligation, preserving the possibility of applying tax-free amounts and different treatment of deductible and non-deductible incomes. A significant aspect of equity is Wagner's thesis that distribution of goods made by the market is unfair, as it does not provide everyone with equal chances of growing wealthy. Therefore the second component of equity is a postulate of introducing progression to tax system. In his opinion, progression allows to differentiate tax burden in relation with economic payment capacity. Wagner supports mild progression, thanks to which we can obtain even taxation by adjusting tax burden to actual income and wealth conditions of a taxpayer. Progression is an instrument, which more equitably distributes tax burden with relation to proportional rates approved so far.

Conclusions:

1. The dispute concerning taxation equity is a dispute on tangible interests of the state and the taxpayer. So, in common per-

ception, an equitable tax is a tax paid by others.

2. Controversies, doctrinal disputes and legislative practice indicate that it is not possible to express the idea of equity in a perfect and certain way. Numerous impressions of taxation equity allow us to state that equity concept formulas will change in time.

3. Taxation equity is best expressed in principles of equality and universality of taxation. They are controversial, as they require searching for a significant feature that should be the basis of equal treatment in distribution of tax burden.

4. We cannot talk of equitable taxation without demanding that the principle of equality and universality of taxation should be observed.

5. The principle of tax capacity as the «measure» of taxation equity is not questioned by the doctrine – even though there some differences of opinions. The problem is its acceptance by tax system. This is determined by the willingness of the parliament in a democratic state. A politician would find it easier to directly question the fact that tax burden should be distributed depending on tax capacity. Therefore politician often conceal their real activities by verbal acceptance of the principle of payment capacity and quoting it when making tax regulations, but without implementing it in the content of the law.

6. When creating a rational (or reforming) tax system, lawmakers must take notice of the rules that make the principle of fiscal effectiveness coincide with the principle of tax equity. The principle of tax equivalence (equal tax sacrifice) cannot constitute the theoretical or practical basis for shaping the tax system. It must be replaced with the principle of payment capacity, which, due to its universality and values, combines equity with effectiveness of taxation and thus can be a premise for shaping the legal construction of direct taxes.

7. In the analytical approach to the principle of tax equity we encounter the problem of accepting or rejecting the inequalities [3]. A tax system may correct proportions of primary distribution of national product if this distribution is considered inequitable.

The tool used to achieve this are progressive taxes, especially income ones, but two major questions appear. Who decides whether imposed tax burdens and income distribution are equitable or not? To what extent can we tolerate income differences before and after taxation?

8. Tax technique is related to the lawmaking process. We cannot respect the principle of payment capacity if two basic elements: the base of tax calculation and progressive tax scale do not respond to the requirements posed by this rule. Lawmakers, when formulating the tax content, may take payment capacity principle into account to the extent at which the nature of taxation is not impaired significantly (fiscal effectiveness, providing appropriate budget revenues). Respecting the principle of payment capacity with reference to taxation base and progressive scale should be perceived through the prism of tax sources efficiency. We should bear in mind that the tax income function is only performed when tax burden does not cause reactions destroying tax sources and leading to tax avoidance.

9. Determining taxation borders has significant theoretical and practical implications. Tax policy wisely avoids exaggeration in tax burden if it follows the principle of preserving tax sources with reference to the whole system. Impairing income sources leads to definite decline of tax incomes. Not recognizing tax limits, that is ignorance of the «moment» they are exceeded, is paramount to lack of knowledge on effectiveness of tax systems.

Personal income tax is considered to be the fairest instrument of taxing population, due to the possibility of individualizing taxation base by reflecting all economic and social circumstances in it. They are mainly manifested in the system of reliefs, exemptions, tax-free amounts and tax rates, but also in the construction of revenue, costs of obtaining it or definition of the tax subject (a single person, a married couple, or the whole family) [10].

The role of the state in economy and interpretation of the principle of equity and effectiveness. The biggest controversies and doubts are aroused by interpretation of principles of equity and effectiveness of a tax system, which largely depends on the way of seeing the state's role in economy. In understanding the principle of equity we can point at the following issues:

– we should not demand sacrifice from people living in poverty,

– direct taxation is considered more equitable, mostly due to more difficult shifting, directness, individualization of tax burden, personalization and measurable tax burden,

– universality, great fiscal significance and covering basic consumption goods with indirect taxes requires such determination of tax technique elements that allows to obtain progressiveness of the whole tax system, implementing the principle of adjusting tax burden to the taxpayer's payment capacities,

– progressiveness of the whole tax system is not treated as progressiveness of particular taxes. If direct taxes are digressive, corporate income tax (CIT) is proportional, then personal income tax must be progressive.

Contemporary arguments concern the problem of the height and type of rates and possible preferences in personal income tax. Discussions evolve around the understanding of vertical equity, which means strong progression, numerous tax reliefs and exemptions and horizontal equity, assuming low (flat) tax rate, wide tax base and equality of subjects against the law.

The shape of the policy of redistributing wealth and income is related to the theory of equity worshipped by the government. There is an infinite number of effective allocations in Pareto meaning, the choice of any option always requires adopting some criteria of equity [1]. We can assume that there will always be differences between incomes of particular individuals, resulting from various features of these individuals, such as: various rights they enjoy; differences in effort, productivity or participation in results; different allocation of resources; differences in beliefs concerning features of goods; differences in taste or in ability to use various goods; different needs and different talents and possibility of acting.

The choice between effectiveness and equity. The relationship between effectiveness and equity is vital in the context of tax issues. Taxes cause income and substitution effects both on the producer's and on the consumer's sides. Therefore taxes lead, on one hand, to economically locative ineffectiveness, as producers encounter different market prices than consumers. On the other hand, thanks to taxation revenues, the state has a possibility of more equitable (in social perception) distribution of income. We can pose a fully justified question – to what extent lawmakers, when constructing the tax system, may be indifferent to the requirements of effectiveness and expectations of social equity? Taxes are not neutral, neither to locative effectiveness nor to redistributive equity. The higher the level of fiscal burden and scope of taxation base (tax base), the more distorted allocation effectiveness of market mechanism, but this allows the government to make more even redistribution of income (and vice versa). Thus we can state that there is a specific *trade-off* between allocation effectiveness and redistribution equity [2, 18]. As a result of this trade-off, the government faces a dilemma: choosing between two options. In the first option, the government decides to what extent allocation properties of market mechanism could be distorted to implement, through various forms of taxation, more even distribution than the one offered by market mechanism. In the second option, the government decides to what extent it can resist demands for more egalitarian distribution to protect the allocation effectiveness of market mechanism.

The conflict between the goals of effectiveness and equity stems from difficulties in clear establishment of objective criteria for both these phenomena. The criteria of allocation effectiveness are based on economic analyses and boil down to comparing outlay against results, while equity criteria depend on political choices and are based on the accepted system of values *(a priori).* In economic categories, a classic definition of allocation effectiveness id Pareto balance in perfect competition conditions. Optimal allocation of resources in Pareto meaning may be achieved with different variants of initial provision of producers with production factors and consumers with final goods and services. Thus the conclusion that there are many optimal states of effectiveness. Each optimal variant of allocation of assumed resources makes it impossible to improve the position of one entity without worsening the position of another subject, however it does not say anything on whether the situation of these entities is acceptable at all within a particular system of social values and preferences. Therefore effectiveness in Pareto meaning does not show how to make a hierarchy of states *optimum optimorum* from the perspective of social acceptance for particular distribution relations. For the hierarchy to be possible it is necessary to introduce an additional, external criterion that would allow us to evaluate the states of economic effectiveness through the prism of equity. Such criteria in theory of economics can be found in the concept of social function of welfare, which gives proper weight to the postulate of equity and reveals social preferences concerning the scale of inequalities of distribution that are acceptable. The shape of the social function of welfare is determined by its underlying system of values, which is established in the process of political public choice and as such cannot be included in the economic analysis. Equity can be interpreted differently, various attitudes and value systems may accompany it, which is confirmed by the number of hypotheses concerning the shape of the welfare function. Thus, contrary to the criterion of economic usefulness, the equity criterion is relative. States of economically effective allocation of resources in Pareto meaning cab be considered in three variants: (1) separately for processes of Exchange, leasing aside production – that is establish conditions for optima distribution of generated goods between consumers in order to maximize their wealth; (2) separately for processes in production – that is establish conditions for optimal allocation of production factors between various applications so as to maximize the profits of all manufacturers; (3) jointly to the whole economy and then we will establish conditions when simultaneously distribution of goods and services among consumers and allocation of production factors between various applications so as to maximize profits of all manufacturers. Mentioning only some social welfare functions (SWF) we can rank them according to the growing scale of social obligations of the state: Nozick function, Nitzsche function, Bentham function, Nash function, Rawls function, function of welfare assuming inequality in distribution or a welfare state function (egalitarian function).

Analyzing hypotheses included in the content of social welfare function, we can formulate a question: what is more equitable – aiming at maximizing aggregated welfare or leveling income distribution (the so-called social equity). The answer poses a challenge, as we can indicate two opposite groups of views. The first one points at a relationship between welfare and the role of a state offering public goods and supervising economic governance. The second one is based on a belief that equity must be social equity, which means increased redistribution and guardianship functions of the state.

The choice of a socially accepted variant of allocation effectiveness, that is an attempt at reconciling effectiveness and equity, happens though confrontation of all possible optimal states in Pareto meaning with a particular welfare function, allowing to choose the variant of resource allocation that is consistent with socially accepted distribution relations. Economics deals much better with the problem of effectiveness than broadly understood equity. It should be emphasized that the ties between allocation and redistribution sides are important both for the theory of optimal taxation and for tax practice.

The concept of equivalent – legitimization of tax collection. The problem of legitimization of tax collection is vital thanks to its reference to the relationship between equitable and economically effective tax system. In economic theories, the model justifying the rule of performance equivalence is known as *Wicksell-Lindhal mode* [1]. It is based on three assumptions:

1. The state and the taxpayer act in the sphere of equal relations, which means that on one hand the state provides public goods services for the citizen, and on the other hand, it receives the means to cover the costs of producing these goods from the taxpayer (taxes).

2. The taxpayer is able to assess the usefulness of public good in line with his individual preferences and determine the amount (tax) they are willing to pay the state for this good.

3. There is a mechanism which allows to determine the value of structure of public goods supply in macro scale on the level consistent with taxpayers' individual preferences. This mechanism is a sphere in which individual preferences for public goods demand are revealed.

Distribution of tax burden in *Wicksell-Lindhal* model assumes the starting point in «full» implementation of the equivalence principle, that is, firstly, the taxpayer's consent to burden, and secondly, obtaining in return an equivalent performance in form of public goods. The model also assumes a perfect mechanism of agreeing the size and structure of public goods. Such mechanism could be procedures of direct democracy on the local level. The equivalence rule in literature and in social perception is considered the most equitable title to tax collection. Equivalent taxes are equitable and economically effective and they do not generate conflict between the feeling of equity and the demand for effectiveness. Such tax is voluntarily paid, it does not disturb market behavior of taxpayers, it does not evoke adjustment reactions of taxpayers leading to its avoidance.

Payment capacity and equitable distribution of tax burden. According to the rule of payment capacities, each citizen should participate in general tax burden and pay taxes adequately to possessed capacity to bear tax burden. Practical application of the principle of payment capacities requires answering two questions: What to measure payment capacity with? and what criteria to use to differentiate it? As measurement of payment capacity the theory proposes income, consumption and property, each of them has its own drawbacks and benefits. The most commonly used measure is current market income. As for criteria of differentiating payment capacities, we should remember that if the distribution of tax burden is to be considered socially equitable, it must meet basic norms of horizontal and vertical equity.

A classic attempt at solving the problem of vertical equity relates to the idea of equal sacrifice made by each individual for the society, formulated by J.S. Mill. The idea itself has universal value and is not controversial. Problems appear if we want to translate this general idea into a specific tax scale. Operational process consists in establishing an equitable tax scale reflecting a specific type of sacrifice (tax) considered as norm of equity by the society and lawmakers. Establishment of individual tax burden consistent with the theory of equal sacrifice and defining on its basis tax scale requires fulfilling two conditions:

1. Individual functions of nominal income utility must be known and described. It is necessary if we are to quantify individual sacrifice (tax) of each taxpayer along the increasing taxation scale.

2. We should adopt the norm of equitable distribution of tax burden, that is determine the type of sacrifice (tax) which is to be leveled during taxation (absolute, relative or extreme sacrifice).

If both these conditions are met, then establishing a tax scale possessing the value of equity is just finding a solution to a mathematical problem. In practice, meeting the first requirement is not likely. It is necessary to simplify reality in further analyses and to adopt a hypothesis concerning the shape of the utility function. Further analyses must be based on the assumption that utility functions are identical and that utility of all goods – according to *Gossen* law – decreases. As for the second condition, theory distinguishes three types of sacrifice: absolute, relative and marginal. Meeting the absolute sacrifice condition requires a situation in which each taxpayer makes the same absolute sacrifice. It means that an equitable tax scale is the one in which tax lowers utility of nominal income of each taxpayer by the same number of utility units. The relative sacrifice condition states that a tax scale will be equitable when absolute loss of utility as a result of taxation related to the initial resource of utility before taxation will be the same for each taxpayer. If we adopt equal marginal sacrifice as equity norm, a tax scale will be equitable if it allows each taxpayer to equal the marginal utility of nominal income after taxation [11, 12]. Fulfilling further equity norms, from equaling absolute sacrifice, through relative, to marginal sacrifice, is each time associated with a different distribution of income after taxation in the *Lorenzo* distribution evenness. The most differentiated income after taxation is generated when we adopt equaling absolute sacrifice as an equity norm. Relative sacrifice brings more even distribution of income than absolute sacrifice. Equality of marginal sacrifice leads to the situation in which differentiation disappears and each taxpayer has equal income after taxation (egalitarianism). Of course, full egalitarianism is a utopia, therefore the concept of equal sacrifice should be excluded from realistic solutions. The remaining two concepts are considered socially attractive and justifying an equitable tax scale. A question arises whether realization of equal absolute and relative sacrifice requires tax progression. The relationship between tax progression and equitable taxation was analyzed in the 19th century by A.J. Cohen Stuart, representative of the Dutch school of taxation theory [4].

His argumentation was developed in 1932 by Norwegian economist R. Frisch [8]. Analyzing the works of both authors we may ask what requirements must be met by the taxpayers utility function to make it necessary to use tax progression when realizing the concept of equal absolute and relative sacrifice. It is important to determine whether these are special or obvious requirements. So, will the assumptions of nearly all utility functions require progression or will progression be justified only in special situations? The analysis conducted by the above authors allows us to draw two important conclusions:

1. In order 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.

2. 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. Thus we can propose a thesis that whether the realization of equity norm based on equality of relative sacrifice requires progression or not does not result directly from Gossen's 1st law, but from the speed in which marginal utility reacts to consecutive income growths.

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.

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Універсальність є одним із принципів справедливого оподаткування. Згідно із цим принципом податкове навантаження має бути універсальним, тобто кожен громадянин має бути оподаткований, якщо умови для податкових відносин будуть виконані. Другий принцип – це прин-

цип рівності. Помилково використовувати термін «принцип рівності» в первинному значенні цього слова.

Ключові слова: рівність, рівноправність, оподаткування, податкове навантаження, правосуддя, ефективність, прямі податки, непрямі податки.

Универсальность является одним из принципов справедливого налогообложения. Согласно этому принципу налоговая нагрузка должна быть универсальной, то есть каждый гражданин должен облагаться налогом, если условия для налоговых отношений будут выполнены. Второй принцип – принцип равенства. Ошибочно использовать термин «принцип равенства» в первоначальном смысле этого слова.

Ключевые слова: равенство, равноправие, налогообложение, налоговая нагрузка, правосудие, эффективность, прямые налоги, косвенные налоги.

Одержано 23.09.2014.