THE ESSENCE AND THE ROLE OF TAXES - THE PRINCIPLES OF TAXATION

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The actual principles of taxation are in the form of a harmonious and coherent system. The four fundamental principles of taxation are considered "canons of taxation" and "golden principles", since they have proven their validity over time. They can be synthesized by modern economists in the form of three requirements: equality, efficiency and applicability. In the evolution of these requirements, the principles of taxation have gained various connotations, and consequently become principles of fiscal policy, principles of economic policy, social and political principles.

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Introduction

The tax, whose root origin comes from the Latin "impositum", is one of the oldest and most traditional financial means available to the state. In the past, the phrase generally corresponded to the payments that had to be paid to the state. The generic term of "giving", included, besides taxes, the "special contributions" (Leon, 1925) - though ”tax” has a more precise meaning. The Romanian term ”tax” corresponds to the French "impot", the Italian "imposta", the German "steuner" and the Latin "subsidium", which have the meaning of help or support, suggesting the different roles that taxes have.

The development of the exchange economy, the use of money to cover the public expenditures of the state led to the emergence of taxes that evolved in parallel with the generalization of goods-money relations and the social relations between the members of the collectivity, organized in various social classes and state forms. The transition from socio-economic form to another was not free from social seizures, many of them being based on the dissatisfaction of some ascending social categories towards the privileges of others, regarding the way of taxation of income and wealth, a cause sometimes embraced by the majority of the population.

2. The principles of taxation

These economic and social phenomena, having as a spark of triggering the taxation, were studied by theoreticians, who concluded on the necessity of formulating some principles regarding the mode of taxation connected to the social and economic relations, which should be general in theory and practical in application, and also resistant in time. As a result of these needs, at the end of the eighteenth and early nineteenth centuries, the theoretical principles of taxation were stated on the basis of certain requirements that had to meet the economic and political requirements. The merit of that pioneering activity in the field belonged to the English economist, Adam Smith, who formulated these principles in the form of "maxims" that should have met the fiscal policy requirements. Later these maxims have become the fundamental principles underlying the tax regime applicable to taxpayers. At that time, they were synthetically defined (Smith, 1965) as follows:

- the maximum of justice of taxation (the principle of fiscal equity), which stated that the citizens of each state must participate in the coverage of government expenditures, as allowed by their own faculties, according to the increase of the revenues obtained under the state protection;
- the maximum of certainty (the principle of taxation certainty) is focused on the lawfulness of taxation and assumed that the size of the taxes owed by taxpayers to the state budget was certain, not arbitrary. In this sense, the taxpayers had to be clearly and in advance aware of the deadlines and methods of charging taxes and the payment amounts;
- the maximum of convenience (the principle of the convenience of tax collection), implied the levying of taxes on terms and convenient ways for taxpayers;
- the maximum of tax economy and efficiency (the principle of tax efficiency), implies imposing the lowest taxes and ensuring their collection with a minimum of expenditures by the state.

This last principle represents the quintessence of the thesis "Cheap Government", according to which "the apparatus for establishing and collecting taxes should not be too expensive, the activity of the fiscal apparatus must be organized in such a way as not to quench the economic and social activity of the taxpayers, or direct them away from their occupations." (Talpoș, 1966). According to these principles of taxation described above, some appreciations regarding their practical application must be made. Thus, they have been taken over and confirmed as such on validity over time, and have often been filled by other valuable conclusions. For example, the principle of fiscal equity (the justice of taxation) emerged under the pressure of the ascending bourgeoisie, dissatisfied with the privileges enjoyed by clergy and nobility, but also under the pressure of other social categories bound to bear and cover the state expenditures.

The notion of equity in terms of taxation has been understood differently in time, but according to the leader social class of the state. During the feudal times, it was synthesized in the following aphorism (Văcărel, 1970): "the nobility serves the king with the sword, the clergy with the prayers, and the third with the money" (taxes). In the sense of a breach of fiscal equity, professor George Leon (1915) points out in his papers: "Taxes pushed the peasants so hard that they could not bear their weight and emigrated." The principle of legality regarding taxes and general taxation was promoted by the coming into power of the bourgeoisie, but, in time, it violated this principle by removing all the ways of paying taxes, introducing tax immunity for certain incomes, such as those made by investments in documents, state loans, or tax exemptions for certain companies of new industrial equipment or financing capital investment.

As a result of these practices, we find it eloquent to question the statement: "it is easy to pronounce the word justice, but difficult to realize materially this concept of ethical essence" (Laufenburger, 1959). In time, under the pressure of the revolutionary proletarian movements, the bourgeoisie was forced to legislate the exempt of some minimum incomes that met the living needs of each individual, thus fulfilling the first requirement of fiscal equity. It can be stated, on a practical level, that meeting the principle of fiscal equity implies in fact a cumulation of conditions, such as:
- establishing a non-taxable minimum - legislating a minimum income in the field of income taxes, but this rule is not applicable in the field of indirect taxes;
- generalizing the taxation of all social categories possessing a certain type of wealth or making a certain type of income, except for those who are below a certain subsistence threshold;
- comparing the tax obligations between individuals, within the same social category, as well as between different social categories.

Achieving these conditions is difficult in practice because the socio-economic conditions of the citizens are constantly changing, which results in a quasi-homogeneity of members in the same social category. The promotion of fiscal equity has led the tax practice to verify the application of several taxation methods, namely: fixed-rate taxation and proportional quotas with its variants: proportional quotas, progressive quotas and regressive rates. The study of equity reveals that imposing fixed rates is not performing because it does not take into account the size of income or wealth, the personal situation of the taxpayer, being incompatible with the principle under consideration. This has led to the use of proportional quotas, which determine the same proportion between the level of income or the value of the wealth and the amount of tax due to the state, which ensures a greater equality before the tax.

In case of using the simple progressive quotas, the tax rate corresponds to the increase of the taxable amount, but the way of taxation disadvantages the paying subjects who are at the limit immediately above the one at which a certain tax rate acts. However, the use of a composite progressive taxation is different, because the taxable amount is divided into several income tranches, each installment corresponding to a distinct tax rate, case in which the partial taxes are calculated by installments.

The system could be more efficient, but the progressive taxation actually leads to fiscal equality, to a leveling of revenues above a certain ceiling, and not to equality before taxes. Therefore, the economist Maurice Duverger (1963) stated: "the state can achieve an equalization of private income by cutting large incomes through the progressive tax mechanism and increasing small incomes through subsidies and allowances." The taxation in regressive rates is characterized by the fact that the share of the tax in the taxpayer's income is inversely proportional to its income, which is generally a consequence of indirect taxes.

Therefore the principle of fiscal equity is generally more compatible with the composite progressive tax system, but the progressive taxation will not solve the problem of equity, which leads to aspects regarding taxation generalization, the practice of exonerations and tax differentiation. An important remark is also connected to tax equity: it can be vertical or horizontal. In the first situation, the relative size of the tax burden to which a taxpayer (natural or legal person) is required to pay for the income from a particular source is compared with the burden to which another person is subject to the income of the same size or made from other sources. For example, it is possible to compare the rates of tax on wages earned by workers in relation to the rates of tax on incomes from industrial commercial activities or the income made by the owners of rental properties.

In the case of vertical equity, we study the relative size of the tax burden related to different incomes, made by different taxpayers from the same source of origin. Referring strictly to the individual income tax, some economists note that the developed countries that have undergone tax reforms have been particularly concerned about the horizontal fiscal equity, mitigating the progressive taxation by lowering quotas and reducing the number of income tranches" (Văcărel, 1996). In the countries where the incomes of the population are high and do not vary greatly from one individual to another, the passage of vertical fiscal equity on a secondary level is probably not felt as an act of social injustice, as an assault on the living standards of those with low and medium income" (Văcărel, 1996).

The theory of inequality laws emerged from the study of horizontal or vertical equity aimed at achieving social justice (equity), a theory according to which the development of society is governed by 3 natural laws:

the law of human creation;

the law of conscious imitation of the individual;

the law of the thirst of human power over others.

According to this theory, "achieving equality in income distribution would equalize the income of creators and entrepreneurs and inhibit any motivation of self improvement" (Văcărel, 1996), a fact violating the principle of justice. The author of this thesis subscribes to the equality of taxation supported by the economists George Gilder and Michel Albert, according to whom "taxing the rich more means to weaken the investments, and in parallel, giving more to the poor means to affect the desire to work" (Albert, 1994). This "analysis" is pursued by the thesis of revenue redistribution under tax justice in the sense that "redistribution of taxes must be limited" and should have a "cost of efficiency" (Musgrave, 1984). They also propose instruments to measure the amount of tax inequality allowed by taxation: the Lorenz curve, the Gini coefficient and the Atkinson coefficient.

However, we consider that these mathematical tools used by the tax school in the Western states come to justify the "scientific violation" of the principle of equality before taxation. We state that there is a justification for the breach of the principle of equity, in that the Western economists asserted in the 1980s that the following requirements are of great importance for a good structure and conformity with the principle of equality before taxation (Musgrave, 1984):

- the distribution of tax burdens should be balanced, each having to determine and pay the right part;
- taxes must be selected in such a way as to minimize the influence on the economic decisions taken in other efficient markets, and they must be used to correct inefficiencies in the private sector;
- the tax structure should facilitate the use of fiscal policy related to the objectives of stabilization and growth;
- the tax system must allow an efficient and unbiased tax administration for the taxpayer;
- the cost of administration and the constraint system must be as low as it is compatible with other objectives.

Regarding the certainty of taxation, the second important principle of fiscal taxation, it implies that for each type of tax component of the tax system, the legislative framework provides taxpayers with the possibility to know the size of the tax obligation, the way of payment, the moment when the payment is due, when the tax authorities can apply sanctions in case of non-payment or tax evasion, regardless of whether they are due to errors of calculation or are produced intentionally. Promoting this principle meant "to end the reign of good like in the establishment and collection of taxes", the maximum by which professor I. Văcărel (1992) complements Adam Smith who considers that a small degree of uncertainty is a greater defect than a considerable degree of injustice.

Regarding the principle of taxation convenience, it should be ensured considering two aspects: convenience and payment deadline, so that "the taxes are payable in the most convenient and timely manner for the taxpayer" (Văcărel, 1992). As a result, the method of determining the taxable object, the determination of the amount and the method of payment (receipts) should be acceptable for both the payer and the state. The issue is "to harmonize the divergent interests of the subjects, throughout the budget year, to reduce the frequency of transient budget deficits." The notion of income has the condition of periodicity itself, for the state "to consume without touching the roots of wealth supposes that new incomes are born continuously" (Leon, 1925).
Also related to the taxation convenience, the same professor asserts "this means a proper choice of place, time and manner to pay the tax, such as the land tax should be paid after harvest, the rent tax after the rent payment, the direct taxes at the taxpayer's domicile, and the tax cuts should be reduced as much as possible" (Leon, 1925). The principle of tax efficiency implies some objective expenses related to the collection of taxes, namely the lowest deduction expenses compared to the collected taxes, without affecting the efficiency of collection, meaning that the tax collection does not affect the economic decisions of the taxpayers existing on a competitive basis, taxpayers being able to achieve their economic and social goals.

From a financial and social point of view, the efficiency of a tax is optimal when it improves the allocation of resources, a correct distribution of incomes in society, and economically, when it is possible to correct the economic cycles and ensure a dynamic balance. The principle of efficiency viewed only from the fiscal point of view, neglecting the economic, social and administrative aspects will not reach results; therefore, in order to ensure a high fiscal efficiency, it is not possible to introduce a tax with a destructive effect on the economic activity, because the economic growth would be affected directly and the social life indirectly. This would induce a domino effect because any reduction of the economic activity under taxation for a high tax efficiency would subsequently lead to a decrease in the initial efficiency through capital accumulations, reducing the taxable matter (as main effects), lowering tax revenues, budget allocations and subsidies (as side effects). These would ultimately lower the economic activity, the emergence and increase of unemployment, the increase of spending on unemployment benefits, the decrease of household consumption, of investment level and, subsequently, of budgetary revenues.

The four fundamental principles of taxation described above, which, according to Adam Smith, were "canons of taxation" and according to other authors "golden principles" as a result of their maintained validity over time, can be synthesized by modern economists in the form of three requirements: equality, efficiency and applicability. In the evolution of these requirements, the principles of taxation have gained various connotations, and consequently become principles of fiscal policy, principles of economic policy, social and political principles. Thus, the general principles of taxation in a free society are the following (Allais, 1989): individuality, non-discrimination, impersonality, neutrality, legitimacy and lack of arbitrariness.

In addition to the general principles of taxation listed above, a number of financial policy principles have also emerged, meaning that any new tax introduced in practice has a high fiscal efficiency, is stable and elastic, and the state charges a certain number and type of taxes (direct or indirect). A high fiscal efficiency would be determined, in practice, by the universal nature of taxes (paid by all taxpayers for a large taxable matter), the impossibility of peculating the taxation of the taxable matter, and the lowest costs for the assignee. The stability of taxes refers to achieving a constant tax efficiency, which does not oscillate according to the economic cycles, while elasticity implies the constant adjustment of tax revenues to the level of budget requirements.

A series of economic policy principles derived from the same basic principles of taxation, allowing the state to use taxes as means of achieving the public budget and lever to influence the activity in certain areas, economic regions, in order to stimulate the production or consumption of goods or to extend or limit relations with external partners. The principles of taxation also evolved in the form of social and political principles of taxation in the sense that through their fiscal policy, some states maintain the population's trust in the promoted policy, emphasize their influence among certain social categories by practicing special taxes for low-income taxpayers (children, elderly, young people).

3. Conclusions

In conclusion, we may state that the actual principles of taxation are in the form of a harmonious and coherent system that combines the four large categories of the listed principles, among which there are influences and reciprocal conditioning, a fact that should be considered by the bodies that promulgate new taxes, so that they meet all the requirements described.

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