OBJECTIVES OF TAXATION AND GOVERNMENT INTERVENTION BY TAXATION

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What is tax? The answer won't be an etymological one. It must result from the human knowledge of law, sociology and public finance accumulated over past hundred years by researchers all over the world.

According to Gaston Jèze, professor at the Faculty of Law of Paris University "Tax is a payment of money legally demanded by a government, without reimbursement, to meet public expenses".

Seligman difined tax as"a compulsory contribution made by private persons to the government to meet expenses on community benefits, regardless of private interests benefited".

Recently, the World Bank introduced its concept of tax: "Taxes have two characteristics: firstly, they are based on compulsion, not on willingness; secondly, taxpayers make payments without receiving from the government any specific benefit or thing in return. But this doesn't mean that taxpayers receive no benefit from government activities, it only means that there is no relation between payments for taxes and benefit received".

In the past, there were many theories of tax. J.J Rousseau in his Social Contract considered tax as a natural contract between the state and the people. Hobbes said that tax is a guarantee of social security for the people. According to Montesquieu, tax is a part contributed by the people with a view to enjoying the rest. These concepts of tax, in spite of difference implied, are steps forward made by human knowledge and become bases for theories of tax and public finance. At present, certain legal bases for taxation have been built such as "all tax acts should be constitutional" or "no tax without representation". They mean that only a legislative body who represents the people has the right to make tax acts in order to adjust the tax-financial relation between the state and the people, whereas administrative bodies or taxing agencies are only responsible for carrying out tax acts which imposed on taxpayers.

The process of studying taxation and finding definitions of tax with a view to determining the power of tax acts and the compulsion of tax paying, are initial bases for defining objectives of taxation and forms of government intervention by taxation.

I. OBJECTIVES OF TAXATION

Taxes are used by a government for three main purposes: (1) raise revenue for the government, (2) control and adjust the level of production, and (3) redistribute income among different social classes.

1. Raising revenue for the government

The government is always in need of money to cover public expenses which increase day after day. The government can solve this problem by printing and issuing more money but this solution will lead to inflation because national spending will exceed the national output value at fixed prices. All governments always try to achieve a balance between budget income and expenditure, and the best budget is the balanced one (Adam Smith). It was agreed that when income falls short of expenditure, we have the deficit budget; when income is greater than expenditure, there is a surplus budget; and the government has a balanced budget when income is roughly equal to expenditure (Samuelson).

The financial statement of the British Government in 1987 shows that the tax take represents a large proportion of the budget income:

Expenditures	(bil. pound)
Health care	21.3
Education	21.2
National defense	18.9
Other regular spending	24.4
Capital investment	6.3
Purchases of goods and services	92.1
Social insurance funds.	51.9
Net interest paid	17.7
Transfer payments	12.8
Total transfer payments	82.4
TOTAL EXPENDITURE	174.5
Income	**(bil.pound)**
Income tax	39.8
Profits tax	14.0
Consumption tax	68.0
Social insurance contribution	28.5
Capital tax	3.4
Oil Sale tax	1.8
Tax take	155.5
Rent	13.1
Interest + Other receipts + Loans	5.9
TOTAL INCOME	174.5

Source: David, Begg, *Kinh tế học*, Vol.1, p.400.

This statement shows that most expenditures of the government are financed by the tax take. The largest receipts come from VAT (nearly 40% of total budget income), and from direct taxes such as income tax and profits tax (30% of total income). The tax take usually represents from 60% to 90% of total budget income. This percentage depends on economic policies and structure of receipts of each country. In 1994, the proportion of tax take to total budget income of some Southeast Asian countries is as follows: 82.6% in Vietnam; 90.2% in Indonesia; 90.1% in Thailand; 75.8% in Malaysia; 81% in the Philippines and 61.3% in Singapore.

2. Controlling and adjusting level of production

Tax rates imposed on industries could encourage or discourage producers, that is, make the output of a certain industry increase or decrease. So the structure of tax system and tax rate will affect greatly economic activity. Usually, government imposes high tax rates on non-essential goods and luxuries, imposes low tax rates on or give tax exemption to production and distribution of essential goods to the majority of people. High tax rates will be imposed on, for example, tobacco, perfume, spirits, beer, modern cars, while food and foodstuff will enjoy low tax rates or tax exemption.

3. Redistributing income among social classes

In all socio-political regimes, taxation is an important instrument for redistributing income among different classes. The progressive tax aims at charging a high rate on high-income earners, the bigger the taxable income, the higher the tax rate; therefore low-income earners will enjoy low tax rate or tax exemption. This ability-to-pay principle of taxation is regarded as the most equitable form of taxation, and the redistribution-of-income principle of taxation is applied in an effort to realize social equality through direct taxation.

In developed countries such as the US, the personal income tax brings the Government in some 10% of national personal income; the tax bracket imposed by the Federal Government in 1985 varies from 11% to 50% at most. This tax rate in Denmark and Sweden is even higher than those imposed by US, British, French and German governments. In developing countries in Asia and Africa, the income tax rate is usually high but receipts from it are lower than those collected in developed countries.

All these objectives of taxation are realized by the government, either in cooperation with legislative body, or by the delegation of authority to the executive power which helps the government intervene in economic activity and achieve planned objectives. And how does the government use taxation to intervene in the economic activity?

II. FORMS OF GOVERNMENT INTERVENTIONS THROUGH TAXATION

Government intervention could take many forms:

1. Pressing or depressing

In this form, the government increases or decreases the tax burden. If the taxation is reduced, the production cost will be lower and the product becomes more competitive. An increase in income tax will lead to increases in real income, investment, savings and spending power. On the other hand, an increase in tax burden will lead to decreases in spending power, investment and real income. The economy will be affected seriously but prices will not rise.

2. Discrimination

After careful studies, the government increases certain taxes and decreases some others with a view to encouraging the public to invest in industries enjoying preferential tax rates. These discriminatory taxes also aim at discouraging the production and consumption of certain goods. Governments usually impose high tax rates on restaurants, pubs... and give preferential treatment to handicraft and small industry in order to encourage them.

3. Amputation

In this method, the government increase tax rates imposed on businesses which are booming in order to increase budget income. In Vietnam, for example, when the ownership of real estate is recognized by the law, many people invest in immovable property, the government can charge registration tax, property tax and inheritance tax.

4. Redistribution

In this form, the government use taxation to decrease the amount of inequality of income by charging luxuries and high- income earners at high tax rates and giving subsidies (in cash or in kind) or other benefits to the poor and the disabled.

In short, at macroeconomic level, the ultimate objective of taxation is to serve the public interest, to make the best use of the balanced budget to realize social equality. This is the task and orientation which the state always tries its best to complete■