JUSTIFICATION OF TAXATION

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Abstract

The development of taxation in the modern state is also related to the issue of justifying the payment of the tax by individuals. The legal obligation to pay taxes established by law must be justified. The tax is the main method for accumulating the necessary financial resources for the state. The present paper is focused on the historical emergence of the tax as a phenomenon, as a reality, as a form of accumulation of income and a method of insurance of the state, on the justification of taxation and the types of tax income.

Keywords: *taxation, types of taxes, budget, justification of taxation, history of taxation.*

1. Introduction

There are many tax researchers who claim that modern tax theory has much in common with the Roman concept. The reason for this is that, during the Roman Empire, the tax system reached a fairly high degree of sophistication. Taxation was differentiated into direct and indirect. Direct taxation covered the property and fortune of citizens, which was determined by assessment of their property. Indirect taxation in the Roman Empire was represented by the tax on crafts, customs duties, excise duties and the state monopoly on salt. There was also a general tax on purchases and sales in the amount of 1%, which was later called the cumulative turnover tax.

2. Content

After the division of the Roman Empire into Eastern and Western, the well-developed tax system began to disintegrate. The kings gradually began to lose their tax rights, which they inherited from the institutions of the empire. Gradually, revenues began to decline at the expense of increasing relief. Large landowners are authorized to collect the tax at their own expense from the persons assigned to their possessions. In this way, the tax becomes a payment in favor of the owners and possessors of land and wealth, i.e. the tax acquires the character of a private deduction. In the thirteenth century there was an expansion of royal power, which led to a significant increase in monarchical spending. Hence appears the lack of resources.

From the 16th century a new concept of the tax began to emerge and form, being established in the 17th century and reaching its apogee at the end of the reign of Louis XIV. This is the authoritarian concept of the tax.

At the base of this concept is the simplification and fairness of fiscal taxation. It is characterized by several features:

• The absolute right of the monarch to represent the state and introduce and collect taxes is affirmed. However, this right of the

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monarch is exercised within the laws of the kingdom.

• It brings to the forefront indirect taxes, which are easier to collect, and are also fairer because they affect all consumers.

At the end of the 17th century and at the beginning of the 18th century, the ideas of limiting the power of the sovereign began to emerge. In the work, “The Royal Tithing”, Woben sets out the basic principles of the tax, namely that it is a reality known to all citizens of the state who must provide funds in order for it to be supported. This gradually gave rise to the idea that the tax is inextricably linked to the security and stability of the nation, stems from the existence of the state and all citizens participate in covering its costs.

During the eighteenth and nineteenth centuries, a new concept of the tax was born and established - the exchange concept, whose main ideas are represented in the work of Charles de Montesquieu - "The spirit of laws." Achieving equality between the interests of society and entrepreneurs is important for Montesquieu.[1]

In determining the principles of taxation of the exchange concept of tax, an important place is occupied by the views and formulations of Adam Smith, laid down in his well-known work "The Wealth of Nations". Smith says that „government spending for the majority of the people must be paid through taxes in cash or otherwise. In this way, with part of their income, the people contribute to the collection at the sovereign or the state of what is called state revenues.”[2]

There are numerous studies of the tax in historical aspect, which inevitably outline the main characteristics of the modern tax. Contemporary authors seek to define the tax by including more elements. For example, P.M. Godme defines the tax as "a deduction made under duress by the public authorities and having the main purpose of covering public expenditures and redistributing them according to the ability of citizens to pay." According to J. Ducrot, "the tax is classically defined as a deduction on the wealth of taxpayers that the state makes in an attempt to take into account their ability to pay."[3]

2.1. Justification of taxation

The development of taxation in the modern state is also related to the issue of justifying the payment of the tax by individuals. The legal obligation to pay taxes introduced by law must be justified. The tax is formed as the main method for accumulating the necessary financial resources to provide for the state.

It is logical to ask the question, what is the reason for the state to seize part of the income of its citizens through tax? The answer to this question has been motivated in different ways. Separate ideological and theoretical concepts have been developed such as ideological are socio-psychological justifications of the tax liability. Theoretical concepts derive the organizational (state-organizational, political) basis. Both types of concepts explain taxes with the need of financial provision for the "needs" of the state.

In the early twentieth century, the American researcher Edwin Seligman, derived seven ideological views of the justification of the tax, such as: donation, support, assistance, sacrifice, debt, coercion,

[1] Charles-Louis de Montesquieu, *Spirit of the Laws*, Sofia, Science and Art, 1984.

[2] Adam Smith, *The Wealth of Nations*, Sofia, Partizdat, 1983.

[3] See V. Panteleeva, *Tax as a component of the fiscal policy of the state*, Conference proceedings of University of Ruse, 2009, p. 107.

payment of tax by the taxpayer against his will.

In the first stage, the prevailing view was that the tax was a gift from individuals to the monarch. The second stage is characterized by a humble plea from the monarch to the people for support. The third stage meets us with the idea of assistance provided to the state by the people. The fourth stage is characterized by the idea of sacrifice, which the individual brings to the benefit of the state. The fifth stage reveals the sense of duty that forms in the individual payer, and the sixth stage introduces us to the idea of coercion by the state. The seventh and final stage is characterized by the determination of the amount by the government for payment by the individual payer, without respecting his will.[4]

The payment of the tax is essentially the deprivation of a certain part of the income of the persons. The modern legal basis of the tax is derived from the theory of the nation, as a modern form of social community, which alone and as a whole, determines its needs and provides them financially. As an equal member of the state organization, everyone is obliged to pay taxes that accumulate in the state budget. The tax claim is a subjective public right of the state to receive a certain amount. At the base of this right is the fiscal sovereignty of the state. This subjective right of the state corresponds to a certain obligation on the part of juridical and natural persons to pay taxes. This obligation is constitutionally established in Art. 60, para. 1 of the Constitution of the Republic of Bulgaria: „Citizens shall be obligated to pay taxes and fees established by a law in proportion to their income and property."

As the holder of this subjective right, the state may in some cases delegate it by determining taxes to go to the municipal budget.

2.2. Types of Sources of Revenue

The doctrine distinguishes two types of sources of revenue for the state.

- Domestic sources - Gross domestic product (GDP) and national wealth of a country;
- External sources - these are financial resources received from foreign national economies.[5]

Gross Domestic Product, better known as GDP, ranks first among domestic sources of funding. GDP is "... the total value of all goods and services (goods) produced in the national economy for one year, after deducting the so-called intermediate consumption, i.e. intended for final consumption".[6]

According to the International Glossary of Finance, Gross Domestic Product (GDP) is the monetary value (at market prices) of goods and services produced in the economy over a period of time, usually a year or a quarter. The cost of replacing fixed assets is not reported. Only final consumption goods or investments are included, as the value of intermediate goods, i.e. raw materials and supplies are included in the prices of final consumer goods.[7]

We can conclude that GDP is one of the most important economic indicators. It is a comprehensive measurement of economic activity and signals the directions of all aggregates of economic activity.

[4] Seligman, E.R., *Essays in taxation*, New York, 1895, pp. 5-7.
[5] V. Stoyanov, *Theoretical and Public Finances*, Sofia, 2009, p. 218.
[6] *Ibidem.*
[7] Bannock, G, Manser, W., *The Penguin International Dictionary of Finance,* Penguin, UK, 1999.

Another source of domestic funding is the national wealth, which includes the natural resources belonging to the country.

External sources of financing represent the GDP of other countries. The accumulation of these sources happens through exports and investment of capital, loans, credits, aid and more. Usually, the funds received from external sources are uncertain, irregular and temporary.

In this regard, we can say that each country should primarily rely on its domestic sources and only ultimately rely on the help of foreign national economies. Domestic sources of financial support for the state are accumulated in public funds through several methods of raising them:

1. Tax - the application of a system of taxes;

2. Tax-like (quasi-tax) method - includes revenues from fees, fines, interest, confiscations, etc.

3. Non-tax method - the state credit, the economic activity of the state and the revenues from it, sale (privatization) or renting of state property (concession), money issue, etc.[8]

The economic activity of the state is too old a non-tax form to provide the necessary funds for the state. The specific manifestations of this activity of the state take the form of fiscal or financial monopolies, state and joint ventures, concessions and others; they form the public sector, i.e. the so-called indivisible and non-transferable property owned by the state. It is characteristic for the public sector that it usually generates and reproduces clumsiness, bureaucracy and inefficiency, both within it and within the national economy as a whole. This has caused in recent years, in accordance with the requirements of the new neoliberal concept, that it be sharply reduced (the public sector in the economy) through privatization. All Western countries, without exception, have taken similar steps since the early 1990s and are seeking to minimize the public sector in their economies through privatization. In this way, a double benefit is obtained in the sense that, first, unprofitable and inefficient state economic structures are liquidated and, secondly, budget revenues are provided, which are relied on to overcome chronic budget deficits and the huge state indebtedness caused by them.

The monetary issue is a special method for providing financial resources for the state budget. It essentially comes down to the issuance of unsecured banknotes, i.e. the banknotes put into circulation are provided to the budget and cover government expenditures. Such a monetary issue, which is called fiscal, in any case leads to inflation and disruption of money circulation with all the ensuing negative consequences. That is why financial theory has never been favorable to fiscal money supply.

The tax-like (quasi-tax) method is similar to the tax method, but the main difference between them is that while taxes are compulsory payments to the state, tax-like forms of income are voluntary payments. They serve to pay for used public goods. Non-tax revenue forms are also a method of providing financial support for government, but they are also to some extent related to taxes, albeit at a later stage in their use.

Of the above methods for accumulation of financial resources, the tax method occupies the first place. A significant part of government revenues (40-50%) is accumulated by taxes. These are revenues that go to the state budget and are

[8] V. Stoyanov, *Theoretical and Public Finances*, Sofia, 2009, p. 225.

made available to the state for its functions and government.[9]

Therefore, as we have pointed out, the main method for accumulating and securing financial resources in the state is the tax method.

2.3. Types of Tax Revenues

1. The doctrine expresses different opinions on the classification of types of tax revenues. It is indisputable, however, that the classification of tax revenues is built in accordance with the socio-economic structure of the state, legal sources, the direction of revenues and other factors.

In theory, different classifications of taxes are proposed:

• depending on the source of income, they are divided into:

- income from economic activity;
- income from the population.

• According to the direction of revenues, they are:

- revenues to the republican budget;
- revenues to the municipal budget.

• Depending on whether they go directly to the budget or are redistributed, revenues are divided into:

- basic income;
- derivative revenues - such are the revenues that do not enter the budget the first time, but represent internal redistributions in this system.[10]

• According to the method of their collection, the following are divided:

- mandatory - taxes;
- voluntary- donations.

• Depending on whether the income is pre-planned or due to extraordinary non-specific activity, the following are distinguished:

- regular - revenues that provide the reserve of funds needed by the state to perform its functions - mandatory contributions, taxes, duties, fees;
- extraordinary - income from tort, fines, confiscations.

Further classification is also possible, depending on the way in which tax revenues are paid. In this case they are divided into:

- natural - today they are extremely rare;
- monetary.

• According to the object or subject of taxation, tax revenues are revenues from:

- Taxes on the person - the object is the individual. A typical representative of this type of tax is the per capita tax, determined per capita, without considering the property status or income.
- Taxes on property - real estate and movable;
- Taxes on a certain economic activity - their prototype is the natural tithe. Gradually, with the development of crafts, an occupation tax was introduced.
- Sales taxes - the realized trade turnovers from the sale of goods and services are subject to taxation;
- Income taxes - a relatively new type of tax, as income becomes subject to taxation under conditions of a high degree of development of commodity-money relations, i.e. in parallel with the emergence and development of capitalism.[11]

Theoretical interest is the differentiation of tax revenues of:

- direct and
- indirect.

This distinction of taxes is not based on a single criterion. According to John Stuart Mill and Adolf Wagner, taxes are direct, in which the payer and the taxpayer

[9] *Ibidem.*
[10] I. Stoyanov, *Finance Law*, Sofia, 2010, p. 315.
[11] V. Stoyanov, *Theoretical and Public Finances*, Sofia, 2009, pp. 262-264.

are identical, and if they are different, the taxes are indirect.[12]

Another sign of the distinction between direct and indirect taxes is whether "permanent objects or accidental events" are taxed. In the first case, taxes are direct, and in the second, indirect.

The division of taxes into direct and indirect can be deduced depending on the subject of their taxation. Thus, taxes with the object of taxation of property or income are direct, and indirect are those whose object is the production of goods and services, at the prices of which they are calculated in advance.

With the adoption of the Public Finance Act (promulgated SG No. 15 of 15 February 2013 in force from 01.01.2014), which repealed the then existing Law on the Structure of the State Budget (SG, issue 54 of 15.07.2011 repealed by SG No. 15 of 15 February 2013), the regulation of the general structure and structure of the public finances with one general normative act became a fact. The adoption of this law is an expression of the desire to consolidate all aspects of the management and use of public resources, both at national and local level. Public finances are considered as a unified system for providing and financing public goods and services, redistribution and transfer of income and accumulation of resources from budgetary organizations. According to §1, item 29 of the Additional Provisions of the Public Finance Act, “revenues” of the state are “cash receipts for the relevant budget year generated from: taxes, insurance contributions, other contribution, fees, fines, sanctions and penalties, confiscated assets, interest, dividends and any other income generated by financial assets, as well as any other net cash proceeds of budgetary organizations resulting from the realization and use of non-financial assets and the provision of services."

2. We accept the theoretical view that tax revenues are classified into:

A. Revenue from direct taxes:

• Income tax revenues;

• Income from property taxes;

B. Revenues from indirect taxes.

• Revenues from value added tax;

• Revenues from excises duties.

3. Conclusions

From all that has been said so far, it can be concluded that the tax is a reality, a complex multifaceted phenomenon that is immanently related to all aspects of people's lives. Joseph E. Stiglitz, in his book “Economics of the Public Sector”, outlines the five desirable characteristics of any tax system. There are five properties that define the tax system as "good":

1. Economic efficiency - the tax system should not hinder the efficient allocation of resources.

2. Administrative simplicity - the tax system should be easy to apply and relatively inexpensive.

3. Flexibility - the tax system must react quickly (in some cases automatically) to changed economic circumstances.

4. Political responsibility - the tax system must be such that people can determine for themselves how much to pay, so that the political system can more accurately reflect people's preferences.

5. Fairness - the tax system must be fair in its relative treatment of different people.[13]

The above leads to the conclusion that the actual implementation of the five properties would be a way to establish a "good" and stable tax system, which would be proof and a sure way to a well-functioning modern state.

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[12] *Ibidem.*

[13] Joseph E. Stiglitz, Economics of the Public Sector, University press ″Stopanstvo″, Sofia 1996.

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