

SELECTED ISSUES OF PROGRESSIVE TAXATION

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Summary

Progressive taxation name six main arguments, which prove the rightness and expediency of this method in imposing tax on income. The first reason supporting progressiveness is the fact of this technique being present in most civilized countries associated with the OECD. On the other hand opponents claim that this cannot be an important argument for application of the this taxation method. This may be true and that is why I would like to carry on. The following argument cited by supporters of progressive tax puts forward the fact that the tax system should serve not only for the collection of financial assets by the nation, but also should operate as redistribution of national income.

Keywords: progressive taxation, imposing tax, income, marginal utility.

History of progressive taxation

From a historical point of view, we have to admit that progressive taxing reaches as far back as man kind. In ancient Greece in the year 594 B.C. there existed a progressive wealth tax, which was introduced by Solon. Ones wealth was taxes if the value exceeded 1000 drahm. Due to the fact that wealth being estimated under the value of 1000 drahm was not taxed, we can state that this was the first example of employing progressive taxation. In the United States of America income tax including its progression emerged in the year 1861 in the civil war period. Vast ground for the emergence of this tax was the need for financing public expenditure involved with the civil war. Annual income that did not surpass 600 dollars was completely exempted

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from the tax obligation. Income that exceeded this amount, however below 10 000 dollars was charged 3%, furthermore 5% was charged on 10 000 and above. Three years later these rates increased to 5% and 10% respectively³. In the year 1872 this tax was abolished, though 20 years later in 1894 the Congress enacted this tax once again. The rates were the following, 2% tax on income above 4000 dollars. Yet this tax was not implemented due to the fact that Supreme Court acknowledged this tax as incompatible with the Constitution. However in 1913 due to the ratified Sixteenth Amendment to the Constitution in 1909 the Congress enacted the first legal income tax. The tax credit amounted to 3000 dollars annually for singles and 4000 dollars for married couples. The rate structure on the other hand started from 1% for the first 20 000 dollars to 7% above 500 000 dollars⁴. These tax burdens to be honest concerned only the most wealthiest class of America, in other words income of 99% of the population did not exceed the first tax threshold. Just as a comparison 500 000 dollars in those days can be compared to 7 million dollars nowadays. No one then knew that dark clouds were drawing near American taxpayers along with the outbreak of World War I in 1914. Tax credits were reduced on one side, on the other tax rates were increased, namely from 1% to 6% and 7% to 77%. In the 20s' the highest threshold was reduced to 25% and in the 30s' it was increased again to 63% due to a nationwide crisis. With the outbreak of World War II the highest threshold increased to a unbelievable 94%. In the following years tax rates did not stop fluctuating. Only by the second term of office by President Reagan in the year 1986 taxes settled to a range of 15% - 28%. At this time there are six progressive tax rates on income in the range of 10% - 35%. In Great Britain the first income tax was imposed in the year 179870. The highest rate at that time was 10%, and was charged on annual income surpassing L 200. The lowest income threshold that qualified for taxation was L 60, which meant that the majority of Brits at that time did not pay income tax, as their income was too low.

From a modern perspective this may seem ridiculously low, however in those days taxpayers were not fond of the present at that time tax system. Due to the strong opposition of this tax it was canceled in the year 1816 by the British Parliament. What is more the authorities ordered to destroy all

3 See more: Gwiazdowski R., *Sprawiedliwość a efektywność opodatkowania. Między progresją a podatkiem liniowym*, Centrum im. Adama Smitha, Warszawa 2001 and Gwiazdowski R. *Podatek progresywny i proporcjonalny*, Wydawnictwo Uniwersytetu Warszawskiego, Warszawa 2007.

4 Hall, R.E. Rabushka A. *The Flat Tax*, Hoover Institution Press Publication, Stanford 1995.

past tax declarations. Not for long could the citizens of the Kingdom sleep well, when in 1840 income tax was renewed in order to balance the budget due to financial shortage caused by the reduction of customs rates. This time income tax was imposed for a trial period of 4 years and the rate equaled to 3% on income exceeding L150 annually. This threshold did not contain many people. In the Crimean War age the highest tax rate reached 6%. In the following years the rates were between 40% and 50%. Furthermore in 1874 William Gladstone tried to abolish income tax, as a result on the contrary income tax became a permanent element of the tax system. Income tax in its first phase did not concern too many taxpayers because they did most of them were below the minimum threshold. Two World Wars led to dramatic increment in tax rates. High progressive income tax survived a long period of time. The tax rates were as high as 94% in USA, 83% in Great Britain, and in Sweden the following absurd situation occurred, namely a famous writer Astrid Lindgren was to pay over 100% taxes on her Nobel Prize in Literature.

Qualities of progressive taxation

Theoretical foundation for tax progression was established by John Stuart Mill in the beginning of the 19th century⁵. He came to an assumption that taxpayers who earn a similar amount of income should devote a comparable amount of duty to the nation. This concept introduced by J. Mill had found many eager followers, which in the course of time had a substantial influence on the technique of imposing tax on income. Today progressive taxation is implanted to such a degree and the concept as a whole as well as principles will be settle for years to come. However more and more often progressive taxation is being criticized, mainly from followers of proportional taxation. These opponents detect a number of flaws, as well as doubt the advantages of progressive taxation.

In the opinion of Robert Gwiazdowski, supporters of progressive taxation name six main arguments, which prove the rightness and expediency of this method in imposing tax on income. The first reason supporting progressiveness is the fact of this technique being present in

5 See more: WOŁOWIEC T. SOBOŃ J. ROGOZIŃSKA-MITRUT: Some issues of personal income taxation. Winnica: INSTITUTE OF UKRAINIAN – POLISH COOPERATION 2012 and ROGOZIŃSKA-MITRUT J. WOŁOWIEC T.: Impact of economic crisis on the management of companies. Winnica: INSTITUTE OF UKRAINIAN – POLISH COOPERATION, 2011.

most civilized countries associated with the OECD⁶. On the other hand opponents claim that this cannot be an important argument for application of the this taxation method. This may be true and that is why I would like to carry on. The following argument cited by supporters of progressive tax puts forward the fact that the tax system should serve not only for the collection of financial assets by the nation, but also should operate as redistribution of national income. Such utilization of taxes is broadly applied, despite of the controversy that it brings up.

Redistribution of national income consists in the conscious formation of certain economic indicators, which could be perceived as a differentiated course from the outcome developed by a free market. This raises objection from followers of a laissez – faire economy, who identify the role of taxes as to gain income not redistribute welfare. In the case of proportional taxation redistribution of welfare also occurs, due to the fact that taxpayers, who earn more pay more taxes, which consequently is redistributed to the poorer.

The following arguments that are in favor of progressive taxation:

1. Progressive taxation is more just than the rival forms of taxation.
2. Progressive taxation is supported by marginal utility of income theory, as well as payment power theory.
3. Tax progression aids the poor in contrast to proportional taxation, which enhances the rich to be even richer.
4. The majority of the society is in favor of progressive taxation of their income.

It can be said that these arguments are weak, that they have no meaning, however that is exactly why progressive taxation was founded. Some say that only the weak complain, unfortunately the lower class of the society constitutes the majority, that is why something has to be done in order to aid them.

More and more countries are resigning from this form of taxation and are turning to flat tax. Not only small countries are undergoing such reform such as Lithuania, Latvia, Slovakia, however Russia or Ukraine have also done the same. What is worth mentioning is actually such countries do not have broad tradition in financial actions. Although this is true the last sentence has some meaning to all this, what is more most of these countries that decide to change tax collection techniques give the option of choice for taxpayers, namely they can choose the form of taxation, which better suits

6 See more: Gwiazdowski R., Sprawiedliwość a efektywność opodatkowania. Między progresją a podatkiem liniowym, Centrum im. Adama Smitha, Warszawa 2001 and Gwiazdowski R. Podatek progresywny i proporcjonalny, Wydawnictwo Uniwersytetu Warszawskiego, Warszawa 2007.

them. Tax progression method is observed to be present in countries where their tax system is deep-rooted, in other words they have a long historical tradition in finances. Also the tax form is in the mentality of the society. Moreover such countries tend to be the wealthiest with developed social politics.

Opponents of progressive taxation also claim that wealthier nations can afford such complicated and costly tax system. The first argument in my opinion is partially untrue, most countries in the world have progressive income tax, not only the wealthier ones. In addition in Poland progressive income tax has been recently simplified to two levels of progressive taxation, which means 1 threshold. As far as the term costly is concerned in Poland the collection of taxes

is done using the same method. Costs are rather fixed than variable, thus in my opinion I do not see a noticeable difference in the costs of a progressive tax system in comparison to flat tax where in addition the national income is respectively lower.

Types and forms of progression

A progressive tax is such, that its rate grows along with the increment of the object under taxation. This progression can have various forms, namely acceleration, delay or proportion. In the first case the augmentation of the tax rate is greater than proportional in comparison to the base of taxation. Considering delay the growth of the rate is slower than the increment of the base of taxation. In the case of proportion the growth is even. However the tax rate cannot exceed a certain range, otherwise consequently we would be giving away most of what we earn. Due to this fact progression has to be limited. Two types of tax rates have particular meaning here, namely global progression rate and level progression rate. In the global progression system in relation to the whole base of taxation a determined tax rate is applied. This type of scale induces a dynamic growth in tax charged. Global progression is applicable when crossing the higher base of taxation range, what is more every range is proportional. We have to admit that the advantage of such system is direct and immediate definition of the tax rate in relation to the whole object under taxation. However in reality the lack of permanence in progression leads to a situation where a taxpayer crosses over to a higher tax rate due to higher base of taxation and the additional tax charged increases significantly more than in comparison to the increment of the base of taxation. Such situations where the base of taxation is close to

the next threshold may encourage various avoidances in order not to cross this threshold.

A different method of constructing the progressive tax scale is leveled progression⁷. In this system the base of taxation is divided depending on the number of progression levels. To each level of the base of taxation a tax rate is ascribed, also as the income grows the rates also rise. In the end tax charged equals the sum charged in all levels. What is more if the taxpayers income crosses the consecutive level the higher tax rate is not imposed on the whole income as in the previous case, just on the amount that exceeded the given tax base range. This type of permanence in leveled progression is the main, although not the only merit. An additional advantage is the upper limit that is upheld in progression. As a result the real tax rate is not able to surpass the statutory rate employed in the highest level. Moreover along with the increment in value of the object under taxation, the tax does not become proportional. Also the tax draws near the statutory tax rate in the highest range, however it never reaches it, due to the fact that the lower portions of the income are charged according to lower tax rates. Leveled progression system concerning personal income tax is widely practiced, here in Poland also.

In literature that occupies this field of knowledge we can also distinguish additional types of progressive tax scale structures, such as direct progression, progression through the selection of the taxable item and progression with tax credit application. In the first case, namely direct progression we are dealing with a tax system, where the tax rate increases in a continuous form along with the increment of the value of object under taxation towards the limit defined in the act. No doubt the advantage of such a solution is continuity, nevertheless we have to accept the fact that a different tax rate for every level of object under taxation value results in a number of complicated calculations. Furthermore after attaining a certain point determined by the legislator progression simply vanishes at the same time being a proportional tax. Progression through the selection of the taxable item. In this case progression occurs through the selection of a certain element subject to taxation from the object under taxation keeping a constant tax rate. An advantage of such a solution is the emphasis of the rate limit, which cannot be surpassed. The maximum tax rate can be applied only to the whole object under taxation. What is more this system can be linked to leveled progression and progression according to category. In terms of progression according to category it would be wise in order to discuss this type of progression as well

⁷ Gaudemet, P.M., Molinier, J. *Finanse Publiczne*, Polskie Wydawnictwo Ekonomiczne, Warszawa 2000.

as regressive tax. Therefore progression according to category means that objects under taxation are divided into categories according to their value. The tax rates increase according to the consecutive categories, where each category has its own fixed tax rate. Moving on to tax regression, it simply is a tax imposed in such manner that the tax rate decreases as the amount subject to taxation increases. Briefly speaking it imposes a greater burden on the poor than on the rich.

The last progression type is progression with tax credit application. The situation is the following, the tax rate is constant, however there exists a tax credit in other words a tax minimum, which reduces the base of taxation. Thus we can state that we are dealing with progression with the application of tax minimum. What is characteristic about this type is that the tax rate increases along with the increment of the base of taxation approaching to the rate limit, yet we are not able to surpass this rate due to the tax credit. What is interesting, this system has appeared in many linear tax concepts.

Progression and payment capacity

In addition to progressive taxation and the law of diminishing marginal utility of income, the term payment capacity is brought up many times by the people who support it. According to this theory profits gained by taxpayers cannot have influence on the amount of tax charged. Hence taxes are not payments in exchange for individual public service goods, they serve as public expenses intended for the public as a whole. Therefore citizens in general are entitled to benefits rendered by the government, that is why tax payments should be divided among them in such a way that every taxpayer is charged according to his payment capacity, not according to his profit. However in this case an argument has also been found that opposes this theory. Apparently progressive taxation does not fulfill the criteria that payment capacity requires in order for it to function. What is more taxation capacity can be pondered upon concerning horizontal equity and vertical equity. The first stipulation states that taxpayers in the same circumstances should be burdened by taxes in the same way. There is no doubt that horizontal equity is closer to proportional taxation. A coherence between proportional taxation and horizontal equity was observed by Adam Smith, who claimed that citizens should contribute to the maintenance of their government in relation to their own payment capacity, yet proportionally to their income. Taxpayers that contribute to the national budget and governmental expenses can be compared to a real-estate and its cotenants, namely every cotenant

participates in administration costs according to his or her tenancy. On the other hand tax progression supporters prefer to focus on the rule of vertical equity rather than horizontal equity. Vertical justice in taxes consists in subjects under taxation that are better off in their financial situation carry a bigger tax burden than subjects that are worse off. Practically speaking this means the progressive tax rates⁸.

Tax payment capacity as the foundation of imposing taxes and accepting this fact is most often the notion of justifying fiscal efficiency and the need to make the most of taxes in the fulfillment of various societal matters. On the other hand however, the acceptance of this notion stands for nothing else than maintenance of vertical equity, which the essence of the matter is taking from the rich and giving to the poor, again Robin Hood. Those who prosper well, have a greater payment capacity and at the same time the government has less to worry about. In this situation we come across the dispute of who is better off, in other words what should be taken under consideration as the determinant of payment capacity. In the past, for quite a period of time this basis was wealth, only from the 19th century the measure of tax payment capacity of a taxpayer became his income. Still the recognition of income as the most valid measurement of tax payment capacity is not enough. Indirect taxes can be imposed on income under the analysis of their source, as well as the analysis of net cash flows, nonetheless indirect taxes can be imposed on income that has been consumed. There are a large number of possibilities of the tax system adapting to the tax payment capacity, moreover the majority of supporters of this theory second progressive taxation on all income. Nonetheless in reality the taxpayers situation comes to discussion, namely in what degree does his financial situation influence his payment capacity and should it be considered while delimiting the tax rate. Hypothetically speaking, let me compare two situations where on one side there is a single mother with three children and one of them is ill. On the other side a single mother with the same amount of income, however only one child that is healthy. Also the first mother rents a flat in a big city, the second mother lives in her own home in a small village. Obviously in the tax payment capacity of these two situations there is a vast discrepancy. It can be clearly stated that tax payment capacity does not depend only on the amount of income earned. Some say that there is controversy in this theory, therefore it should not be a vital argument for progressive taxation.

8 See more: Głuchowski, J., Handor D. Patyk, J. Szamańska J. Formy zmniejszania wysokości podatków w Polsce, PWN, Warszawa 2002.

Progression and the law of diminishing marginal utility of income

Those who support tax progression claim that along with the increment of income, additional growth will give proportionally lower satisfaction. In other words a person who earns relatively more, money begins to have less value, hence this extra income meets this persons needs proportionally lesser. This means that the impact of the tax burden on the wealthier sector of the society under progressive taxation does not have to be greater than the loss of utility by the taxpayers paying a smaller amount of tax⁹. As an example J.S. Mill claimed that if you subtract 1,000 per month from a person earning 10,000 it does not deprive him of his livelihood and well-being. On the contrary when you subtract 10 from a person gaining 100, this tax burden is not only bigger than in the first case where 10% tax is also imposed, however it is incomparable. Support the previous concept there is no doubt that people meet their own needs in a manner that suits themselves best. That is why every consecutive unit of a good is valued less than the previous unit. Therefore every successive marginal unit tends to meet a less essential need than the one before. On the other hand on the basis of previous examples can we really claim that bigger utility holds the relatively poorer taxpayer than the wealthier one with every extra unit earned? It does not seem to be so. Moreover diminishing marginal utility finds application only in the case of an individual, possessing his own preferences in value of consecutive units that he owns. As a result in accordance with diminishing value we can ascribe this tendency to only one person. Therefore bringing the discussion of diminishing marginal utility of income down to an interpersonal level by supporters of tax progression is said to be a mislead. In effect it cannot be overruled that redistribution of income to the poor, will result in greater utility than in the case of utility by the wealthier. Utility and value is interpreted differently by each individual, in addition it is not measured by any units, which prevents calculation.

Going back to the discussed theory, namely it omits the investment aspect due to focus on psychological comparison of consumers. The fact that this theory does not consider comparing the disposition of the expenses of the rich and the poor only weakens the foundation of the theory. A wealthier

9 Compare: Krajewska A. Podatki Unia Europejska Polska Kraje Nadbałtyckie, PWE, Warszawa 2004; Krajewska A. Podatki w Unii Europejskiej, PWE, Warszawa 2010; Byczkowska M., Kaczmarek A., Czyrka K., Współpraca przedsiębiorstw na pograniczu polsko-niemieckim w Euroregionie Pro Europa Viadrina (doświadczenia polskich przedsiębiorców) Wyd. PWSZ w Gorzowie Wlkp., Gorzów Wlkp. 2011, s.1-49.

person does not have to designate additional income to buy extra luxury goods, which would obviously entail lower satisfaction in comparison to the previous good. On the contrary these extra funds can create new job positions. Thereafter this new job opportunity could be of more value to the poor than a second car for the employer. Thus seeking justification for tax progression in diminishing marginal utility of income theory is somewhat off track in this case. What is more the redistribution function as in taking from the rich and giving to the poor just as Robin Hood, in order to provide minimum welfare for the poorest is rather abolished by the tax credit, which is there to assure minimum well-being. Again I do not agree with this opposition, namely the law of diminishing marginal utility of income theory does not compare the diminishing value of a product for instance, with the value perceived by another person. In addition the availability of job positions is not determined by the amount of money an employer is willing to spend. This is indicated by demand the market sets.

Social justice matter considering progression

It is fairly difficult to define taxation justice when we cannot seem to find a consensus as to what justice objectively is. In simple words we can describe it as the center between profit and loss. What is more even if we undergo various considerations related to comprehension of justice, which would result in a catalog of different concepts, the term justice will still possess several different definitions. Moreover the presented opinions in this subsection do not intend to criticize any subjective perception on the topic. In debates on the justice notion six schemes can be most often differentiated, namely equality according to contribution, according to result, according to needs, according to position, according to the law. It can be easily observed that these schemes cannot be connected. Also we cannot assert that one of these schemes is fair for every situation, as well as we cannot affirm that none of these schemes can be applied to no situation. C. Perelman¹⁰ made an attempt to find what these schemes have in common, differentiating formal justice and definite justice. Formal justice is such that finds a common factor for every definition. To be just, means to treat everyone equally. The main question arises, can we treat everyone equally? According Aristotle only similar people can be subject to the same rules, therefore to be fair means

10 See more: Gwiazdowski R., *Sprawiedliwość a efektywność opodatkowania. Między progresją a podatkiem liniowym*, Centrum im. Adama Smitha, Warszawa 2001 and Gwiazdowski R. *Podatek progresywny i proporcjonalny*, Wydawnictwo Uniwersytetu Warszawskiego, Warszawa 2007.

to treat people equally, the ones that have a similar characteristic that can be taken under consideration when evaluating justice. L. Kołakowski made a quite accurate statement, namely justice consists in treating similar the same and dissimilar differently, however proportionally to the difference. The Polish Constitution Tribunal bases on such reasoning. The situation with normative laws, to which the justice rules are subject to, is somewhat diverse. These laws have to refer to values and imperatives, which do not possess any logic. Thereafter every justice system depends on diverse values than the value of justice. That is why in the case of the dispute on the justice notion we can stress the antagonism between advocates of different concepts that we are not able to reconcile with reasoning due to the lack of principles that could serve as a starting point in discussion.

From a psychological point of view people who obtain lower results than others, propose division of assets considering the diversity of work results and people who obtain greater result prefer equal division of assets. Psychologists call this the “courtesy rule”. However this study conducted on a small sample of people does not find its application in the society. In the society taxpayers who are worse off, in other words obtain smaller rewards as a result of primary distribution of income, the prevailing opinion is that taxpayers who are better off should be subject to a greater tax burden in order for secondary redistribution of this income. What is more, it seems that the higher the social status of a person is the more he perceives competence as a crucial factor towards obtaining adequate results. On the other hand the lower the social status of this person the more he/she considers work conditions, thus rewarding those with worse working conditions most. What is more the view on justice tends to be dependent on expectations. According to the following study people with worse results expecting rewards for participation in the experiment preferred a more equal division of rewards than according to results. On the other hand the people that did not expect a reward stated that outcome should be the main determinant regarding the division of the reward. An interesting fact is that research done among young children showed that the ones from poor families supported the equality principle noticeably more than children from wealthy families. In addition research among adults has shown that blue collar workers prefer the equality principle more than white collar workers.

We can say, that justice is normative and does not base on mathematics. Justice as a norm is accepted or not, depending on the evaluation of the norm. Therefore after this evaluation, taxation justice becomes the basis for forming a practical tax theory, however only if we consider all possible points

of view, especially contradictions and conflicts of interest. A. Gomułowicz and M. Małecki¹¹ on the other hand acknowledges the payment capacity principle as the fundamental determinant of creating tax policies. In his opinion the measure of payment capacity is individual loss in the name of taxation. That is why taxes should be levied proportionally. However progressive taxation in some literature is perceived as proportional due to the fact that the tax rate is proportional to the base of taxation and changes as income changes. What is more, the only way to realize the payment capacity principle is through progressive tax rates.

R. Hall and A. Rabushka¹² claim that in the past years the justice issue covered up two other significant determinants, namely efficiency and simplicity of tax. It is perceived that mainly supporters of progressive taxation are guilty of this cover up, in other words in most discussions that considered or consider this topic the justice among society notion with reference to progressive taxation was brought up. However due to the fact that the definition of what is the societal justice issue is somewhat problematic R. Hall and A. Rabushka attempt to resolve this dispute. Elaborating on this concern, Hall and Rabushka contemplate on whether objective definitions and standards exist, that could be utilized in the choice between optimal tax systems. Following the previous dilemma further questions arise, namely does the opinion of one person on what is fair and what is not, exclude other persons perception, moreover how do we utilize the

standard of justice if we do not acknowledge the meaning. Thus are the defenders of progressive taxation being reasonable, providing facts about the notion of societal justice, which apparently cannot be found in rival forms of taxation.

Karl Marx¹³ supported the notion of a larger tax being imposed on wealthier taxpayers.

According to Marx in a system of privatization real justice is unattainable. However redistribution of national income in a capitalistic environment can only appease the fundamental social inequality. In Marx's opinion it cannot provide real righteousness. In a capitalistic system based on privatization of production and the tendency to appropriate every additional value made by the working class, it is not possible for financial equality and justice to exist. Through the above mentioned perspective of justice, the redistribution function of progressive taxation on income loses its position. In addition income tax is based on the foundation of various sources of income and social classes, therefore the existence of a capitalistic society. Of course tax progression in a capitalistic system of production contributes to the leveling of social differences. What is more individual income is formed on the free market, which is determined by the laws of supply and demand that Marx absolutely criticizes.

11 Gomułowicz A. Małecki J. Podatki i prawo podatkowe, LexisNexis, Warszawa 2004.

12 See more: Hall, R.E. Rabushka A. The Flat Tax, Hoover Institution Press Publication, Stanford 1995.

13 Citation by: Gwiazdowski, R. Podatek progresywny i proporcjonalny, Wydawnictwo Uniwersytetu Warszawskiego, Warszawa 2007.

Progressive taxation on the other hand is a result of political decisions originated from a previously adopted vision on equal division of goods. Although progressive taxation in a economic system of privatization and free trade, in Marx's opinion does not guarantee real equality and justice it certainly is structurally and ideologically closer to his perception than the proportional tax based on doctrines of commutative justice. According to Marx a great amount of progression is an instrument that would generate changes in social relations leading towards communism. However we cannot claim that the Marxist doctrine on justice is a good enough justification for progressive taxation due to the fact that if it were to be accomplished the redistribution of national income would no longer be necessary. Justice and equality would already be distributed in the primary phase, namely in effect of adequate payroll system. Tax progression is primarily recommended by the Marxist doctrine for societies, where the economy is founded on market principles, as a remedy intended to eliminate market economy.

The discussion about justice in progressive taxation brings up the question, is it fair for one taxpayer earning twice as much was charged with three times as much tax? A. Gomułowicz and J. Małecki claim that the essence of tax justice is taxpayers being in the same economic situation should be treated in the same way in terms of taxation. Varied bases of taxation should lead to a differentiated amount of tax with respect to the payment capacity principle. The fact is that despite being charged with different tax rates citizens still have equal rights. The democratic principle according to which one citizen has one vote relates to a capitation tax rather than income tax. Nowadays anyone who commits a transgression is obligated to pay a certain fine regardless of his social status or income. One of the primary rules in a democracy is, if the law applies to citizen X, than the same law applies to citizen Y. However considering taxes this principle has been broken, namely the wealthiest should pay the most.

Tax progression and the equal contribution is also a significant theory according to H.P. Young¹⁴. Young is a advocate of progressive taxation due to philosophical reasons. He declares that those who are in a better financial situation should be charged with a bigger tax rate, because it will be more feasible for the rich to accept this loss. In his opinion, despite of the fact that no unambiguous theory exists supporting progressive taxation, which we can observe in most countries across the world, there are theories that support a certain level of progression. Young also adds that progression serves as compensatory justice that fixes the inequality in the primary

14 Young H.P. *Equity, In theory and practice*, Princeton 1994.

distribution of income. Moreover according to the equal contribution theory the sacrifice should be equal, not the tax. This is based on the notion that the richest pay a greater amount of taxes than the poorest, because the rich experience a smaller degree of financial loss. As we can observe this theory relates to payment capacity principle and the diminishing marginal utility of income rule. J.S. Mill was the precursor of the equal contribution theory. In his opinion it is relevant to analyze the persons situation before and after imposing tax. Only then we are able to detect the taxpayers condition, after paying the tax, in terms of ability to meet fundamental needs. The problem is establishing the amount of this contribution for certain groups of taxpayers. Mills contemplations were concentrated on how much income is supposed to be left over for the taxpayer to meet his own needs, thus maintain his/her happiness. From his perspective taxpayers are treated equally if they bear a similar tax burden. Mill agreed to the fact that after exceeding a certain level of income, taxpayers tend to meet extraneous needs. That is why this taxpayer should participate in the national budget in a greater degree. J.S. Mill supported Bentham's notion on implementing tax credits. It seems to be that Bentham provided the best solution to alleviate injustice. What is more the existence of a tax credit means the existence of progression, however a somewhat different progression than found in most common tax systems. Summing up, if many theories justify progressive tax rates even in a slight degree, therefore there exists rationale behind this method of taxation.

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