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## BENEFIT PRINCIPLE :

In the benefit principle of taxation, relationship between tax payers and the govt. is seen as one of exchange in which tax is considered as the price to be paid for the benefit received. According to this principle, a tax is paid for a commodity against the benefit of supply from govt. The benefit theory of taxation may be interpreted in two ways namely cost of service principle and the value of service principle.

### Cost of Service Principle :

According to the cost of service principle, the contribution of tax payers should be equal to the cost of supply public services that benefit need him. This principle can be applied to certain public services like postal, telegraph, transport etc.

### Value of Service Principle :

There are services where it is impossible to determine the cost of rendering services. For eg., defence, police service etc. In such cases taxation should be guided by the value of service principle.

The most refined benefit view of taxation comes from the famous Swedish Economist Eric Lindahl in voluntary exchange. The theory want to covers the cost of supplying public services by taxes contributed by the beneficiaries.



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supply where cost covered will lesser than cost of supply of social good. Thus the optimum supply of public good will be 0.

Teacher's Signature .....