

# Introduction

## LEARNING OBJECTIVES

*After studying this chapter, you should be able to:*

- 1 Define public finance.
- 2 Identify the sources of public revenues.
- 3 Understand the importance of public revenues.
- 4 Differentiate between public finance and private finance.
- 5 Understand the meaning and characteristics of income.
- 6 Understand the meaning and characteristics of income taxes.
- 7 Understand the nature and importance income taxes.
- 8 Understand the concepts of Income Tax Ordinance (ITO) 1984.
- 9 Understand the canons of taxes.
- 10 Understand the tax structure of Bangladesh.
- 11 Understand the impact, incidence and effect of taxation.
- 12 Understand the role tax in the economic development of a country.

### **1.1 Public Finance:**

Public finance is a science of managing income and expenditure of all governmental bodies in a country. It is the management of spending and raising of funds by public authorities. So public finance deals with the provisions, custody and disbursement of resources needed for the conduct of public or governmental functions. It is the bridge between state economics and state policies.

### **1.2 Sources of Public Finance**

Public finance has two major sources – (a) tax revenues, and (b) non-tax revenues.

#### **(a) Tax revenues**

Taxes are the first and foremost sources of public revenue. Taxes are compulsory payments to government without expecting direct benefits by the taxpayers. Taxes collected by the govt. are used to provide common benefits to all mostly in form of public welfare services.

**(b) Non-tax revenues**

Any revenue except tax earned by the govt. is called non-tax revenue. The major sources of non-tax revenues are listed below:

- (1) Fees,
- (2) Fines and penalties,
- (3) Surplus from public enterprise,
- (4) Special assessment of betterment levy,
- (5) Grants and gifts,
- (6) Deficits financing etc.

**1.3 Differences between public finance and private finance. (2007)**

<b>Public Finance</b>	<b>Private Finance</b>
(1) It is a government finance.	(1) It is a non-government finance.
(2) It depends on national expenditure.	(2) It depends on individual's income.
(3) It moves expense to income.	(3) It moves income to expense.
(4) It must cover one fiscal year.	(4) It has no specific time period.
(5) It is always a macro finance.	(5) It is always a micro finance.
(6) It has foreign aids.	(6) It has no foreign aids.
(7) It has many internal borrowings.	(7) It has not internal borrowings.

**1.4 State the importance of public finance**

The modern government cannot move without public finance. So the role of public finance is very crucial for a modern government as for both social welfare and governmental operations. Some points about the importance of public finance are stated below:

- (1) Public finance is important for protection to infant industries.
- (2) Public finance is very important for planned economic development.
- (3) Public finance is important for regulating consumption habits.
- (4) Public finance is important for reducing inequalities of social economy.
- (5) Public finance is important for maintaining the balance of trade.
- (6) Public finance is important for industrial development.
- (7) Public finance is important for economic development of a country.

**1.5 Define tax.**

**Definition of tax:** The term 'tax' has been derived from the French word 'taxe', which means 'to charge'. Taxes are compulsory payment to government without expectation of direct return or benefit to the taxpayer.

Tax is a contribution exacted by the state. It is a non-penal but compulsory and unrequited transfer of resources from the private to the public sector, levied on the basis of predetermined criteria.

According to Section 2(62) of the ITO 1984, **tax means the income tax payable under the ordinance and includes any additional tax, excess profit tax, penalty, interest, fees or other charge leviable or payable under this ordinance.**

## **1.6 Characteristics of tax**

Tax has the following common characteristics:

- (1) Tax is a compulsory payment to the govt. by every able citizen.
- (2) Tax is a non-penal payment to govt.
- (3) Tax is not a fine or penalty.
- (4) Tax is compulsory for every corporate company.
- (5) Tax is imposed by only govt.
- (6) Tax is the prime source of governmental revenues.
- (7) Tax is not a service charge.
- (8) Tax is paid without receiving any benefits.
- (9) Tax is used in govt. expenditures.
- (10) Tax is the major factor of govt. economy.

## **1.7 Define income. (2006, 2007, 2009, 2010)**

**Definition of income:** Income means any kind of receipts or gain. It includes profits, gains, revenues, losses, benefits, facilities and any disposable receipts.

According to Oxford Dictionary, **income means periodical receipt from one's work, lands, investments.**

According to Section 2(32) of the ITO 1984, **income includes any income, profits, gains, losses, any sum deemed to be income.**

**Examples of income:** Salary, remuneration, profit, gain, interest, rents etc.

## **1.8 Characteristics of income. (2006, 2007, 2009, 2010)**

Income has the following common characteristics:

- (1) Income is a periodical return.
- (2) Income is received from third party.
- (3) Income may be received or accrued.
- (4) Income must be real.
- (5) Source of income must be defined.
- (6) Income is one kind of revenue received.
- (7) Income may be legal or illegal.

(8) Income must be related with money.