

# 南華大學九十七學年度 博士班 招生考試試題卷

系所別：企業管理系管理科學博士班

科 目：管理論文評析(2)

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(另附論文 18 頁)

被評析論文題目：The Concept of Contribution Theory as a Framework of Taxation

(共 18 頁，詳附件)

評析作答方式：閱讀上述論文內容後，回答下列各題目

1. 作者在論文中提及：有數種課稅的哲理依據；請問這些哲理依據的內容大要為何？(10%)
2. 作者所推崇的課稅依據“貢獻論(Contribution Theory)”其思想來源來自何處？中心思想為何？如何與“政府為何要課稅”或“人民為何要繳稅”連結上關係？(10%)
3. 作者貢獻論之國家對人民獲取所得之貢獻發生的時間點，與國家對人民課徵所得之發生的時間(課稅的時間點)；何者在先，何者在後，理由何在？(6%)
4. 作者貢獻論之國家對人民或企業獲取所得的貢獻程度如何衡量？(6%)
5. 如果台北市長主張：因為台北市民比其他縣市市民繳的稅額多，所以台北市政府所分配得到的稅(預算)，也應該比其他縣市政府多；請問這種主張成立嗎？理由何在？(6%)
6. 某些人在賺取所得後，把後繼欲賺取所得者之賺取所得的環境變差了，請問依貢獻論哲理，你認為應如何處置。(6%)
7. 依據貢獻論的主張，是否應採取累進稅方式，課徵綜合所得稅，理由何在？(6%)

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## The Concept of Contribution Theory as a Framework of Taxation

### Abstract

Based on the concept of *environmental rent*, this paper is aimed to interpret the rationale for all the bases and sources of tax. Moreover, to better illustrate such a rationale, this paper uses *contribution theory* to examine all the parties involved in tax collection and distribution. The main focus of this paper is on what advantageous properties the concept of *environmental rent* may possess and how these properties can be applied to the increasingly complex issue of tax reform.

This research probes into the value of judgments inherent in the rationale for taxation and how this value of judgments may be put into practice. By applying the relatively new concept of *environmental rent*, this paper explains both the *value of rights* by which the government imposes tax on people and the *value of obligation* by which the people are required to pay tax.

### 1. Introduction

The rationale for taxation in most countries is founded upon the presumption of *obligation theory*. However, guiding principles for where and how much tax should be collected have been lacking. This lack has resulted in potential social injustice and triggered discontent from the general public. That *all citizens are obliged to pay tax* has been taken for granted. Fundamental reasons behind such an

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obligation, nevertheless, deserve serious questioning. Why on earth should people voluntarily devote part of their hard-earned income to their countries ?

This question becomes even more important when governments impose new types of tax, raise existing tax rates or alter the criteria for tax. People often react to these changes by governments with disagreement. For instance, debates arisen concerning whether commodity tax applies to multimedia computers, whether pension funds should be taxed, the integration of individual and corporate income taxes, and the division of tax sources between central and local governments. All these have exposed the insufficiency of the rationale based on obligation theory.

In an attempt to justify changes in tax systems, governments have resorted to different rationales in different occasions. Due to this inconsistency, people have not been able to understand, let alone have confidence in governments' tax measures. In addition, modern politics is characterized by multiple political parties and interest groups. Controversies concerning tax issues are often resolved as a result of the wrestle and reconciliation between governments and various bodies representative of the popular will. People are forced to accept the result, and the ensuing struggles and protests demand a great deal of social cost.

In a final analysis of the problems and chaos facing today's tax issues, the pivotal underlying factor is : the lack of a coherent and consistent set of guiding principles which enable governments to account for all sources and amounts of tax. This research probes into the value of judgments inherent in the rationale for taxation and how this value of judgments may be put into practice. By applying the relatively new concept of *environmental rent*, this paper explains both *the value of rights* by which the government impose tax on people and *the value of obligation* by which the people are required to pay tax.

### 2. Definition of Environmental Rent

People live upon the infrastructure provided by the country and grow in the environment developed and managed by the government. Individuals and corporations alike have to earn income to survive, and so human environments such as economic, cultural and social environments come into being. To earn income is to profit by interacting with the environment and making use of resources in the environment. Based on this observation, resources belong to the country and are managed by the government. In order to make income, people rent resources from the government, and hence should repay by contributing to the environment in a corresponding manner. Therefore, income can be viewed as profit generated from using the environment, and tax as rental individuals and corporations pay to the government from which they rent the environment.

**2-1. An alternative interpretation of the environment :** From the point of view of anthropologists, the environment refers to the human social environment.<sup>1</sup> Biologists refer to the environment as the natural ecological environment. The environment referred to in this study is in a broad sense a collective form of all conditions under which people make income. It contains in its narrowest definition

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the infrastructure which constitutes a nation such as people, land and sovereignty, as well as the environment managed by the government including finance, economy, politics, education, culture, technology, military defense, ecology and other assets or systems whether substantial or not.

This study is modeled on the concept of land rent which dominated the ownership structure of land in the agricultural economy of Taiwan in the 18th century.<sup>2</sup> The environment from which income is generated is divided into the infrastructural environment and the managed environment. The infrastructural environment represents essential elements that constitute a nation or resources owned by the nation. The managed environment denotes the environment governed and owned by the government. The nation provides the resources in the infrastructure, while the government manages and develops such resources.

**2-2. Rent involving investment :** *Rent* is an act of borrowing resources from the owner, while *tax* is an act of paying price by means of goods or money in exchange for resources. In this paper, the concept that people rent the environment from the government in order to make income is proved to be applicable to all tax issues. That is, all tax issues are fundamentally environmental rent issues. On an analogy to renting a house, the *nation* is the owner of the house, the *government* the manager of the house who facilitates the house for renting purposes, and the *people* the tenant. The tenant rents the house from the house manager just as people rent the environment from the government. The house owner provides interior design and equipment just as the nation provides the infrastructure. The government facilitates the environment for investment, ensure national security, guarantees people's life and property, meets the daily needs of the people, and offers the environment for education. The tenant pays rent to enjoy the services provided by the house manager. Likewise, people enjoy the benefits of making profit, living, being educated and so on, and then repay in the form of *money*, that is tax.

In fact, the relationship between the tenant and the house owner is merely parasitic based on contract. By contrast, the people and the government are closely knitted with the existence of one dependent upon that of the other. Besides renting the environment from the government, the people should also work with the government to develop the environment. By so doing, not only can greater benefits be generated in the future, but a more favorable environment can also be created for the use of future generations. Rent connotes the passive act of paying the price involved in borrowing the environment, as well as the progressive act of developing the environment for the purpose of investment.

**2-3. Philosophy of environment rent :** Despite the above similarities between environmental rent and renting a house, there are still marked differences with respect to accounting formula, terms of payment, and relationship between the payer and the collector.

- **Accounting formula :** The measurement of environmental rent as advocated in this study is based on the degree of contribution by the

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government, while the measurement of house rent is based on the contract agreed upon by both the house owner and the tenant.

- **Terms of payment** : A tenant must pay the rent before living in the house. However, environmental rent emphasizes that the contribution made by the government precedes the collection of tax. The government's contribution to the environment during the current period is first measured in order to determine tax rates, and then tax is collected accordingly for the next period.
- **Relationship between the payer and the collector** : The relationship between the house owner and the tenant is parasitic on contract. However, the relationship between the people and the government should be based on interdependent and mutually beneficial partnership. The two should develop and invest in the management of national resources, thereby forming a healthy cycle and exerting a positive impact on the overall environment.

This paper emphasizes the rationale for taxation as based on contribution theory rather than on the needs of the government to promote economic activities and public welfare.

*Reasons for this are as follows :*

- **Contribution theory is based on the concept of relative price** : The relative price concept avoids the feeling that paying tax is a compulsive mandate forced upon people by the government. Paying tax should not be a unilateral wish fulfillment. People pay prices in measure as the extent to which the government contributes to the environment. This concept complies with the principle of social justice.
- **Encompassing both economic and non-economic effects** : The contribution made by the government is divided into transaction contribution, welfare contribution and opportunity contribution. This division takes into account not only the economic effects produced by the transaction and consumption of goods but also the non-economic effects from the well-maintained social order.
- **Pursuing increase in marginal efficiency** : To maximize efficiency, the government intervenes in helping the poor by requiring the rich to pay taxes. In so doing, marginal efficiency increases along with each unit of tax and the gap between the rich and the poor is narrowed. This coincides with the traditional Chinese concept of fair distribution of wealth.

Apart from the collection of tax, how to utilize the tax being collected is also an important part of this paper. Tax collection is not an end in itself. The major purpose for the government to collect tax should be how to utilize tax revenue to maximize the efficiency. The utilization of tax revenue can be approached according to three aspects : the consumption, saving and investment of tax revenue.

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The purpose for the consumption of tax revenue is to develop the environment, improve the quality of the environment and promote economic and social welfare. Taxes should be collected from the people and then used for the people, such being the final end of tax collection. If tax collected for the current period are not consumed entirely, the remainder should be saved for the next period. Since the remainder of tax is accumulated for the next period, people's burden will be lightened. The government's preferential tax measures should not only focus on the *accounting accounts*, but should also consider the long-term *economic account*. In other words, a nation's fiscal policy should incorporate the idea of *return on investment*.<sup>3</sup> Therefore, measures based on the concept of *sacrificing the present for the sake of future prospects*, such as preferential tax measures and encouraging private investment, are areas relating to investment of tax revenue.

All the above explains some ideas of taxation based on the concept of *contribution theory*. The motivation behind these ideas is to establish a rationable for taxation easily acceptable to the general public. The nation exists on condition of the people. The government imposes tax on the people based on the extent to which it has contributed to the environment and the degree of excellence to which it has managed the environment. In addition, the nation is a common organization which supports the needs of individual living. According to the duties of the people to the nation, the people should repay the benefits they have enjoyed in the environment. Not only should the people pay for the government's contribution to the environment, but the improvement or damages caused by the people themselves on the environment should also be taken into account. These underlie the framework for the logic of environmental rent.

### 3. Legal Basis for Environmental Rent

This paper focuses on the legal basis for the nation's rights to demand tax. The analysis is based on a comparison of the various rationales for rent raised in fiscal policy studies. Environmental rent also combines both Eastern and Western theories. From the point of view of countries which provide the infrastructure and manage the environment, this paper justifies the rights of countries to demand tax as based on the extent of contribution made by the government.

**3-1. Connotation of tax and rent :** In the Chinese and Japanese context, rent refers to the income generated from land, while tax refers to the income generated from goods. The Chinese character for rent is 稅, which puts together two words. The word 禾 means rice. The word 兌 resembles the gesture of kneeling down and giving things with both hands in exchange for something else or as sacrifice to gods. Rent is *impôt* in French and *imposto* in Italian, both of which mean burdening someone with annoying duties. Tax in English and *abgaben* in German both mean sharing the nation's payment obligations. In the Chinese context, rent and tax are economic activities expressing gratitude to the nation. In France and Italy, they represent the right of the nation to impose duties. In the English, American and German context, they are payment by the general public as required by the nation.

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3-2. **The rationale for rent** : Rent and tax are a major source of income for modern nations and play an important role in nations' economic development. Therefore, modern nations can be called *steuerstaat*, i.e. a state of rent and tax. In a *steuerstaat*, the government participates in any profit-making activities undertaken by individuals or corporations by means of rent and tax. Therefore, the issue of the rationale for rent is directly related to the existence of the nation and is also a topic researched by nation philosophy theorists, legal scholars and fiscal experts.<sup>4</sup> Various theories dealing with the rationale for rent are summarized as follows :

Theory	Background	Concept of Nation	Main Point
Public Demand Theory	Western Europe experienced the transition from feudalistic economy to capital economy marked by absolute monarchy. This theory was raised by the <i>Kameralistem</i> in Germany in the 17th century.	To promote public welfare is viewed as the nation's responsibilities.	The nation must engage in economic activities for the purpose of promoting public welfare. The nation collects tax to meet the demand of the public.
Insurance Theory	The early stages of capitalist economy	Primordial concept of the nation : the nation aims to safeguard the life and property of the people.	The nation provides insurance for the property and life of its people and for maintaining social order. People pay tax as a form of premium.
Exchange Theory	In the early stages of capitalist economy, this theory was raised by the <i>physiocrats</i> and was later adopted by the English orthodox represented by Adam Smith.	Nation as a contract : The relationship between the nation and the people is based on contract.	People pay tax in exchange for protection from their nation, i.e. "the cost to buy peace", as Hobbes said. Both parties pay equal cost, i.e. relative price. People profit from activities within the nation and in turn pay the cost by offering money to the nation.
Duty Theory	This theory originated in J.S. Miller's concept of tax as sacrifice, and was formulated by a German scholar named A. Wagner.	Welfare nation : The concept of nation is transformed from the passive <i>low-priced government</i> to the aggressive <i>Romanticism</i> . The nation is viewed not as a commercial group aiming to make profit, but as an organic body which possesses unique life and value.	Along with the concept of organic welfare nation, tax payers do not obtain any concrete return. Tax is not a form of prices relative to the profit made from the nation. Tax is above this relative price and viewed as sacrifice by the people to the nation. Therefore, paying tax to offer financial source is people's duty.

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Contribution Theory	This theory combines eastern way of thinking with the western one.	Along with the development of constitutional nation and representative government, the concept of the people as the sovereignty gains momentum. The equitable distribution of national resources is emphasized.	People's will is highly respected in the democratic system. Although tax is a decision of the legislative bodies, tax evasion is still a major problem hampering national economic development. Therefore, tax rates are determined according to the actual contribution the nation has made to the environment. The criteria of taxation is based on the concept of <i>contribution before taxation</i> .
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The above rationales for taxation have all started from the nation's perspective. From the contract theory are derived the exchange theory and the insurance theory. Then, from the organic welfare nation are derived the duty theory. The following chart compares the weaknesses of each theory with the environmental rent theory.

Theory	Weaknesses	Comparison with Contribution Theory
public Demand Theory	This theory is characterized by an insistence upon the right of the nation to impose tax, but does not give a full account for why the people have to pay tax. The insurance theory arises in response to this weakness.	This theory is incapable of defining how the amount of tax being paid should differ from person to person.
Insurance Theory	The nation should protect people's basic human right of being free from fear. This is a legal issue, not belonging in the area of commercial insurance. Therefore, the exchange theory attempts to interpret tax as a commercial transaction.	This theory cannot differentiate between premium rates, which cannot be changed once the contract is signed.
Exchange Theory	The co-relation between the profit that people make from the nation and the tax they pay is not clearly defined. Therefore, the duty theory, based on welfare nation, considers paying tax as people's duty.	This theory does not take into account the time element which is taken to either destroy or improve the environment after income is made.
Duty Theory	As welfare nation and national sovereignty prevail, taxation is regarded as a monopoly possessed by the nation and forced on the people. The rationale for taxation is discarded and putting limits on taxation is neglected. The lack of a convincing explanation of taxation leads to people's discontent. The ensuing problem of tax evasion hampers economic development.	This theory lacks a proper rationale to account for taxation.



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**3-3. Comparison with exchange theory :** The most popular theory of taxation nowadays is *duty theory*. The concept raised in this paper is closer to *exchange theory* in its philosophy and content. The tax paid by the people as a whole is taken into account on the one hand, and on the other hand the activities that the nation provides to its people is also included. A balance is reached between these two considerations. The following is an in-depth comparison between exchange theory and contribution theory :

Exchange theory	Contribution theory
1. The exchange theory cannot measure value according to individual cases. The tax one pays does not necessarily equal the profit he receives. The people as a whole purchase various services from the government via the congress. The price the people pay should equal the tax that the government demands.	1. The exchange theory cannot measure value according to individual cases. The tax one pays does not necessarily equal the profit he receives. The people as a whole purchase various services from the government via the congress. The price the people pay should equal the tax that the government demands.
2. Approval of legislative bodies is required both in terms of legalizing taxation or making budget. The amount of tax demanded by the nation varies according to the level of services it offers to the people. The criteria of taxation is based on the principle of <i>measuring income against spending</i> as advocated by modern government.	2. Taxation is endorsed by the legislative bodies but also strictly based on the principle of <i>measuring spending against income</i> . The extent of contribution made by the government during the present period serves as a criteria by which taxation for the next period is determined. Then the amount of tax being collected is distributed according to the proportion of contribution.
3. This theory uses exchange as an analogy to explain taxation. It provides a rationale for taxation on the one hand and implies <i>no earnings without taxation</i> on the other. Putting limits on taxation is also emphasized.	3. The right to impose tax is based on a relationship of exchange and should be limited. Every contribution should be rewarded with tax. People are entitled to the legal right to utilize the environment, which the government should not resist.
4. The relationship between the nation and the people resembles that between the employer and the employee.	4. The relationship between the nation and the people is like partnership in a joint venture, rather than that between the employer and employee.
5. This theory fails to take into account the time element which is taken to either destroy or improve the environment after income is made.	5. The spirit of <i>contribution before taxation</i> is emphasized. The calculating basis should take into account the time element which is taken to either destroy or improve the environment after income is made.
6. This theory does not describe in detail how to collect tax and distribute tax income.	6. This approach give a full account of the collection and distribution of tax.

**3-4. A historical review of the Chinese thinking on taxation :** The system of taxation in China began in the Hsia dynasty (2183 BC) as Emperor Yu savaged the land from a major flood and initiated the land tax. The Chinese thinking on taxation is profoundly influenced by Confucianism and Legalism.

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Confucianism advocates that the country should keep expenditures within the limits of income and that low tax rates should be adopted. The Confucian point that the country should economize expenditures complies with modern viewpoints on government expenditures. The burden of tax should be shared in a fair manner to achieve the objective of an equitable distribution of wealth. This complies with the principle of social justice. Legalism deems taxation unnecessary and harmful to national productivity. This school of thought insists that paying tax deprives people of their income and causes complaints about the government among people and that government income should mainly rely on state-run and monopoly business.

The basic principle Confucianism is righteousness. It emphasizes that the country should reduce tax to alleviate people's burden. Legalism, on the other hand, values tactics. It aims to replace taxation with state-run businesses. This alternative form of government income will be willingly shared by the people without any complaint. This paper incorporates the Confucian concepts of ethics and a fair distribution of wealth, acknowledging the importance of justice beyond the scope of economics. This paper also inclines toward the concept of legalism, emphasizing that taxation should be based on the government's contribution to its people.

### 4. Taxation Based on Contribution Theory

The Chinese concept of taxation emphasizes *contribution*, while the Western concept emphasized *obligation*. This study utilizes the idea of rent to evaluate taxation. Rent is regarded as transactions in this study, while tax is viewed as obligatory. The reason behind this observation is that rent operates in a mechanism which integrates justice, i.e. contribution, while tax is imposed by policy in an obligatory manner. This study advocates that prior to taxation, the contribution made by the government to the people should be properly evaluated. Once the evaluation is concluded, paying taxes is then an obligatory duty.

**4-1. Logic supporting contribution theory :** At present countries around the world rely mostly on tax to finance their income. Therefore, people must consider whether it is better to reduce tax and compromise the services provided by the country, or to increase tax so that the country can enhance services and developments. We approach this issue from two perspectives : the country's right to require tax and the people's duty to pay tax.

(1) **The value of right for the country to demand tax :** The English scholar John Locke summarizes the relationship between the government and the people into the following levels :

1. The government is formed on the basis of the contract with its people;
2. The implementation of every government action should be endorsed by the people, and therefore the sovereignty is also endowed upon the people;

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3. The function of the government is mainly to protect the various rights which the people are naturally entitled to; and
4. If the government does not abide by the contract, the people may either seek to honor the contract by way of revolution or re-formulate the legal framework constituting the government-people relationship. Rousseau stated that the four elements constituting a nation are people, territory, sovereignty and government. He defined sovereignty as popular will. The government is entrusted by the people to exercise their popular will. This is the basis for democracy.

To sum up, the emphasis on *the government's contribution* is derived from the triangular relationship among government, people and country. The reasons why taxation should be based on the government's contribution are the following :

- *The relationship among government, people and country* : The people entrust the right to manage the country to the government; the government serves as a surrogate of the people to manage the country.
- *The government creates and develops the environment* : The government creates the social and economic environment conducive to investment, employment and education.
- *The people are entitled to benefits* : The country provides the infrastructure of the environment; the people enjoy the environment provided by the country and the profits generated from the environment. The contribution made by the government determines the quality of the environment. People enjoy the benefits generated from the environment. Therefore, taxation should be based on the contribution made by the government.

- (2) **The value of duty for the people to pay taxes** : A country is an institution which is indispensable for individual living. Without the country, any individual will not exist. Although the country is given the ownership of the environment and resources, the people are still endowed with the right to make use of them. People can unconditionally use the environment to make income within the limit set by the law. It is not necessary for the people to purchase this right. However, based on the concept of relative price inherent in contribution theory, people should provide financial sources to the government as a price for the benefits they have enjoyed. Moreover, by granting people the right to use the environment, the government can increase the contribution made by both the people and itself to the environment. Contributions made by the government and the people reinforce each other.

The country provides the infrastructure of the environment. The government

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manages the environment. The benefits which people receive from the country are measured according to the degree of contribution made by the government to manage the overall environment of the country. By paying tax according to the degree they have utilized the environment, the people can monitor the government.

**4-2. Connotations of contribution :** The study employs contribution theory as the rationale for taxation and also initiates the idea that *contribution is determined by the degree of involvement and taxation by that of achievement*. To be more specific, the government's contribution is evaluated according to how well it has been involved in the management of the environment, while taxation is based on the benefits received by the people, which is reflected by the level of income and its effects. This paper gives a strict definition to contribution, which serves as the starting point of analysis. Therefore, the environment managed by the government is divided into the commercial and transaction environment, the moral and custom environment and the social welfare environment. Contribution is classified correspondingly into transaction contribution, opportunity contribution and welfare contribution. Not only the economic effects produced by the transactions and consumption of goods, but the non-economic effects produced by a well-ordered society is also taken into account.

$$\text{Contribution} = \text{transaction contribution} \\ + \text{opportunity contribution} + \text{welfare contribution}$$

Transaction contribution refers to the two-way interaction between the government which invests in the environment and the people who make earnings from this environment. Opportunity contribution incorporates the ethical and moral concepts of Confucianism. Activities aimed to maintain and preserve such concepts, for example lottery and inheritance, are called opportunity contribution. In the case where the government provides the environment but the individual simply used the environment without earning income, such as enjoying the nature and breathing the air, all these non-traded contributions are defined as welfare contribution. In addition, welfare contribution also incorporates the idea that those people whose income is below the basic level are exempt from paying tax and that social welfare policies should be included, such as granting subsidy or charity funds. The former can be categorized as *take* in a passive sense, while the latter is *give* in an active sense.

**4-3. The characteristics of contribution :** Contribution as defined in this paper exhibits the following characteristics :

- (1) **In accordance with the principle of social justice :** The contribution categorized as welfare is free of tax, for example subsidy to minority groups and low-income families.
- (2) **In pursuit of mechanizing mutual benefits :** The purpose of the contribution theory is not to pursue the maximum amount of tax, but to pursue the maximum benefits enjoyed by all parties. Preferential

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rent is granted to the producers who improve the environment. In so doing, their production can generate greater profits, which in turn generate higher rent income, which in turn is used in social welfare to help non-producers.

- (3) **In possession of self-adjustment mechanism** : The system of taxation is designed to suit the environment. In other words, if the existing taxation does harm to the environment, then this taxation should be adjusted in order to avoid individual or commercial activities from undermining the environment. To apply the contribution theory to taxation can offer self-adjustment mechanism for the government, people and firms to adjust their behavior according to information in the tax market in the most effective way.
- (4) **In favor of assistance in advance rather than compensation afterwards** : The contribution theory emphasizes contribution in advance to the environment and disagrees with the compensation after destroying the environment. For example, preferential rent is granted to those producers that use environmental-friendly equipment to increase their competitiveness. Instead, using highly polluting equipment and then building additional waste management facilities is discouraged.
- (5) **Exhibiting the hierarchical nature to avoid double taxation** : The measurement on the contribution made by the country to enterprises and the enterprise to individuals is of a hierarchical nature. For instance, because the country makes contribution and allows enterprises to make profits, enterprises have to pay taxes to the government. Then, the after-tax profits of enterprises are given to individuals in the form of earnings. The government has no right to interfere in how enterprises give their employees salary. For instance, the contribution made by the country to enterprises already manifests itself in business income tax. Therefore, individual income made on the basis of the contribution offered by the enterprise should not be taxed.
- (6) **Exhibiting clarity** : The contribution theory complies with the idea that *users pay*. The identity of tax payers is clearly defined. Therefore, the dispute between central and local governments for the ownership of tax resources can be resolved. Natural resources, such as agricultural, forestry, fishing, and farming resources belong to the country. Hence, tax involving these resources is of a national level. Those resources which vary from place to place belong to the local government. For example, if a company sets its head-quarter in the north but builds its factory in the south, it pays tax to the north and leaves pollution to the south. Under this condition, the people who suffer from pollution are not compensated.

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- (7) **Efficiency in execution** : The contribution theory bases taxation on the income resulted from making use of the environment. Contribution on the part of the government is transferred to the income of individuals. With the exception of the income of welfare subsidy, all income whether in the form of money or goods is subject to taxation. Therefore, this particular system of taxation is characterized by efficiency in execution.

The characteristics are the reasons why this study resorts to the contribution theory as a framework of taxation.

**4-4. Degrees of contribution as the criteria for taxation** : It does not comply with the principle of fairness to make each individual or firm share an equal cost of government expenditures on improving the environment. A more proper criteria is to determine how much tax one should pay according to how much income each individual or firm makes by utilizing the environment. Although the government provides the same environment, each entity makes different amount of income because he has utilized the environment to different degrees. This paper emphasizes the fairness of taxation. The proper criteria of taxation is not the cost which the government has spent on facilitating the environment. Instead, the contribution made by the government to the economy should be evaluated according to the benefits obtained by individuals using the environment.

The greatest advantage of applying contribution theory to taxation is that if the government wants more tax revenue, it will have to devote itself to managing and improving the environment. The government is also prompted to invest in the production of public goods. It will be more willing to be involved in policy revision, maintenance of the social system, government efficiency and public construction works. Correspondingly, people will also be more willing to pay tax. The problem of tax evasion will disappear. This will form a positive circle for economic development.

On top of these considerations, taxation according to the degree of contribution should comply with the following two conditions :

- (1) **Only those who have benefitted from the government's contribution are required to pay taxes** : People make income because of the government's contribution. As long as there are transactions, there are mutual benefits. Governments get tax revenue, enterprises make profits, and individuals make income. Although tax is required as long as the government makes contribution, contribution regarding transaction has to be bilateral. Therefore, those who have not made use of the government's contribution do not have to pay tax. For example, the government improves the investment environment of the securities market. Those who do not purchase or sell securities have not enjoyed this particular contribution made by the government, and therefore, they do not have to pay tax.

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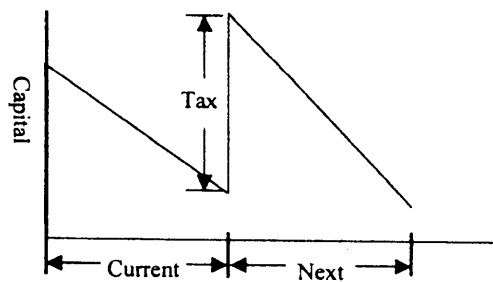
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### (2) Income derived from welfare contribution should not be taxed :

There are two ways for the government to use its tax revenue, first, to save it by engaging in investment activities, and second, to use it by engaging in consumption activities. The ultimate purpose of tax revenue is to be used in the development and improvement of the environment so that the people can benefit from their own payment. This is the ultimate use of tax. For example, the government improves air quality so that people can all enjoy clean air. This kind of welfare contribution made by the government should not be taxed. In contrast, income derived from commercial transactions is classified into transaction contribution and has to be taxed. Taxation involved in this kind of contribution is based on the surplus on the part of both consumers and producers.

**4-5. Measurement of contribution :** In this paper, contribution is measured according to the concept of *measuring contribution against efforts and measuring taxation against results*. The three variables to measure contribution are : capital, effect and environment. Based on the government's contribution for the current period, the total amount of tax to be collected for the next period is calculated as  $\alpha \cdot \alpha$ .  $\alpha$  is distributed to every sector of the economy and is shared in proportion to the achievement each sector makes. The investment and output of capital is used as an analogy to the relationship between contribution and taxation.



- (1) **Including the time element and the value involved in destroying the environment :** Those who destroy the environment in order to make income will pay a high cost.
- (2) **Offering incentives to improve the environment :** Those who make contribution to the environment should be encouraged.
- (3) **Contribution prior to taxation :** First, the government's transaction contribution increases both prices and effects via the act of transaction. In fact, the government's contribution exists in a latent way before the transaction is made and only becomes apparent through the act of transaction. Second, economic development is a result which combines the government's contribution, the utilization of the environment by the individual and the capability of enterprises. Also involved are the division of labor among enterprises and the coordination between enterprises and government

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authorities. All these elements jointly generate benefits. However, the government's contribution on its own is difficult to measure. Based on the above two reasons, this paper adopts a result-oriented approach. Contribution precedes taxation. Once the government's contribution is determinedly measured, paying taxes becomes an obligatory duty.

- (4) **Measuring contribution by consumption surplus and production surplus** : The ultimate consumption is the use and not the saving of tax revenue. For consumers, tax is based on consumption surplus. For firms, tax is based on profits.
- (5) **Net value as the proper criteria of contribution** : The actual contribution, not the expected contribution, is measured. The net value of contribution means how effectively the environment is changed.

### 5. The Advantageous Properties of the Contribution Theory

Every individual pays a price in proportion to the benefits he has received from the public services provided by the government. The concept of contribution theory is based on *actual contribution*. The framework of taxation based on such a theory possesses the following advantageous properties :

- (1) **Taxes are collected according to the degree each individual makes use of the resources provided by the government** : Although the government provides the same environment to every individual, the levels of income vary. Those who are not able to put the environment to full use decelerate financial flows and stagnate the economic cycle. Their income tend to be lower and their contribution to the environment is also relatively small. Instead of being centered on velocity, the contribution theory is centered on benefits. In this way, those who are more capable will not reduce production to avoid being burdened with heavier tax. Total tax revenue will therefore not be reduced and economic development not limited. The individual pays taxes in proportion to the benefits he receives from the environment provided and managed by the government.
- (2) **The partnership between the government and the people constitute a win-win situation** : The country provides the infrastructure and the government develops and improves the environment. Based on the partnership between the government and the people, which is characterized a mutual distribution of benefits, the government should facilitate the environment before demanding taxes. State-run businesses that are part of the infrastructure, such as salt, iron, forest, mine and food, make profit by way of monopoly and then contribute the profit for the country's fiscal expenditures.



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According to the rational expectation model and the Ricardian equivalence theorem, government expenditures and private consumption are mutually substitutive and exclusive. In the short run, the increase in government expenditures in regular execution and national defense can expand private consumption. In the long run, the best alternative for the government is to increase expenditures in economic development so as to upgrade the productivity of the private sector. In so doing, the aggregate supply curve will move outward. Helping others without hurting oneself, taxation based on the contribution theory constitute a win-win situation.

- (3) **The collection of tax and the distribution of its use are both attended to** : The government collects taxes according to its actual contribution to the environment. Then the distribution of tax to the various sectors of the economy or local governments depends upon the degree of their respective contribution to the environment. The government does not estimate in advance the national budget and then determine the amount of tax to be collected accordingly. According to tax theory, in addition to the sources of tax, the distribution and use of tax should also be emphasized. There should be a proper distinction in terms of the fiscal policies between the central and local government so as to prevent them from fighting with each other for tax sources. For example, if a company builds its factory in the south, it should pay taxes to the south to compensate for the pollution it has caused. However, because the headquarters is in the north, it pays taxes to the north. Under the principle of *users pay* according to the contribution theory, one should pay taxes to the place where he has caused pollution and get rewards at the place where he has made contribution.
- (4) **Emphasis is focused on whether the environment is improved** : Any consumers or firms who make profit by hampering resources in the environment should pay extra fees in addition to regular taxes. In this way, they compensate for the inconvenience they have caused to next user and for destroying the environment.
- For example, teachers are exempt from paying tax. By educating students, teachers contribute greatly to the social environment so as to create better resources available for the next user. The government should acknowledge their contribution. The contribution theory does not advocate preferential tax or tax exemption as a gesture encouragement by the government. Teachers should also pay tax. However, for the convenience in execution, the government may deduct a certain amount from tax as encouragement.
- (5) **Tax is imposed on ultimate commodities, not on equipment used to generate profit** : If the government imposes tax on the equipment

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which enterprises use to speed up production, tax revenue may increase in the short run. However, because production in the enterprises may be slowed down, tax revenue from the adjacent environment may decrease. If the government give up imposing tax on inner equipment of enterprises in exchange for the aggregate tax revenue of the country as a whole, a positive interaction can be set in motion.

Not all the same items or behaviors are taxed by the same rate. The criteria for tax is based on functions. For example, computers used inside an enterprise are not considered to be ultimate commodities. The reason for this is that these computers make profit and speed up production and the economic cycle. Since they are a positive impact to the environment, they should not be taxed. However, computers used at home for recreational purposes should be considered ultimate commodities and be taxed. To avoid double taxation, ultimate commodities or consumption is used as criteria for taxation.

- (6) **The time element is taken into account** : By taking into account the time element in terms of commodity tax, those commodities for long-term use should be taxed on a year-by-year basis. For example, one should pay consumption tax when buying a new car. If the car is abandoned, stolen or smashed afterwards, the government's contribution to the car is not fully realized and the individual also does not fully utilize the contribution endowed by the government upon the car. Therefore, a reasonable tax rate for long-term use commodities should take into account the time element.

### 6. Conclusion

The contribution theory emphasizes the relationship among the country, the government and the people. The country imposes tax upon the people based on the government's actual contribution to the environment; while the people pay tax according to the amount of income generate by using the environment. The government and the people form a relationship of partnership, both of whom invest and develop the environment. In this way, the people will be more willing to pay tax. The overall economic development can be speeded up and the people's living environment can be improved. Economic development will be no longer synonymous to destroying the environment. The rationale behind the taxation based on the concept of contribution theory is not aimed at increasing tax revenue. Instead, the concept of improving the environment is incorporated in terms of the infrastructure and the operational environment. The framework of taxation based on the concept of the contribution theory constitute a win-win situation for both the government and the people.

The concept of contribution theory can be used to re-examine the current tax system, such as tax deduction for teachers, an integration income tax to avoid

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double taxation and the imposition of commodity tax on automobiles, or to reassess changes in the external environment, such as entry into the World Trade Organization. The contribution theory offers a hint in respect of clarification of the value of tax. This hint waits for public support via education and mass communication to achieve its intended effects.

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