INTERNATIONAL
PUBLIC FINANCE CONFERENCE

ANADOLU UNIVERSITY

36th International Public Finance Conference

"Fiscal Policies and Inflation"

E-Proceedings Book

Supported by TÜRKİYE CUMHURİYET MERKEZ BANKASI and TÜBİTAK

27- 30 October 2022, Amara Luxury Resort & Villas
Antalya, Türkiye

36th International Public Finance Conference "Fiscal Policies and Inflation"

Editors

Prof. PhD. M. Erkan ÜYÜMEZ

Assoc. Prof. PhD. Canatay HACIKÖYLÜ

NİSAN

36th International Public Finance Conference
"Fiscal Policies and Inflation"

Editors

Prof. PhD. M. Erkan ÜYÜMEZ

Assoc. Prof. PhD. Canatay HACIKÖYLÜ

© Copyrights

2022

ISBN

978-975-8675-84-5

Date of Publishing

2022

Publisher
Nisan Kitabevi

Nisan Kitabevi
İsmet İnönü 1 Cad. (Doktorlar Cad.) No: 69 Eskişehir
0 222 221 21 90 – 0 222 221 07 05
nisankitabevi.com

36th International Public Finance Conference
October 27-30, 2022
Antalya, TR

ANADOLU UNIVERSITY

SEMANTIC ANALYSIS OF HORIZONTAL AND VERTICAL EQUALITY PRINCIPLES IN TAXATION: A CONCEPTUAL DISCUSSION

Ökkeş KISA
Inonu Universty
okkes.kisa@inonu.edu.tr

Adnan GERÇEK
Bursa Uludag Universty
agercek@uludag.edu.tr

Abstract

The principle of equality has been evaluated based on justice and has always maintained its popularity due to the changing nature of justice according to place and time. The division of the principle of equality into absolute and relative corresponds to horizontal and vertical equality in tax law. However, the definitions made in the literature have problems regarding the distinction between horizontal and vertical equality. This study aims to reveal the true meaning of horizontal and vertical equality concepts by using the semantic analysis method and contributing to correctly using these concepts in the literature. In this context, this study has tried to reveal the distinction between horizontal and vertical equality by using literature review and semantic analysis methods related to the subject.

As a result of the study, attention was drawn to using the concepts of horizontal and vertical equality with their correct meanings. In addition, it has been determined that the most appropriate taxes for horizontal equality are expenditure taxes, where the understanding of absolute equality is adopted. The most appropriate taxes for vertical equality are income and wealth taxes based on relative equality.

Keywords: Equity Principle, Horizontal Equation, Vertical Equation, Semantic Analysis.
JEL Classification: H2, H21, H30.

1. Introduction

In the public finance literature, it is debatable whether horizontal and vertical equality concepts essentially describe the same or different situations. In this context, a conceptual discussion was made by Richard Musgrave and Louis Kaplow about what horizontal and vertical equality mean. Musgrave defined the levying of the same tax from those with the same ability to pay as horizontal equality and the levying of different taxes from those with the different ability to pay as vertical equality. Kaplow, on the other hand, emphasized that there is no normative aspect of horizontal equality, and there is no difference between the horizontal and vertical equality defined by Musgrave. According to Kaplow, if the same amount of tax should be levied on those in the same situation, then different amounts of tax on those in other situations mean the same thing, and this is a requirement of vertical equality. This study aims to reveal the true meaning of horizontal and vertical equality concepts by using the semantic analysis method and contributing to the discussion of how to use these concepts correctly in the literature. In this framework, first of all, the historical development and legal evaluation of the principle of equality were made. The discussion between Musgrave and Kaplow was included, and finally, the semantic analysis of horizontal and vertical equality was tried to reveal its correct meaning.

2. The Principle of Equality and Its Historical Development

It can be said that the foundations of the principle of equality, which has been the subject of serious debate from past to present, were laid at the beginning of human society (Keskin, 2015:5). According to written sources, the origin of the principle of equality goes back to the Stoics (322 BC). By equating reason and god, the Stoics advocated that everyone is equal as human beings. With the Roman conquest of Greece, the idea of Stoicism developed. As an indicator of this development, the general decree of Caracalla in 212 is shown. This decree granted all free persons the right to general citizenship. According to Lipson, today's modern European countries have not yet reached the general right of citizenship recognized by the decree of Caracalla. The birth of Stoicism and the period up to the order of decree of Caracalla was the first important leap in the principle of equality in western history. The second significant leap took place as a result of the revolutions. The process started with the Magna Carta in England in 1215 until the Great Revolution of 1688. In the USA, the process that began with independence in 1776 was followed by ratifying the Bill of Rights in 1791. In France it represents the process from the 1789 Revolution to the present day (Lipson, 1986:141-146).

3. Legal Evaluation of the Principle of Equality

Since equality cannot be mentioned in absolute terms, legal equality becomes concrete in terms of equality before the law. On the other hand, equality before the law is divided into two distributive and compensatory justice, the foundations of which go back to Aristotle. Distributive justice is based on the differentiation between individuals. As a result of the distributive justice understanding, the fact that those in the same situation are subject to the same process is called relative or substantive legal equality. According to Aristotle, compensatory justice is absolute equality between people (Guriz, 2001: 31-32). In this context, absolute equality refers to the equal process of laws to everyone due to the understanding of compensatory justice. Relative equality, on the other hand, is that as a result of the distributive justice understanding, those in the same situation are subject to the same procedures, and those in different situations are subject to different procedures. In this context, within the scope of relative equality, different rules should be applied to those in different situations. In the connection between the concepts of horizontal equality and vertical equality and the concepts of compensatory and distributive justice, horizontal equality corresponds to compensatory justice, and vertical equality corresponds to distributive justice (Gözler, 2014: 213; Şenyüz, 2013:5-10; Bakar et al., 2013:67).

In light of these explanations, horizontal and vertical equality principles contain conceptual gaps. It can be logically obtained that if individuals in the same situation are subject to the same rules, those in different situations are also subject to additional regulations. In this framework,horizontal equality, as a result of the compensatory justice, and absolute equality principle, apply of tax laws to everyone equally and the collection of the same tax regardless of the situation of individuals. Vertical equality, on the other hand, means that as a result of the principle of distributive justice and the principle of relative equality, the same amount of tax is collected from those with the same financial power and different amounts of tax from those who are different. Musgrave made a similar interpretation to the inference given above (Musgrave, 1990:114).

4. Musgrave and Kaplow's Discussion on the Principles of Horizontal and Vertical Equality in Taxation

Although there is conceptual discussion, horizontal equality in tax systems is generally thought to mean that individuals with the same income should pay the same tax, and vertical equality is that people with higher incomes should pay higher tax rates. However, academics have engaged in an active and lively debate about whether

horizontal equity has an independent significance in designing a tax system. This discussion took place between two economists, Richard Musgrave and Louis Kaplow (Repetti & Ring, 2012:136). While Kaplow claimed that horizontal equality is not independent of vertical equality, Musgrave argued the opposite (Repetti & McDaniel, 1993: 607).

Repetti and McDaniel stated that Kaplow was right in the discussion. As a result, with the Musgrave/Kaplow conceptual discussion, Musgrave stated that vertical equality does not have an independent infrastructure. Then Kaplow stated that horizontal equality should be evaluated within the scope of vertical equality. Musgrave also agrees with Kaplow's views on the first best (market) economy (Repetti & McDaniel, 1993: 613). According to Musgrave, the principle of vertical equality, while Kaplow argues that the principle of horizontal equality is controversial. However, in the interpretation made from general to specific, the principles of horizontal and vertical equality are controversial in terms of their basis because the concepts of equality and justice are controversial. However, in terms of the meanings of horizontal and vertical equality, as expressed by Kaplow, the two concepts cover each other. In this sense, new definitions need to be made.

5. Semantic Analysis of the Principle of Equity in Taxation

5.1. Semantic Analysis Method

The word semantic is derived from the Greek word ‘sema’, which is of sign origin and is connected to the word ‘semaino’, which is expressed as ‘to mean’. In this context, semantic analysis pertains to the meaning. It is a technical term used in the semantic research of signs such as words and terms (Guiraud, 1999: 11). Today; semantic analysis is expressed as ‘the teaching of the meaning of linguistic units’ (Kılıç, 2009: 17).

According to linguists, the semantic analysis method should be used at the stage of establishing a meaning connection. While establishing a meaning connection, each word has a single meaning, and it is requested to interpret this meaning, but in real life, almost every word has more than one meaning. For this reason, words and the meanings of sentences formed by combining words are investigated with semantic analysis (Grünber, 2006: 68). In other words, semantic analysis constitutes the scientific research of language (Palmer, 2001: 15).

5.2. Semantic Analysis of Horizontal and Vertical Equality Concepts

It is useful to use the semantic analysis method to establish a meaningful connection between the words of horizontal and vertical equality. According to TDK, the term 'horizontal' means 'parallel to the ground' and 'perpendicular to the vertical'. The word 'vertical' has two different uses. The first is an adjective used to express a straight line forming a right angle with another line when it intersects with it. Its other use is an adverb denoting the use of 'upright'. The concept of 'equality'has three different uses. These are 'the state of two or more things being equal, equivalence', 'no distinction between people in terms of laws', and 'no distinction between people in terms of social and political rights, regardless of their physical and spiritual differences' (TDK,2022).

In this context, in the analysis for horizontal equality, absolute equality is understood as being parallel to the same ground or perpendicular to the vertical. Therefore, horizontal equality should be evaluated within absolute equality and interpreted as treating everyone the same in taxation. In this framework, it is possible to see the application area of horizontal equality in expenditure taxes. On the other hand, in the analysis of vertical equality, the difference comes to the forefront rather than absolute equality. In this context, legally, vertical equality is equivalent to relative equality. Therefore, vertical equality should be evaluated within the relative equality framework and interpreted as different taxation according to the financial power of individuals. However, we believe that horizontal and vertical equality concepts in the finance literature essentially describe the same situation. In terms of legal evaluation, horizontal equality means the equal application of tax laws to everyone as a result of the principle of absolute equality. Vertical equality, on the other hand, means that as a result of the principle of relative equality, the same amount of tax is collected from those with the same financial power and a different amount of tax from those who are different.

When the discussion between Musgrave and Kaplow about the principles of horizontal equality and vertical equality is evaluated, it can be said that there is a difference in conceptualization, although both have the same meaning. At this point, we believe that Kaplow's definition and claim are more accurate, taking into account the semantic analysis of these concepts and Musgrave's claims that horizontal equality and Kaplow's vertical equality have more solid foundations. For this reason, the concept of horizontal equality should be used to describe the same taxation for everyone regardless of the financial power of the individuals. On the other hand, the concept of vertical equity should be used to describe the same amount of tax from those with the same financial power and a different amount of tax from those who are different.

6. Conclusion

The principle of equality is a controversial and up-to-date phenomenon by its nature. This controversial nature of the principle of equality was also reflected in tax law and showed itself in the principles of horizontal and vertical equality. As it is known, horizontal equality is when individuals with the same income pay the same tax. At the same time, vertical equality is individuals with different abilities to pay taxes at different levels. However, it means that individuals with the same income should pay the same amount of tax, and those with different levels should also pay tax at different levels. In this context, when the principle of legal equality is examined, it is seen that the laws should be applied equally to everyone within the framework of absolute equality (horizontal equality). Expenditure taxes are where the laws are applied equally to everyone, and there is no discrimination in terms of rate.

On the other hand, in the analysis carried out within the framework of relative equality (vertical equality), it is seen that those in different situations should be taxed differently. In other words, the taxes in which progressive taxation is applied, income and wealth taxes, are suitable for vertical equality. The results of the semantic analysis and the legal evaluation also overlap.

References

Bakar, F., Gerçek, A. & Mercimek, F. (2013). "Vergilemede Adalet Normunun Çeşitli Ülke Anayasalarındaki Görünümü", *Hukuk ve İktisat Araştırmaları Dergisi*, No: 5(2), ss.62-77.

Gözler, K. (2014). *Anayasa Hukukuna Giriş*, 22. Baskı, Bursa, Ekin Yayınevi.

Guiraud, P. (1999). *Anlam Bilim*. (Çev.) Vardar B., İstanbul, Multilingual Yayınları.

Güriz, A. (2001). "Adalet Kavramının Belirsizliği", *Adalet Kavramı*, (Ed.) Güriz A., Ankara, Türkiye Felsefe Kurumu, ss.7-38.

Grünberg, T. (2006). *Anlam Kavramı Üzerine Bir Deneme*, İstanbul, Yapı Kredi Yayınları.

Hanağası, E. (2016). *Medeni Yargılama Hukukunda Silahların Eşitliği*, Ankara, Yetkin Yayınevi.

Keskin, Z. (2015). *Kamu Hizmetinde Eşitlik İlkesi*, İstanbul, On İki Levha Yayıncılık.

Kılıç, V. (2009). *Anlambilime Giriş Temel Kavramlar*, İstanbul, Papatya Yayıncılık.

Lipson, L. (1986). *Politika Bilimin Temel Sorunları*, (Çev.) Karamustafaoğlu T., Ankara, Birlik Yayıncılık.

Musgrave, R.A. (1990). "Horizontal Equity, Once More", *National Tax Journal*, Vol. 43(2), 113-122.

Palmer, F.R. (2001). *Semantik Yeni Bir Anlam Projesi*, (Çev.) Ertürk R., Ankara, Kitabiyat Yayınevi.

Repetti, J.R. & Ring, D., (2012). "Horizontal Equity Revisited", *Florida Tax Review*, Vol. 3(13), 135-155.

Repetti, J.R. & McDaniel, P.R. (1993). "Horizontal and Vertical Equity: The Musgrave/Kaplow Exchange", Florida Tax Review, Vol. 1(10), 607-622.

Şenyüz, D. (2013). "Eşitlik İlkesinin Vergi Yaptırım Hukuku Bakımından Anlamı", Vergi Yaptırım Hukuku Sisteminin Sorunları ve Yeniden Yapılandırılması Sempozyumu, 20-21 Mart 2013, İstanbul.

Türk Dil Kurumu (TDK), https://sozluk.gov.tr/ (04.10.2022).