Ability to pay theory :- The ability to pay is another criteria of equality in taxation. These theory explain that individual should be asked to pay taxes according to their ability to pay. That is, the rich have greater ability to pay therefore, they should pay more tax to the government than the poor. The ability to pay theory is based on to concept of equality; mainly horizontal equality and vertical equality.

According to the concept of horizontal equality equal should be ~~threes~~ treated equally, that is person with the same ability to pay should be made to bear the same amount of tax burden. On the other hand, according to the vertical equality, unequal should be treated ~~the~~ unequally. i.e., the tax burden among people with different abilities to pay should be different.

The ability to pay theory can be explain under two approaches -

The Subjective approaches.

The objective approaches.

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Subjective approach :- In the subjective approach to tax paying ability, the concept of scarifice undergone by a person in paying a tax occupies a crucial place. In paying a tax a person ~~fill~~ ~~or~~ suffer from some ~~the~~ disutility this disutility felt by a tax payer is the scarifice made by him. In these subjective approach to ability to pay, tax burden is measured in terms of scarifice of utility ~~o~~ may by the tax payer. The following three preinciple of scarifice have been put ~~fo~~ ~~forw~~ forwarded a by the subjective approach to ability to pay.

The preinciple of equal absolute scarifice

The principle of equal proportional scarifice

The preinciple of equal marginal scarifice.

(A) The principle of equal absolute scarifice implies that the ~~pt~~ tax burden in terms of utility scarifice should be the same for all the tax payer. That is, if 'U' stand for total utility 'y' stand for income and 'T' stand for the amount of tax pay, than the preinciple of equal absolute scarifice requires that $U(y) - U(y-T)$ should be the same for all individual.

(B) Equal proportional sacrifice :- These principles requires that every person should be made to pay so much tax that the ~~sas~~ sacrifice of utility as a proportion of his income is the same for all tax payers that is if a person enjoying higher income he will have to pay income tax at a higher rate and vice-versa.

Equal marginal sacrifice :- According to these principle, tax burden should be distributed among various individual that marginal sacrifice of utility of each person paying the tax should be the same. These approach seek to minimise the aggregate sacrifice of the society as a whole. Therefore the principle of equal marginal sacrifice looks at the problem of dividing the tax burden from the point of view of welfare of the whole society.

The whole subjective approach to ability to pay base on the sacrifice of utility has been termed as invalid because utility being a subjective entity cannot be measured.

Objective approach :- The objective approach to the ability to pay principles considered what should be objective based of taxation which measures ability to pay correctly. According to these principles, income is generally considered to be the best measure of ability to pay these is because a person's income determinds a person command over resources during a period to consume or to add to his wealth. However it maybe noted that ability to pay doesnot increase in direct proportion to money income.

Wealth of a person ~~a~~ is another objective measures of ability to pay the ownership of the property or wealth of an individual determinds howmuch resources he has accumulated therefore the wealth or property is also considered as an index of taxable capacity.