Relevance of Adam Smith Canons of Taxation to The Modern Tax System

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Abstract

A system of taxation has three layers: tax policy, tax laws and tax administration. While taxation has been around for a good number of centuries, the canons of taxation were first presented by Adam Smith in his famous book "The Wealth of Nations" in 1776. These canons of taxation define certain rules and principles upon which a good taxation system should be built. In this paper, using an exploratory research methodology, it was discovered that although these canons of taxation were presented a good while back, they are still used as the foundation of discussion on the principles of taxation and the basis of tax policy, tax laws and tax administration. These canons also form the basis of reforms of any nation tax systems aimed at ensuring tax competitiveness among nations in order to attract human as well as investment capital in a world that have become a global village. When compared against international tax competitiveness index, Nigeria tax system needs a holistic reform in order to attract investments. In today's globalized world, the need to keep tax rates competitive cannot be over emphasized because capital is highly mobile. Nigeria income tax rate is high and yet corporate taxes are most harmful to economic growth. In the reforms, company income tax should be reduced and taxes must be harmonized within the federal structure in order to reduce multiplicity of taxes payable by corporate entities.

Key words: Canons of taxation, Economic development, Tax reforms, Tax system, Tax competitiveness

Introduction

The provision of public infrastructure and social services by governments is a key factor for social-economic development. Revenue from tax remains a key source of funding these government expenditure (McNabb,2018; Fuest and Riedel, 2009). In many developing countries, none provision of amenities and infrastructure for the public slows down economic growth and undermines efforts to improve the living standard of the population. There are a number of reasons for the failure of many governments in developing countries to provide sufficient public services. A lack of tax revenue is one of them (Thaçi and Gërxhaliu 2018; Fagbemi, Uadiale and Noah, 2010;Ogbonna and Ebimobowei, 2012; Enahoro and Jayeola, 2012).

Governments of both developed and developing countries do profess to have a desire to stimulate and guide the economic and social development of their nations. One of the identified means of achieving this desire is a tax system. Taxation as an instrument of social and fiscal policy can be used in raising money for expenditure on social programmes or redistribution of income (Adam, 2012; Worlu and Nkoro, 2012). As a social policy, tax may be used as instrument for moderating a desired behavior by the government in the governed.

However, taxation is one of the most volatile subjects in governance both in the developing and developed nations and the subject of taxation has received considerable intellectual and theoretical attention in literature. Therefore in order to reduce areas of potential stress between the tax payers and the government, tax policies, tax laws and tax principles must be anchored on generally acceptable just and equitable principles. The Adam Smith cannons or principles of taxation represent one of the early efforts in laying foundation for a humane tax system.

Literature Review

Conceptual Framework

Tax, according to Wambai and Hanga, 2013 is a compulsory levy by the government through its agent on the profits, income, or consumption of its subjects or citizens. It is also viewed as a compulsory contribution made by individuals and organization towards defraying the expenditure of government (Alabede;Zaimah,and Idris 2011). Somorin (2018) opined that tax revenue provides governments with the steady funding required to finance the infrastructure on economic development and growth is based

Tax is a charge imposed by governmental authority upon property, individuals, or transactions in the exercise of its sovereign rights for the support of government, for the administration of the laws, and as the means for continuing in operation the various legitimate functions of the state.

Abiola and Asiweh (2012) considers tax to be a charge levied by the government on the income or wealth of a person or corporate organization for the common benefit of all. The term does not include specific charges made against a particular person or properties for current or permanent benefits and privileges accruing only to those paving such charges. Similarly, Ogundele (1999) defines taxation as the transfer of real economic resources mum private sector to the public sector to finance public sector activities. It can therefore be concluded that the essence of all taxes is the removal of resources from private hands of the individual, families, corporate bodies, communities and trusts to the public sector to finance the development of the society.

The need for government in the affairs of man is therefore the basis for taxation in societies. As such, Ogundele (1999) and Otusanya (2001) gave the following as purposes of taxation: as a revenue source to defray government capital and revenue expenditure,as fiscal policy instrument employed by government to regulate the economy, as a means to encourage investment in the priority sectors of the economy and as an agent for increased patriotism.

Taxation is used for many other purposes than raising revenue. As an instrument of economic and social policy, its purpose is often to influence behaviour. Therefore, it can actually be the 'intension' of the tax that is avoided. Higher taxes on alcoholic drinks and tobacco would reduce the consumption of these products and lead to improvements in the health of the people (Viscusi,

1994). Any such changes in behaviour would constitute tax avoidance, but it would be in the spirit as well as letter of the tax law.

Types of Taxation

Broadly taxation can be classified into direct and indirect taxation. This was in an analysis of the 'impact and incidence' it has on the tax payer. In direct taxation, the tax payer receives the consequence of taxation almost immediately. This clearly is the case in Pay As You Earn (PAYE), other Personal Income Taxes (PIT), Companies Income Taxes (CIT), withholding tax, Petroleum Profit Tax (PIT) and Capital Gains Tax (CGT). On the other hand, in indirect taxation the consequences on the taxpayer is differed to a later period (period of acquisition or consumption) (Dandago and Alabede, 2001). Examples of this include Value Added Tax (VAT), import duty, excise duty and so on. Other classification is in relation to income and property taxation with income mainly based on profit or other incomes for example companies income tax, personal income tax, petroleum profit tax, and value added tax while property taxes relate to taxes on capital like capital gains tax, and import duty. All these classifications are wide in nature but the essence is to drag every economic activity into the tax net.

Conceptually tax can be used to affect a desired social behavior (social policy) or to raise revenue for government to finance provision of public goods and services (fiscal policy).

Taxation as a fiscal policy instrument, Government exists in order to effectively collect taxes from taxable persons and with it human and other resources are gainfully employed, infrastructure and essential public services such as maintenance of law and order are put in place.

A good tax system impose tax rate either through progressive or proportional tax system. In the progressive tax system, tax rate increases as the taxable income increases. The person with higher income pays a higher tax than the person with lower income in the spirit of fairness. For the proportional tax system, the percentage tax rate remains the same as tax base (income) increases. A person whose income doubles pay doubles the amount of tax. Tax payers are legally required to comply with tax laws with attendance punishment for non-compliance if caught.

Income tax systems around the world vary, Henderson(2018) identifies four different types of tax systems in the world by which taxable income of a taxable person is subjected to tax and the countries that use them. They are: citizenship-based, residential, territorial, and zero-tax. An international investor will need to understand these four types of taxation and their implication to a citizen, resident, or frequent visitor of any country.

Under citizenship-based taxation, all citizens of a country must pay tax on their global income by virtue of being a citizen.The two countries in the world that use citizenship-based taxation are Eritrea in Africa and the US. Citizenship-based taxation is the least popular type of taxation globally, but since it is used by the US, it affects millions of people worldwide.US Congress considered scrapping citizenship-based taxation while drafting the 2017 tax reform bill, it eventually backed down on it when the bill was being signed into law by President Trump in 2017 and US citizens continue to be taxed on their worldwide income. The system had existed in the US for over a century and it appears the Government will not let it go. Of course, US is a developed country with the world's largest economy – and plenty of enforcement clout. The US can also enforce citizenship-based taxation far more easily than Eritrea. It can quickly track down offenders living in other countries, and the IRS can even cancel an existing passport if anyone owes more than $50,000.

Under residential tax system, the key issue is whether or not a person is resident in the country in the tax year. Simply, it means if you live in a county, you pay tax, and if you do not live in a country, you don't. Residential taxation is a far more common and less complex tax system. Residential taxation means that Countries that employ residential tax systems typically have clear requirements that delineate whether a person is a tax resident or not. Many countries use a simple standard – whether a person has lived in the country for more than 180 or so days – as the basis for residential taxation. However, in today's era of digital nomads, residency requirements have begun to include things like having a valid driver's license, owning a home, or even voting as residency. Of all of the types of taxation, residential systems are easiest to navigate since they set clear standards for whether a person is or is not a tax resident.
Countries that use residential taxation include Japan, Mexico, Canada, the UK, Australia, New Zealand, Germany, and most EU countries, and Nigeria and a handful of other countries across Africa, Asia, and South America also use similar systems.
Territorial tax system, unlike residential tax systems which tax anyone who is a resident on their worldwide income, only tax residents on income earned within the territory of the country. Apart from countries with no taxes, territorial taxation is the most friendly tax system for international investors Territorial taxation is one of the more common tax systems, so a good number of countries use it, including Singapore, Hong Kong and Malaysia Phillipines, Paraguay, Nicaragua and Panama.

While zero tax system may seems too good to be true, a handful of countries charge no tax whatsoever. Tax is zero. Unlike territorial tax countries, where you can pay zero tax as long as you have absolutely no locally-sourced income, zero-tax countries do not tax any type of income whatsoever. This makes zero-tax countries the most friendly tax systems for investors.
The countries that practice zero tax system include United Arab Emirates, many Caribbean islands, such as the Bahamas and the Cayman Islands, as well as a handful of other small countries, such as Brunei and Monaco. A person however may be charged to other taxes. The United Arab Emirates,a federation of seven emirates, with autonomous emirate and local governments, does not have any federal income tax. The UAE government however implemented value added tax (VAT) in the country from January 1, 2018 at a standard rate of 5%.

ADAM SMITH CANNONS OF TAXATION

Ikeda (2012) summarized the canons which originally Smith in Book V, Chapter 2 of *The Wealth of Nations* termed maxims as follows:
Equity: "The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state."
Certainty: "The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person."

Convenience: "Every tax ought to be levied at the time, or in the manner in which it is most likely to be convenient for the contributor to pay it."

Economy: "Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasure of the state."

These 1776 four cannons of Adam are further explained below

Canon of Equity:

This canon had generated a lot of research interest. It implies that tax should be levied on citizens on the basis of equality. The sacrifice of all citizens must be equal. In the words of Adam Smith *"The subjects of every state ought to contribute towards the support of the Government, as nearly as possible, in proportion to their respective abilities, that is, in proportion to their revenue which they respectively enjoy under the protection of the State".* In other words, this canon of taxation maintains that every person should pay to the State as tax according to ability to pay. Taxing people at a rate on income developed from this canon. It is progressive if the rate increases as the income increases. Although it attempts to preach fairness by asking the rich to bring more tax, it has been argued that it may destroy spirit of enterprise or hard work because efforts exerted to increase income also bring about payment of higher tax (Soyode & Kajola, 2016). If the tax rate remains the same as income increases, it is a proportional. If the tax rate is 20%, every person shall have to pay income tax at this rate as income increases. Although it is simple to understand and is to calculate and also disturbs the economy as little as possible because every person contributes as nearly as possible in proportion to his ability to pay (according to Adam Smith's cannon of taxation), it is considered to be inequitable as it adversely affects the low-income groups and favours the high-income groups. This is because with the increase in the income of a person, the marginal utility (MU) of income diminishes for him. It is inequitable also because where both high-income and low-income groups are taxed at the same rate; persons who belong to the low-income groups make a greater sacrifice than those in high income groups. Inequalities of income and wealth also increase as the gap widens, the lower income groups are required to sacrifice more than the higher income groups.

This canon also brings about the issue of horizontal and vertical equity. Horizontal equity addresses questions of whether or not a tax system makes arbitrary distinctions among taxpayers, or distinctions based on irrelevant criteria. For example, it violates the principle of horizontal equity if one person buys an item in a local store and must pay sales tax, while another person buys the same item over the Internet, and does not pay sales tax. Vertical Equity addresses questions of how people at different income levels should be taxed, taking into account their relative abilities to pay. With vertical equity it is expected that high income earners pay a larger percentage of their income in taxes than lower income earners (Wise and Berger (2010); Tax Justice Network Africa. (2011)

Canon of Certainty:

This canon of taxation suggests that the tax which an individual has to pay, should be certain and not arbitrary. It should be certain to the lax payer how much tax he has to pay, to whom and by what time the tax is to be paid. The place and other procedural information should also be clear. It would protect the tax payer from the exploitation of tax authorities in any way. It will enable the tax payer to manage his income and expenditure. The Government will also be benefited by this principle.

Canon of Convenience or Ease:

According to this canon of taxation, every tax should be levied in such a manner and at such a time that it affords to the maximum of convenience to the tax payer. According to Adam Smith, a good taxation policy must be convenient for the tax payer. The reason is that the tax payer for goes his purchasing power and makes a sacrifice at the time of payment of tax hence the Government should see that the tax payer suffers no inconvenience. For an example, in an agricultural country, tax should be collected only after the harvesting has been done.

Canon of Economy:

This principle suggests that the cost of collecting tax should be the minimum so that a major part of collections may bring to the Government treasury. If the administration expenses in the collection of taxes consume a major portion of tax revenue collected; it cannot be said to be a good tax system.

THEORIES DEVELOPED FROM ADAM'S SMITH CANNONS OF TAXATION

After Adam Smith, some economists have put forward other theories or principles of taxation at different times to guide the state as to how justice or equity in taxation can be achieved. These theories either build upon or modified the canons. The main theories or principles in brief, are:

(a)**Theory of Exchange Relationship**

This theory has its roots in the cannon of equity. Tax payer- government relationship is viewed as an exchange relations where by the tax payer forgoes a portion of his purchasing power in the private market in return for government benefits, including goods and service and also perhaps for non- material sources of satisfaction such as a sense of belonging or affiliation. Research in Social Psychology suggests strongly that an important determinant of individual satisfaction with an exchange relationship is perceived parity or equity in the terms of trade among the participant involved in the exchange (Waister and Bcrachcid ,1978). For a participant, a lack of equity between his own terms of trade and those of others creates a sense of distress. This distress is felt regardless of whether the participant is the victim or the beneficiary of inequity. According to Romans (1961) if inequity is to a participant's disadvantage, he will display anger, whereas if inequity is to his advantage, then he will experience guilt feelings.

Adams (1965) provided empirical evidence that in an inequitable relationship, participants may seek to reduce inequality by adjusting their inputs or contributions to the taxpayer/government relationship. It is hypothesized that all tax payer perceives inequity in his terms of trade with government; he will attempt to restore equity by adjusting their inputs or contributions to the exchange relationship. Extending this theory to the taxpayer government relationship, tax evasion may be seen partly as a means by which taxpayers attempt to restore equity in their terms of trade with government in particular it is hypothesized that if a tax payer perceives inequity to be his disadvantage he will increase the amount of tax he evades while if it is to his advantage he will reduce the amount taxes he evaded.

Using economic terminology taxpayers utility functions are interdependent so that the utility derived from taxes evaded depends on the tax payers' sense of equity regarding his relationship with government. In particular, where a tax payer perceives himself as a victim of inequity, his anger increases the marginal utility which he derives from an extra dollar to tax evasion income and hence increases the amount to taxes evaded. On the other hand if the perceived inequity is to his advantages guilt feelings reduces his marginal utility from tax evasion and hence the amount of taxes evaded (Folger, 1986).

(b) Benefit Theory:

According to this theory, the state should levy taxes on individuals according to the benefit conferred on them. The more benefits a person derives from the activities of the state, the more he should pay to the government. This principle has been subjected to severe criticism on the following grounds:

Firstly, If the state maintains a certain connection between the benefits conferred and the benefits derived, it will be against the basic principle of the tax. A tax, as we know, is compulsory contribution made to the public authorities to meet the expenses of the government and the provisions of general benefit. There is no direct quid *pro quo* in the case of a tax.

Secondly, most of the expenditure incurred by the slate is for the general benefit of its citizens, it is not possible to estimate the benefit enjoyed by a particular individual every year.

Thirdly, if we apply this principle in practice, then the poor will have to pay the heaviest taxes, because they benefit more from the services of the state. If we get more from the poor by way of taxes, it is against the principle of justice?

(c) The Cost of Service Theory:

Some economists were of the opinion that if the state charges actual cost of the service rendered to the people, it will satisfy the idea of equity or justice in taxation. The cost of service principle can no doubt be applied to some extent in those cases where the services are rendered out of prices and are a bit easy to determine, e.g., postal, railway services, supply of electricity, etc., etc. But most of the expenditure incurred by the state cannot be fixed for each individual because it cannot be exactly determined. For instance, how can we measure the cost of service of the police, armed forces, judiciary, etc., to different individuals? Dalton has also rejected this theory on the ground that there’s no *quid pro quo* in a tax. *Quid pro quo* is a favour or advantage granted in return for something.

(d) Ability to Pay Theory:

The most popular and commonly accepted principle of equity or justice in taxation is that citizens of a country should pay taxes to the government in accordance with their ability to pay. It appears very reasonable and just that taxes should be levied on the basis of the taxable capacity of an individual. For instance, if the taxable capacity of a person A is greater than the person B, the former should be asked to pay more taxes than the latter.

It seems that if the taxes are levied on this principle as stated above, then justice can be achieved. But our difficulties do not end here. The fact is that when we put this theory in practice, our difficulties actually begin. The trouble arises with the definition of ability to pay. The economists are not unanimous as to what should be the exact measure of a person's ability or faculty to pay. The main viewpoints advanced in this connection are as follows:

Ownership of Property: Some economists are of the opinion that ownership of the property is a very good basis of measuring one's ability to pay. This idea is out rightly rejected on the ground that if a person’s earns a large income but does not spend on buying any property, he will then escape taxation. On the other hand, another person earning income buys property, he will be subjected to taxation. Is this not absurd and unjustifiable that a person, earning large income is exempted from taxes and another person with small income is taxed?

Tax on the Basis of Expenditure: It is also asserted by some economists that the ability or faculty to pay tax should be judged by the expenditure which a person incurs. The greater the expenditure,

the higher should be the tax and *vice* versa. The viewpoint is unsound and unfair in every respect. A person having a large family to support has to spend more than a person having a small family. If we make expenditure. as the test of one's ability to pay, the former person who is already burdened with many dependents will have to' pay more taxes than the latter who has a small family. So this is unjustifiable.

Income as the Basis: Most of the economists are of the opinion that income should be the basis of measuring a man's ability to pay. It appears very just and fair that if the income of a person is greater than that of another, the former should be asked to pay more towards the support of the government than the latter. That is why in the modern tax system of the countries of the world, income has been accepted as the best test for measuring the ability to pay of a person.

Besides the four canons of taxation suggested by Adam Smith, some other economists have also propounded certain other canons of taxation. The important among them are:

Proportionate Principle

In order to satisfy the idea of justice in taxation, **J. S. Mill, the 1848 author of Principles of Political Economy** and some other classical economists have suggested the **principle of proportionate in taxation.** These economists were of the opinion that if taxes are levied in proportion to the incomes of the individuals, it will extract equal sacrifice. The modern economists, however, differ with this view. They assert that when income increases, the marginal utility of income decreases. The equality of sacrifice can only be achieved if the persons with high incomes are taxed at higher rates and those with low income at lower rates. They favor progressive system of taxation, in all modern tax systems.

Canon of Productivity. The theory was expounded by Bastable, a Professor of public finance in 1892. According to this canon of taxation, the tax should be of such a nature as to yield sufficient income to the Government to run the administration efficiently and to work for the welfare of the people. Tax yield is important and every government considers the yield before proposing any new tax. If a tax yields poor income, it cannot be said to be a good and productive tax. It is very often suggested that a few productive taxes are better than to go for a large number of unproductive taxes on the people.

Canon or Elasticity:

The tax system of the Government should be elastic so that tax burden may be increased or reduced from time to time as and when tile demand for revenue changes. The tax system should have a capacity to respond quickly to the changes in demand for revenue. If the tax system is inelastic, the Government cannot be able to meet various exigencies arise from time to time.

Canon of Simplicity:

According to this canon of taxation, the tax should not be complicated in its nature. It should be so simple that tax payer can understand its complications without the help of any expert. It would safeguard the tax payer against the exploitation of tax authorities and experts It would also reduce the chance of tax evasion. If the tax is complicated, it will harass the tax payer and instigate him to evade tax. It would also add to legal complications.

Canon of Diversity:

The cannon requires that there should be a number of taxes of different varieties so that every class of citizen may be called upon to pay something towards the national exchequer. The yield from a number of taxes is more dependable than from anyone. The reason being that a person can

manipulate to avoid single tax. But, if the Government imposes a variety of taxes on Persons and commodities, it will be difficult for a people to evade them. Similarly, the tax burden of different types of tax should not centralize on one class of persons. Every person must be Obliged to pay, directly or indirectly, something to the national exchequer.

Canon of Desirability or Expediency:
A tax should be expedient or desirable so that the Government may defend itself against the public criticism, by advocating its expediency. A tax without any expedient cause will face severe criticism from the tax payers. An unjust tax will always face sharp unwillingness on the part of the tax payers to pay and they will try to evade them, Every new tax must have a justification to create a feeling of acceptance in the mind of the tax-payers.

Apart from contribution to modern taxation theory, contributions of Adam Smith's cannon of taxation, especially canon of convenience, to modern taxation practice cannot be overemphasized. In carrying out tax reforms aimed at improving machinery of levying and collection of tax the cannon of convenience has always provide the basis.
The current technology driven tax reforms in Nigeria have produced the following results that make things easy for tax payers as well as tax officials: *i*-Tax project under Federal Inland Revenue Service in Nigeria produced the following innovations: e-filling, e-receipts and e-TCC- The implication of this is that tax returns can be filed, tax paid, receipts obtained and tax clearance certificate generated electronically. This reduces time consuming movements to and from tax offices. It also reduces corruption tendencies of tax official who deliberately make things difficult for a gain.

ADAM SMITH AND HIS CRITICS
Adam Smith has its critics and Rothbard is one them. Notwithstanding that Rothbard (1995) accused Adam Smith of being "a shameless, an inveterate plagiarist who originated nothing important that was new…… one who plagiarized badly, adding new fallacies to the truths he lifted" the work of Adam Smith has stood the test of time . Rothbard as cited by Tescot (1998) condemned Adam Smith Wealth of Nations as a"huge, inchoate, confused, rife with vagueness, ambiguity and deep inner contradictions". He described theory of value as "unmitigated disaster", he believes theory of distribution was as disastrous as the theory of value, he equally found Adam Smith theory of money defective.

Since ' Wealth of Nations' is a 900-page book of many parts, the denunciations attack much of other aspects than the cannon of taxation. The cannons only received further lights that made it clearer rather than outright denunciations.

Furthermore, Trescott (1998) argued that Rothbard's treatment of Smith's work is "unfair and inaccurate". According to Trescott "while it is not difficult to find origins for many of Smith's ideas, his work is far superior to that of the predecessors. Often this superiority lies in making explicit what was only implicit and in explaining rather than merely asserting. Trescot(1998) identified two major analytical achievements of Adam Smith's Wealth of Nations. The first is the "comprehensive depiction of a self-adjusting general – equilibrium system embracing products markets and factor markets and extending to international as well as domestic activities. The second is a "representation of benign economic growth" It was these analytical devices that were

used to form his basis of comprehensive criticism of government interventions supplemented with a powerful analysis of government failure. Smith then went to conduct these analyses with a consistently humanitarian viewpoint and presented in numerous passages of superb rhetoric which reflect moral passion, humor, sarcasm and simple explanatory patience and clarity.
According to Ikeda (2012),the maxims or canons ,appear to derive directly from the concept of the rule of law, which according to Hayek (1945) "means that government in all its actions is bound by rules fixed and announced beforehand–rules which make it possible to foresee with fair certainty how the authority will use its coercive powers in given circumstances and to plan one's individual affairs on the basis of this knowledge" It was Ikeda contention; therefore, that Rothbard's critique of Smith's maxims is also a critique of the rule of law.

ADAM SMITH CANONS AND INTERNATIONAL TAX COMPETITVENESS

The structure of a country's tax system is an important determinant of its economic performance and understanding the canons has played a significant role its design. A well-structured tax system is easy for taxpayers to comply with and can promote economic development while raising sufficient revenue for a government's priorities. In contrast, poorly structured tax systems can be costly, distort economic decision-making, and harm domestic economies. It is in recognition of this, that made countries to have reformed their tax systems (Bunn, Pomerleau and Hodge, 2019; Thaçi andGërxhaliu,2018).

International tax competitive index is provided by "The Tax Foundation". The foundation has been providing principled research, insightful analysis since 1937 with main objective being improving "lives through tax policies that lead to greater economic growth and opportunity".
The main objective of the international tax competitive index (ITCI), according to "Tax Foundation" is to measure " the extent to which a country tax system adheres to two important aspects of tax policy: competitiveness and neutrality", and to measure whether a country's tax system is neutral and competitive, the *ITCI* looks at more than 40 tax policy variables. These variables measure not only the level of taxes, but also how taxes are structured. The *Index* looks at a country's corporate taxes, individual income taxes, consumption taxes, property taxes, and the treatment of profits earned overseas. The *ITCI* gives a comprehensive overview of how developed countries' tax system compare, explains why certain tax system stand out as good or bad models for reform, and provides important insight into how to think about tax policy.
In today's globalized world, the need to keep tax rates competitive cannot be overemphasized because capital is highly mobile. Businesses can choose to invest in any number of countries throughout the world to find the highest rate of return. This means that businesses will look for countries with lower tax rates on investment to maximize their after-tax rate of return. If a country's tax rate is too high, it will drive investment elsewhere, leading to slower economic growth. In addition, high marginal tax rates can lead to tax avoidance. There are many factors unrelated to taxes which affect a country's economic performance. Nevertheless, taxes play an important role in the health of a country's economy.
A competitive tax system is one that keeps marginal tax rates low. According to OECD (2008), corporate taxes are most harmful for economic growth, with personal income taxes and consumption taxes being less harmful. Taxes on immovable property have the smallest impact on growth.
Separately, a neutral tax code is simply one that seeks to raise the most revenue with the fewest economic distortions. This means that it doesn't favor consumption over saving, as happens with

investment taxes and wealth taxes. This also means few or no targeted tax breaks for specific activities carried out by businesses or individuals. A tax system that is competitive and neutral promotes sustainable economic growth and investment while raising sufficient revenue for government priorities.
The 2018 international tax competitiveness index ranking is provided in tables 1-4.
According to Bunn, Pomerleau and Hodge,(2019),Estonia has the best tax code in the OECD for the fifth year in a row. Its top score is driven by four positive features of its tax code. First, it has a 20 percent tax rate on corporate income that is only applied to distributed profits. Second, it has a flat 20 percent tax on individual income that does not apply to personal dividend income. Third, its property tax applies only to the value of land, rather than to the value of real property or capital. Finally, it has a territorial tax system that exempts 100 percent of foreign profits earned by domestic corporations from domestic taxation, with few restrictions.
The United States adopted a comprehensive tax reform package that included a reduction of the corporate income tax rate from 35 percent to 21 percent, improvements to expensing of capital investments, and rate changes for the personal income tax. As a result, the U.S. improved its ranking from 28th to 24th.
For the fifth year in a row, France has the least competitive tax system in the OECD. It has one of the highest corporate income tax rates in the OECD (34.4 percent), high property taxes, an annual net wealth tax, a financial transaction tax, and an estate tax. France also has high, progressive, individual income taxes that apply to both dividend and capital gains income.
In general, countries that rank poorly on the *ITCI* levy relatively high marginal tax rates on corporate income.
Israel reduced its corporate income tax rate from 24 percent to 23 percent, but fell one place from 29th to 30th on the *Index*.
Though Japan improved compliance costs associated with its corporate income taxes, the country fell three spots on its ranking from 23rd to 26th, being passed by countries making more significant improvements to their tax systems. Compliance time associated with corporate income taxes fell from 62 hours to 38 hours, a reduction of nearly 40 percent

INTERNATIONAL TAX COMPETITIVENESS INDEX 2018: LESSON FOR NIGERIA

Nigeria and other developing nations had adopted the Sustainable Development Goals (SDGs), and because of this adoption taxation has once again taken up a central stage on the international development agenda. In funding these ambitious goals United Nations(2015), came up with two funding sources; private capital to be supplied by the international community, and increase in domestic resource mobilization by governments of developing countries, particularly through taxation (Dom & Miller,2018). In 2015, the international community came up with the "Addis Tax Initiative" which extract "commitment from participating providers of international support to collectively double their technical cooperation to domestic revenue mobilisation by 2020". While this increased commitment is laudable, it is a considered view of Dom and Miller (2018) that money spent on technical cooperation may not necessarily translate into improved tax systems. There are other factors; tax reforms targeted at efficient and effective tax systems is a necessary factor. However, in todays globalized world tax reform is being increasingly being influenced by international forces. Lledo et al., (2004), found out that tax systems are influenced by a set of internationalized ideas about what the main concern of the tax systems should be.
In the 1990s, new institutional economics and new public management influenced tax administration reforms. The immediate drivers were the international financial institutions. From

the mid-1980s onwards these tax reforms became important parts of the conditionalities attached to World Bank and IMF lending and WTO membership, which contributed to their widespread adoption (at least in name) (Stewart, 2003; Stewart and Jogarajan, 2004).
It becomes imperative for Nigeria, being a member of international community to align its tax system to international best tax practices.

Nigeria has a National Tax Policy which was put in place in 2012 and revised in 2017.
The National Tax Policy (NTP) establishes fundamental principles to guide an orderly development of the Nigeria tax system and reinforces the need for tax laws and administrative practices to promote economic development. The Policy is expected to address key challenges confronting the Nigeria tax system including: low tax to GDP ratio, fragmented database of taxpayers and weak structure for exchange of information, multiplicity of taxes and revenue agencies, poor accountability for tax revenue, use of aggressive and unorthodox methods for tax collection, failure by tax authorities to honor refund obligations to taxpayers, the non-regular review of tax legislation, which has led to obsolete laws, that do not reflect current economic realities.
Nigeria was not among the countries ranked on the international tax competitiveness index, but this study compares Nigeria tax rates and outcomes with some of the countries that were ranked better.
Even in the Global Competitiveness Index by World Economic Forum which assesses the microeconomic and macroeconomic foundations of national competitiveness, defined as the set of institutions, policies, and factors that determine the level of productivity of a country, Nigeria did not fare better in ranking . Out of 140 countries Nigeria was ranked 116th below some African countries such as Algeria 93rd, Kenya 94th, Egypt 95th, Senegal 114th and Cote d'Ivoire 115th.
Nigeria practices residential tax system and its income tax rate systems include progressive system for personal income tax and proportional system for other types of tax such as corporate income tax, capital gains tax and VAT.
Nigeria has the following tax rates: Corporate tax rate, 30%, Personal income tax rate ranges between 7%- 24% while Value Added Tax (VAT) rate is 5%

Corporate Income Tax

The corporate income tax is a direct tax on the profits of a corporation. All OECD countries levy a tax on corporate profits, but the rates and bases vary widely from country to country. Corporate income taxes reduce the after-tax rate of return on corporate investment. This increases the cost of capital, which leads to lower levels of investment and economic output.
Additionally, the corporate tax can lead to lower wages for workers, lower returns for investors, and higher prices for consumers.
Although the corporate income tax has a relatively significant impact on a country's economy, it raises a relatively low amount of tax revenue for most governments. Table 2 shows the ranks and scores for the entire corporate taxes category as well as the rank and score for each subcategory.
Nigeria corporate tax rate of 30% is high when compared to the average corporate tax rate of 19% in the OECD countries

Individual or Personal Income Taxes

Individual taxes are one of the most prevalent means of raising revenue to fund government.

Individual income taxes are levied on an individual's or household's income (wages and, often, capital gains and dividends) to fund general government operations. These taxes are typically progressive, meaning that the rate at which an individual's income is taxed increases as the individual earns more income.
Table 3 shows the ranks and scores for the entire Individual Taxes category as well as the rank and score for each subcategory.

Taxes on Ordinary Income
Individual income taxes are levied on the income of individuals. Many countries, such as the United States, rely on individual income taxes as a significant source of revenue. They are used to raise revenue for both general government operations and for specific programs, such as social insurance and government-provided health insurance.
A country's taxes on ordinary income are measured according to three variables: the top rate at which ordinary income is taxed, the progressivity of the income tax system, and the economic efficiency of labor taxation.
Most income tax systems have a progressive tax structure. This means that, as individuals earn more income, they move into tax brackets with higher tax rates.

Consumption Taxes
Consumption taxes are levied on individuals' purchases of goods and services. Consumption taxes can take various forms. In the OECD and most of the world, the value-added tax (VAT) is the most common consumption tax. To properly define the consumption tax base, most consumption taxes either do not tax intermediate business inputs or allow a credit for taxes already paid on them. The exclusion of business inputs makes a consumption tax one of the most economically efficient means of raising tax revenue.
However, many countries fail to define their tax base correctly. Countries often exempt too many goods and services from taxation, which requires them to levy higher rates to raise sufficient revenue. Some countries also fail to properly exempt business inputs. For example, states in the United States often levy sales taxes on machinery and equipment.
A country's consumption tax score is broken down into three subcategories: the marginal rate, the base, and complexity. Table 4 displays the ranks and scores for the Consumption Taxes category.

If not neutrally structured, high tax rates create economic distortions by discouraging the purchase of highly taxed goods and services in favor of untaxed or self-provided goods and services.
Countries with lower consumption tax rates score better than those with high tax rates. This is because lower rates do less to discourage economic activity and allow for more future consumption and investment.
The average consumption tax rate in the OECD is 19.1 percent. Hungary has the highest tax rate at 27 percent, while the United States has the lowest tax rate at 7.4 percent.

Conclusion and Recommendation
Taxation is cardinal in financing development undertaking. Revenue raised through taxation is more sustainable than reliance on borrowing. However, in order to raise sufficient revenue, there is need to have an effective tax system which should be developed by taking into account the discussed principles.

The cannons of taxation discussed above should be taken into consideration by the Government while considering the levy of tax. However, there is arguably no tax system in the world that satisfies all the cannons discussed above. It is also not possible to devise a tax system that may satisfy all the cannons of taxation in an adequate measure. What is important is that the Government should see that its taxation policy satisfies most of the canons of taxation.
The contribution and continuous relevance of Adam Smith's Cannon of taxation cannot be over emphasized. They are still relevance in developing appropriate strategies for an efficient and effective tax system that will define tax laws, tax policies anchored on equity and justice. This study recommends the streamlining of Nigerian taxes in order to eliminate incidence of multiplicity of taxes. The 2014 World Bank report on doing business in Nigeria listed up to 47 tax payments made by companies every year, with a whopping 956 hours spent on complying, preparing, filing, and paying these taxes. This is a far cry from an average Organization for Economic Cooperation and Development (OECD) country where the statistics of tax payments and compliance duration are 12 and 175 hours, respectively. Multiplicity of taxes is harmful to businesses as they promote uncertainty and unlock the channel for revenue leakages and any tax system that promote uncertainty negates the cannon of certainty as espoused by Adam Smith Taxpayers are concerned that funds which ordinarily should be retained in businesses are paid as taxes, there may be constraint in re-investment potential of the businesses.
The study also recommends reduction in corporate tax rate to about 25%.The OECD average top corporate income tax rate is 23.9 percent. The United States, after a comprehensive tax reform package has reduced its corporate income tax rate from 35 percent to 21 percent. UK corporate tax rate is 19%. The corporate tax rate of Estonia is 20% and is the number one country in 2018 international tax competitiveness index ranking. Corporate income taxes reduce the after-tax rate of return on corporate investment. This increases the cost of capital, which leads to lower levels of investment and economic output.
Nigeria tax system needs a comprehensive reform in order to be productive in line with Adam Smith cannon of economy. A major factor is high tax non-compliance evidenced in large scale tax evasion leading to low tax revenue to GDP ratio.

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APPENDICES

TABLE 1: 2018 International Tax Competitiveness Index Rankings

Country	Overall Rank	Overall Score	Corporate Tax Rank	Individual Taxes Rank	Consumption Taxes Rank	Property Taxes Rank	International Tax Rules Rank
Estonia	**1**	**100.0**	1	1	9	1	6
Latvia	**2**	**86.0**	2	2	27	6	5
New Zealand	**3**	**83.0**	18	3	6	3	15
Luxembourg	**4**	**80.5**	21	17	2	18	1
Netherlands	**5**	**77.5**	19	8	12	10	3
Switzerland	**6**	**77.0**	6	9	1	34	8
Sweden	**7**	**75.0**	7	20	16	7	7
Australia	**8**	**72.2**	27	19	7	4	17
Czech Republic	**9**	**69.6**	8	4	33	13	9
Austria	**10**	**69.6**	15	21	10	9	13
Slovak Republic	**11**	**69.4**	10	6	32	2	27
Turkey	**12**	**68.8**	17	5	24	17	10
Hungary	**13**	**68.4**	3	15	34	26	2
Finland	**14**	**67.7**	5	27	14	11	18
Norway	**15**	**66.2**	13	11	18	24	14
Germany	**16**	**65.3**	24	28	11	14	11
Korea	**17**	**64.4**	28	10	5	25	31
Canada	**18**	**64.0**	22	23	8	20	22
Belgium	**19**	**63.8**	23	7	25	23	12
Ireland	**20**	**63.7**	4	33	23	12	21
Denmark	**21**	**63.7**	14	30	17	8	23
Slovenia	**22**	**63.6**	12	12	28	21	16
United Kingdom	**23**	**63.1**	16	24	22	30	4
United States	**24**	**61.5**	20	26	4	28	32
Iceland	**25**	**60.2**	11	31	19	22	20
Japan	**26**	**59.5**	35	25	3	29	25
Spain	**27**	**57.4**	26	18	15	31	19
Mexico	**28**	**57.2**	31	13	26	5	34
Greece	**29**	**51.9**	25	14	30	27	29
Israel	**30**	**51.7**	29	35	13	15	33
Chile	**31**	**48.3**	30	22	29	16	35
Portugal	**32**	**48.2**	33	29	31	19	28

Poland	**33**	**47.7**	9	16	35	32	30
Italy	**34**	**46.9**	32	32	20	33	26
France	**35**	**41.4**	34	34	21	35	24

Source: Tax Foundation 2018 International Tax Competitiveness Index Rankings

TABLE 2.

Corporate Tax

Country	Overall Rank	Overall Score	Rate Rank	Rate Score	Cost Recovery Rank	Cost Recovery Score	Incentives/ Complexity Rank	Incentives/ Complexity Score
Australia	27	47.0	32	31.8	16	49.1	12	79.4
Austria	15	57.1	18	48.0	10	52.7	17	73.1
Belgium	23	50.5	29	33.1	3	64.8	25	66.8
Canada	22	51.0	24	42.2	29	41.3	10	81.5
Chile	30	46.3	18	48.0	35	24.3	11	80.2
Czech Republic	8	69.8	3	67.5	18	48.5	14	77.6
Denmark	14	58.4	13	57.8	25	43.8	20	70.8
Estonia	1	100.0	7	64.3	1	100.0	2	97.7
Finland	5	71.4	7	64.3	31	38.3	1	100.0
France	34	35.3	35	17.4	9	53.0	22	69.2
Germany	24	50.4	31	32.3	14	50.5	7	85.4
Greece	25	47.9	28	35.0	24	44.3	9	82.2
Hungary	3	85.4	1	100.0	30	40.3	18	72.4
Iceland	11	66.2	7	64.3	22	46.3	16	76.6
Ireland	4	80.2	2	88.6	23	46.2	19	71.0
Israel	29	46.4	16	54.5	5	56.5	35	29.8
Italy	32	41.6	26	38.9	13	51.2	34	50.6
Japan	35	34.7	30	32.6	33	36.6	29	61.6
Korea	28	46.8	25	39.9	7	54.8	33	57.9
Latvia	2	99.9	7	64.3	1	100.0	3	97.5
Luxembourg	21	51.1	23	44.7	8	54.5	30	61.1

Mexico	31	42.0	32	31.8	21	46.3	21	69.8
Netherlands	19	55.3	18	48.0	11	52.4	23	68.8
New Zealand	18	55.5	27	38.3	27	43.6	4	96.9
Norway	13	63.1	16	54.5	28	42.0	6	90.7
Poland	9	67.7	3	67.5	26	43.7	13	78.2
Portugal	33	35.5	34	26.9	20	46.9	31	60.7
Slovak Republic	10	66.7	11	61.0	12	51.4	15	77.2
Slovenia	12	63.7	3	67.5	19	47.1	28	63.5
Spain	26	47.3	18	48.0	32	38.1	26	65.9
Sweden	7	70.2	13	57.8	15	50.5	5	93.0
Switzerland	6	70.7	12	60.5	6	55.4	8	83.5
Turkey	17	56.1	13	57.8	17	48.5	32	59.0
United Kingdom	16	56.6	3	67.5	34	29.5	24	67.0
United States	20	54.5	22	45.3	4	58.8	27	63.6

Source: Tax Foundation 2018 International Tax Competitiveness Index Rankings

TABLE3.
Individual (Personal) Income Taxes

Country	Overall Rank	Overall Score	Capital Gains/ Dividends Rank	Capital Gains/ Dividends Score	Income Tax Rank	Income Tax Score	Complexity Rank	Complexity Score
Australia	19	64.2	23	51.9	24	53.3	9	85.5
Austria	21	60.9	28	47.4	17	58.5	16	77.2
Belgium	7	79.1	9	82.6	21	54.4	8	85.6
Canada	23	58.8	32	38.9	18	57.4	10	82.8
Chile	22	59.7	22	52.8	7	69.8	29	56.2
Czech Republic	4	86.2	8	83.4	4	87.0	25	66.9
Denmark	30	51.0	34	26.2	20	55.8	13	80.1
Estonia	1	100.0	11	73.4	2	99.2	2	98.1

Finland	27	55.2	30	41.7	29	50.9	15	78.0
France	34	42.0	33	37.6	33	33.4	24	69.7
Germany	28	54.3	26	49.0	10	65.0	30	52.6
Greece	14	71.4	14	65.6	25	53.2	5	87.7
Hungary	15	70.3	14	65.6	3	92.1	32	43.4
Iceland	31	48.3	20	56.8	9	65.5	35	28.8
Ireland	33	45.9	35	25.7	32	35.5	4	90.0
Israel	35	36.1	17	62.8	34	27.9	34	33.3
Italy	32	46.0	25	49.5	16	58.9	33	38.7
Japan	25	57.2	19	57.8	30	50.6	26	64.9
Korea	10	73.6	10	74.8	14	62.3	19	72.9
Latvia	2	90.3	11	73.4	1	100.0	17	74.1
Luxembourg	17	69.3	3	89.4	19	57.2	31	51.6
Mexico	13	72.1	7	85.3	31	35.6	7	86.0
Netherlands	8	78.2	5	86.4	23	53.4	12	80.5
New Zealand	3	88.6	1	100.0	12	64.7	14	78.0
Norway	11	73.4	27	48.2	13	64.3	1	100.0
Poland	16	69.8	18	59.7	5	81.0	28	60.5
Portugal	29	51.9	16	64.4	35	27.0	22	70.1
Slovak Republic	6	80.9	13	67.4	6	78.4	11	81.3
Slovenia	12	73.0	5	86.4	27	51.3	22	70.1
Spain	18	65.9	21	53.9	8	67.1	20	72.5
Sweden	20	63.2	29	43.7	22	54.0	3	91.6

Switzerland	9	75.5	4	89.3	15	60.0	27	63.4
Turkey	5	83.4	2	92.0	11	64.8	17	74.1
United Kingdom	24	58.1	31	39.0	26	51.8	6	86.9
United States	26	56.8	24	51.3	28	51.2	21	70.8

Source: Tax Foundation 2018 International Tax Competitiveness Index Rankings

TABLE 4
Consumption Taxes

Country	Overall Rank	Overall Score	Rate Rank	Rate Score	Base Rank	Base Score	Complexity Rank	Complexity Score
Australia	7	78.6	4	89.4	26	51.7	21	71.2
Austria	10	70.0	14	49.4	12	64.2	12	81.5
Belgium	25	51.8	19	45.4	21	56.1	27	54.0
Canada	8	77.4	6	79.7	20	60.1	21	71.2
Chile	29	48.7	12	53.4	3	79.6	35	20.4
Czech Republic	33	38.9	19	45.4	27	50.8	34	31.4
Denmark	17	63.0	32	29.3	5	74.0	15	78.1
Estonia	9	75.9	14	49.4	15	61.8	2	95.9
Finland	14	67.9	29	33.3	9	68.5	5	89.0
France	21	59.6	14	49.4	32	34.5	9	84.2
Germany	11	69.8	12	53.4	11	65.7	17	76.0
Greece	30	46.8	29	33.3	25	52.4	25	58.2
Hungary	34	33.6	35	21.3	22	55.6	31	39.6
Iceland	19	60.5	29	33.3	13	63.0	15	78.1
Ireland	23	55.8	26	37.3	31	38.2	7	84.9
Israel	13	68.5	9	61.4	8	71.3	23	60.9
Italy	20	60.1	24	41.3	29	44.4	7	84.9
Japan	3	92.5	3	97.5	24	53.5	3	91.1
Korea	5	88.8	4	89.4	4	75.8	20	72.6
Latvia	27	49.9	19	45.4	30	43.9	24	60.2
Luxembourg	2	94.0	9	61.4	1	100.0	4	90.4
Mexico	26	51.8	8	65.4	23	53.5	33	36.9
Netherlands	12	69.4	19	45.4	10	66.4	11	82.2
New Zealand	6	87.5	7	69.4	2	95.1	19	73.3
Norway	18	61.0	32	29.3	7	72.1	18	75.3
Poland	35	29.4	26	37.3	34	27.9	32	38.3
Portugal	31	45.3	26	37.3	16	61.5	29	43.8
Slovak Republic	32	42.1	14	49.4	33	34.4	28	47.9
Slovenia	28	49.7	24	41.3	28	50.4	25	58.2
Spain	15	66.9	19	45.4	17	61.1	12	81.5
Sweden	16	64.1	32	29.3	6	73.5	14	80.8
Switzerland	1	100.0	2	98.7	18	60.3	1	100.0

Turkey	24	54.4	11	57.4	14	61.9	30	43.1
United Kingdom	22	57.7	14	49.4	35	24.7	6	88.3
United States	4	92.4	1	100.0	19	60.2	10	82.9

Source: Tax Foundation 2018 International Tax Competitiveness Index Rankings