The hallmarks of a good tax system
Why the road to a sustainable economic growth must be paved with sensible tax reforms

All countries must raise taxes to meet social needs, develop infrastructure, influence economic decisions, and redistribute wealth without discouraging investments or stifling growth. The task of governments in meeting these requirements is not an easy one, particularly in the current economic circumstances. It is important how the tax system fulfills these objectives but regardless of the approach or strategy adopted, the tax system should encourage business growth.

Businesses must be supported to grow and in the long run higher taxes will be collected as a result of growth which should contribute to improving the quality of life for the people.

The key question is - what makes a good tax system? Here are some hallmarks based on suggestions that have evolved from discussions by PwC with businesses, governments, and other stakeholders from around the world.

A good tax system has a clear purpose:
For instance the purpose of the tax system would range from raising revenue to fund public expenditure (roads, electricity, internal and external security, education and so on) to balancing the budget (over a period of time) to avoid a precarious situation of sovereign debt crisis as is currently the case in many countries especially in Europe. To achieve this it may be necessary to raise taxes in order to generate more revenue or cut taxes to stimulate economic growth with a view to increasing the tax base and
consequently generate more revenue in the medium to long term. Also the purpose of a good tax system should include meeting social objectives to improve human development (such as a welfare system, poverty eradication, health care, education and so on).

**A good tax system is strategic:** Being strategic means that the tax system must be stable and consistent, enabling long-term business investment. Businesses do not like uncertainties so government must avoid policy inconsistency and erratic regulations which are often driven by political considerations rather than sound economic objectives and public interest. To be strategic also a good tax system must ensure that government-take is just about right without excessive incentives or outrageous tax burden on investors in the sector. The tax system must encourage international trade whilst promoting local investment without necessarily compromising one for the other. Finally, a strategic tax system encourages change in behaviour which society is agreed upon. This is usually in form of heavy taxes, levies and duties rather than an outright prohibition of certain behaviours such as smoking, excessive executive compensation and so on.

**A good tax system is coherent and efficient:** It minimizes the administrative burden on businesses and individuals especially those who are willing to comply voluntarily. It also requires efficiency on the part of the various tax authorities to ensure that the cost of tax collection, cash and otherwise, does not exceed the likely benefits. To achieve this tax rules must be clear and understandable, and consistent with wider (non-tax) law and international principles. This requires consultation on policy and administration which must be kept under review regularly to adapt them to the constantly changing business environment.

**A good tax system is fair and transparent:** First, the legislation must be fair but also the interpretation and application of the rules must be based on the letters and spirit of the law rather than the whims of tax authorities. Consistency of enforcement is critical to ensure a level playing field and to avoid any undue competitive advantage by non-complying entities. In the likely event of a dispute between a taxpayer and the tax authorities, there must be an independent and effective route for resolving disputes with the tax authority.

**Concluding thoughts and action points:**

**Action #1 – The Legislative arm of government needs to make clear laws**

Perhaps the most important aspect in achieving a good tax system is having the right legal framework in place. To this end, the legislative arm at all levels must consciously make laws which are clear and easy to understand and which possess all the key attributes of a good tax system. To ensure adequate focus on tax matters – there should be a specific committee of the National and State Assemblies on Tax Matters. The Joint Tax Board should be legally empowered to enforce compliance with the tax laws, and advise the various arms of government on tax matters especially the legislative arm in respect of tax bills. This will ensure that the Joint Tax Board does not act only in an advisory capacity but can also bite which will go a long way in reducing multiplicity of taxes.

**Action #2 – The Executive arm of government to ensure efficient tax administration**

The tax authority must treat the taxpayers as customers, trust them but verify the information provided within appropriate benchmarks. Similarly as a matter of legal obligation and civic responsibility the taxpayers must disclose full and reliable information about their tax affairs. To be efficient the tax authorities must adopt a risk-based approach to tax audit and investigation rather than placing undue focus on large corporations who are visible while losing sight of businesses operating under the radar. The tax law must be administered in a fair, transparent and consistent manner from one taxpayer to another under similar circumstances. Relevant information, guidelines and tax practice notes should be freely available and readily accessible to taxpayers. Technology should be used to enable online filing and tax payment to ease the burden of tax compliance. Office of Tax Simplification should be established to continuously seek ways of improving the tax system. Professionalism rather than political considerations should be the basis of employing and appointing tax officers.

**Action #3 – The Judiciary to ensure fairness and transparency**

There is bound to be tax controversies and disputes between the tax authorities and taxpayers. The tax system relies on the Judiciary as the last resort in this case whether arising from ambiguities in the law, misapplication by the tax authorities or other irreconcilable differences. To be able to play this role, the Judiciary must develop the requisite tax knowledge and skills, and promptly dispense with tax cases as a key stakeholder with an important role in the tax system.
This article was contributed by Ken Igbokwe, Country Leader, PwC Nigeria and Regional Senior Partner PwC West Africa, to the Nigeria Leadership Initiative (NLI) White Papers Volume 2. The White Papers were published by the NLI in partnership with PwC to highlight some of the critical issues in the Nigerian tax system covering policy, legislation and tax administration. The Papers also demonstrate the urgent need for action and proffer practical solutions for tax reforms.

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