

## [The fifth canon](#) [1]

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As Tuesday's budget approaches with the possibility of major tax changes, I hope George Osborne remembers Adam Smith's four canons about taxation. I have written about them in my upcoming book, "Understanding Economics," and suggest that a fifth should be added.

Of Smith's four the first is that the cost of collection must be low relative to the yield. As much as possible of the money taken out by government should actually reach its destination, rather than be wasted on excessive collection costs.

Secondly, he said that the timing of the tax and the amount to be paid must be certain to the payer. He wanted to rule out discretion by tax inspectors, thinking it a likely source of corruption. It should all be open and above board and clearly set out so that people know what their obligations will be.

Thirdly, he stipulated that the means and the timing of payment must be convenient to the payer. Ideally the tax should fall due when the person due to pay it has received some money. Thus a tax on housing should be payable after rent has been collected.

Adam Smith's fourth canon was that taxes should be levied according to ability to pay. In the interests of fairness as well as efficiency, the taxes should be paid by those with the money to do so. Taxation is not supposed to tip people into starvation, so tax claims on the poor should be very much less than those demanded of the rich.

These canons have been widely accepted in principle, even though many of them might be glossed over in practice. I would add to them a fifth canon, that no tax should damage or limit the economy out of all proportion to any revenue it raises. Mr Osborne should bear that in mind when he considers how far he should implement the Liberal-Democrat call to put capital gains tax up to the level of income tax. On the fifth canon he should dismiss it, but in the spirit of coalition politics he might implement it, but only for gains realized within a year. Thereafter it should taper down very sharply.

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