TAX JUSTICE NETWORK

DO WE REALLY WANT TO USE THOSE OLD TAXES?

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If human beings had set out to design from scratch a taxation system that would be most difficult to comply with, create maximum resentment and highest cost, tie down the most expensive skills, require the best detectives to catch defaulters, that would reward lying and encourage ingenuity in the service of avoidance, and that would certainly result in tax evasion on a large scale – we could not have done better than the system we now employ in the developed world, and that we encourage newly industrialised countries, including Africa, to adopt.

A person from Mars seeking enlightenment as to how democracy works – and in particular how democratically elected governments are resourced to effect the electorate's mandate – would hardly believe their ears when hearing the current system described. People are given forms to complete, that offer, in complex language, many possibilities, containing a range of outcomes in terms of tax. Each pits the tax payer against the collector, even suggesting that 'tax avoidance' is a legitimate pursuit ('Are you using a tax avoidance system? If so, which one?')

This system is so complex that it needs the Minister of Finance to spend half the year planning the taxation system in secret; to employ full-time many of the country's cleverest possessors of the country's scarcest skills – accountants and lawyers; to deliver the detailed budget over several hours, and to employ an army of civil servants to interpret the regulations to the citizens and to capture defaulters. It requires ordinary people to be either very smart or in need f professional help. It implies that tax payers are incipient criminals; and indeed it sets them up so to be.

In South Africa, for instance thirty pages of obfuscating language face the individual tax payer, before you even start with the required proofs: r*endering of return; verify particulars; disclosure; penalties and/or additional assessments: net foreign dividend; a CGT event is triggered; the inclusion rate….* Eh?? Did you know that farmers must '*calculate the value of livestock and produce consumed by yourself, your family and domestic servants*'? (Now, let's see. How many radishes did you pick?)

A friend told me she was unable to consult her husband about something delicate because 'he is doing the tax', and was therefore unapproachable until he had got over it.

Clearly the system is cumbersome and it is inequitable. It advantages people and companies that can employ tax-limiting expertise – which absorbs another huge tranche of a scarce resource. It disadvantages local enterprise compared to multi-nationals that can conceal profit flows by using the world's 70 off tax haven facilities.

The Tax Justice Network (www.taxjustice.net) has documented, with devastating effect, the off-shore evasion – sorry avoidance – aspects of the current model of taxation. I will not repeat it.

The Global Vortex Economy

One reason it is so toxic is that it is part of another systemic process that takes from poor people to give to rich people: the global mobility of capital – money, purchasing power. That system gives the owners of capital the power to create scarcity for themselves. Because it can move – unlike other factors of production – capital can call the shots as a condition of investment.

So the people who work for an income must compete globally with each other to reduce labour costs; while enterprises must compete globally to raise returns on capital, giving capital owners what is called 'passive income': that is, they do not work for it.

And governments must compete globally with all other governments to diminish the tax that rich people and enterprises have to pay – because hey can up sticks and go somewhere else if they are not pleased. That process cuts off the revenue of governments at source.

That is what has produced the effect of a vortex in the current economic dispensation. All resources are sucked to the middle. That is not how it is supposed to work: on the contrary, the market is supposed to spread resources, like a centrifuge. The offshore tax process is one aspect of the way capital mobility produces a feedback loop to advantage the already rich.

That particular feedback loop has an especially malign influence on democracy. It is probably naïve to hope that all voters have an equal voice with government and its election. But when the reality – differential power and influence with government – gets to the point that *only* the rich determine the direction of policy, it is hard to see why people should exercise their vote. Indeed, world-wide we have seen voter turnout steadily decline. If governments *must* offer what John Christensen has called 'welfare for the rich', then no other consideration will inform their policies. And we can kiss democracy goodbye.

So we need a system of taxation that cannot easily be manipulated by rich people and the institutions that support them. Government should not be in the business of outwitting its citizens, competing for brains that could best be used for constructive purposes. The first characteristic of a taxation system is simplicity, so that it can be understood and operated by everyone without professional advice: once it becomes complex it becomes arcane, exclusive; and the least resourced people suffer for it.

Second, a taxation system should be clearly equitable. People who have most should contribute most: they are the principle beneficiaries of societal life, they make the most claims on its resources, natural a well as built; and they should be seen to be contributing recipients.

Third, it should have a benign effect on people's behaviour as consumers. It should influence the price of, and demand for, goods so that people's lives and the life of the planet are enhanced, not undermined. That means taxing things like non-renewable resources and pollution, and privileging activities that have a benign social spin-off, like clean soil, water and air.

Fourth, it should produce enough revenue to carry out the mandate of the electorate. The world has endured three decades of a global system that has left millions poorer than thirty years ago, especially in Africa, but also among the poorer people in every country, from Europe to Asia to the Americas. It also saw the creation of an ideology that governments should be small and spend little.

That has left a legacy of civil poverty: the services that enhance human infrastructure and civilized society have been eroded. There is much to do to recover. There also a need for huge global investment – NOT loans – in the poorer parts of the world that suffered from the enforcement of structural adjustment policies. So governments need money.

Designing the System

How might such a system of taxation be designed? Research shows that people least resent taxes that are collected without their noticing, and that seem fair. Sometimes these criteria are in conflict. VAT is collected without consumers' input, so it tends to avoid complaint. But it is inequitable, because poor people pay a higher proportion of their income on taxation than rich people.

But a very small tax on all transactions could meet both criteria. It is a simple idea. Every transaction that goes through a financial institutions – well over 90% of all transactions (the rest being in cash) – would be taxed as it happened, electronically, and passed automatically to the Revenue Service. No one would have to pay it or collect it.

Poor people would pay much less of their income, if the tax replaced VAT, partly because it would be so small, and partly because they tend to use cash rather than banks. Rich people, who effect the largest transactions, would automatically contribute the most. But they would do so automatically, dispensing with the vast expenses of tax departments.

It would have two other advantages. It would slash the cost of collecting revenue; and it would make evasion nearly impossible.

The tax could be very small, because the volume of financial transactions is so large. In South Africa, a 0.5% tax would bring in about the same as all other taxes, added together, bring in today. Avoidance would be extremely difficult, because the global post-9/11 regulations to prevent laundering provide an accurate paper-chase of all transactions.

Banks would spot new patterns of payments that pass through their systems. The small size of the tax – 0.5% compared to 14% VAT - would make evasion less attractive.

Finally, a transaction tax has the advantage that it could be introduced gradually, starting tiny, to test its efficacy, and allowing it to offset progressively the other current taxes. Starting, I suggest with VAT to relieve the poor and property transfer taxes to please he rich.

There are other transaction taxes, with the same advantages in terms of ease of collection, and difficulty of evasion. The best known used to be called a Tobin tax, which is levied on currency transactions. The Stamp Out Poverty campaign in Britain proposes what it calls a stamp duty on sterling transactions.

Their published research, *A Sterling Solution,* shows that the UK government could raise a annual £1.12 billion with a minute tax of 0.005%, even assuming the value of trade decreased by 2.5% after the tax. Although the tax would not be intended, as was the Tobin tax, to calm currency fluctuations, that side-effect is no bad thing. And Tobin tax supporters suggest it should be varied with calming effects in mind. Certainly that would be a help in South Africa.

We can be in no doubt that small taxes on large numbers of high value transactions produce a lot of revenue. In South Africa, a transaction tax on the Johannesburg Stock Exchange – the daily value of trade is between R8 billion and R12 billion - would create enough revenue to render unnecessary smaller taxes that cost almost as much to collect as they bring in.

Transaction taxes plus Green Taxes

So it seems that transaction taxes meet all the criteria for choosing a taxation system except one. They can bring in huge revenue. They are simple and equitable. Although they may not seem progressive, because he same proportion applies to all tax payers, poor people will benefit disproportionately, especially if they replace VAT. Poor people use cash rather than electronic money; and their tiny incomes are eaten into by the size of VAT. The great majority of all transactions – perhaps especially within the he financial sector – are done by the rich, who would therefore pay a much higher proportion of the total than the poor.

The criterion transaction taxes do not meet is the third: it does not affect patterns of consumption through affecting prices. For that we need what are loosely called Green Taxes, or taxes on ‘bads’ rather than ‘goods’. They are best levied upstream where products are made, so that they feed into the system throughout.

To sum up, Tax Justice for Africa will aim for aim for two parallel systems. The first is transaction taxes. They can be introduced only where current electronic systems are in place in the financial sector: where they do not yet exist they should be a high priority.

The second is taxation on malign processes and products where they are produced or come into to the country.

The current clumsy, expensive and anti-poor systems, that tax value added, should be scrapped as soon as feasible.

ENDS