

TAX JUSTICE RESEARCH WORKSHOP 18th - 19th JAN2007  
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#### PROMOTING PRO-POOR DEVELOPMENT

##### *Transparent and simple tax system to the national level*

Tax Justice Network should propose also in the national level alternative tax systems, which could promote pro-poor development in any country. The proposals should be so simple that they would create more understanding of the taxes. They should also emphasize the responsibility of the people with more just tax systems to take care of them and to develop them further. That could increase both political discussion and tax activists.

Now the discussion of taxation is in most countries submitted to the interests of corporations and freely moving capital. Neo-liberal economic politics have won support even in those political parties and trade unions, which in their programs are opposing the aims and results of neo-liberalism. Strong corporations and their lobbies are creating fear amongst citizens and politicians. People in better off-countries often believe, that submitting to the neo-liberal politics could diminish transfers of capital and investments to low tax areas.

The complexity of the tax laws leaves the majority of people and their organisations without positive political answers when the corporations are minimizing their social responsibilities with their army of lawyers. This weakens also possibilities of fair tax policy in poor countries.

Massive global forces are telling us that a better world is created only if we accept the conditions of the *enterprise based production* and are ready to

- maximize the profits of the owners and the management
- minimize the responsibility of the enterprises to the society
- minimize the cost of the labour in enterprises
- minimize the taxes.

Pro-poor development demands quite the opposite. We need *society based production*. The conditions of it are

- sustainable primary production
- fair distribution of necessary products
- fair utilization of society's work power
- sustainable financing of the public services.

These goals cannot be reached without wide political participation.

### *1 Principles of the proposition*

#### *Minimizing tax evasion and abusive practices*

National tax system should be simple enough to be understood in wide political discussion and transparent enough to show how the tax revenues are collected and where the money is used.

When the national production is growing the tax revenue must also grow. There is no other way to guarantee sustainable financing of the public services and social benefits. The *enterprise based production* model accumulates effectively wealth, but the accumulation to the minority impoverishes the rights of the majority to decent living.

#### *Just taxes collected from where the money grows*

The tax revenue should be collected from people and enterprises getting enough income to participate in financing the public sector. Collecting direct taxes from the poor only creates obstacles in their efforts to reasonable living.

#### *Higher employment with less employment taxes*

Taxation must not create needless obstacles to the employment of those people, who cannot get high price of their work in the labour market. Therefore the taxation of the use of the labour shouldn't be higher than the taxation of the machine systems or other productive inputs.

### *2 Two main categories of national taxes*

- One progressive personal income tax with one basic deduction
- Two meanings and levels of one production tax

A combination of a neutral production tax and a progressive income tax creates more jobs and earnings even to people who cannot get high market productivity in their work.

Different levels of production tax would support sustainable production and punish detrimental production.

The national property taxes are less important to the tax revenue than these main categories. Still they are significant in increasing the progressiveness of the tax systems especially in the big enterprises and equalizing the

conditions both in production and people's everyday life. The function and structure of property taxes should be thought over in the context of this model and any other tax systems.

*Progressive income tax to diminish income differences and to create equal public services*

Income tax should be levied only on the incomes above the average level of the poverty line in the country. The poverty line should be the income needed for everyday living. This amount of income should be a basic deduction given to everybody. Above this basic deduction the income tax should rise progressively.

The progressiveness of the individual income tax and the basic deduction are inevitable to protect poor people and create them opportunities to find earnings and use them to their own living. A substantial progressiveness also in higher incomes diminishes income differences and helps the society to finance public services, which are essential to the sustainable development of people and the world.

*Personal income tax to finance local public services*

Any country should use the personal income tax revenue to local services. That could help people to see where the money comes from and what is made with it. The income tax revenue should also be redistributed from better off communities to the poor ones.

But regardless of to which public purposes the income tax is used, it should always be progressive.

*Production tax to finance national infrastructure*

The production tax would be collected according to the price of sales by the state where the production is sold. Even the exporters should pay production tax unlike in the prevailing Value Added Tax-systems. The importers would pay production tax on that value added they make in their trade.

*Similar value added tax rate for using labour and capital in the production*

By equalling the taxation of labour and capital inputs in the production there would be an increase in the use of labour. It also would create incentive to use the capital inputs more efficiently.

*Production tax with two types*

*Basic production tax* would be a general production tax. It would mean same percent of the value added on all sales of domestic products, be it domestic sales or export sales, and also to all sales of imported products.

Social insurance payments levied only on wages and salaries are an extra cost punishing the use of labour. That is why compulsory social insurance should be financed through this basic production tax and not through separate social insurance payments. This change in taxation would allow human labour to compete on equal tax level with other production inputs.

To support local small-scale production and markets there should be a basic deduction also in basic production tax. It should allow people with income under the poverty line to sell their work even without basic production tax.

*Extra Tax* would mean different levels of higher percents of production tax levelled on

- detrimental production or
- sale of detrimental products

which have negative effects on nature, society or health. The function of Extra Tax is to diminish or prevent detrimental production or consumption.

