

# Slicing the pie?

Geoff Bertram

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# Ideally, our tax system ought to be

- Legitimate
- Transparent
- Progressive
- Enforceable

# 1. Legitimate

- In a democracy, an explicit campaign up front provides the crucial mandate
  - Giving low-tax hostages to fortune in an election campaign drains legitimacy if taxes are imposed later
  - So the big vested interests have to be confronted at the start – not after the election
  - Full marks to Elizabeth Warren who epitomises that principle
  - Low marks to Jacinda Ardern and Grant Robertson who (assuming they had genuinely progressive aspirations) surrendered their high ground in pursuit of electoral success
    - => unwillingness to confront “business” was signalled up front
  - Good marks (but no applause) to John Key-Bill English and now Simon Bridges-Paul Goldsmith who campaign openly on cutting taxes for the rich and bashing beneficiaries
    - The poor and vulnerable are not that hard to confront

## 'These are the taxes Elizabeth Warren has proposed in the 2020 race'

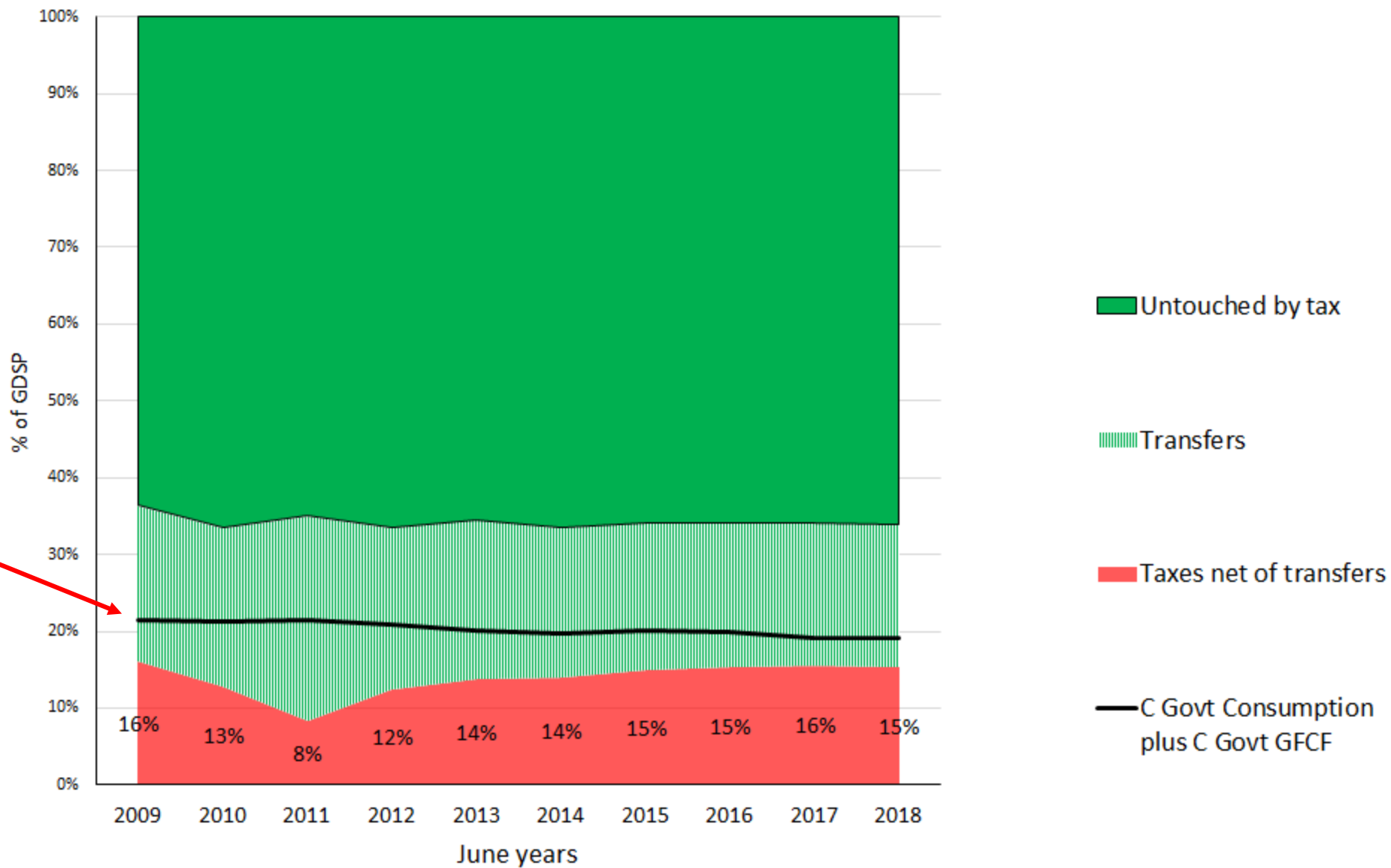
<https://www.cnbc.com/2019/10/05/these-are-the-taxes-elizabeth-warren-has-proposed-for-2020.html>

- **Ultra-Millionaire Tax**
  - 2% annual tax on every dollar of wealth a household has above \$50 million, increasing to 3% for households with above \$1 billion.
  - Americans with a net worth over \$50 million who renounce their citizenship to dodge the tax will be subject to a 40% "exit tax."
- **Excessive Lobbying Tax**
  - Firms that spend between \$500,000 and \$1 million on lobbying taxed at a rate of 35%, increasing to 60% on spending above \$1 million and 75% above \$5 million. The money raised from the taxes would be committed to Warren's "Lobbying Defense Trust Fund," dedicated to strengthening government against the influence of lobbyists.
- **Real Corporate Profits Tax**
  - Additional 7% corporate tax would apply to every dollar above \$100 million that a company reports in profits. The tax would exist in conjunction with the overall corporate tax rate, which Warren hopes will raise \$1 trillion over the next 10 years.
- **Increase in Social Security contributions for the top 2%**
  - A 14.8% contribution requirement on individual wages above \$250,000 as well as a 14.8% contribution requirement on net investment income for individuals making more than \$250,000 and families making more than \$400,000.
- **Rollback of Tax Cuts and Jobs Act**
  - Reverse the 2017 Tax Cuts and Jobs Act, restoring the previous corporate tax rate.
- **Increased tax rate for gun manufacturers**
  - Gun tax raised from 10% to 30%, while ammunition would be taxed at a rate of 50%. The money raised from the tax would fund gun violence research and prevention, while reinforcing existing gun laws.
- **Increasing accountability for private equity firms**
  - Firms "that make bad investments would be held accountable instead of walking away from the wreckage with millions in fees and payouts."
- **Moving military contractors to carbon net-zero emissions**
  - As part of her climate change agenda, Warren aims to have the military and its contractors achieve carbon net-zero emissions by 2030. Those who don't will pay a fee amounting to 1% of the total value of the contract, which will be reinvested into improving military infrastructure.
- **'Medicare for All'**
- **[And a carbon tax including border adjustments]**

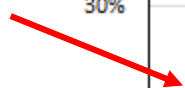
## 2. Transparent

- Taxation occurs whenever government claims encroach on the net real resources available to the non-government sector. Includes, e.g.,
  - SOE profits. The SOE Act 1986 requires state-owned businesses to place profit ahead of all other aims. Which means treating them primarily as tax instruments. BUT
    - SOE profits are functionally distinct from private-sector profits because they transfer resource claims across the boundary between private and public sectors
    - Government is not just another business enterprise
  - Withdrawal of government services that would save citizens time, energy and money is implicit taxation: it transfers cost burdens from the public to the private sector –
    - closing ministry offices and post offices (and removing postboxes)
    - forcing citizens to interact with government over buggy websites and unresponsive helplines
    - requiring bank depositors to do their own due diligence on their banks
    - regulatory arrangements based on “information disclosure” as a substitute for regulation
  - Transfers are negative taxes and need to be accounted for as such
    - => Account for the tax-transfer system separately in net terms, since the effect is not to shift command over real resources across the private-public boundary but simply to transfer claims within the non-government sector

### Central Government Claim on New Zealand's Real GDP



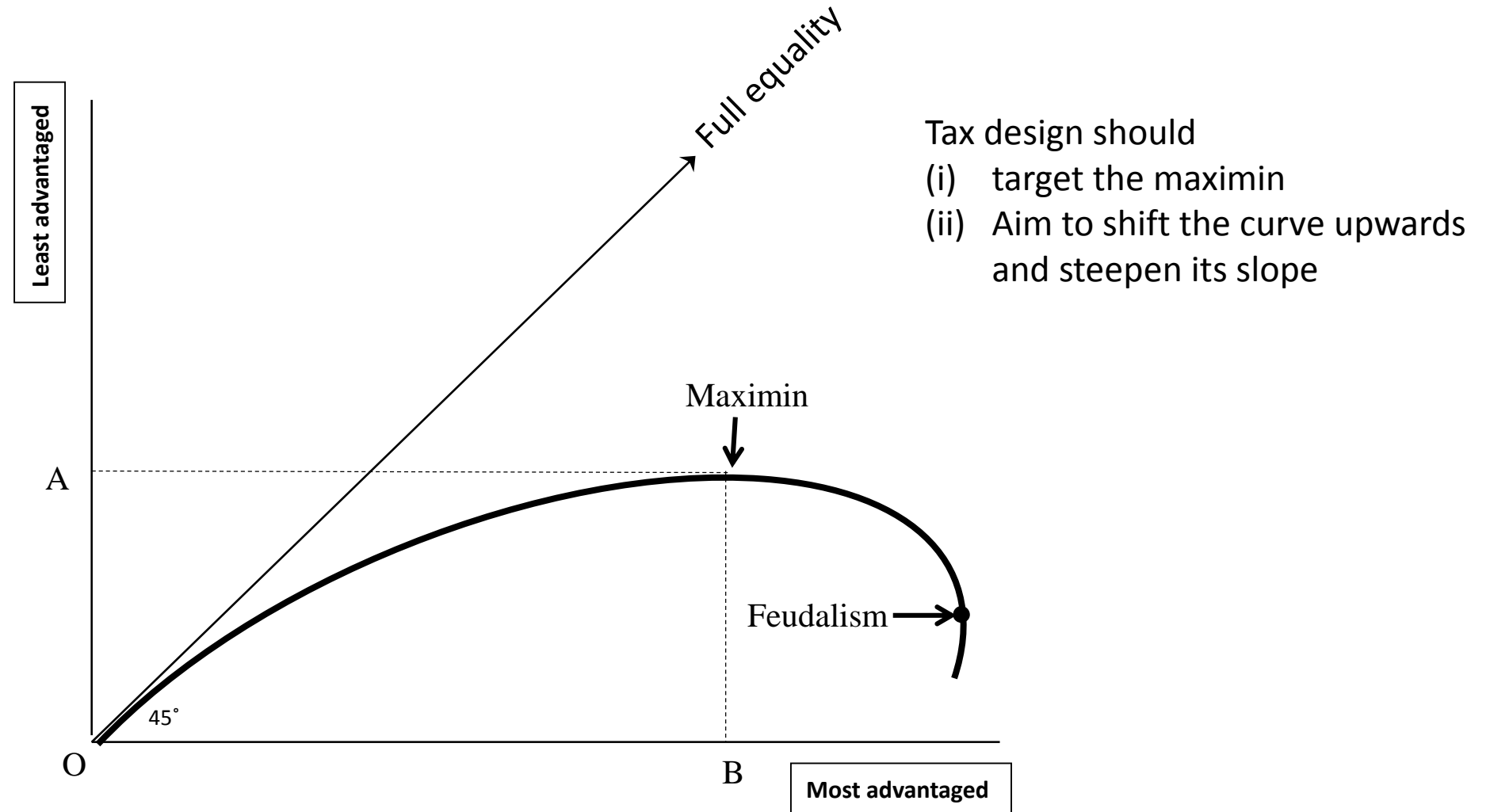
Not really that scary!



# 3. Progressive

- Three senses of progressive:
  1. Targeted to place the heaviest burdens on the rich because the rich are best able to bear those burdens
    - ⇒ Tax “efficiency” in the Ramsey sense is inherently regressive; needs to be displaced in favour of social efficiency [because taxation has social purposes other than pure revenue-raising]
  2. Designed and implemented to address the great issues of the age
    - Inequality and neo-feudalism => wealth stocks need to be as much part of the tax base as income flows
    - Climate change and environmental degradation => relative prices will have to incorporate subsidies as well as taxes and subsidies if the aggregate tax effect (real resource withdrawal from the private sector) is to be neutralised
      - Tax/dividend schemes an example of explicit ring-fencing of environmental tax/subsidy flows
  3. Structured to enable effective stabilisation of the capitalist small open economy
    - Fiscal policy now key to control of inflation and unemployment
    - Negative poll tax has big potential [but has to be fully ring-fenced to the negative segment]

# John Rawls's "difference principle" diagram



Adapted from John Rawls, *A Theory of Justice* Cambridge Mass: Harvard University Press 1971, p.76 Figure 6 and p.77 Figure 8; and *Justice as Fairness: A Restatement*, Harvard 2001, p.62.



# 4. Enforceable

- Tax resistance and avoidance drain legitimacy and effectiveness
  - Financial claims (including ownership claims) are internationally footloose while real resources move slowly if at all
  - Ownership rights over real resources are crucial to sovereignty
    - =>Offshore ownership of domestic real resource stocks seems to be incompatible with full sovereignty under present-day institutional arrangements
      - So till global institutions change, offshore ownership needs to be subject to both explicit and implicit taxation and restriction
  - Trust arrangements are potentially useful but under present-day institutional arrangements they are a vehicle for tax dodging and resource mis-allocation
    - =>Probably ban them until and unless the institutional setup changes
  - Wealth transfers are as important as wealth itself: gifts and inheritance are income in the hands of the recipient and should be taxed accordingly – big enforcement challenges here!
  - Resourcing and empowering of IRD is a priority for full credibility