

Fixing Tax Evasion through Public Equity

Keith Rankin, 5 March 2015

On Sunday I watched a BBC *Panorama* programme about the widespread use in Britain of secret Swiss bank accounts for the purpose of tax avoidance, with particular focus on the Swiss operations of HSBC.

When wealthy people and prosperous businesses resist paying taxes it's called 'tax avoidance' and is legal, because it's done by rearranging their finances in legal ways that exploit complexities in tax law, and exploit differences in tax regimes in different countries. When poor people resist paying taxes it can usually only be achieved by breaking the law; this is 'tax evasion' and is generally understood as being comparable with benefit fraud.

Tax evasion is a problem that can be substantially fixed through the use of 'public equity' accounting; that is, the proper application of the 'basic income flat tax' method of public accounting.

The general idea is that all income is taxed at source and at the same rate. Let's say that Acme Ltd produces \$100m worth of goods and services. Thus Acme's contribution (value-added) to annual GDP would be \$100m. That's 'output' or 'production'. It's also the 'income' generated by Acme's activities. The output of a firm is by definition equal to the income generated by a firm.

The simple solution is to tax that \$100m at a flat rate production tax of say 35 percent (yielding \$35m), leaving \$65m for Acme to distribute tax-free between employees, landlords, creditors and shareholders. (The \$35m would either be remitted in its entirety to the IRD. Alternatively, public equity dividends – basic incomes, of say \$10,000 per year – would be distributed to employees from this \$35m, saving the IRD the trouble of distributing it back to Acme's labour force.)

Because this simple tax is deducted before private distribution is undertaken, the only way anyone could avoid tax would be to gain some kind of offsetting subsidy. Applying for subsidies would be a highly visible process, unlike the present very secretive process of tax avoidance.

The only other way of avoiding taxes would be 'transfer pricing', where companies rig the prices of intermediate goods traded between different countries' branches of that company. This would be easily identifiable also. If Apple Corporation were to sell more of its iProducts in the USA, while declaring most of its income in Bermuda, then this would obviously be a case of tax evasion.

Could it be that the lack of interest in a simple public equity approach to public revenue collection is because many people in high places benefit from the present regime, with its complexity and secrecy? Those rich and often miserly beneficiaries are not only the tax avoiders; tax accountants and banks that earn huge profits by selling tax avoidance services are also beneficiaries of this systemic opacity.

Tax avoidance is immoral. It's private theft from the sovereign public's rightful share of national income. Public inputs – including public inputs inherited from our forefathers and foremothers – contribute to well over 35 percent of GDP.
