

INDIRECT TAXES: A BRIEFING
comparing UNITAX (Unified National Indirect Taxation)
with proposals for energy and land taxation.

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1.0. **Setting the Scene**

1.1 Taxation systems are under review all over the world not only because they are proving inadequate for raising the huge sums needed by modern administrations but because of environmental pressures and changing employment patterns. There is pressure to switch taxation on to "bads" (like pollution) and away from "goods" (like work). Furthermore, there are serious problems arising from disparities in the distribution of wealth within and between nations which are of pressing urgency. This dissertation presents UNITAX which is described in greater detail below.

1.2 As tax collection becomes more difficult because of random and fragmented patterns of work and employment to say nothing of the sophistication of the global market and the Internet, attention is given to indirect forms of taxation. Most careful analysis is needed with taxation reform because many of the effects can be unpredictable and far reaching. Value added tax [VAT] in the United Kingdom and throughout Europe illustrates this point very well indeed. Although far from being the intention of the new "indirect" tax, VAT induced a rapid growth in unemployment wherever it was applied. The proof of this has been published in a separate paper and these unintentional workings of the system have now been widely acknowledged by the accountancy profession. It is also well known by all administrations that tax systems influence human behaviour and that corporations and wealthy individuals are most able to derive the maximum benefit from tax avoidance procedures. These procedures are most often perfectly legal.

1.3 The importance of taxation in structuring society must not be underestimated. If we consider all expenditure in any economy, that under the single label "tax" (i.e. that paid to central or local public authorities in charges, taxes, rates and duties), is by far the largest - far more than any on food, drink, shelter, clothing, heating or transport, the other main life support spending. Much of the complexity - and ineffectiveness - of taxation systems stems from well-meaning political attempts at "social engineering" through taxation and tax incentive schemes, mirrored by equally complex benefit schemes but which often have dysfunctional side effects.

1.4 The UNITAX system takes all these factors into account and, over a period of 40 years, has been enhanced by contributions from many skilled and knowledgeable people as well as deriving direct benefit from sophisticated modelling procedures linked to scientific observations and analysis of data from the real worlds both of nature and of commerce. A considerable amount of this work has been concerned with staging procedures not only to propose the smoothest transition in technical terms but to make these changes "feel better" than present systems so as to win political acceptability.

1.5 It was also necessary to minimise the part played by tax payers - e.g. to assume uneducated or uninterested populations - and to ease the load on administrative departments. Of vital concern, also, is the need to satisfy international trading requirements not only as to legality but to give an incentive for other countries voluntarily to adopt the UNITAX system to their benefit. And, to achieve this without the need for international agreement.

1.6 Accordingly, the proposals (see below) incorporate a customs procedure which rewards economical use of resources by producers exporting to countries that operate the UNITAX system even when they are exporting from countries which do not. In achieving these benefits it may seem that the apparent dichotomy between the interests of capital and labour have been overlooked. In fact, these issues would be transformed by the UNITAX proposals which will lead to a more harmonious and stable society.

2.0 The Indirect Contenders

2.1 Energy taxes are usually in the form of duties applied at the point of sale or distribution on specifically selected fuel types. Although these duties may be assessed as a proportion of price, it is more usual that they are imposed as a fixed charge related to mass (e.g. pence per litre, dollars per barrel, etc.). Energy duties are almost invariably added to price and are "additional" taxes.

2.2 UNITAX [unified national indirect taxation] as proposed is a special form of energy duty applied at primary source and is based on the calorific value regardless of the energy type and at a unified rate (\$ per gigajoule, etc.). In order to restrict the tax cost to a particular nation or area, this procedure is given a general definition based on the statutory primary energy content [SPEC], so that in conjunction with the National Integrated Tariff (an existing administrative procedure) the UNITAX can be applied (on imports) or rebated (on exports) to all cross-border transactions - this is very similar in effect to the established VAT procedures. The full definition relates this procedure to the "first point at which a money exchange transaction takes place in the local currency". UNITAX is a "tax of substitution" because it is designed to replace other taxes with exactly equivalent revenue in a phased programme - this is known as "fiscal neutrality". However, as a true dynamic procedure (in the limit) there is no other tax with which to make a static (or "budget") comparison - given that government expenditure is in balance with highly visible government revenue the measures are, in democratic societies, those of accountability and effectiveness (e.g. in providing services).

2.2a There is only one rate of UNITAX at any given time in any tax (energy or customs) area and the list of primary energies is declared by statute. Please note: electricity and petrol (gasoline) are *energy products* and, while they (like every other product and service downstream of the primary) carry the UNITAX as a constituent of their cost, they are NOT UNITAXed. UNITAX is therefore an embodied cost which can be avoided only by economies, recycling, and efficiency of use. More importantly it is "dynamic" and is exactly related to the moment-by-moment economic activity within the tax area and on which activity the fundamental tax costs cannot be avoided even though there is no paperwork at all for ordinary consumers.

2.2.1 Consumers retain the right to choose whether or not to consume and in what quantity: their "social contribution" is therefore automatically geared to their standard of living. The massive tax base of UNITAX (broader than all other taxes taken together), embodied as it is in every transaction within an economy, captures revenue in the most equitable and dilute fashion possible as a continuous and controllable cash stream (strictly, the "recycling" of currency first issued in government expenditure).

2.2.2 UNITAX is a component of “The Resource Economics Proposition” [REP] by which the well-known regressive effects of energy taxes are commuted to every citizen within the tax (or energy) area by a compensating payment, or non-selective, universal Basic Income. In turn this payment is part of the Basic Income Distribution System [BIDS]. In the phasing programme, BIDS would be triggered at a later stage with UNITAX starting the process with, say, (ideally) the replacement of VAT.

2.2.3 The REP avoids the political complications arising from social engineering and selective redistribution by concentrating exclusively and quite specifically on the function of *revenue raising* and eliminating, completely, all penal aspects of taxation. Having raised the totally adequate revenue in the cheapest way possible (having dispensed with hundreds of costly tax and benefit procedures), the social factors requiring the cash can be fully funded.

2.3 Land, property or wealth taxes are levied on the valuation of defined assets. The tax may be a fixed charge on the holder of the asset, it may be to a scale of fixed charges depending on the valuation, or it may be a periodic levy on the value of the asset. Valuation is often arbitrary and contentious and so some wealth taxes will apply a levy measured in other ways for example a fixed charge per unit of land area or a proportion of cash on deposit. Apart from the main differences which are summarised below, land taxes are either passed on in produce or service charges to customers and clients or result in the breaking up of the estate whereupon the new owners will have to pass on the charges themselves or to earn in wages or salaries the equivalent cost. The extreme working of these taxes can be seen in the United Kingdom where they have caused the loss of considerable amounts of cultural and national heritage.

2.3.0 There is, however, an argument that, viewing land as a “resource” in the same way as primary energy is viewed under the REP (above), the UNITAX base may be broadened further by the later introduction of a land (area) duty, ULAD (unified land area duty). The argument runs as follows.

2.3.1 As the rate of UNITAX increases to exploit its efficient and prolific nature by replacing more and more other taxes - as well as to induce patterns of consumption of benefit to the environment in general - so the latent value of incident or ambient energy such as free sunshine is enhanced. Given the compensation provided by the BIDS, it is possible to extend the statutory primary energy definitions to include vegetation and food (energy) crops above a qualifying threshold. For example, timber, sugar and methanol production. It may be simpler at that stage instead to apply ULAD based (in effect) on the ambient solar capture available on the land. This would apply whether the land was used for food production or for any other purpose within the statutory framework established for the Resource Economics Proposition. Whereas UNITAX is linked to the (existing) National Integrated Tariff (for the energy content in the cross-border movement of goods and services), ULAD is linked to the Land Use Registry (for the current permitted use). The broad definitions set out for the REP can be worked here also for a fixed annual charge per unit of land area, regardless of condition, quality or location, save that adjustment may be made for slope or latitude, similar to the energy adjustments made in BIDS which are outside the scope of this briefing. In this way it is possible to avoid the “haves vs. have-nots” contentions surrounding conventional capitalist/socialist land (privilege of ownership and use) issues. Such a mechanism, broadly, complies with the functional and non-adversarial approach of the REP.

3.0 Some guidelines

3.1 There are some simple but tough basic rules to be followed when appraising and comparing the merits of different systems. For example, the "who decides?" test. Any system in which decisions

are decentralised to a low level is prone to irregularities, corruption, inconsistent interpretation, arbitrary delays and inefficient working. In control systems such restrictions can account for at least a third of the throughput. In tax and benefit administration, these losses (costs) are realised in:

- 3.1.1 set-up and operation
- 3.1.2 monitoring and accountability
- 3.1.3 control and regulation
- 3.1.4 sanctions and enforcement
- 3.1.5 investigation, defence and appeal

3.2 In consequence, the maximum achievable efficiency is no more than 66. 2/3%. There is therefore a balance to be struck between the essential need to delegate decision from the centre and the wish to avoid authoritarian and stifling procedures at the grassroots.

3.3 It is also necessary to “bite the bullet” as regards the “who pays?” test. In general, corporations **do not pay taxes**. No matter how much politicians may jump up and down to protest they want to “soak the rich” or make businesses pay, it is a requirement of the Law that business has to remain solvent if it is to continue trading. It is also illegal to print money (this dissertation excludes certain specifics of banking operation although these, too, are accommodated in the REP), therefore, the **only** source of cash out of which business can pay tax, is the customer. It is also a duty on the boards of both public and private corporations to serve the interests of their shareholders. Therefore, all imposed tax costs have to be passed on to the customer in prices. If the intention is to target profits or salaries, then it may be necessary to consider whether “the market” is working properly. This may require some regulatory action (which is seen as an essential adjunct to the commercial environment and a separate issue by no means ruled out by the REP). A tax structure built on this intention is not likely to be particularly effective and may distort risk and investment incentives which, in turn, may adversely affect patterns of employment.

3.4 A very similar condition applies with “the wealthy”. In this context, the wealthy may be defined as those who have the power to adjust their income to meet all and any tax imposts, whatever the amount, without any decline in their living standards at all. In effect, this income is also passed through the system to appear in the cost of products or services - or skilled and talented people are driven out. This also is documented and in living memory in the tax history of the UK.

3.5 Given a background that, by and large, people do not like paying taxes (tax cutting has been shown to win votes), the “law of diminishing returns” should also be considered. This law applies in many systems in general and with tax and benefit systems in particular where the continuous stream of profit from cheating is, on average, highly rewarding. Thus the defects in the design of income tax systems were not obvious until the rate rose above 23%. Unfortunately this characteristic conflicts with the “ax+b” factor in systems analysis whereby small operations carry a disproportionate cost. For example, to set up a basic Income (Citizen's Income) system at an affordable but inadequate level of, say £15/week, would carry virtually the same set-up and running costs of providing an adequate (and, under the REP, an affordable) £117/week. Many taxes have a low “pain” threshold, therefore they cannot be large enough to be economic.

3.6 In this brief guide we see the genesis of the “counterproductive” effects of so many of our tax and benefit systems as evidenced by the history of the past few decades.

The Comparisons

Factor	Energy taxes	UNITAX	Land (wealth) taxes
Who decides the rate?	Treasury under powers granted by Parliament	Treasury under powers granted by Parliament	Treasury under powers granted by Parliament
Who collects the tax?	Retail and distribution outlets	Primary producers, exporters (rebates), importers.	Individual (registered) land-owner returns
<u>How assessed?</u>	<u>Per unit measure</u>	<u>SPEC</u>	<u>Valuation assessment</u>
How avoided?	Economise, do without, use alternative	Economise, do without, use alternative, recycle	Creative accounting
How passed on?	In price	In price	In price or wage demand
How evaded?	Smuggling	No evasion (bulk commodity, statutorily defined)	Under-declaration
Administrative cost	Low	Very low	Moderate
Affect on cost of living	Increase	Decrease	Increase
Affect on commerce	Adverse	Neutral	Adverse
Affect on foreign trade	Adverse	Beneficial	Neutral
Revenue volume	Limited by pain	Unlimited	Limited by capital destruction
Rate of variation	Budgetary	Quicksilver (dynamic control)	Cumbersome

<u>Factor</u>	<u>Energy taxes</u>	<u>UNITAX</u>	<u>Land (wealth) taxes</u>
GATT compliant	Yes	Yes (UNITAX is applied on imports at exactly the same rate as paid by indigenous producers, and rebated on exports also at the same rate)	N/A
EU compliant	Yes	No*	N/A
Need for subsidy, exception, exemption or intervention	Yes	No (all subsidies and interventions removed and replaced by BIDS)	Yes
Protection for the environment	Marginal	Rewarded	Negative (stimulates production)
How distributive?	Poor disadvantaged	Very	Negligible (though ownership may change)
Benefit to 3 rd World	Negligible	High (balanced budget reduces base interest rates, solar assets, rainforests, etc. are valued up)	negligible
International influence	Negligible	Encourages and rewards emulation in free market	Negligible
Accountability	Delegated	Highly visible	Obscure

* Energy product, "carbon" and other taxes are under discussion in EU and a formal submission has been made for UNITAX.