

Tax: Good, Bad or Strategic?

- What is the difference between a taxidermist and a tax collector? The taxidermist takes only your skin. Mark Twain
- What at first was plunder assumed the softer name of revenue. Thomas Paine
- I like to pay taxes. With them I buy civilization. Oliver Wendell Holmes, Jr.
- Taxes, after all, are dues that we pay for the privileges of membership in an organized society. Franklin D. Roosevelt



Motives for taxation

- Raising revenue for governments to spend on public goods and services
- Redistribution
- Influencing behaviour, encouraging behaviour they see as beneficial and discouraging what they consider destructive behaviour.
- These motives conflict

Taxing goods or taxing bads

- Taxes on cigarettes raise the prices and reduce levels of smoking, and save health costs
- But if fewer people smoke there is less revenue for the government for general investment.
- Aviation taxes may cause an increase in the price of flights and hence a reduction in demand
- But if fewer people fly revenues will fall



Tax avoidance



- Human beings are unpredictable
- Cannot predict revenue from any given tax
- Depends on 'elasticity of demand' and also strength of incentive
- E.g. Irish plastic bag tax: 94% reduction

Existing taxes are perverse because they:

- Reduce employment by taxing it and value added
- Subsidise capital and energy-intensive production
- Encourage pollution and waste which the state then has to repair through the health service
- Encourage inefficient land use and speculation;
- Encourage currency speculation
- Subsidise long-distance transport and hence inefficient use of resources

Inequality in the UK

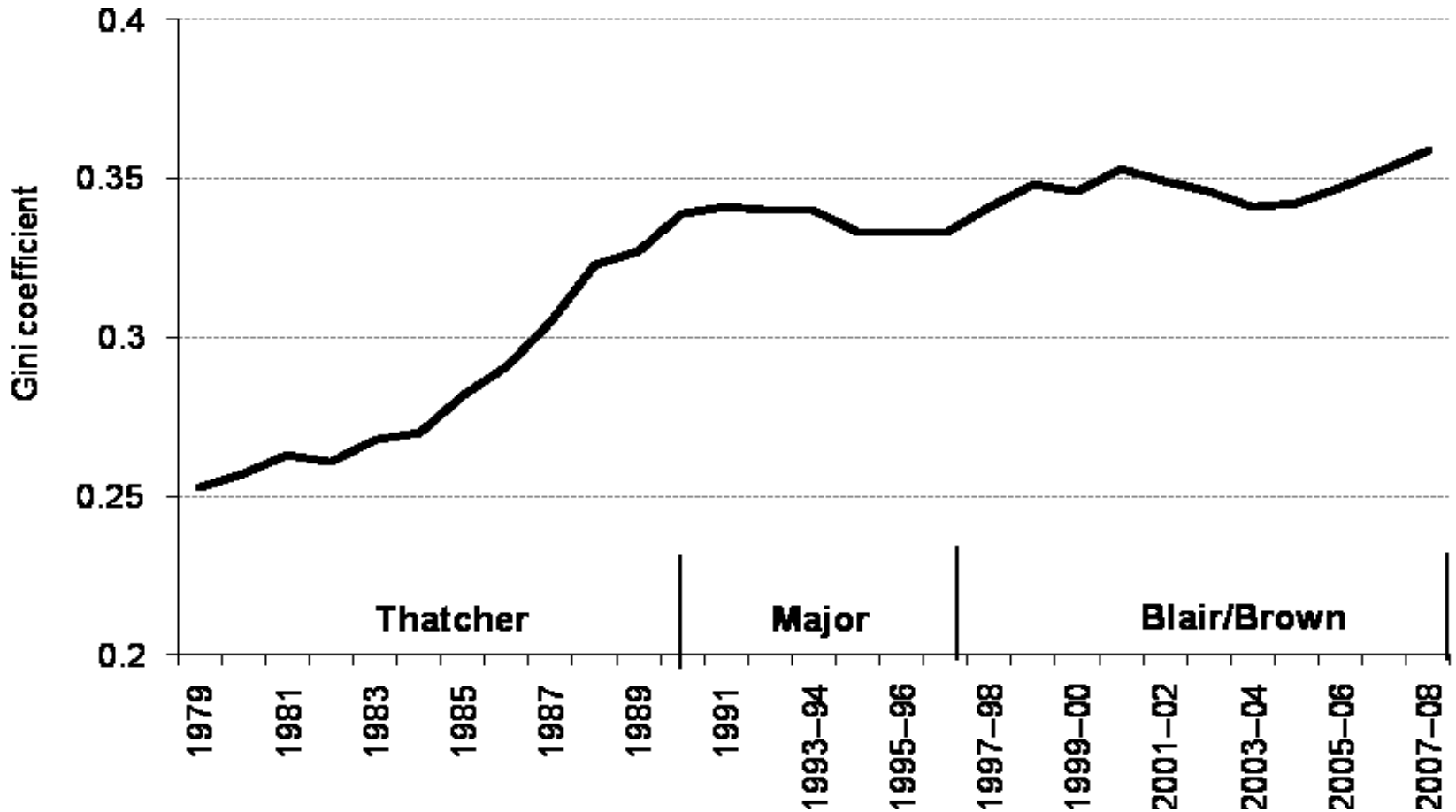
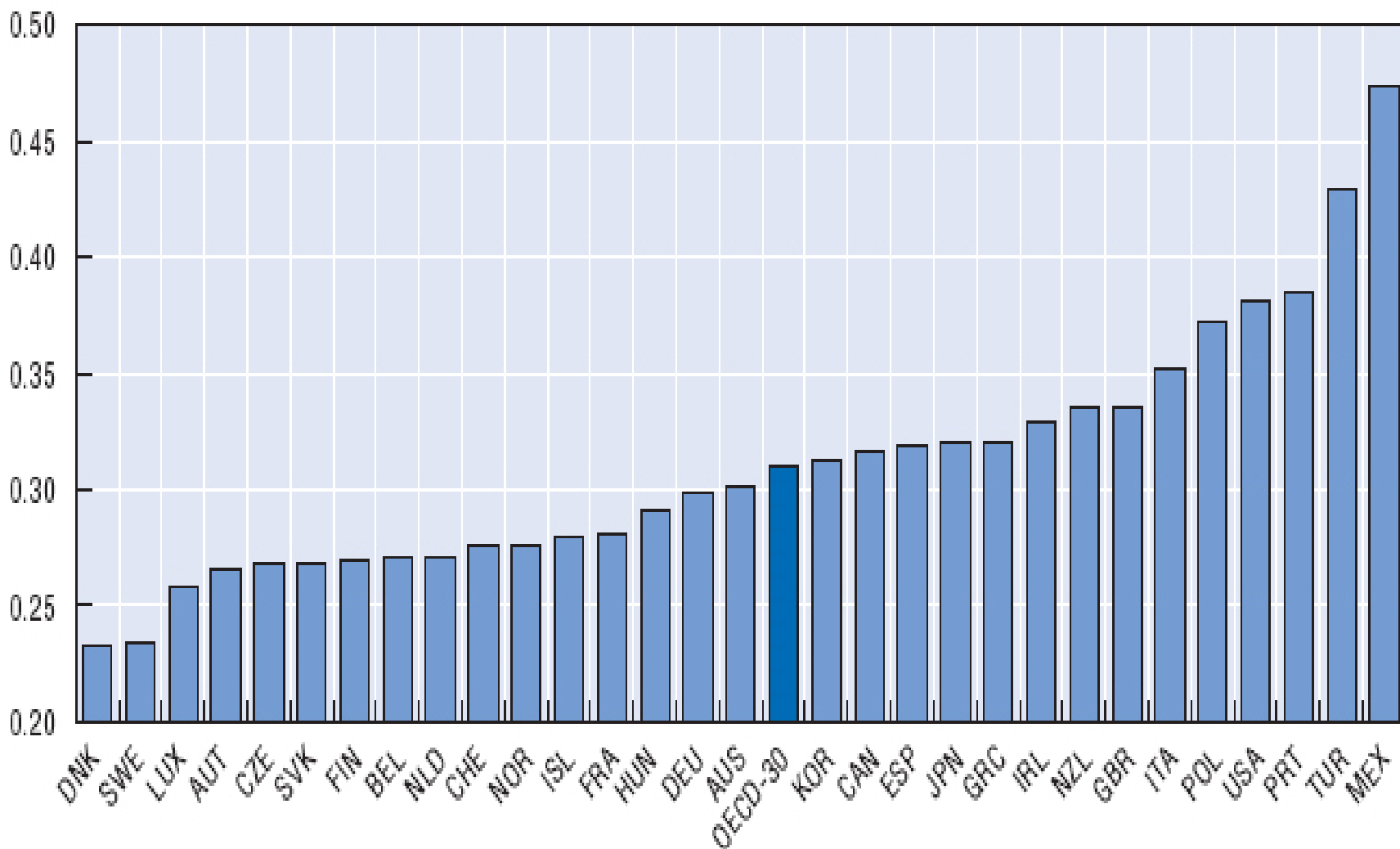


Figure 1.1. Gini coefficients of income inequality in OECD countries, mid-2000s



Why do we need redistribution?

- This will involve a shift from the idea of *redistribution* to the idea of *predistribution*. Whereas redistributive taxes aim to correct the outcomes of economic activity, predistributive taxes and charges will share the value of essential *inputs* to economic activity. Whereas redistribution is dependency-reinforcing, predistribution will be empowering. It will correct an underlying cause of economic injustice, inequality, exclusion and poverty.
- Citizens' Income

Tobin Tax

- A tax on foreign exchange transactions
- Suggested by James Tobin in 1972, after the breakdown of the Bretton Woods system
- A tax levied at .005% would raise between \$30bn and \$60bn (between £18bn and £35bn) a year
- ‘Most disappointing and surprising, critics seemed to miss what I regarded as the essential property of the transactions – the beauty part – that this simple one-parameter tax would automatically penalise short-horizon round trips, while negligibly affecting commodity trade and long-term capital investments’

Robin Hood Tax



- <http://www.guardian.co.uk/business/video/2010/feb/09/bill-nighy-robin-hood-tax>

Taxes for localisation

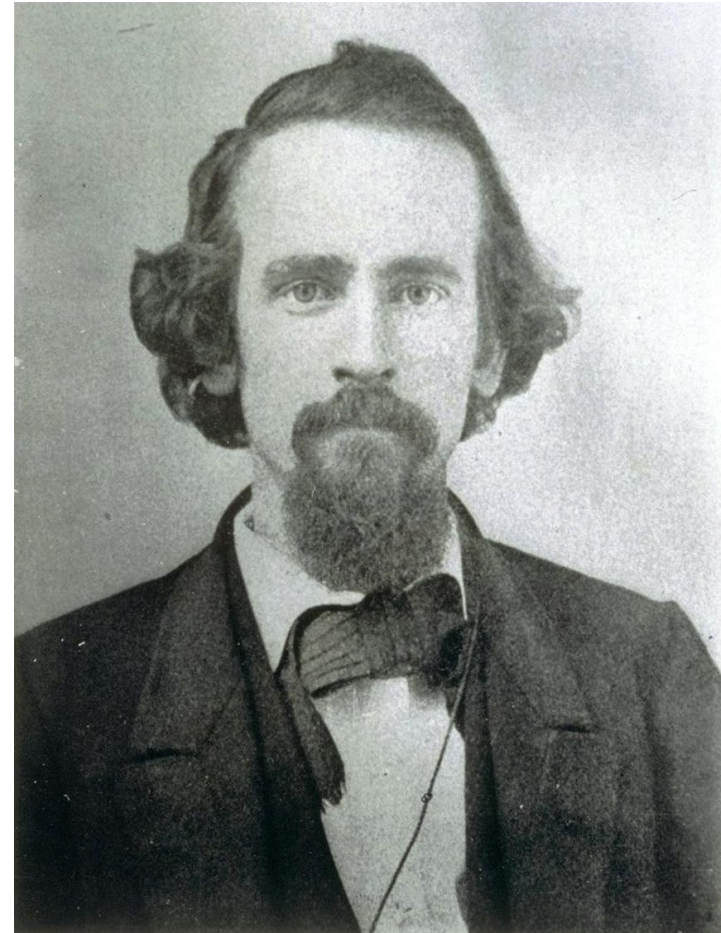
- Tax burden on individual UK citizens has increased from £48.8bn. in 1989/90 to £109.5bn. in 2002/3; that for corporations has not
- Despite a large growth in corporate profits during the same period, the tax they paid rose from £21.5bn. to only £29.3bn
- Individuals saw their taxes rise by 124% while corporate taxation rose by only 36%
- Banded corporation tax
- Local property taxes related to turnover, not area

Taxes on common resources

- ‘common resources are resources whose value is due to Nature and to the activities and demands of society as a whole, and not to the efforts or skill of individual people or organisations’
 - Value accrued by property developers
 - Value made through sale of EM spectrum
 - Value made from sale of ‘ecosystem services’: atmosphere as a ‘global commons’
 - Value of empty streets, i.e. congestion charge

Who gains the benefit from land?

- Henry George
- *Progress and Poverty*, 1880
- The 'single tax'
- Site-value tax or Land Value Tax



Reasons for taxing land



- It is fixed
 - The proceeds of the most valuable resource should be shared
 - It leads to efficient use of land and means it is not left 'idle'
-
- Reduce the concentration of land ownership
 - Can work with planning system to influence land use

Structure of Land Value Tax

- Land Value Tax is levied on the annual rental value of each parcel of land
- Based on unimproved value, so not a tax on capital
- Need a baseline survey of the values of certain types of land and survey of land holding

- Bramhall, R. (1999) „Land Value Tax“, in Scott Cato and Kennett (eds.), *Green Economics: Beyond Supply and Demand to Meeting Peoples Needs* (Aberystwyth: Green Audit).
- http://www.sustecweb.co.uk/past/sustec13-1/land_value_taxationrichard.htm

Canons of good taxation practice

- Cheap to collect
- Difficult to evade
- Should fall lightly on production—sales and employment taxes discourage economic activity
 - Discourages speculative land holding, e.g. Olympic site in Greenwich
 - Encourages active use of land

- LVT combines practical advantage with moral justice. Landowners did not create the land, so, however legitimately they may have acquired it, land it is owned ultimately only by "right" of conquest. And just as landowners didn't create the land, neither do they create its value. Land values are conferred by the existence of the human community and its collective economic effort. It is therefore morally just to redistribute the advantages of holding (as opposed to using) land which otherwise accrue to private profit.

Land taxes in different countries

<i>Country</i>	<i>Experience</i>
Australia	Some form of LVT in every federal state
Russia	Following privatisation of land in 2001 land tax was set at fixed rate per hectare
Denmark	Land tax levied on all private property, at a rate that varies between municipalities
USA	Two-rate property and land tax used in Pennsylvania; two rate system used in Pittsburgh between 1913 and 2001
Canada	Some cities and provinces tax land values at higher rates than improvements—a commitment to the principle of land value tax

London congestion charge, 2003-5

<i>Type of vehicle</i>	% change
Cars	-34
Vans	-5
Trucks	-7
Taxis	+22
Buses	+21
Motorcycles	+6
Bicycles	+28
All vehicles	-12

Ecotaxes

- ‘In the industrialized countries, labor is relatively more expensive and more highly taxed; materials are cheap and lightly taxed. Green taxation can level the playing field for eco-material vis-à-vis nonecological products, it can discourage waste, and it can help create an economy that is more people-intensive than capital-intensive’
- Brian Milani, *Designing the Green Economy*, 2000

Examples of environmental taxes

	Upstream charge	Downstream charge : resource use	Downstream charge : emissions
Energy	Carbon tax on primary energy	Energy tax	Energy tax differentiated by fuel carbon content
Water	Charges on abstractions or emissions by water companies	Metered water charges	Not possible
Transport	Carbon tax on petroleum producers	Fuel tax	Fuel tax or vehicle charge by engine size
Waste	Landfill tax	Volumetric waste charges	Differentiated waste charges

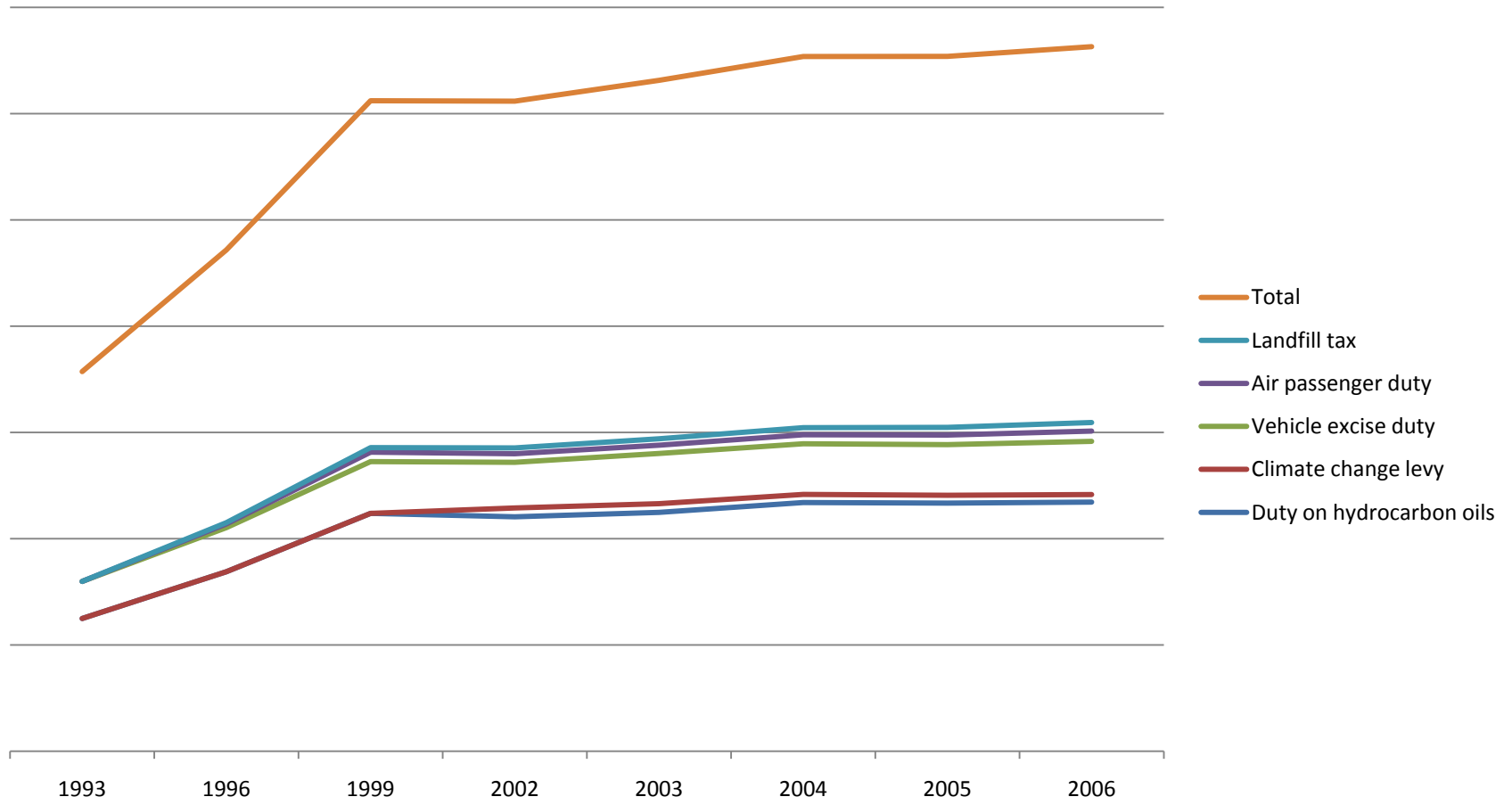
Examples of tax incentive

- The Department of Energy of Oregon state in the Western USA operates a scheme to offer tax reductions to residents who invest in energy efficiency improvements to their homes. The maximum rebate is \$1,000 annually for appliances and \$1,500 annually for either renewable energy equipment or an alternative fuel or hybrid vehicle. Eligible appliances include washing machines, dishwashers and fridges, heat-pump systems, CHP installations, high-efficiency boilers, wind turbines, and fuel-cell, geothermal or hydroelectric generation equipment.

Pesticide taxes in Scandinavia

- From the mid-1980s onwards, Norway, Sweden and Denmark introduced policies to reduce the levels of pesticides in use by their agricultural sectors in response to concerns about the levels of residues from the pesticides in food and in the water-table. The policies involved strict regulation of which pesticides could be used, as well as limits on the number of applications, but there was also a taxation element. By the late 1990s, reductions in usage of 47 per cent for Denmark, 54 per cent for Norway, and 67 per cent for Sweden had been achieved. Sweden estimates that risk to human health was reduced by 77 per cent between 1997 and 2001.

UK ecotaxes



Over to you

- What the benefits and costs of taxation?
- What are the advantages and disadvantages of a range of these taxes?
- Which tax would you favour if you were Chancellor of the Exchequer and why?
- Which is the greenest tax and why?