

TAXATION (Part 4).

Should we tax to achieve goals?

by Vic Berecz

The obvious principal purpose of a tax system is to pay for the security and necessary services provided by our government, and in doing so, the system must be fair, transparent, easy to use, and enforceable.

Historically in the US, the tax system has also been used to encourage taxpayer behavior which promotes and supports our national ambitions and our American way-of-life. The best known of these mechanisms are the federal income tax deductions for charitable contributions, and the deductibility of mortgage interest and property taxes to encourages home ownership. But, many other goals are also addressed by tax deductions, exemptions, and credits at the federal, state, and local levels ... research and development credits to corporations, earned income credits to encourage people to be a part of the workforce, tariffs to support specific industries, property tax abatements for both individuals and corporations, etc. etc. Whether aimed at the wealthy, the poor, corporations, or non-profits, most goal-oriented tax adjustments focus on the premise “do the right thing and you’ll get a tax break.”

There are some adjustments that focus on “keep doing the wrong thing and we’ll make you pay.” The obvious example here are cigarette taxes. Another perennial suggestion in this vane has been a large federal gasoline tax that discourages driving ... the existing modest gasoline taxes ostensibly pay for highway construction and maintenance and so are better viewed as user fees rather than true taxes. Recently I’ve read a lot about another taxation approach of this sort ... a financial transactions tax. Here’s the story.

Ralph Nader, in his book *Only the Super-Rich Can Save Us*, proposes a comprehensive tax reform bill as one of the “Seven Pillars of the Agenda for the Common Good.” The centerpiece of that proposal was a ½ of one-percent sales tax on all stock, bond, and derivative transactions. Among other things, this proposed tax system permitted the abolition of income tax on all incomes below \$100,000 per year and still left a federal budget surplus. Well, we all know that Nader is a “leftist” and this book of his is clearly identified as fiction. But ...

In the March 15 issue of *Forbes* magazine, Dean Baker wrote an article titled *Make Speculators Pay*. He states that “reckless behavior” has given us the “worst downturn in 70 years.” His idea is to put a “small tax on financial transactions to discourage speculation without hampering productive investment.” Baker believes the 1/8 of one-percent tax he proposes on each side of stock, option, credit default swap and other financial transactions would raise \$100 billion per year, even with an exemption for pension funds and other tax-sheltered accounts. While only half the rate of Nader’s proposal, it would raise revenue and reduce speculative trading, he asserts. The article also notes that the UK has had for many years a ¼ of one-percent tax on each side of transactions without it impeding a “vibrant capital market.” Thinking about it, as a conservative investor that’s the type of tax I’d be willing to pay to reduce our federal deficit and ultimately our national debt ... so long as it is coupled with fiscal spending restraint.

I believe many financial services firms – including *Fidelity* which I use – encourage “trading” simply to increase their profits. Personally, I don’t call these people *investors* or *traders*, I call them *gamblers* and all true gamblers understand the *house* needs to get their *cut*. Ensuring honest dealing with respect to contracts is a key “service” that our government provides all Americans ... whether simple homeowner, conservative investor, or gambler. In a way, that’s

what a financial transactions tax would be, because the government (the *house*) provides a level playing field for these speculators to play their games and be reasonably certain the deck is not rigged.

Besides, when Steve Forbes and Ralph Nader agree on something it certainly deserves a very careful look. Perhaps a financial transactions tax should be at the heart of tax reform ...

... I'd give that a resounding YES!

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