CHAPTER 7

Paying for a Basic Income

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Introduction

I became interested in basic income ideas in 1989. I came to these ideas via the issue of effective marginal tax rates (EMTRs) that was raging at both ends of the income scale. The loudest, public, and most forceful arguments were being made by the Centre for Policy Studies at Monash University who were demanding a maximum rate of 39 percent, the same as the then company tax rate (Centre of Policy Studies, 1988). Quieter and less publicized voices (especially from Peter Saunders and the University of New South Wales Centre for Social Policy Research) were putting forward the obvious point that the highest effective marginal tax rates were suffered by low-income workers for whom the tapering of a range of welfare payments could drive the effective marginal tax rates well over 100 percent without even taking into account the costs of going to work (including child care).

It seemed pretty obvious that very high rates at either end of the scale were legitimate causes for concern and that each should recognize the concerns of the other if they were to retain integrity and avoid hypocrisy. It struck me that each would be politically stronger with the support of the other. This risky type of obvious thinking suggested a flat rate of tax and an elimination of the taper on welfare benefits, which meant that every citizen would receive the same welfare entitlements as those on zero income. Paying those needs related entitlements to all becomes a "guaranteed minimum income" (Saunders, 1988), "basic income," "refundable tax credit," or "negative income tax."

J. Mays et al. (eds.), *Basic Income in Australia and New Zealand*

I am always fascinated by any idea that is effectively supported by economics professors with starting points as divergent as Ronald Henderson and Milton Friedman. Such concurrence does not constitute proof, but it certainly demands investigation.

Its elegance is philosophically appealing: each citizen would receive a needs related payment by virtue of his or her being a citizen; and each participant in the economy would be taxed an equal proportion from the income he or she earned in their economic life.[1] The efficiency gains are even more obvious. Flat rate tax can be deducted at source in most cases, and there is no need of an expensive and frequently demeaning welfare bureaucracy tasked with determining eligibility. No longer would they have to distinguish between the deserving and undeserving poor (however much some would like them to apply a similar distinction to the deserving and underserving rich!).

Naturally, this proposal is not cheap. Meeting demands that high income earners face lower marginal tax rates costs a great deal. Meeting the legitimate extension of those demands to the much higher number who have a significantly higher effective marginal tax rates might appear to be a task of Herculean proportion.

I sought to address some of the technical and economic issues in the measuring of EMTRs in the literature (Sampford, 1991a) and then addressed the main issues in a long article published in *Law in Context* (Sampford, 1991b). I unashamedly called it "Taking Rates Seriously: effective reductions as the thirteenth labour of Hercules?" (from here on TRS) following Dworkin's famous essay "Taking Rights Seriously" (Dworkin 1977), relying on a common Australian pronunciation of "rights" and the fact that Dworkin's theory was based around a judge called Hercules. It also reflected a core part of the argument there (and above) that, if we were to take rates seriously, we could not confine changes to that part of the income scale inhabited by the proponents or those who funded them.

But the reason why I attempted to write that article (TRS) and am returning to the subject now is that, despite the large numbers involved, the means of achieving the flat rate and uniform means-tested welfare provision is relatively simple.

Fortunately or unfortunately, the only way to do the right thing in one area (EMTRs) is to do the right thing in other areas of tax policy, specifically by tackling what I still see as the two greatest unaddressed problems in the Australian tax regime:

(a) removing the bias against investment in tradable goods and services (which then, as now, I considered to be the greatest problem for the Australian economy); and

(b) the perennial one of making sure that those on higher incomes (and those making significant profits) really do pay their 39 percent (or whatever figure emerges for a flat rate—probably 30 percent to match the company tax rate).

With the first, there is no "wicked problem," merely self-interested resistance to reasonable answers. This is not a problem of "wicked people," but the tendency to adopt ideas that are convenient to perceived self-interest. The second problem was only addressed tangentially in the original paper. The worst excesses of domestic tax avoidance, evasion, and fraud[2] was in the late 1970s and 1980s. The global tax avoidance and evasion that has recently become evident was just being established. My calculations in TRS did not need a clawback from reducing avoidance. As global tax avoidance is dwarfing the domestic problem Australia faced down in the early 1980s (with Treasurer Howard passing retrospective tax legislation for some of the worst excesses), we now have to address the problem.

The hopeful threat of this analysis is that the answer to one problem provides the answer to the other. Indeed, it is only by ensuring that other investment is taxed as heavily as investment in the internationally tradable goods and services sector that we can collect the revenue to reduce the average effective marginal tax rates of lower- and middle-income earners to the figure demanded by higher income earners.

In this chapter, I will briefly review the first problem with Australia's income-tax system (high effective marginal tax rates on low incomes) and the solution (basic income). I will then discuss the second problem (the way our tax system discriminates against the most productive investment and favours less productive investment), some means of addressing it to produce "tax integrity" (a phrase I used in TRS and in the paper I drafted for the Global Integrity Summit).[3] I will then cover some new taxes (including those I advocated then and one I advocate now), then briefly address the issue of tax avoidance before concluding with a suggestion that a global taxation system to collect internationally some taxes that cannot be collected nationally has room for what I called a "Global Minimum Income" or "Worldwide Basic Income."

The First Problem—High Effective Tax Rates on Low Incomes

Complaints about tax have generally focussed on marginal rates paid by higher income earners, rather than the much higher effective marginal rates faced by social security recipients. Most complaints focus on the nominal rate faced by higher income earners. If the problems with the nominal tax rates on high incomes have been oversold, the problems with the effective marginal rates on lower incomes have been undersold. The interaction of tax and welfare systems means that the same increment of income can lead to a reduction of one or more benefits, plus the nominal tax rate, and sometimes state cash benefits or federal benefits in-kind. The more tapering, means-testing, and targeting there is, the higher these effective marginal tax rates will become.

EMTRs offer a way of understanding the problem and also point to a solution (if all EMTRs for those below average weekly earnings were lower than all EMTRs for those above, then the problem would be solved). However, the bizarre pattern of EMTRs, the interspersion of a few low rates, the fact that some of the ludicrously high EMTRs may cover limited income spans and few actual workers, and the complication that breeds such miscalculations mean that it is often difficult to appreciate the overall effect of tax and welfare measures. The greater "targeting" of "welfare," the more means-tests and the higher the effective tax rates of those above the target range increases the effective marginal rates of those subjected to it. At the same time, the reduction in marginal rates for the highest income earners means that the gap between the effective rates paid by those on low and high incomes widens even further.

Some have sought to address high EMTRs by reducing some of the "poverty traps" that are identified—altering tax and taper rates. However, this is ultimately futile. Consider an imaginary graph of disposable income against income. On the left-hand side, we see the position of a family with no earned income and only welfare. There is generally a bipartisan fixed point here as few are prepared to publicly argue that those without other means should receive less than they currently do. Nearer the right-hand side is the family on average income who must (two thirds the way up the income scale, be paying some net tax). The rate may vary but it does need to be positive. In between full welfare and no tax, to some tax and no welfare, the disposable income depends on a combination of the tax that is payable on the income and the tapering of benefits. This amount can be tracked as EMTRs. The rates may rise; they may fall. But the average EMTR will be determined by the amount of welfare paid to the zero income earner and the amount of tax paid by the average income earner. Drawing a straight line between the two will give the average EMTR. If it is pushed down in one place, it will pop up under another. I liken it to a water bed.

A Basic Income Solution

As the problem of high effective rates lies in the superimposition of social security means-tests on income tax, the most obvious answer lies in the integration of the two. The ideal is that the maximum effective marginal rate that results from the combination of the two should not exceed the maximum marginal rate for the highest income earners.

The surest way of achieving this would be to remove means-tests on all social security payments. This would establish a basic income. However, it would be a "categorical" basic income, in that existing social security categories would be recognized unless there were independent reasons for a change. Thus, each adult would receive a non-means-tested cash payment or, for political reasons discussed below, a "refundable tax credit" equal to that received by each married welfare recipient with no income.[4] Instead of making the current intrusive distinction between singles and couples, there would be an extra Living Alone Allowance based on more objective criteria of whether a separate establishment is maintained. Assistance would also be universalized for all renters. All custodial parents would receive the family allowances paid to welfare recipients on zero income. Likewise, payments for 16–17 year olds would be standardized. There is also much to be said for a flat "costs of work" allowance as suggested by Grbich (1987). I argued then that the costs of child care for those working[5] should be acknowledged separately and universalized. The model is one of providing the same benefits to everyone regardless of income, rather than the same payment to everyone whatever their age.

There would be no income-tax threshold. A single standard rate of tax would be charged from the first dollar on income and, in general, deducted at source. Thus effective average and marginal rates of tax would be uniform right across all incomes.

Although equity and our traditions of progressivity provide arguments for a "super-tax" on higher incomes, it would be strategic not to demand it. If low-income earners could get their effective rates down to those faced by high-income earners, it would be a substantial improvement, and there is the chance of conscripting the latter to their cause as a matter of consistency and credibility, or at least making their complaints seem churlish and unreasonable.

The basic income scheme has many advantages. Naturally, it eliminates poverty traps. As a "linear" tax, it is much easier to deduct at source, there is no longer anything to be gained from income splitting, and the different units of assessment adopted by tax and social security would no longer be a problem. It provides horizontal and vertical equity and is generally far simpler than the current scheme.

Objections

Rates and Incentives

The standard objection is that the level at which the single rate of tax would have to be set would be a disincentive to work more (or even work at all). Such an argument must establish both that high marginal rates have negative consequences and that these consequences are more severe for higher income earners and those without families.

Establishing the negative consequences of higher rates has proven more difficult than it might seem. Although disincentive and substitution effects cannot be denied, the extent to which individuals really do restrict their work effort in the face of higher marginal rates of tax is disputed. So many other factors are relevant: the "wealth effect" (when faced with tax increases people may work harder to maintain a desired lifestyle); the non-monetary benefits of going to work (which become more and more significant for higher income earners whose material needs are largely catered for and who may well be seeking values "higher" up Maslow's hierarchy of needs); the prestige of a higher income, which is enjoyed even if it is taxed; the limited discretion to vary work hours in most jobs; the "lumpiness" of job choices; and the simple fact that extra incentives to earn money can have no effect on those who are already working as hard and as long as possible (a claim made by most high-income earners that will not be challenged by me). Despite the rhetoric of marginal work decisions, most high-paying jobs come as a package of tasks and duties. Job descriptions are not based on time spent but responsibilities assumed and discharged; those who are not prepared to discharge them will not be retained. It might be argued that the individual could choose jobs with responsibilities that take less time, but such jobs usually carry considerably reduced salary and non-monetary benefits.

But the greatest problem for criticizing basic income schemes on account of the higher marginal rates it involves, its purpose, and effect, is to reduce the highest effective marginal tax rates. As basic income equalizes all effective marginal rates, those who object to it must produce reasons for retaining higher rates for those on the lowest incomes. This is a tall order. It not only requires a repudiation of the ethos of progressive taxation, which is, though under challenge, not yet dead, but also it must argue for regressivity, a concept that no one directly endorses.

Attraction of Not Working

A related criticism is that a subsistence level universal benefit would be so attractive as to encourage people to cease work altogether.

I wrote then and still maintain that any such danger is greatly overstated. The basic income scheme applies a classic economic mechanism by massively reducing effective taxes and thereby increasing work incentives. This approach is “less coercive, less intrusive and involves no dead loss costs of enforcement. If it does not work then either there are other problems that need to be addressed or economic incentives are not as effective as generally supposed” (Sampford, 1991b, p. 104).

If it is true that a 30–39 percent rate is sufficient to incentivize higher income earners to work harder, then it should work for the poor as well. Indeed, it may well work better for three reasons. First, as lower income earners currently face very high rates, the reduction would be greatest for them. Second, one of the major disincentives, the non-deductibility of child care costs, would be removed. Finally, the greater urgency of their needs gives the financial incentive more bite. If it is not sufficient for the poor, then it is probable that lower marginal rates are not sufficient for the well-off, leaving advocates of a lower rate of tax for higher income earners in need of a new ideology.

Perceptions and Saleability

There can be no doubt that increases in government expenditure are always more closely scrutinized and criticized than tax deductions and rebate, despite attempts to identify the latter and label them “tax expenditures.” This double standard does not seem to be limited to the general population. Academic and journalistic commentators still claim that there is something fundamentally different between the withdrawal of a benefit compared to the taxing of income. For these reasons, a non-means-tested variation of Dixon, Foster, and Gallagher’s (1985) system of “refundable tax credits” might prove more saleable. Instead of cash payments, resident adults would receive tax credits of equal value. If their income were insufficient to generate sufficient tax at the standard rate, they would receive the balance in cash from the combined taxation/welfare department. Coordination of tax deductions and cash payments could be achieved in several ways.

Although the difference is almost entirely cosmetic, this would add to its appeal, and it would also avoid an artificial increase in the proportion of gross national product (GNP) collected and spent by government—a figure whose potential to mislead is adequately demonstrated by this supposed problem. In fact, if paid as a tax credit, the reform could be packaged as simultaneously providing all of the following: (1) the greatest tax cut in Australian history; (2) the virtual elimination of tax for the average family; (3) the greatest cut in both welfare and overall spending (as most of the payments to average families were absorbed into tax cuts); (4) a reduction in bureaucracy and a simplification in the rules of eligibility; (5) a flat tax, large cuts in nominal rates for the highest incomes, huge cuts in effective rates for low income earners; and, (6) the lowering of tax for all income earners and most taxpayers.

The Second Problem

The second problem with the tax regime is that it exacerbates our economic problems by taxing investment in the production of tradable goods and services more heavily than other pursuits. If you invest in a business that produces internationally competitive goods and services (whether in the domestic or international markets), you will be able to claim a deduction for all salaries and for depreciation of most assets purchased (plant, machinery, factories, and mines all depreciate over their effective life).

Just about every other form of investment is treated more favourably. Superannuation is taxed at a maximum of 15 percent for tax exempt contributions and income (though the latter can be wiped out by franked dividends). Property can be bought and negatively geared so that any shortfall in income is tax deductible. However, if it is sold at a profit, only half the capital gain is taxable. Self-managed superannuation funds can secure much of the benefit of both systems. Investment in the home is exempt from imputed rent (more significant than non-deductibility of interest), and zero Capital Gains Tax (CGT) whatever the value. The only tax benefit that the builder of the mine or factory secure is when they sell the company that owns the asset and they receive the above favourable treatment on capital gains.[6] They will receive even more if the buyer is a foreign one who can reduce tax paid in Australia through a range of mechanisms that have recently come to light. The Australian business vendor may be able to capture some of this tax benefit in a slightly higher price, though at a much greater loss to Commonwealth revenue.

There are two approaches to addressing these problems. One is to create a package of benefits for these import competitive industries to match the tax breaks for other kinds of investment. The other is to remove the above-mentioned incentives to invest in property and superannuation to provide a more level playing field for investment. Most economists would support the latter. To secure a flat tax of around 30 percent, the second option would be necessary as well as other sensible revenue measures.

Levelling the Playing Field between Different Forms of Investment

Superannuation

Given the current debate about superannuation, I am returning to my original ideas and quoting what I said in "Taking Rates Seriously":

> That the current superannuation provisions are as costly as they are poorly directed hardly needs repeating. Neither is it necessary to make the point that taxation and social security provisions pull in different directions—the means test discouraging private provision and the superannuation shelter providing massive incentives whose value and utilisation increase with income. For most superannuants, the government will forgo more revenue than it saves—either the cost of the tax concessions is greater than the cost of providing a pension, or the superannuant still receives a pension anyway. Indeed, it may be that economically rational individuals would only invest in super if they receive more from the government in tax concessions than in a pension. Thus, no super concession would attract an economically rational person unless it were pitched at a level that no economically rational government should offer. This suggests a very powerful argument in favour of pensions over super concessions. (Sampford, 1991b, p.111)

In the above article, I suggested that a guaranteed minimum income in this form would replace the pension and obviate the needs for means- and assets-testing. Retirees could supplement the basic income/guarantee minimum income through prior savings and investments. Retirees could also work to supplement their basic income, taxed at the standard taxation rates.

The payment of a universal basic income raises the question of how to deal with those who were given significant tax benefits for contributing to superannuation: tax benefits that were justified as being in lieu of a pension. I suggested, as a matter of equity, adjustments to ensure no one gained more in tax concessions than they would in receipt of a pension (a principle stated in the recent Report into Financial Services [Murray, 2014]). Accordingly, as an absolute minimum, future income from or within funds would be taxed at the new flat rate for all taxation. Where the value of past tax concessions for past superannuation reached a threshold, there would be an argument for reducing the basic income to match inflation-adjusted value of tax concessions. This argument would not be pushed so far as to require a full equalization—something that would require a great deal of actuarial, let alone political debate. However, those whose superannuation tax concessions were a multiple of the cost of providing a basic income might need to have their basic income trimmed.

I remain firmly of the view that there should be no "grandfathering" in continuing the existing arrangements for existing funds or that no person should be worse off than if the previous (extraordinarily generous) arrangements had continued. In setting up the argument, I rebutted suggestions of the strategy being "retrospective" and stated that it relies on "prospective" changes to the taxation system and pensions—that is, how much superannuation funds and individuals are taxed in the future (see full discussion of retrospectivity in Sampford, 2006). There are no grounds to argue that rich people should get more from the government as they age. If someone suggested that they were made worse off by these changes, one could point to the many favorable changes (including the reduction in taxation rates and the loosening of superannuation rules) since the time they started contributing to superannuation. I added:

> [There is] some room for flexibility in the application of the requirement to contribute to these funds. Contribution rates could vary over time, between different households and over the life cycle. Contribution rates could vary according to the national needs for investment. Those with young children or young, first mortgages might be permitted to reduce or defer their contributions, thereby evening out the burdens of investment and "consumption" over the life cycle. (Sampford, 1991b, p. 112)

My final point in Sampford (1991b) was that I would not return to taxation rulings of 1982–1983 given their "messy" and complex nature (see Sampford, 1991b, pp. 111–112).

Housing

I do think that home ownership is desirable for a number of important reasons. Accordingly, I would argue for Capital Gains Tax (CGT) exemptions on the family home up to the median value of homes in Australia's most expensive city. (The same would apply to assets tests if a basic income were not adopted). This proposal has a double effect, the family home becomes a less profitable shelter, and home owners will be discouraged from changing homes too often, which, as property owners have to change-up to reach the really expensive homes, will make people exit from the housing spiral earlier and generally at a lower level. In general, any favorable treatment given to housing must have a ceiling to discourage the wealthy from sinking their money into houses rather than more productive investment and must be designed to minimize the resultant increase to the costs of housing.

Capital Gains Tax

The tax should apply in full to all capital gains accruing after the announcement of the tax package, irrespective of when the relevant property was purchased. Unless inflation adjustment is introduced across the board, there should be no indexation of the value of the property as at the date of the announcement or the price paid for property bought after it. As this applies to future gains, there is no element of retrospectivity.

Other Taxes

Consumption Taxes

I was originally opposed to a general consumption tax because of its inherent regressivity (the poorest have no alternative but to spend most of their income). However, a fair tax system may have some regressive features, especially if it secures a basic income (which has to be adjusted for such taxes). It is one of the reasons why we can now look at a 30 percent tax rate rather than a 39 percent flat tax. Some consumption taxes are introduced to provide incentives to change behavior and may be supported on those grounds. Since 2000, I have become a firm supporter of carbon taxes as vastly superior to the carbon trading systems that I was sure would be as unworkable as they were unfair (because all such proposals involved granting property rights to unsustainable activity to those who had been responsible for most of that activity in the past) (Sampford, 2000, 2010). Since early 2008, I have been advocating a Carbon Added Tax (CAT) to operate like a value added tax (VAT). If a CAT operates like a VAT, carbon taxes will be "passed on up the line" until they are ultimately paid by the consumer of the relevant goods and services.

The VAT treatment of imports means that those who keep outside the system of carbon taxes would still face the CAT when the goods are imported into a market within the system.[7] It also means that the burden is on those countries that consume high carbon goods and services rather than those who produce them.[8] Concerns of the inflationary effects of such a tax or the increase in government revenues can be addressed by returning revenue to individuals through cuts in consumption tax (either across the board or targeted to produce more socially equitable outcomes). Of course, if a state feels the need to increase taxes or prices (to avoid deflation), a CAT could fulfil such functions through not being offset against reduced standard consumption taxes. A CAT provides both negative and positive price signals as low carbon products actually decline in price (though slowly enough to avoid deflation of low carbon products). In general, the point is that there should be a move from taxing consumption to taxing carbon. The gradual[9] substitution of carbon for standard consumption taxes provides room for huge price signals and incentives for reducing greenhouse and other emissions without affecting inflation.[10] If CAT rose to replace consumption taxes at current rates (10–20% are typical), the price effect would be greater than the carbon-trading schemes contemplated. As carbon taxes became more effective, the CAT take might shrink and VAT could then be gradually returned without any effect on inflation. Where the tax required is more than the relevant consumption tax, it can be returned to individual citizens, or to individuals globally through a worldwide basic income mechanism (see below).

New Taxes

Betterment Tax

Wherever the value of property is increased by government zoning decisions, there should be a commiserate betterment tax on the increase in value before the calculation of CGT.

Capital Transfer Tax

Taxes imposed on the transfer of wealth after death are the fairest taxes of all. It taxes the donor on what s/he cannot keep, and it taxes the recipient on what s/he never had. It is also a very efficient tax. It cannot discourage work effort as it is not the result of work. Indeed, it will tend to increase work effort. As lower net assets are generally argued to stimulate work effort ("the wealth effect"), higher net assets will tend to decrease it. Such a tax also limits the inefficient distribution of assets on the basis of genetic chance rather than competence to control such assets. The rate should be no lower than that on return from investments and could easily be higher as most of the arguments in favor of lower rates do not apply.

Certain measures would help preserve the integrity of the new tax and would offer incidental benefits. The first is to restore gift duty, making the tax a full blown capital transfer tax. Specific anti-avoidance measures were discussed, particularly with regard to the purchase of assets off shore and those held in discretionary trusts.

Anti-Avoidance Measures

One of the ways of paying for a basic income was to address the perennial issue of making sure that those on higher incomes (and those making significant profits) really do pay the flat tax. The elimination of different tax rates and the consequent ease of deduction at source go a long way toward securing this goal. However, I started to address issues of international tax avoidance, particularly with regard to arrangements for paying interest and dividends. This deserves more comprehensive treatment on which we made a start at the Global Integrity Summit where we provided the following analysis.

From National Tax Minimization to Base Erosion and Profit Shifting (BEPS)

As the ratio of tax as a proportion of GDP rose during the twentieth century, most developed countries experienced growing levels of tax minimization, avoidance, evasion, and fraud. The most common response was to pass legislation to close "loopholes," merely increasing complexity and creating unintended consequences that constituted more loopholes. One of the most fruitful sources of unintended consequences was found in the interaction between different forms of tax and income (e.g., income and capital gains). There were even more opportunities where different national tax systems interacted, something that double tax treaties sought to resolve but often exacerbated. These complexities and the rise of tax havens have allowed BEPS to flourish and have become a major issue at G20 meetings since 2012.

While many countries were concerned that tax treaties were drafted to favor the United States over other developed and developing countries, Base Erosion and Profit Shifting (BEPS) is a matter of common interest for G20 and non G20 countries that are not tax havens. Indeed, from the perspective of governments, BEPS is a classic collective action problem, where each has individual reasons to exploit the practice, but even greater reasons to come to a collective solution stymieing it. By failing to agree in principle on how corporate tax on multinationals should be divided amongst them, governments effectively ensure none of them get any.

There are concerns that BEPS is increasing inequality between countries and between individuals because of competition between companies. Developing countries are more dependent on corporate taxation because the majority of their citizens have limited capacity to pay (as well as having greater needs). There are also concerns that BEPS tends to benefit wealthier individuals and corporations because it is easier for them to minimize their taxes and they are generally not as dependent on tax-funded expenditure.

In dealing with these problems there are four different levels of response:

1. Increase **tax transparency** to clarify who is the beneficial owner of all assets transferred across borders and all assets held within complying countries. This is aided by common reporting standards.
2. Setting standards on some of the key issues such as transfer pricing, interest deductions, and management fees.
3. Moving from bilateral tax treaties to a multilateral instrument (reflecting the debate over bilateral/multilateral trade negotiations). This is necessary given the collective action problem noted earlier.
4. Global taxation of companies and division of taxable income over the various countries in which they operate based on a mix of sales, assets, employment, and production.

These responses are by no means mutually exclusive but generate issues of scope, timing, and direction of reform. The Organisation for Economic Co-operation and Development BEPS Action Plan has elements of each.

Beyond the above points, there are three more potential agendas:

1. Reconsidering some basic issues about the source or "locus" of income. For example, should intellectual property (IP) income be considered earned in the jurisdiction in which the ideas were generated (generally the R&D department), in the jurisdiction to which IP has been transferred (increasingly a tax haven), or the jurisdiction in which the legal right to IP was created (without which no income can be earned).
2. There is a concern that some forms of tax are increasingly uncollectable at a national level, including inheritance taxes, and corporate taxes. If so, the question is whether such forms of taxation should be abandoned or taxed under a global regime? In this context, consumption taxes are touted as a solution. Those advocating that solution, however, must appreciate that the proportion of income consumed declines with rising income. Indeed, it could not be otherwise in economies structured around private investment. Accordingly, general consumption taxes are inherently regressive and need to be balanced by progressive taxes of some form to prevent the overall taxation system being generally regressive and to provide an opportunity for progressivity (and while the extent of progressivity is subject to fierce debate, it is a goal that few eschew).
3. Simplicity. Most national tax systems have become more complex in response to earlier attempts at tax avoidance and minimization. For some, the solution is simplicity; flat income and consumption taxes and basic income (or negative income tax) replacing welfare. From an ethics and integrity point of view simpler systems can be understood, justified, and followed on the basis of principle. International tax is even more complex. Is there a solution without simplicity?

The further down this list of approaches we travel, the longer the project, and the greater the need for leadership and coordination. Is the G20 capable of doing this? Is anyone else? The G20 certainly provides an opportunity to "modernize international tax rules" and provides a "unique opportunity to promote greater international cooperation and collaborative approaches on global tax matters."

We should also note that there is a close relationship between tax integrity and other G20 integrity issues. Governments cannot provide or support infrastructure funding without shoring up their tax bases. This is particularly the case for developing countries. The complexity of existing tax arrangements provides opportunities for discretion and corruption. Transparency measures can assist in reducing opportunities for tax avoidance and corruption (and terrorism) and improve financial regulation.

Tax Transparency

Tax transparency has a high degree of support with the C20, L20, and Y20 calling for enhanced transparency measures in all sectors to address tax evasion and avoidance through the establishment of annual public country-by-country reporting by companies based on the number of employees, subsidiaries, profit and loss, taxes on profits, assets, and public subsidies received. Oil, gas, and mining companies should be required to publish payments made to governments on a country-by-country and project-by-project basis. Tax transparency is a large part of the OECD approach to BEPS.

Global Taxation of Corporations and Apportionment of Income

As Stiglitz (2012) has pointed out, the United States has developed a means for apportioning corporate income between the various states. This is obviously necessary in a sovereign state in which various subnational jurisdictions impose taxes on corporate income. However, given the low levels of corporations' tax, less hangs on the tests imposed than which elements are included in the formula and what weightings they are given.

In the global taxation of companies, different countries will have reasons for emphasizing different elements of the formula. There is also the question of what counts as taxation revenue to be considered in the apportionment of income. Some countries pay for pensions out of general revenue and some from levies on wages. Many countries claim ownership of all minerals and charge royalties for those who mine them. Are these considered taxes or the price of the commodity purchased (if they are privately owned, they would not be considered a tax)? Should this change if a state decides to charge a "resource rent tax" or if the royalties charged vary according to market prices of that mineral or the refined product?

Source/Locus of Income: IP and Interest

As a matter of basic tax principles, the locus of income for IP would not be the place where the idea was generated but the place where a legal right to the IP was created and the right to income from it is formed and enforced. If someone in country A has an idea and an entity country B uses that idea, then the latter entity is not required to make any payment on that idea unless country B has recognized the IP and created legal rights to charge for it. This has the great advantage that it encourages country B to create the relevant IP and to join in enforcing it. A similar issue arises with respect to interest income. If an entity has funds in country A and lends them to another entity operating in country B, where is the locus of income and where should the interest income be taxed?

IP and interest payments are the basis of many forms of BEPS. IP is transferred to an entity incorporated in a tax haven owned by a global corporation and subsidiaries operating in higher tax countries pay royalties to the entity in the tax haven, claiming deductions for those payments and sometimes effectively wiping out most of the tax liability. Similarly, a company located in a tax haven will prefer to lend money to subsidiaries in high tax countries rather than invest in them because the interest will be deductible against income earned in the higher tax country. This provides an incentive for takeovers based on high debt championed by private equity in which much of the extra "value" created by the change was based on the reduced tax take. There are attempts to deal with the worst abuse by "thin capitalization" rules, but if interest and share income were treated in the same way, then there would be no capacity for this form of abuse.

Different but Converging Interests

The United States has seen its tax base erode as US corporations "leave" their profits offshore in tax havens. The United States is primarily seeking to ensure that corporations repatriate these profits and return to what swathe the country considers the status quo under the tax treaties. BRICS countries[11] have found it very difficult to build their tax bases, in part because of those tax treaties favored by the United States. They are seeking variations to those treaties or new interpretations of them. BRICS countries are coming up with new ideas, such as Brazil's franchise fee for operating within their market. But there is a commonality of interest among the majority of states in ensuring that international corporations pay as much tax as local ones.

There is another converging interest. When the system of bilateral tax treaties was being developed, the United States was a net creditor nation and the major source of new and existing IP. The tax treaties were written in favor of creditors and owners of IP, locating the source or locus of that income in the country that was lending and the country in which the ideas behind the IP were generated. However, as the United States has become the largest debtor and its own companies have moved their IP offshore, it is finding itself in a similar position to other nations and has a converging interest and possibly a more common cause.

Concluding Comments: Toward Global Taxation and Global Minimum Incomes?

Basic income discussions started in developed countries concerning tax and welfare issues that they were rich enough to consider. I became interested in these issues on the same basis—seeing a link between demands for lower tax rates on higher income earners and similar demands for lower effective marginal tax rates on lower incomes—leading to a flat tax and basic income. But for this to work that tax has to be paid, giving a new reason to address tax avoidance. The simpler system goes a long way to addressing domestic tax avoidance, but the last 25 years has demonstrated the opportunities for tax avoidance presented by the globalization of business and finance. These issues can be addressed but the best solutions move us toward new global arrangements for tax.

At the same time, global awareness of the consequences of carbon emissions has grown. While it will not solve all problems, putting a price on carbon is almost certainly going to be part of the answer (providing what I call an "economic push" to support what I otherwise argue is a necessary "ethical pull" of a commitment to a sustainable vision of the good life). The economic weaknesses of carbon trading schemes push us back toward carbon taxes, which could take the form of a CAT. CAT can be introduced within one country, but the more countries that take part, the more effective the system is in reducing greenhouse gases.

Similarly at the same time, dealing with climate change has to recognize that the wealth of the global North has been secured through high carbon development that cannot be continued in the West, let alone pursued by the developing South. The latter are naturally unwilling to give up the cheap means for development pursued by the North unless they are given other means to do so. This course is likely to involve the transfer for funds and technology to the South, not as aid but in compensation for not pursing a right to develop themselves in the same way as the North (Sampford, 2011). The first question arises of how this might be paid for. The second is how these payments will be handled. Governments in the global south would prefer/insist on funds coming to them. However, a significant number of countries of the global south are governed by elites and undemocratic regimes who have gained power by illegal means, are corrupt and who lead high carbon lifestyles that outdo that of the most profligate Northerners. (Indeed, they often hold their assets in the North in case they are thrown out by disgruntled citizenry or, more likely, jealous rivals who wish to supplant them and secure the benefits of corruption for themselves.)

There are many governance possibilities for ensuring, as far as possible, that the funds transferred to the South are used for the purpose given rather than diverted to other purposes (Sampford, 2011). However, the most effective way would be to transfer the funds directly to individuals. If sustainable carbon emissions total, say, two tonnes of carbon per person, then each individual should receive a payment equal to the tax on two tonnes of carbon each year.

Ultimately, a more ambitious model should be considered in which a number of taxes become globally collected. These are made up of taxes that are increasingly uncollectible at a national level (e.g., company tax and death duties) and those that should be imposed at a global level for systemic reasons (carbon taxes, Tobin tax, taxes on resources taken from the sea outside of national economic zones).These could be collected together and provide a "Worldwide basic income" for all persons on the planet. This process would follow the logic of basic income and "guaranteed minimum income" schemes that recognize a right to resources based on citizenship and a duty to pay taxes based on economic activity. The value of the distribution would be limited in the richest countries, but would have the potential to be totally transforming in poorer ones.

In putting the issues of basic incomes and the means for realizing them into a global context, I do not suggest that we should bypass the push for achieving them domestically. However, like so many other issues in our increasingly globalized world, the two may become intrinsically entwined.

Notes

1. It later came to me as a possible application of Saint-Simon's mantra of "from each according to their abilities: to each according to their needs." However, I take Saint-Simon, Marx, and others as providing useful insights, but not useful ideology.
2. In using all three terms, I do not wish to infer that any particular scheme falls under one or the other. It is common for commentators and journalists to say of a particular scheme they are reporting, "of course, all of this is legal." In most such cases, we just do not know. The journalist rarely has full information, the public less, and the taxation authority in the middle. The success of the scheme may depend on interpretations that would not necessarily be supported by courts. In many cases, privileged and inaccessible conversations would reveal that the corporate executives will have only been persuaded on the basis that they would save a significant amount of tax compared to the way they otherwise would have conducted business.
3. Held at Griffith University's Conservatorium of Music, September 10–12, 2014, to consider the ethics and integrity dimensions on the agenda of the G20 held later that year.
4. At the time I wrote TRS, the rates for unemployed and pensioners was virtually the same. Under a basic income model, it would be returned to parity.
5. I did not add, but would now fully acknowledge, that child care often needs to be set up while looking for work.
6. There are a range of other benefits that might be provided on an ad hoc basis to various industries—such as diesel fuel tax rebates and special industry assistance measures. These are ad hoc. It is a bit like trying to level the playing field in which a number of business have the benefits of mounds by building other mounds.
7. The "Good Life" (Sampford, 2010) essay addresses questions of incidence.
8. It is a concern is that countries that produce high carbon goods or components are treated as just as much of the problem as those who consume them. Much of the manufacturing, mining, and smelting that was once done in the West is now done in China, Australia, etc. A carbon tax will address both consumption and production, but the burden for the latter should be on the ultimate consumers not the producers.
9. It is strongly suggested that the increase be gradual but certain to give industries time to plan new and different kinds of investment rather than face the uncertainties and fluctuation of carbon markets run by the authors of the GFC.
10. Although with the emerging potential for deflation, the inflationary effects might be particularly valuable for keeping the general price level increasing—something that would be reflected in the basic income.

11. BRICS is the acronym for an association of five major emerging national economies: Brazil, Russia, India, China, and South Africa.

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