RESULTS
the power to end poverty

RESULTS International (Australia)

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Submission on the Discussion Paper on the Australian Taxation System, *Re:Think*

Introduction

RESULTS International (Australia) an international, non partisan, grassroots advocacy organisation, whose members work with their federal Parliamentarians and through the media to generate the public and political will to end poverty. RESULTS is an active member of ACFID and the Make Poverty History coalition.

Usually, RESULTS International Australia focuses on seeking policy and funding changes which contribute to meetings specific objectives in the poverty reduction field, including to improve health, education, nutrition, water supply and access to finance. However, RESULTS International Australia also sees an opportunity for Australia to use plans for national tax reform to increase Australia's contribution to reducing poverty.

In 2015 representatives of countries throughout the world will be gathering to:

- Consider how to meet the costs of national and global economic and social goals at the Financing for Development Conference in July; and
- Agree on the global human development, economic and environmental goals for the next 15 years at the Sustainable Development Goals Summit in September 2015.

Australia's consideration of national tax reform is relevant to these momentous international gatherings, as the capacity of all countries to raise their own revenue through more efficient and effective tax systems, and the capacity of countries such as Australia to provide development assistance will also rely on developing a more resilient taxation system.

The Financing for Development Conference is a moment for Australia to demonstrate its leadership on financing key global priorities by:

- sending high-level representatives,
- endorsing strong statements about innovative financing and reducing tax evasion and tax avoidance,
- committing to greater transparency including in the extractive sector,
- supporting the call for "more concerted international tax cooperation," and
- supporting an increased Australian contribution to global development, particularly on health through bilateral aid as well as contributions to multilateral mechanisms such as the Global Fund to Fight AIDS, Tuberculosis and Malaria and Gavi, The Vaccine Alliance.

Taxation and International Development Goals

While overall international development assistance has increased since 2000, the growth has levelled off in recent years, and Australia's assistance has declined in real terms in the last two years.

Internationally, this has led to increased attention to innovative ways of raising finance for development, as existing tax bases may not be sufficient to cover both domestic service needs and international assistance.

The principles that many countries use is assessing new ways of raising revenue are:

- The tax or levy would apply to activities which are either untaxed or lightly taxed.
- The revenue (or a set proportion of the revenue) would be dedicated to international cooperation, including development assistance.
- The development assistance proportion needs to be additional to present committed funding.

The draft declaration of the Financing for Development Conferences sets out a number of options for innovative additional revenue sources, including:

- a financial transaction tax,
- carbon taxes or market-based instruments that price carbon,
- taxes on fuels used in international aviation and maritime activities, or
- additional tobacco taxes.

Australia has adopted some of these measures in some form already (at least temporarily), although the revenue from these measures has not been dedicated to international cooperation.

One measure which Australia has not adopted is a financial transactions tax, although Australian Governments have previously imposed taxes on retail banking transactions (the former Bank Accounts Debits tax and Financial Institutions Duty). As a financial transaction tax is gaining support in other countries, and could raise a substantial amount of revenue, it is worth considering in detail.

Financial Transactions Taxes

Many countries have adopted transaction taxes on wholesale financial transactions (ie, transactions between financial institutions), either on a unilateral or multi-lateral basis.

Such taxes apply to transactions in currency, shares, bonds and derivative transactions, which have high turnover. The rate of tax is usually very low, but potential revenue can be substantial, due to the large volume of transactions involved. The key arguments for financial transactions taxes are:

- The taxes increase the cost, and therefore reduce the volumes of, speculative financial transactions, thereby reducing instability in financial and currency markets.
- The revenue from a tax on financial transactions can reduce the reliance on taxes on labour or the sale of goods and services, thereby producing an economic benefit.

The possible drawbacks of financial transaction taxes are:

- If one country or region introduces financial transaction taxes, it will lose financial market activity to regions which do not impose such taxes.
- Reducing transaction volumes would not necessarily reduce volatility in financial markets, as reduced transaction volumes can lead to large individual transactions having a bigger influence on market values.

Nevertheless, the large amount of revenue that financial transaction taxes could raise, even if imposed at a very low rate, makes them an attractive option for raising additional revenue, which can be used for international development purposes. One way for a country to mitigate the risk of losing financial transactions to other countries or regions is to have a regional agreement to adopt a financial transaction tax.

As an example if the multi-lateral application of a financial transaction tax, The European Union has developed a proposed Financial Transaction Tax, which 11 of its members would adopt.

This tax would apply at a rate of 0.1% of the transaction value for standard financial transactions, and 0.01% of the transaction value for derivatives. The estimate revenue from the tax is EUR 30 to 35 billion per year (or $A 43 to 50 billion). The proposed start date for the tax is January 2016, although the members of the European Union are still clarifying some aspects of how the tax will apply, so this date is in doubt.[i]

Once the European Financial Transaction Tax is in place, it will provide valuable information on both the impact on financial markets and the revenue raised from such a tax.

The action that RESULTS International Australia recommends the Australian Government take on innovative sources of finance in the tax reform process and in international negotiations is:

- Support the inclusion of innovative sources of finance as a way of providing increased finance for international development at the Financing for Development Conference in July, and ensure high-level representation by the Australian Government at the Conference.
- Include a financial transactions tax in its taxation options paper to be released later this year, as an option which Australia could adopt in the medium term, as part of a regional initiative.
- Work with partners in the Asia Pacific Economic Cooperation (APEC) process to develop a proposal for the regional application of a financial transactions tax.

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[i] KPMG, No sign of Consensus Yet, 13 February 2015.