

To the Tax Forum at Treasury,

It has always been considered that taxation on income is the best form of taxation to use. I would like to challenge this concept as it is reliant on untested formulas.

Income taxation rewards business for taking risk by making interest payments tax deductible. In a perfect model where a business takes on debt it is assumed that the business will make a profit and therefore contribute to the taxation system at a future point.

However even if that business does well it can soon borrow or leverage increasing debt further to expand, limiting the liability to contribute to the tax system.

This increasing borrowing against assets decreases the tax liability of the business and these types of business rarely make a contribution to the taxation system.

The rewarding of the risk is the component that has never been tested it has only been assumed that a contribution would eventually be made.

The rewarding of the risk allows for complacency on many fronts. A figure of 95% of new business ventures fail within their first five years. These types of business are able to leverage off the taxation system as they make no contribution to the tax system.

Other income tax payers are actually funding the risk of this business's.

No consideration is ever made on whether the business was viable in the first place as the whole system rewards risk.

The level of risk and the competency of the business owner are never questioned.

In small business for example most of the failures come from the owners inadequacy to adequately price their product or service, effectively quote or mark up their goods and services. The essential basics in other words are absent.

Larger business frequently knows these basic fundamental but uses the tax system in a different way as mentioned above.

A tax on debt would create a fairer system, better business practice, enhanced productivity.

Debt does not equate to wealth and it is this misconception that has seen the reward debt taxation system stay in place for many years.

Debt is a liability not only to the business but also the country. The growth of debt does not mean a growth of wealth another misconception.

The country that decides to take a positive growth stance and reduce all debt and liabilities will be the country that creates real wealth.

Income tax is a burden on productivity and creativity. It will never make the majority of citizens a country wealthy as it is a fundamentally flawed concept which does not reward growth.

Income tax allows Governments to be fiscally irresponsible to the citizens. There are no measures and balances in place to monitor the implemented social programmes and the effectiveness of such programmes. Government size and spending is always increasing with no checks and balances as to the productivity and competitiveness.

Large Corporations have control over Government as their failure could bring down an economy.

These same corporations use threats of shifting their business to another country and a plethora of other manipulative techniques to obtain Government compliance.

While the effects of a large corporate failure are measured by economists on the country, the effects of having the corporation manipulate the system on the whole of the economy are not measured.

This is despite all other contributing tax payers funding the corporations desires by compulsory contribution through income taxes.

A debt tax offers real solutions allows an economy to grow real wealth, allows all citizens to become wealthy not just the selected few who have and use tax advantages.

A debt tax would allow all asset classes to be fairly and consistently valued. Bad debtors that a business had would file the debt listed against the tax number and that person would pay tax on that debt until that was cleared.

Those who use Government services would incur a debt tax. This allows the Government to still be an ambulance at the bottom of the cliff and extend goods and services to needy people. But it is a debt and would incur tax until paid in full. Those individuals who have trusts and investments would choose to use those investments to cover their debt instead of using the other tax contributors money.

This is a very short description of how a debt tax would work.

Looking forward to a response and opinion.

Jackie Dempster