A Financial Toll Tax: Transform, Not Reform, The U.S. Tax System

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I recently awoke from a rather pleasant dream in which members of Congress and the President embraced the unique proposition that they had been elected to serve the People of the United States.

Congress had determined that healthcare was a matter of right (by simply reducing the age at which a person qualified for Medicare to birth) and that every child should have free access to a college education.

Having thus dedicated the fortunes of the Nation to the future of its children, the members of Congress—conservatives, liberals, and independents alike—collaborated on how to best pay for these commitments and to reform the income tax system. In their wisdom, they decided to transform the taxation system into a tiny financial toll tax on the movement of all money in the economy, effectively transferring the tax burden from workers and small business owners to the wealthy, large corporations, and financial institutions.

THE PROBLEM

Presently, one-quarter of all large U.S. corporations, two-thirds of all small corporations, *and most foreign companies doing business in the United States* pay no federal income tax—even though they book trillions of dollars in receipts every year and take advantage of America's courts and infrastructure to make their profits.

Estimated tax revenues for the 2018 fiscal year are $3.6 trillion, most of which will be paid by ordinary taxpayers. Income taxes are $1.88 trillion; Social Security contributions are $878 billion; Medicare payments equal $268 billion; and $56 billion are withheld for unemployment insurance. Customs and import tariffs will amount to $144 billion, while corporations will only pay $478 billion. *Individual income taxes and payroll taxes presently account for four out of every five federal revenue dollars!*

Even with all of this revenue, the United States will not balance its budget. Because of deficit spending, government debt now amounts to more than $20 trillion. Of this debt, $1.3 trillion is owed to China, and $5.5 trillion is owed to the government itself, including almost $3 trillion to the Social Security Trust Fund. At the current rate, the Congressional Budget Office projects that the debt will amount to 150 percent of the Gross Domestic Product by 2047.

The Internal Revenue Service reports the voluntary compliance rate of Americans who pay their taxes is 81.7 percent; however, it estimates that more than $458 billion in legitimately owed taxes are criminally evaded each year. The attorney-client "Panama Papers" leaked in 2015 demonstrated how easily wealthy individuals, including politicians, use offshore companies to hide money from tax authorities.

It is difficult for workers, whose income taxes are withheld from their paychecks, and small business owners, who have to file and pay quarterly, to avoid taxes. However, with the federal tax code presently consisting of 74,608 pages, it is easy for the wealthy and large corporations to rely on attorneys, and the loopholes created for their benefit, to avoid paying their fair share of federal taxes. Present "reforms" under consideration by the President and Congress will further shift the burden of taxation to workers and small business owners.

Writing in the Fourth Century BCE, the Greek philosopher Plato said,

> "When there is an income tax, the just man will pay more and the unjust less on the same amount of income."

Nothing has changed, nor will it, unless something different is done.

THE SOLUTION

Following the collapse of the banking industry in 2008, proposals were made to target a special tax on financial transactions—not only to raise tax revenues to help pay for the bailout—but to restrain the insane financial gambling that caused the crash. Taking into account the amount of stocks, bonds, commodities, currencies, and futures that are bought and sold every day, the shuffling of funds between banks, and the massive trading of over-the-counter derivatives, trillions and trillions of dollars are being gambled in an economic casino that has little to do with the efforts of most working people and small business owners. It does, however, have everything to do with their lives, their economic stability, and the future happiness of their children.

Many, if not most, of these financial transactions escape all taxation, as they are not defined as “income.” This is true, even though the banks are gambling with sophisticated trading software that allows them to place high-speed bets that cheat ordinary investors and destabilize the markets.

A financial transaction tax was proposed in 1972 by James Tobin, a Yale professor who won the Nobel Prize for economics. It was Dr. Tobin’s view that the world economy was being disrupted by currency speculation in which money moved around the world as bets on the fluctuations in exchange rates. He believed that the imposition of a small tax on every currency transaction would disrupt the currency gamblers, while imposing a trivial burden on those legitimately engaged in foreign trade or long-term investment.

Expanding on the idea of a currency speculation tax, wouldn’t it be more sensible and much fairer to simply tax the movement of *all* money in the U.S. economy—instead of taxing personal and corporate income? Not a sales tax, not a value-added tax, not a flat income tax, not even a speculation tax, but rather a simple toll on *every* single financial transaction that occurs within the economic system. Not just every time someone buys a pack of chewing gum, but every time stocks and bonds are bought and sold, every time currencies and derivatives are traded, and every time General Motors buys a new robot to replace its assembly-line workers.

In one year (2012), the Chicago Board of Trade processed nearly three billion contracts that were worth approximately $1 quadrillion in notional value. In 2013, the daily trading value of transactions at the New York Stock Exchange exceeded $169 billion, or $42.5 trillion during the year. In order to maintain liquidity requirements, banks make overnight short-term loans to each other amounting to approximately $200 billion each day, or $50.4 trillion each year. One percent of these transactions—alone—would amount to almost $11 trillion dollars a year.

Since the working-, middle- and small-business-classes have far fewer and much smaller financial transactions, the wealthy and the multinational corporations—who spend a lot of money to avoid having any “taxable” income—would have to share proportionally in paying the toll for their traffic on the economic highway and their use of the People’s courts and institutions to enforce their contracts and to facilitate their profits. Why should so many of the largest corporations completely escape the payment of any taxes?

It is likely that the federal government could operate on the revenues produced by a simple transaction tax of far less than five percent on the movement of all money. As a result, the payment of taxes would shift from individuals and small businesses to large corporations, and from the laboring poor to the wealthy elite.

Envision the effect of a slight touch *every time money moves*, a tiny *ka-ching* in the U.S. Treasury’s cash register, which in the aggregate could quickly add up to trillions of dollars each year. How nice it would be to have Congress to first decide what the People of the United States need from their government and to then calculate what the toll tax rate should be to produce the revenue required to pay for it. The result would be significant; public debt could be eliminated, and the United States could finally achieve a balanced budget every year.

Imagine that most people would only have to pay an annual tax rate of a few percent on their spending (income). Of course, the transaction tax would result in a small increase in the overall cost of the goods and services people purchase; however, the toll would apply to *all* financial transactions, including the purchase of limousines, helicopters, and mansions by the wealthy—who rely on every imaginable scheme to avoid having any "income" upon which to pay taxes.

Those who enjoy luxuries would pay more for them, and those who gamble in the money markets would have to pay for their visit to the economic casino.

In a regulatory sense, a universal financial toll tax would operate somewhat like the income tax in that individuals and corporations would have to prepare an annual tax report, rather than as a sales tax where the revenue is collected at the point of purchase. For most individuals, small businesses, and corporations, the preparation of tax returns would be greatly simplified.

A transaction tax was believed to pose impossible accounting problems when first proposed by James Tobin 40 years ago; however, computer technology now allows for the instantaneous calculation and posting of all financial transactions. Just as the income tax contributions of workers are withheld from their payroll checks every week, it should be possible for the tax on corporate financial transactions be paid every single day at the close of business.

CONCLUSION

The People do not have to willing endure corrupt government and unfair taxation. Those who pay the taxes must make the essential decisions about the methods of taxation and the level of payment. Otherwise, the People live in slavery and any freedoms are illusionary.
