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Submission to Tax Forum
Sessions on: Business Tax & Transfer Payments
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Dear members of the Business Tax & Transfer Payments Sessions

A boomerang ownership tax system to buy back the farm and fund welfare

I wish to recommend the establishment of a tax system that increases business profits when firms localize the ownership and control of their assets with Australian voters. Adoption would be optional for firms who wished to maximize their profits.

An asset transfer economy would provide additional income and pensions for all Australians to reduce the need for government transfers and the size of government[1]. In this way it creates the most efficient way to create an economy that can provide prosperity for all citizens without environmentally damaging growth[2].

Outline of proposal

1. Only firms adopting asset transfers would be eligible for paying tax at a lower rate[3];
2. Australian and Foreign owned firms would be eligible for participation;
3. Even without any tax concession the profit of firms is not reduced if they transfer assets at the same rate as they are depreciated. The cost of writing-off asset values has already been booked. In addition, firms have recovered the initial cash invested on a tax free basis;
4. Only a minor tax concession is required for fiduciary business owners to adopt boomerang ownership so as to meet their legal obligation to maximize profits. This also means that more foreign investment would be attracted while at the same time reducing the extent of the current 45% foreign ownership of Australian business assets[4];
5. The government could gain more tax revenues than it lost if sufficient beneficiaries of the asset transfers were individuals who paid tax at a higher rate than firms or current owners;
6. Participating firms could be in any legal form;

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[1]Turnbull, S. 1975, *Democratising the wealth of nations*, Sydney: The Company Directors Association of Australia Limited, posted at http://ssrn.com/abstract_id=1146062.
[2]Turnbull, S. 2011, Achieving environmental sustainable prosperity', presented to 13th Conference of the Association of Heterodox Economists, Nottingham Trent University, UK, 8 July, available at: http://ssrn.com/abstract=1769349.
[3]Various ownership transfer rates and tax concessions are presented in the Appendix of *Democratising the wealth of nations*, cited in note 1. Tax offset cost for loss of perpetual ownership is in Turnbull 2000:409 cited in note 6.
[4]Refer to submission number 13 by the author dated 5 September 2011 to the to Senate Standing Committee on Rural Affairs and Transport examination of the Foreign Investment Review Board National Interest Test, posted at: https://senate.aph.gov.au/submissions/comittees/viewdocument.aspx?id=25862cd3-63a4-4e2f-b4d0-768cee0ef672.

7. Participating firms would obtain first right of refusal to rent back and manage the assets transferred;
8. Parliament would determine which classes of citizens who would become eligible to acquire assets directly and/or indirectly as is next suggested;
9. Beneficiaries could be individuals, employee cooperatives[5], stakeholder cooperatives and/or approved pension plans and/or charities providing welfare services;
10. Larger firms could elect to formally integrate beneficiaries into their corporate structure. Shareholders would need to approve appropriate changes in corporate constitutions to include beneficiaries as "stakeholders"[6]. Changes in corporate constitutions would create Ownership Transfer Corporations (OTCs) with profound additional benefits detailed later.

Micro economic issues

The effect of accounting depreciation and depletion deductions is to create a non-cash bookkeeping cost[7]. This practice reduces: taxable profit, taxes and reported profit. Importantly it obscures the profitability of firms because accountants treat depreciation **as a cost** while financial analysts treat it **as a return** of invested funds. As a result accounting returns on investment become less than the discounted cash flow returns used by analysts[8].

However, it may take some years for firms to recover the cost of their investment. During this time other taxpayers must make up for the taxes forgone by depreciation tax deductions. Gifting residual assets to voters provides a way to compensate them for their tax payments used to allow businesses to recover the cost of their investments tax-free. Especially as individual Australians do not get a tax deduction for the cost of investments they may make to increase their income independence from work or welfare before retirement.

It would make good business sense that a substantial proportion of the assets transferred be vested with stakeholders who could directly assist in preserving, improving and extending the operating life of the asset for mutual benefits[9] It would greatly simplify and strengthen employee ownership arrangements by the assets being held in employee cooperatives to provide a collective basis to determine how the assets were managed.

Likewise it would make good business, social, environmental and political sense to also localize ownership of assets in their host community to allow citizens to directly engage with firms to protect and enhance their social and natural environment. It would reduce the disconnections in modern fiduciary capitalism that separates ownership through layers of commission agents like fund managers, trustees firms, nominee companies and supporting layers of advisers.

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[5]Turnbull, S. 2011, 'Sharing the wealth of nations', invited guest opinion for UK cooperative week, 10 July, posted at: http://www.uk.coop/yourstoshare/blog/gilessimon/2011-07-11/shann-turnbull-sharing-wealth-nations.

[6]Turnbull, S. 1994, Building a Stakeholder Democracy', in *Ambitions for our Future: Australian Views*, Economic Planning Advisory Commission, Australian Government Publishing Service, Canberra, pp. 83–90, October, available at: http://www.nancho.net/demorule/shann1.html. Refer also to: Turnbull, S. 2001, 'The case for introducing stakeholder corporations', Working Paper, Institute for International Corporate Governance and Accountability, The George Washington University Law School, available at http://ssrn.com/abstract=436400 and Turnbull, S. 2000, 'Stakeholder Governance: A cybernetic and property rights analysis', in Tricker (ed.), Corporate Governance volume of *The History of Management Thought*, 401–413, London, Ashgate publishing, posted at http://onlinelibrary.wiley.com/doi/10.1111/1467-8683.00035/abstract.

[7]Non-cash costs can be avoided as shown in Turnbull, S. 1979, 'A Cash Flow Accounting and Tax System', *The Chartered Secretary*, The Institute of Chartered Secretaries and Administrators March, 31:1(46-48).

[8] Turnbull, S. 1975, 'Capital Returns', paper presented to the Fifth Conference of Economists, Brisbane, August 28th

[9]Turnbull, S. 2001, 'The competitive advantage of stakeholder mutual's', in *The New Mutualism in Public Policy*, J. Birchall, (ed.) Chapter 9:(171–201), London: Routledge, available at: http://ssrn.com/abstract=242779.

Boomerang ownership tax system to "buy back the farm" and fund pensions

Disconnected capitalism also alienates citizens from governments, businesses and their regulators. Voter ownership of business assets would remove fiduciary obligations to maximize profits to allow business decisions to be made to protect and further local environmental, social and cultural concerns in the most economic and effective manner.

Localizing ownership of control of productive activities enhances the abilities of communities to become financially independent to improve self-governance[10] and locally enrich democracy.

Macro economic issues

Boomerang ownership has the potential to provide a universal minimum income for all Australians to underwrite sustainable prosperity without growth[11].

Boomerang ownership can reduce the need for topping up: superannuation contributions by employers and/or employees, age pensions and other welfare provisioning.

Sovereign and individual incomes would increase as foreign ownership of business assets boomerang back to introduce limits to what Professor Penrose[12] described as "unlimited, unknown and uncontrolled foreign liabilities". Boomerang ownership reduces the servicing cost of foreign investment and so also increases foreign exchange reserves.

By reducing the ability of participating investors to obtain "unlimited, unknown and uncontrolled" profits in excess of the incentive required to bringing forth their investment, wealth inequality is reduced. Efficiency is increased in resource allocation.

The above-mentioned "profits in excess of the incentive required to bringing forth" investment represents a surplus incentive described as "surplus profits"[13]. Surplus profits are not identified by accountants and so are not noticed by economists who are denied being fully informed on how wealth inequality arises.

Boomerang ownership helps to privatize the tax and welfare system by distributing national income privately through dividends rather than through government transfers. In this way the size and cost of government can be constrained and even downsized.

According to a former Australian Deputy Prime Minister and Treasurer an asset transfer economy would assist in economic management[14].

Additional advantages of Ownership Transfer Corporations (OTCs)

The use of OTCs becomes particularly appropriate for banking and other financial services that have relatively low amount of assets subject to depreciation.

An OTC is created when its shareholders approve the creation of a stakeholder class of shares. The stakeholder shares acquire all the property rights of the investor shares pro-rata over an agree time period like 20 years. This would create a more level investment playing field with all

[10]Turnbull, S. 2002, *A new way to govern: Society and organizations after Enron*, London: New Economics Foundation, Public policy booklet No. 6, available at: http://ssrn.com/abstract_id=319867.

[11]Refer to Turnbull 2011 cited in note 2.

[12]Penrose, E. 1956, 'Foreign investment and the growth of the firm', *Economic Journal*, 56:220, June.

[13]Turnbull, S. 1996, 'The Lexicon of Social Capitalism', page 142 in Ward Morehouse (ed.), 1997, *Building Sustainable Communities: Tools and Concepts for Self-Reliant Economic Change*, New York: Bootstrap Press, available at: http://ssrn.com/abstract=1128862**.** Refer also to: Turnbull, S. 2006, 'Grounding economics in commercial reality: A cash-flow paradigm', in Kreisler, P, Johnson, M and Lodewijks, J eds, *Essays in Heterodox Economics: Proceedings, refereed papers, Fifth conference of Heterodox Economics*, University of New South Wales, Australia, pp. 438–461, available at http://ssrn.com/abstract=946033.

[14]Cairns, J. 1976, 'A review of Shann Turnbull's book, *Democratising the Wealth of Nations*', *JASSA*, The Journal of the Securities Institute of Australia, 1:(9–13), available at: http://cog.kent.edu/lib/cairns.html.

intellectual property that has limited life. The proposed conditional tax concession would provide participating firms with a bigger, quicker and less uncertain profits. This would legally oblige shareholders with fiduciary duties like superannuation funds to vote at shareholder meetings to convert companies to OTCs because this would maximize their profits with less risk.

Stakeholder shares would be issued to citizens without cost according to their involvement as suggested above that could operate like a "fly-buy points" system and as may be determined by the government. Firms already routinely record the names of stakeholders like suppliers, workers and customers and when these are corporations they record their stakeholder citizens.

To maximize the return to investors, OTCs would distribute all their profits each year like many cooperatives. Growth of businesses would be financed through forming "offspring" corporations funded by dividend re-investment and/or new share issues by the offspring firms.

<u>OTCs would introduce profound benefits such as</u>:

(1) Reducing inefficiencies and inequities arising from accumulations of surplus profits;
(2) Reducing the inequity of overpaying investors with profits surplus to providing the incentive to invest.
(3) Avoiding corporations becoming "too big to fail" as firms obtain an incentive to distribute all profits as dividends each year;
(4) Corporate profits are allocated by more efficient external markets instead of by executives;
(5) Reducing the ability of assets bubbles being created in corporate equities;
(6) A more level investment playing field with all intellectual property that has limited life;
(7) Allowing market forces to allocate corporate resources more efficiently through dividend reinvestment in offspring firms and/or cyclic recapitalizations instead of relying on a very imperfect market for corporate control through takeovers;
(8) Establishing many smaller firms with less market power to improve competition in providing goods and services - especially important with banking and supermarkets;
(9) Reducing the economic and political power of corporations that undermines democracy;
(10) Reducing taxes, welfare and the size of government;
(11) Reducing alien disconnected capitalism with local strategic stakeholder engagement;
(12) Facilitating protection of the host environment of firms through greater local control;
(13) Attracting more foreign investment with more long term engaged local ownership;
(14) Improved macro-economic management;
(15) Furthering the financial independence and self-governance of local communities and so:
(16) Providing environmentally sustainable prosperity even without growth[15].

Some of the advantages listed above for OTCs could be introduced by allowing dividends to become a tax deduction to the enterprise as they are for cooperatives, trusts and partnerships. This would introduce a tax system that was more neutral to both the type of firm and how it was funded with debt or equity.

The cost of servicing equity would become tax deductible like the cost of servicing borrowings. This would reduce the incentive for firms to take on excessive borrowings to create more stable and resilient enterprises. This is a critically important concern for banks with high borrowings.

A complementary and/or alternative recommendation is: Replace the current dividend tax imputation system introduced to avoid corporate earning being taxed twice by achieving this objective by making dividends tax deductible to the company[16].

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[15]Refer to Turnbull 2011 cited in note 2.
[16]Turnbull, S. 1979, 'A Neutral Enterprise Tax System', *JASSA*, The Securities Institute of Australia, June, 2:22-24.