Robin Hood Tax Australia Coalition
Submission to the Tax Forum

23 September 2011

Introduction

The Robin Hood Tax Australia Coalition[1] is pleased to present this submission in response to the Australian Government Tax Forum Discussion Paper released on 28 July 2011. Our network is part of a global alliance promoting the call for a small tax on wholesale financial transactions. Therefore we direct the majority of our comments towards the *business tax* session at the Tax Forum. Analysis and estimates profiled herein suggest a financial transactions tax (FTT) would raise billions of dollars annually which would be allocated to the cost of funding domestic social and environmental programs, addressing the impacts of global climate change and supporting global poverty alleviation. Commensurately, a FTT of between 0.005% and 0.05% on institutional trades of currencies, stocks, bonds, derivatives and interest rate securities would reduce the enormous volume of low margin transactions involving speculative securities that are fueling Australian and global market volatility and instability.

We acknowledge the Government's ambition that reforms to the tax system address the increase in demand for government services arising from an aging population and climate change. We also note the Government's expectation that the cost of delivery of quality services will be spread fairly amongst those with the capacity to pay. Further, that reforms improve incentives across the system and across an increasingly globalised world with competition for mobile capital and labour. Importantly, the Government seeks a fair and simplified tax system with a transparent system of administration. The FTT responds to these criteria, promotes a more equitable society and ensures tax rules are kept up to date with the increasing number, importance and complexity of international transactions.

We are part of an international alliance of groups[2]. The advocacy work in each of these countries is supported by dozens of social and environment organisations, aid agencies, unions and church groups and endorsed by academics, economists and social commentators, including Jeffrey Sachs, Paul Krugman, Joseph Stiglitz and Peter Singer. Over the last 18 months global interest in the FTT has grown demonstrably. Since the start of 2011 individuals, organisations and institutions have published a range of materials supporting the FTT. There has also been a rapid building of political support for FTTs as governments across the world seek long term measures to address national deficits, control market volatility and reduce inflation.

This submission has three sections. Section one presents a detailed case for the FTT. Section two profiles the FTT against the Government's target outcomes for tax reform. Section three outlines the growing chorus of international support for the FTT and upcoming fora in which the FTT will be discussed.

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1 The Robin Hood Tax Australia coalition members include aid agencies, green groups, think tanks, unions and faith-based networks, backed by leading Australian academics and economists.

2 Countries in the international alliance include Australia, the UK, the US, Canada, Germany, France, Brazil and Belgium.

SECTION 1 THE CASE FOR FINANCIAL TRANSACTIONS TAX

1. Why target financial transactions?

Currently financial transactions related to the international trade of goods and services represent only a small proportion of daily trade. The global value of financial transactions is now many times larger than world GDP due to the enormous growth of financial markets trading over the last two decades. While in 1990 financial transactions were 15 times greater than GDP, they are now 73 times greater[3]. The vast majority of financial markets trades are executed by computer programs for the purpose of exploiting minor price fluctuations. Assets are bought, held and sold in less than 12 seconds[4].

Proponents of the free market would suggest that the greater the number of market transactions, the greater the market's pricing efficiency. However, Austrian economist Stephan Schulmeister (2009) has found that instead of improving the efficiency of markets in the 'price discovery process' the increased speed of trading exacerbates runs of asset price increases and decreases and increases market volatility. This is evidenced by the increased boom and bust cycles global markets experienced from the inception of the GFC[5] and, most recently, during the US debt ceiling debate and European "PIGS" sovereign debt crisis[6].

Under an appropriately designed FTT, the profitability of financial markets transactions will decrease. The decrease in the profitability of transactions will mitigate the overall number of trades, especially program (computer-generated) trades. Price runs would become less pronounced and the boom and bust rallies that we have seen in recent years could become less acute. Schmidt's (2007) study of the impact of a 0.005% currency transactions tax concluded it would reduce the volume of trading by 14% which, given the inflated size of the financial transactions sector, would increase market stability in what has been an exponentially growing sector[7].

The effect of a FTT on hedging transactions necessary to facilitate international trade should be negligibly small[8] and should not reduce the volume of core transactions that play a key role in the market's price setting function. An effectively designed FTT should encourage longer-term opportunities for investment and should increase the effectiveness and stability of financial markets[9].

2. Estimated Revenue

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3 Schulmeister, S. (2009) *A General Financial Transactions Tax: A Short Cut to the Pros, the Cons and a Proposal.* WIFO Working Papers, no. 344.Page 5.

4 Robin Hood Tax Campaign (2011) *Financial Crisis 2: Rise of the Machines.* robinhoodtax.org/sites/default/files/Rise%20of%20the%20Machines.pdf

5 Schulmeister, S. (2009) *A General Financial Transactions Tax: A Short Cut to the Pros, the Cons and a Proposal.* WIFO Working Papers, no. 344.

6 Portugal, Ireland, Greece and Spain

7 Schmidt, R. (2007) *The Currency Transaction Tax: Rate and Revenue Estimates*. North-South Centre, Ontario, Canada.

8 McCulloch, N. and Pacillo, G. (2011) *The Tobin Tax: A Review of the Evidence.* Institute of Development Studies. Research Report Vol. 2011. No. 68.

9 Baker, D. (2010) *The Benefits of Financial Transactions Taxes: Statement to the Bundestag.* Centre for Economic and Policy Research.

There is a great deal of variance in estimates of the potential yield of FTTs. The exact amount raised from a FTT depends on the size of the tax, products excluded from its scope, and its dissuasive effect on transactions. The most recent review of the potential yield of FTTs finds that $US863bn could be raised annually from a global tax at a rate of 20% on transaction costs (see table below).

Table ES1 Meta-estimate of revenue from a financial transaction tax

Market	World ($ bn)	UK ($ bn)	Tax rate (20% of transaction cost)	Elasticity of volume with respect to transaction costs	Total annual revenues world ($ bn)	Total annual revenues UK ($bn)
Equity	456	18	*0.233*	0.58	191	7.6
Derivative	4,933	1,335	*0.008*	1.5	58	15.7
Foreign exchange	2,914	1,269	*0.005*	0.606	25	10.9
OTC	2,544	1,094	*0.152*	1.5	589	253.3
			Without OTC		**274**	**34.2**
			With OTC		**863**	**287.6**

Note: It is assumed that the volume of trade is reduced by 20 per cent due to avoidance, and by a further amount due to the tax itself according to the elasticity shown.

From McCulloch and Pacillo (2011) *The Tobin Tax: A Review of the Evidence.* Institute of Development Studies. pg 13. Note: OTC is over-the-counter trade meaning transactions which happen outside of stock markets.

The AGF report suggests that globally between US$2 and 27 billion could be raised by a FTT annually by 2020. Schmidt (2007) estimates that a 0.005% currency transactions tax on the four major currencies (US$, Yen, Euro and Pounds Sterling) would raise over US$33 billion per annum[10]. Another US study has estimated that between US$ 117 and $353 billion could be raised annually through differentiated tax rates for different markets[11]. The IMF (2010) has estimated $200 billion could be raised annually through a one basis point or 0.01% FTT[12].

Further, imposition of a FTT is likely to dissuade some transactions and, therefore, an accurate prediction of the potential yield is not possible. However, if a 0.05% FTT had been collected on Australian "over-the-counter" and exchange traded market transactions between 2005-06 and 2008-09, it would have raised $48 billion (calculations Professor Ross Buckley, University of NSW, Jan 27 2011).

Now is the time to invest in a comprehensive Australia-specific study of the potential yield of a FTT examining variations of assessable assets (transactions), rates, location of the levy and socially appropriate exclusions. This analysis would contribute critically to the design of an effective FTT.

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10 Schmidt, R. (2007) *The Currency Transaction Tax: Rate and Revenue Estimates.* North-South Centre, Ontario, Canada.

11 Barker, D. Pollin, R. McArthur, T. and Sherman, M. (2009) *Issue Brief: The Potential Revenue from Financial Transactions Taxes.* Centre for Economic and Policy Research and Political Economy Research, University of Massachusetts, Amherst.

12 International Monetary Fund (2010) *A Fair and Substantial Contribution by the Finance Sector: Final Report for the G-20.* www.imf.org/external/np/g20/pdf/062710b.pdf

3. International Experience of FTTs

Over the last few decades more than 40 countries, including Australia, have implemented some form of FTT either on a permanent or temporary basis. In Australia, state and territory stamp duty on share market and over the counter trades of marketable securities were abolished as part of the package of reforms introduced with the Goods and Services Tax (GST). The UK stock exchange, the world's largest stock exchange, has a small tax on share transactions. The rate of this tax, 0.5%, is ten times higher than the average proposed tax rate for FTTs, and yet investors have not been deterred. Argentina, Brazil, China, India, Indonesia, South Africa and South Korea tax sales of company shares[13]. Whilst Sweden's attempt to impose a FTT in the 1980s was not successful due to poor design (resulting in a rapid outflow of capital), lessons learnt from the successful UK imposition of stamp duty on stocks demonstrate that an appropriately designed system will avoid investor flight[14].

The risk that investors will avoid jurisdictions with the FTT and favour markets without it is genuine. To maximise its potential to mitigate global market volatility and generate revenue the FTT international collaboration is essential. International fora should be used to develop the structure, standardise collection processes and harmonise the introduction. We, therefore, urge the Australian government to engage fully in FTT discussions in the G20, with an eye to supporting proposals developed in this forum for establishment across and beyond its member countries.

4. Administrative implementation

The implementation of a FTT has been acknowledged by the IMF (2011) as practicably feasible[15]:

> "In principle, an FTT is no more difficult and, in some respects easier, to administer than other taxes. The same administrative tasks that apply to other taxes—registering taxpayers, assessing and collecting the tax, and verifying the tax liability—also apply to an FTT. These tasks are aided by certain features of an FTT: the transaction-based nature of the tax makes the tax liability fairly easy to calculate for many financial instruments; the strong recordkeeping capacity of the financial sector simplifies accounting for the tax, and the relatively small number of entities that would be subject to an FTT reduces a tax agency's workload in administering the tax" (pg5).

All international transactions are operationalised by central foreign exchange settlement systems such as SWIFT, and therefore traceable and ultimately taxable[16]. Compared to other tax regimes, a FTT can be efficiently collected at the point of trade as has been demonstrated in Japan and the UK[17]. FTTs are difficult to avoid or evade, given that the tax can be captured at the point where deals are settled via centralised settlement systems.

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13 Matheson, T. (2011) *Taxing Financial Transactions: Issues and Evidence.* IMF Working Paper. International Monetary Fund. WP/11/54

14 Darvas and von Weizsäcker (2010) *Financial Transaction Tax: Small is Beautiful.* Bruegel Policy Contribution Issue 2010/02.

15 IMF (2011)*Taxing Financial Transactions: An Assessment of Administrative Feasibility.* IMF Working Paper Fiscal Affairs Department. Prepared by John D. Brondolo.

16 Schmidt, R. (2007) *The Currency Transaction Tax: Rate and Revenue Estimates.* North-South Centre, Ontario, Canada.

17 Baker, D. (2010) *The Benefits of Financial Transactions Taxes: Statement to the Bundestag.* Centre for Economic and Policy Research.

The tax would be collected by the government responsible for operating a trading zone. For example, taxes collected on the Australian Stock Exchange would be collected by the Australian Government, and would be an additional source of revenue for the government to ensure domestic as well as global benefit.

The major obstacle is the political will to tackle the policy-related issues of design, implementation and distribution of the FTT. To that end, it is imperative that the Australian Government commit to supporting international proposals for a FTT in the G20 to assist in international parity. Long-term we urge commitment to careful design and implementation of a FTT in Australia.

SECTION 2 FTT MEETS AUSTRALIAN TAX REFORM AGENDA

The tax system funds public services, ensuring all Australians have access to education and medical services regardless of their income. It allows us as a society to transfer benefits to those in need. It also provides a means by which the government can dissuade people and corporations from ‘anti-social’ behaviour by making it uneconomic.

The Tax Forum Discussion Paper acknowledges that tax policy can and should be used to make our society more equitable and to improve incentives across an increasingly competitive and complex world. Against these and other ambitions we believe consideration of the FTT is critical to the Australian Government’s national tax reform debate.

Meeting the need for additional resources

Businesses, organisations and individuals across the community share the Australian Government’s concern about the increase in demand for government services arising from an aging population[18] and global climate change. It is clear that there are competing demands on the national budget arising from domestic spending needs[19], international climate change finance obligations[20] and commitments to increase the overseas development budget. New and additional sources of revenue need to be generated to meet both our international financial commitments and national budget ambitions. FTTs are one of the few innovative forms of new revenue generation.

We believe that funds generated from a FTT should be directed to areas of domestic and international spending that are significantly underfunded and which require new and innovative funding sources to meet present and future needs, namely:

- domestic environmental and social needs – 50%
- international climate change (meeting the costs of our legal obligation under the UN Climate Change Convention of managing climate change in developing countries) – 25%
- overseas aid and development - 25%

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18 2010 report by Standard & Poor suggests the proportion of Australia’s GDP devoted to age-related spending would jump from 9.6 per cent in the 2010 budget to 14.4 per cent by 2050 if there were no major changes to current policy. (http://www.australianageingagenda.com.au/2010/10/14/article/The-cost-of-an-ageing-population/JQSFIFGSZB.html)

19 Including the commitment to establish the National Disability Insurance Scheme, the federal government’s commitment to support 'Equal Pay' for social and community service workers and the satisfaction of unmet demand for welfare services, as identified in the ACOSS 2011 Australian Community Sector Survey.

20 Australia meeting its international climate financing commitments would be a significant and invaluable indication of our commitment to the UNFCCC and its objectives. Given the fragile state of international climate negotiations such action would contribute to restoring faith and trust between developed and developing countries collaboratively find solutions to climate change.

Spreading the cost fairly amongst those with the capacity to pay.

The Tax Forum Discussion Paper identifies the Australian Government's ambition for the cost of meeting domestic and international financial obligations to be allocated fairly amongst those with the capacity to pay. A FTT will have minimal, if any, bearing on the price or availability of goods and services that the vast majority of Australian citizens use in their everyday lives. The tax is not imposed on the everyday essential financial services or transactions that Australian citizens use daily such as payroll transactions, paying home loans or personal loans. It targets wholesale traders whose clients are those with enough capital to gamble with short-term speculative trading.

While a growing number of Australians own investment portfolios for specific purposes, most notably to fund retirement, income on these investments is not generated from constant flipping of stocks and other assets. The tiny fixed cost of a FTT incurred upon the acquisition of a financial asset is spread over the lengthy period between the purchase and sale of assets.

Improving incentives across an increasingly globalised world with competition for mobile capital and labour.

An appropriately designed FTT will effect a miniscule reduction in the profitability of financial markets transactions. The decrease in the profitability of transactions will reduce the overall number of trades, especially program trades. Price runs would become less pronounced and the boom and bust cycles that we have seen in recent years would become less acute. Further, dissuading purely speculative short-term trading would help shift the balance of trading towards more stable and socially beneficial investment.

Tax reforms like the FTT will help ensure Australia's tax rules keep up to date with the increasing number, importance and complexity of international transactions. It would make global markets more stable and strengthen Australia's future as a sound financial hub.

Simplifying the tax system with an efficient and transparent system of administration

The IMF has determined that the FTT is not only administratively feasible, but in some respects it's even easier to administer than other forms of taxation. Given the tax is collected at the point where deals are settled through centralised settlement systems, it is also difficult to avoid or evade.

Promoting a more equitable society

A 2011 Roy Morgan Research survey commissioned by The Salvation Army revealed that about 60% of Australians perceive the gap between rich and poor has increased in the last year. This perception was confirmed by a 2011 ACTU-commissioned study that found that the richest 20% of Australians control 60% of the nation's wealth, whereas the poorest 20% share a mere 1%.

The re-distributive effects of the FTT are undeniable. The implementation of an effective FTT would help to reduce the widening chasm between the affluent and the poor in Australia and so reflects the Australian Government's ambition to promote a more equitable society.

SECTION 3 GROWING INTERNATIONAL SUPPORT FOR THE FTT

Taxing speculative transactions is not a new idea but investigations, research and discussions on the FTT documented over the last twelve to 18 months suggests that support is building and it is an idea whose time has come.

International organisations and institutions are exploring the potential of the FTT

The last 18 months has seen interest in the FTTs grow demonstrably with the following organisations investigating their potential:

United Nations	The UN High-level Advisory Group on Climate Change Financing (AGF) recognised FTTs in their 2010 assessment of potential sources for long-term climate finance.
International Trade Unions Congress	The ITUC delivered a critical reply to the International Monetary Fund (2010) report to the G20 on a “Fair and Substantial Contribution by the Finance Sector”.
The World Bank, IMF and Regional Development Banks	The WB, IMF and RDBs engaged in collaboration to assess potential sources of climate finance, including FTTs.
Bill Gates, with support from the Bill and Melinda Gates Foundation	Upon requested by the French Government, Bill Gates will report on potential sources of finance for development, including FTTs. This report is due to be delivered to the G20 Leaders Summit in November 2011.

Tipping point? FTT proponents are publishing their views

This year a range of submissions and materials have been published demonstrating support for the establishment of a FTT.

April 2011	One thousand economists from 53 countries wrote to G20 Finance Ministers during their meeting in Washington DC to urge the adoption of a FTT. Economists wrote: “The financial crisis has shown us the dangers of unregulated finance, and the link between the financial sector and society has been broken. It is time to fix this link and for the financial sector to give something back to society.”
May 2011	The Institute for Development Studies released the most comprehensive, balanced review of literature around FTTs to date. They found, in summary, that FTTs have the potential to positively impact on market efficiency, to raise significant revenue, to be a progressive and administratively feasible form of taxation.
June 2011	The international Catholic development alliance, CIDSE, published a review of a FTT estimating that as much as ***€465 billion*** or ***$US635 billion*** could be raised each year from a 0.05% financial transaction tax. This is vital funding for areas such as international efforts to address climate change, for which the UN is creating a new international climate fund.

August 2011	The International Monetary Fund's (IMF's) fiscal affairs department posted a new working paper entitled "Taxing Financial Transactions: An Assessment of Administrative Feasibility", which examined the practical issues countries should deal with in the introduction and application of a FTT. The report states that "in principle, an FTT is no more difficult and, in some respects easier, to administer than other taxes" and discusses in considerable detail the administrative challenges for applying an FTT and the ways to address them.
	Following the US Congress' 11th hour agreement to lift the US debt ceiling, the US market fell. Economic policy advisors in China, The Philippines and Indonesia *responded by calling* for the adoption of FTTs to reduce inflation and mitigate market volatility as short term speculative investors increasingly re-direct 'hot money' from unstable US stock markets to emerging markets in Asia[21].

Governments are also going on record to declare their support

There has also been a rapid building of political support for FTTs throughout this year as governments across the world seek long term measures to address national deficits, control market volatility and reduce inflation.

US Congress	Two US members of Congress tabled bills to introduce FTTs in 2010. These bills were re-submitted in 2011 along with Rep. Peter DeFazio's draft legislation to tax speculators in the oil and gas market. Additionally, House Speaker Nancy Pelosi has publicly endorsed FTTs.
European Union Assembly	In March 2011 the European Union Assembly delivered a landslide vote in favour of the EU Commission passing legislation establishing FTTs. The resolution prioritises development of an international FTTs but in lieu of support for this, countries should implement FTTs at the European level.
Finnish Prime Minister	In May 2011, Finnish Prime Minister Jyrki Katainen committed to push for a European wide FTT in lieu of international agreement.
European Commission	The President of the European Commission, José Manuel Barroso, announced in June 2011 that the Commission will introduce legislation to the European Union for the implementation of FTTs. The introduction of this legislation will coincide with the release of the Commission's feasibility study on FTTs. Barroso has stated that it is appropriate to introduce FTTs at the European level, followed by adoption internationally through the G20. The European Commission's proposed multi-year budget released in June 2011, forecasts budget revenue from FTTs implemented in

[21] See http://www.philstar.com/Article.aspx?articleId=715251&publicationSubCategoryId=200 and http://www.chinadaily.com.cn/bizchina/2011-08/05/content_13056497.htm

	the European Union to the value of €30billion a year by 2020.
German Government	The German government forecast revenue from FTTs implemented in Germany of €2bn a year from 2012 onwards, indicating their intention to implement the tax.
Bolivian Government	At the UN climate negotiating session in Bonn in early June 2011, the Bolivian government called for an international FTT to cover the costs of climate change impacts, protect forests and finance a clean low carbon future for developing countries.
Brazil	On 15 June 2011, the Brazilian parliament adopted a resolution calling for the Brazilian government to support a FTT. In late July, the Brazilian government introduced a 1% transaction tax on currency derivatives in order to limit foreign exchange speculation.
French and German Governments	In June 2011, the French and German parliaments voted in favour of introducing legislation for FTTs at the EU level and the EuroZone. In August 2011, Sakosy and Merkel announced their intention to propose the implementation of FTTs in the EuroZone and to detail support for a European FTT as part of the fiscal reform measures required to address budget deficits in European nations.
Belgium Senate	In June 2011, the Belgium Senate voted in favour of a resolution to support FTTs at the European level in lieu of global co-operation to do so. The funds raised are to go to development and climate change.

The European Union is scheduled to formally debate on legislation to implement FTTs in mid-October when parliament recommences after the summer break. The French President has announced that FTTs will be discussed at the G20 Leaders Forum in November 2011, accompanied by the findings of Bill Gates' report on innovative forms of revenue including FTTs.

The tide is turning in Europe and elsewhere. Leaders are getting behind the idea of a FTT. It is time for Australia to examine the evidence and become engaged in international deliberations.

CONCLUSION AND RECOMMENDATIONS

The FTT is a tiny tax on wholesale financial markets transactions expected to generate billions of dollars for underfunded domestic and international needs whilst mitigating the harm of high-frequency speculative trades generating chronic market volatility.

The tax is not imposed on essential financial transactions typically required by Australian consumers; it targets wholesale traders whose clients make high speed, high frequency investments that exploit fleeting market imperfections. An effectively designed FTT will not reduce the fundamental role of financial transactions in the markets' price setting function.

Administering the tax is relatively easy using existing transaction settlement platforms which also make the tax difficult to avoid or evade.

The re-distributive effect of the FTT will help reduce the widening gap between the affluent and the poor in Australia and so promote social equity.

These features of the FTT make it consistent with the Australian Government's stated ambitions for tax reform.

International collaboration and coordination is essential for maximising the potential of the FTT to generate revenue and improve global market stability and for sustaining the political will to address the policy-related issues of design, implementation and distribution.

The Robin Hood Tax Australia Coalition, strongly recommends that a comprehensive study be undertaken into the potential design and yield of the FTT which would contribute critically to the establishment of a fully effective structure. We further recommend that the Australian Government commit to robust engagement in deliberations around international proposals for a FTT.