



Peter Burgess LinkedIn Blogs

Taxation ... What We Love to Hate

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Today, Americans are celebrating the signing of the Declaration of Independence ... a wonderful document that is worth reading from the end to the beginning.

But good government costs money, and that means there have to be taxes to pay for things we expect government to do.

One of the little 'facts' that has bothered me for quite a long time is the near bankruptcy of almost every government entity on the planet. People want services, and politicians make the promises that services will be available, and then spend the money ... but the politicians fail to say what these things are going to cost and fail to raise enough tax revenue to pay for the things.

But the problem goes deeper than this. Almost every government entity uses a very primitive system of accounting. Almost all government accounting is 'cash basis' accounting, meaning that the system is really nothing more than a huge 'cash book' or a revenue and expenditure record, with no 'double entry' and no 'balance sheet'. Many government entities do not have a way of accounting for 'accruals'.

All of this means that typical government accounting is a set up for easy manipulation of the numbers and all sorts of creative ways of 'balancing the books'. The type of accounting that is the norm for government was deemed unacceptable in law for corporate organizations (in the UK, and I expect most of Europe and North America) sometime in the late 19th century ... but the politicians have not seen fit to use a similar rigorous system of accounting for their own activities. Shame on them!

The problem of unfunded pension liabilities in government entities (not to mention in the corporate world) is a huge problem. This has arisen in part because the scale of this problem is hidden from readers of government financial reports. In most jurisdictions, government managers have to balance the 'cash books' but they can defer all sorts of things into the future and not account for it. If this sounds ridiculous ... it is ... but it is the way government does this stuff!

The business community hates taxes. For a profitable business, the tax on profits may be one of the larger charges, and impossible to reduce by operational efficiency. A business owner or investor can easily know this number, and be unhappy about it.

But this tax has an important value for government and the society which the government services. Quality of life is impacted in all sorts of ways by the services that government provides ... and in many cases we all take for granted.

There is a legitimate question about the efficiency of government. Many, if not most, government services are delivered at a cost that is far higher than would be deemed acceptable by most privately operated companies, but, on the other hand, many government services often deemed essential (like the fire service) are in a standby mode for a big part of the time. Other services like mass transit have to be big enough for the commuter rush hours and then spend the rest of the time operating at a small fraction of their capacity. But though government services may be costly, they are valuable and contribute to our quality of life.

There is something wrong when there is a multi-year backlog of infrastructure maintenance and upgrading. Government does not have the funding to take care of this backlog, yet there are trillions of dollars of wealth that sits by idly in tax havens and difficult to mobilize because to do so will require some modest payment of taxes!

Whether or not government should be the dominant provider of education and health services may be an open question, but these services are important for quality of life. Whether it is the government that pays or not, these services must be paid for, and if not the government, then by people themselves ... and in this case many wages paid by business are inadequate ... and yes, more wages probably means less profit ... and this tends to be problematic for business owners and corporate managers!

Getting taxes (and wages) right is not easy, but the idea that really low taxes and really low wages is the optimum arrangement for a healthy society is, I believe, absolutely wrong.

I am particularly disgusted by the huge efforts made by corporations to 'game' the tax systems so that they pay as near zero tax as possible. Big corporations are aided and abetted in this anti-social activity by the big (and small) accounting firms and law firms who work assiduously to find the loopholes in the tax laws, rules and regulations so that they can structure themselves to pay the least possible taxes. Certain jurisdictions around the world also design their business and tax laws to enable corporate gaming of the tax rules ... a massive race to the bottom that is having a huge cost to society, a cost that is not recorded in conventional accounting which only books the upside of 'less taxes'.

This 'rant' was precipitated by recent news about Walgreen's possible acquisition of the Boots Alliance drug store chain in Europe, and the planned relocation of its legal headquarters to Switzerland and the resulting loss of tax revenues in the United States. Interestingly a significant part of Walgreen's revenues in the United States comes from drug sales funded by government programs paid for with tax dollars!

<http://www.americansfortaxfairness.org/files/OffshoringAmericasDrugstore.pdf>

To conclude ... while taxation reduces both personal and corporate spendable income, the value to society from the payment of taxes is very important. Government services have to be paid for and that requires taxes ... but at the same time government services should be delivered in an efficient and cost effective way.

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