

Headline: Replace income taxes with carbon tax

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Published Date: 12:07 AM June 15, 2016

Section: opinion

Word Count: 5391

Content:

Real tax reform requires bold and unconventional thinking.

The tax reform proposals currently being bandied about consist largely of modest reductions in both the individual and corporate income tax rates (e.g., from 32 percent to 25 percent) and a raise in the exemption for wage earners (up to, say, P1 million). A bolder, better approach is to just scrap taxes on income altogether and replace these with excise taxes based on the carbon emissions impact of specific goods and services. Simple arithmetic calculations can determine the appropriate carbon tax rates in order to make up for the loss in government revenue as a result of the elimination of income taxes.

Actually, it is inherently unfair to tax people simply because they earn an income. What this effectively does is penalize individuals and businesses for working hard and being successful at producing goods and services that the community wants. It is not consistent with an objective of providing economic incentives and moral encouragement to those who engage in activities that boost the economy and ultimately benefit the nation as a whole. Income taxes are thus inconsistent with the compelling goal of creating jobs for the many millions of unemployed and underemployed citizens.

Taxing carbon is far more logical than taxing income. A tax based on the carbon-emission consequences of the product or service consumed means taxing people based on the pollution they cause. Taxing products or services that cause the emission of carbon dioxide (and other noxious gases) in their production and use is a direct way of making the polluters themselves pay for the cost of cleaning up their mess. Indeed, it would be unfair to let someone dirty everyone's air and then make everyone else bear the cost.

Whatever the government now raises from income taxes can be just as well raised from an appropriate percentage tax based on the amount of carbon one's lifestyle causes to be emitted. In lieu of the government raising money by confiscating part of the income people generate through hard work, the government should raise revenues by penalizing people who pollute a shared environment and cause harm to everybody else. Not just fairness but also economic logic demand this.

A carbon tax means higher taxes on oil products, on products that use petroleum as raw material (like most plastics and synthetics), on coal, on natural gas, and on activities that generate polluting emissions. The tax can take the form of a sales or excise tax. Though there may be vehement objections to such a tax from the public-transport sector, the labor sector, and the consumer sector, it should be borne in mind that taxes on oil and oil-based products, by raising their prices, discourage their consumption and make the clean energy sources that global warming campaigners are trying to promote—like sun, wind and ocean wave—more attractive to the consuming public.

Putting a price on the amount of carbon one emits (or causes to be emitted) will—better than mandated limits and complicated cap-and-trade systems—direct consumers to less carbon-intensive products, and producers to less carbon-intensive methods of production.

A carbon tax is, in effect, a consumption tax. The usual argument against consumption taxes is that these are “regressive” because they penalize low-income groups proportionately more than high-income groups. This objection can be easily overcome by exempting food and other basic commodities—like generic medicine and essential health services—from any consumption taxes. Because low-income earners spend 60-70 percent of their income on food, the nonimposition of taxes on this item alone virtually frees this income segment from sharing any part of the cost of government.

Taxes on consumption—like sales taxes and value-added taxes—effectively penalize individuals and businesses for using up more of the nation’s resources. The more one consumes, the more taxes one pays. This makes economic sense since consumption uses up resources that could be used elsewhere, by others, for alternative purposes. A price paid to the community—a tax—for the privilege of consuming more is thus founded on very reasonable grounds. Taxes on consumption logically make those who consume more of society’s resources assume a greater share in the cost of managing the society.

Finally, it should not be overlooked that taxes on income—because they prescribe permissible deductions—are more complicated, more subject to the revenue collector’s discretion, and therefore more susceptible to corruption. If hard-to-collect income taxes are scrapped altogether and the required government revenue is raised instead through easier-to-collect consumption taxes, a messy, susceptible-to-corruption system will be replaced with a simpler, less corruptible one.

Admittedly, it requires a small sense of adventure to adopt something that isn’t being done anywhere else. It can only be hoped that those with the power to make this tax reform proposal happen will be of an innovative mind-set and evaluate this idea solely on its conceptual and practical logic.

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