

Bob Shambrook

TEAL

(Total Economic Activity Levy)

A dynamic new tax system that will change the lives of every South African forever.

An Attempted Technical Extrapolation of the original text

This document is dedicated to the memory of

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Whose Hearts and Minds were in the right place

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FOREWORD:

This document is an attempt to extrapolate the essentials of the Total Economic Activity Levy (TEAL) dealt with in the late Bob Shambrook's lengthier and more socially aware book on TEAL. It is based on that book but largely omits issues of how governments may use or abuse the funds that are collectible through use of TEAL. It seeks rather to focus on the theory and application of TEAL and illustrate TEAL's advantages over conventional tax collection systems. We hope the attempt suffices while reflecting the spirit and essence of TEAL. This document draws freely on Bob Shambrook's work

Massive amounts of money are continuously being transacted through our banks and financial institutions.

In 1999 a senior official of the S A Reserve Bank described these transactions as '*our greatest national asset*' - at that time the volume was confirmed at 'more than one hundred billion Rands per day.

By 2000 this had increased to one hundred and fifty billion, and in 2003 to about R200 billion per day. Assuming (as does the SARB) that there are 220 effective transaction days per year, the annual Rand value at that time was about R44 trillion, which looked like this:-

R44 000 000 000 000

It is obvious therefore that the level of total bank turnover has not only shown significant growth over the past five years, but is continuing on a strong upward spiral. This turnover reflects genuine transfers of money in and out of bank accounts, and - in the words of a Reserve Bank official - 'it is not shunted around simply to keep the banks busy.'

It therefore represents a dependable and consistent asset that – because of our sophisticated nation-wide computerised bank network - can be instantaneously accessed and tapped.

This document will show that if a very small levy of 0.55% (55 cents per R100) is applied to every deposit and withdrawal of the R44Tr – with no exceptions – the state could raise revenues of more than 374 billion Rands. You will need to go to page 9 to see how this hypothetical sum is arrived at.

With the application of TEAL.:

- We will have a more-than-balanced budget with no need to borrow.
- It will be impossible for any and all to ever owe the state any money.
- Because of the single revenue source, we can do away with ALL other forms of taxation.
- In time of need (eg a national catastrophe) requiring emergency funding, say an additional 55 billion Rands in a year, the rate would have to be increased from 55 cents to 62.5 cents per R100 transacted – which would hardly qualify as a train smash.

The simplicity of the TEAL collection process lends itself to minimising the tax collection machinery – a valuable and otherwise indispensable national asset, which can be readily reallocated to a service such as public sector accounting and auditing.

There is a tax industry inertia to change that needs to be overcome, but given the political will to change the system, it is doable within a very short time frame and with very little tribulation.

Teal has been under development since 1989, but has its roots in a suggestion made in 1986 by a business consultant Mr Nik Nel, in newspaper correspondence on the topic of taxation, for a combination of a standard tax rate of 10% together with a transaction tax of 4 or 5%. The idea remained in Bob Shambrook's mind and was resurrected while Bob was contemplating the poverty he saw in a local township and how that could be alleviated. The idea was sort of circular. It started by asking the question of how to reduce the cost of living for the township dwellers, reflected on the contribution of taxes to the cost of living and from there to how to reduce the tax elements embedded in the cost of living.

The idea grew with the help of a number of participants and enthusiasts (who wouldn't want tax reduced to less than 1%) (cf credits). Years of battling bureaucratic inertia and vested interest opposition often left Bob and his team of volunteers frustrated, but never short of enthusiasm and belief in the rightness and viability of TEAL. It was simply an idea that had not yet reached its time but would eventually do so.

This document is merely an extension of that, by now, almost 25 years of effort because, without flying Bob's flag for social justice and service to the poor, we will always come back to that as the reason TEAL was started in the first place – how best to help the tens of millions of people who are homeless and/or who live in the most appalling conditions, on or below the poverty datum line?

1

An introduction to TEAL

Teal (Total Economic Activity Levy) is an alternate form of taxation.

It has a single point of collection, viz the banking system.

It has a single rate applied universally to all banking transactions.

It has no value cap.

It has no assessment requirements.

It has no exceptions.

It has no returns of income.

It has no deadlines for employers.

It has no deadlines for tax payers.

It has no claims.

It has no appeals.

It broadens the tax base to include all bank (all financial sector) transactions.

It has a very low rate of tax because its tax base is all-encompassing.

It collects more tax with less effort than any other single form of taxation.

It replaces all other forms of taxation.

Briefly:

Every time a bank account is accessed and deposits or withdrawals are made, a levy of about 0.55% (fifty five cents per one hundred Rands transacted) of the value of each of those transactions is automatically and instantly debited to the account.

When cheques to the value of R3000 are deposited in an account, the account will be debited with R16.50 (at 0.55%) which proceeds are transferred to the treasury on a regular basis. Those who issued the cheques will also be debited with a total of R16.50 (also 0.55%) which will also be transferred to the treasury on a regular basis.

Without exception, all types of financial transactions will attract the levy, regardless of its origin.

Levies obtained from the millions of transactions that actually take place through our banks, when transferred to the treasury, will result in more than sufficient funds to balance any reasonable budget - without borrowing.

TEAL, is a transaction tax that takes a tiny bite out of the value of each of the hundreds of millions of bank transactions processed each year. The total value of those little bites will amount to a lot more money than the present tax system can produce - many billions of Rands more – ***enough to create balanced budgets or budget surpluses year after year after year.***

Computer programmes already in use will *automatically and instantaneously* apply TEAL as money is deposited into, and/or withdrawn from bank accounts. The infrastructure to manage this already exists. About fifty-five cents levy may be needed on each R100 transacted. Exact rates will depend on circumstances existing from time to time but is unlikely to exceed 80 cents per R100.

The effects of TEAL will be all-pervasive. They will impact on the lives of everyone in the land.

Who benefits?

If all existing taxes are replaced by TEAL:

Presently, a moderately successful professional person charges clients R1800 (or more) to earn R1000 after taxes.

Taxation gobbles up almost fifty-percent of what his clients pay! (R1800 less VAT = R1580 less tax at 37% = R1000)

Removal of VAT and income tax will allow the seller to improve his income or his competitiveness. Market forces will almost certainly guarantee that prices will fall significantly

'Take-home pay' will not be affected if charges are lowered, and disposable income will go much further.

Fuel prices will plummet.

All goods subject to VAT will immediately be 12.3% cheaper ($14/114\% = 12.3\%$ of the VAT inclusive price).

The taxpayer will not only have more disposable income to spend (or save), ***but in addition, all the goods and services that you buy will be cheaper.*** Income will go a great deal further.

For entrepreneurs it will signal the start of an open season to opportunity and success.

If we can achieve budget surpluses with one of the lowest tax rates in the world, we will attract serious attention from investors with access to trillions of dollars, pounds sterling, euros and other currencies. These people are constantly on the lookout for safe, stable and profitable investments.

For the first time in decades we will be able to address the economic and social needs of the country, without going into debt. The economy cannot do anything but flourish, and as it does, the perception will grow that this country is the place to be.

Crucial to the success of TEAL is the TEA or Total Economic Activity of the country. Until the end of 2002, we were unable to obtain confirmation of the total value of the TEA (the money passing through our banks).

In December 2002 we obtained confirmation from the S A Reserve Bank of the turnover of our National Payments System. These statistics showed that not only was bank turnover far higher than we had ever estimated, but during the period 1999 to 2002, had actually increased by fifty percent.

The last doubts about the viability of TEAL were driven away and the case for TEAL could no longer be dismissed as unrealistic.

NB: Unless otherwise stated, for consistency we use examples of a TEAL rate of 0.55% (fifty-five cents per R100), with an arbitrary value for an effective Total Economic Activity at R68 trillion Rands. This provides a hypothetical revenue of R374 billion Rands. Actual rates will depend on treasury needs and the level of TEA prevailing from time to time.

2

Why the need for taxes?

Nation states, Provinces, Municipalities, Country clubs, Golf club committees and townhouse corporate bodies all collect taxes and/or levies. The funds are used to finance a variety of activities that would not otherwise be affordable.

Historically they stemmed from, amongst other needs, the need for communities to protect themselves, the need to pay for armies, roads, palisades and fortifications.

Taxes have developed and become more sophisticated so they invade just about all aspects of a person's life. You can't earn a living, buy food, buy and run a motor vehicle, be entertained, be informed, travel, indulge in life threatening antisocial behaviour like smoking tobacco products and over indulging in alcohol, or even retire, without attracting and paying taxes. Sometimes taxes are used for social engineering purposes, the so-called 'sin taxes'.

Huge professions, with many players and members, have evolved around the collection, regulation, planning, enforcement and avoidance of taxes. Huge vested interests exist to see that the present tax systems are maintained and continued in perpetuity, no matter at what cost to society.

Perhaps this marked the beginnings of *tax avoidance* and certainly this stratagem has developed into an art form, as taxpayers employ experts – and reward them handsomely - to ensure that the state receives no more than its just due, and preferably less or nothing at all! *Tax evasion* on the other hand is totally illegal, but nevertheless has been referred to as our national pastime.

With the devaluation of currencies, the need for taxes becomes ever greater. Where the cost of a standing militia might have been a few bushels of grain a month or year, today the cost is astronomical. Bob illustrates this in his book by referring to the costs of the two passenger liners Queen Mary and Queen Mary II. The first built in 1936 cost six million pounds. The second built in 2004 cost six billion pounds. Even given the advances in nautical technology and associated costs, that is a staggering difference.

National budgets have risen to levels impossible to imagine forty or fifty years ago, and require the most complex juggling to get anywhere near their targets. Most countries in the world have budget deficits which prove that they cannot get close to achieving balanced budgets – something that was absolutely *de rigour* in the not-too-distant past. What a deficit is, in effect, is borrowing from your children. You spend now, they pay later. **If nothing else, a deficit is immoral.**

The demands of modern government have resulted in a them and us mentality, with government determined to tax all to the maximum possible and the taxpayers determined to pay the least possible. Sometimes, perhaps often, this leads otherwise law abiding citizens into criminality.

Common to every nation that imposes taxes is the fact that ultimately, they represent a percentage of the total money that passes through their banking systems. We enlarge on this theme shortly.

The complexity of modern tax systems need experts to understand them and to 'navigate' them. In South Africa the state levies 'indirect' taxes that include VAT, PAYE, SITE, taxes on petrol, diesoline and paraffin, airport taxes, capital gains taxes, excise duties, import duties, *ad Valorem* taxes, and other 'minor' taxes – including a controversial tax that targets pensions. They require an enormous amount of administration on the part of both the state and taxpayers, and the total cost of the system - levying and collecting taxes – must run into billions of Rands annually.

3

The Theory

If there were a single point through which all financial transactions passed, it would be a simple matter to skim off a proportion of that flow of money. Such a point exists, almost. Viz the banking system. Almost all transactions at some point, flow through the banks. There already exists systems to collect portions of those transactions to pay for bank services. TEAL is the natural extension of those systems bent on raising revenue for government in addition to that raised for banks. The banks collect the levy and pass it into the treasury. The entire tax system consists of that single simple transaction repeated for each bank transaction, a cinch in this computerized age.

By its nature, it embraces all but the poorest of the poor, who do not have access to the banking system, and thus its scope is far broader than all other tax systems combined. All entities active in the economy are embraced in this all-encompassing tax net. Because the net is so all-embracing, the rates of tax that need to be applied in order to achieve treasury's revenue targets are less than one percentage of the taxed moneys.

A senior executive at the Reserve Bank has been quoted as saying that this constantly moving mass of money 'represents our greatest national asset' - a view we share. We believe there are no good reasons why this huge flow of money should not be tapped to provide the revenue that the country so urgently needs.

We need to jump ahead for a moment or two and examine the role of the GDP with that of TEAL in determining tax levels. In 1999 we estimated that the total effective value of bank turnover (excluding the bond market) was in the order of twenty trillion Rands, whereas the value of GDP at that time was probably around seven hundred billion Rands.

An apparent rule of thumb used by the tax fraternity was that taxation should not exceed more than about thirty two percent of GDP – which translates (in this hypothetical example) to tax revenues of 224 billion Rands (R700 bn x 32%) – at that time.

We have frequently emphasised that TEAL applies to both parties involved in every transaction.. A hypothetical revenue yield from TEAL levied in 1999 at 0.75% (seventy-five cents per one hundred Rands transacted) on twenty trillion Rands would have been 300 billion Rands, an increase in revenue of seventy six billion Rands.

This massive increase in tax revenue arising from application of TEAL at a mere 0.75% versus that derived from conventional and unconventional taxes combined, is derived from the massive increase in the value (size) of the tax net. In the above example, it would have increased more than twenty-eight fold – from R700 billion to R20 trillion. The size of the tax net would always be equal to the value of total bank transactions – in other words our TEA.

The effective value of this net when subject to TEAL applied to both sides of transactions would have increased more than fifty-seven fold!

That was in 1999 – the position has changed even more since those estimates.

4

THE BASIS OF TEAL

For many years we were unable to determine the value of the TEA or the Total Economic Activity as measured by the value put through the banking system each day, week, month or year.

Our estimates were guesstimates. Everyone we asked was either being very coy or we had asked a question no one else had asked before. We were able to guesstimate a TEA that fully justified the TEAL concept – but in fact was conservative! In 1999 the ‘Financial Mail’ published an article which stated that the value of transactions passing through the Reserve Bank (National Payments System) was *‘more than R100 billion per day’*. In early December 2002 S A Reserve bank officials confirmed that the level of transactions that had passed through the NPS during the year, exceeded our 1999 estimates very considerably. In February 2004 we learned the NPS turnover in 2003 had again grown to R200 billion per day.

All of this meant that TEAL - applied at significantly lower rates - would have provided far more revenue than we had ever estimated.

The following summary and tables illustrate how TEAL will provide sufficient revenue to meet our country’s needs and is based on the information obtained from the S A Reserve Bank – as referred to above.

The figures that follow are historical – they reflect transactions that had already taken place. All estimates of future TEAL rates are therefore hypothetical, but will probably lie somewhere between fifty and seventy-five cents per R100 transacted – 0.5% to 0.75%.

February 2004

Confirmed NPS transactions for 2003. (R200 bn/day x 220 days/annum)	R44 trillion
Less estimated Bond Market transactions	R10 trillion
Estimated net bank turnover	R34 trillion
TEAL is applied to both sides of transactions - therefore <i>effective</i> TEA would have been	R68 trillion.

R68 000 000 000 000

The following tables illustrate the revenue that the state would have obtained had TEAL been applied at the following rates to the above NPS figure.

Rate - %	Per R100 transacted	Revenue R's
0.5	Fifty Cents	340 Billion
0.55	Fifty five cents	374 “
0.6	Sixty cents	408 “
0.65	Sixty five cents	442 “
0.7	Seventy cents	476 “
0.75	Seventy five cents	510 “

A transaction of – for example – R10 000 at a rate of 0.55% (fifty-five cents per R100 transacted) means that each party (drawer and depositor) will be debited with R55.00 therefore the state collects a total of R110.00 from the R10 000 transaction.

Bond market have cried foul – they could not trade profitably with the additional cost of TEAL on each of their transactions, or so they say, so for the sake of their protests, and for the moment, their estimated transactions value was added back from the TEA. As there were significant differences between the estimates of the S A Reserve Bank and the Bond Exchange of South Africa regarding the value of Bond Market transactions, in the interests of conservatism, we elected to add back the higher of the two estimates.

Look at the above table carefully. Consider that the budgeted expenditure for 2005/06 was set at 418 billion and represented a 48 billion deficit (3.1% of GDP), so an effective TEAL rate of 0.65% would have delivered a budget surplus of 24 billion or 1.57% of the GDP.

And that's it. No other taxes, a balanced budget, an end to borrowing, and the state gets all the money it needs.

No VAT, no PAYE or SITE; no personal or company income taxes or tax returns; no taxes on petroleum products; no estate taxes (property and deceased); no capital gains taxes; no fiddling with pensions and no borrowing from your children, with or without their consent..

5

The never-ending source

The source of our wealth will last for as long as our present economic system continues to function, and will never dry-up – in fact it is steadily increasing in volume and value each year.

Unless there are drastic changes in world economics – changes that we cannot begin to conceive of at this time – money will remain the absolute basis for all economic activity. As our population increases - and with it the demands for goods and services - so too will the volume and value of transactions that are conducted through our banks.

Our present taxation system is outcomes based. It taxes the *net outcomes* of the dozens, hundreds and often tens of thousands of disparate transactions that take place in order to produce goods or render services. In the case of businesses it is totally reliant on those that make profits, and spends a great deal of time and money on investigating those that are less profitable or who claim losses. Private citizens who are rich and productive are heavily taxed – everyone else, including the poorest of the poor, is taxed unreasonably and unfairly. The proliferation of so-called indirect taxes ensures that no person entirely escapes the taxman's net.

TEAL on the other hand is very much a 'pay as you go' tax. Every time money is withdrawn or paid into a bank account, a tiny percentage of money from each transaction will speedily find its way into the treasury. Even inhabitants of informal settlements will contribute, because whenever a pack of cigarettes or a loaf of bread is purchased, the seller (say a street vendor) will be paid, and when *he* pays *his* supplier (wholesaler), ***the money will be banked and immediately TEAL will be collected.***

The swing in the ratio of taxes collected from private taxpayers as opposed to taxes collected from businesses has been a cause for concern. There is little doubt that the advent of TEAL will restore the balance and as a result of the massive number of transactions initiated by 'big business', it will once again become our prime revenue producer.

For those who will object to the poor being taxed, just remember that these people are paying VAT at fourteen percent on many of their purchases. Their usual – and often only – mode of transport is the ubiquitous taxi, and petrol is heavily taxed. They also buy paraffin, candles and butane gas, while those more fortunate also pay VAT on electricity, water and rates.

A simple example will show how TEAL will benefit our less fortunate.

Assume a family jointly earns a total of R2500 per month which is paid into a bank/savings account.

Assume also that half is spent on zero-rated goods. VAT (on the other half) will come to R175 (R1250 @ 14%).

With TEAL, they will pay R13.75 (R2500 @ 0.55%) when the money is received, and a further R13.75 when it is spent - resulting in a significant **84.25% decrease in taxation** and a significant **6% increase of R147.50, in disposable income.**

The prevalence of tax evasion is unquestioned, and while the value of lost revenue from this activity can only be guessed at, it is certain to be astronomic. Regardless of the claims made by the Revenue department regarding improved tax collections, the bottom line is that for as long as taxes are perceived to be excessive and unreasonable, just so long will tax evasion continue.

Legal tax avoidance also prevents unknown volumes of revenue from ever reaching the fiscus but will cease to be a factor when TEAL is implemented.

Just how effective will TEAL be in combating tax evasion?

Without the active collusion of banks, it will be impossible to evade TEAL and anyone who is going to consider putting his salary cheque under his bedroom mattress will set his life back to the stone age. Both scenarios, the one where banks collude to help clients avoid TEAL and the other where we store our salary cheques under our mattresses, are equally unlikely,

Tax avoidance per se usually take place for one of two reasons. To either evade onerous taxation or to launder 'dirty' money. When all transactions bear the same rate of TEAL (say 0.65%) the question of onerous taxation is dealt with and the only way dirty money can be laundered is when it is introduced into the banking system as a legitimate transaction, which is then subject to teal. It may not prevent laundering dirty money but it will certainly tax it.

The change in emphasis from how to avoid the unavoidable (TEAL) to how to trade and run businesses profitably and effectively and thus also the economy most effectively will issue a change in business morality which will significantly influence and reduce financial fraud.

6

TEAL will be simple to tap.

We repeat – once again - that the basis for TEAL will be the total combined deposits and withdrawals of all the banks - our Total Economic Activity.

This money flow is never static, but will ebb and flow depending on the levels of daily, weekly and monthly economic activity. The volume of money passing through the system can be accessed electronically, and tapped instantaneously and continuously.

At present taxes and duties are imposed on cheques and other transactions that pass through commercial banks, and these are reflected as VAT and duties on bank statements. Therefore the machinery for replacing these items with a levy applicable to *all* transactions is already in place, and will require no more than some extremely simple computer code to effect the necessary changes which will allow the rapid implementation of TEAL.

Just as banks detail their charges on their bank statement so can TEAL debits be detailed on bank statements so bank customers will be provided with full details of the TEAL they have paid.

Payment of TEAL to the treasury will be required on a regular, probably daily basis. Even this short period will allow the banks to retain many billions on a permanent rollover basis – at virtually no cost!

Compared with the present system of tax collection, the cost of TEAL will be negligible. It will be applied automatically, and instantaneously, as each transaction is processed, and because there will be no exceptions or exemptions, there will be no objections or lengthy delays resulting from queries or pending litigation.

Tax collection is basically confrontational. There are frequent references in the media to the ‘get-tough’ policies of the Revenue services so to catch tax evaders and bring them to book. Tax *avoidance* is very much a ‘cat-and-mouse’ affair. Astute lawyers and consultants take advantage of tax loopholes which the taxman endeavours to close as quickly as possible – but there are always time lags between the one and the other. New laws are promulgated, new loopholes are exploited and so this very time-consuming and expensive game continues.

Compare the above with the TEAL system. Teal is applied automatically and instantaneously – without exception or exemption. The proceeds are directed to a holding account then paid into treasury. Every single taxpayer – private and corporate – *has fulfilled all his/her tax obligations – to the very last transaction – all day and every day.*

This eliminates the effort needed to assess tax liabilities and will save millions of man-hours every year.

With TEAL in place, at year’s end – or in fact at any time - all the money in your bank account will belong to you and be at your disposal, because all taxes will already have been paid! Actually it will be impossible to ever owe the taxman any money at all!

7

Legislation

Relatively simple – but comprehensive – legislation will be necessary to enforce TEAL, the most important feature of which will be a precise and unambiguous definition of ‘a transaction’.

This legislation will demand that all transactions (as legally defined) be carried out at ‘arms length’, thereby preventing ‘vertical’ dealing which might, for example, utilise credit and/or debit notes to offset other transactions, with the express purpose of avoiding liability for TEAL.

Particular attention must be paid to ensure transactions of large sums of money do not escape the TEAL net on technicalities. Regardless of where transactions originate, they are initiated for very specific purposes – money is not moved for trivial purposes. Keeping track of large money movements should also be legally provided for.

Legislation must decree that regular TEAL statistics are released by the Reserve Bank, so the process and results are transparent.

All legitimate transactions, whether by cheque, cash, magtape, on the Internet or any other means, are recorded in the books of account of the organisations initiating the transactions. Legislation should provide for tax audits of the books of account of individuals and businesses and of bank records, to verify the proper application of TEAL.

Legislation should also provide for severe penalties for TEAL related evasion and racketeering.

Legislation should define which organisations be considered a bank, for the purposes of TEAL. For example, are credit card transactions considered to be bank transactions and credit card companies considered to be banks? The current members of the TEAL team are inclined to view any organisation engaged in granting credit as part of their normal business and thus contributing to the money supply, be defined as banks for the purposes of applying TEAL.

Legislation should also provide for the circumstances and manner in which TEAL rates may be changed. Probably Teal could be reduced by regulation by the minister of finance, or parliament, but an increase in the rate would require an Act of Parliament.

8

Total Economic Activity

Growth of TEA.

YEAR	TEA /day Billions	TEA pa Trillions	SOURCE
1999	+ 100	+24	FM
2002	+/- 150	+/-36	SARB
2004	+/- 200	+/-48	SARB
2006	+/- 300	+/-66	Estimate.
2010	+/- 365	+/-80	Estimate

9

Exceptions and exemptions

The question of exceptions and exemptions is a taxing question. In the original Teal book, Bob Shambrook contemplated the exclusion of certain classes of transactions as being outside the scope of TEAL because of possible double taxation.

The present TEAL team tend to believe that there should be no exceptions of any sort, because:

- Any exception provides encouragement for other classes of transactions to be similarly exempted.
- One exception becomes the thin edge of the exemption and exception wedge.
- Any exception will apply upward pressure on the TEAL rate because it reduces the TEAL tax base. What you gain on the swing of exemptions, you lose on the roundabout of rates.
- Favouring any particular class of transaction would be unfair to all the other classes of transaction and those who use them.

10

Essential – a stable banking system

The TEAL concept is totally dependent on a stable and sophisticated banking system - one in which the total number and value of transactions can be monitored on an ongoing basis.

To address the concerns of those who fear a huge drop in bank turnover because of TEAL, let us consider a 'worst-case' scenario where total net bank turnover falls by twenty percent - from R34 to R27.2 trillion with a resulting reduction in effective TEA from 68 to 54.4 trillion Rands.

The reduced tax base (or TEA) does not alter the demand for revenue by the state which remains at R374 billion, the TEAL rate would have to increase from 0.55% to 0.69%. ***From 55 cents to 69 cents per R100.00 transacted - and we would still obtain the same revenue – still well under one percent!***

Twenty percent would be a massive reduction in bank turnover, which we can't imagine, except in cases of a burst economic bubble with an accompanying depression or such-like, which would in any event effect taxable income, however it is assessed. So TEAL will only be negatively effected when other tax systems would also be negatively effected, but TEAL would be more flexible and robust and be a greater tool for economic recovery than other tax systems,.

11

No other taxes will be required

If TEAL revenues on their own balance or exceed national expenditure, then no other forms of taxation are necessary.

It will therefore be possible to do away with VAT, PAYE, SITE, personal and company income taxes, taxes on petroleum products, estate duties, transfer duties, Ad Valorem taxes, capital gains taxes and all other 'minor' taxes. The question of import and excise duties will have to be carefully studied in order to assess the impact that TEAL will have on the economy.

It is necessary to repeat that TEAL is not intended as and should not be implemented in addition to our present range of taxes. It must substitute all the taxes mentioned above, or it will simply be another source of tax with which government can bury the needy.

Progressive implementation.

No radical tax system will ever be adopted unless and until there is absolute certainty that the change will work. TEAL cannot be allowed to fail.

Progressive implementation of TEAL will provide a watertight guarantee that it cannot fail. The first stage must involve testing at a very low rate – perhaps .01% (one cent per one hundred Rands) - *with the express purpose of establishing the current level of TEA.* Whatever amount of revenue is raised from this percentage, it will only require a simple arithmetic calculation to determine the value of the remaining factor, which will be the level of our TEA.

Progressive implementation of TEAL can therefore be carried out easily, rapidly and in parallel with the present tax system

During this ‘test period’ while TEAL is running in parallel with the present system, the State will collect additional revenue because the inflow of TEAL revenues will supplement present taxes. It is imperative therefore that this test period be kept to the absolute minimum.

The next step would be to increase the rate to replace existing taxes, for example VAT.

Immediately it becomes evident that revenue is consistent and predictable, and as soon as VAT has been done away with, the levy can again be increased to a level that will allow the removal of another tax, perhaps that on petroleum products.

Progressive increases in the TEAL rate - in a measured and orderly manner - will allow the removal of personal and company income taxes, PAYE and SITE, transfer duties and all other minor taxes.

The final rate at which TEAL is levied to balance the budget (or produce a surplus) will clearly depend on precise Government requirements to fund its many programs. Tiny increases (or decreases) in the rate will involve very large amounts of money. Every 0.1% (ten cents per R100) will represent nearly 68 billion Rands per annum - given that TEA remains constant at an estimated level of R68 trillion.

There is no reason why TEAL cannot be taken to three or even four decimal places - it makes no difference to a computer. For example if TEAL were to be levied at .5676%, annual revenue would be three hundred and eighty five billion and nine hundred and sixty eight million Rands.

R385 968 000 000

13

TEAL, Agriculture and Farming

Food security is a long standing and contentious issue.

Let us examine some of the *benefits for farmers* that would follow implementation of TEAL.

- The prices of diesel, petrol and illuminating paraffin would drop dramatically.
- The completion of income tax forms will end.
- VAT would fall away therefore the cost of an entire range of necessities – including farming implements – would drop by more 12.4% (14/114%).
- The improvement in profitability would allow meaningful wage increases to be granted to their workers, together with the provision of better facilities.

Benefits for farm-workers.

- The prices of a large number of their purchases would fall by 12.3% (14/114% = 12.3% of the VAT inclusive price) when VAT is removed.
- Taxi fares should fall significantly, as the combined benefits of lower fuel and vehicle costs take effect.
- State sponsored training schemes could be implemented and paid for from the then available state funds and improved educational and training facilities could be made available to workers and their families.

14

Objections and responses

The following are the most commonly raised objections to the concept of TEAL, together with our responses.

Objection. There will be a massive switch to cash and barter transactions. One critic – a well-known tax consultant - went so far as to say that '*within a few weeks nobody will be doing business with the banks*'.

Response This is by far the most frequently voiced objection we receive, and indicates that those making it neither understand TEAL, nor can they imagine the full consequences of their concerns being realised. We have tried to make it clear that legislation will decree that ALL transactions, *including* cash, will be liable for TEAL. This means that if 'massive' cash transactions or bartering take place, in place of proper use of the banking system, such will be *illegal and will none the less attract TEAL. Failure to collect and pay TEAL to treasury will attract stiff penalties.* It is unlikely that any credible commercial venture would indulge in such avoidance.

In any event, a cash and barter based economy is simply inconsistent with a modern economic system and concerns that such could result are probably misleading at best and downright spurious at worst.

The final nail in the coffin of this objection can be found in Chapter 12 where we show how the progressive implementation of TEAL will ensure that massive and unexpected moves to cash transactions will never happen.

Objection. If everyone is going to better off and pay less taxation, where will all the extra money come from?

Response All the 'extra money' is already in the system, but much of it simply falls outside of the tax net. Expansion of the tax net will permit taxation of all that extra money or economic activity allowing vastly reduce tax rates and vastly increased tax revenue. Chapter 3 points to a more than twenty-eight fold increase in the tax base, from R700 billion to R20 trillion.

Objection. There will be a "cascade" effect when each manufacturer in a chain of, for example six processes, adds 2% to their prices at each stage, which will virtually cancel the benefits of the removal of VAT at 14%.

Response. This objection fails to take into account the fact that each of those manufacturers at present pays taxes and also builds a provision for taxation into their cost structures. When these components are removed - when company tax falls away - the effects of TEAL are more than compensated for. Computer models show direct comparisons between the cumulative effects of TEAL on the one hand, and company tax and VAT on the other. Real benefits for the retail purchaser are evident with TEAL.

Objection. Many employees - especially those in high-income brackets - may arrange with sympathetic employers to pay some major items of expenditure; rent, school and university fees, leases, and insurance, thereby reducing total earnings.

Response. *This is irrelevant. Earnings are not taxed but all the transactions related to them are levied. How those transactions are arranged by the parties do not effect the fact that they need to be transacted through the banking system, at which point they attract TEAL.*

Objection. Companies and businesses will pay tax (TEAL) during their development and growth periods – long before any income, far less profit, is generated. Examples cited were the Carlton Centre; gold mines which may take seven years to reach production; feasibility studies which may never reach fruition, etc.

Response. Almost every new business - unless bent on self-destruction - builds into its costs a provision for taxation on future profits. During the development of a Carlton like project, they will still be levied taxes and rates on labour and supplies of all sorts. True, they may not pay profits tax but for the rest, taxes still exist, whatever stage the project is at. Teal will obviate all those taxes and replace them with a simple minimalist rate of tax. If the project cannot bear the cost of such a minimal tax then it is probably going to fail anyway.

Objection. A tax system must address "social justice".

Response. The definition of 'social justice' is open to a wide range of interpretations. In this instance is it assumed to mean that the 'rich' should be penalised, and take responsibility for the 'poor' by being excessively taxed?

Is it social justice to run public deficit, to borrow from our children to pay for our present excesses, which is what deficit budgeting amounts to?

The only way to ensure social justice is for social justice to be properly funded. TEAL will ensure that happens.

Objection. A tax system must accommodate the 'ability of the poor to pay'.

Response. The fact that *everyone* will pay TEAL is seized upon as evidence that it will penalize those who pay no taxes at present. The fact is that the poorest of the poor pay VAT at 14% on a significant number of their purchases, *exactly the same as the hyper-rich*. This fact seems not to occur to those who claim that a levy of under one-percent will adversely affect 'their ability to pay'. See example in Chapter 5, page 12. They also ignore the benefits that a huge reduction in the price of petrol - leading to lower taxi fares - will immediately bestow on hard-pressed commuters. There seems to be total fairness in a system that ensures that a person who earns and spends R25 000 per month will pay fifty times as much tax as someone who earns and spends R500 per month.

Objection. If TEAL has so many potential benefits, why is it not in operation anywhere else in the world?

Response. The availability of a state-of-the-art, totally computerised, nation-wide banking system is an absolute pre-requisite to the implementation of TEAL, and is a relatively recent development. Certainly South Africa is one of the very few countries in Africa with such a sophisticated system in place. It is unlikely that even in the USA, could a system like TEAL be easily implemented at the

present time. The complexity of State and Federal banking laws plus the large number of private banks might seriously complicate the implementation of a single transaction tax. But what a fantastic thing it would be for America's economy if it *could* be implemented!

It should also be remembered that there are very few countries in the Western world – South America excepted – that have socio-economic problems on the scale of those that confront us in South Africa. The desperate need to satisfy the reasonable expectations of millions of unemployed does not exist in those countries. The tax industry have great vested interest in maintaining the tax status quo. They and we need to look beyond those vested interests and do what is right for our countries and their people.

Objection. A transaction tax would penalise a company that only makes a profit of a half percent on turnover, compared with a company that makes 50%. A prominent tax expert made this statement on a radio program.

Response. The first question that arises is what kind of company produces these results? Does it have shareholders? If one compares such a performance with virtually any profitable company, it would seem that an organisation with that sort of record would have a short life expectancy indeed.

And why should an efficient organisation be penalised to the extent that a vastly improved taxation system cannot be implemented - or even investigated - because a hopelessly inefficient (or dishonest) business would be at a disadvantage? In any event, a company in such a situation could cover its tax obligations by merely increasing prices by one percent – which in today's climate of frequent price hikes, would go almost unnoticed.

Objection. There will be strong reaction from large companies and groups of companies who will most assuredly pay a great deal more tax than they are now paying.

Response. *In this connection we presented TEAL to the top executives of a major construction company. They were extremely co-operative and were quick to see the advantages of TEAL – in spite of the fact that their tax payments would increase from R6 million, to more than R23 million. The removal of VAT would allow their customers – the end-users - to benefit by 12.3% ($14/114\% = 12.3\%$ of the VAT inclusive price). Alternatively their selling prices could remain the same and they could effect substantial improvements in, or additions to the quality of their products. The point was made that TEAL – at whatever the ruling rate – would simply be factored-in as a cost component in all their operations. The huge reduction in administration costs and the end of 'tax-time' juggling with figures was rated very highly in their assessment of the TEAL concept. They were quick to appreciate that a price increase of well under two percent in their selling prices would cover all their tax liabilities, and because that price increase would apply after the removal of VAT, it would go almost un-noticed.*

15

The Bond Exchanges.

Transactions having enormous monetary value are conducted through Bond Exchanges.

We have been told that TEAL - applied to each side of bond transactions - would probably destroy the market because of the extremely small trading margins.

Because of the negative implications that the imposition of TEAL - at the normal rate - might have on these transactions – they are for the time being at least, excluded from our calculations. Possible responses are that TEAL be applied at a reduced rate, or that some other way of imposing a proportionally fair and reasonable tax on transactions in this market be sought, or simply that the transactions factor in a TEAL component cost.

16

Unemployment.

Unemployment must rank as the single most deadly threat to any economy. This chapter examines the impact of Teal on employment.

No government can possibly make any meaningful reduction in the numbers of unemployed without there being a burgeoning, dynamic, and above all - *sustainable* - economy in full swing.

Teal achieves this in two ways.

First; it presents government with the means to present balanced budgets, meeting economic and social development needs through public spending, ***without debt and associated costs***, and without otherwise crippling the economy.

Second; it taps into a massive source of private sector investment. The world is awash with money, looking for a place to invest, for profit, stability and sustainability. Teal permits government to create just that environment. We have said before, TEAL will make any economy the place to be for business investment. More business investment means more jobs and less unemployed..

Social spend ability can address the many needs of any economy; education, skills training, health care, transport, housing, service delivery, infrastructure, amongst other needs.

Imagine a country without informal settlements, without squalor, without poverty.

Imagine TEAL.

17

Conclusion

- 1) *Present tax systems were developed over centuries for pre computerized eras. Computers permit the ready identification of transaction levies as a source of taxation.*
- 2) *Even without computerization (say all computers fail simultaneously and catastrophically) it would still be possible to apply TEAL. It would just take a little longer and involve more manpower.*
- 3) *TEAL will deliver on the needs of government where conventional tax systems are failing.*
- 4) *A low levy, affordable by all, applied proportionally to all, each according to his or her levels of wealth and economic activity, will provide sufficient revenue to meet the needs of any economy, with balanced budgets and no debt.*
- 5) *There is a real need for a tax paradigm shift.*

Table 1

It should be noted that the 2010 budget called for R907 B expenditure, R658 B Consolidated Revenue - a deficit of R249 B !

COMPARISON OF ESTIMATED TEAL REVENUES - 1999 – 2010

YEAR	SOURCE	NPS DAILY	DAYS Per	NPS Trillions	less Bond	TEA TRILLIONS	TEA X	TEAL %	REVENUE BILLIONS
		b/DAY	YEAR	pa	MARKET	pa	2		pa
1999	FM	100	220	22	4	18	36	0.55	198
2001	Est	150	220	33	8	25	50	0.55	275
2002	SARB	200	220	44	10	34	68	0.55	374
2005	SARB	250	220	55	12	43	86	0.55	473
2010	Estimates	365	220	80.3	12	68.3	136.6	0.67	915.22

Note that the daily NPS turnover figures do NOT include the following:-

- 1 - Bank transactions between two parties with accounts in the same bank.
- 2 - Internet transactions

These may represent R25 Billion daily and a revised estimate of teal would be:

YEAR	SOURCE	NPS DAILY	DAYS Per	NPS Trillions	less Bond	TEA TRILLIONS	TEA X	TEAL %	REVENUE BILLIONS
		b/DAY	YEAR	pa	MARKET	pa	2		pa
2005	as above	275	220	60.5	12	48.5	97	0.55	533.5
2005	as above	275	220	60.5	12	48.5	97	0.55	533.5
2010	as above	390	220	85.8	12	73.8	147.6	0.65	959.4
2010	as above	390	220	85.8	12	73.8	147.6	0.62	907.74

TABLE 2:

TEAL TAX INCOME BASED ON CHANGING BANK TURNOVER

THE FOLLOWING CALCULATIONS ASSUME A DAILY BANK T/O X 220 BANKING DAYS X 2 TO COVER DEPOSITS AND WITHDRAWLS.

Daily T/O ver BILLIONS	BANKING DAYS	X	pa Tot T/O TRILLIONS	REQ TAX BILLIONS	REQUIRED RATE %	Rands Per 100
300	220	2	132000	800	0.0061	0.61
200	220	2	88000	800	0.0091	0.91
100	220	2	44000	800	0.0182	1.82
INCREASED REQUIREMENTS						
300	220	2	132000	1000	0.0076	0.76
200	220	2	88000	1000	0.0114	1.14
FURTHER REQUIREMENTS						
300	220	2	132000	1300	0.0098	0.98
200	220	2	88000	1300	0.0148	1.48

COMPARISONS BETWEEN TAX PAID CURRENTLY AND TEAL
ASSUMING AN INCOME OF R 10,000/MONTH AND A PETROL USAGE OF R 2000.

CURRENT		TAX SYSTEMS:	TEAL	
10,000			10,000	
1,500		INCOME	295	TEAL AT MAX 2.95%
1,120		15 % MIN Tax		
700		14 % Vat On R 8,000.		
6,680		35% FUEL LEVY ON R 2,000	9,705	Net
Net			3,025	SAVING

Note: The 2010 budget transcript gave budget expenditure requirements of 907 billion Rands. We estimated the National Payment System throughput to be in the order of 365 billion Rands daily. We are attempting to confirm and update these and other figures so as to update our examples and make them more relevant to present day realities.

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