

The Personal Expenditure Tax Proposal: In view of Impact of the Economic Crises Prevention

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The world has undergone many economic crises in the last century of our recent past. These economic crises (called inflation, deflation, or stagflation) have always been considered to be one of the most critical problems facing humanity. Crises change the lifestyles of individuals and lower their living standards, whereby they are deemed to be social problems. Since it is the duty of the state to regulate economic life, politicians feel themselves under greater pressure (especially in democratic countries) to moderate the impact of the economic crisis. However, our historical experience has shown us that governments (and the political measures they devise) are inadequate and unsuccessful in preventing the economic crisis from occurring in the first place, even though the primary goal of the state and politics should be the prevention of the crisis before its onset.

This point precisely is the focus of this study. There have been attempts to revive the discussion of personal expenditure tax in the finance literature, an option which was proposed long ago as a method of preventing economic crises. In this new tax proposal, the subject of the tax is the portion of income that is not disposed. This “non-disposed” income becomes either consumption expenditure or investment expenditure. In this new tax proposal, the primary objective is to lay a mild progressive tax on consumption expenditure via a three-tiered tariff.

The proposal for a personal expenditure tax has two versions, one radical and one moderate. Both versions envisage a wide range of reforms, which encompass the elimination of some fundamental taxes in current use. The radical proposal supports a comprehensive tax exemption to investment expenditure depending on time and conditions. The moderate proposal, due to the ambiguity between investment and consumption expenditure, supports that both kinds of expenditure must be subject to the tax thereby proposed.

Scientists who support the personal expenditure tax do for a variety of reasons such as tax justice, simplifying the tax system, further

encouragement of savings and investment (as well as economic stability and growth), the improvement of income distribution justice, increasing the effectiveness of tax policy and the tax incentive system. The greatest practical obstacle to the implementation of the new tax is the difficulty of determining the income of the taxpayers. This is because in order to have the tax assessment, it would be necessary to list all cash input (regardless of the source), to calculate the cash sum, and to subtract from this sum all expenditure exempt from taxation (along with any investment expenditure). Those who are against the proposal generally do so because of the sheer size of the informal economy. The proposal becomes applicable and meaningful only when informal economy shrinks considerably.

The primary hypothesis of this study is that in our digital age, this new tax proposal has become much more applicable, thanks to the expansion of formal economy and the increased role that the banking system plays in daily life – which in turn were brought about by developments in technology. A brand-new taxation infrastructure, which will encourage savings and investment without penalizing workers and laborers, will be one of the greatest hindrances to the onset of economic crisis.

The first part of the study presents the aforementioned proposal for a personal expenditure tax in greater detail. The second part is on the discussion of the reasons which begin economic crises, and on this new tax proposal's expected role in the crisis prevention. The last part of the study will evaluate the preconditions relevant to the implementation of the personal expenditure tax proposal, as well as the applicability of the proposal itself.

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