JUSTIN'S WEEKLY COMMENTARY

Seven Investment Management

Justin Urquhart Stewart is one of the most recognisable and trusted market commentators on television, radio and in the press. Originally trained as a lawyer he has observed the retail market industry for 20 years whilst in corporate banking and stockbroking, and has developed a unique understanding of the market's roles and benefits for the private investor.

CAN YOU REALLY EVER HAVE CONSTRUCTIVE TAXES? OR A CARR TAX?

The past week has highlighted the efforts that some high profile characters go to in order to avoid - and possibly evade - their tax responsibilities. Mr Carr is certainly having a laugh at our expense with his use of that obscure tax device designed to avoid taxes. The point though, is that as citizens and residents of the UK, we have an obligation to pay fair taxes; many go on about their rights, but perhaps more should be made of each of our obligations to our society. Like Mr Carr, I suspect, I believe we pay too much tax and it needs reform. With an out of date and inefficient mélange of taxes, whether it's designed for wars against the French or from the complicated brain of ex-premier Brown, it seems to be a knotty complication of Gordian propositions and maybe requiring such an Alexandrian solution. Tolley's Tax Guide, for example (the Penthouse for all accountants to get excited over) has mushroomed from around 7,000 pages in 1997 to over 11,000 pages quite recently. How can we keep growing taxes like this? We don't just need less taxation, but also fewer taxes - and at the very least surely we can make them simpler?

What we do know is that if you do make taxation simpler and less onerous, then more people pay the tax and spend less time, effort and cost trying to dodge their responsibilities. It is the higher end of income earners that pay the greatest proportion of taxes, so it is at this end that we should focus our efforts to make it easier and simpler to pay their dues, with financial carrots of encouragement as well as the sticks of the revenue officers.

Now quite rightly we need to ensure that the government has more income, at least in the near term, to address our deficit (not debt) problem. However of course, as I have bleated on before, we also need to see growth to assist this - but in fact changes to tax can also help here. For example, the removal of Stamp Duty on housing transactions is intended to encourage population movements and VAT-able expenditure.

Then what about Stamp Duty on financial transactions? This at the moment primarily relates to shares, with a 0.5% charge on all share purchases. In effect this is already a transaction tax, so when some claret-faced financial commentators start overheating on a potential European version, they often seem to forget that we already have such a structure in place. Actually I believe there is nothing wrong with a financial tranasction tax, if applied fairly, at the right level and for the right purposes.

So time therefore to reform this old fashioned tax, which dates back to the Dutch King William III, and replace it with a far smaller tax of say 0.02% across all financial transactions. This would still cover the usual share transactions, albeit now at a lower level, but now include the spread betters or bookies who currently contribute little by way of tax, or much else really, and then also extend it to include the faceless and probably socially useless high frequency traders, whose computer dealings silently rack up on the backs of our own transactions. These two areas pay little towards their own regulation, and pay even less in terms of VAT and other taxes like CGT. Time, then, for sensible reform. Would this drive business off-shore? Actually at those levels of fractions the answer is probably no - especially if the old tax is reformed - and if we end up with a few less spread betters, I don't think that is going to desperately curtail the UK economic recovery.

Oh and time for a reminder of one other tax development which needs airing again, that of the 'fat tax.' Not for taxing fat people, but rather taxing the fat in the food we eat. More of us are becoming clinically obese and the cost to us over the years will only increase in terms of medical support and care. If we know certain fats are bad for us, then we should be financially encouraged away from them. We do the same with cigarettes after all.

Here, the cry goes up that this is a tax on the poor. I wait to be persuaded. Fresh food doesn't have to be expensive. Is this another Marie Antoinette moment whereby we replace the word cake to allow the shout to go out "let them eat lettuce"? After all, they can always have low fat mayonnaise to liven it up.

We already have many 'sin' taxes to try and encourage us towards better and healthier habits so I can't see why this can't apply to our food and also help our finances. Perhaps we should be training and educating ourselves away from being a nation of salad dodgers as well as tax dodgers? Lettuce, Mr Carr?

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And finally...why not rob a bank? I know there are lots of angles about banks robbing us and why it's not worth robbing banks because they haven't got any money, but I just love some research recently updated from Barry Reilly of the University of Sussex about real bank robberies.

Apparently the average British bank robbery nets £20,330 according to data covering some 364 robberies in the UK from 2005-2008. Meanwhile our American cousins, according to the FBI, net a mere £6,467 per robbery, which must barely make them worthwhile. However, it seems that they have a far better 'success' or hit rate than we do. The American bandits achieve a 90% success rate while ours trail behind at a mere 66%. You would think that a really efficient gangland boss would thus import US robbers for UK banks.

Then there is the question of being 'tooled up.' Apparently armed robberies yield £10,300 more than unarmed ones, although the penalties for being caught are commensurately higher. The figures also show that one is better off having additional 'blaggers' with you to increase the total 'take' but of course you still have to split the gains.

Possibly the most worrying figure is that it takes some £4,500 to provide some effective defence for front line tellers, thus meaning that most banks think that it is probably not worth it. Only 12% of UK bank branches are fitted with them. Nice to know that you are valued by your employer!

Have a good week.

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