Tax by Design

Overview

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Built on a large body of economic theory and evidence.

Inspired by the Meade Report on Taxation.

Commissioned papers on all the main topics, with commentaries, collected in *Dimensions of Tax Design*.

Received submissions and held discussions with some tax experts.

We, the authors thank all these, for their contributions and support.

In addition, thank you to the authors, a great team to work with, who did most of the work.
Tax systems in general

- Taxes and benefits form a system
  - To raise revenue to finance government spending.
  - To redistribute from the better off to the needy.
  - (They can also correct some market failures.)
- People are affected by the whole system, some made worse off, some better.
- Ideally, desired revenue and desired redistribution would be achieved in a way that costs individuals as little as possible.
Principles

- **System:**
  - People respond to all the tax rates.
  - Marginal tax rate is sum of all additional taxes paid when income increases by £1.
  - Particular taxes need not be green or progressive.

- **Neutrality:**
  - Inequality is primarily in employment opportunities.
  - Therefore, presume same tax for all consumption; and same tax for all employment income. But...

- **Progressivity:**
  - More tax from the better off.
Income Tax

- Want a coherent, transparent rate structure for income tax, based on evidence of behavioural responses.
- Decisions influenced by the after-tax income reward to working include whether, where and how much to work.
- Different tax rates for different age and circumstances, since evidence shows different response to taxes.
- Should have a single integrated benefit for low incomes and high needs, depending on weekly circumstances.
Incentives

- Taxes should apply to income less the cost of earning.
  - Tools of the trade
  - Saving
- Saving is the cost of future consumption
- That means not taxing the normal (risk-free) return to saving, but taxing returns above that in full
Indirect taxes

- Should be value-added taxes. Differentiate?

- Interaction with labour is the key issue: more time use implies higher tax.

- Few clear cases for differential taxes: low or zero rates for child-care, education, probably medical care. No good evidence for negative association with labour.

- For different reasons, higher taxes on alcohol and tobacco.

- No transaction taxes.

- Environmental taxes: greenhouse gas emissions, and congestion on the roads.
Business Taxes

- Single rate of corporation tax, with no tax on the normal return on investment
- Equal treatment of income derived from employment, self-employment, and running a small company
- No tax on intermediate inputs
  - but a land value tax at least for business and agricultural land
Overview and Proposals

- Whatever revenue and redistribution is desired, a good tax system would be less complex, with a fairly narrow set of taxes. It should provide few easy opportunities for evasion and avoidance.

- There are many interesting details when these principles are applied to the UK.

- We have prepared a package of proposals. Other members of the team will talk about them.