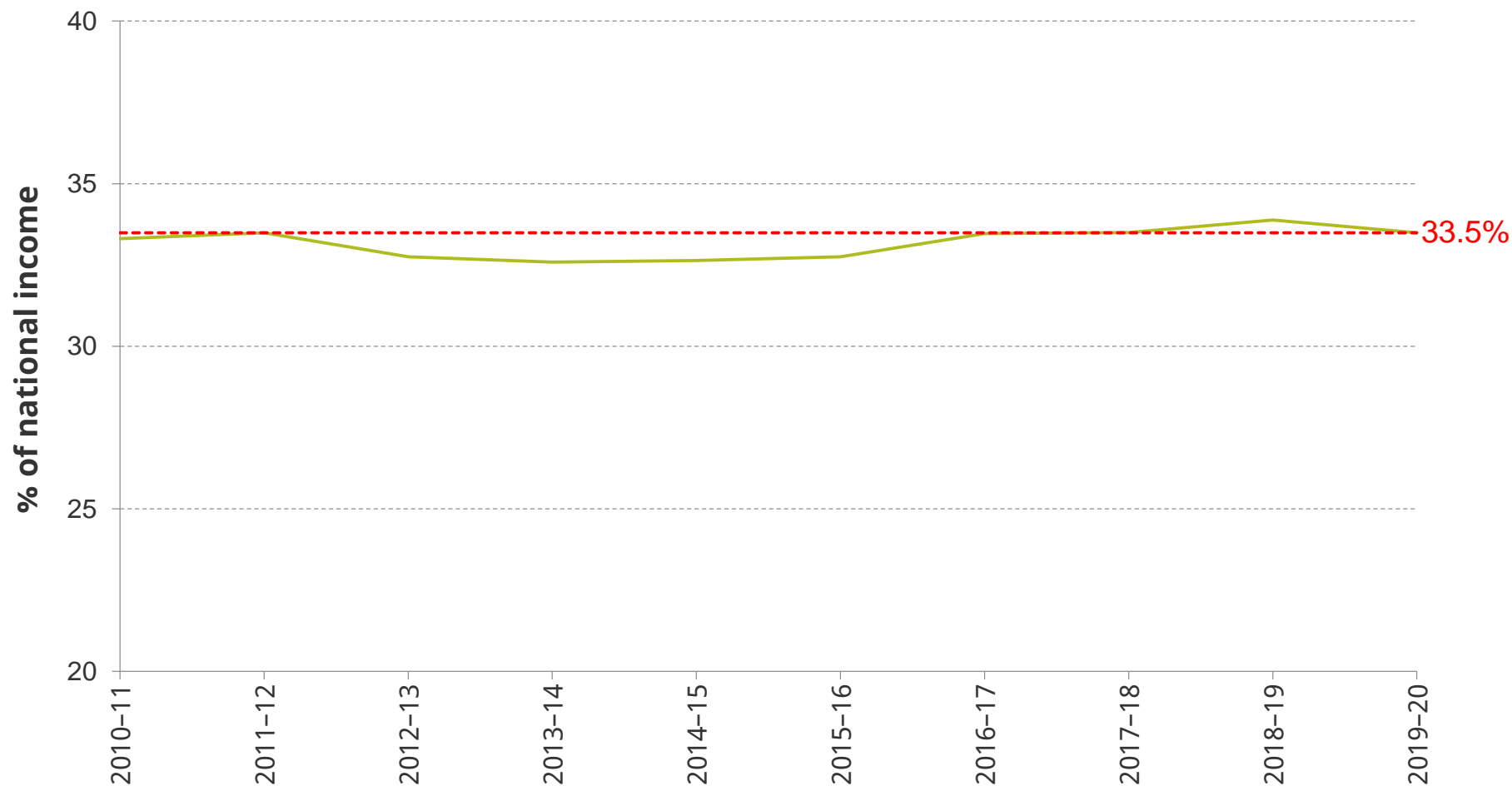


Tax in the 2010s: successes and failures

Stuart Adam

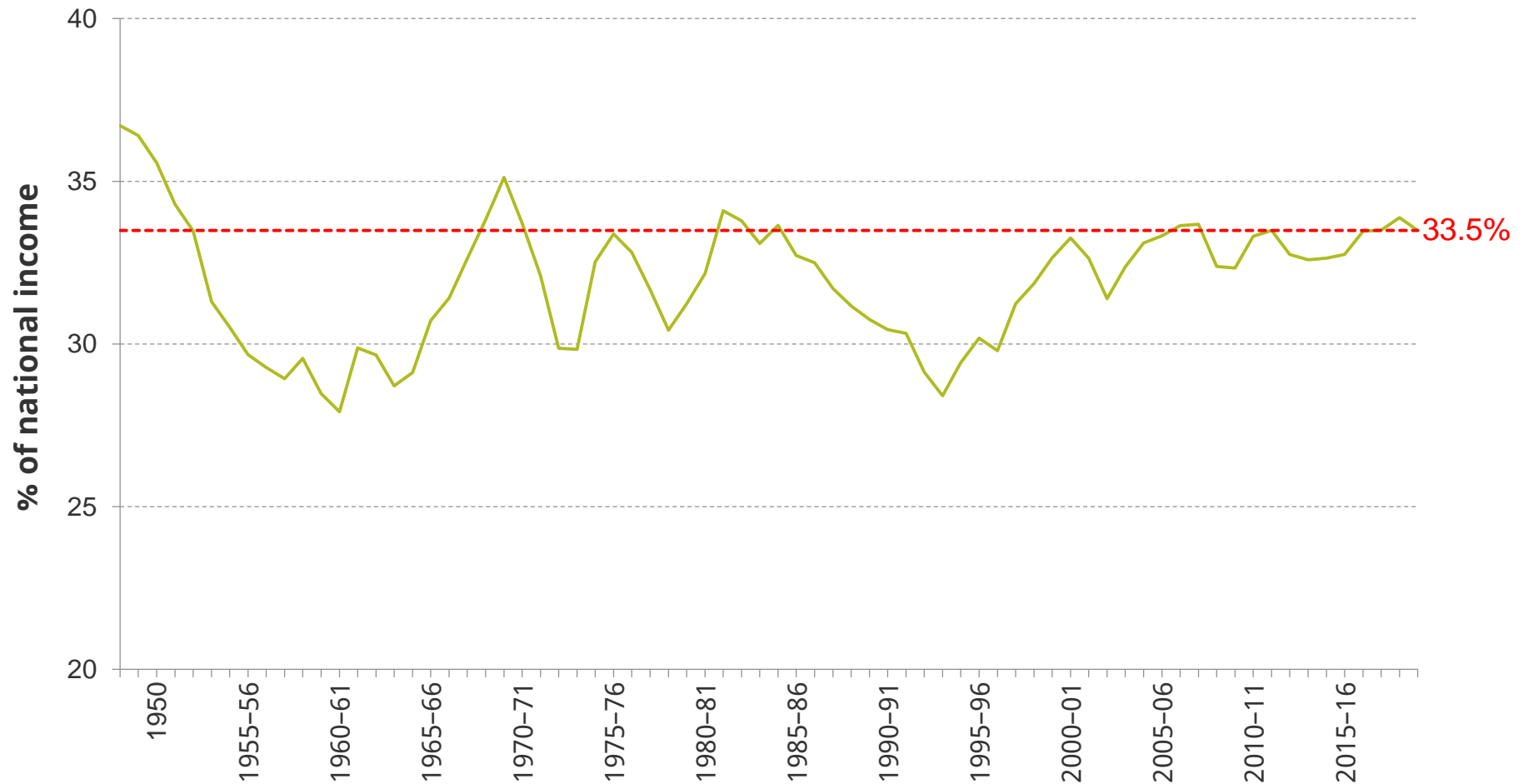
IFS-CIOT debate, 24 June 2020

Overall tax take largely unchanged...



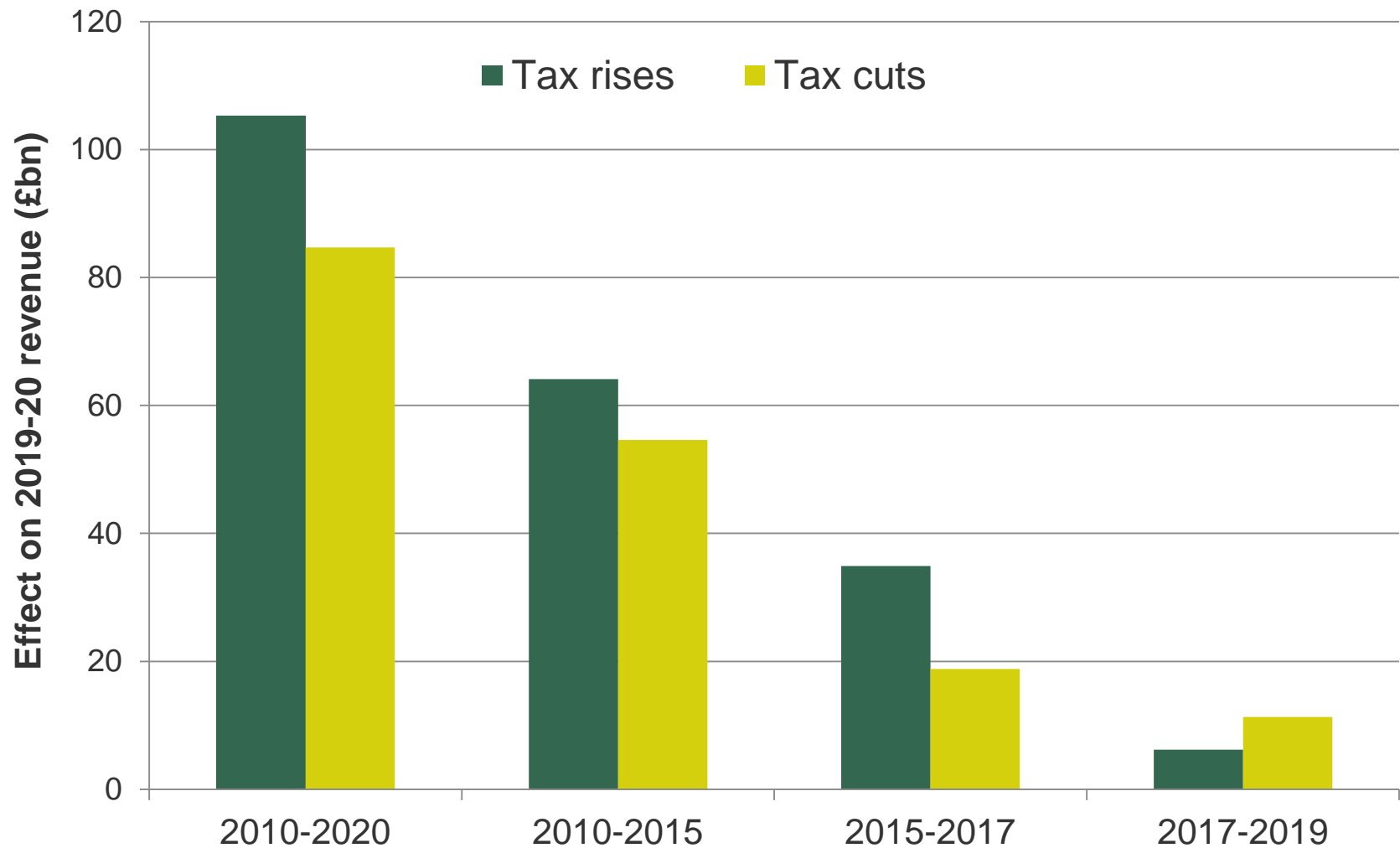
Source: OBR, *Public Finances Databank*, May 2020

...leaving it high by historical standards



Source: OBR, *Public Finances Databank*, May 2020

£20bn net tax rises announced since 2010



Source: Table 1 of S. Adam (2019), *How high are our taxes, and where does the money come from?*

Taxes up, taxes down

Biggest tax rises

- Increased main rate of VAT
- Increased rates of NICs
- Reduced limits on tax-privileged pension saving
- Stream of anti-avoidance and anti-evasion measures
- Switch from RPI to CPI inflation indexation

Biggest tax cuts

- Increased income tax personal allowance
- Reduced headline rate of corporation tax
- Freeze in fuel duties

Challenges unaddressed, opportunities missed

Tax rates changed, but long-standing structural problems unaddressed

- Income tax and National Insurance: lack of integration
- VAT: narrow base & damaging exemptions
- Corporation tax: distortions to investment, bias towards debt finance
- Business rates: discourages development & use of business property
- Inheritance tax: too easily avoided

Rising long-term challenges in 2010 have simply become more urgent

- Council tax: valuations now approaching 30 years old
- Motoring taxation: how will low-emission driving be taxed?
- Climate change: lack of systematic action, wildly inconsistent carbon prices
- Inconsistent taxation of different legal forms increasingly problematic
- Reliance on small number of taxpayers for much of revenue

International issues harder to tackle unilaterally – some limited progress

Instability and changes of direction

- Entrepreneurs' relief limit £1m → £10m → £1m
- Annual investment allowance changed 6 times
- Bank levy (over five years, 9 announcements of 16 rate changes)
- Insurance premium tax ratcheted up
- Fuel duties ratcheted down
- Business rates changed almost annually after 20 years of stability

Rising complexity

Lots of new taxes

- Apprenticeship levy, soft drinks industry levy, plastic bag tax, bank levy, bank surcharge, diverted profits tax, digital services tax,...

More differentiated rates/allowances in existing taxes

- Income tax: marriage allowance, high income child benefit charge, pensions annual allowance taper
- Corporation tax: patent box
- SDLT: additional homes supplement, first-time buyers relief
- Business rates: pubs, retail, public lavatories,...
- Inheritance tax: residence nil rate band
- CGT: different rates for housing

More variation across the UK

- Devolution to Scotland, Wales and Northern Ireland
- Council tax reduction schemes vary across English local authorities

Changes to tax administration

- Real Time Information
- Online Personal Tax Accounts
- Making Tax Digital

Changes to tax policy-making process

- Set up Office for Budget Responsibility and Office of Tax Simplification
- Somewhat better consultation
- Somewhat better documentation and transparency
- Corporate tax roadmap 2010
- Move to single fiscal event per year (in principle!)
- Tax devolution

Conclusions

Room found for priority tax cuts within overall tax rise

Changes mostly to tax rates – little change in tax base

- Missed opportunity to address fundamental inefficiencies in tax structure
- Challenges that were growing in 2010 are even more urgent now

Some improvements in institutional arrangements

A decade of tinkering and rising complexity – like the previous decade

- Still problems with the way policy made and a lack of strategic approach