



# IFS Green Budget 2018

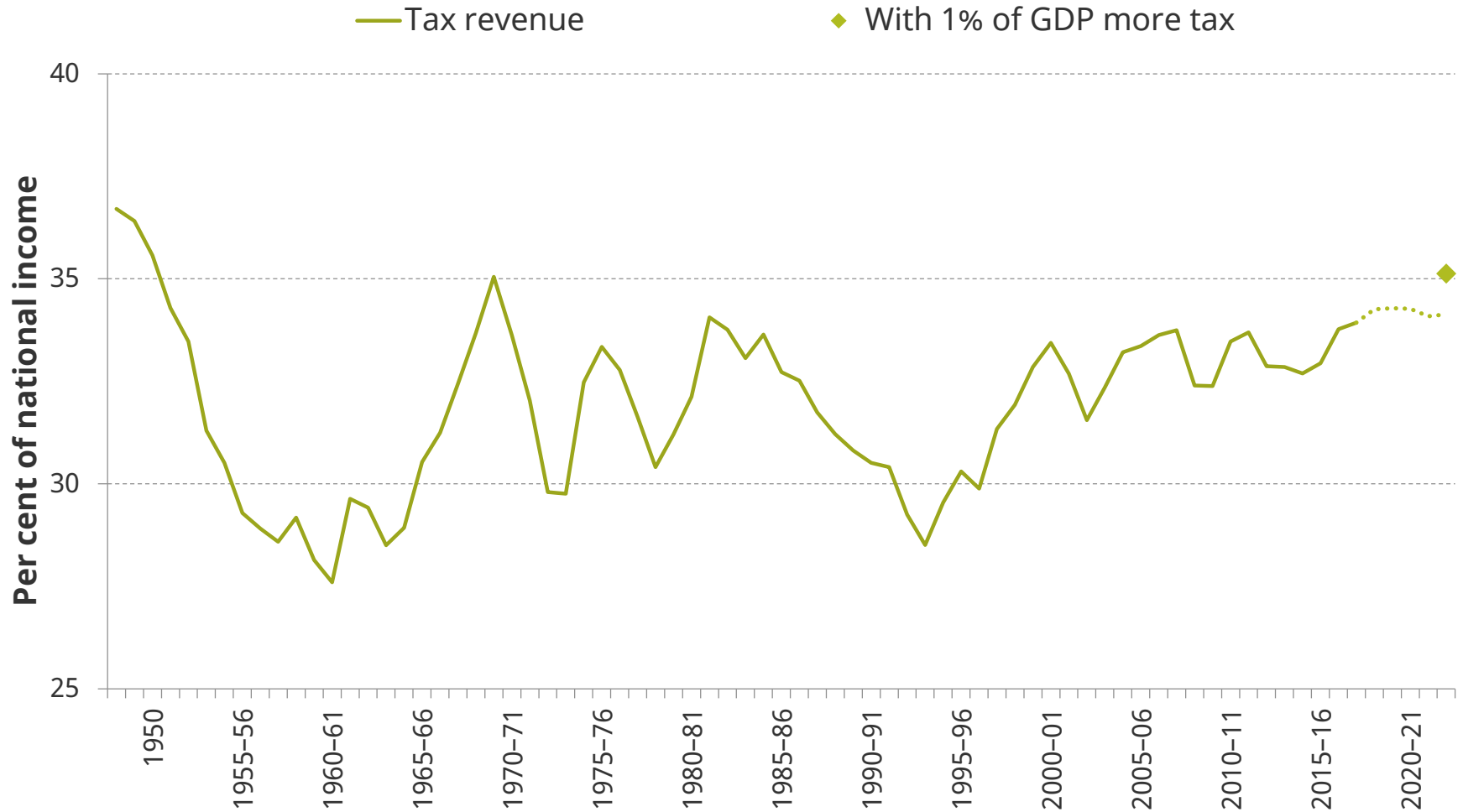
## Options for raising taxes

Tom Waters, Institute for Fiscal Studies



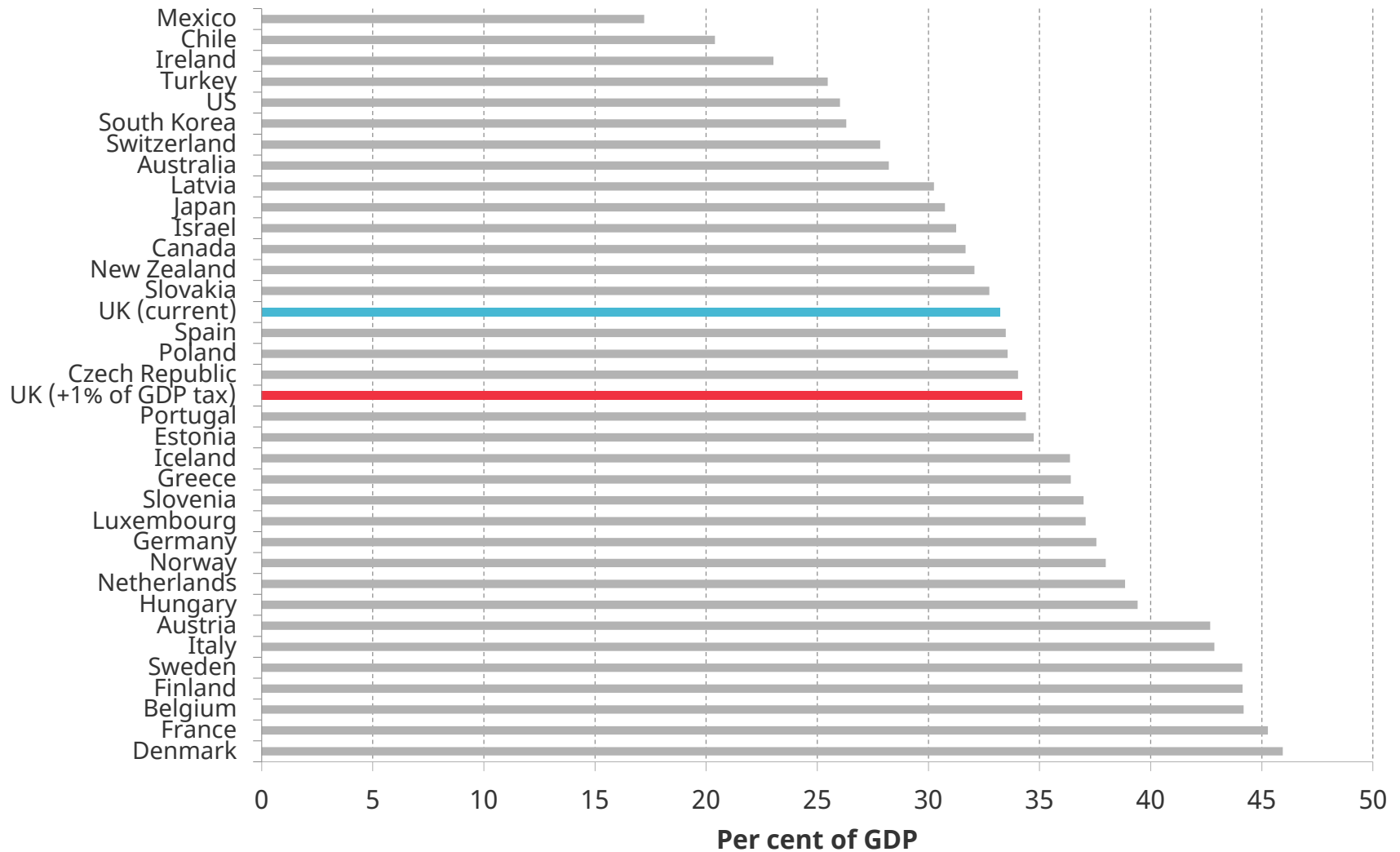
@TheIFS #IFSGreenBudget

# The tax burden – a historical perspective



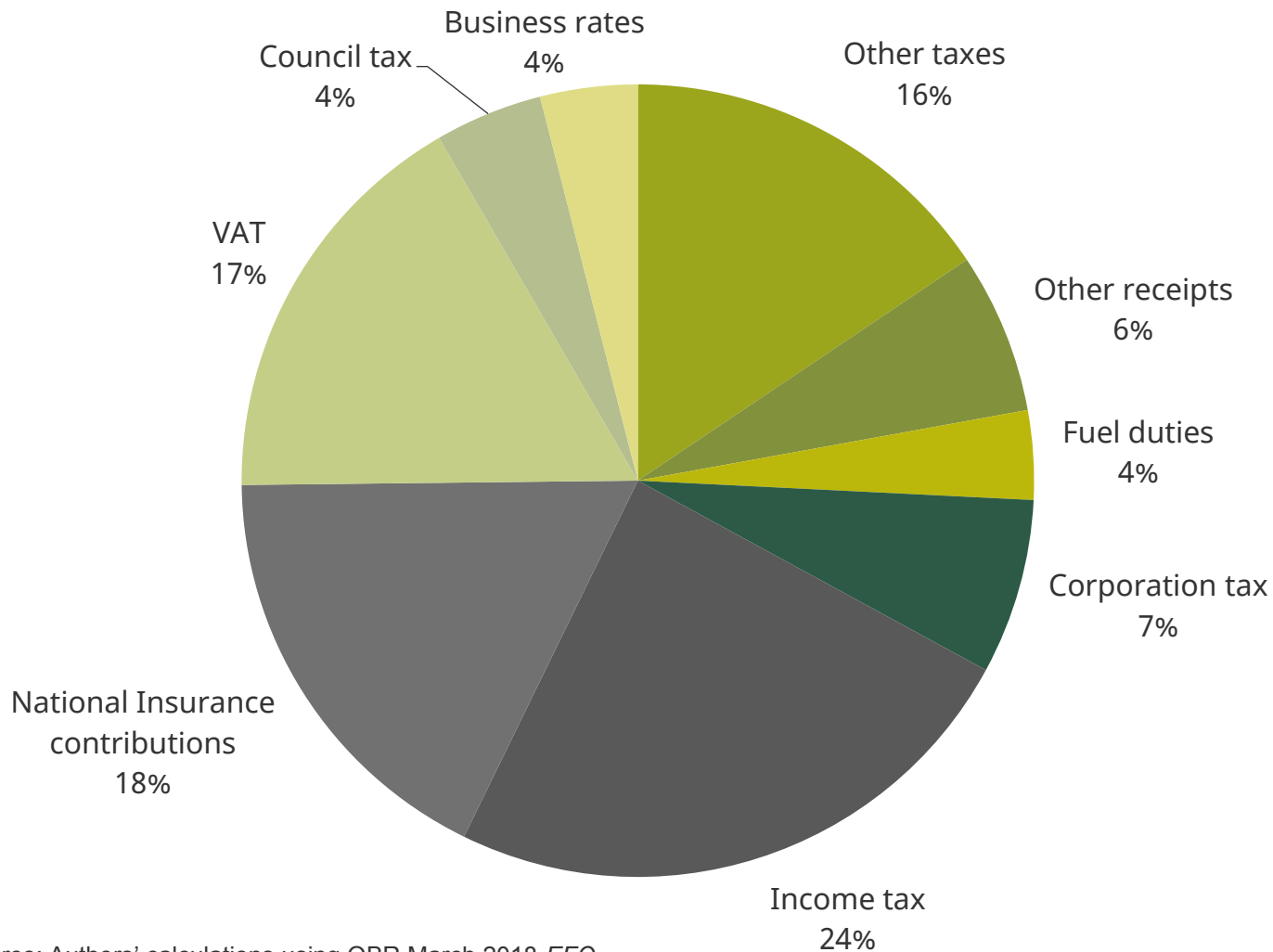
Notes and sources: see Figure 5.1 of the IFS Green Budget

# The tax burden – an international perspective



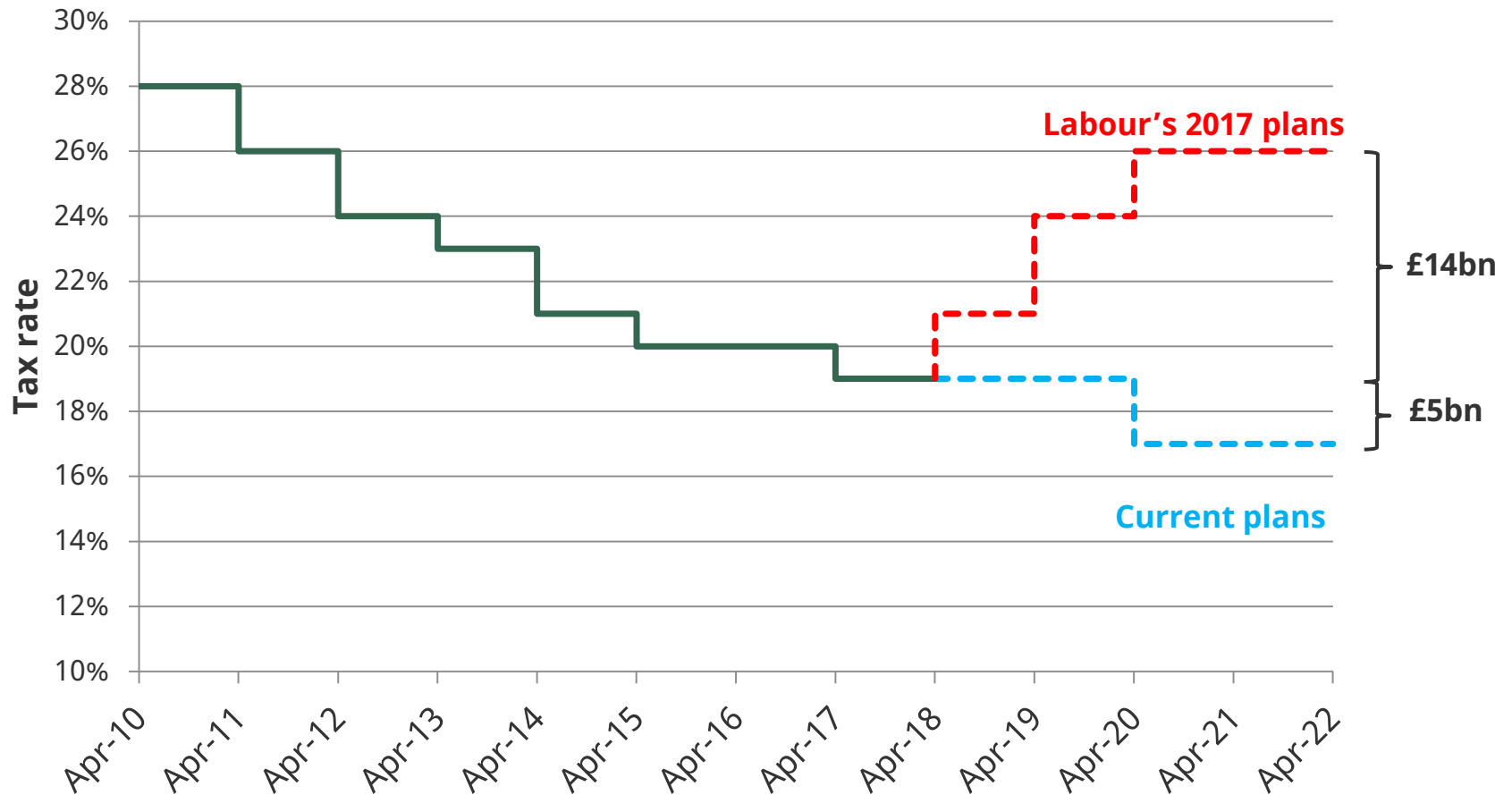
Notes and sources: see Figure 5.2 of the IFS Green Budget

# Composition of revenue



Source: Authors' calculations using OBR March 2018 *EFO*

# Main rate of corporation tax



Source: Taken from IFS analysis of 2017 manifestos

# Tax at older ages

## Older people benefit from NICs exemptions in two ways:

- Earnings above state pension age
  - Remove exemption → £1.1bn (before any behavioural response)
  - Likely to have a relatively big behavioural response
- Private pension income
  - All pension income is exempt
  - Pension contributions made by employers (3/4 of contributions) are exempt from NICs (but employee ones are not)
  - 1% NICs rate on private pension income → £0.6bn
  - Issues with double taxation, retrospection

# Tax at death

## **Inherited pension pots – several tax advantages, including:**

- No inheritance tax paid on bequeathed pension pot
- Encourages people to draw on any *other* assets during retirement
- Fiscally small now, but will only grow: should sort it now

## **Capital gains tax forgiveness on death**

- Encourages people to hold onto assets and not realise gains
- In 2012 government estimated relief cost it £0.5bn

# Taxing better-off people

## Entrepreneurs' relief

- Reduces capital gains tax liabilities by £2.7bn
- 70% of the gains go to 6,000 people receiving av. relief worth £300,000
- Creates a range of distortions

## Council tax

- Based on 1991 property valuations
- Less than proportional to property value
- E.g. doubling rate on bands E-H properties → £8.5bn

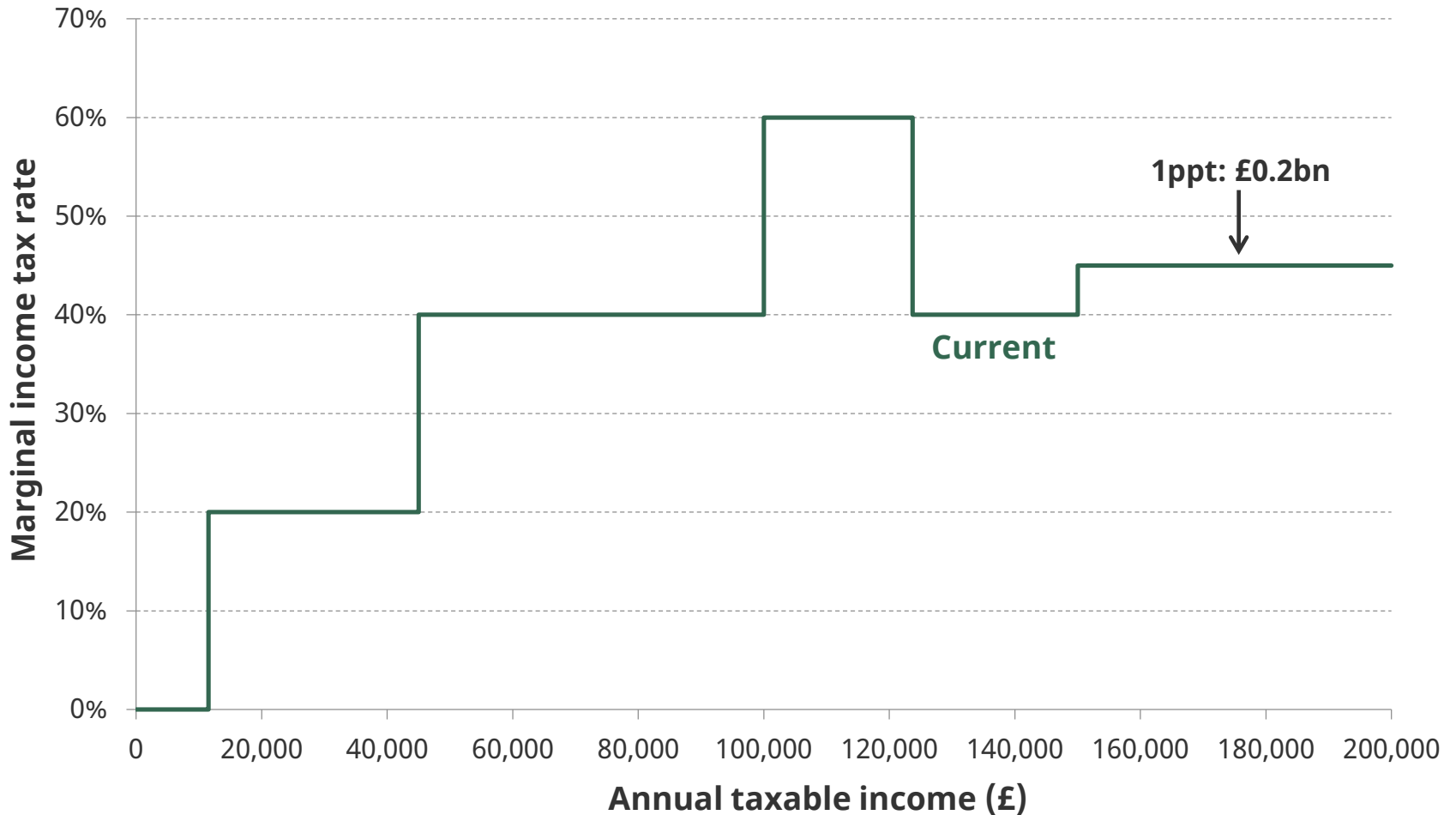
## Increases to top income tax rates

- Quarter of income tax comes from 0.6% of adults
- 42% pay none at all



# Income tax schedule

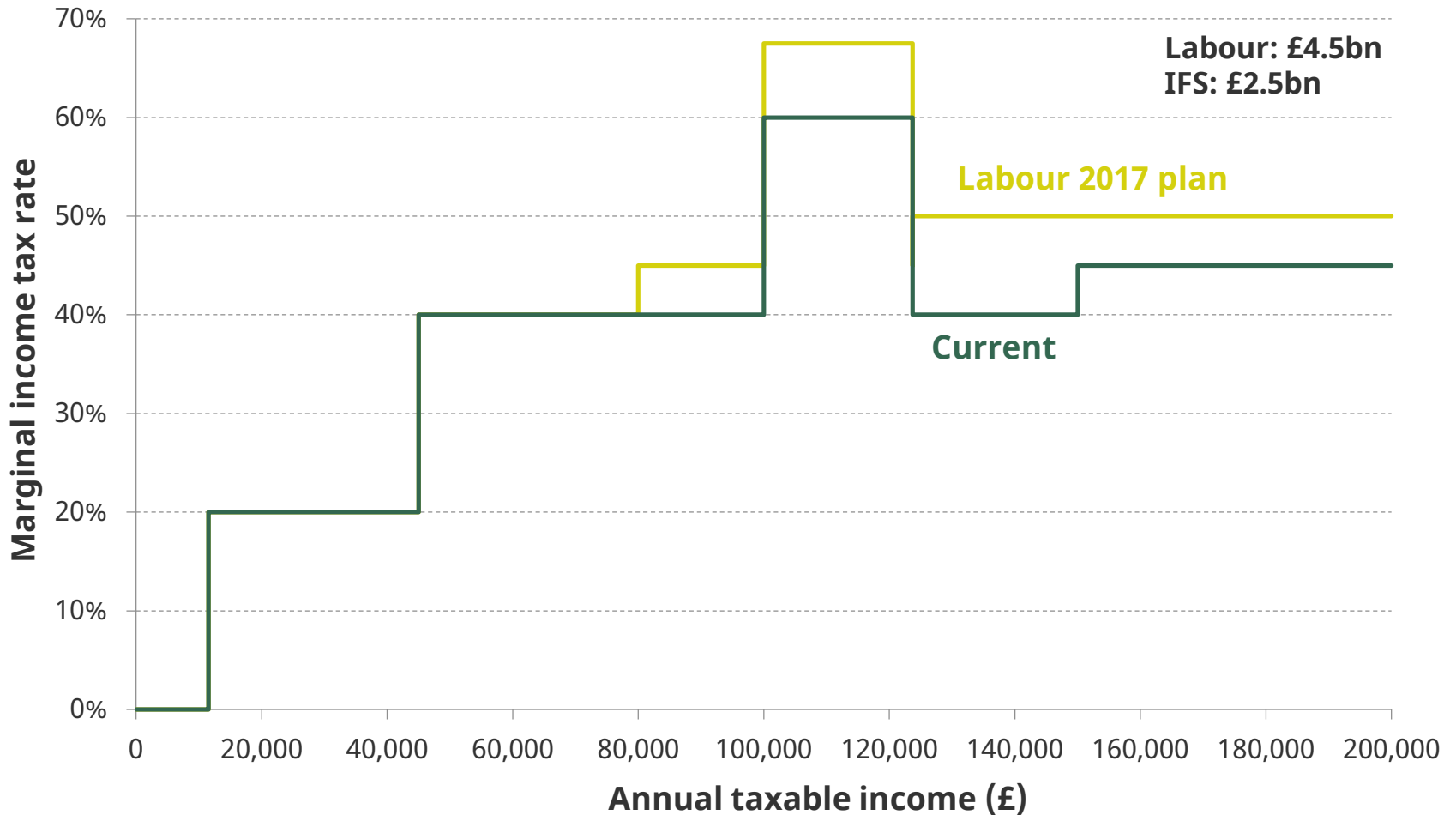
## England, Wales, and Northern Ireland



Notes and sources: see Figure 5.7 of the IFS Green Budget

# Income tax schedule

## England, Wales, and Northern Ireland



Notes and sources: see Figure 5.7 of the IFS Green Budget

# Conclusion

**Many other possible tax rises not considered here**

**Broad based tax rises are the most straightforward way**

**Tax system has various distortions which could be removed to raise revenue from e.g. better-off or older people**

**Revenue and distribution matters, but so does design**