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General election analysis 2019

Find our up-to-date analysis here:

https://www.ifs.org.uk/election/2019/

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Tax

Stuart Adam

Conservatives

‘Tax guarantee’

No increase in rates of income tax, NICs or VAT

- Repeating 2015 election pledge

Significant and unwelcome constraint if tax rises needed in future

Or if want to change tax rates for other reasons

- As Philip Hammond found in 2017

Cancel corporation tax cut

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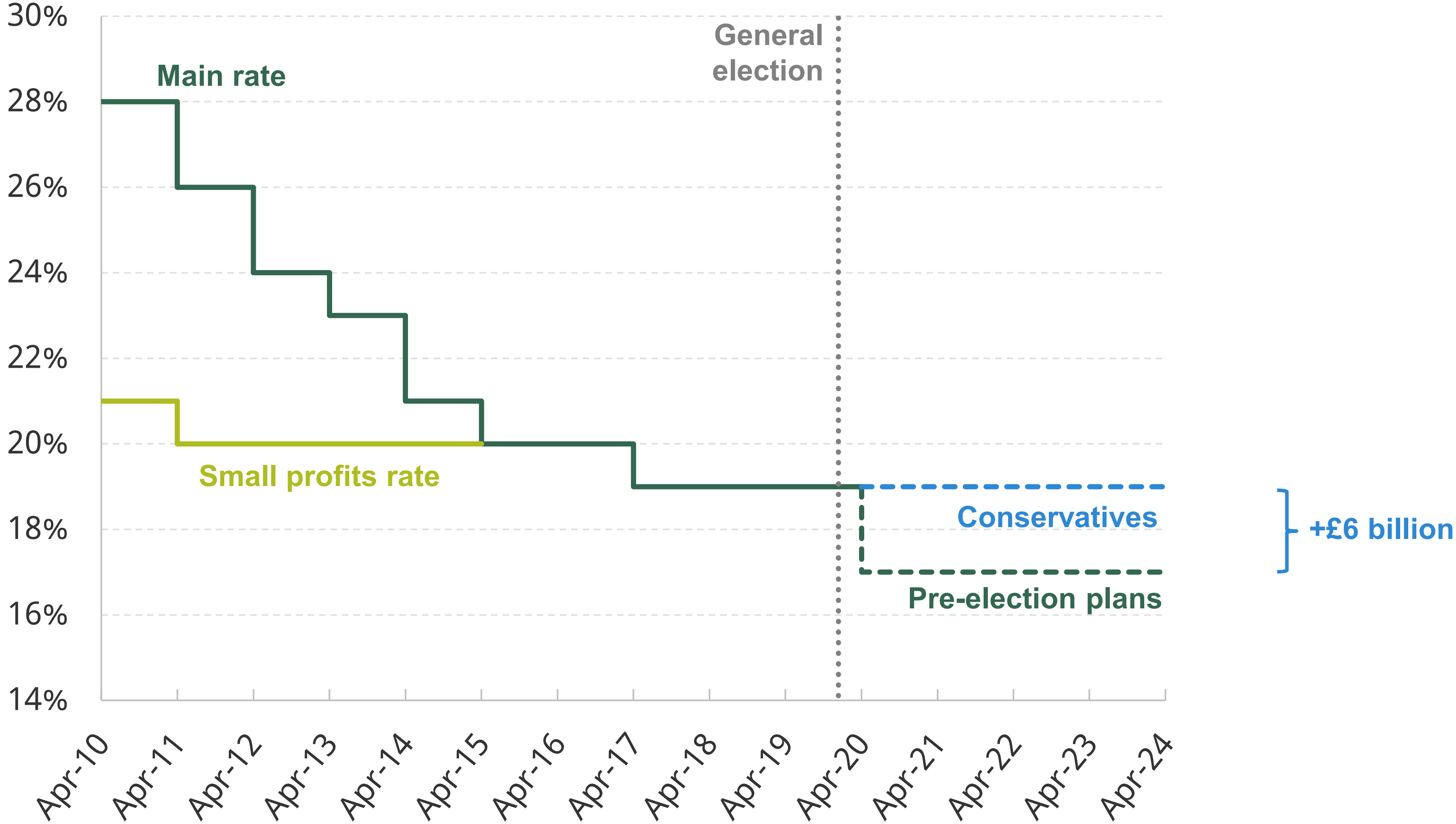


Increase NICs threshold

Currently due to be £8,788 per year in 2020-21

Conservatives would increase to £9,500 for employees & self-employed

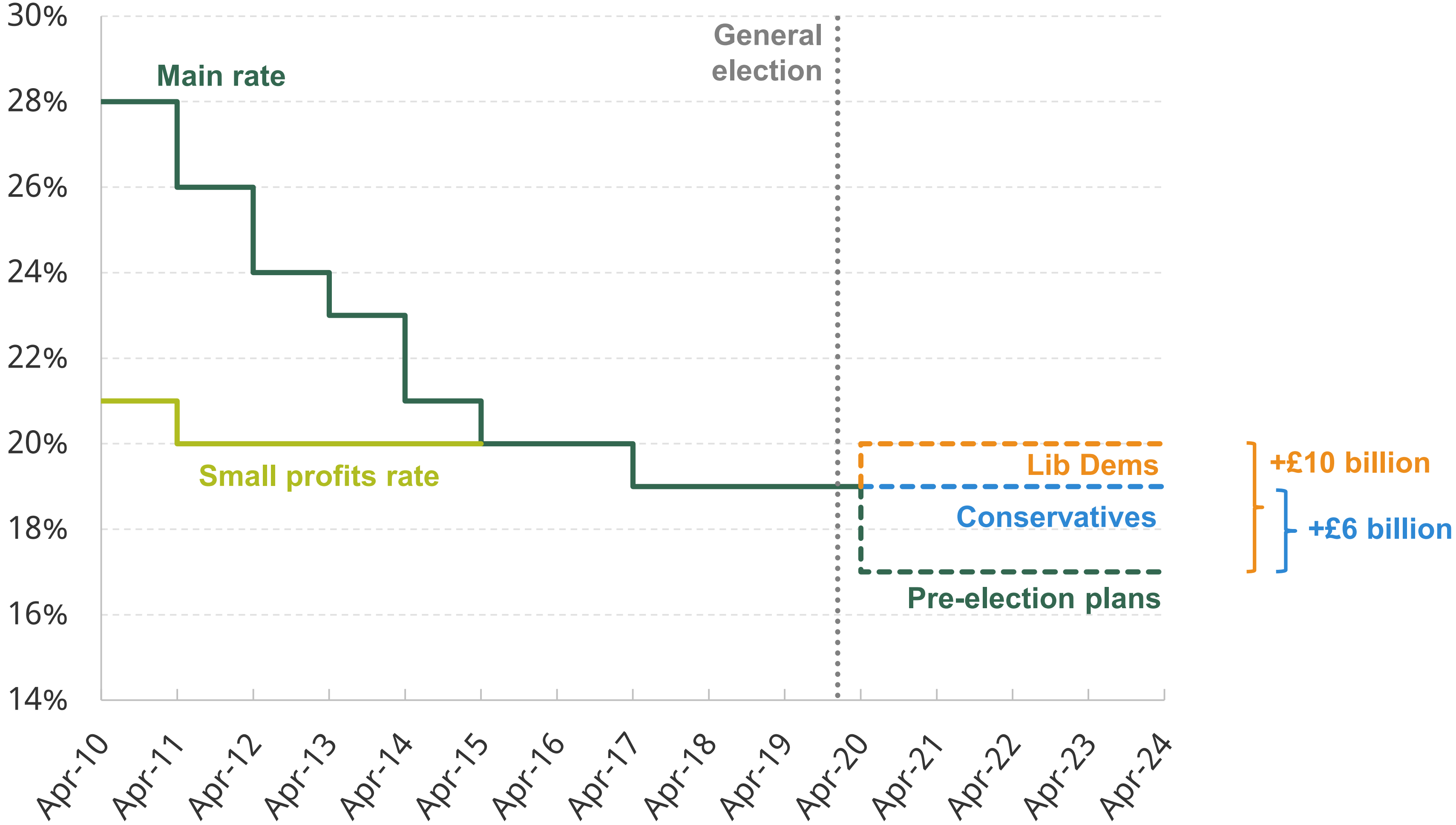
- Taking ½ million people out of NICs
- Those still paying NICs see liability reduced by up to £85 per year
- Costs £2bn a year
- Only 8% of gains go to poorest 20% of working households
  - Increasing in-work benefits better targeted, but expands means-testing

‘Ultimate ambition’ to raise threshold to £12,500

- Later = cheaper, as normally rises with inflation anyway
- Doing by 2023-24 costs additional £6bn (in today’s prices)

Liberal Democrats

Increase corporation tax to 20%



1ppt rise in all rates of income tax

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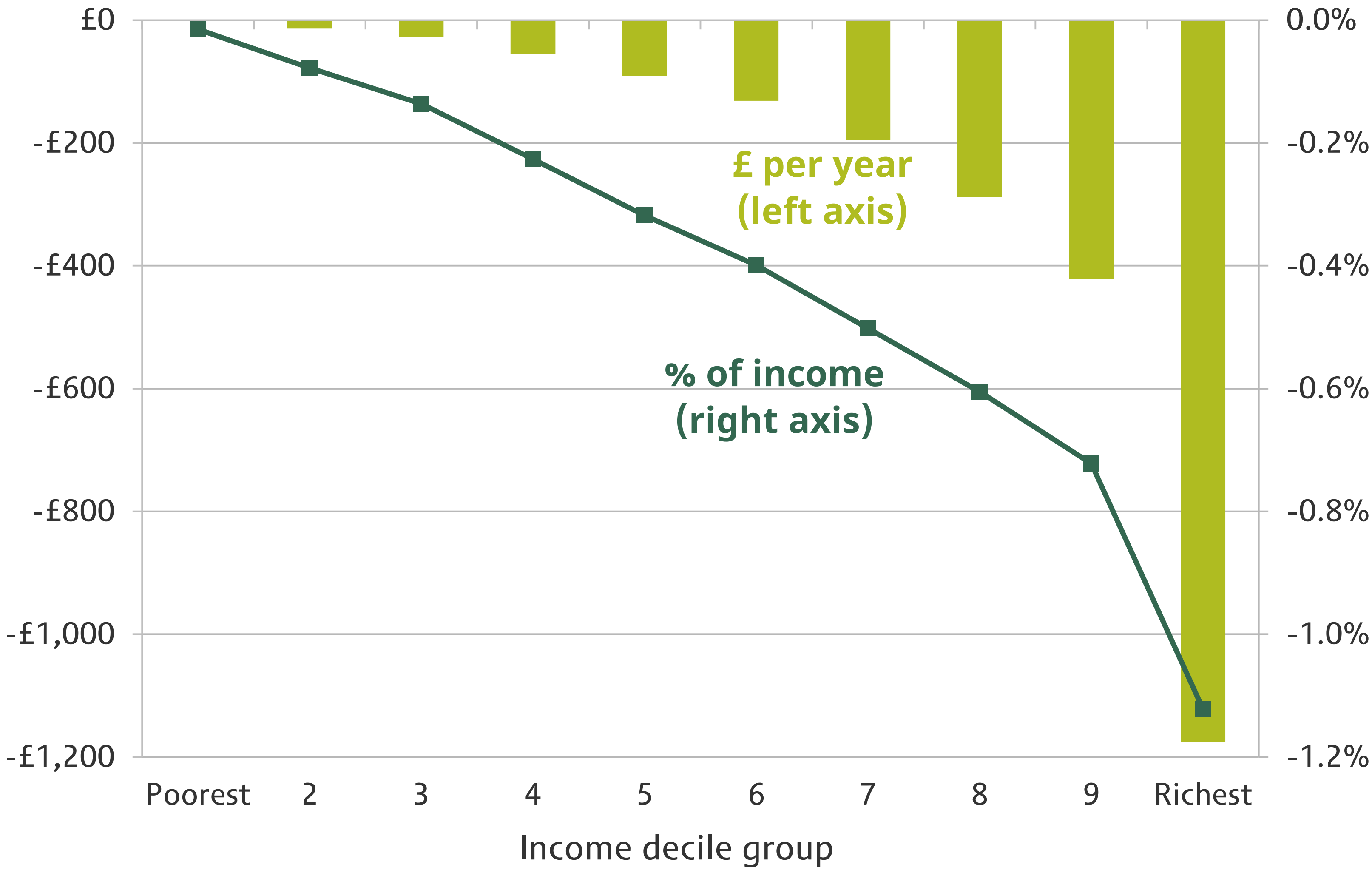
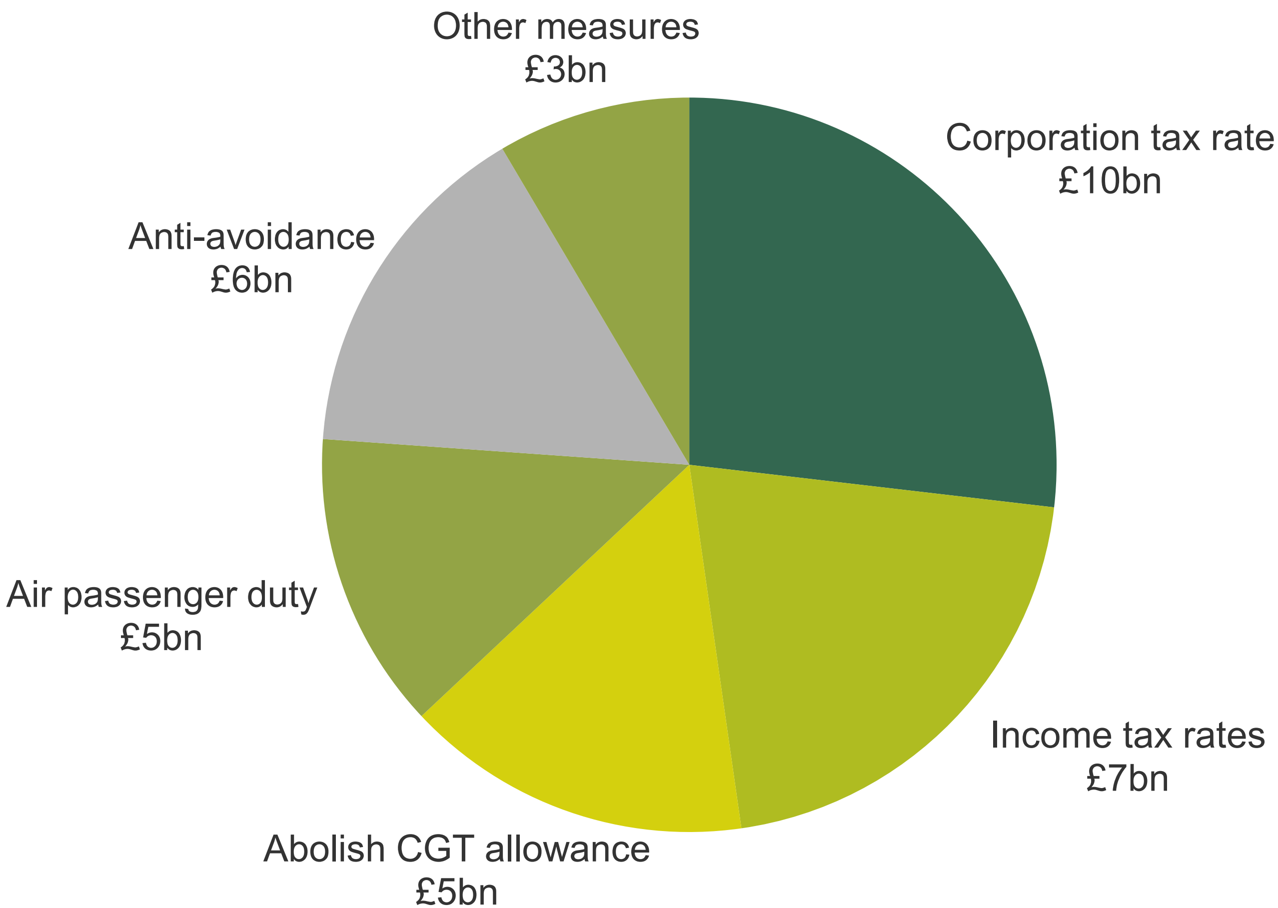


Lib Dems: £36bn of tax rises



Complicating the tax system

One simplification: abolishing marriage allowance

But…

At least two entirely new tax administration mechanisms

- Air passenger duty and cannabis duty

Stamp duty land tax to depend on energy rating

Lots more people paying capital gains tax

Valuing land without buildings for business rates

More VAT differentiation (electric vehicles, home insulation)

Ultra Low Emissions Zones in 10 more towns and cities

Hypothecated health & care tax

Labour

Increase income tax rates on incomes >£80,000

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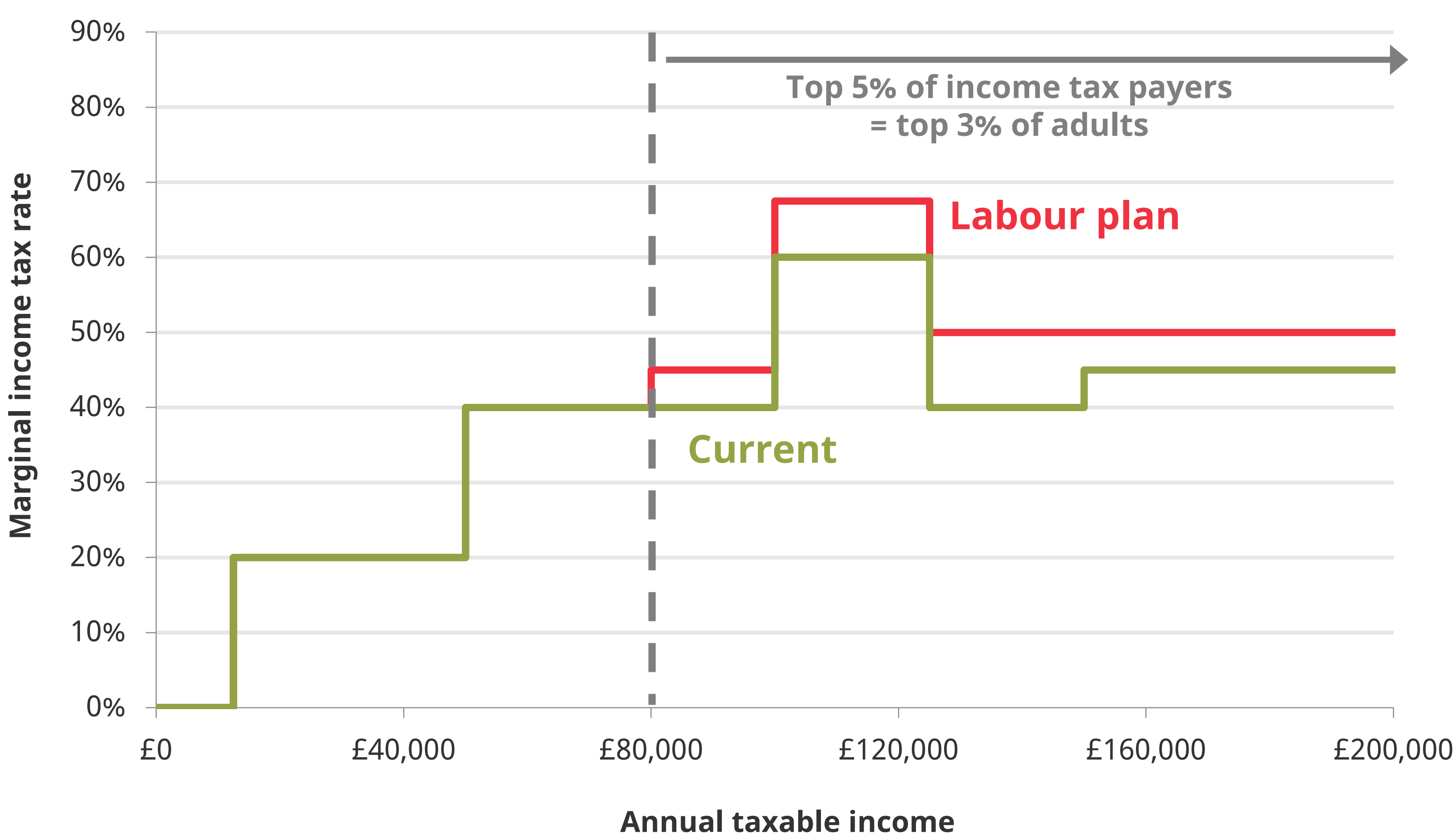
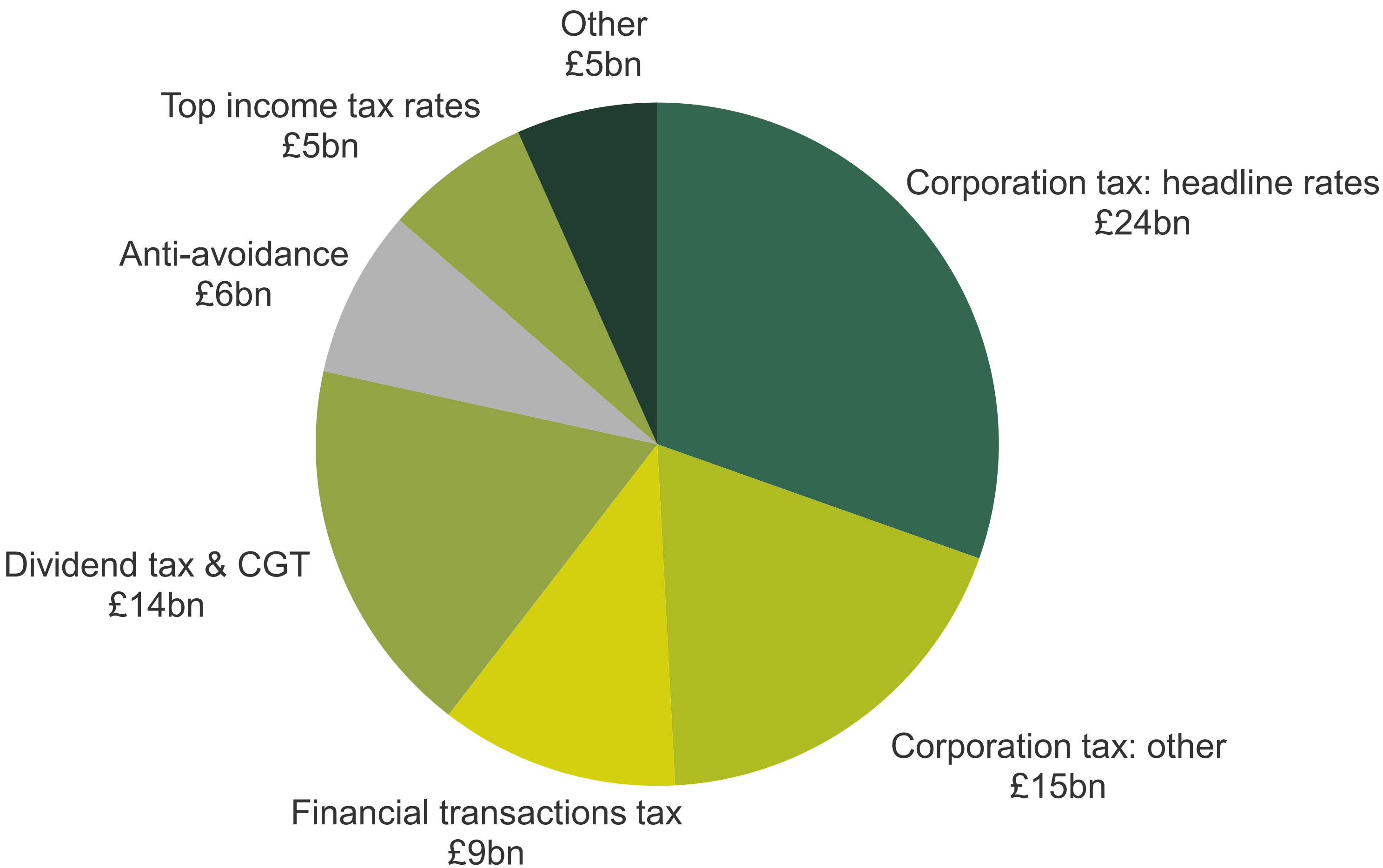


Labour: £78bn of tax rises



Note: Excludes 'Inclusive Ownership Fund', windfall tax on oil companies and some smaller tax changes

Dividends and capital gains

Currently taxed much less than ordinary income

Labour proposes to tax at income tax rates

- No deduction for corporation tax already paid on profits, but no NICs either

Incl. abolishing entrepreneurs' relief, forgiveness at death & other reliefs

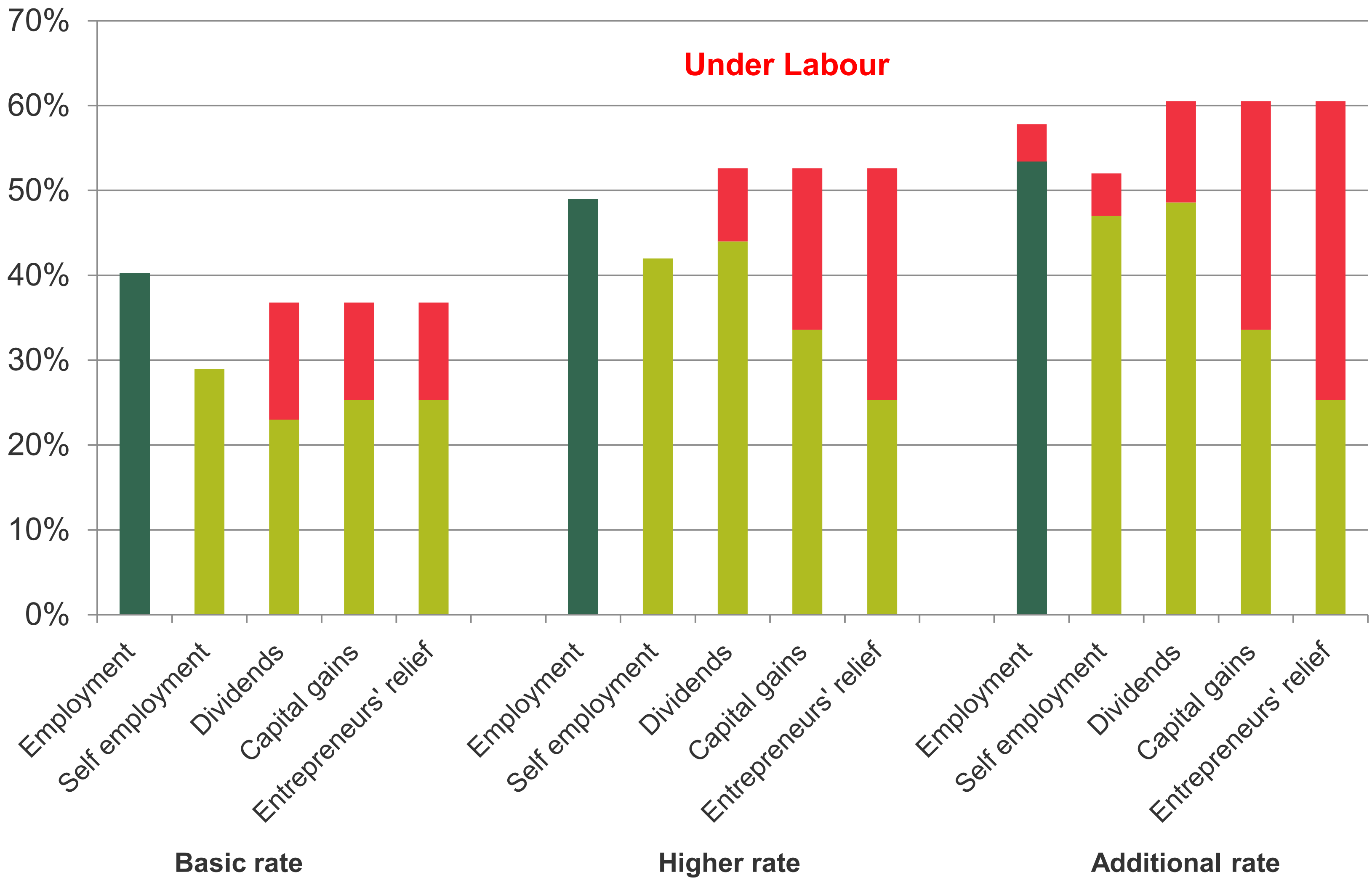
Introduce a Rate of Return Allowance, as advocated by Mirrlees Review

- Avoids disincentives to save/invest

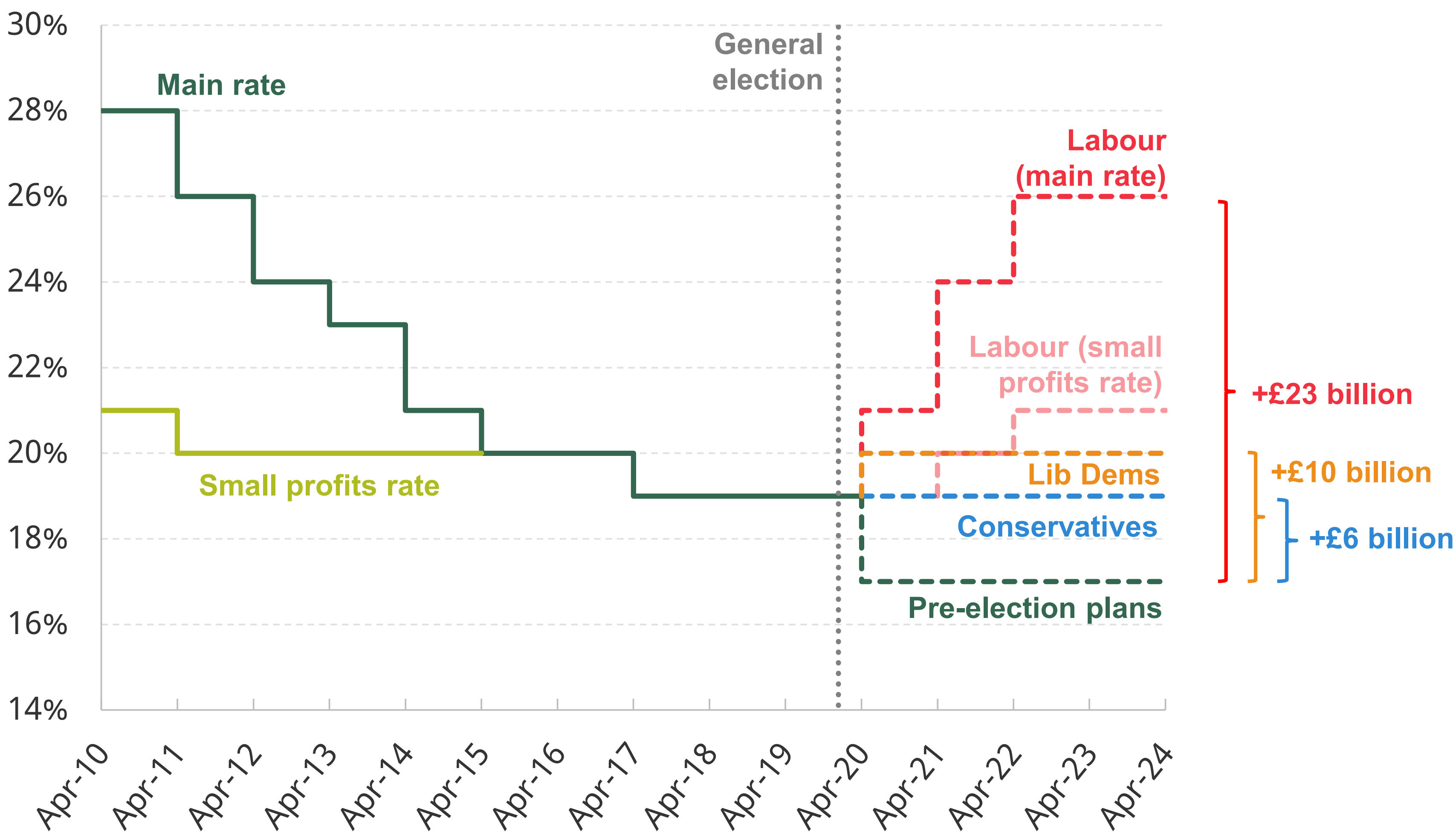
Would mean taxing business owners' efforts as much as employees'

- No reason to tax them less

Overall marginal tax rates on income generated



Corporation tax rates compared



Other corporation tax rises

Unitary taxation of multinationals: £6.3bn

- Tax multinationals' global profits according to UK share of global employment/assets/sales, not UK profits
- Addresses important issue, and reasonable approach to pursue internationally
- But doing unilaterally would be impractical and risk legal challenge
- So can't count on revenue

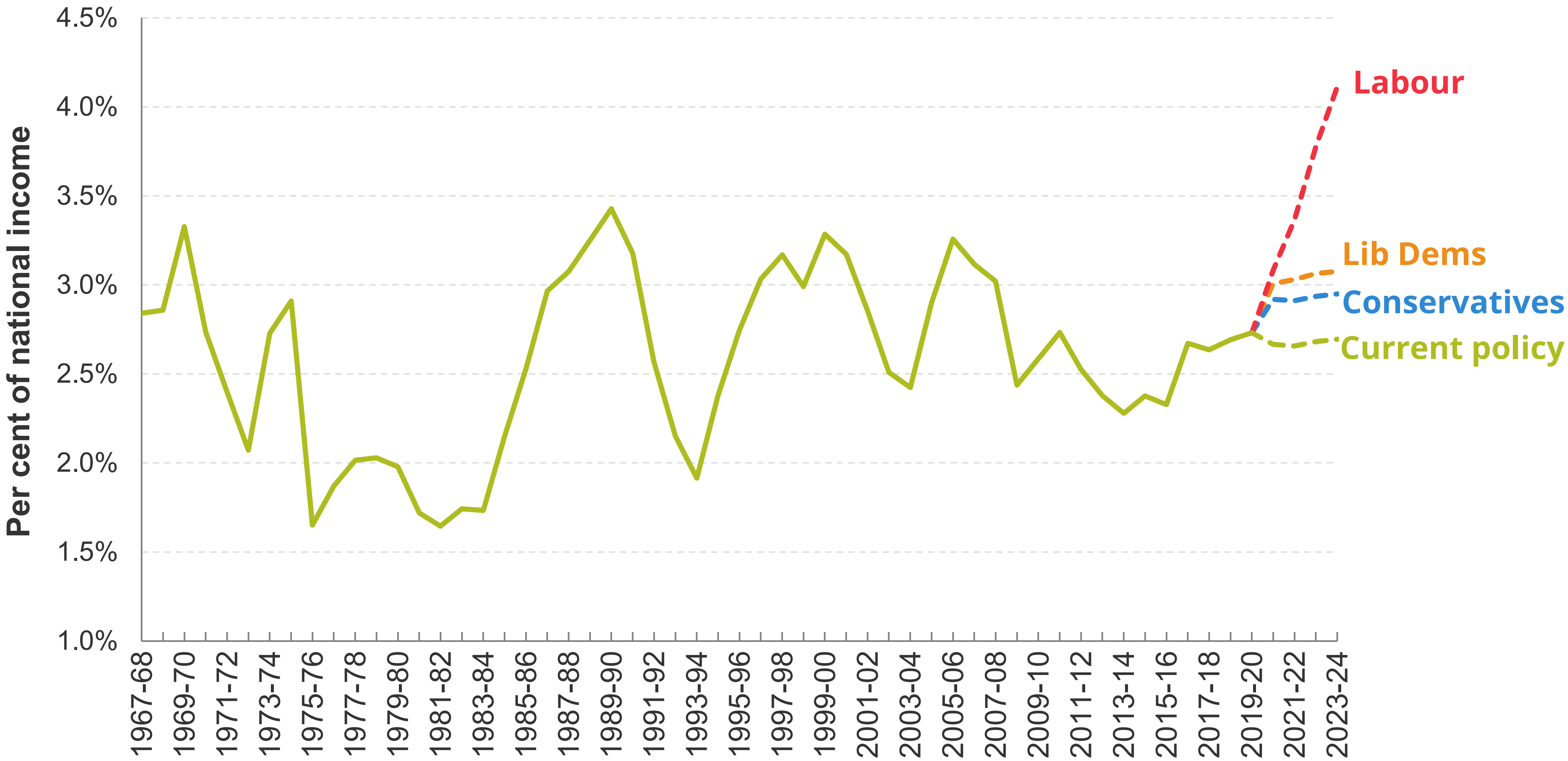
Abolish patent box & R&D tax credit for large companies: £4.0bn

- Replace with direct funding of R&D
- Patent box bad for promoting innovation, though good for attracting mobile profits
- R&D tax credit quite well designed and effective – can government pick winners better?

Cutting unspecified reliefs: £4.3bn

- Reviewing/evaluating always welcome
- Certainly possible to cut back
- But not painless: which companies and activities would be taxed more?

Corporation tax revenue



Note: Cash revenue until 1999-2000, accruals thereafter. Sources: OBR, *Public Finances Databank*; ONS, *N445*; authors' calculations

Inclusive Ownership Fund

10% of large UK companies' shares (of UK business) put into a fund over 10 years

- Fund gets 10% of dividends, or of after-tax UK profits if firm doesn't pay dividends

Payouts shared equally among employees, up to a cap of £X per year each

- Excess goes to government
- £X determined so that, in aggregate, max 25% goes to government, rest to workers

If UK profits below £X per employee, acts like compulsory employee share scheme

- Exemption for some with existing employee share schemes

If UK profits above £X per employee, acts like additional corporation tax

- In effect increases rate from 26% to 33.4%

Some possible responses:

- Stay below 'large company' threshold
- Operate as branches, rather than subsidiaries, of foreign companies
- Rely more on debt instead of share capital
- Reduce wages in exchange for this extra remuneration

Financial transactions tax

Big extension of existing 0.5% stamp duty on shares

- To apply (at various rates) to bonds, commodities, foreign exchange, derivatives…
- And remove intermediaries exemption
- Much broader than other FTTs

Some of these can readily move abroad

- Doubtful will raise the £9bn Labour assumes

Derivatives transactions notoriously difficult to tax

Some are economically valuable activities making markets work better

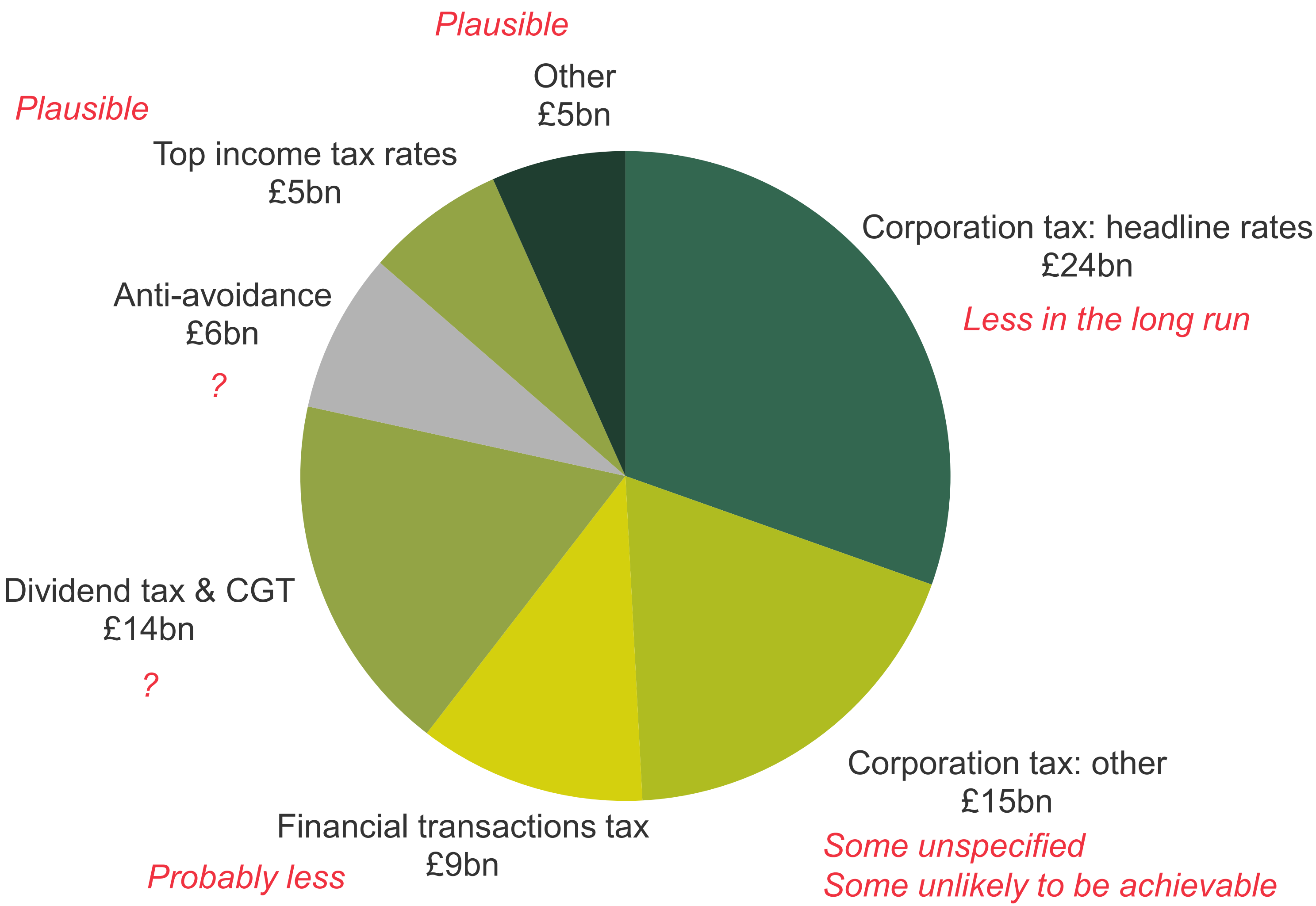
‘No tax increase for 95%’?

Clearly not true:

- Abolition of marriage allowance is an income tax rise just for bottom 95%
  - Only a small part of Labour’s tax rises, but a particularly clear-cut case
- Those receiving dividends, capital gains, etc. are better-off than average, but not all in the top 5%
- Corporation tax rises do not just affect the rich
  - Part passed on to workers (lower wages) and customers (higher prices)
  - The rest is reduced profits for shareholders – including e.g. small business owners and anyone with a defined-contribution pension

Labour’s tax policies certainly progressive, but don’t just hit the top 5%

Labour: £78bn of tax rises



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