IFS Green Budget 2019
Options for raising taxes

Stuart Adam
Tax burden high by historical standards...

Sources: OBR, Public Finances Databank, August 2019
...but not by international standards

Tax as % of national income, 2016

Source: Adapted from Conte, Miller & Pope (2019), ‘How do other countries raise more in tax than the UK?’
Where does UK tax revenue come from?

- Income tax: 26%
- NICs: 19%
- VAT: 18%
- Other indirect taxes: 11%
- Corporation tax: 8%
- Council tax & business rates: 9%
- Other taxes: 9%

Source: Author’s calculations based on OBR, *Economic and Fiscal Outlook: March 2019*
How do other countries raise more?

Source: Conte, Miller & Pope (2019), ‘How do other countries raise more in tax than the UK?’
Broad-based tax rises

Raise roughly £6-7bn from a 1 percentage point increase in any of:

- All rates of income tax
- All rates of employee & self-employed NICs
- Main rate of VAT

Raise £1.3bn from a 1 percentage point increase in the higher rate of income tax
Labour’s 2017 manifesto proposals

Labour said £53bn of tax rises, less £4bn of ‘headroom’

- Corporation tax rate increases, £19.4bn
- Efficiency review of corporate tax reliefs, £3.8bn
- Anti-avoidance measures, £8.8bn
- Stamp duty, £5.6bn
- Income tax and excessive pay levy, £7.7bn
- Other, £7.2bn
Headline corporation tax rates, 2019

Source: OECD.Stat, extracted 6/10/19
Effective marginal corporation tax rates, 2017

Source: H. Miller (2017), ‘What’s been happening to corporation tax?’, based on CBT Tax Database
Options for increasing tax on the wealthy

Worth avoiding:

- Restricting pension tax relief
- Increasing stamp duty land tax
- Annual wealth tax
Options for increasing tax on the wealthy

**Worth avoiding:**
- Restricting pension tax relief
- Increasing stamp duty land tax
- Annual wealth tax

**Worth considering:**
- NICs on employer pension contributions or pensions in payment, and cut tax-free lump sum
- Increase (updated!) council tax at top end
- Remove IHT reliefs for agricultural and business assets
- Tax lifetime gifts as well as bequests
- Remove CGT entrepreneur’s relief and forgiveness at death
- Merge income tax and CGT allowances
Conclusion

Higher spending ultimately requires higher taxes

There are more and less sensible ways to increase taxes

Other countries’ tax systems would take more from middle earners

- Harder to raise really big sums just by taxing ‘the rich’