Tax in the 2010s: successes and failures

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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

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£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