IFS Green Budget 2018
Options for raising taxes

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The tax burden – a historical perspective

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

Options for increasing taxes

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

- Income tax: 24%
- National Insurance contributions: 18%
- VAT: 17%
- Other receipts: 6%
- Corporation tax: 7%
- Fuel duties: 4%
- Business rates: 4%
- Council tax: 4%
- Other taxes: 16%

Source: Authors’ calculations using OBR March 2018 EFO
Main rate of corporation tax

<table>
<thead>
<tr>
<th>Tax rate</th>
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<td>28%</td>
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<td>26%</td>
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<td>24%</td>
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<td>22%</td>
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<td>14%</td>
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<td>12%</td>
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Labour’s 2017 plans

Current plans

Source: Taken from IFS analysis of 2017 manifestos

Options for increasing taxes

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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 drawn 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

Options for increasing taxes

Notes and sources: see Figure 5.7 of the IFS Green Budget
Income tax schedule
England, Wales, and Northern Ireland

Options for increasing taxes

Labour: £4.5bn
IFS: £2.5bn

Labour 2017 plan

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