The Coalition Government made many changes to the tax system: some £64bn of tax rises and £48bn of tax cuts in total. But for the most part, these reforms involved simply changing rates and thresholds, with little attempt to address the fundamental structural deficiencies of the tax system. Looking across the taxation of earnings, consumption, investment, wealth and property, there are clear problems to be seen throughout. Plenty of challenges remain for whoever wins the election.

Debate rages as to whether the additional rate of income tax should be 45% or 50%, yet nothing has been done to address the anomaly of the effective 60% income tax rate associated with the withdrawal of the personal allowance once income exceeds £100,000. And we have a second, parallel tax on earnings – National Insurance contributions – whose continued separation from income tax serves only to create confusion and complexity.

Zero or reduced rates of VAT on food and other necessities are an expensive and highly inefficient way of helping poorer households – there are better ways to do so. A bewildering array of environmental levies imposes arbitrary and inconsistent prices on carbon emissions from different sources, making emissions reduction much more expensive than it needs to be. And by far the biggest environmental taxes we have – duties on petrol and diesel – are poorly suited to tackling the biggest harm caused by driving: congestion.

Corporation tax discourages investment financed by equity and favours debt finance. Personal saving, too, is discouraged in some cases but not others. Saving in a pension is actually subsidised, but excessively and in ill-designed ways – the 25% of a pension fund that can be withdrawn free of income tax and the complete absence of employer or employee NICs on employer pension contributions – while widespread proposals focus instead on reducing the limits on pension contributions and restricting the rate of income tax relief on them, a wholly misguided policy. Inheritance tax has gaping loopholes that allow many – particularly among the very wealthy – to sidestep the tax. More fundamentally, it is not clear why we should want to tax wealth transferred at or near death but not at other times of life.

Property taxation is a mess. It is increasingly absurd that council tax bills in England and Scotland are still based on relative property prices in 1991, and it is hard to justify bills being higher as a proportion of the (1991) property value for lower-value properties. Business rates inefficiently discourage development and use of business property. Stamp duty land tax no longer has big jumps in liabilities at price thresholds for housing, but does still have them for non-residential properties. And the more fundamental problem with the tax remains. There is no reason to levy
more tax on properties that change hands more often, and doing so means properties are not held by the people who value them most.

The next government will face two immediate challenges for tax policy: what role (if any) tax changes should play in reducing the still-large budget deficit, and how to manage the devolution of tax-setting powers to different parts of the UK. There are also longer-term challenges. Incomes have become more concentrated in the hands of a small number of people, which may lead governments to want to tax them more heavily but also means tax revenues are already perilously reliant on this group. And the international mobility of tax bases continues to grow.

But alongside these rising challenges, the longstanding deficiencies in the tax system remain to be addressed. These problems are not inevitable. The Mirrlees Review of the tax system, published by the IFS in 2011, offers one route to a more efficient and effective setup. Dealing with the longstanding weaknesses in the system is the work of more than one parliament. But the incoming government could and should set out a clear strategic vision and make a start on reform. The political difficulties should not be underestimated. But nor should the prize at stake.

Stuart Adam is a Senior Research Economist at the Institute for Fiscal Studies.

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