Steady as she goes?

General Features



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George Crozier provides a political update after the party conference season

A majority government, a radical new leader of the opposition, a new third party at Westminster, a new First Minister of Scotland. A lot has changed in British politics over the past year. For tax policy, however, it has largely been a case of ‘steady as she goes’, with the same Chancellor, Financial Secretary and Scottish Finance Secretary, with the same ministers in the key posts and the direction of policy virtually unchanged.

Nevertheless, behind the headlines, debate and disagreement are flourishing across nearly every aspect of tax, and the parties’ directions of travel are showing sharp divergences.

Labour

Since the leadership contest in the summer a new team has been drawing a clear dividing line with the Conservative government and making a clean break with the previous Labour leadership. Rejecting austerity, Labour would ‘dynamically grow’ the economy through increased public investment, while ‘ending the tax cuts for the rich and addressing the scourge of tax evasion and avoidance’, Shadow Chancellor John McDonnell told the Brighton conference. If Labour inherits a deficit in 2020, they will lower it ‘at a speed that does not put into jeopardy sustainable economic growth’.

Tax policy development is still at an early stage. Policies do exist – opposition to the Conservatives’ inheritance and corporation tax cuts, a return to a 50p income tax rate, a review of HMRC – but generally are those on which Labour fought the general election. This represents a more cautious approach than some had expected. Will this change? It may.

McDonnell is previously on record supporting a 60p rate of income tax. In a TV interview he agreed that raising the top rate to 60p would be up for discussion in Labour’s economic debate. But it is worth noting that, during the leadership campaign, Jeremy Corbyn said: ‘The biggest issue facing British politics right now is not whether the top rate of tax should be 45% or 50%, or whether corporation tax should be 18% or 20%. The big question is how to get some of the wealthiest

individuals and biggest corporations to pay anything like their fair share.’ That suggests tackling avoidance will be a key focus. But, although rhetoric in this area is even stronger than under Eds Miliband and Balls, the policies are so far the same – a ‘proper anti-avoidance rule’ and more HMRC compliance staff.

The significant exception to the continuity of Labour’s tax policy is the intention to deliver cuts to ‘corporate welfare’. Corbyn has advocated large reductions in ‘the £93 billion of corporate tax relief and subsidies’. This £93 billion includes capital allowances intended to encourage investment, regional aid to boost growth across the UK and subsidies to keep rail and bus routes open. It seems unlikely that Labour would scrap any of these but perhaps reforms to make them more restrictive or to place additional conditions on those who take advantage of reliefs and subsidies might be forthcoming. A McDonnell promise to cut ‘subsidies paid to companies that take the money and fail to provide the jobs’ hints at this.

Corbyn has made much of pursuing a more open approach to policymaking, promising that policy will be made by the party as a whole rather than imposed from the top. Future conference debates may therefore take on a new importance. Among the issues under review are the party’s policies on a financial transactions tax (Labour may support it without requiring global agreement), inheritance tax (Corbyn has floated the idea of making it more progressive by introducing more rates) and extending entitlements for the self-employed and small business owners ‘to ensure they are entitled to and receive the same security as employees’. Although in opposition, Labour is to launch full reviews of HMRC, the Treasury and the Bank of England ‘to check that they are fit for purpose and how they can be made more effective’.

The Conservatives

Labour’s most powerful attack on the Conservatives at present is to contrast the tax credit cuts facing people on low incomes with the inheritance tax cuts that will benefit the better-off. Tax credits were perhaps the one issue at the Tory conference in Manchester where senior party figures appeared nervous about losing the argument – and votes – to Labour. After the government’s defeat in the House of Lords, Chancellor George Osborne promised measures in the Autumn Statement ‘to soften the impact of the policy’.

The Conservatives have reacted to Labour's leftward move by making an audacious attempt to seize the political centre ground by asserting that they are now 'the party of working people'. The poster child of this strategy is the national living wage, but the more traditional Conservative themes of low tax and deregulation feed into it too, with David Cameron arguing that 'poor, working people' are hurt when taxes go up and businesses start firing 'rather than hiring'.

Conservative activists are broadly happy with what they perceive as the direction of travel on tax – that is, downwards. The strength of the Chancellor's position is such that he is under no serious pressure to move faster than he currently plans.

However, some discontent about specific measures is beginning to emerge. The changes to dividend taxation and the reduction in tax relief available to landlords have faced criticism. There is also a degree of mismatch between Conservative rhetoric and reality on tax. The casual conference observer would have assumed that the government is cutting the tax burden, not adding about £6 billion a year to it, as the last Budget did. The key, of course, is that the headline cuts to income tax, corporation tax and inheritance tax are very visible while the increases – such as the changes on dividends and increases to insurance premium tax and vehicle excise duty (VED) – are lower profile and rarely highlighted by ministers.

The only new tax announcement in Manchester was devolution of business rates. Councils will be able to keep – subject to 'established transfers' – the rates they collect from business. They will be allowed to cut rates, but only cities with directly elected mayors will be allowed to raise them – and even then by only 2p in the pound to finance infrastructure and only if businesses vote in favour in local polls. It is devolution – but on the government's terms.

Scottish National Party

Devolution of business rates was also the big tax announcement at the SNP conference in Aberdeen. Finance Secretary John Swinney announced that Scottish councils would be given the power to cut business rates by the end of that month (October).

Despite persistent questioning, Swinney gave little away about his plans for the Scottish Rate of Income Tax, dropping only the hint that 'the progressive principle' was at the heart of all his tax decisions. Public opinion may back an increase. A pre-

conference poll suggested that 52% of Scots would support an income tax rise to fund public services, but that fell to only 30% if it was to pay for increased benefits and tax credits. That may have been on the minds of SNP ministers who reacted cautiously to an announcement from the Conservative Scottish Secretary that powers to ‘top up’ tax credits would be added to the current Scotland Bill. While Scottish Labour promptly vowed to restore tax credits – funded by rejecting the SNP’s plans to phase out air passenger duty and Conservative plans to raise the threshold for the 40p rate – SNP leaders have reserved their position.

Liberal Democrats

Out of government and with a much diminished parliamentary force, the Lib Dems might have been expected to still be licking their wounds. But with a new leader, Tim Farron, and a record attendance of members at the party conference, the healing process seemed to be under way.

On the tax front there was one new policy and one new idea. The new policy was a proposal for a cut in ‘tourism tax’ – that is, a call for VAT on visitor accommodation and attractions to be reduced from 20% to 5%. The idea was from health spokesperson Norman Lamb, who argued that local authorities should be allowed to raise taxes to fund the NHS. Lamb also said he was ‘very interested in the idea of a dedicated NHS and care contribution – separating it out from the rest of taxation, clearly identified on your pay slip’. The plans are not yet party policy. New policy is generally on hold pending the outcome of a wide-ranging review.

Conclusion

Post-election conferences are usually a time for reflection and consultation rather than big announcements. That was broadly the case this year too, but the adding of a different kind of Labour leadership to the mix has shaken things up and sharpened some of the differences between the parties. The Chancellor may be aiming to sail a steady course but, with the government commanding only a small majority in the Commons and none at all in the Lords, he will need to watch out for unexpected turbulence.