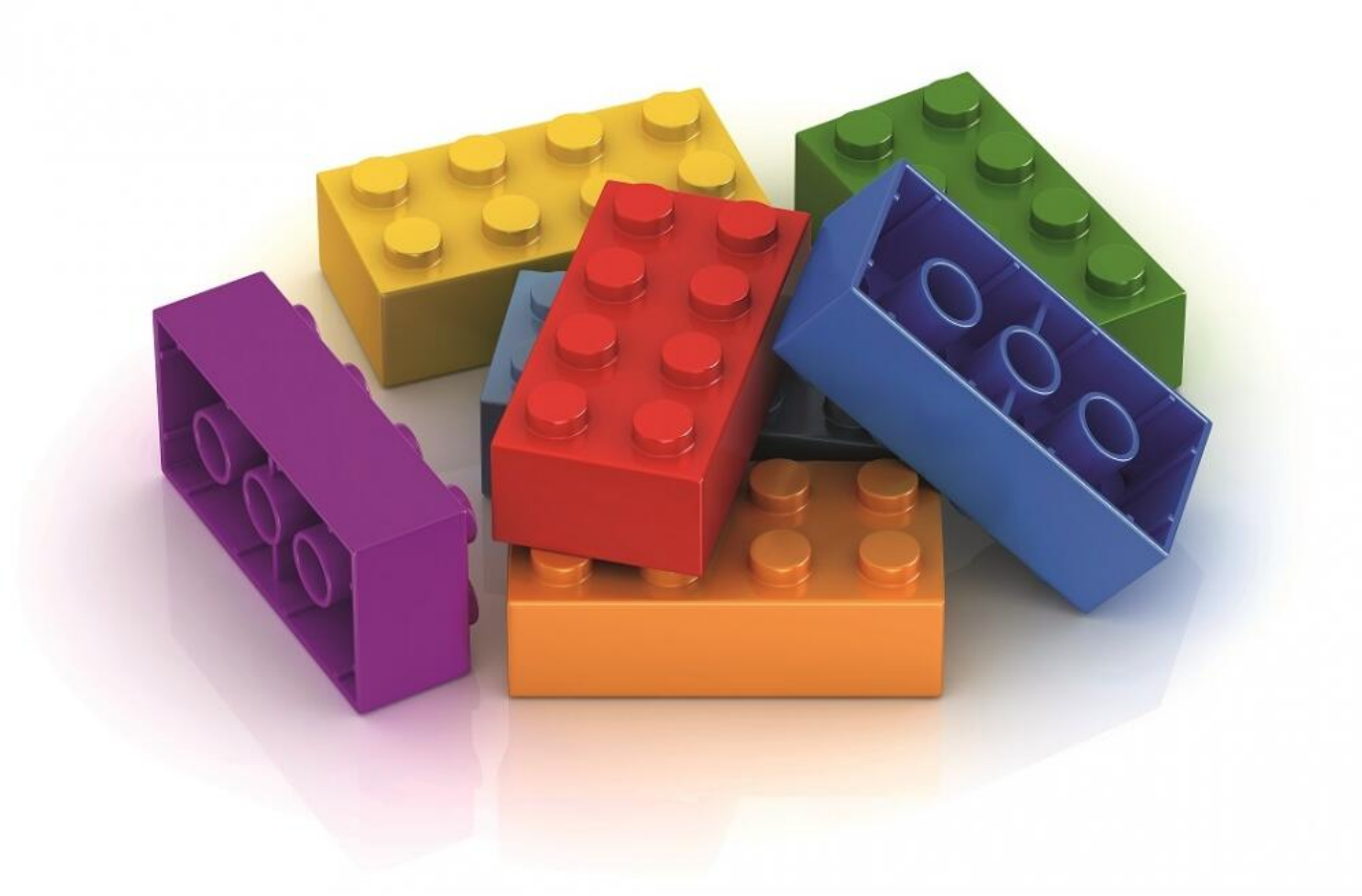
Same but different

General Features



01 November 2016

George Crozier looks at what this year's conference season tells us about the parties' tax and economic plans

Conservative Party

Everything said at this year's Conservative Conference has to be seen through the prism of the vote to leave the European Union. New Prime Minister Theresa May struck a strongly anti-elite note throughout her keynote speech, declaring that 'the referendum was not just a vote to withdraw from the EU… It was about a sense… that many people have today that the world works well for a privileged few, but not

for them.’ Thus she would ‘face down the powerful’ and ‘always act in the interests of ordinary, working class people’. This promise appears to encompass everything from immigration controls to cracking down on corporate tax avoidance. In tax as elsewhere we appear to be in for a period of activist government. This theme ran through the Prime Minister’s main conference speech. Her tone worries the more libertarian wing of the Conservative Party for whom low taxes and a small state are cornerstones of their beliefs. They see measures such as the soft drinks levy as ‘nanny state-ism’.

However, for all the rhetoric about active government, the conference was actually fairly light on new policy announcements, including on tax. It would be nice to think that the Chancellor has taken the exhortations of CIOT, IfG and IFS in our joint open letter (tinyurl.com/jk8srj2) – which included eschewing ‘rabbits out of hats’ in favour of more considered policy-making – to heart. However as the letter would only have been received the week before the speech this is probably a stretch. Nevertheless the new Chancellor’s focus on self-confessedly long-term goals like boosting productivity, combined with his reputation for caution and unflashiness (colleagues have dubbed him ‘Spreadsheet Phil’), suggest that he may not be as drawn to lapine prestidigitation as some of his predecessors.

The big economic announcement of the conference – Brexit process aside – was of course the abandonment of the fiscal target of achieving a budget surplus by the end of the Parliament. The new fiscal plan – to be set out at the Autumn Statement on November 23rd – is thought likely to broadly continue the planned cuts in current spending but announce significant additional investment in infrastructure. Will there be a tax stimulus too? Hammond’s statement that ‘fiscal policy may also have a role to play’ hints there might be. Given the new PM’s focus on helping ‘ordinary working people’ it seems likeliest that any tax cut would be focused towards the relatively low paid – perhaps a speeding up of the increase in the personal allowance to £12,500 or an increase in the employees’ NI threshold, or a VAT cut at a pinch. The move towards a corporation tax rate of 17 per cent was reaffirmed at the conference.

Defending the current system of corporation tax is a pretty lonely task at any political gathering these days and the Conservative conference was no exception. The TaxPayers’ Alliance want to replace it with a tax on distributions. The Institute of Directors are advocating a simpler system for SMEs. That corporation tax is ‘broken’ and either needs radical surgery or scrapping altogether is an increasingly widely-

held view. That ministers were pretty much absent from tax debates on the fringe meant that this point of view went largely unchallenged.

Labour Party

To no-one's surprise, 'tax dodging' and the corporate tax system got battered at Labour conference too. In his conference address Jeremy Corbyn noted that Sir Phillip Green had been made an 'efficiency tsar' by the Conservatives, commenting drily that the Government 'might be a bit more efficient if the super-rich like [him] actually paid their taxes'. Shadow Chancellor John McDonnell and Shadow Chief Secretary Rebecca Long Bailey both presented tax as a matter of patriotism in their speeches.

McDonnell set out a range of policies for tackling avoidance in his conference speech, including doubling the number of staff investigating wealthy tax avoiders, part of making sure HMRC has 'the staffing, the resources, and the legal powers to close down the tax avoidance industry that has grown up in this country'. McDonnell also praised a report on HMRC which had been prepared for him by a group led by Prof Prem Sikka. The report includes the formation of 'a Supervisory Board, consisting of stakeholders, to watch over the HMRC Board to give it direction and enhance its public accountability', and also making the tax returns and related documents of all large companies publicly available. McDonnell praised the report in his speech and promised action in this area but did not specifically endorse these proposals.

Parts of Labour continue to be anxious over perceptions that the party may be seen as anti-business. The Shadow Minister for Small Business told a conference meeting that: 'Those of us who understand the importance of Labour being a pro-business party have to make that case – perhaps there are some of our colleagues where that isn't an automatic instinct.' Brexit is seen by Labour as an opportunity to be seen to be standing up for business, even the ever-unpopular financial services sector (for the tax revenue at risk if nothing else). However the party's proposal to increase corporation tax by 1.5% as the first step in a wider plan to get business to pay for a new 'National Education Service' may go down less well.

One area we should expect proposals to emerge from Labour in due course is on the taxation of wealth. John McDonnell trailed this in his keynote speech. Another area

the party is exploring is Universal Basic Income (UBI). McDonnell said this was necessary because ‘work is no longer lifting people out of poverty’ and said Labour would adopt a gradual approach to making UBI a policy.

Liberal Democrats

The Lib Dems actually debated UBI on the floor of their conference, in the most contentious session of their week, before rejecting it – and negative income tax, a close relation – from their new social security paper. The new paper commits the party to reversing cuts to Universal Credit and increasing work allowances in line with any future increases in income tax and NI allowances.

Treasury spokesperson Susan Kramer identified three economic priorities for the party in her keynote speech – protecting ‘the economic wellbeing of the youngest generations’, infrastructure, and ensuring the rise of artificial intelligence and machine learning leaves no-one behind. She has tabled a Bill in the House of Lords which would require any new spending rules set by the Government to consider the need to balance the taxation and spending burden across the needs of different generations. Separately the party has set up an ‘expert panel’ under former Business Secretary Vince Cable to look at ‘radical reforms’ to business taxation, recognising ‘that value has shifted from hard assets to intellectual property, from local to global, and from employees to what is optimistically called the shared economy’.

Scottish National Party

There was surprisingly little discussion of Scotland’s new fiscal powers at the SNP Conference. The SNP Government’s most controversial tax proposal – to not follow Westminster’s lead in increasing the income tax higher rate threshold towards £50,000, instead raising it only by inflation, using this money to invest in public services – barely got a mention. Plans to halve the amount raised from Air Passenger Duty when responsibility is devolved in 2018 were similarly low profile. Tax was not entirely absent from the conference though. Sturgeon announced that, from 1 April next year, 100,000 business premises will pay no business rates under an extension to the small business bonus.

The main focus of the conference, however, were the two referendum votes in recent times which have not gone the SNP's way. Noting that most Scots voted 'Remain', they are planning to put forward proposals in the coming weeks that, in Sturgeon's words, 'would allow Scotland to preserve its place in the single market and preserve aspects of its relationship with the EU' while remaining in the UK. Sturgeon has also published a draft bill for a second independence referendum.

Conclusion

So what have we learnt? The rhetoric and even the priorities (productivity, infrastructure, regional devolution, an active industrial strategy) of the two big parties are surprisingly similar. Both claim to be championing the 'ordinary worker' against the elites. Both have set up reviews to respond to shifts in employment structures. On tax, avoidance remains the bête noire; enforcement rather than rate changes the focus.

Yet their differences remain huge. Conservatives want to cut corporation tax, Labour to raise it. Labour want a 50p top income tax rate, a wealth tax, a Financial Transactions Tax, a Universal Basic Income and a return to higher CGT rates – none of which are likely to tempt the Conservatives. Labour's proposed £250 billion infrastructure injection will dwarf anything likely in the Autumn Statement. And it remains to be seen whether Theresa May's interventionist instincts will ultimately win out over the laissez-faire leanings of most of her colleagues.

Fiscally and economically, it is clear that the political divide in the UK is as deep and wide as at any time in recent history.