President's page, February 2017

Welcomes

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Better Budgets

Shortly before I became President, the CIOT agreed to work with the Institute for Government and the Institute for Fiscal Studies on a review of tax policy making. Our report was published on 16 January.

Our legislation has grown like topsy. I made the mistake at the report launch of taking along my current ten volumes of Red Books on direct tax – to contrast them with the single Yellow Book I was given at university. Too much weight!

There are four main reasons for this growth: firstly, the complexity of the modern world and modern business. Secondly the tax law rewrite project sought to make it easier to read tax law, but at the expense of making the tax code much longer. Thirdly, the British approach to tax law involves spelling out in great detail how the law should apply to individual cases. This adds length and also may open up unintended tax planning – triggering another legislative response.

Perhaps the biggest contributor to the proliferation of tax measures, though, is politics. Activist Chancellors have introduced new tax incentives, followed in many cases a few years' later by complicated anti-avoidance rules, as it turned out the relief could be applied in ways not immediately considered in the flush of enthusiasm for a Budget announcement. Election promises are made not to increase tax rates – so more complicated and potentially more economically damaging routes of finding revenue have to be devised. And over the past 20 years Chancellors have indulged in two (or more) fiscal events every year. We were delighted when – following our open letter – Philip Hammond announced that from 2018 there would be a single fiscal event each year. Fewer opportunities to announce new measures should – in our view – allow focus on better measures, developed over longer time horizons.

One aspect of this is especially relevant to us: better consultation. Successive governments have already taken some positive steps in this direction. In 2010 David Gauke launched *The New Approach to Tax Policy Making*, which proposed a lengthier, more consultative path for new legislation, essentially over some 18 months. At the same time, HMRC started publishing much more analysis of tax data. More and better data remains an essential part of policy-making and response.

Early consultation also has a part to play. Very few consultations start at the first stage of policy development – thinking about an issue and the possible policy responses. There are some examples – but surely not as many as we would like. The possible replacement of the current system of tax-deductible pension contributions with an ISA-style system might be viewed as a recent early stage consultation, although it came after many changes to the deductibility of contributions. Most respondents are pleased that we did not make the wholesale change envisaged – though we still added to the complexity by adding Lifetime ISAs.

Our report, *Better Budgets: making tax policy better*, sets out a number of ways the consultation process can be strengthened further. Not just more early stage consultation, and better data, but more outreach, following the lead of the Office of Tax Simplification, to get a wider circle of consultees and more structured feedback. Perhaps there could be broader roles for the OTS and the Administrative Burdens Advisory Board – and a greater willingness from government to commission broad, independent reviews to engage the public on some of the major issues facing the tax system.

Better consultation is not just a matter for government. Those responding – professional bodies, business organisations, advisory firms or NGOs – need to make a realistic assessment of the issues and put forward suggestions that are workable and reflect the perceived issue. Alternatively, clear evidence is needed to explain why there is government misunderstanding. The treatment of employment and self-employment, including the use of personal service companies, is an illustration of both good and less good policy-making. The use of the OTS to explore the challenges of changing NI and new forms of micro-business organisation is a good way to explore some of the issues, in a manner that doesn't commit any government to change. The illustration from the OBR of possible costs to the Exchequer of the growth in self-employment and freelancers provides valuable data, as did the OTS work, supported by the Resolution Foundation. Yet isn't it an opportunity missed not to conduct a single review of both employment status and

tax issues – combining expertise from the Treasury and BEIS?

Moving to a single fiscal event provides a real opportunity to get off this policy treadmill – reducing the strain on the Government's resources and freeing up time for a better, more strategic, more measured approach to tax policy making.

This would be good for taxpayers. It would be good for business investment and growth. And it would be good for government.