President's page, August 2017

Welcomes

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Taking politics out of the big tax debates

As I’m sure members will know, the Institute is an educational charity. The first of our objects as set out in our Royal Charter is ‘to advance public education in, and promote the study of, the administration and practice of taxation and the principles of economic and political science in relation to taxation’. We fulfil this object in many ways including the setting of our exams; our technical submissions; our conferences and branch meetings; our support of tax academia and research in tax matters; the joint debates that we hold on policy issues with the IFS and so forth. However, we believe we can do even more by using our independent, non-political status to facilitate public debate on areas of major policy tax reform.

A great deal of discussion has taken place over the last few years about the need for ‘fairness’ in tax and the desire for simplification. However, most of the debate on ‘fairness’ has been restricted to the rates of tax and the issue of avoidance. These are of course legitimate issues but there is a third area which is rarely touched upon and that is the underlying policy behind some of our more significant taxes. I suggest there are two reasons for this. The first is that major reforms would involve significant numbers of winners and losers so no politician wants to go anywhere near them. The second is that it is believed that the public do not have any interest in a debate which will take significant time and effort to understand. There is however at least some evidence that the second of these reasons is invalid: not only have ‘ordinary’ citizens occasionally been persuaded to take time to consider quite fundamental policy issues in a balanced and non-political way but it seems that when they do, they might be prepared to consider radical proposals even if they personally might be disadvantaged.

Before giving examples, I must emphasise that neither I, nor the Institute, are necessarily advocating any of the ideas referred to below and they all would have

massive ramifications which would require much further thought. I'm merely saying that there is a valid debate to be had. Similarly, most of the ideas would result in significant amounts of extra tax being raised. It would be for politicians to decide how any such extra taxes should be spent be it on reducing other taxes, increasing welfare payments etc. Let's start with VAT. This was argued to be a regressive tax which impacts more harshly on those on lower incomes and so we have a system of exemptions and zero-ratings. Whilst these exemptions do alleviate the regressive nature of the tax, they apply to everyone and so give higher earners a tax benefit they arguably don't need. Perhaps we should just standard rate everything and deal with the regressive aspects through the benefits system and not the tax system?

Similarly, why do we have an inheritance tax coupled with a tax-free uplift on death for CGT purposes. Maybe we could consider abolishing both and tax people on the gains they realise during their lifetimes with deferrals, not exemptions, for such things as assets qualifying for Business Property Relief and Agricultural Property Relief and maybe even disposals of main residences? It could be argued that if the basis for exempting shares in a family company is to prevent the shares having to be sold to pay the tax, a deferral until actual sale achieves that?

We could also finally consider incorporating NIC into income tax. Depending on how the increased tax revenue was spent it is possible that pensioners on higher incomes might be worse off as a result but perhaps they might accept that in the interests of 'fairness' if it was properly explained? Regardless, no politician can initiate a real debate on these topics, but we can. We are happy to work with others to do so. After all, Brexit will be keeping politicians so busy for the next two years, this may be the perfect time.

Tax facts and junior tax facts

We have often criticised HMRC for failing to provide sufficient clear guidance on tax to the public and especially those on lower incomes. These concerns remain but I'm delighted to congratulate HMRC on something they have done in this area. Tax Facts and Junior Tax Facts are short videos aimed respectively at teenagers and 8–11 year olds within schools to explain the purpose and nature of the tax system. They come with teacher guides and further questions and our Education Committee thought they were excellent when they had a briefing last week. The videos can be found via HMRC's YouTube channel and they are also available on DVD, free of charge, by

emailing hmrc.taxeducation@hmrc.gsi.gov.uk.

My best wishes to all.