

The Tax Factor

1 April 2015



Ahead of the general election, Tax Adviser poses questions to the political parties on their tax plans and policies. With the general election campaign under way, Tax Adviser reports on the parties' tax plans. Answers from Labour, the SNP and the Green Party come directly from their tax spokespeople. Conservative and Liberal Democrat responses are adapted from party policy statements and recent speeches by ministers. UKIP and Plaid Cymru declined to provide answers for this feature, but the summaries of their main tax policies are outlined in the two boxes below.

Is the current balance of the tax take – between rich, poor and middle incomes, and between personal, business, sales, property and other taxes – right? If not, how should it be changed?



Conservative Party

The party emphasises the two principles of economic competitiveness and making work pay. The party's tax priority for the next Parliament is to reduce personal taxes – cutting income tax by raising the personal allowance to £12,500 and the 40p rate threshold to £50,000.



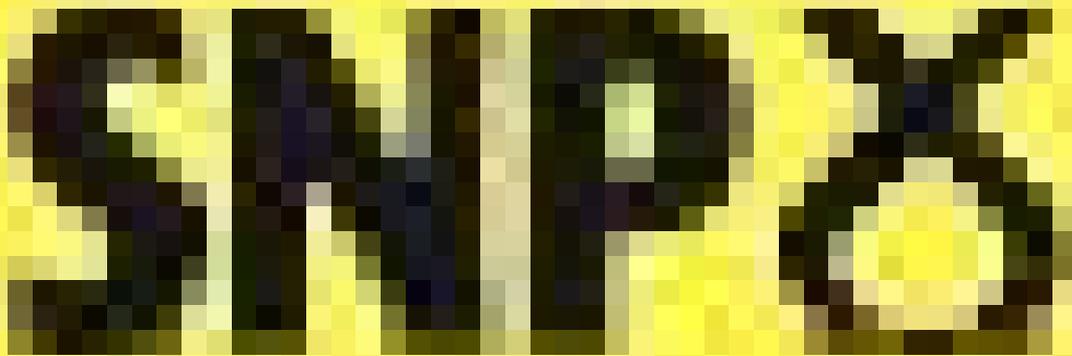
Labour Party

We do not think the current balance between those on different incomes is right. Under this Government we have seen those who earn more than £150,000 receive a £3bn tax cut while they raise VAT for ordinary working families. We would restore the 50p rate for those on top incomes, while cutting tax for those on middle and low incomes. We would also introduce a mansion tax on properties worth more than £2m, while cutting business rates on small business properties.



Liberal Democrats

To make the tax system fairer and encourage employment and economic growth, the party would rebalance UK taxation towards increased taxation of wealth and lower taxes on earned income. This would include further increases in the income tax personal allowance. The party would raise taxes on the richest so they pay 'their fair share'.



SNP

Scottish National Party

We believe that fairness, equity and the ability to pay should be at the heart of taxation policy. That is the approach that the SNP Scottish Government has taken to devolved tax, and why the SNP in Westminster voted against cutting the 50p top rate of income tax for top earners.



Green Party

Neoliberal policies have shifted the burden of tax on to lower-paid workers and contributed to rapidly growing inequality. We would introduce a more progressive tax system requiring the wealthier to pay more. In the long run we would abolish VAT and National Insurance in order, over time, to ensure a fiscal shift from work and consumption towards energy, resources, and land. We would apply capital gains tax on a lifetime basis to prevent avoidance.

What share of closing the fiscal deficit should be borne by tax increases – and which taxes should bear the brunt?



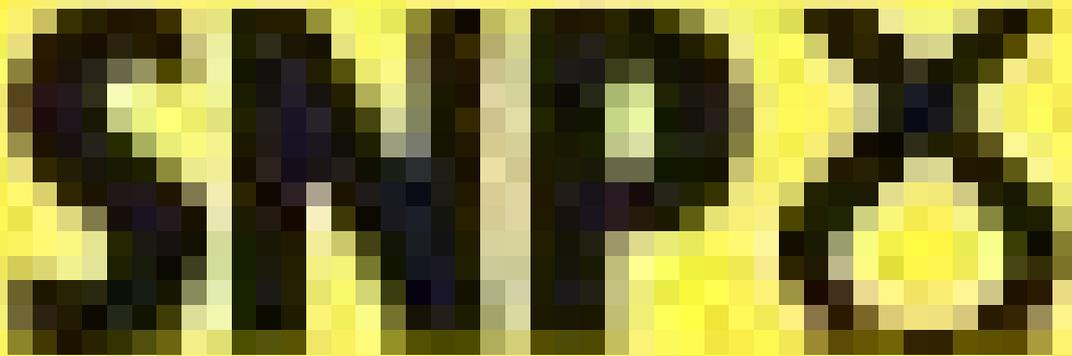
None. The Conservatives are committed to balancing the books without tax increases.



We can only properly reduce the deficit if our recovery is balanced, long-term and delivers rising living standards for the many. We will ensure that that the burden is fairly shared by restoring the 50p rate on incomes of more than £150,000 to make a contribution to cutting the deficit.



Finishing the job of economic recovery requires roughly £30bn of fiscal consolidation by 2017/18. The party's Alternative Economic Plan would see a further £6bn raised from 'tax dodgers', and an additional £6bn of tax rises.



WELL DONE

While we believe that debt should be reduced as a percentage of GDP we reject the approach of the largest UK parties. By limiting real-terms growth in departmental spending to 0.5% each year the deficit would reduce in every year from 2015-16 and that would permit a further £180bn of investment across the UK over the next four years compared with current government plans.



Closing the deficit is not our prime economic objective; the important thing is to build a more equal and ecologically sustainable economy. We would balance the current account over time, but are prepared to borrow to invest. We would increase both Government spending and taxation.

To what extent should the tax system be used to change people's behaviour?



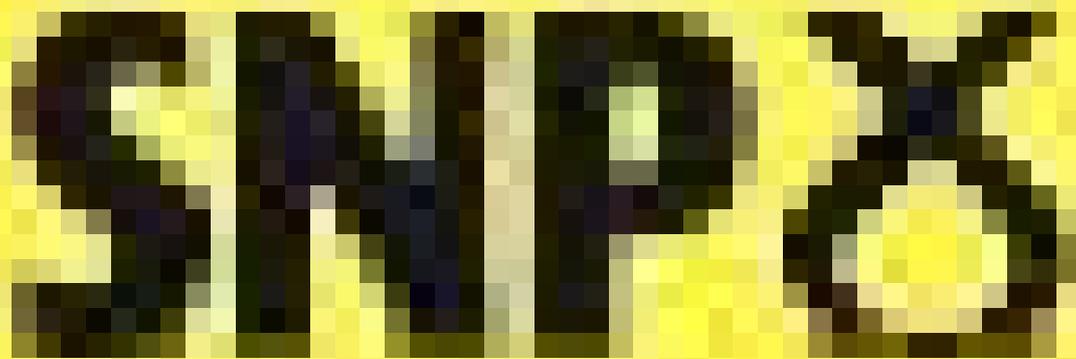
While you cannot micro-manage people through the tax system you can influence people in a positive way, for example income tax cuts to make work pay and incentives for businesses to invest in research and development. The tax system can send signals of the type of behaviour government supports, such as recognition of marriage through a transferable allowance.



Environmental taxes have an important role in tackling climate change as well as bringing in revenue. Also, one of the most important behaviours that a tax system can change is ensuring that everyone pays their fair share of tax by ensuring that the ramifications of not doing so are made explicitly clear. This is why a Labour Government would bring in penalties of up to 100% of the value of the tax that was avoided for the General Anti-Abuse Rule (GAAR).



Any tax system encourages and discourages certain types of behaviour. In particular the party supports incentivising environmentally beneficial activities and penalising polluting activities.



WELL DONE

We believe that the tax system can be used to change behaviour. For example, the Scottish Landfill Tax is a cornerstone of Scotland's Zero Waste Plan, which aims to maximise the resource value of materials in our economy, ensuring that landfill is a last-resort option.



We believe strongly in the strategic role of tax as well as its importance in ensuring redistribution and funding public services. In particular, we believe that fossil fuels should be taxed heavily to reduce CO2 emissions and that the anomalous exemptions for aviation and shipping fuels should be ended immediately. Resource taxation will be charged on the use of raw materials.

Are you concerned about the complexity of the UK tax system – and, if so, what do you propose to do about it?



The party promised an Office of Tax Simplification in its 2010 manifesto and delivered on that promise in government. Treasury Minister David Gauke argues: 'Simplifying the tax system doesn't just make life easier for individuals and businesses. By making the policy easier to understand, you also increase compliance – maximising the benefit to the Exchequer.' At Budget 2015, the Chancellor announced two major simplifications – abolishing Class 2 NICs, and abolishing the annual tax return.



This Government is responsible for the longest Finance Bill in UK history and we now have the longest tax code in the world. This additional complexity imposes extra compliance costs on British businesses, and increases the burden on HMRC's limited resources. There is clearly work to be done. We are committed to a straightforward tax system, striving for the minimal level of complexity needed for a robust regime that supports investment, enterprise and innovation.



A simplified system benefits taxpayers and government alike, providing greater certainty and less bureaucracy. Lib Dems would simplify personal tax returns by pre-completing them with relevant information held by HMRC, provide more flexible options for contacting and interacting with HMRC, make greater use of 'sunset clauses' and renew the mandate of the OTS.

AIMS

The UK tax system is complex and inefficient. The Scottish approach to taxation, which the Scottish Government has taken with regard to devolved taxes, is founded on Adam Smith's four principles: taxes should be certain, convenient, efficient and proportionate to the taxpayer's ability to pay.



A complex tax system encourages complex webs of tax avoidance involving the wealthy as well as bankers and accountants who support them. We would strengthen and enforce the general tax avoidance rule and have pledged to introduce a tax dodging Bill in the first 100 days after the election. Our policies on abolishing VAT and NI would in the long run also help to simplify the tax system.

What are the key planks of your anti-avoidance strategy?



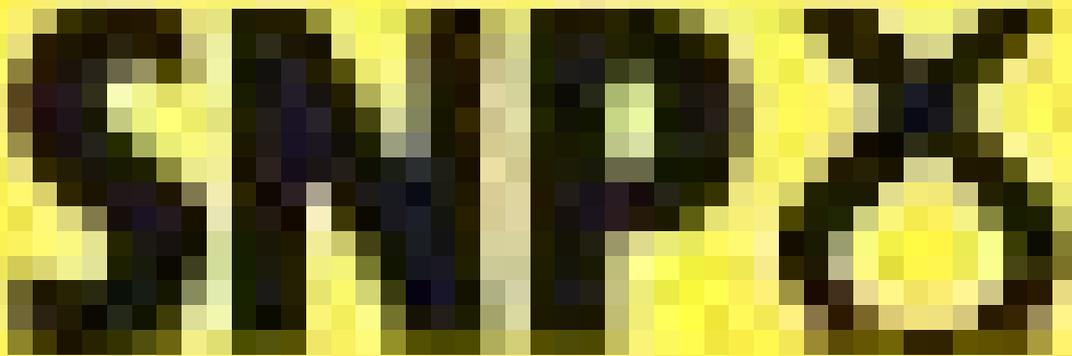
'More than 40 tax avoidance schemes or loopholes have been closed... We came in, closed the loopholes, introduced the anti-abuse rule, got rid of the abuse of partnerships by hedge funds, got rid of the abuse of stamp duty by the richest in our society and started collecting the tax that should have been collected long ago' (George Osborne). Looking ahead, the party points to the Diverted Profits Tax, the BEPS project and new measures targeting those who persistently enter into avoidance schemes.



The next Labour Government will act where the Tories have failed in tackling tax avoidance. This will include making tax havens with links to the UK publish information about beneficial ownership, adding penalties to the GAAR, making sure hedge funds aren't able to avoid paying stamp duty on shares, ensuring umbrella companies aren't used to avoid tax and National Insurance by exploiting expenses rules and scrapping the Government's failed 'shares for rights' scheme which has opened up massive opportunities for tax planning.



As well as claiming credit for existing government measures, the party says that in the next Parliament it would continue to push for international tax reform and strengthen the general anti-abuse rule into a general anti-avoidance rule. It would also introduce rules to prevent earnings stripping through payments of excessive interest on related party debt.

A large, pixelated yellow smiley face with the text "ZIMMER" written across its mouth. The smiley face is composed of a grid of yellow and black pixels, giving it a blocky, digital appearance. The text "ZIMMER" is rendered in a bold, black, sans-serif font, centered within the open mouth of the smiley face.

Tax avoidance is immoral and there should be a zero-tolerance approach to the issue, with an effective tax authority that will clamp down on it and prosecute people. When establishing Revenue Scotland, we ensured that they can combat tax avoidance as vigorously as possible by introducing a wide-ranging General Anti-Abuse Rule.



We are working in the European parliament to address these issues on an EU-wide basis. The key components of our strategy are: mandatory country-by-country financial reporting; a common, consolidated corporate tax base, which would provide for a uniform definition of profit across the EU; a public register of the beneficial owners of all businesses.

Are you happy with the current balance between HMRC's powers and the rights of taxpayers? If not, what would you change?



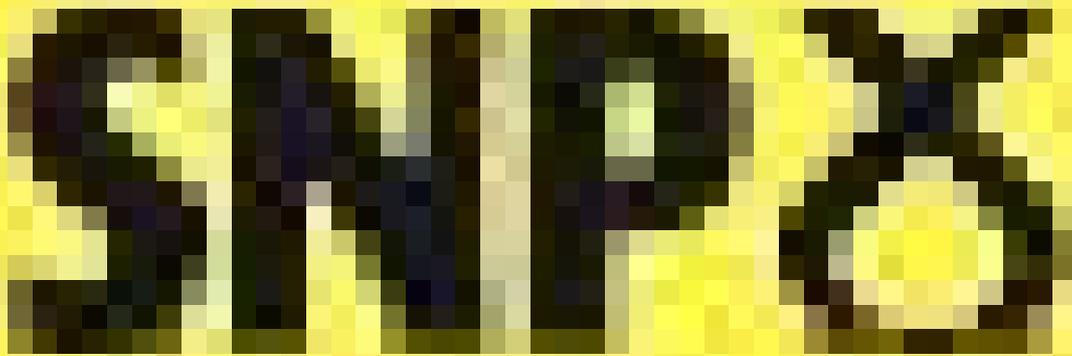
Ministers defend the Government's actions as maintaining an appropriate balance between HMRC's powers and taxpayers' rights. David Gauke argues that, under the previous government, 'HMRC did not get the support it needed to take effective action against those dodging taxes'.



This is clearly a delicate balance. HMRC need to be equipped to perform their key function of collecting taxes. However, the outcry over this Government's plans for the direct recovery of debts showed how easy it is to mismanage the balance between equipping HMRC and ensuring sufficient taxpayer safeguards are in place.



Lib Dem ministers have strongly supported measures such as accelerated payment notices and the new strict liability offence for offshore evasion, arguing that they are necessary to deal 'with the fact that a small minority felt it perfectly OK to indulge in tax avoidance and commit the crime of tax evasion'.

A large, pixelated yellow smiley face with a wide, open-mouthed grin. Inside the mouth of the smiley face, the letters 'SNP' are written in a bold, black, sans-serif font. The smiley face is centered on the page.

The SNP in Government has taken an approach to devolved taxes which balance the rights of taxpayers with ability to collect all taxes owed to ensure that our cherished public services are properly funded.



We are opposed to negotiation between corporations and HMRC which indicates to citizens that the rich are exempted from taxes because of their power. We believe that HMRC needs the support of a strong anti-avoidance rule and a large increase in staff numbers.

Do you believe HMRC are adequately resourced to carry out all the tasks required of them?



Yes. Conservatives point out that, while increased efficiency has enabled reductions in staff numbers, the number of people working in compliance and enforcement has gone up under this Government. This has enabled HMRC to increase compliance yield.



The collection of tax is one of the most important things a government does and it is crucial that HMRC have the resources they need to fulfil this role. We will make sure that resources in HMRC are deployed more efficiently: for example, by liberating resources now tied up in administering the Government's 'shares for rights' scheme. Our independent review of HMRC will also examine resource prioritisation for tax compliance work.



In government, Lib Dems argue they have driven a rebalancing of HMRC's budget to focus more resources on tackling evasion and avoidance. The party would also 'seek to ensure that sufficient funds are devoted to continuing efforts to improve the speed, quality and accessibility of the service HMRC provides to all taxpayers, particularly small businesses and individuals'.

The image shows the HMRC logo, which consists of the letters 'HMRC' in a bold, black, sans-serif font. The letters are centered within a large, bright yellow circle. The background of the circle is a solid, vibrant yellow color.

We condemn the cuts implemented by successive UK governments to HMRC, which have left staff over-stretched and have undermined the quality of service.



Certainly not. No government serious about reducing tax avoidance and evasion would have reduced HMRC staffing from 93,000 in 2004 to 52,000 in 2015. We have called for an increase in the number of tax inspectors so that it at least equals the number of accountants working in large and specialist accountancy firms seeking to help their clients avoid tax.

What outcomes would you like to see from the OECD/G20 project on Base Erosion and Profit Shifting?



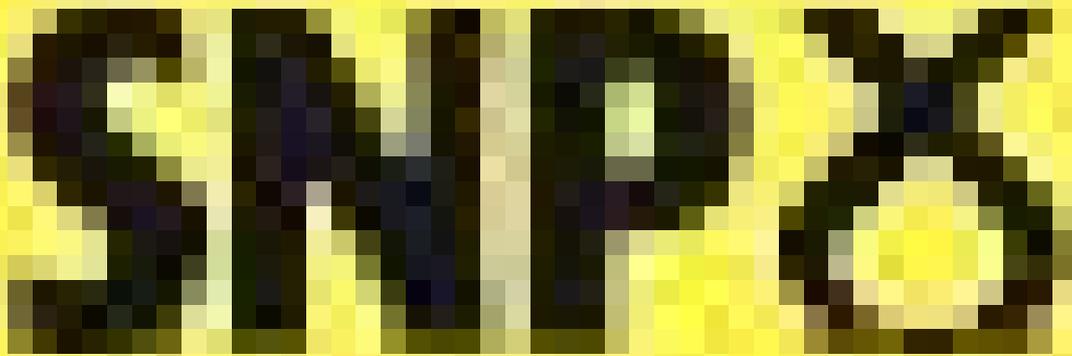
BEPS solutions should be consistent with the Government's wish to promote UK growth and competitiveness. Tax authorities must be enabled to clamp down on those who refuse to play by the rules. The OECD's recommendations should help us ensure that economic activity is taxed where it takes place.



Where companies are able to shift profits and operations between countries, these issues need to be tackled at an international level as well as a national one. We would like to see that, as a result of the BEPS project, taxes paid by multinational corporations will better reflect the actual location of economic activity. We want developing countries to be fully involved in the process.



Lib Dems would continue to work closely with other governments and the OECD to reform international tax rules, in order to increase the consistency of tax treatment and reduce the ability of large businesses to avoid tax by shifting income and profits between countries. Key principles include greater banking transparency and effective information exchange between countries.



BEWARE

Tax avoidance is an increasingly global issue – there should be nowhere to hide for those who seek to avoid taxation. We support efforts to support developing countries that are harmed by tax avoidance. This issue will only be addressed when we have strong international rules in place.



We oppose tax competition between states. Companies should report their profits where they earn them and we should have a common consolidated corporate tax base. We have been lobbying hard for a full inquiry into Luxleaks and have achieved a special committee of the European parliament.

What single measure would you enact that would best serve the interests of the individual taxpayer on a low income?



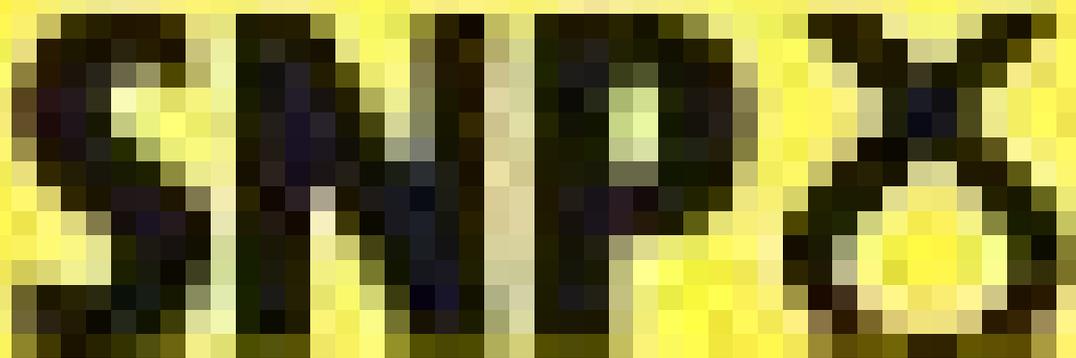
Conservatives draw attention to their plans to raise the tax-free personal allowance from £10,500 to £12,500, taking one million more of the lowest-paid workers out of income tax, so that, if you work 30 hours a week on minimum wage, you would pay no income tax at all.



We will help those on middle and lower incomes by cutting income tax for hardworking people and introducing a lower 10p starting rate of tax.



Further increases in the income tax personal allowance. The party would link the personal allowance to the minimum wage so that in future no-one with a full-time job on the minimum wage would pay income tax.



LIVING WAGE

Reducing inequality, as well as being a key objective in itself, can also have a positive impact on economic growth. The Scottish Government already leads by example by paying at least the Living Wage to everyone within its pay policy and promoting payment of fair wages in the private sector. Any future UK Government should make an equally clear commitment to the Living Wage.



The more we can increase taxes received from the wealthy and from tax-avoiding corporations the less we need to tax those on low incomes. Our longer-term proposal 'to move to basic income' and abolish the income tax personal allowance will benefit everybody who earns less than around £40,000 pa.

Devolution of tax powers. How far should it go, and what do you see as the main risks/benefits?



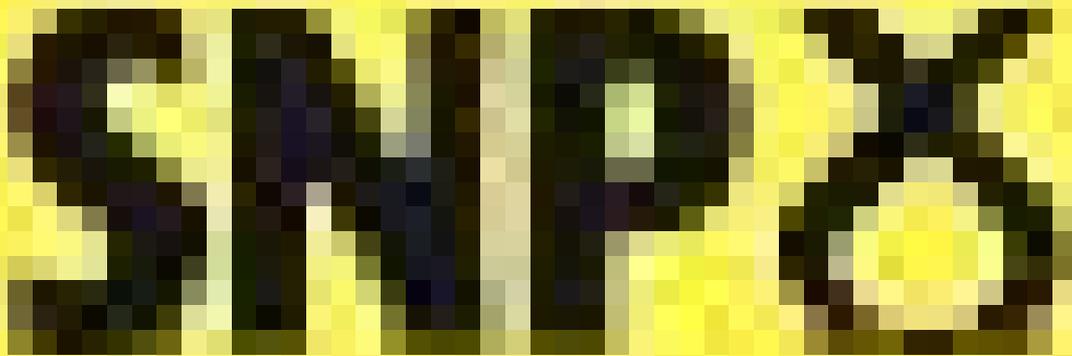
Conservatives support the granting of further tax powers to Scotland, as set out by the Smith Commission. Recognising that Northern Ireland faces a uniquely competitive disadvantage by having a border with the Irish Republic, devolution of corporation tax has been legislated for. The people of Wales will soon vote in a referendum on a major transfer of income tax powers from Westminster. The party has promised that the English will 'get more control over their taxes and their laws too' with 'English votes for English laws'.



We would devolve business rates to city and county regions so that they can invest to grow businesses in their area and benefit from any additional revenues in general. Such reforms can have an important effect, and we support measures that can increase inward investment and economic rebalancing, but they need to go hand-in-hand with policies in other areas such as infrastructure and skills.



The promised new powers must be delivered to Scotland irrespective of any issues in the rest of the UK. The party's policy goes further than the Smith Commission, arguing for devolution of inheritance tax and capital gains tax powers too. The Lib Dems also back tax-varying powers for Wales.



SNP

The SNP remains committed to independence for Scotland. However, we accept that independence was not the choice of the majority of the Scottish people in the referendum. In its submission to the Smith Commission, the SNP Scottish Government set out the case for devolving all taxes in Scotland to the Scottish Parliament unless there were good reasons for them being reserved.



We believe in full independence for Scotland and, eventually, for Wales, Northern Ireland and the English regions. Our principle is that tax should be collected locally and sent to wider levels of government by agreement. This needs to be supported by requirements for richer regions to share with poorer ones.

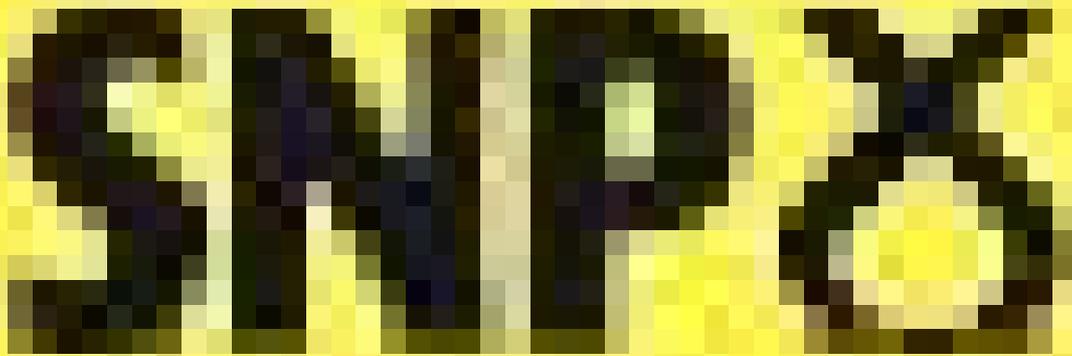
Eight million people and businesses use tax advisers in the UK every year. How do you see the role of tax advisers/tax agents in the tax system?



David Gauke has spoken of the need for advisers to ensure that people are compliant, and has also praised the input of professional bodies into the policymaking process. However, Gauke and other ministers defend 'high-risk promoter' legislation 'to tackle the small minority of tax advisers who are persistently uncooperative and are not transparent in their dealings with HMRC'.



Tax advisers play an essential role in the tax system. Their skills and knowledge are vital in supporting individuals and businesses navigate the system. However, this advice should always have the aim of ensuring that the appropriate amount of tax is paid. Where it is found that advisers are giving advice that falsely reduces the tax liability owed, swift action should be taken to clamp down on this behaviour.



TAX ADVISERS

The UK tax system is complex, and companies, particularly those who wish to invest in Scotland, will often need support from experts to ensure they pay the taxes they owe. It is critical that people have trust in tax advisers and they can have confidence that they are serving their interests with integrity and transparency. We see value in the Public Accounts Committee's recommendation that a code of conduct should be introduced for all tax advisers.



We would like to see tax advisers working to encourage companies and individuals to reduce their energy use, resource use, and waste production. Given the general anti-abuse legislation we would enforce firmly, we would see much less of a role for tax professionals offering avoidance advice. Some of these are welcome to join HMRC!

Labour responses were provided by Shabana Mahmood MP, Shadow Exchequer Secretary. SNP responses were provided by Stewart Hosie MP, SNP Treasury Spokesperson in the House of Commons. Green Party responses were provided by Molly Scott Cato MEP, Green Party Spokesperson on Finance. Conservative and Lib Dem responses are adapted from party policy statements and recent speeches by ministers. Some answers have been abridged for space reasons.

Further information

Party answers to the following quick fire questions can be read on the Tax Adviser website.

United Kingdom Independence Party (UKIP) – Main Tax Policies

- 35p income tax rate for earnings between about £44,000 and £55,000, with 40p on all earnings above that.
- Raise the income tax personal allowance to £13,000.
- Abolish inheritance tax and green taxes.
- Set up a Treasury commission to design a 'turnover tax', requiring every large company to show that it had paid a set proportion of its turnover in corporation and other taxes or face an additional charge to bring it up to the minimum.

Plaid Cymru – Main Tax Policies

- Strong support for income tax-varying powers for the Welsh Assembly.
- Wales should have the same tax powers as Scotland, including control of air passenger duty.
- Devolution of corporation tax, if it is devolved to Scotland and Northern Ireland.
- Welsh Assembly to have power to offer tax breaks to pension funds prepared to invest in their own communities.
- Introduce a 'pop tax' (a levy on sugary drinks).

QUICK FIRE QUESTIONS

- In normal times, what share of GDP should be raised in taxes?
- Should married people be treated differently by the tax system?
- Should prosecutors have to prove intent to evade tax before someone can be criminally convicted?
- Is there such a thing as unhealthy tax competition?
- Do you support a 'mansion tax'?

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