

# Tax

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# Conservatives

# 'Tax guarantee'

## **No increase in rates of income tax, NICs or VAT**

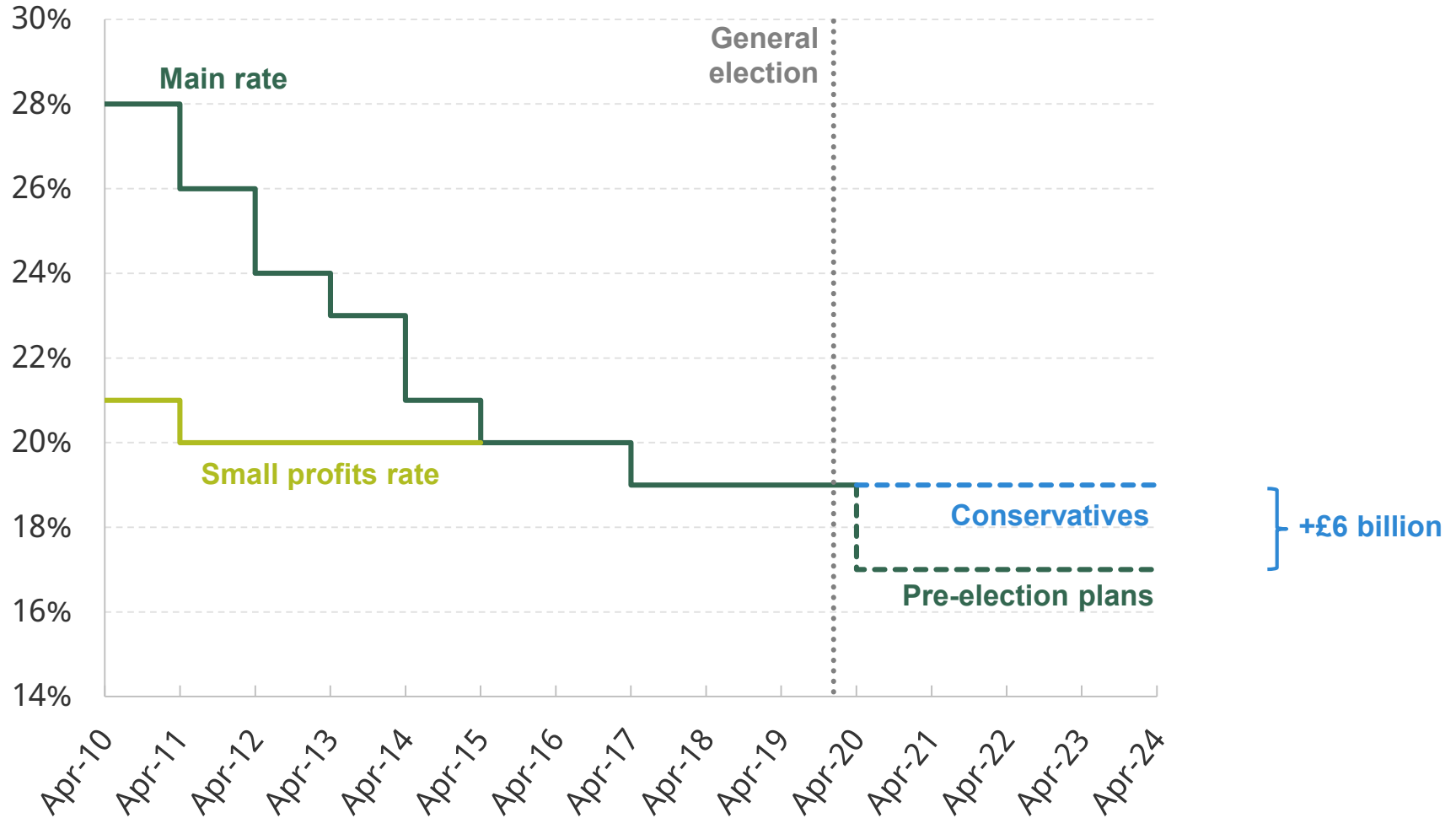
- Repeating 2015 election pledge

## **Significant and unwelcome constraint if tax rises needed in future**

## **Or if want to change tax rates for other reasons**

- As Philip Hammond found in 2017

# Cancel corporation tax cut



# Increase NICs threshold

**Currently due to be £8,788 per year in 2020-21**

**Conservatives would increase to £9,500 for employees & self-employed**

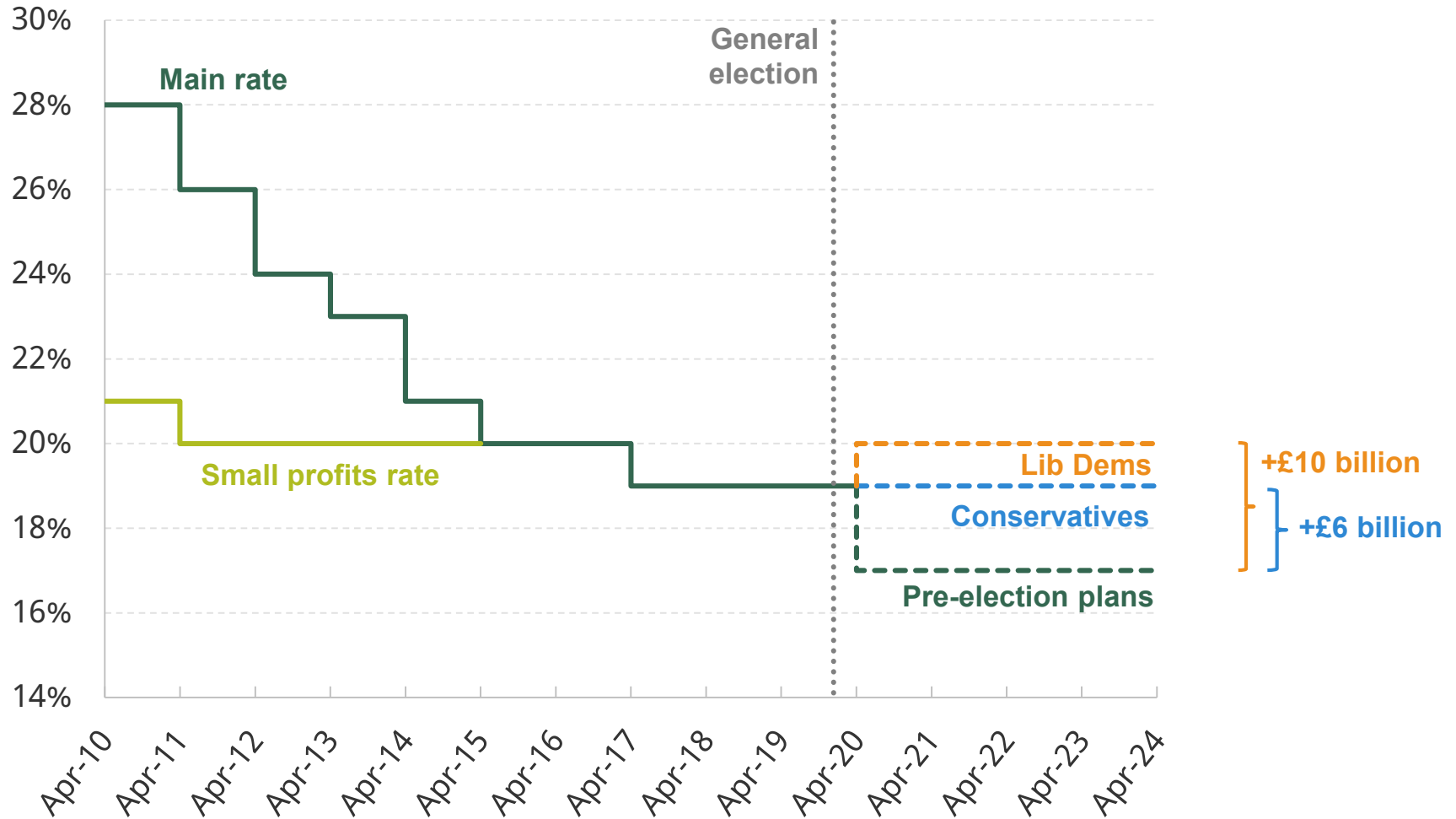
- Taking ½ million people out of NICs
- Those still paying NICs see liability reduced by up to £85 per year
- Costs £2bn a year
- Only 8% of gains go to poorest 20% of working households
  - Increasing in-work benefits better targeted, but expands means-testing

**‘Ultimate ambition’ to raise threshold to £12,500**

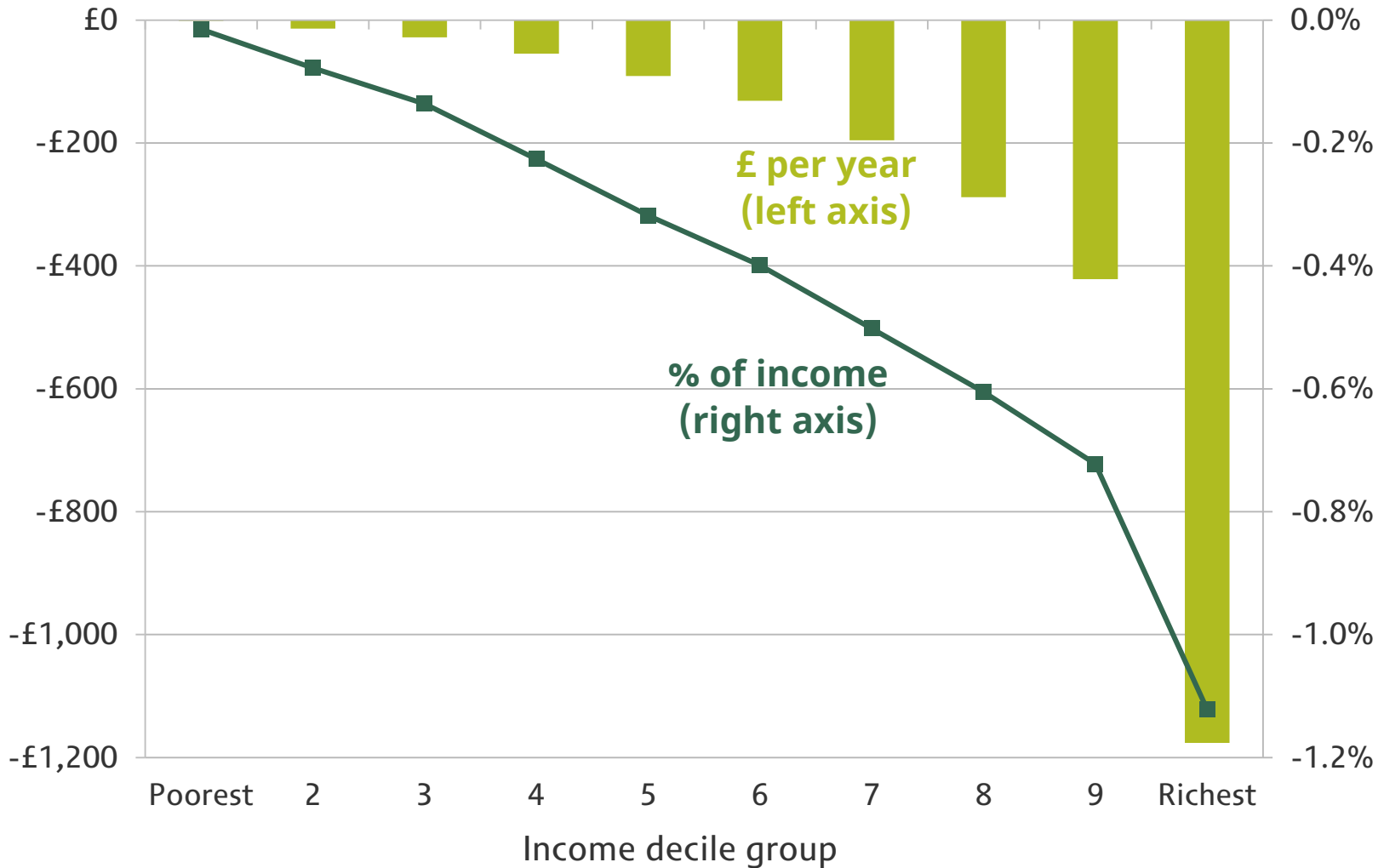
- Later = cheaper, as normally rises with inflation anyway
- Doing by 2023-24 costs additional £6bn (in today’s prices)

# Liberal Democrats

# Increase corporation tax to 20%

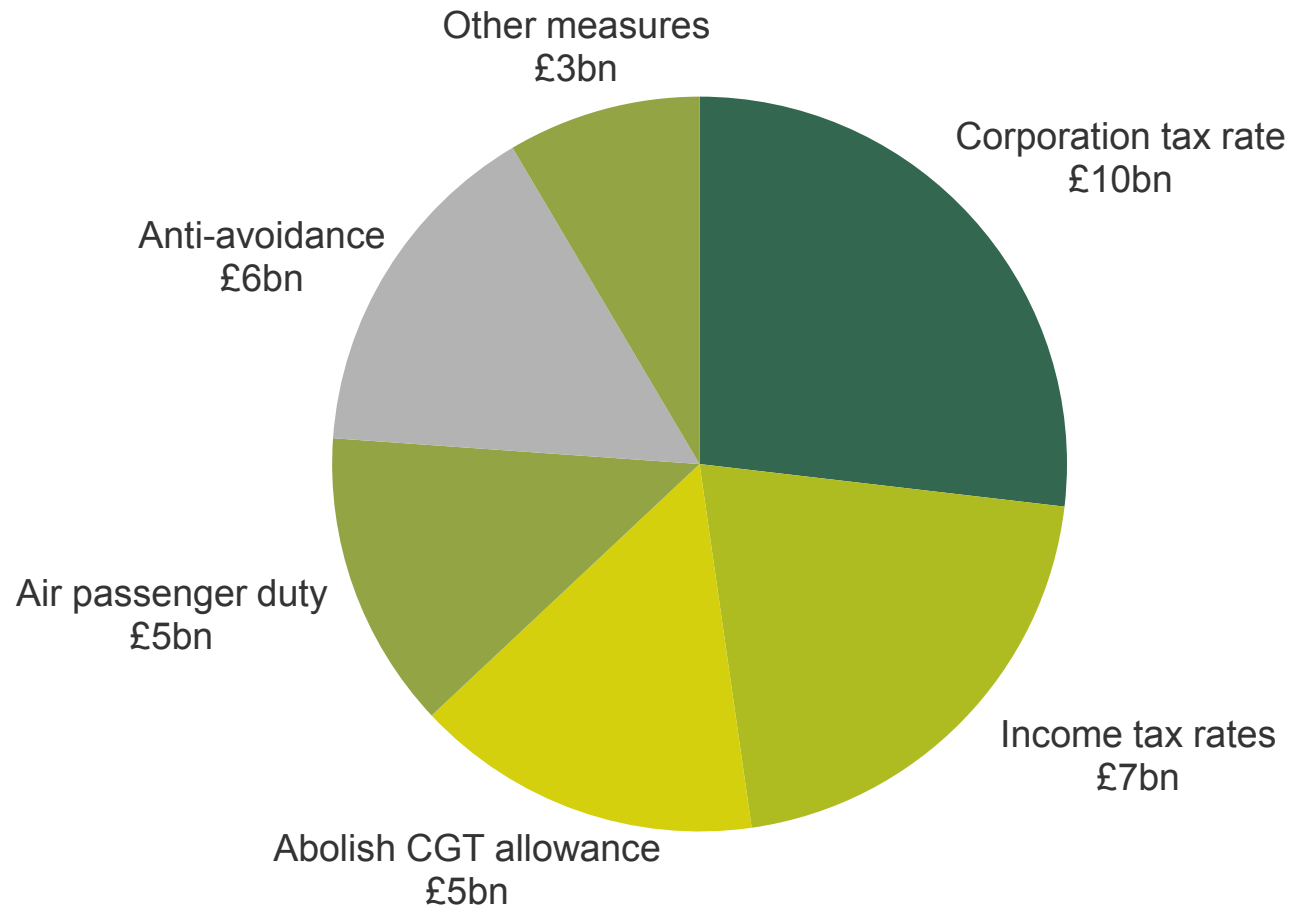


# 1ppt rise in all rates of income tax





# Lib Dems: £36bn of tax rises



# Complicating the tax system

**One simplification: abolishing marriage allowance**

**But...**

**At least two entirely new tax administration mechanisms**

- Air passenger duty and cannabis duty

**Stamp duty land tax to depend on energy rating**

**Lots more people paying capital gains tax**

**Valuing land without buildings for business rates**

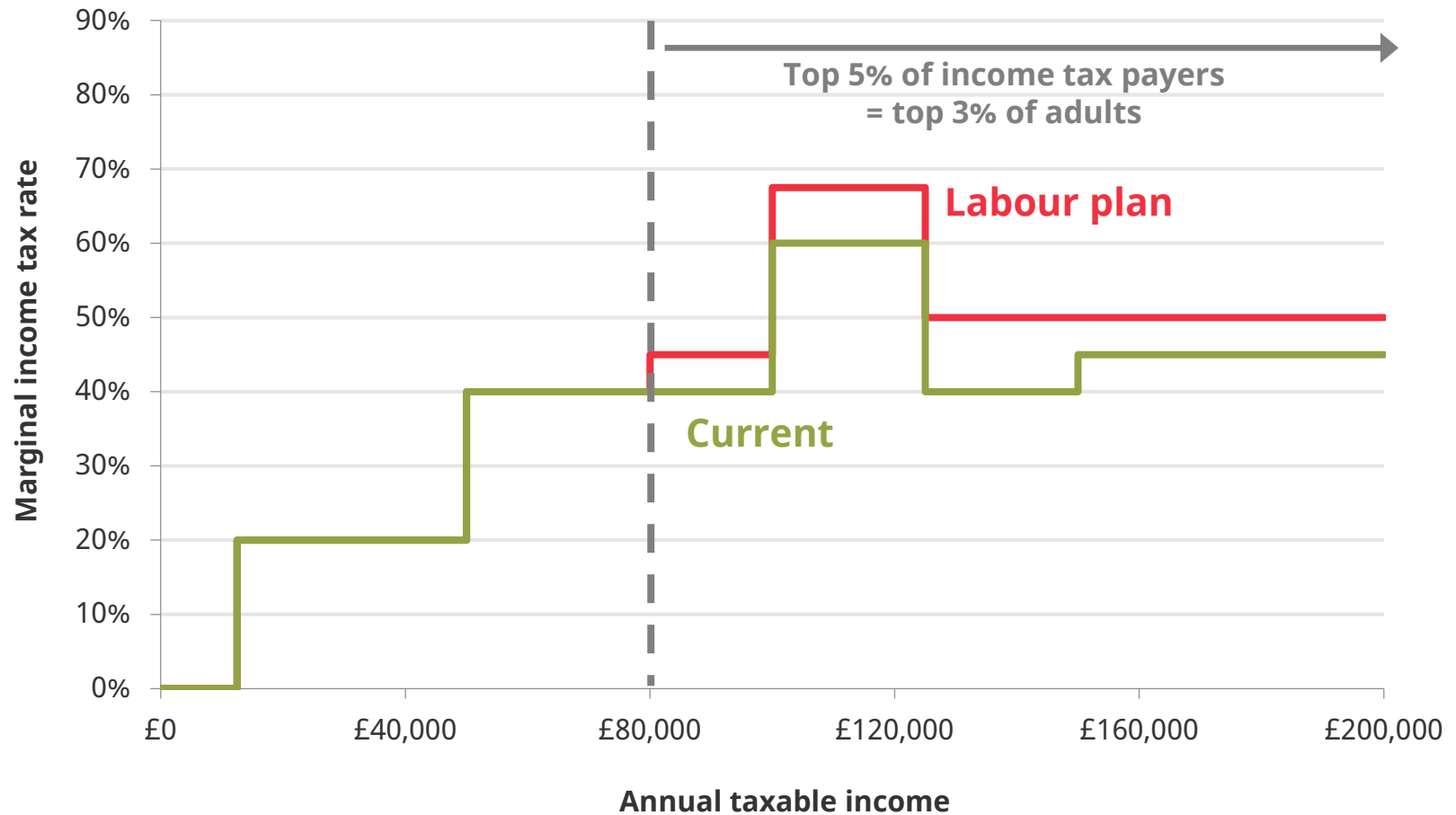
**More VAT differentiation (electric vehicles, home insulation)**

**Ultra Low Emissions Zones in 10 more towns and cities**

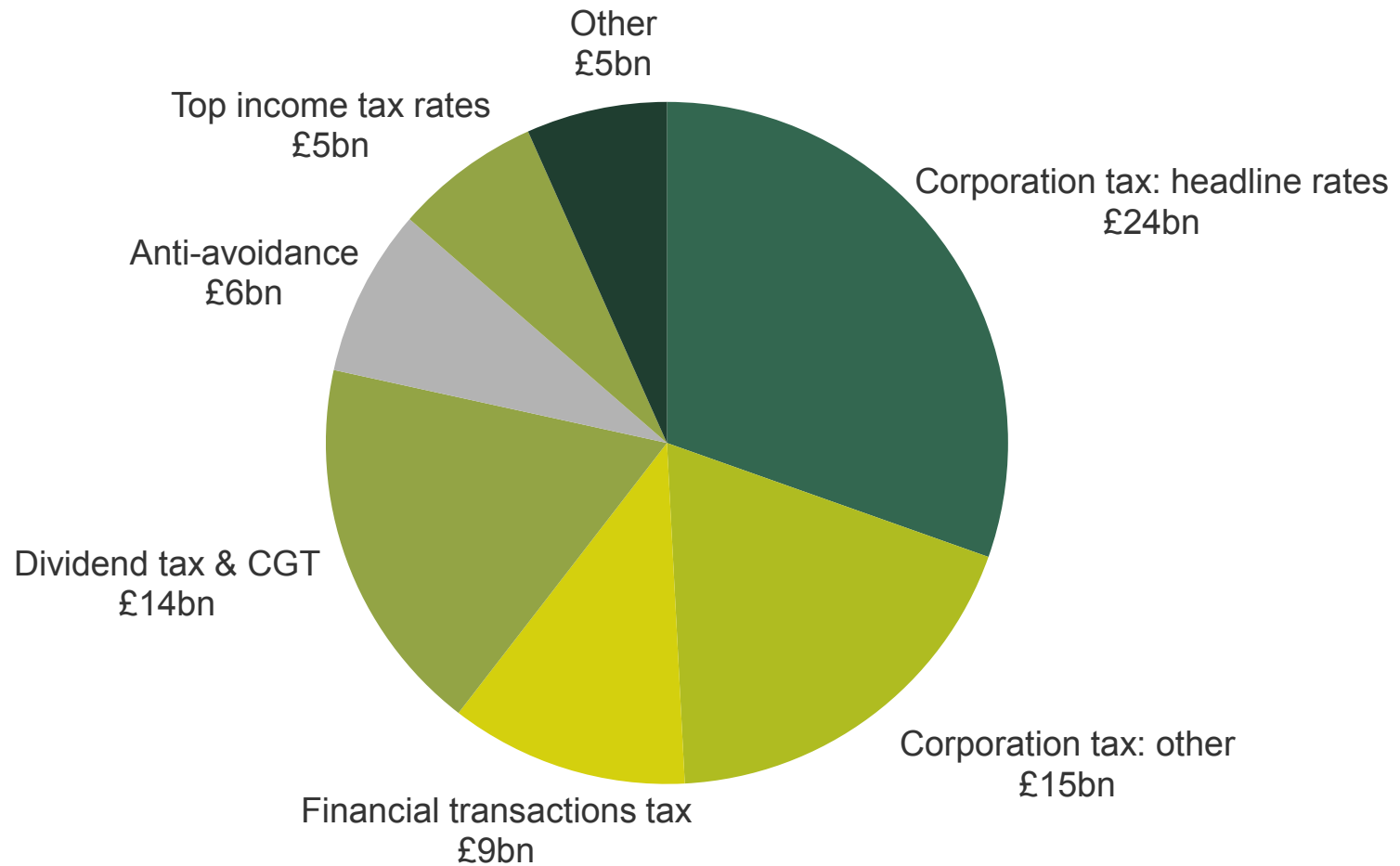
**Hypothecated health & care tax**

# Labour

# Increase income tax rates on incomes >£80,000



# Labour: £78bn of tax rises



Note: Excludes 'Inclusive Ownership Fund', windfall tax on oil companies and some smaller tax changes

# Dividends and capital gains

**Currently taxed much less than ordinary income**

**Labour proposes to tax at income tax rates**

- No deduction for corporation tax already paid on profits, but no NICs either

**Incl. abolishing entrepreneurs' relief, forgiveness at death & other reliefs**

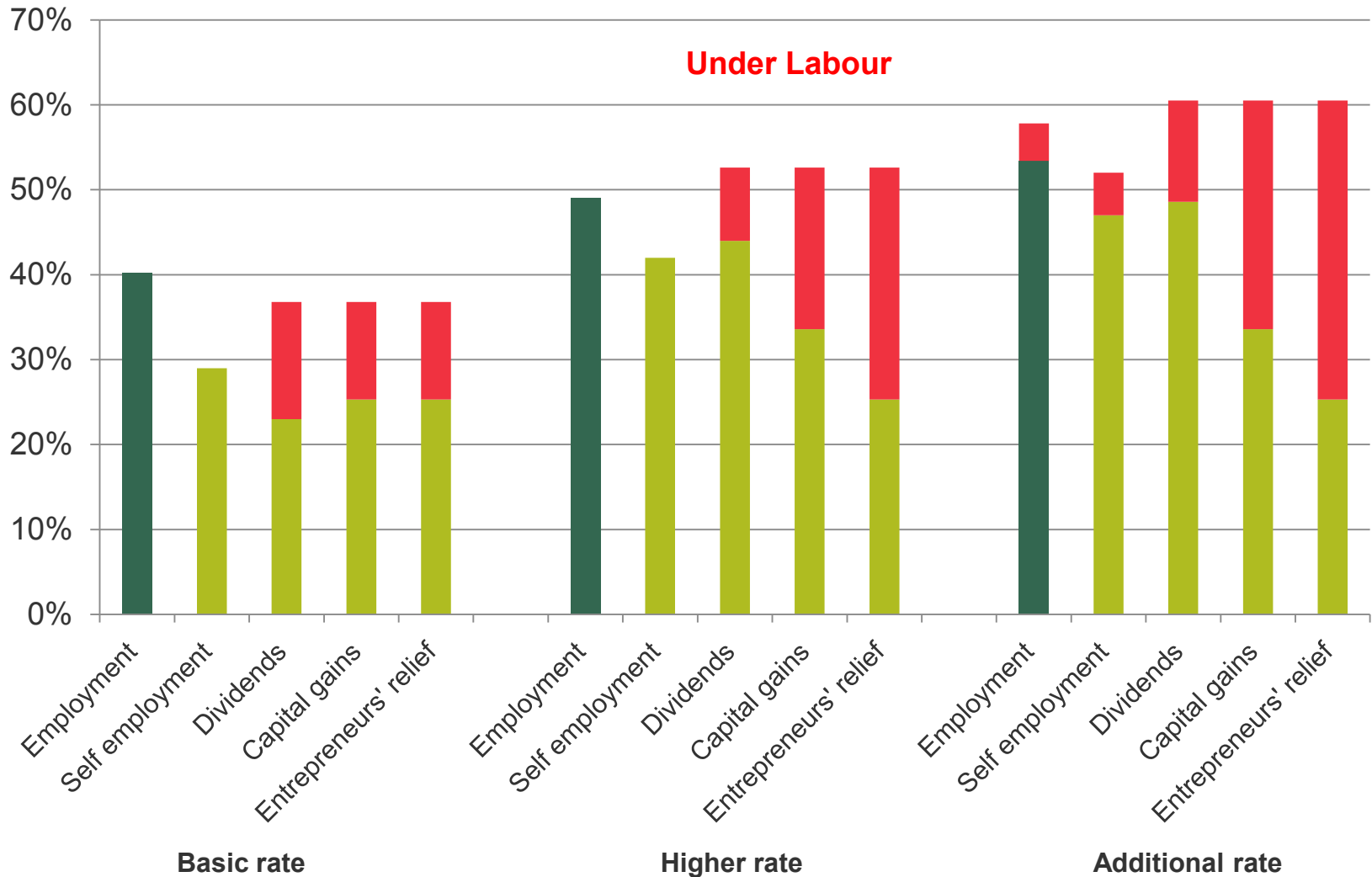
**Introduce a Rate of Return Allowance, as advocated by Mirrlees Review**

- Avoids disincentives to save/invest

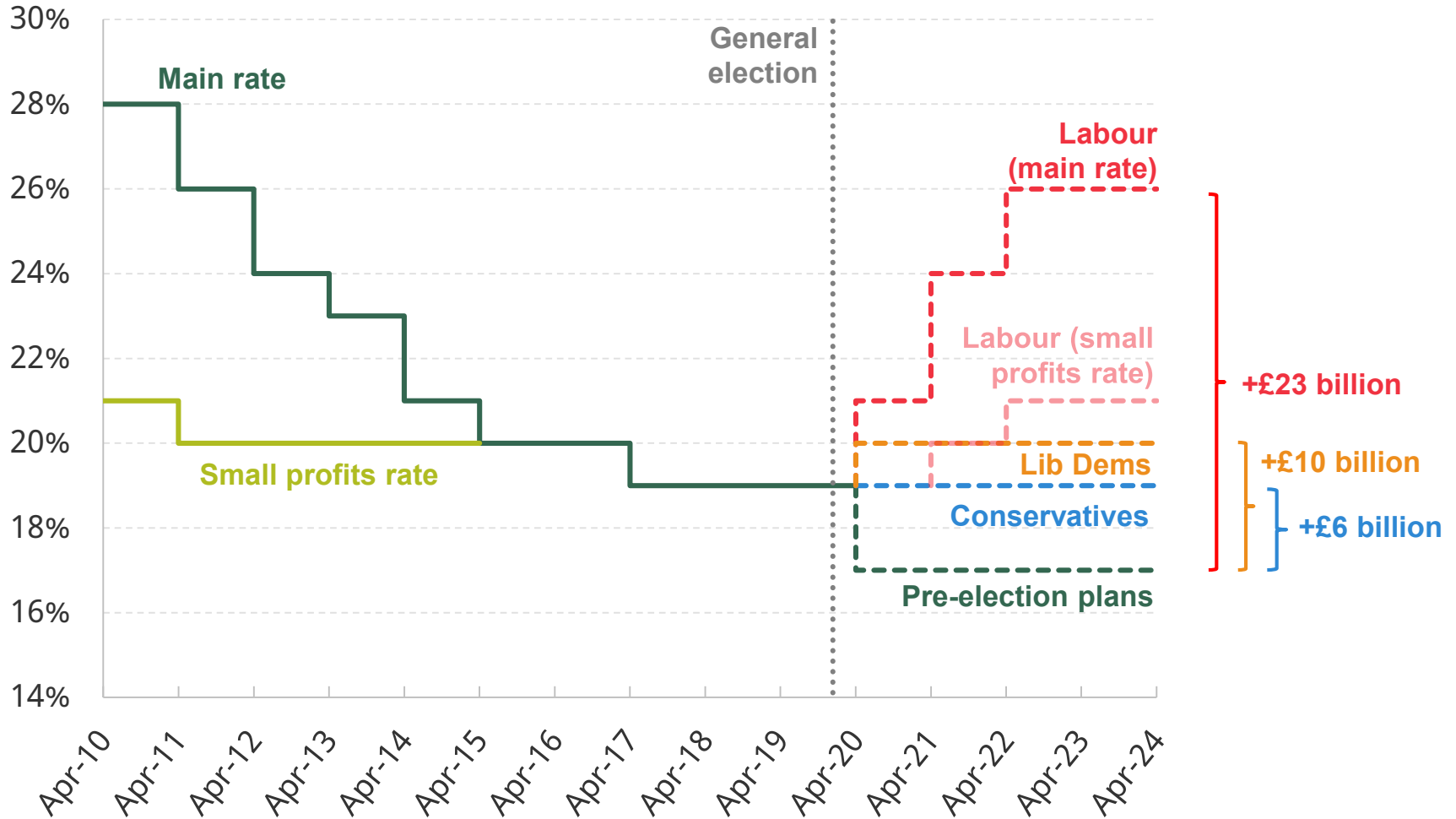
**Would mean taxing business owners' efforts as much as employees'**

- No reason to tax them less

# Overall marginal tax rates on income generated



# Corporation tax rates compared





# Other corporation tax rises

## Unitary taxation of multinationals: £6.3bn

- Tax multinationals' global profits according to UK share of global employment/assets/sales, not UK profits
- Addresses important issue, and reasonable approach to pursue internationally
- But doing unilaterally may be impractical and risks legal challenge
- So can't count on revenue

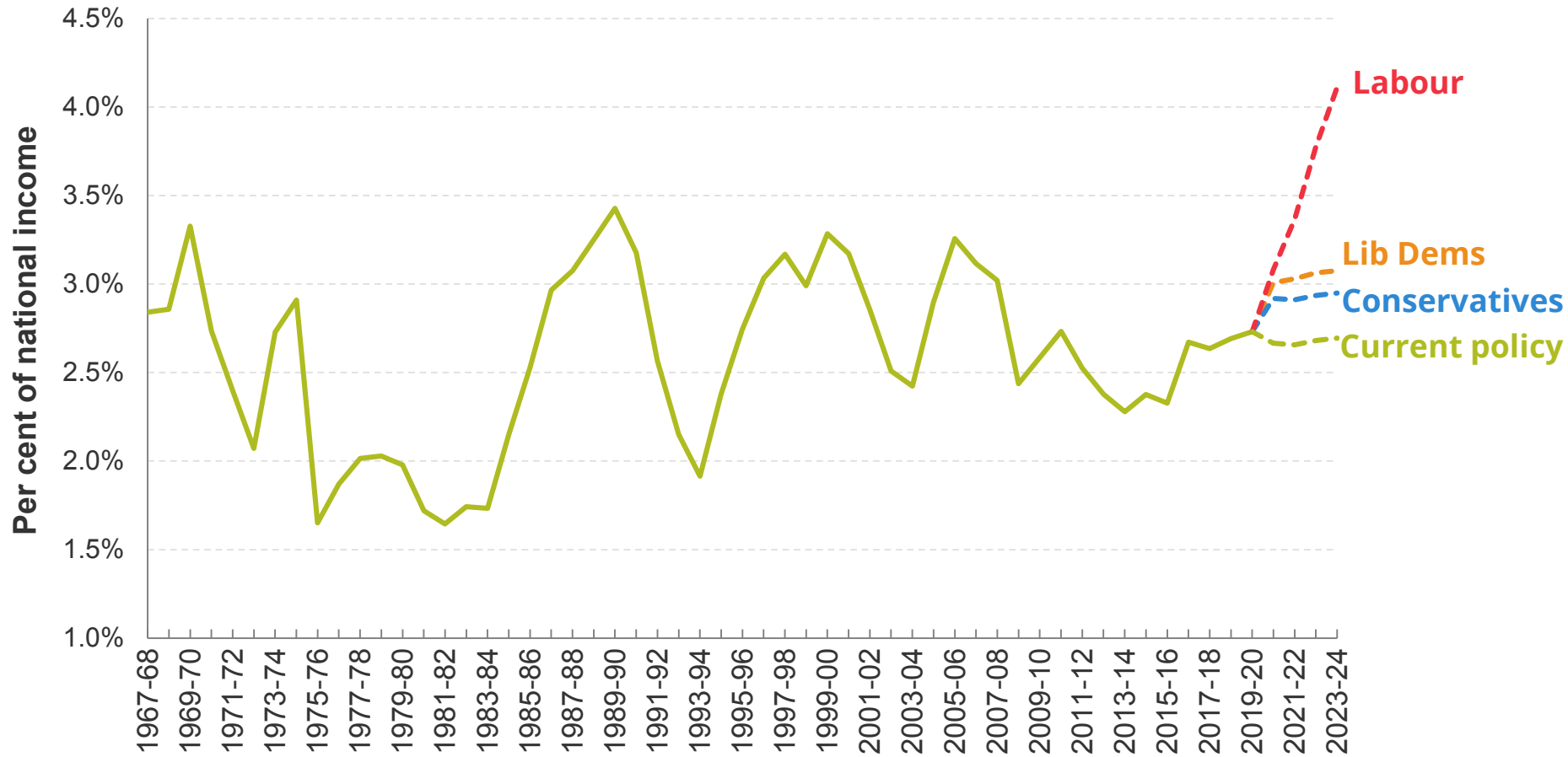
## Abolish patent box & R&D tax credit for large companies: £4.0bn

- Replace with direct funding of R&D
- Patent box bad for promoting innovation, though good for attracting mobile profits
- R&D tax credit quite well designed and effective – can government pick winners better?

## Cutting unspecified reliefs: £4.3bn

- Reviewing/evaluating always welcome
- Certainly possible to cut back
- But not painless: which companies and activities would be taxed more?

# Corporation tax revenue



Note: Cash revenue until 1999-2000, accruals thereafter. Sources: OBR, *Public Finances Databank*; ONS, *N445*; authors' calculations

# Inclusive Ownership Fund

## **10% of large UK companies' shares (of UK business) put into a fund over 10 years**

- Fund gets 10% of dividends, or of after-tax UK profits if firm doesn't pay dividends

## **Payouts shared equally among employees, up to a cap of £X per year each**

- Excess goes to government
- £X determined so that, in aggregate, max 25% goes to government, rest to workers

## **If UK profits below £X per employee, acts like compulsory employee share scheme**

- Exemption for some with existing employee share schemes

## **If UK profits above £X per employee, acts like additional corporation tax**

- In effect increases rate from 26% to 33.4%

## **Some possible responses:**

- Stay below 'large company' threshold
- Operate as branches, rather than subsidiaries, of foreign companies
- Rely more on debt instead of share capital
- Reduce wages in exchange for this extra remuneration

# Financial transactions tax

## Big extension of existing 0.5% stamp duty on shares

- To apply (at various rates) to bonds, commodities, foreign exchange, derivatives...
- And remove intermediaries exemption
- Much broader than other FTTs

## Some of these can readily move abroad

- Doubtful will raise the £9bn Labour assumes

## Derivatives transactions notoriously difficult to tax

**Some are economically valuable activities making markets work better**

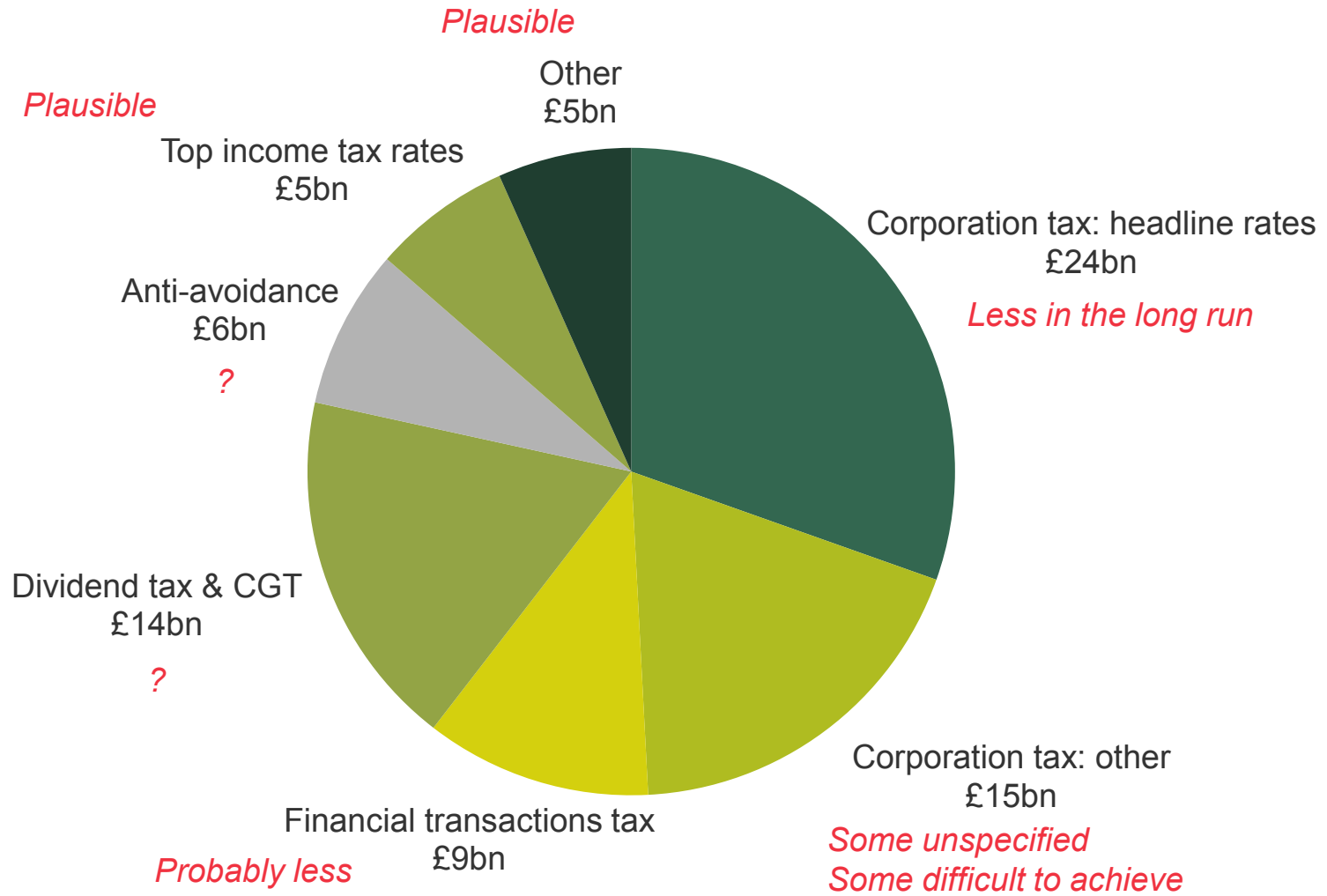
# 'No tax increase for 95%'?

## Clearly not true:

- Abolition of marriage allowance is an income tax rise just for bottom 95%
  - Only a small part of Labour's tax rises, but a particularly clear-cut case
- Those receiving dividends, capital gains, etc. are better-off than average, but not all in the top 5%
- Corporation tax rises do not just affect the rich
  - Part passed on to workers (lower wages) and customers (higher prices)
  - The rest is reduced profits for shareholders – including e.g. small business owners and anyone with a defined-contribution pension

**Labour's tax policies certainly progressive, but don't just hit the top 5%**

# Labour: £78bn of tax rises



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