

Treasury Committee

Oral evidence: [Budget 2025](#), HC 1349

Tuesday 14 October 2025

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Members present: Dame Meg Hillier (Chair); Dame Harriett Baldwin; Chris Coghlan; Bobby Dean; John Glen; John Grady; Dame Siobhain McDonagh; Yuan Yang.

Questions 1 - 85

Witnesses

[I](#): Dan Neidle, Founder, Tax Policy Associates; Helen Miller, Director, Institute for Fiscal Studies; Professor Arun Advani, Professor of Economics, University of Warwick and Director, CenTax (Centre for the Analysis of Taxation); and Ruth Curtice, CEO, Resolution Foundation.

Examination of witnesses

Witnesses: Dan Neidle, Helen Miller, Professor Arun Advani and Ruth Curtice.

Q1 Chair: Welcome to the Treasury Select Committee on Tuesday 14 October 2025. We are here today to start our sessions to discuss the options available to the Chancellor of the Exchequer at her forthcoming Budget on 26 November. We are delighted to have a highly expert panel today to talk about the challenges that she faces and the options that might be available to her. From my left to right we have Helen Miller, who is director at the Institute for Fiscal Studies, which came out with some thoughts on this very issue only yesterday; then Dan Neidle, who is the founder of Tax Policy Associates, having spent a career as a tax lawyer. He has been out on the media recently as well—in fact you all have, so you all have views on the record and we hope to tease those out today. Ruth Curtice is the chief executive of the Resolution Foundation. Her predecessors seem to be filling No. 10 rather rapidly at the moment, so I am not sure how long Ruth is for the role, but she joined the Resolution Foundation from His Majesty's Treasury. Professor Arun Advani is a professor of economics at the University of Warwick, and has obviously made lots of interventions on the issues, including on wealth taxes. So, we are really keen to hear from you.

We have a really challenging fiscal situation, as I think everyone would acknowledge. The Chancellor has got to come up with her Budget by 26 November; time is ticking on. There is a potential gap of £20 to £40 billion, depending who you read and which way the wind is blowing on a particular day. From left to right, starting with Helen Miller, if you were in her shoes, what would be the top two or three things that you would be looking to do, to try and manage the fiscal situation?

Helen Miller: Obviously I am not going to tell you exactly what I would do, in the sense that it is a political choice, and it is important to emphasise that there really are trade-offs here and it is a political decision what to do. I think she is going to face a couple of big judgments. You mentioned the uncertainty about the size of this gap. Basically, there is uncertainty about the size of the borrowing downgrade. She will have to choose what to do about that. I think most of us think that she will stick to her fiscal rules—that that is the right choice to make. But even then she will have a choice whether to just about meet those fiscal rules with a tiny headroom or whether to go further. So it is a choice about the size of the fiscal consolidation she wants to make. Then there is a choice about how to spread that between tax rises and spending cuts; again there is a choice there. Then, if you are going to do tax rises, there is a choice about which taxes to raise.

What we highlighted yesterday is that I think there will be a lot of focus in the coming weeks on the politics of any tax rises, and in particular on the extent to which Rachel Reeves could raise more revenue without breaking her big pledges around income tax, national insurance contributions and



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VAT. You could raise tens of billions of pounds without touching those taxes. It would be hard, just mechanically, because they are the big taxes; they are a tax on a big base, but you could scrape £20 or £30 billion without touching those taxes. The question is not “could you?”; I think it is “should you?” What we are urging is, as well as thinking about the politics of any choice—which is obviously important—thinking about the economics too. Tax rises are not all born equal; some are much more damaging than others to things we care about, like welfare and growth. Really it is those things that you are weighing up.

The final plea I would have is that whatever Rachel Reeves decides to do, there is a huge opportunity here to reform taxes to mean that they do less damage to economic growth. If all Rachel Reeves does is raise revenue, that would be missing the opportunity to do something more substantive that means you could reduce the cost of that revenue at the same time. I am happy to go through any number of examples, but they are the three choices she faces and that is the opportunity I think she has.

Q2 **Chair:** Thank you for that. We will get into the detail of what the potential options are. Dan Neidle is next.

Dan Neidle: I think I agree with Helen. To the extent that the Chancellor decides she has to raise tax, there are essentially two ways to do it. One is by raising one of the main taxes in perhaps a breach of a manifesto pledge, or possibly by expanding the base of VAT—we can talk about that later—which may or may not breach a manifesto pledge. I am not a philosopher; I cannot speak to that. I think that would be the wise way to do it. The less wise way to do it is by picking from a Scrabble bag of lots of little individual tax rises. That would be suboptimal because we have had 30 years of minute changes here and there to the tax system. Over that time, the tax system has become more and more complex and accumulated more and more anomalies and political compromises that get baked in. Every time you create 10 more tiny tax rises and tax changes, you add to that layer, which has ossified our tax system, so I very much hope she does not do that.

As well as addressing the immediate fiscal issues, I hope that she steps back and thinks about ways that you could reform the tax system to be pro-growth, which we have rarely seen in the last few decades. But now I think it has become quite desperate. Again, maybe we can talk about that later.

Q3 **Chair:** We will get on to that. Ruth Curtice is next.

Ruth Curtice: At the Resolution Foundation we focus on living standards. With that in mind, I would go a bit further than Dan and Helen. Looking at things in the round, she should raise taxes at this Budget. When you look at the cost of borrowing for the UK relative to other countries, it is one of the highest of the rich countries. On the position that we face, there is a strong case for raising taxes at this Budget. That is partly in the light of the decisions already taken on spending, which we can go through. With that in mind and in order to do that, I would have three things, some of



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which chime. One is the specific economic situation in which we find ourselves, which is low growth and sticky inflation. Things that minimise the tax rises and the impact on growth but also minimise the impact on inflation are important for this Budget. I would make them in a way that improves the tax system and moves it towards a better system rather than away from it. Dan and Helen have talked about that. It is not just politics. We should think about how the distribution of the pain of tax rises fits with the fact that we have only just barely emerged from a cost of living crisis, and therefore we should think carefully about the winners and losers. We have set out some specific proposals that we think fit with that: reducing employee national insurance while increasing income tax, changes to capital gains tax, introducing a tax on the salt and sugar content of processed food, and many more. I am happy to go into those as we go through the session.

Chair: Dipping into the Scrabble bag, as Mr Neidle put it.

Ruth Curtice: No, not a Scrabble bag, but we can come back to that.

Q4 **Chair:** Professor Advani.

Professor Arun Advani: I agree with a lot of what has been said so far. I would certainly echo right from the start what Helen said, which is that there is an overall question of tax and spend—I would not want to get into something like that political choice. But in a world in which the spending side is fixed, tax rises are the only option at that stage. In that case, I think—

Q5 **Chair:** Sorry, are you saying because the spending is fixed?

Professor Arun Advani: Yes, the spending review is done. There is a choice about whether something is going to be done on the welfare side and the amount of spending that has not happened, at least so far. If we think of that as fixed, and today we are thinking about tax, then I would say that in some sense it was a really good thing that the Labour party, when it was in opposition and pushing for power, said that it was going to not change the rates of the big taxes. The many problems in our tax system are out there and desperate to be fixed. Many of us have written about these things and talked about them before. It is a really good thing if they think of those levers as being removed from something they can mess with at the moment, because if you want to raise taxes at the moment, there are plenty of ways to do it that would actually improve the tax system. Dan might describe some of that as a Scrabble bag. I would say it is a Scrabble bag in the sense that there are many, many places where we have made a change to one part of the system and not others, and that treats otherwise equal behaviours differently. That creates complexity and scope for avoidance, and that is very bad for economic efficiency and growth. Fixing those things would raise money while making the tax system better. Those are the kinds of things that we should focus on. That does not require going to the big taxes in terms of the rates. It does in some cases require thinking about the base of something like national insurance or VAT. But it would not be about changing rates. It



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would be about trying to broaden those bases and trying to fix places where there are gaps, so that otherwise some of the behaviours are treated more similarly. That would be much better.

Q6 Chair: Two of you have highlighted tax and growth. Dan Neidle, you said you could reform the tax system to make it grow—that some of these changes have made it difficult. If you were sitting at the Chancellor's shoulder advising her about how to change things to encourage growth, which two or three things would you push her to think about?

Dan Neidle: Start with corporation tax. The UK's corporation tax system is rated by the US Tax Foundation as one of the least competitive in the world—less competitive than Sweden, Italy or Greece. Those are countries with higher rates of corporate tax than us.

The reason is complexity. Italy used to be a laughing stock for the uncertainty of its tax system. It had a major series of reforms about 10 years ago. We just haven't. We have layered complexity upon complexity.

The Chancellor could take a radically different approach to simplification. Instead of an essentially technical body, like the Office of Tax Simplification, which produced extremely worthy and excellent reports, most of which were never implemented, you need a political commitment to simplification—a small body of smart people with a junior Minister responsible, whose job is to identify areas of the tax code where you can eliminate a whole series of rules and legislation without any fiscal consequence. I believe there are many like that.

I should say, I am not applying for a job.

Chair: I was going to say, it sounded like a job application.

Dan Neidle: It would not be me—absolutely not me—but it could and should be done, and I think it would be welcomed by business. That is the first thing.

The second thing, which is more politically difficult, is VAT. There is a chart that shows the level of turnover of businesses and the number of businesses at that level of turnover. What you would expect to see is lots of microbusinesses, a few large businesses and then a smooth curve from one to the other. You don't see that at all. What you see is a big jump just before the VAT registration threshold, now £90,000, as businesses cluster before that threshold, and then a cliff edge after that.

I used to assume that was people evading tax, not declaring, but there is some compelling research suggesting that it is not that. Businesses deliberately hold back their growth. Plumbers don't take on an apprentice. Contractors go away in February. People deliberately avoid hitting that threshold, because as soon as they hit it, they lose 20% or they become uncompetitive. Why do we have a tax system that stops small businesses growing?



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There are two answers to that. One answer is to increase the threshold. That is a bad idea, partly because it is expensive and partly because you are then stopping larger businesses from growing and that is more economically damaging. The real answer is to reduce the threshold and to aim for it to fall to a similar level to that in the rest of Europe—so about the level where you can't actually be much more than a hobby business to be under the threshold.

The small business lobby is very much against that. I am not sure that represents the members. If you speak to small businesses, the issue for them is becoming uncompetitive. If a plumber's fees suddenly go up by 20% more than their rivals, that is a big problem, but if everyone is operating in the same environment, things are different.

I wish the Government would look at ways to reduce the threshold. I suspect that, politically, it would have to be done on a cost-neutral basis. You would say, "Okay, we are reducing the threshold, but we are using the revenue to reduce the rate"—it wouldn't be very much, maybe just half a percent, or possibly as much as 1%. That perhaps makes it doable.

Q7 **Chair:** Obviously, consumers will be paying more.

Dan Neidle: Yes, consumers will be paying more, so I think to sell that you need to say, "Overall, this is being done because it is good for growth."

Quickly, on a third thing, another similar cliff-edge problem in the tax system is the very high tax rates for people earning £60,000 and £100,000. At £100,000 the official rate, because of the withdrawal of personal allowance, is 62%. I know plenty of people who think we should have a top rate of 62%—I don't agree, but it is a view that you can rationally hold. But I don't know anyone who rationally thinks that we should have a top rate of 62% between £100,000 and £125,000, and then a top rate of 47% after that.

It's not rational. That is the system we have. And that is the best case result, because if you take up the Government's childcare subsidies, you lose all of it at £100,000. For, say, a consultant doctor working in London, that can mean a cash loss of £20,000 when your income hits the £100,000 point.

Some people will look at this and say, "Why should we care about people earning £100,000?" Well, I look at the emails I receive from hospital managers telling me that they cannot get consultants to work five days a week because it would cost them more money. Or I get emails from IT contractors saying that they turn away work for the same reason. This is clearly having an impact on the NHS and on the economy. How big is that impact? I very much hope someone in the Treasury is looking at that. If it is a material impact, real thought should be given as to how we can iron out those discontinuities in the tax system in a way that does not net cost tax.

Q8 **Chair:** Thank you. Professor Advani, you mentioned growth.



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Professor Arun Advani: I definitely agree with all of those, and there are plenty more. At a high level, it is worth saying that the way to get growth from the tax system is not trying to pick off individual bits of legislation that you can carve away and work out which exact rule you can remove; it is about changing the structure of the tax system so that we do not need those rules.

I agree with all the examples that Dan gave, and I would have given all of those. There are a couple more that you could look at. One way in which the tax system is not encouraging growth is that you have a lower rate of tax if you invest by buying a property compared with investing by buying shares. If you are buying shares, you are taxed at the dividend tax rate after corporation tax has already been paid by the company. That is a higher rate than if you buy property. It is not clear why we think investment in property should be privileged over other kinds of investment.

As another example, if you work as an employee, you are taxed at a higher rate through income tax and national insurance contributions. There are employer national insurance contributions and employee contributions, and you pay a higher rate than if you were working as a partner. That encourages organisations, typically in the service industries, to form partnership structures rather than incorporated structures. That might sound like arcane, backroom stuff that we do not need to care about, but in a partnership structure, among other things, it is much harder to hold investments because investments need to be held by the partners individually rather than by the partnership. Partnerships are not able to hold them directly without some complexity.

Those sorts of things, again, get in the way of investment. These are the structural simplifications needed to get rid of those differences in rates, so that people will make choices because they are the right ones to make economically rather than just for tax reasons.

Q9 **John Glen:** You all make clear intellectual arguments about what you could do in theory. Politicians and Government Ministers have to make decisions about what happens in practice. As Ruth will know, having spent 15 years in the Treasury, Ministers have to make those decisions based on what is going to be scored.

Chair: Just to be clear: scored by the Office for Budget Responsibility.

John Glen: Yes, scored by the Office for Budget Responsibility. This is not an intellectual exercise of academics. It is about having to operationalise it in a way that meets that test that the OBR gives us. Dan, you have set out very clear examples. What analysis have you, or any of you, done on the actual behavioural effects of some of those changes? For example, you talk about reducing the VAT by a small percentage. Is there any quantification of the impact on growth or on any of the measures that you have mentioned? It is a compelling critique, but what is the outcome? Have you any sense of what the OBR or any other independent respected people would say about it?

Dan Neidle: Fair question. Oddly, I am not aware of any macroeconomic modelling that has been done on the VAT or the income tax cliff edges. We can count the number of companies that are caught within that—it is about 45,000. I think Professor Advani was looking at income tax, and it is a sizeable number. What the effect is seems like an important question. My expertise is not that, so I can't answer you.

Q10 **Chair:** Professor Advani, is there anything you want to say?

Professor Arun Advani: There are lots of different examples. Some of them are easier to work out how to score. We are working on the impact of the income tax cliff edge at the moment. I cannot tell you the numbers because we have a process by which we get access to the data. I cannot tell you them until they are cleared, but we are working on the size of that gap and what incomes would be, and what the impact would be on labour supply. Dan gave the example of somebody stepping out from work or reducing their hours. That has an impact on them not just now, but across their career. We are looking at those kinds of things.

Q11 **Chair:** Are you looking at including pensions?

Professor Arun Advani: Yes, exactly. The process that the Treasury already has for scoring is that, in its modelling where it uses multipliers, it is thinking about the cost of capital in there. Some of these things, like what is happening with corporate tax, and examples that I have not yet given on the way in which capital gains is structured, are things that effectively increase the cost of capital to people investing. The Treasury already has a process by which it would include that, so if you think about the change in the cost of capital if you were to make that change, that would go through a Treasury model. The OBR would accept that in that it is a fairly standard existing model that the Treasury uses.

Q12 **Chair:** And a woman who was at the Treasury—Ruth Curtice.

Ruth Curtice: I think it is worth distinguishing between two things that the OBR do. One is scoring the behavioural effects of tax changes. They have done that for a long time; the Treasury did it before the existence of the OBR. As Arun says, there are assumptions about the elasticity of behaviour in relation to tax rates that are well established. Some of these changes would be more novel and harder to estimate, but nothing about the OBR process would stop the Treasury doing that. The Treasury and the OBR would come to a view about how much tax revenue to score, as they always have.

There is a separate question, which has got a lot of attention recently. Where policies have an effect on the supply side of the economy, what do the OBR estimate as the ultimate growth benefit of that? That is a newer area, where the OBR rightly have quite a high threshold for scoring, but it doesn't stop you doing the tax change and scoring the revenue. It makes it uncertain, because it is uncertain what the ultimate medium-term effect on GDP might be.

Q13 **Chair:** Helen Miller, do you have anything to add?



Helen Miller: I would just underline this point. I don't think we should ever expect there to be a set of estimates for every possible policy combination you could do, because there are thousands and thousands of them, but we do have a growing body of evidence, which Arun and I and others are contributing to. For example, I have done lots of work on the capital gains treatment of small businesses, showing—we have the evidence on this now—that up-front reliefs have a much bigger effect on investment than capital gains tax breaks. We have lots of evidence there, so there is growing evidence.

Stepping back, I would say that we should not be over-obsessed with what the OBR will put in the second thing that Ruth talked about—the supply side model. We know that the tax system is treating lots of similar activities in lots of different ways. That is gumming up the allocation of resources, whether it is people, capital or housing. That is bad for growth. I think there is a danger that we wait to find the one lever that has a big effect on the OBR—it doesn't exist. If we knew it, we would have pulled it. We are going to have to do the hard yards across lots of policy areas, across lots of areas of tax, and if you do enough of them, you get resources reallocated and then you get productivity growth. I think that if we just wait for the thing that will have the OBR forecast tipping up, we are never going to get there. We have lots of evidence, a body of theoretical and empirical evidence, about the very many ways in which tax is holding back growth. I think that, on that evidence base, we can be confident that if we did enough of that, it would move the dial, even if you can't have it in the five-year forecast, in year 5 very quickly.

John Glen: Thank you.

Chair: Quick question from John Grady.

- Q14 **John Grady:** In Scrabble, “simplicity” gives you 19 and “growth” gives you 13, by the way, Mr Neidle. Just to sum up this chapter of evidence, what you are all saying is that it is very clear that we have an overly complex tax code and, if we simplified it and did the hard yards of simplifying it properly, that would give us more growth and really help to get us out of this economic peril.

Dan Neidle: I think we are saying there are two types of simplification. One is structural simplification, where you look at ways the tax system taxes two economically similar things in radically different ways. That is more powerful as a pro-growth engine, but more politically controversial because you are going to have losers. The other is technical simplification, which will not have losers and is easier, but is much less dramatic in its growth effects.

- Q15 **Bobby Dean:** We are going to be talking a lot about tax today, but we thought it would also be useful to look briefly at alternatives to tax—whether there is any realistic chance of us getting big boosts to productivity or seeing a large amount of spending cuts. There are obviously lots of ideas out there about whether we can cut the welfare bill, shrink the size of the civil service or do stuff with youth unemployment.



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Perhaps, Helen Miller, you will want to come in first. Are there any big opportunities for the Chancellor in terms of productivity or of spending cuts in this Budget?

Helen Miller: Let me say a couple of things on that. If we are thinking about wanting to drive up productivity, which I think should be the defining thing we are all thinking about, you have to think not just about what you can cut. It's kind of the equivalent of, on the tax side, what you can reform. If you think about just a couple of examples of where there are big spending pressures—on disability and on special educational needs and disabilities for children—they are areas that, yes, you could just cut. Maybe you couldn't politically, but in principle there is no reason why you couldn't just cut those entitlements. You would save some money. Is that going to have a productivity effect? Not necessarily. For disability, for example, you want to think about how you can help support more people back into the workforce. For special educational needs, how do you support those children to make sure that they have a pathway to adulthood that includes them being part of the workforce, for example? I think we need to think not just about whether you could slash the funding, but about whether you could reform areas of spending in ways that would ultimately mean that we have more resources being used productively—that is what we are really thinking about. So, one challenge is just to think about reform, and some reforms may lead to either direct spending savings or good things in the future.

The other thing I would mention is this. I think what is really important about what the Chancellor chooses in the upcoming Budget is that it is credible to the people who are lending the Government money. This is not a great time to be borrowing in the world, for reasons I am very happy to discuss, but a lot of Governments are trying to borrow a lot of money and borrowing rates are high; our interest rate bill, if it were a Department, would be the second biggest Department. This is not a great time to be trying to borrow a lot of money. Even small changes in the interest rate at which we borrow have big effects on our interest rate bill. If you can signal to the people investing in the country that it is a credible pathway, that could have some payoffs in terms of lower interest rate bills, and that could be good.

Again, that does not just mean cutting spending; if the Government could show that there are some areas where reform is needed and that they have a credible plan for how to get those reforms happening in a way that could get through Parliament, that could be a good thing. There is a channel there through signalling to investors that you have a plan that tackles some of the big spending increase coming down the track.

I will mention in passing that the same is true on the tax side with things such as the disappearance of fuel duty revenue. There is no plan for that. Having a plan for that—whatever you thought the revenue outcome was going to be—would give credibility that could have a payoff in terms of people lending to us.

Q16 **Bobby Dean:** Can I just push you on one point relating to that? We know



that when we speculate about productivity gains that could be earned from activities such as the ones you have just described, the OBR tends not to score them very strongly, because there is a lot of uncertainty there. At the same time, however, the sorts of reforms you are talking about would cost money, I guess, because you are probably talking about support programmes for people or a greater number of people to support children with SEND in schools and so on. Are you saying that the lenders to the Government might tolerate a plan that increases spending if they feel there might be hopes of productivity at the end of it? Or do you think they need to find that money from elsewhere?

Helen Miller: There are a couple of different things there. How the market responds will depend on what people think of the plan, and whether it feels like just a giveaway or like an investment in the future. There are fiscal rules, and we are hitting up against them. I don't think this is going to happen, but if Rachel Reeves decided to say, "Actually, I'm going to break my fiscal rule. I'm going to borrow more money to spend on stuff," having emphasised so strongly that they are ironclad, I think that would go down like a lead brick, honestly. There is a constraint that she has put on herself. It is not that we would not be able to borrow money after that point—

Bobby Dean: It just gets more expensive.

Helen Miller: It just gets more expensive. It is about the price at which you borrow it. Those are the trade-offs we have. It is about where you want to spend your money. Remember that we are already spending quite a lot of money as well, so it is about how you allocate those funds and tackle some of the areas where spending is rising.

Q17 **Bobby Dean:** Ruth Curtice, did you want to come in on that point?

Ruth Curtice: I think on productivity it is just worth zooming out. The OBR forecast at the moment assumes productivity growth of about 1.25%. That is based on the average of the decade before the financial crisis and the average of the decade after. It assumes that we get some pre-financial crisis vim and vigour back in the economy, and we have not seen that. Since the pandemic, productivity is almost flat. We have seen almost no productivity growth.

Should the Government do absolutely everything they can to get productivity up again? Yes. Does it seem reasonable that that will get it above and beyond the 1.25% that the OBR is already assuming? To me, no. The problem on productivity is very deep, and that means that we need to do everything we can, but I am not sure that a credible forecast scores, on top of an already optimistic baseline—we will see what they do in the autumn—more and more measures. To Helen's point about how the markets would take that, we need to be realistic about where we might end up on productivity.

On spending, it is worth remembering where the spending review landed, which was about 1.2% real growth in spending over those three years. That is definitely not austerity, but it is pretty much the tightest spending



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review outside the period of austerity. Most of that additional money went to the NHS. Politicians need to square up to the fact that the choice has effectively become whether that money should go into the NHS or whether taxes should go up. That is quite a square choice that we face as a country.

- Q18 Chris Coghlan:** Helen Miller, can I come back to your earlier statement that if spending is stuck, that leaves tax rises? On this whole debate about productivity, there has been a huge body of economic research in recent years about how innovation and technology can drive productivity; there has just been a Nobel prize in economics awarded for that. Yet the OBR still treats productivity as exogenous to growth. Draghi, in his speech to the EU a couple of weeks ago, called for the EU to focus on public research and development to drive economic growth. Surely that should be a way? Draghi also said that if the EU borrowed for public research and development, it would lower the debt-to-GDP ratio if that was driving growth. Surely there is a third option there?

Helen Miller: We do spend money on public research and development, and we have a bunch of bits of the tax system, for example R&D tax credits, that aim to drive up innovation. You are right in one sense. In the long run, what can you do to get the economy growing? I am simplifying a bit, but you either have to reallocate resources in a more efficient way—so, people are better matched to where they are most productive—or you have to have some kind of technological innovation that means that, for a given amount of input, you can do more stuff. They are basically the two routes to going for growth. What we have said about the tax system is that it is currently stopping that allocation. That is one of the things that you could do: help the allocation, and that would drive up productivity.

You are right that we should also be thinking about driving up technological innovation. Could the Government borrow more for R&D? Well, it is borrowing quite a lot more for the big increase in investment. People think about last year's Budget as being a fiscal tightening, because they saw the tax increase. It was a big fiscal loosening. The Government did a big increase in borrowing. If you look at where some of that money was spent, not only was it spent on the things you might think are directly targeted at growth—transport, science or whatever—but a lot of it went on to defence and net zero. Some of that will be R&D, and some of it will be the kind of spending you are talking about.

That speaks to the fact that there is, at some point, a constraint on how much we can borrow or at what cost, and the Government have made choices about how to prioritise defence spending versus public R&D or other things. That is a choice we face. If you only cared about growth—that is an important caveat to what I just said—then, for any given amount of money you were spending, you would put more of it into the R&D or science bucket. Of course, the revealed preference of the Government is that that is not all they care about; they also care about defence and other things.



R&D spending can be a way to get growth, but we should not be thinking that we just need to have tons and tons of it. I suspect that there is a positive return to R&D, but it is not just about the Government doing it themselves; it is about how they incentivise the broader network. Thinking about one of the things Dan said earlier about the corporation tax system, it also matters that the private sector wants to invest. For any given level of incentive, the uncertainty around investment also is going to hold back investment. All these things are interrelated. It is not just about putting some more money in something; it is about how the whole system interacts together to create the incentives to do things, including invest in innovation.

- Q19 **Chris Coghlan:** To push back, a lot of the increase in defence spending is actually on R&D. If a lot of the issue right now is the OBR potentially downgrading productivity forecasts, and therefore increasing the fiscal black hole, then surely if the Government successfully argue that they can defer some of these productivity decreases, that will reduce the fiscal black hole.

Helen Miller: This goes to Ruth's point. They could find things that the OBR is confident enough will push productivity up. That is important, because this is not the OBR being a meanie. We have to be careful; we do need some kind of confidence to put it in the forecast. There will be plenty of things that are good to do and that we should do, but that will not be big or material enough to move the OBR forecast. That does not mean that you should not do them. I think we are getting overly hung-up on this particular forecast for a five-year window. There are some things that are good to do and that we should do, because if you do enough of them, we will be better off in the long run. That is what we really care about. If the Government can do some things that show up positively in the supply side of the economy, that will make life easier, but that is not an easy thing to do in a five-year window. We should be realistic about what the Government can do that would have returns in five years that are material enough to push up on productivity. We should have in mind the ultimate goal of getting the economy to be more productive. That is the true way out of all the difficulties we are going to face.

- Q20 **Chris Coghlan:** Ruth, do you have any comments on that? Relatedly, overall Government R&D spend is not materially rising, so how can we expect them to improve productivity?

Ruth Curtice: On the first point, the problem facing the public finances is not that the OBR may make a judgment 0.1% or 0.2% one way or the other; the problem is that the economy has been unproductive since 2008. That is the reality that is coming home to roost, and that has also been the problem for living standards and families, not just for the tax take. When we think about whether it would help to just borrow a bit more for R&D spending, we also need to think about where the UK's fiscal position is overall. Are there reasons to think that we should, on balance, run a tighter or a looser fiscal position? We have talked about the cost of borrowing, but when you also think about the future, we have an ageing population, and we know that health spending tends to grow as a



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proportion of the economy for other reasons, so it seems unlikely that the mistake we are about to make is to borrow too little rather than too much. Every marginal case you can make needs to be set in that context.

Dan Neidle: It is possible that we could improve R&D by spending less on R&D. I am thinking specifically of R&D tax relief, the corporation tax, which costs about £8 billion a year. The rules for it are bizarre; it is worth taking a look at quite how bizarre. It is not statute so much; it is a statutory reference to guidance by the Department for Business and Enterprise, as was. It is very vague. That vagueness means that in the past 15 years, about £10 billion has been lost to fraudulent and incorrect R&D tax credit claims, none of which will have done anything to boost R&D.

Today, HMRC has rather clamped down. The effect of that is that, if you want to claim R&D tax relief, you have quite a tough task. That uncertainty means that R&D tax relief is not an incentive, because you would be extremely optimistic, in all but the clearest case, to assume that, "Ah, we are starting this project. We will benefit from R&D tax relief." Instead, it is something that is claimed after the event; it is not an incentive.

Government have been trapped by the current system. There are about 50,000 claims a year for R&D tax relief. You cannot have a pre-clearance process for 50,000 claims. What could happen is a radical reshaping of that. Instead of £8 billion, it could be £5 billion, £4 billion, £3 billion—it doesn't matter. You narrow it, so that you are not getting 50,000 claims a year; you are getting 1,000 or 2,000 claims a year: big-ticket, really significant R&D. With claims down to that kind of number, you can have a swift and effective pre-clearance process, meaning that business gets confident that the relief is available; therefore, it becomes an incentive.

Q21 **John Glen:** Business people I know in the real world have used that system. If they are real innovators and are trying to do things at the margins and frontiers of understanding of science and innovation, then the notion that there is a pre-clearance process among a group of officials and well-meaning, well-appointed civil servants who can do that efficiently, is optimistic.

Would you not actually chill that creativity and innovation among quite significant parts of the new economy, because you would not have the capacity to process them efficiently? There is a trade-off to what you are saying. I totally get the logic of it—you make it more certain for a smaller number of people, and that has a clear impact—but you would also chill a long tail of innovation from which lots of innovative businesses grow.

Dan Neidle: I don't think you would, because today only the very brave start a project knowing R&D tax relief will apply. They apply for it afterwards. They often have an extremely painful process getting HMRC to agree that relief applies—it is already chilled.

Q22 **John Glen:** With the greatest respect, you are making an assertion with no proof of what the outcome would be. Could you point to other



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jurisdictions of a comparable nature that we could look at as an example of getting better outcomes from doing it another way?

Dan Neidle: There aren't, because I don't think any other country has R&D tax relief anything like as generous as ours. The alternative model, particularly in America recently, is a model of grants.

Chair: We will get on to tax relief in a moment, but I would comment that I have a lot of micro-breweries in my constituency that use R&D tax relief. It is quite a challenge for HMRC or anyone to understand a brewery versus a big high-tech business. There is quite a range, as you say, Mr Neidle.

Q23 **Chris Coghlan:** This is a question for Dan Neidle. Full disclosure: I am pushing this myself. *The Times* reported yesterday that the Treasury is looking at allowing full expensing of patent purchases in this space. There is London Business School research showing that has 10 to 20 times the pay-off of what Jeremy Hunt did with physical plant capital, and that gives an actual transaction in terms of the tax relief, rather than an R&D tax credit, where it is quite vague. Is that something you have looked at?

Dan Neidle: Absolutely. When Jeremy Hunt brought in full expensing, that was not really full expensing, because it was limited to particular classes of plant machinery and so forth. There is compelling research that actual full expensing could boost GDP by 1%. That would mean a more minimal version of it just relates to IP. The maximalist version is that you abandon the distinction in the tax code between income and capital and everything becomes tax deductible. That has a very significant GDP effect. On its own, it would be quite expensive. It would also mean that someone who borrowed to buy an asset would get tax relief twice: once for the interest and once for the asset. Realistically, therefore, full expensing would have to be accompanied by a significant restriction or even an ending of tax relief for interest. That is a tax reform that the IFS has written about. There is compelling evidence that it boosts GDP, but it would not be the easiest thing politically.

Q24 **Yuan Yang:** The previous Treasury Committee wrote a report about tax reliefs; there are over 100 non-structural tax reliefs, costing roughly the equivalent of the NHS budget each year. I have a question for anyone on the panel: how have we come up with so many tax reliefs? And is there any evidence out there that they do what they were intended to do?

Professor Arun Advani: How they have come about is exactly the sort of discussion we have been having, which is that you identify a little problem over here and say, "You know what we really need? We need to encourage this kind of investment. There is not anything for these kinds of people. We need to do this", or, "There is not enough of this kind of industry, or this kind of person is having this kind of problem. Let's create something." We do that rather than thinking, "Well, what is it in the system that would be improved by doing this?"

I have just two specific reflections. One is: what is the evidence base? Members of this Committee will have seen the NAO report from last year that says that HMRC spends £600,000 a year evaluating this £200 billion



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worth of reliefs—so, £1 for every £300,000 going out the door. That is clearly an area where we could potentially spend a bit more money that would have quite high return.

The other thing that is really important, and I think it gets missed a lot in the discussion about reliefs, is this: what do we mean by reliefs? There is that long list of reliefs, but clearly something like the non-dom regime, which Jeremy Hunt scrapped and Rachel Reeves has gone further with, was there, in a sense, as a non-structural relief. It was there as a relief. Why? Why was it argued for?

It was argued for in the more recent years as encouraging people to come here; it is a clear economic-type argument. However, the cost-benefit of that was never evaluated; that was not on that kind of list. Something that is still not on that list is something like, “Is it sensible for partnerships to have a lower rate of national insurance contributions than companies?” That is clearly there in a practical sense; we do not argue for that for any other reason. Why do we have that kind of thing, then? Why are we not costing those?

The list of reliefs out there is actually very partial in terms of what it is covering. Part of the problem is that that leads us to focus on the things that we need to focus on, because they are a problem, but sometimes miss very significant and very substantial areas of the tax system, in terms of both revenue and the economic consequences, that are just not listed there because they are structured in a slightly different way.

Q25 Yuan Yang: Would anyone on the panel like to suggest how the Government could start to evaluate and rationalise tax reliefs?

Helen Miller: I will say something, if you like. I will just take Arun’s point that often the word “relief” gets the debate off in the wrong foot in some sense. You have to start thinking about what you really mean by “relief”. Just some of the big chunky things—Arun has said that there are some things not on that list that you might think of as reliefs. There are also some things on that list that I would just call part of the tax system, like part of the design of the tax base.

Let us take one that we might talk about later—the up-front pensions tax relief. That is a big chunky sum of money. In my mind, that is not a relief at all. You just have to decide when to tax pensions—at the front or at the end? We have decided at the front and therefore we call it a relief, but it is just a design of the tax system. Again, could you scrap that? Well, yes, but that would be not scrapping a relief; it would just be a change in the design of the tax system.

You have to define a relief relative to what you want the tax system to do. Once you know what you want the tax system to do, then we can think about when we have deviated from that and for what reason. Things such as R&D tax credits, or the business asset disposal relief, or many others—I think you have to look at them on their own merits and be really clear about what you wanted that relief to do.



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That is actually much harder than it sounds. I have looked at lots of these reliefs over time and often there is no policy intent written down anywhere, or the policy intent has changed every six months, because someone has layered the most recent thing that they thought they were doing with that. You are trying to evaluate an ever-moving target, in some sense.

I think that some reliefs are very clearly part of the tax system and I would defend them on a theoretical basis, based on what you are trying to have the tax system do. I think that up-front pensions tax relief is one of those types. Other ones, like an R&D tax credit, are much more in the spirit of actively encouraging something or actively trying to change behaviour. Then, you need to evaluate them on a case-by-case basis, which speaks to Arun's point that where we have these things, we should put more effort into being really clear about what are they trying to achieve and evaluating them more clearly.

Q26 **Yuan Yang:** Mr Neidle?

Dan Neidle: Also, with some of the reliefs, the apparent cost of the relief bears no relation to the amount that you would raise by ending it. Take what is perhaps the largest relief, which is capital gains relief for principal residence. I think that is down there as £31 billion, which is a huge figure, but no country in the world taxes capital gains on main residences full-stop, because you can't. You couldn't have someone living in a £300,000 home that is gone up over the last 30 years and wants to buy another £300,000 home, but now they face a bill of £80,000. No system can work like that.

In practice, you always have some kind of deferral or roll-over, where the gain keeps rolling over and is usually never taxed, or, like America, you have a generous exemption that means that only the very wealthiest pay it. So realistically there is no prospect of ever getting that £31 billion.

Q27 **Bobby Dean:** More tax reliefs, I'm afraid. The issue seems not to be individual reliefs in and of themselves, because we can go away and evaluate all of them, and while maybe some of them would end up on the scrapheap, many of them would justify themselves. The issue seems to be the complexity of the system, the number we have in play, and then who that ends up serving.

One example is the patent box reliefs, which have been spoken about a lot. It seems that 95% of those have been claimed by the largest companies, and places like the London, Oxford and Cambridge life sciences hubs have very low take-up of that particular relief. That suggests to me that the relief is correlated more strongly to how big your financial department is, rather than to how much innovation you are doing.

Would it be in HMRC's interest to simplify and rationalise all the reliefs out there, or would that actually open it up to a much wider number of claims, costing the Exchequer more money? Do we think there is the scope for huge rationalisation?



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Professor Arun Advani: With patent box and its legacy, Helen is definitely the expert, but she might explode having to deal with it.

In terms of the context of the review, we mentioned earlier the comprehensive spending review that happened over the summer, but that is not comprehensive because tax expenditures are a type of expenditure that we do not evaluate. We do not have a formal process by which they all have to be looked at, and HMRC has to go cap in hand to the Treasury and say, "I want these reliefs; can I afford it?" We are then trading that off against some other thing that we want in schools or health—

Bobby Dean: The spending review is for everybody but the Treasury—

Professor Arun Advani: It is for everybody but HMRC and Treasury. It is a very odd position, constitutionally, that we are not looking at that in the round. I am not picking on any particular relief and saying that this is the one that should go—maybe they are all perfect—but there should at least be some process by which somebody has to justify that. That would then clearly put HMRC in a position where they would not be able to get away with spending only £600,000 evaluating those things.

When any other Department wants to ask for money it has to have some evidence base for why it is worth spending. In a world in which there was some actual review of these reliefs, we might discover that they are all great, or what the right tweaks are and that they should survive in some form, but some money has to be spent to try and prove that—to show the impact, at whatever level. Some will be costed better than others; it is always hard to get evidence on some of these things. But there is no process at all by which that is happening right now.

Q28 **Chair:** I would observe that Dame Harriett and I have both looked at this a lot—me, for over a decade in the previous role I had, and Dame Harriett in various guises. There is a reluctance at HMRC to even publish them, so hats off to Dame Harriett and the previous Committee for getting that list. It took a lot to get it out, because they did not want to face the reality of having to evaluate them—you do not get any political thanks for evaluating tax reliefs, I suspect.

Professor Arun Advani: I think that is exactly the point. Genuine credit to you and Harriett for getting it to this point. It is the case that, now that we have got here, the next step that this Committee, the PAC and other Committees will hopefully push them on is whether we can have some process by which these things are formally reviewed the way that all other spending is reviewed.

Going back to John's earlier point, where does the political pressure come from to try to fix some of these problems? In other Departments, the thing that tries to force efficiencies is that you have to make trade-offs and work out what you can spend. There is nothing like that in HMRC.

Helen Miller: I was going to say that I agree with that. There are lots of parts of the system where you can see that things have been layered on and on over time. Every point in time, the Budget has been approached



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thinking, "What else can we layer on? We want a new incentive to add," without ever thinking about the stock.

An area I have thought lots about is small businesses and the various incentives that are going on there, such as the reduced rates of capital gains tax through the business asset disposal relief—what was entrepreneurs' relief—the lower rate of corporation tax on small companies, and a whole network of VC schemes. I have to carry a list around to remember what they all are. Nobody ever sat down and thought about how all these different schemes are supposed to be interacting, why we have them and what they are doing, but we still talk about other schemes. It is about stepping back and asking what do you want to do, at which point in the lifecycle of business do you want to incentivise something, and why do you have these various schemes, before you even start thinking about a new scheme.

That is just one example; there are lots of examples where things have been layered on over time or are historical accidents. VAT is a completely different example. We have loads of bits of these VAT-zero rates that are a hangover from a system we had before VAT but have been carried over and we cannot get rid of them. It is partly about being really careful, whenever anything new is introduced, to first think about what we could reduce, simplify or remove before we layer something else on.

Q29 John Glen: Very quickly, the continuity on EIS, SEIS and VCT has been welcomed by many people. There is a danger, of course: we have to stand up for things that have provided enduring certainty as stimulants for investment in areas of innovation.

Helen Miller: Stability is really important, but it should not mean that we can never change anything. A lot of the tax system is rubbish, so we have to have a way to get from here to somewhere better. The way to do that is predictability rather than just stability per se. Something can be stable but rotten, right? I am not saying that is true of all the different schemes, but we should imagine a world in which we had a different set of schemes that were better targeted and cost less money.

You are absolutely right that we should not just add another one or tweak something for the sake of it, but we should have a system in which we think, "Actually, this would be better. Let's transition towards that in a way that is predictable and everyone knows it is coming." Perhaps we would keep some bits of that system, but we should not keep it just because we happen to have had it for a long time.

Professor Arun Advani: One way to think about this is to map it to what happened with universal credit. Before universal credit, we had all kinds of benefits that were all layered on top of each other, and nobody stepped back and said, "What's the interaction between these things and what is it doing to work incentives for particular groups of people?" It is different for everybody because it depends on how many kids you have and where you are living and what the rent is. For all the criticisms that you can make of universal credit and the exact levels of things, the general perspective was



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to say, "Well, actually, we need to make sure that this system works as a system, because we need individuals who are using it to know what their incentives are and not to have crazy incentives at certain points where it does not make sense to work or to do certain other kinds of things."

There is basically the same problem for businesses: it is really hard to figure out what you are supposed to do and what you should be trying to do. The point about the finance department is really strong: unless you can find access to somebody who can tell you the right way to structure things, you can face all kinds of weird incentives depending on where you are. Taking a step back to look at how the whole system interacts would be really valuable.

Chair: We are going to move on to some more specific things that have been discussed that the Chancellor might do. We may not get to all four panellists on every issue, so if you have something in particular that you would like to say, please let us know.

Q30 John Grady: Escaping reliefs for a moment and looking at the macro position, Professor Advani, how does our tax burden compare with countries with similar levels of public services, pensions and welfare systems?

Professor Arun Advani: There are two comparisons that people often make for the UK system. One is that in recent years, the share of GDP that is Government has gone up relative to our long-run historical standard. The other is to compare across countries and say, "Actually, we're pretty average." We have a fairly similar share of Government to GDP, and tax to GDP, to many European countries at this point. We are slightly lower, but we are certainly higher than the US.

One thing that is really important when we think about where we want to be—that is a political question, not one that we can give you any answers on—is always to remember that if we think about this as the state providing some public services to the public, in a world in which a state chooses to provide more or less of those things, that is just the trade-off between what is being provided by the state and the public at large. In the US, there is a lower share of Government to GDP, but that is partly because, for example, healthcare is private. That is still part of the costs that the average person faces, so that does not make the ordinary person better off. Conversely, in European countries, there are more things that are taken away from the individual, so there is a higher tax burden, but there are more things that are provided by the public. It is always worth bearing in mind the size of the public sector and what that means for individuals in the private sector.

Q31 John Grady: So in simple terms, you are saying that we have a fairly average share of GDP in terms of tax and public spending, you cannot have higher public spending and lower taxes, and you could cut public spending but you are still going to have to get your health insurance or whatever.

Professor Arun Advani: You are still going to have to pay somehow.



Q32 **John Grady:** So we need to start by facing into that fundamental fact. Ms Curtice, do you have anything to add to that?

Ruth Curtice: I was going to say something very similar, so I will be brief, but I do not think we should be surprised that the tax burden in the UK is at a historic high, or that the state is at a historic high. We choose to provide healthcare through the state, we have an ageing population, and Governments have successfully chosen to expand the role of the state, most recently in childcare. The tax burden, exactly as Professor Advani says, is not a separate feature from that. The more we do through the state, the higher the tax burden will be.

Q33 **John Grady:** So you would say that politicians would do well to stop kidding people on that we can have lower taxes and a big state. That is just not happening.

Ruth Curtice: Absolutely. The two need to match in the end.

Q34 **John Grady:** On the point of kidding on, the OBR's March report points to higher defence spending, climate change and the ageing population, and effectively says that unless we change our tax system and get a grip on public finances and/or get some growth, debt will rise to over 270% of GDP by the mid-'70s. We are not going to be able to escape any time soon the basic fact that if you want these public services, you have to pay for them, are we?

Ruth Curtice: No, exactly. Those long-run forecasts are helpful because they tell you whether we are about to overcorrect and then enter a period where things get easier, or very clearly tell you that things will get harder. Most of the action in those long-run forecasts is on the spending side. They effectively assume that we continue to provide the same level of pensions and healthcare, so then you get an unsurprising pressure on public services. What we do about that is clearly a political choice, whether we choose to provide fewer public services or to raise taxes, from this point or further in the future, to make those two things add up.

Q35 **John Grady:** A question for Ms Miller: the UK has suffered a range of significant shocks—the financial crisis, Brexit, covid and Ukraine—and we can see debt-to-GDP rising alongside those shocks. Does it necessarily follow that the public finances are now in a state where we would struggle to withstand a further shock in the same way, and that we therefore do have to get debt under control, particularly given the current price of debt?

Helen Miller: Debt is higher than it has been for a long time, and you can already see the effects of that coming through, because the debt interest bill is high right now. This is not a problem that we are talking about our grandchildren having; it is a problem that is biting right now. And yes, the reason to start getting that debt down in the good times—these do not necessarily feel like good times in an absolute sense, but this is relative to another shock coming along—is so that you have the capacity to bear another shock. That does not mean that if a shock hit tomorrow, we could do nothing about it—we could—but if you never have plans to get things



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looking better in the good times, then you are going to be more exposed when, at some point, you have more shocks and you cannot deal with them.

I would also say on the previous question—I think it is related—that it is important to get the long-run fiscal forecast right, because it does give you a sense of what is going to come. You could easily look at lots of spending pressures and add them up to a point where, actually, the Government would need to be the entire economy—if you add up ageing, net zero and defence—and obviously that cannot happen.

I think what that speaks to is, yes, there are always going to be choices, exactly as Ruth set out, on the size of the state, so what do you want the Government to do? Once you have decided that, that then defines what you need the tax burden to be, in some sense. However, it is also the case that the answer cannot be that we always just spend our way out of problems. Mechanically, that cannot be the answer: you will just spend more. The answer has to fundamentally be that we get more productive. That is partly in terms of the public sector being as productive as it can be, so that for every pound spent, you get the most good stuff out of that, but also, as an economy, it comes back to the growth point.

Your point was, “How do you get ready for the next shock?” If the way to get ready for the next shock is that you pay down the debt, that is a really hard way to get the debt down. Historically, that is not what we have done. Why is it that we had a high debt after the second world war, but we were not just paying it down? It was growth.

I come back to this point: what is going to make all this easier is not just making the state bigger, or just paying down the debt—although we might have to do that in the short run—it is really trying to get that growth up. What will allow us, in the future, to have more healthcare, more medicines and so on? It will be the growth point. I think that relates to both of those things.

John Grady: There is probably a yes/no answer to this then. Politicians must be straightforward with people not only about the tax choices, but about the choices for growth. With things such as controversial planning permissions, which get you growth, you actually have to push them through. Otherwise, we will just stay in this funk, for want of a better word.

Helen Miller: I think these are all part of the same choice. There is the choice about what you can do to drive up productivity and growth. Then, whatever you have done with that, how big the state should be and how to fund it are all related choices.

Q36 **Yuan Yang:** Turning to wealth taxes—a topic that has come up very frequently recently—Professor Advani, you were part of the commission on wealth taxes a few years ago. Could you start off by just describing what wealth taxes are and why the commission came to the conclusion that we should fix our current wealth taxes in the UK?



Professor Arun Advani: A wealth tax, writ large, is a tax that adds up all of the value of the things you own, such as your home—if you share that with somebody and have a mortgage, it takes the mortgage off first and divides the remaining value between the owners—pensions, shares, savings, and anything else you have. It makes a big stack of that, works out the total value, draws a line somewhere and says, “This is all your wealth; the bit above that line is the bit that is taxable.” That is what a wealth tax does—it sets some threshold and says, “If you have net wealth, once you have added up all the things you own and taken off all the debts, the bit above this is what is taxable.”

When we looked at this in 2020 as part of the Wealth Tax Commission—I was one of the three commissioners there—our first conclusion was that the UK has other taxes on wealth. It has capital gains tax, housing inheritance tax, it has taxes on flows from wealth like dividends, and these things do not work particularly well; we can talk later about specifics around inheritance tax or capital gains, or whatever you are interested in. Given that those things do not work well, it does not make sense in the UK to start with trying to invent new taxes when existing taxes are broken. We should definitely fix those. You would get a long way towards raising more money from wealth, and raising that money in a better way, that is less damaging for growth, if you were to fix those sorts of things.

Q37 **Yuan Yang:** What kind of fixing needs to be done?

Professor Arun Advani: Capital gains tax is a good example. I think we are all going to be in furious agreement over what the reforms are here, because we have all written about this in some form or another. We currently tax at a low rate relative to income gains when you make them, whether or not you are overall successful. What that means is that somebody who invests might be unlucky, in which case they do not make very much growth. They could have put money in the bank and got 5% in recent years, but instead they invested and they only made 4%. Now when they sell out of this asset we are going to charge them capital gains tax on the full value of that, but at a lower rate than income tax.

What you would really want to do is to say, “Look, we do not want to charge you tax on anything that you would otherwise have been able to get just by saving. That is not going to encourage investment. We will exclude all of that—have an investment allowance that takes that entirely out of tax”.

Then, if you are making more return than you would have got from saving in a bank or something else, we could tax that and at the same rate as other income. It either came because you worked really hard and tried to do better than you would have done in a bank, then it is the same as your labour, or you got really lucky. In that case, there is no reason to tax—privilege that luck. Or it came because you have some sort of market power, some sort of control. There is again no reason you would want to tax that at a lower rate than income. That removes the current incentive for people that have to shift income into capital gains.



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What that means in practice is that somebody who might be a consultant working for a company leaves that company and sets up as a private business, because by keeping their money inside the company—getting paid in their own private company, instead of taking their income as a standard income where there is income tax and gains—they can store money there, build it up, and some day liquidate that company.

Liquidation of a company is treated as a capital gains tax event in the UK tax system, and so you would get a much lower tax; that sort of bad relief that Helen mentioned earlier that is now taxed at 14%, going on to 18%. That is obviously much lower than the top rate of tax they might otherwise have paid—of 47%, effectively.

Q38 Yuan Yang: Is your proposal the equalisation of those rates with income tax?

Professor Arun Advani: Yes. I would say that you would want to equalise capital gains tax rates with income tax rates but introduce an investment allowance and take, effectively, the normal rate of return out and close a couple of other gaps in the capital gains tax system. Those would be around people being able to leave without paying capital gains tax. They should have a settling-up charge to make sure they do not just leave and not pay the tax, and also a carry-over so that somebody who inherits an asset inherits the benefit of that asset but also inherits the base cost. Currently not doing that means that people holding on to assets until they die have all the capital gains tax wiped out. One cost of that is that it encourages people to hold assets that are no longer the right things that they would want to own, and that is bad for growth.

Q39 Yuan Yang: There is some nodding in the panel. Is the panel in furious agreement, or does anyone want to add anything?

Helen Miller: We are in agreement, because we have all written about this, but I think it is worth stepping back and being really clear about what the problem is. I think this has confused policymakers for a long time and we are stuck in a rut for a reason.

The way to think about it is that there are two problems with how we currently tax returns to capital, whether that is capital gains or dividends or any other kind of interest. One is the rate differential. That is the one that is really salient and easy to see. We give lower rates to returns to capital, which means we incentivise people to get returns to capital however they can, and that is a problem. That is the one where you see rates go up and down over time as people trade off having higher rates, which is good for inequality, then lower rates, and that is good for investment.

It is absolutely true that if all you do is put up rates on investment incomes you are discouraging investment, and there is a trade-off there. The thing that is not in the debate, because it is technically much harder to explain but is just as important, is all the tax base stuff, which is what Arun was explaining.



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The only way out of this horrible trade-off, where you are trading off inequality and investment incentives, is to properly fix the tax base. You fix the tax base so that you are not discouraging investment. The most salient example of this, but not the only one, is that we currently tax inflationary gains through capital gains. We should not be taxing inflationary gains. That is one easy-to-understand problem. There are many of that type of problem. Get rid of that problem by designing the base properly. With that base reform, then you can increase rates without reducing investment incentives. But to my mind, the debate is always completely swamped with discussions of rate differentials and we do not talk enough about the really important tax base stuff.

Q40 Chair: Mr Neidle, very briefly.

Dan Neidle: Yes, it is the effective rate that counts, so when Professor Advani says to equalise the rates, that is actually a significant cut in the effective rate for people making long-term investments—or in fact, not even that long term. In the past few years, you could have easily made a 20% return cash, which is a loss in real terms, and the UK currently taxes you on that. There is plenty of evidence that decisions to invest are driven by effects such as that—rates of capital gains tax.

What Professor Advani's proposal also means is that you are increasing the effective rate on entrepreneurs who are not putting capital in. Economists would say—and entrepreneurs hate this description, but it is nevertheless true—that they are being rewarded for their labour income over time, not for putting capital at risk. Professor Advani's proposal increases the tax rate on those people. There is an absence of evidence that that would discourage entrepreneurship. Why? One reason is that the prospect of a future capital gain is just too far away. Another reason is that you would have to be either psychic or crazy to look at today's capital gains rates and think that you will be paying them in 15 years' time, when you exit.

I strongly support the proposal, and it also has the merits of raising quite large amounts of revenue. We calculated that you could equalise rates with investment allowance, raise £6 billion of revenue and cut income tax by a penny.

Chair: We would be interested to see that.

Q41 John Glen: On capital gains tax equalisation—because my colleagues raised it—in terms of the behavioural effects, we have obviously seen quite a lot of change over the past 15 years. I think that broadly, George Osborne reduced the rates, and now we are talking about equalising again, back to where they were in the '80s, with all the caveats that you have discussed.

In terms of the behavioural effects in some sectors of the economy, where there are other jurisdictions—particularly in some of the new sectors in which the UK is good, such as the tech sector, where there is mixed evidence, disputed by some on the Committee, about how many people are leaving the UK—how do we convey that we are open for growth and

entrepreneurship if the headlines are that tax rates are going up?

Clearly, somebody who is an employee has all the certainty that that brings in terms of their income, but someone putting sometimes significant and different stages of capital at risk, for a very long-term proposition of maybe significant capital, has a lot of risk and uncertainty along the way. Are you not concerned that the optics of this change would have—and I have used the word before—a “chilling” effect on people’s enthusiasm to put capital at risk, which is material to the growth prospects of the economy?

Professor Arun Advani: If a change like this were ever to happen, it would be for politicians to explain and sell essentially what is changing. But the proposal is to say, “If you are putting capital at risk, we are basically guaranteeing you a rate of return on that capital that will not be taxed: an investment allowance a bit like Lawson’s indexation allowance but more generous.” It would be to say that if you put actual money at risk, you are not going to pay tax on a certain level of return on that, and only if you happen to do well enough to make a return above that will there be any tax at all.

In that case, if you are doing better than that, certainly the tax rate is higher than the current one, but there is a good chance, as people in these kinds of industries know, that you invest and you lose. You do it a couple of times and you lose, and then at some point you are successful, and all those losses would now be more valuable to you. You would be able to hang on to them and use them against that future investment that you would make. That is because the point about investment is that it is a very uncertain thing, as you highlighted.

Q42 **John Glen:** Before the first Budget of this new Government, there were quite a lot of questions about this happening then. There did not seem to be any plan to put it in, but there was an uptick in some of the rates, and it was discerned that it was just about accommodatable around changes in behaviour. Do you not think that, so soon after making another significant change, it undermines the credibility of the Government in this domain? Apparently, the Chancellor came before the Committee in November and said that she would not be coming back for significant changes again.

Professor Arun Advani: I echo Dan’s point, which is that the capital gains tax system, sadly, has moved around quite a lot over the past 25 years.

John Glen: But it has moved around recently.

Professor Arun Advani: I agree that it has moved around recently. I am on the record as saying that I did not think it was sensible last year to have made that change without fixing the tax base, which Helen has already described. If those kinds of changes are going to happen, it would be important to explain what the rationale is and why this would be a system that should be supported all around.

Q43 **John Glen:** But why wouldn’t you have done it properly in one go at the



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start, rather than doing it iteratively, bringing uncertainty to the market?

Professor Arun Advani: You will surely have the Chancellor before you, and you can ask her that.

John Glen: We certainly will.

Professor Arun Advani: I would like to pick up on the point about the cost. I do not think we have seen a proper estimate of what HMRC thinks is the revenue-maximising point for capital gains tax.

One thing that is really important to understand is that any of these Laffer effects, or optimal tax points, really depend on the design of the system. What that tax rate is changes if you remove, for example, some of the leaks in the tax system that come from people being able to leave the country without paying capital gains tax, if you allow people to hold on to assets—

Q44 **John Glen:** So you have an exit tax?

Professor Arun Advani: You have a settling-up charge, just like almost every other G7 country has, that says, “If you are leaving the country, you pay the capital gains tax that has built up on the asset you have accrued here. We are not charging you more than that, but these are the gains that you accrued in the time you were here”. You combine it with a rebasing on arrival, by the way, so that anyone who comes with any capital gains—we are not going to tax those. We are only taxing the gains that you make while you are present in the UK, but for as long as you are tax resident here, we look at the accrued gains over that period, and if you leave with gains of that sort, you pay that tax. It does not mean that on departure you pay the tax up front; it just means that that is a tax charge that applies at that point, and it can be paid at some point over time.

Q45 **Dame Harriett Baldwin:** To go back to wealth taxes, if I may, clearly the context is that a Labour Chancellor, a Labour Government and lots of Labour Back-Bench MPs are calling for a wealth tax. I wanted to set the context and ask up front if any of you are, or have been, members of the Labour party.

Dan Neidle: I am a member of the Labour party. It does not stop me being very critical of the last Budget.

Q46 **Dame Harriett Baldwin:** Philosophically—again, this is a yes/no question—do you believe that if you tax something, you get less of it?

Dan Neidle: Yes, always. All taxes have trade-offs. It is very strange to see people talking about tax and thinking that you can have a tax increase and it will not have an effect other than raising money. There is always an effect. Sometimes it is an effect you want, and sometimes it is an effect you do not want but you live with it. Income tax is an example.

A wealth tax is particularly serious because of the disincentive effect it has on investment. Maybe I should step back and say: let’s say that we all



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agreed that a wealth tax was a fantastic idea, and Rachel Reeves should go out immediately and announce that she is going to do one. If she did that, almost certainly there would not be a pound of revenue raised for four years. A wealth tax is no answer to the current fiscal issues.

- Q47 **Dame Harriett Baldwin:** Do you all accept—again, with a yes/no answer—that if you taxed wealth in the way outlined at the beginning by Professor Advani, you would get less wealth?

Witnesses indicated assent.

Dame Harriett Baldwin: Are there any examples of things that the Chancellor did in last year's Budget where the outcome has been that we have got less of one of the things that she chose to tax?

Dan Neidle: I would think every single one.

- Q48 **Dame Harriett Baldwin:** Are there any examples where that did not happen?

Helen Miller: The big thing is: how can you design a tax that does not distort behaviours or change something? There are a couple of things you can do. It has to be something like a windfall, one-off tax that everyone believes is credibly one-off. Or you tax land, and you cannot change the amount of land in the country. There are a couple of types of taxes where the nature of the tax is such that there is nothing an individual can do to escape that tax, and they have no incentive to change future behaviour. If you can do something like that, that is the type of tax that gets you away from this. They are rare and hard to do. Most taxes, most of the time, change incentives and people respond to those incentives. It is just that taxes do that to different degrees depending on all sorts of things.

- Q49 **Dame Harriett Baldwin:** I was going to ask about that, because does anyone seriously think that if the Chancellor came in and said, "This is a one-off, and I am just going to top-slice a chunk of what you have accumulated over your life", anyone would believe that?

Dan Neidle: No. When has that worked? The Labour party's windfall tax in 1998 was said to be one-off and retrospective. I advised hundreds—probably thousands—of companies, and none of them thought that tax would be repeated. That really was a coherently argued retrospective tax, agree with it or not. With a wealth tax, if you really were able to raise a very large amount of money with a one-off tax and you create the infrastructure to do it, the temptation to press that button again is going to be irresistible.

- Q50 **Dame Harriett Baldwin:** Obviously. Do you think that people who have wealth are more mobile internationally than people who do not?

Dan Neidle: They are, but even more than that—

Chair: The people you were advising a little while ago, presumably, Mr Neidle.



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Dan Neidle: The most difficult people of all, when you think about wealth taxes, are foreigners investing in the UK. You have a terrible choice. One answer is not to tax rich foreigners investing in the UK and to exempt them from the wealth tax. But if you do that, you make British owned businesses significantly uncompetitive against foreign owned businesses. Norway currently has this problem; they talk about Norwegian businesses being bought by foreigners.

The other, more economically consistent way of doing it is to say, "Okay, we will apply the wealth tax to rich foreigners investing in the UK." But if you do that, which wealthy foreigner or wealthy privately owned business will invest in the UK, when they could invest in France or Germany instead and not have that? It is an impossible conundrum.

Ruth Curtice: I will add a couple of things. On a one-off wealth tax, the other issue is what problem you are trying to solve. The problem with the fiscal position of the UK is that we are running a structural deficit and the challenge that the Chancellor is trying to meet is to reduce that. A one-off wealth tax would get the debt down a bit but does not address that fundamental problem, so I would criticise it on those grounds as well.

The wealth tax debate has two legs. One is that we need to raise some money. If we want to raise substantial amounts of money, we have to think about who owns the great proportion of wealth and what it is made up of. It is largely in property and pensions, so we have to talk about how we tax property and pensions. We are not talking about a bunch of uber-wealthy people who hold their wealth in very different ways; we have to think about property as the biggest asset in the country and how we tax it.

The second argument around wealth taxes is about inequality and the sense that this uber-wealth is a problem that we want to address through the tax system. That, I guess, is a valid political debate, but not an area from which significant revenue would be raised.

Q51 **Dame Harriett Baldwin:** But do you all accept that since last year's Budget there have been reports from New World Wealth, the Adam Smith Institute, the Institute of Economic Affairs, Oxford Economics, the Centre for Economics and Business Research—a range of different organisations—all saying that people with wealth have left the UK? Do you accept that that is possibly factually correct?

Dan Neidle: Can I say two slightly contradictory things? The first is that I am certain that a significant number of very wealthy non-doms have left the UK. I talk to a lot of people in private banks, private wealth advisers, who generally estimate that between 5% and 10% of their richest non-dom clients have left the UK. There is absolutely an effect.

Q52 **Chair:** A direct effect?

Dan Neidle: A direct effect of the Conservative and then the Labour non-dom changes, yes. That does not necessarily make them wrong or right, but I am certain that that is a fact.



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The second thing is that a lot of the figures that we see are bogus. We analysed the New World Wealth figures because private bankers were telling us that they thought those figures for emigration were too small. We employed forensic accountants to look at its figures and discovered statistical artefacts that are inexplicable other than by fraud or manual manipulation of the numbers. We published a report on that, which the *FT* covered. I would caution anyone against referring to the New World Wealth figures. They are at best very flawed and at worst fraudulent.

Q53 Dame Harriett Baldwin: Do you believe as a panel that people have not left the country, then?

Dan Neidle: No.

Q54 Dame Harriett Baldwin: Or do you think people have left the country but just not as many as in some of the reported examples?

Dan Neidle: The Treasury and the OBR anticipated that 25% of the richest non-doms would leave the UK. It is important to say that if you are worth billions or hundreds of millions of pounds, you probably spend three or four months in the UK, so in leaving the UK you would spend a couple of weeks less—it is not very dramatic. But the OBR expected 25%; my contacts think they are seeing 5% to 10%. Who knows what the truth of it is?

Q55 Dame Harriett Baldwin: No one knows the truth of this, but do you think the figure is higher or lower than what the Office for Budget Responsibility estimated would be the impact? Just a one-word answer.

Helen Miller: I do not know.

Q56 Dame Harriett Baldwin: You do not know.

Are there any aspects of the changes that the Chancellor brought in last year that, if reviewed and changed, would stop something that is as yet unquantified but seems to be a reduction in potential future tax revenues accruing to the UK economy?

Professor Arun Advani: A couple of things. They are always harder once you start them. One area is what we currently have on inheritance tax, which again was announced by Jeremy Hunt and maintained by Rachel Reeves.

The inheritance tax position is that when you come to the UK the clock starts, and if you get to over 10 years of tax residency in the UK you are covered by inheritance tax. That means that if you are in the UK for nine years and 364 days, and you get hit by a bus—no inheritance tax. One day over that and suddenly you are paying 40% on your worldwide assets. That seems like quite a dramatic change. Clearly, for somebody who arrives in the UK and is hit by a bus on day one, we do not want them to be covered by inheritance tax; there is no logic to that. On the other hand, if they have been here 65 years—living here since the age of 20—we probably all agree that they should be paying inheritance tax here.



Q57 Dame Harriett Baldwin: On their worldwide assets?

Professor Arun Advani: As everybody else does. Worldwide assets is the standard basis for tax for everybody who is UK-born, lives in the UK and is not using this regime. The question is: how do you get from here to there? I think we have said before, and maintain the position, about having something that tapers the rate up, so that in 10 years you maybe pay a 4% tax and after 12 years, you pay a 12% tax. Slowly moving the rate up would be a way in which you would smooth that transition, because the question you have as you sit down with your partner after nine years and say, "Do we want to stay here another year?" is not, "If we stay here for one more year, we go up by 40%," but, "We go up by 4%." That might be more manageable.

There is a second thing that is worth looking at in terms of encouraging people to stay here. Currently the regime we have, which has been here for a long time and was not changed by either of the previous two Chancellors, is one in which we encourage wealthy people to come here, but not to invest here. If you want to invest in the UK, you should not live in the UK. Think about if you are living somewhere else. If you are in Dubai and you invest in the UK, there is 0% capital tax. If you are living in the UK and you are using the new regime—the FIG regime—or using the old regime, you have 0% tax on investment anywhere in the world, except the UK. If you invest in the UK, you pay the full rate of tax. Paradoxically, we are saying to people, "Come here, but do not bring your wealth. Do not invest any of it here. Actually, if you think the UK is a great place to invest, you should go and live somewhere else, and then you can invest here, because that is the way in which you can get a lower tax rate." That would clearly be a thing that would improve both growth and incentives for people to come and stay.

Q58 Dame Harriett Baldwin: Does everyone else agree with that?

Dan Neidle: Yes. I might go further, because another strange feature of the way they introduced the new rules is that they kept the awful complexity and distortion of the old rules for your previous money, so when you move into the new regime, and with all the money you kept offshore—which if you brought it into the UK, you would be taxed on—you are still taxed on it if you bring it into the UK. I would have had either a one-off amnesty on that money or a one-off mandatory repatriation tax like the Americans did with corporates, so that we are then encouraging people to bring the money back to the UK.

Professor Arun Advani: It is worth saying that we do have a repatriation tax; it is just that it is not mandatory. You can choose to keep your stuff offshore. The Chartered Institute of Taxation has recommended that there should be what it calls a long stop so that if, after a certain period of time, you have not brought it onshore, there is some point at which we just deem it to be brought onshore, and it is all taxed. That would be something that could be looked at, and it would obviously raise money on the bit that people do not choose to bring onshore.



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Dan Neidle: But it is all about inheritance tax. When I sit down with very wealthy people and their advisors and there is talk about what about the non-dom changes is prompting them to leave, it is always inheritance tax. People can live with a bit of income tax here and a bit of capital gains tax there—the rates are not that different—but to go from 0% to 40% inheritance tax is massive.

Q59 **Dame Harriett Baldwin:** Finally, should stamp duty be reformed?

Professor Arun Advani: No.

Dan Neidle: No, it should be abolished.

Chair: Let's have a vote.

Professor Arun Advani: Alongside other reform to property taxation.

Chair: Abolished from Professor Advani. Ruth Curtice?

Ruth Curtice: Abolish, but as part of a wider property tax reform, otherwise the winners are homeowners of large properties, who are some of the people who have done best over the last 20 years.

Dame Harriett Baldwin: Or the future purchasers of them, yes.

Dan Neidle: Yes, abolish, but you need reform, because otherwise the winners are the current owners, because their property value goes up.

Helen Miller: Do not think of it in isolation; think of the property tax. You need to reform council tax, make it proportional, bring values up to date and levy that, instead of current council tax and stamp duty.

Q60 **Chair:** We talked about wealth tax as a long, slow burner. What timeframe do you think that this could possibly be done in—not in one Parliament?

Helen Miller: I think you could. With the council tax, the thing that would take some time is the revaluation. That would clearly take some resources. Obviously, you cannot have that up and running by January, but we are not so backward as a country that we could not revalue our property within a reasonable timeframe. I think you could set a couple of years—that seems like a long time to me. Other countries do this. Technology is better now; there are apps out there that will value your property. It is not like we actually have to—

Q61 **Chair:** So you do not think valuation is a big challenge?

Helen Miller: I think it is a challenge.

Chair: I mean not an impenetrable problem.

Helen Miller: We put a person on the moon; of course we can revalue property. Yes, it is a challenge, and yes, you have to put some resources in, and you would need the Valuation Office to go and revalue property, but we absolutely could revalue our property stock. With the technical, "How do you design a tax proportional to values?", I can write it on a piece



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of paper now for you—that is not difficult. Of course, I am not saying that we could have it by January, but I think it is absolutely reasonable that a Government could say, “We are going to not rely on values that are 35 years out of date. We are going to have a value system, and we are going to do it at this date.” As part of that package, you could also get rid of stamp duty. Of course, you would need to think about the timing of the announcement. The minute you say, “Stamp duty will go in two years,” I will not be selling my house or buying a new one in the next two years. Obviously, you have to think about how you explain and tell people that, but it is not beyond—

Ruth Curtice: Some of the more difficult issues probably are in how you transition from one system to another, and whether you can marry the politics of how quickly you charge people the new council tax, particularly people who have already paid stamp duty, versus what those compromises can mean in the short term. It will cost the Government some money, and that would be a difficult thing at the moment.

Chair: There are a lot of complexities in the system.

Professor Arun Advani: One final complexity to add, just for the record, is the issue that council tax is local. A lot of redistribution would have to be done across local areas if you were to do something like that. Obviously, a lot of stamp duty is a lot of revenue for the Exchequer, which will not be made up unless you have something that layers on top of council tax to make sure that some of it comes back.

Chair: People do not know about stamp duty until they have to pay it, so it is a hidden tax for a lot of people, until it actually happens.

Q62 **John Grady:** Quickly coming back to the wealth tax and the discussion on that, this is a yes or no answer, please. The point is: wealth is mobile, and money is mobile around world, after all. We are just a small island off the north coast of Europe, albeit a reasonable sized economy. If we want to tax wealth and introduce other tax measures, we need the co-operation of our international partners past a certain point, do we not, because the wealth moves otherwise? Tax co-operation among states is important, difficult and hard to achieve. Is it something we need to pursue?

Dan Neidle: I will give an answer longer than one word. Some people, Zucman in particular, think there should be an internationally co-ordinated wealth tax to tax billionaires, but which three countries have the largest numbers of billionaires? The US, China and India, which are against wealth taxes. It is a hopeless endeavour, which we should not even start.

Ruth Curtice: We could do a lot to improve UK taxation of wealth without doing that, so we should not let it stop us.

Professor Arun Advani: I am sorry, again this is not one word, but the point about compliance is really important. HMRC needs more of that information anyway—separately from whether you want a wealth tax. Just the state of information that we have and the way it is being used is something that needs to be improved to make sure that the current rules



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are being operationalised effectively and that we are actually collecting the correct tax from people under the current rules. We do not have information like that. We know how important third-party information is, and a big thing that reduced income tax evasion was the fact that most people go through PAYE. PAYE information is reported by my employer as well as by me, so it is much harder for me to lie. We just need the same thing.

Chair: As we saw in covid, where there is data, things are easier to do.

Q63 **Yuan Yang:** On that final point made by Professor Advani, in the summer our sister Committee, the Public Accounts Committee, reported that HMRC does not know how many billionaires pay tax currently in the UK. Why is HMRC in that position and how quickly can it be fixed?

Professor Arun Advani: HMRC's interpretation of the Taxes Management Act 1970—it is now more than 50 years old—is that it should collect the information it needs to operationalise the current tax system. Clearly, it needs to know about the things that are directly the tax basis, so it needs to know how much income I have so it can apply income tax to that. But it would be reasonable to operationalise a tax system for HMRC to know more than just the very basics of those things.

For example, if HMRC wants to know whether I am paying capital gains tax correctly, it having some sense of how many assets or how much wealth I have is a way in which it can make sure that I am correctly paying that. It would be useful for it to know whether I own additional properties—information it could get from the Land Registry, but does not currently use—so that it knows whether I am a landlord and am paying tax correctly on the rental income that I receive.

That kind of information is something that actually is justifiable for HMRC to use under the current system, but it is not how it tends to interpret the current system. Partly, that is a resource constraint—it does not have the capacity to bring in all those things and use them—and partly, after 55 years, it might be reasonable to update the Taxes Management Act to account for the fact that the information that we have in general, and how much more digital things are, has changed. To be explicit, that is stuff that HMRC should be using. Similarly, there is Companies House data, which we know there are problems with, but bringing that in and linking those things up would be another way in which you could improve some of the compliance issues.

Q64 **Yuan Yang:** Does the panel feel that HMRC is underequipped at present to administrate a modern tax system?

Professor Arun Advani: Going back to the point that HMRC has £1 for every £300,000 of reliefs, that is how much it spends on it. I think there are lots of areas where you could say that the resourcing does not look up to scratch for what they need to do.

Chair: Which we have covered already. Thank you.



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Q65 Bobby Dean: I am going to move away from controversial taxes and talk about inheritance tax. On the one hand, we have people saying, "This is outrageous. I pay tax all my life, and then I die and they tax me again," and on the other hand, other people say, "This is outrageous. Somebody is getting something for nothing. They do not want to put anything towards the NHS." We have that dichotomy of abolish it or charge it at 100%. I think that the Government will probably land somewhere in between those views in the next Budget. There has been talk about changing the amount that would be exempt, if there should be a lifetime cap, or whether the period of seven years should be extended, possibly to 10. Does anybody have a view on those rumours that are out there and what behavioural effects they might have? Perhaps I will start with you, Dan Neidle.

Dan Neidle: Inheritance tax is a very strange tax in the UK because, distributionally, it is so curious—most people are never going to pay it. For the very wealthy, it remains the case that it is a tax on people who don't trust their children, because if you are very wealthy, you can afford to give almost everything to your children, except what you need to live on, and then live seven years and you are done. But there is a cohort—maybe we can call them the "mass affluent"—who cannot do that; they cannot give away their house, because they are living in it.

A famous curve published by HMRC shows the effective rate of inheritance tax for different-sized estates. It starts off at nothing; it goes up to where you would expect; and then it starts dropping off, so estates of £10 million pay about half the rate that you would expect. But that graph is a lie, because it shows the value of an estate at death. The very wealthy have given away stuff well before death and do not appear in that chart, so their true effective rate will be even lower.

So, inheritance tax seems to fail in two very big ways, in that it taxes the very wealthy not much, and it taxes the mass affluent a lot more than almost every other country—

Q66 Bobby Dean: Would extending it from seven years to 10 or 15 years solve that problem, because people would not want to give up their wealth so early?

Dan Neidle: I am not sure; I suspect they still would. If you are extremely wealthy, giving stuff away in your early 70s, say, feels like a practical thing to do. But it can't be stressed enough that, for the mass affluent, the UK rate is in practice probably the highest in the world; it may be lower than Japan and Korea.

Q67 Bobby Dean: I can see that Professor Advani wants to come in. What about the other aspect that has been floated: a limit on the amount that you could give away before your death?

Professor Arun Advani: If I can just add to what Dan said, on exactly that point, there might be two different groups to think about when you think about who is affected by inheritance tax. There is the fairly well-off, in the single-digit millions of pounds—that is a lot of money for the average person, clearly—and then there are people with tens of millions or



whatever. If you are really wealthy, this strategy of giving assets away earlier in your life is a very effective one, so you could try to increase that period that is covered by inheritance tax. We used to have capital transfer tax, which was a whole-of-life tax rather than just a seven-year rule. You could go back to something like that, which covered much further back in life, or put in some kind of cap on gifts. That would be the way to do that, if that was something you were looking to do.

Then there is this other problem, which comes up if you are thinking about inheritance tax as a tax that is there to support social mobility, in some sense, and to account for the fact that one person got lucky and had parents who could support them when they were trying to buy a house while another person did not. That is really where you see those big differences build up, in terms of your ability to accumulate wealth over your lifetime. Things like going from seven to 10 years are not going to get you anywhere near that. It is only a much longer transfer, because the thing that really matters for your ability as a young-ish person to build up wealth is: can you get on the housing ladder? You see this huge bifurcation at that point between whether your parents can give you assets or not. And they are giving you those things when you are in your late 20s or 30s and they are in their 50s or 60s, which is almost surely for most people—unfortunately, not for everybody—more than 10 years before they are going to die. And they are not thinking about inheritance tax at all. Those are not transfers that are made to try and avoid inheritance tax; they are made because, “I love my kids and they want to get on the housing ladder and I can afford it”, rather than, “I love my kids and they want to get on the housing ladder, but I can’t afford it.” That is what creates that really big difference in what wealth looks like.

By the time that people get to their 50s, there is a huge difference in what their wealth is, depending on their parents—not because of any of the other things that they will get at the point when they inherit, but just because of that early support. And that is not something that you are going to fix if you just go seven or 10 years back. That will only be fixed, if you want to fix it, either by having a whole-of-life tax, effectively, or a kind of cap on gifts. And those are political choices.

Q68 Bobby Dean: Let me move on to last year’s changes to APR and BPR. Obviously there was a lot of talk around APR and a little less around BPR, but I guess that there might be similar grievances with both, which is that there was this intention to close a loophole that might have been exploited by some particular people, but then there are genuine family farms and genuine family businesses that are now in a very sticky situation. Do you think that the Government should revisit those changes at this Budget and, if so, what should they do? Helen, you smiled. Do you want to come in?

Helen Miller: I think I have the strictest views, so I will start. People obviously disagree strongly about whether inheritance tax is a good tax or not. People take different positions on that, and I do not take one. If you have an inheritance tax—clearly, we do—there is a very strong case to apply it equally to all assets. The avoidance possibilities have been latched



on to. It is well documented that once you have reliefs for things such as farmland, you get people putting money into farmland in order to avoid inheritance tax, but that is not the only reason you should shut those reliefs down. There is a much more basic fairness reason: if I pass on a house, a farm, or any other asset, why am I treated differently by inheritance tax depending on how I chose to hold my assets? On that basis alone there is a reason to get rid of these reliefs.

If you want to support farmland, farmers, or something about that group, we should be really specific and clear-headed about what it is that you want to support. You might want to support biodiversity, agricultural independence or something else. Whatever you want to support, I find it hard to think that the way to do it is by saying, "If you want to pass your farm to a family member we support you, but if you're a new farmer or you do not want to pass on your farm, you get no support." For those reasons and others, it was right to move towards reducing the reliefs. You could argue that you could go much further and just take them out the system altogether. Thinking about the economics, I would avoid trying to fiddle around and carve something else out.

Dan Neidle: I agree with Helen in theory but not in practice. Many small farms are fundamentally barely economic, or not economic. The effect of the inheritance tax change will be the break-up of a material number of small farms. There is a free market point of view that says, "If they're not economic, they should be broken up and that's a correct result." That is a coherent view; it is not one that I share. There is certainly a view—Helen's view—which says that the answer should not be inheritance tax; we should have a better system of farm subsidy. I would agree with that, but it is not on the table. All we have is inheritance tax, so we need to look very carefully at the budget changes. My fear is that the changes went too far and also not far enough: too far in over-taxing small farms, but not far enough because they still give 50% relief to pure tax planning inheritance tax investment. The solution for that is, I think, in Professor Advani's hands.

Q69 **Bobby Dean:** To put forward some of the arguments that people make, some would say that there is an inherent value to a business or farm being family-run that we should protect. The danger is that, otherwise, all those assets go into venture capital funds and get stripped for their assets, without a thought for their staff, or whatever. Those are some of the arguments that people put forward. Is that far too sentimental for economists, or is there another way through?

Dan Neidle: I am not an economist.

Helen Miller: I think you have to be a bit careful. Ultimately, that is an empirical question that we could look at: are family farms more productive? One way to think about the question is that if you have a family farm that you think will be broken up—I do not take a view on whether family farms are good or bad—and you think it is valuable enough to be charged inheritance tax but it does not have the profits to pay that tax, what is happening? Why is it that you have an asset that is really



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valuable but it is not creating a return? It could be that the price of farmland has been pushed up by avoidance, and shutting down the avoidance will bring down the price and solve the problem for the family farms because you will not have that disconnect between the asset value and the price. It could also be that people really want that asset, but the current owner is not getting a high value from it. That could also tell you that there is a more productive use of that land. Yes, you can tell stories about some family farms being most productive in family hands, but in that case why are they not creating a high return? You can also tell a story about how it would be more productive for land to be reallocated. I am not taking a view on that; I am saying that we should not tell ourselves a story—you can tell a story both ways.

Q70 Bobby Dean: There will obviously be different objectives. We could sell off all our land to housing if we wanted, and that would fix one problem, but it would give us food insecurity issues.

Professor Arun Advani: I would take a very pragmatic view. Given where we are, is there scope for looking at this issue again? The relief that is left is £1 million for anybody who has any agricultural or business property relief assets, but that does not depend on whether those assets are going to be otherwise at risk. On the Treasury website, what does it say that agricultural and business property relief are for, in theory? It is written there that they are to prevent the break-up of these kind of businesses, yet in many cases the relief is going to people who have no risk of break-up. Most of the value of the relief is going to estates where those assets make up 20%, 30% or 40% of the estate. They are at no risk of break-up because the tax could, at most, be 40% of their estate; less than 60% is covered by these assets. These are not assets that, in any world, they would ever have to sell if they didn't want to, because they can always pay the tax out of other assets.

At the other end, there are estates where the farm is 90% of their estate, and they have no other money that they are able to use. Again, we can argue about what might happen to land prices and things if you were to make a reform, but in the current world, until any land price changes happen, they would be taxed at a rate that they would not be able to afford to pay out of the remaining value of the estate. They could take something out of their income, but, from the work that we did, we know that there are some—probably about 70 a year under the current reform—who would not be able to pay the tax out of existing assets, and are therefore, in some sense, at risk of break-up.

One adjustment that we proposed in the work that we did at CenTax was that you could instead have a minimum share rule, saying that if less than 60% of your estate is agriculture and business property, including the farmhouse, you are at no risk of break-up because you can always use the parts of your estate to pay for this. You do not need the relief, so we are taking it away from you.

What that would allow us to do is spend that money on increasing the £1 million cap for the people who are at some risk of break-up because a very



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large share of their estate is covered by this. You could then afford to raise the cap from £1 million to £5 million at the individual level. There have been arguments about these increments—there are a couple that are £10 million. After that, you are no longer talking about small family farms. At that point, arguments about whether you could afford to borrow are much less salient than they are for the small family farms, for whom the cost of borrowing and the difficulty in being able to get the money to pay the tax could be a genuine concern.

Chair: Dame Harriett.

- Q71 Dame Harriett Baldwin:** One question on that. In terms of public policies, it is clearly important that the UK has the ability to grow food. That is at the heart of this, because if you, who are all very economically rational people, suddenly say, “Well, there are more productive uses of that land,” we would lose the ability to produce food. Is there a way to solve this issue that preserves the important nature of the family farm, which is not only the land to produce the food but the ability and knowledge, down the generations? Is there a way to pass on that ability to do something that we would all find challenging, which is to run a farm, and, at the same time, exclude people who have been buying the land purely because of its inheritance tax advantages? Is there a way we could do that in the tax system?

Dan Neidle: I think Professor Advani has done exactly that. The team I work with and I came out with a proposal involving a clawback, which we thought was an answer, but Professor Advani’s answer is better. It really does mean that small farmers would not be paying inheritance tax, and investors who are investing in farmland just for tax reasons would be. For me, that is the solution. It also raises an additional £500 million, so it raises more tax, too. It seems a slam dunk.

- Q72 Dame Harriett Baldwin:** Would you all recommend that the Chancellor change the rules to reflect that? Are you all happy with those recommendations?

Helen Miller: I think you should start with a view of exactly what you want to do. If you were starting with a policy aim of wanting to support food production, which is a perfectly reasonable—

Dame Harriett Baldwin: Food security for the United Kingdom.

Helen Miller: Security for food production, or biodiversity or soil quality. There are a whole range of policies, including around planning what you allow to go into different parts of the economy and subsidies for farmers. The Government have a whole plethora of policy levers. I do not think we should load all those policy aims on to just this one bit of inheritance tax.

If you decide—and it really is a policy aim as opposed to an absolute law of nature—that there are particular family farms that you do not want to be broken up, Arun has a proposal that would protect those farms relative to other inheritance tax. But that is a policy choice, and it comes down to what the Government want to do.



Q73 Dame Harriett Baldwin: With other inheritance taxes, people have known about the seven-year rule, but because farmers were exempt from that, there are farmers who are now well into their 70s and 80s who have not done it. Again, that seems to be fundamentally unfair.

Helen Miller: I think that would be relatively easy to change, in the sense that you could just give current older farmers or farmers who are close to the end of their life the same tax avoidance opportunities that they would have had if they were not to die within the next seven years. You could say something like, "We won't charge you inheritance tax if—"

Dame Siobhain McDonagh: If you are about to die.

Helen Miller: If you are about to die. Or you could say that if you give away your farm within the next period, and you could set that period—one, two, three years—you will be exempt from inheritance tax, even if you go on to die within the next four years. You could do some kind of transition if that is the issue.

Ruth Curtice: I think it is worth going back to where we started this conversation, which was by saying that we need to boost UK economic productivity and simplify the tax code. If we started with those two things in mind, and if we added another objective of UK food security, I would be very surprised if the answer we came to was that a particular exemption for inheritance tax was the right thing to do. This really illustrates the problem with tax reform: if we had not started with this relief, and we had said that we actually want to take further action to boost UK food security, I would be very surprised—as Helen said—if we decided that an inheritance tax relief would be the most effective way to do that. There will be losers from tax reform, and sometimes we have to bear that cost.

Q74 John Glen: But isn't the real problem here that the dysfunctionality of interventions that are not aligned? The incentives for environmental stewardship, food production and inheritance tax are all answered on different timeframes. I am concerned about, to Helen Miller, the issue of actually having a universal standard treatment of inheritance tax reliefs, or not having one. I understand it from an economist's point of view, but the behavioural effects and the reality of the complexity of stewarding a farm, with its very low margins—while there is meaningful uncertainty over many of the incentive schemes—means that doing it in this way was bound to have a negative consequence, was it not?

Helen Miller: I think it was absolutely bound to have a consequence, in the sense that we talked about earlier. Taxes have consequences. There are some people now who are subject to inheritance tax who are having to sell their family homes to pay inheritance tax. It is a tax that has consequences—of course it does. It was going to raise some revenue—

Q75 John Glen: But we know that farmers do not have high returns similar to other asset classes. Doing it when they had no expectation that it was going to happen—my colleague has dealt with the planning effect and how that might be mitigated—is very different to others. Of course, people will have to make do with whatever they have to do, but there is a distinct



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case here where you have given no warning for it, and you also have other support regimes that are material to the economic model of that class of assets that are being—

Chair: Can we have a quick answer? This is talking about things that have happened, rather than a future Budget.

Helen Miller: Of course, in the big picture, there is always a case to think really clear-headedly—this is what Governments often do not do—about the full set of measures that apply to any given taxpayer, and to transitions. As Ruth said, if you want to improve our tax system, that will mean taking some things away. You always have to think about both where you want to get to and how you transition. Of course, even if you want to get to an end goal like the one I set out, thinking about how you transition and deal with people who are already near the end of their life, as well as provisions for how they pay, that is all important.

Q76 **John Glen:** But understanding how 70% of our landmass works is probably quite an important part of that.

Helen Miller: Of course, it is always important to look at the whole.

Chair: Of course, it also worth saying that any change, even if it is to change something for the better, is also complicating for people because they have started making plans—even no change can be challenging at times.

Q77 **Yuan Yang:** I am going to move from the countryside to our towns and cities, and I will talk about rental profits. Ms Curtis, the Resolution Foundation has suggested broadly shifting from national insurance to income tax to create a more level playing field between different types of income. What would be the impacts on growth and inequality of this kind of shift?

Ruth Curtice: Exactly as you say, at the moment, employment is taxed more than other forms of income, such as self-employment, than rental income and pensions, among others. The reason we have suggested a raise in the income tax rate and a cut in the national insurance rate is to reduce the extra taxation on work.

I think it is worth stepping back and thinking about what would happen if there were no manifesto. If we were just faced with this economic challenge, and we were looking at the big tax rates, which one would be least economically damaging to put up? I would say that it is income tax because of the challenges we have for inflation, and that makes VAT difficult. We can then ask a different question: which tax would we all most like to cut economically? Given that one of the ambitions of this Government is to increase employment rates, I think that improving incentives to work is a good place to look, and we would get some labour supply benefit from cutting employee national insurance. That is one reason why you come up with this combination.

You are right that we need to be honest that what that means for people in employment, who get their income from employment, is that there



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would be no increase in the net rate of tax that they pay. The people who would pay higher rates of tax are landlords who have rental income, pensioners and the self-employed. I am happy to talk more about each of those.

Q78 Yuan Yang: Do you think such a shift should be implemented via a tax switch? If so—I appreciate that this is a slightly philosophical question—do you think that such a switch would break Labour’s manifesto promises?

Ruth Curtice: I am not a politician. I do not think my expertise lies in the fine details of manifestos or how that would be judged. There are, as you say, different ways you could get to this. You could say, “What we want instead is national insurance on rental income or on pension income.” When I think about how you would do this in a way that is simple for the tax system, and where what you have done is transparent and clear for people, the tax switch is a better route through.

Helen Miller: This relates very much to exactly the conversation we had earlier about increasing taxes on capital income. However you do it, whether it is a switch or an increase in national insurance, you are putting up tax rates for landlords and self-employed people, and therefore you face exactly the trade-off we talked about earlier—you will put up their tax rates. That will help with some problems. You have more alignment across different incomes, but you are going to disincentivise investment.

To take landlords as an example of that, one thing we already have in the system is a humungous tax bias in favour of owner-occupiers against landlords. For example, we cap their mortgage interest relief, we have higher stamp duty, and so on—I could go through a whole list. Ultimately, that means you are favouring owner-occupiers to a degree that I think is far too big, but also in a way that, even if you want to do that, is a bit bizarre. Ultimately, by skewing the market in that way, for those people who stay renters, you are making fewer rental properties available and making higher rents. If you are talking about a small tax change, it is probably going to be a small effect, but I am trying to point out that it is in that class of trade-offs.

Another thing you could do is think about the tax base—think about how you treat landlords. For example, you could let them have full mortgage interest relief and think about some other things. That would allow you to raise tax rates with less damage to incentives. It is a plea to think not only about tax rates, but really to think importantly about that definition of, “What is tax?” It is absolutely critical.

Q79 Chair: We are getting a very strong message, which I think would resonate with a lot of us, about looking at things in the round. Something happens in one place as a consequence of something happening elsewhere. Rather than picking into the Scrabble bag, we should look at it more roundly.

Briefly, on pensions, there was a lot of speculation at the last Budget. With pensions, we have talked about some long-term and some short-term changes—they are very long-term products, and people will be saving into



them. Have any of you got any particular expertise on pensions and the impact on behaviour? Obviously, taking out the lump sum was a big thing at the last election. Do you think there is an argument for changing the tax relief on pensions and equalising it at a 30% rate?

Helen Miller: We did a huge, 100-page report on this a couple of years ago, as we thought really hard about this. When we say big picture, it is an area of tax where stability is really important. People are making very long-run decisions. It is very unhelpful to have constant speculation about what might happen, because it really drives behaviour. This is absolutely a part where I would love to see the Government set out, "Here is what we think the tax system should be," and then just leave it alone, for that stability purpose.

The debate often moves towards the income tax relief for the upfront income—that is not a relief, in my mind. I think you can make credible, reasonable, rational arguments about whether you tax pensions on the way in or the way out, but you should not be taxing them at both ends. I hear people talk about capping the relief up front, but nobody simultaneously talks about, "Well, in that case, reduce the tax on the way out."

The other thing we have is that pensions are the largest form of remuneration that, for the most part, get no national insurance applied at any point—on the way in or the way out. That is where, to my mind, we should be looking to think about how to get national insurance on to pensions. There are lots of complications there, but the easiest way to do it would be to put employer national insurance contributions on employer pension contributions, or at the very least, to break the link between the subsidy to pensions and the employer national insurance contribution rate.

For example, we could put full employer national insurance contributions on all employer contributions, so that it does not move with the rate, and have a separate relief. That is, for whatever subsidy you want to set for salary sacrifice and employer contributions, you could set that rate specifically, rather than let it move. For an employer, I would do it at that end. For an employee, national insurance contributions would be most straightforward—just start applying those to pension income in receipt. The subsidy is really about the NIC system and not the income tax system.

Q80 **Chair:** Anyone else with any thoughts on this?

Dan Neidle: I agree with that. I think the very frequent calls we hear to limit tax relief on the way in are not viable, because it is very hard or even impossible to apply them to defined-benefit pensions. If you end up with a system that essentially lets defined benefits off the hook and increases tax for defined-contribution pensions, that seems extremely unfair.

Chair: A few lucky winners.

Helen Miller: I strongly agree with that.



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Ruth Curtice: I end up in the same place, but as well as thinking about the theory of the tax system, we have to think about who should pay more if what we need is more tax. The current generation of pensioners has seen, on average, living standards grow much faster than working-age households, and there has been growth in wealth gaps between people in their 30s and people in their 60s. That would point, for a different reason, to thinking more about national insurance or the income tax paid on the way out than on the way in.

Q81 Chair: I have a couple of points on that. One is around poorer people and pensions—obviously, Ruth Curtice, the Resolution Foundation very much looks at that. There is a big inequality, and at a lower income, you are going to have a worse pension anyway. Do you think that anything needs to be done in the tax system to help poorer people to save more, perhaps taking it from wealthier pensioners—or wealthier potential future pensioners?

Ruth Curtice: The main challenge that poor people have around saving is their level of income, not the tax incentive that they face, so fundamentally we have to look at how we boost the living standards of the poorer half of the population. There are quite complicated issues when you get into things like auto-enrolment and what the right rate is. Replacement rates are based on your earnings, so you can end up with poorer households almost over-saving, because the cost for them of not consuming now is higher.

It is a very important point, and it is not a straightforward issue, but one reason why you could justify either the tax switch or some employee national insurance on pensions is that both of those would be done in a progressive way. When you combine our tax switch with the triple lock, which I think we now know will be £576 next year, a pensioner would have to have income of more than £40,000 to lose out from the combination of those changes.

Q82 Chair: What about national insurance contributions on pensioners who are working? The current retirement age is 67, and some people, including quite a lot of people in this Parliament, are still working at 67, but they do not have to pay national insurance contributions. Do you think that that should change? Would it make a big difference?

Ruth Curtice: In principle, it is not clear to me why you would have different tax rates for different ages. In practice, there is quite a lot of evidence that people become more sensitive to tax rates as they age, so I would be cautious about changing it given that boosting labour supply seems to be important at the moment.

Q83 Chair: What about smoothing it? This comes to Helen Miller's question. When changes to pensions are brought in, there are often protection periods. For the public sector, we have already seen McCloud, which was a big change. I suppose the question is, how many times can you change a pension system in a generation? If any of these changes were brought in, do you think there should be smoothing, so that people closer to



retirement age were not affected?

Helen Miller: It would depend on what exactly you were doing. If your end goal was to apply something like full employer national insurance to up-front pensions, or if you wanted to apply full national insurance to pensions in receipt, you would not necessarily have to go the full way today—you could put 1 or 2 percentage points on today and ratchet it up over time, for example. That would be one form of transition. It really depends on what you are looking to do.

Let me give you one example. Your earlier question was about poorer people in retirement. The 25% tax-free is an element that is particularly poorly targeted, because it is more valuable to higher-rate taxpayers and is completely valueless to people who do not pay tax. A couple of years ago, we wrote that you could reform that in such a way that it would be the same for a basic-rate taxpayers, but rather than have a tax-free element, you would have a top-up. You would have a top-up, so that for a basic-rate taxpayer it is the same, but you reduce relief for the higher-rate taxpayers and give some relief to basic-rate taxpayers. That would be a recalibrating of that same amount of money away from higher earners and towards non-taxpayers. If you were going to do that, you could think about not having it happen tomorrow, but the transition depends on what particular reform you are doing.

Chair: A word of caution about doing it all too rapidly.

Helen Miller: Yes, but you also do not want to let people think that it is coming in a couple of years' time and let them do some massive planning and change their behaviour. Again, it depends on what you are thinking about. You do not want to have people suddenly changing their retirement planning massively because they think something might happen in a couple of years. That is damaging in itself.

- Q84 **John Grady:** A quick yes/no to finish up. What I have taken from this session is that, first of all, we have got a real issue because certain taxes, like fuel duty, have ceased to raise revenue. That is a challenge. The tax system is not encouraging growth; it is inhibiting growth. With modelling and stuff, we can look to tackle that. It is poorly targeted at the outcomes we want—climate change, food security and growth. It is complex, so it is ripe for people to make mistakes and avoid and evade tax. It also does not necessarily have the trust and confidence of the general public. We could be knocking on the door—obviously, I am a member of the Labour party and I do knock on doors—and a person in one street will pay council tax x, while a person in the same house in the next street pays a lot more council tax. At the moment, the public debate and the press debate is myopically focused on what will happen in a couple of months' time, and what we do about five years' time in the OBR forecast. The message I am taking from all four of you is that, actually, we need to step back and undertake fundamental reform of the tax system and we need to stop ducking that fundamental reform. Have I misunderstood any of you?



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Helen Miller: I have been banging on about fundamental reform for the best part of two decades, so in some sense, yes, of course I believe that. I think the minute you say “fundamental reform”, people get scared and think you mean that in November you are going to rip up the rule book and do something really big. Actually, it is easier than that. You have to start with a vision of what a politician thinks a good system would look like, and where we are trying to get to. With that in place, the Budget could have a series of smaller measures, but they would be steps in the right direction. So, would I love it if the Chancellor did something really big—really ripped it up? Yes, maybe, but the important thing is not that you rip it all up in November; it is that you have a really clear sense of what we are trying to achieve and we start taking consistent steps towards that. What we currently do is take some steps towards it and some steps away from it, and we move round this path without making a consistent push towards it. It is that point about vision that is really important.

Q85 **John Grady:** You are making a fundamental point. We couldn’t have a fundamental overnight reform because everything takes time to implement. Unless we start doing it now, we will not have a much better, more effective tax system in five years’ and 10 years’ time, and we will still be stuck in this doom loop of low growth, low public confidence and so on.

Helen Miller: I think tax reform is less scary than it sounds. It can be radical, and that can be great, but it doesn’t have to look extremely radical. It can look like, “Here’s a good vision and here are some practical steps towards it.” The Budget itself could look not that different from a normal Budget. The difference would be that we are going towards something.

Ruth Curtice: The only thing I want to add is that we do start short of money. So, I agree with all that, but we have to acknowledge that it is likely that we are £20 billion or £30 billion short of the tax revenue that we need, and in that case there will be more losers than winners and that is in some sense unavoidable. I agree with what you have said, and with what Helen said, about reform, but we cannot avoid the first challenge of this Budget, which is to find that money.

Chair: I thank our panel very much. In summary, we have heard that there is this big need for reform, but as Ruth Curtice has very helpfully reminded us, it is a current very difficult fiscal situation for the Chancellor; I do not think that anyone envies her having to make the trade-offs that Helen has talked about along the way. You have also been really clear about predictability, not just stability—planning ahead, having that vision that we have heard about—and that we need to fix some of the existing taxes before we start layering on more. Perhaps you are saying, in a way, “Let’s not have too many rabbits out of the hat in the Budget; let’s have a slow and steady approach”—easy perhaps for you to say, harder for a politician like the Chancellor to deliver. Thank you very much; it has been a really useful conversation. We hope it is giving food for thought for those who are working hard in His Majesty’s Treasury to help the Chancellor deliver what she needs to.