House of Commons

Treasury Committee

Oral evidence: Tax after Coronavirus, HC 664

Tuesday 1 September 2020

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Watch the meeting

Members present: Mel Stride (Chair); Rushanara Ali; Mr Steve Baker; Harriett Baldwin; Anthony Browne; Felicity Buchan; Ms Angela Eagle; Julie Marson; Siobhain McDonagh; Alison Thewliss.

Questions 1-70

Witnesses

I: Professor Philip Booth, Senior Academic Fellow, Institute of Economic Affairs, Mike Brewer, Deputy Chief Executive and Chief Economist, Resolution Foundation, Paul Johnson, Director, Institute for Fiscal Studies, and Dr Gemma Tetlow, Chief Economist, Institute for Government.

Examination of witnesses

Professor Philip Booth, Mike Brewer, Paul Johnson, and Dr Gemma Tetlow.

Q1 **Chair:** I am delighted to be joined by four key witnesses for the Committee. I will go straight to them and ask them to introduce themselves briefly for the record, in the following order: Gemma, Mike, Paul and, finally, Philip.

Dr Tetlow: Good morning, I am Gemma Tetlow, chief economist at the Institute for Government.

Mike Brewer: Hello, I am Mike Brewer, chief economist at the Resolution Foundation.

Paul Johnson: Hi, I am Paul Johnson, director of the Institute for Fiscal Studies.

Professor Booth: Good morning. I am Philip Booth, professor of finance, public policy and ethics at St Mary's University, Twickenham, and senior academic fellow at the Institute of Economic Affairs.

Q2 **Chair:** Great. Welcome to all of you, and thank you very much indeed for giving your time this morning. I want to make a few quick comments. When questions are put to the panel by members of the Committee, the Committee will typically ask one or more members of the panel to contribute, so you will know if you are being asked the question. However, if you are not asked and you have a burning desire to come in on a particular topic, please do raise your hand and I will endeavour to bring you in. In the event that during the session you are not able to contribute on something you feel quite strongly about, you have the opportunity of course to write to the Committee, which we very much welcome as well.

With that, let me ask the first question, which I will ask each member of the panel to come in on. I will ask Paul Johnson to answer first. We know that Coronavirus has done immense damage to the economy and hit the public finances very hard. We also know that longer term, of course, there will be a huge draw on the public finances in terms of healthcare, social care and so on going forward. Taxation will inevitably play a major part in restoring the public finances to better health as well as meeting the challenges I just mentioned. Could you please give your assessment of which major taxes the Government will need to look at to raise the money it will need? How would you assess each of those taxes in terms of being good or bad for growth, given that what we tend to know about taxes is that, all else being equal, they are not particularly good for activity and growth?

Paul Johnson: That is a fairly broad question. The first part of your question is the presumption that taxes will have to rise. I think that is probably true. It is worth saying that that is not because of the scale of the deficit this year. I think it is likely to be for two reasons. The first is that the economy, certainly according to most forecasts, will be smaller in four or five years' time than we were expecting, and therefore tax revenue will be less than expected. Secondly, as you suggest, the pressure on public services will be greater, but of course that in the end is a political decision that could be taken to reduce spending rather than to raise taxes.

But if you are looking to raise taxes, the likelihood is that it will have to be a fairly substantial increase. So if you are looking for substantial increases, and that might be, say, 2% of national income, for example, then you probably need to look at the substantial taxes. As you know, getting on for two thirds of tax revenues come from just national insurance, income tax and VAT, so I would expect in the medium run at least some increases in those taxes simply because that is where significant amounts of income comes from.

If you are looking at ways of raising revenue that will be efficient and improve the working of the tax system, there are various places that you can look. Not all of them raise large amounts of money, but let us start with council tax where we know that, relative to lower value properties, high value properties are relatively undertaxed. There is certainly a case, as has been mooted in the press in recent days, to move capital gains tax such that rates on capital gains are similar to those—*[Inaudible.]* That will not raise you very large amounts of money, but it helps in the long run to stabilise the tax system and to make it more equitable and efficient. The same could be said for moving tax rates on the self-employed up towards tax rates on employees. Those are examples of things that you could do to make the tax system more efficient. As I say, we are probably looking at small numbers of billions there rather than the potentially large amounts of money that might be required.

Politically difficult, but good for the efficiency of the tax system, would be to extend the VAT base somewhat—not necessarily by charging 20% on everything that is currently charged at zero per cent. but we could move, as nearly all other European countries have, to having VAT on some of the things that we currently zero rate, but I recognise that that is politically unpopular.

On the sorts of places that Governments have traditionally looked, if you look over the last decade at where tax rises come from, the biggest was the increase in VAT back in 2011. As I say, I think that would be preferable, with at least some broadening of the base. The second biggest tax rise over the last decade has been the reduction in pension tax relief for higher earners. Again, it has been mooted that one might reduce that further by limiting tax relief to the basic rate. There are some arguments in favour of that. It would be distributionally progressive. On the other hand, it would leave many higher earners with very little reason to put their money into pensions as opposed to other forms of tax-benefited savings like ISAs, and would be another move away from any form of private pension saving. It also, arguably, is inefficient because the current system at least allows people to smooth their tax burden over their lifetime.

If you were not politically constrained and you wanted to raise significant amounts of money quickly, you would probably want to simply raise the basic or the main rates of income tax by a few pence. That raises you a lot of money very quickly and easily. Certainly increasing the basic rate of 20% by 2% or 3% will not do any significant economic damage.

As ever, there is an enormous variety of ways in which we can raise tax. There are plenty of ways in which in which we can make the tax system more efficient than it is at the moment so that the raising method would mean that raising tax would not necessarily be significantly damaging to the economy. But there are ways of raising tax which would be significantly damaging: rates of employer national insurance contributions, for example, have gone up over time, and increasing them raises significant amounts of money, but again, creates an even bigger wedge between the way in which income from employment is taxed and the way in which income from other sources is taxed.

There is one final thing it might be worth mentioning. I have mentioned that the pension tax relief restrictions and pension tax relief have raised lots of money over the last decade. There has, of course, been no increase in the tax on pensions in payment. In that sense, as in many other senses, those who have already reached pension age have been protected from tax rises, so there is a case for at least a modest increase in tax on occupational pensions in payment, given that they will have not have had national insurance paid at any point in the past and have been extremely well tax relieved. That generation has done generally very well out of those occupational schemes, though, again, that is not something that would raise you very large amounts of money.

Q3 **Chair:** Paul, thank you very much. I have let you have a reasonable amount of time and you have covered a lot of ground, which has been very helpful. I want to very quickly bring in Gemma on the same question, but, specifically, which of the taxes that you might be thinking of and that Paul has put on the table do you think would be most pro-growth, rather than anti-growth?

Dr Tetlow: I broadly agree with what Paul said. Just to add to those things, in a sense, there are current problems with the tax system which create distortions to economic behaviour and therefore may discourage economic growth. Simply increasing the rates of existing taxes runs the risk that you increase those distortions. For that reason, I would support Paul’s call for thinking about broadening the base of some of these taxes rather than just increasing the rates, which has tended to be what Governments have liked to do in the past.

I agree with Paul’s statement that it is hard to do politically but, for example, things like charging VAT on all goods rather than having many products zero rated would be one way of doing that. It would stop the current behaviour, which is that the producers of goods try to ensure that their goods get classified as being zero rated and not 20% rated. Reducing those kinds of distortions would be helpful. In other areas—I will leave it there.

Q4 **Chair:** Gemma, thank you for being brief. The same request now for Mike: very briefly, a quick 30 seconds on which ones are pro-growth and which of those that have been suggested would be more problematic?

Mike Brewer: It is quite difficult to think of tax rises that are pro-growth. I am afraid I am going to agree with Gemma and Paul in saying that the large deficit means that you should look really carefully at those parts of the tax system where you are taxing apparently similar things differently, because that is what causes distortions and a reduction in overall economic activity. So, focus on tax distortions. Ultimately, we have to raise taxes somehow, so it is really question of finding the ones that do the least damage to the economy, rather than hoping for ones that would actually be good for growth.

Q5 **Chair:** I would certainly agree with that, absolutely, and I apologise if I misrepresented what I meant to say. Can I finally ask for a quick 30 seconds likewise from Philip please?

Professor Booth: I do not support increases in taxes, but again following Mike's train of thought if you are looking for the least anti-growth taxes, one thing you could do is look at tax systems in other northern European countries where they raise a somewhat higher proportion of national income through tax. How do they do it? Well, they do it by having a much broader VAT base, for example by charging VAT on domestic fuel and transport and very often food as well. They also do it by having people starting to pay tax at lower levels of income and higher rates of tax come lower down the scale. In fact, in most northern European countries the tax systems are not very much more redistributive than they are in the UK, but they have a much broader base and get a higher amount of tax right across the population. Broadening the VAT base and potentially some kind of tax on user services and cost of housing—a complex issue that we might come back to and that I know the IFS has written about—would be another non-anti-growth way of raising taxes significantly.

Q6 **Ms Eagle:** All of you have talked about the narrowness of the tax base in terms of, for example, zero rating of VAT or some of the changes to income tax thresholds. Given the fact that the Coronavirus crisis leaves us with a big debt overhang and probably a smaller economy facing higher demands from an ageing population in the not-too-distant future, Gemma, do you think we need to look at how we can broaden our tax base?

Dr Tetlow: Yes, I think we do. The tendency over the past 20 years has probably been, rather than looking at significant broadening of the tax base, to focus on those taxes where it has been most politically feasible to raise the rates, and sometimes to introduce new taxes, such as the bank levy, increases in insurance premium tax and that sort of thing. Building on the answer to the previous question, yes, it would be beneficial to try to think about broadening the tax base, because if we do not and we simply rely on increases in rates, it will increase the distortions that currently exist in the system. But doing that in the past has proved quite difficult; if you look back to the attempt in 2012 to charge VAT on a slightly broader range of products, including pasties, that obviously created serious difficulties.

Q7 **Ms Eagle:** You are not suggesting a pasty tax would get us out of the fiscal hole we are in post-Coronavirus? I'm assuming that is a hell of a lot of pasties.

Dr Tetlow: Precisely. That example probably shows the difficulty of doing something small, because you cannot tell a big narrative about why it is important to tax pasties but not something else. Broadening the base would need to come with an explanation of why you were doing something significant that broadens the base. For example, as Paul said, we have tended to rely in recent years on increasing national insurance contributions but not increasing income tax. Of course, that means you are putting more tax on earnings and not on unearned forms of income, but that has been easier to do because people draw some connection in their minds between national insurance contributions and the benefits you get back, even though in reality the system does not really work like that.

Q8 **Ms Eagle:** Mike, sticking with this view of perhaps a new tax base or widening the tax base, are there things, such as the proposals for a digital tax or even wealth taxes, that might be looked at that would make us more sustainable?

Mike Brewer: That is a very good point. It would be foolish to think that any single tax is going to solve the Coronavirus deficit problem, but of course, when you have a large deficit, it is right that the Treasury look around and see what else could be taxed. You are absolutely right that, with the increasing digitalisation, globalisation, mobility of income and difficulty of pinning down income, something like a wealth tax, particularly on immovable forms of wealth, might be something that is sustainable throughout the next few decades, but that alone is not going to solve the problem we face at the moment.

Q9 **Ms Eagle:** What about land? That can't be shipped offshore.

Mike Brewer: Absolutely, yes. Land is a perfect thing to tax; we just need to find a way of valuing it all, but that would be a tax long favoured by economists. So yes, please do look at that.

Q10 **Ms Eagle:** Paul Johnson, the coronavirus crisis has left us with levels of debt and borrowing much higher than anything we have had since, I think, the 1960s, although not as high as those levels we had after the second world war. In the post-war era, regulation on investments and interest rates, inflation and strong real growth all helped to bring down the public debt. Are these measures that we should look at again, or should we try to tax and spend our way out of the imbalances that have been created by Coronavirus? How can we get growth? Can we do the same job that we did after the second world war, or will it just be a lot harder?

Paul Johnson: As you say, after the second world war we got the overall level of debt down very substantially and really quite fast, because both real growth and inflation were running at much higher levels than we have been used to over the last decade, or actually over the last several decades. That got debt down by a very substantial amount over a 30-year period. That will clearly be a nice way of getting it down going forward.

Whether we have the magic solution to getting growth at those levels, and whether we would want inflation at those levels, is very much open to question.

However, the premise of your question is clearly right—we would be much better off having significant growth over the next few years as a way of bringing down the debt as a fraction of national income. What we have got instead—

Q11 **Ms Eagle:** But we have had much lower levels of growth institutionally, particularly in the last 15 to 20 years, than we were used to after the war. Do you think that new technology and the changes that are happening there might increase growth rates? What can we do about productivity to try to drive growth and prevent the pain of only having higher tax rates?

Paul Johnson: It is worth saying that one significant advantage that we have relative to that period is that interest rates are extremely low, so debt interest payments are actually at historically low levels. Part of the reason they are at very low levels is the expectation that both growth and inflation will be very low. It depends what we combine. If we combine low interest rates with high growth, that will be fantastic. If growth and inflation were to rise, interest rates would probably rise as well. The relationship between those two really matters for the manageability of debt. However, the debt, while interest rates remain as low as they are, will be more manageable than it would have looked in the past. What we of course do not want is for interest rates to rise while growth remains low, which is the sort of risk that might occur if markets decided to lose confidence in the UK Government.

On the huge question of how to get growth and productivity going in the long run: these are long-run policies, clearly. Trade policy, education policy, competition policy, infrastructure and transport policy, housing and planning policy—all these things matter and need to be addressed significantly. We know that we have problems with significant parts of the education system, particularly for those not going on to university, and actually quite a lot of people going on to university, not being trained in the most effective way. We know that we have problems with the planning system and the building of housing around the most economically successful areas. We know that we have problems with our transport system.

However, again, there are trade-offs with all these things. Building houses, roads and airports has—

Ms Eagle: Generally requires expenditure of public money.

Paul Johnson: It also upsets people who live there. It is partly a spending thing, but it is also partly a trade-off—to what extent do we value local environments, to what extent do we take account of the concerns of local people and, when it comes to the education system, what is exactly the right set of frameworks, infrastructure, curriculums and so on to be effective? All these things can make a difference over the long run, but we should not pretend that they will make a difference in the next two or three years.

Q12 **Ms Eagle:** Thank you, Paul. I just want to briefly get Professor Booth in, because I am conscious that he has not had a chance yet, but I am quite close to the end of my time. Professor Booth, do you think we are facing a fiscal crisis that we have to react very quickly to, or can we stabilise the economy and think about things in the medium term?

Professor Booth: We always have to think about things in the long term. I would not get too wound up about the increase in debt caused by the Covid crisis; that is not my big concern. One of the reasons why you accumulate Government debt is to deal with one-off emergencies. My big concern is the next 30 or 40 years when, as a result of demographic pressures, the relationship between the tax base and Government spending changes dramatically. That is one of many of the big differences between what is likely to happen in the next 30 years and what happened in the post-second world war period, when there was a baby boom, life expectancy was much shorter, there was a rise in the labour force and you had the best conditions possible for increasing the tax take while upward pressure on Government spending was fairly limited.

The other thing I would say in response to the question whether we can inflate our way out of this is that we should not forget the pain of the 1970s, with the industrial strife and so on, and the early 1980s, with the unemployment that arose from trying to squeeze inflation out of the system. It wasn't really until 1997, when Gordon Brown made the Bank of England independent, that we got our interest rates back down to the kind of levels that they were in Germany and other parts of the EU. We took a long-term, very big hit from allowing inflation to rise. It is not a pain-free way to deal with a debt problem.

Q13 **Mr Baker:** Good morning. I begin by referring to my registered interest in Glint Pay.

I want to pick up on the theme from Professor Booth of the long-term debt. I was just looking at the terribly frightening debt projections from the OBR, which, it has to be said, became worse when the present Government came to power, and then become dramatically worse with Coronavirus. Are we all agreed that the main pressures come from health, adult social care and pensions? Does anybody want to say that there is another additional major pressure on spending? Professor Booth, perhaps I can come to you to say a bit more. Just moments ago, you were saying that you are most concerned about the next 30 to 40 years. Perhaps you would like to elaborate.

Professor Booth: Back in the late 1980s and all through the 1990s, we had a lot of discussion among economists and politicians, who took a real interest in this debate, about how we could move pensions, healthcare, social care and so on on to a more sustainable footing with more pre-funding. In reality—especially, as it happens, by Governments since 2010—all the decisions that have been taken have moved in the opposite direction. The basic state pension has been increased significantly, contracting out was abolished—after having been somewhat emasculated by Gordon Brown, it has to be said, but the final decision was taken by the post-2010 Conservative Government—and there have been no real attempts to get more pre-funding into healthcare and social care. The situation that you are left with—these things happen in slow motion, I am afraid—are exactly the predictions that the OBR made recently, which you just pointed to.

The really frightening thing about those predictions is the decisions that have been taken by Government in the past two years to increase spending on those very things that lock in increases over that 30 to 40-year period, which I think has increased the debt projection by something like 100% of national income in 50 years' time. At the same time, there has been no attempt to deal with things like the triple lock on pensions, which has no justification whatsoever and in the next three years could cause total chaos, as real earnings collapse and then possibly recover at very high rates, etc. Paul and Mike have mentioned the question of the taxation of older people. The issue of a demographic crisis was essentially ignored in the 1990s, and from 2010 onward, decisions have been taken that have made it worse.

Q14 **Mr Baker:** Thank you very much indeed. I can see some nodding from the members of the panel. Can I come to Mike Brewer for further comment on these long-run pressures?

Mike Brewer: The nodding really was assent. I haven't got much to add. The OBR report is not a forecast; it is really illustrating that there are long-run pressures in providing the sort of health, social care and pensions that we are used to now to our population over the next few decades. Something's got to give somewhere. We either need substantial tax rises or we need to provide less good health and social care and pensions, or the population have to pay more themselves. That is really what the OBR is telling us.

Q15 **Mr Baker:** So Paul Johnson, something's got to give, but what does that mean for people on modest incomes in 10 or 20 years? What will the country look like if something has given by then?

Paul Johnson: To be fair, we have seen some fairly significant increases in state pension ages and a lot more people are working, not just up to but beyond state pension age. I would expect to see that trend continue. Part of the answer is beginning to be—and I suspect will continue to be—people working for longer as is appropriate, given that people are living so much longer than they were 30 or 40 years ago and we have a dip until the mid-1990s in working hours because of the way that the pension system and so on was structured.

The second thing that is worth saying is that, looking into the future, private pension provision looks far less generous than it has been for the generation retiring up to about today. Outside of the public sector, there are essentially no defined benefit occupational pensions any more. What it is going to look like for people on modest incomes who, in the past, might have been able to fall back on at least some occupational pension income is that they are going to be left very much more by themselves. We have seen the potential risks of that recently: stock markets can fall swiftly, people can lose their jobs earlier than they expected, and that puts a significant minority of people at some risk as they manage their own finances.

Q16 **Mr Baker:** Thank you very much. I am sorry to cut you short, but I really must bring in Gemma now. Gemma, can we or should we avoid trying to increase the size of the state over the next 10 or 20 years to try and deal with these pressures?

Dr Tetlow: That is a political choice. If we were to maintain the current size and scope of offer in terms of healthcare in particular, but social care as well, that does, as the OBR projections show, imply an increase in the size of the state because we have an ageing population, and growing prevalence of some chronic health conditions in particular. However, it is a choice about whether we do that. You ask what the future looks like if we don't do anything about this. I guess that what the past few decades have told us is that the default in terms of healthcare provision in the UK is that there tends to be increasing pressure to spend more on that to provide new treatments to people and just to expand spending on health. On the social care side, at the moment, the default is that it falls to individuals to pay for their own social care. The public offer is pretty minimal, there is quite a high threshold for qualifying for that and it is means tested. So the default there is that if you are unlucky enough to be someone who needs long-term social care, that comes out of your own money. On pensions, as Paul said, we have made changes there, so the pension burden is not so significant. The way we have paid for extra spending on healthcare has typically been to squeeze other areas of public spending. We squeezed defence spending through the 1980s. We have squeezed education spending at some points, police spending at other points. So far, we have just found it elsewhere rather than cutting back the offer on healthcare, but I think it is a political choice for future Governments what we offer.

Q17 **Mr Baker:** My time is now running short, so I will just say this: I am going to come back to you all for a few words on the kind of approach you think ought to be taken to reforming the tax system in this context. Before I do that, Professor Booth, you are a professor of ethics and I know you and I share a common approach to many of these problems, both grounded in faith, if I may say so, and also in our understanding of economics. Briefly, what are the ethical issues that are engaged by all of this? What does all of this mean for people on modest incomes if we were to start saying, "You need to save for your future healthcare"? Isn't that pretty tricky, ethically?

Professor Booth: Funnily enough, I am supervising a PhD thesis at the moment on the ethics of Government debt. There are no really easy ethical options here, because promises have been made to future generations for which nothing was set aside in order to finance the promises of income, healthcare and all the rest of it, which will be provided to those future generations, at the time the promises were made. So you are in the position of either reneging on those promises, reducing spending in other areas, or taxing the next generation at very high rates—the rates we are talking about in the OBR report are extraordinarily high: much higher than in any other EU country by the end of the 50-year period—taxing the next generation in order to pay for the promises that were made in the past generation.

I think the wrong ethical decisions have already been made, and the question is how you manage this problem prudently, going forward. The virtue that you need here is prudence, if you like: prudence in the proper sense of the word—not in the sense that Gordon Brown used to use it a lot. The imprudent decisions have already been made.

There isn't an easy answer. We already have the debt and somehow we have to find a way through this. As Paul said, ensuring that people work to much older ages is part of the solution: work in a flexible way, and not necessarily full time—40 hours a week or whatever—until people are at very old ages; but increasing labour market participation is certainly part of the solution.

Q18 **Mr Baker:** There we are; the unethical decisions have been made. I am on my very last minute and I want to give it to Gemma Tetlow to say a few words on the approach we might take to reforming the tax system.

Dr Tetlow: The only other thing to add that you haven't really touched on yet is on Philip's point about pre-funding future spending. The challenge there is how you avoid having a generation that effectively pay twice—paying taxes today for health and social care for current older people and then pre-funding their own care later on. So I think there is a question there about how you look to tax changes, and perhaps things like what Paul was suggesting about pensions in payment, to try and take additional tax from those who in the past haven't paid as much.

Mr Baker: Thank you all very much. I am sorry that I haven't got much longer to explore all these issues with all of you, but thank you.

Q19 **Julie Marson:** I would like to get a range of views from you, if I may, on the taxable capacity of the UK as a whole. It seems to me that there is a strong body of evidence that suggests that we are at, or at least very close to, the upper limit of the taxable capacity. Historically, a huge proportion of our GDP is taxed. Would you agree with that suggestion; and what does that imply for how we can tax our way out of the debt position that we are in? Perhaps I could start with Paul, please.

Paul Johnson: You are right that tax, as a fraction of national income at the moment, is high by historical standards and has been inching its way up over the last couple of decades, though it is worth saying that it is not dramatically higher than it has been in the past—but it is at high levels. That said, our tax take is significantly below that of many other countries in northern and west—in the old European Union, the traditional EU countries where many have a tax burden which is significantly higher than we have. So that does indicate that it is possible to run a pretty effective and efficient economy with a higher tax burden than the UK currently has. That is certainly the case in Scandinavian countries, Germany, France, Italy and so on.

So I wouldn't necessarily agree with the statement that we are at the limit of taxable capacity. Going back to the earlier conversation, there are better and worse ways of raising additional taxes. Some of those countries which have higher levels of tax do it by having a significantly broader VAT base, for example. There are significantly higher social insurance contributions. That is one of the big differences, again, between the UK and a lot of those countries—that they have social insurance systems where there is at least some link between contributions paid in and what comes back out; but that also creates a heavy burden on employment, often, relative to the situation that we have here.

So I think we have the capacity overall to raise somewhat more tax than we do at the moment, should we decide to do so; but I think if we go down that route we have to be a lot more careful than we have been in the past about how we raise that tax, and make sure we do it significantly more efficiently and equitably than we have up till now.

Q20 **Julie Marson:** Thank you. Could I ask Mike the same question, please?

Mike Brewer: Of course. I agree very much with what Paul said, so I do not agree with your premise, Julie, that we have reached taxable capacity of the economy. We can look overseas and see successful countries with good growth rates and higher rates of living standards, but also with higher rates of tax as a fraction of GDP, to show that other ways are possible. We perhaps have a political difficulty in this country with making significant tax rises, although, as Paul said, the tax-to-GDP ratio has been creeping up recently, even though we say there are political difficulties with raising taxes. So no, I don't think we have reached the limit at all. As all our opening remarks at the beginning of the session indicated, there are plenty of areas where we would suggest that you could raise taxes, without reducing growth rates substantially, by focusing on those areas right now where there are tax distortions between different kinds of activity, which are unhelpful.

Q21 **Julie Marson:** Thank you. Gemma, please.

Dr Tetlow: I would tend to disagree with your premise as well. I do not think there is strong evidence that we are somehow at the upper limit, because we can look at other countries that are at a higher level. If we look at the UK over a longer period of history, we have gone through periods—pre-world war one, tax was much more like 10% of GDP, but in the inter-war period, it was more like 25%, and Keynes was even saying that 25% is about the reasonable limit. In the post-war period, it went up again, and it has crept up further. We should not think of it as the upper limit now, but what matters much more importantly is actually the structure of the tax system and how it influences economic behaviour. A well-designed tax system could raise more money while doing less to distort activity than a very poorly designed tax system, and there certainly are areas for improvement.

Q22 **Julie Marson:** Thank you. Professor Booth, please.

Professor Booth: First, you damage the economy with a tax system a long time before you get to the point at which you cannot raise any more taxes. A lot of Members of Parliament whom I talk to, who latch on to the idea of the Laffer curve, say, "Ooh, if we tax any more, we'll end up raising less revenue because of the impact on economic growth." That may not yet be the case where we are currently in terms of tax revenue, but you are doing an awful lot of damage before you get to that point by raising taxes in any case. On percentage of GDP, they often suggested that we take in taxes at the moment of about 37%, which understates the tax take by about three or four percentage points of GDP because of the way we calculate GDP at market prices rather than factor costs, so you actually include taxes such as VAT in the measure of national income, which increases the divisor and reduces the percentage tax take. If you add borrowing as well, we are more or less at 45% of national income. You could go higher, but only with a much better-designed tax system.

To take us back to the points that we made earlier, a better-designed tax system would not necessarily redistribute more, and it would not necessarily leave you with money left over to do the types of thing that Governments might want to do, in terms of spending more on health, education and so on, because the tax systems in northern Europe that tax more have a much broader tax base, so they are taxing the poor more as well as the rich more. Secondly, they tend to provide much more in terms of non-means-tested benefits, so there are high levels of state pension, high levels of unemployment benefit for the better off, and so on. That leads to a situation whereby you might not affect work incentives in the same way by increased taxation, but you actually end up spending the money that you raise on the same group of people from whom you raise it. We have chosen a different route in the UK—lower levels of tax and lower levels of benefit for the better off—but, frankly, I would rather have UK tax rates and better-designed tax systems, as they have in continental Europe. I certainly do not want the tax system we have in the UK with continental tax rates.

Q23 **Julie Marson:** Thank you. I will continue with Philip, if I may. I have seen reports that talk about the economic growth maximising point of tax being far lower than where we are now—about 20% or 25%. As a corollary, rather than trying to maximise the tax rates, should we look at reducing the tax rates to maximise economic growth? As we have spoken about before, that would be the ideal way—our favourite way—to grow the economy, rather than over-taxing it. We should look in the other direction rather than at the limit.

Professor Booth: I agree with that. We should be reducing the size of the state rather than increasing it, especially now, due to pressures going forward in areas of Government spending, which are unavoidable because of promises made in the past in relation to health and pensions. There has been lots of talk of austerity, but austerity was focused on particular areas of Government. Some areas were ignored altogether when it came to squeezing Government spending.

Q24 **Julie Marson:** Thank you. Perhaps I could go back to Gemma. Could you talk about whether we should be looking at reducing taxes to maximise economic growth, instead of looking at extra taxation?

Dr Tetlow: Clearly, the public finance sustainability position looks much better in a world of high economic growth, so, yes, we should care about growth. My reading of the economic literature is that the relationship as between overall tax levels and growth is very murky. There is no clear evidence that there is a growth-maximising level of tax, not least for the reasons we have talked about: it matters how you tax, not just the total level you are taxing at.

The other thing we have not talked about is that you tax in order to spend on something. The overall impact on growth depends on what the Government spend that money on. Paul talked before about the importance of good-quality education to improve the productivity of future workers. Things like infrastructure spending and the way you focus public money will matter for growth as well. That will have an impact on whether a large state improves economic growth.

Q25 **Julie Marson:** Thank you. I am short on time, but I would like to get the views of Mike and Paul. Mike, do you have a comment on that?

Mike Brewer: I will try very quickly. In the long run, the rates of growth that the UK economy can come up with depend a great deal on how the Government spend their money as well as how they tax. We should not just think that cutting tax rates will boost the economy; we should also think about what the Government could do with spending to improve the long-run growth rate of the economy, by improving productivity, for example.

Q26 **Julie Marson:** Thank you. Finally, Paul.

Paul Johnson: I agree with the other panellists. The flipside of taxes is spending. You clearly need to spend on education to improve the growth of productivity. The same is true of health. In other European countries with high levels of tax, as Philip said, there tends to be a high level of state pension, benefits and so on. That is less associated with growth, particularly since it tends to involve high levels of tax on employment. Again, the key is getting the structure of the tax system right and focusing spending on those things that will help the economy.

Julie Marson: Thank you very much. I am out of time.

Chair: Thank you, Julie. We will now turn to Anthony.

Q27 **Anthony Browne:** Thank you, Chair. I refer to my declaration of interests. I am on the advisory council of the Institute for Fiscal Studies. I want to focus on the timing of any tax rises or cuts. We have been talking about the potential need for tax rises. I am not 100% confident that we do need them. The first tax moves the Chancellor made since the Coronavirus crisis were tax cuts temporarily on stamp duty and VAT, in order to get the economy going again. If we do need to raise taxes, when should we raise them, without creating a risk to the economy?

Paul Johnson: The answer is "not yet". We are only, what, six months into this crisis? We still do not know what is going to happen next in terms of Covid, and even if we do not get second waves, we are not very clear about where the economy is going to go, but we are pretty clear that it is going to be weak for some period. I certainly do not think we should be looking at tax rises this year, and quite honestly, I would be surprised if we saw significant tax rises next year. Remember that through the financial crisis we had at least two years—maybe three—of spending increases and tax cuts to support the economy, and at least in the short run, the impact of this crisis has been more substantial than we saw back then.

My expectation is that perhaps over the next year, the focus of policy will continue to be on supporting the economy, probably through having higher spending and targeted lower taxes in areas to provide that support. That does not mean that the long-term calculus is any different. If we do need higher taxes then, we are probably looking at bringing them in from two to three years hence, rather than six months to 18 months hence, when we hope the economy will be firing on all cylinders, or close to it.

Q28 **Anthony Browne:** How will we know whether we do actually need tax rises? I mean, if the economy does return to growth—we have talked about the scenario after the second world war—how will we decide that we need to start growing the tax base?

Paul Johnson: Two things will be crucial. One is the level of growth and the new equilibrium level of economic output. If the OBR is right that even in four or five years' time the economy is going to be 3% or 4% smaller than it would otherwise have been, even maintaining the state at the size we were expecting must require some higher level of tax in the long run. Of course, we do have the choice of supporting a smaller state.

The second part of the equation is whether there will be demand for even more public spending, whether that is to support the levelling-up agenda or because there is a sense that we need more money on education, health or social care in order to recover where we are and meet public demand. The two determinants of the level of tax we will need will be the combination of what we expect—of course, it will only ever be a forecast in terms of the size and growth of the economy—and the consensus that is reached about the scale of state that we want, when it comes to public spending.

Q29 **Anthony Browne:** Coming to Philip Booth on this question of timing, if we do decide we need tax rises, how and when do we move them? So far, what we have had is tax cuts to get the economy going again.

Professor Booth: Accepting the premise for the sake of argument, I am not too worried about the timing, but it does depend on the type of policy change that is made. The problems here are microeconomic rather than macroeconomic. Covid has caused a supply-side catastrophe, and if you look at the policy in West Germany after the second world war, for example, the key decisions that were made that led to sustained economic growth were macroeconomic stability on the one hand and microeconomic reform on the other—liberalising the economy and so on.

It depends what types of adjustment you are going to make. If you are going to make significant policy changes that put our tax system on a better footing, it is best to at least announce that, if not implement it, sooner rather than later, because there is going to be a very large adjustment in economic activity. We do not know exactly what form that adjustment will take—whether there will be more home working, conversion of offices into residential accommodation, a significant reduction in transport use and so on—but given how much tax distorts economic activity, it would be better to have a settled fiscal framework in which long-term economic planning could take place for what might in many ways be a new world. As I say, you do not necessarily have to implement it immediately, but the thinking and the planning should be done very quickly.

Q30 **Anthony Browne:** Coming to Gemma now, when do we decide our new fiscal framework? When do we switch from tax-cutting? If you assume we need tax rises, when do we switch to that, and how do we know that we do need to switch to it?

Dr Tetlow: I would distinguish three timing issues. We will presumably have a Budget in autumn, or at least within the next six months or so. Ordinarily, a Budget will be accompanied by new fiscal forecasts from the Office for Budget Responsibility which will show some path for tax and spending and for borrowing. If the OBR is anything like correct in its "Fiscal Sustainability Report" central scenario, that will show public finances to be in a pretty unhealthy position for the next five years in the absence of any further policy changes. Ordinarily, Chancellors have wanted to show that borrowing is on some sort of sustainable path, or is reducing from the very high levels at which it is likely to be this year. To do that, you would need to announce firm tax policies and some spending plans. This year and in the next Budget, the Government need to set out broad fiscal objectives based on the best forecast that the OBR is able to provide to them at that time, showing the "no policy change" forecast for borrowing. The Chancellor could then say, "But actually our objective is over the medium to longer term to reduce borrowing down to some level, or to stabilise debt or reduce debt over some period of time." That would set out, in a sense, the Government's space for manoeuvre. Given the set of spending plans, that would suggest a need for some overall increase in tax revenues if the OBR was right in its central scenario for July, but there would not be an attempt to immediately announce a set of tax measures to fill that gap, because the OBR central scenario for July suggests that Covid may well have knocked a hole of about £60 billion in the finances in the medium term. That is a huge number, and trying to announce a package of tax measures to fill it would be significant, and the public has not really been talked through the necessary tax rises. Trying to announce specific measures quickly runs the risk of ending up being backed into a corner of introducing the most politically feasible tax changes, which—as we have all discussed so far—are often not the most sensible economically in terms of tax changes.

I will distinguish the three steps: step one could be the chance to set out the broad fiscal objectives and the envelope of tax revenues the Chancellor is seeking to raise in future. Step two would be to announce what that package of measures looked like to try and raise tax revenues if that was where we thought we were on the basis of economic forecasts, and step three is the consideration of the point at which those tax changes are implemented. That need not be very quickly. As Paul said, when the country needs fiscal support to recover from the Covid crisis, if that continues to linger, that may be a long period of time.

Q31 **Anthony Browne:** Mike, do you agree that—I am summarising—we should not rush tax rises?

Mike Brewer: Yes, I do. Indeed, the Resolution Foundation's position is that, if anything, the Government should probably be spending more money now to support the recovery. We are very worried about the risks when the job retention scheme runs out and millions become unemployed. In his Budget, the Chancellor should be setting out the fiscal framework and telling us how he plans to restore public finances to something sustainable, but in the medium run. I agree with all the speakers that we should not expect to see tax rises happening in the next year.

There is perhaps one exception, of course, which is that one could make the case for some tax rises now to account for the great variation in how people have been affected by the Coronavirus. I am not sure that the Chancellor will do that. There is a sense of inherent unfairness in it: some people have been hit badly by the crisis and their livelihoods have been wiped out, despite the Government's support schemes. Some companies have done badly. Others have been almost unaffected or indeed done very well. Some companies have seen their revenues and profits go up in the crisis, not through any great skill of their own but just because the economy's crisis has changed the way we go about our business. I can imagine a Chancellor in some world announcing that there is a need to capture some of that windfall, or gains that people have made, as a kind of solidarity tax. I am not sure I can imagine the Chancellor doing that himself.

Other than that, I agree with all the speakers: because the economy is so uncertain at the moment and looks weak for a long period of time, the efforts to close that £60-billion gap should not be happening for a few years yet.

Anthony Browne: Excellent. Thank you very much. I am out of time.

Q32 **Siobhain McDonagh:** I want to look at some of the principles that could lay behind future tax policies. In 2011, this Committee conducted an inquiry into principles of tax policy. The principles arrived at were the need for fairness and simplicity, stability, coherence, simple administration and policy that supports growth. There are other sets of principles that tax policy could follow. What principles for good tax policy should the Committee be advocating post-Coronavirus, and what principles should take priority?

Dr Tetlow: There are some broad principles of good tax policy, and some broad economic principles, that we would all agree with. It should be efficient, it should do the least possible to distort behaviour, and as far as possible it should be simple—the sort of principles that the Committee highlighted in 2011. There are some that are slightly more problematic. The notion of fairness within the tax system is in many ways in the eye of the beholder. You might get broad agreement across the political spectrum on the notion of fairness of horizontal equity: people in identical positions should be treated the same. You would probably get broad agreement on a very simple vertical equity: if I have more money than someone else, I should probably be paying more in tax than someone else. Beyond that, the notion of fairness is quite a difficult, nebulous one. People will take different views on what is fair and what is unfair.

On one level, I think there are broad principles of what a good tax system looks like that people would agree on, but there is a limit to which those principles can be helpful as a guide to tax policy. First, they will sometimes come into conflict with one another. You may be able to design a very economically efficient tax system by targeting tax at exactly the people who are least responsive to the tax system, but that might look rather complex, and not simple, in line with some of your other principles. There will always be trade-offs between the principles that you start out with, and it will be for Governments to decide where they want to put that weight.

What would be much more helpful—this has been lacking for quite a long time with UK tax policy—is for Governments to be clear about what they are hoping to achieve with the tax system as a whole and specific tax measures. In a sense, scrutiny of tax policy tends to be quite difficult because it can be seen as very political. You can agree or disagree with a policy because you take a different stance on how much redistribution you want to achieve or what the size of the state should be.

If a Government was much clearer about its own objectives for the tax system and what it wanted specific measures to achieve, that would at least open up the opportunity for Parliament and those outside Parliament to hold the Government to account for at least achieving the objectives it has set out for itself and whether we are choosing the right tax measures and the right mix of other measures to achieve the Government’s objectives. Quite often, that is not the case. One of the challenges in evaluating tax policy, including things like tax reliefs, is that there is often no clear stated objective for any of those policies in the first place, and it is therefore very hard to say whether they even achieved the original objective.

Professor Booth: As Gemma said, the principles that you laid out are fairly straightforward and get broad agreement. They get broad agreement, though, because—as Gemma also said—the real debates then turn on what you actually mean by fairness and, for that matter, non-distortion. That is fair enough. There are disagreements between interventionist economists and politicians, and those who are less interventionist about whether the tax system should or should not distort economic behaviour. I don't think it should, but other people would like to give incentives for investment, education or whatever. People have different versions of fairness. Mine would relate to a tax system that was proportionate rather than progressive. Other people would say progressive rather than proportionate. But if you lay out those principles, at least you can then have a rational debate between politicians, economists and so on about how you apply them.

The two I would look at, where I think there is perhaps less room for debate, are simplicity and transparency. They are in conflict in many ways. We have moved to an incredibly complex tax system, and that has happened by and large for political reasons as successive Chancellors of the Exchequer have wanted to take tax decisions that essentially play to one gallery or another. Also, the more simple a tax system is, sometimes the less transparent it becomes. VAT is a pretty simple tax, but people are paying in large amounts of money in taxation without realising that they are paying it. A large body of evidence suggests that people underestimate dramatically the amount of tax that they pay. When they know how much tax they pay, they are less keen on paying as much tax as they do, so, as somebody who believes in not only a small state but also an honest state in which people understand how much tax they pay, I would put quite a lot of accent on transparency as well as on simplicity.

Paul Johnson: Simplicity is a difficult one. We live in a very complex world and a very complex economy. I think the underlying point is associated with neutrality. We will not get a simple system while we have a system that treats similar forms of income or similar activity differently, so a lot of the complexity that we get is created by the fact that we treat capital income, earned income, self-employment income, employee income, and different forms of assets and profits differently. The core of a set of principles ought to be one in which we look to treat similar economic activities in similar ways for tax purposes unless there is a very good reason not to. In terms of the governance of tax, there needs to be a much bigger hurdle that Ministers or the Chancellor need to get over before agreeing to additional non-neutralities or additional changes from a fairly straightforward system that treats similar forms of activity similarly. If you look at a lot of the complexities in the system, why do we have huge amounts of anti-avoidance legislation to stop self-employment income, and employment income looking like self-employment income or income looking like capital gains, or investment from equity looking different from investment from debt? It is because these very similar things are taxed very differently, and that is why we have all the IR35 rules and so on. So I think the fundament of both transparency and simplicity is to try and treat similar activities similarly.

The second thing I would say is that it is important in designing tax policy to look at the system as a whole rather than look at individual taxes. Again, it is partly because when you are changing one tax, it often makes a difference to the way that interacts with other taxes, which can create these opportunities for avoidance, and that can create complexity and so on. We look far too often at either one tax or indeed one little bit of one tax. What looks like a sensible change for VAT creates problems for the system as a whole.

At a higher level we also need to think about the impact of the system as a whole. Even if you want a progressive tax system overall, not every tax needs to be progressive. If you want a tax system that helps the environment overall, not every tax needs to be achieving that. If you want a tax system that is helpful for investment, not every tax can do that, but you need to look at the impact overall. Those two core principles, essentially treating similar things similarly and looking at the tax system as a whole, are areas where tax policy, at the very basic level of principles that we are talking about, has fallen down over a long period.

Mike Brewer: It is quite difficult to come up with principles to guide a tax system, mostly because the tax system is doing two big things: raising lots of revenue to pay for public services and achieving various economic, social and distributional objectives. On the first of those, when you raise money, you just want to do it in a way that causes the least distortion and damage possible, but on the second, all Governments and all Chancellors use the tax system, quite rightly, to achieve economic, social and distributional objectives. There, it is very hard to think of a set of principles that would guide the design of all taxes in all of those areas, but I like Paul's idea that we should start from neutrality and tax the same things in the same way rather than taxing similar activities differently, and that Governments should be challenged when they do not do that.

Instead of asking the Government to come up with a set of their own tax principles, I would be more interested in, first, pressing the Government on what they are trying to achieve where there are significant elements of non-neutrality and we tax similar things differently. That might be the self-employed; it might be capital gains versus income; it might be pension saving or it might be wealth versus income. I would also like to know what their strategy is for the tax system in some areas of social policy, particularly our progress towards net zero and the role they see for taxes. Rather than overall tax principles, which I think would be too vague to be helpful, I would push them on those particular areas.

Q33 **Siobhain McDonagh:** Mike, going way back, do you think that tax policymaking since 2011—or back to whenever you wish—has been principled?

Mike Brewer: I'm not sure I want to comment on that one at the moment.

Siobhain McDonagh: Oh, go on—just a bit.

Professor Booth: May I comment?

Siobhain McDonagh: Yes, of course.

Professor Booth: I think since 2011 you have just had taxation policy basically invented on the hoof—somewhat beforehand as well, under Gordon Brown, but at least Gordon Brown had a clear political agenda, regardless of whether you believed in it or not, and was quite transparent in the way he went about formulating tax policy and having wide discussion of it beforehand. If we look at stamp duty, for example, there are something like 16 different rates of stamp duty now, applying to five or six different situations, all of which have to be defined and have large numbers of pages of regulation to try to decide whether one particular property goes into one category or another. We used to just have one rate of stamp duty that applied to all properties across the board.

George Osborne's changes to the taxation of let property in particular, and the justifications for them, were just dreadful from the point of view of any kind of reasoned public finance analysis. George Osborne was a particular problem, but you have just seen successive Chancellors playing to the gallery, developing taxation policy on the hoof without really getting it to any clear underlying principles whatsoever. Sorry if that seems a bit critical of former colleagues of some Members of Parliament.

Siobhain McDonagh: Knock yourself out complaining about George, although I agree with his policies on private landlords. Paul?

Chair: Siobhain, we are a bit tight on time. Can we make this a very quick one to Paul, and then we will go to Alison?

Siobhain McDonagh: Can we do a very quick one to Paul and Gemma?

Chair: Very quickly, yes.

Siobhain McDonagh: Sorry Paul, sorry Gemma.

Paul Johnson: It is hard to discern a set of principles underlying tax policy over the past decade. There have been some consistencies, such as the reduction in rates of corporation tax and the failure to increase fuel duty—I am not sure whether that is a principle, but it is not necessarily a very good policy from the public finances point of view. I don't know where we are going on the taxation of pensions; that has changed regularly up to and including in the last Budget. If there is an agenda there, it has certainly not been set out, and it is a good example of making it very difficult for people to manage their finances going forward. This has been true forever in a way in terms of Treasury strategy on tax. In every other bit of Government you have Green Papers, White Papers and strategies coming out of your ears—probably far too many of them, because they change very regularly. We have literally never had such a thing for tax policy, and I think we are desperately in need of it.

Dr Tetlow: Broadly, I agree. I think there are rare areas where there has been strategy: the corporate tax road map in 2010, which set out a plan to lower the rate but broaden the base of corporate tax, was an area where there did seem to be a clear strategy that was followed through. In most other areas there have been small, new taxes introduced to raise revenue and we have had things like consistent increases in the personal income tax allowance but, at the same time, increasing rates of national insurance contributions on employers and employees, which does not seem like a particularly coherent set of policies; it is just more tax on earned income but raising the threshold for unearned income.

Q34 **Alison Thewliss:** We are all very clear that the UK's tax system is incredibly complicated, and tax legislation now runs to many thousands of pages. We have had an Office of Tax Simplification for 10 years, but the system seems to grow in complexity at every single Budget and every single Finance Bill with more layers added on. I want to pick up Gemma's point about a well-designed tax system raising more than a poorly designed one. Are there particular aspects that you would strip out completely and things you would change to ensure that it was less complex and poorly designed?

Dr Tetlow: Yes. I do not want to waste time rehashing all of what we have discussed previously, but there are clearly areas where the tax system currently treats very similar activities very differently. We have talked about the distinctions between employment, self-employment and company-owner management where people can be doing very similar activities but, because the legal structure or employment relationship is slightly different, they pay very different rates of tax. It is clear that that, in some cases, has influenced the way in which people undertake their activity. For some people, that can be beneficial, because they can run themselves as an owner-managed company and take money out—and they can receive an awful lot of tax relief through entrepreneurs' relief. On the flip side, there are people for whom those tax incentives play very badly. If you are someone whose employer forces you to be self-employed, you forgo many of the protections of employment. The tax system incentivises employers to try to engage people as contractors rather than employees, and that clearly has problems elsewhere.

Q35 **Alison Thewliss:** Is there a way of doing something to change those perverse incentives within the system?

Dr Tetlow: I think back to the point that Paul and Mike made about neutrality. We should start from a situation where, unless there is a very good reason for treating very similar activities differently, the tax system should treat them the same. There are not strong arguments in favour of having a lower rate of tax for people who are self-employed or company owner-managers.

Q36 **Alison Thewliss:** Philip, you said in your written evidence that the incomprehensible nature of the tax system brings taxation into disrepute and undermines the accountability of Government to taxpayers. To what extent does this tax complexity matter for the economy as a whole and to individual taxpayers?

Professor Booth: It matters for the economy as a whole for at least two reasons. One is that if you have distorting taxes, they lead people to pursue one type of economic activity rather than another type of economic activity purely on the basis of the taxation position of those different activities. It can also lead people to structure corporations and other entities in such a way that they minimise tax rather than maximise the accountability of corporations to shareholders or whatever other objectives a corporation might have.

Complexity also has significant costs, in that the electorate does not necessarily properly understand the tax system, which I think is important. We have rules that prevent the providers of goods and services from obscuring the real price of those goods and services, yet the body that produces those rules or creates the bodies that enforce them—Parliament—has a rather obscure way of raising its revenue.

There are also costs in terms of compliance and those compliance costs bear particularly heavily on small businesses because there are very significant economies of scale in complying with tax rules.

There is also the increasing professionalisation of tax. It has become much more difficult for somebody who is self-employed to fill in their tax return. There are so many oddities, such as the taxation of dividends, which as I mentioned in my evidence is not a tax which appears anywhere else in the UK tax system. It makes it extremely complicated for people to understand their tax and they then need to get professionals to advise them on that. There is a whole range of different costs which arise from complex tax systems and which affect economic growth and business currently.

Q37 **Alison Thewliss:** Could I ask Mike whether you think there particular areas of the tax system where the complexity is the most damaging to the economy?

Mike Brewer: That is a very good question. I am not sure I can think of that. I would go back to what previous speakers have said. Obviously, we all want less complexity rather than more complexity, but the question is what do we lose if we have a simpler tax system. As previous speakers have suggested, we have complexity sometimes to police boundaries between different forms of activity which treat tax differently. Sometimes we have complexity to achieve the social or economic objectives I talked about earlier. We have a lower rate of tax on income from patents to encourage companies to invest in R&D for the good of the economy, but that creates tax legislation as a result.

You referred to the Office of Tax Simplification and perhaps suggested that it had not done very much in its 10 years. I would say that is partly because, again, it is the difference between complexity for these other reasons. For example, it looked at income tax and national insurance from employers and whether those could be aligned or made simpler or whatever. Obviously, the way to achieve massive simplification there would be to merge the two together entirely. You could get rid of many thousands of lines of legislation, but that would be a major policy decision with major distributional and social implications and so may be off limits for the Office of Tax Simplification. Sorry, I realise I have completely not answered your question, but I hope they are useful thoughts anyway.

Q38 **Alison Thewliss:** Do you think the complexity of the system allows people better opportunities to perhaps hide and avoid paying taxes?

Mike Brewer: Philip was saying—we have all been saying—that the bad things about tax systems are when they unnecessarily distort activity. Where the complexity of the tax system or differences in the tax treatment of different activities are distorting people's behaviour, that is obviously a bad thing. Anything we can do to remove those opportunities would be helpful for the economy and would probably lead to a simpler tax system.

For the average employee, we have a very simple tax system. Most people have almost no interaction with HMRC during the working year, so it is not an issue for the man in the street. If complexity is an issue, it is an issue for the self-employed, for small businesses and for very large multinational corporations.

Q39 **Alison Thewliss:** Lastly, to Paul: if, following the pandemic the Government were minded to reform the tax system, how do you feel that they might do that, at the same time achieving any greater simplicity? Is it an opportunity to do something to make this a lot easier and increase revenues, if they can?

Paul Johnson: There is an opportunity there. What were the kites flown by the Treasury over the weekend? There have been two proposals for straightforward tax increases, one by reducing pension tax relief, one by increasing corporate tax. But they sort of smuggled in one to increase capital gains tax rates up to income tax rates. That would raise a bit of money, but an uncertain amount and probably not a large amount in the short run but would be a significant improvement in the structure of the tax system. If you are in the business of raising taxes and putting in big reforms in the scale of the tax system, you have an opportunity to make changes to the structure as well.

There are things that you need to do—things to reduce taxes—to improve it as well.

The current structure of stamp duty for housing is extraordinarily damaging to the housing market and the economy more generally, and that reflects the very high tax rate. There are bits of the tax system where we need to reduce taxes, but if you are going to cut stamp duty on more expensive properties, there will potentially be an opportunity to increase council tax on more expensive properties, which we know is an extremely inefficient and inequitable part of the system. It is all part of looking at things together.

None of this is easy, but if you do all these things, you will create losers, and losers do not tend to be very happy about it. However, we have seen in the past that some of these things have worked. Straightforward changes, such as the increase in VAT back in 2011 or in national insurance contributions back in 2002, went through with very little complaint while, as Gemma referred to, tiny increases in tax on pasties created all sorts of problems. It is sometimes easier to do a lot of big things at once, rather than trying to smuggle little things in, because they are the things that get all the attention.

I hope that the Treasury uses this as an opportunity, but there is no question that, if you do any of these significant changes that we have been talking about, whether changing the taxation of self-employment or capital gains or land or housing or what have you, you will come up against significant—what you might call—vested interests, or people who have their expectations damaged or who lose as a consequence of this. There is no getting around that there are political difficulties with doing all that.

Alison Thewliss: Thank you very much.

Chair: Thanks, Alison. Let us go to Felicity, please.

Q40 **Felicity Buchan:** My questions are on structural changes to the economy, and the effect that that will have on our tax base. Clearly, as a result of Coronavirus, we have seen huge changes—a huge decrease in footfall on the high street, much more working from home. Let me start with Philip, who already referred to that. Do you see these changes as permanent, and what effect do you think this will have on spending and on our tax base?

Professor Booth: Okay, well, as a broadly free market economist, I am loth to make predictions about these types of things; if I thought I could, I would be a central planner, if you see what I mean. The important thing, so far as the tax system is concerned, is to be neutral between different forms of economic activity, so far as we can be, and to not in any way inhibit the readjustment of the economy to new ways of working.

It is quite likely that there will be significant reductions in air travel, and possibly even travel by train and other forms of commuter travel. It is very likely that there will be a reduction in office space use, and highly likely that what has happened in the last few months will lead to a reduction in the use of retail space and might possibly lead to significant changes in higher education over the next three or four years. Exactly what shape those changes will take, it is really not possible to predict, so we should have a tax system and regulatory system that facilitates the necessary changes that people want to make to how they live. Some of those changes will be people's constrained reactions to the Coronavirus, in order to make the cost to them of Coronavirus as low as possible, but some, as we have seen after past pandemics, going right back to the plague of Justinian, will actually be the pandemic being the trigger to promote innovation and change that would probably have happened in any case but over a much longer timescale.

As I say, tax neutrality, simplicity, but also ensuring that we have low levels of regulation, to allow the economy to adapt to new ways of living and working, is what I would suggest, rather than picking winners and saying that everybody has to work at home and so we need a new tax system to facilitate that. There almost certainly needs to be reconsideration of a number of public sector infrastructure projects, because patterns of demand may well change. We might as well chuck in HS2 to the mix there because it is an obvious one to reconsider, given that it was a pretty bad decision to go ahead with it in the first place, and it certainly does not look any better today.

Q41 **Felicity Buchan:** I take your point entirely on tax neutrality, but how can we be nimble on tax and be forward looking, as opposed to just being reactive?

Professor Booth: Some of the things that have been mentioned earlier, I think. To have clearly set out principles, which could come in the form of a Green Paper or White Paper. The whole structure in which tax is determined within Parliament does not facilitate that approach, because the Chancellor of the Exchequer essentially has the power to do almost everything through a Finance Act that does not get the same consideration in Parliament as other Acts. Perhaps tax policy should be set out in a Green Paper or White Paper and have wide discussion, and move to a situation where fundamental changes in taxation policy—as opposed to simply changes in rates—get fully discussed in both Houses of Parliament, rather than simply announced on a particular day of the year when all the press is watching. That might be a process that will lead to better tax policy. It may take longer in the short run, if you see what I mean, but it will provide a basis upon which you then will have sounder tax policy going forward and fewer arbitrary changes to tax policy.

Q42 **Felicity Buchan:** Let me ask my next question to Paul, please. We have also seen longer structural trends in the economy. For instance, I am thinking about the move towards net zero, which will lead to fuel duty tax take going down. What do you think we should be doing proactively to address those longer-term trends in the economy?

Paul Johnson: Net zero is less a trend in the economy and more a policy choice. Clearly, for that example, we need to get the overall strategy right. Tax has a really important role there, but so will public spending regulation and a series of other Government measures. The really important thing there is to have a very clear road map for getting there and to be clear about what role tax will play relative to other instruments. You mentioned fuel duty in that context. Clearly, it seems to me that we need to move toward some—at a minimum—measure of charging for miles driven if we move to electric vehicles, partly to replace revenue but partly to reflect the externalities created by driving, which are largely about congestion rather than emissions. We have got an opportunity to start doing that now. In 10 years' time, when we are supposed to be having largely fully electric new cars, it is too late, because at that point you cannot move from petrol taxation to road charging. You have lost the petrol tax and you are introducing a new tax, which looks like a big tax rise. That is the sort of thing where you need to be moving ahead of the curve and beginning to move now. There is a whole series of other issues around the taxation of cars and the role of vehicle excise duty, which the Treasury is currently consulting on. If you are trying to encourage people to use lower emitting cars, the case for an up-front tax, which is higher for higher emitting cars, is certainly there. That relates also to the way in which we tax company cars. There is a whole range of issues within each of the specific areas.

Another long-running trend, which is more of an economic trend and which is in a different area altogether that looks likely to have been exacerbated by the Covid crisis, is the role of the high street and potentially the decline of the role of high street shopping relative to online shopping. There has been lots of talk about supporting—this is where there is a big choice for Government—the high street by cutting business rates or imposing an additional tax on online shopping. I think you need to be very clear why you want to do that. If people prefer online shopping, if that is the more efficient way of doing it, then is the correct response to try and preserve the high street in aspic at potentially high cost, both to the public finances and people's welfare?

If it is, why is that so and what do you want to achieve from it? Or do you want to allow that change to happen? It will need planning. We do not want high streets that are simply boarded up, but nor should we expect to have the same high streets in 20 years' time that we have today, unless we are going to be paying very large amounts of money to achieve that. Those are two very different kinds of long-run trends in the economy. The key thing here is that we need to be very clear about what we want to achieve, why we want to achieve it, and what role tax has in that relative to all the other things that Government can do.

Q43 **Felicity Buchan:** Thank you. Let me ask Gemma my next question. London has clearly been the driver of taxes in the past, but clearly London is suffering very badly as a result of Coronavirus. Should we be concerned about London's slow recovery?

Dr Tetlow: I think yes and no. The businesses in London clearly generate a significant share of tax revenues in the UK. To some extent, some of the tax-richest parts of the London economy, including things such as the financial services sector, have not been so affected by the Coronavirus crisis. Those are some of the sectors of the economy that have been able to keep going by working from home and that have not been so hard hit. Therefore, the revenues from that part of the economy may not be so affected. There is an as yet unresolved and hard-to-predict question about whether the structure of the London economy returns to being exactly what it was before, or whether some of the home working continues indefinitely, in which case we would be left with a situation whereby we may not any longer have a great lump of people working in the City of London and generating all our economic activity. It may be more dispersed across the country, which obviously raises questions about where people work, the infrastructure they need and that sort of thing.

The bit of the London economy that has been worse hit are the services—the restaurants, the shops and the theatres—which require people to be in London to operate. They are clearly facing a much more difficult time, and the future for them looks much more uncertain if the office population of London does not return to its desks in the way that it did before. On that question, it is uncertain quite how long that will last. We are obviously still in a position where there is a significant risk of Coronavirus. It has not gone away, which therefore has an impact, particularly on London, where a lot of people rely on public transport to get to work.

In the longer term, I would echo what Paul just said about the high street. There is a question for Government about whether it wants to, and for what reason it would want to, try to resurrect the London economy in the form that it was in before. Or do we instead want to facilitate a restructuring of the economy and reallocate people who once worked in some of the service industries within London to other jobs that have more of a permanent future? We cannot indefinitely, I would imagine, support all those businesses to keep going in the form they were before, if in fact demand does not return for them in the same way. But if London is suffering in some of those ways, or if people do not return to offices in London, it could be a benefit for other parts of the country, breaking that huge agglomeration benefit that London has had in the past, whereby people felt the need to be in offices in central London, paying very high rents for that office space rather than working more remotely.

Q44 **Felicity Buchan:** Thank you. I am out of time but, Mike, just a very brief 30-second question, if I may. We have clearly seen the introduction this year of a new tax: the digital sales tax. Do you think it is viable to introduce these taxes on our own, or do you think we have to take a multilateral approach?

Mike Brewer: That is an incredibly difficult question. It is a multilateral question, without doubt, to be able to think about not just our soon-to-be-former partners in the EU, but partners elsewhere in the world. Remember that the need for such a tax is not just to protect the high street—whatever that means—it is also because the way the tax system is structured allows some large technology companies to pay very little tax in the UK. It is the way they structure their operations, in some cases, in ways that do not bear a resemblance to what actually happens. It is not just about protecting the high street; it is also about shoring up the tax system in the light of globalisation and the ease of moving capital around.

Q45 **Rushanara Ali:** Good morning, everyone. My questions are about equality in the distribution of the tax burden. As we all know, the past 10 years have seen largely a wage freeze, with some inflationary pressures then putting further pressure on income growth since 2016, and we know that the UK has one of the highest rates of income inequality in the OECD, while the extent to which it redistributes income is roughly average. Starting with Professor Booth, what do you think the scope is for reducing income inequality through the tax system, and how do you think that could be done without doing damage to economic growth?

Professor Booth: It is your second question that poses the difficulty, because the extent to which you can reduce income inequality through the tax system is almost total. To be slightly facetious, you could have a total equality of misery if you raised all taxes to incredibly high levels and reduced economic activity.

Rushanara Ali: Don't be facetious, Professor Booth—*[Inaudible.]*

Professor Booth: I am trying to make that point about the first question to illustrate how important the second aspect of the question is. Reducing inequality significantly while at the same time reducing the incomes of the less well-off would not be a sensible policy.

I would prefer to try to increase the real incomes of the less well-off by means other than through the tax system, because of the damage that tax can do to economic growth. There is one very easy win there, which is liberalising the land use planning system—the Government have proposed some steps in that area; we will see how they get on with that—in order to reduce house prices, and hence rents, to the kinds of levels that existed historically in the UK before the 2000s and also exist in other countries in the western world. If you look at the increase in incomes of the bottom decile before housing costs, that increase in incomes is about half of the increase after housing costs, because of the huge impact of housing costs on that group of people in particular. You could probably increase the net real incomes—the disposable incomes—of the least well-off by 25% or more if we had a housing market that functioned properly.

There are other areas of product market liberalisation that would disproportionately benefit the poor: an obvious one is in relation to food policy. I did not vote for Brexit, but one of the advantages of being outside of the European Union is that we can remove tariffs on all food imports and other things that, again, the poor spend a disproportionately large amount of money on. Given the damage that can be done to economic growth through taxation, including the damage that can be done to the least well-off, and given the already very high proportion of tax that the better-off already pay, especially income tax—I think Paul once described the UK's tax base as "dangerously narrow"—the main focus on trying to reduce inequality should be through other measures. There is one obvious measure that is easily available to benefit everybody, but the poor disproportionately.

Q46 **Rushanara Ali:** Thank you so much. Can others quickly pick up on other ideas on this?

Mike Brewer: First of all, as a matter of record, most of the redistribution in the UK is done through social security benefits and tax credits, rather than through the tax system—income tax and national insurance. The actual effect of the tax system alone on income inequality is fairly small in the UK, as it is in most countries.

However, there is a very strong role for the tax system in affecting inequality at the very top, where we know the amount of income certain people are receiving and declaring depends quite considerably on the tax system.

We have seen proposals from economists all over the world to charge much higher rates of income tax on very, very high incomes—we are talking about people in the top 0.1% or 0.5%, so not at all a wide tax base—and proposals for wealth taxes. Again, those are not widespread wealth taxes, but taxes on very, very high rates of wealth. It has been shown that high rates of income tax on the very, very well off do not seem to be related to growth rates in the economy at all, but they are related to the share of top incomes—in other words, how much income that the economy generates goes to those at the top. The tax system has a fairly low impact on inequality overall, but has a really large role to play when we think about those at the very, very top of the distribution.

Q47 **Rushanara Ali:** Thank you. Gemma Tetlow?

Dr Tetlow: I don't think I have anything to add on that.

Q48 **Rushanara Ali:** Paul, did you want to add anything on that?

Paul Johnson: I would agree with most of what Mike said. It is important to be clear about the inequality of what we are looking at. There is probably not much that you would want to do on taxes to reduce inequality among the bottom 99% or 99.5%, in terms of income; for the top 0.5%, perhaps. If you are looking at wealth inequality or inequality between generations, there probably is at least a limited amount additionally that the tax system could do. I do not want to overstate what is possible through the tax system, but we need to think about inequality more broadly than of earnings. We spend too much time thinking about earnings and not enough time thinking about other things.

Q49 **Rushanara Ali:** I was going to come on to that, but could you address that and say what else could be done if we were looking at broader forms of inequality—wealth, as well as income inequality?

Paul Johnson: Again, there are elements of the current tax system that allow people to drive a bit of a coach and horses through efforts to tax wealth or forms of wealth. We have talked about council tax already, which is absurdly generous to people towards the top. Capital gains tax is at a low rate with high allowances, and is forgiven at death, and there are all sorts of ways of avoiding inheritance tax.

There are barriers to changing some of those things, in terms of actually getting people—particularly those who really do have large amounts of wealth—to pay, and I don't think we should underestimate those. Lawyers working in this area tend to be fairly confident that pretty much whatever you choose to try to do there will be ways around it. Although I think there is plenty to explore there, one should have at least some scepticism about how much one can achieve. Frankly, you should probably spend more time with lawyers than with economists if you actually want to achieve that.

Q50 **Rushanara Ali:** One final question. Could any of you see the prospect of us tackling the fiscal legacy of Coronavirus and the long-term public spending pressures while raising taxes only for those earning the highest incomes, and potentially other forms of taxation to do with wealth, rather than taxing middle and low-income earners, or is that going to be impossible? Who would like to pick up on that?

Paul Johnson: I don't think that is possible. You certainly can't get the sheer quantity of money that one is likely to be looking at—1%, or maybe 2% or 3%, of national income every year—through wealth taxes, and I don't think you can get it from the very top. Other countries tend to have higher levels of tax on middle earners and high middle earners too. You can get more from the wealthiest and the highest income, but I don't think you can get anything like the quantities that are likely to be needed over the next decade.

Q51 **Rushanara Ali:** Mike had his hand up, and then Philip.

Mike Brewer: I was going to say the same thing. There is no way that we can raise that amount of money from such a small number of people. I say that despite working at Resolution Foundation, which, like you, has pointed to the higher rates of income inequality in the UK and the very weak growth in living standards for those at the bottom. We would like to see fiscal consolidation done in a way that does not make things worse for low and middle-income households, but we recognise that that is not possible, so we are going to need some broad-base tax rises to get us out of the situation that we are in.

Professor Booth: Few wealth taxes have stood the test of time. and in fact, in the UK, for all the problems we might have with inequality or lack of opportunity at the bottom end of the income scale, we do actually have much lower levels of wealth inequality than in most other northern European countries—Holland in particular, but also Germany and Scandinavian countries. So I think a wealth tax is a totally inappropriate place to start.

Q52 **Rushanara Ali:** Could we do more to deal with tax evasion and tax avoidance? I know lots of steps, by successive Governments, have been made.

Professor Booth: The Government now regards the tax gap as pretty small, in terms of formal avoidance and evasion, but there are areas which we discussed before, such as having a more rational and logical tax on property—whether it be a user services tax, or some other form of tax—which would almost certainly lead to those in larger, more valuable properties, including, I should say, overseas owners of property, paying more tax than they currently do, including, also, on unoccupied property. So I think a wealth tax would be just another arbitrary addition to the tax system; but there are other things that we can do which might have similar distributional effects as a wealth tax, and actually make the tax system slightly cleaner and more neutral than it currently is.

The IFS was actually formed in 1965 partly as a result of reaction to capital gains tax being introduced. Paul has mentioned the equalisation of capital gains tax rates a couple of times. It is true, when income is hidden somehow as capital gains, that the right thing to do, technically, would be to tax it at the same rates of tax as you tax income, but a lot of capital gains actually arise from the anticipation of future income, or from the retention of past income within corporations, which lead to increasing share prices, and so on. Capital gains tax in those circumstances can be a double tax, so I would prefer the Treasury to redouble efforts, if you like, to ensure that income which was hidden as capital gains was really taxed as income rather than seeing an increase in capital gains tax to income tax rates. I think you might also find that the tax take is quite elastic to changes in the rates, as well.

Rushanara Ali: Thank you. I am out of time.

Chair: Thanks, Rushanara. Going finally to Harriett, please.

Q53 **Harriett Baldwin:** I think we all come into this inquiry with our priors, and mine is that tax is money taken off the individual by the state in order to spend it on public goods, under threat of imprisonment; and I think, therefore, that it should be tilted towards taxing bad things rather than profitable or economically productive things. But putting prejudices aside, I wanted to start by asking Paul to build on Rushanara's question about the tax gap. Has the Coronavirus crisis made any impact in terms of the tax gap? I am thinking about the change in behaviour to using less cash; the change in behaviour that may come about when people see the value of being on PAYE, for example. Do you anticipate that the tax gap will shift significantly as a result of the Coronavirus crisis?

Paul Johnson: Goodness, I hadn't thought about it in those terms, I have to say. When one thinks about the tax gap, there is some underpayment by small business and the self-employed. To the extent that they have been particularly suffering, they may have less income for tax. They may also be less willing to pay what they do in tax. It may be that, because there has been such a large role that the state has played in supporting individuals and businesses, there may be—I am speculating wildly here—a greater sense of social solidarity and therefore a greater willingness to pay tax in the future. It may be that as people have seen the extent to which they are exposed to the kind of shock we have just had that people will see the value of employment contracts as opposed to being self-employed. That may—I am using "may" a lot here—result in more people being paid through PAYE, which would reduce the tax gap and increase average tax rates. I am not convinced that the crisis in itself is likely to have a big impact on measured tax gaps.

Q54 **Harriett Baldwin:** Thanks Paul. Have any other panellists done specific work on Coronavirus and the tax gap, to add to that answer? I see that people are shaking their heads. I will move on to Mike. From an economic point of view, given that the spending on the Coronavirus crisis was a one-off shock, is it better for the economy to have a one-off hit in terms of windfall taxes or would it be better to re-pay the extra Coronavirus spending over a very long period of time?

Mike Brewer: Thank you. It is definitely not a one-off activity. We spoke earlier about the £60 billion gap in the structural current deficit. That is just the gap between the tax revenue and what the Government are spending on day-to-day public services. That mostly comes about because the economy will shrink as a result of Coronavirus. Therefore, we have to decide what to do about that: will we have worse public services, or will we increase tax rates?

Over and above that, we need to decide what to do about all that we are borrowing right now to pay for the Coronavirus—the increased debt. There is absolutely no need to do anything about that in the short run. There is a question about what should happen to debt levels in the long run. The OBR has suggested that it might be good to get debt levels to stabilise in five years' time and then come down again. I tend to agree with that, not because high debt causes a brake on growth, but because it is good to have space for fiscal policy to respond to the next crisis that comes about.

We want to avoid the ratchet effect, where every time there is a crisis, debt shoots up, it stabilises and then it shoots up again. It is particularly important to avoid that in a world of low interest rates where the Bank of England cannot do very much to stimulate the economy. That would tend to make me think that we need debt not only to stop rising but to start falling. That still means it will be a multi-decade approach to reducing it. I will not advocate getting debt-to-GDP back to where it was last year. I am simply advocating that it should not remain as high as it will be in a couple of years' time.

Q55 **Harriett Baldwin:** Do any of the other panellists have a view on whether it is better to have a one-off windfall approach to this crisis or to structurally raise taxes, which is effectively what people are saying?

Dr Tetlow: Briefly, I agree with what Mike said. We need to distinguish between the one-off very big increase in public spending this year and most of what we have actually been talking about in this session, which is the longer-term gap between spending needs and tax revenue, and more about why we need to raise taxes on an annual basis.

My only thing to add on the question of a windfall tax is that there is always a danger that you say it will be a one-off windfall tax, but taxpayers think that you might come back and hit them again with that. That can have longer-term impacts on economic behaviour, even though you do not want it to, and you only want it to be one-off.

Q56 **Harriett Baldwin:** Given that the public health evidence seems to be that the crisis was worse here because of obesity and some of the clean-air issues that we have in parts of this country, and given my prior point about taxing bad things being a better approach, is there a case to be made for increasing taxes on sugar, fats and things that pollute the atmosphere? Does anyone have a view on how much scope there is for taxing those sorts of bad things?

Paul Johnson: The answer is that yes, there is some scope for that, but it is very easy to overstate the scope. We know that the fizzy drinks levy has had a pretty significant effect on the amount of sugar consumed through fizzy drinks. That was the easiest thing to do, though, of all the taxes that could be put on food. If you go much further, it starts to get quite tricky: are you persuading people to eat food that has some nutritional value—we know that fizzy drinks have no nutritional value—and how are you changing people's behaviour in other dimensions?

The issues around obesity, in particular, are clearly to do with far more than price. If you are going to use tax instruments, you need to be doing all sorts of other things alongside those tax instruments. If you are thinking about dirty air—a lot of that is of course to do with driving vehicles—we are moving towards electric vehicles over time. Clearly, the 10 years of reductions in fuel duty have not helped in that direction and, in particular, the relatively low duty still on diesel is not helping in that direction, though again, even greater understanding of that and other changes in regulation are beginning to have an effect. So yes, I think tax can play a role. It is only ever going to be a supporting role in some of those areas and absolutely, it will not ever raise very substantial amounts of money.

Q57 **Harriett Baldwin:** Have any of the other panellists done any particular work on those sorts of taxes that they want to refer to?

Professor Booth: I should say that I think we have a long way to go before we know what the public health evidence suggests is the cause of the higher rate of excess deaths here than in other countries. On the issue of congestion, road pricing and so on, it was proposed as long ago as 1964—when I was born, actually—that we should introduce a system of road pricing whereby cars were charged according to the amount of congestion and so on. Successive Governments, except with the congestion charge in central London, have ignored what is an overwhelming view of economists in that regard. If you had such a system, it would be a much neater, more effective way of dealing with questions such as emissions, congestion, carbon emissions and so on than fuel duty, which is a relatively arbitrary tax. Again, this is another area where Government has kind of rejected sound economic policy for electoral reasons. Of course, politicians do have to get re-elected, but in an era of significant change in terms of both the type of motor vehicles that we drive and our patterns of work, it would be a good time to reconsider how we actually tax motoring and charge for car use and congestion.

Q58 **Harriett Baldwin:** Given the time, I am going to have a quickfire round. We know that the Treasury is looking at business rates, that the Office of Tax Simplification is looking at capital gains tax, and that there is a range of different reliefs on taxation. If you had to pick three things that you would change as a result of this crisis, which three would be at the top of your list? Let us start with Gemma.

Dr Tetlow: I will pick some things that we have already talked about a bit. I think that we should look at the different tax treatment for different forms of work—employment, self-employment and company owner-management—particularly that wedge in national insurance contributions between employment and self-employment.

Paul is right that switching from fuel duty to road pricing is something that would be beneficial to address both the externalities of congestion and the gap in public finances that would come about as fuel duties finish. From a political economy perspective, it is much easier to do that when you can get rid of fuel duty while introducing a road price charge, rather than doing it once you have already lost all the revenues from that.

Because I do not have to get elected as a politician, I think looking at broadening the base of that would be a good thing to do. Other countries manage to do it, but clearly, it is a very difficult thing to do.

Q59 **Harriett Baldwin:** Thanks, Gemma. Mike, your top three?

Mike Brewer: We must look at the tax treatment of the self-employed. In fact, none of us has mentioned that the Chancellor himself flagged this back in March when he announced the self-employment income support scheme. We really have to look at not just how we tax the self-employed, but also what they can expect to receive from the welfare state. Clearly, a marker has been put down there. For reasons of intergenerational fairness, we need to look at the tax treatment of pensions. I agree that the Government's strategy has not been clear on that. As Paul has said, there has been a lot of tinkering, but a clear strategy would help and there is more to be done. Then I would look at capital gains and the way that it is very easy to hide forms of income as capital gains, which are taxed at low rates.

Professor Booth: I would replace all existing property taxes with a tax on user services on owner-occupied and other property and rents, or a tax on imputed income as it is sometimes known. That proposal came out of the IFS study, "Tax by Design", which has very strong support from economists. I would severely limit the tax-free lump sum that it is possible to receive from pensions, which would allow a lot of pensions tax simplification instead of the route that the Government seem to be proposing, which is to allow tax relief only at the basic rate, which I think would cause a degree of chaos, and I would extend the VAT base to at least include domestic fuel and transport.

Paul Johnson: There is a lot of agreement here. I agree with what my colleagues have said. Similar to what Philip just said, I would get rid of or substantially reduce stamp duty on housing and make council tax proportional to the value of the property. If we are looking at straightforward ways for the Chancellor to raise significant amounts of money, and this is not a reform, I would freeze the personal tax allowance and potentially put a couple of pence on the basic rate of tax. If you want a straightforward way of raising a lot of money, given our current structure, that is not a bad way of doing it. Certainly on everything that has been said on capital gains, self-employment, housing and VAT, I would agree with all of that.

Harriett Baldwin: Thank you.

Chair: Thanks very much. That brings us to the end of this session. I warmly thank all four of our panellists for your excellent contributions this morning. You have given us a wide-ranging overview of the tax terrain that the Chancellor or the Government will have to look at very carefully and take some very hard decisions. That last rapid-fire round illustrated that there are often quite strong economic reasons for doing things, but huge political challenges unfortunately tend to accompany them. But that is what this Committee will grapple with over the coming weeks and months, and we thank you very much indeed for illuminating a number of the issues that we have touched on today. That brings us to the end of the session.

[*There are no questions 60 to 70. Questions at the next session in this inquiry, on 15 September 2020, begin with Q 71.*]