

# Treasury Committee

## Oral evidence: [Tax after coronavirus](#), HC 664

Tuesday 15 September 2020

Ordered by the House of Commons to be published on 15 September 2020.

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

Questions 71 - 142

### Witnesses

**I:** John Cullinane, Tax Policy Director, Chartered Institute of Taxation; Charlotte Barbour, Director of Taxation, Institute of Chartered Accountants of Scotland; and Anita Monteith, Senior Policy Adviser, Institute of Chartered Accountants in England and Wales.



## Examination of Witnesses

Witnesses: John Cullinane, Charlotte Barbour and Anita Monteith.

Q71 **Chair:** Good morning and welcome to the Treasury Select Committee evidence session on tax and the coronavirus. I welcome our panel of tax experts to the Committee and ask them to very briefly introduce themselves.

**John Cullinane:** My name is John Cullinane and I am tax policy director at the Chartered Institute of Taxation.

**Charlotte Barbour:** Good morning. I am Charlotte Barbour and I am director of tax at the Institute of Chartered Accountants of Scotland.

**Anita Monteith:** Hello. I am Anita Monteith and I look after tax policy for the Institute of Chartered Accountants in England and Wales.

Q72 **Chair:** A very warm welcome to all of you. Thank you for giving us your time this morning. You will be asked questions by various members of the Committee, and members of the Committee will generally direct their question at a specific individual or more than one person. If you are not included in a particular question and you really want to get in on it, please raise your hand. I will endeavour to bring you in at that point.

I am going to start with the first question. Tax has become rather centre stage, given that we have the virus and we all know that we are going to have to raise quite a lot of money to start to pay down that deficit. Many feel this is an opportunity for tax reform. I wondered if each member of the panel, perhaps starting with John, could provide us with two brief examples of taxes that are ready for and need reform, and whether that reform might be possible in the context of raising more money through tax.

**John Cullinane:** There are probably examples in all the taxes. The problem of complexity runs across pretty much the whole tax system. We gave a couple of examples in our evidence. These are not firm recommendations; these are talking points really, because the issues are wide-ranging political and economic ones. If you look at VAT, the whole area of exemptions, zero ratings and reduced ratings costs a great deal of money and, at the same time, is a source of complexity, compliance issues in the system and ongoing disputes.

Q73 **Chair:** Things like food and travel, which are some of the biggest exemptions, are probably going to be politically undeliverable. What areas, within the expanded scope of VAT, might be more politically deliverable and raise reasonable amounts of money?

**John Cullinane:** With respect, by saying they are politically undeliverable, you kind of illustrate the difficulties with any proposals for simplification. We should look at the evidence and see whether those exemptions and zero ratings are justified, or whether their objectives could be met in a simpler and cheaper way. There are certainly large



numbers of exemptions, not on as big a scale as food, but there is children's clothing, as it is often called—which in reality means smaller clothes—financial services and many others.

Another area possibly, which we mentioned, was pensions, where moving from giving relief up front to giving relief on drawing down the pension would offer a way of getting rid of some of the complexities of the current system and, for a lengthy period, saving a great deal of money. There are other examples, too.

**Anita Monteith:** I am very, very keen on digitalisation. As you know, I have been heavily involved with MTD and I think making tax digital gives us a number of opportunities to do big things for the tax system. First, on VAT, I agree with John. We need simplification, but I would go further and suggest that we examine the whole principle of exemption. If we were to do away with exemption and make more use of different rates of VAT, we could get rid of partial exemption, which causes a huge hindrance to the smooth running of MTD for VAT. It would need consultation and a lot of thought, but there is an opportunity there.

On the same lines, if we are going to be really radical, I feel that everything at the moment is so unknown and so different that we have some huge opportunities to make big changes in the tax system. For income tax, we have an anachronism in the end of our tax year being 5 April. It is something that nobody understands. In fact, I do know why it is, but it does not sit neatly with a modern digitalised tax system and quarterly reporting. I know it would be hugely difficult but it is possible to do and, indeed, they did it in Ireland back in 2002. We have made huge changes to our tax system in times of crisis. I remember the mid-1990s, when we moved away from preceding-year basis and introduced self-assessment. That was a big, big change, and it caused a lot of work and upheaval, but I think everybody would agree that it was worth it.

If I may just say one other thing, we have to address fast broadband. We need to have a UK infrastructure that is ready for digitalisation. As many of us are working from home now, we are discovering the shortfalls in our own broadband. I am only four miles from Westminster at home here, and I do not have fast cable.

Q74 **Chair:** Your point is taken on broadband. Can I go back to your MTD observation? As I understand it, you are suggesting that, if we dispense with some of the VAT exemptions, it would make MTD for VAT simpler, but you are equally suggesting that different rates of VAT are introduced. There are some already, of course. Would that not be equally complicated but in a slightly different way?

**Anita Monteith:** It could be dealt with much more easily through IT. The problem with the partial exemption calculation is that, for many businesses that have both exempt supplies—sales—and standard-rated or rated supplies, they are not allowed to recover all their input tax. To have an end-to-end digital system, they need to apply whatever their partial



## HOUSE OF COMMONS

exemption formula is to their recoverable VAT, which means usually looking to some other variable such as warehousing space or numbers of staff that you use on different types of activity.

Those things mean you have to leave your digital world to do a back-of-an-envelope calculation, metaphorically. It hinders the end-to-end process, and I think it always would hinder it. I think we are a long way off being able to digitalise tables and chairs, and numbers of those that you are using wherever.

**Charlotte Barbour:** Maybe I should start with VAT, because we have discussed that to a certain extent already and in our written evidence. We would advocate being cautious, not about the need for long-term reform because there is a lot you could do with VAT and it probably needs simplifying. The OTS has done some useful work on that. Longer term, we would like to see reform. The exemptions are very clunky and make for a lot of difficulties. The rates are very disparate and it may be that you could widen the base and pay for that by reducing the rates, perhaps, as a thought.

Where we are cautious is that, up until now, any time there has ever been any mention of doing anything with VAT, people have said, "No, you cannot do that because it is European and you cannot touch it." Post-Brexit, there is going to be a huge clamour with everybody wanting everything done to VAT. It is a tax that raises an awful lot of money, so you need to be cautious that you are not going to lose a huge amount.

VAT is quite a tricky tax. It is the most litigated tax and, because you are taxing transactions and you have to define those different transactions, changing VAT is a bit like a game of spillikins. If you pull one bit out, you have to be pretty careful that the whole lot does not just go poof or be high living.

The other thing that we may need to factor into looking at VAT is that, at the moment, there are proposals to have VAT assigned to Scotland. Who knows whether it might be assigned elsewhere in the devolved jurisdictions? As long as we are part of Europe, you cannot do anything but something like an assignment model, but there is scope to do other things with VAT post-Brexit. Again, one would want to be cautious with that because, if you had different VAT regimes around the country, you would bring in new burdens for business. On VAT, yes, I agree in principle.

Q75 **Chair:** That is a very interesting point. There is, as we all know, scope, and indeed it has been exercised by the Scottish Government, to vary some income tax rates. Has that introduced quite a lot of complexity and problems in and of itself, or has it not caused too many distortions, et cetera?

**Charlotte Barbour:** If you have a system where your taxes are partially devolved with income tax, so your rates are different, there are complexities. We have five income tax rates and it is slotting into a three-



rate system in the UK. Because it is partially devolved and you are using a UK tax base and UK legislation, everything has to slot in. At a micro level, there can be clunky bits around tax relief, say, at 20%, when we have rates of 19%, 20% and 21%, for instance. But it is doable. It is not that difficult.

Q76 **Chair:** Overall, the current arrangements work.

**Charlotte Barbour:** Yes. Obviously it is another layer, and that can be seen as a complexity.

Q77 **Ms Eagle:** Could I ask about something that has come up already, which is the complexity of the tax code? To what extent is this an inevitable issue, because we are a long-established democracy that has had a lot of time to do different things with taxes? What are the risks and benefits from trying to get a simplification going?

**John Cullinane:** Crudely, measured by the length of the code, we are one of the longest systems in the world. Although we are several hundred years old as a democracy, income tax has only been going for 200 of those years and corporation tax since the 1960s. Many other taxes are of quite recent provenance. I do not think you can explain it just by the length of time we have been going as a democracy.

It does matter to people. It matters in various ways. You can look at something like the child benefit high-income charge, which introduced complexity into that area. It is quite common that the complexity bears most acutely when people have life-changing events such as childbirth, divorce, retirement or various things of that nature. First, it makes the forms longer to fill in, the self-assessment tax return and the child benefit claim. Secondly, it leads to confusion because a number of people feel, "Well, what is the point of claiming child benefit if it is going to be clawed back in tax?" and they then lose, potentially, their pension entitlement as a result. That has now become a public issue. The Government have responded and tried to explain that on the forms, which makes them even longer—rightly so, in the circumstances.

Q78 **Ms Eagle:** Is some of this about the interface between the social security system and the tax system, rather than a function of the tax code itself?

**John Cullinane:** In that case, yes. There are many other examples of that particularly affecting low-income people, for example interactions between tax and universal credit, or child tax credits previously. There are particularly fierce problems affecting low-income people, but there are examples across the whole tax system of taxes interacting with each other. We touched on devolution. For an unincorporated business in Scotland, the business owner will be paying income tax under rates set entirely in Scotland but national insurance will be set in the UK. If they incorporate that business, you are thinking about corporation tax and income tax on dividends, all of which are at the UK level. You can have a mess entirely within the tax system.



## HOUSE OF COMMONS

Q79 **Ms Eagle:** Anita, is there a trade-off between fairness and complexity? You have talked about the fact that, now we have come out of Europe, we can remake some of these taxes without some of the constraints that we all operated under being in the European Union. Do you think it is possible to do that and simplify without compromising fairness?

**Anita Monteith:** Fairness and simplicity have always challenged one another. For example, going back to John's suggestion of the high-income child benefit charge, when that was first introduced, people were bending over backwards to still be fair by giving child benefit to, generally, the mother or whoever was looking after the children, while also trying to means test it by the back door. That led to great unfairness, because you ended up with somebody else having to pay the money back through the tax system. That was unfair.

We are also in danger of creating problems with the new capital gains tax charge on your residence property. The capital gains tax now has to be paid on the sale of something, perhaps a property you had let out, within 30 days of the sale. I very much doubt that the general public would know about that. I am not aware that estate agents or conveyancing lawyers are telling people, when they first put their properties on the market to sell. The likelihood is that, if the property is tenanted, they will have tax to pay. Are they ready? Do they know that they are going to have to pay cash quite quickly?

Q80 **Ms Eagle:** This is arguing for a very radical simplification, isn't it? How could you migrate from a very complex system to a simpler system without having massive losses, which, as our Chair said, is sometimes politically undeliverable?

**Anita Monteith:** I do not think we will necessarily suffer great losses from it. It is more a question of making sure our IT systems are sufficiently joined up and doing the job they have been designed for, to make it easy for people to pay tax. On capital gains tax, perhaps an alert could be built into the conveyancing system somewhere, just so people know that they are going to have to pay this.

Q81 **Ms Eagle:** Increasingly, there is lots of software that allows you to do your own tax returns. That is becoming more and more popular. In fact, of the jobs that are likely to be automated when you look at future analysis of where we ought to be going, accountants suffer rather badly from having no future at all because they are likely to be taken over by this software. Do you worry about that at night?

**Anita Monteith:** No, not at all. It is going to be three hearty cheers from the accountancy profession when all the drudgery is finally properly computerised and we do not have to do those bits. Then we can do what we have actually trained to do. I agree with you.

Q82 **Ms Eagle:** So you feel very much that, as an accountant, you are drowning in sludge in the tax system and you would like to do higher, nobler things?



**Anita Monteith:** Well, yes, and you could help a lot more people as well. I know that sounds a bit goody-goody, but you do not want to be spending your life doing pointless, repetitive tasks when you have been trained to apply your knowledge to apply the law properly. Going back to the high-income child benefit charge, it is almost impossible ever to imagine that that could be streamlined by software because of the stupidity of the design of the tax.

Q83 **Ms Eagle:** You do not think that computers understand stupidity?

**Anita Monteith:** What they do not understand is people living together. You happen to have moved in with your boyfriend along with your existing family. You have a couple of children already. He is around for a year or two and then he disappears. During the time that he is living with you, if he is earning more than you, he is liable for the charge. The tax system will have no idea, probably, that he has moved in with you for a couple of years. You probably do not announce that to HMRC because you do not need to. Why would you? It is just not keeping pace.

Q84 **Ms Eagle:** It is not keeping pace with modern life. We are still stuck in the old Beveridge days. Is that what you are saying?

**Anita Monteith:** We are.

Q85 **Ms Eagle:** Certainly our social security system—what is left of it—is. Charlotte, looking forward, are there simpler tax bases? At the moment, we are very dependent on the earnings that the Government can make from three large taxes: income tax, national insurance and VAT. We are on a very narrow base. Do you think we ought to be widening our base and thinking more expansively about how we can futureproof our tax base, for example land taxes, wealth taxes or different bases, or a digital tax to deal with some of the earnings that are currently not captured? What are your thoughts on that?

**Charlotte Barbour:** There are quite a lot of propositions, different taxes that one could look at. They perhaps come back to the difficulties around the political acceptance of them across the piece. There are also quite a lot of other elements to think of. If you look at something like a wealth tax, you have to ask, "What is wealth? What is it that you would be taxing?" I am guessing it is probably illiquid assets. It is land and property. Do people actually have the money ready to pay the tax on that, or do you have to build it up and wrap it into an inheritance tax kind of tax? How do you value your land? When are you going to make your wealth tax? What is it on?

For me, there are interesting connotations vis-à-vis some of the devolved jurisdictions, which are also talking about broadening the base and where else you could tax. For instance, could you perhaps have a wealth tax in Scotland? You then need to go back and look at the Scotland Act as to what is devolved and what is not devolved. If you look at wealth, per se, and you attach that to capital taxes—capital gains tax and inheritance tax—it is not devolved. If you look at land, non-domestic rates, council



## HOUSE OF COMMONS

tax, land and buildings transaction tax and landfill tax are all tied to the land. It may be that that is devolved now. It has not been tested and it is not crystal clear, but there are those connotations that you need to put into it as well.

We need to look at the taxes that bring in a lot of money and how to broaden the base and simplify them. If you want to bring in more tax, you should probably tax everybody a little bit. A lot of the leakage, perhaps, sits around things like trying to avoid national insurance, the employment/self-employment/incorporation conundrum. We could do ourselves a huge service if we tried to look at that. You talk about fairness. We saw the lack of fairness in that coming flushing through in the support schemes for coronavirus because of the nature of employment, self-employment and private companies. I would like that looked at.

**Harriett Baldwin:** That is what I am about to get on to.

**Ms Eagle:** My time is up, so it is over to Harriett with a very good introduction.

Q86 **Harriett Baldwin:** That was a brilliant segue, Charlotte. Thank you very much. I am going to start by asking John, though, because there has been a big increase in the number of people who choose to be self-employed and the number of small businesses that are run through companies in recent years. To what extent has that been driven by the tax system? Has the tax system changed in recent years to make that a more attractive choice?

**John Cullinane:** There has effectively always been a distinction between the types and levels of tax on self-employment, but they have probably got more pronounced in recent years. Clearly, there are other reasons why people move into self-employment. The economy is changing in various ways. Frankly, employers or large employers have a big incentive, partly a tax incentive but also because of the various employment law protections, to engage with people off payroll if they can successfully do that. That has a big impact.

Once people are self-employed, there are incentives to incorporate their businesses. It is almost like incorporating themselves in the case of very small operators. The big employers that are engaging their services will try to prompt them into doing that, because they think that is better protection for their tax position, but people also have an incentive in terms of limited liability to incorporate their businesses.

There are lots of economic trends, legal trends outside tax and tax trends that are all pulling in the same direction. The imbalance between employed status and the other statuses has grown in recent years, probably most of all because of increases in employer's national insurance.

Q87 **Harriett Baldwin:** What I am hearing there is that it is mainly for non-



## HOUSE OF COMMONS

tax reasons or, if there are tax reasons, they are with the employer. Anita, would you agree with that?

**Anita Monteith:** Yes, I would. We underplay the number of people who go into a limited company for reasons of limited liability, which is a very good reason for incorporating. I worry a little that it is too easy to incorporate. You can do it within minutes on the Companies House website, and it is very, very difficult to get rid of a company once you have set one up. Inappropriate use, then, of incorporation bothers me.

The other thing we perhaps should focus on rather more is that we talk about the employed/self-employed distinction and the way that self-employed people are taxed. Then we are increasingly seeing tweaks to the tax system for the self-employed to try to address that. In actual fact, the current income tax system works very, very well for many small businesses, and I do not just mean self-employed people there. I mean people who are running a local corner shop or a small partnership practice, where builders are working together, and that sort of thing.

We perhaps need to be careful with our tax conversation. Maybe the dividing line needs to be between self-employed people, who sit closer to employees, and more traditional, proper small businesses, because otherwise we are in danger of tweaking the system unintentionally for people for whom it works perfectly well.

**Q88 Harriett Baldwin:** When the Chancellor announced the Covid self-employed support, he specifically said that the reduced rates of tax for the self-employed may have to be reconsidered. Charlotte, you teed this one up. Do you think reduced taxation for the self-employed is justified?

**Charlotte Barbour:** There is a hornets' nest, thank you. It is very difficult to justify different tax rates for what people call the three-person problem. If you have similar work, whether you are employed, self-employed or through a company, there does not seem to be a logical reason in terms of fairness as to why those different people should pay different amounts of tax. I do question that. I have reservations about it.

**Q89 Harriett Baldwin:** You are stirring up the hornets' nest by saying that you think the difference between the tax rates paid by self-employed people, incorporated businesses and employee taxation is too wide. Is that what you are saying?

**Charlotte Barbour:** I think there is a distinct possibility that that could be looked at in terms of fairness. Again, it comes out of some of the coronavirus support schemes and who has been supported in different ways. What are we paying in? What are we paying out? I might not have a hard and fast recommendation about that, but it is something that the broader public should be discussing, because we have all discussed the unfairness of how people have or have not been supported through the coronavirus. It stems from how they are taxed.

**Q90 Harriett Baldwin:** But you are stopping short of recommending any



particular change.

**Charlotte Barbour:** I probably would, because it needs a wider discussion and a contribution from everybody. The self-employed do face more risk so maybe, arguably, they have to pay less. There are those kinds of things. Some of the differences around pensions have much reduced compared with the past.

Q91 **Harriett Baldwin:** John, what about this issue of limited company directors who can draw dividends that are not subject to national insurance? Do you think anything ought to be done about that? How should the Government approach this issue?

**John Cullinane:** I agree with what Charlotte said, that it is very hard to justify these differences. If you had a blank sheet of paper, you would probably design something where either they were somehow paying the same tax or, even if there were different taxes for different legal situations, the overall balance was better. The big problem with saying that—this is, I suppose, why you are putting us on the spot—is that the differences are so huge that to adjust them would be massively painful for self-employed people.

People often talk about the few-percent differences on employees' national insurance, or not having national insurance on dividends, as being what it is all about, but the elephant in the room is the employer's national insurance of 13.8%, which is being taken out of the system by having somebody move off payroll, whether they are incorporated or not. The amount of money that self-employed people are able to charge in the market no doubt reflects the fact that they are less heavily taxed than if everything was run through an employed basis.

I do not pretend it is easy to get from A to B. I would plead the Chair's comment at the beginning about political unfeasibility. The politics are much more difficult here, frankly, than with VAT on food or some other things we have been talking about, and for good reason. It would be a massive shock to people.

That is why there has to be public debate about how we can get from A to B, because the current situation is very hard to sustain. It is eroding public revenues. It is causing lots of anti-avoidance legislation to have to come in with IR35 and so on. That, in turn, is causing problems and hardship. The whole issue is beginning to feed upon itself. I cannot lay out and say this is easy, but there has to be debate and the possibility of developing a roadmap with some degree of consensus that allows people to adjust to get out of this mess.

Q92 **Harriett Baldwin:** Anita, do you agree that this is an issue that needs to be addressed? Do you have any suggestions as to how the Government ought to go about doing it?

**Anita Monteith:** I would ask that we do not just look at tax, but we look at the benefits that people get, because that is a bit of the conversation



## HOUSE OF COMMONS

that often gets forgotten. Self-employed people might be happier to pay more if they received better benefits or entitlements to benefits in exchange. It is a balance.

Can I remind everybody that we had some really good work done by Matthew Taylor a few years ago? He was spiked before he even got started because he was told specifically not to look at tax. I think all of us here went in to see him, one after the other, and said, "But you must look at tax; otherwise you are missing the elephant in the room." We need to have a proper conversation.

Q93 **Harriett Baldwin:** Does anyone else from the panel want to add anything on this self-employed/employed issue?

**Charlotte Barbour:** When you start to devolve some of your taxes, it adds an extra layer of complexity to this discussion. I know it concerns the Scottish Parliament as to whether there is tax planning around this. If you end up with higher rates—we have 41% and 46%—it brings forward the conversation as to when you might want to become incorporated, for instance, because that has a stronger impact on how much income tax you are paying.

From a macro outlook, it also affects things, because income tax will go into the Scottish Government whereas, once you incorporate, corporation tax and income tax on dividends goes into Westminster. No doubt this probably comes back through the Barnett formula, but I am not sure that has a lot of transparency in it. That muddies the waters as well.

Q94 **Alison Thewliss:** I have a few questions to Charlotte, expanding the points the Chair made around the devolution of taxation in Scotland. What are the main policy challenges around devolution of taxes in addition to what you have mentioned already?

**Charlotte Barbour:** The biggest policy challenge is that you are probably more constrained than you would think you would be. There are probably two policy challenges. First, the package is actually quite complicated because there are different types of powers devolved. You have partially devolved income tax; you have fully devolved taxes like the land and buildings transactions tax. They are fundamentally different in what you can and cannot do with them, and I am not sure everybody always understands that. If something like LBTT—the land and buildings transaction tax—is one of the main ones that is fully devolved, you probably read more into the policy around that than it would deserve if you looked at it as SDLT across the whole of the UK.

In terms of income tax, your policy challenge is that it is a lot of money, but you cannot do as much with it as you would think you could. Over the course of the last five years, it has been really interesting to see how much you are constrained in part by the size of your tax base, in part by the fact that your tax base is made smaller, because, if the UK is



responsible for the personal allowance, that enormous tax relief allowance is taken out of your control. I could talk at length about that.

You cannot actually change your rates a lot, because you always have to be competitive with the neighbours. That is the first thing we do when Scottish rates come out, isn't it? We ask, "What are they compared to last year? What are they compared to the rest of the UK?" That is a really big policy constraint.

**Q95 Alison Thewliss:** In terms of personal allowance, do you feel enough cognisance is given by the Treasury to the impact those changes would have on the tax base in Scotland?

**Charlotte Barbour:** One of my hobby horses is that sometimes you get the sense that taxes are devolved—"Here, you can have them; on you go"—and there is a lack of consideration about how they properly slot into the UK system, because they are still a part of the UK system. In fact, the paper that the Chartered Institute of Taxation put in on devolved taxes, which comes from the Wales, Scotland and Northern Ireland committees, is helpful in saying you have to remember that we are looking at a UK system where bits are devolved. Those bits have to slot back into the framework. I am not convinced that that is always given as much thought as it could be.

**Q96 Alison Thewliss:** You mentioned the assignment of VAT in Scotland. Is that really a worthwhile thing to have, if you are not going to be able to change it very much?

**Charlotte Barbour:** There has been lots and lots of discussion. The Treasury, the Scottish Government and working parties have looked at the formulas to try to get a theoretical model about how much you would assign. The difficulty is that, as long as you use a model, it does not properly equate to the economy. The Smith commission sought to look at VAT assignment in order to have it equate to the economy. I am just not convinced that it does. The more you try to fine tune it, the more complicated it gets. We go back to those discussions about complications and whether you can see what is going on. It is a moot point as to whether VAT assignment serves a useful purpose.

**John Cullinane:** I agree with Charlotte's comments. VAT assignment would be a very risky way forward for Scotland. It is important to be clear: it is not really giving any autonomy over the VAT system or any part of it at all. It is merely a statistical exercise to try to say how much of the VAT you are collecting has arisen in Scotland. With a multistage tax like VAT, never mind practically, it is conceptually very hard to say. Whereas under true devolution Scotland is at risk for what it has taken power over, it is at risk of statistical variations. We have heard a lot about algorithms recently. That would be another example in the making, I fear.

**Q97 Alison Thewliss:** In Scotland, most people, I think, would be reasonably



## HOUSE OF COMMONS

well aware of the Scottish rate of income tax. Do you think there is enough public understanding of the complexities of these things?

**Charlotte Barbour:** The Chartered Institute of Taxation has done a couple of surveys, Ipsos MORI polls. It was disappointing that not many people had much understanding of the different taxes. On the other hand, some of our Committee members would say, "Do people understand UK taxes?"

**Alison Thewliss:** Good point.

**Charlotte Barbour:** There is that to put into the mix, too. If we come back to the basics, tax after coronavirus is about bringing accountability. It would be nice if people better understood it. The other thing that they do not understand in the package is where the fiscal framework sits, because that is something else that is just for the select few to understand.

Q98 **Alison Thewliss:** I was going to ask you a bit more about the fiscal framework because the policy context, given Brexit and the hostile environment, means that many of the factors influencing Scotland's tax base are quite different now to what they were when that was negotiated. Do you feel that needs to be changed in some way, given the tax base relative to the UK?

**Charlotte Barbour:** The fiscal framework is going to be looked at next year. I know work has been going on behind the scenes already on that, but there is quite a bit to be looked at there. For me, coming from the tax perspective, the biggest issue is that understanding exactly how all those block grant adjustments interact with the tax is quite difficult. There is quite a long rolling schedule that goes on for years. That muddies the water and makes this all complex.

Q99 **Alison Thewliss:** What things would you want to see considered within the fiscal framework? Is anything being missed at the moment that needs to be in there?

**Charlotte Barbour:** I do not know if things are missed. It is more a case of how you account for the differences. Smith first put forward the fact that there should be no detriment. If that is taken to the nth degree, you would not have any differences, would you?

Q100 **Alison Thewliss:** Yes, if you were to take that to its logical conclusion, there would not be any difference at all. You talked about the issue of tax leakage. Is there any significant tax leakage in terms of what Scotland is responsible for?

**Charlotte Barbour:** The Scottish Fiscal Commission looked carefully at that, as did SPICe in the Scottish Parliament. Your leakage is quite difficult to measure, because it is probably going to be greatest in small amounts for those middle-income earners. In Scotland, if they are earning more than £43,430, which is the Scottish higher-rate threshold, they are going to be paying income tax of 41% and also full employee



## HOUSE OF COMMONS

national insurance at 12% up to £50,000. There is a band in there where you are being taxed, effectively, at 53%. I think that makes for low-level tax planning: take more holidays; do not take the overtime. It is unhelpful. It might lead to less productivity. I think it leads to a sense of annoyance. That is probably where your leakage is. There are so few higher-rate taxpayers. I do not know that that is the biggest issue. What you want to do is broaden the base and have more medium-paid jobs and better-paid jobs for your population.

**Alison Thewliss:** Thank you very much. That makes sense.

**John Cullinane:** I generally agree with what Charlotte said. No doubt, there is no perfect fiscal framework, but most people find it very hard to understand. That is what our polling suggested, as Charlotte alluded to.

**Anita Monteith:** From a UK perspective, one of the problems that we see down here is with employers that still have to operate PAYE for Scottish resident taxpayers who are based south of the border. That is just more complexity and quite often, if you do not understand your PAYE code, the first person you go to ask is your employer. Generally, they are not going to be that well equipped to answer the question.

Q101 **Mr Baker:** I want to ask some questions about how tax policy is made but, before I do, I want to pick up on a very interesting point that Charlotte made about the need for people to understand tax. You reminded me to pick up an old piece of research that one of my staff did back in 2012. I will tweet it out later, as obviously you will not have seen it. It just makes the point that if somebody is on an ordinary wage of, say, £26,000, he is costing his employer more than that, because of employer's NIC. For the employer, the person costs £28,000 in this example. By the time we have worked it through, 46% of the product of his labour goes to the state one way or another. Isn't the problem that, if people truly understood how much of the product of their work goes to Government in tax, we would have a revolution? John, you are laughing. Wouldn't we have a revolution if everyone understood just how much tax they pay?

**John Cullinane:** If you go from A to B where you have been obscuring things in various ways and you suddenly let it loose, that is going to be more of a shock and people are going to react. What they feel about it is going to be more violent and less considered than it would be if they had understood the issue all along. We pay a great deal of tax. We are not as heavily taxed as some of our neighbours, so I do not know. People get used to all kinds of things. That is for you guys, but we can say that obfuscation does not really help in the long run.

Q102 **Mr Baker:** But is that not one of the problems with having PAYE tax at all? I have been self-employed and I have worked through a company. One of the problems with being on PAYE is that you just forget about tax because the employer is taking care of it. Anita, you are nodding along. If we want people to understand the tax system, don't we have to expose it



## HOUSE OF COMMONS

to them and force them to understand how much they are paying through which tax? Wouldn't that be a horrible experience?

**Anita Monteith:** It would be. Those of us who work in tax, from time to time, say, "It is outrageous that people leave school and know absolutely nothing about the tax system at all." You then pick up statistics for the level of understanding of English and arithmetic in the UK and you realise that, talking in terms of percentages, so many people do not understand a percentage. Maybe we need to start there. However, I agree completely. It is just too complicated. The tax system has run away with itself.

In educating people, I would like to start with this. There are two pie charts that appear in the Budget book, the red book, every year. I have used those a lot in schools when I have gone to talk to children as young as eight or nine about tax. You show them the picture of where all the money comes from, and that does not really make much sense to them. You then show them the picture of where all the money goes. That is when they get really, really engaged with it. VAT does not make much odds to them at that age, but if you say, "This is going on guns," as they call it, or "This much is going on pensions and this is how much we have to pay because we keep spending more than our pocket money every year," they get really engaged. The conversation needs to be addressed to the audience. If you go in as the starting point by saying, "This amount of your tax in PAYE has come out," most people will freeze over at that point.

**Mr Baker:** There is a very good book about understanding the Budget that comes out every year. I was just looking to see if I had one to hand, but you are absolutely right about showing the charts. I want to come on to how tax policy is made, but John wanted to come in briefly. Then I will give Charlotte the last word, since I put the question to her originally.

**John Cullinane:** Because you raised the question of PAYE, in the US everybody has to do a tax return as a legal requirement. There is forced education, if you like. There are completely different models around the world. In the UK, we have always put the premium on reducing HMRC's own costs and the compliance costs. That is the inspiration behind the PAYE system. It brings the money in more regularly and with fewer errors than self-assessment does, despite the huge burden on employers. Even in the States, they do have an employee withholding tax. It just tends to be cruder and to withhold too much. Another reason for obeying the law and filling in your tax return is that you have to do that to get your money back. There are fundamentally different models we could look at around the world.

**Charlotte Barbour:** When we are talking about tax and PAYE, we often say, "It is plucking the goose with as little hissing as possible." That is one approach to it. On the other hand, for us in ICAS—and maybe we see it slightly more with our exposure to Scottish taxes, which add a layer in—if you are contributing to the common good, you need to have a



sense of contributing and a sense of what you are putting in. Coronavirus has shown us that people will not back out, and those need to be tied up. I would like to have a better public understanding for all our citizens to know what tax they are paying.

**Q103 Mr Baker:** We took some evidence on 1 September. Gemma Tetlow said that what would be much more helpful—it has been lacking for a long time—is for Governments to be clear about what they are hoping to achieve with the tax system as a whole and with specific tax measures. She was saying that tax scrutiny had become quite difficult, because we could not hold the Government to account for what they are trying to achieve overall. John, is this something you agree with? Should Government be setting out very clearly what they wish to achieve with the tax system as a whole?

**John Cullinane:** Broadly, yes, I think that is right. They should set out broad objectives in advance. More than that, they should be prepared to float options publicly on much more of a blue skies basis, so that public opinion could have time to assimilate what problems they are trying to deal with and what the possible options are. At the moment, everything pretty much comes as a surprise on Budget day. The consultation is at a later stage on the details when most of the people who take part feel, “We would not have started from here.” If you are a self-employed person and the first time you hear about this three-person problem in public debate is when somebody says, “I want to put your national insurance up,” maybe you are never going to like the debate, but you are guaranteed to have a more difficult reaction.

Looking at the way the state pension age was increased, I know there had been specific difficulties with a bigger adjustment for women and for the particular age band but, overall, that change has been remarkably well accepted, even though it is an adverse change in terms of people’s pockets. That is because it was put out there as a problem years and years earlier than Government started to move. They have to give an indication of the direction and an explanation of the problems, and have a much more consultative approach than this “rabbit out of the hat” pantomime performance in our annual Budgets, or sometimes more than annual Budgets, unfortunately.

**Q104 Mr Baker:** Would it not just be a different kind of pantomime where we have a huge row over the overall direction of tax policy?

**John Cullinane:** We are supposed to live in a democracy. You just have to trust that public opinion can be influenced by debate, given the time and the exposition of different options. At the moment, you have a lot of spin on the Budget solutions. There is a pre-packaged solution before most people realise there is a problem. The best spin is put on it and then, days after the Budget, sometimes the thing begins to unravel. Sometimes there are U-turns and backing down, although more often the Government brazen it out and another complexity or difficulty is incorporated into the tax system. If so, the thing feeds on itself.



Q105 **Mr Baker:** Anita, would you like to comment on this? Should Governments be setting out an overall set of objectives for tax policy?

**Anita Monteith:** Absolutely right, yes, they should. I will go back to the making tax digital project. The Chairman will know, because we discussed it in one of our previous sessions, that I was very reluctant to accept it in its early stages. We did not really know how it was going to map out and there was, I think, great suspicion about the cost that was going to fall on business at the time. I think we are in a better position now because we have a roadmap and we know where we are going. It was a bit "suck it and see" in the early stages. That is how it felt. We see that over and over again, where we do not know what the real policy objective is. It really is "smash and grab the tax" some of the time.

Another one is the inheritance tax nil-rate band, the transferable band, where we have now introduced a horrendous complexity to the inheritance tax system. It would have been perfectly possible to achieve similar levels of income from that tax using a much, much simpler format. But the policy was designed piecemeal, largely, I think, in response to lobbying, and we have now ended up with something that very, very few people will be able to understand but will have to operate at a very, very difficult time in their lives, having just lost, perhaps, both parents. Clarity is really important.

Q106 **Mr Baker:** I am sorry to cut in. I have just been told that I am out of time. I have really enjoyed these exchanges and the time has whizzed by. I was hoping to ask you whether we should have a tax commission. If the Chair gives me a nod, I will let you answer that; otherwise, I am giving in. The Chair is giving me a nod, so should we have a tax commission in order to improve consultation on tax?

**Charlotte Barbour:** Our starting point is that we could follow the 2011 tax consultation framework better. It has five stages, but quite often we come in beyond stage 1 or stage 2. The policy position has been set and all we are asked for is how to make whatever has been decided work. If you had better input to the policy objectives in the first place, you might have avoided the issues that Anita has just talked about with IHT or had something more sensible around the CGT changes that have come in recently. There is quite a bit there and it is just a case of making it work better.

On the other hand, in the past six months with coronavirus, there has been far more constructive working together between the professions, taxpayers and HMRC. Maybe things will improve, because we have benefited greatly in the last six months from the way things have worked. Consultation just means discussion.

**Mr Baker:** Indeed, yes. I want to ask you a lot more questions about the exact process of how it would work, but briefly, John, would you want a tax commission? How would it work?



**John Cullinane:** I am not exactly sure what a tax commission would do. It may or may not be a good idea, depending on that. Government could make a good start just by consulting at an earlier stage and more generally in accordance with their published framework.

**Mr Baker:** Anita, you have the last word and then we are off.

**Anita Monteith:** It is fine. We had a charity tax commission not long ago but we are still waiting to see the outputs from that.

Q107 **Rushanara Ali:** Good morning, everyone. I want to focus my questions on the impact of the crisis on the tax gap and avoidance, as well as tax evasion. Starting with John, you say in your written evidence that tax evasion remains stubbornly high and that there is an insufficient deterrent or risk of getting caught. That is part of the explanation. What do you think HMRC could do to tackle that? Given that they are dealing with the crisis as well, do you think their capacity to address this issue has been further diminished?

**John Cullinane:** Yes, I think they have been given a lot more to do. Broadly speaking, they have done it well, and that was a good reason why they were given it, but the fact of the matter is that it puts their resources under more strain. Like anybody else, HMRC responds to the pressures on it, and the political pressures over the last few years have been, first, through public accounts-type scrutiny: "Be more like a private sector business. Be very cost effective." The danger of that, frankly, is that a private sector business will prioritise its biggest customers. It is very much easier for a multinational to get to speak to somebody than it is for an ordinary person or a small businessperson picking up the phone if they need help.

Q108 **Rushanara Ali:** Would you put a number on the scale of evasion, as well as avoidance?

**John Cullinane:** I do not have it. The Revenue's own published estimates year on year show tax evasion to be much more stubborn than other parts of the tax system. I do not criticise them for going after avoidance, but they have on their own figures made more impact on that in the last few years. There are other elements. There is certainly evasion.

They have developed pretty smart technology to try to help them with this, and they are getting more and more information that is statutorily required from banks and financial institutions round the world. They are getting more exchanges of information from other countries. Their problem used to be not knowing what is going on. Now, it is a data analytics problem. There are areas they can invest in to deal with that problem and there are other elements as well, like mistakes and errors. There are problems with Government guidance. There is a lot that can be done, I think, about the tax gap.



**Charlotte Barbour:** I would completely support what John has said. There has been a huge emphasis on avoidance. Take your hats off to HMRC. I accept there are still one or two issues around the loan charge, and there are still cases going through the courts, but they are old. In large part, HMRC has completely shifted the pendulum. There is not the tax avoidance that there was about 10 years ago. It has done really well with that.

If you look at the tax gap figures, there is an issue of evasion. It still sits there. Evasion needs old-fashioned policing. It needs really careful looking at data analytics. MTD might help that. More traditional policing would help as well.

The other point I would like to make is that one needs to be careful about the messaging around avoidance. If lots of the population think folk are avoiding tax and they are not—they are just paying PAYE—they think, “What about me?” You weaken the system if you go on about tax avoidance too much, when the battle has been won.

I would support, too, what John says about errors and mistakes. I think a lot of those are completely innocent. For a lot of smaller taxpayers with less money, they need access to HMRC.

Q109 **Rushanara Ali:** I appreciate that, but I am particularly interested in those areas of legitimate concern around both tax avoidance and tax evasion.

**Charlotte Barbour:** Our position would be that avoidance is obviously legitimate, but it is not what it was. It is much less.

Q110 **Rushanara Ali:** I am talking about a legitimate concern in large amounts of avoidance, as well as, of course, evasion. The point was particularly around evasion remaining a stubbornly high risk.

**Charlotte Barbour:** It does, yes.

Q111 **Rushanara Ali:** Anita, did you want to add anything on evasion particularly?

**Anita Monteith:** HMRC has very good systems, and these I think are still being built. The Connect system gives HMRC a lot of information about how profits of similar sorts of businesses in similar locations should be similar. Because a lot of that is still in process, there is a time lag between collecting the information and doing anything with it.

If we look at corporation tax when XBRL was introduced back in 2010, HMRC gathered a lot of information. Three or four years later, they suddenly realised that, for the small and medium-sized sector of the corporate world, there was transfer pricing being used. We always knew. It is perfectly legitimate. That is what happens. Clearly, they had not really thought about that as an area they should look at before then, so now they do.



## HOUSE OF COMMONS

Error and mistake are continuing problems. Following the Covid crisis, many of us are now used to going into a shop and being asked to pay only digitally. I think that is going to be throwing a lot more information at HMRC that they will need to process.

**Q112 Rushanara Ali:** Cash transactions have gone down so much because of this crisis. Can you say a bit more about how that is going to change the impact it has in relation to bearing down indirectly on avoidance, as well as evasion?

**Anita Monteith:** It is a bit early for anybody to speculate on that, particularly as we are still in the middle of the crisis. I feel we are in the eye of the storm at the moment. Undoubtedly, those businesses that are operating totally in cash will find that life becomes a lot more difficult on the other side.

**Q113 Rushanara Ali:** Moving on to the coronavirus response and the bailouts, there has obviously been a great deal of concern about who gets the bailouts and so on. There have been reports about bailouts going to certain companies that have not been as good at paying the appropriate amount of tax, and so on. There are some reports, like the one by TaxWatch UK, suggesting that £4.79 billion in bailout cash has been handed to companies with links to tax havens, or that have been embroiled in financial controversy. People like the president of the Chartered Institute of Taxation suggested that perhaps certain forms of conditionality should be attached to bailouts. In other European countries, that has been applied or seriously considered.

Do you have a view on what we should be doing, in terms of what has happened so far? We all appreciate the necessities in a time of crisis, but how do you improve the behaviour of those companies that have behaved badly in the past, given that they are getting hundreds of millions of pounds in bailouts?

**John Cullinane:** In terms of what has happened, the Government, and HMRC on their behalf, had huge challenges in balancing speed of getting support out.

**Rushanara Ali:** I am familiar with that. Could you just get to the point about what this means and what we should be doing?

**John Cullinane:** Clearly, there is a public appetite to challenge companies where they have skeletons in their cupboard in one area and are getting support in another. The challenges are around defining what the bad behaviour is in a way you can translate into law. What is your definition of "tax haven"? I have even seen Japan characterised as a tax haven in some of these articles because it is weak on certain aspects of transparency. Nevertheless, it is a reasonably high-tax country. You need to define exactly what the bad behaviour is in a way that you can translate into law to make it a condition of something else. There is an element of complexity in that, but I do not think anybody would deny there has to be a quid pro quo in terms of support.



## HOUSE OF COMMONS

Q114 **Rushanara Ali:** Do you feel that the quid pro quo is sufficient, in terms of the bailouts that have been provided? Could the Government do more?

**John Cullinane:** There are all sorts of ways you could criticise, in principle, the bailouts that have been provided, but we knew they were balancing speed and the systems they had to respond. There are elements of rough justice there.

Q115 **Rushanara Ali:** Sure, I get that. Do you feel that we could have learned from the last financial crisis, when mass bailouts necessarily had to be provided to rescue the banks? It seems to me that, in a sense, the lessons have not therefore been learned if we are just talking about rough justice.

**John Cullinane:** The support that was needed was a very different type of support, obviously.

Q116 **Rushanara Ali:** Yes, but there are some in-principle factors, aren't there, about responsibility and conditionality that go with taxpayers' money being given to companies in the form of bailouts?

**John Cullinane:** I understand, with the financial crisis, while it was not really that well expected, that nevertheless there had been contingency planning about bailing out the banks and so on in the Treasury and jointly with the Americans. I understand that a pandemic was identified within Government as one of the more likely disaster scenarios, so I could see learning the virtues of scenario planning. In terms of the specific lessons, the crisis was so different that I am not sure I can easily see that read across.

Q117 **Felicity Buchan:** Charlotte, you said in your written evidence that tax administration needs to be reformed. Why is that the case?

**Charlotte Barbour:** There are a number of reasons for that. First and foremost is trust. If you want trust in the system—going back to the last question, people behaving well—you need to understand the system. You need to understand what your duties and responsibilities are and what HMRC can ask of you. At the moment, it speaks for itself, doesn't it? We are working with the Taxes Management Act from 1970. You might say that has stood the test of time if we still have it, or you might say it could do with being rewritten and reconsolidated. An awful lot of material in taxes management has been introduced since then, and it sits all over the place. As you know, there have been various inquiries into HMRC powers and so on.

It would be really helpful if we reformed everything, had a look at it, put it all in one place and wrote it in user-friendly language, tax law rewrite kind of language, so that people could clearly see what is expected of them. To my way of thinking, that would bring some trust back into the system and make voluntary compliance a lot easier.



## HOUSE OF COMMONS

As we move towards digital systems, the Taxes Management Act 1970 is looking at old-fashioned inspectors and paper processes, and so on. Of course, going digital, if you are going to do it properly and get what you want out of the system, is not just converting what you have on to the machine and digital. It is reconfiguring it to make it work properly. There have been bits and bobs that have patched things up, but it does not work as well as it could.

For my money, tax administration is at the very heart of the system because, if you cannot administer it, collect it and so on, it does not really matter what your policies are, does it? Everything else falls by the wayside. Tax admin is right at the centre and it is what everything else is built on. It is your starting point.

**Q118 Felicity Buchan:** I am hearing you say that we should be consolidating in the interests of simplicity and transparency. Is there a risk that we actually end up complicating the process?

**Charlotte Barbour:** I would like to hope not. When you see it all written out in one place, it allows you to look at it properly and see what it says. At the moment, it is quite difficult to get a handle on what the different powers are. They are all over the show. I appreciate that tax reform and tax administration is maybe not the biggest political sell you are ever going to have, but, in terms of good administration, making your tax system work properly and enabling people to contribute and get out at the other side, it is fundamental that the nuts and bolts of it work properly.

**Q119 Felicity Buchan:** How large a project do you think this is? It seems to me as though it could be vast.

**Charlotte Barbour:** It is probably depressingly big. In fairness to HMRC, it put out its paper in July, about building a trusted modern tax administration system. I think HMRC appreciates that that is something it would like to do, too. We would all like this. Maybe part of the plea here is that we have enough funding put into it so it could be done as a big project, perhaps over 10 years and perhaps with one of these roadmaps or a picture of where exactly you want to get to and what you want to achieve, with full governance around it and a complete articulation of the strategy. In principle, we would strongly support what HMRC wants to do with that, but, yes, it is a big project.

**Q120 Felicity Buchan:** Anita, we have talked about HMRC, obviously. Do you think HMRC needs to be reformed? If yes, in what way would you do that?

**Anita Monteith:** You would need to ask HMRC whether it needs to be reformed. We are currently coming towards probably the middle of HMRC's own big infrastructure project, where it was moving from having offices all over the UK to having 13 big hubs. For me, the most important thing about administration is to make the bits that the general public see and use more manageable for them. A rewrite of all our legislation would



be lovely to have, but very few people, other than perhaps the three of us on this call, ever really look at the legislation and try to read it. Maybe that is a project for a rainy day.

For me, the biggest change we need to address is 5 April. I know I opened this one. The roadmap we have, the 10-year roadmap that Charlotte has just talked about, gives us an opportunity to make our tax system more streamlined. We cannot do that if income tax and VAT end on different dates. We cannot keep pretending that 31 March for a VAT quarter is the same as 5 April for an income tax quarter, for example.

We have the cash basis, which is a great administrative simplification and a real tax simplification for many small businesses. We need to look for other big changes like that. I do not think we should be afraid of them just because we are in the middle of a crisis. You will never get more willing engagement from people than you will have at the moment.

**Q121 Felicity Buchan:** John, we have alluded to HMRC's announcements in July about the next phase of making tax digital. What do you hope will be the benefits of the strategy?

**John Cullinane:** For it to be more efficient in the interests of everyone. There has to be a more rigorous use and digesting of the lessons of pilots, trying the system out and getting it to be a system that people want to use because they find it easier. There is a big danger with public projects like this that there is a natural desire by the organisation to declare success and, if it gets a little bit behind, to rush the pilots, not to digest the results properly and to brush things under the carpet.

There is a need to digest the lessons of pilots, see how it is working in practice and see how it can be made to work with the grain of how people want to work. If you look at the income tax return online, it is a complicated return, as is the paper one, but it is a success. It has been achieved with people still being free to use the paper one if they want. That is the kind of approach that would better serve them and taxpayers.

**Q122 Felicity Buchan:** It seems to me that there is probably insufficient connectivity between our tax system and our benefits system. Do you agree with that? Is that something that we can possibly merge, or is that just too big a task?

**John Cullinane:** Maybe merging is too big a task. For one thing, benefits tend to focus more on household income, whereas we have independent self-assessment. Indeed, that is one of the issues with the child benefit thing we talked about before.

If you are self-employed and in a position where you have to claim universal credit, you will find that the two Departments concerned almost look to you to keep accounts in different formats. There are very basic things you could probably do to ease the lot of people in that situation, falling far short of merging everything but just dealing with some of the practical problems. People in that situation face easily as much



## HOUSE OF COMMONS

complexity as multinationals dealing with the vagaries of international tax, and it is very poorly appreciated.

Q123 **Felicity Buchan:** My next topic is tax reliefs, which clearly have been in the news. Let me just ask a general question and come to Anita first on this. The National Audit Office has said that our major tax reliefs cost £155 billion. Do we think that we get value for money out of those tax reliefs?

**Anita Monteith:** We certainly need to be much better at evaluating the cost and benefits of reliefs. We should also get used to going back and looking at what the objective of the relief was, and asking ourselves regularly whether that objective is being met, or whether we need to move on and try something different. I would like to see a system where many more reliefs come in with sunset clauses attached to them. The relief will disappear, perhaps within a five-year period, if it has not met its objectives, so a sort of built-in obsolescence.

Reliefs are very useful, and the more expensive ones tend to be demonised sometimes because of the nature of the people who will be claiming them, for example successful businesses or entrepreneurs. We have to be very careful about just saying a particular relief is bad without asking ourselves what its objective was. Did it work in the first place?

There are perhaps a lot of areas where the reliefs are there for political and historical reasons. For example, you could look at areas of income for pensioners. You get a pensioner who is still working and is not paying tax while somebody younger than they are, doing exactly the same job, is still paying tax. The example there, of course, is national insurance. The whole area of reliefs is made up of so many different components that we need to unpick it. There isn't a single answer.

Q124 **Felicity Buchan:** I completely agree with you that we need to evaluate the reliefs we have. Are we getting value for money? Are they meeting our goals? How do you systematically put that evaluation into place?

**Anita Monteith:** You have to do it piece by piece. One of the best consultations I ever took part in was something on tax relief for training. I have come back to it about three times during my professional career and said, "We must have this. We must have this." A whole bunch of us went to talk to the Treasury about it. For very good reasons, I was persuaded in the end that maybe it was not the right time for the way I had seen that relief perhaps operating.

I would still come back to that one in particular and say that perhaps now is the right time for better ways of getting tax relief. "I have lost my job and want to retrain myself as a plumber. I want to be able to get some tax relief on the cost of the course I need to go on to be a plumber." You do not get any tax relief at all for doing that. To me, that feels wrong. We need to find ways of making that work. I guess you have to do it area by area.



Q125 **Felicity Buchan:** You would be in favour of introducing new tax reliefs and not only cutting back on current ones?

**Anita Monteith:** Yes, if we have a really good reason for them, if we can see the need and if we keep an eye on the costs and whether they are achieving their objective. Life does not stand still and you have to have new ideas, but you have to be willing to let go of some of the old ones. That is what we are bad at. We tend to keep piling them all up.

Q126 **Felicity Buchan:** Let me move on to a specific tax relief. There has been a lot of speculation in the media about potential changes to pension tax relief. What are your views? John, do you see any problems in potential changes to pension tax relief?

**John Cullinane:** Yes, there are always problems with changing anything, and with pensions all the more so, because obviously people save for their pensions over a long period. They have expectations built up, so you have to respect that, or try to respect that, with every change you make.

Broadly, there was a complete overhaul of pensions relief in 2006. Since then, there has been an awful lot of tinkering and piecemeal change. There was the pensions freedom change, which also necessitated a lot of changes to the tax system to support it, so now it has become very complicated. In the last Budget, we saw a partial reversal of some of those changes, the particular changes to limits on the relief you could get when you paid money in that had been introduced previously.

If there was a big problem with the 2006 changes, it was that they were quite expensive and a lot of the benefit was geared towards the higher paid. In the aftermath of the financial crisis, that had to be looked at, but we have not had a broad, general, consultative look. We have had a lot of Budget day surprises. Unfortunately, Chancellors are not that good at saying what the objectives of the changes are. They just list all the reasons why it is a good idea and gloss over the other issues. There is not going to be a perfect change, but we have got to the point where a consultative look at the whole thing, accepting there are going to be upsides and downsides, is probably necessary.

Q127 **Felicity Buchan:** Let me ask everyone one quick-fire question. If you were to change or abolish any of the major tax reliefs, and clearly the Government in the medium to long term will be under pressure to balance the books, which tax relief would you change or abolish? Let me start with Charlotte.

**Charlotte Barbour:** Oh dear, you have put me on the spot. I am not convinced that I would want to go in immediately with a change. I was really interested in listening to what John was saying, because we would completely agree with him. I would be more inclined to say that that is where you need a short, sharp tax commission. All these reliefs are really big and obviously the bigger the relief, the more money, the more political, the more difficult. You need buy-in and you need it across the piece for folk to join that. It is very difficult to commit yourself to get rid



## HOUSE OF COMMONS

of this one or that one, but I would like to see a system that is slightly flatter with fewer reliefs, broadly speaking.

**Anita Monteith:** I would start with the OTS work on tax reliefs. First, they counted them up and there were something like 1,300 of them. I would look at their recommendations and see which of those you could see as easy pickings, and then I would consult on some of the others. I would not do anything without thinking about it first.

**John Cullinane:** I am afraid I would start with the biggest ones. We should try to define rigorously what they are there for and whether there is a cheaper way of achieving that. I am not saying the answer is always going to be simply, "Abolish them." There are reliefs to encourage home ownership, but we know that home ownership percentages are going down. Even those reliefs need to be looked at, not necessarily with a yes/no answer, but to try to work out the best way of getting value for money. It should be very evidence based. A commission to look at those areas would make a lot of sense.

Q128 **Felicity Buchan:** What I am hearing from witnesses is no immediate action, but potentially a commission to look at value for money on tax reliefs.

**Anita Monteith:** To pick up on John's point about looking at home ownership, for example, I would do the commission by looking at areas, so pension tax relief, relief for investment, relief for home ownership, all those different things. They need to be looked at in the round with how those things are taxed. I do not think just going through with a red pen would work, because of the unexpected consequences. Pension funds invest in industry. They are one of the biggest investors in the UK. If you suddenly stopped all the money going into pension funds, you would need to be quite sure of what was going to happen instead.

**Felicity Buchan:** It sounds as though we have two big projects on our hands: tax administration simplification and a tax relief commission. Thank you for your input.

Q129 **Siobhain McDonagh:** I want to look at a wealth tax, not so much the rights or wrongs, but more of the practical issues around it. With wealth inequality growing at twice the rate of income inequality, there are many arguments in its favour. Without discussing the pros and cons, what are the practical problems that need to be solved with taxes on wealth?

**Anita Monteith:** There is a very easy one, and that is the ability to pay the tax. The most common wealth tax that I read about is the one on property. Most frequently, the property they are looking at is the value of the house people are living in. The immediate problem is that a wealth tax on your house requires you to have some cash to pay it. If you are a little old lady living in a £3 million house in the centre of London somewhere and you have always lived there, you are not going to be able to pay it. Maybe then you have to roll it into inheritance tax when the



## HOUSE OF COMMONS

person dies. Then you begin to develop a policy that might be able to work.

We have to be very careful with land-based wealth taxes because many people are looking at the overheating housing market at the moment and are waiting for a crash in prices. Does that mean that next year, when you apply the wealth tax, everybody is going to get a reduction because the value of their house has gone down? That little old lady living in Knightsbridge now gets a negative against her IHT.

**Siobhain McDonagh:** Do not worry. I do not think that is happening to too many properties in Knightsbridge.

**John Cullinane:** I accept Anita's comments. One general issue is that, as Anita says, it can be a dry charge. For the absolutely mega-wealthy, it would seem odd to say ability to pay, but certainly for people who have wealth and a lot of it is in property form—it is sometimes referred to as a dry tax charge—you are trying to find the money to raise the tax when there is not a cash flow to latch on to.

The other big issues that have always been talked about are valuations, which is truer of some types of assets than others. Perhaps in the age of Zoopla it is less significant than it was, but it is still a problem for how you value your private company and so on, or simply—this is more of a concern, I suppose, with the mega-wealthy—that people find ways of concealing it or getting it out of the country altogether.

There are trade-offs in how ambitious you want to be. If you wanted to raise a lot of money, you probably have to come down to a lot of wealthy but still relatively ordinary people. More of their wealth is going to be in property form, whereas your billionaires will have a much more diverse portfolio of assets. You will have different problems depending on how ambitious you are going to be. At any time any tax was introduced, there were probably similar issues.

This area is probably crying out to be properly looked into. For example, on the whole point of people skipping the country and concealing stuff, the amount of information exchange that tax authorities get from each other now and from the financial institutions is out of all proportion. It was nothing to speak of in the 1970s and now it is enormous. They are probably only just in the foothills of exploiting that. These issues are not as slam-dunk as they have probably appeared to people over the last few decades. It probably needs looking into because there is public interest in exploring them.

**Charlotte Barbour:** If you are going to look at property tax, which is what I think we are beginning to call it, rather than a wealth tax, I have two points to mention. Taxation of property needs something wider than just, "There is a lot of money in it, so we could tax it." There have been lots and lots of changes to property taxes over recent years. They are actually quite expensive and keep changing, and yet property ought to be



## HOUSE OF COMMONS

a long-term investment and/or your home. It needs a bit of thought in the round.

There are lots of changes to stamp duty land tax, and we have extra charges for non-residents coming in. The payment for capital gains tax on property has been brought forward, and that is a cash flow thing. There are lots of bits. Maybe we need to look more widely at how those all fit together and how they fit together vis-à-vis housing policy in other areas. I would maybe caution how it is looked at.

I mentioned earlier that we may need to be mindful of whether it would be a whole of UK tax or whether, in Wales and Scotland, and perhaps other parts in the future, land property is the kind of hook that fully devolved taxes are put on. There is a question mark around how that would work. I have no answer, but it is a question.

**Q130 Siobhain McDonagh:** What sort of lead-in time would we need?

**Charlotte Barbour:** If you looked at, say, the rewriting of land and buildings transaction tax in Scotland, that took long enough and that was kind of reusing what was there already. It is hard to imagine that you could do this quickly or easily. There are some interesting projects being conducted at the moment by groups of academics, looking at how you tax wealth. In fairness, there has been a move towards taxing income more heavily in recent years, and earned income. Is that balance right? Maybe we should be looking to see what the various studies come up with before committing ourselves, but these things always take longer than you would like, don't they?

**Q131 Siobhain McDonagh:** Yes, everything always does. Taking up John's point, how do you think wealthy people would react to this? Would they just up sticks and go abroad, or would they try to legally avoid it? Where do you think we are?

**John Cullinane:** So much depends on the design of it. Do you start applying it to people who are resident here or domiciled here, or citizens? What criteria would you use? Depending on the answer and other design features, that will tell you what people can legally do, short of actually physically moving. If you are talking about mega-wealthy people, they probably have a number of places where they spend their time around the world. I am not sure it is possible to give a sensible answer at a very high level to that, to be honest. It depends on your design. That is part of what you would have to look at as you were designing it.

**Q132 Siobhain McDonagh:** Is there unanimity on that? Yes. Do you think, actually, the risks of it all are just too high and we should not worry about it?

**Charlotte Barbour:** Capital gains tax and inheritance tax should be looked at in the round together. There have been projects by the Office of Tax Simplification on IHT. It is looking at CGT just now. Those taxes may or may not be perfect, and I know they do not raise a lot of money, but



there are ways and means of working with what we have. We would be much better advised to start there and consider what improvements, differences and changes we would like, rather than starting again.

**Anita Monteith:** I agree, particularly on the capital gains tax/IHT overlap. They have to be looked at together. It is just a no-brainer.

**John Cullinane:** There is a fear of talking about some of these things sometimes because of the Budget secrecy tradition. The moment anybody starts talking about it, there is a kneejerk, "Oh, this is absolutely unthinkable," or alternatively, "It is going to be introduced in November." We are in fear of our own shadows because we do not discuss tax in a very mature, open way.

Q133 **Siobhain McDonagh:** Would it be easier to go for a windfall tax on wealth, rather than to implement a whole area of policy, or do you think we would get as much controversy?

**John Cullinane:** My slight fear would be that you would get the same amount of controversy, at least, for only one go. If you are going to have a lot of controversy, why not make it an ongoing source of revenue? I would struggle to define who has had a windfall from the current events. Some businesses have managed to get some—

**Siobhain McDonagh:** Domino's pizza is doing quite well. I am being silly.

**John Cullinane:** You can always identify people who have. The last windfall tax we had was in 1997 with the privatised utilities. That was pretty controversial, but the case for it was about a very specific, historical series of events, that these had been sold off for, it was said, too low a price. It was to recoup some of that. Where is the bad money, as it were? Who has had that windfall? There are various pockets you could explore, but I am not sure there is a massive pot out there with that label on it that you would easily translate into tax law. Then, as I say, you would have the problem that you have one go at it and the revenue has dried up. I am a bit sceptical in current circumstances.

**Anita Monteith:** We already have corporation tax. Many of the businesses that have had windfall profits—larger profits than usual—will be paying larger amounts of corporation tax on those profits. The ones that have struggled will have made losses, so they will, in due course, get tax relief for their losses. I would hate this to go down as "ICAEW recommends hike in corporation tax rates," but looking at the taxes we already have is a better and more sustainable way of increasing our tax take, if that is what we want to do, than inventing new ones, especially flash in the pan ones.

Q134 **Anthony Browne:** I am glad to hear your scepticism about wealth taxes or asset taxes. My question is about business taxes. Charlotte, you complained about being caught short, so I flag up at the beginning that I



am going to ask you a question at the end: what is the one business tax you would change if you were Chancellor?

The Government have, over the last decade or so, put an emphasis on making sure our tax rates are competitive for business. Corporation tax went down. The Government have now put a stop to that. There has been a big change in industry, in the sense of moving from the high street to digital services. We have the digital services tax coming in. We then often get complaints in the media that businesses are undertaxed. You keep getting stories about international corporations with very low tax bills.

I want to ask a general question first and then focus on a couple of specific issues. Do you think business as a whole is undertaxed or overtaxed in the UK?

**John Cullinane:** I would struggle to give a general answer to that. It is maybe taxed for the wrong things. On corporation tax, there is a big difficulty that we are part of an international pool. There is no tax where we are more exposed to what other countries do, but other countries will also have faced the problems of coronavirus and the fiscal consequences of that. With corporation tax, you have to look at where you are in the international environment. There are big penalties for being an outlier.

If you are too generous and welcoming, the multinationals may very well doubt whether that feature is going to stay. It is unusual and unfamiliar to them. If you are uncompetitive, that is clearly a problem, too. The whole trend of recent years has been to broaden the base and lower the rate. There may be something going into reverse as people want more incentives for capital expenditure and recovering from the virus. Frankly, the tendency for the rates to come down may go a little bit into reverse, or there may be opportunities there.

With business rates, which is another big one, that is more in our control. I am in danger of going on too long. I could say more about that, but that is an area that is more easily within our disposition.

Q135 **Anthony Browne:** Corporation tax rates are lower than most other large economies, aren't they? There are those who argue that we can put them up without having an impact on the competition between countries.

**John Cullinane:** I do not think that multinational companies try to fine-tune shavings on the rates exactly like that. There is a lot of evidence that most of their investment planning is pre-tax in most cases, with specific exceptions, and then they look to make sure there is not a fundamental tax problem. Then, okay, they do their tax planning on the back of their commercial investments.

That may sound like a naive thing to do, but, given how often tax rates change in all the countries they are dealing with, it is not that irrational. What the fine-tuned tax burden is going to be is almost unknowable. Maybe there is scope from the fact that our rates are just at that end, but



## HOUSE OF COMMONS

that is not to say business is not going to need support and encouragement in responding to the virus either. It is a question of design.

There is a lot of comment, unfortunately, talking of corporation tax as if it was entirely in our gift. Rationally, there is an international pool out there and we are fishing in it. There is a danger of leaving money on the table if you do not go and get the fish you are entitled to. Equally, there is a danger of overfishing and incentivising them to keep away from you. That is a very complex balance.

By the way, the UK Treasury has done a very good job over the years of getting such a big take out of corporation tax with such an open economy. It is much more of a success story than people often appreciate.

**Q136 Anthony Browne:** The total take has gone up dramatically in recent years. Anita, if you were the Chancellor, looking to raise money, how much would you look at business rates, or are we overfishing?

**Anita Monteith:** Can I pick up on corporation tax first? We must be very clear that corporation tax is applied to what is left of your taxable profits in a year. At the moment, I would like there not to be so much left, because I would like to see far more incentive to encourage even more expenditure on research and development, building or investment in plants or tech.

**Q137 Anthony Browne:** That means giving full relief, giving 100% relief up front—

**Anita Monteith:** Yes. I know the structures and buildings allowance went up to 3%—was it last year?—relatively recently. The annual investment allowance for plant and machinery is currently available on £1 million-worth of investment up until the end of this year, and then it drops back down again. Everybody is asking the Chancellor to keep it at £1 million, possibly even looking for more ways to encourage people who have cash, and there are not many of those at the moment, to spend. We want to grow the economy, rather than tax it to death.

I am not that excited about the actual rate of corporation tax, but I totally agree with John that we have to remember we are working on an international playing field. I am very nervous when we start to go it alone in advance of the OECD work coming to a conclusion. They are inching towards the finish line, but we are not there yet. An international player like us needs to work with the rest of the world.

**Q138 Anthony Browne:** The digital services tax is obviously aimed at trying to shift the balance slightly from property-based marketplaces to digital marketplaces.

**Anita Monteith:** It only applies to the digital giants. I feel very much that it is a temporary solution. I do not think it is ideal. We are going into



## HOUSE OF COMMONS

battle with some other countries, America for instance, that absolutely do not like it. It is temporary.

Looking at what has happened during the last five months, so much more of our purchasing is now done online and I do not think that is going to go back to the high street. I feel that the business rates system is broken, or it is certainly on the way out. We need to think again about how we support the high street and what sort of high street we want to see going forward, to make sure we end up with a tax system that addresses the need for a level playing field, as we all do our grocery shopping online instead.

Q139 **Anthony Browne:** Charlotte, do you think businesses overall are overtaxed or undertaxed?

**Charlotte Barbour:** They are taxed the way they are. As John has discussed, for the larger businesses that are part of a kind of international consideration, you cannot necessarily work on it in isolation. I completely agree with John.

Likewise, I would agree that ideally we should be working with the OECD, because it is a case of how you divvy up the profits across the piece. Therefore, you need to work with others to work out what you are going to be doing. It is a very difficult question to address in isolation.

You have to remember that corporation tax runs across big businesses and small businesses. Whatever you do on your corporation tax rates, reliefs and so on will have a knock-on question further down, at the owner-managed business kind of area, which has different constraints and considerations in it. One needs to take care there, too.

Last but not least, let me mention the non-domestic rates, which of course are devolved. That is not a UK single answer, although the more you look at devolved taxes, the more they are often quite similar to one another. Non-domestic rates are an elephant in the room in terms of how much it costs, its impact and so on. We need to come back to that someday.

Q140 **Anthony Browne:** I want to follow up on small business taxation. Anita, I understand you have specialised in this. I have had a lot of involvement with small businesses. Small businesses that do not have a finance director still have to work out how to pay VAT, employer's national insurance, business rates and reliefs, et cetera. It can be very complicated for them. What do you think the main challenges are with taxation on small businesses? Is there scope to radically simplify it, or do we have to live with a tax system designed for big businesses being applied to small businesses?

**Anita Monteith:** How long have we got? The biggest problem for a business doing it on its own is knowing what they are liable to pay and what reports they have to make. A company, of course, has Companies House requirements as well as tax requirements. I would like to see a



## HOUSE OF COMMONS

more joined-up process. We were drifting in that direction about seven or eight years ago, where Companies House worked closely with HMRC. That made the obligations that a small company had much more transparent.

The business tax account needs a lot of work doing on it to make it achieve the promises we were first given, so the digitalisation platform around unincorporated businesses moving to incorporate. Maybe we need a tax commission for small business. I came in by saying we are confusing the tax system for self-employed people with the corner shop, but they are so different as entities, so one size does not fit all. Maybe we need to carve it up differently.

**Anthony Browne:** I would definitely be supportive of a commission for small business taxation.

**John Cullinane:** The OTS has some lines of inquiry open on this issue, looking at greater alignment between small companies' tax base and the accounts, with fewer adjustments, so they do not have to make all the adjustments that big companies have to make. There is an option to look through the companies to the individual. There are going to be pros and cons in terms of complexity there, but, as we have seen from the people complaining that they have been shut out of the coronavirus help, it is often how they see themselves as being still self-employed even though they have a company that protects their liability. Maybe we should respond to that kind of desire. There are a number of things the OTS is looking at.

It would be very nice to say, "Let us have a different regime for small companies." We could bear in mind some of these comparisons with employment and so on, and then look at the multinationals in terms of fishing in the international pool. Then you have your problem of defining what is small, what is large, what happens when businesses grow over that and so on. It is not a straightforward area, but certainly there are things that the OTS is actively looking at in that area.

Q141 **Anthony Browne:** Picking up on the point that Anita made earlier about reliefs for investment, do you think there is scope for change there? There is certainly speculation that the Government are looking at that.

**John Cullinane:** Yes. I have a couple of words of caution, though. At the moment, very large numbers of small businesses, though they have other taxes to worry about, do not pay a lot of corporation tax because of this annual investment allowance. They are reinvesting, thankfully, and the annual investment allowance eliminates their corporate tax liability. They still have to do a return, so they still have some of the burdens, but they are not, in effect, paying the tax. If you extended that across the whole piece, you would probably collect very little corporation tax at all.

That was the case in the 1970s, with a rate of 52%. You got first-year allowances and full write-offs for almost everything. If you went back to



that, I think you would find you were not fishing effectively in the pool. Generally speaking, large companies are not short of cash and are looking at the accounting results, so they can be incentivised in different ways. While I agree that we do not want to be pulling the plug on the annual investment allowance in these circumstances, and in general we want more stability and predictability about it, we have to be careful about going mad and giving support to very large companies that do not need it.

Q142 **Anthony Browne:** I am going to wrap up with my promised question. If there was one change to business taxes that you would do if you were Chancellor, what would it be?

**Charlotte Barbour:** We called some while ago for some kind of investment relief for those who invest in smaller businesses, because they are the hub driving the economy. We would look for something like that. I appreciate it is really difficult to construct something vis-à-vis avoidance, but, yes, that is what we would like, please.

**Anita Monteith:** I would want to simplify national insurance for unincorporated businesses. They tried to merge class 2 and class 4 once before. and it did not work. It is too complicated at the moment.

**Anthony Browne:** There is a lot of sympathy for that.

**John Cullinane:** I guess I would have to mention business rates. To be honest, there is a certain amount of hysteria about them. The economists tend to say we should have a land value tax. It is very different from a land value tax and it is full of imperfections, but it is the closest thing to a land value tax we have. If you give too-generous reliefs, or actually abolish them, you find it is the landowners who very rapidly benefit, because the market drives the rents up. One of the changes the Government are consulting on is to make the landowner legally responsible, to bring out the visibility of that a bit more.

There are other irrationalities as well, like it penalises improving the premises and so on. You cannot stop the fact that people have a preference, which was coming anyway, quite independent of coronavirus, to deal more online. That will have consequences for land values and therefore for the amount we can expect to get from the tax. I do not think we should stand as a barrier to progress in terms of how people want to live their lives and do their shopping. Nevertheless, we need to look at that base and see what we are going to do to make at least the same revenue in a less irrational form.

**Chair:** That brings us to the end of our session. Can I thank our panel for an excellent session and all their input? What has been particularly valuable is that you are practitioners and at the coalface. That gives us an important perspective on the issues we have discovered. We have covered a lot of ground. We have discovered a lot of elephants in the room, and perhaps some dragons to slay as well.



## HOUSE OF COMMONS

One point I would make is that we have raised simplicity in the tax system many times. This reminds me of when I was responsible for tax, as a Minister at the Treasury. Colleagues would often say this to me in the House of Commons: "It is far too complicated." Equally, they would then say something like, "When it comes to this particular tax, could you possibly exempt this group within my constituency who I think are rather unique? They are having a really hard time and you should make some changes," which of course drives complexity in itself. Perhaps we are all guilty of pushing complexity as well as striving for simplicity.

Thank you so much for joining us. That has been really helpful. That concludes this session.