

Written evidence submitted by UK Women's Budget Group

1. The UK Women's Budget Group (WBG) is an independent network of leading academic researchers, policy experts and campaigners that analyses the gendered impact of economic policy on different groups of women and men and promotes alternative policies for a gender equal economy. We have only answered questions we have expertise on.
2. For more detailed information about our taxation policy recommendations, please see resources on our website including our 2019 Gender and Taxation briefing ¹.

What more can the UK do to protect its tax base from erosion as a result of globalisation and technological change, and what further impacts will the coronavirus pandemic have on our tax base?

3. Take the lead in developing international agreements to prevent tax secrecy (e.g. by requiring country by country reporting), set floors to tax levels to prevent a race to the bottom in personal and business taxation, remove tax loopholes that allow for tax avoidance and restrict the range of tax allowances, reliefs and exemptions more generally. Introduce a new digital tax regime and financial transaction taxes, inviting other countries to do similarly and encouraging co-ordinated international taxation agreements on these matters.
4. The coronavirus pandemic has shown how public investment in labour intensive sectors, such as adult and childcare, health and education, is needed both for normal times and to protect the economy from future crises, including pandemics. Technological change in the development of these industries will improve quality and working conditions, but is unlikely to change their labour-intensive nature, thus investment in them will help protect and expand the tax base.

Do these pressures need to be met with tax reform, and if so, is this the right time for reform?

5. Yes, they do require tax reform and now is the right time to make the tax system fairer and more resilient. However, the overall level of taxation should not be raised until this recession is over.

What overall level of taxation can the economy bear without undesirable or counterproductive harm to economic growth?

¹Available to read here: <https://wbg.org.uk/wp-content/uploads/2020/02/final-tax-2020.pdf>. Other more detailed resources include a paper written by Tax Justice UK for the WBG Commission on a Gender-Equal Economy here: <https://wbg.org.uk/wp-content/uploads/2020/03/Paper-2-Wealth-tax-and-gender.pdf> and, an Overview of Social Security and Taxation reform here: <https://wbg.org.uk/wp-content/uploads/2020/03/tax-and-social-security-overview.pdf>.

Other extended reading on this submission is available on tax on savings and investment, here: <https://wbg.org.uk/wp-content/uploads/2020/02/final-tax-on-savings-2020.pdf> pensions, here: <https://wbg.org.uk/wp-content/uploads/2020/03/Paper-3-Pensions-and-gender-equality.pdf> and basic income and gender equality, here: <https://wbg.org.uk/wp-content/uploads/2020/03/Paper-5-Basic-income-and-gender-equality.pdf>

6. There is no clear evidence of a critical threshold above which taxation (in % of GDP) is harming the economy. Economies with higher levels of overall taxation in % of GDP such as Sweden, Iceland and Norway have grown slightly more than the UK over the last 30 years (in terms of real GDP per capita), according to OECD data, while other countries taxing more such as Germany, Austria, Belgium, Finland or Denmark have not grown much less.
7. But GDP growth is not a good measure of progress. Rather measures of well-being such as health, skills and knowledge, and access to basic resources (shelter, social participation, mobility) should be used to assess whether the economy is thriving. And, for whatever measure is used, it is not the level of taxation that matters, but its composition and effectiveness against such measures of public spending on physical and social infrastructure, including on services and cash transfers.

Which areas of the tax system are most in need of reform, and which are best left alone?

8. The tax system as a whole needs reform to become more:
 - a. effective at raising revenue
 - b. progressive overall
 - c. robust and less open to abuse through tax avoidance
9. Any such reforms need to be designed to reduce gender and other inequalities, in line with the Public Equality Duty, as well as to reduce inequalities in income and wealth. In order to achieve this, priority should be given to the following areas (addressed in the subsequent questions):
 - a. reinstating independent taxation throughout
 - b. reforming council tax to make it a genuine progressive wealth tax
 - c. taxing all income from all sources equally
 - d. reforming inheritance tax
 - e. abolishing inefficient and unfair tax reliefs and loopholes
10. Moreover the UK needs to become a leading member of an international movement to ensure that all countries, especially the poorest, have the ability to tax economic activities within their jurisdiction and avoid a race to the bottom in tax competition.

What reforms should be considered in response to the pressures on the tax system?

11. Reforms are needed to tackle pressures due to increasing inequality. These pressures that enable those with wealth or higher incomes exercise undue influence on the tax system. There are substantial tax reliefs and allowances that are in practice only available, or worth more, to those with higher incomes or great wealth, thus fuelling greater inequality and eroding the tax base.
12. Substantial root and branch reform would be required for the UK tax system to become progressive, while at the same time providing an incentive structure that addresses the substantial, and growing, inequality within the UK. Many examples of particular reforms needed are given elsewhere in this response. Additionally:

- a. Consideration should be given to abolishing the personal tax allowance and replacing it by a universal cash benefits available to all UK residents
 - b. The UK corporation tax rate should be aligned to that of the average within the OECD.
 - c. Tax avoidance should be tackled through a general anti-avoidance principle that would replace the existing and inadequate general anti-abuse rule.
 - d. A wealth tax should be considered.
13. Finally, independent taxation of income needs to be reinstated, and applied to Capital Gains Tax as well as Income Tax. Even for income tax, independent taxation has been undermined by coalition Government though the introduction of:
- a. what is now called “the marriage tax allowance”, that under certain conditions gives a small extra tax allowance to a married person based on his or her spouse’s low earnings
 - b. the higher income child benefit charge, that withdraws “child benefit” from a higher rate tax-payers income whose partner has claimed child benefit.
14. There are a number of reasons why both these measures are undesirable, but the most important is that by making one partner’s tax liability depend on the other’s income, they both undermine the right to independent taxation, and important contribution to women’s equality, won in 1990. Both the marriage tax allowance and the higher income child benefit charge should be abolished.

What is the role of tax reliefs in rebuilding the economy and promoting economic growth and efficiency? Does the current regime of tax reliefs perform this role well?

15. The current system of poorly designed tax reliefs, allowances and exemptions undermines the integrity of the tax system as a whole, by creating opportunities for tax avoidance that go far beyond the original intentions of their design. A ‘tax-planning industry’ based on the exploitation of such tax reliefs has grown up, wasting talent and redirecting resources into unproductive uses, and fuelling an attitude to taxation as an unnecessary evil to be avoided.
16. Further, there is little logic to the allowances and reliefs provided; they tend to go to the better-off and are not subject to the same levels of scrutiny as other forms of Government expenditure.
17. Instead tax reliefs, allowances and exemptions should be replaced wherever possible with non-means-tested benefits or services available to all (e.g. move from tax relief on childcare to direct funding of childcare services; from tax relief on pension savings to an increase in the state pension, etc.).
18. Any tax reliefs, allowances and exemptions that remain should be treated like any other Government expenditure with their gains rigorously assessed against their costs and their equality impacts considered. A wholesale reassessment of the existing system of tax reliefs on such a basis is required, as well as some specific measures outlined below.

What are the areas for simplification?

19. The taxation of different forms of work is in urgent need of reform:
- a. Earnings taken in the form of company profits tend to be taxed at lower tax rates; this option is not generally available to most employees, but taken by some of the highest paid
 - b. National Insurance Contributions (NICs) are payable only on earnings, and at a reduced rate for the self-employed (including those in the gig economy, classified as "self-employed", but more like employees in many respects)
20. Instead all income from work should be taxed in the same way. This would also involve removing the Upper Earnings Limit for NICs, which makes them regressive tax over higher incomes, and harmonising NICs rates and benefits for the self-employed with those of employees. It also requires reforms to employment legislation, so that employers cannot treat workers that are effectively employees as self-employed, so that they lose employment benefits and protection.

What is the right balance between taxation of work, savings/pensions and wealth?

21. Wealth inequality has increased even more than income inequality over recent years. However, wealth is not taxed per se, and the **income and capital gains** that arise from holding wealth are substantially under-taxed compared with income that arises from working. Since wealth is highly correlated with income; the under-taxation of wealth and income from wealth increases both income and wealth inequality, reinforcing external tendencies in this direction and the long-term pressures on the tax system that inequality produces. It also reinforces gender gaps in income and wealth. Examples of such under-taxation include the lower tax rates than on earnings that apply to:
- a. some dividend and savings income.
 - b. capital gains, which also allows a significant annual exempt amount, additional to the personal tax allowance, as well as various reliefs e.g. the remaining Entrepreneur's Relief, EIS relief and generous reliefs for let property.
22. Instead, rates for taxing unearned income should be the same as, or possibly higher than, those applying to earned income. On the same grounds, a surcharge equal to the NICs paid on earned income should be paid on all unearned income and capital gains. Capital Gains Tax should be charged at income tax rates and the annual exempt amount and other reliefs should be abolished or significantly reduced. The exemption for gifts to spouses should be limited to restrict its use for tax minimisation.
23. Both of these sources of income and wealth are more available to those with higher levels of incomes or wealth, reinforcing inequalities in both. Women are less likely than men to have income from savings and dividends and have lower levels on average of such income. They are also less likely to make capital gains.
24. The favourable tax treatment of **home ownership** that encourages an additional demand for housing in order to make tax-free capital gains. This advantages those who can afford to "get on the housing ladder", inflating house prices and rents, while at the same time.
- a. making suitable housing unaffordable to many
 - b. channelling investment into housing rather than more productive investment.

- c. Such tax relief is biased towards those who can afford expensive property and consequently increases inequality too. Men are more likely to be able to afford to buy a property on their own than women.
25. Instead, the taxation of housing should be reformed, by:
 - a. abolishing any permanent relief from CGT (while possibly allowing some its payment to be delayed across successive house purchases).
 - b. consideration might also be given to imputing and taxing the in-kind rents that owner occupiers enjoy.
26. Any revenue raised by these measures could be redirected to tackling the housing shortage. This would benefit women in particular, who are more likely to suffer from homelessness.
27. **Inheritance** of wealth hinders social mobility and reinforces inequality. The current structure of inheritance tax, with its many allowances and reliefs is inadequate to tackling these issues. Tax reliefs within it only serve to concentrate inherited wealth, as does CGT forgiveness at death.
28. Instead, inheritance tax should be replaced by a progressive gift receipts tax at incomes tax rates, possibly allowed to be spread over many years.
29. That **pension tax relief** is available at an individual's marginal tax rate, makes it worth twice as much to higher rate than basic rate taxpayers, and nothing to those who earn below the tax threshold, ensuring that Inequalities between those of working age are magnified for pensioners. This also has severe adverse gender equality effects, because there are far more men than women who have personal pensions and/or pay higher rate tax and far more women than men who earn too little to pay Income tax at all.
30. Instead, Pension tax relief should only be available at basic tax rates if at all. Such tax relief would be better spent on Increasing the state pension to reduce income inequality in later life, including between men and women.
31. There are many other tax exemptions schemes for those who can afford to save, some to levels of **saving** far beyond the saving capacity of those on average incomes e.g. £20,000 can be put in ISAs annually, and available every year, inevitably fuels greater inequality in wealth holdings in the UK; and consequently between women and men.
32. Instead, such tax incentives to save should be limited and restricted to those who use their savings to some social benefit, for example to invest in meeting the UKs climate change targets or in projects to promote equality (investment possibilities would have to register their eligibility).
33. The **council tax** regime, although the nearest that we have to a wealth tax, is highly regressive, with those in lower bands paying proportionately far more than those in the highest bands, while within the highest band a wide range of wealthy property owners pay only a flat rate. It is not really a wealth tax because it is charged on occupants rather than owners.

34. Instead, council tax should be charged at a progressive series of rates, with more paid by those in the most expensive properties. A revaluation of properties should be made. Consideration should be given to replacing the council tax regime with a local Income tax combined with a land value tax.

What is the best way to tackle tax reform, including what changes might be needed at HMRC to support implementation, and how should the Government consult with stakeholders and parliament?

35. The Government should set clear published aims and objectives for the taxation system as a whole and be expected to report to these criteria. It should promote taxation as a way in which everyone contributes to the well-being of society e.g. by talking of a tax contribution rather than a tax burden. It should resist the temptation to imply that paying tax is undesirable (for example, the promotion of tax free childcare or savings accounts, as if tax paying is a socially undesirable activity) but instead show support for the UK tax system and payments to it as a socially necessary contribution. A significant change in attitude towards tax payment in the rhetoric and actions of UK politicians is needed within and outside parliament.
36. HMRC needs to be provided with the resources it needs to increase tax compliance and revenues. Cuts in spending on tax compliance are widely recognised to have been a false economy.

August 2020