Written evidence submitted by the Chartered Institute of Taxation (CIOT)

1 Executive Summary

1.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK for advisers dealing with all aspects of taxation. We are a charity and our primary purpose is to promote education in taxation with a key aim of achieving a more efficient and less complex tax system for all. We draw on the experience of our 19,000 members, and extensive volunteer network, in providing our response.

1.2 The pandemic has again highlighted the need to address some fundamental aspects of the tax system, such as the 'three person problem' ie the difference between the tax burdens on employment, self-employment and those operating through a company. These imbalances prompt behaviours which have not only affected entitlement to the government's COVID support, but highlight impacts on certain classes of individual including those on low incomes and with protected characteristics.

1.3 The practical operation of the tax system can also be a source of potential discrimination, such as the ability to access and understand guidance on GOV.UK, and obtain support or reassurances from HMRC. Some work is currently being undertaken in this area, but a greater focus could be placed on ensuring that HMRC can provide the necessary support to everyone who needs it.

1.4 We think that the government could do more to consider the equality, diversity and inclusion impact of its policies, both during their development and following their implementation. There may also be scope for more systematic reviews by the Treasury Committee or the Women and Equalities Committee.

2 About us

2.1 The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.

2.2 The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

2.3 The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.

2.4 Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

3 Introduction

3.1 We are pleased to set out our comments, which include those of our Low Incomes Tax Reform Group (LITRG), on the Committee's inquiry 'An Equal Recovery'.

3.2 Our stated objectives for the tax system include:

- A legislative process that translates policy intentions into statute accurately and effectively, without unintended consequences.
- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
- Greater certainty, so businesses and individuals can plan ahead with confidence.
- A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).
- Responsive and competent tax administration, with a minimum of bureaucracy.

3.3 LITRG's seven principles for the tax system, as set out in its paper 'A better deal for the low-income taxpayer',[1] are:

1. Clear and up to date
2. Simple
3. Equitable
4. Just
5. Accessible and responsive
6. Joined up
7. Inclusive

3.4 The inquiry is examining the different forms of inequality that have emerged, or that may have been exacerbated, by the coronavirus pandemic, and what HM Treasury can do to mitigate them. The inquiry is focusing on disability, gender, race, regional imbalances, and intergenerational inequality, including housing.

[1] See https://www.litrg.org.uk/latest-news/reports/201204-better-deal-low-income-taxpayer

3.5 In October 2020, with our 'sister' charity the Association of Taxation Technicians (ATT), we established a Joint Equality, Diversity and Inclusion (EDI) committee. The committee assists us in ensuring we have clear EDI values that can be demonstrated through our behaviours, actions and operations. Its remit includes not only EDI within our own organisations and the tax profession, but it is also starting to consider EDI issues around tax and related policy.

3.6 LITRG has done substantial work on tax and EDI matters over the last 23 years, producing its own reports,[2] commenting on the government's impact assessments and EDI action plans, and supporting taxpayers in an appeal against mandation of online filing for VAT on EDI grounds.[3] Success in that appeal resulted in changes to the VAT Regulations to accommodate those digitally excluded by reason of age, disability or remote location and has influenced HMRC policy in its Making Tax Digital programme.

3.7 We have undertaken a substantial amount of work in relation to COVID-19 support; particularly the Coronavirus Job Retention Scheme (CJRS) and the Self-Employment Income Support Scheme (SEISS), but also more widely across the tax regime. We have had significant and welcome engagement with HMRC and HMT in several areas, as well as with our wider membership and their clients through our committees, webinars and other interactions.

3.8 As a tax professional body, we do not have the expertise to comment upon all aspects covered by the inquiry. However, our members as tax advisers, in professional practices, commercial enterprises, public sector and charities have extensive anecdotal evidence of the impact of the pandemic on their clients and other people they deal with. LITRG also receives feedback from members of the public via its website contact facility, which often includes information on EDI-related matters (with older people, disabled people, carers and those with English as a second language sharing their experiences). Our comments are made on this basis and we have therefore only answered the questions where we have points to make.

3.9 We note that the Women and Equalities Committee also has an open inquiry 'Unequal impact: Coronavirus (Covid-19) and the impact on people with protected characteristics'.[4] We have not contributed to that inquiry but note that there may be some overlap.

4 Overarching theme

[2] Examples include 'Disability in Tax and Related Benefits', December 2003, see https://www.litrg.org.uk/latest-news/reports/040115-disability-tax-and-related-benefits-case-modern-and-coherent-approach; 'Older people on low incomes – The case for tax reform', May 2007, see https://www.litrg.org.uk/latest-news/reports/070530-older-people-low-incomes-case-tax-reform and others. LITRG's full reports and submissions archive can be found at https://www.litrg.org.uk/latest-news/reports and https://www.litrg.org.uk/latest-news/submissions

[3] *LH Bishop Electric Company Ltd and others v HMRC* [2013] UKFTT 522 (TC)

[4] See https://committees.parliament.uk/work/227/unequal-impact-coronavirus-covid19-and-the-impact-on-people-with-protected-characteristics/.

4.1 <u>What are recent trends in income and wealth inequality in the face of the pandemic?</u>

4.2 Whilst mindful of the risk of over-generalising, the following general trends seem to have appeared:

- Those in a more 'longstanding' working environment – whether employed or self-employed – have been better supported during the pandemic. This is because (albeit with some exceptions) if their circumstances have been adversely impacted by the pandemic they will have been entitled to government support through the CJRS or SEISS.

- Those in a more 'fluid' working environment – again, whether employed or self-employed – have been harder hit. For instance, the newly self-employed missed out on the first three SEISS grants, freelancers and those on short term projects may have been ineligible for SEISS and similarly not furloughed by their 'employer'. Other lower paid staff, without guaranteed hours in industries most harshly affected by the pandemic (eg hospitality and non-essential retail), may have been made redundant, or simply not furloughed by their employer.[5] Of those most harshly hit there is anecdotal evidence of a disproportionate number being young, female, disabled or from ethnic communities.

- Those in 'intangible' sectors such as professional services have been able to react more quickly through the ability to work from home and, in some instances, generate savings through reduced business costs. Many businesses are now seeing the benefits of this more flexible way of working and are adopting it in whole or part as their new normal.

- Those in 'tangible' sectors such as retail and hospitality have suffered from increased costs of PPE and the need to enforce social distancing etc. With the likely exception of essential retail, these sectors will also have seen their income reduced (if not extinguished), due to restrictions on customer numbers etc.

- Those in a stable working environment, or those with a regular pension, might have increased their wealth during the pandemic because whilst their income has remained broadly constant, their discretionary expenditure (on holidays, dining out etc) has reduced.

4.3 <u>As we recover, how do we combat the inequalities that have been exacerbated as a result of the pandemic?</u>

[5] For example, there is no obligation on an employer to furlough a zero hours worker. The employer may simply have told the employee there is no work for them to do and so they would remain unpaid during that period.

4.4 To some extent the first two scenarios outlined above arise as a result of the failure to address openly and comprehensively the so-called ‘three person’ problem, whereby employed and self-employed individuals and essentially one person companies engaged in similar ways economically are taxed at quite different rates and in quite different ways. This is also exacerbated by the fact that many people do not understand the importance of these differentials in status – a sole-director company is not ‘self-employed’ for tax purposes, nor is a worker in the Construction Industry Scheme (CIS) necessarily ‘employed’ (even though they might suffer a deduction of tax at source). The three person problem has had the following COVID effects:

- Employment *versus* self-employment – It is no secret that the differential tax treatment between the employed and self-employed[6] is a motivating factor to be (or to present oneself as) self-employed. Even more so, there is a perverse fiscal incentive for employers to seek to move the people they engage off-payroll into self-employment, to avoid employers’ national insurance costs;[7] there is increasingly broad anti-avoidance legislation to limit the effect of this, imposed at considerable compliance cost and complexity. But the more fluid nature of self-employment, or moving between employment and self-employment, has reduced or eliminated entitlement to either CJRS or SEISS. Similarly, those employers with staff on their payroll have suffered greater costs than those using self-employed contractors.[8] Had these long-standing differentials been addressed the government’s COVID support packages could have had a more comprehensive scope with fewer people falling through the gaps.

- Unincorporated *versus* incorporated – Similarly, there are advantages to incorporating a business, with it having previously been fairly standard tax planning for owner-directors to take a small salary, with the remainder of their income being paid as dividends. Again, engagers of personal services have been very influential in procuring this outcome by preferring to deal – and sometimes insisting on dealing – with incorporated businesses, including one-person companies. Notwithstanding proposals made by many representative and professional bodies, this incentive created by the tax system resulted in many owner-directors being eligible for little or no COVID support.

The scope of income tax and national insurance (NIC) has also drawn attention. One example is that pensioners pay tax, but not NIC, on their employment / self-employment / pension incomes. As noted elsewhere, some pensioners may have become ‘better off’ during the pandemic (at least in relative financial terms) contributing to a sense of unfairness that they have been more lightly ‘taxed’ than those below pension age. We

[6] Predominantly the incidence of employer NI contributions on employers at 13.8%, but also larger employee NI contributions, as well as stricter rules on deductions for expenditure.
[7] And for larger employers, Apprenticeship Levy
[8] Since August 2020 the government has not reimbursed the cost of employer NI contributions or pensions costs, and in some periods the employer has been required to reimburse some of the salary element, too. Not to mention the cost and complexity of undertaking CJRS claims.

recognise that this is not a straightforward issue, in that pensioners will have paid national insurance in the past, and that there are also other examples of financial returns not being subject to NI, such as rental profits and investment returns. However, it needs to be recognised that NI is to all intents and purposes another form of income tax, giving rise to similar benefits across the board.

4.5 The issues mentioned in 4.4 are not new. However, previous attempts to more closely align the treatments have either tinkered around the edges[9] or have not been sustained.[10] These issues have been skated around for many years and it is time that they were addressed head on with proper consultation.

4.6 There are other factors which the pandemic has brought into sharper focus and which are in need of attention:

- The timeliness and quality of guidance on GOV.UK – Good quality guidance benefits all types of taxpayer (and also, we suggest, is of more significance than is often realised in deterring abuse and stretched interpretations of legislation). In the context of this inquiry, it is of particular importance to taxpayers who cannot afford independent bespoke advice, but who are exposed to complex issues around tax - and sometimes its interaction with credits or benefits - as a result of very low income, migration, or of life patterns or events such as childcare, divorce, redundancy or bereavement. We have longstanding concerns about the approach by Government Digital Services and by HMRC to guidance on GOV.UK, which is the primary governmental source of information and support about tax and related benefit matters. Our two principal concerns are:

    - GOV.UK content is often limited to current information, making it difficult to look at previous rules and versions (often necessary for tax matters). Specifically relating to COVID, the CJRS and SEISS have changed significantly over the course of the last fifteen months, and it was only in response to calls from professional bodies like ourselves that links to previous guidance on the national archives were included on GOV.UK - for example, to check that a claim made for COVID-related support was valid in accordance with the rules at the time. Even now, it is still necessary to navigate the archives (not an easy task) in order to be able to view the rules applicable at the time of the claim. If people find it hard to correct past errors, the public finances will of course suffer, but the individuals will also be exposed to penalties if the error is detected, and this risk will lie most heavily on those who find it hard to navigate the system and cannot afford to pay for advice as to how to do so.

    - GOV.UK guidance is often oversimplified, ignoring or glossing over some of the

[9] Such as the changes to dividend taxation in April 2016.
[10] Such as the 2017 Budget announcement to increase national insurance for the self-employed, which was subsequently reversed.

complexities of the tax system, and its circularity can prevent you from accessing the detailed guidance required for your situation.

Whilst we are pleased to be in ongoing discussions with HMRC about their guidance, these major problems will remain if the government remains wedded to its existing approach. The coronavirus pandemic has also reiterated the need for joined-up guidance between departments, with LITRG having noted that many of those making contact via its website during the pandemic have been left confused about how all the government offerings fit together.[11]

- The ability to obtain help from HMRC – During the pandemic HMRC's service levels have plummeted, far below their normal targets, so for many it has been difficult to get any useful support from HMRC. While understanding the difficulties faced by HMRC during the pandemic, we would emphasise that even pre-pandemic there were difficulties in obtaining help from HMRC:

    - If you are a business large enough to have a Customer Compliance Manager (CCM), then you have a direct route into HMRC through that CCM. Everyone else has to try to contact HMRC through their normal channels (phone, webchat etc). This can make it difficult for small and medium sized businesses, and individuals, to get issues satisfactorily resolved.

    - Even when it is possible to get HMRC's attention, they are often unwilling to provide a clear answer to queries. We can well understand that approach where published guidance provides an unambiguous answer, but as noted above that is often not the case, and if it were the case, the taxpayer (or their agent) would probably not contact HMRC at all. In practice HMRC can appear to go out of their way to justify not providing a clear answer, rather than providing the help the taxpayer needs.

  HMRC needs to be adequately resourced to provide a satisfactory standard of service to everyone; which is especially important for those unable to afford paid advice.

- The need to combat 'mass-marketed' tax avoidance - Most 'tax avoidance' today no longer represents sophisticated planning, and generally does not involve professionally qualified advisers. Instead, there is a small population of 'hard core' promoters of tax avoidance schemes, focused on the mass roll-out of avoidance schemes (usually disguised remuneration (DR) schemes) to groups of workers on low to middle incomes, often via umbrella companies (more on this below).[12] Many of those caught up in tax

[11] See page 16 of 'A better deal for the low-income taxpayer' (full version): https://www.litrg.org.uk/latest-news/reports/201204-better-deal-low-income-taxpayer

[12] See for example HMRC's policy paper 'Tackling promoters of mass-marketed tax avoidance schemes' at

avoidance are unaware of that fact, or at least of the risks involved, and this can leave them with significant tax bills. Often such workers' understanding of the tax system is based on experience with PAYE and they have little experience of having to file tax returns, deal with HMRC enquiries and so on. Whilst avoidance is of course an area under HMRC's spotlight, we think that more could be done to reflect the different experience and understanding of different parts of the population in the approach to tackling it. In particular there is a need to educate individuals and groups, especially those showing protected characteristics or those who do not understand the tax system (in some cases because English is not their first language), and provide appropriate targeted support.

The role of certain umbrella companies in the labour market is one topical example of an area in need of attention. Whilst many such companies are compliant and fill a market need, the sector is open to abuse. As mentioned above, some umbrella companies are set up and inserted by promoters into temporary worker supply chains to operate DR schemes, in order to exploit the economics of supply chains and the nature and scale of the temporary worker labour market. Others may have simply seen an opportunity to get an advantage in the marketplace and jumped on the bandwagon – casually concocting such schemes in house without any real 'promoter' behind them.

Under such an arrangement, the worker may be paid a minimal amount of taxable income, topped up with a purportedly non-taxable element of pay (whether it be loans, investment payments, advances, grants, loans, credits etc). Some agency workers will be paid this way unknowingly (as often payslips are not provided and their 'net pay' is similar to what it would have been) and some may have some visibility but may simply not understand that the way they are being paid is 'tax avoidance' or 'evasion'. Others may have an inkling that something is not right, but dare not probe as they need the job (in some instances, the 'umbrella comes with the job'). HMRC must urgently design a strategy to more firmly deal with the phenomenon of workers being put into tax avoidance schemes, sometimes without their knowledge and more often without their informed agreement.[13]

- Net pay pensions – Most people obtain tax relief when they make pension contributions at their marginal rate of tax. Indeed even those with no taxable income at all may contribute annually up to £2,880 net to a personal pension scheme and the government tops up the contribution to £3,600 gross, adding basic rate tax via relief at source. This general policy is designed to help people save towards their future retirement and so be less dependent on state benefits in the future. However, an anomaly exists, affecting low paid members of occupational pension schemes that

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https://www.gov.uk/government/publications/tackling-promoters-of-mass-marketed-tax-avoidance-schemes/tackling-promoters-of-mass-marketed-tax-avoidance-schemes

[13] See the recent LITRG submission at https://www.litrg.org.uk/sites/default/files/210528%20Clamping%20down%20on%20the%20promoters%20of%20tax%20avoidance%20FINAL.pdf

operate a net pay arrangement. Employees in net pay schemes obtain tax relief by the pension contribution being deducted from their salary before tax is calculated, but an estimated 1.5 million employees in such schemes who do not pay tax obtain no tax relief on their contribution, despite long-standing government policy decisions that in principle they should. Most of those employees (75%) are women and a disproportionately large percentage are expected to be from ethnic communities.[14] With household incomes being stretched during the crisis, effectively denying this tax relief to some of the lowest paid will not encourage them to make pension contributions. It may also be thought unfair to have a situation that some of the lowest paid might receive no tax relief on their pension contributions while the highest paid might receive tax relief of 45% or more.[15]

- Interaction of taxation and benefits – Issues arise, for example, in connection with Universal Credit (UC), in particular when a claimant's earnings increase. Assuming the claimant is a basic rate taxpayer and earns above the income tax personal allowance , an increase in earnings of £1,000 (gross) per year would result in an increase in household income of only £251 due to the taper applied to the UC claim, calculated thus:

	£
Increased salary	1,000
Less: income tax	(200)
Less: NIC	(120)
Increase in take home pay	£680
Universal credit taper (63%)	(429)
Actual increase in household income	251

This is akin to a 'tax' rate of nearly 75%.

Other welfare benefits may also be reduced or lost, such as council tax support. There may also be a loss of passported benefits such as free school meals, and there may be

[14] Although now a few years old, see Written question HL15963 (answered 18.6.2019) using 2016/17 figures (1m women as against 1.3m total), up from an estimated 74% in 2015/16 - HL11217 (answered 19.11.2018). See https://questions-statements.parliament.uk/written-questions/detail/2019-06-04/HL15963 and https://questions-statements.parliament.uk/written-questions/detail/2018-11-05/HL11217 respectively.

[15] Or 46% if they are a Scottish taxpayer.

an increase in other costs associated with working more hours. Thus people on the lowest income often face the highest marginal rates of tax, if loss of entitlements is included, than people at the higher or top ends of the income spectrum.

- This issue has to be seen in the context of the significant increases to the personal allowance in recent years. For many years this was often seen as a way of helping the lowest paid. But for individuals on the lowest incomes, who pay no income tax due to the level of their earnings, an increase in the personal allowance makes no difference to their income. Instead, an increase in the primary threshold for NIC purposes or changes to the UC system (for example increases to the work allowances) might increase their household income more efficiently. We are of course aware that the Budget in 2021 froze the personal allowance as a fiscal consolidation measure following the impact of the pandemic on the government's finances. However, when resources again allow increases in such allowances to be considered, the government needs to assess the benefits of this against other options such as raising the lower national insurance threshold or reducing the rate of claw-back of Universal Credit, in terms of their relative impacts on work incentives and the income of the lowest paid people. In terms of the inquiry's scope, this point, together with the previous bullet, links to considerations of intergenerational inequality. For example, increases to the personal allowance might be more beneficial for those who do not pay NIC, such as pensioners (as discussed earlier). The benefit of particular measures on different sections of the population (such as working age versus retirement age) therefore needs careful consideration to ensure an equal recovery.

5 Disability, gender, and race

5.1 How has the economic impact of the crisis affected disability, gender, and race inequality?

5.2 By its very nature the pandemic has put some groups at a greater health risk, such as the elderly for whom the physical impact of COVID-19 is the most serious, those with particular medical conditions or disabilities who may have had to shield or self-isolate, and those from particular ethnic groups whose domestic circumstances or health profiles make them particularly at risk of contracting and suffering from COVID-19.[16]

5.3 In terms of gender impact, whilst more men have died from COVIID-19 than women, women's well-being is reported as having been more negatively affected than men's, particularly during the first year of the pandemic, often spending more time on childcare and unpaid household work.[17]

[16] There appears to be substantial research in these areas – see as an example https://post.parliament.uk/impact-of-covid-19-on-different-ethnic-minority-groups/

[17] See for example https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/articles/coronaviruscovid19andthedifferenteffectsonmenandwomenintheukmarch2020tofebruary2021/2021-03-10

5.4 We suspect that the economic impacts have been felt in disproportionate ways, such as:

- Hospitality and retail are sectors that typically employ greater proportions of young people[18] and migrant workers.

- Operators in particular sectors may be more likely to come from particular ethnic backgrounds, such as taxi drivers (predominantly male, as well as a higher proportion from ethnic minority groups) [19] who experienced a significant fall in demand during lockdown.[20]

- Elderly individuals with a regular pension may have felt less impact – or even found themselves financially better off – as a result of a period of shielding or otherwise incurring less discretionary expenditure, although they may have had additional vital costs such as of carers.

5.5 LITRG, via its website contact facility, has seen some distressing examples of how the economic impacts of the crisis have exacerbated already difficult household circumstances – for example, for disabled and older people and their carers. The following was received in April 2021 from one member of the public, a carer, who could not claim SEISS grants due to mistakenly reporting construction industry scheme self-employed earnings as employment income on his tax returns:

> 'For the past 8 years I've been doing my own [tax return] online and have had no problem receiving rebates. I've accidentally filled in employment section and ticked the wrong box somewhere and because of this I've fallen through the cracks. I did appeal and speak to the HMRC but to no joy. The last 2 years have been an absolute nightmare as I've had to go to work and put my mother at risk as she's high risk due to many underlying health issues (copd...bipolar..dementia...etc)… I'm in debt up to my eyeballs and the stress levels are still peaking as a result of this.'

5.6 <u>How effectively is the Treasury taking disability, gender and race into account when formulating policies and making decisions on departmental spending allocations?</u>

5.7 Due to the speed at which the CJRS and SEISS were designed and implemented, we do not think that account was fully taken of these protected characteristics. However, equalities impacts do appear to have been considered in other COVID measures,[21] and are addressed

[18] See Table 1 at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/412033/older-workers-by-sector-ad-hoc-statistics.pdf, although more recent data may be available.
[19] See the Equalities impact at https://www.gov.uk/government/publications/new-tax-checks-on-licence-renewal-applications-in-england-and-wales/new-checks-on-license-renewals-for-taxis-and-private-hire-vehicles
[20] See for example https://www.bbc.co.uk/news/uk-england-52490083
[21] See https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins#coronavirus-(covid-19)

in these and other tax information and impact notes (TIINs).

5.8 It is of course important to acknowledge the extremely helpful steps that HMRC took to help those affected by the pandemic thus seeking to mitigate the imbalances that might have otherwise arisen, such as:

- Allowing much more time to pay taxes and making the process for later payment easier for many

- Removing the daily late filing penalties that would otherwise have been imposed in spring 2020 and delaying the imposition of the £100 self-assessment late filing penalty from 31 January to 28 February 2021
- Pausing or reprioritising enquiry work
- Extending appeals time limits for people affected by the pandemic and allowing pandemic effects to be a reasonable excuse for failures such that penalties can be overturned.

5.9 Our impression is that more could be done to consider EDI issues during the development of policy, rather than to assess their impact once the policy has been determined. For example, we understand that the Treasury does not publish full equality impact assessments and they do not consult in advance on the limited information given in the TIINs. Publishing a detailed analysis of impacts when tax policy is being developed and consulting on this would improve consideration of equalities issues earlier in the process. The government could also have a programme of reviewing whether assumptions made in evaluating equalities impacts prove to be correct, or whether in fact there have been unintended consequences of a measure.[22]

5.10 Reflecting more widely on disability, we note that there are limited exemptions or reliefs for workers who are disabled, and we think these issues are worth exploring further. For instance:

- There is no blanket exemption or relief for the extra costs that are incurred by a disabled employee in work, over and above those incurred by a non-disabled employee. Instead, there are piecemeal reliefs, such as that contained in s246 Income Tax (Earnings and Pensions) Act 2003 (ITEPA). That section gives an income tax exemption if transport is provided between home and work for a disabled employee, or if the employer pays for such transport or reimburses the expense incurred. However, disabled employees cannot claim a tax deduction for costs that they bear themselves and are not reimbursed by the employer. While other grants may be available, for example Access to Work,[23] these may not cover the full costs incurred by the employee. A better solution might be for a disabled employee to be able to claim as an employment expense the full costs of putting themselves, as far as possible, on a par with non-disabled employees.

[22] LITRG refers to unintended consequences of the tax policy-making process in its report, A better deal for the low-income taxpayer – see pages 47 to 49 of the full version at https://www.litrg.org.uk/latest-news/reports/201204-better-deal-low-income-taxpayer
[23] https://www.gov.uk/access-to-work

- The VAT rules can make it more expensive for some employers to employ physically disabled employees. VAT can inflate the cost of workplace modifications by up to 20%. Although this may not be an issue for employers who are able to recover input tax in full, real VAT costs would be incurred by those unable to, eg unregistered, exempt or partly exempt employers.

5.11 How can the Treasury better reflect the impact of its policies by disability, gender, and race in its impact assessments?

5.12 The equalities impact within impact assessments shows the impact on the protected groups set out in the Equality Act 2010.[24]

5.13 A higher proportion than average of people with disabilities, women and those from ethnic minorities are on low incomes. Whilst disability, sex and race are all protected characteristics, low income is not. Paradoxically, HMRC is likely to hold an abundance of information in relation to those on low incomes, and limited information on protected characteristics. We therefore think it would be helpful for impact assessments to address the impact on people on low incomes (say, under £20,000 per annum).[25] It is often the case that the impact of new proposals on this group is proportionately much greater than it is on those on middle or higher incomes (though, as noted earlier, it is important to consider interactions between tax and benefits in order to work out the full impact).

5.14 It may also be beneficial for the Women and Equalities Committee to undertake periodic inquiries, or take a more active role, in the evaluation of fiscal events or particular taxation or spending measures.

5.15 How does the distribution of income within households affect impact assessments, and how can impact assessments best reflect the distribution of income within households?

5.16 The individuals and households impact within impact assessments shows the impact of the measure on individuals and households, and also the family and child poverty impact. This includes consideration of the 'Family Test'[26] and whether the measure has any potential impacts on family formation, family relationships, commitment and stability.

5.17 It is more challenging to consider the impact of measures on a household as compared to individuals. This is a natural consequence of the fact that individuals are generally taxed on their own income, and HMRC will often not hold sufficient income, relationship and

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[24] See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/902196/Impact_assessments_in_tax_information_and_impact_notes__1_.pdf

[25] Though in the context of the Inquiry's focus on regional imbalances, it is important to note that the cost of living is higher in some parts than others. See, for example, the difference in assessment of a living wage in London as against the rest of the UK: https://www.livingwage.org.uk/what-real-living-wage

[26] See https://www.gov.uk/government/publications/family-test-assessing-the-impact-of-policies-on-families. The objective of the test is to introduce a family perspective to the policy making process, ensuring that policy makers recognise and make explicit the potential impacts on family relationships in the process of developing and agreeing new policy.

dependency data to undertake reliable assessments at a household level.

5.18 That said, we note that the impact assessment for the high income child benefit charge, or HICBC for short, sought to calculate the number of households affected by the charge, although it did not explore the subsequent 'family' impacts.[27]

5.19 Indeed, the HICBC is perhaps illustrative of several challenges when developing policies that are intended to be 'fair' but focus on individual income and where an individual stands in that spectrum, instead of considering household income. For example:

- A household with a single earner with £70,000 of income is taxed more heavily than a household where both adults earn £35,000: to the extent that some ethnic or religious groups display different patterns of paid working and so income within the household, this may have a discriminatory effect.

- A household income of £50,000 would be considered high in some parts of the UK, but modest in others, due in particular to housing costs: the HICBC now potentially affects basic rate (not just higher rate) taxpayers and affects people in the bottom half of the household (as distinct from individual) income distribution.

5.20 Whilst impact assessments often address the overall financial impact, they could also consider the potential behavioural consequences. For example, again in relation to the HICBC, it was often the mother who received the child benefit, and this may have been an essential source of income for her for the care of the children. Yet the father may have an income sufficient to come within the scope of HICBC and to prevent being caught the mother would be put under pressure to stop receiving the child benefit. The consequential impact of this on the children did not seem to be considered.

5.21 As a result of this issue, many of those with more children suffer a higher marginal rate of tax than those with fewer children.[28] Again, to the extent that households with people from some ethnic or religious groups on average include more children (or indeed, that such households may have a different pattern of distribution of earnings between an adult couple) this may have a discriminatory effect. Whilst it is difficult to map the many potential scenarios, we believe that more active consideration could be given to this issue than simply assuming there is a common practice across all ethnic or religious groups.

5.22 As highlighted above, the availability of relevant information can be a limiting factor in this. But the important factor is to create the desire to address these impacts, thus identifying the gaps in data and how they might be filled, or otherwise reliably estimated.

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[27] See https://webarchive.nationalarchives.gov.uk/20130605101412/http://www.hmrc.gov.uk/budget2012/tiin-0620.htm

[28] As discussed in LITRG's 2020 budget representation paper on the HICBC, see para 5.3ff: https://www.litrg.org.uk/latest-news/submissions/200210-budget-representation-2020-high-income-child-benefit-charge-hicbc

6 Intergenerational inequality and housing

6.1 What have been the trends in, and drivers of, house prices, and to what extent can they be attributed to matters related to the Treasury's remit, in terms of the economy, taxes and housing finance?

How successful have Treasury interventions in housing been? Have they led to any market distortions?

6.2 We restrict our comments here to the taxation of property.

6.3 There are a number of provisions in the tax system to promote and protect home ownership. This is understandable as it is a widely shared priority for many people; one which has been supported by successive governments. However, these measures can come at a significant cost. For example, Private Residence Relief was estimated to cost nearly £25bn in 2019-20.[29] In addition, home ownership has been declining in recent years.[30] It is also true that home ownership varies quite significantly amongst ethnic groups.[31] Over two-thirds of 'White British' and nearly three-quarters of Indian households own their own home, compared to just one-fifth of Black African and one-sixth of Arab households.

6.4 As a professional body, it is not our role to advocate political choices around the retention or abolition of reliefs. However we need to move away from the situation that any public acknowledgement of reviewing expensive reliefs, to ensure they are effective in achieving the intended results, benefitting the right people and providing value for money, is seen as an 'attack' on those who are supposed to benefit. Such regular reviews should be the norm, on a rolling basis, not an exception reserved for those which only benefit groups seen as politically insignificant or unmeritorious. Political choices will always fall to be made, but evidence and analysis should play a part as well.

6.5 To move to a specific example, it is not unusual for SDLT cuts, reliefs and holidays to be used to stimulate the market either as a whole, or for specific classes of buyer. On 8 July 2020 the Chancellor announced a temporary SDLT cut for residential properties, taking the first £500,000 of the purchase price out of SDLT, effective from 8 July 2020 until 31 March 2021.[32] The purpose of the cut was to ensure medium-term confidence in the property market and counteract some of the uncertainty in the housing market in the light of the COVID pandemic and the lockdown - the outlook for the housing market being closely linked to consumer confidence and therefore central to economic recovery. In the March 2021 Budget, the cut was extended until 30 June 2021 at the same level of £500,000, and to 30 September 2021 for the first £250,000 of the purchase price. In late 2017, SDLT on the first £300,000 of the purchase price was removed for first time buyers of properties up to

[29] See https://www.gov.uk/government/statistics/main-tax-expenditures-and-structural-reliefs
[30] See https://www.gov.uk/government/statistical-data-sets/owner-occupiers-recent-first-time-buyers-and-second-homes
[31] See https://www.ethnicity-facts-figures.service.gov.uk/housing/owning-and-renting/home-ownership/latest#full-page-history
[32] See 'A Plan for Jobs 2020' at https://www.gov.uk/government/publications/a-plan-for-jobs-documents/a-plan-for-jobs-2020

£500,000, and this was extended in early 2018 for first time buyers of shared ownership properties. Previously, a temporary relief from SDLT for first time buyers of property up to £250,000 was introduced in March 2010, applying from 25 March 2010 to 24 March 2012.

6.6 In late 2011, HMRC undertook an evaluation of the temporary relief which had applied since March 2010. It concluded that the majority of the 1 per cent tax relief (0.5-0.7%) was in fact capitalised in higher prices, although the post-tax outlay for buying property was estimated to have decreased by 0.3-0.5% after the relief was introduced.[33] We are not aware of any similar reviews being undertaken for the more recent SDLT cuts.

6.7 According to the UK House Price Index, house prices rose by 10.2% in the twelve months to March 2021, and around 8% since July 2020. Whilst we suspect it will be extremely difficult to determine the extent to which prices have been affected by the SDLT cut (in the way they were impacted in 2011), against the general economic recovery as we emerge from the pandemic, we would recommend that an evaluation is carried out, similar to that undertaken in late 2011, to help determine to what extent the SDLT cut achieved its objectives; and that the evidence of this review is taken into account in future decisions.

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[33] See https://www.gov.uk/government/publications/evaluating-the-impact-of-stamp-duty-land-tax-first-time-buyers-relief