TAX AND SECURE FUTURES

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The tax system should support the three principles that CPAG has recommended for an effective social security system. It should:

- provide the funds to prevent poverty;
- provide financial security throughout life and its inevitable crises; and
- be designed fairly and communicated positively so as to support social solidarity.

Tax and poverty prevention

The tax system does not raise enough money. This isn't the place to rehearse the many ways in which it could raise more - the world of progressive tax reformers is awash with ideas.[1]

If the tax system is to support an effective social security system, reforms must go further than raising more money. Income and wealth are distributed unevenly in the UK - and tax makes things worse. The poorest 10% of families with children pay a higher percentage of their income in tax than any other income groups. And the other 90% pay similar percentages to each other.[2]

Since the time of the Beveridge report, rates of taxes have fallen dramatically – particularly rates that apply to higher earners and businesses. Returns from business find their way mainly to the better off. [3] At the same time

[1] For example, the CPAG book *Let's Talk About Tax* (2019) includes: *A Strategy for Reform* and *a Summary of Recommendations.* Tax Justice UK and Tax Watch set out a *Manifesto for Tax Equality* (November 2019) which includes a range of revenue raising and equality enhancing options.
[2] Office of National Statistics (2018) *Effects of taxes and benefits on household income: historical household- level data sets*
[3] Corporation tax was introduced in 1963 at a rate of 40%. It remained at or above 40% until the 1980s. It is now 19%. Prior to 1963 companies paid income taxes which were also at far higher rates than now.

there has been a shift towards indirect taxes - particularly VAT - which fall heavily on low income families who spend proportionally much more of their money on goods and services.[4]

Until 1985 there was a surcharge on unearned income.[5] This is no longer the case; a wide range of allowances enable those with a variety of incomes to receive almost £30,000 before a penny of tax is due.[6]

Women, who head up many hard-up families, have been hit by recent changes to the tax system. Tax cuts since 2010 have been skewed towards men[7] and tax reliefs for pension contributions are claimed disproportionately by men.[8] The marriage allowance, introduced in 2015, reverses years of progress towards individual taxation which benefited women and promoted gender equality.

A social security system that provides a secure future for children and families, needs to be funded by a tax system which is effective, progressive and fair.

Tax and financial security

Beveridge envisaged a cradle to grave social security system supported by national insurance contributions which would provide non-means tested benefits. Unfortunately, his plan was not built upon as we emerged from the post war emergency, and means testing has become the norm for most working-age benefits.

We have failed to give financial security to many families while sacrificing tax revenue to subsidise private pensions and investments, most of which goes to those who are already the most financially secure. The cost of tax allowances and reduced national insurance contributions for those who pay into private or employee pension schemes is £53.7billion.[9]

Taxes are forgone through tax free vehicles such as ISAs (£6billion).[10] The vast majority of these amounts go to those who are already financially secure. For example, the median amount held in an ISA account is well below the annual limit, which means that the full benefit of these schemes can only be felt by the better off who can afford to save large amounts.[11]

The habit of subsidising investments starts at an early age. Children can invest in ISAs and remarkably can set up their own pension funds from birth, with contributions of £2,880 topped up £3,600 by "tax relief" from the government each year. Far better to spend this on child benefit. Perhaps even more remarkably, tax benefits can be inherited – pension funds can be left to one's descendants with the tax benefits intact.

[4] When VAT was first introduced in 1973 the rate was 10% with at times a higher rate for luxury goods, it is now 20%.
[5] Tax on capital gains was charged at the same rate as income tax until 2008. And until 1985 investment income was subject to an additional surcharge of 15%.
[6] See Professor Andrew Summers in *Let's Talk About Tax* (2019) for much more on this.
[7] Women's Budget Group (2019) *Tax and Gender*
[8] Women's Budget Group (2019) *Pensions and Gender*
[9] HMRC (2019) *Cost of Pension Tax and NICs Relief*
[10] HMRC (2019) *Estimated Cost of Principle Tax Reliefs*
[11] Office of Budget Responsibility (2016) *Financial sustainability analytical paper: private pensions and savings: the long-term effect of recent policy measures*. At the time the mean amount saved in an ISA was £4,200. The annual limit is now £20,000

We should stop giving tax breaks to those who are already secure and use the funds to provide security for all – not least families with children.

National insurance is stuck in a misunderstood no man's land. It is not sufficient to cover social security, with most of the money raised going to pensions. Few understand what national insurance is for – many people think it funds the health service. And because contributions are capped for higher earners, national insurance contributes to the regressive nature of our tax system whereby the combined tax and national insurance contribution rate for the highest earners is lower than for those who earn less.[12]

We should consider shaking up national insurance so that it is more able to fund genuine social security for all.

The tax system should provide a secure future for families with children and fund this through effective national insurance payments and a reduction in tax breaks.

Tax and social solidarity

After the cuts of the last ten years, it is hard to imagine a tax system supporting social solidarity. Since 2010 the poorest families with children have lost 20% of their income as a result of tax and benefit changes.[13] We have already seen how the tax system works against low earners. Our tax system has been undermined by more than 1,000 allowances and reliefs. Politicians have been content to encourage tax avoidance.[14]

The gaping hole in our tax revenues from avoidance and error – estimated by HMRC at £35billion - is seen by the government as acceptable.[15] The loss through benefits error and fraud is less than a tenth of that amount.[16]

There is public support for change. Few people are in favour of tax cuts and spending cuts.[17] A large proportion of people would support higher taxes to fund the NHS better.[18] A large majority of people believe that exploiting tax loopholes is wrong.[19] And despite what politicians think, few people believe it is right to receive cash in hand income thereby avoiding tax.[20]

To provide a secure future for children and families, our tax system needs to be transparent and demonstrably fair, and supported by those in authority

12 In 2019/20 earnings below £50,000 attract national insurance contributions of 12%, earnings over £50,000 only attract 2%.
13 Institute for Fiscal Studies (2019) *The distributional impact of personal tax and benefit reforms, 2010 to 2019*
14 The Government's Money Advice Service published advice on *Using a Trust to Cut Your Inheritance Tax*. During the 2015 election Ian Duncan Smith said that being punished for failing to keep a receipt for taxable items was "absurd".
15 HMRC (2019) *Measuring tax gaps*. The Financial Secretary to the Treasury describes the UK's tax gap as "low". The equivalent amount for benefits is £3billion as reported by DWP (2019) *Fraud and error in the benefit system: financial year 2018 2019 estimates*
16 DWP (2019) *Fraud and error in the benefit system: financial year 2018 2019 estimates*
17 British Social Attitude Surveys show support for cuts in tax and spending bumping along below 10%, year after year.
18 The King's Fund (2018) *Does the public see tax rises as the answer to NHS funding pressures?* 61% support tax rises to increase NHS funding.
19 British Social Attitudes Survey 34 (2017) *Tax avoidance and benefit manipulation* found that 78% of people think it is always or sometimes wrong to use tax loopholes.
20 British Social Attitudes Survey 34 (2017) *Tax avoidance and benefit manipulation* found that 69% of people would most likely report cash in hand of £500 to the tax authorities.

What hope for reform?

So, is there any hope of reforming our tax system so that it can support the principles of CPAG's Secure Futures project?

Certainly, barriers stand in the way of tax reform[21] most particularly because the losers are better resourced to protest any changes to the system than the winners are to show support for these changes.

It is odd to see the universal credit project as an exemplar of anything. But it does show that an overhaul of our tax system is possible – hopefully handled with greater competence and compassion. Vested interests against tax reform are confident and powerful, however as we enter a new decade, it is time for policy makers to have the courage to renew our tax system so that we can give secure futures to families with children.

[21] Institute for Government (2019) *How to Be a Tax- Reforming Chancellor*, set out the barriers to reform.