Fair taxation
Discussion led by Jennifer Brooke

Summary

The group was asked to suggest whether current taxation in the UK was unfair and why.

The characteristics of the current taxation system were then outlined in some detail to identify where and how these unfairnesses arise. Definition of "fairness" proved elusive.

The conclusion was that although some of the criticism of the taxation system is not well founded as it is based on misunderstandings, nonetheless some aspects discriminate against some taxpayers or unduly favour others leading to suggestions of "unfairness."

Taxation could be fairer. No political will for change was discerned.

Discussion

Much of the suggested unfairness arises in respect of particular taxes rather than in respect of the system itself.

In respect of Income Tax, the width of the bands is considered to be a general source of unfairness as the tax rate is not progressive within each band. Much more concentrated unfairness arises at the bottom of the income tax bands due to the rapid withdrawal of welfare payments with rising income, so that marginal effective rates of 60% or more arise for specific ranges of income and benefits

VAT was generally considered to be unfair because it is regressive in the sense that it is unrelated to ability to pay and therefore impacts relatively more on the poorer. Some of the exceptions where VAT is not charged seem bizarre (eg take out or eat in respect of cooked food) and some suggested that a higher rate of VAT should be applied to luxury goods, on the grounds that this kind of expenditure is unnecessary. The exemption or reduction in respect of some sectors, financial services, food and others has the consequence that a significant proportion of expenditure is exempted or charged at a reduced rate, for no tax collection reason; the differences by type of expenditure may be considered "unfair." Another criticism of VAT as "unfair" is the unrecompensed administrative burden falling on those responsible for collection.

One unfairness arising in respect of National Insurance was the obvious one that it is not insurance in any normal sense; possibly the vestigial remnant of the insurance concept is the upper ceiling, that further payments are not required above a certain limit of income. As a characteristic of a progressive tax system this is unfair. Another is the absence of clarity between "employed" and "self-employed" status with significant differences in tax treatment and welfare entitlement.

Other perceived unfairness arises in respect of how property is taxed. That the notional income from owner occupation is not treated as income is perhaps the most far reaching, leading to unfairness between those who rent and owner occupiers. Stamp duty on purchase is widely considered as unfair on purchasers. Inheritance tax treatment of property is unfair between inheritors of property and inheritors of other assets. While council tax is unfair as between owners of larger properties and owners of smaller ones.

Away from personal taxation the business rates charge is considered extremely unfair as between the High St and online retail. The legal ability of Tech companies to minimise reported profit and therefore taxation in high tax countries leads to imbalances in corporate taxation relative to revenue which those impacted adversely consider unfair and those affected positively consider effective management.

With respect to purposes of taxation, revenue raising by government for common purpose was totally accepted as reasonable; some considered that the use of the taxation system for purposes such as redistribution of income or incentivisation of certain kinds of investment or change to economic or social behaviour is likely to create opportunities for avoidance and to lead to instances of unfairness. The better approach would be to use taxation only to collect revenue and other means such as grants to incentivise investment, or to support social or economic objectives, and regulation to discourage some behaviour.

In respect of the tax system as a whole it was noted that three main taxes raise far and away the greatest proportion of revenue, and the plethora of other taxes raise relatively small amounts. The cost of collection of the smaller taxes is a much higher proportion of revenue collected, so collection is inefficient in that sense in comparison with larger taxes. With such a small number of people paying the opportunities for unfairness are considerable, and administrative expenses arise not only for HMRC in collection but for the taxpayer in dealing with assessment.

Taxes such as VAT and duties are collected by the vendor of the product or service to which they are applied; consequently the government as the receiver does not account to the ultimate payer, the purchaser; this makes it difficult for a taxpayer to know how much tax in total annually he pays. The suggestion was made that each taxpayer should receive an annual total tax paid report. Further that a “fair” tax system would relate total tax paid to the taxpayer’s resources, that is a defined proportion of income and wealth, and limited to a specified total.

The radical suggestion of eliminating all taxes other than on income and wealth tax was put forward. The basis for the suggestion is that the taxpayer is not concerned as to the description or indeed the basis of calculation. His sole concern is the total amount of his money that is taken.

A “fair” taxation system would be an annual tax charge of a proportion of all income and all wealth; with lower and upper limits, and the charge increasing progressively with higher income and wealth. And no exemptions. Such a system could be set and fine tuned to produce a desired total tax revenue. Because of its simplicity and universality it would be difficult to point to any “unfairness” in the system.

During the discussion it was apparent that there is a powerful prejudice among normal people that residential property tax is somehow “unfair.” For example there is antipathy to taxation of notional income from owner occupation and the belief that a principal residence should pass free of tax on death to children. A consequence is the under occupation of larger residential property by the elderly. These values were held out as moral principles; and as residential property is the major asset for many the current policies which reflect these create distortion and indeed “unfairness” in the tax system.

The group was not aware of any political will for significant change despite the failings.