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Centre for Labour
and Social Studies

ELECTION 2015:

What's at stake for fairer taxes?

Election 2015: What's at stake?

The General Election in May 2015 looks set to be one of the most unpredictable elections in decades. Against a backdrop of uncertainty, Class have produced a series of election guides to equip you with all you need to know about what's at stake for working people at the General Election. Other guides cover work, pay and unions; housing; the NHS; the economy; and social security. You can download them free and order hard copies from our website www.classonline.org.uk.

Contributors

We would like to thank Richard Murphy of Tax Research UK for sharing his research and assisting Class with drafting this publication; and Professor Prem Sikka of the University of Essex for comments on an earlier draft. While this guide does not represent the views of any one contributor or union involved in Class we believe it is a worthy contribution to the election debate.

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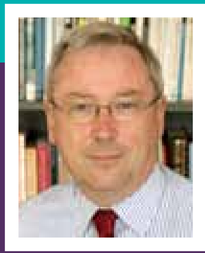
FOREWORD



Now is the time to reclaim our tax system for the common good.

Richard Murphy

The 2015 General Election should provide every political party with the opportunity to think afresh about just precisely what it wants to offer the people of this country. Tax is at the core of government. Without it no government could deliver on its mandate, but that said it is all too easy to think that tax is just about raising money to pay for government services. It isn't. Tax is also about how a government intervenes in the economy. And it is about correcting market failure and redressing inequality, whether it relates to income or wealth.

What that means is that tax is not just a pragmatic issue relating to the day-to-day management of the government's finances, but that tax policy can be seen as the closest practical representation a political party can put forward of the principles it wishes to offer to voters.

This pamphlet makes clear that the Coalition Government has avoided most of the issues that tax policy should address. So it has, for example, failed to collect the tax that is due within the UK, as a matter of choice. We know that because it has refused to provide HMRC with the resources it needs to collect the money owing by all the tax avoiders and tax evaders in the UK. That missing money might be enough to pay for the entire NHS for six days every week in the next Parliament.

And we know that this government has failed to use the tax system to create greater equality, whether of income, wealth or opportunity. It has increased taxes on ordinary families, most particularly by raising VAT, whilst cutting the income tax rates for the wealthiest. Large companies have seen their tax rate fall from 28% to 20% during this Parliament without there being a shred of evidence that any benefit was gained from the at least £9 billion annual cost of this policy decision.

This booklet sets out a different tax policy for the UK. It calls on a new government to be bold in its commitment to progressive taxation, to beating tax avoidance, to collecting tax from those who don't want to pay it, and in improving the systems of governance over HMRC so that we never again have to hear its Chief Executive explaining to Parliament that they had offered dodgy tax deals and a promise of no prosecution to multimillionaires who had hidden their income and wealth in tax havens.

It is possible to transform our tax system and it is possible to collect the taxes that are necessarily due in the UK to avoid austerity, to fund the public services that we need, to create a level playing field on which all businesses can compete without resorting to tax cheating, and to deliver greater income and wealth equality for everyone in this country, from which we will all prosper.

But that is only possible if we have a courageous government made up of political parties who put the ordinary people of the UK at the heart of their programme and who demand that everyone, whatever they do, be honest, transparent and accountable to HMRC so that the right amount of tax is paid at the right rate and at the right time.

We are a long way from achieving that objective and as a result this booklet places a lot of emphasis on short-term, but necessary, changes. But we should not forget the long-term either. The UK is at the end of a cul-de-sac down which financialisation has taken us. That financialialisation has almost corrupted our tax system. Now is the time to reclaim it for our common good, and for our common wealth. This guide sets out a programme that could achieve that goal and in doing so provides an important point from which to measure the tax policies of each of the main political parties. Because it so clearly outlines what is at stake on this issue at the coming General Election, this booklet should be read by all who are interested in achieving a tax programme for the people of the UK as a whole.

Richard Murphy is a chartered accountant and tax expert.

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THE STATE OF BRITAIN'S TAX SYSTEM TODAY

Tax policy is a core part of any government's economic policy. It is too commonly thought that tax is just about raising the money needed to pay for government services, but that massively understates its role. Tax policy is of course about raising revenue, but it is also about redistributing income and wealth, reorganising the economy to counter-balance factors the market doesn't always account for, and importantly recognising the key democratic and economic relationship between voters and their government.

The influence of ideology on tax policy

The result of tax policy's many dimensions is that any government's view on tax is heavily influenced by its ideological beliefs about what role the state should play in society. For over 30 years the UK's approach to tax policy has been dominated by the belief that the market, rather than the state, is best-placed to develop our economy and improve living standards and that, whenever possible, the state should back off and let market forces have their way[1].

Tax policies during this period, have been the ultimate exercise in trickle-down economics. So, instead of actively seeking to redistribute income and wealth, tax policy has been focused on reducing top rates of income tax for the very richest, cutting tax on the largest corporations, supporting tax havens and shifting the burden of tax from profits onto labour. While indirect taxes such as VAT, which hit the poorest hardest, have been increased and the use of tax revenues for social purposes, such as supporting the NHS, schools and social security has been restricted[2].

By favouring the rich over the rest, Coalition tax policy decisions have meant that the impact of the recession has been unequally shared.

The Coalition has not only bought in whole heartedly to this consensus on tax, but has ramped up reforms so that Britain's tax system today favours the rich over the rest. As a

Coalition changes to social security and taxation since 2010 have hit the poorest harder than any other group.

result of tax policy decisions we have a more divided society where the impact of the recession has been unequally shared[3]. This outcome has been aided and abetted by staff cuts at HMRC that have meant proactive monitoring and enforcement of tax payment is now too lax and our tax system is at risk of becoming open to corruption.

Tax policy increasing inequality

Tax policy can play a major role in making post-tax income distribution less unequal[4]. But the approach of successive governments to tax policy has meant that the tax system we now have is broadly flat at best, and potentially regressive at its higher end so that it favours the richest rather than the wider public. Coalition changes to social security and taxation since 2010 have hit the poorest harder than any other group, reducing household incomes by £1,127 a year or 3.3% on average[5].

Since 2010, the Coalition has raised taxes at least 24 times, including VAT[6]. Millions of ordinary people have seen their taxes go up, whether because of indirect tax rises or because rates and allowances have, for many, not risen in line with inflation. In contrast, millionaires have been given a tax cut through the Government's reduction of the top rate of tax from 50% to 45%, whilst the largest companies have seen their tax rate fall from 28% to 21% in 5 years.

Over the last 30 years, the share of national income paid to labour has fallen, while the share going to profits has risen[7]. Income differences between those on top incomes and those on the lowest wages are now higher than at any time since records began[8]. This has, of course been

COALITION TAX POLICY CHANGES:

TAXES ON ORDINARY PEOPLE

x24 TAX INCREASES

TAXES ON HIGH-EARNERS

INCOME TAX CUT 50% to 45%

TAXES ON COMPANIES

CORPORATION TAX CUT 28% to 21%

helped by tax changes that have enabled those at the top amass even greater wealth[9]. This is also part of a global trend: by 2016 it is expected that the combined wealth of the world's richest 1% will be larger than the combined wealth of the rest of the 99% of people in the entire world[10].

But Coalition tax policy has been worse than simply allowing income inequality to grow. Fair taxes are crucial for raising revenue to fund spending on cash transfers and also public services such as health and education that tend to favour lower-income households. Coalition reforms have shrunken the amount of tax collected for the public purse leading to even further austerity cuts to public services. On corporation tax alone the expected tax collection in 2014/15 will be £9.4 billion less than that forecast in the 2010 budget[11]. Stalled growth has been part of that, but so too have policy decisions.

The rich are getting richer

At about 27% of all tax revenues, income tax is the largest single source of revenues collected by government. Income tax is a tax on income from employment, profits for the self-employed, some state benefits and most pensions, rental income, and interest on savings, trusts and company dividends. Income tax is the tool by which all citizens that are able to, contribute a proportion of their income to the running of public services. It is also, when combined with benefit payments, the main way in which wealth can be redistributed in order to create a fairer society.

CURRENT INCOME TAX RATES:

Personal tax-free allowance = **£10,000**
Basic rate 20% **= £0 to £31,865**
Higher rate 40% **= £31,866 to £150,000**
Additional rate 45% = **Over £150,000**

When the Coalition came to power the top rate of income tax was 50% for those earning over £150,000, which had raised around £3 billion for the public purse[12]. They lowered the top rate to 45% and intend to lower it to 40% after this election – reducing the tax income from the very highest earners even further[13].

The personal allowance is the amount of money people can earn tax-free every year. The Coalition has claimed that by raising the personal allowance to £10,600 from April 2015, they will be

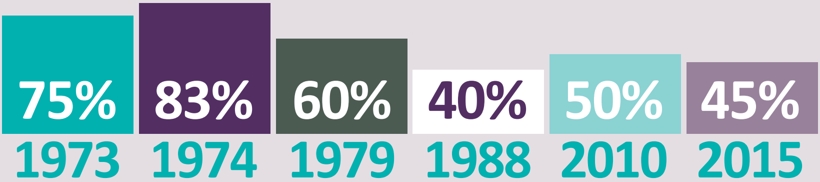
Cutting the top rate of tax for people earning over £150,000 gave around a

£3 billion tax cut

to the richest 1% in the country[14]

TOP RATES OF INCOME TAX[15]:

Until 1985 there was also a surcharge on investment income which meant that the top marginal rate of income tax for some was 98%.



taking more people out of tax. But this is deeply misleading. The increase in the personal allowance still doesn't mean that all of those households fall out of tax: low earners still pay 12% national insurance on earnings above £8,060[16]. While on the surface the increase is good for those who pay lower-rate tax and don't claim social security or tax credits, those on any form of means-tested benefits with incomes less than the personal allowance see no benefit from this change at all. It's an ill-targeted way to help the working poor as most of those who benefit will be better-off families, with poorer households only keeping about a third of the tax cut[17].

The same can also be said of inheritance tax, which despite all that is reported in the press, only affects a very small minority of the population. It can only impact those who have savings and property worth over £325,000 and want to pass it on to someone other than their spouse, civil partner or a charity. As the law currently stands, those who want to pass on wealth worth £325,000 or more have to pay a 40% tax on the excess of their estate over that amount. In 2011-12, there were 60,891 estates eligible to pay inheritance tax[18]. When the almost 90% of estates that are exempt (for example, estates passed on to spouses or left to charity) are removed only 15,976 are left that paid inheritance tax – just 6% of all estates in the country[19]. Despite this, the Conservatives intend to raise the threshold for paying the tax to £1 million so that only the 'very wealthy' would pay. This tax already only affects the very wealthy so cutting it further would only help the richest.

Taken together, two of the Coalition's cornerstone tax policies – supposedly taking the poorest out of tax when the real benefit is elsewhere and supposedly taking the middles classes

Only 6% of estates pay inheritance tax in the UK.

out of inheritance tax when the real benefit is to those very much better off – expose whose side this government is really on.

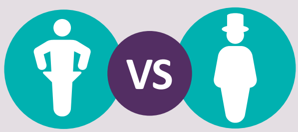
The poor are penalised

In contrast, those who already suffer the highest overall rates of tax in the UK have seen their tax burden increase under the Coalition. This is because tax and benefit changes introduced by the Coalition have reduced household incomes by £1,127 a year including an average loss of £333 a year from increases in indirect taxes. Low-income working-age households have lost the most as a percentage of their income from tax and benefit changes[20].

In January 2011 the Coalition raised VAT from 17.5% to 20%. VAT is an indirect tax on all domestic goods and services except a few such as food and essential goods which are zero-rated or otherwise exempt. Because VAT takes no account of income it is a regressive tax that hits the poorest hardest. A regressive tax is one where the proportion of an individual's income taxed falls as they move up the income scale. While income tax is generally more progressive, alone it is not enough to counteract the fact that the poorest households suffer such a high rate of overall indirect tax (such as VAT) that they end up with the highest average tax rates in the economy as a whole[21]. The Treasury's own figures show that a 2.5% increase in VAT costs a couple with children £450 a year on average. Over 4 years, that means these families have paid a total of £1,800 more in VAT[22]. ONS research shows that the poorest fifth of UK households pay significantly more in VAT as a percentage of their disposable income than the richest fifth[23].

Another Coalition reform that hit low-income families hardest was the restriction on eligibility for working tax credits. These changes have hit around 212,000 low-income families and led to an average loss per family of £2,600 a year[25]. Under the previous government, most couples with children qualified for working tax credit provided one worked at least 16 hours a week. The stricter new criteria stating couples must now work 24 hours between them, with one partner working at least 16, means those who were already struggling will now have to struggle that bit harder.

PROPORTION OF INCOME SPENT ON VAT



12.1% 5.9%

The poorest 20% of households in the UK have both the highest overall tax burden of any group and the highest VAT burden[24].

212,000

Changes to working tax credits have hit around 212,000 low-income families and led to an average loss per family of £2,600 a year.

Profits before people

For over 30 years there has been a substantial shift from wages for workers towards profits for companies and wealthy elites which mirrors the forced decline in trade union strength and the power of working people to influence their pay and conditions[26]. The share of wages in the national income pie will continue to contract and a bigger proportion will continue to go to profits unless there is a significant change in policy.

From 2015, Britain will have one of the lowest corporation tax rates in the western world at 20%, although Labour have promised to abolish the 1% cut in rate that will deliver this record low charge. Corporation tax is a tax levied on the profits made by companies and the branches of foreign companies trading in the UK. When the Coalition came to office the corporation tax rate for large companies (based on profitability) was 28%. It has been cut in stages since then to 21% and will be cut again down to 20%. This benefit to big business isn't likely to end any time soon. Such is the power of their corporate lobbying, aided and abetted by their powerful accountants, such as PricewaterhouseCoopers and KPMG, that around the world corporate tax rates continue to fall.

Avoiding and evading paying their fair share

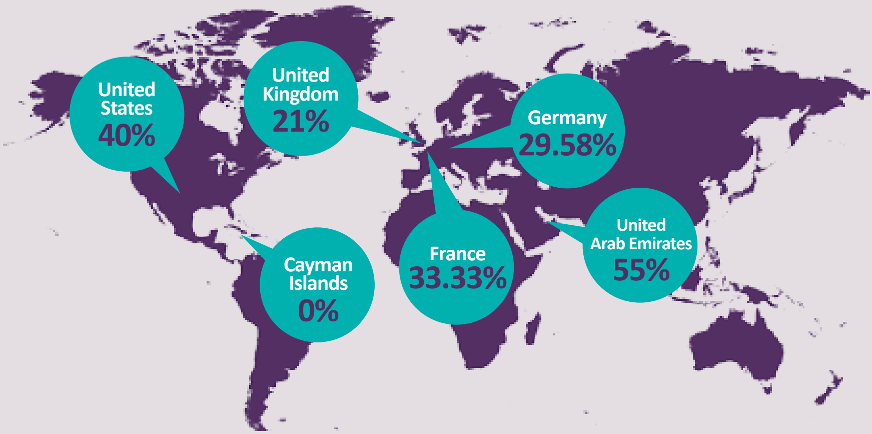
Despite Britain's corporation tax rate being comparatively low, even this is too

1983
52%

Today
21%

In the UK corporation tax rates have fallen[27].

COMPARISON OF SOME CORPORATE TAX RATES[28]



much for some businesses. In 2013/14 the amount of revenue collected from corporation tax fell when compared to the average data for 2004 to 2014[29]. When firms avoid paying corporation tax the public loses out. The Treasury officially lost £3.9 billion in 2012/13 from unpaid corporation tax[30]. More than 400 of the 800 largest businesses in the UK paid less than £10m in corporation tax in 2012/13 and around 160 paid no corporation tax at all[31].

Businesses solely active in the UK also suffer a detriment compared to multinationals that play the system and pay no tax in the UK. The complexity of the UK tax system, combined with the lack of international cooperation over corporation tax allows big multinationals to shift their profits between countries in ways that reduces the amount of tax they have to pay in the UK[32]. The system of taxation is based on consent and collective buy-in. When major companies avoid tax and face no repercussions, trust in the entire system hangs in the balance. Tax systems can only work if they are regarded as fair[33].

TAX AVOIDANCE:

Arranging financial affairs to minimise tax liability within the law in ways that parliament did not intend.

TAX EVASION:

The illegal non-payment or underpayment of tax.

The Government claims that tax avoidance currently costs the taxpayer £4 billion a year, nearly as much as illegal tax evasion, which costs £5.1 billion[38]. Tax justice campaigners suggest these figures are massively understated, and that tax avoidance costs at least £19 billion a year tax evasion is likely to be over £80 billion a year[39].

COMPANIES DODGING THEIR CORPORATION TAX:

21% The amount companies should legally pay of their profits in corporation tax in the uk.

GOOGLE

MADE £3.5 BILLION VS PAID £21.6 MILLION

Google paid just £21.6 million to the Treasury in 2013 on UK turnover of £3.5 billion[35].

AMAZON

MADE £4.3 BILLION VS PAID £4.2 MILLION

Paid just £4.2 million in corporation tax in 2013 on sales of over £4.3 billion[36].

FACEBOOK

Facebook paid just £3,169 in UK tax in 2013[37].

STARBUCKS

Starbucks paid just £8.6 million in corporation tax in the UK over 14 years by reporting accounting losses when it was telling its shareholders it was profitable[34].

Some of the exploitation is also sanctioned by law. UK residents who record their permanent home as outside of the UK can be considered 'non-domiciled' and as a result don't have to pay UK tax on their foreign income if it is less than £2,000 in the tax year, or if it isn't transferred through a UK-based bank account[40]. Tens of thousands of wealthy foreign residents are failing to pay their fair share because of a historical loophole that allows them to live in the UK without paying inheritance tax or incurring tax on any of their assets owned offshore, by claiming they will eventually retire abroad[41]. While a person has to pay to use this loophole after being in the UK for 7 years, it still provides a massive opportunity for the world's wealthiest people to use the UK as a tax haven.

HMRC is not fit for purpose

Investment in our tax system has been reduced to the benefit of tax avoiders

Every year the public loses at least:

£19bn to Tax Avoidance

£80bn to Tax Evasion

£122 bn tax-gap = the difference between the tax that should be paid in the UK and the amount actually paid.

and, inevitably, tax evaders. The tax gap is "the difference between the tax that should be paid in the UK if the tax system worked as parliament and HMRC intended, and the amount actually paid". In 2012/13 the government estimated the tax gap to be £34 billion, which was roughly 6.8% of all tax liabilities[42].

But alternative research shows that in 2013/14 the tax gap actually topped £122 billion and is rising steadily[43]. What is truly shocking is that part of this tax gap may be officially sanctioned. In February 2015 it emerged that HSBC bank had allegedly helped hundreds of people evade UK tax using hidden accounts in Switzerland[44]. HMRC decided not to prosecute all but one of those involved.

Coalition cuts to HMRC staff have made tax evasion and tax avoidance easier to undertake. Between 2014 and 2015, the unit for personal tax became 250-300 people smaller[45] and plans to close 14 HMRC offices by December 2015[46] will make collecting tax even harder. Since 2005 HMRC has cut its staff levels from 91,000 to 61,000[47]. They are now cutting them further with the aim to reduce the number of staff below 50,000.

This might in part explain why the government is set to collect £33.4 billion less in income tax and national insurance than official forecasts projected in June 2010, although years of low wages and the lack of earnings growth in the UK play a significant part.

Since 2005 HMRC has cut its staff levels from 91,000 to 61,000

ACTION THAT CAN ENSURE A FAIR TAX SYSTEM THAT WORKS FOR EVERYONE

There is probably no better example of the current injustice within our economy than the tax system. If the next government is to challenge vested interests and create a fairer system that benefits all, we need to ensure everyone pays their fair share of tax. When some big businesses or wealthy individuals manipulate their profits to avoid paying tax this has a direct impact on everyone else because it takes away vital funding for public services.

1. Restore the principles of progressive taxation

Progressive taxation plays a pivotal role in addressing inequality and should be restored if we are to ensure a fairer tax system that works for everyone.

Coalition tax and benefit changes have hit the poorest harder than any other group. Urgent action is needed to restore progressivity to the tax system. A progressive tax system is one where, overall, the amount of tax a person pays as a proportion of their income increases as that income goes up. The explicit objective of progressive taxation is to redistribute income, wealth or both to where it is most needed[48].

A commitment should be made that in our increasingly unequal society, any future changes in tax policy will be progressive. Creating an entire system that is progressive will take time, but there are some short-term changes that can restore the principles of progressive taxation which include reducing VAT, raising income tax rates for higher-earners and lowering tax for lower-earners.

By just reintroducing the 50% tax rate for the 300,000 wealthiest people earning over £150,000, enough revenue would be raised to reverse certain policies that have affected the poorest, such as cuts to legal aid and the Bedroom Tax. This would be a step in

THE CURRENT TAX SYSTEM IS NOT PROGRESSIVE[49]

the right direction but efforts to ensure the proportion of taxation is shifted from the poorest to the richest need to go much further.

Currently people who have to go to work for a living have their earned income taxed at higher rates than those who gather income from investment, because their income is also taxed through national insurance. Until the 1980s the UK had an 'investment income surcharge' payable by all those who received unearned income over a set limit of around 15%. Reintroducing an investment income surcharge, that accounted for low levels of income and ensured pensioners were not unreasonably penalised, would mean that whatever a person's income, they are charged an equivalent rate of tax.

2. Reform tax reliefs and allowances

Tax reliefs or allowances allow people to pay less tax or get tax back if they have used some of their income on specific things, such as business expenses if they're self-employed. Some form of tax reliefs and allowances are useful in any tax system as they play important roles in encouraging behaviour that is of benefit to society. However, some allowances and reliefs favour the wealthy or are open to abuse, and for this reason they must be reviewed. The wealthiest should not enjoy greater subsidies on tax reliefs and allowances than the rest of the population. For those on the very lowest incomes, raising the personal allowance threshold – the amount of money they can earn tax free – could make a real redistributive difference if it was combined with an increase in upper limit of national insurance contributions[51]. To ensure that this would be progressive across all income groups it must be combined with higher taxation on the very rich.

> **Raising the personal allowance threshold and the upper limit of national insurance contributions would be a progressive tax reform if combined higher taxation on the very rich.**

3. Reform council tax

One of the most unjust taxes in the UK is council tax because it is deeply regressive. The ability of citizens to pay is not taken into serious account, whilst all properties over a relatively limited amount are taxed as if they are of equal worth. The vast majority of expensive

96% **would like the tax system to be more progressive[50].**

CURRENT COUNCIL TAX DIFFERENCES IN THE LONDON BOROUGH OF KENSINGTON AND CHELSEA[52]

£240,000 PROPERTY council tax is £711 (0.3% of its value)

VS

£1.92M PROPERTY council tax is £1,778 (under 0.1% of its value)

properties in the UK are seriously under-taxed when compared to the average house or flat.

Ultimately the UK could move towards a form of land value taxation, which charges tax on the undeveloped value of land on which a property sits, but there is no doubt that this would take time to implement. In the short-term the deficiencies in council tax need to be addressed by re-evaluating properties and creating new bands with higher rates for higher-value properties, and by reducing the current tax charges on lower value properties and for those who receive social security.

4. Tackle tax avoidance by improving transparency and sharing information

The current tax system provides many incentives for corruption. One of the easiest ways to tackle this is to improve transparency, especially in the case of tax havens and secrecy jurisdictions. Country-by-country reporting will be introduced in the UK from 2016 and will require every company to break down its annual accounts for each country where they do business. This will provide important information on what profits are recorded and how much tax is, or isn't paid in every country[54]. Only when this information is known will it be possible to determine exactly where a multinational group of companies undertakes its activities. The taxable profits of a multinational group could then be allocated to countries on the basis of a formula that weighs where customers are located, where employees are hired and where real physical assets are located. This would end the abuses of companies like Google and Starbucks. There will be almost no cost to this reform because the UK has already committed to require the creation of this information under new regulations being promoted by the OECD[55]. Publishing that information

COUNCIL TAX HITS THE POOREST HARDEST[53]:

Bottom 10% pay 2x as much of their income in council tax as the average household and more than 4x as much of their income as the top 10%.

Facebook in the UK paid

just £3,169 tax

in 2013, according to its accounts, with most of the company›s income believed to be legally going through its European base in Dublin, where corporation tax is lower than the UK[56].

will, therefore, impose no significant additional burden on business.

From 2016, UK banks will have to share information on all foreign-owned companies to which they supply services, but there is currently no obligation on UK banks to share this data with HMRC. In future, every UK bank should be required to collect and share this information on UK company directors with both HMRC and Companies House so that it can be used to ensure tax is paid. There is also a need to better regulate the digital economy to make sure that large companies, such as Amazon, but also smaller companies and individual traders, pay the right amount of tax in the UK. Organisations such as Paypal, eBay, Visa and Mastercard should be obliged to supply information to HMRC on any person or company, that has a trading account.

5. Enforce penalties for abusive tax arrangements

The Coalition introduced a General Anti-Abuse Rule (GAAR) in 2013, but like many of their reforms, it is utterly toothless. To make this law work effectively it must apply to commercial arrangements that are tax abusive, for example, those of Apple and other IT companies that have structured their affairs to make sure they pay little or no tax in the UK. Penalties must be applied if it is shown that an abuse has taken place.

6. Align income tax and capital gains tax rates

Tax avoidance happens when there is an opportunity to reduce tax bills in ways not anticipated by the law. For this to happen there must first be a loophole, and second a reduced tax rate. Closing loopholes will obviously tackle tax avoidance, but so too will closing gaps between different tax rates. One obvious area where significant tax gaps exist is between income tax and capital gains tax, where much lower rates apply to capital gains than to income, giving a massive incentive for people to try to misrepresent their income as capital gains. Capital gains tax and income tax rates should be at the same level to prevent tax avoidance.

7. Abolish the domicile rule

The UK's 'domicile' rule is open to considerable abuse. After 5 years anyone living in the UK should be taxed in exactly the same way as any other UK resident. This would abolish the domicile rule and all of the abuses that go with it for good.

8. Better regulate UK companies

Up to 99.9% of all tax penalties issued by HMRC for the late submission of corporation tax returns are not paid, suggesting that there is also no effective regulation of companies who do not supply information required by law[57]. Companies must be better regulated, with company directors becoming personally liable for penalties when companies have failed to comply. Penalties should be increased so that collection becomes worthwhile and Companies House should be given the resources it needs to pursue companies that don't comply.

9. Enhance democracy and accountability

There are many measures that could be introduced to enhance democracy and ensure greater accountability in the tax system. In the first instance any organisation that has been found to engage in tax avoidance activity should be prevented from securing public contracts, loans, subsidies or grants in the future. Individuals from organisations that have been found to engage in tax avoidance activity should not be appointed to HMRC, any government department or be invited to advise government on policy.

10. Reform HMRC

HMRC, the civil service department which collects tax, has failed to act in the public interest and has too often appeared to enter into cosy relationships with large companies and wealthy individuals. Because HMRC has no government minister directly responsible for it and no Select Committee in Parliament to scrutinise its activities, there is a damaging lack of accountability. The Board of HMRC should be reconstituted so that it is representative of a broad range of taxpayers including: large and small business; employees; trade unions; pensioners; civil society; charities; and the investment community. HMRC should become directly responsible to a government minister and a Parliamentary Select Committee.

Up to 99.9% **of all penalties issued by HMRC for late corporation tax returns are not paid.**

VALUE FOR MONEY 2013/14[59]:

For every £1 spent by HMRC's department dealing with the UK's largest and most complex businesses an additional £97 was recovered.

For every £1 spent by the local compliance unit that handles smaller businesses and wealthy individuals, an additional £18 was recovered.

The government also needs to invest properly in HMRC so that it is well-resourced to tackle tax avoidance by corporations which employ dozens of tax accountants. HMRC should be provided with a substantial increase in the number of staff available to tackle tax avoidance, beat tax evasion, provide the level of service that UK taxpayers reasonably expect, recover tax debts, and close the UK tax gap. It is estimated that at least £25 could be recovered for every additional £1 spent on top level staff in 2013[58]. Offices in towns and cities up and down the UK should be reopened.

11. Use the tax system to create a sustainable society

Everything a government does is generated by taxation, from providing art galleries to world-class treatment at children's hospitals. But taxation policy is not just about gathering and distributing funding, it can also be used as a tool to rebalance the economy to ensure sustainability. Tax policies are a core part of a long-term economic agenda and can be used to promote and invest in the green economy. In coordination with other long-term tax reforms, a system of environmental tax measures could help to rebalance the economy towards more sustainable and productive sectors and reduce the use of damaging environmental practices.

12. Tax wealth

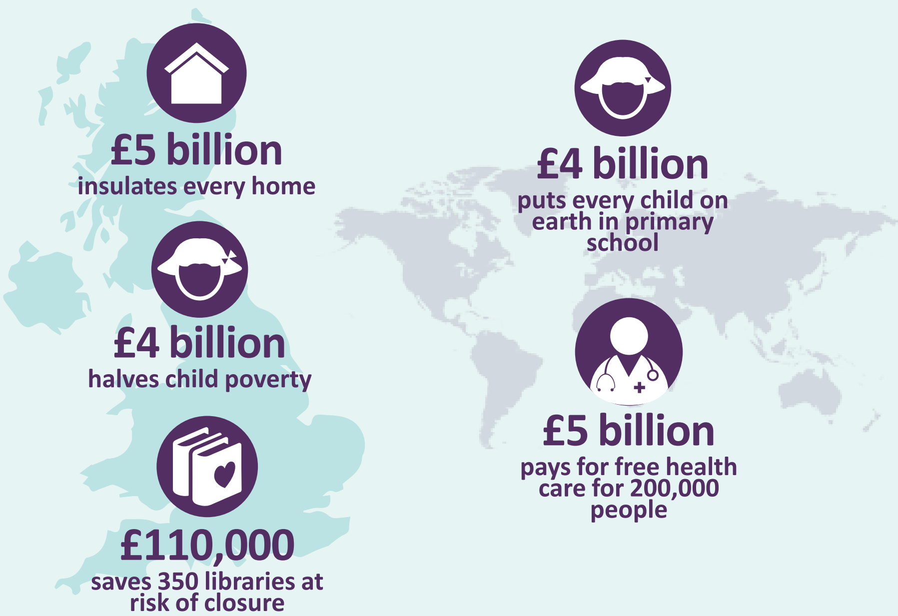
The UK's only current wealth tax is inheritance tax, which is riddled with loopholes, and easily avoided by those with the greatest wealth. Under new international information sharing arrangements, it will become much harder for people to hide their wealth in tax havens. Because of this wealth taxes will soon become a viable option. A new wealth tax, with progressive rates, payable annually and charged on those with wealth in excess of £1 million in a year would provide a much more effective mechanism for tackling wealth inequality than the current system of inheritance tax. Taxing the major assets of the wealthy would also begin to ensure the system was more progressive.

> **Under new international information sharing arrangements it will become much harder for people to hide their wealth in tax havens.**

13. Introduce a Robin Hood Tax

Taxation policy should assist in holding global capital to account so that it contributes to the common good. A Financial Transactions Tax (also called a Robin Hood Tax) is a tiny tax of about 0.05% on transactions like stocks, bonds, foreign currency and derivatives, which could raise £250 billion a year globally[60]. The Robin Hood Tax is well-tested, cheap to implement and hard to avoid. If aggressive tax rates were applied that depended upon the volume of transactions undertaken, it would help slow down markets at times of instability and force those who are investing to take a longer-term approach. A Robin Hood Tax would seek to reduce the risk to the whole economy from the activities of the banking sector.

REVENUE FROM A ROBIN HOOD TAX COULD GO TOWARDS VALUABLE PUBLIC SERVICES IN THE UK AND AROUND THE WORLD[61]:



WHAT THE PARTIES ARE SAYING

The scale of the problems facing the tax system and particularly the issues of tax avoidance and tax are daunting but the solutions outlined earlier show that a positive system of taxation that is progressive, fair and benefits the whole of our society is possible. So what are the political parties saying about tax and the future of the tax system, and what exactly is at stake at the General Election?

LABOUR PARTY POLICY PLEDGES[62]:

Labour has focused on making work pay so that working people are not forced to rely on tax credits and other in-work benefits to survive. Labour has pledged to raise the minimum wage and introduce incentives for employers to pay the living wage. They have also announced plans to roll-out 80,000 apprenticeships and have launched 'Disability Labour' campaign to support and engage directly with those with disabilities.

10p Cut taxes for 24 million people on middle and lower incomes by introducing a lower 10p starting rate of tax.

Introduce new anti-tax abuse rules with fines of up to 100% of the amount of tax owed by those breaking these rules, as well as doubling the fines that can be levied on people who aggressively avoid tax so that they will have to pay the avoided amount back at twice the rate.

Ensure those with the broadest shoulders bear the greatest burden by restoring the 50% rate of tax for those earning over £150,000.

Introduce a Mansion Tax on high-value properties over £2 million, to help to pay for an NHS Time to Care Fund as part of plans to transform the NHS, with an additional 20,000 nurses and 8,000 GPs by 2020.

Cut the rate of pension tax relief for those earning over £150,000 so that relief is given at 20%, using the proceeds to cut student tuition fees.

Tackle tax avoidance by increasing transparency in the tax system, forcing UK Overseas Territories and Crown Dependencies to publish the names of beneficial owners of companies and requiring annual confirmation of dormant accounts.

Strengthen independent scrutiny of the tax system by giving stronger powers to the National Audit Office to scrutinise tax reliefs, and requiring the Chancellor and the Chief Executive of HMRC to give evidence to the Treasury Select Committee each year on efforts to tackle tax avoidance and evasion and progress on reducing the tax gap.

CONSERVATIVE POLICY PLEDGES[63]:

£7 billion of unfunded tax cuts – with no detail on whether these will be paid for by higher VAT (a regressive tax) or by even bigger cuts to public services.

Cut tax on pensions for the richest, meaning those with the most money get the most tax relief.

Raise the point at which people start paying income tax from £10,600 to £12,500 but have failed to outline how this will be paid for and have not offered any policies necessary to tackle low pay, insecure work or spiralling costs of living that mean those on low wages struggle to make ends meet.

Raise the level at which people start paying the 40% tax rate from £42,285 to £50,000.

A freeze on fuel duty which is yet another uncosted policy and any savings would not necessarily be passed on to motorists.

The Conservatives intend to 'crack down' on offshore corporate tax avoidance but have offered no detail on how they are going to achieve this or any explanation as to why they haven't done anything about this problem while in government for the last 5 years.

WHAT ARE THE OTHER PARTIES SAYING?:

LIBERAL DEMOCRATS[64]:

The Liberal Democrats have pledged to introduce a 'Mansion Tax' across the UK on residential properties worth over £2 million. They intend to raise the personal allowance to £12,500 but have not set out how this will be costed. They have also pledged to limit tax relief on pensions to a pension pot of £1 million and scrap the current 'Shares for Rights' tax loophole, while restricting access to non-domiciled status. They have suggested taking legal action against accountants who look the other way while their clients knowingly evade tax. The Lib Dems may consider raising the employee national insurance threshold to the income tax threshold and have suggested they may set up a review of business rates but they have not set out further details of either proposal.

THE GREEN PARTY[65]:

The Greens have pledged to introduce a wealth tax on the top earning 1% of people. Tax rates higher than 40% are proposed for those on the highest incomes. The Greens would phase out VAT over a period of time and replace it with a system of environmental taxation measures or "eco-taxes". They have also put forward the future ideal of a Citizen's Income – but they have not outlined how this would be paid for as yet, but the abolition of the tax-free personal allowance and replacement of many benefits with the Citizen's Income play a significant part in the process. Income Tax will be levied on all income above the Citizen's Income but there remains some confusion over the policy.

UKIP:

Rather than target large-scale corporate tax avoidance and crack down on illegal tax evasion, UKIP obsess over small-scale benefit errors and low-level fraud. They have pledged to abolish inheritance tax, losing the Treasury over £4 billion a year in revenue. UKIPs policies do include a proposal to increase personal allowance to the level of full-time minimum wage earnings but this is also uncosted. UKIP plan to 'abolish green taxes' but have not outlined what this means or even which current taxes would be affected, let alone how any lost tax would be made up for. They have also set out plans for a Treasury Commission to design a turnover tax to ensure big businesses pay a minimum floor rate of tax as a proportion of their UK turnover. There is a risk that such a Commission may also be used as the basis for launching a deeply regressive Flat Tax. Such taxes charge all income, whatever the amount, to the same single rate of tax. The party publicly supported such an idea until recently.

WHAT'S AT STAKE AT THE ELECTION FOR FAIR TAXES?

Britain's tax system today is far from fair. In order to function effectively tax systems rely on the collective buy-in from all citizens. When some shirk their responsibilities to the rest of society it puts the whole system at risk. But instead of tackling the difficult issues the Coalition has avoided them at every turn.

Rather than challenge vested interests and introduce effective tax avoidance measures, it has removed resources from HMRC making the job of collecting money owed by tax avoiders and evaders even more difficult. Rather than ensuring the impact of the recession fell on those with the broadest shoulders, their policy decisions have meant that the poorest have been hit harder by tax and benefit changes than any other group[66].

Take a look at any of the Conservative's announcements on tax policy and it becomes clear that they do not like tax. And yet the Coalition has raised taxes on ordinary people at least 24 times since 2010, including VAT. While espousing the benefits of a low-tax system, the Chancellor has gradually raised taxes for ordinary people. Low taxes, it seems, are a luxury reserved for businesses and the wealthy. In fact, research shows Osborne's plans

to introduce £7 billion of tax cuts in the next government will once again benefit the rich significantly more than the poor[67].

At the heart of this problem is the fact that tax is depicted as money that is taken away from us, rather than an important investment in society; a method of wealth distribution, and a way of ensuring decent quality of life for all. Improving tax policy will require a fundamental rethink of the way we view the concept of tax altogether. Governments need to accept that citizens and companies should contribute towards the society they live and work in and start making a positive – and progressive – case for taxation.

In terms of party policy, it could be argued that neither major party goes far enough in terms of installing a progressive tax system. Nevertheless there are clear differences between the two big parties. Labour's tax policies focus upon those with the broadest shoulders, including reintroducing the 50% tax rate and implementing a mansion tax against properties valued in excess of £2 million. Labour has also announced policies to tackle tax avoidance. The Conservatives, on the other hand, have announced £7 billion of tax cuts without any explanation of how this will be financed. The Conservatives have also invited tax avoiders, such as Lord Green of HSBC[68] and Philip Green of the Arcadia group[69], into the heart of government. So their last-ditch, vague promises to address corporate tax avoidance ring hollow.

In order to judge a government's progressive qualities, look no further than its tax policies. If we want a progressive, more equitable society, it is up to all of us to vote for a party with tax policies that tackle scandalous avoidance, redistribute wealth and ensure that the broadest shoulders carry the heaviest burden. That is what's at stake this May.

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