

Tackling poverty & inequality through the tax system

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Budapest, 18 Sept. 2018

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Outline

1 - Neglect of taxation in social policy analysis

2 - UK incidence of all taxes

3 – The much neglected world of means-enhancing tax reliefs in UK

4 – Some proposals

Overlooked world of taxes

'In social science there is no neutral act'
Zsuzsa Ferge, *A Society in the Making*, 1979.

But tendency to treat taxation as a technical, neutral and little examined or discussed issue. Keep it quiet.

Jean Baptiste Colbert, Finance Minister to the 'Sun King', Louis XIV of France: 'The art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the least amount of hissing.'

Thus power kept by the agenda-setters in the Treasury. Parliamentary committees now more searching.

Analyse taxing as much as spending

Analysing **state-organised redistribution of life chances** needs as much attention to the process of collecting resources as to re-allocating them (van Oorschot, 2008).

So what is the available evidence on the incidence of taxes in the UK? We need to examine all taxes, not just income tax where we are constantly being told that the best-off pay an excessive amount.

Next is the best, but incomplete, analysis:

‘Increase fairness between recipients & taxpayers’

Third Principle of *21st Century Welfare* - BUT

All UK Taxes % Gross Income, 2016-17 (08-09)

	Income tax & NI contri %	Council tax %	Indirect tax %	All Taxes %
All	16.6	2.7	14.9	34.2 (33.5)
Top fifth	21.5	1.7	11.2	34.4 (33.9)
Bottom fifth	7.2	5.4	26.0	38.6 (36.2)

UK income tax

Basic allowance £11,850 – phased out over £100,000 plus.

Three rates: Standard rate 20%, then 40% and 45%.

Scotland now 19% – 46%, slightly more equal.

Hungary 15% flat tax. Interesting to see how the pattern would differ from UK.

Indirect taxes

Indirect most regressive despite zero tax on food +.

- Bottom 1/5 pay 26%, top 11.2%, mean 14.2%.

VAT raised to 20% from 17.5% in 2011 – worse for poorer as spend more of income.

Real impact on poverty much neglected. Indirect taxes not in poverty measures, and changes important.

Hungary: VAT 27% general, and 5% & 18%.

Impact across income distribution?

Local (Council) taxes

Mix of property and personal, and not revalued since 1991 except Wales 2005.

Bottom 1/5 pays 5.4%, top 1.7%, mean 2.7%.

Support through 'council tax benefit' ended in England, not Scotland.

Impact in Hungary?

Means-enhancing tax reliefs in UK

Social policy debates whether benefits should be provided universally, as our health system available to all, or means-tested, available only to those below a certain income.

We have not paid enough attention to a third way of distributing – **means-enhancing** through tax reliefs. An allowance at the marginal rate of tax (20, 40 or 45%) provides more to those liable to higher rates.

Very limited evidence, especially on who gets what.

Hidden World of Tax Welfare

Revenue reports 400 reliefs, but it costs only 200.
Office for Tax Simplification listed 1156 in 2015.
National Audit Office and Parliamentary Select
Committees very critical of Revenue management.

In 2017-18 £29bn income tax reliefs to social policy
comparable purposes alone – eg private pensions. This is
1/6 of all Income taxes intake, 3/4+ all income tax reliefs
except personal allowances.

Capital Gains Tax £28bn relief on sale of own home.
National Insurance exemptions £20+bn.

Plus costs of others???

Who gets what?

Need very much more & better data – why do NAO and select committees not request more on who gets what in their demands on Revenue & Treasury?

Who actually benefits from these reliefs?

Only one major study: top 0.1% had 86 x more extra relief than average, but only 31 x more pre-tax income in 2004-05 (IFS, 2008). That helps to explain overall official pattern of tax incidence.

NB. NI reliefs not included, not discussed.

Large pension tax reliefs reinforce inequality

Income tax relief costs £26bn net + undiscussed £16 bn National Insurance (NI) exemptions.

Top tenth taxpayers gets half the tax reliefs while the bottom half gets one-tenth. Contributes to top 8% households owning 47% of pension wealth.

Tax & NI reliefs subsidise private welfare market of pension funds at expense of common wealth.

In Hungary many fewer reliefs, but still contrast between family tax allowances and family benefits?

Unequal treatment – 2 UK examples

1. Pension reliefs now more limited at top, but those on an 'adjusted income' over £210,000 can still reduce their tax bill by £86.50 a week. Very little known.

Basic means-tested benefit frozen 4 years at £73.10 – 'can't afford more as we need to balance the budget'.

2. Differential uprating - Since April 2012 UK tax allowance threshold up by 46%, but basic working-age benefits only up by 3%. Well below inflation and so increasing poverty.

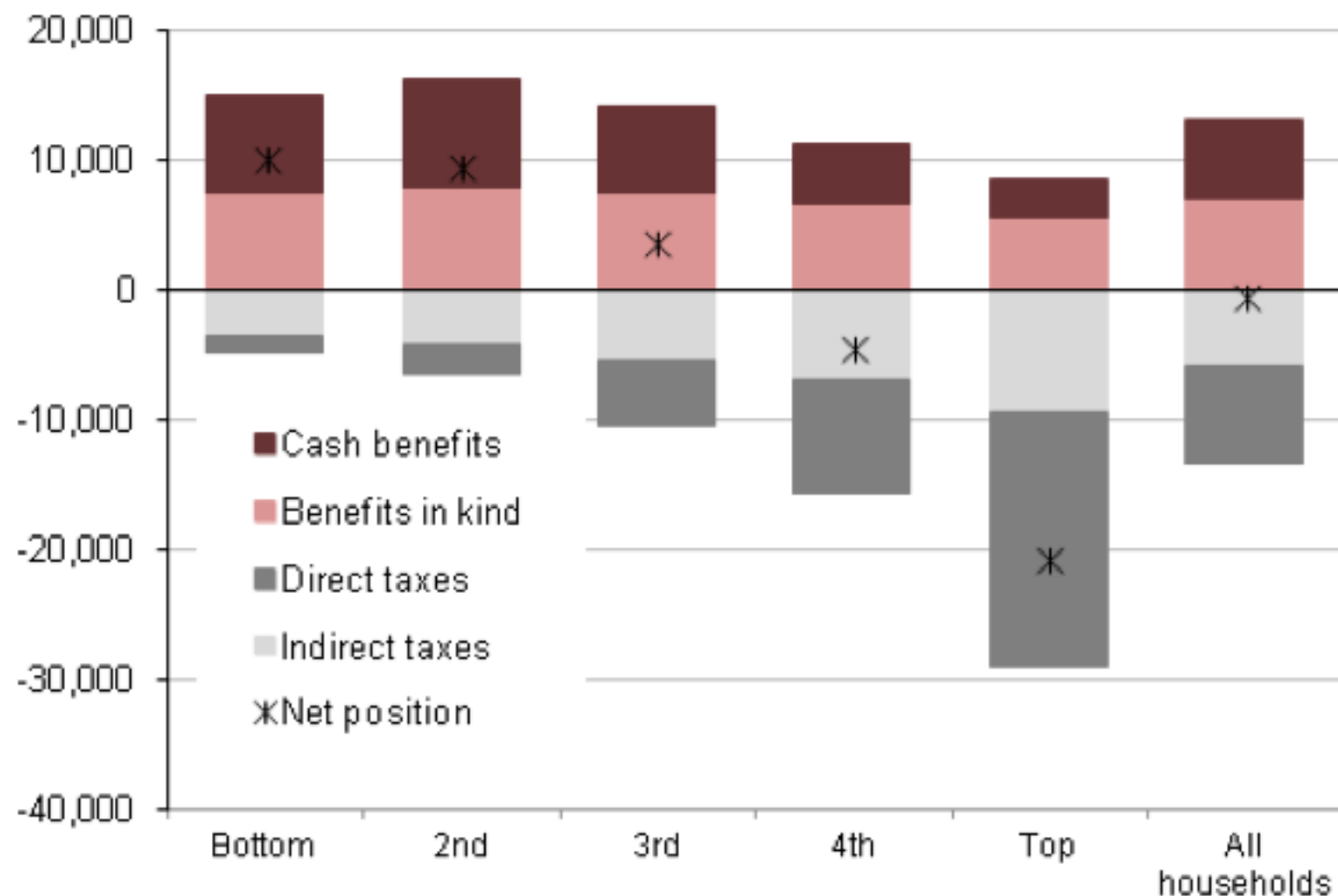
If you include tax reliefs ...

The next slides are from the Office for National Statistics annual survey. I used that for my earlier table on who pays how much tax.

The first slide shows the impact of taxes and benefits on households. More help to the poorer groups on the left. The average at the far right.

But the second suggests how it might look with tax reliefs included – a very different picture.

Average per household (£ per year)

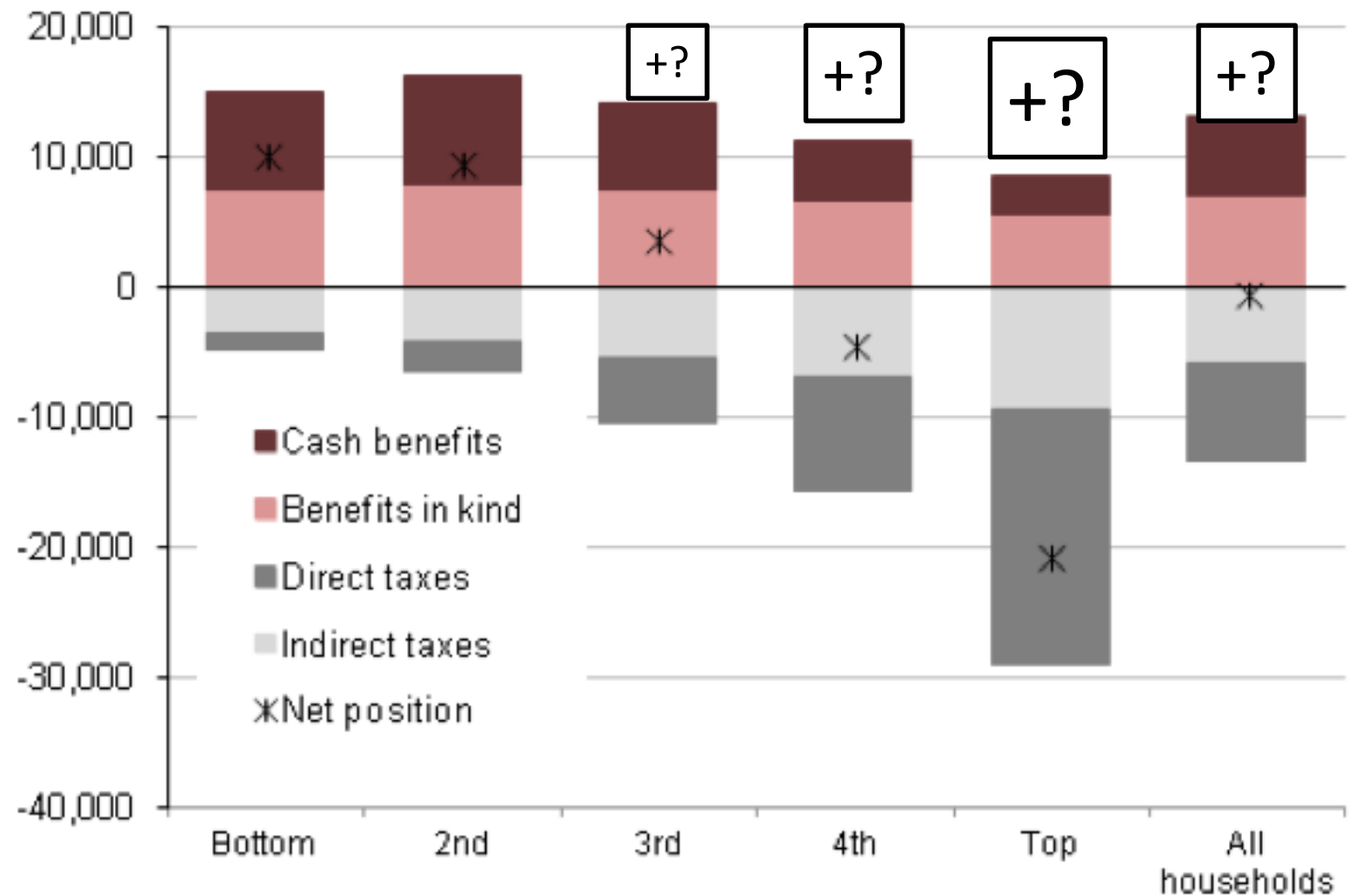


Source: Office for National Statistics

Notes:

1. Households are ranked by their equivalised disposable incomes, using the modified OECD scale.

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World Bank & OECD concern – so hardly radical

‘[Tax expenditure] ‘violates’ both vertical and horizontal equity (World Bank, 2003).

To promote inclusive growth ‘tax bases should be broadened first by removing or reducing tax expenditures that disproportionately benefit high income groups’ (Brys et al, OECD, 2016) .

So what might help to bring changes?

1. Put tax expenditure alongside public

Show tax spending beside public. It opens up more questions about amounts – and also power, inconsistencies and double standards.

Resisted by Treasury – because it transfers power to spending debts as well as making subsidies to private welfare more visible.

Shows different treatment – **public** austerity for the worse-off and **private** fiscal welfare for the better-off.

‘Austerity for no-one, if not all!’

Comparison of main public & fiscal spending on social security in retirement, 2016-17

	<i>Total billions</i>	<i>Percentage</i>
Pension credit	£ 6 bn	4%
State pension	£ 92 bn	63%
Winter fuel payments	£ 2 bn	1%
Other public spending	£ 7 bn	5%
<i>Total public spending</i>	<i>£106 bn</i>	<i>73%</i>
Income tax reliefs net	£24 bn	16%
NI Exemptions	£16 bn	11%
<i>Total fiscal welfare</i>	<i>£40 bn</i>	<i>27%</i>
Total direct & indirect	£146 bn	100%

2. International Covenant on Economic, Social and Cultural Rights

The government is required to “take steps ... **to the maximum of its available resources**, with a view to achieving progressively the full realization of the rights recognized in the present Covenant ... without discrimination of any kind’ (ICESCR, article 2:1).

The need to take account of tax & related reliefs benefiting the better-off as ‘maximum available resources’ (MAR) very relevant but not so far considered.

‘A state can’t justify retrogressive measures...

simply by referring to resource scarcity, fiscal discipline or savings: it needs to show why the measures at issue were necessary for the protection of the totality of rights in the Covenant’ (Aoife Nolan on ***International Covenant on Economic, Social and Cultural Rights***).

Tax reliefs now being raised with UN Special Rapporteur on Extreme Poverty & Human Rights before his inquiry into UK, first in Europe.

Restricting tax reliefs could increase funds for public benefits & services to tackle poverty & inequality better.

3. Fairer Taxes require

- More and better data, better government management.
- Cap tax reliefs, eg. no more than £5000 above basic allowance for those earning over £100,000. Maybe some special exception but with limits?
- Replace tax allowances by fairer tax credits.
- Tax recipients of wealth (IHT relief £23+bn).

Or do we need to be very much more radical?

Make **all** income & tax visible to anyone, cf Norway.

Reject myths & bring in progressive taxes

If not, taxes will continue to maintain, and legitimate, poverty and inequality.

‘What thoughtful rich people call the problem of poverty, thoughtful poor people call with equal justice a problem of riches’ Richard Tawney, 1913.

If it’s really true that our economic system can’t provide a decent minimum, then why should we defend it?

How can we justify it?

Kshama Sawant, Seattle 2018; William Beveridge, *Full Employment in a Free Society*, 1944.