The TaxPayers' Alliance and Institute of Directors have just produced a new report on the British Tax System. Some parts are good, some are plain silly

Blog Admin

Tim Leunig *reviews a new lobbying report which has garnered media attention in calling for reform of the tax system.*

Let's get the silliness out of the way first. The report wants the tax-to-GDP ratio to be 33 per cent, and marginal tax rates (including employers' national insurance) no higher than 30 per cent. They believe this will spur growth. The reality – sadly for right wingers – is that there is little evidence that even French tax rates preclude high levels of GDP per hour worked. Nor is there good evidence that individual tax rates are pernicious unless really high. The report tells us (p. 201) that the US has the 5th highest corporation tax, while Serbia has the lowest. Despite that, I put my money on the US to beat Serbia in economics, any day.

Limiting government to 33 per cent of national income requires big spending cuts, which are not spelt out. We could abolish middle class welfare (end child and pensioner free prescriptions, abolish winter pensioner television licences, etc), and make the poor even poorer. We could cut the military, eschewing foreign intervention, defence of Gibraltar, the Falklands, etc. We could force all railway and tube lines to cover their costs, or close. We could end all arts funding. We could charge to give birth in hospital (if you can't afford children, don't get pregnant), and so on. Those who want lower taxes should specify their cuts, just as those who want more spending should specify their tax rises.

The final omission is that the report makes no effort to calculate who wins from the tax cuts. It is not that hard to download the data and produce Institute for Fiscal Studies style bar charts.

Yet it would be wrong to dismiss the report. It sets out the case for tax simplification – it costs £300m a year in additional bureaucracy to run national insurance as well as tax, and explains what needs to be done to merge these. This is a really useful route map. There is sensible material on taxing capital so that people don't favour debt or equity, and so no one has an incentive to create weird financial assets that meet technical tax rules and are hard for everyone – including regulators – to assess.

There is good stuff too about why we should abolish corporation tax. Not to help business, but because corporation taxes must either cut returns to entrepreneurs, cut wages to workers, or raise prices to consumers. Whether you are left or right, better to decide which of those you want to happen, and do it properly, rather than levying a tax that may or may not be paid by the people you want to pay. Of further interest is the section on the treatment of pensions and pensioner incomes, although the discussion of land and environmental taxes is weaker. For example, the call to abolish Air Passenger Duty relies on industry funded material for numbers, and does not comment on aviation's exemption from VAT.

Finally, the report would have really benefited from an index!

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About the author

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