

The Great Tax Parachute: *How to save the public finances and keep the economy afloat*

As the public are told by all the main political parties that large spending cuts are inevitable, the Green New Deal Group show that real alternatives exist. This briefing reveals, for the first time, that the public deficit could, in fact, be substantially offset by a range of progressive measures on tax.

In the short term, government spending is needed to keep people in work as the only guaranteed way to reduce a deficit in a time of unemployment. When the immediate crisis has passed and the government needs to balance its books again, there are two options: to cut government spending or to raise revenue. As the Green New Deal Group's briefing, *The Great Tax Parachute: How to save the public finances and give the economy a soft landing* shows, the first of these, does not need to be an option.

Taken together, the Green New Deal Group estimate that more than £100 billion a year is lost at present because of abuse of loopholes in the tax system, tax bills remaining unpaid and from illegal non-payment of tax. Of course not all these abuses can be stopped. No tax system is perfect. But, while some of this revenue would be absorbed by the modest additional resources needed to implement the measures, by taking action to tackle these issues substantial amounts could still be made available to the public purse. This is not about new taxes, simply collecting taxes that are due, closing loopholes in the tax system and clamping down on illegal non-payment of taxes. Action on these issues is needed now.

In addition, as the Green New Deal group show, there is an enormous range of additional taxes available that would make the UK's tax system fairer. Those with the greatest capacity to pay tax could carry more of the burden of addressing the economic crisis whilst the taxes of those who simply cannot afford to pay more could be eased. Such an approach also stands to reduce the high social costs of inequality borne by the taxpayer. Once economic recovery begins the UK's structural deficit needs to be tackled in this way, not by cutting public services.

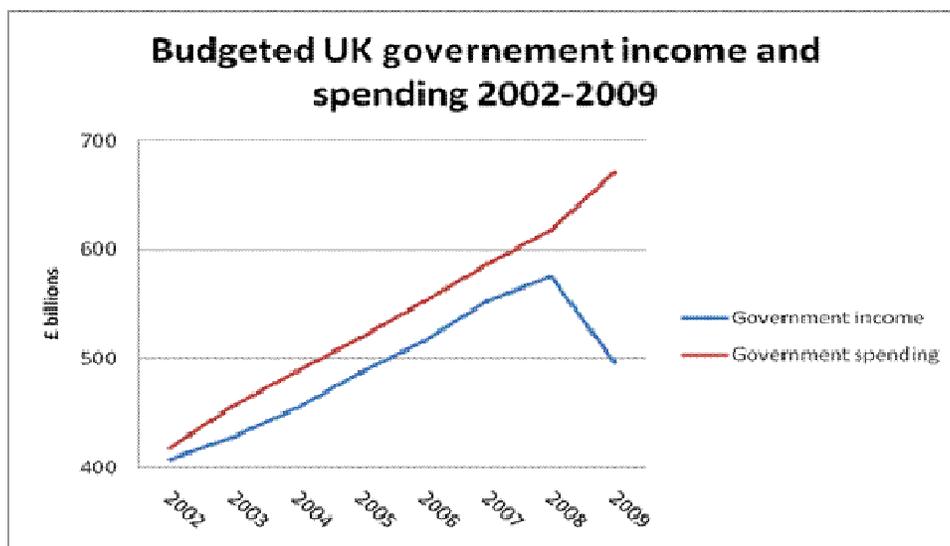
Background

The general election is predominantly about the economy. The question the electorate have to decide upon is a simple one: when and how are we going to rebalance the UK economy so that we do, once again, live within our means?

There is no doubt that over time we must do this. Although as a country it is quite acceptable to borrow to fund capital spending^[i] such as school buildings our current policy of borrowing to finance current spending^[ii] such as teacher's pay is only sustainable in the short term. However in the short term it is more important to tackle unemployment, and as we have argued elsewhere, this is best addressed by spending to keep people in work, off benefits and paying taxes as this is the only guaranteed way to reduce a deficit in a time of unemployment. Once unemployment falls, however, action will be required to redress the equation and rebalance the government's books. One way to achieve the required balance is to let inflation run riot, but whilst some inflation is positively desirable there is little indication that significant inflation is of benefit to anyone.

Tax or cut?

Given that inflation is not an option, there are two options that could ensure that the economy does eventually become balanced again. The first is that government spending can be cut and the second is that taxes can be raised. The policy choice that has to be made is about whether both of these should be utilised, and if so, in what combination and when. That is the whole current economic debate in a nutshell. Our response is unambiguous: this crisis is not about curbing government spending. This crisis is about a lack of government income, as this graph of budgeted UK government tax revenue and spending from 2002 to 2009 shows:



Source: HM Treasury web sites for the budget for each year noted:

http://www.hm-treasury.gov.uk/bud_bud09_index.htm

It is the collapse in government income due to the economic slowdown that has created the government debt problem that now faces us. If we wish to continue to enjoy the benefits of continued high levels of government spending, rather than damaging cuts in the public sector, the means has to be found to restore government income when a 'fiscal gap' of about £170 billion between government income and spending has opened up in the UK.

The Great Tax Parachute: *Cuts aren't needed –and won't work*

We repeat that we are unambiguous: we are sure the UK can still afford the level of public services it enjoyed until 2007 but that the condition for doing so is that a great deal of the 'fiscal gap' must be met by increased, but fairer taxes. A significant part of all public services are supplied by UK resident employees working to supply UK based services to UK based people for the benefit of the UK as a whole. In that case putting these public sector employees out of work does little or nothing to reduce overall government spending. Whilst there are very few private sector jobs for people made redundant (as at present,) the only consequence of making UK based people redundant is to increase public spending on benefits whilst losing the tax these people pay, and at the same time losing the benefit of their productive capacity, whilst they waste their lives away unemployed. That makes about as much economic sense as shooting one's self in the foot.

Whilst it is clear that a number of government services are in need of review and reform –the claim that cuts should be the focus for tackling the present government debt problem is just wrong. This was the case set out in the Green New Deal Group report, *The Cuts Won't Work*. Not least among the arguments was the demonstration that if the UK government cuts the job of an employee earning £25,000 a year it may, after tax revenues lost and benefits paid are taken into account, save under £2,000 a year, whilst risking a loss in spending that could tip another person in the private sector into unemployment as well.

The Great Tax Parachute: *the options*

If cuts are not an option, more public funds could be raised by increasing tax revenues, and this must be made the priority for action when the time comes to rebalance the equation, which is, we stress, only when unemployment is falling significantly. There are four ways to do this.

- First, the tax that is avoided through loopholes in tax law, could be collected. This, quite extraordinarily, is the easiest solution to the problem we face. Tax avoidance – getting round tax law in a way that the Government thinks contravenes the spirit of the law – might cost £25 billion a year at present^[iii]
- Secondly, unpaid tax (or tax bills that have been agreed, but not settled), incredibly, is even more. In November 2009 the Treasury Select Committee of the UK's parliament reported that HM Revenue & Customs was sitting on £28 billion of unpaid tax debt^[iv].

- Thirdly, tax evasion is worse still. A report by Green New Deal member Richard Murphy on behalf of PCS, which represents about 80 per cent of the staff of H M Revenue & Customs, has shown that tax evasion in the UK – that is illegal non-declaration of income on which tax might be due or fraudulent claims for tax relief for which relief is not justified – might cost HMRC £70 billion a year. The total loss is at least 15 per cent of all tax that should be paid^[v]
- New taxes are also available to address the unfairness in our tax system – whilst taking the lowest out of tax altogether.

These issues are dealt with in two sections that follow. The first addresses the tax gap resulting from tax evasion and non-payment of debt. This is wilful non-compliance. The second part deals with tackling tax avoidance and the need to raise additional new revenues to fill the hole in the government’s finances and ways to do this.

The Great Tax Parachute: *the mechanisms*

1. **Tackling tax evasion and non-payment of tax.** There are five ways of tackling tax evasion and non-payment of tax. They are:

<i>Policy proposal</i>	<i>Time scale for implementation</i>	<i>Likely impact</i>
Stop HMRC redundancy programme	Immediate	Immediate cost less than £10 million a year at marginal cost to HM Treasury of keeping staff in employment. Revenue raised likely to exceed £3 billion per annum.
Keep all local offices threatened with closure open	Immediate	Minimal – most of the offices are on non-cancellable PFI rent agreements so cost savings for closure are minimal. Revenue raised impact will be seen in enhanced local debt recovery and improved tax compliance.
Aggressively collect tax due.	Immediate	Tax is not an afterthought. Nor is tax an optional payment. Paying tax is a core obligation of all individuals and all businesses. Collecting tax due is vital if the tax system is to be credible. Tens of billions a year can be collected. Even more will be lost if it becomes obvious that non-payment is tolerated.

<p>Recruit 20,000 new staff at HMRC to:</p> <ul style="list-style-type: none"> • Train as tax inspectors to tackle tax avoidance and evasion • To enhance service to taxpayers • Reduce fraudulent claims for payment made to HMRC • Recover debt owing 	<p>Over the next three years</p>	<p>Marginal cost of each additional employee whilst there isn't full employment is unlikely to exceed £5,000, when their pension costs per annum , their tax paid and net benefits saved are taken into account^[vi].</p> <p>Benefits estimated to be a total of £20 billion comprising £10 billion of tax collected a year and £10 billion of evasion tackled.</p>
<p>Reopen local tax offices</p>	<p>The next three years</p>	<p>Small cost – many offices are already available to HMRC under PFI schemes and are currently vacant.</p> <p>The benefit will arise from placing tax at the heart of the community – based on the message that paying tax is the right thing to do if we are to build the society we all need and want.</p>

More details on these proposals and why they have been costed as they have been are available in the report, Tax Justice and Jobs (see bibliography).

2. Tackling tax avoidance and raising additional revenues

Suggestions about how to tackle tax avoidance split into three groups. These are:

1. Implementable straight away with no consultation required, not least because this will prevent tax avoidance taking place;
2. Implementable after a reasonable consultation period to ensure that the policy is as effective as possible
3. Implementable after further research is undertaken on the necessary mechanisms to create the tax.

Grouping the possible changes under the above headings results in the recommendations in the following table. In each case a link is provided to the course of further information on the proposal.

Implementable straight away with no consultation required

<i>Recommendation</i>	<i>Approximate Impact</i>	<i>Source of further information</i>
50 per cent tax on all income over £100,000	£2.3 billion	Compass, <i>In Place of Cuts</i>
Taxing all capital gains at a taxpayers highest marginal income tax rate	£2 billion	Compass, <i>In Place of Cuts</i>
Prevent anyone earning more than £100,000 a year claiming more than £5,000 a year in tax reliefs above their personal allowance	£14.9 billion	Compass, <i>In Place of Cuts</i> TUC, <i>A Socially Just Path to Economic Recovery</i> Green New Deal Group, <i>The Cuts Won't Work</i> (variations on the theme available in each)
End tax relief for all salaries and benefits provided in kind that results in an employee having total income from related employments exceeding ten times median UK earnings in a year (about £220,000 at present)	£2.4 billion	TUC et al – <i>Taxing Banks</i>
Limit the time period for the carry forward of bank losses	£5 billion	TUC et al – <i>Taxing Banks</i> ^[vii]
Reintroduce 10 per cent tax band to help those on lowest incomes	£11.5 billion of refunds	Compass, <i>In Place of Cuts</i>
Uncap national insurance contributions and make them payable on investment income	£9.1 billion	Compass, <i>In Place of Cuts</i>
Additional 10 per cent tax on bank profits	£2.2 billion	Tax Research LLP ^[viii]
Limit ISA tax relief to funds invested in new Green projects alone	Neutral	Green New Deal Group, <i>The Cuts Won't Work</i>
Total	£26.4 billion	

Implementable after a reasonable consultation period

Introduce a General Anti-Avoidance Provision	Up to £5 billion pa	Association of Accountancy and Business Affairs' <i>Code of Conduct on Taxation</i>
Change the legislative basis for interpreting UK tax law so any action contrary to the spirit rather than the letter of tax legislation can be challenged in court	Included in above estimate	AABA <i>Code of Conduct on Taxation</i>

Introduce a mandatory Code of Conduct on Taxation	Included in above estimate	AABA <i>Code of Conduct on Taxation</i>
Abolish the UK's domicile rule	£3 billion	TUC, <i>A Socially Just Path to Economic Recovery</i>
Introduce higher council tax bands	£1.7 billion	Compass, In place of Cuts
Introduce a 'Robin Hood Tax' on all foreign exchange dealing in sterling	£3.2 billion in the UK	Robin Hood Tax Campaign <i>Budget Submission 2010</i>
Reform rules on company residence so that companies cannot claim they've left the UK simply by holding their board meetings in another country	£1 billion at present, maybe more ^[ix]	TUC <i>Pre-Budget report submission</i>
Enhance the rules on controlled foreign companies so that intellectual property rights cannot be easily transferred to tax havens without tax being due	£1 billion at present, maybe more	TUC <i>Pre-Budget report submission</i>
Restrict the offset of interest against taxable income both for companies to reduce the incentive to overload companies with debt.	£1 billion at present, maybe more	TUC <i>Pre-Budget report submission</i>
Restrict the tax relief available to those borrowing to finance buy to let properties to create a level playing field between new owner occupiers and new landlords	£2 billion, cautious estimate	Tax Research LLP ^[xi]
Demand that all tax havens in the world enter into Tax Information Exchange Agreements with the UK;	Up to £4 billion	Tax Research LLP, <i>The direct tax cost of tax havens to the UK</i> ^[xi]
Promote the use of new mechanisms for Automatic Information Exchange between all tax jurisdictions except those where human rights abuses are commonplace.	Included in above estimate	Tax Research LLP
<i>Possible total , but to be treated with caution as some proposals may overlap</i>	<i>£21.9 billion</i>	

Implementable after a period of further research*

Reform the basis of tax residence in the UK so that a person with a UK passport is liable for tax on their world wide income unless they live in a state with a tax system broadly equivalent to the UK's.	Not yet clear, but maybe several billion a year	
Radically reform the way in which small companies are taxed to both simplify current arrangements and prevent abuse. This would require the income of such companies to be treated as belonging to their shareholders, unless those shareholders are not resident in the UK, so preventing tax deferral by use of corporate structures.	£1.2 billion	Tax Research LLP, <i>Small Company Taxation in the UK: A review in the aftermath of the 'Arctic Systems' Ruling</i> Green New Deal Group, <i>The Cuts Won't Work</i>
Introduce a 'Robin Hood Tax' on all derivative, swap, bond and over the counter trading in the UK	£5bn, maybe much more	Robin Hood Tax Campaign, <i>Budget Submission 2010</i>
Reforming the tax relief for charities to stop abuse, increase the income of charities and to cut their administrative burden;	Neutral but significant admin savings	TUC, <i>The Missing Billions</i>
A 'bank debit tax' charging all payments from a UK bank account to tax at a tiny rate, and in the process replacing VAT, at least in part, with a more progressive tax based on a broader and therefore more progressive tax base	£4.2 billion	Compass, <i>In place of Cuts</i>
Introduce country-by-country reporting for all multinational corporations based in the UK, and demand it be introduced internationally by the International Accounting Standards Board and European Union so that multinational corporations will be required to account publicly	Not yet known	Green New Deal Group, <i>The Cuts Won't Work</i>

for where they declare their profits and where they pay taxes, including full disclosure with regard to tax havens and secrecy jurisdictions.		
Introduce an empty property tax	£5 billion	TUC, <i>A Socially Just Path to Economic Recovery</i>

*Because additional research would be needed to estimate the cumulative impact of these measures (since implementation of one set of policies would impact on both the scale of the total tax take, and some degree of continued avoidance would be inevitable) a total for these measures is not given here.

Conclusion

What is clear from these summaries is that there is an alternative to cuts in public spending. We stress that we do not suggest all of these taxes and changes need be introduced. Some suggestions are complementary, although we have sought to allow for this in estimates of tax to be collected wherever possible.

That estimate, even allowing for a major additional relief for those on low pay, is likely to exceed £50 billion a year. To this must be added maybe £20 billion a year from tackling tax evasion and collecting tax due. In that case it is readily apparent that all the means needed to fund the fiscal deficit without any cuts in public spending in the UK can be found. In that case we make the simple point now, no politician can say there isn't a tax raising alternative to cuts. As we have said before, cuts won't work. Here we have presented an agenda that will work. It's the agenda the UK needs now.

Links, References and Bibliography

The following documents are referenced in this report:

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The Missing Billions, Richard Murphy, Trade Union Congress, London, 2008 <http://www.tuc.org.uk/touchstone/Missingbillions/1missingbillions.pdf>

The Robin Hood Tax, London, 2010 <http://robinhoodtax.org.uk/how-it-works/the-big-idea/>

Endnotes

^[i] Capital spending is on things like schools, hospitals and other items which provide benefit over many years. To pay for them all up front makes no more sense, and is no more possible, than it would be for most people to have to save the entire cost of a house before buying one rather than use a mortgage.

^[ii] Current spending is the cost of government spending on things that provide no continuing benefit once spent e.g. pensions, benefits, most health care and education plus the running costs, excluding equipment, of the armed forces.

^[iii] The Missing Billions – see bibliography

^[iv] Tax Justice and Jobs - see bibliography

^[v] Tax Justice and Jobs - see bibliography

^[vi] For details refer to Tax Justice and Jobs - see bibliography

^[vii] The estimate is made here. UK companies reduced their total deferred tax liabilities in 2008 by £17 billion according to international accountants Deloitte. Not all of this would relate to banks and some losses will have been sued against profits in 2009, but the estimate is considered reasonable in the light of losses sustained by Lloyds, RBS, Northern Rock and others that were covered by tax bail outs and do not need to be relieved again.

^[viii] <http://www.taxresearch.org.uk/Blog/2007/09/18/banks-must-pay-for-giving-up-their-risk/>

^[ix] These estimates are provisional

^[x] Currently unpublished research

^[xi] Based on total estimated loss of £8.5 billion less estimate for that part attributable to non-domiciled people that cannot be double counted

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