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# The World We Want

The role of taxes in funding the NHS and other public services

## About Tax Justice UK

Tax Justice UK is a new campaigning and advocacy organisation. Our mission is to ensure that everyone in the UK benefits from a fair and effective tax system. We are not-for-profit and politically non-aligned. Tax Justice UK is a partner of (but independent from) the Tax Justice Network.

For more information visit: [www.taxjustice.uk](http://www.taxjustice.uk).

### **Acknowledgements**

This briefing was prepared with funding from the Barrow Cadbury Trust, Friends Provident Foundation, Joffe Charitable Trust and Network for Social Change. The following people provided comments on the report: Will Snell, Toby Quanttrill, Sarah-Jayne Clifton, George Turner, Helen Miller, Paul Monaghan, Susan Himmelweit and Alex Cobham.

## Introduction

One of the few areas of political consensus in the UK is that the NHS needs more money. There is overwhelming public support for the service, and politicians of all stripes recognise that it is facing increasing costs. In June 2018, Theresa May announced an extra £20 billion a year for the NHS by 2023.<sup>1</sup> She promised that part of this would come from 'fair and balanced' tax increases.<sup>2</sup> In this paper, Tax Justice UK sets out what tax rises could help the government fulfil this pledge.

We believe that the question of how to increase health funding should be just the start of a broader debate about the level of public services we want and how to pay for them. Tax Justice UK's vision is for a society where, because there is sufficient investment in public services, people do not have to wait months for desperately needed operations, where schools have enough resources to teach children properly, where people have access to affordable housing, and where elderly and vulnerable citizens are properly cared for.<sup>3</sup>



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*On taking office Prime Minister Theresa May promised to 'make Britain a country that works for everyone.'*

We believe that this vision is shared by the majority of people in the UK and that delivery of such a vision will require boldness and ambition. It will mean taxing many of us more, and taxing the wealthiest the most. It will mean taking on powerful vested interests and rebuilding a sense of unity and solidarity in an increasingly divided country. And it needs to start now.

A decade on from the start of the financial crisis it is clear that austerity has placed huge strain on public services. Both government ministers and members of opposition parties have been calling for increases in various forms of spending on public services.<sup>4</sup> There is growing public support for this, with a clear majority in favour of increasing such government spending and of accompanying tax rises.<sup>5</sup> The public is especially keen on spending more on the NHS - a position backed by 80% of respondents to a recent NatCen survey.<sup>6</sup>

### There is growing public support for tax and spending increases to support public services

On top of the pressures facing government services, many people increasingly feel that the economy does not work for them. Recent polling from Sky and the Institute for Public Policy Research (IPPR) found that a majority of respondents believed that the economy had become more unfair over the last decade.<sup>7</sup> High levels of inequality and stagnant wages exemplify this problem. Dissatisfaction with the economic status quo is widely understood to have been one of the drivers behind the Brexit vote.<sup>8</sup>

The tax system is one of the most powerful levers the government has to shape the economy. Tax Justice UK believes that significant tax reform is urgently needed and that the promised increase in funding for the NHS represents a significant opportunity to start to make the system fairer overall. In order to build trust, the government needs to make sure that companies and the wealthiest are paying their fair share. Tax is of course just one option the government has for raising funds; others include borrowing and money creation.



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*Some people voted to leave the EU because of perceived inequality.*

## The NHS funding crisis

The NHS is facing rising costs due to an ageing population, increasing obesity, and expensive new treatments, among other factors. The Institute for Fiscal Studies and the Health Foundation estimate that just to maintain the current service, spending will have to rise by 3.3% annually for the next 15 years, with rises of 4% per year if services are to be improved.<sup>9</sup> This is a lot more money than Theresa May promised, amounting to an extra £95 - £124 billion by 2033-34.

The government has said it will explain how it intends to find an extra £20bn a year for the NHS by 2023 in this year's budget, due on October 29. Its options include:

1. Asking for people to contribute towards the cost of their care;
2. Cutting other government budgets;
3. Borrowing more;
4. Raising taxes.

User charges undermine the basic tenet that universal health care should be free at the point of need, an approach that has overwhelming public support.<sup>10</sup> As IPPR has pointed out, user charges are also economically inefficient, in part due to the costs of administering such a system.<sup>11</sup>

Cutting other government spending is the primary way in which increases in health spending have been paid for over the last thirty years, with a particular focus on cutting local authority, defence and housing budgets.<sup>12</sup> However, with other services facing significantly smaller budgets after almost a decade of cuts, it is difficult to see how this can continue as a way to invest more in health. Further cuts would be the wrong approach in the face of economic slowdown and uncertainty.

Borrowing is likely to feature in the government's plans for increasing investment in health. The IMF has argued that the UK can live with high public

debt levels 'forever', given the low cost of public borrowing.<sup>13</sup> The Labour party has promised to increase borrowing to fund more investment, as opposed to day-to-day spending. Borrowing to invest more in the nation's future health is a good idea for both economic and social reasons. However, there are political constraints on this given the government's plans to reduce the deficit, and therefore borrowing is unlikely to cover the full £20 billion.

In this context, it is clear that tax changes should be at least part of the mix.

**Higher taxes will have to be part of the solution to how the government provides extra money for the NHS**

A number of think tanks and individuals have put forward proposals for how the government could fund increased healthcare costs, set out in the table below.

While some of these are good ideas for raising revenue, they miss the opportunity presented by

the increase in NHS funding to start to tax wealth better and in doing so to address fundamental – and growing – inequalities in UK society.

There is a live debate on whether the increase in NHS funding should be achieved via a so-called hypothecated tax, i.e. a specific levy probably paid via National Insurance Contributions, that goes directly to the NHS. Tax Justice UK does not think this is the ideal way forward because it potentially reinforces the idea that there are popular areas of public spending that deserve to be funded at the expense of others.<sup>14</sup>



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*Further cuts to other parts of government look untenable.*

Organisation	Suggested options for raising extra funds for the NHS
<b>IFS / Health Foundation</b>	Raise one of the biggest three taxes: income tax, national insurance or VAT.
<b>Resolution Foundation</b>	Extend National Insurance contributions to those over the pension age, or raise income tax, or freeze the income tax allowances, or reverse planned cuts to corporation tax.
<b>IPPR Lord Darzi review</b>	Raise all National Insurance rates by 1% and extend contributions to those over the pension age.
<b>New Economics Foundation</b>	Abolish the Upper Earnings Limit of employee National Insurance Contributions.
<b>Nick Boles MP</b>	Turn National Insurance into a ring-fenced National Health Insurance, with the self-employed paying the same rate as the employed and extend contributions to those over the pension age.

## Taxing wealth

In the UK, wealth is spread deeply unevenly, with knock on effects on people's life chances. In the most disadvantaged parts of the country, people live on average 10 years less than those in the wealthiest areas.<sup>15</sup> As the Equality Trust has highlighted, high levels of inequality can increase economic instability, lower social mobility and undermine the social contract between citizens and state.<sup>16</sup> Those with the least suffer the most, with insecure work and skyrocketing housing costs. This is made worse by a growing generational gap: young adults today are unlikely to be as well off as their parents.<sup>17</sup> All this means that there are strong arguments for better and higher taxes on wealth.

Wealth in the UK is primarily made up of pensions and property, with smaller amounts represented by financial assets, art and other physical objects.<sup>18</sup> The UK's approach to taxing this wealth is a muddle. Our system of property taxation is broken, with tax rates only loosely tied to property values, which have risen rapidly and unevenly over the last few decades. Despite the fact that wealth inequality is double that of income inequality, the various taxes on income from wealth are generally lower than those on income from work.<sup>19</sup>



*Wealth inequality is double that of income inequality in the UK.*

There is political support for taxes on wealth, and on income from wealth, from across the political spectrum. Conservative commentators such as Peter Osborne and Lord Willetts support smarter taxation of wealth, as do (less surprisingly, perhaps) those in the centre and left such as Labour MP Rachel Reeves and the Lib Dems.<sup>20</sup>

### Across the political spectrum there is support for wealth taxes

The recent report from IPPR's Economic Justice Commission, which set out a radical vision for economic reform, including better taxes on wealth, was backed by business leaders and the Archbishop of Canterbury.<sup>21</sup> The broader context of Brexit means that many issues that have been seen as politically 'impossible' are now on the table as we decide what sort of country we want to be after leaving the EU. We should seize this opportunity to agree reforms that deliver a fairer and more effective tax system.

If taxes are to rise in the short term - a position supported by the major political parties - it is crucial that those with wealth and companies are asked to contribute a significant proportion of any increase. Given that average pay has not yet returned to pre-crash levels, it will be a hard political sell to get everyone to pay more until they are convinced they are being treated fairly, and that those with the greatest means are paying the most.<sup>22</sup> Philip Hammond has reportedly acknowledged that the better off will have to pay the lion's share of any tax increase.<sup>23</sup>

However, in the long term any substantial tax rises to support growing public spending will need to come from beyond just those at the top: those on average salaries may also need to contribute more. At the same time it is vital to spare the poorest from any tax rises, including to indirect taxes. As the Women's Budget Group have shown, work is needed to ensure that the Budget doesn't disadvantage women.<sup>24</sup> Tax should be a means to reduce inequality and redistribute wealth.

# Tax Justice UK's proposals

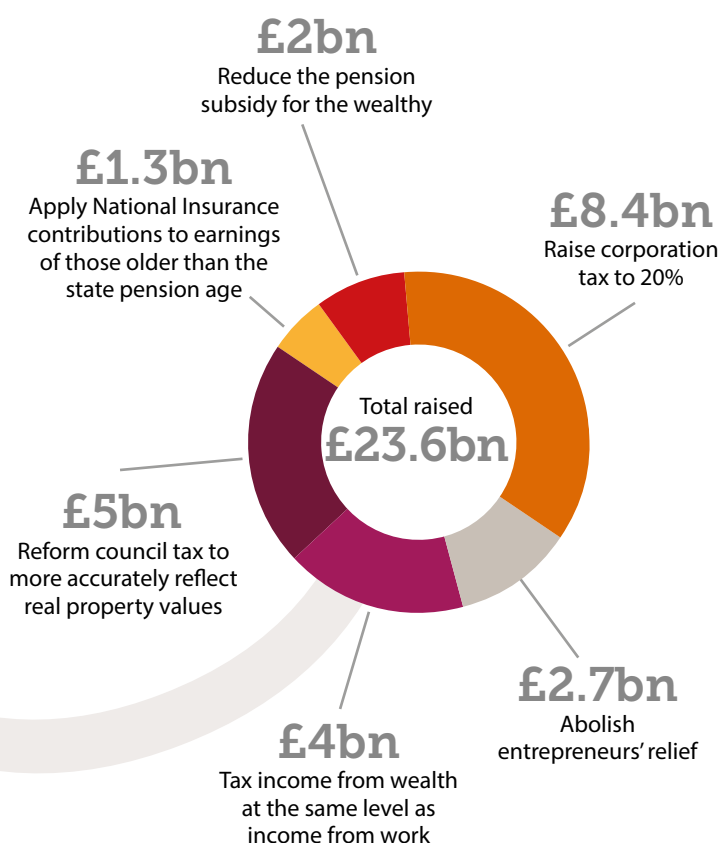
Tax Justice UK is taking a principles-based approach. This is informed by not just economic rationality and what will raise the money promised to the NHS, but by our values, and guiding objectives of the sort of society we and others want.

These principles include:

1. Companies and the wealthiest should pay their fair share to ensure trust in the system;
2. Tax should increase in proportion to a person's wealth and income;
3. A sustainable tax system needs to look beyond increasing taxes on just those at the top and companies;
4. The poorest should be protected from tax rises.

In line with these principles, we recommend the government considers the following tax changes, which represent one way in which it could raise just over £20 billion in line with our principles.

## How to fund the NHS



### Raise corporation tax to 20% - £8.4 billion

Corporation tax is an indirect way of taxing wealth, as share ownership and pension holdings are concentrated amongst the wealthiest.<sup>25</sup> Since 2008 the corporate tax rate has dropped from 30% to 19% and is set to drop further to 17% by 2020. This is despite the fact that even business leaders have questioned the need for such a low rate.<sup>26</sup> HMRC have estimated that if the rate returned to 20% by 2023, matching the basic rate of income tax, the government could gain £8.4 billion.<sup>27</sup> However, even this rate is low compared the rest of the world, which is why IPPR have recommended that the rate increase to 24%, which would still be the lowest in the G7, and would bring in £19.6 billion by 2023.<sup>28</sup>

Concerns that a higher rate would deter investment are exaggerated. Corporation tax is just one factor firms take into account when investing. Others which may be more important include the availability of qualified workers and the regulatory regime. According to KPMG, low rates of corporation tax are unlikely to do much to encourage businesses to invest in the UK given the political and economic uncertainty around Brexit.<sup>29</sup>

### Abolish entrepreneurs' relief - £2.7 bn

Over the years governments have introduced a range of tax reliefs to try and encourage particular types of behaviour. However, as the Public Accounts Committee has found, these are often badly targeted, with limited understanding from government about whether they actually work.<sup>30</sup> A good example is entrepreneurs' relief, which the Resolution Foundation has described as 'the UK's worst tax break.'<sup>31</sup> The relief slashes the rate of Capital Gains Tax that is paid by a small number of wealthy individuals selling their company. It rewards those who have already made substantial profits, while doing little to encourage entrepreneurship. It costs £2.7 billion a year.<sup>32</sup>

### Tax income from wealth at the same level as income from work - £4 bn

Income from wealth is taxed in a number of different ways. A key one is Capital Gains Tax, which

is charged on the increase in value of an asset during the period that it's owned. At the moment, the rates on Capital Gains are lower than the taxes on income from work. For example income tax rates are 20, 40 and 45 %, whereas the main Capital Gains Tax rates for individuals are 10 and 20 % (there are a range of rates for specific assets and companies).<sup>33</sup> Aligning capital gains with taxes on work was a key recommendation in IPPR's Economic Justice Commission report, as well as the 2011 IFS Mirrlees report on reforming the tax system.<sup>34</sup> These proposals continue the current policy of not taxing the gains on someone's principal home.

Peter Osborne backed such a move in a recent Daily Mail column, pointing out how problematic it is that 'rich investors who gain windfall profits from stocks and shares or property pay far less taxation than ordinary folk who work hard for their earnings'. As he highlighted, taxing capital gains on a par with income would be a return to a policy last seen under Margaret Thatcher.<sup>35</sup> It is hard to estimate the revenue that could be raised from this change given the unpredictability of taxpayers' response, and the specifics of any change. However, the economist and accountant Richard Murphy has estimated that the government could double the amount raised, which is currently £8 billion.<sup>36</sup> Even if only half of that were raised (as we have assumed here), it would represent a substantial sum.

### **Reform council tax to more accurately reflect real property values – £5 bn**

Over a third of the UK's wealth is locked up in property, and the difficulty of getting on the housing ladder is a big driver of inequality.<sup>37</sup> Council tax, which taxes the use of property, is a mess. Due to huge changes in property prices over the last three decades, the amount people pay is only weakly connected to the value of their property. A proposal for reform from the Resolution Foundation, which would replace the current system with a tax levied in proportion to a property's value, would leave nearly three-quarters of people better off while raising an extra £5 billion. Any reform would need to include a smoothing mechanism to share tax receipts between different councils, given the extent to which house prices vary across the

country. The increase in council tax receipts should be ploughed back into local authority spending, as opposed to being allocated to central NHS funds. For example, it could be used as a contribution to the shortfall in funding for adult social care.

### **Apply National Insurance contributions to earnings of those older than the state pension age – £1.3 bn in 2020-21**

Pensioners are doing well: median pensioner incomes are now higher than median working-age incomes after housing costs.<sup>38</sup> Currently workers stop paying National Insurance Contributions once they reach the state pension age. However, with people increasingly working beyond the traditional retirement age, and rising health costs in part driven by providing care for an aging population, this carve out no longer makes sense. The IPPR / Lord Darzi review of health and social care estimated that this reform would bring in £1.3 billion a year by 2020-21.<sup>39</sup>

If the government wanted to go further it could increase, or even abolish, the upper earnings limit. At present employees only pay 2% in National Insurance on earnings above £46,400 a year (as opposed to 12% paid by contracted employees, and 9% paid by the self employed, on income between £8,400 and £46,400). The New Economics Foundation estimate that scrapping this upper limit could bring in an additional £11.1 billion per year by 2023/24.<sup>40</sup>

### **Reduce the pension subsidy for the wealthy – £2bn**

The government spends over £40 billion a year on pension tax relief.<sup>41</sup> This is meant to encourage saving for retirement and avoid taxing the same money twice as it goes in and out of a pension pot. The highest earners get a 45% relief, while basic rate payers get 20%, with a lifetime limit on pension contributions of £1 million.<sup>42</sup> Pensioners can also take 25% out of their pension tax-free on retirement. These subsidies go overwhelmingly to the highest earners, with the top 10% of earners getting over half the total relief.<sup>43</sup> The Resolution Foundation has proposed that the government introduce a flat rate of relief at 28% and cap the amount that can be taken out of a pension pot tax free at £40,000.<sup>44</sup> This would raise £2 billion.



## Conclusion

The NHS tax settlement must be fair and should be the starting point for a bigger discussion about tax and society. In Tax Justice UK's view the wealthy and companies need to contribute a greater share and this paper has given some examples of how to do this.

The six options listed above are just some of the ways in which the government could raise taxes in line with our principles. There are an increasing number of proposals from think tanks and politicians on alternative approaches. They include: replacing inheritance tax with a lifetime gifts tax, turning business rates into a land value tax, introducing a Robin Hood tax on financial transactions, and streamlining how income is taxed.<sup>45</sup>

All of these policy changes would need to be accompanied by greater efforts to clamp down on tax avoidance and evasion. This is essential to bolster public support for the tax system and raise additional revenues. Tax Justice UK has set out in detail the measures the government should adopt in our recent submission to the Treasury Sub-Committee, which include greater transparency on companies' tax affairs and more resources for

HMRC.<sup>46</sup> Companies can show their commitment by getting accreditation from the Fair Tax Mark.<sup>47</sup>

Raising taxes on the wealthy and clamping down on avoidance, are important for bolstering public support for the tax system. But politicians are going to have to look beyond just those at the top if they are going to meet the increasing public demand for greater investment in public services. In the longer term, if the government is looking to secure greater tax revenues it will be difficult to avoid raising one of the three main UK taxes. Income tax, national insurance and VAT contribute almost two thirds of government revenue.<sup>48</sup> Progressive increases to income tax or National Insurance may be part of the mix.

Decisions on how to change the tax system are never easy. However, the government has a real opportunity in the upcoming budget to move in a fairer direction, shifting the tax system towards taxing wealth, over work. The reforms we have outlined in this paper are necessary to rebalance our tax system, make our society more equal, and help to keep the level and quality of public services we need and want.



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*The tax system in the UK needs to change to make society more equal and support quality public services for all.*

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