

How Rowntree could have tackled the tax issues of conce...

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I've been in discussion with several people about [my post](#) on the Joseph Rowntree's flat tax report, and have been challenged to say what I would have done if them. That is relatively easy to do.

Their work recognises something I, and all serious researchers in this area know - which is that the highest marginal rates of tax in the UK fall on the poorest in our society. What is more, they pay very high overall levels of tax. This is because of the unjust combination of direct, indirect and council taxes and the withdrawal of tax credits and other benefits as income increases. This problem needs to be tackled. But their report does not, I think, suggest the right way to go about it.

First of all, combining the tax and national insurance systems looks attractive, but in that case serious attention has to be given to the additional tax burden this would create for the elderly who are not liable to pay national insurance. Unless this is tackled any combination is politically and socially unacceptable.

Secondly, if tax credits are, in effect, to be included in the tax system then it has to be ensured that this is done in such a way that those they are meant to benefit win from that change. That is unlikely to be the case if the 'tax wedge' for those who are poorly paid and at the margins of employment is as high as 37%. This 'tax wedge' is quite acceptable in the UK for those on high pay; indeed, it is lower than the liability currently due for most higher paid employees, and as surveys have shown, such rates are no disincentive to work or tax compliance. The answer in that case is obvious. Any simplification, if it is desirable has to be on the basis of progressive rates of tax.

And let me be quite clear, progressive rates of tax are not a complication in the tax system. Calculating tax due is simple arithmetic. Calculating taxable income is the hard bit. The Joseph Rowntree Foundation are seeking to tackle the hard bit; their error is in thinking that somehow fixed marginal rates of tax are a part of this process. They are not.

More work is needed to develop their thinking, which might be well worth doing. But

that thinking would need to look at the impact of using variable rates of tax to ensure that the benefits of change went to those who really need them, who are the poor, or as the related IFS report shows (and which fact was ignored by all those who have reported the issue), the rich will be the only sure winners. That cannot be allowed.