If PWC are going to discuss tax they really do have a d...

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I readily confess that like most who work in tax justice I think that Covi, which describes itself as a think tank, is rather more akin to a PR agency for the Big 4 firms of accountants' tax policy. This was very apparent in the organisations first year, when it was heavily funded by KPMG. Now PWC are in on the act. Covi has recently announced that:

The concept of hypothecation, where revenues from specific taxes would be ringfenced for a particular expenditure purpose — and publicly communicated in this way — has traditionally been unpopular with many. This is because of the notable challenges, relating to complexity, transparency, and public perceptions, with which it is associated. However, there is growing interest in how hypothecation could help engage with tax policy and increase public trust in the system.

A new workstream from the Responsible Tax Lab, sponsored and supported by PwC, will explore the practicalities and implications of hypothecation. In this article, Kevin Nicholson from PwC discusses why the time is right for this conversation.

In fairness the article by Kevin Nicholson in the HuffPost says:

[H]ypothecated taxation [has] never got a huge amount of traction, for a whole host of reasons.

For a start, by ring-fencing revenue, governments are locking down what they can spend. What if circumstances and priorities change? Moreover, once you start hypothecating particular taxes, where do you stop? Perhaps education should have its own fund, or defence. And then there's a risk of people demanding a 'pick n' mix' approach to which taxes they pay.

And it adds:

Hypothecation would undoubtedly complicate an already complex tax system, and this in turn brings an economic cost, as well as an administrative one.

Before saying:

Then there are issues around how the actual hypothecated tax would work. In a number of countries social insurance is effectively a hypothecated tax to fund certain benefits such as healthcare and pensions, but there are lots of differences between how these taxes work in practice.

Despite which Kevin Nicholson says:

I think this time the debate has merit. Despite the drawbacks, there is an overriding reason why hypothecation needs serious consideration - it increases transparency and arguably trust.

And he continues:

Our research suggests people want to know how their tax is spent, and when they do, they mind paying it less. Sure, not everyone would be happy about paying an NHS tax, but it would quickly flush out how much of a priority the NHS is for politicians and voters - forcing them to put their money where their mouth is.

There's never been a more important time to reconnect people to the purpose of tax. Brexit demands a rethink of a number of our taxes. Combined with developments such as robotics and the rise of self employment, there's an increasingly pressing need to reboot the tax system.Given tax changes are fraught with difficulty, we only have a chance if people accept it has to be done and engage on the options. A debate on hypothecation could kickstart this wider and hugely important review.

Where does one begin to address that?

First, PWC really do need to learn that tax does not pay for any government spending: the spend comes first and the recovery comes afterwards. The six reasons for tax are:

* Reclaiming the money the government spent into the economy to control inflation;
* Ratifying the value of money;
* Reorganising the economy;
* Redistributing income and wealth;
* Repricing goods and services;
* Raising representation.

There is more on this here. Telling people that tax pays for anything when it is instead an instrument for control the macroeconomy would be a big mistake.

Second, pretending that in that case any particular tax pays for any particular service would be an outright lie. This is not the case. All tax goes into one pot. If one tax is supposedly constrained for use on one type of government activity all that actually happens is that a constraint if put on the funding of that service where none is needed. That is because an artificial limit is put on spending on it. But in practice the total tax pot is unaffected: all remaining tax is still spent in a discretionary fashion and because hypothecated sums can be changed at will even the supposed link is nothing more than a sham. The credibility of the tax system is, therefore, undermined by hypothecation.

And nor do people know any more about how their taxes are spent: they have been conned that a small part of their taxes are spent in a particular way. The con trick lasts about as long as it takes for a press release to hit the bin.

In that case it has to be asked why PWC are keen on this. The answer must be because they see benefit from doing so. The obvious benefit will be that given that inheritance tax, capital gains tax and corporation tax will not be hypothecated to the NHS their clients will pay least of any increase. Forgive my cynicism. And then there is the second benefit that a constrained NHS is ripe for privatisation, from which their clients might gain. Their reasons for involvement are all too apparent.

I am all for discussion. I would take part. But at least I would (and have) put my cards face up on the table. And unless the discussion is to be about what is really happening in tax, and to be based on how tax actually works, this whole exercise would be a con trick on the public.

The message is a simple one: if you're going to talk about tax you do have to understand how it works, and why. Right now it's not clear that either Covi or PWC do that.