The Taxing Wealth Report 2024

Every politician's guide to "How to pay for it"[1]

The reform of tax rates to assist delivery of the Taxing Wealth Report 2024

Brief Summary

This note suggests that:

- Although the Taxing Wealth Report 2024 has identified many anomalous tax rates reliefs and allowances within the UK tax system that are in need of correction where doing so will raise significant extra tax revenues, there are other tax allowances and reliefs that would also need to be addressed if the recommendations within the Taxing Wealth Report 2024 are adopted so that a tax system that is in overall terms just might be created in the UK.

- In the three cases highlighted in this note, correcting anomalous tax rates reliefs and allowances within the UK tax system might reduce overall tax revenues because those in use do, at present, create tax injustice at cost to those with higher income and wealth. It is not possible to promote tax justice without taking these issues into account, presuming that the other recommendations within the Taxing Wealth Report 2024 are adopted.

- The first of these issues relates to the High Income Child Benefit Charge (HICBC). This withdraws a claim for child benefit from any person living in the same household as the child in respect of which that claim is made if that person is

[1] This note forms a part of 'The Taxing Wealth Report 2024' published by Finance for the Future LLP, which is UK LLP number OC329502, registered at 33 Kingsley Walk, Ely, Cambridgeshire, CB6 3BZ. See https://www.financeforthefuture.com/taxing-wealth/. This note was written by Richard Murphy FAcSS FCA FAIA (Hon), Professor of Accounting Practice, Sheffield University Management School, who is a director of Finance for the Future LLP.

earning between £50,000 and £60,000. The tax collected as a result is estimated to be £1 billion a year, but marginal tax rates exceeding 70 per cent can arise as a result, and in combination with the changes in the Taxing Wealth Report 2024 these would be unacceptable and as such this charge needs to be abolished.

- The second charge relates to the phasing out of the personal income tax allowance for persons earning between £100,000 and £125,140 a year, meaning that in that range an additional 20 per cent tax charge arises. On top of the other changes recommended in the Taxing Wealth Report 2024 that would result in unacceptable tax rates that also defeat the desired steady progressiveness of the tax system and as such this charge should be abolished, but only if the other recommendations in the Taxing Wealth Report 2024 are accepted. The cost would be approximately £5.6 billion per annum.

- The third change would be to the income tax rate on earnings and gains totalling between £50,000 and £75,000. Again, this change is only recommended if the changes suggested in the Taxing Wealth Report 2024 are accepted as otherwise there would be no need to do so. If the tax rates on national insurance, capital gains and investment income recommended in the Taxing Wealth Report 2024 were accepted the overall tax rate on people earning between £50,000 and £75,000 would become too high if sufficient overall steady progressivity is to be achieved within the tax system. Subject in that case to those other recommended changes taking place it is suggested that the income tax rate in this range be reduced to 30 per cent from the current 40 per cent rate. This would have a cost of approximately £12.5 billion per annum.

- Without these changes it is likely that the Taxing Wealth Report 2024 would be inappropriately targeted: it is meant to target those with higher income and wealth and should not penalise most of those with earnings of between £50,000 and £75,000 a year as a result unless that income comes from capital gains or other unearned sources.

- The overall cost of recommendations made in this note is:

	Recommendation	£'bn
1	High Income Child Benefit Charge (HICBC)	1.0
2	Withdrawal of the individual personal income tax allowance	5.6
3	Reduction in tax rate between £50,000 and £75,000 a year	12.5
Total		19.1

Of these recommendations the first should happen irrespective of the other changes suggested in the Taxing Wealth Report 2024.

The other two suggestions are conditional on the other reforms proposed in the Taxing Wealth Report 2024 being made or tax injustice would result.

Background

There are a number of tax rate and reliefs within the UK tax system that create tax injustice, and which need to be addressed if the UK is to have an effective tax system. Many of these flaws within the current tax system are addressed within the Taxing Wealth Report 2024, including:

- The substantial reduction in national insurance charges on income over £50,270 a year.
- The absence of a national insurance charge, or an equivalent income tax surcharge, on any source of income other than that from employment and self-employment.
- The low rates of capital gains tax when compared to income tax, which rates encourage tax abuse whilst not recognising that the receipt of all additional income by a person is a matter of indifference as to its source and so should be taxed equally subject to rates determined solely by the overall level of income and gains.
- The limited disparity between small and large company corporation tax rates.
- The exemption of financial services and private education from VAT charges.
- The capping of council tax charges, meaning that high value properties pay disproportionately low sums to local authority tax administrations.
- The granting of income tax relief at desperate rates, with the bias of advantage within these arrangements being towards the wealthy, particularly with regard to pension contributions and gifts to charities.

Correction of the above biases within the tax system would, as the Taxing Wealth Report 2024 notes, result in significant additional tax revenues being raised which are likely to exceed £100 billion in all.

However, in addition to these anomalous tax rates, there are other tax allowances and reliefs that need to be addressed if an overall fair tax system is to be created. In these cases, correcting these matters might reduce tax revenues because they do, at present, create tax injustice at cost to those with higher income and wealth. It is not, however, possible to promote tax justice without taking these issues into account.

In particular, the following charges and changes to tax reliefs create injustices.

High Income Child Benefit Charge (HICBC)

Parents and others with children in their households (even if they are not their biological offspring and even if they are unrelated by marriage) with regard to whom child benefit is claimed (even if not by them) have those payments withdrawn as their income increases between £50,000 and £60,000 a year. As a consequence, it is a possible that a person with income in this range, which happens to coincide with the point when higher rates of income tax are charged on at least some of those involved, might suffer very high marginal tax rates.

As the House of Commons Library said[2] of this charge in August 2023:

> *The High Income Child Benefit Charge (HICBC) provides for Child Benefit to be clawed back through the tax system from families where the highest earner has an income above £50,000. The tax charge is equal to 1 per cent of the total Child Benefit received for every £100 earned over £50,000. This means that someone's Child Benefit payment will be withdrawn completely when their income reaches £60,000.*

Child benefit is in 2023/24 £1,248 per year for the first child and £827 for each additional child. The amount of relief foregone is in that case dependent upon the number of children for whom child benefit is claimed, but as Tax Policy Associates has noted[3], if claim had been made for three children the marginal tax person suffering this withdrawal of relief would be 71 per cent i.e. for each £1,000 earned in this range just £290 of net income would be enjoyed. The impact is lower if fewer children are claimed for but is still material.

This marginal tax rate is clearly penal and exceeds that on many persons with much higher income and is therefore inappropriate.

[2] https://commonslibrary.parliament.uk/research-briefings/cbp-8631/
[3] https://taxpolicy.org.uk/2023/09/24/70percent/

The charge also fails to recognise the fact that child benefit is paid for the benefit of the child, and not its parent, and is a recognition of the obligation that any parent takes on with regard to provision for their children. It is discriminatory to not provide this as a universal benefit in that case.

There is no logic to the perpetuation of this charge. It has only ever been justified by the imposition of austerity measures with a particular penalty arising on some parents, many of whom are working in middle management roles. As a consequence, it is suggested that this clawback of child benefit should end irrespective of any other changes in the Taxing Wealth Report 2024, and that this benefit be provided to all parents automatically on application without consideration of income, because of the serious tax injustice that otherwise arises.

Before it was abolished the Office for Tax Simplification looked at this charge and noted[4] in March 2022:

> *HICBC raises over £1 billion each year but is hard to administer as it is hard for many families affected to know about the charge, and complying with it involves filing a Self-Assessment tax return.*
>
> *The government's policy has been not to increase the threshold at which the HICBC applies. This has had the effect that - according to the Institute for Fiscal Studies - it will by now be affecting more than one in five of the families eligible for the benefit.*
>
> *HMRC no longer send an annual child benefit statement to recipients, in which they could remind people about the charge. Neither is the HICBC mentioned in the personal tax account, although there is a child benefit 'tile' which makes other points about the benefit.*

The £1 billion cost estimate made by the House of Commons Library is used as the best available for the consequence of abolishing HICBC but given the scale of inflation since they reported may now be a little low.

Withdrawal of the individual personal income tax allowance

When a UK tax resident person has taxable income in excess of a year of £100,000 a year the personal individual personal allowance to which they were entitled when their income was lower than this sum is progressively withdrawn. This withdrawal is tapered so that, as

[4] https://www.gov.uk/government/publications/ots-evaluation-paper-on-the-high-income-child-benefit-charge

HMRC explain[5], the personal allowance goes down by £1 for every £2 by which a person has income above £100,000. The consequence is that the allowance is reduced to zero if income exceeds £125,140 a year.

Given that most people with this level of income pay tax at the 40 per cent tax rate the consequence is that, at the time of writing, the benefit of the £12,570 personal allowance is withdrawn over this range, meaning that a maximum of an additional £5,028 of tax is paid at an effective additional tax rate of 20 per cent when a person reaches the top of this band making the marginal tax rate over this income range 60 per cent, which is much higher than the current higher, 45 per cent, rate of income tax paid on larger incomes, which makes no sense.

This additional charge was intended to increase the progressivity of UK taxation. However, it does so in a crude fashion that creates considerable disincentives to work over a significant income range, which has been known to have impact upon, for example, the willingness of some doctors to undertake additional shifts. There is also a considerable incentive on those who might face these charges to try to avoid them, by, for example, making additional pension contributions. This approach to progressivity is, therefore, not just crude and unjust but also unproductive.

There is also a philosophical objection to this withdrawal of an allowance which until this change was introduced in April 2010 was universal, and always presumed to be akin to a basic right within the tax system. The presumption that a person should enjoy an element of their income tax-free, whatever their circumstance, is withdrawn by this arrangement with unfortunate and inappropriate consequences.

The Taxing Wealth Report 2024 recommends significant increases in income tax, national insurance and other tax rates, including on the income and gains of people currently impacted by this withdrawal of relief. It would be inappropriate to propose the increases recommended in the Taxing Wealth Report 2024 and not note the problems that this withdrawal of the personal allowance creates. Accordingly, it is suggested that the personal allowance be made universally available once more to all tax resident people in the UK irrespective of their level of income, assuming (importantly) that the recommendations made elsewhere in the Taxing Wealth Report 2024 are adopted.

It is not possible to calculate the precise cost of this change. HMRC data is insufficiently granular to permit that. However, it is likely that 1.1 million people in the UK have income of more than £100,000 a year at present[6]. Of these about 650,000 will pay at 40 per cent

[5] https://www.gov.uk/income-tax-rates/income-over-100000
[6] https://www.gov.uk/government/statistics/income-tax-liabilities-by-income-range

and the balance (450,000) at 45 per cent. The proposed regranting of personal allowances to these person (which would only be appropriate if the other recommendations of the TWR are accepted, which would then mean that overall, these persons would pay significant additional income tax, capital gains tax and national insurance) would be approximately £5.6 billion per annum. Without this change the other tax rate changes proposed in the Taxing Wealth Report 2024 would not, however, be credible.

Student loan charges

A separate Taxing Wealth Report 2024 note has been written on this issue.

The reform of some income tax rates

The Taxing Wealth Report 2024 has proposed that the reduction in the national insurance rate paid by employees and self-employed people earning in excess of £50,270 per annum should be withdrawn, effectively increasing the national insurance rate for these people by 8 per cent per annum (using the rate applying from January 2024).

The income tax rate increases from 20% to 40% on incomes above the same value i.e. £50,270 per annum.

This means that marginal tax rates on income of £49,000 per annum in the spring of 2024 were, accordingly (assuming student loan charges do not apply) 30 per cent, with this increasing to 42 per cent on income above £50,270, given that the existing national insurance rate on income above that sum is 2 per cent. The proposals made in the Taxing Wealth Report 2024 would increase this marginal tax rate to 50 per cent unless there was a change to income tax rates above £50,000. This increase might be too significant if perverse tax incentives to either not declare income or to seek to reduce income are to be avoided. This would be especially true if these rates were also applying to investment income and capital gains, as the Taxing Wealth Report 2024 recommends.

As a consequence, it is appropriate to suggest that the increase in the tax rate from 20 per cent to 40 per cent at approximately £50,000 of income, which has always appeared to be an overly large single step, should be reviewed if (and this point is critical to the suggestions that follow) the other recommendations of the Taxing Wealth Report 2024 are adopted.

In that case it is suggested that the income tax rate between approximately £50,000 per annum and £75,000 per annum should become 30 per cent, rather than the existing 40 per cent. This would reduce the marginal tax rate on income in this range, if the other recommendations in the Taxing Wealth Report 2024 were taken into consideration, from 50 per cent to 40 per cent (which is near enough where it is at present), allowing a smoother upward transition through tax rates as a consequence.

The acceptability of the proposed changes in the Taxing Wealth Report 2024 would be increased if this recommendation were adopted. This Report does not seek to increase tax on those making normal levels of income in the UK, and it is not abnormal for a person to now make £75,000 per annum. As a result, making sure that much of the impact of the report would be removed from those in this income range would be important to its acceptability.

HM Revenue & Customs do not publish information on the number of people whose income falls within the range £50,000 to £75,000 per annum. The latest date that they do supply[7] relates to the tax year 2023/24. This implies that maybe 6.5 million people might have income impacted by this change, although it is likely that at least 3 million of those people will have income of less than £75,000, but more than £50,000, and therefore would not benefit in full from the 10 per cent reduction in the tax rate over the range of £25,000 over which it is proposed.

Taking this fact into account, and accepting that there is a degree of approximation in this estimate, it is likely that this reduction in the income tax rate between £50,000 and £75,000 might reduce annual tax revenues by approximately £12.5 billion. This is considered a price worth paying to remove opposition to the imposition of higher rates of tax on income and gains above £75,000 per annum.

Overall cost

The overall cost of recommendations made in this note is:

		£'bn
1	High Income Child Benefit Charge (HICBC)	1.0
2	Withdrawal of the individual personal income tax allowance	5.6
3	Reduction in tax rate between £50,000 and £75,000 a year	12.5
Total		19.1

[7] https://www.gov.uk/government/statistics/income-tax-liabilities-by-income-range

Of these recommendations the first should happen irrespective of the other changes suggested in the Taxing Wealth Report 2024.

The other two suggestions are conditional on the other reforms proposed in the Taxing Wealth Report 2024 being made or tax injustice would result.