The Taxing Wealth Report 2024

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

Introduction

The goals of the Taxing Wealth Report 2024

The Taxing Wealth Report 2024 is about three things.

Firstly, it is a response to all those politicians in the UK who suggest that there is no money left to spend on essential public services. This report comprehensively proves that this claim is wrong. What it shows is that there is enormous opportunity to raise additional money from taxes, and from tax incentivised savings, to fund both the ongoing routine expenditure that any UK government now needs to incur to improve the quality of our public services, and to provide the necessary capital that could underpin the transformation of our economy from its current poor state into being the sustainable economy that so many people want and everyone needs.

Secondly, this report demonstrates that the wealth of UK resident people has been under-taxed in the UK. It can, quite reasonably, be asked whether the scale of that under-taxation can ever be properly appraised, and it is accepted that the basis on which this suggestion is made in this report is open to challenge and reinterpretation. However, so great is the scale of that under-taxation of the increases in wealth in the UK compared to the level of charge imposed upon income in this country that the claim made in this Report that wealth is under-taxed is considered indisputable. The Taxing Wealth Report 2024 suggests that wealth is under-taxed by £170 billion a year when total tax revenues in the UK in the tax

[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.

year 2022/23, ending in March 2023, amounted to £899 billion. The under-collection of tax from wealth does, in that case, amount to almost twenty per cent of potential total UK taxation revenues. If anyone wants to know why the UK appears to be an increasingly divided society, it is precisely because of the way in which our tax system has been constructed over many years, and even decades.

Third, what the Taxing Wealth Report 2024 shows is that there are pragmatic, practical and easily deliverable solutions to both of these issues. Over a wide range of suggested changes, totalling more than thirty in number, more than £90 billion worth of potential additional tax revenues are identified. In addition, changes to tax incentivised savings arrangements that could release more than £100 billion of further funding for investment for social purposes in the UK are also detailed. Both of these sums are larger than any currently estimated costs of the transformations required within our society. In other words, choices are available to any government wishing to effect change in the UK. The idea that the UK might be constrained by a lack of funding when seeking to create the society that it wants is wrong.

Putting tax in its proper context

Saying this, it is stressed, that tax is not all about raising revenue. In fact, as this report makes clear, in a very real sense tax never does fund government spending, however counterintuitive that might sound to most people. Instead, tax is the mechanism that the government uses to withdraw the money that it has created and put into use in the economy as a result of its spending. This is explained in more detail in the sections of this report on the economics of tax, money and the national debt. This distinction might appear pedantic to some, but it is vital for a number of reasons.

Partly this is because the role of tax within the UK economy has to be properly understood, and very few of the UK's politicians, journalists, tax officials, or supposed tax specialists have any proper understanding of that economic function of tax within our society. This has considerably hindered the quality of debate on taxation issues in the UK and undermined the chance of creating the tax system that this country really requires.

That lack of understanding has also prevented it being properly understood that tax, when freed from the task of funding government spending, is instead an instrument for the delivery of any government's social, economic and industrial policy. This makes tax a public good[2], which is a fact little understood or acknowledged by our current politicians. Social,

[2] A public good is a service that is provided without intention of profit being made to all members of a society, whether by a government or a private sector organisation. In the context discussed here, the important point is

industrial and economic issues are all important within the context of the taxation of wealth, but of the three social policy is particularly important.

The UK is a wealthy country with estimated net financial wealth (i.e. excluding property, land and buildings) of £8,100 billion according to the Office for National Statistics despite everything that has happened within its economy since the global financial crisis of 2008, which impacted it so heavily. However, it is also a deeply divided society where millions, including too many children, live in destitution[3] whilst others live a life of luxury[4]. Any ethical approach to taxation should recognise that the role that taxation can have in addressing this issue is one of the most important tasks that it can be used for.

Importantly, in this context, when suggesting that up to £90 billion of tax might be collected from the wealthy, it is not necessary to presume that all of this will be used to finance, or financially compensate for, additional government expenditure. Instead, it should be presumed that a significant part of any additional revenue raised might be used for the purposes of reallocating resources from those with wealth to those in need, compensating for the fact that at present, the UK has one of the meanest benefits system amongst OECD countries[5]. It also has one of the lowest state pensions in proportion to national income[6], which has consequence in the number of elderly people living in poverty, fear, isolation, hunger, and cold in inadequate property ill-suited to their needs.

The pragmatic approach of the Taxing Wealth Report 2024

Many of those who are aware of issues relating to the under-taxation of wealth in the UK and seek reform as a consequence base the proposals that they make on radical reform to the UK tax system. This will often include suggestions for the creation of wealth taxes, or land taxes, or both. The Taxing Wealth Report 2024 does not do this. Indeed, as will be noted, a section is included amongst the early chapters that suggests why the creation of a wealth tax in the UK is inappropriate at this point of time.

The argument is straightforward. This would be unnecessarily politically complex, involve protracted delay, and would create enormous difficulties with regard to identifying the ownership and valuation of wealth as well as agreeing the thresholds above which that wealth might be subject to tax. More pragmatically, the capacity to actually raise tax directly from wealth as a consequence of imposing a charge on it is remarkably limited. As

that tax is not a mechanism used to impose a burden: it is, instead, a way to deliver a benefit for the good of society as a whole.

[3] See https://www.jrf.org.uk/deep-poverty-and-destitution

[4] See https://www.thetimes.co.uk/sunday-times-rich-list

[5] See https://blogs.bath.ac.uk/iprblog/2022/10/28/how-generous-is-the-british-welfare-state/

[6] See https://commonslibrary.parliament.uk/research-briefings/sn00290/

the section on council taxation in the Taxing Wealth Report 2024 notes, the capacity to raise additional revenue from increasing tax charges on high value properties is actually very limited. There are just not enough of them. The same is true of the high wealth in general, most of which would be practically difficult to tax. Many of the same observations would apply to a land tax. As a consequence, the Taxing Wealth Report 2024 does not propose either course of action.

Nor does the Taxing Wealth Report 2024 suggest that any existing UK tax be abolished, or be replaced by any new tax. This is the case despite the obvious deficiencies in some taxes, including the inappropriateness of national insurance in a modern economy, the obviously outdated basis of charging used for council taxation, and the need for radical reform of inheritance tax. There is also a very obvious need for a progressive indirect tax in the UK to compensate for the regressive nature of VAT. It would, one day, be a great benefit if all these issues could be addressed. However, the Taxing Wealth Report 2024 does not think that day has arrived as yet. Instead, it is premised on the idea that when there are higher priorities, including the tackling of inequality, the need to improve UK public services, and providing the essential sourcing of funding for investment in the essential transition of the UK economy to a long-term sustainable basis in the face of climate change reforming existing taxes is the priority. Although there are structural faults in the UK tax system, remedying them is not as important as addressing these issues.

The logic of the Taxing Wealth Report 2024

As a consequence, having established that high income and gains from wealth are dramatically under taxed in the UK, what the Taxing Wealth Report 2024 seeks to do is to suggest how changes might be made to existing UK taxation so that these problems might be most pragmatically addressed with the expenditure of as little political capital as possible whilst delivering maximum impact. This logic underpins all the proposals made in this report.

Another logic is also present throughout this report. The Taxing Wealth Report 2024 presumes that all taxation is, eventually, imposed and collected by consent. There will, of course, always be those who object to taxation, and who will seek to evade and avoid it. Measures to address the activities of those people are noted in the sections of this report dealing with tax administration and, in particular, with regard to corporation tax abuse, but whilst those matters are of concern, it is more important that the consent of most voluntarily compliant[7] taxpayers is retained by the UK tax system. This is only possible if the UK tax

[7] Tax compliance is defined as seeking to pay the right amount of tax (but no more) in the right place at the right time where right means that the economic substance of the transactions undertaken coincides with the place and form in which they are reported for taxation purposes.

system is seen to be just and equitable. It is very hard to describe the existing UK tax system as anything approximating to that.

There are, in essence, two standards for appraising fairness within any tax system. The first is described as horizontal tax equity, and the second as vertical tax equity.

Horizontal tax equity presumes that any source of enrichment that a person might enjoy should be taxed equally, whatever its source i.e., whether it comes from work or from wealth. The logic is not hard to understand. An additional pound in a person's pocket will always be worth £1 to them from wherever it comes. There is no tax justice if that additional pound is taxed less if it came from one source rather than from another. Not only is this obviously unfair, it also provides an incentive to abuse the tax system. As a consequence, the tackling of horizontal inequity within the UK tax system is a recurring theme of the tax wealth report, not least because very large parts of it lack horizontal tax equity at present.

Vertical tax equity has a different logic to it. This concept is based upon the idea that as a person sees their income or wealth increase then each additional pound that they accumulate from either source has decreasing net worth to them. It is obviously true that £1 is worth more to a person on the UK's minimum wage (let alone a person trying to survive on Universal Credit) than it is to a person who earns £100,000 or more a year, or who has savings of in excess of, say, £1 million. If that is the case, then it also logically follows that the perceived loss arising to a person as a result of tax paid is greater to the person on low income or with low wealth than it is to the person with higher income or wealth. There is, in that case, inherent and equitable logic to the idea of progressive taxation, where equality is achieved by ensuring that the approximate value of the loss suffered by a person out of each individual additional pound of income or wealth accruing into them is equivalent, whatever their source of income. This necessarily requires much lower rates of overall taxation on those with low income and wealth than it does on those with higher incomes or wealth.

As the Taxing Wealth Report 2024 makes clear, we are in nothing like that situation in the UK at present when those on the lowest income are likely suffering the highest overall tax rates in the UK, whilst those on moderate income see very little variation in their overall tax rate as their income increases. However, those on the highest incomes do, when taking into consideration their opportunities to reduce their taxes owing by taking advantage of the reduced rates of tax available on capital gains and in private companies, pay very much lower rates of tax, overall. In fact, this report suggests that whilst those in the lowest decile of income earners in the UK might pay overall tax rates of forty-four per cent per annum, those enjoying the highest levels of income and wealth might pay rates of less than twenty-two percent per annum, or half that of those on the lowest incomes. There is, as a consequence, nothing approximating to vertical tax equity within the UK tax system at present. This, in turn, justifies many of the proposals made within the Taxing Wealth Report 2024.

The largest tax reforms proposed by the Taxing Wealth Report 2024

Numbers always attract media attention, and there are some very large numbers in the Taxing Wealth Report 2024. Given that one of the goals of this report is to suggest how a UK government could raise additional revenue to support the essential public services that this country requires, these numbers are important. The smaller reforms that are also proposed within the Report are not insignificant, but within the context of revenue raising do inevitably contribute less than the larger reforms noted here. As a consequence, it is the bigger reforms to which attention is drawn at this moment. The detailed description of each of those reforms, and the method of calculation of the estimated sums that might be raised, are included in this Report.

a. Income tax reforms.

One of the largest income tax reforms proposed in this Report is the recommendation that the tax relief provided to persons making contributions to qualifying pension funds be restricted so that everyone making such a contribution gets tax relief at the same basic rate of income tax, which is currently twenty per cent. This would reduce the level of tax relief available to those who currently make pension contributions and who enjoy tax relief upon them at rates of either forty per cent or forty-five per cent. The total saving from this simple change would amount to an estimated £14.5 billion pounds a year.

b. National insurance reforms

National insurance is a deeply unfair tax within the United Kingdom. Two major reforms are suggested with regard to this tax. The first of these reforms deals with an obvious anomaly, which is that when a person's income from an employment exceeds the equivalent of £50,270 a year, then the national insurance charge that they pay falls from 10% (when this written) to 2%. There is, admittedly, a corresponding income tax increase at the same time, but nonetheless, this reduction rate applies right across all income bands above this sum, meaning that those on high pay do, overall, get a substantial benefit as a consequence of paying much reduced overall national insurance charges in proportion to their income than are paid by those on lower incomes. This contravenes vertical tax equity, and it is therefore proposed that this reduced rate of national insurance is abolished. If this was to be done an additional £12.5 billion of national insurance revenue would be raised each year.

The second national insurance reform would actually be collected through the income tax system but is nonetheless motivated by a major design deficiency within the national insurance system. National insurance is only charged on income from work, whether by employed or self-employed people. It is not charged on any income from any other source, including all investment income of all sorts. This creates an enormous horizontal inequity within the UK tax system.

That inequity has given rise to significant effort on the part of many taxpayers to avoid national insurance charges by artificially recategorising their income as if it is from investment sources. This has been particularly commonplace amongst those who offer their employment by way of contract, many of whom have created limited companies for this purpose from which they pay themselves dividends and not a salary, so avoiding the national Insurance charges on that salary. However, other types of income also avoid a national insurance charge simply because of their nature, and with the rise of unearned income, e.g. from rent, within the UK economy this inequity is now considerable. Until the 1980s, when it was abolished by Margaret Thatcher, the UK had what was described as an investment income surcharge within its income tax system. This was an additional 15% tax charge levied on income from investment sources above a limit laiddown in law. This charge approximated to the national insurance paid by employees but was still considerably less than the combined rate of national insurance paid by employers and employees on income from work. The recreation of this investment income charge would make considerable sense at this time and restore fairness to the UK tax system as well as removing an incentive to avoid tax. It is estimated that an additional £18 billion a year could be raised by the recreation of this charge.

c. Capital gains tax reforms

Capital gains tax is a tax greatly favoured by those who wish to avoid tax liabilities that might otherwise be subject to income tax in the UK. Avoiding the recategorisation of income as gains was, in fact, the original motive for the creation of this tax in 1965. Little has changed since then. Because of the current substantial differential between income tax rates and capital gains tax rates in this country, where broadly speaking most capital gains tax rates are half those that would be paid on income of an equivalent sum (with no national insurance also being due). As a result, the attraction of being subject to capital gains tax instead of income tax still remains considerable. To avoid this obvious horizontal inequity within the UK tax system it is proposed that the tax charges on income and capital gains should be levied at the same rate, with anyone's capital gains tax liability being treated as the top part of their income for taxation assessment purposes subject only to a much smaller tax exemption than at present, meaning that a person's highest rate of income tax would be payable upon any capital gains. Undertaking this simple change to the tax system might raise an additional £12 billion of tax a year.

This Report also proposes one further significant change to capital gains tax. The largest single exemption within the UK tax system, excluding the personal allowance for income tax purposes, is the capital gains tax exemption provided on the sale of a person's main residence, or home. This relief is estimated to be worth more than £30 billion a year in total. Politically any attempt to change this relief would be unpopular, but there can be no doubt that disparities in wealth arising from differing access to homeownership have considerably increased inequality in the UK.

In part this is an age-related issue, with those who are now older having enjoyed the opportunity to acquire their homes at considerably lower prices in proportion to their income than do those who are now younger in the UK. Another element relates to the problems that younger people now have in saving for deposits to even begin a mortgage application to acquire a home. Overall, increased funding to secure additional social housing, plus funding for enhanced investment in housing in general, would improve this situation. Therefore, tax reform in this area is required.

The Taxing Wealth Report 2024 addresses this issue by suggesting that, instead of a person's main residence being subject to inheritance tax on their death, when only a small number of these properties are ever subject to that charge, a capital gains tax charge should instead be imposed upon the lifetime gains by the last survivor of a spousal relationship that has owned a property when making disposal of it either because of death or because of simply ceasing to make use of it. This charge would be relatively straightforward to calculate in most cases, and approximations would be possible in the event that records were not available. The resulting additional taxation arising from this proposal, having allowed for the loss of inheritance tax payments owing, is estimated to be approximately £10 billion per annum, although this might increase over time.

d. Inheritance tax reforms

Inheritance tax is an enormously unpopular tax in the UK, not least because it lacks vertical equity.

The Taxing Wealth Report 2024 report does suggest reforming the single rate of tax used by this tax at present, suggesting that it be replaced with a much more progressive system. That said, this would not create additional revenue: it would simply redistribute liabilities more fairly.

The greatest cause of vertical inequity with regard to this tax arises because those with wealth in the UK tend to be able to use the exemptions and relief available within it to avoid many of the charges that they might otherwise owe. In this regard, no one has ever been able to provide any serious economic justification for the existence of the tax exemptions relating to business property or agricultural property within the inheritance tax regime, or their universal application to persons owning such assets. This Report recommends the reform of both these reliefs, with the substitution of tax deferral arrangements as an alternative and even then, potentially with regard to only a limited range of business assets. These reforms, which are essential if this tax is to be made fairer might together deliver an additional £4.2 billion tax revenue year.

e. Corporation tax reforms

Corporation tax has been subject to much press and other comment over many years as a consequence of abuses by some large companies, some of which made Amazon, Google, Apple and Starbucks, amongst others, notorious for a while. However, recent reforms with regard to international corporation tax need time to bed down at present to assess their effectiveness, and therefore no further reforms in this area are recommended in the Taxing Wealth Report 2024.

Instead, the Taxing Wealth Report 2024 primarily focuses its attention on the UK's domestic corporation tax system, and particularly on the creation of appropriate mechanisms to ensure that the UK's smaller companies make settlement of the taxes that they might owe. When even HMRC estimates that almost thirty per cent of these liabilities might go unpaid each year[8], and with this Report suggesting that this estimate might be significantly understated, this is a matter of considerable priority within the UK. It is likely that much, if not most, UK tax evasion is undertaken through the medium of limited liability companies. This non-payment of tax undermines horizontal tax equity. The tax system itself is also undermined by the tolerance of this criminogenic environment. In addition, those who accumulate untaxed funds increase inequality within the UK, wholly inappropriately and criminally.

Four recommendations are made to address this issue. The first refers to actions required by HM Revenue & Customs. The simplest of these is that the UK tax authority require that every company in the UK file a corporation tax return each year. Surprisingly, this is not the case at present. Approximately half of all companies are exempted from this obligation with HM Revenue & Customs' consent because our tax authority accepts, without apparent enquiry being made, an unevidenced statement made by a company that it is not trading. It

[8] https://www.gov.uk/government/statistics/measuring-tax-gaps/5-tax-gaps-corporation-tax

is then commonplace for HMRC to not require a corporation tax return from the company in question for at least five further years.

Then it is proposed that it should be required that the UK's banks be obliged to automatically provide our tax authority with information each year on the identities of all the companies to which they provide services during a year. This return of data should also specify the names and addresses of those people that the bank in question have identified to be controlling the company, and the total sum that they have recorded as deposited in its bank accounts during a specified twelve-month period. Systems to collect this information already exist with regard to foreign-owned companies operating in the UK, so extending this arrangement to UK-owned companies would be entirely straightforward and have minimal cost. However, the consequence of the provision of this data would be that HMRC woud be able to check which companies that have not provided it with a corporation tax return might actually have a liability to that tax, and so in all likelihood to other taxes such as VAT and PAYE income tax, because they had been in operation during a period. This would then ensure that HMRC's resources could be properly focused on those companies where tax recovery is most likely.

The third element in this proposal is a suggestion that those controlling companies that do not make disclosure of their tax liabilities to HM Revenue & Customs, whatever the tax might be, should be made personally liable for the taxes owing by the companies that they control even if that company does enjoy limited liability. UK limited liability companies should not be used to create a criminogenic environment where horizontal and vertical tax equity are undermined, the rule of law is threatened, and wealth is criminally accumulated without tax charges arising, so increasing inequality within the UK. The removal of limited liability protection from those who are abusing the privilege would prevent this happening.

The last recommendation is that the UK's Companies House, which is the government agency responsible for collecting data from UK limited liability companies, be reformed. This agency, which has always taken what might be politely described as a lax attitude towards non-compliance with UK company law, currently fails to collect data from more than 400,000 UK limited companies a year, on average. This means that the information required by HMRC to collect tax from these entities is effectively unavailable to it, and as a consequence, tax evasion by these entities is effectively officially sanctioned at present, which must be unacceptable. Enhanced powers for Companies House to collect necessary data are, therefore, essential, which need to be used in association with the automatic information exchange from banks, noted above, so that tax owing in the UK can be collected.

These recommendations, taken together, might raise approximately £12 billion of extra tax in the UK each year from those who are largely seeking to evade it at present. An unknown sum of other taxes might also become payable as a result.

A final recommendation with regard to corporation tax is made in the Taxing Wealth Report 2024. This is that, whilst in the last two years, a differential in the tax rates applied to the profits of large and small companies has been re-introduced into the UK tax system after a period when it had been eliminated, it remains the case that this is a historically small differential at just 6%, with many large companies having opportunity because of tax relief and allowances available to them to largely eliminate this difference. There are good economic reasons why large and small companies should pay different rates of corporation tax, particularly relating to the differing ease with which they can access capital from banks and other financial markets, which are heavily biased against small companies. They also tend to pay significantly different interest rates on their borrowings, which rates are always higher in the case of small companies. If the UK wants its small companies to thrive it is appropriate that a differential of at least 10% exist between these corporation tax rates, which was a commonplace historical differential. Reinstating this differential would raise approximately £7 billion per annum of additional tax.

f. VAT reforms

There are many reasons to be concerned about the inequity of the UK VAT system, which is inherently regressive, and therefore vertically inequitable. However, within the context of the Taxing Wealth Report 2024, it is unlikely that any major reforms would be possible to this tax and therefore only a few detailed recommendations are made.

The only such recommendation that would create substantial revenues is with regard to the current VAT exemption available upon the provision of financial services by banks, insurance companies, and other such financial services providers. VAT exemption means that VAT is not charged on the supply of these services, reducing the effective price that consumers pay as a consequence. Since most financial services products are consumed by those with wealth, because those without wealth have little reason to use them or the means to do so, it follows that this exemption within the UK tax system is vertically inequitable and should be removed. Even allowing for reductions in insurance premium tax that might result as a consequence of the removal this exemption, it is estimated that more than £8 billion of additional tax revenue might be raised a year by making this change.

g. Council tax reforms

Many tax campaigners point to the differing council tax systems that exist in England, Wales and Scotland (but not Northern Ireland, which has a quite distinctly different system altogether) as evidence of the inequity of the UK's tax system, and they have an obvious point. Council taxes are very obviously not vertically equitable because of their charging structures. However, those who suggest that reforms are essential by creating higher charges on the most valuable properties presume that this change will raise significant revenues. Unfortunately, they have failed to notice that just 0.6 per cent of all properties actually fall into the existing top band of council tax charge within the UK. It is, therefore, unlikely that any significant reform of this sort will raise any significant additional revenue.

As a consequence, and consistent with the overall spirit of the Taxing Wealth Report 2024 to promote pragmatic ideas, no significant reforms to council tax in any of the UK's nations that make use of it are proposed in this report. It is, however, suggested that the following reforms are made:

- Property revaluation should take place so that current values are in use. Given advances in information technology and AI it is likely that this would be a very much less complicated affair than has always been assumed to be the case in the past.

- The number of council tax bands should increase, particularly at the top end, but also potentially at the bottom end.

- The fixed differential between top and bottom rate corporation council tax charges should be eliminated, with a much greater diversity of charges being permitted, particularly at the top end.

- Additional tax charges on second properties and on empty properties should be made mandatory, and increase in proportion to those charged on main residences.

All these changes having been noted, if the current inappropriate level of charges on low value properties are reduced as vertical taxation equity would appear to require, then it is unlikely that any of these proposals would increase the net taxation revenues resulting from any UK council tax system.

h. Student taxation

The UK does not, officially, have a student taxation system, but in practice it does. Anyone who has graduated in the UK since 1998 could have been made a loan that was intended to cover their tuition fees and (since 2006) part of their maintenance costs while studying at UK universities, with a slightly differing arrangement applying in each of the UK's separate countries.

Again, subject to some slight variations, repayment of liabilities owing on these loans, including the quite high levels of interest charged upon all outstanding balances, is made through the UK's tax system, with charges now being commonly applied in England at a rate of 10% on all income exceeding a threshold depending on the loan made available of between £21,000 and £27,660 per annum at the time of writing.

This charge creates considerable horizontal and vertical inequity within the UK tax system, particularly because the charge imposed is very obviously a tax and is in no way related to the total liability that the person might have outstanding for their education. The system is also potentially a contributor to wealth inequality in the UK because the children of wealthy parents rarely have reason to take out a student loan whereas those not in that fortunate position will have had to do so.

Almost every recommendation made in the Taxing Wealth Report 2024 with regard to horizontal and vertical taxation equity is distorted by the existence of this student tax. The absurdity of that situation is exacerbated by that charge rarely having much chance of ever recovering most of the cost incurred in providing education to those who have been to UK based universities during the period when such loans have been created. To date, more than £200 billion of student loans have been created, but the total tax liabilities recovered by HMRC in the year 2022/23 with regard to such loans was just £4 billion.

Not only are student loan charges now a significant impediment to bright young people going to university at a time when the UK is desperate to improve its skills base, this tax is unjust because it does not in any sense relate to the liabilities owing by a person but does instead impose a tax purely because of a person's choice of career path when it has been national policy to encourage up to 50% of young people to go to university.

Given the small sums of revenue collected each year it is proposed that the student tax in the UK be abolished and that the government deal with the resulting consequences for the UK national debt however it thinks is appropriate. What is clear is that the UK tax system can no longer be distorted by this charge if it is to be just and equitable.

i. The administration of tax

Creating new tax laws, or changing those already in existence, does not guarantee that additional tax revenues are collected. Doing that requires that the UK has an effective tax authority, and very few people are currently persuaded that this is the case.

Most certainly, the House of Commons Public Accounts Committee, which undertakes the most rigorous scrutiny of the activities of HMRC, persistently reports on the weaknesses within HM Revenue & Customs and the need for it to reform itself. This is an issue on which the author of this report has long being engaged. The Taxing Wealth Report 2024 makes four fundamental recommendations which regard to the reform of the administration of HMRC.

First, it is recommended that the governance of our tax authority be transformed. The present governance arrangements of HM Revenue & Customs copies that which might be appropriate for a large public corporation, which it very clearly is not. The use of inappropriate governance structures that presume that an organisation is a business when it is not, meaning that its management think that its costs must be minimised and its directors must be protected from criticism, has become particularly apparent in the wake of the Post Office sub-postmaster scandal, where similarly inappropriate governance structures to those used by HMRC were in use.

It is also particularly inappropriate that many of the senior civil servants responsible for the management of HMRC have limited tax experience. It is even more inappropriate that the so-called non-executive directors of the agency are drawn from the ranks of large firms of accountants and big businesses, many of whom have represented organisations that have been subject to significant scrutiny for their own tax compliance arrangements.

Adoption of this governance approach has led to HMRC abandoning the idea that it is the provider of a public good[9]. It has, instead, assumed that its responsibility is to minimise the cost of recovering tax due and it has been willing to compromise horizontal and vertical tax equity and the need to ensure compliance with the rule of law to achieve this goal. It has also closed almost every tax office in the UK's communities over the last decade or so, and has sought instead to concentrate all services online, with the result that considerable taxpayer dissatisfaction with the quality of service received has arisen.

[9] A public good is a service that is provided without intention of profit being made to all members of a society, whether by a government or a private sector organisation. In the context discussed here, the important point is that tax is not a mechanism used to impose a burden: it is, instead, a way to deliver a benefit for the good of society as a whole.

That has been exacerbated by the fact that since its creation as a result of the merger of the Inland Revenue and HM Custom and Excise in 2005, HMRC has reduced the number of staff it employs from just under 100,000 people, to just over 60,000 people. Unsurprisingly, as a result phone calls go unanswered, correspondence is not replied to on a timely basis, the number of tax investigations undertaken has fallen significantly, tax debts have risen substantially, and the chance of a person being provided with the help that they might require to make payment of the proper tax that they might owe if they require assistance to calculate this sum has almost entirely disappeared.

The tax reform recommendations made in the tax administration section of the Taxing Wealth Report 2024 take all the above factors into account and suggests:

- Putting an entirely new management structure for HM Revenue & Customs in place that reflects its obligation to everyone in the UK, and not just those with significant wealth or who are multinational corporations.

- That HMRC should have the objective of restoring its status as the supplier of a public good reimposed upon it. Its objective should be to assist every taxpayer to be tax compliant, where that is defined as seeking to pay the right amount of tax (but no more) in the right place at the right time where right means that the economic substance of the transactions undertaken coincides with the place and form in which they are reported for taxation purposes.

- That HMRC's objective should, as a consequence, be the collection of as much tax as possible, including from those who are reluctant to make payment, recognising that this will require investment in significant additional resources to achieve that goal, including the reopening of its local office network so that taxpayers can access the face-to-face help that they need to ensure that they can comply with their obligations to pay tax.

- That HMRC should be subject to significantly more scrutiny than it has been to date, and that an independent Office for Tax Responsibility (OTR) should be created to undertake this work, subject to strict conditions on the personnel that it might employ. This OTR should be primarily responsible to parliament, with the Public Accounts Committee being able to set terms of reference for the audits that it should undertake.

- The Office for Tax Responsibility should become the agency responsible for calculating the UK's tax gap, which is the differences between the tax revenues that the UK should be able to collect and the tax revenues it actually recovers during the course of a period. This should include estimates of tax loss because tax bases, such as wealth, are not subject to taxation and annual audited estimates of tax lost because of the granting of tax exemptions, allowances, and reliefs, the appropriateness of which should be subject to constant review.

- The OTR should also be responsible for the preparation of an annual tax spillover assessment for the UK. Tax spillover assessments identify the ways in which one part of a tax system undermines another part of that same tax system, or that of another country, meaning that the expected amount of tax is not paid as a result. Tax spillover assessments do, as a result, complement proper tax gap assessments by highlighting why it is likely that anticipated tax revenues are not paid. The current low rate of capital gains tax in the UK is an example of a tax spillover that undermines the UK tax system. The low capital gains tax rate encourages abuse of income tax and inevitably reduces the UK's tax yield in ways that undermine horizontal and vertical tax equity as a consequence.

- Finally, the OTR should make recommendations on the budget that should be made available to HMRC so that it might undertake the tasks required of it when at present it is clear that the UK's tax authority is significantly underfunded to achieve the tasks that society expects that it fulfil.

The technical background to the Taxing Wealth Report 2024

Much of the Taxing Wealth Report 2024 focuses upon detailed recommendations for change within the UK tax system. However, when making such suggestions the Taxing Wealth Report 2024 recognises that the tax system has much broader implications for society than the simple raising of revenue for the government.

In particular, a tax system has to be an integral part of the overall macroeconomic management system of a jurisdiction. This requires that the relationship between tax paid and government expenditure, and the consequent deficits and surpluses that arise must be understood by anyone making suggestions for change within the tax system since that relationship means that the manner in which the tax system operates has, in itself, implications for the overall effectiveness of that macroeconomic management system.

In addition, as is apparent from much of the discussion within the Taxing Wealth Report 2024, no tax system is neutral as to its impact on society. This necessarily requires that those responsible for making decisions on tax fully understand the way in which government money creation and taxation interact and the way in which tax might be used as a tool in economic, social and industrial policy. The Taxing Wealth Report 2024 includes three chapters explaining these issues so that they might be properly understood.

The Report as a whole only makes sense within the context that they describe because its intention is not just to explain how additional government revenues and funding for capital expenditure might be raised, although succeeds in doing that. It also seeks to explain how the UK's tax system both can and should be used as a tool to help the creation of a better and fairer society for all who live in the UK. Recommendations made seek to achieve this goal. In that context understanding how and why they can do this is important. Tax is a matter that impacts on a great many aspects of everyone's lives. That is why this report is important.