

The weird world of tax anomalies

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UK journalists have been paying attention to tax anomalies this week, as I have in [this morning's main video](#).

This [comes from the FT](#):

For those longing for simplicity, the main parties' manifestos, which were published this week, offer little comfort. Very little of what's proposed is aimed at righting where one part of the tax system affects another part. Richard Murphy, professor of accounting practice at Sheffield University Management School, calls them "tax spillovers" — "the ways in which the tax system undermines itself".

Spillovers can be positive, but are often negative — some can also be open to abuse. For example, here's a simple one: corporation tax for companies with profits under £50,000 is at 19 per cent; and the basic rate of income tax is at 20 per cent, so there's an artificial incentive to form a company and reduce your tax liability.

Amongst the other comments were this:

But it's the weird world of inheritance tax (IHT) planning that throws up some of the most bizarre anomalies.

If you die before your 75th birthday, pension funds can be paid to your beneficiaries tax free. As a result, many financial advisers have a strange duty to tell clients not to draw down on their pensions before that age if they can help it. "Is it too young? Some people are still working at age 75," says Thorpe. "I'm not planning to die before age 75 to take advantage," says Murphy.

Many say it doesn't make sense to give an IHT advantage to Aim shares, when other quoted company shares are fully chargeable. There's no obvious benefit to the economy, except perhaps that it's led to a niche sector of wealth managers specialising in managing Aim portfolios that 80-year-old clients can use for "quick" IHT planning.

I provided the framing for this article with the idea of tax spillovers.

The [Taxing Wealth Report](#) did, I know, help the article's development. It is having more influence, I think, in this election campaign than I dared expect. Most certainly, the Greens, Paid Cymru, and Lib Dems have so far been very obviously influenced by issues raised in it. Reform has, rather bizarrely, picked up my thinking on central bank reserve accounts, and overall debate around tax inequalities and the need for reform is figuring much more prominently than I expected. All of which is good news.

I am expecting more on this theme tomorrow.