TAX WATCH

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A manifesto for tax equality

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THE EQUALITY TRUST Because more equal societies work better for everyone

Tax Research UK

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Acknowledgements

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Cover photo: Simon Clayson.

Introduction

This election will be the first in decades that the two largest parties in British politics are pledging large increases in public spending.

There is political consensus that cuts cannot continue and the public overwhelmingly supports higher taxes to help fund public services.

Whoever forms the next government, the pledges being made today will require changes to the tax system, and without doubt, some will have to contribute more.

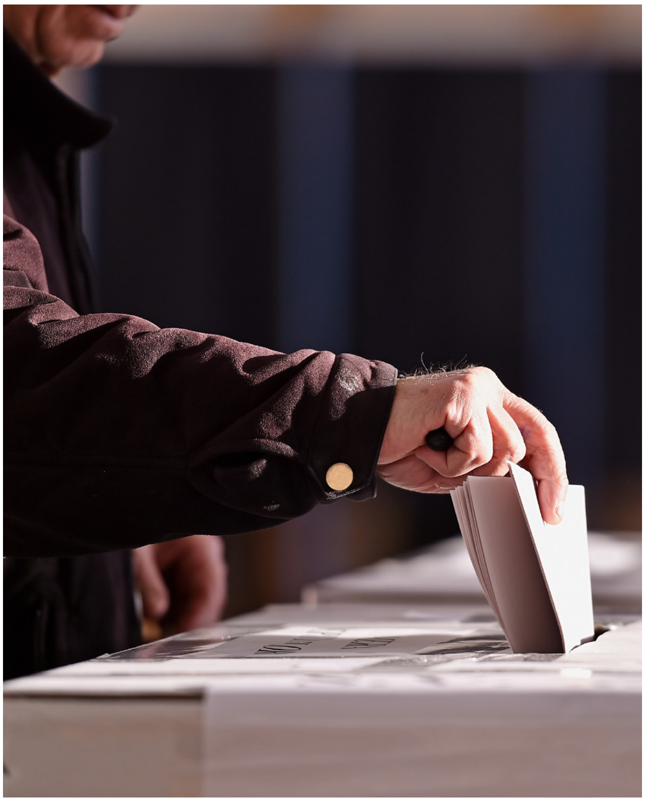
This manifesto sets out how a future government could raise tens of billions of pounds for public services simply by addressing many of the inequalities in the tax system and by closing down the routes to tax avoidance. These results can be achieved before even thinking about changes to the headline rates of personal income tax.

The policies that we have been able to cost would bring in an estimated £69 billion. However, due to the complex nature of these issues, some suggestions have been included without a revenue figure, and it's difficult to predict precisely how the different proposals would interact with each other.

Our 33 proposals have been divided into three categories which deal with tax inequality, avoidance and evasion, and tax administration.

Given the climate crisis facing our planet, any future government will need to take into account the ecological impact of tax reform. Green taxes were not included in this document as it falls beyond the expertise of the organisations involved in its production. We also haven't looked at the interaction between the tax and benefits system, where many poor people face exceptionally high marginal tax rates. Both areas need action.

A programme of reform based on the policies set out in this document will be popular. Polling conducted by YouGov on behalf of Tax Justice UK and Oxfam found that 69% of the public agree that income from wealth should be taxed at least as much as income from work. 90% of people also



believe that tax avoidance by companies is morally wrong.

In the United Kingdom, our public services are rightly a source of national pride, and the public understand that quality public services must be paid for. In this election more than ever it is important that politicians engage constructively in the debate on tax reform.

The proposals set out in this manifesto are a bold and sensible way forward.

Policy proposals

Dealing with tax inequality – pages 5-7

- Tax different types of income in the same way and scrap the current system of capital gains reliefs: £25bn a year after an initial phase-in period.
- Scrap the tax-free dividend allowance, rolling it into the personal allowance: £1.3bn.
- Place a limit on the amounts which can be held in an ISA.
- Have a single rate of pension tax relief at 28%: £neutral.
- Limit the tax-free pension lump sum amount: £2bn a year.
- Replace council tax with a proportional property tax, and once this has been implemented scrap Stamp Duty: £4.2bn a year.
- Replace business rates with a land value tax on commercial property: £ neutral.
- Turn inheritance tax into a progressive tax on lifetime gifts and limit inheritance tax reliefs: £4.8bn a year.
- Raise the corporation tax rate to a minimum of 24%: £12bn a year.
- Expand the financial transaction tax to include financial derivatives and other areas of the finance trade: £6.8bn.

Curbing tax avoidance and evasion – pages 8-11

- Tax the offshore structures used by global tech giants: £8bn a year.
- End tax breaks for private equity firms that bury companies in debt.
- Strengthen UK controlled foreign company rules: £1bn a year.
- Support proposals for a global minimum tax rate.
- Move towards a unitary system of taxing multinational corporations: £6bn a year.
- Make online platforms responsible for collecting VAT: £1bn a year.
- Limit the benefits of the non-dom rule.
- Make British sports stars pay British taxes.
- Investigate the possibility of introducing a US-style citizenship-based tax system.
- Improve disclosure of profits and taxes of smaller UK companies.
- Compel larger companies to publish reports on a country-by-country basis.
- Introduce improved public registers of beneficial ownership, including the beneficial ownership of trusts.
- Ensure that the UK Overseas Territories and Crown Dependencies publish registers of beneficial ownership of companies and trusts.

Making tax accountable – pages 12-13

- Dramatically scale up the number of targeted audits that HMRC carries out.
- Properly resource HMRC and Companies House.
- Consider having a tax office offering free tax advice for every town with a population over 100,000.
- Review tax reliefs and ensure ongoing parliamentary accountability of their operation.
- Ensure greater transparency of HMRC tax avoidance settlements.
- Carry out full equality impact assessments for all tax policy changes to ensure they are progressive and fair.
- Commission a comprehensive tax spillover assessment of the UK tax system.
- Improve the way the tax gap is estimated and produce more regular updates about the tax system.
- Ensure that whistleblowers are properly rewarded and protected.
- Ensure that tax advisors and accountants are regulated.

Dealing with tax inequality

The tax system in the UK disproportionately taxes income from work whereas people who are already wealthy from investments, rent and inheritances are taxed relatively lightly.

This is both unfair and damaging to the economy. A tax system which discourages work by taxing it more in relation to other forms of income leads to lower productivity.

There are growing public calls to address this inequality. Wealth in the UK is predominantly made up of private pensions and property, with smaller amounts represented by financial assets and physical objects. This chapter outlines how to tax these in a better way, raising significant amounts of revenue whilst improving fairness in the tax system.

Tax income from wealth at least as much as income from work

PROPOSALS:

- Tax different types of income in the same way and scrap the current system of capital gains reliefs: £25bn a year after an initial phase-in period.
- Scrap the tax-free dividend allowance, rolling it into the personal allowance: £1.3bn.
- Place a limit on the amounts which can be held in an ISA.

Wealthy individuals can generate large incomes from investments in the form of dividends and capital gains. There are a range of generous tax allowances and rates that can slash the tax bills of people who profit from these sources of income.

Capital gains are the profits from selling something, such as a business, property or a piece of art. They are taxed at a much lower rate than income from work. In 2017/18, just 9,000 people shared £34 billion in capital gains.

Taxpayers subject to capital gains tax get to benefit from an additional £12,000 of tax free allowance on top of their income tax allowance, and most gains attract a significantly lower tax rate than income tax.

This is not the end of it. Further exemptions that support this low-tax lifestyle include the so called 'entrepreneurs relief', which has been dubbed the UK's 'worst tax break', and costs the public £2.4bn a year. The government's own research has shown little evidence it encourages new investment.

In addition to reliefs on capital gains, individual investors can receive £2,000 of dividend income, tax free. As most people don't own shares directly this policy, which cost £1.3bn in foregone revenue in 2017/18, overwhelmingly benefits the wealthy.

The ISA is another policy which urgently needs review. Established as a scheme to help small savers, today it allows people to invest £20,000 a year in the stock market with any future profits from those investments tax free for life. The way ISAs can grow means there are some people with more than a million pounds of investments in an ISA. The vast majority of people save less than £5,000 a year into an ISA, and those on lower incomes overwhelmingly use cash savings accounts rather than stocks and shares ISAs.

We believe that the government could raise significant funds by placing a cap on the total amount of investments that can be held in an ISA tax free.

Reduce the pension tax subsidy for those on the highest incomes

PROPOSALS:

- Have a single rate of pension tax relief at 28%: £neutral.
- Limit the tax-free pension lump sum amount: £2bn a year.

Money held in private pensions is highly concentrated amongst the wealthiest. Higher earners also benefit significantly more from the current system of pension tax relief as they can claim 40% off their income tax bills on their pension contributions, whereas basic rate taxpayers can only claim 20%.

Pensioners can also take out 25% of their pension pot tax free when they retire. Because there is no limit on the amount that can be taken out, this is a very expensive policy and largely benefits the well off. According to the Resolution Foundation, limiting the tax free lump sum to £42,000 would only affect a quarter of retirees taking a lump sum out of their pension and would save the government £2 billion.

Drag property and inheritance taxes into the 21st Century

PROPOSALS:

- Replace council tax with a proportional property tax, and once this has been implemented scrap Stamp Duty: £4.2bn a year.
- Replace business rates with a land value tax on commercial property: £ neutral.
- Turn inheritance tax into a progressive tax on lifetime gifts and limit inheritance tax reliefs: £4.8bn a year.

The current approaches to taxing property and wealth aren't working. There is growing agreement among mainstream economists on what reforms should look like, with the IFS, IPPR and Resolution Foundation all broadly supporting the proposals outlined here.

Property makes up one of the biggest portions of all UK wealth. However, we have a dysfunctional approach to taxing it.

Under council tax, people living in lower value housing pay more in tax as a proportion of the value of their homes than people living in multi-million pound mansions. There are also big variations between different councils and regions of the country. The removal of council tax relief in many places means the current system is functioning just like the hated poll tax that it was meant to replace.

If this was replaced with a proportional property tax paid by the homeowner, a large majority of people would be better off.

The other tax on residential property - stamp duty - is progressive in that the wealthy pay more. However, it's economically inefficient as it makes it unnecessarily expensive to downsize or move house.

Replacing these two taxes with a proportional property tax would be fairer and bring in much needed revenues for cash-strapped local authorities.

Business rates are currently paid based on a commercial property's rental value. However, this approach is increasingly coming in for criticism, in part because business rates deter investment in Britain's declining high streets. The system penalises landowners who want to improve their property by levying a higher tax on properties with a higher rental value.

An alternative land value tax would be charged on the underlying value of the land itself and so wouldn't increase with improvements to the land. It would be paid by the landowner.

Inheritance tax is a hated tax that hardly anyone pays. The tax itself is only charged on large estates and the wealthy find it easy to avoid by taking advantage of generous reliefs and giving cash away before death.

Getting rid of inheritance tax and instead taxing all gifts received by individuals worth more than £125,000 would be fairer and much harder to avoid.

Taxing companies and the finance trade

PROPOSALS:

- Raise the corporation tax rate to a minimum of 24%: £12bn a year.
- Expand the financial transaction tax to include financial derivatives and other areas of the finance trade: £4.7bn.

At 19%, and due to drop to 17%, the UK has one of the lowest corporation tax rates of any large, developed economy. It is rapidly turning the UK into a tax haven, as the European Commission has highlighted.

Low corporation tax rates create unfairness and provide opportunities for tax avoidance. Share ownership is concentrated in the hands of the wealthy, and so lower taxes on corporate profits benefit those who are already well off.

The average corporation tax rate for members of the OECD is 24%.

There can be no harm in the UK raising tax rates to at least the same levels as other large economy countries.

It is widely believed that taxes on financial transactions would discourage short term speculation which can be damaging to the proper operation of financial markets and contributes to wealth inequality.

The UK currently has a financial transaction tax which applies to the trade in shares in UK companies. However the trade in derivatives, bonds, foreign exchange, interest rates and commodities trading is not subject to the tax. Economists have calculated that removing these exemptions would raise an additional £6.83bn a year.

Curbing tax avoidance and evasion

Tens of billions of pounds a year is lost to tax avoidance and evasion. The damage this does to our economy goes far beyond tax losses to the Treasury.

When a seller from overseas commits VAT fraud, the advantage they gain puts British companies out of business and destroys jobs in Britain.

When large multinational companies avoid their taxes by shifting profit offshore, they gain an unfair advantage which stifles competition.

The HMRC official estimate of the total amount lost to tax avoidance, evasion and criminal activity is £35bn. However, that does not count profit shifting by multinational corporations. Estimates from leading academics indicate the gap could be in the region of an extra £25bn a year.

The policies in this chapter seek to provide concrete steps by which the government can close down the routes used by companies and individuals to avoid and evade taxes. Many are overlapping so the costings cannot be added together.

The benefits of tackling tax avoidance will always be difficult to quantify. However, given the scale of tax avoidance, we believe that any future government should aim to raise in the region of £15bn a year from more effective anti-avoidance and evasion measures.

Ensuring fair taxation of multinational companies

PROPOSALS:

- Tax the offshore structures used by global tech giants: £8bn a year.
- End tax breaks for private equity firms that bury companies in debt.

Research by TaxWatch which looked at some of the largest US-headquartered technology companies showed that despite a decade of headlines and government announcements, there has been very little change in the amount of tax these companies paid from profits on their UK revenues.

One of the main methods of shifting profits to low tax jurisdictions involves the payment of large royalty fees to offshore companies. For example, in 2017 Google paid €15bn in royalties to a company that was tax resident in Bermuda. This wiped out most of the company's profits across Europe.

The government legislated to stop this practice for to payments to Bermuda, but left a large loophole which continues to allow companies to structure their activities through tax havens like Ireland and Switzerland. Closing this loophole could be done on day one by extending existing legislation to cover more countries.

Another tool to move profits offshore used in particular by private equity firms is to load up UK companies with debt. This means that any operating profits generated by the company are immediately wiped out by finance costs. However, when the fund comes to sell the company it can realise a capital gain which is frequently declared offshore. This kind of structure is the reason why many private equity owned infrastructure companies, such as water companies, pay so little UK tax.

Following agreement at the OECD, the UK capped the interest that could be deducted from corporate tax bills, but the government left in a large loophole excluding infrastructure companies from the changes, including all the privatised utilities.

Research by TaxWatch shows that this exemption benefits the owners of Heathrow airport alone to the tune of £100m a year. Closing down the infrastructure exemption loophole for all companies would raise much more than that.

Britain's role in the world

PROPOSALS:

- Strengthen UK controlled foreign company rules: £1bn a year.
- Support proposals for a global minimum tax rate.
- Move towards a unitary system of taxing multinational corporations: £6bn a year.

Governments around the world have accepted that the international tax system is broken. The OECD is currently debating how to change the system. The UK, as one of the largest economies and a major financial centre should be a powerful voice for positive reform in those debates.

In these negotiations the UK should argue for a new approach (called unitary taxation) that would enable governments to tax the profits of large multinational corporations based on where they employ people and make sales.

To support this , the UK should change its own laws to ensure that the UK profits of multinational companies are taxed properly in the UK. This can be done, for example, by applying the OECD approved profit-split approach to multinational companies. A recent study, using data from research for the International Monetary Fund, shows that such an approach could boost UK tax revenues from multinationals by between £6bn and £14bn.

Other changes currently being debated at the OECD include a global minimum tax rate. This would prevent tax havens from setting their corporation tax rate to zero in a bid to attract corporate profits from our country. If this measure were put in place, it would go a significant way to eliminating the effectiveness of corporate tax havens. The UK government should support this and aim for a global minimum rate of 24%, in line with our proposals for the UK corporation tax rate.

In order to ensure that changes to international tax rules have broad legitimacy, we believe that it would be more appropriate for the United Nations to take over from the OECD as the leading international tax body, and that the UK government should actively lobby for this change.

The current international tax rules say that companies should be taxed on their worldwide profits in the country they are resident. That means companies headquartered in the UK should be taxed on any profits made overseas that have not already been taxed elsewhere.

However, reforms introduced by the UK government in 2013 allowed UK based companies to shift profits made overseas into tax havens and remove that profit from their UK tax bill. The result is that the UK government gives up the right to tax profits made by UK companies, and those companies are incentivised to avoid tax overseas as well.

The reforms, which took the form of changes to the UK's controlled foreign company rules, were declared to be unlawful in some respects by the European Commission earlier this year. Rather than amend these rules, the UK government is challenging the decision.

The Treasury estimated that this giveaway would cost £1bn a year when it was introduced, but the real bill could be much higher. The government has at no point sought to measure the real cost to the UK Treasury of the changes since they were implemented.

We believe that the UK government should amend the controlled foreign company rules to make sure that the profits of UK based corporations that are not taxed overseas are taxed in the UK.

Dealing with online VAT fraud

PROPOSAL:

- Make online platforms responsible for collecting VAT: £1bn a year.

HMRC estimates that the UK loses between £1 to1.5bn a year though online VAT fraud. This is when sellers located abroad sell into the UK using platforms like Amazon and eBay, and fail to pay the correct VAT.

The real economic costs are much larger. VAT fraud gives offshore sellers an unfair advantage, destroying jobs in the UK and leading to a lower tax take as British businesses fail in the face of unfair competition. This practice is a major factor in the hollowing out of the high street.

A very simple solution to this problem would be to make online market places like Amazon and eBay responsible for collecting VAT for any goods sold on their platform. Today the responsibility falls on the seller, often located far away, who can disappear the moment HMRC come looking for them.

Closing down opportunities for people to move their wealth offshore

PROPOSALS:

- Limit the benefits of the non-dom rule.
- Make British sports stars pay British taxes.
- Investigate the possibility of introducing a US-style citizenship-based tax system.

People who were educated in this country, who made all their money in this country, and who owe their success to this country should not be able to get out of their social obligations simply by moving to Monaco whilst continuing to earn money from their UK assets. This kind of free-riding is not permitted in the United States, which operates a citizen-based system of taxation. Exit taxes for rich individuals already apply in the US and in several EU states including France, Germany and Spain. The UK is unusual in having no mechanism for tackling this problem.

The non-dom rule is a relic from a bygone era. It allows UK citizens to declare that they are not domiciled for tax purposes in the UK, despite living in the UK.

Given the complexity of the rules around residence and domicile, and the lack of research on the issue, a root and branch reform of the rules is overdue. We propose that any new government commission such a review soon after taking office. In the meantime, the amount of time that a non-domiciled person has to live in the UK before losing their special status should be shortened from the current period of 15 years, to between 5-10 years.

As part of the review, the government should investigate the possibility of introducing a US style citizenship based tax system, with an exit charge for anyone wanting to renounce their citizenship.

We believe there is also a particular issue with regard to sports professionals. Many sports stars make their careers competing for the UK or the home nations. The right they are given to compete under the national flag is highly lucrative. The support they get from fans back home generates sales for their sponsors, and image rights for the athletes. But when it comes to tax, many of these sports stars are not British at all. Instead they chose to pay their taxes in Monaco or Bermuda where taxes on income are negligible.

The government should change the rules to make sure that any sports stars competing for the UK or home nations are UK tax residents.

Improving tax and financial information

PROPOSALS:

- Improve disclosure of profits and taxes of smaller UK companies.
- Compel larger companies to publish reports on a country-by-country basis.
- Introduce improved public registers of beneficial ownership, including the beneficial ownership of trusts.
- Ensure that the UK Overseas Territories and Crown Dependencies publish registers of beneficial ownership of companies and trusts.

Investigative journalism has been vital to raising public awareness of tax avoidance over the last decade. However, the ability of the public to hold businesses and the government to account is severely limited by a lack of transparency on tax affairs.

In the UK many companies can file abbreviated accounts, which prevents lots of crucial information on company turnover, profit and tax being put on the public record. The government should introduce a requirement that all companies post details of their revenues, profits, tax due and tax paid on public record as part of their accounts filed with Companies House each year.

However, even where this data is published (such is the case with larger companies), it can be misleading if profits can successfully be moved offshore. This is why it has been a long term goal of tax campaigners to compel companies to produce accounts on a country by country basis. Country-by-country reports would immediately show if a company was moving its profits to companies based in tax haven jurisdictions where there is little real economic activity going on.

Although the UK itself has one of the most transparent corporate registries in the world when it comes to companies (despite the deficiencies outlined above), the British government continues to allow havens of offshore secrecy to persist in our Crown Dependencies and Overseas Territories. The government should use its powers to change this.

Making tax accountable

Politicians haven't given HMRC, and others, the resources they need to properly enforce the rules. This risks damaging public confidence in the tax system. We need far better information and resources if we are to improve the way our current tax system works, but a decade of cuts to HMRC has led to a tax service struggling to live up to expectations, despite the best efforts of civil servants.

The Institute for Government has criticised the way in which tax policy is developed, without sufficient scrutiny or analysis before policies are announced. The government needs to do a much better job of assessing the impact of tax changes.

Invest in HMRC and Companies House

PROPOSALS:

- Dramatically scale up the number of targeted audits that HMRC carries out.
- Properly resource HMRC and Companies House.
- Consider having a tax office offering free tax advice for every town with a population over 100,000.

While HMRC has made some positive efforts to collect more tax, these have been hampered by a halving of staff numbers at the organisation over the last decade. Yet, when properly resourced civil servants have a central role in upholding an effective tax system. For example, a member of staff on £30,000 in HMRC's compliance business section hauls in on average more than £900,000.

Dr Arun Advani of the University of Warwick has also shown that targeted audits by HMRC bring in four times as much as they cost to carry out.

Companies House also has a crucial role to play in cracking down on tax avoidance given that companies often declare themselves bankrupt, or are struck off, owing tax to HMRC. There are still very high levels of non-compliance with company reporting rules, as identified by Global Witness. Companies House needs more staff and budget to ensure the quality of the data it holds.

Better analysis of tax policies and HMRC's effectiveness

PROPOSALS:

- Review tax reliefs and ensure ongoing parliamentary accountability of their operation.
- Greater transparency of HMRC tax avoidance settlements.
- Carry out full equality impact assessments for all tax policy changes to ensure they are progressive and fair.
- Commission a comprehensive tax spillover assessment of the UK tax system.
- Regularly publish appropriate information about the tax system, including a better estimate of the tax gap.

Around £164 billion is given away annually in tax reliefs often with insufficient analysis of their effectiveness. For example, earlier this year TaxWatch found that the makers of Grand Theft Auto V had been given £42m in tax subsidies, after the game had already pulled in billions in revenues.

There should be a comprehensive review of the effectiveness of existing tax reliefs and subsidies such as inheritance tax reliefs and ongoing parliamentary scrutiny of those that are allowed to continue in operation. This should include assessing who's benefiting from the reliefs as well as their effectiveness.

Parliament and the public also need to be able to hold HMRC to account, including through adding employee and taxpayer representatives to the Board of HMRC. In addition, there needs to be more transparency on tax disputes and tax avoidance settlements reached out of court in the UK.

Too much tax policy is made without adequate information or analysis. Often one part of the tax system undermines another part, an effect that economists refer to as "spillovers". In order to ensure that companies and individuals are properly taxed it is vital to understand the impact of these spillovers in a structured way. In addition, HMRC should also carry out proper equality impact assessments of all tax policy changes to ensure that measures are progressive and fair. For example, there has been criticism about how some tax credits are assessed based on a household's income, as opposed to the individuals' income, often leading to worse outcomes for women.

HMRC also needs to get much better at estimating the amount of tax that is not paid. Current official estimates of the tax gap excludes tax avoidance by multinational companies and other key areas. To remedy this HMRC should carry out estimates of corporate taxation lost to evasion and avoidance using the 'top down' basis recommended by the IMF. Finally, the government should ensure that the appropriate financial, trade and tax statistics are published to ensure a proper basis for independent analysis.

Improve standards in the tax and accountancy profession

PROPOSALS:

- Ensure that whistleblowers are properly rewarded and protected.
- Ensure that tax advisors and accountants are regulated.

According to the Association of Accounting Technicians (AAT) almost a third of the tax and accountancy profession in the UK (approximately 13,000 firms) operate with almost no supervision as they are not members of any professional body. Accountants working in these firms can do so without any qualifications and without the need to follow any ethical guidelines.

Unregulated firms are more likely to facilitate money laundering and tax evasion, and there is widespread political support for introducing more regulation to bring the sector in line with other professions.

The government should legislate to ensure that all tax professionals and accountants must be a member of a professional body.

When ethical professionals in the tax world blow the whistle on unethical and illegal practices often they do so at great personal cost. Whistleblowers can face retribution from management and see their careers ended.

In the United States people who provide information to the IRS on tax fraud can receive a reward of between 15-30% of the tax collected. Although HMRC does have discretion to make awards to whistleblowers the amounts are much much lower.

In order to protect whistleblowers, and to adequately compensate them from the substantial risks they take, the UK should consider introducing a US style rewards system and make sure that there are adequate legal protections for people who provide information on tax fraud.

About Tax Justice UK

Tax Justice UK is a campaigning and advocacy organisation. Our mission is to ensure that everyone in the UK benefits from a fair and effective tax system. We are not-for-profit and politically non-aligned. Tax Justice UK is a partner of (but independent from) the Tax Justice Network.

About TaxWatch

TaxWatch is an investigative think tank. We monitor and report on the tax payments of large companies working in the UK, and research tax strategies used by companies and wealthy individuals. Our aim is to provide the unbiased and independent information necessary to allow the public to hold the government and major tax payers to account. We also analyse and put forward policy proposals for improving the tax system with the goal of creating a fairer tax system for all.

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