Considerations on Tax Policy Reform

The relevance to macroeconomic policy of gender aspects and taxation has received widespread attention in recent years[1]. Equity outcomes to legislation and policy reform are experienced phenomenally through institutionalised forms of social stratifications, which manifest as barriers to access to on-going education, civic engagement and decision-making, and opportunities for economic participation.

Poverty, disempowerment and inequity affect all sorts of people, with some demographic groups being more vulnerable than others. Though this paper is sensitive to all forms of discrimination and the intersectional elements that perpetuate and sustain inequalities, it is also fundamental to acknowledge being gendered is not the only marker of discrimination. Choosing to not conform to established binaries, choosing to transcend gendered structures or choosing to live in the fullness of the freedom of expression granted to citizens as persons in their own right are forms of being included within this discussion.

The source of the systemic imbalance equality tries to redress, with respect to any form of difference, has never been identified. The bases for unequal relations seem to be unequal relations themselves. The frameworks that establish gender roles base these on biological sex. The notion of struggle is a sign of the complexity of the issues at stake. Feminisms, for example, make clear the level of antagonism people must take on in order to engage with the world. By inference, the phrase 'the personal is the political' alludes to the condition of, in this case, women generally, as affected and dictated by wider social patterns[2]. Foucault identifies the dynamics that drive unequal relations with power, and one of the aspects of the everyday are normative environments that feed power[3]. Freedom, for a political subject, only comes about when differentiation of the self and the self's identity has no bearing to the application of that freedom.

[1] See: European Parliament: *Resolution on gender equality and taxation policies in the EU*, 2018/2095 (INI), 2018.
[2] Shulamith Firestone and Anne Koedt , eds, Notes from the Second Year: Women's Liberation: Major Writings of the Radical Feminists, (New York: Radical Feminism,1970).
[3] Michel Foucault (1975), *Discipline and Punish: The Birth of the Prison*, trans. A. Sheridan (London: Penguin, 1975):177-182

Structural Barriers to Tax Equity and Growth

The biggest driver of poverty is not a lack of material possessions[4]. It is the inability to cultivate human capital and strengthen systems of social provisioning and social cohesion which develop the resilience of societies to cope in times of stress[5]. Lack of inclusive economic participation, limited scopes for livelihoods, job insecurity and low wages result in poverty. Consider other intangible goods which may help lift an individual out of poverty: education, and access to health, care and information all enable resilience with which to weather periods of economic volatility, market failures and political uncertainty.

Information and Cooperation

Lack of inter-agency and cross-party cooperation can come across to constituents as apathy, or an absence of Government interest, ability or willingness to tackle poverty. This paper proposes a different view in aiming to promote the participation and engagement of communities, the media, civil society, and legislators in discussing taxation reform. In many cases, the paucity of reliable information or the spread of misinformation hinder dialogue on reform and make it difficult to tackle myths about taxation and redistribution.

Over the past five fiscal years, Government has made available a summary of income tax and national insurance contributions for 31 million households, and how these payments were used in its budget spending, providing some general context on revenues, allocations and disbursements. In moving towards transparency, there has been a concerted effort – insufficient, yet important – towards fostering dialogue on how taxation policy is an area where the redistribution of income into social policy can play a vital role in addressing inequality. Inequalities are too numerous, interwoven and mutually reinforcing to single out. Therefore, gender with respect to tax policy, is not the sole focus of this paper.

Women, Gender and Taxation

Gender analysis in tax reform implies examining the gendered inequities that result from the dynamics and relations of power within households, markets, and other socio-cultural institutions. Taxation outcomes impact women variably because of rooted gendered stratifications in economic activity, that are hierarchically coded to render unproductive domestic activity and care work.

[4] Greenhill, R., Carter, P., Hoy, C., & Manuel, M. (2015*). Financing the future: How international public finance should fund a global social compact to eradicate poverty*. (London: ODI).
[5] Abhijit V. Banerjee and Esther Duflo (2019). *Good Economics for Hard Times: Better Answers to our Biggest Problems (*London: Allen Lane)

Table 1: Gendered Stratification in Economic Activity

	Gendered Considerations
Paid employment	Occupational segregation by biological sex Discontinuous Differential in earned wages Lack of income security Lower relative earnings No job progression
Unpaid care	Unremunerated Not monetised Unsupported by weak public service provisions Benefits do not cover the cost of care Isolating

This structural obstacle means that primary care-takers balance paid and unpaid labour activities, and this juggling has life-long consequences for livelihood opportunities, job progression, income security, and wealth accumulation.

- The estimated value of unpaid childcare and adult care to the economy, per year, is £411 billion.

  Office for National Statistics (2018) Household Satellite Account, UK: 2015-2016
- Taking time out of work—or working part-time—often to perform caring duties, has measurable impacts on pay and progression in the labour market, and the most significant driver of the gender pay gap.
- Of those who are economically active due to caring activities, around 90% are women.

  Office for National Statistics (2019) Labour Market Statistics, UK, May

The Labour Force and Tax Equity: Some Questions

I. Is there a 'gender bias in taxation'?

Explicit Bias: Tax legislation treats men and women differently

Implicit Bias: taxation affects people differently because it operates through socio-economic stratifications conditioned by labour segregation by gender, and intersectional discrimination.

The fundamental question of who pays what and who gets what lies at the heart of redistributive efforts to make the availability and delivery of public goods and services as equitable as possible. As with the legal and juridical institutions, tax policy is based on principles of equity[6] which encompass notions of formal equality that are ultimately unrealisable, from a gender policy perspective, if care and domestic work continue to be considered as unproductive economic activity. The UK tax system is not explicitly gender biased – it does attempt to treat like groups alike while adjusting for differential levels of income through progressive taxation[7].

- Unlike other countries (e.g., France, Germany and Spain), the income tax system is based on individual filing which obviates the gender bias of a higher marginal rate for the second income earned. That is not to say the current level of benefits to do meet care needs and can act as disincentives for participating in the labour market.
- Given the gender wage gap ad earnings differential, which can be attributed to lower rates of participation in the formal market, income taxation differs for men and women; those who are less heavily taxed are done do because their incomes are generally lower.
- Research shows this is less applicable in the United Kingdom than it would be in countries with more progressive income tax systems.

However, because unpaid care and labour in the home and community are not factored into socio-economic interactions – characterised by quantifiable mechanisms of contractual exchange based on the rational choices of economic agents – production is calculated on the basis of market-valued and monetarily-compensated goods and services, only. This excludes all labour that contributes to the formation of human capital and to systems of social provisioning, thus rendering one class of human actors – who are primarily, though not always women – invisible. Outcomes of taxation policy only highlight these phenomena.

In this intractable climate feminist economists have long lobbied to change, it is tempting to conflate arguments on fiscal policy and taxation with gendered-weighted asymmetries in socio-economic institutions. These arguments risk polarising issues for which policymakers, legislators and civil society need a robust understanding in order to reconceptualise what counts as productivity, to monetise care work and legislate for alternate economic institutions.

---

[6] The issue of tax equity – horizontal and vertical – exceeds the scope of this paper but form the contextual understanding of what tax systems attempt to achieve. The problem is, given the variability and the scale of human experience and needs, comparing individuals or even household would not yield sameness across the board. Wealth is variable: households may be made up of one person holding down two jobs at less than a living wage; or a family of 10 with 2 dual-earners on whom children and ageing parents depend. Corporate tax can refer to profits of 'big' business, but likely too, of medium-sized enterprises, or of small businesses or entrepreneurial concerns who may enjoy a high level of tax breaks but be unprofitable.

For more information, and additional reading see: Caren Grown and Imraan Valodia (eds.) (2010). *Taxation and Gender Equity A comparative analysis of direct and indirect taxes in developing and developed countries* (Routledge: London and New York)

[7] Exemptions, deductions as a result of formal employment carry implicit biases for many tax systems the world over. Why? Because primary carers, generally women, do not participate in the formal market continuously, rather working life is split between work inside and outside the home. In combination with other legislation, such that carry barriers to access for financial instruments, for example, sets up a financial and fiscal regime replete with both explicit and implicit biases in taxation. For more information, see: Vanessa Erogbobo and Elizabeth Pimentel (2013). *Gender Responsive Investment Handbook: Addressing the Barriers for Women's Financial Enterprise* (London: Commonwealth Secretariat).

<u>'Tax the rich'</u>

Arguments calling for increase in taxes on the top tier income group, the 'rich', or 'big' corporations as a catch-all solution are also reductive, and risk miring tax reform in an ideological determinism not conducive to achieving long-term solutions that better reflect the potentialities of broadening the tax base to earn more revenue.


TAX THE RICH
– don't rob the poor
Anti-poverty campaigners demand Robin Hood levy on banks to fund aid and public services

The claim that fiscal policies let those who earn more pay less is not wholly within the context of the circuitous rules of taxation policy and benefit allowance taxpayers must navigate.

Band	Taxable income	Tax rate
Personal Allowance	Up to £12,500	0%
Basic rate	£12,501 to £50,000	20%
Higher rate	£50,001 to £150,000	40%
Additional rate	over £150,000	45%

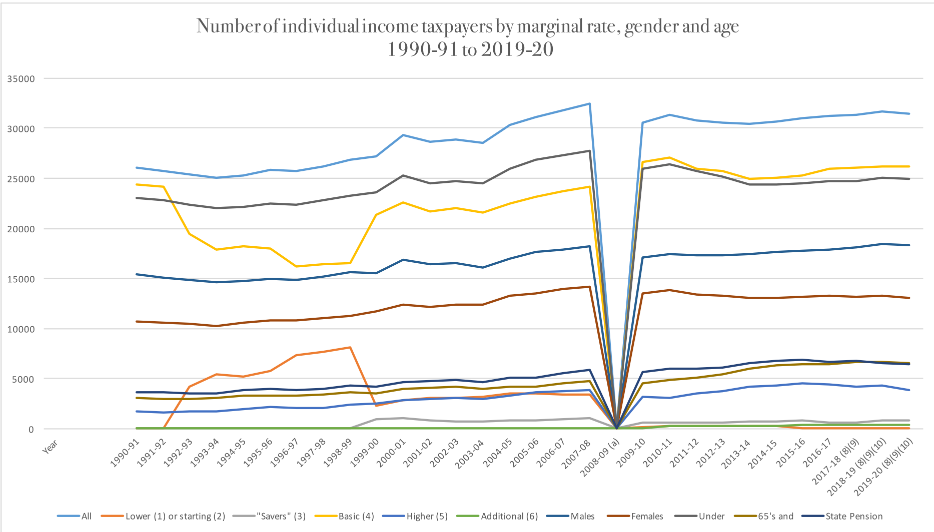
Since 1990, UK personal income tax has been filed on an individual basis. Most employees are automatically enrolled in 'Pay As You Earn' (PAYE), whereby employers deduct tax and national insurance contributions (NICs) directly from wages. UK taxpayers who are self-employed file a Self-Assessment Form.

The UK has a complex system of progressive taxation, and there are well-documented incidences of taxpayers of all income brackets paying over the established rate. The examples listed in Table 2 are not a defence of the 'rich'. The examples serve to contextualise the following: what constitutes wealth (a pension over a lifetime of work) or income (current income to meet current expenditure for a household) is relative to the individual or household in question. They do not obviate the fact at the basic rate of tax lower income, households are paying above the stipulated 20%, with a larger comparable share taken from income as a result. It also bears noting that those in the higher-income brackets have more flexibility to move between economic activity.

Table 2 Paying above the stipulated rate

- The highest marginal tax rates are often experienced in households in the £50,000-£60,000 (basic rate moving into higher rate) bracket as a result of withdrawal of allowances and benefits as more income is earned when an additional tax of 11% on income and of 7% per subsequent child is applied. The reality of taking home £0.38 on the pound (after tax, NICs, and withdrawal of benefits) makes for poor economics.
- Parents where one partner earns over £50,000 lose 1% of their child benefit for each £100/year they earn over that threshold. An extra £1000 costs the household £400 in income tax, £179 in child benefit, and £20 in National Insurance, or £599 in total; this is a tax rate of 59.9% and not the stipulated 40%.
- At the higher end of earnings £100,000-£123,000, there is evidence of households paying in excess of 60p per £1 of earnings.

Table 3 Disaggregated for by Tax Tier, Gender and Age [8]



8

Footnotes for tables 2.1

(a) Figures for 2008-09 tax year are not currently available.

(1) Taxpayers with total taxable income below the lower rate limit and some taxpayers whose savings and dividend income took them above the lower rate limit. From 1993-94 until 1998-99 a number of taxpayers with taxable income in excess of the lower rate limit only paid tax at the lower rate. This was because it was only their dividend income and (from 1996-97) their savings income which took their taxable income above the lower rate limit, and such income was chargeable to tax at the lower rate and not the basic rate.

(2) In 1999-2000 the starting rate replaced the lower rate. Between 1999-2000 and 2007-08 taxpayers with total taxable income below the starting rate limit. From 2008-09 taxpayers with no taxable earnings and total taxable income from savings below the starting rate limit. From 2015-16 the starting rate of tax for savings income has been reduced from 10% to 0%, and the starting rate limit has been increased to £5,000.

(3) Before 2016-17 taxpayers with no taxable earnings and total taxable income from savings between the starting/lower rate limit and the basic rate limit and/or dividends at the 10p ordinary rate. From 2016-17 taxpayers with no taxable earnings and total taxable income from savings charged at 20% and/or dividends at 7.5%. Before 1999-2000 these taxpayers would have been classified as lower rate taxpayers.

(4) Between 1999-2000 and 2007-08 taxpayers whose total taxable income is between the starting rate limit and basic rate limit and includes income from earnings or income taxed as earnings. From 2008-09 taxpayers whose income includes earnings or other income taxed as earnings and with total taxable income below the basic rate limit.

(5) Before 2010-11 taxpayers with total taxable income above the basic rate limit. From 2010-11 taxpayers with total taxable income between the basic rate limit and the higher rate limit.

(6) Taxpayers with total taxable income above the higher rate limit.

(7) Taxpayers aged 65 years or older for men and 60 years or older for women in 2009-10. The female State Pension Age was increased gradually from April 2010 to be equalised with the male State Pension Age by November 2018. The female State Pension Age for the purposes of this table is 60.5 years in 2010-11, 61 years in 2011-12, 61.5 years in 2012-13, 62 years in 2013-14, 62.5 years in 2014-15, 63 years in 2015-16, 63.75 years in 2016-17 and 64.5 years in 2017-18. The male and female State Pension Age in 2018-19 is 65.25 and 65.75 in 2019-20.

(8) Projected estimates based upon the 2016-17 Survey of Personal Incomes using economic assumptions consistent with the OBR's March 2019 economic and fiscal outlook.

(9) From 2017-18, individuals who are classified as resident in Scotland and have total taxable income above the Scottish basic rate limit (BRL) but below the UK government's BRL have their marginal rate classified based on their income within this notional band. For these taxpayers, non-savings non-dividend (NSND) income within this band is taxed at the higher rate, whereas savings and dividends income is taxed at the basic rate. A Scottish taxpayer with any taxable NSND income within this band (but no total taxable income above the UK BRL) is classified as a higher rate taxpayer, as this is the top rate they are paying. A Scottish taxpayer with only savings and/or dividend income within this band (and no total taxable income above the UK BRL) is classified as a basic rate taxpayer.

(10) From 2018-19, individuals who are classified as resident in Scotland and have total taxable income in the Scottish starter rate or Scottish intermediate rate have their marginal rate classified based on their income within this notional band. For these taxpayers, non-savings non-dividend (NSND) income within these band is taxed at a 19% or 21% rate respectively, whereas savings and dividends income is taxed at the basic rate. A Scottish taxpayer with any taxable NSND income within these bands (but no total taxable income above the UK BRL) is classified as a basic rate taxpayer, as this is the top rate they are paying. A Scottish taxpayer with only savings and/or dividend income within this band (and no total taxable income above the UK BRL) is classified as a basic rate taxpayer.

Source: HM Revenue and Customs, *Table 2.1 Number of individual income taxpayers*

So why not raise income tax rates? It is not simply because it an unpopular political manoeuvre, set against a climate of austerity, political uncertainty and cross-party animosity[9]. The answer is more functional, and dispassionate: despite a top-tier concentration of wealth, there is still not enough revenue from these sources to meet spending requirements and manage spiralling levels of debt[10].

9

By way of example of how information can be distorted, or misrepresented, the IFS published a relatively factual representation of labour force activity over time: 1 in 10 workers can expect to earn £70,000 at some point in their working life. The purpose was to explain why it may not be a savvy political manoeuvre for Government to suggest a rise in income tax and risk losing voter support. However, the question remains: who are the 90% of workers who do not earn this amount? The demographic shrinks significantly if the 10% is made up of someone who can work full-time, with minimal or no care duties in the home and can avail themselves of public services – transport, health, education – in order to realise this salary. There is a scale of intersectional inequality couched within this simple data set, without necessarily making it an untruth. It simply does not represent the entire picture.

10Pascale Bourquin, Agnes Norris Keiller Tom Waters. (2019) *The distributional impact of personal tax and benefit reforms, 2010 to 2019*, Institute for Fiscal Studies, November.

A Sensible Conversation about Taxes

The demand for public policy, that is sensitive to intersectional discrimination, is, unfortunately never optimal[11]. There are several reasons for this, but foremost is that Chancellors 'rarely set out a clear strategy for what they want the system to achieve'[12] thus forestalling public scrutiny, or evaluation, into the fairness, or viability of the proposed changes.

Reversing nearly 10 years of austerity in a climate of economic uncertainty marked by low wages, rising rents and cost of living and significant cuts to social security, the long-term view is that a reduction for income inequality depends on the progressivity of the tax in conjunction with the benefits system. To separate one from the other would potentially distort policy outcomes because individuals, households, communities and businesses are exposed to economic and political changes at different stages over the time they contribute to and benefit from the system.

Research suggests that it has not been demonstrated that the tax system is the most appropriate policy lever to correct market failures[13] or that more beneficial gender outcomes are necessarily the direct consequence of tax policy reform[14]. What might be an explanation for this? The tax system is not a standalone institution: it is situated amongst other institutions and mechanisms plagued by asymmetries occasioned by various forms of discrimination, and by self-interest. Irrespective of what tax legislation sets to achieve, policy must contend with:

- **Imperfect information** on economic activities, and on economic agents and their motivations, as well as the **motivations** of the taxing authority, are never sufficiently inclusive or clear-cut to effect optimal taxation.
- Political **uncertainty**, cross-parting infighting, particularly on taxation issues, do not instil confidence in voters, creates a climate of mistrust and structural barriers to sustainable reform.

[11] It is worthwhile reading about taxation and the behaviour of economic agents and taxing authorities from a philosophical perspective. The question of paying tax or owing tax is not a moral one, it is a rational one in most instances. Another important outcome of a philosophical foray into taxation reveals that an optimal taxation policy is unrealisable because of imperfect information into economic actors and economic activity.
See: Martin O'Neill and Shepley Orr (2018). *Taxation: Philosophical Perspectives* (Oxford: Oxford University Press).
Studies have shown being informed about how taxes are used played a big role in curbing tax avoidance or evasion (Institute for Government, 'Taxing Times: The need to reform the UK tax system').

[12] Gemma Tetlow and Joe Marshall (2019). Taxing Times: The need to reform the UK tax system', Institute for Government

[13] IBID

[14] Gemma Tetlow, Jill Rutter and Joe Marshall Thomas Pope (2019). 'How to be a tax-reforming chancellor', Institute for Government, December 2019.

- **Changes** to tax policy are difficult and costly to implement, with some changes—increasing income tax, National Insurance contributions and VAT (the 'triple lock')—being particularly unpopular.
- This unpopularity, combined with a degree of **self-interest** on the part of influential economic agents, constrict the ability of Government not just to raise revenue, but to troubleshoot in times of stress.
- **Inefficiencies** (patchy property tax rules) and distortions (raising tax on cars but not on petrol or diesel), the complications of additional tax burdens which are subsequently abandoned (NICs on the self-employed) are piecemeal and thus, ultimately costly.
- Tax **revenues are lost** through tax avoidance b those that exploit tax loopholes, or through tax evasion. The Treasury **expends considerable resources** in addressing these issues.
- Tax **revenues are misallocated** on long-running, over-spend budgets, such as HS2.
- Existing **tax bases are not mine efficiently**. For example, past revenues from the North Sea oil and gas companies which were not utilised to build up a sovereign wealth fund.
- **New technologies, products and services**. Lightly taxed economic activities which distort economic choices towards activities that generate a lower tax burden.
- **Varying tax liability**—the self-employed have varying degrees of tax treatment, but there is not basis for this.

A report released by the Institute for Fiscal Studies (IFS) in May 2019, finds the UK tax system helps reduce wealth inequality[15]. The report concluded taxation and systems of social security and benefits create a fairer redistribution of resources[16].

The top 20% of earners who had income over 12 times that of the bottom 20%, before taxes and benefits were taken into account, saw this income decrease to 5 times after taxes were paid and benefits distributed, with the poorest fifth receiving approximately 16 times more

[15] Pascale Bourquin and Tom Waters (2019) *The effect of taxes and benefits on UK inequality*, Institute for Fiscal Studies, May.
[16] The IFS report contradicts ONS findings which say the tax system has a "negligible effect on income inequality".
Office for National Statistics (2019). *Effects of taxes and benefits on UK household income: financial year ending 2018: The redistribution effects on individuals and households of direct and indirect taxation and benefits received in cash or kind analysed by household type, and the changing levels of income inequality over time* (May).

in benefits as a share of net income than the highest fifth in the income tax bracket, with these paying nearly 3 times as much in direct tax.

Nevertheless, tax policy reform is urgent: taxes fund social programmes and public services which play a critical role in combatting poverty and inequity.

Is poverty a political choice?

- The Special Rapporteur on extreme poverty and human rights was invited to visit the United Kingdom of Great Britain and Northern Ireland from 5-16 November 2018.
- The purpose of the visit was to report (May 2019) to the Human Rights Council on the extent to which the UK Government's policies and programmes relating to extreme poverty are consistent with its human rights obligations.
- The report says the UK's social safety net has been 'deliberately removed and replaced with a harsh and uncaring ethos', Philip Alston, May 2019

An Era of Contradictions

'Official denials notwithstanding, it is obvious to anyone who opens their eyes'

Philip Alston, May 2019

The UN Special Rapporteur on Poverty Report on the United Kingdom

- Despite economic prosperity, one fifth of its population (14 million people) live in poverty. Four million of those are more than 50 % below the poverty line and 1.5 million experienced destitution in 2017, unable to afford basic essentials.
- Following drastic changes in government economic policy beginning in 2010, the two preceding decades of progress in tackling child and pensioner poverty have begun to unravel and poverty is again on the rise.
- The number of people in in-work poverty who are working is 3.8 million, or more than 25% of all the people living in poverty, that is 1 in 8 workers overall
- And over the last 10 years, the number of workers in poverty has grown by a million – up by a third.
- The remainder of people in in-work poverty are 2.6 million children and one million non-working adults, nearly three quarters of them are women.
- Of these 1 million non-working adults, 91% live with dependents
- Relative child poverty rates are expected to increase, to reach close to 40%.

'For almost one in every two children to be poor in twenty-first century Britain would not just be a disgrace, but a social calamity and an economic disaster rolled into one'

The report provides evidence of:

• Sharp increases in the number of food banks, homelessness and rough sleeping
• For certain groups, life expectancy has fallen
• A 'decimation' of the legal aid system
• Alienation of low-income persons from the justice system
• Denial of benefits to persons with disabilities, or of being pushed into unsuitable work
• Lack of organised care for persons with mental illnesses
• Policing services are down to 'skeletal proportions'
• A shrinking of community, youth and refuge centres
• Single-parent households, especially single mothers, 'struggling to cope in very difficult circumstances'

?

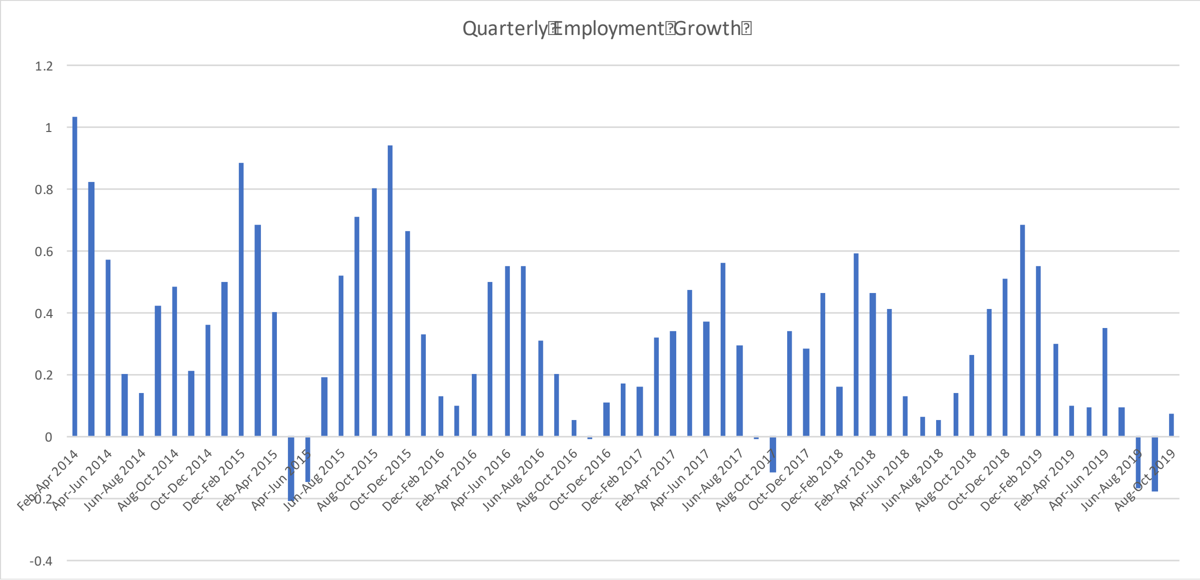
Austerity measures have decimated public services, which has led to increased levels of poverty[17]. Yet, Gross Domestic Product per capita in 2019 rose by 6.5% to US$42,580, making the UK the fifth largest economy in the world in terms of GDP[18]. The unemployment rate is the lowest in 40 years, and there are 3.3 million more people in work than in 2010. This is partly due to growth in the workforce over time, and only because 2010 represented a low point following the global recession[19].

---

[17] The devastating consequences of austerity were laid bare in a 2019 report by the United Nations Special Rapporteur on Poverty. It says poverty in the UK is the result of ideological and political choices. The social safety nets have been 'deliberately removed and replaced with a harsh and uncaring ethos', Philip Alston UN Special Rapporteur on Poverty, May 2019
Human Rights Council Forty-first session
24 June–12 July 2019 Agenda item 3
Promotion and protection of all human rights, civil, political, economic, social and cultural rights, including the right to development
Visit to the United Kingdom of Great Britain and Northern Ireland
Report of the Special Rapporteur on extreme poverty and human rights, April 2019 [https://undocs.org/A/HRC/41/39/Add.1]
[18] Listed in US$ as per Financial Times, *Country Economy: United Kingdom* https://countryeconomy.com/gdp/uk, as better indication of relative GDP in light of the currency fluctuations of 2018-2019.

[19] Indeed, United Kingdom employment statistics mirror those experienced in recent years in many OECD countries

The table below shows the quarterly rate of growth in employment.[20]



The number of people in employment increased by 24,000 to 32.8 million in the three months to October 2019, compared with the previous quarter. The unemployment rate for women, who make up 47.2% of the total people in employment, fell to a record low of 3.5%, but also 30,000 fewer women were employed during this period. The increase in the level of employment in the last quarter was driven by the number of employed men, despite a previously strong performance of women in the labour market in the three months leading to November 2018, about a year ago.

It is to be noted, 79% of the jobs that have been created since 2010 are full-time, and hence out of reach of full-time carers, in the absence of Government-funded provisions for early-years childcare, or elderly care. Full-time employment, however, is no guarantee against in-work poverty, which is a major and growing problem in this country. In fact, in-work poverty[21] rates outstripped the growth in employment in 2018. Real regular pay and real total pay registered at 0.2% lower than the downturn peak reached in February-April 2008 during the financial crisis. It is also evident that robust economic figures do not reflect reality[22].

[20] Office for National Statistics (2019). *Labour market economic commentary: Additional economic analysis of the latest UK labour market headline statistics and long-term trends for December 2019*

[21] With poverty measured using household income, either all the people in a household are in poverty or none are. Extending this logic, all a household's members are in in-work poverty if the household is in poverty and at least one of its members is in paid work. On the latest numbers for 2014/15, 7.4 million people in the UK are in in-work poverty, which at 55 per cent of all those in poverty is a new record-500,000 British workers have been swept into working poverty over the past five years- the number of people with a job but living below the breadline has risen faster than employment

[22] Pascale Bourquin, Agnes Norris Keiller and Tom Waters (2019). *The distributional impact of personal tax and benefit reforms, 2010 to 2019,* Institute for Fiscal Studies

Revenues and Expenditures

Since 2010, and running parallel to austerity measures, the tax system in the United Kingdom has been undergoing piecemeal reform shifts with various degrees of success[23], and a lot of distortion. Government's social welfare plans do not, currently, include a rise in the tax margin, or new taxes. While there is historical, and world-wide evidence to support the claim that high taxes do not discourage work, or initiative, or hinder economic growth[24], there is also evidence to suggest an increase in tax is unlikely to mean more money for Government to redistribute[25].

Economists, for example, consider the progressivity of the tax system and judge policy on the basis of redistribution. One of the most pressing concerns are the moderate levels of intake of tax compared to rising public spending pressures. However, without raising taxes or increasing levels of borrowing, already at 80.6% of GDP[26], the provision of public services will be further curtailed.

Why Tax?

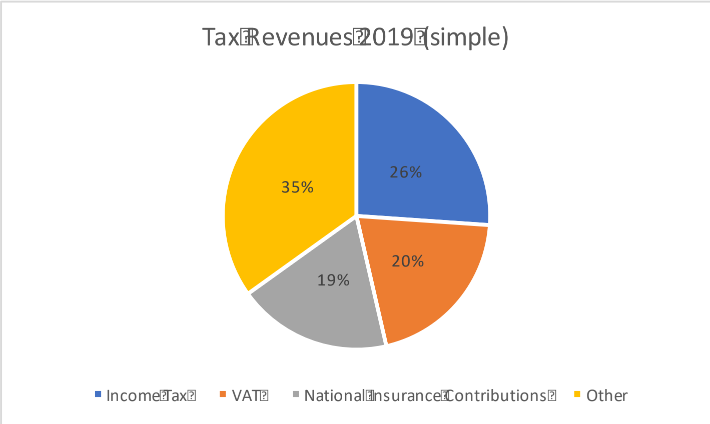
Policymakers and economists who study taxation aim to delve into the redistributive effects of allocating revenues, as a way of correcting inequality. Hence the politics of taxation should be no more complicated than what is required to achieve a more equitable system of income distribution. The complexity of the current system mires much of the debate on the actions of individuals or corporations that avoid tax entirely, or pay professionals to minimise the tax burden. Little attention is paid to the more insidious problem of the inefficiencies requiring ordinary taxpayers to pay over the set marginal tax rate[27]. Evidence suggests, individuals, as rational – and not moral – economic agents, reapportion the opportunity cost of formal work with other activities if taxation, with additional incidences, acts as a disincentive to work[28].

[23] IBID
[24] Abhijit V. Banerjee and Esther Duflo (2019). *Good Economics for Hard Times: Better Answers to our Biggest Problems* (London: Allen Lane)
[25] Jill Rutter, Bill Dodwell, Paul Johnson, George Crozier, John Cullinane, Alice Lilly and Euan McCarthy (2017). 'Better Budgets: Making Tax Policy Better', Institute for Government, Institute for Fiscal Studies and The Chartered Institute of Taxation, January.
[26] Office for National Statistics, November 2019.
[27] Philip Booth and Ryan Bourne (2016). 'Taxation, Government Spending and Economic Growth: In Brief',
Institute of Economic Affairs (November).
[28] For example, one of the reasons surgeons on the NHS prefer not to work overtime, in favour of doing work for private clinics is the complexity of the rules that add additional marginal tax per extra £1 of work, without benefits. Limited companies offer tax breaks and incentives, and through these doctors take home more of their income. This is an example of revenue maximising behaviour by an economic agent. The social cost to this decision translates in less operating times available on the NHS, longer waiting times for patients and a system under increased strain. It highlights how economic behaviour is rational, and self-interested rather than moral. The philosophical question into incentives and behaviour is: do individuals (in this case, doctors, who by virtue of the years spent in education and self-funded specialised training) bear a moral responsibility for socially beneficial outcomes, or does the State (responsible for funding its health service)? Tax reliefs by the Government designed to incentivise surgeons to stay on the NHS attempts to redress tax distortion, but creates further problems. Media reporting missed some vital economic behavioural analysis that may temper resentment in this contentious issue: 'The Treasury is preparing to give tax relief worth hundreds of millions of pounds to those earning more than £110,000. The measure will stop doctors being hit with huge bills, which are causing them to turn down extra work and harming patient care.'
Chris Smyth, (2020). 'Pension tax windfall for top earners: NHS crisis plan will benefit tens of thousands', *The Sunday Times*, 16 January 2020.

This means, that alongside holistic proposals to tax reform, an in-depth look is required into how tax revenues are cycled and disbursed as public services, and how Government bodies can be held accountable for overspending on long-term projects that do not serve the needs of constituents.

The Tax Base

The workhorses[29] of the UK tax system are income tax, National Insurance Contributions s, and VAT, which brought in just over 65% of the tax revenue raised in 2018-2019. This was paid by 31 million households last year, or 58% of adults.



Income Tax is a progressive tax on earnings, interest on savings, dividends and pension income. Beyond the tax-free personal allowance, additional income is raised at a marginal rate of 20% for income up to £50,000/yr to 45% for income above £150,000/yr.

Value Added Tax (VAT) is set at the current rate of 20% since 2011, on goods and services which roughly amounts to around half of all household expenditure. VAT and other indirect taxes do little to redistribute resources – tax is levied on an approximately similar share of total expenditure. VAT has been an important source of revenues over the past 40 years. A zero-rate applies to basic foodstuffs, prescription medication (though the NHS pays taxes on medicines) and selected children's products and clothes (up to the age of 14). This mitigates the regressive tendency of the tax because a tax that applies equally to all hits lower-income households proportionally more.

[29] The only way of operating a triple-lock on the hardest working aspects of the tax regime is to cut Government spending. Simply put, if public services are not being funded directly through taxation, or debt, they are cut, which the UK's decade-long period of austerity has revealed. Public goods on which citizens depend – health, education, transport, police – are paid through taxation. There cannot be sustained economic growth – growth that is not propped up by high levels of borrowing – unless a concerted effort is made to investment in a country's human capital, and to spend proportionally, not just on the basic public services, but in innovation and knowledge know-how and through participatory measures that involve citizens in policy decision-making. Eviscerating the social security system will not achieve this. Investing in quality early years care so that parents can go to work, raising the living wage, and finding ways of broadening the tax base without making taxpayers worse off is critical in redressing the burdens austerity has placed on many.

National Insurance Contributions are raised from non-pensioners. A higher rate is applicable on income from employment versus on income from self-employment[30]. NICs are a contentious area of taxation policy as they were intended as contributory welfare benefits – disability, unemployment, health, but now function as a general tax with revenues used to meet the current cost of delivering services, though in public opinion, the notion is still upheld that NICs are materially different from income tax. Government is increasingly reliant on NICs. NICs are regressive: higher earners pay a lower marginal rate, reducing the slight progressivity of the income tax brackets. For this reason, it has been suggested collapsing income tax and NICs into one category, thus eliminating the different thresholds and tax brackets that create distortion within this category.

Other – includes **Corporate Tax** and is another contentious area of taxation because it is difficult to: pin down the location where value is created in order to tax it; determine the tax incidence[31]; and evaluate the revenue potential of new digital technologies. Corporate taxes can lead to wider scope for reform because it is an area where the personal and business aspects of taxation collide, creating opportunities for avoidance, and other inefficiencies. Corporation tax, generally, is levied at a flat rate of 19% on profits, net of accounting and deductions. This rate is expected to fall to 17% in April 2020, making it the lowest in the G7 and the fourth lowest in the OECD group. This rate is offset by new restrictions in the use of allowances, meaning a larger share of corporate profit will be subject to tax.

[30] Gender and taxation: Less than 20% of working age women in the UK are entrepreneurs and small-business owners. Therefore, aligning NICs at one flat rate for all contributors would have a minimal effect in terms of gender considerations. What does it highlight about the socio-economic dynamics within the economy? Women outnumber men by 1 million, yet there are twice as many male entrepreneurs.
[31] T. Worstall (2011). 'Corporations do not pay taxes: they can't, they're not people' in *Forbes*, 22 September 2011.

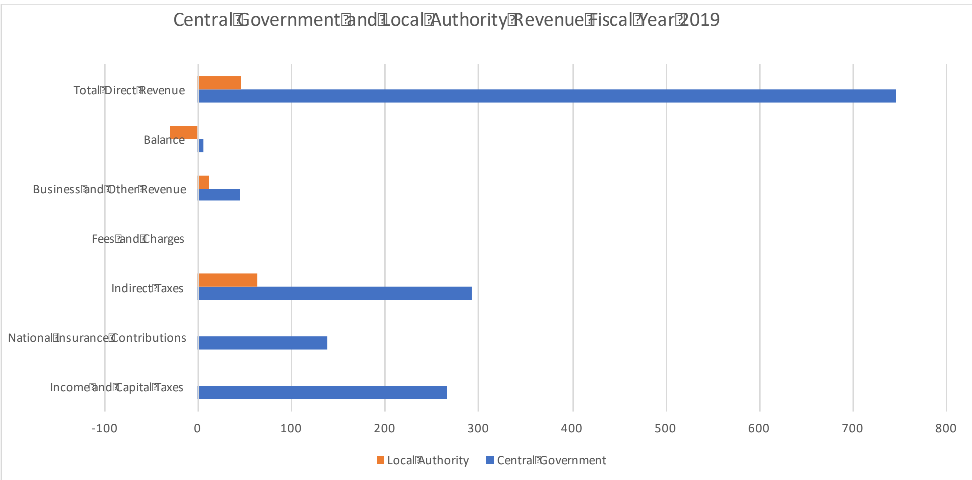
Receipts

Central Government and Local Authority Revenue Fiscal Year 2019

Amounts in £ billion

	Central Government	**Local Authority**	**Total**
Income and Capital Taxes	*265.5*	0	*265.5*
National Insurance Contributions	*137.7*	0	*137.7*
Indirect Taxes	*292.5*	*63.5*	*356*
Fees and Charges	0	0	*0*
Business and Other Revenue	*44.8*	*11.8*	*56.6*
Balance	*5.7*	*-29.4*	*-23.7*
Total Direct Revenue	*746.2*	*45.9*	*792.1*
[+] **Net Public Debt**			*1,803.40*

According to the Office of National Statistics[32], Government received £265.5 billion in income taxes (PAYE and Self-Assessment) and £137.7 billion in National Insurance contributions, bringing the total of direct taxes total for Central Government to 54% of the £746.2 billion of overall revenue in 2019. See Tables below[33].



[32] Office for National Statistics (2019). *Public sector finances, UK: November 2019: How the relationship between UK public sector monthly income and expenditure leads to changes in deficit and debt.* (November).

[33]Office for National Statistics (2019) *Dataset Public sector finances time series*. December.

Central Government and Local Authority Revenue Fiscal Year 2020

Amounts in £ billion

	Central Government	Local Authority	Total
Income and Capital Taxes	*268.3*	0	*268.3*
National Insurance Contributions	*143.4*	0	*143.4*
Indirect Taxes	*309*	*36.3*	*345.3*
Fees and Charges	0	0	*0*
Business and Other Revenue	*41.6*	*11.8*	*53.4*
Balance	*2.4*	*-1.4*	*1*
Total Direct Revenue	*764.7*	*46.7*	*811.4*
[+] Net Public Debt			*1,838.20*

Spending and Borrowing

In July 2019, HM Treasury published its Public Expenditure Statistical Analyses (PESA) for 2018[34].

Tax summary description	Public Sector Expenditure (£bn)
Welfare	174.4
Health	145.8
State Pensions	93.8
Education	87.8
National Debt Interest	44.5
Defence	38.7
Public Order & Safety	31.6
Transport	31.2
Business & Industry	21.4
Government Administration	15.2
Environment	11.4
Culture (e.g. sports, libraries, museums)	11.8
Housing and utilities (e.g. street lights)	12.1
Overseas Aid	8.6
UK Contributions to EU budget	5.4
Total	**733.7**

Central Government and Local Authority expenditure in 2019 amounted to £821billion. With a difference of £28.9 billion, and a projected rise in expenditures in 2020 by 20%, Government is spending more than it brings in.

The table below compares forecasts for the main fiscal aggregates published by the Office for Budget Responsibility (OBR) in the *Economic and Fiscal Outlook* published in March 2019 for the financial year ending March 2020. It reflects the OBR's December 2019 technical restatement. The figures indicate Government's borrowing position.

Restated OBR forecasts of key public sector aggregates for the financial year ending March 2020[35]

---

[34] HM Treasury (2019). *Public Expenditure: Statistical Analyses 2019.* (24 January 2019) https://www.gov.uk/government/publications/how-public-spending-was-calculated-in-your-tax-summary/how-public-spending-was-calculated-in-your-tax-summary

[35] Source: Office for Budget Responsibility *Economic and fiscal outlook report*, March 2019
In December 2019, the (OBR) published a technical restatement of their March 2019 forecast for the public finances. The forecast is in line with the statistics provided by the ONS.

In £ billion	Current Budget Deficit	Net Investment	Net borrowing	Net Debt[1]	Net debt as a % of GDP[2]
March 2019 EFO	-17.70	47.0	29.3	1,838.2	82.2%
December Restatement	-2.5	50.2	47.6	1,817.0	81.3%

All figures represent public sector measures excluding public sector banks

Though the current budget deficit is £2.5 billion, as at December 2019, Net Investment has not risen proportionally to the levels of borrowing, and while this is due to remain constant at around 2% of GDP over the coming two fiscal years, subject to tax receipts, it is not enough to meet current, or projected levels of spending.

Borrowing has increased significantly and by 2019, public sector spending exceeded the amount received in taxes and other income. Government borrowed £5.6 billion, nearly 4% more than the amount borrowed, year-on-year, in November 2018, to make up for the shortfall in receipts of taxes from 2017-2018. Of this figure, £2.4 billion was lent to local authorities.

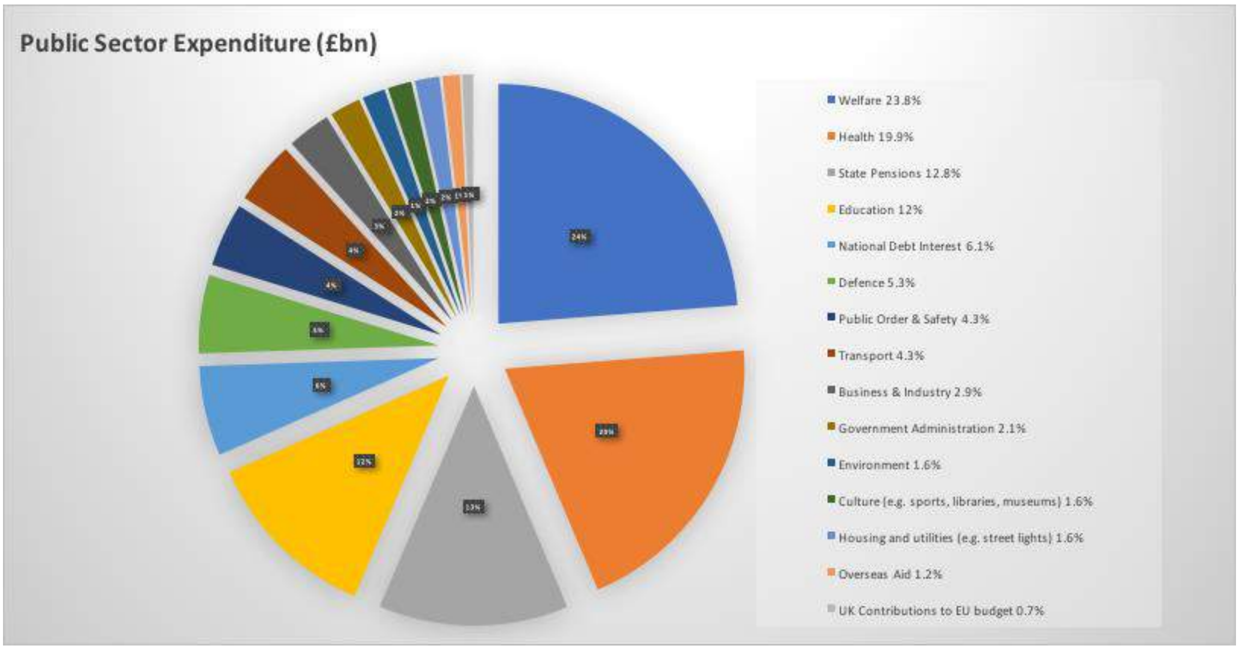
In a letter to the Commons Treasury select committee, the OBR, the fiscal watchdog, has made a case for clarity in the political process before it can be said viable 'quantitative targets for the public finances to which it [Government] would credibly commit' [36].

In November 2019 central government receipts increased by 1.6% or £900 million more than in November 2018 to £58.1 billion, an increase made possible by a £600 million increase in National Insurance contributions, a £300 million increase in interests and dividends receipts, and an increase of £200 million in other receipts, including a 'negligible' growth of less than £100 million in Value Added Tax (VAT) receipts over the same period. These amounts are offset by receipts of accrued Corporation Tax of £300 million, when compared year-on-year[37].

While Government had to borrow more in 2019, and forecasted and additional 20% in borrowing in 2020, tax receipts performed better than expected in final months of the 2018-2019 fiscal year, showing a modest increase The OBR expects this 'buoyancy' to continue, supported by a downward pressure on debt interest spending due to lower market interest rates which deliver a moderate positive medium-term outlook in public finances. With some of this money already earmarked for spending on public services, it is of interest to civil society and special interest groups to evaluate these allocations.

[36] Robert Chote, Chairman of the Office for Budget Responsibility, in a letter to John Mann, Interim Chair of the Treasury Select Committee, 9 September 2019.
[https://www.parliament.uk/documents/commons-committees/treasury/Correspondence/2017-19/RC-to-TSCSR-19.pdf]
[37] Office of Budget Responsibility (2019). *Economic and fiscal outlook*, March.

Public Expenditure Statistical Analyses (PESA) for 2018[38]



Comparison Table Public **Sector Expenditure 2017-2018**

Public sector expenditure on services by departmental group and function, 2017-18

£ million

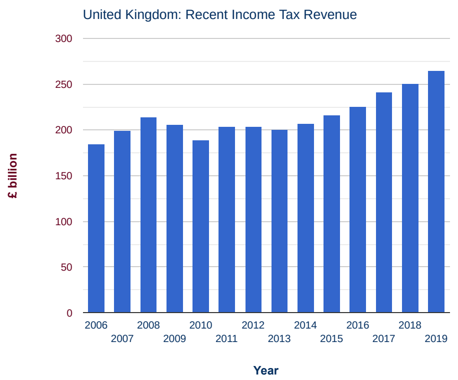
National Statistics

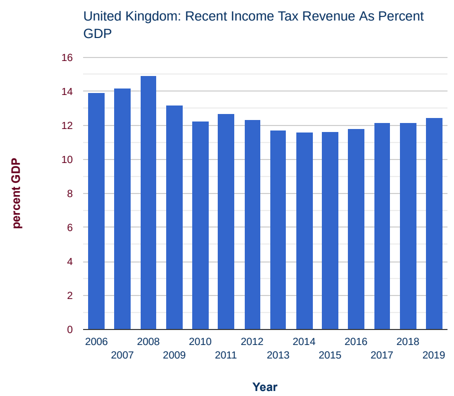
Function / Departmental Grouping	1. General public services	*of which: public and common services*	*of which: international services*	*of which: public sector debt interest*	2. Defence	3. Public order and safety	4. Economic affairs	*of which: enterprise and economic development*	*of which: science and technology*	*of which: employment policies*	*of which: agriculture, fisheries and forestry*	*of which: transport*	5. Environment protection	6. Housing and community amenities	7. Health	8. Recreation, culture and religion	9. Education	10. Social protection	EU transactions	Public sector expenditure on services for each department
Defence	-	-	-	-	35,996	-	-	-	-	-	-	-	-	-	-	26	-	2,330	-	38,352
Single Intelligence Account	-	-	-	-	2,613	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,613
Home Office	-	-	-	-	-	2,933	-	-	-	-	-	-	-	-	-	-	-	-	-	2,933
Foreign and Commonwealth Office	1,994	-	*1,994*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,994
International Development	8,949	*347*	*8,602*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	61	-	9,009
Health and Social Care	-	-	-	-	-	-	-	-	-	-	-	-	-	-	117,517	-	-	-305	-	117,213
Work and Pensions	20	*20*	-	-	-	-	2,481	*15*	*2*	*2,465*	-	-	-	-	-	-	-	156,693	-	159,194
Education	19	*19*	-	-	-	-	11	-	-	*11*	-	-	-	-	-	-	36,127	3,614	-	39,771
Business, Energy and Industrial Strategy	175	*142*	*33*	-	-	114	6,342	*1,261*	*4,991*	*58*	-	*32*	3,384	-	678	162	-	475	-	11,329
Transport	-	-	-	-	-	293	19,615	-	*13*	-	-	*19,602*	1	-	-	-	-	14	-	19,922
Exiting the European Union	57	-	*57*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	57
Digital, Culture, Media and Sport	-	-	-	-	-	-	61	*61*	-	-	-	-	39	224	9	6,869	3	537	-	7,742
Housing, Communities and Local Government	180	*179*	*1*	-	-	-4	-10	*-10*	-	-	-	-	-	3,700	-	2	-	11	-	3,880
Scotland	390	*389*	*1*	-	-	2,618	2,955	*390*	*3*	-	*869*	*1,694*	213	1,676	12,677	249	2,563	403	-	23,744
Wales	247	*247*	-	-	-	1	1,274	*221*	*29*	*0*	*443*	*580*	60	569	7,204	67	1,185	84	-	10,690
Northern Ireland	318	*318*	-	-	-	1,208	1,349	*238*	*6*	*80*	*490*	*534*	43	543	4,257	150	2,700	7,758	-	18,327
Justice	-	-	-	-	-	8,687	-	-	-	-	-	-	-	-	-	-	-	44	-	8,731
Law Officers' Departments	-	-	-	-	-	631	-	-	-	-	-	-	-	-	-	-	-	-	-	631
Environment, Food and Rural Affairs	-	-	-	-	-	-	3,072	-	-	-	*3,072*	-	1,211	6	-	-	-	-	-	4,289
HM Revenue and Customs	3,713	*3,713*	-	-	-	-	3,743	*3,743*	-	-	-	-	27	142	-	-	-	38,094	-	45,718
HM Treasury	44,102	*266*	*9*	*43,828*	-	-	112	*112*	-	-	-	-	-	-	-	-	-	4	5,364	49,582
Cabinet Office	843	*843*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,496	-	4,340
International Trade	-	-	-	-	-	-	417	*417*	-	-	-	-	-	-	-	-	-	-	-	417
Small and Independent Bodies	1,188	*1,188*	-	-	-	4	273	*161*	*3*	-	*79*	*30*	-	-	-	-	155	-	-	1,620
Local Government	6,144	*5,444*	-	*700*	48	15,076	10,843	*1,825*	-	-	*304*	*8,714*	6,461	5,218	3,470	4,265	45,082	54,928	-	151,535
Public sector expenditure on services for each function	68,340	13,115	10,697	44,528	38,658	31,560	52,538	8,434	5,047	2,614	5,257	31,187	11,439	12,077	145,811	11,791	87,814	268,241	5,364	733,632

[38] HM Treasury (2019). *Public Expenditure: Statistical Analyses 2019.* (24 January 2019) https://www.gov.uk/government/publications/how-public-spending-was-calculated-in-your-tax-summary/how-public-spending-was-calculated-in-your-tax-summary

It is evident taxation will have to increase. Revenues make up approximately 35% of GDP, which is in line with similar European economies, but the developed world average is around 40% of GDP. Total Government receipts, currently set to oscillate between 35-37% of GDP in 2020-2021, but at which is insufficient to meet spending requirements. In 2018 revenues totalled £786 billion, roughly 37% of national income, of which £735 billion (or 34%) came from taxes and National Income Contributions (NICs) [39]. The UK ranks 20th position in a comparison grid across 36 OECD countries for 2017, though on average OECD countries raise tax revenues of about 34% of national income. The UK, according to the OBR, is on track to collect tax revenues from 34.5% of national income in 2019 to 34.6% in 2020[40], the highest level since 1969/1970.

The challenge is how to design more efficient tax policies that would increase social welfare, boost national income to allow Government to raise tax, but leave individuals with higher income, and ensuring the flow of resources is directed in a way that strengthens the delivery of public services.





[39] The remaining revenue stream is made up on interest on financial assets, and the surplus (gross) of public corporations.
[40] Office for Budget Responsibility, Public Finances Database

Fiscal Equity for All

The issues raised here are queries to those errors and contradictions at the periphery of governance, and within Government that can be corrected. Institutions – such as governments, markets, and systems of taxation – are human artefacts, manufactured sets of arrangements designed to advance the going concern as a whole, but, in our present predicament, indifferent to public purpose, and to systemic inequality.

Engrained socio-cultural factors stipulating a gendered (based on biological sex) division of labour and the separation of care-giving responsibilities outside economic production cannot be fully counteracted by the tax system alone.

- Tax literacy and governance start in schools
- Citizen's Advice Bureau on tax matters, personal debt and help with accessing benefits
- Promoting economic decision-making in the home and in the workplace
- Reconceptualising care as an economic productive activity
- Promoting participatory economic systems
- Community organisation with the help of local authorities to link with civil society partners in holding Government to account for lack of services.

By framing the conversation by not just how much to raise, but how to raise it and maintain revenue levels, Government could also plan better for the future. A more in-depth analysis is required, especially because of the issue of debt and Government borrowing. Government can make commitments but without money, these would not be substantive. Scrutiny of long-running public projects, especially those that have exceeded their budgets, as well as the budgets of local authorities, needs to run alongside tax policy reform based on broadening the tax base.

This paper recognises that gender inequalities are not the foremost preoccupations when designing tax laws, but reducing inequality is. Tax systems and fiscal policy decisions affect individuals and households differently, and, indirectly, tend to perpetuate socio-economic asymmetries and the gendered differentiation of labour. Economic security, choice of work, income and savings, are all linked to the allocative and distributive outcomes of taxation policy. Despite heightened political tensions and the competitive runoff to win voter support in the most recent parliamentary elections, the taxation system, despite pronounced imperfections, has been a useful institution in promoting fiscal justice and equity through measures of income redistribution.

It can be difficult to identify what adequate resourcing for gender equality would because people are not uniform in need, nor in identity. Though the case has been made here for gender, with a focus on women, this is not only about reforms for women, as much as it is a call for interventions needed to remove structural barriers to equality. The challenge remains to make concerted inroads through cooperative and participatory interventions that would align tax reform with a transformation of gender roles within socio-economic institutions.

This would be a viable outcome if Government spending were directed towards the services parents and carers need to participate in the labour market. These include – but are not limited to – increasing the availability and affordability of care services, public transportation, clean and safe public spaces, community and education centres, as well as mandating care a productive economic activity. Progressive tax systems, within own directives for businesses, for example, might include provisions for parental leave, flexible working and on-site care facilities. Companies might be asked to contribute a social tax, one that can fund research into their own products and services and how these contribute to human capital formation. Government itself has an obligation to ensure coherence in its policies and this coherence should encompass not just corporate, fiscal and tax legislation, but human rights obligations.