

Screwed?!

CHAPTER 13: CONCLUSIONS

13.1 Overview

In this book, we have compared the Tax and Welfare system to an operating system - a mechanism of levers through which society is run, funds are raised, and public services are delivered. Using this metaphor, we have been able to troubleshoot the bugs in the current system, and illustrate why the UK has seen increasing inequality of outcomes between the best- and worst-off in our society, as well as stagnation for the broad middle.

We have an unwieldy, overly complex tax and welfare system in which the rich get progressively richer, while those on the bottom and in the middle income classes see no improvement. For those in the bottom income tiers, the system delivers benefits on a means-tested basis, and so doesn't encourage re-entering employment. For those in the middle, rent and mortgage payments have become an increasingly onerous burden - the cost of simply having a home or flat to live in has become essentially a kind of heavy private financial tax that has increasingly drained ordinary families of much of their after-tax incomes.

Early on in this book, we outlined the framework with which we would structure our evaluation of the UK tax system, by building on Beveridge's work in fighting his "Five Great Evils" of society. In accordance with Beveridge's programme, we argue for a tax system that is fair and leads to greater equality of opportunity amongst its members. It should be beneficial and contribute to the sustainable and ethical development of society. Finally, such a system should be practical in its administration and application.

Taxes, amongst their other roles of providing helpful behavioural incentives ("nudges") and redistributing income, are predominantly aimed at financing public provision of goods and services - including welfare for the most needy in society. We emphasise that these three balls need to be balanced carefully, so as to ensure that a reformed UK Tax and Welfare system can help us build the fair and prosperous society that we aim to achieve.

We summarise the findings from our discussion below. Broadly, on the whole, we propose to simplify the income tax and benefit system. We propose taxation of 'bads' to discourage negative behaviour where there is a social outcome that needs to be achieved. A comprehensive Land Value Tax (LVT) should be phased in, so as to ensure that land is successfully developed and any excess rent will be

captured by the commons and the windfall redistributed.

Our proposals should be considered interim, since we have not yet completed accurate modelling of all their effects.

13.2 Summary of Recommendations

We propose a simple tax system which aims to fulfil our requirements of being beneficial, fair, and practical. These proposed policies, and the related transitional arrangements, aim to resolve issues around incentives and redistribution in the current UK tax system in a politically achievable way.

Main Taxes

1. Replace Business Rates and Council Tax with a norm-based LVT consisting of a 100% Land Value Tax on increases in land rent. Transition the residual tax to a tax on land wealth.
2. Replace Corporation tax with a 'Dyson' Tax (Cashflow Tax) with half deductibility for imports from VAT compliant non-tax havens.
3. Introduce a corporate wealth tax on the same principles as the Dyson tax.
4. Introduce a layered upstream consumption based Carbon Incentive. Transition this over time to an upstream consumption based Carbon Tax and distribute much of its revenues through a Citizen's Dividend.
5. Simplify Income Tax and National Insurance with a simple progressive income tax system with a very simple rate structure. (Definition of the exact details of the rate structure and basic income will depend on accurate modelling of the tax system.)

Benefits

1. Replace unemployment benefit with a payment by a results-conditional work-and-trade-school hybrid, not unlike Germany's 'dual training' apprenticeships.
2. Slowly introduce a citizen's dividend as a compensating payment for additional consumption taxes.
3. Pay for housing benefit automatically out of LVT.
4. Retain other benefits, but fold all means-testing into the income tax system, with the maximum means-testing amount equal to the tax paid on the personal allowance.
5. Once this is achieved it will be straightforward to abolish all personal allowances and replace the whole system with a basic income with additional payments conditional on disability/carer/age status. Note that to avoid the basic income (de-

clining in nominal real terms) someone would need to pay tax or do some other activity of value in order to achieve contribution records.

Further minor taxes

1. Introduce congestion charges in lieu of a carbon tax on transport fuels.
2. Introduce comprehensive environmental and health taxation (packaging tax, sugar tax, meat tax, and others if needed).
3. Increase the bank balance sheet tax, adapt it counter-cyclically, and adjust it to favour lending to real businesses.
4. Introduce a comprehensive wealth register. This may take the form of a disclosure requirement on all UK wealth owned by foreigners and on ownership of foreign wealth by UK residents. Combine this with a small 0.1% wealth tax on both of these classes of wealth.

13.3 Transitional Questions

To ensure that these new proposals are implemented successfully, any transition to the new taxation system would need to account for the following three effects.

- 1) First the transition must be *practical* and *simple* to understand.
- 2) Second the transition should be, and be seen to be, *fair*.
- 3) Third the transition should be seen to be *beneficial* in the short term as well as the long term.

Asset value effects are important in this. These are important both from the fairness perspective and from the perspective of economic benefit. Volatile rises and falls in asset values are arguably unfair - rises because the people who receive their benefits are not necessarily deserving of them; and likewise for any falls. Both of these impacts can be amplified through ineffective application of government policy. For example, two major government policies - not revaluing Council Taxes and reductions in long term interest rates - have caused national house price increases.

The following table shows both the final strategic objective and the intermediate/transitional one.

Policy Area	Initial, Intermediate Approach	Final Objective
Income Tax	Simplify rates structure, make existing benefits universal and add in means testing using tax system instead of benefits means testing.	Income tax is only paid by the upper half of individuals
VAT	Remove Exemptions, Simplify	Transition to a profits tax based on UK sales
Carbon Tax	A system that gives general incentives based on a high implicit carbon price that does not raise significant revenue	A high carbon tax used for general revenue
Money Balance Tax	No change from existing system	Electronic deposits are taxed at approximately 5% per annum with a significant tax free personal allowance. Cash are registered and are time limited and a small fees are paid on withdraw
Citizen's Dividend	Use existing benefit rates that simplify the system and reduce conditionality.	In the long term, build up a personal sovereign wealth fund to pay individuals are larger citizen's dividend
Guaranteed Training and Employment	Short term, high quality master craftsman level courses for specific groups to optimize the system	Long term, rolling out the guaranteed training to all sections of the population

13.4 Concluding Remarks

With this book, we have tried to outline the purposes and principles behind the UK tax and welfare system as it stands today, and we have attempted to address where exactly it has been going wrong. Excessive complexity, poorly communicated purposes, administrative

and procedural problems, and lack of public buy-in are all issues with the current structure.

Throughout this book, we have shown how the flaws in this system have played out into reality. None of this is about abstract principles; the tax and welfare system deeply touches the lives of everyone in Britain. Growing inequality, insufficient retraining or work-friendly support for the unemployed, tax evasion and avoidance: We need to apply a simplified and principled approach to fixing these mechanisms. By taxing revenue sources in a simplified way, and by taxing unearned wealth so as to lessen the distortive impacts of the tax system, we can help fight inequality and build a better future. Through removing means-testing from welfare provision, and supplying better support in helping people back to work, we can ensure rewarding employment for all.

These are not pipe dreams. By making our voices heard at the highest levels, and bringing these ideas into popular discourse, we hope to help shift the dialogue away from the hyper-capitalistic rhetoric that has loudly dominated for far too long. We want to make a society that is more equitable, fairer, and less unstable than the one we have today. We know our operating system; we know what we want to achieve; and we have a toolkit at our disposal. It's up to us to learn how to use it properly and justly to build a reinvigorated Britain that is both prosperous and fair.

The tax and welfare systems are powerful tools by which to effect social change. Use them properly, and we could see a society where housing becomes affordable through application of a land value tax, our environmental future is secured by requiring those who pollute to pay for damage they cause, and the dignity of decent work for decent pay is assured by supporting people into gainful, good employment by a state that encourages and helps people to succeed in effective ways.

Above all, we emphasise the importance of the idea that any reforms should follow the three principles we outlined at the top of this chapter – namely that any changes should be practical, beneficial, and fair. Ensuring this happens is something that we consider to be a matter of morality. It is also essential to the success of our reformist agenda. These three criteria are linked to the achievement of political acceptance. For the transition to be practically achievable and politically feasible, it needs to be fair, and to be fair it needs to be overwhelmingly beneficial.

Maintaining fairness as the front-and-centre principle in both the transitional phase and in the long-term outcome will allow us to really make substantial changes in the way the system operates. A just process, with just effects, is our goal. We build on the Rawlsian

ideas of improving the welfare of the worst off, without sacrificing that of the middle or the top. Change is possible with minimal harm, as long as we combine clever policy design with clear communication about its purposes.

A clear *public understanding* of taxation as an essential component of life in our society, as a useful tool for incentivising companies to do the right thing, for protecting public goods, for creating a fairer distribution of income and wealth, and for raising revenue to protect those who most need it in society: This is the first step towards change. We hope that this book has helped to communicate this message, and perhaps will prove to have been among the first pebbles thrown in what could be a landslide of movement toward a more practical, beneficial, and fair tax and welfare system.