**Tax at the heart of Red Labour**

Tax is at the heart of left wing thinking. Left wing politicians believes that government has a fundamental role to play in the economy, in society and in helping individuals – all individuals – achieve their full potential, both economic and otherwise.

Government of this sort is not possible without taxation: there’s no point arguing that point, it’s a fact. As a result a left wing agenda for government cannot be delivered unless the necessary funding is available to sustain it and whilst tax is not the only way to finance government (both borrowing and selectively creating credit through the creation of new money being other options open to any government) tax is undoubtedly at the heart of the economic equation for any left wing government.

That means Red Labour has to address difficult questions surrounding tax and all that goes with it if it is to succeed in its aims.

**It’s time for Labour to talk tax**

Given the need for urgent change in the UK’s social and economic infrastructure it is time Labour began to talk tax, seriously. That does not mean it continues to apologise for tax. It did that in the New Labour era, and that was a serious mistake. It made people lose faith in government and its ability and that of politicians to address the real issues we face with the confidence that people want from their elected politicians. If tax is what funds the type of government we not only want, but so obviously need, then now is the time for Labour to begin talking tax unapologetically and with confidence.

By that I mean Labour needs to begin talking about taxes as if they a good thing – because that is true. Tax is what pays for so many things in life that we too easily take for granted but which are essential to us all, like the NHS, education, pensions, social welfare, social housing, law and order, job creation, the fire service, defence and so much more. These are things to celebrate. And in that case we should celebrate the tax that pays for them and make clear that Labour does not apologise for tax: it thinks it is a good thing.

Labour can do that, but if it is to do so it has to change a long held habit of talking about the tax the government manages as if it was someone else’s money. Time and again we have heard it said that government ‘manages taxpayer’s money’. That is not true. Tax belongs to the government, and no one else, and it’s a very convenient right-wing myth to suggest anything else.

The fact is that even the most hardened right wingers agree that any government has the duty to defend the state, maintain law and order and to establish and defend property rights, which are the law that lets us work out who owns what. However, if the government can create the law that says who owns what it can also say that if you do own, earn, buy, sell, gift or use something then you owe tax as a result. In other words, the government can say that your right to own, earn, buy, sell, gift or use things is conditional on you paying the taxes it says are due as a result. That’s not to say you cannot do all those things: of course any government wants you to have the freedom to contract for legal activities. That’s a right it seeks to uphold on your behalf but what it should also be saying is that you have a duty to pay tax as a result.

To put this another way, you don’t have a legal right to your income free of tax. You have a legal right to your income after tax. And you don’t have a right to buy things without paying VAT when VAT is due: you only have a right to own whatever you bought if the VAT due has been paid.

That might seem like a statement of the obvious, but it is a philosophy very different from that promoted by thinking over the last thirty or so years. That has suggested that your gross income is yours to enjoy and that if you can find a way around paying tax that is a good thing. And that has also suggested that companies that have set up complex schemes, often involving tax havens, to get round Vat being charged then a blind eye should be turned to them. And it’s also true to say that because of the resulting attitude that tax is a bad thing that it is acceptable to get round too little attention has been given to collecting the tax really due in our economy.

**Tax: one of the best things ever invented**

So a new language of tax is needed: a language that celebrates tax as one of the best things ever invented because it provides opportunity for us all to achieve like nothing else does. Three things follow on as a result.

The first is that it can be said that tax belongs to the government. That means we can stop the stupid comments that have become so prevalent in politics that governments ‘spend your money’. No they don’t. They spend their own money that is as rightfully theirs as our net pay is our own. The government just needs to be confident abut that fact and then get on and manage its own cash as well as is possible rather then spending all its time looking over its shoulder – especially to big taxpayers – to whom it somehow thinks it is beholden when it isn’t, and to whom it has paid attention far too much as a result.

Second, this means that Red Labour – and any government come to that – can be confident about its right to collect the tax that is due to it. The timidity of successive governments in collecting tax has resulted in massive injustice in the UK tax system where, deadening on the estimates used, between £42 billion and £95 billion of tax is evaded and avoided in the UK economy each year. Arguing the detail is not necessary here: even at the lower end of the estimated range the loss is so big it is obvious that there is a massive crisis in the tax system in the UK that needs to be addressed.

Thirdly, and as importantly, a government that realises it has the right to tax and to manage its own affairs also realises that it can use tax to achieve its social and economic goals as well as to simply raise revenue. That liberates a whole spectrum of policy tools to empower its intervention in the economy to achieve the common good.

To put it another way, a government that realises tax is a good thing can pursue tax justice.

**Tax justice**

Tax justice is a broadly based concept. It relates to individuals and all taxable entities. But it also relates to tax systems as a whole. All these ideas are explored in what follows.

**Tax compliance – the duty of the taxpayer**

For the individual taxpayer (whether a warm blooded human being or a company) tax justice is about tax compliance. This happens when the individual seeks to pay the right amount of tax (but no more) in the right place at the right time where right means that the economic substance of the transactions they undertake coincides with the place and form in which they report them for taxation purposes.

It is the duty of Red Labour to promote and reinforce this idea. But that means three things must happen.

First, tax law must be clear. It must be possible to calculate the right amount of tax.

Second, the UK tax system mist be robust against attack from tax havens and the tax systems of other countries that seek to undermine it.

Third, the systems needed to ensure that the government can identify taxable income must be in place.

Each of these ideas is explored in greater depth below.

**Tax and society**

Tax justice is about much more than the individual though: tax justice is also about the existence of tax systems that promote social well being within and between societies. It is about the creation of environments in which all people can prosper. That necessarily means that the state institutions and businesses that meet the needs of people can also prosper. But it means yet more than that: it means that those who fail to prosper are protected from misfortune until such time as they can prosper again.

That means tax justice is about four things above and beyond the duty of the individual to be tax compliant. First it is about understanding why we tax. Second it is about defining the attributes of a good tax system. Third it is about defining the process that delivers tax justice and finally it is about understanding transparency – without which tax justice is not possible.

**The 5 Rs for taxing**

There are five reasons for taxation. Tax is used to:

1. Raise revenue;
2. Reprice goods and services considered to be incorrectly priced by the market such as tobacco, alcohol, carbon emissions etc.;
3. Redistribute income and wealth;
4. Raise representation within the democratic process because it has been found that only when an electorate and a government are bound by the common interest of tax does democratic accountability really work; and finally to facilitate:
5. Reorganisation of the economy through fiscal policy.

If tax justice is to prevail taxes must be set taking all these considerations into account.

**The 10 Cs of a good tax system**

An efficient taxation system has nine attributes with one over-riding characteristic to which they all contribute. An efficient tax system is:

1. Comprehensive – in other words, it is broad based;
2. Complete – with as few loopholes as possible;
3. Comprehensible - it is as certain as is reasonably possible;
4. Compassionate – it takes into account the capacity to pay;
5. Compact – it is written as straightforwardly as possible;
6. Compliant with human rights;
7. Compensatory – it is perceived as fair and redistributes income and wealth as necessary to achieve this aim;
8. Complementary to social objectives;
9. Computable - the liability can be calculated with reasonable accuracy;

All of which facilitate the chance that it will be:

1. Competently managed.

In combination these are key attributes of a good tax system.

**The 6 steps to tax justice**

Tax justice can be defined as a six stage process:

1. **Define** the tax base. This is the first essential step in creating progressive taxation and in promoting the better use of resources within society.
2. **Find** what is to be taxed. If the tax base cannot be accurately located then there is no point trying to tax it.
3. **Count** the tax base. Unless the tax base can be quantified it cannot be taxed.
4. **Tax** the tax base at the right rates of tax. In the process making sure that the inter-relationship between the various tax bases is properly managed to ensure that the essential revenue raising, repricing and redistributive qualities of a just tax system is vital.
5. **Allocate** the resulting revenues efficiently through effective government spending designed to achieve best social effect.
6. **Report** - governments must be accountable for what they do with tax revenues or the democratic principle fails.

**The 11 steps to financial transparency**

Tax justice cannot happen by chance. To achieve it information is needed. That means all potentially taxable people, whether they are human beings or legal entities created under law, must be transparent about what they do, are and have done.

Financial transparency exists when the following information is readily available to all who might need it to appraise transactions they or others might undertake or have undertaken with another natural or legal person:

1. Who that other person is;
2. Where the person is;
3. What right the person has to enter into a transaction;
4. What capacity the person has to enter into a transaction;

And with regard to entities that are not natural persons:

1. What the nature of the entity is;
2. On whose behalf the entity is managed;
3. Who manages the entity;
4. What transactions the entity has entered into;
5. Where it has entered into those transactions;
6. Who has actually benefited from the transactions;
7. Whether all obligations arising from the transactions have been properly fulfilled.

What this means is that tax justice is not just about tax, it is also very obviously about the need to create proper systems for accounting to make sure that the right amount of tax (but no more) is paid in the right place at the right time.

**Creating tax justice**

Tax justice is not simple, as is already apparent. That, however, is not a problem: a great deal of what humans so is not simple, and yet it is achieved nonetheless. Tax justice is possible: that is what is important.

These five criteria, tax compliance on the part of taxpayers and the four sets of attributes on which just tax systems are built, are the foundations of tax justice. Together they create a world in which social justice can prevail for all. That is what tax justice seeks to achieve. That is what Red Labour has to embrace.

**What does tax justice look like in practice?**

Using the above principles Labour can have a clear set of principles that establish the basis for its tax policies. That is vital. Without such clarity taxpayers do not know what a government is trying to achieve and that benefits no one.

What though does such a policy look like in practice? The following provide some suggestion of what could be done to deliver tax justice:

1. Our tax system is not progressive: the poor pay a higher part of their income in tax than do the rich. This has to be corrected by:
	1. Making the 50% tax rate permanent;
	2. Aligning the income tax and capital gains tax rates as the Tories did in 1988;
	3. Restricting the maximum amount of tax allowances and reliefs that the rich can claim for offset against their income. Some claim tax reliefs worth hundreds of thousands of pounds a year at present. This would simplify the tax system;
	4. Ending the tax reliefs given to the rich to encourage them to save when they are already wealthy;
	5. Reducing the rates of VAT on essential items and increasing them on luxuries, as Thatcher did in 1979;
	6. Taking steps to prevent the rich hiding their income in companies that reduce their overall tax rates considerably;
	7. Taking more people on low income out of both tax and national insurance;
	8. Introducing a much broader introductory tax bracket for those on low income, whilst ensuring the benefit does not go to those on higher incomes;
	9. Extending national insurance so it applies to all levels of income, but reducing the income tax rate for those earning between about £40,000 and £100,000 to compensate;
	10. Increasing an investment income surcharge so that those with more than £5,000 of investment income a year (excluding pensioners) pay a charge equivalent to national insurance.
2. Our tax system does not adequately tax wealth. We need to:
	1. Increase capital gains tax rates, as noted above;
	2. Lower inheritance tax thresholds: those with wealth need to make their proper contribution to society;
	3. Amend or abolish many of the exemptions and allowances for private business owners, agricultural land and other assets in the current tax system that have reinforced the concentration of wealth in the UK;
	4. Reform local council taxation so that it is progressive and is applied at higher rates on higher value properties that is not the case at present. Provision for the elderly, by letting them defer payment until they or their executors dispose of their properties should be allowed.
3. Company taxation should be transformed:
	1. Small limited companies should be re-registered as limited liability partnerships with their members then being taxed on their share of profit as if it was their income, so preventing tax avoidance through such structures;
	2. A minimum rate of corporation tax due on profits declared in a set of accounts should be set for multinational corporations;
	3. The UK should embrace European wide unitary taxation for multinational corporations that will help tackle profit shifting and tax rate shopping;
	4. An aggressive policy for tackling the abuse of tax havens by multinational corporations should be adopted;
	5. Country-by-country reporting by multinational corporations that would require them to report a profit and loss account for each and every country in which they operate, so showing how much profit and tax they make and pay in each such place should be required, meaning it will be much harder for such companies to hide their profits and tax abuse from view;
	6. All small companies in the UK should be required to put their full annual accounts on public record and heavy, mandatory fines for the directors of those that do not do so should be introduced. Investment in UK law enforcement on small companies should be made to prevent up to 500,000 disappearing a year without paying their taxes.
4. Tax abuse should be tackled:
	1. A general anti-avoidance principle should be introduced into UK tax law to make tax avoidance much harder;
	2. An aggressive approach to tax havens should be introduced, demanding information on all structures in which UK resident people have an interest with threat that tax will be withheld from all payments made to the jurisdiction in question of cooperation is not offered;
	3. The UK should promote the extension of the European Union Savings Tax Directive that will dramatically improve tax information exchange in Europe and beyond;
	4. At least 20,000 new staff need to be engaged at H M Revenue & Customs to tackle the endemic tax evasion that is crippling the UK economy and which is denying a level playing field to honest small businesses who have to compete against those who persistently cheat on paying heir taxes;
	5. Directors of large companies should be personally liable for at least part the penalties their companies owe for tax misdemeanours including those on failed tax avoidance schemes.

**Conclusion**

Labour has apologised for tax for to long.

Tax works. Tax is a good thing. Tax transforms people’s lives. Tax can be legitimately collected. If tax is not collected when it is due injustice results.

Labour has to embrace these ideas, and act on them.

That is possible.

Now is the time to do it.

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