

What Makes a Good UK Tax System?

This summary outlines the key discussion areas and policy recommendations from a session hosted by the National Institute of Economic and Social Research (NIESR) and the Society of Professional Economists (SPE) on **what makes for a good UK tax system**. The panel featured **Paul Johnson** (Provost of Queen's College, Oxford and former Director of the IFS) and **Nichola Ross Martin** (President of the Chartered Institute of Taxation), chaired by **David Aikman**.

Core Principles of Effective Tax Policy

The panelists grounded their discussion in established economic principles, specifically:

- **Neutrality and Systemic Thinking:** Paul Johnson argued that a good system must be **progressive, neutral, and treated as a system**. Neutrality means treating similar economic activities the same way (e.g., taxing earned income and corporate income similarly) unless there is a specific reason to do otherwise.
- **The "Four Pillars" of Design:** Nichola Ross Martin cited Adam Smith's classic principles: **equity, certainty, convenience, and efficiency**. She added that modern tax design should be **functional, fit for purpose, and robust**, comparing it to a "well-oiled machine" or a "tested recipe".
- **Revenue vs. Motivation:** Beyond just raising revenue to fund the state and service debt, the panelists argued that tax should be used to **stimulate economic prosperity and influence behaviour** (such as green agendas or pension savings) while redistributing wealth according to political ideology.

Key Discussion Areas

- **The Rising Tax Burden:** The 2020s are described as an "extraordinary decade," with a projected **six percentage point increase in the tax burden** relative to national income—the largest increase in 50 years.
- **Lack of Strategic Direction:** A major point of consensus was the **absence of a long-term tax strategy** from the Treasury. Johnson noted that while other departments produce white papers and industrial strategies, the Treasury often behaves as if it is "starting from scratch" each budget, leading to increased complexity and "clever little ways" of finding money that damage growth.
- **Opacity in Tax Increases:** Recent tax rises have relied on **non-salient changes**—such as freezing allowances (fiscal drag), increasing corporation tax, and raising employer National Insurance—rather than transparent increases to basic rates of income tax, which have not changed in 50 years.
- **Intergenerational Fairness:** The panel discussed the "negative triple lock" facing younger people, who face high marginal tax rates (sometimes up to 71% for graduates earning between £100k and £125k) and high housing costs, while older generations hold most of the nation's wealth.

- **The "Shadow" of Wealth Taxes:** While popular in political discourse, the panelists warned that a pure wealth tax is **practically difficult** due to valuation challenges (e.g., valuing closely held companies) and the international mobility of the very wealthy.

Panelist Recommendations

The following specific reforms were proposed to improve the UK's tax architecture:

- **Create a Formal Tax Strategy:** The government should produce a public, long-term strategy to gain "buy-in" for reforms, moving away from the "surprise" nature of annual budgets.
- **Merge Income Tax and National Insurance:** Both panelists advocated for merging these two systems to reduce administrative complexity and stop the "dual taxation" of earnings, which currently drives a "coaching and horses" through the principle of neutrality.
- **Radical Housing Tax Reform:** Paul Johnson identified housing taxation as the "**most damaging part of the whole tax system**". Recommendations included:
 - **Abolishing or reforming Stamp Duty**, which acts as a "tax on moving".
 - **Updating Council Tax**, which is currently based on 35-year-old property values and is seen as regressive and punitive.
- **Introduce a Statutory Employment Test:** To resolve the "ludicrous" complexity of determining whether workers (such as football referees) are employed or self-employed for tax and rights purposes, a clear statutory test should be implemented.
- **Broaden the VAT Base:** The UK has one of the narrowest VAT bases in the world; broadening it would simplify the system and remove "mad" legal debates over what counts as a taxable item (e.g., the "flapjack vs. cake" distinction).
- **Reform Savings and Capital Gains:** Align capital gains tax more closely with full income tax rates but include a proper **allowance for inflation** to avoid taxing "illusory" gains.
- **Adopt "Joined-up" Departmental Thinking:** All new government policies (e.g., renters' rights or employment rights) should undergo a **tax impact assessment** to ensure they align with the tax system and avoid unintended consequences, such as private equity firms bulk-buying apartments intended for first-time buyers.
- **Simplify Administrative Burdens:** Move toward a **single login** for all government digital services, set higher standards for tax software, and allow tax agents a "right to view" their clients' accounts to improve efficiency.