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Replace IHT with a Lifetime Receipts Tax - new think-tank proposals

Synopsis: The centre-right Bright Blue think-tank has published a report with a shopping list to tackle the challenges of the 2020s, including replacing inheritance tax with a lifetime receipts tax.

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The report flows from a multi-year project on tax reform which has been advised by a high-profile cross-sector, cross-party commission.

Commissioners include former Financial Secretary David Gauke, former Lib Dem Leader Vince Cable, Dame Margaret Hodge, Former Chair of the Public Accounts Committee and Victoria Todd, Head of the Chartered Institute of Taxation (CIOT)'s Low Incomes Tax Reform Group. This report is Bright Blue's take on these discussions rather than policies that directly reflect the commissioners' views.

The report's authors Sam Robinson and Ryan Shorthouse said the Government could better support effort, enterprise and entrepreneurialism by prioritising significantly lowering the headline rate of the employer element of the Health and Social Care Levy (HSCL) from 1.25%. Then, if the public finances allow, the rate of employers' NICs should also be cut.

The report suggests the HSCL be broadened to apply to pensions and rental income. Other suggestions include...

- An end to the exemption from Class 1, 2 and 4 NICs for those working above the State Pension Age.
- Venture capital reliefs maintained at current levels and the process for qualifying and accessing these reliefs streamlined.
- Social Investment Tax Relief preserved.

There is a section calling for reform to fairly tax income derived from...

- Luck (such as happening to hold shares in a digital company right before the pandemic or receiving a large inheritance).
- "Rent-seeking" (where financial returns take place regardless of effort, enterprise or entrepreneurialism. The excess profit from such activity is known as 'economic rent').
- "Externalities" (for example, the under-pricing of carbon emissions in markets).

The report suggests…

- Narrowing the gap in headline rates between capital gains tax (CGT) and income tax.
- Replacing inheritance tax with a Lifetime Receipts Tax (LRT).
- Business rates being replaced with a Business Land Tax levied on commercial landowners, based on unimproved land values.
- That Government set a 'target price range' for carbon taxes across the whole economy by 2030.

The LRT should have a starting lifetime allowance of £125,700, says the report. The headline rates should mirror income tax rates from now, with the threshold set at ten times the income tax salary thresholds.

A tax that applies to lifetime gifts, and not just gifts bequeathed after (or near) death, would end the 'arbitrary distinction' between the timing of gifts, says the report. This would also reduce the abilities of wealthier estates to minimise effective tax liabilities, thereby ensuring that inheritances are taxed more progressively.

The report recommends replacing council tax and Stamp Duty Land Tax with an Annual Proportional Property Tax (APPT) on the capital value of houses, with a tax exemption for houses worth less than £50,000. Doing this would ensure that property taxes in the UK have an explicit link with today's house prices. An APPT would also be more progressive with respect to property values than the current council tax system, the report claims.

To ensure sound public finances, the report suggests Government adopt the German model for scrutinising tax reliefs. Germany legally mandates biannual reviews of corporate tax reliefs based on a standard evaluative framework on a range of metrics including target accuracy, cost-effectiveness, necessity and sustainability.

Other notable policy suggestions from the report include…

- Eliminate the bias in favour of debt-financed investment by excluding interest from the corporate tax system.
- The UK should lobby internationally for the OECD's proposed agreement on a 15% global minimum corporate tax to use a cashflow base.
- Move to the full immediate expensing of capital investment in new plants, machinery, and industrial buildings when the investment super-deduction expires in 2023.

- Allow corporate losses to be carried forward with a factor that adjusts for inflation and a safe rate of return on capital. The 50% annual cap of loss carry forwards should also be eliminated.
- Reintroduce inflation indexation on CGT liabilities.
- Allow capital losses to be carried back for up to three years and set against taxable income, with relief restricted to CGT rates.

You can see the full report here.

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