Tax and the shadow chancellor: take two

Synopsis: The Times has reported on a list of potential tax increases being considered by the Shadow Chancellor, Rachel Reeves.

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A recent technical paper noted that in an interview with the Telegraph Rachel Reeves had nailed her colours to the mast of making no increases to the top rate of income tax and not introducing a wealth tax. Add that to an earlier interview with the *Financial Times* where she said there were "no plans' to raise the rates of CGT and you might wonder whether any there are any revenue-raising plans that the Labour Party has not already announced (eg non-doms, VAT on school fees). *The Times* gave a clue last week.

An article by its political editor, the paper suggested that Ms Reeves had 'identified at least £4 billion of additional revenue' following a review of the tax system, including the many tax reliefs it incorporates. As the Treasury Committee observed in July, there are nearly 1,200 such reliefs, most of which are un-costed by HMRC According to *The Times*, Reeves' pick included...

- An end to agricultural relief for inheritance tax;
- On the same tack, an end to IHT business relief; and
- Scrapping or diluting (further) business assets disposal relief.

None of this trio is surprising – all are regularly floated by think tanks as ripe for attention. Indeed, the Institute for Fiscal Studies (IFS) suggested the first two only last week.

£4bn in the grand scheme of things (yet alone HS2 expenditure) is not much – about 0.5p on income tax. One reason why the Labour Party is seemingly not pushing further on tax emerged into the spotlight at the end of last week, just as the Conservatives headed to Manchester (not via HS2 or, for that matter, any train).

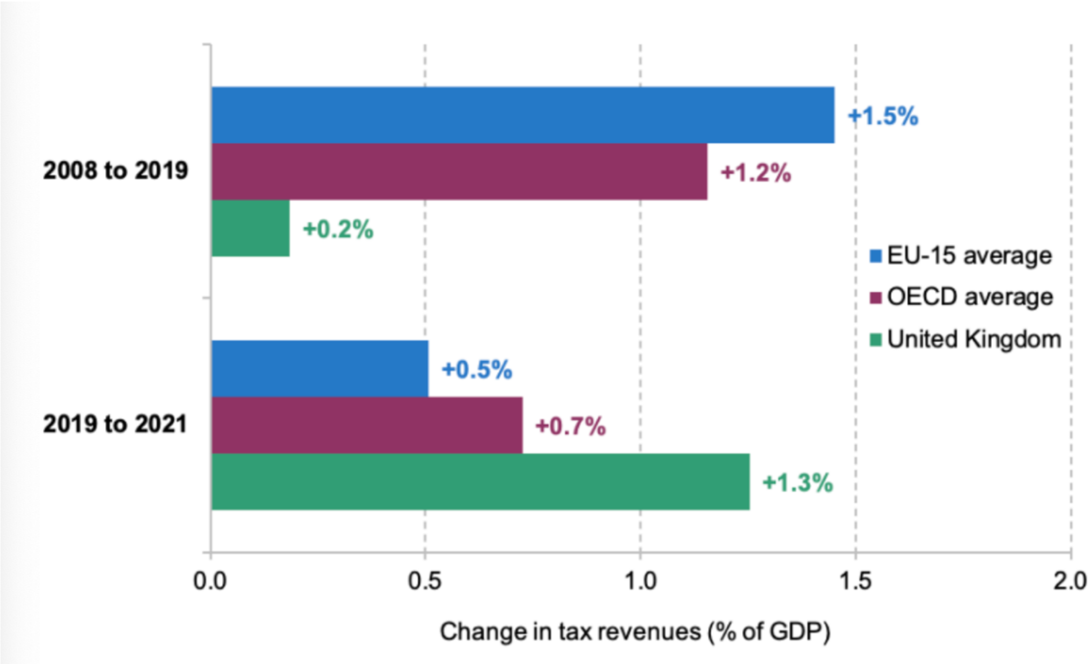
Fresh from its assessment of inheritance tax, the Institute for Fiscal Studies (IFS) published a comment piece on tax policy under the Conservative government since the 2019 election. It was headlined, 'This will be the biggest tax-raising parliament on record'.

The IFS said...

- The UK government is currently raising more in tax revenue, as a percentage of national income (GDP), than at any time since the 1940s. It attributed this to 'in no small part, ... to a raft of tax-raising measures announced over the past few years', including the six percentage point increase in the main rate of corporation tax, the energy profits levy and freezes to various income tax and National Insurance thresholds.

- The 4.2% projected increase in tax revenue as a percentage of GDP over the current parliament is the highest since Tony Blair's first term in office, when the rise was 2.9%. To find a higher increase, it is necessary to go to the Second World War and its immediate aftermath.
- While the impact of the pandemic has often been compared to a war, the IFS says that COVID-19 'is far from the only – or even the most significant – explanation' for the tax rises. Its analysis suggests that the increases 'have largely been the consequence of a desire for higher government spending on things that pre-date the pandemic'. Put simply, they were the cost of partially unwinding the post-GFC period of austerity. The international comparison makes this clear.

Change in tax revenues as a percentage of GDP in EU and OECD countries



Source: IFS

The IFS notes that at the time of the 2019 election, the tax take was around 33.1% of GDP and that by the end of this parliament the figure will be 37.3%, equivalent to 'upwards of £100bn more in tax revenues next' relative to no change since the last election.

Look back at the IFS analysis of the 2019 Labour manifesto and the forecast then was for tax increases of £78bn from the Jeremy Corbyn's various measures. That was seen as lifting the tax take to 38% of GDP (the relative numbers have been distorted by total CPI inflation of 21% since December 2019).

Comment

The IFS says that tax ratios involving GDP will be affected by the ONS's upward revisions to the size of the UK economy now underway. But even adding an extra 2% to 2024/25 GDP – the upper end of estimates - would still leave the current parliament as having made the biggest tax increases since records began.