Resolution's 'Ending Stagnation' report: the tax aspects

Synopsis: The tax proposals in the Resolution Foundation's report, 'Ending Stagnation', which had both Jeremy Hunt and Rachel Reeves at its launch day.

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The UK appears to have entered a familiar pre-election fantasy land when it comes to future tax policy:

- The Autumn Statement introduced 'tax cuts' while simultaneously maintaining a steadily increasing tax burden rising to 37.7% of GDP by 2028/29.
- The fiscal gymnastics necessary to allow the Chancellor to meet his goal of reducing debt (as a percentage of GDP, not in cash terms) at the end of five years has become ever more tortuous. For example, the Office for Budget Responsibility (OBR) said that the spending plans beyond the current Spending Review period ending in April 2025 'present a significant policy risk to the forecast'. Then there is the ongoing fairy tale of increasing fuel duty each year, with an 8p a litre rise next April built into the OBR's calculations.
- The Shadow Chancellor has backed the national insurance (NIC) cuts, sidestepping what has been characterised as a 'Tory trap' but leaving herself with even less money for her party's green policy initiatives.
- The Labour Party's focus on avoiding any tax trap has placed it in a position where it is basically keeping to the Conservative tax and spend plans, making criticism difficult and leaving Kier Starmer saying he will not rule out spending cuts.
- Meanwhile, debt is close to 100% of GDP and debt interest is projected to be over £100bn (about 4% of GDP) in 2024/25.

Away from this political never neverland, there is a plentiful supply of independent commentary saying that demographics, poor growth and climate change all mean taxes will have to increase if services are not to be cut from today's highly criticised levels.

The latest entry in the get-real category is the Resolution Foundation's 'Stagnation Nation', the final report in the think tank's The Economy 2030 Inquiry. This brings together strands of the report which have already appeared and makes an interesting case for how to revitalise UK plc by building on the country's existing global strength in services rather than a complete reincarnation.

The report, which garnered much publicity in the first week of December, has a variety of tax proposals which deserved more attention than they received. The approach is summed up in one of the report's section headings; 'We need better, not just higher, taxes'. Its proposals include...

Income tax/NICs

- Increase the rate of tax on dividends for basic rate taxpayers from 8.75% to 20%, but slightly *reduce* the higher (33.75%) and additional (39.35%) rates to 32% and 37% respectively, to align with the combined NIC and income tax treatment of earnings.
- Increase the NICs charged on self-employed earnings above the higher-rate income tax threshold from 2% to 8%. The report says such a move would help 'to address a substantial distortion against employee posts in the current system that sees corporate lawyers and accountants paying less tax than identically paid bankers'.
- Apply NICs to rental income so that landlords pay the same tax on rental income as tenants pay on their earnings. The report suggests eventual NIC rates of 20% for basic-rate taxpayers and 8% for those with higher incomes.
- Scrap the tapering of the personal allowance and the High Income Child Benefit Charge to remove 'the most punitive effective marginal rates'. The quid pro quo is to reduce the additional rate threshold to £100,000, although this would not cover the reform's cost – a marginal rate of 60% would be replaced by 45%.
- Charge NICs on employer pension contributions while giving NIC relief to employee contributions.
- The soon to be introduced lump sum allowance for pensions (£268,275) should be gradually reduced, based on date of birth.

Capital gains tax (CGT)

- Restructure CGT so that only real (inflation adjusted) gains are taxed.
- Bring the tax rates on these real gains on shares in line with those applying to dividends.
- The tax rates for gains on real estate and other assets would increase to create parity with wages, implying a range of between 40% and 53%.
- Scrap the CGT uplift on death.
- Remove the opportunity to avoid CGT by emigration.

Inheritance tax (IHT)

- Reliefs for business and agricultural property should be 'scrapped or tightly focused'.
- Pension pots should be included within an estate.
- The Residence Nil Rate Band should be abolished.

- These three sets of changes above would allow the creation of a banded structure, with rates of 20%, 30% and 40%.
- In time, IHT should be entirely replaced by a lifetime, recipient-based acquisitions tax.

Property taxes

- Council tax revaluations should be undertaken in every part of Great Britain followed by automatic annual updates.
- Based on the new valuations, a straightforward, proportional property tax should be levied, ending the existing system of arbitrary bands.
- To avoid 'political explosions', these reforms should be delivered without major overnight redistribution of tax burdens across councils, affecting only the distribution within council areas.
- In the longer term, a gradual convergence of tax rates would be pursued via the Local Government finance settlement process.
- Stamp Duty should be cut for main residences, with a halving of the rates and the planned April 2025 reduction in the tax-free threshold should be scrapped.
- Stamp Duty Land Tax should also be cut for businesses.

VAT

- The VAT threshold should be reduced from its frozen £85,000 to a point where 'almost no business owner would consider the option of deliberately staying below that level of turnover.

Comment

Some might argue that the Resolution Foundation's proposals would bring some much-needed rationality into the tax system, echoing some similar ideas from the Institute for Fiscal Studies. Others would disagree with some or all of their ideas. However, in fact, the report's tax framework is unlikely ever to near the pages of a party manifesto, even if it might well be close to what Labour might *like* to adopt.

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