

# A puzzling thing

General Features



01 November 2017

*George Crozier* looks at what this year's conference season tells us about the parties' tax and economic plans

## **Now here's a puzzling thing**

At a party conference season four months after a general election, the party that won that election (most votes, most seats, forming the government) hardly mentioned the policies it was elected on and what economic debate there was started from the premise that it was losing the arguments and needed to reboot them. Meanwhile the parties that lost the election showed few signs of revisiting the policies they had fought on and, in the case of the party that came second, presented themselves as moral victors, in the argument stakes at least.

Yes, the politics of 2017 are a little peculiar. But what does it mean for tax?

## **Conservative Party**

Well, the starting point has to be that the Conservatives, for all their internal soul-searching and party management challenges, are in power and will probably remain so for a full five year parliament. That makes it all the more remarkable that they were silent, not just on new tax announcements but even on the policies they were elected on. Of course the absence of dramatic new (unconsulted on) policy announcements will be welcomed with a sigh of relief by most tax professionals. But it is strange that, while there was some acknowledgement of past achievements, no minister referred to the government's future plans for, in particular, income tax and corporation tax cuts. Will the proposals be dropped? Probably not. The corporation tax proposals (cut to 17 per cent by 2020) have already been legislated for and are a key part of the appeal to businesses post-Brexit. The income tax cuts (raising the personal allowance to £12,500 and the higher rate threshold to £50,000 by 2020) have cross-party support and a failure to deliver would be seen as a major u-turn. But it may be that the government are preserving some room for flexibility on the timing of the changes, should economic circumstances demand.

Despite the absence of clear statements from ministers the pre-Budget rumour mill was in full swing at the conference. Following the dropping of a number of money-saving or raising proposals (e.g. means-testing the winter fuel payment) as well as extra expenditures (e.g. raising the threshold at which graduates start repaying their tuition fee loans) some believe that the Chancellor will need to raise taxes. If Philip Hammond does need to raise serious money the hot tip appears to be changes to

pension tax relief, possibly even going so far as scrapping higher rate relief. National insurance might have been an option, but the government has ruled out going back to the withdrawn proposal to raise class 4 NICs. This is just one illustration (the delay to Making Tax Digital is another) of the constraints on the government in this Parliament and how wary they will be of bringing forward anything controversial.

In the absence of policy specifics the 'traditional Conservative principles' of low taxes, deregulation and free markets loomed large in a non-specific way at the Manchester conference. PM Theresa May, the Chancellor and Foreign Secretary Boris Johnson (who refloated the idea of eastern European-style flat taxes) were among those making this case as part of a general defence of market-based capitalism. This reflects a widespread view that this case has not been adequately made in recent years, leading to increased public support for higher taxes, state planning and big government, reflected in the showing of Jeremy Corbyn's Labour Party at this year's election.

## **Labour Party**

It was not only Labour's election result that spooked the Conservatives, the scale (its largest ever, reportedly), buoyancy and youthful vigour of the socialists' conference in Brighton was a stark contrast to the more sombre and corporate Tory gathering. Think Glastonbury versus Davos. There was little new on tax (or most other areas) from Labour but that is because the party is happy with the manifesto it fought this year's election on. Rather than the rethinking of policy which might be expected of an (admittedly narrower than expected) election defeat any policy work is expected to be incremental and developmental, thus Shadow Chancellor John McDonnell's announcement that, 'For each policy in our Manifesto, we are preparing detailed implementation plans.'

'Giant corporations' that fail to pay their fair share of taxes continue to be a favourite target for Labour's ire, with variations on this theme coming in the keynote speeches of both Corbyn and McDonnell, as well as many others. This appears to cover both a view that such firms avoid taxes (hence various anti-avoidance measures including a stronger GAAR) and that the overall rate of tax faced by these businesses is too low (hence raising corporation tax to 26 per cent (21 per cent for small profits)). Labour repeated their desire to see regular reviews of tax reliefs, particularly for business tax, where they think that 'at least £4 billion' could be

saved.

Beyond vows to make the rich 'pay their way' personal taxation was mostly absent from debate at the conference. Manifesto policies of a 45p rate beginning at £80,000 per year and a 50p rate on income above £123,000 were re-endorsed as was the promise to 'reverse Conservative giveaways to the wealthy' on Capital Gains Tax (among others).

## **Liberal Democrats**

As a former professional economist, fiscal policy is a specialist area of new Lib Dem leader Vince Cable, and it is clear that he is driving policy development in this area personally. An early theme of his leadership is tackling inequality. He suggested using the proceeds of a wealth tax to support all young people with an endowment or learning account 'which they can use at any stage in life'. For low earners his view is that raising the income tax personal allowance has now run its course and future tax cutting should concentrate on lifting the NI threshold. The party continues to favour increasing all rates of income tax by 1% to boost health and social care funding, but does not share Labour's keenness to reintroduce a 50p top rate. Cable has set up a review to look at whether the current system of student loans should be replaced by a graduate tax.

Cable is sympathetic to the idea of taxing businesses based on their turnover. He told the conference that he had a group of business people looking at this area and that he hoped to bring proposals to the next conference. The Lib Dems defend the Coalition's cutting of the corporation tax rate to 20% while regarding further cuts as the wrong priority. On personal and business tax, therefore, the Lib Dems are now positioned clearly between Labour's proposals for substantial tax increases and Conservative plans for cuts.

## **Scottish National Party**

The SNP conference in Glasgow was once again light on tax policy, but all signs appear to point towards more divergence from the rest of the UK. A discussion document on the future of Scottish income tax will shape thinking in advance of the Scottish Budget, with Finance Secretary Derek Mackay pledging a 'responsible' and 'progressive' approach to taxation. Mackay confirmed that the Scottish Land

Commission would examine options for introducing a land value tax. Recent reforms proposed by the Barclay review into business rates would make the regime 'fairer and geared towards growth'. But, with only 'half the lego set' of tax powers available, he warned that Scotland would have 'one hand tied behind our back' when it comes to tax policy making.

## **Policy trends**

The SNP are not the only party looking at land and property taxation. Labour also continue to look at a land value tax and the Lib Dems already favour replacing business rates with such a tax. Both Labour and Lib Dems want levies on properties bought by overseas residents for speculation.

Tax policy scrutiny, particularly in the context of the CIOT/IFS/IfG Better Budgets paper, got some consideration on the fringes. Labour spokesman Peter Dowd praised the report, in particular the need for expert witness sessions during the Finance Bill process. Matthew Taylor, fresh from his report on modern employment practices, also praised Better Budgets and said that with sufficient effort the public can be engaged. New Treasury Committee chair Nicky Morgan said that her committee were looking at taking their hearings around the country.

The issues around Matthew Taylor's report got plenty of debate at all the conferences. In general a more positive view on the 'gig economy' was heard at the Conservative conference. Business Secretary Greg Clark said the UK was the first country to think seriously about how it could drive economic success. At Labour, the talk was more focused on enhancing employment rights in the sector. At a number of the conferences the idea that an 'internet economy' might mean fewer jobs, less job security, greater inequality and therefore make a case for a universal basic income was heard. This idea is gaining increasing traction on the left in particular, though when examined (as by a recent Lib Dem policy group) it has so far been found unfeasible.

## **Conclusion**

So there we have it. Not a lot new on tax but with a little detective work it is possible to discern some trends and patterns. On tax and economics at least we are continuing to move away from political cross-dressing and back to a clear left-right

divide, with the Lib Dems back in their traditional role in the centre. With Brexit, and a minority government, this will not be a parliament for radical reforms. But perhaps it will be a parliament when the call of Better Budgets – for governments to do less, but do it more carefully, will be heeded. We can but hope.

Longer reports on each of the four conferences can be read on the [CIOT blog](#).