The big black cloud

General Features

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George Crozier looks at the impact of impending Brexit on this year’s conference season and the parties’ tax and economic plans

Brexit hung over this year’s party conference season like a big black cloud. For pro-Europeans it portended storms ahead and blanketed everything beneath it in a suffocating gloom. For its enthusiasts the cloud was Brussels itself, needing to be blown aside, leaving the UK free to enjoy the blue skies and sunshine of free-wheeling free-marketeering.

But through the Brexit murk, other issues are stirring, and they are biggies, from inequality to the housing crisis to the ascendancy of the ‘tech titans’. What’s more, tax is central to the solutions being ruminated on by our political rainmakers.

Lib Dems

The Liberal Democrats are unfashionable in many ways (yellow jumpers anyone?), and these include clinging to the quaint notion that the conference floor is a place for serious policy debates and argument rather than just an extended rally. Thus it was that the party deliberated on two substantial tax motions in Brighton, with plenty of challenge from speakers in the debates, though ultimately both were voted through overwhelmingly.

The first of these creates new policy around the taxation of wealth and capital. Policies in the motion are eye-catchingly bold. They include turning inheritance tax into a progressive large gifts tax, taxing capital gains and dividends through the income tax system, abolishing capital gains forgiveness at death and introducing a flat rate of relief on pension contributions. The party expects these reforms to raise an additional £15 billion per year.

The other substantial tax motion passed at the conference proposes replacing business rates with a land value tax – the ‘Commercial Landowner Levy’. This would be based on the land value of commercial sites and would have no discounts for empty and derelict premises. The party would replace small business rates relief with a doubled Employment Allowance. Most existing reliefs (including for agricultural land) would be maintained.

Other policy news from the conference included support for reforming Making Tax Digital ‘to ease the transition to quarterly reporting of VAT and other taxes’. The policy of increasing all rates of income tax by 1p to increase funding for the NHS was reaffirmed. This would be a ‘stepping stone’ to a dedicated ‘health and care tax’. Also, the statement in the ‘wealth taxes’ motion that council tax would be replaced, if at all, by a percentage-based annual property tax, appears to kill off the party’s longstanding policy of a local income tax.

Labour

There wasn’t much new tax policy announced in Liverpool (a levy on holiday homes was an exception) but there were some pointers towards potentially radical ideas being under consideration.

In particular it is worth studying the recent IPPR report, ‘Prosperity and Justice: A Plan for the New Economy’. Jeremy Corbyn called it ‘excellent’. Shadow Chancellor John McDonnell said it was ‘magnificent’. He said Labour ‘might just re-cover it’ for its next manifesto. So what does the report say? It is, of course wide-ranging, but on tax its recommendations include combining employee NICs and income tax, replacing marginal tax bands with a formula-based system, applying a gradually rising marginal rate of tax as incomes rise; wrapping taxation of dividends and capital gains into this single tax; replacing inheritance tax with a lifetime gifts tax levied on the recipient; replacing business rates with land value taxation; and introducing an Alternative Minimum Corporation Tax as a ‘backstop tax’ levied on multinationals which consistently report low profits in the UK and are unable to show these are genuine.

Many of these proposals resemble those adopted by the Lib Dems the previous week. Some of them also appear in a recent report from the Resolution Foundation. While we cannot know which of them will find their way into Labour’s next manifesto it appears that on the left and centre of UK politics momentum is growing behind a quite radical set of reforms aimed at (a) tackling avoidance and apparent distortions in the tax system, (b) tilting the system more towards taxing land and wealth, and (c) perhaps raising some extra money too.

Avoidance and transparency continue to be Labour priorities. John McDonnell told the conference he was launching a ‘shareholder campaign’ to demand companies sign up to the Fair Tax Mark standards, ‘demonstrating transparently that they pay their fair share of taxes’. At the CIOT/IFS/Labour Business fringe event on taxing business in a digital world, Shadow Treasury Minister Anneliese Dodds reconfirmed Labour’s support for public country-by-country reporting by multinational companies. She agreed that unilateral approaches are less effective than a joint approach across nations. On the question of taxing large technology firms, Dodds argued that there is a need to rebalance tax to help bricks and mortar business. She also confirmed that it remains Labour policy to raise the corporation tax rate back to 26 per cent (21 per cent for small profits).

One of the biggest announcements of the conference was that a Labour government will legislate for large companies to transfer 10 per cent of their shares into an ‘Inclusive Ownership Fund’ where they will be held and managed collectively by employees. Critics of the policy have suggested that because the Exchequer would take the remainder of the fund over a sum of £500 per employee, it is essentially a hidden tax rise.

Conservatives

Brexit, of course, dominated the conference. Even discussions on other topics were framed in terms of positioning the UK after Brexit, and this applied to tax in particular. For the free market right, the ‘escape from Brussels’ grip’ is regarded as the perfect prompt for a round of tax cutting, with calls for corporation tax to be cut beyond the government’s 17 per cent target (reconfirmed at the conference) to 10 per cent.

Chancellor Philip Hammond did not promise this. He did predict, though, that once a deal was agreed there would be a boost to economic growth – a ‘Deal Dividend’ – part of which would be spent on keeping taxes low. Hammond also referred to the need to prepare for the possibility of ‘no deal’ saying he would ‘maintain enough fiscal firepower to support our economy if that happens’. He was not explicit about the form this would take, but has reportedly ‘pencilled in’ the Spring Statement for introducing ‘a combination of both fiscal and monetary support’ if needed.

The Chancellor gave the strongest indication yet that the government are planning a Digital Services Tax on the revenue of large digital companies. Financial Secretary Mel Stride told the CIOT/IFS fringe meeting that the proposal would ideally be pursued multilaterally but he feared the US was relatively hostile to it. While the government don’t want to catch people just starting up – so there must be a de minimis threshold – we are committed to doing something about this issue, he said. Views within business on the DST proposal vary. The tech sector is critical, the CBI are sceptical, but small business owners appear mostly supportive. As at the other conferences, the idea of taxing ‘big tech’ more was widely linked to the idea of taxing high street businesses less, and this reflects the deep unpopularity of business rates.

The Prime Minister devoted the latter stages of her conference speech to setting out the government’s approach to four economic challenges she judged were facing the country. To varying extents tax is relevant to all four. The first challenge is fixing markets, some of which are seen as not working in the interests of ordinary people. Policies here include changing employment rules, so new technology cannot undermine workers' rights, and, on housing, scrapping stamp duty for most first-time buyers, and the new proposal of a higher rate of stamp duty on non-UK residents buying UK residential property. The second challenge is the cost of living. Policies here include cutting income tax, the national living wage, extending free childcare and the continuing fuel duty freeze. Challenge number three is 'ending austerity'. No details here, beyond a signpost to next year's spending review, but some tax increases will surely be needed. Finally, helping communities 'left behind'. Policies cited here include a modern industrial strategy and investing in training (tweaks were announced to the apprenticeship levy).

SNP

Scottish Finance Secretary Derek Mackay told delegates of his pride that Scotland was now 'the fairest taxed part of the UK'. This follows the introduction in April of new 'starter' and 'intermediate' rates of income tax while also increasing the additional and higher rates of tax by 1p. However speculation is mounting that, in order to secure parliamentary backing for his fiscal plans, the finance secretary may have to introduce further income tax reforms in order to gain the support of one or more opposition parties.

Kate Forbes, Scotland's Public Finance Minister, told the CIOT/CBI Scotland fringe meeting that the Scottish government will be introducing legislation to enable local authorities to pilot a business rates supplement for online retailers. This is a proposal from last year's Barclay Review of business rates. A decision is reportedly still to be made on whether councils will also be allowed to place a supplement on out-of-town operators such as retail parks. The Scottish government is also exploring whether to introduce a 'tourist tax'.

Conclusion

So there we are: some big ideas, some fiddlier ones, as we head, apparently, out of both the EU and the 'age of austerity'. When the clouds clear will this new era bring glorious summer, or a cold, frosty winter? Time will tell. In the meantime, like Kate Bush in Cloudbusting, we are left, nervously, 'on top of the world, looking over the edge', and hoping that 'something good is going to happen'.