Better Budgets

Management of taxes

01 March 2019

Bill Dodwell reflects upon the changes we have seen in recent tax policymaking processes

On 12 February, Her Majesty the Queen gave Royal Assent to Finance Act 2019. The new Act is 328 pages long – which sounds bad until we recall previous Finance Acts more than twice as long.

The new Budget and legislative process (tinyurl.com/h9tkhn8) announced by the Chancellor in autumn 2016 now means that most of our new tax legislation has actually been enacted before the start of the tax year. This is indeed a good thing – and one called for by many tax professionals. *The Better Budgets: Making Tax Policy Better* report from the CIOT, the Institute for Government and the Institute for Fiscal Studies offered a range of recommendations for improving the Budget and tax law process. The study leading to the report was commenced in April 2016, with the full report being published in January 2017. It's worth looking at the list of recommendations and seeing how far the system has moved.

As the report noted 'There is one set of norms and rules for the way in which most policy is made in government – and a different set of norms and rules for Budgets and tax policy.' The report put forward ten steps to improve tax policy making and tax legislation:

- **Step 1**: Stick to the commitment to a single principal annual fiscal event and cut down Budget measure proliferation
- **Step 2**: Establish clear guiding principles and priorities for tax policy
- **Step 3**: Extend the road-map approach
- **Step 4**: Start consultation at an earlier stage
- **Step 5**: Develop more active approach to consultation
- **Step 6**: Prepare the ground for future reform – and engage the public
- **Step 7**: Address the perceived capability gap around tax policy making
- **Step 8**: Overhaul internal processes
- **Step 9**: Enhance Parliament's (and the public's) ability to scrutinise tax proposals
- **Step 10**: Institutionalise and enable evaluations of tax measures

Chancellor Philip Hammond has lived up to his promise to stick to a single fiscal event and reduce the number of measures put forward. In part, this may have a link to the huge Parliamentary and Civil Service challenges of Brexit.

How about the other recommendations, though?

Establishing clear guiding principles for tax policy will no doubt always be challenging in the political environment. In recent years, many of those principles have come from the manifestos of political parties, no doubt as parties seek to persuade voters to endorse a particular philosophy. That can add complexity for policy makers, who may then find themselves trying to add a specific policy into a broader system. The Conservative manifesto promise not to increase income tax, national insurance and VAT rates has brought challenges both in the sense of how the promise was defined and also as it intentionally removes one of the Chancellor’s options.

Consultations have become a key part of UK tax policy making. Consultation doesn’t exist at all in some countries and so the British focus is to be commended. The challenge is that early policy development may well take place behind closed doors, before implementation issues are exposed for comment.

One of the most challenging aspects of consultation is reaching a wide audience. Most responses will come from professional bodies, trade associations and larger professional firms. They have the resources and member interest to invest time in the consultation process. Reaching others is so much harder – not least because many small businesses and individuals do not have the time or possibly the expertise to comment. The approach of the Office of Tax Simplification has led to a wider range of comment on some of its studies. For example, there were over 3,000 responses to a survey on inheritance tax. Visiting towns far away from London or major regional capitals can also bring unexpected information. Perhaps this approach could be adopted more widely by HMRC (noting that there have been occasions where HMRC officers have travelled extensively on longer term policy initiatives).

After the report came out, the Treasury Select Committee asked the government whether oral evidence could be given in Parliament, at the Finance Bill committee debates. The government concluded that this would not be workable -and suggested that exposing draft clauses for comment gave tax professionals the opportunity to raise issues. There is also no clear appetite to increase the resources available to parliament in considering taxation. The Commons Library puts together broad summaries of policies to brief MPs and some parliamentary committees have recruited tax experts to help them. For example, an HMRC official has been seconded to the Treasury Select Committee and the House of Lords Finance Bill sub-committee has two paid experts (one former HMRC; one from the private sector) to help their deliberations.

Finally, following pressure from the Public Accounts Committee and others, it seems that work is being done on assessing the cost of various tax reliefs, including details on the number of people using them. The latest update from HMRC in January 2019 gives more detail than has ever been published before. We can see, for example, that over 22 million people have an ISA and 300,000 people benefited from the £30,000 exemption for termination payments. More data and post-implementation review can only improve tax policy making.