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TWENTY TAXES THE UK SHOULD SCRAP

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Summary

- The five-year average tax burden in the UK is now at a 70-year high. The impact and opportunities of Brexit, coupled with the need to revitalise the economy in the wake of the Covid-19 crisis, mean 2021 would be a good time for the government to embark on a tax-cutting programme.
- This paper analyses 20 taxes that could be scrapped or significantly changed. If carried out, these reforms would simplify the tax system, reduce the overall burden of taxation, and eliminate many harmful distortions that stifle the UK's productivity and prosperity.
- The UK could have a tax system that has a low negative effect on welfare and efficiency, with small compliance and administration costs; a system that is non-discriminatory, avoids double taxation, and that is transparent and easy to understand.
- As such, we suggest that the TV Licence, Inheritance Tax, Stamp Duty Land Tax, the stamp duties on buying shares, the Apprenticeship Levy, Vehicle Excise Duty, Capital Gains Tax, the bank surcharge, and duties on alcohol, tobacco, and gambling, should be scrapped.
- Other property taxes such as Council Tax, the Community Infrastructure Levy, business rates and affordable housing and other s106 obligations, could be replaced with a single land value tax. Under this proposed system, disincentives for property improvements and housebuilding would be removed.
- Although not originally intended as such, Air Passenger Duty has morphed into a green tax, but its discriminatory and incoherent application means there is a strong case for its abolition. Emissions from aviation can instead be addressed by the government's general environmental policies.
- The Climate Change Levy and renewables obligations add economic distortion and complexity to the tax system. These levies could be brought into a single, less distortionary, environmental taxation system – either through the Emissions Trading Scheme or a comprehensive carbon tax.
- Finally, Corporation Tax and the Diverted Profit Tax could be replaced with a single tax on capital income administered at the corporate level, similar to how PAYE works on wages. Doing so would promote neutrality between capital income and labour, eliminate the debt-capital bias, and spur productivity growth.

Introduction

The UK economy has just experienced the deepest recession in 300 years. The impact of Covid-19 relief, not to mention the risks and opportunities of Brexit, will undoubtedly be looming large in the Chancellor's mind. This is a time, we argue, to focus on maximising economic growth rather than tackling the vast national debt. In the long term, it will be easier to restore the health of the public finances if the economy performs strongly (see Jessop 2020). Yet, even before any tax increases, it is likely that the current government will preside over the UK's highest tax burden since 1951 (TaxPayers' Alliance 2021).

This paper outlines the benefits of undertaking a radical simplification of the tax code. At more than ten million words, the UK not only has the world's longest tax code but, in the words of former Chancellor George Osborne, also 'one of the most complex and opaque' on earth[1]. It is littered with offsets, loopholes and economic distortions. Regrettably, it has tripled in length since 1997 and now sits at more than 48 times the length of Hong Kong's tax code, which is generally considered by tax lawyers to be the world's most efficient[2]. The government now has an opportunity to buck this damaging trend.

There is evidence that a low-tax economy with low government spending would provide the best opportunities for economic growth. Analysis by Smith (2016) suggests that the growth maximising level of government spending is likely to be around 20 per cent of GDP. In 2019/20, UK government spending was roughly twice that figure (ONS 2020). However, this paper does not argue for tax cuts in every case. Several of the taxes listed below might not be simply abolished; instead they could be reformed to reduce their distorting and harmful effects.

1 'Tax system "to be simplified to encourage investment"', BBC News, 20 July 2010 (https://www.bbc.co.uk/news/uk-politics-10691779).
2 'There has never been a better time to simplify our labyrinthine tax code', IEA Blog, 6 December 2018 (https://iea.org.uk/there-has-never-been-a-better-time-to-simplify-our-labyrinthine-tax-code/).

Corporation Tax

The OECD (2010: 22) has described corporate income taxes as being 'the most harmful for growth'. In the UK, corporation taxes ensure there is a bias against equity capital and in favour of debt capital. They also distort spending patterns in favour of current expenditure (which is tax-deductible) and against capital expenditure (which is not tax-deductible, although capital allowances partially help this). One of the largest problems with Corporation Tax is that it distorts the signal to reallocate resources into higher-value activities (both between and within companies). Another issue is that by reducing retained earnings, the taxes discourage firms from partaking in the activities that are most important for economic growth – namely, investing in productivity improvements.

For Corporation Tax, there is also a difficulty in defining profit and then successfully attributing the profit to the correct jurisdiction. In recent years, these issues have created much discontent among the media and public toward large organisations that pay a smaller amount of tax. The reality of Corporation Tax is that it must be borne by either labour, capital, or consumers, or some combination of the three. This economic truism is not widely understood.

Abolishing Corporation Tax would encourage greater foreign direct investment, remove the distortion caused by the differential tax treatment of various assets and remove the unfair provisions that create tax advantages for activities that may not be the most economically productive. Corporation Tax could be replaced with a single income tax on capital income administered at the corporate level, similar to how PAYE works on wages. This would improve neutrality between capital income and labour, eliminate the debt-capital bias, and spur productivity growth as returns on successful investments would no longer be penalised.

Diverted Profits Tax

The Diverted Profits Tax is an element of the post-Financial Crisis legislation that aimed to rein in Big Tech and finance companies which, the government felt, did not pay their 'fair share' to the Treasury. In this case, the concern was over large, often internet-based companies that were accused of using loopholes in the tax system to route their profits through lower tax jurisdictions in order to avoid paying the UK rate of Corporation Tax (although the tax also applies to any other businesses that meet the relevant conditions).

From the start there were a number of concerns around this tax, not least of which was that it was in breach of international double taxation conventions (MacLennan 2016). Concerns also included the subjective nature of how HMRC decided whether the tax should apply to certain businesses and transactions, and how much the tax should be on those paying it. For example, a company transferring intellectual property offshore could be assessed for what profits it might have gained had it not been transferred offshore.

If the Chancellor were to adopt the previous section's suggestion and reform Corporation Tax, then this tax, reliant on general taxation of profits, would cease to be relevant.

Licence fee

When the BBC was created, and for several decades after, the organisation's broadcasts possessed many of the characteristics of a public good: its service was non-rivalrous and non-excludable. However, this logic does not apply today. Up until 1982, UK television viewers were only able to watch three channels. In contrast, today there are more than 480 channels available domestically, not to mention the 33,000 television stations globally and the countless number of online streaming services.

There is also evidence that the BBC is increasingly out of touch with younger demographics, with YouTube and Netflix by far the preferred video watching service in the key 18-35 age-group (Ofcom 2019: 18). Similarly, according to a 2018 study (Vir et al. 2018: 3), many minority groups feel misunderstood or overlooked by the BBC's perceived white, middle class and south-east bias. Niche providers may be better than the BBC at producing content to meet minority tastes.

Of the 114,000 people prosecuted in England and Wales in 2019 for failing to pay their licence fee, 74 per cent were women. Non-payment of the licence fee accounted for 30 per cent of all female criminal convictions and 8.3 per cent of total convictions (Ministry of Justice 2020: 54). Given that the government is set to increase the licence fee in the middle of an economic crisis (from £157.50 to £159 as of April 2021), the fee's unequal and regressive criminal justice impacts, which disproportionally hurt low-income women, will probably worsen.

The BBC could lose its legal privileges and be treated in the same way as all other news and media organisations. Potentially, it could be restructured and become a subscriber-owned mutual organisation, similar to the National Trust (see Booth 2019). Doing so would help it capitalise on its global audience of roughly 430 million weekly viewers.

Alcohol and tobacco duties

Taxes on alcohol and tobacco are often justified on the basis that it is necessary to ensure that their consumers fully incur the economic costs caused by their consumption. In a nation such as the UK, in which the externalities associated with greater alcohol and tobacco consumption are socialised, it is argued that alcohol and tobacco duties are Pigovian taxes.

However, there is evidence that alcohol and tobacco duties far exceed the external costs of their consumption. As such, they are better described as either sin taxes used to compel those with the least disposable income to change their behaviour, or as arbitrary consumption taxes used to raise government revenue.

An individual's behavioural and physiological response to alcohol and tobacco varies widely, meaning so too does the degree that a consistent tax can adhere to underlying Pigovian principles. Consequently, a blanket alcohol and tobacco tax means that those who can consume alcohol or tobacco with no adverse consequences consume less than their optimal or desired amount.

In the case of alcohol tax, if the government's goal were for it to be a Pigovian tax that solely covers the associated externalities of its consumption, it makes little sense that the Treasury doesn't tax the volume of alcohol, but instead the volume of the liquid in

which the alcohol is contained. For example, a unit of alcohol is taxed at 27.7p if it is in whisky, but just 7.8p if it is in cider (Snowdon 2017: 2).

Similarly, for tobacco, different tax rates apply between pipe tobacco and rolling tobacco. The fact that the government leverages greater taxes on specific products within the alcohol and tobacco industry, such as spirits and high strength beer, with the goal of tackling 'problem drinkers', demonstrates that alcohol and tobacco duties are little more than sin taxes. Taxing specific items more than others also creates further distortion to consumption. Manning (1995: 123) notes that 'results indicate that both light and heavy drinkers are much less price elastic than moderate drinkers'.

Similarly, more economic distortions are present when a tax system chooses to tax only some external costs. Suppose the government has a desire to tax activities or products to ensure all potential externalities are covered. In that case, it makes little sense that drinking alcohol and smoking tobacco are discouraged when other dangerous activities, such as white-water kayaking or competitive martial arts are not.

Moreover, suppose one is to believe regularly drinking and smoking increases your likelihood of dying young from a condition such as lung cancer or heart disease. In this situation, there is a case to be made that those who succumb to these conditions and die young cost the NHS and social care services significantly less money than those who live much longer and are diagnosed with labour-intensive illnesses such as Alzheimer's. From this perspective, taxing the former to cover their externalities makes little sense.

Scrapping alcohol duties would also help pubs and restaurants recover financially following the economic impact of the Covid-19 pandemic.

Gambling duties

The case for scrapping gambling duty rests on a similar, but arguably stronger basis than the rationale behind ending alcohol and tobacco duties. The case for a Pigovian tax is almost non-existent as the direct externalities that occur from gambling are minimal. The two main concerns regarding gambling are as follows.

Firstly, it can result in addiction whereby an individual is unable to control their urge to gamble. While this is a possibility, it is not the case for the vast majority of people who occasionally gamble. The case for a gambling tax is further weakened when one considers that those who become addicted to a substance or activity display a high degree of price inelasticity. In other words, if a duty makes gambling more expensive, it is unlikely to either a) reduce the partaking of that activity by an addict, and b) act as a disincentive for infrequent gamblers. Consequently, the main people who are impacted by this tax are those who regularly enjoy gambling but can control their impulses, thus causing no negative externalities.

Secondly, one could be inclined to tax gambling because its occurrence can be considered a 'dangerous' behaviour that could result in an inefficient use of one's resources. This argument rests on a flimsy rationale as it would mean that the government uses its taxation powers to enforce its morality on its citizens. If this is the government's rationale then it is incoherent for taxes on gambling to exist, while there are no duties on other risky activities that could result in the loss of capital.

Inheritance Tax

Often called 'Britain's most hated tax' (Financial Times 2019),[3] there are many reasons why Inheritance Tax (IHT) should be scrapped. It is an inconvenient, economically distorting and arguably immoral duty that is often a form of double taxation, and which forces bureaucracy on to the families of the recently deceased.

In its current form, these death duties are, according to a report from the Office of Tax Simplification (OTS), 'complicated' and 'confusing' (OTS 2018: 49-50). For those who don't use or are unable to afford a financial adviser, an OTS survey found one-third of people spent over 50 hours administering the estate of their recently deceased loved ones, and 12 per cent of respondents spent over 100 hours, most of which was spent in relation to Inheritance Tax. It is also a tax that is full of loopholes, which can be utilised by the very wealthy. Consequently, the bulk of the annual IHT bill is shouldered by the middle classes, who have less ability to avoid it through forward planning. Property prices have risen substantially in most parts of the UK in recent years and, as the IHT threshold has been frozen for more than a decade, this means an ever-growing number of people are having to pay the tax, which is currently charged at 40 per cent on the value of an individual's estate worth more than £325,000.

Other economic problems with Inheritance Tax include:

- The majority of assets subject to IHT have already been subject to other taxes during the deceased person's lifetime. This means death duties are often a form of double, triple, or multiple taxation. This case is made stronger when considering the inheritance spent by the beneficiary is also subject to consumption taxes.
- IHT also encourages 'short-termism' that distorts the economy by changing consumption patterns away from saving for an heirs' future spending, in favour of sooner immediate consumption by the benefactor. Death duties make it irrational for benefactors to look ahead for several generations and consider optimal future economic opportunities.

Stamp Duty Land Tax

The Stamp Duty Land Tax (SDTL) distorts the allocation of assets, discourages investment, and tends to make housing more expensive. In essence, the SDLT is a transaction tax that penalises any move from one property to another. By making the purchases of homes more expensive, fewer transactions occur, and this can have many adverse impacts on an already distorted housing market.

In particular, there is evidence that an SDLT acts as a disincentive to elderly people thinking of downsizing to smaller homes (Institute of Public Care 2016: 1). As a consequence, this artificial barrier reduces the availability of housing for the younger generation. Research from the Ministry of Housing, Communities and Local Government (2020: 2) found that in 2019-20, 52 per cent of owner-occupied households in England are under-occupied. Removing the SDLT would help to release much-needed housing stock onto the market.

By making moving house even more expensive, the SDLT also restricts labour mobility

3 'Inheritance tax: what does the future hold?', Financial Times, 11 July 2019 (https://www.ft.com/content/10370c58-a235-11e9-974c-ad1c6ab5efd1).

and means people are less likely to move to the areas where they are more productive. One study estimated that the annual rate of household mobility would increase by 27 per cent if Stamp Duty were abolished (Hilber and Lyytikainen 2017). This fact doesn't bode well for a nation like the UK that is trying to tackle its long-standing productivity stagnation.

Due to high housing costs, a record number of young people now live with their parents (ONS: 2020). A 2016 study by Shelter found that 60 per cent of 18-44-year-olds felt the high cost of housing had delayed them achieving big life goals such as marriage and homeownership.[4] This could have serious long-term ramifications for the economy, given evidence that higher housing costs have had an adverse impact on the UK's fertility rates (Aksoy 2016: 1). This is problematic considering the UK's already ageing population.

As noted by Rees-Mogg and Tylecote (2019: 27),

Stamp Duty is also too complex, with lower rates for self-built homes and properties left empty or allowed to become derelict, creating an incentive for people to leave properties vacant. The latter harms supply and the capacity to move, while making it difficult for buyers to pay the right tax.

Because of these quirks, the Institute for Fiscal Studies (2014: 17) has suggested that SDLT is 'a strong contender for the UK's worst designed tax'.

On 8 July 2020, the Chancellor implemented a Stamp Duty holiday that removed all duties on property purchases with a value below £500,000. This policy resulted in a huge spike in activity within the housing market, and perhaps most important for politicians, it was also enormously popular. If there isn't the political courage to remove SDLT in its entirety, at the very least it could be cut to 2010 levels, simplified, and devolved to local government.

Property taxes

The British system of property taxes has evolved haphazardly and rather inefficiently over the years. Since the failed Community Charge (poll tax), successive governments have attempted to avoid any major changes. Instead, they have created bespoke solutions to problems that arise within the taxation regime. One such example is the Community Infrastructure Levy or s106 agreements, which are payments made by developers to offset the infrastructure impacts of new houses – as a response to the perception that local infrastructure was not keeping up with new development.

This has led to a system that is both outmoded (the Council Tax bands are still based on property prices from 1991) and extremely complex. Meanwhile, much of the local revenue raised from the s106 and Community Infrastructure Levy is not spent, or at least its payment and usage are delayed. For example, one study from 2019 showed that, of the £4 billion taken in by responding councils between 2013 and 2018, only £1.5 billion had been spent.[5]

4 'Generation Pause: 60% of under 45s left behind by housing crisis', Shelter, 6 June 2016 (https://england.shelter.org.uk/media/press_release/generation_pause_60_of_under_45s_left_behind_by_housing_crisis).

5 'The great Section 106 and CIL scandal', Property Week, 27 September 2019 (https://www.propertyweek.com/insight/the-great-section-106-and-cil-scandal/5104449.article).

These issues add up to a broadly inefficient, regressive system that often acts as a block to much-needed new housing development.

Council Tax

This tax is outdated, thanks in part to the ongoing unwillingness of successive governments to revalue housing stock to correctly assess the right level of property tax. When the tax was introduced as a replacement for the Community Charge, the value of housing stock was based on the most recent valuations (1991). This has not changed since, meaning that property owners are in the almost farcical situation of paying tax rates based on what the property was worth 30 years ago (see Table 1).

Table 1: Council Tax bands

Property valuation band for council tax	Wales		Scotland		England	
	Band upper limit (£)	Ratio to band D (%)	Band upper limit (£)	Ratio to band D (%)	Band upper limit (£)	Ratio to band D (%)
A	44,000	67	27,000	67	40,000	67
B	65,000	78	35,000	78	52,000	78
C	91,000	89	45,000	89	68,000	89
D	123,000	100	58,000	100	88,000	100
E	162,000	122	80,000	131	120,000	122
F	223,000	144	106,000	163	160,000	144
G	324,000	167	212,000	196	320,000	167
H	424,000	200	212,001+	245	320,001+	200
I	424,001+	233	-	-	-	-

This has led to a situation where the poorest decile of the population pays proportionally up to four times more of their income on council tax than the richest 40 per cent (Bourquin and Waters 2019: 22). Furthermore, the tax, based on both the underlying value of land and the improvements that have been made to it, could act as a disincentive to improving property at the margin.

Therefore, the Council Tax is a disincentive for development, regressive and woefully out of date. There is a strong case that an alternative property taxation system should replace it.

Affordable housing and other s106 obligations

The government has already announced plans – yet to be legislated for at time of writing – to replace s106 of the Town and Country Planning Act 1991 (which mandates affordable housing as part of new developments) with an alternative nationwide development levy. Any action to replace s106 ought to be a positive outcome, as developers regularly cite the mandated proportion of 'affordable' housing as a barrier to their plans to build more houses. Further, recent reforms have given councils the ability to 'double-dip' (by using both s106 and the Community Infrastructure Levy to effectively charge developers twice for the same development), further increasing the potential costs for developers.

However, the change to a nationwide levy is likely to retain the problems of the existing s106 situation, while removing the local element that meant councils were able to set rates and conditions that fitted local needs. A nationwide levy, set in Whitehall, will instead just impose a one-size-fits-all approach to development taxes, rather than bringing about the needed housebuilding boom.

Therefore, whether in the current shape or in the alternative structure announced by the government, this section should be repealed in full and replaced with an alternative single property taxation system.

Community Infrastructure Levy

Since its inception, the Community Infrastructure Levy (CIL) has been a point of concern for developers. The CIL originally sought to replace parts of s106 of the Town and Country Planning Act 1991 and formalise other elements in order to bring a sense of certainty to developments (rather than developers needing to settle a site-by-site agreement with local councils, meaning both council and developers found it hard to budget likely costs and benefits from a development until these negotiations had concluded). However, as the government's 2016 report on the CIL shows, this certainty has not been created (CIL Review Team 2016).

As it stands, the CIL now represents an additional level of complexity in development – not least since many local authorities, particularly in the North, have chosen not to introduce the CIL at all – while also not creating a more effective way for local authorities to raise money for infrastructure projects that are needed for housing developments. It should be abolished and folded into a single, more efficient taxation regime for property.

Business rates

Business rates set out to capture and tax two elements of non-residential property: the value of the underlying land upon which a business is sitting, and the value of the buildings in which they operate. The first is an efficient method of taxation, but the second is highly distortionary, and it is the second impact that is most widely felt by businesses. As with council tax, improvements to the property result in higher tax bills, disincentivising development.

Further, as a tax on property values (some of which will be impacted by matters outside the property owner's control) rather than a direct tax on business or profits, business

rates are detached from prevailing market conditions, meaning that the government of the day must consider (as we have seen during the pandemic) relief for businesses caught out by an economy-wide contraction.

While many in the business community now argue for a new digital tax in order to achieve balance between online businesses and bricks and mortar ones, this would be the wrong answer, punishing online businesses for a more efficient business model, rather than lifting the burdens on high street businesses.

A land value tax

Our solution to the problems raised with the four previous taxes would be to create a land value tax system to provide a reliable source of income to local authorities, encourage development and reduce complexity in the tax system. A single land value tax would tax the owners of property only on the value of the land itself. Buildings, improvements and land use would be of no concern to the tax system, avoiding the current disincentives for property improvements or housebuilding. Such a tax would also enable councils to receive part of the planning gain (the increase in the value of land when it is re-zoned for development, such as agricultural land being granted planning permission for housebuilding), giving local communities a major incentive to allow development.

Stamp Duty on shares

Both the Stamp Duty Reserve Tax, which is a tax on most electronic purchases of stocks at 0.5 per cent regardless of the purchase value, and Stamp Duty (note, different from Stamp Duty Land Tax), which is a charge at 0.5 per cent on any paper stock transfer form for purchases greater than £1,000, disincentivise investment in the private sector.

Taxes on financial activity also mean that even more transactions are subjected to multiple layers of taxation. For example, the Stamp Duty Reserve Tax is placed on the consideration for a transaction, corporation tax is then implemented on any profit generated, and then the bank levy is charged on funding provided to finance the transaction. Like many other taxes on this list, Stamp Duty is often an unnecessary double tax that further distorts the allocation of capital assets in the UK economy.

Apprenticeship Levy

The Apprenticeship Levy was created to encourage new high-quality apprenticeship schemes, but has turned into a crude and bureaucratic payroll tax. This new set of rules has been grafted onto the existing National Insurance system, further adding to the tax code's complexity. Perhaps unsurprisingly, the system has led to businesses rebranding existing activity to take advantage of the benefits. According to a Confederation of British Industry 2017 skills survey, 63 per cent of all UK businesses (and 71 per cent of non-SMEs) planned to rebrand existing training programmes as apprenticeships (CBI 2017). A quarter intended to cut their non-apprenticeship training programmes.

The levy is a distortionary and badly designed additional payroll tax. It should be abolished.

Vehicle Excise Duty

Motoring undeniably creates externalities that affect taxpayers. These include the impact of climate change, congestion, and road construction and maintenance costs. These externalities mean there is a case for continuing to levy fuel duty to reflect such costs.

However, the level of current motoring taxes may exceed that needed to cover the costs of the externalities. The costs of road building and climate change associated with motoring are estimated (Meakin 2016: 195) to equate to about 36 pence per litre of fuel at current consumption levels, which is significantly below the 57.95 pence per litre levied on petrol and diesel. Vehicle Excise Duty (VED) amounts to the equivalent of another 13 pence per litre. Not only is the fuel duty too high, although that is another issue, but the VED is not needed to cover the external costs.

Unlike fuel duties, where what you pay partially mirrors the costs incurred, for VED the amount of tax paid bears little relation to the external costs (for example, infrastructure costs) of the vehicle's use. The rates of VED are dependent on vehicle type rather than how much it is used. As a consequence, a vehicle owner who predominately drives on an infrequently maintained old country road will still have to pay the same tax (providing both parties have identical vehicles) as a motorist who predominantly uses brand new expensive motorways. Similarly, motorists with the same car have to pay the same VED rate even if one of them drives far more miles and thus causes greater pollution.

VED is one of the largest costs of motoring. Given this, it can be a blockade to car ownership that effectively taxes poorer people of the roads, which impedes the good tax principle of neutrality. This problem is exacerbated when one considers that cheaper vehicle models tend to be older and thus more polluting. This means affordable older vehicles will usually be taxed at a higher rate than more expensive and newer models, consequently hurting the people who can least afford it.

However, if it is found that the disproportionate adverse impact that heavy goods vehicles have on road damage is not borne by the greater fuel duty that HGVs pay, we are open to a replacement tax administered on the heaviest vehicles that reflects the additional maintenance costs they impose.

Capital Gains Tax

Revenues from Capital Gains Tax (CGT) account for just 1.56 per cent of Treasury revenues (in 2019/20), yet the adverse economic impact of this tax is significant. CGT discourages entrepreneurship, punishes those who choose to invest their money, and encourages avoidance. To make matters worse, in most instances CGT is a pernicious double tax that adversely distorts the economy.

The value of any given investment fluctuates, but investments are ultimately valued for the income they produce or are expected to produce. However, any profits made will have been taxed, and any future profits will also be taxed when they materialise. For example, a company with strong net profits (which, by definition, will already be taxed) may see its share price increase. If it does, and investors choose to sell these shares, investors must then pay tax again on the capital they gain. The profits the

investor makes, even after CGT, are then taxed again when spent consuming goods. In this sense, CGT is a double tax that punishes people for investing in the economy.

To make matters worse, since the indexation allowance was abolished in 2017, CGT is now also levied on gains that arise merely due to inflation. In other words, the CGT is often a tax on purely illusory gains.

Any attempt to raise the CGT rate will disincentivise future investment, hinder economic recovery, and present further obstacles to the efficient allocation of capital assets within the economy.

Bank surcharge

The coalition government introduced the Bank Corporation Tax Surcharge in 2016, as an additional tax on the profits of financial institutions. Even at the time, the arguments for an additional tax were based on banks paying 'their fair share' following the bailouts during the financial crisis. It was introduced at a rate of 8 per cent on profits over £25 million.

The desire to use the tax system to effectively punish sectors of the economy for perceived moral failings has always been economically distorting, and this surcharge is no different. Profitability in any sector, especially one that employs more than a million people across the UK and is responsible for 7 per cent of all UK economic output, should be encouraged rather than punished with additional taxes.

One argument for the surcharge is to compensate for the risks that some financial services create for the rest of the economy. However, the banking sector's profitability is an extremely poor measure for such risks, which in any case are ostensibly addressed already through the Bank Levy.

Finally, the surcharge is also likely to have a negative impact on challenger banks entering the UK market, as, unlike the bank levy, smaller players are not excluded from the surcharge if they reach the profitability threshold (a challenger bank would need to have liabilities in excess of £20 billion to be liable for the Bank Levy).

There is no principled rationale for the bank surcharge to exist.

Air Passenger Duty

Air Passenger Duty (APD) is a levy paid by most aircraft upon leaving the UK that is charged on a per passenger basis (for those over the age of 16 on flights with more than 20 seats). This has a distortionary effect, as comparative travel methods are not subject to a similar duty on their passengers. However, supporters of the APD argue that the tax is, instead, a green tax, and therefore it makes sense that aircraft passengers offset their environmental impact.

Despite this claim, the levy was not originally intended as an environmental tax, but instead simply as an additional revenue stream for government. But the gradual evolution of APD into an environmental levy has made the incongruities in the system even more evident. If you were creating a tax to make air passengers pay for their environmental impact and carbon emissions, why would you impose it only on those over the age of 16, or on passenger numbers at all, rather than on the emissions

that the flight creates? And why would you exclude aircraft with fewer than 20 seats (aircraft that potentially cause more pollution per person, than the commercial airline flights)?

The fact of the matter is that APD is now a tax in search of a rationale. With the impact of Covid-19 (resulting in a medium-term reduction in air passenger numbers), it is likely to be an ineffective tax from both a revenue-raising and an environmental point of view. The tax could be abolished and the sector's environmental impact addressed through the government's general environmental policies and emissions trading scheme management (or a comprehensive carbon tax).

Climate Change Levy and renewables obligations

Much like Air Passenger Duty, this is a tax that has lost sight of the rationale for its existence – although in the case of the Climate Change Levy this has resulted from an environmental tax losing any relationship with cutting emissions.

The levy was introduced in 2001 to help cut emissions and encourage renewable energy. However, in 2015 the exemption for renewable energy was removed, meaning that, whatever source the energy comes from, the tax is now levied on every large-scale electricity user. This has led to a situation where solid fuel, higher in emissions, costs less per tonne of CO2 emissions produced than gas.

The abolition of the renewable energy exemption weakens the case for this tax, as it merely adds complexity to the tax system rather than incentivising environmentally-friendly behaviour. It distorts the economy by encouraging economic activity to move to sectors not covered by the levy, even if these are no more environmentally friendly.

Instead of adding complexity to the tax system, these sort of levies and other renewables obligations should be brought into a single, non-distortionary, environmental taxation system – either through the Emissions Trading Scheme or a comprehensive carbon tax.

Aggregates Levy

The Aggregates Levy is another intended environmental charge that has been interpreted broadly by HMRC and become a much wider tax on the economy. The original goal of the levy was to encourage the use of recycled aggregates by increasing the cost of taking new aggregates out of the ground and using them commercially. However, the rules have been interpreted to include removing aggregates from the soil in other circumstances. For example, if a firm is doing a major construction project (especially infrastructure) and needs to dig a hole and thereby remove a large amount of aggregates from the ground, it is considered to be liable for the levy – despite the fact that the removal of those aggregates may have nothing to do with the availability of recycled aggregates.

At the very least, the parameters of the levy should be more tightly defined to remove this unintended consequence. More effective would be removing the levy and replacing it with either regulations or a targeted tax to encourage quarry owners and others to restore sites following aggregate removal.

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