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Brown's taxing failures

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How will Gordon Brown be judged as chancellor of the exchequer?

After a decade of strong growth, low interest rates and a non-stop drip-feed of the feelgood factor, it might be expected that history's judgment will be kind. Yet from the perspective of tax policy and the promise of social reform through a fundamental overhaul of the tax and benefits system the verdict may well be less charitable. Measured against the confident promises set out in his first budget speeches the chancellor has fallen short on a number of fronts.

The chancellor's aspiration to create a "modern tax system based on principle" is difficult to reconcile with the reality of the tax system today. Adam Smith's concept of the principle of equity in taxation stated that the burden of taxation should fall on those with the greatest ability to pay, perhaps a useful starting point for a Labour chancellor.

Yet remarkably the jackpot winners in the 1998 budget speech were the wealthiest taxpayers, as capital gains tax rates were slashed from 40% to 10% for most classes of assets.

Let's consider the incidence of tax in the Brown years. The tax policy set out in Labour's 1997 election manifesto promised to spend more on public service provision without raising existing rates of personal income tax.

This improbable fiscal circle was squared through a variety of ingenious stealth taxes: the windfall tax on privatised utilities, the abolition of tax credits on dividends paid to pension funds, dramatic rises in the rate of stamp duty on house purchases and the lifting of the ceiling on national insurance contributions all played an important part in funding the substantial increases in public spending over the last decade.
But where did this tax burden fall? Progressively in the sense that it fell on those with the ability to pay or according to altogether more contingent criteria such as whether

you contribute to a pension fund, whether you need to move house and in which area or whether or not you happen to be a shareholder of a privatised utility company?

The increase in national insurance contributions was an old-fashioned raid on high-earners, in all but name an increase in the top rate of income tax to 41%.

But the increases in stamp duty hit middle-income households in the south-east disproportionately hard, taxing them for no other reason than their need to move house in the most expensive areas of the country. With the average house in London now costing more than £330,000 the 3% rate on purchases over £250,000 cannot be regarded as a tax on the well-heeled. It is difficult to see the principle in taxing overstretched homebuyers on the acquisition cost of assets rather than biting the bullet and taxing capital gains on house purchases as and when they are realised.

Similarly, the cut in the tax credit on dividends paid to pension funds hit everyone with a pension plan across the board and, arguably, the poorest future pensioners hardest. This measure undoubtedly led to the closure of a number of final salary schemes and may well be judged, in the light of Britain's pensions crisis, as one of the most inept and self-defeating budgetary measures in post-war history. Again this is a tax-raising measure, which shows a complete indifference as to whether the burden of taxation coincides with the ability to pay.

And what of the promise to reform the tax system in order to tackle the poverty trap? The so-called "New Deal" guaranteed minimum incomes to low-paid workers and a tax-free income of up to £220 per week. But instead of working to take more people out of the tax net altogether, a bewilderingly complex system of tax credits was introduced together with the 10% lower rate of income tax for those on the lowest incomes.

The working families tax credit and the child tax credit systems were described as shambolic by the House of Commons public accounts committee. A 12-page application form defeated many of those entitled to benefit. The billions spent on administration and lost to overpayments and fraud could have been used to raise personal allowances and take hundreds of thousands of taxpayers out of the tax net altogether. But that would have too simple for Gordon Brown, a chancellor who has excelled in complicating British tax legislation.

Chancellor Brown began his 1998 budget speech with the grandiloquent statement that only once in a generation is a tax system fundamentally reformed. He clearly believed that he was that reformer for this generation.

Yet, 10 years on, the structure of the income tax system in Britain is fundamentally unaltered and the higher incidence of taxation that has funded higher spending has been collected in a series of regressive levies that are indiscriminate in their application while the very poorest have been failed by bureaucratic complexity and administrative ineptitude.

However the chancellor will be remembered, he will not be remembered as the man who delivered a modern tax system based on principle. That task awaits a successor.

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