



Taxation: The Labour Party's questions to answer

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Foreword

Of all the aspects of Jeremy Corbyn's changed approach to the stewardship of the Labour Party, it is economic policy which has probably attracted the least scrutiny. Perhaps this is understandable given the scandal of antisemitism, the obfuscation on Brexit and the attitude taken towards national security and international policy.

But it is the consequence of Labour's adoption of an anti-capitalist, anti-markets approach to the economy and public services which deserves serious attention in the 2019 election. A growing shopping list of public spending commitments has not been matched by clarity or honesty about how these would be paid for. 'Borrowing' is used increasingly as a lazy fall-back answer, placing the cost of spending today on generations to come tomorrow.

And while it would clearly be highly pleasing if many goods and services were provided for 'free' in society, most people know that the realities of life mean somebody, somewhere has to pay the price tag.

So I am pleased that this short report from Mainstream seeks answers from Corbyn and McDonnell on the specifics of their plan – and it is right to demand full transparency on both sides of the balance sheet. There is of course an important debate to be had about fairness in our tax system and I would myself advocate reforms to achieve this. But the honest way to do this is setting out specific proposals, assessing the impact on 'winners' and 'losers', and being clear prior to an election about who will pay and for how long.

The reputation of those on the hard left in other jurisdictions is not reassuring – as we have seen across the world where those inspired by Marx or Chavez have pursued ideological policies and, in turn, loaded significant burdens onto the state and taxpayers with dire consequences.

A general election ought to be a moment for those advocating 'radical' reform to level with those who will cover the costs of such changes. If we are to assume today's Labour leadership accepts money does not grow on trees – and that can sometimes feel like a big assumption - then at some point there must surely be clarity on how their plans will hit taxpayers across the UK.

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Summary

There has begun to be a degree of focus on how much the Labour Party would spend in government and how much it would borrow in government. Less attention has been paid to how it would tax in government, and who would be facing higher taxes as a result.

Labour's message in the lead-up to the general election has been that the focus of any tax rises will be on the very richest in society. Specifically, it has said that only the top 5% will have to pay more in income tax, National Insurance and VAT.

But detail on how a Labour Government would reform other parts of the tax system has been absent. For example, the Labour Party leadership has shown enthusiasm for changing how property and financial assets are taxed. This could affect millions of people, from all backgrounds and in all parts of the country. It is an approach that has been supported by trade unions, left-wing campaign groups and think tanks. Yet the Shadow Chancellor has been disconcertingly vague about his plans in this area.

The purpose of this document, therefore, is to increase scrutiny of Labour's tax policy ahead of polling day on 12 December. It looks at how the Labour Shadow Treasury Team has suggested it will change the tax system should it take office, illustrating what this would mean for ordinary people. It also sets out the questions that need answering if voters are to be fully informed about how a Labour Government would tax them.

The headline conclusions of the analysis are:

- **The Labour Party has left the door open to billions of pounds worth of tax rises on ordinary people.** This includes potential reform to how pensions, savings and property are taxed after reviews of tax reliefs and council tax. The Labour Party's explanation for how these reviews would work is unclear (quite possibly deliberately).
- **New or reformed property taxes under a Labour government could hit those of average means.** The Labour Party has suggested council tax should be made more progressive. If a more progressive approach were to follow the reforms that have happened in Scotland – a far from radical option – then the 4.6 million households in England that are in council tax bands E to H would face higher council tax bills. This would affect almost one in five of properties in England.

The questions that the Labour Party needs to answer on its tax policy are:

- **Who will be excluded from tax rises under a Labour Government?** Labour has already said that there will be no tax rises for 95% of earners, but has not published an equivalent figure for those who are taxed on their assets, i.e. what proportion of homeowners will face tax rises? What size of pension pot will be in-scope for tax rises?
- **Which tax reliefs on personal assets will be excluded from the Labour Party's promised review of tax reliefs in government?** For example, the Shadow Chancellor has talked about the Tories, *"...cutting capital gains tax accruing to the rich"*. Will the Capital Gains Tax exemption on a person's primary residence be reviewed? Will the Capital Gains Tax exemption at death be reviewed? Will pensions tax relief and ISA allowances be reviewed?
- **Will making properties in higher council tax bands pay more be part of the promised Labour Party review of council tax?** If so, is the council tax calculation of all properties in scope to be reviewed? If not, what percentage of properties will be in scope?

Introduction – the Labour Party’s tax policy

The Labour Party has told voters that it would manage the public finances differently to the Conservatives. Shadow Chancellor John McDonnell has announced that he would spend more on public services, including £400bn of borrowing to pay for capital investment.ⁱ He has also explained that some of this spending will be funded by raising taxes, including increases to the top rate of income tax to 50% for earnings above £123,000 and lowering the threshold for the additional rate of tax to £80,000.ⁱⁱ

Despite these statements on tax and spend, much of the detail of how a Labour Government would reform the tax system is missing. Specifically, Labour has not been challenged enough on how its approach to raising revenue will affect the typical voter. Indeed, some – including the Institute of Fiscal Studies – have raised doubts over how much the Labour Party can actually raise in tax revenue if only focusing tax rises on the extremely well-off.ⁱⁱⁱ

To inform the debate, this analysis focuses on how the Labour Party’s tax policy will affect those of average means. It sets out the questions that the Labour Party must answer if it is going to be straight with all voters about how they will be taxed under a Labour Government.

The following points explain why this is a topic needs greater attention:

- **The Shadow Chancellor has repeatedly said that he wants to fund additional public services out of ‘general taxation’.** For example, John McDonnell has made the case that more services need to be universally free to access (*“Not free to deliver of course, but funded through general taxation”*). He specifically referenced free school meals, free bus travel for young people, free universal childcare and free further and higher education.^{iv}
- **The Shadow Chancellor has not ruled out higher taxes for those of average means.** Labour’s approach in the lead-up to the general election has been to highlight how a Labour Government would focus tax rises on those in society with the broadest shoulders:^v

“...as I have said before, income tax rates, national insurance, and VAT will not increase for 95%. It is only the top 5% we will ask to pay a little more”.

This frames the debate about tax in terms of the very well-off, aligning with some of the Labour Party’s wider electoral messaging. Nothing, however, has been said about what proportion of people would be excluded from higher taxes in other parts of the tax system.

- **The Labour leadership has repeatedly indicated that it wants to tax wealth differently.** The examples of this are many and varied. The 2017 Labour manifesto lists one option for funding its National Care Service as being a ‘wealth’ tax.^{vi} The leader of the Scottish Labour Party has stated that Scotland needs an annual wealth tax, suggesting that the focus of such a levy would be land owners.^{vii} This focus on assets and wealth is shared by trade unions and left-leaning pressure groups. For instance, campaigning group *Momentum* has argued for wealth redistribution, stating that the wealthy, *“...don’t pay their dues”*.^{viii} While there is clearly an important debate to be had about fairness in our tax system, and arguments to be made about taxing wealth in a more appropriate way, it is the absence of detail and general lack of detail which is most notable.

- **The Shadow Chancellor routinely embraces think tank ideas on how to increase taxes on property and assets.** John McDonnell has noted the ‘intellectual architecture’ provided by left-leaning and far-left think tanks to influence the economic debate.^{ix} The Resolution Foundation has advocated removing or limiting ‘wealth subsidies’ such as the Help to Buy ISA, as well as limiting Pensions Tax Relief.^x The Institute of Public Policy Research has made the case to move to a high tax and high spend economy, arguing that all sources of income – such as those from wealth of dividends and savings – should be taxed equally.^{xi} The New Economics Foundations has argued that the UK’s current system of wealth taxes, “...do little to address the vast inequality in housing wealth and financial assets”.^{xii}

The upshot is that a Labour Government would increase taxes, the statements of the Shadow Treasury Team have left the door open to tax rises on a large amount of people, and increased or new taxes on property or financial assets are likely to be the focus of these tax rises.

This has the potential to affect millions of voters across the country. Anyone who owns a house, has money in an ISA or has a private pension is a holder of wealth through the assets that they own (see box, below). Again, there are arguments to be made about specific proposals – but proposals with detail are conspicuous by their absence. The approach of Corbyn’s Labour to the taxation of these assets, therefore, deserves greater scrutiny.

The who, how and where of wealth and assets in the UK

The Office for National Statistics collects information on how wealth is held in Great Britain:

- 77.5% of the value of wealth is held in property and private pensions.
- People tend to accumulate assets over time. Hence, younger households are more likely to be towards the lower half of the wealth distribution and older households more likely to be in the upper half (although are much more evenly spread across the distribution).
- The distribution of wealth across the population has stayed more or less the same between 2008 and 2016 (the period over which this has been measured).
- The holding of all forms of wealth – property, financial, pension and physical – is unequally distributed across the population. Financial wealth – such as the assets held in current accounts, ISAs and stocks and shares – is the most unequally distributed. Physical wealth – such as household contents, valuables and vehicles – the least.
- Aggregate household wealth is comparatively high in London and the South East, and comparatively low in the North East and Wales (other regions fall somewhere in between).

Sources^{xiii}

Analysis – The Labour Party’s questions to answer on tax

As a starting point for transparency on its tax policy, the Labour Party should answer the following questions:

- **Who will be excluded from tax rises under a Labour Government?** Labour has already said that there will be no tax rises for 95% of those who pay income tax, National Insurance and VAT. Is there an equivalent figure for property owners and private pension holders? Labour spokespeople reference the ‘rich’ and the ‘better-off’ when talking about tax, but it is unclear who in society they think the ‘rich’ and the ‘better-off’ are.
- **Which assets are safe from increased taxes under a labour government?** As previously explained, millions of people hold wealth in different types of assets, and primarily in property and pensions.

Following an analysis of speeches, commentary and policy statements made by the Labour Party front bench, the following two case studies look at how the Labour Party has said it would review the tax system in government and what that could mean for ordinary people.

Targeting tax reliefs

What is Labour Party policy?

The 2017 Labour Party manifesto committed to reviewing corporate tax reliefs when in government. The footnotes of the Party’s policy costing document gave some explanation of what was intended for the review:^{xiv}

“A Labour government will initiate an immediate independent review of the efficiency, range, and scope of business tax reliefs and tax-planning structures like trusts...it is anticipated that our review will deliver at least £4bn in immediate direct savings from reform or removal of ineffective reliefs, alongside changes to the law concerning tax-planning structures...”

“...Following our initial comprehensive review, we will put in place permanent ongoing review mechanisms to ensure public expenditure on tax reliefs and incentives remains effective and prevent abuse of the available schemes”.

There are two problems with transparency in this explanation. The first is the statement that the initial review of tax reliefs will be independent, yet there is an expectation that it will deliver at least £4bn in “immediate” direct savings. The second is that it is unclear which tax reliefs are in and out of scope of the “*permanent ongoing review mechanisms*”. The lack of precise language means that all tax reliefs could have been in scope for review.

Since the 2017 election, the Shadow Treasury Team has reiterated that a Labour government would review tax reliefs, suggesting that all tax reliefs – not just those are corporate – will be in scope. Examples of this are as follows:

- In an essay for the Fabian Society, Shadow Treasury Minister Anneliese Dodds wrote:^{xv}
“We also need a much more transparent and open debate about tax reliefs in general. The value of tax reliefs has increased substantially in recent years, with some estimates suggesting they amount to more than a fifth of GDP – yet there is cursory examination of them at best, certainly when compared to public spending of equivalent value. This is a particular concern when many analyses of reliefs in other countries suggest that they overwhelmingly benefit the better-off”.

The source for the statement that tax reliefs amount to more than a fifth of GDP is a National Audit Office report looking at all tax reliefs, not just those applying to business.^{xvi} Equally, the last sentence of the above quote – the reference of ‘the better-off’ – also indicates that tax reliefs applying to personal assets will be in scope for review under a Labour Government.

- Responding to Resolution Foundation suggestions for how to increase taxes – including those on personal assets – John McDonnell said in January 2019: *“Labour is committed to conducting a review of tax reliefs in government and we consistently call for entrepreneurs’ relief to be reviewed and evaluated against its effectiveness”*.^{xvii}
- Responding to a Tax Justice UK report on inheritance tax, John McDonnell said in June 2019: *“Labour will tackle the scourge of tax avoidance and review tax reliefs to make sure the rich pay their fair share towards the public services that we need”*.
- At a 2019 Labour Party Conference fringe event, Shadow Chief Secretary to the Treasury Peter Dowd focused claimed that there is £450bn of tax reliefs that could be used in a different way.^{xviii} Although, it must be said that – if the reporting of Mr Dowd’s comments are accurate – it is unclear of the source for the £450bn figure.

In short, the Labour Shadow Treasury team has re-emphasised its commitment to reviewing tax reliefs in government and has specifically talked about that review in the context of the ‘better-off’ and ‘the rich’.

What could this policy mean for the typical person?

Specific big-ticket tax reliefs on personal assets are as follows:^{xix}

- Exemption of Capital Gains Tax (CGT) arising on disposal of only or main residence, costing £26.5bn in 2019-20.
- Relief on registered pension schemes – including relief on contributions, relief on investment returns, and tax paid in retirement – costing £21.2bn in 2019-20.
- Relief on paying tax on any income (i.e. dividends, interest and bonuses) received from their ISA savings and investments, costing an estimated £3.3bn in 2019-2020.

It would be a radical step for any government to advocate removing the exemption of CGT on disposal of the only or main residence. Indeed, the IPPR and Resolution Foundation have shied away from suggesting it when they looked at reforming the wealth tax system.

That said, the IPPR has suggested removing the CGT exemption on assets held until death (CGT liability on assets is essentially reset to zero when a person dies). The think tank estimated that this could raise almost £2bn by the middle of the next decade.^{xx} Significantly, John McDonnell welcomed this report.

Adjusting relief on registered pensions schemes or ISA allowances may also seem punitive towards those on middle-incomes or those who have worked and saved. But they have both been suggested as a method of taxing assets more effectively. It is, however, worth illustrating that the best-off beneficiaries of these reliefs are not necessarily those that are best-off in terms of income. For instance, while those on higher incomes tend to have higher values in ISAs, almost 10% of ISA holders with an income below £5,000 have higher values in an ISA than the average value held by those in the £50,000-£99,999 income bracket.^{xxi}

Taken together, the cost of these tax reliefs on pensions and ISAs sum to £24.5bn. In other words, £24.5bn of tax relief on pensions and savings wealth could be regarded as ‘in-play’ for reform under an incoming Labour government. It is, however, important to note that HMRC are clear that the revenue that could be generated from a policy of reforming tax reliefs is highly uncertain.^{xxii}

What questions should the Labour Party answer?

There are three questions that the Labour Party need to answer on its review of tax reliefs:

1. What tax reliefs are in scope and out of scope for the ongoing review of tax reliefs it has committed to in government?
2. Will the reliefs related to capital gains tax on property, pensions or on ISA savings be left unchanged by a Labour government?
3. When Labour’s Shadow Treasury team talk about the ‘rich’ and the ‘better-off’ in the context of tax reliefs, who do they mean?

Reforming council tax

What is Labour Party policy?

The 2017 Labour Party manifesto stated that a Labour Government would, “...initiate a review into reforming council tax”.^{xxiii} This is something discussed since by Shadow Treasury Minister Annelise Dodds, explaining that:^{xxiv}

“Council tax has become increasingly regressive, especially following the devolution and reduction of funds from central government for council tax relief. This has occurred in a context where central government funding for local authorities has plummeted by around a third”.

More recently, the commitment to reform council tax was reiterated at the Labour Party Conference in October 2019 (although Shadow Chief Secretary to the Treasury Peter Dowd reportedly cautioned against ‘radical’ change).^{xxv}

It is also worth noting that an independent report commissioned by the Labour Party into how land is owned, used and governed recommended replacing Council Tax with a, “*progressive property tax*”.^{xxvi} In addition, the Labour Party has already announced that it would place an additional levy on second homes based on council tax banding.^{xxvii}

What could this policy mean for the typical household?

If the Labour Party were to reform council tax to raise additional revenue, and to redesign the nature of the tax, it will undoubtedly mean some people paying more tax relative to the value of their property. The question is: who would these people be?

A straightforward indication is to look at Scotland’s reforms to council tax and show what it would mean in England. Under the new Scottish system, the top four of eight council tax bands (bands E to H) now pay more than they would have under the old system.^{xxviii} If the same system were to be applied in England it would mean that:

- 4.6 million households paying more council tax than under the current system (any property that is in council tax band E to H), which is around 19% of all properties in England.^{xxix}
- To give some regional perspective, this would be 21% of properties in the East of England and 28% of properties in the South East.^{xxx}

What questions should the Labour Party answer?

1. Which council tax bands are in scope for the Labour Party review?
2. What percentage of properties are likely to see an increase in the council tax that they pay?

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