

# The Structure of Taxation

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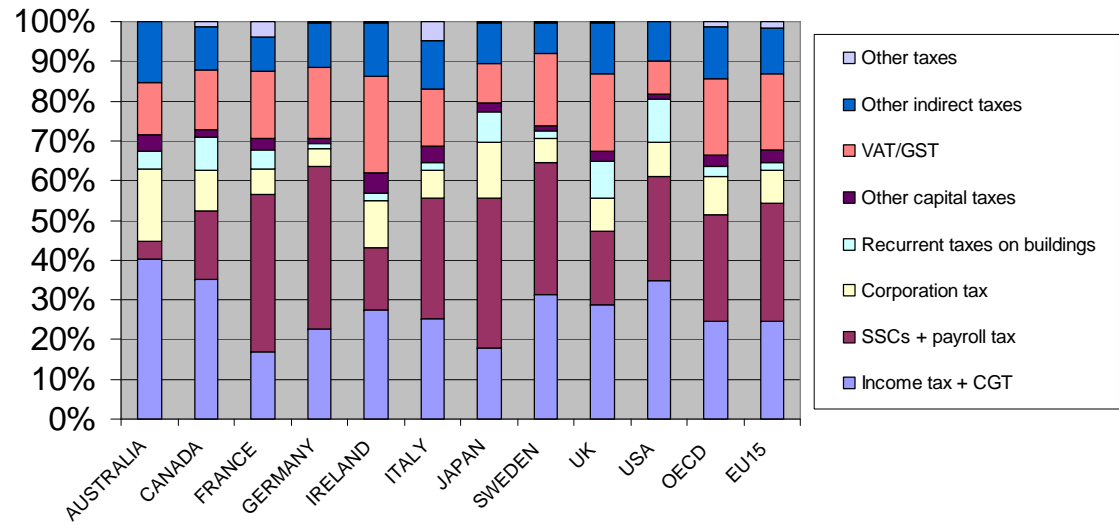
## Outline

- In this presentation, I will offer a personal overview of some issues that are relevant for thinking about the structure of taxation
- This is heavily influenced by my experience as a member of the Mirrlees Review team (Tax by Design)
- The results of the review will be released early next year.
  - But it will be a personal view and quite selective.

## Challenges

- Tax policy design works best when it follows a set of clearly defined principles that can be used to justify directions for change and can be used to resist some kinds of special pleading.
- The role of an independent commission like the Mirrlees review is to take a step back and to look for a joined perspective.
- We will make some recommendations in the context of a broadly similar tax take for government.
  - although issues of tax mix are a legitimate issue

## The composition of revenues 2004



## New Challenges of the past 30 years

- Globalization
- Rising Inequality
- Financial development
- Changing patterns of work
- Recognition of importance of environmental concerns

## Globalization

- Capital
- Business locations
- Human capital

## Inequality

- Linked to mobility
- Two earner families

## Financial Development

- Production
- Consumption



## Changing Patterns of Work

- The extensive margin
- Retirement
- Women's participation

## Environment

- Climate change
- Congestion

## Salient Features of Tax Systems

- In EU – universal use of VAT although on a restricted base
- Use of progressive income taxation
- Wide variety of corporate tax systems
- Different vertical structures

## Complications

- Most tax systems have a straightforward core
- But there are parts of the tax system which create most significant complications
  - tax treatment of assets
  - integration of taxes and benefits at the bottom of the income distribution
  - international tax

## Principles

- Classical economics approached the issues by laying down canons of taxation
- The modern era has seen great deal of influence from approaches which are derived from optimal taxation.
  - the tax burden should be seen as a trade off between equity and efficiency.
  - taxes should be incentive compatible.
- Economists have paid less attention to criteria like simplicity and compliance issues in tax design.

## Neutrality as a Guiding Principle

- A presumption is that taxes should not distort activities
- Could be argued for from fairness and some approaches to optimal taxation
- Applications:
  - consumption: a broad based tax with similar rates should be favoured
  - savings: similar treatment of all assets
  - businesses: no favouratism towards particular forms of organization, types of investment or methods of finance.

## Anomalies

- Multiple labour taxes
- Assets
- Housing
- VAT exemptions

## Practice

- We have also seen a vast increase in data driven approaches based on household and company data.
- Need to justify reforms on the basis of good evidence



## Extending the VAT base

- In the U.K., this means having a debate about end zero rating and exemptions on some kinds of goods
  - financial services
  - food and children's clothing
  - taxation of housing services
  - household energy use

## Savings/Investment (households)

- Movement towards a consumption tax
  - “normal” assets returns are tax free
    - \* but rents should be taxed.
  - exempt investments in human and physical capital
  - treatment of housing?

## Businesses

- Reducing distortions for or against unincorporated businesses
- Introducing an allowance for corporate equity (ACE)

## Deviations from neutrality?

- sin taxes
- environmental taxes
- encouraging labour force participation

## Bottom Line

- Step 1: try to elicit a set of guiding principles
- Step 2: look for anomalies from these principles
- Step 3: identify directions for reform with a suitable time horizon
- Step 4: view reform as a package