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A 2020 vision for tax [1]

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George Osborne's speech [3] on tax yesterday, which he delivered at Policy Exchange [4], was structured around Adam Smith's four principles of taxation: efficiency, certainty, transparency and fairness.

On efficiency, Osborne said we needed to cut corporation tax in order to compete globally. On certainty, he said a Conservative government would think through tax policy properly, with an eye on the unintended consequences. So no more announcing a government policy (like the capital gains tax reforms, say, or the tax on non-domiciled residents) only to have to U-turn a few months later. On transparency, Osborne said he would not implement stealth taxes and would seek to simplify the tax system. On fairness, he repeated his pledge to abolish stamp duty on houses under £250,000 for first-time buyers and raise the inheritance tax threshold to £1 million.

All of which is welcome, sensible stuff. The overall message of the speech was: we want to cut taxes, and we will when we can ? but politics means we can?t promise spending cuts, and the economic forecast means we can't be too radical about cutting taxes. From an electoral perspective, Osborne's probably got it right.

Of course, in the long term the best way of making the tax system efficient, certain, transparent and fair would be to implement a flat tax. How about aiming for the following by 2020: a personal allowance of £20,000, with a 20 percent flat tax on all personal income (whether from wages or capital gains, or whatever) above that. Abolish corporation tax and inheritance tax altogether ? in fact, get rid of all the other taxes levied by central government. Then make local government self-financing with locally set (and thus competitive) property and sales taxes.

What could be more efficient, certain, transparent and fair than that?

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