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A tax hike by any other name [1]

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The collection of the UK?s taxes has become a big issue. Earlier this month came the brouhaha over HMRC?s errors in collecting the correct amount of tax. Now, this week, the Treasury says some £42 billion of taxes owed went uncollected in the 2008-9 fiscal year. That?s about 9% of total tax revenues and getting close to the level of the government?s planned annual capital spending.

Not surprisingly, those opposed to the government?s program of fiscal austerity argue that the uncollected tax should be raked in before taking the axe to any spending. Meanwhile, dutiful taxpayers who meet their obligations feel outraged and further alienated from the system. So the chase is on to beat every last penny out of the bushes and into the maw of the Treasury.

In effect, though, that?s just another tax increase ? taking £42 billion out of the private sector and into the public. We don?t know whether that £42 billion is now being deployed as productively as it might be right now, but we do know that it won?t be if it gets scattered about any number of government departments. We can also be pretty sure that if the £42 billion were to magically turn up at the Treasury, it won?t be used to accelerate the deficit reduction program nor re-distributed to current taxpayers as a reward for their humble compliance.

That?s not to say there isn?t a very real problem here that needs fixing. Unfortunately, the government?s initial response of cracking the whip is wholly predictable. ?This government is committed to taking the necessary action to bring it down ? taking steps to reduce tax avoidance and evasion, including by the richest people in our society, so that everyone pays their fair share and we reduce the tax gap over the coming years,? said David Gauke, exchequer secretary.

Sigh! The same old stick will be brought down on the same old backs with the same old result. Yes, Mr Gauke will succeed where countless predecessors have failed.

Friends of the ASI can recite their preferred solution while asleep ? a much simplified tax structure and lower tax rates will do more to eliminate evasion, avoidance and error than tougher enforcement of a discredited regime.

Unfortunately, there?s still little sign of that kind of thinking in the new coalition government - quite the opposite, if Vice Cable?s proposed tax on university graduates is actually getting any discussion time in government. If ever a tax represented the underlying problem, this one is it.

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