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There is more joy in heaven [1]

Written by **Tim Worstall** [2] | Monday 12 May 2008

Over the one sinner that repenteth etc. Stephen Byers seems finally to have grasped what the people around here have been shouting about for years [3].

> An approach that raises personal allowances and takes more people out of paying tax altogether is the best way of helping the working poor.

Yes, quite, now that even Byers and Polly Toynbee [4] agree that the low paid shouldn't be paying income tax can we just get on with it, raising the tax free allowance to, say, £14,000 a year as has been suggested around here? Although, I have to admit, there's a certain wonder here: have we been able to make this case so effectively that people are now agreeing? Or does the often correct test that if people like this are now agreeing with us we might need to rethink matters ourselves? Fortunately for my own sanity, Byers in his second proposal reverts to type:

> Second, much more needs to be done to link tax revenues directly to those areas where the public wants to see its money spent. This will mean a significant increase in the amount of taxation that is hypothecated for a particular purpose.

No, this is profoundly silly and that silliness is exactly why the Treasury has been adamant that we should not have anything but the most limited hypothecation of taxation. The reason is that there is no link, none at all, between how much tax one can raise on a specific activity (or even might want to raise, where the tax is to change behaviour as well as raise revenues) and how much you might want to spend on some other, even if closely related, activity. We can and do raise north of £ 8 billion a year on tobacco taxes, smoking creates direct costs for the NHS of some £1.7 billion. If we were to tax smoking only to cover those direct costs then the sin tax should fall. The original supposedly hypothecated tax was national insurance, to pay for pensions, the NHS and unemployment benefits: the NHS alone now spends more than that tax raises, the rest coming from the general fund. Hypothecation simply doesn't work: you should raise the tax where you can, spending what you need. **[Click 'Read More' to continue]**

Entirely removing my worries about agreeing with the man, Byers then fails in his thrid proposal as well:

> If we are serious about making work pay then it has to be unacceptable that we now have nearly 2m people facing marginal deduction rates from household income of more than 60%. Many will be the working poor who will have been hit by the abolition of the 10p rate.
>
> If they decide to work longer hours to make up for their lost income, they will receive only 40p in every £1 earned because as their income goes up benefits and credits are withdrawn. More needs

> to be done to simplify the benefits and tax credits system to reward hard work.

Yes, indeed, but it would help if he'd noted that by hugely raising the personal allowance we've already solved this problem. As the benefits system and the tax system will (largely) no longer overlap, we've brought down those all important marginal tax rates.

Still it is an advance, don't you think? One out of three ideas from a Labour politician being a good one is better than the recent track record, so things can indeed only get better.

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