

[Budget 2012: Expect nothing and you won't be disappointed](#) [1]

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In 1947, the Chancellor Sir Hugh Dalton mentioned some of his tax changes to a journalist. Unfortunately they appeared in the early edition of an evening newspaper before he had finished his speech, and he was forced to resign as a result. Quite different from today, when the Liberal Democrat and Conservative partners in the UK's coalition have been debating their different tax ideas in full view of the public. Apparently that is the way they do it in Sweden, and Nick Clegg, the LibDem leader, was so taken by it that he decided to import the process into the UK.

Frankly, this kind of discussion should be done in private. Doing it in public simply raises the stakes, and makes it harder for either side to back down or compromise in case it makes them seem weak. And it makes tiny issues seem hugely important ? rather like those bitter disputes between academics. As the political scientist Wallace Sayre put it, 'academic politics is the most vicious and bitter form of politics, because the stakes are so low'. But we have been having an equally bitter row about whether the 50p tax on high earners should be cut ? not abolished, it seems, but cut, to just 45p.

[As the Adam Smith Institute has demonstrated](#) [3], from evidence around the planet, the 50p tax does not work. It is so high ? even higher when you add national insurance contributions, another stealth tax on work ? that it becomes well worth avoiding. So, for example, people who are threatened by the tax do not take their income in cash, but simply shove it into their pension pot, where it attracts 50% tax relief. The Treasury gets nothing.

So why not abolish it? Because it is a LibDem totem. They want 'the rich' to pay more to 'help us out of the financial crisis'. So the deal is that we will have a 'mansion tax' and a 'tycoon tax' ? tightening up on avoidance measures ? and taking more low earners out of tax entirely.

We at the Adam Smith Institute are very keen on taking poorer people out of tax. It is absurd that folk on the minimum wage get socked for income tax. It greatly reduces the incentive to come off benefits and look for work. But a tax on mansions? You work, you pay tax, you save, you pay tax on any interest you earn from that, and then you buy a house in London, and then you get hit for tax on that. And as for tightening up on tax avoidance ? like those rock stars using offshore companies to buy their UK homes so they don't pay stamp duty or inheritance tax on them ? well, you can be sure that the new rules will make the tax system even more complicated, and that all those rock stars' expensive accountants will find yet other ways round them.

And in return? Cutting the 50p tax to 45p will do no good at all. It still looks like a spite tax on enterprise and success. It will still drive people abroad, and discourage others from coming to Britain to do business.

Another measure which the Chancellor seems to have accepted, as part of the 'crackdown' on tax avoidance, is the Revenue's idea for a General Anti-Avoidance Rule. The concept is that if you set up some scheme solely to avoid tax, it will be declared illegal. (In past years, for example, people had themselves paid in rhodium or champagne because there was no national insurance on it. Of course, it

was just a tax-avoidance scheme, and companies arose which would 'buy and sell' these commodities, taking a cut and handing back most of what you would have earned anyway. And there are still countless other avoidance schemes.)

This GAAR as it is called, is one of the most dangerous changes UK taxpayers have ever faced. Right now, you can organise your affairs any way you like, within the rules, to keep down the amount of tax you have to pay. Sure, if you find a loophole, the Revenue will try to close it. But finding loopholes is not illegal: the Revenue should be more careful in writing the tax rules in the first place.

The danger in GAAR is that it is not you, but the Revenue, that decides how your affairs are organised. You may be doing something which is in fact entirely legitimate and not even designed to save you tax. But if the revenue figures that by organising your affairs in a different way, you would be liable for more tax, then they must be hugely tempted to send you a bill for the higher figure. You could always challenge it in court ? but the Revenue has deeper pockets, and more time and patience, than the average taxpayer. I would prefer taxpayers to decide how their affairs are organised ? not the Revenue.

A more promising measure that has been trailed before the Budget is a £100bn scheme to privatise and lease out the motorways. There is much misunderstanding about this. The idea is not that motorists should suddenly find themselves paying tolls to private motorway owners. Rather, it is to enable private consortia to take over motorways, or build new ones, and be paid by the government according to the traffic that uses them. It is something that the Adam Smith Institute was advocating back in the 1980s.

Such an arrangement would encourage private consortia to invest in where they believe the infrastructure is most needed ? something that civil servants are not good at ? and be paid more if they are used more. Which seems like a good way to manage the public finances and focus taxpayers' money where it is needed. And if taxpayers get £100bn up front, that's a useful deficit-busting sum right now.

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