

## [The 10p rate is a flawed tax cut, but a tax cut nonetheless](#) [1]

Written by [Sam Bowman](#) [2] | Thursday 14 February 2013



Robert Halfon MP's campaign to reintroduce the 10p tax now appears to have been a success. After David Cameron's hint that it would be introduced in the next budget and Ed Miliband's announcement today that Labour would reintroduce it after the election, it seems inevitable that it will be a part of the next budget.

Many in the free market movement have expressed their dismay at this. The CPS's Ryan Bourne has [argued convincingly](#) [3] that it would be better to raise the personal allowance more instead of introducing a new band of tax, primarily on the grounds of simplicity.

I agree with him, but I am still pleased that the government is going for the 10p rate. Where I differ is that I do not see the reforms as being a case of either/or. The personal allowance will be raised to £10,000 ? as I argued in my paper [Just Rewards](#) [4] last year, it should be pegged to at least the minimum wage level ? but it seems unlikely to be raised beyond that.

George Osborne is unlikely to see a raise beyond £10k as being worth the reduction in revenue ? raising the personal allowance was a Lib Dem policy before the election, and it would be hard for the Conservatives to claim special credit for raising it even further. This proposal essentially allows the Conservatives to claim credit for something ? taxing low-income earners less ? that they should have been for all along. The effect is basically the same.

I am not really convinced that the addition of another tax band will be significantly complicating. The length of Tolley's Tax Guide, a rough but useful guide to tax code complexity, [has doubled since 1997](#) [5] ? not because there are extra bands (you could fit a hundred different bands on a single page) but because of the number of special exemptions and loopholes created by government to favour certain groups over others. This, it seems to me, is the real meat in the tax simplification sandwich.

I would love to see a 'simple tax' proposal to scrap all the complications in income tax but preserve two different tax rates, so that the argument over tax simplification former was not bound up in the (quite different) argument over whether we should have a single band of tax or not. (Incidentally, if you're a tax expert and you might be interested in writing this, get in touch.)

It is hard to object in principle to the idea that taxing a billionaire causes less harm to him than taxing a hospital porter at the same rate does to the porter. Indeed, anyone who believes in a tax free personal allowance and a single flat rate of tax, in effect, is acknowledging that principle as well. This isn't to say that the practical arguments for a single rate of tax ? the incentive effects and the political impetus for lower

taxes created by putting all taxpayers onto the same band ? aren't very strong, just that there are good arguments in the other direction, too.

There are good arguments against the 10p rate, but most are based on an assumption that the alternative would be a further rise to the personal allowance, rather than the status quo. Alas, because of the politics, I think it's 10p or nothing. That's why I'll support it ? it's a flawed tax cut, but it's a tax cut nonetheless.

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