Making Budgets Better: A Review of *Better Budgets*

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A REPORT on *Better Budgets* from the Chartered Institute of Taxation (CIOT), Institute for Fiscal Studies (IFS) and Institute for Government (IfG) outlines ten steps towards making better tax policy in the UK. The report argues that the current tax policy-making process is not fit for purpose: to reduce taxpayer confusion, cut down costly errors and avoid embarrassing U-turns, the government must change the way it makes tax and budget decisions. This is an excellent report which is well written and balanced, and deserves a wide readership.

The report argues that the current process is shrouded in secrecy. Budgets are a mixture of politics and highly technical measures, although the evidence base is often poor. There is a temptation for Chancellors to produce ill-prepared 'rabbits out of the hat' that are politically attractive but which quickly encounter political opposition and implementation problems. The result is taxpayer uncertainty and confusion, and uncertain value for money.

The report welcomes the announced move to a single Budget each year, which was an interim recommendation from the three institutes (CIOT, IFS, IfG) in September 2016. The other key recommendations are the following.

First, the report urges the publication of clear guiding principles and priorities for tax policy: governments frequently give little sense of direction on tax policy, making planning difficult. Second, they say that consultation should be improved, in particular ensuring that consultations take place before key decisions are made. This is an important recommendation, given that the tradition of Budget secrecy has inhibited the consultation process, which has often had a rather formal and ritualistic character. Third, the report authors argue that the Treasury needs a more robust policy-making process, involving more challenge before measures make it into the Budget speech. Parliament needs to improve the quality of its scrutiny both of the Chancellor's proposals and of the impacts of measures once implemented.

Finally, external public reviews of aspects of the tax system should be used as a means of opening up public debate. Taken together, it is maintained that these changes would mean fewer, better-designed measures and a more coherent tax system commanding wider public support.

The authors argue, 'The end point is a quite simple vision: A Budget process that contains fewer measures, which are better thought out—and can be implemented efficiently by HMRC without imposing unreasonable burdens on taxpayers. A better public debate on the big tax choices—with politicians making informed decisions and the public understanding the kinds of long-term choices that must be faced. Greater stability in the areas of the tax system where taxpayers—individuals and business—need to make long-run decisions. A tax system that commands public support—and is robust enough to raise the money we need to finance the state we want.'[1]

In what follows, we review the report in more detail.

Strategic direction

The report starts with the proposition that 'there is little sense of clear strategic direction for tax policy that emerges from budgets'.[2] Within this general heading, the report identifies three different problems. The first, in some areas of taxation, is the sheer volume of change; some areas, notably savings and pension policy, have experienced considerable change in almost every

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budget over the past decade or more. Second, in some areas, changes have been introduced with very little advance notice—for example, the recent changes to tax treatment of buy-to-let. Third, there is a lack of 'joined-up thinking', or coordination with other policy initiatives. This is the case with the lack of coordination between the levy on sugary drinks and the government's obesity strategy.

In response, they make three concrete suggestions. First, they suggest that 'chancellors should consider making a statement early on in a new parliament or in their chancellorship about their priorities for, and approach to, the tax system'.[3] Second, they suggest extending the 'road-map' approach used in the past for planning corporate taxes to all areas of taxation. Third, they suggest starting consultation with stakeholders earlier in the process. The latter two proposals are discussed further below.

The first suggestion seems generally a good idea. However, it is also the case that governments need sufficient flexibility in tax policy to deal with problems as they arise. The housing market provides a good example. The underlying problem in the UK housing market—the very high price of housing in some parts of the country—is a result of inadequate supply (which is difficult to address in the short term) and loose monetary policy, which is driven by events not entirely under the control of governments, such as the financial crisis and Brexit. Given this, the tax measures on buy-to-let announced in 2015 (the reduction in the deductibility of mortgage costs and the higher stamp duty), while not perfect, are probably a reasonable 'second-best' policy to deal with overheating in the housing market.

The buy-to-let example also exemplifies a possible problem with the road-map approach; that is, for some taxes, announcing the direction of tax policy far in advance could give rise to large behavioural effects that can destabilise markets. For example, the increase in stamp duty on buy-to-let purchases effective as of 1 April 2016 was only announced in the Autumn Statement of 25 November 2015, and confirmation that large investors would also be subject to the tax was only given in the Budget on 16 March 2016. Nevertheless, in spite of this, there was a rush to purchase buy-to-let properties, leading to a spike in transactions and prices. Undoubtedly, a longer period of notice on this policy change would give rise to even more instability.

Consultation with stakeholders (external engagement)

The report is concerned about continuing weaknesses in engaging external actors in the development of tax policy. The interesting question here is what constitutes a legitimate 'interested party' or stakeholder. Historically, there has been an emphasis on established economic interests, although there have always necessarily been limitations when it comes to countering tax avoidance measures.

The report does note an increasing willingness to consult tax professionals, and this should in principle help to improve the technical quality of taxation decisions. However, there are much broader issues that go beyond effectiveness and efficiency and are concerned with the fairness and equity of the tax system. Indeed, the whole focus of consultation may be wrong. The report notes that 'too many consultations start too late in the policy making process, and focus on the technical detail of how to make changes, not on the rationale of the changes or the different potential ways of delivering a particular objective'.[4]

The report acknowledges that 'large professional firms and representative bodies are generally well prepared to respond to consultations, and have the resources to do so'.[5] However, even they find the volume of consultation challenging. In the six months from August 2016 to January 2017, the Treasury launched thirty-one consultations.

The report admits that 'The resources that responding to consultations requires also means that there is much less input from those who are not as well organised, and who are not primed to respond to multiple government consultations'.[6] This might include groups such as the Low Incomes Tax Reform Group, a campaigning charity which seeks to 'represent the unrepresented', defined in terms of those on household incomes below £20,000.

The consultation process set out in the Corporation Tax Road Map could be interpreted as giving more weight to business interests—for example, the Corporate Tax Reform Liaison Committee that led the process was composed of one MP and representatives from large corporations; there was no representation of trade unions or of civil society.[7] In areas of tax policy that are seen as less technical and more politically charged (such as tax policy on the housing market), ensuring a fair consultation process could be challenging.

There is a more general question about how biases within the tax and benefits system are dealt with—for example, do elderly people get a favourable deal with their exemption from National Insurance contributions, or do single people get relatively unfavourable treatment? However, such issues raise broad political questions which are arguably best dealt with by political parties rather than through consultation with stakeholders.

Legislative scrutiny

The report notes that the Finance Bill has received less parliamentary scrutiny than any other piece of primary legislation, with only cursory treatment in the House of Lords, although pre-legislative scrutiny has improved with Finance Bill clauses being systematically published in draft. The committee scrutinising the bill, as is standard practice in the House of Commons, is not selected for its expertise. A 'combination of not picking experts, frequent rotation of members and lack of support resources means that Parliament is hard pressed to add much value to the scrutiny of technical tax legislation'.[8] It might be argued that the broader political need is to address how the tax burden falls between different categories of taxpayer, and between business and personal taxpayers.

The report briefly considers the possibility of a more specialised model where the work of standing committees and legislative scrutiny is combined. However, the implication is that such a major change is not politically feasible, so the report focuses on promoting more effective liaison between the Treasury Select Committee, the House of Lords Economic Affairs Committee and the Finance Bill Committee. Even with the new fiscal timetable, this might not yield great dividends in terms of policy scrutiny.

The report also considers the lack of any dedicated select committee to cover HMRC. Various solutions are considered, such as a subcommittee of the Treasury Select Committee, a new select committee with a tax remit or a Joint Committee on Taxation of the Commons and Lords. Each of these solutions has difficulties, for example turf fights between a new taxation select committee and the Treasury Select Committee over major fiscal policy issues. In any case, the report acknowledges that a more fundamental issue is the lack of resources to support MPs in tax work. This has been a perennial issue in Parliament and is unlikely to be dealt with in a time of austerity.

Post-legislative review

The report argues that there are two fundamental purposes for more rigorous post-legislative review and evaluation: first, to work out where policy is working well—and where it isn't—in order to inform future policy changes, and, second, to hold ministers and officials properly to account for the quality of their decisions and implementation of policies.

The report also argues that at the moment, neither of these is done on any systematic basis for tax measures. It identifies three specific areas of concern. First, the Treasury currently advises that review of tax measures by other government bodies, such as the National Audit Office, should be limited to the effectiveness of their implementation, and that criticising tax policy is beyond their remit. Second is the sheer volume of tax changes, and the lack of criteria against which to judge their success. Third, access to administrative tax data, which is used by academics to study the effects of tax policy changes on behaviour, is very limited in comparison to some other countries.[9]

In response to these problems, the report offers a variety of suggestions, the most radical of which is a 'sunset clause' in tax legislation. Sunset clauses are hardly used in the UK but are a feature in other countries, notably the US, where, for example, the Bush tax legislation of 2001 expired in 2010.[10] In principle, sunset clauses are a highly effective way of forcing evaluation of existing tax legislation, but only if mechanisms for evaluation, such as a strong evidence base, are already in place.

The report also proposes some more incremental proposals that might help. For example, it suggests that a House of Lords Economic Affairs subcommittee or the Office of Tax Simplification could conduct more systematic reviews of the operation of measures after a certain number of years. It also suggests improving this information's accessibility to HMRC's Datalab.

Public engagement

The report makes the point that poor public understanding of even higher-level facts, tradeoffs and options makes it difficult to have an informed public debate about tax policy options. There are in fact two related problems here. One is that the public is often poorly informed about the tax system. The second is that, as part of this, the use of consultation, such as opinion polls or focus groups, could be subject to manipulation because answers to specific questions are susceptible to how the questions are framed—a bias well known in behavioural economics.

For example, as a recent citizens' jury conducted by PwC on taxation found, even the names attached to different taxes can affect perceptions. 'National Insurance, in particular, had been seen as a contributory scheme, rather than a tax. The revelation that it differs very little from Income Tax was widely seen as an example of duplicity and opacity in the system.'[11]

The experience with the PwC citizens' jury also shows, however, that the public can be 'trained' to think more rationally about the tax system. Over the course of the jury, jurors developed an appreciation of the tradeoffs that are involved in almost any change to the tax system, and also developed an appreciation for the ways in which different taxes interact.

While the report makes these points, it does not make any very specific recommendations for increasing the public's role in decision making, in contrast to the rest of the report, where recommendations are often very detailed.

To conclude, then, the authors of the report have set out a persuasive agenda for reform. But will those able to make the reforms be persuaded? The report's authors believe that the current Chancellor wants to reform, and he could enhance his reputation by doing so—but are the institutional resistances to real change too great?

Notes

1 J. Rutter, B. Dodwell, P. Johnson, G. Crozier, J. Cullinane, A. Lilly and E. McCarthy, *Better Budgets: Making Tax Policy Better*, London: Institute for Government, 2017.
2 Ibid., p. 16.
3 Ibid., p. 43.
4 Ibid., p. 21.
5 Ibid., p. 22.
6 Ibid., p. 22.
7 The members were: John Bartlett, BP; Ian Brimicombe, AstraZeneca; Brian Harris, RWE Npower; Will Morris, GE; Rachel Morrison, Santander; Paul Morton, Reed Elsevier; Jean Sharp, Aviva; Tim Voak, Tesco (see www.hm-treasury.gov.uk/corporate_tax_reform.htm (accessed 9 March 2017)).
8 Rutter et al., *Better Budgets*, p.35.
9 In particular, all work must be done in the Datalab at HMRC, whereas other countries—e.g. France, Finland—allow the data to be analysed remotely.
10 This legislation was in fact extended by two years, and finally was made permanent by the American Taxpayer Relief Act of 2012 for taxpayers making less than $400,000 per year.
11 *Taxation in the UK: A Citizens' View*, London, PwC. Report from a citizens' jury to look at the UK tax system, held in June 2014, for PwC.

