

THE TAX DETOX

Winning public consent for radical tax reform

Daisy-Rose Srblin

**FABIAN
SOCIETY**

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Summary

Now, more than ever, we have to talk honestly and comprehensively about tax. After centuries of tinkering around the edges, the UK's tax system is inherently regressive and unfair. At the same time, trust in politics and government has reached a worrying low. We have a political status quo that has failed to be honest about the fact that high-quality, Scandinavian-style public provision cannot be funded by low, US-style taxation, with continuing deficit reduction, making this dilemma worse.

Public opinion has consistently been seen as an obstacle to tax reform, rather than an enabler. It is assumed that talking about tax is a political 'third rail', guaranteed to be electorally unpopular. However, this report presents findings from a series of Fabian focus groups across England, which demonstrate that the opposite is true. Tax is not inherently unpopular, and it is possible to win public consent for reforms which are becoming imperative. This report suggests that there are three ways to win public consent for radical tax reform.

Talking about tax using public insights

Far from being unpalatable, our focus group discussions revealed that the public understands tax to be legitimate. People appreciate why they pay it, what it funds and their own role in making a contribution. Policy makers should not accept that talking about tax is toxic, but should seek to start a new, positive conversation about tax in a way that reflects the public's instincts.

Public attitudes regarding the legitimacy of tax crystallised around three themes:

- People feel a strong sense of solidarity, citizenship and obligation with respect to the payment of taxes. This manifests itself in a clear distinction between 'us' (those who work hard, are honest, and pay their fair share) and 'them' (those who somehow avoid contributing).
- People are proud of the UK's public services, and are proud to contribute to them. They understand the principle of paying in and receiving services in return.
- People like the fact that tax acts as a form of social insurance, offering protection for times when they will need support through their lives.

Explaining tax and giving the public a say

While people understand tax to be legitimate, they feel disconnected from it, seeing it as obscure, confusing and intimidating. This disconnection threatens the contract between the citizen and the state, and must be addressed in order to win consent for reform.

PUBLIC INSTINCT	RECOMMENDED RESPONSE
Tax should be more open and clear	<p>To make the system more open and intelligible for citizens:</p> <ol style="list-style-type: none"> 1. Citizens' tax statements should be reformed to include more information and should be designed independently from the Treasury. HMRC's online tax tools should also be reformed 2. Taxation should form part of a compulsory financial literacy curriculum for 14-16 year olds
Tax decisions should be more accountable	<ol style="list-style-type: none"> 1. HMRC should have ministerial representation and be scrutinised by civic representatives 2. A five-year tax strategy should be published at the start of each Parliament to curb short-term tinkering for political gain
Earmarking should be used when taxes need to rise	<ol style="list-style-type: none"> 1. Earmarking should be used when expenditure needs to rise, to explain what services or entitlements the new revenue will pay for 2. All earmarking should be independently scrutinised
Fiscal devolution in England should be pursued with caution	<ol style="list-style-type: none"> 1. Ministers should ensure strong safeguards are in place when business rates are devolved and they should not adopt further fiscal devolution without public debate and consent

Make tax fairer

As well as a general feeling of disconnection, our groups showed that people think tax is unfair. Their ire is especially targeted at multinational tax avoiders, at those who they perceive to be avoiding paying their fair share and at the unequal burden of tax between rich and poor.

PUBLIC INSTINCT	RECOMMENDED RESPONSE
Tax should be low, but not low at all costs	<ol style="list-style-type: none"> 1. Tax statements should include a statement of entitlements setting out what people's taxes pay for 2. An Office for Public Performance should be established to push for more effective and efficient government spending
Avoiders should pay in their fair share	Extend action against international tax avoidance through a global deal on tax base and profit shifting, which fully involves developing nations and includes the public disclosure of financial, tax and ownership records; and through tough enforcement action against tax havens and those who use them.
In exchange for support, everyone should make a contribution...	<ol style="list-style-type: none"> 1. The contributory principle in social security for people out of work should be strengthened 2. Policy makers should consider transforming National Insurance into a strictly ring-fenced fund, free from any other 'top ups' 3. Government tax statements should clearly describe the tax liabilities of high, middle and low earners

... But we should help the poorest	The tax burdens of those on the lowest incomes should be reduced by reducing indirect tax liabilities
The wealthy should pay more because they can	The government should adopt a broad-ranging strategy for raising extra revenue from high wealth households, including reforming the taxation of property or land; capital gains; and pension saving
Inheritance should not be taxed	Inheritance tax is too toxic to save and should be scrapped entirely. In its place gifts, bequests and other transfers should instead be taxed as income, at the recipient's marginal rate

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INTRODUCTION

Tax reform is important for the whole of society. Tax revenue funds the UK's strong, trusted public services and its investment in its people. But for too long politicians have assumed that talking about tax is politically toxic, and have shied away from engaging with its reform. This report, based on conversations with people across England, demonstrates that tax is not unpopular, and that, by understanding public attitudes, it is possible to win the public's consent for reform. A fairer tax system requires designing effective reforms that are in tune with our collective instincts. We need a reform agenda that has not only the public interest, but an understanding of public attitudes, at its heart.

Far from the prevalent assumption that talking about tax is toxic, the public understands tax to be legitimate. People appreciate why they pay tax for a range of different reasons, which policy makers can harness to reframe the conversation around reform. But while people accept the case for tax, they also find it complicated, intimidating and confusing, and feel they have little say on the subject. They also think tax is unfair.

So this report makes a series of recommendations to policy makers, with two main aims. First to reconnect the public with the taxes they pay; and second to put people's sense of fairness at the heart of a tax reform agenda. Recommendations include overhauling government tax statements, reviving the contributory principle in social security and reforming the unpopular taxation of inheritance.

At a time when taxes may have to rise just for services and entitlements to continue to meet public expectations, and with declining trust in politics and politicians, this report outlines how public attitudes can be harnessed to win consent for tax reform.

THE CASE FOR TAX REFORM

"The system of a progressive personal taxation is fundamental to the question of a fair and just society. Our system has been developing piecemeal for over 150 years, and many people take its underlying fairness on trust. Few have mastered its complexities and can appreciate the extent to which, under a cloak of formal equality, it discriminates in favour of particular classes in society."¹

These words from a Fabian research report of 1957 are as relevant now as they were almost 60 years ago. Tax in Britain today is still unfair, still tinkered with on a piecemeal basis, and still widely misunderstood.

There are three reasons why our politics needs to start to focus on tax reform, a subject which is presently ignored except when taxes are being cut. The first is a point of fairness. According to the most recent ONS figures, the poorest 10

per cent of households pay 45p in every pound of their gross income, while the richest pay 35p (about the same as middle income families).² While the tax system as a whole is redistributive, it is not progressive, since high income groups do not pay a higher share of their incomes. This is because there are highly regressive taxes such as council tax and VAT that continue to hit the poorest hardest; wealth and property is taxed far more lightly than income, despite being concentrated in fewer hands; and tax planning and avoidance remains widespread, denying the UK and other nations the revenue they need.

Second, the relationship between the citizen and the state is changing and the 'civic contract' between citizens and the taxes they pay needs to be reinvigorated and restated. Fewer people are taking an interest in politics today, and political distrust, abstention and cynicism threatens to undermine public consent for government. The payment of tax is at the heart of the relationship between the citizen and the state, as one of the main ways in which the two interact with one another. By improving people's understanding of tax and the things that it pays for and strengthening the sense of its legitimacy, we can start to restore confidence in our democracy. We can also find ways to build a community-oriented definition of citizenship to rival the more individualist 'each to his own' definition of atomised individuals that is promoted by the political right. Talking about tax can help reassert our responsibilities to one another, and the sense that society rises and falls by its common endeavour.

Finally, the UK needs a reckoning on the overall level of taxation it is content to pay. It is often said that the British people expect Scandinavian public provision for North American levels of tax. The sort of public services most people will want in 21st century Britain cannot be funded just through reorganisations of departments or efficiency measures; they will require new investment, and given the pressures posed by an ageing population, higher overall levels of tax. It is perfectly legitimate to reject the UK's current model of public services and argue for a society with lower taxes at any cost, but we need a political class that will be honest about the trade-offs involved. The price of a low-tax economy is poor-quality public services and increasing private provision, leaving citizens ending up paying higher private fees instead of taxes. Furthermore, fiscal and political pressures mean that deficit reduction continues to be prioritised at all costs, meaning that politicians need to engage honestly about how far they will endorse increasingly unpalatable retrenchment in public spending. In a climate where taxes will have to rise just for services to meet people's basic expectations, this report shows how policy makers can engage positively with the public about tax and win their consent for reform.

In July 2015 the Fabian Society published *Tax for Our Times*, a collection of proposals for radical tax reform. The contributions covered: tax devolution; scrutiny and transparency; global tax avoidance; earmarking; wealth taxes; and the taxation of low income groups. This report shows how some of the main ideas presented in *Tax for Our Times* might chime with public attitudes to tax.

THE FOCUS GROUPS

To understand what people really think about tax, the Fabian Society conducted four, three-hour deliberative focus groups in May 2015, shortly after the general election. They took place in locations across England: Exeter, Leicester, Stockport and Watford.

Each group comprised an even gender split and a range of ages from 24 to 60, and reflected the local distribution of voters between the Conservatives, Labour and the Liberal Democrats (see Appendix 1). The groups did not contain any non-voters or UKIP voters. The groups also comprised a range of representative socio-economic groups which make up the majority of the population, though all those working in political or tax fields were excluded. Our groups comprised individuals from the socio-economic classifications B, C1, C2, D.³

Each focus group was structured in the same way. First, we began with a general, open discussion about the ideas and feelings participants associated with tax, along with some introductory stimulus material. Participants were shown three graphs that documented the tax take over time, the composition of the overall tax take and the main areas of government spending, and were asked to comment on each (see Appendix 2).

Next, participants were provided with pairs of opposing arguments in favour and critical of the tax system. Participants were asked to debate pairs in turn and discuss which argument they preferred and why (see Appendix 3).

In this section, participants were given a short quiz to test their knowledge of the tax system. Questions covered a range of areas, including the percentage of income taxpayers liable to pay the top and bottom rates of income tax, and the total tax liabilities of the richest and poorest 10 per cent.

Finally, we discussed further pairs of arguments, reflecting choices for the future design of taxation. For each pair, participants were asked which option they preferred and why. The five pairs examined whether tax:

- Should be progressive
- Should be open and visible
- Should be earmarked to spending
- Should be devolved within England
- Should reflect wealth as well as income

The comments, ideas and attitudes of the people we spoke to inform the entirety of this report. But, there were a few overarching themes that ran throughout our discussions which are worth mentioning at the outset.

Firstly, people's initial associations with tax centred on boredom and intimidation, but by the end of the group, most participants claimed they had enjoyed thinking about a subject they had never really considered before. Secondly, most participants did not claim to know very much about the tax system at all, with some having a limited understanding of how different tax rates and thresholds worked. Despite their lack of detailed knowledge, most participants expressed insightful, sophisticated views about the subject.

Finally, participants held simultaneously contradictory views on tax. In general, people did not think in party political terms, or in terms of 'left' or 'right', and only a few participants spoke of specific party policies on tax, despite how recently the election had taken place. Furthermore, while socio-economic classification sometimes appeared to be linked to differing perspectives, more often than not, participants from different backgrounds expressed common instincts.

1 THE LEGITIMACY OF TAX

“I feel proud that I pay tax and contribute. If I wasn’t paying tax, I would feel like a little bit of a burden to society” (Male, B, Labour voter, Exeter)

“What am I getting for my money? ... A very good education system, a fabulous NHS, emergency services [that] are one of the best in the world, as are our defences ... everything that you see around you really. Look out the window and you know, the highways are all paid for, street lighting - all those kinds of bits and pieces” (Male, C1, Conservative voter, Leicester)

At the moment, tax is only discussed by politicians when it is being avoided or when it is being cut. This is because of an implicit assumption that tax is a political ‘third rail’, a subject that can only be discussed with caution and from a distance. This fear stands in the way of any fundamental public debate of taxation.

Our focus groups revealed that the public does not see it that way. While paying tax will never elicit unbridled enthusiasm, almost all participants articulated a number of ways in which they viewed tax to be legitimate. In doing so, participants cited a range of reasons, from tax funding public goods they relied upon, to the importance of citizens making a contribution to the society around them. Many believed tax was crucial to their conception of citizenship, and most articulated a sense of common identity, responsibility, solidarity and even pride in being taxpayers.

We asked participants to discuss pairs of statements that expressed positive and negative views about tax and the positive cases were preferred in three out of four instances (opinion was less clear cut with respect to a pair of statements on the role of tax in preventing poverty and inequality). In our groups, the right-wing narrative that sees tax as an illegitimate, coercive burden was not shared by the public, with participants viewing tax as a beneficial, legitimate exchange. Far from inspiring unbridled hostility, the public sees tax as valid. First, it is seen to be at the heart of a sense of common solidarity and citizenship. Second, it is paid in receipt of respected public services. And finally, it is seen to provide a fair and reliable form of social insurance.

BOX 1: Attitudes to tax: arguments ‘for’ and ‘against’

Participants were provided with pairs of opposing arguments in favour and in criticism of the tax system. Participants were asked to debate pairs in turn and discuss which of each argument they preferred and why. Participants tended to favour the ‘for’ statements over the ‘against’.

They were presented with the following statements to respond to:

For	Against
“Paying tax is a central part of being a citizen. Being a taxpayer is a proud badge of citizenship in society, and everyone should pay something whatever their financial position.”	“It is wrong for government to interfere with our lives and take away money from us. Ideally taxes should be as low as possible, and people on modest wages should not have to pay tax.”
“Taxes are the price we pay for a decent society with good public services. Tax makes our lives better by funding services few of us could afford by ourselves.”	“Government is the wrong provider of services. If people could pay less tax and keep more of the money they earn then they could afford better services for themselves.”
“It is right to pay tax when we can afford it because at other times in our lives we may need help from the government due to old age, illness or unemployment. What we pay in and what we receive often evens out over time.”	“Planning for the future should be our own responsibility. It is unfair that the taxes of those who can afford to pay go towards people who’ve not saved up for their own retirement, illness or unemployment.”
“In a responsible society, people who are poorer should not fall too far behind a ‘normal’ standard of living. It is right that tax helps to tackle poverty and reduce the gap between rich and poor.”	“Tax punishes people who succeed in life. It’s unfortunate that some people are poor but that’s not the fault of wealthy and successful people, and they should not have to subsidise others.”

Not everyone always sees tax, or any political subject, in one way. But our participants demonstrated strong shared beliefs. The rest of this chapter is devoted to the three key reasons people see tax in a positive light. By discussing tax through the prism of these three areas, politicians can be confident of a much-needed, positive, conversation about tax. By restating the case for tax in a way that resonates with how people feel, we can use the existing sense of tax’s legitimacy to create a positive, political space in which to talk about it, and reform it.

Solidarity and citizenship

The first theme in the discussions was the idea that tax is important because of its role in creating a sense of solidarity and citizenship.

Participants’ sense of solidarity was expressed by some as ‘us’ versus ‘them’, where ‘we’ are the ordinary, honest, hardworking, taxpaying major-

ity, and 'they' are either wealthy tax dodgers or fraudulent and dishonest benefits claimants. The groups clearly distinguished between those who paid what they could and those who avoided contributing their fair share. In the words of one participant, the "people at the bottom of the scale, they can be a bit fraudulent as well and people at the top they can be fraudulent, doing first class trips all over the world" (Male, C2, Labour voter, Leicester). For many participants, this distinction meant they were personally proud in being honest in the payment of their taxes, though the prevalent sense that there were others who were not contributing caused anger. According to another participant, "I would call [paying tax] a proud badge when I think of all the people that don't pay taxes and get away with just sponging" (Male, C1, Conservative voter, Watford).

Participants also linked the payment of taxes to their common citizenship. Many articulated pride in being able to pay taxes, because of the importance of their relationship with society, and also spoke positively about making a contribution in exchange for services, as opposed to receiving services without having paid in. For others, their conceptions of citizenship were even more broadly defined, with the responsibility to pay taxes being seen as society's "just humanity". Some people saw their contribution as part of a joint, community endeavour that went beyond a personal, instrumental transaction with government: "when government does things well... we've all taken part in that happening" (both quotations: Female, D, Labour voter, Watford). Participants also recognised that society's achievements were often taken for granted, and some commented that they felt they needed to reflect upon and appreciate these more themselves.

A number of participants raised caveats regarding the link between paying taxes and citizenship, however. For one participant, the connection felt "quite demoralising as...it's like saying because you're not a taxpayer... you're not a proud citizen" (Female, C1, Conservative voter, Stockport). In fact, after expressing the view that the payment of taxes was a core part of being a citizen, participants were often quick to qualify their remarks by stressing that those on low incomes or those unemployed contributed in other ways, and that these individuals were no less citizens.

The provision of high-quality public services

Focus group participants also spoke of the relationship between the payment of tax and citizenship less emotively and more practically, where taxes are paid in exchange for high-quality services. For some, viewing paying tax as a proud badge of citizenship was a little "melodramatic" given that some "begrudged" its payment as simply something that needed to be done (Male, B, Conservative voter, Leicester). However, for these participants, paying tax was still a "duty of citizenship", in receipt of services and goods, even if it was not an act that expressed an emotional connection to society (Male, C2, Labour voter, Leicester).

This practical view was endorsed by even the most cynical participants. Tax was paid "because it gives me services... not because I'm proud to be English or proud to be a citizen" (Male, B, Conservative voter, Watford). Many participants expressed the view that they felt they deserved to receive healthcare as a result of the contribution they made, "not that people don't deserve to be treated if they don't pay tax on the whole" some added (Female, C1, Liberal Democrat voter, Exeter). Participants across socio-economic

groups noted that they had probably received more in public services than they were able to contribute via tax, and many expressed gratitude that they were able to access everything they needed in exchange for their modest contributions.

Almost all participants expressed a sense of pride in the UK's provision of services, with most singling out high quality healthcare, state education, infrastructure, and defence as particularly noteworthy in terms of international comparison. Some went as far as suggesting that people's lack of understanding about where tax revenues were spent were responsible for the opinion that tax was unfair. According to one participant "if I knew where my money was going all the time then... I'd feel a little bit more like 'oh, so I've contributed towards this'... that's good news isn't it, when you're paying tax and you think 'wow, yeah, that's actually really good'" (Male, C2, Labour voter, Watford).

Most participants also supported the provision of strong, national, state-provided services, which their taxes contributed to, and very few suggested that increasing private provision paid for by lower taxes would be better. The UK's NHS was contrasted favourably with unaffordable private provision, and the US health system was cited by many as an inferior alternative. Almost all participants defended a national model of equal, high-quality public provision. Hence, according to one participant, "you need one governing body to bring it all together and then decide how [taxpayers' money] is actually going to be spent...by having a system we've got, which isn't perfect...it averages it out" (Male, B, Conservative voter, Stockport).

This pride in public services was closely related to most participants' view that the state was on the whole the preferred provider of public services. The state was seen by many to be a neutral, more efficient, not-for-profit entity, operating in the public interest and without bias, and there was generally little support for some of the 'small state' statements we presented. And on a more emotional level public services were seen by some participants as being innately, morally good, with state provision needed in order to reinvest funds for the common good: "[public services] benefit everyone - it's not a single, individual benefit [by]...private companies...going to line someone's pocket" (Male, B, Labour voter, Exeter).

Social insurance

The third important principle participants endorsed was tax's role as a form of social insurance. Tax is important because it affords people protection for times in their lives when they need support.

There was a general acceptance that the state should provide a safety net at unpredictable times of difficulty. While all participants agreed that everyone should try to make plans for the future to the best of their ability, it was felt that retirement and older age, ill health and redundancy were hard for most people to insure against. Indeed, some people saw the very payment of taxes as a method for planning for the future by contributing to an insurance plan which was affordable to almost everyone, as making a 'claim' would not increase a taxpayer's 'premiums' (Male, C1, Labour voter, Stockport). In return, participants expected the reassurance that they could access good health services and a pension, among other services. And even those expressing more cynical views about paying taxes defended the existence of public services as a "parachute to sort of protect you" (Male, B, Conservative voter,

Stockport).

Participants recognised the importance of a social insurance system which evened out the changes over the course of life, as well as insuring against unplanned periods of personal difficulty. They noted that there are times in people's lives where almost everyone needs extra support from government. Therefore, they supported a social insurance system which recognised the changing needs of people over the course of life, "from birth to death" (Female, B, Liberal Democrat voter, Watford). This included investment in education, healthcare and family support in the earlier years, and the need for health and social care provision, suitable housing and strong pensions as people grow older.

2 EXPLAINING TAX AND GIVING THE PUBLIC A SAY

“Tax... is something I’ve never been able to have a an actual say on in my life” (Male, Conservative Voter, C1, Watford)

“In a society where everything is audited... people should be able to ... see where all their money is going, so should receive more information on the tax they’re paying and what the government spends it on” (Male, Labour voter, C2, Leicester)

Despite the fact that people instinctively feel that tax is legitimate, our focus group participants also felt disconnected from tax, and viewed it as too technical, distant, complicated and intimidating.

If we are to reform tax, we have to explain it better and we have to give people more of a say. This chapter builds on people’s expressed instincts in order to outline four practical ways we can do just that. First, because people feel distant from taxation and do not feel they understand it, the transparency and accessibility of information on tax should be improved. Second, because people do not feel they have any influence over taxation, central government should be more answerable and open to the public regarding its fiscal policies. Third, because people like the principle of seeing what their money contributes to, earmarked taxes should be considered for any tax increases. And, fourth, because the public is not convinced about the devolution of tax powers, policy makers should take the time to consider how to make the case in England before charging on.

With political trust at a record low and alienation from politics increasing, taxation can be a tool to enable citizens to feel more politically empowered. The monthly tax deduction on a payslip is one of the starkest points of interaction between citizen and state, where the former is required to contribute in expectation of and trust in the latter to deliver vital services and public goods. This exchange relies upon public consent which we too often take for granted. As such, people’s disconnection from the taxes they pay is linked to their disconnection from the political process itself.

BOX 2: Discussing reform

Participants were given the following pairs of statements, which, in different ways, touch on the transparency and connection of taxes. They were asked for their thoughts on each.

Reform option 1

“Tax should be as visible and transparent as possible. Taxpayers should

Reform option 2

“Tax should be as painless as possible. Most taxes should be collected

receive more information on how much tax they are paying and what the government spends it on.”	indirectly rather than paid directly by individuals so people don’t have to see how much they are paying.”
“Local services should be funded by taxes that are raised locally, so people living in each community can decide how much should be spent on their services and how much they are prepared to pay in tax.”	“Local services should be funded by taxes raised nationally, so the government can share money between communities to ensure that wealthy areas with few needs help support places that would struggle to pay for services themselves.”
“As far as possible, the taxes we pay should be fixed to pay for specific areas of spending, so that we know exactly where our money is going. For example, National Insurance Contributions should only fund the NHS and social security.”	“All taxes should go into a common pot. The government should have the flexibility to decide the changing needs of different services over time.”

Transparency and clarity

The focus groups showed that while people understand the basics of the taxes they personally pay, that tends to be the limit of their knowledge. Participants did not generally pretend to know much about how much tax they contribute to the exchequer, what the different tax rates and thresholds are, how these work, or what percentage of the population pays which levels of income tax. Some people did not fully understand how tax rates worked, with a few assuming that moving into a higher income tax bracket meant all taxable income being taxed at a new rate.

Across the focus groups, participants initially described the tax system as intimidating, depressing and overwhelming. Some participants stated that they tried to avoid thinking about tax as “otherwise it just gives me a bad feeling” (Female, C1, Labour voter, Leicester).

The lack of understanding we found crystallised around several key themes. It was generally assumed that many more people paid tax at the highest rate of 45 per cent than is actually the case.⁴ Most participants also underestimated the percentage of income taxpayers who paid the basic rate, typically believing this to be over half, but not 88 per cent, which is the actual figure. People assumed that a far higher percentage of estates were liable to pay inheritance tax with some expressing surprise upon discovering that only a relatively small percentage of estates were affected.

We also found that people greatly underestimated how much of the total tax take was made up of the taxes individual taxpayers paid, via income tax, national insurance contributions and VAT. Participants assumed a far greater proportion comes from businesses than is actually the case. Finally, turning to what tax is spent on, while participants could name the main areas of government spending, they overestimated the proportion spent on education, defence, and international development, and underestimated how much is spent on government debt.

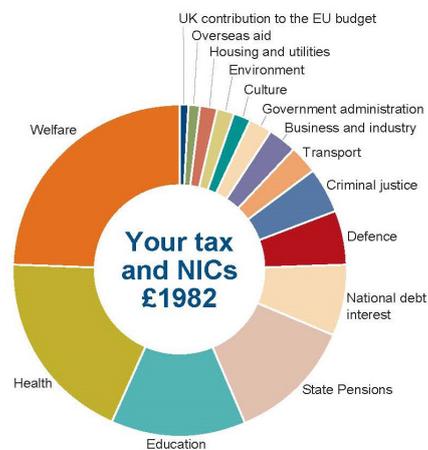
People expressed considerable enthusiasm for being provided with more information, with some participants even taking the focus group stimulus material home to study further. However, while people were eager to access more information about the taxes they paid, they were concerned that when government provided such information, it might be vulnerable to manipulation. In the words of one participant, government “wouldn’t tell you the truth anyway... or they would put it in a way that you wouldn’t understand”, meaning information which should be objective and impartial would be vulnerable to ‘spin’ (Male, C1, Cons, Exeter). Participants felt that politicians were more concerned with their own image over the interests of taxpayers, and so would either present their decisions in a positive light, or else conceal decisions by making the information provided deliberately unintelligible.

BOX 3: A critique of the government’s tax statements⁵

The coalition government recognised the importance of explaining tax and made the UK the only European country to provide citizens with a breakdown of how their taxes are being spent. Adopting a proposal originally developed by the Fabian Society in 2012’s *Paying for Progress*, the government announced that all taxpayers paying income tax would receive an annual tax summary, detailing their tax payments and where their money goes – much like council tax letters which are sent out locally. When the first statements were sent out in autumn 2014, the chancellor claimed the letters heralded a “revolution in transparency”, allowing taxpayers to see what proportion of their taxes went on different areas of spending.

How your tax contributed to public spending

	Your contribution
Welfare	£486
Health	£374
Education	£261
State Pensions	£240
National debt interest	£139
Defence	£105
Criminal justice	£87
Transport	£58
Business and industry	£54
Government administration	£41
Culture eg sports, libraries, museums	£33
Environment	£33
Housing and utilities eg street lights	£33
Overseas aid	£23
UK contribution to the EU budget	£15
Total	£1982



HMRC’s sample tax statement for a taxable income of £15,000

However, the statements were criticised by many, including the TUC, which said the letters were “party political propaganda masquerading as neutral information”. This was because the largest component in the pie charts was ‘welfare’. While the public often associates this loaded term with unemployment benefits (which actually make up less than one per cent of government spending), in the tax statement the category ‘welfare’ included a wide range of social security payments, including child benefit, the winter fuel allowance and in-work tax credits, as well as personal social services, public sector pensions and some pensioner benefits. Many argued that describing 25 per cent of public spending as welfare was a means to ‘soften up’ the electorate for cuts in the Budgets of 2015.

In addition, the statements only report the direct taxes of income tax and national insurance contributions, and not the many indirect taxes people pay, including VAT and fuel duties. Indeed, these indirect taxes make up a much bigger proportion of total tax paid by poorer individuals than wealthier ones. As such, by only stating how much direct tax people pay, and not including estimations of indirect taxes, or council tax paid locally, the statements misrepresent the contribution each citizen makes.

RECOMMENDATION 1: Tax should be more open and clear

People do not feel as if they understand tax. They find it intimidating, depressing and overwhelming. They also have significant gaps in their knowledge of tax, and are wary of the reliability of official information as supplied by government.

- Citizens' tax statements should be reformed to include more information and should be designed independently from the Treasury. HMRC's online tax tools should also be reformed
- Taxation should form part of a compulsory financial literacy curriculum for 14-16 year olds

Citizens' tax statements: should be revised to provide a fuller and more accurate statement that: (1) explains the basics of the tax system to build financial literacy (eg: income tax and national insurance rates and thresholds and the main VAT rate; the share of revenues coming from each main tax); (2) reflects all of a citizens' tax burden, including estimates for indirect tax liabilities, like VAT and other duties⁶; (3) briefly summarises the tax burdens of households with a range of different incomes.

Information on spending should be summarised in ways that will not mislead the public. For example the current 'welfare' spending area could be split to differentiate between pensioner, in-work and out-of-work benefits (or alternatively between pensioners, working-age adults and children). To address people's assumption that politicians will always manipulate information for their own interests, data should be selected and presented by an independent body, rather than the Treasury (perhaps the Office for Budget Responsibility). In this way, taxpayers can trust that the information provided is impartial and objective. The statements should be objective in terms of language, to further remove any 'political' bias. In chapter three we also propose that statements include a summary of the public goods and entitlements that come alongside taxation.

HMRC's online 'tax calculator': The online tool provided by government to enable people to figure out their tax liabilities, needs considerable development, so that taxpayers can access clear and simple information about their taxes whenever they need it.⁷ HMRC could learn from its commercial rivals, notably *Money Saving Expert* and *Which?* in terms of accessibility, intelligibility and presentation.⁸ These reforms would ensure that taxpayers can easily access information about the taxes they pay.

A financial literacy curriculum: Tax should have a prominent place in the new financial education components of the national curriculum for schools in England. This will ensure that citizens do not feel they lack the basic knowledge of how tax works, or that it is too intimidating a subject to engage with. It is crucial that compulsory education equips students with basic financial information to help set them on a path to being engaged citizens in the future.

Accountability

Participants often expressed a sense of powerlessness and exclusion with respect to tax. In the words of one participant, tax is something he had “never been able to have an actual say on in life” (Male, C1, Conservative voter, Watford).

Participants also felt as if the tax system was constantly changing. In general, people assumed that their taxes had been increasing for years, and were surprised to learn that, when compared to the size of the UK economy, the tax take over time had remained relatively stable since the 1960s. Despite this information, participants still felt that it was difficult to keep up with changing tax rates and thresholds, as each government was perceived to tinker with the system, for their own political gain. In the words of another participant, there was a sense that governments “give with one hand and take with the other”, further complicating the system for their own interests (Female, B, Lab, Leicester).

This sense of disempowerment was accompanied by a desire to “have a say” when it came to tax (Female, B, Lab, Exeter). While people were vague about what this meant in practice, participants liked the idea of institutions being answerable and open.

RECOMMENDATION 2: Tax decisions should be more accountable

People do not feel as if they have much of a say on tax, and feel that decisions are not being made in their interests. They also feel as if the system is constantly changing.

- HMRC should have ministerial representation and be scrutinised by civic representatives
- A five-year tax strategy should be published at the start of each parliament to curb short-term tinkering for political gain

HMRC representation: People feel that the tax system operates for vested interest groups rather than ordinary taxpayers. HMRC was described by participants as being poorly administered and inefficient, punishing those who played by the rules, and being unhelpful when contacted for assistance.

To tackle its unpopularity, the government should consider three reforms to HMRC (proposed by Richard Murphy in the Fabian pamphlet *Tax for our Times*).⁹ First, HMRC needs direct ministerial leadership, so that it is properly accountable to parliament. Second, the composition of HMRC’s board of non-executive directors should change. At present it is drawn from multi-national corporations, creating a very close relationship between government and big business, potentially narrowing the scope of its interests. To tackle this, HMRC should seek consumer and civil society representation on its boards, so that public interests the interests of ordinary taxpayers are considered. Finally, there should be more independent scrutiny of HMRC on behalf of citizens. For example Murphy proposes an independent Office of Tax Responsibility to review its tax policy proposals and forecasts. A standalone select committee would be another option.

Five-year tax strategy: To tackle the public’s sense that the tax system is constantly in flux and subject to political tinkering for short-term gain, the government should publish a long term strategy for tax once a parliament, which would be open to parliamentary and public scrutiny and debate. This proposal originated in the work of the 2013 Fabian Commission on Future Spending Choices, which advocated long-term tax and spending plans.¹⁰

Earmarking taxes for specific spending

In our focus groups, participants said that they felt more connected to a tax when they can see where their money is going. One way of doing this is through the increased use of earmarked taxes, also called hypothecated taxes, which are taxes raised for a specific purpose.

Today, for the most part, the UK has a single Treasury pool into which tax revenue goes and this funds most spending. There is no link between the tax revenue coming into this centralised pool and the spending allocations. This allows governments to spend taxpayers' money as it sees fit, allowing it to respond to urgent needs. But the process is also opaque for the public, who see their money disappearing in to a large pot over which they have no say, other than at election time, and then only indirectly.

However, alongside this approach, the UK has a long history of earmarked taxes, stretching back to the establishment of income tax for the funding of the Napoleonic wars. Some taxes have always been formally earmarked, such as national insurance that contributes to the national insurance fund, which finances basic state pension, a share of NHS spending and a range of social security benefits.¹¹

More recently politicians have used earmarking to justify revenue raising for specific ends. Most famously, perhaps, was Gordon Brown's 'penny increase' in national insurance contributions to increase NHS spending implemented in 2002, which followed proposals made by the 2000 Fabian Commission on Taxation and Citizenship. The 2015 summer budget continued this trend, by announcing the creation of a hypothecated roads fund and an apprenticeship levy.

Our focus groups demonstrated support for earmarking taxes for specific spending areas, where the spending area is understood to be legitimate. This reflects polling evidence during the general election campaign which showed that many voters would back a 1 per cent increase in their own income tax liability, if the increase went to fund the NHS.¹² Some participants also claimed that 'ring-fencing' spending was a way to minimise 'political' decision-making regarding expenditure choices, meaning spending on important areas like health would be 'apolitical' (Male, C1, Labour voter, Stockport). For some participants, it was helpful to have a model of spending where some areas were 'untouchable' so that government's whims would not affect the funding of much-needed services (Female, C1, Conservative voter, Stockport).

Participants also felt that the process of earmarking taxes increases the level of transparency in the system, allowing people to understand exactly where their money was going. Participants across the political spectrum believed that any tax increases would be better if accompanied by a specified spending area. Participants listed a range of reasons why they might support an increase in their own taxes including: "a major investment in hospital building or ...social housing" (Female, D, Labour voter, Watford), "building homes for the up and coming elderly generation" (Female, B, Liberal Democrat voter, Watford), and "a plan...to get the deficit back to a surplus...[if the government said] 'This is our plan, we're going to charge or you can have 1 per cent on income tax and get it done in three years'" (Steve, B, Conservative voter, Leicester).

Our groups suggested that participants were far more likely to support increases in the taxes they personally paid if the government made it clear that their money would not just "go into the melting pot and disappear"

(Male, C2, Labour voter, Leicester). The assumption here was that taxpayers' money that went into this common 'pot' of unidentified spending would inevitably end up being spent inefficiently, and taxpayers would not be able to see where their extra taxes were going.

This evidence suggests that earmarking holds potential for reconnecting citizens to the taxes they pay. However, there were also indications that the public would only support the extension of earmarking in a measured way. Participants were concerned that an earmarked system would be inflexible to changing spending needs over the course of a parliament; the cases of war or a public health epidemic were among the scenarios mentioned. In these cases, participants argued that earmarking was "unrealistic" as "in the real world you can't simply say 'right, I'm putting that money in that jar and it can only be used for that'" (Male, B, Conservative voter, Stockport). Not only would this policy be inefficient, it could also threaten public interests. Closely related to this, participants were also concerned about the event of an earmarked tax not generating enough revenue for a particular area of spending, and spoke of the need to be able to finance the spending need through another tax.

Policy makers would also have to address the public's concerns about the administration of increased earmarking. Some suggested that such system would be almost impossible to administer, and clarifying what tax revenue would be spent where would be a "nightmare" (Male, C1, Conservative voter, Exeter). These participants argued that people needed to learn to trust their elected government to decide what was in the public's best interests, and that a system of strict earmarking undermined these responsibilities. Instead, people who held this position argued, tax revenues needed to go into a common pot to enable government to make these decisions as "it's their job, it's their area of expertise, that's why we elect them, to make sure the country's financially stable..." (Male, C2, Labour voter, Watford).

The discussions in our focus groups demonstrated that people like earmarking in principle, but favour a halfway house so that government has some freedom to exercise its authority and decide where the need is greatest. Having said this, participants were much more likely to favour a tax increase where they could clearly see where their money was going, and where the spending area was seen as legitimate: whether to fund healthcare or contribute to the reduction of the deficit.

RECOMMENDATION 3: Earmarking should be used when taxes need to rise

Generally people are more supportive of tax rises when earmarked to a specific area of spending. However, they are also concerned about the pitfalls of rigidly hypothecating taxes, and these concerns need to be borne in mind when earmarking taxes.

- Earmarking should be used when expenditure needs to rise, to explain what services or entitlements the new revenue will pay for
- All earmarking should be independently scrutinised

Using earmarking to link tax rises to spending: Given public attitudes, government should use earmarking when it seeks to increase tax revenue. However, there are two conditions: first, the spending area and tax need to be understood to be legitimate, and second, all of the tax's revenue needs to fund the specified spending area, to

secure public confidence.¹³ Neither regressive taxes nor unpopular spending areas are likely to prove popular: for instance, the government's earmarking of the unpopular vehicle excise duty to fund a proposed roads fund is likely to undermine the ultimate benefit of linking taxes to a specific area of spending. Conversely, the 2002 'penny increase' was palatable because both the payment of national insurance and the NHS were understood to be legitimate. While the revenue generated from a new earmarked tax can be 'flexible', it can only be so in one direction: all of the new tax's revenue (or proposed tax increase) must go to the spending area in question, but the area of spending can be topped up from general revenue. Making this a condition would address participants' concerns of tax revenue being lost in a void.

Government transparency and independent scrutiny: The relationship between earmarked taxes and spending areas needs to be subject to independent scrutiny and public auditing, in order to maintain public confidence. The Office for Budget Responsibility is best placed to perform this role, with oversight from parliamentary committees. For each earmarked tax, government should provide information each year on how much has been collected and what the revenues have been used for, and whether the spending was truly additional to previous resources. With niche earmarked taxes like congestion charges or energy use taxes, taxpayers paying those taxes should receive statements detailing their liability and where the revenue is going.

Devolution in England

Devolution to local and regional government is the height of political fashion, and tax devolution is an emerging part of the mix. For a while devolution proceeded without much focus on revenue raising, even in largely-autonomous Scotland. But now major tax powers are being devolved to Holyrood, the London Finance Commission has developed tax devolution proposals for the mayor London, and in autumn 2015 the chancellor announced the localisation of business rates.

Devolution advocates suggest that the benefits of devolving more power in the UK is clear. The UK is a hyper-centralised country in comparison to many nations, which tends to keep power further away from most citizens.¹⁴ Moves towards more devolved powers are heralded by experts as a step forward in democratic engagement, bringing political power closer to the people that are subject to it. In principle, devolving power to a regionally or locally relatable level should make citizens feel less remote than they presently do in the centralised model, with people potentially taking an interest in power exercised more closely to them. And services that are designed and delivered locally may be better tailored to local needs.

But, what does the public think? The people we spoke to were sceptical about tax devolution for three reasons. First, participants feared that devolved tax and spending powers would lead to unequal provision and postcode lotteries across the country, which they perceived to be unfair. Second, participants were concerned about administrative inefficiency and did not trust local government with new powers. Third, there was a sense that local involvement in decision-making would prove chaotic, with only a minority of people really being engaged. Almost all participants, even in Stockport, which stands to benefit from the devolution of power to Greater Manchester, instinctively felt that central government was best placed to decide what was in the public interests.

Advocates of fiscal devolution clearly need to engage with the public about what it means, how it could work and why it might be in their interests:

people are not yet persuaded.

Participants' strongest criticism of devolved taxes and spending was that it might lead to unfair and unequal provision across the country. In Watford, participants felt that a devolved model would "make nicer areas get nicer and bad areas get worse" given that areas with wealth had the potential to raise more while poorer areas which needed more investment were less able to generate money (Male, C1, Conservative voter, Watford). Participants felt that this would ultimately amount to a 'postcode lottery' of provision which was deemed to be fundamentally unfair. There was also a fear that rural areas would particularly suffer, as many of the properties in such areas were second homes, meaning those using local services over holiday months would not adequately contribute to the local area via taxes throughout the rest of the year. Participants across all groups felt that everyone should have equal access to the same, high-quality services wherever they happen to live, and supported a system that "gives, no matter where you are in the country... an accepted level of services that are available... making sure everyone's got at least that minimum level" (Male, C1, Conservative voter, Exeter). Participants felt that a devolved, localised system of revenue-raising would not be able to guarantee this.

Alongside this fear, participants were concerned for the perceived administrative inefficiency that would accompany devolved responsibility. For some, it was a lack of trust in local political structures, which they saw as expensive and inefficient: "I certainly wouldn't trust local authorities to administrate anything, certainly not a tax... The next thing you know, everything would double" (Male, C1, Conservative voter, Exeter). For some, this amounted to a lack of administrative competence, and an added bureaucratic layer, with "more money being spent setting up the system and administering it, than on the taxes that were raised" (Female, C1, Liberal Democrat voter, Exeter). These views reflect participants' primary trust in central government as the best provider of services, and as a neutral arbiter, best placed to decide which areas need the most investment. For many, central government was preferable to local administration because "the people at the top table... have got no bias... [They are] an open, autonomous body that's not just in that area" (Male, C2, Labour voter, Watford).

Our participants also felt as though their own participation in the local democratic process would be disruptive. Many felt that public consultation would be very difficult as "most people don't really engage with the local authorities anyway... you've only got to go to a meeting to see how many people are there" (Male, C1, Conservative voter, Exeter). It was felt throughout the groups that public involvement was the preserve of an exclusive group in communities, with only one participant mentioning they had attended a public consultation themselves. For others "communities aren't what they used to be", so banking on some sort of common, local identity and shared understanding of the needs of an area would be futile. Many felt that most people wanted an "easy way of life", letting other people take responsibility for their decisions (Female, C2, Labour voter, Leicester). Related to this, it was felt that people would never be able to agree in a localised system, which would be tantamount to 'anarchy' and indecision: "you'd end up with a stalemate doing it locally because nobody would agree where you're going to spend the money" (Male, B, Conservative voter, Stockport). These concerns call into question whether devolution will succeed in enhancing democratic relationships between the citizen and the state.

Politicians need to find ways to address these concerns and win people's trust, but the picture is not overwhelmingly bleak. While participants had many concerns about the practical application of tax devolution, they saw the theoretical benefits of a local system that was administered well. Some participants liked the idea of having a say over their immediate living environment, feeling that a localised system would strengthen community spirit, with recognisable decision-makers consulting the local population to make decisions tailored to local need. Furthermore, while participants in Stockport did not express enthusiasm about devolution in Greater Manchester, they were frustrated by the fact that the north of England tended to be the "poor relative" of the "London favourites" who received the lion's share of funding and attention (Female, B, Conservative voter, Stockport). It was implied that centralised decision-making from London tended to favour the south east at the expense of the needs and interests of other areas of the country.

There seems to be political consensus for greater devolution of powers in the UK. The 'pledge' that followed the referendum on Scottish independence and new government's plans for devolution in England are a precursor for what is to come over the course of this parliament. However, politicians need to be careful, because when it comes to tax devolution, these developments sit in contrast with English public opinion.

RECOMMENDATION 4: Fiscal devolution in England should be pursued with caution

In England, people are very wary of the devolution of tax-raising powers, because they trust national politicians and central government more than local decision-makers and local government. They are concerned about inequality of provision and are suspicious of local community participation.

- Ministers should ensure strong safeguards are in place when business rates are devolved and they should not adopt further fiscal devolution without public debate and consent

In England, people are very wary of the devolution of tax-raising powers, because they trust national politicians and central government more than local decision-makers and local government. They are concerned about inequality of provision and are suspicious of local community participation.

Fiscal devolution in England: Devolution, including fiscal devolution, is already happening. But public trust and endorsement has not yet been secured. People have a range of legitimate concerns about the devolution of taxes and politicians need to engage with them. The place to start is the implementation of localised business rates, which could either ease or exacerbate public concerns regarding devolution, especially when it comes to equalising resources to avoid postcode lotteries.

Ministers should only consider further fiscal devolution in England after securing stronger public appetite for such a move. This might happen if people come to trust local and regional political structures and decision-makers; and if meaningful and inclusive forms of local accountability emerge so that people feel more strongly connected to their local area and to each other. Ministers also need to engage with the public in a debate regarding how much divergence across the country they are prepared to tolerate.¹⁵ In the meantime fiscal devolution in England should not be pursued further.

3 MAKING TAX FAIRER – PUBLIC INSTINCTS AND OPTIONS FOR REFORM

“Those who have got the broadest shoulders, if you like, are the ones more likely to find their way around it... finding loopholes and stuff like that rather than paying their share” (Male, Conservative voter, C1, Exeter)

“People at the bottom of the scale, they can be a bit fraudulent as well, and people at the top they can be fraudulent by doing first class trips all over the world” (Male, C2, Labour voter, Leicester).

The previous two chapters established that people think tax is legitimate but believe it should be a lot clearer and more responsive to the public. However, reforms also need to be designed to reflect the public’s conceptions of fairness with respect to tax.

Across the discussions, participants identified numerous questions of fairness in the design of taxation. Their ideas were simple but powerful: tax should be as low as possible, but not low at all costs; avoiders should pay their fair share; in exchange for support everyone should make a contribution; we should help the poorest; and the wealthy should pay more because they can. And, finally, inheritance should not be taxed. This chapter presents these instincts of fairness in more detail, and links them to a range of practical reforms that would make tax fairer in the eyes of the public.

Tax should be low, but not low at all costs

This was the most obvious, and least complicated, principle of all. For most participants, it was “common sense that taxes should be as low as possible”, but they mostly agreed that a baseline should be established to “achieve that good level of service” (Male, C1, Conservative voter, Exeter). Participants saw no logic in the idea that taxes should be any higher than they needed to be for the sake of it. They argued that it was the responsibility of government to use tax revenues in the most efficient ways possible to ensure money was not wasted.

This was not the same as having tax ‘low at all costs’. One participant instructed policy makers to “find out how much you need to run a country and run it well, and then we’ll all contribute what we can”, saying “you wouldn’t function in a society” if government was run by the principles of “let’s not pay very much and leave us alone” (Female, D, Labour voter, Watford). For a minority of participants, government’s main priority in setting tax rates was “making the books balance” alongside providing good public services (Male, B, Conservative voter, Leicester).

The former coalition and now Conservative government has taken the political aim of low taxes to its extreme, deliberately confusing ‘as low as

possible' with 'low at all costs'. Both David Cameron and George Osborne have claimed that the extension of the 'tax free' personal allowance allows working people to "keep more of the money they earn".

While the principle of lessening the income tax burden on the poorest is to be celebrated, the policy is poorly targeted, very expensive and has done little to help those working in poverty. Despite the stated focus on helping those working on low incomes, the extensions disproportionately benefit those on higher incomes, who are also having their taxes cut. Further extensions to the personal allowance do nothing to help those who earn too little to pay any income tax, nor do they help lessen the burden on the estimated 1.2 million who are liable to make national insurance contributions at the rate of 12 per cent but do not pay income tax.

RECOMMENDATION 5: Tax should be low, not low at all costs

People want tax to be low and are suspicious of government waste. But they do not support taxes being low at all costs because few people accept principled arguments for a 'small state'. Most feel that their taxes ought to fund decent services which they expect government to provide.

- Tax statements should include a statement of entitlements setting out what people's taxes pay for
- An Office for Public Performance should be established to push for more effective and efficient government spending

Government statement of entitlements: This summary should summarise the public services and public goods that tax pays for to provide reassurance that tax represents good value and is low in the context of the entitlements provided in exchange. This list should include the NHS, state pension, unemployment and disability protection and education that citizens can expect from the government (see Box 4). This summary should be included in taxpayers' annual tax statements, as a pledge from government to citizens. This way citizens can see what their taxes fund, hold government to account and assess whether their taxes are sufficiently low.

New Office for Public Performance: To address people's concerns about government wasting taxpayers' money, a new Office for Public Performance should be established in order to improve the efficiency of government spending. This was first proposed by the 2013 Fabian Commission on Future Spending Choices and would be a cross-government body to drive performance and productivity across public services, encouraging innovation and minimising inefficiency.¹⁶ This could enable taxpayers to feel that government was actively driving better use of tax revenue, potentially reducing tax liabilities in the long run.

BOX 4: Your key entitlements as a taxpayer in the UK

For everyone

Secure borders and strong armed forces
Police, fire and justice
Roads and public transport
Green spaces and environmental pro-

If you are sick or disabled

The NHS
Disability benefits
Benefits for your carer
Help with care needs

tection	If you have low earnings or aren't working
Refuse collection and recycling	Universal credit
Economic investment, locally and nationally	Housing support
If you have children	Job seeker's allowance*
Maternity allowance*	Employment and support allowance*
Child benefit	
A free nursery place and early years support	When you grow old
School or college from 5 to 18	The state pension*
	Free bus travel
	Winter fuel payment & free TV licence
*entitlements linked to national insurance	
ance	

Avoiders should pay in their fair share

Participants were angry at those whom they felt avoided contributing, believing that everyone had a responsibility to contribute what they could in return for the services delivered. Wealthy tax avoiders were singled out as particularly noteworthy.

Anger at this group was expressed mainly through frustration that the avoidance of some wealthy taxpayers translated into higher tax bills for everyone else: “the people that can afford to avoid it can do, and the people at the bottom have to pay” (Female, C1, Liberal Democrat voter, Exeter). Tax avoidance was also interpreted as evidence of a tax system working in the interests of a few wealthy groups rather than the majority as “those who have got the broadest shoulders, if you like, are the ones more likely to find their way around it...finding loopholes and stuff like that rather than paying their share” (Male, C1, Conservative voter, Exeter). Not only was tax avoidance seen to be prevalent, but it was also evidence of a system that allowed the wealthy to have unfair access to loopholes unavailable to the ordinary taxpayer. Participants thought of tax avoidance as interchangeable with tax evasion (the former is the use of loopholes to avoid paying tax legally, and the latter is the illegal evasion of taxable money, for instance, by not declaring income). Participants thought of avoidance as the illegal misdemeanours of groups operating outside legislation, perhaps as a result of media reporting, rather than a symptom of a system which legally enables such behaviour.

Interestingly, tax avoidance was seen as entirely justified when pursued by ordinary taxpayers. Several participants shared anecdotes of being self-employed and of listing their spouses “on the books” as their cleaners or secretaries. For these participants “that was a tax avoidance system as opposed to actually being dishonest” (Male, B, Conservative voter, Stockport) which was used because “at the end of the day, that’s what people do...to keep in the tax bracket level” (Female, C1, Conservative voter, Stockport). This was clearly distinct in participants’ minds from the tax avoidance of big businesses as the actions of ordinary people were “on such a small scale ... that’s like an individual trying to make a business happen” (Female, C1, Labour voter, Stockport). These contrasting principles demonstrate the complex nature of public perceptions of fairness: tax avoidance is seen as unfair when committed by the wealthiest, but is legitimate when committed by those who are just ‘getting by’.

RECOMMENDATION 6: Tax should be low, but not low at all costs

People are angry at (wealthy) tax avoiders who do not pay their fair share. They feel that, because of avoidance, the tax liabilities of everyone else in society are unnecessarily high.

- Extend action against international tax avoidance through a global deal on tax base and profit shifting, which fully involves developing nations and includes the public disclosure of financial, tax and ownership records; and through tough enforcement action against tax havens and those who use them.

Visible action on international tax avoidance: The government has been under increasing pressure from the public and civil society groups to tackle tax avoidance, most recently through the introduction of a so-called 'Google tax' on diverted profits. The UK is also participating in OECD/G20 negotiations on tax base erosion and profit shifting and a comprehensive deal is now needed. However, more needs to be done on a range of tax avoidance issues. Options presented by tax justice campaigners Faiza Shaheen and Beck Smith in *Tax for Our Times* were:

- Fully include developing nations in all tax co-operation initiatives
- Make information on corporate tax records, financial reporting and ownership public
- Force tax-havens to comply with international norms and increase compliance proceedings against UK taxpayers using tax havens

In exchange for support, everyone should make a contribution...

Participants suggested they were pleased with the levels of high-quality services they received in exchange for the taxes they paid, but were concerned about individuals who received services without contributing, despite potentially being able to. It was felt that most people should benefit from public provision in exchange for a contribution; and that those who have made a contribution should somehow be rewarded for it.

For participants, this was important so that those who chose to work and 'do the right thing' were recognised for doing so. As such, some participants advocated a system of benefits which provided a minimum level of basic provision for everyone, and then top ups for those who have contributed appropriately through taxation. For one participant this would be a 'sliding scale' of contribution and receipt, which could function as a "reward for citizenship... an advantage of being a good citizen" (Male, C2, Labour voter, Watford).

Along with wealthy tax avoiders, the other group singled out as not paying their fair share were those 'choosing' to claim benefits instead of work. In the words of one participant, "people at the bottom of the scale, they can be a bit fraudulent as well and people at the top, they can be fraudulent by doing first class trips all over the world" (Male, C2, Labour voter, Leicester).

While participants felt tax avoidance by ordinary people was sometimes acceptable, when it came to those claiming benefits fraudulently, or claiming instead of working, attitudes intensified. In many ways, participants expressed a greater sense of anger at these perceived groups than at wealthy tax avoiders. For some participants, those who claimed welfare dishonestly comprised an "underclass" which consisted of "parasites" (Male, B, Conser-

vative voter, Stockport). Others argued the ‘choice’ of whether to work was instilled at a young age in families, and that some people “know at the age of 10 that they can claim benefits and not have to work” (Male, B, Conservative voter, Watford).

When describing those who had apparently chosen to live on welfare, many participants referred to the popular television show ‘Benefits Street’, with quite a few suggesting that it accurately depicted life as lived by “a lot of people in our country who don’t work because they don’t want to work” (Female, C1, Conservative voter, Stockport). One participant even claimed she knew a man who lived in Spain for six months of the year solely on benefits claimed fraudulently (Female, B, Labour voter, Leicester). It was generally assumed that such individuals and families were able to lead fairly comfortable lives, out of work and relying on social security.

Only a few participants challenged these generalisations, by suggesting that they represented a relatively small number of people in society. On the whole, those who said they voted Labour or Liberal Democrat were slightly more forthcoming in challenging ‘undeserving poor’ stereotypes than Conservative voters who tended to express the more intense expressions of “hatred” (Male, C1, Conservative voter, Watford).

Participants felt it was unacceptable for those deemed dishonest or undeserving to be able to have the same access to social security support as everyone else, without first contributing to the system. Furthermore, even in instances where someone relying on social security was out of work through no fault of their own, some participants argued for the need for an “incentive for both ends of the spectrum”, to encourage the poorest “to improve their situation”, and to keep the wealthiest “motivated to keep on working” (Female, B, Conservative voter, Stockport).

The anger participants expressed undermines public support for those who have good reasons to rely on social security and potentially calls into question the legitimacy of the whole welfare state. For this reason there is a strong case for ensuring that contribution through paying taxes and working is recognised, and linked to people’s receipt of support. Proposals should engage with people’s concerns, but also defend the legitimacy of using tax revenue in instances for those who really need it.

RECOMMENDATION 7: In exchange for support, everyone should make a contribution

People believe that many who have access to social security provision have never ‘paid in’ (despite potentially being able to). People feel that for the system to work fairly, their contribution should be recognised in their receipt.

- The contributory principle in social security for people out of work should be strengthened
- Policy makers should consider transforming national insurance into a strictly ring-fenced fund, free from any other ‘top ups’
- Government tax statements should clearly describe the tax liabilities of high, middle and low earners

Contributory principle: The contributory principle in social security should be revitalised, to the extent that this is fair and affordable. This principle is not new: William Beveridge concluded that the British public wanted “benefits in return for contributions,

rather than free allowances from the state". So records of national insurance contributions could be used to establish a 'top up' to benefits such as job seeker's allowance and employment and support allowance.¹⁷ Importantly, the contributory principle should only be applied in relation to unemployment – not if someone is not able to work, and it should not be discriminatory. Debate would also be needed about whether other groups should also be eligible, as they are for existing contributory entitlements (eg: parents of young children, people on some training courses).

The renewal of national insurance: Policy makers could go further and seek to revive the integrity of national insurance. In *Tax for Our Times* Andrew Harrop proposed that national insurance could be turned into a strictly ring-fenced fund, free from any other 'top ups'. Citizens would see a clear link between their contributions and their receipts, in order to fulfil William Beveridge's vision of "benefit in return for contributions".

Tax statements: The tax liabilities of lower income groups are often less visible, as they are more likely to come from regressive, indirect taxes such as VAT. It is important that the contribution being made by all income groups, including those who pay little or no income tax, is made clear to taxpayers, to challenge the implicit idea that those with low incomes are contributing proportionately less. As such, the government's annual tax statements should detail the average tax liabilities of high, middle and low income earners, perhaps detailing also the composition of their liabilities, as suggested in Recommendation 1.

...But we should help the poorest

Participants were very concerned about instances where social security was claimed unfairly, without contribution in exchange. But this did not preclude them from believing that government has a moral imperative to help those who are unable to contribute. Participants felt that society should assist these people, who have a right to a basic standard of living and access to good public services. As one participant put it, people's perceived eligibility to receive help "depends on how they've become poor" (Female, C1, Labour voter, Watford).

Participants largely endorsed the view that tax revenue should be used to "look after people who aren't necessarily able to look after themselves" (Male, C1, Liberal Democrat voter, Stockport). However, as noted in Chapter 1, this 'redistributive' case for taxation was less popular than the other 'pro-tax' positions we tested. Nevertheless almost all participants felt it was legitimate for government to take responsibility for the most vulnerable, as it was felt that anyone could be a victim of circumstance. This represents qualified support for the use of tax revenues to tackle poverty and inequality; but as the discussion on contribution demonstrates, this needs to be pursued in a way that preserves the legitimacy of the social security system.

For the most progressive-minded participants, transferring money, from those who can afford to pay to those who need help, was justifiable as it led to a "decent society" (Male, B, Labour voter, Exeter) or was an investment in fellow citizens "so we're moving the whole of our society forward" (Female, B, Liberal Democrat voter, Watford). Participants felt that helping the poor would improve people's chances of bettering themselves, as well as giving all people a dignified, basic, decent standard of living. Some participants described this as the right to a "minimum acceptable level" of provision which would ensure people could "live" as opposed to simply "exist" (Male,

C1, Conservative voter, Exeter).

We also asked participants to consider the different tax burdens paid by low and high income groups, by telling them that the poorest ten per cent of households pay in tax 43p in every pound of their income, while the richest 10 per cent paid 35p.¹⁸ The vast majority of participants expressed anger and disbelief at this disparity, with many asking “how is that possible?” (Female, D, Labour voter, Watford). Many assumed that the sizeable difference between the two percentages was a result of the overpayment of tax by the poorest: “maybe it’s just an awareness that the bottom percentage don’t know and are being overtaxed [and need] ... a simple form that people need to fill in to get more tax back” (Male, C1, Conservative voter, Exeter).

No participant expressed the view that this discrepancy was actually a result of the tax system’s design, rather than a mistake or a result of deliberate avoidance by the rich (“wheeling and dodging, with a professional adviser” - Male, B, Conservative voter, Leicester). A few participants disputed the significance of these percentages, stressing that the richest still paid more overall in terms of value (these participants were all of the occupational group B). One participant suggested that the discrepancy was a result of “certain decisions” poorer people made with their money in buying luxury goods or alcohol (Female, B, Conservative voter, Stockport).

Outside of these focus groups, the high incidence of tax on low income groups does not attract such anger, because it is not a subject of public debate (this is another reason why this information should be included on tax statements). With higher public awareness, however, our research suggests that the government would be able to secure support for rebalancing tax to reduce the burden on low income households. This is likely to be more popular than increasing social security as a strategy for increasing living standards.

RECOMMENDATION 8: We should help the poorest

People believe they have a moral imperative to help those who really need it, and that government should act to help the poorest. They are angry when they find out that poor families pay a higher share of their income in tax than the rich.

- The tax burden on low income households should be reduced, but by lowering indirect tax liabilities rather than raising the income tax personal allowance

Reducing tax burdens on low income groups: Raising the income tax personal allowance is expensive and brings the most benefit to above average income households. Although the policy is trumpeted as ‘lifting low paid workers out of tax’ it does not benefit people already earning less than the threshold of £10,600 of annual income. The best way of helping low income families is through social security, but to meaningfully reduce their tax burden the government should reduce the incidence of indirect tax.

The first way to do this would be to reduce VAT rather than give money away through income tax. A one percentage point cut in VAT would cost the same as raising the personal allowance by £920. Unlike an increase in the personal allowance this would benefit low income households, whose VAT payments amount to 13 per cent of their gross annual income.

Other possibilities presented by Adam Corlett of the Resolution foundation in *Tax for Our Times* include:

- Raising the national insurance threshold instead of the income tax personal allow-

ance

- Reforming motoring taxes, which are regressive and outdated
- Reducing the burden of 'sin' taxes on alcohol and tobacco (ideally through behaviour change)

The wealthy should pay more because they can

The evidence we presented on the tax burdens of the richest and poorest deciles triggered strong reactions regarding the taxation of the wealthy. Almost all participants felt that unequal tax burdens between the richest and poorest were unfair, and that the richest should pay more because they can. In the words of one participant, "if you're paying that much money [in tax] it's because you've got money, so how unfair is it?" (Female, D, Labour voter, Watford).

In arguing that the wealthiest should pay more in tax because they could afford to do so, participants were essentially discussing the very wealthiest in society, the top one per cent, although this terminology was not explicitly used. Furthermore, participants spoke of 'wealth' in the most general terms, where the 'wealthy' included both those with high incomes and those with high levels of wealth. They spoke about people "working in hedge funds" (Male, C1, Conservative voter, Exeter), having "five mill in the bank" (Male, C2, Labour voter, Watford) and sitting on "multi, multi millions" (Nick, C1, Conservative voter, Watford). These dizzying stereotypes conjure an image of the wealthy as 'other', contrasting with the situation of "average Joes like us" (Male, C1, Conservative voter Watford). For instance, some participants felt that in order to be in the richest 10 per cent a family income would need to be well over £100,000, and were shocked to find the true figure was only £60,000.¹⁹ Others defined wealth in more emotive terms: "the rich in my eyes are completely carefree when it comes to money, living in a lovely house somewhere with, you know, no worries about money" (Female, D, Labour voter, Watford). For others, those who should be taxed more included "people with untold wealth...that don't really care" (Female, B, Liberal Democrat voter, Watford). The groups suggested that people in these circumstances were least likely to suffer from the payment of taxes: they could afford to make a larger contribution and still maintain a high standard of living.

Participants also felt that owning wealth was not necessarily evidence of hard work, so had no concerns with taxation of assets as well as income. For many, the "old silver spoon thing" meant that the wealthy had often inherited their money, rather than having worked hard for it (Male, C1, Conservative voter, Exeter). Participants on the whole felt those who had a privileged start in life (and perhaps worked less hard than people with much less) did not necessarily have an entrenched right to keep it all. This view was rooted in the belief that disparities of wealth were not the result of differences in effort or ability.

It is important to note that these views were not just held by Labour or Liberal Democrat voters: as one Conservative voter said in defence of the richest paying more proportionately, "they're not poor are they, they might be moaning about it, but they're not poor, so they've got the ability to pay it" (Male, B, Conservative voter, Leicester).

RECOMMENDATION 9: The wealthy should pay more because they can

People instinctively feel that the wealthiest one per cent should be paying more because their wealth is not necessarily gained through hard work, and because this income group will be least likely to feel the impact of greater tax liability.

- The government should adopt a broad-ranging strategy for raising extra revenue from high wealth households, including reforming the taxation of property or land; capital gains; and pension saving

Though our focus group participants did not make any particular recommendations themselves in terms of taxing wealth, there are a range of possibilities to consider, particularly when considering how to shift tax burdens away from earned income and on to entrenched wealth. In *Tax for Our Times*, Howard Glennister proposes the following options:

- Reform property taxes: Property and land makes up half of the UK's net wealth but both are presently undertaxed. Reform and revaluation of council tax would offer an opportunity to tax the highest value properties more fairly, and is a better alternative to Labour's proposed 'mansion tax'. Alternatively a new site value tax could be levied to reflect the changing value of land, since this is a product of government action (planning decisions, infrastructure investment) as well as consumer demand.
- Reform Capital Gains Tax: Capital gains tax is a tax on the profit made upon the sale of an asset, and is levied at either 18 per cent or 28 per cent. It should be levied at the same rate as the taxation of income to remove the incentive to convert earnings into corporate profit, after accounting for inflation.
- Reform pension tax relief: Pension savings no longer need to be converted into a retirement income, so they are simply a class of asset. Tax relief on pensions therefore needs to be reformed so that it is not targeted towards those with highest earnings and capacity to save.

Inheritance should not be taxed

On the whole the focus group participants argued for wealth to be more fully taxed. But they were almost unanimously opposed to taxation of inheritance, regardless of their political views. Their arguments were striking, emotive and mostly unequivocal. These discussions were excellent examples of how people are able to hold fundamentally contradictory views simultaneously. People believe that wealth should be taxed and inequalities of wealth reduced, but inherited wealth should not be touched.

These strong views were held irrespective of political inclination, occupational background and age. For one participant who had expressed radical views throughout the group, "everything else I can see the reasons for paying tax - this is the one thing I don't see it" (Female, D, Labour voter, Watford). Fundamentally, inheritance tax was seen as being uniquely insensitive, levied at a time of distress "when people are suffering most" (Male, C1, Labour voter, Stockport).

Participants appreciated the apparent contradiction between their instincts around inequality, and their opinion on inherited wealth. One participant said: "I don't think it's right to have a section of society that's so much more wealthy than everybody else ... but then that sort of goes against what I feel about inheritance tax" (Female, C1, Labour voter, Stockport). In fact, some

participants very insightfully identified that their emotive responses to the tax were at odds with the fact that so few estates were liable to pay it. According to one participant, “we don’t even know what the bands are of inheritance tax but I think even if we knew... we would probably think they were too high and inappropriate” (Male, C2, Labour voter, Watford). And a number of participants appreciated that entrenched wealth and large bequests “across generations” had negative consequences for society, seeing that it accompanied a weakened work ethic and limited the circulation of money in the economy (Male, B, Labour voter, Exeter).

Nevertheless, the taxation of inheritance was seen as overwhelmingly illegitimate and unfair. The most cited reason was that inherited wealth was subject to ‘double taxation’: parents and grandparents worked, saved and paid taxes, only for their accrued wealth and property to be subject to taxation once again upon the handover of their estate. As such, participants saw inheritance taxes as a tax on the donor themselves: for one participant, “I don’t see [inherited property] as yours – practically, it’s still theirs and they worked and obviously paid their taxes and did everything” (Female, D, Labour voter, Watford). The government’s intervention was seen as wholly illegitimate and intrusive as “it’s nothing to do with the government any more - they’ve had their slice of the pie, it’s now my grandparents’, 100 per cent” (Male, B, Conservative voter, Watford).

Inheritance taxes were also seen to be highly regressive in hitting ordinary families hardest, particularly penalising those who did the right thing by working hard, saving and trying to better themselves and their families in the future. It was felt that the wealthiest used “clever accountants” to get round paying inheritance tax, meaning ordinary families with modest inheritances were hit hardest by it. According to one participant, who was at the time liable to pay the tax after her parents’ death:

“People that have extensive wealth, they can manage their financial portfolios in a way that they pay very limited financial penalty... It’s put into a trust and it’s very well advised. But the average Joe on the street where his parents have saved and saved, and want to leave him a small home... I think they’re not advised well.” (Female, B, Liberal Democrat voter, Watford)

Participants in Watford also argued that the then threshold of £325,000 was not enough to pass on a modest property free from taxation.²⁰ Participants were also concerned for the detrimental impact of the tax on individuals who were “asset rich but cash poor”, inheriting wealth in property but unable to pay the taxes due to a lack of disposable income (Female, C1, Labour voter, Stockport).

There were very few circumstances in which participants saw inheritance tax as being legitimate. A few expressed the view that “money handed on to you...you could say that’s an income” (Male, C1, Conservative voter, Exeter). Some participants in Stockport and Leicester noted that inheritance taxes were less of an emotive issue in the north or the midlands given the more modest property prices (the strongest opposition to the tax came from participants in Watford where property prices were much higher). One participant who had been liable to pay inheritance tax stated that, in principle, “I don’t mind paying some tax” but resented its level (Female, B, Liberal Democrat voter, Watford). Another participant rationalised the existence of the inheritance tax as a necessary evil in difficult fiscal times (Male, C1, Conservative

voter, Leicester).

Since the focus groups were conducted, George Osborne announced changes in the summer budget of 2015 to increase the inheritance tax threshold from £325,000 to £500,000. However, participants saw the system as inherently unfair, and the tax will still likely be levied on some modest properties, while the high 40 per cent rate remains unchanged.

RECOMMENDATION 10: Inheritance should not be taxed

While people feel that the very wealthiest should pay more because they can, they are almost unequivocally opposed to the taxation of inheritance, mainly because of its insensitivity, and because it is perceived to be a form of 'double' taxation. This opposition is held even by those who otherwise support more progressive taxation.

- Inheritance tax is too toxic to save and should be scrapped entirely. In its place gifts, bequests and other transfers should instead be taxed as income, at the recipient's marginal rate

In *Tax for Our Times* Howard Glennerster revives the old idea of replacing inheritance tax with an accessions or done tax, levied on recipients of gifts and transfers. Small initial sums could be excluded but as gifts mounted over time they would be taxed, by the use of a lifetime allowance (this might need to be quite high to reflect the established idea of a minimum threshold for inheritance tax).

This reform has been proposed on a number occasions in Fabian Society reports, notably by the 2000 Fabian Commission on Taxation and Citizenship, and by the Institute for Fiscal Studies in the Mirrlees Review. In the past politicians have shown little interest in exploring this possibility, but the context has suddenly changed as a result of recent pension reforms. As part of the 'pension freedoms', from April 2016 when pension assets are transferred, they will be taxed as income in many circumstances. This establishes an important new principle which can in future be applied to other asset classes.

Following this approach will restrict the scope for tax planning in order to sidestep inheritance tax while also giving families choice and flexibility about how to use their money (with a strong incentive them to spread wealth widely). Modern tax assessment arrangements and banking regulations also mean that compliance and enforcement would be much more feasible than in previous decades.

CONCLUSION

Talking about tax has never been so important. The current political status quo, which favours low taxes at all costs, is damaging the provision of public services and eroding the principle of redistribution as a function of government. Meanwhile, entrenched inequalities are holding back the UK's productivity and the capacity of its citizens to invest in themselves and each other.

This report demonstrates the potential to create a more positive debate on tax, that appeals to public instincts around citizenship, the provision of high-quality services and social insurance. It also shows how significant tax reforms, including many of those proposed in *Tax for Our Times*, can go with the grain of public opinion. In order to tackle people's disconnection with tax, government needs provide better information to citizens, make the administrative structures around tax much more accountable, use earmarking more effectively, and address people's concerns around tax devolution. And in order to reflect people's instincts of fairness, the government should ensure tax burdens are low for those who can least afford them, strengthen the contributory principle, tackle tax avoidance, and ensure wealth is taxed more fairly and fully.

Talking about tax is crucial at a time when the funding of important services is under threat. This report has touched on the circumstances where government might have public permission to raise taxes, including where those taxes are earmarked and linked to a legitimate area of spending, and where the reform would entail the fairer taxation of wealth. Despite the current political narrative, there is nothing inevitable about a world of 'low taxes at all costs' and funding-limited, low-quality public services. A small state is a political choice, with huge repercussions. But an individualist political settlement which pits 'workers' against 'non-workers', 'contributors' against 'dependents', will increasingly undermine our sense of common purpose and mutual responsibility, which our focus group participants so clearly expressed.

Beyond this, we need to shift the conversation on tax away from how much we tax and on to how we tax, thinking about fairness instead of increases. Where we get tax revenue from, and how fairly it is sourced, is just as important as how much the government has to spend. With trust in politics declining, securing public consent is crucial in order to stop citizens from turning away from debates that have significant repercussions for them. Far from being the preserve of experts exclusively, our discussions show that it is possible to debate tax in a way that is accessible and understandable for people with little specialist knowledge. And it is possible to design tax reform that chimes with public instincts, in a way that secures public consent and strengthens the legitimacy of the system. There is an alternative to the

status quo which reflects people's instincts about fairness and contribution, just deserts and shared burdens.

After centuries of secretly tinkering around the edges of an unfair system, politics needs to engage openly with comprehensive tax reform, and work on the basis that public opinion can be an enabler for reform, not just an obstacle. This report demonstrates the many ways in which it might be possible to win public consent for radical tax reform that reflects their instincts. Conducting a conversation about tax without the people who pay it makes no sense.

APPENDICES

APPENDIX 1:

List of focus group participants' voting preference, occupational group, gender and age.

Exeter, 18 May 2015

Liberal Democrat	C1	F	43
Labour	B	F	25
Conservative	C1	M	41
Liberal Democrat	C1	F	42
Labour	B	M	46
Conservative	C1	M	60

Watford, 20 May 2015

Labour	C2	M	51
Labour	C1	F	44
Liberal Democrat	B	F	57
Conservative	B	M	41
Labour	D	F	24
Conservative	C1	M	30

Leicester, 26 May 2015

Labour	B	F	39
Labour	C2	F	30
Labour	C1	F	42
Labour	C2	M	27
Conservative	C1	M	43
Conservative	B	M	50

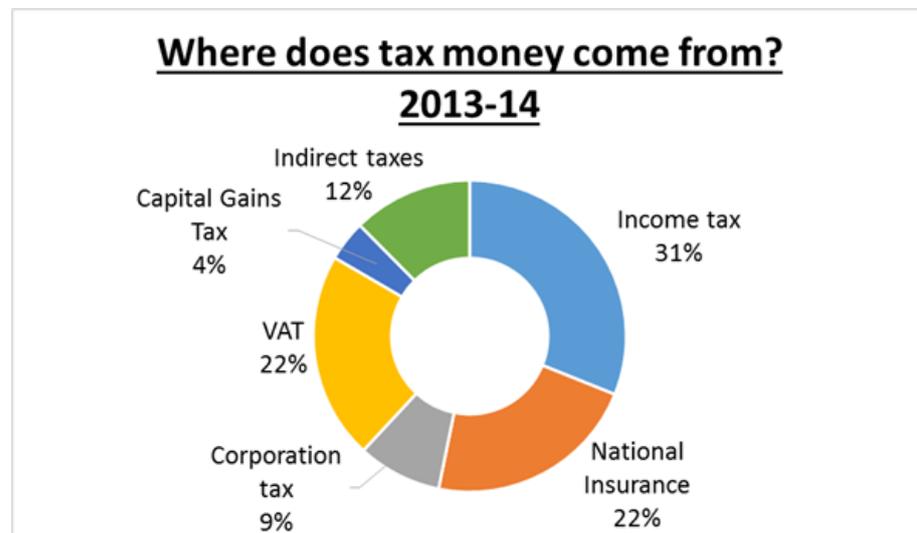
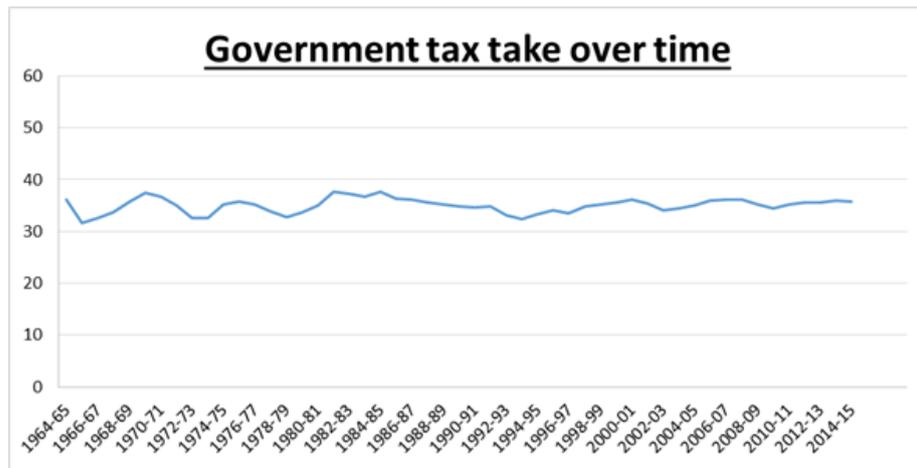
Stockport, 27 May 2015

Liberal Democrat	C1	M	26
Conservative	B	F	40
Conservative	C1	F	40

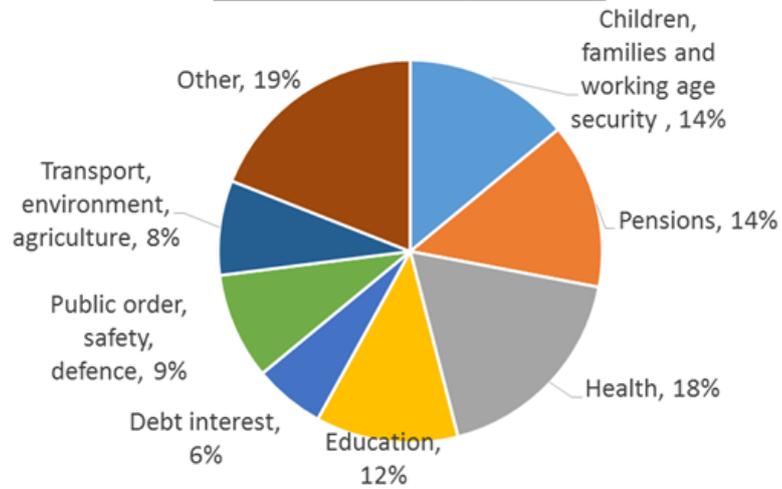
Labour	B	F	48
Conservative	C2	M	59
Labour	C1	M	32

APPENDIX 2:

Graphs shown to participants.



Government spending



APPENDIX 3:

Arguments presented to participants, in favour and in criticism of the tax system.

FOR	AGAINST
'Paying tax is a central part of being a citizen. Being a taxpayer is a proud badge of citizenship in society, and everyone should pay something whatever their financial position.'	'It is wrong for government to interfere with our lives and take away money from us. Ideally taxes should be as low as possible, and people on modest wages should not have to pay tax.'
'Taxes are the price we pay for a decent society with good public services. Tax makes our lives better by funding services few of us could afford by ourselves.'	'Government is the wrong provider of services. If people could pay less tax and keep more of the money they earn then they could afford better services for themselves.'
'In a responsible society, people who are poorer should not fall too far behind a 'normal' standard of living. It is right that tax helps to tackle poverty and reduce the gap between rich and poor.'	'Tax punishes people who succeed in life. It's unfortunate that some people are poor but that's not the fault of wealthy and successful people, and they should not have to subsidise others.'
'It is right to pay tax when we can afford it because at other times in our lives we may need help from the government due to old age, illness or unemployment. What we pay in and what we receive often evens out over time.'	'Planning for the future should be our own responsibility. It is unfair that the taxes of those who can afford to pay go towards people who've not saved up for their own retirement, illness or unemployment.'

Second round of arguments about the tax system, presenting different, competing options for reform:

REFORM OPTION 1	REFORM OPTION 2
'The amount of tax people pay should reflect their ability to pay. People with the most money should pay more of what they have in tax.'	'The way that tax is designed discourages hard work. It's unfair that the rich pay so much more than everyone else in tax.'
'Tax should be as visible and transparent as possible. Taxpayers should receive more information on how much tax they are paying and what the government spends it on.'	'Tax should be as painless as possible. Most taxes should be collected indirectly rather than paid directly by individuals so people don't have to see how much they are paying.'
'Local services should be funded by taxes that are raised locally, so people living in each community can decide how much should be spent on their services and how much they are prepared to pay in tax.'	'Local services should be funded by taxes raised nationally, so the government can share money between communities to ensure that wealthy areas with few needs help support places that would struggle to pay for services themselves.'
'As far as possible, the taxes we pay should be fixed to pay for specific areas of spending, so that we know exactly where our money is going. For example, National Insurance Contributions should only fund the NHS and social security.'	'All taxes should go into a common pot. The government should have the flexibility to decide the changing needs of different services over time.'
'Tax should only be paid in relation to how much people earn or spend in each year. It should make no difference if you have a big house or inherit a large sum from your parents.'	'The amount of tax people pay should be determined by the total amount of money, property and other assets they have. It is right to tax all wealth, including homes and inheritances.'

ENDNOTES

1. Introduction, *Reforming the tax system* (Fabian Society, 1957) – presenting extracts from the Minority Report of the Royal Commission on the Taxation of Profits and Income (1955)
2. Office for National Statistics, *The Effects of Taxes and Benefits on Household Income*, Financial Year Ending 2014 (2015)
3. B - Intermediate managerial, administrative or professional; C1 - Supervisory, clerical and junior managerial, administrative or professional; C2 - Skilled manual workers; D - Semi and unskilled manual workers. See Ipsos MORI, *Social Grade: A Classification Tool* (2008) for more information. In 2008, 88% of the population worked in an occupation aligned to grades B to D.
4. Only 1 per cent of taxpayers pay tax at highest rate – see *Unfair and Unclear* (The Equality Trust, 2014)
5. See <http://lartsocial.org/taxsummary> for a more detailed critique.
6. Estimates for indirect tax payments can be derived from the *annual ONS publication The Effects of Tax and Benefits on Household Income*
7. HMRC tax calculator accessible here - <http://tools.hmrc.gov.uk/hmrc-tax-calculator/screen/Personal+Tax+Calculator/en-GB/summary?user=guest>
8. <http://www.moneysavingexpert.com/tax-calculator/> and <http://money.which.co.uk/tax-calculator>
9. See Richard Murphy, 'Institutional Interests' in *Tax for our Times* (Fabian Society, 2015).
10. Fabian Commission on *Future Spending Choices, 2030 Vision* (2013)
11. See Antony Seeley, *National Insurance Contributions: An Introduction*, House of Commons Library (2015)
12. Comres poll of April 2015 found that 53% of those surveyed would support such an increase
13. For more such earmarking conditions, and more detail, see *Paying for Progress* (Fabian Society, 2000) pp.161-166
14. See Tony Travers, 'A Hyper-centralised anomaly', in *Tax for Our Times*

(Fabian Society, 2015)

15. See *The Local Health Service* (Fabian Society, 2015)

16. *2030 Vision* (Fabian Society, 2013)

17. *Something for Something: Restoring a Contributory Principle to the Welfare State* (Demos, 2013) contains a lot of interesting ideas

18. Based on the most recent ONS figures at the time of the fieldwork: *The Effects of Taxes and Benefits on Household Income* (2014)

19. For a single person. See IFS and ESRC online tool 'Where do you fit in?' - <http://www.ifs.org.uk/wheredoyoufitin/>

20. Since extended to an allowance of £500,000 for an individual in the 2015 summer budget

THE TAX DETOX

WINNING PUBLIC CONSENT FOR RADICAL TAX REFORM

Daisy-Rose Srblin

Now, more than ever, we have to talk honestly and comprehensively about tax. After centuries of tinkering around the edges, the UK's tax system is inherently regressive and unfair. At the same time, trust in politics and government has reached a worrying low. We have a political status quo that has failed to be honest about the fact that high-quality, Scandinavian-style public provision cannot be funded by low, US-style taxation, with continuing deficit reduction just making this dilemma worse.

Public opinion has consistently been seen as an obstacle to tax reform, rather than an enabler. It is assumed that talking about tax is a political 'third rail', guaranteed to be electorally unpopular. However, this report presents findings from a series of Fabian focus groups across England, which demonstrate that the opposite is true. Tax is not inherently unpopular, and it is possible to win public consent for reforms which are becoming imperative. *The Tax Detox* presents a series of recommendations on how.