

DEMOS

# A PEOPLE'S BUDGET

HOW THE PUBLIC  
WOULD RAISE TAXES

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CHARLES SEAFORD

SEPTEMBER 2020

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Ben Glover and Charles Seaford

September 2020

# KEY FINDINGS

If taxes have to rise, everyone should contribute what they can afford. This means those with more should pay more, and the poorest should not.

- The public supports a small increase in Income Tax on everyone but the least well off, and a larger increase for the better off:
  - Almost six in ten (58%) of the public support or strongly support raising Income Tax for everyone by 2p in the pound, while raising the Personal Allowance so no-one earning less than £20,000 would be affected. A 1p in the pound rise for everyone would be significantly less popular.
  - Almost seven in ten (69%) of the public support or strongly support raising Income Tax on earnings over £100,000 per year by 10p in the pound, with just one in ten (10%) opposing or strongly opposing this.
- The public supports reduced pension tax relief for higher rate taxpayers:
  - Almost half (49%) of the public supported or strongly supported limiting relief on pension contributions to the basic rate, with 19% opposing or strongly opposing this.
- The public is much less supportive of an increase in the main rate of VAT, one of the least progressive measures we tested:
  - Just 37% of the public support or strongly support a 1p increase in the main rate of VAT, with 34% opposing or strongly opposing it.
- On the other hand, applying VAT to private school fees was one of the most popular measures we tested:
  - 62% of the public support or strongly support this change, with just 13% opposing or strongly opposing it.

- The public supports a wealth tax, provided it is one-off and excludes main homes and pensions:
  - 63% of the public support or strongly support a one-off 10% tax on wealth over £2m, excluding main homes and pension funds, with 11% opposing or strongly opposing it.
- These attitudes extend to 2019 Conservative voters, who were at least as likely to support progressive income tax measures (raising Income Tax by 2p in the pound while raising the Personal Allowance, raising Income Tax by 10p in the pound on incomes over £100,000 a year) as other respondents.

If taxes are going to rise, the public wants different forms of income to be taxed in the same way.

- The public supports equalising the tax treatment of the self-employed with employees, provided the former can access the same benefits as the latter:
  - 63% of the public support or strongly support giving the self-employed the same benefits as employees and making them pay the same National Insurance Contributions as employees, with just 11% opposing or strongly opposing this change.
- The public supports equalising the tax treatment of capital gains with income from work:
  - 46% of the public support or strongly support equalising the tax treatment of capital gains with income from work, with 18% opposing or strongly opposing it.
- Conservative voters were more enthusiastic about equalising tax treatment than others:
  - 54% of 2019 Conservative voters strongly supported or supported equalising the tax treatment of capital gains with income from work, with 20% opposing or strongly opposing it.

If tax rises are going to rise, the public in general do not wish to see higher levels of tax on homes or pensions.

- Other than restricting the amount of pension tax relief higher earners can access, we found little support for greater taxation of pensions:
  - 70% of the public felt that pensions should continue to be taxed at the existing lower rates than other forms of income, with the remaining 30% feeling that they should be taxed at a rate nearer to that of other income.
- We also found little support for higher levels of property taxation:
  - Only 37% of the public support or strongly support applying Capital Gains Tax to gains of more than £500,000 on main homes, with 31% opposing or strongly opposing it.

For a league table of tax rises, ranking measures by their popularity, see page 70.

# EXECUTIVE SUMMARY

It is very likely that taxes are going to have to go up in the UK - not now, but in the medium to long term. This is partly because of the coronavirus crisis (the debt incurred will have to be serviced and perhaps ultimately repaid), but more significantly because the population is getting older. This means the NHS and social care bills are rising and the ratio of retired people to workers is decreasing. Given Office of Budget Responsibility projections, it is entirely plausible that by 2035 tax revenues will need to rise by £100 billion a year to maintain existing levels of public service provision and a manageable national debt, and this in addition to any increases resulting from GDP growth. The tax share of GDP will be at its highest level since the 1940s. But tax rises are unpopular, meaning politicians face a dilemma. Hence this report.

It sets out how taxes on individuals could rise on this scale over the next fifteen years in a way that is acceptable to the public. It draws on a series of online deliberations in London, the North East, Cardiff and Glasgow with 56 people in total, that involved participants testing alternative tax proposals using the Demos Tax Calculator (<https://tax.demos.co.uk/>), and on a new, nationally representative poll of 2,008 UK adults (for details of the methodology and sampling see Annex 4; for a report on findings specific to Welsh and Scottish group participants and poll respondents, see Chapter 5).

## FIVE PRINCIPLES

In summary, the public recognise the need for tax increases, and we find strong support for the following five principles for guiding how these increases are made:

**Principle 1: Everyone should contribute what they can afford. This means tax rises should be progressive.**

We heard throughout our deliberative groups that if taxes are going to rise, everyone should contribute something. On the other hand, we found strong support for the notion that the least well off should be protected from these rises. We also found strong support for the progressive nature of the tax system and support for the better off bearing more of the burden of any future tax rises – although not exclusively and as part of a balanced set of measures: there is little desire to come down hard on the rich. Underlying these different views was the feeling that tax rises should be affordable.

This finding was consistent with our poll, which found that:

- 58% of the public supported or strongly supported raising Income Tax for everyone by 2p in the pound, while raising the Personal Allowance so no-one earning less than £20,000 would be affected, with 17% either opposing or strongly opposing this measure. By contrast, only 47% of the public supported or strongly supported raising Income Tax by 1p for everyone, including those earning less than £20,000 a year, with 25% either opposing or strongly opposing this measure.
- This pattern was consistent across social grades ABC1 and social grades C2DE and among graduates and non-graduates.

We also found strong support for the notion that the better-off should pay more:

- Almost seven in ten (69%) of the public either supported or strongly supported raising Income Tax on earnings over £100,000 per year by 10p in the pound, with just one in ten (10%) opposing or strongly opposing this. This was the most popular revenue raising measure of fifteen main measures presented to the public, based on the net positive percentage.
- There was almost no variation in these numbers between social grades ABC1 and C2DE or between graduates and non-graduates, except that 14% of graduates were opposed or strongly opposed to this measure, as compared with 9% of non-graduates.
- At the same time, 57% of the public either supported or strongly supported raising Income Tax on earnings over £50,000 per year by 5p in the pound, with 17% opposing or strongly opposing.
- There was also support for this measure amongst those in social grades ABC1 and amongst graduates, but at a slightly lower level: 54% of those in social grades ABC1 and 54% of graduates supported or strongly supported it, while 20% and 24% opposed or strongly opposed it (respectively).

This principle also underlies our findings on pension tax relief. Overall, group participants and poll respondents were keen to preserve the reliefs enjoyed by those contributing to or receiving pensions (see Principle 3). However, they wanted to reduce these reliefs for higher rate taxpayers: once the differences in the reliefs on contributions enjoyed by 40% and 20% taxpayers were explained, participants tended to favour standardising relief at 20%. We found a similar result among poll respondents:

- 49% of the public supported or strongly supported limiting relief on pension contributions to 20%, with 19% opposing or strongly opposing this.
- In addition, 44% of the public supported or strongly supported applying employers' National Insurance Contributions to employers' pension contributions above £2,500 a year, with 16% opposing or strongly opposing this.

Our findings on VAT were also in line with this principle:

- A 1p increase in VAT was arguably the least progressive of the 15 main possible tax increases we presented in the poll and it was also the least popular, with only 37% supporting or strongly supporting it, and 34% opposing or strongly opposing it.
- On the other hand, applying VAT to private school fees was one of the most popular measures with 62% supporting or strongly supporting it and 13% opposing or strongly opposing it.

Our findings on Council Tax were broadly consistent with this principle. In the groups, there was a feeling that it was only fair that those owning the most expensive properties should pay more and that for the most part they would be able to afford this, although there was concern about the 'asset rich, cash poor' and about those who were already burdened by living in an area with high house prices.

Similarly in the poll:

- 48% supported or strongly supported reforming council tax by charging a percentage of the value of the most valuable 2% of homes. Just 18% opposed or strongly opposed this change.

Finally, a one-off wealth tax found favour in the groups and among poll respondents.

- 63% of the public supported or strongly supported a one off 10% tax on wealth over £2m, excluding main homes and pension funds, with 11% opposing or strongly opposing it.

2019 Conservative voters were at least as likely to support progressive income tax measures (raising Income Tax by 2p in the pound while raising the Personal Allowance, raising Income Tax by 10p in the pound on incomes over £100,000 a year) as others. They also had similar views to others on pension relief, a one-off wealth tax and Council Tax. They were at least as negative about a 1p rise in VAT as others and even more positive about applying VAT to private school fees than were others.

In line with the principle that everyone should contribute, we also found strong opposition to a 2p in the pound 'social care tax' payable by the over 40s only; a similar idea was floated by the

government in July this year.<sup>1</sup> Only 26% strongly supported or supported it, while 45% opposed or strongly opposed it. Even among those aged under 40, only 31% strongly supported or supported it, while 34% opposed it or strongly opposed it.

**Principle 2:** Different forms of income should be taxed in the same way. This means levelling up the tax treatment of self-employment and capital gains.

We found strong support for the principle that the tax system should aim to treat different forms of income and capital gains in a more similar way. Participants in our deliberative groups often felt it was unfair that the self-employed paid lower taxes (including National Insurance Contributions) than the employed, though for the most part they felt that equal taxation would only be fair if any remaining differences in benefits entitlements between the employed and the self-employed were eliminated. This was consistent with our polling, which found that:

- 63% of the public supported or strongly supported giving the self-employed the same benefits as employees and making them pay the same National Insurance Contributions as employees, with just 11% opposing or strongly opposing this change.

In the groups, there was an important qualification to this: some expressed the view that the self-employed took greater risks and had more precarious livelihoods and should therefore not be unfairly punished. Participants were able to combine both views by proposing equalising tax treatment above a threshold income, and some did. In a second question on this issue in the poll, while 56% felt that the tax system should tax all income at the same rate regardless of where it came from (and 22% felt this strongly), the remaining 44% felt that those running their own business should pay less tax because it is risky (and 12% felt this strongly).

We found in the groups that this desire for greater equalisation also extended to the treatment of capital gains, which are currently taxed more lightly than income. A significant proportion of participants in the groups did not engage with this proposal, perhaps because it is not a tax they would normally come across. However, of those that did, many (not all) felt there was no good reason for treating the taxation of capital gains differently to income.

This was consistent with our findings in the poll. While support for this change wasn't as enthusiastic as for equalising the treatment of the self-employed, we still found a good level of support:

- 46% of the public supported or strongly supported equalising the tax treatment of capital gains with income from work, with 18% opposing or strongly opposing it.

Conservative voters were more enthusiastic than others:

- 54% of 2019 Conservative voters strongly supported or supported equalising the tax treatment of capital gains with income from work, with 20% opposing or strongly opposing it.

**Principle 3:** Tax rises should not infringe the long established right to be rewarded for hard work, and on this basis to acquire and retain property.

Principles 1 and 2 were to some extent qualified – but not contradicted – by this third, equally important, principle. Many participants in the groups were wary of tax that appeared to penalise those who worked hard to build up a degree of financial independence, whether this was achieved through home ownership, a pension, an estate that could be left to others, or simply financial assets. Few participants wanted to abolish pensioners' 25% tax-free lump sum (though some supported limiting it to £50,000) or to bring main homes within the scope of Capital Gains Tax (even if gains under £500,000 were to be excluded). Proposals to replace Inheritance Tax with a Lifetime Receipts Tax were as unpopular as Inheritance Tax itself and our view is that attempts to increase revenue in this area should focus on reducing Inheritance Tax reliefs (see Principle 4).

These findings were consistent with our poll which found that:

- 70% of the public felt that pensions should continue to be taxed at the existing lower rates than other forms of income, with the remaining 30% feeling that they should be taxed at a rate nearer to that on other income
- Only 37% of the public supported or strongly supported applying Capital Gains Tax to gains of more than £500,000 on main homes, with 31% opposing or strongly opposing it.

1. The Guardian (2020), Over-40s in UK to pay more tax under plans to fix social care crisis. Available at: <https://www.theguardian.com/society/2020/jul/26/uk-ministers-looking-at-plans-to-raise-taxes-for-over-40s-to-pay-for-social-care> (accessed 14 September 2020)

**Principle 4: Any tax rises for individuals must be coupled with renewed efforts to tackle tax avoidance.**

This project did not set out to consider tax avoidance. However, we heard consistently across all four groups that wealthy individuals and businesses are widely engaged in wholesale tax avoidance. This perception was undermining support for tax rises on individuals among those we talked to.

Because corporate tax avoidance is perceived to be so widespread, participants often felt that there was no need to raise taxes on individuals when the additional revenue required could be raised by cracking down on tax avoidance. This clearly makes it more difficult to argue for higher taxes for individuals. It also creates a sense that tax authorities are unfairly going after the 'little man', when they should be focusing on the 'real baddies'.

The average taxpayer does not, of course, distinguish between aggressive avoidance schemes of the kind that HMRC routinely tackles, the use of reliefs which were intended but which have been over-exploited, and base erosion and profit shifting by multinationals. All of these contribute to the impression that large international companies such as Amazon and Google, as well as some wealthy individuals, pay minimal tax. Thus, any attempt to raise taxes on individuals must be accompanied by genuine efforts to tackle all three types of avoidance, including (where possible) simplification of the tax code (see Principle 5). The return on these efforts is not simply the additional Corporation Tax raised, but the additional personal taxation they make politically feasible.

But persuading the public that the Government is taking this seriously will be difficult: we found strong evidence that trust in HMRC to deal with tax avoidance is low. This means the Government should consider using an independent body, comparable to the Office for Budget Responsibility, to monitor the necessary work.

**Principle 5: Tax rises must be accompanied by greater transparency about how taxes are raised and how taxes are spent, with improved communications and education.**

We heard concerns from participants in all the groups that they had little understanding of how their taxes are spent, despite HMRC providing

taxpayers with information about how their taxes are spent through the Annual Tax Summary.<sup>2</sup> This can lead to a sense that the public are being taxed for no good reason, causing anxiety about paying taxes and leading participants to question the justification for higher taxes. The failure to effectively provide taxpayers with sufficient information about how tax revenues are spent can also lead to increased fears around waste in public spending, further undermining the case for tax rises. Hence participants called for the Government to provide fuller and clearer information about how the taxes they have paid have been spent.

They also felt that the tax system itself (as opposed to public expenditure) was difficult to understand and some called for a simpler system, and/or for better public information and education about the system, with some feeling that this should begin at school.

Some might argue that there is little appetite among the public to engage more with the tax system. Our experience of the deliberative groups suggests this is not necessarily the case. Participants found it easy - even enjoyable in some cases - to use the Demos Tax Calculator tool we had designed, suggesting that the public are perfectly able and willing to engage, provided they are offered a reasonably accessible and interactive way of doing so. On this basis, they were able to conduct a reasoned conversation about the tax system, and some reported that they enjoyed doing so.

**DOs and DON'Ts of tax rises**

These principles suggest the following dos and don'ts when increasing tax. They are not hard and fast rules, but they are based on the research on public opinion which underpins this report.

**DO:**

- Raise Income Tax across the board, except for those with incomes of less than c. £20,000
- Raise Income Tax more for the better off than for the less well off
- Reduce pension reliefs for higher rate taxpayers
- Raise Council Tax on the most expensive homes
- Move towards equalising the tax and benefit treatment of the self-employed and employees

2. <https://www.gov.uk/guidance/annual-tax-summary>

- Move towards equalising the tax treatment of capital gains, investment income and income from work
- Consider extending VAT to items that are perceived to be consumed largely by the better off (e.g. private school fees, private medical fees)
- Put renewed efforts into reducing tax avoidance and 'loopholes' and simplify the rules where possible
- Communicate clearly to the public about how tax is raised and how it is spent

#### DON'T:

- Raise Income Tax on those with incomes of less than around £20,000
- Introduce unnecessarily punitive tax rises on the better off
- Align taxes on the self-employed with taxes on employees without aligning benefits as well
- Bring people's main home within the scope of Capital Gains Tax
- Raise taxes on pensions or reduce pension contribution reliefs for most people
- Increase the main rate of VAT
- Introduce taxes targeted at particular groups - for example a social care tax targeted at those over 40

For a league table of tax rises, ranking measures by their popularity, see page 70.

#### WHAT MIGHT THIS MEAN IN PRACTICE?

The following package of 12 measures is illustrative. It complies with these dos and don'ts and would raise an additional £74 billion from individual taxpayers (in addition to any increases arising from GDP increases), based on the model underpinning the Demos Tax Calculator (see <https://tax.demos.co.uk/>).

We emphasise that these are not recommendations for now, but a set of measures that could be introduced over several years before 2035. Note that because there are interactions between the different measures, the sums raised against each measure are on the assumption that the measures listed earlier have been implemented.

#### Income Tax

1. Raise the basic rate of income tax by 2p in the pound, but raise the Personal Allowance so that no-one with an income of £20,000 or less pays more tax - **£3.8 billion**
2. Raise the rate of income tax on income between £50,000 and £100,000 by 5p in the pound - **£6.7 billion**
3. Raise the rate of income tax on income over £100,000 by 10p in the pound - **£8.0 billion**
4. Reduce the tax relief on pension contributions of those earning more than £50,000 a year to the same level as those earning less than that - **£12.6 billion**

#### NICs

5. Limit the exemption on employers' NICs payable on employers' pension contributions to the first £2,500 - **£6.9 billion**
6. Apply the same tax treatment, including employees' NICs or an equivalent, to all forms of income and balance this by creating the same entitlement to state funded benefits - **£1.5 billion**
7. Apply the equivalent of employers' NICs to all forms of income above a threshold of £50,000 a year - **£8.5 billion**

#### Capital Taxes

8. Equalise the rates of Capital Gains Tax with Income Tax - **£11.1 billion**
9. Abolish the separate Capital Gains Tax allowance, keeping a very low threshold for administrative reasons - **£1.2 billion**
10. Increase Council Tax on top band properties, charging a percentage of the value - **£0.8 billion**
11. Simplify Inheritance Tax rules and abolish exemptions except for spouses - **£6.9 billion**

#### VAT

12. Introduce VAT on gambling stakes, private school fees and private medical fees - **£6.0 billion**

## **FURTHER RECOMMENDATIONS**

Beyond the measures set out in the table above, this report considers a number of issues relating to the public's interaction with the tax system more broadly.

We heard throughout our four deliberative groups that any attempt to raise taxes on individuals must be accompanied by genuine efforts to tackle avoidance by wealthy individuals and businesses; otherwise tax rises on the general population will be deemed unfair by the public. We therefore recommend that:

**1:** The Government should launch a renewed crackdown on tax avoidance to accompany any tax rises for individuals.

**2:** The Government should consider launching a new, independent body - comparable to the Office for Budget Responsibility - to oversee HMRC and the government's tax avoidance strategy and measures.

**3:** Education about the tax system should be introduced as a mandatory component of citizen education in schools.

**4:** The Government should launch an initiative exploring new ways of communicating to the public how taxes are spent, with a focus on online, interactive tools.

# INTRODUCTION

## WHY TAXES ARE LIKELY TO RISE

It is very likely that taxes are going to have to go up in the UK, if not now then in the medium to long term. This is partly because of the coronavirus crisis (the debt incurred will have to be serviced and perhaps ultimately repaid<sup>3</sup>), but more significantly because the population is getting older, meaning the NHS and social care bills are rising. The number of people aged between 65 and 79 is projected to increase by more than a third (36%) between 2016 and 2036, and the number of people aged over 80 is expected to go up by 69% in the same period.<sup>4</sup> This is partly because of the post-war 'baby boom' and partly because people are living longer.

Either way, it means a much bigger NHS bill: each person in their 70s costs the NHS about five times as much as each person in their thirties, and this rises to seven times as much for each person in their 80s. The cost of treating certain conditions such as diabetes is also projected to rise, while more people will be receiving the state pension. In addition, following the current crisis, it is likely that there will be pressure to spend more on the NHS, public health and care homes anyway, regardless of the ageing population. There may be pressure to spend more on other public services as well.

It would of course be possible to respond to this fiscal challenge by cutting government expenditure instead of raising taxes. Yet we think this is unlikely given recent indications to suggest the public have a fairly strong preference for tax rises over spending cuts. A July 2020 YouGov poll, for example, found that 47% of the public now back tax rises when asked how to deal with the deficit, up from 30% in December 2009.<sup>5</sup> The same poll found that public support for tackling the deficit through spending cuts has halved from 52% to 27%.

It is difficult to predict exactly how much this is going to cost, but we have looked at a range of estimates<sup>6</sup> and we think an extra £100 billion a year by 2035 in addition to any increases resulting

from GDP growth is a reasonable prediction, with the amount gradually building up to that between now and then. If the government decides to pay off the borrowing required by coronavirus, then the amount will build up faster – we will pay more tax sooner. This is a relatively low estimate – it could be much higher if we decide to improve the quality of public services or pay higher wages for those working in them, but even this level of increase will take the tax share of GDP to its highest level since the 1940s.

Some people have suggested that we could introduce new charges for the NHS, not to cover the complete cost, but to make a contribution. These would work a little like prescription charges. So, for example, we could introduce a £50 per night charge for staying in hospital and this might raise £2.5 billion-£3.5 billion. We could introduce a £10 charge on each GP visit and this might raise £3 billion-£4 billion. So perhaps we could raise up to £7 billion to £8 billion this way – but this wouldn't make a big difference to the £100 billion tax bill. In any case, they would be hugely controversial, so we have assumed such charges are not introduced.

We have also assumed, on the basis of a review of other proposals, that the government could raise an extra £20 billion through clamping down on business and personal tax avoidance and increases in corporation tax – not all at once but over time. We don't think it could raise much more than this without damaging the economy. So that leaves £80 billion to be raised from individuals.

## THIS REPORT

This report sets out how taxes could rise on this scale over the next fifteen years in a way that is acceptable to the public. It draws on a series of online deliberations in London, the North East, Cardiff and Glasgow that involved participants testing alternative tax proposals using the Demos Tax Calculator, and on a new nationally representative poll (for details of the methodology

3. At current interest rates, if the economy bounces back by the mid 20s, debt servicing costs will be lower than they were before the pandemic

4. Office of National Statistics (2017), Principal projection - UK population in age groups, mid-2017 based.

Quoted in: <https://www.ageing-better.org.uk/sites/default/files/2019-03/The-state-of-ageing.pdf>

5. The Times (2020), Support grows for tax rises over more years of austerity.

Available at: <https://www.thetimes.co.uk/article/support-grows-for-tax-rises-over-more-years-of-austerity-zwbjplkv2> (accessed 14 September 2020).

6. irko Licchetta and Michal Stelmach (2016), Fiscal sustainability and public spending on health (Office for Budget Responsibility); Anita Charlsworth and Paul Johnson (2018) Securing the Future: Funding health and social care to the 2030s (Institute for Fiscal Studies, The Health Foundation); Adam Corlett (2019), The Shifting Shape of UK Tax (Resolution Foundation),

and sampling see Annex 4; for a report on findings specific to Welsh and Scottish group participants and poll respondents, see Chapter 5).

### Approach

Proposals for how taxes should rise have been widely made by politicians, academics and journalists. Yet so far there has been no public deliberation on the matter; hence this project.

To this end, we convened four online deliberative groups in July 2020 with between 12 and 16 participants each in London, the North East, Glasgow and Cardiff. Each deliberative group consisted of four two-hour sessions and each explored, following a brief presentation of the relevant rules, a different area of taxation (e.g. income taxes, wealth taxes etc.). This allowed participants to consider the issues at hand in depth and, importantly, to consider a range of different options and weigh them against one another. For more details on our methodology, please go to Annex 4.

In addition, we developed the online Demos Tax Calculator for the sessions, which allowed participants to understand how much revenue different measures would raise and what the distributional consequences of any changes would be.

We then tested our findings with a nationally representative poll of 2,008 UK adults, interviewed online between 1 August - 5 August 2020. The poll began with a statement explaining that, in our view, it is likely that taxes in the UK will have to go up at some point and that the purpose of the poll is to

understand public attitudes towards different tax policies. The statement also set out that we do not expect taxes to go up immediately in the context of the pandemic and that when thinking about potential tax rises we are asking about changes to be enacted over several years (when the worst of the current crisis is over).

### Scope

This project only sought to consider tax rises on individuals. As a result, it does not assess how taxes might be raised on businesses and therefore does not consider taxes such as Corporation Tax, business rates etc.

This is for two reasons. First, we did not wish for this project to become unnecessarily unwieldy; there is already a large amount of ground to cover in considering taxes on individuals. Second, we judged that we might have higher quality discussions with the public about taxes that they have some experience of paying, or could at least envisage themselves paying, even if they haven't done so themselves. It is certainly not because we have judged that business taxation won't play a key role addressing the tax challenges the UK will face in coming years.

But even just focusing on taxes on individuals leaves a huge number of potential changes. To narrow the field, we eliminated any proposed changes that we deemed to be administratively unfeasible or would result in undesirable economic distortions. This left us with a shortlist which we took into our deliberative groups. For more information on this process, please go to Annex 4.

# CHAPTER 1

## AN AFFORDABLE TAX SYSTEM FOR EVERYONE

**Principle 1:** Everyone should contribute what they can afford. This means tax rises should be progressive.

We heard throughout our deliberative groups that if taxes are going to rise, everyone should contribute something. On the other hand, we found strong support for the notion that the least well off should be protected. We also found strong support for the progressive nature of the tax system and support for the better off bearing more of the burden of any future tax rises – although not exclusively and as part of a balanced set of measures: there is little desire to come down hard on the rich. Underlying these different views was the feeling that tax rises should be affordable. These views were particularly evident in participants' discussion of Income Tax, relief on pension contributions, Council Tax, a wealth tax and VAT.

### 1.1 INCOME TAX

#### Everyone should contribute

Making everyone pay was often perceived to be the fairest or most 'even' option; if we are going to have to make sacrifices, everyone should be affected. Typical comments in our final deliberative session included:

*"If we need to raise more money, then the tax has to go up for everybody."*  
Male, North East

*"On the grounds of evenness across the board, if taxes have to rise, then it would only be fair to cover the majority of people as best you can."* Male, Cardiff

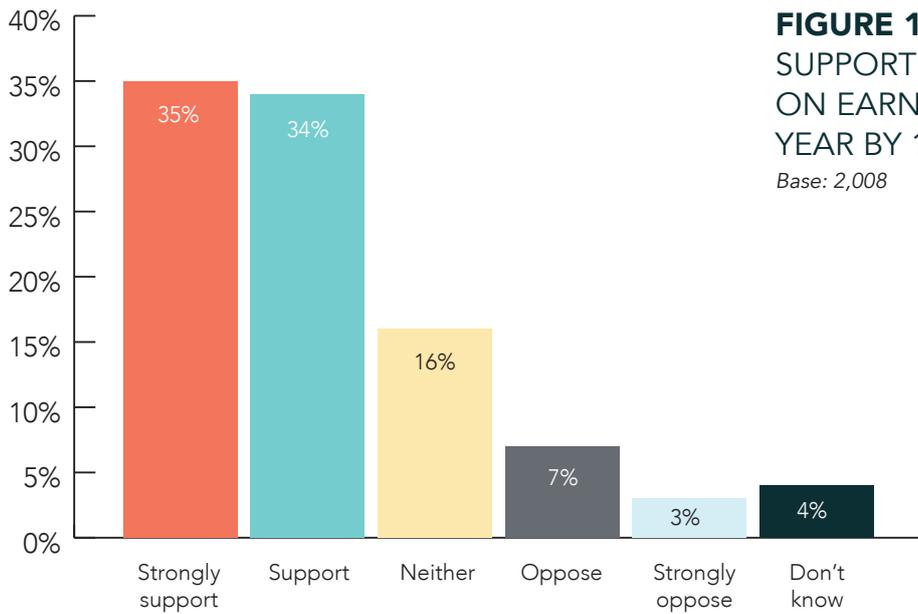
For others, the rationale was more pragmatic: raising taxes on everyone, even by a small amount, delivers significant additional revenue. As one participant put it:

*"...we have to realise that everybody's got to chip in, and that 1p does raise a hell of a lot."*  
Male, London

#### The better off should pay more than others

We found strong support in our poll for the better off bearing more of the burden of any tax rises: almost seven in ten (69%) of the public either strongly supported or supported raising Income Tax on earnings over £100,000 per year by 10p in the pound, with just one in ten (10%) opposing.

There was almost no variation in these numbers between social grades ABC1 and C2DE or between graduates and non-graduates, except that 14% of graduates were opposed or strongly opposed to this measure, as compared with 9% of non-graduates.



**FIGURE 1.**  
SUPPORT FOR RAISING INCOME TAX ON EARNINGS OVER £100,000 PER YEAR BY 10P IN THE POUND

Base: 2,008

Furthermore, this change was the most popular option of fifteen different revenue-raising options that we presented to respondents, with 17% choosing it as their favourite option of the list of fifteen. This suggests that this change would be popular both in its own right, and in comparison to various alternatives.

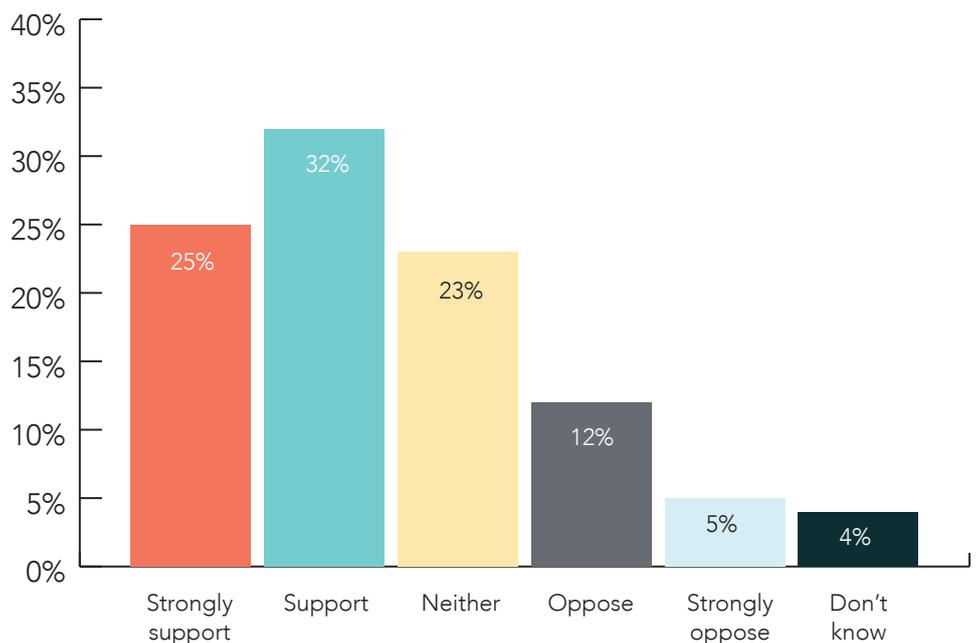
We found weaker but still strong support for increasing taxes on high but not top income earners. 57% of the public supported or strongly

supported raising Income Tax on earnings over £50,000 by 5p in the pound, with just 17% opposing or strongly opposing.

There was also support for this measure amongst those in social grades ABC1 and amongst graduates, but at a slightly lower level. 54% of those in social grades ABC1 and 54% of graduates supported or strongly supported it, while 20% and 24% respectively opposed or strongly opposed it.

**FIGURE 2.**  
SUPPORT FOR RAISING INCOME TAX ON EARNINGS OVER £50,000 PER YEAR BY 5P IN THE POUND

Base: 2,008



In the groups, we found strong support for the tax system's existing progressivity and support for the better off bearing more of the burden of future tax rises:

*"I believe that everyone should be contributing to bringing the debt down. I also agree that those who are on the higher end should bear more of the burden..."*  
Female, London

The idea that higher tax increases would have less meaningful impact on the better off was often offered as a justification for this:

*"...changes in taxation should have a greater impact on those who will feel it least. I think that's fair, and everybody who uses services pays a proportionate level of tax in relation to how much they earn."* Female, North East

*"I was comfortable with taxing the rich more, just because I think they can afford it. They're not going to be destitute. They're not going to be worrying about whether they can eat or not. They might be worried about what Ferrari they can buy, but not whether they can eat or not. I felt comfortable with that."*  
Female, London

For others, the motivation for making the better-off pay more was that it was something they could afford to do.

*"I would say, if I had to put down one guiding principle, it's that taxation should be progressive rather than regressive. So,*

*the greater burden of taxation should be on those who can afford to pay, rather than a flat tax, like VAT, which applies to every single person in the country, no matter what you've got in the bank."* Male, Glasgow

*"I think if you can give back then you should...we're all in this together, and if you're better off than others then you should be giving back a bit."* Female, Cardiff

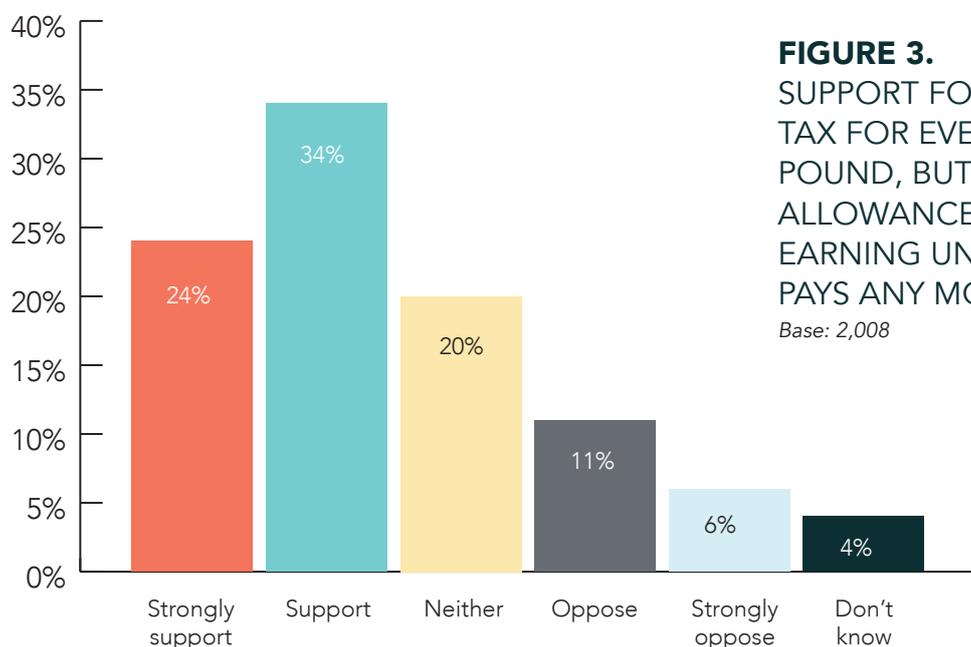
However, this support for a progressive system was qualified for some by a concern not to disincentivise 'hard work' or to remove the right to 'do well'. We return to this in Chapter 3.

### The least well-off should not pay more than they do now

We found strong support in our poll for the principle that everyone should pay more tax, but that the poorest in society should be protected: 58% of the public supported or strongly supported raising taxes for everyone by 2p in the pound, while raising the Personal Allowance so no-one earning less than £20,000 would be affected.

In contrast, we found less support for broad Income Tax rises that would affect everyone, including those at the bottom of the income distribution: 47% of the public supported or strongly supported raising Income Tax by 1p in the pound for everyone, with 25% either opposing or strongly opposing.

This pattern was consistent across social grades ABC1 and social grades C2DE, and amongst graduates and non-graduates.



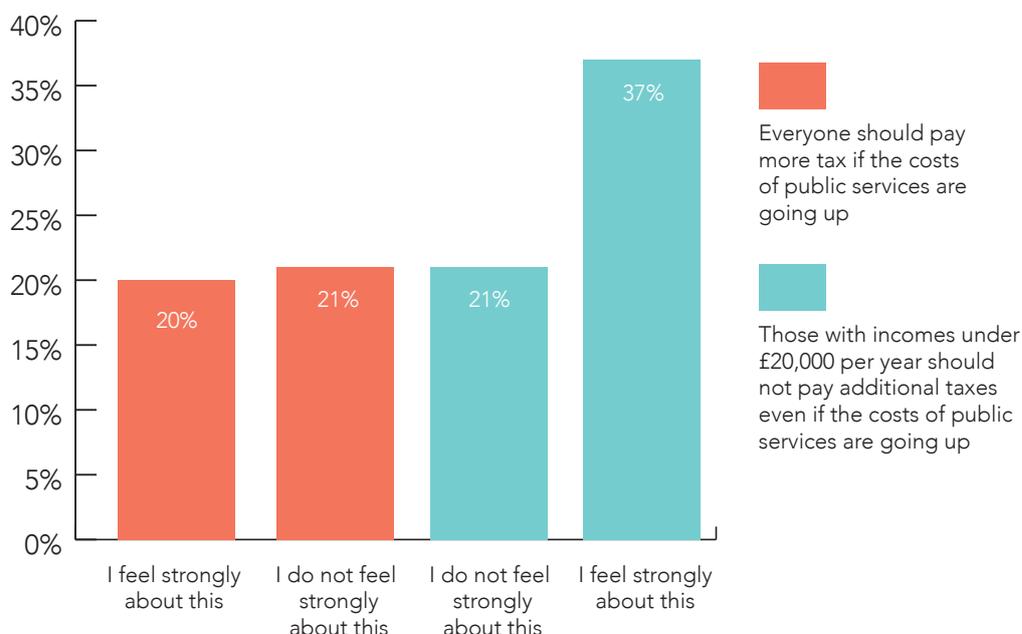
**FIGURE 3.** SUPPORT FOR RAISING INCOME TAX FOR EVERYBODY BY 2P IN THE POUND, BUT RAISING THE PERSONAL ALLOWANCE SO THAT NO-ONE EARNING UNDER £20,000 PER YEAR PAYS ANY MORE TAX AS A RESULT

Base: 2,008

This finding is borne out by further value testing we carried out. 58% of the public felt that those with incomes under £20,000 should not pay additional taxes even if the cost of public services are going up, with 41% feeling that everyone should pay more tax if the cost of public services are going up.

**FIGURE 4.**  
WHO SHOULD  
PAY MORE TAX?

Base: 2,008



We found extremely strong support in the groups for the notion that given we should all pay what we can afford, the poorest in society should see little or no tax rises. As one participant put it:

*"I think that everyone should be made to contribute, except those who are really living on the bread line."* Female, London

*"...everybody's going to lose out if they've got to pay more tax, but it should not actually put poorer people at risk. In other words, they should still be able to have adequate funds, finances, in order to enjoy a certain level of comfort and standard of living."* Male, London

This was often because of the unfair impact that this would have on those at the bottom, who were perceived to already be struggling:

*"If you're on £18,000 a year, you're not on a lot of money. That doesn't go far. If you take off rent, council tax, food, water, electric, gas, telephone, all the basics to be getting*

*a modern life, you're left with very little on £18,000 a year. Then you're having to pay tax on that as well."* Male, North East

*"...I just think that I would be happier leaving that bottom wage bracket out, for the time being. I think if they're already struggling, then it's just going to make the problem worse."* Female, London

*"The 20%, if you're only earning £20,000 as well and they're taking 20% of your wages as well, it's a lot with the cost of living and... everything is going up in price."* Female, Glasgow

*"I still agree that 20% of £20,000 is a lot, it's a bit extreme."* Male, Glasgow

This was often driven by people's personal financial situation and the fact they would not be able to afford to pay a higher rate of tax:

*"If I was taxed more and I ended up getting less than that, I struggle on £200 a month after everything's paid, so being hammered*

again for tax, if it was £30 or £40 a month extra I had to pay, that's a lot of money to me personally." Female, North East

*"Those on the lower end of the incomes, people like me, would struggle like hell if they had to pay more tax. I couldn't do it. I haven't got enough money."*

Female, North East

While there wasn't unanimous agreement on who exactly should be taken out of paying Income Tax, some participants suggested that anyone earning the minimum wage shouldn't have to pay:

*"I think as well, not taxing anybody who's literally on the living wage, because if the government have decided that's how much you need to live, why then would we tax those people to remove some of that income when we know that they're literally only earning what they need to live on?"*

Female, North East

*"I've been saying it every single day but, I mean, the impact on somebody that's on minimum wage being taxed is, like I say, the difference between feeding their kids or keeping their house."*

Female, Glasgow

However, other participants felt that it was right that those at the bottom contribute something, even if it was only a nominal amount:

*"I think the lower wage should definitely pay something, because I think everybody should feel that it's needed and everybody is going to feel, hopefully, the benefit of what the money's doing, but I definitely think it needs to be minimal for the people on the lower wage..."*

Female, London

*"So, I think it's a burden that should be shared by all, so we can all feel invested in it, but similarly, it should be fairness in a sense that those who are least able to afford this are the least burdened by it, because they're the ones who have the least to live on."*

Female, London

## The interaction with the benefit system needs attention

There was also a sense that higher taxes for the poorest could have unintended consequences. This is partly because it may simply increase the amount of benefits that has to be paid:

*"...I just don't think it's necessary, and also, people on really, really low incomes will just be turning back to the government for more help."*

Female, London

*"...because if you're going to tax the lower tax bracket, then it'll just be a nightmare. You're going to have people claiming benefits then it's still eating out of the system, so you're back to square one."*

Male, London

But it may also disincentivise work, highlighting the need to avoid cliff edges in the tax schedule for low income workers:

*"I think it's really important to not make matters worse for the poorest in society, because I think the trouble with doing that, with saying, 'Oh, they can pay this and that,' is it does result in people not working then, because there's no point. If they're better off not working, why work?"*

Male, Cardiff

*"I think I'm actually worse off for taking a better position that has more money, because of the amount of money I've lost in tax credits, and the amount of work that I'm doing on top."*

Female, Cardiff

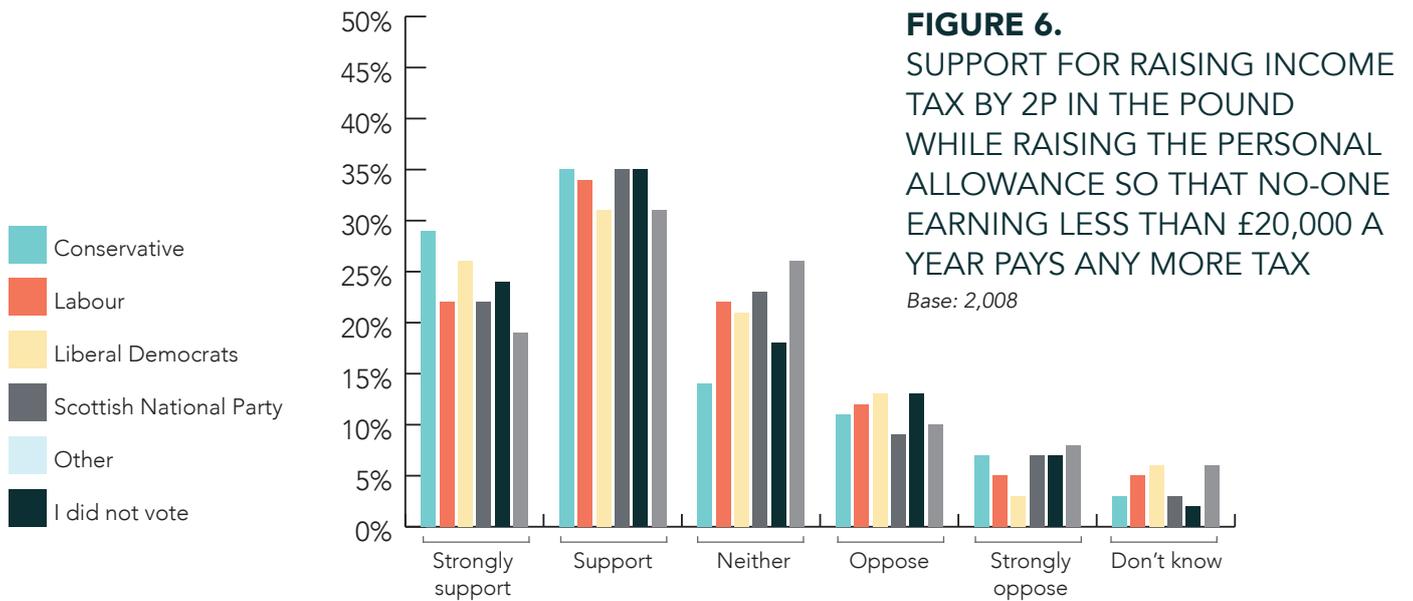
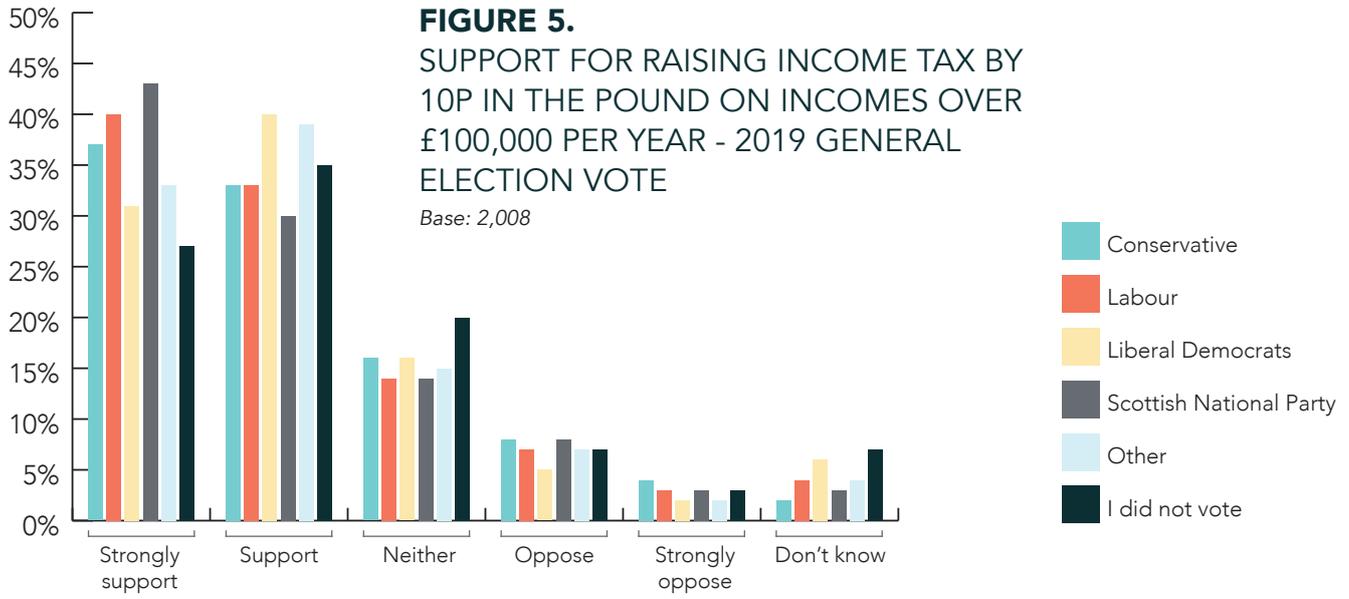
*"Now that I'm... doing the right thing, increased my hours at work, so now I'm over the £20,000, now I don't get any help with council tax. Now, in effect, I'm paying tax, I'm paying full council tax, which is fine... I might as well have stayed doing less hours, because financially, I'm no better off."*

Female, North East

### Conservative voters support progressive taxation

Interestingly, 2019 Conservative voters were, if anything, more likely to support progressive Income Tax measures than other respondents:

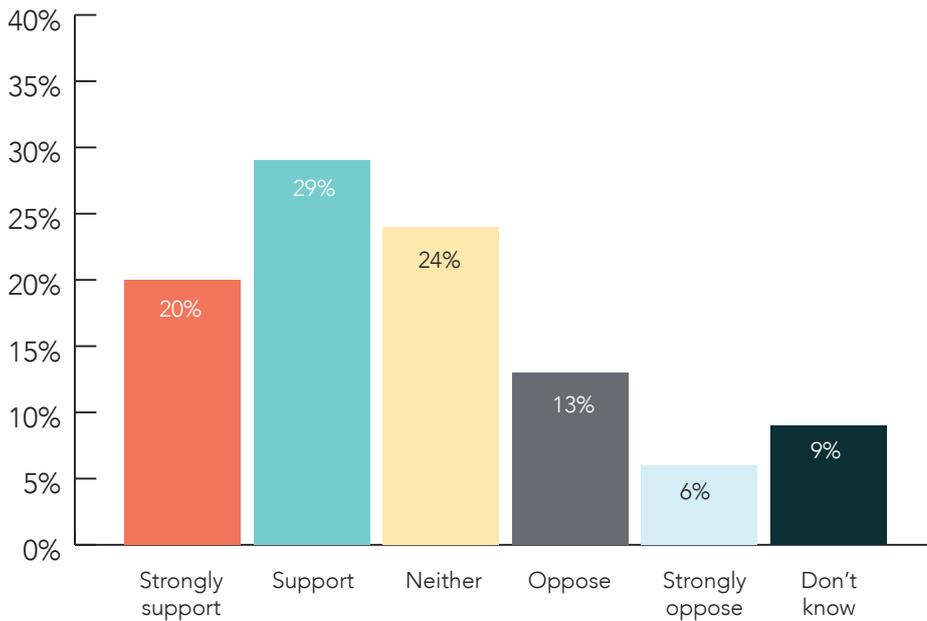
70% of Conservative voters supported or strongly supported raising Income Tax by 10p in the pound on incomes over £100,000 per year, and 64% supported or strongly supported raising Income Tax by 2p in the pound while raising the Personal Allowance.



## 1.2 PENSION CONTRIBUTION RELIEF

### Reliefs for higher earners should be reduced

Overall, group participants and poll respondents were keen to preserve the reliefs enjoyed by those contributing to or receiving pensions (see Chapter 3). However, they wanted to reduce those reliefs for the better off.



**FIGURE 7.**  
SUPPORT FOR  
REDUCING THE TAX  
RELIEF ON PENSION  
CONTRIBUTIONS OF  
THOSE EARNING MORE  
THAN £50,000 PER YEAR  
TO THE SAME LEVEL AS  
THOSE EARNING LESS  
THAN THAT

Base: 2,008

Group participants wanted to reduce reliefs for the better off. Awareness and understanding of pension tax relief rules was generally fairly low among participants. However, presented with the current rules many participants felt that it was unfair for higher earners to enjoy a higher rate of pension tax relief. As one participant put it, summing up the mood across the groups:

*"The thing that's surprising is the higher up the tax bracket you are, the more you're getting back from HMRC. That, I find quite unfair." Female, Glasgow*

Indeed, some participants that had themselves been beneficiaries of higher earner pension tax relief felt that they would be happy for this to be abolished:

*"I've taken out parts of my pension already, as I would say I already spoke about the 40% tax rebate... I haven't got an issue with that being reduced to 20% of the bill, I'm quite happy, that's one aspect." Male, Cardiff*

In the poll, 49% of the public supported or strongly supported limiting relief on pension contributions to 20p in the pound, with 19% opposing or strongly opposing it.

### Some disagreed with this view

However, while most participants tended to view higher pension tax relief for higher earners as unfair, a significant minority felt that the current rules were justified. Some argued that reducing the relief would deter higher earners from saving for a pension, an undesirable outcome:

*"It would put higher earners off having a pension because they're only going to get 20% relief when they put 40% in." Female, Glasgow*

In addition, some participants felt that it was only fair that higher earners get more pension tax relief because they should get back what they would normally pay in. As one participant put it:

*"They [higher earners] should get back what they normally pay in." Male, North East*

## NICs should be charged on employer pension contributions above a threshold

There was also support for making employers pay NICs on their contributions, at least above a threshold: 44% of the public supported or strongly supported applying employers' National Insurance Contributions to employers' pension contributions above £2,500 a year, with 16% opposing or strongly opposing it.

In the groups, when presented with the fact that employers do not have to pay NICs on their employees' pension contributions, many participants across our groups felt that this was unfair. This was often driven by a sense that if employees are paying NICs on their contributions, it was only fair that employers do too, across the board. Typical comments from participants included:

*"...seems a little bit unfair, how you pay National Insurance contributions on your contributions, employers don't have to pay on their contributions should they? So, my answer would be yes."* Male, Glasgow

*"... there needs to be a fairness across the board, really. That I'm paying National Insurance contributions on what I'm paying towards my pension, why can't my employer be doing the same?"* Male, Glasgow

*"If your employer also contributes, say, exactly the same as what you contribute, why are they exempt from National Insurance contributions and we're not, or vice versa?"* Male, Cardiff

## There were some doubts about this though

Notwithstanding a strong sense across the groups that it was unfair and inconsistent that employers do not pay NICs on pension contributions, there was an often equally strong sense that charging NICs on employer pension contributions could lead to unintended consequences. Most importantly, participants were often concerned that a higher rate of NICs on employer pension contributions could deter employers from making such contributions in the first place:

*"You don't want to discourage employers paying into it."* Male, North East

*"I think it's good that employers are contributing, but if they put National Insurance on it, as well, is it not going to put employers off?"* Female, Glasgow

Equally, we heard concerns that any changes to the taxation of pensions could increase administrative burdens for businesses:

*"...I just think it's quite a broad statement to say we can whack NICs onto employers, because for some employers that would send them under depending on how much that might cost and what size organisation you're talking about. I don't know and at a point where our economy seems to be teetering on the edge anyway..."* Female, Cardiff

Indeed, others were concerned that it would discourage employers from hiring:

*"...you're now going to pay National Insurance as a business on the contributions, it's just another tax on the business. That means there's less profitability in the business, it means that the business owner then says, 'Well, should I employ somebody? No, I can't afford to do that. Should I invest in expanding the business? I'm sorry, I can't afford to do that.'"* Male, London

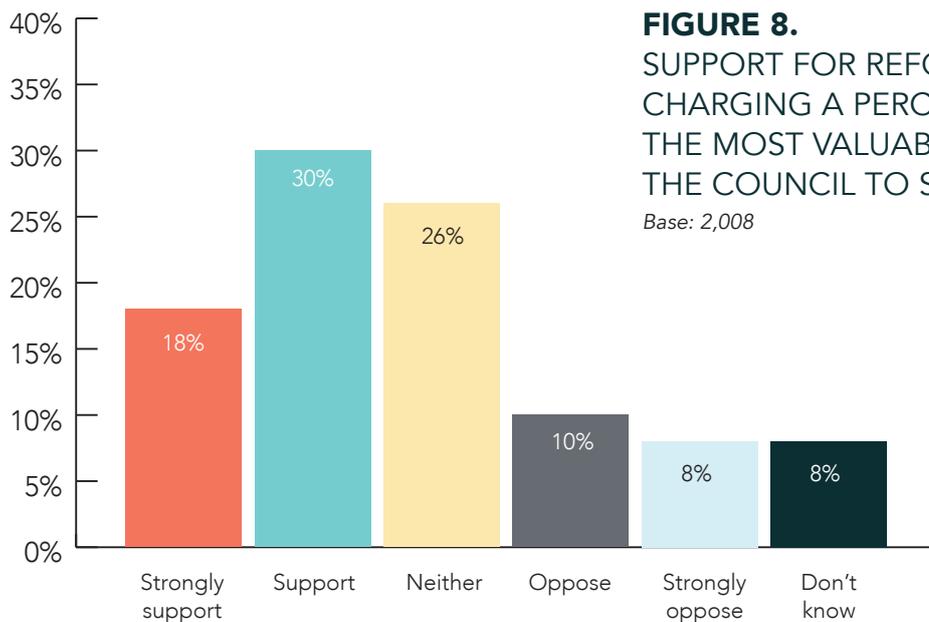
*"Can I just say it's a deterrent to employing people as well? I know in France they get massive amounts of costs such as this and people are very reluctant to take on more people because of the cost of employing people."* Male, Cardiff

We included the option of limiting NICs to contributions over £2,500 and this found favour with some group participants. This limit would primarily protect lower-paid workers, avoiding the unintended consequence of employers reducing the amount they pay in contributions to offset the NICs increase.

## 1.3 COUNCIL TAX

### Council Tax should be more progressive

We found a good level of support in our poll for making Council Tax more progressive. 48% supported or strongly supported reforming council tax by charging a percentage of the value of the most valuable 2% of homes. Just 18% of the public opposed or strongly opposed this change.



**FIGURE 8.**

SUPPORT FOR REFORMING COUNCIL TAX BY CHARGING A PERCENTAGE OF THE VALUE OF THE MOST VALUABLE 2% OF HOMES (WITH THE COUNCIL TO SET THE PERCENTAGE)

Base: 2,008

We also found a good level of support for this change in our groups. This was often because it only seemed fair that the most expensive properties pay more and that those in more expensive properties would be able to afford to pay more. Indeed, some participants were surprised that this is not how council tax currently works. As some participants put it:

*"So, to have it as a percentage instead of a band, for them I think is fair and consistent with the property that they're buying, the same as stamp duty. To me it just seems to go hand in hand, I'm actually shocked that it isn't that way."* Female, London

*"...if people can afford to have valuable houses then they can afford to pay a percentage of the council tax as that."* Female, London

*"I personally think we should have more bands to go up a bit more. They're only sticking at a certain level and that's it, but some of these houses are so expensive, yet they get caught in the lower bands. I don't think that's right."* Male, London

Similarly, for others it just seemed common sense for the council tax regime to discriminate at the top end of the property market. As one participant put it:

*"Because you've got houses that are worth, I don't know what the top end of the band is, £600,000 or whatever it is, and anything above that, £10,000,000, £20,000,000, Buckingham Palace, wherever you want, are all paying the same rate. I don't understand why there isn't further rates, in that respect. That doesn't make sense to me."* Female, Cardiff

For others, the motivation for higher property taxation came from a sense that people have simply been lucky enough to live through a period of high house price growth and that, as a result, it is fair to tax them for it.

*"We're talking teachers who are probably on normal salaries and have got £1,000,000 or £2,000,000 houses. They've done really well out of the house boom. So, I think they should have to pay a little bit more..."* Male, Cardiff

### However there were concerns about the 'asset rich, cash poor'

However, there was a concern among some participants that higher taxes for those that have gained from house price growth would be unfairly punishing them, given they don't opt for house prices to go up. Similarly, the primary objection to the reform was the impact it might have on 'asset rich, cash poor' households, especially the elderly.

The measure would be particularly unattractive if it forced them to sell their homes. Furthermore, we couldn't find consensus in our groups on how this might be resolved. We discussed whether it would be attractive to delay payment until death, but attitudes among participants towards this proposal were extremely mixed.

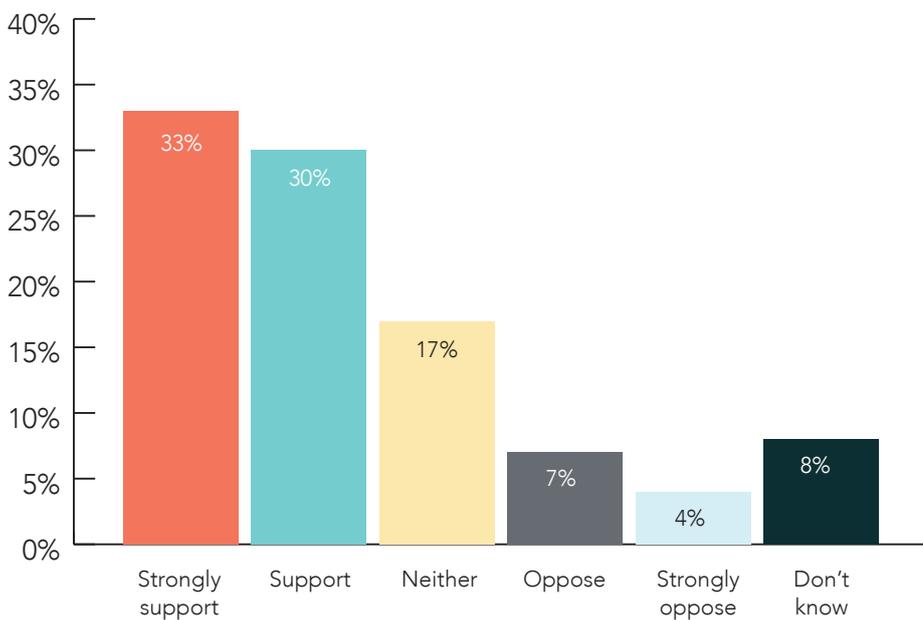
The issue of house price disparities across the country was also raised. Participants often felt it would be unfair to 'punish' people living in areas of higher house prices, such as London, with higher

property taxation. We return to these issues in Chapter 3.

#### 1.4 WEALTH TAX

##### A one-off wealth tax would be popular

We found strong support for a one-off wealth tax at a fairly high rate (10%) on wealth over £2 million, provided that tax excludes main homes and pensions. 63% of the public supported or strongly supported this measure, with just 11% opposing or strongly opposing.

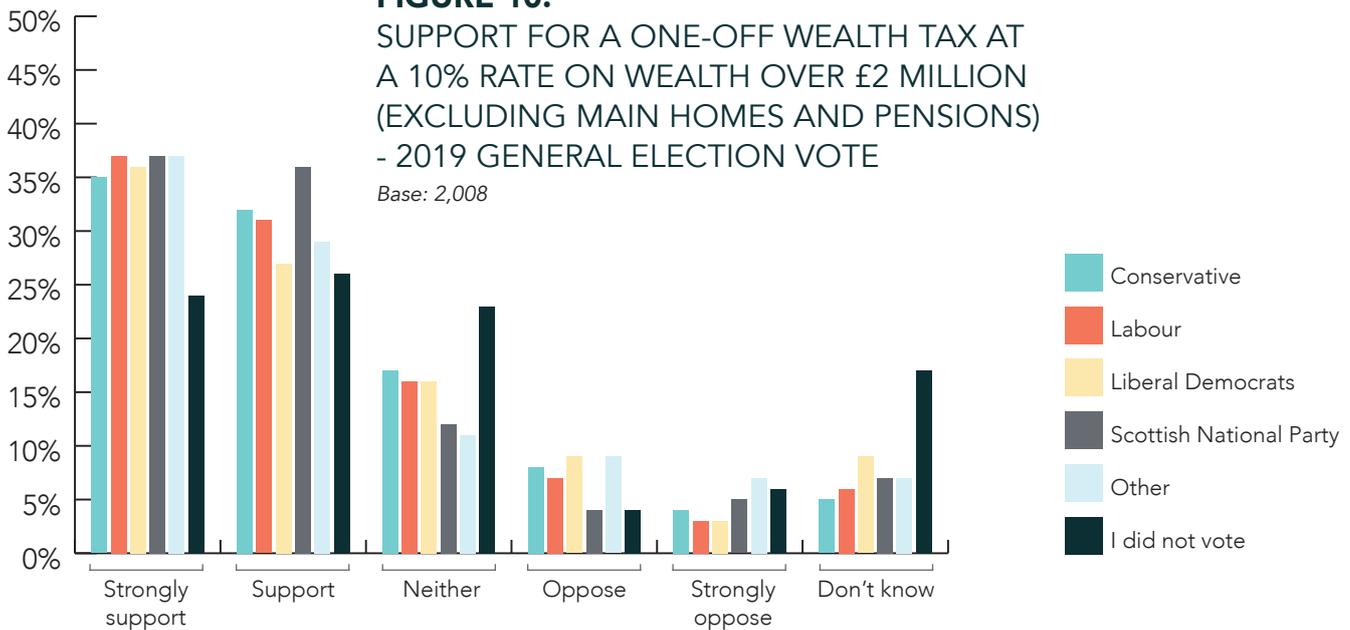


**FIGURE 9.** SUPPORT FOR A ONE-OFF WEALTH TAX AT A 10% RATE ON WEALTH OVER £2 MILLION (EXCLUDING MAIN HOMES AND PENSIONS)

Base: 2,008

More surprisingly, we found that Conservative voters at the last election were slightly more likely than the national average to support this measure (67% versus 63%).

**FIGURE 10.**  
SUPPORT FOR A ONE-OFF WEALTH TAX AT  
A 10% RATE ON WEALTH OVER £2 MILLION  
(EXCLUDING MAIN HOMES AND PENSIONS)  
- 2019 GENERAL ELECTION VOTE



In the groups, we discussed a one-off wealth tax to pay for the costs of the Government’s Covid-19 response and the broader impact of the pandemic on government finances, and a permanent (i.e. recurring) wealth tax.

We found a good level of support for a one-off wealth tax, provided it was charged only on estates worth over a fairly significant value (e.g. over £2 million – although this was the lowest threshold we discussed) and that it excluded main homes and pensions.

Many felt that anyone with estates over this value was comfortably well-off and that, as a result, it would be fair to charge a one-off wealth tax on this group. There was often a strong sense that any wealth charge on estates over this value would be affordable for those affected by the tax and, as a result, fair:

*“Yes, I don’t think you can go across the board because it’s got to be people for whom it can be affordable to impose a wealth tax on. So, although in principle, yes, it’s a good idea, providing it applies to people in a certain wealth bracket.”*  
Female, Cardiff

*“I think it’s a no-brainer, to actually tax the very wealthy, those that can afford to pay.”*  
Male, Cardiff

Relatedly, there was a sense that those with the broadest shoulders should pay more; that the better off have a duty to contribute more. As some participants put it:

*“I don’t agree with most of these taxes but they’ve got to raise money so the way I look at it is, take it from the people who’ve got the most. Leave the poor people alone and the pensioners, and take it from the rich people.”* Male, London

*“If you’re into the threshold of 2 or 3 million, I have no problem with that at all. I think that the broader the shoulders, the greater their share in that.”* Male, Glasgow

*“So, again, the wealthier people, we’re not talking middle class brackets here, £50,000 to £80,000 to £100,000, we’re talking super rich, probably earning £250,000 plus. They can maybe pay a little bit more to help prop the country up, we’re not asking a lot from each person. So, that’s why I said, ‘Yes,’ to this, personally.”* Male, North East

More specifically, we found that the idea of a one-off wealth tax to pay for the costs of Covid-19 resonated quite strongly with participants. Some felt there was a need for higher taxation to ‘help the country get back on its feet’ and that, as a result, a one-off wealth tax could be justified. There was a sense among many participants that these were

unprecedented times that could justify actions that would normally be unacceptable. As some participants put it:

*"...I think it's a good way to raise the funds that we need now and I think yes, a one off... So, I think a one off where they're prepared to do it once to help the country get back on its feet then I think that's the way to go with it, 100%." Female, Glasgow*

*"...with the COVID situation, I think this type of tax is essential because it will help to reduce the burden." Male, Cardiff*

*"I think this is unprecedented times, never going to happen again in our lifetimes. If the wealthiest people could maybe put their hand in their pocket to help the others, within reason, it's a good idea. It's not going to happen every year, it's only a one-off. It's going to boost the economy and get things back to some normality and raise more tax that we've lost in the last 3 or 4 months, then I'm all for it." Male, North East*

*"The clue is one-off. One-off means you pay what you have to pay. Nobody wants to pay anything but it's for a good cause and we have to go with it. I can't see too many people objecting in the times we're living in." Male, North East*

*"I just think people who are fortunate enough to do that for a one-off situation, yes, why shouldn't they have to contribute something to get us all back on our feet, especially when there's people even worse off than me that need that help to come back around for them." Female, Cardiff*

There was also a sense among some participants that the pandemic has affected people's willingness to pay tax. As one participant put it:

*"I think because of the times we're living in, very bad times, people's attitude to paying taxes have changed completely. We all know we've got to chip in because the country is in a bad way. 20% down on GDP for the past 3 months is very bad." Male, London*

Furthermore, some participants felt that because the better-off have benefitted from the government's Covid-19 support schemes, it was only fair that they contributed more towards their cost:

*"Then I think to be fair, they've actually benefited massively from a lot of the business grants and the furlough schemes... I do feel like that's another reason why this would be a good idea, because a lot of people who have business have actually got a lot from the package that was offered by Rishi Sunak." Female, North East*

### **A recurring wealth tax would be unpopular**

In stark contrast, we found almost no support for a recurring wealth tax. Many participants felt it was unreasonable to ask people to make such a contribution every year. As one put it:

*"I said no on this as well, because I just feel as if, if you're paying a one-off wealth tax, that's plenty. You can't be asking these people to pay it every year." Female, Cardiff*

This was often driven by the fact that applying a new tax on wealth was viewed as a fairly radical departure from the current taxation regime, which participants were used to, and could only be justified in extraordinary circumstances (e.g. to pay for the costs of Covid-19), not on an ongoing basis:

*"I think I personally would rather pay a one-off to claw back some of the money that's been spent on things like Covid, urgent, emergency situations rather than a going forward ongoing situation which could last years and years, and you're never rid of it." Female, London*

For others, the motivation for a one-off over a wealth tax was fairly straightforward - people dislike paying tax and would rather limit how often it should be paid:

*"I only picked it because it was better than paying a tax every year. Just pay a one-off." Male, London*

*"I'm against a wealth tax altogether, but out of the two of them, I think it would be better to pay it once..." Male, London*

### **A wealth tax should not be levied on main homes and pensions**

We also discussed whether a wealth tax - one-off or permanent - should be applied to main homes and pensions. Any new wealth tax could be constructed to exclude either or both of these, with a view of winning support for the measure, though of course this would have fairly significant implications for its revenue raising potential.

Despite finding a good level of support in principle for a one-off wealth tax, if not a permanent wealth tax, we found very little support, if any, for applying such a tax to main homes and pensions (see Chapter 3).

### **There is an important communication problem with a one-off wealth tax**

Finally, though we have seen that poll respondents and group participants were supportive of a one-off wealth tax in principle, particularly if it was framed as helping to pay for the costs associated with Covid-19, participants regularly raised one important objection: incredulity that any one-off tax would remain one-off. Often, people simply asserted that they didn't believe the government would keep the one-off wealth tax as a one-off, even if the tax were linked to Covid-19:

*"Who would say it was this one-off, this year's COVID-19 and next year it's COVID-20 or COVID-21 and the year after that it's swine flu and the year after that we've got a deficit in defence and we need this. So I think it would have to be a one-off in principle. And COVID-19 this time, what about next year, as I say?"* Male, North East

This meant that there was a sense that the less well-off, even if excluded at the beginning, could end up being affected by the tax:

*"You introduce something like that, you create the precedent, and then they start tinkering and playing with it, just because, 'We're a bit short this year, let's raise the threshold,' or raise the percentage and reduce the threshold. That's what's going to happen."* Male, North East

*"It's like VAT, 7.5%, then it's 20%. They never go up with inflation, everything keeps getting more and more rather than lower and lower."* Female, North East

*"And they'll probably move down the list to all the people under that, and then the thresholds will go up and blah, blah, blah, and then everyone would just get hammered. I think, no. I don't think it would be a good idea."* Female, North East

This often related to a lack of trust in the government or the inherent uncertainty of politics:

*"I've never heard them once say, 'We're going to abolish that tax.' Maybe for me it was a trust issue."* Female, London

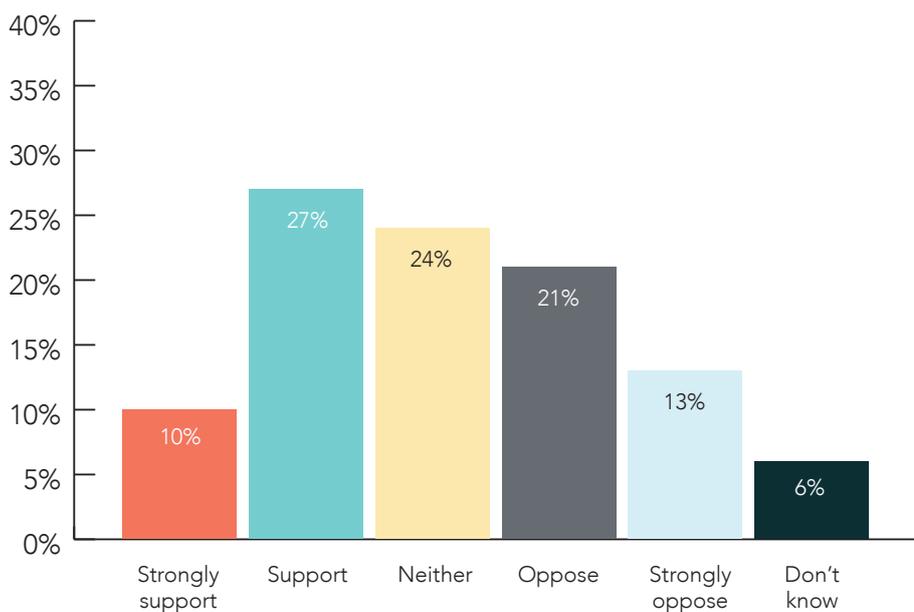
*"If there is a change of government and they had a different opinion, what makes it a one-off wealth tax?"* Male, London

We return to communications issues in Chapter 4.

## **1.5 VAT**

### **The main VAT rate should not be increased**

In the poll, increasing the rate of VAT by 1% was the second least popular of sixteen revenue raising measures we polled (the least popular was a social care tax payable by the over 40s). It was also fairly unpopular in absolute terms: just 37% of the public supported or strongly supported the change, with 34% opposing or strongly opposing it. This provides further evidence of the unpopularity of tax measures that do not differentiate between the better and worse off.



**FIGURE 11.**  
SUPPORT FOR  
INCREASING THE MAIN  
RATE OF VAT BY 1P IN  
THE POUND

Base: 2,008

In the groups, we heard a range of objections across our groups to an increase in the main rate of VAT. These often centred on the fact that raising VAT would be unfair because the poorest in society would be affected, as well as the better off. Some participants also felt incomes were already being squeezed due to Covid-19 and that a rise in the rate of VAT would cause extra pressure on living standards. Typical comments included:

*"You've got to be careful here, because as I said before, VAT is a middle-class, poor man's tax. If you put that up to 25%, it's the people under £50,000 that are going to be hit the most."* Male, Cardiff

*"It always hits the people who haven't got much money more."* Female, North East

Others highlighted that in comparison to the other taxes discussed during the groups, VAT was most clearly a tax on 'the man on the street':

*"This one is hitting the average person in the street. All the others you're talking about hitting the wealthy and the people that can afford it. This one is hitting the majority of people in the country at a time when they're struggling anyway. You're just making things harder for them."* Male, London

There was also a sense among some participants that many people in the UK are already struggling to make ends meet. Some participants felt that a

VAT rise could make an already impossible situation even more difficult:

*"Are we going to end up with families that are even more starving? We've got food banks as it is. I would really worry about the poorer people in society if it went up even more."* Female, Glasgow

In particular, some participants argued that because of the financial challenges due to Covid-19, now would not be the right time to raise VAT. Participants often felt that people's incomes were being significantly squeezed by the pandemic and that there was a need to protect them during this period. As some participants put it:

*"I'm thinking, it's just making things more expensive to buy in general at the minute, coupled with the fact that, unless people get promoted, there's going to be no substantial pay-rises in the private or public sectors. I thought perhaps best to leave it as it was for the time being."* Female, Cardiff

*"This is probably the most financially difficult I've seen people in a long time. There's no hope of being able to get new jobs, and the last thing they need is any hike on things, basic necessities like food or gas and electricity. People need to be able to weather this storm and get through the best that they can, without worrying that things are going to cost more."* Female, North East

## Having said this, there could be some support for a small increase in the future

Notwithstanding the above objections, we found some support across all groups for small increases in the rate of VAT. This was often justified on the basis that just a small increase, of say one or two per cent, would be relatively affordable:

*"Yes, I did the same. I added on 1%, because I think that's affordable for everybody really, and I think it raised about £9 billion, so I don't think that was bad, just for the sake of 1%." Female, North East*

*"I myself didn't think the rate going up by 2% would have such a damning effect. I'm not by any means well-off but 2% didn't seem so terrible to me, if I'm honest. It seems like 2% I probably wouldn't notice it." Female, London*

*"If it's a smaller amount as a whole it would collect enough but not have such a bad effect on the people it's collecting from." Female, London*

Others felt that the change was justified by the need for additional funds due to Covid-19. In addition, there was a sense that because VAT is paid by everyone, paying more VAT could represent a 'coming together' of the country to help us emerge from our current crisis:

*"... whoever's buying them, regardless of whether they're rich, they're poor, they're paying the VAT. So, rightly or wrongly, we've all got to pull together, we've all got to make sacrifices and I just think that's quite a good way to do it." Female, North East*

Though there was minority support for a small VAT increase, there was strong agreement among participants that now would not be the right time for this change. Participants were often deeply concerned about the economic impact of an increase in the main rate of VAT on an already struggling economy. As some participants put it:

*"If we're looking to get people spending money and helping small businesses and shops get back on their feet, putting it up seems counter-intuitive to me. I would leave it as it is, certainly not raise it." Male, North East*

*"I think if you increase VAT it's going to have an effect on the economy. You're looking to re-stimulate the economy at the moment so you need to be looking at helping people to go out and spend money."*

Male, London

## Most exemptions/zero rates should be kept

We also discussed in our groups whether VAT should be extended to the long list of items on which VAT is not currently charged (e.g. food, children's clothing, private medical care etc.) and whether VAT (or the equivalent industry-specific indirect tax) should be raised on items which currently pay below the main rate of VAT (e.g. domestic energy, air travel, gambling).

Participants generally felt that genuine essentials should not be charged VAT. This was the driving force behind their thinking when considering the various exemptions in detail and there was almost unanimity that VAT should not be charged on food and children's clothing. As some participants put it:

*"I was trying to see what's essential. You need food, so don't put VAT on that. When I was looking at things like sports equipment and museums, private medical care and private nurseries, they're not essential." Female, North East*

*"I tried to keep the real very important necessity ones VAT free and just added it on to a few other things." Female, North East*

*"We all need to eat, we all need to be warm in our homes, we all need education, I suppose. Most people need to use public transportation at some point. Water is an absolute essential, as is rent and mortgage, so I just don't think any essentials like that should be, I don't think there should be any kind of taxes on those at all, because it's an absolute necessity and it's a right, I think, to be able to have those things."*

Female, Glasgow

However, it was often deemed entirely fair to apply VAT to non-essentials or luxuries:

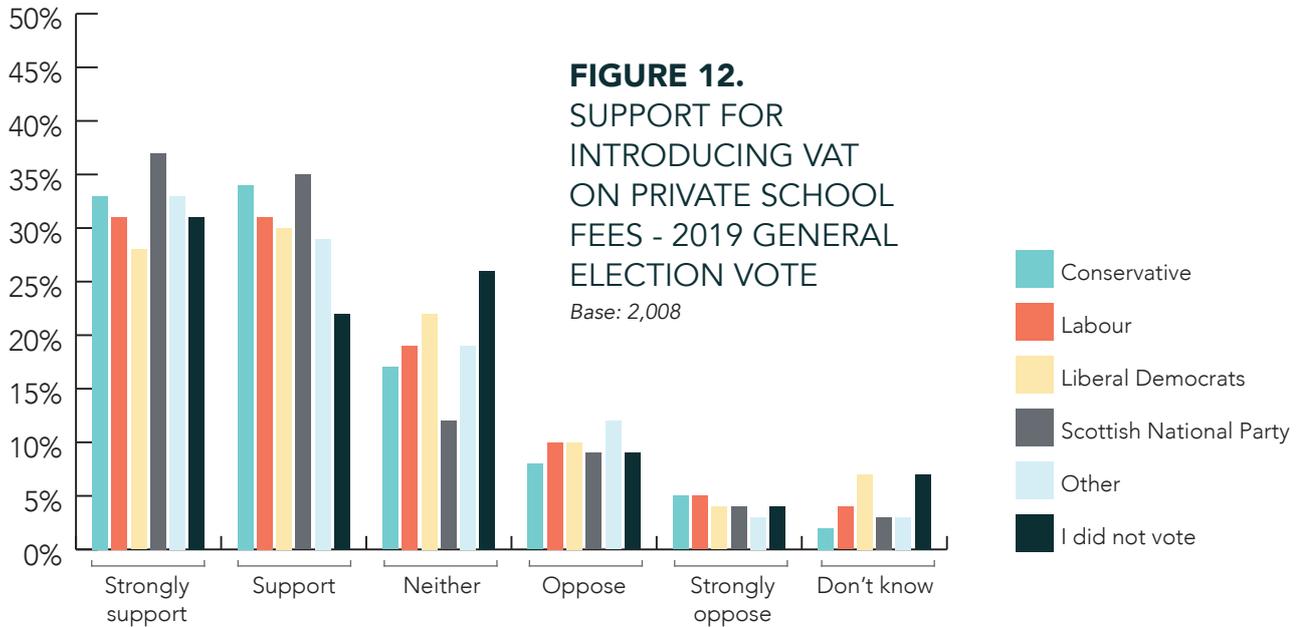
*"I completely agree. I did the luxuries, so to speak, things that aren't a necessity, and then worked backwards from there."*

Male, North East

**However VAT could be levied on private school fees, private medical fees and gambling**

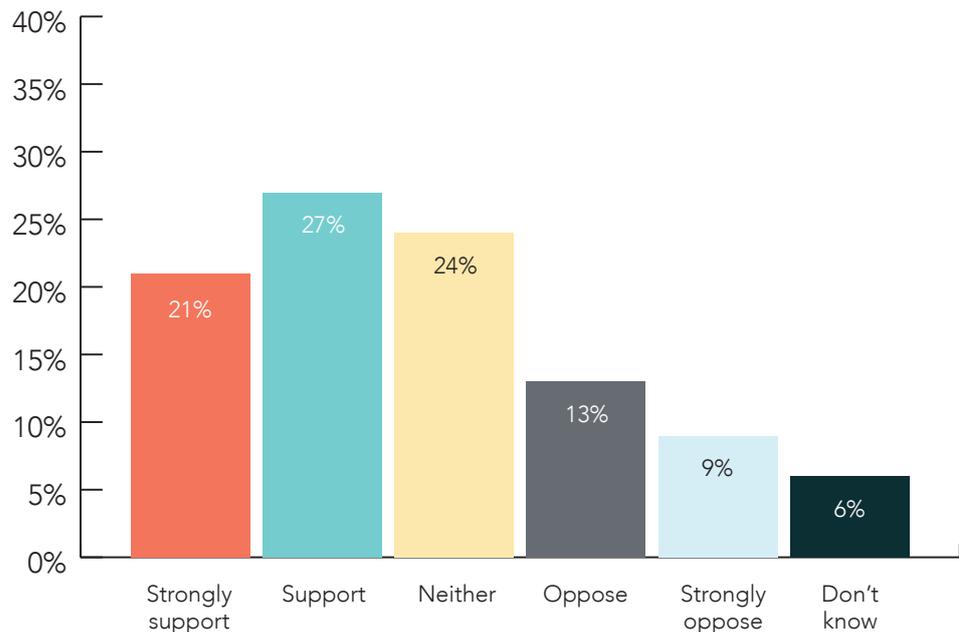
In line with this there was support for VAT on private school fees, private medical fees and gambling, none of which attract VAT at the moment (although there are special gambling duties).

Charging VAT on private school fees was the third most popular of the sixteen changes polled. More than six in ten of the public (62%) supported this change, with just 13% opposing or strongly opposing. Conservative voters at the last election were more likely to support this change than either Labour voters or participants in general (67% vs 62% and 62% respectively).



Introducing VAT on private healthcare fees proved less popular but still garnered a fairly strong level of public support. Almost half of the public (48%) felt that VAT should be introduced on private medical fees, with 22% opposing or strongly opposing this change

**FIGURE 13.**  
SUPPORT FOR INTRODUCING VAT ON PRIVATE MEDICAL FEES  
Base: 2,008



In the groups, most participants supported applying VAT to private school fees. This was often deemed fair because, as the better off are more likely to send their children to private school, this change would be affordable to them:

*"Now, if you can afford to send your kids to private school, you can afford to pay more VAT... My friend sends his kids to private school, pays £15,000 a year, so can afford that. That obviously again is for the richer people."* Male, Cardiff

*"...I was thinking that somebody sending somebody to Eton or something should be quite capable of paying VAT on the Eton fees."* Male, Cardiff

There was also a sense that private schooling is a non-essential service and that, as a result, it would be fair to charge VAT on it:

*"You can put your child in a public school. I was saying what was essential and what wasn't."* Female, North East

*"...[private] schools as well because again, I think that is a luxury that is not available for everyone."* Female, Cardiff

Similar arguments were offered in favour of applying VAT to private healthcare fees. Given the existence of the NHS, many felt that paying for private medical care was luxury spending. As a result, most participants tended to agree that it would be fair to charge VAT on private healthcare fees:

*"Private medical I think is a luxury because we've got the NHS already."* Male, Cardiff

*"Private medical care I said yes as well, but that is a luxury if people do pay things privately, what's wrong with 5 or 10% VAT put on top of it?"* Female, Cardiff

As with private school fees, there was again a sense that the better off are more likely to use private healthcare. As a result, they would be able to afford to pay a higher rate of tax on this spending:

*"...the people that can afford to pay private medical care could almost afford, in my mind, a wee bit extra money on that."* Female, Glasgow

*"Why is private medical care not paying VAT, when we've got a good NHS service and we're paying to be in it? That's people with money going for private medical."* Male, North East

The only counter-argument offered was that private medical care reduces the burden on the NHS. As a result, some participants were concerned that increasing the cost of private healthcare would increase the burden on the NHS:

*"People who have private medical care won't use the NHS, so why shouldn't they receive an incentive? They're going to use a private medical function and they're paying for that. Why should they not be incentivised to do that? It frees up potentially more services for those who can't afford to do that."* Male, North East

*"I wasn't one that went for private medical care or private nurseries because I think with private medical care that takes away impact on the NHS. I've had BUPA in the past, I used it and I had to use the NHS, although I use the NHS a lot now because I no longer have BUPA."* Female, Cardiff

*"...I know obviously if you can do that, you have the money to do it, but then you're not using, you're freeing up that space. So, I felt like that should remain exempt."* Female, Cardiff

However, others felt that not charging VAT on private healthcare fees meant that the government was losing valuable tax revenue, which could have been spent on the NHS. As some participants described:

*"I did, however, say that private healthcare shouldn't be exempt. It's a personal opinion, when we have our NHS and I think that that money could be used towards our NHS."* Female, Glasgow

*"I only changed the 2 items from no to yes and that was private medical care, because that's taking money away from the NHS."* Male, North East

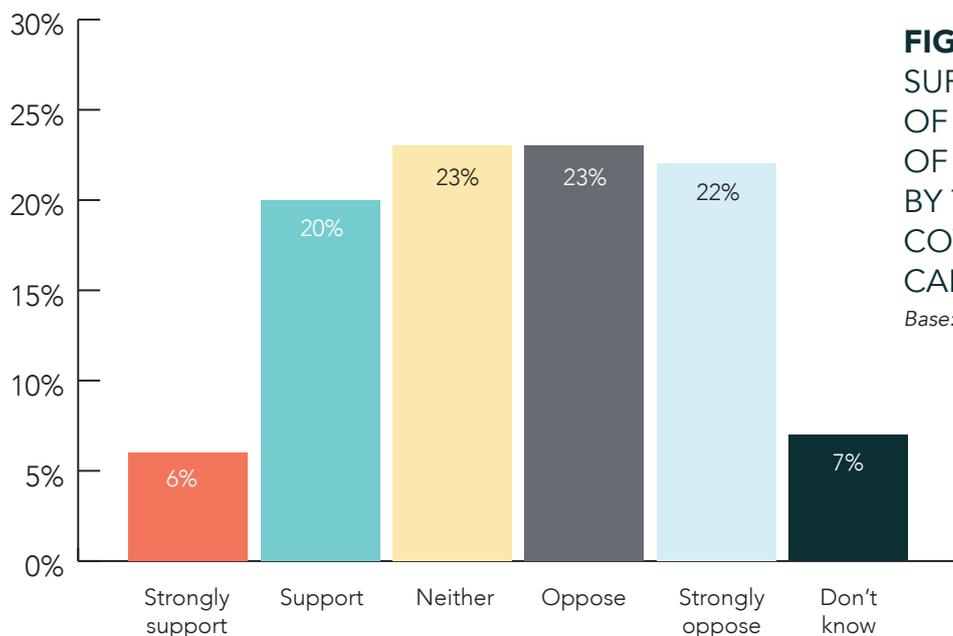
We return to support for increased taxes on gambling in Annex 1.

## 1.6 A SOCIAL CARE TAX OR A NHS TAX

### A hypothecated social care tax payable by the over 40s would be very unpopular

The idea of a hypothecated social care tax, to be paid by the over 40s, had been floated in the media shortly before our poll, so we decided to test this.

In line with the principle that everyone should contribute, we found strong opposition to a 2p in the pound 'social care tax' payable by the over 40s only. It was the least popular of all 16 tax raising proposals we put forward. Only 26% strongly supported or supported it, while 45% opposed or strongly opposed it. Even among those under 40, only 31% strongly supported or supported it, while 34% opposed it or strongly opposed it.

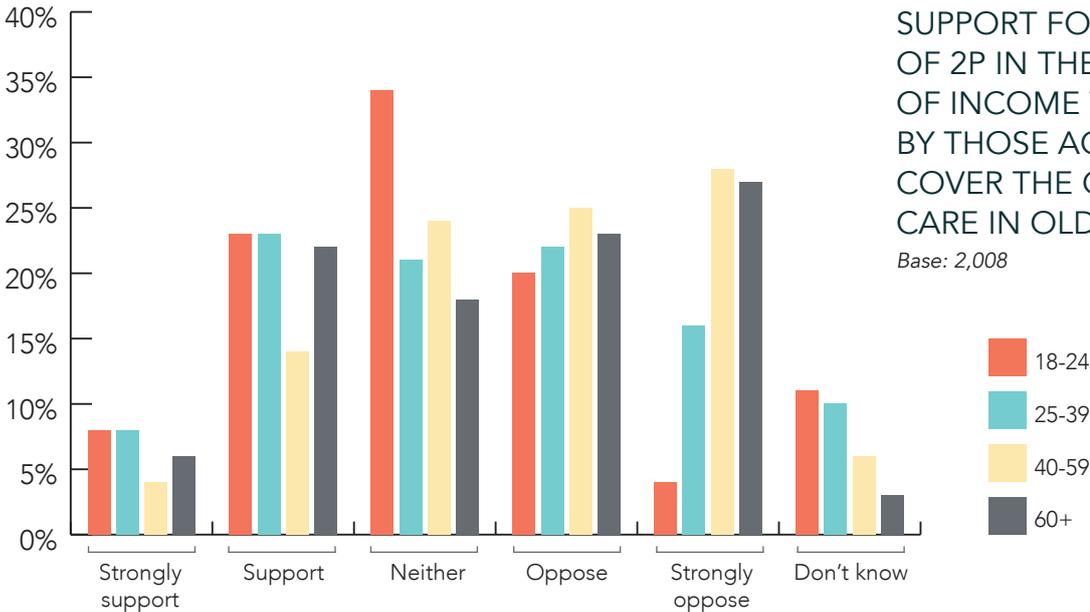


**FIGURE 14.**  
SUPPORT FOR A SPECIAL TAX OF 2P IN THE POUND ON TOP OF INCOME TAX TO BE PAID BY THOSE AGED OVER 40 TO COVER THE COST OF SOCIAL CARE IN OLD AGE

Base: 2,008

**FIGURE 15.**  
 SUPPORT FOR A SPECIAL TAX  
 OF 2P IN THE POUND ON TOP  
 OF INCOME TAX TO BE PAID  
 BY THOSE AGED OVER 40 TO  
 COVER THE COST OF SOCIAL  
 CARE IN OLD AGE - AGE GROUP

Base: 2,008



**There is only lukewarm support for a hypothecated NHS tax**

In the poll, 50% said they would feel good or very good about paying more taxes if they were going to the NHS, as against 50% who were either indifferent (38%), said they would feel bad or very bad (10%) or didn't know.

On the other hand, group participants do want to know where their money is going - a point which will be addressed in greater detail in Chapter 4.

# CHAPTER 2

## THE SAME TAX SYSTEM FOR EVERYONE

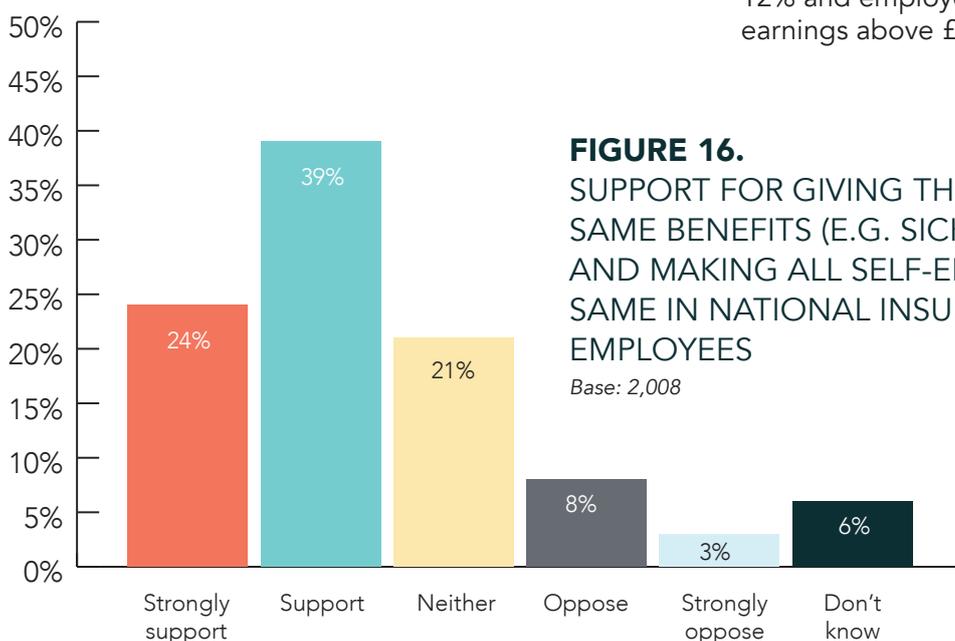
**Principle 2:** Different forms of income should be taxed in the same way. This means levelling up the tax treatment of self-employment and capital gains.

We found strong support for the principle that the tax system should treat different forms of income and different taxpayers in a consistent way. This view was expressed in our discussion of National Insurance Contributions (NICs) and associated benefits, and of Capital Gains.

### 2.1 NATIONAL INSURANCE CONTRIBUTIONS (NICs)

**Employees and the self-employed should be treated more similarly**

In the poll, we found that 63% of the public supports or strongly supports giving the self-employed the same benefits as employees and making them pay the same National Insurance Contributions (NICs) as employees, with just 11% opposing or strongly opposing this change. (The self-employed pay 9% NICs on earnings between £9,500 and £50,000 a year, whereas employees pay 12% and employers pay 13.8% on all employee earnings above £11,184).



**FIGURE 16.** SUPPORT FOR GIVING THE SELF-EMPLOYED THE SAME BENEFITS (E.G. SICK PAY, MATERNITY PAY) AND MAKING ALL SELF-EMPLOYED PEOPLE PAY THE SAME IN NATIONAL INSURANCE CONTRIBUTIONS AS EMPLOYEES

Base: 2,008

Perhaps surprisingly, we found a marginally lower level of support for making this change just for those self-employed people earning more than £50,000 a year. 61% of the public in our poll supported or strongly supported giving the self-employed the same benefits as the employed and making those self-employed people earning more than £50,000 a year pay more.

This is further underpinned by findings from our values testing. We found a majority of the public agree with the statement that the tax system should treat people the same, regardless of whether their income comes from self-employment (56% agree versus 44% felt those running their own business should pay less tax than employees due to the risks involved).

Conservative voters were marginally more likely than the national average and Labour voters to support the equalisation of tax treatment between the self-employed and the employed (60% versus 56% national average).

In the groups, we discussed in detail how self-employment income is taxed more lightly than employment income, both because the self-employed NICs rate is lower than the employee rate, and because the self-employed do not pay the equivalent of employers' NICs.

When comparing the rates of taxation for employment versus self-employment, awareness in the groups of the differences in rates was relatively low. So too was an understanding of the differences in rights and entitlements between the employed and the self-employed. Typical comments included:

*"I just thought that everyone was taxed the same, because I've never worked self-employed."* Female, London

*"I didn't realise self-employed people pay less tax all the way through."* Female, North East

*"I thought everyone paid, employed and self-employed, roughly the same."* Male, Cardiff

When the difference in tax rates between employees and self-employed people was presented to participants, many responded that it seemed unfair. For many this was a fairly simple consistency point - why should similar people be treated differently? As one participant put it:

*"Again, it's the fairness thing. He should be paying at the very least the same as me."* Male, North East

*"I think it goes back to that idea of fairness that we talked about being one of the values, maybe. I think the one that stands out is about the self-employed differences and stuff and maybe trying to balance that up a little bit."* Female, North East

Some participants had experience of working alongside self-employed people. Many of them deemed it unfair that those in similar working conditions to them pay a lower rate of tax:

*"I mean, from my point of view, I suppose I'm a little bit miffed that the self-employed people pay a bit less than me. I know just where I work, I'm the office manager, but the assessors that work in my training company, they're all self-employed. So, presumably, we're all paid the same, and they're going to pay less tax than me."* Female, North East

*"Well, if a person who is self-employed earns £30,000 a year, compared to me, who, as much as I'd love to earn £30,000 a year, I was an employee of somebody else, I'd be a little bit upset, the fact that the government are taking a lot more tax off me as an individual, rather than that person."* Male, Cardiff

A common view was that the tax system should not discriminate between what are essentially the same kind of thing. As one participant put it:

*"If you pay £1 for something and, say, 3p of that is tax, then it doesn't matter who you are or how much you earn, it's still the same principle. The principle should be on an even scale."* Male, Cardiff

### **The benefits that the employed and the self-employed receive should be harmonised**

There was a recognition that the self-employed face higher personal risk as a result of not receiving certain employee benefits, for example employer pensions or maternity pay. Some participants argued that this justified a lower rate of taxation for the self-employed:

*"...self-employed people do pay less, but being self-employed though, obviously, you don't get sick pay."* Male, North East

*"The average person, was it the average person is ill 9 days a year. If you're one of these people who have more days off, then obviously, if you're self-employed, then that's going to cost you, where if you're PAYE, you can have, within reason, as many days off if you're ill, do you know what I mean?"* Male, North East

As one participant put it:

*"It is hard to be self-employed because we don't have the same amount of support, like even as a female, it's just statutory maternity pay, there's no other option for that, so all of those things, there's no pension, you have to get your own, separate pension... Yes, so just all those little things that if you were to add up, might make the difference, and then people might feel a little bit more that we were all on the same playing field."* Female, Glasgow

While some participants felt that a lighter tax regime for the self-employed could be justified because they receive fewer benefits and entitlements, almost all participants agreed that the self-employed should pay the same rate of tax as the employed if these differences were eliminated. As one participant put it, summarising the views of many throughout the groups:

*"... but I feel that if they're paying the same income tax and national insurance as a PAYE then they should get sick pay and holiday pay as well."* Male, London

*"If... the self-employed are reaping the same sorts of benefits in terms of pensions and everything now, then I don't see how anybody self-employed could expect to be exempt from any future tax rises as well."* Female, Cardiff

Not surprisingly participants did not distinguish between those benefits an employer may choose to provide (a pension), those benefits an employer is obliged to provide, but which are not paid for by the state (holiday pay, sick pay) and those that the state provides but only for employees (such as Statutory Maternity Pay) or former employees (contributions based Job Seekers' Allowance).

In addition, it is important to flag that - putting aside differences in benefits and other entitlements

- many in our groups felt that the self-employed would likely require public services, such as the NHS, the same as others. As a result, they should face the same tax rates as the employed:

*"But the self-employed, with things like the NHS it doesn't mean that you use it less."* Female, London

*"So, if you look at the amount each individual, through that job, through their efforts, they're actually paying, then, the self-employed people, my understanding is that they are paying considerably less. But they're still in need of the same services."* Female, London

### **Some felt that the risks of self-employment justified a lower tax rate – but only for some, and mainly for low to middle earners**

There was a real sense among some participants that self-employed people face higher risks than employees, over and above those associated with the lack of benefits. As a result, some participants felt that a lower tax rate was justified in compensation. This sometimes related to risks to do with managing their own business:

*"For example, if you're self-employed, even if you are just a contractor, you have to supply your own tools. There's a risk they get stolen. You have to insure against that. If you do shoddy work, you have to repair that, and you have to do that in your own time, or if there are mistakes or errors, you've got to correct those. So, I don't agree with the thinking that employed and self-employed should have to pay the same rates."* Male, North East

On the other hand, there was often a strong recognition that while it might be risky for the lower earning self-employment, this risk went away as people moved up the income ladder. - and indeed only applied to some of those at the lower end.

*"I can understand why self-employed people might take a lower rate at the beginning, because they're taking more personal risk, perhaps. As their income goes higher I think it should come in line with the employed much sooner than it does, it doesn't ever catch up, really."* Male, North East

*"It makes sense, but I think once you're making £50,000 a year probably the personal risk is lessened enough that you can start coming in line with people who are employed."* Male, North East

This suggests that there may be support for greater equalisation of the tax treatment among higher earning self-employed people, and this option was chosen by some when using the Demos Tax Calculator. Indeed, the unfairness felt around the tax treatment of the self-employed was compounded by a sense among many in the group that the self-employed are often earning more. As some participants described:

*"My brother earns a premium for being self-employed. He gets a higher rate because he's self-employed, and he's paying less tax than I do, being an employed person."* Male, North East

*"So, they're self-employed, so why do they only pay 9%, because I know my son's a self-employed car salesman, and he earns loads of money, and he pays a lot less than I do, and he earns a lot more than I do, but he's got no outgoings."* Female, North East

Similarly, there was a sense that risk was not distributed equally across the whole of the self-employed group. In particular, that a sole trader without the risk of running a large business was not facing the same risks as business owner:

*"...if somebody's self-employed and they've got a company, they've got people relying on them, and they've taken bigger risks, I suppose, then the lower tax seems to make sense. If it's just a lone single person working on their own, I don't see why they should pay less tax than me."* Female, North East

Furthermore, we often heard among participants a strong sense that the self-employed currently do not pay the right amount of tax. This was in part because it was perceived to be easy to avoid tax as a self-employed person, but more difficult when not:

*"They've got you when you're employed really, with the PAYE. You can't avoid it really. It's a bit more easy with self-employed."* Male, Cardiff

As with other taxes, this was often based on personal experience. This deepened the sense for many participants that the current tax treatment of the self-employed is unfair:

*"I think, as well, I've seen self-employed people use receipts and stuff, do they use that against their tax return? There's probably some dodgy goings on, I would imagine, on top of already paying less tax."* Female, North East

*"Yes, the employment and self-employed should be the same. I know somebody who's self employed and he says, 'I take a little bit on a cheque and the rest of it in cash,' and he's never paid a decent tax in his life and I know he's got 3 motorbikes and a car and this and that and the other. He struggles a lot? I don't think so. It's not fair."* Male, North East

### **Investment income should be treated like income from employment and self-employment**

We also discussed how the tax system treats investment income. It is important to flag that awareness of the current tax rules was substantially lower than for self-employment. This was largely because many people in our groups had little to no experience of investment income.

However, where views were expressed, we generally heard calls for investment income to be treated in the same way as other forms of income. Many participants found it difficult to understand why investment income is taxed more lightly than income from employment or self-employment once exemption from National Insurance Contributions is taken into account. As one participant put it:

*"...I really don't know why it's treated differently to paid or self-employment. Surely at the end of the day, income's income."* Male, Glasgow

This was often driven by the perception that investments are more likely to be held by the better-off. Typical comments included:

*"Looking at it, investment. Who has investments? Wealthy people. So therefore, why is the percentage for investments significantly less than the others?"* Female, North East

“Let’s be honest, with a lot of the working class or poorer class, the investment calibre isn’t going to come into this quite a lot, is it? You don’t have that many lower-class people with shares or rental properties, anything like that. Again, lower tax rates for them seem to benefit the people with the money, shall we say?” Male, Glasgow

**Some disagreed with this view**

The only dissenting view among participants, noting that we did not cover investment income in great detail in our groups, was that some people have worked hard for their investments and as a result shouldn’t be heavily taxed on them:

“I mean, these investments typically will have come from people who will have worked hard to earn money or taken risks with investments, whether it’s the stock market, property, whatever. So, yes, I think the difference in rates is relatively fair.” Male, North East

Furthermore, some felt that tax had already been paid on the investments. And that, as a result, tax should not be paid on them.

“So, I think it’s right that it’s not as much as we would be paying if it was part of our employment, because we’ll have already paid the tax on where that money came from, I would assume, but perhaps not in all cases.” Female, Glasgow

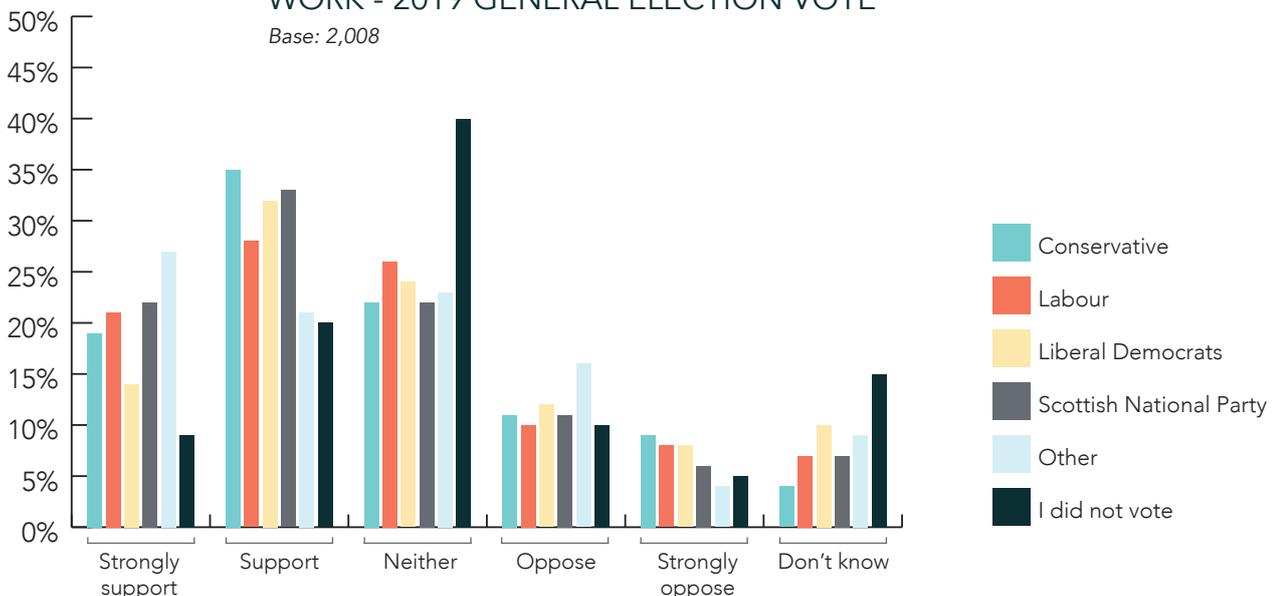
**2.2 CAPITAL GAINS TAX**

**Capital Gains Tax and Income Tax rates should be harmonised**

In the poll, equalising Capital Gains Tax rates with Income Tax rates was only the tenth most popular change we tested of 15 different revenue raising measures. However, in absolute terms we found a decent level of support for this change: 46% of the public supported or strongly supported this change, with just 18% opposing it.

Conservative voters were more enthusiastic than others: 54% of 2019 Conservative voters strongly supported or supported equalising the tax treatment of capital gains with income from work, with 20% opposing or strongly opposing it.

**FIGURE 17.** SUPPORT FOR CHARGING TAX ON PROFIT FROM SELLING AN ASSET (SHARES, BUY TO LET PROPERTIES ETC., BUT NOT YOUR MAIN HOME) AT THE SAME RATE AS ON INCOME FROM PAID WORK - 2019 GENERAL ELECTION VOTE



More generally, 59% of the public felt that the tax system should raise taxes on wealth so that wealth is taxed more similarly to income, with 42% of the public feeling that the tax system should continue to tax wealth relatively lightly, compared to income.

A significant proportion of participants in the groups did not engage with this proposal, perhaps because it is not a tax they would normally come across, and some appeared to think it worked like a wealth tax, but of those that did, many felt there was no good reason for treating the taxation of capital gains differently to taxation of income.

*"I think for me, I just saw it as income, so it should be the same. You get £12,500, just like you would normally, and then regardless of how it's gained, it's still an income, so it should be charged at the same rate."*  
Female, North East

*"For me, it [capital gains] is an income."*  
Male, Cardiff

*"So, to me, there's no reason why capital gains should be the freebie that it is now, it should be aligned to income tax."*  
Female, North East

As we have seen often throughout this report, participants' comments were driven by a desire to achieve fairness. They often felt it was just unfair to treat different types of income differently:

*"It just feels fair. Just because it's in a different way that somebody's gaining their income, it shouldn't mean that they're paying less tax on that, and so that felt to me like that was fair."* Female, North East

*"No, so I just think it should be fairness, simplicity, just keep it all the same. If you're making a profit on it, it should count as an income the same way someone who's going to work for somebody else it would."*  
Female, Cardiff

For others, equalisation of the tax treatment of capital gains and income was driven by a desire for simplification of the tax system, which they thought would reduce the scope for tax avoidance:

*"That's right. The fairest of all taxes, I think everyone agrees, is income tax because it's what you earn, you pay your tax on. So wherever we can combine that into that very, very basic principle, that's what I would go for, personally."* Male, Cardiff

*"Sorry, my aim in all this would be, in the whole exercise, these 4 things, is to simplify things because that's the only way I think you can really save true money and, to me, simplifying it by combining it with the income tax would be the easiest thing. You can forget then about an army of people trying to sort out capital gains, just dead simple, just straight on income tax."* Male, Cardiff

### Some disagreed with this view

While participants tended to support the equalisation of tax rates between Capital Gains and Income Tax, a smaller number did object to this change. This was largely driven by the fact that some participants did see a relevant distinction between capital gains and income:

*"I just think a capital gain is very different to an income. Your income is your work, whether it's employed or self employed, capital gains is a tax on investments, it's very different and I think it needs to be treated differently."* Male, London

*"So, should capital gains tax be the same as income tax? I think I was one of the majority on this one when I said no. Simply because it's more like a one off. So, selling an asset is not going to be something that you're doing regularly. So, I don't think it should be as high as income tax which is a regular, ongoing thing."* Male, Glasgow

### Capital Gains Tax should not be levied on main residences

There was more disagreement when considering whether capital gains should be charged on the sale of main residences over a certain value; a proposal we put to the groups. We return to this in Chapter 3.

# CHAPTER 3

## A TAX SYSTEM THAT RESPECTS EVERYONE'S RIGHTS

**Principle 3:** Tax rises should not infringe the long-established right to be rewarded for hard work, and on this basis to acquire and retain property.

Principles 1 and 2 were to some extent qualified – but not contradicted – by this third, equally important, principle. Many participants in the groups were wary of tax that appeared to penalise those who worked hard, and on this basis were able to build up a degree of financial independence and security, whether this was achieved through home ownership, a pension, an estate that could be left to others, or simply financial assets. Our polling was also consistent with this finding.

These views were expressed in our discussions of higher rates of Income Tax, pensions tax relief, Council Tax, and the application of Capital Gains Tax or a wealth tax to first homes and pensions.

### 3.1 HIGHER RATES OF INCOME TAX

#### **Everyone has a right to do well and should not be punished for it**

Some participants in the groups felt that the better-off should not be 'punished' for 'doing well'. There was a strong sense that people have a right to 'do well' in life and, once they have got there, they should be able to enjoy that success, within reason. Typical comments included:

*"I'm not a wealthy person but I don't feel that anyone else should be punished for working hard or doing well."* Female, London

*"For me, if I feel that you're penalising people for doing well, and that I also don't agree with."* Male, London

Some participants were also surprised at how much tax the better-off pay in proportional terms (when employers' NICs were included in the calculation).

*"Just in terms of the £250,000, that's nearly half somebody's wage. I know it's a lot of money for somebody on that kind of money and I would never be able to earn that kind of money but I mean 49.3% sounds a lot of money."* Female, Glasgow

*"I just find the amounts staggering... if you're earning top dollar at 250k, that's pretty much half your salary going."* Female, Cardiff

#### **We should avoid disincentivising people**

A more pragmatic version of this feeling was also expressed in the groups: concern that higher rates of Income Tax could provide significant disincentives to work. Typical comments included:

*"...even though I agree with having a higher rate for high income earners, for me there's a point above which it becomes too high and as you said, it disincentivises you to actually want to earn more."* Male, London

This often related to thresholds in the Income Tax schedule and the perceived inconsistencies that arise from them. These views were often built on

personal experiences, including the perception that jumps in the Income Tax schedule could be discouraging people to work hard. As some participants described:

*"I was offered a better position and I actually turned it down because it was only a little bit more salary and it took me over a threshold."* Female, London

*"But it sort of disincentivises you if you're earning close to that threshold. And then you have the opportunity to earn a little bit more. There's a substantial jump on the threshold. It doesn't seem fair."* Female, London

It is worth pointing out that most people were not aware that the NIC rate fell to 2% on earnings above £50,000. Therefore, there is probably a much sharper perceived rise than real rise in the marginal rate at this point.

This concern was compounded by the fact that taking on new, better paid roles often came with significant new responsibilities and stress that might make them not worth taking up. This often related to the strain that a promotion might put on family life:

*"My dad was a manager at Ford. He got to a certain level, and he didn't want to go up another level because of the tax barriers and the code. He said with all the extra hours and the responsibility, it's not really worth his weight in gold, really. Rather stay at home with the family."* Male, Cardiff

However, while we found strong concerns in our groups about higher taxes as a disincentive to hard work, we found some examples of people questioning whether this in reality would have an effect. As one participant described:

*"The other side of the coin whereby if you don't accept that promotion and you're fairly young, as I was at the time, and you want to move forward in your career and move up the ladder and hopefully go from bracket 2 to 4 or whatever, you're never going to do that. Because if you don't accept the headache and the responsibility, how are you going to move forward?"* Female, London

### 3.2 PENSIONS TAX RELIEF

#### Tax breaks for pensioners should continue – if anything expanded for ordinary pensioners

In the poll, 70% of the public felt that pensions in payment should continue to be taxed at the existing lower rates than other forms of income, with only 30% feeling that they should be taxed at a rate nearer to that of other income.

In the groups, we found fairly strong opposition to higher taxes either on pensions payments or pension contributions (other than restricting pension tax relief for the better off and possibly applying employer NICs to their contributions - see Chapter 1). Objections were raised because people felt that: (1) taxes on pensions represent 'double taxation'; (2) a pension is 'yours', something you have built up, and the government should not interfere with it; (3) that you have worked hard to build your pension and higher pension taxes would be punishing hard work. Indeed a minority even said that pensions in payment should be entirely tax free.

Typical comments included:

*"I think we pay enough tax and National Insurance throughout our entire working life. I don't think we should be asked to be paying tax and National Insurance on our pension as well. That's our future, for when we retire."* Male, Cardiff

*"You've worked for it your whole life, why should it be taxed? It's a bit like inheritance tax. You've got these assets and then suddenly the government wants a share of them."* Male, London

*"They've stolen from you all your life and they want to steal from you just before you die, and when you do die, you get nicked for more tax again. They're just robbing you all your life."* Male, London

*"You're taxed on everything before you put it into the pension. Tax, every time you go to the supermarket and buy food you're paying VAT on that, do you know what I mean? You're just being taxed your whole life and then when you get your pension they want to tax you. No, sorry, that's absolutely ridiculous."* Female, London

*"...people work so hard their whole life... So I feel like for people to enjoy their lives and enjoy the hard work that they've done for so long it should not be increased, if anything it should be abolished."* Female, London

*"I think if you've hard worked all of your life, you might have lived like a pauper at times, maybe because you've tried your hardest to put into a private pension or to save. I think you should just be left alone when you've retired, they shouldn't take any more tax from you."* Female, North East

*"It's a pension, at the end of the day, and we've been contributing into the pot for our entire working life. Why should we be taxed at all at that point?"* Male, Cardiff

There was also a sense that the tax system should reward hard work and that taxing pensions would be doing the opposite:

*"Primarily I don't think being taxed for savings to a certain extent is fair enough, it should be really looked into especially when you're looking at pensions. You need to be rewarded for your hard work and this is not rewarding."* Male, London

However, it is also important to flag that a minority of participants viewed pension income as just another form of income, and that it should be treated by the tax system as such. As one participant put it:

*"Yes, but hang on, a pension becomes an income so they have to tax it, it's part of your money coming in. Obviously it's graduated, the least paid pay the least and the better off paid the most, that's how the system works. A pension is an income."* Male, London

### **The tax-free lump sum should be kept**

In line with this, few participants wanted to abolish pensioners' 25% tax-free lump sum. This was seen as unfairly restricting people's choice to something they had a right to access:

*"It's your contributions, what you've paid in, and if you wanted to do it as a lump sum, you should have the choice."* Female, Glasgow

*"Some people want to have it as a monthly, and some people want it as a lump sum, because they want to distribute it to family, so do not abolish that as a choice."* Female, Glasgow

More pragmatically, we often heard from participants that the tax-free lump sum was extremely useful and that people would be harmed by abolishing it. There was often a sense that people rely on the lump sum and have incorporated the assumption that they can access it into the planning of their personal and financial lives. As a result, taking it away was perceived as unfairly denying people the right to access something that they should be able to benefit from. As some participants described:

*"...the lump sum is very useful for a lot of people when they initially retire because they may want to pay off their house or mortgage. A lot of people have pensions that their mortgage is based on the tax relief they get on their pensions, there are people out there expecting to use that in order to pay off their mortgage."* Male, Cardiff

*"...a lot of people rely on the lump sum."* Male, Cardiff

### **A minority supported limiting the tax-free lump sum to £50,000**

While we generally heard strong support for the existence of the tax-free lump sum, a minority of participants argued that it would be fair to limit access to it for the better off. This was often driven by a sense that those with the least resources would be much more affected if the tax-free lump sum was withdrawn than the better off. As some participants put it:

*"I would think maybe the more money you have in your pension pot, then maybe the more tax you should pay when you take a lump sum and you retire. So, it doesn't affect the lower end and it can maybe make a little extra from the higher end."* Male, North East

*"25% of £10,000, say if that's what someone's got in their pension pot, and then, 25% of £2million is a hell of a difference, really, isn't it? So, getting rid of it for the lower end of the scale, is going to really hammer someone, really hammer them."* Female, North East

### 3.3 COUNCIL TAX

#### Any change needs to take into account the effect on the 'asset rich, cash poor'

While most poll respondents and group participants supported a more progressive version of the Council Tax (Chapter 1), there were some concerns. The primary concern we heard across the groups was the impact it would have on 'asset rich, cash poor' households. As some participants put it:

*"You have to take into consideration that a lot of these properties have gone up in value, but you may find that the people residing in them could be asset-rich and cash-poor."*  
Male, North East

*"On the council tax one, I thought it was unfair that you are looking to tax people who have got expensive homes because it said you could be cash poor but asset rich, so you could have bought your house in the 70s for a couple of thousand and it could be worth £2,000,000 today."* Male, London

Concerns about 'asset rich, cash poor' households often manifested themselves with respect to concerns about the impact on the elderly of higher property taxation, particularly if this would force them to sell their home. As one participant put it:

*"But say you've got two pensioners in quite a valuable home. Have they got to, all of a sudden, find the extra money for the council tax?" My parents lived in quite a relatively nice house, I can just imagine, they were scrimping and saving towards the end of their life. They lived until they were 89 and 91. They didn't have a huge massive pension, so do they have to sell their house then, to afford it?"* Female, Cardiff

This suggests that moves to increase taxation on property must be accompanied by schemes to allow individuals to defer the tax to later in life, or to borrow from special schemes, perhaps state-run, to pay for the tax.

#### Those who happen to have expensive homes should not be punished

Leaving aside cash flow issues, some group participants were concerned that higher taxes for those that have gained from house price growth

would be unfairly punishing them, given they don't opt for house prices to go up:

*"...a lot of people who are especially pensioners, they bought their houses even before I was born so their houses have increased in value. I don't think it's fair to penalise them for buying a house back when it was much cheaper."* Female, London

*"Let's use an example, you've got a retired couple, perhaps in their 70s, 75-80s. Worked all their lives, paid a lot of tax, built up a nice home. We don't necessarily control the price of our property, it's a supply and demand issue. It depends on whether the market says this is more valuable than that because people are willing to pay more for it."*  
Male, North East

#### Those living in London and other housing hot spots should not be punished

This was particularly concerning given the UK's significant geographical variation in house prices: house prices in some parts of the country, particularly London, are much more expensive. As a result, participants often felt it would be unfair to 'punish' people living in those areas with higher property taxation:

*"I think, as well, it's so dependent on the location. A £500,000 property in London is a one-bed flat that a single person lives in versus that price at home, like where I'm from you could genuinely buy a 5-bed house. I don't think I should pay the same for my one-bed flat versus somebody's 5-bed family home."* Female, London

*"... you've got to bear in mind that house prices in London are much higher than other areas of the country. Therefore, London taxpayers would be paying a lot more for similar properties than people in other provincial cities. That would be very unfair."*  
Male, London

There was also a sense among some participants that owning what might nationally appear an expensive property in locations which have seen higher house price growth did not make you 'rich'. As one participant put it:

*“So, for example, I don’t think owning a £650,000 house means that you’ve made it in life... I’m not living in the type of location where a £650,000 house would buy you a mansion with a swimming pool and all the rest of it. I feel uncomfortable with the brackets that are being put on things because I just don’t see rich as, perhaps, what other people see as rich.”*  
Female, Cardiff

This suggests that for such a policy to be feasible, there would have to be regional variation in the rates paid and what houses would qualify for the new tax. Indeed, this is exactly what some participants argued for:

*“We always have to remember that we talk about the most valuable homes but that, presumably, is something you would consider on a regional basis because a valuable home in one region is, perhaps, not going to be in the most valuable category in another region.”* Female, Cardiff

*“Maybe the South should be charged differently because we’re more valuable in our property prices, that should be reflected in what we pay.”*  
Male, London

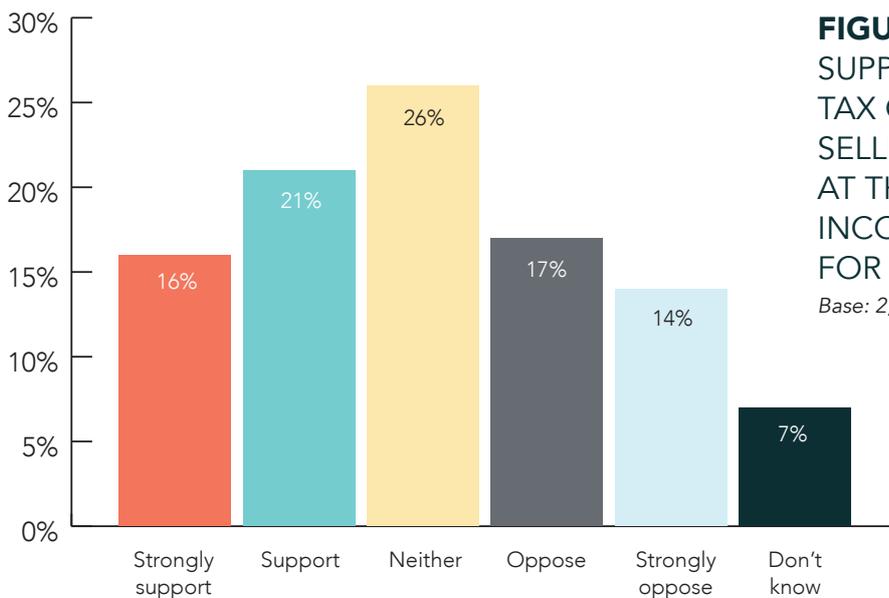
### Any such system will require transfers from some areas to others

There was also concerns from those in areas of lower house price growth that moving to a system more closely related to the value of property could adversely affect government finances in these places:

*“If you’re in Kensington, Chelsea, etc., where council tax is more than a house here, those local authorities are going to gain from additional council tax, and of course the North East local authorities, as always, would benefit sod all, because you’ve got a handful of properties that are worth that sort of money in the North East. Again, all of that extra money goes to London and the South East.”* Female, North East

### 3.4 CAPITAL GAINS TAX ON MAIN HOMES

In the poll, just 37% of the public supported or strongly supported extending Capital Gains Tax to homes worth more than £500,000, with 31% of respondents opposing or strongly opposing the measure. This was one of the least popular tax raising measures.



**FIGURE 18.**  
SUPPORT FOR CHARGING TAX ON PROFIT FROM SELLING YOUR MAIN HOME AT THE SAME RATE AS ON INCOME TAX, IF IT IS SOLD FOR MORE THAN £500,000  
Base: 2,008

Similarly, few participants in the groups wanted to bring main homes within the scope of Capital Gains Tax, even if the first £500,000 of proceeds were exempt. There were a variety of reasons for this.

### Homes are not primarily investments

A wide range of objections were raised to extending Capital Gains Tax to the sale of main residences. For some, this was because you do not own a main residence for profit and that, as a result, it would be unfair or wrong to apply a capital gains charge to its sale:

*"It's your main home, you're not earning from it, it's where you live. If it was rental then yes, but no if it's your main home... Whatever the value."* Male, North East

*"I said no. It's just the house you live in, it's your memories for that side, you're losing a lot, really, as it is."* Male, Cardiff

### Applying Capital Gains Tax to a home would punish the hard work that was needed to buy it

For others, their opposition to this proposal was driven by a sense that a homeowner may have worked hard to build up that home over their lifetime, and that they shouldn't be punished for that. As some participants put it:

*"I feel like everyone's entitled to have their own home and parts of it not be taken away from them, something that they might have built up from scratch or they could have come from any sort of background and then you want to take a portion of that away..."* Female, North East

*"I feel like a lot of these things penalise people for doing well, and I appreciate you might think, oh, they've got money and stuff, but I just keep going back to this idea of people having worked hard for that and constantly being penalised because you've done well and you've bought a nice home and stuff like that. I'm not sure if that's fair."* Female, North East

*"These people have clearly done their bit and worked hard. You'll probably never find a harder purchase than a property. Their value of that property has gone up, why be double-taxed on it?"* Male, Cardiff

*"If they've lived in the property all their life and they've earned it and paid the Council Tax, this is something that probably wouldn't go down well, I feel..."* Male, Cardiff

### The elderly, those moving up the housing ladder and those living in areas with high prices should not be penalised

As with the proposal for changes to the Council Tax, we heard significant concerns that this change would unfairly punish the elderly, who are often already in a vulnerable position:

*"I always think about our elderly because I always think they get forgotten about in things. So, they've bought a house in the 40s and it's now way more expensive than it was but they've worked all their life and they've paid their national insurance and they've paid their tax all their life. I just didn't think that they should then have an extra tax on selling of their one house especially if they're then having to go into care."* Female, Glasgow

Furthermore, there was also a sense that individuals need the gains from the sale of their main property to 'move up the housing ladder':

*"I think when you sell your property, there's already cost involved in that process, and you're generally using that money to pay for your next home. You're not going to be able to move up that ladder or whatever you want to do if you're then having to pay a chunk of that in tax."* Female, North East

Finally, as with charging a higher rate of council tax on the most expensive properties, participants strongly argued that there is a need to ensure that those living in areas with higher house prices are not adversely affected by the change. Again, we heard specific concerns relating to how people living in London might be affected by the change:

*"...also it's very unfair once again on people who live in London because house prices are much more expensive than other provincial cities so people in London have got to pay huge capital gains tax whereas if you live in Newcastle or Manchester or Liverpool you won't be paying capital gains tax at all. It's highly unfair."* Male, London

*"I think there's an element of unfairness in that, that somebody who has the geographical accident of being born and brought up on the outskirts of London, where you've got a 3-bedroom semi-detached in not a particularly great area of town, has a cost of 600,000 or £700,000, yet someone who has got a 3-bedroom home in the west end of Glasgow, which is worth £250,000, I think it's a bit unfair to tax these people differently."* Male, Glasgow

### **A minority thought that main homes could be taxed – at least the most valuable ones**

This view was not universal. A minority felt extending the scope of the tax was acceptable given that those with expensive homes would be able to afford the charge and that paying it would not lead to any unacceptable consequences or material changes to their standard of living. As one participant put it:

*"I was in the camp that said 'yes' because I just think if your property is worth over that, it's not going to break the bank, it's not going to lead you into poverty..."*  
Female, London

In addition, others felt that the significant increases in property values seen in recent years justified the change:

*"...a family member down south who had a place in London and it's worth something like £4 million now and they only paid £100 and odd thousand for it a long time ago... I remember at the time thinking, 'God I hope they're getting hammered with tax for that,' because that was a big income for them to have received."* Female, Glasgow

Participants were more likely to countenance the idea if it only applied to properties over a certain value. As one participant put it:

*"I think yes, if I've got a 650K house then I can afford to pay more and if it's enforced then I'd be prepared to pay that."*  
Male, North East

Though there wasn't always a consensus on where the threshold should be:

*"I would also reiterate, sorry if it's an unpopular opinion, but I think the £650,000 threshold is too low."* Female, Cardiff

### **3.5 A WEALTH TAX ON MAIN HOMES AND PENSIONS**

Despite finding a good level of support in principle for a one-off wealth tax, if not a permanent wealth tax, we found very little support, if any, for applying such a tax to main homes and pensions.

*"It would be much more fair if it was on wealth instead of pensions and properties, etc. I think it would be much better. If it was on cash then fair enough but I don't think it's fair otherwise."* Female, London

*"I'm really sorry I don't have a lot to add. I think when you get to things like homes and pensions maybe it's a bit too far."*  
Male, Glasgow

*"It's a bit sad that we're having to talk about taxing peoples' first homes. We used to be encouraged to own our own home and all these things, not for it to be taxed highly. If you've got more than one home then yes... why not?"* Male, London

The objections were broadly the same as those to increasing Council Tax too much, extending Capital Gains Tax to homes or increasing taxation of pensions generally.

### **People have worked hard for their homes and pensions**

There was a strong feeling among participants that homes and pensions are things people have worked hard throughout their lives to build up and that taxing them would be unfair:

*"I've got a thing about pensions that I just don't think it should be taxed. If it's your main home, your home you live in, your average person who's struggled all their lives to buy a property and then you want to apply this extra tax on top of that. Let it apply to the people who've got two or three homes, they're using it as a buy to let business or whatever. Tax them, don't tax people's main homes and their pensions."* Female, London

*"Pensions you've worked all your life for. Whether you've got a really, sorry pardon my French, shitty pension or a really good pension you've worked for it. My dad worked and he had a very good pension. The thought of getting taxed on that, no I don't think so. Not when you've worked all your life..."* Female, Glasgow

*"I always said to my husband, you know what, we'll try and put as much away as we can. We've scrimped and saved and oh, we won't buy that or we won't do the holiday, or we won't do this, and then you think now, okay, you're just going to tax me on it. Wow."* Female, Cardiff

*"I just think if you've worked all your life and you've been taxed on everything, you've been taxed to death, surely when you get to pensionable age you should get your full pension and at least be able to live a few years in your later life without being taxed on it, that's what I think."* Female, London

### **Extending a wealth tax could damage incentives – and in any case people need the money**

There were also concerns that taxing main homes and pensions would provide a disincentive to working hard and getting on in life:

*"Then it's like there's no incentive in life. Don't work harder as you'll be taxed more, don't buy a property that might go up in value as you might get taxed there. What's the incentive? You might as well get an easy peasy 9:00 to 5:00 job where you don't have to think. Live in rented accommodation."* Female, London

More pragmatically, there was a strong sense from participants that people need their pensions to live off:

*"Since I was 18, I had a private pension that I've paid into all my working life. It's a relatively modest sum of money, it wouldn't buy me a house anywhere south of Bradford. But it will be enough to live on, considering my shortened lifespan. If they come and hit that with a 7 or 8% wealth tax, that's going to leave me potentially very short of money going forward... It's not going to be an easy*

*pill to swallow for many people, and I'm not the only one in my circumstances."* Male, Cardiff

*"My grandpa had a British Steel pension and retired at 60 and lived until 97 and he would never have thought that he would have lived until 97 and had that pension for that length of time and he always was, like, 'I'm so thankful for that pension.'...so, pensions for me is something that's a very important thing and it just feels like it shouldn't, I know that sounds bad but don't include it with something else. It needs to be a separate thing."* Female, Glasgow

### **Any new tax proposal needs to take into account the effect on the 'asset rich, cash poor'**

In addition, we heard a wide variety of concerns relating to people that are 'asset rich, cash poor', just as with Council Tax.

*"...some people might not have money in the bank but we've said before they might have properties, so then they're going to be falling into debt to cover this tax and it doesn't really make sense."* Female, London

*"I know people around here who have bought a home for £200,000, it's now worth £2 million but their income hasn't necessarily gone up. The property prices have increased. To tax them, I felt like it's not really fair."* Female, London

## **3.6 INHERITANCE TAX**

Compared to Capital Gains Tax, for instance, participant awareness of Inheritance Tax was high and we heard loud and consistent opposition to it – as well as to a proposal to replace it with a Lifetime Receipts Tax.

### **You shouldn't have to pay tax twice**

We also often heard strong objections to inheritance tax on the basis that people shouldn't have to pay tax twice:

*"...I feel like they've paid tax on that as an income, and now they're paying tax to give it as a gift or through circumstances of death. I just don't think you should be taxed on that at all. I just think once you've paid your tax on it, it's done."* Female, Cardiff

*"...I just see it as a double tax and I just think we need to look at the whole system and find another way of getting that money elsewhere rather than taxing people twice on whichever side of the coin that falls." Female, Cardiff*

*"I always thought it was an unfair tax, like most taxes, but this is probably one of the most unfair ones, where someone has worked all their life, paid taxes on that, and then you have a double tax." Male, Cardiff*

*"To me, that's a penalty for working all your life to be taxed on what you've amassed through your working life again I think is a double whammy." Male, London*

And you certainly shouldn't pay tax again when you are dead:

*"I think you pay enough tax when you're alive, I don't think that you should pay it when you're dead." Female, North East*

The 40% inheritance tax rate, currently levied on estates worth more than £325,000, was often viewed as punitive too:

*"I don't want to pay inheritance tax. I just think if my parents, for example, have worked really hard all their lives and then they have to pay 40%... I just think an average property, they don't even live in a massive property but their house has to be worth £280,000 plus anything else. I just think it's a lot. I don't agree with it. I don't think they should have to pay 40%." Female, Cardiff*

### **A Lifetime Receipts Tax would be if anything even more unpopular than Inheritance Tax**

We found in our groups, however, that replacing Inheritance Tax with a Lifetime Receipts Tax, a proposal made by others including the Resolution Foundation,<sup>7</sup> would be just as unpopular, if not more unpopular.

For many, the principle of taxing gifts seemed wrong and in conflict with deeply-held moral intuitions. Typical comments included:

*"I chose 'No' as well. I think that the whole point of it being a gift, it shouldn't be taxed at all." Female, London*

*"So they should avoid paying it, I don't see why you should have to pay tax on a gift." Female, North East*

*"Because it's a gift, it's ridiculous. If somebody wants to give you something, why should you have to pay the taxman anything from a gift?" Female, North East*

*"I had to really think... if I'd feel comfortable with someone then coming and going, 'Well, actually you were given this and now we're going to take a portion of that away from you'. I just didn't feel entirely comfortable with the idea." Female, North East*

Some comments suggest the public have a clear sense of what is a fairly taxable item, and what isn't. Gifts and inheritances appeared likely to fall in the latter camp:

*"Why are you taxing inheritance? Just like the lady beforehand said, it's like they're just dipping into every one of your pockets whenever they can. It's the same discussion we had about pensions yesterday as well, it kind of falls along the lines of this. There are things which they should not dip into really and for the government to dip into other people's gifts and taxing that, and inheritance and things, it gets complicated." Male, London*

There was also a sense that taxing gifts could be a tax on kindness or good luck; actions or events that shouldn't be within the scope of taxation:

*"They've been kind, they've died, they've left it to you. Someone's won the lottery, they want to give you £10,000, why should you have to pay tax on that?" Female, North East*

Furthermore, some participants felt that giving gifts should be a source of joy; applying tax to gifts would take away this joy:

*"What if you buy your child a car? You're not going to say, 'I bought my child a car that's £5,000.' It'll take away all the joy and you might as well not bother if you're going to get taxed on it." Female, London*

As we saw during discussions of other taxes, there was also a keenness to avoid punishing people for working hard in life:

7. <https://www.resolutionfoundation.org/app/uploads/2018/05/IC-inheritance-tax.pdf>

*"I think the thinking behind is like, they've worked hard for that money and they want to give it to their children to see them have a good life, and they probably think, why should I give it to the taxman?"* Female, North East

Again, as with Inheritance Tax, participants often viewed a Lifetime Receipts Tax as a form of 'double taxation':

*"If I've worked all my life and on my death, I have chosen to leave my home to my children, I have paid tax all my life working to get that house, you're then penalising my children for being the recipients of my working life. You're taxing my children on what I have already paid tax on to earn the value of that home."* Male, London

*"I have already paid tax on whatever my gift to someone else is. Why should they have to then pay tax because I've chosen to give them a gift? By the time they have to pay the tax they may not have the money to pay it so I've burdened them with a debt that they didn't have in the first place because I've given them a gift."* Male, London

There was also a sense that passing on inheritances and gifts was often the only way for people to 'get on in life' or better themselves.

*"...when I receive inheritance from my mother, it's likely going to come in the form of property, well, if it got taxed, I would then have to sell that property. So at the moment I'm a renter, I'm not even on the housing ladder, and that would be my opportunity to get on it, and it would be ripped right out from underneath me before I'd even get in through the front door because I would then have to pay so much tax on that."* Female, Cardiff

*"...like it or not... I can't see where my children and grandchildren are going to get any kind of leg-up without the bit of money that we'll be able to leave them when we go."* Male, Glasgow

### **A gifts tax would be more acceptable if there was a high threshold**

Notwithstanding the very significant opposition we heard to a lifetime receipts tax, a small

minority of participants did view the change as an improvement on the current system:

*"I quite like this idea of the lifetime gifts tax. I have always disliked inheritance tax. You work all your lifetime, you actually pay tax and then when you die you still pay tax, it doesn't make sense to me, so it seems much fairer that the recipients of your estate pay tax on the actual income they're actually getting. I think that's a much fairer system."* Male, London

In addition, while not enthusiastic supporters of the principle, some felt that it would be fair if applied to only gifts over a relatively high threshold:

*"I think it's a case of the super rich again, if you've a £3,000,000 property or gifts then, even if they hand that down to their children, after tax and reductions, they're still going to be very, very well off. It should be a level playing field so, in terms of where the richer people who have richer gifts to hand down, should pay more tax."* Male, Cardiff

*"You have to look at it and say, the richer echelon of wealth and assets can afford to be paying these kinds of numbers, whereas you might look at it, yes, it's 10 percent, but it's a lot to a working-class person that scraped to save this money."* Male, Glasgow

*"With this, again, I am okay with it as long as the threshold is a bit higher because the average person might receive, I don't know really, but they might receive something around that £105,000 mark."* Male, London

This suggests that as opposed to everyone having to pay a lifetime receipts tax, payments could be restricted to only certain better-off groups.

### **Administration would be a problem**

Finally - and vitally importantly - we heard consistent, and perhaps well-founded, concerns about the administration and implementation of a Lifetime Receipts Tax. There was a sense among many participants that it would be unimplementable in practice:

*"I could transfer £5,000 to one of you through the bank. Do you declare that as a gift or is it just me giving you money because I owe it?"* Female, North East

*“Let’s just say my dad, in theory, if my dad just wanted to write me a cheque for 5 grand, who would know? Well, actually, forget the cheque, if he wanted to give me 5 grand in cash, who would know?”*  
Female, North East

*“I guess it would be, how would it be policed, if that makes sense? So if I’ve got a guitar that’s worth £5,000 and I pass it on to someone, who’s going to know? How do you police that? They just wouldn’t declare it. How is that done?”* Male, Cardiff

There was also a sense that most people wouldn’t comply:

*“How could they monitor it? Who’s going to declare getting any gift over a lifetime over £100,000? They’re not going to say, ‘I got that.’ I wouldn’t be doing it, not that I think I’d get £100,000 worth of gifts, but who would do it? Would you do it?”*  
Female, North East

*“When I was considering this, I didn’t think it would work, in practice either, to be honest. Collecting it, and certainly when it was announced there would be huge objections. How would you collect it? People would start taking aversive action, immediately, I would have thought.”* Male, Cardiff

Somewhat similarly, there was criticism of Inheritance Tax on the grounds that the wealthiest managed to avoid it and the ordinary taxpayer had to pay.

### **It would raise privacy and civil liberty concerns**

Furthermore, there was a strong sense that to implement the tax would require a significant infringement on people’s liberties and that, as a result, it wouldn’t be acceptable:

*“How does this get policed? Because we start getting into a bit of a nanny state potential here, I think, where if my parents wants to hand me £2,000, £3,000, do you see what I mean? How does that all start getting recorded? Who really is going to record all of that accurately? I don’t know, really, how that is going to work, in practice.”* Female, Cardiff

*“How would somebody know if somebody gave me an expensive gift? How would they know? If I had a £25,000 painting on my wall, I haven’t, I wish I did, but how would they know that? There would have to be some quango set up, which is just more bureaucracy in the government, and governments are useless anyway, all of them, and I just think it’s a bit too much creepy sinister state intervention, like, ooh, what are people buying and receiving? I’m not comfortable with that idea personally. That’s just how I feel.”* Female, North East

*“It’s a bit too much like communism or something. I don’t know. I’m not comfortable with that idea. The other ideas, I would be okay with, but not this one personally for me.”* Female, North East

# CHAPTER 4

## A TRANSPARENT TAX SYSTEM THAT NO-ONE CAN AVOID

In this chapter we report on attitudes to process as opposed to the content of specific taxes. Two principles emerged, one about avoidance, and one about transparency.

**Principle 4:** Any tax rises for individuals must be coupled with real efforts to tackle tax avoidance.

**Principle 5:** Tax rises must be accompanied by greater transparency about how taxes are spent and how they are raised, with improved communications and education.

### 4.1 AVOIDANCE

This report did not set out to consider tax avoidance. However, given that the issue appeared time and time again throughout all our deliberative groups, it is important to report on what we found.

#### **The Government must crack down on loopholes and avoidance alongside implementing tax rises**

We regularly heard comments like the one below, reflecting a strong sense that the tax system is riddled with loopholes:

*“So many loopholes. That’s the problem... It all needs to be scrapped and started afresh completely.”* Female, North East

It leads to a sense that tax authorities are unfairly focusing on the ‘little man’ when they should be going after the real ‘baddies’. As some participants put it, summing up the mood of the groups:

*“There are so many tax people chasing around the small little man who makes £30-40,000 for his tax, when you’ve got big companies like ICI or internet companies who are making millions and they’re shuffling it off offshore. That irritates us.”* Male, North East

*“You know, low-level people that are committing a bit of fraud, they’ll be come down on by HMRC or the police straight away. Meanwhile, the upper echelons just seem to operate with impunity.”*  
Male, Glasgow

Because corporate tax avoidance in particular was perceived to be so widespread, participants often felt that there was no need to raise taxes on individuals when the additional revenue required could be raised by cracking down on tax avoidance. This clearly makes it more difficult to argue for higher taxes for individuals. As one participant put it:

*“...but if a lot of the major corporations, the likes of Amazon, Facebook, Google, if they paid the right level of taxes in this country, that would go a huge way towards hitting this £80 billion.”* Male, London

Because of this, at the beginning of the sessions the facilitator generally had to be quite persistent to move the discussion on from discussion of avoidance to discussion of tax rises – and could only do so by assuring the group that the rises

would be on top of, not instead of, increased anti-avoidance activity.

### **The government needs to be held to account more effectively for reducing avoidance**

We also found evidence in our groups to suggest that the government might find it difficult to persuade the public it is taking tax avoidance seriously. That's because we found a high degree of incredulity that the wealthiest could or would ever be made to pay more. As one participant put it:

*"But this is where I think we're all a little naïve here, if we genuinely believe all these taxes are going to hit the wealthiest because it just never does, does it? It's the middle man that ends up paying for this, the entire time, which is why I'm sat here, getting stroppy, putting across my points."*  
Female, Cardiff

This was often because participants didn't view the government as being effectively held to account to really deal with tax avoidance:

*"In certain cases, it's fraud, unfortunately, but it [tax avoidance] doesn't get investigated like fraud. It's the government. There is no independent board to hold them to account..."* Male, Glasgow

In terms of what this would require, one participant argued for an independent unit:

*"A tax investigation unit I think is not a bad idea at all... Almost, to make a new government department... Having a tax investigation unit who would investigate the affairs of the likes of Google and Amazon and the super rich, I think is a perfectly acceptable way of going forward."*  
Male, Glasgow

### **There is no point charging higher taxes on the rich because they will always manage to avoid them**

Some participants took the view that attempts to make the rich pay their share would be pointless because they would always pay "clever lawyers" and so avoid paying the higher rates. This cropped up in discussion of Income Tax and a new Lifetime Gifts Tax, but we give details here of part of the discussion about extending Capital Gains Tax to main homes and about a wealth tax, not because

these anxieties reflect more of a danger than others but because they are good examples of what people feel about the way the rich manage to avoid tax.

On Capital Gains Tax, participants said:

*"The question of whether capital gains tax should be extended to the most expensive main homes, it then raises the issue of well, how do you determine? Those who have multiple homes have multiple expensive homes. What is stopping them from then saying, 'This cheapest home that I own, that's my main home,' and I can say that my most expensive home is my main home, then the 1 that I have to pay tax on, I then say that that's home."* Female, London

*"I think also people could make their main home their holiday home, so move round slightly. Only taxing on the cheaper home."*  
Male, London

*"I think it's also the case that people will always find loopholes. I know a lot of people whose parents have done all sorts of clever, canny things to make sure their houses are not subject to this kind of tax when they go, Inheritance Tax and stuff. So, question mark, whether this will make a blind bit of difference, frankly, except for those that want to play by the rules."* Female, Cardiff

Similarly about wealth taxes they said:

*"These wealth taxes, one offs or continuous, depending on how it ends up going through, would simply be another vehicle that dodgy accountants can use to extract fees from people to make sure they don't have to pay them."* Male, Cardiff

*"It's a lot of money and if you're going to hit people with that, say the threshold at £2-3 million, rich people are going to find a way to get around it. I don't think it's going to work, personally."* Female, London

*"Yes, no way is someone who's got over that amount of money, they'll have an accountant who will be able to side-step this and do it another way. I think you're just going to cause more tax avoidance of the higher-end people who are taxed."* Female, London

*“They probably would pay £100,000’s to pay somebody professionally to find loopholes of where they could hide their money.”* Female, North East

This led to scepticism about how much a wealth tax could really raise:

*“Also accountants will always find loopholes. Whatever tax comes out they always find cheaper ways of doing it. You’re never really going to end up with what you think you should.”* Male, London

They then sometimes judged that because these and other taxes will be avoided by the better off, the burden of the change would end up being felt by the worse off:

*“...take Premier League Footballers, they pay a lot of tax but a lot of them are in tax avoidance schemes because they’ve got good lawyers. So, they’re on £500,000 a week and they’re not paying enough tax. Whereas, the people who are on between £30,000 to £50,000 to £70,000, £100,000 a year are penalised the most.”* Male, Cardiff

## 4.2 TRANSPARENCY AND COMMUNICATION

### How is the money spent?

We heard concerns across all groups that they and other members of the public had little understanding of how their taxes are spent. This can lead to a sense that the public are being taxed for no good reason. Typical comments included:

*“To be honest, I don’t quite know where all the tax money’s going or how it’s being spent and so on... My mum’s been at work through her life so I know we’ve got to pay tax and National Insurance, but no one’s explained where it’s going or why.”* Male, Cardiff

*“I feel like we’re being taxed multiple times, but I don’t know what the tax goes on.”* Female, Cardiff

*“I feel like we’re told half-truths the majority of the time, in terms of tax, where it goes in particular. I think the lack of information, there’s a lot of people who don’t really understand where tax goes, how it’s used, and why it’s being used, and more education on that would help.”* Female, North East

This can lead to a form of anxiety among the public, leading them to question the validity of paying taxes:

*“I don’t think people sometimes do see the values in paying tax because when you get your monthly pay cheque, you see this whopping great lump coming out of your pay and you take it for granted that they’re going to do that every month, but where’s it going?”* Male, North East

One participant suggested that perhaps if the government was more open, taxpayers would be more open:

*“I think that, again, if people knew where their money was going I think people might be less inclined to try and hide some of their finances. If it was going to mental health, so we all know it’s going to the NHS, but actually bits and pieces things that really make an impact on everybody’s day to day life, I guess.”* Female, Glasgow

### Lack of information leads to fears of waste, undermining the case for higher taxes

This lack of information about how taxation is spent can also lead to increased fears around waste in public spending, even though a focus on government waste is much less a feature of public debate than it was a few years ago. A sense that too much public money is wasted was frequently articulated and this often undermined the case for higher taxes: if people don’t believe the money will be spent well, they are likely to be opposed to the changes. The following comment was typical of those heard across the four groups:

*“Are we getting value for money on how it’s spent? There’s a lot of white elephants that money’s spent on which is a complete waste of money, I can’t quote any at the moment but I’m sure somebody will think of somewhere where it costs the taxpayer so many billions of pounds.”* Male, North East

### So there should be better information about how the money is spent

Hence we heard demands for the government to boost the transparency of public spending. This could be achieved by the government providing more information to taxpayers directly about how their taxes are being spent.

As one participant put it:

*"I don't know if there's something already, but it would be useful to have something online where you can click and see, 'I'm paying this amount of tax so what percentage is going here? What percentage is going there?' Have a breakdown as well of tax in general, of what percentage is going to which service, just so you can understand."*

Female, Cardiff

*"It'd be nice to have a leaflet through the door or something, just to explain what's going on."* Male, Cardiff

**There is also little understanding of the tax system (as opposed to public expenditure) but this is not inevitable**

There was a strong sense that understanding of the tax system is low. We heard this consistently across all four groups, demographics and socioeconomic groups. However the sessions themselves showed that this was not inevitable. Typical comments from participants included:

*"What I've seen from this is that tax is really complicated, but I've learned more about it since doing this. Once you know roughly what they're trying to achieve, it's easier to comment on it."* Male, North East

*"I certainly understand a lot more after these sessions, but I've got to be honest, I didn't know the basics.... Yes, I think I didn't really understand, and this really has opened my eyes. It has."* Female, North East

As a result, participants regularly called both for a simpler tax system, and for better information and education relating to the tax system – both how the money is raised and how it is spent:

*"...I think they should be implementing something at an earlier age in education. You start implementing education in terms of tax from an earlier age. You've got more likely of an understanding as they're growing up of what's actually happening with the government, with tax."* Female, North East

*"I think there needs to be more educating in school about it so that before they're going into work, they know what they're paying towards, where it goes, how important it is and just how to manage your money in general."* Female, Cardiff

*"I think that the information about taxation and everything should be part of citizenship and ethics in schools. It really should be. People should understand their rights and responsibilities from the age of 14. When they leave school and go into the job market, they should understand where their money is being spent, why it's being taken from them and how it's going to be taken from them."* Male, Glasgow

# CHAPTER 5

## SCOTLAND AND WALES SPECIFIC ISSUES

This chapter provides an overview of the findings from our deliberative groups and polls that relate to questions regarding tax in Scotland and Wales. Specifically, we discussed in our groups whether participants would rather see additional tax revenue going to the devolved governments or the UK government. In our Cardiff groups, we also discussed the recent proposal by the Welsh government for higher taxes to pay for the costs of social care. In the poll, we also discussed ideas currently being discussed in Wales about a plastics tax and a tourist tax.

### 5.1 SUMMARY

#### Scotland

- More than six in ten (61%) of c. 500 respondents to our poll in Scotland said they would rather, if they had to, pay more tax to the Scottish government, with just under a quarter (24%) saying that they would rather pay more tax to the UK government.
- Political affiliation was strongly associated with these views: Scottish National Party (SNP) and Labour voters were much more supportive of additional revenue for the Scottish government, with Conservative voters significantly more supportive of additional revenue for the UK government.
- In our deliberative groups, we found a range of views for and against the additional tax revenue

from new taxes going to the Scottish government over the UK government.

- Arguments in favour centred on a lack of trust in the UK government and a belief in the ability of Scotland to 'go it alone'.
- Arguments against often centred on a lack of trust in the Scottish government, despite Nicola Sturgeon's popularity and participants' respect for her, and the need for the whole of the UK to address issues such as Covid-19 together, not apart.

#### Wales

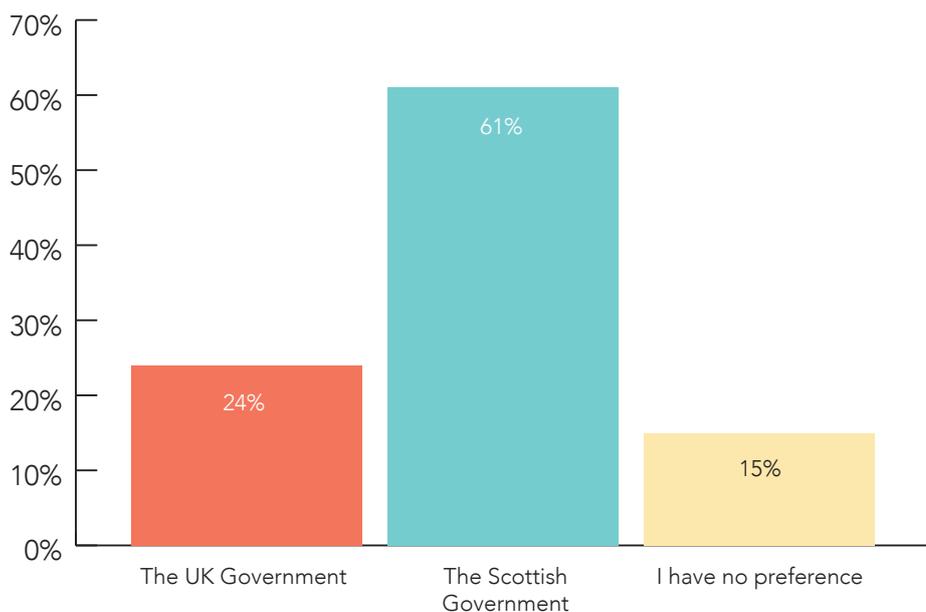
- Almost six in ten (59%) of c. 500 respondents to our poll in Wales preferred to pay more tax, if they had to, to the Welsh government, with just 24% preferring to pay more tax to the UK government. This is very similar to the level of support seen for devolved administrations to gain from tax rises as in Scotland.
- However, in our Cardiff groups, we encountered mainly opposition to the notion that the Welsh government should receive additional revenue from new taxes. This opposition often centred on a lack of trust in the Welsh government; significant concerns about the Welsh devolution process, in particular concerns about wastage of public money; and a sense that Wales' problems are better tackled in collaboration with the rest of the UK.

- Though we did not test it in our poll, we found fairly strong opposition in our groups to higher taxes to pay specifically for social care in Wales. This was driven by a lack of trust in the Welsh government's ability to deliver social care effectively; concerns that Wales alone could not afford to meet its social care bill without help from the rest of the UK; and general opposition to higher taxes.
- In the poll, a plastics tax payable on plastic packaging composed of less than 30% recycled plastic was relatively popular in Wales, with 56% either supporting or strongly supporting this, and just 8% opposing or strongly opposing it.
- However, a tourist tax at £3 per night found less favour in Wales, with 45% either supporting or strongly supporting it, and 32% opposing or strongly opposing it.

## 5.2 TAX FOR THE SCOTTISH OR UK GOVERNMENTS?

### Poll findings

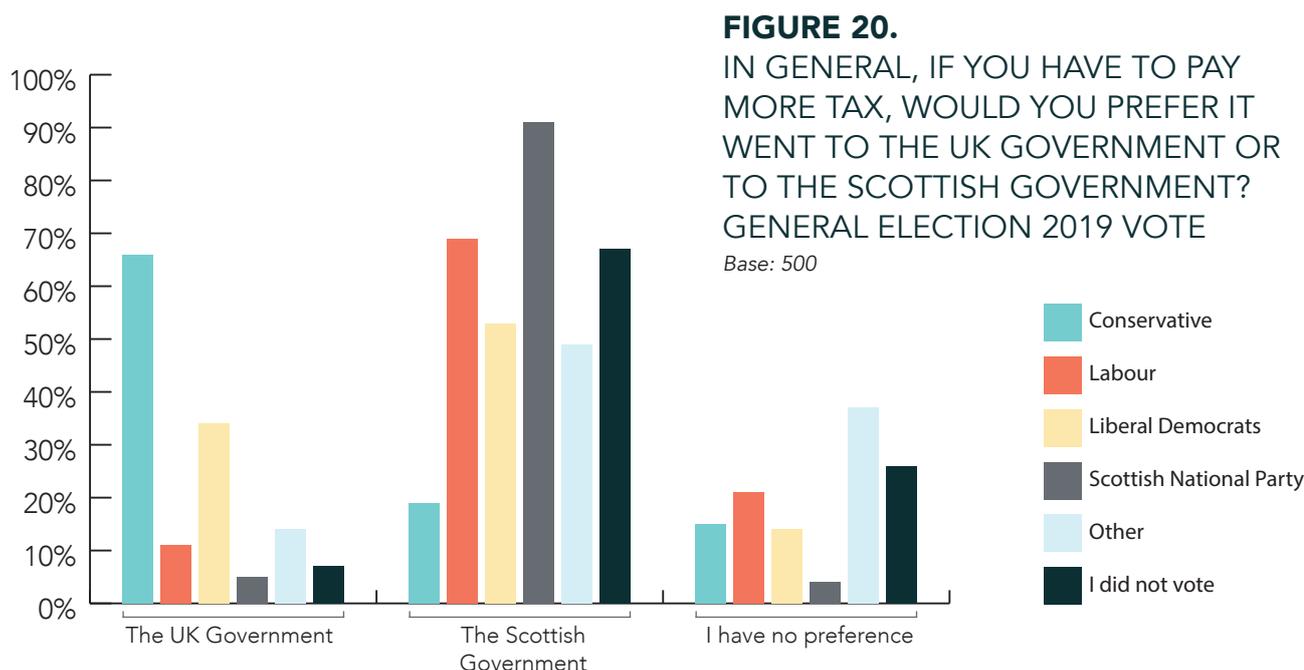
We asked participants in the poll who they would rather pay more tax to, if they had to. More than six in ten (61%) of the public said they would rather pay more tax to the Scottish government, with just under a quarter (24%) saying that they would rather pay more tax to the UK government. Our poll suggests therefore that there is a significant level of support among the Scottish public for the revenue of any new tax rises to be returned to the Scottish government over the UK Government.



**FIGURE 19.**  
IN GENERAL, IF YOU HAVE TO PAY MORE TAX, WOULD YOU PREFER IT WENT TO THE UK GOVERNMENT OR TO THE SCOTTISH GOVERNMENT?

Base: 500

This finding was fairly consistent across different socioeconomic groups and across education levels. However, significant divides open up when considering the political views of respondents. 91% of Scottish National Party (SNP) voters at the last general election opted for the Scottish government over the UK government, as did 69% of Labour voters. In stark contrast, just 19% of Conservative voters expressed a wish to pay more tax to the Scottish government, if they had to, with 66% instead opting for the UK Government.



This suggests that support for new taxation paid to the Scottish Government is closely linked to political affiliation and, in particular, support for a pro-independence party (e.g. the SNP), or a party more strongly opposed to independence (e.g. the Conservatives). However, it is important to note that support for new taxation in Scotland, from our poll, is significantly greater than support for independence, so public opinion appears to not be divided along the same lines as independence (though it is likely closely related to it).

### Group discussions

In our Glasgow sessions, we discussed whether participants would rather see the additional revenue from new taxes go to the Scottish or UK governments. Perhaps reflecting the divided nature of political debate in Scotland, we found a range of arguments in favour and against.

That Scotland might not be able to afford greater fiscal independence from the UK was perhaps the strongest sentiment expressed in these discussions. This led to scepticism about more tax revenue going to the Scottish government. As some participants put it:

*"In Scotland, the poverty is really bad, so how the hell are we going to raise taxes from people that don't have any money?"*  
 Female, Glasgow

*"I think in general in Scotland, as I said before, the poverty is terrible compared to down south. We need all them, the big fat cats in England, to help us, especially at the moment."* Female, Glasgow

This was notwithstanding the fact that many participants singled out Scotland's First Minister

as being an effective leader whom they respect. Typical comments included:

*"Although Nicola Sturgeon has done such a good job throughout this, I don't think we would manage."* Female, Glasgow

*"I think Nicola Sturgeon did an amazing job... She was clear, precise and I really liked her through this. I'm not against her at all. I'm thinking, how the hell could we support ourselves through something like this?"* Female, Glasgow

In addition, many participants described how the challenges we are facing as a country - Covid-19, but also the need for higher tax revenue - are a collective endeavour. As a result, this led some to support higher tax revenue going to the UK government over the Scottish government:

*"I think I look at this as more of a collective thing and I would rather it went to the UK government, purely because I think it should be evenly divided between all of Britain in terms of taxes and stuff like that."* Male, Glasgow

*"I suppose if the UK government is going to take the hit and they're the ones who have been driving this whole policy then maybe they need to take responsibility for it and make sure that the other countries, not just England, actually benefit from this."* Female, Glasgow

However, it is important to flag that a notable minority disagreed with the view that Scotland would not be able to cope on its own. As one participant put it:

*"I don't know why we can't just say, 'Look, rely on ourselves.' All the money you're putting into the UK government, we're putting more in that we're getting back out. If you can imagine just putting that money to Scotland, you'd be in a better position."* Male, Glasgow

Furthermore, some support for the Scottish government receiving more tax revenue than the UK government was driven by a lack of trust in the UK government among some participants. This sometimes related to recent gaffes or mistakes by the UK government; for others there was a sense

that the Scotland isn't treated fairly by the UK government:

*"I was like the whole Chris Grayling thing with the transport. Remember, the whole boat thing? We gave millions of pounds to this boat company that didn't have any boats... So, I think the Scottish government have a lot more trust rather than the UK government. In the last few months alone it's been pretty clear, the mess the UK government seems to have showed themselves up as. I would definitely trust the Scottish government a lot better than I would the UK government with this."* Male, Glasgow

*"For me it's about trust. And it's about my lack of trust in the government in Westminster... I don't believe wholeheartedly that the government that's currently in Westminster is fair to the other nations within the United Kingdom."* Female, Glasgow

Finally, it is important to note that a lot of the discussion here was driven, unsurprisingly, by the priorly held convictions of participants in relation to the question of Scottish independence. Indeed, participants often acknowledged this themselves:

*"I'm not in favour of breaking Scotland and England up at all, so that's where our political views are different."* Female, Glasgow

While our deliberative groups appeared to have a diverse set of views with respect to whether the Scottish or UK governments should be the beneficiaries of higher taxes, our poll suggests that amongst a wider swathe of the population there could be much stronger support for the Scottish government to receive new tax revenue.

### **5.3 TAX FOR THE WELSH OR UK GOVERNMENT?**

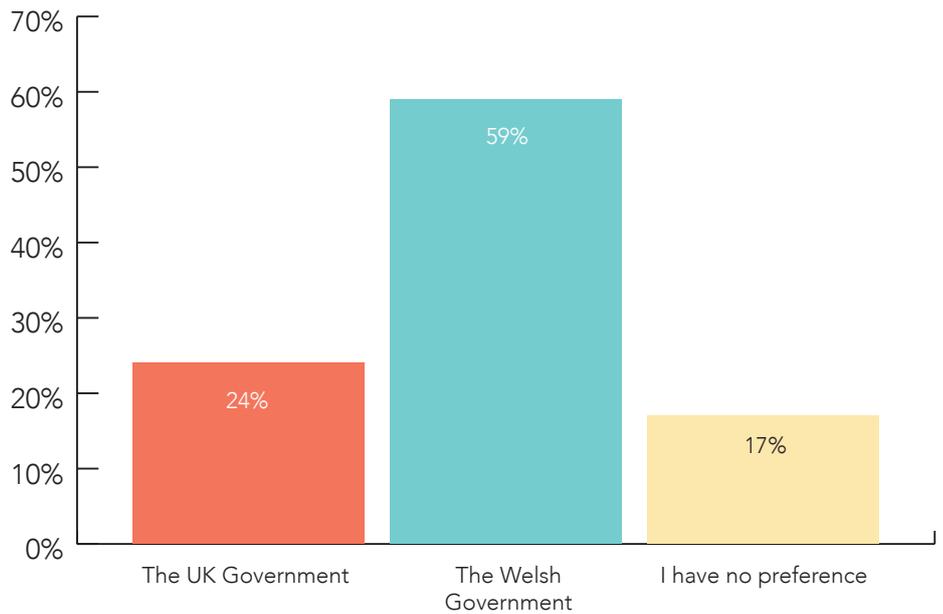
#### **Poll findings**

We also tested support for higher tax revenue for the Welsh government in the poll. We found strong support among the Welsh public for the proceeds of higher taxes to go to the Welsh government over the Scottish government. Almost six in ten (59%) of the public preferred to pay more tax, if they had to, to the Welsh government, with just 24% preferring to pay more tax to the UK government.

**FIGURE 21.**

IN GENERAL, IF YOU HAVE TO PAY MORE TAX, WOULD YOU PREFER IT WENT TO THE UK GOVERNMENT OR TO THE WELSH GOVERNMENT?

Base: 481



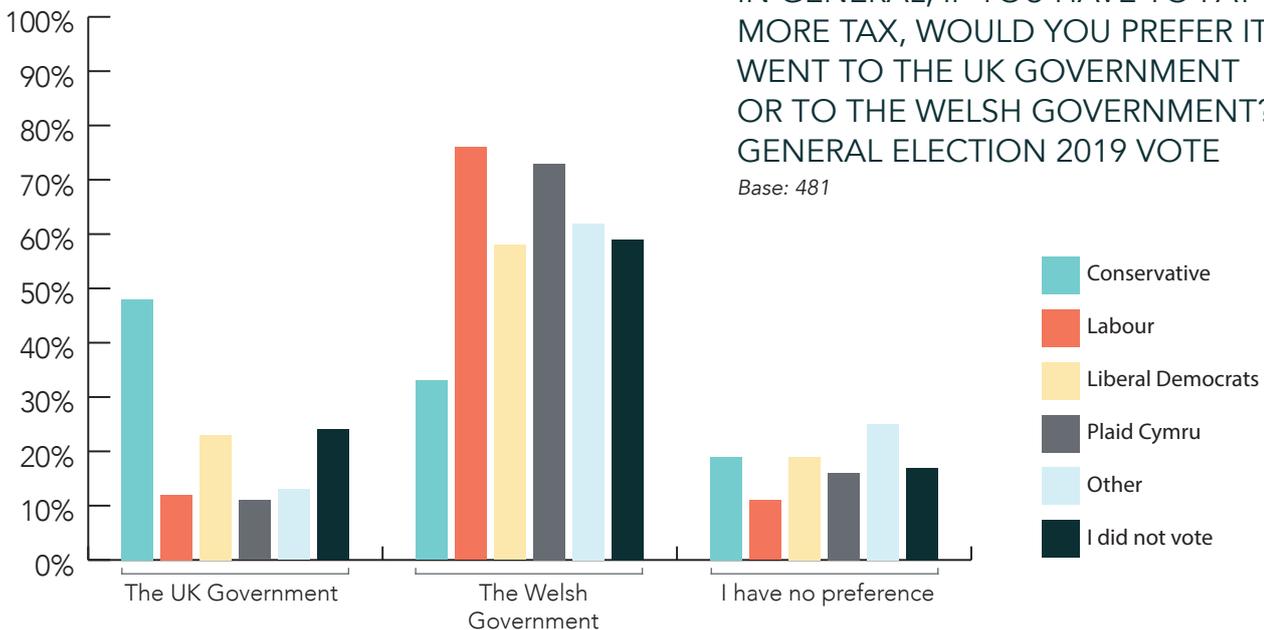
These results are very similar to the results among Scottish respondents, suggesting support in Wales for more tax revenue for the Welsh government is similar to that in Scotland. This result is somewhat surprising, given the extent to which political nationalism is more deeply established in Scotland than Wales.

Again, as in Scotland, we saw that political affiliation was a key driver in support for greater fiscal autonomy for Wales. 76% of Labour voters at the last General Election supported paying more tax, if they had to, to the Welsh government, while 12% supported paying it to the UK government. In contrast, almost half (48%) of Conservative voters supported paying more tax, if they had, to the UK government, with 33% paying it to the Welsh government.

**FIGURE 22.**

IN GENERAL, IF YOU HAVE TO PAY MORE TAX, WOULD YOU PREFER IT WENT TO THE UK GOVERNMENT OR TO THE WELSH GOVERNMENT? GENERAL ELECTION 2019 VOTE

Base: 481



While we can see that political differences are driving responses, responses do not appear to be as polarised as in Scotland; many more Conservative voters in Wales support more tax revenue for the Welsh government than Conservative voters in Scotland, for example (33% vs 19%).

### Group discussion

In Cardiff, we discussed whether the revenue of higher taxes, if implemented, should go to the Welsh or UK governments. In general, we found less support in Cardiff for more new tax revenue for the Welsh government, than in Glasgow for the respective devolved administration.

A lack of trust in the efficacy of the Welsh government was often the primary driver of opposition to more new tax revenue for this devolved administration. There was a sense among some participants that the Welsh government just isn't strong enough on its own to cope. As one participant put it:

*"I don't know, I mean it's just a trust thing isn't it, I do think they're all as bad as each other, but just in my gut I would go UK, I don't feel they're strong enough on their own, the Welsh government."* Female, Cardiff

We also heard participants express fairly strong scepticism about devolution in Wales, therefore driving their opposition for the Welsh government to receive additional funding. We often heard that participants felt that devolution was a 'waste of money' and that the Welsh government is overly bureaucratic:

*"We've got a local council, we've got a county council, we've got the Senedd and then we've got the UK Parliament, there's just too many of them, and they're earning a damn good screw all out of it."* Male, Cardiff

*"...I just don't believe in devolution, it's just a waste of money to me. The jobs for the boys down in Cardiff Bay, which is where we've got it, that's a bit political but there we go."* Male, Cardiff

*"I wouldn't even accept a Conservative government in Wales running it, it's just over bureaucracy, devolution was just a bad idea and it will only get worse."* Male, Cardiff

This was despite some participants noting that the Welsh government has done a good job of handling Covid-19. As one participant put it:

*"Wales have been very strict about the lockdown. So, I do respect them for that, I've had no problems with that, however I cannot see the Welsh government looking after our money whoever is in charge."* Male, Cardiff

Others, as in the Glasgow sessions, argued that the country faces a range of collective changes. As a result, some believed it is better to address these as one nation rather than individually:

*"Yes, I think if we're all in it together and we're trying to get back to where we need to be, I think then obviously we can't then just give it to the Welsh government..."* Female, Cardiff

However, while a preference for the Welsh government to receive new tax revenue to be a minority view in our groups, it is important to flag that we did find some support for this position. For some, this was driven by a sense that it was simply right for the money of Welsh taxpayers to go to the Welsh government; for others, there was a sense that the Welsh government would do a good job of representing the views of the Welsh people in public spending decisions:

*"We live in Wales, let it go to the Welsh government. It should be the Welsh government that receives the money, as they're the ones probably administering its recovery."* Male, Cardiff

*"Then, surely it [additional tax revenue] should go to them [the Welsh government] to do, in inverted commas, as they please, but they will consult with their members, their ministers, and they should go to their particular constituencies and see what people think about what we do with that money. That's what they're there for, at the end of the day, to support their constituents."* Male, Cardiff

Again, as with the Glasgow groups, we saw that the party political preferences of participants played an important role in shaping responses to this proposal. In particular, Conservative voters appeared unlikely to support more tax revenue for the Welsh government given the Conservatives

are unlikely to lead the Welsh government anytime soon. As one participant put it:

*“So, I would feel more comfortable with my money going to a Conservative government. So, for me, for this point in time it would be the UK government but that’s obviously not to say that wouldn’t change going forward. So, my answer, so given that we’d ever had anything other than a Labour government within Wales, I would say if I had to pick something right now, it would be UK government.”* Female, Cardiff

#### **5.4 A SPECIAL SOCIAL CARE TAX FOR WALES?**

In our Cardiff sessions, we also tested support for a Wales-specific proposal: a tax rise for Welsh taxpayers intended to pay for the rising costs of care, as floated earlier this year by the Welsh government.<sup>8</sup> However, among participants in our groups, we found little support for this measure.

Opposition to this proposal for some was motivated by a lack of trust in the Welsh government to effectively deliver a new social care settlement. Participants often highlighted the Welsh government’s perceived poor performance at running the NHS. As one participant put it:

*“...I mean the Welsh government is absolutely appalling, I mean it’s probably got the worst record for NHS in the country, Wales. They waste money, It’s very poor, because they have to deal with it and they’ve dealt with it very badly, so I can’t see how this current Welsh government could even deal with social care.”* Male, Cardiff

Other participants raised concerns that because of the extent to which Wales benefits from cross-UK redistribution, tax rises for Welsh people would have to be significant to pay for the costs of social care.

*“Wales is funded by taxes from the South East in my opinion, I don’t think we can cope socially, we’ve got a high social bill in Wales and we’ve got very few people actually putting the money into that sort of pot. So, the more tax control we’ve got in Wales, I think is going to be massive. I think we’re going to be paying huge taxes in Wales to fund our social needs in Wales.”* Male, Cardiff

Others were opposed to this measure on the grounds that there was a need for UK-wide solution on social care:

*“I think things like the NHS and social care needs to be taken out of devolution, it has to be something that has to be UK wide... The idea of it being specific social care in Wales is not going to work.”* Male, Cardiff

Finally, we heard opposition on the basis that greater levels of taxation by the Welsh government would lead to tax levels being unacceptably high:

*“I’m actually worried with more and more tax powers that have been given to Welsh government, what the picture is going to look like to those of us that actually go out to work frankly in terms of being taxed up to the eye balls.”* Female, Cardiff

8. BBC News (2020), Wales tax rises considered to pay for growing care costs. Available at: <https://www.bbc.co.uk/news/uk-wales-51357547#:~:text=Tax%20rises%20to%20cover%20the,pay%20rise%20for%20care%20workers>. (accessed 14 September 2020).

# CHAPTER 6

# RECOMMENDATIONS

Between the end of the current economic crisis and 2035, the Government is likely to need to increase taxes on individuals by c.£80 billion a year (in addition to any extra amounts arising from GDP growth). We recommend that when doing so, it follows these 'dos and don'ts', in line with the principles set out in the executive summary of this report and based on the views of the public as identified throughout this report. Underneath the 'do's and don'ts', we have presented an illustrative package that complies with them and would raise the necessary £80 billion.

## DOs and DON'Ts of tax rises

These principles suggest the following dos and don'ts when increasing tax. They are not hard and fast rules, but they are based on the research into public opinion which underpins this report.

### DO:

- Raise Income Tax across the board, except for those with incomes of less than c. £20,000
- Raise Income Tax more for the better off than for the less well off
- Reduce pension reliefs for higher rate taxpayers
- Raise Council Tax on the most expensive homes
- Move towards equalising the tax and benefit treatment of the self-employed and employees
- Move towards equalising the tax treatment of capital gains, investment income and income from work
- Consider extending VAT to items that are perceived to be consumed largely by the better off (e.g. private school fees, private medical fees)

- Put renewed efforts into reducing tax avoidance and 'loopholes' and simplify the rules where possible
- Communicate clearly to the public about how tax is raised and how it is spent.

### DON'T:

- Raise Income Tax on those with incomes of less than c. £20,000
- Introduce unnecessarily punitive tax rises on the better off
- Align taxes on the self-employed with taxes on employees, without aligning benefits as well
- Bring people's main home within the scope of Capital Gains Tax
- Raise taxes on pensions or reduce pension contribution reliefs for most people
- Increase the main rate of VAT
- Introduce taxes targeted at particular groups - for example a social care tax targeted at those over 40.

## WHAT MIGHT THIS MEAN IN PRACTICE?

The following package of 12 measures is illustrative. It complies with these dos and don'ts and would raise an additional £74 billion from individual taxpayers (in addition to any increases arising from GDP increases), based on the model underpinning the Demos Tax Calculator - see [tax.demos.co.uk](http://tax.demos.co.uk). Note that because there are interactions between the different measures, the sums raised by each measure rely on the assumption that the measures listed earlier would also be implemented.

## Income Tax

1. Raise the basic rate of income tax by 2p in the pound, but raise the Personal Allowance so that no-one with an income of £20,000 or less pays more tax - **£3.8 billion**
2. Raise the rate of income tax on income between £50,000 and £100,000 by 5p in the pound - **£6.7 billion**
3. Raise the rate of income tax on income over £100,000 by 10p in the pound - **£8.0 billion**
4. Reduce the tax relief on pension contributions of those earning more than £50,000 a year to the same level as those earning less than that - **£12.6 billion**

## NICs

5. Limit the exemption on employers' NICs payable on employers' pension contributions to the first £2,500 - **£6.9 billion**
6. Apply the same tax treatment, including employees' NICs or an equivalent, to all forms of income, and balance this by creating the same entitlement to state funded benefits - **£1.5 billion**
7. Apply the equivalent of employers' NICs to all forms of income above a threshold of £50,000 a year - **£8.5 billion**

## Capital Taxes

8. Equalise the rates of Capital Gains Tax with Income Tax - **£11.1 billion**
9. Abolish the separate Capital Gains Tax allowance, keeping a very low threshold for administrative reasons - **£1.2 billion**
10. Increase Council Tax on top-band properties, charging a percentage of the value - **£0.8 billion**
11. Simplify Inheritance Tax rules and abolish exemptions except for spouses - **£6.9 billion**

## VAT

12. Introduce VAT on gambling stakes, private school fees and private medical fees - **£6.0 billion**

## FURTHER RECOMMENDATIONS

Beyond the measures set out in the table above, this report considers a number of issues relating to the public's interaction with the tax system more broadly.

We heard throughout our four deliberative groups that any attempt to raise taxes on individuals must be accompanied by genuine efforts to tackle avoidance by wealthy individuals and businesses; otherwise tax rises on the general population will be deemed unfair by the public. We therefore recommend that:

**1: The government should launch a renewed crackdown on tax avoidance to accompany any tax rises for individuals.**

However, persuading the public that the Government is taking this seriously will be difficult: we found strong evidence that trust in HMRC to deal with tax avoidance is low. To address this we recommend that:

**2: The government should consider launching a new, independent body - comparable to the Office for Budget Responsibility - to oversee HMRC and the government's tax avoidance strategy and measures.**

We heard strong concerns within all four groups that the public have little understanding of the tax system, or how their taxes are spent. This can lead to anxiety about paying taxes and create opposition to calls for the need for new tax rises. To address this, we recommend that:

**3: Education about the tax system should be introduced as a mandatory component of citizen education in schools.**

**4: The government should launch an initiative exploring new ways of communicating to the public how taxes are spent, with a focus on online, interactive tools.**

# ANNEX 1

## ATTITUDES TO ENVIRONMENTAL TAXES AND TAXES ON GAMBLING

Our primary research objective was to identify how to raise more tax over the long term in ways that are acceptable to the public. Taxes that are designed to reduce certain kinds of consumption are unlikely to contribute significantly to this – at least if they are successful in their purpose. Therefore we did not consider attitudes to this kind of tax in depth. However, we do have some significant findings in this area, which we will report briefly here.

### ENVIRONMENTAL TAXES IN GENERAL

In the groups, there was quite strong opposition to taxes on environmentally damaging activities when these were not combined with subsidies for environmentally friendly activities. We therefore tested this combination in the poll. We found that 63% of the public either strongly supported or supported this combination of policies, with 15% either opposing or strongly opposing it.

### A PLASTICS TAX

We also tested attitudes to a plastics tax, levied on plastic packaging composed of less than 30% recycled plastic. 56% of the public either strongly supported or supported such a measure, and 8% either opposed or strongly opposed it.

### AIR TRAVEL

#### Increased tax on air travel should be considered – but not now

We discussed in our groups whether a higher rate of indirect taxation should be charged on air travel, to bring its tax treatment in line with the main rate of VAT (i.e. 20%). The most frequent reason given in support of this change was the need to reduce flying because of its impact on the environment:

*"I did put it on... Air travel, I think we need to really need to cut back on air travel, that's one of the big greenhouse issues"*  
Male, Cardiff

*"...we all have to think of these things and the effect on the environment, and putting VAT on would hopefully at least help us start to understand what it's doing to the environment."* Female, Cardiff

However, participants were divided on whether a higher rate of tax should be charged for all fliers or just frequent fliers. As one participant described it, there was a sense among some in the groups that everyone has the right to one holiday a year that should not be taxed:

*“If you maybe fly once, there should be no VAT, but if you’re continuing to fly, maybe flying two, three or four times a year, having six holidays, then you should pay VAT... Because everyone should have a holiday and not be able to pay VAT....”* Male, Cardiff

Other opposition to a blanket rise in air travel taxation related to the fact that some communities are reliant on air travel for their day-to-day lives. As a result, punishing them for this seemed unfair for some participants:

*“There is another edge to that as well, the remote island communities like the Orkneys, the Shetlands and the Western Isles. They rely quite heavily on flights into Glasgow, Edinburgh and Aberdeen. They’re hideously expensive as it stands...”* Male, Glasgow

In addition, there was a fairly strong recognition among the groups that now is not the time for higher air travel taxation. This was because many participants were deeply concerned about the impact of Covid-19 on the air travel industry and that steps should be taken to protect the industry. Typical comments included:

*“...maybe in the future air travel, but at this time of day when we’re trying to promote air travel, let’s leave it.”* Male, Cardiff

*“I didn’t think that air travel should be paying more, particularly at the moment. I think it’s going to crucify the industry.”*  
Female, North East

*“The point is now the airline industry is on its knees and is going to be for a few years. Adding a tax onto it is going to kill it off altogether.”* Male, North East

*“Yes, if it were normal times it’d be different but the way the airlines are at the moment it would just kill it off.”* Male, North East

## FUEL DUTY

### Increases in fuel duty would be unpopular

We also explored in our groups whether Fuel Duty, a tax charged on the purchase of petrol and diesel, should be increased. We tended to find fairly strong opposition to this across all four groups.

Participants often felt that use of a car was essential for many people to get around. As a result, it would

be wrong to unfairly punish them for that. For example, families or older people might be reliant on a car as their main mode of transport. As one participant put it:

*“I’m very passionate about the environment... But I just think there are some instances where people can’t afford not to run a car, they have to ferry kids around or could need it for work... people are just going to pay it anyway. It’s not going to stop or deter people from using their cars, because it’s the most convenient form of travel.”* Female, Cardiff

Furthermore, participants were concerned about unfairly penalising people that live in areas that require a car. As some participants described:

*“On a car, I’ve lived in a rural community before and it was one bus every two hours, if it turned up. So, people do need to get places so I do recognise that their journeys would rely on that fuel more so it was the lowest amount that I could increase it that I did.”* Female, Cardiff

*“I know that I grew up in a tiny village and you had to use a car. I wouldn’t use it less because the price went up, I’d just be penalised more.”* Female, London

Relatedly, participants described how there is a need to improve the public transport offer in many places across the UK before it would be fair to further increase Fuel Duty. This was driven by a strong sense that public transport outside big cities is often poor:

*“The other options have to be financially viable. If the government is going to tax things that are less environmentally friendly, the more sustainable options have to then be made more financially viable so it becomes more widely used by society.”*  
Female, London

Some participants were opposed on the grounds that Fuel Duty is already perceived to be charged at a high rate, and that to increase the rate any higher would be unnecessarily punitive. As one participant put it:

*“It’s already pretty high. 58 pence per litre. It’s a lot of money.”* Male, North East

### Some felt that it should be increased for environmental reasons but this was controversial

While most participants were fairly strongly opposed to Fuel Duty increases, a notable minority of participants were in favour of the change. This was largely driven by a perception that doing so would be a positive step towards tackling climate change. As some participants put it:

*"I think you would tend to use your car less if you had to pay more to put the petrol in, yes it's a good positive thing."* Male, London

*"Yes, I think we need to get more towards a sustainable way of living, so we need to phase out the fuel and I think increasing the cost of it and lowering the costs on alternative travel could persuade people to use that."* Female, Cardiff

However, many participants disagreed. We often heard across the groups that green behaviour should be incentivised, perhaps through subsidies, instead of taxing polluting behaviour. As some participants described:

*"Exactly, why can't they come up with some positive schemes to encourage people to be more green, rather than punishing them again?"* Female, London

*"Although our green energy incentives for property owners and things like that, I just think the help out there is minimal and unrealistic to normal people in their everyday lives. Why do we always have to be to blame?"* Female, London

## GAMBLING

### Increased taxation of gambling would be a good idea

In the poll, charging VAT on gambling stakes was the second most popular of fifteen revenue raising measures we polled; almost seven in ten of respondents (69%) supported or strongly supported the measure, with just 12% opposing or strongly opposing it.

Across all four groups we found near unanimous support for higher taxes on gambling. Often this was because gambling was perceived as a non-

essential activity and that, as a result, it should be charged more heavily. Typical comments from participants included:

*"...gambling because it's not an essential. I think you should pay more."* Female, Cardiff

*"Gambling, that's a personal choice. If somebody wants to gamble, they should pay the extra bit for it... It's not a necessity."* Female, North East

*"As gambling, I see it as a luxury, which I don't think should be exempt from tax and stuff like that."* Male, Glasgow

*"...it's [gambling] an elective pastime and hobby to do. I feel like they should probably increase VAT on the gambling."* Male, Glasgow

Others drew comparisons to other heavily-taxed 'sin' activities, such as cigarettes and alcohol, and felt that gambling should be treated similarly by the tax system:

*"I think it's the same as cigarettes and alcohol so it should be treated the same."* Male, Cardiff

Some participants were motivated by a desire to discourage gambling and felt that higher taxes on the activity could achieve this. As many participants described:

*"...a lot of people on the lower end of the wealth scale get caught up in gambling more than some of the wealthier people, and I think it could potentially be a disincentive, or I would hope it would be."* Female, Cardiff

*"Gambling, how many people have got gambling addictions? Surely the VAT was a bit higher on that, people might think twice about starting gambling."* Female, North East

*"Sorry not to be judgemental on anybody else but I just thought it's a habit that everyone's obviously talking about all the time. So, I thought if that would be higher, if there was a tax on that maybe stop people from doing it which it probably won't."* Female, Glasgow

*“The one thing I would say, to contribute on the gambling one, it might make people think, with gambling addictions or going down that track, it might make them think twice before putting on bets or discourage other people from putting on bets.”*

Male, Glasgow

It is important to note that calls for higher taxes on gambling were made by some participants that do gamble themselves. As one participant put it:

*“I totally agree on the gambling. I have a flutter on the Grand National or the odd thing here and there but there are people who have serious gambling addiction issues. It’s very expensive for those families and very destructive as well.”* Male, North East

### **However the impact on the less well-off should be considered**

Finally, while we found extremely strong support across our groups for higher taxes on gambling, one objection was raised by some participants. There were concerns that higher taxes on gambling would be unfairly punitive on less well off people, given they might be more likely to gamble. As one participant put it:

*“So, taxing that when you’re already taxing things like alcohol and cigarettes to a high extent which obviously poorer people are more inclined to do then people are more well off. Again it’s another way of digging poorer people into a hole.”* Male, Glasgow

# ANNEX 2

## SUMMARY OF QUALITATIVE FINDINGS BY TAX TYPE

In this annex, we summarise qualitative findings by type of tax. We also give more detail on the attitudes to taxes on air travel, fuel and gambling which we have not covered in the main report.

### INCOME TAX AND NICS

In summary, we found that:

- Participants often strongly agreed that the least well off should be protected from any increases in Income Tax. Indeed, participants often felt that the least well off should not pay any Income Tax.
- There was also broad agreement across the groups that Income Tax should not be so high as to disincentivise hard work.
- Some participants felt that the additional risks faced by the self-employed justify a lower rate of taxation. Many others, however, felt that it was unfair that the self-employed are taxed differently to the employed.
- There was broad agreement that, if self-employed people enjoyed the same rights and entitlements as employees, they should be taxed the same.
- There was generally agreement that investment income should be taxed the same as employment income.

As for pension relief, we found that:

- Participants were often opposed to more heavily taxing pension income. This was often driven by a sense that pensions are things you have worked hard for your whole life and, as a result, should not be interfered with by the government.
- Though awareness of the rules was low, participants generally felt it was unfair that higher earning taxpayers received more pension tax relief.
- Participants often felt it was unfair that employers do not pay NICs on their contributions to their employees' pension, although they feared that making them pay NICs could reduce those contributions.
- Participants were generally strongly supportive of the tax-free lump sum that individuals can withdraw from their pension. This was often seen as something that people have a right to access.

### WEALTH TAXES

We had discussions relating to Council Tax, Capital Gains Tax, replacing Inheritance Tax with a Lifetime Receipts Tax, and the introduction of a one-off or permanent wealth tax on assets.

In summary we found that:

- There was some support in principle for charging Council Tax on the most expensive properties as a proportion of their overall value, so long as those that are 'asset rich, cash poor' - particularly the elderly - are not unfairly affected.
- However, we heard strong concerns that higher property taxation would unfairly impact both 'asset rich, cash poor' households, with a particular concern for the impact on elderly households.
- There were also significant concerns about how a proportional property tax would work in practice given significant regional variation in house prices. As a result, any proportional property tax would need to be locally set.
- There was generally broad support for the equalisation of tax treatment between capital gains and income, but very little support for extending capital gains tax to the sale of main residences.
- Inheritance tax is deeply unpopular but replacing it with a Lifetime Receipts Tax would be just as unpopular, if not more unpopular. The taxing of gifts often rubbed against participants' deeply held moral intuitions and the proposal was also often deemed unimplementable.
- We found a good level of support for a one-off wealth tax, provided it was charged only on estates worth over a fairly significant value (e.g. over £2 million) and that it excluded main homes and pensions. In contrast, there was almost no support for a permanent wealth tax. Support for a one-off wealth tax was stronger when linked to paying for the costs of Covid-19.
- However, participants were often incredulous that any wealth tax would ever be truly a one-off. This suggests that a government seeking to implement a one-off wealth tax would have to work hard to persuade the public that it was actually a one-time measure.

## **VAT AND OTHER INDIRECT TAXES**

In summary we find that:

- Participants raised a range of objections to increasing the main rate of VAT. These were often centred on the fact that raising VAT would be

unfair because the poorest in society would be affected, as well as the better off.

- Some participants also felt incomes were already being squeezed, due to Covid-19, and that a rise in the rate of VAT would cause extra pressure on living standards.
- However, many participants were willing to consider a very small increase in the main rate of VAT - e.g. one or two percent - given that its impact on the public was perceived to be marginal. But not at this time, due to the poor state of the economy
- Participants were generally guided by the principle that genuine essentials should be VAT-free, while all other goods should be VAT applicable.
- There was a fairly strong consensus across the groups that VAT should be applied to private school fees and private medical fees. This was because these items were often viewed as luxury spending and that consumers would be able to afford a price increase, given these items are more likely to be consumed by the better off.
- There was some support for higher indirect taxes on flights as a means of tackling climate change. However, there were calls to ensure that families would not be priced out of one holiday a year and that remote communities reliant on air travel would not be adversely affected. There was also a strong sense among participants that now would not be the right time for this increase, due to the challenges the air travel industry is seeing due to Covid-19.
- We found fairly strong opposition to further increases in the rate of Fuel Duty. This was driven by a sense that some people are reliant on a car to travel, whether due to personal circumstances or geography, and should not be punished for this; that 'green behaviour' should be encouraged instead of punishing polluting behaviour; and that Fuel Duty is already too high.
- We found near unanimous support for higher taxes on gambling, driven by a sense that gambling is a non-essential activity and that higher taxes could deter people from gambling. For more detail, see Annex 1.

# ANNEX 3

## POLL FINDINGS

The table on this page summarises the public's preferences between alternative ways of raising more tax. It is based on our nationally representative poll of 2,008 UK adults interviewed online between 1-5 August 2020.

The raw polling results can be found here: [www.demos.co.uk/project/a-peoples-budget-how-the-public-would-raise-taxes](http://www.demos.co.uk/project/a-peoples-budget-how-the-public-would-raise-taxes)

The number to the right of each proposal in the table is its net approval score, and equals the percentage of respondents who said they supported or strongly supported the proposal minus the percentage who said they opposed or strongly opposed the proposal. So for example if everybody supported a measure and nobody opposed it or was neutral, it would score 100. If the numbers of those supporting and opposing a measure were equal it would score 0. And if everybody opposed a measure it would score minus 100.

The league table excludes a one-off wealth tax since that is not an on-going alternative (we did not poll an ongoing wealth tax following strong opposition in the deliberative groups). However it was popular, with a net approval score of 52.

**TABLE 1.**  
LEAGUE TABLE OF TAX RISES

1	Raising income tax on earnings over £100,00 per year by 10p in the pound	59
2	Charging VAT on gambling stake	57
3	Giving the self-employed the same benefits and making all them pay the same National Insurance Contributions as employees	52
4	Introduce VAT on private school fees	49
5	Raising Income Tax for everybody by 2p in the pound, while raising the Personal Allowance so no-one earning less than £20,000 is affected	41
6	Raising Income Tax on earnings over £50,000 per year by 5p in the pound	40
7	Reducing the tax relief on pension contributions of those earning more than £50,000 per year to the same level as those earning less than that	30
8	Reforming council tax by charging a percentage of the value of the most valuable 2% of homes	30
9	Making employers pay National Insurance Contributions on the pension contributions above £2,500 a year that they make for any employee	28
10	Charging tax on profit from selling an asset at the same rate as on income from paid work	28
11	Introducing VAT on private medical fees	26
12	Raising Income Tax for everybody by 1p in the pound	22
13	Charging tax on profit from selling your main home at the same rate as on income tax, if it is sold for more than £500,000	6
14	Increasing the main rate of vat by 1p in the pound	3
15	A special tax of 2p in the pound on top of income tax to be paid by those aged over 40 to cover the cost of social care in old age	-19

# ANNEX 4

# METHODOLOGY

## STAGE 1 - SHORTLISTING OF TAX PROPOSALS

First, we reviewed recent suggestions for tax changes from the government, political parties, academics, independent research institutes and think tanks. In particular, we drew on work from HMRC,<sup>9</sup> the Conservative Party,<sup>10</sup> the Labour Party,<sup>11</sup> the Liberal Democrats,<sup>12</sup> the Mirrlees Review,<sup>13</sup> the Institute for Fiscal Studies,<sup>14</sup> the Resolution Foundation<sup>15</sup> and the IPPR<sup>16</sup>.

Following desk-based research, we then eliminated potential changes that were deemed administratively unfeasible or would cause undesirable economic distortions. To inform this process, we also conducted a number of expert interviews with representatives from the Institute for Fiscal Studies, the Resolution Foundation, the University of Warwick, the Institute for Government and the London School of Economics.

## STAGE 2 - ECONOMIC MODELLING AND DEVELOPMENT OF DEMOS TAX CALCULATOR

Having identified a shortlist of tax changes to test with the public, we then conducted economic modelling to understand the revenue potential of these changes in isolation, and in combination, and the distributional consequences of their introduction.

The costings and distributional effects of the tax reforms are estimated using a bespoke model of the personal tax system designed by Landman

Economics. The model uses data from three different UK household survey datasets:

- The Family Resources Survey (FRS), used to model most of the income tax and National Insurance Contributions reforms.
- The Wealth and Assets Survey (WAS), used to model reforms to Capital Gains Tax, taxes on wealth, taxes on lifetime gifts and reforms to Inheritance Tax. Because the information on pension entitlements and pension contributions in WAS is more detailed than FRS, WAS is also used to model reforms to the tax treatment of pension contributions and lump sums taken from accumulated pension entitlements.
- The Living Costs and Food Survey (LCF), used to model reforms to VAT and other expenditure taxes.

Each of the datasets contains information on household incomes which allowed us to show the impact of each policy change on better-off and less well-off households. Concretely, by decile of net income.

The net fiscal yields of each policy reform to the Exchequer were estimated by using the model to estimate the distributional impact of each policy measure and then calibrating the results to align with results from HMRC's public statistics on the fiscal effects of illustrative tax changes<sup>17</sup> plus other statistics on current yields from personal taxes<sup>18</sup>.

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The model takes account of interactions between different parts of the tax system (for example, if CGT marginal rates are aligned with the marginal rates of income tax, then changes to the income tax parameters will affect the yields from CGT as well as income tax). This requires a large number of different combinations of parameters for the income tax, CGT and NICs system to be estimated so that the model can present accurate results for all possible combinations of tax reforms in the user interface.

The results of this modelling were then fed into the development of the Demos Tax Calculator. This bespoke tool was designed to assist participants within the deliberative groups, providing estimates of how much revenue different tax changes would be expected to deliver and the distributional impact of the change. An updated version of the calculator can be accessed here: <https://tax.demos.co.uk/>.

### **STAGE 3: FOUR ONLINE DELIBERATIVE GROUPS IN LONDON, THE NORTH EAST, GLASGOW AND CARDIFF USING DEMOS TAX CALCULATOR**

To this end, we convened four online deliberative groups in July 2020 with between 12 and 16 participants each in London, the North East, Glasgow and Cardiff. Each deliberative group consisted of four two hour sessions and each explored a different area of taxation (e.g. income taxes, wealth taxes etc.). This allowed participants to consider the issues at hand in depth and, importantly, to consider a range of different options and weigh them against one another. Participants also completed a homework task after each session, giving them an opportunity to reflect on the discussion between sessions.

#### **What was deliberative about the groups?**

Deliberation is an approach to inclusive dialogue with citizens which enables those involved to consider the important matters that affect us all, such as taxation, from a range of perspectives and with balanced evidence to hand. We worked in close co-design with the deliberative dialogue agency Hopkins Van Mil (HVM) to ensure this was achieved.

A key element of deliberation is that participants are drawn in to a carefully designed process which gives participants the opportunity, time and space to reflect, to think about their own lived experience and to draw on the evidence. In this programme participants took part in four two hour online

workshops, spaced over two weeks, with time to listen to their peers, share their values, and change their minds as a result of hearing about taxation and its impact on their lives and the lives of others. The tax calculator was used by participants in between workshops to consider what the impact of the changes they were thinking about would be if implemented, again a further opportunity to test their individual approaches to the issue before exploring it with the group.

#### **The process is described below:**

During each workshop we gave a presentation on a specific aspect of taxation. They also fed back to participants what the homework task had shown in terms of changes to the taxation system, who the potential winners and losers would be. These presentations were then discussed in small groups with one HVM facilitator allocated to a sub-group of 6 participants to enable depth discussion on the materials they had been given which revealed participants perspectives and values as well as the difficulties they are faced with when considering changes to a multi-layered system of taxation.

The workshops followed a logical narrative of learning and discussion which allowed participants to build on what they had learnt, reflect on what others were saying and come to their own conclusions which they had the opportunity to revise collectively in the final workshop. These facilitated deliberations allow a diversity of views to emerge, minority and majority views, as well as finding where there is common ground which can form the principles that underpin any system change.

This deliberative programme provided informed and considered findings on citizens' opinions by ensuring that knee-jerk reactions progress through a process to reveal considered opinion over time, allowing participants opinion to shift, where appropriate, from where they were before and after the deliberative workshops.

#### **Participant characteristics**

We aimed to ensure that the participants of each group were generally representative of the wider population. Thus, participants were gender-balanced and represented a roughly representative mix of ages.

To ensure our discussions were well-balanced, we also made a number of further requirements over

and above the aim of general representativeness - detailed below.

### Voting at the last General Election

Each English group (16 participants) contained at least 6 Labour voters and at least 6 Conservative voters. Each Welsh group (12 participants) contained at least 4 Labour and 3 Conservative voters. Each Scottish group (12 participants) contained at least 4 SNP, 2 Labour and 2 Conservative voters.

### Age

Each group contained at least two participants over 60 who are receiving or will receive a pension other than the state pension; at least two participants in their 50s; and at least two participants between 20 and 35.

### Income

All participants were paying at least some tax. In addition, each group contained at least

two people with an income of over £50,000, at least a further two people with an income of over £40,000, and at least two people with an income of less than £30,000.

### Income Source

Each group contained at least three people who were self-employed; at least three people who were employed; at least one person with an investment income (other than pension) of more than £2,000 a year.

### Session structure

Below is a summary of the topics covered across the four sessions and the content of the presentations provided to participants at the start of each session.

- Income Tax and National Insurance Contributions
  - This included an overview of the main Income Tax and NICs rules, alongside how different forms of income - employment, self-employment and investment income - are taxed differently
- Pensions
  - This included discussion of the main tax rules relating to pensions and an overview of how employer NICs paid on pension contributions, the rules governing pensions tax relief and the tax-free lump sum

- Wealth taxes
  - Council tax
  - Capital gains tax
  - Inheritance tax, and whether it should be replaced by a Lifetime Receipts Tax
  - A one-off or permanent wealth tax on assets
- Indirect taxes
  - VAT and the various exempt and zero-rated items
  - Equivalent charges on gambling, air travel and fuel
- Environmental taxes (in general)
- Hypothecation

In addition, we developed an online tax calculator for the sessions (<https://tax.demos.co.uk/>) which allowed participants to understand how much revenue different measures would raise and what the distributional consequences of any changes would be.

### STAGE 4: NATIONALLY REPRESENTATIVE POLLING

We then tested our findings with a nationally representative poll of 2,008 UK adults interviewed online between 1 August - 5 August 2020, with boosted samples of 500 for Scottish and Welsh respondents. Before completing the polling, respondents were presented with the following statement to inform them of the background to our research:

*“It is very likely that taxes in the UK are going to have to go up. This is partly because of the coronavirus crisis, but also because the population is getting older, meaning the NHS bill is going to go up. This poll aims to understand public attitudes towards different tax policies.”*

*We would not expect taxes to go up immediately in the context of the coronavirus crisis; when thinking about the potential tax rises we are asking about, think about them being enacted over several years - in ‘normal times’, when the worst of the crisis is over.”*

# DEMOS

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