

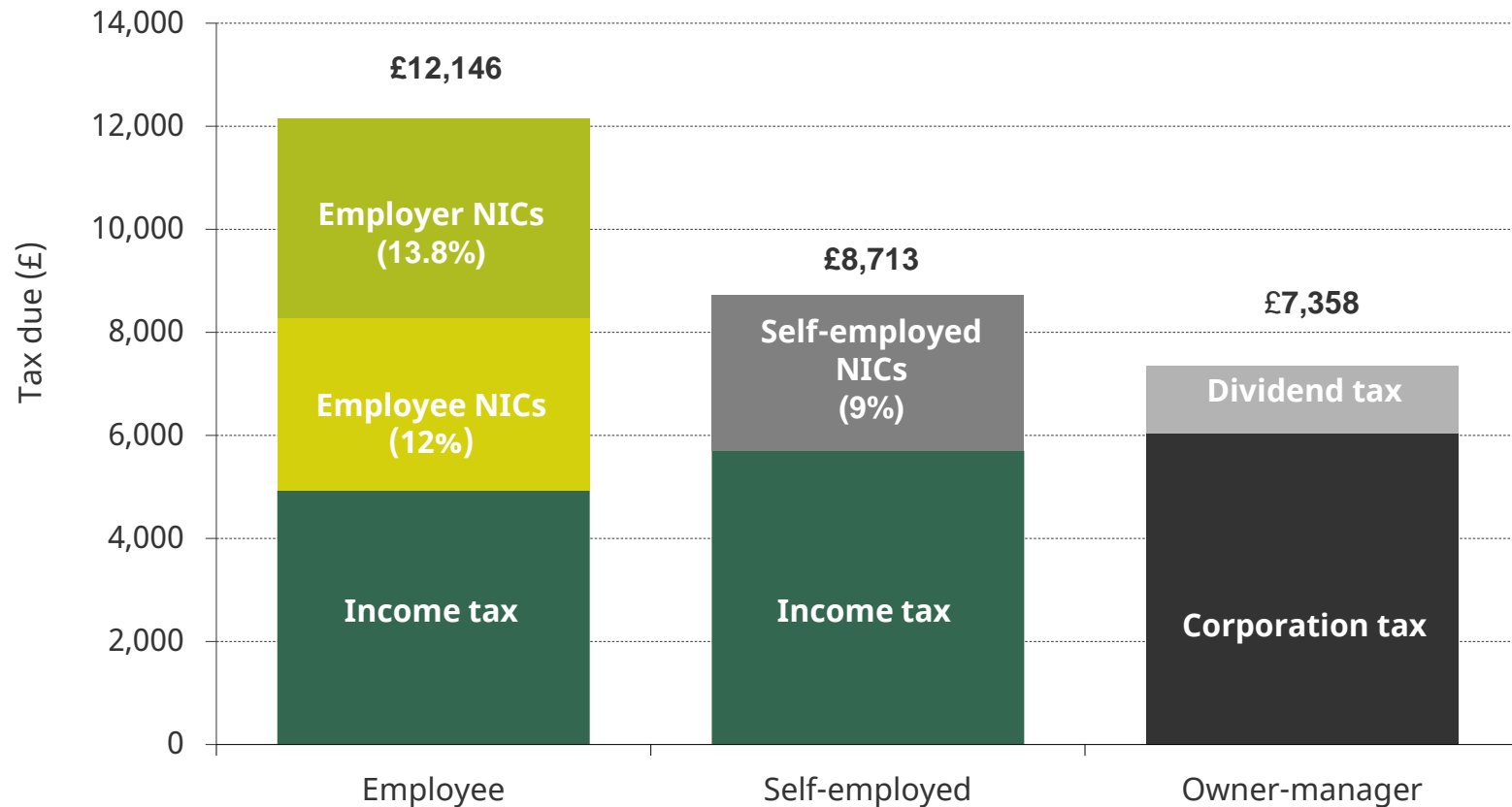
Should different ways of working be taxed differently?

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The tax system penalizes employment

Tax due on a job generating £40,000, 2017–18



Why are tax differentials a problem?

Fairness: similar individuals doing similar work can be taxed very differently

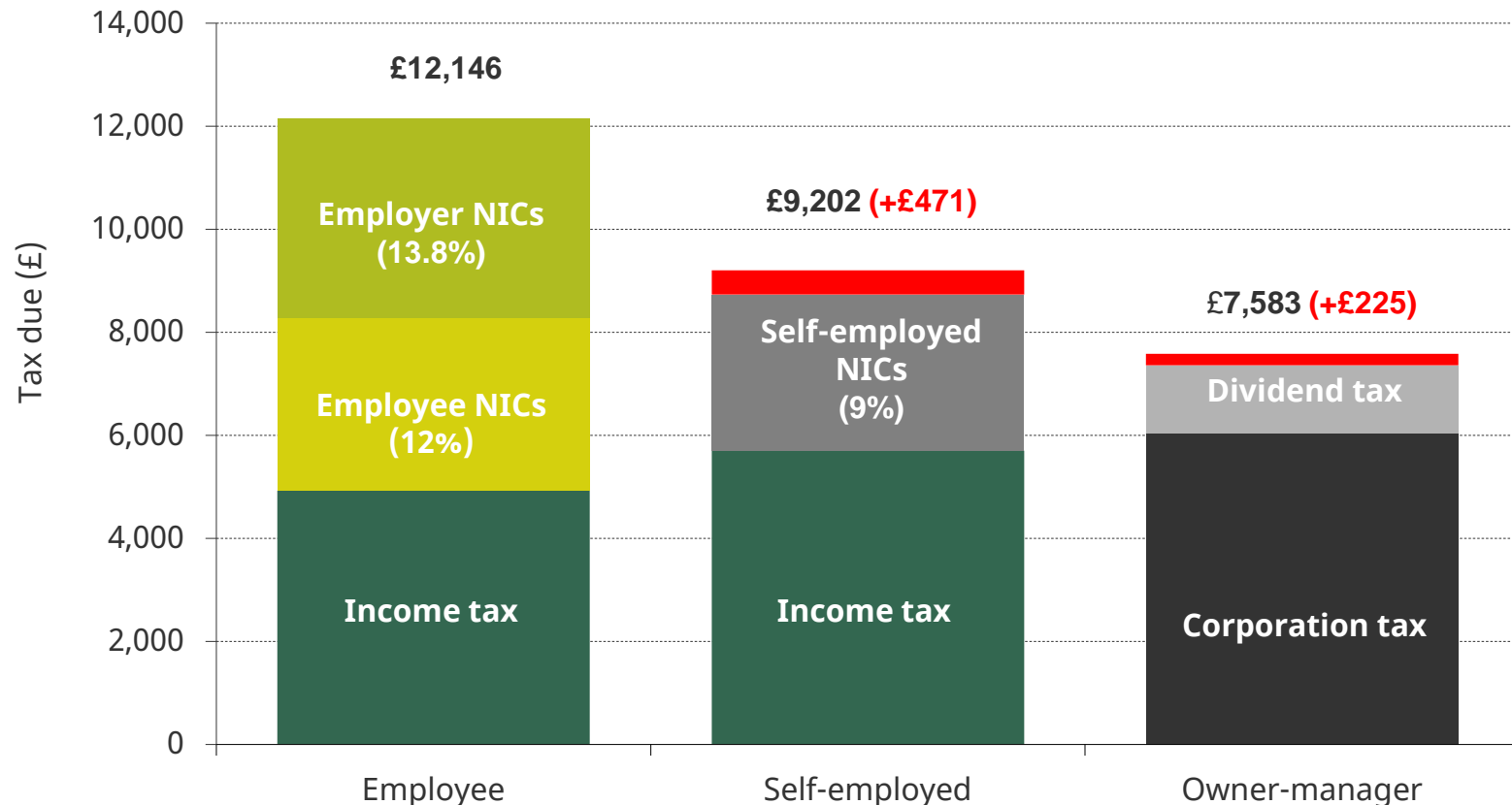
Efficiency: individuals' choices are distorted

Public finances: more individuals running their own business means lower government revenues

- HMRC estimates that in 2016–17 :
 - £5.1 billion forgone through lower self-employed NICs
 - £6.0 billion forgone through lower taxes on company owner-managers

The tax system penalizes employment

Tax due on a job generating £40,000, 2017–18,
including abolition of Class 2 NICs, Class 4 NICs to 11% & dividend allowance cut

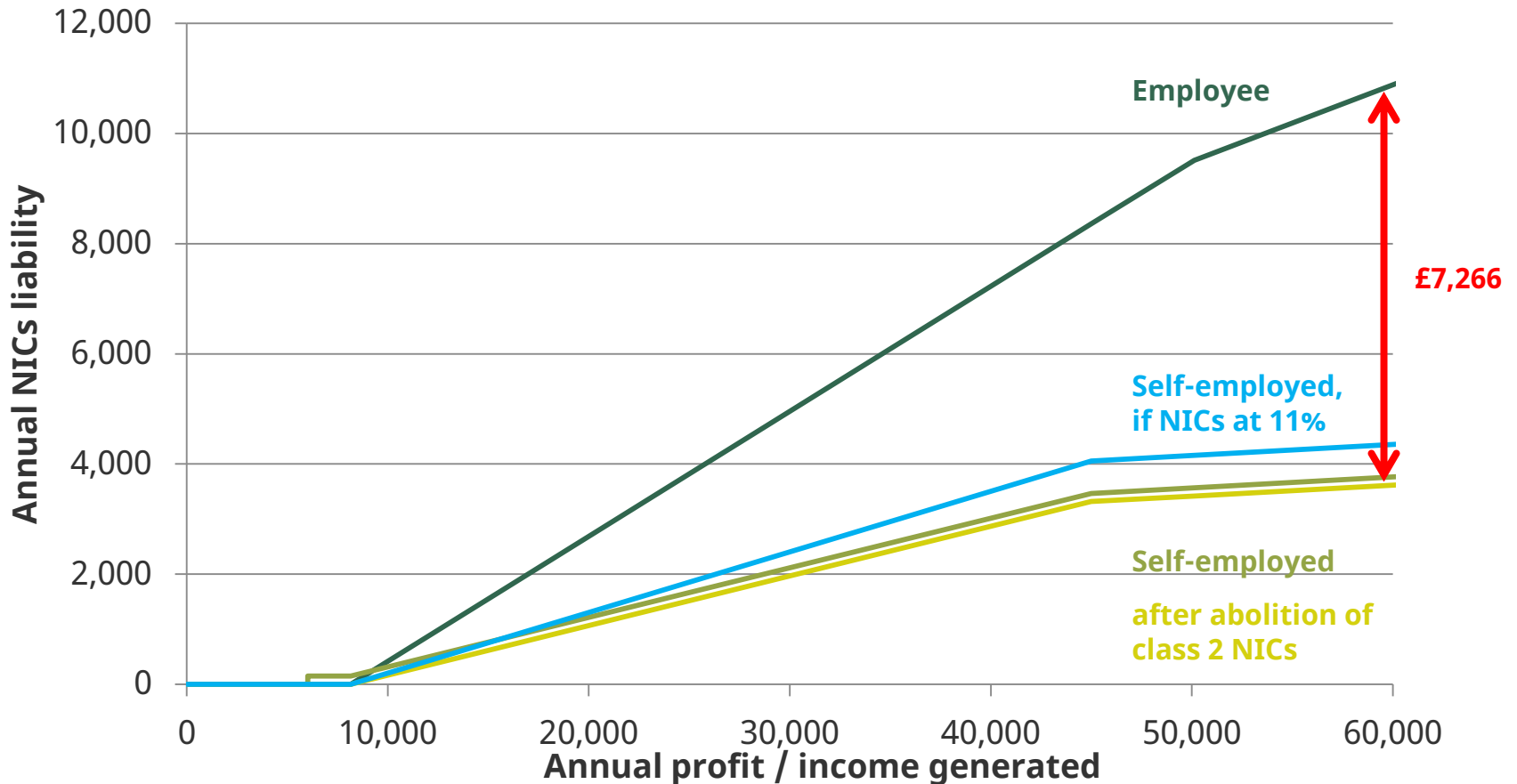


Notes: For illustration, the abolition of class 2 NICs, Class 4 NICs to 11% and cut to dividend allowance are shown as if introduced in the 2017-18 system.



Mind the gap: NICs much higher for employees than self-employed

National Insurance Contributions schedule, 2017-18



Notes: For illustration, the abolition of class 2 NICs and Class 4 NICs rates at 11% are shown as if introduced in the 2017-18 system. Employee schedule includes employer NICs.

Argument 1: Lower NICs reflect lower access to publicly-funded benefits

The self-employed get very similar state benefits to employees

- From April 2016 both accrue same rights to single tier state pension
- Self-employed don't get contribution-based JSA ...
- or statutory parental benefits
 - but can access Maternity Allowance

The NICs advantage is far bigger than differences in benefit entitlements

- Differences in benefits could justify less than 1 ppt difference in rates

Argument 2: Lower rates are necessary to compensate for lack of employment rights

Self-employed don't get employment rights such as holiday & sick pay

Employment rights are a transfer from employers to their employees, not a benefit given to employees by the government

- Make employment more attractive to the employee – higher tax offsets this
- Make employment *less* attractive to the employer – higher tax reinforces this

There is no net benefit to employment for tax to offset

Employment rights can be seen as part of remuneration package

Argument 3: Lower rates reward risk taking & entrepreneurship

Difficulty & risk associated with running a business do not in themselves justify favourable tax treatment

What is it that we want to support?

- Innovation, start-ups, investment, those on low incomes ...

Across-the-board lower rates are the best policy response to what?

- They are poorly targeted
- And come at cost of creating boundaries in tax system

There are better ways