



Institute for
Fiscal Studies

Tax by Design

Overview

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The Review

Built on a large body of economic theory and evidence.

Inspired by the Meade Report on Taxation .

Commissioned papers on all the main topics, with commentaries, collected in *Dimensions of Tax Design*.

Received submissions and held discussions with some tax experts.

We, the authors thank all these, for their contributions and support.

In addition, thank you to the authors, a great team to work with, who did most of the work.

Tax systems in general

- Taxes and benefits form a system
 - To raise revenue to finance government spending.
 - To redistribute from the better off to the needy.
 - (They can also correct some market failures.)
- People are affected by the whole system, some made worse off, some better.
- Ideally, desired revenue and desired redistribution would be achieved in a way that costs individuals as little as possible.

Principles

- System:
 - People respond to all the tax rates.
 - Marginal tax rate is sum of all additional taxes paid when income increases by £1.
 - Particular taxes need not be green or progressive.
- Neutrality:
 - Inequality is primarily in employment opportunities.
 - Therefore, presume same tax for all consumption; and same tax for all employment income. But...
- Progressivity:
 - More tax from the better off.

Income Tax

- Want a coherent, transparent rate structure for income tax, based on evidence of behavioural responses.
- Decisions influenced by the after-tax income reward to working include whether, where and how much to work.
- Different tax rates for different age and circumstances, since evidence shows different response to taxes.
- Should have a single integrated benefit for low incomes and high needs, depending on weekly circumstances..

Incentives

- Taxes should apply to income less the cost of earning.
 - Tools of the trade
 - Saving
- Saving is the cost of future consumption
- That means not taxing the normal (risk-free) return to saving, but taxing returns above that in full
- Retirement saving: special treatment.

Indirect taxes

- Should be value-added taxes. Differentiate?
- Interaction with labour is the key issue : more time use implies higher tax.
- Few clear cases for differential taxes : low or zero rates for child-care, education, probably medical care. No good evidence for negative association with labour.
- For different reasons, higher taxes on alcohol and tobacco.
- No transaction taxes.
- Environmental taxes: greenhouse gas emissions, and congestion on the roads.



Business Taxes

- Single rate of corporation tax, with no tax on the normal return on investment
- Equal treatment of income derived from employment, self-employment, and running a small company
- No tax on intermediate inputs
- – but a land value tax at least for business and agricultural land

Overview and Proposals

- Whatever revenue and redistribution is desired, a good tax system would be less complex, with a fairly narrow set of taxes. It should provide few easy opportunities for evasion and avoidance.
- There are many interesting details when these principles are applied to the UK.
- We have prepared a package of proposals. Other members of the team will talk about them.