Wednesday 28th September 2016

Dear Chancellor,

Congratulations on your appointment.

At her leadership campaign launch, the Prime Minister said "we need to talk about tax". We agree. In his first year as Chancellor, George Osborne introduced significant reforms to the Budget process and to tax policy making - the creation of the Office for Budget Responsibility, the Office of Tax Simplification, the corporate tax road map and a "new approach to tax policy making". These have led to improvements in the way tax policy is made and the robustness of the costings attached to individual measures.

However, the Budgets of the last six years have continued the proliferation of measures (tax and non-tax) and a high volume of legislation. There have been significant forced U-turns post-Budget at considerable political cost. Outsiders still find it hard to discern a clear strategy for key parts of the tax system.

We believe that there is an opportunity to look again at the Budget process and signal a new approach. Below we suggest reforms that we think would improve the quality of individual measures while making clear that the UK is an attractive environment for business. We believe it is important too to prepare the ground for future moves to secure the tax base and create a more coherent tax system, while preserving (and enhancing) the Treasury's ability to react to political and economic events and raise the necessary amount of revenue.

We encourage you to use your first Autumn Statement and Budget to:

- **Establish clear guiding principles and priorities.** Your first Autumn Statement is an ideal opportunity to set out your guiding principles and priorities for the tax system as a whole and give a clear indication of your direction of travel for the rest of the Parliament – recognising, of course, your need to retain flexibility to meet fiscal goals.

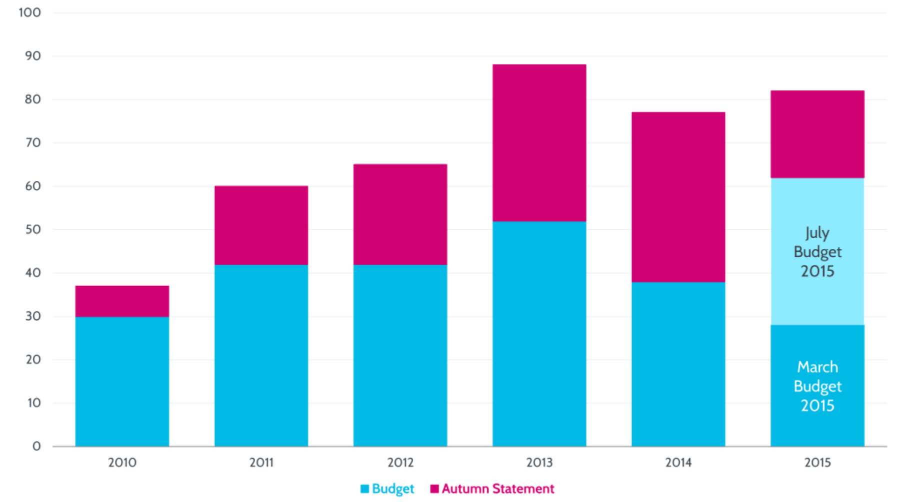
- **Extend the roadmap approach.** In the last Parliament the 2010 corporate tax roadmap, which pointed a clear direction for the future, going beyond a simple restatement of already announced decisions, was widely welcomed. We think there is a good case for extending this approach more widely, particularly in areas where taxpayers (individuals or businesses) need to plan and make long-term decisions. For example, the frequent changes to the tax treatment of pensions and savings have created a system that is confusing for individual taxpayers and creates implementation problems for providers. The more these roadmaps can be developed by talking with those affected, the more likely they are to achieve their objectives.

- **Start consultation at an earlier stage.** While the New Approach to Tax Policy Making has, when followed, been a considerable improvement, consultations still often start at too late a stage. The main changes are already determined with two consequences. First, other routes to achieve the objective more effectively are excluded; and second, unforeseen consequences can only be raised by outsiders after the government is committed to a course of action. This makes consultation less effective and more wasteful of resources than it could be, and also excludes groups who may be interested in the purpose and options but have less to say on technical detail.

- **Prepare the ground for future policy change.** While Chancellors have traditionally thought that they need to preserve their freedom to act, the failure to engage the public and build consensus has led to policy reversals and constraints on future options. This needs to be addressed. One option is to commission external reviews of broader areas of tax policy, with support, where appropriate from the Office of Tax Simplification. This has the potential to open up new options and prepare the ground for future changes. Other departments (for example DWP with the Turner Commission on pensions, which led to automatic enrolment and the raising of the state pension age) have done this successfully and found it has paved the way to build public consensus about more ambitious future reform.

- **Return to a Single Fiscal Event.** The last two decades have seen a proliferation of measures in Budgets and very long finance bills become the norm. In effect, we now have a March Budget and a November/December Budget.

Number of tax measures per fiscal event, June 2010 Budget - November 2015 Autumn Statement



Source: IfG analysis of the Office of Budget Responsibility policy measures database

The time has come to revert to one principal fiscal policy event a year (while recognising there may still be a need for technical changes at other times of the year). Reducing the frequency of new significant changes of direction would release resource for better consultation, produce higher quality legislation and more effective implementation, make life simpler for taxpayers, and potentially increase the impact of measures concluded upon. We also think that Budgets should return to being principally a vehicle to announce revenue measures, rather than spending or other policy changes.

There is a significant resource challenge for HMRC, financial institutions and taxpayers to digest the volume of technical tax change that has characterised recent years and to which Brexit seems likely to add. We believe that by reducing uncertainty and ‘surprises’ the changes we propose will reduce burdens and bring benefits to all those involved.

These recommendations emerge from a project our three organisations are undertaking to look at how to improve tax policy making. We will produce a more detailed and wide ranging report towards the end of the year. But we think there is an important opportunity now to signal a new approach. We would be delighted to discuss our ideas with you.

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