IfG INSIGHT | DECEMBER 2019

INSTITUTE FOR GOVERNMENT

How to be a tax-reforming chancellor

Gemma Tetlow
Jill Rutter
Joe Marshall
Thomas Pope

Introduction: why is tax reform needed?

The tax system plays a vital role in raising the money needed to fund public services, infrastructure projects, pensions and benefits. A well-designed tax system will raise what revenue is needed and (alongside the social security system) help to achieve the government's objectives for redistribution, while doing as little as possible to discourage people from working, producing and investing in the UK. A poorly designed system, on the other hand, can heap unnecessary costs onto individuals and businesses and raise less revenue, while nonetheless hampering economic activity.

In its manifesto, the Conservative Party proposed only a small number of specific tax changes, but set some major constraints by ruling out changes to the rates of VAT, National Insurance and income tax. But there are at least three reasons to think that Sajid Javid, returning to office as chancellor following the election, will come under pressure to make more comprehensive changes to the tax system during this Parliament: to address long-standing problems, shore up the tax base and possibly also to raise additional revenue.

Decisions made by previous chancellors mean that the tax system has numerous long-standing shortcomings, such as poorly designed tax reliefs (which cost a lot but do little to achieve their alleged objective and have outlived their original justification)[1] and many areas of unnecessary complexity and distortion.[2] Addressing these could allow the government to raise as much or more revenue, while doing less to distort and discourage economic activity. A simpler, more transparent tax system could be a source of competitive advantage for the UK in the future.

In addition, as the Office for Budget Responsibility (OBR) has set out, long-running economic and behavioural trends are undermining existing tax bases.[3] The discrepancies between the tax levied on employees and the lower taxes for the self-employed and those who run their own businesses are fuelling a trend towards fewer people being directly employed, which is reducing growth in tax revenue. Behavioural change is also affecting the yield of taxes: fewer people smoke, which means less revenue from tobacco duties; and revenue raised from fuel and vehicle excise duties will fall if more people switch to electric cars. Meanwhile, governments across the world are finding it hard to tax digital businesses, and there is increasing pressure to reduce the burden on conventional 'bricks and mortar' businesses.

But, at the same time, the government will face pressure to increase tax revenues in order to fund the public services that voters expect. Even the extra billions pledged at the last spending round and at the election may not be enough to meet rising demand for, and the cost of providing, services such as health and social care, while also improving the quality of other public services – the performance of many of which has declined since 2010.[4]

Another Institute for Government report, *Taxing Times,* sets out these issues – which ought to be the focus of any tax-reforming chancellor – in more detail.[5] The government could respond to spending pressures simply by raising the rates of existing taxes. Doing so would increase revenue, but could also worsen the distortions that already exist in the tax system. There is a strong case for making more substantial reforms. As Terry (now Lord) Burns – former Treasury permanent secretary – noted, good tax reform is not a simple matter of raising rates, but is about raising revenue in the most efficient way within political constraints.

Change will not be easy. Many of the issues that currently need addressing have been apparent for some time, but previous governments have struggled to deal with them – not least because significant tax changes usually create some 'losers', even if they do not raise revenue overall. The problem is, as former Treasury permanent secretary Gus (now Lord) O'Donnell put it, "losers [are] very specific, very clear, very loud about losses and gainers totally silent."

In the past, when chancellors have made significant reforms to the tax system – such as when George Osborne substantially cut the rate and broadened the base of corporation tax after 2010 – they have smoothed the way by compensating those who would have lost out. In other words, reforms have often been accompanied by net tax cuts, rather than being done in a revenue-neutral or revenue-raising way. The current government is likely to have little, if any, scope for tax cuts of this sort during this Parliament.[6]

Therefore, if Javid is interested in reforming the tax system – whether to address long-standing problems, to shore up the tax base or to raise additional revenue – he will need to approach this policy carefully. If poorly planned, new policy announcements could backfire and make the tax system, and the UK's fiscal sustainability, worse not better.

This report outlines the key ways in which the chancellor can help to ensure he is able to take action to improve the tax system. The lessons here are based on interviews with a wide range of people who have been, and continue to be, involved in making tax policy, as well as existing literature. Our evidence base includes on-the-record interviews with former chancellors, other former Treasury ministers, and former permanent secretaries to HM Treasury and HMRC. We are also grateful to numerous other people – in the UK and abroad – who have spoken to us off the record.

It goes without saying that the first commitment of a tax-reforming chancellor should be to 'do no harm'; to avoid introducing further unnecessary complexity into the tax system. Chancellors are in a uniquely powerful position in the UK government with regards to tax – they can introduce measures without the normal challenge that other departments face from the Treasury when they put forward new spending plans. Stephen Timms, former financial secretary to the Treasury, described this as "one less barrier to overcome". But, as we set out in our 2017 report *Better Budgets* – produced jointly with the Institute for Fiscal Studies and the Chartered Institute of Taxation – that lack of challenge and scrutiny is one of the reasons the UK has such a propensity to make short-run tactical changes to the tax system which have long-term detrimental effects.[7]

While the returning chancellor should develop plans for tax reform, he must prioritise his ambitions, given the demands that Brexit will place on his departments over the coming years. HMRC will need to focus on the task of readying its systems and business for the huge change in the UK's trading relationship with the EU on 1 January 2021, as foreshadowed in the Political Declaration agreed on 17 October 2019. This will place a big administrative burden on both HMRC and businesses, and limit the scope to make further changes. The Treasury is also handling nine Brexit-related workstreams alongside its usual responsibilities, and roughly a third of its staff are working on Brexit.[8]

Brexit provides limited new opportunity to think again about UK tax policy. There are relatively few areas of taxation where UK discretion has been constrained by the EU; EU restrictions are limited to VAT and excise duties. While leaving the EU would allow the government greater leeway to reform these areas of the tax system, it may also make the government more vulnerable to lobbying from special interest groups to make changes in these areas.

This report puts forward six recommendations that the chancellor should follow to help smooth the way for a much-needed, and considered, reform of the UK's tax system.

1. Set out a clear vision for the tax system – and a strategy to get there

Tax policy is a powerful tool and must be used with care. As Lord O'Donnell told us, "mistakes can sometimes be almost impossible to reverse". Having served in the Treasury under six previous chancellors, his advice to future ones is: "Don't just do something, stand there!"

Be clear about your objectives

Reform is easier to implement if it is clear what it is trying to achieve. "You've got to think in terms of roadmaps – where is this going?", said Andrew (now Lord) Turnbull, who served as Treasury permanent secretary between 1998 and 2002. "Before you get down to the list of individual measures... more work needs to be done on where you really want to get this system in five years' time." The starting point for effective and lasting reform needs to be a clear picture of what it is intended to do, which can be used to sell the reform to the public: a "coherent narrative", as another former Treasury permanent secretary – Nick (now Lord) Macpherson – put it.

Setting out a clear vision of where the tax system should be at the end of the Parliament – and how it supports the government's wider ambitions for the country – will give a clear sense of direction. Where the government's policy aims go beyond the tax system – for example in helping the UK meet its ambition to reduce greenhouse gas emissions – the strategy should also set out whether taxation is the most effective way to meet those objectives. But it is important too to regard the tax system as just that – a system: not every change needs to contribute to every objective. In particular, some changes may not contribute to the government's overall distribution goals, but other changes can ensure that the system as a whole delivers the right result. Having a strategy, where it is clear where individual changes fit in, makes it easier to explain that to the public.

The Conservative government under Margaret Thatcher had a clear policy of broadening the tax base and reducing tax reliefs. This was the hallmark of its big reform of corporation tax in the mid-1980s, and then the lowering of the basic rate of income tax. Nigel Lawson used this vision to frame the announcements in his first budget, in 1984, which he described as a "radical, tax-reforming budget". The reforms were underpinned by two principles: "first the need to make changes that will improve our economic performance over the longer term; second the desire to make life a little simpler for the taxpayer".[9]

The coalition government, in 2010, set out "a new approach" to tax policy making, which committed the government to being clear about its objectives in this way.[10] But, while this led to improvements, these good intentions were never fully delivered on.

For the new government, a clear vision for the system could provide the context for addressing underlying problems in the tax system and the potential revenue risks highlighted in the OBR's *Fiscal Risks Report*.[11]

Devise a strategy for achieving your objectives

Underpinning any long-term vision should be a strategy for delivering it. Both a strategy and an overall vision are needed because, inevitably, a strategy will have to adapt to events: being clear about the ultimate objective will allow scope for that adaptation.

Ed Balls, who served as both a special adviser to Gordon Brown and as chief economic adviser, before returning as economic secretary to the Treasury, advises that one way of achieving change is to "move in stages – you can't just jump to your big solution all in one go because that's just very hard to achieve". It is a view echoed by Dawn (now Baroness) Primarolo, former financial secretary to the Treasury: "You can't change the tax system in one year, fundamental change takes time to achieve."

Avoid the temptation to tinker

Having a clear strategy can also mitigate against the temptation to tinker with the tax system. Any change can be judged against how far it contributes to the strategic objective and be looked at in conjunction with other tax policies to ensure policy coherence and to judge the cumulative impact on taxpayers.

The UK tax system is already highly complex and the proliferation of measures in successive budgets can undermine the impact of tax changes, confuse taxpayers and add to administrative costs in HMRC and compliance costs for individual taxpayers. As Lord Turnbull said:

> **"The budget should be a strategic statement but… it has degenerated into a highly tactical event. You've got to find a little bit of money here and a bit of money there and you give all this budget stardust… Having in effect two budgets a year… meant that there were two occasions a year where you had to play Santa Claus."**

Continuing with Philip Hammond's commitment to having only one fiscal event a year would help to temper the proliferation of new tax measures. It was a move that the Institute called for in 2016,[12] welcomed in 2017[13] and encourages Javid to continue with. Before Hammond moved to a single fiscal event, the government had been making an average of 60 tax changes each year. This fell to 34 in 2018, the first year in which there was just one fiscal event.

There is a clear attraction for chancellors in holding more than one fiscal event a year because it provides an opportunity for his or her policy announcements to dominate the news cycle. But, as Hammond told us:

> **"It's incredibly difficult to do and there's a huge amount of work even to do it once a year… two big fiscal events a year effectively made the Treasury pretty dysfunctional… I hope nobody will be tempted to move it back."**

Ed Balls says he "wouldn't want to do anything in a budget which I've not been working on for at least a year… what I'd never want to do is ever present a structural reform which was a last-minute stopgap to bring in some revenue."

Baroness Primarolo similarly noted: "Policy made in haste, to 'fill a hole', is potentially vulnerable to unintended consequences, mistakes can happen."

In 2012, George Osborne arguably fell foul of this advice in his so-called 'omnishambles' budget. In order to deliver on the Conservative's ambition to reduce corporation tax rates and cut the top rate of income tax, as well as their Liberal Democrat coalition partners' demand to raise the personal allowance (as a *quid pro quo* for the cut to the top rate of tax), Osborne was pushed into finding tax rises to offset these cuts.[14] As a result, he chose to adopt policies that numerous predecessors had rejected.

Baroness Primarolo told us that the proposals to charge VAT on pasties was a staple on the official budget starter list: it was suggested to her and rejected many times during her tenure as financial secretary. In David Cameron's autobiography, he notes that there were other proposals aimed at rectifying further VAT anomalies that ministers rejected, so that by the time the budget was unveiled, "far from thinking we were running into a hail of bullets, we believed we had dodged the worst of them. A big mistake".[15] But, of course, the public had never been aware of the options that ministers had considered but rejected.

Having a clear sense of priorities should also reduce the risk of spending money on minor reliefs or new benefits, which do little to contribute to the government's wider objectives but that – once introduced – can be hard to reverse. "Every single budget had what we call lollipops…one-off, stupid taxes…[and] spend[ing]", said Lord O'Donnell. Lord Macpherson commented:

> **"A chancellor has to give an annual budget speech and he or she has to fill it with content. And this is where the tax system always ends up getting quite distorted because it's obviously cheap to do small, targeted reliefs which in individual cases may make perfectly good sense, but collectively just add hundreds of pages to tax legislation."**

This applies both to tax reliefs (like entrepreneurs' relief) and to spending programmes (like the tax-free winter fuel payment for pensioners). As Nigel Lawson noted in his autobiography: 'The granting of one tax break inevitably increases the political pressure for others.'[16]

One recent example of the mixed messages that can be created by policy tinkering has been around incentives for people to save for retirement in different forms. The creation of new tax-favoured savings vehicles like the Lifetime ISA, alongside the expansion of automatic enrolment into employer-provided pension schemes, sent a confusing message about what the best way to save for retirement was. The whole area of pensions and savings would have benefited from a strategic approach.

Other benefits of setting clear objectives

A clear sense at the outset of what tax changes are intended to achieve also allows proper evaluation to be carried out after they are implemented, to assess how far the policies have delivered.

UK governments are sometimes concerned that a strategy will box them in and reduce future flexibility. But other countries, like New Zealand, publish tax strategies and do not seem to regard that as a problem – and it has been shown to be effective in the UK too. The coalition government introduced a 'corporate tax roadmap' in 2010, setting out the long-term direction of reform, including plans to remove reliefs as well as lower the headline rate of corporation tax. This was seen as valuable both within government and by business.[17] The approach of setting out a clear tax strategy could be applied more widely, either to individual elements of the tax system or to the tax system as a whole.

2. Remember that election pledges affect what you can do

The Conservative Party manifesto and other commitments made during the course of the election campaign do not provide the basis for a clear tax strategy, but they will place some constraints on what Javid can do as chancellor. The government will be taking office having committed to: not raising rates of VAT, income tax or national insurance; raising the national insurance threshold; and maintaining the triple lock on pensions. This immediately constrains the chancellor's options – effectively ruling out changes to the most broad-based, least-distorting taxes.

While not setting out a clear strategy in a manifesto can be useful electorally, Chris Wales and Chris Wales (one of whom was an adviser to Gordon Brown) note that it means the opportunity to create momentum for reform is missed: "Governments that do not set out their policy intent can rarely claim a democratic mandate for what they subsequently do. This weakens the momentum for much-needed tax reform."[18]

Furthermore, pledges not to do certain things on tax restrict the government's room for manoeuvre. As former chancellor Alistair Darling recalled in his memoirs, manifesto pledges not to raise taxes are "nice electoral politics but economic madness".[19]

Phillip Hammond ran into the constraints of the Conservative Party's 2015 manifesto commitments when, in March 2017, he tried to raise National Insurance contributions (NICs) for the self-employed. The proposal was predictably controversial, as it created a clearly identifiable and vocal group of losers.

But, according to Hammond, the government was prepared for that and ready to face it down:

> "We always knew it wouldn't go down well with *The Sun* [newspaper, which ran articles branding the policy a tax on 'White Van Man'], and Theresa [May] also knew that we were going to get push back, and we accepted that we were going to deal with that."

The policy had to be reversed, however, after BBC political editor Laura Kuenssberg pointed out that it breached the Conservative Party's manifesto pledge not to increase NICs. "We tried to argue that it wasn't a breach of the manifesto, but it was clear we were getting nowhere with that argument and therefore we had to reverse it," recalled Hammond. Osborne had legislated after the election in 2015 for a slightly looser 'tax lock'[20] – which committed not to raise the rate of class 1 NICs but made no mention of class 4 NICs, and so was consistent with Hammond's proposal – but ultimately it was the spirit of the manifesto commitment that constrained what the government was able to do.

Although the precise wording of pledges made can matter, chancellors (and prime ministers) will decide for themselves how far they are constrained by election commitments. In 1979, the Conservatives denied accusations from Labour during the election campaign that they would double VAT. But, once they were elected, this did not stop Sir Geoffrey Howe making a dramatic shift, in his first budget as chancellor, from direct to indirect tax – and raising the standard rate of VAT from 8% to 15%.[21]

Election pledges have also been more explicitly broken in the past. For example, during the 1992 election campaign, the Conservatives went beyond what was written in their manifesto to pledge that they would not extend the scope of VAT. In March 1993, Norman Lamont announced that VAT would start to be charged on domestic fuel and power.[22]

The commitment in the Conservative Party manifesto not to raise the rates of income tax, NICs and VAT will severely restrict the chancellor's room for manoeuvre on tax policy. Being unable to raise extra revenue through these taxes means the chancellor will be pushed towards more distortionary ways of raising revenue, should he need to. The pledge is also likely to make some much-needed and sensible reforms of the tax system impossible – as Hammond discovered in 2017 when he tried to go some way towards equalising the taxation of the employed and self-employed.

There are, however, many areas that are still open for improvement. The manifesto pledge to review and reform entrepreneurs' relief is welcome. This approach could and should be extended to the numerous other tax reliefs and expenditures which have rarely – if ever – been evaluated, and which may not offer good value for money or achieve the original objective.

3. Seek advice, look at the evidence and take implementation concerns seriously

The tax system is complicated and few people – even experienced professional tax advisers – have a rounded view of how the whole system works in practice. That makes it imperative that the chancellor is open to multiple sources of advice.

Policy design

Identifying problems

The first step in designing new policies is to identify the issues that need addressing. The chancellor will receive information from multiple sources about areas of the tax system that he ought to grapple with, including from special interest groups.

Treasury officials lead on tax policy within the civil service. Their strength is an ability to look at the tax system as a whole and consider its wider economic implications (both for the whole economy and in distributional terms), the interaction with the welfare system and the extent to which the system helps or hinders the government's wider policy objectives. But they are not tax experts in terms of understanding the detailed mechanics of individual taxes, and many Treasury officials lack the depth of knowledge of external tax professionals and their counterparts in HMRC.

HMRC officials have more detailed knowledge of how each area of the tax system works and will have a clearer view on which areas of the tax system are in need of maintenance to iron out practical and operational problems. They also have access to vast swathes of administrative tax records which, if used well (either by HMRC officials or external researchers through the HMRC datalab), can help test hypotheses about the strengths, weaknesses and impact of the current system.

The chancellor can also draw on expertise in the lightly resourced Office for Tax Simplification (OTS), the OBR and non-governmental organisations with expertise in tax policy, such as think tanks, academia and professional bodies. Though the OTS's formal remit does not extend to new measures, its analysis of existing policy provides valuable information on who is affected by current policies. The OBR's reports – such as the *Fiscal Risks Report* and the *Fiscal Sustainability Report* – also provide detailed analysis of the impact of, and revenues raised from, the current tax system, and the risks facing revenues and wider fiscal sustainability.

Many previous chancellors have also been helped by bringing tax specialists into the Treasury as special advisers: Peter Cropper under Geoffrey Howe; Edward Troup, who first joined the Treasury as a special adviser to Ken Clarke; Chris Wales under Gordon Brown; and Rupert Harrison (who started his career at the Institute for Fiscal Studies) under Osborne.

But choosing the right advisers is key – they need not only to understand the detail of tax policy, but also to be able to see the bigger picture and understand the political goals.

Sir Edward, who joined the Treasury as a special adviser after many years working as a tax lawyer, noted that in private practice he was expected to be "very much a plumber dealing with the leaks and fitting the new bathrooms rather than looking at the house as a whole". The best special advisers are those who have a strong grasp of the detail, but can also take a wider perspective and understand the political constraints the government faces.

Designing a solution

Treasury civil servants can advise on broad options and economic impacts, and highlight relevant evidence to help design the best policy. "The Treasury is uniquely placed to pull these things together, look at them, look at tax changes across the board in the context of its economics and the finance ministry functions," said Lord Macpherson, adding that it can also "look at whether tax reliefs are a more appropriate response than public spending". HMRC officials are better placed to understand the detailed practicalities of the reform, including the potential for unintended consequences or tax avoidance.

With both organisations, Baroness Primarolo recommended talking to officials at all levels, to ensure that messages are delivered to the minister by those who understand the issues best: "when reading policy papers, make sure the official who wrote the paper is the one you have in meetings to explain their recommendation."

Administrative tax records can be used by civil servants and external researchers to analyse the potential impact of reform options, which can support advice on what the best options are. This can be supplemented by other forms of impartial evidence and analysis from within and outside government. Even where a chancellor is taking forward a clear policy commitment, he or she should ask for robust evidence, both to understand how best to achieve his objectives and to enable him and his ministers to make the case for change. Good evidence can also help rebut the inevitable criticism that almost any change attracts.

Though there will sometimes be gaps in the evidence, too often politicians ignore inconvenient evidence. A good example of this has been policies relating to stamp duty paid by first-time buyers. As shadow chancellor, Balls proposed introducing a two-year stamp duty 'holiday' for first-time buyers to help stimulate the housing market.[23]

Later, in 2017, Hammond went further and permanently raised the stamp duty threshold for first-time buyers.[24] These moves came despite the fact that an HMRC evaluation of a stamp duty holiday for first-time buyers (introduced by the previous Labour government in 2010) showed that more than half of the stamp duty cut had fed through to higher house prices, and that it had increased the number of house purchases by first-time buyers by less than 1%, implying a cost to the taxpayer of £160,000 per additional transaction.[25]

To find appropriate evidence, the chancellor may need to look beyond the Treasury and HMRC. For example, the best understanding of incomes at the lower end of the distribution is in neither of those department, but in the Department for Work and

Pensions. Balls noted that one of the problems in designing the Working Families Tax Credit was the lack of understanding of how volatile incomes are for low earners, which led to the intractable problem of overpayment, which ended up attracting a lot of adverse publicity.

The Labour government's experience with tax credits highlights a wider problem: that it is more difficult to gather the data needed to help develop policy when the intention is to implement an entirely new tax, or to tax a previously untaxed group or activity, than it is to gather the evidence needed to help design changes to existing taxes. In such cases, HMRC administrative data may not contain the information needed to understand what the impact of the policy will be and who will be affected.

Good special advisers will help the chancellor navigate a route between the in-house advice from the civil service, external lobbying and inputs, and the political reality of what is achievable. Balls said that Chris Wales had been an effective special adviser because:

> **"From the beginning he understood what we were trying to achieve... he could [also] have a proper conversation with the people in the bowels of the Revenue so you could say to him: 'is this actually gonna work?', and then he could go back and give you a view."**

Chancellors also need advisers who will warn them about potential pitfalls in policies which appear to make sense to tax economists and tax professionals, but come with a hefty political price. For example, former customs and excise official-turned-special adviser Damian McBride was hugely critical of Osborne after the 2012 'omnishambles' budget for succumbing to civil service advice to get rid of the "old chestnut"[26] of minor anomalies to the tax system.[27]

But, as Lord Turnbull said:

> **"There ought to be a triangle: ministers, special advisers and officials, and they should all work together and they should communicate with each other... where it goes wrong is when special advisers try to stand between the ministers and the officials. The special advisers are valuable because they keep up the pressure and say 'you've got to think differently'... but you've still got to allow all the other aspects of good policy making to come into play."**

The chancellor should also ensure that he hears from a wide range of external voices. The usual secrecy that surrounds tax policy makes this difficult. Chancellors are always bombarded with special interest lobbying in the run-up to a budget, but there are few external sources of genuinely objective expert advice. This is why it is good practice to set an objective and then consult on the best way to achieve it.

Ministers are often nervous about consultation because it comes with the risk that any reform that creates losers will be suffocated at birth. But proper consultation can avoid problems down the line.

For example, Balls noted that the introduction of a lower starting rate of corporation tax, which led to many avoidance problems, was a policy where the experts were ignored:

> "The experts – both on the political side… and in Revenue – were saying 'this is all very well but we're pushing this to the limits'… you've got to listen to the warnings… [but] every now and then for chancellors politics can feel like it's more important."

One of the messages in our *Better Budgets* report was that, despite big improvements in consultation as a result of Osborne's *The New Approach to Tax Policy Making*, too much consultation continues to take place when the big policy decisions have already been made, and instead focuses primarily on more detailed implementation issues. The government's Tax Professionals Forum highlighted again at the end of 2018 that this continues to be a problem.[28] The chancellor should also ensure his departments take an active approach to consultation to ensure that he hears from all of those with relevant expertise and all those who might be affected – not just those with the most to lose.

Implementation

To make sure policies are successful, the chancellor must also ensure that sufficient thought is given to how the policy will be implemented. Implementation must be a critical part of any policy discussion – but is the part that rarely takes place when policies are developed for an election manifesto.

Unrealistic expectations – whether on timetable or on ambition – have a direct impact on whether measures can be delivered at all and the cost of those measures to the public purse and to the businesses and individuals affected. For example, the timetable for the Making Tax Digital project has slipped repeatedly and led to significant criticism of its implementation both from the Treasury Select Committee and the small business community. The delays meant that the yield expected did not materialise.

"A bit of solid HMRC experience in that space of actually implementing the damn thing is really vital," said Lord Macpherson. HMRC officials have deep knowledge of how the system works in practice and the practical issues that already exist or that might be created by change.

It is particularly important to tap into this expertise when introducing new taxes or radically reforming existing ones, to ensure that the policy is designed in a way that can be implemented, with a timescale that is realistic: "If you're inventing a new tax… things could take years," said Lord Macpherson.

4. Building support and packaging reforms can help them succeed

Tax reform needs to be sold if it is to be sustained. That means building and making a persuasive case for change and ensuring that its impact is seen as fair. A clear tax strategy can help to communicate the case for change, but other steps also need to be taken to ensure the public are convinced. As Ed Balls put it:

> "One of the things which is really important is to win the argument about why the objective's important, why the tax system is relevant to meeting that objective, why the tax system at the moment is not as good as it could be, and the kind of principles which could guide our approach in thinking about using the tax system to meet that objective."

Presenting a compelling case for change can not only smooth the path for reform, but can also help ensure that changes are sustainable. Brown admits that a failure of presentation meant he never built significant political support for his system of tax credits, even though they enabled substantial redistribution in favour of low earners, during his chancellorship.[29]

Some recent reforms have unravelled instantly because the chancellor failed to find a convincing way of selling a change. This was the case, for example, with Hammond's attempt to increase self-employed NICs. He pursued this tax increase in isolation from earlier improvements in benefits entitlements for the self-employed, earlier cuts to tax on self-employment and the later Taylor review of employment rights. There was also little public understanding of who actually was self-employed – which allowed the tax increase to be portrayed as an attack on the "white van man".[30]

While many experts – like those at the Institute for Fiscal Studies[31] and the Resolution Foundation[32] – were convinced of the need to level the playing field between the taxation of the self-employed and employees, the chancellor failed to make that case to the wider public. Hammond believes he was ultimately undone by the revelation that this breached a manifesto commitment,[33] but it is far from clear that his measure would have survived the onslaught even if it had not breached earlier pledges.

Packaging measures

In some cases, chancellors have been able to sell the case for their tax changes by packaging tax changes together – or packaging tax changes with spending pledges – to help convince the public of why change is needed and why the change is fair. A notable success was Gordon Brown's decision in 2002 to raise NICs to help fund a big increase in NHS spending.

As Balls recalled, this packaging worked because "everyone was a loser but everyone was also a winner". The choice of tax mattered here – tax purists would have preferred a rise in VAT, but the public supported an increase in NICs.

Balls explained in his memoir:

> **To retain public support, we needed to be very careful about how to raise the revenue we'd need… [polling showed] an increase in NICs to fund the NHS actually commanded a substantial majority in favour. It was the symbolism of National Insurance that made the difference: the feeling that you pay in when you're working to ensure that when you lose your job, when you need the NHS, when you retire, you're going to be protected and looked after.**[34]

There are other examples where taxes have been directly linked to funding an activity associated with the tax – the simplest form of packaging, often referred to as soft hypothecation. But this has been largely confined to minor taxes such as the sugar levy, the proceeds of which notionally fund school sport (but where the Treasury guaranteed funding even when the tax succeeded to such an extent that there was a shortfall of revenue) and the aggregates levy, some of the revenues of which are used to provide environmental benefits to areas affected by the extraction of aggregates.

It is tempting to extend that model, building on the Brown example, and suggest that hypothecation could be the right way to sell tax increases to fund more NHS spending. But ultimately there is no reason to fund any public service from one earmarked tax, and there is a real risk in doing so of distorting both tax and spending decisions.

But there are other forms of packaging and framing. "The key to all budgets… is about packaging", said Lord Burns, "it is about how you play off gainers and losers from one measure to other measures, so that you look at it as a total".

Compensation for tax increases can come through spending measures rather than tax measures, as they are often easier to target. This is particularly true of tax changes which impact people at the lower end of the income distribution, where compensation through the tax system is either ineffective (because many do not pay income taxes) or very expensive; benefit changes are a potentially more direct route to offer help.

But chancellors are often reluctant to increase public spending in partial compensation for tax reform – they are more likely to be forced into it down the line (as happened following the government's failed attempt to charge the standard rate of VAT on fuel in the mid-1990s).

Any such compensation packages need to be carefully designed to avoid them ending up being both expensive and ineffective, and still leaving some people significantly worse off. This was the outcome of the package designed to compensate the losers from the abolition of the 10p income tax rate in 2008. This was a slow-burning problem. The initial announcement of the abolition of the 10p starting rate was in 2007, and provoked little concern – the attention after the 2007 budget was on the reduction of the basic rate of income tax that the removal of the lower rate was intended to pay for.

It was only a year later when the tax changes took effect that MPs realised the impact on low earners and it became a huge political problem – and one for which there was no clear-cut way of dealing with the fall-out.[35]

Big changes can be easier than small ones

One significant message from our research is that big reforms can sometimes be easier to sell than small ones. Small changes offer few discernible benefits to the majority of taxpayers, but can create concentrated losses. This was true of the reforms in the 2012 'omnishambles' budget. Several policies from that budget unravelled, in particular the proposals to impose VAT on hot takeaway foods and static caravans. The proposals moved the VAT system marginally towards being a broader-based tax, as the Mirrlees' Review of the UK tax system advocated.[36]

But, even though tax economists approved, the government found it impossible to explain to the public why it was deemed necessary to impose VAT on these specific items but not on many others. The relatively small amount of revenue expected from the measures meant it was not worth the government expending large amounts of political capital defending them. As Balls said, "there has to be a lot of money or a really, really big pay-off to risk complexity and that distribution [of losers]".

Significant changes, even if phased in over a period, and with compensation for losers, can more readily be presented as an attempt to reshape the overall system for a wider objective than revenue-raising alone. That has also been true of significant tax 'switches', for example from direct to indirect taxes – although some of the most significant tax switches that have occurred in the UK (from income tax to National Insurance; from unearned to earned income; and, a couple of decades ago, from central to local taxation) have happened without any explicit government acknowledgement.

Linking to wider policy objectives

Governments can also link action on tax to wider policy objectives. This has been done in the case of a wide range of 'sin taxes' and to some environmental taxes.

However, this approach can be undermined if the public doubts the government's motives. When the government moved to impose VAT on fuel and power in the 1990s (the absence of which was seen as an anomaly given rising concern about climate change) it expected support from environmental non-governmental organisations. But the government's failure to think about those who would be hardest hit by higher energy prices – and a suspicion that the tax increase was motivated simply by a desire to raise revenue – derailed the change.

The first planned increase in the rate (from 0% to 8%) went ahead in 1994. But the second planned increase (to 17.5%, in 1995) did not. Much of the originally expected revenue was lost by a hastily stitched together compensation package, and the incoming Labour government in 1997 was elected with a pledge to reduce the VAT rate to 5% (the minimum allowed by the EU).

The Labour government similarly found that its early decision to introduce a climate change levy – to be compensated by a cut in employers' National Insurance – did not receive the positive reception expected. This was despite its effort to sell this package as a move from taxing the good (employment) to taxing the bad (environmental externalities).

5. Get the public, the press and your colleagues on board

The UK has a long tradition of constructing budgets in secret, with other departments shut out and the public presented with 'rabbits pulled out of hats' by the chancellor on budget day. But failing to prepare the ground can be counterproductive: Alistair Darling pointed to the backlash against the Conservative proposals for funding social care in their 2017 manifesto as an example of the political and policy risks in launching a policy without building the case for change with the public first.

That episode – with the policy being dubbed the 'dementia tax' – also illustrated a further problem with reform: few people understood the existing system for funding social care and therefore did not understand the impact of the proposed reform, which would have benefited many. The tax system is beset by myths that get in the way of reform. For example, many people think that zero VAT rates on children's clothes is an effective way of helping poor families, whereas it is actually a poorly targeted relief that provides a bigger cash saving for the better off than for poorer families.

The objective of helping poor families could be much better achieved by abolishing the zero rate, and recycling the money through the benefits system. There are also myths around the impact of changes to taxes on housing. Successive governments have introduced cuts to stamp duty to 'help' buyers, but all the evidence suggests that – even though these taxes are technically 'paid' by home buyers – these tax cuts usually feed through to higher prices, meaning much of the benefit accrues to existing home owners, rather than new buyers.[37]

Major structural changes to the tax system typically create some losers, even if they are beneficial overall. Chancellors can help develop a consensus for change by airing issues and proposals for reform early, but often they cannot do that alone. According to Ed Balls:

> **"To make good policy you have to open up the space and you have to move into it... If you haven't opened up the space, you can't move in, and there's only so much government can do to open up that space."**

Independent reviews

Both the Wanless and Turner reviews – of health care funding and pensions, respectively – are good examples of taking time to build the case for change, before moving on to offer a way forward. Independent reviews can help overcome the public's at times innate suspicion of the government's true motives for seeking tax reform.

Governments in the UK have generally tended not to use independent reviews on tax per se – unlike other countries, like Australia, Ireland and New Zealand – and in many cases have explicitly excluded tax from the terms of reference of independent reviews.

But the Wanless and Turner reviews are partial exceptions. Brown used the Wanless review to lay out the case for additional funding for a 'world-class' health service. That allowed the Labour government to increase NICs in 2002, "at the end of a three-year process of winning the argument", as Balls put it. Public opinion expert Deborah Mattinson, who advised Tony Blair's government, described the preparation for the 2002 NIC increases as meticulous compared to the lack of advance preparation for the increase in the higher rate of tax in 2009.[38]

The Turner Commission published its evidence base before trying to move to proposals for how to address the issues of pension affordability and adequacy that the evidence laid bare. This process allowed the government to move on to debating the right way to solve it.[39] A former senior official noted that it is much easier for the government to be seen to be responding to a public clamour for reform, rather than making a change 'off its own bat'.

One of the major achievements of the Turner Commission, as former work and pensions secretary James Purnell noted, was to give the government more room for manoeuvre by changing public perceptions on the need to raise the state pension age as the population has aged. "There was a long debate about raising the pension age – people didn't like having the pension age raised… but in the end, after a long debate, people kind of recognised that it had to be done," said Lord Turnbull. The work of the Turner Commission also made it easier to build a cross-party consensus for reform, which meant the policy survived a change of government, allowing for a much more gradual roll-out – another effective way of introducing lasting reform.

But the more recent Dilnot Review of social care funding foundered because, although it made the case for extra spending, it did not build any consensus on who would pay for it and how. Ministers do now, however, appear willing to try again to achieve cross-party agreement on how to proceed.

Organisations like the OTS can also help create space for change. OTS reviews can lay out the evidence and propose options for change, which encourage public debate. As Darling said, the Labour government recognised that "you need third parties to help make the case". But using reviews in this way is something which is relatively underdeveloped in tax policy in the UK.

Talking to the media

That Labour government also devoted a lot of time and effort to selling its changes to the media before they were made, recognising that media reaction would have a huge influence on the way the public reacted. Brown and his advisers cultivated the media assiduously around the time of their pre-budget reports, which were initially intended as 'green budgets' that would trail measures to be confirmed in the later budget.

Balls set out the process:

> "Staying on the front foot means arranging breakfasts, lunches, dinners and coffees with every key journalist and media outlet in the period, taking the arguments to them. The day after the Pre-Budget Report we went to the Sun to see the editor David Yelland. The day after, we did the same at the Daily Mail."[40]

Former Treasury officials reported that Osborne's special advisers were also adept at communicating with the media and predicting how announcements would play out, but that this activity was reduced under Hammond's leadership. This may have contributed to the problems that followed the 2017 budget.

Talking to other ministers

The prime minister and the chancellor have to agree on the policy proposals for tax reforms in order to make progress. But there is also a good case for developing tax policy more collectively within government – at the very least by involving departments who know the subject matter and interests at play better than the Treasury. Doing so will help ensure that policies are well-designed and do not have any unintended consequences, and that tax is the right tool to use. It can also guard against government instability, which can be caused by open disagreement between Cabinet ministers.

Sir Steve Webb, then pensions minister at the Department for Work and Pensions, was not warned that Osborne was going to make major changes to the tax treatment of pension saving in the 2012 autumn statement:

> **"Pension tax relief, you might imagine they'd have some engagement with the Pensions Minister... but they'd make a big change to pension tax relief and not tell me... in 2012 I think it was when tax relief changed for 2012, I heard it the same time everybody else did. And that's ridiculous, you know, my vanity aside, that's just a stupid way to run government. But it's the Treasury, you know. It's tax."**[41]

The importance of involving Cabinet colleagues applies not only to specific measures, but sometimes also to the overall balance of the budget. In 2016, it was the fact that disability benefits were cut at the same time as Osborne announced a reduction in capital gains tax which triggered (or at least provided a pretext for) Iain Duncan Smith's resignation.[42]

6. Weigh the benefits of early action against the risks

Most governments prefer to make bold reforms early. As Darling told us, "you should think about doing whatever it is you're going to do at the beginning of the Parliament, not as you approach the end of it". Doing so helps ensure the costs are well out of the way before voters are likely to go to the polls again, and that the expected benefits have time to materialise. Immediately after an election, the government's majority is also likely to be at its most secure, allowing them to act while they are benefiting from a post-election honeymoon.

As Figure 1 (overleaf) shows, during the 12 months following previous general elections, governments have tended to be more active in tax policy making than they have been in other years. The chart shows the absolute size of the tax measures announced in each 12-month period – that is, adding together the absolute size of tax increases and tax cuts. These figures are shown as a percentage of national income. The background shading in Figure 1 indicates which party was in power, the dark grey bars indicate post-election years, and the light grey bars show non-election years.

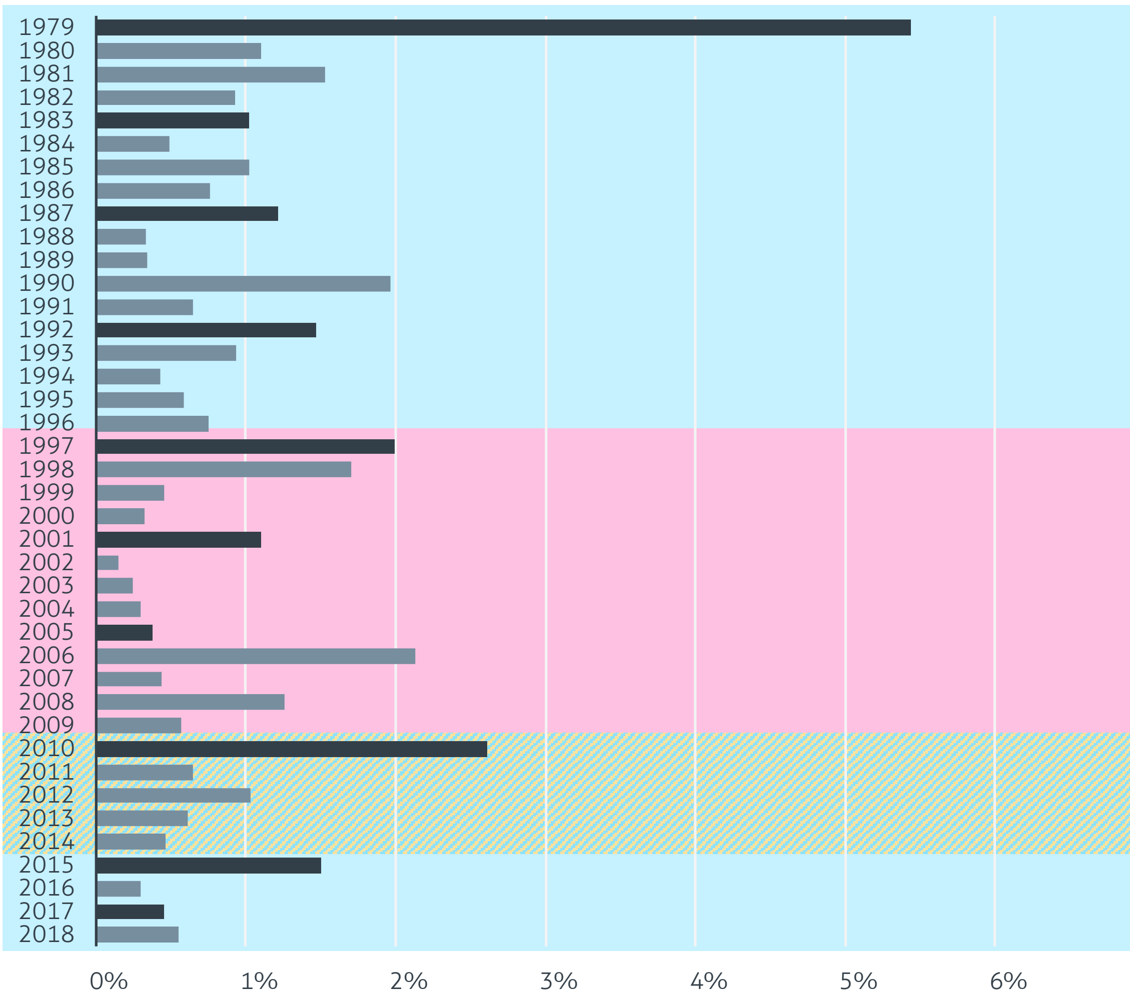
Figure 2 is based on the same information, but shows the net effect of tax policy announcements on revenues; that is, the size of tax increases, less the size of tax cuts announced each year.

The single largest set of reforms over the last 40 years was the switch from direct to indirect taxation announced by Howe in 1979. This was a dramatic change of direction and was controversial at the time. As Figure 1 shows, during the year following the 1979 election, the Conservative government announced tax policies that affected revenues to the tune of 5.4% of national income (or £120bn in today's terms).

However, as Figure 2 shows, the *net* impact of Howe's budget on tax revenues was modest: large tax increases (amounting to 2.6% of national income, or £58bn in today's terms) were slightly more than offset by tax cuts (amounting to 2.8% of national income, or £62bn in today's terms).

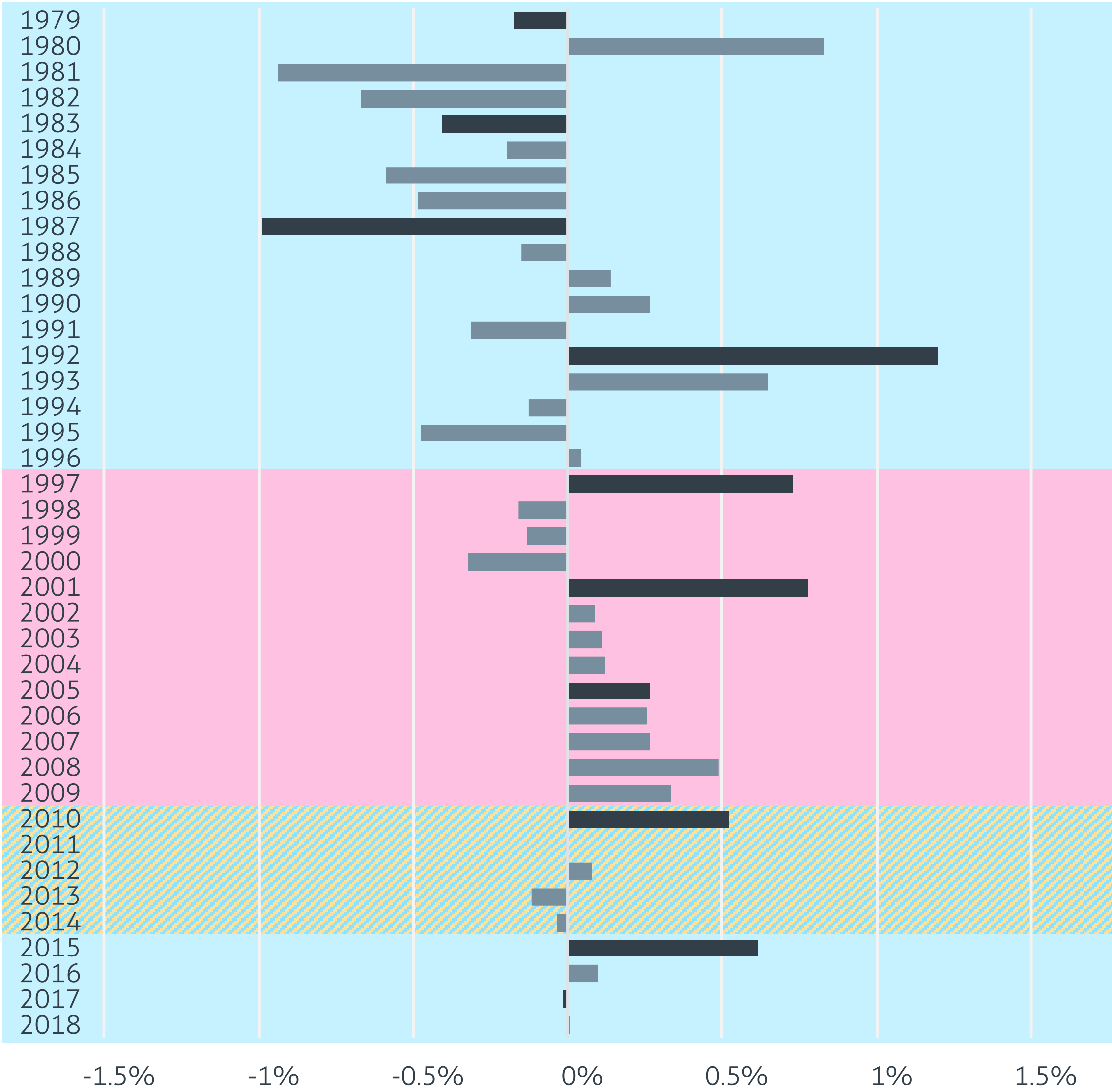
Other post-election years have also seen large volumes of tax policy. Furthermore, every election since 1992 has been followed by tax rises (Figure 2), even in cases where the party elected had not mentioned this in its manifesto.

Figure 1. Absolute size of tax changes announced each year (% GDP)



Note: Each year refers to the 12-month period from the beginning of June to the end of the following May.
Blue shading = Conservatives in power; red = Labour; green = Conservative–Liberal Democrat coalition.
Source: Institute for Government analysis of Office for Budget Responsibility, Policy measures database, https://obr.uk/data, retrieved 22 November 2019.

Figure 2. Net impact of tax changes announced each year (% GDP)



Note: Each year refers to the 12-month period from the beginning of June to the end of the following May. Blue shading = Conservatives in power; red = Labour; green = Conservative–Liberal Democrat coalition.
Source: Institute for Government analysis of Office for Budget Responsibility, Policy measures database, https://obr.uk/data, retrieved 22 November 2019.

Nigel Lawson recalled in his memoirs:

> The first budget of a new government is the greatest opportunity a chancellor has to introduce sweeping changes… the next best thing is the first budget after an election in which the government has been renewed in office, when a chancellor once again has the opportunity to introduce reforms which might be difficult later on, either because they are too controversial or because it takes too long for their beneficial effects to become apparent before the next election.[43]

This suggests that the chancellor may want to take advantage of his first budget to start reforming the tax system. But he should think carefully before doing this. The Conservative Party manifesto did not provide momentum for reform.

The government has had little opportunity for pitch-rolling, nor time to think through detailed design and implementation issues. As Baroness Primarolo told us, "you have to know how the tax system fits together and how change in one area may impact on another area of policy, to prevent unintended consequences."

Although Javid will have been chancellor for more than six months by the time of the next budget, having been appointed in July 2019, he will not have spent much of that time laying the groundwork with the public for tax change. He must carefully weigh the downsides against any perceived benefit from acting quickly.

Conclusion

There was little reference to taxation in the Conservative Party manifesto. There were only a small number of specific tax promises: the largest being to halt planned cuts to corporation tax and to raise the threshold at which employees start paying NICs. But more serious reform is sorely needed, and economic and behavioural trends, coupled with pressure to raise more money for public services, may well push the chancellor in that direction – although the commitment in the Conservative Party's manifesto not to raise the rates of the three main taxes will severely restrict the scope for doing this.

Whether or not Javid wants to reform the system, he should clearly set out his vision for what the tax system should achieve. The statements made in the Conservative Party manifesto do not amount to a clear vision for the UK tax system. But articulating such a vision will give businesses and other taxpayers greater certainty so that they can plan, and will help to resist the temptation to tinker with the tax system because any suggested change could be judged against this wider vision. If the chancellor does want to reform the system, articulating a clear vision will help him to explain to the public why changes are being made, even if they are unpopular. He will also need to develop a strategy to implement his ultimate vision; this strategy can then adapt to events.

To help develop his vision and strategy for reform, and to ensure it is effectively implemented, Javid should draw on the knowledge and expertise of civil servants in the Treasury and HMRC – and, for some issues, other government departments too. These civil servants can provide detailed understanding and analysis of the tax system; from the high-level principles of tax design to detailed implementation issues. He should also draw on the expertise of the OTS and OBR, and consult other ministerial colleagues – particularly where a tax policy overlaps or interacts with another area of policy, such as pensions or climate change.

To support him in this role, the chancellor may also want to follow the example of some of his predecessors in appointing well-qualified special advisers to help draw together advice and bridge the gap between technocratic insight and political goals. Special advisers can help ensure that budget announcements do not end up falling into obvious political pitfalls, and can maintain good relationships with print and broadcast media to help convey the government's message about what is being done and why.

But the chancellor should also ensure that he hears from a wide range of external voices – not just those with clear vested interests. Consulting more often and earlier in the policy development process would help.

Successful tax reform requires the gathering of good evidence, drawing on the right range of expertise and thinking not only about the principles behind changes, but also practical implementation issues. However, even the best-designed policies will only be possible to implement and sustain if the chancellor can persuade the electorate that they are needed. Reforms usually create winners and losers, and the losers tend to be vocal while the winners stay silent. Over the next few years, the chancellor is unlikely to have the luxury of large amounts of money to compensate the losers with; he will need to find other ways of persuading the public that change is warranted and ultimately beneficial. This will be difficult to do, not least because public understanding of the tax system is generally poor. But it can be done.

The chancellor could make use of independent reviews to get general agreement on what the problems are before moving on to think about how to solve them. Other organisations outside government, such as think tanks, can also help to raise awareness of issues and create the space for change. Similarly, trusted, independent bodies like the OBR and OTS can air issues, help improve public understanding of the need for change and the current problems in the tax system, and help to generate public debate, creating the space for reform.

How measures are packaged together, or the wider narrative that accompanies them, can also make them more palatable.

Packaging multiple tax changes or tax and spending changes can help demonstrate the positive outcome that is made possible by an otherwise painful-sounding tax change. In packaging reforms, Javid may be tempted to follow Brown's example of 'soft hypothecation' – that is, saying that a specific tax increase is needed to 'pay for' a specific spending increase. But he should be wary of going too far down that road: ultimately there is no reason to fund any public service from one earmarked tax and, in doing so, there is a real risk of distorting both tax and spending decisions.

But other types of packaging and effective framing are possible. For example, the chancellor could use a clear vision for the tax system to explain the wider benefits of each change, or could link tax reforms to other objectives, like tackling climate change. Experience suggests the success of such strategies will depend on whether or not the public trusts the government's motives.

Javid may wish to exploit the fact that his party has just been returned to office with a sizeable majority to make reforms quickly, perhaps as soon as his first budget. There is a clear attraction to doing so: the government's political capital is as abundant as it is ever likely to be and the next election is probably several years off, meaning there is time for the costs of change to fade from people's memories and for the benefits to become apparent.

What his first budget does on tax will also affect what money is available to allocate in the multi-year spending review expected in 2020. But he should weigh any perceived benefits of acting early on tax against the risks of making announcements too quickly, before he has properly formulated his ideas about what the priorities are – not only for the structure of the tax system, but also for the level of public spending and the tax revenues needed to fund that – and made the case to the public.

About the authors

Gemma Tetlow

Gemma is chief economist at the Institute for Government, working across the Institute's programme areas. She joined the organisation in April 2018 from the *Financial Times*, where she was economics correspondent. Previously, Gemma led the Institute for Fiscal Studies' work on public finances and pensions. She has a PhD in economics from University College London, and an MSc and BSc in Economics from the University of Warwick.

Jill Rutter

Jill is a senior fellow at the Institute for Government, having previously directed the Institute's work on better policy making, arm's-length government, and Brexit. She is an experienced former senior civil servant, having worked in HM Treasury, Number 10 and the Department for Environment, Food and Rural Affairs (Defra).

Joe Marshall

Joe is a researcher at the Institute for Government, working on tax and Parliament. He joined the organisation in October 2018 from HM Treasury, where he worked on EU exit legislation as policy lead on the EU (Withdrawal Agreement) Bill and the 'meaningful vote'. Joe has a MA(Cantab) in Law from the University of Cambridge, and a Bachelor of Civil Law from the University of Oxford.

Thomas Pope

Thomas is the Institute for Government's senior economist and works across its programme areas. He was previously an economist at the Institute for Fiscal Studies, working on tax and the public finances. Thomas has an MSC in Economics from UCL and a BA in Philosophy, Politics and Economics from the University of Oxford.

References

1 Comptroller and Auditor General, *The effective management of tax reliefs*, Session 2014-15, HC 785, National Audit Office, 2014, www.nao.org.uk/wp-content/uploads/2014/11/Effective-management-of-tax-reliefs.pdf and Office for Budget Responsibility, *Fiscal risks Report*, CP 131, Her Majesty's Stationery Office, 2019, https://obr.uk/docs/dlm_uploads/Fiscalrisksreport2019.pdf

2 Institute for Fiscal Studies, 'Reforming the tax system for the 21st century: The Mirrlees Review', September 2010 and September 2011, retrieved December 2019, www.ifs.org.uk/publications/mirrleesreview

3 Office for Budget Responsibility, *Fiscal Risks Report*, CP 131, Her Majesty's Stationery Office, July 2019, https://obr.uk/docs/dlm_uploads/Fiscalrisksreport2019.pdf

4 Atkins G, Davies N, Wilkinson F, Pope T, Guerin B, Tetlow G and, *Performance Tracker 2019*, Institute for Government and The Chartered Institute of Public Finance & Accountancy, November 2019, www.instituteforgovernment.org.uk/publications/performance-tracker-2019

5 Tetlow G and Marshall J, *Taxing Times: The need to reform the UK tax system*, Institute for Government, July 2019, www.instituteforgovernment.org.uk/publications/taxing-times-need-reform-uk-tax-system

6 Tetlow G, 'Labour and Conservative manifestos ignore potentially painful choices ahead on tax', blog, Institute for Government, 26 November 2019, retrieved 5 December 2019, www.instituteforgovernment.org.uk/blog/labour-conservative-manifestos-ignore-painful-choices-ahead-tax

7 Rutter J, Dodwell B, Johnson P, Crozier G, Cullinane J, Lilly A and McCarthy E, *Better Budgets: making tax policy better*, Chartered Institute of Taxation, Institute for Fiscal Studies and Institute for Government, January 2017, www.instituteforgovernment.org.uk/publications/better-budgets-making-tax-policy-better

8 Atkins G, Cheung A, Marshall J, Tetlow G, 'Barriers to delivering new domestic policies', in Emmerson C, Farquharson C, Johnson P eds, *The IFS Green Budget: October 2019*, Institute for Fiscal Studies, October 2019, www.ifs.org.uk/uploads/The-2019-IFS-Green-Budget.pdf, pp. 163, 165-66

9 Lawson N, 'Economy: 1984 Budget (Lawson 1) (Hansard)', Margaret Thatcher Foundation, 13 March 1984, retrieved 5 December 2019, www.margaretthatcher.org/document/109501

10 HM Treasury and HM Revenue and Customs, *Tax Policy Making: A new approach*, 2010, https://webarchive.nationalarchives.gov.uk/20130102201052/http:/www.hm-treasury.gov.uk/d/junebudget_tax_policy_making.pdf

11 Office for Budget Responsibility, *Fiscal Risks Report*, CP 131, Her Majesty's Stationery Office, July 2019, https://obr.uk/docs/dlm_uploads/Fiscalrisksreport2019.pdf

12 Rutter J, Dodwell B, Johnson P, Crozier G, Cullinane J, Lilly A and McCarthy E, *Better Budgets: making tax policy better*, Chartered Institute of Taxation, Institute for Fiscal Studies and Institute for Government, January 2017, www.instituteforgovernment.org.uk/publications/better-budgets-making-tax-policy-better

13 Crozier G, Cullinane J, Dodwell B, Johnson P, Lilly A, McCarthy E, and others, *Better Budgets: making tax policy better*, Chartered Institute of Taxation, Institute for Fiscal Studies and Institute for Government, January 2017, www.instituteforgovernment.org.uk/publications/better-budgets-making-tax-policy-better, p. 3.

14 Cameron D, *For the Record*, William Collins, 2019, p. 350.

15 *Ibid.* p. 353.

16 Lawson N, *The View from Number 11: Memoirs of a Tory Radical*, Bantam Press, 1992, p. 341.

17 Rutter J, Dodwell B, Johnson P, Crozier G, Cullinane J, Lilly A and McCarthy E, *Better Budgets: making tax policy better*, Chartered Institute of Taxation, Institute for Fiscal Studies and Institute for Government, January 2017, www.instituteforgovernment.org.uk/publications/better-budgets-making-tax-policy-better, p. 17.

18 Wales CJ and Wales CP, *Structures, Processes and Governance in Tax Policy-making: An initial report*, Oxford University Centre for Business Taxation, 2012, p. 132.

19 Darling A, *Back from the Brink: 1,000 Days at Number 11*, Atlantic Books, 2012, p. 289.

20 HM Revenue and Customs, *Tax Lock: Income Tax, National Insurance contributions and VAT*, 8 July 2015, retrieved 6 December 2019, www.gov.uk/government/publications/tax-lock-income-tax-national-insurance-contributions-and-vat/tax-lock-income-tax-national-insurance-contributions-and-vat

21 BBC, 'Budgets 1979–1992', (no date), retrieved 5 December 2019, www.bbc.co.uk/news/special/politics97/budget97/background/bud1979_92.shtml

22 Goodwin S, 'The Budget: "A ruthless betrayal of election pledges"', *The Independent*, 17 March 1993, retrieved 5 December 2019, www.independent.co.uk/news/business/the-budget-a-ruthless-betrayal-of-election-pledges-1498108.html

23 Rutter J, 'Evidenceballs', blog, Institute for Government, 2 October 2012, retrieved 6 December 2019, www.instituteforgovernment.org.uk/blog/evidenceballs

24 HM Treasury, Autumn Budget 2017 (Archived), 22 November 2017, retrieved 6 December 2019, www.gov.uk/government/topical-events/autumn-budget-2017

25 Bolster A, *Evaluating the Impact of Stamp Duty Land Tax First Time Buyer's Relief*, HM Revenue and Customs 2011, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/331717/sdlt-ftb-workingpaper.pdf

26 McBride D, 'At half time in last night's Arsenal game', blog, 22 March 2012, retrieved 5 December 2019, https://damianpmcbride.tumblr.com/post/19717319716/at-half-time-in-last-nights-arsenal-game-i-was

27 McBride D, *Power Trip: A decade of policy, plots and spin*, Biteback, 2014, p. 67.

28 Sanger C, Letter on behalf of Tax Professionals' Forum to The Rt Hon Mel Stride MP, Tax Professionals' Forum, 5 November 2018, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/770222/lecs538.pdf

29 Brown G, *My Life, Our Times*, Vintage Publishing, 2018, p. 151.

30 Newton Dunn T and Dathan M, 'Philip Hammond faces furious backlash from cabbies, white van men and even his own MPs over £240-a-year tax raid on self-employed as he breaks Tory election pledge in 2017 Budget', *The Sun*, 8 March 2017, retrieved 5 December 2019, www.thesun.co.uk/news/3045051/philip-hammond-faces-furious-backlash-from-cabbies-white-van-men-and-even-his-own-mps-over-4-7m-tax-bombshell-on-self-employed-as-he-breaks-tory-election-pledge-in-2017-budget

31 Miller H, *Business Taxes*, Institute for Fiscal Studies (no date), retrieved 5 December 2019, www.ifs.org.uk/uploads/budgets/budget2017/budget2017_hm.pdf

32 Clarke S, Corlett A, Finch D, Gardiner L, Henehan K, Tomlinson D and others, *Are We Nearly There Yet? Spring budget 2017 and the 15 year squeeze on family and public finances*, Resolution Foundation, March 2017, www.resolutionfoundation.org/app/uploads/2017/03/Spring-Budget-2017-response.pdf, p. 34.

33 Institute for Government, 'Ministers Reflect: Ed Balls', Institute for Government, 7 July 2016, retrieved 5 December 2019, www.instituteforgovernment.org.uk/ministers-reflect/person/ed-balls

34 Balls E, *Speaking Out: Lessons in life and politics*, Arrow, 2017, p. 102.

35 Sparrow A, 'Brown admits mistakes over 10p tax rate', *The Guardian*, 30 April 2018, retrieved 5 December 2019, www.theguardian.com/politics/2008/apr/30/economy.gordonbrown

36 Mirrlees J, Adam S, Besley T, Blundell R, Bond S, Chote R and others, *Tax by Design*, Oxford University Press, Oxford, 2011, www.ifs.org.uk/docs/taxbydesign.pdf, pp. 484-85.

37 Office for Budget Responsibility, 'Supplementary forecast information release', 22 August 2017, https://obr.uk/docs/dlm_uploads/SDLT-elasticities.pdf

38 Mattinson D, *Talking to a Brick Wall: How New Labour stopped listening to the voter and why we need a new politics*, 1st edition, Biteback, 2010, p. 119.

39 Rutter J, Marshall E, Sims S, *The 'S' Factors: Lessons from IFG's policy success reunions*, Institute for Government, January 2012, www.instituteforgovernment.org.uk/sites/default/files/publications/The%20S%20Factors.pdf, p. 92.

40 Balls E, *Speaking Out: Lessons in life and politics*, Arrow, 2017, p. 101.

41 Institute for Government, 'Ministers Reflect: Steve Webb', Institute for Government, 9 June 2015, retrieved 5 December 2019, www.instituteforgovernment.org.uk/ministers-reflect/person/steve-webb

42 Rutter J, 'Context v pretext: time for collective decision-making on Budgets?', blog, Institute for Government, 23 March 2016, retrieved 6 December 2019, www.instituteforgovernment.org.uk/blog/context-v-pretext-time-collective-decision-making-budgets

43 Lawson N, *The View from Number 11: Memoirs of a Tory Radical*, Bantam Press, 1992, p. 332.

INSTITUTE FOR GOVERNMENT

The Institute for Government is the leading think tank working to make government more effective.

We provide rigorous research and analysis, topical commentary and public events to explore the key challenges facing government.

We offer a space for discussion and fresh thinking, to help senior politicians and civil servants think differently and bring about change.

Copies of this IfG Insight are available alongside our other research work at:

instituteforgovernment.org.uk

enquiries@instituteforgovernment.org.uk

+44 (0) 20 7747 0400 **+44 (0) 20 7766 0700**

@instituteforgov

Institute for Government, 2 Carlton Gardens
London SW1Y 5AA, United Kingdom

December 2019

The Institute for Government is a registered charity in England and Wales (No.1123926) with cross-party governance.
Our main funder is the Gatsby Charitable Foundation, one of the Sainsbury Family Charitable Trusts.