

Tax devolution – a help or hindrance to the UK’s cities, regions and nations?

CIOT – IFS Tax Debate
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David Phillips, Associate Director, The IFS

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Three key issues to discuss

1. What are the **rationales** for tax devolution?
2. What are the **risks/challenges** with tax devolution

These will play out differently for different taxes

3. How unequal and volatile are tax bases **distributed** across the country, and what might this mean?

What rationales for tax devolution?

- Vary level & structure of taxes to reflect local **needs** and **preferences**
 - Small and narrow local tax base can lead to ‘gearing’ problem
- Improves **accountability** of local government to citizens
 - Reliance on grants leads to focus on blaming/lobbying central govt.
- Provides **financial incentives** to boost economic growth
 - Gain/lose as local tax bases rise/fall
 - Align incentives on investment that has economic return
- Some empirical evidence that revenue devolution is associated with **stronger economic performance**

What challenges and risks?

- **Administration, enforcement** and **compliance** costs associated with assigning tax revenues to different jurisdictions
- Differences in tax policies could **distort taxpayer behaviour** – migration, ‘cross-border shopping’, profit shifting
- Potential for **tax competition** reducing revenues, and issues related to **fiscal externalities** of policies on neighbouring areas
- **Disparities** in tax bases between areas and **volatility** in revenues
 - Equalisation/insurance arrangements required
 - But some evidence devolution can **increase disparities** in public spending

A devolution score board for taxes?

Property Taxes

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Personal Income Taxes

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Property Taxes

Personal Income Taxes

Value-added / Sales Taxes

Corporate Income Taxes

A devolution score board for taxes?

Property Taxes	Location of property is identifiable Property immobile and relatively inelastic Revenues stable but not very buoyant?
Personal Income Taxes	
Value-added / Sales Taxes	
Corporate Income Taxes	

A devolution score board for taxes?

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Personal Income Taxes	<p>HMRC supposedly knows where we live</p> <p>Broad incentives to boost incomes</p> <p>Mobility and avoidance – esp. for rich</p>
Value-added / Sales Taxes	
Corporate Income Taxes	

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Value-added / Sales Taxes	<p>Broad incentives to boost value-added / sales</p> <p>Administratively difficult</p> <p>Sales even more mobile than people?</p>
Corporate Income Taxes	

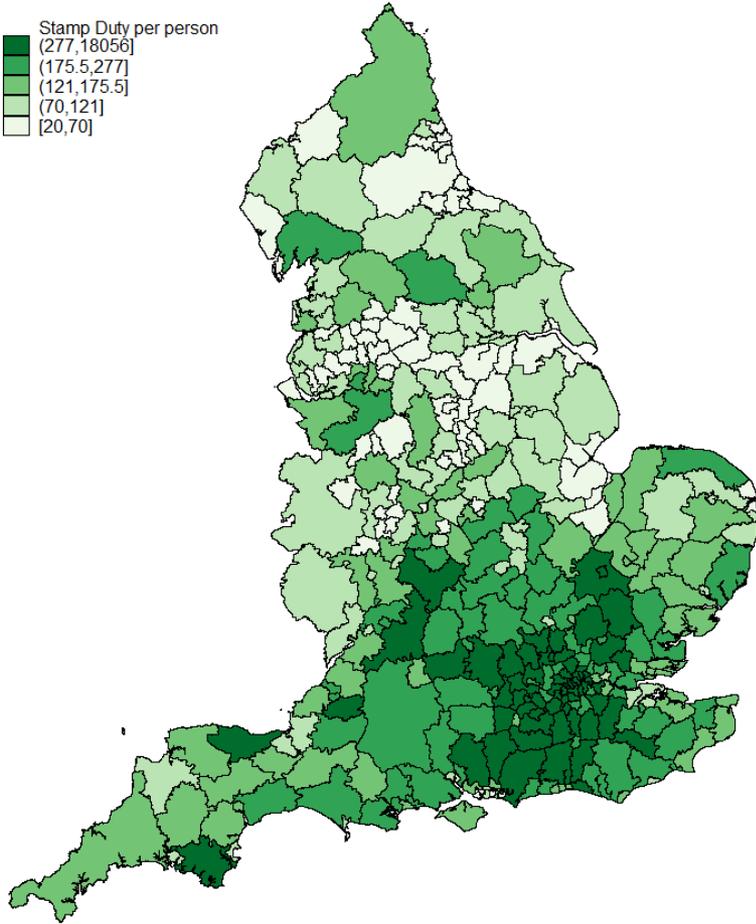
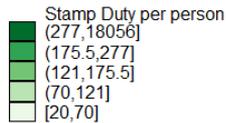
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Value-added / Sales Taxes	<p>Broad incentives to boost value-added / sales</p> <p>Administratively difficult</p> <p>Sales even more mobile than people?</p>
Corporate Income Taxes	<p>Broad incentives to boost local corporate profits</p> <p>Administratively difficult</p> <p>Profits even more mobile than sales?</p>

How are SDLT revenues distributed?

Stamp Duty per resident

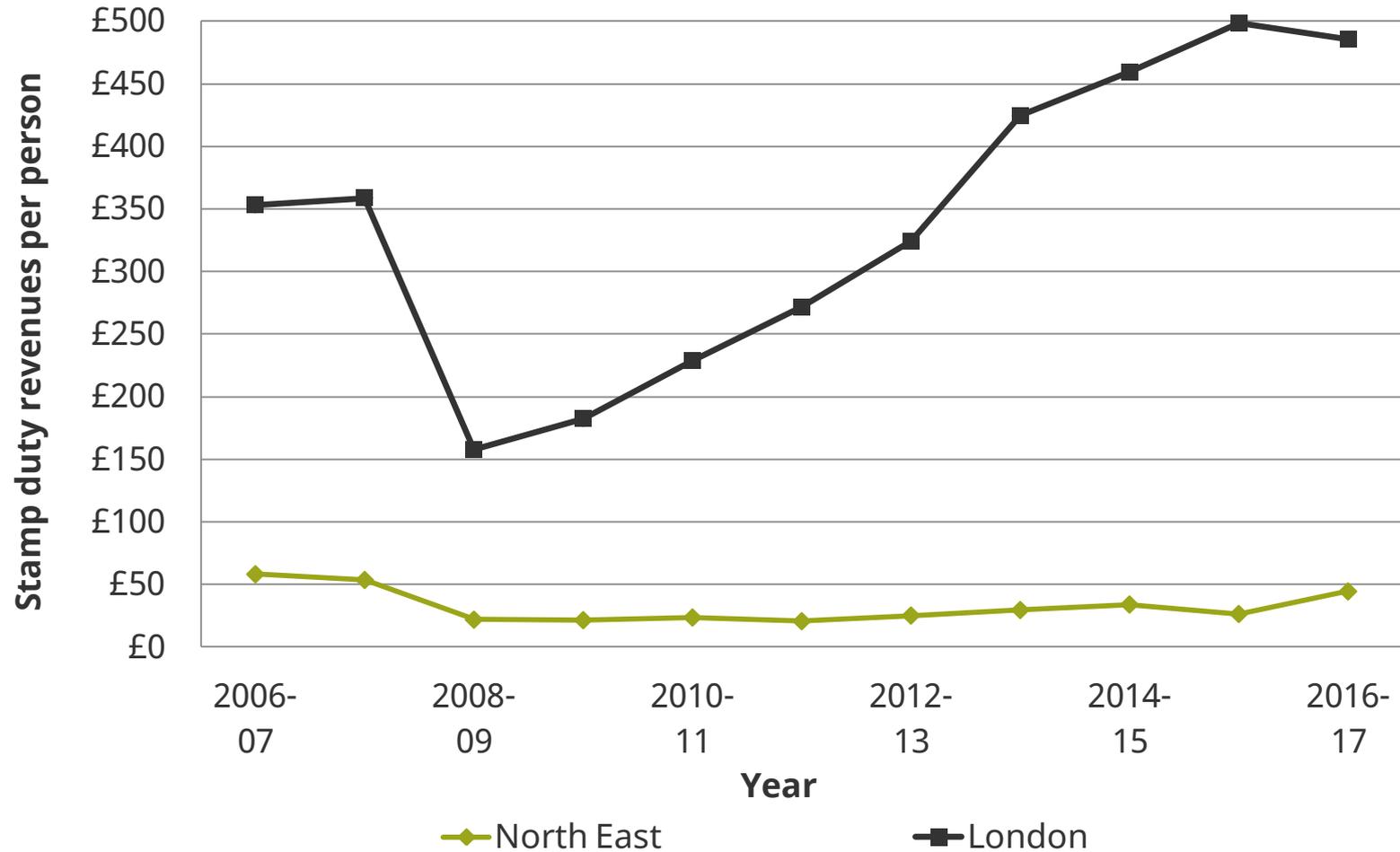
Duties on both residential and non-residential transactions



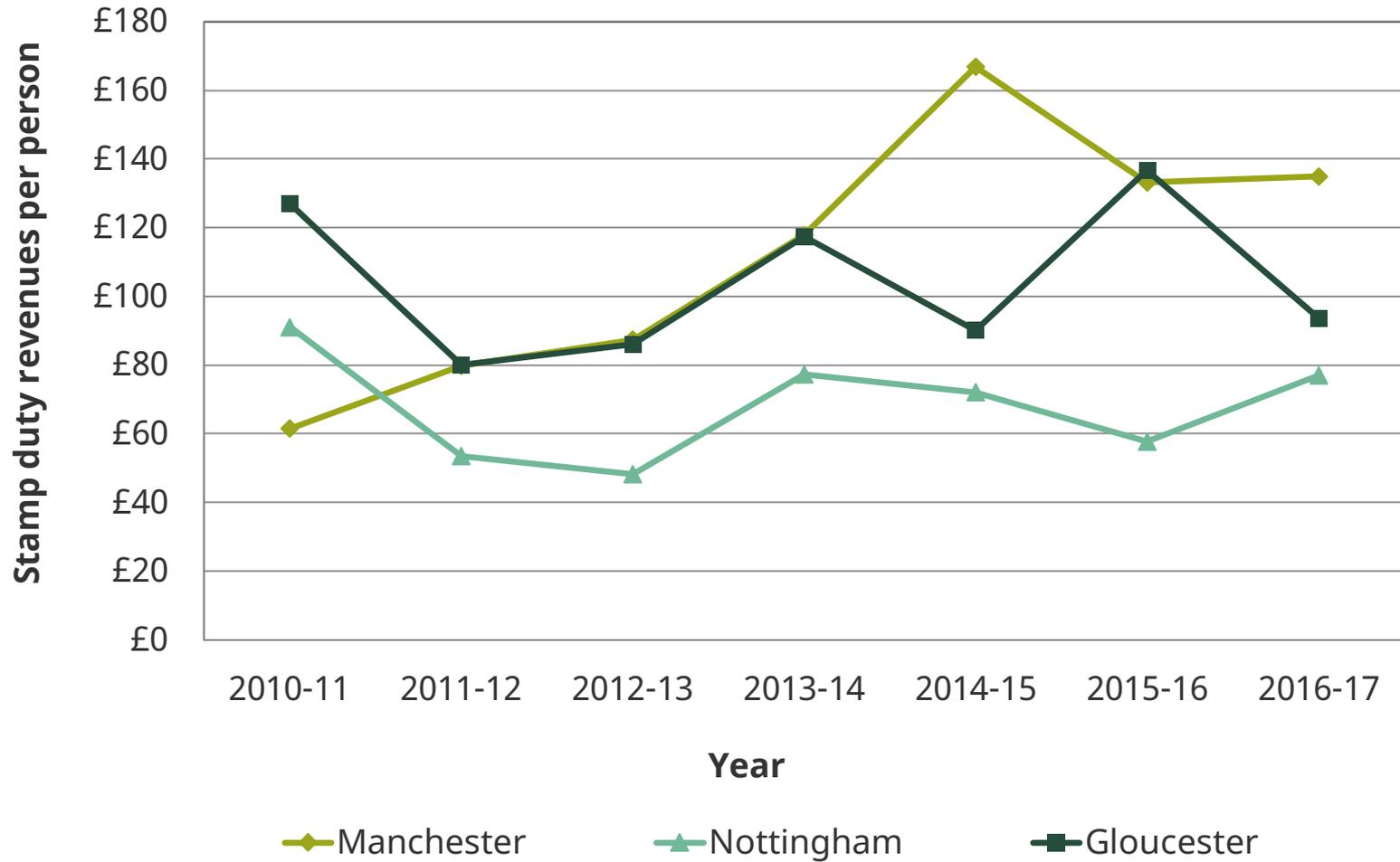
- In 1/5 council areas, stamp duty revenues per person <£70
- In another 1/5, stamp duty revenues per person >£277
- Higher in London and surrounding areas
- Lower in North West, North East and South Yorkshire
- Reflects big differences in property prices and strongly progressive rate structure

Source: IFS calculations using HMRC tax data and ONS employment statistics

How volatile are SDLT revenues? (I)



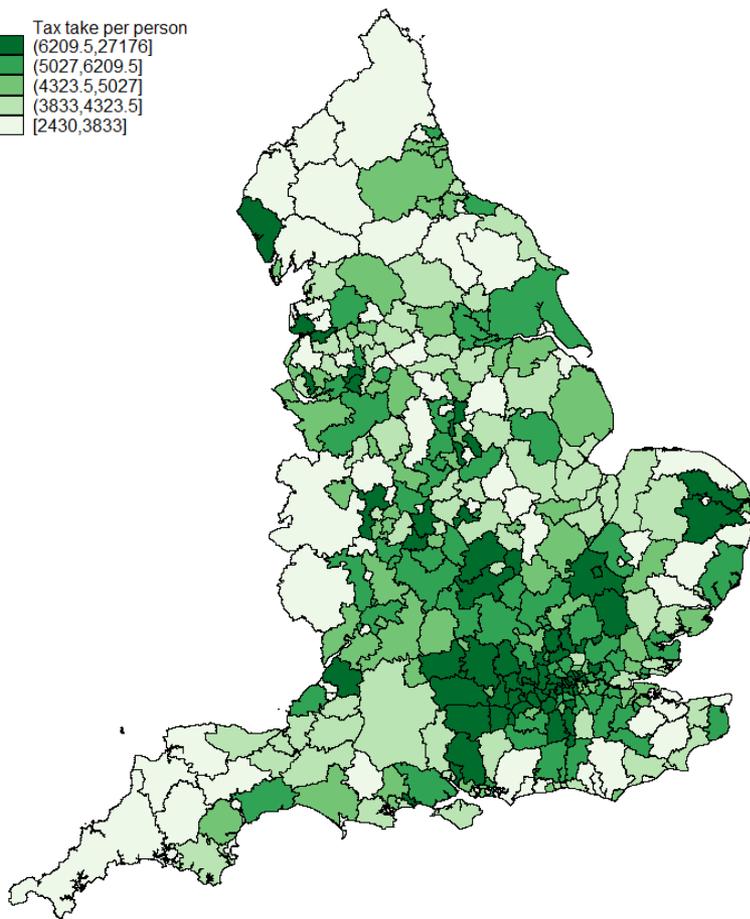
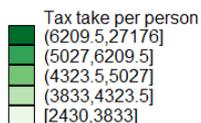
How volatile are SDLT revenues? (II)



What about income tax?

Income tax per worker

Employment tax allocated according to worker earnings & worker populations



Source: IFS calculations using ESPRESSO model and ONS employment statistics

- In ¼ council areas, income tax revenues per worker <£3,833
- In another ¼, income tax revenues per worker >£6,210
- Generally higher in London, and M3, M4, M11 corridors
- In suburbs than cities
- Lower in more isolated parts of England

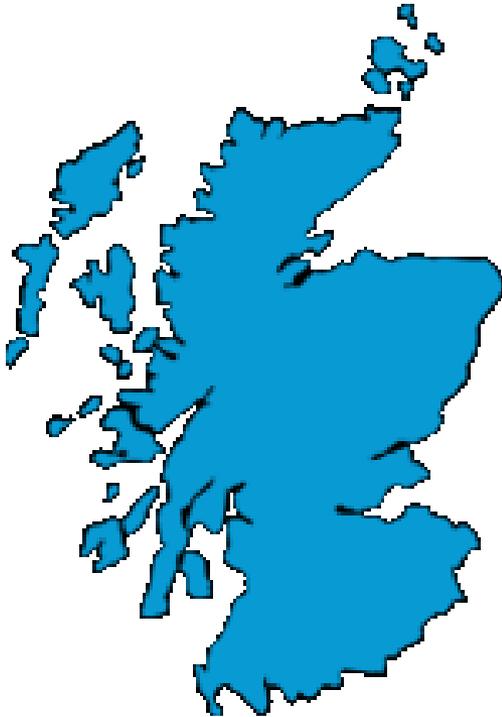
Income tax devolution: the best option?

- Of the big taxes that could be (partially) devolved, income tax seems the best candidate
 - Paid by residents of local areas – so connection to local services
 - Can assign tax base to local areas – HMRC/employer has addresses
 - People are less mobile than profits and retail sales
 - Broad incentives to boost incomes/employment of residents – including via commuting to jobs elsewhere
 - Can make it less unequally distributed and less prone to tax competition
 - Flat rate across all tax bands or restrict to basic & higher rate
- Is there an appetite for local income tax in addition to CT & BR?

Extra slides on devolved taxes in UK and elsewhere

What taxes are devolved?

- Different taxes are devolved to different parts of the UK

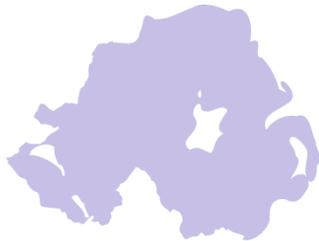


- Scotland has the most devolution (~40% of all Scottish taxes)
 - Income tax rates and bands for non-savings non-dividends income
 - Assignment of 50% of VAT revenues
 - Stamp duty land tax, council tax, business rates
 - And a few other smaller taxes

What taxes are devolved?



- Wales has 10p of each tax income tax rate devolved
 - Stamp duty land tax, council tax, business rates and a few other smaller taxes



- Northern Ireland has 'rates' and long-haul APD
 - Plans to devolve corporation tax rate



- Taxation in England is highly centralised
 - Limited local discretion on council tax rate and business rates reliefs

How does this compare to other countries?

- Other countries have broader range of devolved taxes than England
 - Income tax
 - State/province level: Canada, USA , Germany (assignment)
 - Local level: Denmark, Finland, Sweden, Switzerland, Norway (assignment)
 - Corporate income tax
 - State/province level: Canada, USA, Germany (assignment)
 - Local level: Switzerland
 - Sales taxes
 - State/provincial level: Canada, USA, Germany (assignment)
 - Local: USA
 - A range of others
 - France's *Contribution Economique Territoriale* is part-property, part-VAT
 - Land value, vacant land, tourism, etc.