POLICY IDEA 8

**How do we build a fairer tax system?**

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**What’s the issue?**

Tax is an effective tool available to governments to implement their social and economic policies. The current institution for collecting taxes in Britain, Her Majesty’s Revenue & Customs (HMRC), does not allow effective use of the tax instrument.

**How should tax administration be administered to ensure accountability, transparency and effectiveness?**

**Analysis**

HMRC is not directly accountable to the government. There is no minister with direct responsibility for taxation, nor is there a select committee on taxation in the House of Commons. These missing institutions leave tax administration without sufficient political oversight and with too narrow a mandate, flaws compounded by an invalid presumption that HMRC operates in an apolitical manner.

Under the present system HMRC is apolitical in form but not in practice. The Treasury manages the national budget in ways that, in effect, treat tax functions as a constraint on, rather than a facilitator of, social and economic policy. In addition, the absence of an Office for Tax Responsibility function is a serious shortcoming in Britain – such institutions are common in other developed countries. To make the tax system democratically accountable, Parliament should transform HMRC into a Ministry of Tax, allocating sufficient resources to ensure effective monitoring of tax collection and its social and economic impact.

**What can we do?**

* To achieve a tax system that is adequate for implementing progressive policies, the following changes are required. First, **the Cabinet needs a minister responsible for taxation**. This minister’s role would be different from that of the Chancellor of the Exchequer, whose principal function is overall economic management.
* Second, because of the importance of taxation, **the Ministry of Tax should operate in cooperation with, but independent of, the Treasury**. The new Ministry would set tax policy to meet the economic objectives set by the Chancellor, who would have overall responsibility for economic policy. The new Ministry would be responsible for facilitating these policies in a transparent manner. The Ministry of Tax would have oversight of revenue collection. A clear division between the Treasury and the Ministry of Tax is essential in order that tax serves its supportive function, assisting the achievement of economic goals rather than functioning as a constraint on them.
* Third, in order **to ensure that the narrow task of tax collection is independent of political influence, the Ministry of Tax would devolve this function to a purely administrative agency**. This is currently the formal task of HMRC, whose name would be altered to emphasise its accountably to Parliament.
* Fourth, **the minister and the Ministry of Tax must be politically accountable**, as are other government ministers. This will require that Parliament has a select committee on tax.
* Fifth, to ensure that the committee has the resources to do its job properly and transparently, **Parliament should create an Office for Tax Responsibility that reports directly to the select committee on taxation**. This Office for Tax Responsibility would have four responsibilities. It would:
	+ –  act as the internal auditor of HMRC;
	+ –  audit the government’s tax proposals to verify their  credibility;
	+ –  review all allowances and relief in the tax system on  a regular basis and recommend changes if any fail to  achieve their stated purpose; and
	+ –  audit the ‘tax gap’, which is the difference between the  amount of tax that should be paid each year and the amount actually collected, and report to Parliament on progress in addressing this issue.  As a result of these policies, the UK would, for the first time, have an accountable tax system.