

# **LOW TAX, SIMPLE TAX = HIGHER GROWTH**



**HOW TO GROW OUR WAY OUT OF COVID CRISIS**

**MARCH 2021**

Prepared in conjunction with  
Walbrook Economics





## FOREWORD

**Bold, significant stimulus and proper reform to our complex tax system is needed to generate more economic growth.**

**The premise is simple: Lower taxes, simpler taxes will create faster growth. That will mean higher wage growth and more tax revenues over time to invest in healthcare and other public services. International examples like Australia, Singapore and the US provide the evidence.**

**Everyone wins with faster growth. A particular focus is on the lowest paid, the self employed, SMEs and entrepreneurs. These are the bedrock of our economy, who will determine its future success.**

**This is the first of a series of bold, reforming plans by Reform UK. More will follow in due course on other vital issues.**

**We hope you find it interesting and do let us know any thoughts on: [economy@reformparty.uk](mailto:economy@reformparty.uk)**

**Richard Tice**  
Leader Reform UK



**Ewen Stewart**  
Walbrook Economics





# LOW TAX, SIMPLE TAX = HIGHER GROWTH

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Faster Growth => better wages & better healthcare

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Create faster growth by:

- Cutting and simplifying taxes
- Cutting unnecessary regulation
- Cutting mountain of government waste

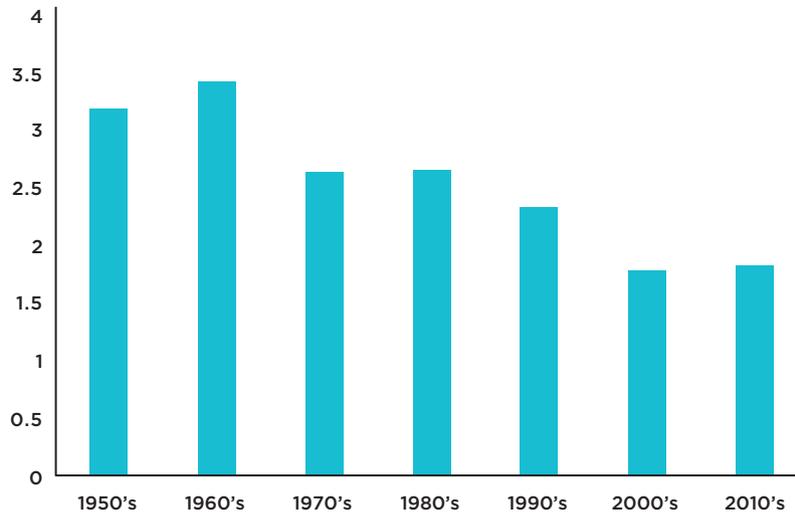
This paper deals with cutting and simplifying taxes.

Reform UK proposals will follow on pensions & savings, regulation, and government waste.



## GROWTH IS KEY - BUT IT IS DECLINING

UK average GDP growth % by decade



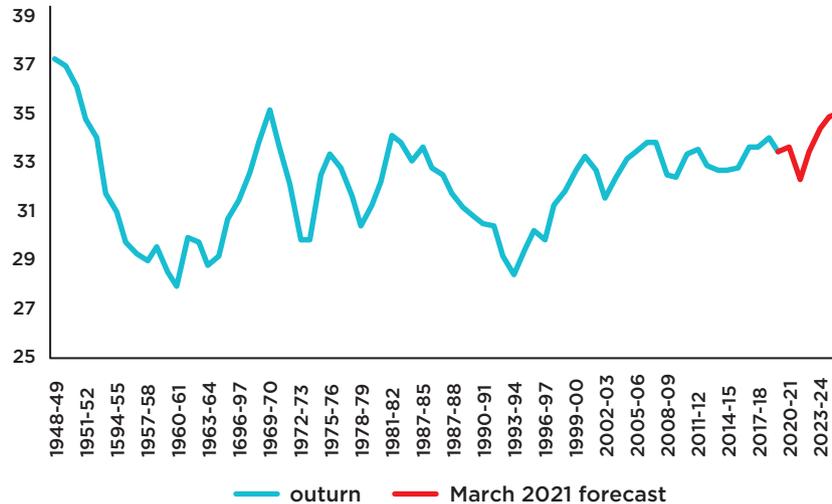
Source: ONS

- British growth declining relentlessly each decade since the 1960's.
- This really matters. If UK matches 1980's average growth over a normal 5 year period, adds over £100bn pa to GDP & £35bn pa in taxes. At 1960's rate, adds £180bn pa to GDP & over £60bn pa in taxes
- UK must raise its sights: there is no good reason why this cannot be achieved
- Only solution is to grow the cake - not to complicate, regulate and tax it



# UK NOW A HIGH TAX, LOW GROWTH ECONOMY

UK taxes as % of nominal GDP



Source: ONS & HMRC

- Britain's reputation as stable, low tax nation no longer accurate
- Largely by stealth, taxes have been steadily rising for last 25 years; rising to highest for 50 years
- Growth, not high taxes, generates more money for public services
- Britain's economic performance is one of weakest during covid
- Over last decade Tory govt presided over 400 + tax rises, increasing regulation & declining growth



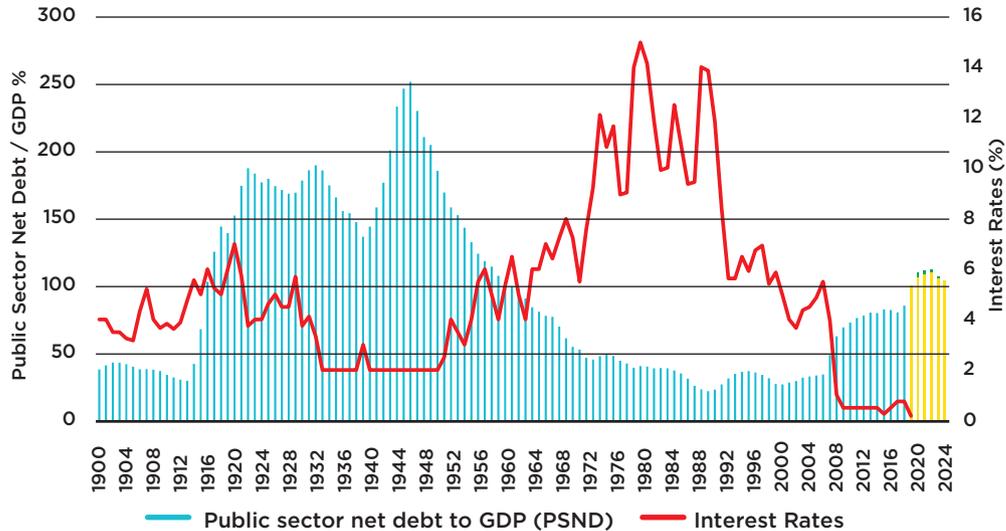
## **UK TAX SYSTEM: COMPLEX & STIFLES GROWTH**

- Tax code longest in world, circa 20,000 pages
- 5\* longer than all of the Harry Potter books combined
- 66\* longer than most efficient: Hong Kong tax code @300 pages
- Grown 3 fold since 1997.
- It is not stable nor predictable
- It is not designed to promote growth
- Fails to help wealth creators: self employed, entrepreneurs, SMEs



# ONCE IN GENERATION OPPORTUNITY TO RESET

Public Sector Net Debt/GDP% (ONS forecast in Yellow, Walbrook's Reform forecast in Green)

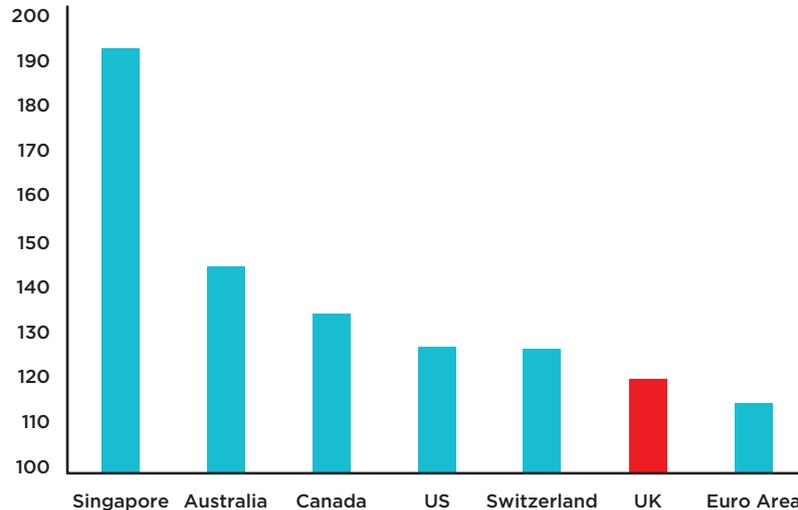


- Between both world wars, UK total debt averaged well over 150%; when interest rates low
- We can afford higher debt with high growth plan
- Successful low tax, high growth economies: US and Singapore have much higher debt than UK
- Bank of England QE debt: refinance internally as 75 year “Corona” bond @ 0.5% pa
- Removes refinance risk in credit markets & reduces interest rate risk



## HIGHER GROWTH MEANS MORE TAX REVENUES

GDP growth compound indexed 2005=100 to end 2019



Source: World Bank

- UK has outperformed Eurozone, but a low bar. UK has a range of strategic advantages meaning we should be amongst the best
- Growth really matters: enables major increase in investment in public services & personal income
- If UK matched Australia since 2005, GDP £410 bn higher and tax revenues £150 bn pa greater
- If UK matched Canada since 2005, GDP £237 bn higher and tax revenues £87 bn pa greater



## **LOW TAX, SIMPLE TAX CREATES FASTER GROWTH**

### **Stimulus Plan - £48bn pa:**

- Free up 6 million people from income tax, by lifting minimum threshold to £20,000, from £12,500 pa. This is 1 in 5 tax payers. Basic income tax rate stays at 20%
- Less well off benefit proportionately most, saving £1,500 pa @£20,000 salary, circa £30 per week
- Lift higher rate tax threshold to £70,000 from £50,000 today; flat 40% tax rate above £70,000
- Lift Capital Gains Tax threshold to £20,000 from £12,300, with single 20% flat rate above
- Free up 1.2 million SME's from paying Corporation tax (over 80% of companies) by lifting minimum threshold to £100,000. Raise rate thereafter from 19% to 20%
- Cut employers NI from 13.8% to 10% under £70,000.

**Will generate extra growth of 1.25% per annum  
with less tax and simpler tax**



## **LOW TAX, SIMPLE TAX GENERATES EXTRA GROWTH, 1.25% PA**

### **Simplification plan highlights:**

- Reduce & simplify residential stamp duty: 0% below £750k, 2% on £750k - £1.5m, & 4% above, will stimulate economic activity & construction
- Abolish stamp duty on share trading, will enable City to compete globally
- Abolish VAT on domestic fuel
- Abolish Air Passenger Duty, to help devastated travel sector
- Abolish burdensome Apprenticeship Levy which ironically reduced apprentice numbers
- Abolish business rates for small & medium firms, offset with online Delivery Tax at 3%, will create fairer playing field for High Street and physical versus online businesses
- Abolish inheritance tax for all estates under £2m (98% of all estates). 20% tax above £2m - executors can choose to give this to registered charities or HMRC
- Provide 100% Capital allowances on corporate investment in year 1
- Reform complicated savings & pensions system that benefits those with most to save. Plan to follow, will include moving tax relief to when drawdown savings, from up front



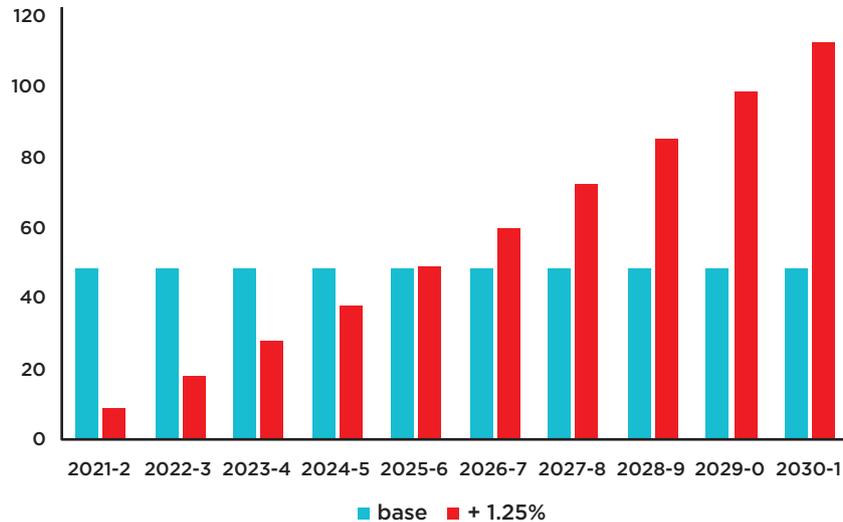
## COSTING OUR MEASURES - BASE YEAR

	2019-20	Our Proposal	Impact
Income tax (gross of tax credits)	205,754	166,186	-39,568
National insurance contributions	144,245	132,300	-11,945
Pension credit write back (75% assumed)		30,225	30,225
Value added tax	131,969	131,969	0
Value added tax on domestic fuel	1,850	0	-1,850
Onshore Corporation tax	50,992	48,992	-2,000
Council tax	36,575	36,575	0
Non-domestic rates	32,142	28,562	-3,580
Fuel duties	27,572	27,572	0
Other taxes	22,289	22,289	0
VAT refunds	18,820	18,820	0
Reserved stamp duties	16,871	5,030	-11,841
Alcohol duties	11,716	11,716	0
Capital gains tax	9,978	9,100	-878
Tobacco duties	9,692	9,692	0
Vehicle excise duties	7,000	7,000	0
Environmental levies	6,430	6,430	0
Insurance premium tax	6,393	6,393	0
Internet sales tax		3,580	3,580
Inheritance tax	5,153	0	-5,153
Air passenger duty	3,385	0	-3,385
Apprenticeship Levy (net)	1,936	0	-1,936
Scottish land & buildings tax	598	598	0
Scottish landfill tax	119	119	0
<b>Total Non-North Sea taxes</b>	<b>751,479</b>	<b>703,148</b>	<b>-48,331</b>



# STIMULUS & SIMPLIFY NOW = MORE TAX REVENUES MEDIUM TERM

Stimulus impact: cost v. growth + 1.25%



Source: Walbrook Economics

- £48 bn pa injection mainly to private sector (stimulus = 2.2% of GDP) will generate growth
- Revenue neutral to HMG by 2025-6 if GDP growth is base case +1.25% (still below 1960's level). By 2030, tax revenues higher by over £50 bn pa
- Relentless ongoing simplification of taxes & regulations will generate growth
- Rewrite tax code from 20,000 pages to 500 pages. Scrap & simplify to encourage growth.
- Tory and Labour plans = higher tax, higher regulation = lower growth



## **CONCLUSIONS: HIGH GROWTH BY LESS TAX, SIMPLER TAX**

- Growth is key, but declining over recent decades
- UK now high tax, high regulation low growth economy after decade of Tory rule
- Covid crisis reinforces need to cut and simplify taxes to grow our way out of emergency
- Free up over 6 million people from paying income tax
- Free up over 1.2 million firms from paying corporation tax, helps self employed and SMEs
- Abolish raft of complex, stifling taxes
- Higher growth per annum => better wages especially for lower paid
- Higher growth per annum => more tax revenues => increase spend on healthcare & other public services
- Genuine win win potential



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83 Victoria Street, London, SW1H 0HW