**Tax is a Class Issue**

**David Byrne**

 **The Scottish Trades Union Congress has performed a singular service for the working class, not only in Scotland but across the whole UK, by commissioning and publishing this excellent report by Howard Reed. (see overleaf)**

 The original impetus was, quite properly for a trade union body, to see how adjustments to the Scottish tax system achievable within the devolved powers Holyrood possesses, could provide a basis for increasing public sector pay. This has fallen substantially in real terms across not only the present phase of high inflation but through years of Tory and SNP austerity, with the latter’s massive reduction in the funding of local authority services a particular issue for workers in those services.

However, the STUC has gone beyond that and in so doing has demonstrated that it is now the foremost left-wing force in Scotland, way beyond the Green collaborators in Holyrood or Starmer/Sarwar’s Blairite Labour. It is arguing not just for higher and much more redistributive taxes to fund the legitimate claims of workers but for a shift in both tax rates and the tax base to fund universal basic services which constitute the social wage – that part of the real income of households which comes from the value of the public services they receive.

Hence the title of this piece *Tax is a Class Issue* – a quotation from the great US Eco-Socialist Jim O’Connor in his outstanding book of the 1970s on *The Fiscal Crisis of the State*. Implementing progressive tax systems is another way for the working class to reduce the level of its exploitation as well as by shifting the balance in the wage/profit relation in favour of workers as opposed to capitalists.

Given the enormous growth in public sector employment in domains in which profit is not directly extracted – although the wholesale privatisation of first nationalised industries and then public services by all UK governments since Thatcher was elected in 1979 means that the domain is smaller than it was – tax is particularly important for public sector workers, the stronghold of the unionised work force. Before proceeding to outline the excellent proposals in the STUC document and developing a discussion of why proposals to tax wealth are particularly important, let me explain some of the important terminology we need to deploy in discussing tax:

**TAX RATES** – this describes the rates at which any given tax is charged. In media discussion the overwhelming emphasis is on the different rates of income tax. Income tax which is mildly redistributive and a bit more so in Scotland accounts for only 29% of all tax raised. Corporation and Profit Taxes account for 7%, National Insurance – a tax only on earned incomes (because employers’ contributions are part of the wage bill) accounts for 21% and is regressive, council tax (regressive) and business rates account for 12% and VAT and other indirect taxes ( regressive) account for 31%. The taxes on earned incomes are substantially higher than the taxes on unearned incomes and a good deal of profit income is taken as capital gains through tax avoidance.

**TAX BASE** – this describes what is taxed. In the UK income from work, pensions, profits / interest / rent; corporate profits; real property i.e. houses and other buildings and some land (although agricultural land is exempt); and consumption through VAT and other taxes. What is not taxed is wealth as such i.e. in economic terms wealth as a stock.

What does Reed’s report say? First, it makes an important point about the NET cost of increasing public sector wages and salaries in Scotland. Public sector workers pay taxes and National Insurance contributions on any increase in earned income so part of that increase flows straight back to the Scottish (Income Tax) and UK (NI) governments. For any increase in public sector pay about 25% flows back to the Scottish Government in income tax and a further 18% flows back to the UK government in increased NI and reduced Universal Credit costs so the net cost is under 60% of the gross cost.

Then Reed works through a series of proposals for varying taxes which lie within the scope of the devolved powers of the Scottish government i.e. income tax and any tax which can be levied as a local tax. The Scottish government has the power to introduce new local taxes. His set of proposed adjustments to income tax rates would yield £867 million. They would take nothing from those earning less than £23,650 p.a. and not much from those earning between that income and £40,000 p.a. The main disadvantage of increasing income tax is that because the Scottish government has no tax powers over income from dividends or savings and none over capital gains then there will be significant tax avoidance by high income earners through shifting income into those categories.

Reed has many detailed proposals but I want to focus here on two which are substantively the most important both in terms of raising revenue and politically. First, he proposes that in the medium term Council Tax should be replaced by an annual Proportional Property Tax PPT at 0.6% of dwelling value for main homes and 1.2% for second homes. This would raise £3.3 billion – more than £489 million more than existing Council Tax and have minimal impact on low income households. Council Tax is a bad regressive tax and PPT is a much better option.

However, I would argue that it should be progressive with higher rates at 1% for dwellings worth between £250,00 and £500,000, 1.5% for dwellings worth between £500,001 and £1 million and for dwellings worth more than £1 million at 2%. This would yield much more revenue for local government and would be fairer across generations.

Second, he proposes a wealth tax on all of net property wealth, net financial wealth, physical wealth (goods and chattels), and pension wealth kicking in at total net wealth of £1 million at 0.5% on assets up to £2 million, 1% on assets worth between £1 million and £5 million, and 2% on assets worth more than £5 million. This would yield at least £1.4 Billion and more depending on avoidance (easy for financial wealth) and gets the very rich about whom we have little data into the tax.

In total Reed’s proposed changes would increase Scottish tax revenues by £1.3 billion in the short term, mostly from income tax, and £2 billion from longer term (by April 2026) changes, almost all from a wealth tax and a proportional property tax. The total of £3.3 billion is not large and should be considered in the light of the usual size of the Scottish Fiscal Deficit – the amount by which Scottish public expenditure exceeds the tax revenues raised in Scotland - in a non COVID year at around £15 Billion.

To maintain the current level of public services without the advantage of Scotland’s very generous treatment by the Barnett Formula would require a large increase in taxation or a substantial amount of borrowing or both.

One possible new or rather revived element for extension of the tax base not considered by Reed is taxing the imputed net rents of owner occupiers – the real income owner occupiers get from living in dwellings they own net of charges like mortgage interest. This was taxed until 1963 in the UK albeit on very out of date valuations and whilst it was abolished until the 1990s owner occupiers could still claim mortgage interest as an expense against income tax – an enormous advantage.

Imputed rent, like net wealth, is still taxed in Switzerland which may rival the UK as a refuge for tax dodgers’ money from other states but has a very sensible internal tax system. Imputed rents constitute 10% of UK GDP and the real income from them is more than 15% of all household income. This very real income – for me with housing property worth about £300,000 it amounts to about £15,000 p.a. – is a massive advantage owners hold over tenants, the old hold over the young, and the rich hold over everybody else.

Wealth inequality has grown massively over the last forty years, particularly since quantitative easing after the 2008 financial crash, caused by greedy rich people, increased the value of assets whilst earned incomes fell in real terms.

In Scotland the middle half of households by income own about half of all wealth, the top 10% own 40% of wealth and the bottom 40% own just 10%. Lloyd George’s People’s Budget of 1909 tried to introduce a wealth tax but this was vetoed by the House of Lords who still had the power to change finance bills. The Inheritance Tax he did get through is easily avoided by the very rich.

We urgently need to tax wealth AND to criminalise tax avoidance and lock up tax avoiders and the professionals who facilitate them.

Starmer has vetoed a wealth tax but he is wrong to do so and the labour movement must fight for its introduction. By putting this on the political agenda the STUC has done a singular service. By the way, taxing wealth and imputed rents will cause house prices to fall. Switzerland, one of the wealthiest countries in the world, has one of the lowest rates of owner occupation because there is no tax advantage against renting. Good for the young.

*Options for increasing taxes in Scotland to fund investment in public services.* A report by Howard Reed, Landman Economics, commissioned by the STUC December 2022

https://stuc.org.uk/files/Reports/Scotland\_Demands\_Better\_Fairer\_Taxes\_for\_a\_Fairer\_%20Future.pdf

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