Building social policies in fiscal welfare

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This is not only too long but still very much a working paper. There are too many examples throughout, and it is not until page 5 that possible strategies and policies begin to be discussed. Readers are advised not to quote without contacting me as I have much to check. But I wanted to provide a paper to help generate discussion. I welcome any questions and comments.

‘Any adequate “answer” to a problem, in turn, will contain a view of the strategic points of intervention - of the “levers” by which the structure may be maintained or changed: and an assessment of those who are in a position to intervene but are not doing so’ (Mills, 1959, p 131). This paper attempts to apply C. Wright Mills’ advice to the area of fiscal welfare and to discuss policy proposals and indicate the current lack of commitment to investigating what has been described as the ‘hidden’ or the ‘tax’ welfare state.

Fiscal welfare is one element of ‘the social division of welfare’ alongside social welfare, largely the welfare state, and occupational welfare. It was introduced by Richard Titmuss in the mid-1950s to challenge the conventional wisdom that redistribution was confined to the welfare state. Through tax reliefs governments encourage and benefit particular activities and groups. As a result revenue is foregone that would otherwise have been collected. However, “allowances and reliefs from income tax, though providing similar benefits and expressing a similar social purpose in the recognition of dependencies, are not … treated as social service expenditure” (Titmuss, 1958, p 44; also in Alcock et al, 2001). In the United States the term tax expenditure was introduced by Stanley Surrey to contrast with public expenditure. It covers planned losses of revenue, whether concerned with welfare or any other objective (Surrey, 1973) and it is now used widely.

Most forms of fiscal welfare benefit are ‘upside-down’ benefits, helping those with higher income and so higher marginal tax rates more (Surrey, 1973, p 37). They are thus ‘means-enhancing’, reinforcing inequalities, in marked contrast to the very many public spending benefits which are means-tested. A tax allowance of £1000 saves the basic rate taxpayer £200, the higher-rate £400 and the additional rate £450 (£200, £410 and £460 in Scotland this year with starter tax rate saving £190 and intermediate rate £210). Tax credits are fairer in that the reduction in tax due
is the same whatever the income to be taxed, and refundable credits may provide income for those whose incomes are too low to benefit from tax allowances.

‘Pre-distribution’ is the term introduced by Jacob Hacker to describe activities before government spending such as employer wage policies (Hacker, 2011, p 35; Chwalisz and Diamond, 2015). However, the term also fits fiscal welfare because its transfer takes place before governments decide on budgetary allocations to spending departments.

In 2017-18 the income tax reliefs related to social policy totalled £29 billion: they made up over three-quarters of the published income tax reliefs excluding the personal allowances (HMRC, 2018a), equivalent to some 17% of the income tax actually collected. Among other reliefs the capital gains tax exemption for any gains from selling one's home is outstanding, £27.8 billion. Some examples of the costs of the main forms of fiscal welfare related to social policy are provided in Table 3 at the end of the paper.

The emerging world of tax reliefs
In 2014 the National Audit Office, an independent parliamentary body (NAO), produced two reports on tax reliefs which built on the Office of Tax Simplification (OTS) examination of tax reliefs that had identified over 1,000 reliefs, many more than had been appearing in the annual listing of 400 by HMRC (OTS, 2011). OTS classified only half as ‘structural’, technical tax reliefs, defining the scope of a tax. Just as many were identified as special cases for special interest groups, targeted to influence behaviour and/or establishing thresholds for exemptions. How much these cost in lost revenue is unknown as HMRC only provides cost estimates for half of its list of 400.

The Treasury insisted that NAO include this statement in its first report on tax reliefs: ‘The Treasury has rejected any role for the NAO on tax, arguing that: “The Treasury’s position is that all tax reliefs reflect policy decisions about the incidence of taxation and distribution of the tax burden, taken by ministers and agreed by Parliament. As such the Treasury's view is that the design and impact of a relief are questions of policy and therefore outside of the NAO’s remit”’ (NAO, 2014a, para 10). As the Better Budgets: making tax policy better team commented, ‘This view is not accepted by the NAO, and its head confirmed in July 2016 that legal advice had made clear that its remit does extend to this sort of investigation. But it also means that no one in either the Treasury or HMRC is accountable for either the value for money or the cost of tax measures’ (Rutter et al, 2017, p 31).

The NAO reports set out detailed criticism of the government’s treatment of tax reliefs including the basic maintenance, review and updating of the few statistics that it did release (NAO, 2014a and b). The full statement of Amyas Morse, the Comptroller and Auditor-General of the NAO, at the release of The effective management of tax reliefs (NAO, 2014b) gives a good sense of its conclusions: ‘HM Treasury and HMRC do not keep track of tax reliefs intended to change behaviour, or adequately report to Parliament or the public on whether tax reliefs are expensive or work as expected. We found some examples where HMRC and HM Treasury proactively monitored and evaluated tax reliefs, but in general the Departments do not test whether their aims for the reliefs are being achieved. Until
they monitor the use and impact of tax reliefs, and act promptly to analyse increases in their costs, HMRC and the Treasury’s administration of tax reliefs cannot be value for money’ (21 November 2014).

In its last consideration of tax reliefs in 2016 NAO concluded that ‘HMRC’s monitoring of tax reliefs is not yet systematic or proportionate to their value or the risks they carry’ and recommended ‘HMRC should make clear that its good practice guidance for staff administering tax reliefs is compulsory to give it assurance that oversight for each relief is suitable’. Finally, it stated that HMRC ‘should also publish all relevant information on the cost and impact of tax reliefs in a way that makes it more accessible so that Parliament can understand whether reliefs are working as intended’ (NAO, July 2016). In the same year the Public Accounts Committee remained equally unimpressed, putting its second main conclusion in bold. “Despite our repeated recommendations, HMRC still does not make tax reliefs sufficiently visible to support parliamentary scrutiny and public debate about areas where the UK chooses not to collect tax” (PAC, 2016, second main conclusion, emphasis in original, see also paras 17-22).

It is not clear to me that there has been much significant change. Admittedly the last two HMRC annual lists of tax reliefs have contained data for five years, previously only one and then two, and this is a step forward. The annual Bulletin, Estimated Costs of Tax Reliefs, that introduces the data has been usefully expanded and there are more explanatory notes on the tables themselves, but I am unable to tell how much more rigorously these statistics are now being maintained (HMRC, 2018a). However, these are not comprehensive. For example, in the latest list of principal tax reliefs published this January the income tax exemption of child benefit is omitted entirely without any explanation although it has appeared with an estimated cost for many years. The previous year’s listing showed an average of nearly £1.2 billion over the last five years. My email inquiry elicited: ‘We have reviewed the methodology and are not convinced that it provides a robust estimate. We are considering whether we can improve the methodology in the future.’ Among the 31 income tax reliefs and allowances in the HMRC list of items, there are only seven larger than that one and items are said to be included if they are over £50 million. It is therefore surprising that the child benefit exemption was not even listed, let alone costed, and that no footnote explained its absence. Another item costed at £700 million for the previous two years was revised to £1 billion and set at £1 billion for the New Year without any explanatory footnote.

With the greater discussion of tax reliefs by OTS, NAO and the select committees in recent years, I had expected two developments. Firstly, there would be more attention to both overall and individual costs with more information on how estimates were made as well as more estimates provided on the very many uncosted items. Secondly, I had expected more data on the distribution of the costs. At present such analyses are very rare and are not a regular part of the consideration given to tax reliefs even in NAO and select committee discussions. The only published official analysis I know is for pensions tax relief (see below).

I have not been able to find any distributional analyses for any other current relief but that, let me emphasise, does not indicate that there are none. It reinforces the point that discussion of the individual tax reliefs generally occurs within very narrow
specialist interests. Even the biggest reliefs for pensions (£24bn net) are seldom considered in general discussions, and the NI contribution exemptions (£16.9bn) very rarely mentioned at all. Their inclusion with discussions of public spending as a whole and by benefit area could help to increase and spread the understanding of the scale of tax benefits and the implications.

Although mortgage income tax reliefs (MIRAS) were not primarily removed because of their inequity, the regular publication in the then Social Trends of distributional data comparing the benefits of social housing subsidies and MIRAS showed very clearly that the cost of MIRAS was significantly greater and helped the better-off much more. This helped to prompt public discussion and criticism although various reports recommending its restriction and abolition were ignored until the Treasury apparently decided that it was creating problems with the balance of payments.

Childcare tax
Childcare is one area where select committees have persisted in their attempts to obtain clearer guidance from the government on fiscal schemes - and one particularly relevant to social policy analysis. In 2015 the House of Lords Select Committee on Affordable Childcare, Affordable Childcare (2015) was told by a Minister that ‘Treasury officials “help ensure that [childcare] policy development is coordinated across departments.” However, as they point out more than once, ‘we were not able to persuade a Treasury official or minister to give evidence to us. Therefore we were not able seek clarification on how Treasury officials help to coordinate childcare policy across departments, or what criteria were applied when balancing the competing aims of child development, narrowing the attainment gap and maternal employment. No hierarchy of policy objectives was provided in the written evidence from HM Treasury’. The Committee began its Conclusions: ‘We share the concern expressed by our witnesses about the lack of coherence in the Government’s stated objectives for childcare policy’ (HoL, 2015, para 25).

The House of Commons Treasury Committee returned to the issue with its inquiry into Childcare, in part at least because ‘announcing a six-month extension of the childcare voucher scheme two weeks before it was due to be discontinued for new applicants is no way to manage childcare policy’ (HoC, 2018a, paras 25 and 127). The original intention was that the vouchers would be completely replaced by Tax-free Childcare, but ‘with a take-up rate 90 per cent lower than initially expected, Tax-Free Childcare is a clearly under-performing scheme. ... The failure to publicise the scheme properly—a cornerstone of the Government’s childcare policy—is regrettable. The Government should now take all necessary measures to improve awareness and take-up of the scheme’ (HoC, 2018, paras 12 and 59).

The discussions and conclusions indicated little, if any, progress since the House of Lords inquiry. The Chief Secretary to the Treasury was unable ‘to provide an economic analysis of who will gain and who will lose out from the transition from vouchers to Tax-Free Childcare’ (TC 2018, para 27). ‘The Treasury has made little effort to calculate the economic impact of the Government’s childcare interventions. The Treasury should evaluate Tax-Free Childcare and 30-hours free childcare in order to gain a better understanding of how they affect parental employment and productivity. Until such an analysis is carried out, it is impossible to determine whether the cost to the taxpayer of childcare support is outweighed
by the economic benefits’ (TC, 2018, paras 4 and 31). However a commitment has been made by the government to carry out a post-legislative review of the new tax-free scheme (TC, 2018, paras 19 and 79).

Were the select committee’s criticisms relating to hospitals or universal credit, or any public spending initiative, the extent of follow-up by the media and by professional analysts would have been much greater.

**Meanwhile Budgets continue to give to those who hath**

Although there has been some growing discussion outside government about current fiscal failings and the need for fairer systems of taxation, recent Budgets have continued to ‘give to those who hath’ in ways that seem to have received little attention, except that is from tax advisers and financial journalists concerned to encourage those better-off to take advantage of the tax-mitigating opportunities. A recent example is the introduction of the opportunity to pass on pensions after death as part of the extension of ‘pension’s freedoms’ which have increased the ‘tax-efficiency’ of at least some private pensions even longer-term. Since pensions are not included within the estate for inheritance tax purposes, the possibility since 2015 of leaving part or all of a pension to a relative or anyone has enabled an extension of fiscal welfare in a very ‘tax-friendly’ way. This became even greater when further changes in April 2016 reduced, if not removed, ‘the requirement to extract tax gains’ with the removal of the 55% ‘death tax’. How much this is happening, and how much revenue loss results, I have not been able to establish, but it is clear that tax advisers and financial journalists are working to inform their readers of this great opportunity. I have not so far located any official discussion of the distributional impact, but it seems very likely to be upwards.

Proposals to allow the passing on of pensions had been resisted for many years. One attempt in 2004 resulted in Baroness Hollis, then a Labour junior pensions minister, countering: ‘Some people push us on the matter, as Members of the Committee have done today, precisely because pensions are so tax-privileged that the pot rose far faster courtesy of the taxpayer, whom the noble Lord invoked, than any other savings vehicle. Because the pot therefore looks so substantial, not surprisingly, people eye it and would like more of the same, for other purposes such as personal savings and inheritance. They are not wrong to want that, but it might be wrong of the Government to respond to that pressure. The relatively rich can already leave, in their inheritance pot, their home free of capital gains, their other financial assets—bonds, equities and the like—and other non-financial goods, from fine art to fine wine. They can consider trusts. Is it reasonable that they should leave part of their pension as well? With the pot reduced by the need to float off benefit and by the requirement to extract tax gains, would they still want to? The Government cannot accept the amendment’ (Grand Committee on the Pensions Bill, House of Lords, GC 1161, 18 October 2004). It should be noted that this change was made at the same time as the Chancellor of the Exchequer was enforcing ‘austerity’ on public spending.

**WHAT THEN SHOULD BE DONE?**

**Support for tackling upside-down benefits from the international agencies**

In recent years there have been more comments on the harmful effect of tax expenditures from international bodies. In 2003, for example, the World Bank
declared that tax expenditure ‘violates’ vertical and horizontal equity, an unusually strong word in international reports (World Bank, 2003, p 2). Since 1984 OECD has produced descriptive reports on tax expenditures from time to time (e.g., OECD 1984). Recently it has become more openly critical of their impact and countries’ engagement with the issues: ‘this incentive pattern might be judged absolutely perverse - giving the most inducement to those who need the inducement least - and yet it is the common practice in at least some countries’. Its comments on governments’ lack of action have also become more scathing than the usual international discourse: ‘Though evaluation of tax expenditures may be difficult, a more serious problem may be the failure to try. ... An out-of-sight, out-of-mind attitude can arise and continue to insulate inefficiencies from scrutiny for periods of years’ (OECD, 2010, pp 28-29, and well illustrated for the UK by NAO, 2014a and b).

Two years ago OECD was more specific about the strategies that governments should be adopting: ‘tax bases should be broadened first by removing or reducing tax expenditures that disproportionately benefit high income groups’ to promote inclusive growth. ‘Scaling back tax expenditures that are not well-targeted at redistributive objectives may help achieve both greater efficiency and a narrower distribution of disposable income’ (Brys et al, 2016, p 51). However, so far, this recommendation seems to have been confined to a working paper, Tax Design for Inclusive Economic Growth, and I do not know how close this may be to a formal proposal from the organisation. The UK was on the steering group for the overall Inclusive Framework BEPS project of the G20 and OECD published in Jan 2016. ‘BEPS’ stands for ‘Domestic tax base erosion and profit shifting’ and in the initial papers this seemed to be generally confined to corporate taxation and tax competition.

The emphasis on violating equity and ‘scaling back tax expenditures that are not well-targeted at redistributive objectives’ to help bring about ‘both greater efficiency and a narrower distribution of disposable income’ has come from the World Bank and OECD, sources that are often quoted by the government to support its policies. So far there appears to have been no government response, but these criticisms only underline the need for better and regular analyses of the distributional impact of tax and related reliefs. The continuing omission only serves to insulate the inequalities maintained or created by tax spending from more sustained scrutiny, let alone the significant policy change as proposed in the OECD paper.

The urgent need for comprehensive distributional data on fiscal welfare and tax reliefs in general
This absence of regular and comprehensive data on the distribution of the resulting benefit to claimants remains a particular major shortcoming, especially when present levels of inequality are seen as harmful in many ways. Only an analysis of the distribution of the income tax reliefs for employer, employee and self-employed contributions to pensions is occasionally available. Last month the Treasury Committee reported that about half of the pensions tax relief went to the top 10 per cent of income taxpayers while the bottom half got just over 10 per cent (Treasury Committee, 2018b, p 33, chart 5.1, 2016/17).

It is unlikely, in my view, that this analysis includes the income tax relief on
investment funds currently costed at nearly £8 billion, one fifth of the total cost of income tax reliefs for pensions, nor the exemption for employers’ National Insurance contributions on their payment into employees’ pensions and the employees’ NI contributions on that payment. This amount, currently £16.2 billion, only appears as a memorandum item in the tax reliefs in the HMRC table PEN6, and is not aggregated in the total (HMRC, 2018b). It could, however, be difficult to calculate its distributional impact as it is not clear how far the benefit of the exemptions for defined benefit contributions could be attributed to that contributor. There is no estimate at all for the cost of Capital Gains Tax relief.

Despite the ‘widespread acknowledgement that tax relief is not an effective or well-targeted way of incentivising saving into pensions’ (Treasury Committee, 2018b, para 117), I have not been able to find any official and very little independent discussion of such occasional distribution tables or the wider issues that they raise. How appropriate is it to allocate the employer’s contribution relief to the individual recipient for all pensions including, for example, defined benefit funds, where the payment goes into a general fund for employee pensions rather than for that particular employee? To what extent should it be seen as corporate rather than individual fiscal welfare, or a combination of the two? Given that tax relief for pension contributions by many of the better-off is seen as more a way of reducing taxes than increasing pensions, how far should the benefit be seen as going in part or whole to employed contributors and so improving their take-home pay rather than, or as much as, when they are drawing the pension?

Giving higher priority to providing comprehensive distributional data on fiscal welfare and tax reliefs in general would enable a fuller account of who gets what from government action than is provided by the annual ONS The effects of taxes and benefits on household income (ONS, 2018). Contrary to the general perception this survey reveals that the total tax system has long been at best basically proportionate, not progressive, with a continuing higher incidence of total taxes on the household quintile with the least money. By 2016/17 the bottom quintile’s total taxes had risen to 38.6% of gross income from 35% the previous year, not only clearly above the average (34.2) but also above the top quintile (34.4) (ONS, 2018, table 8 in the accompanying dataset). This will be due, at least in part, to those on lower incomes being less able to save and exploit the range of fiscal welfare.

But current analyses of benefits received do not include those taken through the tax and NI systems (a very recent exception, Johnson, 2018). This would result in changes to statements that the bottom half of households receives more than it pays into the government - frequently quoted in press releases and media reports on the annual survey. Half (50.5%) the households received ‘more in benefits (including in-kind benefits such as education) than they paid in taxes (direct and indirect) (Figure 8)’, non-retired households, 37.2%, retired 88.0% (ONS, 2017, Ch. 4). That point is used by others to argue that the better-off are having to bear the ‘burden of the welfare state’ as part of the ‘burden’ of taxation. If the reliefs were treated as the subsidies they are and were taken into account in these calculations, a rather different picture of which income groups pay more in tax than they receive back would be available to inform public debate and policymaking on how far fiscal welfare affects the distribution of resources across society.
Proposals for an Office of Tax Responsibility and a Ministry of Taxation

Outside government and parliament the success of the Tax Justice Network and the work of Richard Murphy in particular has given much greater visibility and momentum to issues of tax justice, and not only on tax havens and the tax gap. The spin-off Tax Justice UK has already produced its report, *Tax Takes*, with many specific policy suggestions.

To ensure an independent assessment given the criticisms of HMRC and its own involvement in closing the tax gap, a new Office for Tax Responsibility has been proposed by Richard Murphy ‘to audit the tax gap and HMRC’s successes and failures in tackling it’ and to ‘audit the rationale for all tax reliefs and allowances and then identify those that no longer serve any social purpose and which could, as a result, be abolished. We can no longer afford pointless tax giveaways’. He has also proposed a Ministry of Taxation ‘with a cabinet minister separately responsible for the delivery of tax policy’ (Murphy in *Tax Takes*, 2017, p 21).

The Office of Tax Simplification has already been examining tax reliefs and allowances but has to act within its remit to reduce ‘tax compliance burdens on both businesses and individual taxpayers’ (OTS website, 16 June 2018). How far that specific remit constrains its evaluation of the reliefs deserves consideration, but its recommendations have already led to the abolition of some reliefs. Even so in the four years from its first list in 2011, the number of tax reliefs increased by 11%, from 1042 to 1156 in March 2015 (OTS, 2015). However, OTS has not published an updated list of reliefs since then and does not appear to have plans to do so. It leads one to wonder how far this is due to their being absorbed within the Treasury despite assurances of their independence. Apparently HMRC has its own list of reliefs but it is only available internally so it is not clear how it compares to the very much longer listing of OTS.

An Office for Tax Responsibility could help to remedy the shortcomings in the scrutiny of tax legislation which have been acknowledged by the Better Budgets team, and John Whiting, after retiring as the first Director of OTS. ‘One feature that deserves more emphasis is the value of post-implementation reviews. The OTS’s early reliefs report highlights that there is no process of review built in to the UK tax policy process, meaning there is no regular check on whether measures are still achieving objectives, or if they are value for money for the UK. … In a letter to the Better Budgets team, Andrew Tyrie MP, Chair of the Treasury Committee, suggests this is a failing that needs remedying and makes the interesting suggestion of a role for the House of Lords in this work’ (Whiting, 2017, 6 March). Tyrie had earlier admitted the insufficient lack of post-legislative scrutiny in the House of Commons, ‘not least because of the exclusion of Finance Acts from the Constitution Committee’s 2004 recommendation that most Acts should normally be subject to review within three years of their commencement, or six years of their enactment’ (letter to OTS, Dec 2016).

Presentation of tax spending alongside public spending in government budgets

Presenting tax spending together with public spending in the annual Budget would enable closer consideration of tax spending as part of the overall distribution of resources and the government’s role in shaping it. In the United States this has
been a major recommendation of the Government Accountability Office (GAO), probably comparable to our National Audit Office (NAO), since 2005: ‘an integrated presentation is useful to show the relative magnitude of tax expenditures compared to spending and credit programs across mission areas’ (GAO, 2018). It argues that ‘the budget will not provide a comprehensive picture for policymakers and the public to compare all of the policy tools used within a mission area’ until tax spending and public spending are presented together. Current discretionary spending totals $1.2 trillion compared to mandatory spending of $2.3 trillion and is more than 5 per cent of GDP (CBO, 2018). How valid it is to add items of tax expenditure in this way is much challenged, but it does confirm that there are very significant sums involved which merit more systematic analysis.

This linking procedure was used in the past in the United States. From 1998-2002 the US Office for Management and Budget (OMB) ‘presented tax expenditure sums alongside outlays and credit activity for each budget function in the federal budget’ (GAO, 2018). However, OMB did not consider it ‘necessary’ or ‘useful for budgeting’ and abandoned it (ibid). In Canada in the 1990s it was proposed that new legislation should include any new tax expenditures in the ‘spending envelope’ and this was carried out for a few years before a new government abandoned it. I have not yet found any assessment of this innovation.

Comparison of direct and indirect government spending

Two brief illustrations provide an example of combining what might be called direct and indirect public spending on social security for retirement and on childcare.

Table 1: Comparison of main public and fiscal spending on social security in retirement, 2016-17

<table>
<thead>
<tr>
<th>Description</th>
<th>Total billions</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension credit</td>
<td>£ 5.66 bn</td>
<td>3.9%</td>
</tr>
<tr>
<td>State pension</td>
<td>£91.58 bn</td>
<td>62.6%</td>
</tr>
<tr>
<td>Winter fuel payments</td>
<td>£ 2.05 bn</td>
<td>1.4%</td>
</tr>
<tr>
<td>Other public spending</td>
<td>£ 7.09 bn</td>
<td>4.8%</td>
</tr>
<tr>
<td><strong>Total public spending</strong></td>
<td><strong>£106.38 bn</strong></td>
<td><strong>72.7%</strong></td>
</tr>
<tr>
<td>Income tax reliefs net</td>
<td>£23.65 bn</td>
<td>16.2%</td>
</tr>
<tr>
<td>NI Exemptions</td>
<td>£16.35 bn</td>
<td>11.2%</td>
</tr>
<tr>
<td><strong>Total fiscal welfare</strong></td>
<td><strong>£40.00 bn</strong></td>
<td><strong>27.3%</strong></td>
</tr>
<tr>
<td><strong>Total direct &amp; indirect spending</strong></td>
<td><strong>£146.38 bn</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

(Data from DWP 2017, HMRC 2018)

A spending envelope of some £146 billion showing well over one quarter directed to private pensions would generate lively debate. There would probably be less claims of the ‘wastefulness’ of spending £2 billion on winter fuel payments going to everyone aged 65 or over irrespective of their income and wealth. With such evidence there would be much more demand for good analyses of the distribution of these benefits by, for example, income and gender.
A case might be made for incentives to encourage and help workers to build up private pensions and to enable employers to help them do it, but the contrasts do provide a clear example of the argument that no Minister would stand up in Parliament and present such a sharing out of funds towards public and private welfare. In the largely hidden world of fiscal welfare “subterranean politics … allow policies to pass that would not survive if subjected to the bright light of political scrutiny or the cold calculations of accurate budgeting” (Hacker, 2002, pp 43-44). There is at least a case for broader consideration of how a different balance should and could be obtained. (Of course a comprehensive spending envelope for older people would include the cost of health, housing, care and other social services where there might well be additional government tax and other subsidies through corporate welfare.)

Direct and indirect spending on childcare - My efforts to find a similar analysis for childcare have so far been unsuccessful except for some data forecasts produced in 2014 when it was expected that the new tax-free childcare scheme would be coming into effect very shortly.

Table 2: Tax and public spending on childcare planned after 2014

<table>
<thead>
<tr>
<th>Total billions</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universal credit + benefit disregards</td>
<td>£2.1 bn</td>
</tr>
<tr>
<td>Free early education for 3-4 year-olds</td>
<td>£2.1 bn</td>
</tr>
<tr>
<td>Free early education for 2 year-olds</td>
<td>£0.8 bn</td>
</tr>
<tr>
<td>Total public spending</td>
<td>£5.0 bn</td>
</tr>
</tbody>
</table>

Anticipated spend on Employer supported childcare 
& incoming Taxfree childcare scheme | £1.4 bn | 22% |

Total fiscal spending | £1.4 bn | 22% |

Total | £6.4 bn | 100% |

Note: Table 2 draws on a Briefing Note on Childcare costs and spending estimates prepared by Dr. Gillian Paull, 1 Dec. 2014. It includes data provided by the Department for Education (written evidence (ACC0068), Childcare Payments Bill Revised Impact Assessment, November 2014 included in the House of Lords Select Committee on Affordable Childcare report, February 2015. This describes planned spending after 2014, assuming an earlier start for the taxfree child care scheme than has resulted.

I have not been able to update this but the latest principal tax reliefs list estimates the total cost for employer-supported childcare and workplace nurseries at £0.92 bn for 2017-18. Nearly half of that (£0.42 bn) comes from NI contribution disregards (HMRC, 2018). These NI exemptions will end when the taxfree childcare scheme completely replaces the earlier scheme but that will cost more in tax reliefs than the employer scheme.

Reduce the inconsistencies in treatment
The importance of not just investigating ‘how corporations benefit from public provision, but also how such provision affects the behaviour, strategies and outlook of those same businesses’ has been brought out well by Kevin Farnsworth in his work on corporate welfare (Farnsworth, 2015, p 3). This point holds with equal force for individuals as for corporations who are benefiting from some form of fiscal welfare. Given the lack of data, the tendency has been to focus on identifying and publicising the extent of benefit: the nature of the impact on individuals and others including organisations has tended to be assumed or just ignored. We not only do not know what proportion of individual beneficiaries are aware of how much they receive from any tax benefit, nor how far they realize that they are benefiting at all with some reliefs, but we have very little knowledge outside personal tax credits on any problems they encounter or other advantages they receive.

Bringing fiscal welfare into consideration alongside public spending measures could help to bring out the very different treatment of potential beneficiaries in these different areas - and that could lead to more consistent treatment. For example, when the Employment Allowance was introduced in 2014 to enable employers to reduce their NI contributions by £2000 [now £3,000], there was ‘so much emphasis on the benefit to small employers’ that many larger companies did not realize that they were also eligible. The overall take-up was only 80%. However, as Taxation put it, ‘the good news is that employers have up to four years after the end of the tax year to claim the allowance’ (Pullan 2017), that is, up to April 2019 for those failing to claim for that initial year, 2014-15. This is very different from the increasingly limited time that some basic social security benefits can be backdated for low-income recipients. Tax credits can now only be backdated to 31 days generally, compared to 93 days in 2010.

Another example can be provided by childcare where the indirect spending comes to well over one-fifth of the total envelope (see above). More sustained analysis of such a table is likely to pay more attention to the distribution of the benefits and the differences between schemes. The new taxfree scheme for approved childcare coming into force will help those in work with children under eleven up to £2,000 a year (£4,000 and up to the age of 17 if the child is recognised as disabled). It has been presented very much in terms of support for the ordinary worker with a stress on the ceiling excluding the highest-paid. However, the benefits can be drawn high up the income distribution. Earnings above £100,000 do not result in exclusion, as many believe, but all those with a taxable income of less than £100,000 are eligible. Total income could go well above that mark with all the reliefs and allowances that high earners are accustomed to claim on their earnings and other income. In consequence it seems that well below two per cent of earners are likely to be ineligible - especially given the active involvement of tax advisers used by all but 2% of ‘high net worth individuals’ (HNWI) (NAO, 2016b; PAC, 2017). Both the NAO and the PAC have urged HMRC to take a tougher line with the high net worth individuals and their advisers.

By contrast the cut-off for social welfare child benefit is set at £50,000, not £100,000 and is not the full taxable income but ‘adjusted net income’. This is described on the GOV.UK website as ‘total taxable income before any personal allowances and less things like Gift Aid’. The calculator instructs you to deduct any pension contributions and the cycle scheme as well as Gift Aid but nothing else.
The difference in extent of support through tax credits and universal credit compared to the new tax-free childcare system also deserves closer attention. The latter will pay costs ‘for unlimited numbers of children and additional funding provided for disabled children. This seems unfair given that tax credits and universal credit are targeted at lower income households’ and ‘the limit is the same for any number of children above two. Combined with the forthcoming two-child limit on support under tax credits and UC, an increase in poverty can be expected among larger families’ (CPAG, 2018, p 8).

Other inconsistencies need further examination and remedy. How far would tax credits rather than tax allowances reduce the inequality of marginal tax rate reliefs? How can above inflation increases in the tax threshold be justified when benefit rates for most working-age benefits are curtailed and then frozen?

One of the most serious, yet most overlooked, aspects of changes to most working-age benefits in public welfare has been their freezing for four years till 2020 after being held to 1 per cent for some earlier years. It is estimated that the saving to government of the four-year ‘benefit freeze’ alone will result in a financial loss to beneficiaries of some £3.5 billion a year (Beatty and Fothergill, 2016, Table 2, p 9).

The generally overlooked failure to uprate benefits fairly and adequately is made all the more significant since the government has increased income tax thresholds in recent years generally faster than inflation from which the majority of those on benefits are receiving little or no gain. The consequence is a further and un-noticed widening of post-tax-and-benefit inequalities with increasing problems for those at the bottom of the income distribution. Since April 2012 the basic working-age benefit has risen by 3 per cent while the tax allowance threshold has been lifted by 46 per cent.

These merit consideration in relation to the International Covenant on Economic, Social and Cultural Rights (CESCR). There it is argued that ‘maximum available resources’ (MAR) should be drawn on to avoid cutting on basic human rights. ‘A state can’t justify retrogressive measures simply by referring to resource scarcity, fiscal discipline or savings: it needs to show why the measures at issue were necessary for the protection of the totality of rights in the Covenant’ (Aoife Nolan (2018) commenting on the views expressed by the Committee on Economic, Social and Cultural Rights, 1990). The need to take into account the resources shielded from view in tax reliefs and NI exemptions in the ‘maximum available resources’ a government can draw on should be put to the UN special rapporteur on extreme poverty and human rights who is leading an inquiry into developments in the UK, the first to be carried out in Europe.

The long-term lack of sustained reform of tax expenditures
In considering policy options, it is important to not only acknowledge that most of these points have been made repeatedly over the last forty years but to ask why so little change has resulted. Successive governments have been very resistant to revealing much about tax reliefs. It was lobbying from outside that was taken up by select committees that led to the government beginning to release estimates of the costs of tax reliefs in the first place, in the White Paper on Public Expenditure in January 1979 (Cmnd 7439).
The 1980 book, *Taxation and Social Policy*, edited by Cedric Sanford, Chris Pond and Robert Walker, has many explicit references to taxation as ‘an instrument of social policy’ (eg, pp 4 as a section heading, 47, 61 and 150). Since then the major reliefs on mortgage interest and on married couples have been abolished although elements of both remain or have been revived. Child and working tax credits arrived but are ending with universal credit. Despite these and many other changes, fiscal welfare remains an obscure issue with little prominent discussion. There is perhaps a problem in the very language of fiscal discussion that helps to isolate it, insulate it, from wider debate. ‘No less far-reaching for being unobtrusive’ was how the 1955 Minority Report to the Royal Commission on Taxation and Profits put it.

The revelations of multi-nationals exploiting the opportunities to register profits in low-tax countries, and the exploits and exploitation revealed by whistle-blowers and the International Consortium of Investigative Journalists in the Paradise or Panama Papers engage wider attention than the world of tax reliefs. Perhaps the very drama of the exposés works to make it more difficult to kindle sustained interest in the unobtrusive everyday routine of fiscal welfare. As Michael Reddin argued in his examination of pensions and tax reliefs, it is the ‘endemic, natural’ way in which these occur that make them invisible and so even less likely to be discussed, let alone changed (in Sanford et al, 1980, p 115).

More analysis of the bodies that could help to open up discussion of fiscal welfare and other reliefs is needed. *Called to Account: How Corporate Bad Behaviour and Government Waste Combine to Cost us Millions*, Margaret Hodge’s memoir of chairing the Public Accounts Committee, throws remarkable light on the ways in which HMRC and other departments have not only been reluctant to discuss tax relief issues but appear to have gone out of their way to discourage such consideration (2016, and not only the chapter on tax reliefs). However, NAO and select committees have not devoted as much attention to the distributional implications of tax reliefs as they might have done and could do much more to call for better and fuller data on this issue.

The specific lack of discussion of NI contribution exemptions deserves special attention. Why, for example, does the Government Actuaries’ Department not explicitly include the costs and benefits of various NI contribution exemptions in their quinquennial reviews? They take account of very much smaller costs in public spending in projecting the NI Fund income. After persistent enquiry I was told by email that they were not aware of any discussions or examination within any part of government. So the National Insurance system, still presented as a basic universal pillar of the welfare state, continues to subsidise private welfare at the expense of the public system. Yet it is the public scheme which is subject to constant critique for its cost while the support it provides to the minority building up private pensions remains ‘subterranean’ and virtually uncriticised (but see Mirrlees, 2011).

In contrast to this persisting neglect, engagement with fiscal welfare and other reliefs can be found in the many policy proposals of *A New Generational Contract*, the Final Report of the Intergenerational Commission led by the Resolution Foundation (2018). They include substantial changes to taxes and NI reliefs to fund a wide range of ambitious objectives that include ‘providing the health and care
services that older generations deserve, need and expect in a generationally fair way’, ‘reducing labour market risks and restarting progression for young adults’ and ‘providing immediate housing security while turning around our housing crisis’ (executive summary). The wide membership of the Commission and its large group of specialists, both drawn from many major institutions including the CBI and TUC, could indicate a much broader awareness of the issues raised by the hidden ‘tax welfare state’ than I have assumed.

**Broader policy options**

More publicity on the impact of reliefs could lead to other ways of broadening the tax base for funding as well as constraining reliefs. The Treasury could refund some of the NI exemptions to the NI Fund. In France some of the social security contribution exemptions are refunded to the pension fund associations providing the equivalent of state earnings-related pensions (Morel et al, forthcoming). Additional funds could also be raised by broadening the base for National Insurance contributions. Again, in France, contributions to one social security scheme are now levied on personal capital income and social benefits, although so far this has not brought in significant funds. This may be the result of merging personal and capital income: could that be done here to reduce the transfer of funds to capital taxed at a lower rate? This might expand resources and help to contain labour costs and inequalities. Introducing ‘a “social” VAT (i.e. a VAT rate increase to finance the social security system)’ was also considered in France but apparently has not been implemented (OECD, 2016, p 52).

**A limit on total tax reliefs for the individual**

Given the lack of progress in opening up these issues over many years, is there a case for making broader, more radical policy responses? A limit could be set on the total tax reliefs that any individual or corporate taxpayer could be allowed to claim. Such a limit of £5,000 or £10,000 was, I believe, proposed by the Green Party some years ago. It might be modified to allow specific additional reliefs or allowances under particular circumstances such as disability, but up to their own ceilings. The range of reliefs currently received by different income levels is not clear to me. However, data for 2004-05 were produced in a special analysis by IFS (Brewer et al, 2008). The average total reliefs claimed in addition to the basic personal allowances came to £570, but the top 10-1% gained £1,998 in such extra relief and the top 1-0.1% £8,103. The final 0.1% were able to claim some £49,143 (own calculations based on Brewer et al, 2008). The result was that the final 0.1% had 86 times more additional income tax relief but only 31 times more pre-tax income, a clear indication of the means-enhancing nature of tax reliefs including fiscal welfare.

**Greater transparency on income and taxes**

A more thorough strategy might be necessary to bring about more sustained analysis of poverty and inequality and how they could be tackled. This would require greater visibility of individual income received and taxes paid, as already happens in some countries. Since 2001 Norwegians have been able to obtain via the internet ‘individual information on income, wealth, and income and wealth taxes paid’ (Slemrod et al, 2013). Before that ‘paper catalogues that were locally produced and disseminated’ made tax information available in some local authorities. Public disclosure has probably deterred tax evasion to a certain extent (Slemrod et al, 2013). In 2014 there was concern that the new, rightwing government would make
radical changes given criticism of the facility, but the only eventual alteration was that the identity of the person seeking the information should be revealed to the person whose data is requested. The number of enquiries dropped from some 16 million a year to about 1.5 million, probably putting a break on neighbours inquiring about each other.

Conclusion

‘Taxation is part of the overall socio-cultural-economic system which constitutes the social world’ (Byrne and Ruane, 2017, p 117). In consequence the long neglect of fiscal welfare and its contribution to reinforcing and even enlarging social and economic inequalities is an indicator of where the power lies. ‘**No one in either the Treasury or HMRC is accountable for either the value for money or the cost of tax measures**, as the **Better Budgets** team concluded (see above - Rutter et al, 2017, p 31, emphasis added). Accountability does need to be established and the lack of transparency overcome if poverty and inequality are to be significantly reduced.

These points can also be made in relation to much professional as well as public, political and administrative analysis and debate on the use and abuse of public resources of all types. Social policy as a subject is not alone in serving to reinforce the conventional divide between taxing and spending by failing to take sufficient account of taxation in its analyses. It is, however, well-placed to build on the work of Titmuss and others to examine in more sustained and searching ways why the insulation of tax reliefs, mainly for the better-off and for private welfare, from discussion of public spending subject to ‘austerity’ is allowed to continue, and whose interests, individual and corporate, this serves.

More and regular analysis of the distribution of the benefits from fiscal welfare and other tax reliefs is a particularly important and urgent need. Without this it is less likely that more searching scrutiny of fiscal welfare and its comparative advantages to its beneficiaries over more direct forms of public intervention will become routine. And without that changes in policy are less likely to be campaigned for and considered.

Regular comparison of public and tax spending is also needed to help promote a better-informed discussion of how to bring about a fairer distribution of resources. It will reveal the greater extent of government activity that goes beyond the direction of public spending alone. It will also make clearer the differences in treatment between services supported by fiscal and public welfare in terms, for example, of the extent of help, conditions for eligibility and how long it may be backdated.

In terms of specific social policy analysis there are many areas where a systematic examination comparing fiscal and public welfare could help to reveal the extent to which there are personal, familial and wider impacts from forms of fiscal welfare that succeed in “nurturing privilege” (Titmuss, 1958, p 52) and “naturalising inequality” (Platt, 2005, p 24). So far the relative means-enhancing effect in comparison to public welfare, often only means-tested and residual, has not been systematically contrasted.
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Table 3 - Major tax and other reliefs related to social policy, United Kingdom, 1995-96, 2005-06 and 2017-18
estimates in £ millions.

<table>
<thead>
<tr>
<th></th>
<th>1995-96</th>
<th>2005-06</th>
<th>2017-18</th>
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<tr>
<td>I - Beyond public welfare</td>
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<td></td>
<td></td>
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<tr>
<td>Income Tax</td>
<td></td>
<td></td>
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<tr>
<td>Married couple's/</td>
<td>2,700</td>
<td>ended</td>
<td>815</td>
</tr>
<tr>
<td>Marriage allowance additional to personal allowance</td>
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<td></td>
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<tr>
<td>Age-related allowance</td>
<td>950</td>
<td>2,300</td>
<td>-</td>
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<tr>
<td>Additional allowance for one-parent family</td>
<td>200</td>
<td>ended</td>
<td>-</td>
</tr>
<tr>
<td>Employer Supported childcare</td>
<td>-</td>
<td>-</td>
<td>500</td>
</tr>
<tr>
<td>Exemption of first £30,000 paid on termination of employment</td>
<td>1,500</td>
<td>1,000</td>
<td>1000</td>
</tr>
<tr>
<td>Relief for non-state pensions</td>
<td>7,200+2000</td>
<td>13,700</td>
<td>24,050</td>
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<tr>
<td>Relief for mortgage interest</td>
<td>2,800</td>
<td>ended</td>
<td>-</td>
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|                                |         |         |         |
| National Insurance contributions relief: |         |         |         |
| Employer contribs to approved pensions | np      | 7,400   | 16,900  |
| Employer supported childcare    | -       | np      | 420     |

|                                |         |         |         |
| Capital Gains Tax              |         |         |         |
| Gains arising on disposal of only or main residence | 500     | 12,000  | 27,800  |

|                                |         |         |         |
| II - Exemptions of welfare state benefits |         |         |         |
| Child benefit                  | 700     | 1,110   | 1,165   |
| Long-term disability benefits  | 1,310   | 1,060   | 1,360   |

|                                |         |         |         |
| III - Tax Credits:             |         |         |         |
| Child Tax Credit               | -       | 3,300   | -       |
| Working Tax Credit             | -       | 1,100   | -       |

Sources: HMRC (2016 & 2018a) and earlier versions on basis of revenue foregone. Italic forecast; np not published.