Taxes and sovereignty

When Parliament fell to debating various versions of a Withdrawal Agreement between the UK and the EU some of us had no wish to enter binding arrangements with the EU that could continue to prevent us making sovereign decisions for ourselves through elections and Parliamentary votes. I along with 27 other Conservative MPs voted three times against Mrs May's Withdrawal legislation because it did not restore full Parliamentary sovereignty. We tried to get her to insert a sovereignty override clause to reassure us that in the event of disputes with the EU we could legislate ourselves out of trouble, but she refused. Indeed her advisers said to put in such a clause would render the Agreement void as it undermined the rights of the EU built into it.

When we were asked to support Mr Johnson's versions of the Agreement we again expressed misgivings about parts of it, particularly over fish and Northern Ireland. The government agreed to insert the all important sovereignty clause. It assured us the parts of the Agreement we did not like would be improved in the Future Trading Agreement, and were by any chance they to still fall short then we would have the ultimate lock of a proper sovereignty clause. It was on that basis the EU Withdrawal Act passed. It is important today to remind people just how comprehensive Clause 38, the sovereignty clause is. It leaves no one in any doubt Parliament is sovereign and can exercise its sovereignty as it wishes, whatever interpretation the EU may place on the ambiguous Withdrawal Agreement.

The immediate issue is VAT in Northern Ireland. I see no clause in the Protocol which says the UK Parliament cannot change taxes in Northern Ireland if it wishes. If government lawyers think there is some issue, then they should furnish the government with the draft clause for the VAT legislation which uses the sovereignty powers in Clause 38 to ensure the removal of VAT from NI transactions as well as GB transactions is legal.

Clause 38 of the Withdrawal Act:

Parliamentary sovereignty

(1)It is recognised that the Parliament of the United Kingdom is sovereign.

(2)In particular, its sovereignty subsists notwithstanding—

(a)directly applicable or directly effective EU law continuing to be recognised and available in domestic law by virtue of section 1A or 1B of the European Union (Withdrawal) Act 2018 (savings of existing law for the implementation period),

(b)section 7A of that Act (other directly applicable or directly effective aspects of the withdrawal agreement),

(c)section 7B of that Act (deemed direct applicability or direct effect in relation to the EEA EFTA separation agreement and the Swiss citizens' rights agreement), and

(d)section 7C of that Act (interpretation of law relating to the withdrawal agreement (other than the implementation period), the EEA EFTA separation agreement and the Swiss citizens' rights agreement).

(3)Accordingly, nothing in this Act derogates from the sovereignty of the Parliament of the United Kingdom.

Tax for the NHS and social care

As a long standing critic of the OBR and Treasury models and poor forecasts let me clarify. I do support the need for Treasury financial discipline. One of the Treasury orthodoxies I always supported was the one which said you should not hypothecate or give a tax to a particular area of spending.

The Treasury rightly pointed out there was rarely a single tax which raised just the right amount of money for a given service. If you found one or created one, there was no guarantee that the revenue from that tax would grow at the right rate for the service. It was always possible the tax would be more buoyant than the financial needs of the service making it difficult to rein in the tax and the spending. It was also possible the tax from time to time would be insufficient. There would then be remorseless pressure for the Treasury to provide a top up from general taxation.

I was therefore surprised when the current Treasury changed its mind and invented a new hypothecated tax. Indeed they invented two. This year it is to be a supplement to National Insurance. Next year it is to be a new social care tax. These new taxes have been born of controversy. Here are some questions I would like to see the government answer.

1. How will the money from these taxes be moved from assisting the NHS to social care? What is the timetable or trigger points to scale back the cash to the NHS and put it into social care?
2. As social care currently costs taxpayers around £40 bn and is paid for out of general taxes and out of local authority taxes, how will the future settlements of these sums be calculated bearing in mind the top up money coming from the dedicated tax? What has been gained by ring fencing a proportion of the cash when far bigger amounts still rest on annual negotiation between local government, social care and Treasury?
3. The government has now announced a substantial increase in the threshold before anyone pays National Insurance. Has this reduction in the money from the ring fenced tax been agreed by the NHS and by social care? How has this been possible? does it mean they can now manage with a smaller tax or will there be more top up money? When can we see the spending plans behind this? We would like to know what the new tax is buying.

Tax cutting governments

As a young man I was Economic Adviser to Prime Minister Thatcher during her middle period. It was good to work with a tax cutting government. We set out to prove that lower rates of tax on income, work and investment generate a larger economy and more tax revenue. We went for growth.

Over the Thatcher years as a whole the standard rate of Income tax was cut from 33% to 25%. The top rate of Income tax was cut from 80% to 40%. The investment income surcharge of 15% was removed completely. These measures led to a large increase in total income tax take. They also led to the richer taxpayers paying more tax in real terms and paying a larger proportion of the total Income tax take. Only a very jealous socialist could legitimately complain. Anyone else was invited to see that lower income tax rates delivered more growth and more money for public services, and led to the rich paying more as a proportion. As we regularly stated, the rich stay and pay, they invest and work more when they keep more of the earnings. Those on lower incomes needed tax breaks to boost their spending power and paid less tax.

It is true we took over from an extreme socialist position under the previous Labour government. Charging 98% tax on the richest people with investment income was a good way to send them offshore. 1970s UK was characterised by the so called brain drain, where everyone from successful entrepreneurs to popular bands and singers based themselves abroad to escape the tax net. Ending the penal rates let them come home, to be joined by others who found the UK attractive again as a place to work and invest. The Thatcher government also cut the main rate of corporation tax substantially and abolished various smaller taxes entirely.

Today I am pleased to hear the current Chancellor praising past glories and expressing enthusiasm for tax cutting agendas. So far he has not cut the Income tax rate, and has set out a substantial rise in the corporation tax rate. He says he will cut the Income Tax rate from 20% to 19%. This is a long way short of taking it down from 33% to 25%. It also has to be seen against the background of the introduction of the social care levy which offsets some of the putative cut in the Income tax rate. The total tax rate rises from 33% when he took office to 36.2% (total tax as a proportion of national income). It will take some bold moves on cutting Income tax and Corporation tax rates to grow the economy enough to get a decent tax cut.

The Treasury paints another dark picture

A year ago I spoke about the March budget and stated that the official forecasts for were far too gloomy. In particular the deficit would be much lower than the £233 bn for the current year that they expected.

At the half year stage the OBR changed its deficit forecast, slicing a large £50bn off it. I commented that it was still too high. Yesterday they admitted that the second half year saw the need to take another £55bn off the forecast, bringing the total change to a massive £105bn for the year as a whole. A similar overstatement of the deficit had occurred in the previous year. This year's document contains an anguished passage on why they so understated the tax revenues coming in from the lower rates being charged before the rises this spring. The extra revenue is so huge that clearly they do not need the extra £12bn from the National Insurance hike .

It is s pity the Treasury did not grasp the opportunity to use some of the overshoot of revenue to allow some selective further tax cuts. Choose the right ones and you may anyway end up with more revenue, as they did with Stamp Duty.

The Treasury has at last got round to removing VAT from insulation, boiler controls and other products that can help people cut their home heating bills. This EU tax needed to go. It is disappointing to learn they think they cannot remove these taxes for Northern Ireland under the Protocol. That is by no means clear from the text. They say they are seeking a solution from the EU as they acknowledge the UK government needs to be in control of all taxes anywhere in the country. |They could go ahead and abolish these taxes in Northern Ireland at the same time as the rest of the UK, and could buttress the legal position by putting into the law a clause overriding any unhelpful or errant interpretation of the protocol.

The Treasury forecasts are for slowing growth, inflation persistent for this year, and too large a squeeze on incomes. Last year they also got inflation badly wrong, telling us it would run at 1.8% this year, yet it has hit 6.2%. Given the persistent money printing the Bank undertook all last year it is difficult to know why they thought inflation would be so low.

More wrong forecasts to misdirect policy?

At the time of the last budget I spoke about the unduly pessimistic forecasts for growth, tax revenues and the deficit. Yesterday's figures show the deficit for the current financial year is running £25.9 bn below forecast with one month left. The Treasury/ONS forgot to mention they lowered the deficit forecast by £50 bn at the half year stage. So in truth the deficit is a massive £75 bn below where the Treasury thought it would be. It undermines their claim that they need to impose a new tax to raise £12bn extra a year to make the finances prudent.

The figures show a surge in revenue with no rise in tax rates. Inflation boosts VAT and fuel duties. Stamp duty revenues are strongly up thanks to many more housing transactions and higher prices. The tax rises planned for April will slow the economy and may slow the growth in revenues.

The latest misleading gloom spin comes in the form of the so called interest charges. To make these look a lot scarier and unaffordable they lump in with the genuine regular cash interest payments the revaluation of indexed debt. This debt has to be refinanced or repaid on maturity at the same real value as borrowed. Holders are therefore repaid more pounds than they lent. There are no regular cash payments to bond holders to reflect inflation so it is quite wrong to call this debt interest. They also fail to put into the accounts any credit to the state for the devaluation of the rest of the debt which will be repaid in pounds worth considerably less than those borrowed and spent when the debt was first issued.

Why does the Treasury always want austerity and want us to feel miserable?