Cleaner air

There is a growing mood in favour of cleaner air. There is general agreement that the air in city centres like London needs urgent action to clean it up. In the centres of our Thames Valley towns there is also room for improvement. Some are already blaming the diesel car as the main cause and urging higher taxes or bans on diesel vehicles. It is a good idea first to examine what we know about the sources and causes of pollution.

The London Assembly researched the sources of Nox in London in 2015. This showed the following sources

Bus, coach and rail public transport 18%

Goods vehicles 17%

Gas heating systems 16%

Non road mobile machinery 14%

Diesel cars 11%

Petrol cars and motorcycles 8%

Aviation 8%

Industry 7%

The TFL study in 2016 showed a similar pattern, with gas heating and industry as the biggest source, and with both bus and coach and goods vehicles each a bit bigger than diesel cars.

The new Euro VI standards for engines require both petrol and diesel engines to emit less than 5mg per km of particulates. They allow just 80 mg of Nox for diesels compared to 60 mg for petrol, whilst allowing petrol engines to emit more carbon monoxide than diesels (100mg versus 50mg)

In order to clean up the air, especially removing particulates, requires replacement of a lot of older technology buses, trains, cars, and gas boilers. This will also allow the introduction of equipment which is more fuel efficient, also helping to drive down emissions and cut running costs.

Instead of working up a new series of penalties for owners of older diesel cars, government should work on a range of incentives to tackle the problem in a broad based way, removing the oldest buses, lorries, cars and boilers which would do the most to improve the position. it could also give a welcome boost to the home industries that produce these items.

We should not ignore the contribution replacing old heating boilers at home and work can have, with the added bonus of cutting running costs. Lets have better scrappage and financing schemes, so more people can afford to make their contribution to cleaner air, and can at the same time take pride in owning better machines.

Taxing whilst promoting growth

Most people's definition of the rich is someone better off than themselves. The millionaire feels poor in the company of billionaires.

Clearly, someone who has a decent home they own and sufficient invested capital to be able to pay their bills for the rest of their lives without needing to take a paid job is well off. Many retired people however, are by definition in that category. Many when they retire own their own home and have sufficient accumulated pension to live comfortably without recourse to work. People who achieve that well before retirement age, usually through success in business but sometimes through inheritance, have financial freedoms the rest of us do not enjoy.

I do not myself wish to punish people who through hard work and energy have bought themselves a decent home and built up financial savings for their later years. Governments of all persuasions used to encourage people to do both these things. There was mortgage interest tax relief to help home buyers, and unlimited tax free savings within a pension fund for the prudent. Recent governments have removed the tax relief on home purchase, and now have retrospectively limited the tax relief allowed to people who have saved and invested well for their old age.

I want to see the tax system allow people to succeed. Business success, when someone builds their own business from nothing, is a fine thing we should wish to encourage. High income and capital gains tax charges put some off building their business, or encourage people to sell out early. Buying and improving your own home is also a good idea. Why then make it more difficult with high Stamp duties?

There is a lot to recommend New Labour's tax settlement for the better off. They kept the Conservative's top rate of Income Tax at a maximum of 40% for most of their time in office. They cut Capital Gains Tax to 18%. These two rates were somewhere near the optimum rates from the point of view of the total amount of revenue collected. There is plenty of evidence that CGT above 20% raises less, and that Income Tax above 40% loses revenue. People with high incomes and substantial assets are much freer than others to move their domicile or place of business. They are also free to do less, venture less, earn less, if the tax rate goes too high. CGT is very avoidable. Many people refuse to sell shares from their investment portfolios above the tax free allowance. Many people are now sitting on second homes or BTL properties that they do not wish to sell because they do not want to pay the tax. It is easy to see CGT receipts going up if we went back to Labour's uniform rate for all assets of 18%.

Stamp Duties are now at very high levels for the dearer properties. Once a home goes above £925,000 the marginal Stamp Duty soars to 10%, or 13% for a BTL or second home. Over £1.5m the levels are 12% and 15%. In the Thames Valley I have seen some executive new build family homes on modest sized plots on the market for around £2.5m. That would mean the family that buys paying £213,750 of Stamp Duty. In Central London in the dearer districts £2.5m would not buy you a house.

These rates should be brought down.

The government's approach to making working more worthwhile for families

I have been sent a reminder of changes coming in this April:

There are a number of welfare reforms and tax changes that come into effect in April. These reforms are about building a stronger economy and a fairer society. We want to support people in work, as well as ensure the welfare system works as a safety net for those who need it.

The measures include:

- A further increase in the Personal Allowance to £11,500; an increase of over 70% since 2010. Since the start of this Parliament we have cut income tax for 31m people and taken 1.3m of the lowest paid out of income tax altogether.

- Increasing support for low earners by raising the National Living Wage to £7.50. This marks a £1,400 a year increase in earnings for a full-time worker on the National Minimum Wage (NMW) since the introduction of the NLW in April 2016. – a pay-rise for one million people.

- Helping working parents with childcare costs by launching Tax Free Childcare from 28 April – saving working parents up to £2000 per year for each child under the age of 12.

- Increasing income for 3 million households by reducing the Universal Credit taper rate from 65 per cent to 63 per cent.

- Ensuring young people are always better off in work by delivering the manifesto commitment to end automatic entitlement to housing support for 18 to 21-year-olds who can safely live at home for new claims to full service Universal Credit.

- Investing £330m in practical employment support to help disabled people back into work, and aligning the rate paid to new claimants who are placed in the ESA work-related activity group or the Universal Credit limited capability for work group with the job-seeking equivalent in both benefits.

 Tackling worklessness by ensuring that those in receipt of Universal Credit will be expected to prepare for employment when their youngest child turns 2 and to look for work when their youngest child turns 3.

 Aligning the benefits system between those in work and those out of work by limiting Child Tax Credits and the child element of Universal Credit to 2 children (new awards will not be made for third or subsequent children born on or after 6 April).

 Removing the higher rate of child element for the first child in Universal Credit and the family element in tax credits for claims where the eldest child is born on or after 6 April.

 Widening help so that more bereaved people get the support they need by introducing the Bereavement Support Payment on 6 April. This will replace Bereavement Allowance, Widowed Parent's Allowance and the Bereavement Payment for those who lose a spouse or civil partner on or after this date.

Helping savers with the launch of a new NS&I bond offering a market-leading interest rate of 2.2% and increasing the annual ISA limit to £20,000.

Who are the rich?

If we are going to develop a better approach to taxing the better off, we first have to decide who is better off. One of the most difficult issues which tax policy has to face is the relationship between capital assets and income. How do we feel about people who are asset rich but income poor, or people who are income rich but capital poor?

Let us look at some difficult examples.

Mrs Hardup is a widow living in a one bedroom flat in what is now Chelsea – it used to be Fulham. She lives on a state pension, with no savings or private pensions to top up what the state provides. She and her husband bought the flat in the 1960s when it was much cheaper, and paid off the mortgage. Doing that got in the way of other savings. The flat is worth £1.2 million today.

Mrs Lucky lives in a Council bungalow on her state pension, but has recently won £1.2 million on the lottery. She has so far put it into cautious investments. She might live for another 20 years, so she could draw down and spend more than £60,000 a year depending on how well she invests the money. Alternatively she could buy herself a property, remove the rent bill and pay herself a bit less.

Mrs Hardup decides to sell her Chelsea flat, move and buy a small detached property near her daughter in Bolton for £200,00, leaving her £1 million to invest to provide her with an income well above the national average.

Mr Feckless retires early, sells his £1.5m southern counties executive house, buys a £500,000 smaller property, and spends three years on expensive cruises, buying luxury cars and other consumption, using up much of his spare £1m.

Mr Prudent retires with a good pension of £35,000 a year, and continues living in his £1.5m southern executive home. He is surprised by the choices of his former neighbour, Mr Feckless.

Mr Whirlwind is in the prime of life and earns £150,000 a year. His income has risen quickly recently, and he has been too busy to get round to buying a home of his own. He pays a lot out in rent for the smart new property he has recently taken on, eats out most days and takes expensive holidays. He has few assets.

Do we have views on which of these, if any, is rich? Do people have moral preferences over who should pay more? Should we tax income more, because it is available to be paid to the government as it comes in? Should we tax assets more, to make people reorganise their assets?

Taxing the rich.

Here's a surprise. I agree with the three main political parties in the UK that we have to tax the rich. They are right to say most of the tax has to be paid by those with the higher incomes and with more assets. All three main parties have been living high on rhetoric about taxing the rich and closing tax loopholes for the last decade, and all three in power have decided to put tax rates up and impose new taxes on the rich. It's certainly worked. The top 1% of Income taxpayers pay 27.5% of all Income Tax, and the top 25% pay 75% of all Income tax paid. 44% now pay no Income Tax.

Some of this is not socialism but commonsense. There's no point setting out to extract tax revenues from those who have little income and no assets. Even the steeliest state tax tyrant knows you can't get money out of those who do not have it in the first place.

The issue between socialism and commonsense is how you tax the rich, and by how much. Socialists want to tax the rich because they do not like them. They do not mind if they tax them beyond the point where they leave the country or to the point where they are no longer rich enough to pay the extra taxes. Sensible Conservatives want to tax the rich because we want decent public services and understand it is the richer part of the country that has to pay for the bulk of them. We want to tax the rich in ways which will coax the money out of them we need for a decent society, without taxing them so much that they leave, stop investing, decide not to participate fully in the private sector economy for fear of having to pay more. We believe in the power of aspiration. Many people who start out with no assets and little income aspire to have assets and a decent income. Too much tax can blunt aspiration or thwart ambition.

This poses two questions. What is the right rate for taxing income and consumption of luxuries? Tax at too high a rate and you will collect less revenue and do damage to the productive economy. Tax too high and the marginally ambitious for a better lifestyle will conclude it is too difficult. What is the right balance over taxing things the rich do which are usually thought of as a good if others do it, like buying a home or investing in a pension fund.?

It is clearly right that we will only have a successful economy if the rich share their surplus somehow with those on lower incomes. We rely on the rich to invest in businesses that will employ others, to buy luxury items and services which others supply, to redevelop our cities and build new buildings. If they do not spend and invest enough willingly, the UK economy may be impaired. Germany’s refusal to share her massive surplus with her partners in the Euro shows what misery large scale underspending and underinvestment can create if the rich surplus holder is too cautious.

Taking some of the money off the rich in taxes does ensure more of it is spent, as much of this money is given to people on lower incomes as benefits or in the form of public services free at the point of use. Take too much and you may get the opposite effect, as the rich go elsewhere or adapt their behaviour to an even more cautious private sector pattern. If a relatively well off person feels their tax rate is too high, they may well spend less to conserve what money remains.

In subsequent posts I will look at what this means for the detail of tax policy on income and assets.