

Sin taxes do what it says on the tin

The government is quite keen to use small tax rises on particular products to change consumer behaviour. These seem to be very successful in their own terms.

Let's take the 5p bag tax. 5p is not a large sum of money on the average supermarket shop, though the average supermarket shop would often need more than one bag. Since the introduction of the 5p charge so called single use or thin plastic bags issued by the main super markets has plunged by 83%. Most of us now take longer life bags to the shop so we do not need to pay for more of these thin plastic holdalls. I have no problem with doing this myself.

We need to remember that some of these so called single use bags were used again for other purposes. I used them again for carrying, storing, or dumping waste through the refuse system. Now they have been largely phased out we need to make and use alternatives for dumping waste and for carrying things. There will be some loss of overall bag output, with more opportunities for bag producers to sell tougher longer lasting bags.

There is then the Sugar Tax. The government claims early victories for this recent introduction, as many makers of soft drinks changed their formula prior to the arrival of the tax to get the sugar content below the permitted maximum. As a result the government has now halved its estimate of the likely revenue from the tax. Levied at 24p a litre on high sugar drinks it is quite a price hike on these relatively low value items, but not a huge increase in the cost of a total food shop for those who want carry on drinking high sugar colas and similar.

These two examples show that quite small tax increases on everyday items will change behaviour markedly where the public buys into the need to make changes, or where the sum of money is annoying or difficult on a low budget. We now see a pattern to what happens with tax rises or new taxes. It should make the government extremely nervous about putting additional taxes on things like work and savings, where it generally says it approves, as these too can be adversely affected by increases in rates or by new impositions. We also see a pattern that revenue often falls short, and there are consequential reductions in related revenues.

Pothole repairs

I have asked West Berkshire and Wokingham Councils for more details of how they will spend the additional money available for pothole repairs, given the need for more work following the bad weather this winter.

West Berkshire lists all of the resurfacing and maintenance work in its

current programme on its website www.westberkshire.gov.uk. Wokingham lists its 2018-19 maintenance programme on www.wokingham.gov.uk and also gives illustrations of work done using monies from the 2016-17 government pothole fund.

Anyone concerned about potholes on a local road should report them to the relevant Council – both have pothole report facilities on their websites.

[Chancellor Osborne hit the buy to let market with tax rises](#)

In the spring budget of 2016 just before the referendum the government decided it wanted to rein in buy to let housing investment. It introduced a 3% extra Stamp Duty on BTL and other second homes, and announced the phased removal of interest relief on purchasing Buy to Let property.

I presume the government is pleased with the results of its tax rises. According to the Investment Mortgage Lenders the £25 bn of net investment in 2015-16 collapsed to just £5 bn the year after the tax rises. This 80% decline has certainly truncated the successful growth in private rented accommodation, and had knock on effects to the workloads of house agents, builders, renovators and removal firms.

I did not quite understand why policy reversed, as it had been policy of both Labour and the Conservatives to encourage a larger private rented sector to complement social rented and ownership. Many people were fed up with the very low interest returns on their savings held in relatively safe bonds or in savings accounts. They decided to do what the Bank and its Quantitative Easing policy was meant to be about, taking more risk with their savings and introducing some borrowing to their investments to make them more worthwhile. This substantial sum did produce some more homes for people to live in, and helped reduce the rate of rent increases people experienced.

It does make another good example for my series showing how higher taxes do have a direct and often profound effect on behaviour. Here is another great illustration of how higher taxes reduce economic output. The government achieved all it could have wanted in the first year of the tax with such a large reduction in Buy to Let. As a result it also lost a range of other tax revenues on the activity which was cancelled.

Visit to Baylab

I went to see Baylab, a schools initiative run by Bayer at their Green Park headquarters. The pharmaceutical and agrichemicals business provides up to a day of practical science for schoolchildren and six form students from local schools and Colleges. The participants undertake practical exercises to find out about issues like the role of bees, DNA, enzymes, forensics and cosmetic chemistry. This is a free lab service with workshops geared to the National Curriculum offered to groups from schools.

I thanked the team there for showing me round and for helping encourage young people to study more science and to find it rewarding and interesting.

Higher taxes cut car sales as planned

The Treasury has hit diesel car sales hard as the government wished. They have managed to bring the whole new car market down for a year by pushing up taxes in the Spring 2017 budget and leaving open future tax attacks on diesels in particular. People fear further action by national and local government. It was a surprising policy choice given the considerable work past governments put in to getting more car engine manufacture in the UK.

There have been strenuous efforts to blame Brexit and "confidence" but the numbers showed confidence and car purchases soared for nine months after the vote, and then plunged as the taxes came in and car loans were tightened by regulatory action. I blame the taxes.

I guess the Treasury is pleased with its work. It has achieved a big planned reduction in new diesels, despite new diesel cars meeting all the government's own emission standards. It also has the side effect of bringing the UK growth rate down a little to get it closer to the official forecasts.

It probably means the government has collected less revenue overall, as the higher VED will be more than offset by the big fall in tax on new car sales. There is a 20 % tax on new cars, so each sale lost us a big hit on tax revenue. This then means the Treasury scramble around for something else it can impose a higher tax on, which could help slow another part of the economy they do not like. I will highlight some of their other successes in using higher taxes in posts to come.