

Church Action on Poverty Briefing:

A Robin Hood policy in reverse?

The impact of abolishing the 10p tax rate



CAP calls on Government to reconsider tax increase for poorest families.

Niall Cooper, CAP National Coordinator, said: "It is immoral and wrong for the Government to increase taxes on the lowest paid, whilst those on much higher salaries benefit from the cut in the basic rate of tax. This is a Robin Hood policy in reverse - robbing from the poor to reward the rich.

Church Action on Poverty calls on the Government to look again at this decision and to find ways to ensure that no one loses out. There is a moral obligation on Government to protect families who are already struggling to make ends meet - not to make life harder for them."

House of Commons Treasury Select Committee

The House of Commons Treasury Select Committee published a report on the impact of the Budget measures on 7 April 2008. It concluded that the group of main losers from the abolition of the 10 pence rate of income tax, those below the age of 65 with an income under £18,500 who are in childless households, seem an unreasonable target for raising additional tax revenues to fund the benefits of tax simplification and meeting the needs of children in poverty. The maximum amount any single individual could be worse off by is £232 per year (£4.46 per week) about 3% of net income.

The Committee also expresses a concern over the poor take-up rate of working tax credit among eligible families without children, especially given that working tax credits are intended to mitigate for low-income households the effect of this removal of the 10 pence starting rate of income tax.

John McFall MP, chair of the Select Committee said: "While tax simplification is a laudable aim, it seems strange that the abolition of the 10 pence starting rate of income tax, disadvantages mainly low income households. As such, the Government must ensure that these people are identified, and appropriate help given to them to ensure they receive the benefits to which they are entitled."

How Labour can get off the hook on 10p tax

Robert Chote director of the Institute for Fiscal Studies, writing in the Sunday Telegraph, 20 April 2008 commented:

Gordon Brown's decision to finance a 2p cut in the basic rate of income tax by axing the 10p starting rate drew some criticism for sleight of hand when he announced it in his swansong Budget last year. But no one foresaw quite how far the controversy would escalate when the change took effect this month.

Church Action on Poverty puts the prosecution case starkly: "It is immoral and wrong for the Government to increase taxes on the lowest paid, whilst those on much higher salaries benefit from the cut in the basic rate of tax. This is a Robin Hood policy in reverse - robbing from the poor to reward the rich."

Ed Miliband, Minister for the Cabinet Office, has tried to make the case for the defence - but with rather less conviction: "When you make a big set of changes in the tax system, some people do lose out. That is a matter of regret. But overall, these changes make the tax system fairer."

So who is right? What, if anything, can Mr Brown do?

Let us start by looking at exactly who wins and loses. People on incomes between £5,435 and £19,355 this year would be worse off, losing more from the abolition of the starting rate than they gain from the cut in the basic rate.

Most people on incomes between £19,355 and around £40,000 would gain noticeably. If Mr Brown had left it at that, he would indeed have been robbing the poor to pay the rich. But he also spent £1 billion raising tax allowances for those aged 65 and over, £1 billion raising the child tax credit and £1.3bn raising the income at which tax credits start to be withdrawn.

Taking the Budget as a whole, the poorest third of the population are the biggest winners, thanks to the increase in tax credits. The richest third also gain from income tax changes. The middle third are largely unaffected.

So why all the fuss? Well, Mr Brown has not been equally generous to all on low incomes. He has protected most pensioners and families, but has done little for childless adults of working age. This explains why there are 5.3 million households left worse off, mostly in the poorer half of the population.

The losers are mainly of two sorts. First, childless single people who do not qualify for the working tax credit because they are under 25, work less than 30 hours a week, or earn too much. Second, childless couples who lose twice from the income tax changes, but gain at most once from the working tax credit because it is a family payment rather than an individual one. A vocal category of loser is early retirees, who do not receive tax credits, but who are too young to benefit from the increase in the tax allowance for those over 65.

This discrimination between households is entirely consistent with Mr Brown's record. Labour's tax and benefit changes since 1997 have increased the average incomes of the poorest tenth of the population by 12 per cent and cut those of the richest tenth by 6 per cent. But, within the poorest tenth, pensioners have gained 24 per cent and families with children 18 per cent. Childless working-age adults have gained only 1 per cent. This has had a predictable effect on poverty.

Poverty has fallen by 600,000 among children, 200,000 among working-age parents and 200,000 among pensioners since 1996-97. But poverty has increased by 500,000 among working-age adults without children.

Since last year's Budget the Government has cut inheritance tax and done a U-turn on capital gains tax reforms after objections from the Confederation of British Industry and other lobbyists. Labour loyalists feel the Government should listen as much to its natural supporters as to the wealthy.

So what, if anything, may be done now?

Restoring the 10p rate would cost nearly £7 billion - money the Government cannot spare. If Mr Brown wants fewer losers, he could extend the working tax credit to the under-25s and/or those working less than 30 hours. To do both would cost £2.2 billion and remove 1.2 million losers. But there might not be much political benefit, as most constituents see the tax credit system as complex, bureaucratic and stigmatising.

A more popular way to reduce the number of losers would be to raise the personal allowance people can earn before they start to pay income tax and National Insurance. This would be more cost-effective, as it would partly unwind the reform that created the losers in the first place. Raising the allowance by £300 would remove 3.3 million losers and cost £2.5 billion; by £750 would remove almost all the losers and cost £6 billion.

None of this is cheap. Raising allowances would be the most cost-effective option, but is not how Mr Brown would usually target money on the groups he favours. The political calculation is whether he could compensate enough losers to stem the protests, without spending so much that he had to do something even more unpopular to pay for it.