

840 words possible cuts in square brackets []

A flat tax is a fair tax. That is what I wrote in a pamphlet with Frank Field MP in 1988 (88!). And it remains just as true today as it was then.

The idea has recently been taken up by those who have an agenda not of simplifying tax, but of reducing it. Unsubstantiated claims about the miracles of a flat tax have been put forward, for example that it will automatically boost economic growth. But this should not blind us to the benefits of a massive simplification of the taxation system.

Complicated schemes rarely achieve the aims which their designers carefully planned. And they often go disastrously wrong. The last few weeks have given us several good examples. The fiasco of the family tax credit scheme, the shambles of the Child Support Agency, the Audit Commission's attack on the failure of the NHS to end the postcode lottery in prescriptions, all failures due to poor planning,[execution, design and inoperability] - not to a lack of resources.

The same is true of the tax and benefit system. The highest rates of tax on additional income are paid by the poor, not by the rich. Incredibly, the government does not know how many people are caught in this trap, as Dawn Primarolo confirmed in a written Parliamentary reply on 15 June this year.

No-one intended to bring about this outcome. But it has nevertheless happened. The loss of housing benefit in particular means that when many people move from benefit to work, their effective tax rate is close to or even more than 100 per cent. In contrast, the super-wealthy corporate lawyers and financiers in the City of London often pay no income tax whatsoever, thanks to ingenious, legitimate tax evasion schemes.

Nicholas Kaldor, adviser to the Wilson Labour Governments and the key figure in the Cambridge economics faculty in the days it was firmly Keynesian, shared this view. He argued that the difficulties associated with taxing income are so great that a shift to an expenditure tax would in fact raise more revenue from the very wealthy than

income tax does—a view at sharp variance with conventional wisdom of both then and now. But a view which is nevertheless correct.

Under a flat tax, the poor can be lifted out of income tax completely. And there are no offsets or allowances [for particular circumstances]. None at all. So anyone resident in the UK pays the flat rate on his or her entire worldwide income and capital gains, regardless of what evasion schemes may have been set up in the past.

At present, people earning the minimum wage pay income tax. It is ridiculous [that this rate of pay is deemed to be the absolute minimum which is required, yet at the same time] to levy income tax on it. Under a flat rate system, all income below, say, a 40 hour week on the minimum wage – just over £10,000 a year – could be exempted from tax.

A flat tax concept can still have some aspects of a progressive system without losing its great simplicity. On grounds of equity there could be not just one but two rates of tax. For the sake of an example, we could say 22p on all income and capital gains between £10,000 and £50,000 and 35p thereafter.

The exact figures can be calibrated to raise whatever amount the government decides is required. A flat tax does not necessarily mean a reduction in taxation and public spending, but could [equally] be used to finance current and projected levels.

The key feature is [not so much the exact rates which are set, but] the fact that all allowances are abolished. For it is here that the real economic gains are achieved. A fundamental principle of good taxation is that it should be simple and easy to collect. For taxpayers on PAYE who stay with the same employer for several years and do not need to fill in tax returns, at present the clear majority, the current system is not bad at meeting these aims.

But large amounts of effort are spent both within the Revenue, by individuals and by their tax advisers in dealing with the tax affairs of the wealthier minority. This represents a pure burden on the economy. Highly skilled people, in both the public and private sectors, devote their lives to either trying to collect or trying to avoid tax.

Or, more frequently, just trying to understand the fantastic complications of the current tax system.

This activity is wholly useless. These people can be released to get involved instead in genuine wealth and job creating activities.

Finally, and critically, a flat tax enhances the democratic process. It makes much more transparent the amount which people pay. So citizens can assess much more easily the value of the services which are provided in return. Is this the real basis of the opposition from the Left to a flat tax? Social democrats who are confident of winning the argument on public expenditure should support and welcome this tax.

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