

Call for evidence: Tax Reliefs

To: The Treasury Committee
By: The Intergenerational Foundation
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The Intergenerational Foundation (www.if.org.uk) is an independent think tank researching fairness between generations. IF's guiding principle is that policy should be fair to all – the old, the young and those to come.

Introduction

The Intergenerational Foundation (IF) is grateful for being given the opportunity to respond to the inquiry concerning tax reliefs in the UK. IF strongly believes that all policies must be considered from an intergenerational fairness perspective, thereby protecting the rights of younger and future generations. Since its foundation a decade ago, IF has conducted research on issues facing young people and future generations, and IF is of the opinion that certain currently existing tax reliefs are causing an intergenerational injustice by unfairly burdening the young and those who receive their income from work. IF welcomes the Treasury Committee's inquiry to investigate whether current tax reliefs achieve economic benefits to the economy which justify their cost, and IF's concerns about the current system of tax reliefs are outlined below.

Our response

1. The injustice of the capital gains tax-free allowance – IF would like to express our concern that, since the capital gains tax-free allowance is as high as £12,300 it mainly benefits older and wealthier people who do not need this tax relief, thus the relief cannot be justified by its cost. In practice, only a very small minority of young people and low- and middle-income earners can make use of the full allowance. In fact, only a small minority of young people can benefit from the capital gains tax-free allowance at all, since 32% of those aged 16–24 and 38% of those aged 25–34 have a negative net financial household wealth,

implying that they are not in a position to benefit from the tax relief at all.¹ Additionally, while only 7% of those aged 25–34 have a household net financial wealth above £100,000, the percentage of those aged 65+ with a household net financial wealth above £100,000 is 29%.² Therefore, the capital gains tax-free allowance, at the current threshold, effectively functions as a tax relief for those who do not really need it, and therefore puts a heavier tax burden on younger people and those relying on income from work. IF considers this an intergenerational injustice. If the capital gains tax-free threshold is kept at its current level, it remains part of a pattern that advantages largely older owners of wealth and assets at the expense of those largely younger people who receive their income from work. People who receive income from capital gains are already disproportionately benefitting from the current tax system, as the capital gains tax rate of 20% is significantly lower than the highest income tax rate of 45%. IF argues that the capital gains tax-free allowance should either be abolished or substantially lowered, as the benefits of the tax relief would then be more equitably shared across the generations and society as a whole, and more tax could be raised from individuals with substantial financial wealth.

2. The ISA allowance disproportionately benefits the already wealthy – IF would like to reiterate the intergenerational injustice of tax reliefs disproportionately benefitting asset-owners and the already wealthy. The problematic nature of the ISA tax-free allowance is similar to the issues raised in the previous section; only a very small minority of young people are in a financial position to benefit from the annual ISA allowance, while older and wealthier individuals can exploit the ISA allowance to its maximum on an annual basis. Although IF understands that, in theory, the ISA allowance is intended to encourage saving across society by all ages, in effect it primarily functions as a substantial tax relief for older individuals who are already wealthy. This leads to both an intergenerational and intra-generational injustice, as tax that could have been raised from largely older wealthy individuals with financial assets is instead placed as a burden on young people and those primarily receiving their income from work. IF would like to express our belief that the allowance of ISA gains that are exempt from capital gains tax should be substantially lowered, so that the benefits of the allowance would be more equitably spread across society without leading to an unjustifiably high burden on young and low- and middle-income earners who primarily receive their income from work.

3. Tax reliefs which disproportionately benefit the wealthy lead to a higher tax burden on the rest of society – IF would like to express the importance of tackling the issues raised in Section 1 and 2, since the result of not taking action on the problematic nature of the capital

¹ ONS Wealth and Assets Survey 2018-2020. Individuals by age, by household net financial wealth.

² ONS Wealth and Assets Survey 2018-2020. Individuals by age, by household net financial wealth.

gains tax-free allowance and the unjustifiably high level of capital gains tax exemption on gains from ISAs otherwise lead to a continuously growing tax burden on young people and future generations.

4. Tax reliefs/subsidies for fossil fuel companies – UK-based fossil fuel companies have for many years benefitted from various forms of tax reliefs and/or subsidies. These forms of tax reliefs are very damaging to the future sustainability of the economy in various ways. Firstly, rewarding fossil fuel companies with tax reliefs signals to the market that the UK is not undertaking the necessary steps to reach Net Zero targets, and therefore may artificially encourage further investment into fossil fuel companies. Examples of this practice include the over-generous treatment of North Sea oil and gas decommissioning subsidies.³ Secondly, tax reliefs for fossil fuel companies are misdirected, since such large corporations do not require tax reliefs to operate, and tax reliefs in the energy sector should instead be directed towards renewable energy production to boost the clean energy sector in the UK. Thirdly, tax reliefs directed at fossil fuel companies are sometimes justified by the misplaced belief that it would result in research and development into renewable energy production by the industry, but all evidence suggests that there is no relation between tax reliefs/subsidies for fossil fuel companies and increased research and development by such companies into renewable energy production. Additionally, supporting the fossil fuel industry with subsidies/tax reliefs pushes the UK closer towards complete ecological breakdown. On behalf of the young and future generations, IF would like to express that it is in the interest of both current and future generations to completely halt any tax reliefs/subsidies for the fossil fuel industry, since the climate disaster is amongst the largest intergenerational catastrophes currently facing society.

5. Tax relief in the domestic aviation sector – IF would like to express our concern that tax reliefs currently existing in the domestic aviation sector keeps airline fares artificially low, without direct benefit to the economy that could not be provided by the railway sector instead for all but the longest journeys. If the tax reliefs enjoyed by the domestic aviation sector were to be directed towards improving UK railways instead, the tax reliefs would result in economic growth without the loss of interconnectivity and integration across the UK. Simultaneously, the prospects for reaching Net Zero would be dramatically improved, as short domestic journeys undertaken through aviation could easily be substituted with railway journeys, resulting in significantly lower emissions. According to research undertaken by IF, 62% of emissions (1.7Mt CO₂ e) from domestic aviation are from routes with viable rail alternatives, taking on average only 14 minutes longer from city centre to

³ Intergenerational Foundation (2018) Rigged: How the North Sea oil and gas industry is undermining future generations: <https://www.if.org.uk/research-posts/rigged-north-sea-oil-gas-industry-undermining-future-generations>

city centre. In 2019, the Treasury could have collected £478m in taxes from the domestic airline industry if tax reliefs for domestic aviation in the form of exemption from fuel duty would have been replaced with VAT. IF believes that this vast amount of money given in tax breaks would better serve economic growth, investment, development and sustainability in the UK if directed towards railway travel or other green infrastructure in the interests of younger and future generations.

6. Tax relief for windfall gains on property sales is intergenerationally unfair – IF would like to express our belief that windfall gains in the domestic property market should be taxed as capital gains. Under the current system, several trillions of pounds which have been made in profit in the property market are, in effect, a tax relief for older, wealthier individuals to the detriment of the young as such profits are not taxed as capital gains. Of those aged under 35 in the UK, 41% have zero household property wealth, which is an increase of five percentage points when comparing to a decade prior.⁴ Thus, only a minority of young people have been able to benefit financially from the property market. As profits made in the property market by wealthier and older individuals are not taxed fairly, it also further exacerbates the financialisation of the housing market, leading to increasingly unaffordable rents for the young and low- and middle-income earners. In addition, the deduction of interest paid from rental income on investment properties functions as a further tax relief for wealthier and older people. Ultimately, the tax reliefs existing in the property market creates a housing market where only a minority of young people will ever be able to buy a house, while those who are already wealthy continue to profit without paying their fair share in taxes due to the unfair tax reliefs which currently exist for those profiting from property gains. IF would like to add that such taxes could be deferred in the instances of downsizing, which is socially desirable as it frees up supply in the housing market. This would work like the roll-over relief on property gains in the commercial property sector, so that for downsizers capital gains tax would be rolled up and only be charged on the ultimate sale.

7. Tax reliefs on pensions – IF believes that the annual £40,000 tax-free pension sum allowed each year is regressive since it only benefits those on already high wages. Meanwhile, the vast majority of workers in the UK, particularly the young, are not equally able to benefit from this tax relief. Thus, IF proposes that the £40,000 level should be lowered to better reflect the levels of contributions made by the median worker in the UK. In addition, IF believes that the lifetime allowance of £1,050,000 a person can contribute towards pensions tax-free should also be lowered to better reflect the median contributions made by the average employee in the UK. IF proposes that the tax-free lump sum one can withdraw at the age of 55 should be capped between £10,000 and £20,000 pounds, as the tax relief otherwise primarily benefits older and wealthier members of society to the detriment of the young and low- and middle-income earners who currently must bear an

⁴ ONS Wealth and Assets Survey 2018-2020. Individuals by age, by household net property wealth.

unfair tax burden to support the tax reliefs of their wealthier and older compatriots. As contributions are made tax-free, setting the tax-free lump sum one can withdraw at an absolute figure between £10,000 and £20,000 instead of a percentage figure would ensure that the tax relief is not disproportionately beneficial to older and wealthier individuals in society but instead more equitably shared. Furthermore, due to the increase in longevity of older generations, IF has concerns that older, wealthier people will run down their retirement pots too early and fall back on the state meaning younger and future generations will have to more heavily subsidise their later old age. IF argues that it would be beneficial for society as a whole if intergenerational impact assessments on tax policy relating to pensions were to be introduced, so that tax reliefs would be assessed fairly with the burdens on the young and those to come taken into account.

In conclusion, many tax reliefs are currently benefitting older and wealthier people and therefore cause an intergenerational injustice within a tax system which places an unfair burden on the young and those who receive their income from work. IF would like to express the need for thorough intergenerational impact assessments when investigating the effects of current and future tax reliefs, in order that policy should be fair to all – the young, the old, and those to come.

If you would like to learn more about the work of the Intergenerational Foundation or would like to organise a meeting to discuss the points we raise, please contact:

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