

If Philip Hammond has learned from the history of taxation, we could see some interesting developments in the October 29th Budget.



When we look back at some of the taxes we've had in the past, it is clear that taxation has had to continually change to keep pace with the times. In 18th century Britain, a hat tax was introduced to raise revenue from the gentrified. It was effectively a stamp duty on the head-dress of the more wealthy - the bigger the hat, the bigger the tax. Top hats had a top rate of 14%.

Candles were also viewed as an extravagance in Georgian England and therefore drew the interest of the exchequer, leading to the introduction of a candle tax. Similar taxes to target the wealthy at the time included, a beard tax introduced by Henry VIII, or an 18th century window tax (the bigger the house, the more windows it would have and the more tax the owners would pay).

The purpose of tax is principally to raise revenue, but it is also intended to incentivise particular behaviours and to help redistribute wealth. Many of the taxes we have today are vastly different from what went before, but their purpose has remained broadly the same.

The window tax of today is rates or council tax, and the current equivalent of the hat tax is VAT, which came into existence in 1940s as Purchase Tax - the more you spend on items, the more VAT you pay. The latter change widened the tax base, moving away from more specific taxes like the hat or wallpaper tax towards the population at large.



Another reason for continually change in taxation has been the ever-present issue of avoidance. The hat tax definitely passed its sell-by date whenever milliners began to rebrand their wares as headgear rather than hats so that their buyers didn't have to pay the levy. The 18th century wallpaper tax in England was avoided when the savvy aristocracy began to decorate their homes by putting up plain paper in their homes and stenciling the patterns on after. Meanwhile, bricking up windows was another tax avoidance measure.



Today's major taxes are income tax, corporation tax, National Insurance and VAT. But a whole host of smaller taxes have resulted in a highly-complex tax system. Indeed, the tax book has trebled in size since 1997 and is now over 28,000 pages long. It includes new taxes like the sugar tax which have been created to tackle new problems such as obesity. But such has been the pace of change in the world in the last decade that the tax system hasn't kept

pace, and there is little doubt that change needs to happen again.

Two big problems are that existing taxes such as income tax aren't generating as much revenue as in the past, with the 'gig economy' a significant issue in this regard, and the fact that the nature of companies has changed, with corporation tax rules having been drafted before digital businesses existed.

With regard to the latter, it is interesting to note that whilst in the past protests about tax tended to be against their introduction - such as the Poll Tax riots - whilst today we see protests about their avoidance by big firms such as Vodafone and Starbucks.

A big challenge for the UK Exchequer now is how it brings the tax system fully into the 21st century to ensure that the Amazon's of this world are taxed appropriately and fairly from the Exchequer's and wider business community's perspective. The current misalignment between where digital businesses are taxed and where they create value threatens to undermine the corporation tax system. The fact that House of Fraser is said to be paying more in rates on its flagship London store than Amazon is paying in UK corporation tax on its £9bn in revenues, tells us much about how the tax system is outdated.

At a time whenever revenue needs to be raised to pay for the £20billion per annum of additional funds promised for the NHS, our aging population puts more and more pressure on public services, and efforts are ongoing to fix the deficit, it is inevitable that more and more focus has been placed on addressing the 'Amazon anomaly'. Public spending cuts did the heavy lifting in dealing with the deficit in the past, going forward, the baton will be passed on to tax rises.

We've already heard the UK Chancellor Philip Hammond call for large online retailers to face a tax on their revenues rather than their profits in order to increase the amount of tax

they pay in the UK. Whether we hear more about this in the October 29th Budget remains to be seen. But what is clear is that the direction of travel is more tax and from more sources relevant to the 21st century.

From Philip Hammond's perspective, the positive is that the British Social Attitudes Survey suggests more people – some 60 percent – are prepared to pay more tax. Indeed, since 2010, research shows the proportion of people who want more 'tax and spend' has doubled.

What we may see in the Budget is even more rolling back of tax relief on a range of things, such as pension contributions, and further means-testing on benefits. A new 'plastic tax' to discourage manufacturers from using unrecyclable plastic looks increasingly likely. But we'll also need to see some new taxes to raise additional revenue – an NHS / adult social care tax beckons? Hipsters have made facial hair fashionable again, but a beard tax to help shave the deficit may be a step too far for the Chancellor. But one thing is for sure, as beards have become fashionable again, taxes on wealth are likely to make a big come-back too.

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