

Tories to consider flat tax

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The shadow chancellor has committed the Conservatives to consider a 'flat tax' system for the UK.

George Osborne detailed plans for a special commission to consider the introduction of a single low tax rate in a speech on Wednesday.

At the Social Market Foundation event he attacked the chancellor's economic record as being "dogmatically" stuck in the past and ill-equipped to compete in the modern world.

"Gordon Brown has in a few short years blown the strongest fiscal position in a generation," he said.

"He faces the prospect of increasing taxes when the economy is weak and growth is below trend.

"Even more seriously it means that when the rest of the developed world is cutting taxes and reining in spending to compete with the emerging giants of China and India, Britain is almost alone in heading in the exact opposite direction: of higher taxes and more profligate spending.

"Instead of a fiscal policy that is shaping Britain to face the challenges of the future, we are left paying the debts for the chancellor's past mistakes."

Commission

Osborne said that in the next few weeks he will unveil a new independent commission to conduct a complete review of Britain's tax system with a view to making it simpler and fairer.

The Liberal Democrats have already announced their own radical tax review in the wake of May's general election.

But recently published documents revealed that the chancellor is opposed to introducing such a major reform.

A 'flat tax' would see all exemptions and allowances scrapped in favour of one lower rate on all income.

Supporters say it reduces tax evasion, is more efficient to administer and leads to higher government revenue through faster economic growth rates.

"In Britain, thanks to the complexity and confusion which Gordon Brown has introduced into our tax system, there is a strong case for flatter, simpler and fairer

taxes; and I believe that the case for a flat tax, even with the obvious obstacles I have set out, at least needs serious consideration," Osborne said.

"Gordon Brown has made it clear that he is not interested in a proper discussion of an idea which the rest of the world is waking up to.

"It shows how his thinking is stuck in the past and how dogmatic he has become. So we Conservatives will do the thinking instead."

Growth

Eleven other states, mostly in central and eastern Europe, have already adopted the system and have experienced strong growth over recent years.

However, 'flat tax' critics says that likening Britain with central Europe is a false comparison.

They argue that the strong growth of the 'new Europe' economies has been caused by low labour costs and their new access to EU markets, rather than the tax systems they have adopted.

Osborne acknowledged these concerns but said they should not deter debate on making Britain's system simpler.

"In Britain, we have a complex and established tax system that has evolved over centuries," he said.

"We are rightly keen on tax reliefs like age-related allowances, and tax exemptions for charities and pensions. And there are important questions about how we could maintain existing revenue streams while introducing a flat tax.

"But there are also many advantages to flatter taxes, many of which were set out in an internal Treasury paper that I recently obtained a copy of.

"In the published version, the arguments in favour of flat taxes were removed."

"It is a very exciting idea that started in central and eastern Europe but now is being looked at by other countries like Greece, and there is some speculation that Germany is looking at it."

Progressive

The shadow chancellor also rejected claims that a 'flat tax' would benefit the wealthy and leave middle income families worse off.

"Contrary to what many people think, a flat tax can be very progressive," he said.

"A large personal allowance means that many low income people are taken out of tax altogether, while those on middle incomes find that a big slice of that income is tax-free."

And he said flatter and more transparent taxes would be a better electoral tactic than the "gimmicks" the Tories have tried and failed with at the past three polls.

"We have tended to produce tax cuts like white rabbits out of the magician's hat just weeks before polling day, so that they look and feel like election gimmicks," Osborne said.

"We have failed to present lower taxes in a broader economic context, preferring

to make an ideological argument about the size of the state, instead of an economic argument about Britain's ability to compete in the world.

"Trapped by the fear that the public might think we would close schools and hospitals to pay for the tax cuts, we have devised very complicated proposals to fund them through efficiency savings.

"We need a wholly different approach. We need to show that lower taxes are not an ideological obsession but the necessary part of a wider economic policy.

"We need to explain how lower taxes do not jeopardize economic stability or threaten public services, but are instead a vital component for enabling us to compete in the age of globalization. We need to make the case for lower, simpler and flatter taxes as a distinct alternative to the higher and more complex tax system foisted on us by Gordon Brown."