

# Executive Summary

Liberal Democrats are committed to making the tax system:

- Fairer - with tax cuts for those on lower incomes paid for by removing loopholes exploited by the rich.
- Simpler and easier to understand - especially for pensioners and small businesses.
- More decentralised – so that there is a clearer link between local services and local accountability.
- Greener – giving incentives for responsible use of resources.

Building on the reforms already set out in *Fairer, Simpler, Greener* Liberal Democrats will therefore:

- Cut the basic rate of income tax by 4p financed by green taxes on pollution and by taxes on the wealthy.
- Abolish Council Tax, replacing it with a fairer Local Income Tax.
- Return the Business Rate to local control, and place it on a Site Value basis within one Parliament.
- Reform Inheritance Tax, with the medium-term objective of raising the starting threshold to £500,000.
- Reform residential stamp duty, ending the current regressive 'slab' structure, with the objective of ensuring all those buying properties up to £500,000 in value pay less than at present.
- Radically simplify the tax code, removing over 500 pages of regulations.
- Introduce a simplified 'postcard' style tax return form, which would release over 6 million tax payers from the need to fill in a full tax return.
- Introduce a simple statutory definition of residence for tax purposes to make the rules clearer and reduce compliance costs.
- Bring gains made by non-residents on property situated in the UK within Capital Gains Tax.

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# Background

In 2005, the party established a Tax Working Group chaired by Mike Williams to conduct a thorough review of the tax system, on the basis of revenue neutral reform – that is not altering the total amount of taxation raised, but raising it in different ways.

The principles on which the group based its work were to make the tax system:

Fairer:	progressive in relation to income and wealth.
Simpler:	for individuals and companies: fewer rates and reliefs, more transparent.
Greener:	taxing environmental pollution and resource depletion and giving bigger incentives to sustainability.
More Local:	greater freedom for democratic local government to raise (and spend) revenue.
More Efficient:	recognising the importance of incentives to work and save; and growing global competition.

The Working Group's report *Fairer, Simpler, Greener* was debated at the September 2006 party conference and adopted as party policy.

Key policies included:

- Abolishing the existing 10p starting rate of income tax, as a first step towards a long term aim of raising the starting point for income tax to at least £10,000.
- Raising the employee NICs threshold so that NICs begin to be paid at the same level of income as income tax.
- Raising the starting threshold for the 40% upper rate of taxation to £50,000 pa – while raising the upper threshold for the higher rate of National Insurance Contributions to the same level.
- Cutting the basic rate of national income tax by 2p.
- Reforming and simplifying Capital Gains Tax, in particular by removing taper relief.
- Providing pension contribution tax relief at the basic rate of income tax only.

To tax environmental pollution and resource usage, and help fund our other reforms, the report proposed to make a 'green tax switch' by:

- Replacing the existing Airport Passenger Duty with an Aircraft Tax based on the emissions of each aircraft.
- More steeply graduating vehicle excise duty for new vehicles based on carbon emissions, with a higher level for the highest emissions band.
- Reforming the existing climate change levy, indexing it annually and eventually changing it into a simpler carbon tax.
- Indexing fuel duty to inflation except in periods of oil price spikes.
- Phasing in reform of the basis on which business rates are charged in England to Site Value Rating.

The report also made proposals on business taxation, including:

- Creating a simpler Corporation Tax structure, removing complex reliefs and cutting the main rate.
- Repealing most anti-avoidance legislation and using a General Anti-Avoidance Rule to simplify the tax code.
- Giving an option for small businesses to be taxed on net Cashflow not Profit.

*Fairer, Simpler, Greener* acknowledged that in one paper we could not cover all aspects of tax policy, and set out some issues which would need further work, notably:

- Reform the taxation of assets, in particular Inheritance Tax.
- Developing policies on land taxation.
- Reform of Stamp Duty Land Tax.
- Responding to the expected Lyons Review of Local Taxation.

The Federal Policy Committee asked the Working Group to undertake further work on these issues, and also on developing policies on tax simplification and reform of non-domiciled tax status, and report to the Autumn 2007 Conference. For this second phase of the work, Dick Newby took the Chair.

The overlapping issues of tax credits and benefits are to be covered by a separate policy paper on *Freedom From Poverty, Opportunity For All*, also to be presented to the 2007 party conference.

# 1. Approach

- 1.0.1 The subjects on which the Group was asked to develop policies are disparate and complex. In order to guide our thinking, we kept at the front of our mind the need to make the tax system fairer and simpler. In each area which we considered, we sought to develop a small number of distinctive changes to the existing system which would indicate the direction of travel of our policies and which could be implemented within one Parliament. There are many additional minor improvements to the tax system which we could have recommended, but which would have produced a technical document which would be of little interest beyond tax specialists. Equally, there are areas where more detailed work can and should be done between now and the next election, not least in response to initiatives which will be taken by the Government over that period.
- 1.0.2 We were mindful of the need to follow the principle that our proposals should be revenue neutral overall. This requirement faced us with two problems. First, on a number of our proposals, it was impossible to get reliable estimates of the cost/yield to the revenue. Second, this cost/yield is likely to vary significantly between now and the election. We have therefore, in some cases, given indicative proposals which will have to be firmed up when the election manifesto is being drafted and the cost/yield is clearer than it is today. Wherever possible however we have made firm proposals.

## 2. Income Tax Cuts

### 2.1 Responding to the budget

- 2.1.1 In the *Fairer, Simpler, Greener* policy paper we set out a detailed package of tax cuts and how we would pay for them. Although not part of our original remit, it is necessary to reconsider the overall package in light of the changes made in the 2007 budget (see Figure 1). In particular, the government has now effectively abolished the 10p starting rate for income tax, not as we would have wished by lifting the starting threshold, but by increasing the rate of tax on this earnings bracket to 20%. They have also partially implemented our 2006 proposals to raise the starting threshold for the 40% upper income tax rate, and have cut the basic rate by 2p in the pound. As a result of these changes the cost-effectiveness of different income tax packages changes somewhat.
- 2.1.2 In terms of the environmental tax agenda, while the Government have raised extra revenues from taxation on fuel duty, vehicle excise and air passengers, they have still fallen well short of the ambitious and well-constructed package of environmental tax reforms proposed in *Fairer, Simpler, Greener*. In particular, they have failed to reform Airport Passenger Duty from a per ticket charge on passengers into an Aircraft Tax per flight which would both cover freight flights and give operators an incentive to run full passenger flights. Increases in VED are also not true environmental taxes as they cover existing vehicles rather than focussing on future purchases.
- 2.1.3 Although the 2007 budget does use some of the additional revenue we had proposed in *Fairer, Simpler, Greener* from environmental taxes, our proposed changes to CGT taper relief and relief on pensions contributions are now projected to raise increased future revenue. This means that we have an approximately similar total amount available for tax cuts. It also gives us scope to revise the detail of the CGT changes to ensure that small investors do not become liable for small amounts of tax. This is a technical area, and we will bring back detailed measures on this in the next General Election Manifesto.

### 2.2 4p off Income Tax: Switching from National to Local

- 2.2.1 We now propose to help low and middle income earners by using the revenues from our tax reforms to cut the national rate of income tax for all taxpayers by 4p in the pound. This cut will be in addition to the 2p cut announced in the 2007 budget.
- 2.2.2 This will mean that even after Council Tax is abolished and replaced by Local Income Tax, on average people will be paying no higher a rate of income tax overall. In fact, as our current estimate of the average level of Local Income Tax required in England to replace Council Tax is 3.5%, most people will be paying less income tax even taking National and Local levels into account. (The lower projected rate of LIT is a result of the government's abolition of the 10p starting rate for income tax, which broadens the income tax base relative to our previous plans).

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- 2.2.3 Taken with the abolition of Council Tax and our other proposals, this is an extremely progressive package.
- 2.2.4 It also marks a very clear shift in the basis of local government funding – re-invigorating local decisions and local accountability.
- 2.2.5 We retain our long-term objective of raising the starting threshold for Income Tax to £10,000, although the Chancellor’s doubling of the 10p rate makes this a much more expensive option and therefore difficult to achieve in the near future.

Figure 1: 2007 Budget compared with *Fairer, Simpler, Greener*

<b>Fairer, Simpler Greener</b>	<b>Budget 2007</b>
Raise tax starting threshold to £7,185, abolishing 10p starting rate	Abolish 10p starting rate by imposing 20p rate from the starting point of the existing 10p rate
Raise upper rate starting point to £50,000 (from £38,000)	Raise Upper rate starting point to £43,000
Cut basic rate of tax by 2p	Cut basic rate of tax by 2p
Limit pension relief to basic rate	No change
Index fuel duty	Fuel duty increases for next two years equivalent to indexation
Graduated increases in VED on new purchases of high emitting cars	Increase in top band VED
Reform Air Passenger Duty into a tax on aircraft take-offs and quadruple total take	Doubled APD on unreformed basis
End CGT taper relief and reduce allowances	No change

### 3. Inheritance Tax

- 3.0.1 In *Fairer, Simpler, Greener*, we accepted the need to address the faults of IHT while keeping in place a mechanism for taxing inherited wealth. We also suggested that lifetime gifts should be included in the tax and that it should be charged on the basis of accessions. Furthermore, we suggested that decisions on rates and thresholds should be taken nearer the next election.
- 3.0.2 Having taken evidence from a number of sources, we believe that whilst these proposals were intellectually sound, they pose major practical problems. In the case of lifetime gifts, the problem is one of record-keeping and the scope for evasion. On moving to an accessions basis, there are also potential record-keeping and avoidance issues. On balance therefore we did not believe that these changes passed the tests of making the tax simpler or more efficient and we do not propose to pursue such major changes.
- 3.0.3 During the lifetime of the Labour Government, the threshold above which estates became liable to tax has not risen at anything like the rate at which house prices have increased (Since 1995/96 house prices across the UK have increased by 199%, more than double the increase in the IHT threshold, up 95% to £300,000 for 2007/08. Source: Halifax). And given that, for most families, the family home is by far the most significant asset, the effect has been to draw within the scope of the tax a significantly greater proportion of estates. In 1996, 15,000 estates were subject to Inheritance Tax; in the latest year 37,000 estates were caught. If uncorrected, this trend would change the nature of the tax, so that it was increasingly borne by middle-income families rather than those who are particularly affluent. We do not believe that this ever was, or should be, the purpose of inheritance tax. We therefore believe that a substantial increase in the starting threshold from £300,000 to £500,000 is required to restore the essential character of Inheritance Tax as a charge on the really wealthy. The cost of such an increase is approximately one billion pounds. The FPC will consider how to fund this change and will bring forward costed proposals in time for the next general Election Manifesto. For example, our proposals on CGT for non-residents and the abolition of minor personal tax reliefs (see 6.4.3 and 6.2.5) would generate significant extra revenue. Subject to budgetary pressures, we would also seek to ensure that the threshold did not fall so far behind any rise in house prices in the future.
- 3.0.4 Whilst we do not think, for practical reasons, that all lifetime gifts should be included in the tax, we believe that the current rule, which exempts all gifts which were made more than seven years before the death of the donor no longer adequately reflects current life expectancies. One of the main purposes of the rule was to allow parents to assist their children in the early years of their career either by helping them to buy a house or invest in their own business. With growing life expectancy, however, the vast majority of offspring now inherit their parents estate in middle age. We therefore propose to extend the 7 year rule. In choosing a figure, we have sought to balance the reality of an ageing population with the practicality of keeping records over a long period. We therefore propose that to qualify for exemption from IHT,



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gifts should be made at least fifteen years before the death of the donor. While this will raise additional revenue in the long-term, it is difficult to put a precise figure on the revenue gains.

- 3.0.5 A further unsatisfactory aspect of IHT is that it has to be paid in full on moveable (ie. liquid assets – bank/building society accounts, shares etc) property and in part on immovable (ie. real estate) property before the executors can receive a grant of probate. This means that sometimes a large amount of IHT has to be paid up front before assets can be realised, unless there are funds available in the deceased's bank or building society accounts to meet this obligation. While this can be done if the deceased left a will, if they died intestate the personal representatives therefore often have to borrow money to pay the tax, incurring charges in doing so as these assets are frozen until the grant is issued. We wish to review this rule to seek ways to reduce the burden on executors and estates, particularly in those cases where there is an intestacy. One way forward would be for the HMRC to have discretion to allow the grant to be obtained before full payment on moveable property in some cases. We will also discuss with HMRC and the banking community the possibility of instituting a low cost scheme for bridging loans particularly in estates where the main asset causing the estate to be liable for IHT is the house.

## 4. Local Government Taxation : our response to the Lyons Report

- 4.0.1 Sir Michael Lyons' long-awaited report was published in March 2007. There is much in the report that Liberal Democrats can support. His overall assessment of the issues and problems facing local government is sensible, and so is the general thrust of his solutions - more powers and responsibilities for local government, less central government micromanagement, more flexibility so local communities can come up with their own solutions. He also goes on to point out that different communities choosing to fund different priorities is not a bad thing in itself.
- 4.0.2 Sir Michael's financial proposals are based on the following objectives, all of which Liberal Democrats can heartily endorse:
- Greater local flexibility and choice.
  - Stronger national and local accountability based on clearer responsibilities.
  - Better incentives for local government.
  - Efficiency in local tax and spending.
  - Better management of pressures.
  - Improved fairness, and perceived fairness in the tax system.
- 4.0.3 However, while much of his long term analysis supports Liberal Democrat policies, his immediate recommendations lack radicalism and seem to pull back from the implications of his own arguments.
- 4.0.4 On household taxation, Sir Michael accepts that Local Income tax is more progressive than Council Tax (even taking account of Council Tax Benefit), that it would generally be regarded as fairer, that it would give local government a more buoyant stream of revenue, and that it would be practical to introduce and administer.
- 4.0.5 He nevertheless limits himself to proposing a half-hearted reform of existing Council Tax, adding two additional bands, reforming Council Tax Benefit, and calling for a revaluation. We are not persuaded that that such a cautious approach is justified.
- 4.0.6 Liberal Democrats remain committed to the abolition of Council Tax and its replacement with the fairer alternative of Local Income Tax as quickly as possible.
- 4.0.7 There are two specific aspects of the Lyons Report regarding Local Income Tax that we need to rebut.
- 4.0.8 Firstly, on the level of LIT required to replace Council Tax, Lyons suggests a figure of 7.7p in the pound. However, this is based on certain assumptions – that the existing funding for Council Tax benefit would simply return to the central Treasury, that LIT would be limited to the basic rate of income tax, and that unearned income would be exempted. In our policy on LIT however, Liberal Democrats propose to

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transfer Council Tax Benefit funds to local government, and not to limit coverage to the basic rate and earned income. We therefore calculate that the replacement level of LIT would be closer to 3.5p in the pound.

- 4.0.9 Secondly, Sir Michael suggests that it would take six or seven years to introduce LIT. However, he assumes that no preparatory administrative work would be done until all legislative processes were completed. By simply starting this work at the same time as the legislation started to go through Parliament, we believe that it would be possible to introduce LIT well within the lifetime of a Parliament; in fact we still believe it is achievable within 3 years as cited by CIPFA.
- 4.0.10 On local business tax, Sir Michael seems to agree with the proposal that business rates should be returned to local authority control, but notes business opposition to this (though he points out that the argument put forward by business, that councils taxed businesses more heavily than residents before the business rates were nationalised, is in fact incorrect). His proposal is a half way house – allowing councils to raise a supplemental rate on the business rate to be spent on specific projects (a reformed version of Business Improvement Districts - BIDs).
- 4.0.11 Again, Liberal Democrats regard this recommendation as over-cautious, and while fully recognising the need for safeguards for local businesses, including statutory consultation of businesses on levels of the business rate, we advocate localisation of the business rate and its reform into Site Value Rating (see below).
- 4.0.12 Finally, Sir Michael proposes councils should have more leeway to raise service charges. The one he particularly focuses on is a charge for waste collection to help reduce the amounts produced. There would be an element to this based on the cost of providing the service and an element based on how much householders throw away. This is in keeping with the 'polluter pays' principle, and Liberal Democrats support giving authorities the powers to introduce such schemes tailored to local circumstances, for which they will be accountable at the ballot box.

## 5. Property taxation

5.0.1 We stated in *Fairer, Simpler, Greener* that “land taxation potentially has an important part to play in a balanced overall tax system”. This remains our view. We believe that we can make a start during the next Parliament by moving the basis of the taxation of business property onto a site value basis.

### 5.1 From Uniform Business Rate to Site Value Rating

5.1.1 Moving the basis of business property taxation onto a site value basis has several advantages:

- It would effectively double the proportion of local authorities’ income which was set locally. The current system of non-domestic rates operates on a centralised basis, with the rate set nationally and distributed to local authorities on a per capita basis. Our proposal would allow local authorities to set the rate at which site value rating was applied in their area.
- By being based on the value of land, Site Value Rating (SVR) captures increases in land value which result from transport and other infrastructure improvements (eg. London’s Crossrail) and provides an ongoing enhanced revenue stream for the local authority.
- It provides the owners of sites with an incentive to build on them rather than leave them vacant or underdeveloped.

5.1.2 We would therefore introduce SVR as soon as possible and believe that it could be fully implemented during the course of a five year Parliament. The process for implementing the change would be as follows:

- An immediate post-election announcement of the switch to SVR.
- A freeze on work by the Valuation Office Agency (VOA) on maintaining Uniform Business Rate (UBR) assessments and a switch of resources to preparing for SVR.
- An invitation to local authorities (either singly or in groups) to be pilots for SVR. Pilots should be selected to cover a range of types of area (eg north, south, rural, metropolitan). Local authorities would be given an incentive by allowing them to retain all revenue generated during the pilot phase and reimbursing them for all additional local costs of administration.
- Defining and mapping valuation zones.
- Introducing SVR in pilot areas at a level of, say, 25% of the area’s current UBR revenue with an equivalent reduction across the whole area on NDR for business occupiers.
- Revaluing the pilot areas after 2 years. Increasing SVR in year 2 to 50% of UBR. Evaluating the pilots in year 3.
- Completing national land valuation within 5 years. A threshold for liability for SVR would be set at a level which would exclude almost all land outside settlements unless outline planning permission had been awarded.

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- Introducing the system nationally, at which point local authorities could set their own SVR rates. Undertaking annual revaluations thereafter.
- Putting in place for the first year of full operation an equalisation mechanism to redistribute some of the proceeds of SVR from those local authorities which have a preponderance of high value commercial properties (eg. City of London) to those which have relatively little.

## 5.2 Domestic properties

- 5.2.1 For domestic properties, whilst retaining a long term commitment to a system of land value taxation, we believe that, during the course of the next Parliament, our priorities for reforming local government funding should be the introduction of SVR for business properties and the introduction of a Local Income Tax.
- 5.2.2 We do believe however, that there should be one significant change made to the tax treatment of domestic properties.

## 5.3 Residential Stamp Duty

- 5.3.1 The current system of stamp duty on residential properties is based on a slab structure – that is, duty is assessed on the total cost of the property at rates which rise in bands of value. The rates are 0% for properties valued at under £125,000; 1% between £125k and £250; 3% between £250k and £500k; and 4% above £500k.
- 5.3.2 This structure causes two problems. First, significant amounts of duty are increasingly being incurred by first time buyers, thus making it even harder for them to enter the market. Second, the slab structure causes distortions in price around the band limits.
- 5.3.3 These problems can be reduced by moving from a slab structure to a system under which duty is paid on the marginal rate above the threshold for each band.
- 5.3.4 We propose that a marginal system should be introduced which combines a modest increase in the zero rate band with a graduated rate payable in bands thereafter. The aim would be to reduce the amount payable for all purchasers up to £500k. The exact band widths and rates to be included in the General Election Manifesto will be set at the time, when the revenue costs of various options post-election are clearer than they are today.

## 6. Simplification

- 6.0.1 Simplifying the tax system is a profoundly liberal objective. An overly complicated tax system is a symptom of government that seeks to control every aspect of citizens' lives.
- 6.0.2 Complexity breeds unfairness: not only do the wealthiest have access to the best advice but each layer of additional legislation opens up new loopholes to exploit. By contrast, a simple and transparent tax system helps ensure a government is accountable to taxpayers and electors in general.
- 6.0.3 When Labour came to power in 1997 there were already over 4,500 pages of tax legislation on the statute book, together with countless statements of practice, guidelines, statutory instruments and legal precedents. In just ten years, Gordon Brown has more than doubled the size of the UK tax code, and it has recently outstripped Indian legislation as the longest in the world.
- 6.0.4 The Institute of Chartered Accountants of England and Wales has stated that: *'The UK tax system is spiralling out of democratic control ...the complexity of the system has developed in such a way that even highly numerate taxpayers are struggling to understand the tax implications of their actions.'*

### 6.1 Abolish over 500 pages of unnecessary tax rules

- 6.1.1 One of the causes of the ever-growing tax code is the constant struggle to close tax loopholes and tackle avoidance schemes. Successive governments have introduced tracts of detailed legislation to protect the tax base. However, these specific anti-avoidance rules tend to come too late to catch much of the mischief and, by adding to the overall complexity of the system, frequently open up further loopholes in their own right.
- 6.1.2 We propose a different approach: we would legislate for a General Anti Avoidance Rule (GAAR) which would strike out the tax benefit where the avoidance of tax is the main reason for a transaction. A similar system has proved effective in countries like Australia, where artificial tax planning has become much more difficult. This purposive approach would allow for the simultaneous abolition of numerous specific or 'targeted' anti-avoidance rules. Our estimates suggest that this measure alone would allow for the pulping of around 400 pages of tax legislation (together with another 200 pages that would go as a result of our earlier proposals on tax reform). This would just be a first step towards reduction in unnecessary regulations.
- 6.1.3 We also believe it is essential that such a rule be accompanied by a fast and efficient pre-clearance system, allowing taxpayers to gain much-needed certainty before they enter into a transaction. While this would be resource-intensive, we believe it could build on existing proposals on tax rulings in the Varney Review and

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the GAAR would allow resources to be switched within the Revenue to ensure taxpayers receive the levels of service they expect and require.

- 6.1.4 Our proposals for a GAAR would provide greater certainty and cut red tape for genuine taxpayers, while making artificial tax avoidance much harder.

## **6.2 Simplify the tax code**

- 6.2.1 The UK tax code has been built up over more than 200 years and still contains many obsolete rules as well as newer provisions of Byzantine complexity.
- 6.2.2 We propose to sweep away the obsolete vestiges of the old schedular system, which date back to Napoleonic times but have no continuing relevance. The 2007 Budget reduced the benefits of capital allowances, but in doing so complicated the system and was only a partial reform. We would seek to replace capital allowances with tax deductible depreciation, as in most other developed countries, and align taxable profits much more closely with accounts.
- 6.2.3 Such changes might entail transitional adjustments – and we would explore whether a small number of targeted enhanced allowances should remain – but overall UK businesses would benefit from a far simpler system and smaller compliance costs. The switch from capital allowances will raise significant ongoing revenue (a so-called permanent timing difference), however it is difficult to put a precise figure on this in advance. We would use these proceeds to achieve a further reduction in the rate of corporation tax in addition to our original proposals to cut the rate by 1%.
- 6.2.4 Liberal Democrats strongly support the principle of wider employee share ownership. And yet the sheer complexity of different rules and regimes surrounding this area serves as a disincentive to companies and employees alike. We would propose a wholesale simplification of the rules on employee share plans to ensure they are attractive and accessible to all employees.
- 6.2.5 Finally, we would look to review and, where possible, abolish a number of minor or obscure reliefs such as foreign service allowance, deductions for professional fees and relocation allowances, and use the proceeds to keep general taxes low.

## **6.3 Make the Revenue more user-friendly**

- 6.3.1 The vast majority of UK tax payers have quite simple tax affairs, and yet their dealings with the Revenue can often be difficult and stressful. At the same time, public understanding of how the Government spends our money is quite limited.
- 6.3.2 There are around 8 million self assessment taxpayers submitting returns each year. Even an employee with the simplest of tax affairs must complete a dozen pages of returns, requiring 36 pages of guidance.

- 6.3.3 We propose introducing a simplified tax return form that would allow 6.6 m taxpayers (ie. 81% of all taxpayers who currently do self-assessment) to complete their return on a form the size of a postcard, while still leaving space for a chart showing how tax revenues are spent on different projects and departments.
- 6.3.4 These simplified returns could have many of the entries pre-completed using records already at the Revenue's disposal – and their simplicity would allow the calculation of their tax liability to be automated more easily.
- 6.3.5 Other reforms would include altering the way Income Tax records are administered so that all of an individual's tax affairs can be dealt with directly by one office, based on residential address. Public acceptance and trust of the Revenue might also be improved by simple measures such as reversing the decision not to issue receipts to taxpayers when they hand in their tax return at their local tax office.
- 6.3.6 We would also make life easier for small businesses by introducing a single registration process with HMRC (by paper and online), where currently a business is required to register for income tax or corporation tax, VAT and PAYE/NIC, all separately. There would be a single HMRC reference number for all businesses, instead of the current system of different codes for different departments.
- 6.3.7 Our proposals would make the Revenue more user-friendly for taxpayers on whom the Government relies – and make the way that Government spends their taxes more transparent.

## **6.4 Fairer taxes for non-residents**

- 6.4.1 The extent to which an individual is subject to UK tax depends on whether they are treated as 'resident', 'ordinarily resident' and/or 'domiciled' here. The rules are more complex and less clearly defined than those in virtually any other tax regime. Not surprisingly this has opened up opportunities for some of the wealthiest individuals to avoid UK tax and at the same time can catch out some individuals who quite innocently spend much of their time outside the UK. Tax professionals have referred to the present system as a 'lottery ticket', where individuals can find they benefit by accident as much as by design.
- 6.4.2 We would propose to simplify and clarify the rules by the introduction of a simple statutory definition of tax residence, which would give clarity to taxpayers on when they fall within the UK tax net. Anyone who is resident in the UK would be subject to tax on their UK income and gains, together with any foreign income or gains that they remit to the UK. This change would help internationally mobile employees and the businesses that employ them by making the rules clearer and reducing compliance costs.
- 6.4.3 To do this, we would scrap the concept of 'ordinary residence' but retain the definition of domicile – including a provision that anyone resident in the UK for 17 out of 20 years automatically be treated as domiciled here (this criterion is already used for Inheritance Tax purposes). We would also bring gains made by non-



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residents on property situated in the UK within the charge to UK capital gains tax. These gains are currently exempt from UK tax for non-resident individuals, unlike in most other developed economies.

- 6.4.4 Overall these proposals would result in a simpler and fairer system for taxing non-residents. They would ensure that people who decide to stay in the UK pay their fair share but would not put off skilled wealth-bringers who stay in the UK for short periods and bring their skills to the benefit of the UK economy.

*This paper has been approved for debate by the Federal Conference by the Federal Policy Committee under the terms of Article 5.4 of the Federal Constitution. Within the policy-making procedure of the Liberal Democrats, the Federal Party determines the policy of the Party in those areas which might reasonably be expected to fall within the remit of the federal institutions in the context of a federal United Kingdom. The Party in England, the Scottish Liberal Democrats, the Welsh Liberal Democrats and the Northern Ireland Local Party determine the policy of the Party on all other issues, except that any or all of them may confer this power upon the Federal Party in any specified area or areas. The Party in England has chosen to pass up policy-making to the Federal level. If approved by Conference, this paper will therefore form the policy of the Federal Party on federal issues and the Party in England on English issues. In appropriate policy areas, Scottish, Welsh and Northern Ireland party policy would take precedence.*

*Many of the policy papers published by the Liberal Democrats imply modifications to existing government public expenditure priorities. We recognise that it may not be possible to achieve all these proposals in the lifetime of one Parliament. We intend to publish a costings programme, setting out our priorities across all policy areas, closer to the next general election.*

### **Working Group on Taxation**

*Note: Membership of the Working Group should not be taken to indicate that every member necessarily agrees with every statement or every proposal in this Paper.*

Dick Newby (Chair)	Tessa Munt
Danny Alexander MP	Matthew Oakeshott
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