
Taxes are a moral good, and avoiding your fair share is a moral disgrace

A new review must go back to first principles and ask why the rich pay so little when they own almost everything

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Is the tax system too complicated? The CBI and other rightwing critics protest at a "rococo" bureaucracy where each year the budget now fills not just one but two hefty tomes. Tax accountants, they say, are enjoying a bonanza, as starting salaries for the newly qualified jumped from £37,000 to £47,000 in 18 months. Oh for simplicity! they cry. But many of those voices are deeply disingenuous, to put it very politely indeed. Down-right bogus is nearer the mark.

By chance through the letterbox came an interesting advertisement offering an "Investment Strategy and Inheritance Tax Planning Seminar" from top financial advisers. What better way to listen in? I signed up. This turned out to be no hole-in-the-corner firm, but run by the most distinguished names in the world of finance. So in the plush Mayfair offices displaying a brass plate advertising "Wealth Management", the executive sales manager laid out his wares to an audience of late middle-aged and elderly persons of (presumed) property, with buffet and wine to follow.

Here was his pitch. Labour (hiss, sneer) has introduced 50 new taxes, (gasp) but we can show you how to avoid them, all quite legally. Gordon Brown's inheritance tax is a truck (cue Powerpoint picture of huge death truck) coming down the road to get you, unless you take our advice. There followed a string of wheezes: that they are all legal is surprising.

But watch out, he said. There are pitfalls unless you take our advice. You may think you are domiciled abroad, but remember tax exile Richard Burton's disaster: because his body was buried in Wales, the Inland Revenue deemed him still residing in the UK and took £2.4m in inheritance tax (IHT). Ditto tax exile Charles Clore, buried in Hereford. (Gasps of horror. Have they no mercy?)

So how do you avoid IHT? On your behalf, we monitor every twist and turn of Treasury policy. The Inland Revenue never officially approves any scheme and it does keep closing them down. But we know this one works as we've had Kevin Prosser QC check it through and he's the guy the Revenue uses in court for its own toughest cases. (Checking his Pump Court Tax Chambers website afterwards, they advertise him as "a real fighter".) If the Revenue does change the rules again, it never makes it retrospective so you'll always be OK with existing schemes. So, here's how to give all your assets away for IHT purposes and yet you can still spend what you like while you are alive. A client of ours just saved £3.5m from IHT this way. (Gasps of admiration.) You can do this with a second property and all your other assets.

There followed a diabolically complex scheme that involved setting up two trusts, with one trust lending money to the other. On death, the first trust demands the money back from the second, and hey presto, the only money left in the second is £285k - the zero rate IHT allowance. Or something like that. Frankly, I doubt many in the room grasped the finer points: only the company's own lawyers drawing up special wills know how to do it. But never mind fine points, the very gross point is this: these fiendishly clever, highly-paid people work night and day to stay one jump ahead of less well-paid Revenue staff, while sneering at Labour and the taxman.

So whenever you hear City financiers or CBI spokespersons protesting that the tax system is "too complex" and should be "simplified", just ask them to declare precisely what kind of cat's cradle tax planning regimes they have devised for themselves to avoid paying their fair whack. If they want simple and transparent, let's just start with their own affairs.

Labour has tried outlawing schemes wholly designed to avoid tax, raising another £5bn a year, but still the tax-avoidance business booms. Much complexity comes from chasing scams like these - entirely legal, but defying the spirit of the law. What kind of ethical culture is this? It is mainstream: this firm is founded by the most highly respected names in finance.

The Institute for Fiscal Studies (IFS) has just launched a review of the entire tax system, led by Sir James Mirrlees, Nobel prize winner for studies of the world's optimal tax systems. It is time to go back to first principles and ask why the bottom 10% pay a higher marginal rate than the well off and why the rich pay so little in a society where they own almost everything.

The review also needs to challenge the Englishman's strange delusion that the lottery-win gains he makes on the value of his castle should never be taxed. Council tax is still valued at 1981 prices with no higher bands to capture true value. And why do people think parents' homes should be exempt from inheritance tax, to be cashed in by middle-aged children with homes of their own?

The review should conduct great public debates and use polls not just to test opinion but to discover what approaches might reconnect people with a realistic sense of the public good their taxes do. The wicked attitudes of the tax-avoiders seep down even to those who gain most from taxes. The rich command every outlet of opinion that says tax is always a "burden", low taxes good and high taxes bad. Few politicians dare remind people that what they value most - their health, their children's education, their safety, the pleasantness of streets or the beauty of public spaces - are all bought by taxes: the pound in their pocket only buys life's lesser things. The rich who cheat and avoid are contemptible: the review should revive a sense of the moral good of taxes and the moral disgrace of avoiding your fair share.

The Liberal Democrats are rolling up their sleeves for a good tax fight next week, as the leadership tries to drop one of the party's few unique signature policies - the 50p top tax rate. As the only party daring to suggest that the booming earnings of the top 1% should be taxed a bit more, the rebels, led by Evan Harris MP, fight to keep it (slightly amended) as the flag that drew Labour voters to them. But the fear is that people who understand little about taxes think any rise will hit them too.

Taxes do three traditional things: raise cash for public services, redistribute from richer to poorer, or induce people to change their behaviour - less drinking, smoking and driving cars. But that 50p rate does something else besides. It is a totem in its own right. It stands as public recognition that society does not approve of galloping inequality. With City bonuses this year at over £21bn, earnings themselves could and should be fairer: this small extra tax band at least expresses disapproval.

Governments shrink from major tax reviews: a few rich losers make mega-decibels of political complaint while the winners quietly pocket their gains without a murmur of gratitude. But when the rightwing OECD has just declared the UK as the world's "Goldilocks economy" - not too hot or cold with strong growth and low inflation - there is no better time to risk radical reform. If the IFS, that bastion of fiscal probity, devises fairer taxes, the government should listen.

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