

**HOUSE OF COMMONS SELECT COMMITTEE ON THE TREASURY**  
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**Memorandum by Mr James Robertson<sup>1</sup>**

1. Summary. Pressures for significant change in the present structure of taxation are likely to grow. An integrated revenue department will be needed to deal with them. That is a reason for merging the two existing revenue departments. It is additional to the considerations discussed earlier this year in the Committee's Report on the Inland Revenue, in Evidence to the Committee, and in the Government's reply to the Committee's Report.
2. The following are among the foreseeable pressures for change.
  - 1) Growing mobility, both of capital and of highly qualified people, combined with sharpening international competition, will continue to press national governments to reduce taxes on incomes, profits and capital, in order to encourage inward (and discourage outward) personal and corporate investment.
  - 2) Growing internet trading ("e-commerce") will make it more difficult for national governments to collect VAT (and other sales taxes and levies) and customs duties, especially on products and services that can be down-loaded directly from the internet. It will also make it easier for individuals and businesses to shift their earnings and profits to low-tax regimes.
  - 3) Economic, social and environmental arguments for a "tax shift" - off employment and enterprise and on to natural resources and environmental damage - will continue to attract increasing support. The economic arguments include the need to encourage businesses to compete successfully in the growing world market for new environmental technologies.

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<sup>1</sup> James Robertson worked in the Cabinet Office (1960-1963), directed the Inter-Bank Research Organisation (1968-1973), was specialist adviser to the House of Commons Procedure Committee's 1969 enquiry on parliamentary control of public expenditure, and gave evidence to the Procedure Committee's enquiry on taxation in the following year. He is now an independent writer and lecturer. In June 1999 he submitted evidence on "Monetary Policy and Fiscal Policy: The Question of Credit Creation" to the Treasury Select Committee's enquiry on the Bank of England's Monetary Policy Committee.

- 4) In an ageing society, there is likely to be increasing resistance to taxing fewer people of working age on the fruits of their employment and enterprise in order to support a growing number of "economically inactive" people.
- 5) International pressure, e.g. from OECD and EU, to reduce the distortionary effects of "tax havens", will continue to grow. As a response to it, a tax shift (as at (3) above) which - in addition to its other beneficial effects - would reduce the attraction of tax havens, could come to be recognised as a better way to deal with the problem than by trying to impose an internationally harmonised system of tax regulation.

3. All this suggests that proposals amounting to a fairly extensive restructuring of taxation could require continuing attention from government and Parliament from now on. They could include proposals to reduce taxes on employment, incomes, profits, financial capital, value added and sales. To balance the reductions, they could include proposals to develop new sources of public revenue, less easily avoidable (and evadable), such as increased taxes and charges on land, on the use (by producers and consumers) of energy and other resources, and on environmentally damaging activities. As a general principle, it might come to be regarded as reflecting fairness and common sense

- not to tax people and organisations heavily on the incomes and profits they earn from useful work and enterprise, on the value they add, and on what they contribute to the common good; but
- to have them pay taxes and charges matching the value they subtract by their use of common resources, including land and energy and the capacity of the environment to absorb pollution and waste.

4. This is not the place or time to go into the details, or the merits and demerits, of various possible proposals that may come forward on these lines in the next few years. The point is simply that they will raise questions about how functions should be restructured between, as well as within, the existing revenue departments. That being so, an integrated department will be better able than two separate ones:

- to give Ministers and Parliament the "joined up" policy advice and administrative reports they will need on proposals for tax restructuring;
- to manage the introduction of whatever changes are decided, and
- to phase in the new tax administration procedures, and the staff relocation and training programmes, which the changes will require.

James Robertson  
23rd September, 1999