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It's time for the Tories to scrap stamp duty and business rates

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“After 12 years of relative anaemia, we need to lift the trend rate of growth, we need to lift people’s incomes.” So said Boris Johnson at the Conservative Party Conference.

The Prime Minister’s recognition of economic growth’s power in lifting living standards was welcome. Delivering faster growth will be more difficult.

Economists are divided on how far governments can alter structural growth trends, and on the policies that might achieve it.

We do know, however, that taxation is one of the most powerful economic tools at any government’s disposal.

A badly designed code that is not neutral between economic choices can misallocate resources and disincentivise desirable activity, with narrowed tax bases offset by high marginal rates for any given level of revenue.

This shrinks activity and so GDP, making us poorer. Unpicking this damage through reform can therefore raise growth on the march to a higher national income.

Despite 10 years of Tory government, a genuine effort at pro-growth tax reform has been lacking. Yes, there have been cuts to the headline corporation tax rate, and some sensible reforms to stamp duty land tax's structure.

But there has been little re-think of how government could raise revenue in a less damaging way.

Successive chancellors have spurned the Institute for Fiscal Studies’ Mirrlees Review and The Taxpayers’ Alliance’s 2020 Tax Commission.

The Government’s own Office for Tax Simplification, if online activity is anything to go by, seems more concerned with celebrating its 10th birthday than living up to its name — a reflection of the lack of initiative emanating from the Treasury.

So growth-hungry Boris should be grateful for a new Centre for Policy Studies (CPS) report, alongside the US Tax Foundation (TF), that outlines a revenue-neutral tax reform agenda to lift Britain from 22nd to ninth in the TF’s “tax competitiveness index” of 36 OECD countries.

As the CPS's Head of Tax Tom Clougherty explains, the UK's current tax code has low-hanging fruit for reform.

Corporation tax deters certain forms of capital investment through stingy capital allowances.

The business rates tax base similarly disincentivises improvements in buildings, because desirable investments can then raise companies' tax bills.

Stamp duties on housing and shares gum up transactions, leaving property and assets in the wrong hands. Top end taxpayers face high and varied marginal rates on their income.

The VAT base, meanwhile, has more holes in it than a block of Swiss cheese in a mouse cage, with extensive exemptions and zero-rating of goods creating all sorts of perverse incentives.

The CPS package alleviates many of these problems, in turn raising business investment and better allocating resources, by slashing a range of damaging taxes and offsetting revenues by broadening the VAT base to the OECD average.

Stamp duties would be scrapped entirely.

The long-term aim of full and immediate expensing of business investment within corporation tax would be mimicked by making the £1m Annual Investment Allowance permanent and allowing "neutral cost recovery" on structure, buildings, and other qualifying assets.

Business rates would be replaced with a land tax on the value of the business site. And the additional 45p rate of income tax would be abolished.

Such policies would promote Boris's stated economic agenda.

Britain has had a perennial problem of poor productivity growth since the financial crisis, contributed to by weak private business investment.

Johnson's desire to "level up" the country will be dependent on a relocation of activity, and new investment in buildings, machines, and structures, both of which this package would encourage.

Yes, broadening the VAT base to pay for these measures is a tough political sell. Given the current pressures to narrow it (eliminating the tampon tax) and the political costs faced by those attempting to broaden it (remember the pasty tax?) any Conservative chancellor is likely to be wary.

I'd grease the wheels of this effort with initial net tax cuts rather than revenue neutrality to ensure this "losers' wail" doesn't drown out the pro-growth wins. Coming out of this crisis, we will need robust growth anyway, so too much near-term deficit focus is misguided.

But if a Tory government with an 80-seat majority that's willing to hold the line against free school meals during school holidays can't deliver meaningful pro-growth tax reform, then who can?

No, the real question for Conservatives is not whether tax reform is feasible - they have the votes. It is: do they believe in it?

Here, things look depressing. The Financial Secretary to the Treasury Jesse Norman poured cold water over the CPS report at its launch, questioning the package's desirability.

Significantly, he began his remarks by suggesting that the distributional impact of any tax reform measures—i.e. how progressive they were—was of crucial importance.

This is disheartening because it suggests that Conservatives are ensnared in the Blairite trap whereby any individual tax change will be dismissed if it raises inequality, regardless of the longer-term benefits to productivity, wages, or GDP, which has plunged in the pandemic.

This is a recipe for doing no tax reform of any growth value. Conservatives once understood that distributional issues could only properly be assessed by examining the full scope of government activity, including taxes, yes, but also benefits and benefits-in-kind.

They also knew that higher growth was far more powerful for the wellbeing of the poor than anything redistributing resources could achieve.

If Norman's view is representative then, the CPS efforts at producing worthwhile tax reform will be in vain. And given the government's lack of interest in deregulation and the historical failures of the industrial policies it champions, it's difficult to see many levers left for achieving the growth Boris desires.

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