

Coalition's deficit reduction has made UK tax base more regressive

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SPERI research on food banks

Taxation in the UK has become increasingly regressive since the financial crisis, particularly since the coalition government came to office, according to academics at the Sheffield Political Economy Research Institute (SPERI).

The latest evidence on tax revenue shows that progressive taxes such as income tax and capital gains tax contribute 54 per cent of total tax receipts, down from 58 per cent five years earlier. In contrast, regressive taxes such as VAT contribute 28 per cent of total tax receipts, an increase from 25 per cent. Tax

Research found that of all the major forms of taxation, VAT has taken on an increasingly prominent role, due to a rise in the rate to 20 per cent, and the greater volume of goods it is levied upon.

VAT revenue has risen from £81 billion, accounting for 16 per cent of tax revenue, to £101 billion, 18 per cent of tax revenue.

The [coalition government](#) has explicitly sought to

reduce business taxes such as corporation tax. Accordingly, business taxation now contributes 12 per cent of total tax receipts, down from 14 per cent five years earlier.

The Office for Budget Responsibility (OBR) forecasts even further falls in business tax revenue, with receipts declining to 11 per cent of the total by 2017/18. A lower tax burden for business is due to become an enduring feature of the UK tax base.

In contrast, the OBR forecasts a partial rebalancing towards progressive taxes, away from regressive taxes, over this period. Yet this prediction is based on the expectation of strong average earnings growth – which forecasters have been consistently wrong about since the recession.

The report by the University of Sheffield's SPERI Research Fellow Dr Craig Berry and Department of Politics researcher Dan Bailey highlights the character of the coalition government's approach to deficit reduction in terms of tax, with forms of tax that fall most heavily on the least affluent groups targeted as sources of additional revenue.

Dr Berry said: "The UK tax base has, to some extent, been transformed by the economic downturn and its aftermath, and reforms undertaken by the coalition government. It is clear that the UK tax base has become more regressive.

"The trend away from progressive taxes may reverse in the next few years – if the economic recovery proves sustainable, which is far from certain. Yet the tax base will not revert in full to its pre-crisis balance, and the prediction that it will is based on earnings growth forecasts which are highly debateable.

"We know that the coalition government has sought to achieve deficit reduction primarily through spending cuts, which hit the poorest hardest. But it is clear the portion of deficit reduction enabled by

[tax](#) increases also has an increasingly regressive character."

More information: The full report can be viewed at <http://speri.dept.shef.ac.uk/publications/policy-briefs/>

Today's publication is the fifth in a new series of SPERI British Political Economy Briefs.

Through this series SPERI hopes to draw upon the expertise of its academic researchers to influence the debate in the UK on sustainable economic recovery.

Provided by University of Sheffield

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