Faculty of Taxation

TAXGUIDE 4/99

TOWARDS A BETTER TAX SYSTEM

A discussion paper by the Tax Faculty of the Institute of Chartered Accountants in England and Wales published in October 1999

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The Tax Faculty is the focus within the Institute of Chartered Accountants in England and Wales for those Chartered Accountants working in the area of tax. We are a centre for excellence and the authoritative voice on taxation matters for the Institute's 115,000 members. We make representations to Government and other authorities, and public pronouncements on major tax issues. For more details on the Tax Faculty call 020 7920 8646.

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I INTRODUCTION

Britain's tax system has spun out of democratic control and become detached from the principles of good revenue raising. It is run increasingly on lines that suit the convenience of the Treasury, the Inland Revenue and Customs and Excise, rather than those of the taxpayers.

This trend, apparent under both recent Governments, is creating huge complexity and unnecessary costs. It distorts business decision making and imposes growing burdens on ordinary people. Virtually everyone in the country is caught by failures in the system: employees whose earnings have tax deducted at source, the growing numbers of self-employed and higher-rate taxpayers completing self assessment forms, pensioners with savings and every kind of business person. Small firms with low profit margins and unrepresented taxpayers are most vulnerable to the system's failings. Yet it is possible for Governments to raise money in ways that minimise the cost, time and complexity of calculating and handing over tax.

There has been a continuing policy to transfer what had previously been Government functions to the taxpayer, for example by way of self assessment of income and corporate taxes. Also measures such as the Working Families Tax Credit has made employers into unpaid benefit payers, in addition to their existing role as unpaid tax collectors via the Pay-As-You-Earn system. Such measures make it all the more imperative that the system functions in a relatively simple and transparent way.

During our regular dealings with the Government, revenue authorities and those who

practice in the field of tax, we at the Tax Faculty have become increasingly concerned about the fundamental problems inherent in the present UK tax system.

In this paper we set out what we believe are the main problems and provide a ten-point plan for improvement. We also suggest the introduction of a new Code for Fiscal Simplicity designed to ensure that our tax system is improved both in the short and long-term.

The key problems with the current UK tax system

We believe there are four main problems. The current UK tax system is:

- **Far too complex** – Even highly numerate taxpayers struggle to understand the present tax system. This makes it almost impossible to see and appreciate the tax consequences of your actions. This affects your ability to control your own financial affairs. For example, the latest tax calculation guide takes 28 pages to explain how taxpayers should calculate their liability.
- **Full of anomalies** – The tax system is filled with strange quirks and anomalies which are often not justifiable. Some are relics from another age, whilst others are of a more modern vintage. For example, the introduction of capital gains tax taper relief over ten years and the phasing out of retirement relief over a shorter five year period, has created an anomaly in the tax charge on retirement during the period of transition from the old to the new style system. This will lead to increased tax charges for many who make modest gains.
- **Caught in a culture of never-ending change** – the number of changes to the tax law has increased greatly in recent years, as demonstrated in Annex 1. The table shows that the Finance Acts passed from 1966-70 had 256 sections and 78 Schedules. Those passed in 1996- 99 had 679 sections and 114 Schedules. The new rules also tend to cover many pages of legislation, either for explanatory purposes or to ensure that any new relief is not open to avoidance. It took just 24 pages to cover the two Finance Acts in 1955. However, it took 560 pages to set out the 1998 Finance Act. Trying to keep pace with these changes places great burdens on business and on taxpayers.
- **Lacking in democratic control** - the speed of introduction of much new legislation often leaves little time for adequate consultation. Parliament is given little time to study and debate proposed legislation, so reducing opportunities for second thoughts and useful amendments. Too much legislation escapes parliamentary scrutiny altogether and some is effectively made by the revenue authorities themselves, against whom there are not always suitable methods of appeal. The end result is a tax system being run for the convenience of Whitehall rather than the taxpayer.

It is now essential to step back from individual tax problems and look at the system as a whole. This is not to prejudge political decisions about the ultimate objectives of tax policy or the amount of money that should be raised. But it is about recognising that the structure of any revenue raising system has serious consequences, regardless of the political ends it is meant to serve. We must look at where the system should be heading. What should be its guiding principles? How should those principles be applied?

Ten point plan

To help answer these questions we have developed our own 'Ten Tenets for a Better Tax System'. These are the factors we believe should underpin the UK tax system. We suggest that all tax legislation (existing and future) should be judged against these tenets and exposed when it fails to live up to them.

A New Code

We also recommend that a new Code for Fiscal Simplicity be drawn up. A formal Code would require all new tax legislation to satisfy the test that it will not make tax law more complex, or if it does, provide adequate justification for the change. This would ensure that all those involved in producing tax legislation are obliged to review every policy change to ensure it satisfies the tests of keeping the law as simple, as certain and as understandable as possible.

Why look at the tax system now?

This paper has arisen out of our experience of the continuing project to look at the tax legislation and to rewrite it in a more comprehensible style ('the Tax Law Rewrite Project'). Whilst we commend the achievements of the project to date we believe it is time to look beyond the words of the existing tax law to consider the issues behind it.

Just the first step

However, in formulating our tenets we are not able to start with a clean slate and ignore the current tax system. There already exists a substantial body of legislation and there is also the need to have rules which are practical and reflect the other pressures upon the system, such as healthy international tax competition. Therefore this is the first in a series of papers which will concentrate on various aspects of the tax system.

Many of the guiding principles we have outlined below are not controversial. Many are self-evident. However, their application raises many questions that require debate. We believe the points raised in this paper are of interest to anyone with a stake in the tax system. We welcome comments on the issues raised. Details of where to send your comments can be found at the end of the document.

II THE TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. **Statutory**: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.

2. **Certain**: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.

3. **Simple**: the tax rules should aim to be simple, understandable and clear in their objectives.

4. **Easy to collect and to calculate**: a person's tax liability should be easy to calculate and straightforward and cheap to collect.

5. **Properly targeted**: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.

6. **Constan**t: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.

7. **Subject to proper consultation**: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.

8. **Regularly reviewed**: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.

9. **Fair and reasonable**: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.

10. **Competitive**: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

THE TEN TENETS EXPLAINED

We set out below the reasons behind our choice of the Ten Tenets, together with certain questions which they pose.

Tenet One - Statutory

No Government has the right to tax except with the specific approval of Parliament. It is of vital importance that the law is directly scrutinised by Parliament. Parliament 'confers' authority whilst Government 'applies' authority. Problems arise when this distinction is blurred.

The correct place for substantive tax law, as interpreted by case law, is in primary legislation, which means in Acts of Parliament. Secondary legislation, such as regulations authorised by statute but not part of any Act, should be restricted to the mechanics of administration. There is no place for tertiary legislation i.e. where the tax authorities are themselves empowered to make law, either formally or informally.

The onus should be on the Government to justify any delegated legislation. Under no

circumstances should it be necessary for delegated legislation to set out either a charge to tax or the detail as to how a tax charge is imposed.

The reasoning for this is that the select committee procedure for dealing with delegated legislation tends to put the making and framing of the legislation in the hands of the revenue-raising departments. Once it has reached Parliament there is little further scrutiny. This means that without the principle we propose detailed substantive tax provisions can be implemented without proper Parliamentary discussion and review.

We also believe secondary legislation should not be used to amend primary legislation. A good example is the Landfill Tax (Site Restoration and Quarries) Order 1999. This secondary legislation inserts new sections 43C and 44A into the Finance Act 1996. The end result is that users of the Act cannot tell which parts were scrutinised by Parliament and which were subject to a mere affirmation process and effectively 'enacted' by the Treasury. When the legislation is consolidated, Parliament will re-enact all the provisions without knowing which parts were properly scrutinised by Parliament previously.

We believe there should be no room for any form of 'tertiary' legislation. This is particularly the case where rules are framed by the revenue authorities and take on statutory force, such as with some Customs and Excise leaflets. There is an unclear distinction made in booklets, for example Customs and Excise's booklet on the retail scheme, as to what is guidance and what is law.

It follows that at no stage should an oppressive or penal tax be introduced by secondary legislation. A prime example of such a tax occurring can be found in the personal portfolio bond regulations. These introduced an annual charge of 15% on the notional value of the bond, which was totally unrelated to the underlying income and gains, and is far above the return actually achieved by most investors.

Tenet Two - Certain

This second tenet of certainty complements the third tenet of simplicity. Clear rules are more likely to provide certainty of outcome for a tax transaction.

At times there may be a trade-off between certainty and simplicity. We accept that it is not always possible to achieve both aims in setting out tax legislation. We believe that in such cases, certainty is the crucial element and this should not be sacrificed.

Taxpayers should be able to anticipate the tax consequences with reasonable certainty in advance of any transaction which they wish to undertake. This allows them to know the likely result of their actions and enables them to anticipate and plan their financial affairs. It should normally not be necessary to have to resort to the appeal process to obtain that certainty.

In certain areas of tax there are clearance procedures which enable taxpayers to go to the revenue authorities, disclose all the relevant facts and then obtain a 'ruling' as to the tax affect of a transaction. For example, the introduction of new rules for personal

service companies will probably include a clearance procedure enabling taxpayers to determine if they are in or outside of the rules in relation to a relevant contract. Whilst welcoming the clarity this provides, it does reveal how uncertain the tax system has become when it is not possible to make a judgement on the effect of a tax transaction without such a ruling.

We believe that the tax legislation ought in most instances be able to be understood, so that it can be applied to a transaction without the need for an extra layer of administration and related expense to determine its relevance and impact.

Tenet Three- Simple, understandable and clear

Taxpayers should be able to understand the rules by which they are to be taxed. The best way to achieve this is to keep tax rules clear and simple. We appreciate that many tax concepts are complex but the starting point for any new rule should be to express it in as simple a manner as possible. Despite the efforts of the Tax Law Rewrite project much proposed legislation is still written in a traditional manner which can be hard to understand.

In our present tax system we have many Codes of Practice for determining how rules should be applied. For economic purposes, the Government has a 'Code of Fiscal Stability'. We suggest that what the tax system also requires is a 'Code for Fiscal Simplicity'. This would impose on Ministers an obligation to review every proposed policy change to taxation. The purpose would be to ensure that it satisfies the test that it will not make the tax law more complex, in particular for the benefit of the unrepresented taxpayer. It could also ensure that all legislation is scrutinised before it is put before Parliament to see if it is well expressed and comprehensible to those who will need to rely upon it.

The Code could also prohibit piecemeal changes and require that any changes to the tax code should be part of a long-term programme (a point returned to in Tenet Six below). Such a Code could be monitored by a Parliamentary sub-committee or an outside body set up for the purpose.

A good example of why this issue is important can be found as recently as the Finance Act 1999. It introduced two new sections covering nearly two pages of A4 paper to deal with the provision and support of bus services (see section 48, Finance Act 1999). This new provision is intended to encourage employers to provide a work's bus service. Even after cutting out a raft of complexity originally included in the Finance Bill the legislation is still filled with anti-avoidance provisions and dense drafting which is difficult for many employers, who may want to implement the scheme, to understand.

Tenet Four - Easy to collect and easy to calculate

It is important that tax is easy to collect. Compliance costs for taxpayers and administrative costs for the tax authorities should be minimised as far as is possible.

Increasingly, the burden of collecting tax has moved from the revenue authorities to

the taxpayer or his employer. This is seen, for example, in income tax self assessment where the individual taxpayer now firmly bears the responsibility for managing his or her own tax affairs. Another example is the additional administrative burdens and extra costs imposed on employers following the introduction of the Working Families Tax Credit and the Disabled Person's Tax Credits. Further burdens will arise in the administration of the Scottish Variable Rate and Student Loans.

We believe that where the burden of tax collection is to be moved, there needs to be thorough consideration of the costs which this will entail. This should encompass costs to the taxpayer and the costs of administration for all concerned parties. There is now in place a Regulatory Impact Assessment procedure which provides assistance in this area, but we believe it does not go far enough. For example, the Regulatory Impact Assessment on the personal service companies initiative was not apparently available until June 1999 although the original proposals were announced in March of this year. The resulting Assessment also did not take into account all the complexities of this area.

Tax calculations, particularly for individual taxpayers, have become exceptionally complicated in recent years. Any taxpayer who has attempted to complete the tax liability pages of the income tax self assessment form is likely to agree with that view. Even in the latest available draft of the self assessment Tax Calculation Guide, which is being redesigned for the year 1999-2000, it takes 28 pages to explain how a taxpayer should calculate his or her tax liability. This is not always the fault of Inland Revenue drafting but a direct result of the complexity of even the most basic tax rules.

The trend in recent years towards a complicated system of multiple tax rates has led to the tax calculation process becoming increasingly difficult to follow. These calculations are beyond the understanding of even highly numerate taxpayers.

The calculation of a tax liability is seriously hampered by complex tax rules. For example, the marginal income tax rate and national insurance burden, when coupled with the children's tax credit, can lead to the situation whereby as earnings increase the marginal rate goes from 33% down to 23%, then up to 46·66% before finally returning to 40%. Similarly, for corporation tax purposes there is an illogical effective tax rate progression. (See the examples in Annex 2 for an illustration of both these points.)

Tenet Five – Properly targeted

The Government has a legitimate interest in maintaining tax revenues. This means it will from time to time need to repair legislation which has failed to capture the necessary tax revenues. However, such anti-avoidance legislation needs to be balanced against simplicity and certainty.

Any anti-avoidance legislation needs to be targeted. This ensures taxpayers understand how and why it is affecting any particular transaction. For example, we were opposed to the introduction of a General Anti-Avoidance Rule, as proposed by the Inland Revenue in November 1998. The main reason why we opposed the rule was that it was couched in such a manner as to make it very difficult for a taxpayer to

have any certainty as to whether he or she might be transgressing the rule.

Any time a new relief is added to the tax system or a relaxation made, the resulting legislation often comes ring-fenced with myriad restrictions to prevent any possibility of abuse. Whilst accepting that the tax base must be protected, at times these restrictions are of the 'sledgehammer to crack a nut' variety and often seek to cause unnecessary complications.

A typical example was in the Finance Act 1999, when the Government introduced a provision to allow for the provision of company bicycles for home to work travel without a tax charge arising on the employee (see section 50). This worthy provision then came with a number of restrictions aimed at ensuring that the bicycle was not used for overly frequent non-business trips such as to the shops or on holidays. The original wording in the Finance Bill was that the bicycle trips needed to have 'substantial compliance' with the rule that the trips were for qualifying business purposes. This led to the question of what was 'substantial compliance' and how could it be policed? Would an employer have to make its employees log all trips? The resulting administration would have resulted in negating much of the intended benefit of the relief. After much comment from representative bodies (showing the value of input from independent sources) the wording was changed. The Finance Act now provides an exemption 'mainly for qualifying journeys' which is a clearer, more understandable test.

Tenet Six- Constant

We have concluded that there should be a consensus on the core of the tax structure. If the Government then wants to use the tax system to encourage or discourage activity this should be done without changing the core elements of the tax law.

We appreciate that the tax system must develop to meet changing circumstances. However, each year there is a Budget and a resulting Finance Act which creates new tax laws, alters existing statutes and often adds to the complexity of the existing system. Annex 3 highlights the sheer quantity of new legislation being introduced and the increase in complexity, as shown by the length of each Finance Bill.

Whilst appreciating the political desire to produce an annual Finance Act which can be used to show-case various political decisions, the end result is a system whereby change can seem to occur for change's sake. For example, PEPs and TESSAs were replaced by ISAs. The latter are more limited in terms of the amount that can be invested in them but are aimed at a broader market. However, the end result is a similar vehicle to the old schemes. This has come at a cost because administrative time and effort has been spent by the Government, the Inland Revenue, savers and product providers in developing the new scheme.

We believe the underlying principle should be to seek continuity in the tax law and any change should be publicly justified prior to being enacted. There are useful examples to consider in other jurisdictions. For example, in New Zealand greater focus is placed upon the design of the tax legislation and the design of the tax collection system, with a belief that any change to the tax system should be carefully

managed.

The Tax Law Review Committee of the Institute for Fiscal Studies issued its interim report on Tax Simplification in 1995. The report considered the dynamics of what drives people to change the tax system, as well as the hurried legislative timetable that ensures that any alteration to the system has little time to be debated or thoroughly considered. We have concluded that in order to achieve better tax legislation it is essential to reduce the pace of change and to build in time for considering the rationale behind each and every change and the nature of that change.

Tenet Seven – Subject to proper consultation

Consultation is a vital part of tax law development. This is recognised by the present Government. In addition the Inland Revenue has issued a Code of Practice on this matter.

The best legislation tends to arise after full and genuine consultation with representative bodies. Such consultation requires adequate time to complete and should follow a formal process. For example, we were dismayed by the way that the far-reaching proposals for personal service companies (announced in Inland Revenue Budget Day 1999 press release IR35) were not originated by a proper consultative document for bodies representing those who were likely to be affected by the change.

At times the genuine nature of a consultation is brought into question. For example, a consultation document on the introduction of a General Anti-Avoidance Rule for VAT was issued but then dropped before there could have been time to consider all the responses and deal with the many issues arising from the consultation.

From time to time, measures are required which are not consulted upon because of fears of substantial revenue loss if legislation is not brought in swiftly. We believe the number of situations where this is the case is small and this argument should not be used as an excuse to avoid the consultation process. The revenue authorities and the Government need to have serious and substantive reasons for not consulting and these reasons should be made publicly available.

Furthermore, we believe that the Parliamentary Counsel who draft legislation should be involved in the consultation process. When potential users of the legislation are sceptical whether a point is covered the draftsman can either explain direct why it is covered or be convinced that it is not covered. At present, the revenue authorities often simply pass on the message that the draftsman is satisfied with the wording. Where a non-lawyer questions the effect of proposed legislation it should be redrafted so that it is clear to all users not merely to the Parliamentary Counsel and possibly other lawyers. Therefore the development of the tax system would work more effectively if the draftsmen were involved in all stages of the consultative process.

Tenet Eight – Regularly reviewed

In order to maintain the simplicity, clarity and certainty required in the tax system it is necessary to hold a regular and public review of the tax system and to remove from

the statute book rules which are no longer required.

For example, it was only in 1998 that the provision relating to an employee using a horse in his duties was finally removed from the statute books, even though it became obsolete many years before. The legislation was first introduced in 1799 when horses were a major method of transportation and was never extended to reflect the original intention by covering cars or other modern methods of transportation.

An existing anomaly is the retention of the luncheon voucher scheme. This allows for no assessment to tax on employees if their employers provide them with non-transferable vouchers for meals, which are limited to the value of 15p per working day. The value of the voucher clearly bears no relation to modern costs. A review of this piece of legislation would determine if the scheme should be retained, but upgraded to a more realistic cost level, or replaced by a different scheme that had more relevance in today's working environment.

Tenet Nine - Fair and reasonable

This tenet raises the question of what remedies are available when one of the revenue authorities acts unreasonably. What is regarded as reasonable to the revenue authorities may not be regarded as such by the taxpayer. The test of 'reasonableness' should itself be subject to scrutiny to allow proper redress for taxpayers who are unfairly disadvantaged by the inappropriate use of revenue powers. The Revenue, for example, does issue Codes of Practice for how it will operate but these cannot be relied on in Court.

At present there are only limited remedies available for a taxpayer who disputes internal revenue department procedures. Once the revenue authorities have made a decision it may be possible to challenge it by judicial review but this is an expensive and difficult procedure. There is the Adjudicator and the Parliamentary Ombudsman but both are 'after the event' and neither of these offers the same protection as some form of statutory measure. We therefore believe there should be full protection to ensure that a taxpayer has an effective avenue to dispute the revenue authority's determination of what is 'reasonable'.

Furthermore, an automatic right of appeal to an independent tribunal should accompany any decision which affects the amount of tax which a taxpayer has to account for. At present this is not always the case. For example VAT appeals can be heard only if the matter is included in the list found in section 83, VAT Act 1994.

Tenet Ten - Competitive

Government should recognise that countries are in a competitive environment and that the UK tax rules need to take into account healthy tax competition.

A good example is the developing rules for the tax treatment of E-Commerce which need to find a balance between maintaining each country's tax base and its right to tax activities within its remit, with the need to avoid stifling the trading opportunities of electronic trade.

A liability to tax in the UK and the rates of that tax bill are in effect the price paid for residing and investing in the UK, and there are international (not just European Union) pressures on that price. If it becomes too high, it will damage our ability to attract investment, capital and trade to the UK. It is also important to encourage talent to stay in this country so as to create opportunities for the UK economy.

III STARTING THE DEBATE

In our Ten Tenets we have sought to identify the fundamental principles which we think most people would be willing to accept. The question remains as to how they could be introduced into the existing tax system. We are under no illusions that this will be a swift process; though it could be if the political will exists. But the first indispensable step is to air the issues and demonstrate their immense relevance to every business and household in the country. Only serious and prolonged debate is likely to make Whitehall set time aside from its main pressures and consider reform of the tax system.

The debate will raise detailed questions that need to be addressed before a better framework for UK tax rules can be developed. For example:

- Should tax and accounting principles go hand-in-hand?
- Are pensions flexible enough to cope with a modern working environment?
- What is the role for such taxes as capital gains tax and inheritance tax?

We will return to these issues in later consultation papers.

IV CONCLUSION

We wish to use this and subsequent discussion papers to raise the issue of where the UK tax system should be headed and to stimulate debate. We welcome comments from all interested parties and intend to use these comments to build on our initial views. All comments should be marked ‘Towards a better tax system’ and sent to Andrea Mortier, Tax Faculty, Chartered Accountants’ Hall, PO Box 433, Moorgate Place, London EC2P 2BJ or e-mail tdtf@icaew.co.uk.

ANNEX 1

FINANCE ACT ANALYSIS

In order to analyse the problem of increasing complexity of the UK tax system, we have set out two tables. Table 1 highlights the increasing numbers of sections and Schedules found in the Taxes Acts in recent years. Table 2 shows the numbers of pages of legislation required for the Finance Acts.

We appreciate that this analysis is simplistic, and that it does not take into account all factors that may be relevant in order to provide an accurate comparison. Nevertheless, we think that this analysis is sufficiently indicative of the problem of increasing complexity in the UK tax rules.

Table 1 Analysis of Finance Acts

This Table sets out the total number of sections and Schedules in the principal Finance Acts taking a view over 5 year periods. The latest period covers only the four years from 1995 to 1999.

Finance Acts	Sections	Schedules
1955-60	250	43
1961-65	277	66
1966-70	256	78
1971-75	453	105
1976-80	418	62
1981-85	570	101
1986-90	760	98
1991-95	854	115
1996-99 (4 years)	679	114

Table 2 Pages of Legislation

This sets out the number of pages required to set out the Finance Acts. It uses the number of pages in The Law Report Statutes series (bound brown volumes as produced by The Incorporated Council of Law Reporting in England and Wales) as the size of the pages has been consistent over the chosen years.

Finance Act	Pages of legislation		
1955	24	1995	511
1965	270	1996	618
1975 (No 1 and 2)	277	1997	311
1985	241	1998	560

ANNEX 2

EXAMPLES OF TAX CALCULATION RATES

Although the UK headline rates of tax may appear to be progressive, in reality the effective rates of tax fluctuate. This has led to the following anomalous situations where an individual taxpayer can be faced with up to six effective tax rates and a company paying corporation tax with five effective tax rates.

a) Individual taxpayer

The following table is based upon a taxpayer who is under the age of 65 years at the start of the tax year. The taxpayer earns £40,000 a year from employment and has no other income. The tax and National Insurance rates are based upon those in force for the year 1999/00, except that it is assumed that the proposed new children's tax credit is already in force in place of the married couple's allowance. The children's tax credit was introduced in the Finance Act 1999 (section 30) and takes effect from 2001-02.

Slice	Cumulative	Income tax rate	NI rate	Children's allowance	Effective rate
4,335	4,335	0	10		10.00
1,500	5,835	10	10		20.00
20165	26,000	23	10		33.00
6,335	32,335	23	0		23.00
6225	38,560	40	0	6.66	46.66
1440	40,000	40	0	0	40

b) Corporation tax rates

With effect from 1 April 2000, the effective rates of corporation tax will be as follows:

Slice	Cumulative	Effective CT rate
10,000	10,000	10.00
40,000	50,000	22.50
250,000	300,000	20.00
1,200,000	1,500,000	32.50
Over 1,500,000		30.00

ANNEX 3

A CULTURE OF CHANGE

We set out below two illustrations of the shifting sands upon which the tax system is based.

1. *Capital Gains Tax*

Perhaps the best example of the culture of change is the system for taxing personal capital gains. When it was introduced in 1965, the rules did not provide relief for inflation. In 1982, limited indexation relief was introduced. Indexation relief was extended in 1985, only to be restricted in later years so that it returned almost to the relief as introduced in 1982. With the introduction of taper relief from 6 April 1998, indexation was frozen with effect from that date. However, for assets held on 6 April 1998 but disposed of after that date, indexation is still available up to April 1998, as well as any taper relief available.

Perversely, companies are not subject to taper relief and the old indexation rules continue unchanged. Thus, for capital gains we are now faced with a taper relief system for individuals and an indexation system for companies, together with hybrid indexation for assets held by individuals in April 1998 but disposed of later. A more complicated system could not be imagined.

2. *Income Tax*

This culture of change is not confined to capital gains tax. The two examples below show that similar problems arise in income tax, namely the taxation of the benefit of company cars and the married couple's allowance.

a) Company Cars

The company car tax charge was introduced in 1976, and it was based principally upon the size of the car's engine. The rules were consolidated as section 157 and Schedule 6, ICTA 1988. The rules were straightforward and few problems arose in practice. The basic rules did not change significantly in 17 years.

In 1993, it was decided to change the system to one based upon the cost of the car. This change required the amendment of section 157, the addition of a further seven sections to define the price of a car, a rewritten Schedule 6 and an entirely new Schedule 6A to cater for company vans. A further two sections were added in 1995 and a further section in 1998.

Six years after this major change in the rules, it is now proposed that the current system will be amended further so that the tax benefit will be linked to the car's emissions.

b) Married Couples' Allowance/Children's Allowance

Prior to the introduction of independent taxation in 1990, the rules for the married couples' allowance was included within the main section covering personal allowances (section 257, ICTA 1988). With the introduction of independent taxation, the married couples' allowance was rewritten over six new sections (257A to F). In 1992, section 257B was rewritten and subdivided into two sections. In 1999, it was decided to abolish the Married Couples' Allowance (although not for those who reached 65 years of age before 6 April 2000) and replace it with an entirely new code called the children's allowance. This new relief requires one section and a Schedule which covers four pages of A4 and consists of eight paragraphs. The new system appears just as complicated as the previous system.