

2013 Budget and the "Unfair Society" - Part One

Written by Chris Blyth
Tuesday, 16 April 2013 21:17

Mr Teare's latest budget recently presented to Tynwald was widely greeted with enthusiasm- a "steady as she goes" performance that was allegedly just what the island needed. I must disagree.... it was a clear demonstration by a mathematically challenged Treasury Minister to continue this government's willingness to "kick the can down the road" and let later generations pick up the bills for its excesses. No-one enjoys paying taxes, and no-one likes bad news - but the reality is that this government continues to spend the reserves at an excessive rate, whilst meantime failing some fundamental tests of a "fair society".

Why ? Well, let's start with income tax and the personal allowance of £9300- it was last raised in the 2010/11 budget, 4 years ago - and then only by 1% from £9200. In essence, the effect of the failure to raise the allowance every year is to bring more low income people into the tax-paying class (an inflation effect known as "fiscal drag") and which is a "stealth tax" on those living on low incomes.

The personal allowance is widely regarded as the minimum income required for a fairly basic standard of living - and currently, 28% of our taxable population (20,500) falls below this level, thus paying no income tax. A further 31% of our taxable population (22,700) then fall into the 10% tax band paying a total of just £12 million income tax, or only 8% of the total income tax take. Taxing people at this level of income has two obvious consequences - it produces negligible levels of tax, but adds administrative costs by providing work for those employed in the tax offices of government (albeit for minimal tax benefit).

Thus, 59% of the population generates just 8% of total income tax receipts. The 41% balance of our taxable population (29,200) then pays income tax at the higher rate of 20% - but that 41% contributes £135 million, or 92% of the income tax bill. For most of that 41%, their marginal rate of tax is the full 20% - for every pound extra of income, 20 pence goes in tax..... until your annual income reaches some £615,000. At this point, you pay the "tax cap" of £120,000 (also frozen this year) - and thereafter your marginal rate of income tax falls to exactly zero. Just 71 people opted to pay the cap of £120,000, generating a tax take of some £8 million - but their average income was some £3 million each per year, - meaning the percentage of their total income paid in income tax worked out at just 3.8% (according to Government's own statistics).

Those 71 manx residents include (I assume) at least 6 who appear in the Sunday Times "Rich List 2013" - and includes one whose wealth was estimated at £2.3 Billion, and whose annual income is likely to have exceeded £50 million - and who will have paid his income tax bill at an average rate of much less than a penny in the pound..... Had all those 71 individuals paid tax on total earnings at the higher rate of 20%, Government finances would have benefitted to the tune of £35 million.

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At a time when government spending is being financed from reserves, and public services being reduced, is it "fair" that those with the highest incomes - and with the greatest ability to pay - pay income tax at an average rate of less than 4 pence in the pound, and actually have a marginal rate of zero ? And at the same time, making those on very low incomes liable to income tax as a result of not increasing the personal allowance in line with inflation ?

Chris Blyth

ps It's worth pointing out that a single person, on the minimum wage of £6.20 per hour, working a 40 hour week (and with no other allowances) has a total income of £12,896 per year - and thus is liable to income tax of just under £360 - an average rate of 2.8% which is considerably more than the average rate paid by those included in the Sunday Times list..... Had the personal allowance kept up with inflation from 2010, the allowance would now be in excess of £10,500, removing many on low incomes from the tax net.