
The Mirrlees Review
Reforming the Tax System for the 21st Century

Malcolm Gammie QC
One Essex Court and Institute for Fiscal Studies

Objectives of the Review

- to bring together international experts in public economics, tax law, political science and tax practice
- to identify the characteristics of a good tax system for any open developed economy in the 21st century
- to assess the extent to which the UK tax system conforms to these ideals
- to recommend how it might realistically be reformed in that direction
- Inspired by the 30th anniversary of the ‘Meade Report’, *The Structure and Reform of Direct Taxation (1978)*

Why another review now?

1. Changes in the world

Capital income and globalisation; VAT fraud and e-commerce; new objectives; technology of tax collection; institutional environment (EU/ECJ); demographic change (ageing, lone parents); distribution of income and wealth

2. Changes in our understanding

More micro-data and better methods; Political economy; Behavioural economics; Dynamic optimal taxation

3. 'Popular' interest in rethinking tax policies

The editorial team

Chairman: Sir James Mirrlees (Cambridge)

Tim Besley (LSE, Bank of England & IFS)

Richard Blundell (IFS & UCL)

Malcolm Gammie QC (One Essex Court & IFS)

James Poterba (MIT & NBER)

with:

Stuart Adam (IFS)

Steve Bond (Oxford & IFS)

Robert Chote (IFS)

Paul Johnson (IFS & Frontier Economics)

Gareth Myles (Exeter & IFS)

The end product

A report of lasting interest and relevance

- to policy-makers, academics and civil society
- primarily in the UK but also in other countries
- 10 commissioned chapters on key topics
 - written by international experts and IFS staff
 - with expert commentaries on each
- 3 special studies on narrower areas
- Final report by the editorial team focussing on:
 - Characteristics of a good tax system
 - Reforming the UK tax system

The process

- Work started in 2006
- Conferences in September 2006 and April 2007
- Commissioned chapters are now largely finished
- Editorial chapters are in process of being written
- Interactive process
 - Final commissioned chapters progressively available online
 - comments to editors still welcome – but soon!
 - www.ifs.org.uk/mirrleesreview
- Publication in late 2008 by OUP
- Funded by the *Nuffield Foundation* and the *ESRC*

10 commissioned chapters

- Taxation in the UK—where we are & how we got there

Stuart Adam, James Browne and Chris Heady

Commentator: Chris Evans

- Political economy of tax reform

James Alt, Ian Preston and Luke Sibieta

Commentators: Peter Riddell; Guido Tabellini; Chris Wales

- Administration and compliance

Jonathan Shaw, Joel Slemrod and John Whiting

Commentators: John Hasseldine; Richard Highfield; Brian Mace

10 commissioned chapters

- The main household tax base

James Banks and Peter Diamond

Commentators: Robert Hall; John Kay; Pierre Pestieau

- Taxation of wealth and wealth transfers

Robin Boadway, Emma Chamberlain and Carl Emmerson

Commentators: Helmuth Cremer; Thomas Piketty; Martin Weale

- Taxing corporate income

Alan Auerbach, Mike Devereux and Helen Simpson

Commentators: Harry Huizinga; Jack Mintz

- International capital taxation

Rachel Griffith, James Hines and Peter Birch Sørensen

Commentators: Julian Alworth; Roger Gordon and Jerry Hausman

10 commissioned chapters

- Tax rates on labour income

Mike Brewer, Emmanuel Saez and Andrew Shephard

Commentators: Hilary Hoynes; Guy Laroque; Robert Moffitt

- Indirect taxes

Ian Crawford, Michael Keen and Stephen Smith

Commentators: Richard Bird; Sijbren Cnossen; Ian Dickson and David White; Jon Gruber,

- Environmental taxation

Don Fullerton, Andrew Leicester and Stephen Smith

Commentators: Paul Johnson and Nick Stern; Agnar Sandmo

3 special studies

- The effect of taxes on labour supply
Costas Meghir and David Phillips
- The effect of taxes on consumption and saving
Orazio Attanasio and Matthew Wakefield
- Taxation of small businesses
Claire Crawford and Judith Freedman
- Final versions all to appear on the Mirrlees webpage at IFS shortly

What of the Review Recommendations?

- The commissioned Chapters are designed to inform the editorial work but are not necessarily the Review's conclusions
 - In any event commissioned Chapters and commentaries often reflect different views
- Aim is to produce a report accessible to policy-makers, practitioners and non-economists
 - To a 'Kay and King' standard
 - Only partially successful for commissioned Chapters (given time constraints and nature of material)
- Balancing long-term tax reform perspectives with short-term practicalities of tax change

What of the Review Recommendations?

- Based on lessons from new developments in theory
 - Optimal tax
 - Dynamic fiscal policy
 - Behavioural economics
 - Political economy
- Founded on what we have learned from empirical analysis
 - Labour supply
 - Savings
 - Taxable income
 - Corporate investment and R&D
- Drawing on what we have learned from policy experience

Making change happen

- The Review is mainly concerned with the economics of taxation
 - Issues of incentive compatibility, neutrality, labour supply, etc.
- But intended to influence tax policy
 - So need to understand how policy change happens (and why it doesn't)
 - The institutional framework and tax policy drivers may vary significantly between countries
 - In particular, UK institutional perspective versus EU institutional perspective

From economics to implementation

- The institutional framework of tax reform
 - All powerful Treasury, lack of Parliamentary scrutiny, EU issues
- The politics of tax reform
 - Tends to be about particular taxes not the tax system
- Transparency
 - Incidence can be very unclear, fiscal drag and deliberate obfuscation can play their part
- Transition can present significant problems
 - Windfall gains and losses may emerge and short term impact can differ from long-term effects
- Administration
 - Can have significant impact on what is currently possible

Particular challenges for the Editorial team

- **The household tax base – income vs. consumption**
 - Should we continue to tax capital income?
 - To what extent do we currently tax capital income?
 - On what basis can we tax capital income given problems of measurement and the mobility of capital?
 - Should we do so on the same or with a different rate schedule to labour income?
 - What are relevant criteria for identifying taxable capacity? – earnings, expenditure, age, hair, status, education, gender, height, assets, disability, responsibilities?

Particular challenges for the Editorial team

- **The corporate tax base**
 - Income profits or economic rents?
 - Source versus residence versus destination perspectives
 - Meade proposal for R or R + F (equivalent to S-base) cash flow tax but corporate tax policy decisions now have to be considered in a global economy setting
 - Fundamental ‘disconnect’ between economic debate of corporate tax policy issues and the ‘real world’ (or is it ‘unreal world’) debate of policy-makers and practitioners
 - Conundrum of falling corporate tax rates but robust corporate tax revenues

Some other challenges for the Editorial team

- Taxation of financial institutions
- Gifts, bequests and wealth taxation
- Housing taxation
- Green taxation and climate change
- Tax avoidance
- Administration

Some particular contexts

- **Local versus national taxation**
 - UK's inability to tackle local taxation
 - Impact of Scottish, Welsh and NI devolution
- **Regional versus national taxation**
 - The EU tax policy context
 - NAFTA and other regional organisations
- **International versus regional taxation**
 - Impact of globalisation on ability of national governments to act independently
 - The OECD, UN, IMF, World Bank and WTO as international tax policy institutions

<http://www.ifs.org.uk/mirrleesreview>

Comments/submissions welcome –
but soon