

EMPLOYERS' BURDEN, INTRODUCTION

Tommasic dialogue

Stranger This looks like a nice country

Resident Yes, we do some things very well.

Stranger Only some?

Resident Well our tax system is a disaster

Stranger Oh dear! What is the tax rate on wages for example?

Resident One hundred percent!

Stranger What! But I have a leaflet here from HMRC. It does not mention anything like that!

Resident No, it is heavily disguised.

Stranger Tell me more.

Resident Right. But first we had better be clear what we are talking about.

Stranger Go ahead!

Resident Well, here is a tin of beans, it costs one pound before tax. They then add 20% VAT.

So the tax rate is expressed as a percentage of the cost before tax.

Stranger Seems straightforward. What are you leading to?

Resident When I say our tax rate on wages is 100%, I mean the taxes are 100% of what is left after tax is deducted.

Stranger OK, I get that. But how does it tie up with this leaflet?

Resident We start with the cost to the employer, then take off all the taxes paid on that cost, until we get left with what the worker actually enjoys. We find that all the taxes are as much as what he actually enjoys. So that is a tax rate of 100%.

Stranger So you mean that 50% of Employers' costs of wages goes in taxation?

Resident Yes, but from the point of view of the wage earner, as in the tin of beans, the rate on What is left for him to live on is 100%.

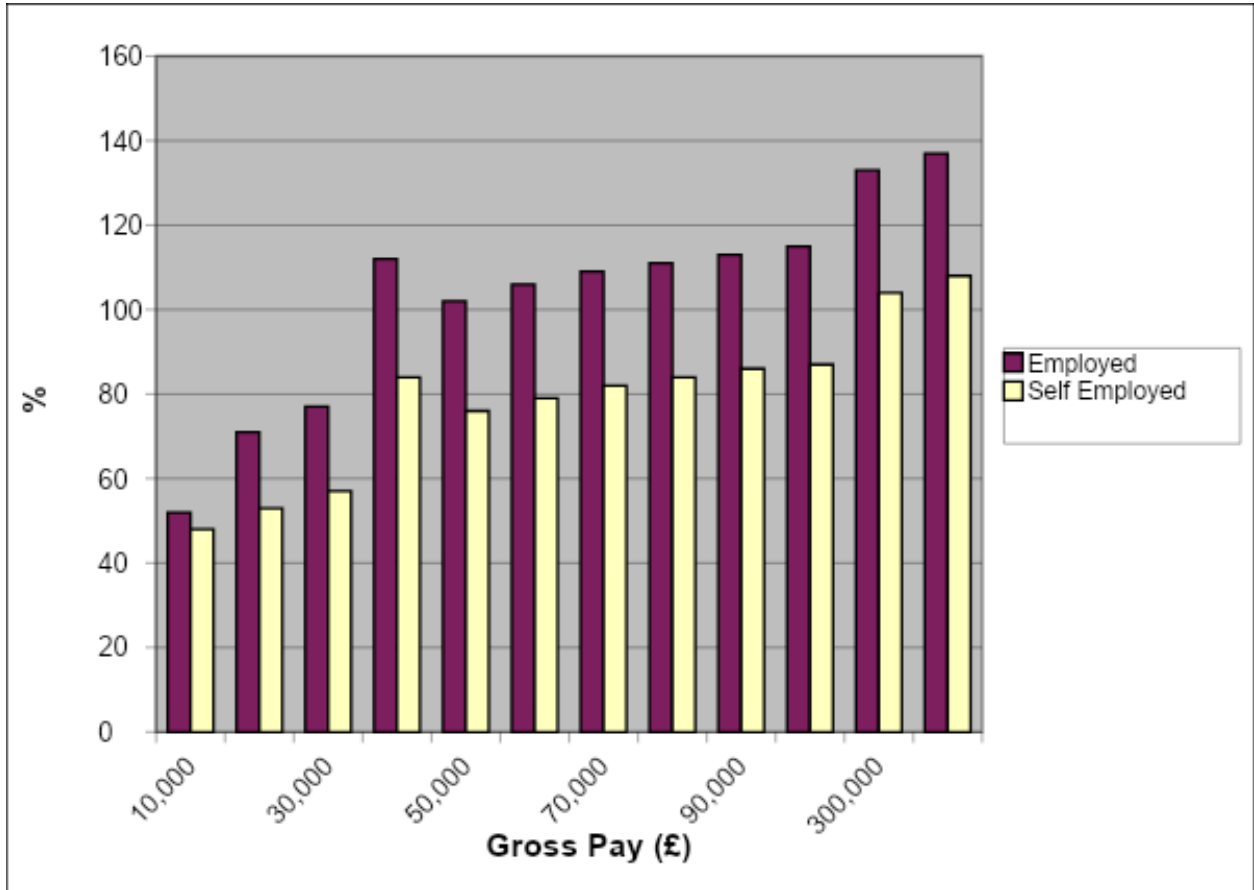
Stranger Right, I get it. But why do they do it that way?

Resident That is a tricky question. What it comes down to, is that the people of this country prefer this system, rather than using the natural provision for government expenditure, which is expressed

as location values, created by all for the use of all.

Stranger How odd! But I suppose if I’m going to live here, I had better understand the details.

Resident Here is a set of tables.....



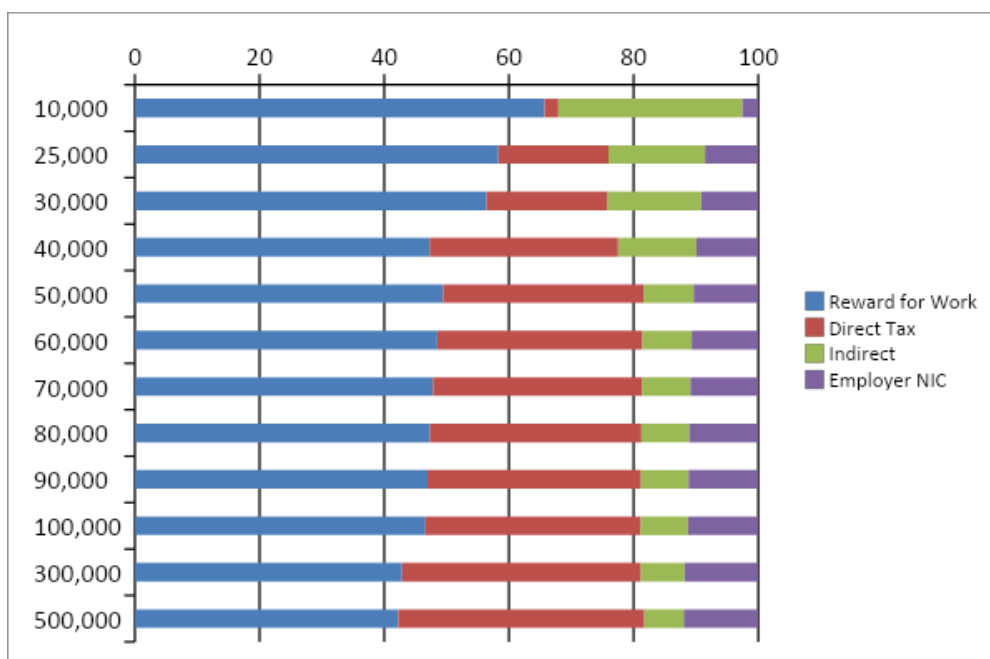
The numbers at the foot are the total salaries negotiated when you take on a job. The employer has to pay more than that because he has to pay a surcharge called National Insurance of 13.8%. The mauve columns show the rate of tax applied to the remainder that the worker actually enjoys, after Income Tax, more National Insurance, and Indirect Taxes included in his purchases.

The yellow columns are the result of the same calculations for Self-Employed persons, who pay lower rates of National Insurance. However, remember they are responsible for their own Pension contributions.

The Indirect taxes included are derived from Government Statistics which show that the lower paid pay a higher proportion of their take home pay than do the higher paid, thus reversing some of the effects of lower Income tax rates.

The tax rates and detailed calculations are on the attached sheets.

Another way of looking at it follows;-



What this chart shows is the constituent parts of the cost of wages to an employer. For any given gross pay shown on the left, 100% is the employers' cost including Employers National Insurance contributions in purple. Indirect taxes are shown in green, direct taxes, PAYE and Employees NIC in orange. The blue part is what goes to the employee to spend, excluding VAT and other indirect taxes, which we have called "reward for work", or take-home-pay less indirect taxes.

A particular aspect that is mostly forgotten is that Indirect Taxes impact more heavily on the poor. The Office for National Statistics publish an occasional table which shows that the lowest quintile of earners pay 31% of their take-home-pay in indirect taxes, while the top quintile only pay 13%. As the chart shows, this partly counterbalances the lower Income Tax and NIC suffered by the lower paid group.

The overall effect is to show that of the total cost to the employer, at least half is taken in tax. Or, perhaps, the cost of wages is double the actual reward for work enjoyed by the employees.

If the Chancellor was to promote a policy of doubling the cost of wages by the imposition of taxes, he would presumably expect certain things to happen as a result!

Here are some suggestions as to the possible effects of this policy:

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1. A sharp distinction of the view of wages from the points of view of
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employees and employers.

2. A bias against labour intensive industries.

3. A constant impulse to replace people by machines.

4. Unemployment as a constant factor in the economy.

5. The effect of taxation at the margin, leading to more tax required to mitigate the effects.

6. In the cycle of production, employment based taxation rolls up until paid by the final consumer.

His gross pay has to be sufficient to pay the taxes and leave him enough to live on.

7. Government expenditure is mostly wages, and is thus doubled under the same rules.

8. In order to cover the cost, an employee has to be able to add value to an amount twice what he needs to live on.

Those who cannot meet this criteria will find their jobs at risk.

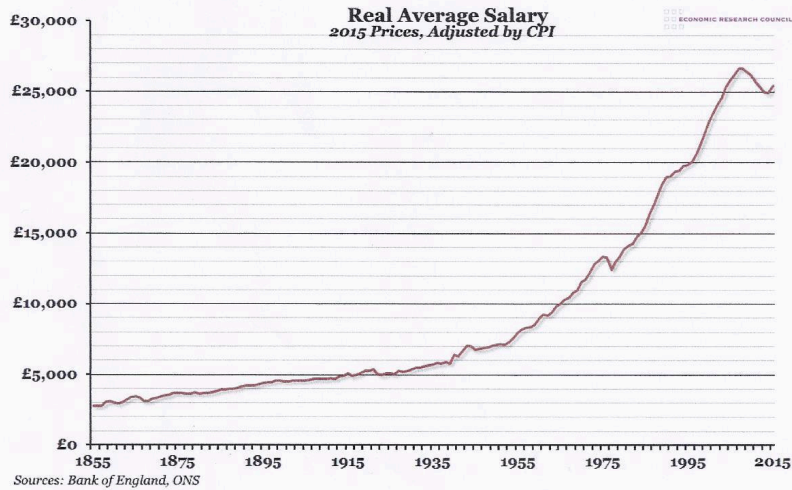
Is it any surprise to find that these things have actually happened?

Stranger *Well, it seems a funny way to do things. But I read that you give some of the taxes back?*

Resident Yes we do. They are called tax credits. And the rules for getting back some of the tax you have paid are even more complicated than the rules for paying it in the first place. Low paid people get more back than they have paid!

Stranger *That must have some odd effects?*

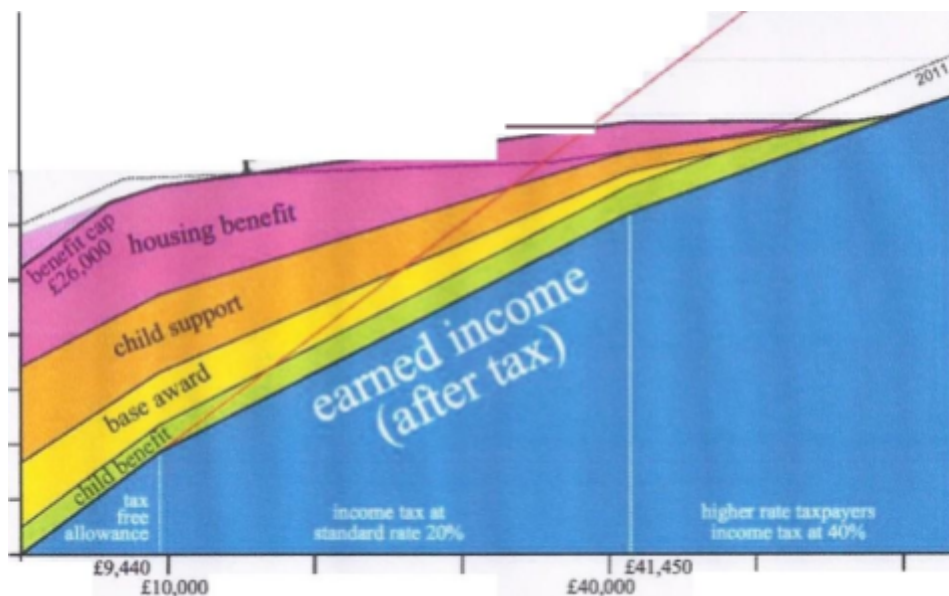
Resident Yes, indeed. Here is a chart of average wages;-
So, we know that average wages came down, and rents increased, when tax credits were brought in. The total tax credits became a huge drain on the Treasury, but did not affect our charts very much.
We can still say the tax on wages is 100%!



What does the chart show? The chart shows the UK average annual earnings since 1855, adjusted by the Consumer Price Index to reflect 2015 prices. Up to 2009 this is based on the Average Earnings Index compiled by the Bank of England from a number of different sources. After 2009, we have used the Office for National Statistics' data on Average Weekly Earnings. The figure for 2015 is an estimation based on the 8 months of data up to August that we have so far.

Resident

And here is a chart showing how tax credits impact on lower incomes. (Produced by "Mothers at Home Matter") The thin red line is the original Gross income, then the blue area is the income after Income Tax. Indirect taxes would reduce the blue area still further.



Stranger.

Well, perhaps in spite of all that, I'll still come to live here, Can I get a house

easily?

Resident Oh yes! You can get a house built for £60,000 upwards, and an old house can be very cheap.

Stranger *Really! That's great.*

Resident But there is a snag. You remember those location values I was talking about?

Stranger Yes.

Resident Well, because they were not collected for public use, they became site values. So a decent site near to London, for example might cost you upwards of one million pounds.

Stranger *Oh dear! Maybe I'll go and live somewhere else.*

Resident *Again there is a snag. At one time, this country had a huge empire, and we exported both our good practices, and the failure to collect location value for public purposes to all the empire, and these countries still do that. So your choice is rather limited.*

Stranger *Well, thank you. I think I'll say goodbye now!*
