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.ifr.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 policymakers, 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