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Tax benefits and their impact on the social division of welfare

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> **Preliminary note**: I had not anticipated making so much use of Richard Titmuss's original essay on the social division of welfare when I began this paper. But the more I have got back into the subject, the more his writing has appeared particularly relevant to our present state of knowledge of fiscal welfare, at least in the UK. 'The devil lies in the detail.' In consequence I have concentrated much more than I had planned on this one country to illustrate what I regard as central issues here. I look forward to hearing how common you think they are.

1. Fiscal welfare – an introduction

Fiscal welfare is the second element in the social division of welfare, first presented by Richard Titmuss in December 1955 (Titmuss, 1958, chapter 2). 'Instead of thinking about the "welfare state" as an abstraction', 'all collective interventions to meet certain needs of the individual and/or to serve the wider interests of society may now be broadly grouped into social welfare, fiscal welfare and occupational welfare' (Titmuss, 1959, in Alcock et al, 2001, p 147; 1958, p 42).

'Those acts which have somehow or other acquired the connotation of "social" have developed alongside a much larger area of intervention not thought of in such terms but having in common similar objectives. It is this differential development I want to emphasise: the growth in the social division of welfare in response to changing situations and conceptions of "need"' (Titmuss, 1958, p 42). 'All are concerned in some measure and in different ways with increasing or decreasing inequalities in the distribution of income and wealth'(Titmuss, 1959, in Alcock et al, 2001, p 147).

Social welfare is 'the one system traditionally known as "the social services" or, more recently and more ambiguously, as "The Welfare State"' - a term Titmuss never liked and usually insisted on putting in quotation marks (often dropped by later editors). It 'represents only the more visible part of the real world of welfare' (Titmuss, 1958, p 53).

Fiscal or tax welfare is outlined and illustrated by Titmuss in some six pages (note 2). 'Allowances and reliefs from income tax, though providing similar benefits and expressing a similar social purpose in the recognition of dependent needs, are not, however, treated as social service expenditure. The first is a cash transaction; the second an accounting convenience. Despite this difference in administrative method, the tax saving that accrues to the individual is, in effect, a transfer payment' (Titmuss, 1958, p 44-45). As he recognised later, 'the system of Fiscal Welfare relates, in total, to reliefs, allowances and deductions under direct systems of taxation, central and local, and such "taxes" as National Insurance (or social security) so-called contributions' (Titmuss, 1974, pp 137-8).

Occupational welfare in cash and kind provides 'in effect, if not in administrative method, "social services", duplicating and overlapping social and fiscal welfare benefits' (Titmuss, 1958, p 51). Many, and especially the more valuable, are allocated according to status: they 'function as concealed multipliers of occupational success' (Titmuss, 1958, p 52). They not only benefit employees but also many employers and self-employed, often considerably more.

Evidence on the extent, form and workings of fiscal welfare is still remarkably limited. The use of Stanley Surrey's concept of tax expenditure has revealed more elements (1973) although many of these are not concerned with welfare. The OECD's accounting for 'tax break for social purposes' (TBSPs) has enabled and encouraged more comparisons. However, both exclude significant elements of what Titmuss would recognise as fiscal welfare (exclusions noted in Adema et al, 2011, pp 29, 33, 110 and 111; Sinfield, 2013).

To give just one example, Germany has long allowed spouses to split their total earned income. Because the German constitution allocates particular significance to marriage, this relief is treated as a basic part of the benchmark tax system. In consequence its cost is not regularly published as other reliefs are, although it results in some € 20 billion in tax foregone (note 3). Equally it is not included in OECD TBSPs because there is no directly comparable social welfare policy. So a costly measure with a regressive impact benefiting the better-off more is left out of the accounts while a child tax credit helping lower income families more is included, giving a very limited, if not distorted, picture of the ways that government policies affect the distribution of resources. Such practices limit comparative analysis.

2: The world of UK fiscal welfare – as far as we could see

In the UK fiscal welfare has a very long but largely neglected history, as in many countries. 'Early excise duties exempted cottagers and paupers' (Field et al, 1977, p10). The first income tax in 1799 took account of the 'ability to pay' in terms of family responsibilities. 'Deductions were also permitted for interest on debts, amounts payable to certain relatives, annuities and life assurance' as well as the cost of house repairs (Field, p 9). In Titmuss's view there was 'a remarkable development of social policy operating through the medium of the fiscal system' after the introduction of progressive taxation in 1907 (Titmuss, 1958, p 45).

However, until the late 1970s there was no regular official reporting on the cost of the various reliefs. Despite a few improvements, the amount of official reporting has remained limited to annual lists of some 400 reliefs with cost estimates for about a half of them (HMRC, 2015). At first only one year was shown, then estimates were published for 2 years at a time but no time series, except for a separate one for pensions tax relief buried even deeper in the records.

Table 1 provides an indication of the main costs of UK fiscal welfare as listed by Her Majesty's Revenue and Customs (HMRC). Some 5 per cent of the cost results from Child Benefit and some disablement benefits being exempt from tax, but the rest is outside social welfare. Most are rarely reported on by any government department including the tax authorities and are never mentioned in discussions of public spending.

There have been some major changes in fiscal welfare in the last quarter of a century after many years of stability. The married man's allowance was eventually turned into the married couple's allowance in 1990. That and attached reliefs for widows and single parents were phased out over the next few years (although it has continued for those born before 6 April 1935). A marriage allowance giving a maximum transferable benefit of £220 per year has recently been introduced for couples where one is below the tax threshold and the other pays no more than the basic rate of tax.

TABLE 1 - MAJOR TAX AND OTHER RELIEFS RELATED TO SOCIAL POLICY
United Kingdom1994-95, 2004-05, 2009-10 and 2015-6
estimates in £ millions.

	1994-95	2004-05	2009-10	2015-6 forecast
I - Beyond public welfare	***93%***	***87%***	***85%***	***95%***
Income Tax				
Married couple's allowance additional to personal allowance	3,500	ended	-	*245*
Age-related allowance	725	2,200	2,600	*15*
Additional allowance for one-parent family	260	ended	-	-
Exemption of first £30,000 paid on termination of employment*	1,600	1,000	1,200	*700*
Relief for non-state pensions	9,200	12,300	19,700	*21,350*
Relief for mortgage interest	3,500	ended	-	-
National Insurance contribution relief:				
Employer contribs to approved pensions	np	6,700	8,300	*10,950+*
Capital Gains Tax				
Gains arising on disposal of only or main residence	850	13,000	3,800	*18,000*
II - Exemptions of welfare state benefits	***7%***	***4%***	***4%***	***5%***
Child benefit	650	1,060	1,200	*1,170*
Longterm disability benefits*	1,410	1,080	950	*1,460*
III – Personal Tax Credits:		***9%***	***11%***	***0%***
Child & Working Tax Credits	-	4,400	5,550	*0*
*Total – **beware** double counting*	*21,695*	*41,740*	*43,260*	*53,890*
Income Tax basic personal allowance		*37,900*	*52,200*	*92,000*

Note: Latest year from table now called 'Estimated costs of the principal tax expenditure and structural reliefs on basis of revenue foregone' (HMRC, Dec 2015). Earlier years from my own notes from these tables in the past. np = not published.

* described by HMRC as 'particularly tentative and subject to a wide margin of error'. They note that the whole table is 'outside the scope of National Statistics due to a certain amount of forecasting in the estimates'.

Mortgage interest tax relief was phased out by the Conservative government at the same time because the subsidy to home-ownership was seen as both contributing to a housing boom that created problems for the economic cycle (most years much higher than the £3.5bn in 1994-95 in Table 1) and diverting more savings into housing at the expense of industry. The fact that this regressive relief cost more than public spending on housing benefits for low-income households is said to have weighed very little in the decision, even though comparable distribution figures were published annually. The main housing tax benefit today is capital gains tax relief on gains from the sale of one's home. Reflecting movements in the market, its cost can vary considerably from year to year.

Personal tax credits were introduced in 1999 with Working Families Tax Credit. This was the first use in the UK of tax policy to boost low incomes rather than higher ones. Restricted to families, it was replaced four years later by two more generous schemes, Child Tax Credits and Working Tax Credits, the second being available not only to parents but also to single people or childless couples over 25 on low wages.

Until last year their cost in terms of tax not collected appeared as a tax expenditure, but now both have been included in public spending - currently about £35bn of which some £5bn had previously been shown as fiscal welfare. This results from a change to the ESA2010 (European System of National and Regional Accounts), and I was told at the workshop that this was part of an effort to prevent governments hiding what was really public spending in tax expenditures, but the policy is still being run through the tax system.

Besides the tax credits there have been few additions to the HMRC list. The most visible has been employer-supported childcare including workplace nurseries which costs £460m in tax reliefs and some £400m in National Insurance contributions relief. The extent of relief is limited and is less for higher and additional rate taxpayers. A major change to a larger scheme has been delayed and this has received much attention.

3- The opening up of the world of tax reliefs in the UK

For years I worked with figures like those in Table 1, teaching and writing on the social division of welfare, until reports of the National Audit Office (NAO) in 2014 (a and b) alerted me to the work of the Office for Tax Simplification (OTS). It was set up by the Coalition Chancellor in 2011 to provide independent advice on how to reduce tax compliance burdens on both businesses and individual taxpayers (it is now to be made a statutory part of the Treasury).

In 2011 OTS identified 1,042 tax reliefs, whereas HMRC had long listed only 400, providing costs on less than half of them. Its report contained a long annex with brief descriptions and recommendations to simplify or abolish many reliefs. While social welfare is being cut back, tax reliefs have grown in number, despite some being abolished. OTS has since released a list of 1140 for 2014: half have been classified as special cases for special interest groups, targeted to influence behaviour and/or establishing thresholds for exemptions. So only half are described as 'structural', technical tax reliefs, defining the scope of a tax. I am currently trying to identify which of these tax expenditures deserve to be classified as social and what is likely to be their impact.

The NAO, an independent Parliamentary body, has followed up this work in particularly tough reports, raising searching questions about the suitability of the HMRC stewardship for public policy-making (NAO, 2014 a and b; TARC, 2014)). The thrust of its latest report is best conveyed by quoting the full comment by Amyas Morse, the Comptroller and Auditor-General of the NAO, at the release of *The effective management of tax reliefs* (NAO, 2014b):

'HM Treasury and HMRC do not keep track of tax reliefs intended to change behaviour, or adequately report to Parliament or the public on whether tax reliefs are expensive or work as expected. We found some examples where HMRC and HM Treasury proactively monitored and evaluated tax reliefs, but in general the Departments do not test whether their aims for the reliefs are being achieved. Until they monitor the use and impact of tax reliefs, and act promptly to analyse increases in their costs, HMRC and the Treasury's administration of tax reliefs cannot be value for money' (21 November 2014).

A Key Facts page at the start of the NAO report included: '41% reliefs we identified with possible social or economic objectives where HMRC has not estimated costs' and another 14% where the costs were not published (NAO, 2014b, p 4). The Treasury was unhappy with the NAO for getting involved in this area at all, virtually arguing that it was not an issue of public spending which NAO is mandated to review.

The Public Accounts Committee (PAC), a cross-party Parliamentary Committee, has also worked to open up the issues, largely building on the NAO reports. Their exasperation is clear in the summary to their report on HMRC at the end of last year:

'**The number of tax reliefs continues to grow but the scale and nature of the tax foregone is invisible to Parliament because HMRC refuses either to define them or list them comprehensively.** We see no case, other than to avoid accountability, for HM Treasury and HMRC to reject the previous Committee's recommendations to improve the transparency of the cost of tax reliefs to Parliament' (PAC, 2015, para 3 of summary, their emphasis).

Reading the published exchanges between the Committee, Treasury ministers and HMRC staff in their meetings brings out the 'tetchy' and 'frosty' relationship in discussions on tax reliefs (see PAC, 2015, 9 Sept, oral evidence, questions 141 on). The Treasury has since issued a Minute basically rejecting the PAC proposals while agreeing more data on limited issues could be published. 'Neither Department [Treasury & HMRC] considers that it would be practicable to go further' (Treasury, 2016). The latest HMRC lists have included four years of cost estimates, instead of two, and more notes of explanation (HMRC, 2015). In the past changes to estimates were not necessarily published.

At present therefore government and Parliament sharply disagree over the number of tax expenditures and the extent to which these should be costed and their impact scrutinized. The contrast with policymaking in public welfare is very clear.

4 - UK case-studies in fiscal welfare

What discussion of social tax expenditure there is treats it as if it were simply a different means of carrying out social policies that requires little administration and is generally cheaper in terms of staff time and resources. However, there are many ways, in the UK at least, in which major elements of fiscal welfare differ significantly from social policies within the welfare state. They may even have considerable consequences for public welfare and for the wider society. The next section of the paper therefore includes some examples of this different world of tax welfare, starting with the most expensive and most used area, support for non-state pensions.

Case-study 1 – Non-state Pensions

By far the largest fiscal welfare in the UK, and many other countries, has long been the relief for non-state pensions, probably the main area of occupational welfare (Hughes and Sinfield, 2004). The cost is officially estimated at some £21bn net of income tax being paid on pensions in payment (Table 1). It is the one current relief where any data are available on the distribution across income groups (Table 2). But this analysis has only been made available in very occasional answers to Parliamentary Questions and not provided routinely in HMRC statistics. In addition, these official figures only relate to the distribution of pension contributions - 55% of the total subsidy estimated in 2014-15, excluding the investment income they generated and NI contribution relief.

In recent years the proportion of the tax benefit going to the top group, £150,000 or more, has dropped greatly, from 20% to 7%, as the ceilings for the lifetime and annual allowances for tax-free contributions have been brought down. However, some three-fifths of the cost continues to go to those paying above the basic rate of income tax, or who would be if the pensions tax relief did not bring them below the level. The proportion going to those at the bottom has also fallen, from 8% to 5%, as the tax threshold has risen and not all pension schemes give the relief automatically. The increasing proportion of workers in Insecure and low-paid jobs are unlikely to have access to private pensions.

Table 2 - Distribution of some of tax benefit for non-state pensions

	% of cost of income tax relief on pension contributions					
Income bands	*2009-10*	*2010-11*	*2011-12*	*2012-13*	*2013-14*	*2014-15*
Up to £19,999	8%	6%	5%	6%	5%	5%
£20,000 - £44,999	31	32	35	37	37	36
£45,000 - £74,999	25	26	28	32	33	34
£75,000 - £99,999	7	8	8	10	10	10
£100,000 - £149,999	8	9	9	7	8	8
£150,000 or more	20	18	14	8	7	7
All	100	100	100	100	100	100

Written Answer to PQ from Steve Doughty by David Gauke, 10 Dec. 2014. 'Estimates are based on Surveys of Personal Incomes with projections for 2012-13 onwards. Historical estimates have been updated to take into account the latest outturn data and updated projections' (Hansard, 2014).

The difference between social and tax welfare can be illustrated well in the contrasting, if not conflicting, worlds of pensions and pensions tax relief policy-making. Consultations on pension tax reliefs under the Labour government in 2002 made much of the word 'fair' but contained exceedingly little discussion of the distributional consequences. Changes to tax relief were to be considered without any discussion of who benefits or loses. This neglect was all the more remarkable in view of, first, the explicit statement recognising that the proposals should be 'considered in a broad social and economic context' (HM Treasury and Inland Revenue, 2002, para. ii); second, the concern constantly expressed by the Treasury about 'fiscal sustainability' although it never mentions the total cost, or cost of changes (beyond small administrative ones); and, third, the particular emphasis on **'fairness in retirement'** with a specific Ministerial introduction to the tax paper: 'This Government is committed to enabling all pensioners to share fairly in the rising prosperity of the nation' (ibid., para 1.1, first sentence of the Foreword).

The problems of gender inequality in pensions were not mentioned, despite the role that pensions tax relief played in reinforcing that inequality. An accompanying consultation from the Department for Work and Pensions recognised the gender inequality but never mentioned tax reliefs (DWP, 2002, last chapter).

In 2015 a consultation paper from the Conservative government reported that recent reductions to pensions tax relief had 'been necessary to ensure that … pensions tax relief is targeted at pension savers who need it most' (HM Treasury, 2015, para 2.2). This objective was never mentioned again in the 67 paragraphs of the consultation document, although some proposals would reduce the extent of benefits to the better-off. It was not one of the four principles set out for the current proposals (ibid, para 3.4). Yet the specific inclusion of more equal benefit could have enabled a more systematic examination with estimates of the distributional impact of the different suggestions.

Sections of the press campaigned vigorously to 'save our pensions' as if the decisions rumoured would deprive all contributing to pensions rather than a minority at the top. They were supported by powerful lobby groups in the industry and in business generally. Eventually the Treasury let it be known that no major change would be made - to avoid, it was said, 'frightening the horses' before the EU referendum. The fear may have been in the Treasury, given reports that those who could afford to were taking even more advantage of the taxfree reliefs than usual and so reducing the tax take further.

No reference to the implications of this retreat for the budget deficit, let alone any need to share the pain of 'austerity', appeared in any of the papers I saw. Equally, when a major part of the planned public spending cuts dropped from the Budget after the resignation of Iain Duncan Smith, the Secretary of State for Work and Pensions, left a hole of some £4 billion in the public accounts, there were scarcely any suggestions that pensions tax relief, or indeed any other form of tax expenditure or tax welfare, might be considered for reduction.

So in the Budget this March there were no further changes to pension tax relief, but further cuts announced last year to the lifetime and annual taxfree allowances coming into effect this year did reduce the cost. This was presented by most commentators as some form of deprivation contrary to the need to encourage saving. No one asked whether someone paid over £210,000, over 7 times the median wage, should receive any subsidy to save, let alone the £10,000 they will still be able to claim under the reduced relief. Yet since 2013 social welfare child benefit has been removed from anyone with an income less than a third of that to help reduce the budget deficit.

In developing pension tax reform the UK government has been more concerned to win over the pensions industry and to keep the goodwill of employers to provide occupational pensions than to tackle the broader social and economic question of creating a level playing field in retirement to replace the current bias towards those already better-off and more secure.

While the value of social welfare measures are often under review, I am aware of no official assessment that justifies the merits of pensions tax reliefs, let alone at current levels of subsidies, in promoting private pensions saving. The value of pensions saving itself tends to be taken for granted although one independent review concluded: 'the balance of the evidence...from time-series, cross-section, and personal pension studies does not support the case for the private funding of pensions' (Hughes, 2000). Another found: 'increased funding of pensions may lead to a large increase in national saving, or a small increase, or have zero net effect, or even decrease national saving' (Barr and Diamond, 2008, p 95). *The Cold War on Welfare* argued that the case for pension saving is really in terms of *'reducing the role of the state and expanding the role of stock markets, which is altogether a different proposition'* from promoting better provision for retirement (Minns, 2001, p xiv, italics in the original).

Case-study 2 - Termination payment relief

This little discussed tax benefit relief currently costs £700m and provides an excellent case-study of the different worlds of tax and public welfare. Payments on the termination of an employment are free of income tax up to £30,000. This is 'provided they are not made under the employment contract, for example as a "payment in lieu of notice" (PILON)' (OTS, 2013, p 57). This non-contractual requirement is very different from the strict conditions of social insurance benefits, leading to much uncertainty and confusion. 'Generally those who are well advised (and generally better paid)' (in the words of HMRC, HM Treasury, 2015, para 3.3) benefit from the wording of a contract.

The relief has persisted unchanged since 1988 while jobseeker's allowance and related benefits have been made ever more dependent on conditions and subject to harsher sanctions. £30,000 is now roughly twice the maximum entitlement under the statutory Redundancy Payments scheme (£14,250). In the past it seemed only intended to cover most payments under that scheme but it was steadily increased until 1988. Unlike that scheme, recipients are not required to have been displaced because their jobs no longer exist (eg the closure of a steelworks or a mine). Companies use these to get rid of senior staff for a whole variety of reasons including incompetence.

An additional but unreported loss to the public revenue from the termination payment relief was revealed by the Office of Tax Simplification. If a payment qualifies for income tax relief, no employer or employee National Insurance contributions are payable on the whole sum, and not just that first £30,000 (OTS 2013, Annex G.16). How much that costs no-one seems to know. In my discussions with HMRC statisticians on this item over the years I have never heard any mention of this loss of NI contributions. It certainly provides a strong incentive to employers to make sure of getting good advice and is said to offer a well-subsidised way of getting rid of senior staff – and directors who are not entitled to redundancy payments.

OTS recommendations for change to the government were specific and untouched by concerns for reducing the deficit by cutting tax spending. 'The package would need to be presented as reform and simplification that would in practice be more generous to the average employee (as more would qualify for exemption)' (OTS, 2014, para 2.55). The NAO took up the need for change vigorously in its own reports (2014 a and b).

HMRC and the Treasury held a consultation last year 'with the aim of creating a regime that is easy for employers to administer and for employees to understand' (HMRC, HM Treasury, 2015, para 3.1). The cost of the tax relief and the number of beneficiaries were never mentioned in the 24-page consultative Green Paper. The amounts that might be saved by different options offered were not given, let alone discussed, although OTS had said that 'more data on potential winners and losers will be needed' (OTS, 2014, p 7). There was only one reference to the greater benefit to the higher-paid (HMRC, HM Treasury, 2015, para 3.3*).*

The losses on NI contributions were rarely mentioned, and the fact that the whole sum, and not just the tax-free portion was exempt from NI contributions from both employee and employer, was left implicit. There was no indication that the 'austerity' applied to public spending was a relevant concern. No report was issued as would be normal for public spending consultations, but the Budget in March announced that in future employers, but not employees, would have to pay NI contributions on any payment over £30,000 and the conditions for payment would be clarified.

It should be noted that this relief has been dropped from the OECD list of tax breaks for social purposes as there is no exact social welfare parallel. In my view the tightness of this requirement limits the value of the TBSP analysis for assessing the distributional impact of fiscal welfare.

Case-study 3 - National Insurance (NI) contribution reliefs and the bonus of 'Salary sacrifice'

OTS identified 244 National Insurance contribution reliefs (NIC) for 2014: only 13 are listed by the HMRC. Probably the costliest is that employers are not required to make employers' National Insurance contributions on their payments into employees' pensions. It is a significant addition to the total subsidy to non-state pensions - £9.7bn in 2014-15 (the latest year published). In addition, another £4.1bn was not collected as these employer payments were not counted as pay to staff on which employees themselves had to pay NI contributions. While the first figure has been included in the published tax expenditures list since 2002, the second is still not, despite its size.

In recent years there has been growing use of what is called 'salary sacrifice', an additional NIC relief. An employee 'gives up' some pay that the employer devotes to a benefit-in-kind such as pension saving, childcare or health-related ones. The employee saves by having to pay fewer NI contributions on this reduced salary, although for all other purposes including salary scales and private earnings-related pensions their salary has not been reduced. Higher-rate taxpayers may also save income tax on items other than pension contributions already free of tax. The ‘sacrifice’ is really made by the rest of the community in lost NI contributions and some income tax – a fine example of the language of inequality which conceals the real beneficiary.

HMRC statisticians have told me that they do not know how much is lost in NIC (or income tax). It may now be considerable because many, probably most, large companies encourage or require use of salary sacrifice on a wide range of items. It is now standard, default, practice at very many universities for pensions and some benefits-in-kind (May, 2015). Access to the subsidy simply requires the employer to request HMRC clearance – ‘a tick box’ I was told. No further information has to be supplied then or subsequently so there are no costs for the employer or the HMRC to release an unknown amount of NICs.

Probably as a result of OTS and NAO comments, the Conservative government announced in the March Budget that it ‘is concerned about the growth of salary sacrifice schemes: clearance requests for salary sacrifice arrangements from employers to HMRC have increased by over 30% since 2010’ (Budget 2016, 1.147). It is ‘considering limiting the range of benefits that attract these tax and NIC advantages’ but has also added that any restraint will not include the benefits mentioned above.

Neither tax consultation in the pensions case-study above contained any reference to the NI subsidies for building up private pensions, nor their published costs, let alone the further losses from salary sacrifice. So a government consultation on the costs of an expensive subsidy was carried out with only limited costs occasionally mentioned, and not even an acknowledgement of what was missing. Meanwhile salary sacrifice for pensions quietly enables even greater access to subsidies at a time when public spending programmes for various vulnerable, low-income groups are being cut quite considerably because of the expressed need to balance the budget. One can only imagine the media storm if public spending costs were hidden in this way.

The artificial reduction of income by salary sacrifice can also be used to maintain access to social welfare benefits now denied to higher incomes – for example, child benefit and child tax credits. So more public spending is obtained by the sharper-advised and better-off through increased use of fiscal welfare to reduce their ‘adjusted net income’. Both create problems for the public budget but it appears to raise no concern from a government that claims to be forced to cut social welfare to balance the budget.

5 - Who gets what, and to what effect?

While NAO and PAC have raised many questions about tax reliefs and the extent to which they meet their objectives, remarkably little attention has been paid to their actual distributional impact. It is sometimes acknowledged that tax allowances given at the marginal rate of tax help the better-off more, but any details or their social impact are rarely considered. I cannot recall an occasion where the usual social policy needs among different groups by income, gender, age, household composition, area, ethnicity or any other variable are even mentioned, let alone discussed. What limited discourse there is tends to be of a technical type concerned with tax administration: occasionally, the influence of taxpayers who would be affected is mentioned.

The largely regressive effect of fiscal welfare helps to account for the proportional, not progressive, incidence of total taxes in the UK (ONS, 2015). The latest official figures show that in 2013-14 the average proportion of gross income paid in all taxes was 34.2%. The top fifth paid 34.8% while the bottom, poorest, fifth paid 37.8%. They were unable to save and exploit the range of fiscal welfare.

How far those with the highest incomes were racing away from those with high incomes was examined in a report by the Institute for Fiscal Studies. By various tax reliefs the top ten per cent of taxpayers reduced their 2004-05 tax bill by nearly £12 billion over and above the basic personal allowance - some 70% of that extra tax relief. The top one-tenth of the top one per cent – some 47,000 people - were estimated to benefit by nearly £50,000 each. With a pre-tax income 31 times average, they benefited from tax reliefs 86 times average, enabling those at the very top to 'race away' even further at considerable public cost (my estimates from Brewer et al, 2008, Table 1).

The IFS analysis indicates the need to know more about the impact of tax reliefs, and not just those within fiscal welfare, if we want to understand the full extent to which the tax system privileges certain groups and helps to preserve and even extend inequalities. It needs to be linked with the growing work on corporate welfare by Kevin Farnsworth (2012 and 2015). Expensive pensions tax reliefs, and the much less discussed NI contribution ones, provide benefits not only to employees, but to their employers and the pensions industry which has fiercely defended their existence. Corporate welfare also often benefits directors and top management more than the business itself (Sikka, 2012).

In the UK many, if not most, of those losing public welfare, or getting less of it, under the 'austerity' policies have little, if any, access to alternative provision such as fiscal welfare or occupational welfare often subsidised fiscally. Economic and social exclusion is increasing and many more are trapped in insecure employment in a low-pay no-pay economy (Shildrick et al, 2012). In addition the great majority of those who are economically inactive are unable to access most tax welfare, although many may have gained while building up their pensions in work. Altogether nearly half the adult population pays no income tax.

In the UK at least, this largely occurs without any recognition that it is happening, and that itself has political implications. Some argue that tax reliefs including fiscal welfare are already taken into account in analyses of redistribution. For example, the official annual analysis, *The effects of taxes and benefits on household income,* shows the proportion of gross income paid by different income groups on direct and indirect taxes (ONS, 2015, figure 2). But, while this is after the use of available reliefs, it only shows part of the tax benefit effect. The advantages of not paying income tax and NI contributions should also be shown in the other part of the analysis – the receipt of benefits should include tax reliefs and similar subsidies.

This continuing neglect of who gets what from fiscal welfare and other tax reliefs deserves discussion given the extent to which major writers on the subject have stressed the implications for inequality. Fiscal welfare is still 'simultaneously enlarging and consolidating the area of social inequality' (Titmuss, 1958, p 55), part of the social division of welfare 'reinforcing sectoral advantage, nurturing privilege and contributing to exclusion and marginalisation' with 'the demoralising effect of cumulative social rejection' (Titmuss, 1959, in Alcock et al, 2001, p 145).

Stanley Surrey, the initiator of tax expenditure, later described tax benefits as 'upside-down' to illustrate their generally regressive, reverse targeting in comparison to public welfare (Surrey, 1973, p 37). Jacob Hacker emphasised: 'the heavy distributional skew of tax breaks for private benefits cannot be treated as an analytic afterthought. It must be placed at the heart of any explanation of the distinctive political dynamics' (Hacker, 2002, p 39; see also Howard, 1997 and 2007). Even the World Bank has recognised that it 'violates' both vertical and horizontal equity (World Bank, 2003, p 2).

Given Titmuss's own discussion of universal and selective, means-tested services and benefits, it is surprising that he never connects it to the social division of welfare, and fiscal welfare in particular. A social division of welfare analysis reveals a three-way relationship between universal and two types of selective support, means-tested largely confined to those on lower incomes and what one might call 'means-boosted', largely benefiting those with more resources, and the best-off often particularly generously. While universal and means-tested provision are subject to all the scrutiny of public spending, means-boosting continues its reverse targeting largely out of sight.

6 - CONCLUSIONS

'Taxes are about shaping the society we want to live in' (Murphy, 2015). Fiscal welfare is an integral part of this shaping. So fiscal welfare must be 'considered in a broad social and economic context' that the UK Treasury and the tax authorities promised but still will not provide.

In one country at least the extent and cost of fiscal welfare and other tax reliefs has been revealed to be significantly greater than presented in official statistics and lists for many years. How much greater it is not apparently possible to say, but it is clear that some expensive tax and NI contribution reliefs are not included in official statistics and consultations at a time when public welfare is being cut back as part of a policy to reduce the budget deficit.

This is not to say that suspending or reducing a relief would enable those funds to be deployed elsewhere. Those losing the relief might take advantage of other reliefs and subsidies. However, that does not remove the fact that at present those taking advantage of the relief not only have their resources reinforced but are privileged in a way that is hidden and removed from the public debate on austerity and public spending.

Fiscal welfare is not included within departmental budgets enabling comparison with public spending items meeting similar objectives. Its statistics are limited and have not been regularly maintained or monitored. There is no regular scrutiny, and not even institutional arrangements to do this. It has not been subject to the special reviews established to control public spending services and benefits and so has been largely insulated from the cuts and the increasing conditions placed on many public services and benefits (Corlett, 2015).

Fiscal welfare is not a hidden part of the welfare state and public spending but outside it. Its work is conducted in a **very** different discourse from the regime for public spending, whether 'austerity' or expansion and investment. Both Stanley Surrey and Jacob Hacker have asked whether most fiscal welfare schemes could ever have been enacted if their 'upside-down' nature had to be spelt out in parliamentary debate as changes to the welfare state are discussed in detail.

Fiscal welfare needs to be recognized as part of 'pre-distribution'. It is curious that the term's originator, Jacob Hacker, did not point this out given his own work on fiscal welfare (2011, 2002). The funds have gone out before the accounts for public spending are drawn up, let alone before the debates on what to cut or preserve in 'the welfare state'. Rather than complementing the public welfare meeting of need, the resources running out through the tax system constrains public spending by reducing the revenue available for it.

Austerity is yet to reach most fiscal welfare, despite some cuts to pensions tax relief at top and bottom and to tax credits (always a hybrid and now no longer recognised as fiscal welfare). Much fiscal welfare continues to encourage private provision over and above the increasingly meagre public social welfare, and 'privatization needs to be understood as a fundamental re-ordering of claims in society' (Starr, 1989, p 41). This use of hidden fiscal welfare deserves closer attention, especially when the cost is borne by the rest of society, not just taxpayers with lower incomes. Subsidy to private competition to promote 'the individualisation of the social' (Ferge, 1997) and outside public debate may even undermine the welfare state. In the UK this largely occurs without any recognition that it is happening, and that has significant political implications.

'Power is at its most effective when least observable' (Lukes, 2005, p 1). 'The political genius of those who benefit … lies in creating the impression that it is others who profit' concluded two early analysts of 'Taxation and its beneficiaries' in the United States (Corwin and Miller, 1972). The 'subterranean' workings of fiscal welfare (Hacker, 2002) conceal both its scale and the effects, reducing both political visibility and democratic accountability. 'The invisibility of tax expenditures represents both a democratic problem and a problem of political steering' (Ervik and Kuhnle 1996, p 93).

In the UK the Office for Tax Simplification and the National Audit Office have opened up issues of power and control that parliamentary select committees, particularly the Public Accounts Committee, are now at last pursuing. 'HMRC … continues to avoid publishing information on the scale and nature of tax reliefs that would assist Parliamentary oversight of this area of the tax system' (9.15, summary). These new developments raise important questions about political and economic power and the partiality of 'austerity' policy-making in an even more 'Irresponsible Society' (Titmuss, 1959, in Alcock et al, 2001, part 4:1).

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Note 2 – In his book, *Income Distribution and Social Change* (Titmuss, 1962), and in his essay, 'Pensions and population change' (Titmuss, 1958, ch. 3), Titmuss demonstrated many of the ways in which the operations of the tax system served to allow many to maintain and even increase their command of resources over time, and not just their income alone.

Note 3 - The costs of the Ehegattensplitting in terms of foregone taxes are apparently a little above EUR 20 billion per year – see the response to a 2013 parliamentary request by the Green Party, 'Die jährlichen Mehrbelastungen bei einer Individualbesteuerung würden sich auf rund 19 Mrd. Euro bei der Einkommensteuer und rund 1 Mrd. Euro beim Solidaritätszuschlag
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