

Technical Appendix 5

Savings calculations

The total cost of tax avoidance is £25 billion. The total cost of tax planning by those earning over £100,000 is £8 billion.

- One half of the amount lost to tax planning alone by those earning over £100,000 could increase the child tax credit by enough to halve child poverty in the UK.

According to a study by the Institute of Fiscal Studies³⁷ and one by the Joseph Rowntree Foundation³⁸, it will cost between £4 billion and £5 billion p.a. to increase the child tax credit by a proportion significant enough for the Government to stand a chance of meeting its target of halving child poverty in the UK by 2010.

- Just under half of the total amount lost to tax avoidance would pay for a 20% increase in the state pension or could reduce the basic rate of income tax by 3p in the pound, or could build an extra 50 hospitals.

The cost of state pensions was £53.6 billion in 2006/07³⁹. A 20% increase would cost approximately £11 billion.

The cost of reducing the basic rate of income tax by 1p is about £4 billion on average⁴⁰. So the cost of a 3p cut would be about £12 billion.

There is no fixed price for a hospital, but the price of current PFI funded hospitals suggests an average cost of approximately £200 million a hospital⁴¹. Thus the cost of building fifty new hospitals would be approximately £10 billion.

- One quarter of the total tax income lost to avoidance activities would be enough to provide five-and-a-half million public service staff, who are currently facing the prospect of a real terms pay cut, with a pay settlement equivalent to the rise in average earnings across the economy in 2007.

The public sector pay bill in 2005-06 was £138 billion⁴². Average earnings increased by 4% in 2007⁴³. So it would cost approximately £5.5 billion to increase public sector pay in line with average earnings.

³⁷ <http://www.ifs.org.uk/bns/bn73.pdf>

³⁸ <http://www.jrf.org.uk/bookshop/eBooks/9781859355008.pdf>

³⁹ http://www.dwp.gov.uk/publications/dwp/2007/res_acc/report_2006_07.pdf note 16a

⁴⁰ http://www.hmrc.gov.uk/stats/tax_expenditures/table1-6.pdf table 1.6

⁴¹ See, for example, <http://www.guardian.co.uk/society/2007/feb/27/hospitals.health>

⁴² According to a study by Oxford Economics

<http://www.cbi.org.uk/ndbs/Press.nsf/38e2a44440c22db6802567300067301b/2273bad679b4265f802573a8003780dd?OpenDocument>

- Just over a quarter of the total amount lost to tax avoidance could be used to increase the education budget by 10% or to increase the health budget by 6%.

The total UK education budget is £78 billion for 2007-08⁴⁴. A 10% increase would require £7.8 billion.

The total public sector health budget is £104.8 billion for 2007-08⁴⁵. A 6% increase would require £6.2 billion.

- Half of the total amount lost to tax avoidance could raise the level at which the higher rate tax is paid by £10,000.

It would cost £2.5 billion to £3 billion to change the basic rate limit by 10%⁴⁶. In 2007-08 the basic rate band runs to income of £34,600. £10,000 is therefore about 30% of this. However, we cannot assume an even extrapolation. We have been generous and assumed it will rise as the band is extended although it could be argued as the number of taxpayers affected will fall it will decrease. We have therefore multiplied the government figure for 10% upward change in the upper band by 5 to allow for this and can still use half of the figure for tax avoidance to achieve this. The estimate is cautious.

⁴³ <http://www.statistics.gov.uk/cci/nugget.asp?id=10>

⁴⁴ http://www.hm-treasury.gov.uk/pbr_csr/report/pbr_csr07_repindex.cfm

⁴⁵ http://www.hm-treasury.gov.uk/pbr_csr/report/pbr_csr07_repindex.cfm

⁴⁶ http://www.hmrc.gov.uk/stats/tax_expenditures/table1-6.pdf