

# RI Alistair's secrets

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Alistair Darling's book *Back from the Brink* (published by Atlantic Books) concentrates on events relating to the banking crisis. The press largely concentrated on his comments about his deteriorating relationship with Gordon Brown.

However, the book does provide some interesting background information to some of the tax changes made between 2007 to 2010.

In particular he comments on the problems on getting Budgets prepared. The 2008 Budget was "cobbled together in too much of a hurry", while drawing up the 2009 Budget was "tortuous".

## Income tax at 10p

The 10p rate of income tax, introduced in 1998, was dropped by Gordon Brown in 2007 because he believed that *all* lower rate taxpayers were now receiving tax credits. Part of the ideology for scrapping this rate was that it benefited the very richest as well as the poorest.

In fact, Treasury figures indicated that 20 per cent of taxpayers, or five million households, would be adversely affected. Darling was surprised that "so few others had picked up on the problem until the following spring", just before the change came into effect.

At a meeting of the Parliamentary Labour Party, Gordon Brown kept insisting that no-one would be worse off. "For the first time I can remember, the party was in a position where it did not believe what it was being told by its prime minister".

In the end, Darling agreed a retrospective increase in the personal allowance, though he admits that even this did not fully compensate all the losers.

## Income tax at 50p

Darling endorses Labour's ten-year promise of not increasing the top rate of 40 per cent income tax. He also notes the special position of income tax where any increase is "toxic". He acknowledges it was a breach of the 2005 manifesto.

The decision to increase the top rate, initially to 45 per cent, was intended to be temporary. He believed that a permanent increase to 45 or 50 per cent would lead to avoidance and emigration that would negate the additional revenue. However he believed that a temporary increase would not have that effect.

He did not make it a temporary measure for fear of ridicule in Parliament — income tax was introduced in 1798 as a temporary tax. But it remains his view that the additional rate should be temporary.

## **Inheritance tax**

In 2007, the Labour government identified inheritance tax as a “key issue” to their losing seats in the south east of England.

At the Conservative conference in 2007, George Osbourne “pulled off a theatrical coup” by announcing that he would raise the nil rate band to £1 million. Darling observes “we should never have allowed one conference speech from the opposition to destabilize us so badly.”

The 2007 pre-Budget report wrongly assumed there would soon be an election, so it included the transferable nil rate band “to fix the political problem”. By the time the election was called off, the Budget proposal had gone too far to be reversed. Darling also felt obliged to remain loyal to the prime minister, adding “that loyalty was to be severely tested over the next three years”.

Darling makes clear that he was unsympathetic to this change as “only the unlucky, or bad planners, are saddled with inheritance tax”.

The increase in capital gains tax from 10 per cent to 18 per cent was to pay for this change.

## **HMRC**

On 18 October, HMRC lost two discs containing details of 25 million individuals. The discs were never recovered. Darling’s own suspicion was that the culprit found them and destroyed them.

It was three weeks before HMRC told the Chancellor, who said that getting information “was like pulling teeth”. Senior managers at HMRC had been told only two days earlier. To allow the police to start an enquiry and for banks to put security measures in place on individual accounts, Darling announced the loss to Parliament on 20 November.

He was concerned that the story should remain confidential until the announcement. He told George Osbourne and Vince Cable in confidence that morning. Before his announcement the story was leaked on Sky News. Darling suspected Osbourne or Cable of leaking it.

Darling concluded that senior management of HMRC did not know what was going on. The management structure was “opaque”. He accepted Paul Gray’s resignation as chairman “for these serious failings”.

## **Non-doms**

The taxation of non-doms was the first major clash between Darling and Brown.

Brown wanted to tax all non-doms for however short a time they were working in the UK. This would have included people seconded to banks, universities, hospitals and even restaurants. He also could not see how they could introduce such a charge when they had not done so in the previous ten years of government. “It looked like — and was — a last-minute fix”.

## Value added tax

The temporary reduction in VAT from 17.5 per cent to 15 per cent for 13 months was a second-choice preference to put money into the hands of consumers. Darling's preference was to increase the income tax personal allowance as he had done the previous year. However because of "HMRC's creaking computer systems" that would take too long for the benefit to be felt.

Gordon Brown was sceptical about the value of a temporary reduction which led to further tensions. In particular, Brown did not want the date announced when VAT would return to 17.5 per cent. Darling did because it would boost expenditure by those keen to beat the tax rise.

Darling wanted to increase the rate above 17.5 per cent by one percentage point increments each year until it reached 20 per cent. Gordon Brown prevaricated until a few days before the pre-Budget report. He commissioned a poll which said that a rise in national insurance would be more acceptable to voters. Darling doubted this was so, but could not increase VAT above 17.5 per cent.

## National insurance

National insurance was increased by 1 per cent rather than 0.5 per cent announced in 2008 because Gordon Brown would not let him increase the rate of VAT.

Darling feared that the Conservatives would call this "a tax on jobs" — which they did.