DISGUISED TAX

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My old university college rang me up a few weeks ago, asking for donations to support those on lower incomes attending the college free of tuition fees. Money raised would, they said, allow the college to offer more places to those who need them most, and those people wouldn’t have to pay a penny to get one of the best university educations in the world.

But that offering is a little confused. No one (or almost no one) pays tuition fees. University education in this country is free at the point of entry. No student at 18 is transferring their university £9000 a year in cash. (Maybe some ask their parents to do so, but that’s a small minority).

“But what about the student loans” I hear you say. These are not real loans. There are no affordability checks, no home repossessions, no warnings about getting into debt. The money is not a real debt because does not need to be paid back unless you earn a specific amount and it is calculated as a percentage of your income. It is a Governmental charge levied as a percentage of your income: it is an income tax. And it is periodically raised by the government, whether by increasing tuition fees, the rate of “interest” on the “loan”, or the rates by which it is repaid.

Indeed there is now a trend for calling taxes on income anything but income tax. We have national insurance contributions, student loans, child maintenance and various tricks and traps (like losing your personal allowance). It is a common pledge of those seeking power to say that they will not raise income tax, but wanting (in actual fact) to raise income tax.

This is a real problem. It is politically dishonest. If you
campaign on a slogan not to raise income tax, then don’t raise any taxes on income. The public see through it.

The second issue is that it disguises the true effect of these income taxes, which can be regressive and counter-intuitive. In 2019 complex changes to pension tax relief meant that doctors were financially forced to refuse to work extra shifts, as they would have been penalised significantly if their income hit a certain amount.

National Insurance Contributions are complex and out-dated, with the majority of the public not entirely understanding what they are for or why they are paid. NIC rates generally go down for those on higher incomes.

Another disguised charge on income is the child maintenance payment. It is levied as a percentage of the income of “paying parent”, irrespective of whether this amount is more or less than is required to support the child and the “receiving parent” is under no obligation to spend the money on the child or to account for how it’s spent.

Some of these disguised taxes on income are very dangerous. The child maintenance system works in those (limited) cases where the specified percentage of the paying parent’s income actually matches their share of their child’s costs. But, in all other cases, it means either (a) the child’s primary carer not receiving enough for the support of the child, or (b) a parent having to make gratuitous payments to an ex-partner for no real reason, with no way of making sure that the money actually goes to their child. The saddest part is that it gives one parent a financial incentive to limit the involvement of the other parent in the child’s life.

And what about a student loan? It is a regressive tax on income, because (a) it generally charges younger people more (as university fees have risen sharply over the last 15 years) and (b) those who earn less, and so take a longer time to “pay back the loan”, will pay more tax due to the “interest” charges.
The same is true of my old college’s offer to pay off some students’ loans, because that decision is effectively a decision to pay some people’s tax in the future. So one beneficiary might go on to a highly paid job in the city, but pay less of this (disguised) tax than their friend who works as a nurse.

If we decide that graduates should pay more tax because they accessed a particular state service, then this tax (which should be called the Graduate Income Tax) should be levied at the same rate on all university graduates.