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The UK's 'annual tax summaries'.

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Introduction

In November 2014 the UK Government started sending 'annual tax summaries' to all 24 million income taxpayers in the UK. Each individualised document consisted of a table and pie-chart outlining 'how your tax was spent'. Tax spending was broken down across fifteen categories ranked by the amount spent on them, with welfare spending appearing as the top category. The tax summaries caused significant debate about how spending on welfare was calculated and presented. Although defended by the Government as a way of increasing transparency, critics argued that, by ensuring welfare appeared at the top of each summary, the Government had manipulated welfare spending information in an attempt to stoke anti-benefits sentiment in the context of austerity cuts.

In this Brief, we present the results from a new study that tested how annual tax summaries might impact upon public support for welfare and taxation. Ahead of the Chancellor's Autumn Statement and Comprehensive Spending Review, and with tax summaries for 2015 beginning to be sent out, this Brief contributes to debates about government spending and taxation in the UK, and the management of public opinion in the context of ongoing austerity.

Background

- In the debate about how the official annual tax summaries calculated welfare spending, some organisations created their own alternative tax summaries to demonstrate how the spending information could be presented differently.
- The Institute for Fiscal Studies (IFS) created its own alternative tax summary to demonstrate that tax summaries could provide a more detailed breakdown of welfare spending.
- The IFS summary kept the other fourteen categories constant, but used official government accounting frameworks to split the welfare category into four parts (personal social services, public service pensions, other benefit spending on pensioners, and other benefit spending on those of working age). On the IFS tax summary, this breakdown of welfare spending ensured that health became the largest category.
- Tax campaigner Richard Murphy also created and publicised an alternative annual tax summary through his blog *Tax Research UK* (TRUK). Rather than simply disaggregating welfare, the TRUK summary proposed twenty-five different categories to illustrate how taxes are spent. In the TRUK tax summary 'specific non-employment benefits' (such as housing benefit) became the largest category.
- We conducted an online study to find out and test the impact of the summaries on public attitudes towards state spending and welfare. The study allowed us to consider whether the presentation of how taxes are spent has had an impact on support for welfare spending and public spending overall.
- 1,932 respondents completed a nationwide internet survey experiment between 8-14 July 2015. The survey was conducted by Toluna, which has an active panel

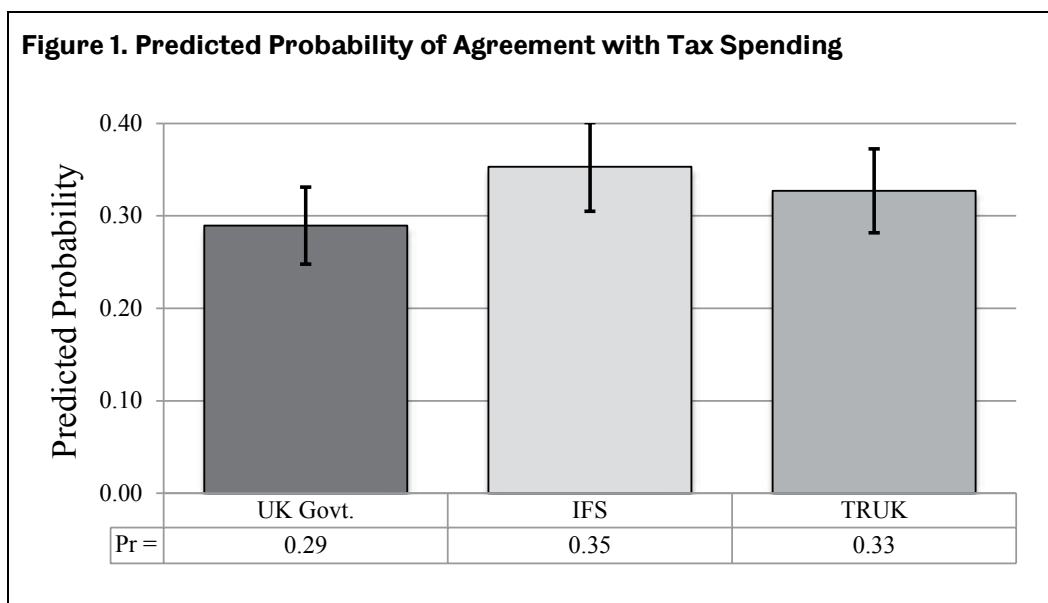
consisting of approximately 409,000 online respondents from which to draw a sample.

- Participants were split equally into four sub-samples. Three groups were asked to look at a tax summary before all participants were then asked a series of identical questions that measured attitudes towards state spending and welfare.
- Three of the sub-samples were randomly assigned one of three tax summaries to review before completing the survey. The three tax summaries were the Government's version, the IFS's version and TRUK's version. A fourth 'control' group was not provided with a tax summary to review before completing the survey.
- Great care was taken to ensure that each tax summary document looked exactly like the original (see Appendix). To make the conditions as applicable as possible, we assigned participants with a tax summary based upon their income bands (less than £10,000, £10,000-£30,000, £30,000-£50,000, £50,000 or more).

Evidence

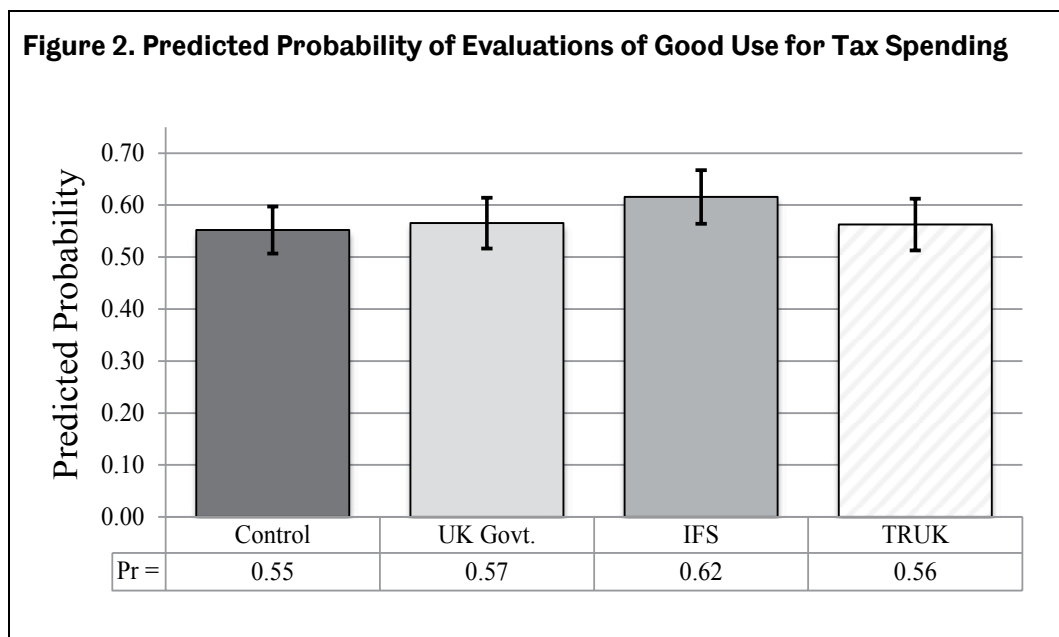
Testing support for how the Government spends taxes

- The first question we asked respondents was: 'Thinking about your Annual Tax Summary, do you agree or disagree with how the Government spent your tax money last year?'
- The group that reviewed the IFS tax summary was more likely to support how the Government spent UK tax money (Figure 1). Although no group showed great support for how tax was spent, the predicted probability of support for tax spending was highest in the IFS's version (0.35) and lowest in the Government's version (0.29).



Testing whether public spending is seen as a good use of taxes

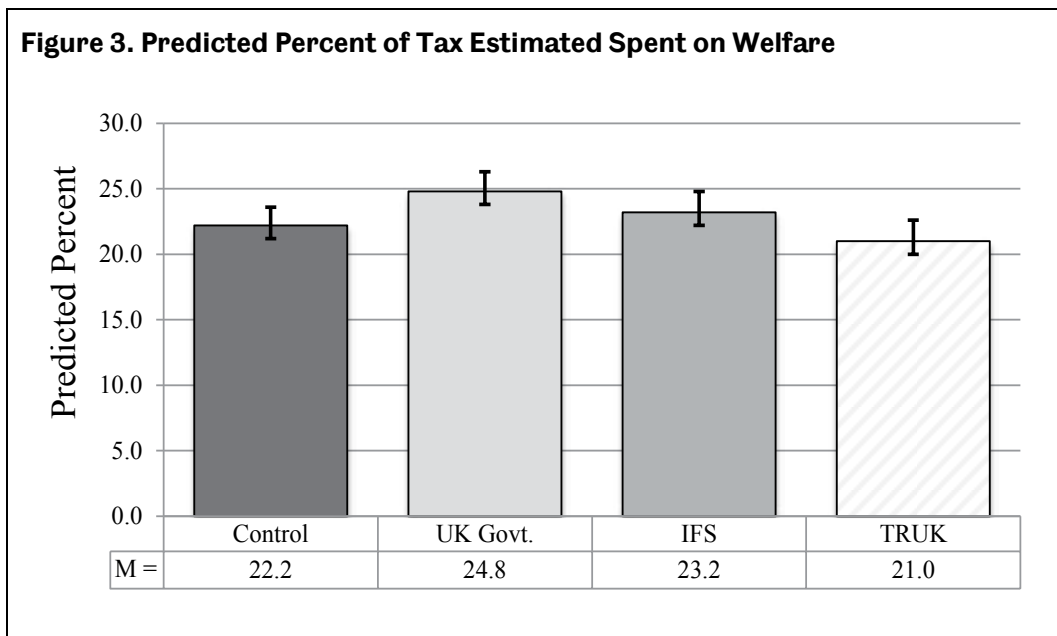
- The second question we asked respondents was: 'Overall, would you say that the government's current allocation of public funds is a good use of taxpayer money?'
- The results showed that exposure to the IFS summary increased the probability that respondents think the current allocation of public funds is a good use of taxpayers' money (Figure 2).
- In comparison to the baseline control group which did not have a tax summary to review (0.55), all other groups had a slightly increased probability of indicating 'good use'. Most notable is the difference between the Government's version (0.57) and the IFS version (0.62).
- This demonstrates that respondents are less likely to indicate the 'good use' of current spending arrangements when presented with the Government's version of the tax summary relative to the IFS's version.



Testing how much people think is spent on welfare

- A third question we asked was: 'If you had to guess, what percentage of an average taxpayer's contribution do you think goes towards welfare?'
- The mean response across the four groups was 22 percent. There were, however, small differences between the groups. Those who received the Government's tax summary were likely to guess a higher figure (24.8 percent) compared to those who received the IFS's summary, and especially compared to those who received TRUK's summary (21.0 percent).

- It is striking that in the absence of tax summary data the control group offered a similar average estimate to the three other groups.



Analysis

- The only difference between the Government's and IFS's tax summaries was the way in which welfare was represented. However, there were significant, albeit small, differences between those who were presented with the two summaries.
- Generally, and in comparison to those who received the IFS's summaries, those who received the Government's summary were:
 - (1) less likely to agree with how the Government spent their money;
 - (2) less likely to indicate that current Government spending is a good use of taxpayer money; and
 - (3) likely to guess that the Government spends more on welfare.
- The difference in responses between those who were presented with a Government tax summary and a TRUK tax summary were less marked. The greater number of spending categories may account for this.
- The results of this study suggest that the way in which welfare spending data is calculated and presented does have an impact on public attitudes towards state spending and welfare.
- The results from the group that were presented with the real-life annual tax summaries suggests that the Government's presentation of welfare spending

does, in fact, lead to lower support for public spending. Furthermore, the results highlight that members of this group believed a higher amount of their taxes was being spent on welfare, compared to the other groups.

Conclusion

The Conservative Government's pledge to continue to reduce state spending has dovetailed with an increasing stigmatisation of welfare benefit recipients and an increasingly pejorative usage of the word welfare itself. When the annual tax summaries were launched, many commentators criticised the way in which the Government had used creative accounting to ensure that 'welfare' was the largest category on everyone's document. This Brief has demonstrated that this seemingly innocuous categorising does indeed make a difference to public support for public spending. This is especially noteworthy given the current Government's controversial and continuing commitment to austerity. In summary, the results of this initial study suggest that the concerns raised about the potential politicisation of government spending data were valid and demonstrate that further analysis and refinement of the presentation of Annual Tax Summaries and testing of their impact on public opinion is required.

Appendix 1. Example of the official UK Government Annual Tax Summary

Your Annual Tax Summary 2013-2014

<u>Your taxable income</u>	<u>Tax free amount</u>	<u>Your tax and NICs</u>
£20,000	£9,440	£3,851

How your tax was spent in 2013-2014

The information on this page shows you how your Income Tax and National Insurance contributions were spent in 2013-2014. This does not include indirect taxes such as VAT and other duties.

For more information about your tax and public spending, go to www.gov.uk/annual-tax-summary

How your tax contributed to public spending

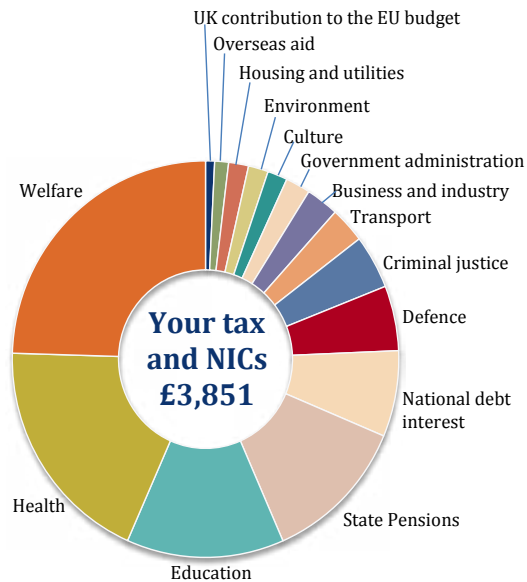
	<u>Your contribution</u>
Welfare	£878
Health	£676
Education	£472
State Pensions	£434
National debt interest	£251
Defence	£190
Criminal justice	£157
Transport	£105
Business and industry	£98
Government administration	£74
Culture eg sports, libraries, museums	£60
Environment	£60
Housing and utilities eg street lights	£60
Overseas aid	£42
UK contribution to the EU budget	£27
Total	£3,851

All figures are rounded to the nearest pound.

The figures in the table above are intended as a guide to how taxes are spent and not as a direct link between your Income Tax, National Insurance contributions and any specific expenditure.

If you would like to opt out of receiving future tax summaries please register at www.gov.uk/annual-tax-summary

Spending information is published by HM Treasury.



Appendix 2. Example of the Institute for Fiscal Studies (IFS) Annual Tax Summary

Your Annual Tax Summary 2013-2014

<u>Your taxable income</u>	<u>Tax free amount</u>	<u>Your tax and NICs</u>
£20,000	£9,440	£3,851

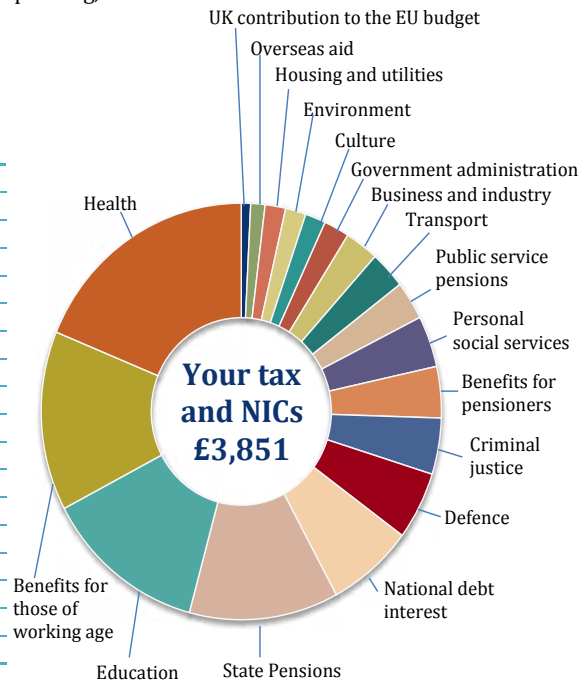
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For more information about your tax and public spending, go to www.gov.uk/annual-tax-summary

How your tax contributed to public spending

	<u>Your contribution</u>
Health	£676
Benefits for those of working age	£492
Education	£472
State Pensions	£434
National debt interest	£251
Defence	£190
Criminal justice	£157
Benefits for pensioners	£139
Personal social services	£139
Public service pensions	£107
Transport	£105
Business and industry	£98
Government administration	£74
Culture eg sports, libraries, museums	£60
Environment	£60
Housing and utilities eg street lights	£60
Overseas aid	£42
UK contribution to the EU budget	£27
Total	£3,851



All figures are rounded to the nearest pound.

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If you would like to opt out of receiving future tax summaries please register at www.gov.uk/annual-tax-summary

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Appendix 3. Example of Tax Research UK (TRUK) Annual Tax Summary

Your Annual Tax Summary 2013-2014

<u>Your taxable income</u>	<u>Tax free amount</u>	<u>Your tax and NICs</u>
£20,000	£9,440	£3,851

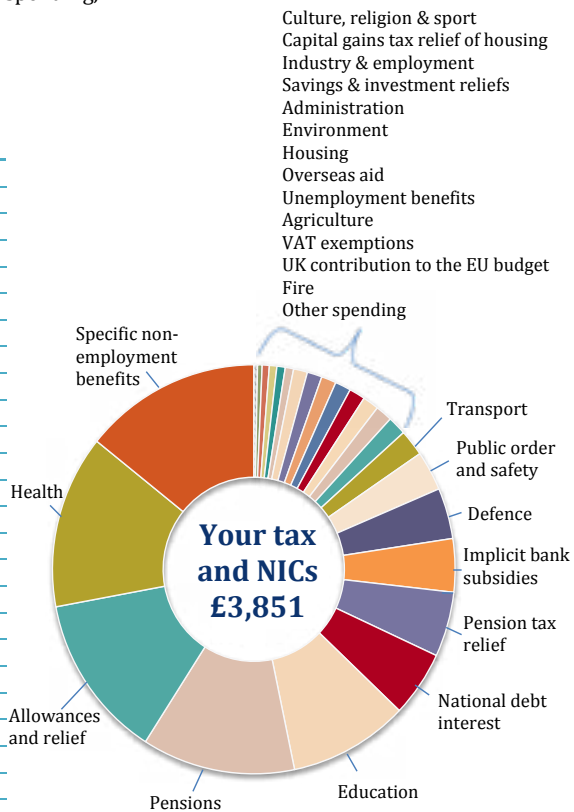
How your tax was spent in 2013-2014

The information on this page shows you how your Income Tax and National Insurance contributions were spent in 2013-2014. This does not include indirect taxes such as VAT and other duties.

For more information about your tax and public spending, go to www.gov.uk/annual-tax-summary

How your tax contributed to public spending

	<u>Your contribution</u>
Specific non-employment benefits	£510
Health	£491
Allowances and reliefs	£466
Pensions	£440
Education	£344
National debt interest	£187
Pension tax relief	£184
Implicit bank subsidies	£151
Defence	£144
Public order and safety	£112
Transport	£75
Culture, religion and sport	£48
Capital gains tax relief of housing	£46
Industry and employment	£46
Savings and investment reliefs	£45
Administration	£43
Environment	£43
Housing	£40
Overseas aid	£24
Unemployment benefits	£24
Agriculture	£21
VAT exemptions	£20
UK contribution to the EU budget	£13
Fire	£11
Other spending	£53
Total	£3,851



All figures are rounded to the nearest pound.

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