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INSTITUTE FOR GOVERNMENT

How is evidence used in tax policy making?

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About this report

This report documents how different types of evidence feed into tax policy making. It aims to help external stakeholders understand how the evidence they produce is used and how they could better feed into policy making, and offers the government recommendations for how it can use such evidence more effectively.

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August 2023

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Summary

Taxes are likely to be a key battleground in the next election. Weak growth, struggling public services and the cost-of-living crisis are creating pressure for more public spending. But in opposition the Labour Party is keen to avoid creating the impression that a vote for it would be a vote for higher taxes, while the governing Conservative Party has repeatedly floated the suggestion of imminent tax cuts. In this environment, it will be more important than ever that taxes are well designed – bringing in as much revenue as possible, as reliably as possible, for the lowest economic cost.

A key tenet of good policy making is use of the best available evidence. Tax is an important policy area, and one where a wealth of evidence – quantitative and qualitative analysis, and broader intelligence and insights – is generated by researchers, practitioners and officials. But the closed nature of the budget process means it is often not clear how different types of evidence inform the Treasury's decisions and means sometimes policy makers do not use evidence to best effect.

This report documents how different types of evidence feed into tax policy making. By highlighting the role evidence plays, and which types of evidence have an impact at different stages of the process, we aim to help external stakeholders to understand how the evidence they produce is used and how they could better feed into policy making. We also provide recommendations for how government can further shift its approach, already improved in recent years, to enhance the quality of the evidence base and to use this more effectively.

We document the tax policy making process in general, but focus specifically on tax changes that principally affect high income and high wealth taxpayers ('taxes at the top'). These tax policies tend to be high profile, often affecting recognisable public figures, and politically contentious. They are also an area where the evidence base can be quite weak. High income and high wealth people – often referred to as high net worth individuals (HNWIs) – tend to have more options available to them for how to adjust to a tax change, right up to moving country, but there is substantial uncertainty about how large these margins of response are likely to be.

Tax changes are highly political. Budgets are set-piece political events and chancellors use them to project a political narrative. Policies are generated as a matter of course every year for budgets that are key dates in the political calendar, rather than proposed only in response to specific identified problems or to achieve long-standing policy aims. This means that the evidence generated and gathered by officials to understand the broad impacts of tax policies is not necessarily decisive when tax policies are developed. The recommendations in this report are designed to improve the quality of evidence provided to ministers by officials. Better evidence can – and should – persuade ministers and improve policy design.

The Treasury and HMRC already have reasonably well-developed mechanisms for drawing on evidence. HMRC has access to high-quality administrative data, has many officials to analyse that data to assess the effects of tax policies and a robust process with the Office for Budget Responsibility (OBR) to ensure data and research is used appropriately. Both it and the Treasury look to make use of the latest research, and are especially good at undertaking, commissioning and using qualitative research. There are also several routes by which practitioners can feed in on-the-ground insights about the operation of current tax policies and the likely effects of future policies to officials. But there are gaps and ways to further improve how evidence, in particular quantitative evidence, is used in tax policy making. The main areas for improvement we identify are:

- **The tax policy process is closed and it is often unclear how evidence feeds into decisions.** This can make it harder for outsiders to understand how decisions have been reached and how to tailor their evidence and representations to have impact. These problems are exacerbated by the often fast pace of policy development and stretched resources within the Treasury and HMRC.

- **There is an outsized focus on the impact policies have over the OBR's five-year forecast horizon**, meaning less attention is paid (particularly by politicians and the public) to the effects of policy on the supply side of the economy, which take more time to fully materialise.

- HMRC and the Treasury have taken welcome steps in recent years to undertake and publish more tax policy evaluations, but **there is still more to be done to ensure good evaluation happens systematically and that results are easily accessible to outsiders.**

- **Officials do not always engage as effectively as they could with external researchers.** Better working would help officials get early sight of relevant work, assistance interpreting research and opportunities to shape the questions researchers prioritise.

- **The Datalab – through which external researchers access administrative tax data – does not operate as effectively as it could** to facilitate world-leading research and to generate a higher volume of high-quality policy-relevant research.

Recommendations in brief

We recommend several steps government ministers, civil servants and outside experts can take to address these shortfalls. These include larger changes, 'quick wins' and medium-term goals, and are summarised in brief here.

Ministers

- Recommit to holding a single fiscal event each year, in line with international best practice.
- Be clear publicly what the objectives of tax policies are.
- Allow and encourage civil servants to publish details of the evidence that informs new tax policies and internally conducted evaluations of existing policies.

Treasury and HMRC: 'quick wins'

- Publish 'areas of research interest' to make clear to external researchers what the departments' priorities are for new evidence to inform tax policy (and other areas of the departments' responsibilities).
- Advertise calls for evidence directly to academics and other external researchers and be clearer about what evidence is needed and how evidence provided will feed into policy development to help researchers understand the need for their input and what representations are helpful.
- Add external researchers to tax policy stakeholder groups and make greater use of these contacts to peer review internal analysis.
- Share between teams best practice in engaging with external researchers.

Civil service: medium-term reforms

- Convert free-text boxes on tax returns into pro forma inputs to enable the information provided to be used for analysis internally and externally.
- Facilitate the creation of more research that would be useful to policy makers by increasing the resources of the Datalab to enable better use of administrative data by external researchers. Datalab staff should also be more actively involved in this research to help ensure work in the lab is of benefit to policy making and to make the Datalab a more attractive place to work.
- Publish a clear summary of the evidence used to inform new tax policies, either in the policy costings document, the TIINs (tax information and impact notes) or a separate publication.
- Publish clearer and better developed plans for evaluation alongside any new tax policies and prioritise resources to ensure that key parts of the tax system are evaluated.

The Office for Budget Responsibility: making evidence more transparent

- Publish information on the key parameters used to cost tax policies and the evidence underpinning those.

- Provide more information on the expected longer-term effects of tax policies, alongside their regular five-year forecasts.

External experts: making evidence more useful

- Situate work and recommendations in the context and current priorities of the government and make clear how their findings fit with other sources of evidence.

- Ensure results are published in a timely manner.

Methodology

This paper is based on publicly available information and semi-structured interviews with more than 20 officials, practitioners, researchers, groups representing high income and high wealth individuals, former chancellors and other former Treasury ministers.* We interviewed officials from both the Treasury and HMRC across a range of seniority levels and tenure.

In this report we look at a wide range of types of evidence that could feed into the tax policy making process. This includes quantitative analysis and qualitative insights (both from structured interviews as part of a research project and more informally from tax professionals, taxpayers and those who administer the tax system). We focus here on types of evidence that inform policy makers' understanding of what the impact of a tax change is likely to be in terms of its effect on revenues, individual behaviour, compliance and the ability to administer the tax system.

We do not examine in detail other types of evidence – such as public opinion polling – which may affect whether ministers decide to adopt a particular policy but do not directly affect the impact of the policy and do not form part of the advice that civil servants provide to ministers. We focus predominantly on the evidence needed to inform substantive changes to tax policy, rather than minor adjustments such as to clamp down on avoidance.

* At the outset of the project, we identified a list of people we wanted to interview. These people were approached by email to ask them to participate in the research and providing information on the purpose of the project and how information provided by them in an interview would be used. All interviewees took part on the basis that the information provided would be used to inform this report but that we would not identify the individuals who participated. All the people we initially identified agreed to take part in the research. We also interviewed six additional people who were suggested to us by other interviewees to provide a complementary viewpoint.

The tax policy process

The policy process has five stages, managed by the Treasury and HMRC

The way recent governments aspire to approach the development of tax policy was set out in the 2010 paper *Tax policy making: a new approach*,[1] which the Treasury reaffirmed and updated in December 2017.[2] The process it outlines includes five stages of the tax policy cycle: three in the policy development phase, and two further stages.

- **Stage 1:** Setting out objectives and identifying options
- **Stage 2:** Determining the best option and developing a framework for implementation including detailed policy design
- **Stage 3:** Drafting legislation to effect the proposed change
- **Stage 4:** Implementing and monitoring the change
- **Stage 5:** Reviewing and evaluating the change

Different types of evidence are needed at every stage of the process, and the 2010 and 2017 Treasury documents both commit to regular consultation throughout a tax policy's development where possible.

Within government, four groups of officials play major roles in the process, forming a 'tax policy partnership' between the Treasury and HMRC.[3]

- The **Treasury tax teams** lead on policy development, with various tax teams responsible for groups of related taxes working with ministers to decide on policy priorities and to design policy in their area. There are around 215 civil servants working within Treasury tax policy teams.
- They are supported in this task by **HMRC policy teams**, which lead on policy maintenance or "protecting the tax system against challenge". HMRC policy teams also provide deep knowledge and expertise of specific areas of the tax system. As the revenue collection authority, the HMRC policy teams work with other HMRC officials working directly on compliance to monitor the operation of the system and to propose changes needed to protect it against avoidance or evasion. They also lead on policy implementation, including working with the Treasury during the policy design phase to ensure policy proposals can feasibly be implemented and enforced. Around 1,100 civil servants work in the HMRC policy teams.
- The **Knowledge, Analysis and Insight team (KAI)** within HMRC is the centre of data analysis. It sits within HMRC because only that department can access tax records, which form the basis of most internal data analysis. However, KAI performs analysis for both Treasury and HMRC policy teams. KAI has grown in recent years from 450

full-time equivalent (FTE) analysts in 2019 to 675 in 2023 to expand its analytical capacity. Of these, around 250 FTEs work on policy development, monitoring and evaluation (up from around 150 in 2019).

- Officials in other **Treasury teams** also contribute to tax policy development by helping to model the distributional impacts and fiscal and macroeconomic impacts of tax policies, including the indirect effects – that is, the wider economic consequences of tax changes. These indirect effects include, for example, the impact of having a larger population if a tax change encourages immigration or the impact of having a larger capital stock if a tax change encourages more investment. Around 35 people work on these types of tax-related analysis, although only a minority of their time is devoted to these questions.

In addition to these teams, several other teams in both HMRC and the Treasury will be involved to provide analysis, evidence and insight, including HMRC compliance teams and Treasury spending teams.

As with all policy, civil servants' role is to provide the best possible advice, based on the available evidence, but ultimately ministers decide which tax policies to implement. Most of the ministers within the Treasury have responsibility for some aspect of tax. The financial secretary has many aspects of tax in their portfolio and is responsible for tax administration, including efforts to reduce avoidance opportunities and improve compliance. The economic secretary has responsibility for financial services taxation and pensions taxation. The exchequer secretary is responsible for energy, climate and transport taxation and excise duties. However, most tax policies, and especially large reforms, are decided by the chancellor themselves, who is by some distance the most important politician in the tax policy process.

The budget cycle affects how the process plays out in practice

Tax is an unusual policy area: the chancellor has guaranteed parliamentary time every year to pass a finance bill, and policies are (for the most part) announced at one or two set-piece fiscal events every year. Tax policy development happens all year round, but the policy cycle is often accelerated when budgets approach. Announcements need to be ready for budget day and the contents of budgets are normally a fiercely guarded secret until announced in the House of Commons (or strategically leaked to the press), which limits discussion or proper external engagement prior to official announcement.

In November 2017, when the then chancellor Philip Hammond announced a return to a single fiscal event a year (a change the Institute for Government had encouraged),[4] the Treasury published a new budget timetable. This proposed that the spring statement should be used to launch consultations and propose early-stage policy ideas, which would then be reviewed over the summer ahead of a firm announcement in an autumn budget.[5] This more regular rhythm of policy development, with fewer fiscal events also contributing to fewer announcements in total, should have allowed for more time both to receive key external input and undertake important internal analysis. However, in practice the December 2019 election, the coronavirus pandemic and the cost-of-living crisis have – understandably – interrupted this rhythm. In 2019, there was no budget at all for the first time since at least 1900; this happened again in 2022.[6] In between, the pandemic, followed by the energy crisis, meant that over the three years from 2020 to 2022 there were 21 separate statements that included fiscal policy announcements, although many of these covered spending rather than tax.

Not all policies will involve consultation, and the Treasury does not think consultation is always appropriate. For example, it does not consult on changes to rates and thresholds. In other instances, an announcement of intent followed by a consultation process would be unwise and impractical – for example, a proposed change to the capital gains tax system that increased the tax charge associated with selling an asset would, if anticipated, trigger a rushed sell-off of those assets. The introduction of the top rate of income tax at 50% in April 2010 triggered 'forestalling effects' once the policy was announced, where individuals that had the flexibility to do so brought forward income while the tax rate was still 40%.[7] Many of these policies therefore need to be developed confidentially, and implemented immediately, if they are to avoid distortive impacts. This is especially relevant for taxes affecting high income and high wealth individuals as they are the most likely to be flexible in how they arrange their finances and take their income, and to be receiving professional advice on how to do this.

But even where consultation would theoretically be possible, policies are sometimes developed on an accelerated timetable and without following the ideal process (even when sticking to one budget per year). Chancellors like to keep a 'budget rabbit' – a large and unanticipated tax policy to announce on budget day. Firming up a proposal that has been consulted upon over the preceding months does not lend itself to political surprise.

There have been good recent examples of consultation on proposed policy measures: for example, in March 2022 the then chancellor Rishi Sunak sought views on various possible policies to boost business investment and research and development (R&D), among other notable policies.[8] But this still does not happen in all cases where consultation would be helpful.

Despite attempts to modify the process, therefore, tax remains an unusual policy process that is more prone to short-term and/or more closed policy development than other areas.

Tax policy ideas emerge through three main avenues

Our research has identified three main broad ways in which budget tax proposals emerge, each of which affects how the tax policy process operates in practice.

First, politicians might suggest a specific policy proposal for officials to explore. Interviewees provided examples of policies proposed publicly by external organisations, those suggested by politicians' contacts, and those that have been included in the governing party's election manifesto. Officials will then provide advice on the measure, including gathering the necessary evidence on the likely cost and impacts of the policy, and on that basis the minister would decide whether they wanted to proceed. Interviewees suggested that in most cases these ideas would not be entirely new to officials, and they would ordinarily have already considered the impact of the policy or similar ones.

The second route through which substantive tax policies are proposed involves the chancellor setting out key objectives they want to achieve. Officials then develop proposals (or recycle past proposals) that might meet these objectives, providing advice and evidence on those to the chancellor. This might include drawing on work (and taking on proposals) produced by others, including think tanks, lobby groups, tax professionals and parliamentary groups.

Budgets are highly political events and will often have a clear political narrative the chancellor is looking to land. The most common objectives we heard from former ministers we interviewed were a desire for the overall package to be progressive (redistributing the tax burden from poorer to richer households) and a desire to show support for particular groups or activities (such as small businesses, homeowners or entrepreneurship). In addition, tax and spending decisions in a budget will usually need to be consistent with the chancellor's fiscal rules and there is therefore often a need to raise a specific amount of additional revenue – or sometimes a freedom to give away a particular amount – to be on course to borrow the appropriate amount consistent with the rules. At times of economic distress, fiscal rules will often be set aside and instead the objective may be to provide support to (a certain part of) the economy through tax measures.

The final route for policies to emerge is through specific suggestions from officials beyond the priorities set out by the chancellor. Most commonly HMRC, as lead on policy maintenance, monitors the system and will identify problems; for example, loopholes in existing tax law. As part of this role, it will propose changes to improve the tax system and ensure it is functioning as intended. These policies will still be subject to ministerial approval but will tend to be less politically contentious than other measures in the budget. Interviewees suggested that, measured by volume, the majority of tax measures included in budgets emerge via this route, but most of these will be very small and unlikely to have a large revenue impact. Other examples of policies proposed by officials might include reforms recommended by Treasury tax teams, perhaps building on analysis that has revealed problems in the system.

Significant tax changes for high income and high wealth individuals, the focus of this report, will emerge via the first or second route. These taxes are highly political and will affect the narrative around the budget when they are announced. (Some policies to improve *compliance* among these groups might emerge through the third route, but large changes to how wealthy people are taxed is not something HMRC would propose without an initial steer from the chancellor.)

The OBR is an important player in the budget process

The biggest change to tax policy making in 2010 was not the publication of the new policy process but the creation of the Office for Budget Responsibility (OBR). As the government's independent economic and fiscal forecaster, it plays an important role in the development of tax policy and the way evidence is used.

Every policy on the budget 'scorecard' has a fiscal costing, which determines how much it affects the overall borrowing figures relative to the 'pre-measures forecast' (that is, the forecast for borrowing and debt if the government announced no new policies). These policy costings are largely produced by KAI analysts in HMRC, who use internal models of each individual tax stream to estimate the likely impact of new proposals. But the OBR plays a crucial role in scrutinising every one of these costings. The OBR interrogates the evidence base and determines whether assumptions made are reasonable and unbiased – requiring HMRC and Treasury officials to revise their assumptions and provide more and better evidence if they think it is lacking. Once the costings have been finalised and the OBR is satisfied that they reflect the best available evidence, the OBR assigns each policy costing an uncertainty rating depending on how wide it judges the range of potential impacts to be.[*] Specifically, it reaches a judgment on the uncertainty of the data, the modelling and the behavioural assumptions underlying the policy costing. In practice, it will review costings for many more policies than eventually make it into the budget, since some will be considered by the chancellor but ultimately dropped.

The OBR's role is important because it helps ensure KAI's estimates are as rigorous and unbiased as possible. Before the creation of the OBR, models and assumptions would not have been subject to direct review. But the OBR now plays a kind of 'peer review' role, assessing whether HMRC is making the best use of the available evidence to determine the likely impacts of a policy over five years. As the OBR will review at least 100 costings per budget, this also requires substantial resource, especially for KAI, which will often submit pages of evidence to justify a costing. As we discuss below, this means that evidence affecting the likely medium-term fiscal cost of a policy is in highest demand.

As well as determining the fiscal cost of measures, the OBR also decides whether and how to incorporate tax measures into its economic forecast – in other words, whether a tax policy will move the dial on GDP or other macroeconomic variables. Most tax policies do not on their own have macro impacts, but some do. For example, in the March 2023 spring statement the OBR revised its forecast for workforce participation marginally due to changes in – among other things – pension tax rules designed to incentivise high earning public sector workers to stay in the workforce for longer.[9] Given that some tax policies relating to high income and high wealth individuals may be explicitly designed to have economic impacts, this role is also important.

* The OBR has produced these uncertainty ratings since December 2014 and a full database of the judgments made since then is available on its website, https://obr.uk/data/

Where is evidence needed?

Evidence on the cost and broader impacts of tax policies is the priority for officials

When politicians consider making changes to the tax system, there are typically five questions on their – or their officials' – minds:*

- How much will it cost/raise?
- What effect will it have on the wider economy and economic efficiency?
- Who will be affected?
- (How) can it be implemented; how burdensome will that be for HMRC and taxpayers?
- Will it be popular with (certain sections of) the public?

The last three of these questions are relatively simple to understand, albeit often difficult to answer. But the first two have several underlying layers that must be unpicked to come up with an overall answer.

There are broadly two stages to constructing the answer to the first question – for ease of exposition, we will assume we are considering a tax increase, but similar issues would apply in reverse to a tax cut.

First, one needs to assess what might be described as the **'static' estimate** of the revenue raised. In the simplest terms, this can be calculated by multiplying the current size of the tax base by the change in the tax rate that is being considered. For example, if considering raising the additional rate of income tax from 45% to 50%, the relevant tax base would be the amount of income that people currently receive above the additional rate threshold (£125,140 in 2023/24). The tax rate change would be five percentage points. And so, the static estimate of the revenue that would be raised is calculated by multiplying one by the other.

The static costing would likely be a poor estimate of the revenue impact because it would ignore changes to behaviour that might be induced by the tax change. Therefore, the second stage of estimating a costing is to quantify the likely **behavioural responses**. These could take many different forms, depending on the nature of the tax change. People might change their economic activity – such as by working fewer hours. They might change how they structure their activities – such as contributing more to a pension, moving investments offshore or by retaining profits in a company rather than paying out dividends. They might even change where they live – for example, moving out of the UK.

* The final question – on popularity – is not one that officials advise on. This question is one for ministers and their political advisers.

Some of these responses might change how much the UK exchequer receives in total. Other behaviour changes might also have an impact on when the exchequer gets paid – for example, when someone contributes more to a pension, tax revenues fall in the near term but rise in later years when the pension income is withdrawn. Some of these behaviour changes may affect revenue not just of the tax being changed but also of other taxes. For example, if someone leaves the country in response to a tax increase, the exchequer not only loses the additional tax that would have been raised, but all the other taxes they would otherwise have paid had they remained.

Finally, to answer the second question above – and so understand the full impact that a tax might have in the longer term – one might want to assess the potential **wider economic impacts**. This could include macroeconomic impacts. For example, some tax changes are specifically designed to encourage people to invest more in businesses or undertake more 'entrepreneurial' activity, which could boost productivity and have wider economic benefits. This was the motivation behind 'entrepreneurs' relief'.[10] Economists might also assess how far the measure affects microeconomic efficiency – for example, by correcting a market failure, over and above any macroeconomic benefits.

Different politicians are interested in different bits of evidence

All the former ministers we spoke to indicated that political considerations weighed heavily in any decisions about tax. A key consideration is whether a potential policy achieves a broader political objective. The two motivations that were most cited in our conversations with former ministers around taxes affecting HNWIs – which have shaped the policies adopted in this area since the financial crisis – were a desire to raise money from those with the broadest shoulders or, conversely, to encourage such people or businesses to move to, or stay and invest in, the UK.

Evidence provided by civil servants – explicitly prohibited from providing political advice – plays a role in informing ministers' views on these issues. For example, civil servants will provide ministers with an estimate of the distributional impact of a proposal and will attempt to gather evidence on how tax changes might affect the behaviour of wealthy people. But former ministers we spoke to indicated that their perception of how policies would play politically was also shaped by what they heard from other sources, such as their parliamentary colleagues, other personal contacts, media coverage and polling. All of these, plus ministers' and their advisers' own intuitions, contributed to ministers' sense of whether a policy achieved certain desired political goals, such as showing that Britain was 'open for business'. As the former chancellor Alistair Darling put it:

> "At the end of the day, you are there as an elected member of parliament who has become a minister and therefore you are representing your constituents and of course the country at large. You have a feel for what's right, what might work and what wouldn't work. It isn't ever going to be derived solely from the advice you get from your officials; it's rather going to be derived from your own experience and your own sense of things, alongside any advice you receive. An hour spent shopping in Tesco can tell you an awful lot about the workings of the tax system that your officials don't tell you, because people have their views on that."[11]

The amount of money that a tax policy will cost or raise was also a key consideration for all the former ministers we spoke to – in particular, what the revenue implications would be during the OBR's five-year forecasting horizon. Every budget process is ultimately geared around the government's economic and fiscal objectives, which in normal times can often boil down to a single bottom line number: what is required to comply with the government's fiscal rules?* This shapes what is possible in terms of tax and spending commitments in each fiscal statement.

The revenue implications are determined in part by how behaviour responds to the tax change. But there was noticeable variation among the former ministers we spoke to in how far they were interested in these behavioural responses in their own right – as opposed to caring about them only to the extent that they affected the bottom-line number. The behavioural responses determine the efficiency of the tax system – that is, how far the system distorts behaviour for a given revenue raised. Some former ministers we spoke to showed interest in the behavioural responses in their own right – and the implications of these for wider economic activity and the efficiency of the tax system. But others indicated they had little interest beyond the impact on revenues.

As one former special adviser to a chancellor told us, ministers "do care about behavioural evidence, but in the end revenue matters because the chancellor is the only one who has to make the numbers add up and revenue drives the politics. Our politics measures priorities in cost."

Former ministers also told us that junior tax ministers tend to focus on slightly different issues to the chancellor. In particular, the chancellor is focused on the big picture and so is most concerned by exchequer costs and economic impacts. While the financial secretary will also care about these, they are typically also the minister responsible for HMRC and therefore tend to be more focused on questions around the administrative burden and feasibility of tax proposals.

There is an outsized focus on impacts in the next five years

Civil servants from the Treasury and HMRC gather evidence on the likely future effects of proposed tax policies that inform their advice to ministers. This evidence-gathering exercise looks at both the short- and long-term impacts of tax changes. However, two factors mean that, while tax options are being considered and in the public debate once they are announced, most attention is focused on the impact over the next five years. Both stem from the role of the OBR's medium-term (five-year) economic and fiscal forecast.

First, chancellors tend to be highly focused on how tax policies will be scored within the five-year forecast, published in the *Economic and Fiscal Outlook* alongside budgets and other fiscal statements. This is where the fiscal impact of decisions is most apparent to other MPs and members of the public. While a chancellor may want to

* In exceptional circumstances – for example, in times of economic crisis – fiscal rules are suspended or changed. In these cases, macroeconomic objectives might play a greater role than fiscal arithmetic, although chancellors are still likely to have a limit to the level of borrowing they are happy with.

assert that their tax changes will have beneficial economic consequences or better revenue impacts in the longer term, the public and commentators will tend to put more store by the hard numbers produced by the OBR for the next five years than vaguer assertions about what happens thereafter.

Second, the process within Whitehall of producing policy costings also encourages more focus and scrutiny of the impact over the next five years than what happens thereafter. As described above, estimates of the revenue and economic impacts of tax changes are produced through a collaborative and iterative process between the Treasury, HMRC and the OBR. Detailed modelling of each component of tax revenues and new policies is done by officials in HMRC and the Treasury, which is then scrutinised and challenged by the OBR. This is a rigorous process but inevitably focuses much more heavily on the assumptions made about the next five years – the focus of the OBR's biannual *Economic and Fiscal Outlook* – rather than the years beyond that.

As a result of both these factors, more energy goes into developing evidence on the impacts over the next five years than beyond that. This, however, misses the fact that any impacts of tax policy changes on the *supply* side of the economy are likely to manifest more than five years into the future and therefore there tends to be less resource put into gathering and understanding evidence on these longer-term dynamic effects than on the near-term impact of policies. It also means that some types of responses to tax policy – those which are easier to make more quickly, such as forestalling of dividends or other flexible payments to avoid a tax increase – are focused on more heavily than those that take longer, such as changes to saving behaviour.

How do different types of evidence feed in?

There is a lack of transparency around how tax evidence is used

As the Institute has noted previously, the tax policy making process is closed.[12] Budget secrecy means that only a handful of people know the full content of a budget before the chancellor announces it. The process is also not very transparent after the fact: little information is made public on how the policy process played out and what evidence informed decisions.

Some information on new policies is published. Tax information and impact notes (TIINs) are supposed to provide clarity over the objective of a tax measure and the government's assessment of what impact the policy will have.[13] In addition, alongside each budget a policy costings document sets out the assumptions underlying the HMRC costing on the scorecard.[14] The government has also begun to publish more information on the existing stock of tax reliefs to enable better evaluation, which includes stating an objective for every non-structural relief.[15]

However, these documents are not as useful as they could be to understand the objectives and evidence base of policy. The objective of policies is often not clearly stated or is not a full representation of what ministers want to achieve. For example, the 2015 summer budget announced the end of permanent non-domicile tax status – in short, ending the ability for people who have been resident in the UK for more than 15 years to avoid paying tax on their income and capital gains earned abroad. That budget document stated that:

> **"The government remains committed to [having a tax system that is internationally competitive to attract talented people to work and do business in the UK]… However, the government… wants the system to be fair. It believes that those who choose to live in the UK for a long time should pay taxes here like everybody else."**[16]

However, we were also told by interviewees that relatively early in policy development, ministers were clear that there needed to be a protection for particular financial structures that had been set up before someone became deemed domiciled, such as trusts, even though similar protections do not apply to those who have always been UK-domiciled, which appears to undermine the stated aim of the policy. Indeed, on the same day the policy was announced, HMRC issued technical guidance to explain how people affected could continue to retain their existing benefits.[17] This lack of clarity about the policy objective makes it difficult to assess how the government has judged that this policy design was the one that best met its objectives.

The government also tends not to set out much, if any, detail on the evidence that has led it to reach the judgments it has. For example, when the lifetime limit for entrepreneurs' relief was increased from £5 million to £10m in 2011, the stated objective was to "encourage serial entrepreneurs who want to expand their business and reinvest gains, helping to make the UK a more attractive location for entrepreneurs", but no evidence was provided to show how, or even whether, the policy would achieve these aims.[18]

When policy costings documents were introduced in 2010, initial iterations were detailed and useful, setting out transparently the assumptions made (in particular, about the size of the behavioural responses expected) and sometimes, though not always, the evidence that led to that judgment.[19] But this was short-lived, and since the mid-2010s the documents have become much less detailed and, as a result, much less useful, as the original political momentum behind the documents has waned and it has become more of a box-ticking exercise.

There are notable exceptions where analysis and assumptions have been presented more transparently for taxes on high income and high wealth individuals. Many interviewees pointed to work done on the top rate of income tax, published in 2012 to explain the government's decision to cut the rate from 50% to 45%, as a good example of internal analysis that was then published.[20,*] Likewise, when reducing the lifetime limit of business asset disposal relief (the replacement for entrepreneurs' relief) from £10m to £1m in 2020 the government was able to point to several analyses justifying the change, including qualitative research commissioned by HMRC on the motivations of the relief's beneficiaries.[21]

However, these remain exceptions. During the 2015 and 2017 parliaments and the 2019 parliament to date, 14 tax policy changes affecting HNWIs have been announced in fiscal statements. But for only three was any evidence cited, either in the relevant fiscal statement document, in the accompanying policy costings document or in the TIIN, to support the design of the policy or the assumptions made that informed the costing or economic impact assessment.[**]

The rest of this section sets out how evidence feeds into the process. This is based principally on interviews with those who are or have been involved in the process, although we refer to public information where it is available.

Internal analysis and experience

HMRC in general, and KAI in particular, is the main source of many types of evidence that feed into the tax process.

KAI, which has 675 FTE analysts and statisticians, has access to the data generated through tax collection. In effect, all information recorded on tax returns or tax payment systems – other than that in free text boxes – is available as KAI data. KAI uses this administrative data to produce official statistics on the current operation of the tax

* This internal analysis was later complemented by analysis from researchers at the Institute for Fiscal Studies, using a sample of HMRC administrative data, which provided even more information on the behavioural and revenue effects of this tax change (https://ifs.org.uk/sites/default/files/output_url_files/WP201712.pdf). This further analysis ought to have helped government better to understand the potential impact of further changes to top rate of income tax would be – for example, the abolition of the additional rate of tax proposed by Kwasi Kwarteng in September 2022.

** IfG analysis of policy announcements and accompanying documentation. See the annex for a complete list.

system, estimate the tax gap each year and contribute evidence and provide costings for emerging tax policies, on top of several other responsibilities it holds assisting other parts of the Treasury and HMRC.

KAI's resources have grown significantly over the past few years. HMRC told us this has enabled greater investment in the department's models, statistical outputs and provided more capacity to conduct evaluations. In part, this growth in KAI was prompted by the need to analyse the Covid support schemes that HMRC administered. Additional resource was also allocated by the Treasury in the 2021 spending review to expand HMRC's capacity to manage analytical data, provide analysis to inform the Tax Administration Strategy, and increase HMRC's analysis on cross-government priorities – such as the labour market and migration.

HMRC has access to the best available data, although administrative data is not always sufficient

In most cases, the data generated by the tax system is the best available for identifying the size of the tax base affected by the change, which is the starting point to identify the static impact of a policy. KAI is better placed than anyone else (within or outside government) to provide the most accurate estimate of how much income is taxed at the basic income tax rate, for example, or how many estates are subject to inheritance tax that are worth above a given threshold. Interviewees emphasised that data collected by HMRC is especially good relative to other government departments or policy areas because the collection of accurate information is central to HMRC's core task of ensuring taxpayers pay the correct amount of tax.

However, there are some policy questions for which HMRC data cannot provide the answer. Some proposals would entail taxing currently untaxed streams of income or stocks of wealth. For example, estimating the tax base for a new 'wealth tax' would be very difficult based on existing administrative data. It can also be a problem when looking to understand the impact of possible changes to existing taxes: for example, it is very hard using existing administrative data to estimate what the effect would be of levying capital gains tax at death or of levying inheritance tax on gifts made more than seven years before death. HMRC makes use, where it can, of other datasets to fill the gaps – for example, the Wealth and Assets Survey conducted by the Office for National Statistics – or uses other data to build a partial picture – for example, using the wealth holdings of the dead (captured through inheritance tax filings) as a proxy for the living.

In recent years, better data on wealthy individuals, in particular, has been made available through international data sharing agreements led by the Organisation for Economic Co-operation and Development (OECD). This gives HMRC some greater understanding of individuals' 'global wealth', assisting with compliance and helping to provide a slightly fuller picture of the total wealth and income of these groups. However, important gaps remain. A small number of countries do not participate in the common reporting standard (CRS) and, more importantly, the CRS only covers bank accounts and nominee share accounts – it does not include land, gold or directly held shares. Also importantly, the UK government can only access information on individuals' overseas assets if those individuals correctly report to every other country (in which they hold assets) that they are resident in the UK.

The hardest task for KAI is estimating behavioural responses

To fully understand the impact of tax policies, KAI also needs to reach judgments on how the tax change will alter behaviour. KAI is responsible for various internal models for different taxes, which are used to calculate the impact of tax policies. These include measures of the tax base based on the data mentioned above, as well as assumptions about different margins of behavioural response. For example, an increase in the capital gains tax rate could have several effects, such as changing saving behaviour and switching of asset purchasing into untaxed assets like primary housing.

Estimating behavioural responses is far harder than identifying the size of the tax base. How people will respond to a tax change is inherently uncertain. Even if a similar tax change has happened before, there may not be robust analysis causally identifying the impact of that tax change as opposed to other changes that happened at the same time. And other conditions might have changed such that the same policy could have a different effect this time.

For each tax, or type of tax change, a few key parameters or assumptions will determine the estimated cost and broader impact. For example, when assessing the likely impact of a change to the top rate of income tax, the key judgment is over the elasticity of taxable income to the tax rate. The elasticity of taxable income depends on how much taxpayers respond by reducing their taxable income when the tax rate increases. This could be by working less or through other legal avoidance routes, such as contributing more to a pension or restructuring income into capital gains, which will also affect the take from other taxes and the time profile of revenue.

KAI sometimes undertakes internal research, often using administrative data, to provide new estimates of these types of key parameters, particularly where no reliable external evidence is available.

There are some notable examples where this internal analysis has been published. For example, in 2012 the Treasury and HMRC published analysis of the additional rate of income tax to justify a very low estimated cost from reducing the tax rate from 50% to 45%. More recently, analysis of the effect of Making Tax Digital on tax yield has been published,[22] as has work using the difference in tax rates between England and Scotland to provide new estimates of the elasticity of taxable income.[23] In each case, this work has been peer reviewed by external experts before publication.

HMRC has begun to publish internal quantitative work more often. Between July 2020 and July 2023, it published five working papers, having published just one in the three years before that.[24] However, this is still a small minority of the useful work KAI does to inform tax policy, and where papers are not published it is unclear what internal evidence has been used, or how robust those methods are. In many cases, HMRC appears to publish papers when it is politically convenient and needed to support policy choices. This was true for the additional tax rate change,[25] which was politically controversial, and for Making Tax Digital,[26] which has been unpopular in some quarters. However, there would be a benefit from publishing work even when doing so is not politically necessary or convenient.

Similar assumptions and parameters are often relevant to a variety of different tax changes and so HMRC has a standing set of assumptions and parameters that it uses for policy advice and analysis. These estimates are drawn from a range of sources, including the academic literature. In each case, the back and forth with the OBR requires KAI analysts to set out in depth why the assumption they are using is appropriate, unbiased and based on the best available evidence. But these assumptions are not published.[*] As an example, Rupert Harrison, who was an adviser to the former chancellor George Osborne, revealed in a tweet in 2020 that internal HMRC analysis suggests that the revenue maximising rate of capital gains tax is the current 28%.[27] This is an important assumption in shaping tax policy decisions, but that assessment has never been formally published and external researchers do not know what evidence that figure is based on, making it difficult to replicate or critique.

Evaluation of tax policies has improved but remains too limited

Evaluating existing policies is an important way to generate evidence to inform future improvements to the tax system, either by identifying problems with existing policies or generating new evidence on the effects of tax policies. As set out above, this constitutes the fifth stage of the formal tax policy making process. The Treasury and HMRC have been criticised in the past for failing to evaluate tax policies systematically enough: the National Audit Office and Public Accounts Committee[28] have criticised the lack of evaluation of non-structural tax reliefs and the Institute for Government previously noted that "there is not a systematic process within the Treasury that ensures this fifth step [evaluation] is undertaken".[29]

At the end of 2021, HMRC published a new evaluation framework,[30] setting out the criteria it would use to determine what to evaluate and what questions to address in evaluations.[**] That framework also made firmer commitments to enhancing the quality of evaluation plans by engaging earlier with external stakeholders and establishing a new centre of expertise within HMRC to build evaluation capability within the department, including co-ordinating and promoting good practice and drawing more effectively on external expertise. HMRC also committed to "put in place a more structured programme of internal evaluation work including plans to start publishing this analysis from 2021, subject to ministerial approval".[31]

This ambition is welcome and there are some signs of it being turned into action. We heard from interviewees about the efforts being made – for example, through the tax policy school attended by new Treasury and HMRC tax officials – to ensure tax policy officials think about evaluation from the earliest stages of policy design. The number of staff in KAI has also been expanded in recent years, providing more capacity internally to evaluate policies. HMRC has now published its evaluation plans, setting out which tax reliefs and other tax policies it is currently evaluating.[32] That published evaluation list now includes 10 evaluations, up from six when this list was first

* The closest thing to a public statement of the size of behavioural effects assumed in recent policies was a chart published by the OBR in the October 2021 EFO, which showed how the final costing of various policies compared to the static costing – implicitly providing an estimate of the assumed behavioural impacts. Source: Chart A.3, https://obr.uk/efo/economic-and-fiscal-outlook-october-2021

** Although these are formally HMRC documents, they are produced in consultation with the Treasury and reflect the priorities of both departments. The Treasury does not do any separate evaluation of tax policy beyond what is done by HMRC.

published 18 months ago.[33] HMRC has also published two tax relief statistics summary documents – first in December 2021 and then in January 2023[34] – which provide a limited summary of evaluation evidence, specifically links to relevant HMRC internal or externally commissioned research.

The summary document for tax relief statistics is a step in the right direction, providing greater clarity about the objectives of tax reliefs and evidence on their cost and impacts. However, it stops well short of providing a clear summary of HMRC's and the Treasury's view of the available evidence: the documents make no attempt to summarise the findings of the research that is linked to and do not refer to or attempt to synthesise other relevant evidence produced externally.[*] It also does not cover other types of tax policies, beyond tax reliefs, meaning the evidence on those policies is even harder to navigate.

The plans for monitoring and evaluation of tax policies set out in TIINs continue to be cursory. For example, for the 14 tax policies affecting high income or high wealth individuals announced in fiscal statements since July 2015 (including the three announced since 2021), the TIINs for all said simply: "The measure will be monitored through information collected from tax returns and tax receipts" or "The measure will be kept under review through communication with affected taxpayer groups" – or some slight variation on those sentences. This does not suggest that robust evaluation plans were developed for these policies from the outset.

There have been some encouraging signs of the Treasury and HMRC commissioning, conducting internally and publishing more evaluations – and particularly more policy, as opposed to operational, evaluations – in recent years. For example, looking at the internally conducted evaluations published by HMRC, during the six years from 2015 to 2021, there were only six policy evaluations; this compares to six such evaluations that have already been published during 2022 and the first seven months of 2023.[**] However, four of the six evaluations published over the past 19 months were of Covid-specific policies, by nature more acute and time-limited than other policies. It is important that the departments extend this approach of open and comprehensive evaluation to permanent tax policies.

The departments should also consider publishing existing – and not just new – evaluation work. Some kind of evaluative information is currently only available for around three fifths (by value) of what HMRC classifies as the most significant non-structural tax reliefs and this essentially did not change between December 2021 and January 2023.[***] Furthermore, while some internally produced evaluations and other relevant analysis – both for non-structural tax reliefs and other aspects of tax policy

* For example, the 'evaluative summary' for business asset disposal relief in December 2021 stated the objective of the policy ("to encourage genuine risk-takers and entrepreneurs to start up or invest in their own personal company over the long term") and provided two links to HMRC-commissioned research. But it did not provide a summary of what light that research shed on whether the objective was being achieved, nor did it refer to other relevant research on this question, such as that from the Institute for Fiscal Studies: https://ifs.org.uk/articles/low-rates-capital-gains-tax-business-income-lead-large-tax-savings-do-not-boost-investment

** IfG analysis of evaluation results published on gov.uk using the following search: www.gov.uk/search/research-and-statistics?keywords=evaluation&content_store_document_type=research&organisations%5B%5D=hm-revenue-customs&order=updated-newest

*** This figure is based on IfG analysis of the December 2021 and January 2023 tax relief statistics publications.

– are available online,[35] they are hard to navigate. This makes it difficult for external experts to scrutinise the quality of the evaluations that have been done or to identify where the key gaps in knowledge are that might help them focus their future work. It is, therefore, welcome that HMRC is working with the Cabinet Office Evaluation Task Force to populate a new evaluation registry, which will provide a single portal for all government evaluations, making them more easily accessible.

HMRC compliance and operational teams also feed in on-the-ground insights

In addition to internal quantitative analysis, HMRC's compliance and customer teams provide information based on their monitoring of the tax system and interaction with taxpayers. For HNWIs, the compliance team will provide advice on likely tax planning responses which will affect the revenue raised by the new policy. The Wealthy Team manages relationships with complex high wealth taxpayers (or their advisers) directly as their tax affairs are so complicated.[*] The primary role for this team is to ensure good compliance and that wealthy individuals know how much tax to pay and how the tax system works. But they also have an in-depth knowledge of this group and how it might respond to different types of tax change that can contribute to policy design.

Officials responsible for implementing policy will also provide insight early in the process, based on their experience of managing the tax system and implementing similar changes, about how a prospective change to the system should be designed to ensure it can be implemented smoothly. The Wealthy Team is well placed to understand in real time how policies are working, or what types of implementation issues taxpayers might face.

The customer and compliance teams are proactive, and interviewees said they are generally effective. In recent years they have also commissioned additional work to understand how to perform their role more effectively.[36]

Externally commissioned analysis

HMRC acknowledges that it cannot generate all the required evidence to feed into tax policy internally and has a research budget of around £6m per year to fund external research to fill gaps. This is the only tax-related research directly commissioned by government as the Treasury does not currently spend any money on external research. Instead, policy leads from the Treasury feed into discussions with HMRC about how their research budget can best be deployed.

HMRC publishes a list of the projects it has funded,[37] and publishes all externally commissioned work on Gov.uk.[38] However, the published work is difficult to navigate, which limits the usefulness of it to external researchers. Likewise, there is no public detail provided on work that has been commissioned but not yet published beyond the title and a one-sentence summary. In some cases, this is as uninformative as "ongoing econometric consultancy from University of Westminster".

* HMRC defines an individual as 'wealthy' if they have incomes of £200,000 or more or assets equal to or above £2m in any of the last three years.

Commissioned work focuses on research HMRC cannot conduct internally

Most commissioned work is qualitative. For example, several of the studies are surveys of taxpayers to better understand how they use and perceive the tax system, which helps to inform officials on how valuable particular reliefs are, or what impact future tax changes might have. For example, qualitative work on entrepreneurs' relief found that most founders had not heard of the relief when establishing their businesses, meaning the relief could not have encouraged them to become an entrepreneur.[39]

Some evaluations are also commissioned externally. Typically, these include a strong qualitative element – both surveys and interviews with claimants of reliefs – although some also include quantitative analysis using administrative tax data. For example, a recent evaluation of share schemes used administrative data, surveys and interviews to assess their effectiveness.[40]

This sort of analysis complements the work HMRC analysts can do internally. Surveys and qualitative interviews provide a richer understanding of how the tax system is operating, and taxpayers' attitudes, than KAI analysts can gather from administrative data. However, there is a danger that taxpayers involved in these kinds of surveys or interviews face an incentive to respond in a certain way because they know the research is being conducted by HMRC – for example, claiming that a tax relief has induced a positive change in their behaviour even when it has not.

This work only captures some of the relevant questions

However, the narrow focus of commissioned analysis means that there are many useful and relevant types of tax research that HMRC – and by extension, the Treasury – do *not* fund directly. Commissioned analysis naturally has a longer turnaround than internal work because the tender process and competing priorities of external researchers means any analysis will take longer to start and complete. This, combined with the need for secrecy around some measures, means short-term questions (for example, that might be of help during the budget process described above) will always need to be addressed internally. But there are other, longer-standing questions that could be asked without revealing the government's specific plans for tax policy (and so would not violate budget confidentiality) and could assist future tax policy making. In particular, quantitative analyses to understand the behaviour of taxpayers and how they respond to the tax system, using administrative data, could help to improve the evidence base on key unknown parameters that feed into the tax policy process.

While KAI has a large team of analysts and access to the best available data, it is still constrained in the work it can do by the resources at its disposal. In addition, KAI analysts are more used to producing outputs to feed into fast-moving policy processes, rather than addressing the bigger, longer-running questions for which academic researchers are better placed. There are quantitative studies that could be useful to tax policy making that could be conducted more effectively by involving external researchers, who can provide additional capacity and some highly specialised quantitative skills,* although external quantitative work that does take place is not always as impactful as it could be.

HMRC and the Treasury did fund some quantitative academic work jointly with the Economic and Social Research Council (ESRC) through the Tax Administration Research Centre. Interviewees told us this had mixed success in part due to differing priorities between academics and officials and in part due to the limited number of academics taking an interest in tax administration. But this initiative was something of an outlier, and HMRC and the Treasury have not provided funding for other types of quantitative analysis; for example, research explicitly estimating the scale of people's responses to tax changes.

Other external quantitative analysis

Academic work on tax mainly happens without direct commissioning or funding from HMRC. There is a good amount of academic quantitative evidence, based on data in the UK and elsewhere, which can provide answers to some of the questions policy makers need as they look to make tax policy. The evidence base on the impact of various taxes on economic efficiency and behaviour has built up over decades and continues to grow through researchers in the UK and elsewhere, although substantial gaps remain.

Policy makers may sometimes be interested in different questions to academics, but there is enough overlap that external analyses can and should inform internal advice on the likely impact of tax policies.

Civil servants monitor academic literature, although this is not systematic

Academic work is published in journals (and often as working papers beforehand). Civil servants in both HMRC and the Treasury monitor newly published articles for potentially relevant work that might inform tax policy. Interviewees told us this could take the form of regular searches of online repositories such as Google Scholar. But this is not uniform, and different tax teams take different approaches. Interviewees also told us that related teams in HMRC policy, KAI and the Treasury work closely together to ensure they are working from a shared evidence base, but others suggested that this work is not always as joined up as it could be and there is likely to be some duplication. This approach to identifying relevant research also runs the risk that civil servants are not aware of work that has begun but has not yet produced a published output. Even at that early stage, researchers may have produced findings that can be of use to policy makers and engagement from policy makers could prompt additional avenues for the research. Interviewees suggested that some tax teams have strong established relationships with relevant academics and so can ask them for up-to-date information. But this is not done systematically across the tax teams.

* Many academic papers have already been produced using administrative tax data. It is not possible to say categorically that these provide insights that have not already been produced by KAI analysts, since much of the work done internally is never published. However, to the best of our knowledge, much of this work does add to the analysis done by civil servants in a way that is helpful for tax policy making.

Another challenge for civil servants is correctly interpreting findings. A relevant academic paper might present the relevant parameter differently to the form it enters HMRC models, or it might include multiple estimates, or it might be based on an international tax system with different features. Interpreting academic economics papers is difficult. Some interviewees suggested that some literature is prone to being misinterpreted internally, particularly since survey work is often left to junior officials who have less experience. Officials highlighted internal challenge groups, and discussions with the OBR, which should help prevent evidence underpinning analysis being misinterpreted, but that is still possible and it remains likely that other relevant evidence might not be incorporated if it is not correctly identified in the first place.

Officials have relationships with international organisations and draw on their work

Information on tax policy making in other countries can also be valuable to UK policy makers. This is both because the impact of changes to the UK tax system will depend in part on tax regimes in place elsewhere (and, as noted, particularly for internationally mobile, HNWIs), and because the UK can sometimes learn from other countries' experiences of tax changes.

The International Monetary Fund (IMF) and OECD are international organisations that undertake analysis and synthesise evidence across countries on tax policy alongside many other policy issues. Treasury and HMRC officials that we spoke to emphasised that these organisations' outputs, including reports and working papers, were often important sources of evidence. UK government officials also have direct relationships with officials at the IMF and OECD, and in counterpart finance ministries and revenue authorities, as well as other international experts, and will sometimes speak to them on specific issues; for example, to learn about modelling approaches.

A key challenge in drawing on international analysis is understanding how evidence from other countries applies to the UK. In some cases, this is relatively easy. However, in other cases differences in the design of tax systems, the structure of economies or wider cultural factors make it difficult to draw direct lessons for the UK from other countries' experiences. As one official put it: "These comparisons are not always intuitive in terms of what we can learn, and how changes would affect competitiveness".

External work using HMRC administrative data is hampered by under-investment in the Datalab

An exciting innovation in UK tax research in recent years has been the introduction of the HMRC Datalab,[41] a secure service through which accredited researchers working on questions relevant to HMRC can access anonymised tax records. This follows similar services in other countries, most notably in the US and Norway but also others, where administrative data has been used in many published articles in recent years.

A recent paper has found that external access to administrative data improves the policy relevance and policy impact of external research, while also improving the quality of journal that empirical articles are published in and increasing citations. In other words, there is a mutual benefit to both policy makers and academics.[42]

The Datalab could provide several opportunities to officials. Academics are a source of additional resource and more specialist expertise to answer key questions relating to the operation and effects of the tax system and tax changes.[*] Academics can produce work directly and share any code they produced to analyse the data to enable future internal work. Making data available to academics should also encourage more work on tax in general, improving the quality of the external evidence base, while also encouraging that work to be more policy-relevant (as that will be a condition of access). Finally, officials can build closer relationships with academics working in the Datalab, request regular updates and presentations on project findings and help to shape the project to best answer the questions they want answered. This is a much timelier way to receive insight from academic work than waiting for publication.

There are already some good examples of work in the Datalab that has helped to inform the tax evidence base. For example, research exploring the effect of tax audits on compliance (which showed very high value for money) was used to inform the costing of additional resources for audits provided to HMRC in the March 2020 budget.[43] Work using administrative data can be especially valuable when building the evidence base for high income and high wealth individuals because household surveys – which are otherwise the main basis for quantitative analysis – do not have large enough sample sizes for this small group for the results to be robust.

Despite these specific examples, however, overall the Datalab is not currently producing nearly as much good research as it should and this is to HMRC's and the Treasury's detriment. Access to and service from the Datalab deteriorated markedly during the pandemic. HMRC recognises the problems and has started to remedy them, including speeding up the process of clearing output requests and extending the opening hours to 34 hours a week (although this remains below the 37.5 hours pre-pandemic). This has not been easy alongside the many other demands on the department's time and resources, although as noted above there has been a substantial expansion overall in the KAI team. But the Datalab remains under-resourced, and as a result HMRC continues to be slow to add the latest data or new datasets covering other areas of the tax system to the lab. Currently only data up to 2017/18 is available consistently; more recent data is available for only a small number of datasets (such as customs data, which was requested by the Bank of England).[**] No new datasets covering other areas of the tax system have been added since the start of the pandemic, with many requests from researchers outstanding, and only one new project has been allowed to start work since the pandemic. HMRC told us it is in the

* Work using administrative tax data from the UK has already shed new light on – among many other things – the impact of tax incentives on charitable giving, housing market responses to stamp duty land tax, and the effect of personal taxes on the real economic activity and tax avoidance of company owner-managers. Sources: Almunia M, Guceri, I, Lockwood B and Scharf, K, 'More giving or more givers? The effects of tax incentives on charitable donations in the UK', *Journal of Public Economics*, 2020, vol. 183; Best, M and Kleven H, 'Housing market responses to transaction taxes: Evidence from notches and stimulus in the UK', *The Review of Economic Studies*, 2018, vol. 85, no. 1, pp.157–93; Miller, H, Pope, T and Smith, K, 'Intertemporal income shifting and the taxation of owner-managed businesses, *The Review of Economics and Statistics*, 2022.

** HMRC needs some time to clean and check the data after the end of the tax year before making it available to external researchers. But the lag in making new years of data available is currently far longer than it was pre-pandemic.

process of recruiting an extra staff member for the Datalab, which would expand the team relative to its pre-pandemic size. This expansion is welcome and vital to help ensure the Datalab backlog is cleared.

This environment has discouraged some tax researchers from trying to use what should be the best source of tax data in the UK, even leading some top UK-based researchers to make use of other countries' administrative data instead. This means less policy-relevant UK-based research is done and published than would otherwise be the case. This not only hampers tax policy making but also hinders the ability of UK researchers to publish in the top academic journals.

Many researchers find it difficult to feed into the policy process

The UK tax research community is relatively small, with only a handful of academics regularly working on tax across several institutions. If the environment were improved, including through a better-functioning Datalab, it is likely that the community would grow. But one opportunity presented by its current size is that officials should be able to develop good relationships with many of the existing tax researchers to enable their research and expertise to feed into the tax policy process more effectively.

External researchers we spoke to felt there was little opportunity to provide evidence on tax policy to the Treasury and HMRC. Public consultations often happen at later stages of the policy process, when key design decisions have already been made and when economists in particular have less to offer. Officials suggested that a greater use of early-stage 'calls for evidence' (discussed further below) provides an opportunity for input from researchers but that this has so far not been forthcoming. However, external researchers we spoke to said that these were not on their radar, suggesting more could be done to bring attention to these. Most of HMRC's stakeholder groups do not have any academic representation. Previous Institute for Government work has found that some academics are not good at identifying opportunities to influence those making decisions about policy in areas beyond their often narrow area of focus and they could do more to ensure that their work informs policy making, as we discuss below.[44] But this means it is even more important for HMRC and the Treasury to engage them proactively.

We heard some examples of strong informal engagement of trusted external researchers by some tax policy teams. This included meetings to discuss the evidence base in a particular area. However, our understanding is that this practice is patchy, happening in some teams and not others, and often depending on specific individual relationships that may not survive people moving post. Most external researchers are willing to spend time and effort to help, and officials could make better use of this resource.

Finally, researchers we spoke to said they were often not clear on the key questions that tax officials were looking to answer, making it difficult to design their research in a way that might have policy impact. This relates in no small part to the secrecy around how evidence is used, discussed above. Researchers are keen to have impact and are more likely to receive funding where work has a clear route to that. Put simply, if HMRC and the Treasury set out their key unanswered questions, research that answered those questions is much more likely to be forthcoming. Officials expressed concerns that they themselves often do not know the specific answers needed to address ministers priorities early enough, and that highlighting research priorities might give too much away regarding the government's plans for the tax system. However, it should be perfectly possible to set out long-standing research priorities – for example, on key behavioural responses – without revealing any immediate policy plans that are also not dependent on specific ministerial priorities.

Evidence from tax professionals and others with first-hand knowledge

Inadequate quantitative evidence means other sources of information are valuable for taxes at the top

As already highlighted, quantitative estimates of how high income and high wealth taxpayers are likely to respond to tax changes can be difficult to generate with confidence. The OBR must be satisfied that every policy costing is unbiased: that it is a central estimate equally likely to be an overestimate as it is an underestimate. However, some costings are more uncertain than others. Since December 2014, the OBR has set out a judgment on how uncertain every policy costing is at each fiscal event. For the types of policies that affect high income and high wealth taxpayers, that judgment is almost always 'high' or 'very high', largely a result of uncertainty over the size of behavioural response.

Some politicians and tax advisers we interviewed expressed some scepticism that quantitative analysis can provide a robust, unbiased estimate for the impact of tax changes for this group. Most tax changes have not been tried recently, if ever, and so quantitative estimates need to infer likely responses from earlier similar policies. However, some interviewees suggested that some types of response, such as migration, might be very different even for two quite similar policies. This is accentuated by the small numbers of people affected by these measures, which means it is difficult to get precise quantitative estimates – and small errors in assumptions about how some individuals might behave can lead to large errors in revenue raised, since tax rises on this group typically result in small numbers of people paying very large amounts of extra tax. In addition, some politicians we spoke to emphasised the broader signalling effects that the tax stance at the top might project: in particular, that it might suggest the UK is (or is not) 'open for business' and generate more positive (or negative) effects.

While these are understandable concerns, they are not reasons to expect the estimates from quantitative analysis to be systematically biased in one direction or the other. But the small number of people affected by these policies does mean that quantitative estimates may not provide all of the answers with the necessary precision officials would like.

For these reasons, additional sources of evidence – not least insights from tax practitioners, who interact with the tax system on a day-by-day basis – also play an important role in tax policy decision making, not only for how their wealthy clients might react to changes but for how policies can be implemented effectively. HMRC has looked to hire new staff from the practitioner sector in the past to draw on these insights, and the Wealthy Team in particular has had several hires in recent years with experience of working with private clients. HMRC engages in several different ways with interested practitioners.

Formal consultations are increasingly used earlier in the policy process but still play a relatively limited role

The tax policy process documents emphasise the role of formal consultation as the main mechanism by which external input (of all kinds) can feed in. Institute for Government work published in 2020 highlighted two features of tax consultations based on an analysis of consultation responses between 2012 and 2018. First, tax consultations mostly happen *after* the substantive direction of policy has been decided, and therefore questions principally concerned how the government's proposal should be implemented. Second, and perhaps as a result of the first feature, consultations are mostly responded to by practitioners and others with 'on the ground' expertise as opposed to economists or others who might provide a higher-level perspective on the structure and design of the system that is of little use at implementation stage. That consultation only happens at a later stage has been a regular complaint of the Tax Professionals Forum, a body of practitioners set up by the government and chaired by the financial secretary to the Treasury to monitor the government's adherence to the new tax policy process in the 2010s.[45]

Updating this analysis to capture consultations in the last few years reveals a shift in approach. Since 2019, there have been fewer tax consultations overall, in large part because there have been fewer tax policies on average per year. However, there has been a much higher proportion of consultations held at an early stage: either calls for evidence or other open consultations. Less than a fifth of tax policy consultations were either early-stage or evaluation (that is, before stage 2 or at stage 5 in the process outlined above) between 2012 and 2018, but over two fifths have been since.[*] Among these are excellent examples of the tax policy process working well. For example, the plastic packaging tax was announced as a measure in principle in the 2018 budget, followed by a high-level consultation on how the tax should operate. The government then developed its proposals and held a second consultation on the details of the policy design, before the measure came into effect in April 2022.[46]

But despite this shift, our updated analysis suggests the most regular respondents to consultations are still practitioner representative groups like the Chartered Institute of Taxation and large consultancies like Deloitte and EY. This was also the case when focusing specifically on consultations affecting high income, high wealth taxpayers, although for these types of policies other groups such as the Society of Trust and Estate Practitioners also respond regularly.

* This counts all consultations from HMRC and HMT mentioning tax, excluding specific consultations on draft regulations or legislation.

Interviewees pointed to the broader reach of consultations conducted by the (now abolished) Office of Tax Simplification (OTS),[47] which helpfully gathered responses from practitioners but also other groups including academics and think tank researchers through various methods. Interviewees suggested it would be difficult for the Treasury and HMRC to entirely replicate the OTS's approach to consultation because some stakeholders are more wary of sharing information directly with the revenue authority. But it would be possible to build stronger links with researchers in the way that the OTS did and alternative types of consultation, and different methods, could help HMRC reach a broader group.

Despite responding regularly to consultations, some practitioners we spoke to implied this was as much out of a sense of obligation or duty rather than because they felt the responses had much impact. While they pointed to specific examples where small but important changes to implementation had emerged from the consultation process, they also pointed to many instances where they felt their concerns had been ignored. While consultations at the implementation stage almost always relate to policy that *will* happen, many early-stage consultations or calls for evidence do not result in concrete policy. This is not necessarily a problem – the evidence gathered can feed into the policy process in other ways, and a consultation may persuade the government that it should not take an idea forward. An example of the latter is the recent consultation on a possible online sales tax, which was launched in February 2022. In autumn 2022, the government announced that it did not intend to proceed with the measure, in part because of concerns raised during the consultation process.[48] Overall, however, the role that the consultation responses play in determining policy direction is difficult for external observers to see.

Stakeholder groups provide opportunities for more regular insights to feed in

Interviewees inside and outside government emphasised that other avenues for accessing external expertise have increasingly been used since the coronavirus pandemic. In particular, HMRC and the Treasury make greater use of stakeholder groups. HMRC has more than 80 of these, though not all meet regularly. These are used heavily in tax areas relevant for high income, high wealth taxpayers. Important stakeholder groups on areas of taxation related to these taxpayers include the Capital Taxes Liaison Group,[49] the Joint Forum on Expatriate Tax and National Insurance Contributions,[50] the Wealthy External Forum[51] and the Offshore Forum.[52]

These groups are mostly made up of practitioners. For example, the Wealthy External Forum has participants drawn from Chartered Institutes of Accountants in different parts of the UK, and others including the Law Society and the Society of Trusts and Estates Practitioners.[53] Treasury officials also sit on some of these groups.

The precise ways these are used vary, but meetings are an opportunity for HMRC to update stakeholders on their latest thinking and any upcoming changes to the tax system. HMRC also told us these meetings are useful to hear any concerns about the way the tax system is operating or problems with how any new changes are being implemented. On the whole, therefore, these groups fulfil a monitoring role rather than being primarily used to gather evidence on new policies. The stakeholder groups are minuted and, given the relatively broad membership of them, are not the place to discuss possible future policy measures in confidence.

Informal conversations with trusted external experts are used when confidentiality is a high priority

Some of the most valuable evidence-gathering from practitioners and experts happens outside official channels. We heard of two broad ways in which informal conversations provide evidence.

First, there are cases where trusted practitioners offer information to HMT and HMRC; for example, if they have noticed ways some schemes are taking advantage of tax loopholes or other specific problems with the tax system. Often accountants, or others managing clients' affairs, are best placed to identify such problems first, especially for income tax, where tax returns are only submitted in January for the tax year ending in the previous April.

Second, and more rarely, officials might seek confidential advice on the likely impacts of a policy that is being developed but has not yet been announced. These conversations are only held with a few people who can be trusted to provide (relatively) impartial advice and to keep HMRC's confidence. They provide an opportunity to test the likely impacts of a policy with practitioners with on-the-ground knowledge, which would otherwise be missing from the early stages of the policy generation process due to budget secrecy and, in some cases, possible behavioural response in anticipation of future policy changes.

These insights are unique and valuable, but come from a particular perspective

The perspective tax practitioners can bring to tax policy questions is critical for the effective operation of policy. They are sometimes the only people with very detailed knowledge of how certain parts of the tax system work and how they interact in the real world. They are also well placed to understand implementation problems a policy might face. Importantly, especially for HNWIs, their knowledge of and relationship with their clients gives them insight into how they might respond to tax measures. Given the paucity of robust quantitative evidence, this information is important for tax policy to be developed effectively.

However, interviewees emphasised that practitioners will approach tax from a different perspective to the government. Ultimately, the 'evidence' they provide can only be anecdotal, based on their clients' experience, which may not be typical. Some lawyers in particular are much more likely to see complex cases than the run-of-the-mill cases that may account for most taxpayers, for example. Whether consciously or unconsciously, practitioners also work to get a good outcome for their clients and so see the tax system through that lens. And they might be more credulous of their clients' claims that, for example, a tax change will prompt them to leave the country than an impartial observer might be.

Officials are accustomed to working with stakeholders with different motives and perspectives, and treat information gathered through different sources accordingly. Interviewees suggested that trusted practitioners with long-standing relationships with officials and the representative bodies who have built an impartial reputation tend to hold more influence. However, even though officials understand the potential bias of these views, spending more time discussing issues with people with this perspective risks overweighting such views relative to others that are consulted less often.

How to improve the use of evidence in tax policy making: recommendations

Tax policy proposals emerge through various channels: how, and what types of, evidence is used and how influential it is in shaping the ultimate policy design varies considerably between different policies. This can create uncertainty and contributes to an uneven tax policy landscape that is to the detriment of the Treasury, HMRC and the taxpayer themselves. This section offers our recommendations on how this should change.

Overall, the process through which different sources of evidence are deployed to answer key tax policy questions is working relatively well and has been improving in recent years. There is a large volume of high-quality analysis conducted by dedicated and talented civil servants doing their best to provide the best possible advice to ministers. But there is scope for improvement. Good quality evidence can – and should – persuade ministers and improve policy design.

Our research suggests that the process for drawing on insights from tax practitioners and others with first-hand knowledge of the functioning of the tax system is well developed; HMRC also uses its research budget to commission (predominantly) qualitative analysis to understand how the tax system is working; but there are more gaps in the effective use of quantitative evidence, which is an important source of insight, including as a double-check on the qualitative evidence. Our recommendations, therefore, focus predominantly on the latter.

Re-commit to a single annual fiscal event and the annual rhythm of consultation

As the Treasury highlighted when announcing the switch to a single fiscal event per year, a more regular rhythm to tax policy allows the process to operate more effectively. It provides more opportunity for consultation on early-stage ideas to receive feedback and evidence from practitioners, researchers and other experts throughout the process. It is also likely to mean fewer tax measures announced in total, which should give more time for officials to generate evidence internally and to review external evidence. A further benefit would be to allow more time for officials to publish internal analysis that has been used to inform tax decisions.

The crises of the last few years mean a single event per year has not been feasible. But the chancellor should aim to return to the rhythm of consultation and tax policy development set out in autumn 2017. The Treasury should reaffirm its commitment to this approach and explicitly set out the role of calls for evidence, which have been used more frequently in recent years. By setting out their purpose, and publicising these more actively, including explicitly to academics, the Treasury and HMRC can help generate evidence from a broader range of stakeholders.

Explore options for expanding the data collected by HMRC through tax returns

HMRC's administrative data is of very high quality, which enables good evidence to be generated both within and outside government. But that data has important gaps, especially when it comes to understanding the wealth holdings of high income and high wealth taxpayers. For the most part, the only information HMRC requires to be submitted on tax returns is information necessary to calculate tax liabilities. Understandably, HMRC is wary of adding administrative burdens to taxpayers when filling in tax returns and would devote less resource to verifying items that do not directly affect liabilities. However, there are exceptions to this, and HMRC has recently decided to distinguish between dividends received from an owner-managed company and those from other companies, even though they are currently taxed in the same way. Had this information been collected before coronavirus, it would have made it easier (had the government wanted to) for the government to fill in one of the gaps in pandemic support: company directors who received most of their remuneration through dividends.

There is a balance to strike between the costs of requiring additional information from taxpayers and the additional insight further data could provide, although interviewees emphasised that adding additional boxes to a tax return may have a relatively small compliance cost, particularly for HNWIs who already provide HMRC with lots of financial information. HMRC should identify additional data that would improve internal analysis of tax policies, such as individuals' property holdings, and consult on including these boxes on tax returns in future years.

There are also instances where the same information could be collected in a way that makes it more useful for analysis. Some information is currently captured in free text boxes, which is inherently difficult to translate into data that can be analysed – this is, for example, the case for information about the dates of asset purchases and disposals. Capturing this same information in fixed boxes, rather than free text, would allow this information to be used more effectively, without imposing any additional burden on taxpayers.

Improve transparency around tax policy decisions

Good use of evidence would also be improved by greater transparency over how decisions have been reached. The government should – but does not currently always – publish clear objectives for every tax policy in TIINs, alongside expectations of the impacts the policy will have. These documents and the policy costings documents published alongside fiscal statements also currently lack a proper explanation of (and links to) the evidence used to reach key judgments. This information ought to be made public. If this cannot be done in policy costings documents (because of a shortage of time in the run-up to fiscal events) or in TIINs (because of a concern that this would clutter a document predominantly targeted at practitioners), then it ought instead to be provided in a separate complementary publication for every new tax policy.

Transparency about policy objectives and the evidence used to inform key judgments would have three main benefits. First, setting out objectives will allow for a better public debate about which policies will best achieve the government's aims. Second, clear objectives would help future evaluation to be more robust and add to the evidence base. Third, publishing objectives and the evidence used to inform decisions would help external commentators and experts to engage with the process. External experts would be able to analyse and critique the quality of the evidence used, helping to improve future work. It would also enable external experts to focus their research or other activities to generate more of the type of evidence that is of use to policy makers and focus on filling key gaps.

The OBR should publish more information and analysis around tax policy decisions

To further help improve transparency around the expected impact of new tax policies and the evidence used to inform these judgments, the OBR should publish a list of the key behavioural assumptions and elasticities assumed in tax policy costings, along with references to the evidence used to inform them. As part of this, it should highlight where existing evidence is weakest. This would help external experts to assess whether officials are making use of the best available evidence and make it easier for external researchers to identify the most pressing gaps in evidence, which ought to encourage them to focus their work accordingly.

Given the volume of work already undertaken by the OBR in the run-up to fiscal events, it may not be feasible for them to publish this information for each new policy announcement alongside its *Economic and Fiscal Outlook*. However, the OBR could publish this information for individual tax policies after the fiscal event and/or separately publish a summary of the key parameters that commonly feed into tax policy costings. In addition to the benefits mentioned above, information on common key parameters would also help think tanks and others to produce more robust estimates of the likely impact of their tax policy proposals.

For the subset of tax policies that will have a significant effect on the supply side of the economy, the OBR should also set out how the measure affects the outlook for the economy beyond the five-year forecast horizon. If policies do have an effect on labour supply, the capital stock or productivity, it will generally take more than five years for this to appear in full. Quantifying the longer-term impact would help to increase the focus on supply-side effects during the policy making process and reward politicians for delivering tax policies that have a long-run benefit. It would be most impactful if this information was published alongside the five-year forecasts in the OBR's *Economic and Fiscal Outlook*, although again this would create some extra work in already pressured time in the run-up to publication.

Publishing both sets of information would strengthen the broader quality of tax policy debate in the UK.

Embed a more robust approach to evaluation in the Treasury and HMRC

HMRC's 2021 evaluation framework made commitments to enhance the quality of evaluation plans for tax policy. Various changes have been made within the departments to support this. However, large parts of the tax system remain unexamined, and the evaluation plans set out for new tax policies in TIINs are cursory at best. While it is welcome that HMRC has set out criteria for prioritising evaluation work and published a list of planned evaluations, it remains unclear how the various criteria have been assessed and weighed against each other and thus why the Treasury and HMRC have decided that some policies should be prioritised and others not.

To embed a culture of evaluation in the department, officials should at the very least provide a more comprehensive description of how new policies will be evaluated – or the barriers to doing so if it is judged that it is not possible robustly to evaluate the measure. The most obvious place to do this would be in the relevant TIIN, though it could be set out in a separate document. This would encourage officials to think about evaluation in depth at an earlier stage, help them to draw on external expertise (by, for example, prompting researchers to point out if better evaluation options are available), and where appropriate encourage officials to think about alternative ways of implementing policies that might allow for better evaluation.

Deliver on HMRC's ambition to publish internal evaluations

It is particularly welcome that HMRC has committed to "start publishing this [internal evaluation] analysis from 2021, subject to ministerial approval". Doing so would help to open this analysis to wider peer review, help MPs, the public and external experts to understand the impact of tax policies, and make it clearer to external researchers where there are crucial gaps in understanding the impact of taxation. Ministers should welcome this approach, since it would help improve the evidence base underpinning future tax policy development. But so far there has been only limited evidence of a change in the department's approach to publishing internal evaluations and to the extent that such work is published, it is very hard to find on Gov.uk, making it difficult for external experts to navigate.

Officials in HMRC and the Treasury should follow through on their stated ambition to publish all internal evaluation work. As well as making the work public, they must also ensure that it can be easily found and interrogated by people outside government. It is welcome that HMRC is working with the Evaluation Task Force in the Cabinet Office to populate a central repository for evaluations.

Improve engagement with external researchers, including to improve the quality of internal quantitative work

The community of tax researchers is relatively small in the UK. But many of them are keen to inform and impact tax policy. There are good examples of effective working between the government and tax researchers but overall our interviews suggest they are an under-utilised resource that could be engaged more effectively to assist officials.[*] While there are many proactive efforts to receive insight and intelligence from practitioners and other professionals, officials are more often reactive to research evidence, reading published work rather than engaging directly.

The most effective engagement we came across in our interviews was where teams in the Treasury or HMRC have good relationships with trusted experts, who can provide advice and attend informal meetings to discuss the tax policy evidence base. This allows experts to feed in their own work and to summarise the wider literature. However, this approach is patchy, and some teams are much more closed. HMRC and the Treasury should ensure the approaches different teams are taking are shared across the departments, and teams should be encouraged to identify and build relationships with relevant trusted researchers. It is particularly important for officials to develop these standing relationships as the departments do not consult on some policy changes (namely rate and threshold changes, and those where forestalling concerns prevent pre-announcement) where quantitative researchers would be likely to be able to contribute useful evidence.

One way to build up those relationships and to ensure academics can feed in more systematically would be to include academics on stakeholder groups, which are increasingly being used for informal consultation. As it stands, these groups mostly include practitioners, but researchers could also provide valuable insights. By having academics and practitioners in the same room, officials could also test the sources of differences in views from the two groups to better understand alternative perspectives.

HMRC and the Treasury could also make use of external researchers to improve the rigour and quality of their internal analysis. When internal analysis is published, it is ordinarily peer reviewed by external experts. However, most unpublished internal work, and the models used to generate lots of tax costings, are not peer reviewed by external researchers. Officials should ask trusted researchers to peer review more work, including work that is not published and the forecasting models.

Encourage and enable more useful external quantitative work

As well as engaging more directly with academics, there is more the government could do to enable and encourage more academic work in tax that would build up the evidence base and help inform good tax policy.

As the tax policy process is closed, it is difficult for external researchers to know what questions the Treasury and HMRC would most like the answer to, and so where research could have the most impact.

The Treasury is the only ministerial department that has not published an 'areas of research interest' (ARI) document. ARIs are intended to signal to external researchers what research would have most policy impact. Officials have suggested that the confidentiality of tax policy makes it difficult to outline the department's key questions, as this might identify plans for future tax policy. But the ARI could be

[*] Further recommendations on how government officials can engage better with academia are provided in an earlier IfG report: Haddon C and Sasse T, *How government can work with academia*, 2018, Institute for Government, www.instituteforgovernment.org.uk/publication/report/how-government-can-work-academia

expressed in more general terms and highlight long-term evidence gaps rather than explicitly revealing future policy intent. An ARI would serve two purposes: motivate academics to tackle these questions, as they will want their work to have impact; and provide a steer to external funders, who are more likely to fund work that is answering one of the government's priority questions.

Much of the best quantitative analysis of tax in the UK and worldwide relies on the use of administrative data, which provides a sample size and reliability that other data cannot match. However, HMRC's Datalab has not played its part effectively in recent years. HMRC is working hard to tackle issues that built up during the pandemic, trying to alleviate problems with data taking too long to be added to the lab and delays in approving and facilitating new applications for uses of the data.

But there are further ways that the Datalab could be improved:

- With the Treasury's support, HMRC should increase its budget so it can process data and requests more quickly. This should help to make the Datalab more attractive again to external researchers and spur new research.

- This should happen in conjunction with changes to the underlying model to make working in the Datalab more attractive for officials. HMRC should look to learn lessons from how administrative tax data access operates in other countries. In the US officials can be co-authors on papers with external academics. If this were an option for some Datalab officials, it would help to make the job more attractive, enable Datalab staff to develop their technical and research skills, while also creating a natural link between external researchers and the department.

- Treasury and HMRC policy teams, and other teams in KAI, should be more involved in Datalab projects that cover their areas, with a formal process for receiving presentations on work in progress and, where appropriate, steering the project towards answering questions that are most relevant for the Treasury and HMRC. This would not only ensure that officials are aware of relevant work but also – by opening the work to peer review by relevant officials at an earlier stage – help ensure that the research is informed by a detailed understanding of the rules and operation of the tax system and what the data contains.

Making the Datalab a more attractive proposition to both external researchers and Datalab staff would help to improve the quality and quantity of tax research and should prompt more of it to be funded without direct Treasury or HMRC involvement. However, there may still be instances where direct government involvement in funding decisions is helpful to ensure priority projects can happen. HMRC (with Treasury backing) should fund more external quantitative work, perhaps under the auspices of a new joint tax research programme with the Economic and Social Research Council, along similar lines to the previously funded Tax Administration Research Centre but with a broader remit to do research beyond tax administration.

External experts should present evidence in a way that makes it easier for civil servants to use

Finally, there are ways external experts can adjust the work they do, or how they present it, to have more impact on the policy development process.

Anyone looking to influence the policy making process, whether researcher, practitioner or someone else, should:

- Situate their work and recommendations in the context and, where clear, current priorities of the government, explicitly drawing out policy and operational relevance. Where possible, they should also explain how their findings fit with other sources of evidence (qualitative and quantitative work and the views and perspectives of other key groups), particularly where different sources of evidence disagree.

External researchers, especially those presenting quantitative work, should:*

- Ensure outputs are published in a timely way, including interim results. Academics should look for opportunities to share insights from their work as quickly as possible (for example, by setting up events to discuss it), even if they face other incentives to work on long-term projects, aiming for the 'best' answer. Officials often need the 'best possible' evidence at very specific times, meaning the window for impact might be lost if researchers do not make officials aware of their work at the right time. It is also helpful for academics to make clear in any outputs how their findings relate to live policy questions.

- Explore different types of output to communicate what the evidence base says. Evidence synthesis, or translating evidence from other contexts to the current UK situation, can be highly impactful but is rarely undertaken. In part, this is because it is difficult to fund this work. Funders looking to have impact should fund more of this type of work in tax and other fields, or at least value bids that produce a synthesis of the existing evidence base alongside new, more publishable research.

Others outside government, including practitioners, looking to have policy impact should:

- Bear in mind that pure anecdote is rarely influential, and concerns will be taken more seriously if their prevalence or consequence can be quantified in some way. In particular, consultation responses that can quantify issues are more likely to have influence.

* Further recommendations on how academics can effectively engage with policy makers are provided in previous IfG reports: www.instituteforgovernment.org.uk/publication/report/how-engage-policy-makers, www.instituteforgovernment.org.uk/publication/report/how-academia-can-work-government

Conclusion

The current model for tax policy making envisages a cycle in which ministers identify their objective, officials gather detailed evidence (including through formal consultation) and ministers then decide what action to take. In practice, this often does not happen. In some cases, ministers will be wedded to a particular policy design even before receiving advice from officials; in others the budget timetable or concerns about forestalling may necessitate rapid and/or more closed development of policy options, limiting the scope for external expertise to be fed in.

The evidence that ultimately influences tax policy also emerges through various channels. Ministers and special advisers will receive representations directly from political contacts, think tanks and special interest groups. Lots of evidence is generated internally. Officials in HMRC and the Treasury receive submissions to formal consultations on specific policy proposals. They also gather insights on an ongoing basis from relevant external experts, through formal stakeholder groups and informal networks of contacts and by reviewing published literature.

Very few policy proposals are entirely new. Treasury and HMRC officials will often have examined similar proposals before. Evidence gathered for one purpose will often continue to inform future policy development.

Sometimes some types of evidence will have little direct impact on policy design. Other times evidence can have a clear and direct impact – for example, if government consults early and with a genuinely open mind about how to achieve a particular objective. More often than not, evidence will indirectly shape policy. Over time, accumulated evidence will shape officials' understanding or shift public debate and that in turn will shape the tenor and detail of official advice and other views provided to ministers

Overall, the Treasury and HMRC have reasonably well-developed mechanisms for drawing on evidence. But there are gaps. The tax policy process is closed and it is often unclear how evidence feeds into decisions, making it harder for outsiders to understand and contribute. HMRC and the Treasury have taken welcome steps in recent years to undertake and publish more tax policy analysis and evaluations, but there is still more to be done. Officials do not always engage as effectively as they could with external researchers, who for their part could also do more to make their work accessible to officials.

As we highlight in this report, there are steps that ministers, officials in the Treasury and HMRC, and external experts could take to fill those gaps, and to improve how evidence is used in tax policy making. Some will be comparatively easy to implement. Not all will be such 'quick wins' – but even if changes take longer to bed in government should still commit to updating its ways of working. Regardless of who wins the next election, any change to make the UK's tax system more effective and more consistently based in good evidence will be of benefit to both the government and the people it serves.

Annex: tax changes affecting high income or high wealth people since July 2015

We identified the following 14 policies announced in fiscal statements since the start of the 2015 parliament that were targeted at high income or high wealth individuals. For each policy, we summarise the judgment we made about whether any information was provided about the evidence that informed the policy costing.

Fiscal statement	Policy	Evidence referenced?
Budget July 2015	Inheritance tax: £1m couples' allowance through main residence nil-rate band	✘
	Pensions tax relief: restrict for income over £150,000	✘
	Dividends tax: abolish credit, introduce allowance, and increase effective rates by 7.5pp	✘
	Non-domiciles: abolish permanent status	✘
	Non-domiciles: IHT on residential property	✘
Budget 2016	Capital gains tax: reduce basic rate to 10% and main rate to 20% excluding residential property and carried interest	✘
Autumn budget 2017	Carried interest: prevent avoidance of capital gains tax	✘
	Capital gains tax: extend to all non-resident gains from April 2019	✘
Budget 2020	Capital gains tax: reduce lifetime limit in entrepreneurs' relief to £1m	✔
Autumn budget 2021	Increase rates of dividend tax by 1.25% from April 2022	✘
Autumn statement 2022	Income tax: reduce additional rate threshold from £150,000 to £125,140 from April 2023	✘
	Capital gains tax: reduce the annual exempt amount from £12,300 to £6,000 from April 2023 then £3,000 from April 2024	✘
Spring statement 2023	Pensions lifetime allowance: remove charge from April 2023 and abolish from April 2024	✔
	Pensions annual allowance: increase to £60,000 and allow pension input amount aggregation between open and closed public service pension schemes from April 2023	✔

Source: Institute for Government analysis of information provided in budget, autumn statement and spring statement documents, accompanying policy costings documents and associated tax information and impact notes.

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Acknowledgements

We gratefully acknowledge funding from Founders Pledge (registered charity 1162201). We are grateful to all our interviewees for offering their time and expertise to inform this work. We are also grateful to officials at HMRC and the Treasury and to Emma Norris (Institute for Government) and Andy Summers (London School of Economics) for reviewing and providing comments on an earlier draft of this report. The conclusions reached and any remaining errors are the responsibility of the authors.

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