I’d like to start by saying a huge thank you to Ryan Shorthouse and to Bright Blue for the invitation to speak at today’s event… which is a really important opportunity to reflect on the future of tax… the what, the how and the why…

And I want to congratulate Bright Blue for the pioneering work you’ve been doing.

Stanley Baldwin, one of my predecessors as Financial Secretary to the Treasury, said: “I am not struck so much by the diversity of testimony… as by the many-sidedness of truth.”

The point being, I think, that we can all disagree with each other… and, at the same time, all be right.

Which is why it makes such good sense for Bright Blue to have assembled such an impressive team of cross-party thinkers as part of your independent Tax Commission.

The way we tax – the integrity of the tax system – fundamentally reflects the nature of a society.

Because a successful tax system relies on trust.

Trust, that we will set the right rates, trust that others will pay it and trust that as a government we will spend our revenues well.

Which is another reason why we must get it right.

In the next 25 minutes or so I want to make my contribution to the various ongoing debates around taxation… and explore some ideas around what a tax system is meant to do, and ways that we can achieve that.

And I’m going to focus on things like fairness, the tax gap, the size of the state, supporting enterprise, skills and R&D, modernisation, and, finally, on honesty…

…in particular the notion that government has a responsibility to be honest with the public about taxes… and to tell it like it is.

There’s a widely held – and possibly understandable view – that tax is somehow only about taking.

But really it’s about spreading possibility.

It’s about the public trusting the government they elect to spend and invest on their behalf… for the common good.

And, sitting where I sit, it’s hard to think of many bigger responsibilities than that.

I’m going to start with some context.

There’s no need for me to revisit the circumstances or details of the pandemic, other than to thank staff at HMRC for their heroic efforts during the last two years.

The Government has now turned its attention to economic recovery and renewal and is expanding its crucial efforts on initiatives such as levelling up.

Of course, we now face a new global threat, in the shape of Russia’s unprovoked and premeditated assault on Ukraine.

You will know we have delivered the largest package of sanctions in our history and unprecedented measures to isolate the Russian financial system for years to come.

And I am proud that as Financial Secretary I have been able to play a minor part…by withdrawing our cooperation with Russia on sharing tax information…

…By announcing our intention to delist the Moscow stock exchange and by making it easier for those who want to help send humanitarian aid through customs to Ukraine.

Turning now to the domestic picture, we’re acutely sensitive of the cost of living challenge.

But we will also continue to take our economic and fiscal responsibilities extremely seriously:

At the time of the Spring Statement, the Office for Budget Responsibility had forecast growth this year of 3.8%.

It expects this to be followed by 1.8% in 2023, and 2.1%, 1.8% and 1.7% in the three years after that.

Meanwhile disruptions to global supply chains and energy markets, combined with the economic response to the invasion of Ukraine, mean that the OBR expects inflation to rise to an average of 7.4% this year, peaking at 8.7% in Q4, before falling back below the MPC’s 2% target in 2024 and 2025.

Debt is set to pass £2.3 trillion, reaching 95.6% of GDP… while this financial year we’re forecast to spend £83 billion on debt interest – the highest on record – and a powerful argument for getting the debt down in the coming years

All in all, that makes for challenging times… and has important implications for future taxation.

When it comes to the realities of the current tax burden there are some commonly held truths… but some widely held misperceptions too.

For instance, it is indeed high.…

But I want to put paid to the notion that the burden in this country is greater than that of our peers.

Because it’s not. In fact, we are likely to continue to maintain our place more or less in the middle of the G7…. with a tax rate lower than Germany, lower than Italy and lower than France.

The tax burden on individuals specifically, is actually forecast to be the lowest in the G7… a result of generous allowances on income tax and relatively moderate rates for both income tax and national insurance contributions.

We have a highly progressive tax system.

The top one per cent of Income Taxpayers are projected to have contributed 28 per cent of all Income Tax in 2021-22, up from 25% a decade earlier.

And the top five per cent paid nearly 50 per cent of all income tax, up from 43 per cent over the same timeframe.

Having said that, our goal as a government is both to reform and reduce taxes.

The Spring Statement set out the Government’s tax plan, which includes three key priorities:

First, we’re acting now to help families with the cost of living.

Second, we’re cutting and reforming taxes in three key areas – Capital, People and Ideas – to create the conditions for private sector-led growth.

And third, we’re sharing the proceeds of growth fairly through cuts to personal taxes…letting people keep more of what they earn.

My belief, pure and simple, is in the greatest practical market freedom… within an overall framework of financial discipline.

That doesn’t, by the way, mean that we can’t or won’t step in when we need to.

A clear example is the roughly £400 billion we spent to support households and businesses during the pandemic, protecting jobs and livelihoods the length and breadth of the country.

That’s a survey of the economic and policy context.

But I want to get onto some of the big ideas which underpin discussions around taxation… the first of which is fairness. Something which I know Bright Blue’s vision for tax reform also talks about.

I’d argue that businesses often demonstrate fairness… and that’s what we’ve seen both when multinationals have shut down operations in Russia, and when companies have repaid money they received from the furlough scheme.

And fairness is something, as individual human beings, that we feel very intuitively.

In his book ‘Morality’, the late Rabbi Lord Jonathan Sacks recounts a psychology experiment in which four players, unknown to each other, are each given $20.

Players secretly put however much money they want into a central kitty.

The total – all the money from the four players – is doubled, then shared equally between them.

What that means in reality is that it pays to let other people contribute while you hold back… because you get a quarter of the doubled kitty, on top of the money already in your hand.

That’s still the case even if you sit there with your arms crossed and do nothing.

And so slowly, one by one, that’s what happens, in part because people’s sense of fairness is offended.

Realising that they’re being taken advantage of, eventually no-one contributes anything anymore. That is the case even though contributing benefits everyone… because the total pot increases.

As Lord Rabbi Sacks puts it: ‘There is now no common good, only individual private goods and people give up their potential gains because their sense of justice is outraged.

That experiment has been replicated in lots of different settings… including with teenagers… and it highlights the existence of this innate sense of fairness we seem to be born with.

What does that mean for the way we tax?

Well, quite simply, for me it means that taxes need to be fair – and they need to be seen to be fair.

We’re all basically happy to give something up for the greater, communal good… for instance, by helping to fund state healthcare or education… but there’s a limit to what people are willing to pay, and they adjust their behaviour accordingly.

Linked to that are discussions around the Laffer Curve, and the notion that tax cuts can pay for themselves… partly because people are more inclined to pay their taxes, and partly because greater growth as a result of lower taxes more than compensates for the lost revenue.

I recognise there’s a lot of debate about where we sit on the Laffer Curve. And

I notice for instance, that Stuart Adam of the IFS recently told the Treasury Select Committee that ‘the Laffer Curve is a real thing…it exists but that ’the shape of the Laffer Curve, and the peak of where the Laffer Curve is, will be different for every bit of every tax and in every different circumstance’.

The point is that it deserves our scrutiny and our consideration and should absolutely be a part of the debate.

The flip side of any discussion of fairness is the tax gap – HMRC’s estimate of the difference between the taxes that are owed and that are actually paid.

In the UK, the tax gap was around £35 billion in 2019-20, equivalent to 5.2% of theoretical tax liabilities.

The good news is, that that’s part of a long-term downward trend, falling from 7.5% in 2005-06… the result of government efforts to tackle tax evaders, and to help people to get their tax right by promoting good compliance and reducing the opportunities for error.

In fact, in little more than a decade we’ve introduced over 150 measures to tackle tax avoidance, evasion and other forms of non-compliance.

And those measures, alongside HMRC’s wider work, have secured and protected over £250 billion for public services since 2010.

But the gap is still too wide… because it represents money owed to the Exchequer which could otherwise be available to spend on frontline public services and next-generation infrastructure.

We’re not at all complacent about this. Since last year we’ve introduced an additional 20 measures to tackle tax avoidance, evasion and non-compliance – forecast to raise an estimated £6.3 billion over the next 5 years.

These include implementing Making Tax Digital, our reimagining of the way businesses keep their records and submit their tax returns.

We’re also focused on delivering a trusted, modern, digital tax administration system for businesses and their agents to help them get their tax right the first time.

And, at last year’s Spending Review we provided almost £300 million for HMRC to invest in additional support across all forms of compliance activity.

This is all important… because again it’s about fairness… so we won’t take our foot off the accelerator.

Another more nuanced aspect of ‘fairness’ is the role taxation can play in wider societal issues, for instance, in helping us bring down carbon emissions as part of efforts to tackle climate change.

The Government is committed to carbon pricing as one of the most efficient tools for decarbonisation… and it’s clearly going to play a key role in helping us get to Net Zero.

Carbon pricing – or in other words applying a cost to carbon emissions to encourage polluters to reduce the amount of greenhouse emissions they produce – is ‘fair’ because it makes sure that polluters pay.

In addition, it provides funds that Government can deploy on other priorities – including environmental objectives.

The problem is that different ambition in different countries creates space for the risk of ‘carbon leakage’. This means that the carbon our policies are designed to stop ends up being emitted if an activity is displaced to a country with a less ambitious climate policy.

The best and fairest way to address carbon leakage would be for all countries to move in lockstep… and we’ll continue pushing for a common global approach.

In the meantime, we will need to continue to look at ways that we can protect the UK from carbon leakage and level the playing field for UK businesses, while continuing to make progress towards our Net Zero targets.

So that’s fairness… a complex but crucial concept in taxation.

The second key issue I want to address in considering how to think about taxation is the size of the state.

It has been said that ‘when the state owns, nobody owns, and when nobody owns, nobody cares’….

Quite simply, an overly large state which does everything takes away the responsibility of others. It takes away the responsibility of communities, families and schools to society as a whole.

The nub of it, I think, is that the state needs to understand its limits. Which isn’t a particularly surprising thing for a conservative minister to say, but I still think it’s worth making the point.

Circumstances have rightly required the Government to take on massive responsibilities over the last two years. But we need to get back to normal as soon as we reasonably and responsibly can.

To draw a historical parallel, debt peaked at 270% of GDP after the Second World War following massive fiscal expansion to support the war effort.

However, it was then gradually and consistently reduced until – significantly helped by growth in GDP itself – it fell below 40% at the beginning of the 1980s and didn’t exceed that level again until the Global Financial Crisis.

There’s a natural tension here. Particularly for a government which has borrowed significantly to help households and businesses through the pandemic.

It’s not my job to decide how much we spend as a government. But we can all reasonably ask where the limit of public spending should lie – not least because of its implications for taxation.

More state is not the answer.

As one of my Treasury colleagues, the Chief Secretary, told the Institute of Economic Affairs a few weeks ago: Last Autumn’s Spending Review marks the limit of fiscal expansion… the high-water mark in our commitment to honour what we set out in the manifesto… and not a point from which anyone should expect us to go further.

Crucially, government spending affects the rate of inflation… and that must be part of our calculation going forward.

The truth is that economic success comes from people and businesses. We believe it’s our job as a government to create the conditions for that.

So that is the third major issue I want to explore.

It’s clear that economic success requires a competitive and stable tax system which provides business with the confidence to invest and expand.

This is a principle that’s at the heart of the Chancellor’s tax plan.

And I know that Bright Blue’s report contains ideas about how to harness the tax system to boost businesses.

We also think there’s value, for instance, in providing clarity and certainty over the long-term. In fact, the longer the better.

In particular, the Government is committed to boosting productivity and growth by creating the conditions for the private sector to invest more, train more and innovate more – fostering a new culture of enterprise around capital, people and ideas.

And here, too, taxation has a role to play.

Investment is a key driver of productivity growth.

By adding to the economy’s capital stock and improving the skills of the workforce, the economy can produce more with the same input from workers.

The problem is that business investment has been a long-standing weakness in the UK. In 2019, business investment accounted for 10% of our GDP, compared with 14% on average across the OECD.

We introduced the Super Deduction in 2021 – the biggest two-year business tax cut in modern British history – to encourage firms to invest in productivity-enhancing assets that will help them grow.

Already we’re seeing companies benefitting.

Take Blackrow Engineering in Grimsby, which has spent £1.6 million over the last 18 months updating its workshops, plant and equipment, after making use of the Super Deduction.

This investment has allowed Blackrow to expand into new areas, resulting in a 40% increase in turnover and creating 73 new jobs – a great example of how the Super Deduction is not just supporting companies, it’s helping to build more prosperous communities too.

And we are going to build on this momentum by cutting and reforming taxes on business investment.

Our challenge now is to find the most effective way to reduce taxes on investment while ensuring value for the taxpayer.

You might have seen how at the Spring Statement, the Government set out some illustrative options for the post-super deduction capital allowances regime.

And ahead of the Autumn Budget, we’ll continue to look at the evidence – including the impact of the super-deduction – and of course, we will continue to garner the views of businesses themselves.

As I mentioned earlier, people are central to achieving this new culture of enterprise.

For me, that means skills, and what we can do to boost them.

Because – no apologies here – I believe that skills are the answer to many of the challenges we face as a country.

Improving peoples’ skills is not just good for the economy.

It is necessary for society.

As prisons minister I saw people going through a revolving door of incarceration;

Some 80% of offenders cautioned or convicted in 2020 had at least one previous caution or conviction.

While over 50% of prisoners are assessed on entry as having the maths and English levels of an 11-year old or an even younger child and may find it challenging to get a job on release.

In fact, we know that employment reduces the chance of reoffending significantly, by up to 9 percentage points.

I was very struck when I met John in a prison on one of my last visits. He was coming to the end of his sentence for fraud.

He told me that like him, his father had been in and out of prison, as his grandfather had too.

But this time John was not leaving prison empty handed. He was leaving with a degree from the Open University and told me his aim was to set up his own business and be a role model to his kids.

So, educating people and upskilling them is not just about bringing in more tax revenues, it can also be about giving people a lifeline.

I want to make a broader point on skills too. We have a very high proportion of university graduates – 10 percent higher than the OECD average.

But we lag behind international peers on many other scales.

9 million adults in England have low basic literacy and/or numeracy skills.

Just 18% of 25-64 year-olds hold vocational qualifications, a third lower than across the OECD.

UK businesses spend on average the equivalent of €293 per employee on training, around half the EU average.

There are also significant regional differences. The North East, North West, Yorkshire and the Humber, as well as the East and West Midlands are all behind London and the South East in terms of the percentage of 19-year-olds who attain Level 2 and 3 qualifications.

None of that is good enough.

Which is why the Government is investing a total, over the Parliament, of £3.8 billion in skills by 2024-25, equivalent to a cash increase of 42% (26% in real terms) compared to 2019-20.

But this isn’t just about money. It’s about identifying the right people for the right jobs in the right places… and then training them up.

Importantly, we need to be doing that in partnership with the private sector. Not least because many of the people we want to support are already working. And because the private sector is the best judge of where the jobs and skills of tomorrow lie.

We’re considering whether further intervention is needed to encourage employers to offer the high-quality employee training the UK needs… examining whether the current tax system – including the operation of the Apprenticeship Levy – is doing enough to incentivise businesses to invest in the right kinds of training.

The truth is that not enough companies are taking full advantage of the Levy.

So, we’re helping companies to not only invest in apprenticeships across their own workforce but to also transfer levy funds to support other smaller firms, benefitting local areas and the wider economy.

It’s been brilliant to see examples of levy transfers going to schools and further education colleges, too…supporting training for teachers and teaching assistants but also STEM apprenticeships.

I think that if businesses could then build relationships with the schools they sponsor, creating links between teachers and industry, students with work experience, and young people with business mentors….

…We would see even more students leaving school with the mix of skills and ambitions that would enable them and their local areas to flourish.

We’re taking a similar approach – combining creativity with common sense – to skills boots camps…employer-led flexible training courses, lasting 12-16 weeks in high growth sectors.

Around 16,000 bootcamps are being delivered this year… over half of them in digital skills such as cybersecurity, web development, cloud computing, coding and AI.

Initial evaluation has shown that over half of participants move into higher paid employment after completing a bootcamp.

So clearly this is a big success story. But we’re not stopping here.

Recognising the shortage of lorry drivers, this year we also announced £17 million to deliver 5,000 skills bootcamps in HGV training.

And we’ve now committed to quadrupling the current annual scale of bootcamps and we’re planning on rolling them out to a wider range of sectors.

Of course, if we are to build a culture of enterprise, as well as people and skills, we also need ideas… and that again brings me back to taxation.

Investment in R&D is vital for increasing productivity and promoting growth.

It also offers new opportunities to boost UK firms’ competitiveness and create transformative technologies… which, again, could help us to address societal challenges ranging from climate change to better health outcomes.

Looking ahead, the Government has an ambitious target to raise total investment in R&D to 2.4% of UK GDP by 2027.

We’ve already set out a series of initial measures to reform the R&D tax relief system… including the expansion of qualifying expenditures to cover data and cloud computing costs, as well as refocusing R&D relief on activity carried out in the UK.

And we’re reviewing R&D tax reliefs further – to ensure, among other things, that the UK remains a competitive location for world-class research – and we expect to announce our next steps in the Autumn

Because, again and again, companies tell us that reliefs are a critical enabler of their R&D, improving their cash flow and enabling them to reinvest more in developing new ideas each year.

You’ve probably noticed that I haven’t yet mentioned: our departure from the European Union.

Now that we’ve left the EU, it makes sense to make the most of our newfound freedoms.

At the Spring Statement we took a major step forward, when the Chancellor announced that we’re reversing a ruling by the EU to charge VAT on energy saving materials.

Separately, the Brexit Freedoms Bill, due to come before parliament later this year, is another important milestone.

It will end the special status of EU law in our legal framework, giving the UK the freedom to more easily amend or remove outdated EU law – removing £1 billion of red-tape for business and improving regulation.

So, there’s a real opportunity here.

I’m going to continue to work closely with the Chancellor and my colleagues across government to explore where reforms…similar to the overhaul of alcohol duty we made at the last Budget, will take place. And this, of course, will follow consultation with the private sector.

Brexit means we also have a chance to ask ourselves questions about the balance of our economy… about the ratio of goods to services, and whether we should be focusing, for instance, on hi-tech, mid-tech or low tech. This is a question of particular relevance to the area I represent in Cambridgeshire, home to massive British success stories like ARM.

There has been a shift away from goods towards services. Between 1997 and 2019, the service sector expanded from 73% of GDP to 80%, while the manufacturing sector shrank from 17% of GDP to just under 10%.

Technological change, the imperative to achieve net zero and shifts in trading patterns could all continue to reshape the economy in the coming years… and we must be ready.

And that leads me on to the final issue I want to touch on – one that sits bang in the middle of my portfolio as Financial Secretary: modernisation of the tax system.

I spoke briefly, at the beginning of my remarks, about trust, and the need to constantly earn that trust.

What the people and businesses need – what they deserve – is a tax system that is fair, transparent, flexible, resilient and modern. A system that they can trust… in every way.

We’ve already taken some big steps forward.

In July 2020, as many of you know, we published our strategy to reinvigorate the tax administration system. That of course includes the need to fully embrace digital technologies.

That document also outlined our plans to harness technology to deliver a fully digital tax system that operates closer to real time, makes it easier for businesses and individuals to get their tax right, and builds trust by operating in a fair and even-handed way.

Looking forward, there’s the Single Customer Account that HMRC are developing… a single point through which taxpayers can access and interact with HMRC online.

Over time, as its name suggests, this initiative will integrate our existing digital accounts into one… bringing together taxpayers’ affairs and services online – and through mobile devices – in one secure place.

By modernising paper and telephone-based processes, the account will make it easier for taxpayers to access HMRC, subscribe to digital services, communicate through tools such as web chat, and receive prompts and support to help them get their taxes right first time.

Also central to our strategy is ‘Making Tax Digital’ – which I touched on earlier.

MTD is designed to reduce taxpayer mistakes, and therefore the Exchequer losses resulting from them…but it also acts as a catalyst for businesses to become more digital.

The first stage of Making Tax Digital – which focused on VAT – launched in April 2019. As of this month, we’ve extended MTD to all VAT registered businesses.

We’re also keen to make progress on making Income Tax digital … which will come into force for landlords and sole traders with income over £10,000 from April 2024.

Becoming modern means we need to embrace, not just established technologies but those that are still emerging. Like Blockchain.

A few weeks ago, my colleague, the Economic Secretary to the Treasury, announced the UK’s intention to become a global hub for crypto… the very best place in the world to start and scale crypto companies.

He made the point that we have a detailed plan… that we are determined to learn quickly… and that we will lead the way in harnessing the potential of blockchain and supporting the development of a world-best crypto ecosystem.

We are already effectively using crypto-technologies to make government more efficient… including in my patch, where we’re developing opportunities to use distributed ledger technology for Customs and International Trade, to ease the import of goods.

There’s an element of the unknown here… but we must believe that we can harness technology constructively, sustainably and responsibly. And I’m personally determined that’s what we’ll do.

Being honest

Ladies and Gentlemen,

I’ve covered a lot of ground. And perhaps that’s inevitable given the way my portfolio stretches across Whitehall.

These are complex, interlocking issues. About which it is crucial that we continue to talk… and continue to talk honestly.

I started today by talking about trust.

And I will end by saying that trust can only be truly earned if we are open with people.

Open about the possibilities but also open about the challenges.

In my role, I regularly hear from people who are dealing with the increasing cost of living.

Others tell me they worry about what the future holds for themselves and their families at this difficult time for the world.

My colleagues across government are focused on creating the economic certainty those people quite rightly need.

But it serves no-one for us to cloak the challenges we face… to pretend that we can wave a magic wand and solve everything instantly.

During the depths of the Covid crisis, the Chancellor never shied away from being open about the situation.

And we are taking the same transparent approach, when it comes to levelling with people about the economic headwinds that are blowing our way.

However, while we’re constrained by economic circumstances, we can and should believe in our vision for a United Kingdom.

A place where productivity is at an all-time high and which benefits from significant growth, low taxes and high employment.

A country where people can succeed, wherever they live and fulfil their potential.

Our tax system can’t achieve that alone. But making the right tax choices… the what, the why and the how… can make a big difference.

And that’s particularly true now… when circumstances are more difficult.

These are the times when we need to ask the right questions… to think harder… to act with purpose and imagination.

All things that I – and this Government – are determined to do.

Thank you