

Active citizenship: learning resources for topical issues

# 9. Tax and pensions: political battlegrounds





# Introduction for staff

**Most governments in the world tax their populations through direct taxes on income, wealth, inheritance, savings and business profits. There are usually also indirect taxes on the things people choose to spend their money on, for example, alcohol and cigarettes, petrol, certain services, car ownership and use, or television reception.**

In this country, taxes are imposed by both national and local government. We also pay 'national insurance contributions', deducted from pay, which give entitlement to certain social security benefits, including the state pension. Although people sometimes complain about the amount of tax they pay, most understand that governments need money to provide appropriate services and facilities for everyone. The government spends our money on such things as health and social services, social security including the state pension, education, law and order, transport, defence, housing, the environment and industry. People often argue about the priorities given to these. There is also the Council Tax, levied by local authorities and based on property values which helps to pay for local services such as education and the police.

## Citizenship learning opportunities

Citizenship education encourages the discussion of topical and controversial issues and the policies that impact on them. In the case of taxation, there is always discussion about the extent to which it is fair. The main areas of debate are:

- What areas of life are taxed and what is the balance between direct and indirect taxation? Direct taxation applies to earnings, capital, profits and savings. These taxes can be adjusted according to people's circumstances, so that richer people pay more than poorer people. In this context an important question is how far the tax system should be used to bring about redistribution of wealth, and this issue divides political opinion. Indirect taxes are applied to various goods and services (e.g. value added tax, duties on alcohol and tobacco, and fuel tax on flights). Such taxes are the same for everyone, regardless of how rich or poor they are.
- How open, transparent and certain is the tax system? People need to understand exactly how much tax they will be expected to pay, when they must pay it and how it is calculated. Taxation cannot be arbitrary and the rules must be seen to apply equally to everyone. When some people are seen as using legal 'loopholes' or even evading tax, others lose faith in the system.
- How is the money spent by governments and what priority does it give to different areas of life? Although people may recognise the need to pay tax, some disagree with the way the money is spent. For example, some would like to see more spent on education and pensions, while others would favour defence, police and prisons. Disagreements about spending priorities are political issues and often reflect party divisions.

These materials provide young people with the opportunity to examine such debates and to form their own opinions. The materials are aimed at levels 2 and 3 and help to meet the learning objectives identified in *Play your part: post-16 citizenship* QCA guidance (QCA, 2004). An examination of government policy on taxation can be used to illustrate the key concepts of democracy and justice, and rights and responsibilities in the programme of study for key stage 4 citizenship (from September 2008).

Young people may need some preparation for these activities and some initial help in understanding financial matters. There is a wealth of information and support services provided by the Personal Finance Education Group (PFEG) [www.pfeg.org](http://www.pfeg.org), as well as other organisations featured in the Resources page at the end of this booklet.

# Suggestions for using the materials

- ‘What is tax?’ (page 5) is a simple introduction to the different kinds of taxes. You could ask learners which taxes they have heard of and try to build up a diagram like the one provided from their responses. Alternatively, you could give out the sheet and ask them to discuss the questions in pairs.
- For the activity ‘Is it fair?’ (page 6), ask learners to work in groups of six with the questions copied, cut up and put as a pack in the centre of the group. Give each member a number (1–6) and ask them to throw a die to decide who picks up and answers the question on the first card. They discuss the answer and, when they have finished the discussion, they throw the dice and move on to the next question.  
Alternatively, the activity could be run as a discussion carousel in which the young people are seated on chairs, with pairs facing each other, in two concentric circles. Those on the inner circle are given the questions, which they discuss with the person facing them. After three minutes, a signal is given (whistle or clap) for those in the outer circle to move one seat to the right. The same question is now discussed with the new partner. After three questions, people on the inner circle can be swapped with those on the outer circle in order for everyone to be able to ask and answer a question. At the end of the activity, bring out the general issues about taxation through these discussion questions:
  - *Should richer people pay more tax so that their money is used to cover benefits and services for the less well off?*
  - *Is it fair that indirect tax (collected from expenditure) is the same for rich and poor?*
  - *Is our tax system clear enough for people to understand without an accountant?*
  - *Is it fair that some people avoid tax?*
  - *Are some taxes fairer than others? If so which ones?*
- In ‘Not paying tax’ (page 8) young people debate the moral and legal arguments about evading tax. Give a set of the role cards to groups of four learners and tell them to take one each. Tell them that each person argues for the non-tax paying position on their card while the others think of all the arguments against that position. They should consider the moral arguments as well as the consequences of tax evasion if they are found out.
- In ‘The pension crisis’ (page 9) learners are introduced to some of the difficulties predicted for the next generation of pensioners. You could set the activity up as a consultants’ exercise, in which groups of learners decide on a solution to the problem and put their case to the rest of the class, or perhaps to a visiting expert, such as an accountant or bank manager.
- Use the information in the activity ‘Being Chancellor’ (page 11) to encourage discussion of the current priorities in government spending.

# What is tax?

Tax is the way in which a government raises money to spend on the services that any country needs in order to function – police, hospitals, schools, transport, social security payments, housing, defence, etc. The Chancellor of the Exchequer decides how the money will be collected from HM Revenue and Customs (previously called the Inland Revenue) and how it will be spent. People have strong opinions on how much tax they pay and on what things.

## Direct tax (usually based on income)



**Income tax**



**Corporation tax**



**National Insurance Contributions (NICs)**



**Capital taxes**  
(e.g. capital gains, inheritance tax)

## Indirect tax (usually based on expenditure)



**Value added tax (VAT)**



**Duties**



**Environmental taxes**

1. Which of these taxes are, or have been, paid by:
  - you?
  - working members of your family?
2. Put these taxes in order of fairness, in your opinion

# Is it fair?

Decide whether you think each of these tax situations is fair or unfair and say why.



1

Terry is a builder, but doesn't turn over more than £61,000 a year, so he doesn't have to charge VAT (value added tax). Brian has a very successful company that turns over £100,000 a year. He has to add 17.5% VAT to every bill, and then pay the money to the government. Customers' bills are higher if they choose Brian rather than Terry.

**Is this fair or unfair? Say why.**

2

Mary and Jason decide to make some money by going over to France to buy cheap wine and cigarettes to sell to their friends and neighbours. When they reach Customs back in Dover, they are charged duty on the van load since it exceeds 90 litres of wine and 3,200 cigarettes, and is assumed to be for more than personal use.

**Is this fair or unfair? Say why.**

3

James is a doctor who earns £90,000 per year. He pays the same higher rate of income tax (40%) as Belinda, a company director earning £300,000.

**Is this fair or unfair? Say why.**

4

Sally has an office job and her tax is deducted from her pay by her employer. She does some cleaning in the evenings through a cleaning company who pay her cash. She doesn't realise that she ought to tell HM Revenue and Customs about this, but they find out when they look at the cleaning company's accounts. She gets charged a penalty, the unpaid tax plus interest for the period of time she has not paid.

**Is this fair or unfair? Say why.**

5

Bill lives with his mother and he looks after her. When she dies, she leaves him her house. It is quite small but it is in the centre of a town in the South East and is valued at £400,000. He is very pleased until he discovers that he has to find £40,000 to pay in tax because the value of the house is £100,000 over the threshold for inheritance tax of 40%.

**Is this fair or unfair? Say why.**

6

Jas is a freelance author who employs an accountant to advise her on how much tax she should pay. He charges her about £500 per year, but shows her legal ways of saving money on tax. Fred is a self-employed musician. He can't afford to pay an accountant and so does not realise that he can claim against tax for his business expenses.

**Is this fair or unfair? Say why.**

7

A local council is concerned about the number of residents who are not recycling their rubbish and putting out too much waste to go into landfill. They think they will make additional charges for households that put out more than one bag of general rubbish per week. The charges will be added to the household's council tax bill, as an environment tax.

**Would this be fair or unfair? Say why.**

8

Donna is a single mother who works part-time. She earns about £9,000 per year, which she can just manage on because she gets some social security benefits. She takes on a part-time job at the weekends, but discovers that her extra earnings put her over the threshold for one of her benefits, which she loses.

**Is this fair or unfair? Say why.**

9

Jenny has a deposit account. She has £1,000 in the account and has been told that the gross interest rate is 6%. She looks forward to £60 interest at the end of the year. However, when she gets the interest, it is only £48 because the tax, at 20%, has been deducted for HM Revenue and Customs by the bank.

**Is this fair or unfair? Say why.**

10

Robbie is a market stall holder who sells women's clothes at a weekly market. He has to keep records of his sales and pay tax on his earnings. Sam goes regularly to car boot sales and sells any items belonging to his family and friends that are no longer wanted. Sometimes he buys cheap items from jumble sales and junk shops to sell on. He never declares his earnings from these sales and pays no tax.

**Is this fair or unfair? Say why.**

# Not paying tax

People often complain about paying tax because it means they have less money to spend. However, life would be pretty grim without the services provided by the government – for example, many people would suffer enormously if they had no welfare benefits; we all expect to benefit from free health care and education; and we expect our government to provide protection through the police and the armed forces.

Despite this, some people decide to ‘evade’ tax. There is a difference between ‘tax evasion’ and ‘tax avoidance’. Evasion is illegal, while avoidance involves finding legal ways to pay less tax. Accountants are often employed to help people do this.

Tax evasion is not only illegal, it is cheating. It means that you expect others to pay for services that you are only too happy to use. What methods do people use to evade tax?

- Not declaring earnings to the HM Revenue and Customs
- Buying smuggled or stolen goods
- Paying ‘cash in hand’ to people who provide a service (e.g. building, plumbing or hairdressing) so that VAT is not charged
- Vanishing from official records.

**Working in groups of four, use the role cards below so that each person in turn gives reasons why he/she has decided to evade tax. The other three argue against him/her.**



## ROLE A

I have a part-time job in a shop. Tax is deducted from my wages by my employer. On my days off, I work as a cleaner. The people I work for pay me cash and I don't tell HM Revenue and Customs about this so that I don't have to pay tax.



## ROLE B

I smoke heavily and spend a lot of money on cigarettes. I met a man in a pub who offered me 200 cigarettes, a lot cheaper than in the shops. He said he got them in France so I bought them to save myself money.



## ROLE C

I am having some repair work done on my flat. The builder told me that if I pay cash I can save 17.5% because he won't declare it and I won't have to pay VAT.



## ROLE D

I share a house with friends – we rent from a landlord who collects our rent in cash. We never fill in any forms for the council. We don't want anyone to know we live here so that we don't have to pay council tax.



# The pension crisis

Most young people don't want to think about pensions. They can't imagine being over 60 and many find it hard enough to live on their current wages without contemplating putting some of their money away for the distant future.

There are three kinds of pension\*:

- state pension (the 'old age pension' that you get from the government)
- occupational pensions (that you are offered in certain jobs)
- private pensions (that you can choose to take out for yourself).

Every working person pays National Insurance Contributions (NICs), deducted from wages. A person's state pension entitlement is calculated from the contributions they have made in their working lifetime.

We are currently facing a 'pension crisis' in which there is a fear that people under 50 may have insufficient pensions when they reach retirement age. The state pension is unlikely to meet most people's needs, and some people will have no access to occupational schemes, which are gradually being shut down.

## **Possible government action to resolve the pension crisis**

What can be done to resolve the pension crisis? Read the article 'How bad is the UK's pension crisis?' from the BBC website (see page 10), then work in small groups to decide which of the following proposed steps a government could take. Choose two from the list below and prepare a case to present to everyone.

- 'Means test' the state pension. At present everyone gets the basic pension if they have made sufficient contributions. Wealthier people could receive a smaller pension, and poorer people a bigger one.
- Cut down on tax dodging by the very rich and by companies to fund an increase in the state pension.
- Force people to save by making a compulsory deduction from wage packets to go into a private pension scheme and also by making employers contribute towards employees' pensions.
- Increase the higher rate of tax to 50% for everyone earning more than £100,000 per year to pay for increases in the state pension.
- Raise the age of retirement to 70 so that people don't need the state pension until later.
- Educate young people so that they realise the importance of saving for their old age and voluntarily join pension schemes.

*\*You can find out more about pensions from the 'Money made clear' website, provided by the FSA (see Resources on the back cover).*

Internet browser      Search

http://news.bbc.co.uk/1/hi/business/2082800.stm

Bookmarks

## How bad is the UK's pension crisis?

**Investment returns have been a cause of concern. Every day seems to bring fresh warnings that Britons will not have enough money to live on when they retire.**

**BBC News examines the issues, and explores whether we are all doomed to spend our old age in poverty.**

**What exactly is the problem?**

In a nutshell, there is not enough money salted away in pension funds to guarantee a comfortable retirement for today's working population. And it looks as though the total shortfall may be even wider than previously thought.

In the past the government has been forced to admit that official estimates of the level of pension contributions had been inflated by a statistical error.

The upshot is that many employees putting money aside for their old age may well find that their retirement income falls far short of what they had hoped.

**How did the pensions industry get into this mess?**

The underlying reason is that medical advances over the last few decades have greatly prolonged our life span, forcing the pensions industry to support a greater number of pensioners for longer periods.

Government figures show that average life expectancy in the UK rose by five years for men and four years for women between 1980 and 2000.

But the problem has been exacerbated in recent years by dwindling stock market returns. Pension funds depend on steady stock market returns to pay policyholders.

And when share prices fall – as they have been doing for the last two years – it becomes harder for funds to meet their obligations.

Lower returns have forced most of the big company-run pension funds to suspend generous schemes which guarantee employees a fixed proportion of their final salaries on retirement.

A large proportion of firms have now set up defined contribution or money purchase schemes, which do not guarantee the final pension sum and are therefore less risky for companies.



An additional gripe, as far as employers are concerned, is the 10% tax on dividends earned by pension schemes, which was imposed by the chancellor shortly after the present government was elected in 1997. Dividends play an important part in the long-term health of pension schemes. Any tax on them increases the possibility that the scheme will not have sufficient assets to meet liabilities.

**What does this mean for the average employee?**

It means that the amount of money they need to put aside in order to ensure a given level of retirement income is rising steadily.

Experts say that a 30-year-old man aiming to retire at 65 on an annual income of £20,000 a year in today's terms would currently need to save about £260 a month. This rises to about £450 for men aged 40.

For women, deemed more likely to take career breaks, the minimum saving requirement is likely to be higher still.

**What about the state pension?**

There is still a basic state pension, but at a maximum of £86.05 per week for a single person or £131.20 for a couple, it is unlikely to fund a comfortable retirement.

The low level of the state pension partly reflects a concerted move by successive governments, worried over Britain's rapidly ageing population, to encourage more people to save for their own retirement.

However, that plan received a setback in the early 1990s when it emerged that many consumers were mis-sold new pensions which left them worse off at retirement than they would have been if they had stuck with their original scheme. Some say the episode has made consumers more reluctant to put their money into pensions.

Extract from BBC website <http://news.bbc.co.uk/1/hi/business/2082800.stm>

# Being Chancellor



Government spending	Main areas	Amount
Social security and social services	Benefit payments, pensions, child support, housing and disability benefits	£130 billion
National Health Service	Hospitals, doctors, encouraging healthy living	£65 billion
Education	Schools, colleges, universities, adult learning and training	£54 billion
Law and order	Police force, probation service and courts	£24 billion
Defence	Army, navy and air force	£24 billion
Housing and the environment	Quality of housing and the environment	£20 billion
Industry, agriculture and employment	Training for employment and support for industry and farming	£17 billion
Transport	Roads and railways	£14 billion
Other	Arts, culture, overseas aid, plus some reserves	£49 billion
Debt interest	Interest on government borrowing and repayment of previous loans	£21 billion
<b>Total</b>		<b>£418 billion</b>

Figures from *The Red Box* (see [www.redbox.gov.uk](http://www.redbox.gov.uk))

One billion = one thousand million

Work in small groups.

Discuss the differences between the amounts of government spending on different items.

Put the items into your own order of importance.

What changes to spending would you like to see, if any? Why?

Develop a case for ONE area of spending to be increased and ONE to be decreased.

## Resources

### Personal Finance Education Group (PFEG)

PFEG is an educational charity which provides support for staff working with young people aged 5–19 on matters concerning financial education. The website provides an extensive bank of materials suitable across the age range and makes links to many other relevant sites.

[www.pfeg.org](http://www.pfeg.org)

### Economic Citizenship: a key stage 4 resource

This pack is available from the Institute for Citizenship or online. It provides a number of useful activities which focus on topics such as government spending, competition, business and ethics, and the implications of globalisation.

[www.citizen.org.uk/education/resources/economic.pdf](http://www.citizen.org.uk/education/resources/economic.pdf)

### The Red Box

A resource pack for 11–16 year olds from HM Treasury and HM Revenue and Customs. This resource provides materials, including a video, games and straightforward information. Useful for post-16 as well as pre-16.

Order online from [www.redbox.gov.uk](http://www.redbox.gov.uk)

Order by post from: Educational Communications,  
The Tower Building, 11 York Road, London SE1 7NX.

### Money made clear

A set of easy-to-read documents that explain all financial products: for example, bank accounts, loans, mortgages, pensions, insurance and savings. The materials are produced by the Financial Services Authority (FSA), the UK's financial watchdog.

[www.moneymadeclear.fsa.gov.uk/products\\_explained/pensions.html](http://www.moneymadeclear.fsa.gov.uk/products_explained/pensions.html)

### Doughuk

A website that has detailed information about nine aspects of personal finance that are specifically relevant to young people aged from around 14 to 24 or so. The areas are banking, budgeting, borrowing, saving, bills, insurance, benefits, national insurance and income tax. Each section provides information, activities and case studies.

[www.doughuk.com](http://www.doughuk.com)

### Money, money, money

An interactive on-line game from the Citizenship Foundation, visit:

<http://money.citizenshipfoundation.org.uk>

### Citizens Advice Superhero

In response to a survey which found that money is the top worry for young adults, Citizens Advice has produced an online game for 16–24 year olds, in which a virtual 'Citizens Advice Superhero' is used to bat away financial problems. The game can be played at:

[www.removeyourworries.co.uk](http://www.removeyourworries.co.uk)

### Solent Peoples Theatre

The company, based in Havant, Hampshire, runs workshops for young people. One of these, 'Meet the Wiltons', looks at budgeting issues and also encourages discussion of issues such as trading standards, advertising and consumerism.

[www.solentpeopletheatre.com/currentprojects/thewiltons](http://www.solentpeopletheatre.com/currentprojects/thewiltons)

### The case against further green taxes

The Taxpayers' Alliance, September 2007. Paper presenting a case against the imposition of further green taxes in the United Kingdom. Download available from:

[http://tpa.typepad.com/research/files/the\\_case\\_against\\_further\\_green\\_taxes.pdf](http://tpa.typepad.com/research/files/the_case_against_further_green_taxes.pdf)