Analysis and evaluation

Candidate 1

Topic – is the government correct to ban the sale of new petrol and diesel cars by 2030?

Source 2 also claims that the UK's current most "popular electric cars' basic model is £26,000. Despite the £3,500 from the government, the price is still too high for many motorists." This backs up that currently EV's are too expensive for many UK households too afford, even with the significant government spending on incentives. Therefore, the demand for other transport substitutes will be greater e.g. Second hand cars. However, this should be reduced over time as "the cost of electric cars will be similar to that of petrol or diesel vehicles by 2024-25."

Source 3 states changes "will create an initial cost to sectors of the economy. High-carbon companies are likely to lose competitiveness in the transition, as infrastructure for the zero-carbon economy is built and policies roll out" This supports that there are increased costs for spending on infrastructure including charging points, and that businesses will become less efficient since there is currently not the required level of infrastructure required to match the efficiency of petrol and diesel cars. Consequently, businesses will become less competitive toward foreign businesses, who can still use these cars, and therefore provide lower prices.

According to Source 4, the UK government committed "£1.3 billion towards installing public, home and workplace charging points over the next four years." This highlights the significant required government spending to support the necessary infrastructure; however, the spending can also be considered a domestic investment into the economy, similar to a capital investment program, which will have a positive multiplier effect.

Source 4 claims that, "One in four UK households intend to buy an electric car in the next five years" This suggests that demand for EV is increasing at a significant rate as individuals plan to purchase them. This will allow for firms to increase their supply significantly, and hence minimise costs as economies of scale become available and technologies become more mainstream. Which is especially important since price appears to be a major factor as "59% of them saying price is too high." Therefore, more individuals will be encouraged to purchase an EV.

Source 5 claims that "Last month saw 161,997 new cars registered in the UK, down from 178,523 compared to July last year." This means that the demand for petrol and diesel cars is decreasing at a significantly high rate, even before the ban is implemented, as individuals plan for future changes to legislation and greater taxation costs.

Source 5 states that "The total reduction in UK oil demand is projected to be only 20%' Which shows that the uptake of other transport substitutes – EVs will result in a decrease of demand for the oil and gas industry, Although the effect is surprisingly lower than anticipated due to increasing demand from "commercial vehicles and airlines." Therefore, the government will have to implement other policies and legislation towards these factors to have the level of success they aim to achieve.

Source 6 states that "officials have been long concerned about the future loss of more than £30bn in revenue from drivers' Which confirms that a significant amount of government revenue will be lost, since under current legislation fuel taxes exempt EV owners. It also highlights that "Taxes must increase, or services be cut to compensate for the loss of fuel tax income' Which backs up that the government must make amends to the legislation to cover lost revenue, and the effect on the economy as an increased amount of individuals income goes toward taxation. An alternative charging method is suggested based on "to charge motorists for every mile they drive." Therefore, a larger quantity of the population will be targeted by the tax, and it is based more directly on car usage.

Candidate 2

Topic – what will the impact of the government increasing corporation tax?

Analysis and evaluation

According to an article published on Tax Foundation in August 2018 (appendix 1) an increase in corporation tax in the United States from 21% to 25% would result in 175,700 fewer jobs. This would support the theory that an increase incorporation tax may lead to higher rates of unemployment. This means that when UK corporation taxes are raised more people may claim unemployment benefits from government, leading to higher costs for government and more opportunity cost for them. It may also lead to a fall in standard of living and poverty for the unemployed.

Also according to the article published on Tax Foundation in August 2018 (appendix 1) an increase in corporation tax in the United States from 21% to 25% would result in a reduction of GDP by $720 billion over 10 years. This would support the theory that an increase in corporation take will lead to a decrease in GDP and negative growth. This may mean that if there is a reduction in GDP for two successive quarters in the UK it could be a recession which means rising unemployment, falling consumer spending and a fall in firm's profits and investment confidence.

According to an article published in The Guardian in October 2019 (appendix 2) 'Multinationals can all too easily relocate their headquarters and production to whatever jurisdiction levies the lowest taxes'. Showing firms can move to pay the lowest possible tax for example 'can continue to expand in the UK while paying hardly any British taxes, because it claims that there are minimal profits there.' This would support the theory that when corporation tax is increased firms try harder to avoid paying the high tax rates. This means that governments will receive less tax revenue when firms try harder to evade it, leading to increase national debt and higher budget deficit.

According to an article published on KPMG in March 2021 (appendix 3) the increase of UK corporation tax from 19% to 25% will raise an extra revenue of over £17 billion in 2025-26. This would support the theory that an increase in corporation tax will cause an increase in tax revenue for governments. This means that the budget deficit could be decreased and national debt repaid.

According to an article published on Economic Policy Institute in May 2017 (appendix 4) 'the top 1 percent of households accounting for 47 percent of the incidence of corporate income tax.' This would support the theory that corporation tax being a progressive tax is paid for more by the rich and less on the poor. This means that inequality could be decreased as tax revenue redistributed more fairly.

According to an article from Oxford University in February 2021 (appendix 5) it is estimated for every 1% increase in corporation tax there is a 2.5% decrease in inward foreign direct investment. This would support the theory that an increase in corporation tax will cause a decrease in FDI. This means that the economy will be negatively affected as less inward investment will mean firms may not be able to expand leading to lower supply of goods and services leading to low rates of economic growth.

According to an article published on Forbes in April 2021 (appendix 6) 'states with higher corporate tax rates have less employment and lower wage income'. This would support the theory that raising corporation taxes may lead to lower wages. This means that individuals will see a decrease in real income, decreasing purchasing power and therefore could decrease amount of goods and services they can afford, therefore decreasing standard of living.

Also according to the Forbes article published in April 2021 (appendix 6) when corporation tax is increased by 1% migration of the best scientists and inventors increases by 1.9% which according to the article will 'reduce U.S. innovation and dynamism in the long run'. This proves the theory that increasing corporation tax will lead to lower future innovation due to less research and development. This means that productivity will not be increased meaning recourses will not be used efficiently so producing less than it could.

Candidate 3

Topic – what are the economic consequences of a windfall tax on oil and gas companies in the UK?

Analysis and Evaluation

The Times[4] newspaper states "that fresh taxes could send oil and gas investment into a deep freeze". **This means that** the oil and gas industry may struggle to transition to net zero because of lower investment into new more eco-friendly technology. **This could cause** the industry to decline in the future as they will not have the resources to continually innovate new technologies to remain relevant in the UK's green economy. **This will** lead to structural unemployment within key areas of the UK as workers lose their jobs due to foreign industry outperforming the UK energy market.

I also found from The Times[4] newspaper that "BP and Shell have both been reducing operations in the North Sea to focus on easier, and more profitable, basins". **This tells me that** there could be high levels of unemployment in areas which rely heavily on the oil and gas industry. Unemployment is when a worker is willing and able to work but cannot find a job. High unemployment in areas reliant on the industry could cause people's standards of living to fall in these areas leading to a negative regional multiplier effect furthering the economic damage felt by these areas.

In another article from The Times[5] it discusses how a windfall tax would be "leaving consumers more exposed to price spikes in the event of future supply crunches". **This evidence tells me** that people's standards of living could be greatly affected by a windfall tax as high prices will increase their cost of living and reduce their spending power. Furthermore, high oil and gas prices could drive up inflation, an increase in the general level of prices.

The Guardian[6] newspaper mentions that if oil and gas companies' profits "were taxed, the revenues could be used to help reduce energy bills for hard-pressed consumers". **This evidence supports the view** that a windfall tax will allow the government to increase public spending particularly on areas such as welfare. This will increase the income of people who claim universal credit allowing them to better cope with higher energy prices.

Furthermore, I found in The Guardian[6] that a windfall tax would "prevent much-needed investment in the North Sea, which is vital for the UK's energy security". **This means that** by imposing a windfall tax our energy security would be under threat. A reduction in energy security could be disastrous for the UK economy as we would become reliant on foreign energy imports which could lead to an increase in the trade deficit. A trade deficit is when the import of goods into a country are greater than the exports leaving the country.

The Herald[7] discusses how "a windfall tax will damage investor confidence with long term consequences for the UK economy" as well as the UK's energy security. **This supports the view** that less investment in UK oil and gas will cause our exports of natural resources to fall worsening the balance of trade which is currently in deficit. **This will make** the UK economy less competitive globally which could stymie investment coming into key areas of the country worsening by market failures by increasing the country's wealth inequality.

My research found from Sky News[8] that "windfall taxes ultimately hurt consumers because they have an effect of reducing competition". **This evidence tells me** that many companies may leave the UK oil and gas market as there are not enough profits to be made. **This will cause** a small number of firms to become increasingly powerful in the market with possibly

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[6] https://www.theguardian.com/commentisfree/2022/feb/11/uk-windfall-tax-oil-gas-bp-profits

[7] https://www.heraldscotland.com/politics/19835110.north-sea-oil-gas-sector-warns-labours-opportunistic-windfall-tax-plans-will-harm-economy/

[8] https://news.sky.com/story/energy-bills-windfall-taxes-have-been-tried-before-but-could-such-a-move-backfire-12513132

one firm dominating the entire market by creating a monopoly. A monopoly is when one firm owns 25% or more of the market and creates large barriers to entry in order to reduce the power of its competition.