

Press Release

Some initial reactions to Budget 2009

Gemma Tetlow, a senior research economist at IFS, commented:

“Today’s Budget forecast that the tax burden will this year reach its lowest level since 1960–61, at just 35.1% of national income, and next year public spending as a share of national income will equal the peak seen in 1982–83, 48.1%. As a result, borrowing is forecast to be 12.4% of national income (or £175bn) this year and 11.9% of national income (£173bn) next year – both levels that have not been seen since the end of the Second World War. In the medium-term, the Chancellor is looking to bring the current budget back into balance by 2017–18 through a combination of spending cuts and tax increases.”

Carl Emmerson, IFS deputy director, commented:

“The tax burden is forecast to rise by 2.8% of national income between this year and 2013–14. In addition to the increase resulting from the economy recovering from the recession, some of this increase will be brought about by new tax raising measures announced today. The Budget announced a further squeeze on public spending between April 2011 and March 2014 in order to reduce borrowing further. The growth rate of current spending was reduced to just 0.7% a year in real terms (down from 1.2% forecast in last November’s Pre-Budget Report). The Budget also significantly cut the level of investment spending to be done in 2011 and beyond. Discretionary cuts in investment spending amount to £1.5bn in 2011–12, £5bn in 2012–13 and £9bn in 2013–14. Investment spending is now forecast by the Treasury to fall in cash terms from £44bn this year to half that level, £22bn, in 2013–14.”

Rowena Crawford, a research economist at IFS, commented:

“The Government has announced that nearly £6bn of extra efficiency savings will be delivered by the public sector in 2010–11. A large proportion of these savings will be delivered by just two departments: Health and Children, Schools and Families, who have announced new efficiency savings of £2.3bn and £0.7bn respectively – equivalent to 2.2% and 1.3% of their current budgets. As a proportion of their current budgets the biggest savings come from Transport at 3.0% and the Home Office at 2.9%. Local Government and Defence have also identified large efficiency savings, of £0.6bn and £0.45bn respectively, but the Treasury has labelled these as ‘recyclable savings’ – meaning that these departments will not actually have their resources budgets cut by this amount in 2010–11.”

James Browne, a senior research economist at IFS, commented:

“The Government has announced that the proposed 45% income tax rate on incomes above £150,000 will be increased to 50% and brought forward to April 2010. The Treasury hopes that this will raise £2.4 billion in a full year. However, just as with their costing of the 45% tax rate in the 2008 Pre-Budget Report, it appears that the Treasury has not accounted for consumer spending falling as a result of this change. If these effects are taken into account, the

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Government could lose up to £1.5 billion in indirect tax revenues, even if the Treasury is right about how little people respond to higher tax rates.”

Matthew Wakefield, a senior research economist at IFS, commented:

“The Budget 2009 announced that from April 2011, the rate of tax relief on pension contributions will be restricted for those with incomes of £150,000 and over, and will be tapered down to twenty per cent for those on incomes over £180,000. There are formidable practical difficulties applying pension tax relief at a rate that is different from an individual’s income tax rate, particularly regarding valuing employer contributions to final salary pensions. The income thresholds involved mean that the Budget provisions will affect only relatively few individuals, but this still goes against a major aim of reforms introduced in April 2006, which was to simplify the tax regime for pensions. Another reform to pensions, following the 2006 reforms and the Pensions Act of 2008, also undermines individuals’ confidence that there is a stable policy environment within which to make long-term plans regarding retirement saving.”

Thomas Crossley, a programme director at IFS, commented:

“The Government’s car scrappage scheme will offer a £2,000 discount to people who scrap a licensed car that is at least 10 years old and purchase a new vehicle by March 2010. The cost to the Exchequer will be £1,000 per vehicle with the remainder coming from participating manufacturers. A maximum of £300 million has been set aside for the scheme implying that 300,000 subsidies are available. This is 3% of the estimated number of vehicles more than 10 years old and about 12.5% of pre-recession annual car sales. Car sales are currently down about one third relative to the same time last year.

This is not a strong environmental measure. While new cars have lower emissions per mile, they may be driven more and there are environmental costs associated with their production. As fiscal stimulus, this measure benefits one industry. Many new cars are not produced in Britain though some foreign made vehicles will contain British components. A significant fraction of cars of this age are scrapped each year, so there is scope for a large part of the subsidy to go to replacements that would have occurred anyway. The measure should cause some households to bring forward a vehicle replacement. This will mean fewer sales later. The government hopes that this will occur after the economy has picked up.”

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Notes to Editors:

1. The IFS will present a full analysis of the Budget at a briefing tomorrow, 23rd April between 1pm and 2.30pm: <http://www.ifs.org.uk/events/433>. Please contact Bonnie Brimstone (bonnie_b@ifs.org.uk / 020 7291 4818) if you wish to reserve a place.
2. You can find a full page of Budget resources on the IFS website: <http://www.ifs.org.uk/projects/304>