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Autumn Statement 2013: giveaways=takeaways?

Carl Emmerson, Presented to BBC journalists, Millbank, London, 28th Nov 2013

Paul Johnson, Presented to BBC journalists, NBH, London, 25th Nov 2013

http://www.ifs.org.uk/projects/423

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Summary

- Big issue remains deficit reduction
  - some good economic news for this year: growth up and deficit down
  - but deficit still high – current £120bn forecast for 2013–14 is double original 2010 forecast
  - much austerity lies ahead
- Conference promises have a £2 billion a year price tag
  - free school meals (£600m)
  - marriage tax break (£700m)
  - further freeze to fuel duties (£700m)
- Other possible giveaways include further increases in personal allowance or energy levies replaced by general taxation
- How might these be paid for?

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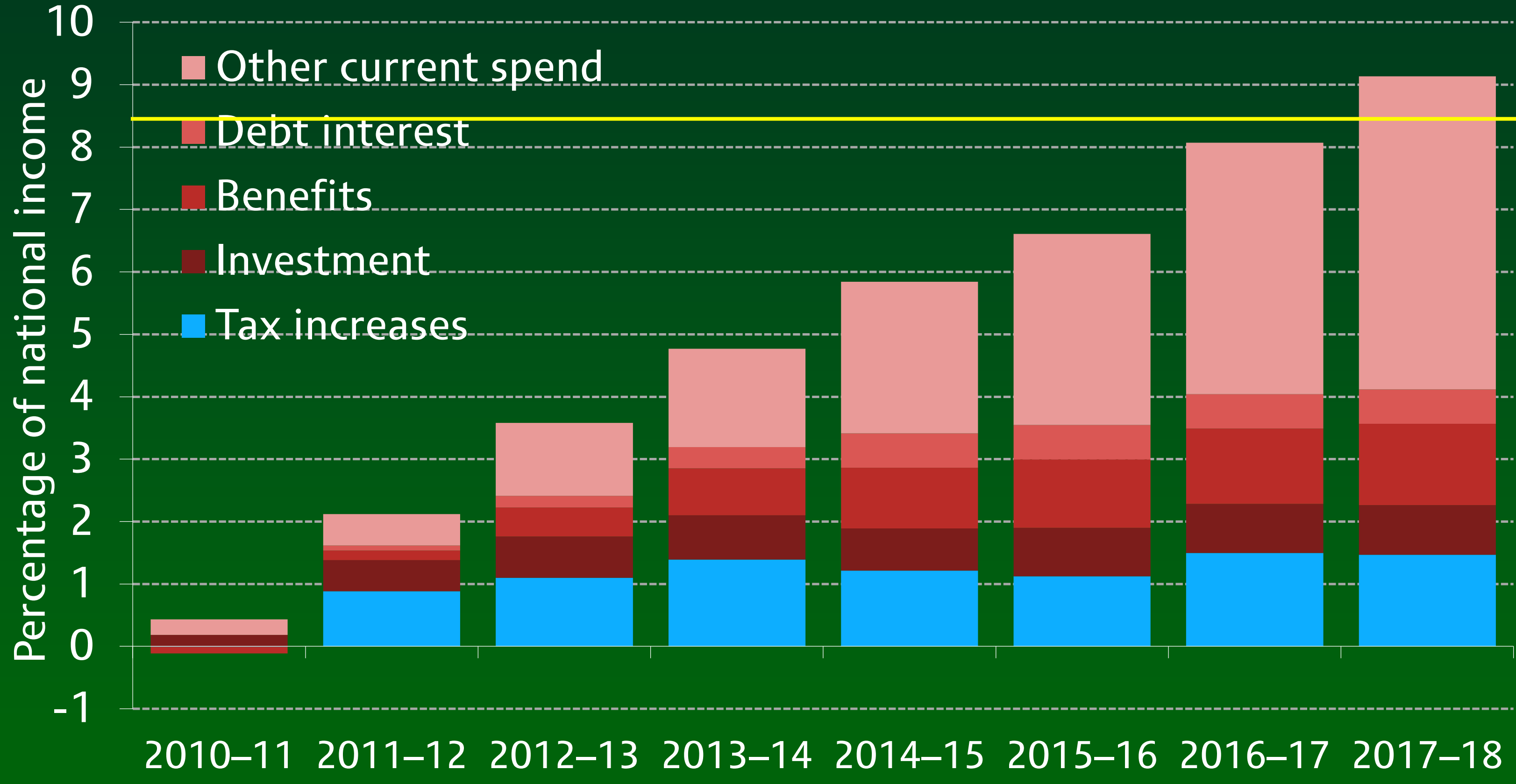
The policy response

Mar 2013: 8.6% national income (£133bn) hole in public finances, offset by 9.1% national income (£141bn) consolidation over 8 years



Notes: Figures include realised underspends by government departments and latest estimate of Exchequer savings from changing to CPI indexation.
Source: Tetlow (2013).

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Autumn Statement to revise growth forecasts up ...

	2013	2014	2015	2016	2017
Office for Budget Responsibility					
March 2013	0.6	1.8	2.3	2.7	2.8

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February 2013	0.9	1.6	2.1	2.2	2.2
Bank of England					
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Av. independent forecasters					
February 2013	0.9	1.6	2.1	2.2	2.2
November 2013	1.4	2.4	2.4	2.4	2.2
Change	+0.5	+0.8	+0.3	+0.2	0.0
Bank of England					
February 2013	0.9	1.7	1.8		
November 2013	1.4	2.8	2.3		
Change	+0.5	+1.1	+0.5		

... and deficit forecasts down ...

- Borrowing in 2013–14
  - March Budget forecast borrowing in 2013–14 of £120 billion
  - tax revenues on course to come in £7 billion lower than OBR forecast
  - deficit of £113 billion would be much higher than the £60 billion forecast in the June 2010 Budget
- Key question is whether reduction in borrowing will persist
  - revenues this year depressed by disappointing one-off receipts from Swiss capital tax arrangement: underlying revenues could be £9 billion higher than forecast
  - higher growth this year could mean less spare capacity remains and therefore less scope for future growth: could explain £4 billion of the £9 billion revenue boost

… but Chancellor's fiscal targets imply more tightening

- Government is committed to two fiscal targets
  - (1) Fiscal mandate: structural current budget must be forecast to be in balance or surplus at the end of the rolling five-year forecast horizon
    - comfortably met in March 2013 Budget, in part due to spending cuts pencilled in for 2016–17 and 2017–18
  - (2) Supplementary target: debt as a share of national income to fall between 2015–16 and 2016–17
    - Budget 2013 forecast implies more likely to be missed than met
- George Osborne has proposed a new fiscal target: balanced budget by end of next parliament
  - Budget 2013 forecast a deficit of £42 billion in 2017–18
  - further austerity would be required to reduce this to zero by end of 2019–20: further two-year freeze in total public spending or a further net tax rise

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Polices: cost of conference = £2 billion a year?

- Universal free school meals for the first three years of primary school
  - from September 2014
  - estimated cost of £600 million a year
  - gain of about £400 per year per eligible child to those who don't currently receive free school meals
- New tax break for some married families
  - from April 2015
  - estimated giveaway of £700 million a year

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New tax break for some married families

- From April 2015 up to £1,000 of personal allowance transferable between adults who are married or in a civil partnership
  - designed so higher rate taxpayers don't benefit
  - gain of up to £200 a year for eligible basic rate taxpayers who claim it
  - received from "summer 2016"
  - estimated cost of £700 million per year
- Strengthens the incentive for married couples to have someone in paid work but weakens the incentive for them both to be in work
- Complicates the income tax system
  - completely withdrawn at higher-rate threshold so some will be worse off after a pay rise (although cliff-edge smaller than initial child benefit proposal)

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  - estimated giveaway of £700 million a year
- Fuel duty
  - aspiration not to increase fuel duties for remainder of this Parliament
  - cancelling the planned September 2014 increase would cost £700 million a year

Polices: others?

- Further increases in income tax personal allowance
- Energy levies replaced by general taxation
- Introduction of capital gains tax on property owned by foreigners
- Further increases in stamp duty land tax
- Further restrictions to pensions tax relief
- Cap on social security spending

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Polices: others?

- Further increases in income tax personal allowance
  - already set to reach £10,000 in 2014–15 at cost of £10.7 billion per year
  - further £500 increase would cost £2.7 billion if higher rate taxpayers have same cash gain
  - largest gains in the upper middle of the income distribution
  - if objective is to help the low paid a better tax cut would be to take people out of National Insurance
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Polices: others?

- Further increases in income tax personal allowance
- Energy levies replaced by general taxation
  - currently worth over £3 billion and their removal could significantly reduce bills
  - but a “carbon price” is a sensible policy if we do want to reduce emissions, and that’s a lot of revenue to make up
- Introduction of capital gains tax on property owned by foreigners
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Polices: others?

- Further increases in income tax personal allowance
- Energy levies replaced by general taxation
- Introduction of capital gains tax on property owned by foreigners
  – currently foreigners don’t pay any CGT which is generous compared to many countries
- Further increases in stamp duty land tax
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- Cap on social security spending

Polices: others?

- Further increases in income tax personal allowance
- Opaque energy levies replaced by general taxation
- Introduction of capital gains tax on property owned by foreigners
- Further increases in stamp duty land tax
  - often used by the last Labour government and the coalition government to raise significant sums
  - not a good tax: means properties not owned by people who value them most
- Further restrictions to pensions tax relief
- Cap on social security spending

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Polices: others?

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- Further restrictions to pensions tax relief
  - last year's Autumn Statement cut the annual pension contribution limit to £40k and the lifetime limit to £1¼m from April 2014 raising £1bn/year
  - further cuts would raise more: losers are lifetime rich and others wanting to make large lumpy contributions (self-employed selling their business)
  - better to reduce the lifetime limit rather than the annual allowance and even better to limit generosity of tax-free lump sum
- Cap on social security spending

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Polices: others?

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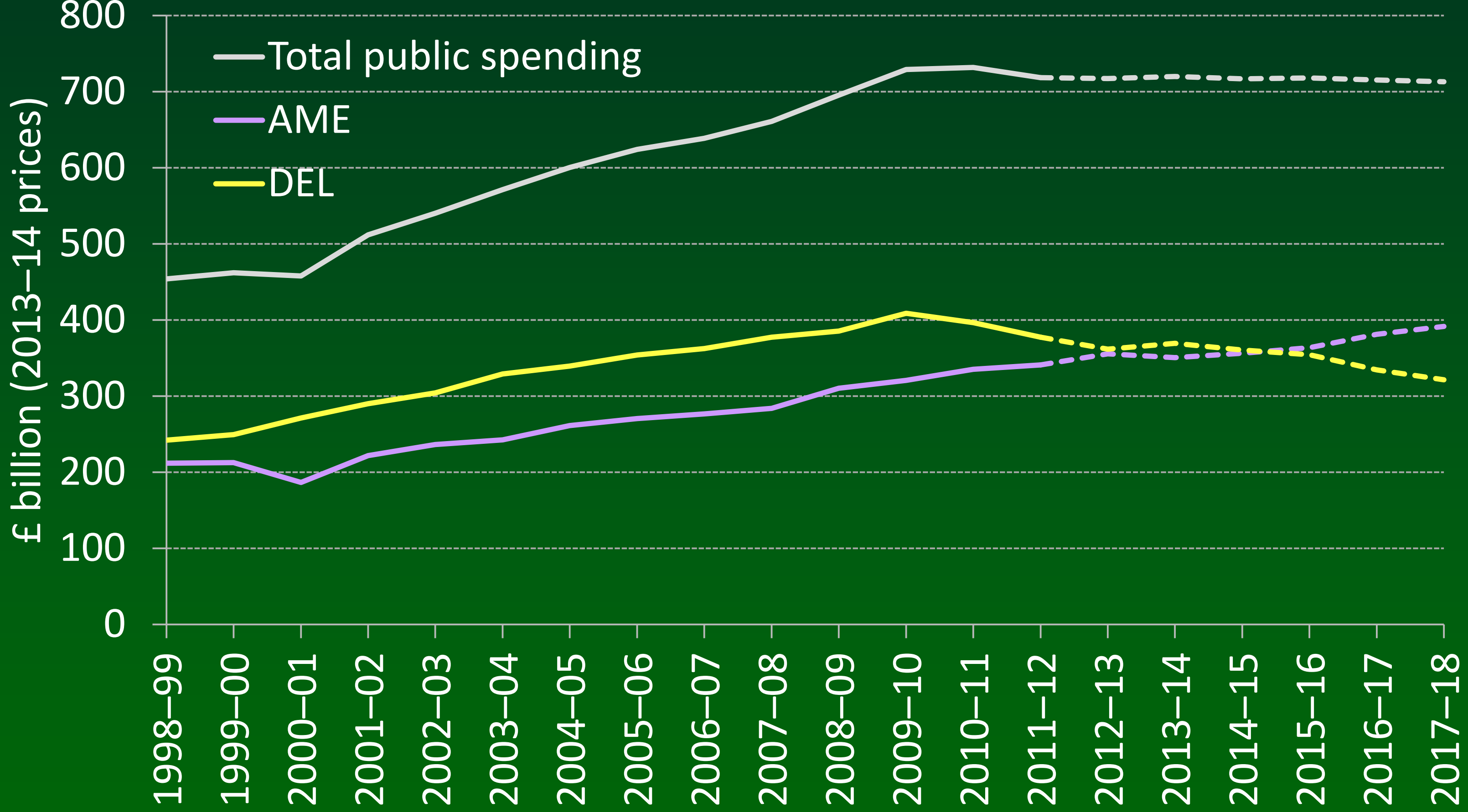
- Introduction of capital gains tax on property owned by foreigners
- Further increases in stamp duty land tax
- Further restrictions to pensions tax relief
- Cap on social security spending
  - applies to social security spending less state pension and Jobseeker’s Allowance
  - if welfare spending has been allowed to rise undesirably then forcing an active decision could lead to better policy making
  - further details may come, but cap not expected to be set until Budget 2014
  - why not announce cap now for years to 2017–18? Might this be to avoid action being taken before the general election?

The outlook for total spending



Note: DEL and AME figures from 2013–14 adjusted for changes for local government funding for Business Rates Retention and Council Tax Benefit localisation.

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- Other possible giveaways include further increases in personal allowance or energy levies replaced by general taxation
- How might these be paid for
  - CGT on homes owned by foreigners?
  - further increases in stamp duty land tax?
  - further restrictions on pension contributions?

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