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Budget measures

Stuart Adam

E·S·R·C ECONOMIC & SOCIAL RESEARCH COUNCIL

Personal allowance to reach £10,000 in 2014-15

- £240 above-indexation increase announced for April 2014
  - All taxpayers aged under 65 on less than £119,520 will gain £48
  - 150,000 more taken out of income tax
  - £50 of the £240 clawed back in 2015 as switch to CPI indexation 1 year sooner
  - Costs £1.2bn

- Allowance in 2014-15 to be £2,545 higher than plans govt inherited
  - At cost of £10.7 billion per year
  - Basic rate taxpayers gain £509 per year; 1.8 million taken out of income tax
  - Higher-rate threshold will be ~~£6,740~~ £4,910 lower → ~~1.4m~~ 1.1m more higher-rate taxpayers

- Why income tax but not NICs?
  - 1.2 million people will pay NICs but not income tax in 2014-15

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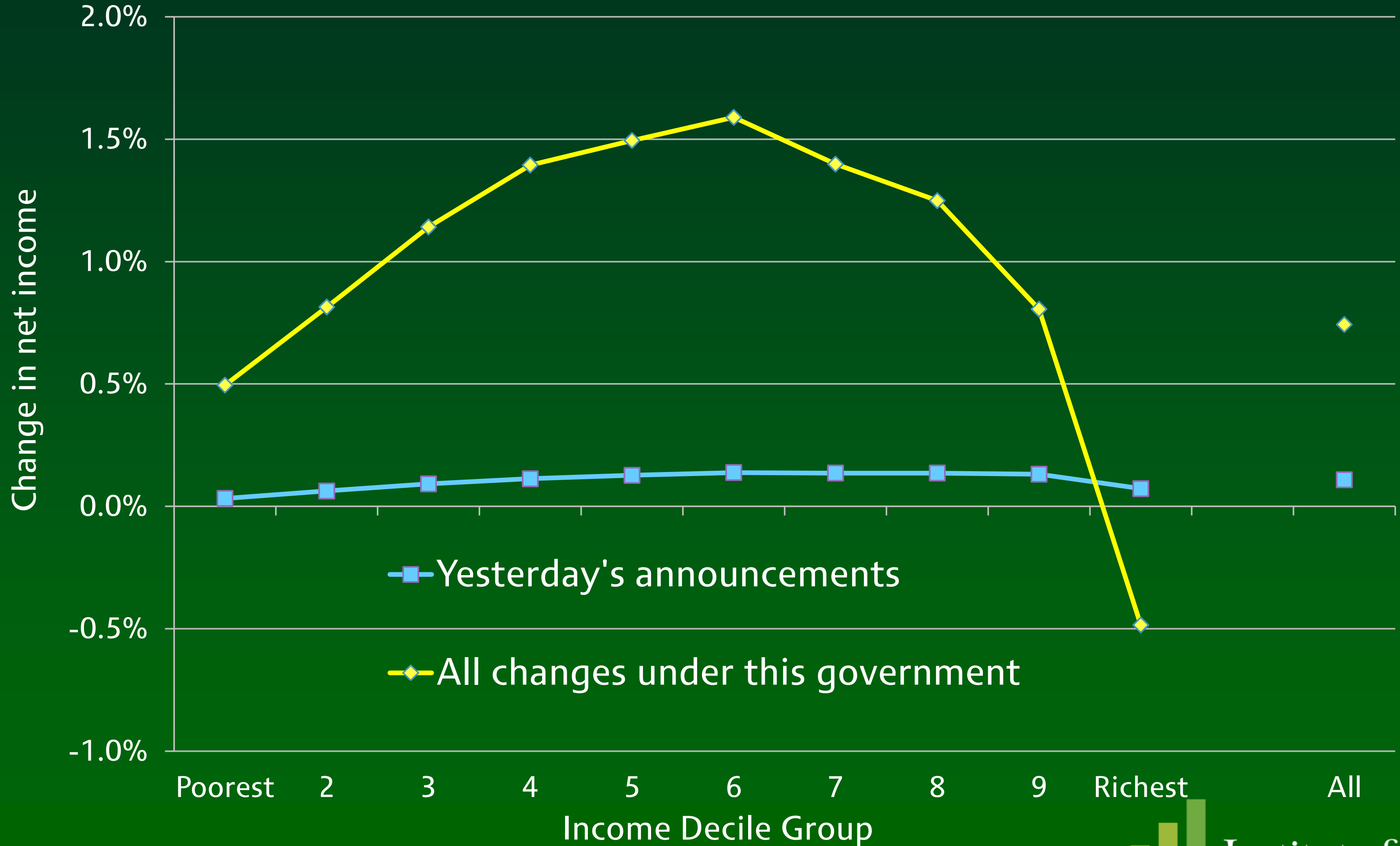
Impact of real changes to personal allowance and higher-rate threshold from April 2010 to April 2015



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Beer duty cut

- 5.3% cut in real terms
  - vs. 2% real increase planned
  - And 2% real increase for April 2014 cancelled
  - So duty will be 9% lower than planned
  - Costing £0.2bn

- What will happen to aim of tackling problem drinking?
  - Our research suggests tax-based approach best but now looks unlikely
  - Reports suggest minimum pricing may not happen either
  - Quantity-based discounts poorly targeted on heavy drinkers

Fuel duty cut

- September uprating cancelled
  - Already postponed from April in the Autumn Statement
  - A 3.3% real cut
  - Costing £0.9bn

Fuel duty: to uprate or not to uprate, ~~Act IV~~ Act V

Dates uprating due before Budget 2011	
Apr 2011	
Apr 2012	
Apr 2013	
Apr 2014	
Apr 2015	
Apr 2016	

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Fuel duty: to uprate or not to uprate, ~~Act IV~~ Act V

Dates uprating due before Budget 2011	Budget 2011
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Apr 2012	Aug 2012
Apr 2013	Apr 2013
Apr 2014	Apr 2014
Apr 2015	Apr 2015
Apr 2016	Apr 2016

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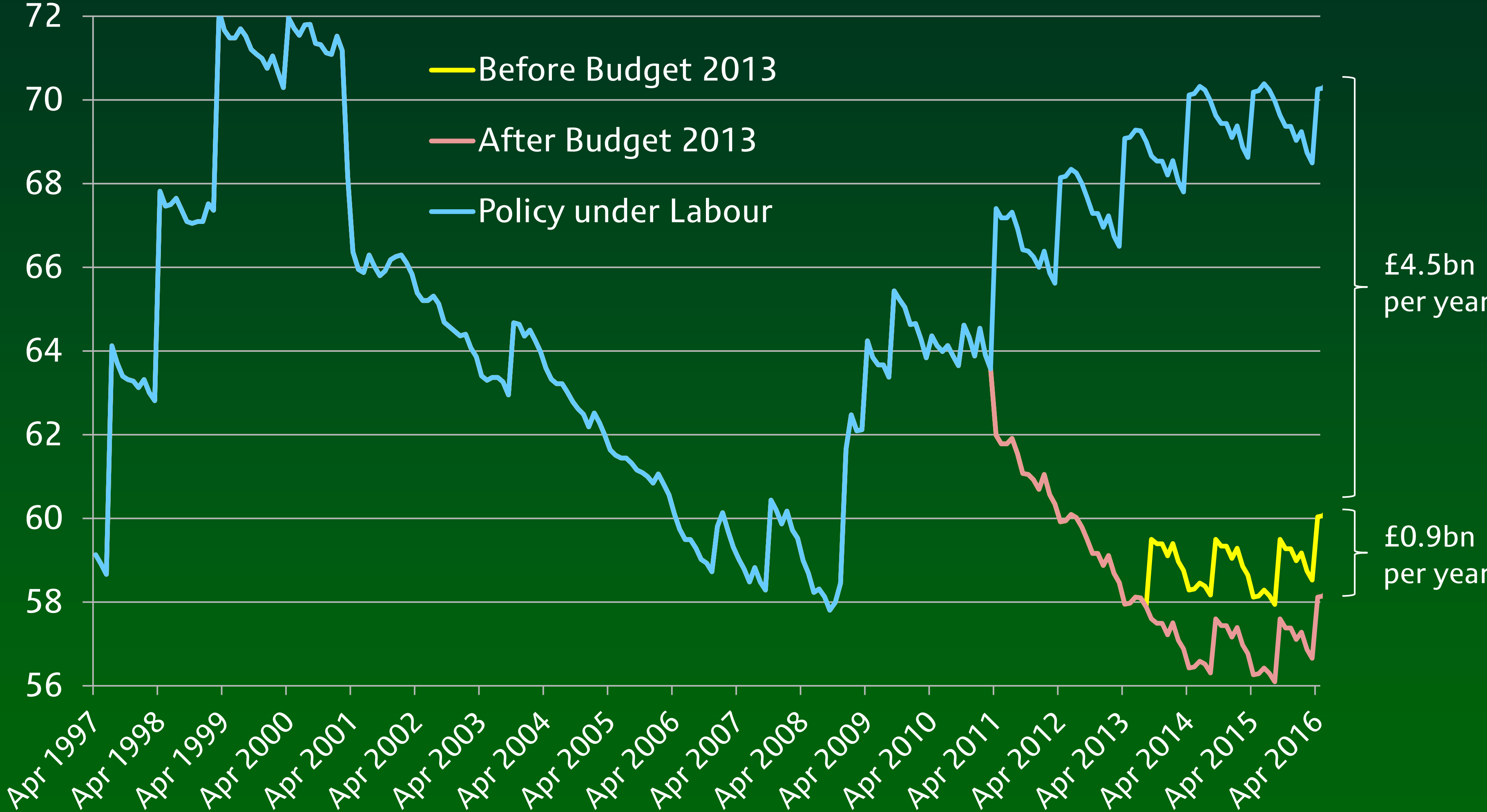
Real duty on a litre of petrol

Pence, April 2013 prices



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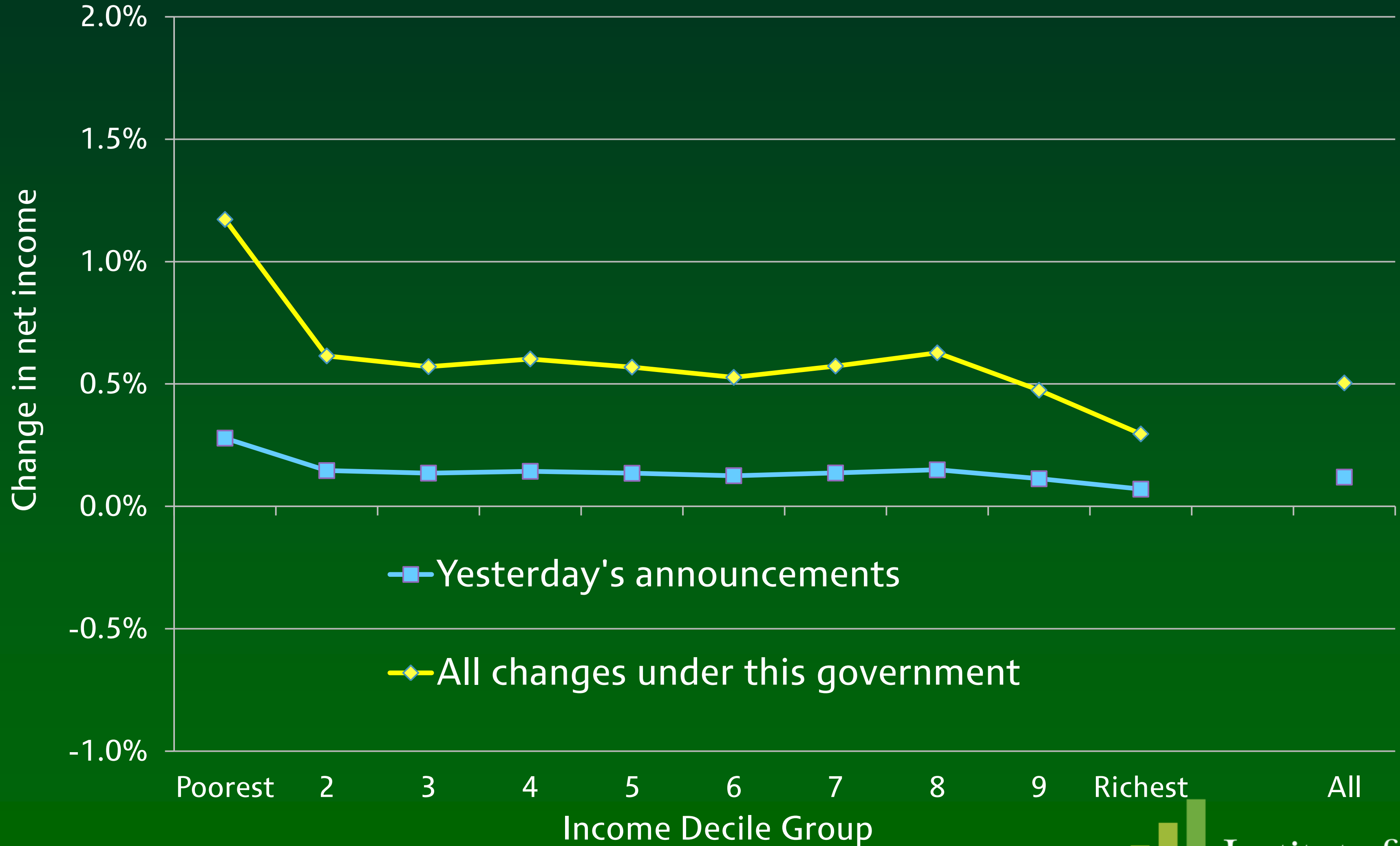
Impact of real changes to fuel duties from April 2010 to April 2015



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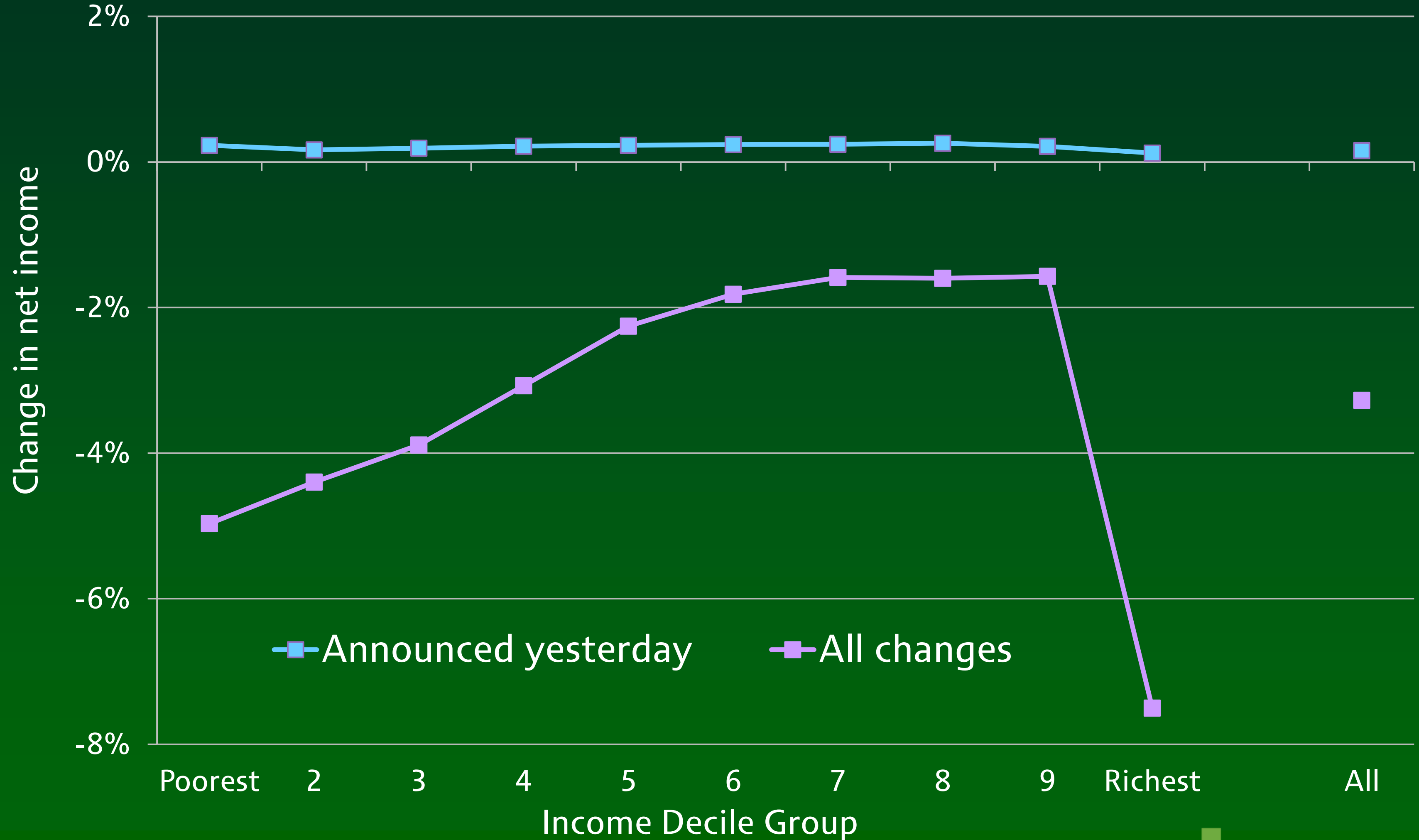
Impact of tax and benefit reforms

January 2010 - April 2015 inclusive, as if Universal Credit fully in place



Fuel duties modelled at average 2015-16 level.
Assumes full take-up of means-tested benefits and tax credits.

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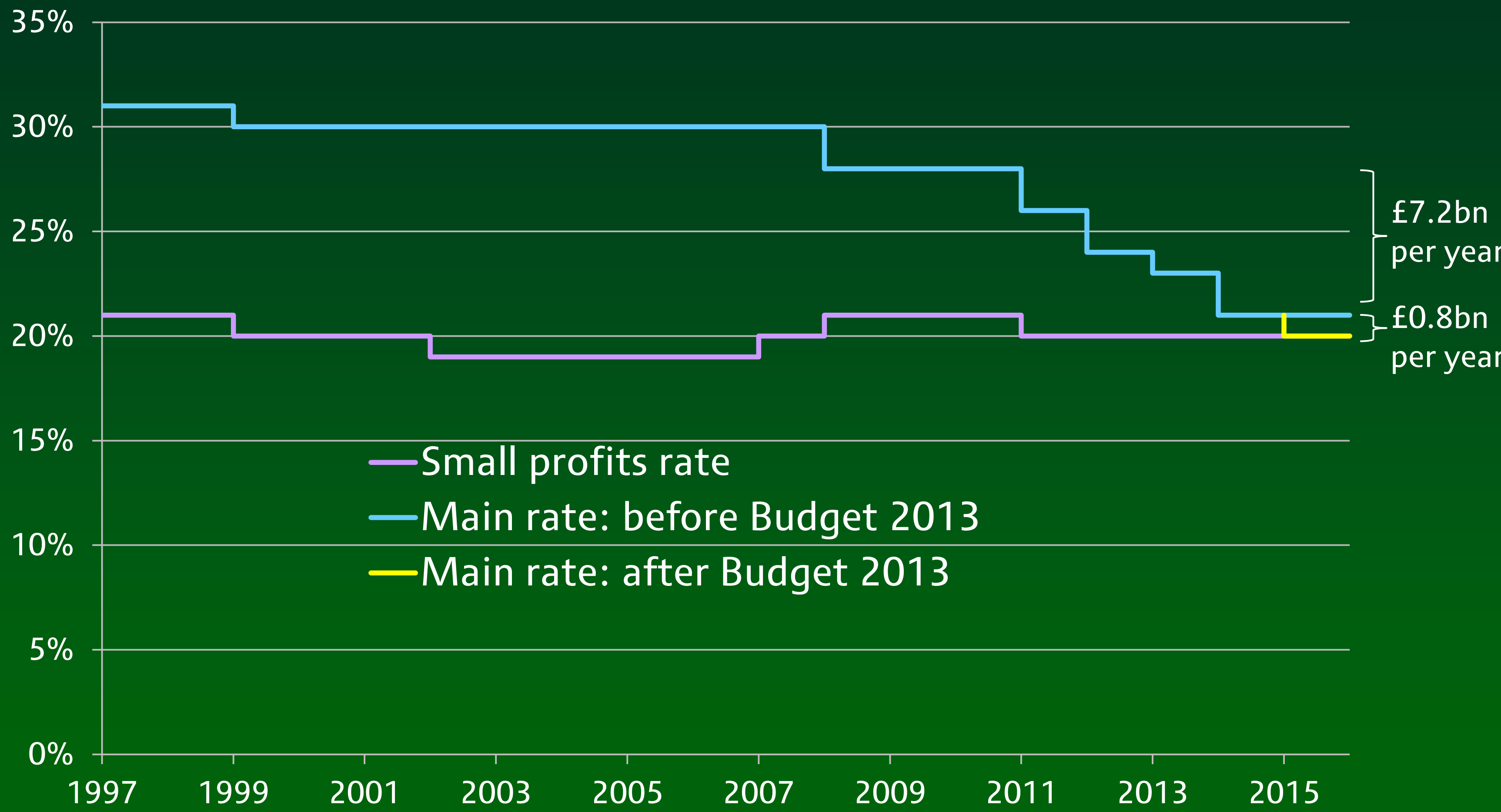
Corporation tax rates



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NICs employment allowance

- £2,000 reduction in employer NICs bill for all firms from April 2014
  - Government expects 90% take-up by 2017-18
  - Costs £1.2bn
- Eliminates employer NICs entirely for an employer with:
  - 1 employee earning < £22,450
  - 2 employees earning <£15,200 each
  - 3 employees earning <£12,790 each
- Relative to increasing employer NICs threshold:
  - More favourable to small employers
  - Less favourable to low earners
  - Less likely to be passed on to employees in higher wages

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Childcare measures

- There are currently two separate and mutually exclusive schemes
  - One for tax credit recipients (universal credit recipients in future)
  - One for other taxpayers
  - About half a million families benefit from each
- Both are being reformed
  - Tax credit / universal credit reform costs £0.2bn (from within welfare budget)
  - Tax-free childcare reform costs £0.8bn (from within public spending)
- Discuss them in turn
  - But might have been better to replace them with a single scheme

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Childcare measures: tax credits / universal credit

- Current scheme: covers 70% of formal childcare costs up to a cap
  - £175 per week for one child, £300 per week for more than one child
- Proposal: increase to 85% if all adults are taxpayers from April 2016
- Benefits relatively low-income (though not the lowest-income) working families using formal childcare
  - So stronger incentive to have all adults in work and use formal childcare
- Creates an upward jump (‘cliff edge’) in support at the personal allowance
  - Earning an extra £1 brings up to £2,340 extra childcare support per year

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Childcare measures: tax credits / universal credit

Note: Assumes lone parent with 2 children claiming maximum childcare support

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Childcare measures: tax-free childcare (1)

- Current scheme: no income tax or employee or employer NICs on first £55 per week (£2,860 per year) of employer-provided childcare vouchers
  - Worth up to £915 per working parent (£1,151 if include employer NICs saving)
  - Cap is lower (scheme less generous) for higher-rate taxpayers

- Proposal: 20% relief on childcare spending of up to £6,000 per child aged under 5 (eventually 12) per year from autumn 2015
  - If both parents work (for less than £150,000)
  - Worth up to £1,200 per qualifying child

- Existing members of old scheme can continue with it

Childcare measures: tax-free childcare (2)

- New scheme is more generous in some cases
  - Employer doesn't offer voucher scheme
  - More than one qualifying child
  - Two parents in work
- Less generous in other cases
  - Child above age 5 (or 12)
  - One-earner couples
  - Two-earner couples with one child
  - Spend considerably less than £6,000 per year on childcare
- More childcare support overall → stronger incentives to work
  - But varies between cases above
  - How much will this actually increase employment?

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Childcare measures: tax-free childcare (3)

Design of the scheme is a sensible improvement:

- More support if more children
- Not reliant on employer involvement
- Not available to one-earner couples
- No higher for two-earner couples than lone parents
- Focused on pre-school children for whom state provision is lowest

Help to Buy: equity loan scheme (1)

- Provides an equity loan of up to 20% of the value of a new-build home valued up to £600,000
  - i.e. government buys up to 20% stake in the home
  - The other 80% comes from a deposit (minimum 5%) and a mortgage
- For the first 5 years this loan is interest-free
  - From year 6 an annual fee (i.e. interest) is payable, increasing over time
  - Initially 1.75% of the loan value, then increasing by RPI + 1% per year
- Can redeem any time within 25 years, or when property sold if sooner
  - Pay back e.g. 20% of home value at that time
- Scheme available for up to 3 years from April 2013 in England for owner-occupiers only.
  - Government expects up to 74,000 beneficiaries
  - £3.5 billion funding limit (implying £47,000 average loan)

Help to Buy: equity loan scheme (2)

- Generous: government buys 20% of the property but charges no rent for first 5 years
  - Rent in subsequent years low at first
- So will increase demand for new homes
  - Increasing price of new build homes and encourage building
  - Price of existing homes may also increase slightly
- May see a surge in new-build sales near end of scheme
- Winners include homebuilders, residential landowners and those who take advantage of the scheme
- Those home buyers who are not eligible (e.g. buy-to-let landlords) or who do not take up the scheme likely to lose

Help to Buy: mortgage guarantee scheme (1)

- Guarantees 95% of the portion of a mortgage above 80% of the value of a new or existing home
  - Buyer must find at least a 5% deposit
  - Government will charge banks a fee for these guarantees
- Available on loans to owner-occupiers buying homes (or remortgaging with a new lender) with a value up to £600,000
- Scheme available for 3 years from January 2014
  - Up to £12bn of guarantees, supporting £130bn of lending
  - Expected to cover 570,000 mortgages

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Help to Buy: mortgage guarantee scheme (2)

- Greater mortgage availability will increase demand for housing
  - House prices will rise, slightly more built
- Is the policy sensible?
  - Is there a market failure – banks too risk-averse?
  - Can the government calculate the appropriate fee to charge banks?
  - Will lenders use scheme only for highest-risk borrowers?
  - Default more likely if less costly for both bank and borrower?

The coalition's priorities for tax

- Budget increased the personal allowance, cut fuel duty and cut the headline rate of corporation tax
- This is a repeated pattern
  - Done in every Osborne Budget (except no fuel duty cut in Budget 2010) and often Autumn Statements as well
- These three will cost £24bn in 2016-17
  - £10.7bn - personal allowance
  - £8.0bn - headline rate of corporation tax
  - £5.4bn - fuel duty
  - ➢ More than VAT rise or total investment cuts; nearly total welfare cuts
- Two of these three were ambitions clearly stated in advance
  - Fuel duty more piecemeal
- Is this the end – are £10,000 and 20% enough?
  - Coalition agreement now allows for other tax cuts

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Summary

- Some money raised from earlier abolition of contracted-out rebates
  - And the usual package of anti-avoidance and -evasion measures
- More money for the usual suspects
  - Income tax allowance, fuel duty and corporation tax
- Significant new giveaways as well
  - Small employers, childcare, home-ownership, beer drinking

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ADDITIONAL DISTRIBUTIONAL ANALYSIS

Impact of reforms taking effect in 2013-14

Fuel duty modelled at average 2013-14 level.
Assumes full take-up of means-tested benefits and tax credits.

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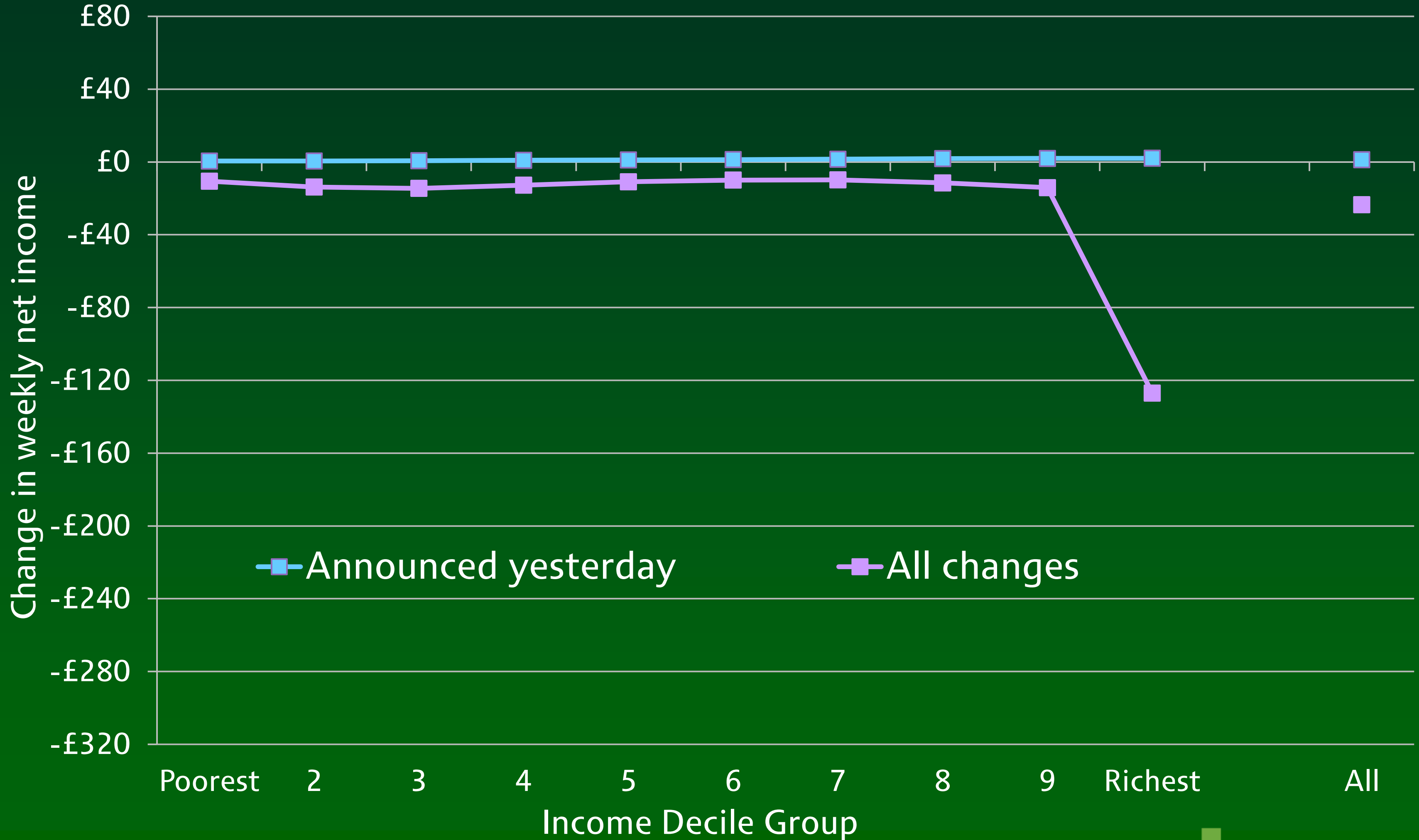

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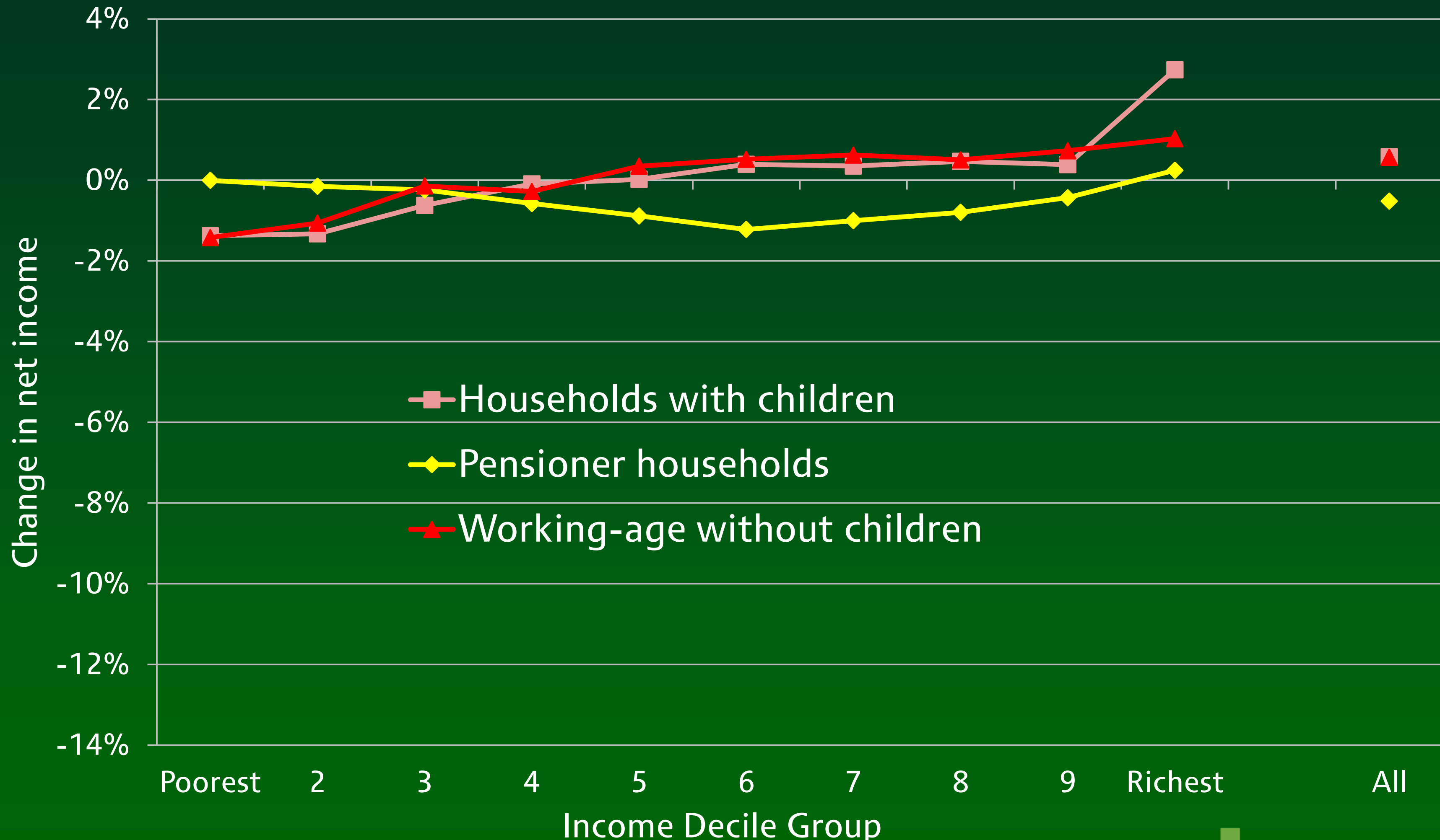

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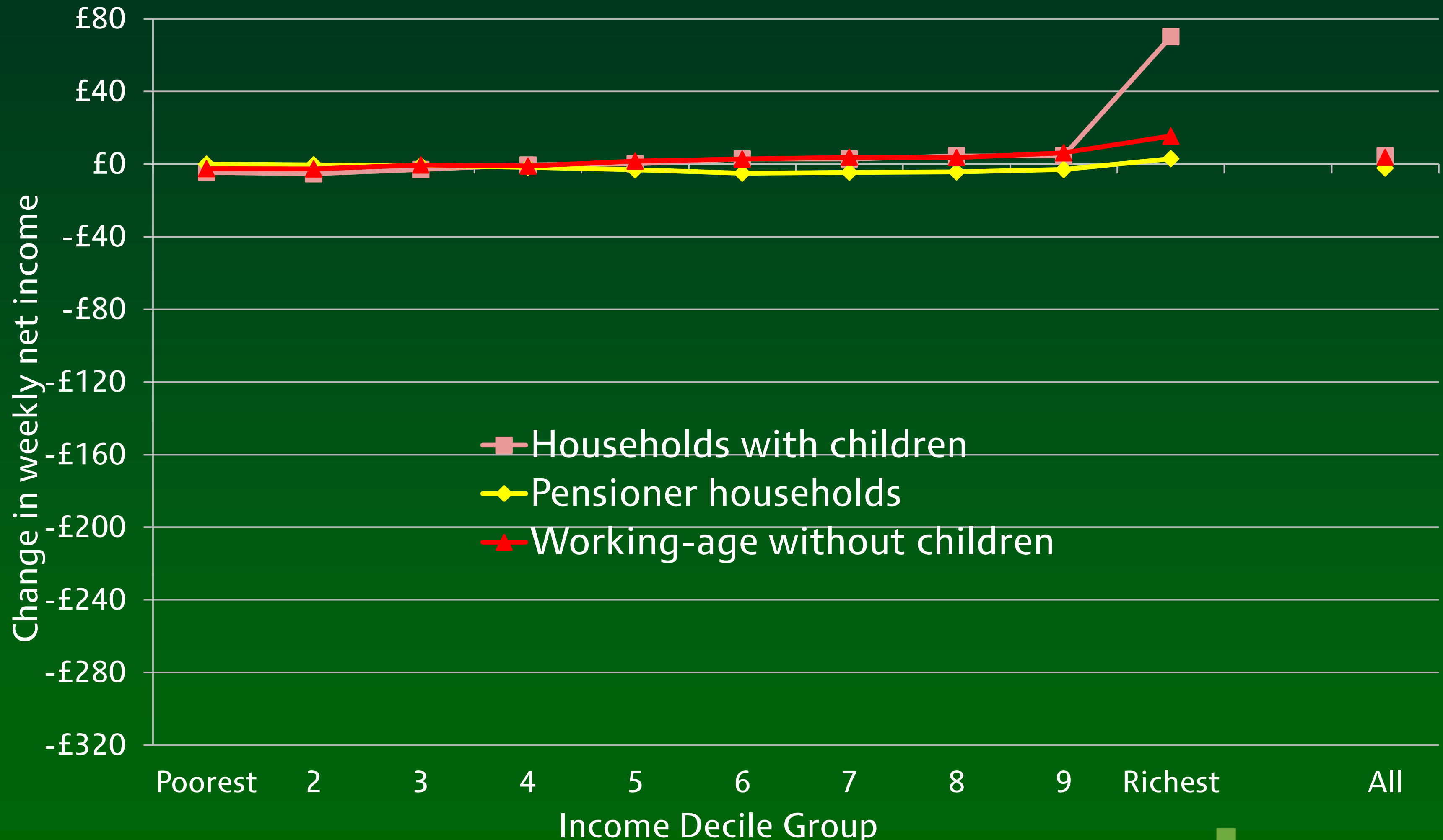

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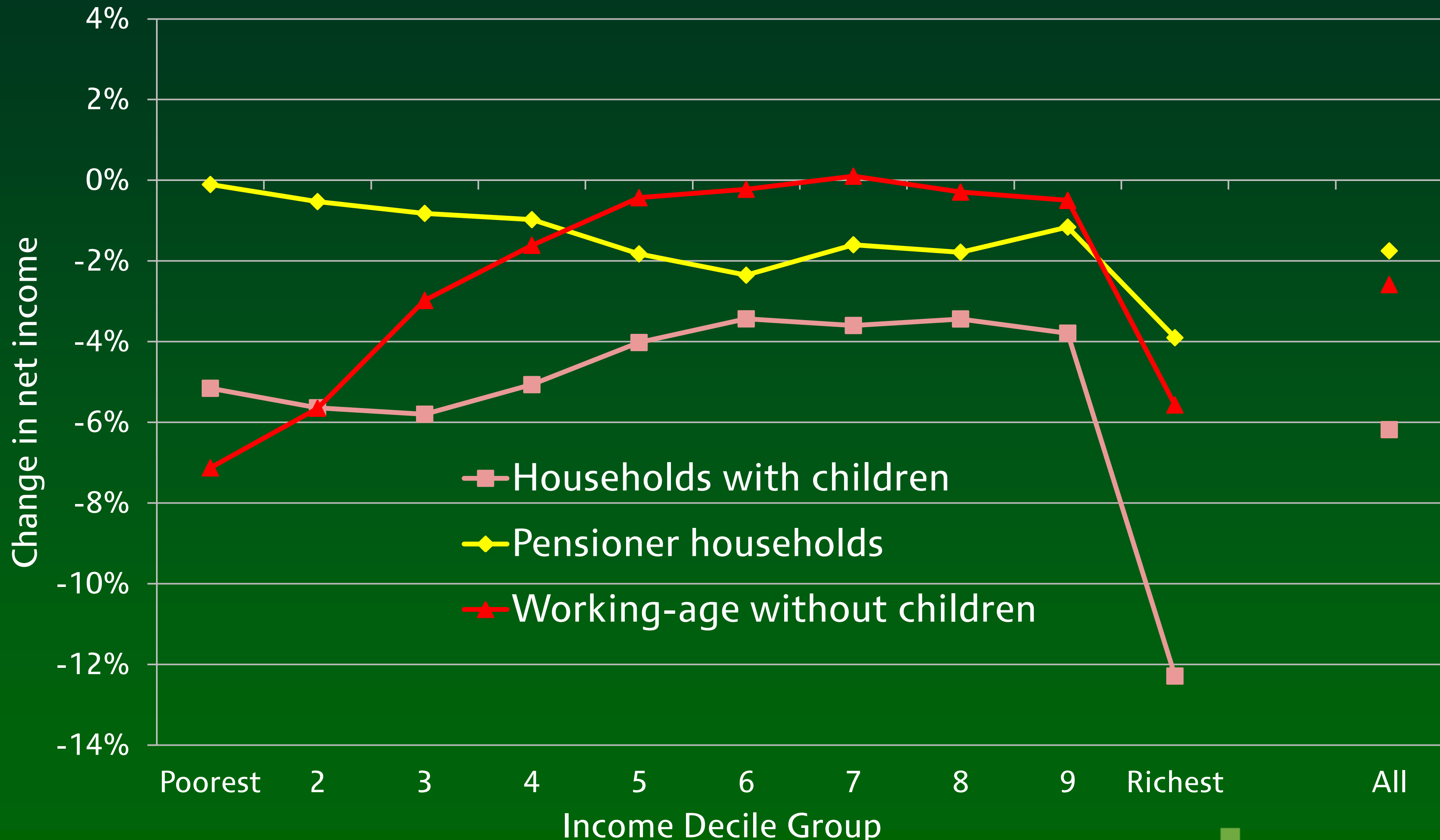

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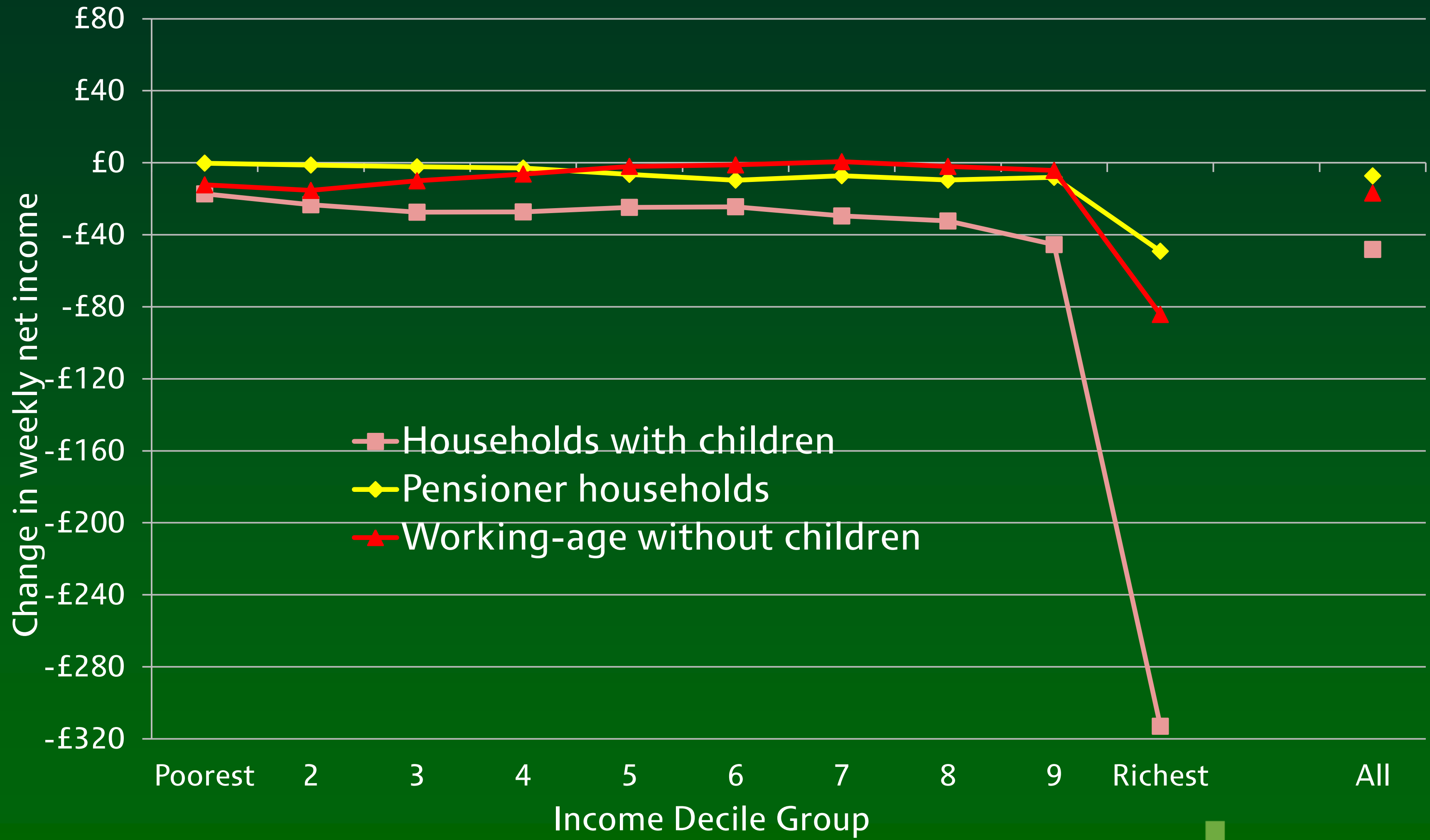

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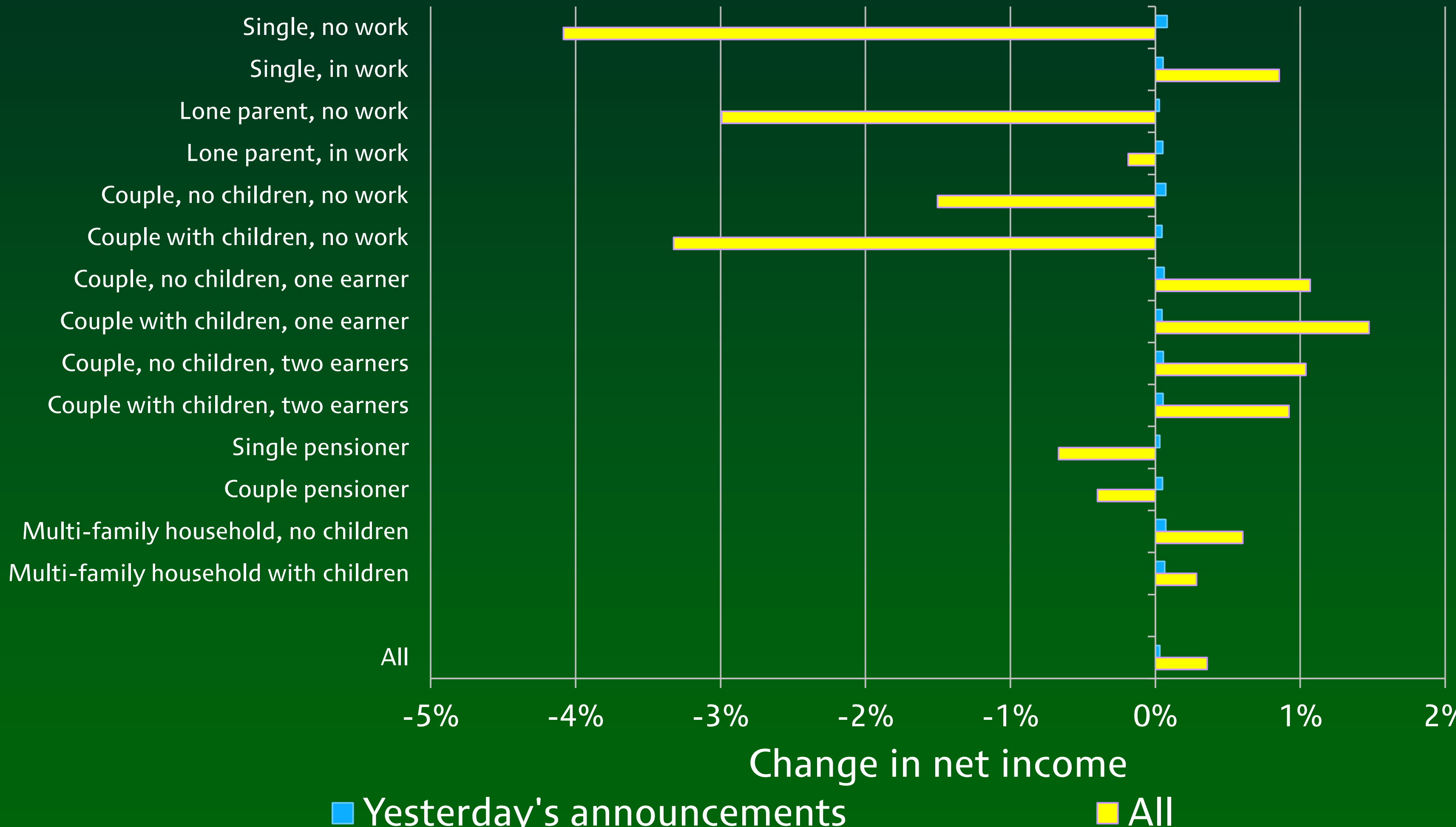

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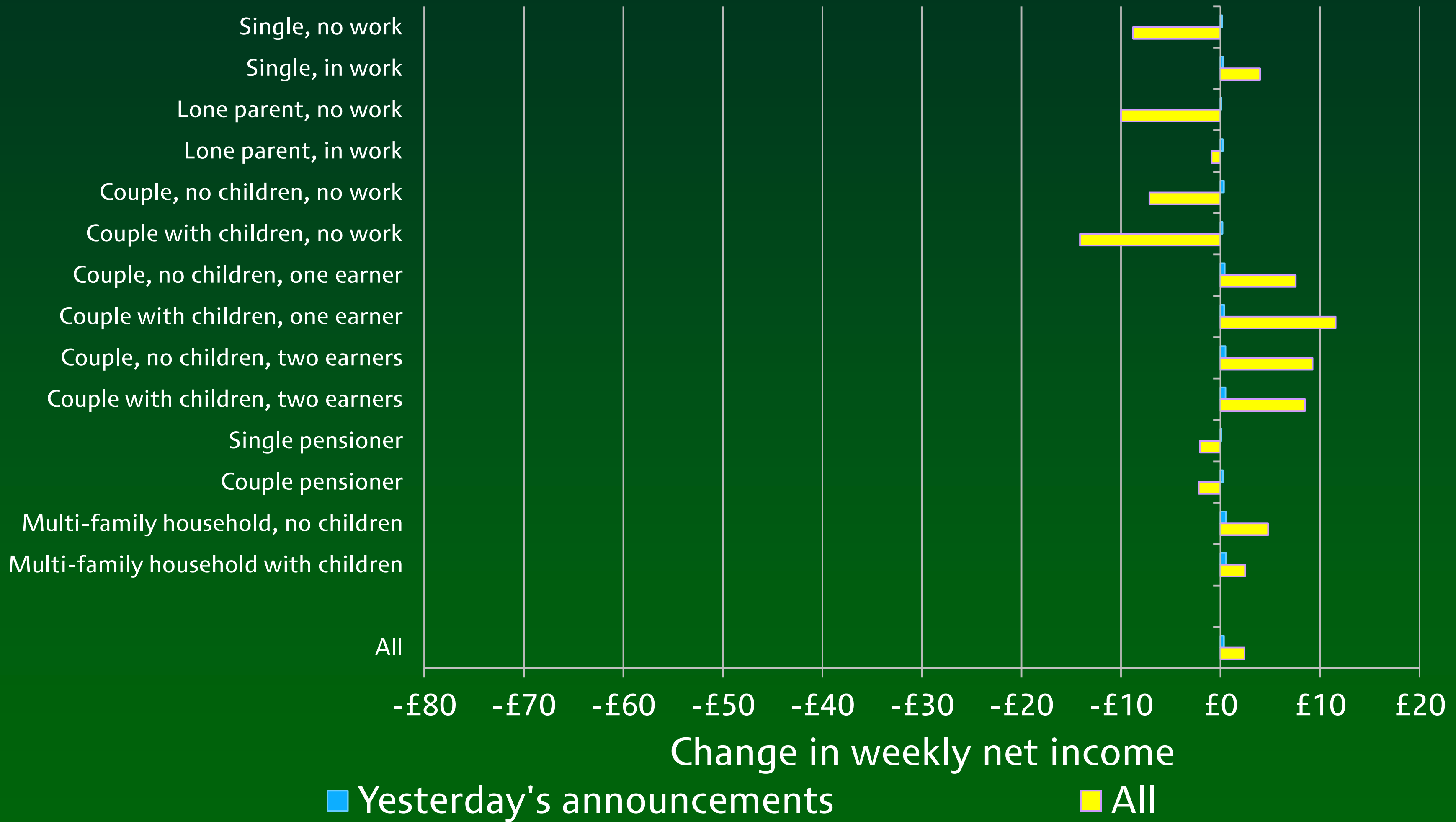

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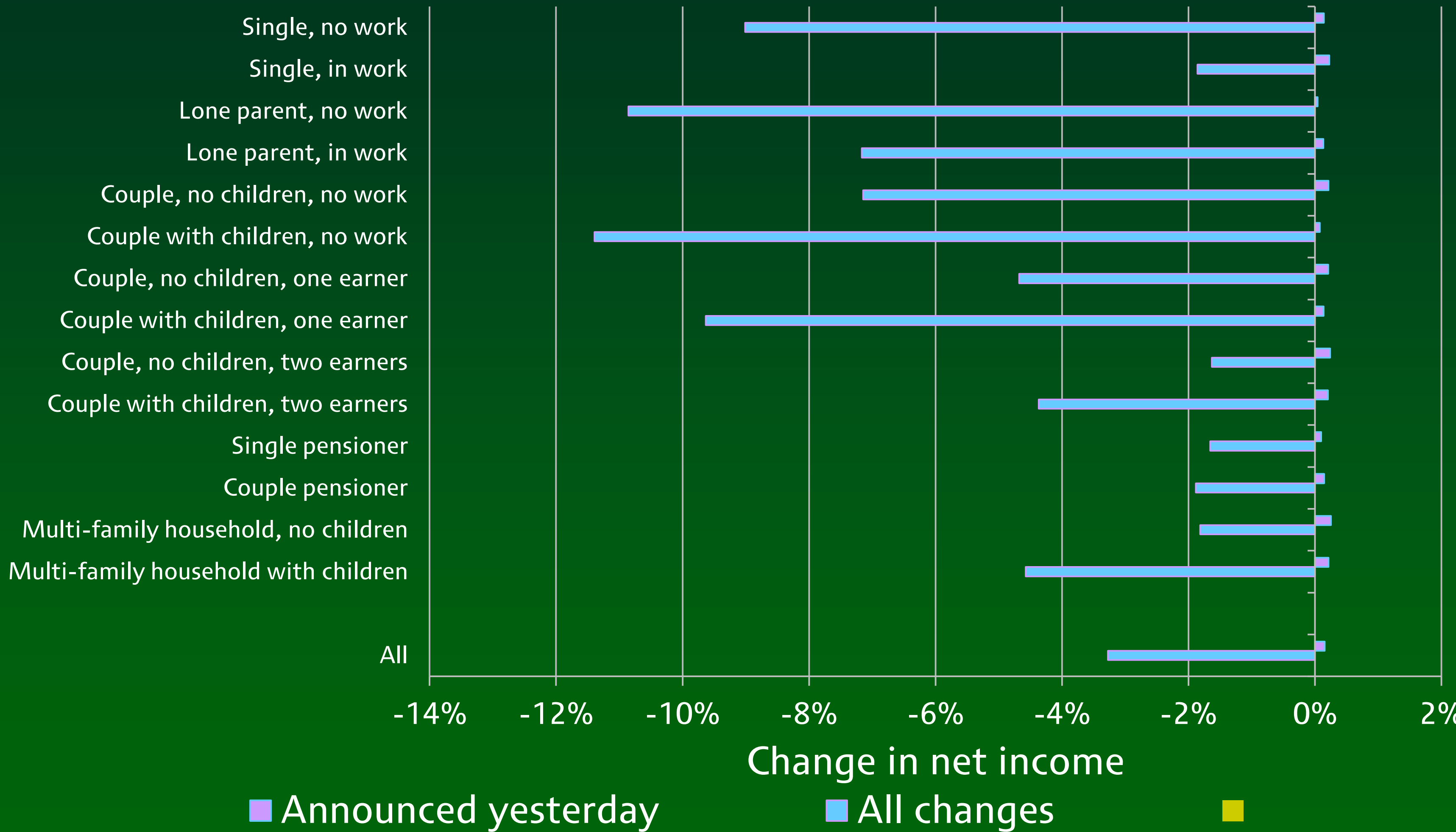

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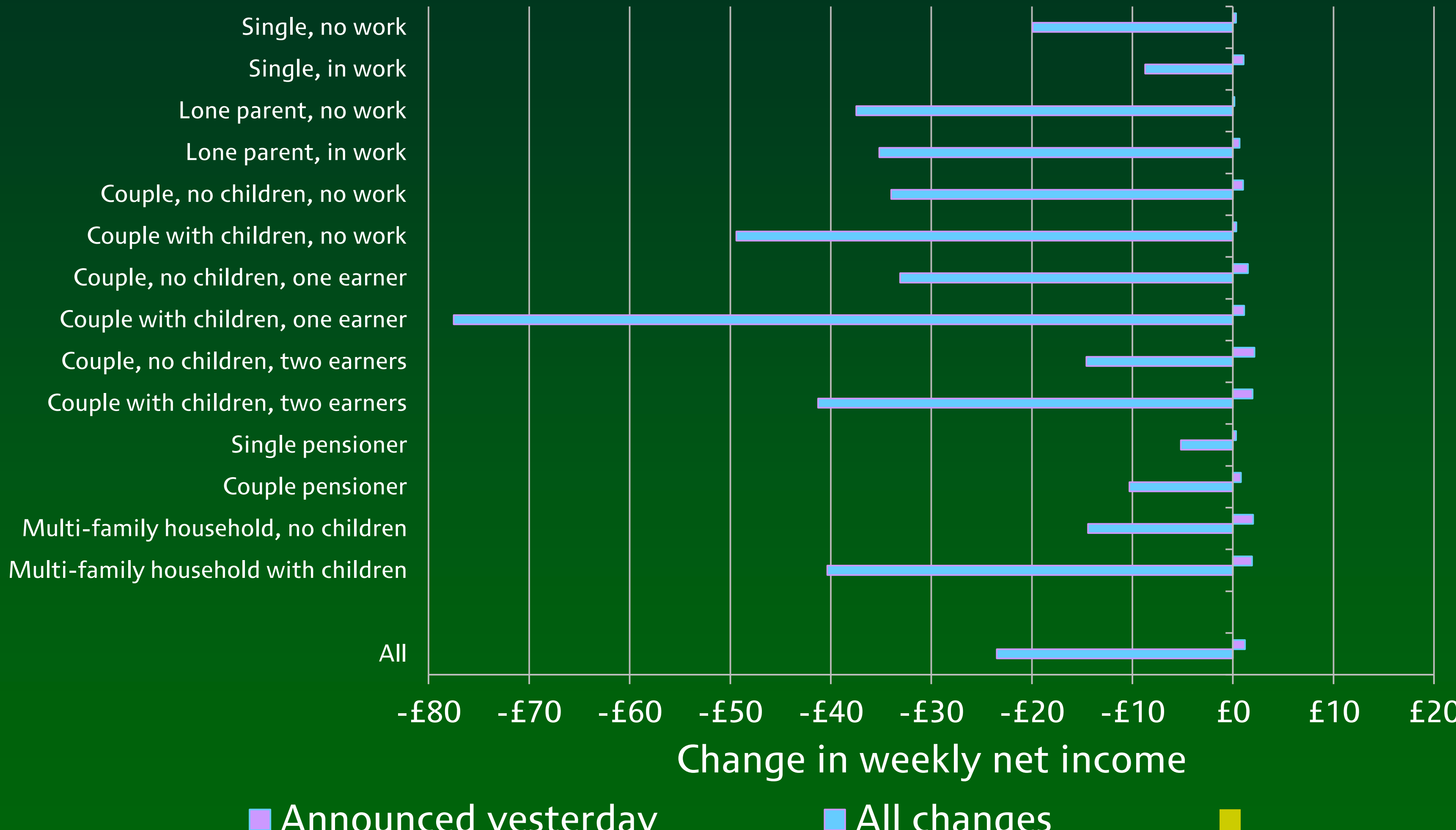

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