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?
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).
Autumn Statement to revise growth forecasts up ...

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... 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
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
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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- 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
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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Policies: 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
- Further restrictions to pensions tax relief
- 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
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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
Polices: others?

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- 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.
Summary

- Big issue remains deficit reduction
  - some good economic news for this year: growth up and deficit down
  - but deficit still high and much austerity lies ahead
- Conference promises have a £2 billion a year price tag
  - free school meals (£600m), marriage tax break (£700m) and 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
  - CGT on homes owned by foreigners?
  - further increases in stamp duty land tax?
  - further restrictions on pension contributions?
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