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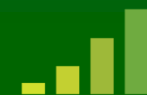
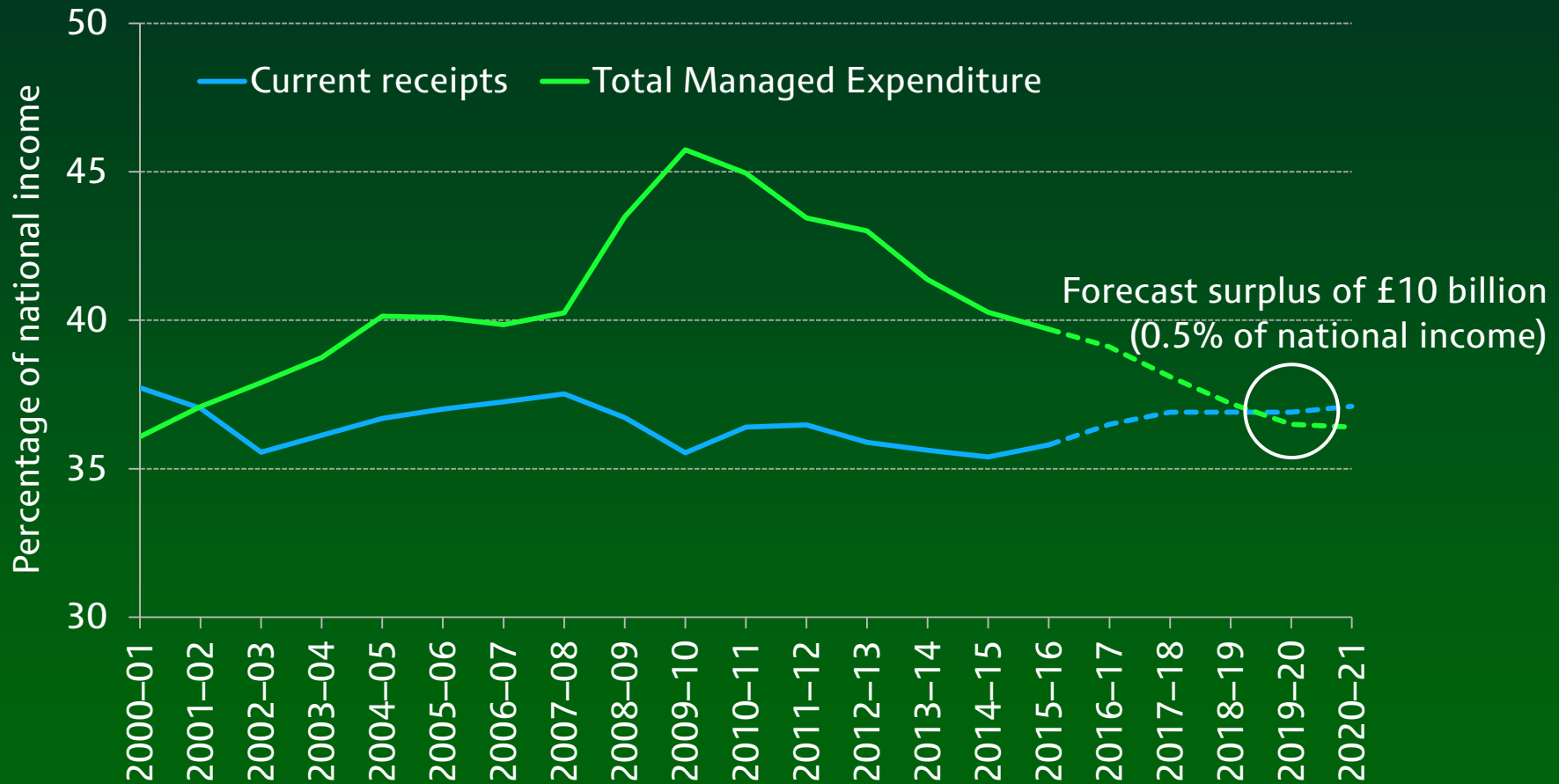
Budget 2016: a takeaway Budget to keep on course to meet budget surplus target?

Carl Emmerson and Paul Johnson

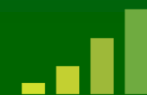
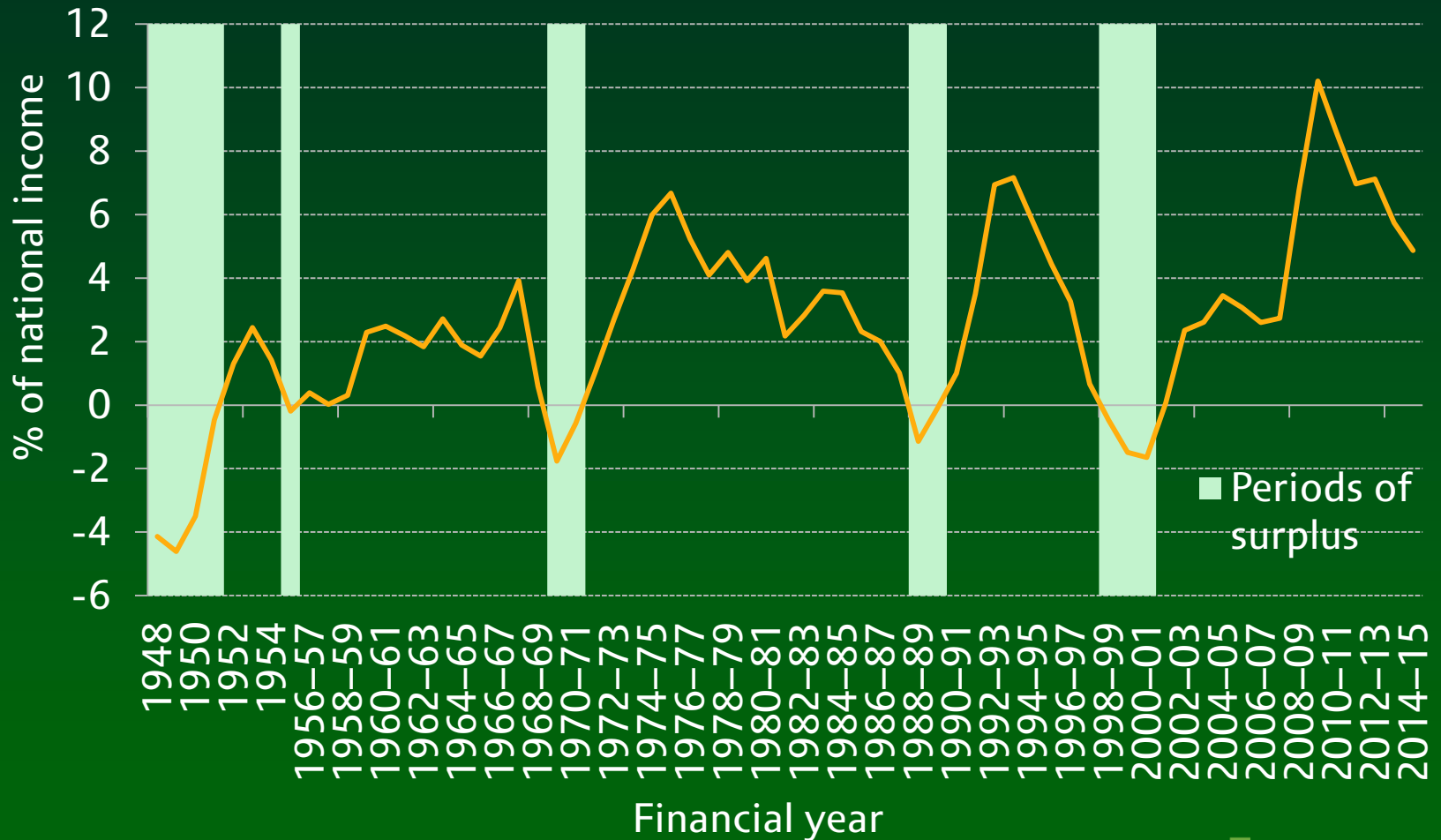
Presentation to BBC journalists, 7 & 8 March 2016



Eliminating the deficit?



Achieving and maintaining a budget surplus would be a break from the past



Borrowing in 2015–16

- OBR November 2015 forecast is for borrowing of £73.5bn
 - compares to £74.1bn forecast in July 2015
- Extrapolating borrowing over the first ten months of this financial year implies borrowing of just under £80 billion
- But £4 billion of the apparent overshoot is from rapid growth in investment spending which might not persist
- Borrowing of around £76 billion would be above, but very close to, the OBR's forecast

Budget: Small downwards revision to growth?

GDP growth	2015	2016	2017	2018	2019	2020
Office for Budget Responsibility						
November 2015	2.4	2.4	2.5	2.4	2.3	2.3

- Bank, and independent forecasters have slightly downgraded their forecasts since November
- None of these forecasts stand if Brexit occurs

Inflation forecasts also down

- Chancellor likely to highlight that lower inflation reduces forecast debt interest spending
- But overall lower inflation bad for the public finances
 - freezing most working age benefits and 1% cap on public sector pay would deliver smaller real saving
 - fixed cash spending plans for public services more generous in real terms
 - in cash terms saving from lower debt interest spending more-than-offset by lower VAT revenues
- One response would be to trim departmental spending limits
 - could reduce cash limits and leave planned real spending cut unchanged

Medium-term risks: revenues

- Earnings 1% lower costs £5 billion
 - Bank of England's latest forecast has earnings more than 1% lower than their November forecast
- FTSE All-Share 7% lower than assumed by OBR's autumn forecast
 - £2 billion hit to capital tax revenues unless the stock market recovers
- Oil prices falls directly depress revenues from North Sea oil and gas production
 - OBR estimates slightly more than offset by increased revenues elsewhere
 - but low oil price places pressure on Chancellor to reduce North Sea taxes

Medium-term risks: spending

- Cuts this parliament significantly less than expected
 - And less than last parliament
- But
 - Spending falling to historically low levels
 - Public sector pay due to fall to lowest level relative to private sector for decades
 - Additional demographic and cost pressures

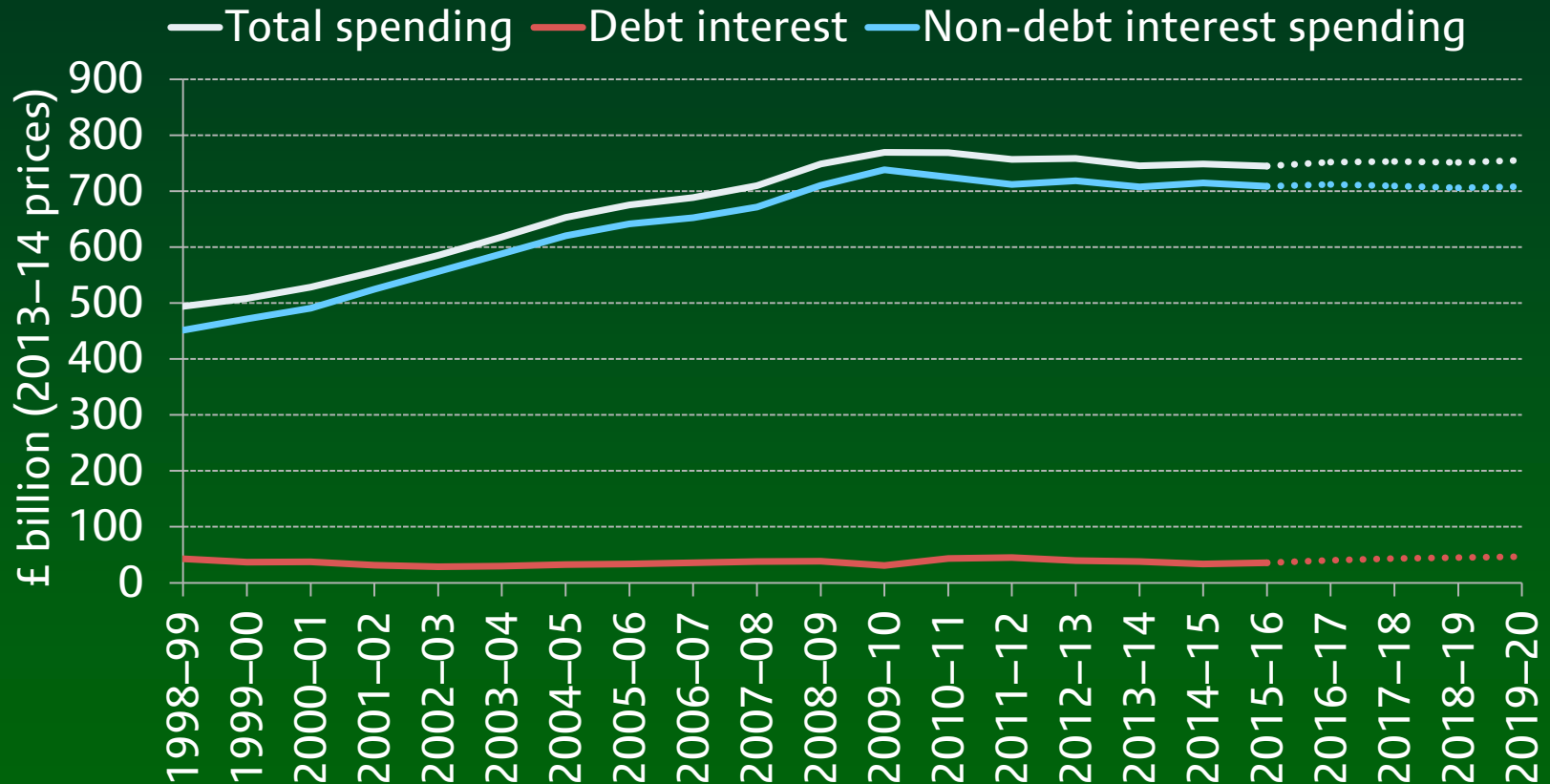
Planned cuts to spending

2010–11 to 2019–20:

Total spending: -1.8% ($-\pounds 13.8\text{bn}$)

Debt interest: $+6.7\%$ ($+\pounds 2.9\text{bn}$)

Non-debt interest: -2.3% ($-\pounds 16.8\text{bn}$)



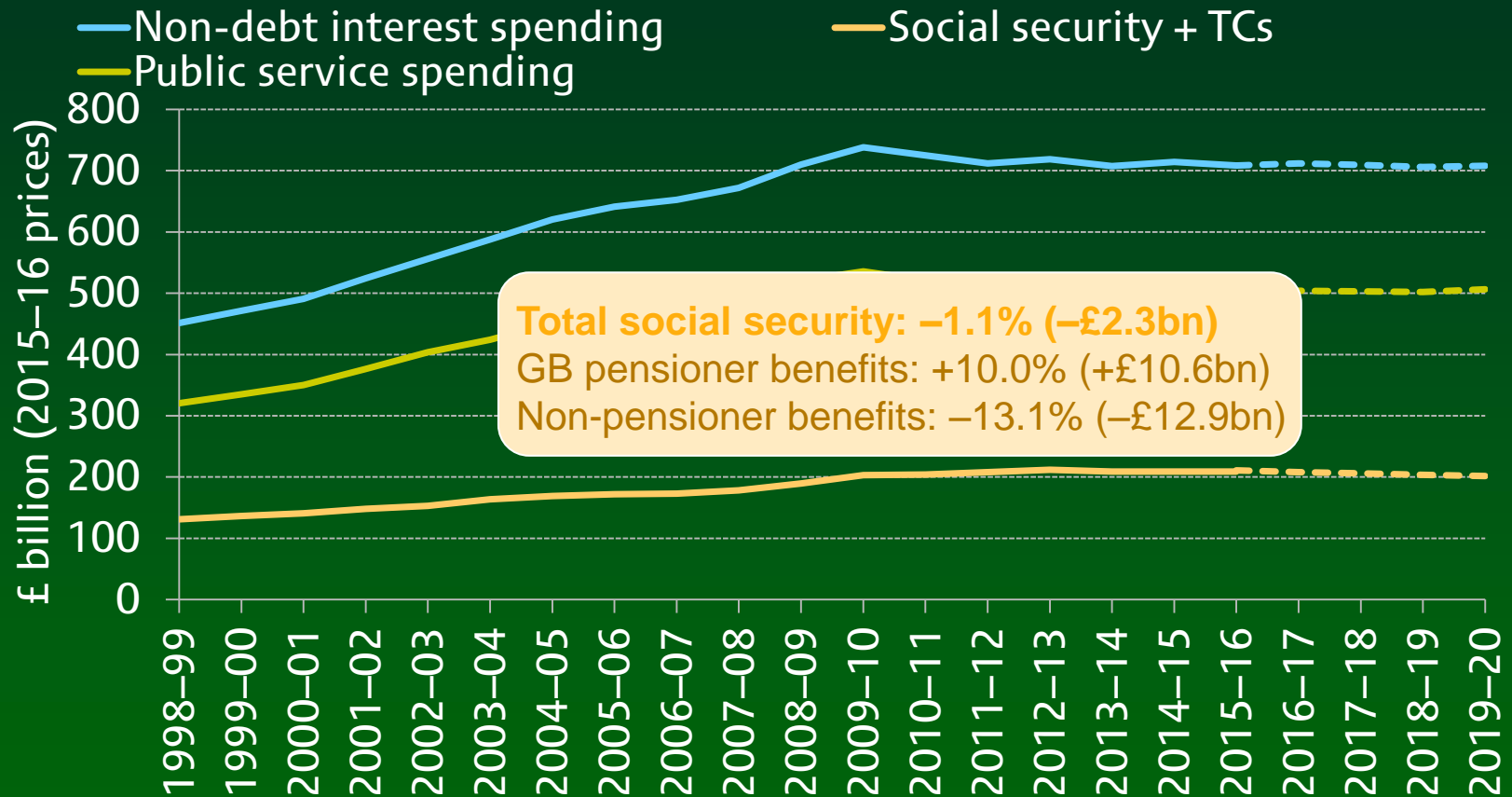
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2010–11 to 2019–20:

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Social security: -1.1% ($-\pounds 2.3\text{bn}$)

Public services: -2.8% ($-\pounds 14.4\text{bn}$)



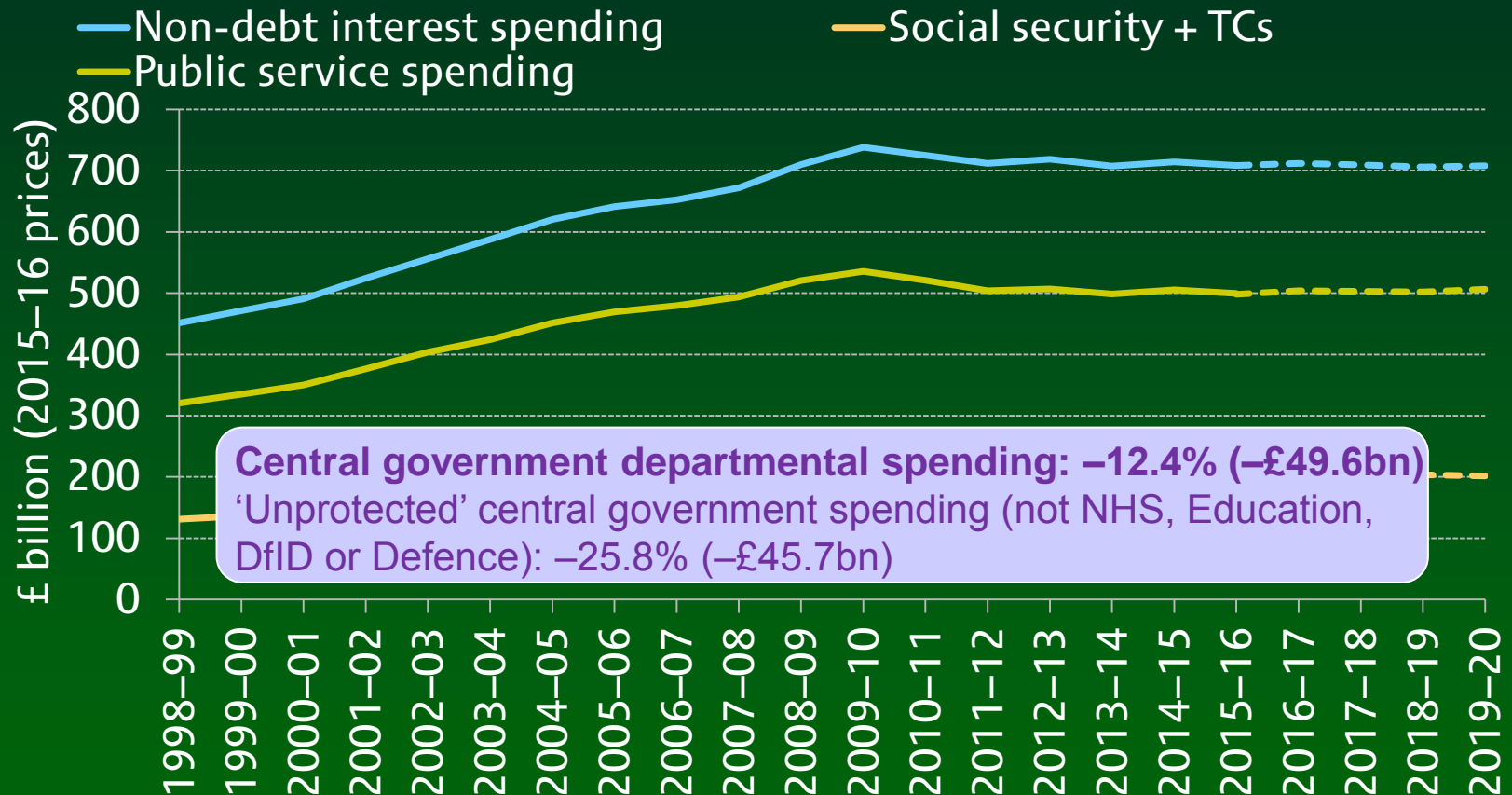
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Measures already in the pipeline (1/2)

(April 2016 unless otherwise stated)

- Benefit cuts including freeze to most working age benefits until April 2020
- 1% cut to social rents each year for four years
- 1% ceiling on public sector pay awards for four years
- Above inflation increases in personal allowance and higher rate threshold
 - to ~~£10,800~~ £11,000 and ~~£42,700~~ £43,000
- National Living Wage introduced at £7.20/hr (vs £6.70 min wage for <25s)
- Increases in company car tax
- Increases in tobacco duties
- Employment Allowance increased to £3,000
- Corporation tax rate cut to 19% in April 2017 and 18% in April 2020
 - annual investment allowance increased to be £200k
- Apprenticeship levy introduced at 0.5% of wage bill above £3 million
- Bank levy to be cut each January through to 2021
- Various temporary business rate reliefs expire during 2016



Measures already in the pipeline (2/2)

(April 2016 unless otherwise stated)

- New personal savings allowance of £1,000 for basic rate taxpayers and £500 for higher rate taxpayers
 - cash ISAs to move to a net rather than gross annual contribution limit
- New £5,000 dividend tax allowance introduced, dividend tax rates up
- Pensions lifetime allowance cut to £1m; annual allowance tapered away from £40k at £150k to £10k at £210k
- Contracting out for DB schemes ended
- Single tier pension introduced
- Inheritance tax threshold frozen until April 2021, new main residence allowance introduced at £100k in April 2017 rising to £175k in April 2020
- Increased rate of stamp duty on purchases of non-main residential property
- Mortgage interest relief for non-corporate landlords restricted to basic rate from April 2017

New policies?

- Promise to raise tax free personal allowance to £12,500 and higher rate threshold to £50,000 by 2020
 - costs £8 billion
- Low prices offer a chance to raise fuel duties
 - 1p on petrol and diesel raises c £500m
- Restriction of interest deductibility for corporation tax is on the cards
- Further relief for North Sea oil?
- Pension tax changes now look unlikely
 - changes to lifetime and annual allowances possible
- Prime Minister has said that a “Help to save” scheme to encourage those on low incomes to save will be announced
- More “stealth taxes”?

Summary

- Good reasons to aim to reduce debt as a share of national income but commitment to deliver budget surpluses from 2019–20 risky
- Outlook for public finances weakened since the Autumn
 - lower inflation, weaker outlook for earnings growth, poor stock market performance all depress receipts
- Delivering planned cuts to public service spending won't be easy
- Meeting commitment to cut income tax would come at considerable cost
- Net takeaways likely if £10bn forecast surplus in 2019–20 is to be retained



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