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Tax: what can we expect?

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UKRI Economic and Social Research Council

Already due to happen in April

Tax rises announced in Budget 2018

- Freeze income tax personal allowance, higher-rate threshold & UEL, inheritance tax threshold, VAT threshold *(£1.7bn)*
- Make larger private-sector firms responsible for determining if contractors 'employed' *(£700m)*
- Introduce digital services tax *(£400m)*
- Restrict NI employment allowance to employers with NICs bill <£100k *(£300m)*

Tax cuts confirmed since the election

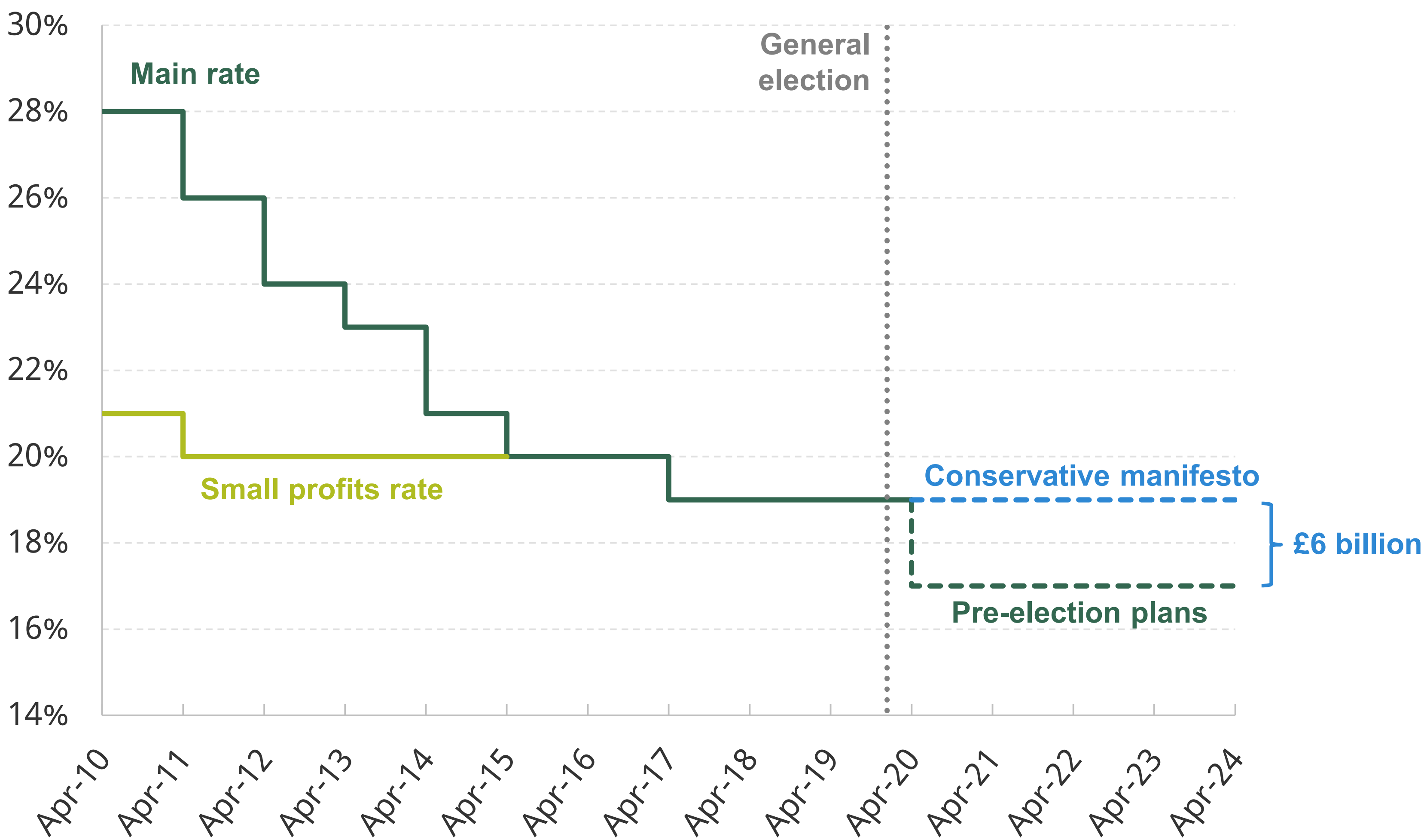
- Expand temporary business rates discount for small retailers *(one-off £300m)*
  - 50% rather than 33%, include music venues & cinemas, additional £1,000 discount for pubs
  - Still due to expire in April 2021
- Increase employee & self-employed NICs threshold to £9,500 *(£2bn)*

Increasing the NICs threshold

Threshold for employees & self-employed to rise to £9,500 in April

- vs. £8,788 if kept pace with inflation
- Taking ½ million people out of employee NICs
- Those still paying NICs see liability reduced by up to £85 per year
- Only 8% of gains go to poorest 20% of working households

Cancelling the corporation tax cut



Other manifesto promises

Tax rises

Increase immigration health surcharge from £400 to £625 and extend to EEA nationals *[£600m]*

Increase stamp duty land tax for non-residents *[£120m]*

Anti-avoidance and -evasion measures *[£200m]*

Tax cuts

Increase the employment allowance from £3,000 to £4,000 *[£500m]*

Increase capital allowance for buildings from 2% to 3% *[£300m]*

Increase the R&D tax credit for large companies from 12% to 13% and extend to cloud computing *[£300m]*

One-year NICs holiday for employers that hire people within a year of leaving armed forces *[£25m]*

Remove VAT on female sanitary products *[£15m]*

Reviews promised

"We will cut the burden of tax on business by reducing **business rates**. This will be done via a fundamental review of the system."

"We also have to recognise that some measures haven't fully delivered on their objectives. So we will review and reform **Entrepreneur's Relief**."

"we will review **alcohol duty** to ensure that our tax system is supporting British drink producers"

"A number of workers, disproportionately women, who earn between £10,000 and £12,500 have been missing out on pension benefits because of a loophole affecting people with **net pay pension schemes**. We will conduct a comprehensive review to look at how to fix this issue."

"we will address the 'taper problem' in **doctors' pensions**, which causes many to turn down extra shifts for fear of high tax bills. Within our first 30 days, we will hold an urgent review … to solve the problem."

Aspirations

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"We not only want to freeze taxes, but to cut them too"

- Public finances may limit scope for tax cuts

Tax rises tend to follow elections

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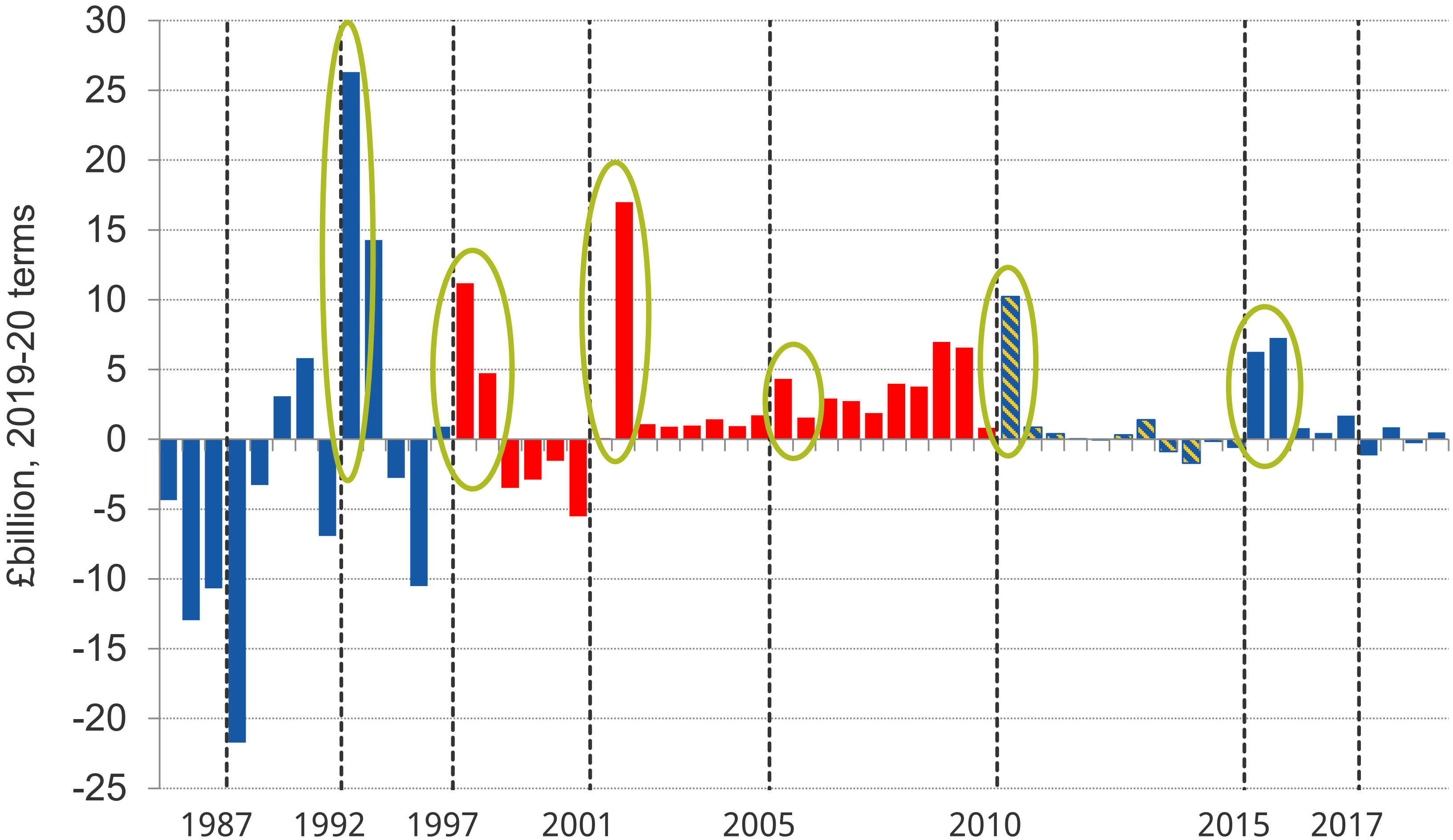

Source: Office for Budget Responsibility, *Policy Measures Database* (http://budgetresponsibility.org.uk/data/).

Aspirations

“We not only want to freeze taxes, but to cut them too”

- Public finances may limit scope for tax cuts

“We will take further action to redesign the tax system so that it boosts growth, wages and investment and limits arbitrary tax advantages for the wealthiest in society”

Entrepreneurs' relief

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Reduced CGT rate on rise in value of owner-managed businesses

- 10% rate (rather than 20% for higher-rate taxpayers), up to £10m lifetime limit

In 2017-18, 43,000 people claimed £2.3bn of relief

- Average of £50,000 each

Three-quarters went to the 5,000 people realising gains >£1m that year

- Average of £350,000 each

"I have to tell you, the Treasury is fulminating against it because there are some people who are staggeringly rich who are using that relief to make themselves even more staggeringly rich" – Boris Johnson, 17/1/20

Highly distortionary

- Encourages people to work via their own business and keep cash in it

Not well targeted at encouraging investment and entrepreneurship

Tax relief on pension contributions

Pension contributions deducted from income for income tax purposes

- Tax pension income instead

Widespread speculation that deduction could be restricted to basic rate

- Would raise about £11bn a year if pension contributions unchanged

Previous governments have reduced annual and lifetime limits instead

- Reductions implemented since 2010 raise £8bn this year

There are better places to look for revenue from pensions taxation

- 25% tax-free lump sum
- NICs exemption of employer pension contributions ***and*** pension income
- Generous income tax and inheritance tax treatment of inherited pension pots

‘Mansion tax’

Increase council tax in higher bands, or introduce separate national tax

Good arguments for increasing tax on high-value properties

- Council tax is lower % of value for high-value properties
- Efficient, as difficult to avoid or reduce liability

Revenue depends on tax rate and number of ‘mansions’ affected

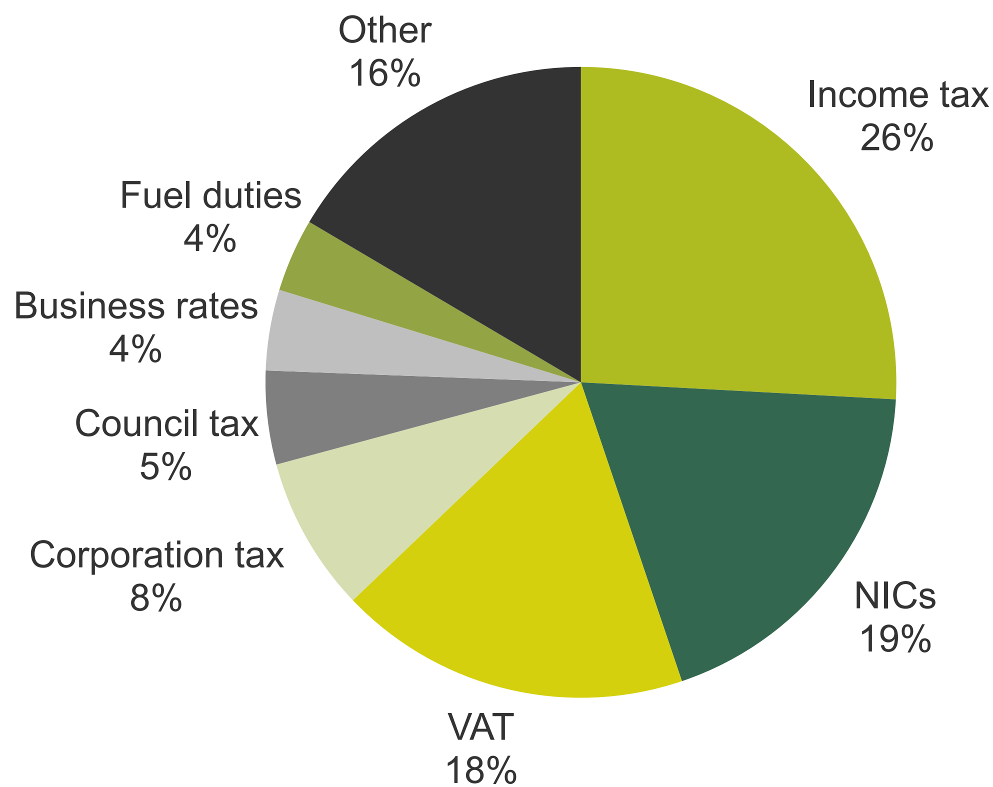
- Don’t know how many properties are worth more than e.g. £1m or £2m
- 2015 estimates of number above £2m ranged from 50,000 to 150,000
- Top council tax band (H) contains 145,000 properties (0.6%) in England

To raise £1bn, a tax on 200,000 properties must average £5,000 each

Could mitigate impact on those in valuable homes with little cash

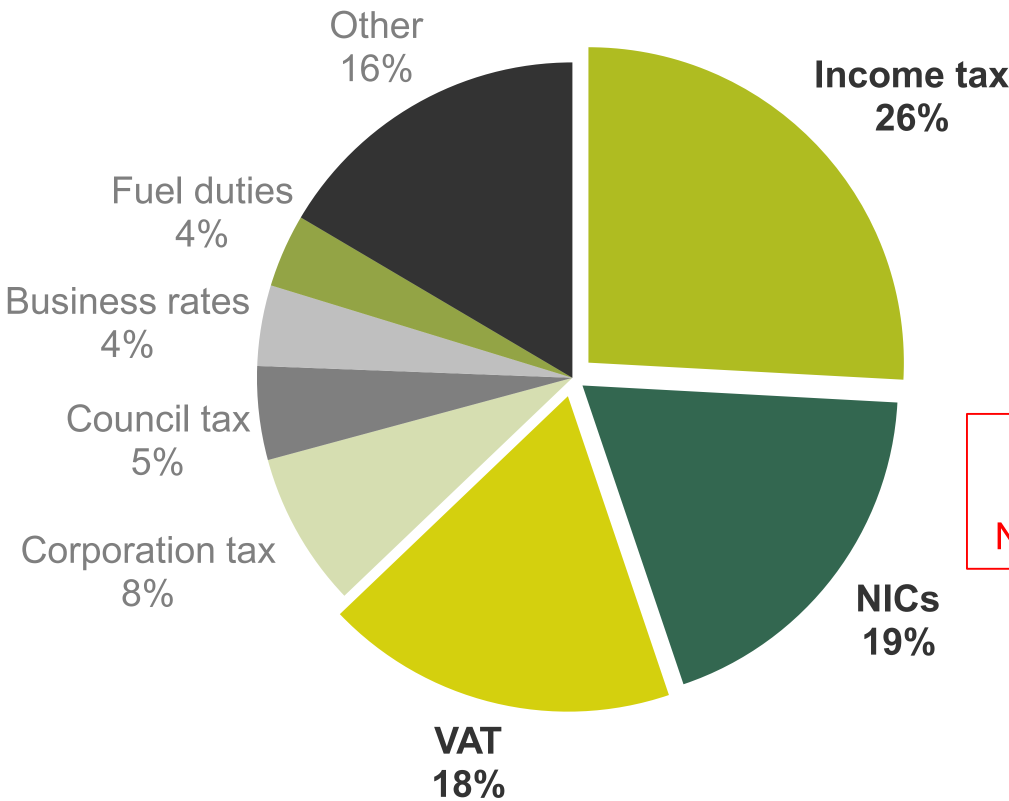
Better to reform council tax than layer a separate tax on top

Sources of UK tax revenue



Source: Author's calculations based on OBR, *Economic and Fiscal Outlook: March 2019*

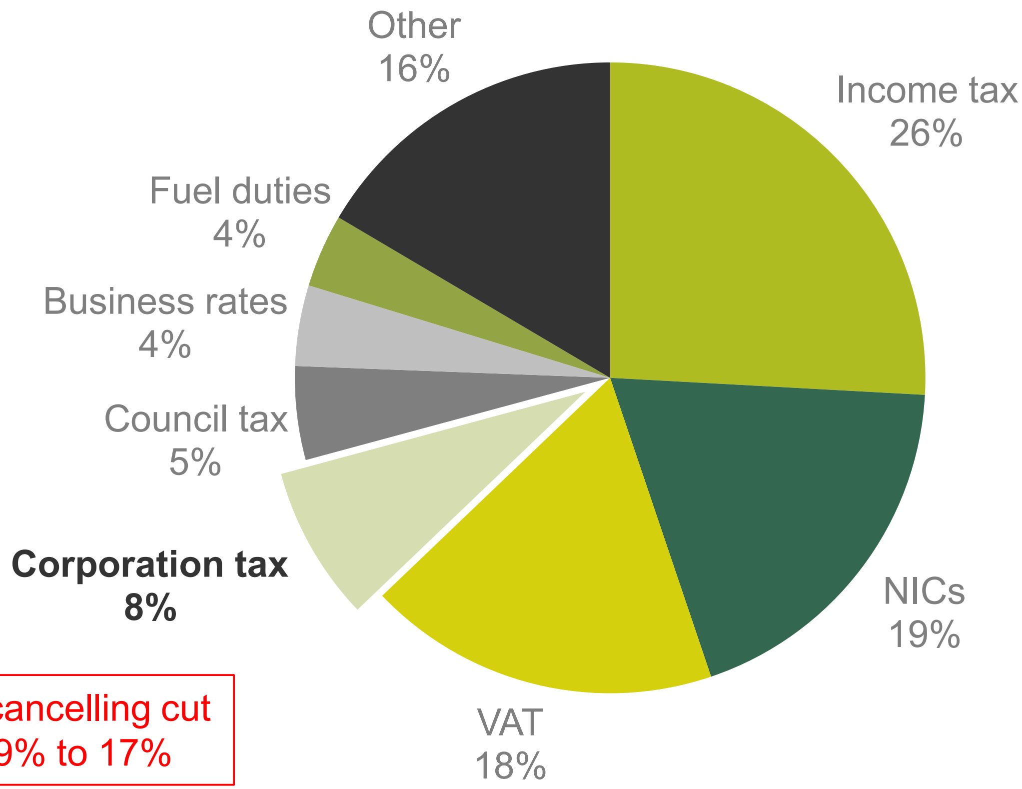
Sources of UK tax revenue



"We promise not to raise the rates of income tax, National Insurance or VAT"

Source: Author's calculations based on OBR, *Economic and Fiscal Outlook: March 2019*

Sources of UK tax revenue



Already cancelling cut from 19% to 17%

Source: Author's calculations based on OBR, *Economic and Fiscal Outlook: March 2019*

Sources of UK tax revenue

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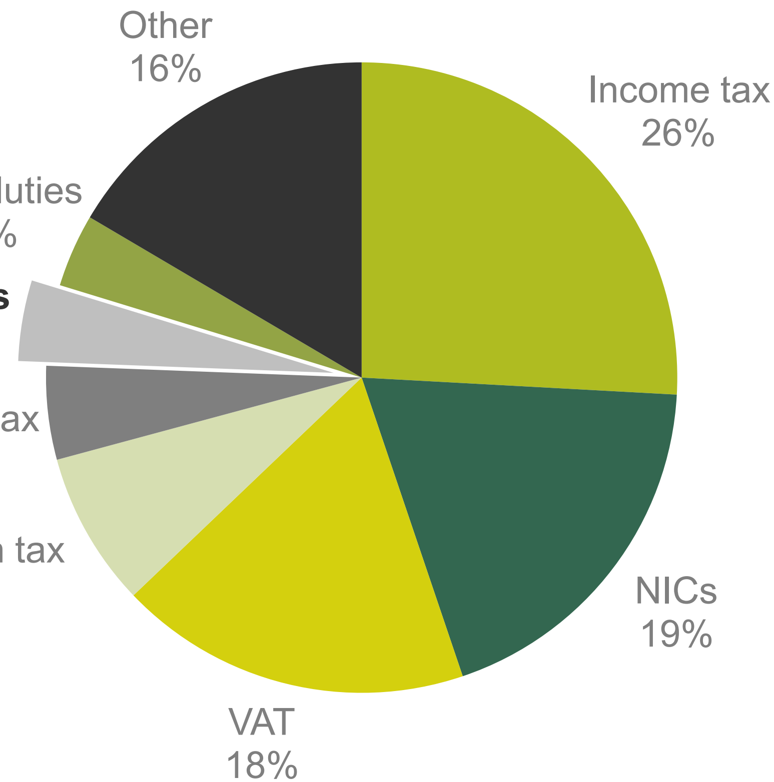
“We will cut the burden of tax on business by reducing business rates”

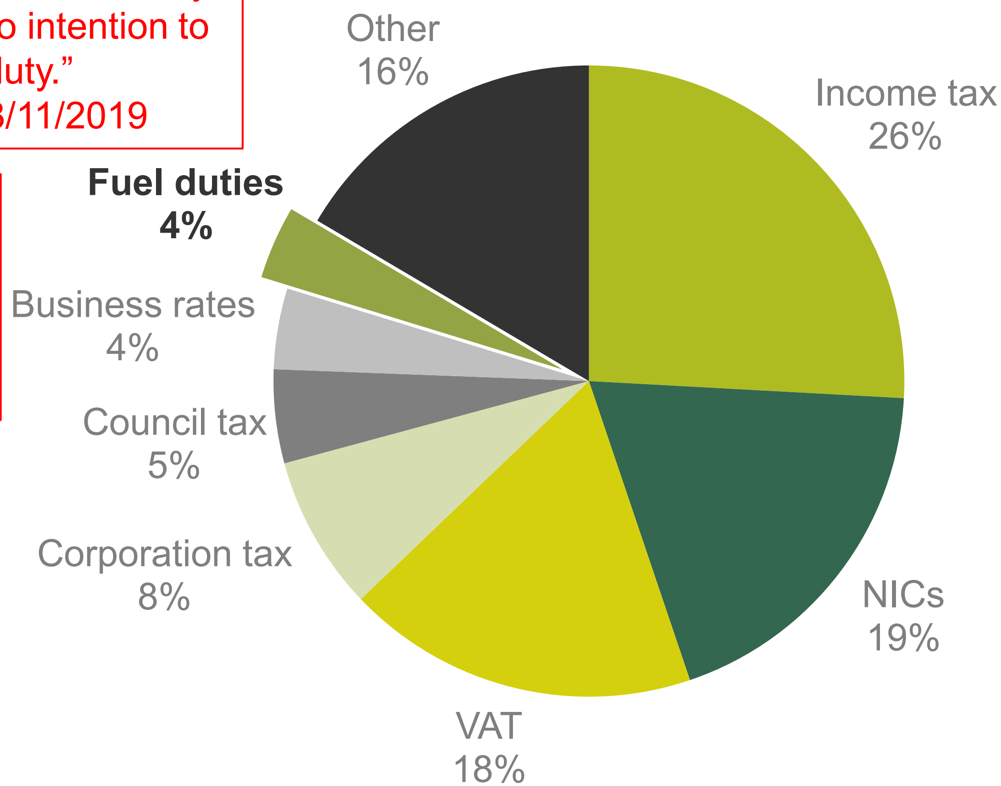


Source: Author’s calculations based on OBR, *Economic and Fiscal Outlook: March 2019*

Sources of UK tax revenue

“We don’t want to raise fuel duty, I have absolutely no intention to raise fuel duty.”
-- Boris Johnson, 28/11/2019

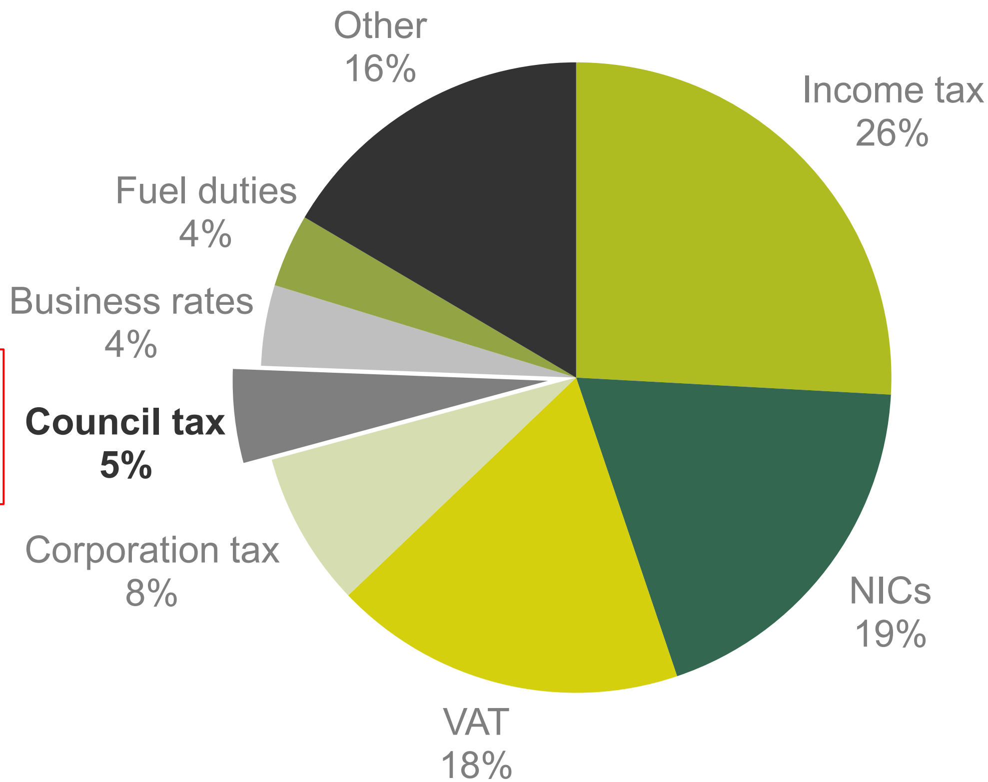
Freezing for another 5 years would cost £4bn a year (in today’s terms) by 2024-25



Source: Author’s calculations based on OBR, *Economic and Fiscal Outlook: March 2019*

Sources of UK tax revenue

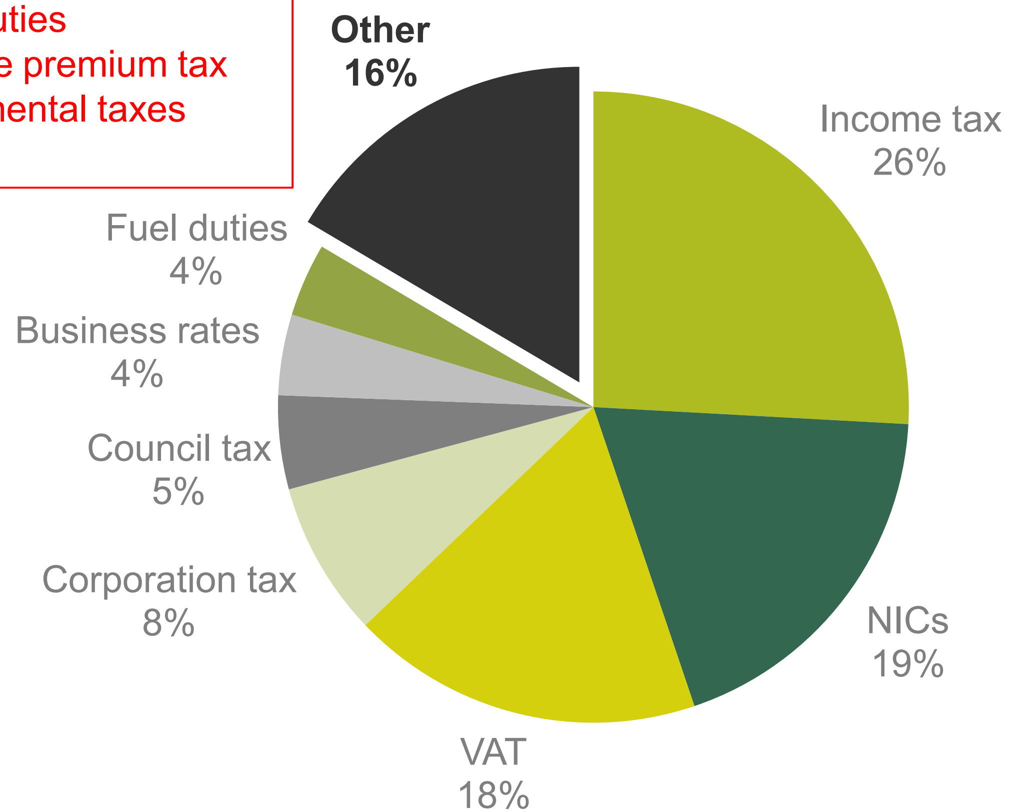
Possible source of extra revenue for councils?



Source: Author's calculations based on OBR, *Economic and Fiscal Outlook: March 2019*

Sources of UK tax revenue

Includes:
- Alcohol & tobacco duties
- CGT & inheritance tax
- Stamp duties
- Insurance premium tax
- Environmental taxes
- …



Source: Author’s calculations based on OBR, *Economic and Fiscal Outlook: March 2019*

Conclusions

Some tax changes already due to happen in April

- Cancelling the corporation tax cut provides some revenue to play with

Other manifesto commitments relatively small; little net revenue effect

But more ambitious aspirations

Government wants tax cuts, but may need tax rises

- History suggests the latter is more likely

Commitments reduce room for manoeuvre

- Scaling back tax reliefs perhaps the most obvious option

Would be nice to see a strategic approach, not just grabbing revenue where possible

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A look ahead to the March 2020 Budget

Wednesday 26 February 2020

One Birdcage Walk, London

@TheIFS

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