

# Institute for Fiscal Studies



George the Builder: he can fix it  
(just not today – he’s enjoying the Sun)

Gemma Tetlow

# Forecasting changes and tax rises boost fiscal outlook, but giveaways on spending

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# Apprenticeship levy

- Tax of 0.5% on wage bills in excess of £3m from April 2017
  - improvement on mooted exemption for firms with few employees
  - levy affects only 2% of firms, though much larger % of employees
- Forecast to raise £3.0bn in 2019–20
- Revenue hypothecated to pay for apprenticeship vouchers
  - money ring-fenced within departmental spending in England
  - value of voucher linked to levy payment, but non-paying firms still eligible for some vouchers
  - details of the vouchers still to come
  - is it sensible for apprenticeship funding to rise and fall as earnings do?

# Apprenticeship levy

- Tax on employment and earnings in large firms
  - OBR: ‘the majority of the incidence assumed to fall on wages by the end of the forecast period’
- Vouchers encourage qualifying apprenticeship training
  - insofar as voucher exceeds what firm would otherwise have spent on apprenticeship training
  - excessive encouragement? Training apprentices free (up to a limit)
  - at expense of non-qualifying training (e.g. in-house training)?
  - efforts to get things reclassified as qualifying apprenticeships?

# Stamp duty land tax on housing transactions

- Additional 3% SDLT for housing bought for >£40,000 from April 2016 and not intended to be buyer's main home
  - Aimed at 2<sup>nd</sup> homes and buy-to-let
  - Exemption for e.g. corporate landlords with >15 properties: consulting on detail
- Raises £0.8bn in 2019–20

# SDLT reform: some likely effects and questions

- Rush to purchase properties before April 2016
- At the margin, will:
  - raise owner-occupation rate: fewer rented and 2<sup>nd</sup> homes
  - reduce house prices and therefore discourage development
  - increase rents
- More big corporate landlords rather than individuals
  - big corporates exempt ‘given the role of this investment in supporting the government’s housing agenda’
- Boundary issue: what counts as someone’s main home?
  - for example: what if I buy a new home to live in and then subsequently let it out?



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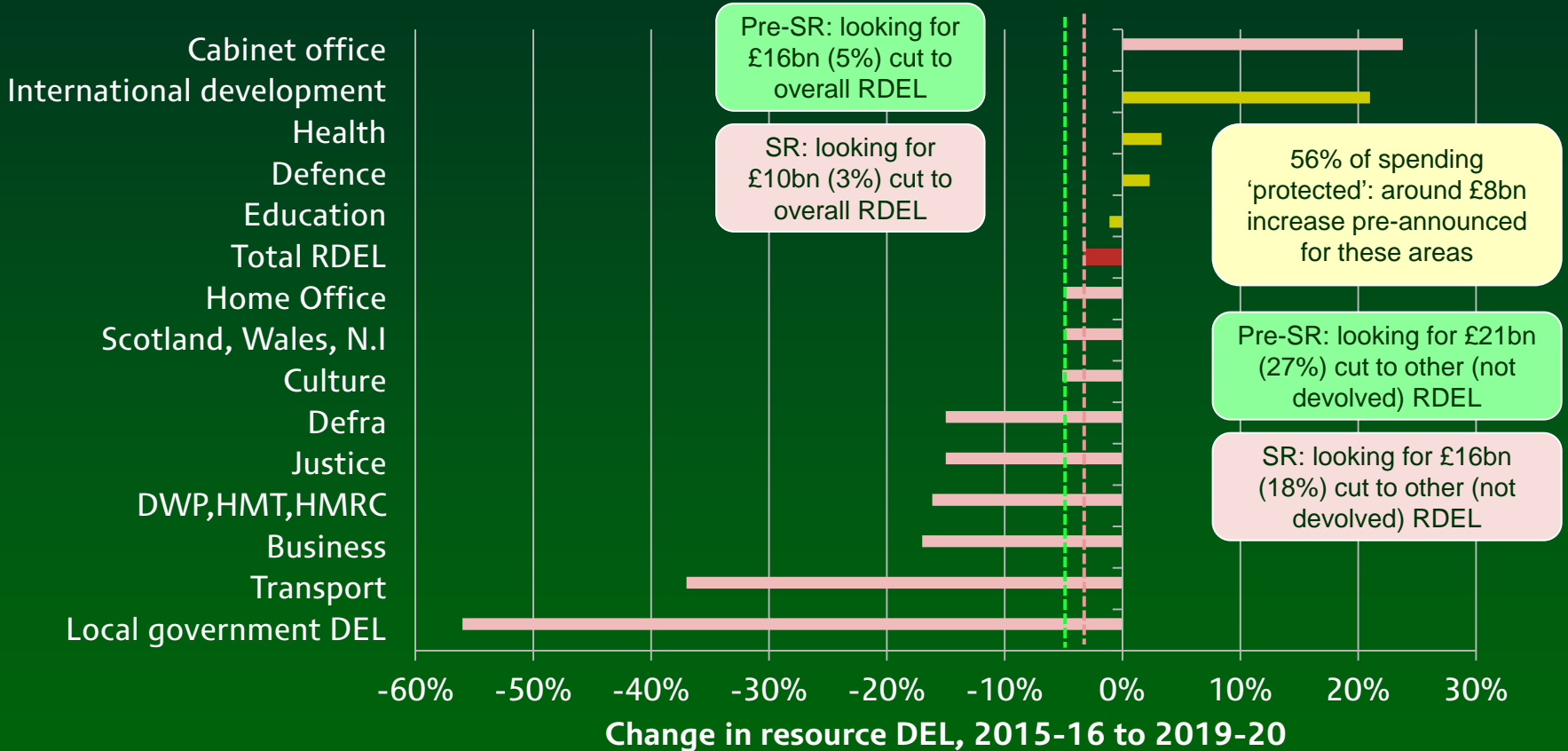
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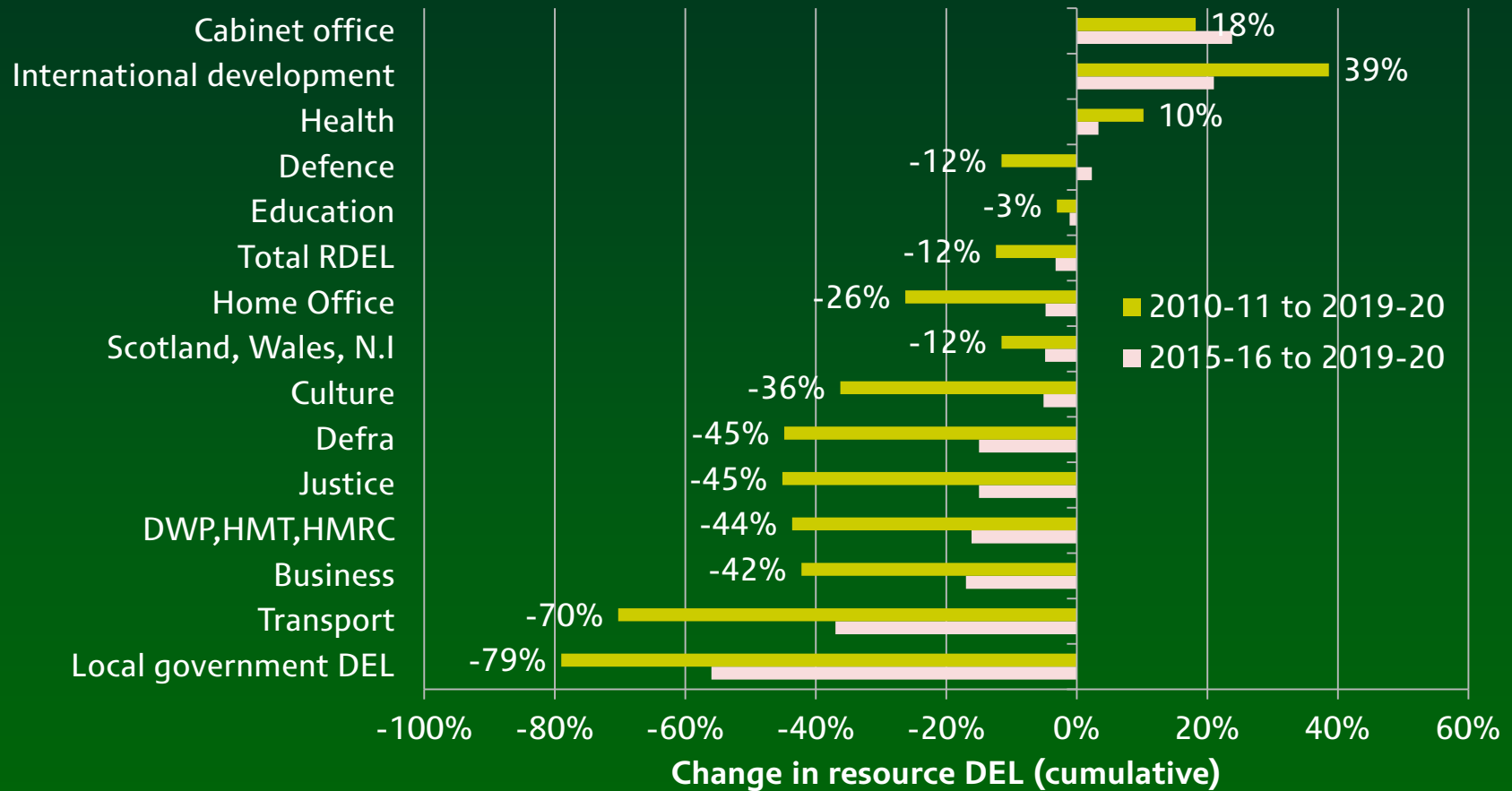
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<i>Other adjustments</i>	0.0	1.4	1.7	3.8	5.2	8.1
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# Day-to-day spending cuts: 2015-16 to 2019-20

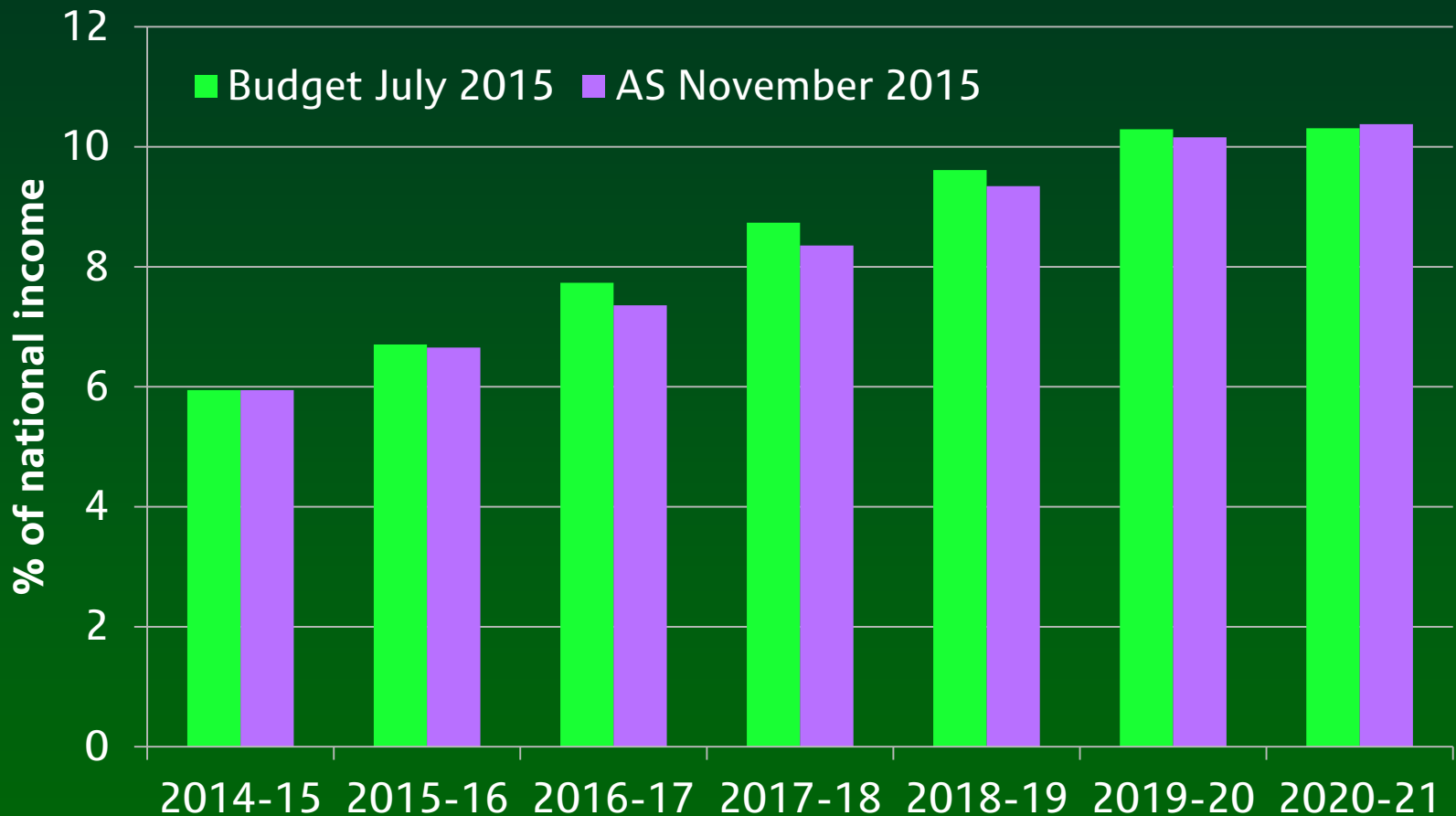


# Day-to-day spending cuts since 2010-11



# Overall yesterday's announcements implied a slower pace of fiscal consolidation...

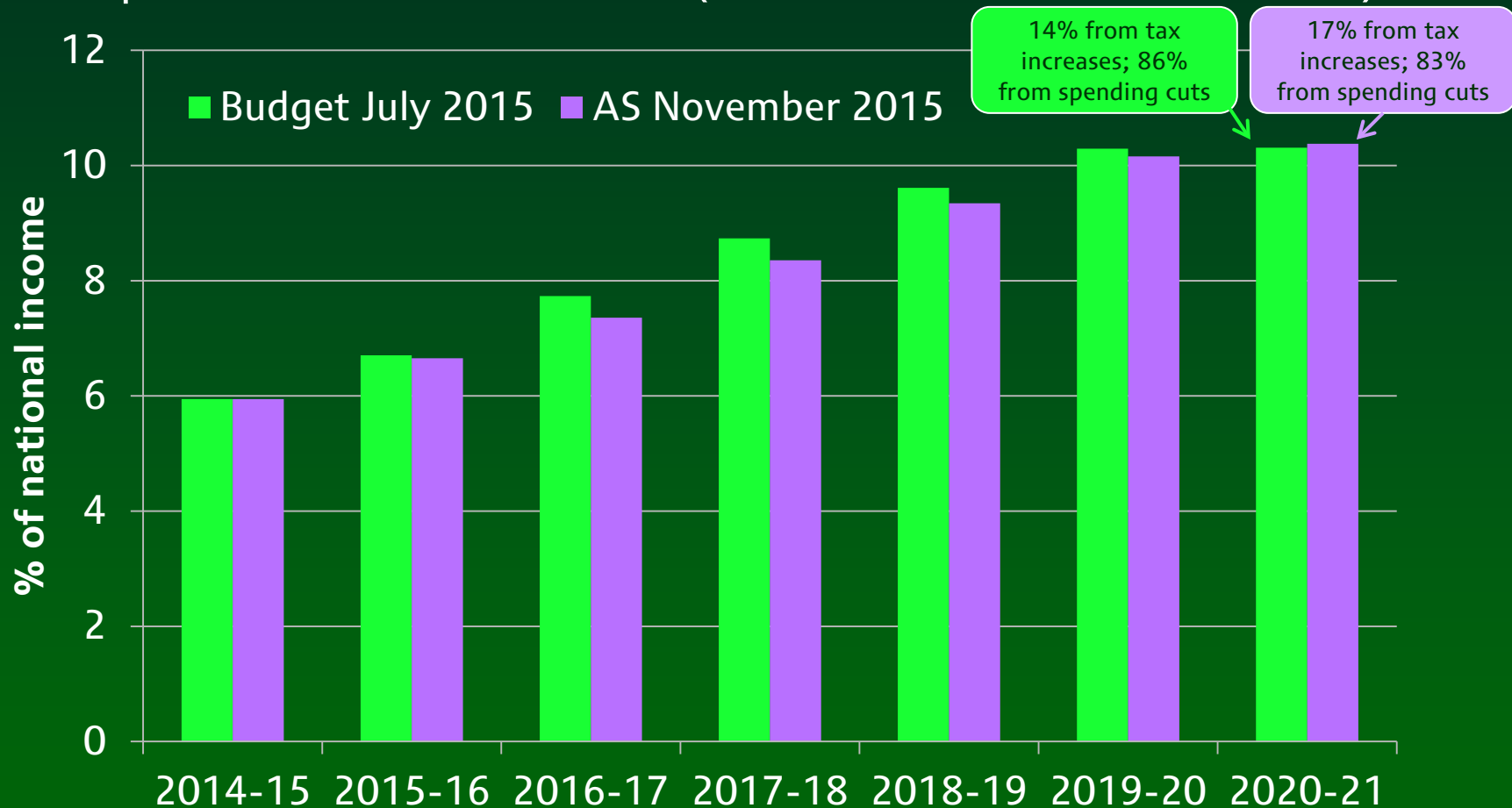
Total planned fiscal consolidation (new measures since March 2008)





# ...with slightly greater reliance on tax increases

## Total planned fiscal consolidation (new measures since March 2008)



# Welfare cap

- Covers future spending on “welfare-in-scope”
  - social security and tax credit spending less state pension, JSA and JSA passported housing benefit
- Cap breached if projected spending on welfare-in-scope
  - rises above the cap as a result of a policy change or rises above a 2% forecast margin as a result of a forecasting change
  - and not if spend above the cap due to classification changes
- Assessment made in every Autumn Statement
- Budget 2014 set welfare cap limit in line with OBR forecast
  - Autumn Statement 2014 spending deemed to be within cap
- July 2015 Budget reset welfare cap limit in line with post measures OBR forecast

# Welfare cap: falls at the second hurdle

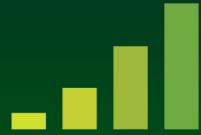
- 2016–17, 2017–18, 2018–19
  - cap breached due to tax credit reversal
- 2019–20 and 2020–21
  - OBR deems cap to be observed
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  - in 2020–21: increases in forecast spending (in particular, on disability benefits) would have been sufficient to breach cap
  - reversal of tax credit policies further increased spending in both years, breaching cap in 2019–20
  - but deemed to ‘observe’ cap because shifting funding for temporary accommodation from AME to DEL has been deemed a policy change rather than a reclassification
  - raises issue that distinction between policy change/forecast change/reclassification not always clear cut

# Summary

- Fiscal forecasts improved
- Three large new tax increases
- Osborne chose to give most of this extra money away
  - reversed cuts to tax credits (but not Universal Credit) and eased cuts to ‘unprotected’ spending areas
- Total day-to-day spending on departments to be cut less quickly over this parliament than last
  - but many departments still facing large cuts: e.g. transport and justice
- Size of total fiscal consolidation the same by 2020–21 but...
  - pace of consolidation slower over next few years
  - composition of fiscal tightening now more reliant on tax increases
- Fiscal rules: breached the welfare cap



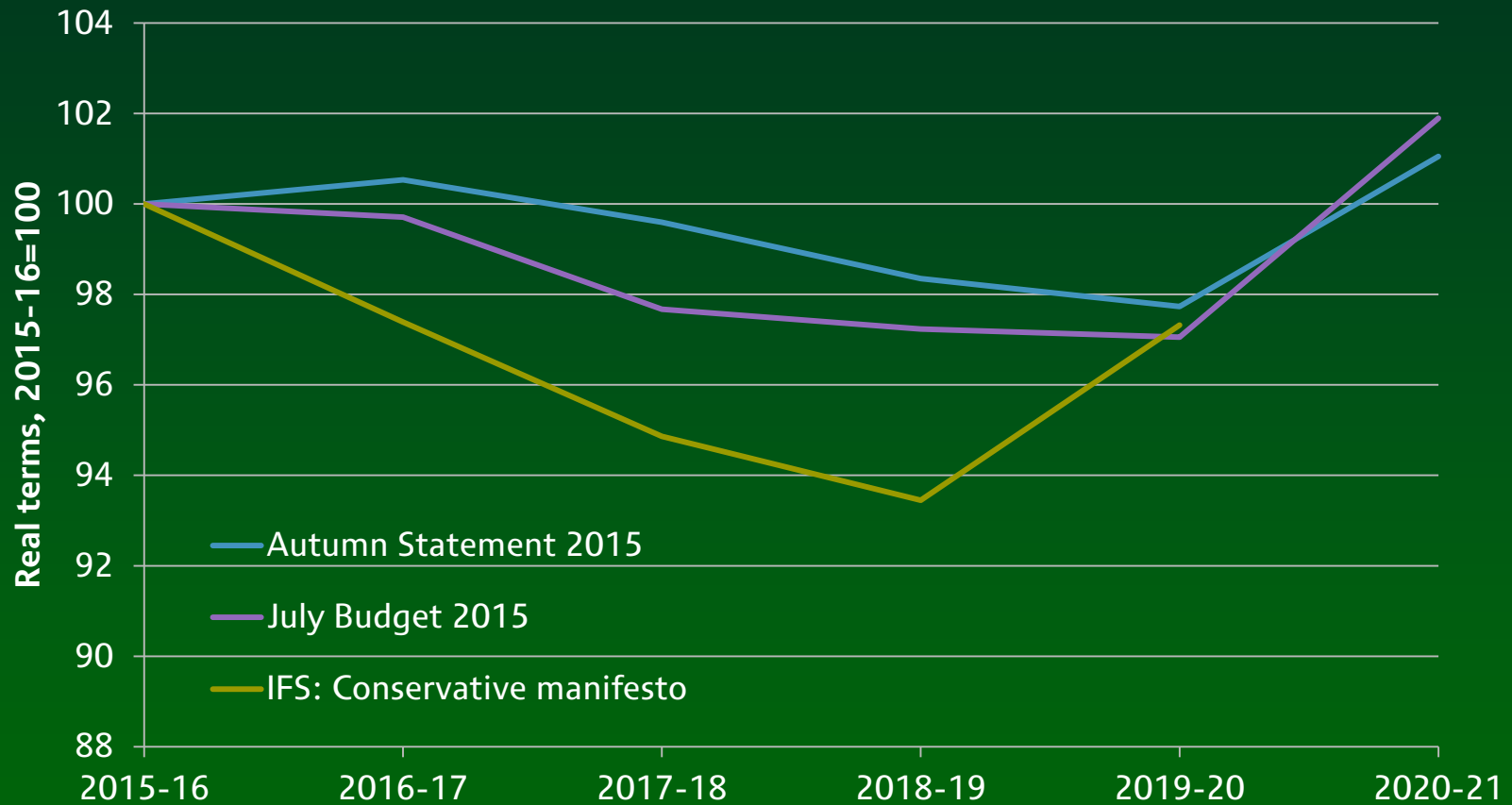
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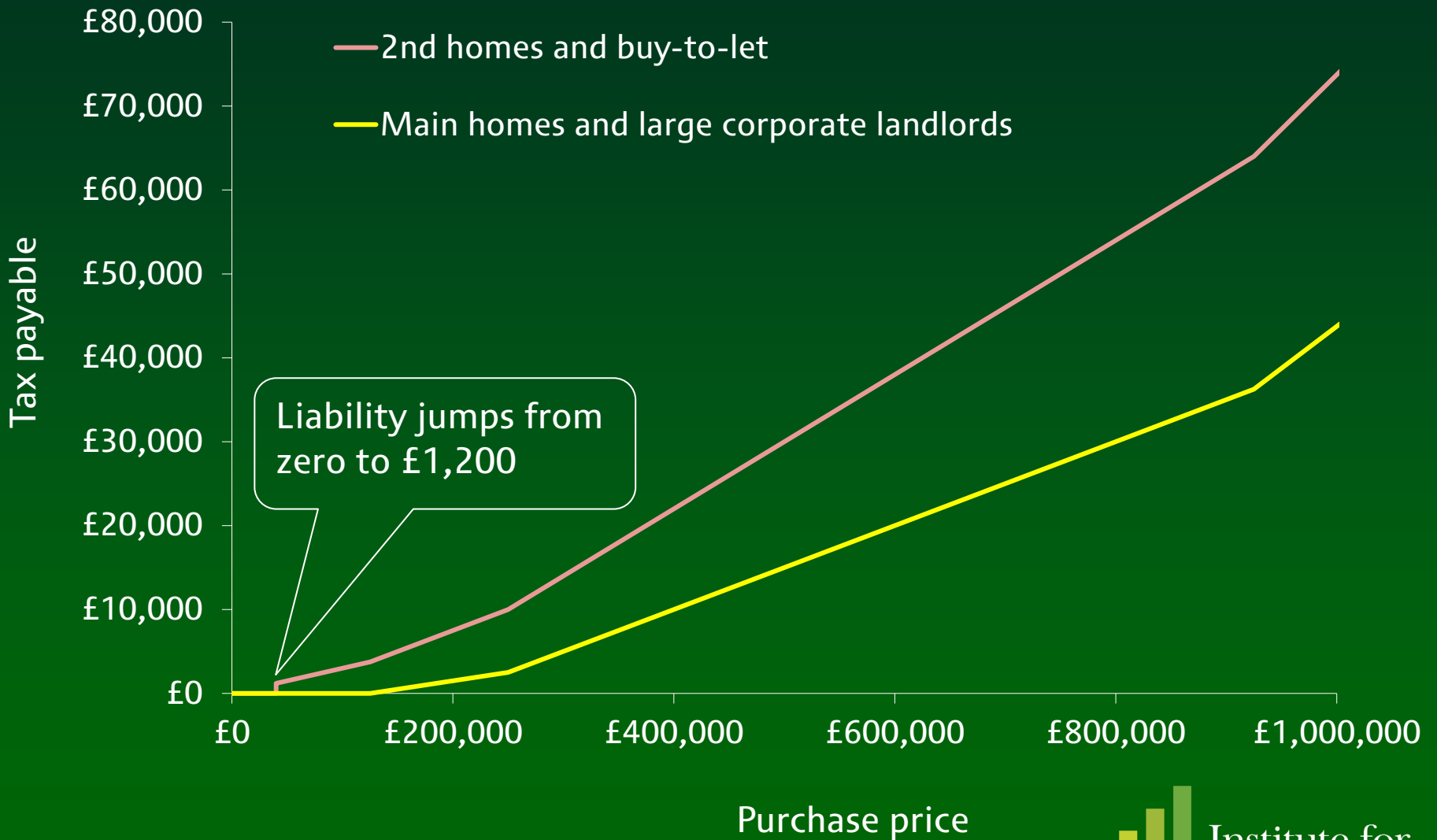
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# Change in total DEL

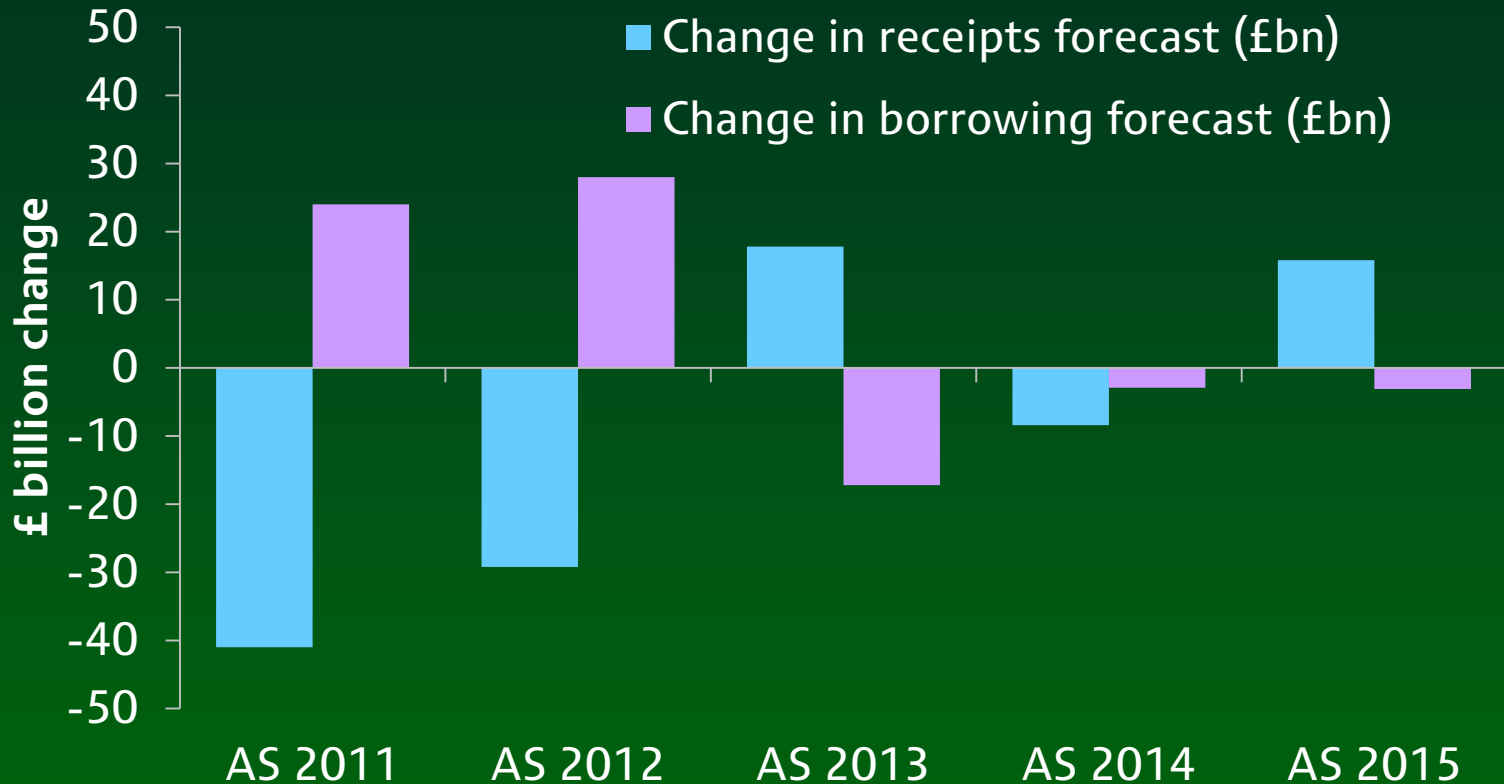


# Stamp duty land tax on housing transactions





# Asymmetric approach to roof repair?



Notes: Change refers to change from previous forecast. In all cases figures refer to the last year of the forecast horizon.

Sources: Authors' calculations using figures from the Office for Budget Responsibility.