TaxPayers' Alliance

Budget 2018 – TaxPayers' Alliance briefing

Response to the budget statement

The chancellor was right that 'ending austerity' should not mean tax hikes, and mostly resisted the temptation to squeeze families and businesses for even more.

Increases in the personal allowance and higher rate income tax thresholds, with freezes to taxes on beer, cider, fuel and short-haul flights, will give much-needed breathing space to hard-pressed taxpayers.

That said, the tax burden overall will be still be increasing. And to truly seize the opportunities afforded by Brexit, we should be looking at a much more serious and overdue reform of the tax code.

A much simpler and less burdensome tax system would encourage higher growth and help prepare Britain's economy to meet the demands of a new age.

Response to the leader of the opposition's statement

Seeing members of the shadow cabinet shaking their heads at tax cuts for hard-pressed families was disappointing indeed. Socialists can't seem to imagine a budget without tax rises.

But Mr Corbyn's claim that the budget contained 'tax cuts for the richest in society' is at odds with the increase to the personal allowance, a move that will benefit millions of lower and middle-income earners.

The end of austerity doesn't need to mean more punishing tax hikes. Instead of assuming that they know best how to control other people's money and pledging a thousand billion pounds of more spending, Labour should trust that families and businesses are smart enough to spend their cash in the best way for them.

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Bringing forward the rises in the personal allowance and higher rate threshold:

A recent economic success story has been the 'employment miracle', due in part to cutting tax for low earners with a higher personal allowance. So it's great to see the chancellor giving millions of low earners a tax cut so we can all enjoy more of the money we earn. In Wales, the North East and the East Midlands, the £130 cut will mean **7 per cent lower income tax bills next year for median earners** (see table 1 below).[1]

The £130 reduction is equivalent to 260 special 50p coins to mark Brexit.

Table 1: median gross annual earnings in 2018 by region, with income tax liability in 2018-19 and 2019-20

Region	2018 median earnings (£)	Income tax, 2018-19 (£)	Income tax, 2019-20 (£)	Reduction (%)
Wales	21,630	1,956	1,826	6.6
North East	21,636	1,957	1,827	6.6
East Midlands	21,762	1,982	1,852	6.6
Yorkshire and the Humber	21,803	1,991	1,861	6.5
Northern Ireland	22,016	2,033	1,903	6.4
South West	22,223	2,075	1,945	6.3
North West	22,564	2,143	2,013	6.1
West Midlands	22,827	2,195	2,065	5.9
East	23,400	2,310	2,180	5.6
South East	25,000	2,630	2,500	4.9
London	32,976	4,225	4,095	3.1
England	*24,299*	*2,490*	*2,360*	*5.2*
England and Wales	*24,114*	*2,453*	*2,323*	*5.3*
United Kingdom	**24,006**	**2,431**	**2,301**	**5.3**

And after a long squeeze on the higher rate threshold which has dragged millions into the 40 per cent tax bracket, raising threshold is a welcome relief.

A worker earning median annual earnings of £24,006 will pay income tax at 20 per cent on the £11,506 above the new £12,500 personal allowance next year. That would equate to £2,301. In 2009-10, the personal allowance was £6,475, so income tax on earnings of £24,006 would have been £3,506. **In other words, the bill would have been £1,205 (or 52 per cent) higher.**

Fiscal drag

The faster rise in the income tax personal allowance by 5.5 per cent from £11,850 to £12,500, and the higher rate threshold by 7.9 per cent from £46,350 to £50,000 next year are very welcome.

However, the assumptions which have dragged millions into the punishing higher rates of tax remain in place.

[1] Earnings data from Work Geography Table 7.7a in ONS, *Annual Survey of Hours and Earnings*, 25 October 2018

In the following year, the both figures will remain frozen, meaning that when next year's rises are spread over both years, the personal allowance will only increase by an annualised 2.7 per cent, and the higher rate threshold by an annualised 3.9 per cent. Both will then revert to increasing in line with inflation, **dragging more low-paid people into tax and more middle earners into higher rate tax as earnings rise faster than prices**.

This effect can be seen in the OBR's forecasts for income tax revenues (see table 2 below). As a share of the economy, they drop to 8.8 per cent next year, reflecting the more generous allowance and threshold. But then, over the next four years, they will creep up to 9.1 per cent. **By contrast, national insurance thresholds, which are also linked to inflation, demonstrate a much slower rise.** This is because the higher rate of national insurance (2 per cent) is lower than the standard rate (12 per cent), which means that while rising wages translate into more low earners paying national insurance, as higher earners pass the upper earnings limit they pay a smaller fraction of their additional earnings.

Table 2: income tax and national insurance receipts as a share of GDP (%)[2]

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Income tax	8.9	8.8	8.9	9.0	9.0	9.1
National insurance	6.4	6.5	6.5	6.5	6.5	6.6

Air passenger duty

The chancellor was right to hear our campaign and freeze short-haul duties, but flyers will be bitterly disappointed that he failed to freeze or cut long haul air passenger duty. English regional airports, and Northern Ireland in particular, lose out as flyers go elsewhere for cheaper tickets. **Cutting APD across the board would have been exactly the kind of boost Brexit Britain needs.**

For example, a Norwegian Air one-way flight to New York costing £155 currently includes duty at £78. After the increase to £80 comes into effect (from April 2020), over half the £157 ticket cost would be the duty.

For further information see the TPA's Air passenger duty tax briefing note.

Alcohol, tobacco and fuel duties

Drinkers will raise a cheer to news that duties on beer, cider and spirits will be frozen next year. Drivers too might beep their horns in appreciation that their duty is also frozen. **These freezes have welcome implications for the cost of living.**

But it seems harsh to single out among drinkers those who enjoy a glass of wine for punishment. And smokers, too, already pay excessively for government permission to light up.

For example, the average price of a packet of 20 king size filter cigarettes was £10.25[3], of which £7.75 was taxes (VAT of £1.71) and duty (£6.04) before the budget. For a retailer to retain their

[2] OBR, *Economic and fiscal outlook*, October 2018
[3] ONS website, *RPI: Ave price - Cigarettes 20 king size filter*, available at: https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/czmp [accessed: 30 October 2018]

£2.50 after taxes and duties, the price would rise to £10.57, of which £8.07 would be taxes (VAT of £1.76) and duties (£6.31). Duty on a 75cl bottle of wine will rise by 7p to £2.23, meanwhile.

For further information see the TPA's tax briefing notes on alcohol, tobacco and fuel duties.

Apprenticeship levy

The apprenticeship levy is essentially another income tax but with a different set of rules, rates and thresholds, bloating the tax code as it destroys jobs and investment. The chancellor should have just abolished it.

For further information see the TPA's Apprenticeship levy tax briefing note.

Digital services tax

The double whammy of paying both VAT and a special online tax will drive up prices for buying things on the web. Online businesses help drive down costs for consumers and many innovative micro businesses just wouldn't exist without the internet. The chancellor said his 'tech tax' will be devised so that it won't hit consumers but that just isn't realistic.

A whole new tax means lots more rules, thresholds and rates for the accountancy and legal professions to get stuck in to. But at more than 25,000 pages long, we shouldn't be adding to their mammoth *Tolley's Tax Handbooks* with even more complexity and confusion. **We should be simplifying the tax system by abolishing rates, reliefs and even entire taxes.**

Dynamic modelling

Whenever the treasury trials 'dynamic' modelling - looking at the wider effects to the economy of lowering taxes on business and families - it finds that tax cuts encourage investment and growth, substantially reducing the impact on government finances.

This has been true for both corporation tax cuts, which has coincided with massively increased business tax revenue, and the freeze in fuel duty, which has saved families a small fortune while growing the economy. These were very welcome steps.

It's time for the government to look at the **dynamic effects of cutting other tax cuts, starting with Britain's sky-high air passenger duty and stamp duty**. Starting a programme to implement more dynamic modelling need not be announced at a budget, but it is something the chancellor should get on with.

Entrepreneurs' relief

The chancellor was right to retain entrepreneurs' relief, but **the desired results could be better achieved with simple and sensible reforms.** But instead of tightening the criteria for eligibility, he should just abolish capital gains tax, which shouldn't exist in the first place.

Alternatively, scrapping the higher rates would eliminate the need for this relief and its fiddly rules, by extending its 10 per cent rate to all investors and assets.

For further information see the TPA's tax briefing note on capital gains tax.

Housing and planning reform

Anything other than getting more homes built is just tinkering around the edges of the problem. The only way to get more built is by allowing taller, denser urban buildings and releasing some of the green belt so that land with permission becomes cheaper. Building on just 5 per cent of the London green belt would allow it to grow by almost a sixth.

The budget is right to echo TaxPayers' Alliance research on productivity by noting that building "more homes in the right places is critical to unlocking productivity growth and makes housing more affordable", but its assorted spending measures are unlikely to achieve its ambition.

For further information see the TPA's Productivity dirty dozen: 12 policy failures.

Land value uplift

Any reform must consider all the existing taxes holding back development, including section 106 agreements, the community infrastructure levy and stamp duty.

Allowing councils to siphon off more of the gains developers create may well prompt them to be more careful about saying 'no' to much-needed development, but we don't want to choke off the incentives for developers to navigate our bureaucratic planning system in the first place.

Local authority housebuilding: remove borrowing cap

The OBR has estimated that removing housing revenue account borrowing caps for local authorities will allow an extra £1.2 billion of spending on council housebuilding a year. Costly housing is a serious problem but the UK has the second highest level of social rented housing in Europe (after Slovenia). We don't have low levels of social housing and our high levels aren't why housing is expensive.

Restrictive planning is the root cause. Spending more taxpayers' money building council houses just means that councils will squeeze developers out of viable sites, presumably by paying more for the land.

National debt

Ten years on from the crisis, public sector net debt stands at over £1.8 trillion. As a percentage of GDP, this debt has peaked and is forecast to fall to 74 per cent on the assumption of another five years of economic growth.

Let's hope that we don't run into economic turbulence, because entering into a recession with debt levels already at around 80 per cent of GDP may prove to be very tricky.

Productivity and growth

Productivity and economic growth since the financial crisis has floundered in the west but especially so in Britain. The research shows that productivity is harmed by tax, regulation and spending – particularly current spending.

The budget is right to echo TaxPayers' Alliance research on productivity by noting that building "more homes in the right places is critical to unlocking productivity growth and makes housing more affordable" and to stress the importance of productivity in many places in the red book, but its assorted spending measures on housing and productivity are unlikely to achieve its ambition.

Public sector net investment will remain low, at 2.2 per cent of GDP, while current spending will remain high at 34 per cent. **The tax burden, meanwhile, is forecast to remain at a historically high plateau of between 34.4 and 34.6 per cent of GDP.** The last time it was this high was one year in 1969-70, and then before that in 1950 and before, when the government was winding down war-time programmes.

For further information see the TPA's Productivity dirty dozen: 12 policy failures.

Potholes and road repairs

Britain's roads are in a terrible state so the announcement to fund £420 million for local authorities to tackle potholes and repair roads and bridges is welcome. **Unglamorous transport projects like this are what taxpayers expect for their money, not white elephants like HS2.**

For example, with 14,420km of minor roads in England classed as requiring maintenance, the £420 million equates to £29,126 per km, assuming none of it is spent on A roads or motorways.

Single use plastic (McTaxes)

The chancellor's decision not to impose 'McTaxes' is a relief for taxpayers. They would have destroyed jobs and increased the pressure on family budgets at a time when the cost of living is already squeezing taxpayers hard. **The cost would be passed straight onto consumers through higher prices on everything, from a simple vending machine cuppa to a milkshake with your burger.**

For example, a 25p levy on takeaway cups could have effectively doubled the average vending price for hot drinks (27p per cup).

Families on the lowest incomes certainly wouldn't be lovin' it.

Stamp duty

Stamp duty is still an appalling tax set at punitively high rates and is wreaking havoc on housing markets. Gimmicky tweaks, like the surcharge on additional properties, ultimately end up penalising tenants and increasing rents. It complicates the tax system, distorts the housing market and may not even raise much revenue **so it's disappointing that the chancellor has done almost nothing to fix the problem in this budget.**

The average UK property price was £249,748 in August 2018, and would land the buyer with a £2,494 stamp duty bill. In London the average price was £486,304, landing buyers with a £14,315 stamp duty bill.

For further information see the TPA's Stamp duty tax briefing note.