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RESEARCH NOTE 5

THE REAL COST OF GORDON BROWN

The impact of Gordon Brown

As we approach this week's Pre-Budget Report, the TaxPayers' Alliance has produced new research highlighting the real cost of Gordon Brown for taxpayers across the country. Gordon Brown has presided over a massive rise in the tax burden (from 39.3 to 42.2 per cent of GDP) to pay for his spending increases. If this had not happened, and the tax burden had remained at its 1997 level, taxpayers would have been able to keep far more of their own money:

- If the tax burden had stayed at its 1997 level, the **basic rate of income tax could now be 10 per cent**, instead of its current 22 per cent rate.
- This would save a taxpayer on average earnings over **£2,000 this year alone**.

This note also shows that had Britain followed the OECD trend of a falling tax burden, the savings for taxpayers would have been even greater:

- If Britain's tax burden was now at the OECD average for this year (38 per cent of GDP), **the basic rate of income tax could now be just 4 per cent**, saving a taxpayer on average earnings over **£3,000 this year alone**.

Corin Taylor, Head of Research at the TaxPayers' Alliance, said:

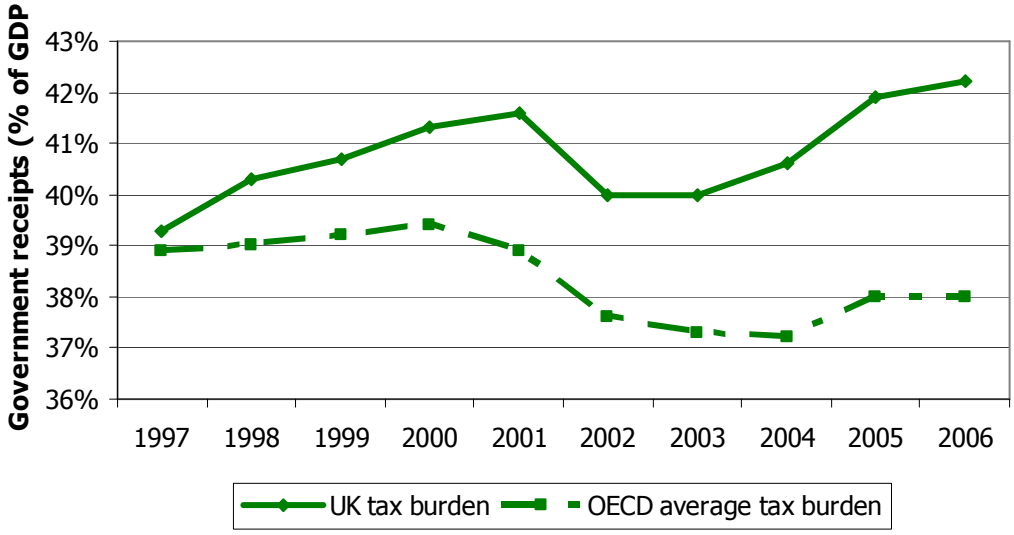
> *"Gordon Brown has argued that people have benefited from his spending rises on public services. But these have come at a cost in the form of large tax increases and huge deficits. If the tax burden was at its pre-Gordon Brown level, the basic rate of income tax could now be 10 per cent, saving a taxpayer on average earnings over £2,000 this year.*
>
> *"Tax reductions of this size can still be achieved if government waste is cut and politicians are removed from the management of services. This would both improve public services and allow peoples' tax bills to be reduced."*

The rise in the tax burden

OECD data shows that the tax burden in the UK has risen by 2.9 per cent of GDP since Gordon Brown became Chancellor. In 1997, government receipts stood at 39.3 per cent of GDP. This year they account for 42.2 per cent of GDP.

By contrast, the OECD average tax burden has fallen, from 38.9 per cent in 1997 to 38 per cent of GDP in 2006.

Chart 1: Rising tax burden in the UK, falling tax burden in the OECD



Britain's tax burden would have had to rise even further had Gordon Brown not been able to borrow to fund part of his spending increases. Without borrowing, the impact of Gordon Brown on today's taxpayers would have been even greater. As it is, the borrowing will have to be paid for by taxpayers in the future.

Savings for taxpayers if the tax burden had not risen

Britain's GDP in the current financial year (2006-07) is £1,281 billion. The rise in Britain's tax burden of 2.9 per cent of GDP since 1997 is therefore equivalent to over £37 billion in today's prices, which represents the saving for taxpayers this year if the tax burden had stayed at its 1997 level.

HMRC estimates that, on a static basis, reducing the basic rate of income tax by 1 per cent in 2006-07 reduces government revenue by around £3 billion. This means that the basic rate of income tax could have been cut from 22 per cent to 10 per cent by this year, and the Government would have had

money left over. This would have been of enormous benefit to ordinary people:

- A person on mean earnings of £24,301 would see a reduction in this year's tax bill of over **£2,000**.
- Someone on median earnings of £19,496 would be almost **£1,500** better off this year alone.

Taking account of the positive dynamic effects of tax reductions on work, saving and investment, which the Government generally does not seem to do, would allow the basic rate of income tax to have been reduced further, benefiting taxpayers even more.

Savings for taxpayers if the tax burden had fallen in line with other OECD countries

In 1997, Britain's tax burden was very close to the OECD average, as Chart 1 shows. The OECD's average tax burden has fallen to 38 per cent of GDP this year, while Britain's has been rising.

If Britain's tax burden had remained roughly equal to the OECD average, it would now be lower than it was in 1997, and 4.2 per cent of GDP lower than it is today. This would be a saving to taxpayers of almost £54 billion in today's prices.

This means that the basic rate of income tax could have been cut from 22 per cent to just 4 per cent by this year. This would have been of enormous benefit to ordinary people:

- A person on mean earnings of £24,301 would see a reduction in this year's tax bill of over **£3,000**.
- Someone on median earnings of £19,496 would be over **£2,200** better off this year.

(NB. Clearly it would make no sense to have a basic rate of income tax lower than the starting rate of 10 per cent, but this just highlights the huge reduction in tax that could have been made.)

Sources and method of calculation

This calculation uses several sources:

- 2006-07 GDP of £1,281 billion is taken from Table C3, Budget 2006, HM Treasury.
- The annual tax burden over the past decade, for Britain and for the OECD countries, is taken from Annex Table 26, OECD Economic Outlook No.79, June 2006.
- The revenue impact of £3 billion of changing the basic rate of income tax by 1 per cent in 2006-07 is taken from Table T1.6, HMRC.
- Mean and median earnings for all employees are taken from Table 1.7a, Annual Survey of Hours and Earnings 2006, Office for National Statistics.
- The personal allowance and bands of taxable income for 2006-07 are taken from Tables A3 and A4, Budget 2006, HM Treasury.

The difference between the tax burden as a percentage of GDP in 1997 and 2006 is calculated. This percentage (2.9 per cent) is then applied to UK GDP in the current financial year (2006-07) to give a figure of £37.1 billion. This represents the saving to taxpayers this year if the tax burden had remained at its 1997 level.

To calculate the magnitude of the basic rate of income tax reduction, £37.1 billion is divided by the revenue impact of changing the basic rate by 1 per cent in 2006-07, which is given as £3 billion by HMRC, allowing a 12 per cent reduction in the basic rate. This is on a static basis. A dynamic assessment, which takes account of the positive impact of tax reductions on work, saving and investment, would allow a larger reduction.

To illustrate the saving to individual taxpayers, a taxpayer on both mean and median earnings is used as an example. The personal allowance is £5,035 in 2006-07 and the starting rate of income tax of 10 per cent is levied on income between £5,035 and £7,185. Therefore, income above £7,185 is affected by a reduction in the basic rate of income tax. 12 per cent (the size of the basic rate of income tax reduction) of the difference between mean/median earnings and £7,185 is then calculated as the saving to an individual taxpayer.

The same methodology is applied to the OECD figures, this time using the OECD average tax burden of 38 per cent of GDP in 2006 as the comparison.

Of course, the tax burden would have had to rise even further had Gordon Brown not been able to borrow to fund part of his spending increases. Without borrowing, the impact of Gordon Brown on today's, rather than tomorrow's, taxpayers would have been even greater.

Current prices are used throughout. An excel spreadsheet with full details is available on request.

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APPENDIX

Table A1: Tax cut possible in 2006 if the tax burden had stayed at its 1997 level

	GDP at market prices	Tax burden			Basic rate of income tax change		Saving to taxpayers	
	£ million	2006, % of GDP	Increase 1996-2006, % of GDP	Increase 1996-2006, £ million	Revenue impact of changing basic rate of income tax by 1%, £ million	Basic rate income tax cut possible, %	On mean earnings of £24,301	On median earnings of £19,496
2006-07	1,281,000	42.2%	2.9%	37,149	3,000	12%	£2,053.92	£1,477.32

Table A2: Tax cut possible in 2006 if the tax burden had remained equal to the OECD average

	GDP at market prices	Tax burden			Basic rate of income tax change		Saving to taxpayers	
	£ million	2006, % of GDP	% of GDP higher than OECD average, 2006	£ million higher than OECD average, 2006	Revenue impact of changing basic rate of income tax by 1%, £ million	Basic rate income tax cut possible, %	On mean earnings of £24,301	On median earnings of £19,496
2006-07	1,281,000	42.2%	4.2%	53,802	3,000	18%	£3,080.88	£2,215.98