Britain after Brexit: A positive vision for taxpayers

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Summary

The United Kingdom has voted to leave the European Union so it is essential that politicians put together a plan for growth that ensures the security and stability of the economy. It should also be seen as an exciting opportunity to demonstrate that the UK is ready to do business in the booming global economy. Overall, the government must map out a positive vision for taxpayers. To that end, the TaxPayers' Alliance recommends:

- A temporary VAT cut to 17.5 per cent, with a review after one year
- Cutting Corporation Tax cut to 10 per cent
- Scrapping the 45p rate of Income Tax
- Cancelling HS2 and reallocating some of the earmarked spending to more worthwhile and growth-enhancing projects
- Immediately authorising the expansion of both Heathrow and Gatwick airports
- Securing high-quality recruits to begin worldwide trade negotiations
- Relaxing planning laws and speeding up the planning process to allow for a major programme of housebuilding
- Pressing ahead with strategic energy projects to ensure energy security and affordability for those on lower incomes

Introduction

The United Kingdom has voted to leave the European Union. Whilst we remain a member for now, the focus in London, Brussels and indeed other European capitals is firmly on what the post-Brexit world will look like.

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With the outgoing Prime Minister leaving the big decisions to his yet to be determined successor and mixed messages emanating from the continent over what is and is not on the table, a period of political and economic uncertainty is inevitable.

It is critical that the next government sends the correct messages during this period that the UK economy will remain stable and competitive – and in particular a leading centre for global commerce. Given the uncertainty that inevitably comes during such a transitory period, a number of policies should be implemented.

Debt and deficit

The government's current fiscal targets are:

1. Budget surplus in 2019-20 and beyond
2. Debt falls as a percentage of GDP each year
3. Welfare cap

The second and third targets were missed at the last budget without any consequence. The Fiscal Charter was a meaningless political gimmick and the next government should simply ignore it. Indeed, George Osborne has already suggested that targets may not be met.

While economic forecasts are notoriously unreliable, there is consensus that GDP growth will decelerate for the remainder of 2016 and 2017.

But growth in the past few years has been steady if not spectacular, during which time the government has made progress in reducing the deficit:

Year	Public sector net borrowing (£ billion)	Public sector net borrowing (% GDP)
2009-10	154.7	10.3
2010-11	136.9	8.7
2011-12	115.6	7.1
2012-13	120.7	7.2
2013-14	102.6	5.8
2014-15	91.7	5.0
2015-16	76.0	4.1
2016-17	55.5	2.9

Whilst much remains to be done to get the country living within its means in the long run, given the period of uncertainty and the possible slowdown in growth, some fiscal loosening may be necessary. However, this should come through tax cuts and not through increases in current spending. The government should also seek to reallocate funding from current spending to capital spending.

Taxes

Significant tax simplification must still be a long term goal for any government, as it would make the UK more competitive and create a more certain environment. But there are three simple tax cuts that the government should implement immediately:

Temporary VAT cut to 17.5 per cent:

- Given that consumer spending accounts for around two thirds of the UK's GDP, it's important that the government doesn't stand idly by and watch it collapse.
- Early indications of the Brexit vote's impact on consumer spending are mixed with the Springboard recording a drop in retail footfall and Dixons Carphone announcing that their trading is up year on year.
- Given that the retail sector is highly competitive and technology has made price changes easier, much of this would likely be passed through to consumers, increasing spending power.
- A temporary cut would also incentivise consumers to bring forward purchases they intend to make in the future, offsetting the consumption delaying effect of uncertainty.
- The subject of EU VAT rules was raised during the referendum, most notably the fact that the UK cannot currently exempt domestic power from the reduced 5 per cent rate of VAT.
- Now that the EU will not control our VAT system, it is likely that there will be a deluge of demands from special interest groups for zero or reduced rates on their favoured items. It is important that the government does not give in to such pressure and make the tax system more complex and incoherent with gimmicky changes. The government should work towards a simpler system with fewer exemptions.

Corporation Tax cut to 10 per cent

- Long term, the next government should stop taxing profits held by companies for sorely needed investment, instead taxing distributions from capital as recommended in the 2020 Tax Commission.
- In the meantime, the next chancellor should cut the rate of Corporation Tax to the lowest in the developed world.
- While a cut to 10 per cent would mean a reduction in revenues, the next government should see it as a step towards eliminating the outdated tax altogether.
- Allowing companies to keep more of their profits will encourage investment in uncertain times and send a strong message that the UK will remain an attractive place to do business post Brexit.
- Increases to capital allowances should also be considered.

Scrap the additional (45p) rate of Income Tax

- High rates of Income Tax create disincentives for entrepreneurs, meaning they take fewer risks. That means fewer new businesses and fewer jobs.
- Once employees and employers (the burden of which falls on labour) National Insurance are included, the true top rate of tax on earnings is 53.4 per cent.
- High marginal rates increase the incentive to hire expensive accountants to find loopholes.
- Scrapping the 45p rate would send a message that the UK encourages risk-taking, ambition and hard work.
- Because the top rate should mean the top rate, the "hidden 60p rate" caused by the £100,000 personal allowance limit should be scrapped, too.

Spending

- While progress has been made in reducing the deficit, it remains too high. Fiscal loosening may be necessary if the situation demands it, but it should come from tax cuts rather than spending increases. Too much is being wasted and the government currently spends too much taxpayers' money on the wrong priorities.

- One of the most egregious example of this remains the pledge, now enshrined in law, to spend 0.7 per cent of Gross National Income on Overseas Development Assistance. At the very least this should be suspended.

- The immediate aftermath of the referendum result has seen the yields on 10 year gilts fall to record lows – they are currently 0.83 per cent. This reduces the problems caused by excessive government debt.

- Far too much of the last six years of fiscal consolidation has come from cuts in capital spending. Gross investment is £10 billion lower than it was in in 2009-10 while current spending is £71.1 billion higher.

- While overall spending should not be increased, some current spending should be reallocated to infrastructure projects with high benefit-cost ratios.

- Not all infrastructure spending is good, of course. The incoming government should immediately cancel HS2. There are myriad more projects with higher benefit-cost ratios to which this £55.7 billion of spending should be reallocated. Just some examples could be speeding up the upgrade of Pacer trains on suburban railway lines, electrification programmes on suburban routes into major cities and the completion of work on the M62.

- Additionally spending within funding envelopes such as that for Highways England should be brought forward.

- There is also a strong argument for an expansion of the road network in the South West of England and Wales.

- Furthermore, research grants should be increased to encourage more investment in science, broadband and new technologies like 5G and autonomous vehicles.

Trade

- Whitehall has lost its corporate memory when it comes to the negotiation of bilateral trade deals, having outsourced this area of policy to the EU for more than four decades.

- The government should prioritise the recruitment of high-quality expertise in this area, quite possibly from overseas.

- While these recruits should not be paid beyond their abilities, the civil service pay structure may not provide the requisite flexibility to secure such personnel. The government should not be afraid of relaxing this where appropriate to secure top talent.

Planning and energy

- Additional runways at Heathrow and Gatwick should be authorised without delay.

- As a sector, house builders have seen the biggest proportionate hit to their share price. The planning system must be meaningfully reformed to allow many more houses to be built.

- Changes must also include a substantial relaxation of height restrictions and reclassification of sections of the green belt, designed to reduce the crippling premium that land with planning permission enjoys relative to the price of land without permission.
- Delays in decision-making add even more to the cost of the planning system, because borrowing money to finance land acquisition which may not even win permission is not free. Measures to reduce the time it takes planning authorities to make up their minds should be enacted.
- The government should press ahead with key strategic energy projects such as fracking and natural gas exploration. Other projects that are expensive and rely heavily on taxpayer-funded subsidies should be shelved. Cheaper energy projects funded by private investment will mean lower bills for the households on the lowest incomes. It will also mean more secure energy provision.