HOUSE OF LORDS

Library Note

Budget 2012: Reaction

This Library Note provides a brief summary of the key measures announced yesterday in the Chancellor's Budget Statement, before outlining the immediate reaction to the Statement as expressed by the Leader of the Opposition in the House of Commons and by a range of organisations and commentators.

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1. Budget 2012

The first section of this Library Note outlines key measures announced by the Chancellor in the 2012 Budget. Fuller initial analysis of the 2012 Budget can be found in the House of Commons Library Note, *The 2012 Budget* (21 March 2012, SN06262). Section two of the Note then summarises the response to the Budget Statement by the Leader of the Opposition, and section three summarises reaction to the Budget by various commentators and organisations in the hours immediately following the Budget.

1.1 Projections for Growth and the Public Finances

On 21 March 2012, the Chancellor of the Exchequer set out the 2012 Budget (HC 1853). To accompany the Budget, the Office for Budget Responsibility (OBR) issued new forecasts for the growth of the UK economy. It forecast that GDP growth during 2012 would be 0.8 percent, growth for 2013 would be 2 percent, 2.7 percent for 2014, and 3 percent growth for 2015 and 2016. The OBR's forecast for growth in 2012 is 0.1 percent higher than the 0.7 percent growth forecast for the same period in the 2011 Autumn Statement (Cm 8231). However, it is considerably lower than the OBR's forecast for 2.5 percent growth at the time of the 2011 Budget.

In terms of public sector finance, the OBR forecast that public sector net borrowing would continue to decline from a peak of 11.1 percent of GDP in 2009–10 to 4.3 percent in 2014–15 and to 1.1 per cent in 2016–17. The cyclically adjusted or "structural" debt was forecast by the OBR to approach balance in 2014–15. Public sector net debt was forecast to peak at 76.3 percent of GDP in 2014–15, falling to 74.3 percent in 2016–17.

For a more detailed view of these projections see Chapter 1 of the Budget (pp 11–47) and Annex D (pp 103–111).

1.2 Specific Budget Measures Relating to Tax

The Budget stated that one of its key objectives was reform of the tax system to make it fairer, more effective and simpler. The Budget also recommended that the tax system should be reformed to make the UK more competitive internationally as a means of supporting growth.

One of the key measures in the Budget is a reduction of the top rate of income tax from 50 percent to 45 percent from April 2013. A 50p tax rate for individuals with incomes over £150,000 was introduced by the Labour government in 2009. The Budget stated that this cut should take place on the grounds that it was damaging the attractiveness of the UK as a place to work relative to other countries. In addition, according to the HM Revenue and Customs report *The Exchequer effect of the 50 per cent additional rate of income tax* (March 2012) commissioned by the Chancellor, the rate was "a distortive and economically inefficient way of raising revenue, and that the behavioural response has been larger than expected" (Budget 2012, p 31).

The Budget also included an acceleration in the reduction of the main rate of corporation tax, on the basis that this would also improve the UK's competitiveness. The Chancellor had already announced in his March 2011 Budget that the main rate would be gradually reduced, with the adoption of a 23 percent rate by April 2014. The 2012 Budget included an additional 1 percent reduction from April 2012. With a commitment to continue the planned year on year cuts to corporation tax this would see a rate of 22 percent by April 2014. Based on plans currently announced this would mean by April 2014 the UK would have the lowest main corporation tax rate in the G7 and the fourth lowest in the G20.

A further change to the tax system was the increase in the personal allowance from April 2013 to £9,205 intended to support those on low and middle incomes. The Budget stated that this would lift an additional 840,000 people out of income tax altogether (Budget 2012, p 29). The basic rate tax threshold would also be lowered from £34,370 to £32,245 in 2013–14.

1.3 Changes to Personal Allowance for Pensioners

The Budget stated that those who receive age-related allowances (ARAs) would have these payments frozen from 6 April 2013 at their 2012–13 level. This would see the ARAs remain at £10,500 for those born between 6 April 1938 and 5 April 1948, and £10,660 for those born before 6 April 1938. This freeze would continue until ARAs align with the personal allowance. From April 2013, ARAs would no longer be available, except to those born on or before 5 April 1948. The higher ARA would only be available to those born before 6 April 1938. The Budget stated that these changes would reduce the number of pensioners in self assessment and were an opportunity to reduce the complexity of the tax system identified by the Office of Tax Simplification in their report *Review of pensioners' taxation: Interim Report* (March 2012).

The Government has also announced the creation of a new single tier State Pension for future pensioners to be introduced in the next Parliament. It would also publish proposals for the State Pension age to rise in future to take into account increases in longevity.

1.4 Measures to Tackle Tax Avoidance

The Budget also includes the following measures which are intended to combat tax evasion and avoidance and ensure fairness in the tax system:

- The introduction of a limit on all uncapped income tax reliefs. For anyone seeking to claim more than £50,000 of relief, a cap would be set at 25 per cent of income. This would not extend to tax reliefs which are already capped such as those that support enterprise and pension contributions.

- The introduction of a new Stamp Duty Land Tax (SDLT) rate of 7 percent for residential properties over £2 million to apply from 22 March 2012.

- The introduction of a 15 percent rate of SDLT on properties over £2 million purchased by non-natural persons, such as companies. This would tackle 'enveloping' of high value residential properties, the avoidance of stamp duty on the purchase of properties by making the purchase through a foreign company. In addition, the Government will consult on the introduction of an annual charge on residential properties valued at over £2 million owned by these persons, with the intention of legislating in the Finance Bill 2013 for commencement in April 2013.

- The extension of the capital gains tax regime from April 2013 to gains on the disposal of UK residential property and shares or interests in such property by non-resident, non-naturalised persons.

The Chancellor has also announced that the Government would consult on the introduction of a new General Anti-Avoidance Rule following the recommendations of Graham Aaronson QC's *Final Report* (November 2011), with a view to bringing forward legislation in the 2013 Finance Bill.

1.5 Changes to the Withdrawal of Child Benefit

The Government's Spending Review published in October 2010 stated that child benefit would be removed from families with a higher rate taxpayer. The 2012 Budget announced that the withdrawal of child benefit in January 2013 would only apply to households where someone has an income over £50,000 a year. In addition it would only be withdrawn in total for households where someone has an income over £60,000 a year. For households where someone has an income between £50,000 and £60,000, the Chancellor stated in his Budget speech that the benefit would be withdrawn gradually at 1 percent of child benefit for every extra £100 earned over £50,000.

1.6 Changing Public Sector Pay

In the Budget Statement the Chancellor also set out the actions taken by the Government intended to enable businesses to take on new staff. This included providing evidence to the Pay Review Bodies on the case for changing public sector pay to reflect local labour markets. The Budget reports that the Review Bodies are due to report from July 2012. The Treasury has also published new pay guidance: Civil Service Pay Guidance 2012–13 (March 2012).

2. Reaction

2.1 Labour Party

The Leader of the Labour Party, Ed Miliband, in responding to the Budget, argued that the reduction of the top rate of tax from 50 percent did nothing for those struggling due to squeezed family budgets, rising fuel duties and the loss of tax credits and child benefits:

> The fairness test for this Budget was whether the Chancellor used every penny he could to help middle-income families who are squeezed. He has failed that test.
>
> (HC *Hansard*, 21 March 2012, col 809)

Ed Miliband contrasted what the Budget offered to those with the highest incomes with the situation faced by 'ordinary' families:

> There are 14,000 people earning over £1 million in Britain. The Chancellor's decision today means that each of them will get a tax cut—not of £1,000, not of £5,000, not of £10,000, but of over £40,000...
>
> That tax cut is not just for this year but for every year. What happens to families who earn in one year half what the Chancellor has so casually given away to the richest in the last hour—families on £20,000 a year, perhaps those of a nurse or a lorry driver? Even after the personal allowance change, they are not going to be better off; they are going to be worse off. Putting aside the VAT rise and all the other tax rises that have happened, from this April alone they will be a further £253 a year worse off.
>
> (HC *Hansard*, 21 March 2012, col 810)

Mr Miliband also criticised the Budget for offering no change in economic strategy and for not matching a Labour Party commitment to reduce the number of young unemployed. He contrasted the United States government's deficit reduction plan with that of the UK Government, arguing that the more balanced reduction plan for the US deficit has led to 1.7 percent growth in the last year, whereas the UK economy has half the rate of growth, the result of the UK Government "cutting too far and too fast" (HC *Hansard*, 21 March 2012, col 812). He also stated that he thought that the Chancellor had hidden a tax rise for pensioners in the Budget.

3. Reaction outside Parliament

3.1 Institute of Directors (IoD): Response to Five Key Budget Issues

Responding to the Budget, Simon Walker, Director General of the IoD, stated that the Chancellor had "not done enough to free business from the burdens and barriers that are holding economic growth back". The reduction of corporation tax faster than planned was "a positive step in the right direction" but needed to be part of a move towards "a corporation tax rate of 15 percent by 2020—that would put Britain in a very strong position". He argued that the Budget had not gone far enough or fast enough on income tax: "50p was hugely damaging, but at 45p we are still uncompetitive" and "even after the reduction two-thirds of the OECD will still have a lower top rate". This would do little to combat the impression "that Britain is a high-tax country, where ambition is not welcome". He did, however, welcome the Budget's proposals regarding pensions, including no further limits to tax relief on pension contributions, an indication that state retirement ages would be raised again and the confirmation that a move to a flat-rate state pension would proceed. He was also pleased with the announcement of a pilot of the Youth Enterprise Loan Scheme.

3.2 London School of Economics Blog: A Tory Budget from a Tory Chancellor

Tim Leunig, writing on the LSE blog, thought that the Budget was "a case of the Tories looking after their own, particularly with regards to the 50p tax rate", though he accepted that there "were positive moves on pensions and income taxes for those on minimum wage". Specifically, he argued that while on the one hand, "the Budget announced a £10bn cut in the welfare budget" on the other "families with incomes of £45,000 to £60,000 will not see child benefit cut in line with previous announcements", which appeared to contradict the Government's statements about "all being in it together". In addition, while "stamp duty on a handful of very expensive properties has been raised, and stamp duty avoidance has been tackled... there was no move whatsoever towards a wealth tax". Leunig also questioned the greenness of the Budget, as the Chancellor announced that there would be no above inflation rises in petrol prices, unless oil prices fell below $75 a barrel, which meant that "prices have to come down by $50 a barrel from their current level before the Chancellor would even consider raising fuel duty by more than inflation".

3.3 British Bankers Association (BBA): A Budget for Business

Chief Executive of the BBA, Angela Knight, said that the Budget was "a budget for business", which made it "more attractive for businesses to do business here in the UK" and was "about giving businesses the confidence to invest in their futures and giving their customers the confidence to spend again" and "underlines the fact that bank finance continues to be available for viable businesses". It also gave "our international trading partners confidence that the country is fully focussed on restoring financial stability and promoting economic recovery". She drew particular attention to the National Loan Guarantee Scheme, which involved a number of UK banks and which would encourage "growth and new lending" for business and which would make the UK's lending market "very competitive". Finally, Knight also noted that the Government would balance the bank levy and corporation tax so that "the banks pay the same".

3.4 New Statesman: A Missed Opportunity for Growth

Will Straw, writing on the *New Statesman* website, argued that the Chancellor had "missed an opportunity to boost growth today with his Budget". He contended that analysis of the OBR's figures published with the Budget suggested that the growth measures announced by the Chancellor would "increase GDP by just £0.51 billion".

3.5 Adam Smith Institute (ASI): A Free Market Verdict on the Budget

Tom Clougherty and Sam Bowman, writing on the ASI blog, welcomed the cutting of the top tax rate though they called upon the Government to commit to scrapping this new top rate before the next election. They approved of the raising of personal tax allowances to £9,025, but suggested that the government should raise its target from £10,000 to £12,400, "which would lift minimum wage earners out of tax altogether". They agreed with the commitment to merge income tax and national insurance and believed that the 'tax receipt' idea would make spending more transparent and allow people to better hold the Government to account for its fiscal policies. The additional cut in corporation tax was "a good, pro-growth measure that will boost Britain's economic competitiveness", though it should have gone further as "a corporate tax rate higher than 20 percent is still too high". They did express a number of concerns. For instance, they thought that the General Anti-Avoidance Rule was a bad idea as it left "far too much latitude for bureaucratic discretion", adding "another layer of complexity on our labyrinthine tax code" and was "an affront to the rule of law". They also contended that raising Stamp Duty Land Tax on homes worth more than £2 million was "a politically-motivated sop to the Liberal Democrats" which would "discourage transactions and gum up markets" and raise very little revenue. They disapproved of the tax credit for animation, video games, and high-end TV production, which smacked of Government "picking winners" and of the intention to support various infrastructure projects and various credit, business and construction support schemes, which would lead to market distortions. They were also sceptical about the Budget growth forecasts, which were "implausibly optimistic".

3.6 Institute for Public Policy Research (IPPR): A Budget for Economic Growth?

Tony Dolphin, posting on his blog on the IPPR website, argued that the Budget had been a wasted opportunity to promote economic growth. He thought that the OBR's growth forecasts were "hugely disappointing", suggesting that mean real GDP would not return to its previous peak until the final quarter of 2013. He suggested that if the Chancellor had been willing to relax his deficit reduction plan, he could have "boosted demand directly by increasing government spending or by introducing net tax cuts". Though the announced measures to restrict tax reliefs for high earners were welcome the "taxes on the wealthiest could have gone up more—for example through a 1 percent mansion tax on the value of homes above £2 million". He contended that though this would have a small effect on aggregate consumer spending the proceeds could have been used in ways designed specifically to boost the economy such as an increase in spending on infrastructure, a jobs guarantee for young, long-term unemployed people or a temporary cut in employees' national insurance contributions. Overall, it was a fiscally neutral Budget which would "do very little to address the problem of weak demand in the economy".

3.7 Centre for Policy Studies: Great Pro-Business Rhetoric, but Little Substance

The Centre for Policy Studies supported a number of the Chancellor's proposals, though in some cases with reservations: the raising of the income tax personal allowance; the further cut to corporation tax to 24 percent this April (although he could have cut it to 20 percent); the reduction in the 50p tax rate (although he could have abolished it); plans to localise public sector pay and reform the planning system; and the clamp down on stamp duty avoidance. It stated that most of the other measures announced "amounted to small scale tinkering, regional hand-outs and re-arranging of deck chairs". The Budget instead should have "cut taxes on businesses more vigorously by cutting wasteful government expenditure and setting out a vision for a smaller state".

3.8 Trade Union Congress (TUC): A Budget for the Rich by the Rich

The TUC General Secretary Brendan Barber was generally critical of the Budget, which he described as "a budget for the rich by the rich" and one "made to keep the Coalition together rather than for the good of the country". He attacked what he saw as its unfairness: "One minute the Chancellor said he found tax avoidance morally repugnant, the next he rewarded it by cutting income tax for the richest one per cent—with precious little relief for hard-pressed families on ordinary incomes. Treasury figures show that those on low and middle incomes will do worse than those higher up the income scale". He was particularly concerned about the Government's decision to ask the independent pay review bodies to look at the issue of regional pay for civil servants and to allow some departments to have the option of moving to more local pay for those civil servants whose pay freezes were due to end in 2012. He thought it would "widen the North-South divide", "cause more businesses to fail by taking even more money out of local economies" and "lead to regional skills shortages as public servants opt to work in areas where pay rates are higher, and a long term future of pay falling behind for workers outside London and the South East".

3.9 CBI: A Much-needed Confidence Boost

John Cridland, CBI Director-General, broadly welcomed the Budget. He argued that it would put "more money in the pockets of ordinary people" and provide a much-needed confidence boost". He thought that it "painted a clearer vision of how the UK will earn its living in the future and, by seizing the opportunity to make sure our corporate tax system is more internationally competitive, [the Chancellor] has sent a powerful signal to companies to invest, do business and create jobs in the UK". This could be seen in the extra one per cent off corporation tax which would "make a big difference to investment intentions" and plans to reduce the top rate of tax to 45p by April 2013 which would "show our top and aspiring talent that this Government wants them to create wealth here". He added that "with many calls on the Chancellor to spend money he didn't have, the best news for businesses is that he stuck to his guns and delivered a fiscally neutral programme". He did think that the Government might have done more in relation to deregulation and for instance could have "taken the opportunity to get rid of the currently unworkable Carbon Reduction Commitment".

3.10 Public and Commercial Services Union (PCS): Not All in this Together

The Public and Commercial Services Union (PCS) attacked the Budget and claimed that it had "widened the gap between rich and poor and will do nothing to create jobs". It suggested that cutting the top tax rate on earnings over £150,000 from 50 percent to 45 percent would mean that "someone like Barclay's boss Bob Diamond earning £6m per year will be £325,000 better off", while cuts in corporation tax would be akin to taking "£3.76bn from public services and handing it over to big business". By contrast it argued that "£10.5bn of welfare cuts will hit poor people hardest" at the same time the minimum wage for young people had been frozen—"for the first time since it was introduced". The PCS General Secretary, Mark Serwotka, said that this was "a very arrogant demonstration of the fact that we are not all in this together". He advocated an alternative approach: "Invest in collecting the billions of pounds in tax that is avoided and evaded every year, and use the money raised to create useful jobs doing things like building homes and improving public transport".

3.11 British Chambers of Commerce: Could Have Done More for Small Business

John Longworth, Director General of the British Chambers of Commerce, welcomed the commitments to contain the deficit and reduce both corporation tax and the higher income tax rate from 50p to 45p. However, he suspected that smaller firms would be disappointed that the Budget "did not do more to support confidence and growth in the real economy". He contended that the Chancellor could have scrapped the planned 5.6 percent rise in business rates in April 2012, which would "have given many small- and medium-sized firms much greater confidence to invest and hire". He also hoped that the Chancellor delivered on his promises to reform infrastructure, planning, and employment law and to boost exports, through measures such as UK Export Finance. He acknowledged that the National Loan Guarantee Scheme was "a step in the right direction", but maintained that it was "not a panacea for all the problems faced by businesses trying to access finance", especially "smaller, younger, and high-growth firms that have trouble getting credit in the first place".

3.12 UNISON: Not a Budget for Growth

UNISON was highly critical of the Budget measures. Dave Prentis, General Secretary of UNISON, said that rather than tackling unemployment of 2.67 million by encouraging growth the Budget would suck demand out of the economy, with public sector workers "being hit with a pay freeze again this year" and proposed local pay rates that would mean that "£1.7bn would be lost from the economy". He acknowledged that the increase in the personal allowance would help those who were working, but not those who were unemployed, while the already announced cuts to tax credits would hit "hundreds of thousands of working families with children".

3.13 London First: A Bold and Prudent Budget

Baroness Valentine, Chief Executive of London First, argued that reducing the top rate of tax from 50p to 45p was "good news for business, good news for the economy and good news for those on low incomes". It would send "a clear signal that Britain is open for business and will help attract the investment needed to create jobs and much needed growth". In addition increasing personal allowances would "ease pressure on lower earners and boost consumer spending".

3.14 Dr Matthew Ashton: The Political Implications of the Budget

Writing on the politics.co.uk website, Dr Matthew Ashton considered the wider economic and political context of the Budget. In terms of the economic backdrop, he pointed to the constraints that the Chancellor had faced in terms of delivering growth over the next three years while keeping the confidence of the markets and the credit ratings agencies: "The trouble is that many of the factors that will impact on the British economy during this period, such as the eurozone crisis, are out of their hands". With this in mind he argued that the Budget indicated that the "biggest problem in the long-term is the fact that economic growth is forecast to be only 0.8 percent", which though "an improvement on the previous prediction of 0.7 percent" was "still a pretty dismal figure". On the political front, Ashton suggested that the key issue was "whether the changes in taxation were progressive or regressive, and whether more of the tax burden would be placed on the 'have nots' rather than the 'haves'". Irrespective of statistics, which could be quoted to support both sides of the argument, he thought that perceptions would be crucial: "Politics is increasingly about perception and recent polls have shown that the decision to scrap the 50p upper tax rate is widely unpopular". He maintained that David Cameron would have to therefore counter Labour claims it was a 'millionaire's budget'.

3.15 National Pensioners Convention (NPC): Budget Leaves Pensioners Bruised

The NPC's General Secretary, Dot Gibson, criticised the proposal to merge the basic and second state pensions into a single £140 a week payment as "a classic case of smoke and mirrors—given that someone could retire today and get a combined basic and second state pension of £150 a week". She questioned the decision to freeze the age related personal tax allowances as it "effectively means around five million pensioner tax payers will no longer get additional reductions in their tax over the coming years—whilst those on the top rate of tax will see their bills reduced". She thought that many older people would "feel they are being asked to forego their reduction in tax to help out the super rich". She feared that the announced automatic review of the state pension age was "clearly a forerunner to making people work up to 70 and beyond" which "is effectively stealing retirement years from millions of ordinary workers whose life expectancy is far lower than the very richest in society". These changes were also taking place amidst a pledge to cut welfare payments by £10bn over the next few years, which would "worry millions of pensioners who may think their bus passes and winter fuel allowances might be under threat and the long-awaited social care white paper is being delayed, without any explanation, while around a million older people are struggling with a broken care system that leaves many with expensive care that is often of a poor quality".

3.16 Institute for Economic Affairs (IEA): A Fiddly Piecemeal Budget

Mark Littlewood, Director General of the IEA, said that overall it was "a fiddly, piecemeal budget", which included "some welcome steps but much of the devil is buried in the detail". He commended George Osborne for cutting the 50p rate, increasing the personal threshold and accelerating the reduction in corporation tax, which together would "encourage enterprise, stimulate growth and reward work". He also thought that introducing greater transparency for 20 million taxpayers about how their money was spent might "produce much greater pressures for considerably less state spending amongst the wider electorate". He also approved of the promised liberalisation of planning laws and move towards regional pay bargaining in the public sector. However, he believed that the Chancellor is "developing an unhealthy habit of lambasting the very affluent". He maintained that the UK needed a tax framework which "attracts more millionaires to these shores rather than falling for the myth that we can all live at the expense of the super-wealthy if we only squeeze them hard enough". Furthermore, he suggested that the Government's deficit reduction strategy had "already drifted off target and relies on rather optimistic growth figures over the next few years" and that the Chancellor should seek "to find greater reductions in state spending to allow for substantial, across-the-board tax cuts before the end of this Parliamentary term".

3.17 Economist: Open for Business

The *Economist* noted that the Chancellor's "hugely contentious" cut in the top rate of income tax from 50 percent to 45 percent" was "inconceivable just a week ago". It had caused many in his own party to worry that they" have just solidified their image as protectors of the rich", while supporters of the cut "wonder why the rate was not returned to its original level of 40 percent". The *Economist* pointed to the cut in corporation tax to 22 percent by 2015, and possibly 20 percent if the Government was re-elected, which "would be very low by G8 standards". It also highlighted the raising of the income tax threshold, which meant that the Liberal Democrats were "on course to fulfil their goal of a £10,000 threshold before the next election". However, it noted that these proposals were funded by tax rises elsewhere, such as by those on stamp duty and capital gains tax on expensive houses, and on the tightening of allowances for pensioners which was "sure to provoke ire among the grey vote". It also conjectured that limiting child benefit to those earning less than £60,000 was weakening the middle-classes stake in the welfare state, which might have "profound" implications for its future.

3.18 Federation of Small Businesses (FSB): The Small Business View

John Walker, the National Chairman of the FSB gave a measured reaction to the Budget. He welcomed proposals to cut the burden of red tape, help to get young workers into employment, measures to improve access to finance and moves to simplify the tax system for the country's smallest companies. He commended the fact that the Budget was fiscally neutral which would help reduce the budget deficit and was pleased with the OBR's positive revision to growth forecasts this year, along with forecasts for falling inflation. However, he was disappointed that more could have been done to reduce the level of fuel duty to help struggling small firms and "to champion small firms at the heart of Government with a cabinet level minister". The latter was "the missing link to ensuring that all initiatives have the maximum impact for small firms."

3.19 Larry Elliott: A Shocking Budget from an Unfair Chancellor

Larry Elliott, the *Guardian*'s Economic Editor, called the Budget shocking: "Shocking in the way it skated over the weakness of the British economy. Shocking in the way it ladled out still more pain to those dependent on welfare benefits. Shocking in the way it cut the tax burden for millionaires". He thought the Budget was "a gamble and a big one at that". Unlike the big tax-cutting budgets of 1987 and 1988, which took place when the economy was booming, and when real incomes and house prices were rising, the forecasts produced by the OBR showed that "the economy will continue to chug along in first gear this year, with even the expected 0.8 percent growth vulnerable to a fresh crisis in the eurozone or higher oil prices". He argued that the decision to scrap the 50p tax rate was taken "on the thinnest of evidence and it remains to be seen whether the increase in stamp duty on £2m homes and the clampdown on tax avoidance raises the revenue the government expects". The Budget was unlikely to help economic growth and as such lower tax receipts and higher spending meant that it would not balance the books.

3.20 Peter Oborne: A Big, Dangerous Moment on Tax

Peter Oborne's analysis of the Budget was that on the one hand it contained some "excellent ideas", such as the clampdown on stamp duty avoidance and other methods of tax-dodging by the very rich", whilst not upsetting the markets "too much" and keeping the Liberal Democrats on board. On the other it included "two enormous gambles": "One of these is financial, the other political, and if either of them goes wrong this Coalition government will lose its way—and the Conservatives forgo a realistic chance of winning the next election". The political gamble was the decision to cut the top rate of tax. This was based on the view that high taxes "dampen the animal spirits of entrepreneurs and send out the signal that Britain is 'closed for business'" and that they did not "achieve their primary purpose of generating extra revenue, because they make people more lazy and much more likely to find ways of avoiding paying their taxes". But the problem was that "this break for the super-rich just looks terribly unfair—not least when coupled with a crunch on pensioners' incomes". It had given the opposition "a grievance and a slogan" and a means to question David Cameron's claim that "we are all in this together". The financial gamble was that the Budget "loosened rather than tightened the fiscal outlook" with "no attempt to rescue the pledge, made by the Chancellor in 2010, to abolish the structural deficit within the lifetime of this parliament". The danger was that if "long-term interest rates do eventually start to rise due to the failure to introduce further measures of fiscal consolidation, none of the Budget's schemes to stimulate growth will matter a damn".

3.21 Martin Wolf: A Budget without Economic Significance

Writing in the *Financial Times*, Martin Wolf contended that because of previous commitments to fiscal austerity and the largely unchanged judgments of the OBR, the Chancellor had little room for manoeuvre for his budget. He noted the OBR's low growth projections and the lack of a plan from the Government to change them. He suspected that the Government and the OBR thought that such low growth rates were "inevitable", which he feared risked "being a self-fulfilling prophecy, not least because it justifies the government's fiscal austerity". He questioned the Chancellor's view that the UK had record debts: "the current and prospective level of public debt is far from being a record: it is below the country's long-term average ratio of debt to GDP". This meant that despite "confronting extremely low borrowing costs, modest debt levels and a depressed economy, the government is unwilling to borrow more than it plans, even to expand investment" and instead proposed "wheezes to obtain far more expensive funding, in order to build the infrastructure the country needs". He thought that the most appealing measure in the Budget was the proposed change in planning laws and welcomed the proposed changes in the "carbon reduction commitment" and the simplification in tax calculations required of small businesses, and support for science. He maintained that the cuts in corporation tax were "more dubious" as they might lead to zero sum competition among governments to attract mobile headquarters and would encourage retentions over distributions, while doing nothing to raise investment. He argued that the cut in the top rate of tax would "neither save the economy nor destroy fairness", though the benefits to high earners could be substantial and if "austerity seems grossly unfair, the politics will be poisoned". He was also critical of the notion that raising the income tax threshold would benefit the poor: "The benefits of higher personal allowances go to those above the new thresholds, not in receipt of tax credits. This also benefits double-earner households twice as much as single-earner ones". He was also sceptical of plans to impose a stamp duty rate of 7 per cent on properties over £2 million.

3.22 BBC Analysis

Stepanie Flanders, the BBC's Economics Editor, noted on her blog that the decision to cut the top tax rate was predicated on the view that it would cause a behavioural change amongst the top 1 percent of wage earners that would net more tax revenue. If such a behavioural change did not take place it would be seen as giving a "£3bn tax break to the richest earners". She thought that it was "enormously uncertain" either way. More fundamentally, she suggested that the debate over the merits of the top rate tax cut was taking place against the bigger picture for the Budget and the economy that was "still pretty bleak". Robert Peston, the BBC's Business Editor, on his blog similarly suggested that the reduction in the rate of corporation tax to "one of the lowest in the developed world", was based on the belief that the private sector might "spend some of their record cash piles, by investing more and hiring more". But what the Chancellor could not do was to "bully companies to reward him and the British economy for the lower corporation tax rate".

3.23 Policy Exchange: A Mixed Budget

Policy Exchange welcomed a number of elements of the Budget which it had previously advocated, such as the creation of new garden cities, tax simplification for small businesses, enterprise loans for young people and the reiteration of the Government's desire to tackle the current system of National Pay Bargaining in the public sector. It argued that the latter would improve public services whilst helping to "boost growth in areas currently dominated by an inefficient public sector". It also supported measures to support the digital economy, including new tax reliefs for the video games sector and further support for high-speed and mobile broadband. However, it thought that there were some "less pleasing" announcements, such as the decision to levy Stamp Duty Land Tax at 7 percent for properties bought for over £2 million, which "continues to complicate a tax that is already distortionary". The Budget more crucially highlighted "the real challenges that lay ahead if the country was going to continue to tackle its deficit, debt and labour market problems". For instance, it outlined that a further £10 billion of savings would probably be needed by 2016: "On top of £18 billion of savings since 2010, this is going to be a real challenge".

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