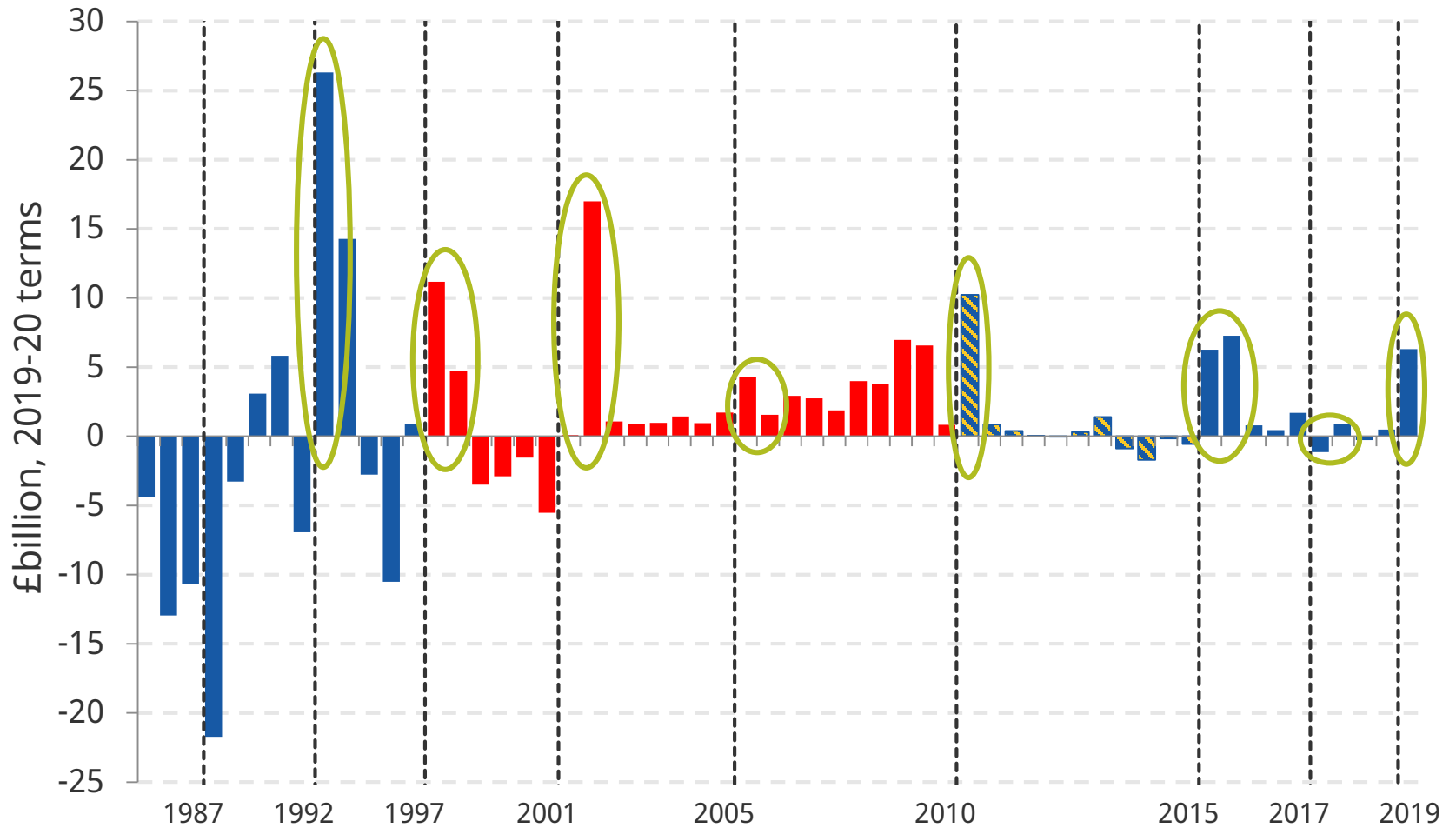


Permanent tax changes

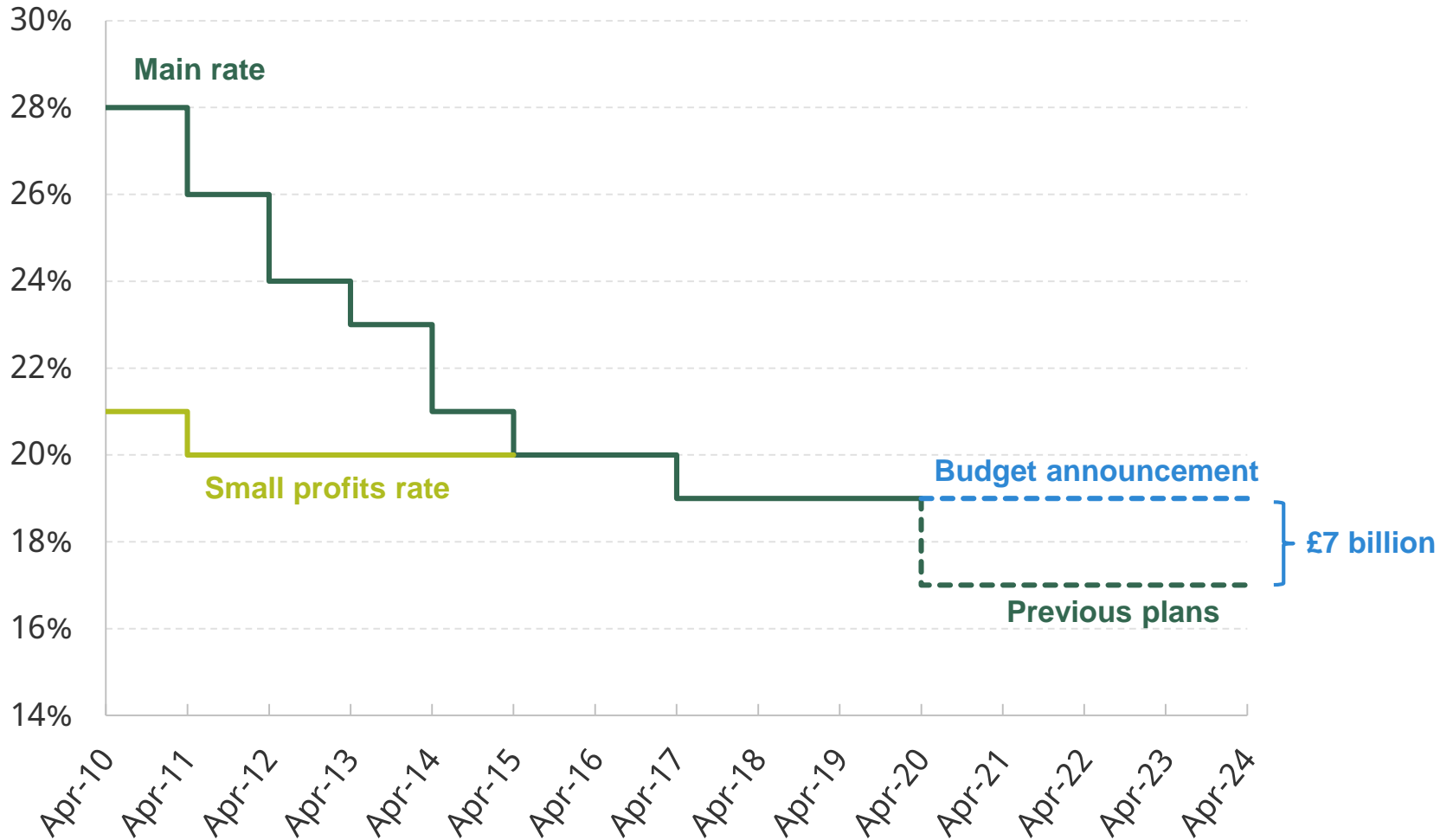
Stuart Adam

Another post-election tax rise



Source: Office for Budget Responsibility, *Policy Measures Database* (<http://budgetresponsibility.org.uk/data/>); Budget 2020.

Cancelling the corporation tax cut

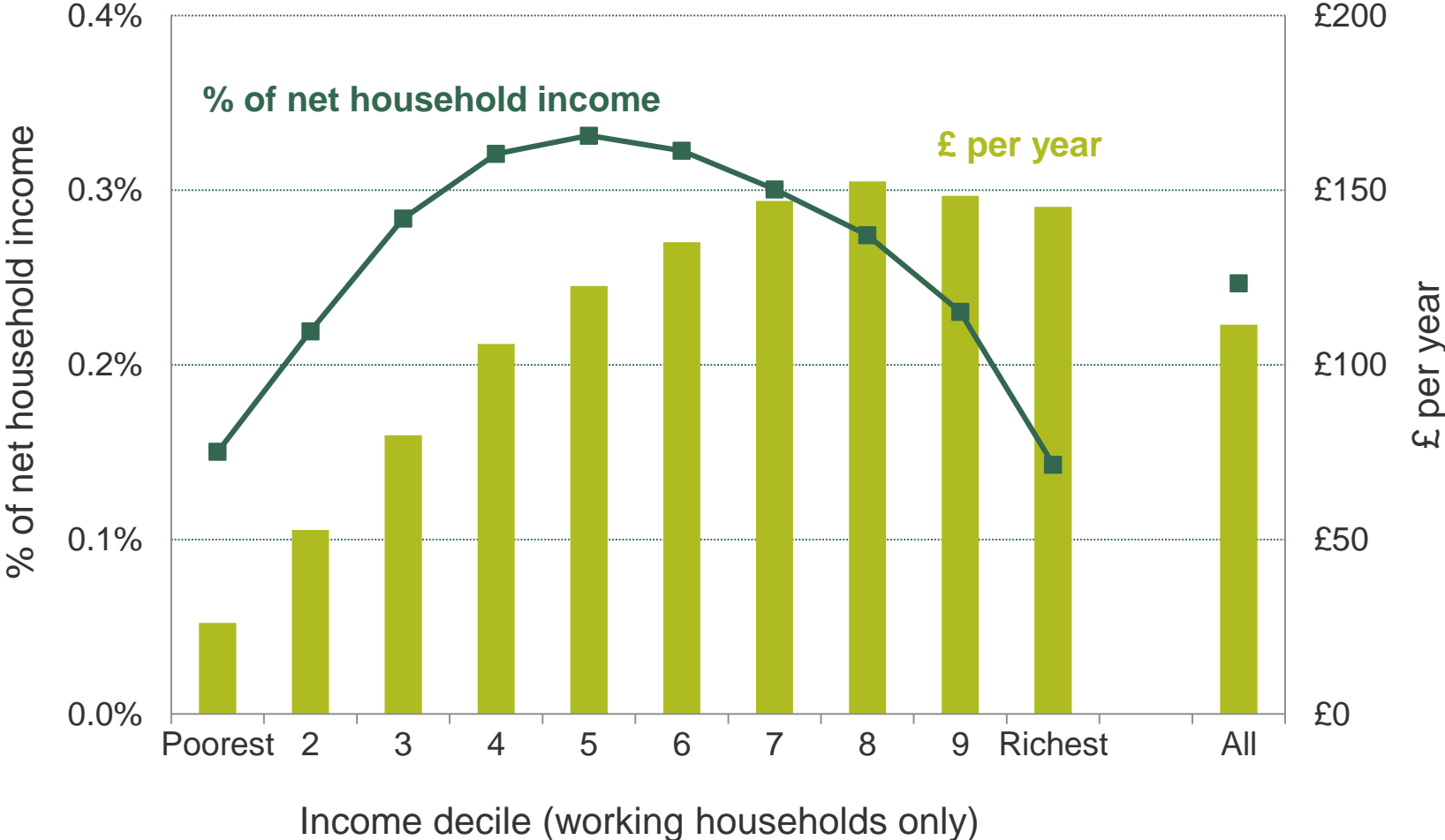


Increasing the NICs threshold

Threshold for employees & self-employed to rise to £9,500 in April

- vs. £8,788 if kept pace with inflation
- Costs £2.4bn a year
- Takes ½ million people out of employee NICs
- Those still paying NICs see liability reduced by up to £85 per year
- Only 8% of gains go to poorest 20% of working households

Gains from rise in NICs threshold



Manifesto promises: fulfilled

Tax rises

Increase immigration health surcharge from £400 to £624 and extend to EEA nationals (*£400m*)

Increase stamp duty land tax for non-residents (*£100m*)

Anti-avoidance and -evasion measures (*£700m*)

Tax cuts

Increase the employment allowance from £3,000 to £4,000 (*£500m*)

Increase capital allowance for buildings from 2% to 3% (*£300m*)

Increase the R&D tax credit for large companies from 12% to 13% (*£300m*)

One-year NICs holiday for employers hiring veterans in 1st year of civilian employment (*£25m*)

Remove VAT on female sanitary products (*£15m*)

Fundamental review of business rates, aiming to reduce burden

- To report this autumn

Entrepreneurs' relief

Reduced CGT rate on rise in value of owner-managed businesses

- 10% rate (rather than 20% for higher-rate taxpayers), up to £10m lifetime limit

In 2017-18, 43,000 people claimed £2.3bn of relief

- Average of £50,000 each

Three-quarters went to the 5,000 people realising gains >£1m that year

- Average tax break of £350,000 each

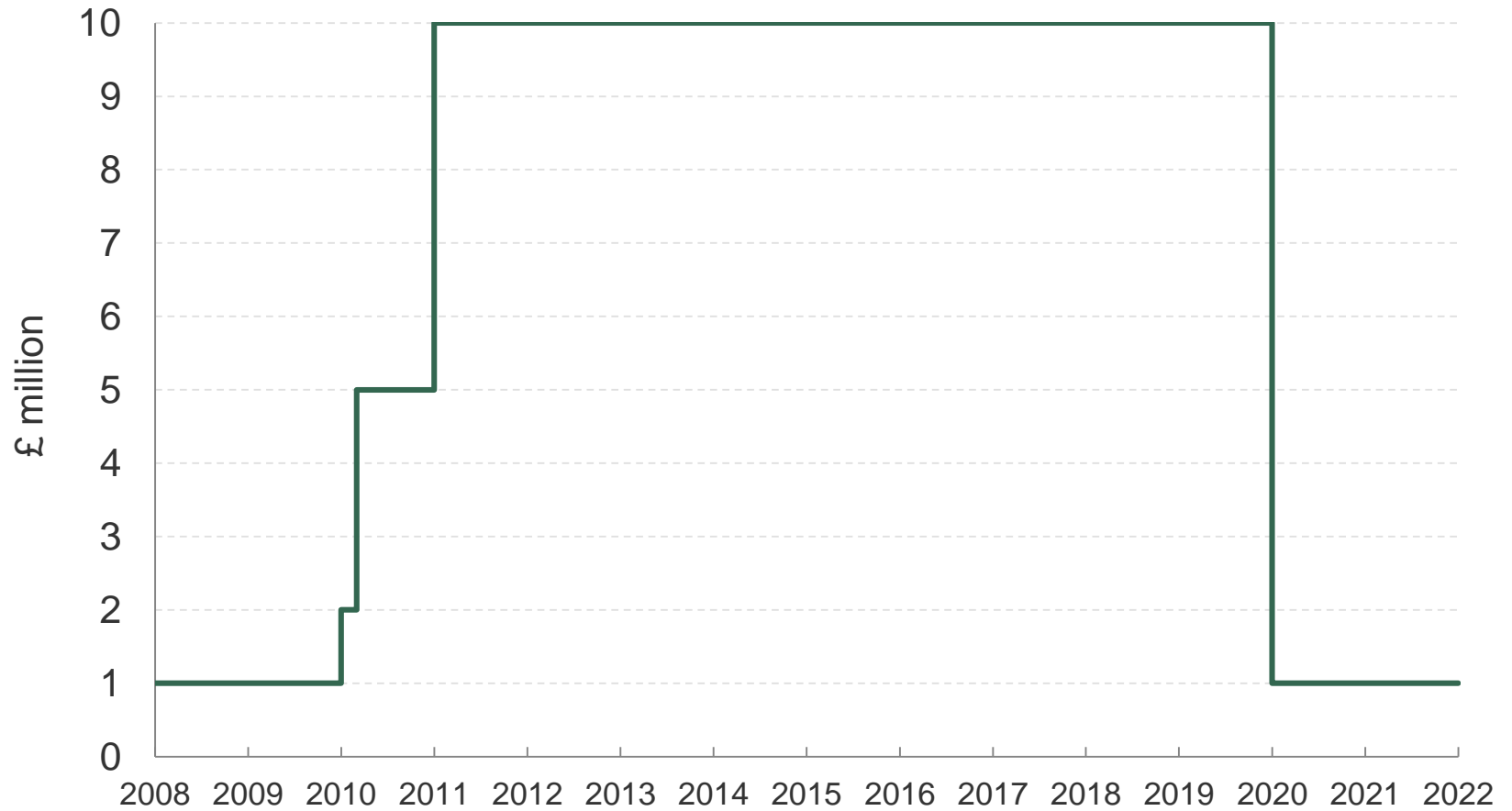
Budget reduced lifetime limit on qualifying gains from £10m to £1m

- Reduces maximum relief from £1m to £100,000 – a tax rise of up to £900,000
- Raises £1.5bn from 9,000 affected taxpayers per year

Big step in the right direction, but doesn't address the fundamental problems with the relief

- Not well targeted at encouraging investment and entrepreneurship
- Encourages people to work via their own business and keep cash in it

Entrepreneurs' relief: lifetime limit



Pensions annual allowance for high earners

Most people can put up to £40,000 a year into a pension tax-free

- Up to a lifetime limit on size of pension pot: £1,073,100 in 2020-21

Since 2016, annual allowance reduced if income *excluding* pension contriibs exceeds £110k

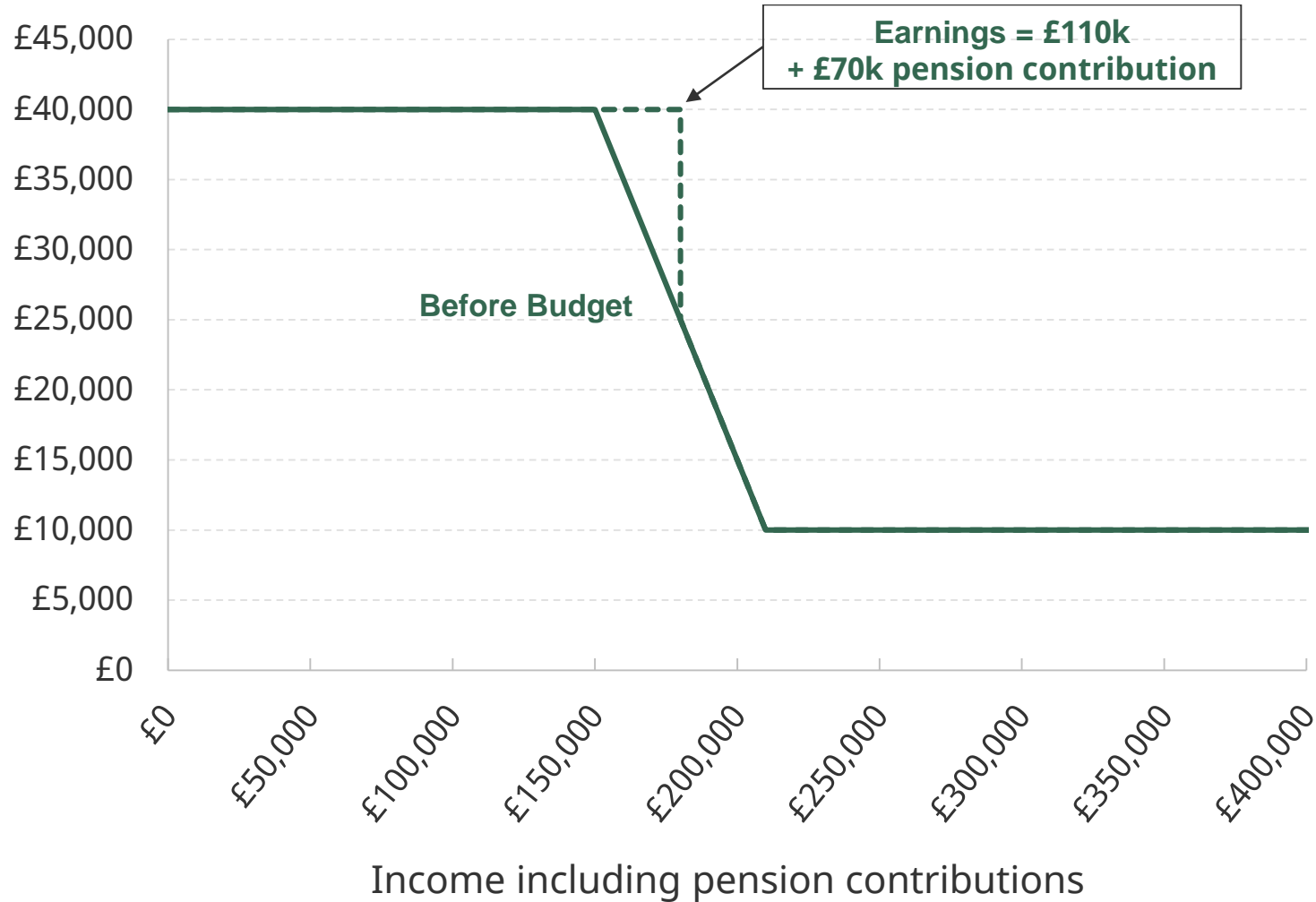
- Reduced by £1 for each £2 by which income *including* pension contributions exceeds £150k
- Down to minimum of £10k if income including pension contributions exceeds £210k

250,000 people have annual allowance reduced in this way

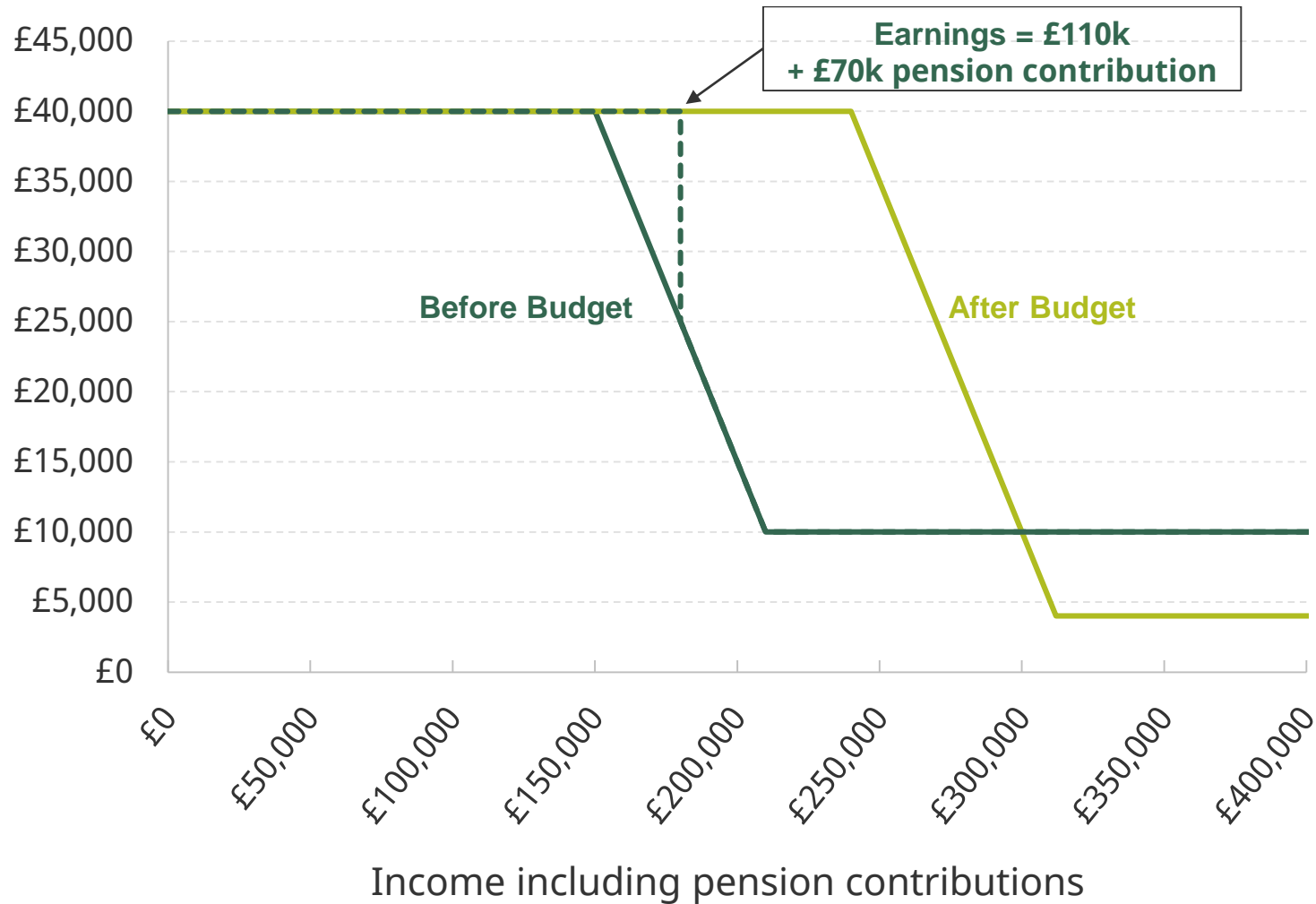
Particular problem if earnings cross £110k threshold and pension contribution >£40k

- Earning £1 more can trigger up to £12,000 higher tax

Pensions annual allowance



Pensions annual allowance



Pensions annual allowance for high earners

Most people can put up to £40,000 a year into a pension tax-free

- Up to a lifetime limit on size of pension pot: £1,073,100 in 2020-21

Since 2016, annual allowance reduced if income *excluding* pension contribs exceeds £110k

- Reduced by £1 for each £2 by which income *including* pension contributions exceeds £150k
- Down to minimum of £10k if income including pension contributions exceeds £210k

From 2020, only reduced if income *excluding* pension contributions exceeds £200k

- Reduced by £1 for each £2 by which income *including* pension contributions exceeds £240k
- Down to minimum of £4k if income including pension contributions exceeds £312k

Increases annual allowance for those earning £150k-£300k incl. pension contributions

- Reduces it for those earning >£300k incl. pension contributions

Costs £0.7bn a year

Allowance reduced for far fewer people, but underlying policy still hard to rationalise

- Why should high earners not be able to save as much in a pension as lower earners?

Excise duties

Alcohol duties frozen

- Costs £0.2bn a year

Tobacco duty escalator reintroduced

- Duty to rise by RPI + 2% every year of the parliament
- Raises very little, and by the end of the parliament, further increases are *reducing* revenue – past the peak of the Laffer curve?

Fuel duties frozen for another year

- Costs £0.5bn a year

Red diesel

Diesel licenced for off-road use in certain industries gets lower duty rate

- 11p/litre, vs 58p/litre full rate
- 15% of all UK diesel fuel

Entitlement to use red diesel removed from most industries from April 2022

- Those using it to power forklift trucks, cranes, generators, etc.
- Kept for farming, rail and non-commercial heating

Raises £1.6bn a year

- Out of £2.4bn total cost of relief in 2019-20, implying c.£1bn remaining cost

Good idea if aim simply to reduce greenhouse gas emissions

Bad idea if aim to make people face the cost to society of their actions

- Off-road use does not cause congestion so should tax much less than road fuel

Climate change measures

Climate change levy increased for gas, frozen for electricity, in 2022 & 2023 (+£300m)

- Tax on business use of energy
- Move towards equalisation of rates is welcome
- Still leaves huge disparities in carbon price across emissions sources
 - Domestic use of gas effectively subsidised

Carbon price support rate frozen at £18 per tonne of CO₂ in 2021-22 (-£15m)

- Tops up the price of EU emissions trading scheme (ETS) permits
- Big question remains what will replace EU ETS, and level & trajectory of UK permits

Support to buy cleaner cars (grants, capital allowances, VED change)

- But another cut in fuel duties (except red diesel)

All small, piecemeal steps

- Hope the Net Zero Review leads to a more comprehensive strategy

Conclusions

Cancelling corporation tax cut makes this a tax-raising Budget in long run

Also tax rises for wealthy business owners and industrial users of diesel

But giveaways to workers, drinkers, drivers and doctors

Modest manifesto promises all fulfilled

**Welcome changes to entrepreneurs' relief and pensions annual allowance
don't solve problems but limit their scope**

Hope for a more strategic approach in the autumn

- On climate change, business rates, motoring taxation, pensions,...