

Institute for  
Fiscal Studies

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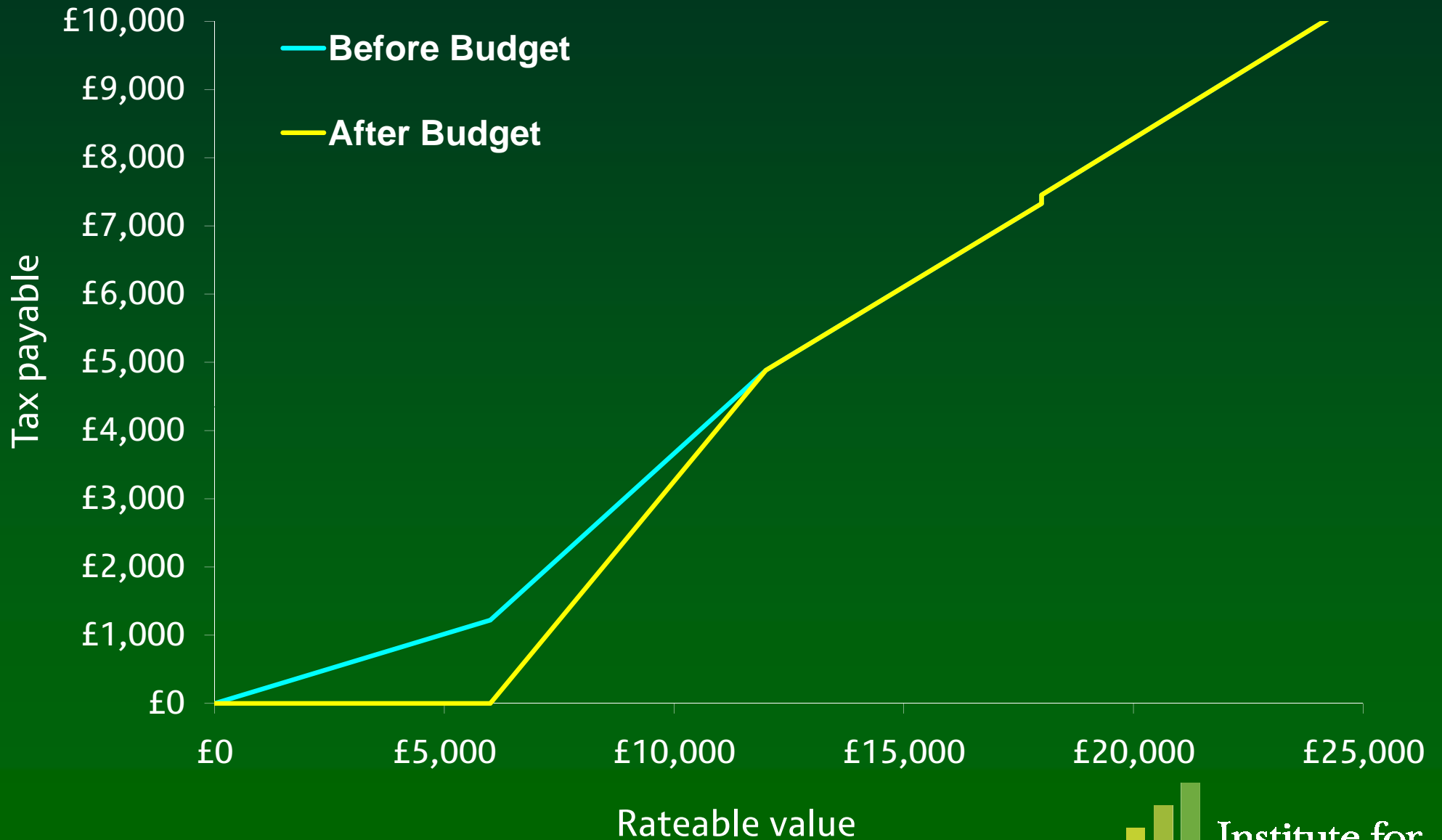
## Business and capital taxes

Stuart Adam

# Business tax measures

- Small firms' business rates relief more generous for 1 year from October
  - Costs one-off £410m

# Business rates, 2010



# Business tax measures

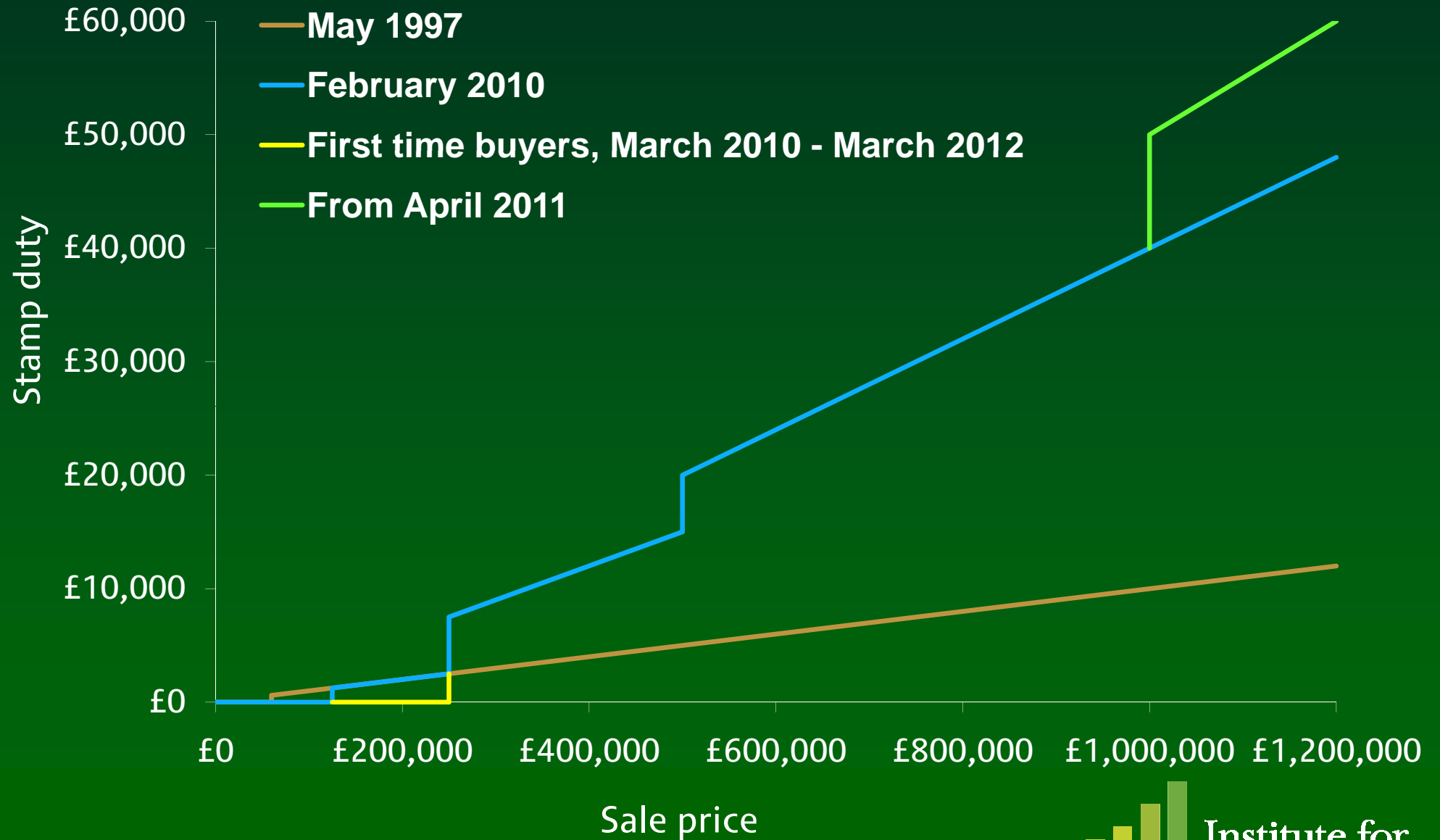
- Small firms' business rates relief more generous for 1 year from October
  - Costs one-off £410m
- Annual investment allowance doubled from £50,000 to £100,000
  - Costs £110m
- CGT entrepreneurs' relief lifetime limit doubled from £1m to £2m
  - Costs £90m
- Tax relief for video games industry – design subject to consultation
  - Costs £50m
- Usual raft of anti-avoidance and anti-evasion measures
  - Raises about £500m

# Personal capital taxes

- Inheritance tax threshold to be frozen at £325,000 until 2014-15
  - Yield rises each year; £110m by 2012-13
- ISA limits to be indexed to inflation throughout next Parliament
  - Cost rises each year; £5m by 2012-13
- Stamp duty threshold doubled from £125,000 to £250,000 for first-time buyers from March 2010 to March 2012
  - Conservatives propose doing the same thing permanently
  - Costs one-off £550m over the two years
- Stamp duty rate increased from 4% to 5% for residential property purchases above £1m from April 2011
  - Labour's own 'mansion tax' – but very different from Lib Dems'
  - Raises £230m

# Stamp duty land tax

## Residential properties



# Temporary stamp duty cut for first-time buyers

- Cuts in stamp duty generally welcome
  - Stamp duty is an exceptionally damaging tax
- First-time buyers buying £125-250,000 properties in relevant period pay up to £2,500 less
  - Part of benefit may go to those selling them the properties
- Complexity in defining “first-time” buyers
- Temporary cut for first-time buyers creates distortions
  - Bring transactions forward into the window
  - Delay buying first property until can afford somewhere more expensive
  - Buy bigger first property than ideally would like
  - Penalises joint ownership

# New top rate of stamp duty

- Increases in stamp duty generally unwelcome
  - Stamp duty is an exceptionally damaging tax
- Those buying £1m+ properties pay at least £10,000 more
  - Most of loss likely to be passed on to current owners as prices fall
- £1 higher price can mean £10,000 higher tax bill
  - Why should this be desirable?
  - Enormous incentive to keep transactions below £1m



# Summary

- One-off giveaways
  - Stamp duty, business rates
- Thereafter, mainly tax rises for the wealthy...
  - Stamp duty, inheritance tax
- ...but continued tax cuts for business
  - Annual investment allowance, entrepreneurs' relief
- Increasingly interventionist industrial policy