

Taxes and benefits: the parties' plans

James Browne and David Phillips

What's coming up

- Go through each party in turn (Labour, Conservative, Lib Dem)
- Discuss individual measures
 - Reforms to come in by 2014–15, costed as if in place in 2010–11
 - Count all changes relative to current system
 - Revenue impacts
 - Winners and losers
 - Incentives, efficiency and complexity
- Compare the parties
- No single decile chart incorporating all reforms for each party
 - Difficult to estimate in many cases
 - Not clear that distributional impact is best shown by decile chart



Tax/benefit	Change in Revenue
Income Tax	+5.5

- Restricting relief on pension contributions over £130k
- Cut personal allowance in real terms, freeze higher rate threshold
- Hits high income individuals, particularly richest 1%



Tax/benefit	Change in Revenue
Income Tax	+5.5
National Insurance	+5.7

- Increase employer, employee and self-employed rates by 1%
- Raise employee threshold by £1,170
- Progressive tax rise overall



The distributional impact of pre-announced National Insurance changes <u>only</u>





Tax/benefit	Change in Revenue
Income Tax	+5.5
National Insurance	+5.7
Duties and Environmental	+2.8

- Fuel, alcohol and tobacco duty escalators
- Increases in landfill tax and climate change levy



Tax/benefit	Change in Revenue
Income Tax	+5.5
National Insurance	+5.7
Duties and Environmental	+2.8
Inheritance Tax	+0.2

Freeze threshold until 2014–15



Tax/benefit	Change in Revenue
Income Tax	+5.5
National Insurance	+5.7
Duties and Environmental	+2.8
Inheritance Tax	+0.2
Stamp Duties	+0.4

- New 5% rate of Stamp Duty Land Tax above £1 million
- End of stamp duty holiday for first-time buyers



Tax/benefit	Change in Revenue
Income Tax	+5.5
National Insurance	+5.7
Duties and Environmental	+2.8
Inheritance Tax	+0.2
Stamp Duties	+0.4
Corporation Tax	-0.6

- Introduce 'patent box' in 2013
- Increase small companies' rate from 21% to 22%



Tax/benefit	Change in Revenue
Income Tax	+5.5
National Insurance	+5.7
Duties and Environmental	+2.8
Inheritance Tax	+0.2
Stamp Duties	+0.4
Corporation Tax	-0.6
Other Taxes	+0.2
Total Taxes	+14.3

Landline duty of 50p/month



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Inheritance Tax	+0.2
Stamp Duties	+0.4
Corporation Tax	-0.6
Other Taxes	+0.2
Total Taxes	+14.3
Benefits and Tax Credits	+1.5
Grand Total	+15.8

- Some benefits will increase by less than inflation in 2011
- Temporary extra winter fuel payment expires
- Introduce 'toddler tax credit' of £4/week in 2012–13



Pre-announced reforms – winners and losers

- The Labour Government plan tax increases and benefit cuts totalling £15.8 billion per year
- Richest lose the most
 - Biggest losers are those amongst the top 1% (earning over £130,000) making big pension contributions
 - Increase in NI also hits high earners the most
- But others lose out as well
 - NI changes also hit those on moderate to low earnings
 - Increase in duties hits people buying cigarettes, alcohol or fuel. In percentage terms biggest hit for households with average total expenditure
 - Cuts in benefits hit middle income households hardest in cash terms, and low income households in percentage terms
- Overall progressive tax rise. The biggest losers are top 1%, with low and middle income households losing, but much less



Simple and efficient?

- Increases in NI, duties, restriction of tax relief on pension contributions will weaken work incentives, particularly for higher earners
- Several planned tax changes worsen distortions, or introduce new complexities
 - Restricting pension contribution relief is complicated, unfair and inefficient
 - 5% stamp duty rate on properties worth more than £1 million increases a very damaging tax that distorts the housing market
 - 'Patent box' is a poor way of encouraging innovation and patent income hard to identify
- By contrast, increasing NI rates is a fairly straightforward tax rise
 - Relatively simple to administer, low compliance costs
 - Is a 'jobs tax' but so are income tax and VAT



Labour manifesto

- No new measures in the Labour manifesto
- Pledges not to increase certain taxes
- Not increase basic, higher and top rate of income tax
- Not impose VAT on food, children's clothing, books, public transport
 - These tax breaks distort spending decisions
 - There are better ways to redistribute to the poor

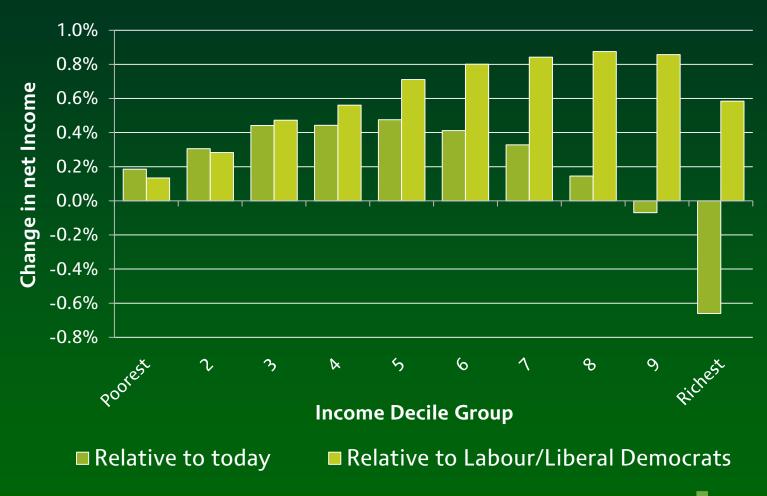


Conservative manifesto: giveaways

- One big tax cut
 - Increase employee and employer NI thresholds by more than Labour would to 'protect' more workers from rate rise
 - Costs £5.4 billion



The distributional impact of Conservative NI proposals only





Conservative manifesto: giveaways

- One big tax cut
 - Increase employee and employer NI thresholds by more than Labour would to 'protect' more workers from rate rise
 - Costs £5.4 billion
- Several smaller tax cuts
 - Increase inheritance tax threshold to £1 million. Costs £1.2 billion
 - Freeze council tax for two years. Costs £1.0 billion
 - Transferable personal allowance for 1/3 of married couples. Costs £0.5 billion
 - Increase stamp duty threshold to £250,000 for first-time buyers permanently. Costs £0.3 billion from 2012–13
- Total gross giveaway: £8.0 billion
- Corporate tax plans (rate cuts, base broadening) to be revenue neutral

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Fiscal Studies

Conservative manifesto: takeaways

- Small tax rises
 - Extend £30,000 charge to all non-doms. Raises £1.8 billion (Conservative costing; HM Treasury says much less)
 - Bank levy of at least £1 billion
- Small benefit cuts
 - Reduce threshold for reducing family element of Child Tax Credit from £50,000 to £40,000. Saves £0.4 billion (assumes complete take-up, likely to be less than this)
 - Stop government payments to Child Trust Funds for families with incomes above £16,190. Saves £0.2 billion
- Net giveaway of £5.7 billion relative to Labour, net takeaway of £10.1 billion relative to today



Conservative proposals – winners and losers

- Still the richest that lose out most:
 - Top 1% still lose most as going ahead with Government plans on restricting pension contribution relief
 - NI plans mean richer households pay more on average
 - Benefit from inheritance tax change, but non-doms lose
- Low and middle income households gain from Conservatives' NI changes
- Transferable personal allowance benefits married couples where only one pays basic-rate income tax. Mainly low and middle income households
- Progressive but less so than Labour. Biggest losers are top 1%, with middle income households being main beneficiary of smaller overall tax increase



Simple and efficient?

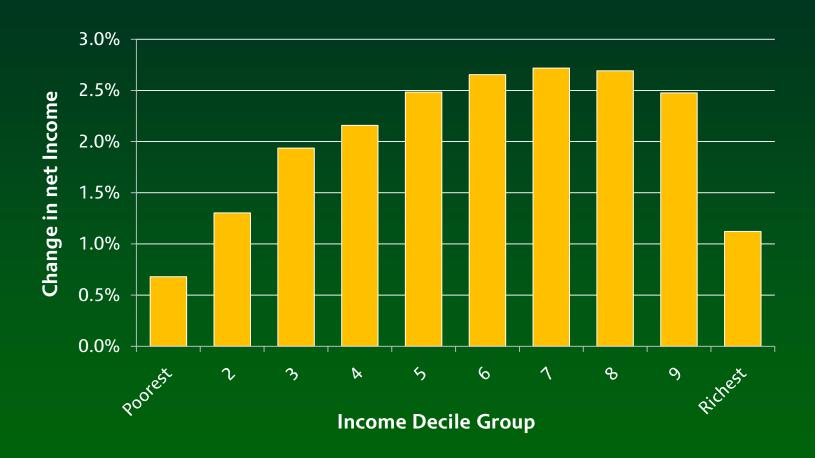
- Plan to limit impact of NI rise, but would retain other changes that are more distortionary and complex, and introduce more complexities
- Conservatives' NI proposals would strengthen incentive to work at all relative to Labour's, but as still increasing rates, would still weaken incentive to increase earnings slightly
- Transferable personal allowance strengthens incentive for first earner in a married couple to work, but weakens incentive to work for second earner
- Corporate tax plans would make it more attractive for multinationals to locate profits in UK, but discourage investment in equipment and machinery
 - Why do reforms have to be revenue-neutral within corporation tax?
 - If rate cuts desirable, unlikely that cutting capital allowances is the most efficient way of financing them
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Liberal Democrat manifesto: giveaways

- One very large tax cut
 - Increase income tax personal allowance to £10,000. Cost: £16 billion
 - Would take 3.6 million out of income tax
 - Worth £700 a year for those aged under 65 with incomes between £10,000 and £113,000
 - Those with incomes above £120,000 would not benefit because of tapering of personal allowance



The distributional impact of the Lib Dems' increase in the income tax personal allowance <u>only</u>





Liberal Democrat manifesto: giveaways

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 - Increase income tax personal allowance to £10,000. Cost: £16 billion
 - Would take 3.6 million out of income tax
 - Worth £700 a year for those aged under 65 with incomes between £10,000 and £113,000
 - Those with incomes above £120,000 would not benefit because of tapering of personal allowance
- Earnings-index state pension from 2011, not 2012. Cost: £0.3
 billion
- Revenue-neutral reform to business rates.
 - Based on land value instead of property value
 - Localised



Liberal Democrat manifesto: takeaways

- Tax rises and benefit cuts mean package overall represents a £3.9 billion tightening relative to Labour, £19.7 billion relative to today:
 - Restricting tax relief on pension contributions to the basic rate. Raises £5.5 billion
 - Reforming Air Passenger Duty to become a per-plane tax. Raises £3.2 billion
 - Tax on bank profits. Raises £2.1 billion
 - Capital gains tax: align rates with income tax, reduce allowance and reintroduce indexation allowances. Raises £1.8 billion
 - 'Mansion tax' 1% annual charge on domestic property values above £2 million. Raises £1.6 billion
 - Withdrawing family element of Child Tax Credit immediately after child element. Raises £1.2 billion
 - End government contributions to Child Trust Funds. Raises £0.5 billion
 - Reforms to Winter Fuel Payment eligibility. Raises £0.1 billion
 - Anti-avoidance and anti-evasion measures to raise £4.4 billion



Do the plans add up?

- Revenue raised from anti-avoidance seems optimistic
 - General Anti-Avoidance Principle would have to deal with a large proportion of avoidance to raise £2.2 billion
 - Unclear that enough resources will be freed up to combat £1.4 billion of evasion
- But changes to CGT may raise more than they estimate
- So no clear overall bias in their costings



Liberal Democrat manifesto: winners and losers

- Increase in personal allowance benefits upper-middle income most in percentage terms, particularly two-earner working-age couples
- Higher-rate taxpayers saving for a pension or making quick capital gains and those living in valuable homes would be hit
- Also (smaller) losses for mid-to-high income families with children, and 60 – 65 year olds, and small gains for severely disabled
- Difficult to say who will ultimately be made worse off by bank tax, taxes on freight planes and anti-avoidance measures
- Compared to Labour Government plans, bigger take-away from higher-income households, with middle, not low, income households biggest beneficiaries



Liberal Democrat manifesto: decentralisation

- Would introduce all the Calman Commission's proposals on devolving tax-setting powers to the Scottish Parliament
 - income tax (within limits), stamp duty land tax, air passenger duty, landfill tax and aggregates levy
 - Labour would do most of this, Conservatives not committed to these exact proposals but promise some devolution
- Localise business rates
 - Would double the proportion of tax raised locally
 - May limit accountability of local authorities if those affected don't live in the area and so can't vote for the council
- Allow councils to charge higher council tax on second homes



Simple and efficient?

- Increase in personal allowance strengthens incentive to work at all
- Higher taxes on saving weaken work incentives for richer households, as well as weakening incentives to save
- Restricting tax relief on pension contributions for all higher rate taxpayers is complex, inefficient and unfair
 - More coherent and less complex than the government's plan
 - But affects far more people
- Other tax rises remove distortions and inconsistencies
 - Taxing capital gains more like income (and allowing for inflation)
 - Taxing benefits in kind like other remuneration



Comparing the parties: total 'takeaway'

- Government are planning a £15.8 billion 'take-away'
 - About £610 per household per year
- Conservatives are planning a smaller £10.1 billion 'take-away'
 - About £390 per household per year
- Liberal Democrats are planning a bigger £19.7 billion 'take-away'
 - About £760 per household per year



Comparing the parties: winners and losers

- Government tax increases are progressive
 - Richest households, especially top 1%, face biggest increase in tax as a proportion of income
 - Lower and middle income households hit but to a much lesser extent
- Conservative plans progressive but a little less so
 - Middle-income households gain most from overall lower takeaway
- Liberal Democrats plan a bigger takeaway from richer households than Government or Conservatives
 - To finance an income tax cut that benefits upper-middle-income households the most, not low-income households



Comparing the parties: work incentives

- Government plans to increase in NICs rates weaken work incentives
 - As do other plans
- Conservative plans to raise NI thresholds strengthen incentive to work at all – but incentive to earn a bit more still weaker than today
- Transferable personal allowance means incentive to have one earner as opposed to no earners or two earners
- Lib Dem plans to increase personal allowance strengthen incentive to work at all (and by more than Conservative NI plans)
- But weaker work incentives for richer households, as well as weaker incentives for saving and investment.



Comparing the parties: simple and efficient?

- Overall, Government's proposals are not appealing even considering the need to raise revenue
 - Increase complexity and distortions in the tax system
 - Restricting pension contributions relief particularly badly designed
- Conservatives plan to forgo much of straightforward NI rise
- But go ahead with the most damaging of Labour's tax rises
- And introduce more complexities of their own
 - Transferable personal allowance to recognise marriage
 - Permanently lower rate of stamp duty for first time buyers



Comparing the parties: simple and efficient?

- Liberal Democrats plan a much more radical reform
 - Big income tax cut funded by increased taxes, mainly on richer households
 - Significant decentralisation of tax-raising powers
- Restricting pensions contribution relief to the basic rate for all higher rate taxpayers is misconceived
 - Almost as bad as other parties' plans and applying to millions more people
- But removal of distortions is welcome
 - Taxing (some) capital gains at the same rates as income
 - Taxing benefits-in-kind the same as other pay

