Permanent tax changes

Stuart Adam
Another post-election tax rise

Cancelling the corporation tax cut

Cancelling the corporation tax cut

Permanent tax changes

Main rate

Small profits rate

Budget announcement

Previous plans

£7 billion

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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

% of net household income

£ per year

Income decile (working households only)

Permanent tax changes

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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 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

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
Earnings = £110k + £70k pension contribution
Pensions annual allowance

Earnings = £110k + £70k pension contribution

Before Budget

After Budget

Income including pension contributions
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,…