Tax and spend

Carl Emmerson

28 October 2021
IFS post-Budget event

@TheIFS
Sharper fall in forecast borrowing

Public sector net borrowing

<table>
<thead>
<tr>
<th>Year</th>
<th>March 2020</th>
<th>March 2021</th>
<th>October 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019–20</td>
<td>£55bn</td>
<td>£55bn</td>
<td>£55bn</td>
</tr>
<tr>
<td>2020–21</td>
<td>£355bn</td>
<td>£320bn</td>
<td>£355bn</td>
</tr>
<tr>
<td>2021–22</td>
<td>£234bn</td>
<td>£183bn</td>
<td>£234bn</td>
</tr>
<tr>
<td>2022–23</td>
<td>£183bn</td>
<td>£157bn</td>
<td>£183bn</td>
</tr>
<tr>
<td>2023–24</td>
<td>£74bn</td>
<td>£58bn</td>
<td>£74bn</td>
</tr>
<tr>
<td>2024–25</td>
<td>£46bn</td>
<td>£46bn</td>
<td>£46bn</td>
</tr>
</tbody>
</table>
A bigger state post pandemic

Per cent of national income

- Total spending
- Total revenues
- Current spending
- Total taxes

Tax and spend
A bigger state: 2019 to 2025

Spending in 2018–19

Pandemic effects

Capital spending

Day-to-day spending

Spending in 2024–25: latest forecast

Per cent of national income

Direct impact of the pandemic only accounts for 20% of total increase
A growing tax burden: 2019 to 2025

National accounts taxes

£45bn rise in corporate and personal tax accounts for 80% of the total increase in tax/GDP

... and well over 100% of the measures to reduce borrowing

Per cent of national income

Taxes in 2018-19

Pre-pandemic planned increase

Economic effects

Spring 2021 tax rises

Health and social care levy

Other tax policy measures

Taxes in 2024-25: latest forecast

Tax and spend
Nine fiscal targets?

- 1 new mandate for fiscal policy: debt to fall as a share of GDP between 2\textsuperscript{nd} and 3\textsuperscript{rd} year of forecast horizon
  - excluding Bank of England, more difficult to meet but better measure of fiscal policy
- 3 further supplementary targets
  - Current budget balance by 3\textsuperscript{rd} year of forecast horizon
  - Public sector net investment to average less than 3\% of GDP
  - Welfare spending to remain within cap
- 5 other indicators to be considered, including around the affordability of debt and the wider public sector balance sheet
- Rules suspended if Treasury if a “significant negative shock” occurs
Public sector net debt to fall?

Per cent of national income

March 2021

October 2021

March 2020

March 2021

Next year: 0.9% headroom

Breached in 6 out of last 16 Autumn forecasts

New target met with 0.6% to spare


March 2021

October 2021

March 2020

60% 65% 70% 75% 80% 85% 90% 95% 100%


March 2021

October 2021

March 2020

60% 65% 70% 75% 80% 85% 90% 95% 100%


March 2021

October 2021

March 2020

60% 65% 70% 75% 80% 85% 90% 95% 100%


June 2021

October 2021

March 2020

Breached in 6 out of last 16 Autumn forecasts

New target met with 0.6% to spare

Next year: 0.9% headroom
Conclusions

- Public spending to be bigger share of national income post pandemic

- Big tax rises announced in 2021 to cover this whiles reducing borrowing to below that planned pre-pandemic

- Some smaller pre-election tax cuts might be coming, though headroom against new debt target not large

- Huge uncertainty around path of economy and outlook for receipts