

The Resolution Foundation view on the Budget

Synopsis: The Resolution Foundation's ideas of what might be in the Budget, under the heading 'Tax cuts today, spending cuts tomorrow?'

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We are now less than two weeks from Budget Day. In the post-Budget purdah world, you may feel you have already heard everything that the Budget will – or will not – bring.

The Resolution Foundation's presentation, 'Tax cuts today, spending cuts tomorrow?' certainly had an element of déjà vu, but there were a few interesting points which have not received much coverage...

- Resolution reckons the much-quoted headroom figure is £10bn more than in November because of...
 - Lower interest rates and thus lower debt servicing costs; and
 - A larger population. Resolution refers to the recent Office for National Statistics (ONS) projections, which should work their way into the Office for Budget Responsibility (OBR) numbers. More immigration – the main reason for higher population – increases GDP (perhaps 0.9% by 2029) and, usually, a lower proportionate increase in spending because immigrants are on average younger.
- A non-increase of fuel duty and non-re-installment (currently due on 23 March) of the 5p litre reduction (introduced for 12 months in 2022) will cost about half that headroom. It is likely that, once again, these actions will be labelled as temporary, passing the problem on to the next Government and helping (mythically) balance the books.
- The balance of the headroom looks likely to be spent on personal tax cuts – either National Insurance (NICs) or 1p of basic rate.
- During the Tory leadership campaign, Rishi Sunak promised to cut the basic rate of tax to 16% within seven years. However, around the speakers the betting was that another NICs cut (this time 1%) was on the cards.
- The case for NICs over basic rate was...
 - A NICs cut is about £2bn cheaper;
 - It benefits workers at a time when pensioners are receiving an 8.5% rise in State Pensions;
 - It reduces the overall tax wedge between earnings and investment income; and
 - It applies throughout the UK, as NICs are not devolved. Scotland's finances are in a state where Holyrood might choose to keep its

- basic rate at 20%. While Wales has followed the Westminster tax rate table so far, a new First Minister may not do so – again for financing reasons.
- The chance of unfreezing income tax allowances was seen as small, not least because it removed the scope of tax/NICs rate cuts going forward. Fiscal drag also has the political benefit of being poorly understood.
- One overlooked aspect of fiscal policy – which probably will not make it into any of the manifestos – is that tax rises have been baked in by the current Government for its successor, in the form of frozen tax thresholds, extending VED to electric cars, those fuel duty rises and a future increase in SDLT.
- In any case, history shows that in the first Budget after the election, taxes will rise, probably on the we-didn't-know-it-was-that-bad principle.

Comment

There will undoubtedly be more predictions to emerge before 6 March, but Resolution's ideas look plausible.

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