

Tax in the 2016 Budget

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I write the following for the new pre-Budget report from The EREP network — Economists for Rational Economic Policies - of which I am a member. [I recommend the rest, to be found here:](#)

The Times wrote recently that “one of the untold stories of 2016 has been the very gradual, almost unnoticed decline of George Osborne”.

It is in this very personal context, and within the political constraints that the Brexit referendum imposes, that George Osborne has to decide what to do with taxation in his 2016 budget. Almost as an aside, the demands of the OECD and IMF that he now stimulate the economy rather than pursue a policy of austerity adds a little piquancy to the whole issue.

What we now know is that the biggest anticipated tax reform of this budget - which was the potential radical reform of pension tax reliefs - will not be happening. The policy was deeply unpopular in Tory homelands where local parties are dominated by the relatively prosperous self-employed. This is a demographic group who have long enjoyed the tax relief opportunities that pensions provide, as a means of mitigating what they see as the overly burdensome contribution required of them by a state for which they have little regard. When he needs that same group of naturally pro-EU business people to be on his side in the Brexit debate, George Osborne could not risk alienating them with such a reform, at least at this time.

What then will the Chancellor do instead to re-take the political initiative and re-inflate ‘brand Osborne’? My suggestion is something very simple: look out for tax cuts. The reason is obvious. Osborne has ‘form’ in doing three things. The first is the unexpected. The second is what the opposition might superficially want but least expect. The third is sometimes (but not always) the politically astute move. Tax cuts might meet all these criteria.

First, Osborne has been so dedicated to austerity and balancing the budget that no one expects he will offer a stimulus by tax-cutting now. That though is precisely why he

may do it. He has ample excuses. The so-called 'head winds' he spoke of recently are one. The opportunity to say that being in the EU but out of the Euro gives the UK the opportunity to anticipate such situations is another. And the third is to say that he is a man who learns.

What has he learned? He will claim, as the second reason for this action, that when you cut higher rates of tax then tax revenues go up. This is nonsense. His evidence base will be the supposed £8 billion increase in additional rate tax in 2013-14 which he has claimed arose as a result of the cut in the tax rate from 50% to 45% in that year. This is a claim that both tax barrister Jolyon Maugham and I have shown to be wrong, but economic realities have always been less important than current expediencies to Mr Osborne.

If this is the logic he uses, expect three things. One is a possible reduction in the top rate of tax. Second, and more likely, he will restore the personal allowance to those earning over £100,000, claiming that is a matter of tax justice. And third, anticipate an above average increase in tax bands, especially at the point where the higher rate starts, as he accelerates the timescale for raising this to £50,000. A token gesture at the other end of the scale - with a small above average increase in the start point for taxation will be the sop to popularity he will have to offer.

Why will he hope this nonplusses the opposition? Precisely because they have called for a stimulus and he will argue that this is the biggest one he can afford - and no doubt the Office for Budget Responsibility's forecasts will be massaged (as they were last autumn) to make such changes look possible. The back of the sofa will be raided again.

Why is this politically astute? The answer is obvious: this would drag all the attention back from Boris Johnson on to...George Osborne.

So will there be compensating moves elsewhere if the books still need balancing (as they most certainly do not at present)? Almost certainly yes, but not from either benefits or tax changes this time. Asset sales will be the missing link. Anything and everything is on the block now. Be prepared for the most unlikely.

My bet? Wait for the announcement on Housing Associations. He's already brought within the scope of government control. That was the precursor to sale. It may be a long shot, but that's my prediction for the real sting in the tail of this budget. And who might he raise the money from? The local authority pension funds he will also be bringing under his control are another not-so-long shot - a source of funding that he could claim is akin to People's QE, which would be a direct shot at Labour. When George Osborne is desperate, rule nothing out.