£3,028:

LABOUR'S TAX RISE FOR EVERY WORKING HOUSEHOLD

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Ed Miliband and Ed Balls have committed the Labour Party to £30 billion of structural fiscal consolidation by 2017-18.

The Institute for Fiscal Studies and the Office for Budget Responsibility say that only spending cuts or tax rises can eradicate the structural deficit – not economic growth.

Ed Miliband, Ed Balls and Harriet Harman have promised that there would be 'tax rises' as part of their mix. Ed Miliband has said he would like to see a 50:50 balance of spending cuts to tax rises.

That means an average tax rise of £3,028 for every working household in Britain by 2020.

So far, all Labour's announced tax rises are intended to pay for spending increases, not deficit reduction. The only tax Labour have earmarked for deficit reduction is restoring the additional rate of income tax to 50p – but in the last week the IFS have confirmed HMRC's estimate that this doesn't raise any revenue. For their sums to add up, it is impossible for Labour to rule out a National Insurance, Income Tax or VAT rise.

- **Labour voted for the Charter for Budget Responsibility, which commits to £30 billion of structural deficit reduction by 2017/18**. 'We then commit in the charter to achieving… a surplus on our cyclically adjusted current budget by 2017-18. That requires £30 billion of consolidation' (George Osborne, *Hansard*, 13 January 2015, Col. 742). Labour voted for this Charter on 13 January 2015 (*Hansard*, 13 Janaury 2015, Col. 788).
- **To keep the national debt falling as the Charter requires, £15 billion of structural deficit reduction is needed in 2016-17**. The OBR forecast shows debt as a share of GDP falling from 2015-16. In the following year, 2016-17, £15 billion of consolidation is required to keep the debt share falling (half of the total £30 billion enshrined by the Charter of Budget Responsibility for the two years 2016-17 and 2017-18).
- **The IFS have said the £30 billion figure is 'about right'**. This number has been endorsed by the independent Institute for Fiscal Studies: Andrew Neil: 'What about the £30 billion figure?' *Gemma Tetlow*: 'That sounds about right. Yes.' (The Daily Politics, 13 January 2015).
- **Only spending cuts or tax rises reduce the structural deficit – not economic growth.**
  - **IFS**. 'Policymakers often focus on structural borrowing…rather than headline borrowing. This is because the need for a fiscal tightening, or scope for a fiscal loosening, will depend not on the headline level of borrowing but rather on the amount of borrowing that is expected to be impervious to future economic growth and therefore is expected to persist' (IFS, *Green Budget* 2015, p.14).
  - **OBR**. 'Estimating the size of the output gap allows us to judge how much of the budget deficit at any given time is cyclical and how much is structural. In other words, how much will disappear automatically, as the recovery boosts revenues and reduces

spending, and how much will be left when economic activity has returned to its full potential' (OBR, *Economic and fiscal outlook*, March 2015, p. 35).

- **Labour say they would partly deliver this promise through 'tax rises'.**
  - **Ed Miliband**: 'we have a clear plan, which is the spending reduction I've talked about, tax rises, but crucially running our economy in a different way' (*The Andrew Marr Show*, 11 January 2015).
  - **Ed Balls**: 'Ultimately, the only way of reversing the problem is yes, to cut spending, and yes, to raise taxes' (*Hansard*, 13 January 2015, Col.747).
  - **Harriet Harman**: 'Well we're saying that the deficit we're going to inherit is 75 billion… we're committed by both economic growth, by spending cuts and by tax increases, to actually bring it into balance on day to day spending' (*Sunday Politics*, 18 January 2015).
  - **Shadow Treasury Minister Shabana Mahmood**: 'Well, look, deficit reduction requires actually a number of things. It requires some tax rises, it requires some spending cuts' (*Channel 4 News*, 13 January 2015).

- **IFS confirm the only tax Labour have earmarked for deficit reduction – 50p – raises no revenue.**
  - **Ed Balls**: 'the next Labour government will reverse this government's top rate tax cut so we can finish the job of getting the deficit down and do it fairly. For the next Parliament, we will restore the 50p top rate of tax for those earning over £150,000' (Ed Balls, *Fabian Society Speech*, 25 January 2014).
  - **IFS confirm HMRC estimate**: 'HMRC estimates remain best estimates' (IFS, *Short run responses to the new 50% income tax rate in the UK*, March 2015, slide 17).
  - **HMRC estimate**: HMRC estimate that reducing the 50p rate to 45p cost £110 million. But they also estimate that the effects of the 50p rate's introduction had a negative impact on the indirect tax yield of £220 million. So raising the additional tax rate from 45p to 50p in 2015/16 would again reduce VAT revenues by an estimated £110 million. The result is that no net revenue would be raised from increasing the additional rate of income tax. (HMRC, *The Exchequer effect of the 50 per cent additional rate of income tax*, p. 44, March 2012).

- **All Labour's other announced tax rises are intended to pay for spending increases, not deficit reduction.**
  - Tax avoidance & evasion measures – *to pay for restoring the spare room subsidy and NHS spending*
  - Bank payroll tax – *to pay for jobs schemes*
  - Higher bank levy – *to pay for childcare*
  - Tax on the family home – *to pay for NHS spending*
  - Restricting pension tax relief – *to pay for jobs schemes and cutting tuition fees*
  - Corporation tax – *to pay for business rates cut*
  - Tax on pensions (Stamp Duty – reinstate Schedule 19 charge) – *to pay for restoring the spare room subsidy*
  - Levy on tobacco companies – *to pay for NHS spending*
  - Abolish marriage tax allowance – *to pay for restoring the 10p tax band*

- Levy on payday lenders – *to pay for credit union funds*
- Higher gun licence charges – *to pay for higher police spending*

- **Ed Miliband proposes a 50:50 balance of spending cuts to tax rises to cut the deficit.**
  - 'you've got to have a different balance of tax and spending. We had a plan at the election which was a 2:1 ratio, they have an 80:20 plan, I think we need to look at what the right balance was. I point out that Norman Lamont had a 50:50 balance between taxation and spending to reduce the deficit' (Ed Miliband, *Left Foot Forward Interview*, 8 July 2010).
  - 'We had two thirds/one third at the election – two thirds from spending cuts – I think that's the wrong ratio. I think we should look to see where we could get more tax revenue from' (Ed Miliband, *Channel 4 News Labour leadership hustings*, 1 September 2010).
  - 'After he became Labour leader, Ed Miliband's office briefed the New Statesman that he supports a 50:50 ratio: 'I'm told that the new Labour leader… is considering switching to a 1:1 (or 50 per cent to 50 per cent) ratio of spending cuts to tax rises' (Mehdi Hasan, *New Statesman*, 14 October 2010).

- **This would mean £3,028 of tax rises for every working household by 2020**. There are 17,339,000 households with someone in work (ONS, Working and workless households: 4th quarter 2004 to 2014, 24 March 2015).
  - If half of £15 billion, or £7.5 billion of structural deficit reduction was done in 2016-17, this would mean £433 of tax rises per working household in 2016-17.
  - If £15 billion of consolidation was done through tax rises, this would see an average tax increase of £865 per working household in 2017-18, 2018-19, and 2019-20.

In total, this means £3,028 of tax rises per working household under Labour by 2020.

- **For their sums to add up, it is impossible for Labour to rule out a National Insurance, Income Tax or VAT rise**. Only National Insurance, Income Tax or VAT increases can raise the level of revenue Labour are proposing – so it is impossible for Labour to rule out raising all three of these taxes:
  - 1% employee National Insurance rise – *raises £4.0 billion*
  - 1% employer National Insurance rise – *raises £5.1 billion*
  - 1% Income Tax basic rate rise – *£4.5 billion*
  - 1% Income Tax higher rate rise – *£1.2 billion*
  - 1% VAT rise – *£5.6 billion*
  - 10% decrease in all Income Tax thresholds – *raises £10.8 billion*
    (HMRC, Direct effects of illustrative tax changes, all figures are for 2017-18).

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