

Budget checklist

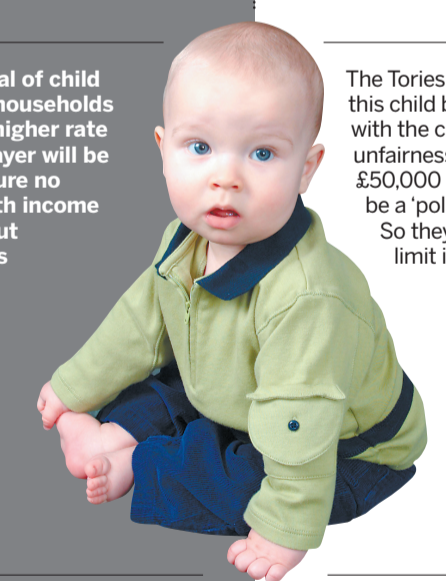
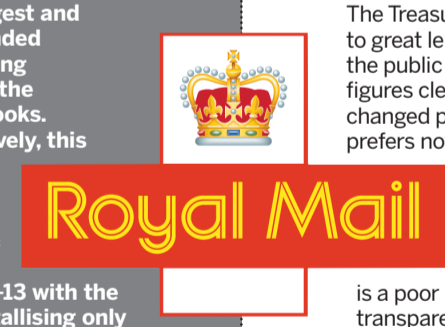
George Osborne's third Budget will focus on the rich, writes Chris Giles.

In a balanced speech, some taxes on the wealthy will fall and others will rise. There will be no let-up in the seven-year austerity programme



Photo: Getty Images

Issues	What is expected	FT verdict
The economy and public finances		
Economy	The Office for Budget Responsibility will leave its economic forecasts largely unchanged. Growth in 2012 is expected to rise a touch to 0.8 per cent, reflecting the view that the economy has a little more momentum than thought	Both the OBR and Treasury are delighted that this Budget will not see yet more downward revisions to forecasts. Officials talk about 'stabilisation'. Previous over-optimism hit the OBR's reputation for competence
The medium term	In November, the OBR took off its rose-tinted spectacles and admitted Britain's medium-term prospects were worse than anticipated	There will be no change to this assessment, limiting the room for manoeuvre for Mr Osborne. Austerity will grind on
Fiscal mandate	The OBR will declare the rules passed – an elimination of the current structural deficit by 2016-17 and a falling burden of debt by the time of the next election – but it will be tight	Even with two additional years of austerity, Mr Osborne will only squeak a pass on his fiscal mandate, limiting any desire he had for tax giveaways
Tax revenues	Revenues have been a touch disappointing in 2011-12, and are likely to fall short of the November 2011 expectation	Wages are not rising as fast as inflation and this squeezes the exchequer as much as households. This makes deficit reduction all the more difficult
Public expenditure	The austerity years started in April 2011 as the government swung the axe on capital expenditure projects and local authority budgets	This year, the focus on public spending cuts shifts towards benefits and day-to-day services spending. But there might be a need for more reductions. Local authorities beware
Public borrowing and debt	The OBR said in November that borrowing was set to fall from £127bn in 2011-12 to £24bn in 2016-17, some 1.2 per cent of national income. These figures are likely to change little and debt will peak at about 78 per cent of national income in 2014-15	With borrowing on track to meet the less stringent targets set in November, Mr Osborne will claim Plan A is on track. That is, of course, nonsense. He had hoped to sort out the public finances by 2014-15 and now requires two further years
Royal Mail pension fund	One of the largest and most underfunded schemes is being transferred to the government books. Counterintuitively, this transfer of a long-term liability will improve public borrowing by £28bn in 2012-13 with the liabilities crystallising only over the next few decades	The Treasury used to go to great lengths to keep the public finance figures clean. It has changed policy and prefers now to claim credit for not spending a windfall that is not real. It is a poor omen for transparency
Gilt sales	The central government net cash requirement – the amount it needs to raise to fund itself – will fall from £135bn in 2011-12 to about £40bn in 2016-17	Gilt sales are higher than public borrowing because student loans require funding, but will eventually be repaid



Budget judgment		
OBR assessment	The OBR will conclude that the odds of the government eliminating the structural budget deficit by 2016-17 are better than 50:50 and debt will be falling in 2015-16	Mr Osborne will respond with a neutral Budget, where small tax cuts are offset by other rises and small, new spending cuts. The important politics will be in his choice of tax changes

Tax changes for the rich		
HMRC report	HM Revenue & Customs were tasked last year with investigating how much money the 50p income tax rate for those with more than £150,000 actually raised. They will say that instead of raising £2.7bn in 2010-11, the 50p rate raised only hundreds of millions	HMRC does not have the data yet to produce a robust costing of the 50p rate. This is a fiendishly difficult analytical challenge, as you have to know what would have happened under a different tax regime. Politics comes first in these matters



Issues	What is expected	FT verdict
Tax changes for the rich (continued...)		
The 50p income tax rate	This will be cut, probably to 45p in April 2013 with a roadmap to its abolition by the time of the next election	A move that will delight tycoons and the Tory right, and will make the top 1 per cent significantly better off
Pension contribution reliefs	Mr Osborne might pay for the 50p rate cut with further restrictions in income tax relief for pension contributions. The £50,000 annual limit could be reduced	The top 1 per cent might find they pay a lower income tax rate but more income tax, if relief for pension contributions is restricted
Stamp duty avoidance	Mr Osborne will announce 'aggressive' rules to stop people placing expensive property in offshore companies to avoid stamp duty	Brings in only tens of millions so will not offset the revenues lost from abolishing the 50p tax rate
Tax avoidance	A new General Anti Abuse Rule will come in 2013 to allow the authorities to stop the most artificial tax avoidance scams	The OBR will have to advise how much money this will raise. Tax advisers say less than a few hundred millions
'Non doms'	'Non doms' living in Britain for 12 years will face a new £50,000 charge, offset by a new relief measure for those who invest capital in Britain	These two changes are likely to cancel each other out
Tycoon tax	All the above likely to be branded as such by Lib Dems, to show they have not sold out	The phrase is likely to die shortly after the Budget

Tax changes for the rest		
Personal allowance	Progress will be made on raising the personal allowance in income tax towards the coalition's target of £10,000. It is rising in April to £8,105 and Mr Osborne is likely to get close to £9,000 in 2013	Higher personal allowances will prompt the chancellor to say the Budget is aimed at low- to middle-income families. However, the additional move, costing up to £2bn a year, needs to be financed
Child benefit	The withdrawal of child benefit from households containing a higher rate income tax payer will be eased, to ensure no household with income less than about £50,000 loses	The Tories are worried that this child benefit change, with the cliff-edge unfairnesses of the £50,000 threshold, could be a 'poll tax moment'. So they are rushing to limit its effect
Tax statement	Everyone will receive a personal tax statement detailing how much tax they have paid and where government has spent it	Welcome transparency, but it has been tried before so it is unlikely to have large effects
Excise duties	Cigarette duty will rise 2 per cent above inflation as will alcohol duties. Fuel duty for motorists is complicated. They should expect a delayed increase from last year to hit in August, but the inflation-linked rise in 2012 will not happen	The government is pretty puritanical about your habits if you drink or smoke. If you drive and the price of oil is high, fuel duty will still rise, but not by proportionately as much as alcohol and cigarettes
Corporation tax	Mr Osborne will boast that the rate is falling to 24 per cent in 2013-14. He might go even lower for 2014-15	Lower rates of corporate tax, offset by less generous capital allowances, are something that Mr Osborne wants as a legacy

PHOTOS: DREAMSTIME