2012 BUDGET: 21 POLICIES FOR GROWTH AND WEALTH CREATION

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Deficit reduction remains the primary economic aim of this Parliament. But the UK is overtaxed and overregulated. This Budget should cut spending in areas which do not enhance medium-term growth, and use the savings to cut taxes – not to 'stimulate' the economy, but to improve the supply-side and the underlying growth rate. These modest policy suggestions outlined below seek to:

a. ease the burden on working families,
b. cultivate the conditions for enterprise,
c. deregulate small and medium sized enterprises,
d. reform the pension tax relief system.

TARGETED TAX CUTS

1. Increase the income tax personal allowance to £9,000 this year; and £10,000 next year.[1]
   Estimated cost (for 2012-13): £4.4 billion

2. Cut the main rate of Corporation Tax to 20% this year, to create a uniform tax rate.[2]
   Estimated cost: £4.0 billion

3. Announce the intention to cut Corporation Tax further subject to closing avoidance loopholes; and set out plans to merge Income Tax and National Insurance completely within the Parliament.[3]
   Estimated cost (for 2012-13): nil

4. Abolish the 50% additional income tax band.[4]
   Cost neutral

5. Cut the main rate of employers' National Insurance Contributions by 1 percentage point, and use NIC holidays on new employees to encourage small business growth.[5]
   Estimated cost: £4.2 billion

6. Rule out a Mansion Tax or any other new wealth taxes (but tighten up stamp duty evasion).[6]
   Estimated revenue gain: £150 million

EMPLOYMENT DEREGULATION[7]

7. Exempt all small businesses (0-50 employees) from: the extension of flexible working regulations; requests for time off for training; pension auto-enrolment.

8. Suspend National Minimum Wage legislation for workers under the age of 21 working for small businesses.

9. Create a new 'no fault dismissal' for underperforming employees after two years of employment, which would work in parallel to 'unfair dismissal'.

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1 CPS (2001), *Poor People! Stop Paying Tax!* by Maurice Saatchi and Peter Warburton; Report of the Tax Reform Commission (2006), *Tax Matters by* Michael Forsyth.
2 CPS (2012), *How to cut Corporation Tax* by David Martin; CPS (2011), *Adrenalin Now* by Ryan Bourne, CPS (2009); *Go For Growth* by Lord Forsyth. The HMRC ready reckoner estimates this would cost £2 billion in 2012-13, and £4 billion by 2014-15. Due to the volatile nature of Corporation Tax receipts, the long-term estimate has been used here.
3 CPS (2011), *Abolish NICs* by David Martin.
4 CPS (2009), *What's wrong with 50p?* by Jill Kirby and Iain Griffiths, CPS (2010) *Go For Growth* by Michael Forsyth.
5 CPS (2011), *Adrenalin Now* by Ryan Bourne.
6 CPS (2012), *Taxing Mansions* by Lucian Cook.
7 CPS (2011), *Escaping The Strait Jacket: Ten Regulatory Reforms to Create Jobs* by Dominic Raab MP.

10. Strengthen the power of employment tribunals to strike out and deter spurious claims.

11. Encourage flexible working for senior employees by enabling 'protected conversations' with workers aged 65 and over.

12. Reform TUPE to encourage business rescues.

ENERGY[8]

13. Delay the imposition of the carbon price floor and instead put effort behind strengthening the continent-wide EU Emissions Trading Scheme.

PENSIONS AND SAVING[9]

14. Abolish higher rate pension tax relief.
    Estimated revenue gain: £7 billion

15. End the contracting out of S2P.
    Estimated revenue gain: £3.5 billion

16. Reinstate the 10p tax rebate on pension assets' dividends and interest income.
    Estimated cost: £4.0 billion

17. Combine the annual contribution limits for tax relief on ISAs and pensions saving, at no more than £40,000, with the full limit available for saving within an ISA.
    Cost neutral

18. Replace the 25% tax-free concession on lump sum withdrawals at retirement with a 5% 'top-up' of the pension pot, paid prior to annuitisation, which would be of much more lasting benefit to most people.
    Cost neutral

SAVINGS FROM GOVERNMENT EXPENDITURE

19. Means-testing winter fuel payments, old-age TV licenses and bus travel for pensioners.
    Estimated saving: £2.1 billion

20. Cut the current and capital budgets of DfID back to 2010/11 levels.
    Estimated saving: £1.2 billion

21. End promoting low carbon technologies in developing countries and state funding of trade-unions.
    Estimated saving: £413 million

Ryan Bourne, Head of Economic Research comments:

> "The UK is recovering slowly in part due to a complicated tax system which creates perverse incentives and discourages success, alongside excessive regulation. But in the long-run the only way back to achieving economic prosperity is to embrace enterprise and to reward success. These modest steps start that journey."

Tim Knox, Director of the CPS comments:

> "We need lower, simpler taxes that encourage, not penalise, wealth creation. Lower corporate tax rates can quickly lead to increased tax receipts: between 1982 and 2010, the main corporate tax rate fell from 52% to 26% while receipts increased by 30%. The same is true of income tax. In 1979, when the top income tax rate was 83%, the top 1% of UK taxpayers contributed 11% of the entire income tax revenue. In 2010 (when tax rate was 40%), the top 1% of UK's taxpayers contributed 24% of the income tax revenue collected by the Government. So if you want the rich to pay more, lower the tax rate."

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[8] CPS (2012), *The Atomic Clock* by Tony Lodge.

[9] CPS (2012), *Pensions: bring back the 10p rebate and goodbye higher rate relief* by Michael Johnson.

Policy area	Policy change for 2012-13	Effect on Budget Balance 2012–13 relative to current baseline (£ million)
Tax policy	Increase the income tax personal allowance to £9,000	– £4,400
	Cut the main rate of Corporation Tax to 20 per cent	– £4,000
	Abolish the 50p rate	£0
	Cut the main rate of employers' NICs by 1 percentage point	– £4200
	Tighten stamp duty rules surrounding shell companies	+ £150
Pensions and saving	Abolish higher rate pension tax relief	+ £7,000
	End contracting out of S2P	+ £3,500
	Reinstate the 10p tax rebate on pension asset's dividends and interest income	– £4,000
	Combine the annual contribution limits for tax relief on ISAs and pensions saving, at no more than £40,000, with the full limit available for saving within an ISA.	£0
	Replace the 25% tax-free concession on lump sum withdrawals at retirement with a 5% "top-up" of the pension pot, paid prior to annuitisation	£0
Government spending	Means-test winter fuel payments, old-age TV licenses and free bus travel	+ £2,100
	Cut back combined current and capital spend for DfID to 2010/11 levels	+ £1,200
	End promoting low carbon technologies in developing countries and state funding of unions	+ £413
BALANCE	*Overall, these policies will increase borrowing relative to baseline by £2.2 billion. In comparison, it has been widely reported that the Chancellor is on course to overshoot his Budget target by £7 billion.*	*– 2,240*

Note: the above data are based on estimated costs using the HMRC Ready Reckoner and Departmental Annual Reports. The authors are confident that some of the tax measures (particularly cuts in Corporation Tax) could quickly be self-financing.