

## Summer Budget – July 2015

### SPECULATION AND ANNOUNCEMENTS

#### Introduction

Whitehouse has prepared this briefing which sets out a general summary of the speculations regarding the Summer 2015 Budget, due to be presented to Parliament on Wednesday 8 July. The Budget Statement will be delivered by Chancellor of the Exchequer George Osborne and will set the revenues to be gathered by HM Revenue and Customs over the next financial year and the overall expenditures of the public sector.

#### Overview

The largely unexpected election of a majority Conservative Government in May was swiftly followed by an announcement that there would be a second 2015 budget, [referred](#) to in some circles as an “Emergency Budget”, and in others as the “Summer Budget”. This will be the first Budget by a majority Conservative Government since November 1996, and the first one that Chancellor George Osborne has developed free from Liberal Democrat influence.

There are two primary reasons for holding this budget:

- Waiting until March 2016 to deliver the first budget of this parliamentary term would force the Government to abide by a fiscal agenda compromised by the previous Conservative partnership with the Liberal Democrats for the better part of a year: a second budget allows for the new Government to set its own policies in line with its manifesto commitments. When he [announced](#) the second budget back in May, the Chancellor said that he wanted to “turn promises made in the election into a reality”.
- There is a need to get as many of the most controversial measures implemented as rapidly as possible in order to (a) put as much distance between them and the next General Election as possible and (b) act before the glow of election victory wears off and the Conservative back-benchers become restless - a potentially serious problem given the Government's small majority.

The concept of passing controversial measures early in the parliamentary session is an approach Osborne has used before: the “Emergency Budget” of [June 2010](#) saw him raise the main rate of VAT from 17.5 to 20 per cent, raise capital gains tax rates from 18 to 28 per cent for higher earners, freeze pay for most public sector workers and freeze child benefits. The Chancellor can be once again expected to front-load as many of the difficult decisions that will be coming over the next five years into this budget as possible.

The speculation will now be broken down by sector:

- [Surplus rule](#)
- [Taxation](#)
- [Welfare, employment and pensions](#)
- [Transport, infrastructure and energy](#)
- [Other](#)

#### [Surplus rule](#)

In keeping with Osborne's narrative of fiscal responsibility there will be legislation to enforce a "surplus rule", which would legally prevent future governments from spending more than they receive in tax revenue when the economy is growing. Osborne first proposed the changes to fiscal policy in January, and subsequently [confirmed](#) the scheme in his annual Mansion House speech last month. The Office for Budget Responsibility (OBR), an independent watchdog, would be responsible for policing the new rules, and would have the power to decide when the government should be able to spend more than it is taking in revenue - for example, when the country is in a recession.

#### [Taxation](#)

A major component of the Budget will likely be a commitment to follow-up on the [Conservative manifesto](#) pledge to pass legislation to prevent VAT, National Insurance contributions or income tax from rising in the next five years. Whilst many have referred to this concept as both a "fiscal straight jacket" and meaningless in the sense that such legislation could easily be repealed, it is designed to send a message that the Conservatives are serious with regards to their commitment to a "lower tax economy". However, it is not out of the question that this budget will see further [increases](#) in capital gains tax or a [reduction](#) in the tax relief available to buy-to-let property owners.

Tax cuts for individuals - both the reiteration of those announced in the previous budget and details of those outlined in the Conservative manifesto - are likely to be a stand-out feature of the Budget. More detail is expected to be revealed on the announcement in the [March 2015 Budget](#) to increase the personal allowance to £12,500 by 2020. Alongside the increase in personal allowances will likely be an increase in the point at which 40 per cent income tax will apply, and changes that will mean that no one working for 30 hours a week on the national minimum wage will pay income tax. Recent weeks have seen [pressure](#) build on the Government from some quarters to reduce the top level of income tax from 45 to 40 per cent. However, the weekend saw the Chancellor [rule out](#) this move.

Another major budget headline will be that the inheritance tax threshold will [increase](#) to £1million for couples from April 2017. This new "family home allowance" will be worth £175,000 per person and will come on top of the existing £325,000 tax free allowance.

In order to politically soften the blow of raising the inheritance tax threshold and contribute towards the goal of raising £5bn in extra revenue from tax avoidance, it also seems likely that Osborne will implement [major](#)

[changes](#) to crack down on the ‘non-dom’ system. In addition to raising the annual charge, the Treasury is expected to tighten the rules so that anybody who opts to pay the annual charge in a given year will have to keep paying it for at least three years.

#### Welfare, Employment and Pensions

The Conservative Party said in its election manifesto that it would adopt a [three-pronged](#) approach to deficit reduction in the current parliament: £13bn of departmental spending cuts, £5bn of extra revenue from a crackdown on tax avoidance and £12bn of welfare cuts. Whilst the details of the departmental cuts will have to wait until the autumn Spending Review and the revenue from reducing tax avoidance still to make its way to the Treasury, the Budget will give us our first glimpse of where the welfare cuts will fall.

Last month [reportedly](#) saw Osborne strike a deal with Work and Pensions Secretary Iain Duncan Smith over the details of the reductions. Cuts under consideration include substantial [reductions](#) in housing benefits and a ban on people aged under 25 from claiming them. Also in the line of fire are child tax credits, with proposal for [reducing](#) them to 2003/4 levels, plus inflation, having been floated in the press. The latter changes would cut entitlements for about 3.7 million low-income families by about £1,400 a year. A [leaked](#) Whitehall paper seen by the BBC suggested that plans to scrap part of the UK's main sickness benefit, Employment and Support Allowance, are also being considered.

However, it would seem likely that it will be working tax credits that will be [hardest hit](#). A recent speech by the Prime Minister in which he pledged to transform Britain “from a low wage, high tax, high welfare society to a higher wage, lower tax, lower welfare society” appeared to be laying the groundwork for reducing the Government's role in supporting the income of those in work. However, it would seem [unlikely](#) that the Government will match the rhetoric of “higher wages” with a push to increase the minimum wage.

One move that is certain to be announced, as it was contained in the Conservative manifesto, is a reduction in the household benefit cap from £26,000 to £23,000. It has also [emerged](#) that the £23,000 may only apply to those living in London, and that those living in other parts of the country may be eligible for as little as £20,000.

For pensions, the General Election campaign saw the Conservative Party say that it would [reduce tax relief](#) on pension contributions for those paying tax at 45 per cent. This change would eliminate a significant amount of tax relief from the Government's books, and would pay for an end to inheritance tax on homes worth up to £1 million (see above).

Meanwhile, it has been reported that Osborne is [negotiating](#) a deal with the BBC in which the corporation would pick up the £650m cost of funding free television licences for the over-75s, about one-fifth of the organisation's annual licence fee income. In exchange, the BBC would be granted the ability to charge for the use of the iPlayer, and the option of ending free TV licences for over-75s altogether in 2020.

### Transport, Infrastructure and Energy

Relatively little information is available with regards to the Government's plans for transport and infrastructure. Rumours are [circulating](#) that the Chancellor may reinstate inflationary increases in fuel duty in order to boost revenues: Ministers have repeatedly refused to rule out such a move, which is likely to anger MPs on the Government's own side. There are also [reportedly](#) plans to give more than £100m to further develop the Crossrail 2 rail proposal, with the funding designed to support the technical assessments and the identification of planning issues.

Measures to deal with recent unrest within the Conservative party over the cost of green energy subsidies also seem likely to feature in the Budget. It is [expected](#) that Osborne will use the Budget to announce that he is abandoning targets set under the coalition to increase the level of environmental taxes in a move he hopes will save customers and businesses billions of pounds.

### Other

It has been [reported](#) in *The Daily Telegraph* that the Budget will “pave way for up to 100,000 Civil Service job cuts”. The paper reports that Ministers expect 100,000 civil servant jobs – almost a quarter of the 440,000 total – to be lost between now and 2020. This is on top of the 90,000 jobs that have been cut in the past five years. However, any details on such proposals will have to wait until the Spending Review this autumn.

The extent to which devolution will feature in the Budget is as yet unclear. However, it has been [reported](#) that a devolution deal for Cornwall, including greater integration and control over health and care spending, is expected to be announced by the Chancellor.

Finally, it what will likely be one of the few ‘sweeteners’ in the Budget, it has been [reported](#) that Wednesday will see the Government pledge £30m to speed up finding adoptive parents for children in care in England. The money will be provided this year to local authorities to cover costs they incur finding parents beyond their geographical borders.

### **Conclusion and next steps**

In the days leading up to the Budget on Wednesday, Whitehouse will continue to monitor announcements by the Government updating this document as appropriate. On the day of the Budget itself, Whitehouse will provide a summary of the central points of the Chancellor's speech, plus infographics of relevant announcements.