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BRIEFING PAPER

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Budget 2016: a summary

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Budget 2016 at a glance

Budget 2016 was presented by the Chancellor of the Exchequer to Parliament on 16 March. At the same time the Office for Budget Responsibility (OBR) published updated forecasts in its Economic and Fiscal Outlook.

Budget announcements

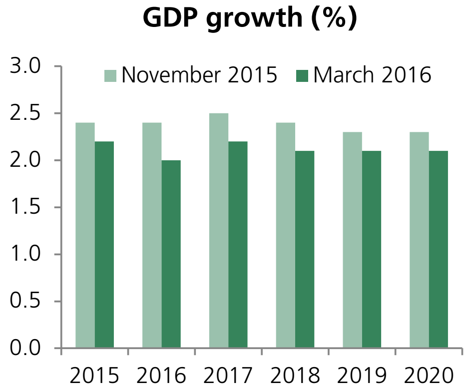
- **Tax-free personal allowance** increased to £11,500 in April 2017 from £11,000 in April 2016; **higher rate threshold** increased to £45,000 in April 2017 from £43,000 in April 2016.
- The **ISA tax-free allowance** increased from £15,240 to £20,000 in April 2017.
- A **Lifetime ISA** introduced from April 2017. Adults aged under 40 will be able to save up to £4,000 each year and receive an additional 25% from the Government.
- The Government to consult on introducing a **soft drinks industry levy** from April 2018. The levy – paid by producers and importers of soft drinks – will be charged on according to sugar content. Revenue raised will be ring fenced for schools funding.
- Following a review of **business rates**:
  - business rates uprated by the Consumer Price Index from 1 April 2020. Business rates are currently uprated by the generally higher Retail Prices Index.
  - Small Business Rate Relief (SBRR) increased permanently from 50% to 100% in April 2017.
  - the threshold for receiving 100% SBRR increased from £6,000 to £12,000.
- Taxes on the **oil and gas industry** reduced. The **petroleum revenue tax** reduced from 35% to 0%. The **supplementary charge** on companies' profits reduced from 20% to 10%. Both changes take effect from 1 January 2016.
- **Corporation tax** reduced to 17% in April 2020.
- New rules to **limit the tax relief** that large multinational enterprises can claim for their **interest expenses** introduced from April 2017.
- The higher rate of **Capital Gains Tax** reduced from 28% to 20% and the basic rate from 18% to 10%. These changes take effect from April 2016.
- **Fuel duty** frozen in 2016/17. **Duties for beer, spirits and most cider** also frozen.
- **Class 2 National Insurance contributions** for the self-employed abolished in April 2018.
- The **Carbon Reduction Commitment** energy efficiency scheme abolished, and the **Climate Change Levy** increased from 2019.
- **Stamp duty land tax (SDLT) on non-residential property** transactions reformed.
- A range of measures designed to **tackle tax avoidance and evasion**, estimated to raise around £3 billion in 2019/20.
- From January 2017 savings made due to changes in assessment of **Personal Independence Payment** (PIP). PIP helps with costs caused by long-term ill-health or a disability.
- An **efficiency review**, aiming to save £3.5 billion from departments' budgets in 2019/20, to report in 2018.

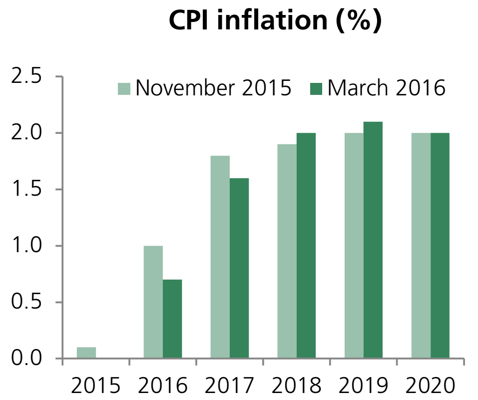
- Some **capital spending** – for housing, transport and flood defence – to be earlier in the Parliament.
- A £1,000 allowance for property income and a £1,000 allowance for trading income introduced from April 2017. These measures are aimed at those making incomes from the **digital and sharing economies**.
- The Government expects **all schools to become academies**, or be on the way, by 2020.
- **Crossrail 2** and **High Speed 3** – between Leeds and Manchester – to proceed.
- **New mayoral devolution deals** announced for Greater Lincolnshire, East Anglia, and the West of England and further devolution for Greater Manchester and Liverpool City Region.

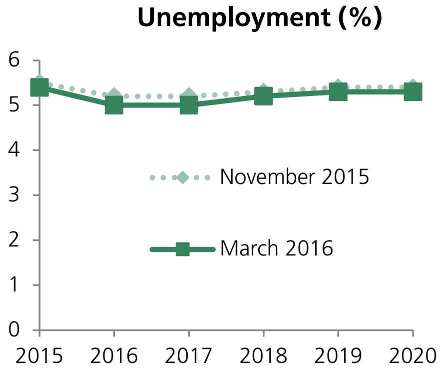
Office for Budget Responsibility (OBR) forecasts and the fiscal rules

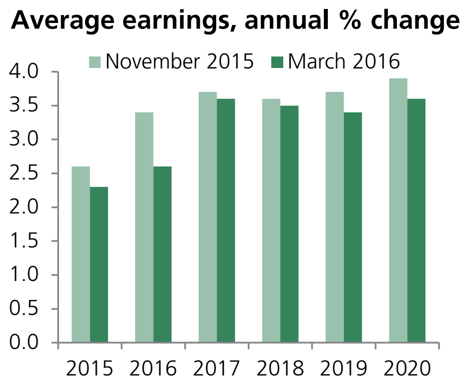
- The OBR revised down its forecasts for economic growth, saying that 'economic developments have disappointed' since its last forecast in November 2015. They report that the public finances look 'materially weaker'.
- The OBR judges that the Government is **on course to meet its 'fiscal mandate'** of a budget surplus in 2019/20. Despite a deterioration in the underlying forecast, the Government has met its target in 2019/20 by:
  - decreasing departments' current and capital spending;
  - introducing cuts to be identified by an efficiency review;
  - increasing public service pension contributions but not compensating departments for additional costs;
  - increasing tax revenues, largely by delaying a measure that brings forward large firms' quarterly corporation tax payments; and,
  - reducing welfare spending, largely through tightening the disability benefits system.
- The OBR judges that the debt-to-GDP ratio will rise between 2014/15 and 2015/16, therefore **the Government will miss its supplementary debt target.**

1. OBR forecasts for the economy









In its March 2016 forecasts compared with its November 2015 forecasts the OBR expects:

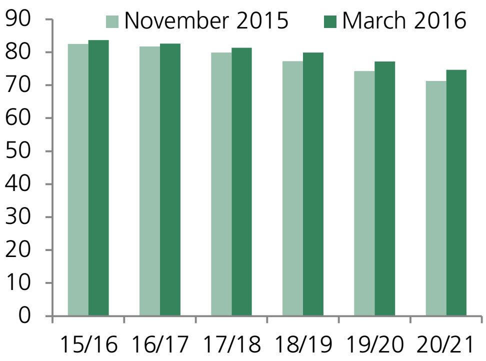
- GDP annual growth to be lower in the whole of the forecast period, particularly in 2016 when it is forecast to be 0.4 percentage points lower.
- CPI annual inflation to be lower in 2016 and 2017.
- Average annual earnings growth to be substantially lower in 2016.

OBR forecasts: economy

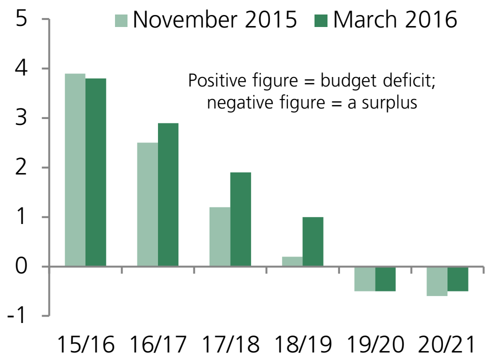
	2015	2016	2017	2018	2019	2020
GDP growth (%)						
OBR, November 2015	2.4	2.4	2.5	2.4	2.3	2.3
OBR, March 2016	2.2	2.0	2.2	2.1	2.1	2.1
CPI inflation (%)						
OBR, November 2015	0.1	1.0	1.8	1.9	2.0	2.0
OBR, March 2016	0.0	0.7	1.6	2.0	2.1	2.0
Employment, millions						
OBR, November 2015	31.1	31.5	31.7	31.9	32.0	32.2
OBR, March 2016	31.2	31.6	31.7	31.9	32.0	32.1
ILO unemployment rate, %						
OBR, November 2015	5.5	5.2	5.2	5.3	5.4	5.4
OBR, March 2016	5.4	5.0	5.0	5.2	5.3	5.3
Claimant count, millions						
OBR, November 2015	0.80	0.77	0.82	0.86	0.87	0.88
OBR, March 2016	0.80	0.75	0.78	0.84	0.86	0.87
Average earnings, % change on previous year						
OBR, November 2015	2.6	3.4	3.7	3.6	3.7	3.9
OBR, March 2016	2.3	2.6	3.6	3.5	3.4	3.6

2. OBR forecasts for the public finances

Public sector net debt, % of GDP



Public sector net borrowing, % of GDP



- The OBR forecasts that public sector net debt will rise as a proportion of GDP from 83.3% in 2014/15 to 83.7% in 2015/16. This means that **the Government will miss its Supplementary Target for debt to fall as a percent of GDP each year.**
- In cash terms, debt is now forecast to be higher in each year from 2018/19 onwards compared with the OBR's forecasts published in November 2015.
- Public sector net borrowing is forecast to reach a surplus in 2019/20, meaning that **the Government is forecast to meet its Fiscal Mandate of a budget surplus in 2019/20.**
- However, borrowing is now forecast to fall by less in each year until 2018/19, and then by much more in 2018/19 to 2019/20, compared with the OBR's November forecasts.
- In 2019/20, a budget surplus of £10.4 billion is forecast. This means that borrowing is forecast to fall by £31.8 billion between 2018/19 and 2019/20.

OBR forecasts: public finances

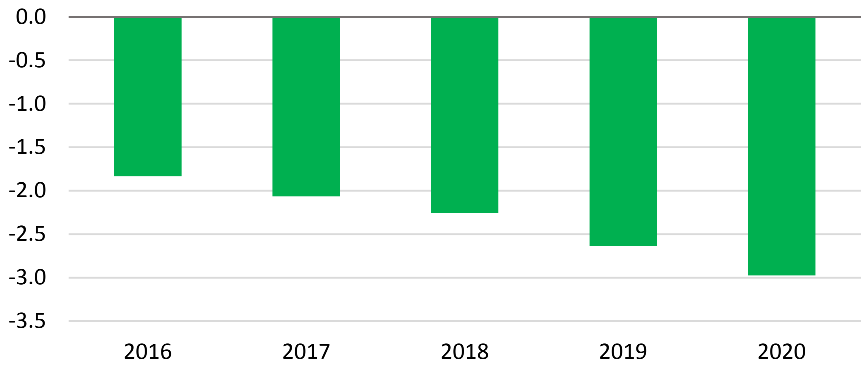
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Net borrowing, £ billion						
OBR, November 2015	73.5	49.9	24.8	4.6	-10.1	-14.7
OBR, March 2016	72.2	55.5	38.8	21.4	-10.4	-11.0
Net borrowing, % of GDP						
OBR, November 2015	3.9	2.5	1.2	0.2	-0.5	-0.6
OBR, March 2016	3.8	2.9	1.9	1.0	-0.5	-0.5
Net debt, £ trillion						
OBR, November 2015	1.60	1.65	1.69	1.70	1.71	1.72
OBR, March 2016	1.59	1.64	1.68	1.72	1.73	1.74
Net debt, % of GDP						
OBR, November 2015	82.5	81.7	79.9	77.3	74.3	71.3
OBR, March 2016	83.7	82.6	81.3	79.9	77.2	74.7

2.1 Impact of lower GDP on tax revenues

The latest OBR forecasts includes a downgrade to headline real (inflation-adjusted) GDP growth in all years to 2020 (see section 1 above). There was also a larger reduction to cash terms (or nominal) GDP. Nominal GDP is more important to the public finances as "taxes are driven more by nominal than real GDP" in the words of the OBR.[1]

Nominal GDP, which shows the total size of the UK economy, is now expected by the OBR to be 3.0% smaller in 2020 than it previously thought in its last forecast in November 2015. This is due to a combination of forecasts for productivity growth and real-terms GDP growth being cut, and to lower inflation figures and forecasts for 2015 and 2016 (which reduce the size of nominal GDP in these years).[2]

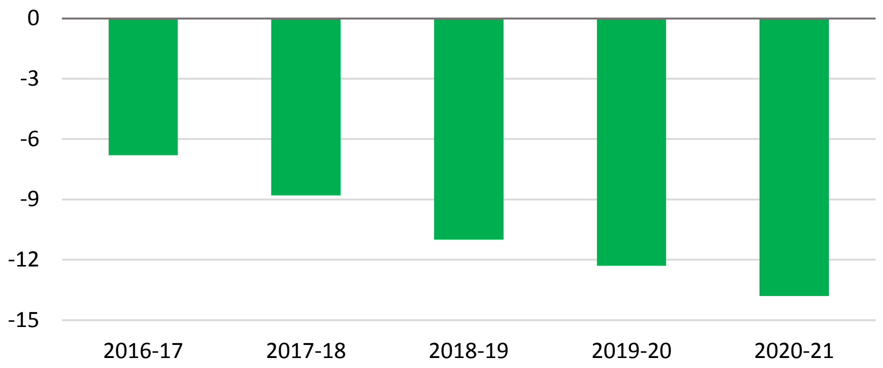
% difference in size of economy (nominal GDP) in latest forecast compared with previous Nov 2015 forecast for each year



Source: OBR, EFO Mar'16 and Nov.15, supplementary economic table 1.2

Lower nominal GDP affects government tax revenues and, in turn, the budget deficit. The OBR forecasts that the new lower nominal GDP forecasts alone – and before Government policies in this Budget are included – result in tax revenues being less each year compared with its November forecast. For instance, they are expected to be £12.3 billion lower in 2019-20 than the OBR forecast in November.

Effect of lower nominal GDP forecasts on tax revenues (£ billion) compared with previous Nov 2015 forecast for each year



Source: OBR, EFO Mar'16, table 1.5

1 OBR, *Economic and fiscal outlook March 2016*, Cm9212, 16 March 2016, p.62
2 Inflation as measured by the GDP deflator

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