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ADRENALIN NOW

FUNDED, POPULAR TAX CUTS TO BOOST THE ECONOMY

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SUMMARY

- George Osborne's deficit reduction plan is predicated on relatively high private sector growth rates in the latter years of this Parliament.

- With growth of the last ten years driven by both public and private debt, however, it is unclear whether underlying growth is strong enough to meet the fiscal mandate. Indeed, current low growth rates call into question the plausibility of the deficit reduction plans.

- To generate growth, expansionary fiscal policy would be futile, and would risk a spike in interest rates which would bring a real risk of default. Likewise, monetary policy options are close to exhaustion.

- The best approach to boost growth is therefore to improve our competitiveness through lowering specific taxes and undertaking regulatory reform – unwinding the burdens of state regulation and reducing the cost of employment.

- Targeted tax cuts can be funded by beginning to reform the pensions system and cutting the international aid budget. The reforms presented here would save over £14 billion. This would enable the Government to:

  – **Cut the Class 1 employer rate of NICs to 12% and use NIC holidays on new employees to encourage small business growth**

  – **Cut the main rate of corporation tax by an additional 4% in 2012/13**

  – **Scrap the 50p income tax rate**

  – **Increase the income tax personal allowance by £500 more than planned in 2012/13**

  – **Outline plans to abolish stamp duty on share transactions**

- These proposals should be seen as the first steps on the path to returning the UK to the top of the league table for tax competitiveness.

INTRODUCTION

The Coalition Government was right to outline plans to eliminate the structural deficit over this Parliament. Its plan, considered credible by the markets, sought to contract public expenditure by just 3.7% in real terms.[1] Much of the closing of the deficit was forecast to be met from higher tax revenue attributed to stronger economic growth in the latter years of the Parliament.[2]

The growth over the last ten years was largely fuelled by increases in both private and public debt. It was unsustainable. Expansions of industries like real estate, financial services and construction, alongside public sector health, education and administration, lay testament to this legacy.[3] But the financial crisis of 2008 changed all that. Suddenly, access to credit for enterprise and individuals dried up. And with public expenditure also now being constrained, the two previous sources of growth have been limited.

It was thought that other sectors of the economy would fill the void left by contracting state spending. But thus far GDP growth has consistently underperformed OBR and IMF forecasts.[4] This will make it increasingly difficult to eliminate the structural deficit: indeed, if growth is half that forecast by the OBR across this Parliament, the deficit will still be 9% of GDP by 2015, and debt as a proportion of GDP would not peak until 2025.[5] Implementing policies that are growth inducing should therefore be the priority of the Government **within** its deficit reduction framework.

As a result, the proposals made here are based on the following principles:

- It is essential that the financial markets have confidence in the UK's deficit reduction plans. As a result, while the overall impact of the tax cuts recommended here would be positive (on both the Treasury and the economy as a whole), no such gain is factored into our calculations.
- The proposals will be popular. At a time of great economic difficulty, it is essential that reforms win the support of the electorate.[6]
- Cuts to spending in other departments will be the subject of a separate study.
- The proposals should be seen only as the first steps along the path of further tax reductions. It is essential that a strong pro-growth message is heard, both domestically and internationally.

1 This figure includes extra spending on debt interest payments. In terms of real terms departmental expenditure, cuts are on average 11 per cent – see http://blogs.ft.com/westminster/2010/10/the-full-spending-league-table-osborne-left-out/

2 CPS Factsheet 4, *Taxing times – the real means of closing the deficit,* 2011.

3 Calculations presented in the Tullett Prebon report 'Thinking the unthinkable' state that 'real estate, financial services and construction' (39% of GDP) and 'health, education, public administration and defence' (19% of GDP), together now make up 58% of the economy. All of these industries are 'ex-growth' due to public spending restraint and constrained credit.

4 The IMF's growth forecasts for the UK have been downgraded three times in 2011: at the start of the year it projected 2% growth for 2011-12, but has since been downgraded to 1.7% in April, 1.5% in June, and 1.1% in September.

5 Tullet Prebon, *'Thinking the unthinkable' from Project Armageddon,* 2011.

6 The proposals made here have been tested in a ComRes opinion poll survey of 2024 GB adults. See the Appendix for full details and results.

LIMITED MACROECONOMIC POLICY OPTIONS

Continuing to run deficits at 2009/10 levels through this Parliament would push the official public debt ratio to 100% of GDP by 2015 and 150% by 2021, bringing with it the real risk of default. A spike in interest rates resulting from a plan not considered credible would make government debt repayments unsustainable and reduce mortgage owners to penury.

More than that, the evidence suggests that further fiscal stimulus would be ineffective. A recent IMF study[7] found that the fiscal multiplier – that is, the increase in real income as a result of £1 of increased debt-financed government spending – is zero for countries with central government debt above 60% of GDP. The UK's official debt today is 66.1% of GDP, and is forecast to peak at 70.9% in 2013/14.[8]

In other words, the UK's high public debt characteristic would render a further stimulus futile, not least because the effect of multipliers is currently further depressed as individuals and businesses are deleveraging.

With fiscal policy options therefore limited, expansionary monetary policy could have a further role – as long as an effective monetary transmission mechanism is identified.[9] Thus far, most QE has been absorbed in recapitalising the banks and little has made its way to small and medium sized enterprises.

Low interest rates have helped to limit the costs associated with debt interest payments, and have prevented many bankruptcies. But with the Bank of England base rate at just 0.5%, and real interest rates as low as minus 3.8%, the options here are almost exhausted.

THE NEED FOR ACTION

Sluggish growth in the US and the on-going EU sovereign debt crisis has made an export-led recovery difficult. There has been a relatively small boost to exports resulting from the 30% depreciation of sterling against the dollar since 2008.[10]

The need to improve UK competitiveness could not be clearer. For the UK has lost ground in each of the three league tables of economic competitiveness since 1997:[11]

- It fell from 7th to 10th in the Global Competitiveness Report published by the World Economic Forum.
- It fell from 9th to 20th in the World Competitiveness Yearbook published by the Institute for Management and Development.
- It fell from 5th to 16th in the Index of World Economic Freedom published by the Heritage Foundation.

The most recent 2011-12 WEF Global Competitiveness report outlined the strengths and weaknesses of the UK economy.[12] The UK has much to offer in terms of business location: we have strong, established property

7 Carlos Vegh Gramont et al, *How big (small?) are fiscal multipliers?*, IMF, 2011.

8 Budget 2011 http://cdn.hm-treasury.gov.uk/2011budget_complete.pdf

9 The minutes from the September Monetary Policy Committee meeting suggests more Quantitative Easing is being seriously considered. See http://www.bankofengland.co.uk/publications/minutes/mpc/pdf/2011/mpc1109.pdf

10 Note that in July 2011 the trade in goods deficit remained at £8.9 billion, compared with £7.6 billion in May 2010 .

11 See R Bourne and J Wilson, *How to reverse the UK's declining competitiveness*, CPS 2011.

12 http://reports.weforum.org/global-competitiveness-2011-2012/

rights, high levels of innovation and business sophistication. But our competitiveness in these areas is undermined by excessive government regulation, unsound banks and the damaging effects of our current tax structure. The UK is:

- 83rd of 142 countries for the 'burden of government regulation';
- 111th on the soundness of our banking system;
- 94th on the 'extent and effects of taxation.' In 1997, the UK was 4th.

SOME ACHIEVEMENTS, BUT NOT ENOUGH

The Coalition has made a start in attempting to reverse the UK's competitive decline:

- It has pledged to lower Corporation Tax to 23% by the end of the Parliament
- It has pledged to increase the income tax personal allowance to £10,000 by the end of the Parliament
- It has begun long-term reform of our school system, vital to skill levels and human capital
- It has introduced a 'one-in one-out' rule for new business regulation
- It has introduced a moratorium exempting micro and start-up businesses from new domestic regulation from April 2011 to April 2014
- It has established 22 Enterprise Zones
- It has set out liberalising reforms to planning law

Yet more needs to be done.

NEW SAVINGS

Experience of the 1980s, in both the US and UK, showed that targeted tax rate reductions can *increase* revenue. But given the precarious state of the public finances, and the short-term need to control borrowing, the following policies assume that the dynamic effect of tax cuts will be zero. The static 'cost' of the proposed tax cuts could be covered by the following reforms which would reduce spending by £14.3 billion.

Abolish differential rate of pension tax relief for higher and additional rate payers (saves £7 billion)

In 2009/10, the net cost of pension tax relief was £30.65 billion, of which 60% went to individuals in the higher income tax band.[13] As a first step towards creating a single, unified tax framework for all tax-incentivised saving, the Coalition should cap upfront relief to the standard rate of tax (20%).[14] This would save approximately £7 billion a year.[15]

Abolish contracting out of S2P (saves £3.5 billion)

Ending the contracting out of the second state pension (S2P) would bring an immediate cash win to the Treasury, notwithstanding that future governments would then take on the liability. The Government Actuarial Department

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13 Pensions Policy Institute, from HMRC https://www.pensionspolicyinstitute.org.uk/default.asp?p=165 and https://www.pensionspolicyinstitute.org.uk/default.asp?p=164

14 Ideally, this would not be necessary. But the current pension policies cannot be judged successful against their aim to encourage sufficient saving for retirement.

15 See M Johnson, *Simplification is the key*, CPS, 2011. Note that public opinion is divided on this issue: 35% of GB adults in the ComRes survey supported "making pension tax relief 20% for all taxpayers by abolishing 40% and 50% tax relief for higher rate taxpayers" compared to 38% who opposed it.

indicates that contracting out rebates are likely to cost just over £7 billion in 2011/12,[16] with 2.1 million private sector workers and 5.2 million public sector workers in these defined benefit schemes.[17]

Making the simple assumption that the average wage and distribution of wages in the two sectors are the same, the rebate attributable to the private sector would produce a cash saving to Treasury of £2 billion.[18] A smaller initial saving of £1.5 billion would be derived from not having to pay employee rebates to public sector workers, representing an overall cash flow saving of £3.5 billion.[19] This is an unashamedly quick win. Reform of S2P should take place alongside a wide-ranging re-development in fixing the pensions system.

Cut International Aid current and capital expenditure budgets (saves £1.3 billion)

The 2011 Budget suggests that the Government will spend £8.2 billion on DfID current and capital expenditure in 2011/12, rising to £11.4 billion by the end of the Parliament. This was intended to try to meet the goal of 0.7% of UK GDP going towards international aid.

The recent news that India is establishing its own aid agency, distributing $11 billion over the next ten years,[20] raises questions as why the UK still grants it, and other large countries, substantial sums of aid.

The Coalition should set out a vision for what strategic goals aid hopes to achieve. Key for developing countries is access to free markets, and the Government should be lobbying hard within international organisations against protectionism. Aid itself should focus on emergency relief and correcting for market failures in health issues; not on capital projects. To this end, it is reasonable to expect the international aid budget to be fixed at 2010/11 levels of £7.5 billion. This represents a saving in the next financial year of £1.3 billion (the 2012/13 budget is set at £8.8 billion).[21]

Ending the 25% tax-free lump sum entitlement from pensions (£2.5 billion)

79% of individuals retiring with a private or company pension opted to take a tax-free lump sum entitlement upon retiring in 2011. This in effect costs the Treasury £2.5 billion. Research from Prudential in July 2011 found that, subsequently, '43% of pensioners have been forced to live cautiously in retirement due to fears that their long-term retirement income will not be enough.'[22] Many stated that they regretted taking the lump sum, as the large sums tended to be spent quickly on luxury goods. Its abolition could therefore have the dual effect of both saving the Treasury valuable funds, alongside actually ensuring

16 Report by the Government Actuary on the draft Social Security Benefits up-rating order 2011 and the draft Social Security Order 2011. See http://www.gad.gov.uk/Documents/Social%20Security/GAD__report__280111.pdf

17 ONS Pension Trends – Chapter 8 Table 4 http://www.ons.gov.uk/ons/rel/pensions/pension-trends/chapter-8--pension-contributions--2011-edition-/bkd-pt2011ch8.pdf

18 Assuming the average wage and wage distribution in the two sectors to be the same, the NIC's rebate attributable to the private sector is £7bn x 2.1 / 7.3 = £2bn.

19 The NICs rebate attributable to the public sector is £5bn. Thirty per cent is derived from employee rebates (£1.5bn) – a cashflow saving were contracting out to end.

20 http://www.economist.com/node/21525899

21 73% of those polled would support reducing the international aid budget by this amount.

22 Prudential: http://citywire.co.uk/money/osborne-should-abolish-tax-free-handouts-at-retirement/a507502

that pensioners have a stable standard of living in retirement.[23]

CUTTING THE COST OF EMPLOYMENT

UK unemployment currently stands at 2.51 million, according to the Office for National Statistics. It increased by 80,000 in the three months to July 2011, with youth unemployment now at 973,000 and unemployment of women at 1.06 million.[24] Clearly, policies should be directed towards private sector job creation. The most obvious means of achieving this is to reduce the cost to employers of employment.

Cut employer rate of NIC by 1.8% – £7.8 billion

Employers National Insurance Contributions are a direct tax on jobs. For 2011-12, the Class 1 employers' rate increased to 13.8%, meaning that for most workers 12.1% of the overall cost of employment is borne officially by the employers' national insurance payments.

As such, exemptions for employers from employers' NIC can act as a key spur to private sector job creation.

The Coalition implemented an employer NICs holiday for new business start-ups with ten employees or fewer in its emergency budget. But lowering the cost of employment across established businesses would help generate new jobs through freeing up business cash flow.

This can be achieved by cutting the Class 1 employer rate of NICs by 1.8% points – bringing the employers' rate in line with the main Class 1 employee rate, providing a decent simplification in the process.

According to HMRC's static 'direct effects of illustrative changes,' this change would cost the Treasury £7.8 billion in foregone revenue. This is almost certainly an overstatement. Though the direct revenue collected from employer NICs would probably be smaller, much of this will be offset by higher job growth, resulting in increased income tax, employee NICs and VAT receipts.

The significance of this cut in the cost of employment should not be underestimated. The move would mean that the cost of employing someone on the median weekly wage of £496 per week would fall by £464 per year.

A slight drawback with this move would be the notional principle that NICs provide revenue for the National Insurance Fund, and are kept separate from all other tax revenues collected. If the Government wanted to continue with this pretence, then it would be required to reallocate some additional revenue to the fund from the savings outlined earlier. In reality, the erosion of the contributory principle should lead the Government to abolish National Insurance Contributions completely over time.[25]

It is also important to encourage growth of small and medium-sized enterprises. The current NICs holiday policy aids start-ups, but there is evidence that established small businesses are somewhat smaller here than in the US, suggesting room for growth. The Federation of Small Businesses estimates that

[23] It should be recognised, however, this this policy is not popular. Only 25% of GB adults in the ComRes poll supported "abolishing the tax free allowance when people take part of their pension as a cash lump sum" compared to 49% who oppose it.

[24] Office for National Statistics – Labour Market Statistics, September 2011 http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-222431

[25] 69% of GB adults in the ComRes survey supported the statement "reducing employers' national insurance contributions to make it less expensive for small employers to employ new staff."

the average small business in the US employs 6.2 people, compared to 4.5 people in the UK.[26]

The Coalition government should therefore implement the proposal laid out by the Federation of Small Businesses which proposed granting two year employer NICs holidays to existing small firms (between zero and four employees) on the next four staff that they employ. This would both provide certainty and a strong incentive for entrepreneurship and expansion in existing firms.

ATTRACTING INWARD INVESTMENT

Capital, labour and firms are now extremely mobile. A robust strategy for growth requires the ability to attract internationally mobile businesses, and wealth creators, on the basis of favourable tax and regulatory regimes.

Cut the main corporation tax rate by 4% for 2012/13 to 21% – £3.2 billion

The UK government has set out a path to reduce Corporation Tax to 23% by the end of the Parliament. This is a welcome step in the right direction. But the UK should move faster to give us one of the most competitive corporate income tax rates of all developed countries. Bold action this year would send an unequivocal message that the UK is committed to maximising inward investment. This can be achieved by cutting the main rate of Corporation by 4 percentage points this year (to 21%), at a static cost to the Treasury of £3.2 billion.[27] This should be announced alongside plans for the rate to be lowered further to 20% by the end Parliament, leaving us with one of the lowest profits tax rates in the OECD.

In the long term, the lowering of Corporation Tax rates will have profoundly positive effects on inward investment levels. The experience of both Ireland and Australia has shown that significant reductions in the rate of corporation tax can lead to large foreign direct investment capital inflows.[28]

Scrap the 50p rate – £0

The flaws of the 50p income tax rate have been well analysed.[29] The recent Mirrlees Review undertaken by the Institute for Fiscal Studies emphasised that the continuation of the rate was not yielding significant tax revenue. Indeed, some simulations run by the IFS showed that its existence could be losing the Treasury £500 million.[30] Even if it is raising revenue now, this may only be because high-earning individuals consider it to be a temporary tax, given the assurances of both David Cameron and George Osborne.[31] In the longer term, it is in the UK's interests to provide as much incentive as possible for both the wealthy and entrepreneurial classes to reside in the UK. Alongside the cuts in corporation tax and employers' NICs, abolishing the 50p rate will show that the UK is open to wealth and success.[32]

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26 http://www.businesswings.co.uk/articles/Cut-NIC-burden-further-FSB-advises-Osborne

27 HMRC Direct effects of illustrative changes, March 2011 http://www.hmrc.gov.uk/stats/tax_expenditures/table1-6.pdf

28 See C Elphicke, *Ten Points for Growth*, CPS, 2011.

29 See J Kirby and I Griffiths, *What's wrong with 50p?*, CPS, 2009.

30 IFS, *Can more revenue be raised by increasing income tax rates for the very rich?*, 2009.

31 50p tax rate 'temporary' – Cameron http://money-news.dailyfinance.co.uk/article/2011/09/07/osborne__warns__over__fragile__recovery

32 Removal of the 50p tax rate has been delayed at least in part because of the popularity of the idea that the highest earners should pay more. Indeed, only 22% of GB adults in the ComRes survey agreed that the 50p income tax rate for higher earners should be removed, compared to 56% who disagreed. However, 37% agreed to the 50p income tax rate for higher earners being removed if the personal allowance was also increased by an

Announce plans to abolish stamp duty on share transactions

The 0.5% stamp duty tax on share transactions continues to threaten the competitiveness of the London stock exchange. The expansion of cross-border trading means that business will move to the most liquid and low cost exchange. The ease with which stamp duty is collected, and the fact it raises over £3 billion for the Treasury,[33] means that abolition will be hard.

However, abolition could have many beneficial economic effects and could, in the long-run, raise revenue.[34] This is because higher share values would enhance capital gains tax revenues,[35] there would be an increase in the volume of company shares traded on the exchange, income and corporation tax revenues would rise and the FTSE All-Share index itself would increase. The Treasury should therefore set out a timetable for its abolition, within the next two years.

EASING THE BURDEN ON FAMILIES

Average real household disposable income increased by just £2 between 2004/05 and 2009/10.[36] Now with CPI Inflation at 4.5%,[37] and with wage growth at a lower annual 2.6%, real incomes are set to fall. At the same time, families are facing increasing fuel and energy costs.[38] With the planned changes to child benefit and increasingly costly childcare, working families are being squeezed.

Increase income tax personal allowance by £500 more than planned increase – £3.3 billion

The Coalition's proposal to lift millions out of the income tax system by raising the tax-free personal allowance to £10,000 by the end of the Parliament is a noble one. It is ridiculous that the lowest earners pay tax only to receive their own money back in the form of benefit payments.[39]

The Coalition has stated that the personal allowance will increase to £8105 in the 2012 Budget. This could be increased further by £500 to £8,605 – an effective tax break of £100 per person for those earning that amount or more. According to Treasury calculations, the static cost of this change would be £3.3 billion.[40] More importantly, it would remove

additional £500 a year for everyone, compared to 34% who disagreed. This suggests that abolishing the 50p rate of income tax can be generally welcomed if it is accompanied by a broader tax reduction.

33 HM Revenue and Customs receipts http://www.hmrc.gov.uk/stats/tax_receipts/tax-receipts-and-taxpayers.pdf

34 For example: http://www.londonstockexchange.com/about-the-exchange/media-relations/press-releases/2007/researchfindsthatabolitionofstampdutywouldbenefiteconomy.htm

35 Which could boost Government revenue by as much as £6 billion http://www.thisismoney.co.uk/money/markets/article-1716473/FTSE-in-depth-Osborne-stamps-on-Square-Mile.html

36 Table A47, Family Spending Survey 2009-10, ONS, 2011.

37 Office for National Statistics http://www.ons.gov.uk/ons/rel/cpi/consumer-price-indices/august-2011/index.html

38 Consumer Focus recently showed that the cost of energy has increased by over 15% on household bills since 2008. See http://news.sky.com/home/article/16073553 On top of this, the average price of unleaded fuel has risen by nearly 18 pence per litre over the past 12 months (from July 2010 – July 2011). See http://www.petrolprices.com/price-of-petrol.html#j-2

39 This policy was first proposed by Maurice Saatchi and Peter Warburton in *Poor people, stop paying tax!,* CPS, 2001.

40 HMRC Direct effect of illustrative changes.

thousands of individuals from the tax system altogether.[41]

DEREGULATION AND EMPLOYMENT LEGISLATION

All of the growth-inducing policies outlined so far have been, at least on a static basis, costly to the Exchequer. In contrast, deregulation has often been described as the 'tax cut that doesn't cost the Treasury money.' While the Coalition has announced various initiatives to cut red tape, it is now time to accelerate the scope of supply-side reforms. This should go much further in order to incorporate a comprehensive reform of employment legislation.

CONCLUSION

The UK economy is flat-lining. It is essential that the Coalition has a plausible deficit reduction plan if the bond markets are to be placated. And this plan relies on strong private sector growth – which today does not exist.

That is why a shot of adrenalin is needed for the UK economy. The uncompetitive nature of the UK's tax and regulatory frameworks must be addressed urgently. The cuts in pension allowances outlined in this paper, though difficult decisions, would enable the Coalition to undertake the necessary targeted tax cuts. It must be stressed that these should be seen as first steps on the path to improving our competitiveness. Given the constraints on both monetary and fiscal policy, these, coupled with action to improve the flow of credit to small businesses, are the best immediate hope for both job growth and deficit reduction.

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41 This policy is extremely popular, being supported by 67% of GB adults in the ComRes survey.

APPENDIX

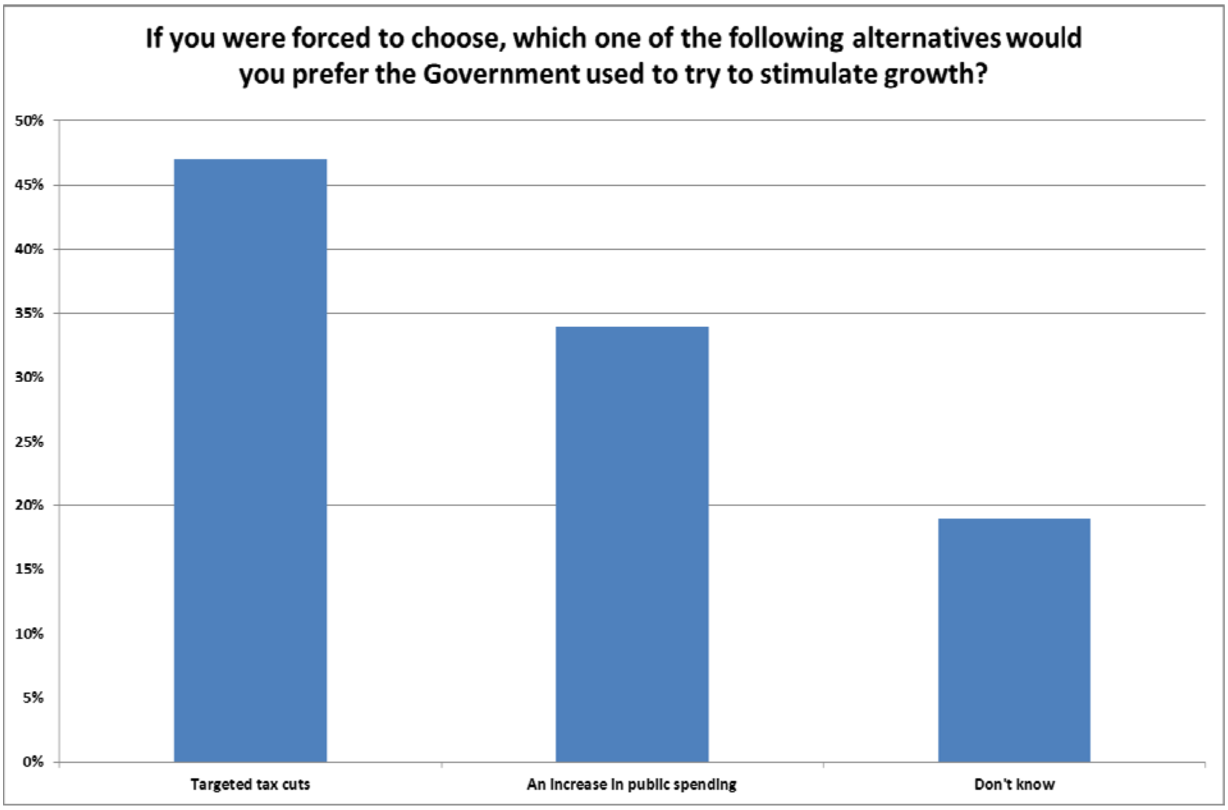
POLLING RESULTS

1. METHODOLOGY

ComRes interviewed 2024 GB adults online between 23 and 25 September 2011. Data were weighted to be demographically representative of all GB adults. ComRes is a member of the British Polling Council and abides by its rules. Full data tables are available at www.comres.co.uk and at www.cps.org.uk.

2. PEOPLE WOULD PREFER TAX CUTS THAN INCREASES IN PUBLIC SPENDING

- More people would prefer the Government to cut taxes as a means of stimulating economic growth rather than spending more.
- Almost half (47%) of all people say that they would prefer the Government used targeted tax cuts to try to stimulate economic growth, compared to a third (34%) who would prefer an increase in public spending.



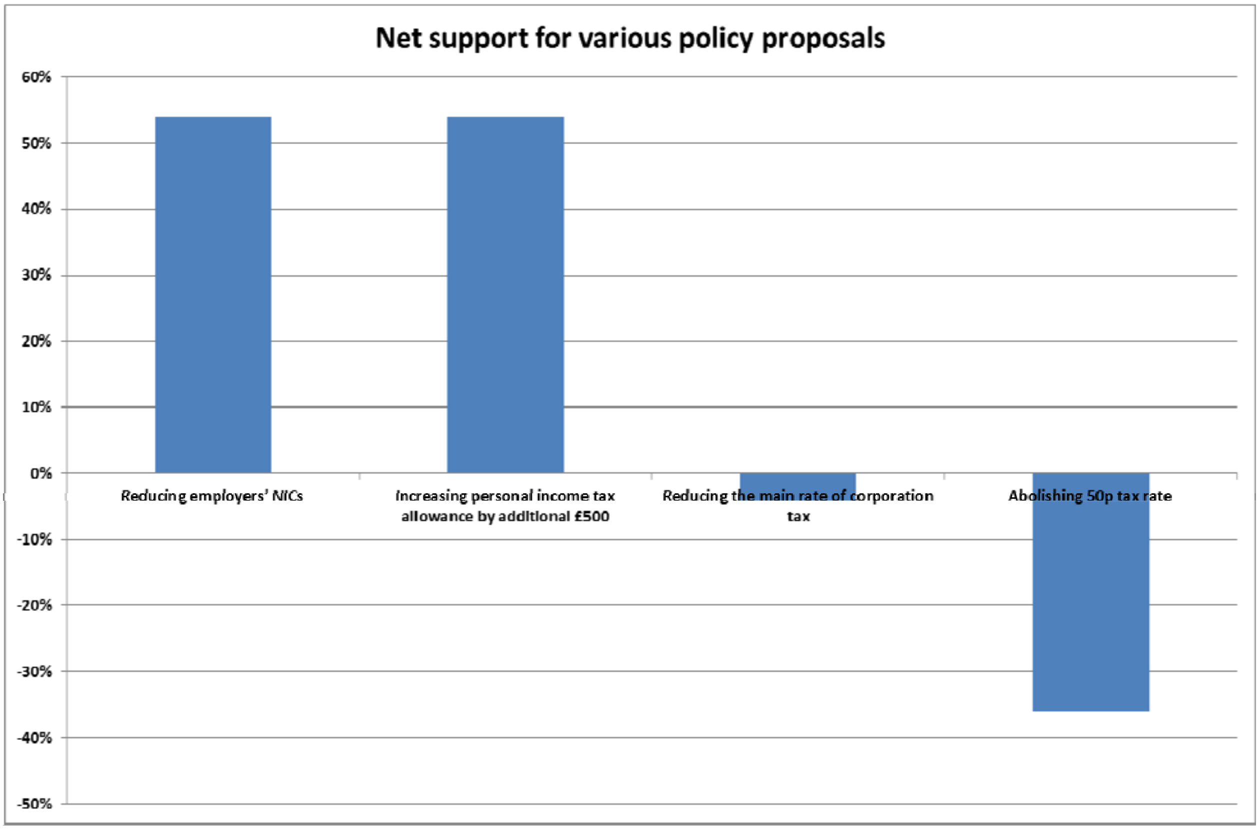
- People from Scotland (44%) and Yorkshire & Humberside (46%) are the most likely to say they would prefer the Government used an increase in public spending to stimulate economic growth, while those from the South East of England (54%) and the East and West Midlands (55%) are most likely to say they would prefer targeted tax cuts.

3. REDUCING EMPLOYERS' NICS TO EASE PRESSURE ON BUSINESSES WOULD BE POPULAR WITH VOTERS, AS WOULD RAISING THE INCOME TAX PERSONAL ALLOWANCE

- 'Reducing employers' national insurance contributions to make it less expensive for small employers to employ new staff' (69%) and 'increasing the personal income tax allowances by an additional £500 on top of the Government's existing plans' (67%) are the two measures that people are most likely to support as possible measures to try to stimulate economic growth.

- Opinion is split over 'reducing the main rate of corporation tax by companies', with a third (33%) supporting it, 37% opposing it, and 30% answering don't know.

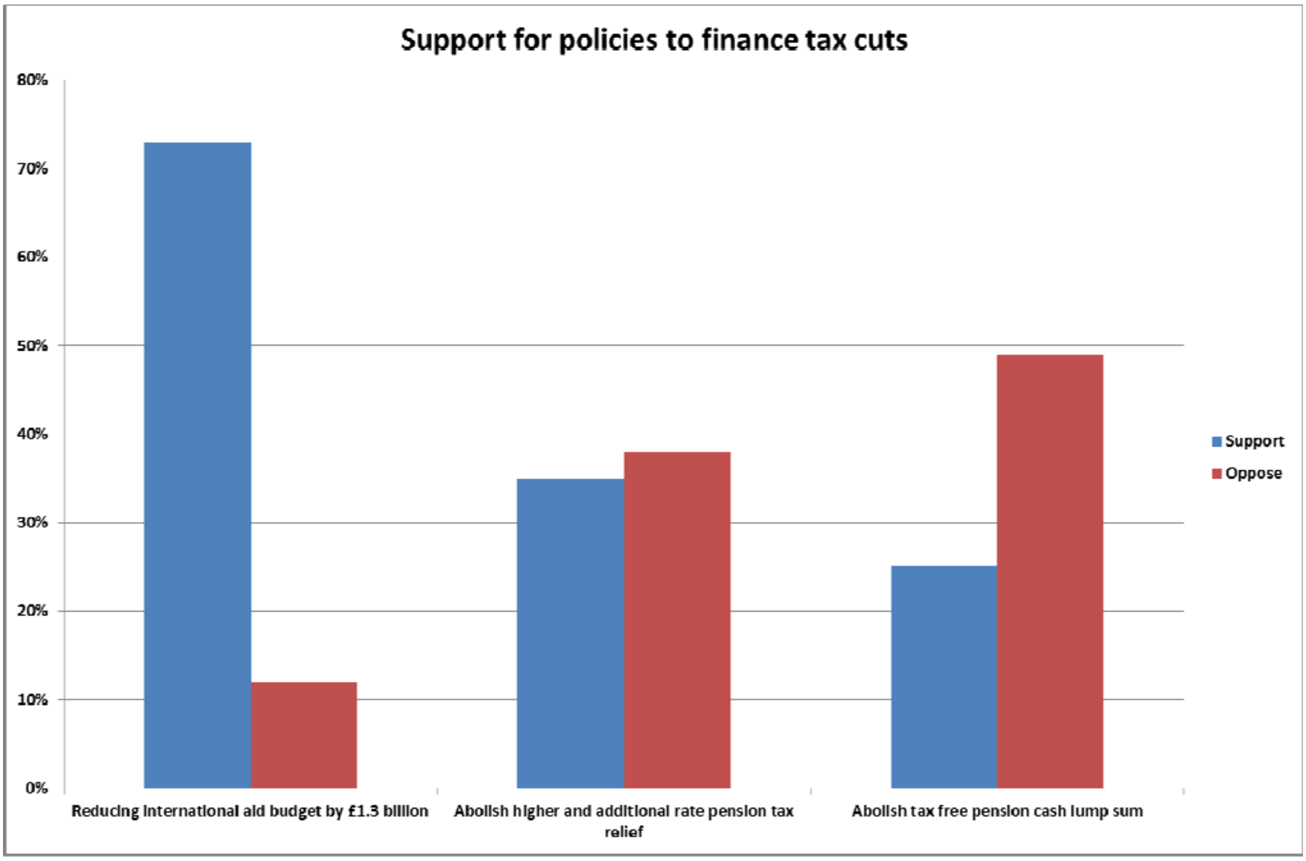
- A majority of people (58%) oppose 'abolishing the 50p income tax rate on high earners'.



- There are interesting age trends in response to this question. Older people are the most likely to say they support reducing employers' national insurance contributions (77% and 79% of 55-64 year olds and people over the age of 65 respectively) and increasing the personal income tax allowance (78% and 75% of 55-64 year olds and people over the age of 65 respectively).

- Men (71%) are more likely than women (63%) to support increasing the personal income tax allowance.

4. GB ADULTS STRONGLY SUPPORTED CUTTING THE INTERNATIONAL AID BUDGET BY £1.3 BILLION, WERE INDIFFERENT ABOUT ABOLISHING HIGHER RATE PENSION TAX RELIEF AND WERE OPPOSED TO ABOLISHING THE TAX-FREE LUMP SUM FOR NEW PENSIONERS



- Three quarters of people (73%) support reducing the international aid budget by £1.3 billion from the planned £8.8 billion next year.
- Younger people are less likely to support reducing the international aid budget by £1.3 billion – 55% of 18-24 year olds support it, compared to 83% of people aged over 65.
- However, people are less likely to support scrapping tax relief measures on pensions – 35% support making pension tax relief 20% for all taxpayers by abolishing 40% and 50% tax relief for higher rate taxpayers, compared to 38% who oppose.
- Men (39%) are more likely than women (30%) to support making pension tax relief 20% for all taxpayers.
- Meanwhile, people are twice as likely to oppose (49%) than they are to support (25%) abolishing the tax free allowance when people take part of their pension as a cash lump sum.

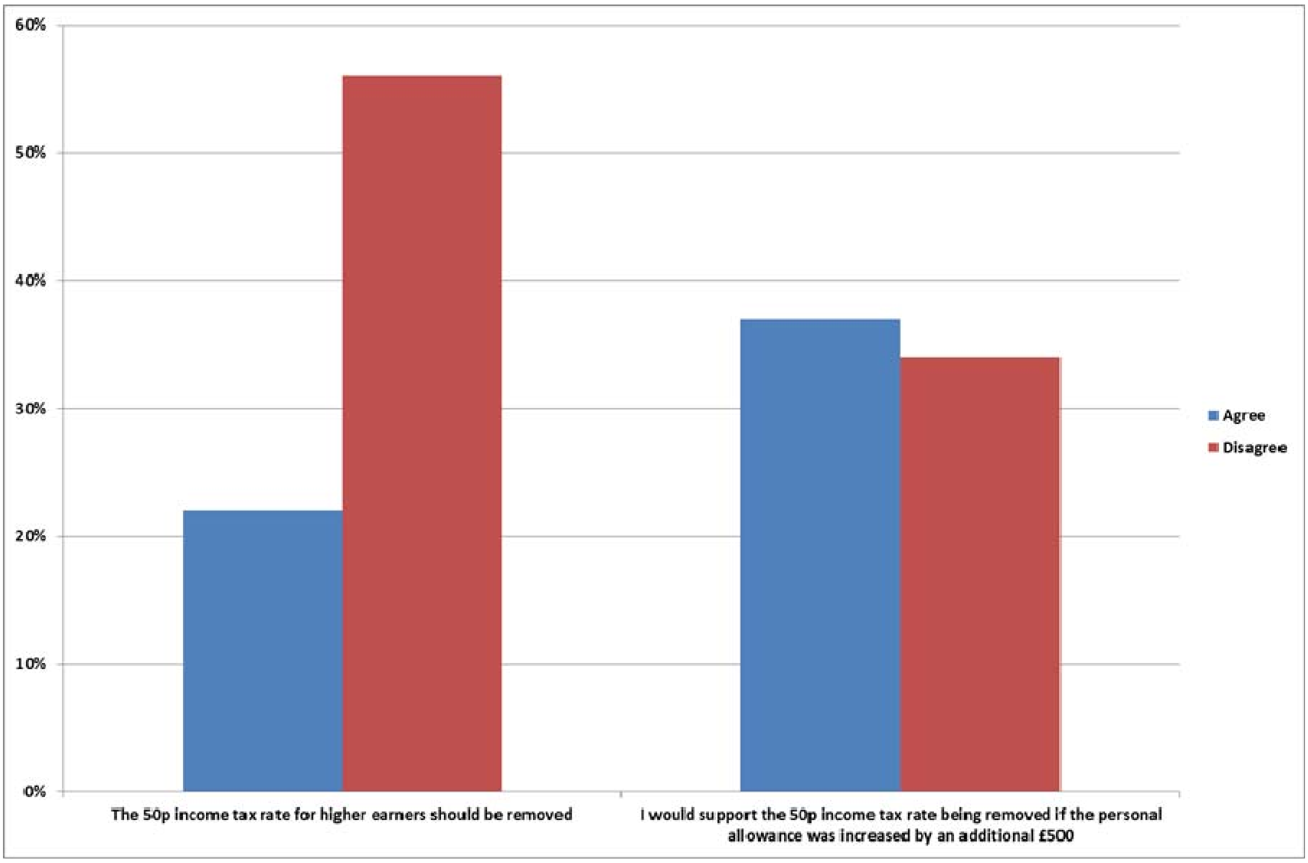
5. **HOWEVER, WHEN INTERVIEWEES WERE ASKED TO AGREE OR DISAGREE WITH STATEMENTS INCORPORATING THE POLICIES, THEY WERE MORE LIKELY TO EXPRESS FAVOURABLE REACTION.**

- Three fifths (61%) of people agree that cutting the cost of employing people is more likely to stimulate economic growth than offering higher rate pension tax relief.

- 43% agree that abolishing the higher rate tax relief for pensions would show that the Government is committed to sharing out the pain of the economic downturn fairly, while 23% disagree and 34% say they don't know.

- A large majority (62%) disagree with the statement 'I would rather see the UK's international aid budget protected than the Government reducing taxes,' compared with 15% who do agree.

- The high support shown for keeping the 50p income tax rate diminishes significantly when there is a compensating tax break through increasing the income tax personal allowance.



- 22% agree that the 50p income tax rate for higher earners should be removed, compared to 56% who disagree. However, 37% agree to the 50p income tax rate for higher earners being removed if the personal allowance was increased by an additional £500 a year for everyone, compared to 34% who disagree.

- There are divergences between people from different social groups when it comes to the 50p income tax rate for high earners – 28% of social group AB agree that the 50p income tax rate should be removed, compared to 17%/18% of social group C1 and DE. Interestingly, the difference between social groups disappears when the personal allowance increase is considered – 36% of both social groups AB and DE agree, while people from social group C1 (39%) become the most likely to agree.

- This suggests that the 50p tax rate is seen, to some extent, as a means of 'sharing the pain.' But if measures are taken to ease the burden lower down the income scale, the majority of the public seem willing to accept its abolition.

CONCLUSIONS

- The public would prefer targeted tax cuts to more public spending
- Reducing employers NICs and raising the personal allowance would be incredibly popular
- Reducing international aid spending would be popular
- There is little support for scrapping the tax-free pension lump sum
- There is a recognition that abolishing higher rate tax relief would 'share the pain' of the downturn
- Resistance to the abolition of the 50p tax rate weakens if the Government also lowers the tax burden further down the income scale

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