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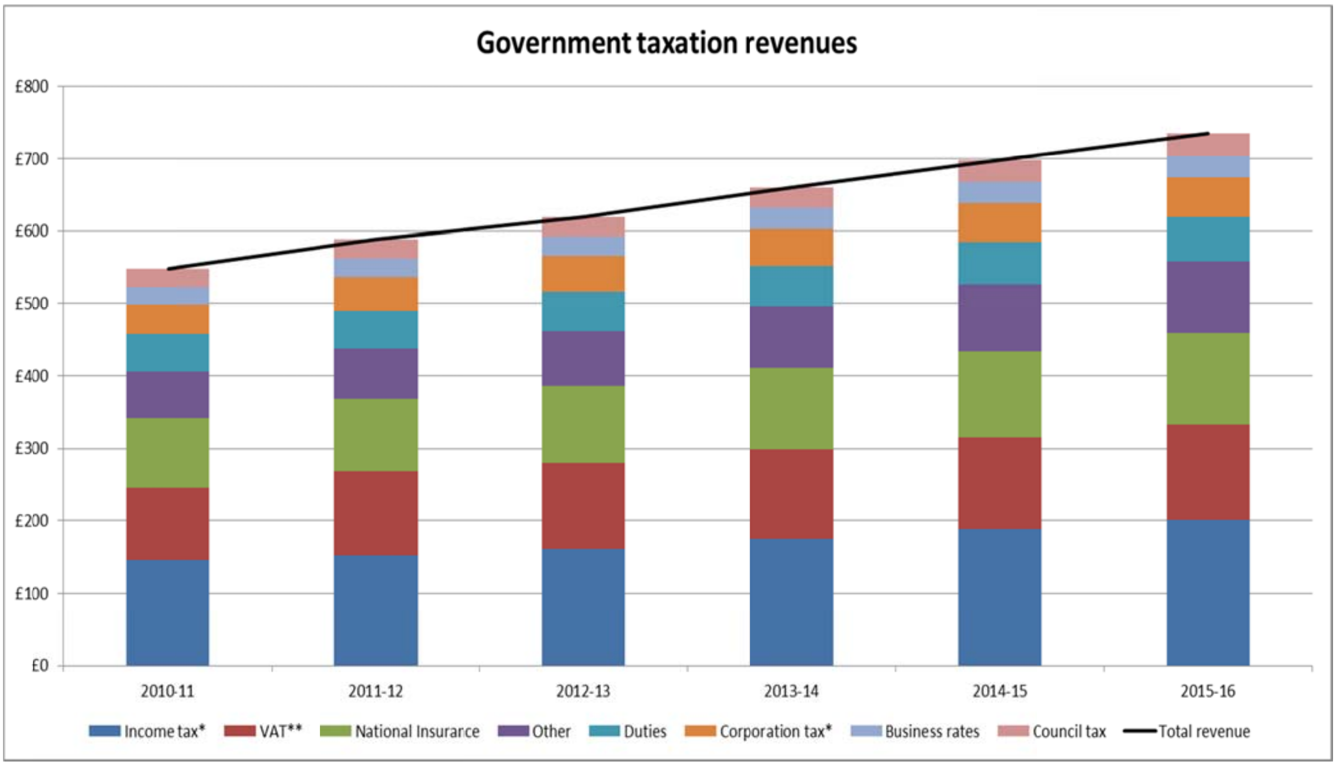
Taxing times – the real means of closing the deficit

- It is commonly asserted that the coalition government is closing the public deficit largely through cuts to public expenditure.
- However, this is simply not borne out by the Treasury's own published figures.
- Whilst spending in the final year of the Parliament will actually be £54.1 billion higher in cash terms than 2010/11, the amount the government is forecasting to collect in tax revenue will increase from £548.5 billion to £697.5 billion.
- In cash terms, the government expects to be collecting £42 billion more in income tax, £22 billion more in National Insurance and £28 billion more in VAT by the end of the Parliament (compared with 2010/11). The extra revenues from these three taxes alone therefore total £92 billion in the final year of the Parliament compared with 2010/11.
- According to inflation projections, these statistics show that in real terms revenue from tax will be £78.5 billion higher in 2014/15 than in 2010/11 (2010/11 prices).
- In real terms, this therefore represents an extra £23 billion in income tax revenue, £10 billion in National Insurance revenue and £6 billion in VAT revenue.
- The increase in the rate of VAT from 17.5% to 20% will perhaps play the biggest role of any tax in closing the deficit. The amount of revenue collected from it will increase by 13% in 2011/12 because of this increase in rate.



Source: Tullet Prebon UK Economic & Fiscal database (originally calculated from HM Treasury data)