PRESS NOTICE 28 June 2012

Tax cuts and increases since 1970

The OBR has today published a database of Budget and Autumn Statement tax measures since 1970, a Working paper on cyclically adjusting the public finances and a Briefing paper on how we present uncertainty.

VAT increases have been the largest revenue raisers in Budgets and Autumn Statements over the last 40 years, while the biggest giveaways have been income tax cuts, according to a new historical database of tax measures published today by the Office for Budget Responsibility.[1]

The database shows the amounts of money raised or spent by governments on the 827 major tax changes announced since Roy Jenkins' last Budget in 1970. It takes the official costings of these measures published in Treasury documents and assumes that the amount raised or spent has risen thereafter with the cash size of the economy. The database has been published as an Excel spreadsheet, which we hope will be of use to researchers, journalists and others interested in the history of tax policy.

Looking at the amount to be raised or spent in 2016-17 as a result of these tax measures, the database suggests that the biggest 'giveaway' packages were the Budgets of 1972 (£42 billion), 1988 (£23 billion) and 1978 (£22 billion) and the biggest 'takeaways' the Budgets of 1993 (£27 billion), 1975 (£21 billion) and 1981 (£18 billion).

The largest single tax cuts were the increases in income tax allowances in the Budgets of 1972 (£31 billion), 1979 (£15 billion) and 1980 (£15 billion). The largest tax increases were the move to a 15 per cent standard rate of VAT in the Budget of 1979 (£34 billion), the further increase to 17.5 per cent in 1991 (£17 billion) and the increase in the basic and higher rates of income tax in 1974 (£16 billion).

Given the historical span and the range of measures involved, all these estimates are necessarily very approximate – they assume that the original official costings were accurate and that the amounts raised or spent would move in line with the cash value of GDP over long periods.

[1] http://budgetresponsibility.independent.gov.uk/wordpress/docs/Budget_measures_database.xls

The OBR has used this database to estimate how the bulk of tax revenues would have changed over the past 40 years in the absence of these policy measures. As best we can tell, the tax cuts and tax increases have broadly offset each other over this period.

The OBR has used this 'policy adjusted' estimate of revenues to help re-assess the extent to which government borrowing fluctuates with the ups and downs of the economic cycle.[2] Updating the Treasury's long-standing methodology, and using in addition a more disaggregated approach developed by the Organisation for Economic Cooperation and Development (which we have adapted to the particular features of the UK), our best judgement remains that a 1 per cent fall in GDP (relative to trend) increases public sector net borrowing by 0.5 per cent of GDP in the first year and an additional 0.2 per cent of GDP in the second.

Combined with the new historical measures of spare capacity in the economy (the 'output gap') that we published in November 2011, this re-assessment suggests that the structural budget deficit may have been somewhat larger coming into the recent financial crisis than the Treasury's own output gap measure suggests. The apparent health of the public finances may also have been flattered in the run up to the financial crisis by the impact on revenues of buoyant housing and equity markets.

Alongside the tax measures database and our analysis of the impact of the economic cycle on the government borrowing, we have also published today a briefing paper explaining how we illustrate the uncertainty that lies around our forecasts for the economy and public finances.[3] It sets out the history of official forecasting errors for GDP and public sector net borrowing and explains how this can be translated into probabilities that the future performance of the economy and the public finances will lie within particular bands around our central forecasts.

Notes

1. The Office for Budget Responsibility is the UK's independent fiscal watchdog – responsible for producing forecasts for the economy and the public finances, judging progress towards the Government's fiscal targets, and reporting on long-term fiscal sustainability.

2. Our documents are available here: http:budgetresponsibility.independent.gov.uk

3. Questions about today's publications should be sent to OBRpress@obr.gsi.gov.uk

[2] http://budgetresponsibility.independent.gov.uk/category/publications/working-papers/
[3] http://budgetresponsibility.independent.gov.uk/category/publications/briefing-papers/