

THE TORIES' £10 BILLION

UNFUNDED

TAX PLEDGES

£10 BILLION UNFUNDED TAX PLEDGES

SUMMARY

- In the last twelve months the Conservative Party have made a series of tax pledges.

They have committed to:

- **cutting corporation tax to 27p**
- **introducing a transferable marriage tax allowance**
- **increasing the Working Tax Credit**
- **increasing the inheritance tax threshold to £1 million**
- **raising the stamp duty threshold for first time buyers**

- The total net cost of these pledges – using Conservative Party estimates of the cost – is over £10 billion.
- The Tories have failed to offer adequate plans to raise the necessary £10.35 billion required to fund these pledges. They have only identified two possible sources of revenue. Neither deliver any additional funding.
- Their welfare reform savings need to raise £3 billion, but on their own admission are only based on *“hitting the Government’s own target”*, so provide no additional revenue over and above Government plans.
- Their non-dom levy, will not, according to the best available Treasury estimate, raise the £3.5 billion the Tories predicted. The Tories have produced no credible evidence to substantiate such claimed revenue, with one of the main sources, Accountancy Age magazine, saying that the numbers quoted were *“back of an envelope figures”*. The Tories have not shown that shifting to their proposals rather than those in the Government’s Pre Budget Report would raise any extra revenue on average each year.
- At the same time as making these tax pledges, the Tories continue to make uncosted, unfunded spending commitments. In recent days, Andrew Lansley made a huge spending commitment but failed to identify any of the necessary cuts in other Departments to pay for it. At Conservative Party Conference last year, when many of their unfunded tax pledges were announced, the Shadow Cabinet also promised:
 - **more funding for the armed forces**
 - **more anti-MRSA funding**
 - **additional drugs for thousands of stroke patients**
 - **high speed rail pilot schemes**

In the months since then the Tories have continued to make significant spending promises, including:

- **the recent proposal from Andrew Lansley for billions of pounds of additional NHS spending**
- **David Cameron’s pledge of a National School Leaver Programme**
- **David Cameron’s recent demand for a larger army**
- **extending light rail**

- None of these spending pledges are funded and, when asked in writing how Mr Lansley's plans for other departments to "decline as a proportion of GDP or indeed in some cases in absolute terms" would impact on schools, policing and transport the Shadow Cabinet have failed to reply.
- George Osborne has been clear on what basis his plans must be judged:

"First of all on spending commitments, every spending commitment that you will hear from the Conservative Party is fully costed and paid for - people know where the money's coming from."

George Osborne, GMTV, 9 December 2007

"There will also be no election promises of up-front, un-funded tax cuts. Any reduction we offer in one tax will have to be matched by a tax rise elsewhere."

George Osborne, The Times, 3 September 2007

TAX PLEDGES (Conservative Party Costing)	Net Exchequer Cost
Corporation tax cut to 27 per cent	£1.75 billion
Transferable marriage tax allowance	£3.2 billion
Increase in Working Tax Credit	£3.0 billion
Increase inheritance tax threshold to £1m	£2.0 billion
Raise the stamp duty threshold for first time buyers	£0.4 billion
TOTAL	£10.35 billion

(see pages 4-6 for details)

THE TORIES' UNFUNDED TAX PLEDGES

CORPORATION TAX CUT TO 27 PER CENT

£1.75 BILLION PER ANNUM

Source:

"George Osborne told the Financial Times that the Conservatives would cut corporation tax ... to 27 per cent if they won power.... "We're confident we can achieve this as part of a major reform of corporation tax," said Mr Osborne."

Financial Times, 19 March 2007

"Asked if it was a firm pledge, Mr Osborne said: "Yes."

Financial Times, 19 March 2007

"So I believe there is now a compelling case for a reduction in Britain's headline corporation tax rate. In the age of globalisation, 28 per cent is too high."

Osborne's The Principles of Tax Reform speech, Policy Exchange, 15 February 2008

Basis of Costing:

The Conservative Party provided this costing to the Financial Times published 27 February 2008. The Conservative Party has not given details of revenue raising corporation tax reforms which would raise the requisite amount.

TRANSFERABLE MARRIAGE TAX ALLOWANCE

£3.2 BILLION PER ANNUM

Source:

"I am conscious of my job to provide for those people, giving them a bit more cash in their pockets, helping to keep interest rates down, lowering family taxes when we can afford to do so. It makes such a difference to so many people. And when you see the debate in the media about the £20-a-week tax cut (Iain Duncan Smith's proposed tax break for married couples) it really makes a difference it most certainly does."

George Osborne, Tatler magazine October 2007 edition

Jon Snow: *"One of the most damaging things is when a marriage breaks down and ends in divorce. You get married again – you get it again?"*

David Cameron: *"Yes, it's a married couples' allowance ... it's a recognition of marriage, so those people who, and we haven't said precisely how we're going to do it, but if you recognize marriage and the tax system then you recognize all marriages, yes of course."*

David Cameron, Channel 4 News, 12 July 2007

John Humphrys: *"Alright, but let's be absolutely clear that you are talking about something like raising personal tax allowances, transferable child tax allowances, all that sort of things, what you're saying is making it more profitable to be married than to be single?"*

David Cameron: *"Yes. Yes."*

John Humphrys: *"Alright, so that's an absolutely commitment, let's be clear about that."*

David Cameron: *"Yes."*

BBC Radio 4 Today Programme, 16 February 2007

Basis of Costing:

The Conservative Party Social Justice Commission, set up by David Cameron, commissioned costings on this proposal from the Institute for Fiscal Studies. The proposal the Commission recommended would cost £3.2 billion. This proposal was welcomed by David Cameron and closely matches the public comments from David Cameron and George Osborne on the issue.

In response to a request from this group, the Institute for Fiscal Studies has estimated the cost of a transferable tax allowance according to different criteria.... For all married couples would cost £3.2bn.

Family Breakdown, Final Report of the Conservative Party Social Justice Commission, 10 July 2007, p71

"A TPA [Transferable Personal Allowance] of the full personal allowance amount would provide only modest financial support for marriage - £20 a week to those making use of it - encouraging rather than incentivising it.

The main rationale for the allowance would be to provide symbolic recognition of the institution of marriage. It would indicate that marriage is valued because of its benefits to children and the wider society. It would make it easier for a mother or father to remain at home to look after their children whilst the other spouse worked, or for one partner to do voluntary work within the community, look after elderly or disabled members or manage a home in a way that enables partners and families to have more undivided time together. We would thus see this as a measure with the potential to increase family stability and improve the quality of family life."

Family Breakdown, Final Report of the Conservative Party Social Justice Commission, 10 July 2007, p71

"And most of all, we need to help couples stay together in the first place. That's why I welcome the recommendation to recognise marriage in the tax system.... if these are the right policies for Britain's families, they are the right policies for the Conservative Party."

David Cameron, Daily Mail, 11 July 2007

INCREASE IN WORKING TAX CREDIT

£3 BILLION PER ANNUM

Source:

"Today in the tax credit system couples actually get more money if they split up, rather than stay together. I think that's crazy and so we're going to give some of the least well off couples in our country £32 extra a week to help encourage families come together and stay together. How do we pay for that? We're going to reform the welfare system."

David Cameron, Conference Broadcast, 3 October 2007

"That money then becomes available to address for example, the couple penalty and the tax credit system which is our first priority and we're committed to trying to achieve that in government."

Chris Grayling, Today Programme, 8 January 2008

Basis of Costing:

The Tories have costed this pledge at £3 billion (Conservative Party Press Notice, 1 October 2007). In October 2007, the Tories claimed that this would be paid for by taking an "additional 600,000" people off benefits. However, in January the Tories revealed that rather than helping an additional 600,000 off benefit, the Tory plans would not get a single extra person off benefits over and above existing government plans. They have therefore not shown that they can deliver any additional revenue over and above existing government plans. See page 7 for quotes.

INCREASING INHERITANCE TAX THRESHOLD TO £1 MILLION

£2 BILLION PER ANNUM

Source:

"The next Conservative Government will raise the Inheritance Tax threshold to £1 million."

George Osborne, Speech to Conservative Party Conference, 1 October 2007

Basis of Costing:

The Conservative Party provided this costing to the Financial Times published 27 February 2008. The Tories claim that this cost would be met by revenue from their Non-Dom Levy – however shifting to the Tory proposals rather than those in the Government's Pre Budget Report would raise no extra revenue on average – see Non-Dom Levy below.

RAISE THE STAMP DUTY THRESHOLD FOR FIRST TIME BUYERS

£0.4 BILLION PER ANNUM

Source:

Adam Boulton: "OK so just explain this, so how will you pay therefore for this cut in stamp duty?"

George Osborne: "You will see in my speech tomorrow, when I stand there and deliver my speech, you will see exactly how the stamp duty cut is paid for, um..."

AB: "On houses below £250,000..."

GO: "This is for first-time buyers, right, this is for first-time buyers buying a house for less than £250,000, which is the vast bulk of first-time buyers, about nine-out-of-ten first-time buyers, they will not pay stamp duty. That is a real help for a young family who are trying to put together the deposit for a mortgage, a deposit for the house, have got a mortgage, not to have to pay that stamp duty bill will make a real difference to people who want to get on the housing ladder and at the moment have been priced out of it."

AB: *What's the costing on that?*

GO: *"£400 million."*

AB: *"Paid for by what?"*

GO: *"Well you will find out, we will set out at this conference exactly how we pay for things. I should say, every single tax reduction we offer at the election in individual taxes we will match by tax increases elsewhere, so there's not an overall reduction in tax, but as I say as a Conservative of course, my long-term ambition once the public finances can sustain it, is for a sustainable reduction."*

George Osborne and Adam Boulton, Sunday Live with Adam Boulton, 30 September 2007

Basis of Costing:

See above comments from George Osborne. The Tories claim that this cost would be met by revenue from their Non-Dom Levy – however shifting to the Tory proposals rather than those in the Government's Pre Budget Report would raise no extra revenue each year – see Non-Dom Levy below.

GREEN ISAs

UNCOSTED

Source:

Greg Wood: *"You're planning to raise the tax-free limit to £9,000 perhaps. Have you costed that?"*

Greg Barker: *"One of the jobs of the working group is to work out how much this would cost in fact..."*

GW: *"So you haven't costed it?"*

GB: *"We haven't yet..."*

GW: *"And you don't know how you're going to pay for it?"*

GB: *"We've set up a working group under Patrick Snowball of Norwich Union and we've asked him to come back within the year to see how much it would cost, between £1,000 and £3,000, to implement this. And of course when we know exactly how much it does cost, we'll be able to take a decision then as to how we're going to pay for that."*

GW: *"Wouldn't it have been better to work that out before you made the proposal?"*

GB: *"No we think this is an exciting proposal"*

Greg Barker, BBC Radio 4, Today Programme, 27 February 2008

Basis of Costing:

Uncosted

CONSERVATIVE PROPOSALS YIELDING NO EXTRA REVENUE ABOVE GOVERNMENT PLANS

INCAPACITY BENEFIT REFORM NO ADDITIONAL REVENUE ABOVE GOVERNMENT PLANS

Source:

*"According to the Freud Report, moving someone off benefits and into work saves on average more than £5,000 a year in benefit payments, so to pay for the £3bn cost of ending the couple penalty our reforms would only need to reduce the benefit rolls by an **additional** 600,000."*

Time for Aspiration, Conservative Party Press Release, 1 October 2007

Actual revenue:

The Conservative plans as presented in October 2007 (above) rely on an additional 600,000 people moving off benefits. But when the detail of the policy came out in January 2008, (see quote below), it was clear that the Tory plans were only to match the Government's own targets and therefore do not deliver any additional revenue over and above existing Government plans.

*"By contrast, the Government's target for reductions in Incapacity Benefit claimants represents a reduction of 120,000 claimants per year between now and 2016. By the end of a five year Parliament, that represents a reduction of 600,000, or just twelve per cent of the nearly five million people who are currently out of work and on benefits. Even **hitting the Government's own target** for Incapacity Benefit would be equivalent to a cumulative saving of £3 billion a year by the end of a five year Parliament. This alone would be sufficient to meet our commitment to eliminate the couple penalty in the tax credit system."*

"Work For Welfare" Conservative Party Policy Document, 8 January 2008 (p43)

NON-DOM LEVY NO ADDITIONAL REVENUE ABOVE GOVERNMENT PLANS

Source:

"A cautious estimate is that the Levy would be paid by 150,000 people, raising £3.5 billion a year that can be used to reduce the burden of other taxes."

"Offshore Domicile Levy" Conservative Party Press Release, 1 October 2007

"Well, the cautious estimate that we were using is around a 150,000 people, although most experts say it's actually more than that, but I've got to make sure that we use the most prudent sums so that we don't have any hole in the exchequer."

George Osborne, GMTV, 1 October 2007

Actual revenue:

The Conservative Party now claim that their non-dom levy plans would raise £2.8bn per year (*Financial Times*, 27 February 2008). The reality is, according to the best Treasury estimate, that the Tory policy could only raise £650 million (Source: *HM Treasury Costing for a new levy of £25,000 per annum for non-domiciles*. http://www.hm-treasury.gov.uk/media/6/4/foi_costingtemplate031007.pdf)

The Tories have produced no credible evidence that shifting from Government plans to the Tory proposals would yield any extra revenue. The Tories based their estimates on reports in *Accountancy Age* magazine which the magazine have now revealed to be "back-of-an-envelope figures".

"Accountancy Age, quoted by David Cameron in support of his upper estimate of 200,000 non-domiciles, said it had simply quoted numbers from the newspapers, and that the estimates represented "back-of-an-envelope figures"."

The Independent, 3 October 2007

THE CONSERVATIVES CONTINUE TO MAKE SPENDING COMMITMENTS

On top of their £10 billion in tax pledges Tory Shadow Ministers, from David Cameron down, have defied George Osborne's promise that the Tories will not make unfunded and uncosted spending commitments.

At Conservative Party Conference last year, when many of their unfunded tax pledges were announced, the Shadow Cabinet also promised:

- more funding for the armed forces
- more anti-MRSA funding
- additional drugs for thousands of stroke patients
- high speed rail pilot schemes

In the months since then the Tories have continued to make significant spending promises, including David Cameron's pledge of a National School Leaver Programme and the recent proposal from Andrew Lansley for billions of pounds of additional NHS spending.

"A Conservative administration would increase health spending by up to an extra GBP28 billion a year, a leading moderniser has told The Times. Andrew Lansley, the Shadow Health Secretary, gave a long-term commitment that under the Tories health spending will rise to take up an extra 2 per cent of GDP. ...George Osborne, the Shadow Chancellor, has based his economic strategy on the Tories reducing, over time, government spending as a proportion of national wealth. Mr Lansley's pledge means that a Tory government would have to find billions of pounds of cuts from other areas such as education, the police, transport and defence. The Shadow Health Secretary, who was recently guaranteed his post by Mr Cameron until the next election and beyond, is blunt about the consequences. He said that it would mean spending elsewhere slowed or even slashed. "It's tough. It means there are places where public expenditure will decline as a proportion of GDP or in some cases in absolute terms." He says it is "not for me to say" where the axe will fall. "I just think we are being realistic here."

The Times, 28 February 2008

As a result of his spending proposal, Mr Lansley said that other departments' budgets would have to "decline as a proportion of GDP or indeed in some cases in absolute terms".

Liam Fox has pledged that these cuts will not fall on the Ministry of Defence:

"There is no question of cutting defence."

Liam Fox, Sunday Telegraph, 2 March 2008

But Shadow Home Secretary David Davis, Shadow Schools Secretary Michael Gove and Shadow Transport Secretary Theresa Villiers have all failed to give similar assurances when the question has been put to them in writing.

Sam Coates: *"But your colleagues around the shadow Cabinet table will see the consequences of this..."*

Andrew Lansley: *"It's tough. And we've already set out that it's tough. That means there are places where the future of public expenditure is for it to decline as a proportion of GDP or indeed in some cases in absolute terms in order to manage the overall..."*

Sam Coates: *"And where is the fat going to be trimmed"*

Andrew Lansley: *"Well that is not for me to say. [laughter].. I just think we are being realistic here."*

TimesOnline.com, 28 February 2008

