Liberal Democrats
Stronger Economy Fairer Society
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Appendix 1 – Responsible Finances: Balancing the budget and investing in our economy

Responsible public finances underpin every good government. Without the stability that sound public finances provide, all the public services and investment that government provides is put at risk. That is why we will complete the job of balancing the budget – on time, in full, and fairly.

Our objective is to eradicate the structural current budget deficit by 2017/18 as the Coalition set out in its fiscal mandate that was endorsed in the House of Commons in January 2015; this will require a further fiscal consolidation of £27bn. To go further than this risks undermining our ability to invest in our nation's infrastructure or provide the excellent public services that the British public expect.

Until we have achieved that objective, Liberal Democrats will only commit to funding three additional policies, these are to:

- Raise the tax-free Personal Allowance to at least £12,500 by the end of the next Parliament, putting around £400 back in the pockets of millions of working people and pensioners. In the first instance we will bring forward the planned increase of the Personal Allowance to £11,000 to April 2016.
- Continue real terms protection of the NHS budget until we have balanced the books in 2017/18 – with a £1 billion boost on top of this protection. We made a start towards this £1 billion increase in the 2015 Budget by securing an additional £250m a year investment in mental health.
- Reform the policy to remove the spare room subsidy. Existing social tenants will not be subject to any housing benefit reduction unless they have been offered reasonable alternative accommodation and rejected it. We will also exempt disabled people who need a spare room or substantially adapted home.

These policies will be funded through:

- Personal Allowance: Aligning Dividend Tax with Income Tax rates for additional and higher rate taxpayers.
- NHS funding: Ending shares for rights (employee shareholder status) and restricting reliefs on Capital Gains Tax.
- Spare Room Subsidy: Offering lower direct Housing Benefit payments to landlords.

Once we have eradicated the structural current budget deficit in 2017-18, the Liberal Democrats will follow two new fiscal rules. These are:

1. Debt must fall as a proportion of our national income every year, except during a recession, so it reaches sustainable levels around the middle of the next decade.
2. Over the economic cycle we will balance the overall budget, no longer borrowing to pay for everyday expenditure. We will make one significant exception to enable us to invest in the things that will help our economy grow. Provided the debt rule is met, the government will be able to borrow for capital spending that enhances economic growth or financial stability.

As we follow these fiscal rules after 2017/18 we are able to allow public spending to grow in line with the economy. It is through these real term increases in public spending after 2017/18 that we will fund additional Liberal Democrat spending commitments outlined in our manifesto, subject to our new fiscal rules being met. These fiscal rules will also allow us to invest the required additional £8bn in NHS England as set out by NHS England Chief Executive Simon Stevens. This will have Barnett consequences of £802m for Scotland, £463m for Wales and £276m for Northern Ireland. We will also invest further in education in line with economic growth.

Table 1 sets out how we will pay for our three policy priorities and ensure that we have a fiscal tightening of £27bn by 2017-18 to balance the cyclically adjusted current budget.

Table 1: Liberal Democrat policy decisions[1]

		£ million		
		2015-16	2016-17	2017-18
Tax Measures				
1	Personal Allowance: increase to £11,000 in 2016-17 with equal cash gains to higher rate taxpayers	0	-1030	-790
2	High Value Property Levy: banded levy on properties worth in excess of £2m	0	0	1000
3	Employee Shareholder Status: abolition	0	200	205
4	Transferable Tax Allowance for Married Couple and Civil Partners: abolish	0	650	725
5	Capital Gains Tax: restrictions on annual exempt amount and entrepreneurs relief	0	680	680
6	Dividend Tax: alignment with marginal income tax rate for additional and higher rate taxpayers	0	1200	1220
7	Corporation Tax: supplementary rate for banks	0	1000	1015
8	Corporation Tax: limiting of interest deductibility	0	0	800
9	Corporation Tax: restriction of loss relief	0	625	650
10	Vehicle Excise Duty: revaluation of rates	0	485	850
11	Non Domiciled Residents: increase in charges	0	130	135
12	Tax avoidance and evasion: target revenue increase	0	3500	7000
AME Spending Measures				
13	Benefits uprating: 1% cap on working age benefits, excluding disability and maternity pay	0	0	160
14	Pensioner Benefits: restriction of Winter Fuel Payments and free TV licensees for higher rate taxpayers	0	125	125
15	Spare Room Subsidy: to apply to those who have turned down suitable alternative accommodation	0	-310	-315
16	Housing Benefit: discounted rate for landlord who receive payments directly	0	160	320
17	Universal Credit: Transition measures on capital allowances, protections and 30 hour rule	0	450	420
18	Back to work support: target revenue savings	0	500	1000
19	Benefit and Tax Credits: target revenue from reduced fraud and error	0	500	1000
DEL Spending Measures				
20	NHS Funding: increased real terms funding	0	-895	-895

[1] *All figures are in predicted nominal terms and may not sum due to rounding.*

21	Departmental Budgets: savings from unprotected departments[2]	0	7000	12000
	TOTAL POLICY DECISIONS	**0**	**14970**	**27305**

Tax Measures

1. Personal Allowance – We will increase the Personal Allowance to £11,000 in April 2016, delivering an £80 tax cut to over 27 million individuals. This policy will mean that a typical basic rate taxpayer will pay £905 less in Income Tax in 2016/7 than in 2010, while 3.7 million people will have been lifted out of paying Income Tax altogether.

2. High Value Property Levy – We will introduce a banded High Value Property Levy in 2017-18. The Liberal Democrats will consult on the implementation of this levy. We guarantee however that for properties valued at between £2m and £2.5m the charge would be £2,000 per year or less. For £2.5m and £3m the charge would be £3,500 per year or less, for properties between £3m and £4m the charge would be £5,000 per year or less and for properties between £4m and £5m the charge would be £9,000 per year or less.

3. Employee Shareholder status – We will abolish employee shareholder status that offers employees who have sacrificed their employment rights income tax relief and Capital Gains Tax exemptions on shares they own in their company.

4. Transferable Tax Allowance for Married Couples and Civil Partners – We will abolish the transferable tax allowance for married couples and civil partners introduced in April 2015 as it unfairly discriminates against unmarried couples.

5. Capital Gains Tax – We will reduce the annual exempt amount for Capital Gains Tax to £2,500, however we will allow people to transfer unused elements of their Income Tax Personal Allowance to offset against CGT liabilities. We will also restrict entrepreneurs' relief to those who have had shareholdings of at least 10% within the last three years and 5% in the last year. This will ensure that entrepreneurs' relief continues to benefit genuine entrepreneurs but isn't open to abuse.

6. Dividend Tax – We will raise the rate of dividend tax by 5% for higher and additional rate taxpayers to more closely align them with marginal income tax rates.

7. Corporation Tax: supplementary rate for banks – As we finish the job of dealing with the deficit we will levy a temporary supplementary rate of corporation tax on banks operating in the UK at a rate of 8%.

8. Corporation Tax: limiting of interest deductibility – We will continue to lead from the front in implementing the rules coming out of the OECD's work on Base Erosion and Profit Shifting. Within this work is a policy to limit the amount of debt interest that can be offset against a company's Corporation Tax liability. The OECD work on this strand is due to complete in the autumn of 2015 and we will implement, as soon as possible thereafter.

9. Corporation Tax: restriction of loss relief – We will extend the loss relief rules that the coalition applied to banks operating in the UK in the 2014 Autumn Statement. This means that companies will

[2] *Precise Barnett consequences of changes to DEL spending cannot be determined before a Comprehensive Spending Review has taken place, however Lib Dem commitments on both health and education will offer very significant protections to Devolved Administration block grants.*

not be able to offset more than 50% of its profits in any one year with prior losses when calculating its corporation tax liability.

10. Vehicle Excise Duty – We will work with the automotive industry to re-band Vehicle Excise Duty in order to return revenues to those projected in 2010. This work would be subject to consultation, however we will continue to incentivise the purchasing and running of lower emission cars.

11. Non Domiciled Residents – We will increase charges on Non Domiciled Residents so that people who have been resident in the UK for 7 of the past 9 years will see a rise from £30,000 to £50,000. People who have been resident in the UK for 12 of the past 14 years will see a rise from £60,000 to £100,000, and those who have been resident in the UK for 17 of the past 20 years will see a rise from £90,000 to £150,000.

12. Tax avoidance and evasion – We will continue to lead work in the OECD on BEPS (Base Erosion and Profit Shifting) to further crack down on international tax avoidance and evasion. In addition we will extend the current anti abuse law to create a General Anti-Avoidance Rule as well as further resourcing HMRC to better tackle evasion and avoidance.

AME Spending Measures

13. Benefits uprating – We will place a 1% cap on all working age benefit uprating for two years. This will exclude disability benefits and statutory parental benefits.

14. Pensioner benefits – We will remove eligibility for Winter Fuel Payments and free TV licences for pensioner households where an individual pays higher rate tax.

15. Spare Room Subsidy – We will reform the removal of the Spare Room Subsidy. The subsidy will continue to be removed for new tenants in social housing but existing social tenants will not be subject to any housing benefit deduction until they have received a reasonable offer of alternative accommodation with the correct number of bedrooms. We will also exempt disabled people who need a spare room or substantially adapted home

16. Housing Benefit – We will offer landlords the option of receiving Housing Benefit payments directly, creating a guaranteed revenue for them. In return for this risk mitigation they will only receive 95% of their tenant's Housing Benefit entitlement.

17. Universal Credit – For new claimants of Tax Credits we will abolish the 30 hour rule in preparation for UC. We will also reduce the capital limit from £16,000 to £10,000 and remove transitional protections from those with no entitlement to UC.

18. Back to work support – We will improve back-to-work support for JSA claimants and ESA WRAG claimants through enhanced physical and mental health support. We will also improve Jobcentre advice and support.

19. Fraud and Error – We will invest in information and enforcement procedures to reduce fraud and error in the Tax Credit and Benefits system.

DEL Spending Measures

20. NHS Funding – In addition to our commitment to protect NHS funding in real terms we will invest a further £1bn in NHS England in 2016-17 which we will then baseline. We secured £250m of this funding for mental health in Budget 2015. Increasing NHS England funding by £1bn will lead to a further increase of nearly £200m for the devolved administrations through Barnett consequences, £100m for Scotland, £58m for Wales and £35m for Northern Ireland.

21. Departmental Budgets – We will undertake a Comprehensive Spending Review by autumn 2015 that will set out detailed departmental budgets until at least 2018. As part of this Spending Review we will set out savings of £12bn by 2017-18. This will be achieved through the more efficient delivery of public services, prioritising key public spending and the use of proven spend to save initiatives. In this Spending Review we will continue to protect NHS spending, education spending from 2-19, science spending and our commitment to spending 0.7% of GDP on international aid.

Changes to DEL spending can impact the Devolved Administrations through the Barnett formula where spending is devolved. The Lib Dems will retain the Barnett formula as the basis for future spending allocations for Scotland and Northern Ireland. We however recognise the findings of the Holtham Commission that the current Barnett formula underfunds Wales. We will address this imbalance by entrenching a Barnett floor set at a level which reflects the need for Wales and would commission work to update the Holtham Commission's analysis. The party will then seek, over a parliament, to increase the Welsh block grant to an equitable level.