

Budget 2012: Osborne gambles on tax cut for rich

Chancellor George Osborne has promised two big tax cuts in his 2012 Budget Speech. He says his plans will reward hard work. Is this a Budget for the millions, or the millionaires?



CITIZENSHIP
 HISTORY & POLITICS
 BUSINESS & ECONOMICS



Taken on their own, many of the measures in the 2012 Budget sound trivial: a one percent change in this tax or that; import duties rising to keep pace with inflation; extra financial support for favoured industries.

But together, these small adjustments will have a huge effect on the shape of the economy as a whole. Budget speech winners and losers could see personal or corporate incomes change by tens of thousands of pounds

Of course, where there are winners and losers there is politics to be played. By working out who is doing well out of a Budget, it is possible to get a good idea of where a government's priorities lie.

The big question this year? To steal a phrase from Labour leader Ed Miliband: is this a Budget for the millions, or the millionaires?

The debate is based around two big tax cuts: on the one hand, an unprecedented rise in the amount of income workers are allowed to claim tax free will mean

millions of low paid workers are significantly better off.

On the other hand, a drop in the top rate of marginal income tax from 50% to 45% will mean those earning the highest salaries in Britain will now get to keep tens of thousands of pounds more of that income for themselves.

Who will pay for these cuts? Among the big losers from this budget are pensioners, whose extra tax free allowances are being frozen, and people buying mansions: 'stamp duty' on sales of houses over two million pounds is going up to seven percent.

The message, says Conservative Chancellor George Osborne, is clear: this is a budget that 'rewards work,' reducing taxes on low income workers, who are struggling in a tough economic climate, and on high earners, who contribute a huge amount to UK GDP.

Meanwhile, he says, despite the cut in the top rate of tax, the increase in stamp duty for mansions coupled with tougher

anti-avoidance rules should result in millionaires paying more, not less.

OSBORNE'S GAMBLE

Nonetheless, the cut in tax for top earners has the opposition hungry for a fight. For those among the super-rich that aren't buying mansions or dodging taxes, the budget brings very big savings. This is 'the government's very own banker's bonus,' said Ed Miliband. 'Millions will be paying more while millionaires pay less.' He calculates that the British public will agree with him – and that they will punish the Conservatives at the next elections.

But some commentators see Miliband falling into a political trap. The cut in the top rate has provoked Labour into an aggressive fit of 'banker bashing'. If Osborne can persuade Britain that the rich really are paying their fair share, he will leave his opponents looking like they are more interested in class warfare than in economic growth.

Q & A

Q Anything in the Budget about schools or young people?

A Not much. The Budget was much more focused on workers than on students. And no new funding was announced for the government's apprenticeship scheme. One piece of news is that the planned cut in

child benefit for parents earning more than £40,000 has been modified: now, cuts will only kick in when a parent earns more than £50,000, and only those earning more than £60,000 will lose the benefit entirely. Talking of benefits...

Q What?

A Osborne mentioned in his speech that there would probably be another £10 billion

in general benefit cuts over the next few years. With youth unemployment at record high levels, that could affect a lot of young people.

SOME PEOPLE SAY...

'The top rate of tax should have been raised, not cut by five percent!'

WHAT DO YOU THINK?

► Budget 2012: Osborne gambles on tax cut for rich

WORD WATCH

Favoured industries – Winners this year included the videogames, animation and television industries; pharmaceuticals and research companies, and the road transport industry, as Osborne froze vehicle tax for lorry drivers. Losers included banks, who are suffering yet another raise in the banking levy.

Marginal income tax – Income tax is not paid at a flat rate. So, the first few thousands of pounds you earn are tax free (this is the allowance that is being raised to £9,205). Then the next slice of income is taxed at 20%, and the slice after that is taxed at 40%. The very highest rate, which is being brought down to 45%, is only paid on income over £150,000.

Millionaires paying more – The government claims that while the reduction in the top rate of tax will result in millionaires paying £100 million less income tax, they will pay five times that amount extra in stamp duty and other fees. These figures are backed by the UK tax agency and by the Office of Budget Responsibility. Critics, however, say evidence is lacking.

YOU DECIDE

1. Is this a Budget for the millions or for the millionaires?
2. How much tax should the richest people pay?

ACTIVITIES

1. If you were Britain's chancellor, what would your Budget look like? Write down the ten key changes you would make, and why.
2. Do some research on what economists call the 'Laffer curve'. How does it relate to the 50% tax rate?

 **BECOME AN EXPERT** Check our website for a selection of useful links to videos and further reading.

 **NOTES**

