

Plenty of headroom for tax cuts

I was critical of OBR accounting for inflation linked linked government debt. They said the extra repayment costs on index linked bonds from higher inflation were like monthly cash payments though the government does not send the bondholders cash each time prices go up. . Now I can enjoy the reverse process where the accounting system to correct the figures going forward will record big drops in the costs of government interest payments as inflation falls away. In the year to November 2023 the OBR charged the government accounts £50bn with inflation top ups to bonds that do not become liable until the bonds are due for repayment. This year beginning with December 2023 with inflation down from 10% to 4% the debt interest figure will tumble. It went below zero in December for the inflation adjustments.

It looks as if on their accounting system government interest charges and spending will benefit from a fall of more than £30bn in the year ahead, assuming inflation now falls from 4% to 2% as forecast by the Bank of England. Tax revenues are predictably disappointing a bit compared to OBR forecasts as the higher rates and frozen thresholds bite. The Treasury/OBR model still attributes too much revenue growth with tax rises and fails to credit tax rate cuts with more revenue yet this often happens with the main capital and income taxes.

We need a growth strategy which must include tax cuts. We now know there will be more than £30 bn extra headroom as the interest payments plunge. The government should cut energy taxes as a priority. Getting inflation down more quickly would mean even bigger falls in debt interest and curb inflationary increases in public spending across all the budgets. Cuts in taxes on small business and the self employed will boost output and competition. Income tax should also be brought down by taking more people out of the higher tax brackets they are being dragged into.