

UK sets out biggest tax cuts in 50 years

Pound slides below \$1.11 for first time in 37 years

REUTERS
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Britain's new finance minister Kwasi Kwarteng unleashed historic tax cuts and huge increases in borrowing on Friday in an economic agenda that floored financial markets, with sterling and British government bonds in freefall.

Kwarteng scrapped the country's top rate of income tax, cancelled a planned rise in corporate taxes and for the first time put a price tag on the spending plans of Prime Minister Liz Truss, who wants to double Britain's rate of economic growth.

Investors unloaded short-dated British government bonds as fast as they could, with the cost of borrowing over 5 years seeing its biggest one-day rise since 1991, as Britain raised its debt issuance plans for the current financial year by 72.4 billion pounds to 234.1 billion pounds (\$259 billion).

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Kwarteng's announcement marked a step change in British economic policy, harking back to the Thatcherite and Reaganomics doctrines of the 1980s that critics have derided as a return to "trickle down" theory.

Truss, elected as prime minister earlier this month by a vote of the Conservative Party's 170,000 members, has vowed to cut regulations and pursue overall economic growth even if it favours the wealthy at a time when millions are struggling to cover basic household bills.

"That is how we will compete successfully with dynamic economies around the world," Kwarteng said. "That is how we will turn the vicious cycle of stagnation into a virtuous cycle of growth."

The so-called mini budget is designed to snap the economy out of a period of double-digit inflation driven by surging energy prices and a 15-year run of stagnant real wage growth.

Moves to subsidise energy bills will cost 60 billion pounds just for the next six months, Kwarteng said — part of a promise to support households for two years.

Tax cuts — including an immediate reduction in a property purchase tax — would cost a further 45 billion pounds by 2026/27, he said, costs that could be recovered by a rise in annual economic growth of 1 percentage point over five years — a feat most economists think unlikely.

Britain also will accelerate moves to bolster the City of London's competitiveness as a global financial centre by scrapping the cap on banker bonuses ahead of an 'ambitious deregulatory' package later in the year.

"In 25 years of analysing budgets this must be

'MINI-BUDGET' CONTENTS

ILLUSTRATION: BINAY SINHA



INCOME TAX

- ▶ **Cut in basic rate of income tax** to 19% from April 2023
- ▶ **Government estimates 31 million people** getting £170 a year more
- ▶ **45% higher rate of income tax abolished** for England, Wales and Northern Ireland taxpayers
- ▶ **One single higher rate** of income tax of 40% from April next year

BANKERS' BONUSES

- ▶ **Rules which limit** bankers' bonuses scrapped
- ▶ **Package of regulatory reforms** to be set out later in the autumn

SHOPPING

- ▶ **VAT-free shopping** for overseas visitors
- ▶ **Planned increases in the duties** on beer, for cider, for wine, and for spirits cancelled

CORPORATION TAX

- ▶ **Cancel UK-wide rise in corporation tax** which was due to increase from 19% to 25% in April 2023

STAMP DUTY

- ▶ **Cut to stamp duty which is paid** when people buy a property in England and Northern Ireland
- ▶ **No stamp duty on first £250,000 and for first time buyers** that rises to £425,000 — comes into operation today

ENERGY

- ▶ **Freeze on energy bills, which the government claims** will reduce inflation by 5% points
- ▶ **Total cost for the energy package expected** to be around £60bn for the six months from October

the most dramatic, risky and unfounded mini-budget," said Caroline Le Jeune, head of tax at accountants Blick Rothenberg.

The market backdrop could barely be more hostile for Kwarteng, with the pound performing worse against the dollar than almost any other major currency.