Did the Conservatives break a manifesto promise on national insurance?

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In brief

Claim

The Conservatives broke a manifesto promise by raising national insurance rates in the 2017 budget.

Conclusion

The 2015 Conservative election manifesto promised not to raise national insurance rates this parliament. The government has now announced plans to raise national insurance rates for some self-employed people.

> *"Philip Hammond breaks Tory manifesto promise not to raise National Insurance contributions".*
>
> *Independent, 8 March 2017*

> *"The Conservative manifesto in 2015 promised four times NOT to raise national insurance".*
>
> *Chuka Umuna MP, 8 March 2017*

> *"National insurance rise calls manifesto pledge into question".*
>
> *Financial Times, 8 March 2017*

> *"Tories break manifesto pledge with National Insurance hikes".*
>
> *Liberal Democrats, 8 March 2017*

The Chancellor has announced plans in the spring budget for the rate of national insurance contributions paid by self-employed people to increase from 9% to 10% in April 2018 and then to 11% in 2019. Since then both the media and opposition politicians have accused the government of breaking one of their manifesto pledges.

The Conservative manifesto for the 2015 general election promised not to increase national insurance rates before 2020. It was only the legislation introduced to enforce this pledge that restricted this to employees.

Around 84% of all people in work are employees and 15% are self-employed.

The manifesto vs the budget

In its manifesto for the 2015 election the Conservative party said "a Conservative Government will not increase the rates of VAT, Income Tax or National Insurance in the next Parliament." It repeated this position three more times in the document.

But the Chancellor’s speech for the 2017 spring budget announced that the main rate of Class 4 National Insurance Contributions for the self-employed would increase in 2018 and 2019.

There are four classes of national insurance contribution. Class 1 is paid by employed people, Class 2 is a flat rate paid by self-employed people who make over roughly £6,000 in profit a year. This class will be abolished in 2018. Class 3 is paid voluntarily to top up any gaps you might have had in paying national insurance and Class 4 is paid by self-employed people on any profit over about £8,000.

The reason given by the Chancellor for the change to Class 4 was that:

“Historically, the differences in NICs [National Insurance Contributions] between those in employment and the self-employed reflected differences in state pensions and contributory welfare benefits. But with the introduction of the new state pension, these differences have been very substantially reduced…

The lower National Insurance paid by the self-employed is forecast to cost our public finances over £5 billion this year alone. That is not fair to the 85% of workers who are employees. The abolition of Class 2 NICs for self-employed people…would further increase the gap between employment and self-employment… from April 2018, when the Class 2 NIC is abolished, the main rate of Class 4 NICs for the self-employed will increase by 1% to 10%, with a further 1% increase in April 2019.”

The Chancellor went on to say that these changes would raise £145 million a year for the Treasury by 2021/22 and would still mean that self-employed people earning less than £16,250 a year will see their national insurance contributions reduced. The Institute for Fiscal Studies has said £15,570, we’re looking into why this is.

The Chancellor’s argument has received some sympathy from experts like the Institute for Fiscal Studies which has said that “the difference in access to benefits is nowhere near enough to account for the NICs difference” and has referred to the new change as “a modest but welcome change”.

A broken promise?

The 2015 Conservative manifesto didn’t specify whether it was only referring to certain types of national insurance.

But the Chancellor told ITV’s Good Morning Britain that the Conservatives “dealt with this issue back in 2015 when we legislated for the tax locks that we talked about during the election campaign. We introduced them into Parliament, we debated them then, we had a proper discussion about what the extent of these locks and ring-fences were and we put it all into legislation”.

The legislation Mr Hammond is referring to ensured that the main rate of national insurance contributions paid by employers and employees, or Class 1, couldn’t change from its 2015/16 rate.

But the law makes no mention of the national insurance rates paid by self-employed people, Class 2 and 4.

Nothing that's happened since the election changes the fact that the government isn't doing what it told voters it would in its 2015 manifesto.

Update 10 March 2017

We added in the last sentence.

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Budget 2017: Philip Hammond breaks Tory manifesto promise not to raise National Insurance contributions

Chancellor hikes taxes for the self-employed

Jon Stone Political Correspondent | @joncstone | Wednesday 8 March 2017 17:49 GMT |

House of Commons of Chancellor of the Exchequer Philip Hammond making his Budget statement to MPs in the House of Commons *PA*

The Chancellor has broken the Conservatives' manifesto pledge not to raise National Insurance contributions after increasing the headline rate of the tax for some workers in his Budget.

Independent white van traders and freelancers are likely to be worst hit by the policy, which will raise the tax rate twice in the next two years ahead of Brexit.

The 2015 Conservative election manifesto repeatedly pledged that "we will not raise VAT, National Insurance contributions or Income Tax" .

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On another page the document stated that "we can commit to no increases in VAT, Income Tax or National Insurance. Tax rises on working people would harm our economy, reduce living standards and cost jobs".

At the time Labour described the pledge as a "last-minute gimmick".

In the Chancellor's speech on Wednesday afternoon Mr Hammond however targeted self-employed workers with a hike in the rate of NI contributions. Self-employed workers will see their rate rise from 9 per cent to 10 per cent in 2018, with a further rise to 11 per cent in 2019

Budget 2017: Seven key points

Treasury officials say 2.5 million people will be hit by £240 a year by the NICS class 4 change. The number of people seeing a NICS rise in April 2018 when it comes in will fall to 1.6 million because of the move to abolish class 2 NICS previously announced JIC.

He justified the policy on the basis that differences in benefits between employees and self-employed workers “have been very substantially reduced” in recent years.

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A Labour spokesperson said: "It is clear the Tories have broken their manifesto promise in order to hit low and middle earners with the sole-trader tax while continuing with tax giveaways for the super rich and corporations."

A Government spokesperson tried to defend the policy by arguing that the Government remained committed to its manifesto pledges and that detail of the NICs rise had been set out in legislation after the election.

Speaking after the Budget announcement David Gauke, the chief secretary to the Treasury, defended the decision to break the manifesto promise.

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“I think we have got a situation where we’ve closed the gap in terms of benefits entitlements, effectively eliminated it, that we have got a growing situation with the costs and the sense that if we don’t take action … we are placing an unfair burden on the 85 per cent of employees,” he told after BBC News.

“I think if you look at our record as a Government over the course of this period in time you’ll see it is a record where we are cutting direct taxes … that when it comes to those direct taxes we are not looking for more, but there is a very specific case and the more we look at this the more we can see there is a problem that is going to build up if we don’t take action on this.”

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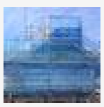

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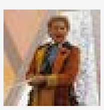

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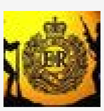

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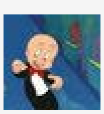

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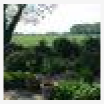

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The Papers

Newspaper headlines: 'Chancellor hits white van man'

By BBC News
Staff

9 March 2017

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There is widespread criticism of Chancellor Philip Hammond's decision to increase National Insurance payments for the self-employed.

With the headline "Tories break tax vow", the **Daily Telegraph says Mr Hammond "prompted an angry response"** from Conservative MPs when he ditched a manifesto pledge to not raise taxes.

Alongside a photograph of a smiling Mr Hammond, the **Daily Mail describes the broken promise as "no laughing matter"**, and says the move to penalise enterprise and thrift provoked an instant rebellion "of a scale rarely seen" on a day when MPs usually line up to praise the chancellor.

Friends of Mr Hammond have told the Times that he was "aware of the scale of the fight he was picking" in breaching a key manifesto pledge but he was determined to put tax fairness before keeping his predecessor's promises.

That does not wash **with the Daily Mirror**.

It argues the "betrayal Budget" is a "political failure" and a "glaring demonstration of unjust two-nation Conservatism" because tax breaks were gifted to huge corporations that "exploit" the very workers who face higher taxes.

"The whiff of George Osborne's disastrous pasty-tax fiasco hangs around hopeless Hammond," it says, referring to the previous chancellor's failed attempt to impose VAT on certain types of hot takeaway food.

Beneath the headline "Rob The Builder!", the **Daily Star claims the so-called white van man "took a battering"**.

The Sun agrees, labelling Mr Hammond as "spite van man" who "sparked a national wave of fury" by launching a tax grab on Britain's self-employed strivers.

Writing an opinion piece, **Daily Telegraph deputy editor Allister Heath says** the "great tragedy" of the "bizarre, omnishambolic raid" is that it marks the chancellor as a collectivist politician, rather than an individualist.

Arguing that the move was a "terrible, unforced error", Heath claims Britain's army of self-employed workers now feel "betrayed".

There is just one way out, he says, "and that is for the chancellor to think again".

The Guardian disagrees and salutes the "courageous" chancellor for repudiating the "Thatcherite myth" that the self-employed are all entrepreneurs whose virtuous animal instincts should be rewarded with a lower tax rate.

In normal times, **writes Guardian columnist Jonathan Freedland**, Mr Hammond could have expected a bucket of tabloid ordure to be poured over his head as punishment for declaring war on the self-employed.

But the normal rules of politics are suspended, he argues, because this government believes it can take risks without paying an electoral price "thanks to the parlous state of the opposition".

The chancellor is given greatest credit by the **Financial Times** which suggests that "with perhaps one exception" on the self-employed, his judgement to put fairness centre stage "looks sound".

He is praised for defusing the furore over the business rates revaluation "with relatively small amounts of money" and for easing the pressure in social care.

His reluctance to spend this year's tax windfall is also applauded with uncertainty surrounding Brexit, but the FT concedes "he has ducked some big issues".

Moves to lift pressure on the NHS and address a large increase in income inequality over the next few years "will not be able to be delayed much longer".

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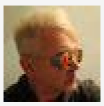

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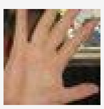

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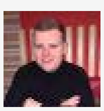

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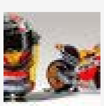

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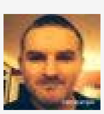

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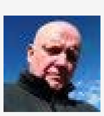

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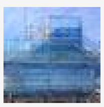

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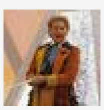

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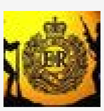

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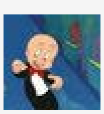

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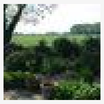

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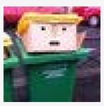

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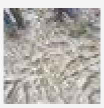

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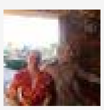

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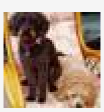

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STRONG LEADERSHIP
A CLEAR ECONOMIC PLAN
A BRIGHTER, MORE SECURE FUTURE

Conservatives

Contents


OTTAWA
451

We have a plan for every stage of your life:

FOR THE BEST START IN LIFE

we will continue to increase spending on the NHS, provide 7-day a week access to your GP and deliver a truly 7-day NHS – so you know you will always have access to a free and high quality health service when you need it most.

FOR YOUR SCHOOL YEARS

we will maintain the amount of money that follows each child into school, ensure there is a good primary school place available for every child and lift the cap on university places – so you have the skills you need to succeed.

TO SECURE YOUR FIRST JOB

we will create 3 million new apprenticeships; take everyone earning less than £12,500 out of Income Tax altogether and pass a law to ensure we have a Tax-Free Minimum Wage in this country; and continue to create a fairer welfare system where benefits are capped to the level that makes work pay – so you are rewarded for working hard and doing the right thing.

AS YOU RAISE YOUR FAMILY

we will extend the Right to Buy to Housing Association tenants, build 200,000 new Starter Homes – 20 per cent below the market price, for first-time buyers under 40 – and provide 30 hours of free childcare to working parents of three and four year-olds – so you are able to work while having the security of your own home in which to raise your family.

WHILE YOU GROW OLDER

we will not raise VAT, National Insurance contributions or Income Tax but we will raise the 40p Income Tax threshold to £50,000 and take the family home out of tax by increasing the effective Inheritance Tax threshold for married couples and civil partners to £1 million – so you can keep more of your income and pass it on to future generations.

AND WHEN YOU RETIRE

we will continue to increase the Basic State Pension by at least 2.5 per cent through the triple lock, give you the freedom to use your pension savings as you want and pass them on tax-free and we will cap the amount you can be charged for your residential care – so you can have the dignity and security you deserve in your old age.

The next Conservative Government will secure a better future for you, your family and Britain.

Foreword

Over the last five years, we have put our country back on the right track. Five years ago, Britain was on the brink. As the outgoing Labour Treasury Minister put it with brutal candour, ‘there is no money’. Since then, we have turned things around.

Britain is now one of the fastest growing major economies in the world. We are getting our national finances back under control. We have halved our deficit as a share of our economy. More people are in work than ever before. Britain is back on its feet, strong and growing stronger every day.

This has not happened by accident. It is the result of difficult decisions and of patiently working through our long-term economic plan. Above all, it is the product of a supreme national effort, in which everyone has made sacrifices and everyone has played their part.

It is a profound Conservative belief that our country is made great not through the action of government alone, but through the flair, the ingenuity and hard work of the British people – and so it has proved the last five years.

We can be proud of what we have achieved so far together, and especially proud that as we have taken hard decisions on public spending, we have protected the National Health Service, with 9,500 more doctors and 6,900 more nurses, and ensured generous rises in the State Pension.

Our friends and competitors overseas look at Britain, and they see a country that is putting its own house in order, a country on the rise. They see a country that believes in itself. But our national recovery remains a work in progress. It is fragile, and with the wrong decisions, it could easily be reversed.

So the central questions at this election are these: how do we maintain our economic recovery, upon which our ambitions for our country depend? And how do we make sure that the recovery benefits every one of our citizens, at every stage of their lives?

This Manifesto sets out our plan to do just that. It is a plan for a better future – for you, for your family. It is a plan for every stage of your life. For your new-born baby, there will be the world's best medical care. For your child, there will be a place at an excellent school. As you look for your first job, we are building a healthy economy that provides a good career for you with a decent income. As you look for that first home, we will make sure the Government is there to help. As you raise your family, we will help you with childcare. And as you grow older, we will ensure that you have dignity in retirement. Throughout, we will make sure that if you or your family fall ill, you will always be able to depend on our cherished National Health Service to give you the care you need.

And in an increasingly dangerous and uncertain world, we will fulfil the most basic duty of government – to defend our country and keep it safe.

But all of these things depend on a strong and growing economy. So as you consider how to vote, I hope you will ask this: which party is best placed to keep our economy strong? The team which has delivered the growing economy we have today, which created more jobs since 2010 than the rest of the European Union put together; or the party which left behind a ruined economy just five short years ago?

Now is a time to build on the progress we have made, not to put it all at risk. This Manifesto is our plan of action – our plan to take our amazing country forward. Above all, it is a plan for you.

I hope you will give it your support, so that together, we can see through the task we have begun.

A strong economy to help you and your family

Our commitment to you:

Your job, your home, the mortgage you pay, the school your children go to, your local hospital, your pension – all these things depend on a strong economy. So we will carry on working through our long-term economic plan. We will:

- *keep our economy secure by* ***running a surplus so that we start paying down our debts***
- ***increase the tax-free Personal Allowance*** *to £12,500 and the 40p Income Tax threshold to £50,000*
- *commit to* ***no increases in VAT, National Insurance contributions or Income Tax***
- ***crack down on tax evasion and aggressive tax avoidance*** *and ensure those who can afford to pay the most do*
- *rebalance our economy,* ***build a Northern Powerhouse*** *and back elected metro mayors*
- *pursue our ambition to* ***become the most prosperous major economy*** *in the world by the 2030s.*

Our long-term economic plan is turning around Britain's economy. Five years ago, Britain was reeling from the chaos of Labour's Great Recession; in 2014 we were the fastest growing of all the major advanced economies – last year, we grew 75 per cent faster than Germany, three times faster than the Eurozone and seven times faster than France. Five years ago, the budget deficit was more than 10 per cent of GDP, the highest in our peacetime history, and the national debt was rising out of control; today, the deficit is half that level and debt as a share of national income will start falling this financial year.

The fastest growing of all the major advanced economies in 2014

Industries are coming back to life. Companies are striding into new markets. Manufacturers are returning to our shores. More tech companies are starting up here than anywhere else in Europe. We have overtaken France as the third largest car producer in Europe and there are 760,000 more businesses than in 2010 providing jobs and creating wealth across the country.

The Great Recession has given way to a Great Revival, which is creating on average 1,000 new jobs every day: more than the rest of the European Union combined. This is no accident. It is the product of hard work by people in every part of the country and it is thanks to the success of our long-term economic plan. By halving the deficit, we have helped to restore confidence to the economy. By maintaining fiscal discipline, we have helped keep mortgage rates lower than they otherwise would be. And by establishing the independent Office for Budget Responsibility (OBR), we have ended – permanently – the ability of politicians to cook the books for political gain at the nation's expense. With inflation at a record low, the latest OBR forecasts show that living standards will be higher in 2015 than in 2010, and are set to grow strongly every year for the rest of the decade, with the average family £900 better off. It is only by securing the recovery, dealing with our debts and creating jobs that we can continue to raise living standards. That means sticking to our long-term economic plan; Britain is on the right path.

But the job is not finished. There are clouds on the international horizon. Huge challenges remain at home. We have cut the record deficit we inherited to five per cent of GDP, but that is still too high. Our trade with emerging economies is up, with exports to China more than doubled since 2009, but overall we are still too dependent on slow-growing European markets. Business investment is rising, but we still underinvest compared to other countries. Productivity remains too low. And while prosperity is now spreading around the country, our economic growth remains uneven, too reliant on financial services.

1,000 jobs created for every day of the Parliament since 2010

We will finish the job we started in a balanced way. Those with the broadest shoulders have contributed the most to deficit reduction – which is why inequality has fallen, and child and pensioner poverty are down – and they will continue to do so. We will increase NHS spending every year. We will control spending, eliminate the deficit, and start to run a surplus. We will go from stuck in the red, to back in the black. By building on the foundations we have put in place, we will have a truly national recovery and be able to pursue our ambition for Britain to become the most prosperous major economy in the world by the 2030s.

If we do not stick to our long-term economic plan, we will slip back again, reversing the progress we have made in the last five years. More borrowing – and the extra debt interest that it brings – means there is less money to spend on schools and hospitals. More spending means higher taxes for hardworking people, and interest rates that are higher than they otherwise would be – punishing homeowners, hurting businesses, costing jobs.

> ***"A strong economy allows us to invest in and protect our public services like the NHS and schools"***

And failing to control our debt would be more than an economic failing; it would be a moral failing – leaving our children and grandchildren with debts that they could never hope to repay.

So you face a clear choice. Economic competence, with David Cameron as Prime Minister, following through on our long-term economic plan. Or economic chaos under Labour, with higher taxes, more debt and no plan to fix our public finances, create jobs or build a more secure economy.

Our plan of action:

We will finish the job by eliminating the deficit to keep our economy secure and keep your taxes and mortgage payments down

Our long-term economic plan reflects our values: we as a nation should not be piling up and passing on unaffordable levels of debt to the next generation. We will eliminate the deficit in a sensible and balanced way that will enable us to continue to increase spending on the NHS and cut Income Tax for 30 million working people.

Our deficit reduction plan has two phases. The first will see us continue to reduce government spending by one per cent each year in real terms for the first two full financial years of the next Parliament, the same rate as over the last five years. That means saving £1 a year in every £100 that government spends. We don't think there's a business that couldn't do that – and we don't think government, when it is spending your money, should be any different.

We have halved the deficit as a share of our economy

That will require a further £30 billion in fiscal consolidation over the next two years, on top of the £120 billion that we have already identified and delivered over this Parliament. We will find £13 billion from departmental savings, the same rate of reduction as in this Parliament. We will find £12 billion from welfare savings, on top of the £21 billion of savings delivered in this Parliament. And we will raise at least £5 billion from continuing to tackle tax evasion, and aggressive tax avoidance and tax planning, building on the £7 billion of annual savings we have delivered in this Parliament. This £30 billion of further consolidation is necessary to ensure that debt keeps falling as a share of GDP and to deliver a balanced structural current budget in 2017-18, meeting the new fiscal mandate that Parliament voted on earlier this year.

Our commitment goes further than this. A balanced current budget is not enough to deliver a reliable reduction in our level of national debt, which remains far too high in a world of continuing economic challenges. International evidence and Treasury analysis shows that the only way to keep our economy secure for the future is to eliminate the deficit entirely and start running a surplus. Anything less would be to ignore the lessons of the past.

That is why, in the second phase of our deficit reduction plan starting in 2018-19, we are set to move into surplus, with the Government taking in more than it is spending for the first time in 18 years. That means we can start properly paying down our debts and reducing the scale of annual interest payments – reducing the UK's vulnerability to future shocks by fixing the roof while the sun is shining. We will achieve this by continuing to control government spending in 2018-19, no longer cutting it in real terms, but instead growing it in line with inflation.

> ***"To eliminate the deficit we must continue to cut out wasteful spending and make government more efficient, effective and accountable"***

From 2019-20, after a surplus has been achieved, spending will grow in line with GDP. A new fundamental principle of fiscal policy, monitored by the independent OBR, will ensure that in normal economic times, when the economy is growing, the government will always run a surplus in order to reduce our national debt and keep our economy secure, with a state neither smaller than we need nor bigger than we can afford. Total government spending as a share of our national income at the end of the next Parliament is forecast to be very slightly higher than in the year 2000, the year before Labour lost all control of spending and the national debt started its longest rise for hundreds of years.

Our approach is focused on reducing wasteful spending, making savings in welfare, and continuing to crack down on tax evasion and aggressive avoidance. This means that we can commit to no increases in VAT, Income Tax or National Insurance. Tax rises on working people would harm our economy, reduce living standards and cost jobs. Instead, as we reduce the deficit, we will cut Income Tax, as we have done over the last five years: during the next Parliament, we will increase the tax-free Personal Allowance to £12,500 and the higher rate threshold to £50,000, so you keep more of your hard-earned money.

> The richest are paying a greater share of income tax than in any of Labour's 13 years

We will continue to build a stronger, safer and more secure banking system that serves its customers and provides businesses with the finance they need to grow and create jobs

We will make sure our financial services industry is the best regulated in the world with our new system of supervision led by the independent Bank of England. Our new Financial Policy Committee will monitor and control the growth of indebtedness and imbalances across the whole economy – a vital task that was totally ignored in the run up to the financial crisis. Our tough new Financial Conduct Authority will protect consumers and ensure that financial markets work for the benefit of the whole economy. To protect hardworking taxpayers from future banking crashes, we will finish the process of ring-fencing banks' high street branches from their investment arms by 2019 at the latest. In order to ensure that new pay structures for bankers rebuild trust and reduce short-termism, we will ensure that Britain continues to have the toughest regime of bonus deferral and clawback of any financial centre. We will continue to sell the Government's stakes in the bailed-out banks and building societies in order to deliver value for money for taxpayers and support the economy. Hardworking taxpayers supported the banks during the financial crisis and so the banks should in turn support them during the recovery – that is why we will keep the bank levy in place and restrict established banks' ability to pay less tax by offsetting their profits against past losses.

We will make the banks work for you

Our plan is to ensure banks help secure our recovery and back businesses to create jobs and growth in our economy. We capped payday lenders, made it easier for you to switch your bank account and will continue to support the credit union movement in making financial services more accessible. We will continue the successful Funding for Lending scheme into 2016. We will help new and existing challenger banks to inject fresh competition into the market for personal current accounts, mortgages and business loans, including through the British Business Bank, while backing the financial technology revolution. We will improve our support for investment into start-ups and roll-out our innovative Help to Grow scheme, which will plug a £1 billion finance gap for firms that are looking to expand, invest and take on new employees.

We will continue to lead the world on tax and transparency

Tackling tax evasion and aggressive tax avoidance and tax planning is an important part of our long-term economic plan. We will increase the annual tax charges paid by those with non-domiciled status, ensuring that they make a fair contribution to reducing the deficit, and continue to tackle abuses of this status. We will lead international efforts to ensure global companies pay their fair share in tax, as David Cameron did at the G8 Summit in Northern Ireland in 2013, which secured significant international progress on fairer tax rules and full transparency over who really owns companies. We will push for all countries to sign up to the Extractive Industries Transparency Initiative; review the implementation of the new international country-by-country tax reporting rules and consider the case for making this information publicly available on a multilateral basis. We will ensure developing countries have full access to global automatic tax information exchange systems and continue to build the capacity of tax authorities in developing countries. We are also making it a crime if companies fail to put in place measures to stop economic crime, such as tax evasion, in their organisations and making sure that the penalties are large enough to punish and deter.

> ***We are fixing the economy so that everyone feels the benefit***

We will rebalance our economy and build a Northern Powerhouse

We are committed to a truly national recovery, benefiting all parts of our country. We have devolved powers to Scotland and Wales, and set out long-term economic plans to raise the growth rate of all parts of England, bringing areas which have grown more slowly up to at least the national average. Over the last year, the North grew faster than the South. By connecting up the North with modern transport links, we will enable its great cities and towns to pool their strengths. We will invest a record £13 billion in transport for the North. We will electrify the main rail routes, build the Northern Hub, and provide new trains for the North. We will upgrade the A1, M62, M1 and A555 link road. And that is on top of our £50 billion commitment to build High Speed 2 – the new North-South railway linking up London with the West Midlands, Leeds and Manchester – and develop High Speed 3 to join up the North. We will back scientific and technical strengths by creating new institutions such as Health North; the Royce Institute for Advanced Materials in Manchester, Leeds, Liverpool and Sheffield; the National Centre for Ageing Science and Innovation in Newcastle; the Cognitive Computing centre at Daresbury; and by making investments in energy research in Blackpool, Cumbria and Thornton.

We will back new jobs in the South West

To help attract growth and new businesses we will improve connections to the South West with major investment in the M5, A358, A30 and A303, and the electrification of the Great Western Main Line – bringing new fast trains on the route. We will invest to boost tourism in the South West and ensure the world-class defence assets and cyber-security industries of the South West benefit the local economy.

> Britain's exports are growing fastest in the North East and our employment fastest in the North West

We will make the Midlands an engine of growth

We will back business by investing a record £5.2 billion in better transport, upgrading the M1 and M6, and electrifying the Midland Main Line from St Pancras to Sheffield – putting the Midlands at the centre of a modern, inter-connected transport network for the UK. We will back the Midlands' strength in advanced manufacturing, engineering and science with major projects such as the Energy Research Accelerator and support for innovation in the motor industry.

We will properly connect the East of England and back innovation

We will improve rail connections to East Anglia, delivering 'Norwich in 90 minutes' and 'Ipswich in 60 minutes' and upgrade key roads like the A11 and A47. We will support the creation of new jobs by backing the East's great strengths – agri-tech, high-tech businesses around Cambridge, and energy businesses at Great Yarmouth and Lowestoft.

"We support policies that grow the economy as a whole, generating new jobs and higher wages for everybody"

We will devolve powers and budgets to boost local growth in England

We will devolve far-reaching powers over economic development, transport and social care to large cities which choose to have elected mayors. We will legislate to deliver the historic deal for Greater Manchester, which will devolve powers and budgets and lead to the creation of a directly elected Mayor for Greater Manchester. In Cambridgeshire, Greater Manchester and Cheshire East, we will pilot allowing local councils to retain 100 per cent of growth in business rates, so they reap the benefit of decisions that boost growth locally. We will devolve further powers over skills spending and planning to the Mayor of London. And we will deliver more bespoke Growth Deals with local councils, where locally supported, and back Local Enterprise Partnerships to promote jobs and growth.

Better roads, trains and modern communications

Our commitment to you:

You depend on infrastructure at every stage of your life: to go to school, to go to work, to enable businesses to grow and create jobs for your children and grandchildren. We have a plan of action that will improve our roads, railways, airports and internet connections. We will:

- ***invest in infrastructure** to attract businesses and good jobs across the whole of the UK*
- *make your life easier, with **more and faster trains, more roads and cycle routes***
- *keep **commuter rail fares frozen** in real terms for the whole of the next Parliament*
- *roll out **universal broadband and better mobile phone connections**, to ensure everyone is part of the digital economy.*

Under Labour, road and rail were starved of resources, while too many people were stuck on the wrong side of the digital divide. This meant packed trains, potholes, patchy broadband coverage – businesses held back and cities left behind. Turning these problems around takes time.

> ***Improving our trains, roads and broadband helps local businesses grow and create more jobs and opportunities***

But because we have made savings elsewhere, we have been able to make significant investments in infrastructure. We will commit, alongside running a surplus, to increase our capital spending – investment in infrastructure – at least in line with our national income. We have set out a plan to invest over £100 billion in our infrastructure over the next Parliament.

This will fund the biggest investment in rail since Victorian times, and the most extensive improvements to our roads since the 1970s. And it will give us the most comprehensive and cheapest superfast broadband coverage of any major European country.

> We are investing over £2 billion electrifying our railways

Our plan of action:

We will spend more on infrastructure, to improve your quality of life

Overall public investment will be higher on average over this decade, as a percentage of GDP, than under the whole period of the last Labour Government. We will deliver on our National Infrastructure Plan and respond to the Airports Commission's final report.

We will transform our railway network

We will invest £38 billion in our railway network in the five years to 2019. Electrification of the railways is a key part of our investment programme, with work already underway across the North, the Midlands, and South Wales; there are plans to go further in the rest of the country, including East Anglia and the South West. In addition to rolling out our national high-speed rail network, with High Speed 2 and High Speed 3, we will complete the construction of the new east-west Crossrail across Greater London, and push forward with plans for Crossrail 2, a new rail route running through London and connecting Surrey and Hertfordshire. We will support a fairer deal for taxpayers and commuters: we will keep commuter rail fares frozen in real terms for the whole of the next Parliament – regulated fares will only be able to rise by Retail Price Inflation, and train operating companies will not have any flexibility to raise ticket prices above this. We will also introduce smart ticketing and part-time season tickets and require train companies to improve compensation arrangements for passengers when trains are more than a few minutes late. We are investing millions of pounds in fitting out trains with new wi-fi equipment and improving mobile phone signals, which will benefit passengers on trains across England and Wales.

We will support motorists and invest in our roads, to save you time and money

We abolished Labour's fuel duty escalator, and instead have frozen fuel duty, delivering the longest duty freeze in 20 years. We will invest £15 billion in roads. This will include over £6 billion in the northern road network, with the dualling and widening of the A1 north of Newcastle and the first new trans-Pennine road capacity in over 40 years. We will take action to tackle some of the most notorious and longstanding problems on our road network, including improvements to the A303, A47 and A27. We will add 1,300 extra lane miles to our roads, improve over 60 problem junctions, and continue to provide enough funding to fix around 18 million potholes nationwide between 2015 and 2021.

We will make motoring greener and promote cycling, to protect your environment

Our aim is for almost every car and van to be a zero emission vehicle by 2050 – and we will invest £500 million over the next five years to achieve it. We want to double the number of journeys made by bicycle and will invest over £200 million to make cycling safer, so we reduce the number of cyclists and other road users killed or injured on our roads every year.

We are investing £790 million extending superfast broadband to rural areas – with 2 million UK premises already connected and 40,000 being upgraded every week

We will deliver faster internet, to help you work and communicate more easily

We will secure the delivery of superfast broadband in urban and rural areas to provide coverage to 95 per cent of the UK by the end of 2017, and we will ensure no one is left behind by subsidising the cost of installing superfast capable satellite services in the very hardest to reach areas. We will also release more spectrum from public sector use to allow greater private sector access. And we have set an ambition that ultrafast broadband should be available to nearly all UK premises as soon as practicable.

We will boost mobile coverage, so you can stay connected

We will hold the mobile operators to their new legally binding agreement to ensure that 90 per cent of the UK landmass will have voice and SMS coverage by 2017. We will continue to invest in mobile infrastructure to deliver coverage for voice calls and text messages for the final 0.3 – 0.4 per cent of UK premises that do not currently have it. We will ensure that Britain seizes the chance to be a world leader in the development of 5G, playing a key role in defining industry standards.

Jobs for all

Our commitment to you:

Whatever stage of life you are at – whether you're looking for your first job out of school, or coming to the end of your career – we will work to help you enjoy the satisfaction and rewards of a decent job. We will:

- *help businesses to* ***create two million new jobs****, so we achieve full employment*
- *give businesses* ***the most competitive taxes of any major economy***
- *back small firms with* ***a major business rates review***
- *support* ***three million new apprenticeships****, so young people acquire the skills to succeed*

If you want to live in the most vibrant and dynamic country in the world, this election matters. Only the Conservatives have the vision, the optimism, the ambition and the discipline to transform Britain. That's because we know that a decent job is the best weapon against poverty and the best way to provide security for families.

Britain has created more jobs than the rest of the EU put together since 2010

Thanks to the success of our long-term economic plan, Britain is creating more jobs than the 27 other countries of the European Union put together. That means more people with the security of a regular pay packet. Over the past five years, 1.9 million new jobs have been created; 1,000 jobs for every single day that we have been in government.

This represents a transformation in many people's lives; giving families more security; boosting the self-esteem of young people taken on; and providing hope for those who have been unemployed for years.

But we need to go further. We have set out the bold aim of achieving full employment, with the highest employment rate of any major economy. We want Britain to be the best place in the world to start a business and will create another two million jobs over the next Parliament. We will abolish long-term youth unemployment, and make sure that all young people are either earning or learning. And we will make our economy more inclusive, by removing barriers that stop women and disabled people from participating in our workforce.

"A job is the best way to provide security for families"

To achieve this, we will back British businesses: cutting red tape, lowering taxes on jobs and enterprise, getting young people into work, boosting apprenticeships and investing in science and technology. With the Conservatives, Britain will be the best place in Europe to innovate, patent new ideas and set up and expand a business. We aim to be number one in Europe and in the top five worldwide in the World Bank's Doing Business rankings by 2020 and to lead Europe in attracting foreign investment.

Backing business also means helping our farmers and our rural communities. Neglected for 13 years under Labour, we have started the process of championing and connecting up the countryside. In the coming years, we will go further, helping our farmers, supporting British food around the world and opening up new export markets.

This is all at risk if the Labour Party forms the government. Their policies to spend more, borrow more and tax more would be catastrophic for Britain's businesses – and for all the families thrown back into the despair of joblessness and financial uncertainty.

> *Our plan will help to generate jobs and higher wages for everybody*

Our plan of action:

We will boost apprenticeships and help you secure a good job

We have already delivered 2.2 million new apprenticeships over the last five years. Over the next five years, we will deliver three million more and ensure they deliver the skills employers need. We aim to achieve full employment in the UK, with the highest employment rate in the G7, and we will help businesses create two million jobs over the Parliament. We have abolished the jobs tax – employers' National Insurance contributions (NICs) – for the under 21s and next year we will do the same for young apprentices under 25. We will continue to help smaller businesses take on new workers through the Employment Allowance, which frees businesses from the first £2,000 of employers' NICs so that a third of employers pay no jobs tax.

> We will support business to keep creating 1,000 jobs a day over the next five years

We will aim to abolish long-term youth unemployment

Our economic plan has helped deliver sharp falls in long-term youth unemployment, taking the numbers of 16–18 year-olds not in education, employment or training to historic lows. We will provide support to those 16 –17 year-olds still not in education, employment or training and to those who risk becoming so. Jobcentre Plus advisers will work with schools and colleges to supplement careers advice and provide routes into work experience and apprenticeships. But it is not fair – on taxpayers, or on young people themselves – that 18-21 year-olds with no work experience should slip straight into a life on benefits without first contributing to their community. So we will introduce tougher Day One Work Requirements for young people claiming out-of-work benefits. We will replace the Jobseeker's Allowance for 18-21 year-olds with a Youth Allowance that will be time-limited to six months, after which young people will have to take an apprenticeship, a traineeship or do daily community work for their benefits. It is also not fair that taxpayers should have to pay for 18-21 year-olds on Jobseeker's Allowance to claim Housing Benefit in order to leave home. So we will ensure that they no longer have an automatic entitlement to Housing Benefit.

We will reward entrepreneurship

To support jobs, we cut Corporation Tax from 28 to 20 per cent over the course of the Parliament, reduced National Insurance bills and capped the rise in business rates. We have extended 100 per cent Small Business Rate Relief and are providing extra support for high street shops by increasing the business rates retail discount to £1,500. In the next Parliament, we want to maintain the most competitive business tax regime in the G20, and oppose Labour's plans to increase Corporation Tax. We will conduct a major review into business rates by the end of 2015 to ensure that from 2017 they properly reflect the structure of our modern economy and provide clearer billing, better information sharing and a more efficient appeal system.

We will protect you from disruptive and undemocratic strike action

Strikes should only ever be the result of a clear, positive decision based on a ballot in which at least half the workforce has voted. This turnout threshold will be an important and fair step to rebalance the interests of employers, employees, the public and the rights of trade unions. We will, in addition, tackle the disproportionate impact of strikes in essential public services by introducing a tougher threshold in health, education, fire and transport. Industrial action in these essential services would require the support of at least 40 per cent of all those entitled to take part in strike ballots – as well as a majority of

Britain has the most competitive business tax regime in the G20 – and we want to keep it that way

those who actually turn out to vote. We will also repeal nonsensical restrictions banning employers from hiring agency staff to provide essential cover during strikes; and ensure strikes cannot be called on the basis of ballots conducted years before. We will tackle intimidation of non-striking workers; legislate to ensure trade unions use a transparent opt-in process for union subscriptions; tighten the rules around taxpayer-funded paid 'facility time' for union representatives; and reform the role of the Certification Officer.

We will cut red tape, boost start-ups and small businesses

This Government was the first in post-war history to reduce the burden of regulation. We will cut a further £10 billion of red tape over the next Parliament through our Red Tape Challenge and our One-In-Two-Out rule. This will support our aim to make Britain the best place in Europe, and one of the top five worldwide, to do business by 2020. We will also treble our successful Start Up Loans programme during the next Parliament so that 75,000 entrepreneurs get the chance to borrow money to set up their own business. We will raise the target for SMEs' share of central government procurement to one-third, strengthen the Prompt Payment Code and ensure that all major government suppliers sign up. We have already helped small businesses by increasing the Annual Investment Allowance, reducing the burden of employment law through our successful tribunal reforms and supporting 27,000 new business mentors. We will go further by establishing a new Small Business Conciliation service to mediate in disputes, especially over late payment.

The gender pay gap is down to a record low – and there are more women on FTSE 100 boards than ever before

The creation of the Office of Tax Simplification (OTS) in 2010 has resulted in many improvements to the UK tax system. We will establish the OTS on a permanent basis and expand its role and capacity. We will boost our support for first-time exporters and back the GREAT campaign, so we achieve our goal of having 100,000 more UK companies exporting in 2020 than in 2010 and reach our target of £1 trillion in exports. And we will set a new, significantly higher, permanent level for the Annual Investment Allowance.

We will fight for equal opportunity

Last year alone, 140,000 disabled people found work. But the jobless rate for this group remains too high and, as part of our objective to achieve full employment, we will aim to halve the disability employment gap: we will transform policy, practice and public attitudes, so that hundreds of thousands more disabled people who can and want to be in work find employment. We now have more women-led businesses than ever before, more women in work than ever before and more women on FTSE 100 boards than ever before. We want to see full, genuine gender equality. The gender pay gap is the lowest on record, but we want to reduce it further and will push business to do so: we will require companies with more than 250 employees to publish the difference between the average pay of their male and female employees. Under Labour, women

> ***"Our aim is to make Britain the best place to do business in Europe"***

accounted for only one in eight FTSE 100 board members. They represent a quarter of board members today and we want to see this rise further in the next Parliament. We also want to increase the proportion of public appointments going to women in the next Parliament, as well as the number of female MPs.

We will back you at work

Now that the economy is growing strongly again, we have seen the first real-terms increase in the National Minimum Wage since Labour's Great Recession began. We strongly support the National Minimum Wage and want to see further real-terms increases in the next Parliament. We

accept the recommendations of the Low Pay Commission that the National Minimum Wage should rise to £6.70 this autumn, on course for a Minimum Wage that will be over £8 by the end of the decade. We also support the Living Wage and will continue to encourage businesses and other organisations to pay it whenever they can afford it. We will also take further steps to eradicate abuses of workers, such as non-payment of the Minimum Wage, exclusivity in zero-hours contracts and exploitation of migrant workers.

We will continue to invest in science, back our industrial strategies and make Britain the technology centre of Europe

Great science is worthwhile in its own right and yields enormous practical benefits too – curing diseases, driving technological innovation, promoting business investment and informing public policy for the better. We ring-fenced the science budget by making difficult choices to reduce spending in other areas. Now we will invest new capital on a record scale – £6.9 billion in the UK's research infrastructure up to 2021 – which will mean new equipment, new laboratories and new research institutes. This long-term commitment includes £2.9 billion for a Grand Challenges Fund, which will allow us to invest in major research facilities of national significance, such as the new Alan Turing Institute, and projects such as the Polar Research Ship and Square Kilometre Array. We have boosted research and development tax credits and we will continue to support our network of University Enterprise Zones, ensuring that Britain's world-beating universities are able to make money from the technology they develop. We will support our modern industrial strategies, such as our successful Life Sciences strategy, to help people compete and win in the intense global race for high value, high knowledge jobs. We will work with the Automotive Council in support of our resurgent car industry and direct further resources towards the Eight Great Technologies – among them robotics and nanotechnology – where Britain is set to be a global leader. We have delivered a network of catapult centres – R&D hubs in the technologies of the future – and we will create more to ensure that we have a bold and comprehensive offer in place for Britain's researchers and innovators.

Inequality is down from the record high it reached under Labour

We will support the rural economy and strengthen local communities

We have the land, the technology, and the entrepreneurial flair to enable us to make the most of the economic potential of our rural areas. We will provide rural Britain with near universal superfast broadband by the end of the next Parliament and secure the future of 3,000 rural Post Offices. We know how important it is to preserve vital community assets such as pubs, town halls and sports facilities, so we will strengthen the Community Right to Bid that we created. We will extend the length of time communities have to purchase these assets, and require owners to set a clear 'reserve' price for the community to aim for when bidding. We will set up a Pub Loan Fund to enable community groups to obtain small loans to pay for feasibility work, lawyers' fees, or materials for refurbishment, where they have bid to run the pub as part of our reforms to the Community Asset Register.

We will champion our farmers and food producers

We will set out a long-term vision for the future of British farming, working with industry to develop a 25 year plan to grow more, buy more and sell more British food. We will allow farmers to smooth their profits for tax purposes over five years, up from the current two years, to counter income volatility. We will treble the number of apprenticeships in food, farming and agri-tech, as part of our plan to secure three million more apprenticeships. We will support a science-led approach on GM crops and pesticides and implement our 25-year strategy to eradicate bovine TB. We will liberate farmers from red tape by coordinating all visits through a single Farm Inspection Taskforce, which will involve farmers themselves and use data from existing industry schemes, such as Red Tractor. We will push for further reform of the EU's Common Agricultural Policy. We will promote British food abroad by setting up a Great British Food Unit to help trademark and promote local foods around the world and back British food at home, by guaranteeing that all central government departments purchase food to British standards of production by the end of the Parliament. We will also help consumers to buy British by pushing for country of origin labelling in Europe, particularly for dairy products, following on from

our success with beef, lamb, pork and poultry. And we will champion our new Groceries Code Adjudicator, so farmers receive a fair deal from the supermarkets.

We will support our fishing and coastal communities

We will defend our hard-won Common Fisheries Policy reforms, which include ending the scandalous practice of discarding perfectly edible fish and reforming the quota system so that all at-risk species, including cod, plaice, haddock and seabass, will be fished sustainably by the end of the next Parliament. We will continue to devolve the management of North Sea fisheries to local communities, and rebalance the UK's inland water quotas to smaller, specific locally-based fishing communities.

We will support countryside pursuits

We will protect hunting, shooting and fishing, for all the benefits to individuals, the environment and the rural economy that these activities bring. A Conservative Government will give Parliament the opportunity to repeal the Hunting Act on a free vote, with a government bill in government time.

Cutting your taxes and building a fairer welfare system

Our commitment to you:

Our goal is a country that not only rewards those who work hard and do the right thing, but gives everyone – no matter their background – the chance to fulfil their potential. Achieving this means seeing through our major reforms of tax and welfare. We will:

- ***cut income tax for 30 million people****, taking everyone who earns less than £12,500 out of Income Tax altogether*
- *pass a new law so that* ***nobody working 30 hours on the Minimum Wage pays Income Tax on what they earn***
- *back aspiration by* ***raising the 40p tax threshold*** *– so that no one earning less than £50,000 pays it*
- ***cap overall welfare spending****, lower the amount of benefits that any household can receive to £23,000 and continue to roll out Universal Credit, to make work pay*
- *bring in* ***tax-free childcare to support parents back into work****, and give working parents of 3 and 4-year-olds 30 hours of free childcare a week.*

Under Labour, those who worked hard found more and more of their earnings taken away in tax to support a welfare system that allowed, and even encouraged, people to choose benefits when they could be earning a living. This sent out terrible signals: if you did the right thing, you were penalised – and if you did the wrong thing, you were rewarded, with the unfairness of it all infuriating hardworking people.

> We have cut Income Tax for over 26 million people – and taken over 3 million people out of Income Tax altogether

Over the last five years, we have cut people's taxes wherever possible. We have raised the tax-free Personal Allowance to £10,600 from £6,475: over 26 million people are now keeping more of their hard-earned money and 3 million of the lowest paid are paying no Income Tax at all. We believe that cutting people's taxes is the right thing to do – not only because it is your money, but also because cutting the taxes of the lowest paid and helping them stand on their own two feet is the most effective poverty-tackling measure there is.

Real fairness means that where people really cannot work, they must be supported – but where they are able to work, they should. We have made long overdue changes to our welfare system. We have capped benefits so no household can take more in out-of-work benefits than the average household earns by going out to work. We have begun to introduce Universal Credit – a way to simplify benefits into a new single payment – so that work always pays. We are reassessing those on incapacity benefits so that help goes to those who really need it. The days of something for nothing are over – and all this has helped to reduce by 900,000 the number of people living in workless households.

In the next Parliament, we will continue to reward hard work: raising the tax-free Personal Allowance so that those working 30 hours on the Minimum Wage pay


Sunkist
DARK 70%
Jelly Babies
Toffee Crisp

> *The goal of welfare reform should be to reward hard work and protect the vulnerable*

no Income Tax at all and taking hardworking people out of a 40p higher rate tax band originally meant to capture only the wealthy. And we will see through our welfare reforms, lowering the benefit cap and rolling out Universal Credit, to make the system fairer and reward hard work.

Our plan of action:

We will reward work

A Conservative Government will not increase the rates of VAT, Income Tax or National Insurance in the next Parliament. Instead, we will ease the burden of taxation by raising the tax-free Personal Allowance – the amount you can earn before you start paying tax – to £12,500. This will cut Income Tax for 30 million people and take everyone who earns less than £12,500 out of Income Tax altogether. That means by the end of the decade, one million more people on the lowest wages will be lifted out of Income Tax, and people who work for 30 hours a week on the increased National Minimum Wage will no longer pay any Income Tax at all. We will pass a new law so that the Personal Allowance automatically rises in line with the National Minimum Wage. The new Tax Free Minimum Wage law will be applied from the first Budget after the General Election. The change will update the 1977 'Rooker-Wise' amendment which forced governments to uprate tax thresholds in line with inflation, meaning the Personal Allowance will now increase more quickly.

> We will cut Income Tax for 30 million people – so that hard work is always rewarded

We will back your ambition

The 40p tax rate was only supposed to be paid by the best-off people in our country. But in the past couple of decades, far too many have been dragged into it.
We have already announced an above-inflation increase in the threshold next year. Now we will raise the 40p tax threshold much further, so that no one earning less than £50,000 pays the higher rate of Income Tax. The 800,000 people earning between £42,385 and £50,000 will no longer pay the 40p rate of tax.

We will support you as you raise your family

We will support you, whether you choose to go out to work or stay at home to raise your children. We will back the institution of marriage in our society, enabling married couples to transfer £1,060 of their tax-free income to their husband or wife, where the highest earner is a basic rate taxpayer. This applies to civil partnerships too, and the transferable amount will always rise at least in line with the Personal Allowance. And we will help families stay together and handle the stresses of modern life by continuing to invest at least £7.5 million a year in relationship support.

We will bring in tax-free childcare to help parents return to work, and give working parents of three and four year-olds 30 hours of free childcare a week

We have already legislated to introduce tax-free childcare in the next Parliament – worth up to £2,000 per child per year – to help parents who want to work. We introduced 15 hours a week of free childcare for all three and four-year olds and the most deprived two-year-olds. And because working families with children under school age face particularly high childcare costs, in the next Parliament we will give families where all parents are working an entitlement to 30 hours of free childcare for their three and four year-olds.

We will cap the UK's overall welfare spending, to save you money

We will keep a check on the growth of welfare spending, enabling us to provide a system that is fair to those who need it, and fair to those who pay for it too. Our overall welfare cap will limit the amount that government

A welfare system that is fair to those who need it, and fair to those who pay for it too: stopping benefit cheats and ending welfare abuse

can spend on certain social security benefits in the five years from 2015-16. We will freeze working age benefits for two years from April 2016, with exemptions for disability and pensioner benefits – as at present – as well as maternity allowance, statutory maternity pay, statutory paternity pay, statutory adoption pay and statutory sick pay. We will deliver Universal Credit, in order to provide the right incentives for people to work; target support at those who need it most; reduce fraud and error; and streamline administration of the welfare system. We will work to eliminate child poverty and introduce better measures to drive real change in children's lives, by recognising the root causes of poverty: entrenched worklessness, family breakdown, problem debt, and drug and alcohol dependency.

We will lower the benefit cap from £26,000 to £23,000 to reward work

We will reduce the household benefit cap to make the system fairer

We will lower the maximum amount that a single household can claim in benefits each year from £26,000 to £23,000, so we reward work. We will continue to have exemptions from the cap for those receiving Disability Living Allowance or the Personal Independence Payment.

We will help you back into work if you have a long-term yet treatable condition

We will make sure the hardest to help receive the support they need for a fulfilling life. We will review how best to support those suffering from long-term yet treatable conditions, such as drug or alcohol addiction, or obesity, back into work. People who might benefit from treatment should get the medical help they need so they can return to work. If they refuse a recommended treatment, we will review whether their benefits should be reduced. We will also provide significant new support for mental health, benefiting thousands of people claiming out-of-work benefits or being supported by Fit for Work.

Controlled immigration that benefits Britain

Our commitment to you:

Our plan to control immigration will put you, your family and the British people first. We will reduce the number of people coming to our country with tough new welfare conditions and robust enforcement. We will:

- *keep our ambition of delivering* ***annual net migration in the tens of thousands, not the hundreds of thousands***
- ***control migration from the European Union****, by reforming welfare rules*
- ***clamp down on illegal immigration*** *and abuse of the Minimum Wage*
- ***enhance our border security*** *and strengthen the enforcement of immigration rules*
- *develop a fund to* ***ease pressure on local areas and public services****.*

Conservatives believe in controlled immigration, not mass immigration. Immigration brings real benefits to Britain – to our economy, our culture and our national life. We will always be a party that is open, outward-looking and welcoming to people from all around the world. We also know that immigration must be controlled. When immigration is out of control, it puts pressure on schools, hospitals and transport; and it can cause social pressures if communities find it hard to integrate.

We must work to control immigration and put Britain first

Between 1997 and 2009, under the last Labour Government, we had the largest influx of people Britain had ever seen. Their open borders policy, combined with their failure to reform welfare, meant that for years over 90 percent of employment growth in this country was accounted for by foreign nationals – even though there were 1.4 million people who spent most of the 2000s living on out-of-work benefits. For the past five years, we have been working to turn around the situation we inherited.

Since 2010, we have stripped more than 850 bogus colleges of their rights to sponsor foreign students; installed proper exit checks at our borders; cracked down on illegal working and sham marriages; made it harder for people to live in the UK illegally, by restricting their access to bank accounts, driving licences and private housing; and reduced the number of appeal routes to stop people clogging up our courts with spurious attempts to remain in the country. All of this has made a difference. Immigration from outside the EU has come down since 2010.

Non-EU migration cut by 13 per cent – and economic migration from outside the EU capped

We have seen many more people from the EU coming to Britain than originally anticipated, principally because our economy has been growing so much more rapidly and creating more jobs than other EU countries. As a result, our action has not been enough to cut annual net migration to the tens of thousands. That ambition remains the right one. But it is clearly going to take more time, more work and more difficult long-term decisions to achieve. Continuing this vital work will be our priority over the next five years.

We will negotiate new rules with the EU, so that people will have to be earning here for a number of years before they can claim benefits, including the tax credits that top up low wages. Instead of something-for-nothing, we will build a system based on the principle of something-for-something. We will then put these changes to the British people in a straight in-out referendum on our membership of the European Union by the end of 2017. At the same time, we will continue to strengthen our borders, improve the enforcement of our immigration laws and act to make sure people leave at the end of their visas. Across the spectrum, from the student route to the family and work routes, we will build a system that truly puts you, your family and the British people first.

Our plan of action:

We will regain control of EU migration by reforming welfare rules

Changes to welfare to cut EU migration will be an absolute requirement in the renegotiation. We have already banned housing benefit for EU jobseekers, and restricted other benefits, including Jobseeker's Allowance. We will insist that EU migrants who want to claim tax credits and child benefit must live here and contribute to our country for a minimum of four years. This will reduce the financial incentive for lower-paid, lower-skilled workers to come to Britain. We will introduce a new residency requirement for social housing, so that EU migrants cannot even be considered for a council house unless they have been living in an area for at least four years. If an EU migrant's child is living abroad, then they should receive no child benefit or child tax credit, no matter how long they have worked in the UK and no matter how much tax they have paid. To reduce the numbers of EU migrants coming to Britain, we will end the ability of EU jobseekers to claim any job-seeking benefits at all. And if jobseekers have not found a job within six months, they will be required to leave.

Tougher tests for migrants before they can claim benefits

We will tackle criminality and abuse of free movement

We will negotiate with the EU to introduce stronger powers to deport criminals and stop them coming back, and tougher and longer re-entry bans for all those who abuse free movement. We want to toughen requirements for non-EU spouses to join EU citizens, including with an income threshold and English language test. And when new countries are admitted to the EU in future, we will insist that free movement cannot apply to those new members until their economies have converged much more closely with existing Member States.

We will continue to cut immigration from outside the EU

We have already capped the level of skilled economic migration from outside the EU. We will maintain our cap at 20,700 during the next Parliament. This will ensure that we only grant visas to those who have the skills we really need in our economy. We will reform the student visa system with new measures to tackle abuse and reduce the numbers of students overstaying once their visas expire. Our action will include clamping down on the number of so-called 'satellite campuses' opened in London by universities located elsewhere in the UK, and reviewing the highly trusted sponsor system for student visas. And as the introduction of exit checks will allow us to place more responsibility on visa sponsors for migrants who overstay, we will introduce targeted sanctions for those colleges or businesses that fail to ensure that migrants comply with the terms of their visa.

We will strengthen the enforcement of immigration rules

We have introduced a 'deport first, appeal later' rule for foreign national offenders. We will now remove even more illegal immigrants by extending this rule to all immigration appeals and judicial reviews, including where a so-called right to family life is involved, apart from asylum claims. We will also implement a new removals strategy to take away opportunities for spurious legal challenge and opportunities to abscond. We will introduce satellite tracking for every foreign national offender subject to an outstanding deportation order or deportation proceedings. And we will implement the requirement for all landlords to check the immigration status of their tenants.

We will tackle people trafficking and exploitation

We have already re-introduced a proper system of exit checks across the country, passed a Modern Slavery Act that will protect people from exploitation, and quadrupled the fines for unscrupulous employers who undercut the Minimum Wage. Now we will introduce tougher labour market regulation to tackle illegal working and exploitation. To crack down further on illegal working, we will harness data from multiple agencies, including Exit Checks data, to identify illegal immigrants and businesses that employ illegal workers. And to incentivise tougher action on employers who do not pay the minimum wage, we will allow inspection teams to reinvest more of the money raised by fines levied on employers.

We will ease pressure on public services and your local community

We are taking unprecedented action to tackle health tourism and will recover up to £500 million from migrants who use the NHS by the middle of the next Parliament. To help communities experiencing high and unexpected volumes of immigration, we will introduce a new Controlling Migration Fund to ease pressures on services and to pay for additional immigration enforcement. To prevent sectors becoming partially or wholly reliant on foreign workers, we will require those regularly utilising the Shortage Occupation List, under which they can bring skilled foreign workers into the UK, to provide long-term plans for training British workers.

> **"We will protect British values and our way of life"**

We will promote integration and British values

Being able to speak English is a fundamental part of integrating into our society. We have introduced tough new language tests for migrants and ensured councils reduce spending on translation services. Next, we will legislate to ensure that every public sector worker operating in a customer-facing role must speak fluent English. And to encourage better integration into our society, we will also require those coming to Britain on a family visa with only basic English to become more fluent over time, with new language tests for those seeking a visa extension.

Giving your child the best start in life

Our commitment to you:

Your child deserves the best start in life. A good education is not a luxury; it should be a right for everyone. We will:

- *ensure* ***a good primary school place for your child****, with zero tolerance for failure*
- ***turn every failing and coasting secondary school into an academy*** *and deliver free schools for parents and communities that want them*
- *help teachers to make Britain* ***the best country in the world for developing maths, engineering, science and computing skills***
- *create* ***3 million new apprenticeships*** *and make sure there is no cap on university places, so we have aspiration for all.*

We know what works in education: great teachers; brilliant leadership; rigour in the curriculum; discipline in the classroom; proper exams. We have been bold in reforming the education system to deliver these things, based upon simple, clear principles and values. We believe that parents and teachers should be empowered to run their schools independently. We believe that teaching is a highly skilled profession, and that we need to attract the best graduates into it. And we believe that there is no substitute for a rigorous academic curriculum to secure the best from every pupil.

We inherited a system where far too many children left school without the qualifications and skills they needed. One in three children was leaving primary school unable to read, write and add up properly. The number of pupils studying the core academic subjects at GCSE had halved. Our schools had fallen down the global league tables for maths and science. And the poorest children were attending the weakest schools.

Our far-reaching education reforms have changed this. We have brought high standards back to teaching, discipline back to schools, and challenging subjects back onto the curriculum. Today, there are a million more pupils in schools rated by Ofsted as 'good' or 'outstanding'. Over a thousand schools that were ranked 'inadequate' have become Academies, bringing in new leadership to promote discipline, rigour and higher standards.

There are over 250 new free schools – set up and run by local people – delivering better education for the children who need it most. We have boosted the number of apprenticeships to record levels – 2.2 million over the last five years – and last September more people headed off to university than at any time in history. Too many children, however, are still not receiving the excellent education that they deserve. So we will continue our reforms, so that every child has the best possible start in life.

There are a million more pupils in schools rated by Ofsted as 'good' or 'outstanding'

Our plan of action:

We will drive up standards in your child's school

We have made exams more rigorous and ended grade inflation. There is more to do. We will start by introducing tough new standards for literacy and numeracy in primary schools. We will expect every 11-year-old to know their times tables off by heart and be able to perform long division and complex multiplication. They should be able to read a book and write a short story with accurate punctuation, spelling and grammar. If children do not reach the required standards in their exams at the end of primary school, they will resit them at the start of secondary school, to make sure no pupil is left behind. We will require secondary school pupils to take GCSEs in English, maths, science, a language and history or geography, with Ofsted unable to award its highest ratings to schools that refuse to teach these core subjects.

We will ensure there is a good primary school place for your child, with zero tolerance of failure

We have more than doubled Labour's spending on new school places. But we want to go even further, investing at least £7 billion over the next Parliament to provide good school places. And we will let our best headteachers take control of failing primary schools, by expanding the National Leaders of Education programme.

"Every school needs high standards, proper funding and accountability"

We will turn every failing and coasting secondary school into an academy, and deliver free schools if parents in your area want them

Over 4,000 schools are already benefiting from academy status, giving them more power over discipline and budgets. And nearly 800 of the worst-performing primary schools have been taken over by experienced academy sponsors with a proven track record of success. This is improving education for our children. So we will continue to expand academies, free schools, studio schools and University Technical Colleges. Over the next Parliament, we will open at least 500 new free schools, resulting in 270,000 new school places. And we will introduce new powers to force coasting schools to accept new leadership. Any school judged by Ofsted to be requiring improvement will be taken over by the best headteachers – backed by expert sponsors or high-performing neighbouring schools – unless it can demonstrate that it has a plan to improve rapidly. We will continue to allow all good schools to expand, whether they are maintained schools, academies, free schools or grammar schools.

We will continue to protect school funding

Over the last five years, we have protected the schools budget and committed £18 billion for new school buildings, so that children can learn in the best environment possible. Under a future Conservative Government, the amount of money following your child into school will be protected. As the number of pupils increases, so will the amount of money in our schools. On current pupil number forecasts, there will be a real-terms increase in the schools budget in the next Parliament. We will continue to provide the pupil premium, protected at current rates, so that schools receive additional money for those from the poorest backgrounds. We will support families by providing free meals to all infants. And we will make schools funding fairer. We have already increased funding for the 69 least well-funded local authorities in the country, and will make this the baseline for their funding in the next Parliament. We will not allow state schools to make a profit.

We will back your child's teachers

We have already given teachers greater disciplinary powers. In the next Parliament, we will expect every teacher to be trained not just in how to tackle serious behaviour issues, but also in how to deal with the low level disruption that stops children from learning properly. This generation of teachers is already the best-qualified ever. In future, we will recruit and keep the best teachers by reducing the time they spend on paperwork, introducing bursaries for the most in-demand subjects, paying good teachers more, further reducing the burden of Ofsted inspections and continuing to encourage the growth of Teach First. We will increase the number of teachers able to teach Mandarin in schools in England, so we can compete in the global race. We want teachers to be regarded in the same way as other highly skilled professionals, so we are supporting the creation of an independent College of Teaching to promote the highest standards of teaching and school leadership.

We will lead the world in maths and science

We have increased the time schools will spend on maths, and ensured that children learn to code as soon as they start school. Maths is now the most popular A-level subject. We aim to make Britain the best place in the world to study maths, science and engineering, measured by improved performance in the PISA league tables. To help achieve this, we will train an extra 17,500 maths and physics

Schools budget protected with £5 billion given to tackle Labour's school places crisis

teachers over the next five years. We will make sure that all students are pushed to achieve their potential and create more opportunities to stretch the most able.

We will protect children

Every child deserves a warm, loving home, and to feel safe online and at school. We have made improving support for children and young people with special educational needs and disabilities a priority. We have created 2,200 more special schools places through our free schools programme, introduced a coordinated assessment process to determine a child or young person's needs, and funded degree-level specialist training for teachers and support staff. And to make sure it's working, Ofsted now formally inspects local areas for their effectiveness in fulfilling their new duties. We have made progress in reforming our adoption system, but there is more to do. We will introduce regional adoption agencies, working across local authority boundaries to match children with the best parents for them. We will continue to raise the quality of children's social work, by expanding training programmes, such as Frontline, and creating new opportunities to develop the next generation of leaders in the field. We will continue to tackle all forms of bullying in our schools. And we will stop children's exposure to harmful sexualised content online, by requiring age verification for access to all sites containing pornographic material and age-rating for all music videos.

We will improve skills training

We have given employers much more control over apprenticeship courses, so they teach skills relevant to the workplace. We will continue to replace lower-level, classroom-based Further Education courses with high-quality apprenticeships that combine training with experience of work and a wage. We will ensure there is a University Technical College within reach of every city. We will abolish employers' National Insurance contributions on earnings up to the upper earnings limit for apprentices under the age of 25. And we will roll out many more Degree Apprenticeships, allowing young people to combine a world-class degree with a world-class apprenticeship.

Child poverty is down – with 300,000 fewer children living in poverty

We will improve Further Education

We will continue to improve Further Education through our network of National Colleges, which will provide specialist higher-level vocational training in sectors critical to economic growth. We will publish more earnings and destination data for Further Education courses, and require more accreditation of courses by employers.

We will ensure that if you want to go to university, you can

This year, for the first time, over half a million people have been admitted to our universities, including a record proportion of students from disadvantaged backgrounds. From September, we will go even further, abolishing the cap on higher education student numbers and removing an arbitrary ceiling on ambition. Our reforms to university funding mean you do not have to pay anything towards tuition while studying, and only start paying back if you earn over £21,000 per year. We will ensure the continuing success and stability of these reforms, so that the interests of both students and taxpayers are fairly represented. We will also introduce a national postgraduate loan system for taught masters and PhD courses. We will ensure that universities deliver the best possible value for money to students: we will introduce a framework to recognise universities offering the highest teaching quality; encourage universities to offer more two-year courses; and require more data to be openly available to potential students so that they can make decisions informed by the career paths of past graduates.

We will ensure that our universities remain world-leading

We will maintain our universities' reputation for world-class research and academic excellence. Through the Nurse Review of research councils, we will seek to ensure that the UK continues to support world-leading science, and invests public money in the best possible way. And we will encourage the development of online education as a tool for students, whether studying independently or in our universities.

Protecting and improving our National Health Service

Our commitment to you:

Our National Health Service must be there for you throughout your life. We will:

- ***continue to increase spending on the NHS**, supported by a strong economy, so the NHS stays free for you to use*
- *spend **at least an additional £8 billion by 2020 over and above inflation to fund and support the NHS's own action plan** for the next five years*
- *ensure you can **see a GP and receive the hospital care you need, 7 days a week** by 2020, with a guarantee that **everyone over 75 will get a same-day appointment** if they need one*
- ***integrate health and social care**, through our Better Care Fund*
- ***lead the world in fighting cancer and finding a cure for dementia***

The NHS is vitally important to all of us. Founded on the principle that no one should ever have to worry about their ability to pay for their healthcare, it is a profound expression of our values as a nation.

Patients, doctors and nurses are the experts on how to improve people's health. So we have given greater power and accountability to the frontline than any other government. We cleared out bureaucracy, generating savings which we have invested in care for patients. Instead of chasing managerial targets, we have focused on outcomes and performance. And we have given patients more power by providing them with more information.

Under Labour, micro-management from Whitehall clogged-up the system. A cover-up culture developed, where doctors and nurses were scared to speak out about the appalling standards of care at hospitals in places such as Stafford and Morecambe Bay. By the time Labour left office, our cancer survival rates lagged far behind those of other countries, and more than 18,000 patients had been waiting for over a year to start their treatment.

> ***"We are building an NHS that is more efficient, more effective and more accountable"***

We are putting things right. We protected the NHS budget. Our doctors and nurses are now doing over a million more operations each year than in 2010. Our Cancer Drugs Fund has given more than 60,000 people access to life-saving drugs. We have doubled funding for dementia research. Hospital infections have halved. An independent think tank, the Commonwealth Fund, has found that under the Conservatives the NHS has become the best healthcare system of any major country. And patients are reporting the highest levels of satisfaction for years. The NHS is performing well in the face of increasing demand, with fewer patients waiting longer than the 18, 26 and 52 week targets than in May 2010. We have slashed the number of people who wait over a year for the treatment they need, from over 18,000 to under 500.

Despite this progress, our NHS faces major challenges. An ageing population will place more pressure on health and social care, and life-saving but expensive new drugs will push up costs. And for years it's been too hard to access the NHS out of hours, even though sudden illness and events which you and your family cannot plan for do not respect normal working hours. We will rise to these challenges. By building a strong economy, we will be able to increase spending in real terms every year. With a future Conservative Government, you will have a truly 7-day NHS, at the frontier of science, offering you new drugs and treatments, safeguarded for years to come.

Our plan of action:

We will deliver a strong NHS through a strong economy

We are set to increase health spending by more than £7 billion above and beyond inflation in the five years since 2010. And we will continue spend more on the NHS, in real terms, every year. The NHS is more efficient now than it has ever been. We will implement the NHS's own plan to improve health care even further – the Five Year Forward View. Because of our long-term economic plan, we are able to commit to increasing NHS spending in England in real terms by a minimum of £8 billion over the next five years. Combined with the efficiencies that the NHS Forward View sets out, this will provide the funding necessary to implement this plan in full.

We are prioritising resources to frontline services – with 9,500 more doctors and 6,900 more nurses

We will make the NHS more convenient for you

We want England to be the first nation in the world to provide a truly 7 day NHS. Already millions more people can see a GP 7 days a week, from 8am-8pm, but by 2020 we want this for everyone. We will now go further, with hospitals properly staffed, so that the quality of care is the same every day of the week. We will restore your right to access a specific, named GP – something that Labour abolished. We will ensure that your family doctor appointments and repeat prescriptions are routinely available online, wherever you live. And we will guarantee same-day GP appointments for all over 75s who need them.

We will offer you the safest and most compassionate care in the world

We will ensure that English hospitals and GP surgeries are the safest in the world, places where you are treated with dignity and respect. We will continue to eliminate mixed-sex wards and hospital infections. We will ensure that the NHS is accountable when mistakes are made, and implement the recommendations of the independent review into the Stafford Hospital scandal. We will ensure that the independent Care Quality Commission rates all hospitals, care homes and GP surgeries. We introduced expert Chief Inspectors to promote excellence and root out poor care, and we will continue to back them. We are deeply proud of our NHS staff, who are the best in the world. Over the last five years, we have hired thousands more doctors and nurses. We will continue to ensure that we have enough doctors, nurses and other staff to meet patients' needs, and consider how best to recognise and reward high performance.

We have increased the NHS budget above inflation every year

We will help you make informed choices about your healthcare

We will improve standards in all areas of care. In 2013 we introduced the friends and family test so you could provide feedback on the care and treatment you received; we aim to increase the proportion of people who rate their experience as 'excellent' or 'very good'. We will boost transparency even further, ensuring you can access full information about the safety record of your hospital and other NHS or independent providers, and give patients greater choice over where and how they receive care. We will give you full access to your own electronic health records, while retaining your right to opt-out of your records being shared electronically.

We will support you and your family to stay healthy

We are helping people to stay healthy by ending the open display of tobacco in shops, introducing plain–packaged cigarettes and funding local authority public health budgets. We will take action to reduce childhood obesity and continue to promote clear food information. We will support people struggling with addictions and undertake a review into how

"People deserve patient-centred healthcare not more bureaucracy"

best to support those suffering from long-term yet treatable conditions, such as drug or alcohol addiction, or obesity, back in to work. We will be the first country to implement a national, evidence-based diabetes prevention programme. And we will invest more in primary care, to help prevent health problems before they start.

We will ensure you receive the best healthcare

We will speed up your access to new medicines by implementing the findings of our Innovative Medicines and Medical Technology Review. We will increase the use of cost-effective new medicines and technologies, and encourage large-scale trials of innovative technologies and health services. Antibiotic resistance is a major health risk so we will continue to lead the global fight against it, taking forward the recommendations of the independent review launched by the Prime Minister, David Cameron. And we will support our long-term economic plan by fostering research, innovation and jobs in the life science industry.

We will help if you or your loved ones are affected by cancer

Cancer survival rates are improving, and are now the best they have ever been. We will continue to invest in our life-saving Cancer Drugs Fund. We will work with the NHS, charities and patient groups to deliver the new strategy recommended by NHS England's cancer taskforce. This will improve survival rates and save thousands of lives through enhanced prevention, earlier detection and diagnosis, and better treatment and care. We will continue to support research to improve the diagnosis and treatment of rare diseases and cancers, including through decoding 100,000 whole genomes. This will help scientists and doctors understand diseases better, and design more effective, personalised treatments.

Over 60,000 people have benefited from the Cancer Drugs Fund

We will continue to take your mental health as seriously as your physical health

We have legislated to ensure that mental and physical health conditions are given equal priority. We will now go further, ensuring that there are therapists in every part of the country providing treatment for those who need it. We are increasing funding for mental health care. We will enforce the new access and waiting time standards for people experiencing mental ill-health, including children and young people. Building on our success in training thousands of nurses and midwives to become health visitors, we will ensure that women have access to mental health support during and after pregnancy, while strengthening the health visiting programme for new mothers.

We will ensure that people can grow old in comfort and dignity

We have led the world on fighting dementia, and will deliver our strategy – the Prime Minister's Challenge on Dementia 2020 – making sure that everyone diagnosed with the condition gets a meaningful care plan to support them and their family. We will increase support for full-time unpaid carers. We will guarantee that you will not have to sell your home to fund your residential social care. Too many people spend their last days in hospital when they would prefer to die closer to home; we will support commissioners to combine better health and social care services for the terminally ill so that more people are able to die in a place of their choice. We will continue to integrate the health and social care systems, joining-up services between homes, clinics and hospitals, including through piloting new approaches like the pooling of around £6 billion of health and social care funding in Greater Manchester and the £5.3 billion Better Care Fund.

Enabling you to enjoy our heritage, creativity and sports

Our commitment to you:

Wherever you live in the country, we want you to be able to enjoy the best our culture and sports have to offer. We will:

- *keep our* ***major national museums and galleries free to enter***
- ***support school sport****, build on our Olympic and Paralympic legacy, and deliver the Rugby and Cricket World Cups and the World Athletics Championships*
- ***freeze the BBC licence fee****, to save you money*
- *support our creative industries and* ***defend a free media***

One of the highlights of the past five years was the London Olympic and Paralympic Games. Those weeks in 2012 demonstrated the best of our country. When the pressure is on, we deliver; when the stakes are high, we come together; when it comes to taking on the world, we can win.

We may not be the biggest country, but our museums are second to none. In music, art, fashion, theatre, design, film, television and the performing arts, we have an edge. Conservatives understand these things do not just enhance our national prestige and boost our economy; they help tie our country together, strengthening the bonds between all of us.

That's why, despite all the economic chaos we inherited, we have put over £8 billion of public and Lottery funding into the arts, heritage, museums and galleries during the last five years. We have also boosted school sports and increased the share of National Lottery funding going to good causes.

> ***Culture and sport help bring us closer together as a nation, strengthening the bonds between all of us***

Our plan of action:

We will support our world-leading museums, galleries and heritage

We will keep our major national museums and galleries free to enter and enable our cultural institutions to benefit from greater financial autonomy to use their budgets as they see fit. Over the last five years, we have made sure that arts funding benefits the whole of the UK. We will support a Great Exhibition in the North; back plans for a new theatre, The Factory, Manchester; and help the Manchester Museum, in partnership with the British Museum, to establish a new India Gallery. We are also supporting plans to develop a modern world class concert hall for London. We will ensure the protection and enjoyment of one our most ancient and precious heritage sites by building a tunnel where the A303 passes closest to Stonehenge. We significantly increased National Lottery funding for heritage and have created a brand new heritage charity – English Heritage – to support more than 400 buildings and monuments. And we will continue to support essential roof repairs for our cathedrals and churches, along with other places of worship.

We will continue to support local libraries

We will help public libraries to support local communities by providing free wi-fi. And we will assist them in embracing the digital age by working with them to ensure remote access to e-books, without charge and with appropriate compensation for authors that enhances the Public Lending Right scheme.

We will support our media

A free media is the bedrock of an open society. We will deliver a comprehensive review of the BBC Royal Charter, ensuring it delivers value for money for the licence fee payer, while maintaining a world class service and supporting our creative industries. That is why we froze the BBC licence fee and will keep it frozen, pending Charter renewal. And we will continue to 'top-slice' the licence fee for digital infrastructure to support superfast broadband across the country.

We will defend press freedom

We will continue to defend hard-won liberties and the operation of a free press. But alongside the media's rights comes a clear responsibility, which is why we set up the public, judge-led Leveson Inquiry in response to the phone-hacking scandal, created a new watchdog by Royal Charter and legislated to toughen media libel laws. Because the work of the free press is so important we will offer explicit protection for the role of journalists via the British Bill of Rights and we will ban the police from accessing journalists' phone records to identify whistle-blowers and other sources without prior judicial approval. Local newspapers are an important source of information for local communities and a vital part of a healthy democracy. To support them as they adapt to new technology and changing circumstances, we will consult on the introduction of a business rates relief for local newspapers in England.

We will support our creative industries

The creative industries have become our fastest-growing economic sector, contributing nearly £77 billion to the UK economy – driven in part by the tax incentives for films, theatre, video games, animation and orchestras we introduced. Our support for the film industry has resulted in great British films and encouraged Hollywood's finest to flock to the UK. We will continue these reliefs, with a tax credit for children's television next year, and expand them when possible. We will protect intellectual property by continuing to require internet service providers to block sites that carry large amounts of illegal content, including their proxies. And we will build on progress made under our voluntary anti-piracy projects to warn internet users when they are breaching copyright. We will work to ensure that search engines do not link to the worst-offending sites.

We will continue to support tourism in our country

Our tourism industry already supports three million jobs and is one of the nation's leading employers and export earners. We will set challenging targets for Visit Britain and Visit England to ensure more visitors travel outside the capital. We will simplify and speed up visa issuance for tourists. And because tourism is an industry that depends more than most on young people, we will step up efforts to recruit more apprentices into the business.

We will build on our Olympic and Paralympic legacy

We want our sportsmen and women to win even more medals in Rio 2016 than they did in London 2012. So we will continue to support elite sports funding as part of our Olympic and Paralympic legacy. We will deliver the Rugby World Cup in 2015, the World Athletics Championship in 2017, IPC World Championships in 2017 and the Cricket World Cup in 2019, maximising the opportunities for tourism and jobs. We will support new sports in the UK, in particular through greater links with the US National Football League, the National Basketball Association and Major League Baseball, with the ultimate ambition of new franchises being based here.

We will boost sport in your community

We have already boosted funding for sport in primary schools and over 18,000 schools have registered to take part in our School Games. We will go further, supporting primary school sport with £150 million a year, paid directly to head-teachers, until 2020. This will make sure that all primary schoolchildren benefit from

School Games supported with over £150 million of National Lottery and public money

a minimum of two hours high-class sport and PE each week. We will improve the quality of Community Sports facilities, working with local authorities, the Football Association and the Premier League to fund investment in artificial football pitches in more than 30 cities across England. We will continue to invest in participation and physical activity, recognising sport's vital benefits to health and to NHS England's campaign to prevent diabetes. We will lift the number of women on national sports governing bodies to at least 25 per cent by 2017, and seek to increase participation in sport by women and girls.

Helping you build the Big Society

Our commitment to you:

Building the Big Society is about involving the people, neighbourhoods, villages, towns and cities of Britain in the great task of improving our country – and giving young people the power and opportunity to play a real part in their community. We will:

- ***guarantee your child a place on National Citizen Service**, so they can learn new skills and meet young people from different walks of life*
- *promote **equal treatment and equal opportunity for all** in a society proud of its tolerance and diversity*
- *give those who work for a big company and the public sector **a new workplace entitlement to Volunteering Leave for three days a year**, on full pay.*

The Big Society is a vision of a more engaged nation, one in which we take more responsibility for ourselves and our neighbours; communities working together, not depending on remote and impersonal bureaucracies. Of course, there are many tasks which require the resources and grip of government. But there are also many areas of national life in which we need more people to step forward, take responsibility and play their part. This is about a national culture change, saying to everyone in Britain: ask what you can do for your community and your country.

> Volunteering is at a 10-year high, with 3 million more adults giving their time last year than in 2010

In the past five years, there has been real progress. Volunteering is now at a ten-year high, with over three million more adults giving their time last year than in the year to March 2010. Charitable donations are on the up, with one million more people giving to good causes than at the end of the last Parliament. There are now parents' groups and charities running their own free schools. There are social enterprises helping people into jobs through the Work Programme. We have launched the world's first social investment bank, introduced more social impact bonds than the rest of the world combined and highlighted the great work done in communities with the Big Society Awards and the Prime Minister's Points of Light award.

A generation of teenagers has undertaken National Citizen Service (NCS), developing their skills, broadening their horizons and growing in confidence; over the next five years, we will expand NCS – so it becomes a rite of passage for young people in our country. We will give more people the power and support to run a school, start their own social enterprise, and take over their own local parks, landmarks and pubs. We will encourage the 1,400 communities engaged in neighbourhood planning to complete the process and assist others to draw up their own plans. And we will take new steps to encourage volunteering, enabling more people to join the unsung heroes who are the backbone of communities across Britain.

Our plan of action:

We will expand National Citizen Service

Over 130,000 young people have graduated from NCS and we have now guaranteed a place on NCS for every 16 and 17-year-old who wants one. In addition to this, we will increase the number of cadet units in schools, so that more students have the chance to learn skills such as leadership and self-reliance.

We will innovate in how we deliver public services

We have pioneered ways to deliver high-quality public services, including through getting the voluntary sector more involved. For example, our Work Programme has helped harness the talent and energy of charities to help people turn their lives around and find their way back into work. We will examine ways to build on this type of innovative approach in the future. We have also pioneered the use of social impact bonds and payment-by-results, and we will look to scale these up in the future, focusing on youth unemployment, mental health and homelessness.

We will help you volunteer and support action to help the vulnerable

We will support the Prince of Wales' Step Up To Serve initiative, encouraging young people to serve in their community. And we will make volunteering for three days a year a workplace entitlement for people working in large companies and the public sector. People could, for example, volunteer for a local charity or serve as a school governor. We have always believed that churches, faith groups and other voluntary groups play an important and longstanding role in this country's social fabric, running foodbanks, helping the homeless, and tackling debt and addictions, such as alcoholism and gambling. We have already introduced tougher regulation of gambling, with enhanced player protections and planning controls to prevent the further proliferation of high street betting shops; we've capped payday lending and backed financial inclusion; and will continue to support action that helps vulnerable people get the assistance they need.

Over 130,000 young people have taken part in National Citizen Service

We will champion equal rights and correct past wrongs

Our historic introduction of gay marriage has helped drive forward equality and strengthened the institution of marriage. But there is still more to do, and we will continue to champion equality for Lesbian, Gay, Bisexual and Transgender people. We will build on the posthumous pardon of Enigma codebreaker Alan Turing, who committed suicide following his conviction for gross indecency, with a broader measure to lift the blight of outdated convictions of this nature. Thousands of British men still suffer from similar historic charges, even though they would be completely innocent of any crime today. Many others are dead and cannot correct this injustice themselves through the legal process we have introduced while in government. So we will introduce a new law that will pardon those people, and right these wrongs.

Making government work better for you

Our commitment to you:

The government is the servant of the British people. Every pound spent must be scrutinised, and government run as efficiently and effectively as possible. We will:

- *save you money by* ***cutting government waste***
- ***put more of the essential services you use online****, to make them more convenient*
- *continue to* ***make government more transparent****, so you can hold us to account for how your money is being spent.*

Government is the servant of the British people, not their master. That simple fact was forgotten when Labour was in power. Quangos grew in number, wasteful projects proliferated and the bureaucracy swelled – symptoms of a Government that believed it always knew best.

> ***"Hardworking taxpayers deserve a government that is more efficient and accountable"***

Conservatives have brought in a new approach. We are determined to measure success not by how much money is spent, but how much it improves people's lives. Whitehall is now leaner and smaller than at any time since the Second World War. We have halved the running costs of the Department for Education. We have abolished or merged over 300 quangos. We have moved paperwork online. We have shone a bright light on government spending – requiring all central government spending over £25,000 to be published online. We have also ensured that people receive a transparent breakdown of how their taxes are spent.

In the next five years, we will ensure this efficiency revolution continues. We will also continue to reform our political system: make votes of more equal value through long overdue boundary reforms, reducing the number of MPs and ensuring the Electoral Commission does more to tackle voting fraud. These measures will help to restore public confidence in British politics.

> £14.3 billion was saved in 2014 through efficiencies in government – equivalent to nearly £850 for every working household

Our plan of action:

We will cut government waste

We have reduced the cost of government, by selling empty buildings, managing big projects better, shrinking the Civil Service, reforming pensions, moving more services online, and improving contracting. We plan a further £10 billion annual savings by 2017-18 and £15-20 billion in 2019-20.

> ***"To eliminate the deficit, we must continue to cut out wasteful spending"***

We will deliver better public services and more open government

We have supported the growth of public service mutuals – organisations that are owned by their staff and deliver public services. We want more of them, so we will guarantee a 'right to mutualise' within the public sector. This will free up the entrepreneurial spirit of public servants and yield better value for money for taxpayers. Transparency has also been at the heart of our approach to government. Over the last five years, we have been open about government spending, provided access to taxpayer-funded research, pursued open data and helped establish the Open Government Partnership. We will continue to be the most transparent government in the world. We addressed public concern about the influence of money on politics, with a law that strengthened rules governing non-party campaigning and established a register of consultant lobbyists. In the next Parliament, we will legislate to ensure trade unions use a transparent opt-in process for subscriptions to political parties. We will continue to seek agreement on a comprehensive package of party funding reform.

We will make government more efficient

We value our outstanding public servants. Over the last five years, we have made efficiencies in government. We have ruled out the introduction of regional pay in the public sector, which we do not support and will not introduce. Britain's impartial, professional and highly capable Civil Service is admired around the world and one of our nation's strengths. We will push ahead with reform of the Civil Service to make it more dynamic and streamlined. We will make recruitment to the Civil Service more open and actively look for exceptional talent, especially in areas where capabilities are in short supply. We will continue to tackle all the bureaucracy of Whitehall that clogs the arteries of government. We will end taxpayer-funded six-figure payoffs for the best paid public sector workers. We will continue to sell unneeded government property and co-locate services wherever possible. We have already created 20 high-quality digital services, which include apprenticeships applications and tax self-assessments. We will save you time, hassle and money by moving more services online, while actively tackling digital exclusion. We will ensure digital assistance is always available for those who are not online, while rolling out cross-government technology platforms to cut costs and improve productivity – such as GOV.UK.

We will reform Parliament

We have improved the operation of Parliament, strengthening its ability to hold the Government to account, with reforms such as the election of Select Committee chairs and the creation of the Backbench Business Committee, which enables backbenchers, for the first time, to determine a significant proportion of the House of Commons' business. We have also passed the Fixed Term Parliament Act, an unprecedented transfer of Executive power. In the next Parliament, we will address the unfairness of the current Parliamentary boundaries, reduce the number of MPs to 600 to cut the cost of politics and make votes of more equal value. We will implement the boundary reforms that Parliament has already approved and make them apply automatically once the Boundary Commission reports in 2018. This will deal with the fact that the current electoral layout over-represents parts of the country where populations have been falling and under-represents parts where populations have been rising.

We will ensure that the House of Lords fulfils its valuable role as a chamber of legislative scrutiny and revision

While we still see a strong case for introducing an elected element into our second chamber, this is not a priority in the next Parliament. We have already allowed for expulsion of members for poor conduct and will ensure the House of Lords continues to work well by addressing issues such as the size of the chamber and the retirement of peers.

We will protect our electoral system, to safeguard our democracy

Building on our introduction of individual voter registration, we will continue to make our arrangements fair and effective by ensuring the Electoral Commission puts greater priority on tackling fraud and considers insisting on proof of ID to vote. We will complete the electoral register, by working to include more of the five million Britons who live abroad. We will introduce votes for life, scrapping the rule that bars British citizens who have lived abroad for more than 15 years from voting. We will respect the will of the British people, as expressed in the 2011 referendum, and keep First Past the Post for elections to the House of Commons. And we will introduce English votes for English laws, answering the longstanding West Lothian Question in our democracy.

Helping you to buy a home of your own

Our commitment to you:

The chance to own your own home should be available to everyone who works hard. We will:

- *help to **keep mortgage rates lower** by continuing to work through our long-term economic plan*
- *build more homes that people can afford, including **200,000 new Starter Homes** exclusively for first-time buyers under 40*
- ***extend the Help to Buy Equity Loan scheme** to 2020 to help more people onto and up the housing ladder, and introduce **a new Help to Buy ISA** to support people saving for a deposit*
- *give more people the chance to own their home by **extending the Right to Buy** to tenants of Housing Associations and create a Brownfield Fund to unlock homes on brownfield land*
- *ensure **local people have more control over planning** and protect the Green Belt*

Conservatives believe passionately in home ownership. We understand how good it feels when you have worked long hours, saved money for years, and finally take possession of the keys to your first home. For years, however, people have been finding it harder and harder to get on the housing ladder. Under Labour, house-building fell to its lowest peacetime level since the 1920s. Developers were building too few homes and the aftermath of the banking crisis saw young people struggling to raise a deposit.

House building at its highest since 2007

These past five years have been about reversing this trend. We have unblocked the planning system, to help builders start building again. We have introduced Help to Buy, making it much easier for people to secure a mortgage. And we have reinvigorated the Right to Buy which Labour had cut back, extending home ownership to a whole new generation of social tenants. As a result, over 200,000 people have been helped either on or up the housing ladder. Most of those helped have been young first-time buyers spread right across our country.

> *Everyone who works hard should be able to own a home of their own*

As the party of home ownership, we want to go further and faster – and this manifesto sets out our plan. At its heart, a clear objective to build affordable homes, including 200,000 Starter Homes which will be sold at a 20 per cent discount, and will be built exclusively for first time buyers under the age of 40. At the same time, we will extend our Help to Buy Equity Loan scheme, introduce a new Help to Buy ISA, extend the Right to Buy to Housing Association tenants and make sure that, when it comes to planning decisions, local people are in charge.

And for all those already in their home, we will make sure we continue working through our economic plan, so mortgage rates stay lower for longer and people can keep hold of their homes and plan for the future – safe in the knowledge they have a government that is competently looking after the public finances so they can look after their own.

We will continue to work through our plan, so mortgage rates stay lower for longer

Our plan of action:

We will double the number of first-time buyers, and help more people own their own home

We are setting an ambition to double the number of first-time buyers compared to the last five years – helping one million more people to own their own home. We will extend Help to Buy to cover another 120,000 homes – in total helping over 200,000 people and we will continue the Help to Buy mortgage guarantee until the start of 2017, and the Help to Buy equity loan until at least 2020. From this autumn, we will introduce a new Help to Buy ISA to support people who are working hard to save up for a deposit for their first home. A ten per cent deposit on the average first home costs £15,000, so if you put in up to £12,000, government will put in up to £3,000 more. A 25 per cent top-up is equivalent to saving a deposit from your pre-tax income – making it effectively a tax cut for first-time buyers.

Our new Help to Buy ISA will support people who are working hard to save for a deposit

We will build 200,000 Starter Homes and more affordable housing

We will build 200,000 quality Starter Homes over the course of the next Parliament, reserved for first-time buyers under 40 and sold at 20 per cent below the market price. We have delivered over 217,000 new affordable homes since 2010. We will now go further, delivering 275,000 additional affordable homes by 2020. And we will offer 10,000 new homes to rent at below market rates, to help people save for a deposit.

We will extend the Right to Buy to tenants in Housing Associations

We will extend the Right to Buy to tenants in Housing Associations to enable more people to buy a home of their own. It is unfair that they should miss out on a right enjoyed by tenants in local authority homes. We will fund the replacement of properties sold under the extended Right to Buy by requiring local authorities to manage their housing assets more efficiently, with the most expensive properties sold off and replaced as they fall vacant. We will also create a Brownfield Fund to unlock homes on brownfield land for additional housing.

We will give you the Right to Build

We aim at least to double the number of custom-built and self-built homes by 2020, and we will take forward a new Right to Build, requiring councils to allocate land to local people to build or commission their own home, as you can do in most of Europe.

We will protect the Green Belt

We have safeguarded national Green Belt protection and increased protection of important green spaces. We have abolished the Labour Government's top-down Regional Strategies which sought to delete the Green Belt in and around 30 towns and cities and introduced a new Local Green Space planning designation which allows councils and neighbourhood plans to give added protection to valuable local green spaces.

We will support locally-led garden cities and towns and prioritise brownfield development, making sure new homes are always matched by the necessary infrastructure to support them

We will support locally-led garden cities and towns in places where communities want them, such as Ebbsfleet and Bicester. When new homes are granted planning permission, we will make sure local communities know up-front that necessary infrastructure such as schools and roads will be provided. We will ensure that brownfield land is used as much as possible for new development. We will require local authorities to have a register of what is available, and ensure that 90 per cent of suitable brownfield sites have planning permission for housing by 2020. To meet the capital's housing needs, we will create a new London Land Commission, with a mandate to identify and release all surplus brownfield land owned by the public sector. We will fund Housing Zones to transform brownfield sites into new housing, which will create 95,000 new homes.

Average council tax bills in England have fallen, in real terms, by 11 per cent

We will help keep your council taxes low

Under this Government, average council tax bills in England have fallen, in real terms, by 11 per cent. Whereas Labour wants to propose a new tax on family homes, we will help local authorities keep council tax low for hardworking taxpayers, and ensure residents can continue to veto high rises via a local referendum. And in London, where there is a Conservative Mayor, bills have fallen even further. We will continue to work with councillors to deliver high quality, value for money services. We will encourage voluntary integration of services and administration between and within councils – for example, with the Troubled Families Programme and the Better Care Fund – to promote savings and improve local services. We want local councils to help manage public land and buildings, and will give them at least a 10 per cent stake in public sector land sales in their area.

We will help you build a strong local economy

We want local authorities to help create strong local economies. Building on the local retention of business rates introduced in 2012, we will promote localism by allowing councils to keep a higher proportion of the business rates revenue that is generated in their area. This will provide a strong financial incentive for councils to promote economic growth. We will review how we can further reduce ring-fencing and remove Whitehall burdens to give councils more flexibility to support local services. We will support Business Improvement Districts and other forms of business-led collaboration on high streets – giving more say to local traders on issues such as minor planning applications, cleaning and parking. We will continue to support local shops and residents in tackling aggressive parking enforcement and excessive parking charges, and take steps to tackle rogue and unfair practices by private parking operators. Our Coastal Communities Fund will help our seaside areas thrive, helping to boost skills and create jobs.

Protecting and enhancing our natural environment

Our commitment to you:

We set ourselves the goal of being the first generation to leave the natural environment of England in a better state than that in which we found it. This is a big ambition to which we remain committed. We will:

- *put in place a new 'Blue Belt' to* ***protect precious marine habitats***
- *invest in* ***cleaner air and water*** *for you and your family*
- ***keep our forests in trust*** *for the nation*

For Conservatives, Britain's 'green and pleasant land' is not some relic from a bygone era, to be mourned and missed: it's the living, breathing backdrop to our national life. Our moors and meadows, wildlife and nature, air and water are a crucial part of our national identity and make our country what it is. So we care about them deeply, want to protect them for everyone and pass them onto future generations.

Labour never understood this. Our rural communities fell further behind urban areas; biodiversity suffered, with important species and habitats declining under their watch; and they failed to protect the Green Belt.

Over the last five years, we have committed billions of pounds to reduce emissions from transport and clean up our rivers and seas. We have done more to protect our seas, safeguarded our Green Belt and planted 11 million trees. And we set out a comprehensive, long-term vision to protect our natural heritage in this country's first White Paper on the Natural Environment for 20 years.

Over the next five years, we will put in place stronger protections for our natural landscapes, establish a new Blue Belt to safeguard precious marine habitats, launch a programme of pocket parks in towns and cities and continue to lead in tackling the illegal wildlife trade. Our plan is to conserve and enhance our natural environment so that this remains the most beautiful country in the world.

Our plan of action:

We will protect your countryside, Green Belt and urban environment

We will spend £3 billion from the Common Agricultural Policy to enhance England's countryside over the next five years, enabling us, among other things, to clean up our rivers and lakes, protect our stonewalls and hedges, and help our bees to thrive. We will ensure that our public forests and woodland are kept in trust for the nation and plant another 11 million trees. We will make it easier to access our beautiful landscapes, by providing free, comprehensive maps of all open-access green space. Building on our introduction of a five pence charge on single-use plastic bags, we will review the case for higher Fixed Penalty Notices for littering and allow councils to tackle small-scale fly-tipping through Fixed Penalties rather than costly prosecutions. We will launch an ambitious programme of pocket parks – small areas of inviting public space where people can enjoy relief from the hustle and bustle of city streets. We will protect the Green Belt, and maintain national protections for Areas of Outstanding Natural Beauty, National Parks, Sites of Special Scientific Interest and other environmental designations.

We will help you enjoy cleaner air and water

We will continue to do even more to tackle air pollution and clean up our rivers and waterways, including supporting the Thames Tideway Tunnel. We have spent over £3 billion on improving flood defences, and capped the cost of flood insurance. We will now go further, building 1,400 new flood defence schemes, to protect 300,000 homes.

We will build new infrastructure in an environmentally-sensitive way

We will build new roads and railways in a way that limits, as far as possible, their impact on the environment. This includes investing £300 million in cutting light pollution from new roads, doing more tunnelling, building better noise barriers and helping to restore lost habitat. We will also replace locally any biodiversity lost in the construction of High Speed 2. We set up the Natural Capital Committee to put hard economic numbers on the value of our environment, and we will extend its life to at least the end of the next Parliament. We will work with it to develop a 25 Year Plan to restore the UK's biodiversity, and to ensure that both public and private investment in the environment is directed where we need it most.

> ***"We want to protect our environment for future generations"***

We will create a 'Blue Belt' to protect precious marine habitats

Earlier this year, we announced the creation of a new Marine Protected Area around the Pitcairn Islands – the largest protected expanse of sea in the world. We will now go even further, creating a Blue Belt around the UK's 14 Overseas Territories, subject to local support and environmental need. We will designate a further protected area at Ascension Island, subject to the views of the local community. And, off our own coasts, we will complete the network of Marine Conservation Zones that we have already started, to create a UK Blue Belt of protected sites.

We will protect animal welfare

The quality of the food on your plate, and the economic security of our farmers, depend on us upholding the highest standards of animal welfare. We will push for high animal welfare standards to be incorporated into international trade agreements and into reform of the Common Agricultural Policy. We will ban wild animals in circuses and press for all EU member states to ensure that animals are only sent to slaughterhouses that meet high welfare standards. We will encourage other countries to follow the EU's lead in banning animal testing for cosmetics and work to accelerate the global development and take-up of alternatives to animal testing where appropriate. We want people to integrate fully into British society, but that does not mean they should have to give up the things they hold dear in their religion. So while we will always make sure the Food Standards Agency properly regulates the slaughter of livestock and poultry, we will protect methods of religious slaughter, such as shechita and halal.

> **A record investment in Britain's flood defences – over £3 billion**

We will tackle international wildlife trade

As hosts of the London Conference on the Illegal Wildlife Trade, we helped secure the adoption of the London Declaration on Illegal Wildlife Trade and will continue to lead the world in stopping the poaching that kills thousands of rhinos, elephants and tigers each year. We will oppose any resumption of commercial whaling, and seek further measures at the EU and internationally to end shark-finning. We will promote effective worldwide measures for tuna conservation, press for a total ban on ivory sales, and support the Indian Government in its efforts to protect the Asian elephant. We will press for full 'endangered species' status for polar bears and a ban on the international trade in polar bear skins, as well as for greater attention to be paid to the impact of climate change on wildlife and habitats in Polar Regions in the Arctic Council and other international fora.

Guaranteeing you clean, affordable and secure energy supplies

Our commitment to you:

Affordable, reliable energy is critical to our economy, to our national security, and to family budgets. We will:

- ***keep your bills as low as possible** and promote competition in the energy market*
- *ensure your homes and businesses have **energy supplies they can rely on***
- ***help you insulate your home***
- ***halt the spread of subsidised onshore wind farms***
- *meet our climate change commitments, **cutting carbon emissions as cheaply as possible**, to save you money*

Without secure energy supplies, we leave British families and business at the mercy of fluctuating global oil and gas prices; we increase our dependence on foreign sources of energy; and we become less safe and less prosperous as a result.

"Without secure energy supplies our country becomes less safe and less prosperous"

National energy policy demands a willingness to take decisions today for the good of tomorrow. But Labour took the opposite approach. Power margins – the safety cushion we need to prevent blackouts – have fallen to record lows because of their historic failure to invest in new capacity. Domestic sources of oil and gas were unexploited. And Labour failed to deliver the next generation of energy projects that will help us keep the lights on, drive bills down and reduce carbon emissions.

All this hurt consumers. The number of major energy suppliers halved and energy bills soared, with the average gas bill more than doubling.

We have taken a different approach. Where Labour was chronically short-termist, we have secured decent, affordable energy supplies not just for the coming years, but for the coming decades.

Our long-term plan has unlocked £59 billion of investment in electricity. All parts of the UK will soon be helping to deliver secure, affordable and low-carbon energy, from the Hinkley Point nuclear power station, to offshore wind turbine manufacturing at the new Green Port in Hull, the next generation of pipelines West of Shetland and the Swansea tidal lagoon. Our tax cuts have encouraged record levels of investment in existing North Sea gas, and the birth of a new industry, shale gas, which could create many thousands of jobs.

And we have delivered a better deal for consumers too. We have demanded that energy companies simplify their tariffs; encouraged more independent suppliers – which now account for ten per cent of the household market; and made it much easier for people to switch energy providers.

But the job is only half done. We need a Conservative Government to see through this long-term plan and secure clean but affordable energy supplies for generations to come. This means a significant expansion in new nuclear and gas; backing good-value green energy; and pushing for more new investment in UK energy sources. Healthy competition, not short-termist political intervention, is the best way to secure a good deal for consumers. So we will keep on relentlessly pushing for more competition to keep bills low.

This is a long-term plan to keep the lights on; keep our homes warm; and keep families from endless worry about their energy bills.

Under Labour, the average gas bill more than doubled

Our plan of action:

We will promote competition to keep your bills as low as possible

We have helped increase the number of independent energy suppliers from seven to 21, made it easier for customers to switch to better deals, slashed the number of tariffs to just 4 per supplier, and cut switching times in half. We will go even further, implementing the recommendations of the Competition and Markets Authority investigation that we triggered. We will ensure that every home and business in the country has a Smart Meter by 2020, delivered as cost-effectively as possible, so consumers have instant, accurate bills and can switch to an alternative provider within one day. And we will support low-cost measures on energy efficiency, with the goal of insulating a million more homes over the next five years, supporting our commitment to tackle fuel poverty.

We will secure your energy supplies

We will continue to support the safe development of shale gas, and ensure that local communities share the proceeds through generous community benefit packages. We will create a Sovereign Wealth Fund for the North of England, so that the shale gas resources of the North are used to invest in the future of the North. We will continue to support development of North Sea oil and gas. We will provide start-up funding for promising new renewable technologies and research, but will only give significant support to those that clearly represent value for money.

We want a better deal – and low bills – for hardworking families

3.1 million people are now on better energy tariffs

We will halt the spread of onshore windfarms

Onshore wind now makes a meaningful contribution to our energy mix and has been part of the necessary increase in renewable capacity. Onshore windfarms often fail to win public support, however, and are unable by themselves to provide the firm capacity that a stable energy system requires. As a result, we will end any new public subsidy for them and change the law so that local people have the final say on windfarm applications.

We will protect our planet for our children

We have been the greenest government ever, setting up the world's first Green Investment Bank, signing a deal to build the first new nuclear plant in a generation, trebling renewable energy generation to 19 per cent, bringing energy efficiency measures to over one million homes, and committing £1 billion for carbon capture and storage. We are the largest offshore wind market in the world. We will push for a strong global climate deal later this year – one that keeps the goal of limiting global warming to two-degrees firmly in reach. At home, we will continue to support the UK Climate Change Act. We will cut emissions as cost-effectively as possible, and will not support additional distorting and expensive power sector targets.

Fighting crime and standing up for victims

Our commitment to you:

Your local area should be a safe place to grow up, work, raise a family and retire. We will continue to cut crime and make your community safer. We will:

- ***finish the job of police reform**, so you can have more confidence that your local policing team is working effectively*
- *toughen sentencing and **reform the prison system**, so dangerous criminals are kept off your streets*
- ***support victims**, so that the most vulnerable in our society get the support they deserve.*
- ***scrap the Human Rights Act** and curtail the role of the European Court of Human Rights, so that foreign criminals can be more easily deported from Britain.*

Crime is down by more than 20 per cent since 2010, according to the independent Crime Survey, and is at its lowest point since records began. Lower crime means fewer robberies, less violence on our streets, fewer lives ruined, and more people able to feel confident about the future.

Labour didn't trust our brilliant policemen and women, probation staff and prison officers to do their job, but tried to micromanage every police force from Whitehall, doing serious damage to officer morale, police discretion and forces' performance. And Labour failed to provide sufficient prison places: tens of thousands of prisoners were released early, putting the public at risk.

We have made progress in turning around the situation we inherited, with comprehensive reforms to policing, rehabilitation and the rights of victims. We have already increased the proportion of officers working on the frontline, and cut 4.5 million hours of police paperwork. We have given Chief Constables a clear mandate to cut crime, reformed stop and search, established the National Crime Agency, strengthened the police inspectorate, made the police more accountable through Police and Crime Commissioners, increased transparency through crime maps, and set up the College of Policing to drive up professional standards.

We have made sure that 45,000 offenders will now receive supervision and rehabilitation on release from prison, with providers paid according to the results they achieve in reducing reoffending. We reformed drug treatment so that abstinence and full recovery is the goal, instead of the routine maintenance of people's addictions with substitute drugs. And with new laws to crack down on domestic violence, measures to prevent Female Genital Mutilation (FGM), the first ever Modern Slavery Act, action to tackle human trafficking and substantial progress in tackling online child abuse, we have consistently stood up for the most vulnerable in our society.

Crime has been cut by more than a fifth

We will carry on making every community safer, even when resources are tight. We will continue reducing paperwork, increasing sentence lengths for the most serious offences, and making sure that prisons are places of rehabilitation.

We need to complete our revolution in the way we manage offenders in the community, using the latest technology to keep criminals on the straight and narrow. And we must also become smarter when it comes to crime prevention, dealing with the drivers of crime such as drugs and alcohol. So we will focus not only on punishment, but also on rehabilitating offenders and intervening early to prevent troubled young people being drawn into crime.

Our plan of action:

We will finish the job of police reform, backing officers to fight crime unimpeded

We will ensure proper provision of health and community-based places of safety for people suffering mental health crises – saving police time and stopping vulnerable people being detained in police custody. To speed up justice, we will extend the use of police-led prosecutions. We will allow police forces to retain a greater percentage of the value of assets they seize from criminals. We will improve our response to cyber-crime with reforms to police training and an expansion in the number of volunteer 'Cyber Specials'. We will enable fire and police services to work more closely together and develop the role of our elected and accountable Police and Crime Commissioners.

We will transform the relationship between the police and the public

We have taken action to boost public confidence and trust in the police and now want to go even further. We will improve the diversity of police recruitment – especially of black and ethnic minority officers – by supporting the development of new direct entry and fast-track schemes such as Police Now, which offers top graduates a new route into policing. We will overhaul the police complaints system. We will use the Police Innovation Fund to accelerate the adoption of new technologies, including mobile devices, that will transform the service the public receives. And we will legislate to mandate changes in police practices if stop and search does not become more targeted and stop to arrest ratios do not improve.

We will introduce more effective crime prevention measures to break the cycle of offending

We are developing a modern crime prevention strategy to address the key drivers of crime. We will publish standards, performance data and a ranking system for the security of smartphones and tablets, as well as online financial and retail services. We will overhaul the system of police cautions, and ensure that offenders always have conditions, such as victim redress, attached to their punishment. We will create a blanket ban on all new psychoactive substances, protecting young people from exposure to so-called 'legal highs'. And we will make sobriety orders available to all courts in England and Wales, enforced through new alcohol monitoring tags.

We will reform our prison system

Despite making savings in the prison budget, there are around 3,000 more adult male prison places today than in 2010. We will make further savings by closing old, inefficient prisons, building larger, modern and fit-for-purpose ones and expanding payment-by-results. And we will introduce widespread random testing of drug use in jails, new body scanners, greater use of mobile phone blocking technology and a new strategy to tackle corruption in prisons.

> There are around 3,000 more adult male prison places today than in 2010

We will protect victims and support the vulnerable

We have already introduced a new Victims' Code and taken steps to protect vulnerable witnesses and victims. Now we will strengthen victims' rights further, with a new Victims' Law that will enshrine key rights for victims, including the right to make a personal statement and have it read in court before sentencing – and before the Parole Board decides on a prisoner's release. We will give all vulnerable victims and witnesses greater opportunity to give evidence outside court, and roll out nationally pre-trial cross examination for child victims.

We will prioritise tackling violence against women and girls

We have made protecting women and girls from violence and supporting victims and survivors of sexual violence a key priority. We will now work with local authorities, the NHS and Police and Crime Commissioners to ensure a secure future for specialist FGM and forced marriage units, refuges and rape crisis centres. We will ensure that all publicly-funded advocates have specialist victims' training before becoming involved in serious sexual offences cases. We have set up an independant statutory inquiry into child sexual abuse, and will make sure it can challange institutions and individuals without fear or favour, and get to the truth. And we will continue the urgent work of overhauling how our police, social services and other agencies work together to protect vulnerable children, especially from the kind of organised grooming and sexual exploitation that has come to light in Rotherham, and other towns and cities across the UK.

We will toughen sentencing and use new technology to protect the public

We will continue to reform the way we rehabilitate prisoners. We will deploy new technology to monitor offenders in the community and to bring persistent offenders to justice more quickly. A new semi-custodial sentence will be introduced for prolific criminals, allowing for a short, sharp spell in custody to change behaviour. To tackle those cases where judges get it wrong, we will extend the scope of the Unduly Lenient Scheme, so a wider range of sentences can be challenged. We will review the legislation governing hate crimes, including the case for extending the scope of the law to cover crimes committed against people on the basis of disability, sexual orientation or transgender identity. We will improve the treatment of women offenders, exploring how new technology may enable more women with young children to serve their sentence in the community.

We will reform human rights law and our legal system

We have stopped prisoners from having the vote, and have deported suspected terrorists such as Abu Qatada, despite all the problems created by Labour's human rights laws. The next Conservative Government will scrap the Human Rights Act, and introduce a British Bill of Rights. This will break the formal link between British courts and the European Court of Human Rights, and make our own Supreme Court the ultimate arbiter of human rights matters in the UK. We will continue the £375 million modernisation of our courts system, reducing delay and frustration for the public. And we will continue to review our legal aid systems, so they can continue to provide access to justice in an efficient way.

"We will scrap the Human Rights Act and introduce a British Bill of Rights"

Preventing terrorism, countering extremism

Our commitment to you:

Keeping you and your family safe is our overriding priority. The threat of extremism and terrorism remains serious, but with our tough, intelligent and comprehensive approach, we will confront and ultimately defeat it. We will:

- ***strengthen the ability of the police and intelligence agencies to disrupt terrorist plots****, so the authorities have all the tools they need to prevent attacks*
- ***deal with online radicalisation and propaganda****, so we can reduce the risk of young people being drawn into extremism and terrorism*
- ***tackle all forms of extremism****, including non-violent extremism, so our values and our way of life are properly promoted and defended*

The first duty of government is to keep you safe. We will always do whatever is necessary to protect the British people. We have protected and increased the budgets for the security and intelligence agencies and counter-terrorism policing. But the scale of the threat to our country from a number of terrorist groups remains serious, and the rise of ISIL in Syria and Iraq has created new havens for terrorists from which attacks against Britain can be planned, financed and directed.

> *"We will always do whatever is necessary to protect the British people"*

However, the nature of the threat we face is making it more difficult for the security services to identify terrorist plots – especially thanks to new technology. We must always ensure our outstanding intelligence and security agencies have the powers they need to keep us safe. At the same time, we continue to reject any suggestions of sweeping, authoritarian measures that would threaten our hard-won freedoms. In the last year alone, we have given the authorities greater powers to disrupt and control the movements of people who want to travel abroad to fight, including strengthening powers to confiscate the passports of those seeking to travel to commit terrorism.

The next Conservative Government will continue to take a tough, intelligent and comprehensive approach to preventing terrorism and confronting extremism. We will update our counter-terrorism laws wherever necessary to make sure they properly reflect the threats we face.

> Abu Hamza and Abu Qatada removed from this country once and for all

Dealing with these threats is not just about new powers. It is about how we combat extremism in all its forms. We need to tackle it at root, before it takes the form of violence and terror. At the heart of our approach lies an uncompromising defence of British values, and a very simple message: in Britain, you do not just enjoy the freedom to live how you choose; you have a responsibility to respect others too.

Our plan of action:

We will strengthen counter-terrorism powers

We have strengthened counter-terrorism laws, including making it easier to stop British nationals travelling

abroad to fight, and control the return of those who do. We will keep up to date the ability of the police and security services to access communications data – the 'who, where, when and how' of a communication, but not its content. Our new communications data legislation will strengthen our ability to disrupt terrorist plots, criminal networks and organised child grooming gangs, even as technology develops. We will maintain the ability of the authorities to intercept the content of suspects' communications, while continuing to strengthen oversight of the use of these powers.

We will confront all forms of extremism, including non-violent extremism

We have already reformed the Prevent strategy so that it focuses on non-violent as well as violent extremism. We will now go even further. We will outlaw groups that foment hate with the introduction of new Banning Orders for extremist organisations. These could be applied to dangerous organisations that fall short of the existing thresholds for proscription under terrorism legislation. To restrict the harmful activities of extremist individuals, we will create new Extremism Disruption Orders. These new powers might, for instance, prevent those who are seeking to radicalise young British people online from using the internet or communicating via social media. We will develop a strategy to tackle the infiltration of extremists into our schools and public services. We will strengthen Ofcom's role so that tough measures can be taken against channels that broadcast extremist content.

We will enable employers to check whether an individual is an extremist and bar them from working with children. And we will take further measures to ensure colleges and universities do not give a platform to extremist speakers.

> Over 75,000 pieces of unlawful material have been taken down from the internet

Dignity in your retirement

Our commitment to you:

If you have worked hard during your life, saved, paid your taxes and done the right thing, you deserve dignity and security when you retire. We want Britain to be the best country in which to grow old. We will:

- ***take the family home out of Inheritance Tax** for all but the richest by raising the effective threshold for married couples and civil partners to £1 million*
- *continue to **increase the State Pension** through our triple lock, so it rises by at least 2.5 per cent, inflation or earnings, whichever is highest*
- *reward saving by **introducing a new single-tier pension***
- *give you **the freedom to invest and spend your pension however you like** – and let you pass it on to your loved ones tax-free*
- ***protect pensioner benefits** including the free bus pass, TV licences and Winter Fuel Payment*
- *ensure Britain has a strong economy, so we can continue to protect the NHS and **make sure no-one is forced to sell their home to pay for care**.*

Our pensioners have made this country what it is, and we believe that, in return, younger generations owe it to them to ensure they have dignity and security in their old age.

In office, Labour neglected the elderly. They raided pensions with a £150 billion stealth tax. One year they increased pensions by a paltry 75 pence. And they did nothing to give people control over their savings and pensions, or to stop them from having to sell their homes to pay for care. In place of these meagre pension increases, we have introduced the triple lock: the Basic State Pension will now always rise in line with whichever is higher – earnings, inflation or 2.5 per cent. Since 2010, we have seen the Basic Pension has risen in value by £950. We have abolished the Default Retirement Age, so you can keep working as long as you like. We are replacing the Pension Credit – basically a means test – with a new Single-Tier Pension: whatever people save, they will keep. And we have introduced a cap on residential social care costs: no one will have to sell their home to pay for care. On top of all this, we have scrapped compulsory annuities, giving people complete control over their pension pots; kept all pensioner benefits; and protected NHS spending.

"We are building a Britain where everyone who has worked hard and done the right thing can enjoy security in retirement"

In the next five years, as our country recovers and our elderly population grows, we will continue to put pensioners at the heart of our long-term economic plan.

Our plan of action:

We will look after you as you grow older

We will cap charges for residential social care from April 2016 and also allow deferred payment agreements, so no one has to sell their home. For the first time, individual liabilities will be limited, giving everyone the peace of mind that they will receive the care they need, and that they will be protected from unlimited costs if they develop very serious care


Cafe Latte
Crossword
Kakuro

We will continue to increase the Basic State Pension through our 'triple lock' guarantee

needs – such as dementia. We will protect the NHS budget and we will prioritise funding for dementia research.

We will guarantee your financial security as you grow older

We will keep the triple lock pension system. From April 2016 we are bringing in a Single Tier Pension; this will effectively abolish means-testing the pensions of people who have contributed all their lives. We will maintain all the current pensioner benefits including Winter Fuel Payments, free bus passes, free prescriptions and TV licences for the next Parliament, while implementing the "temperature test" for Winter Fuel Payment, so that expats in hot countries no longer receive it. And we will allow pensioners to access their pension savings and decide whether or not to take out an annuity, so they can make their own decisions about their money.

We will help you support your loved-ones

We have guaranteed that ISAs can now be passed on to a spouse tax-free, so that from this April they are no longer subject to Income Tax and Capital Gains Tax. We have abolished the 55 per cent tax on pension pots, so that when the deceased is 75 or over any beneficiary only has to pay their marginal Income Tax rate – normally 20 per cent – when they draw down the pension. And we have enabled anyone who dies before the age of 75 to pass on their pension pot completely tax-free, so that beneficiaries will pay no tax on pensions they inherit or on the income they draw down. And we will take the family home out of tax for all but the richest by increasing the effective Inheritance Tax threshold for married couples and civil partners to £1 million, with a new transferable main residence allowance of £175,000 per person. This will be paid for by reducing the tax relief on pension contributions for people earning more than £150,000.

"It's your money, you worked hard for it – and you should be able to pass it onto your loved-ones"

Stronger together: a Union for the 21st century

Our commitment to you:

Wherever you live in the great nations of our United Kingdom, we are on your side. We will:

- ***give English MPs a veto over matters only affecting England**, including on Income Tax*
- ***honour in full our commitments to Scotland** to devolve extensive new powers*
- *implement the agreed settlement for Wales, **handing over more responsibility to the Welsh Assembly***
- ***continue to build a Northern Ireland where politics works**, the economy grows and society is strong.*

England, Scotland, Wales and Northern Ireland – ours is the greatest union of nations the world has ever seen. Together we have done so much, and we can do much more. The Conservative Party is the party of the Union – and we will always do our utmost to keep our family of nations together.

It was right to create the Scottish Parliament and Welsh Assembly, but the job was not finished. Without the ability to raise money, the devolved Parliaments were not accountable to taxpayers. Without devolution to local councils and communities, power felt as distant as ever. And one fundamental unfairness remains today: Scottish MPs are able to cast the decisive vote on matters that only affected England and Wales, while English and Welsh MPs cannot vote on matters that only affect Scotland. This leaves a space for resentment to fester – and put our Union in jeopardy.

We have tackled the problems we inherited. First, we held the referendum on Scottish independence. It was the right thing to do, and the question of Scotland's place in the United Kingdom is now settled. We have made the Scottish Parliament and Welsh Assembly responsible for funding more of what they spend. We have agreed with Northern Ireland's parties a deal to help ensure that politics works, the economy grows and society is more cohesive and united. And we have set out clear plans for English votes for English laws.

All this reflects a core Conservative belief: power to the people. Around Britain you can see that principle in practice. In town halls, councillors now have more of a say over public spending. In communities, local people have the right to vote in referendums on council tax rises. Neighbourhoods are deciding what is built in their area and what happens to assets such as parks and public buildings.

> *"We believe in giving power to hardworking taxpayers, letting you decide on the issues that affect you and your family"*

Our commitment to the Union means we want to strengthen it. We will let local people have more say on local planning and let them vote on local issues. We will not let anyone impose artificial regions on England – our traditional towns, boroughs, cities and counties are here to stay. We will continue devolution settlements for Scotland and Wales, and implement the Stormont House Agreement in Northern Ireland. And we will give English MPs a veto over English-only matters, including on Income Tax – answering the West Lothian Question.

In the last five years, we have proven that we are the party of the Union. We will go further in the next Parliament, pushing power out beyond Westminster, Cardiff Bay, Holyrood and Stormont, so we keep our United Kingdom strong and secure for the long term.

Our plan of action:

We will build an enduring settlement for the United Kingdom

We will work to ensure a stable constitution that is fair to the people of England, Scotland, Wales, and Northern Ireland. We will strengthen and improve devolution for each part of our United Kingdom in a way that accepts that there is no one-size-fits-all solution: we will implement the Smith Commission and St David's Day Agreement or equivalent changes in the rest of the UK, including English votes for English laws.

We will give English MPs a veto over matters only affecting England

We will maintain the Westminster Parliament as the UK and England's law-making body. But we want Parliament to work in a way that ensures decisions affecting England, or England and Wales, can only be taken with the consent of the majority of MPs representing constituencies in England, or in England and Wales. We will end the manifest unfairness whereby Scotland is able to decide its own laws in devolved areas, only for Scottish MPs also to be able to have the potentially decisive say on similar matters that affect only England and Wales. We will maintain the integrity of the UK Parliament by ensuring that MPs from all parts of the UK continue to deliberate and vote together, including to set overall spending levels. But we will:

- change parliamentary procedures so that the detail of legislation affecting only England or England and Wales will be considered by a Committee drawn in proportion to party strength in England or England and Wales.

- add a new stage to how English legislation is passed; no bill or part of a bill relating only to England would be able to pass to its Third Reading and become law without being approved through a legislative consent motion by a Grand Committee made up of all English MPs, or all English and Welsh MPs.

- extend the principle of English consent to financial matters such as how spending is distributed within England and to taxation – including an English rate of Income Tax – when the equivalent decisions have been devolved to Scotland.

We will honour in full our commitments to Scotland

A new Scotland Bill will be in our first Queen's Speech and will be introduced in the first session of a new Parliament. We will implement the recommendations of the Smith Commission so that more than 50 per cent of the Scottish Parliament's budget will be funded from revenues raised in Scotland and it will have significant new welfare powers to complement existing devolved powers in health and social care. We will provide the Scottish Parliament with one of the most extensive packages of tax and spending powers of any devolved legislature in the world. We will retain the Barnett Formula as the basis for determining the grant to cover that part of the Scottish Parliament's budget not funded by tax revenues raised in Scotland. We will agree new rules with the Scottish Government for how the block grant will be adjusted, to take account of the new devolved tax and welfare powers. And we will ensure that where responsibility for taxation has been devolved, tax changes only affect public spending in that part of the country.

We will implement Wales' devolution settlement

We will clarify the division of powers between Wales and the UK Government. We will:

- devolve to the Welsh Assembly control over its own affairs – including the Assembly name, size and electoral system, Assembly elections and voting age.

- implement other recommendations of the second Silk Report where there is all-party support as set out in the St David's Day Agreement; this will include devolving to the Welsh Assembly important economic powers over ports and energy consents.

- introduce a new Wales Bill if these changes require legislation.

- continue to reserve policing and justice as matters for the UK Parliament.

- introduce a 'funding floor' to protect Welsh relative funding and provide certainty for the Welsh Government to plan for the future, once it has called a referendum on Income Tax powers in the next Parliament.

- make the Welsh Government responsible for raising more of the money it spends so the Welsh people can hold their politicians to account.

We will continue to build a Northern Ireland where politics works, the economy grows and society is strong

We will maintain Northern Ireland's position within the United Kingdom on the basis of the consent of its people. Our strong support for the political institutions established over the past two decades as a result of the various Agreements will continue. We will:

- put the safety and security of the people of Northern Ireland as our highest priority. We will develop and implement our strategy to combat terrorism, giving the strongest possible support to the brave men and women of the Police Service of Northern Ireland.

- work to implement fully and faithfully the historic Stormont House Agreement to enable devolution to function more effectively; to deal with the legacy of the past; and to make progress on divisive issues such as flags and parading.

- continue to work closely with the Northern Ireland Executive to implement commitments in the 2013 economic pact to rebalance the economy and to build a more united and stronger society.

- complete the devolution of Corporation Tax powers to the Assembly, consistent with the Executive fulfilling its commitments on finance, welfare reform and efficiencies in the Stormont House Agreement.

Real change in our relationship with the European Union

Our commitment to you:

For too long, your voice has been ignored on Europe. We will:

- *give you a say over whether we should stay in or leave the EU, with* ***an in-out referendum by the end of 2017***
- *commit to keeping the pound and* ***staying out of the Eurozone***
- ***reform the workings of the EU****, which is too big, too bossy and too bureaucratic*
- ***reclaim power from Brussels*** *on your behalf and* ***safeguard British interests*** *in the Single Market*
- *back businesses to create jobs in Britain by* ***completing ambitious trade deals and reducing red tape****.*

The EU needs to change. And it is time for the British people – not politicians – to have their say. Only the Conservative Party will deliver real change and real choice on Europe, with an in-out referendum by the end of 2017.

Labour failed to give you a choice on the EU. They handed over major new powers to Brussels without your consent, and gave away £7 billion of the British rebate. We have taken action in Europe to promote your economic security. We cut the EU budget for the first time ever, saving British taxpayers £8.15 billion. We took Britain out of Eurozone bailouts, including for Greece – the first ever return of powers from Brussels. Our Prime Minister vetoed a new EU treaty that would have damaged Britain's interests. And we have pursued a bold, positive, pro-business agenda, exempting smallest businesses from red tape, promoting free trade, and pushing to extend the Single Market to new sectors, like digital.

> ***"We believe in letting the people decide: so we will hold an in-out referendum on our membership of the EU before the end of 2017"***

But there is much more to do. The EU is too bureaucratic and too undemocratic. It interferes too much in our daily lives, and the scale of migration triggered by new members joining in recent years has had a real impact on local communities. We are clear about what we want from Europe. We say: yes to the Single Market. Yes to turbo-charging free trade. Yes to working together where we are stronger together than alone. Yes to a family of nation states, all part of a European Union – but whose interests, crucially, are guaranteed whether inside the Euro or out. No to 'ever closer union.' No to a constant flow of power to Brussels. No to unnecessary interference. And no, of course, to the Euro, to participation in Eurozone bail-outs or notions like a European Army.

It will be a fundamental principle of a future Conservative Government that membership of the European Union depends on the consent of the British people – and in recent years that consent has worn wafer-thin. That's why, after the election, we will negotiate a new settlement for Britain in Europe, and then ask the British people whether they want to stay in the EU on this reformed basis or leave. David Cameron has committed that he will only lead a government that offers an in-out referendum. We will hold that in-out referendum before the end of 2017 and respect the outcome.

So the choice at this election is clear: Labour and the

Liberal Democrats won't give you a say over the EU. UKIP can't give you a say. Only the Conservative Party will deliver real change in Europe – and only the Conservatives can and will deliver an in-out referendum.

Our plan of action:

We will let you decide whether to stay in or leave the EU

We will legislate in the first session of the next Parliament for an in-out referendum to be held on Britain's membership of the EU before the end of 2017. We will negotiate a new settlement for Britain in the EU. And then we will ask the British people whether they want to stay in on this basis, or leave. We will honour the result of the referendum, whatever the outcome.

We will protect Britain's economy

We will protect our economy from any further integration of the Eurozone. The integration of the Eurozone has raised acute questions for non-Eurozone countries like the United Kingdom. We benefit from the Single Market and do not want to stand in the way of the Eurozone resolving its difficulties. Indeed, given the trade between Britain and the Eurozone countries we want to see these economies returning to growth. But we will not let the integration of the Eurozone jeopardise the integrity of the Single Market or in any way disadvantage the UK.

We will reclaim powers from Brussels

We want to see powers flowing away from Brussels, not to it. We have already taken action to return around 100 powers, but we want to go further. We want national parliaments to be able to work together to block unwanted European legislation. And we want an end to our commitment to an 'ever closer union,' as enshrined in the Treaty to which every EU country has to sign up. Furthermore, we will continue to ensure that defence policy remains firmly under British national control, maintaining NATO and the transatlantic relationship as the cornerstones of our defence and security policy.

David Cameron vetoed a new EU Treaty that would have damaged Britain's interests – the first time in history that a British Prime Minister has done so

We will scrap the Human Rights Act

We will scrap Labour's Human Rights Act and introduce a British Bill of Rights which will restore common sense to the application of human rights in the UK. The Bill will remain faithful to the basic principles of human rights, which we signed up to in the original European Convention on Human Rights. It will protect basic rights, like the right to a fair trial, and the right to life, which are an essential part of a modern democratic society. But it will reverse the mission creep that has meant human rights law being used for more and more purposes, and often with little regard for the rights of wider society. Among other things the Bill will stop terrorists and other serious foreign criminals who pose a threat to our society from using spurious human rights arguments to prevent deportation.

We will take action in Europe to make you better off

We want an EU that helps Britain move ahead, not one that holds us back. We have already succeeded in exempting our smallest businesses from new EU regulations, and kicked-off negotiations for a massive EU trade deal with the USA, which could be worth billions of pounds to the UK economy. We will build on this. We want to preserve the integrity of the Single Market, by insisting on protections for those countries that have kept their own currencies. We want to expand the Single Market, breaking down the remaining barriers to trade and ensuring that new sectors are opened up to British firms. We want to ensure that new rules target unscrupulous behaviour in the financial services industry, while safeguarding Britain as a global centre of excellence in finance. So we will resist EU attempts to restrict legitimate financial services activities. We will press for lower EU spending, further reform of the Common Agricultural Policy and Structural Funds, and for EU money to be focused on promoting jobs and growth.

A Britain standing tall in the world

Our commitment to you:

Everything we do around the world will be driven by a determination to protect your security and help you prosper. We will:

- *ensure Britain is a major player on the world stage,* ***using diplomacy to protect your interests, uphold British values and tackle threats*** *to your security and prosperity*
- *help generate* ***new trade, investment and job opportunities****, to benefit you and your family*
- ***maintain our world class Armed Forces*** *so they continue to guarantee your security*
- *uphold our commitment to spend* ***0.7 per cent of gross national income on international development****.*

Economic security and national security are two sides of the same coin. Without one, you cannot have the other. Our prosperity depends upon Britain remaining an active, outward-looking nation, one that is engaged with the world, not looking in on itself. We will maintain Britain's strong global role and our capacity to project British power and values around the world.

> *"We want a strong, secure and stable country"*

Labour's Great Recession weakened Britain on the world stage. They left a £38 billion black hole in the defence budget, went 12 years without conducting a Strategic Defence Review, and, at times, failed to provide our Armed Forces with the equipment they needed in Afghanistan. They shut down over 30 British diplomatic missions, failed to plan properly for Iraq's reconstruction, ignored trade and investment opportunities overseas, and neglected vital relationships.

We have strengthened Britain's influence in the world. The National Security Council that we established ensures proper, strategic decision-making at the top of government. We have boosted exports to emerging markets, opened new diplomatic posts in Africa, Asia and Latin America, and led the world in promoting women's rights and tackling sexual violence in conflict. We have balanced the defence budget and set out a clear strategy to defend our nation for the long term.

We and our allies face major challenges: Islamist extremism, an aggressive Russia, economic uncertainty in the Eurozone, nuclear proliferation and infectious diseases. A Conservative Government will tackle these challenges. We will use our membership of NATO, the EU, the Commonwealth, our UN Security Council seat, our Special Relationship with the USA, our intelligence agencies, vital institutions like the BBC World Service and British Council, and the strong personal links between our diaspora communities and other countries, to achieve the best for Britain.

> *"Only with a strong economy can we maintain our world-class Armed Forces and protect our national security"*

We will back this up with UK military power and international aid. Our long-term economic plan will ensure we have the economic strength to maintain our world-class Armed Forces, to uphold our national security and project power globally. Aid helps prevent failed states from becoming havens for terrorists. It builds long-term markets for our businesses, by promoting global prosperity, and reduces migration pressures. So we will maintain our commitment to tackling conflict, poverty and disease around the world.

A stronger voice for our nation on the world stage

Our plan of action:

We will keep you secure

We will tackle global terrorism and the poisonous ideology of Islamist extremism while taking a patient, long-term approach to preventing conflict and state failure. We will work with our partners to address threats to UK security, including the spread of nuclear, chemical and biological weapons, pandemic diseases, the illegal drugs trade, piracy and organised crime. We will:

- work for peace, stability and an inclusive settlement in Syria and Iraq; and pursue a comprehensive political and military strategy to defeat ISIL
- uphold the sovereignty, integrity and capacity of Ukraine, and continue to reject Russia's illegal annexation of Crimea
- stand shoulder to shoulder with our NATO allies, reassuring all its members – especially those closest to Russia – of their security, and continue to support the Euro-Atlantic path for Western Balkan nations
- ensure that the significant achievements of our Armed Forces in Afghanistan are maintained; and support the Government of Afghanistan in ensuring that the country remains stable and never again becomes a haven for international terrorists
- support a two-state solution to the Israeli-Palestinian conflict, robustly defending the right of Israel to protect its security, while continuing to condemn illegal settlement building, which undermines the prospects for peace
- protect global security by helping to lead international efforts to prevent Iran from obtaining a nuclear weapon; and work to ensure that North Korea ends its development of nuclear weapons.

We will help make you better off

Over the last five years, we have used foreign policy to boost our prosperity. UK exports to China have more than doubled since 2009. We will do more, using the new embassies and diplomatic posts we have opened to connect Britain to the fastest-growing economies in the world. We will push for freer global trade, concluding major trade deals with the US, India and Japan and reinvigorating the World Trade Organisation. As part of our drive to attract more investment into the UK and increase British exports, we will:

- build on our strong relationship with India, push for an ambitious EU-India trade deal and support India's bid for permanent representation on the UN Security Council
- strengthen our economic links with China, doubling support for British firms selling goods there and championing an EU-China trade deal.

> UK exports to China have more than doubled since 2009

We will stand up for British values

Our long-term security and prosperity depend on a stable international system that upholds our values. Over the last five years, we have stood up for what we believe in: intervening to stop a massacre in Libya, leading the world in tackling sexual violence in conflict, and helping women and children who have fled violence in Syria. We will continue this leadership. We will stand up for the freedom of people of all religions – and non-religious people – to practise their beliefs in peace and safety, for example by supporting persecuted Christians in the Middle East. We will strengthen the Commonwealth's focus on promoting democratic values and development. We will drive forward the Preventing Sexual Violence in Conflict Initiative. We will support global processes on arms control. And we will continue to support universal human rights. We will:

- uphold our Special Relationship with the USA and further strengthen our ties with our close

Commonwealth allies, Australia, Canada and New Zealand

- uphold the democratic rights of the people of Gibraltar and the Falkland Islands to remain British, for as long as that is their wish, and protect our Overseas Territories
- stand up for the rule of law and human rights in Zimbabwe
- support a democratic transition in Burma
- promote reconciliation and human rights in Sri Lanka, including through supporting the UN investigation into war crimes, which the Prime Minister was instrumental in securing following his historic visit to Jaffna
- actively support Cypriots to find a peaceful and lasting settlement to reunite their island.

Keeping Britain safe

Our plan of action:

We will protect our nation

We will continue to keep our Armed Forces strong so they can continue to keep you safe. We will maintain the size of the regular armed services and not reduce the army to below 82,000. We will retain the Trident continuous at sea nuclear deterrent to provide the ultimate guarantee of our safety and build the new fleet of four Successor Ballistic Missile Submarines – securing thousands of highly-skilled engineering jobs in the UK. We will work closely with our allies to continue to strengthen NATO – supporting its new multi-national rapid response force. We will maintain our global presence, strengthening our defence partnerships in the Gulf and Asia. Later this year, we will hold a National Security Strategy and Strategic Defence and Security Review to plan for the future.

We will maintain a balanced defence budget and give our Armed Forces the equipment they need

We can only have strong, well-funded Armed Forces by continuing to build a stronger economy. We have the second largest defence budget in NATO and the largest in the EU. We are meeting NATO's two targets: that each country should spend two per cent of its gross national income on defence, and of that spending 20 per cent should go on major equipment. We have made commitments for the equipment plan to be funded at one per cent above inflation for the next Parliament. We plan to invest at least £160 billion in new military equipment over the next decade: as well as our six new Type 45 destroyers, we are building a class of seven Astute submarines and buying the Joint Strike Fighter, Scout armoured vehicles, Type 26 frigates and new Apache attack helicopters. We will bring both of our new Aircraft Carriers – HMS Queen Elizabeth and HMS Prince of Wales, the largest vessels the Royal Navy has ever possessed – into service, so we have one available for use at all times. We will continue to seek value for money in defence procurement, recognising the important contribution that the UK defence industry makes to our prosperity.

We have the biggest defence budget in the EU – and the second biggest in NATO

We will maintain strong, modern Armed Forces

Modern, flexible Armed Forces need strong reserve capacity, alongside strong regular forces. We have invested significantly in our reserves, and we will deliver on our commitment to expand them to 35,000. We will continue to invest in our cyber defence capabilities. We will also provide more opportunities for talented people from all communities and walks of life to serve their country. We will ensure our Armed Forces overseas are not subject to persistent human rights claims that undermine their ability to do their job.

"We will do all we can to honour those who give so much"

We will continue to honour the Armed Forces Covenant

We have honoured our commitment to enshrine the Armed Forces Covenant in law and done much to support our servicemen and women. We have delivered better accommodation for service families, helped service personnel buy their own home, and ensured that children of members of the Armed Forces benefit from the Pupil Premium. We have delivered proper mental health support and priority access to medical treatments for veterans. To ensure that those who serve can enjoy greater economic security, we have boosted allowances and tax reliefs. We have protected pensions for our servicemen and women. We have ensured that injured service personnel have access to the latest prosthetics and world-class rehabilitation facilities. And we have used £450 million of LIBOR fines from banks to support the Armed Forces community. The money has been used to support a wide range of charities and good causes, from providing better play facilities for the children of service families, to helping rehabilitation through sport for injured veterans. We pressed for the introduction of the Arctic Star medal – for veterans of the Arctic Convoys – and the Bomber Command Clasp, to ensure proper recognition for those who risked their lives to keep us free. We will build on this proud record, implementing Lord Ashcroft's recommendations on the way the nation fulfils its obligations to veterans. We will work to address hearing loss among veterans. And we will continue to support the unsung heroes of the Armed Forces community: the partners and families of those who serve.

Tackling global challenges to make you safer and more prosperous

Our plan of action:

We will continue to honour our commitments

Tackling global poverty is both the right thing to do and in Britain's interests. We have delivered on our promises to meet the UN target of spending 0.7 per cent of national income as aid and to enshrine this in law. We will continue to meet the 0.7 per cent target, maintain an independent Department for International Development and keep aid untied. Our aid budget meets the OECD aid rules, and we will actively engage in international discussions to ensure that these rules fully reflect the importance of peace, stability and effective institutions for reducing poverty. We will insist that every government and organisation we fund meets global transparency standards.

We will save lives

By 2020, we will save 1.4 million children's lives, by immunising 76 million children against killer diseases. We will help at least 11 million children in the poorest countries gain a decent education, improve nutrition for at least 50 million people, who would otherwise go hungry; and help at least 60 million people get access to clean water and sanitation, to stop terrible diseases. We will continue to lead the response to humanitarian emergencies, and establish a means to respond rapidly to crises. Our leading role in dealing with the recent outbreak of Ebola in West Africa is a good example of how our aid programme helps protect Britain from serious threats, while also helping countries tackle major emergencies which put their stability at risk. We will lead a major new global programme to accelerate the development of vaccines and drugs to eliminate the world's deadliest infectious diseases, while investing to save lives from malaria and working to end preventable child and maternal deaths. We will expand payment by results and ensure all money to governments is clearly earmarked for specific purposes.

> *"By 2020, we will save 1.4 million children's lives"*

We will tackle the causes of poverty and promote gender equality

We will push for new global goals to eradicate extreme poverty by 2030 and promote human development, gender equality and good governance. We will work to prevent climate change and assist the poorest in adapting to it. As the route out of poverty is about much more than just aid, we will boost growth and jobs, making it easier for people to start up businesses and trade freely with each other. We will continue to promote the golden thread of democracy, the rule of law, property rights, a free media and open, accountable institutions. We will promote girls' education, encourage equal access to property rights and work to achieve access to family planning for everyone who wants it. We will continue to lead efforts to tackle violence against women and girls, end FGM and combat early and forced marriage, both at home and abroad.

We will help you fight poverty

Our International Citizen Service has given thousands of young Brits the opportunity to volunteer abroad. We will triple it in size. We will also double our successful Aid Match scheme, which matches donations to charity from the aid budget. We will boost partnerships between UK institutions and their counterparts in the developing world, and help people in the UK give or lend money directly to individuals and entrepreneurs around the world.

Conclusion

SO THIS IS OUR DETAILED PLAN FOR BRITAIN.

Our plan to entrench the progress of the past five years. Our plan for you and your family, at every stage of your life.

IT IS UNDERPINNED BY SOME SIMPLE CONSERVATIVE VALUES.

Those who work hard and do the right thing must be rewarded. Everyone should be able to rise as high as their talents and effort will take them. We measure our success not just in how we show our strength abroad, but in how we care for the weakest and most vulnerable at home.

ABOVE ALL, RUNNING THROUGH THIS PLAN IS A TRUE BELIEF IN BRITAIN.

In the past five years, as so often before in our history, we have once again defied the expectations of the world to rise up and meet our challenges. The British character is renewed every day by the millions who work hard, raise their families, care for those who need help, who do the right thing – and make this country what it is.

THIS MANIFESTO IS ABOUT IMPROVING THE LIVES OF EACH AND EVERY ONE OF THESE PEOPLE.

Together we have come so far. If we stick to our long-term plan, we can secure a better future for you and your family. So let us keep moving forward; and set our sights on making our great country greater still.

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Oral statement to Parliament

Spring Budget 2017: Philip Hammond's speech

From: HM Treasury and The Rt Hon Philip Hammond MP
Part of: Spring Budget 2017
First published: 8 March 2017
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The Budget speech in full.

Mr Deputy Speaker,

I report today on an economy that has continued to confound the commentators with robust growth.

A labour market delivering record employment.

And a deficit down by over two-thirds.

As we start our negotiations to exit the European Union, this Budget takes forward our plan to prepare Britain for a brighter future.

It provides a strong and stable platform for those negotiations.

It extends opportunity to all our young people.

It delivers further investment in our public services.

And it continues the task of getting Britain back to living within its means.

We are building the foundations of a stronger, fairer, more global Britain.

Mr Deputy Speaker,

As the House knows, this will be the last Spring Budget.

The Treasury has helpfully reminded me that I am not the first Chancellor to announce the “last spring Budget”

Twenty four-years ago Norman Lamont also presented what was billed then as “the last Spring Budget”.

He reported on an economy that was growing faster than any other in the G7, and he committed to continued restraint in public spending.

The then Prime Minister described it as the “right budget, at the right time, from the right Chancellor”.

What they failed to remind me was…ten weeks later, he was sacked!

So wish me luck!

Mr Deputy Speaker,

Last year, the British economy grew faster than the United States, faster than Japan, faster than France.

Indeed amongst the major advanced economies Britain's growth in 2016 was second only to Germany.

Employment is at a record high. Unemployment is at an 11 year low, with over 2.7 million more people enjoying the security and dignity of work than in 2010.

A far cry from the 3 million unemployed predicted.

And I am pleased to report, on International Women's Day, that there is now a higher proportion of women in work than ever before.

But, Mr Deputy Speaker, there is no room for complacency.

As we prepare for our future outside the EU, we cannot rest on our past achievements.

We must focus relentlessly on keeping Britain at the cutting edge of the global economy. The deficit is down, but debt is still too high.

Employment is up, but productivity remains stubbornly low.

Too many of our young people are leaving formal education without the skills they need for today's labour market.

And too many families are still feeling the squeeze, almost a decade after the crash.

So our job is not done.

And our task today is to take the next steps in preparing Britain for a global future.

To equip our young people with the skills they need.

To support our public services.

And to help ordinary working families as we build an economy that works for everyone.

Mr Deputy Speaker,

I thank the OBR under Robert Chote for their report

And let me also take the opportunity to thank my RHF the Chief Secretary and my ministerial team who are the unsung heroes of the Budget.

Doing much of the heavy lifting over the last few weeks, and of course, my excellent PPS, my RHF the Member for Salisbury.

I turn now to the OBR forecasts.

This is the spreadsheet bit.

I’ve got a reputation to uphold.

The OBR forecast the level of GDP in 2021 to be broadly the same as at Autumn Statement.

However, the path by which we get there has changed.

Reflecting the recent strength in the economy, the OBR has upgraded its forecast for growth this year from 1.4% to 2%.

In 2018 growth is forecast to slow to 1.6%, before picking up to 1.7%, then 1.9%, and back to 2% in 2021.

Resilience in the economy is reflected in a strong labour market.

Since 2010, the employment rate has risen from 70.2% to 74.6%, with positive news for all parts of our United Kingdom.

Unemployment has fallen fastest in Yorkshire and the Humber, and Wales.

Wages have grown fastest in Northern Ireland.

And productivity has grown fastest in Scotland and the North East.

And this positive trend is set to continue over the forecast period.

The number of people in employment is set to grow in every year, with a further two-thirds of a million people in work by 2021.

The OBR forecast inflation at 2.4% this year. Then 2.3% next year and 2% in 2019.

And most importantly, Mr Deputy Speaker, despite higher-than-target inflation, real wages continue to rise in every year of the forecast.

Mr Deputy Speaker,

While the economic forecasts are broadly unchanged since the autumn, the OBR has substantially revised down its short term forecast of Public Sector Net Borrowing.

The OBR attributes this change to a number of one-off factors that they do not expect to lead to a structural improvement over the forecast period.

Combining these factors with the higher short-term forecast for growth, and taking into account the measures I shall announce today the OBR now forecasts borrowing in 2016-17, to be £16.4 billion lower than forecast in the autumn, at £51.7 billion.

Then £58.3 billion in 2017-18; £40.8 billion in 2018-19; then £21.4 billion; £20.6 billion; and finally £16.8 billion in 2021-22.

All, lower than forecast at Autumn Statement.

Overall public sector net borrowing as a percentage of GDP is predicted to fall from 3.8% last year to 2.6% this year.

And for those who care about such things, it means we are forecast to meet our 3% EU Stability and Growth Pact target this year for the first time in almost a decade.

But I won’t hold my breath for my congratulatory letter from Jean-Claude Juncker!

Borrowing is then forecast to be 2.9% in 17-18 and then to fall over the remainder of the Parliament, to 1.9% in 2018-19, then 1%; and 0.9%, before reaching 0.7% in '21-22 – its lowest level in two decades.

The OBR expects cyclically adjusted public sector net borrowing to be 0.9% in 2020-2021, giving us £26 billion of headroom against the headline 2% target in our new fiscal rules, maintaining our fiscal resilience over the period.

The OBR's forecast of lower near-term borrowing, coupled with recent strength in the economy, means lower debt across the period.

The OBR now forecast that debt will rise to 86.6% this year, before peaking at 88.8% next year; 1.4 percentage points lower than forecast in the autumn.

It then falls in 2018-19, for the first time since 2001-02 to 88.5%, it then continues to decline to 86.9% in 2019-20, 83%, in 2020-21 and then reaches 79.8% in 2021-22.

Mr Deputy Speaker,

At the Autumn Statement I set out our plan to return the public finances to balance in the next Parliament.

A plan that is now underpinned by our new fiscal rules.

That plan strikes the right balance between reducing our deficit, preserving fiscal flexibility and investing in Britain's future.

Some have argued that lower borrowing this year makes a case for more unfunded spending in the future.

I disagree.

Britain has a debt of nearly £1.7 trillion, almost £62,000 for every household in the country.

Each year, we are spending £50 billion on debt interest – more than we spend on Defence and Policing combined.

And borrowing over the forecast period is still set to be £100 billion higher than predicted at Budget 2016.

So the only responsible course of action, Mr Deputy Speaker, is to continue with our plan, undeterred by any short-term fluctuations.

We will not saddle our children with ever-increasing debts.

So the Budget I set out today will again fund all additional spending decisions over the forecast period.

Mr Deputy Speaker,

A strong economy needs a fair, stable and competitive tax system, creating the growth that will underpin our future prosperity.

My ambition is for the UK to be the best place in the world to start and grow a business.

In 2010 Corporation Tax was 28%.

From April this year, it will fall to 19%, the lowest rate in the G20.

In 2020, it will fall again to 17%, sending the clearest possible signal that Britain is open for business.

Mr Deputy Speaker,

I am listening to the voice of business.

As I committed at the Autumn Statement, we’ve reviewed, with business, our R&D tax credit regime and concluded that it is globally competitive.

But to make the UK even more attractive for R&D we have accepted industry calls for a reduction in administrative burdens around the scheme and will shortly bring forward measures to deliver them.

In a digital age, it is right that we develop a digital tax system.

But in response to concerns about the timetable expressed by business organisations, and by several of my RHFs including the Chairman of the Treasury Select Committee.

I have decided that for businesses with turnover below the VAT registration threshold I will delay by one year the introduction of quarterly reporting at a cost to the Exchequer of £280 million

And I have heard, too, the calls by North Sea oil and gas producers and the Scottish Government to provide further support for the transfer of late-life assets.

As UK oil and gas production declines it is essential that we maximise exploitation of remaining reserves and so we will publish a formal discussion paper in due course.

And Mr Deputy Speaker, there’s one further area in which I can announce action to back British businesses.

My RHF the Communities Secretary and I have listened to the concerns raised by colleagues and businesses about the effects of the 2017 business rates revaluation.

Business Rates raise £25 billion per year – all of which, by 2020, will be going to fund local government.

So we cannot abolish them, as some have suggested.

But, it is certainly true, in the medium term that we have to find a better way of taxing the digital part of the economy.

The part that does not use bricks and mortar.

But in the meantime, there is scope to reform the revaluation process, making it smoother and more frequent, to avoid the dramatic increases that the present system can deliver.

We will set out our preferred approach in due course and will consult on it before the next revaluation is due.

The revaluation itself is, by law, fiscally neutral.

And ahead of this revaluation, the government committed to a package of cuts to business rates now worth nearly £9 billion, permanently doubling the rate of Small Business Rate Relief to 100%, and raising the thresholds so that 600,000 small businesses are taken out of paying rates altogether.

But the revaluation has undoubtedly raised some hard cases, especially for those businesses coming out of Small Business Relief.

So today, as I promised many of my RHFs I would, I address those concerns with three measures which apply to the national business rates system for England.

First, any business coming out of Small Business Rate Relief will benefit from an additional cap.

No business losing small business rate relief will see their bill increase next year by more than £50 a month, and the subsequent increases will be capped at either the transitional relief cap or £50 a month, whichever is higher.

Second, recognising the valuable role that local pubs play in our communities, I will provide a £1,000 discount on business rates bills in 2017 for all pubs with a Rateable Value of less than £100,000 – that’s 90% of all pubs.

And third, I will provide local authorities with a £300 million fund to deliver discretionary relief to target individual hard cases in their local areas.

This fund will be allocated to local authorities by formula, and my RHF will set out details in due course.

Taken together, this is a further £435 million cut in business rates, targeted at those small businesses facing the biggest increases, protecting our pubs, and giving local authorities the resource to respond flexibly to local circumstances.

Mr Deputy Speaker,

Just as a strong economy requires a tax system that is competitive, a strong society requires one which is fair.

And because I have committed to funding my spending decisions in this Budget, rather than borrowing more I make no apology for raising additional revenues, and for doing so in ways which enhance the fairness of the system.

First and foremost, that means collecting the taxes that are due.

Since 2010, we have secured £140 billion in additional tax revenue by taking robust action to tackle avoidance, evasion, and non-compliance.

These actions have helped the UK achieve one of the lowest tax gaps in the world.

But there is more that we can do.

In this Budget we set out further action to stop businesses from converting capital losses into trading losses, tackle abuse of foreign pension schemes, introduce UK VAT on roaming telecoms services outside the EU in line with international standard practice.

And from July we will introduce a tough new financial penalty for professionals who enable a tax avoidance arrangement that is later defeated by HMRC.

Taken together these measures will raise £820 million over the forecast period.

Mr Deputy Speaker, as well as collecting taxes that are due, a fair system ensures that those with the broadest shoulders bear the heaviest burden.

As a result of the changes we've made since 2010 the top 1 per cent of income tax payers now pay 27 per cent of all income tax.

But a fair system will also ensure fairness between individuals, so that people doing similar work for similar wages and enjoying similar state benefits pay similar levels of tax.

As our economy responds to the challenges of globalisation, shifts in demographics, and the emergence of new technologies we have seen a dramatic increase in the number of people working as self-employed or through their own companies.

Indeed, many of our most highly-paid professionals work through Limited Liability Partnerships and are treated as self-employed.

There are many good reasons for choosing to be self-employed or working through a company.

Indeed, Mr Deputy Speaker, I have done both in my time!

And I will always encourage and support the entrepreneurs and the innovators who are the lifeblood of our economy.

People should have choices about how they work, but those choices should not be driven primarily by differences in tax treatment.

The Prime Minister has asked Matthew Taylor, Chief Executive of the RSA, to consider the wider implications of different employment practices.

I look forward to his final report in the summer, and am grateful to him for sharing his preliminary thoughts.

He is clear that differences in tax treatment are a key driver behind the trends we are observing. A conclusion shared by the IFS and the Resolution Foundation.

An employee earning £32,000 will incur between him and his employer £6,170 of National Insurance Contributions.

A self-employed person earning the equivalent amount will pay just £2,300 – significantly less than half as much.

Historically, the differences in NICs between those in employment and the self-employed reflected differences in state pensions and contributory welfare benefits.

But with the introduction of the new state pension, these differences have been very substantially reduced.

Since 2016 self-employed workers now build up the same entitlement to the state pension as employees, a big pension boost to the self-employed.

The most significant remaining area of difference is in relation to parental benefits, and I can announce today that we will consult in the summer on options to address the disparities in this area as the FSB and others have proposed.

Mr Deputy Speaker, The difference in National Insurance Contributions is no longer justified by the difference in benefits entitlement.

Such dramatically different treatment of two people earning essentially the same undermines the fairness of the tax system.

Employed and self-employed alike use our public services in the same way, but they are not paying for them in the same way.

The lower National Insurance paid by the self-employed is forecast to cost our public finances over £5 billion this year alone.

That is not fair to the 85% of workers who are employees.

The abolition of Class 2 NICs for self-employed people, announced by my predecessor in 2016 and due to take effect in 2018, would further increase the gap between employment and self-employment.

To be able to support our public services in this budget, and to improve the fairness of the tax system, I will act to reduce the gap to better reflect the current differences in state benefits.

I have considered the possibility of simply reversing the decision to abolish Class 2 contributions, but the Class 2 NIC is regressive and outdated.

It is right that it should go.

So, instead, from April 2018, when the Class 2 NIC is abolished, the main rate of Class 4 NICs for the self-employed will increase by 1% to 10%, with a further 1% increase in April 2019.

The combination of the abolition of Class 2 and the Class 4 increases I have announced today, raises a net £145m a year for our public services by 2021-22, an average of around 60p a week per self-employed person in this country.

And since Class 2 contributions are payable at a flat rate, while Class 4 is chargeable as a proportion of profits, all self-employed people earning less than £16,250 will still see a reduction in their total NICs bill.

This change reduces the unfairness in the NICs system and reflects more accurately the current differences in benefits available from the state.

Mr Deputy Speaker,

Alongside the gap between employees and the self-employed there is a parallel unfairness in the treatment of those working through their own companies.

Britain has the most competitive corporate tax regime in the G7, and we are determined to make Britain the most attractive place to start and grow a business.

But to do that, we must ensure that our corporate tax regime does not encourage people across the economy to form companies simply to reduce tax liabilities, pushing the burden of financing our public services onto others.

HMRC estimates that existing incorporations cost the public finances over £6bn a year and the OBR forecast an additional annual cost to the Exchequer from those choosing to incorporate of £3.5 billion a year by 2021-22.

The gap in total tax and NICs between an employed worker and one who has set up his own company will normally be greater even than the gap with the self-employed, and there are several perfectly legal ways in which that gap can be made bigger still.

This is not fair.

And it’s not affordable.

Fairness demands that this discrepancy in treatment is addressed, just as I have addressed the discrepancy with the self-employed.

The Dividend Allowance has increased the tax advantage of incorporation.

It allows each Director/Shareholder to take £5,000 of dividends out of their company tax free, over and above the personal allowance.

It is also an extremely generous tax break for investors with substantial share portfolios.

I have decided, therefore, to address the unfairness around Director/Shareholders’ tax advantage, and at the same time raise some much needed-revenue to fund the measures I shall announce today, by reducing the tax-free dividend allowance from £5,000 to £2,000 with effect from April 2018.

About half the people affected by this measure are Director/Shareholders of private companies.

The rest are investors in shares with holdings worth, typically, over £50,000 outside ISAs.

And of course everyone will benefit from the generous £4,760 increase in the annual ISA allowance, to £20,000, and the further increase in the personal allowance to £11,500 from April.

Mr Deputy Speaker,

I now turn to duties and levies.

Unusually for a Chancellor, I am delighted to announce a reduction in the expected yield of a tax – the soft drinks levy.

I can confirm today the final rates of 18 and 24 pence per litre for the main and higher bands respectively.

But producers are already reformulating sugar out of their drinks, which means a lower revenue forecast for this tax.

This is good news for our children.

And in further good news for them, I can confirm that we will nonetheless fund Department for Education with the full £1 billion we originally expected from the levy this Parliament, to invest in school sports and healthy living programmes.

I am freezing for another year both the VED rates for hauliers and the HGV Road User Levy.

I am introducing a new minimum excise duty on cigarettes based on a pack price of £7.35.

And I can also confirm that I will make no changes to previously planned upratings of duties on alcohol and tobacco.

The tax measures I have announced enhance the sustainability of our public services into the future.

And by improving the fairness of the system, helps us to keep tax rates low.

Mr Deputy Speaker,

Economic policy does not exist in a vacuum, and economic growth is a means, not an end in itself.

The objective of our economic policy is to support ordinary working families, and to build an economy that works for them.

We know that we can only achieve rising living standards and deliver investment in our vital public services if we have a strong economy and sustainable public finances. We start from a strong base.

Real wages have grown for 27 straight months.

The wages of the lowest paid grew faster last year than in any of the last 20 years.

And the poorest households have seen their labour incomes rise more since 2010 than in any other country in the G7.

Last year we delivered a pay rise to over a million of the lowest paid through the National Living Wage.

And next month we take more steps to support working families with the cost of living:

The national living wage will rise again to £7.50 in April. That's over £500 more for a full-time worker than this year, and £1,400 more than when the National Living Wage was introduced;

The personal allowance will rise for the seventh year in a row to £11,500, and the higher rate threshold to £45,000.

29 million people will be better off, with a typical basic rate taxpayer paying £1,000 less than in 2010.

And we will meet our manifesto commitment to increasing the thresholds to £12,500 and £50,000 respectively by the end of this Parliament.

I can also confirm today that the new NS&I bond I announced at Autumn Statement will be available from April and will pay 2.2% on deposits up to £3,000, a welcome break for hard-pressed savers.

And the Universal Credit taper rate will be reduced in April from 65% to 63%, cutting tax for 3 million families on low incomes.

And Mr Deputy Speaker,

Next month we will see the introduction of our flagship Tax-Free

Childcare policy, which will allow working families across the UK to receive up to £2,000 a year towards the cost of childcare for each child under 12.

The scheme will be rolled out to all eligible parents by the end of the year.

And from September, working parents with three and four year olds will get their free childcare entitlement doubled to 30 hours a week.

That's worth around £5,000 a year to a young family with a three year old and both parents working.

By the end of this parliament, government spending on childcare will have reached £6 billion a year.

These childcare measures represent a further huge step forward in support for ordinary working families, and for women in the workplace.

And I'm delighted to use the occasion of International Women's Day, to announce three additional measures.

I will commit a further £20 million of government funding to support the campaign against Violence Against Women and Girls, taking the government's commitment to this campaign to over £100 million this Parliament.

That's on top of the Tampon Tax, which today delivers another £12 million in support of women's charities across the UK.

I will also commit £5 million to promoting 'returnships' to the public and private sector, helping people back into employment after a career break;

And Mr Deputy Speaker.

Next year is the Centenary of the 1918 Representation of the People Act, the decisive step in the political emancipation of women in this country.

I will commit a further £5 million to projects to celebrate this centenary, and to educate young people about its significance;

Mr Deputy Speaker,

As well as knowing the government is on their side, people want to know that they’re getting a good deal from private markets too.

A well-functioning market economy is the best way to deliver prosperity and security to working families.

But government recognises that sometimes markets, particularly in fast developing areas of the economy, can fail people.

Sometimes, the market does not deliver the outcome the text books suggest it should.

And when that happens, this government will not hesitate to intervene.

We will shortly bring forward a green paper on protecting the interests of consumers.

But ahead of the Green Paper, we will take the first steps to protect consumer from unexpected fees or unfair clauses, to simplify terms and conditions, and to give consumer bodies greater enforcement powers.

Together, Mr Deputy Speaker, these measures will boost incomes, help family budgets stretch a little further, support parents back into work and tackle some of the frustrations that sometimes make it feel that the dice are loaded against ordinary working people going about their everyday lives.

Mr Deputy Speaker,

This House knows, that the only sustainable way to raise living standards is to improve our productivity growth.

Simply put, higher productivity means higher pay.

The stats are well known.

We are 35% behind Germany and 18% behind the G7 average.

And the gap is not closing.

Mr Deputy Speaker,

Investment in training, and investment in infrastructure, will start to close this gap and this government places addressing the UK's productivity challenge at the very heart of its economic plan.

Because the cornerstone of an economy that works for everyone must be rising living standards for ordinary working people.

A key element of our plan is the £23 billion of additional infrastructure and innovation investment that I announced at the Autumn Statement.

Today to enhance the UK's position as a world leader in science and innovation, I am allocating £300 million of the fund to support the brightest and the best research talent, including support for 1000 new PhD places and fellowships, focused on STEM subjects.

£270 million to keep the UK at the forefront of disruptive technologies like biotech, robotic systems and driverless vehicles.

£16 million for a new 5G mobile technology hub.

And £200 million for local projects to leverage private sector investment in full-fibre broadband networks.

On transport, I'm today announcing £90m for the North and £23 million for the Midlands from a £220 million fund that addresses pinch-points on the national road network.

And I am launching a £690 million competition for local authorities across England to tackle urban congestion and get local transport networks moving again.

My RHF the Transport Secretary will announce details shorty. And because we believe local areas understand local productivity barriers better than central government, we make further progress with our plans to bolster the regions.

In May, powerful mayors will be elected in six of our great cities.

Across Britain, local areas will take control of their own economic destiny.

And we will support them. I can inform the House that I have reached a deal with the Mayor of London on further devolution.

And I will follow the launch of the Northern Powerhouse Strategy at Autumn Statement, by publishing tomorrow our Midlands Engine Strategy, addressing productivity barriers across the Midlands.

And for the Devolved Administrations, our announcements today deliver additional funding of:

£350 million for the Scottish Government;

£200 million for the Welsh Government;

And almost £120 million for an incoming Northern Ireland Executive.

Demonstrating once again that we are stronger together, in this great, United Kingdom.

Mr Deputy Speaker,

Perhaps the single most important thing government can do to support ordinary working families is to invest in the future, so that their children and grandchildren can make the most of the opportunities ahead.

That means addressing the skills gap and ensuring that every child – regardless of background – has the opportunity to go to a good or outstanding school.

At Autumn Statement I focused on investment in infrastructure.

The next step today in our plan to raise productivity and living standards is to focus on the quality of our children's education and the teaching of technical skills.

And Mr Deputy Speaker,

While investing in education and skills of course, helps to tackle our productivity gap, delivering greater prosperity.

It does something else too. It delivers greater fairness.

Because investing in skills and education is the key to inclusive growth – to an economy that works for everyone.

And, Mr Deputy Speaker,

If you talk to people from any background and any part of the country about their hopes and their aspirations for the future, you'll hear a recurring concern for the next generation. Will they have the qualifications to find a job?

Will they have the skills to re-train as that job changes, and changes again, over a working lifetime?

Will they be able to get on the housing ladder?

To save for a pension?

In short, the question that concerns so many people is "will our children enjoy the same opportunities that we did"?

Mr Deputy Speaker, Our job is to make sure that they do.

That's why we are investing in education and skills to ensure that every young person, whatever their background and wherever they live, has the opportunity to succeed and prosper. The proportion of young people not in work or education is now the lowest since records began that's a good base from which to build. But it is only by equipping them for the jobs of tomorrow that we ensure they will have real economic security.

We’ve put education reform at the heart of our agenda since 2010.

And that commitment is already paying off.

89 per cent of schools in England are now rated “good” or “outstanding” – the highest proportion every recorded.

That’s 1.8 million more children being taught in good or outstanding schools than in 2010.

Our forthcoming Schools White Paper will ask universities and private schools to sponsor new free schools.

It will remove the barriers that prevent more good faith-based free schools from opening

And it will enable the creation of new selective free schools.

So that the most academically-gifted children get specialist support to fulfil their potential.

And today I can announce funding for a further 110 new free schools, on top of the current commitment to 500.

This will include new specialist maths schools to build on the clear success of Exeter Mathematics School and King’s College London Maths School – which my RHF the Prime Minister visited earlier this week.

We commit to this programme because we understand that choice is the key to excellence in education.

But we recognise that for many parents the cost of travel can be a barrier to exercising that choice.

Pupils typically travel three times as far to attend selective schools, so we will extend free school transport to include all children on free school meals who attend a selective school. Because we are resolved that talent alone should determine the opportunities a child enjoys.

We’ll invest in our existing schools too – by providing an additional £216 million over the next three years, taking total investment in school condition to well over £10 billion in this Parliament.

Mr Deputy Speaker,

Good schools are the bedrock of our education system.

But we need to do more to support our young adults into quality jobs and help them gain world-class skills.

And while we have an academic route in this country that is undeniably one of the best in the world, the truth is that we languish near the bottom of the international league tables for technical education.

Our rigorous, well recognised system of A-levels provides students with the qualifications to move into our world-class Higher Education system.

We support this route further today by offering maintenance loans to part time undergraduates and doctoral loans in all subjects for the first time.

But long ago, our competitors in Germany and the US realised that to compete in the fast moving global economy, you have to link skills to jobs.

And, I am pleased to report, in National Apprenticeship Week, that our apprenticeship route is now, finally, delivering that ambition here, with 2.4 million apprenticeship starts in the last Parliament, and the launch of the Apprenticeship Levy in April supporting a further 3 million apprenticeships by 2020.

But there is still a lingering doubt about the parity of esteem attaching to technical education pursued through the Further Education route.

Today we end that doubt for good, with the introduction of T-Levels.

Thanks to the work of Lord Sainsbury, Baroness Wolf and other experts in this field, we have a blueprint to follow.

Their review concluded that students need a much clearer system of qualifications.

One that is designed and recognised by employers with clear routes into work, more time in the classroom, and good quality work placements.

One that replaces the 13,000 or so, different qualifications, with just 15 clear, career-focused routes.

Delivering on those recommendations is the third part of our plan.

So today, we will invest to deliver, in full, these game-changing reforms.

We will increase by over 50% the number of hours training for 16-19 year old technical students, including a high-quality 3 month work placement for every students, so when they qualify, they are genuinely "work-ready".

Once this programme is fully rolled out, we will be investing an additional £500m a year in our 16-19 year olds.

And to encourage and support the best of them to go on to advanced technical study, we will offer maintenance loans for those undertaking higher level technical qualifications at the new Institutes of Technology and National Colleges.

Just as we do for those attending University.

Putting the next generation first, to safeguard their future, and to secure our economy.

Mr Deputy Speaker,

Because changing labour markets will mean that re-training is vital, with many of our young people today needing to retrain at least once, and perhaps more often, during a working life that may span more than 50 years.

We will consider how best to deliver high quality learning and training throughout working lives.

Department for Education will invest up to £40m in pilots to test the effectiveness of different approaches to lifelong learning.

So that we can identify what works best and help the next generation learn and train throughout their lives.

Mr Deputy Speaker,

Just as the principle that every child should have the opportunity to fulfil his or her potential is central to the government’s values, so is the principle that everyone has access to our NHS when they need it.

And that everyone should enjoy security and dignity in old age.

Today, our social care system cares for over a million people and I pay tribute to the hundreds of thousands of carers, who work in it.

But the system is clearly under pressure. And this in turn puts pressure on our NHS.

Today, there are half a million more people aged over 75 than there were in 2010.

And there will be 2 million more in ten years’ time.

That is why the government has already delivered more than £7 billion extra spending power to the system over the next three years.

And it is why we are ensuring that local authorities and the NHS work more closely together.

To enable elderly patients to be discharged when they are ready, freeing up precious NHS beds, and ensuring that elderly people are receiving the care they need.

Today I am committing additional grant funding of £2 billion to social care in England over the next 3 years, with £1 billion available in 17-18.

This will allow local authorities to act now to commission new care packages.

Of course, this is not only about money.

While there are many excellent examples of best practice around the country, at the other end of the scale, just 24 local authorities are responsible for over half of all delayed discharges to social care.

So, alongside additional funding, the Health and Communities Secretaries will announce measures to identify and support authorities which are struggling, and to ensure more joined up working with the NHS.

These measures, and greater collaborative working under NHS Sustainability and Transformation Plans, will bring short and medium-term benefits.

But the long-term challenges of sustainably funding care in older age requires a strategic approach.

And the government will set out its thinking on the options for the future financing of Social Care in a Green Paper later this year.

For the avoidance of doubt, Mr Deputy Speaker, those options do not include, and never have included, a Death Tax.

The social care funding package I have announced today will deliver immediate benefit to the NHS allowing it to re-focus on delivering the NHS England Forward View Plan.

A plan which this government has supported with the £10 billion increase in annual funding by 2020.

£4 billion in this year alone.

We recognise the progress the NHS is making in developing Sustainability and Transformation Plans.

And we recognise, too, that in addition to the funding already committed, some of those plans will require further capital investment.

So the Treasury will work closely with the Department of Health over the course of the summer as the STPs are progressed and prioritised.

And at Autumn Budget I will announce a multi-year capital programme to support implementation of approved high quality STPs.

In the meantime, my RHF the Health Secretary expects that a small number of the strongest STPs may be ready ahead of Autumn Budget.

And so today I am allocating an additional £325 million of capital to allow the first selected plans to proceed.

I have one further announcement related to the NHS.

The social care package I have announced today will help to free up beds by easing discharge of elderly patients.

That is one of the two big pressures on our hospitals.

The other is inappropriate A&E attendances by people of all ages.

Experience has shown that onsite GP triage in A&E departments, can have a significant and positive impact on A&E waiting times.

I am therefore making a further £100m of capital available immediately for up to 100 new triage projects at English hospitals in time for next winter.

Mr Deputy Speaker – this government backs the NHS's plan.

We are funding it with a £10 billion above inflation increase by

2020;

We have addressed the pressures on the NHS from the social care system with a total of £9.25 billion additional resource.

We will protect the NHS from the effects of the changed personal injury discount rate, and have set aside £5.9 billion across the forecast period to do so.

And today we have made a clear new commitment to fund a capital programme for the implementation of high quality STPs, with a first down-payment for the early pioneers.

Mr Deputy Speaker, we are the government of the NHS.

Because we have not just the commitment and the will but also with the economic plan that will secure the future of our most important public service.

Mr Deputy Speaker,

Last November, I set out our plan to build an economy that works for everyone.

To enhance our productivity and protect our living standards.

To restore our public finances to balance.

And to invest for our future.

Today's OBR report confirms the continued resilience of the British economy.

And at this Budget we continue with our plan.

Building on the foundation of our economic strength.

Reaching out to seize the opportunities that lie ahead.

Backing our public services.

Supporting Britain's families.

Investing in the skills of our young people.

And making Britain the best place in the world to do business.

Mr Deputy Speaker,

Our United Kingdom has a proud history.

We have done remarkable things together.

But we look forwards, not backwards.

Confident that our greatest achievements lie ahead of us.

Today, we reaffirm our commitment to invest in Britain’s future;

And we embark on this next chapter of our history.

Confident in our strengths.

And clear in our determination.

To build a stronger, fairer, better Britain.

I commend this Budget to the House.

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HM Treasury

The Rt Hon Philip Hammond MP

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Spring Budget 2017

Services and information

- Benefits
- Births, deaths, marriages and care
- Business and self-employed
- Childcare and parenting
- Citizenship and living in the UK
- Crime, justice and the law
- Disabled people
- Driving and transport
- Education and learning
- Employing people
- Environment and countryside
- Housing and local services
- Money and tax
- Passports, travel and living abroad
- Visas and immigration
- Working, jobs and pensions

Departments and policy

- How government works
- Departments
- Worldwide
- Policies
- Publications
- Announcements

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7. Tax, legal form and the gig economy

Stuart Adam, Helen Miller and Thomas Pope[1]

Key findings

The labour market is changing in interesting ways, but not fundamentally (yet).	Employees make up the majority (85%) of the workforce. But there has been growth in individuals working for themselves (either through self-employment or as a company owner-manager). Over a quarter (27%) of the workforce are part-time, higher than a decade ago. Roughly the same proportion (3.7%) as 10 years ago have a second job, which is now slightly more likely to be working for themselves.
The 'gig economy' is somewhat new but hard to spot in the data.	Workers in the 'gig economy' are distinct from previous generations of individuals who worked for themselves and 'gigged', largely due to the use of digital platforms. Current data are not designed to capture many features associated with the gig economy.
The self-employed should be distinguished from owner-managers of companies.	The self-employed and company owner-managers, while often considered as one group, differ in interesting and systematic ways. For example, company owner-managers are, on average, better educated, more likely to work full-time and tend to work in different industries. They are also treated very differently by the tax and legal systems.
The tax advantage that comes with self-employment equates to a subsidy of £1,240 per person per year.	The self-employed pay lower National Insurance contributions than employees. This amounts to £1,240 per self-employed person per year. In principle, lower access to social security benefits may justify some tax reduction, but in practice, the differences in benefit entitlements are small.

[1] Thanks to Agnes Norris Keiller for excellent assistance with LFS analysis.

Company owner-managers get the most generous tax deal.	Company owner-managers can pay themselves in (more lightly taxed) dividends, and possibly capital gains, rather than just wages. Along with the self-employed, they also have more opportunities to avoid or evade taxes.
The massive tax advantages that come with working for your own business are not new and not justified.	The tax system has long encouraged people to work for their own business rather than be an employee. Lower tax rates are not justified by differences in employment rights or compliance burdens and are not well targeted at encouraging entrepreneurship.
Differing taxes based on how people work (their legal form) are unfair and inefficient.	Similar individuals can face very different tax burdens. This is unfair and creates economic inefficiency. Some people set up a business when, absent tax, they would be an employee. Much time and effort goes into policing the boundaries between legal forms.
The tax system should be reformed to align taxation of income across legal forms while not discouraging capital investment.	Saving and investment should be deductible from the tax base. Each extra pound of income earned should then be taxed at the same overall rates for employees, the self-employed and company owner-managers. This would simultaneously deal with many problems that plague the tax system.

7.1 Introduction

It has become commonplace to state that the labour market is fundamentally changing and that secure employment positions are being replaced with independent contract relationships that are more flexible but that also come with intermittent and less secure income streams and fewer rights. But to what extent is this true? This chapter sets out how the labour market is changing, discusses why the differential tax treatment of employees, the self-employed and company owner-managers is a growing problem and maps out how the treatment could be made more sensible.

The majority (84.7%) of the UK's workforce is still made up of employees, 93.6% of whom are in permanent positions. But, since 2008, there has been a substantial growth in the number of individuals who are self-employed. There has been even faster growth in the number of individuals owning and managing incorporated businesses. The proportion of the workforce taking on second jobs alongside their employment has changed very little in recent years, although second jobs are now slightly more likely to take the form of individuals working for themselves.

The most visible part of recent changes has come from the ‘gig economy’. This is not a well-defined concept. The term, coined in reference to the way that musicians traditionally operate, is used to capture a new type of work. In general, it tends to be used to refer to individuals who are operating as an independent small business (usually through self-employment) rather than through an employment contract, performing work that can be broken down into separate tasks (‘gigs’) and using a digital platform operated by a large company to match them to customers. The best-known example of this is, perhaps, Uber, a company that provides a platform (an app) that matches taxi drivers to passengers. In Section 7.2, we discuss the extent to which these types of workers are genuinely distinct in any important sense from previous generations of the self-employed – many of whom also undertook comparable ‘gigs’ and used platforms run by third parties – and set out what can (and cannot) be said about this group using currently available data.

Much of the attention on the gig economy has, understandably, been on two (related) issues regarding individuals’ welfare. The first is whether some individuals are actually operating like employees, but have been pushed into self-employment (or company ownership) by large companies that are looking to avoid the legal obligations that come with an employment contract, such as the national minimum wage, statutory sick and holiday pay, fair dismissal and immigration checks. The determination of when an employment status exists is a matter of employment law, and has been at the heart of some recent court cases. The second issue is whether some individuals are choosing self–employment because they lack employment opportunities and that, rather than reflecting the road to freedom and creativity, the growth in self-employment more likely marks the start of a more precarious and stressful way of working. In this case, an important question is why the market favours individuals working for their own business rather than as employees of large companies; large companies exist precisely because it is usually more efficient for individuals to come together as part of a large company than to operate many small businesses with contractual relationships between them (there are economies of scale and scope). Part of the answer may lie in employment laws that effectively make employees more expensive for employers. There is also almost certainly a role for new technologies that make operating an independent business more viable. These issues are being explored by the Matthew Taylor Review into Employment Practices in the Modern Economy.[2]

The rise of individuals working for their own business and the consequences of new forms of working are also intimately linked to the tax system. Employees’ income is taxed at a higher rate than the incomes of the self-employed because the former are subject to National Insurance contributions (NICs) at a higher rate and are additionally subject to employer NICs. One argument in favour of preferential treatment is that the self-employed have reduced entitlement to some social security benefits. But the difference in access to benefits is nowhere near enough to account for the NICs difference: HM Revenue and Customs (HMRC) estimates that the effective NICs subsidy to the self-employed relative to the employed exceeds the value of their reduced benefit entitlement by £5.1 billion, or £1,240 per self-employed person, in 2016–17 – particularly striking since the total NICs they do pay is only £3.0 billion. Furthermore, HMRC estimates that the self-employed account for £5 billion of the £7 billion uncollected ‘tax gap’ for self-assessment income tax, NICs and capital gains tax combined. Company owner-managers can get even lower tax rates than the self-employed because they can choose to take income out of

2 https://www.gov.uk/government/groups/employment-practices-in-the-modern-economy.

their company in the form of (more lightly taxed) dividends rather than as wages. This means that a person generating £40,000 of income per year can receive £32,294 after tax if they are the owner-manager of a small company or £31,180 if they are self-employed; but an employee whose employer is willing to pay the equivalent £40,000 to hire them will have only £27,738 left after tax (meaning the employee faces a 31% average tax rate, compared with 22% for the self-employed person and 19% for the company owner-manager). In fact, individuals working for their own business can achieve even lower rates if they can retain income in their businesses and later realise that income in the form of capital gains when the business is sold or dissolved. Under entrepreneurs' relief, which many company owner-managers will qualify for, capital gains are taxed at just 10%. In 2014–15, the estimated cost of entrepreneurs' relief was £3.5 billion, which averaged £74,500 per claimant. On top of these tax advantages, the self-employed and company owner-managers also have greater opportunities to (legally) avoid or (illegally) evade taxes than employees. Finally, the VAT system adds one more cherry on this cake. Companies with a turnover below £83,000 are exempt from VAT. This can create a tax difference depending on whether activities are provided by a large company or many small companies (e.g. one taxi firm operating with employees is more likely to be subject to VAT than if the same number of journeys is provided by many independent taxi drivers). Section 7.3 sets out the tax differences between legal forms.

The differential tax treatment of different legal forms means that similar individuals can face very different tax burdens. This is unfair, adds complexity and creates economic inefficiency. Of course, there can also be real differences between employees and individuals working for their own business. Importantly, the income of individuals working for their own business can represent a mix of returns to labour effort and invested capital. The cost of investment should be deductible from the tax base. But, as we set out in Section 7.4, it is difficult to make a case that differential tax rates should be used to reflect other differences (such as whether individuals take risks). Given the problems created, there should be a high bar for allowing differential tax rates across legal forms.

Concerns over the appropriate tax treatment of employees, the self-employed and company owner-managers are not new. But they are now at the forefront of policy discussion. One reason for this sudden interest is that the Office for Budget Responsibility (OBR) has quantified the cost of the ongoing shift towards working through a small company. It forecasts that the rapid expected growth in owner-managed companies will lead revenues to be £3.5 billion lower in 2021–22 than if the small company population and employment grew at the same rate (assuming that the overall change in the size of the workforce remained the same). In his 2016 Autumn Statement speech, Chancellor Philip Hammond highlighted that 'the government will consider how we can ensure that the taxation of different ways of working is fair between different individuals, and sustains the tax-base as the economy undergoes rapid change'.[3]

This area is ripe for reform. What the government could most usefully do is set out a long-term vision for where the tax system is headed, that simultaneously dealt with boundaries between all legal forms and that was mindful of the fact that the taxation of the self-employed and company owner-managers sits at the apex of many parts of the tax system. Because of the latter, one cannot consider their taxation without also considering the taxation of savings and investments more generally, and the taxation of large companies.

[3] http://www.gov.uk/government/speeches/autumn-statement-2016-philip-hammonds-speech.

We make the case for aligning tax rates for employees, the self-employed and company owner-managers while giving full allowances for saving and investment. In Section 7.5, we discuss how this could be achieved. Section 7.6 concludes.

7.2 Changes in work patterns

In this chapter, we consider three legal forms: employees, the self-employed and company owner-managers. These groups each face different tax treatments and are the main ways in which an individual can sell their labour. They do, however, mask some heterogeneity. For example, employment law also defines a 'worker' category that, for the purpose of employment rights, lies between an employee and a self-employed person (see Box 7.1).

Employees are still the bulk of the workforce, but more individuals are working for their own business

Out of a workforce of 31.3 million people in the UK in 2015–16, 26.5 million (84.7%) are employees while 4.6 million (14.7%) are working for their own business.[4] We can divide individuals working for their own business between those who report being sole directors of their own limited company (576,000 or 12.5%) and others (4.0 million, or 87.5%). Broadly, this divides this group between company owner-managers and self-employed individuals (including partnerships), although the split is not perfect. In particular, the group that we will refer to as the self-employed includes a small proportion of owners of companies with multiple directors. We discuss data limitations in Box 7.2. With this caveat in mind, we refer to these groups as company owner-managers and the self-employed, and cite independent data sources to corroborate recent trends.

Changes to the overall composition of the workforce (Figure 7.1) may not seem especially stark, but recent trends have led to a marked increase in individuals working for their own business. The share of the workforce working for their own business (14.7%) is at its highest level since at least 1994 (when it was 13.7%) and has increased from a low point of 11.8% in 2000–01. This growth in the number of individuals working for their own business can be seen in Figure 7.2, which shows that since 2008, 39% of the cumulative increase in the workforce (shown in the black line) has resulted from an increase in the number of individuals working for their own business. Of this 39% cumulative increase, just over one-third (36%) is attributable to an increase in company owner-managers and just under two-thirds (64%) is an increase in self-employment. This translates into a larger proportional increase in the company owner-manager population, which has almost doubled since 2008. The growth in the number of companies, and specifically those with a single director, is corroborated with data on corporate tax records and firm accounts, as shown by the OBR.[5] While it is not the case that recent trends have dramatically altered the composition of the workforce – direct employment remains by far the most common way to work – there has nevertheless been a shift towards individuals running their own businesses over the past six years.

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4 Here we classify employees as those whose main form of work is as an employee (and business owners likewise). Employees may also be self-employed in a second job (see below). Around 199,000 people, 0.6% of the workforce, are classified as 'unpaid family workers' or 'in training'.

5 See box 4.1 in Office for Budget Responsibility, *Economic and Fiscal Outlook: November 2016*, http://budgetresponsibility.org.uk/efo/economic-and-fiscal-outlook-november-2016/. Since 2007, one-director companies account for all of the increase in the owner-manager population.

Box 7.1. Legal forms

Tax law distinguishes between employees and individuals working for their own unincorporated business (self-employed sole trader or partnership) or incorporated business (a company). Employment law additionally distinguishes 'workers', which, for the purpose of employment rights, lie between employees and self-employed people.[a]

Employee: Employees have an employment contract with an employer that dictates their activities. They are entitled to certain legal rights (sometimes only after a minimum employment period), including the relevant minimum wage, statutory minimum holiday, sick and redundancy pay, protection against unlawful discrimination and unfair dismissal, and statutory maternity/paternity/adoption/shared parental leave and pay.

Worker: Employment law also sets out a broader 'worker' status (all employees are workers, but not vice versa). Workers have rights (including relevant minimum wage and holiday pay) but, in general, they have fewer rights than employees (including no redundancy pay or protection against unlawful dismissal). Individuals engaged in casual or irregular work (e.g. those on zero-hour contracts) are likely to be classified as workers but not employees. A recent court ruling stated that Uber drivers should be considered as workers rather than self-employed. For tax purposes, workers will often be classed as self-employed. There is debate over whether the worker status remains meaningful.[b]

Self-employment (unincorporated business): A self-employed sole trader works for themselves, running their own (unincorporated) business and bearing full personal responsibility for any debt or losses. They can hold business assets and employ others. The business has no separate legal personality. When a self-employed individual interacts with other businesses (say as a contractor performing work), they are protected by health and safety law and, in some cases, against discrimination, but are not covered by employment law. Partnerships are a form of unincorporated business (which, in the chapter, we also refer to as self-employed). General partnerships are similar to self-employed sole traders (with the partners liable to the full extent of the partners' personal assets). Limited liability partnerships (LLPs) are a hybrid form, which combine partnership (i.e. self-employed) tax treatment with a measure of limited liability like companies. They are unincorporated but registered and one partner must have unlimited liability, although that partner may be a limited liability company.

Company (incorporated business): Limited liability companies are legal entities that are capable of enjoying rights and of being subject to duties distinct from those enjoyed or borne by shareholders, even if there is only one shareholder. The shareholders are owners of the shares and not the underlying business assets. Limited liability refers to the shareholder. The company is liable to the full extent of its assets.

[a] https://www.gov.uk/employment-status/overview.

[b] See A. Adams, J. Freedman and J. Prassl, 'Different ways of working', mimeo, forthcoming.

Box 7.2. Data on the self-employed and company owner-managers

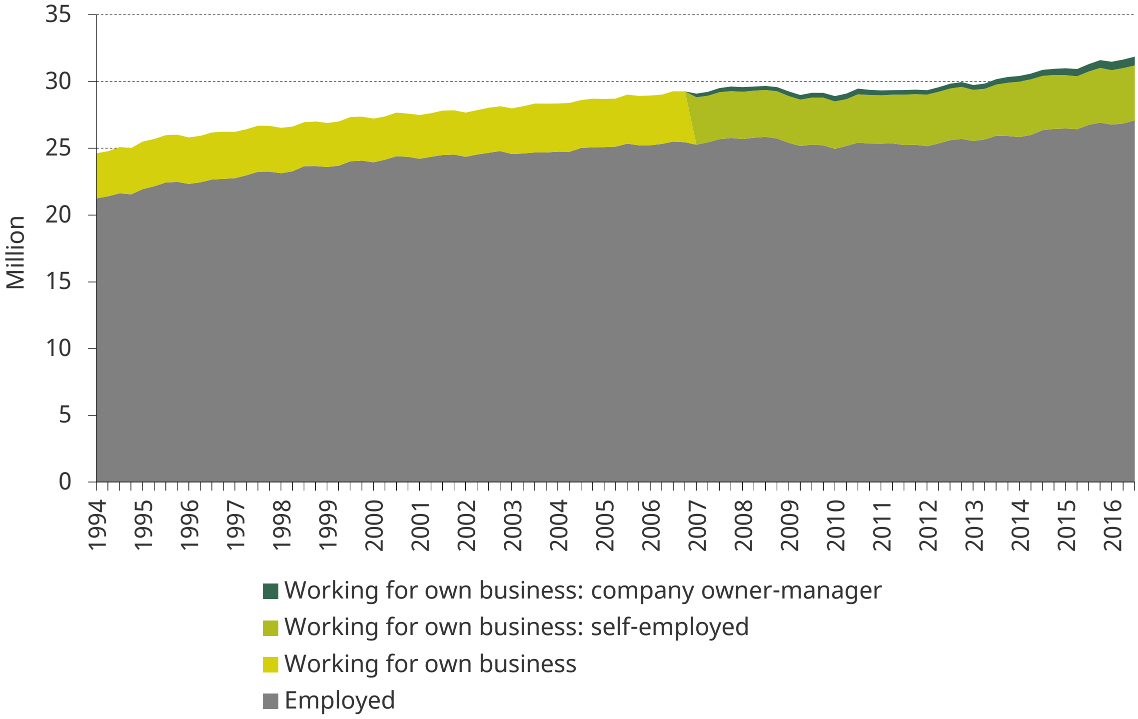
There are no data that allow us to classify individuals accurately according to their employment status and tax status. In addition, the data we do have do not reveal all of the information that may be of interest in relation to the gig economy, although we note that there are new surveys and data sources emerging on these issues.

Analysis in this section uses the Labour Force Survey (LFS), a representative survey of the UK population that asks individuals to report their employment circumstances. Those who report running their own business are additionally asked whether they are the sole director of their own limited company. Those running their own business who do not report that they are incorporated and sole directors can be (i) self-employed (operating either as sole traders or partners) or (ii) one of several directors of their company. The data do not allow the latter group to be separately identified. Commonly in analysis of the LFS, the self-employed and company owner-managers are considered together and jointly referred to as 'the self-employed'. Here, we explicitly choose not to do this because in tax parlance self-employment strictly means something quite different from company owner-management, and we think it interesting to consider trends in each separately, not least because the tax treatments are significantly different.

Four pieces of evidence give us confidence that the split between the self-employed and company owner-managers that we use, while imperfect, captures the broad size of different groups and the changes over time. First, independent data from the Business Register, while not directly comparable to those from the LFS, suggest that the numbers of owner-managed companies we observe are of broadly the correct magnitude.[a] Second, the same data show that the number of unincorporated businesses is substantially higher than the number of small companies, such that we would expect owner-managed companies with multiple directors to be a small fraction of the category that we refer to as the self-employed. Third, we expect that some individuals who are directors of companies with multiple directors actually classify themselves as sole directors (and are therefore in the category we refer to as company owner-managers). As evidence for this, there are non-trivial numbers of individuals in this group prior to 2006, at which point it was a legal requirement that all companies have more than one director. Finally, evidence from the OBR (cited in the main text) uses data from tax records to show that the growth in owner-managed companies since 2007–08 has come entirely from one-director companies (the group that we accurately identify) and not from multiple-director companies. In ongoing work, we are also using tax records to count and analyse the self-employed and company owner-managers.

[a] The LFS reports 664,000 sole directors in 2016, some of whom will employ others. The Business Register records 818,000 companies that employed one worker (assumed to be an owner and director), some of which will have multiple directors. The overlap between these two groups is likely to be large and comprises companies with one director and no other employees.

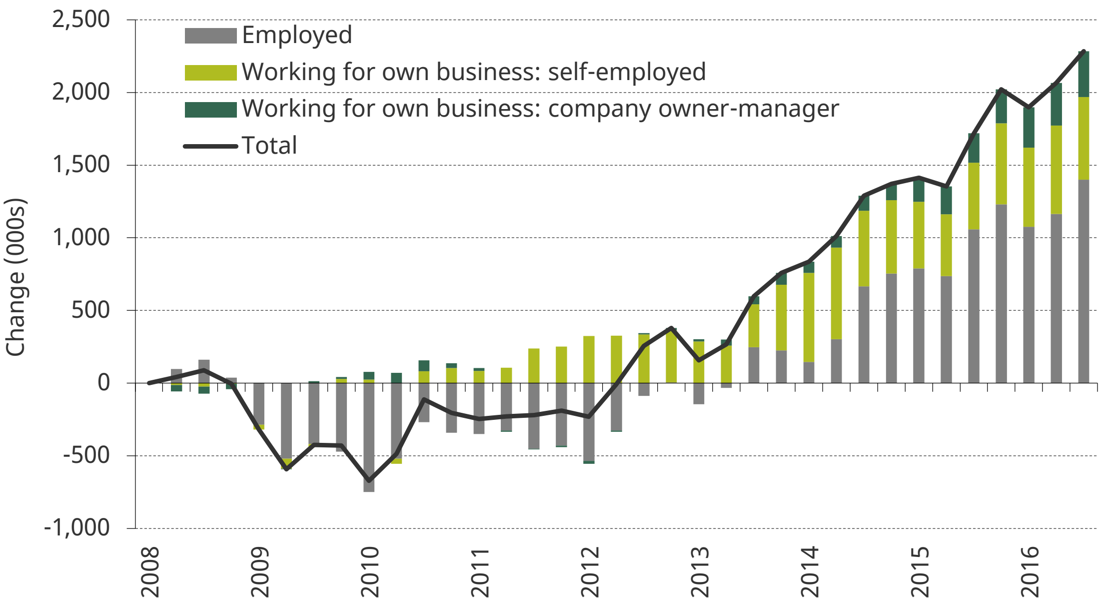
Figure 7.1. Size and composition of the workforce since 1994



Note: Not seasonally adjusted. Individuals with more than one job are classified according to their main job. The employed category includes individuals classified as 'unpaid family workers' or 'in training'.

Source: Labour Force Survey.

Figure 7.2. Cumulative change in size of workforce since 2008 Q1



Note: Not seasonally adjusted. In each quarter, the cumulative change is calculated as the difference between the number of individuals in the current quarter and the number of individuals in 2008 Q1 in each category. The employed category includes individuals classified as 'unpaid family workers' or 'in training'.

Source: Labour Force Survey.

Double jobbing

The figures mentioned in this section thus far have referred to individuals' main jobs. The vast majority of individuals (over 95% in all legal forms) have just one job. However, as Table 7.1 shows, a small proportion of those in paid work take on more than one job and we can categorise individuals according to whether their second job is as an employee or working for their own business. There are two interesting points to note:

- There have been only very small changes in the proportions of individuals taking on second jobs. For example, more or less the same proportion of employees had second jobs in 2015–16 (3.5%) as in 2007–08 (3.7%). Although note that given that the number of employees is rising overall, this still implies that there are more individuals with second jobs (just not more as a proportion of total employees).

- Across all legal forms, there has been a slight growth in the proportion of individuals who work for their own business as a second occupation. At the same time, the proportion with a second job as an employee has fallen slightly across all legal forms.

To summarise, small changes in the proportion of individuals with second jobs comprise two opposing, but still small, trends – a smaller proportion of those in paid work have second jobs in employment, but more have second jobs being self-employed or as a company owner-manager.

Table 7.1. Activity of those in paid work, 2007–08 and 2015–16

	2007–08	2015–16
Total in paid work	**29.3m**	**31.1m**
Employees	***25.4m***	***26.5m***
One job	96.3%	96.4%
Second job as employee	2.6%	2.3%
Second job working for own business	1.1%	1.2%
Self-employed	***3.5m***	***4.0m***
One job	95.2%	95.0%
Second job as employee	2.4%	2.3%
Second job working for own business	2.4%	2.6%
Company owner-managers	***324,000***	***576,000***
One job	97.0%	96.7%
Second job as employee	1.5%	1.2%
Second job working for own business	1.5%	2.0%

Note: 'Total in paid work' excludes unpaid family workers and those in training. 'Second job working for own business' could be a self-employed second job or a company owner-manager second job. These cannot be distinguished in the data. Percentages may not sum (i) because, for a small proportion of those with second jobs, we do not know what form their second job takes and (ii) because of rounding.

Source: Labour Force Survey.

Characteristics of individuals in different legal forms

There has been a rise in part-time working, which is now more prevalent than it was a decade ago.[6] Indeed, a higher proportion of those in paid work are working part-time than at any point from 1994 to 2010, although the proportion was higher between 2010 and 2014. In 2007–08, 25% of those in paid work, 7.4 million people, were working part-time (figures are shown in Table 7.2). Employees and the self-employed were equally likely to work part-time, while company owner-managers were substantially less likely (just under 12% were part-time). In 2015–16, 27% of those in paid work (8.3 million people) worked part-time. Company owner-managers remained the least likely group to work part-time, though the proportion working part-time had increased rapidly since 2007 (from 12% to 18%). And the self-employed were now more likely than employees to work part-time (31% of the self-employed compared with 26% of employees worked part-time).

These changes have been accompanied by small changes in the extent to which employees are working in permanent positions. The proportion of employees with permanent positions has fallen from 94.1% in 2007–08 (24.0 million people) to 93.6% in 2015–16 (24.8 million people). This partly reflects the fact that more employees are part-time, and part-time workers are less likely to have permanent positions, although full-time employees are also now slightly less likely to be permanent.

Table 7.2 compares some of the main characteristics of individuals according to the legal form of their main work, including how they have changed since 2007–08. Both the self-employed and company owner-managers are disproportionately male and are older on average than employees. Bank of England analysis suggests that an ageing population, combined with the fact that older people are more likely to work for their own business, can explain a substantial proportion of the increase in the number of individuals working for their own business since the recession.[7] Since 2007, the whole workforce, but especially individuals working for their own business, has become older and more likely to be female.

The proportion of individuals with a degree has risen across the board. But the gap between company owner-managers, who were already more likely to hold a degree in 2007–08, and others had widened further by 2015–16. The 2015–16 self-employed group are more educated, on average, than the self-employed have been previously, but remain less educated relative to employees and company owner-managers.

We also examine the main industries in which individuals in different legal forms work. In 2007–08, 24% of the self-employed and 23% of company owner-managers worked in construction, an industry in which being self-employed or a company owner-manager is common practice (over 40% of individuals operating in the construction industry work for their own business). Other prominent industries for the self-employed included retail trade, land transport (e.g. taxi drivers) and legal and accountancy services. Company owner-managers were most prominent in industries such as IT and head office

[6] There has been a particularly sharp rise in the number of low-wage men working part-time. See C. Belfield, R. Blundell, J. Cribb, A. Hood, R. Joyce and A. Norris Keiller, 'Two decades of income inequality in Britain: the role of wages, household earnings and redistribution', IFS report summary, 2017, https://www.ifs.org.uk/publications/8849.

[7] S. Tatomir, 'Self-employment: what can we learn from recent developments?', *Bank of England Quarterly Bulletin*, 2015 Q1, 56–66, http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2015/q105.pdf.

Table 7.2. Characteristics of individuals in different legal forms, 2007–08 and 2015–16

	All in paid work		Employees		Self-employed		Company owner-managers	
	07–08	15–16	07–08	15–16	07–08	15–16	07–08	15–16
Part-time workers, %	25.1	26.7	25.2	26.2	25.3	31.2	11.8	17.5
Average age, years	40.3	41.3	39.5	40.3	45.7	47.0	44.8	47.1
% male	54.0	53.3	51.2	50.7	71.7	66.8	82.2	77.3
% with a degree	24.1	33.5	24.2	33.6	22.7	31.1	29.6	42.2

Note: 'All in paid work' excludes unpaid family workers and those in training. Figures refer to financial years. Part-time is defined as working less than 30 hours per week.

Source: Labour Force Survey.

management and consultancy. In 2015–16, construction remained important for both groups (20.1% of the self-employed and 16.5% of company owner-managers). Growth was fastest for the self-employed in building and landscape services, while the company owner-manager population grew most in professional scientific and technical services. Beyond construction, broadly company owner-managers are more likely to be consultants, while the self-employed are more likely to be tradesmen.

In summary, the self-employed and company owner-managers tend to operate in different industries, and company owner-managers are, on average, better educated and more likely to work full-time than the self-employed. Acknowledgement of these differences is lost when these two groups are considered as one (which is how they are presented in aggregate Office for National Statistics (ONS) statistics, for example). It is possible that the rises of these two groups are due to different forces and have different policy implications. As we will emphasise in Section 7.3, the two groups are also subject to very different tax treatments.

What is the 'gig economy', is it new and where is it in the figures?

As highlighted in the introduction, the recent rise in individuals working for their own business, and especially self-employment, is often associated with the growth of the 'gig economy'. There is no clear way to determine which jobs are part of the gig economy, but one of the characteristic features is the use of third-party digital platforms. Effectively, there are companies that provide a platform (usually a web-based tool) that allows individuals selling services to be matched with customers. Prominent examples of this include Uber, Deliveroo, Elance, Etsy and TaskRabbit, which provide platforms for, respectively, taxi drivers, fast-food deliverers, freelance writers, 'makers' and those providing handyman services. In examples such as these, the individuals providing services are not employees of the company and are often self-employed, possibly incorporated, for tax purposes. In some cases, they are deemed to be 'workers' in employment law (see Box 7.1) and there have been court cases to determine employment status. Section 7.4 discusses why the tax system should not be designed to reflect differences in rights across legal forms.

In many respects, the gig economy is not as new as some might imagine. Self-employment is clearly not a new concept. Nor is the idea of a platform that matches consumers to service providers. For example, hairdressing salons often do not employ hairdressers. Instead, in many cases, they provide the platform (the salon) in which the customer is matched to a self-employed hairdresser. But the large-scale digital matching platforms, made possible by technological advances, do reflect a difference between the gig economy and previous forms of working. The platforms increase the ease with which consumers and suppliers can be matched and, at least in principle, provide the latter a greater opportunity to work flexibly and to take on tasks as a second job.

Our traditional sources of data (most notably including the surveys collected by the ONS) are not set up to capture the gig economy or even many of the characteristics of different forms of employment.[8] This section has provided some indicative evidence of the rise of the gig economy: more individuals are moving into working for their own business, including as a second job alongside employment. However, the industries in which growth in self-employment has been most prominent are not those most associated with the gig economy, suggesting that there is a broader-based change in working patterns under way. Small-scale (relative to nationally-representative) surveys are starting to provide some more direct evidence of the gig economy. For example, a McKinsey survey found that 15% of 'independent workers' across Europe and the US have used a digital platform.[9]

7.3 How are different legal forms taxed?

The income of employees is taxed more heavily than that of the self-employed because the latter face lower National Insurance contributions. Company owner-managers can achieve a lower rate than both because they can take income out of their company in the form of dividends rather than wages (the former are taxed less heavily). This section sets out these differences, and discusses the various other ways through which individuals working for their own business can arrange their affairs to reduce tax payments.

Taxation of different income sources

Different sources of income are subject to different taxes and rates of tax (see Table 7.3). Employees' salaries are subject to income tax and (employee and employer) NICs, above certain thresholds.[10] The self-employed also pay income tax and NICs on their earnings, but self-employed NICs are lower than employee NICs and there is no equivalent of employer NICs for the self-employed. We return in Section 7.4 to show that lower NICs cannot be fully accounted for by self-employed individuals' lower benefit entitlements.

Company owner-managers face different tax rates depending on how they choose to take their income. This income can represent a mix of returns to labour effort and invested

[8] The LFS does ask individuals if they are working on 'zero-hour contracts', an issue that has gained attention in the context of changing employment relationships. However, there are a number of problems with the resulting data. For a discussion, see A. Adams, M. Freedland and J. Prassl, 'The "zero-hours contract": regulating casual work, or legitimating precarity?', European Labour Law Network (ELLN), Working Paper 5/2015.

[9] See J. Manyika, S. Lund, J. Bughin, K. Robinson, J. Mischke and D. Mahajan, *Independent Work: Choice, Necessity, and the Gig Economy*, McKinsey Global Institute report, October 2016, http://www.mckinsey.com/global-themes/employment-and-growth/independent-work-choice-necessity-and-the-gig-economy.

[10] Throughout this section, we assume that employees are paid regular wages, and not remunerated in other forms, such as stock options or non-wage benefits, which are taxed differently.

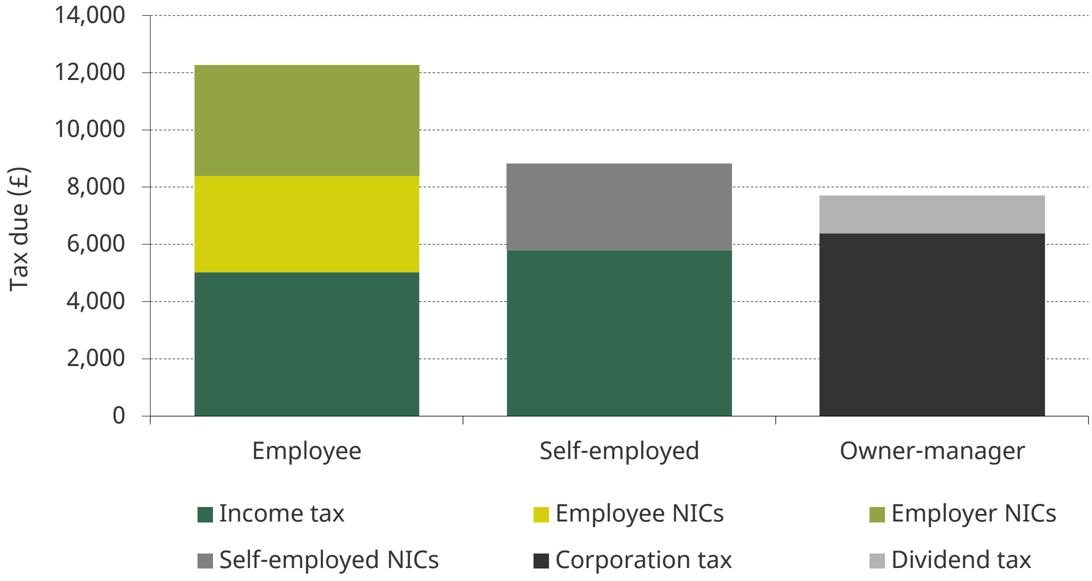
capital. Owner-managers can reduce their tax liability by recharacterising labour returns as (typically, more lightly taxed) capital returns, and pay themselves in either dividends or capital gains. Specifically, as employees of their business, they can take a salary as a normal employee would, thus taking advantage of tax-free allowances in the National Insurance and income tax systems, as well as accruing rights towards the new single-tier state pension. However, they can also pay themselves in dividends. This entails paying corporation tax on business profits (which are net of wages), and then paying income tax (but not NICs) on dividends at the personal level. The first £5,000 per year of dividends above the personal allowance is untaxed, while any remaining dividends are taxed at 7.5% in the basic-rate income tax band (treating dividends as the top slice of income), 32.5% in the higher-rate band and 38.1% in the additional-rate band. These rates, in combination with the corporation tax rate, are lower than the combined rates of income tax and NICs on salary. A company owner-manager looking to withdraw income from their company in a way that minimises their tax liability should pay themselves the NI secondary threshold in salary and take any withdrawal above that in dividends.[11] We return below to discuss how company owner-managers can retain income in the company and take income out as capital gains.

Table 7.3. Differences in tax regime across legal forms

Employee	Self-employed	Company owner-manager
Income tax charged on salary (above personal allowance). Employee NICs charged on salary (above primary threshold). Employer NICs paid by employer at a flat rate on all employees' salaries (above secondary threshold). Employment allowance reduces liability by £3,000 for each employer (assuming they have more than one employee).	Income tax charged on unincorporated business profits (above personal allowance). Self-employed NICs charged on business profits (above lower profits limit) at a rate lower than employee NICs. No equivalent to employer NICs. Capital gains tax (above annual allowance) on the disposal of business assets, at a reduced rate if qualifying for entrepreneurs' relief.	Income tax and employee and employer NICs on salary as for employees, taken out of pre-tax corporate profit. Qualify for employment allowance if more than one employee. Corporation tax on company profits (after salary deducted), including capital gains realised by the company. Income tax on dividends (distributed out of post-corporation-tax profits) above dividend allowance. Capital gains tax (above annual allowance) on sale of shares, at reduced rate if qualifying for entrepreneurs' relief.

[11] Wages up to the NI secondary threshold are within the personal allowance and therefore not taxed, unless an individual earns a high enough income that the personal allowance is withdrawn: the personal allowance is reduced by 50 pence for every pound of income above £100,000, gradually reducing it to zero for those with incomes above £122,000.

Figure 7.3. Tax due on total income of £40,000, 2016–17



Note: The calculations assume: total income generated and paid out is equal to £40,000 for each legal form; the tax cost for employees includes employer NICs; company owner-managers take a salary equal to the NI secondary threshold and all post-tax profit as dividends. Income tax payments are lower for an employee than for a self-employed person because the employee's taxable earnings are lower as a result of employer NICs.

Figures 7.3 and 7.4 illustrate how the tax treatment of different income sources affects the total tax liability of individuals generating a certain amount of total income (set at £40,000 in Figure 7.3), and paying out that income in the year it is generated, in each of the legal forms for the tax year 2016–17. When calculating the tax payment for an employee, we include employer NICs, which, much like a wage, is a cost incurred by the employer to employ the individual. For company owner-managers, we assume that income is taken out of the company in the most tax-efficient way and (for now) that it is all taken out in the current year. Figure 7.3 shows that on a total income of £40,000, the tax liability is highest for an employee and lowest for a company owner-manager. NICs treatment explains all of the difference between employees and the self-employed and the majority of the difference between both and company owner-managers.

Employees are taxed at a higher level than individuals working for their own business at all levels of income (shown in Figure 7.4). It is this difference that means that the rise in the number of individuals choosing to work for their own business, rather than be employees of others' businesses, has a cost to the exchequer (see Box 7.3). There is some variation in the relative tax advantage of company owner-managers and the self-employed depending on income level. This is because self-employment profits are taxed less heavily than dividends (taking into account corporate and personal taxes) in the higher- and additional-rate bands.

These figures may in fact understate the tax advantages associated with self-employment or company owner-management. For example, the self-employed generally have more scope to deduct work-related expenses from their income than employees do (though

Figure 7.4. Tax due at different income levels, 2016–17

Note: See note to Figure 7.3. Here, the same assumptions hold at each stated income level.

there are exceptions to this).[12] We return below to discuss other ways in which individuals working for their own business can reduce their tax liability further.

Differences in tax regimes over time

The different tax treatment of legal forms has long been a part of the UK tax system, with the relative levels varying over time. The difference in tax burdens between the self-employed and company owner-managers is actually lower, at most income levels, in 2016–17 than it has been since at least the late 1990s, and lower than it is set to be in coming years. Figure 7.5 shows liabilities since 1999 for a particular example income level (chosen as £40,000 in 2016–17 prices and, as in Figure 7.4, assuming company owner-managers take out all income in the year it is earned). Changes over time in the liabilities and in the difference between them reflect changes in the income tax, NICs, dividend tax and corporation tax regimes.[13] The main changes that apply to the example in Figure 7.5 are as follows:

- In 2008–09, the basic rate of income tax was cut from 22% to 20%, and the 10% starting rate was abolished (except for savings income). Since 2011–12, the personal allowance has increased faster than inflation.[14] The effect of these changes varies depending on an individual's income level. For the example in

[12] The core of this difference is that employees' expenses are only deductible if incurred 'wholly, exclusively and necessarily' in the performance of their duties, while self-employment expenses need only be incurred 'wholly and exclusively' for business purposes. But the difference in practical application is bigger than this difference in wording suggests.

[13] From April 2017, self-employed individuals will have an additional £1,000 annual allowance to set against their trading income, but if they choose to claim it they will no longer be able to deduct expenses for tax purposes. This allowance is not included in the figures in this chapter.

[14] Those earning above £122,000 in 2016–17 do not benefit from a higher personal allowance, and indeed have had their personal allowance removed: see footnote 11 for explanation.

Figure 7.5, they explain the majority of the fall in tax liability for employees and the self-employed since 2008–09. They do not affect our example company owner-manager because (i) she is assumed to pay herself a salary below the personal allowance and (ii) before 2016–17, dividends were taxed at the same effective rate (i.e. with no tax at the personal level) below the personal allowance and within the basic-rate band (such that changes in the personal allowance did not lead to changes in tax on dividends).

Box 7.3. The exchequer cost of greater incorporation

The tax advantages for company owner-managers mean that if more individuals choose to work for their own companies rather than as employees of other's companies, there is a considerable cost to the exchequer. The OBR forecasts growth in the number of small companies (which is largely driven by growth in owner-managed companies) to outstrip employment growth substantially between 2015–16 and 2021–22.[a] This is based predominantly on the assumption that the trend for the small company population to grow substantially faster than employment will continue. The small company population has increased at a rate of around 7% a year since 1990. The OBR judges that the increase over the next five years will be slightly below this. But this still implies much faster growth in incorporations than the expected 0.4% growth in employees.

The OBR has quantified the cost of growth in the small company population outstripping employment growth. It forecasts that revenues will be £3.5 billion lower in 2021–22 than if the small company population and employment grew at the same rate (assuming that the overall change in the size of the workforce remained the same). The cost would have been even higher had the tax on dividends not been increased in 2016–17.

Note that this revenue cost does not reflect a judgement that the labour market is changing more quickly than it was before (for reasons related to the rise of the gig economy or otherwise). The OBR is simply quantifying the cost of a long-term trend continuing for another six years. The cost could turn out to be higher if there has been, or is in future, an increase in the underlying propensity of individuals to incorporate rather than work as employees.

There have been changes in methodology that led the OBR to revise up the forecast growth of small companies and therefore the associated revenue cost. Upward revisions in both the March 2016 and the November 2016 Economic and Fiscal Outlook reduced forecast exchequer revenues by £3.2 billion in 2020–21. This means that the majority of the costs to the exchequer from incorporation expected over the next five years have only been reflected in forecasts within the last year or so.

[a] See box 4.1 in Office for Budget Responsibility, *Economic and Fiscal Outlook: November 2016*, http://budgetresponsibility.org.uk/efo/economic-and-fiscal-outlook-november-2016/.

- A ‘starting rate’ of corporation introduced in the early 2000s meant that the first £10,000 of profit was subject to a lower tax rate, set at 10% in 2000–02 and 0% in 2002–06.[15] The liability of company owner-managers fell with the introduction of the starting rate and increased when it was effectively abolished in 2004–05.

- The tax rate paid by small companies (those with profits below £300,000) is, from 2015–16, merged with the main rate of corporation tax. This rate is set to fall – from 20% today to 17% by 2020–21 – reducing company owner-managers’ tax liability.[16]

- From 2016–17, the first £5,000 of dividends above the personal allowance is untaxed regardless of a taxpayer’s marginal rate. Above that, dividends are taxed at 7.5%, 32.5% and 38.1% in the basic-, higher- and additional-rate bands respectively. (Previously, dividends were taxed at effective rates of 0%, 25% and 30.56% in the respective bands.) This represents a tax rise for basic-rate taxpayers taking more than £5,000 of dividends, higher-rate taxpayers taking more than £21,667 in dividends and additional-rate taxpayers taking more than £25,265. This reform has reduced the tax advantage for many company owner-managers.[17] The tax liability of a company owner-manager looking to withdraw £40,000 (as shown in Figure 7.5) is £1,537 higher in 2016–17 than in 2015–16, mostly as a result of the change. For any company owner-manager earning more than £27,000 (in 2016–17 prices), their tax liability is actually higher in 2016–17 than at any time since at least 1999–2000 as a result of dividend tax reform.[18]

- An ‘employment allowance’ was introduced in April 2014 and reduced employers’ NICs liability by up to £2,000.[19] This was a bigger advantage for smaller companies, and as a result benefited mainly employees of small companies (assuming that lower employer NICs are reflected in increased wages) and company owner-managers (assuming they had no or few other employees). As of 2016–17, the allowance has been increased to £3,000, but it does not apply to companies with only one employee, which may exclude many company owner-managers from enjoying this tax break.

[15] In 2004–05 and 2005–06, profits distributed to shareholders were subject to a 19% tax rate (equivalent to the small companies’ rate), which ended this tax advantage for most owner-managers.

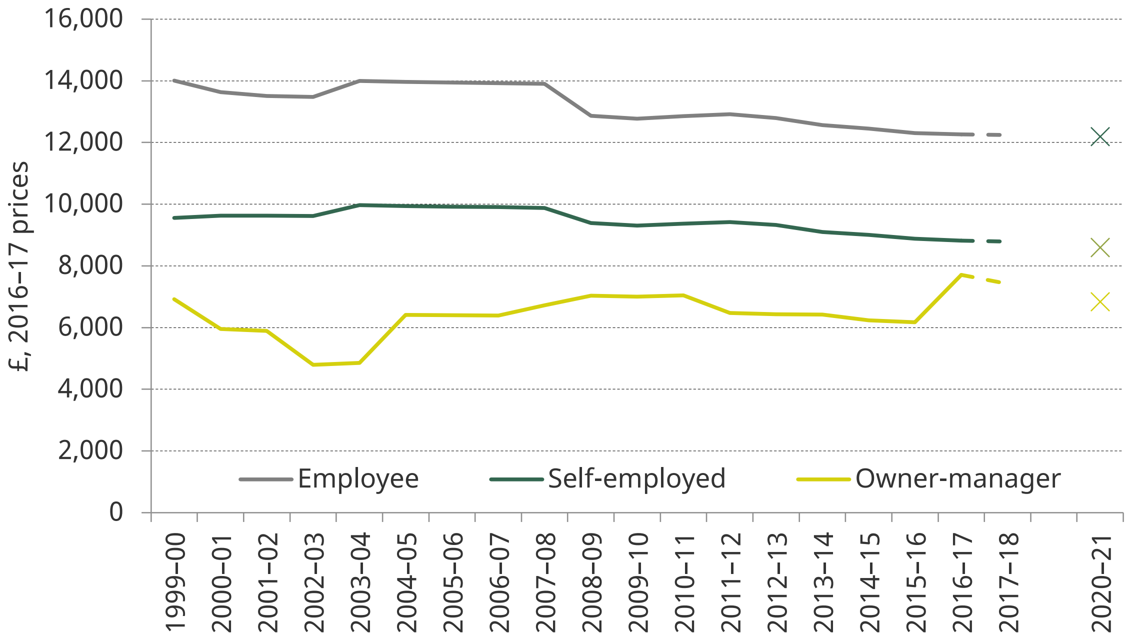
[16] While some owner-managed companies may not have been subject to the small company tax regime, in practice most will have had profits below £300,000. Since 2015–16, the corporation tax rate has been the same for all companies regardless of profit level.

[17] A further significance of the reform to dividends is that, for the first time in recent history, basic-rate tax will be charged on dividend income. Previously, the absence of basic-rate tax on dividends saved many people (generally those owning some shares but with otherwise simple tax affairs, rather than company owner-managers) from having to fill in a tax return. Changing this was seen as a large administrative barrier to the alignment of tax rates across different income sources (an option we consider in Section 7.5). However, the introduction of a 7.5% basic rate of tax on dividends, combined with a large dividend allowance to limit the increase in the number of people paying tax on dividends and therefore needing to fill in a tax return, largely removes this barrier.

[18] For further explanation of these changes, see T. Pope and T. Waters, ‘A survey of the UK tax system’, IFS Briefing Note 9, November 2016, https://www.ifs.org.uk/bns/bn09.pdf.

[19] This encourages owner-managers to take a salary equal to the income tax personal allowance rather than the National Insurance secondary threshold.

Figure 7.5. Tax due on total income of £40,000, over time (2016–17 prices)



Note: Deflated using the Consumer Prices Index (CPI). Takes into account differences in corporation tax, income tax, dividend tax and National Insurance rates and thresholds. Assumes company owner-manager takes a salary equal to the NI secondary threshold and all post-tax profit as dividends, except in 2014–15 and 2015–16 (when the employment allowance applied to company owner-managers), in which years we assume the company owner-manager takes a salary equal to the personal allowance and distributes all post-tax profits as dividends. Assumes company owner-managers are the only employee of their company and that the employee operates in a sufficiently large company that the employment allowance does not meaningfully affect their employer's NICs liability.

Additional tax advantages to incorporation and self-employment

In Figures 7.3–7.5, we assumed that an individual, having generated a certain amount of pre-tax income over a year, accessed the after-tax income in that year. But individuals working for their own business can access the proceeds in various other ways, which may allow them to reduce their tax payments. The following subsections are a (non-exhaustive) set of additional ways in which tax can be reduced.

We also note that there are two features of the system that act in the opposite direction (i.e. are more beneficial for employees). First, if they are willing to tie up the money until age 55, employees (including company owner-managers) get the most favourable tax treatment of all by getting the business to make an employer pension contribution rather than paying them income immediately. Second, the self-employed are treated less generously by the benefits system than employees. See Box 7.4.

Retaining earnings in the company

Company owner-managers can reduce their tax charge by adjusting when they take income out of a company. This is because, unlike profits from self-employment, corporate profits are subject to personal income tax only when they are distributed to shareholders.[20] Imagine an individual who earns an annual income around the higher-rate income tax threshold but in some years earns a little more and in some years a little less.

[20] Corporate profits are subject to corporation tax in the year that the profit is earned.

She can avoid paying higher-rate income tax if, when she earns more than the threshold, she retains earnings in the company and pays them out in a year when she earns less. Company owner-managers also have greater flexibility to change the timing of income withdrawal in response to policy reforms (we return below to show that this happened when the 50% marginal tax rate was introduced in 2010–11). The ability to smooth income (and therefore tax payments) over time and in response to policy change is an additional benefit of incorporation.

Box 7.4. Advantages for employees

Pension contributions: Money paid into a private pension (up to annual and lifetime limits) is not subject to income tax at that point, and crucially, if the pension contribution comes from the firm rather than the employee, there is no (employer or employee) NICs due either. Investments within the pension fund are free of personal tax on the returns; and while money taken out of the pension from age 55 is mostly subject to income tax, the first 25% is free of income tax and all of it is free of NICs. Employer pension contributions are thus a form of remuneration (indeed, the only major form of remuneration) that escapes NICs entirely, an astonishingly generous treatment.

This is not an option available to the self-employed, who must make any pension contributions themselves (there is no employer) out of income that is subject to self-employed NICs. Thus to the extent that people can use pensions in this way, employees are treated as favourably as company owner-managers, and it is self-employment that is relatively penalised – though for higher earners the penalty is only small since the self-employed NICs rate on earnings above the upper profits limit is only 2%.

Employer pension contributions can be thought of as just the most important example of a wider issue where some tax-privileged remuneration may be only (or more readily) available to employees: other examples include provision of certain sports facilities, medical check-ups, childcare vouchers and redundancy payments. To the extent that these are used, they can again favour employment relative to self-employment.

'Contributory' social security benefits: Unlike employees, the self-employed are not entitled to contribution-based jobseeker's allowance or statutory maternity/paternity/adoption/shared parental pay. We discuss this in Section 7.4.

Universal credit: For the purposes of the means test in universal credit – a major new benefit gradually being rolled out to replace six existing means-tested benefits and tax credits for working-age claimants – the self-employed are (after the first 12 months in business) assumed to be earning at least a certain amount in each month, equivalent to the applicable minimum wage times the minimum number of hours the government thinks it reasonable for them to work – even if they are in fact earning less than that amount. In other words, a self-employed individual cannot receive more universal credit in a month than an (otherwise similar) employee earning the minimum wage. This is a disincentive to choose self-employment for people who think that their earnings might be low, either in general or in some months as their income fluctuates.

Tax rates can be reduced further if income is retained within a company and taken as capital gains. Retained earnings effectively boost the value of a company. When a company owner-manager sells or liquidates their company (possibly upon retirement), the retained earnings are taxed as capital gains. That is, retained earnings are first subject to corporation tax at the company level and then capital gains tax at the personal level. If the company owner-manager meets certain conditions (and most will), the disposal of the business will be subject to entrepreneurs' relief.[21] This relief was introduced in 2008–09 (replacing the previous taper relief) and gives a reduced rate of capital gains tax of 10% on the first £10 million of otherwise taxable gains realised over an individual's lifetime (the standard rate on business assets is 10% for basic-rate taxpayers and 20% for higher- or additional-rate taxpayers). (Box 7.5 later summarises the history of capital gains tax.)

Entrepreneurs' relief can confer a large tax advantage to high-earning owner-managers. Both dividends and capital gains are withdrawn from post-corporation tax profits. For an individual in the higher-rate income tax band, dividends attract a further 32.5% tax rate within the income tax system, while capital gains qualifying for entrepreneurs' relief are taxed at just 10%. If individuals are willing to defer withdrawing income until they are able to take capital gains, they can therefore enjoy a substantially lower tax liability. The benefit is partly mitigated by the fact that any increases in the cash value of retained earnings, even those that simply compensate for inflation, will be taxed at both the corporate and personal level. Nonetheless, if high-earning owner-managers have the flexibility to take capital gains rather than withdrawing income as dividends, they can still pay substantially less tax. This is mainly an advantage for higher-income individuals, since the basic rate of tax on dividends (7.5%) is lower than the capital gains tax rate (10%).

Entrepreneurs' relief can also be used by the self-employed, although the opportunities here are more limited since it is more difficult for them to defer income for tax purposes. If the self-employed do amass such assets that are later sold, they will only be subject to capital gains tax (there will have been no corporation tax or income tax paid). Under entrepreneurs' relief, this means gains are taxed at only 10%. In this case, the tax treatment is even more generous than for company owner-managers.

In 2014–15 (the last year for which we have data on the number of claimants), the estimated cost of entrepreneurs' relief was £3.5 billion, or £74,500 per claimant.[22] Note that this tax advantage will typically relate to capital gains built up over many years (it is not the tax saving made each year by a claimant) and is the cost relative to the case in which capital gains are taxed under the main capital gains tax regime rather than entrepreneurs' relief (and not relative to a world in which they are taxed as salary or dividend income).

Even more generous treatment is available to business assets that are bequeathed. Those inheriting assets are deemed to acquire them at their market value at the date of death, so rises in the value of assets prior to death are not subject to capital gains tax. This means that substantial business income may be subject to no personal tax at all if the

[21] Eligible assets: shares owned by employees or directors with at least 5% of the shares and voting rights; unincorporated businesses; business assets sold after the closure of a business; newly issued, unlisted company shares owned for at least three years by external investors.

[22] See HMRC, 'Estimated costs of principal tax reliefs', December 2016, https://www.gov.uk/government/statistics/main-tax-expenditures-and-structural-reliefs and https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/562694/Table_14.4.pdf.

business is bequeathed. Unincorporated businesses and shares in unlisted companies are generally exempt from inheritance tax as well.

Splitting income with family members

Company owner-managers and the self-employed can split business profits among multiple individuals, reducing their overall tax liability since marginal tax rates rise with individual income. In particular, a company owner-manager could shift income to their spouse by paying them a wage and/or making them a shareholder. If the spouse has no other source of income, the amount of tax paid on the £40,000 withdrawal in Figure 7.3 can be reduced by 30% from £7,705 to £5,376.[23] Similarly, a self-employed individual could make their spouse a partner in the unincorporated business, reducing their liability by 32% from £8,820 to £6,040.[24] There are laws that look to prevent this type of behaviour in certain cases ('settlement provisions'),[25] but they do not prevent all forms of income splitting (in many cases, such behaviour is perfectly legal) and, in practice, it is difficult to identify avoidance or evasion.

Opportunities for avoidance and evasion

Relative to employees, the self-employed and company owner-managers often have additional leeway that allows them to (legally) avoid or (illegally) evade taxes. In terms of avoidance, the greater complexity of business activities offers more scope to arrange their affairs in tax-advantaged ways: sharing with spouses and shifting income across years are simple examples. In terms of evasion, the key difference is that employees are subject to third-party reporting: for the most part, the tax on their earnings is deducted by employers through the Pay As You Earn (PAYE) system and the earnings and tax are reported by the employer to the government, so it would require collusion by the employer to under-report earnings (or over-report deductions). A lack of such third-party reporting means that there are more opportunities for the self-employed and company owner-managers not to declare, and therefore not be taxed on, some income.[26] They also have greater scope to declare falsely which tax year income arises (shifting income across years can reduce tax liability) or to claim falsely that personal assets, such as a laptop or phone, are business assets and reduce tax by deducting the cost from profits.

It is not only income that is more difficult to verify for the self-employed and company owner-managers: it is also hours of work. Eligibility for working tax credit requires working a minimum number of hours per week (16, 24 or 30, depending on family circumstances); compared with someone employed by a third party, someone working for themselves could more easily pretend to work more hours than they really do.[27]

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[23] This is achieved by paying both individuals the secondary threshold and distributing the remainder in dividends (where the shareholding is split 50/50).

[24] As partners with equal shares, they would each be taxed on half of the business profits. Due to the progressivity of the tax system, this would reduce the amount of tax paid.

[25] See https://www.gov.uk/government/publications/trusts-and-settlements-income-treated-as-the-settlors-hs270-self-assessment-helpsheet/fasf.

[26] As a way of countering this in the construction industry – the most common industry in which to find people working through their own business, as we saw in Section 7.2 – the government operates the Construction Industry Scheme, whereby contractors must deduct tax on subcontractors' behalf and pass it on to HMRC, thus creating third-party involvement.

[27] This possibility will gradually end as working tax credit is replaced by universal credit, which largely avoids the use of hours-of-work rules to determine entitlement.

Of course, most self-employed individuals and company owner-managers will honestly declare their incomes and hours of work. And the government tries hard to collect the tax it thinks it is owed. Tax evasion is illegal, and there are ever more rules in place to try to prevent tax avoidance (reducing tax in ways that are legal but not within the spirit of the law). However, the risk of getting caught may be relatively small compared with the tax advantage. And even in cases where individuals are audited, it may be difficult for HMRC to prove wrongdoing. Every year HMRC produces estimates of the 'tax gap' – the difference between the amount of revenue that should have been raised and the amount that was actually raised.[28] It estimates that the tax gap for self-assessment income tax, NICs and capital gains tax combined was around £7 billion in 2014–15. Of that amount, £5 billion was judged to have arisen from 'business taxpayers' (the self-employed). Around 30% of self-employed tax returns are estimated to understate the amount of tax due, while this is only true of 12% of the remainder of self-assessment returns (which largely belong to higher- and additional-rate taxpayers).

The effect of tax on choices

The tax system clearly favours certain legal forms over others, and encourages individuals to behave in certain ways once they have chosen a legal form. These are not just theoretical incentives that could, in principle, affect decisions. There is substantial evidence that these incentives do indeed change behaviour.

The UK provides a clear illustration that incorporation responds to incentives. Figure 7.6 shows the number of incorporations over time. Spikes occurred at times when the incentives, or at least the perceived incentives, to incorporate changed.[29] The increase in response to the starting rate of corporation tax in the early 2000s (mentioned above) was predictable and, indeed, predicted.[30] The OBR reports analysis of the likely change in incorporations (based on previous trends) and suggests that the number of incorporations is responsive to changes in the tax system.[31]

There is also good evidence that the incomes of company owner-managers respond more to incentives in the tax system than employees' incomes. If people can readily adjust their incomes in response to tax incentives, we would expect to see many people locating around points such as the higher-rate income tax threshold, where the marginal tax rate increases: people who think it worth earning more when the additional income is taxed at 20% (or 0% in the case of dividends), but not when it is taxed at 40% (or 25% in the case of dividends), will choose to earn up to the higher-rate threshold but no more. Figure 7.7 shows that company owner-managers do indeed 'bunch' around the higher-rate

[28] This includes not just outright evasion but also innocent error and some forms of avoidance or debatable behaviour. See HMRC, *Measuring Tax Gaps 2016 Edition*, October 2016, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/561312/HMRC-measuring-tax-gaps-2016.pdf.

[29] For further discussion, see C. Crawford and J. Freedman, 'Small business taxation', in S. Adam, T. Besley, R. Blundell, S. Bond, R. Chote, M. Gammie, P. Johnson, G. Myles and J. Poterba (eds), *Dimensions of Tax Design: The Mirrlees Review*, Oxford University Press for IFS, Oxford, 2010, https://www.ifs.org.uk/publications/7184.

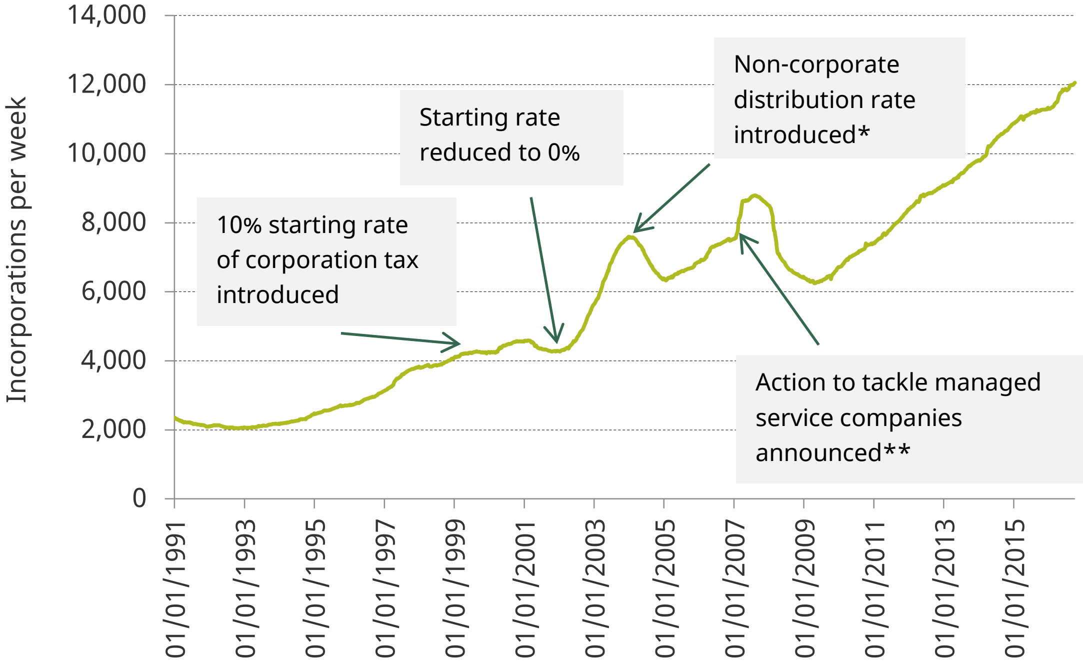
[30] See L. Blow, M. Hawkins, A. Klemm, J. McCrae and H. Simpson, 'Budget 2002: business taxation measures', IFS Briefing Note 24, 2002, https://www.ifs.org.uk/publications/1774.

[31] Box 4.1 in Office for Budget Responsibility, *Economic and Fiscal Outlook: November 2016*, http://budgetresponsibility.org.uk/efo/economic-and-fiscal-outlook-november-2016/.

threshold. This is true to a lesser extent for the self-employed, but there is almost no bunching among employees. The same is true at other such thresholds.[32]

One major reason company owner-managers are more able to respond to tax incentives is their flexibility to choose when to take income out of their company. When the government announced in advance that the income tax rate on incomes above £150,000 was going to increase from 40% to 50% (or from 25% to 30.56% for dividends) in 2010–11, people expecting to have incomes above that level had an incentive to take income before that year. Figure 7.8 shows that there was a sharp jump in dividend income among this high-income group in 2009–10, the year before the tax rise, and then a drop when the tax was increased in 2010–11. In contrast, there is little sign of employment income being brought forward in that way.

Figure 7.6. Incorporations per week since 1991 (52-week moving average)



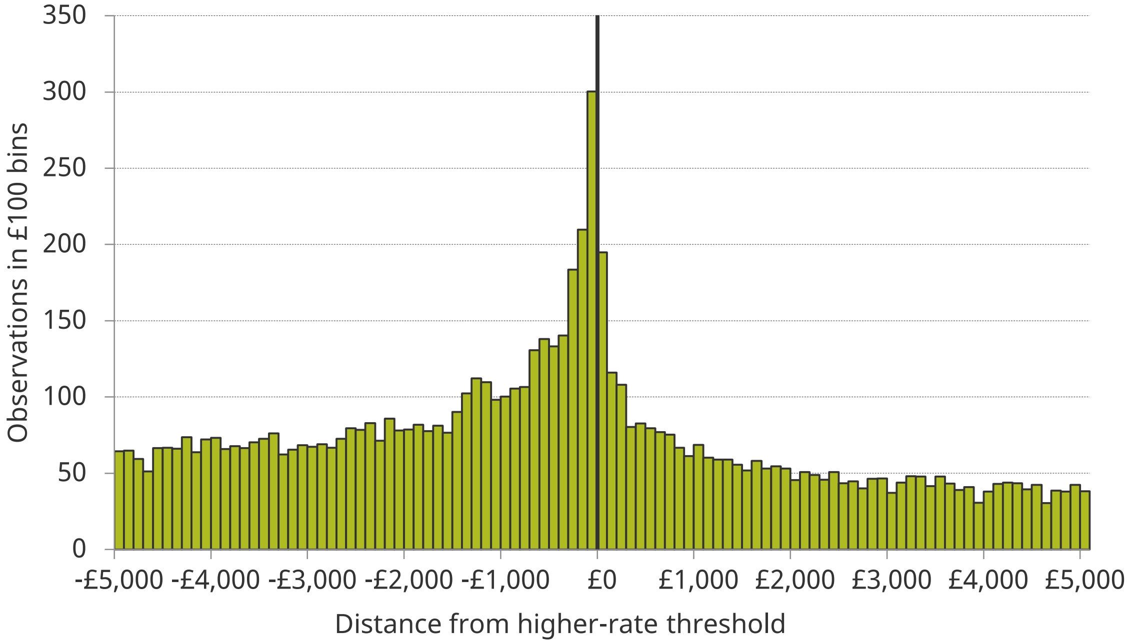
* This effectively marked the end of the tax advantage of the starting rate for most company owner-managers. See footnote 15.

** For more details on the response of incorporations to this measure, see C. Crawford and J. Freedman, 'Small business taxation', in S. Adam, T. Besley, R. Blundell, S. Bond, R. Chote, M. Gammie, P. Johnson, G. Myles and J. Poterba (eds), *Dimensions of Tax Design: The Mirrlees Review*, Oxford University Press for IFS, Oxford, 2010, https://www.ifs.org.uk/publications/7184.

Source: Correspondence with Companies House.

[32] There is also evidence that small companies often reported profits at the £10,000 threshold when the starting rate was in place. See M. Devereux, L. Liu and S. Loretz, 'The elasticity of corporate taxable income: new evidence from UK tax records', *American Economic Journal: Economic Policy*, 2014, 6(2), 19–53. Firms partly achieved this 'bunching' by claiming more capital allowances, including in ways that may represent avoidance or evasion behaviour rather than genuine productive investment. See A. Brockmeyer, 'The investment effect of taxation: evidence from a corporate tax kink', *Fiscal Studies*, 2014, 35, 477–509.

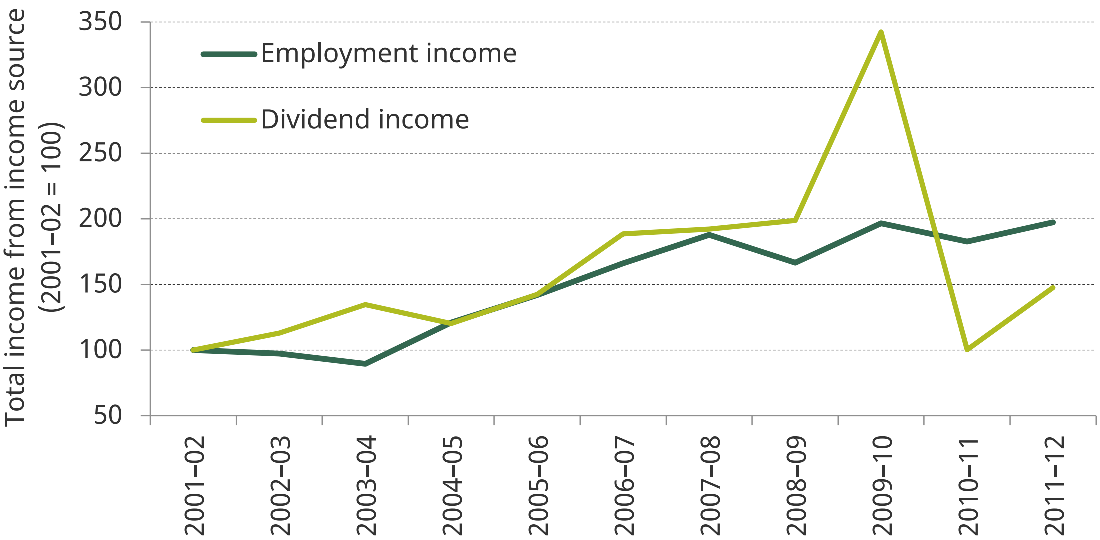
Figure 7.7. Bunching at the income tax higher-rate threshold among company owner-managers, 2003–04 to 2007–08



Note: Distance from higher-rate threshold measured in 2007–08 prices.

Source: S. Adam, J. Browne, D. Phillips and B. Roantree, 'Frictions and the elasticity of taxable income: evidence from bunching at tax thresholds in the UK', mimeo, forthcoming, based on data from the Survey of Personal Incomes (a sample of income tax records).

Figure 7.8. Trends in different income sources for group affected by 50% income tax rate



Note: More individuals had to file tax returns in 2010–11, leading to slightly understated income falls in that year.

Source: J. Browne and D. Phillips, 'Estimating the size and nature of responses to changes in income tax rates on top incomes in the UK: a panel analysis', mimeo, forthcoming, based on SA302 (income tax return) data.

7.4 Should the self-employed and company owner-managers be taxed less heavily than employees?

The fact that similar individuals doing similar work can be taxed very differently according to whether they are an employee, self-employed or running an incorporated company is a problem. So, too, is the fact that company owner-managers can achieve very different tax rates depending on how they take income out of their companies. These distinctions clearly raise issues of fairness. They also distort individuals' choices, which can reduce economic efficiency as some people are induced to run their own businesses when, if incentives were not distorted by the tax system, they would rather be employed by others. The need to devise, administer, comply with and monitor rules to distinguish the different legal forms imposes costs of a different kind, diverting officials, taxpayers, accountants and occasionally the courts from more productive activities. Finally, the distinctions inevitably open up possibilities for avoidance and evasion – further exacerbating these problems of unfairness, inefficiency and diverted resources.

Given these factors, many people would agree that genuinely similar individuals doing genuinely similar work should be taxed in the same way regardless of legal form – though some might argue for using lower tax rates to compensate for other disadvantages that the government itself attaches to different legal forms (such as lower employment rights or reduced state benefit entitlements). A different argument for tax differentiation is that, while in some cases (such as computer programmers or taxi drivers) similar individuals might do similar activities in different legal forms, often people running their own businesses are doing something fundamentally different from employees, including investing, innovating, taking risks and other such entrepreneurial behaviour. These may merit preferential tax treatment. We discuss both of these arguments for different treatment below.

A more pragmatic argument for taxing the self-employed and company owner-managers at lower rates than employees is that the former two groups are more responsive to tax (their taxable incomes are more 'elastic'). The more a tax reduces taxable income, the lower the revenue yield from the tax, and the greater the loss of taxpayer welfare per pound of revenue raised. So it can be efficient to set lower tax rates for more responsive groups. The self-employed and company owner-managers are more responsive to tax in part because they have more ways to manipulate their incomes for tax purposes (rather than simply because of 'real' economic responses such as the amount of effort they put in). The first way to deal with this, therefore, is to reduce the options that the self-employed and company owner-managers have to avoid (or evade) taxes – for example, by taxing capital gains at the same rates as ordinary income. Sensible policy changes would reduce the extent to which the self-employed and company owner-managers had more elastic incomes than employees, though not eliminate the difference entirely. But any potential efficiency gains that remained would have to be weighed against the costs of differentiation. And there are clearly equity concerns over a policy of providing lower tax rates to one group because they can more easily avoid or evade tax.

Should lower taxes be used to offset other disadvantages?

As well as differences in tax rates, different legal forms are treated differentially by many other parts of government policy. Might lower tax rates for the self-employed and company owner-managers be justified as compensating for other ways in which the government disadvantages these forms? In summary, there is an argument for lower taxes to reflect the fact that the self-employed have reduced entitlement to some social security benefits, but in practice this difference is now relatively small. We argue that the tax system should not be used to offset differences in employment rights or compliance burdens between different legal forms.

Publicly-funded benefits

A common argument in favour of lower NICs rates on the income of the self-employed is that they have reduced entitlement to publicly-funded benefits compared with employees. In principle, that is a reasonable argument: if the benefit system creates a bias in favour of employment over self-employment, there is a case for an offsetting tax rate differential to level the playing field.[33] However, in practice, the difference in entitlements between employees and the self-employed is now relatively small. Unlike employees, the self-employed are not entitled to contribution-based jobseeker’s allowance or statutory maternity/paternity/adoption/shared parental pay. But what used to be the biggest difference in entitlements has now been removed. Previously, the self-employed accrued rights to the basic state pension, but not to the earnings-related top-up (state second pension). Employees could choose to build up entitlement to the state second pension or to ‘contract out’ of it in exchange for a commensurately reduced rate of NICs on their earnings. The new single-tier pension being rolled out from April 2016 will instead apply equally to the self-employed and all employees; but while formerly contracted-out employees must now pay the full rate of NICs in return for this entitlement, the self-employed are seeing their entitlement increase with no such increase in their NICs rate.

The NICs advantage of self-employment over employment was already far bigger than could be justified by any difference in benefit entitlements, and this reform to state pensions has increased the disparity. HMRC estimates that the revenue forgone by applying lower NICs rates to the self-employed exceeded the value of their reduced pension entitlements by £3.2 billion (or £800 per self-employed person) in 2015–16, increasing to £5.1 billion (£1,240 per self-employed person) in 2016–17.[34] To put that into context, total self-employed NICs revenue in 2016–17 is expected to be £3.0 billion.[35] Before allowing for the reduced benefit entitlements that remain, they are paying only 37% of the NICs that would be paid if they were employed. Differential benefit entitlements that remain may justify some difference in tax rates, but not on anything like this scale.

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[33] In so far as other tax and benefit policies also have the net effect of favouring one legal form over another, there is a similar case for offsetting it through differential tax rates to level the playing field. This applies, for example, to the rules that allow more generous deductibility of work-related expenses for the self-employed than for employees, and to tax-advantaged forms of remuneration, such as redundancy pay, that are only available to employees. Of course, the prior question is whether some legal forms should be favoured in the first place. As far as possible, it would be better to apply the same benefit entitlement rules, expense deductibility rules, etc. across different legal forms than to offset such differences with differential tax rates.

[34] See HMRC, ‘Estimated costs of principal tax reliefs’, December 2016, https://www.gov.uk/government/statistics/main-tax-expenditures-and-structural-reliefs. Based on the number of self-employed individuals in 2016 Q3 (see Figure 7.1).

[35] Source: Appendix 4 of Government Actuary’s Department, *Report by the Government Actuary on: the Draft Social Security Benefits Up-Rating Order 2016; and the Draft Social Security (Contributions) (Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2016*, 2016, https://www.gov.uk/government/publications/report-to-parliament-on-the-2016-re-rating-and-up-rating-orders.

Employment rights

Employment law bestows employees (and 'workers' to a lesser degree) with a set of rights that self-employed people do not have (see Box 7.1 earlier). However, unlike higher state benefit entitlements, these employment rights are not a benefit given by the government to employees, but a benefit that the government requires employers to give to their employees. In so far as these rights make employment more attractive to the employee (relative to self-employment), they also make employment less attractive to the employer (relative to getting the work done by a self-employed contractor). So it is not clear that the existence of these rights biases the economy overall towards more employment and less self-employment. The government is not favouring employment over self-employment overall in a way that might justify an offsetting tax differential; it is merely redistributing between the two parties *within* an employment relationship. Indeed, in a well-functioning labour market, we would expect an employee's greater employment rights to be offset by lower earnings, making them (on average) no more likely to choose employment over self-employment than they would in the absence of these rights.[36]

Compliance burdens

It is sometimes argued that differences in tax rates between different legal forms are justified by a difference in the burden of tax (or regulatory) compliance that the government imposes on them. For example, company owner-managers must fill out corporation tax and income tax returns, deal with capital gains tax and dividend tax, file company accounts, and so on.

Unlike employment rights, this is a government-imposed difference in the *total* burden associated with a particular legal form, not just a transfer of burdens from one party to another *within* one legal form. In that respect, differential compliance costs have something in common with differential state benefits entitlements, discussed above. In addition, however, compliance costs add to total resource costs in the economy – they are not simply a transfer of resources between different people like state benefits are. That is important. If people shift between legal forms because of higher benefit entitlements, their gain in higher benefit entitlements is mirrored by a corresponding loss to the exchequer; there is no net gain to society from such a shift. There is therefore a case for using tax rates to offset the difference in entitlements and avoid the inefficiency of people choosing their legal status to gain preferential treatment rather than for underlying commercial reasons.

In contrast, if people shift between legal forms as a result of compliance costs, their gain in reduced compliance burdens is not offset by a loss to the government. Ideally, of course, there would be no such difference in burdens on different legal forms (and there are many features of the system that are designed to mitigate burdensome obligations on small businesses, including a VAT registration threshold and less onerous accounting requirements). But, if such differences do exist, it is then more efficient for the economy to have less of the burdensome form, just like a sector of the economy facing high costs of any other kind should be smaller. The government should not push the economy back towards having as much of the costly activity as it would if the cost were not there. The same argument applies not just to differences in tax compliance costs, but also more

[36] While this wage adjustment might offset the difference in rights on average, note that it might still be the case that workers who value these protections unusually highly, and firms that find them unusually cheap to provide, will tend to favour employment relationships rather than self-employment, and vice versa.

widely to differences in regulatory burdens and employment rights that raise the net burden on a legal form.

Should lower tax rates be used to increase 'entrepreneurship'?[37]

Employees, the self-employed and company owner-managers often differ in many ways, including in how much risk they take and whether they conduct investment, for example. The first question is whether any such differences merit preferential treatment in principle. Even where they do, we must also ask whether differential tax rates are the best-targeted way to provide it, and whether the benefits outweigh the costs of differentiation described above.

One fundamental difference is that, unlike employees' wages, the income of the self-employed and owner-managers often represents a return to capital invested as well as labour. While it is inevitable that real-world tax systems discourage work to some extent, economic theory suggests that they should not additionally discourage investment. Taxing earnings or expenditure discourages work by reducing the amount of goods and services that working enables someone to buy. Investing (or keeping) money in a business defers consumption from today until tomorrow, and there is little reason to tax future consumption more heavily than today's consumption: it further distorts behaviour and is an inefficient way to raise revenue.[38] Wanting to avoid discouraging investment while taxing labour income provides a prima facie case for applying reduced tax rates to the self-employed and company owner-managers, whose income is a mixture of returns to capital and labour. Crucially, however, we can avoid discouraging investment in a better-targeted way than by applying reduced tax rates on income, by instead adjusting the tax *base* to give an allowance for the money that has been invested in the business. We return to this in Section 7.5. Given this superior alternative, investment in the business does not provide a good argument for lower tax rates for the self-employed or company owner-managers.

Investment aside, preferential rates of tax are often defended as essential to reward difficult and risky entrepreneurial activity. But it is important to recognise that the difficulty and risk associated with entrepreneurship do not in themselves justify favourable tax treatment. If the market does not provide sufficiently high rewards for such activities, they should not be undertaken: it is not a justification for special tax breaks. What is needed (though not necessarily sufficient) to justify preferential tax treatment is a reason why the market will lead to too few 'entrepreneurs' when the tax system is neutral between legal forms. That is, preferential tax treatment may be justified if markets fail to provide the appropriate incentives for entrepreneurship.

In some cases, the tax system itself distorts the market rewards to different choices. Risk-taking is an example of this. A higher tax rate per se does not necessarily discourage risk-taking. If the government taxes high returns, but also fully offsets losses at the same rate, it is sharing in both upside and downside risk. This should not make risky investments any

[37] For a fuller discussion of these arguments, see C. Crawford and J. Freedman, 'Small business taxation', in S. Adam, T. Besley, R. Blundell, S. Bond, R. Chote, M. Gammie, P. Johnson, G. Myles and J. Poterba (eds), *Dimensions of Tax Design: The Mirrlees Review*, Oxford University Press for IFS, Oxford, 2010, https://www.ifs.org.uk/publications/7184.

[38] For a fuller discussion of this argument, and caveats, see chapter 13 of J. Mirrlees, S. Adam, T. Besley, R. Blundell, S. Bond, R. Chote, M. Gammie, P. Johnson, G. Myles and J. Poterba, *Tax by Design: The Mirrlees Review*, Oxford University Press for IFS, Oxford, 2011, https://www.ifs.org.uk/publications/5353.

less attractive relative to safe ones.[39] Yet in practice, tax policy does discourage risk-taking. That is mainly because tax policy does not treat the upside and downside symmetrically. Marginal tax rates that are higher at high incomes, for example, mean that above-average returns are taxed more than below-average returns are cushioned. And the tax system does not currently match taxation of profits with symmetrically generous rebates for losses: losses can only be set against other income (there are no cash refunds), with significant restrictions (which differ between companies and the self-employed) on what income they can be used to offset. Losses carried forward to set against future income get no compensation for the delay and there is a risk that the losses can never be used. Being taxed on positive returns but not symmetrically cushioned from negative returns does discourage risk-taking. It is not clear that the government should actively encourage risk-taking, and in any case lower tax rates for certain legal forms are not an effective way to do so. But nor should it actively discourage risk-taking. A sensible focus would be on reducing the disincentives currently created by asymmetric taxation, and in particular reforming the treatment of losses. We return to this in Section 7.5.

Even where the tax system does not distort behaviour, market failures can arise in relation to entrepreneurship. For example, there may be too few new ideas tried out because innovators do not reap all of the rewards (some 'spill over' to other businesses that can learn from the experiences of the innovator); or some small and/or new firms may find it prohibitively expensive to raise external finance because potential lenders have less information than would-be borrowers about the firm's prospects. Such market failures create a case for government intervention. But blanket reductions in tax rates for all the self-employed and company owner-managers are poorly targeted at such problems. It is better to determine which specific activities justify different tax treatment and design a policy targeted at those activities.[40] It may be difficult to find precisely targeted measures that will encourage the kind of socially beneficial 'entrepreneurship' that is hard to define but nevertheless real. Yet most small businesses are not particularly innovative and do not generate significant spillover benefits to wider society. From newsagents to IT contractors, they consist of people quietly going about the (perfectly honourable) business of making a living by providing valuable goods and services to others – much as most ordinary employees do. There is little evidence that the gains from using across-the-board lower rates to promote those socially beneficial activities that cannot be targeted more directly are big enough to justify scattering tax benefits so widely and creating the problems of boundaries in the tax system highlighted above.

7.5 How should tax policy be changed?

The preceding sections discussed the problems caused by taxing employees, the self-employed and company owner-managers in different ways. The tax system should not favour one legal form over another without good reason for doing so. It is difficult to make a compelling case for the differences in headline tax rates that we currently have.

[39] In effect, the government is providing a form of insurance for the investor, cushioning both the possible upside and the possible downside. Individuals may in fact respond by taking bigger (pre-tax) risks, leaving the after-tax risk and returns they face similar to what they would have been without the tax. The government itself, however, is now making a risky investment in the business, with a boost to tax revenue if the risk pays off but a corresponding downside if it does not.

[40] Examples of more-targeted (though not always well-designed) policies include R&D tax credits that aim to increase innovation and loan guarantees, enhanced investment allowances and venture capital schemes that aim to increase access to finance for small firms.

Any reforms in this area must be mindful that the taxation of employees, the self-employed and company owner-managers sits exactly at the point where many parts of the tax system come together. This is evidenced by the fact that incentives to switch between legal forms depend on the bases and rates of income tax (including the treatment of dividends), NICs, corporation tax and capital gains tax. Changing any one of these has far-reaching effects: tax rates on earnings affect all employees, not just those who might otherwise set up a business; corporation tax affects all businesses, from one-man bands to multinationals; taxation of dividends and capital gains affects portfolio shareholders and buy-to-let landlords as well as business owner-managers. As such, the tax treatment of legal forms should always be seen in the context of the whole tax system.

The comprehensive Mirrlees Review of the UK tax system undertaken for IFS proposes a design for the whole tax system that aligns the taxation of legal forms as just one part of a broader plan.[41] Essentially, it argues that the same overall rate schedule should apply to income from all sources, but with full allowances (at both the personal and corporate tax levels) given for amounts saved and invested to avoid discouraging those activities.

Minimising (or removing) the tax differences across boundaries (e.g. between employees and those running their own business) is the best way to deal with the problems that arise because of boundaries. Many of the concerns highlighted in Section 7.3 – such as labour income being characterised as capital income – would be dealt with directly through alignment of tax rates.

It is tempting to deal with boundary problems by trying to write and police rules that determine what should fall on each side of the boundary (such as 'IR35'[42]) to prevent people exploiting the tax differentials. It is also tempting to try to solve a narrow problem without affecting the rest of the tax system by introducing different tax regimes for (say) a subset of small businesses. But these approaches are the policy equivalent of 'whack-a-mole': one particular problem is fixed, but at the expense of another one popping up elsewhere in the system. If definitions around the boundaries are adjusted, the new definitions will quickly come under pressure. A special regime for 'small businesses' would add another boundary to the tax system (between small and large businesses) that would create problems of its own and not reflect any underlying principle. Such policies are sometimes better than nothing. But they are at best a sticking plaster rather than a solution to the underlying tensions in the tax system, and at worst can create more problems than they solve.

Sometimes the government does even worse than this by increasing the distinctions between legal forms. For example, faced with a boundary between (higher-taxed) labour income and (lower-taxed) returns to capital across the tax system as a whole, in 2008 the government introduced entrepreneurs' relief for owner-managed businesses, exacerbating the problem at precisely the point where it is most acute.

A different approach is needed.

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41 J. Mirrlees, S. Adam, T. Besley, R. Blundell, S. Bond, R. Chote, M. Gammie, P. Johnson, G. Myles and J. Poterba, *Tax by Design: The Mirrlees Review*, Oxford University Press for IFS, Oxford, 2011, https://www.ifs.org.uk/publications/5353; see especially chapter 19. All documents related to the Mirrlees Review are available at https://www.ifs.org.uk/publications/mirrleesreview/.

42 IR35 rules try to prevent individuals disguising their employment by operating as an independent contractor (see https://www.gov.uk/guidance/ir35-find-out-if-it-applies).

Long-run goal: align the tax treatment of income across legal forms

Aligning the treatment of different legal forms requires applying the same overall tax rate schedule to income derived from employment, self-employment and companies – bearing in mind that this overall rate schedule currently involves varying combinations of income tax, NICs, capital gains tax and corporation tax, depending on the income source. Broadly, this could be achieved by (i) aligning the NICs paid by self-employed individuals and those paid by employers and employees combined (preferably in the course of integrating NICs with personal income tax) and (ii) taxing dividend income and capital gains at the same rate schedule as earned income (including employee and employer NICs), with reduced tax rates for dividends and capital gains on shares to reflect corporation tax already paid. This process would include removing entrepreneurs' relief, though in many cases the reduced capital gains tax rates for shares would limit the increase in the tax rate that this entails. Note that alignment does not necessarily require an increase in the corporation tax rate, which would raise valid concerns around making the UK less competitive. Instead, overall rate alignment could be achieved at the personal level by adjusting dividend and capital gains tax rates while keeping a relatively low corporation tax rate (set with reference to multinationals). Aligning the treatment of these income sources would also mean reversing the recent trend towards having large separate allowances in each tax, something that now favours incorporation since a company owner-manager, unlike an ordinary employee, can benefit from additional tax-free allowances for dividends and capital gains as well as from the main income tax personal allowance.

The income of the self-employed and company owner-managers generally reflects a mix of rewards for labour and capital. Aligning the treatment of total income would almost certainly lead to higher tax rates on income from self-employment and companies and thus to higher rates on the returns to capital. On its own, therefore, simply aligning tax rates across legal forms would create undesirable disincentives to save and invest. Higher tax rates on profits, dividends and capital gains can make otherwise viable investments unviable. This is undesirable and results in a perceived tension between keeping capital tax rates low so as not to discourage saving and investment, and raising them towards personal income tax rates so as to minimise tax avoidance and avoid distorting choices (as discussed above). The attempts to manage this trade-off have arguably been at the heart of capital tax policy, and especially gains tax reform, for decades (see Box 7.5). However, this trade-off is not as inescapable as it might seem.

In a nutshell, the solution is to tax the returns to capital and labour at the same rate at the margin (thereby removing distortions over how to take income) but to design the tax base so as to avoid disincentives to save and invest. The latter is achieved by giving full allowances (at both personal and corporate tax levels) for amounts saved and invested. There are two ways to go about doing this:[43]

- Cash saved or invested can simply be deductible from taxable income/profits at the point it is saved/invested. This is the approach currently applied to pension contributions by the income tax system, and to business investment in limited cases where 100% first-year allowances are available (as in the case of the annual investment allowance).

[43] These approaches and their properties – including other advantages not discussed here – are explained in J. Mirrlees et al., *Tax by Design: The Mirrlees Review*, Oxford University Press for IFS, Oxford, 2011, https://www.ifs.org.uk/publications/5353. For brevity, we do not discuss here how debt and equity finance should be treated – another thorny area that could be largely resolved as part of a reform like this.

- A deduction could be given each year for an assumed (risk-free) rate of return to capital previously saved/invested. This is the rate-of-return allowance (RRA) treatment of saving and the allowance for corporate equity (ACE) treatment of business investment, neither of which has ever been used in the UK although both are now used in other countries.

Timing aside, these two treatments are equivalent. With stable tax rates, the stream of allowances given each year under the second approach is worth the same as the up-front deduction given under the first approach. Both avoid discouraging saving and investment, since an asset that (in the absence of taxation) yields just enough of a return to be worth the up-front cost will see the taxable income generated exactly offset by the tax deduction for the investment cost. Only returns in excess of that level will yield a net tax liability, and since only a fraction of the excess will be taxed away, assets that yield such high returns will still be worthwhile investments. And in both cases the deduction depends only on the amount saved/invested, irrespective of the actual return it generates; each extra pound of income is taxed in full regardless of the form in which it is taken, so there is no tax incentive to choose one legal form over another or to dress up one form of income as another.

This approach helps to resolve a conundrum that policymakers around the world have struggled with for decades: the tension between preventing tax avoidance on the one hand and minimising disincentives to save and invest on the other. Eager to encourage saving and investment, policymakers have sought to reduce tax rates on capital income; but wary of opening the door to widespread conversion of labour income into capital income, they have also sought to keep tax rates as closely aligned as possible. The result has usually been an awkward compromise, with capital income taxed at reduced rates (and often different forms of capital income taxed at different rates), leaving some disincentive effects and some scope for avoidance. Taxing capital income in full *while giving a full deduction for capital costs* addresses both problems.

As discussed in the previous section, the hurdle for departing from alignment should be high, with measures targeted as precisely as possible on the specific problem to be addressed and assessed against this benchmark. All too often, preferential treatments are bolted onto a flawed existing system with too little regard for how they will interact with policies already in place or what they mean for the system as a whole.

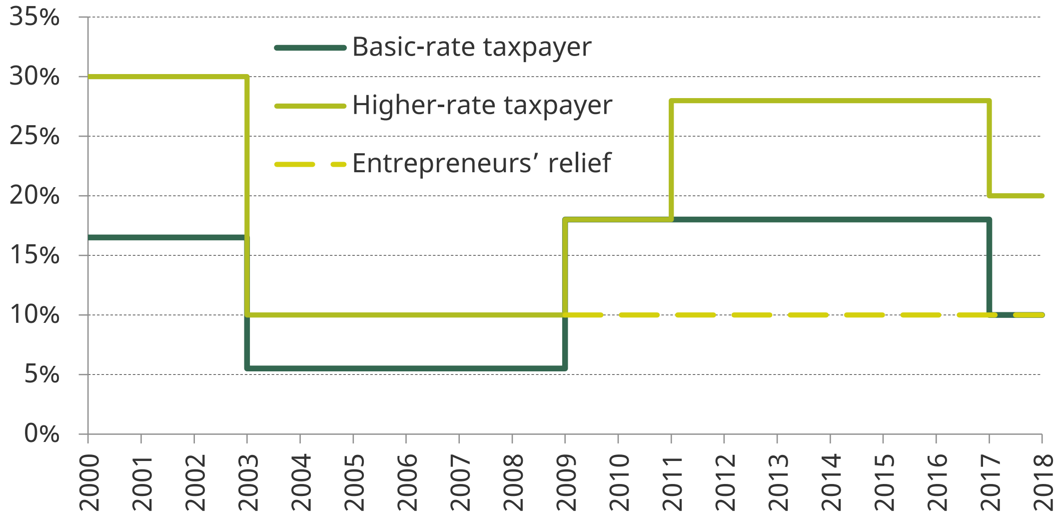
Steps towards the long run

The solution proposed above would require major changes. Ideally, the government would set out a vision for the tax system and a path that moved us towards the end goal. In the short run, it would not necessarily be wise to pick one of the reforms highlighted above and introduce it independently of a wider set of reforms. Changing any subset of taxes in isolation can lead to problems elsewhere. For example, it would be possible to align the treatment of employees and the self-employed by increasing the rate of NICs on the self-employed. But this would also increase the incentive for a self-employed individual to incorporate and take their income in the form of dividends or capital gains. Similarly, aligning the tax on capital gains with marginal income tax rates without any changes to the tax base would reduce the incentive to recharacterise labour income as capital income, but come at the expense of discouraging saving and investment. Policies that deal with only a subset of problems in isolation therefore require careful consideration of any possible costs and benefits.

Box 7.5. The capital gains tax roller coaster

Since its introduction, capital gains tax has been increased and cut, often in different ways for different types of assets or taxpayers, as successive Chancellors battle with the trade-offs between higher and lower capital tax rates described in the main text. This is a potted history of the main changes.[a] Figure 7.9 shows the result for one type of asset.

Figure 7.9. Capital gains tax rates for a business asset held for two years, 2000–01 to 2018–19



Note: Years refer to the start of financial years (e.g. 2000 refers to financial year 2000–01).

Source: IFS Fiscal Facts, https://www.ifs.org.uk/tools_and_resources/fiscal_facts/.

Capital gains tax was introduced in 1965 at a flat rate of 30%. Geoffrey Howe introduced indexation allowances in 1982, ensuring that only gains in excess of inflation were taxed. In 1988, Nigel Lawson aligned capital gains tax rates with individuals' marginal income tax rates. In 1998, Gordon Brown scrapped indexation allowances and introduced taper relief, which reduced capital gains tax by more the longer an asset was held and was more generous for 'business' than 'non-business' assets. Taper relief was subsequently made more generous, but then being scrapped by Alistair Darling in 2008. Mr Darling went back to a single flat rate, set at 18%, but quickly (following a backlash from business lobby groups) introduced entrepreneurs' relief, which applied a 10% rate to the first £1 million (since increased to £10 million) of lifetime gains for some business assets (see Section 7.3). George Osborne raised the rate to 28% for higher-rate taxpayers in 2010, but then cut it (for most assets) to 20% for higher-rate taxpayers and 10% for basic-rate taxpayers in 2016.

It would be better to get off this roller coaster – the main text discusses how to do this – than continue the ride that successive Chancellors are taking us on.

[a] See S. Adam, 'Capital gains tax', in R. Chote, C. Emmerson, D. Miles and J. Shaw (eds), *The IFS Green Budget: January 2008*, http://www.ifs.org.uk/budgets/gb2008/08chap10.pdf.

One approach to moving towards the long run (without overhauling the tax system overnight) is to look for reforms that improve the structure of the tax system and accompany these with changes to rates (or other parts of the system) that offset any new distortions created. Here we provide four potential examples of this approach:

- Section 7.4 explained that the tax system can discourage risk-taking by not providing full loss offsets. Increasing the generosity of loss offsets would reduce this disincentive. There may be good reasons for the government to be wary of giving out tax refunds in cash whenever losses are made, not least concerns about potential tax evasion. But there are various less radical ways in which the generosity of loss offsets could be increased, including allowing losses to be set more easily against profits from other activities, extending the period over which losses can be carried back or allowing losses to be carried forward with an interest markup to compensate for the delay before they can be utilised.[44] However, (absent a wider set of reforms) more generous treatment of losses would increase the incentive to move out of employment and into self-employment or company owner-management, thereby increasing the distortion between legal forms that we would like to reduce. It would also have a revenue cost for the exchequer. One could make a judgement that the benefits outweigh the costs. Another option would be to increase tax rates on business profits, so that there was no change in the average tax burden on businesses or the average incentive to set up a business. Such a package, which would be broadly revenue neutral, could reduce the disincentive to take risks and reduce the incentive to take income as business profits, while leaving the average tax burden on businesses and the average incentive to set up a business unchanged.

- A similar argument could be made with respect to investment costs. The current system discourages investment by not allowing the full cost to be deducted from tax. A short-run option that increased investment incentives for the self-employed and company owner-managers (and for small companies more generally) would be to extend the annual investment allowance to assets other than plant and machinery. This could be accompanied by higher marginal rates on the returns to investment. This would increase incentives to invest (at least for assets that received more generous treatment) while leaving average incentives over legal forms broadly unchanged.

- The government could consider abolishing entrepreneurs' relief. Unlike the two preceding examples, this would reduce the incentives to move from employment to self-employment or company owner-management. It would also: (i) substantially reduce the incentive for individuals to retain profits in a company (or through business assets) when, absent the tax, they would prefer to spend the money sooner or invest it elsewhere; (ii) reduce the unfairness caused by discriminating against individuals who cannot convert the returns to their labour into capital gains; and (iii) simplify the system by no longer requiring a distinction between qualifying and non-qualifying assets or records of disposals in order to enforce the lifetime limit. The cost of doing this reform in isolation is that it would increase tax on investment returns and thereby reduce investment incentives in some cases. Entrepreneurs' relief always lacked a clear rationale (there is little

[44] For the same reason, losses should also have an interest rate adjustment when carried back.

evidence that reduced rates of capital gains tax are well targeted at alleviating any concerns around business start-ups, for example). There is an argument that the benefits of scrapping the relief outweigh the cost. However, the cost of increasing the tax on the return to investment could also be ameliorated by using the revenues raised to reduce the burden of capital gains tax on all assets. For example, one attractive option would be to allow capital gains to be inflation adjusted before being taxed (such that only real gains were taxed), as was the case before 1998. An alternative would be to give more deductions for asset purchase costs via an RRA as described above. Such a package would improve the structure of the system and remove various distortions, while reducing the impact of scrapping entrepreneurs' relief on investment.

- Another option is to move to a single allowance for all income sources. Currently, there are separate tax-free allowances for different income sources, which favours people who are able to diversify their income sources and time their income carefully. Those (particularly company owner-managers) who can take advantage of all of the separate nil-rate bands for interest, dividends and capital gains, as well as their income tax personal allowance, can receive around £28,000 a year free of tax, compared with the £11,000 available to those who can only use their ordinary personal allowance. Moving to a single allowance to set against income from all sources (perhaps retaining much smaller *de minimis* allowances for individual income sources for administrative reasons) would reduce incentives to be self-employed or a company owner-manager. The revenue raised could be used to make the main allowance larger or reduce taxes elsewhere in the system.

The spirit of these packages is to find a practical way to improve parts of the tax system in the short run, while offsetting any distortions that can arise elsewhere in the system as a result. Two broad points should be noted. First, such an approach does have distributional consequences (there would be winners and losers). Second, such packages do not completely avoid increasing distortions in some areas. As long as investment costs remain in the tax base (such that marginal investments attract tax), any increase in rates can discourage some investment. Packages of reforms can be designed so that the benefits of a reform are sufficiently high to outweigh the costs. But any short-run moves towards the full alignment outlined above will necessarily involve trade-offs that must be managed.

7.6 Conclusion

The overall shape of the labour market has not changed radically, yet. For example, 85% of the workforce are still employees. But in recent years we have seen notable trends, including substantial growth in the number of individuals working for themselves either through self-employment or as company owner-managers. We cannot know to what extent these changes are linked specifically to the 'gig economy' rather than to broader changes in the labour market; we simply lack sufficiently detailed data. It has become slightly more common to see individuals working for their own business (rather than as an employee) as a second job and this fits with some commonly-cited examples of the gig economy (such as individuals driving taxis or delivering fast food to supplement their main income). Although looking at the industries in which individuals are working and how these are changing suggests that the recent trends are much broader than those captured by the fashionable 'gig economy' label.

It is possible that the labour market will continue to change as more individuals take advantage of the benefits of working for their own business or find that they have reduced employment opportunities. The possibilities afforded by digital platforms may lead to further growth in the gig economy. In all cases, there will be ongoing concerns about the potential costs of more precarious and less secure income streams. Now is a good time to consider the employment rights and benefits of different groups.

However, the policy issue that we discuss in this chapter was important before the rise of the gig economy, is important today, and will be important regardless of how the labour market evolves. The tax system provides preferential treatment to the self-employed and company owner-managers (conversely, it provides a penalty to employees). It does so in ways that cannot be rationalised by either reduced entitlement to social security benefits (there are relatively few differences across legal forms) or differences in employment rights or compliance burdens. It is also very hard to make the case that across-the-board lower rates are well targeted at activities where there is a clear rationale for providing a tax incentive. The different tax treatment of individuals according to their legal form is unfair and creates myriad problems, including avoidance opportunities that require complex legislation and suck in the talents of civil servants and accountants.

The government should set out a plan to align the overall tax rate schedules facing employees, the self-employed and company owner-managers, so that a marginal pound of income is taxed in the same way regardless of how it is earned, while at the same time providing full allowances for money invested in a business so that investment is not discouraged. This is preferable to living with the distortions provided by the current system, or patching it up in ways that simply move boundaries in the tax system or reduce one distortion at the expense of another.

Any major reform creates winners and losers. If done in a revenue-neutral way, the winners from this reform would include employees and those whose business income mainly reflected the money they had put into the business in the past. The losers would include those self-employed individuals and company owner-managers whose income (above the amount invested) was subjected to higher rates. There would need to be careful thought as to how the transition to a better system should be done. But it is right that in the long run there should be some losers. Currently, a large group of taxpayers are receiving substantial benefits at the expense of others, and creating a level playing field entails making some individuals worse off. To retain the current system is to allow the clear inequities it delivers to persist. The growth in self-employment and company owner-management (including in response to tax differences) means that the longer we wait to level the playing field, the more losers there will be. The losers would no doubt be more vociferous than the winners. This should not prevent us from fixing the tax system.

Spring Budget 2017

IFS Director Paul Johnson's opening remarks

Spring Budgets seem to be going out with something of a whimper. Yesterday's was one of the smallest I can remember in pretty much every dimension – number of policies, scale of policies and size of fiscal impact.

I'm not complaining, mind. There will be another Budget in November and the whole point of moving to a single fiscal event a year was to avoid the temptation to do too much fiddling. I presume that bigger changes will come later this year. We will see.

I also rather like the promised consultations. That we are to get a consultation on business rates rather than diving in to change immediately is a good thing. As is further consultation on treatment of the self employed. It is perhaps harder to welcome further consultation on the funding of social care, much though a clear long term strategy is needed. We have had strategy after consultation after commission on this. As Elvis said "a little less conversation, a little more action please".

As to the content there were only two tax changes of any substance – the increase to self employed NICs and the reduction in the tax free allowance for dividend payments. The former is a modest but welcome change designed to shore up the tax base and create a slightly less unequal playing field between the self employed and employees.

The latter reflected the concern that if you increase tax on the self employed you increase their incentive to incorporate. It undoes most of a change introduced less than a year ago.

The only substantive spending announcement was for more money for social care. My colleague Polly Simpson will say something about that.

On the public finances the OBR made by far its biggest ever revision to forecasts between Autumn and Spring for the current financial year. In November it thought we would be borrowing £68 billion this year. It now thinks we will be borrowing just £52 billion. Yet it has barely changed its forecasts for future years. We remain on course to be borrowing about £20 billion in 2020 – that's £30 billion more than intended a year ago. That leaves a lot of work to do in the next parliament to get to the planned budget balance. It looks like being, I'm afraid, a third parliament of austerity.

The public finances

The better figures for this year to a large extent reflect some one-off increases in receipts, and some one-off spending reductions.

Into the medium term the public finance projections are essentially unchanged since November. That's partly because Mr Hammond didn't do very much and partly because the OBR's economic forecasts have barely changed. So we remain on course to meet Mr Hammond's target of keeping borrowing below 2% of GDP in 2020-21; indeed we are on course to meet that with £26 billion to spare.

Keeping some headroom against the fiscal target makes sense given the uncertainty over economic outcomes over the next few years. But the desire to get to budget balance during the next parliament, especially given demographic pressures, will necessitate yet more years of spending restraint or perhaps yet another post election tax rise.

One rather remarkable comment from the OBR is that:

> "Cumulative growth over the forecast as a whole is slightly weaker than in November, as we now believe the economy was running slightly above potential at the end of last year"

That's an economy, recall, in which GDP per capita is still barely 2% above its 2008 level. That's nine years to grow as much as it would normally grow in one. What the OBR is saying is that despite that truly dismal record all of the productivity – and with it earnings growth – we would normally expect has been lost forever. This remains the big story of the last decade – a decade without growth, a decade without precedent in the UK in modern times.

Taxation of self employment and incorporation

One of the things that flattered the public finances this year was much bigger than expected revenue from a change to the taxation of dividends that was announced in July 2015 and implemented in April 2016. This change increased the tax rate on dividends by 7.5 percentage points. Because it was announced almost a year before being introduced people had plenty of time to arrange their affairs to ensure they didn't actually have to pay it. And arrange their affairs they did. The result has been a big increase in revenues this year – with a big fall expected next year. A lot of that has been driven by a very small number of wealthy individuals. It seems that just 100 fortunate individuals paid a lot of tax this year, thereby saving £100 million in tax eventually – that's £1 million each on average – by taking their dividends early.

People respond to tax incentives – especially the very wealthy who pay an awful lot of the tax on which we rely.

Even so the OBR has warned that we are on course to lose £3.5 billion of tax revenue by 2021 as a result of more incorporations. It also reckons that we will lose an additional £1 billion of tax revenue as a result of further increases in the number of self employed. That's because owner managers and the self employed pay a lot less tax than employees.

The 2% increase in NICs for the self employed closes a small fraction of the gap between employees and the self employed. In combination with the abolition of class 2 NICs to be introduced at the same time it will leave any self employed person with profits of less than about £15,570 better off. The maximum loss, affecting those with profits over £45,000, will be £589 per year. The tax advantage to being self employed will still run into the thousands of pounds. The really big difference in treatment is the fact that employers pay 13.8% NI on anything they pay to their employees and nothing on anything they pay to self employed contractors.

A tax system which charges thousands of pounds more in tax for employees doing the same job as someone else needs reform. It distorts decisions, creates complexity and is unfair. The incentives for companies to claim that people who work for them are self employed rather than employees are huge.

You'll note that the Chancellor at the same time announced that the £5,000 tax free dividend allowance, introduced less than a year ago, would be cut to £2,000. To change it so quickly does not look like coherent policy making. It happened because he worries that by increasing tax on the self employed he increases the incentive to incorporate. He is right to worry. Rates of incorporation have been rising and they are sensitive to the tax treatment.

All in all these feel like baby steps in the right direction. But they are sticking plasters not the fundamental look at the tax base as well as tax rates that is required. A lot more work, analysis and consultation is needed.

Part of the problem of course is that the increase in class 4 NICs does look like a breaking of the manifesto commitment not to raise NI. Just as the last Labour government broke its manifesto pledge not to raise the basic or top rates of income tax when it increased the top rate to 50%. As we said at the time these were silly pledges. To commit yourself to not raising the three main taxes – income tax, NI and VAT – ties your hands to an absurd extent. No party should repeat these sorts of promises.

One brief word on business rates. The transitional protections announced yesterday will be welcome and are needed in large part because the revaluation which has led to changes in rates took place seven years after the last valuation. That's a lot of time for relative property values to change and hence for bills to change. Mr Hammond suggested yesterday that revaluations will be more frequent going forward. That will be welcome. In brief what is happening now is that business rates in London are rising a lot. They are not rising on average elsewhere. We estimate that an extra £800 million of London rates will go into the central pot or be redistributed directly to poorer regions.

Incomes and earnings

Of course in all this what really matters to people is what is happening to their incomes. Income and earnings growth over the next few years still look like being weak. On current forecasts average earnings will be no higher in 2022 than they were in 2007. Fifteen years without a pay rise. I'm rather lost for superlatives. This is completely unprecedented.

Within that rather gloomy picture some other interesting things are happening. Employment remains, and is projected to remain, extremely strong. And among those in work earnings have been rising faster for the low paid than for the high paid. The rising National Living Wage means that will continue.

Overall the highest earners, the top 1%, are having a particularly bad decade. Our calculations suggest that the top 1%, having pulled away from the rest over the 2000s are being reeled back in. The ratio between earnings at the 99th percentile and those at the median hit 5 to 1 in the late 2000s. It is back at 4.6 to 1 now, about where it was in 1999.

And that compression of the earnings distribution looks set to continue. Which will keep earnings inequality down. But it is bad news from the point of view of tax revenues. Such growth as we have had has not been tax rich. And going forward the OBR warns that:

> "the top end will be disproportionately hit by the UK exiting the EU (due to effects on higher paying sectors including financial services). Changes in the distribution are therefore expected to deliver a small drag on the effective tax rate over the next five years".

Changes in April

Let me finish by just reminding you that however brief yesterday's budget may have been there are plenty of big changes coming in this April. The biggest of them are cuts to benefits – to ESA and to tax credits. These will have much bigger effects on people's incomes than anything announced yesterday.

Tax credit changes in April will not affect current claimants immediately but will mean big losses in the longer term. The removal of benefit from third and subsequent children will mean that in the long run 600,000 three child families will be an average of £2,500 a year worse off than they would have been, while 300,000 families with four or more children will be £7,000 a year worse off on average. This and the reduction in the "family element" of tax credits will save around £5 billion a year in the long run, dwarfing all of yesterday's announcements combined.

And here's a thing. If you're really concerned about changes affecting the low income self employed it is to Universal Credit that you should be looking. New rules mean that anyone declaring as self employed will, after a year, be deemed to be earning at least equivalent to working 35 hours at the National Living Wage (or minimum wage for younger people). Such a change makes some sense in the context of the difficulty of monitoring actual incomes. It is due to save £1.5 billion a year. The NI changes are very small by comparison.

To conclude

Clearly the most controversial announcement yesterday was the increase in self-employed NI rates. This appears to break a foolish manifesto commitment not to raise any of the major taxes. On the other hand it is a small change taking a small step to correcting a big problem with the current tax system. That problem needs a much more thorough review and strategy to deal with it, as do many other problems in the tax system. If politicians continue to make silly manifesto pledges about not changing taxes and the rest of us resist sensible changes such as this we will end up with the tax system we deserve – inefficient, inequitable, complex and increasingly unable to raise revenue in the face of a changing economy.

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News

Chancellor defends Budget after backlash over broken promises

8:25 - 9 MAR 2017

"No Chancellor is ever prepared to rule out the possibility of future tax increases"

– Philip Hammond

Chancellor Philip Hammond joined Good Morning Britain this morning as he faces a backlash after revealing his first Budget yesterday.

Criticised for going back on Conservative promises made in the run up to the Election by increasing National Insurance - particularly targeting the self-employed - he told us he had "targeted an unfairness in the system" and that his focus was on the NHS and social care.

He also refused to rule out further tax hikes.

Watch the full interview above.

What does the Budget mean for us?

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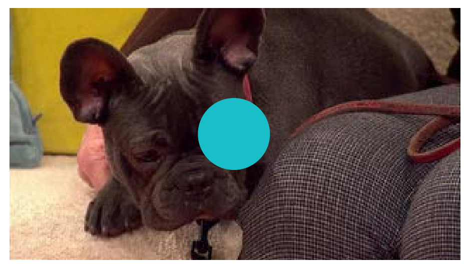

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