PREVIEW: UK Budget due Wednesday, 6th March at ~12:30GMT/07:30ET

- **Around GBP 13bln of headroom before any measures are announced, significantly lower than the GBP 30bln available going into November's update.**
- **Headline adjustment expected around Income Tax and/or National Insurance, recent reports indicate a 2pp National Insurance cut will be announced at a cost of GBP 9bln.**
- **Gilt remit forecast at GBP 258.4bln for 2024/25 via the Reuters poll with a bias towards medium vs longer-dated issuance, though short-term still dominates.**
- **Budget will be framed as the last scheduled fiscal update before the end-2024 election, where Labour is currently on track to secure a sizeable majority.**

Summary:

- Chancellor Hunt has had the unenviable task of trying to adhere to his fiscal rules, not surprise markets by over-promising relative to his headroom/market appetite and finally provide enough of a fiscal sweetener to give the Tories a chance in the end-2024 elections. Additionally, Hunt needs to be careful to ensure that the measures are not judged as inflationary by the BoE, a consideration that has reportedly put an end to a potential Stamp Duty (housing) adjustment.
- The Chancellor is expected to have around 13bln of headroom before any measures are announced.
- In short, the headline 'giveaway' was initially thought to be a 2pp cut to either Income Tax or National Insurance. However, a souring of the OBR's forecasts was believed to have significantly diminished the chance of this occurring with the narrative switching instead to a 1pp cut. Most recently, reports in The Times suggest that a 2pp cut to National Insurance is back on the table, preferred over a 2pp Income Tax reduction given respective costs of 9bln/year & 12bln/year. Additionally, an Income Tax reduction was reportedly deemed to be potentially inflationary.
- Other measures which would cut government revenue include Fuel Duty, Inheritance Tax, Child Care & Stamp Duty related adjustments. On the flip side, measures to increase government revenue include non-Domiciled Status, Vaping, Oil/Gas & NatWest related adjustments.
- Politically, the Budget will be framed as the last scheduled fiscal update prior to the election (if Labour wins, then much of this budget may be reversed next year to allow them to fund their own plans). Former Chancellor Osborne was of the opinion that the Conservatives would provide another update in September, however he no longer believes this will occur due to the scrutiny any fiscal update would draw so close to the election, particularly on the longer-dated assumptions which underpin the fiscal rules.
- Reuters poll has total Gilt issuance at 258.4bln for 2024/25, with a bias towards medium (30%) vs longer-dated (19%) supply though short (37%) still dominates.

Current Fiscal Headroom:

- **Various reports have suggested that the Chancellor has been given around 13bln of headroom via the latest OBR forecasts**, a figure that the FT reports has deteriorated in recent weeks; for instance, at the beginning of February Morgan Stanley estimated Hunt would have 23bln of headroom. The touted **13bln is significantly shy of the circa. 30bln Hunt had in November** which enabled him to cut National Insurance and Business Tax rates at a cost of around 20bln.
- The **OBR is seen as likely to downgrade its real GDP forecasts** from 0.7% and 1.6% in 2024 and 2028 respectively, CapEco look for 0.2% and 1.4% there. Cuts to such forecasts impact the Chancellor's commitment for debt-to-GDP (measured via PSND) to be falling by the fifth year and drag on tax receipts for the overall headroom.
- On the flip side, the Autumn Statement's market backdrop was locked in around six-weeks prior to the event, if this holds true once again then the Chancellor will benefit from the lower borrowing costs implied by market rates at that point. Finally, the January PSNB figure implied borrowing of circa. 110bln for 2023/24, markedly shy of the OBR's 123.9bln forecast.
- **Gross Financing Requirement seen at 275.9bln for 2024/25, according to the Reuters poll, close to the DMO's November forecast of 277bln; from this, Morgan Stanley expects 140bln of redemptions. Gilt issuance seen by Reuters at 258.4bln (prev. 237bln)** with a bias towards medium (30%) vs longer-dated (19%)

supply though short (37%) still dominates. The breakdown of the gross requirement has T-Bill issuance at 10bln and National Savings & Investment at 7.5bln. Overall, **Morgan Stanley believes a remit in-fitting with their forecasts (Gross 276bln, Gilts 257bln) should not meaningfully impact Gilts**.

Increasing Government Revenue (GBP):

- **Airfare Duty**: Telegraph reports that an increase in airfare duty for Business Class is being considered.
- **Cutting Gov't Spending Assumptions**: Currently, the plan is for a 1% real-term increase in public spending each year until 2029. A figure which has been labelled as worse than fiction by the OBR, given there are no formal plans for achieving such an increase. FT reports that a **trimming of the increase to 0.75% is being considered, which would save 5-6bln.**
- **Holiday Lets**: Telegraph reports that the removal of various advantages to individuals who profit from second home rentals is being considered, generating 300mln. Reporting which has drawn pushback, National Residential Landlords Association calling for the government to instead alter the stamp duty levy on second homes.
- **NatWest (NWG LN)**: Government holds around a 33% stake. Considering selling part of this via a retail offering with the **aim of raising 3-4bln**.
- **Non-dom status**: Currently, non-domiciled individuals only pay UK tax on money earned within the country. **Removing the incentive would generate 3.6bln** according to LSE/Warwick estimates. In reality, the Chancellor may not entirely remove the status (given potential longer-term negative implications) but may instead alter eligibility rules and/or timeframes.
  - An alteration would also be politically motivated (first floated by former Chancellor Osborne) as Labour has suggested it would use this revenue on education and the NHS. Hunt acting first means Labour will need to explain how it will fund such spending, given Hunt will undoubtedly use the headroom elsewhere, and whether it will necessitate Labour tax raises.
- **Oil/Gas Windfall Tax (EPL Levy)**: First introduced by Sunak at 25% and increased to 35% by Hunt for the January 2023-March 2028 period, equating to a headline 75% oil/gas profit tax rate. **Government's initial projection was for it to raise 14bln over its lifetime**. Labour has suggested extending the total to 78% matching Norway, and increasing its lifespan to the next parliamentary term, **raising over 10bln in the five-years from 2024-25**.
- **Taxi-Tax**: High Court ruled that taxi firms not drivers were liable for charging VAT when required i.e. the likes of Uber (UBER) could be responsible. Campaigners have called for the Chancellor to scrap the potential rule change – consultation underway, publication expected shortly.
- **Vaping**: Follows on from the ban on disposable vapes. A vape-specific levy has been touted, to bring them in-line with other tobacco products; interestingly, the Telegraph reports that **if there is a vaping tax then Hunt it is "likely" Hunt would increase tobacco taxes** so smoking remains comparably more expensive. A **1% increase to tobacco duties would raise around 10mln/year** (based on a pack of 20).

Decreasing Government Revenue (GBP):

- **Fuel Duty**: The existing 5p/litre cut to fuel duty is expected to be extended past its current 23rd March expiry. Capital Economics forecasts that a **1yr extension and no RPI increase for 2024/25 would cost 6.2bln**.
- **Income Tax**: Some reports have suggested a **2p cut was being considered, costing circa. 12bln/yea**r; however, the OBR's assessment on the draft 28th February policies reportedly cast doubt over this. The OBR is said to have judged that the proposals in total were too expensive and thus a **1p cut to the basic rate is more likely at a cost of 6bln/year**. (see National Insurance point below for the latest)
- **Inheritance Tax**: Ahead of the Autumn Statement there were reports that the headline rate could be cut to 20% from 40%, costing around 3.6bln. Aside from cutting the headline rate other previously touted measures include lifting the current 325k threshold.
- **National Insurance**: A similar line of thought to Income Tax, with the Chancellor said to prefer a Income Tax vs National Insurance alteration given the latter was altered in the Autumn Statement to 10% (prev. 12%) On the eve of the Budget, **Times' Swinford reports that a 2pp cut is to be announced**, to be framed as a 900/person tax cut given the Autumn reductions. **A 1pp cut costs circa. 4.5bln/year**.
- **Stamp Duty**: i news reported that a cut has been ruled out due to a fear it would drive inflation and thus be at odds with the BoE's efforts.

Other Measures:

- **Mortgages**: 99% mortgages were touted as a way of bolstering the housing market. However, FT citing government insiders report that the measure has been scrapped following pushback from brokers over the risk of negative equity.

- **Childcare**: Reports that Hunt could increase the current 50k annual income threshold. Elsewhere, KPMG has estimated that fixing the childcare system to allow implementation of measures from last year **could net the government an additional 3.2bln/year**.