



Brexit

Economic effects of reducing the pressure for wage growth

The economic effects of leaving the EU could cause unemployment to rise in the UK which would reduce the pressure for wage growth. The Treasury estimated that wages will be between 2.8% and 4% lower at the point of maximum impact.

However, if the UK remains a member of the EU for at least another two years, much will depend on economic performance during this period.

BENEFIT PAYMENTS

In the event that economic growth is slower outside the EU in the short term, the Government's income could fall, leaving it with less money to spend. There have been estimates of the size of that possible shortfall varying between £28bn and £44bn by 2019/20.

Since the welfare budget amounts to approximately 28% of all government spending, there could also be cuts that reduce tax credits and benefit payments.

BUDGET SHORTFALLS

Ultimately, the UK's economic growth and potential budget shortfalls will very much depend on the precise nature of trade agreements and whether the UK will be a member of the European Economic Area (EEA).

One further option the Government may consider is not to keep its earlier target to balance the books by 2020, known as the 'fiscal mandate'. This would enable decisions to be made as to whether to maintain benefit payments at current levels.

TAXATION – NO LAWS HAVE CHANGED

A week before the EU referendum, the Chancellor of the Exchequer, George Osborne, warned that a vote to leave the EU might result in tax increases too. He spoke about a 2p rise on the basic tax rate (currently 20p in the pound) and a 3p rise in the higher rate (currently 40p). He also said Inheritance Tax (IHT) might rise by 5p from its current 40p in the pound. But to do so would go against the Conservative Government's promises at the last general election, making this decision to implement difficult politically.

EXTENDED AUSTERITY

Many commentators believe the Government would be much more likely to extend the period

of austerity beyond 2020. The Institute for Fiscal Studies (IFS) said that spending might need to be curbed for two further years.

During the referendum, the Vote Leave campaign said it wanted to remove the 5% VAT charge on domestic fuel that is currently required by the EU – but it is not clear how or when this could be achieved.

TAX AUTHORITY

The UK's tax authority is stressing that 'no laws have changed' and that tax rules remain the same following the EU referendum. 'Everything is continuing as normal. No laws have changed. There is no need to contact HM Revenue & Customs as a result of the EU referendum.'

Changes to financial regulations will inevitably change in time following the UK's vote to leave the EU. However, a recorded message on the HM Revenue and Customs (HMRC) helpline stated that nothing has changed in the immediate aftermath of the vote.

