



HOUSE OF COMMONS

LONDON SW1A 0AA

31st August 2021

Jean Contrevent

RE: CORONAVIRUS – PUBLIC SPENDING

Thank you for your recent correspondence in respect of taxation and public spending to tackle COVID-19 pressures; your comments upon which I have read with interest.

We are seeing the impact of COVID-19 on our economy and that is why unprecedented actions have been taken to support businesses and indeed people in their jobs and incomes through what is a very difficult time. The policy response will have substantial direct budgetary costs, but the measures that have been put in place to support businesses and individuals, including the self-employed, through this temporary crisis will prevent greater economic and fiscal damage in the long-term. The immediate cost of this comprehensive support may be high, but the Office for Budget Responsibility (OBR) says that it is confident that the cost of inaction would ultimately have been much greater.

In 2020, the Government spent over £280 billion in order to protect life, jobs and livelihoods across the UK. In addition to innovations such as the Coronavirus Job Retention Scheme, much of this has been provided to public services such as the NHS, local government, transport and the welfare system. Over the course of the financial years 2020/21 and 2021/22, the Government's total fiscal response to COVID-19 will amount to £407 billion.

In 2023, once the economy has returned to its pre-pandemic peak, the rate of Corporation Tax paid by the largest and most profitable businesses will increase to 25 percent. I believe that this is a fair way to deliver more sustainable public finances while protecting the UK's strongly competitive position as the nation with the lowest Corporation Tax rate in the G7. It is important to note that companies with profits under £50,000 will remain at 19 percent.

I particularly welcomed the 'super-deduction' unveiled at the Budget which applies from the 1st April 2021 until the end of March 2023. During this period, companies can claim 130 percent capital allowances on qualifying plant and machinery investments. This capital allowance will allow companies to cut their tax bill by up to 25p for every £1 they invest, ensuring the UK capital allowances regime is amongst the world's most competitive and helping to stimulate productivity gains.

At the March 2021 Budget, the OBR forecast that government borrowing will fall from its current peacetime high of 16.9 percent of GDP (£355 billion) in 2020-21, to 10.3 percent (£234 billion) in 2021-22 and to 4.5 percent (£107 billion) and 2.8 percent (£74 billion) in 2025-26. Underlying government debt will peak at 97.1 percent of GDP in 2023-24.



It is also worth noting that Kristalina Georgieva, the Managing Director of the International Monetary Fund (IMF), has recently said that for the UK *"continued policy support is essential to address the pandemic and to sustain and invigorate a recovery... the economy is like a ship in rough waters, and this ship has not yet come to shore"*. The implication of this being that fixing the public finances and lowering public debt will be essential, but that this should only happen once the pandemic is over.

I am confident that future economic growth will mean sustainable public finances, while increasing expenditure for our vital public services and investing in our future. I will continue to work with colleagues to ensure that public spending is kept at sensible levels. I firmly believe in a fair and sustainable tax system which ensures that everyone continues to pay their fair share of tax, while also allowing people to keep more of what they earn. As I am sure you will know, the Government had promised not to raise Income Tax, National Insurance or VAT in the March Budget, and this promise was kept. Furthermore, I am delighted that taxes are not just being frozen, but are being cut as well.

Any decision to modify our tax regime is a matter for the Treasury and careful consideration will be given to any proposed amendments. I understand that the Government keeps all taxes under review. I shall, of course, be following developments on this issue closely, and I will ensure my colleagues at the Treasury are aware of the strength of feeling on this issue and the specific areas of spending that you have highlighted, with regards to local authorities.

Once again, thank you for having taken the time to contact me and if I can ever be of any further assistance to you, then please do not hesitate to contact me again.

With best wishes,

**TOM PURSGLOVE MP
MEMBER OF PARLIAMENT
CORBY & EAST NORTHAMPTONSHIRE**