

your money. Liberal Democrats want to make our tax and benefits system fair, so that everyone, be they young or old, can afford to get by.

fair taxes and fair benefits to help every family get by

Liberal Democrats want to make the tax and benefits system fair, so that everyone, be they young or old, can afford to get by. We have plans for the most radical, far-reaching tax reforms in a generation.

These changes are desperately needed. Conservative and Labour governments have changed Britain into one of the most unequal societies in the developed world, where ordinary people struggle to make ends meet while the richest benefit from tax breaks. The poorest fifth of the population pay a higher proportion of their income in tax than the richest fifth.

We set out in this manifesto a clear plan **to bring the budget back under control**, being honest about the tough choices we need to take. We will **cut taxes for millions of working people and pensioners**, paid for by making sure that the very wealthy pay their fair share and that polluting air travel is properly taxed. We will boost the state pension **by immediately restoring the link with earnings** growth.

tax fairness for everyone

Under a Liberal Democrat Government, you will not have to pay any income tax on the first £10,000 you earn. This will free half a million people in Scotland on low incomes from having to pay any income tax at all and put £700 back in the pockets of millions more people on low and middle incomes.

In this way we will help people struggling to make ends meet and provide an incentive to work and save.

This change will be paid for by:

- Giving tax relief on pensions only at the basic rate, so that everyone gets the same tax relief on their pension contributions.

- Taxing capital gains at the same rates as income, so that all the money you make is taxed in the same way.
- Tackling tax avoidance and evasion, with new powers for HM Revenue and Customs and a law to ensure properties can't avoid stamp duty if they are put into an offshore trust.
- Ensuring pollution is properly taxed by replacing the per passenger Air Passenger Duty with a Per Plane Duty (PPD), ensuring air freight is taxed for the first time. We will also introduce an additional, higher rate of PPD on domestic flights if realistic alternative and less polluting travel is available, continuing to exempt lifeline flights.
- Introducing a Mansion Tax at a rate of 1 per cent on properties worth over £2 million, paid on the value of the property above that level.

In addition we will reform the system of “non-domiciled” status, allowing people to hold such status for up to seven years, after which time they will become subject to tax on all offshore income in the same way as domiciled British citizens.

dealing with the deficit

The health of the economy depends on the health of the country's finances. Public borrowing has reached unsustainable levels and needs to be brought under control to protect the country's economic future.

A Liberal Democrat Government will be straight with people about the tough choices ahead. Not only must waste be eliminated, but we must also be bold about finding big areas of spending that can be cut completely. That way we

can control borrowing, protect the services people rely on most and still find some money to invest in building a fair future for everyone.

We have already identified over £15 billion of savings in government spending per year, vastly in excess of the £5 billion per year we have set aside for additional spending commitments. All our spending commitments will be funded from this pool of identified savings, with all remaining savings used to reduce the deficit.

We must ensure the timing is right. If spending is cut too soon, it would undermine the much-needed recovery and cost jobs. We will base the timing of cuts on an objective assessment of economic conditions, not political dogma. Our working assumption is that the economy will be in a stable enough condition to bear cuts from the beginning of 2011-12.

Through taking tough choices as well as introducing efficiency changes and reducing bureaucracy across government, **our savings will include:**

- Setting a £400 pay rise cap for all public sector workers, initially for two years, ensuring the lowest paid are eligible for the biggest percentage rise.
- Restricting tax credits.
- Ending government payments into Child Trust Funds.
- Introducing a banking levy so banks pay for the financial support they have received, until such time as they can be split up to insulate retail banking from investment risks.
- Scrapping ID cards and the next generation of biometric passports.

Further details of our savings, including a number of smaller savings items, can be found in the tables annexed to the section on Credible and Responsible Finances on page 76.

In the longer term, as part of a Comprehensive Spending Review involving wide consultation, we will seek to identify additional savings which can be used to pay down the deficit further. **These will include:**

- Saying no to the like-for-like replacement of the Trident nuclear weapons system, which could cost £100 billion. We will hold a full defence review to establish the best alternative for Britain's future security.
- Reforming public sector pensions to ensure they are sustainable and affordable for the long term, with an independent review to agree a settlement that is fair for all taxpayers as well as for public servants.
- Better government IT procurement, investigating the potential of different approaches such as cloud computing and open-source software.
- A wholesale review of value for money in the public sector based on the findings of the National Audit Office and the House of Commons Public Accounts Committee.

We will establish a Council on Financial Stability, involving representatives of all political parties, the Governor of the Bank of England and the Chair of the Financial Services Authority. This group would agree the timeframe and scale of a deficit reduction plan to set the framework, not the detail, for the Comprehensive Spending Review and seek to promote it externally and domestically. Any agreement would be without prejudice to parties retaining and advocating distinctive views on a wide range of issues, such as fair taxes and spending priorities.



fairness in pensions, savings and benefits

Labour has created a hugely complex and unfair benefits system, and it needs to be reformed. Pensions and savings have been undermined.

We will make pensions and benefits fair and reward savers by:

- Restoring the link between the basic state pension and earnings immediately. We will uprate the state pension annually by whichever is the higher of growth in earnings, growth in prices or 2.5 per cent.
- Increasing the income tax threshold to £10,000.
- Giving people greater flexibility in accessing part of their personal pension fund early, for example to help in times of financial hardship.
- Giving people control over their pension by scrapping the rule that compels you to buy an annuity when you reach age 75.
- Allowing individuals to save through the UK Infrastructure Bank, offering stable long-term returns.
- Meeting the Government's obligations towards Equitable Life policyholders who have suffered loss. We will set up a swift, simple, transparent and fair payment scheme.
- Ending the rollercoaster of tax credit overpayments by fixing payments for six months at a time. We will also target payments towards those who need them most.
- Reforming Winter Fuel Payments to extend them to all severely disabled people, paid for by delaying age-related Winter Fuel Payments until

people reach 65. We will continue to pay Winter Fuel Payments to all current recipients of Pension Credit.