



Robert Joyce

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@TheIFS

Incomes and personal tax and benefit measures



Economic
and Social
Research Council

2022: direct tax measures

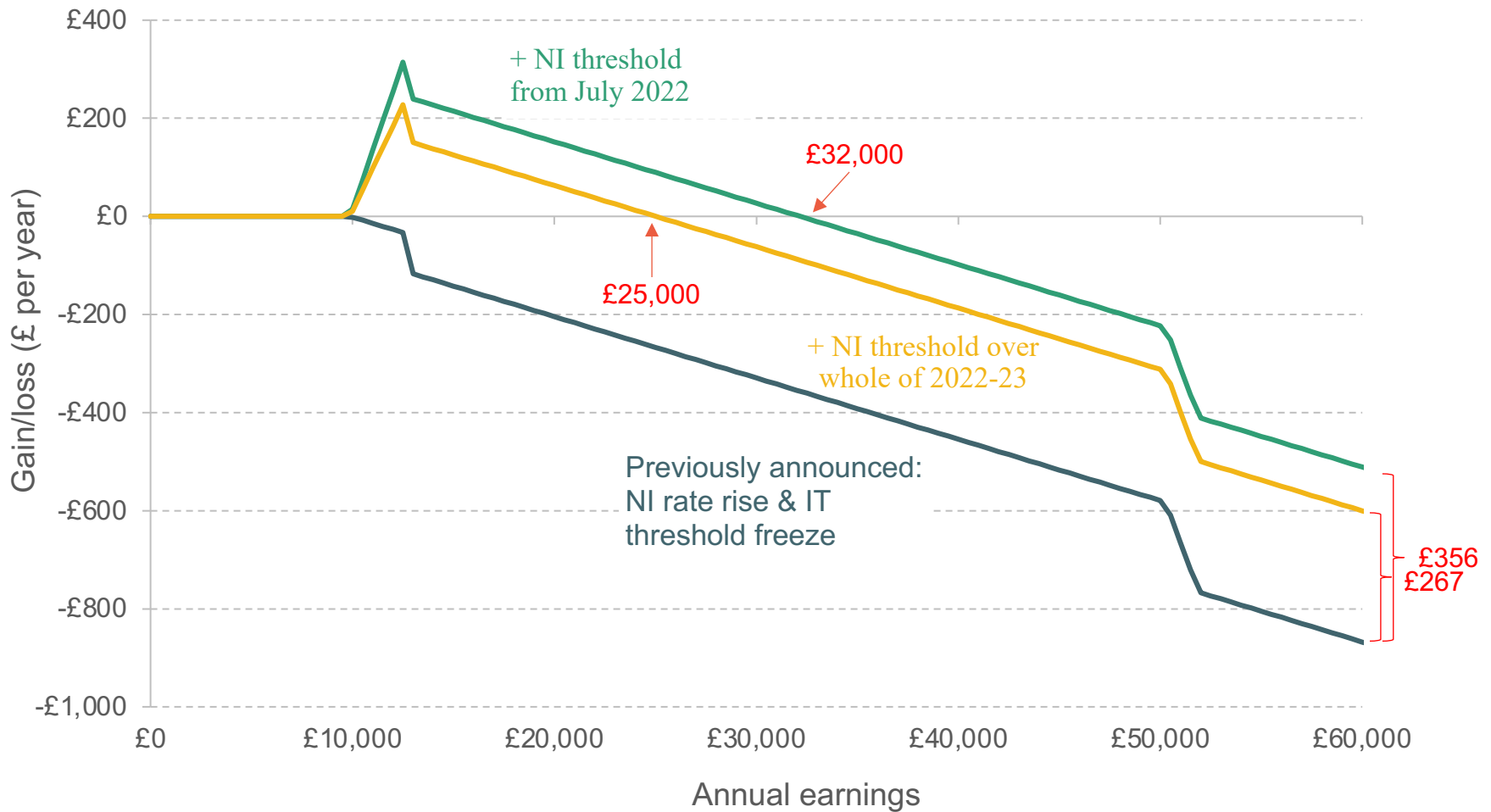
Previously announced tax increases in April

- Freeze to personal allowance and higher rate income tax thresholds
 - Instead of default 3.1% increase in April
 - Raises £2.9bn in 2022-23
- 1.25ppt increase in all NICs rates
 - Raises £17.2bn in 2022-23

Newly announced tax cut in July: rise in employee and self-employed NICs threshold

- Costs £6.3bn in 2022-23

2022 income tax & NICs changes



2022: other measures

▪ **Previously announced**

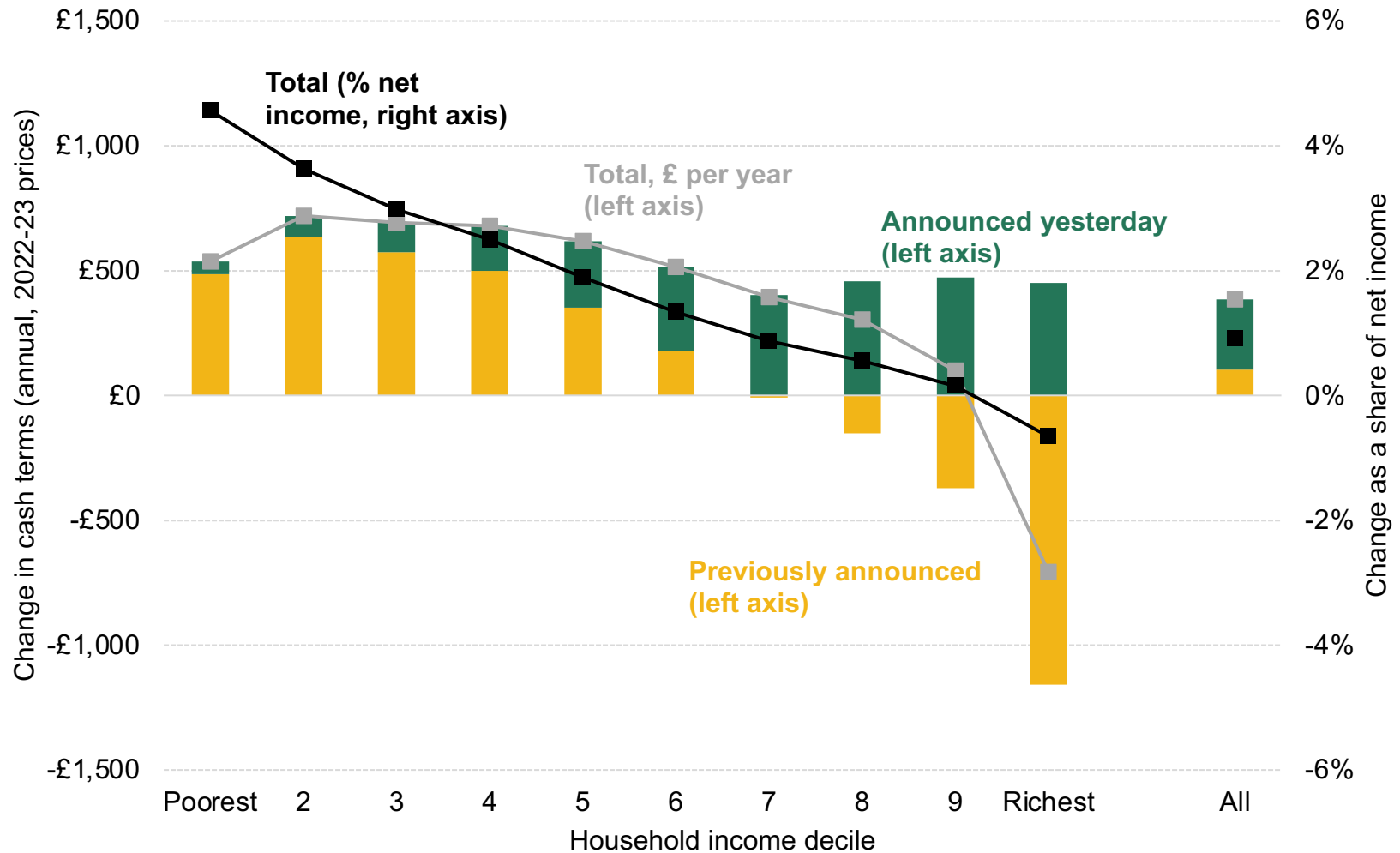
- £150 grant to households in council tax bands A-D; £3bn in 2022-23
- £200 giveaway to all households; £6bn in 2022-23
 - Recouped in subsequent 5 years
- Fuel and alcohol duties frozen; £3.5bn in 2022-23

Newly announced

- Immediate 12-month (really?) 5p cut to fuel duties; £2.4bn in 2022-23

Distributional impact of tax & benefit reforms

Impact in 2022-23 of measures implemented from November 2021



Previously announced income tax increases

- More freezes to thresholds up to and including 2025-26 (4-year freeze in total) – far bigger policies than intended
 - Total real cut to these thresholds by 2025 up from 7.5% to 16.4%
 - Expected saving has more than doubled to £17.8bn in 2025-26

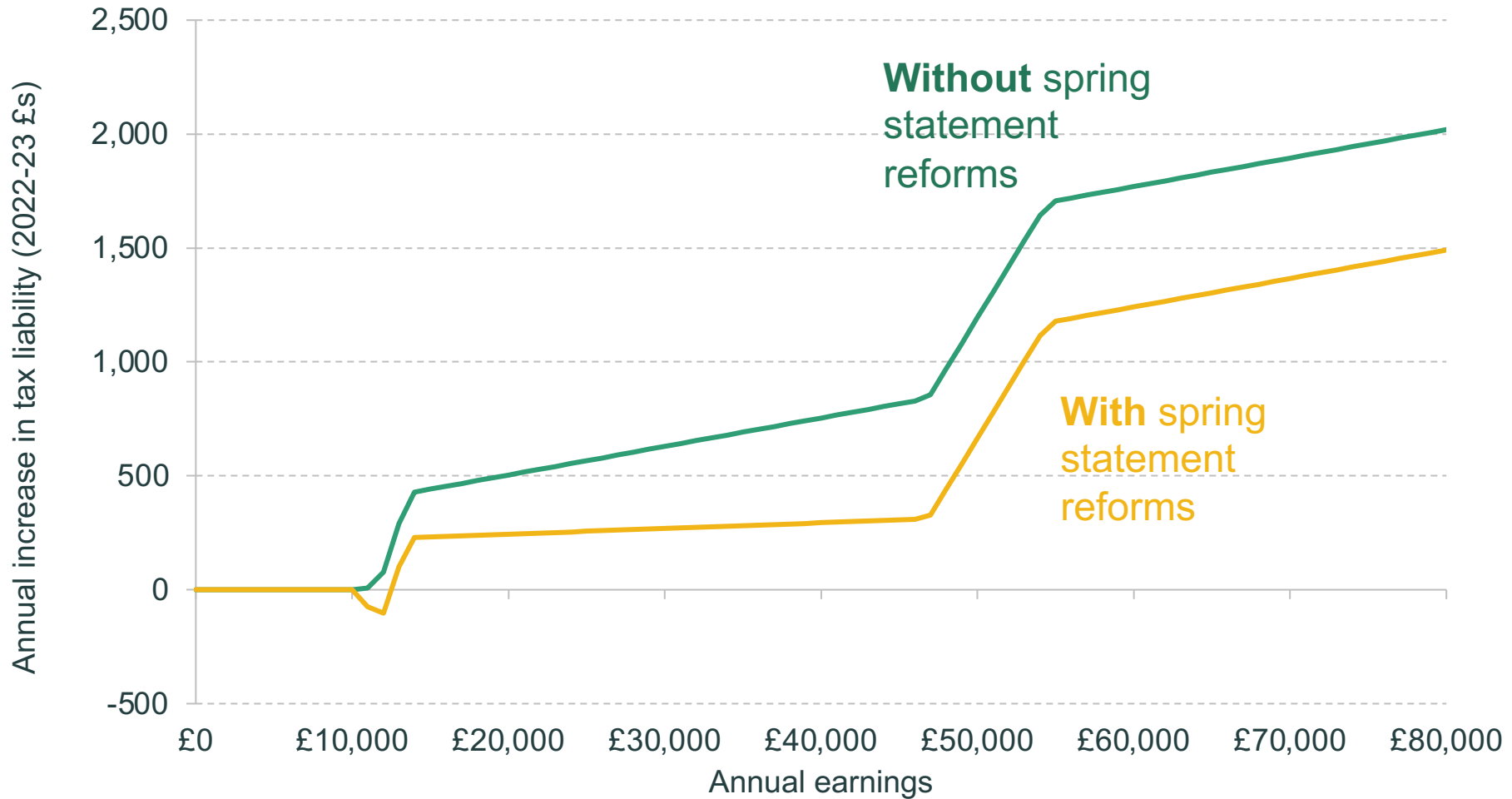
After increase in July 2022, NICs threshold to be frozen (with personal allowance) for 3 years

- Meaning full-year cost roughly halves to £4.4bn in 2025-26

Newly announced income tax cut

- 1p off basic rate from April 2024; costs £6.1bn in 2025-26

Direct taxes in 2025-26 increased for virtually all workers by reforms announced this parliament

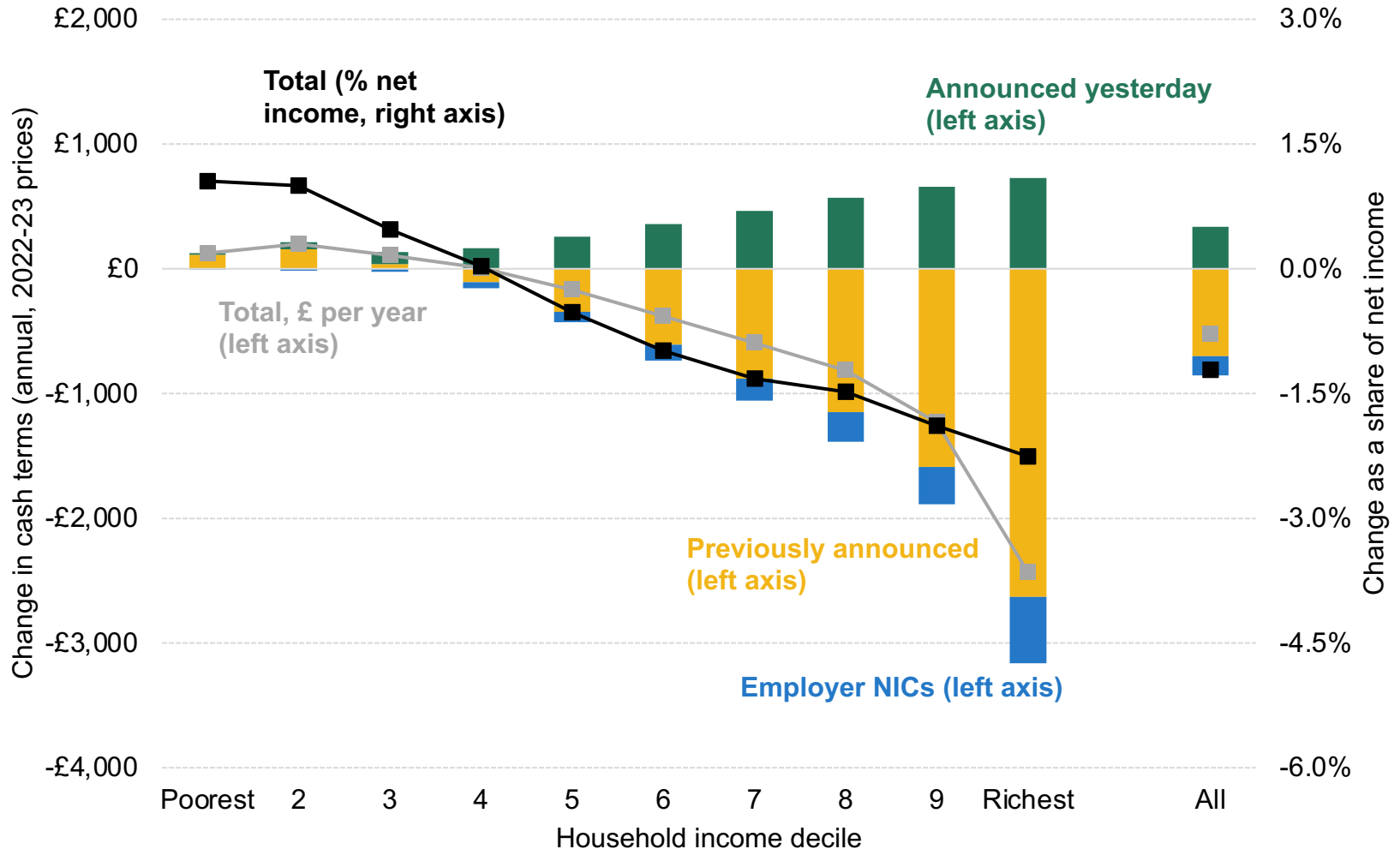


Beyond 2022: other measures

- £200 per-household energy bill support gradually recouped
- Temporary (really?) 5p cut to fuel duty expires in March 2023

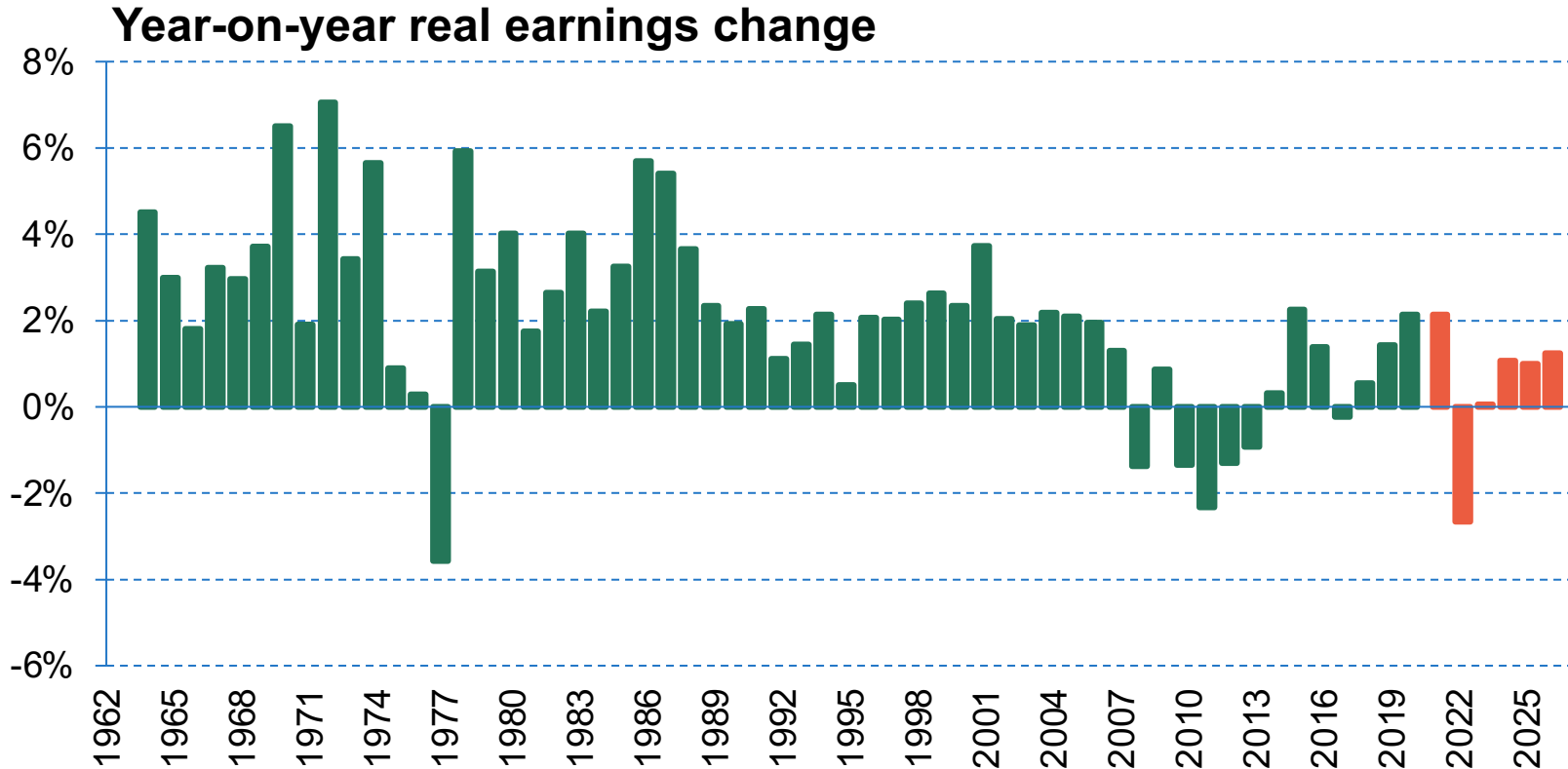
Distributional impact of tax & benefit reforms

Long run impact of measures implemented from November 2021



Incomes

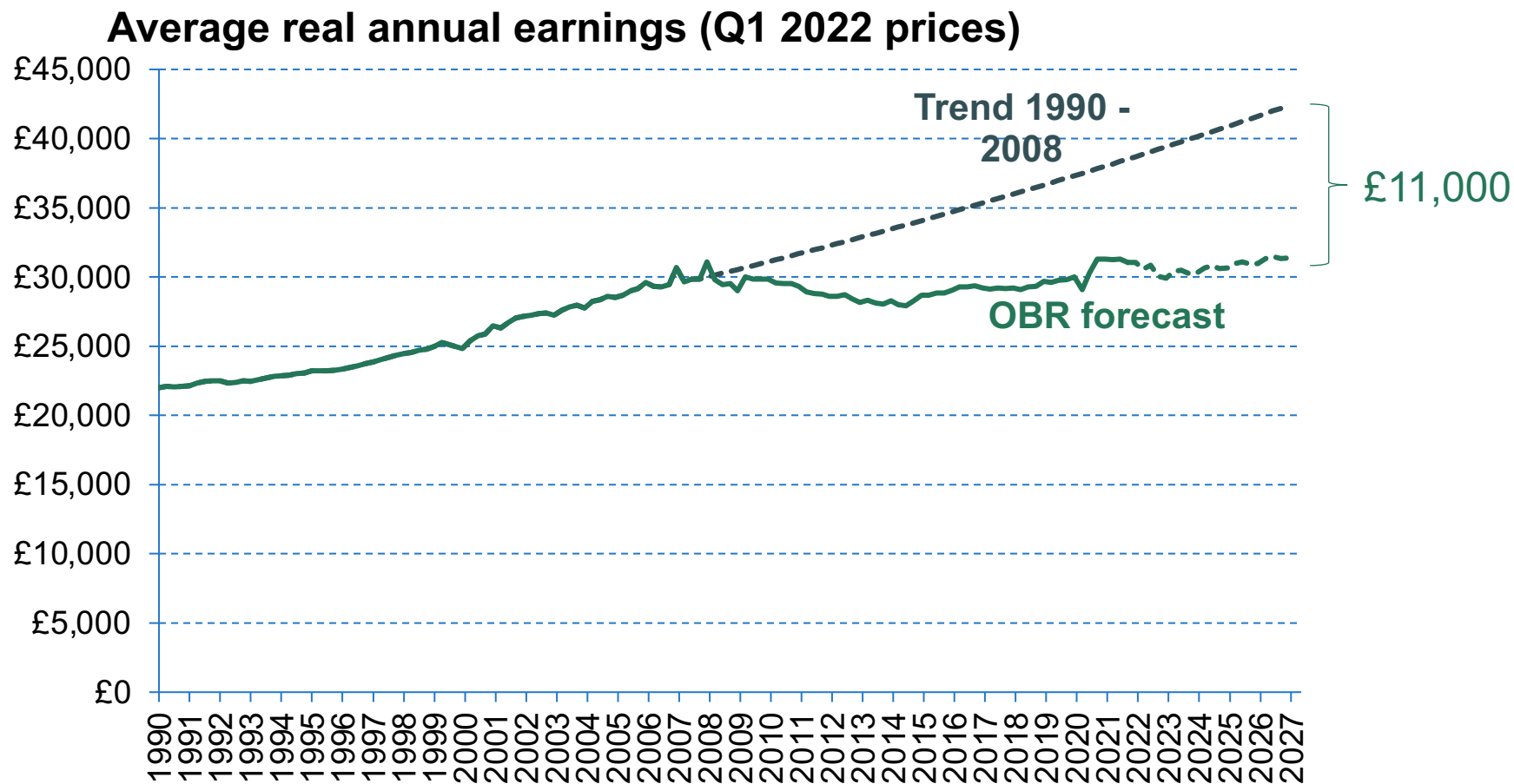
We are set for the sharpest drop in real average earnings since 1970s...



Source: ONS AWE and Historic AWE, OBR.

Note: Rates are for the year beginning April. Adjusted for inflation. Historical series is deflated by CIP with an adjustment for housing costs. Forecast is deflated by OBR's CPI forecast.

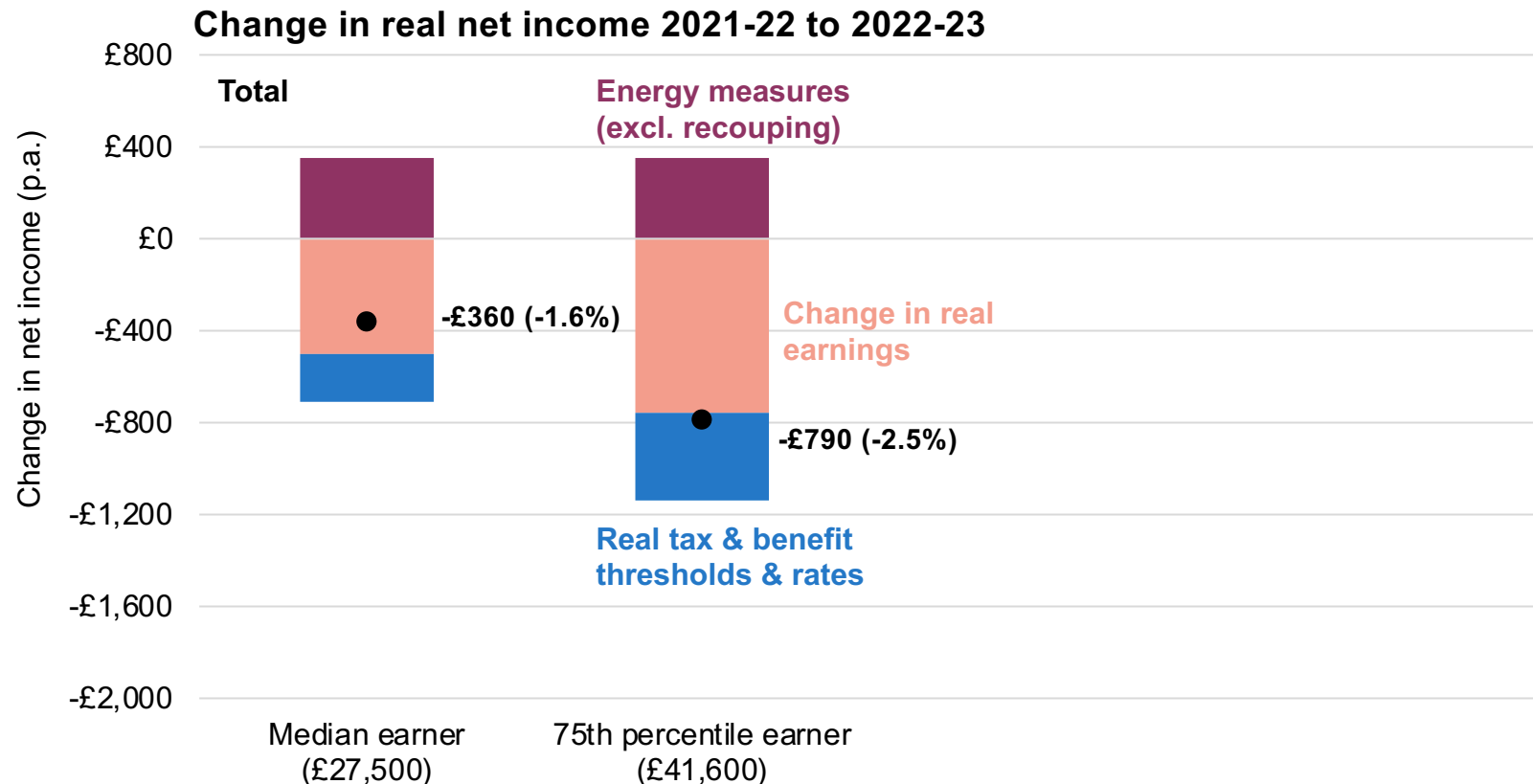
...extending yet further the wait for real earnings to move past 2008 levels



Source: ONS AWE and Historic AWE, OBR

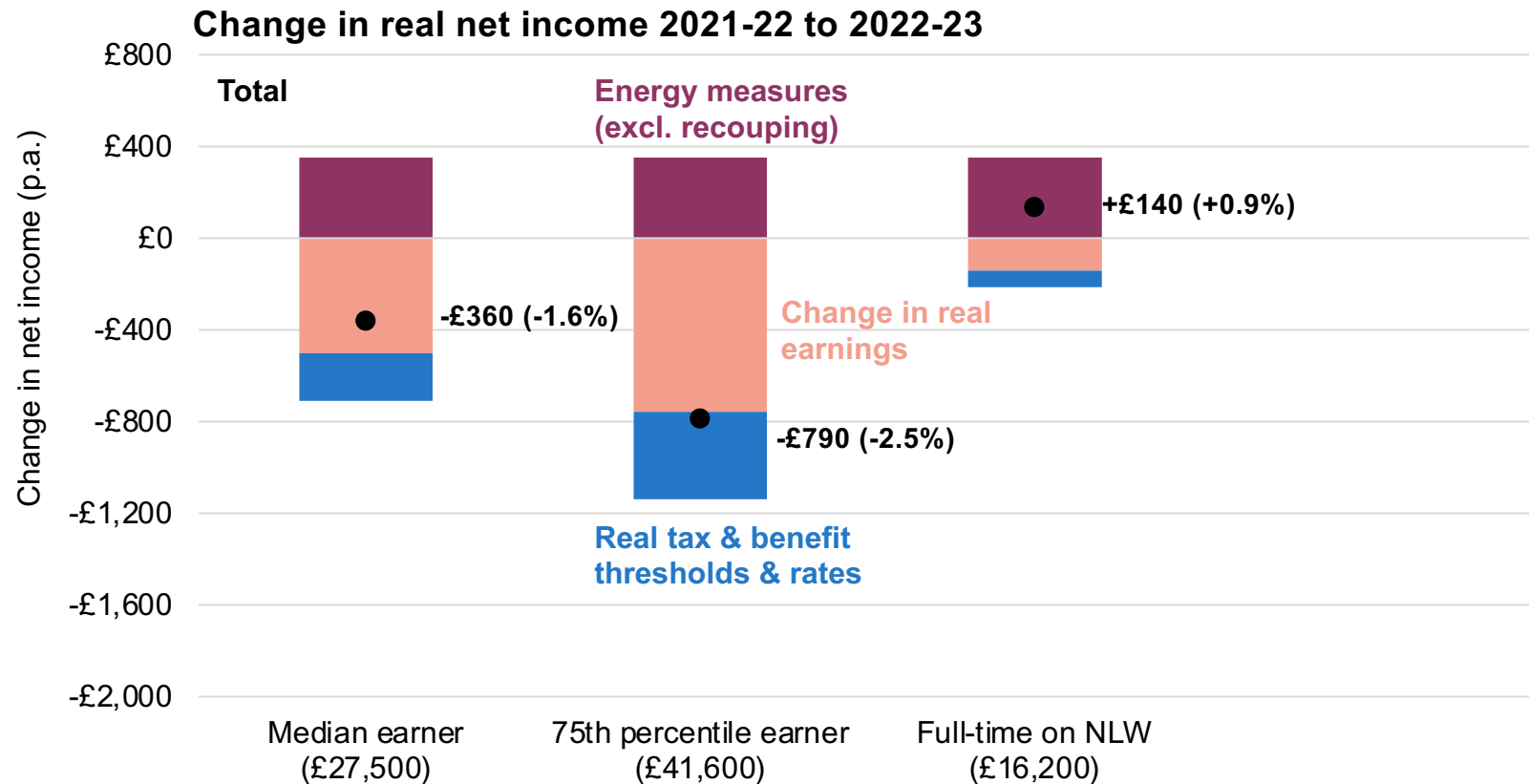
Note: In Q1 2022 prices. Historical series is deflated by CPI with an adjustment for housing costs. Forecast is deflated by OBR's CPI forecast.

Changes in real take-home income, next year compared to this



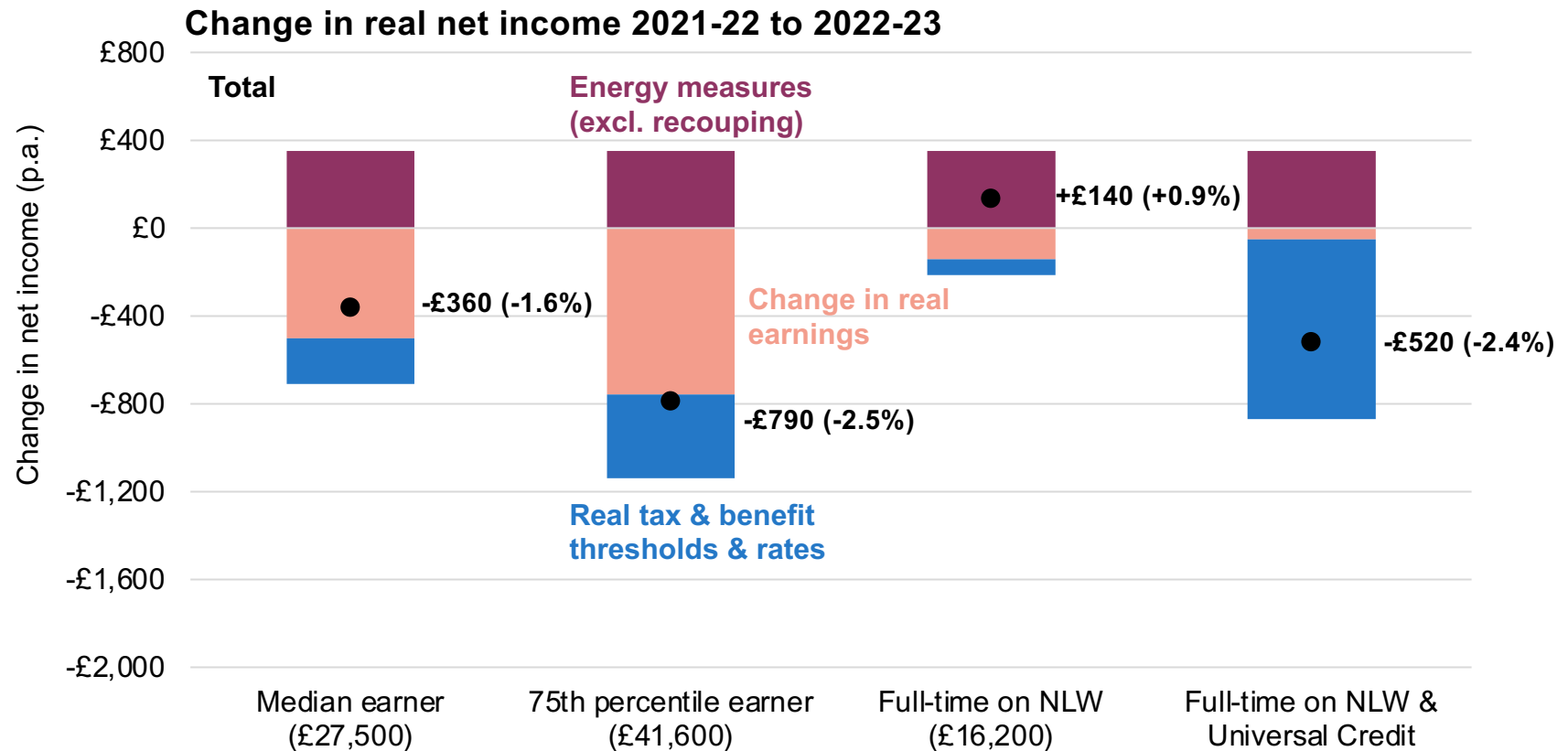
Notes: Figures in 2022/23 prices. First 3 households receive no benefits and have no working partner. UC worker is a lone parent homeowner with 2 children. "Real tax & benefit thresholds & rates" incorporates explicit policy reforms (NICs threshold rise, income tax freeze, changes to UC) as well as rates & thresholds by default rising more slowly than expected inflation

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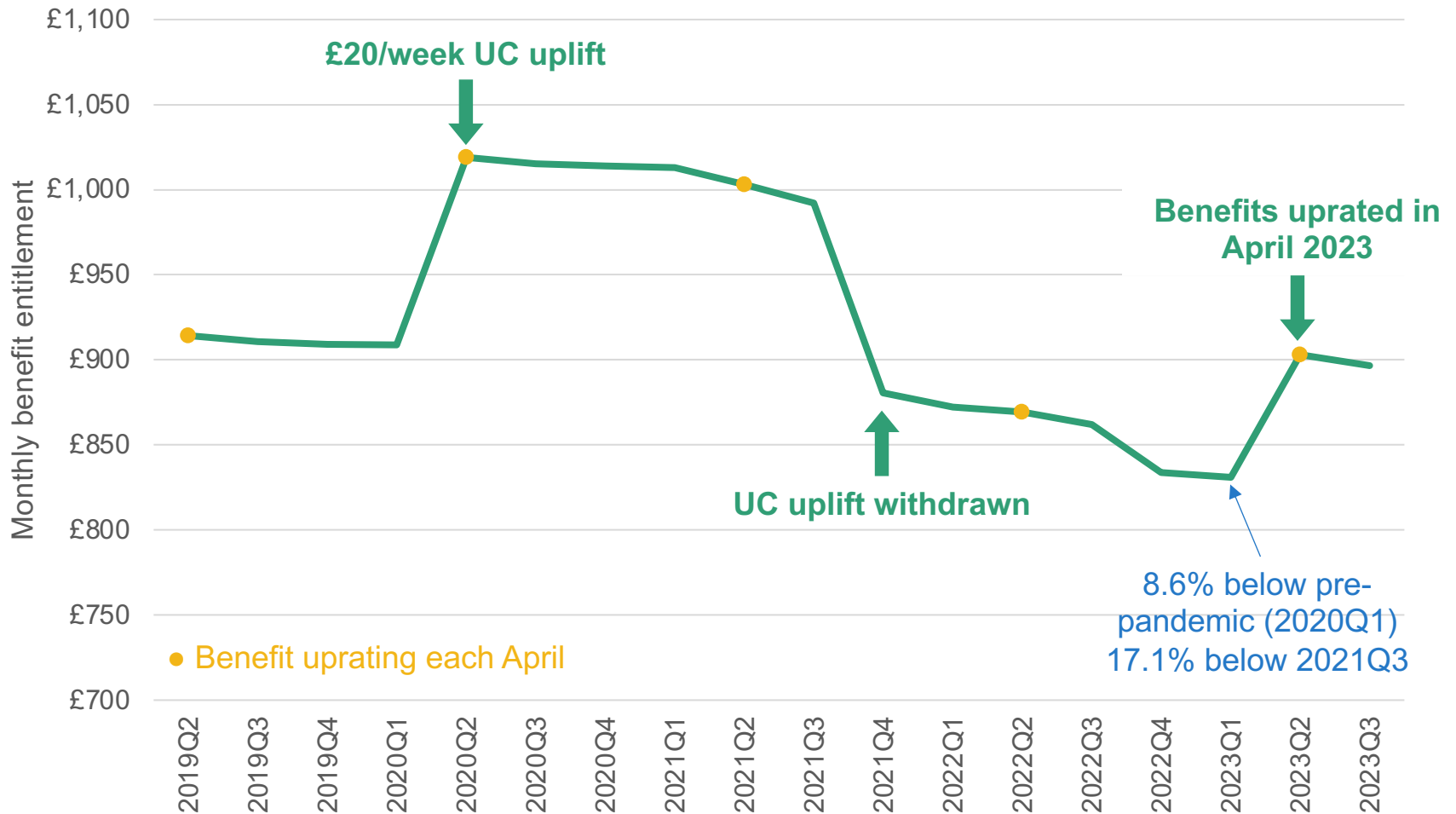
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Real universal credit for workless single homeowner with 2 children



Notes: 2022Q2 prices. CPI forecasts from March 2022 EFO. 2023-24 benefits uprated using forecast 2023Q3 CPI.

Substantial package of help this year; less generous thereafter

Freezes to income tax thresholds now a very large policy

- In combination with NICs rate increase, means almost all workers will see a tax rise on earnings this parliament

Efforts to help low earners: UC increases, minimum wage rise, and NICS threshold increase announced today

Tax and benefit reforms progressive

- But impact of inflation worse for those dependent on benefits

An extremely challenging period ahead for living standards