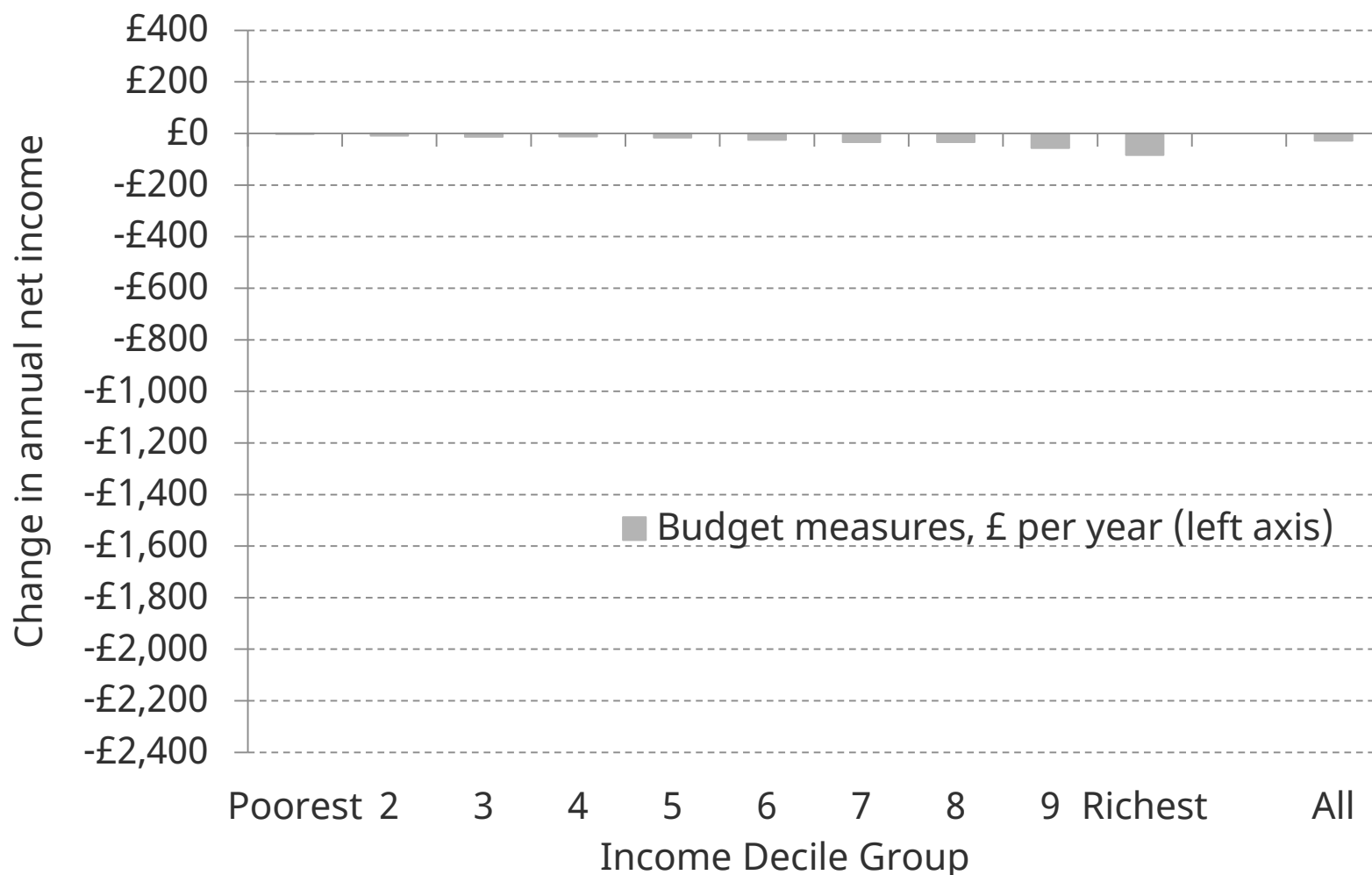


Personal tax and benefit changes

Andrew Hood

Long-run impact of tax and benefit reforms

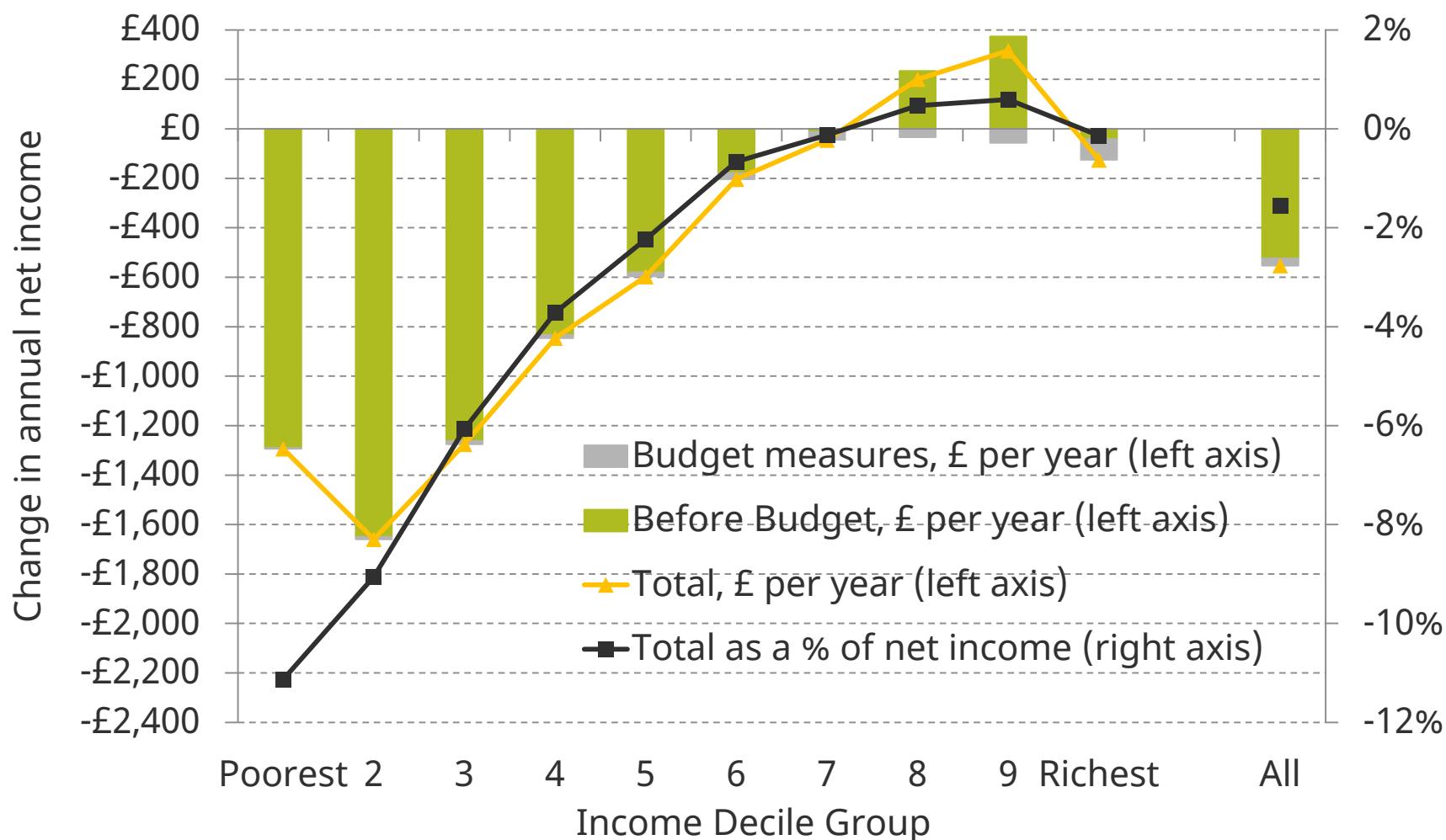
May 2015 – April 2020



Notes: Assumes full take-up of means-tested benefits and tax credits and all changes fully in place.
'Budget measures' consists of the change to the Class 4 NICs rates.

Long-run impact of tax and benefit reforms

May 2015 – April 2020



Notes: Assumes full take-up of means-tested benefits and tax credits and all changes fully in place.
 'Budget measures' consists of the change to the Class 4 NICs rates.

Income tax personal allowance rising to £11,500, and higher-rate threshold to £45,000, from April 2017

- Increases since the election will cost government £5½ bn in 2017-18
 - On top of the £8 bn cost of increases in the last parliament
- Scottish government using new powers to freeze HRT in 2017-18
 - Creating 52% band on earnings between £43k and £45k (as they do not control National Insurance thresholds)

What does all this mean?

...for a single adult working 35 hours a week at the National Living Wage with no housing costs

- Net real income in 2016-17: £12,400
- Net real income in 2020-21: £13,500
- Gain from both the increase in the National Living Wage, and a higher income tax personal allowance

Note: Ignores Council Tax and Council Tax Support.

Other tax changes

Introduction of transferable main residence allowance in inheritance tax

- £100k in 2017-18, rising by £25k a year to £175k in 2020-21
 - Increases effective IHT threshold to £1m for married couples (if main residence worth at least £350k)

ISA limit rising to £20,000 from next month

- Limit on annual contributions to a pension only twice as high – was 34 times as high in 2010

Lifetime ISAs open to 18-40 year olds from next month

- Government will add 25% to up to £4,000 of contributions each year
 - if withdraw funds age 60 or older, or to buy 1st home for <£450k
- For some people, the LISA will provide a higher effective return on saving than contributing more to a pension

Impact of these reforms is not included in the distributional analysis

Cuts to child-related benefits

Tax Credits and Universal Credit (UC) currently provide extra support for children. In 2016-17:

- First children increased entitlement by £3,325 p.a.
- Subsequent children increased entitlement by £2,780 p.a.

As of April 2017:

- New born first children no longer receive higher entitlement
- New born third and subsequent children no longer receive any support

As of November 2018:

- New claims (to UC) receive no support for third and subsequent children, regardless of the child's birth date

Cuts to child-related benefits: long-run impact

Limiting the child element to two children:

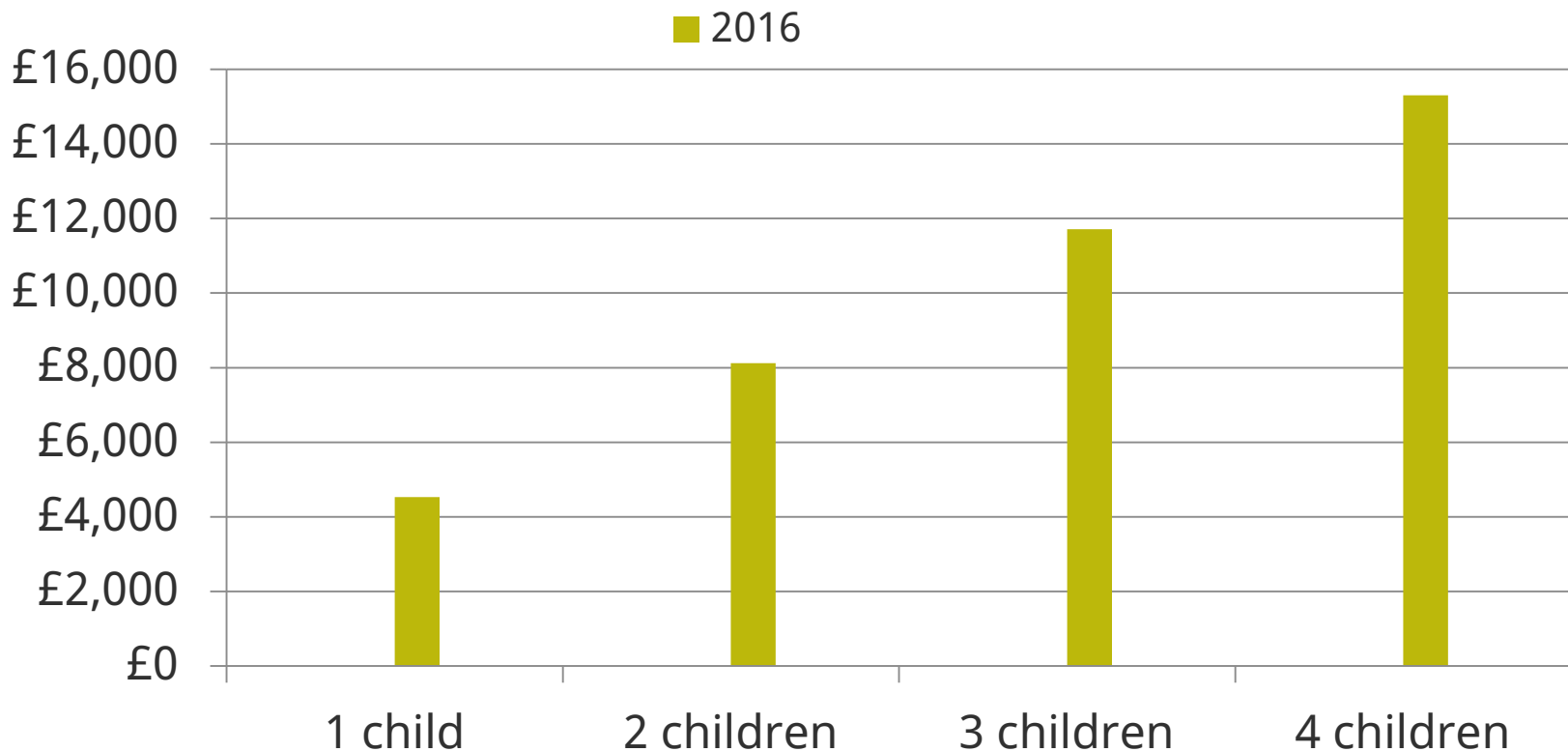
- Saves around £3bn a year
 - Around 600k 3-child families lose £2500 p.a. on average
 - Around 300k families with 4+ children lose £7000 p.a. on average
 - Most affected families are in work

Abolishing the family element:

- Saves around £2bn a year
- Around 4 million families will see entitlements fall
- Most will lose £545 p.a.

Planned support for larger families substantially lower than current levels...

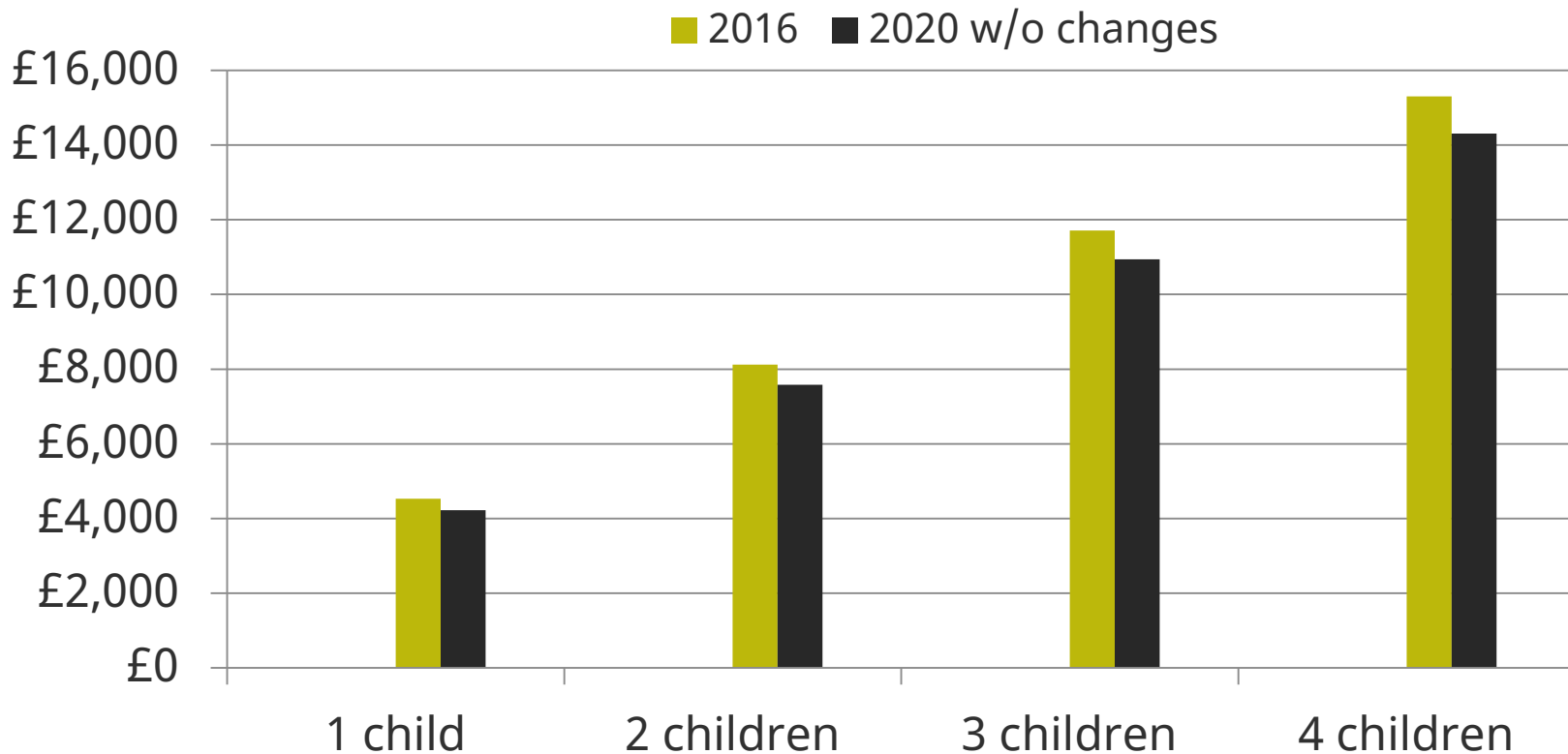
Real child-related benefit entitlement for a workless family (2017/18 prices)



Note: Figures include entitlement to Child Benefit, Child Tax Credit and child-related components of Income Support and Universal Credit. Housing-related benefits are not included. All amounts are calculated for a couple with no private income.

Planned support for larger families substantially lower than current levels...

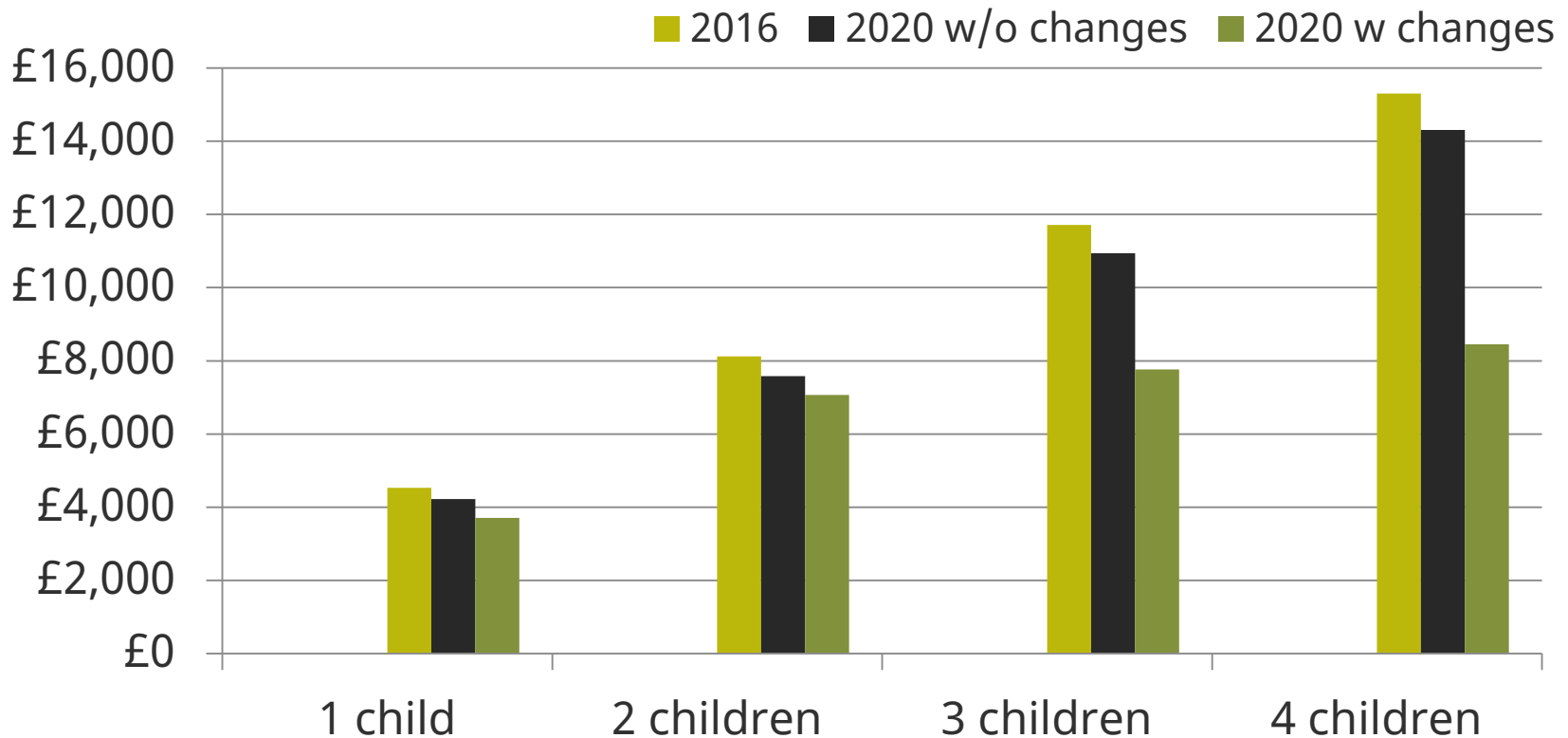
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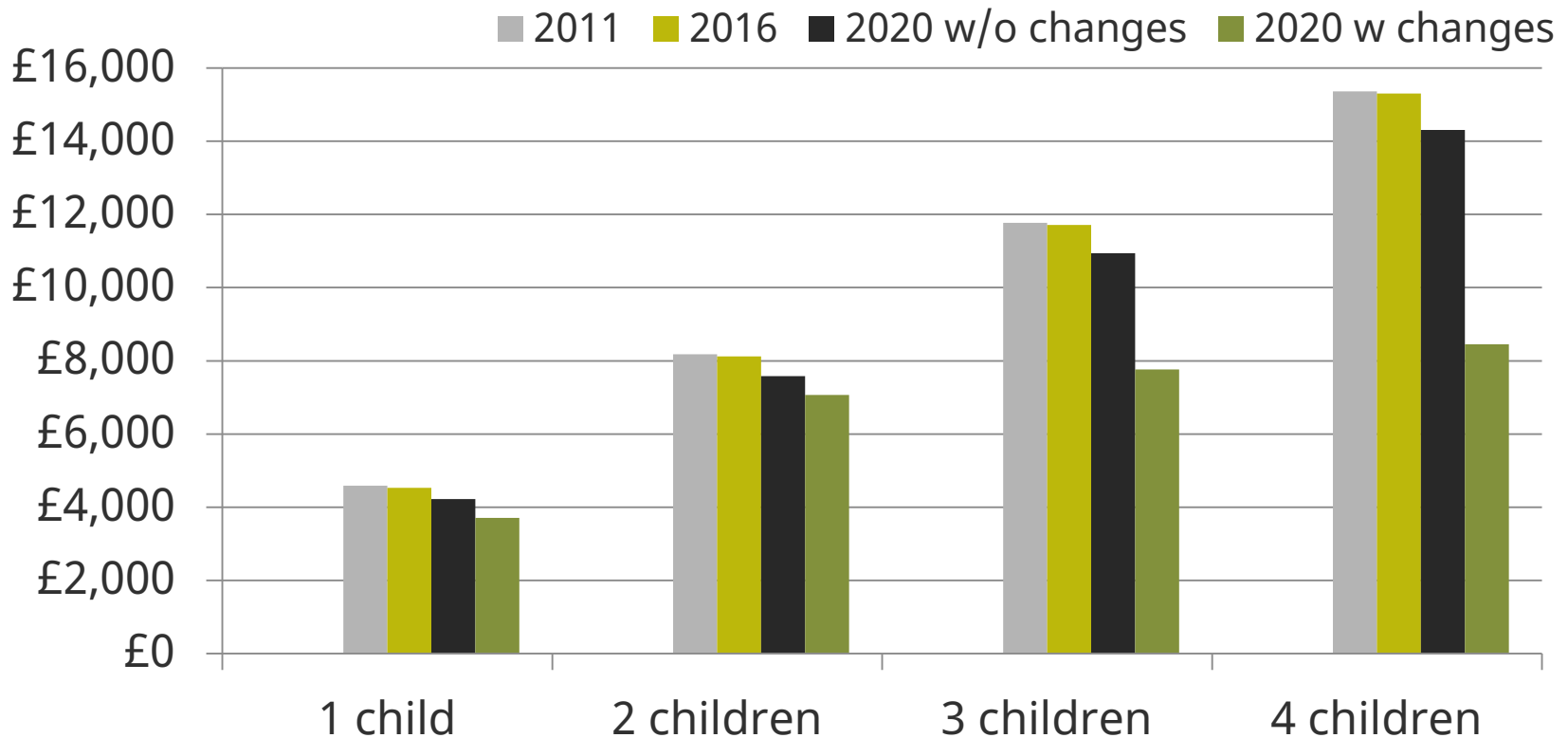
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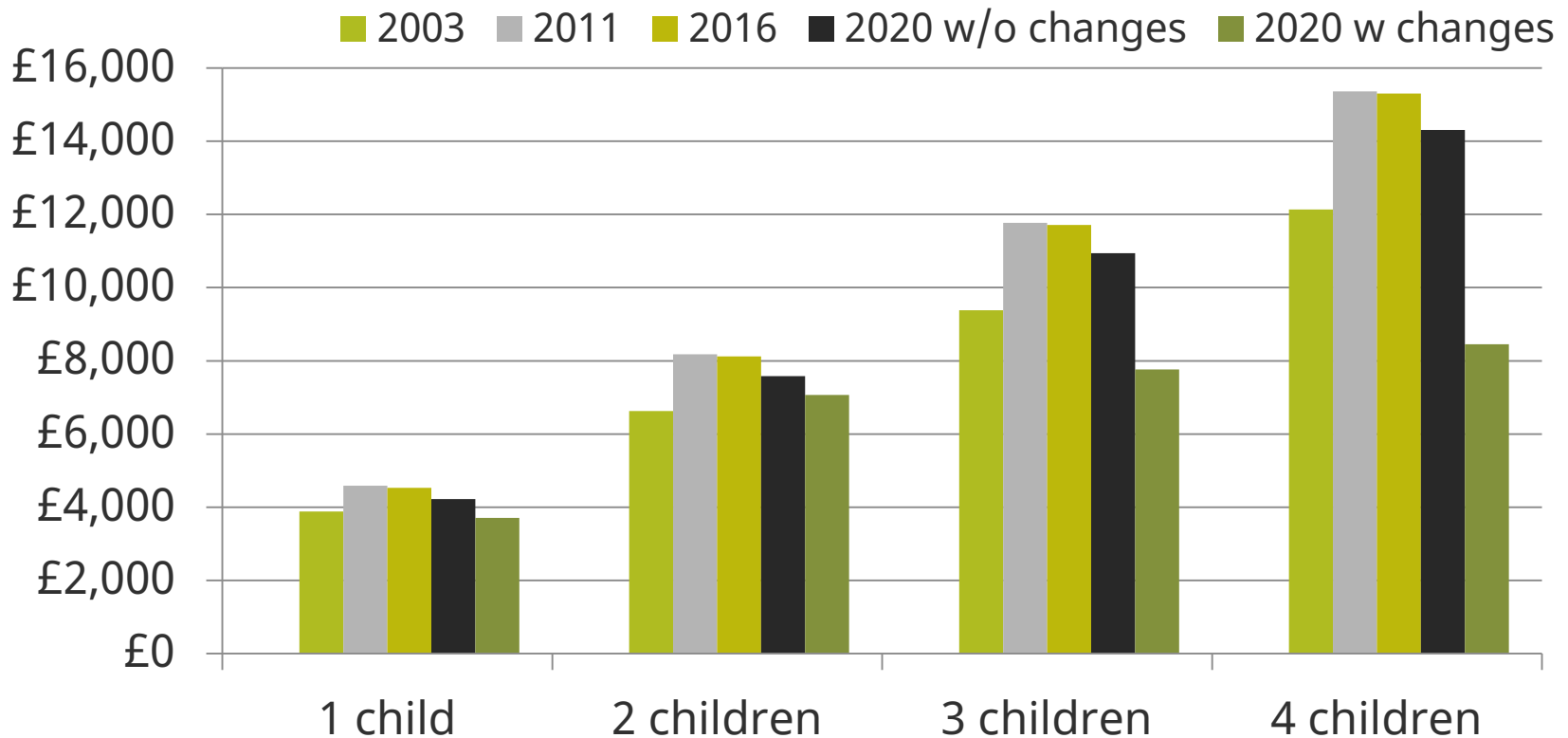
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...and lower than at any time since introduction of tax credits...

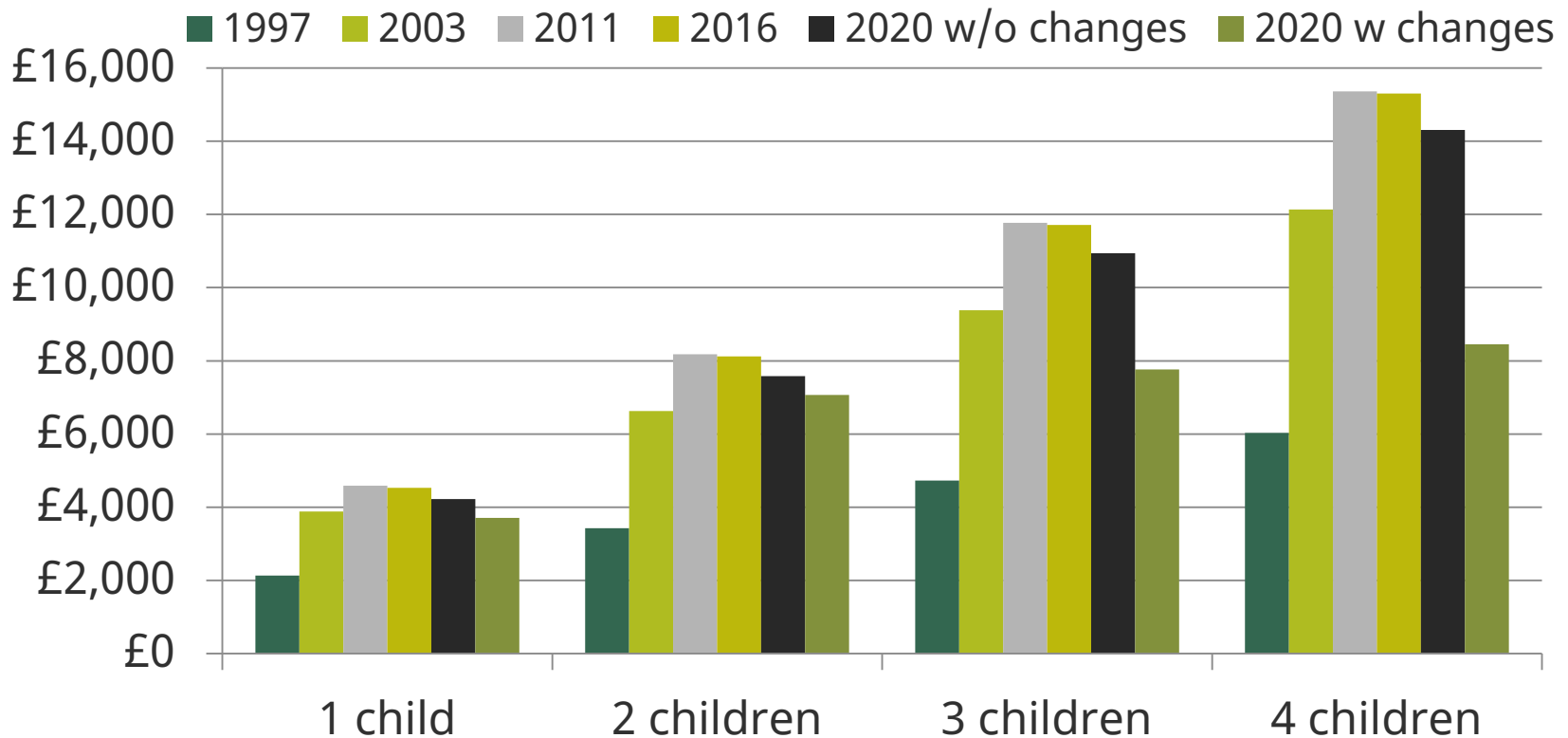
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...but still higher in real terms than 20 years ago

Real child-related benefit entitlement for a workless family (2017/18 prices)



Note: Figures include entitlement to Child Benefit, Child Tax Credit and child-related components of Income Support and Universal Credit. Housing-related benefits are not included. All amounts are calculated for a couple with no private income.

Cuts to child-related benefits: assessment

Economies of scale may warrant lower support for subsequent children

- ... but no clear reason for such a large reduction in support at the 2/3 child boundary

Big reduction in benefit entitlement strengthens incentives to work

- ... but decision to include new claims creates very strong incentives not to move off benefits completely if at risk of returning
- ...and 65% of families affected already have someone in work

In long run, might lead to fewer low-income families choosing to have a third child

- Some evidence that fertility decisions respond to benefit reforms
- ... but also affects new claims even if all children are already born

What does all this mean?

...for a lone parent with three teenage children living in social housing, working 35 hours a week at the National Living Wage

- Net real income after housing costs in 2016-17: £21,800
- Net real income after housing costs in 2020-21: £20,400
- Gain from both the increase in the National Living Wage, and a higher income tax personal allowance
- But lose from the nominal freeze to tax credit rates

...but for an identical lone parent who makes a new claim in 2020

- Net real income after housing costs in 2020-21: £17,500
- Also lose from abolition of child element for 3rd and subsequent children

Note: Ignores Council Tax and Council Tax Support. Example is for an individual living in social housing with a rent of at least £85 per week.

Abolition of WRAG component of ESA

From April, new ESA claimants placed in WRAG will receive £73.10 – no ‘premium’ relative to JSA

- Long run saving £650m, with ½m claimants losing £1,400 p.a on avg
- Around 50k-100k people start ESA claim and end up in WRAG per year

Who is in the WRAG?

- 4 in 5 have been claiming for over 2 years – compared to less than 1 in 5 for JSA claimants
- Around half suffer from mental and behavioural disorders
- Possible some will appeal decision to try to get into Support Group

What does all this mean?

...for a single adult in the work-related activity group of ESA

- Net income after housing costs in 2016-17: £5,400
- Net income after housing costs in 2020-21: £5,100
- Lose from the nominal freeze in basic and WRAG components of ESA

...but for an identical adult who makes a claim to ESA after April 2017

- Net income after housing costs in 2020-21: £3,600
- Also lose from abolition of WRAG component of ESA

Note: Ignores Council Tax and Council Tax Support. Example is for an individual with either no housing costs or housing costs which are covered in full by housing benefit.

Conclusion

Chancellor chose to make almost no changes to personal taxes and benefits yesterday...

...but a number of important changes due to come in next month

- Giveaways in income tax, inheritance tax and savings tax
- Cuts to benefits for disabled and low-income families with 3+ children with significant long run impacts

New claimants to face a much less generous benefits system than existing claimants

- Those who become poor in future will fare worse than those who are already poor and remain so