

# Winners and Losers from Personal and Indirect Tax Changes

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# Those personal tax reforms in detail

- Big tax cuts: - £13.2bn
  - Cut basic rate to 22p to 20p (- £9.6bn)
  - Higher tax allowances for over 65s (- £1.0bn)
  - Increase threshold above which higher-rate tax due (- £0.3bn)
  - Increase threshold above which tax credits withdrawn (- £1.3bn)
  - Higher child element of child tax credit (- £1.0bn)
- Big tax rises: + £10.7bn
  - Replace 10p band with 20p (+ £8.6bn)
  - Increase UEL to point at which higher-rate tax due (charge NI for longer) (+ £1.5bn)
  - Increase withdrawal of tax credits (+ £0.6bn)
- Net giveaway: - £2.4bn (in 2009/10)

# Duties and motoring taxes

- Fuel:
  - Above inflation rise, but postponed to October 2007
  - Above inflation rises in April 2008 & 2009
  - Costs - £0.3bn this year, raises + £0.7bn by 2009/10
- Alcohol, tobacco
  - Freeze spirits, others up with inflation
- VED
  - Cuts for less polluting cars, rises for more polluting cars (raises + £0.3bn in 2009/10)

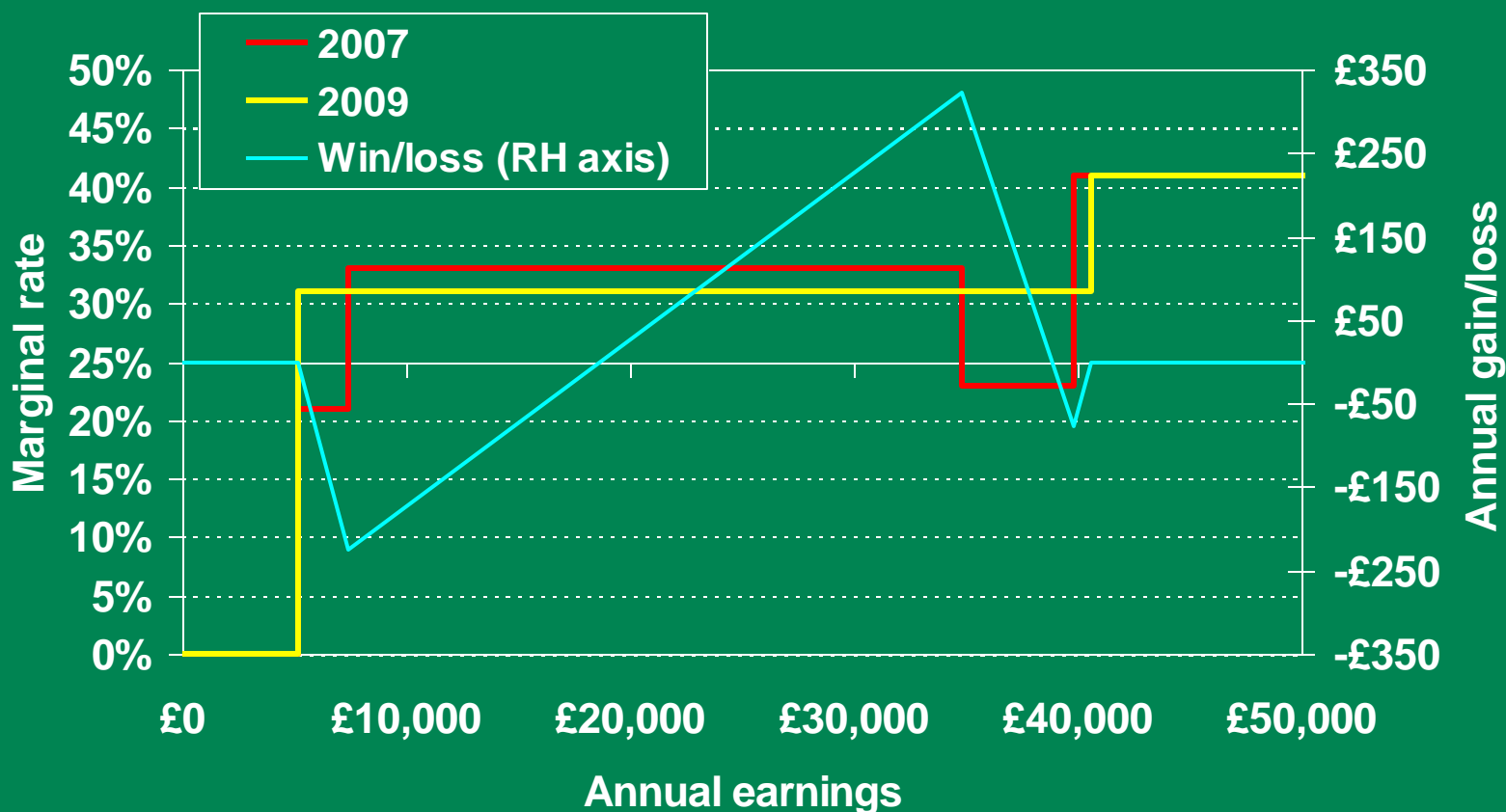
## Other changes

- IHT: threshold to £350,000 in 2010
- ISAs: thresholds up
- Corporate tax rate on small business will rise from 19% to 22%
  - reduce the distortion in favour of incorporation

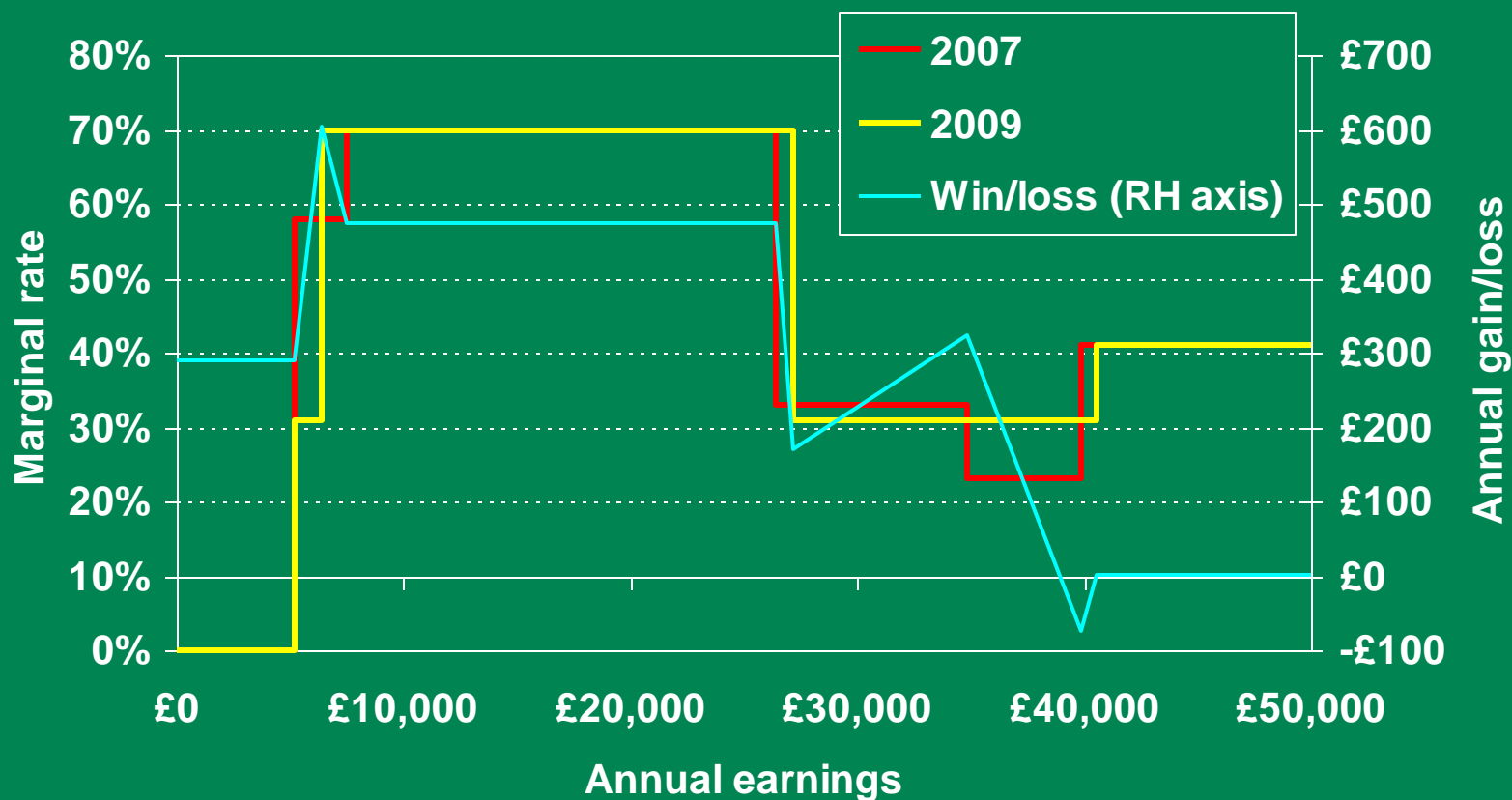
# Principled tax reform? Or smoke and mirrors?

- Welcome simplification
  - Never clear what was justification for 10p band
  - Little for marginal rate at £35K being lower than at £33K
  - Would have been much simpler if 10p band on savings income been abolished
- Revenues recycled to minimise losers
- Tax credit changes
  - Help poorest children
  - Higher WTC mitigates adverse impact on incentives to work
  - Higher taper saves money maintains focus on poor
- Fuel duty: first real rise since 1999

# Income tax & National Insurance changes



# Income tax, national insurance and tax credit changes: family, 2 children



## So who might win or lose? (1)

- IT & NI changes mean
  - 65+ paying IT gain
  - Those earning £18.5K - £39K gain
  - Those earning £5.2K - £18.5K & £39K - £40.5K lose
  - Those earning £40.5K + unaffected
- Tax credit changes mean
  - Low-income families gain

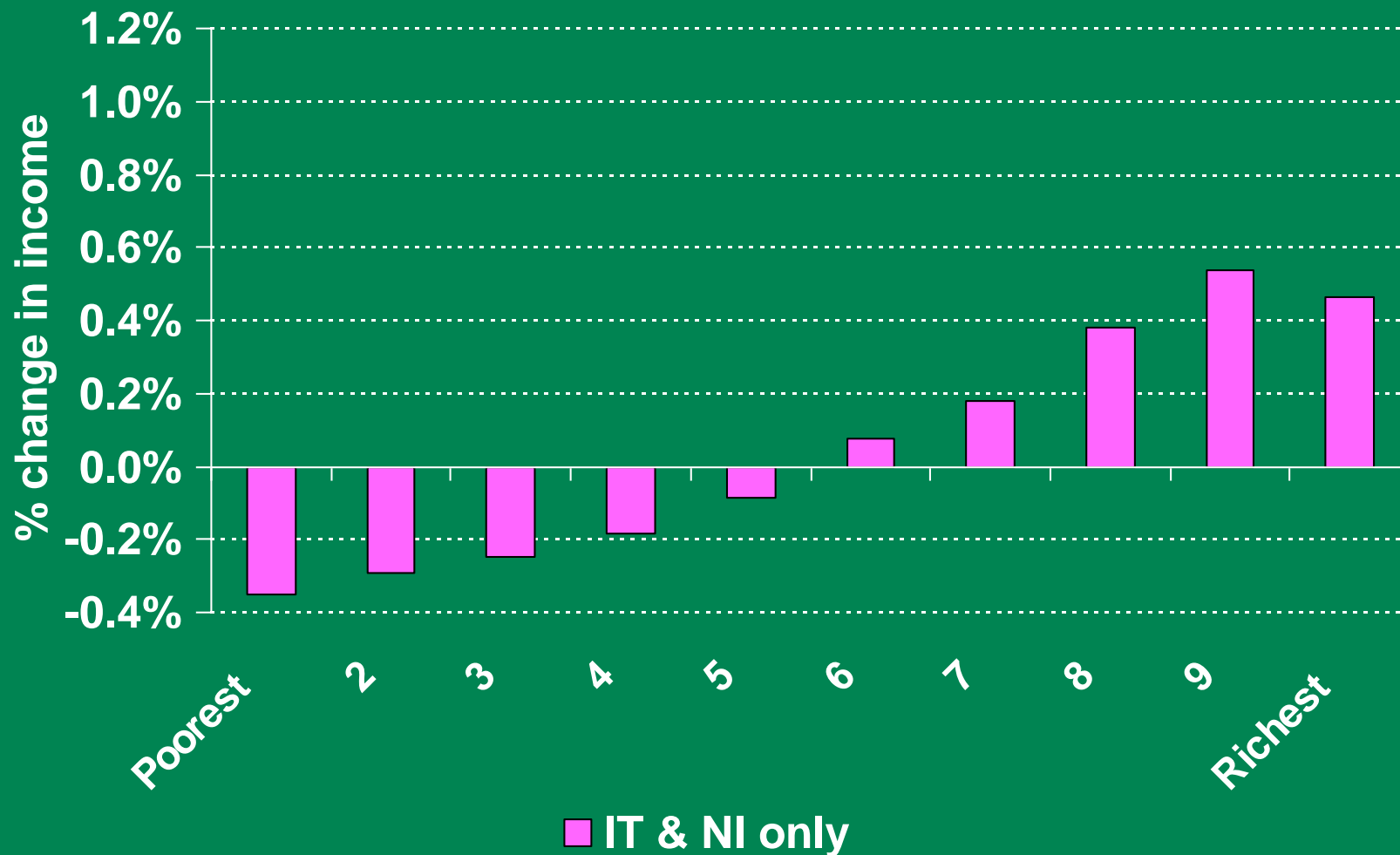


# So who might win or lose? (2)

- Overall, 20% lose, 40% unaffected, 40% gain
- Main losers
  - Single adults on <£18.5K, no children, not on tax credits
  - Families with two earners whose tax credit rise not sufficient to compensate for income tax losses
  - Taxpaying women aged 60-64
- Main winners
  - Tax-paying adults 65 or over
  - Non-working parents and single-earner families with children
  - Those earning £18.5K - £39K
- Most changes are small

# IT & NI only...

Distributional effect in 2007/8 of reforms in Budget 2007



# ...and now with tax credits...

Distributional effect in 2007/8 of reforms in Budget 2007



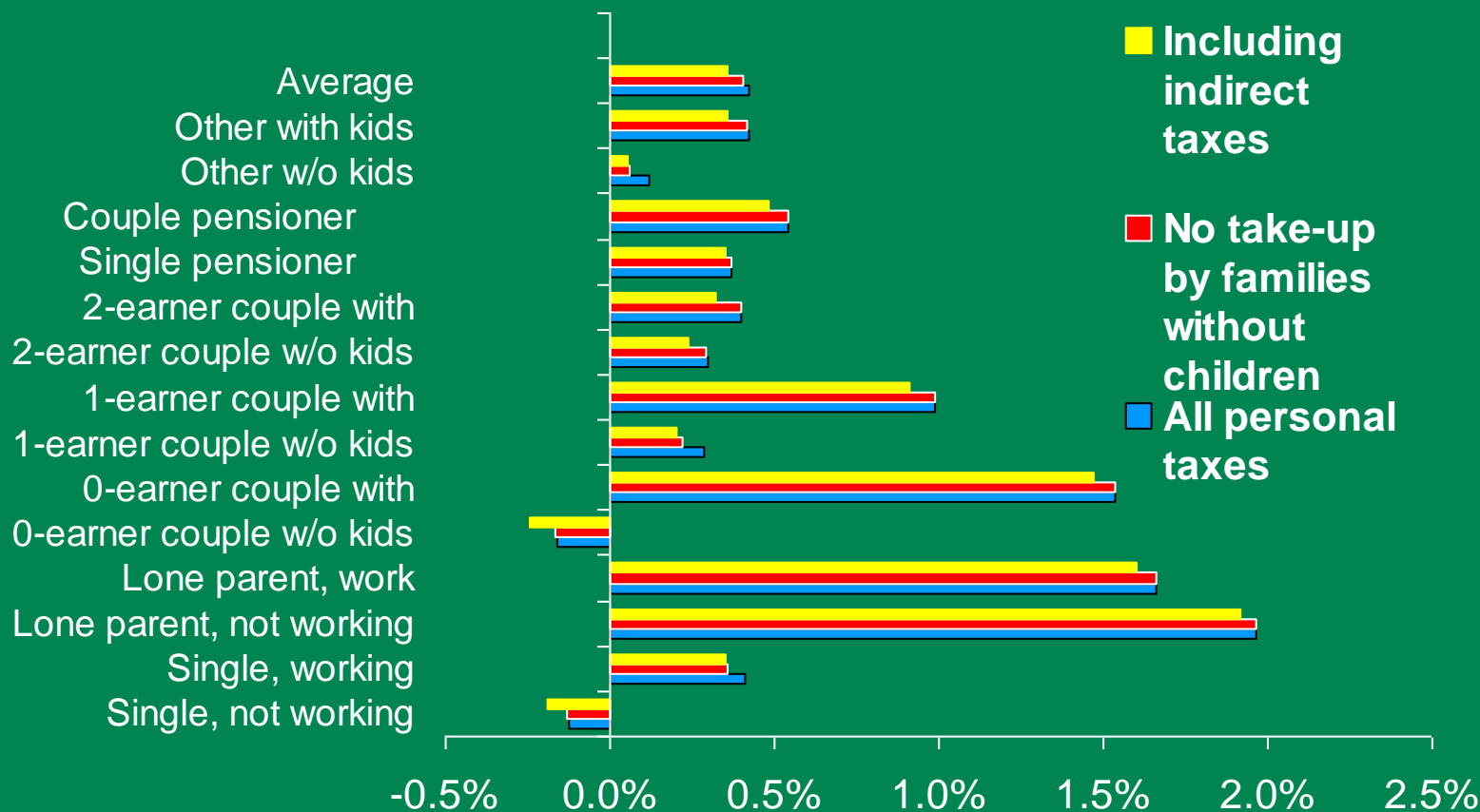
# Overall impact of Budget 2007

Distributional effect in 2007/8 of reforms in Budget 2007

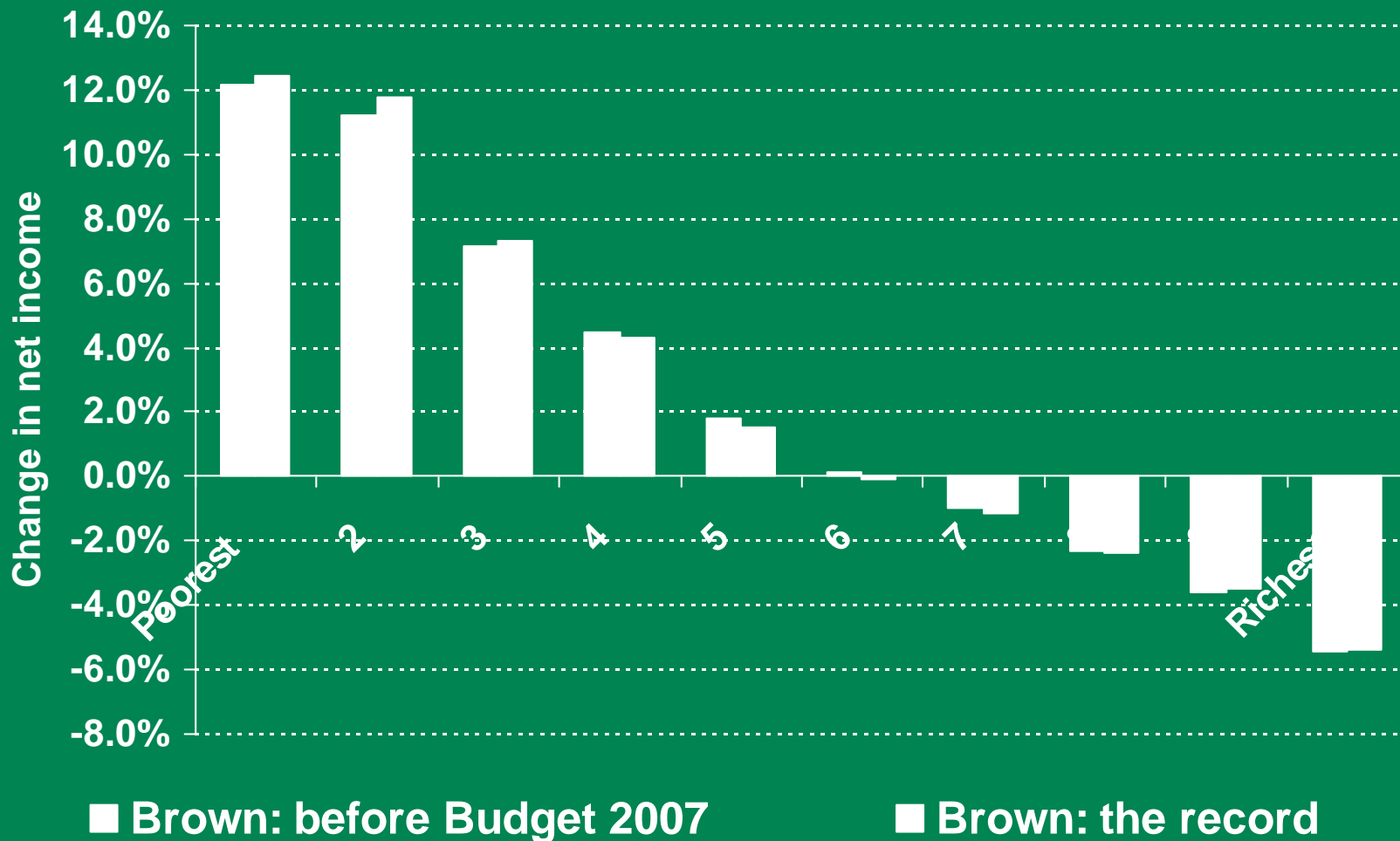


# Change by household type

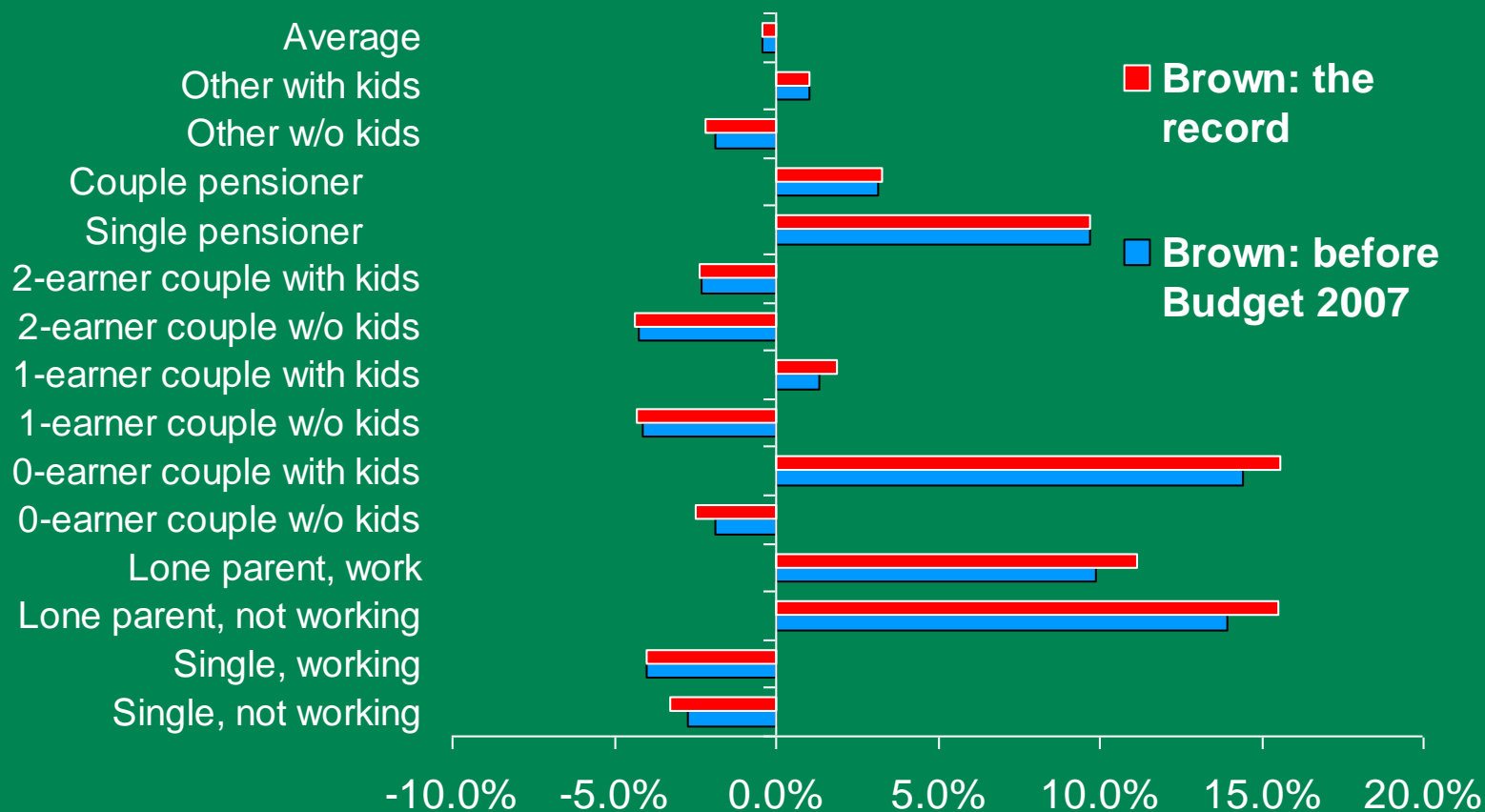
Distributional effect in 2007/8 of reforms in Budget 2007



# Brown's record



# Brown's record



# Child poverty

- Agree with HMT that Budget lifts 200,000 children out of poverty
- Welcome, but previous work suggested “gap” of a million in 2010/11
- Previously thought £4.5bn a year extra spending needed by 2010/11, now think around £4bn



# Conclusions

- Sensible tax reforms with revenue recycled to minimise losers
- Higher-rate tax-payers unaffected, 65+s paying tax gain, hard to generalise about others
  - Tax credit rises for low-income families generally exceed income tax losses
  - Around a fifth lose, two-fifths gain, two-fifths largely unaffected
- As usual, low-income families with children gain, but still much to do to hit 2010 child poverty target
- Overall impression of Brown's record unaffected
  - Highly redistributive, especially to families with children and pensioners

End