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Changes to the tax system

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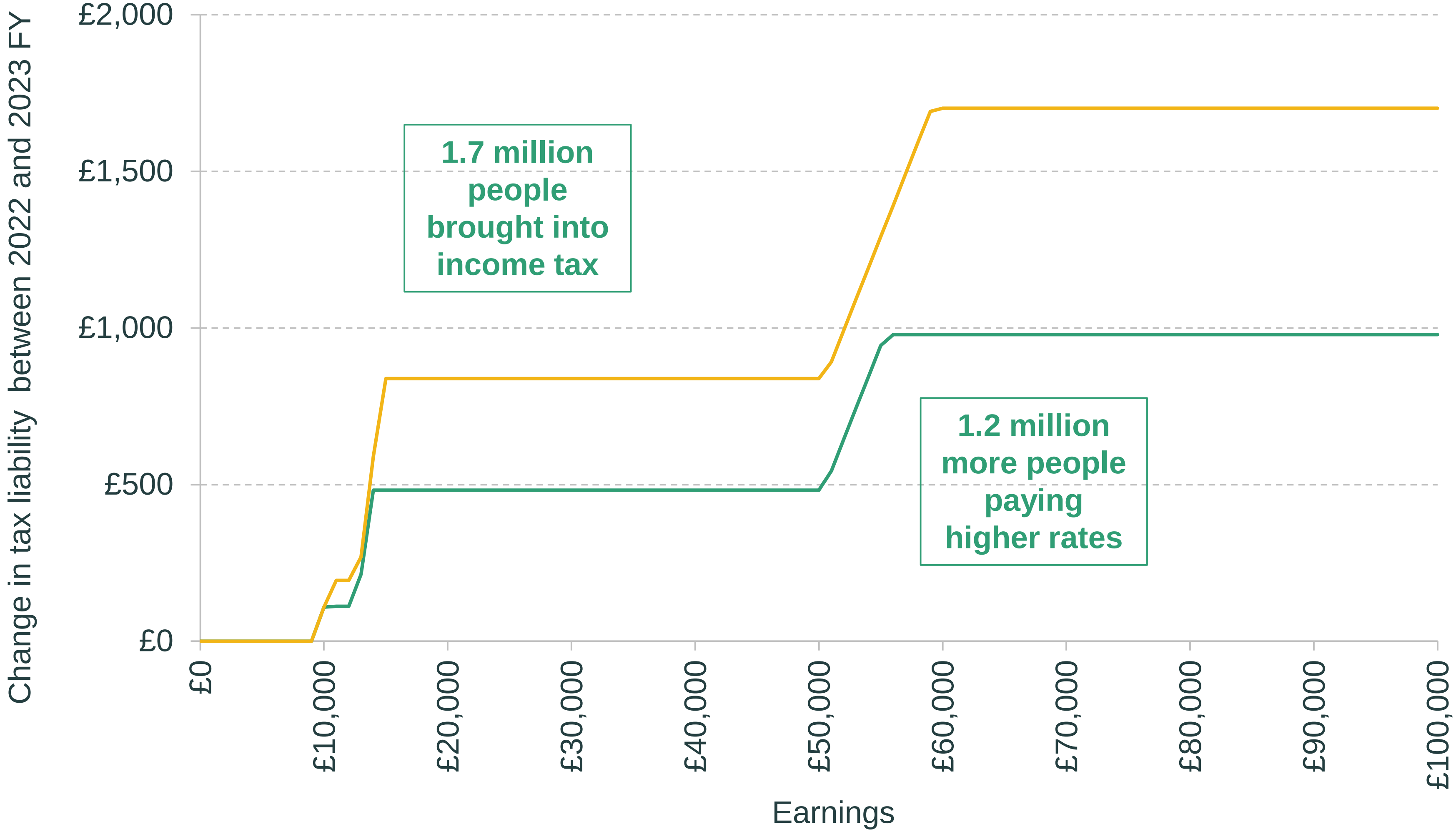
Economic
and Social
Research Council

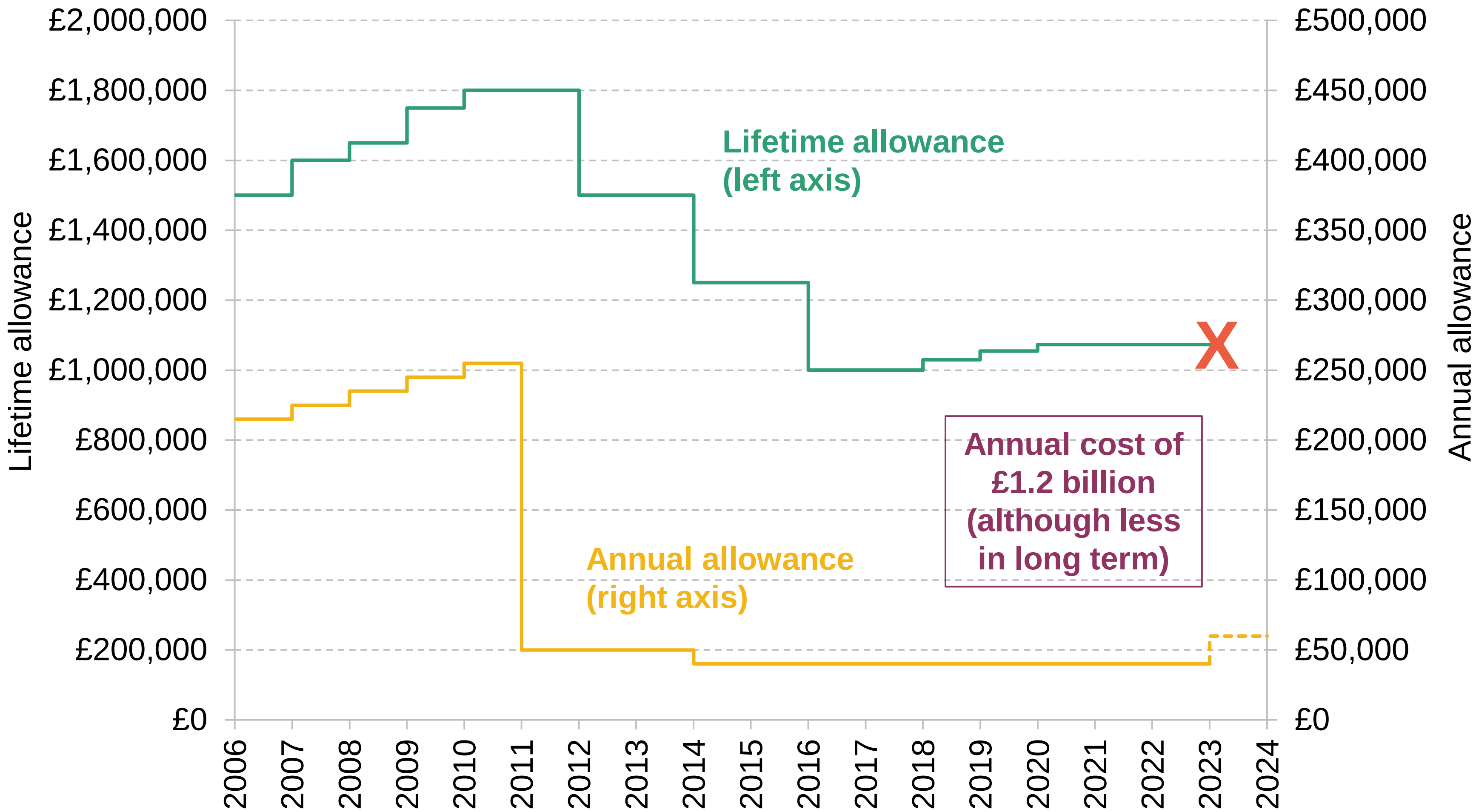
The freeze deepens



Note: Chart shows impact from this financial year to the next.

Pension allowances

Journey of a lifetime (allowance)



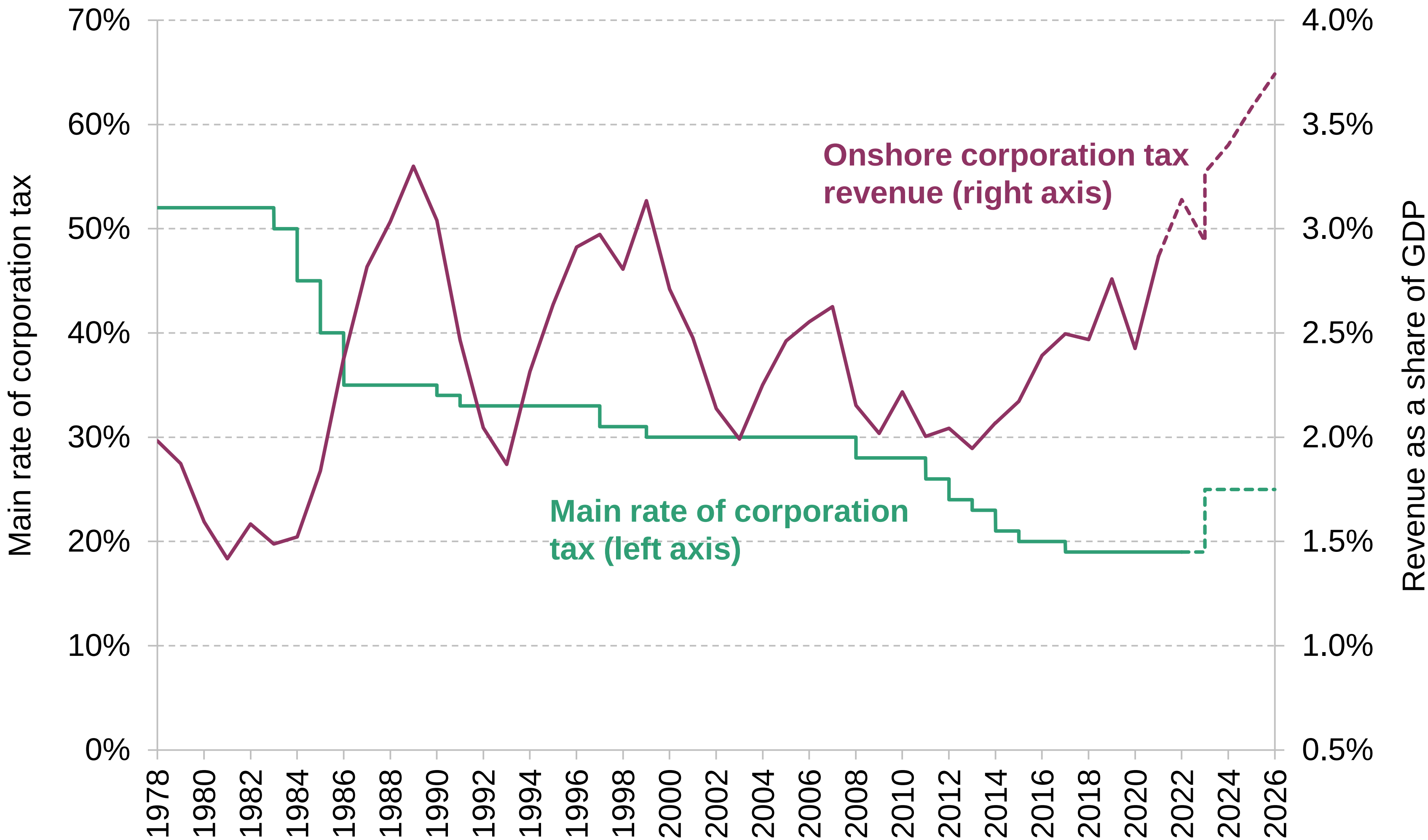
Source: IFS TaxLab.

Likely impacts

- Impact on work decisions could go either way:
  - People might work more to take advantage of pension tax breaks
  - May be able to reach savings goal quicker and so work less
  - OBR thinks former will be bigger, increasing workforce by 15,000
- Benefits those rich enough to save >£1.07 million in a pension or more than £40k in a single year
  - Although annual allowance still reduced above £260k of income
- Giving people the freedom to save more in a pension is good
- Giving rich people subsidies to save even more in a pension is not
  - Tax-free 25% still limited to first £1.07 million of pension saving
  - But no NICs on employer contributions and exemption from inheritance tax remain

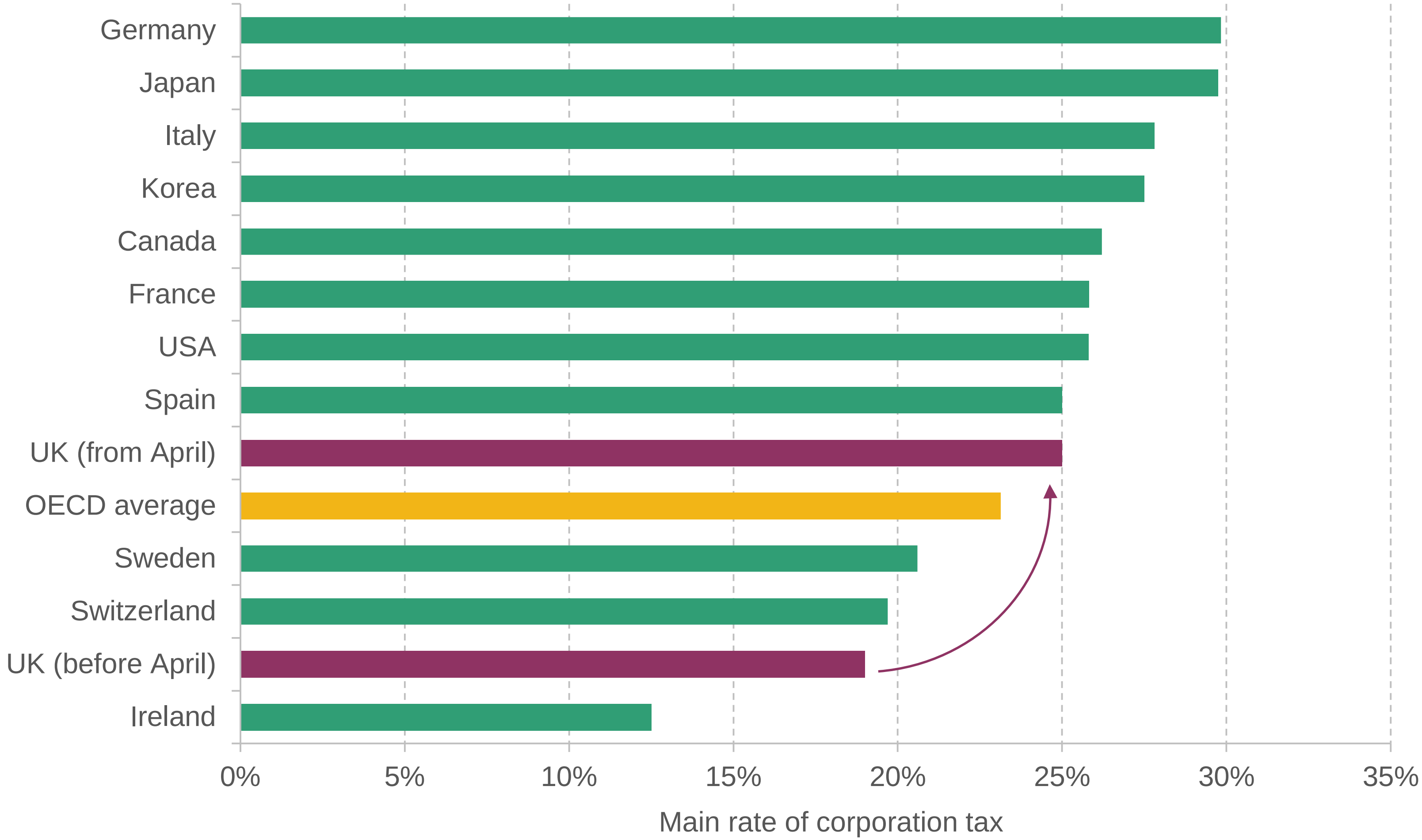
Corporation tax

Corporation tax is rising



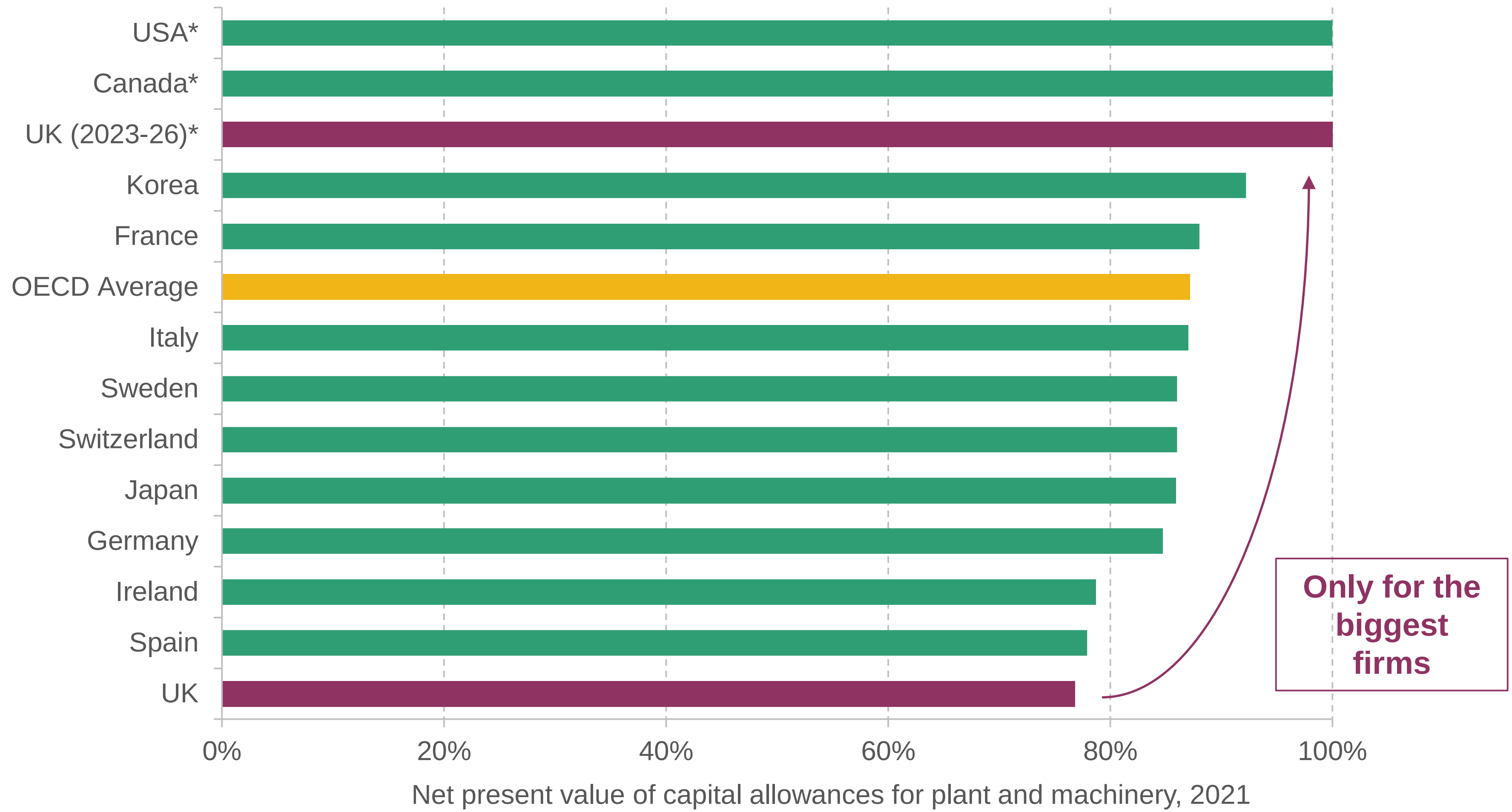
Source: IFS revenue composition database, forecasts from March 2023 OBR EFO.

UK rate moving to the middle



Source: OECD

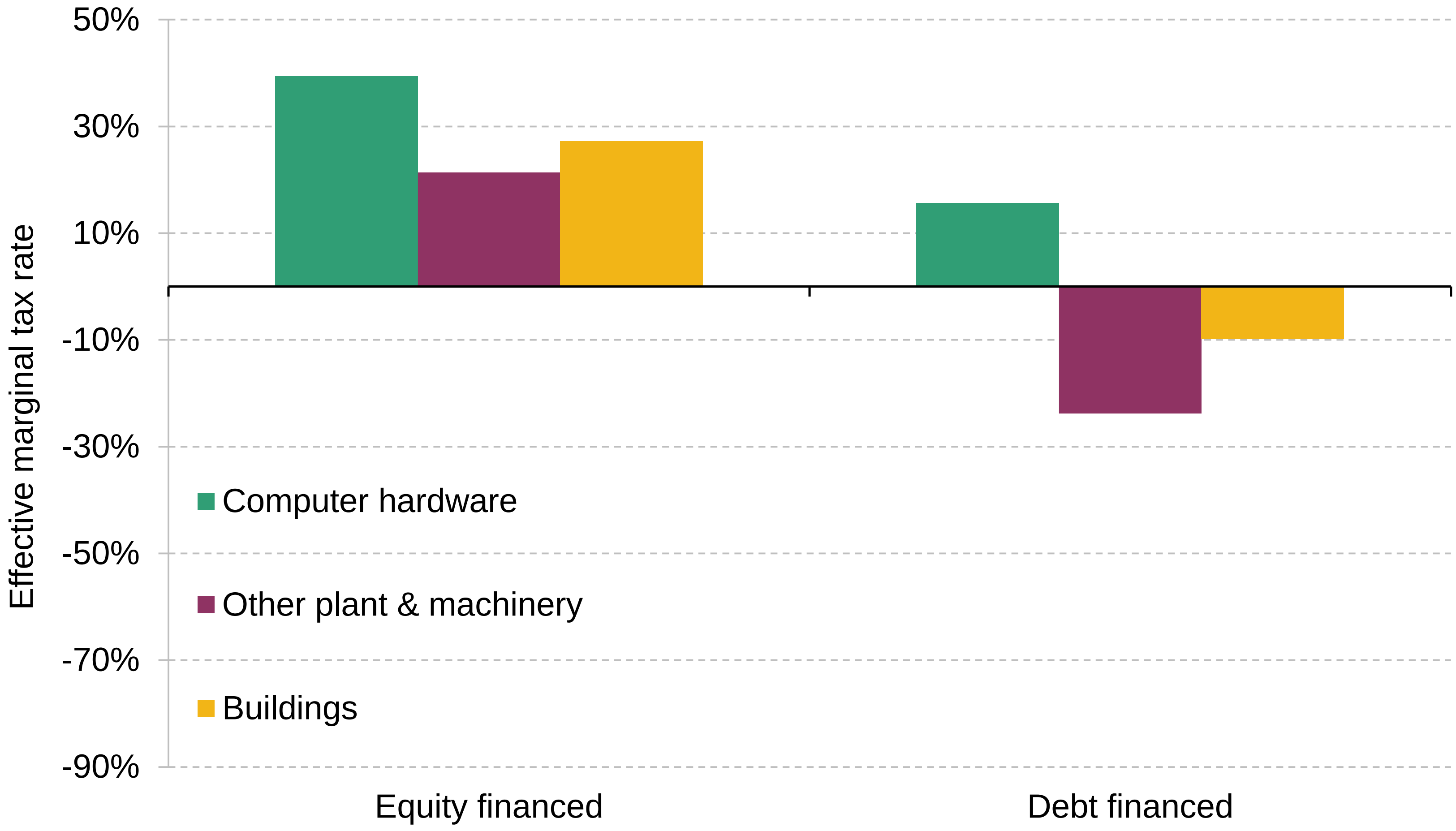
Capital allowances going up



Allowances in place temporarily

Source: Tax Foundation

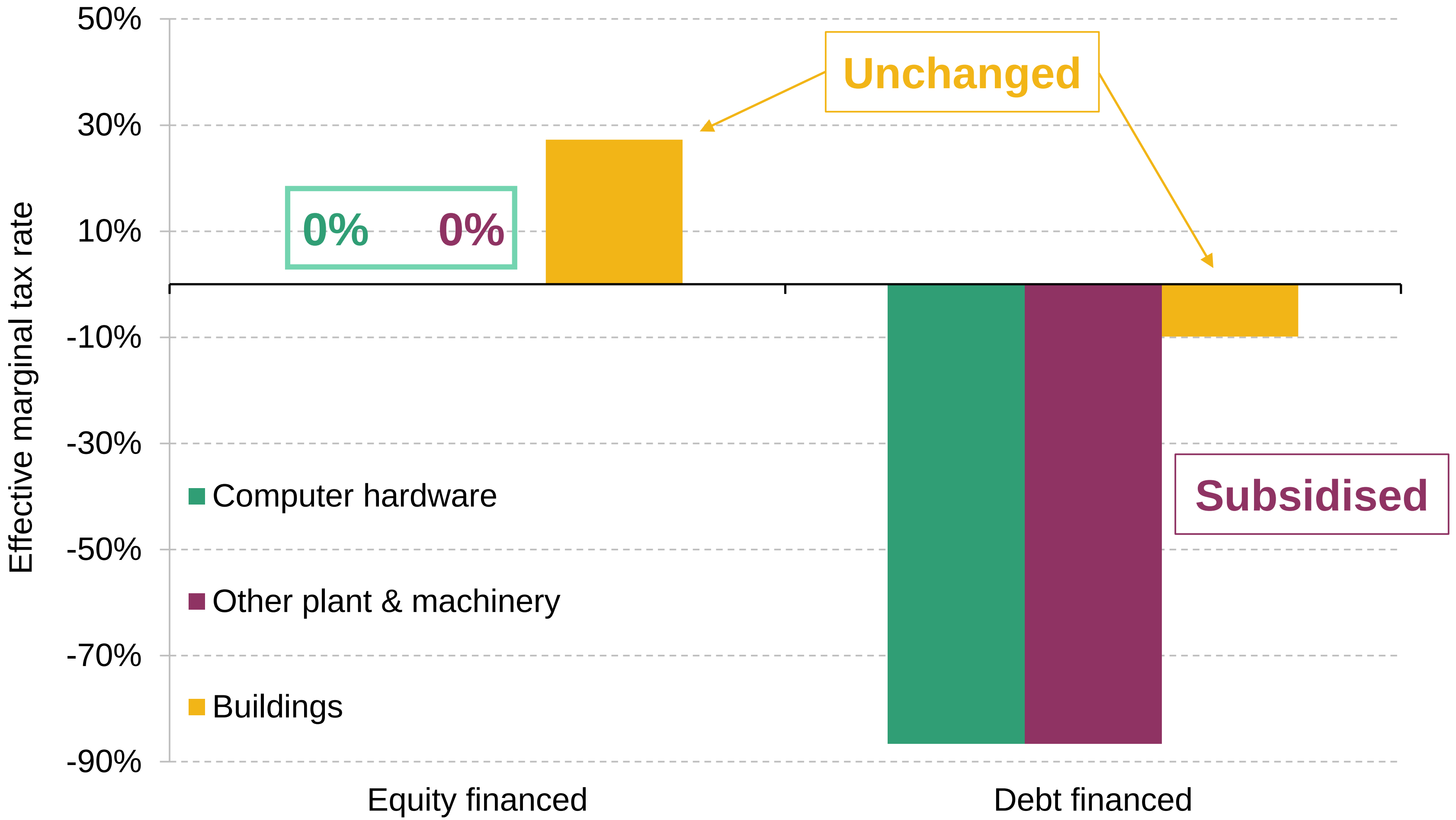
Effective tax rates (current system)



Note: EMTR is the share of the investment return taken in tax for a break-even investment.

Source: See IFS Green Budget 2022, Chapter 6 for details.

Effective tax rates with full expensing

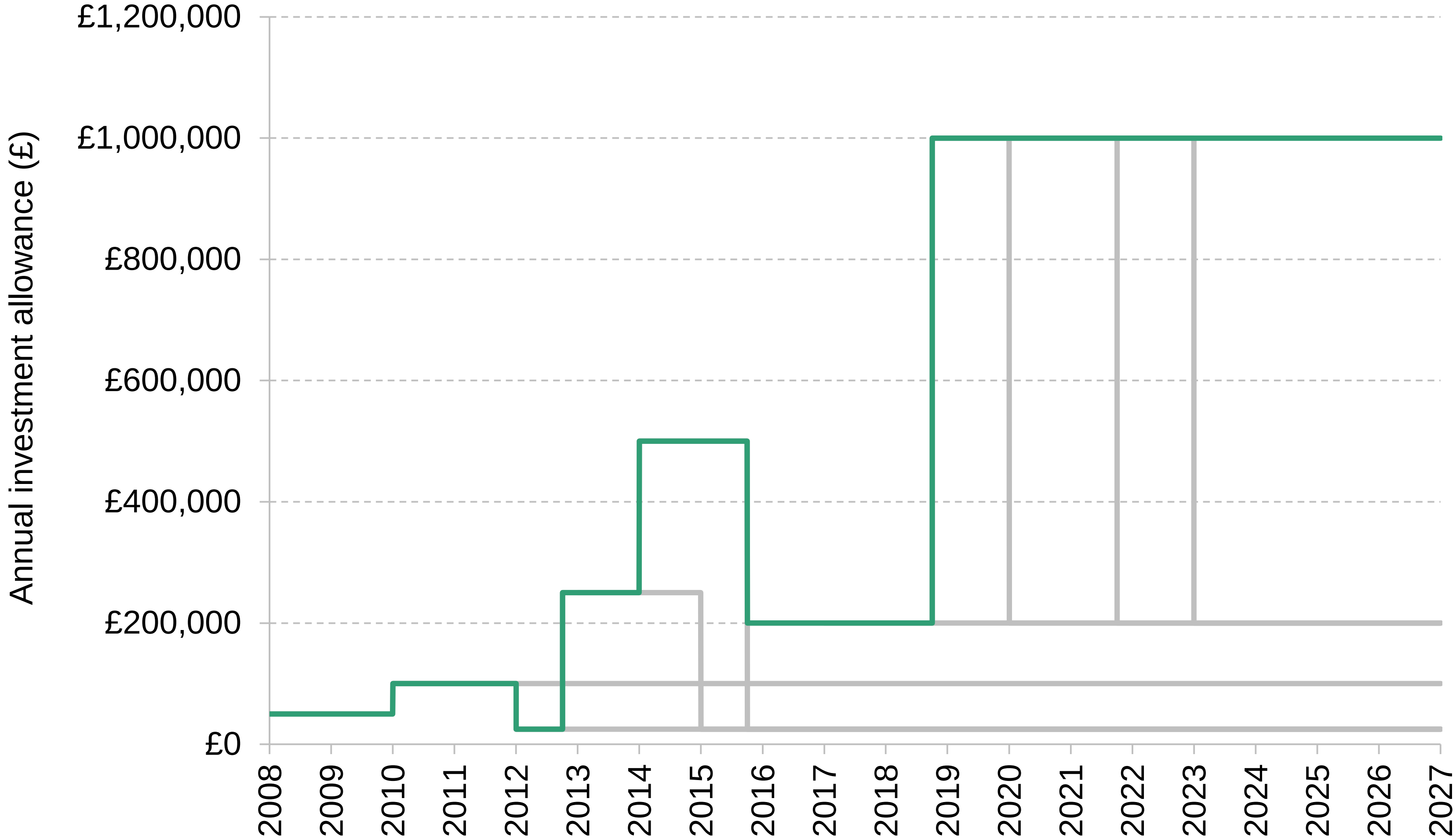


Note: See IFS Green Budget 2022, Chapter 6 for details.

Temporary policy hard to justify

- Why is it only in place for 3 years?
- Most of £11bn peak annual cost will be recouped in future years
- Distorts timing of investment
- More instability and uncertainty

The roads not taken



Conclusions

- Income tax & NICs freezes previously announced will bite hard
- Higher pension allowances (particularly annual allowance) have upsides, but highlight flaws in the system (e.g. inheritance tax)
- Change to capital allowances has attractive features, but making it temporary is hard to justify economically