



Institute for
Fiscal Studies

The fiscal squeeze and tax and welfare changes affecting low-earning individuals

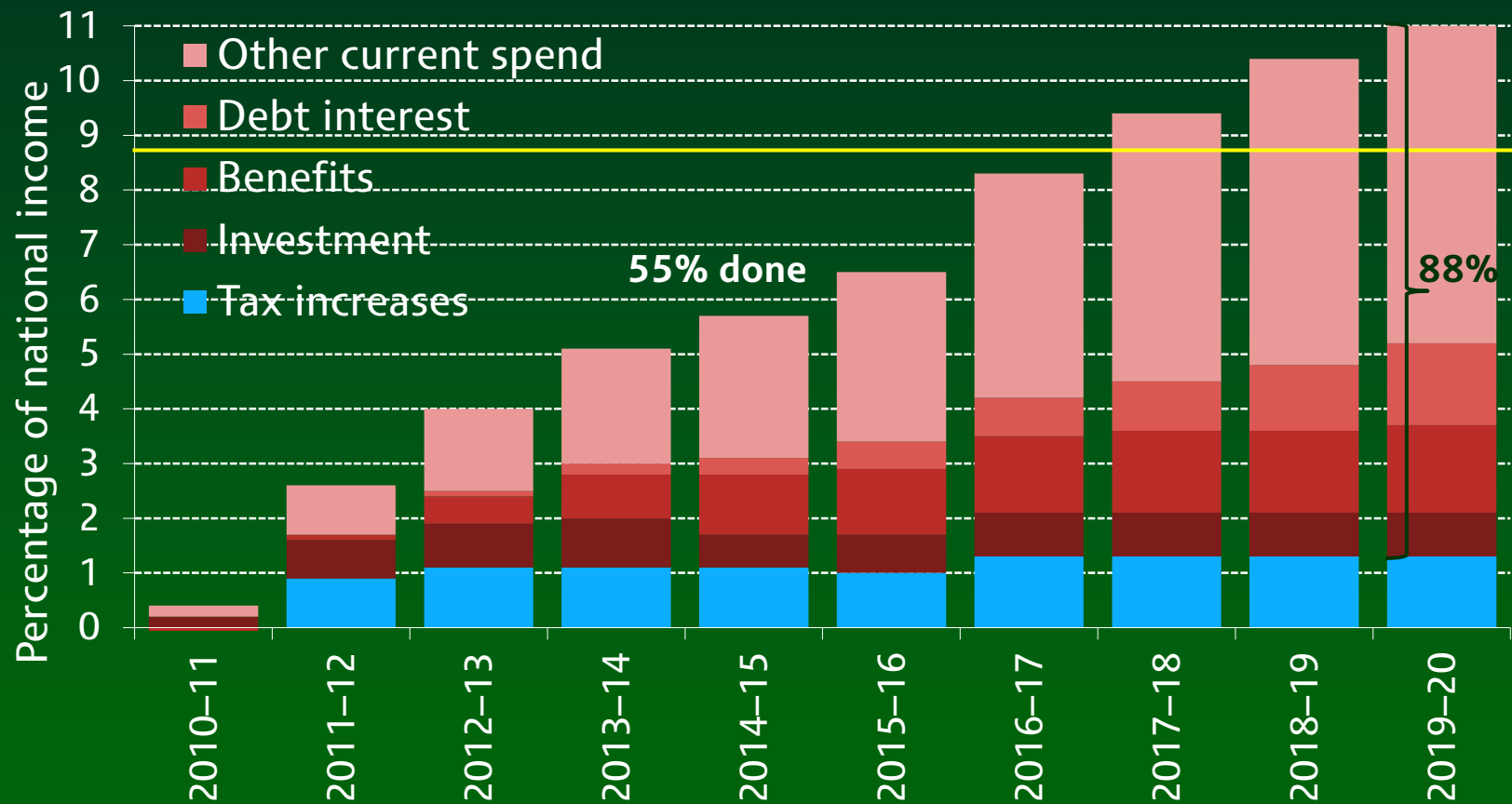
Carl Emmerson and Robert Joyce

Presentation to Low Pay Commission, London

18th December 2014

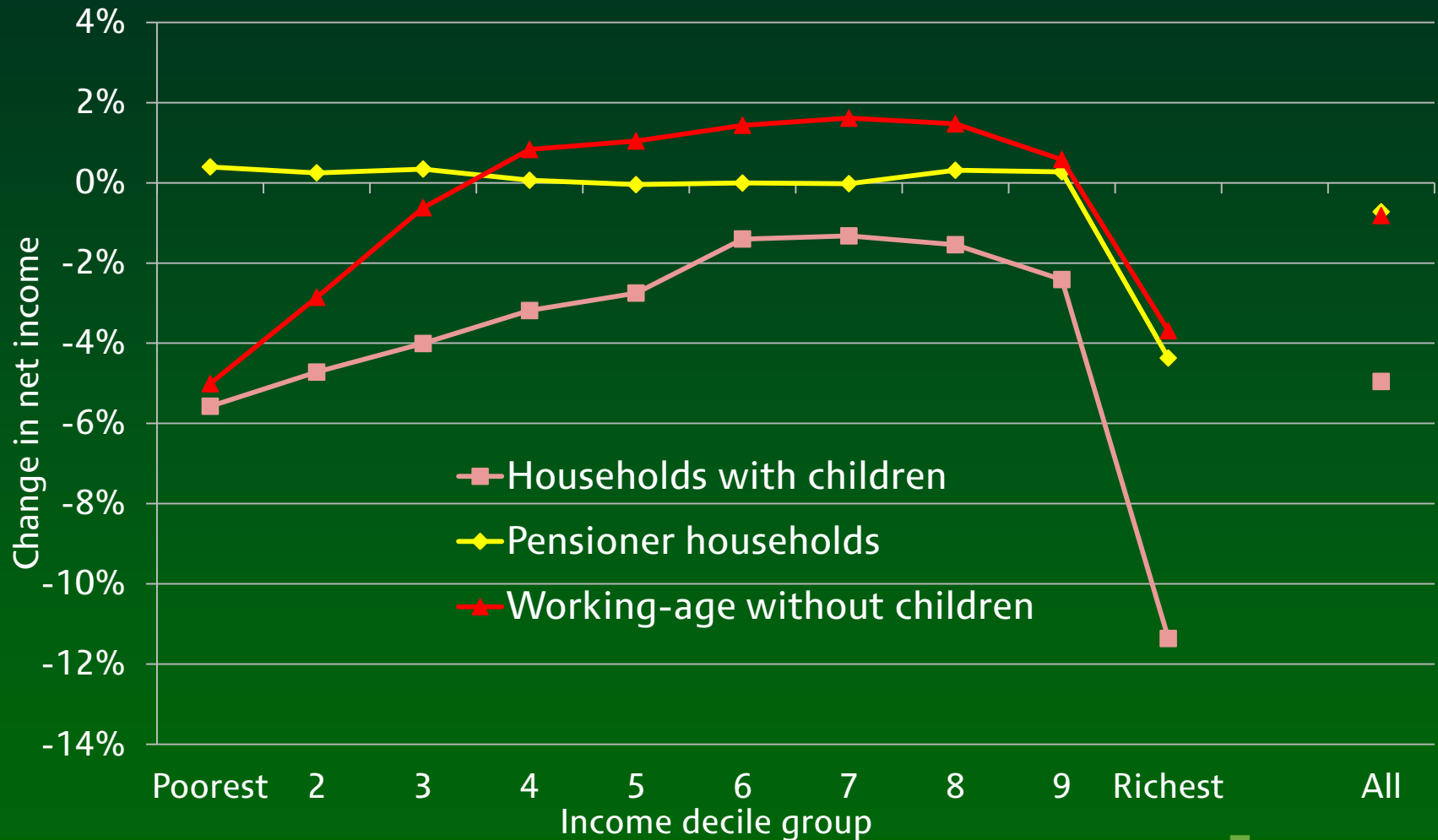
The cure (December 2013): 11.1% national income consolidation over 10 years (£209bn)

Dec 2014: 8.8% national income (£165bn) hole in public finances



Impact of tax and benefit reforms

January 2010 - April 2015 inclusive



Source: Browne and Elming (2014). Assumes full take-up of means-tested benefits and tax credits.



Income tax allowance changes in April 2015

- Main personal allowance up £480 in real terms to £10,600 – annual real gain of up to £96
 - Brings real increase over this parliament to £2,835 (gain of £567 per year for basic rate income taxpayers)
 - (Even) less targeted on lowest earners now that PA is much higher
 - For those on low incomes, 65% of gains can be lost via reduced housing benefit; typically around 20% via reduced council tax support (depends on local taper rate)
- Transferable allowance of £1,060 introduced for married couples
 - Gain of up to £212 per year for basic rate taxpayers whose spouse is not a taxpayer (1/3 of married couples benefit)
 - Take-up assumed to be 70-75% initially, growing to above 85% within a few years

Cuts to employer NICs for young workers

- Employer NICs abolished on earnings below £815 p/w for workers under 21, from April 2015
 - Would otherwise have been 13.8% on earnings above £153 p/w
 - So affects only full time workers if on minimum wage: those on the 18-20 /under 18 rates working at least 30/40 hours p/w
- Typically would expect employer NICs cuts to be (at least partly) passed on to workers as higher wages
- Where minimum wage binds we would expect less pass-through to wages (and higher employment or profits or lower prices instead)
- A given minimum wage for under-21s will be less binding than before for many full-timers
 - ...and less binding than before relative to the main minimum wage (possible substitution between employees just under and just over 21?)

Benefit entitlements

- Continuation of 3-year policy: most benefits/tax credits increased by 1% in April 2013, 2014 and 2015
 - Pensioners and more severely disabled largely protected
 - Given the fall in inflation this now looks like being a very small real cut (at most) in 2015-16
- NB maximum Housing Benefit entitlements for private sector renters included in 1% rule – bigger impact in areas with higher rent growth
 - And after 2015 these entitlements will be CPI-indexed (not rent-indexed)
- Affects in-work and out-of-work benefits
 - Mixed impacts on work incentives

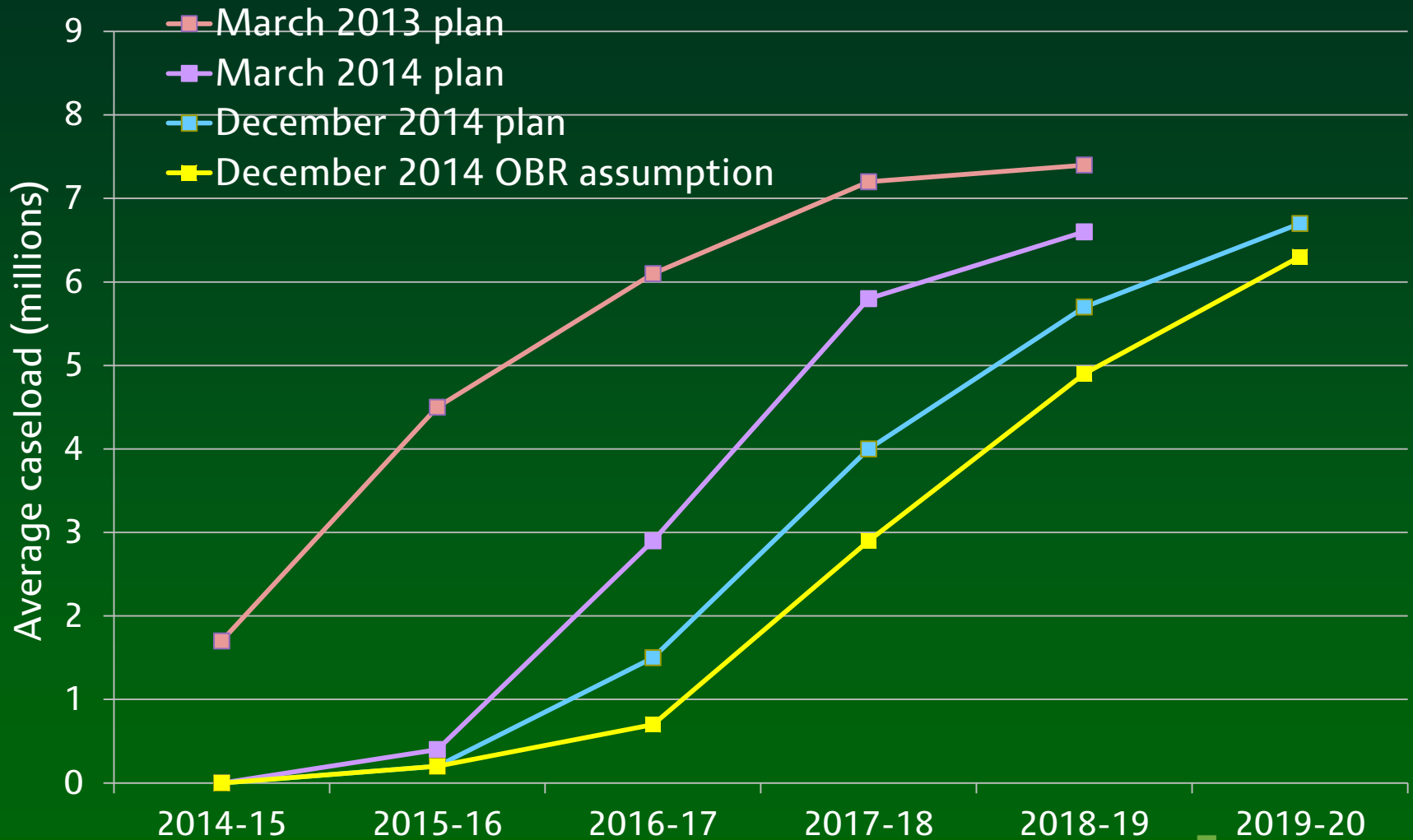
More Universal credit delays

- Further delays to UC have been announced this year

	Original plan	Current plan
Roll-out started everywhere	October 2013	March 2016
All new claims are to UC	April 2014	December 2017
All existing claims migrated	December 2017	Most by December 2019

- In addition OBR now assuming that current plans won't be delivered on time, reflecting past "optimism bias" in rollout plans
- Current OBR assumption involves 2.9m fewer UC claimants in 2017-18 than it assumed one year ago

Vintages of the universal credit roll-out assumption





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