

Institute for  
Fiscal Studies

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

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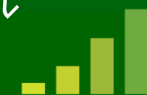
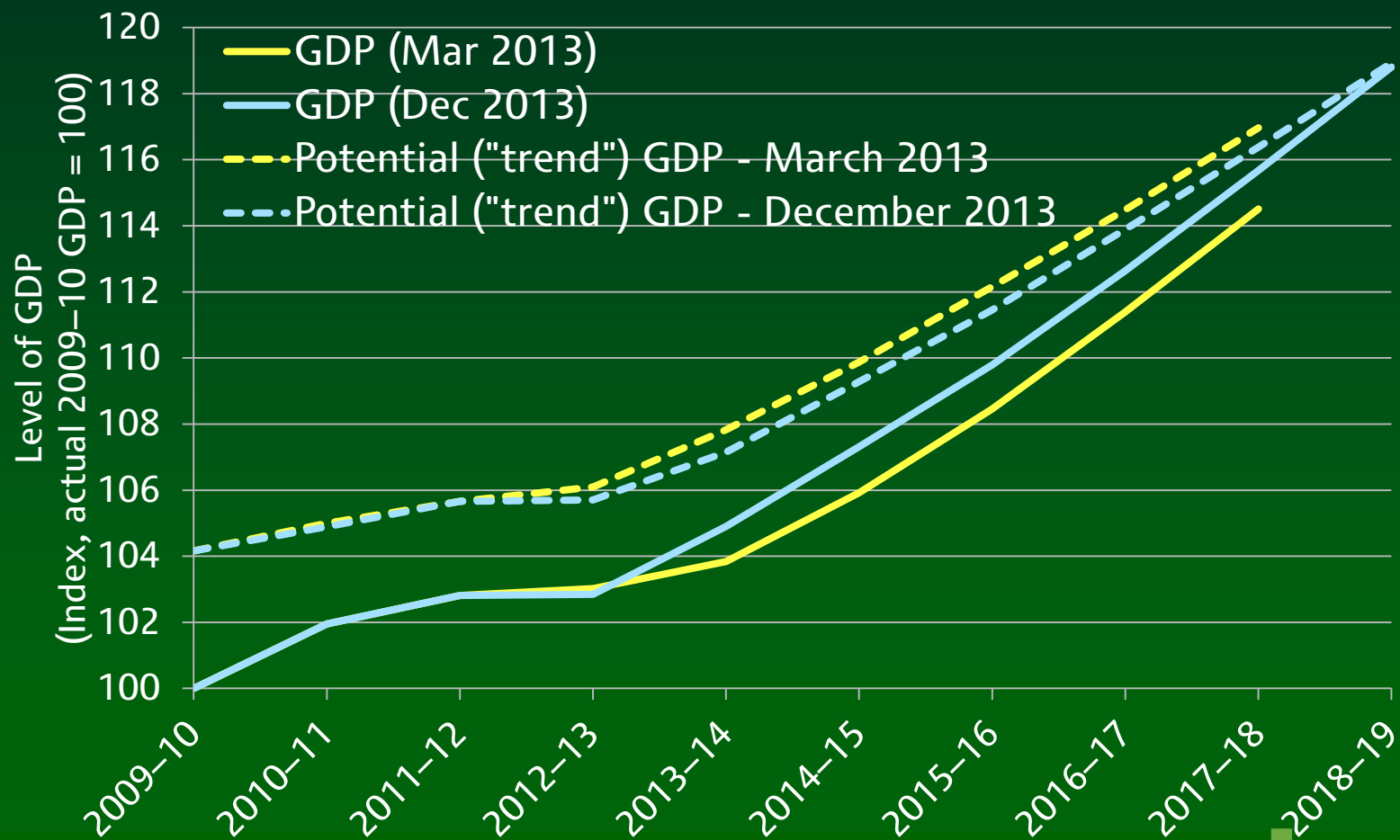
Carl Emmerson and Robert Joyce

Presentation to Low Pay Commission, London

19<sup>h</sup> December 2013

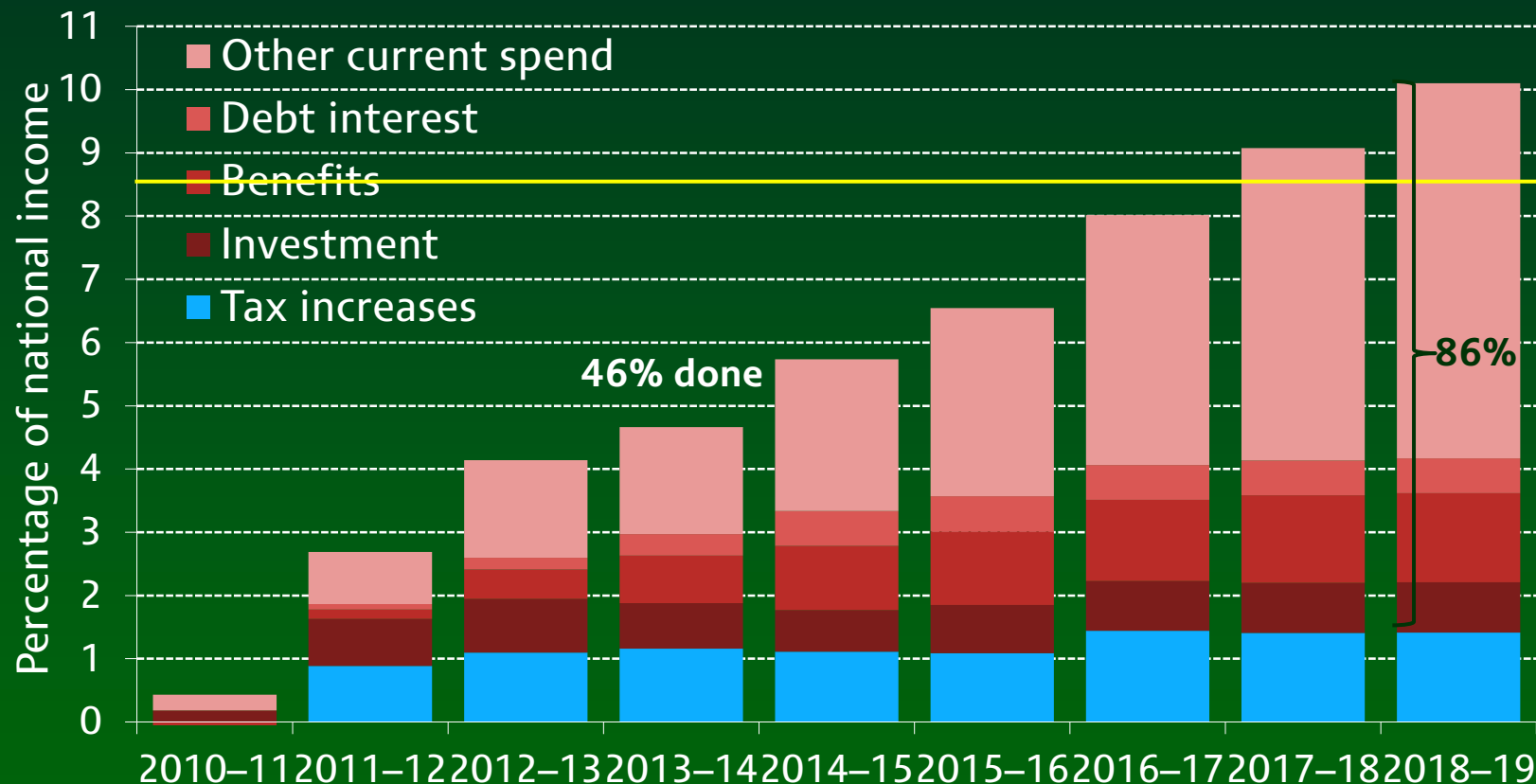
# Faster growth in GDP – but only temporary

Comparison of forecasts for real GDP growth and trend GDP



# The cure (December 2013): 10.1% national income consolidation over 9 years (£166bn)

Dec 2013: 8.6% national income (£141bn) hole in public finances



# Tax cuts coming up

- Personal income tax allowance up £250 in real terms to £10k – annual real gain of up to £50
  - Brings real increase over this parliament to £2,415
  - Less focused on very lowest earners now that PA is much higher
  - 65% of gains can be lost via reduced housing benefit; and typically around 20% via reduced council tax support (depends on local taper rate)
  - Same issue will apply to wider group under Universal Credit (65% taper)
- More real cuts to fuel duty and council tax.
  - NB council tax cuts now benefit more low-income people: 70% of English local authorities require all working-age people to pay some council tax
  - Minor effects on work incentives

# Welfare cuts coming up

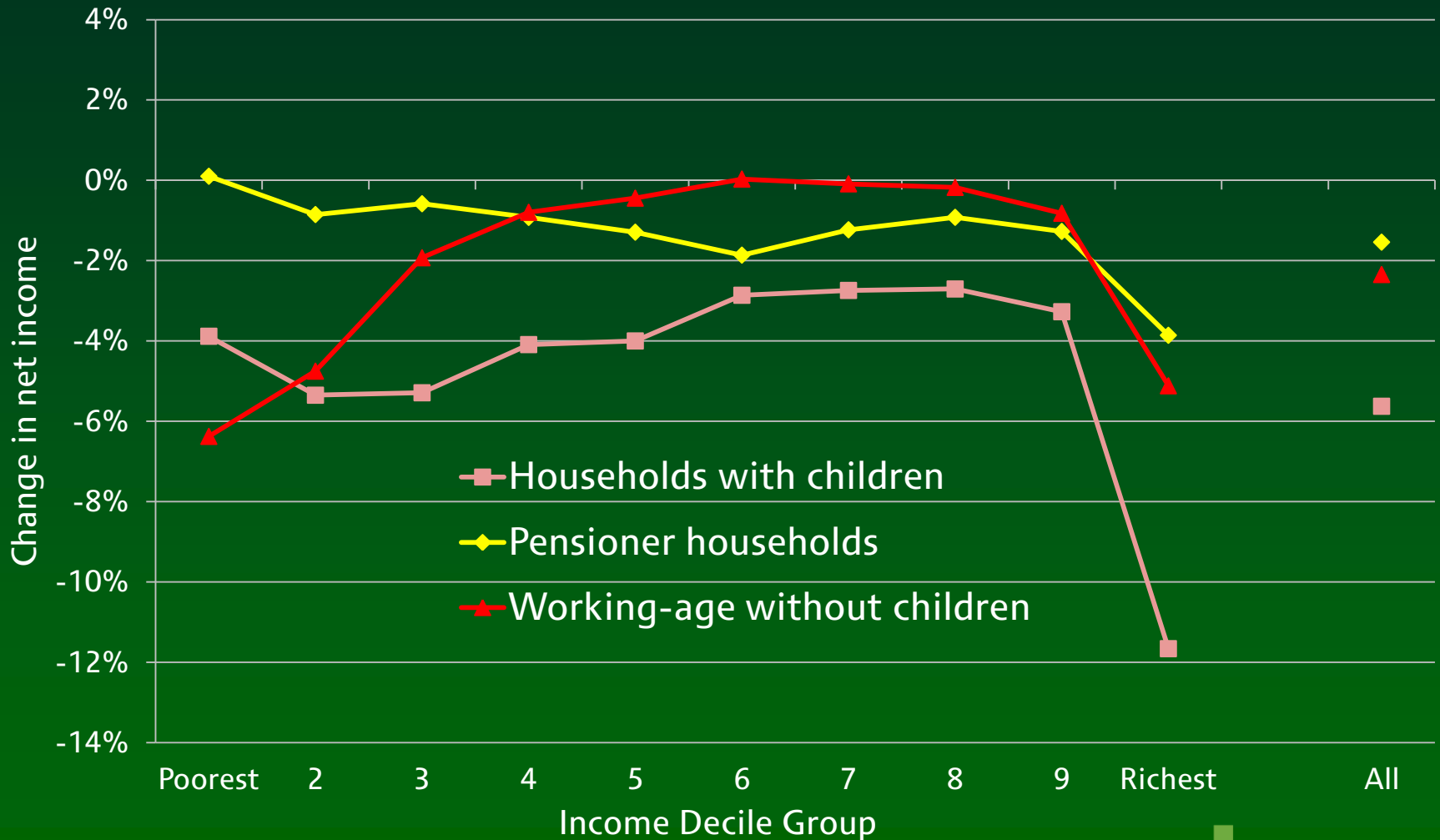
- Continuation of 3-year policy: most benefits/tax credits increased by 1% in April 2013, 2014 and 2015
  - 1.7% real cut in 2014-15; 4% real cut over the 3 years
  - Pensioners and more severely disabled largely protected
- NB maximum Housing Benefit entitlements for private sector renters included 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

# Universal Credit (UC)

- Will integrate 6 of 7 existing means-tested payments into one
- Schedule for UC roll-out delayed
  - Only 0.4 million (not 4.5 million) on UC by 2015-16
  - Complete roll-out by 2017-18
- Less noticed is that planned generosity of UC to low earners has been significantly reduced by lowering the ‘work allowances’
  - Generally starting at lower level, and frozen in cash terms until 2017
  - E.G. Work allowance for couples with 1 child to be 25% lower in April 2017 than previously planned - £1,360 less UC (in current prices) if net annual pay of £11k (assumes no support for housing costs)

# Impact of tax and benefit reforms

January 2010 - April 2015 inclusive, as if Universal Credit fully in place



Fuel duties modelled at average 2015-16 level.

Assumes full take-up of means-tested benefits and tax credits.

