

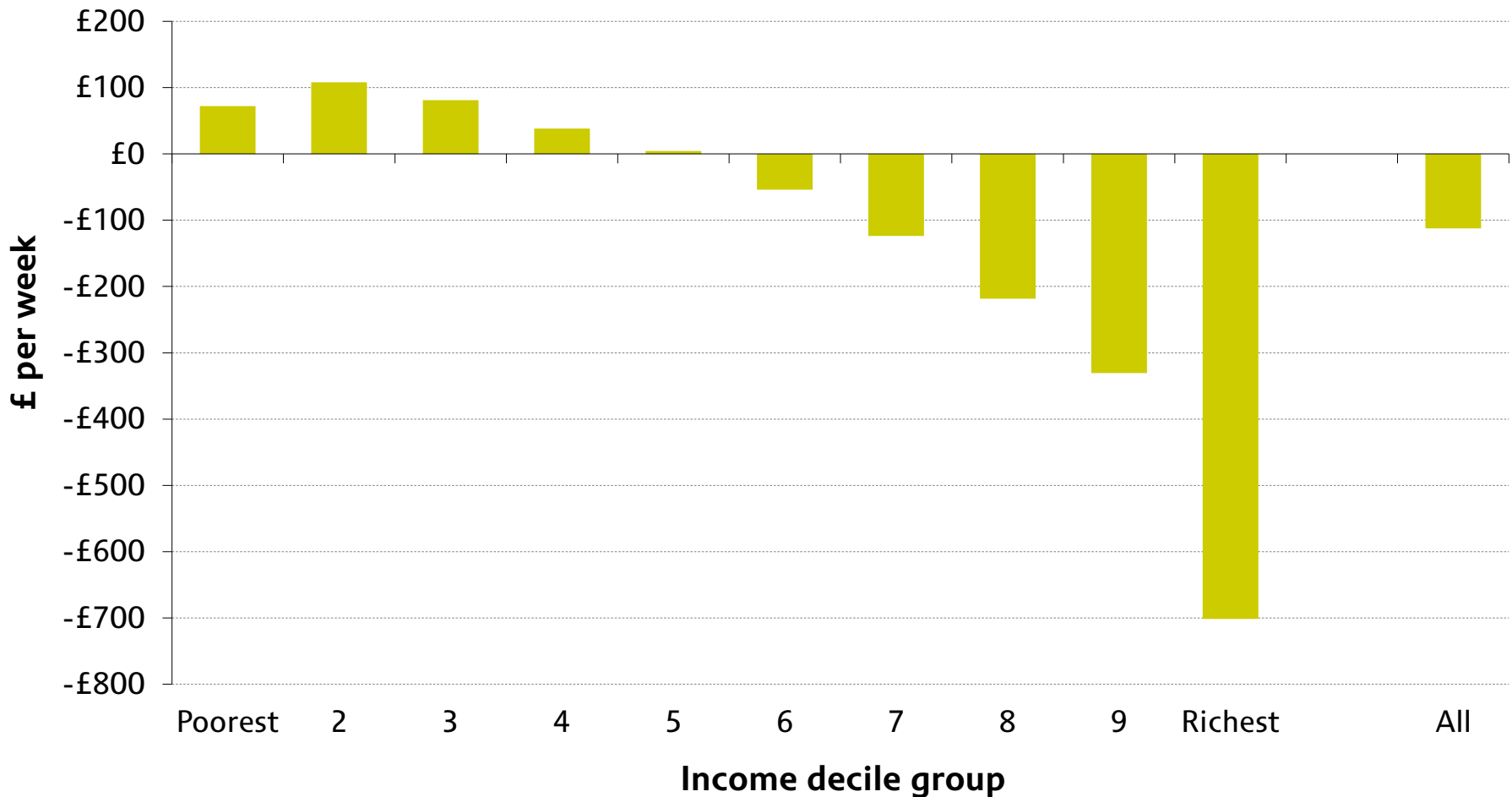
Institute for
Fiscal Studies

The tax & benefit system from a lifetime perspective

Barra Roantree

Key aim of tax & benefit system is redistribution

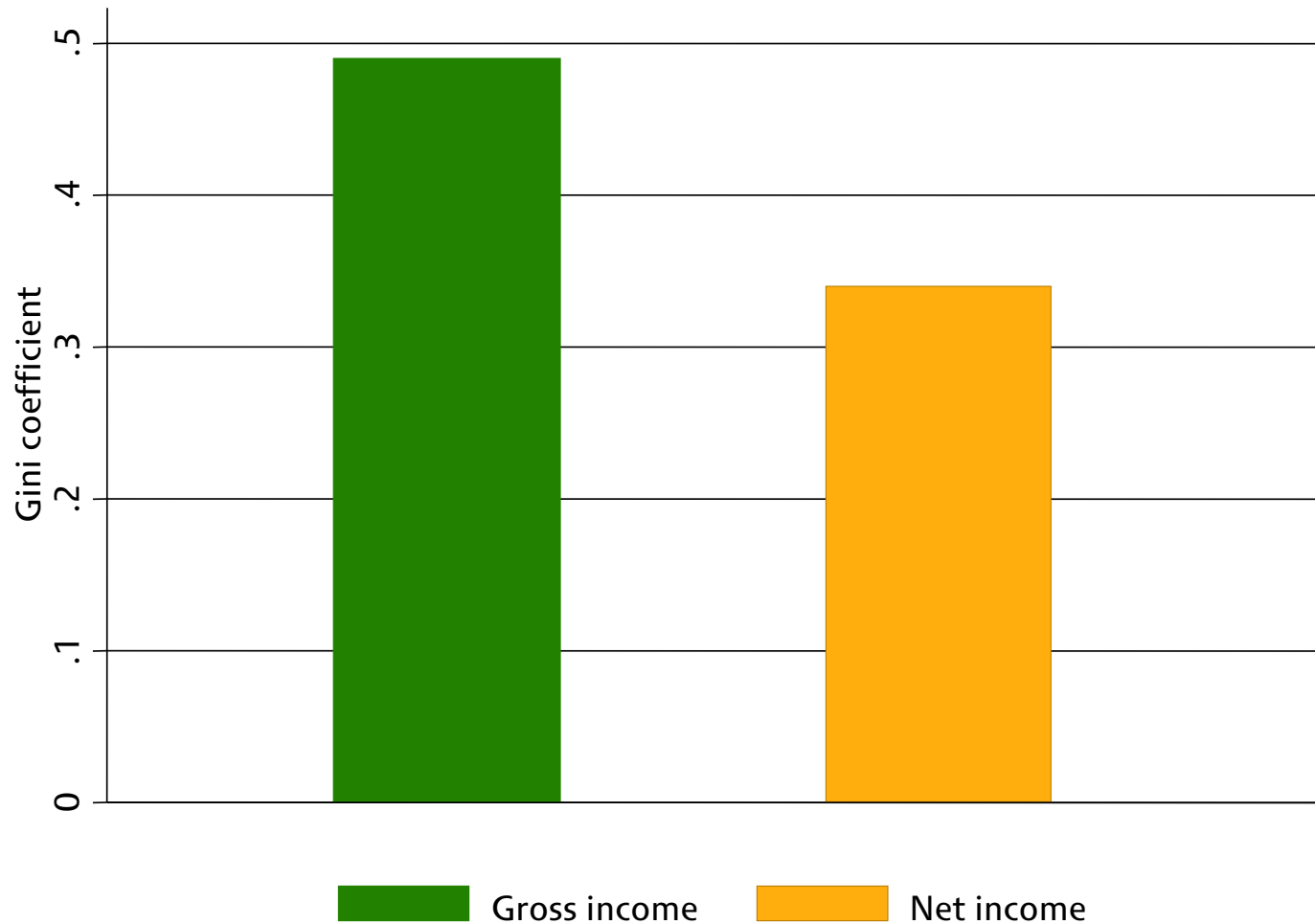
Net transfers from state by income decile: 2013-14 system



Notes: see Figure 9.1 in IFS Green Budget 2013, Chapter 9.

Source: Authors' calculations using the IFS tax and benefit microsimulation model, TAXBEN, to apply the 2013-14 tax and benefit system to updated data from the 2010 Living Costs and Food Survey.

... which significantly reduces income inequality



Notes: see Table 3.1 in 'Redistribution from a Lifetime Perspective'. Both bars show cross-section

But this is just at a snapshot in time:

People see significant change in their circumstances over their lifetime

State	Average at point in time	Ever over 18-waves
In a couple		
Married		
Has child aged 18 or under		
Disabled		
Unemployed		

Source: Table 2.2 from <http://www.ifs.org.uk/publications/7130>

Note: Authors' calculations based on BHPS data. Includes all non-dependants aged 16+. The 'average across waves' column includes all waves and is weighted using cross-sectional weights. The 'ever observed' columns are calculated for individuals observed in all waves from wave 1 to the destination wave and weighted using longitudinal weights. The final two lines (earnings quintiles) only include individuals who are employed in all relevant waves.

But this is just at a snapshot in time:

People see significant change in their circumstances over their lifetime

State	Average at point in time	Ever over 18-waves
In a couple	64.4%	
Married	56.0%	
Has child aged 18 or under	28.1%	
Disabled	7.7%	
Unemployed	4.7%	

Source: Table 2.2 from <http://www.ifs.org.uk/publications/7130>

Note: Authors' calculations based on BHPS data. Includes all non-dependants aged 16+. The 'average across waves' column includes all waves and is weighted using cross-sectional weights. The 'ever observed' columns are calculated for individuals observed in all waves from wave 1 to the destination wave and weighted using longitudinal weights. The final two lines (earnings quintiles) only include individuals who are employed in all relevant waves.

But this is just at a snapshot in time:

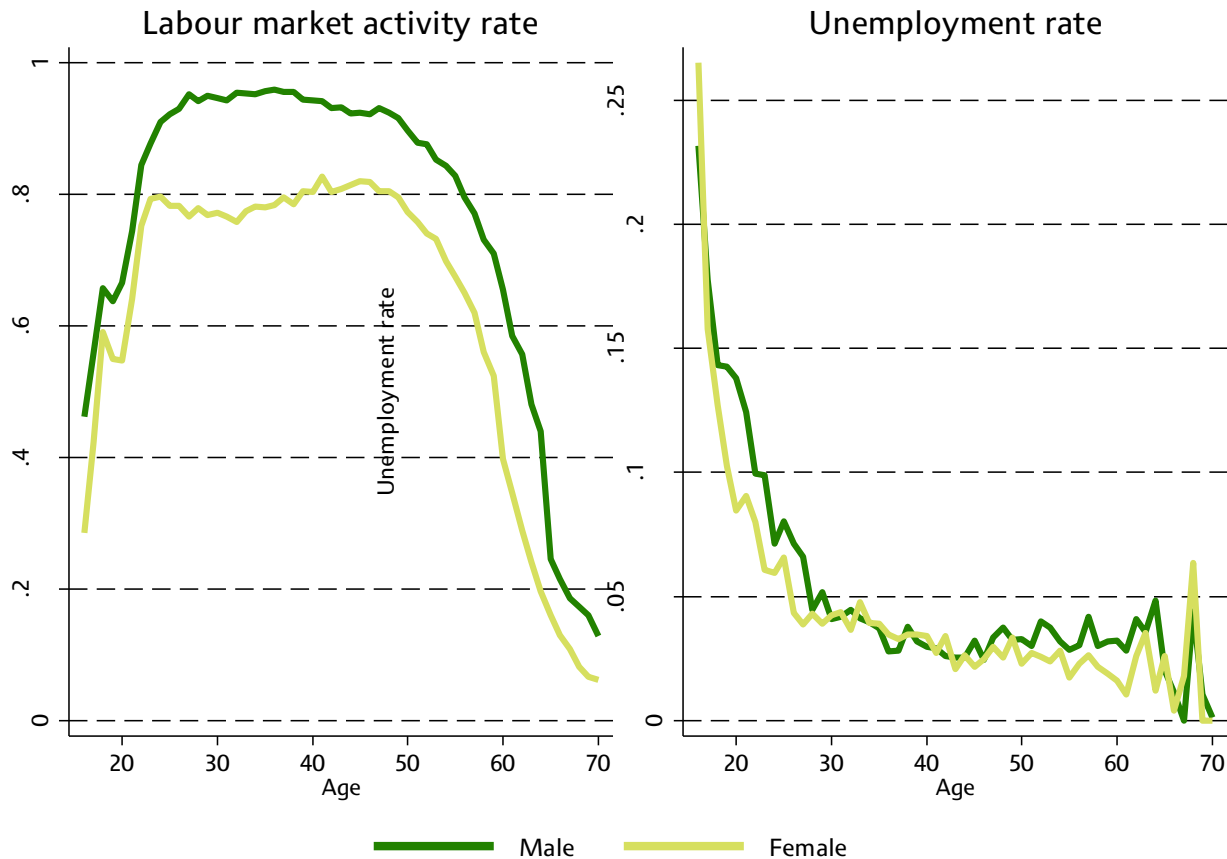
People see significant change in their circumstances over their lifetime

State	Average at point in time	Ever over 18-waves
In a couple	64.4%	87.2%
Married	56.0%	80.7%
Has child aged 18 or under	28.1%	52.3%
Disabled	7.7%	26.8%
Unemployed	4.7%	23.9%

Source: Table 2.2 from <http://www.ifs.org.uk/publications/7130>

Note: Authors' calculations based on BHPS data. Includes all non-dependants aged 16+. The 'average across waves' column includes all waves and is weighted using cross-sectional weights. The 'ever observed' columns are calculated for individuals observed in all waves from wave 1 to the destination wave and weighted using longitudinal weights. The final two lines (earnings quintiles) only include individuals who are employed in all relevant waves.

But this is just at a snapshot in time: Labour market activity and unemployment display strong age profiles

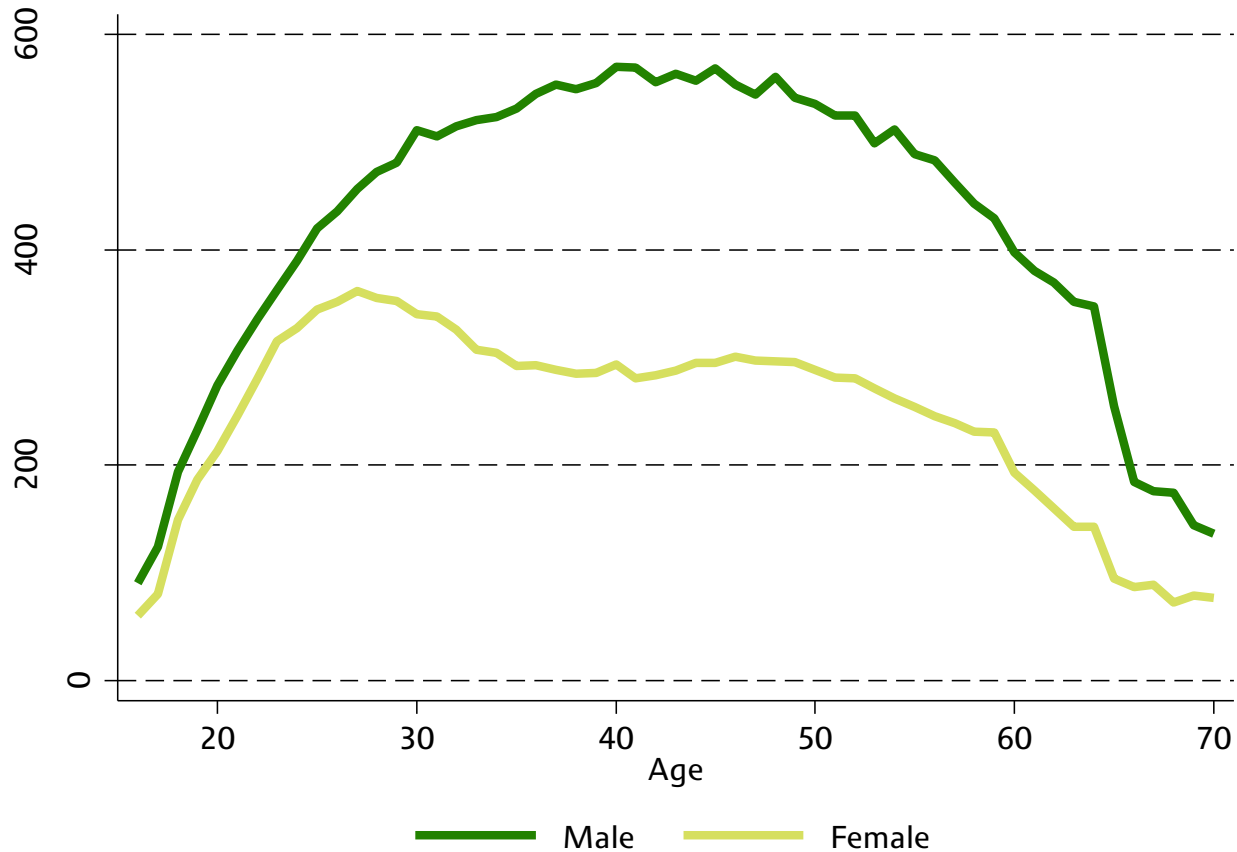


Source: Figure 2.1 from <http://www.ifs.org.uk/publications/7130>

Note: Authors' calculations based on pooled data from all 18 waves of the BHPS. Includes all non-dependants aged 16–70. Results are weighted using cross-sectional weights. Employment and unemployment calculated according to International Labour Organisation (ILO) definitions. Labour market activity defined as being employed or unemployed.

But this is just at a snapshot in time: ... as do earnings (especially for women)

Median gross earnings of employees by age & sex



Source: Figure 2.2 from <http://www.ifs.org.uk/publications/7130>

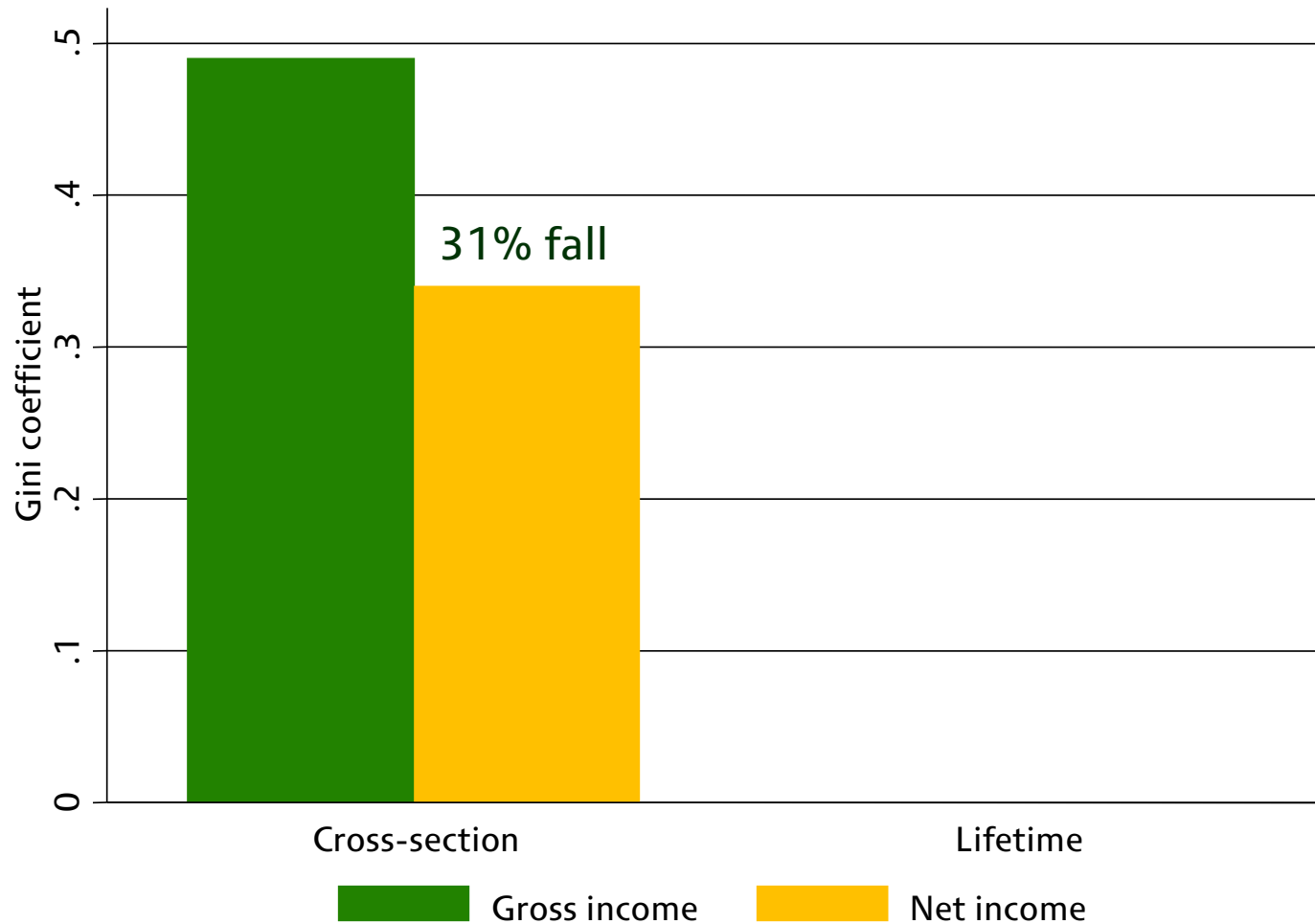
Note: Authors' calculations based on pooled data from all 18 waves of the BHPS. Includes all employed non-dependants aged 16–70. Results are weighted using cross-sectional weights. Gross earnings are before taxes and benefits and are updated to December 2012 prices.

All suggests should take lifetime perspective

- May change our assessment of:
 - Income inequality & the role of the tax and benefit system
 - The progressivity of historic and proposed tax and benefit reforms
 - How policy should be designed
- But data limitations mean most analysis of the tax & benefit system is based on information at a snapshot in time
 - Researchers at IFS simulated the lifetimes of the baby-boom cohort (1945-54) in order to address some of these questions
 - Used British Household Panel Survey (BHPS) used to model transitions between consecutive years and Living Costs and Food Survey (LCFS) used to adjust simulations to match cross-sectional distributions
 - Include most personal taxes and benefits, assuming full take-up; exclude benefits of public service spending

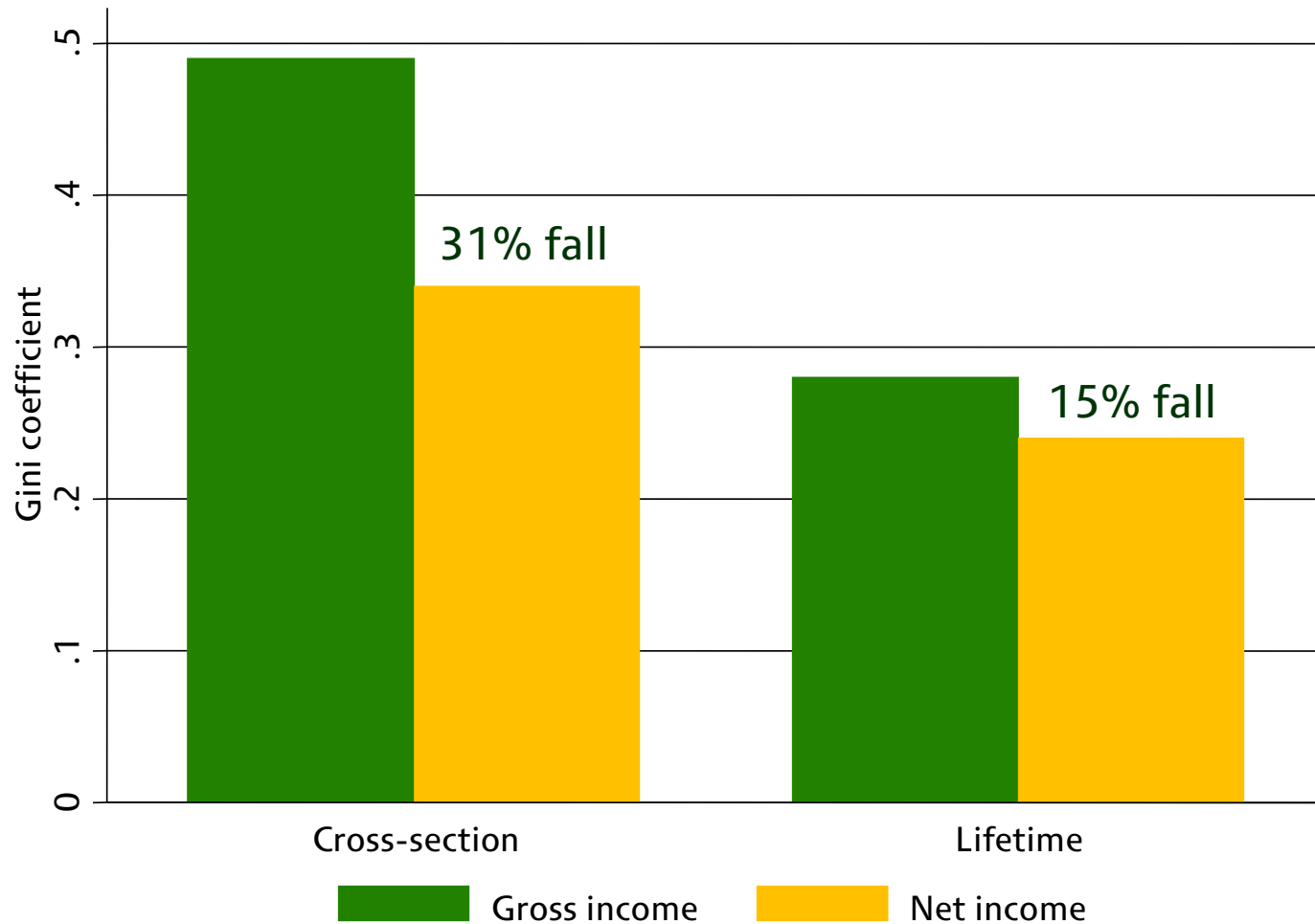
From a lifetime perspective...

The tax & benefit system does less to reduce inequality between people



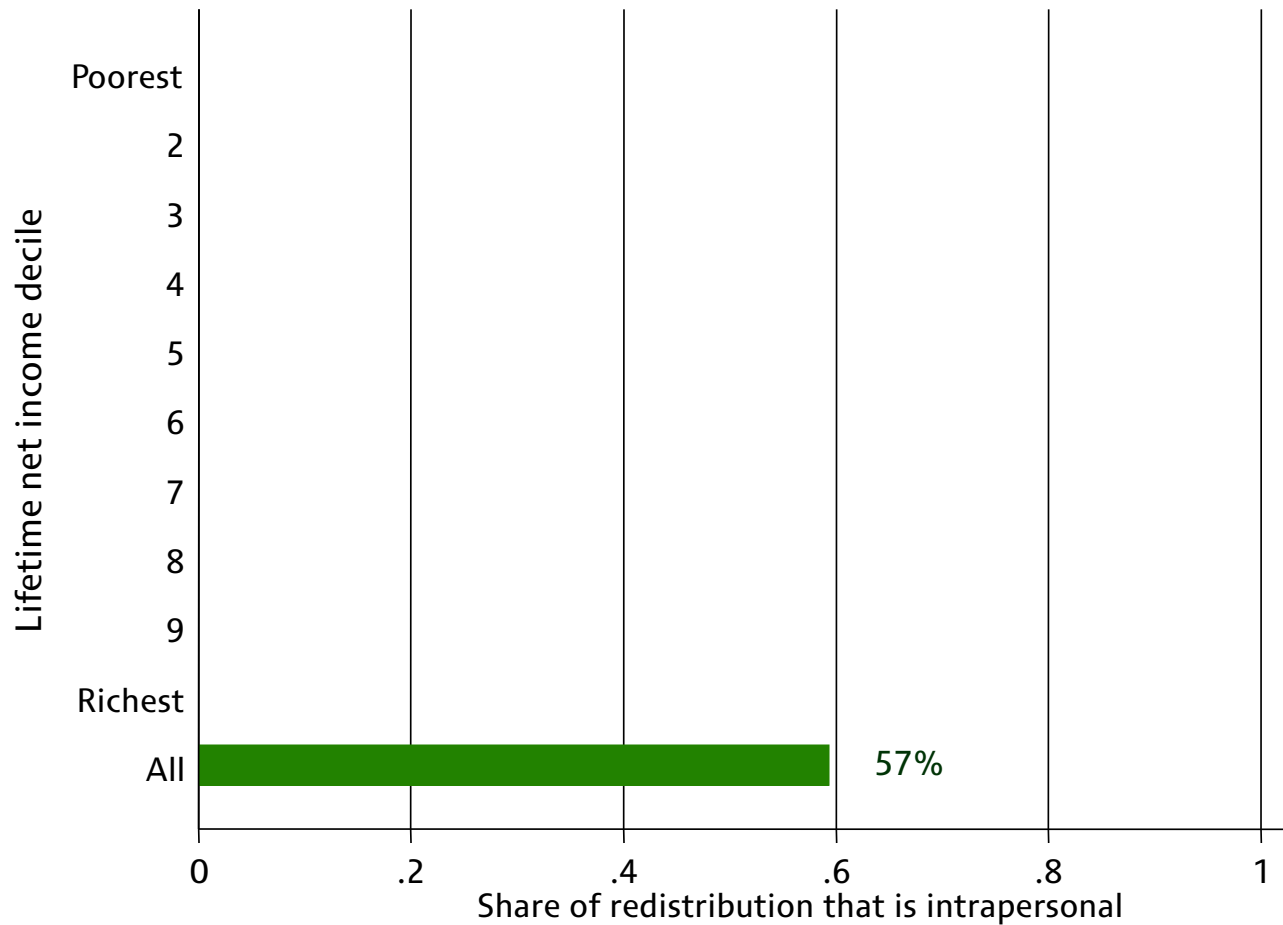
From a lifetime perspective...

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From a lifetime perspective...

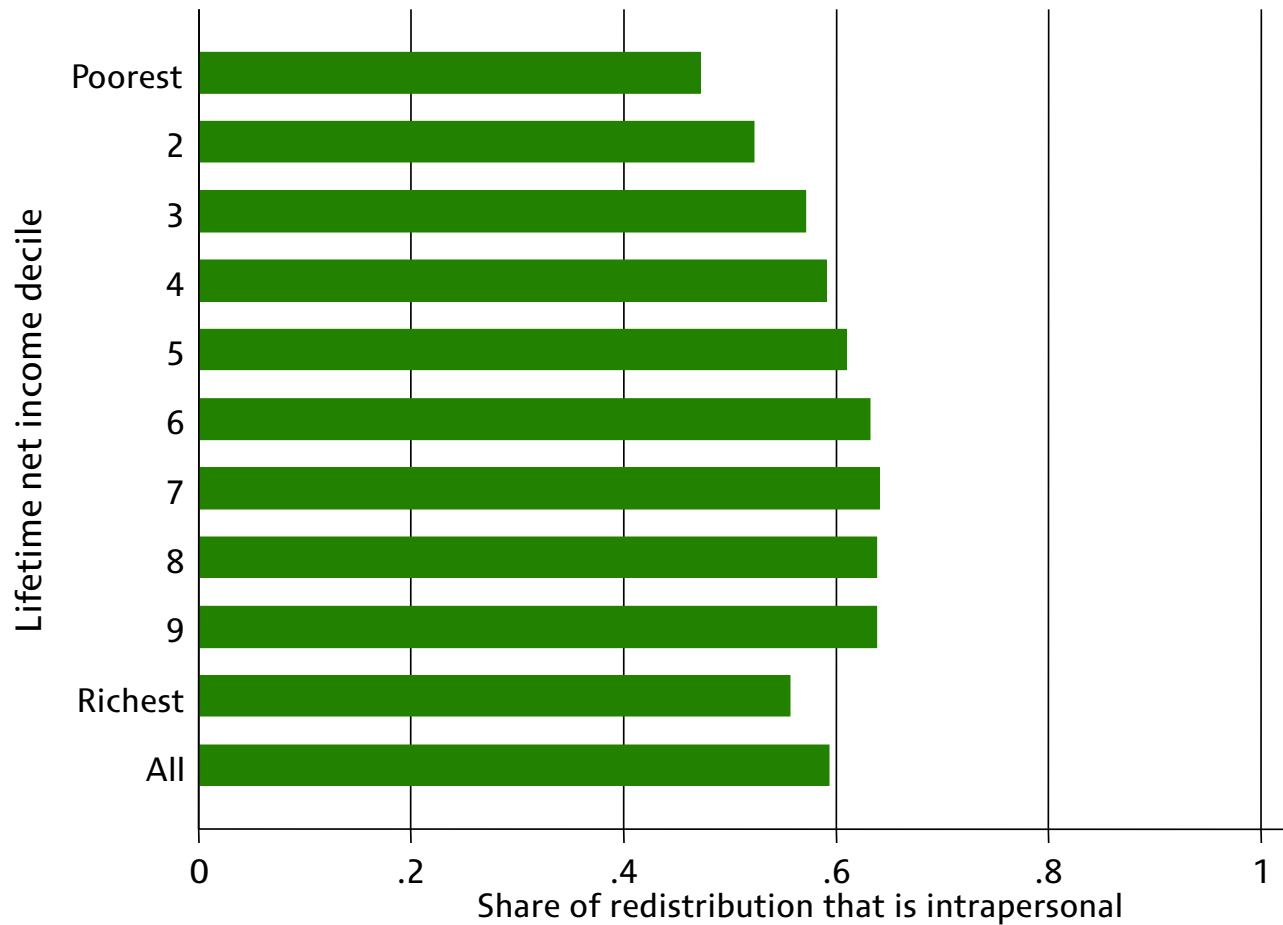
... as more of what it does is intrapersonal redistribution



Notes: see Figure 3.7 in 'Redistribution from a Lifetime Perspective'

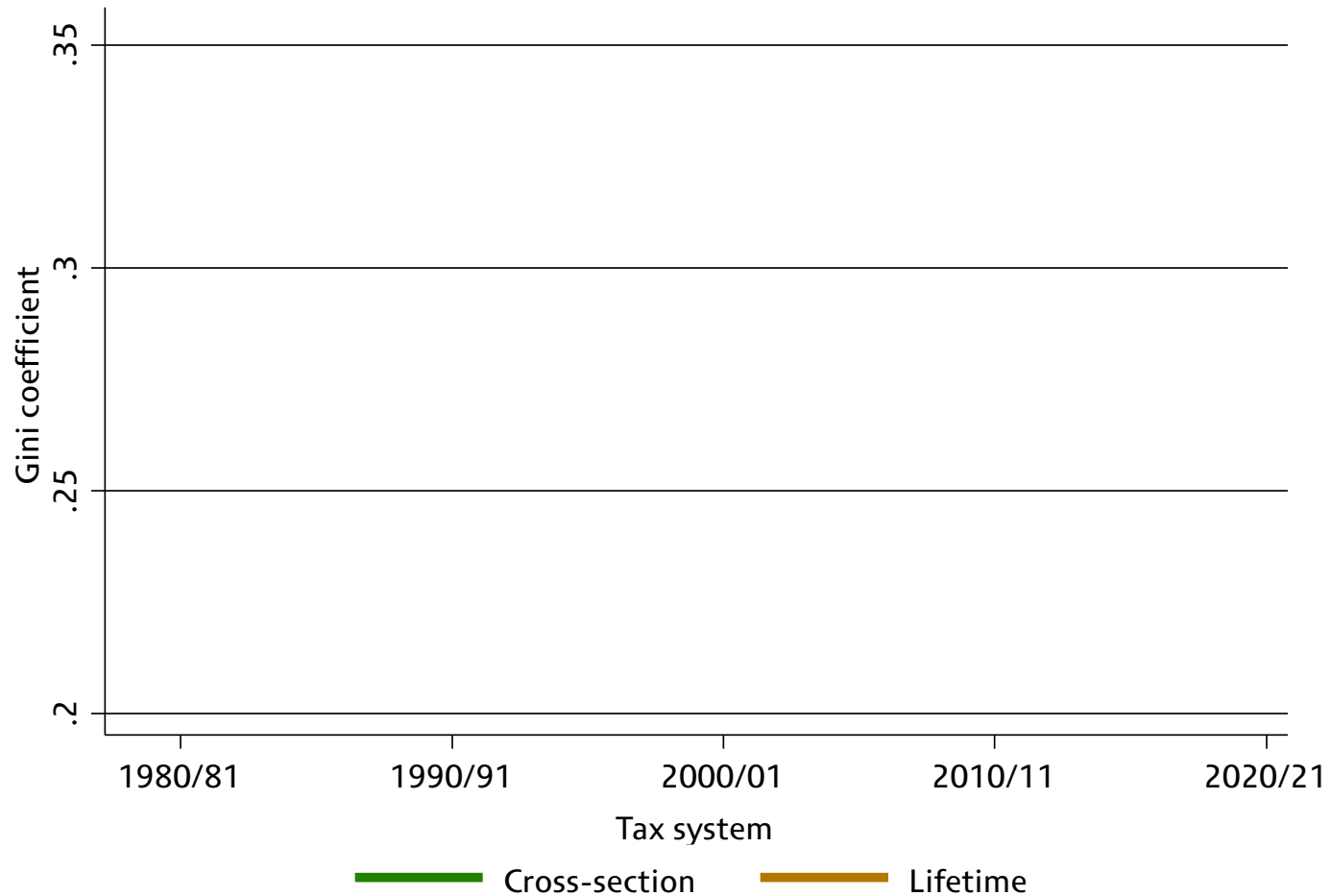
From a lifetime perspective...

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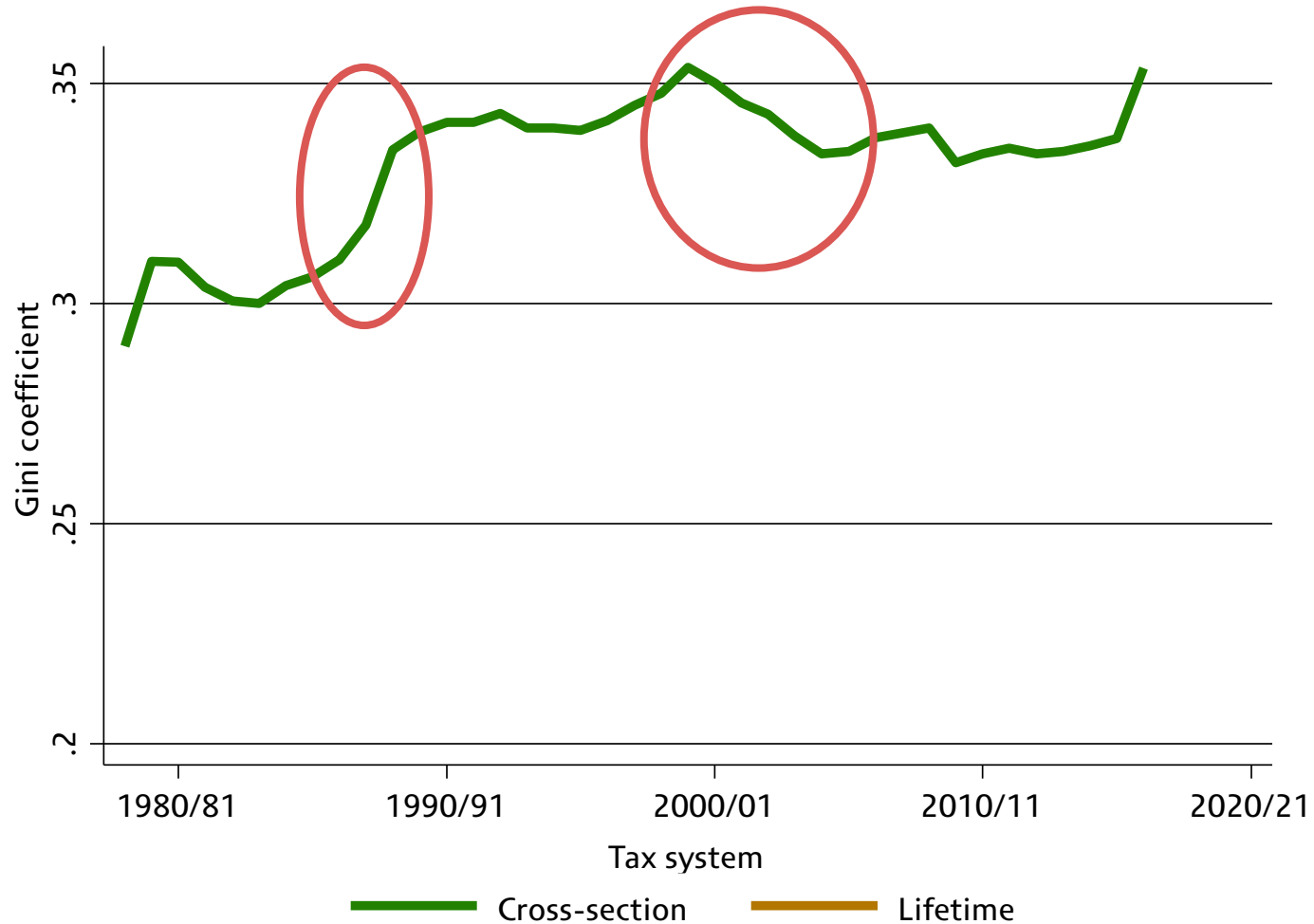
Notes: see Figure 3.7 in 'Redistribution from a Lifetime Perspective'

How have 40 years of reforms affected inequality?



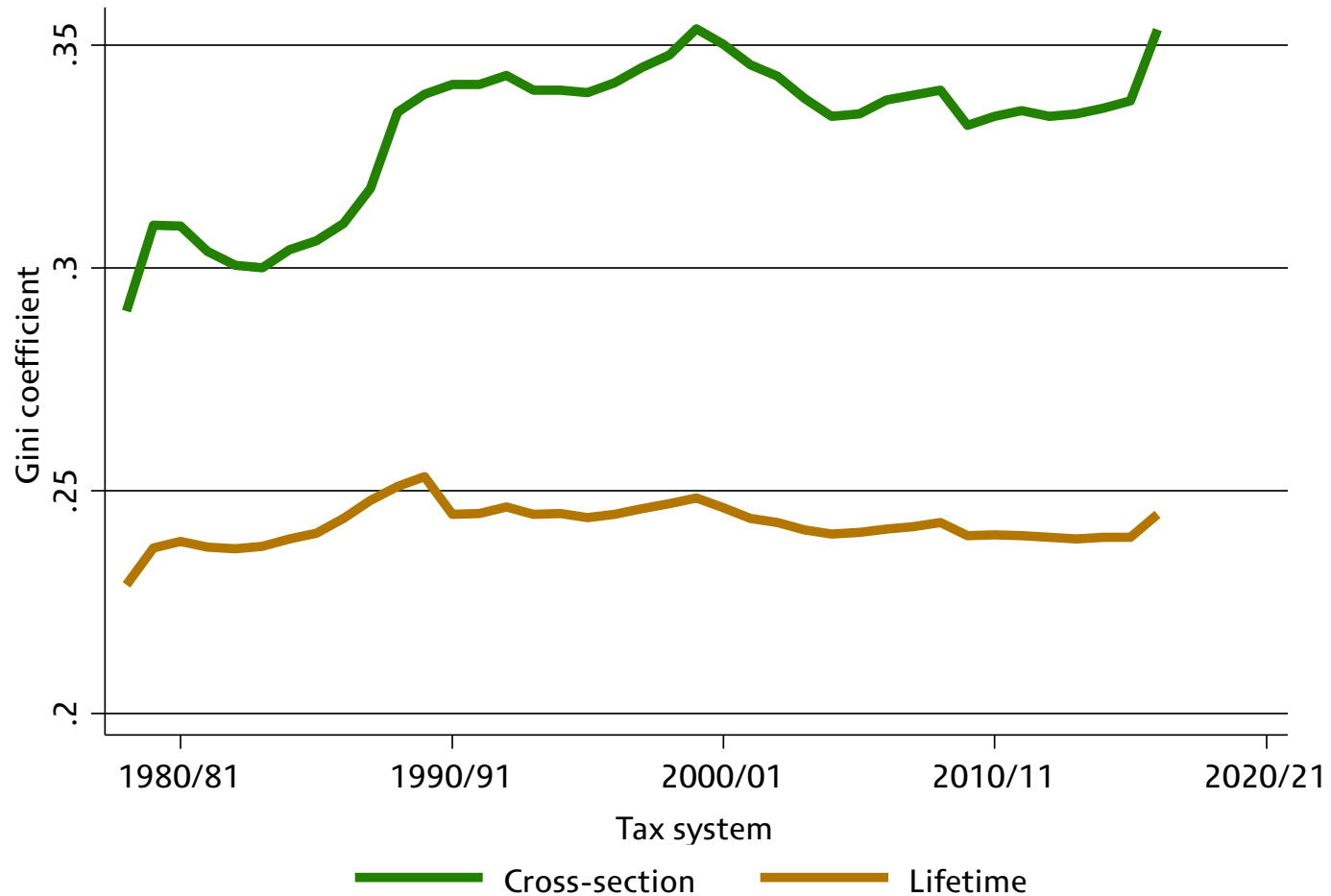
Notes: see Figure 4.1 in 'Redistribution from a Lifetime Perspective'

How have 40 years of reforms affected inequality?



Notes: see Figure 4.1 in 'Redistribution from a Lifetime Perspective'

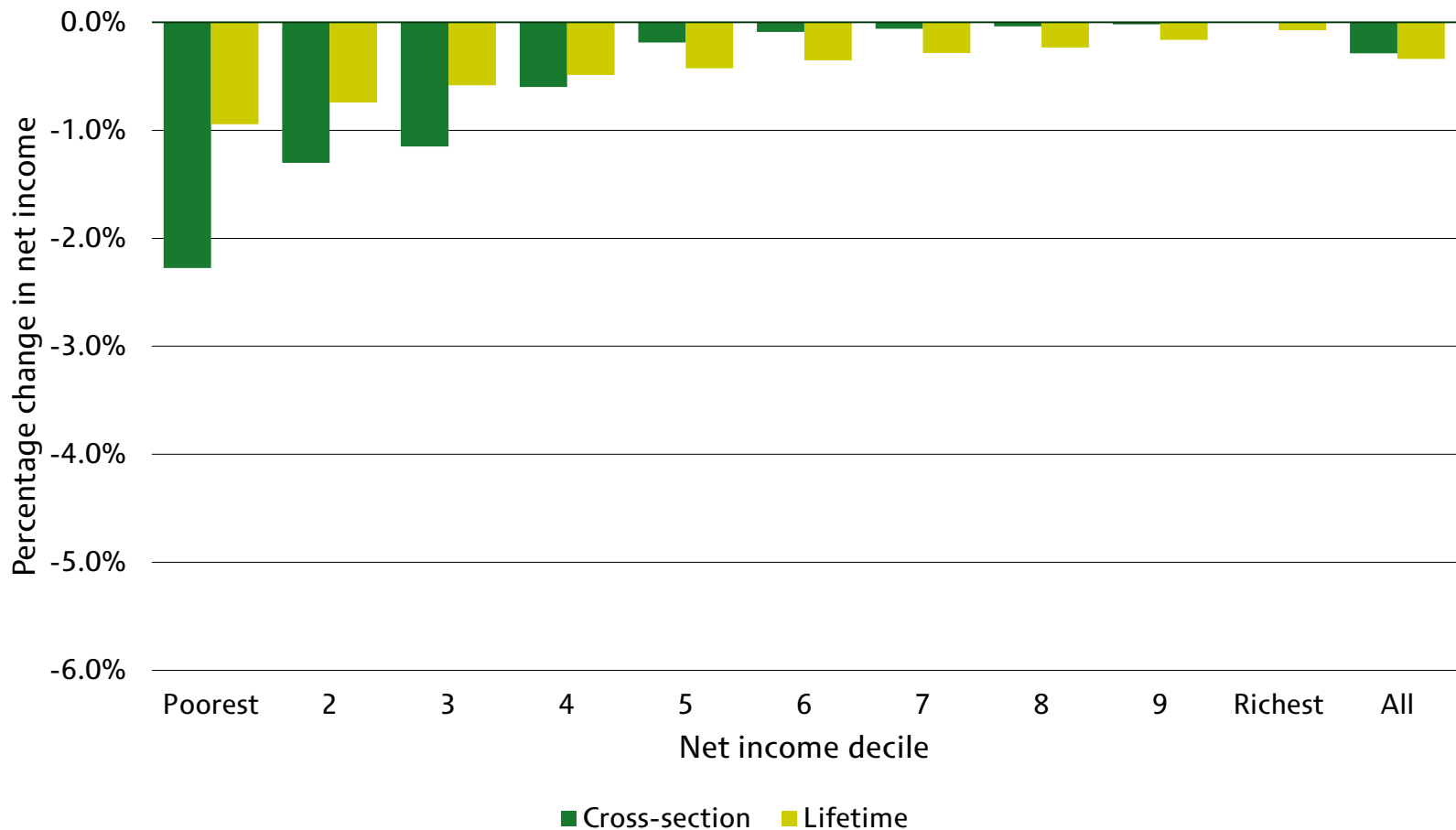
How have 40 years of reforms affected inequality?



Notes: see Figure 4.1 in 'Redistribution from a Lifetime Perspective'

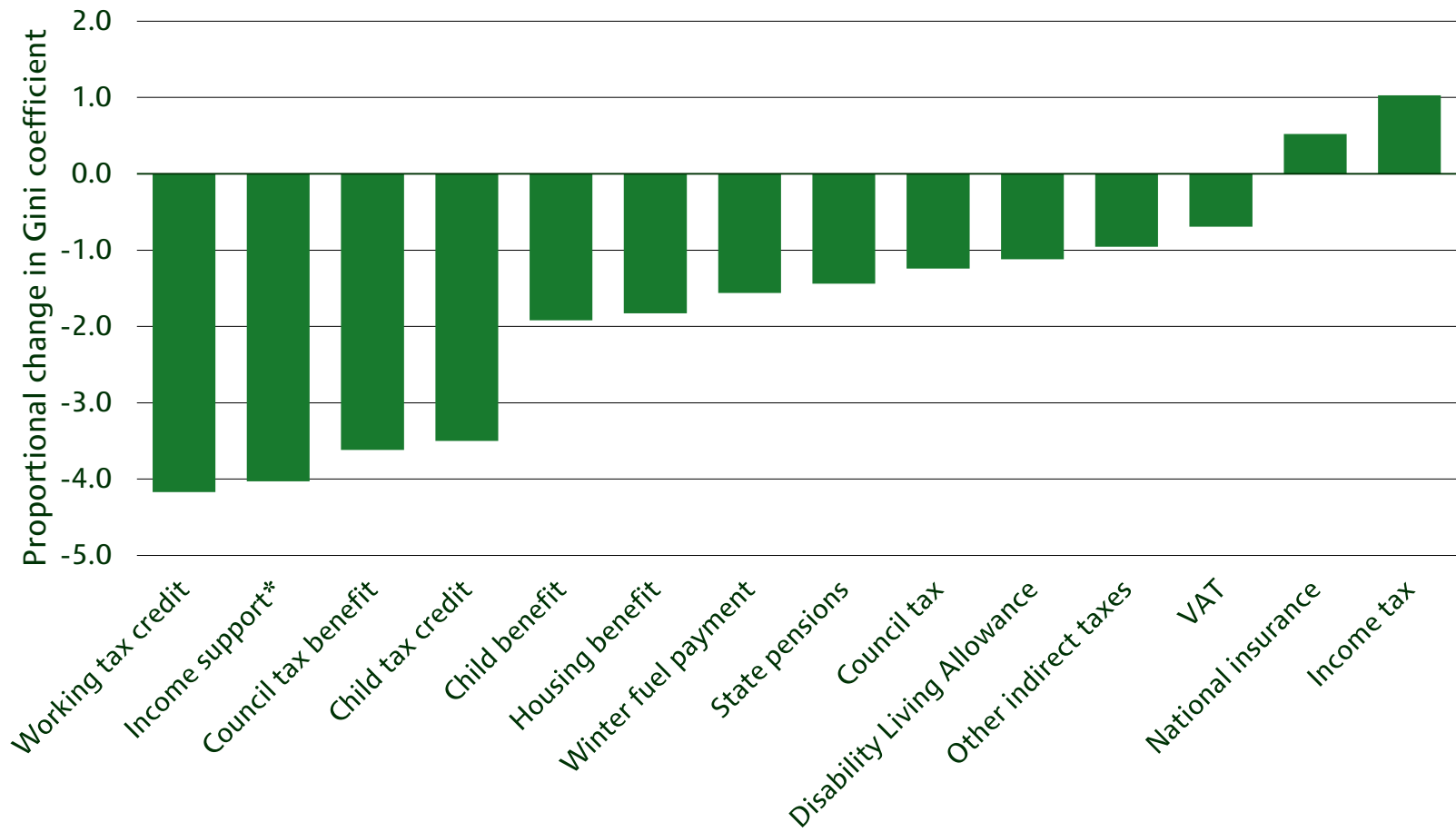
What were the distributional consequences of ...

The 4-year benefit freeze announced in the July 2015 Budget



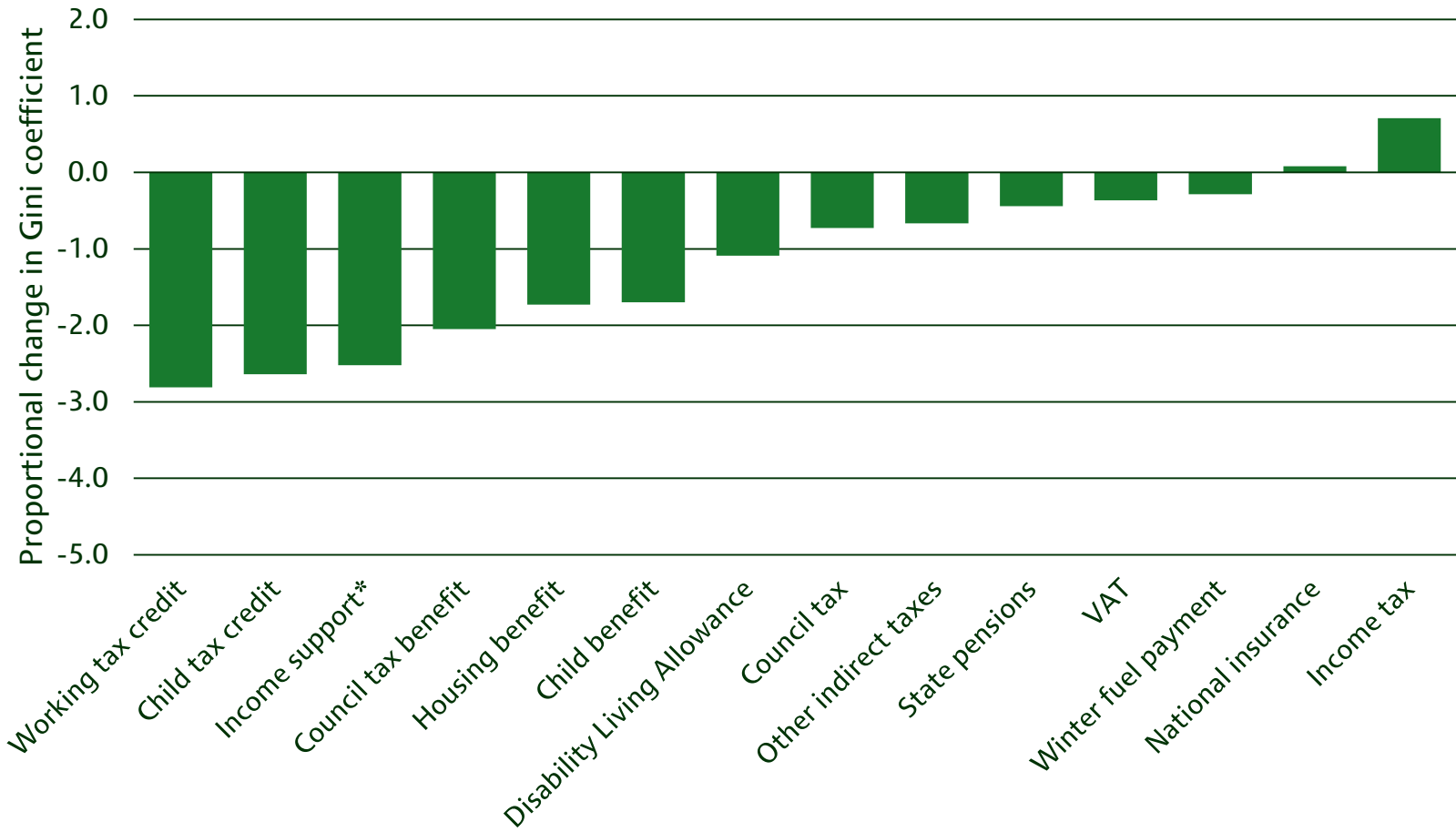
Notes: see Figure 4.4 in 'Redistribution from a Lifetime Perspective'

What are the most cost-effective policies to reduce cross-sectional inequality directly?



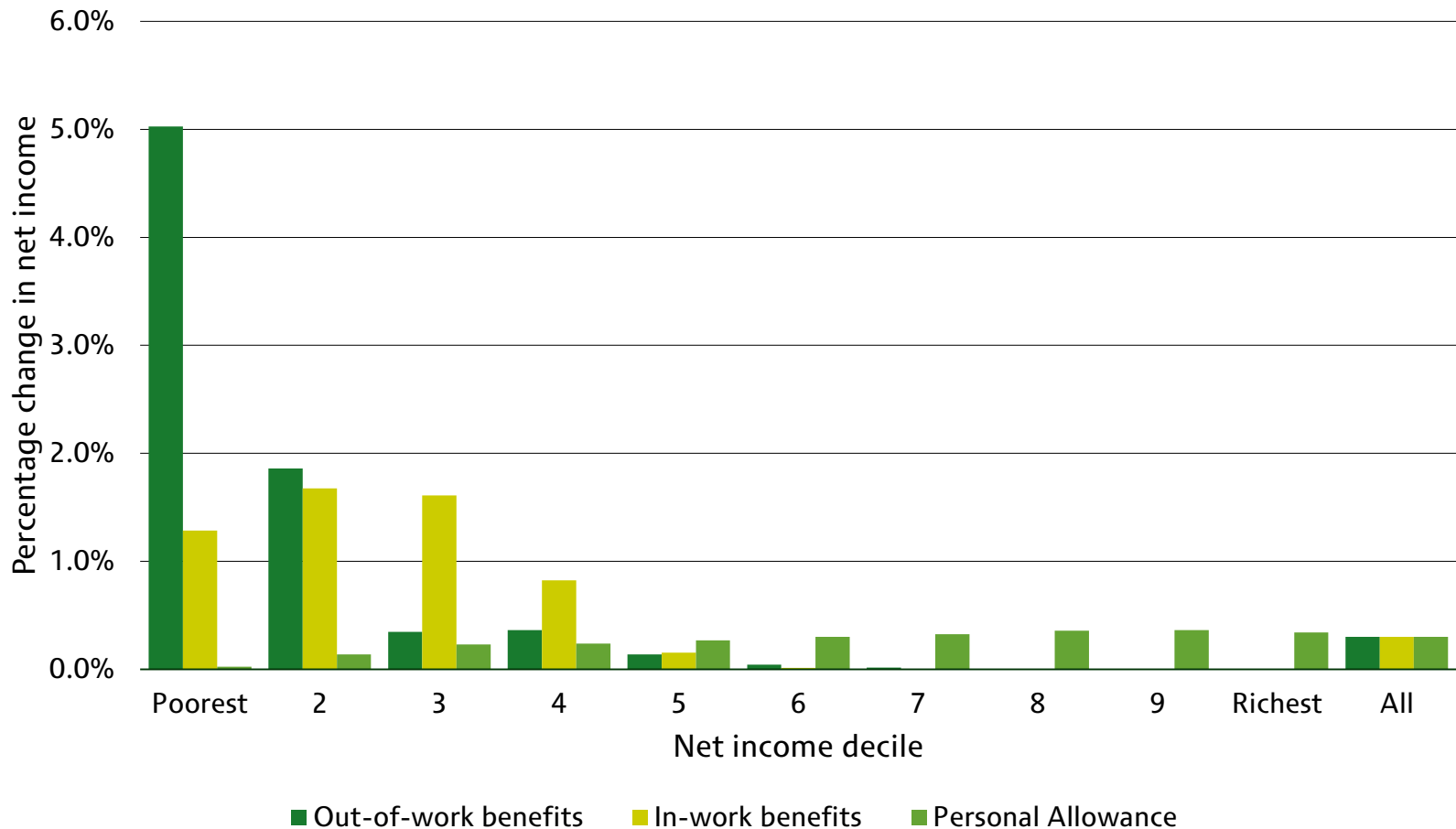
Note: Income Support category includes means-tested Jobseekers Allowance and Employment Support Allowance

What are the most cost-effective policies to reduce lifetime inequality directly?



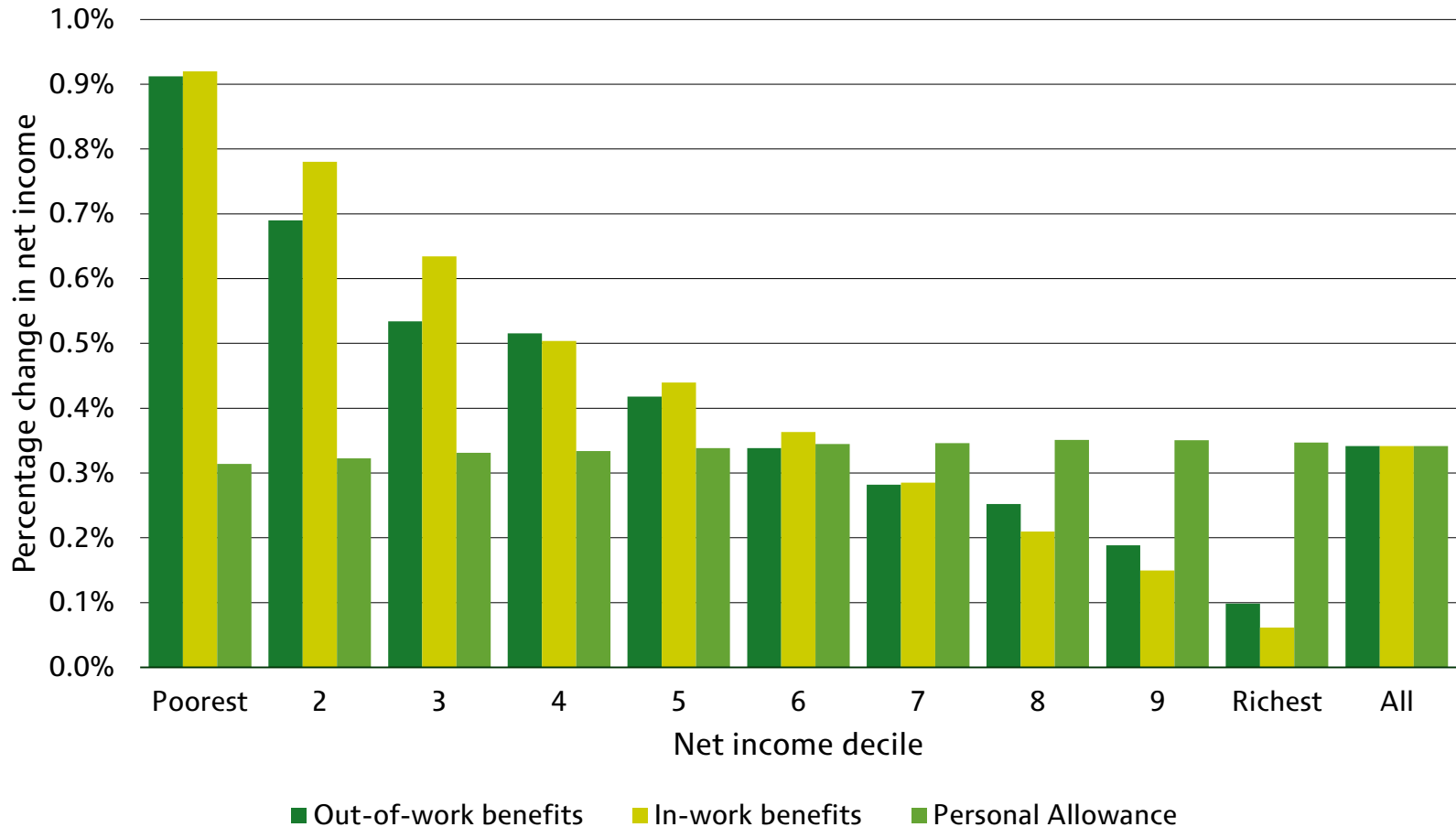
Note: Income Support category includes means-tested Jobseekers Allowance and Employment Support Allowance

Out-of-work benefits help snapshot poor most



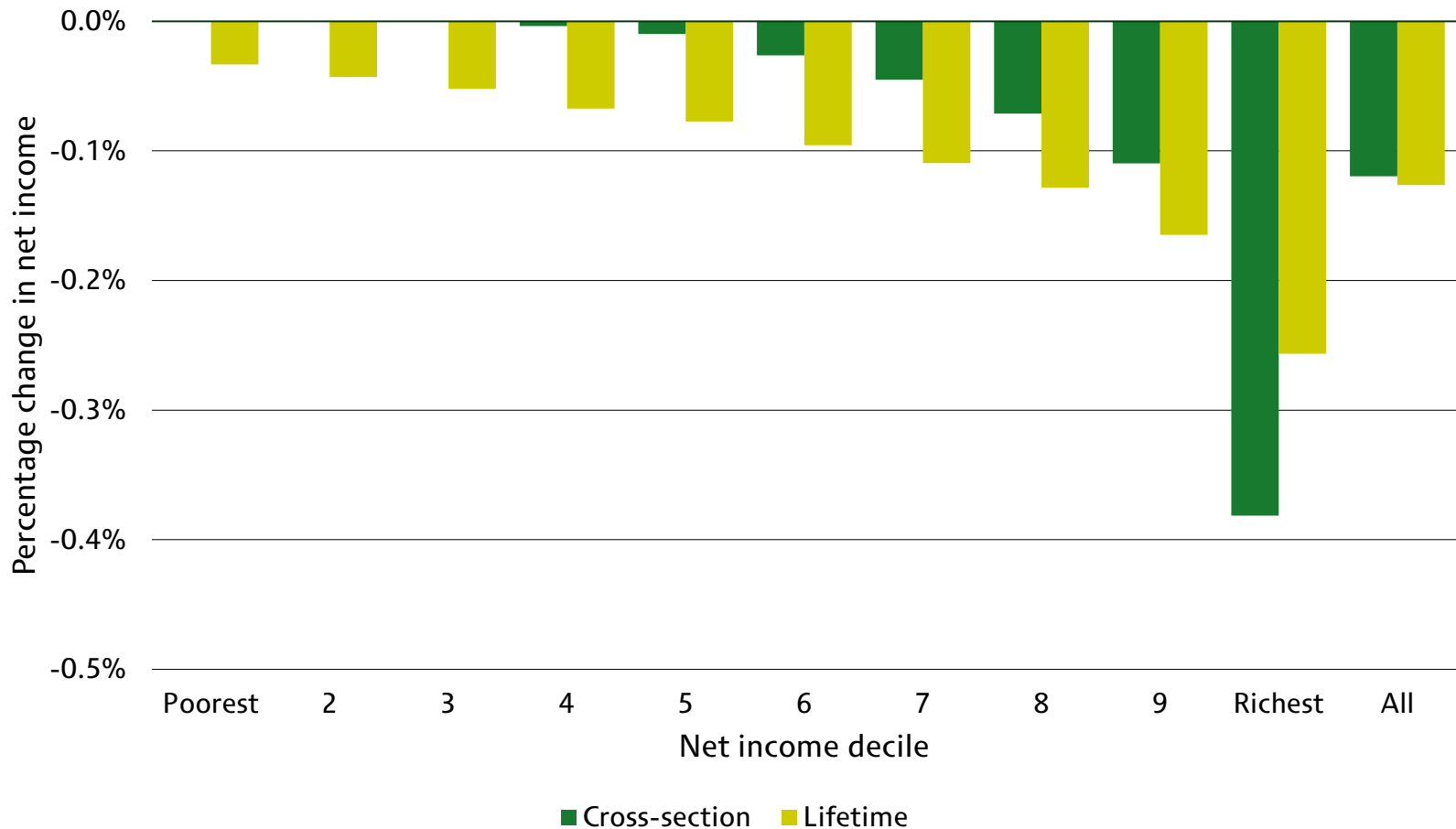
Notes: see Figure 5.3 in 'Redistribution from a Lifetime Perspective'

... but in-work benefits help lifetime poor as much



Notes: see Figure 5.4 in 'Redistribution from a Lifetime Perspective'

Higher-rate of income tax targets lifetime rich well



Notes: see Figure 5.5 in 'Redistribution from a Lifetime Perspective'

What are the implications for the design of policy?

1. Policymakers need to be clear about their objectives: trying to alleviate short-run hardship or redistribute lifetime resources?
2. “Working” and “non-working” families is not a useful distinction
3. Policymakers looking to reduce inequality or transfer resources to the lifetime poor might favour doing so through in-work benefits
4. The potential exists to achieve what the current tax and benefit system does more efficiently

Redistribution from a lifetime perspective: historical and hypothetical reforms

Peter Levell, Barra Roantree and Jonathan Shaw