



Tom Waters

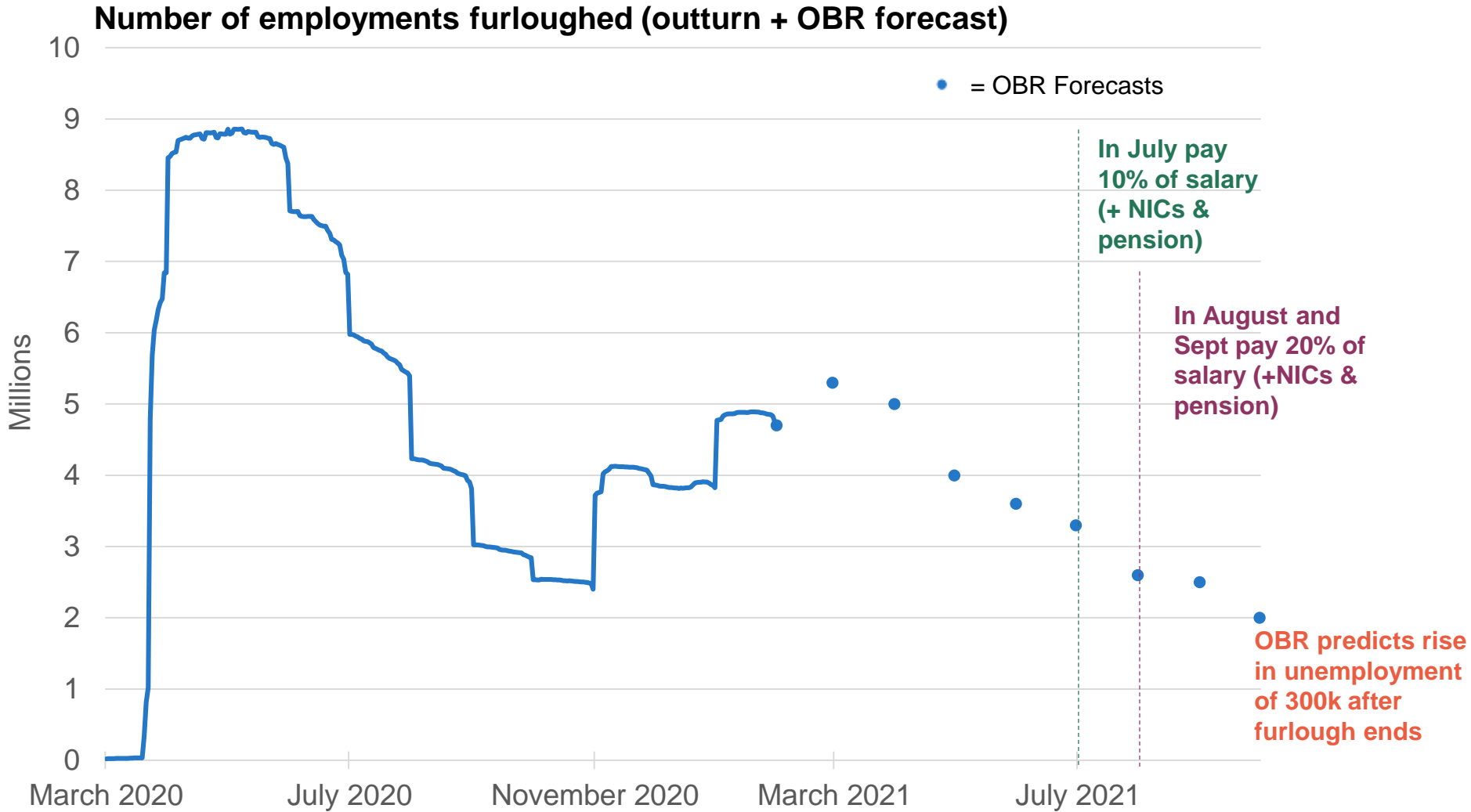
@TheIFS

The Budget and household finances

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- **Policies to support household incomes**
 - Furlough
 - Self-employed income support scheme (SEISS)
 - Universal Credit
- **Tax changes**
 - Income tax threshold freezes
 - Freezes to rates/thresholds of other taxes

Furlough scheme extension



Source: HMRC CJRS statistics February 2021, Forecasts from OBR EFO March 2021

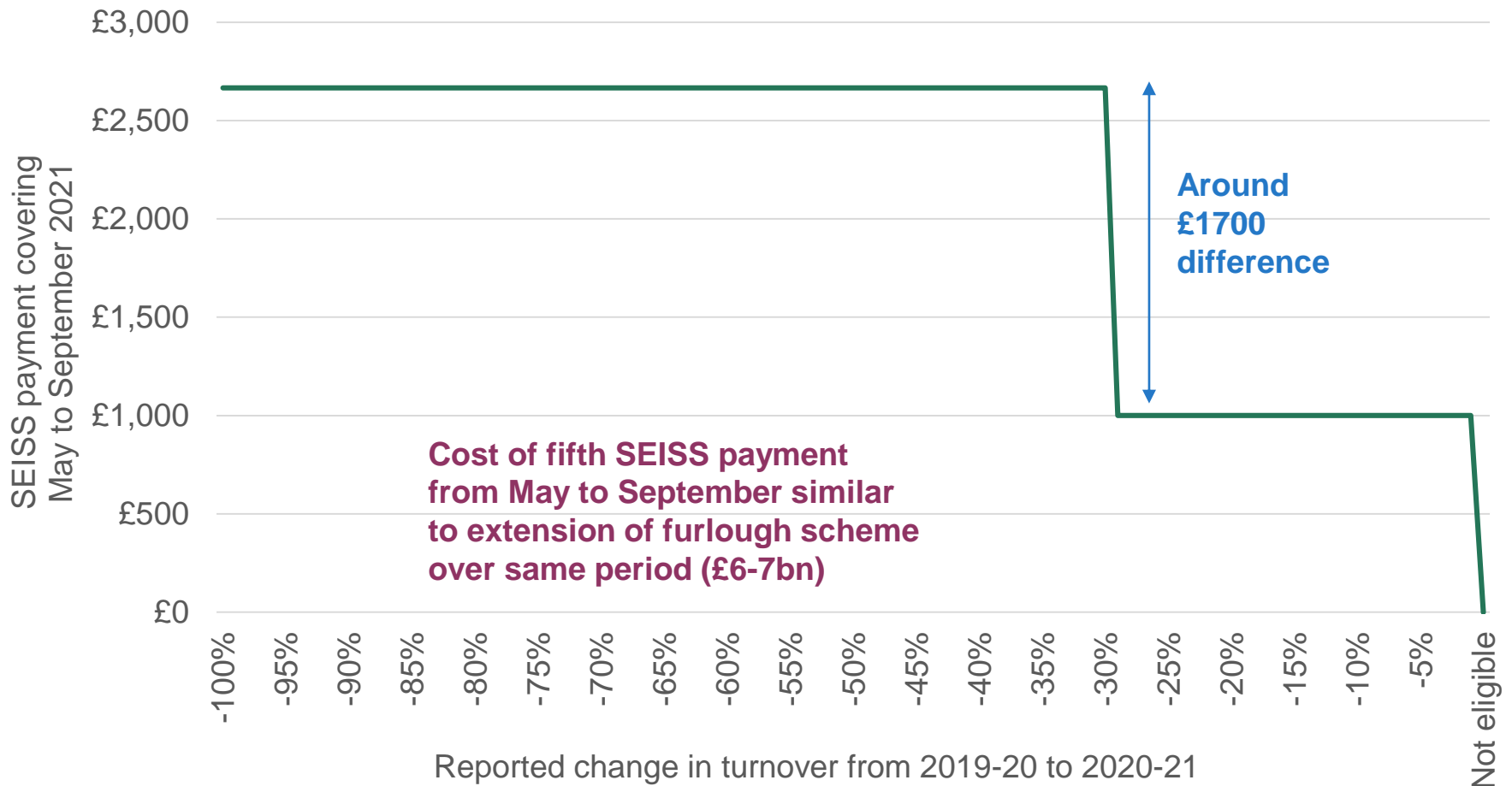
SEISS extension



- **Fifth SEISS payment will cover May-September**
 - Concentrated on those reporting higher falls in turnover during pandemic

SEISS extension

SEISS payment for a self-employed person with pre-pandemic profits of £8,000 per year

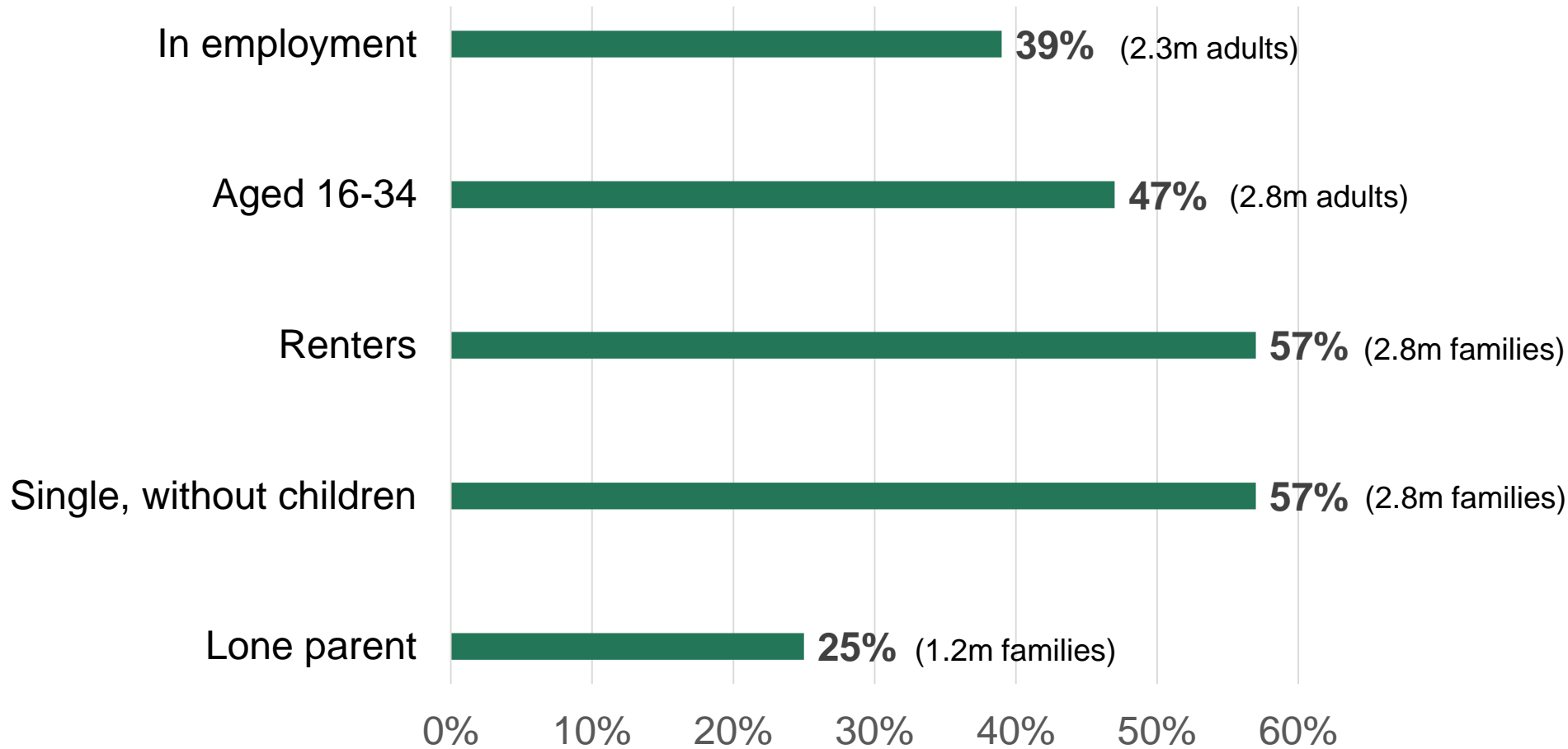


Note: Self-employed are eligible if they report profits being “significantly” affected by the pandemic. £8,000 was median profits of self employed sole traders in 2015-16 (Cribb, Miller and Pope 2020).

- **Fifth SEISS payment will cover May-September**
 - Concentrated on those reporting higher falls in turnover during pandemic
- **HMRC will now use 2019-20 tax returns to include more people in SEISS for fourth & fifth payment**
 - Most notably around 200k “newly self employed”
 - Plus some who are now eligible based on 2019-20 tax return
 - Still choosing to not include around 1.3 million people earning over £50k or <50% income from self-employment

- **Government extended the UC uplift of £20 per week for another 6 months. Now due to expire at the end of September.**
 - Also extended uplift for those on Working Tax Credit, paid in lump sum of £500 (for administrative reasons)
 - Together affect 6m families – almost a quarter of working age
 - 2.5 million on out-of-work pre-UC benefits not seen increases in benefits during pandemic (mostly out of work for health reasons)

Characteristics of UC claimants

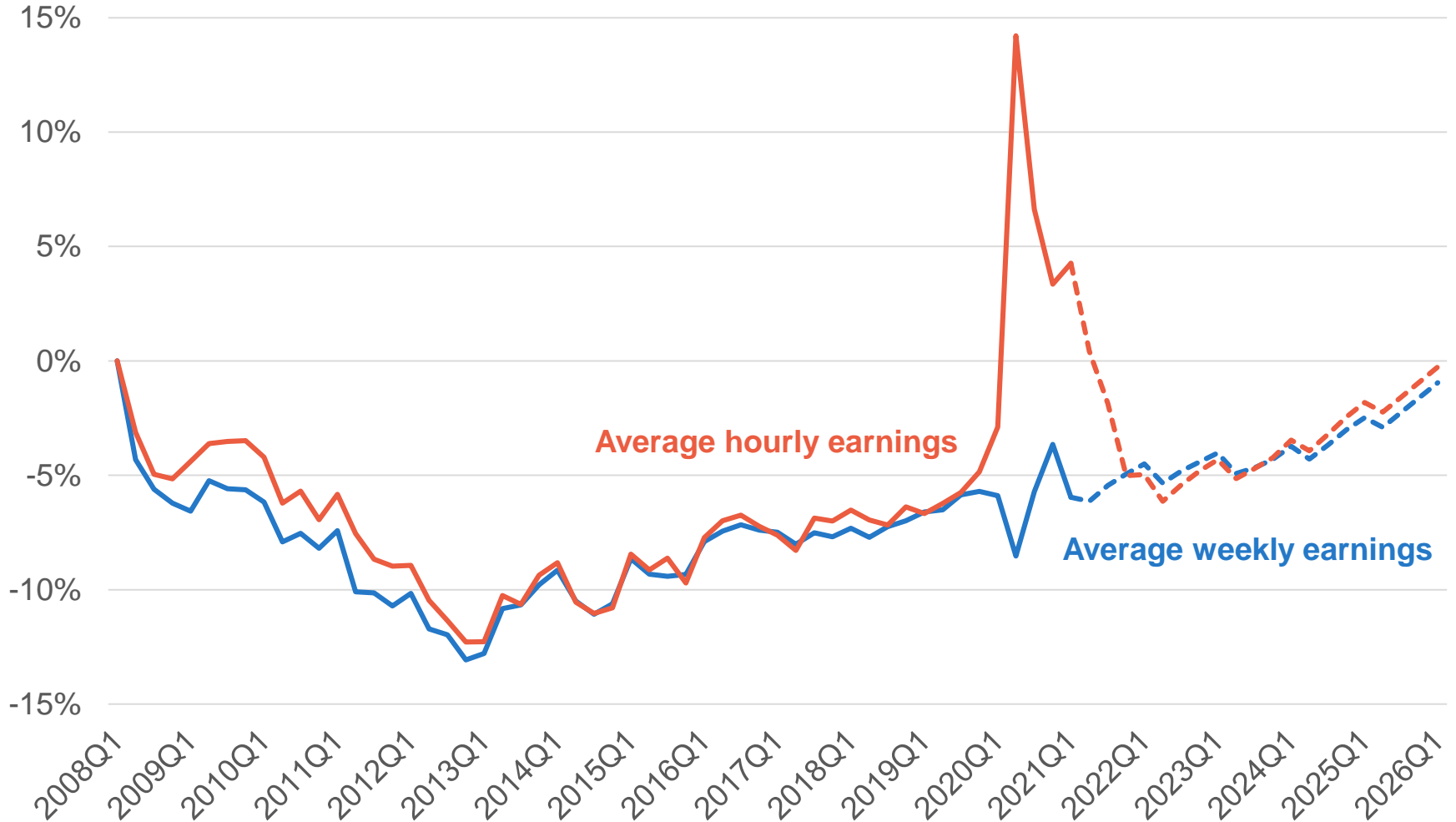


Source: DWP Stat-Xplore. "In employment" includes people on furlough

- **Government extended the UC uplift of £20 per week for another 6 months. Now due to expire at the end of September.**
 - Also extended uplift for those on Working Tax Credit, paid in lump sum of £500 (for administrative reasons)
 - 2.5 million on out-of-work pre-UC benefits not seen increases in benefits during pandemic (mostly out of work for health reasons)
- **No gradual removal of uplift. Expiry at end of Sept means:**
 - Monthly income fall by £80 for 4½ million low-income families
 - Further extensions would not be a complete surprise

Change in earnings

Real average earnings, change since 2008Q1



Note: Inflation measured using CPI index. IFS calculations using OBR's EFO March 2021
Dotted line is forecast.

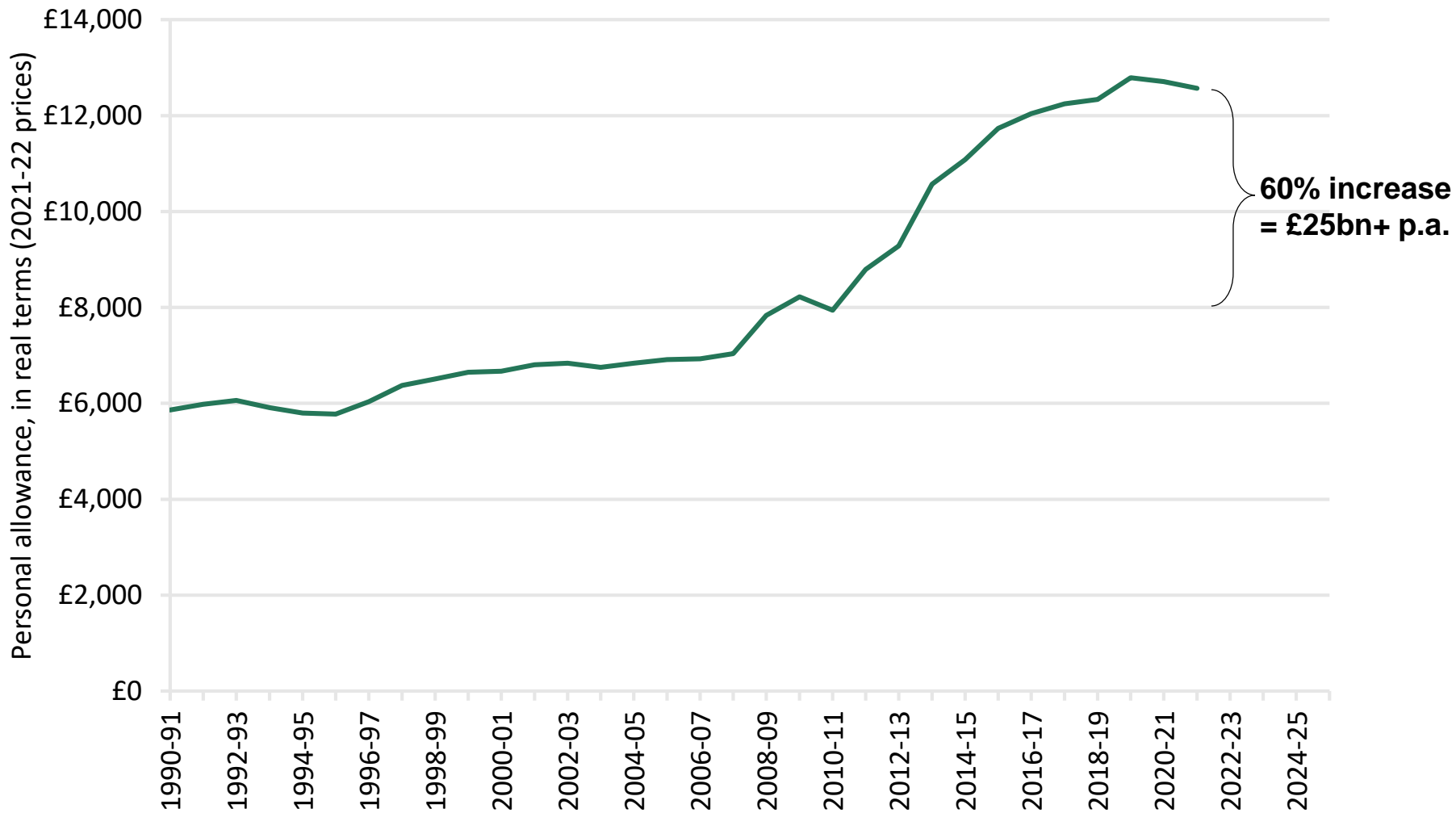
Income tax thresholds frozen



- Personal allowance and higher rate threshold frozen for four years
- Implying a 7% real cut

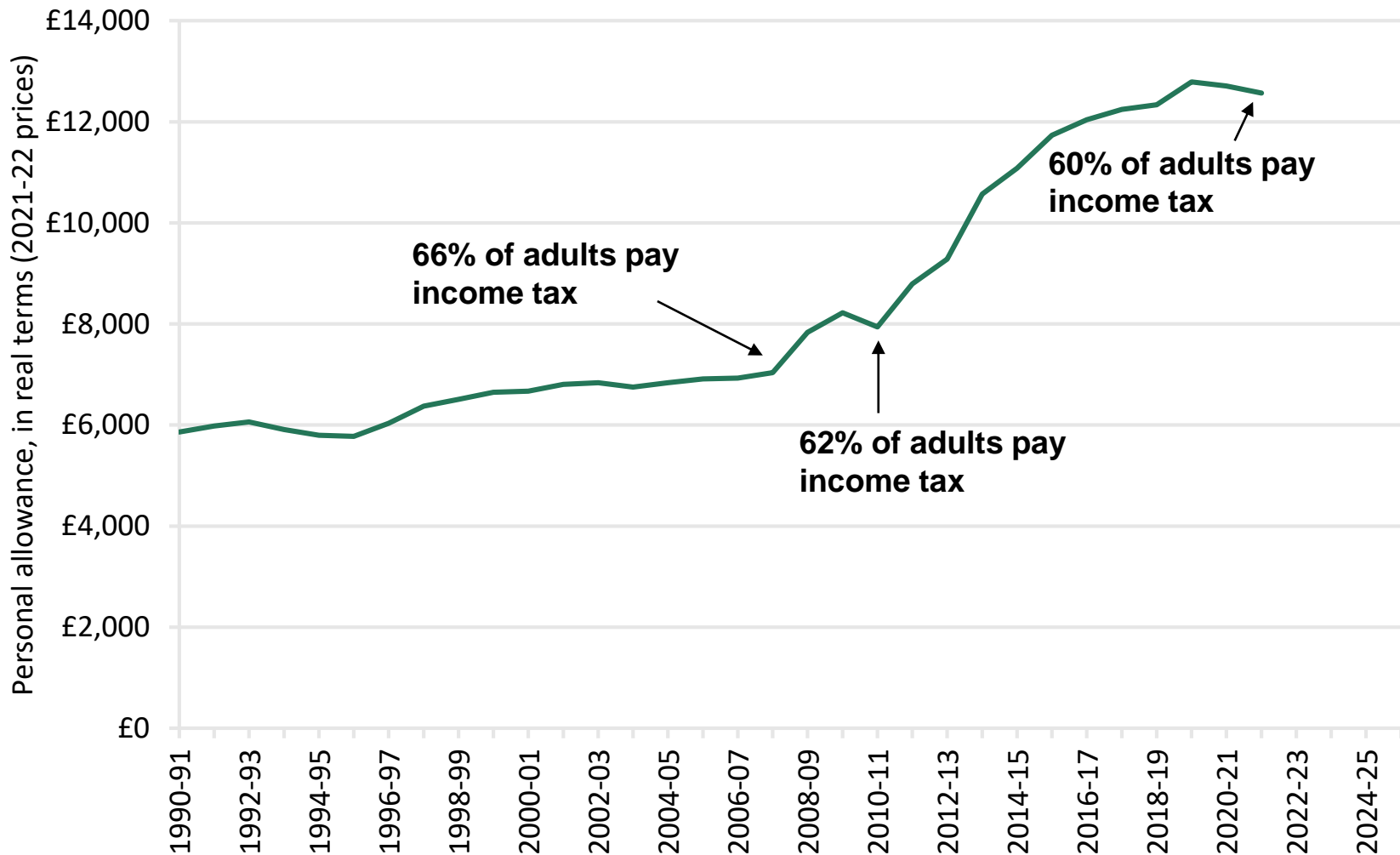
Income tax thresholds frozen

Personal allowance in real terms (2021-22 prices)



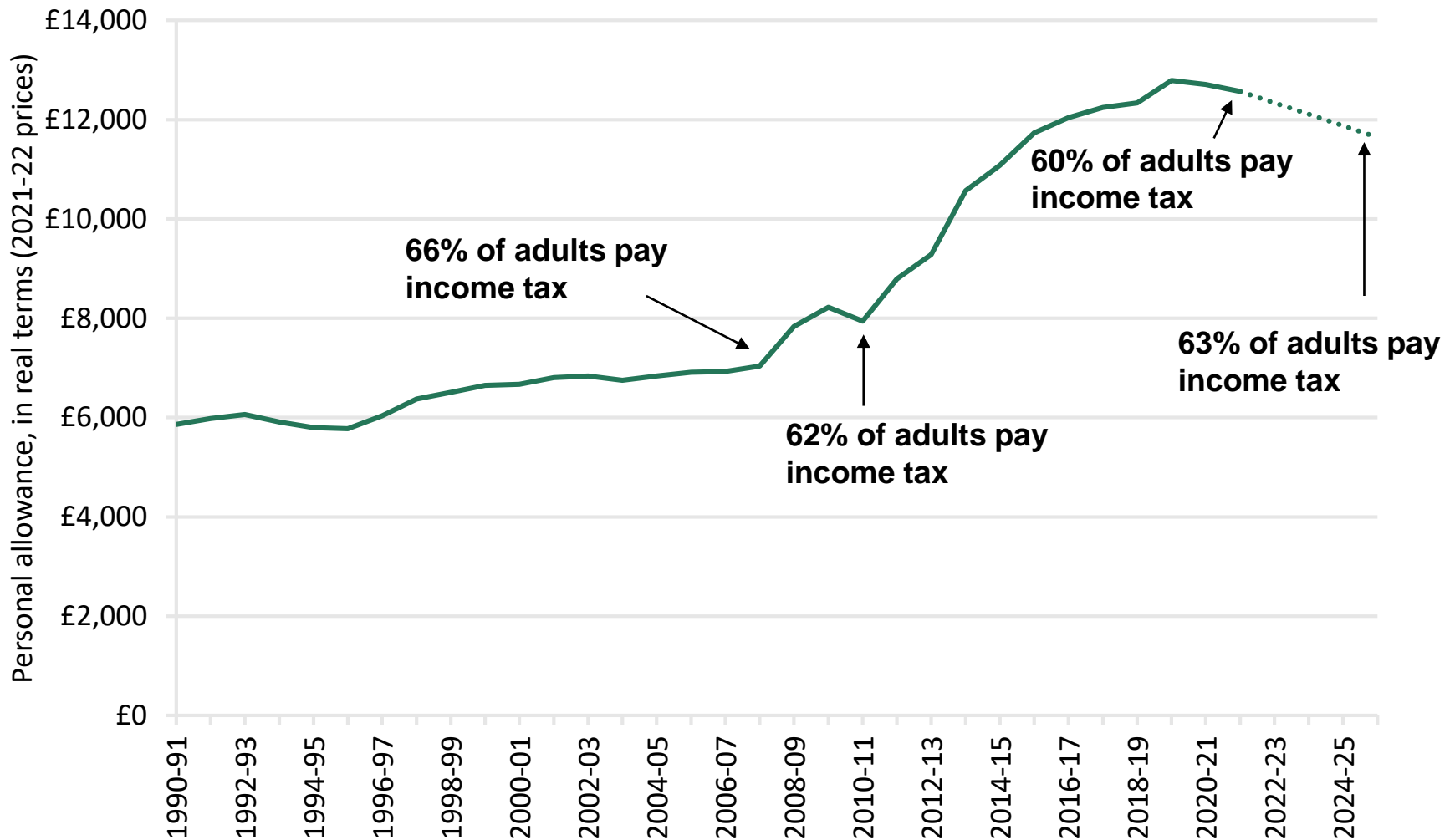
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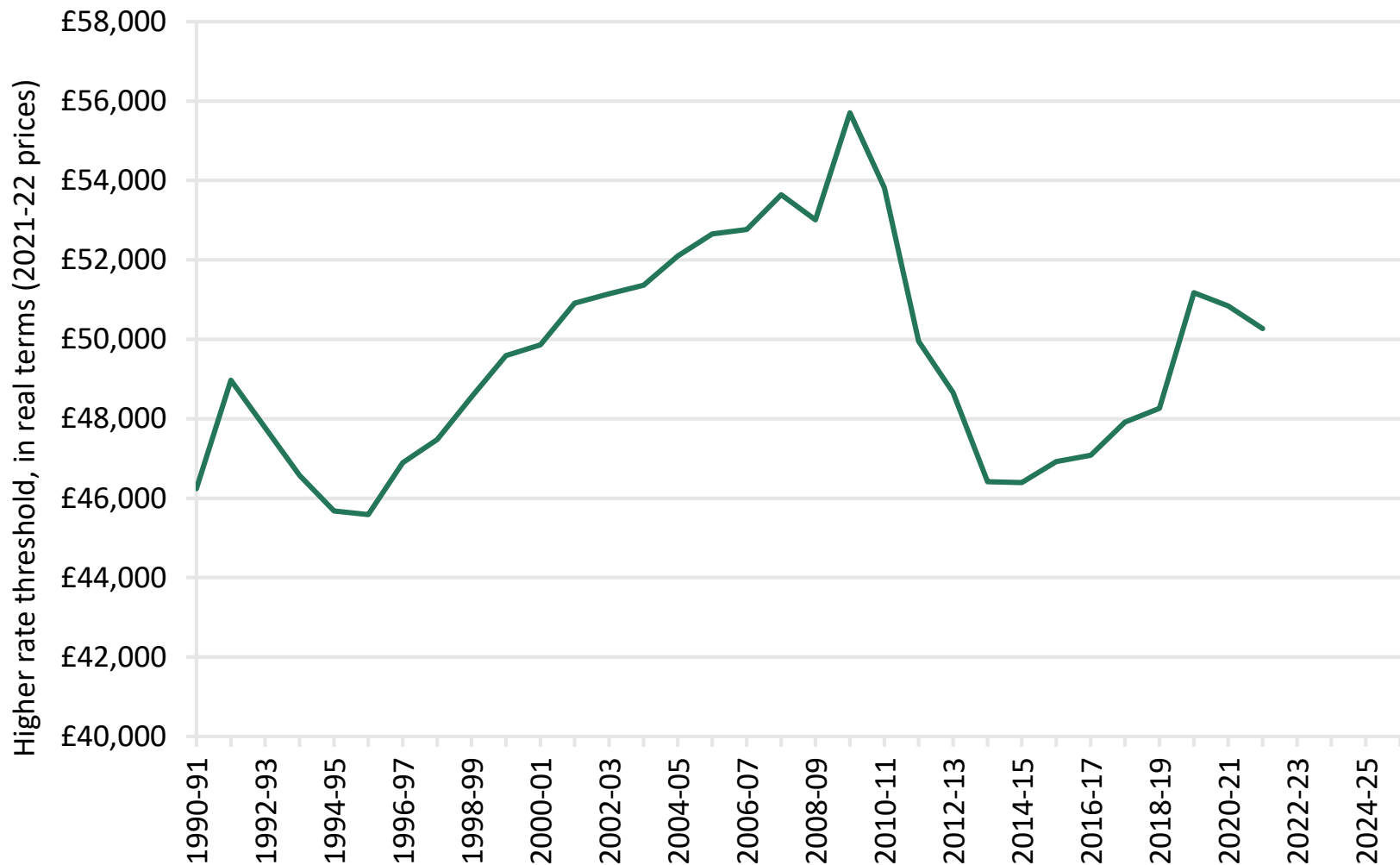
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Personal allowance in real terms (2021-22 prices)



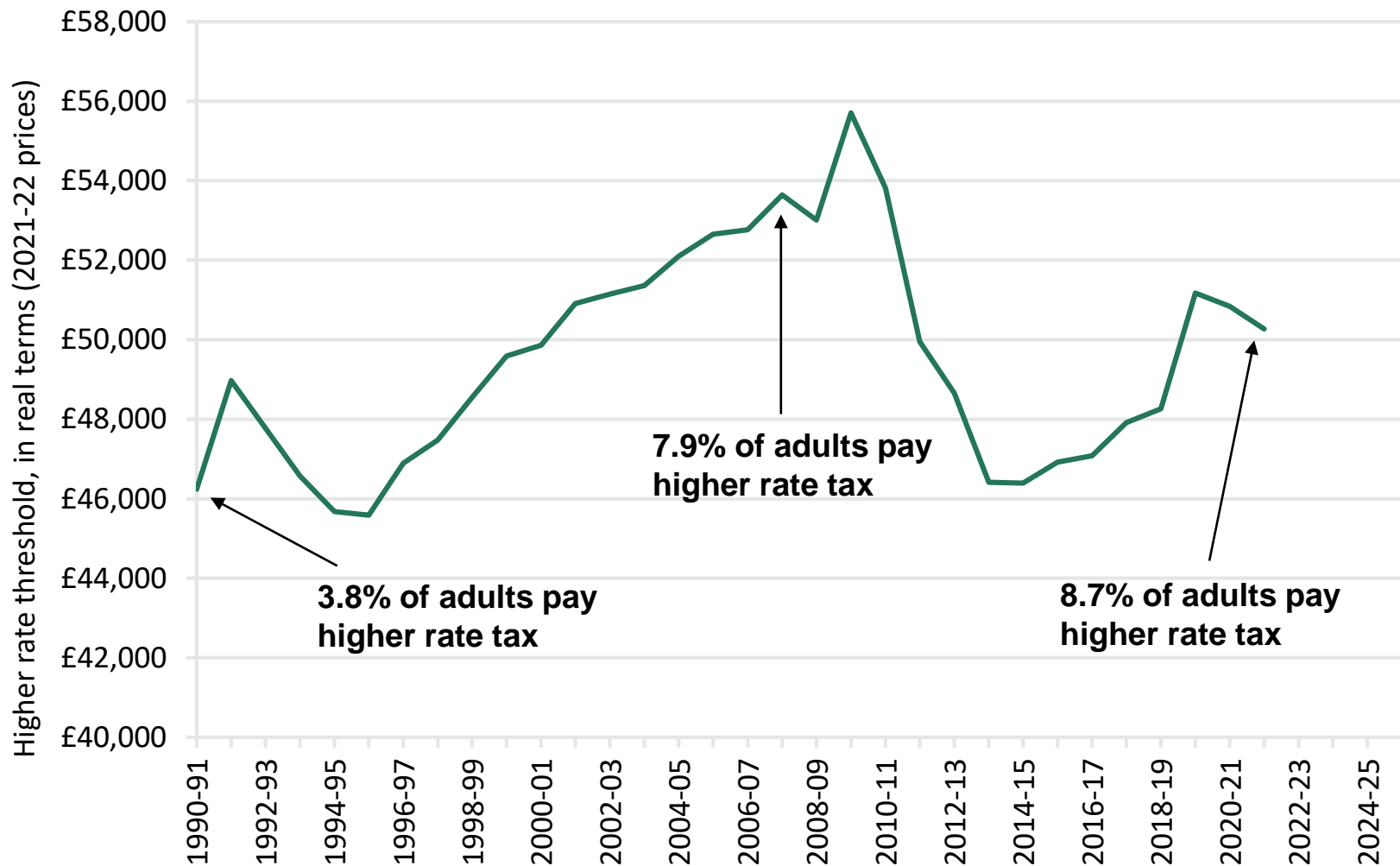
Income tax thresholds frozen

Higher rate threshold in real terms (2021-22 prices)



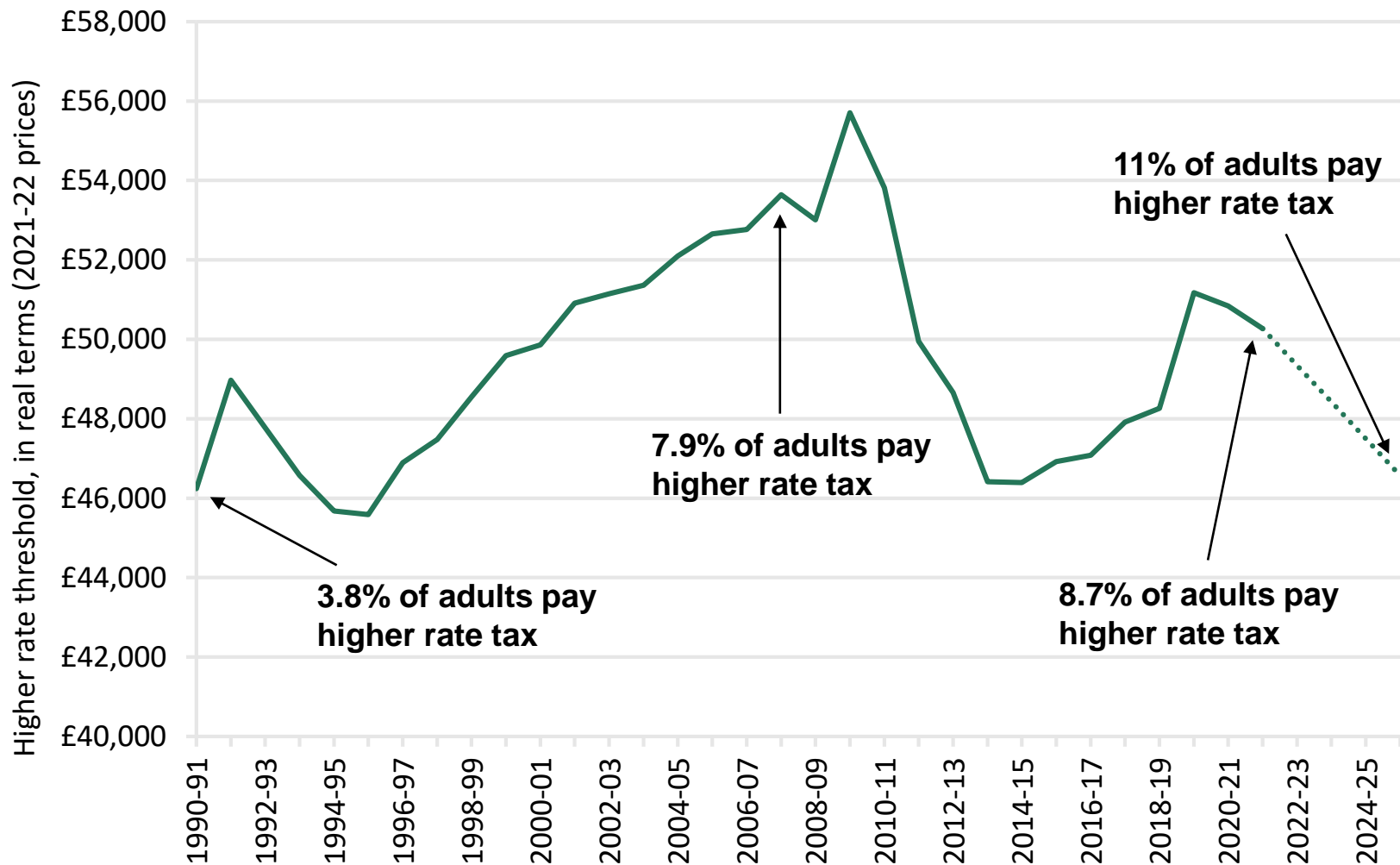
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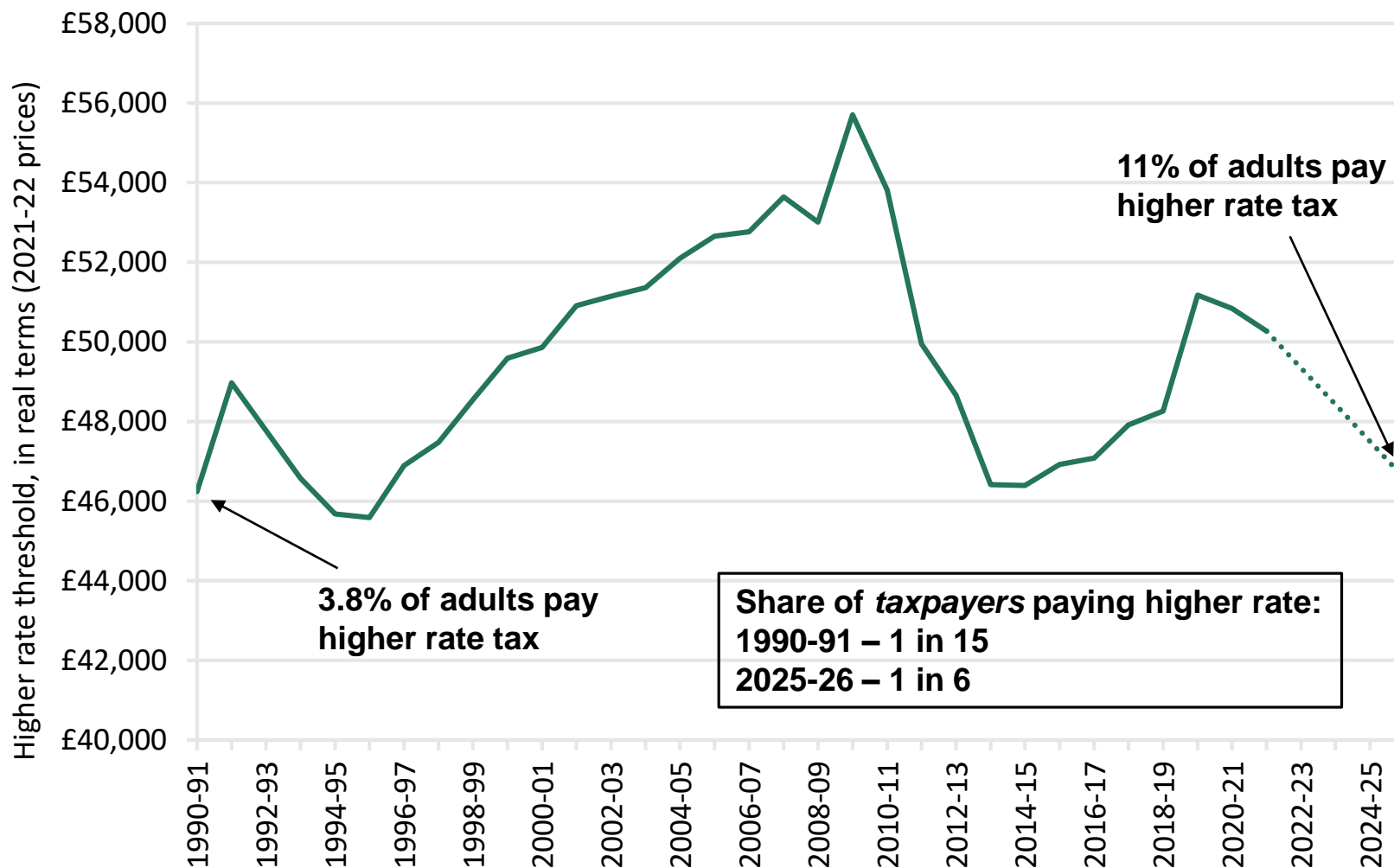
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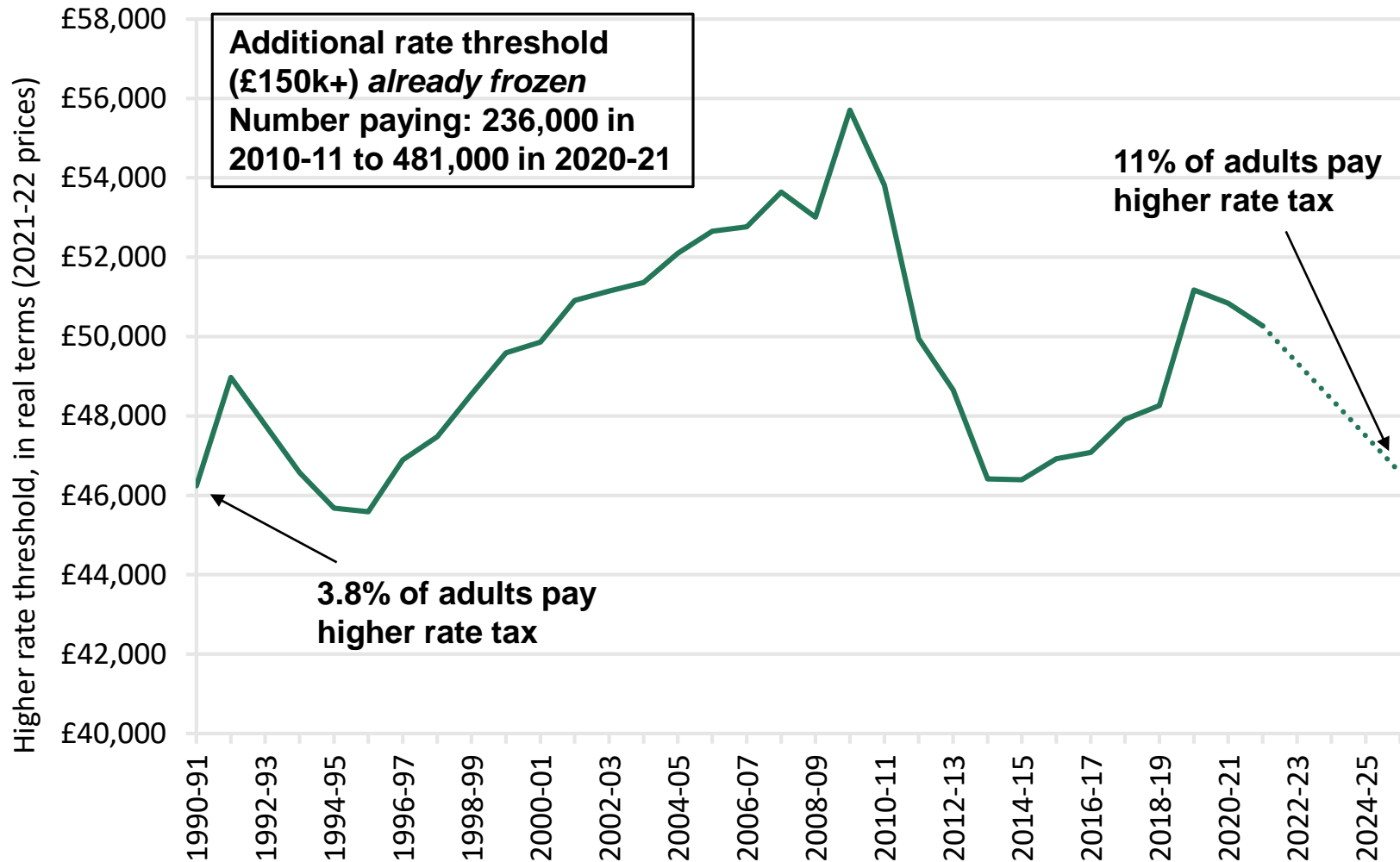
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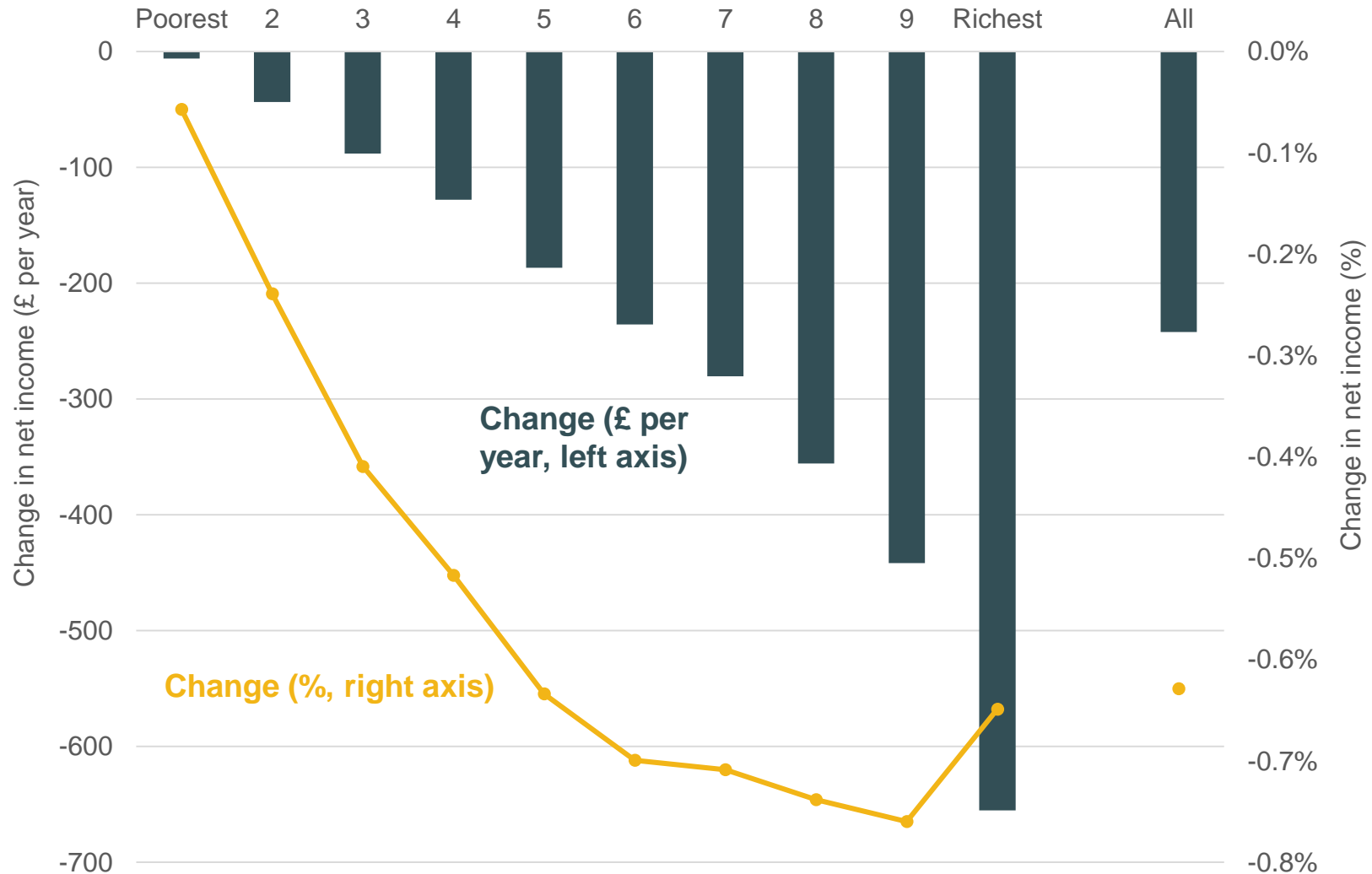


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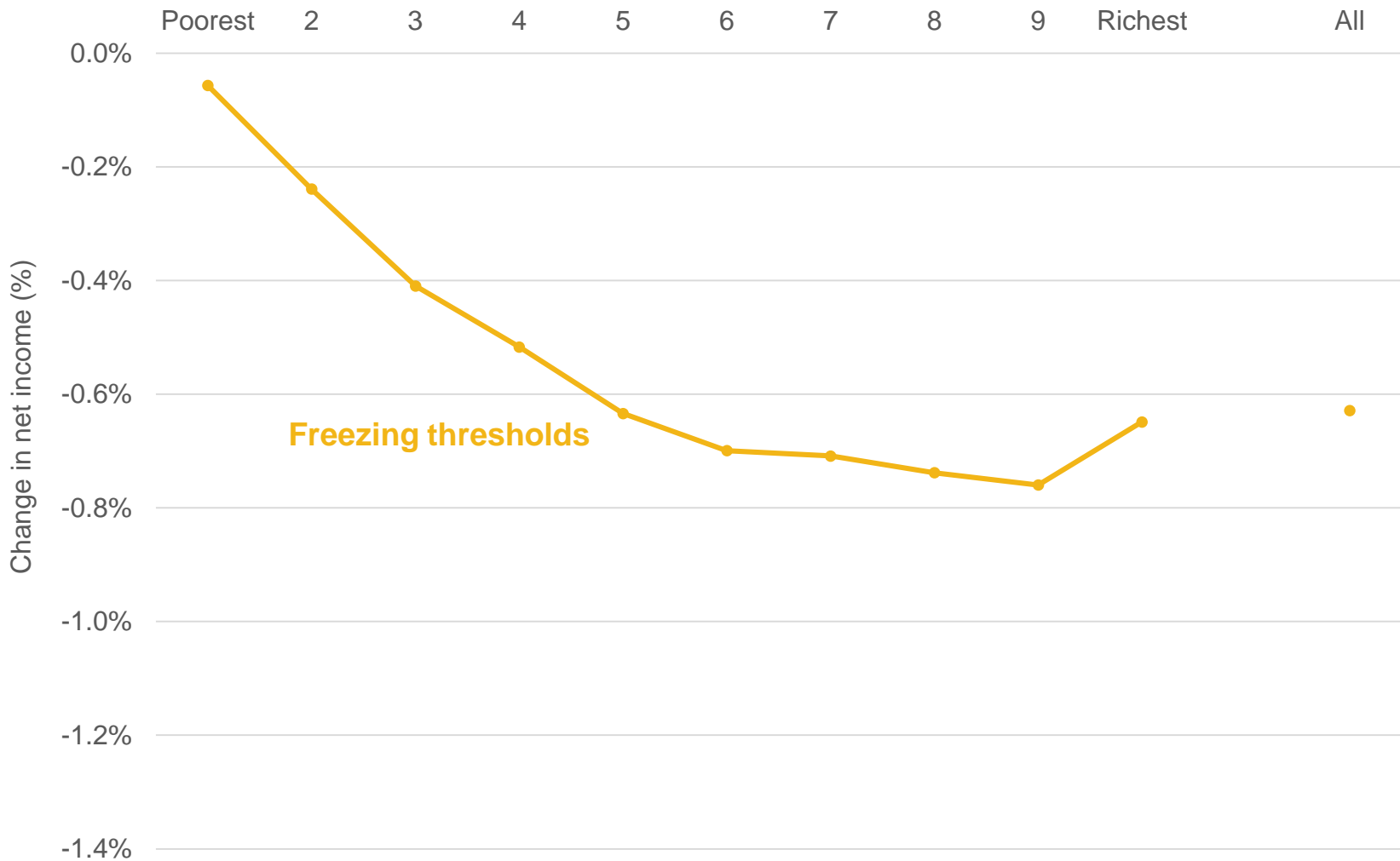
Higher rate threshold in real terms (2021-22 prices)



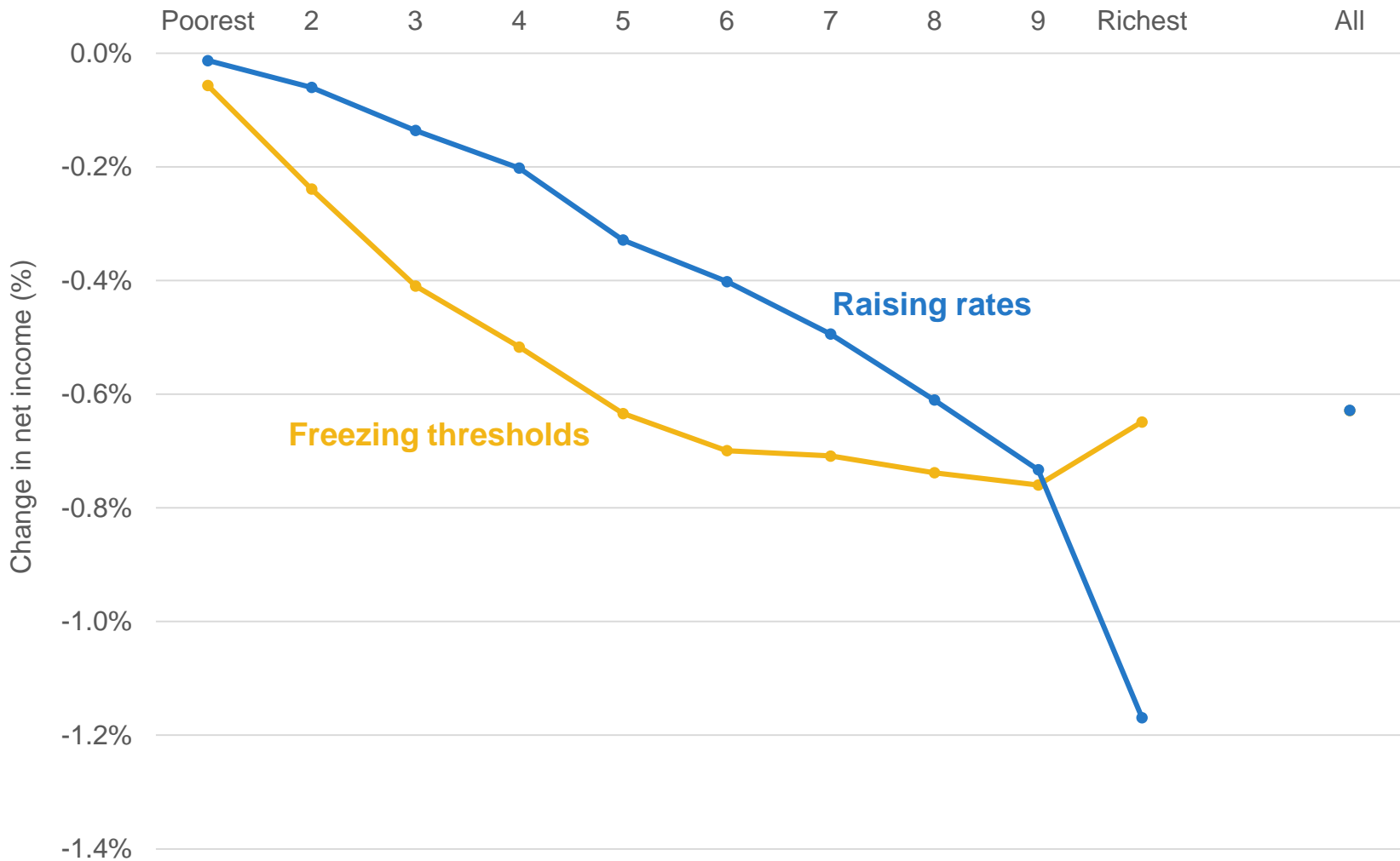
Distributional impact of freezing PA & HRT



Distributional impact of freezing PA & HRT vs. raising rates



Distributional impact of freezing PA & HRT vs. raising rates



Many other taxes/thresholds frozen

Some are giveaways... (£1bn)

- Fuel duty – 11th year, now costing £12bn p.a.
 - But, again, promise to increase next year!
- Alcohol duties

Others are takeaways... (£1bn)

- Pensions lifetime allowance – since 2008 changes to taxation of pensions contributions at least every other year
- Inheritance tax thresholds
- Capital gains tax allowance
- VAT registration threshold

Conclusion

- Extensions to support schemes makes sense when much of the economy locked down, as does phasing out SEISS & furlough
 - Though many self-emp remain ineligible
 - UC uplift extended but with no gradual removal – important to communicate plans to claimants – but govt may (again) struggle to fulfil commitment to end it
- Real cuts to personal allowance represent big reversal – but only undoes a fraction of increases in the past decade
 - More and more getting pulled into higher rate tax