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Tax and benefit reforms

Stuart Adam

IFS post-Autumn Statement briefing

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E·S·R·C ECONOMIC & SOCIAL RESEARCH COUNCIL

Outline

Tax and legal form

Salary sacrifice

Insurance premium tax

Fuel duties

Universal credit

Policy reversals since the Budget

Personal independence payment

- Budget announcement of tougher health test cancelled

Selling annuities

- No market for selling pensions in payment

‘Pay to Stay’

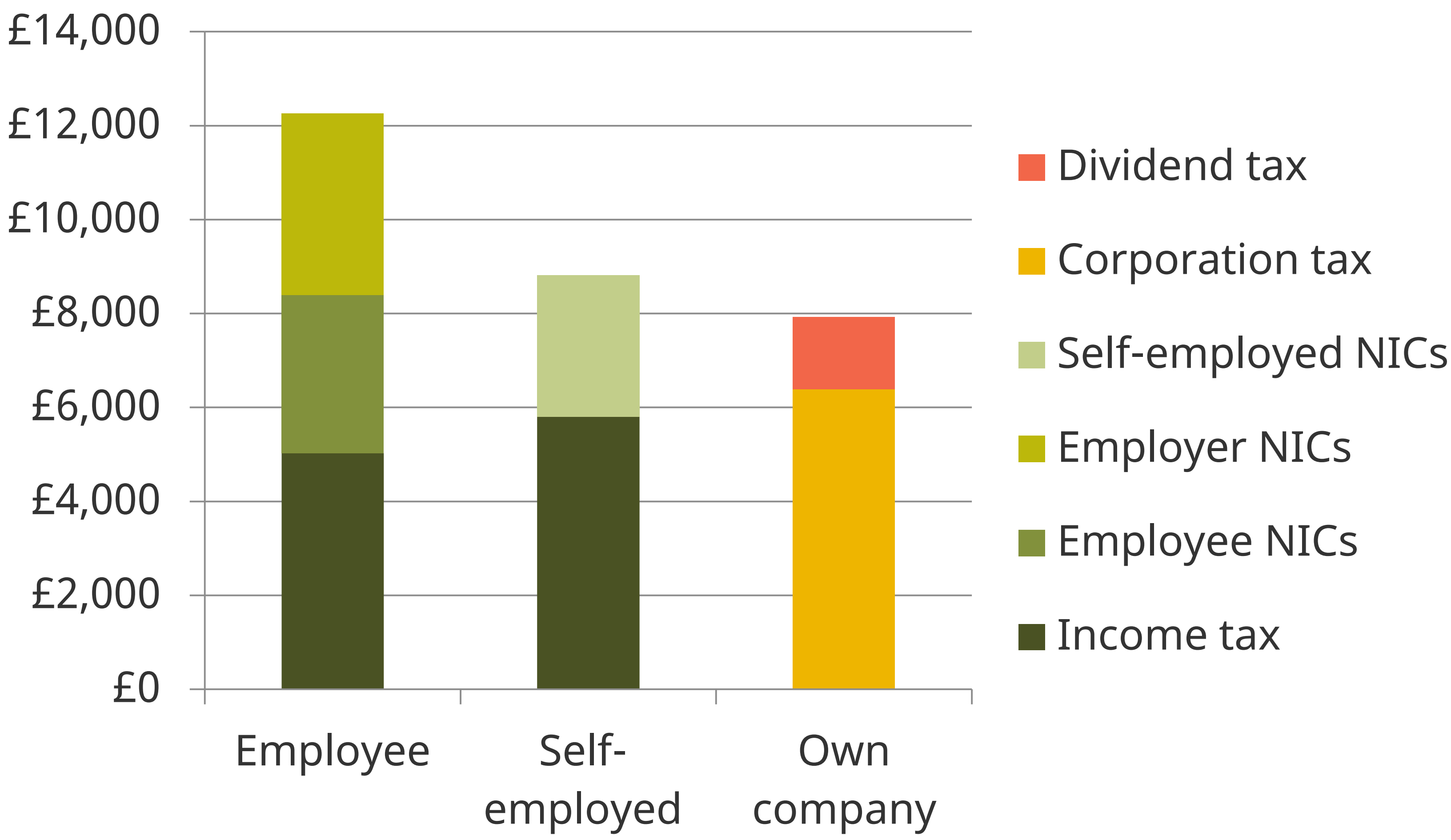
- Plan to increase rents for higher-income social tenants abandoned

Employee shareholder status (‘Shares for rights’)

- Tax advantages removed as being used to avoid tax

Tax and legal form: an example

Tax liability on £40,000 generated and extracted, 2016-17



Salary sacrifice

Agreement to reduce salary in exchange for a perk

- Tax saving if the perk taxed less heavily than cash salary

Government intends to tax these more heavily in some cases…

- Where salary reduction exceeds valuation of perk
- Non-taxable perks: mobile phones, workplace parking
- Raises £0.3bn

…but not others…

- Pensions, childcare, Cycle to Work and ultra-low-emissions cars

…not removing employee NICs exemption (often biggest advantage)…

…and will only apply where explicit salary sacrifice arrangement

- Lots of similar cases won't get taxed – complex, unfair and inefficient
- Why not simply tax perks in full?

Insurance premium tax main rate

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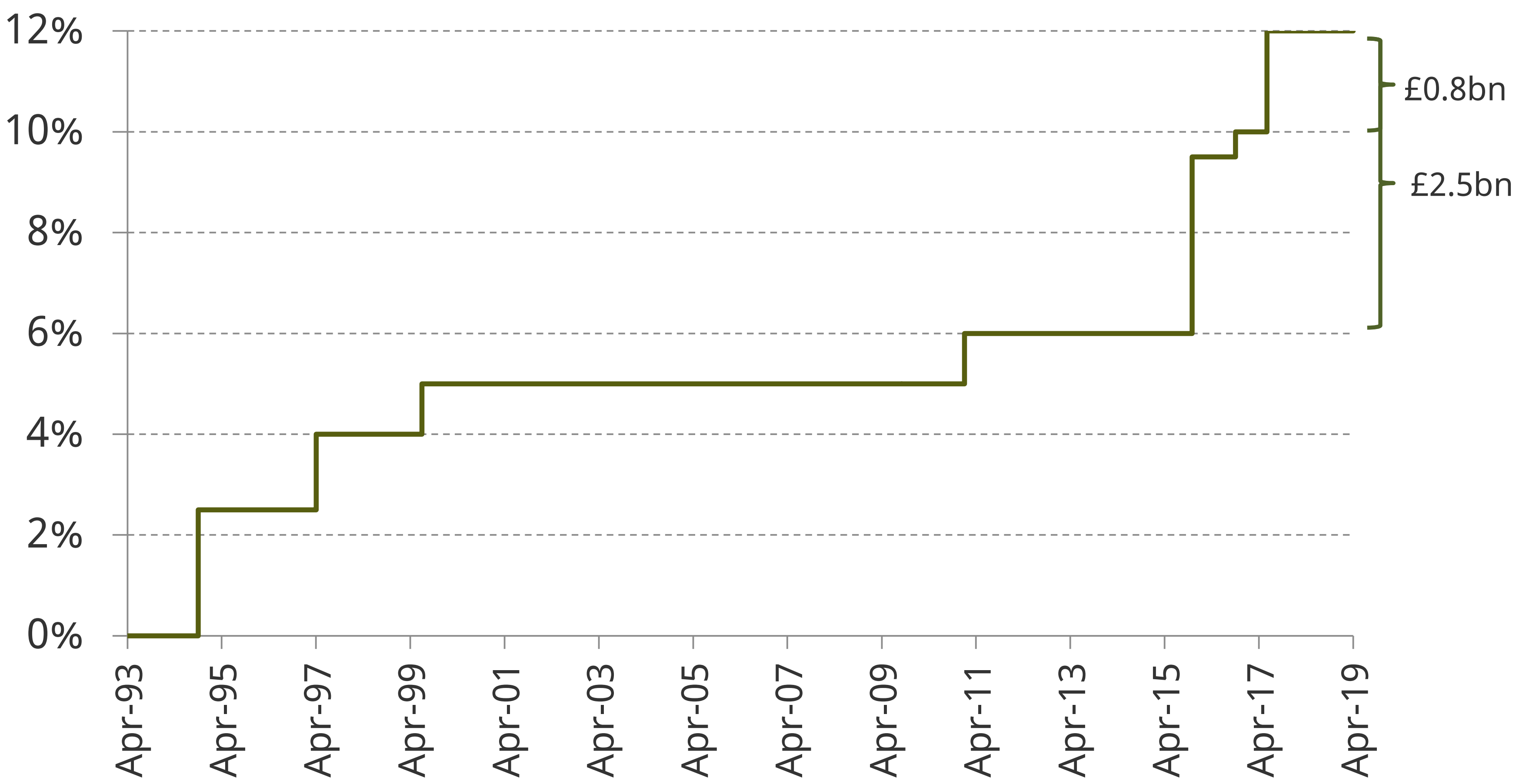

Insurance premium tax

Insurance is exempt from VAT; IPT intended to substitute for it

Ideal: tax premiums *less payouts (and other costs)* at the main VAT rate

- Exclude business users (or allow them to reclaim IPT paid)
- Mirrlees Review shows how this can be achieved

If taxing premiums alone, rate should be much lower than VAT rate

- Appropriate % of VAT rate = value added / premiums
- 12% (60% of VAT rate) surely too high

Business use of insurance should be completely untaxed

- Or make tax reclaimable – like can reclaim VAT paid on inputs
- IPT skews economy away from production involving insurance

➔ Problems with IPT much more severe with 12% rate than 2½% rate!

“The possibility that the actual path of fuel duty rates policy will differ from the Government’s current stated policy is a risk that we consider worth noting.” – OBR

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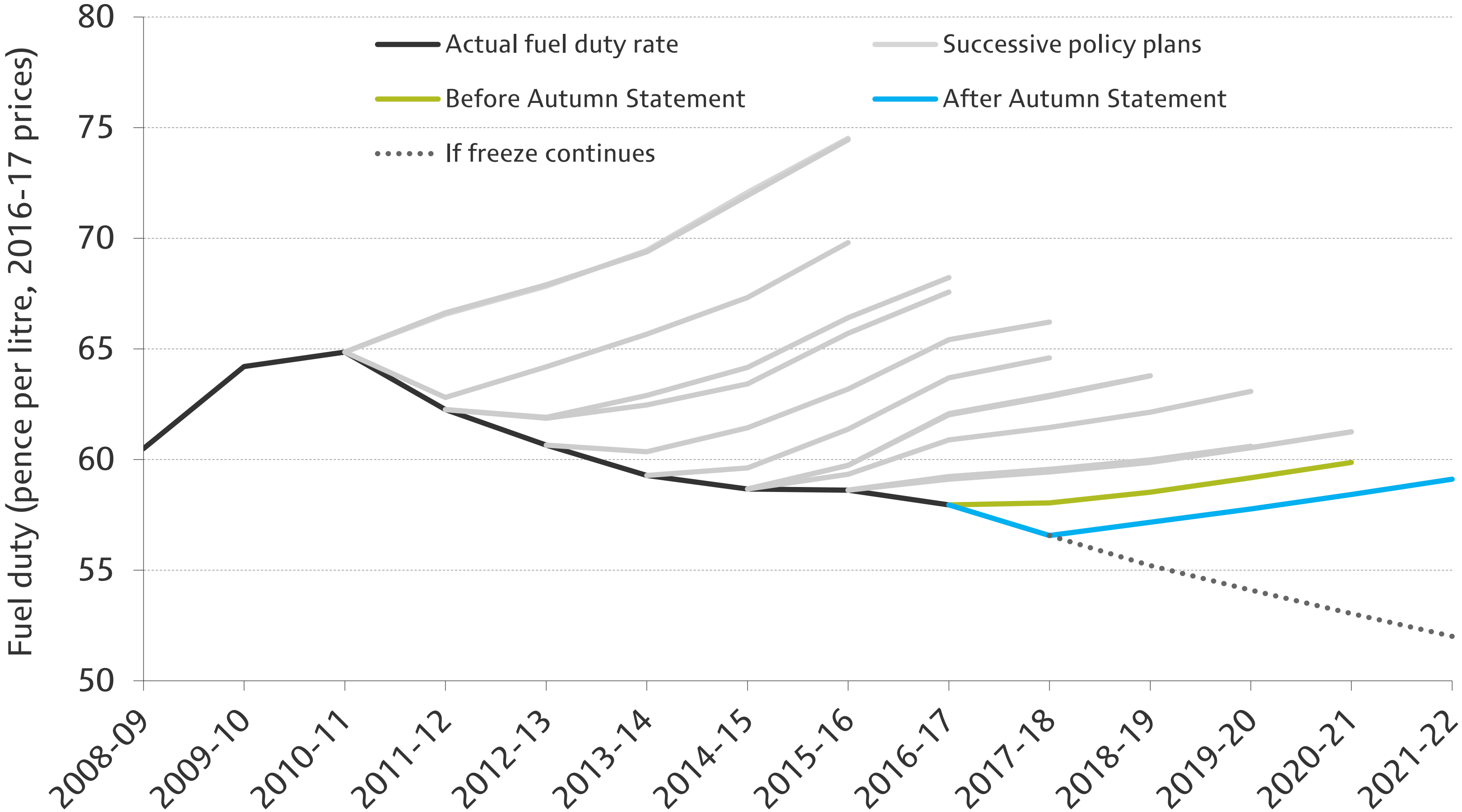


Fuel duties

Frozen in April 2017 – a 7th year without inflation uprating

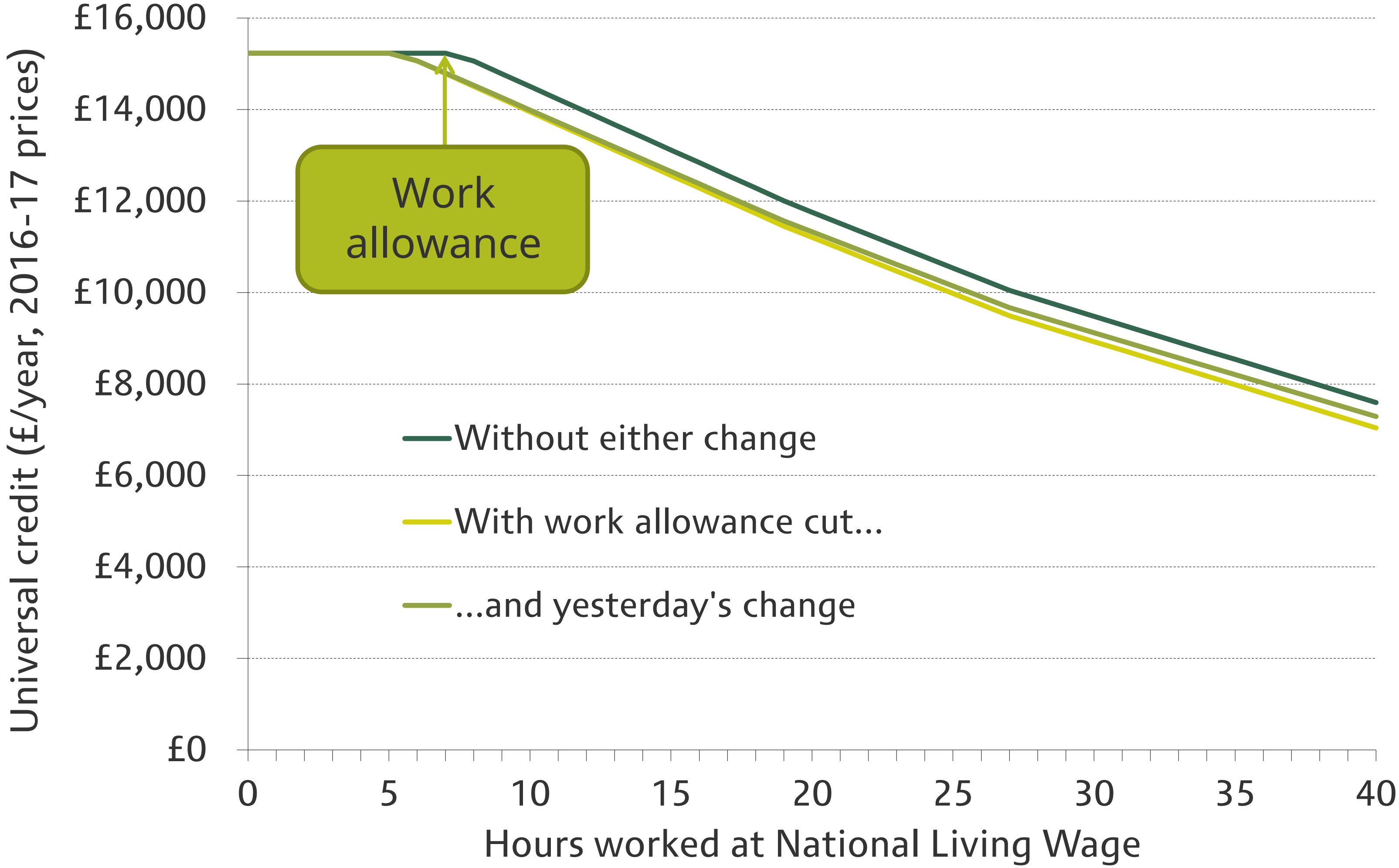
13% real-terms reduction since 2010, at a cost of £3½bn

Majority of giveaway goes to better-off half of households

If think it should be permanently frozen, should say so

Universal credit

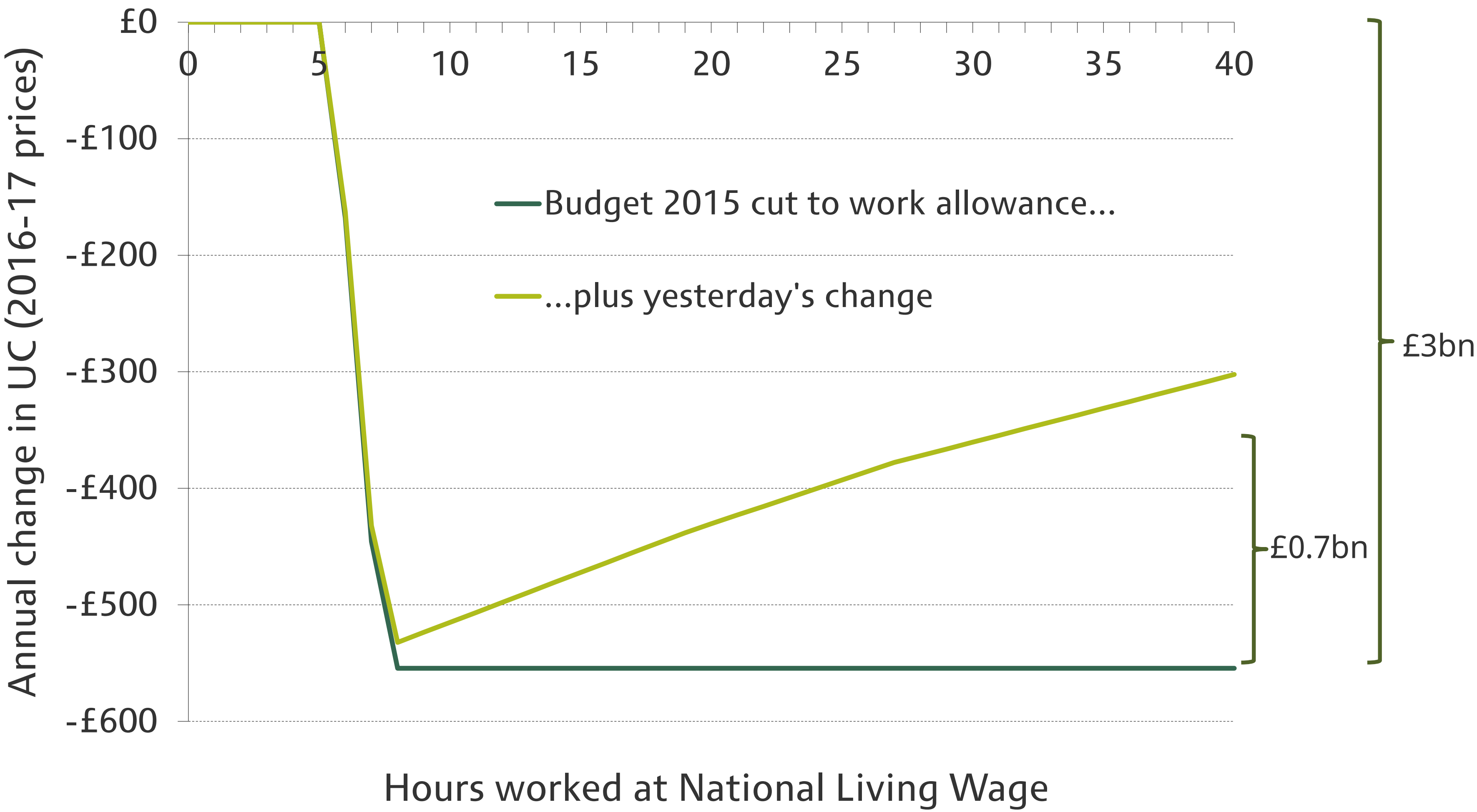
Example lone parent with 2 children in 2020



Note: Assumes 2 children, no childcare costs or unearned income, renting at £130 per week

Net losses from the two UC changes

Example lone parent with 2 children in 2020



Note: Assumes 2 children, no childcare costs or unearned income, renting at £130 per week

Universal credit

Since introduction of UC announced, we have seen:

- 4 changes to work allowances
- 1 change to childcare support
- 1 change to withdrawal rate

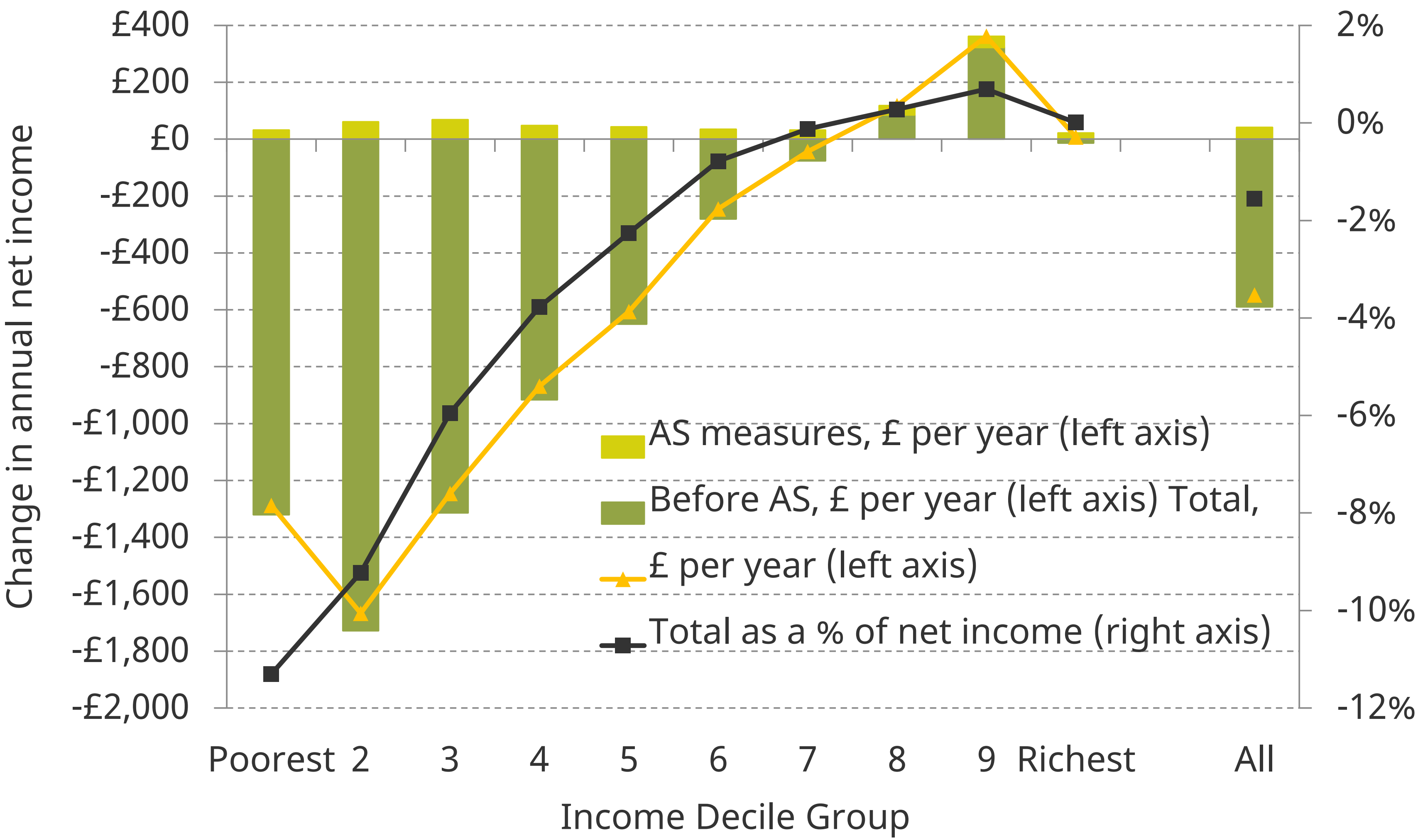
Plans for national roll-out of policy also keep changing

- In past 3½ years, completion date put back 4 years
- Now planned to be complete by March 2022
- OBR assuming a further 6-month delay

Still to make important decisions about design of the policy

- Who should get 'passported benefits' such as free school meals

Impact of tax and benefit reforms May 2015 – April 2020 (including universal credit)



Notes: Assumes full take-up of means-tested benefits and tax credits and all changes fully in place.
'AS measures' includes changes to fuel duties, insurance premium tax and universal credit.

Summary

Mercifully quiet event

- Stability is good!

Small giveaways to motorists and low-income working families

Increase in badly designed tax on insurance

Clampdown on salary sacrifice misses bigger, simpler opportunity

Renewed focus on long-standing problem in tax system