

Direct taxes and benefits

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Overview

- Pre announced tax changes
- Child poverty package
- One-off rise in winter allowance for 60+
- Distributional impact of all changes

Pre announced tax changes

- Budget 2007 announced several changes to come into effect from April 2008:
 - Abolition of 10% starting rate of income tax
 - Basic rate of income tax cut from 22% to 20%
 - Increase in Upper Earnings Limit in National Insurance
 - Increase in Working Tax Credit threshold
 - Increase in Pensioner Tax Allowances
 - Increase in child element of Child Tax Credit

Child poverty targets

- Pledge to abolish child poverty by 2020, intermediate targets on the way
- 2004-05 Target
 - Cut number of children in poverty (<60% of median income) by $\frac{1}{4}$ compared with 1998/99
 - Missed, and child poverty increased in 2005-06
- 2010-11 Target
 - Cut child poverty by $\frac{1}{2}$ compared with 1998/99

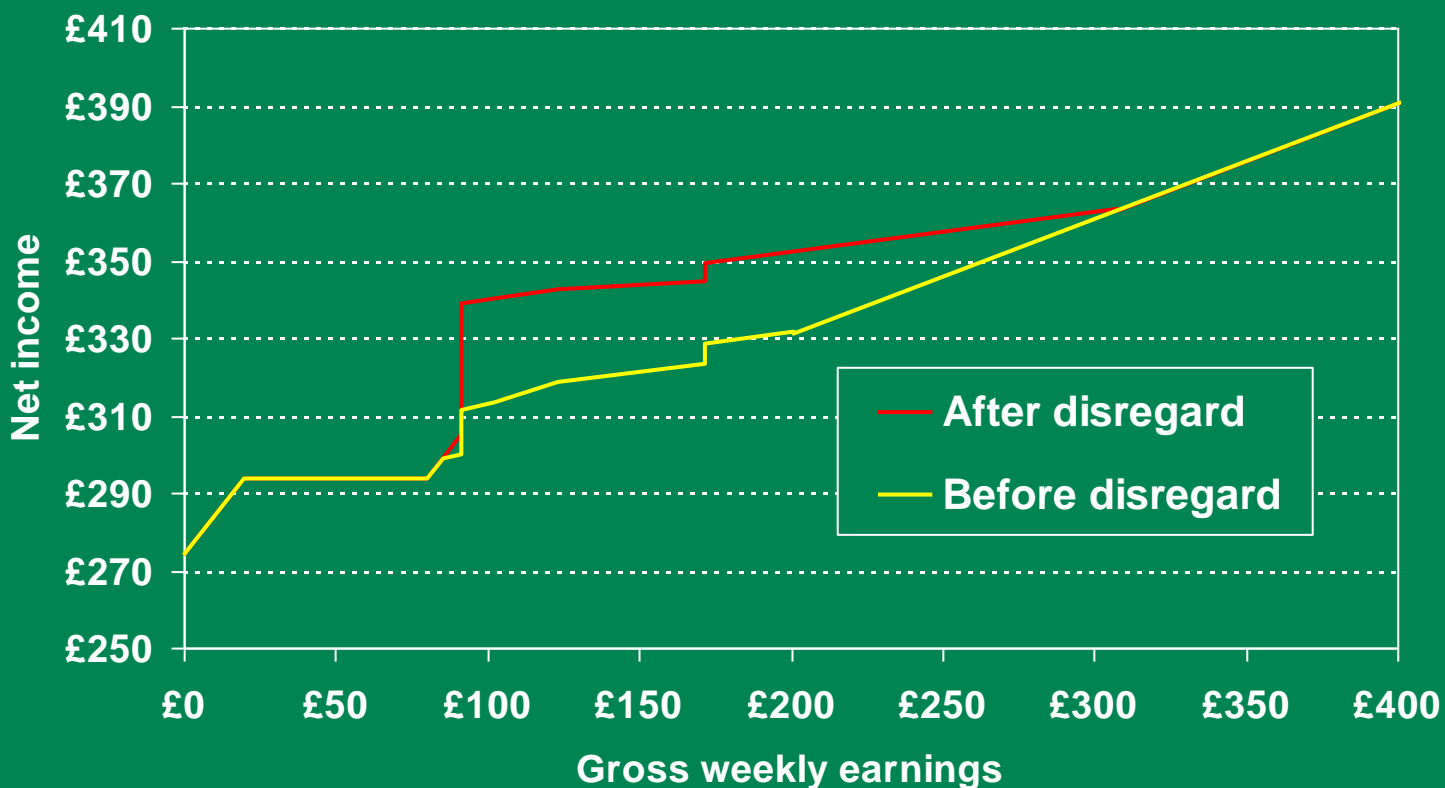
Child poverty package

- Confirmed work search requirements for lone parents on benefit whose youngest child aged 7+ by 2010-11
- Child benefit to reach £20/wk for 1st child in April 2009
 - 57p/wk real rise. Costs £170m in 2010-11.
- Child element of child tax credit will rise by £50/yr in April 2009.
 - Costs £350m in 2010-11.
- Child benefit disregarded in housing benefit/council tax benefit
 - Costs £350m in 2010-11

Child benefit disregard

- Child benefit disregarded in housing benefit/council tax benefit
 - HB and CTB means tests reduce benefit by 85p for each pound of income
 - Beneficiaries gain up to 85% of child benefit received (£17 in 2009 for 1 child family)
 - Families on full HB/CTB unaffected
 - Increases gain to work for lone parents/one earner families
 - Similar measure recommended in IFS/OPF-Gingerbread research
 - Also “fundamental review of the working age Housing Benefits system”

Impact of disregarding child benefit in HB/CTB

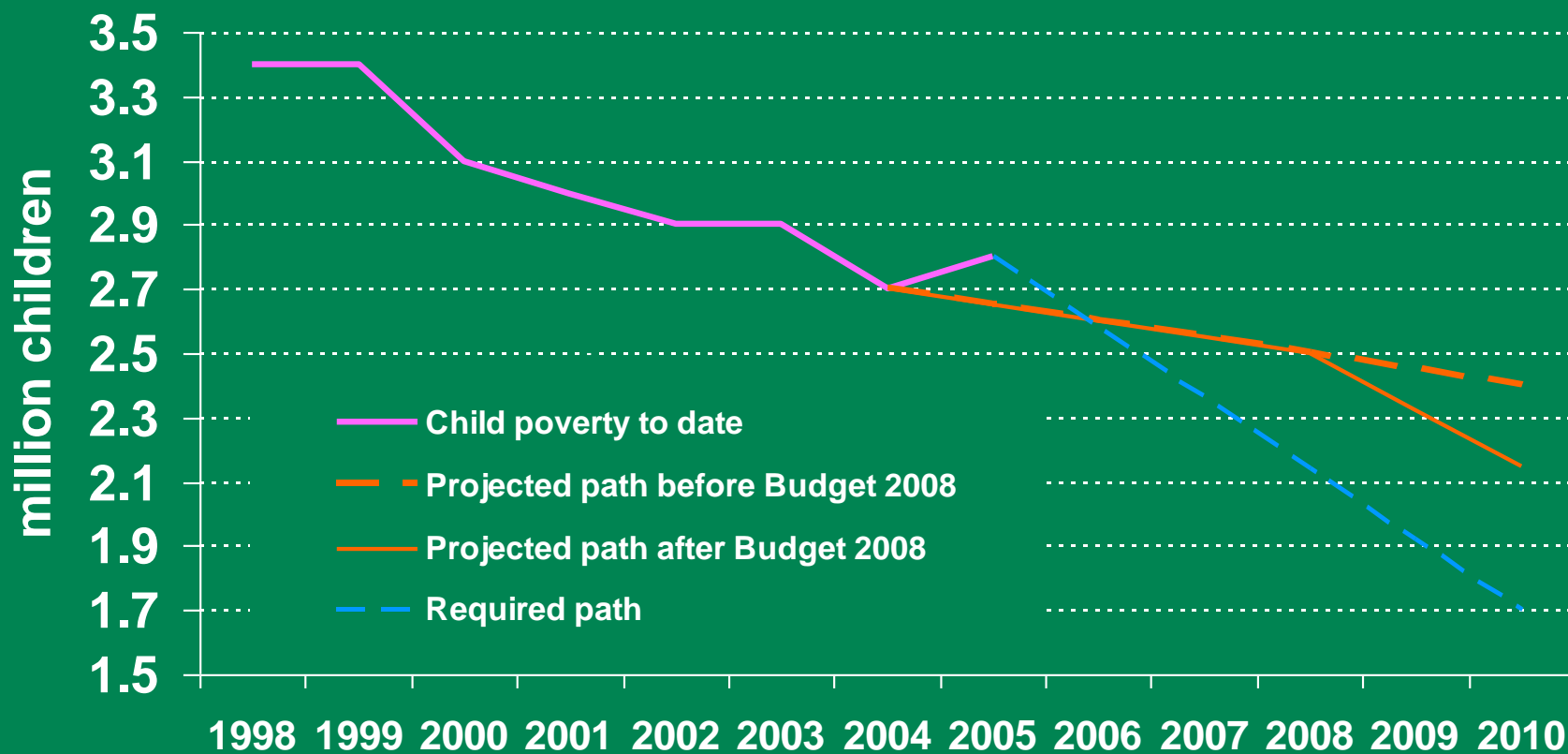


Assumes: 2 children aged 7 and 5, no childcare, minimum wage, rent of £80/wk, CT of £17.22/wk

Prospects for 2010-11

- After PBR 2007, we estimated government would miss target by 700,000 without any new policies, and closing the gap could cost £3.4bn
- Treasury say measures in Budget 2008 cost £870m in 2010/11 and are estimated to lift 250,000 out of poverty. We broadly agree with this assessment
- Significant step forward, but still 450,000 away
- Welfare reforms due to affect lone parents may help, but without even larger child poverty package in Budget 2009, hitting target looks extremely unlikely

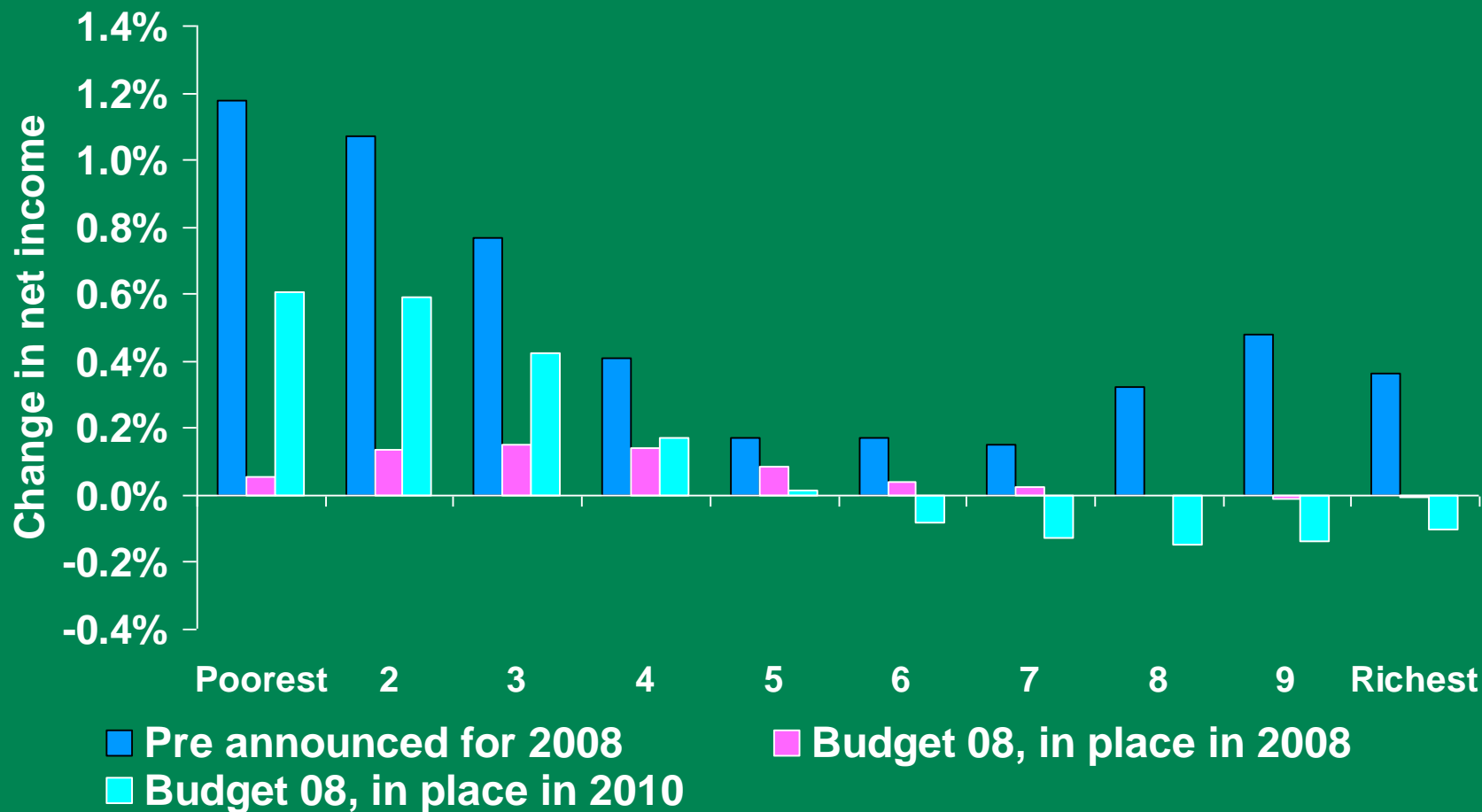
Prospects for 2010-11



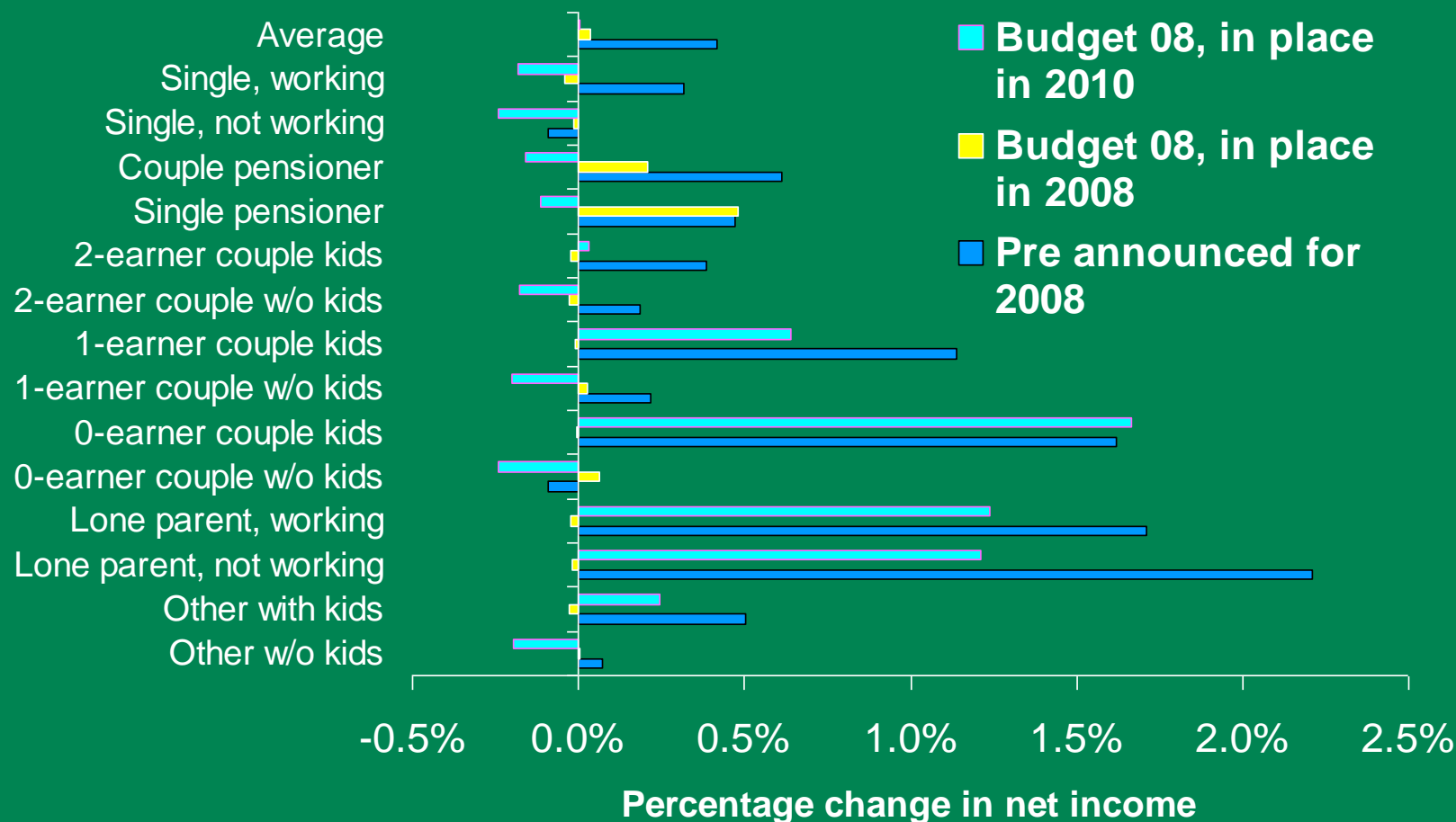
Winter fuel allowance: a brief history

1997 – 1998	£20 (£50 if on means-tested benefits)
1999	£100
2000 – 2002	£200
2003	£200 for 60-79, £300 for 80+
2004	£200 for 60-79, £300 for 80+ Plus “one-off” £100 for 70+
2005	£200 for 60-79, £300 for 80+ Plus “one-off” £200 if 65+ and don’t receive pension credit guarantee Plus “one-off” £50 if 70+ and receive pension credit guarantee
2006 – 2007	£200 for 60-79, £300 for 80+
2008	£200 for 60-79, £300 for 80+ Plus “one-off” £50 for 60-79, £100 for 80+
2009	£200 for 60-79, £300 for 80+

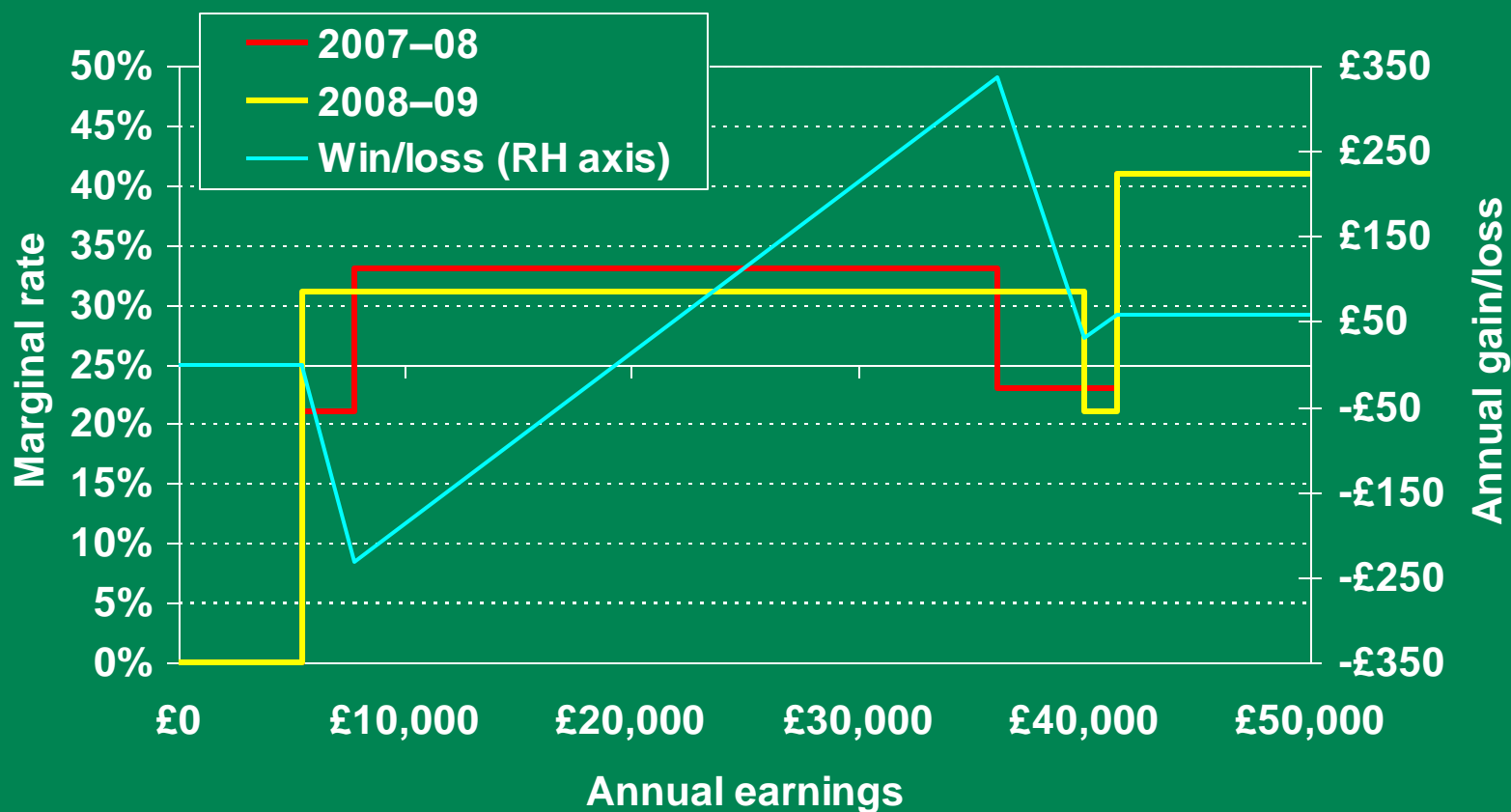
Distributional impact of budget measures



Distributional impact of budget measures by family type



Income tax & National Insurance changes



Effect of pre-announced changes on a lone parent with 2 children

