



Tom Wernham

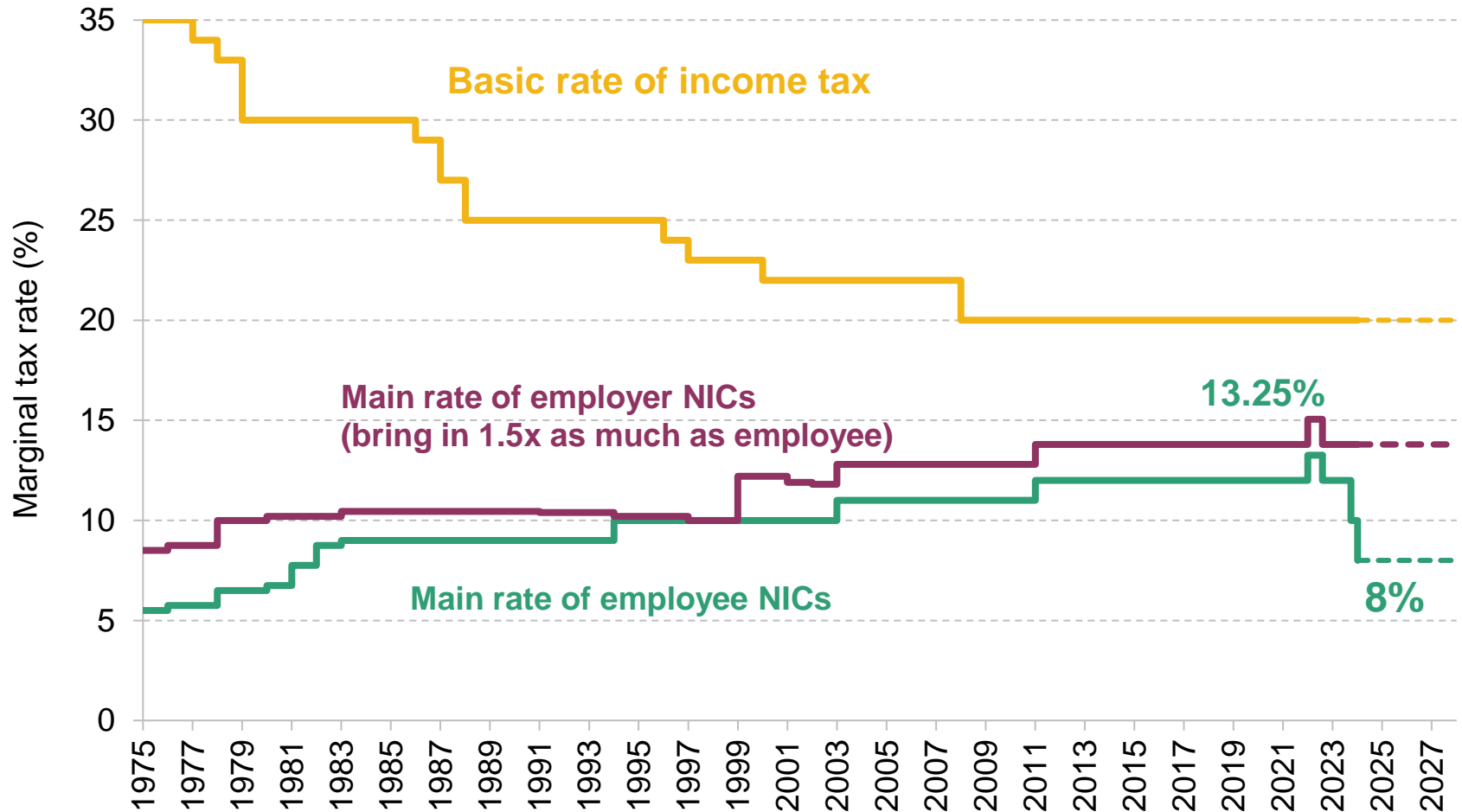
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# NICs, Income Tax and Child Benefit



ESRC  
CENTRE FOR THE  
MICROECONOMIC  
ANALYSIS OF  
PUBLIC POLICY

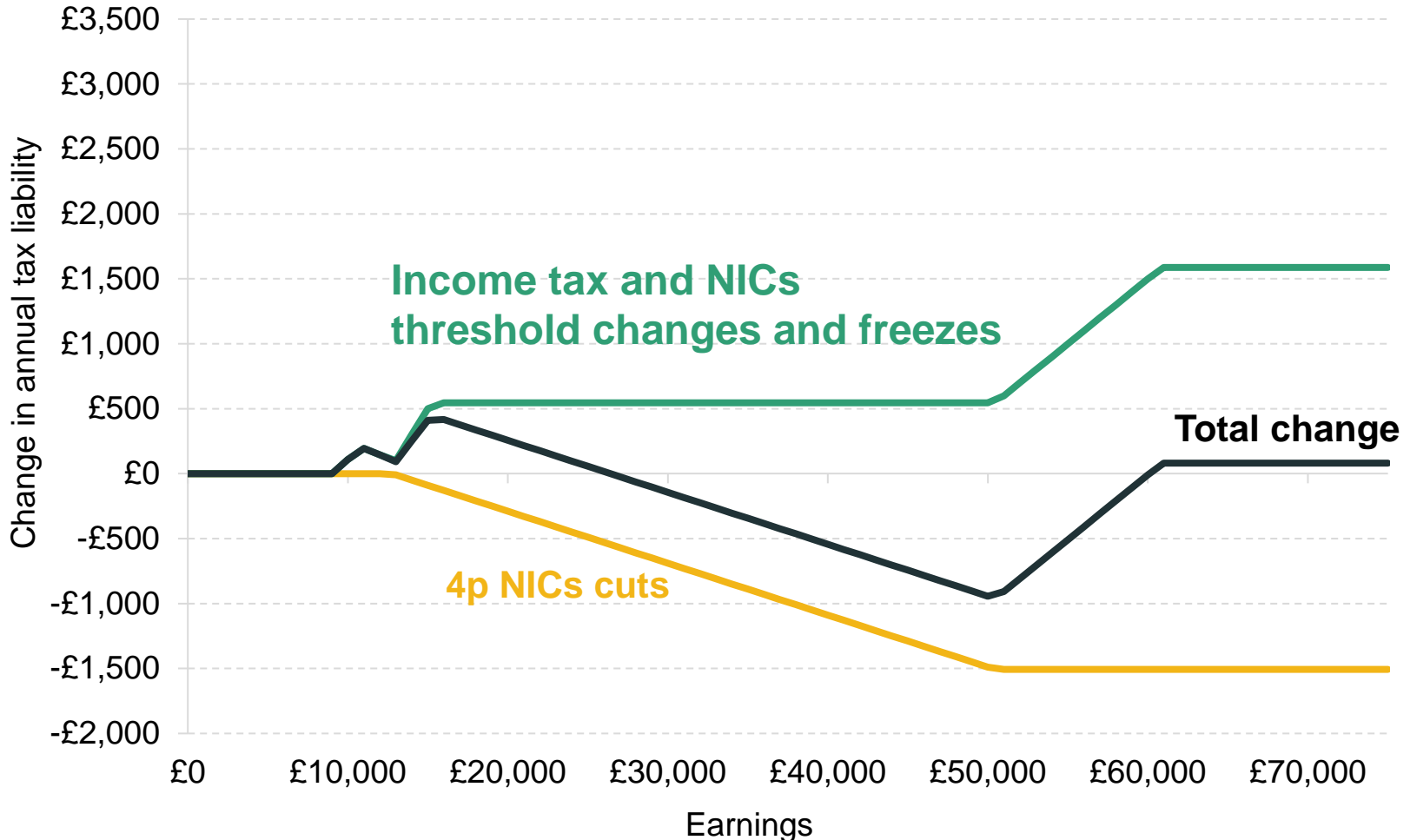
# A change of direction



Note: Assumes contracted into SERPS/S2P where relevant. Between 1985 and 1989 a range of employee and employer NICs rates applied.

# Recent NICs cuts offset freezes for about half of employees...

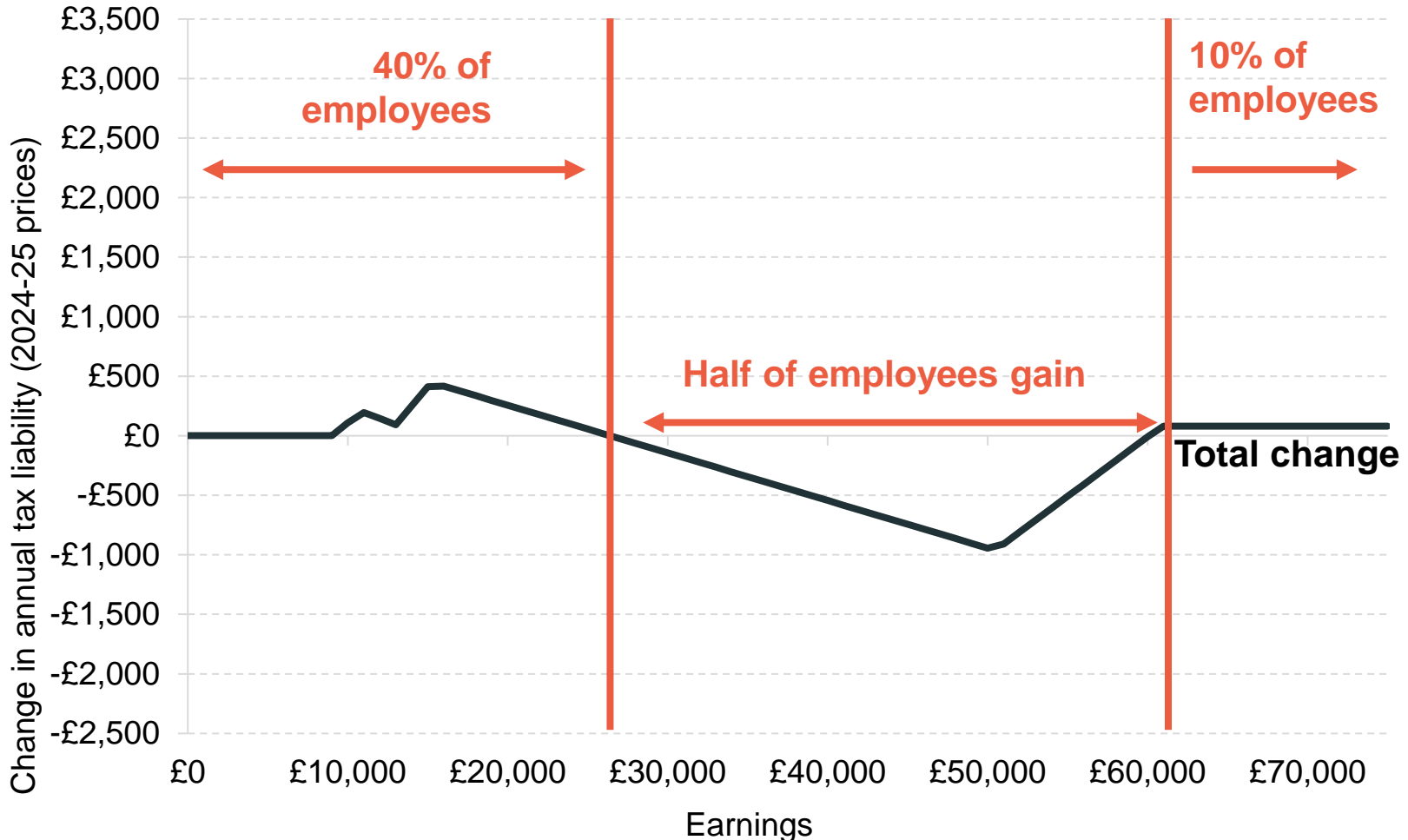
Effect in 2024-25 of tax changes since 2021



Note: All amounts are for employees. Figure assumes changes to employer NICs are fully incident on employees, and gives changes based on earnings if employer NICs had not been raised, in 2024-25 prices.

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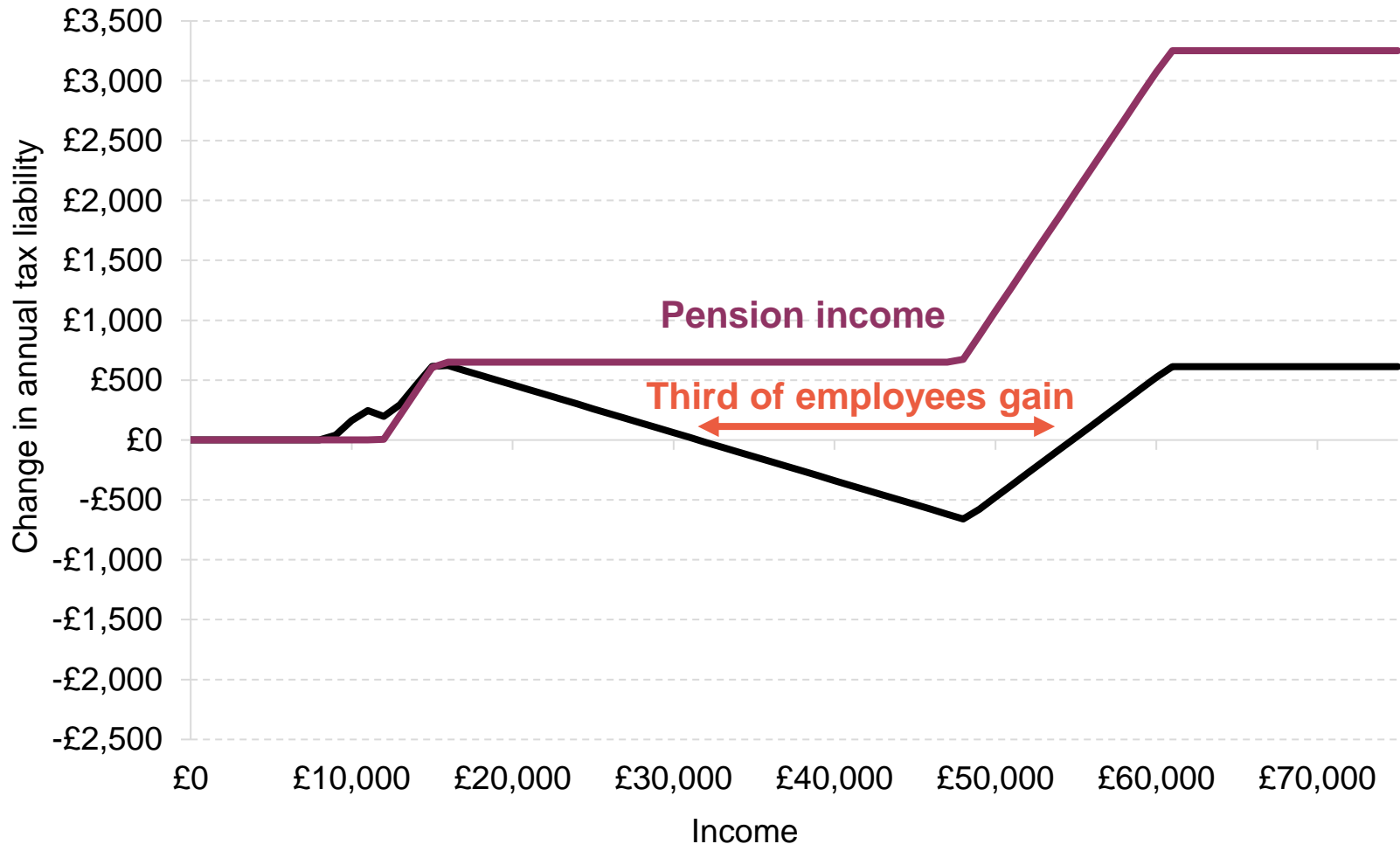
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# ... falling to one third by 2027-28, while only those who pay NICs gain

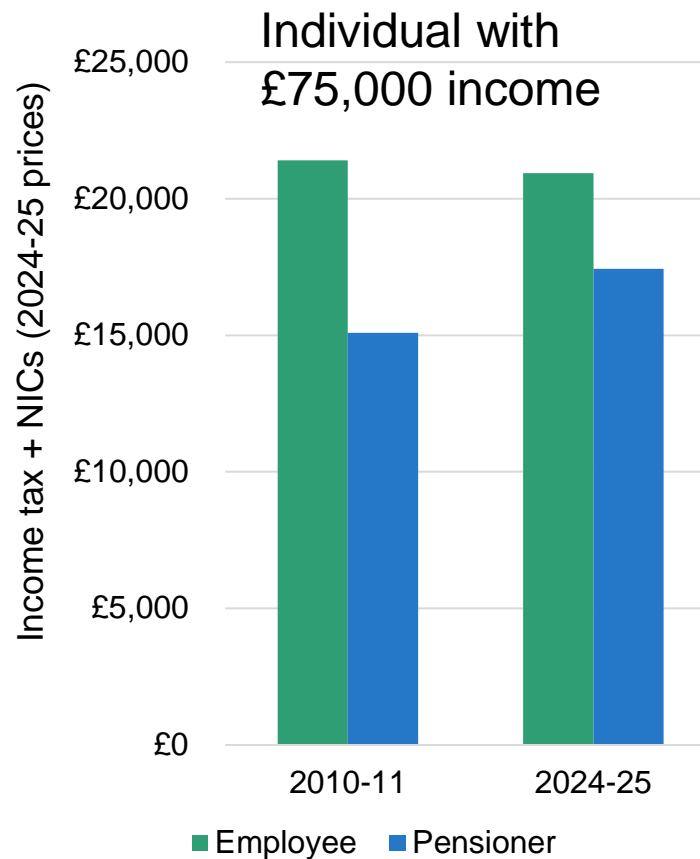
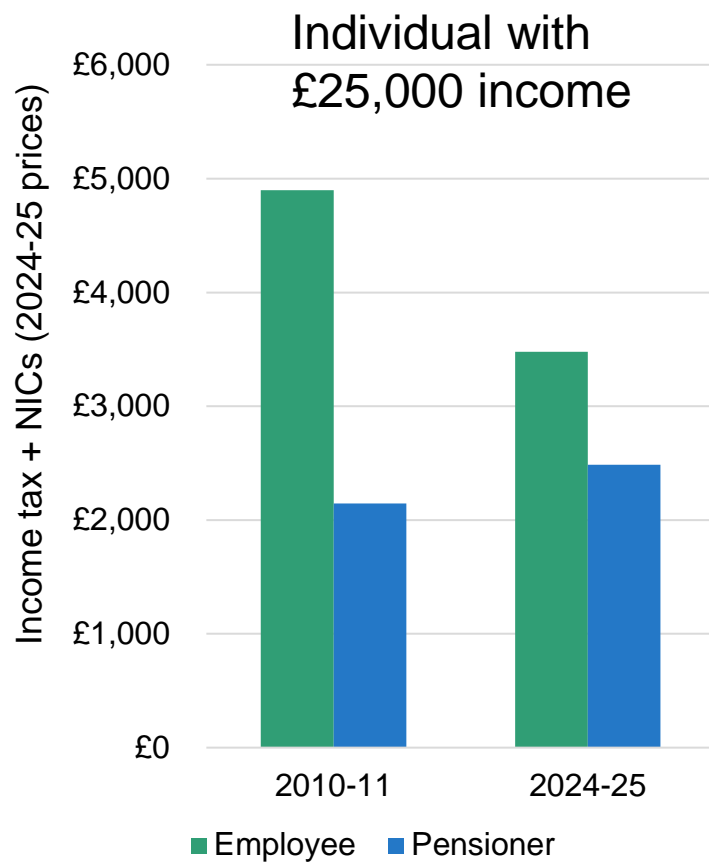
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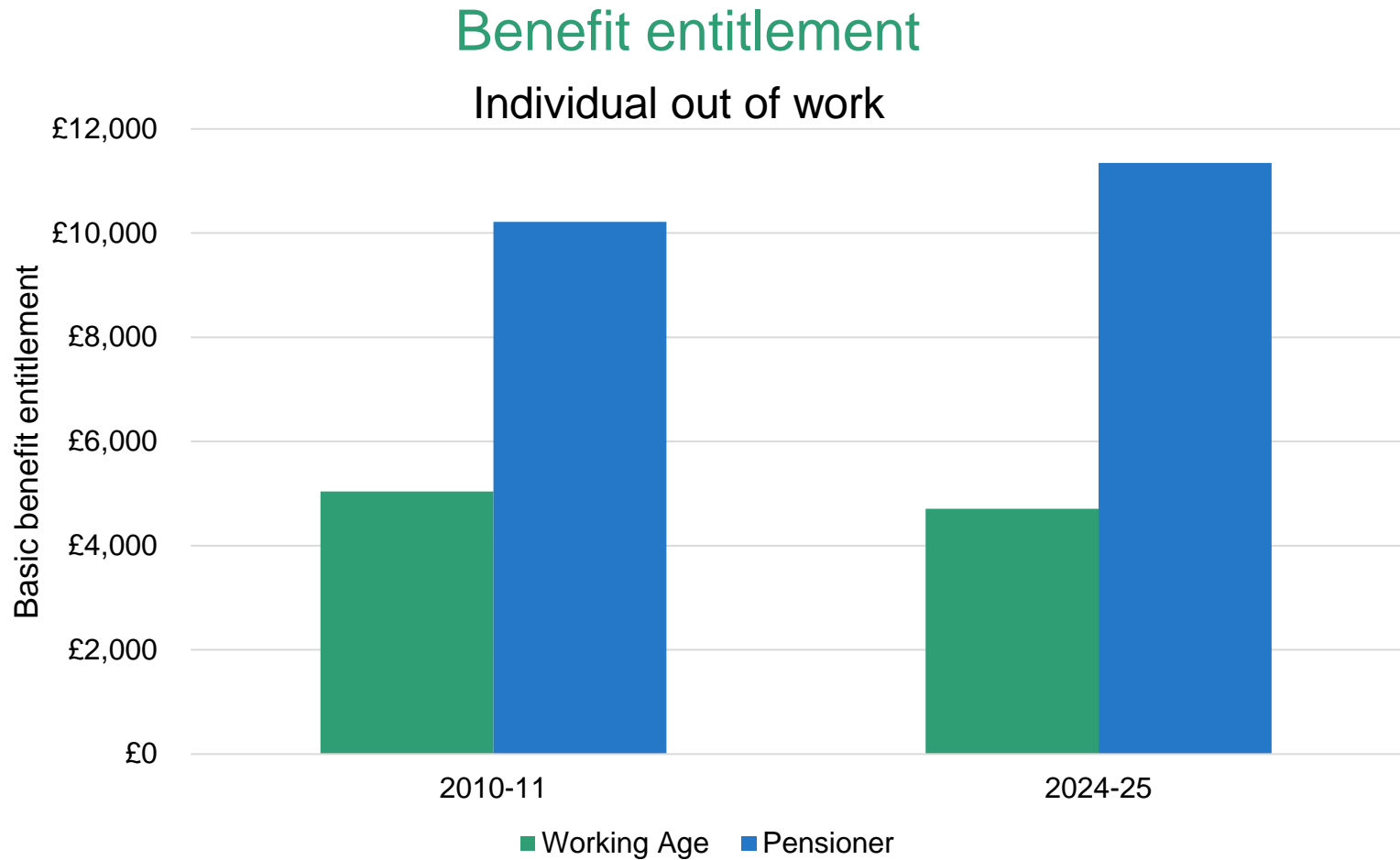
# Pensioners have lost from tax changes relative to employees since 2010...

## Personal taxes



Notes: Figure includes income tax and employee NICs

# ...but gained in other ways



Notes: Basic benefit entitlement for pensioner and working-age person with no other income

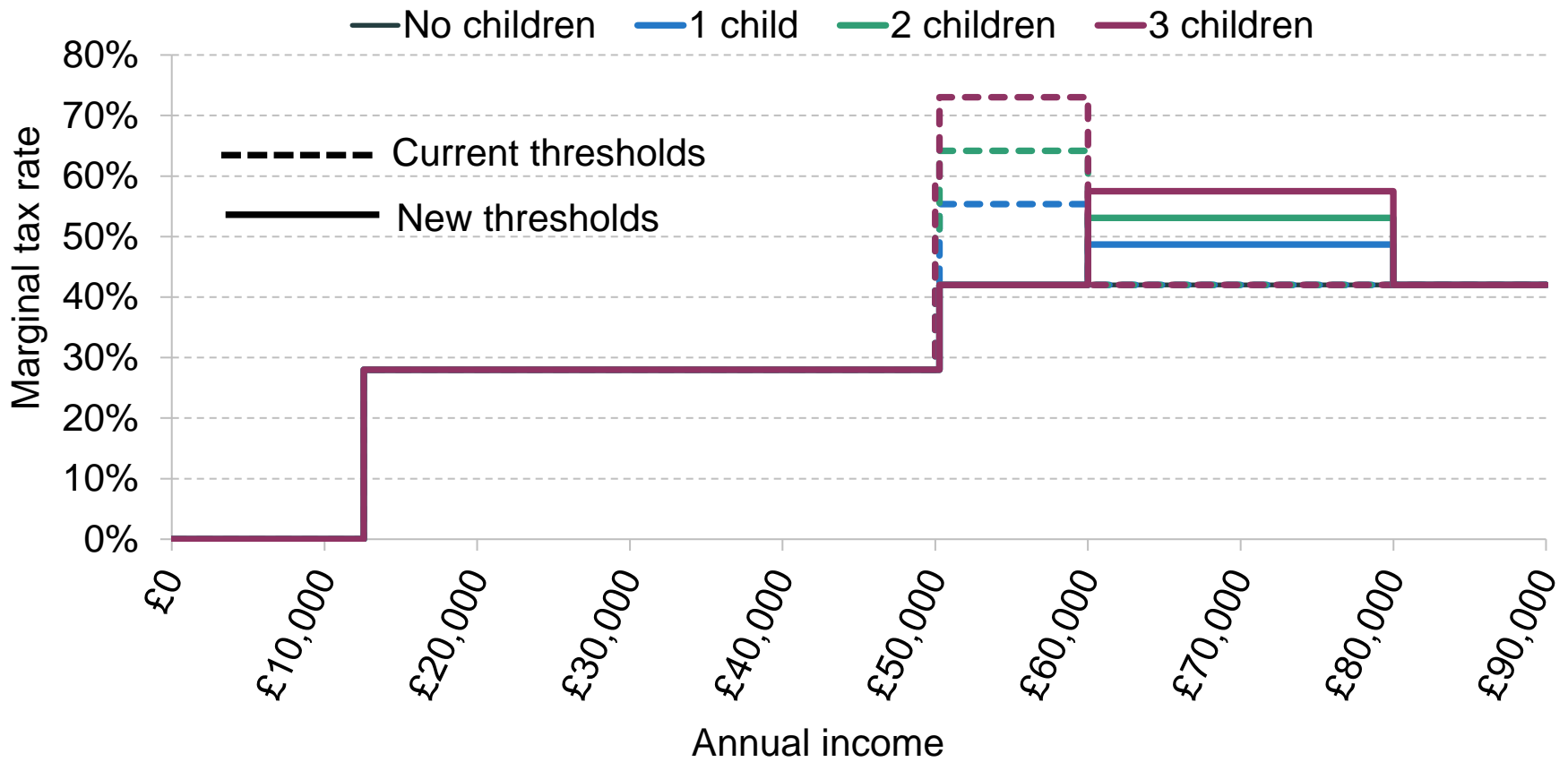
# Child benefit reforms

- Child benefit was universal until 2013. Since then:
  - When income of highest-income parent in household exceeds £50k, CB gradually withdrawn, and all gone by £60k
  - Withdrawn through high income child benefit charge (HICBC)
  - £50k and £60k thresholds fixed in nominal terms ever since: 1m (13%) families affected was set to increase to 2.4m (30%)
- From April:
  - £50k and £60k thresholds raised to £60k and £80k (cost: £0.4bn)
  - The number of families affected will decrease to 1.8m (22%)



# HICBC weakens work incentives

Marginal tax rates for highest income member of family



Note: Marginal tax rates include income tax, employee NICs and withdrawal of child benefit

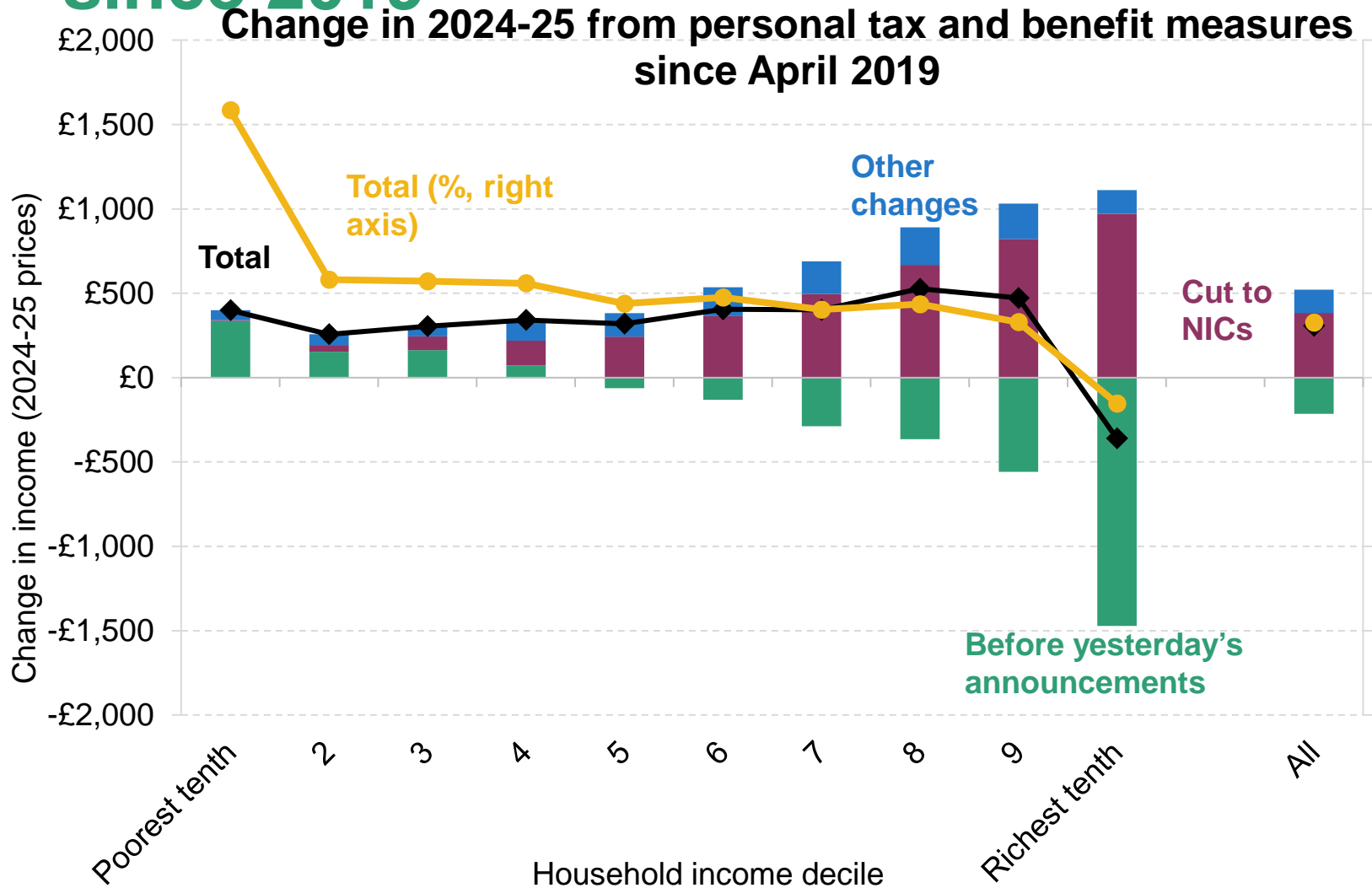
# Longer term: basing HICBC on *family income*

- Government plans to move to family-income assessment, like other means-tested benefits, as it is (now) concerned with cases such as:
  - Couple with income of £120k split evenly: keep all CB
  - One-earner couple with income of £80k: lose all CB
- Not administratively easy to change to a family income-based assessment within income tax
- Winners and losers - illustrative example.: if for couples withdraw CB between £86k - £106k joint income:
  - revenue neutral, but 550k couples lose, and 550k gain

# Still a muddle?

- Principled arguments about merits of joint or individual assessment
  - But current system is weird hybrid: not the best answer to any question
- Govt now moving to full joint assessment of child benefit
- We will have two, separate, income-related benefits for families with children, **both** based on family income...
  - yet withdrawn with different rules, through different administrative mechanisms

# Overall most households have gained since 2019



# But those gains are mostly wiped out by 2027-28

Change in 2024-25 and 2027-28 from personal tax and benefit measures since April 2019

