Personal tax and benefit changes

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What’s coming up

• Direct taxes
• Benefits and tax credits
• Indirect taxes
• Distributional impact of Budget measures
• Distributional impact of all Labour’s reforms from 1997 to 2010
Direct tax changes

• Big income tax rises in April 2010
  – 50p income tax rate above £150,000 from April 2010
  – Withdrawal of personal allowance above £100,000 from April 2010

• More takeaways in the medium term
  – Restriction of tax relief on pension contributions
  – 1% increase in employee and employer National Insurance rates from April 2011
  – End of temporary £130 increase in personal allowance in April 2011
  – Freeze in basic rate limit in April 2011
  – Freeze in higher rate threshold in April 2012

• All these still going ahead

• Nothing new yesterday
Tax credit and benefit changes

• Small pre-announced giveaways to low-income households
  – One-off real increase in some benefits in April 2010
  – Small increase in child element of CTC in April 2010

• Budget had small giveaways to pensioners and low income households
  – Higher rate of Winter Fuel Payments continued for another year (one-off cost of £600m in 2010–11)
  – Income Support Mortgage Interest assumed interest rate kept high for another six months (one-off cost of £165m in 2010–11)
  – Higher rate of Child Tax Credit for one and two year-olds from April 2012 (costs £180m a year from 2012–13)

• Attempt to reduce cost of Local Housing Allowance by excluding high-rent properties from calculation of average local rent
  – Saves £50m a year in long run
Indirect taxes: alcohol and tobacco duties

• Beer, Wine and Spirits
  – Budget 2008 policy of 2% increases on top of normal indexation to be extended for another two years to 2014
  – Raises £190m a year from 2014–15

• Cider
  – Duties on cider are approximately half of those on beer of similar strength
  – Budget 2010 announced a 10% real increase in duty on cider and changed technical definition of what cider is
  – Raises £15m a year

• Tobacco
  – Immediate increase in total duty of RPI + 1%
  – Tobacco duties to rise by 2% on top of normal indexation each April from 2011 to 2014
  – Raises £275m a year from 2014–15
Indirect taxes: fuel duty

• 1993-1999: duties increased above inflation each year
  – Normal indexation plus 3% from 1993, 5% from 1995, 6% from 1997
  – Escalator abandoned in Budget 2000
• Since then: sporadic increases, not more than inflation uprating
  – Increases tended to be deferred and/or cancelled when oil price high
• Budget 2009:
  – 2p increase in September 2009
  – 1p increases on top of normal indexation every April up to 2013
• Budget 2010:
  – Pre-announced increase of 2.76p (RPI + 1p) due in April to be applied in three stages: April 2010, October 2010, January 2011
  – One-off cost of £550m in 2010–11
  – Escalator extended one year to 2014
  – Raises £425m a year from 2014–15
Real-terms duties
May 1997 = 100

Petrol
Beer & Wine
Spirits

Projections

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Immediate changes for April 2010

Note: does not include measures that are difficult to assign to particular households, e.g. business taxes, IHT, stamp duty
Distributional impact of all changes to 2014

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The distributional impact of Labour from 1997 to 2010

- Compare April 2010 tax and benefit system to that which would have been in place under the ‘no reform’ scenario underlying the Public Finances
  - This generally involves increasing all benefit amounts and tax thresholds in line with inflation

- Unlike in previous analysis, account for taxes that are difficult to assign to particular households by assuming that these affect households in proportion to their income

- Doesn’t show how household incomes have changed – incomes have grown across whole distribution

- Further analysis of Labour’s tax and benefit changes will be published soon as part of our election coverage – this is a sneak preview
The distributional impact of Labour from 1997 to 2010

Gain/loss as a percentage of net income

Income Decile Group

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