Personal tax and welfare measures

David Phillips
Personal allowance to reach £10,500 in 2015-16

• £320 above-indexation increase in main allowance in April 2015
  – Takes 230,000 people out of income tax
  – Taxpayers aged under 67 on £10,500 - £120,360 will gain £64
  – Costs £1.8bn (in 2016-17)

• Allowance in 2015-16 to be £2,855 higher than plans govt inherited
  – Costs over £12 billion per year
  – Basic rate taxpayers gain £571 per year and 2.4 million taken out of income tax

• Higher-rate threshold will be £5,560 lower → 1.4m more higher-rate taxpayers than under plans inherited
  – But unaffected by yesterday’s announcements
Number of higher-rate taxpayers (millions)

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Note: includes additional-rate taxpayers
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• Why income tax but not NICs?
  - 1.6 million people will pay employee NICs but not income tax in 2015-16
Income tax and employee NICs schedule: 2015-16

- Personal allowance: £7,645
- NICs threshold: £8,112
- Higher rate threshold and UEL: £47,845
Income tax and employee NICs schedule: 2015-16

- Personal allowance increased to £10,500
- Employee NICs threshold a little lower
- Gain for basic rate taxpayers is £546 per year

Gross income

- Combined income tax and employee NI rate

Gains/losses (£s per year)

- Inherited System
- Actual 2015-16 system
- Gains/Losses

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Excise duties

• Changes to gambling duties
  – Increase duty on gaming machines with stakes above £5 to 25% from March 2015
  – Cut duty on bingo from 20% to 10% from June 2014

• Alcohol duties
  – Reduce duty on beer by 2% in cash terms (4.5% below indexation)
  – Freeze cider and spirits duty (4.5% below previous ‘escalator’)
  – And wine duty up in line with inflation (2% below ‘escalator’)
  – Costs £290 million in 2014-15 (£370 million without behavioural response)

• Tobacco duty escalator extended to end of next parliament
  – Raise £135 million a year by 2018-19 (£795 million without behavioural response)

• Unusually, no announcements on fuel duties
  – Already spent £6bn on cancelling increases
Impact of tax and benefit reforms
Announced yesterday and in place by April 2015

Assumes full take-up of means-tested benefits and tax credits.
Impact of tax and benefit reforms
Implemented January 2010 - April 2015 inclusive, no Universal Credit

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Childcare measures: Announcements (1)

• New Tax-Free Childcare scheme announced in Budget 2013
  – Due to be introduced in Autumn 2015
  – For families with all adults in work, govt would top up spending on formal childcare at a rate of 20p for every 80p spent
  – Scheme would initially cover children up to age 5 and gradually be extended to cover children up to age 12
  – Maximum contribution of £1,200 per child per year

• Several changes to the scheme were announced this week:
  – Maximum contribution has been increased to £2,000 per child per year
  – Scheme will cover children up to age 12 within its first year
Childcare measures: Announcements (2)

- Changes also made to childcare support via Universal Credit
  - Budget 2013 announced an 85% subsidy on childcare spending for families where both parents paying income tax versus 70% for other families
  - The 85% subsidy has now been extended to all families

- The Pupil Premium will be extended to cover disadvantaged 3 and 4 year olds taking up their free nursery entitlement
Childcare measures: Remarks

• Generosity of childcare support for working families increased:
  – For working non-income tax payers claiming support via UC
  – For working families paying for formal childcare for 5-12 year olds
  – For those spending more than £6,000 per child under 5 per year

• Some welcome simplifications:
  – Removal of ‘cliff-edge’ in subsidy offered via Universal Credit
  – Parents only report changes in circumstances quarterly

• But announcements come with very little new money
  – Tax-free childcare more generous per child, but only 1.9m families now estimated to benefit (was 2.5m) – unclear why this changed
  – Increase in UC subsidy will cost £200m but funded by unspecified UC cuts
Summary

• Continuation of policy of above-inflation increases in income tax personal allowance
  – Overall, costs almost as much as the VAT increase raised
  – Becoming even less well targeted at those with low incomes/earnings
  – Increased NICs thresholds would be better targeted at these groups

• Childcare plans made more generous and to be rolled out quicker
  – But costs for tax-free childcare estimated to be broadly the same as before
  – What parts of Universal Credit will be cut to pay for increased generosity?
  – Unclear whether spending on childcare is money well spent
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Impact of tax and benefit reforms
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Change in net income

-14% -12% -10% -8% -6% -4% -2% 0% 2%

Announced yesterday
All changes

Fuel duties modelled at average 2015-16 level.
Assumes full take-up of means-tested benefits and tax credits.

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Impact of tax and benefit reforms
January 2010 - April 2015 inclusive

Change in weekly net income

All

-£80 -£70 -£60 -£50 -£40 -£30 -£20 -£10 0 10 20

Announced yesterday
All changes

Fuel duties modelled at average 2015-16 level. Assumes full take-up of means-tested benefits and tax credits.
Income tax and employee NICs schedule: 2014-15