



Institute for
Fiscal Studies

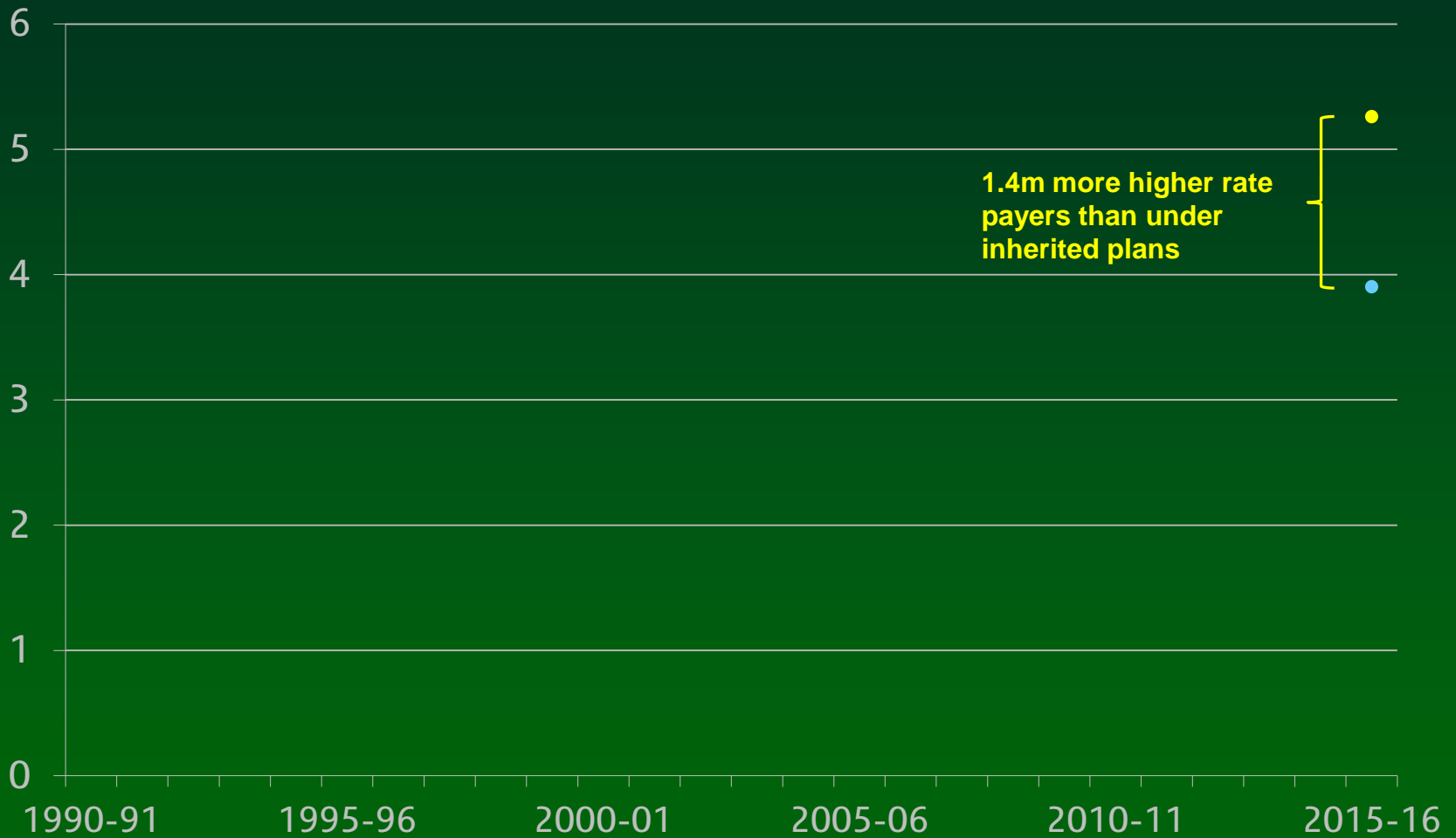
Personal tax and welfare measures

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)



● Number above higher rate threshold ● Inherited policy

Note: includes additional-rate taxpayers

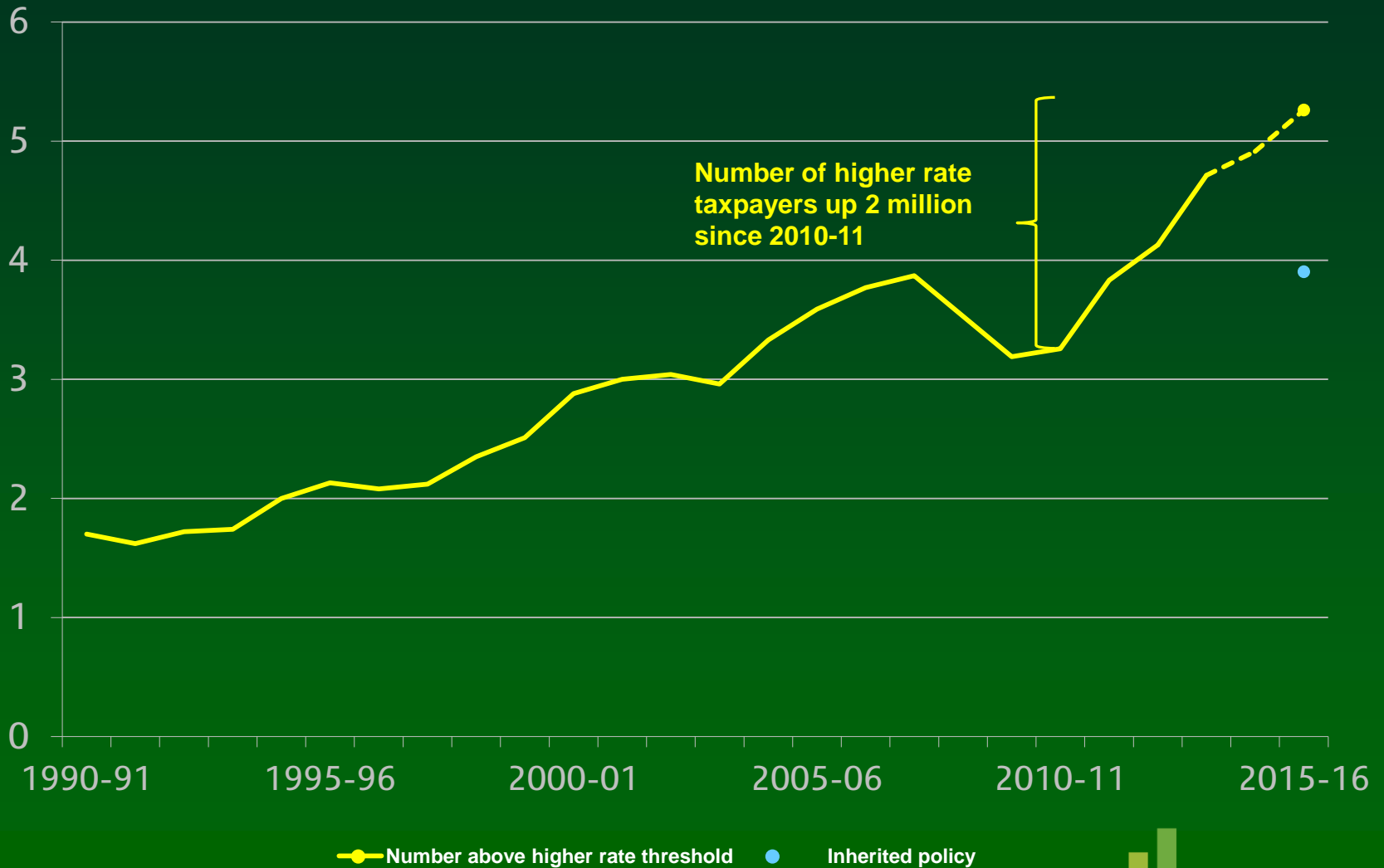
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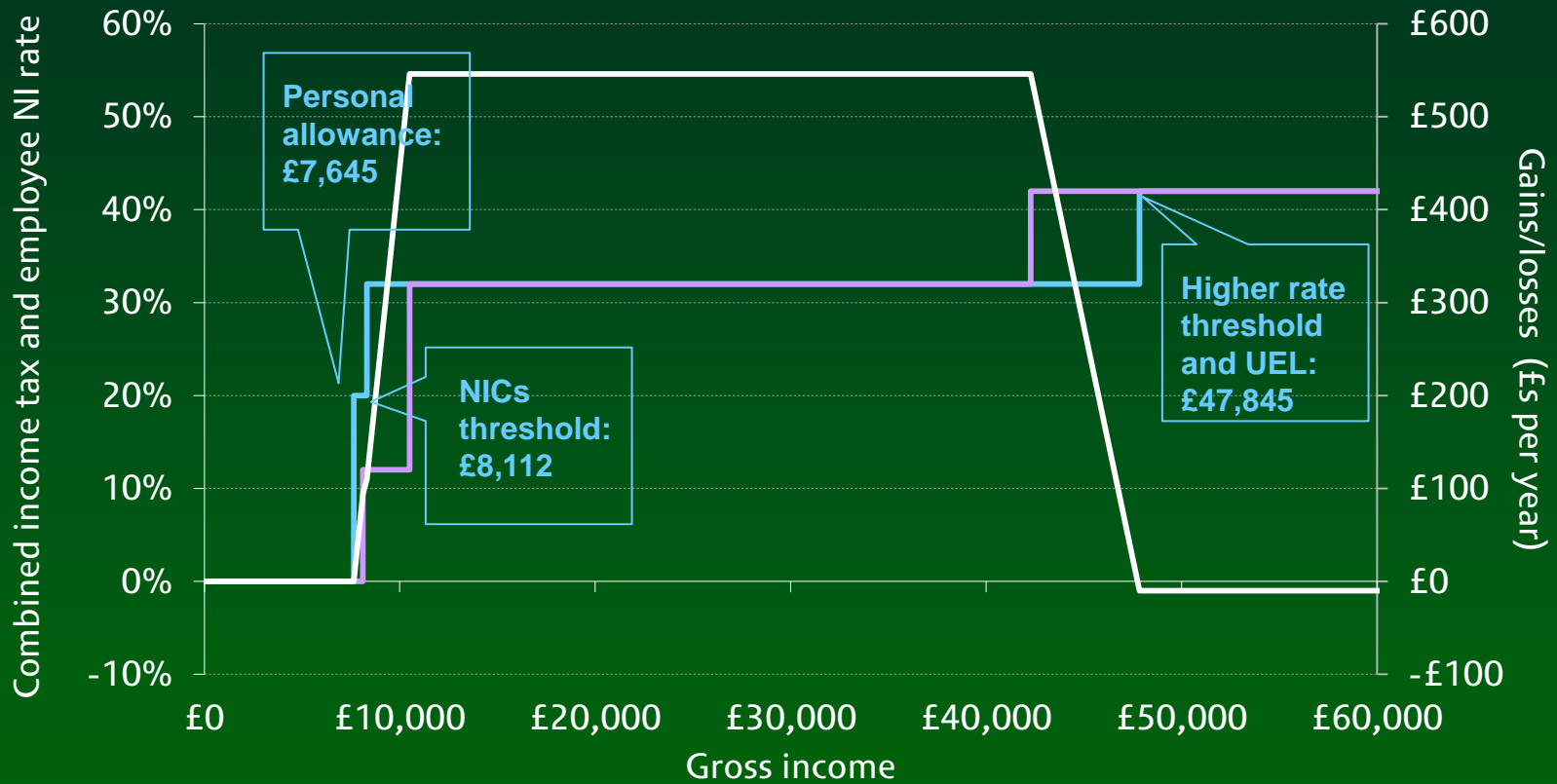
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 - Basic rate taxpayers gain £571 per year and 2.4 million taken out of income tax
- Higher-rate threshold will be £5,560 lower → 1.4m more higher-rate taxpayers
- Why income tax but not NICs?
 - 1.6 million people will pay employee NICs but not income tax in 2015-16

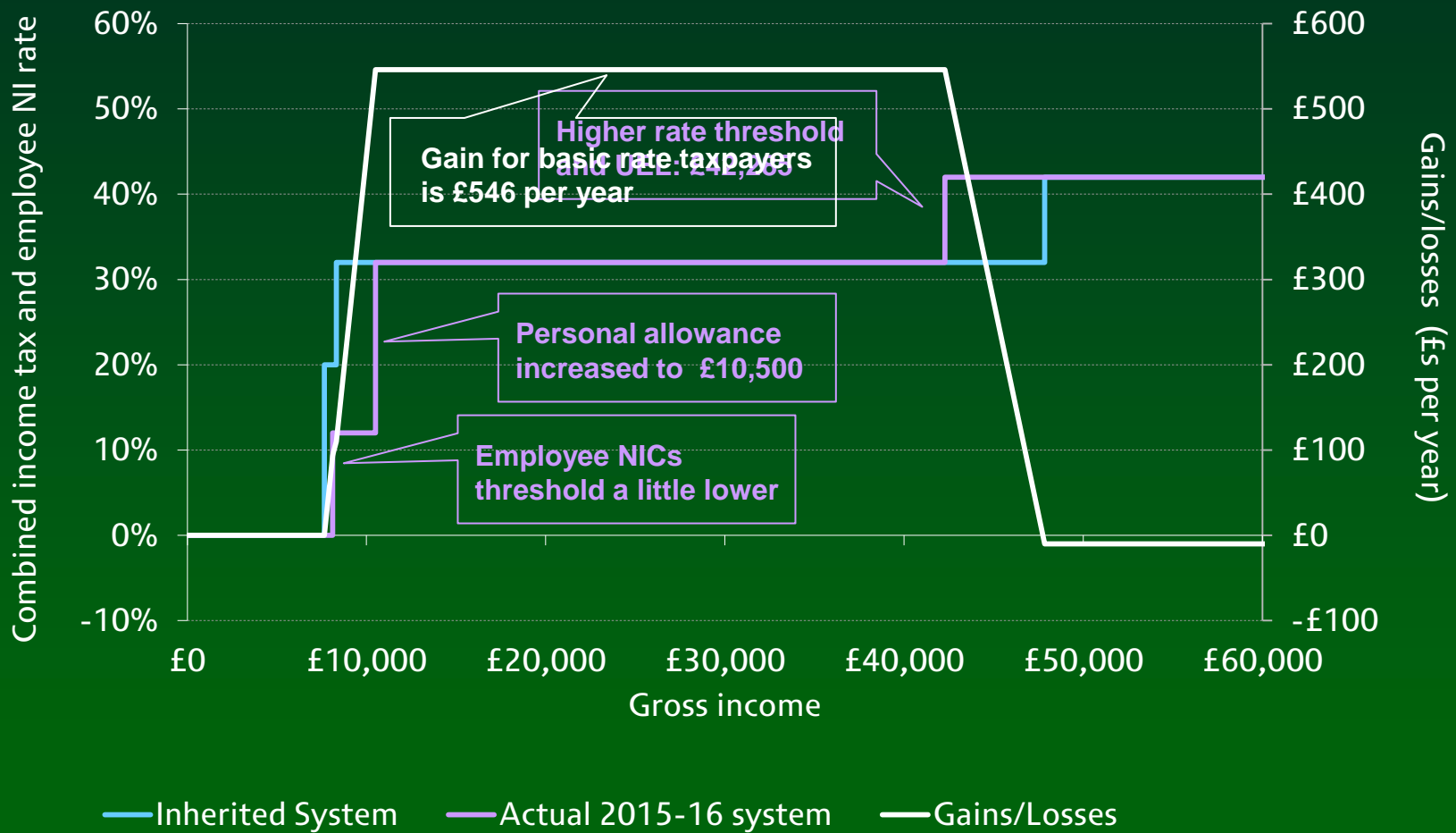
Income tax and employee NICs schedule: 2015-16



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



Income tax and employee NICs schedule: 2015-16

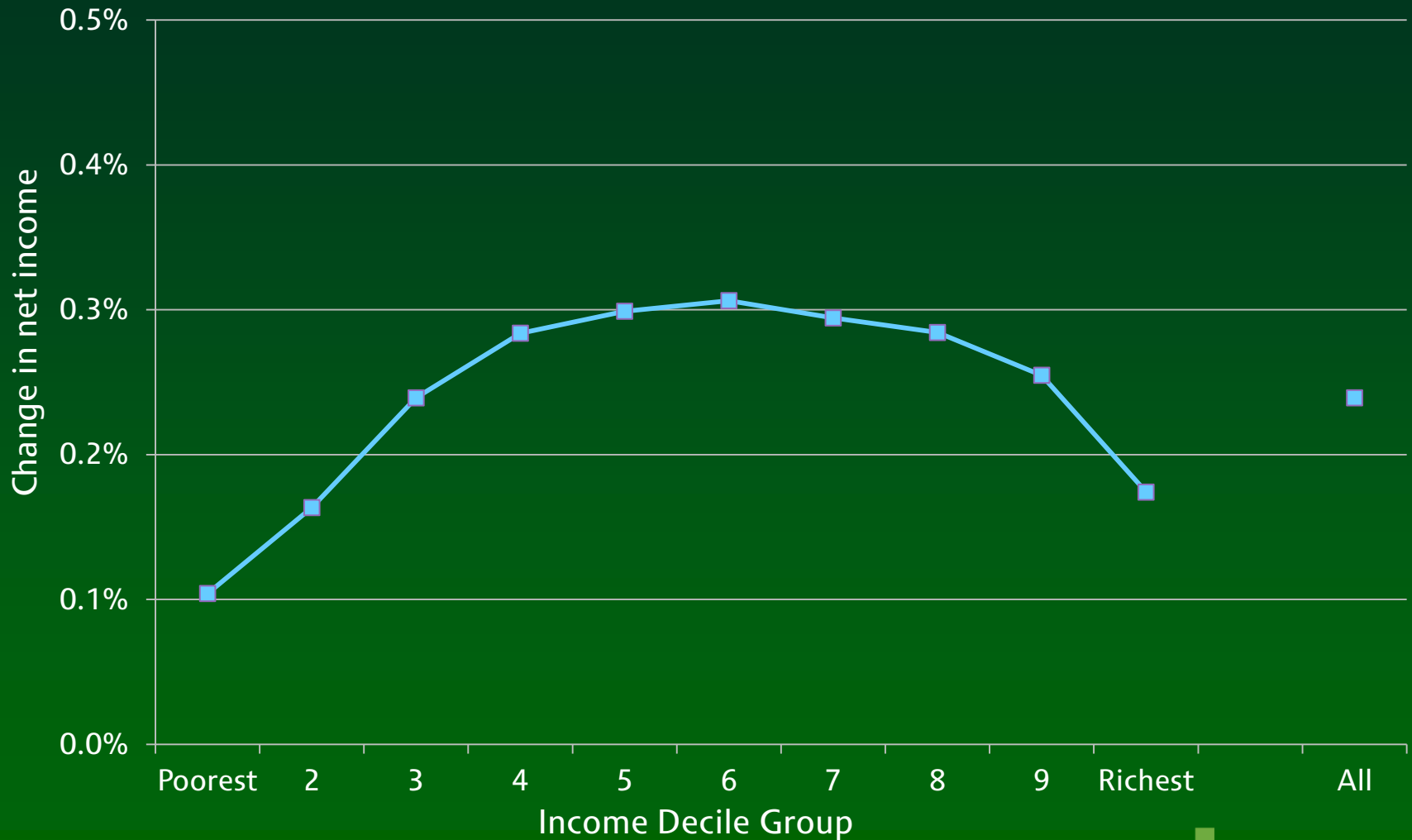


Excise duties

- 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

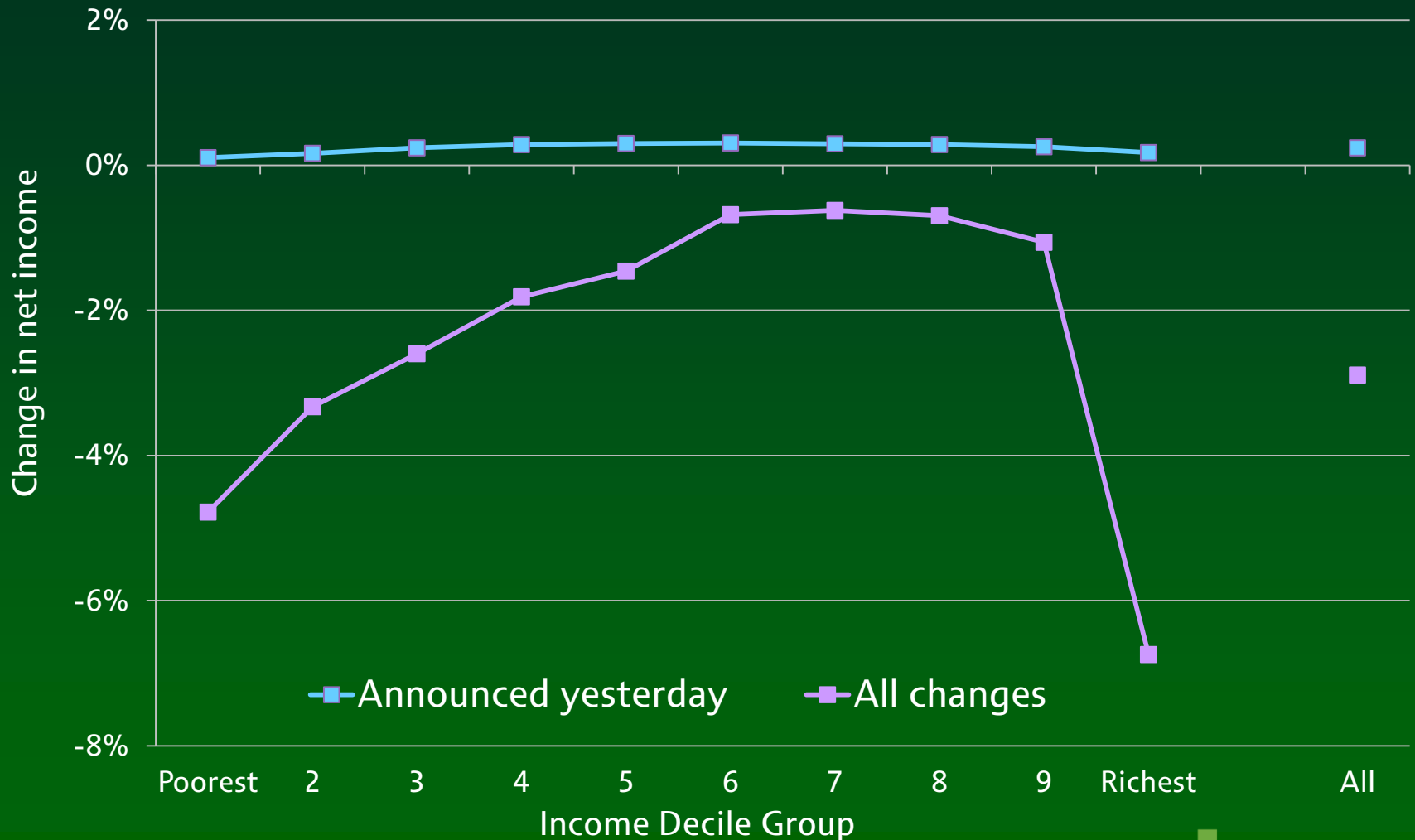
Announced yesterday and in place by April 2015



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

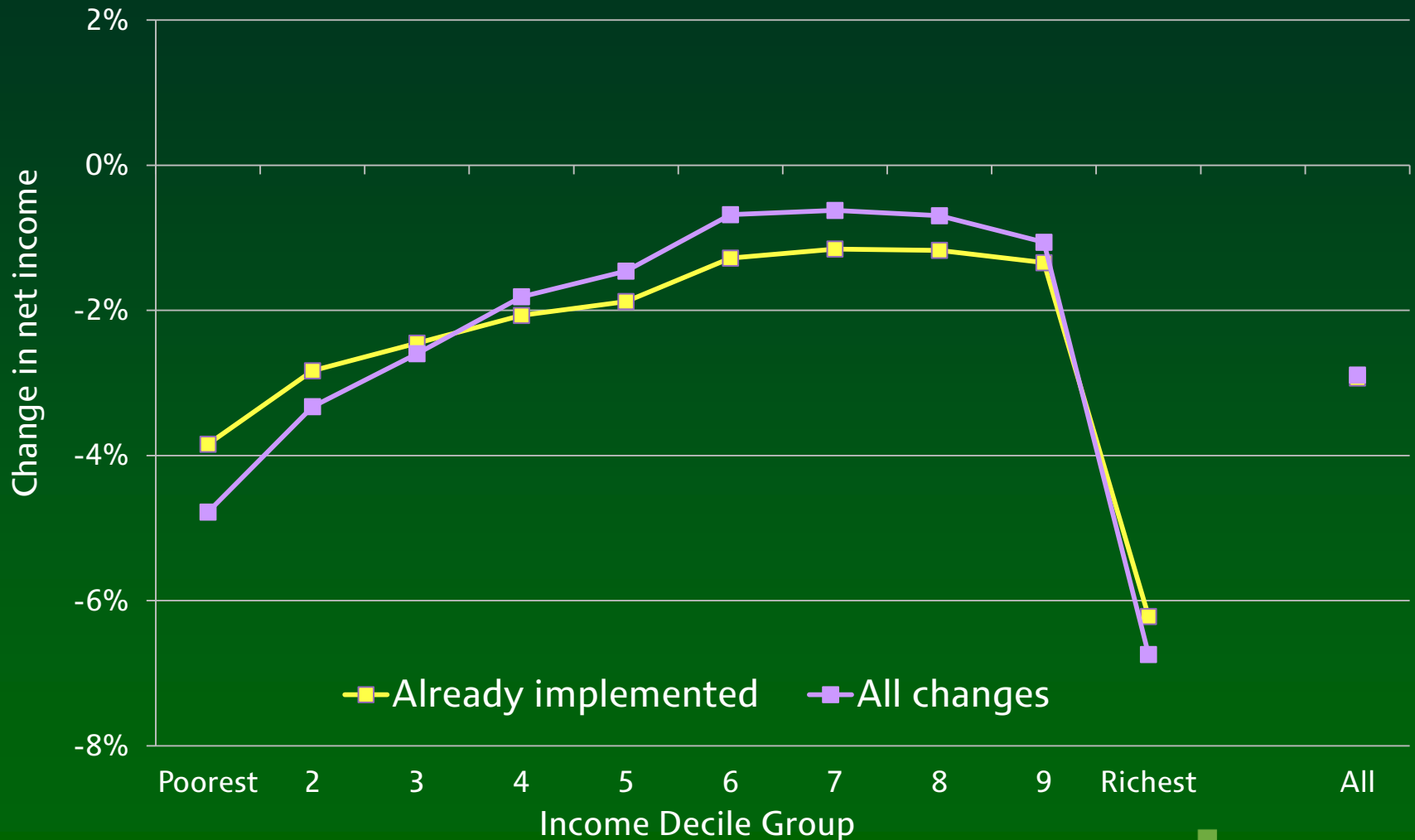
- Generosity of childcare support for working families increased:
 - For working non-income tax payers claiming support via UC
 - For working families paying for formal childcare for 5-12 year olds
 - For those spending more than £6,000 per child under 5 per year
- Some welcome simplifications:
 - Removal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

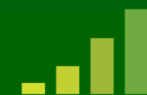
- Continuation of policy of above-inflation increases in income tax personal allowance
 - Overall, costs almost as much as the VAT increase raised
 - Becoming even less well targeted at those with low incomes/earnings
 - Increased NICs thresholds would be better targeted at these groups
- Childcare plans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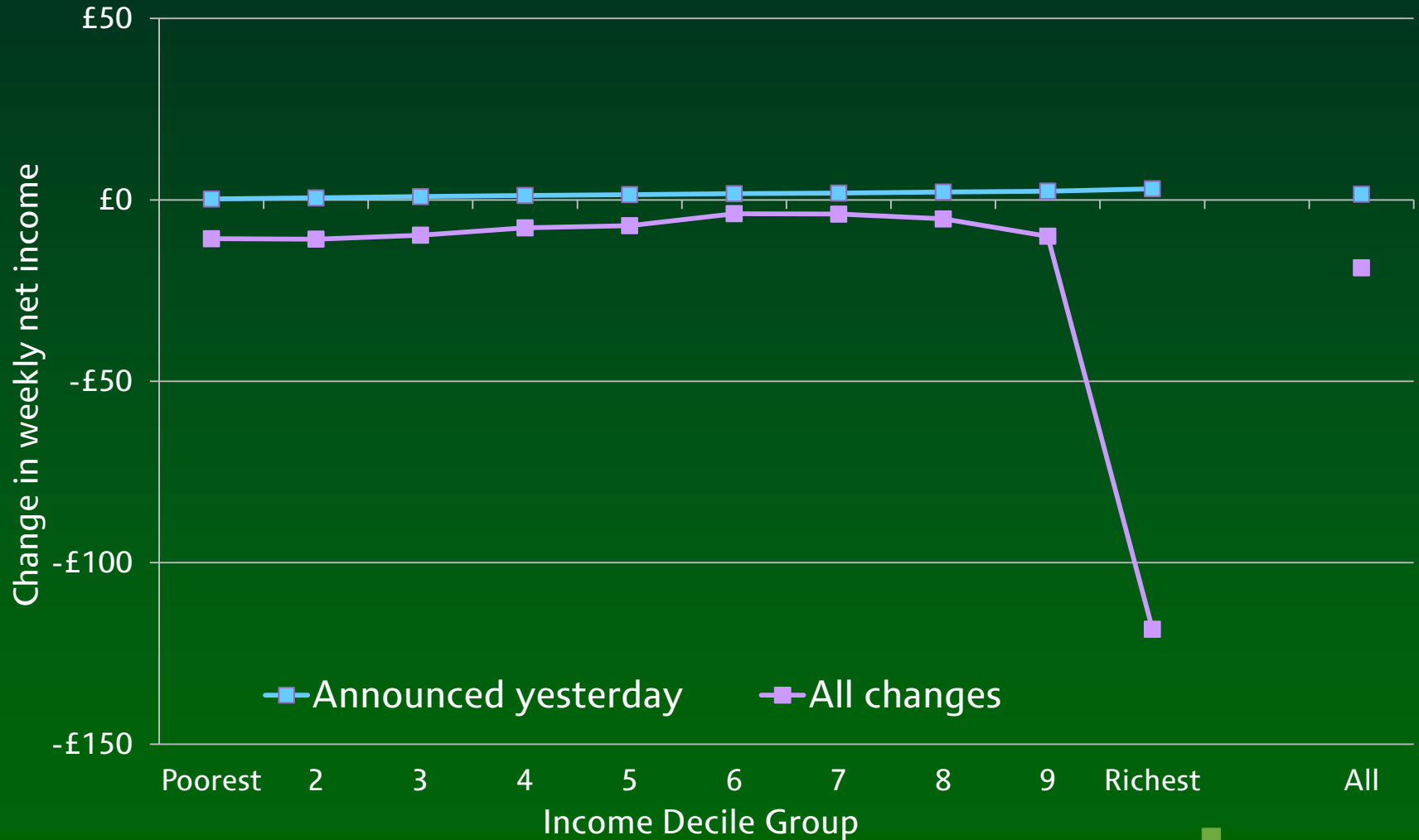


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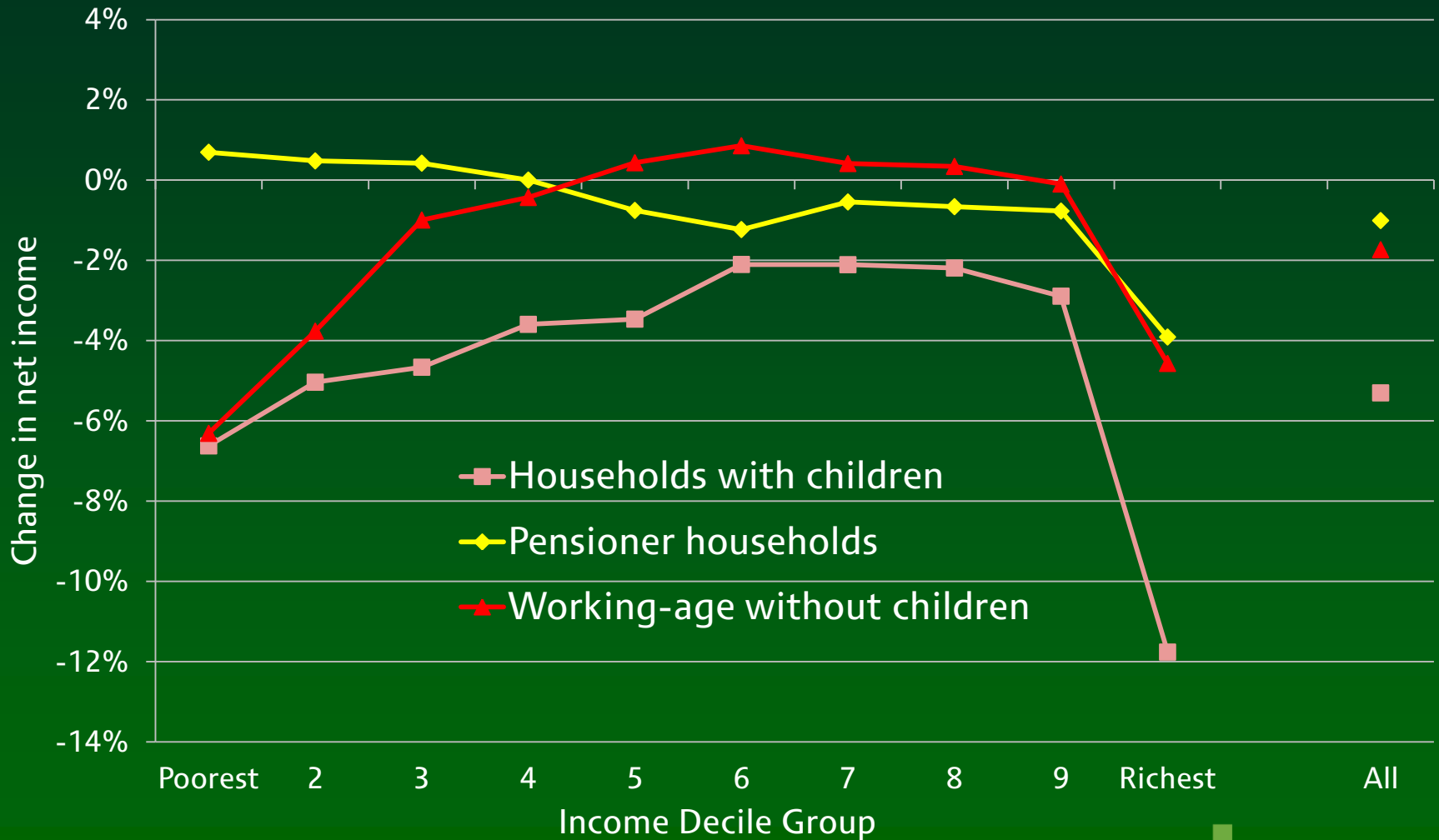


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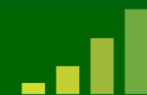


Impact of tax and benefit reforms

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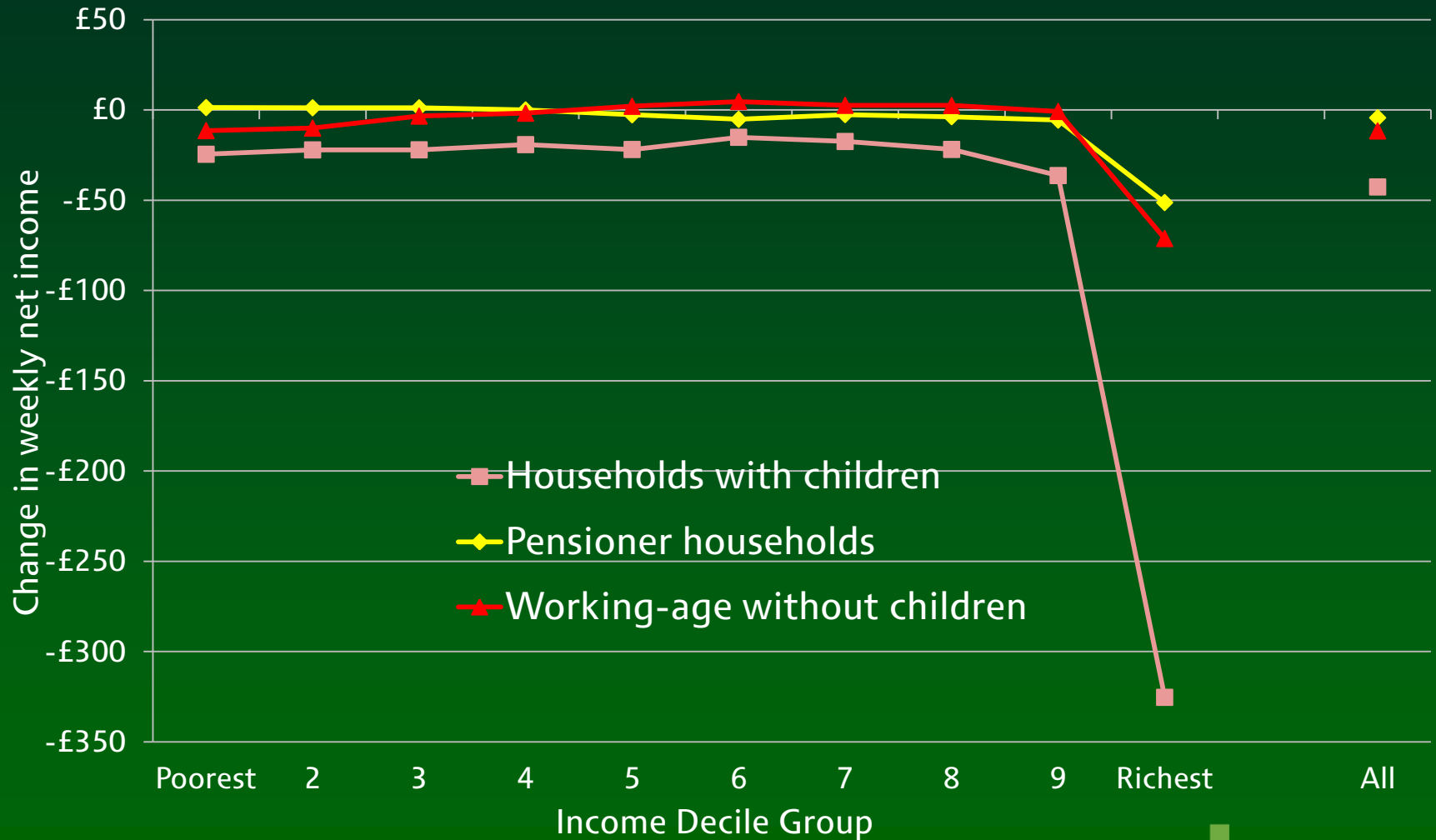


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Impact of tax and benefit reforms

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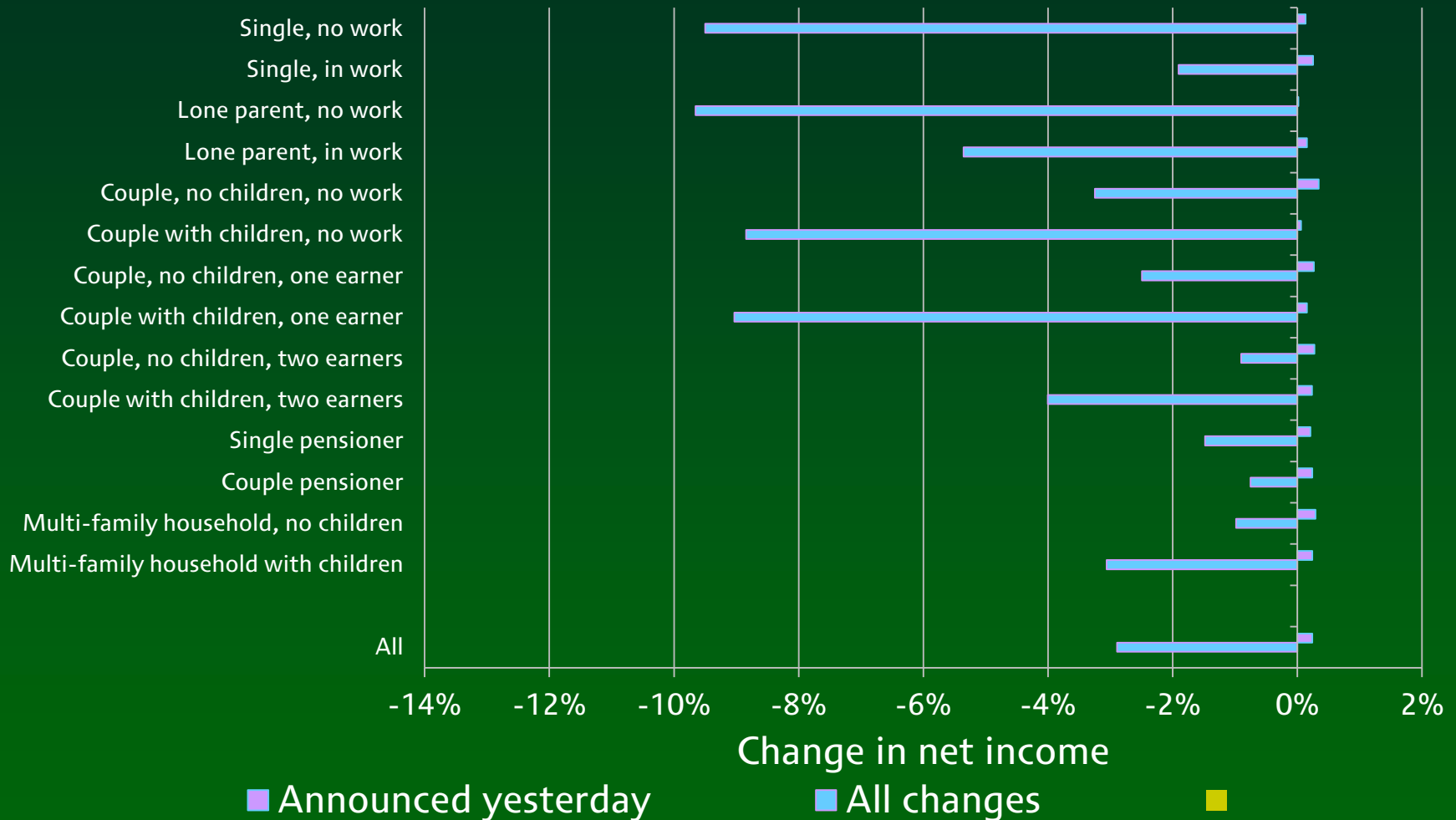


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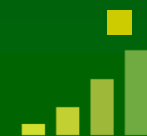


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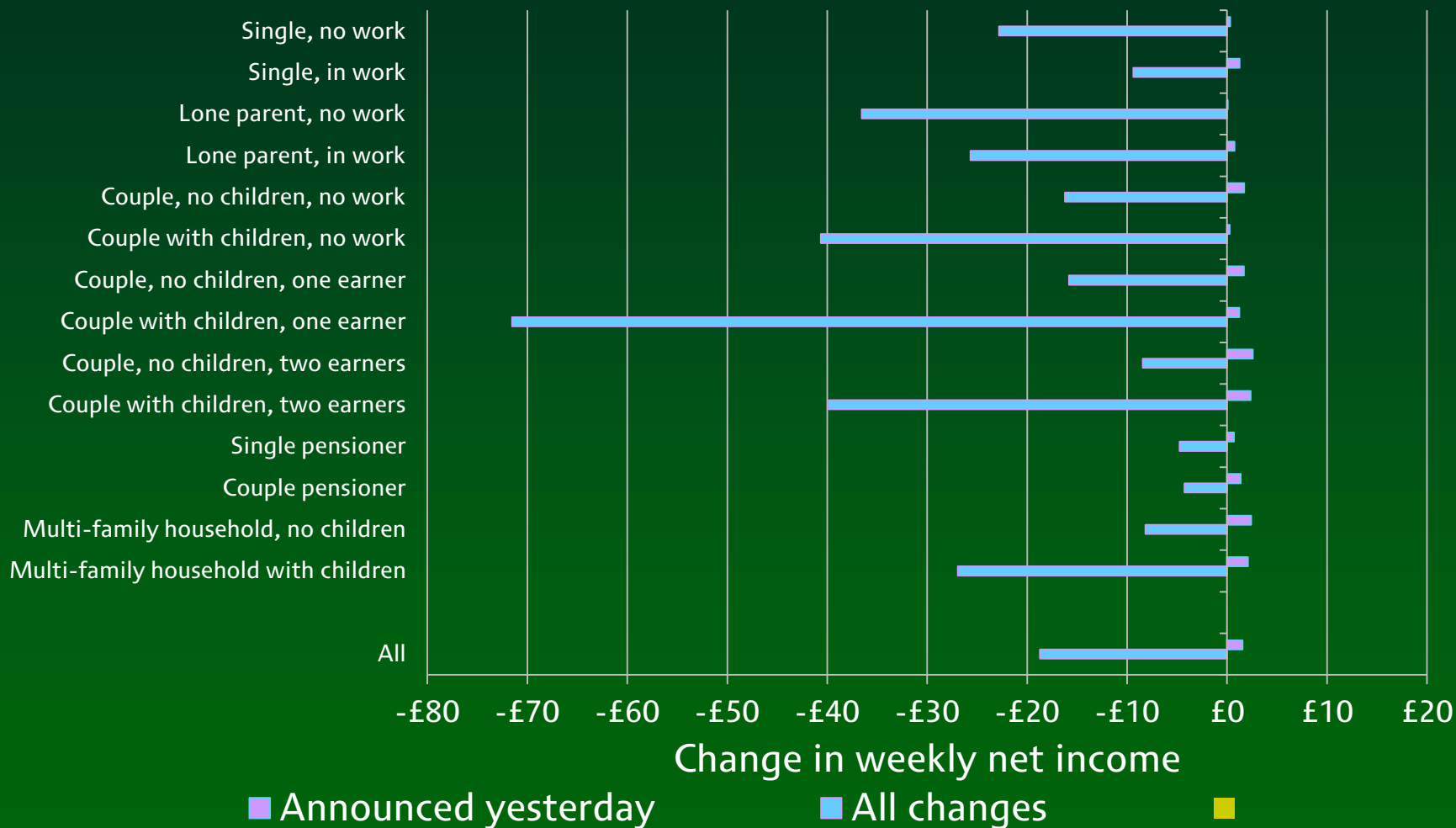


Fuel duties modelled at average 2015-16 level.
Assumes full take-up of means-tested benefits and tax credits.

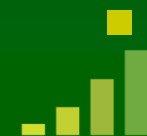


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Income tax and employee NICs schedule: 2014-15

