The fiscal squeeze and tax and welfare changes affecting low-earning individuals

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Presentation to Low Pay Commission, London
19th December 2013
Faster growth in GDP – but only temporary

Comparison of forecasts for real GDP growth and trend GDP

- GDP (Mar 2013)
- GDP (Dec 2013)
- Potential ("trend") GDP - March 2013
- Potential ("trend") GDP - December 2013

Sources: OBR; Author’s calculations.
The cure (December 2013): 10.1% national income consolidation over 9 years (£166bn)

Dec 2013: 8.6% national income (£141bn) hole in public finances

Sources: HM Treasury; OBR; Author’s calculations.
Tax cuts coming up

• Personal income tax allowance up £250 in real terms to £10k – annual real gain of up to £50
  – Brings real increase over this parliament to £2,415
  – Less focused on very lowest earners now that PA is much higher
  – 65% of gains can be lost via reduced housing benefit; and typically around 20% via reduced council tax support (depends on local taper rate)
  – Same issue will apply to wider group under Universal Credit (65% taper)

• More real cuts to fuel duty and council tax.
  – NB council tax cuts now benefit more low-income people: 70% of English local authorities require all working-age people to pay some council tax
  – Minor effects on work incentives
Welfare cuts coming up

• Continuation of 3-year policy: most benefits/tax credits increased by 1% in April 2013, 2014 and 2015
  – 1.7% real cut in 2014-15; 4% real cut over the 3 years
  – Pensioners and more severely disabled largely protected

• NB maximum Housing Benefit entitlements for private sector renters included in 1% rule – bigger impact in areas with higher rent growth
  • And after 2015 these entitlements will be CPI-indexed (not rent-indexed)

• Affects in-work and out-of-work benefits
  – Mixed impacts on work incentives
Universal Credit (UC)

• Will integrate 6 of 7 existing means-tested payments into one

• Schedule for UC roll-out delayed
  – Only 0.4 million (not 4.5 million) on UC by 2015-16
  – Complete roll-out by 2017-18

• Less noticed is that planned generosity of UC to low earners has been significantly reduced by lowering the ‘work allowances’
  – Generally starting at lower level, and frozen in cash terms until 2017
  – E.G. Work allowance for couples with 1 child to be 25% lower in April 2017 than previously planned - £1,360 less UC (in current prices) if net annual pay of £11k (assumes no support for housing costs)
Impact of tax and benefit reforms
January 2010 - April 2015 inclusive, as if Universal Credit fully in place

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