



Institute for  
Fiscal Studies

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## Personal taxes and benefits

Stuart Adam

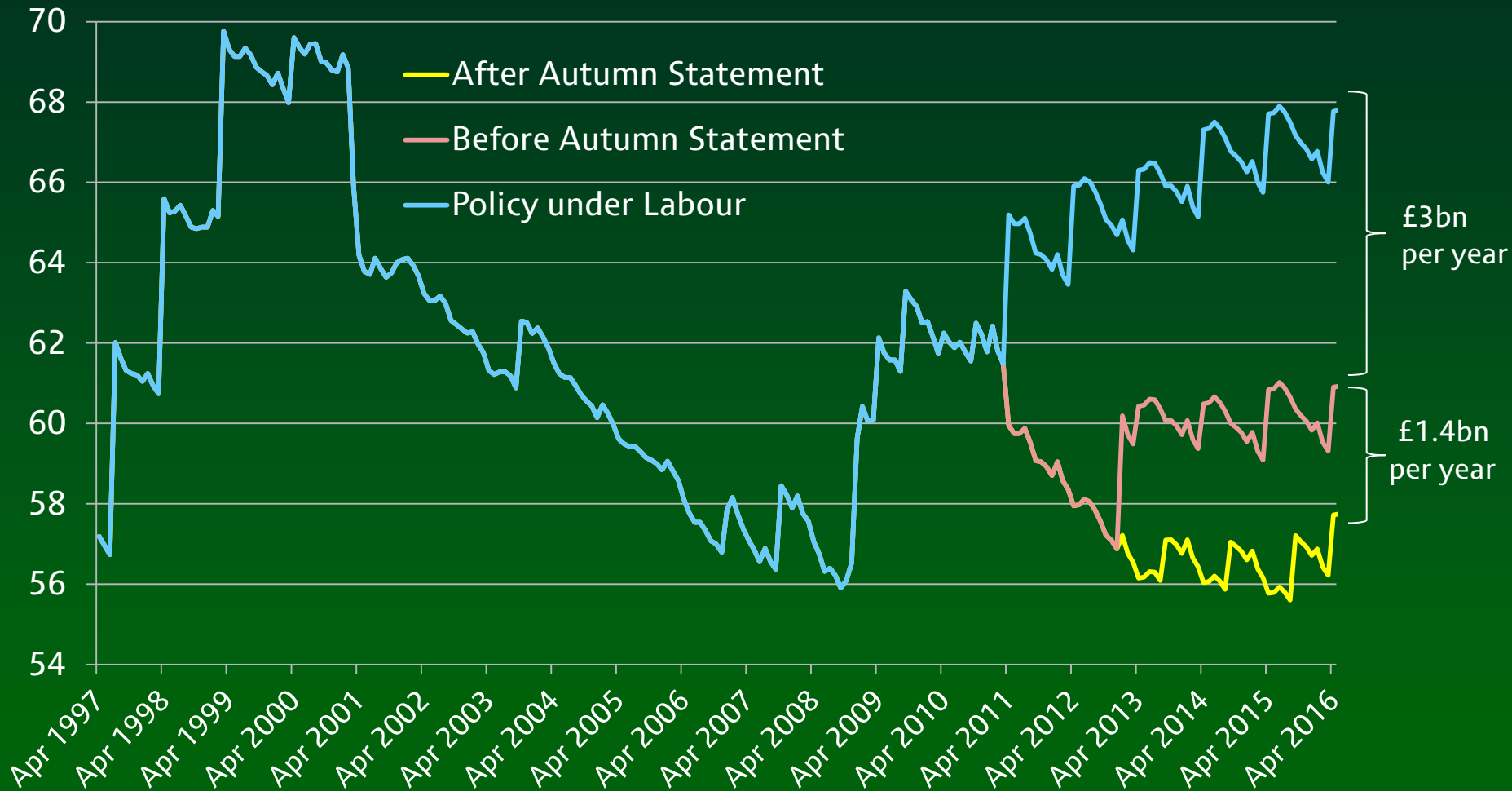


# Broad-based tax cuts (1)

- 2 years of grants for councils that freeze Council Tax in April 2013
  - Costs £270m in each of 2013-14 and 2014-15
- Cuts in fuel duty:
  1. January 2013 uprating (delayed from April 2011) cancelled
    - Costs £1.4bn per year
  2. April 2013, 2014 and 2015 upratings delayed to September
    - Costs £200m to £300m in each of those three years

# Real duty on a litre of petrol

Pence, April 2012 prices



# Fuel duty: to uprate or not to uprate?

Dates uprating due before Budget 2011	Budget 2011	Autumn Statement 2011	June 2012	Autumn Statement 2012
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<b>April 2014</b>	April 2014	April 2014	April 2014	September 2014
<b>April 2015</b>	April 2015	April 2015	April 2015	September 2015
<b>April 2016</b>	April 2016	April 2016	April 2016	April 2016

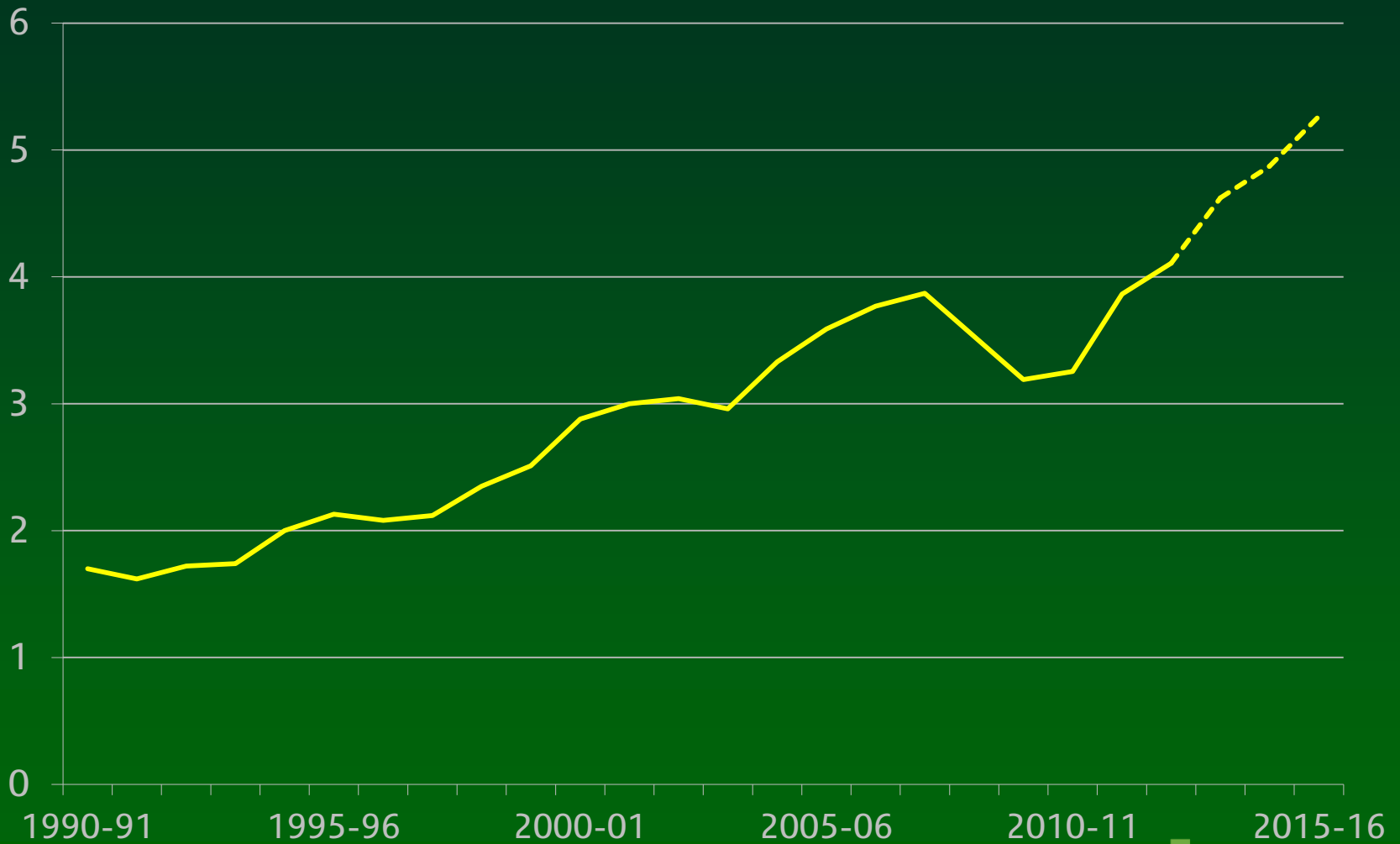
## Broad-based tax cuts (2)

- Further £235 increase in income tax personal allowance in April 2013
  - Lifts an extra 250,000 individuals out of income tax
  - Due to reach £10,000 by end of Parliament with no new announcements
- Annual cost £1.1bn up to and including 2015-16, £0.6bn thereafter
  - Hitting £10k a year earlier brings forward switch from RPI to CPI uprating
- Overall, £9bn spent taking 2.2m people out of tax in 2013-14

# Tax rises for “the rich”

- Income tax higher-rate threshold and NICs Upper Earnings Limit increase by 1% (i.e. less than inflation) in April 2014 and April 2015
  - Raises £1.1bn per year

# Number of higher-rate taxpayers (millions)



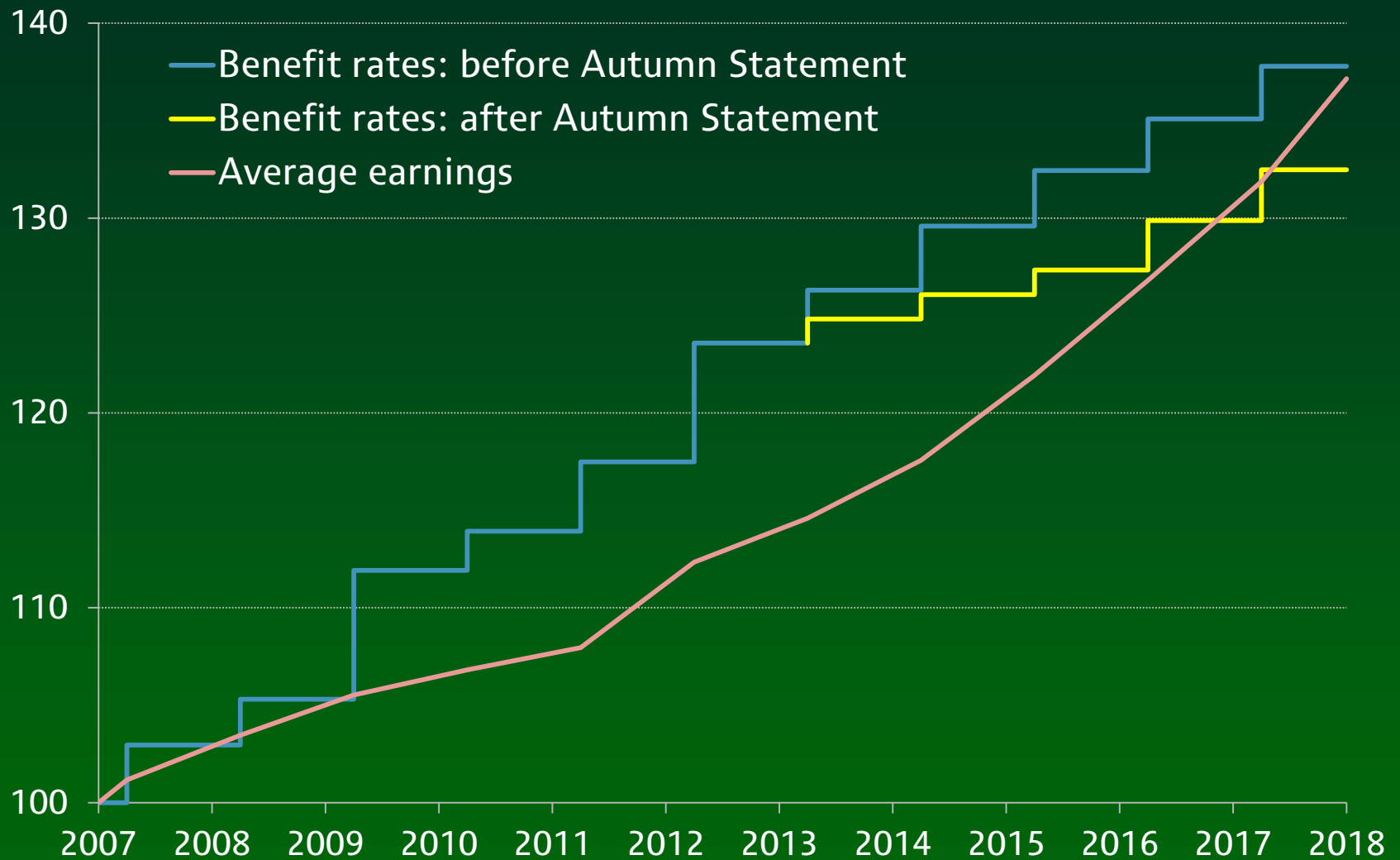
# Tax rises for “the rich”

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  - Raises £1.1bn per year
- Further cuts to tax relief on pension contributions
  - Lifetime allowance reduced from £1.5m to £1.25m
  - Annual allowance reduced from £50,000 to £40,000
  - ❖ Example: employee with 30 years membership of a final salary scheme earning £38k who saw their pay rise to £55k over four years could be affected
  - Raises £1.1bn in 2017-18

# Benefit cuts

- Most existing working-age benefits and tax credits to be increased by 1% in April 2013, 2014 and 2015
  - 4% real-terms cut overall
  - Pensioners and more severely disabled protected
  - Raises £3.1bn in 2017–18

# Earnings and out-of-work benefits (Jan 2007=100)



Sources: Past earnings from ONS series DTWM, ROYK, MGRZ, MGRQ, past benefits from DWP, forecasts of inflation and earnings growth from OBR



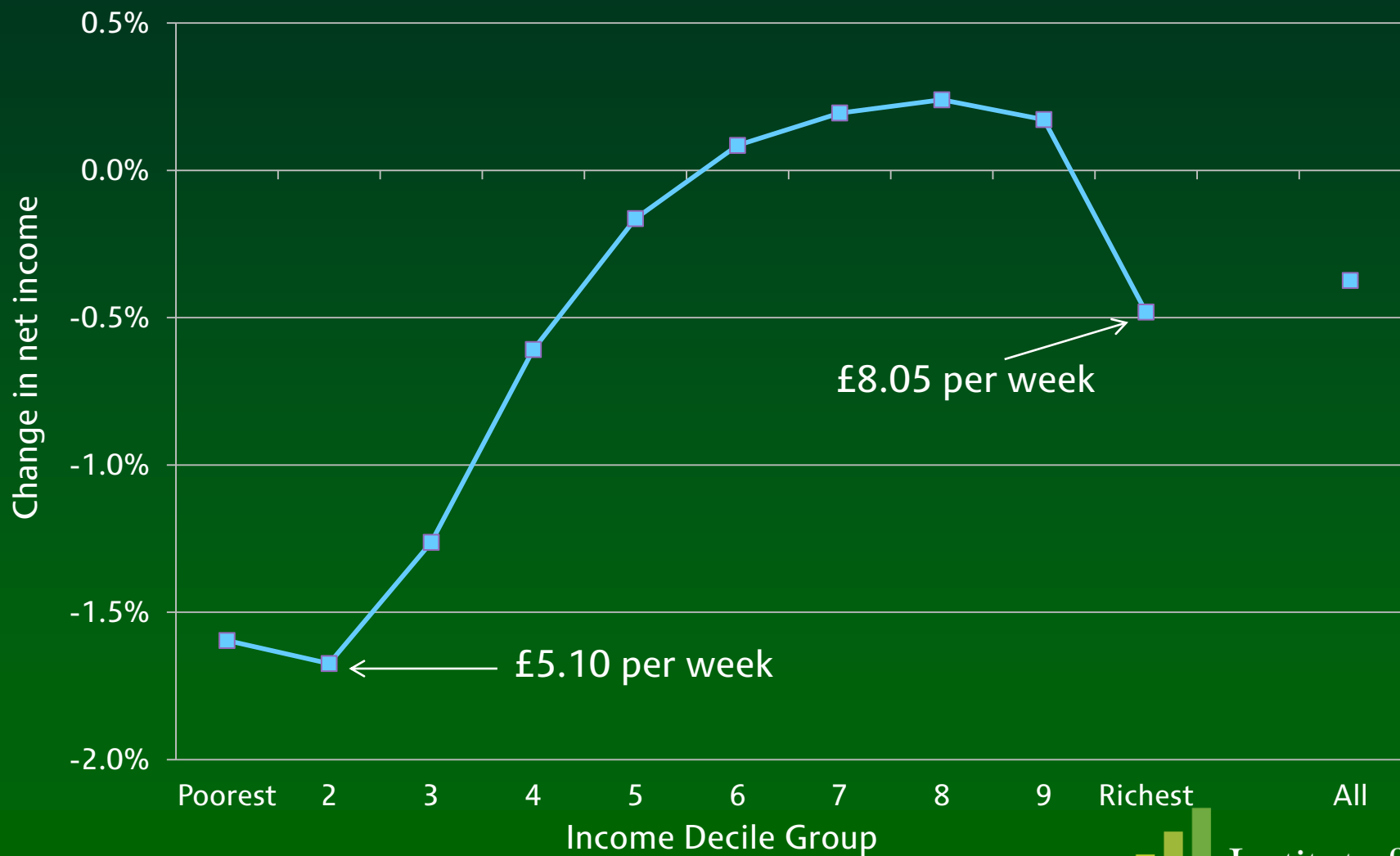
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  - 4% real-terms cut overall
  - Pensioners and more severely disabled protected
  - Raises £3.1bn in 2017–18
- Universal Credit will be less generous to in-work claimants than previously planned
  - Single people without kids gain
  - But couples without kids, and home-owning couples with kids, lose
  - Raises £1.2bn in 2017-18



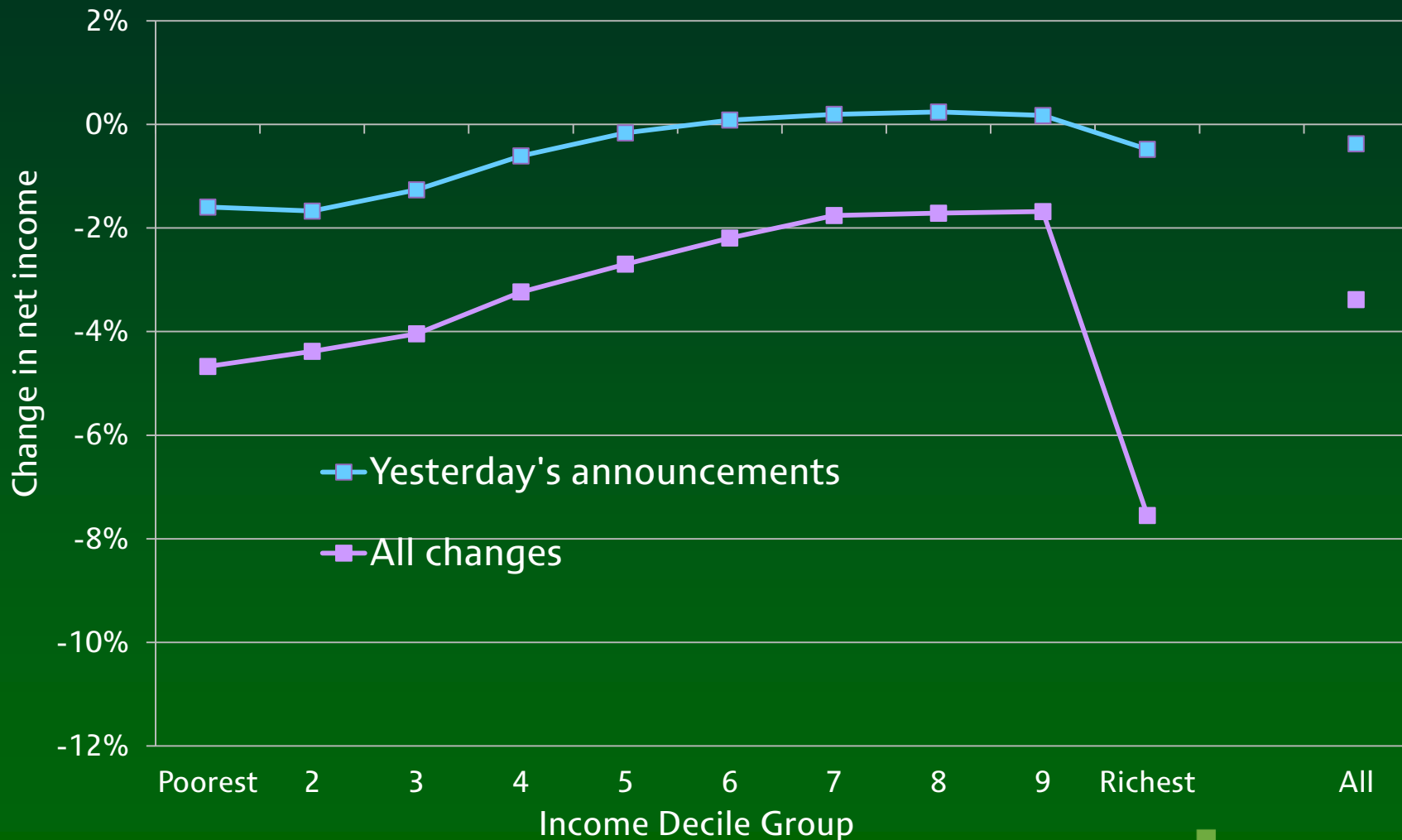
# Distributional impact of yesterday's measures

## Effect in April 2015, as if Universal Credit fully in place



# Distributional impact of tax and benefit reforms

January 2010 - April 2015 inclusive, as if Universal Credit fully in place

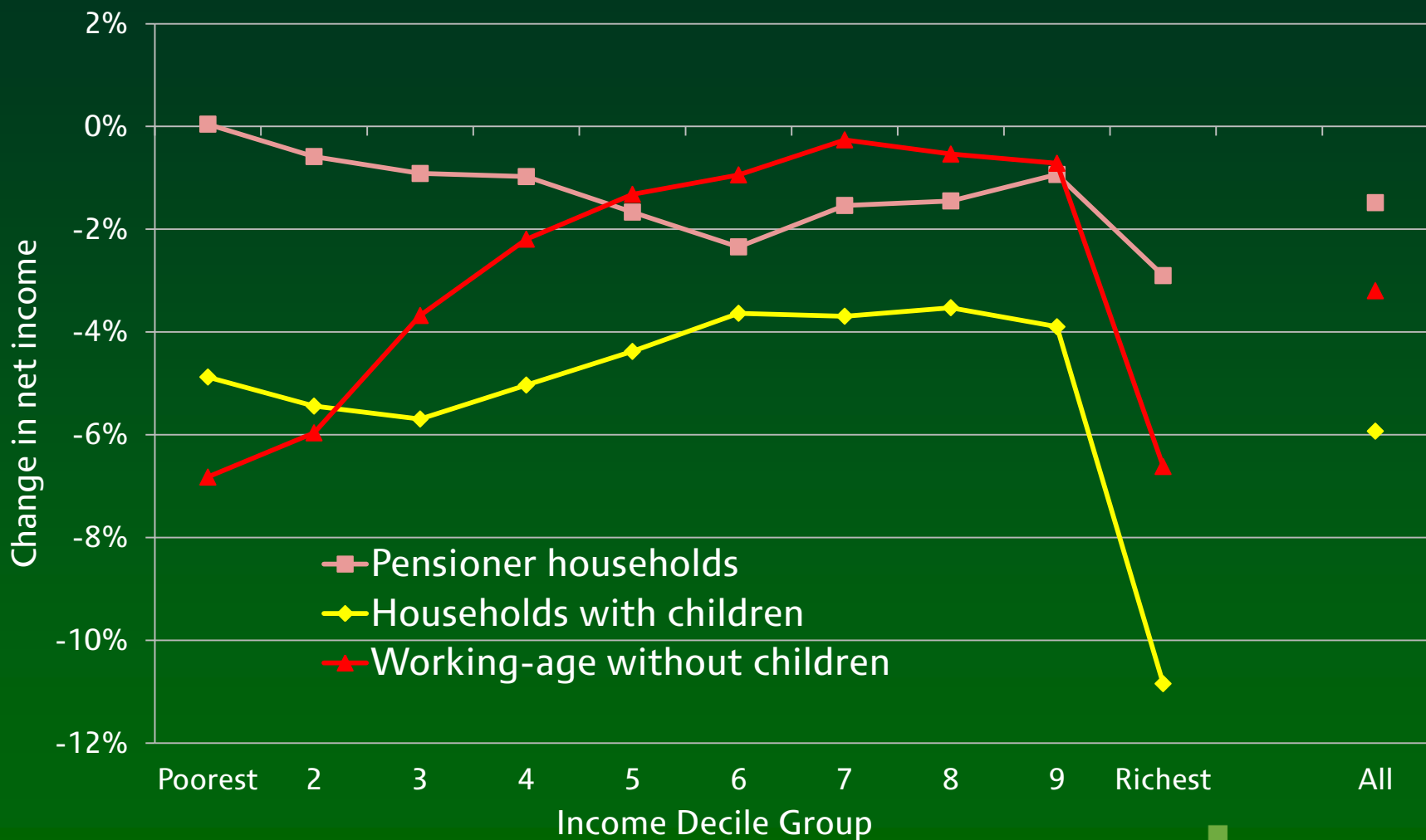


Note: excludes reforms to Council Tax Benefit and tax credit disregards.  
 Fuel duty modelled at average 2015-16 level.  
 Cash-terms figures will be available on the IFS website.

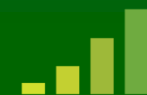


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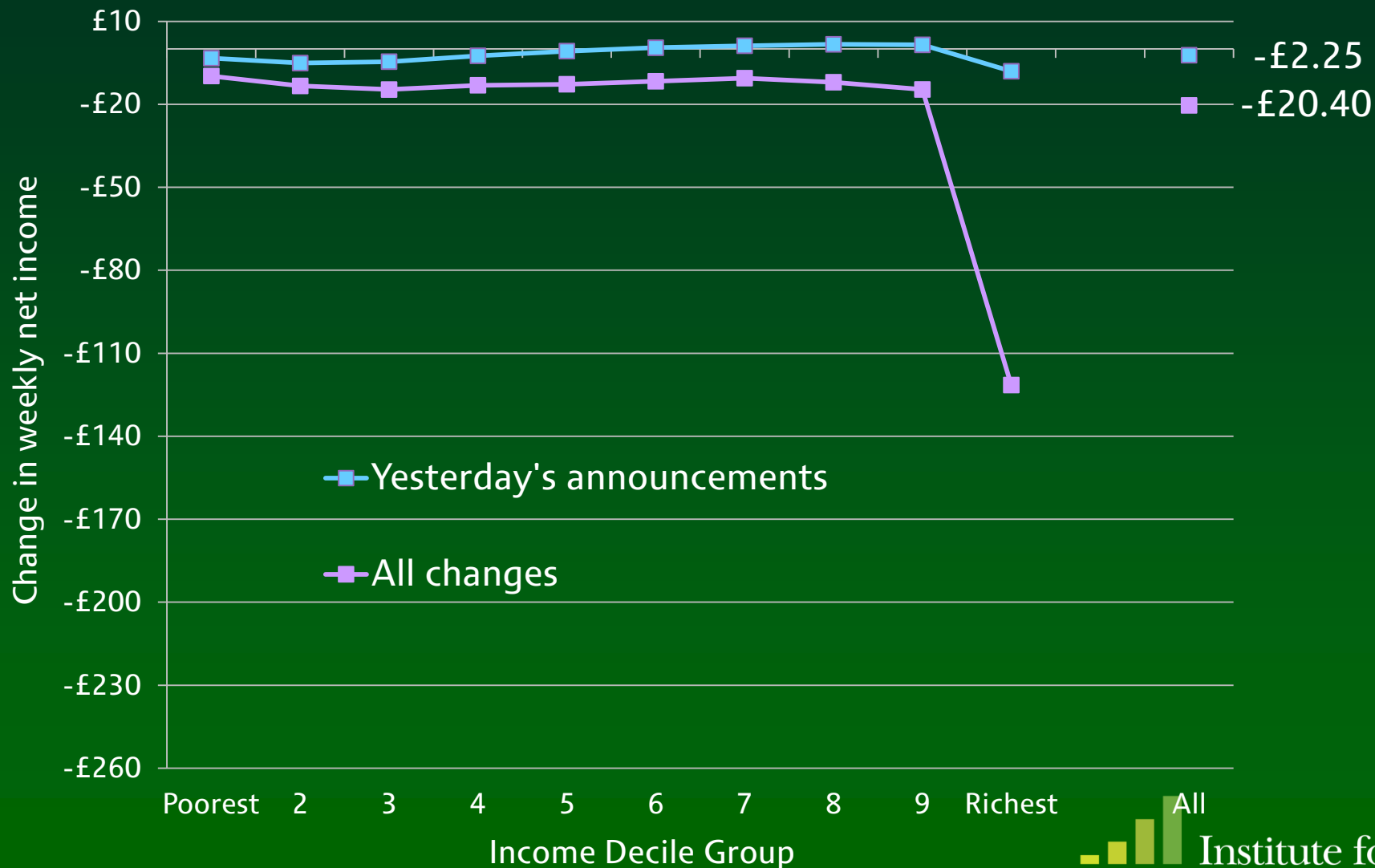


# Conclusions

- Yesterday's announcements mainly hurt the rich and the poor
  - Benefit cuts hit mainly low-income households
  - Cuts to pension tax relief and the higher-rate threshold hit mainly high-income households
  - Tax reductions help income tax payers, council tax payers and motorists
- Broadly consistent with the pattern of fiscal consolidation to date
- A clear strategy on tax and welfare is still lacking

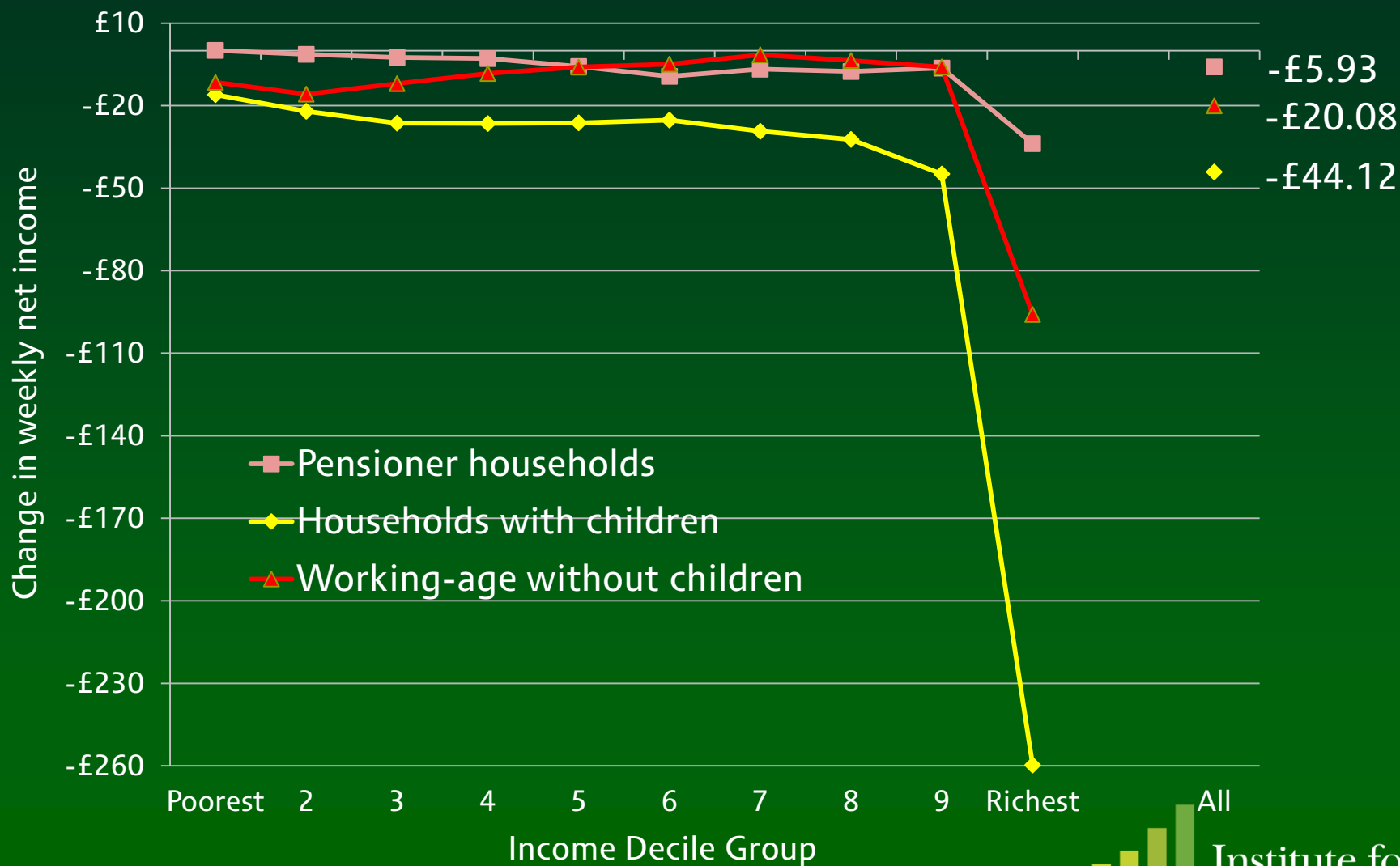
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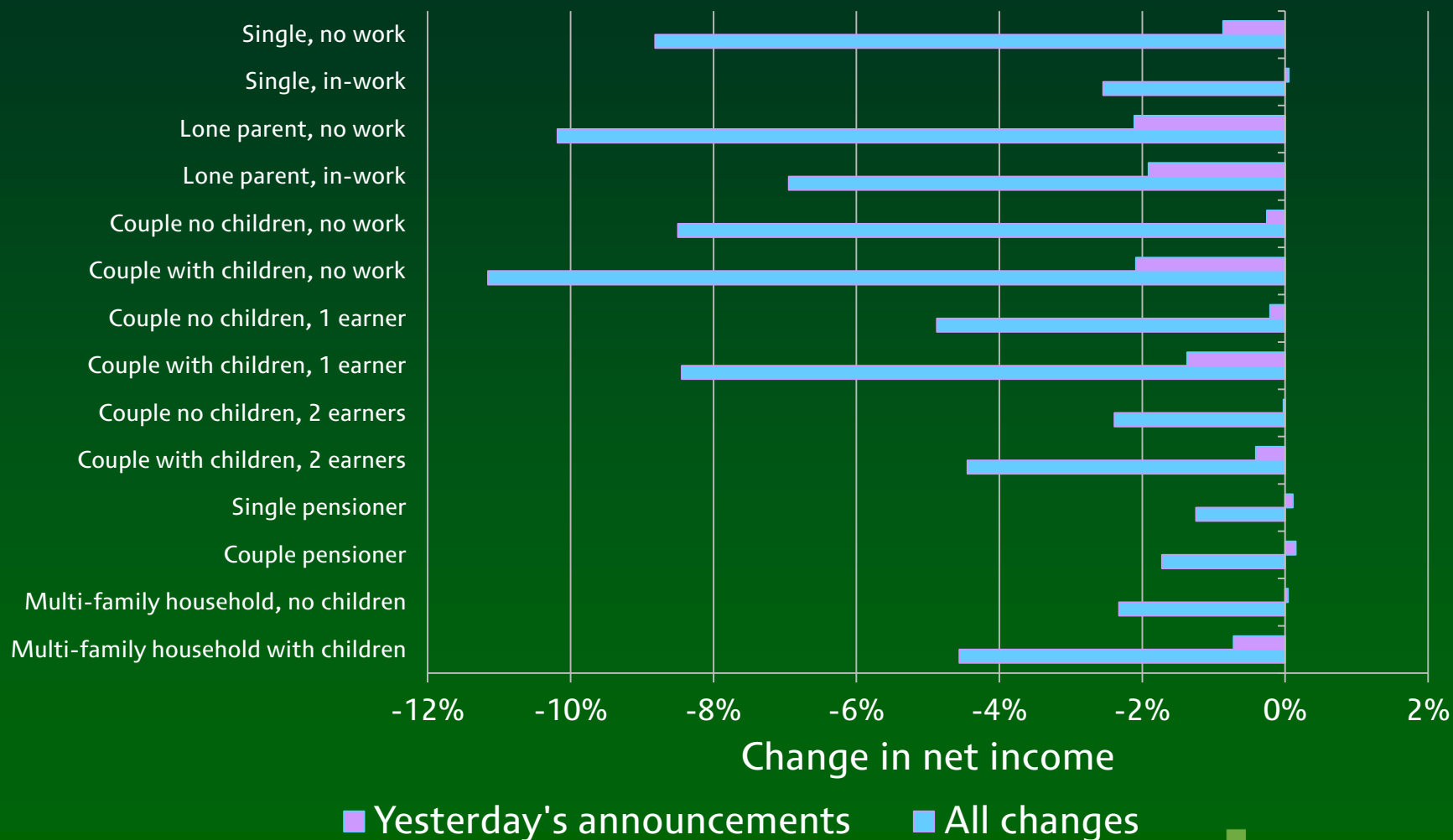
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