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

After Autumn Statement
Before Autumn Statement
Policy under Labour

£3bn per year
£1.4bn per year
Fuel duty: to uprate or not to uprate?

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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)

Note: includes additional-rate taxpayers
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

• 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)

Benefit rates: before Autumn Statement
Benefit rates: after Autumn Statement
Average earnings

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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Benefit cuts

- Most existing 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

- 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

Note: Fuel duty modelled at average 2015-16 level.
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.
Distributional impact of tax and benefit reforms
January 2010 - April 2015 inclusive, as if Universal Credit fully in place

Change in net income

- Pensioner households
- Households with children
- Working-age without children

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.
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
Distributional impact of tax and benefit reforms
January 2010 - April 2015 inclusive, as if Universal Credit fully in place

Change in weekly net income

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Distributional impact of tax and benefit reforms
January 2010 - April 2015 inclusive, as if Universal Credit fully in place

Change in weekly net income

- Pensioner households
- Households with children
- Working-age without children

Poorest

2

3

4

5

6

7

8

9

Richest

All

Income Decile Group

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Distributional impact of tax and benefit reforms
January 2010 - April 2015 inclusive, as if Universal Credit fully in place

Change in net income

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

Yesterday’s announcements  All changes

Note: excludes reforms to Council Tax Benefit and tax credit disregards.
Fuel duty modelled at average 2015-16 level.
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.