

# General election analysis 2017

Find our up-to-date analysis here:

<http://election2017.ifs.org.uk>

 @theifs #ge2017

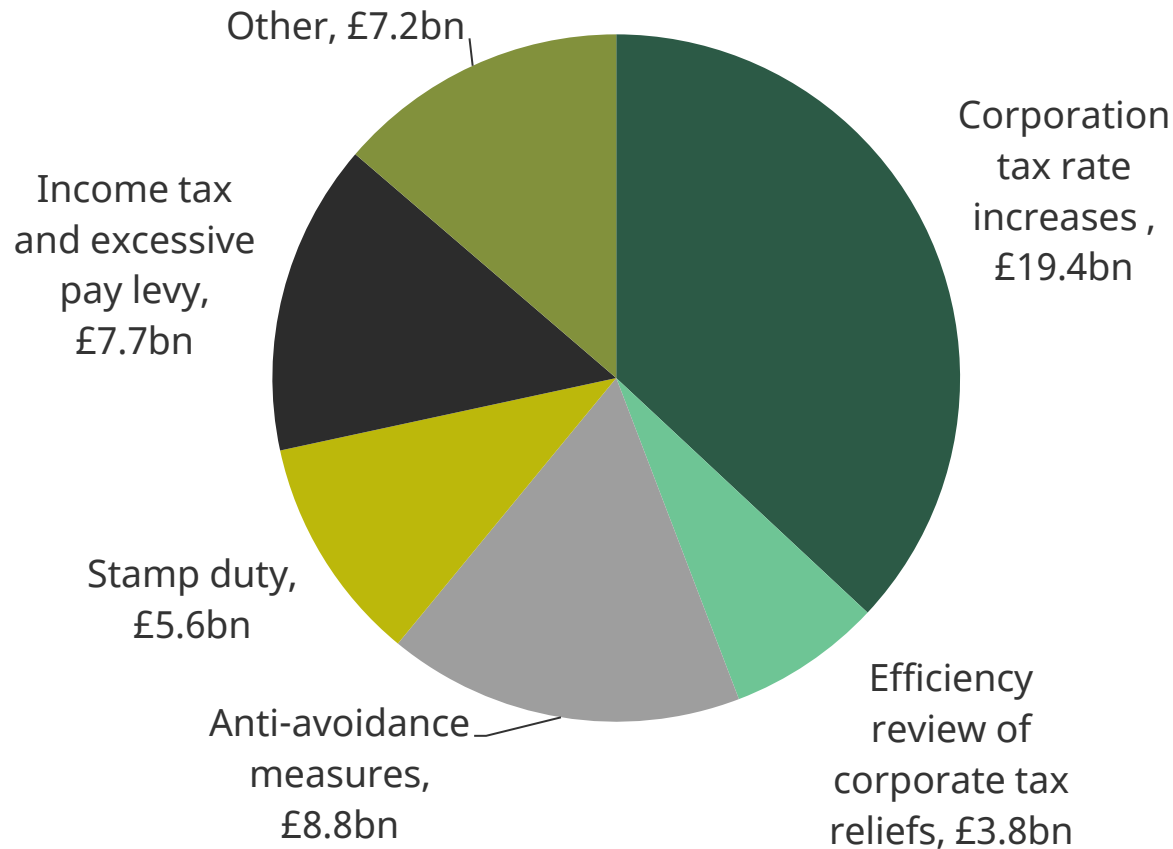
 Institute for Fiscal Studies

# Tax and benefit policies

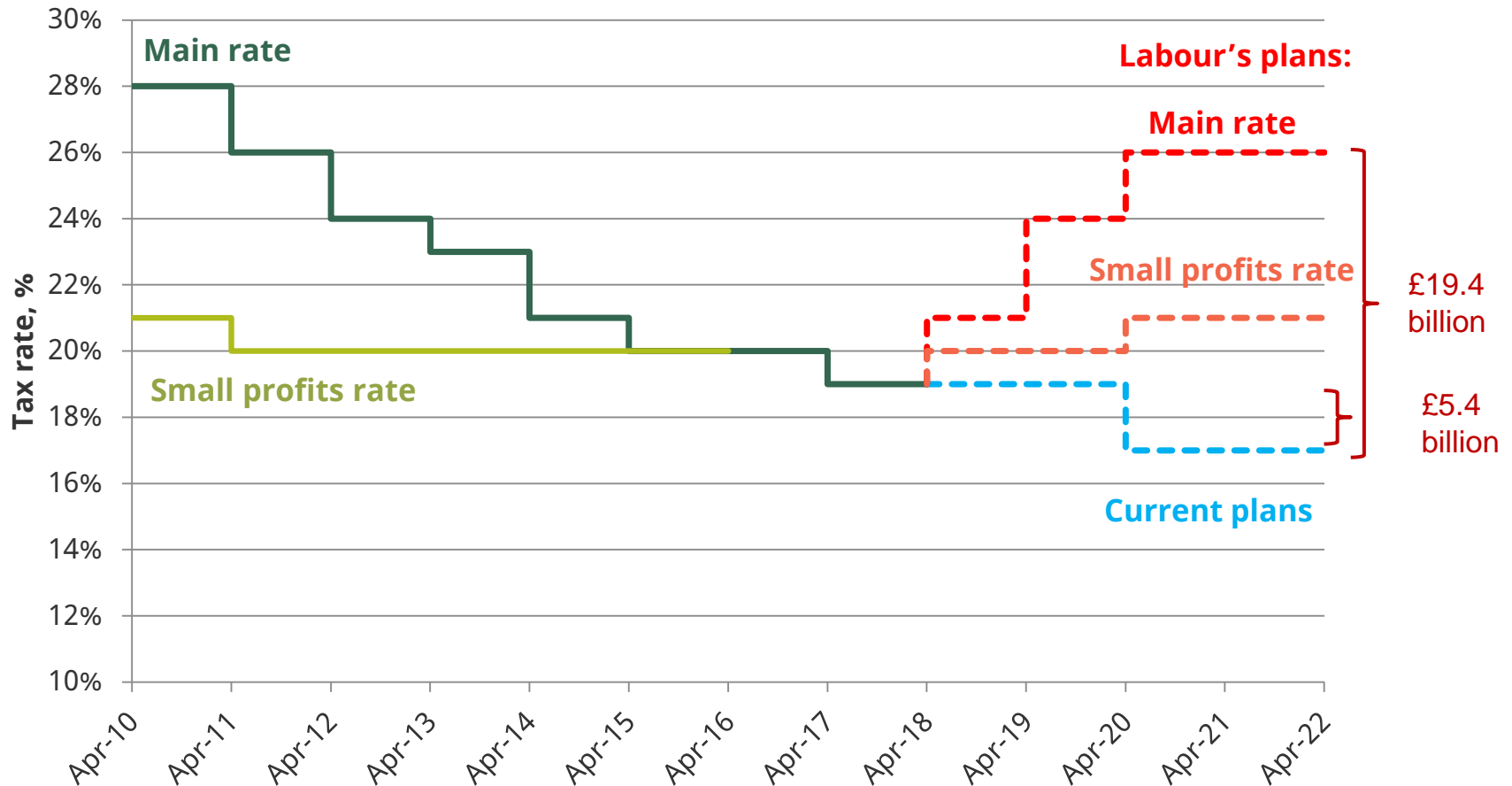
Robert Joyce

# Tax proposals: Labours' by far the biggest

Labour has £53bn of tax rises in scorecard, less £4bn of “headroom”



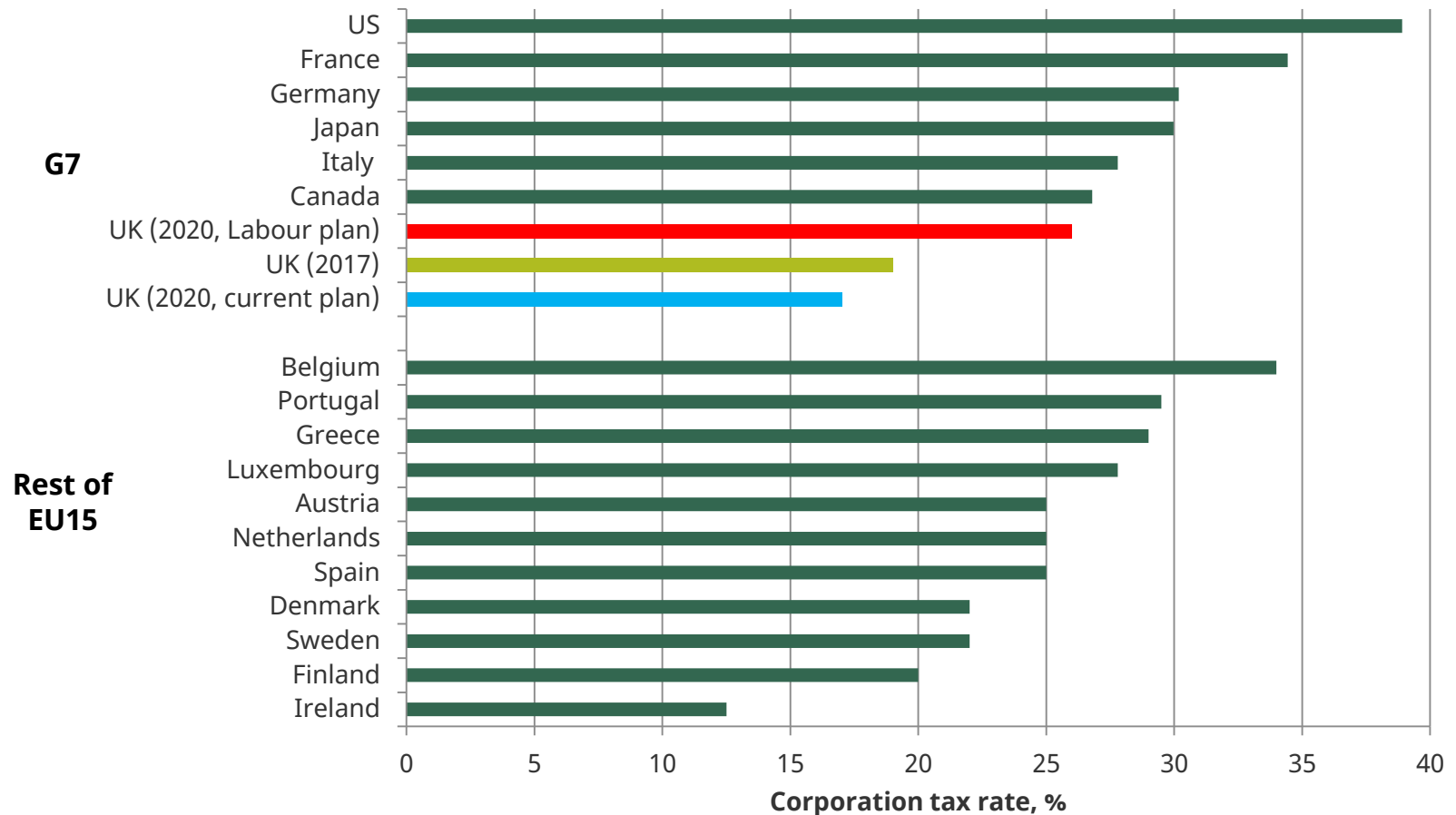
# Corporation tax: plans compared



Sources: Labour Party Manifesto; IFS calculations.

# Main rate of corporation tax

## Lowest in G7 either way



Sources: OECD Tax Database; Conservative Party Manifesto; Labour Party Manifesto.

## Labour's extension of 0.5% stamp duty

### **Extend to derivatives and bonds; remove exemption for intermediaries**

- Labour expects £5.6bn per year

### **Not simply a tax on rich bankers**

- Likely losers include those saving in private pensions

### **Aim 1: 'eliminate the most destabilising forms of speculative high-frequency trading'**

- Unclear whether it will increase or decrease market volatility

### **Aim 2: ensure 'public gets a fairer share of financial system profits'**

- But it's a tax on transactions, not profits

### **Removing the intermediaries exemption is ill-advised**

- Shares sold via brokers rather than directly will be taxed twice

# Anti-avoidance/evasion measures

## All main parties propose more of these measures

- Difficult area, and unavoidable uncertainty over sums on the table

## Conservative proposals: vague and no attempt to quantify

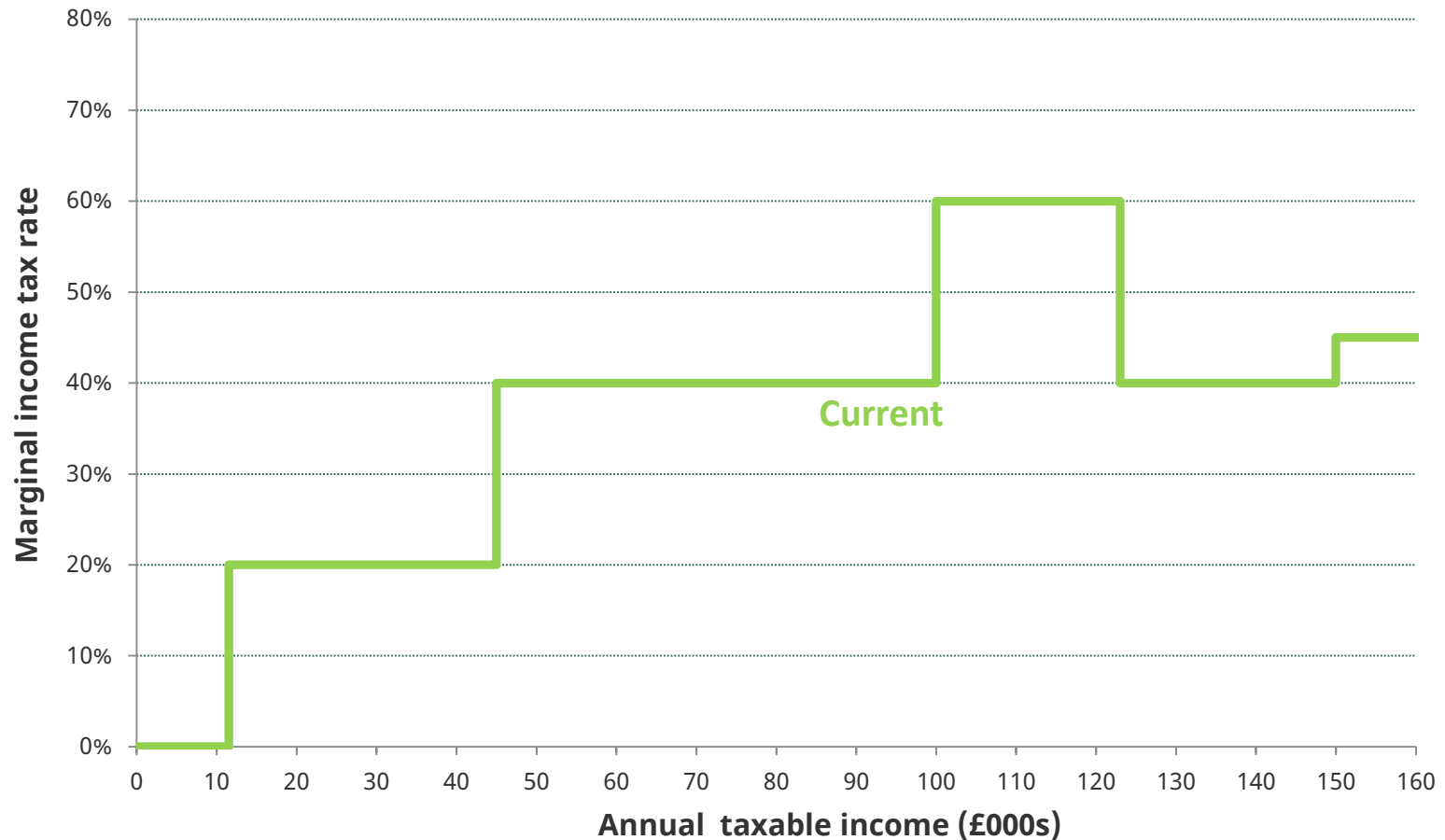
### Labour: 8.8bn anti-avoidance/evasion measures

- £6.5bn package of measures
- £1.6bn offshore company property levy
- £0.7bn (unspecified) CFC reform

### At least half of that unlikely to materialise

- £2.5bn mistake: double-counting impact of corporation tax rise on number of incorporations (and using wrong OBR number anyway)
- Offshore company property levy likely to raise £0 after people respond
- Upper & out of date estimate used as central estimate for 'Mayfair loophole'
- Remaining policies come with downside risk

# The income tax schedule, 2017-18

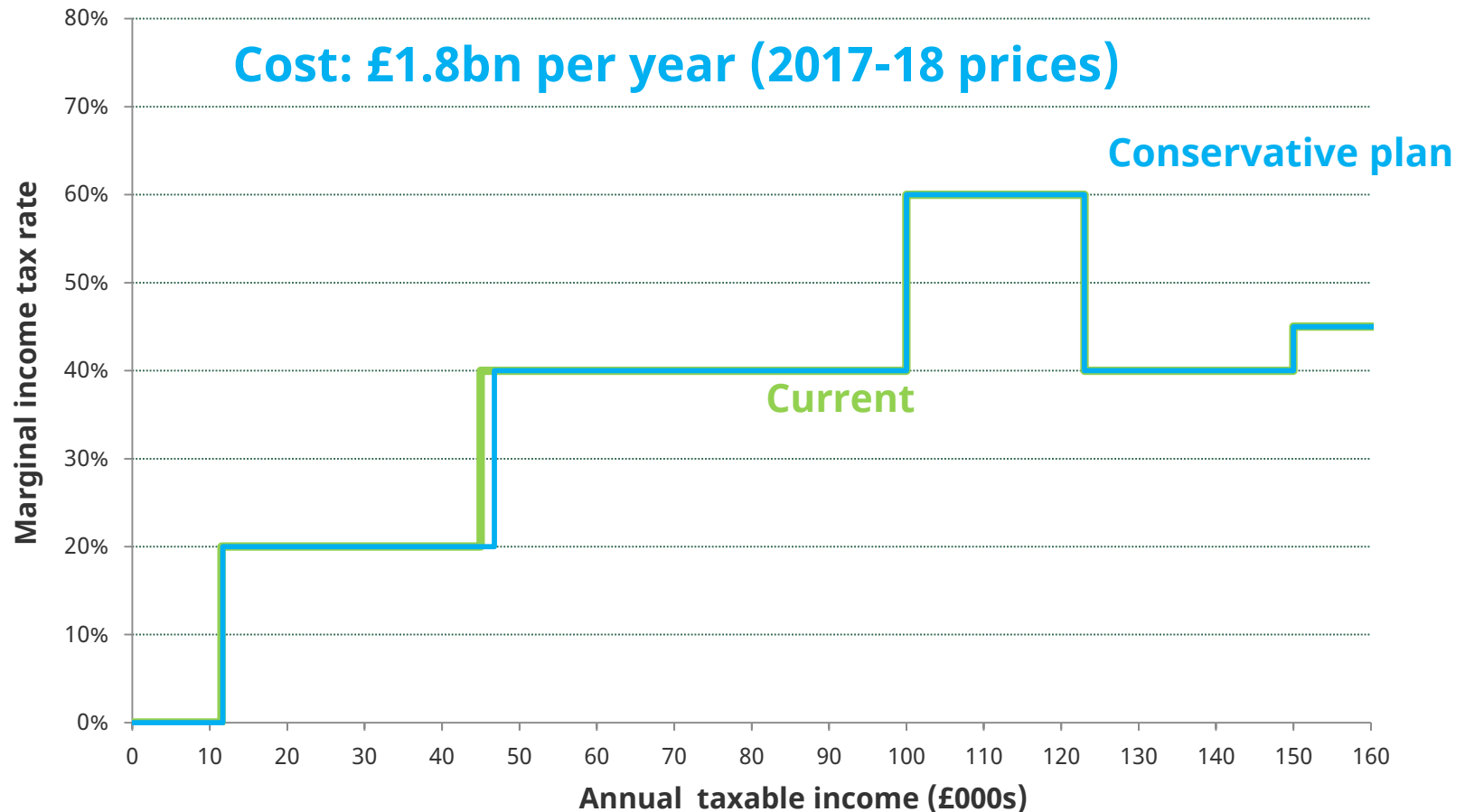


Notes: Ignores transferable allowance for married couples. Excludes Scotland.



# The income tax schedule

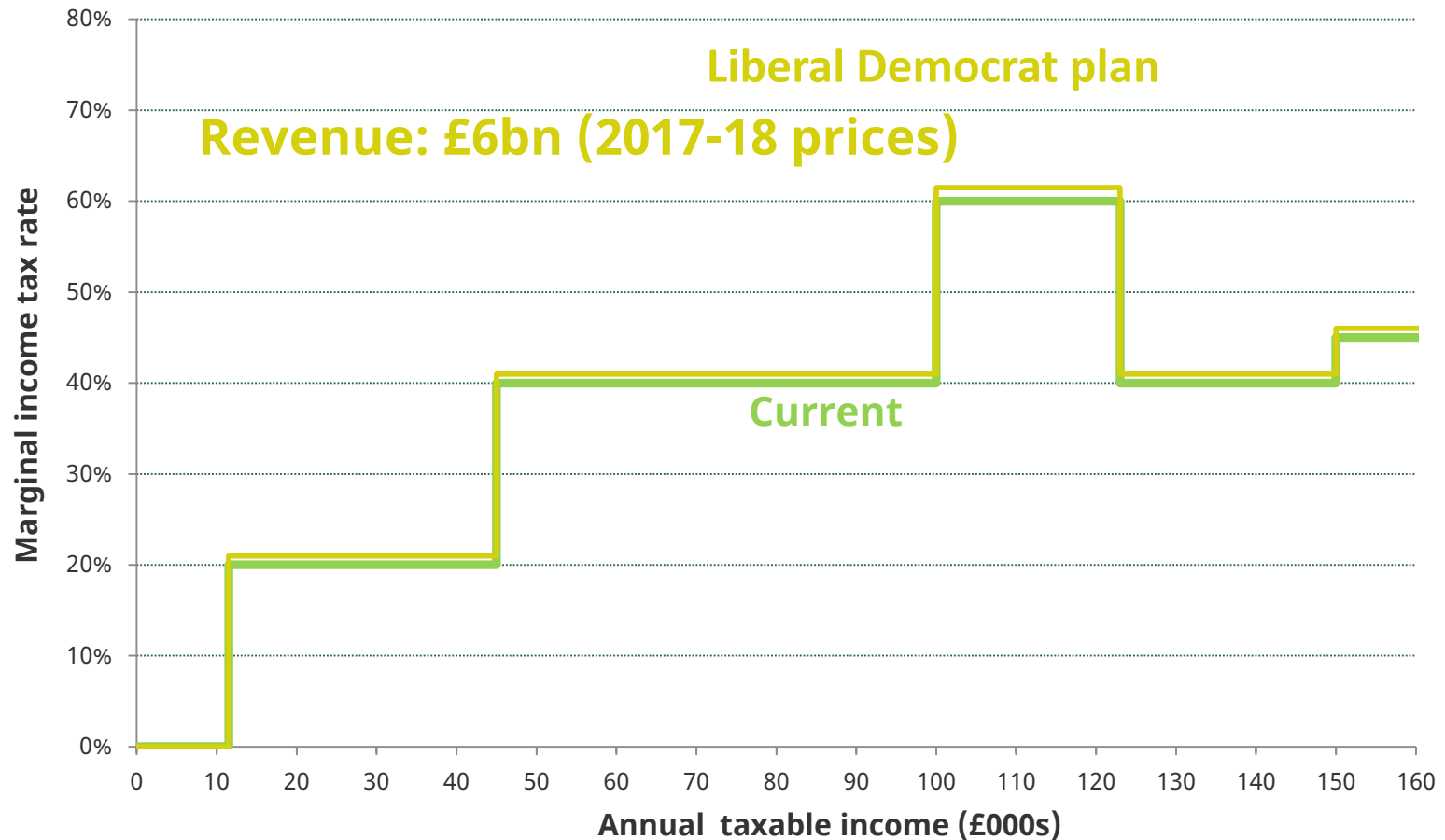
## As if changes in place now



Notes: Ignores transferable allowance for married couples. Excludes Scotland.

# The income tax schedule

## As if changes in place now



Notes: Ignores transferable allowance for married couples. Excludes Scotland.

# The income tax schedule

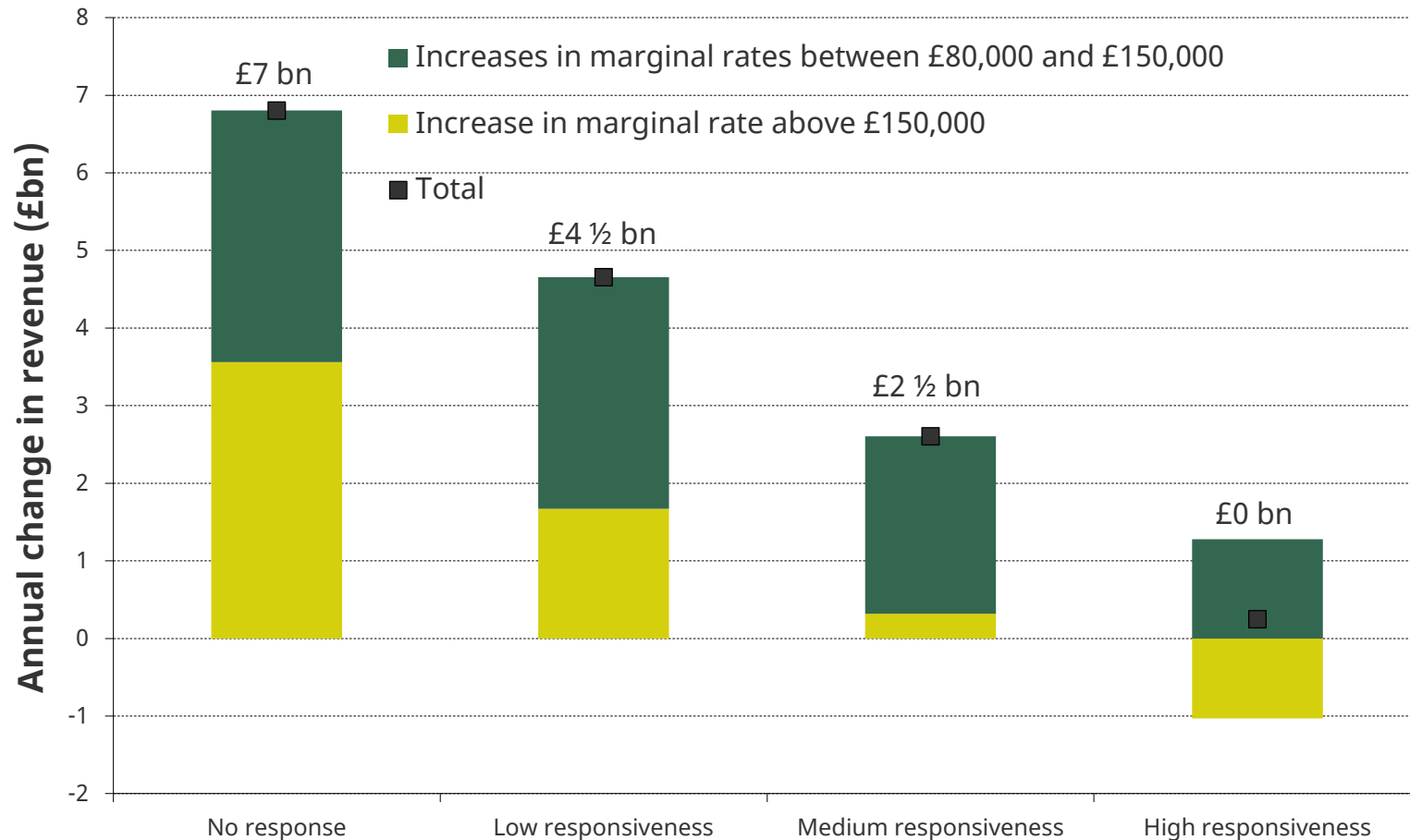
## As if changes in place now



Notes: Ignores transferable allowance for married couples. Excludes Scotland.

# Uncertain revenues from Labour proposal

## Sensitive to degrees of behavioural response



Source: <https://election2017.ifs.org.uk/article/labour-s-proposed-income-tax-rises-for-high-income-individuals>

# Working-age benefits

## More big cuts to working-age benefits planned/being rolled out:

- Cuts to child tax credit (limiting entitlement to two children and removing the 'family element'): £5bn a year in long run
- Most rates frozen until April 2020: £3bn a year in long run
- Roll-out of less generous universal credit: £5bn a year in long run

## Big picture:

- Conservatives to stick to all of them
- Labour to stick to most of them
- Lib Dems to cancel most of them

# Working-age benefits: parties compared

Proposal	Estimated long-run annual cost (£bn)	Conservatives	Labour	Lib Dem
Reverse cuts to child tax credit (family element; limit to 2 children)	4.8	x	x	✓
Stop benefit freeze	3.3	x	x	✓
Reverse cuts to work allowances in universal credit	3.0	x	£2 billion allocated	✓

Sources: Conservative Party Manifesto; Labour Party Manifesto; Liberal Democrat manifesto.

# Working-age benefits: parties compared

Proposal	Estimated long-run annual cost (£bn)	Conservatives	Labour	Lib Dem
Reverse/cancel cuts to child tax credit (family element; limit to 2 children)	4.8	x	x	✓
Stop benefit freeze	3.3	x	x	✓
Reverse cuts to universal credit	3.0	x	£2 billion allocated	✓

Sources: Conservative Party Manifesto; Labour Party Manifesto; Liberal Democrat manifesto.

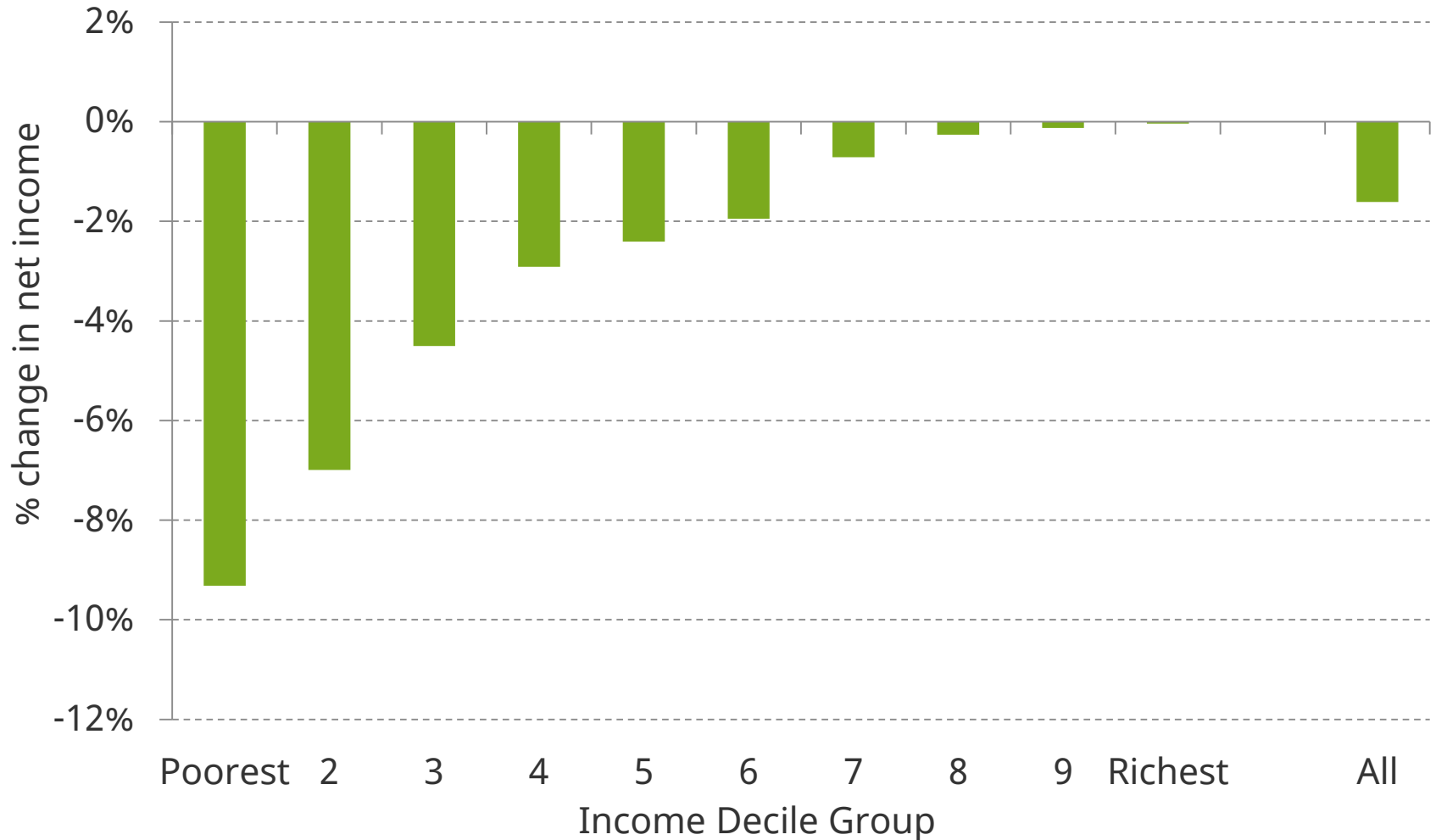
# Working-age benefits: parties compared

Proposal	Estimated long-run annual cost (£bn)	Conservatives	Labour	Lib Dem
Reverse/cancel cuts to child tax credit (family element; limit to 2 children)	4.8	x	x	✓
Stop benefit freeze	3.3	x	x	✓
Reverse cuts to universal credit	3.0	x	£2 billion allocated	✓
Implement court ruling on PIP	0.8	x	✓	x
Reverse cut to ESA WRAG element	0.7	x	✓	✓
Abolish the so-called 'bedroom tax'	0.4	x	✓	✓
Increase carer's allowance or extend eligibility	0.2 - 0.4	x	✓	✓
Reintroduce housing benefit for 18-21s	Negligible	x	✓	✓
Scrap bereavement support payment reforms	Negligible	x	✓	x

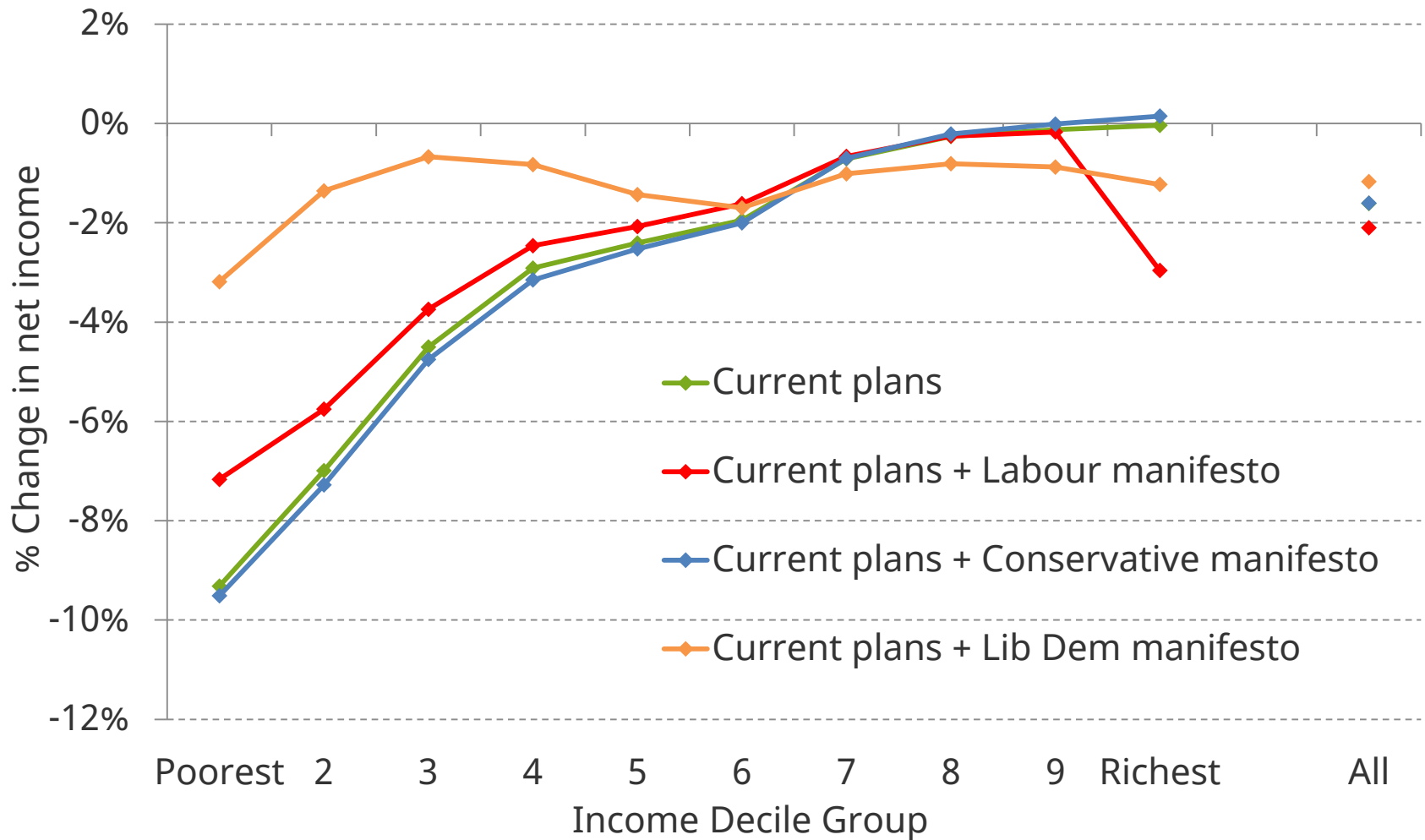
Sources: Conservative Party Manifesto; Labour Party Manifesto; Liberal Democrat manifesto.



# Long run distributional impact of personal tax and benefit measures already planned



# Long run distributional impact of personal tax and benefit measures



# Conclusions

## **Conservatives largely sticking with plans already laid down**

- But these are themselves substantial: big benefit cuts in the pipeline, hitting low-income working-age households

## **Labour propose big changes, which are likely to reduce inequality**

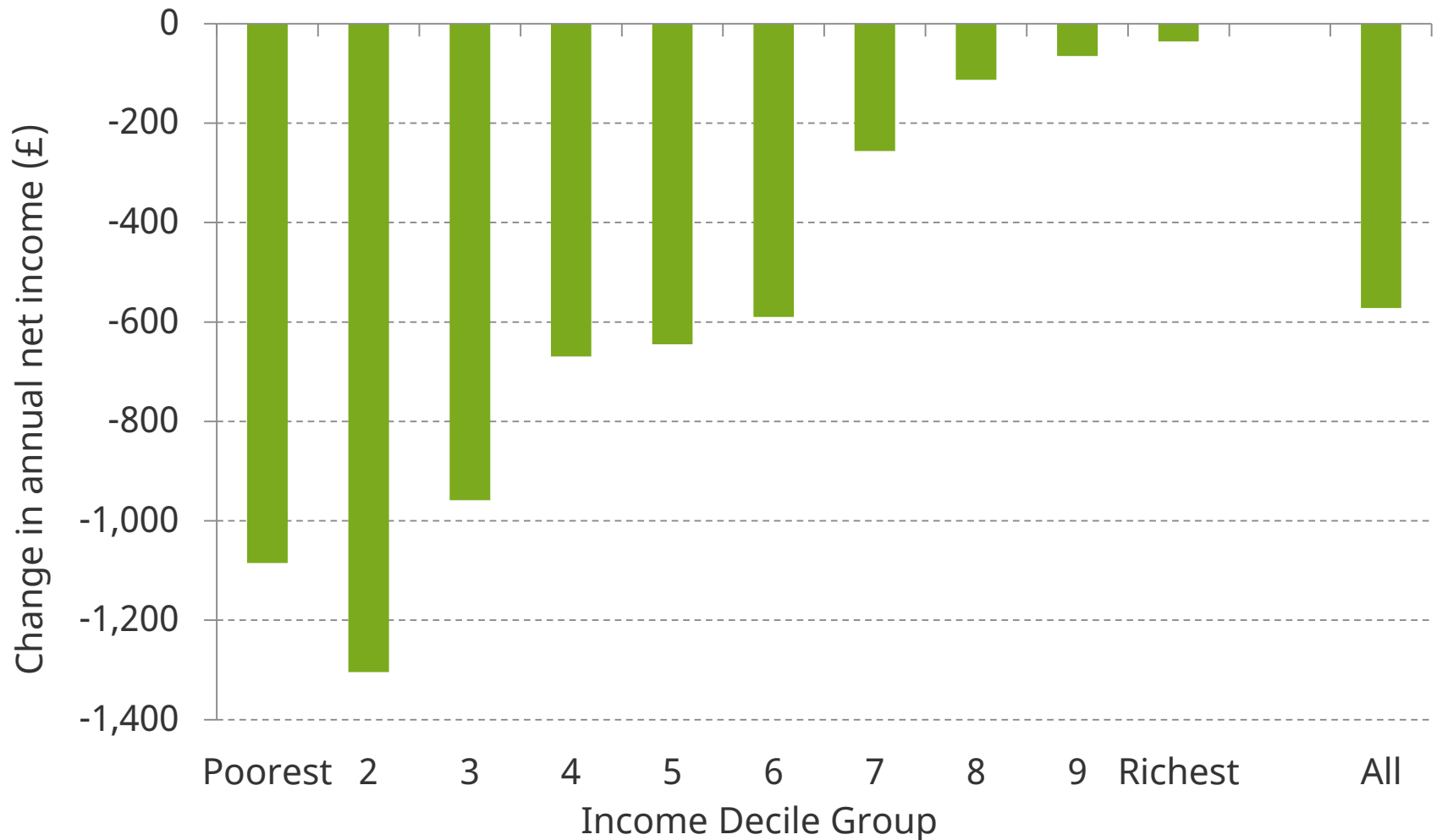
- But the tax rises would not merely hit the top 5%: would also affect more “ordinary households”
- All taxes – not just personal taxes – affect people

## **Only small % of Labour’s extra revenue is earmarked for benefits**

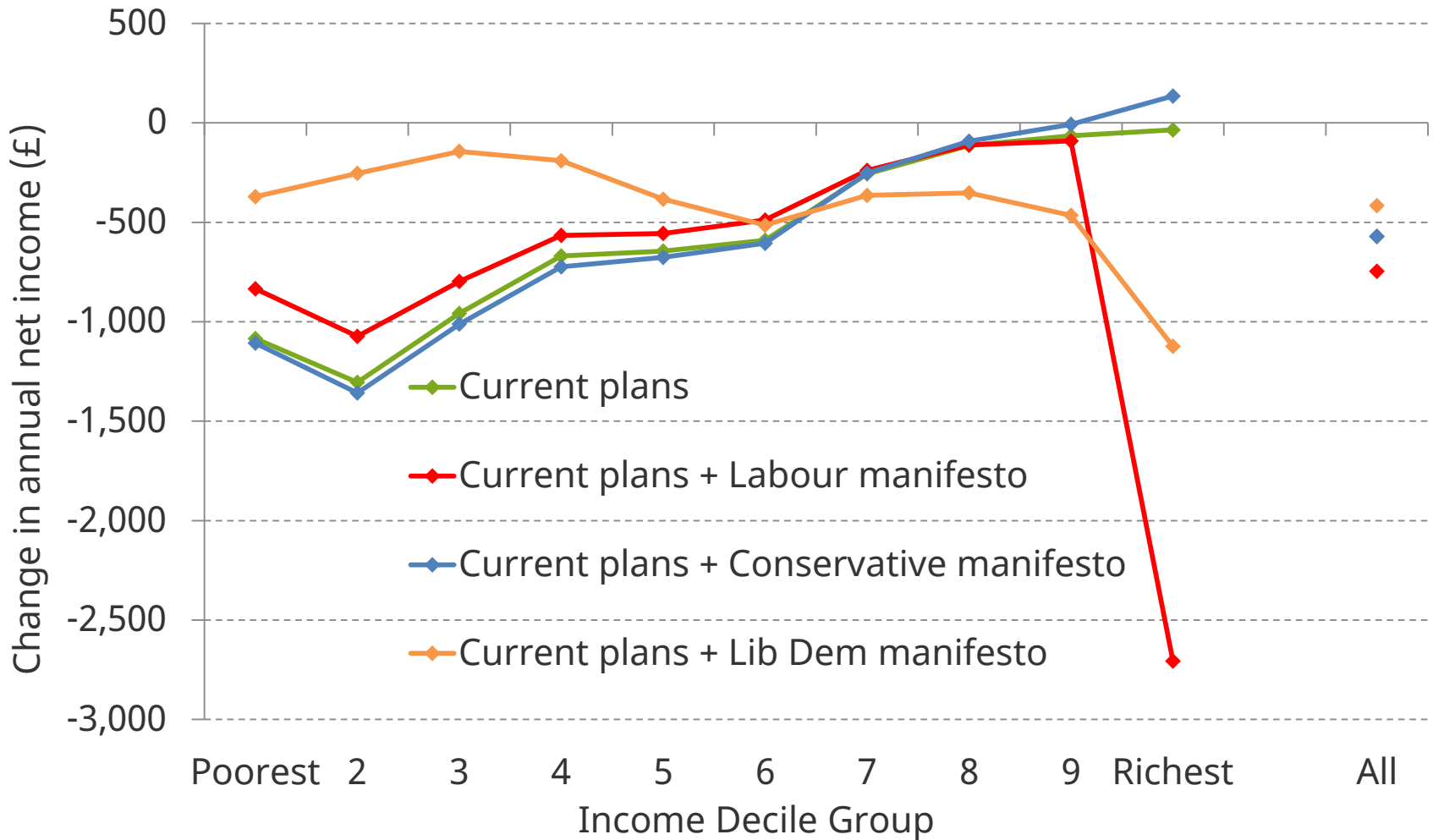
- Lib Dems would go further in cancelling planned benefit cuts
- Labour focusing more on increases in other public spending

# Annex on distributional analysis

# Long run distributional impact of personal tax and benefit measures already planned – cash terms



# Long run distributional impact of personal tax and benefit measures – cash terms



# Policies modelled in distributional analysis

## Current plans

- Freeze of most working age benefits in April 2018 and April 2019
- Local housing allowance rate freeze in April 2018 and April 2019
- Applying LHA rates to housing benefit claimants renting from local councils or housing associations
- Transitioning from disability living allowance to personal independence payment
- Abolition of the work-related activity group premium in ESA
- Council tax precept increase in April 2018
- Abolition of Class 2 National Insurance contributions
- Transition from the legacy system to universal credit (UC)
- Limiting the child element in tax credits and UC to two children
- Removal of the family element in tax credits and UC and family premium in housing benefit
- Support for mortgage interest switched from a benefit to a loan

# Policies modelled in distributional analysis

## Labour

- Implementing the court decision on personal independence payment
- Increasing the WRAG premium in ESA to £30 per week
- Abolishing the so-called 'bedroom tax'
- Increasing carer's allowance up to the level of JSA
- Abolishing the married couples' transferable personal allowance
- Reversing two-thirds of the cuts to work allowances in UC
- Increasing income tax rates for those earning over £80,000
- Introducing the 'excessive pay levy'



# Policies modelled in distributional analysis

## Conservatives

- Replacing universal free school lunches for infants with universal free school breakfasts for all primary-age children
- Increasing the personal allowance to £12,500 and the higher rate threshold to £50,000 by 2020
- Means testing winter fuel payment (assume only given to those on pension credit)

# Policies modelled in distributional analysis

## Liberal Democrats

- Ending the freeze on most working age benefits
- Increasing all income tax rates by 1pp
- Abolishing the married couples' transferable personal allowance
- Increasing the earnings threshold for carer's allowance to £150 per week
- Abolishing the so-called 'bedroom tax'
- Uprating LHA rates with average rent in the area rather than CPI
- Reversing the limiting of the child element in tax credits and UC to two children
- Increasing the WRAG premium in ESA to £30 per week
- Reversing the cuts to work allowances in UC
- Reintroducing the family element in child tax credits and housing benefit