



Institute for Fiscal Studies



Autumn Statement policy measures

James Browne

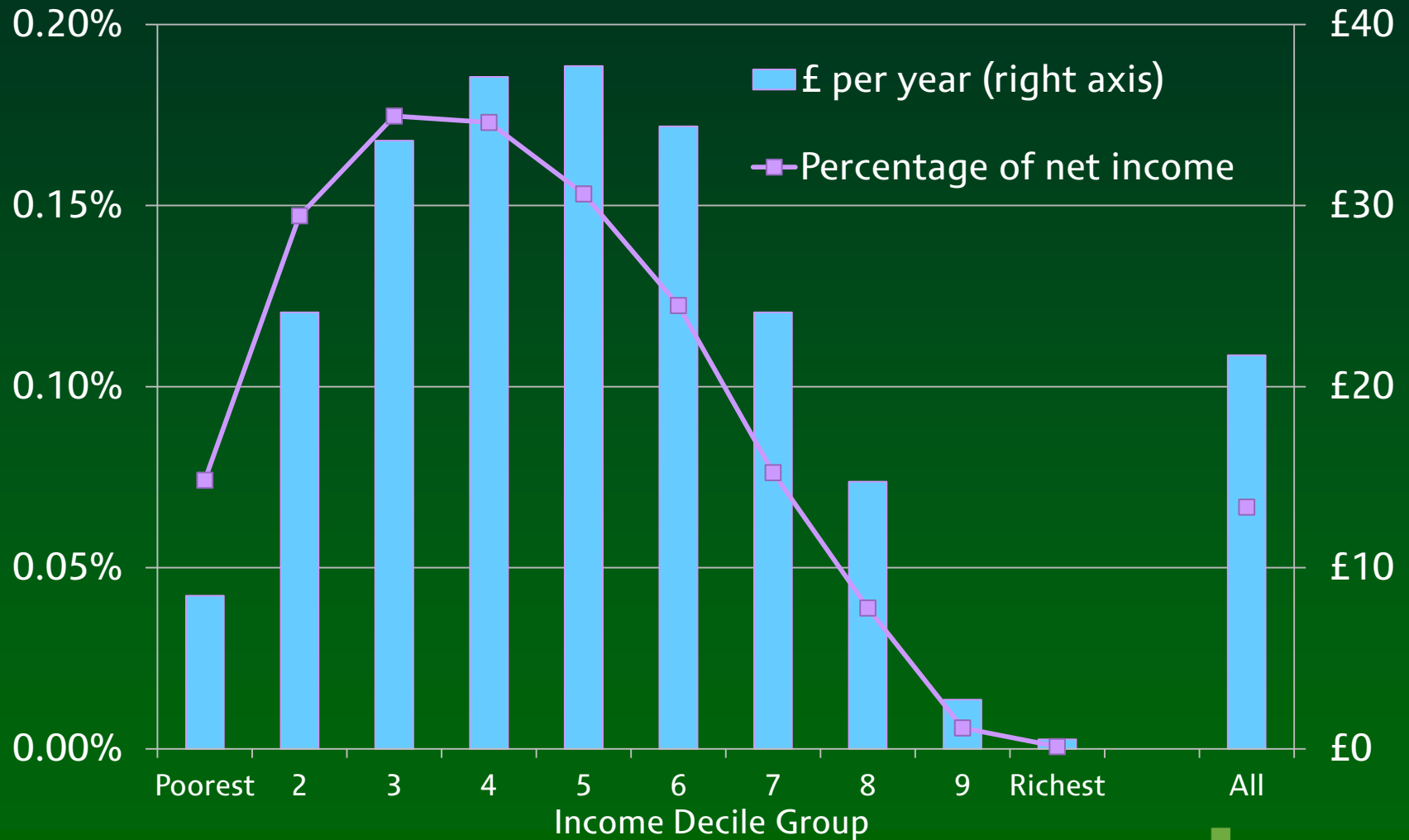
What's coming up

- Personal taxes
 - Transferable personal allowance for married couples
 - Cut in employer NICs for those aged under 21
 - Fuel duty cut
- Benefit changes
 - Free school meals for all children in first 3 years of primary school
 - Freeze in universal credit work allowances
- Business taxes
 - Business rates
 - Bank levy
- Anti-avoidance measures

Transferable tax allowance for married couples

- From 2015–16, can transfer up to £1,000 of unused personal allowance to a basic-rate taxpaying spouse
 - Worth up to £200/year
 - Couples where both pay income tax, neither pays income tax or someone pays higher or additional rate income tax don't benefit
 - Only one third of married couples benefit
 - Exchequer cost rises from £495 million in 2015–16 to £775 million in 2017–18 as take-up expected to rise over time
- ‘Cliff-edge’ at higher rate threshold not sensible
 - Only small at the moment, but worrying if policy expanded
- Gains more focused on lower-income households than increase in personal allowance

Distributional impact of transferable allowance



Note: assumes full take-up.

Fuel duty: to uprate or not to uprate, Act V

Dates uprating due before Budget 2011	Budget 2011	AS 2011	June 2012	AS 2012	Budget 2013	AS 2013
Apr 2011						
Apr 2012						
Apr 2013						
Apr 2014						
Apr 2015						
Apr 2016						

Fuel duty: to uprate or not to uprate, ~~Act V~~ Act VI

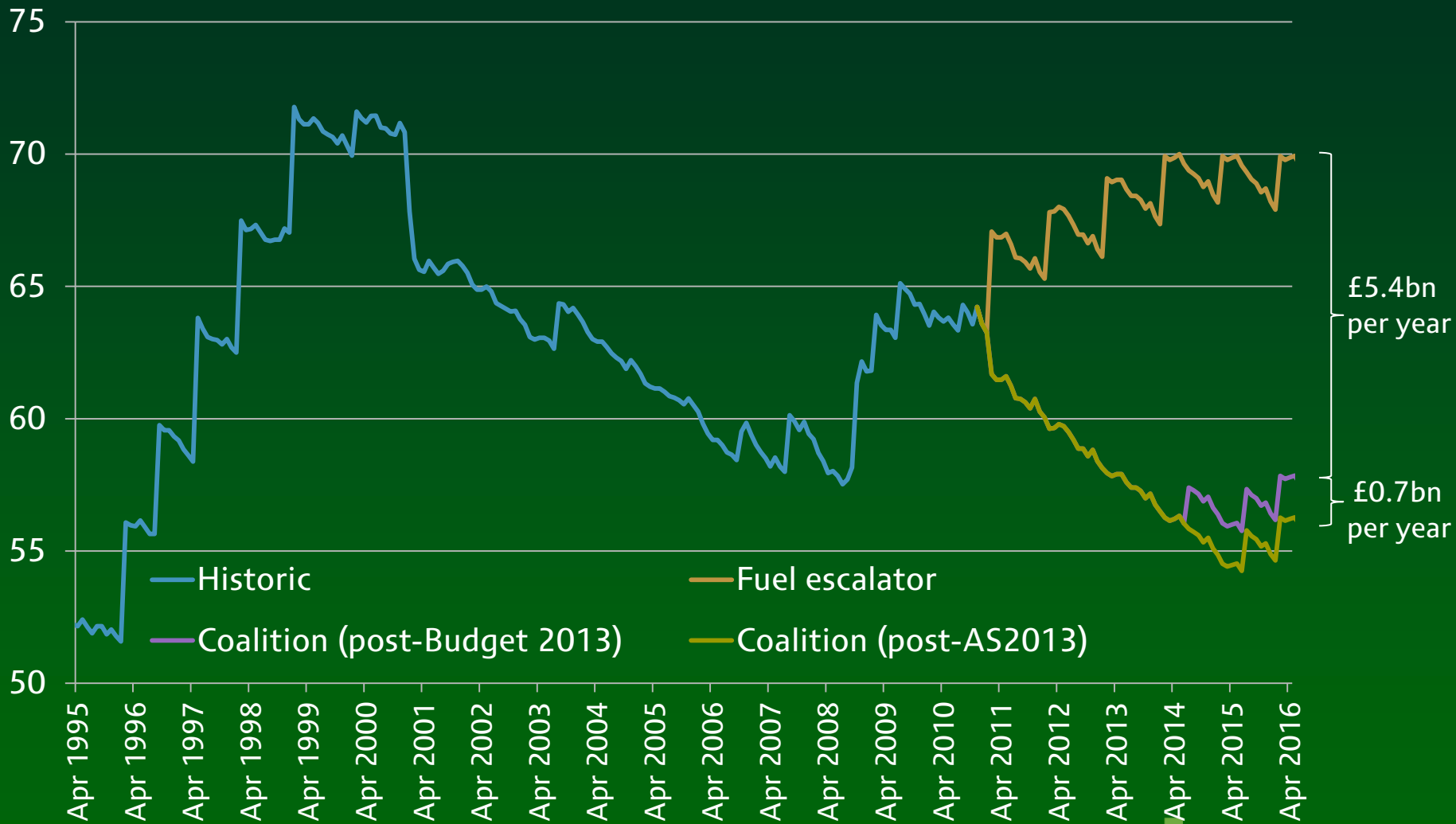
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Apr 2011	Jan 2012	Aug 2012	Jan 2013	Cancelled	Cancelled	Cancelled
Apr 2012	Aug 2012	Cancelled	Cancelled	Cancelled	Cancelled	Cancelled
Apr 2013	Apr 2013	Apr 2013	Apr 2013	Sep 2013	Cancelled	Cancelled
Apr 2014	Apr 2014	Apr 2014	Apr 2014	Sep 2014	Sep 2014	Cancelled
Apr 2015	Apr 2015	Apr 2015	Apr 2015	Sep 2015	Sep 2015	Sep 2015
Apr 2016	Apr 2016	Apr 2016	Apr 2016	Apr 2016	Apr 2016	Apr 2016

Real duty on a litre of petrol

Pence, April 2013 prices



Cut in employer NICs for those aged under 21

- Employer NICs abolished below the upper earnings limit (£813 per week in 2015–16) for those aged under 21 from April 2015
- Cut in a ‘jobs tax’
 - Reduces wedge between employer cost and take-home pay
 - Some of benefit will be passed on to workers in higher wages
- Likely to increase employment among this group
 - Particular concern about youth unemployment
 - Will firms employ 20 year olds rather than 21 year olds?
 - Encourages young people to work rather than continue in education

Free school meals for children in first 3 years of primary school

- From September 2014, all children in first 3 years of primary school will receive free school meals
 - Costs £620 million in 2014–15 including capital cost of expanding school kitchens etc.
- Currently only children in families claiming out-of-work benefits or full child tax credit eligible
 - Better off families gain from extension
- IFS research on pilot scheme in disadvantaged areas found that universal free school meals improved educational attainment
 - But not clear why: didn't reduce absences from school or improve parental perception of children's behaviour
 - Results wouldn't necessarily be replicated elsewhere
 - Best way of spending £600 million to improve educational attainment?

Universal credit

- Significantly delayed: OBR now expects 0.4 million universal credit claimants in 2015–16 rather than 4.5 million
- Universal credit work allowances frozen for 3 years from 2014–15 to 2016–17
 - Amount claimants can earn before benefits start to be withdrawn
 - So low-income working families receive less
 - When universal credit fully in place (2017–18), will save £315 million per year
 - Weakens work incentives for single people and those whose partner does not work
 - But strengthens the incentive for both members of a couple to work rather than just one

Impact of tax and benefit reforms

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

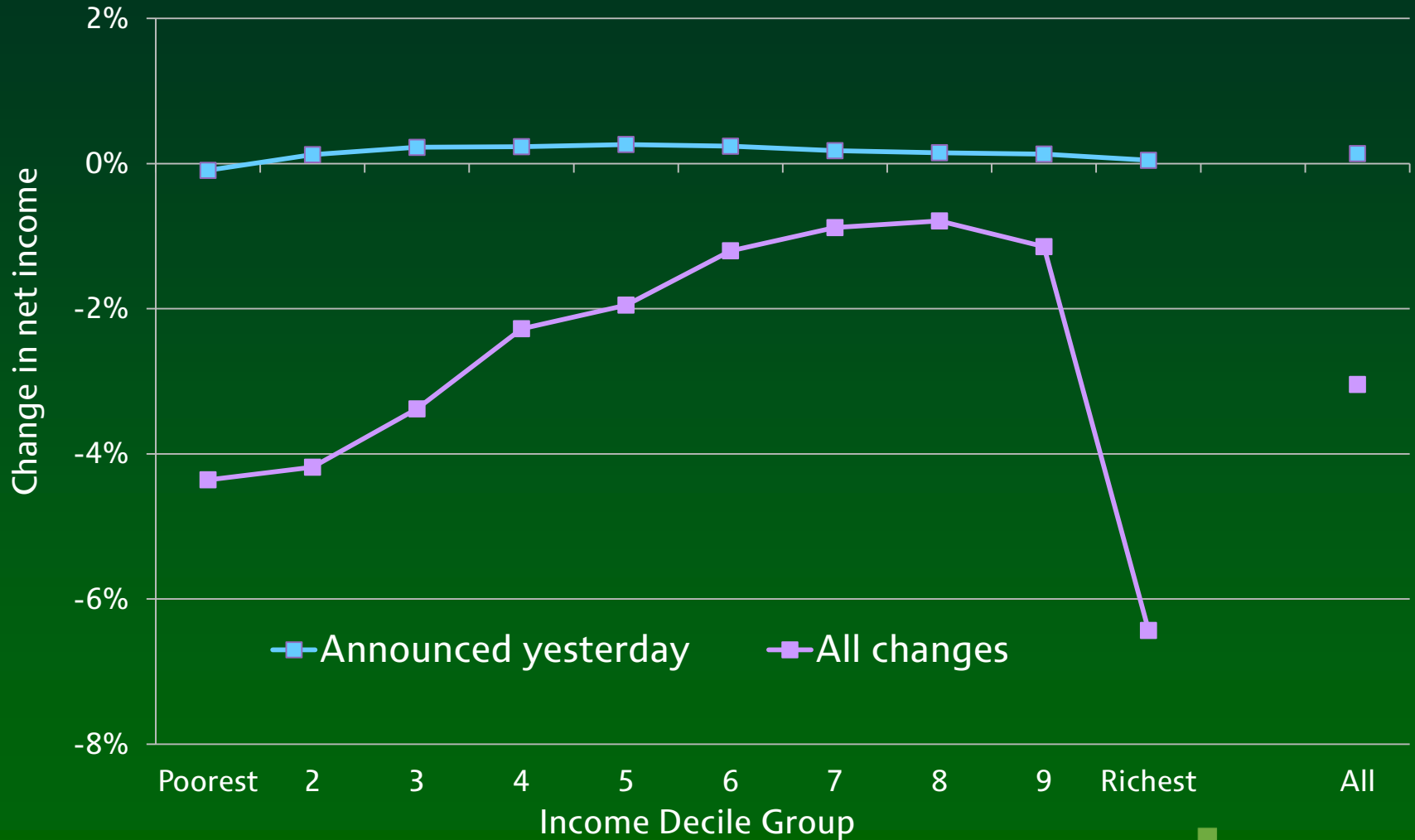


Fuel duties modelled at average 2015-16 level.
Assumes full take-up of means-tested benefits and tax credits.

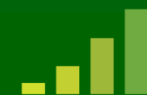


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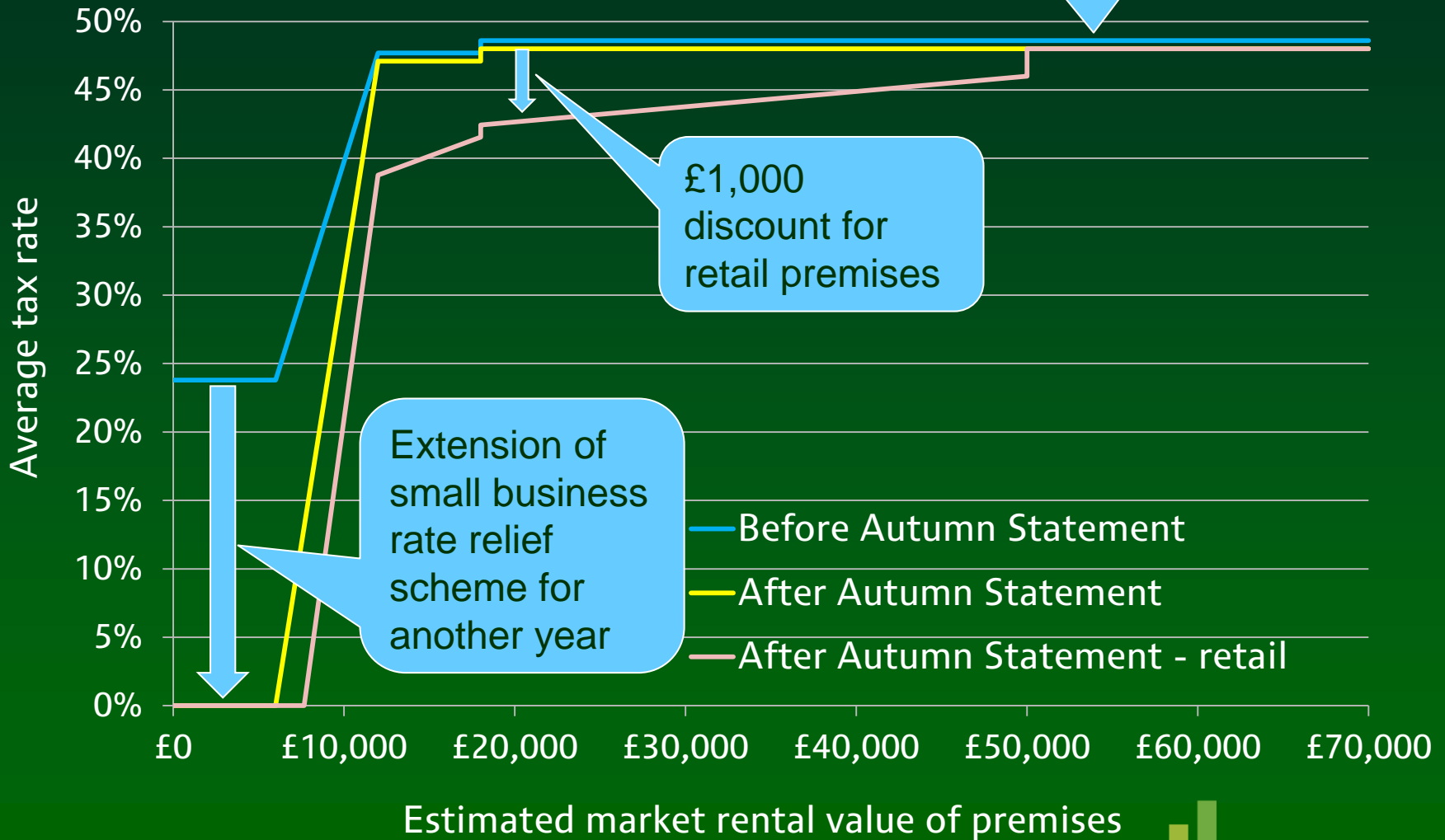
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Business rates in England, 2014-15



Business rates

‘Temporary’ discounts for small retailers and all of smallest firms

- Complicate the system
- Almost all cost is deadweight: a one-off giveaway to affected firms

Permanent cut in rate:

- Reduces disincentive to property development
- Much of cost is deadweight: mostly a giveaway to landowners

Business rates: stability in the tax system?

- Two of the three main changes are ‘temporary’
 - Though one has been repeatedly extended
- The other is the first time since 1990 that rates not increased with RPI
 - Following first time since 1990 that regular revaluation delayed
- Has become much harder for firms to predict future tax

Increasing the bank levy

- Rate to rise from 0.130% to 0.156% of banks' liabilities next month
 - Was already due to rise to 0.142%
 - And measure of taxable liabilities to be broadened from January 2015
- Has been increased in every Coalition Budget and Autumn Statement
 - 7 announcements in 3½ years
- 2014 rate will now be more than double that originally intended
 - 0.156% instead of 0.070%
- Yet will raise little more revenue in 2014-15 than originally expected
 - £2.7bn instead of £2.4bn
 - Would have been £4.3bn if each announcement raised what expected

Anti-avoidance measures

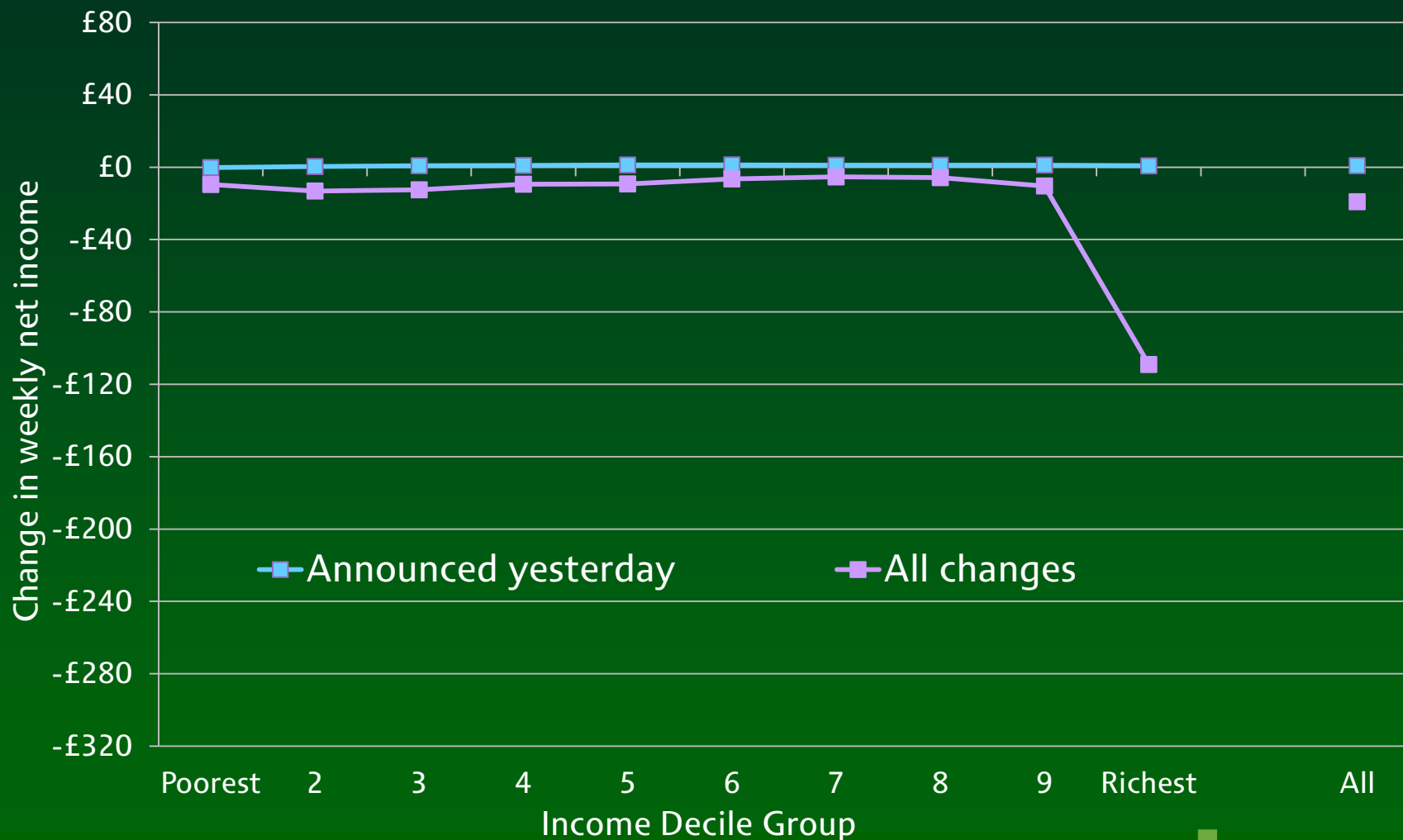
- Two big ones
 - Onshore employment intermediaries
 - Alternative investment fund partnerships
- Each forecast to raise £400m a year
- Both close off ways to channel earnings into more lightly taxed forms
 - Business income taxed more lightly than employment income
- Hard boundaries to define and police
- Would be better if legal form did not affect tax rates at all
 - Give allowances for capital invested instead

Conclusion

- Giveaways to middle-income households and small businesses
 - Transferable allowance, free school meals, fuel duty, business rates
- Tax rises on banks and anti-avoidance measures
- Benefit cut for low-income workers in the future
- Two broad themes
 - Instability: business rates, fuel duty, bank levy
 - Complication: transferable personal allowance, business rate changes

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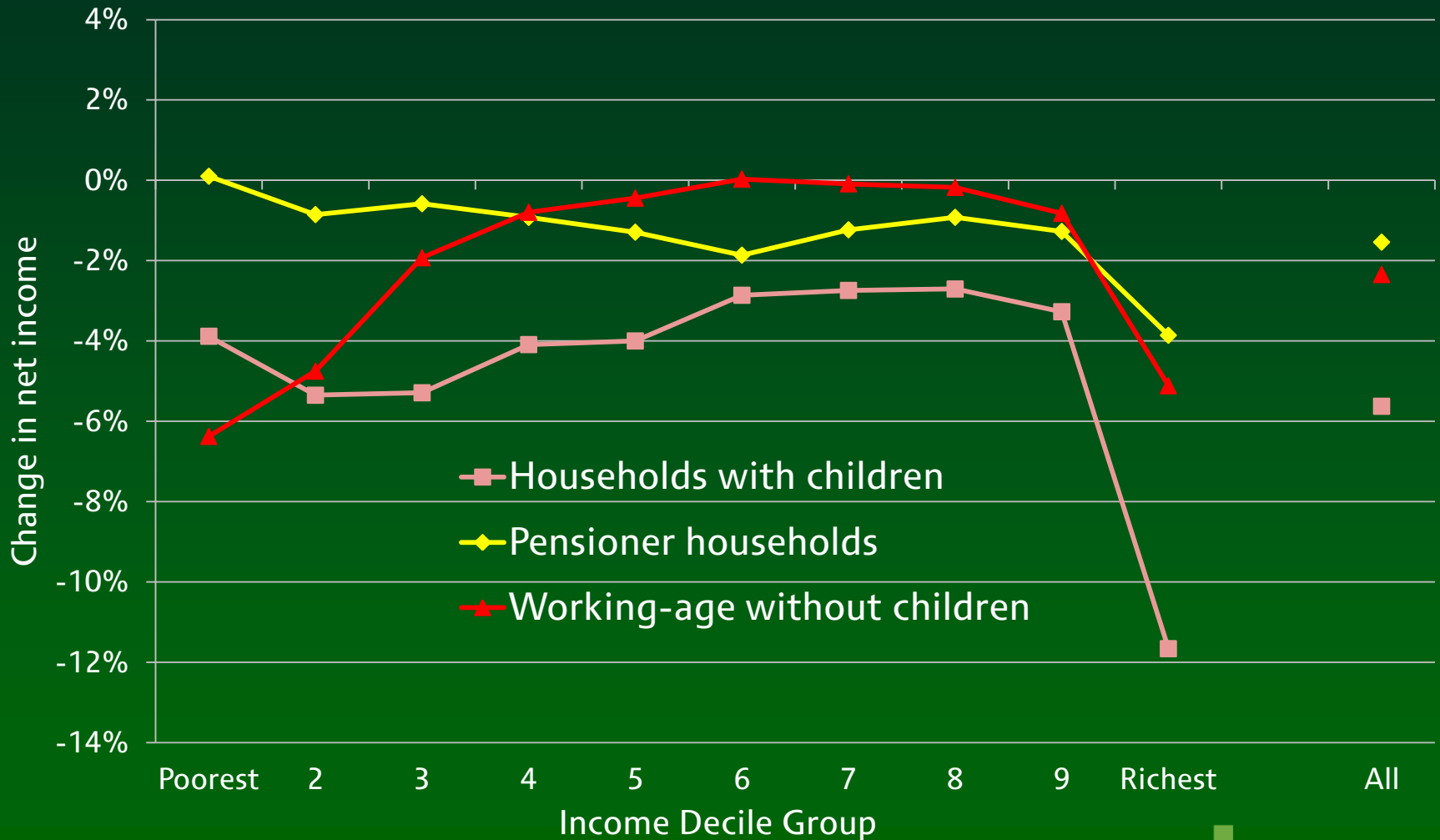


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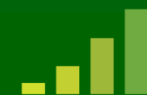


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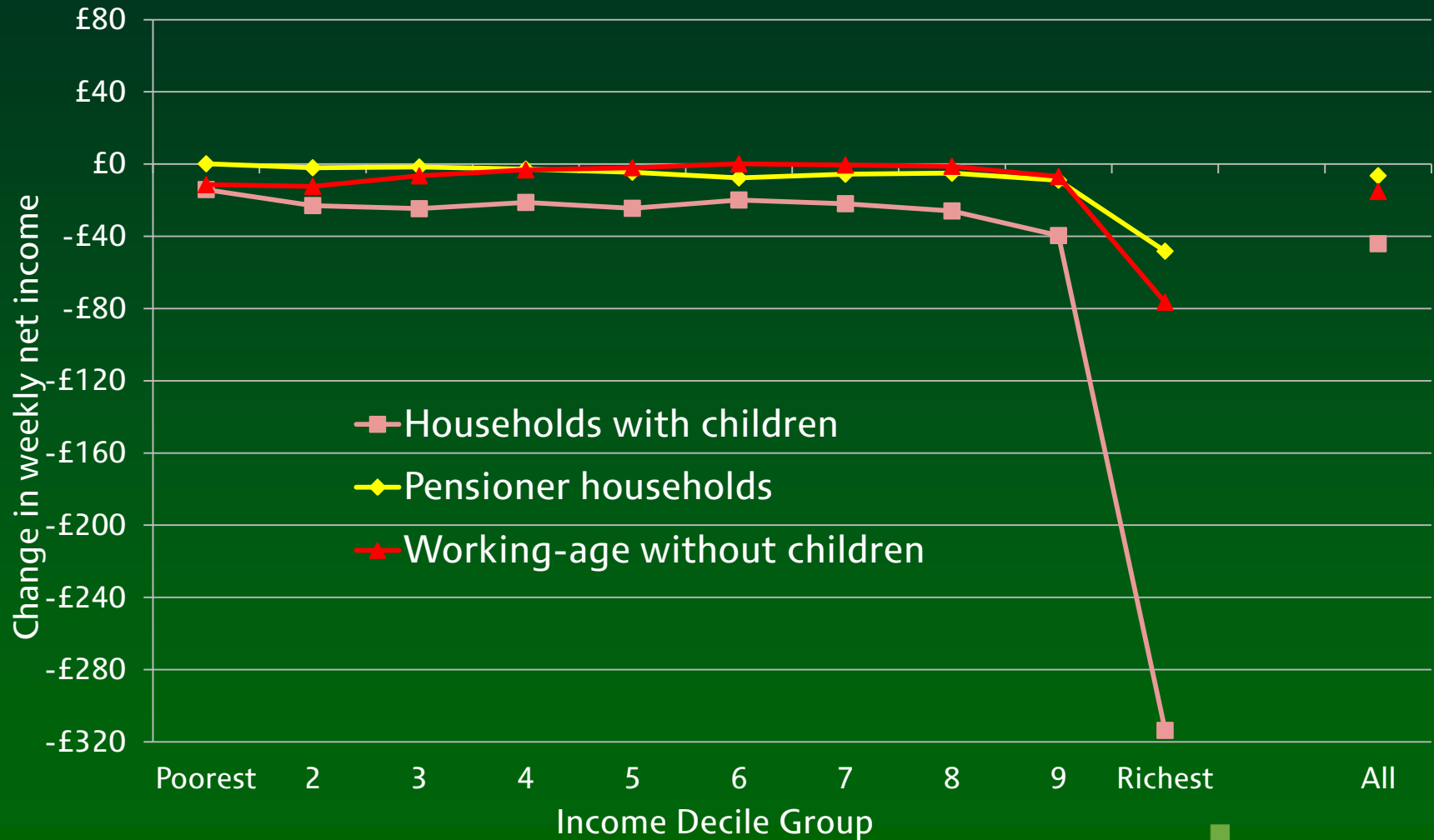


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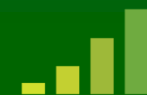


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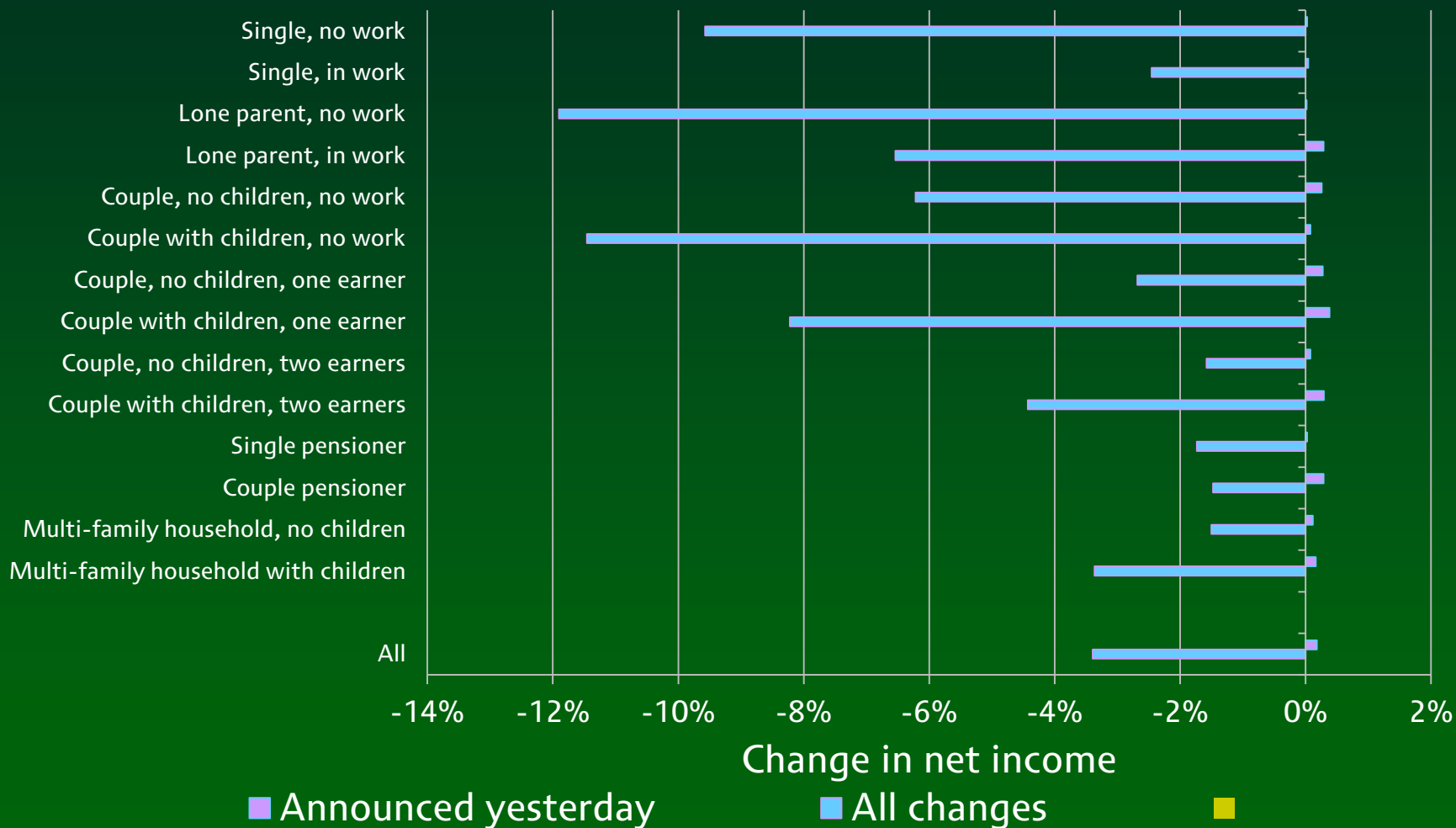


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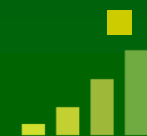


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