

Boris Johnson's tax policies: what would they cost and who would benefit?

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Key findings

Boris Johnson's has announced two main tax proposals – to increase the income tax higher rate threshold (HRT) from £50,000 to £80,000, and to raise the point at which people start paying National Insurance contributions (NICs). We find that:

- **Increasing the HRT costs about £9 billion and benefits the 4 million or so income taxpayers with the highest incomes.** Most of the gain goes to those in the top 10% of the income distribution would gain an average of nearly £2,500 a year. The biggest gainers will actually be high income pensioners as they won't be affected by the accompanying increase in the NI ceiling.
- **While only about 8% of individuals would gain from this change in the short run, probably at least a quarter will at some point be higher rate taxpayers themselves, or will live in a household with a higher rate taxpayer, at some point in their lives.**
- **Raising the HRT to £80,000 straightaway would take about 2.5 million people out of higher rate tax,** taking the number of higher rate taxpayers down to its lowest level since 1990. This would constitute a major change to our income tax system.
- **Increasing the point at which people start to pay NICs is probably the best thing one can do through the tax system to help low earners, though even this policy offers most benefit to higher earners.** Increases in tax credits would be significantly more effective if the main intention is to help low earners in low income households.
- **Increasing the floor is expensive though, costing at least £3 billion a year for each £1,000 that it is raised.** Raising it to the current income tax personal allowance of £12,500 would cost at least £11 billion and would take £2.4 million workers out of NICs altogether.

Introduction

Boris Johnson has said that if he becomes Prime Minister, he hopes to raise the higher rate threshold (HRT) in income tax from £50,000 to £80,000. He has also expressed a desire to raise the point at which earnings become liable for National Insurance contributions (NICs). This briefing note discusses the distributional consequences of these policies, which age groups gain, and what the impact might be on the number of people that pay higher rate tax or NICs.

Raising the higher rate threshold

Raising the HRT to £80,000 has two effects on tax liabilities. First, it means that any taxable income between £50,000 and £80,000 is subject to the basic rate of tax (20%), rather than the higher rate (40%). Second, it means that some people will pay more NICs. This is because the HRT is aligned with the upper earnings limit (UEL) in the employee and self-employed NICs system. Below the UEL earnings (though not other forms of income) are subject to a 12% rate of employee NICs (9% for the self-employed), and above it a 2% rate. As a result, raising the HRT (and with it the UEL) to £80,000 increases the NICs rate applied to earnings between £50,000 and £80,000. This means that the combined tax liability from income tax and employee NICs on earnings within that range falls from 42% to 32%. To give a sense of who this policy affects, an individual with gross earnings of £50,000 is 88% of the way up the earnings distribution, while a man with gross earnings at that level is 83% of the way up the male earnings distribution.

This policy would cost the government around £8 billion p.a. in reduced tax revenue from England, Wales, and Northern Ireland. Income tax on earned income is devolved to Scotland, but NICs is not. This means that the immediate consequence of the policy would be to increase NICs revenue from Scotland without any loss in income tax revenue. However, the Barnett formula means that Westminster would have to increase the grant it gives to Scotland (a point discussed further in [an earlier observation](#)). This would outweigh the gain from increased Scottish NICs revenue, and so the total cost to the UK government would be closer to £9 billion. How the Scottish government would spend this extra grant is of course unknown, and so for the rest of this section we focus on the consequences for the rest of the UK.

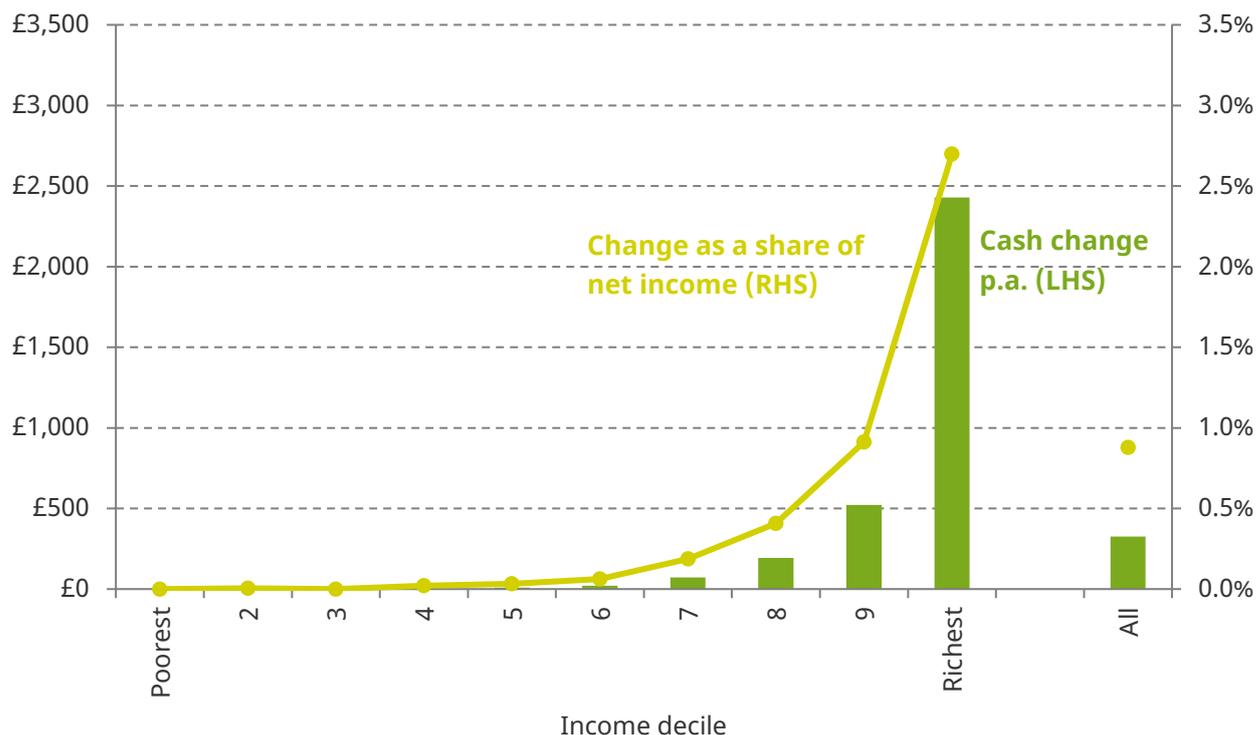
Around 3.2 million people in work (including 0.4 million in self-employment) would gain from this policy, as would 0.4 million retired pensioners and a small number of working-age people who are not in work but have significant unearned income.¹ These individuals are in 3.4 million households, who gain on average £2,500 per household. As Figure 1 shows, these gains mainly boost the incomes of those near the top of the income

¹ A small number of individuals would actually *lose* from this policy. These include those with incomes just above the HRT who: claim the marriage allowance; make employee pension contributions; or take advantage of the personal savings allowance. These people may be subject to no or little higher rate income tax, but some of their income is above the UEL and so is (currently) subject to the 2% rate of NICs. Those who have significant variation in their incomes over the year can also lose from this policy, because NICs is levied on a weekly or monthly basis, while income tax is levied on an annual basis.

distribution, with about three-quarters of the fall in tax liabilities going to those in the top tenth of the income distribution. 97% of the gains go to those in the top 30%.

The reason there are some gainers outside the top few deciles is that tax is levied on individual incomes while we are measuring incomes here at a household level and taking account of the size of the household. Someone earning £60,000, living with a non-working spouse and a couple of children, could only be at only around the middle of the distribution of household income.

Figure 1. Distributional effects of raising the HRT



Note: Income decile groups are derived by dividing all households into 10 equal-sized groups according to income adjusted for household size using the modified OECD equivalence scale. Scotland is not included.

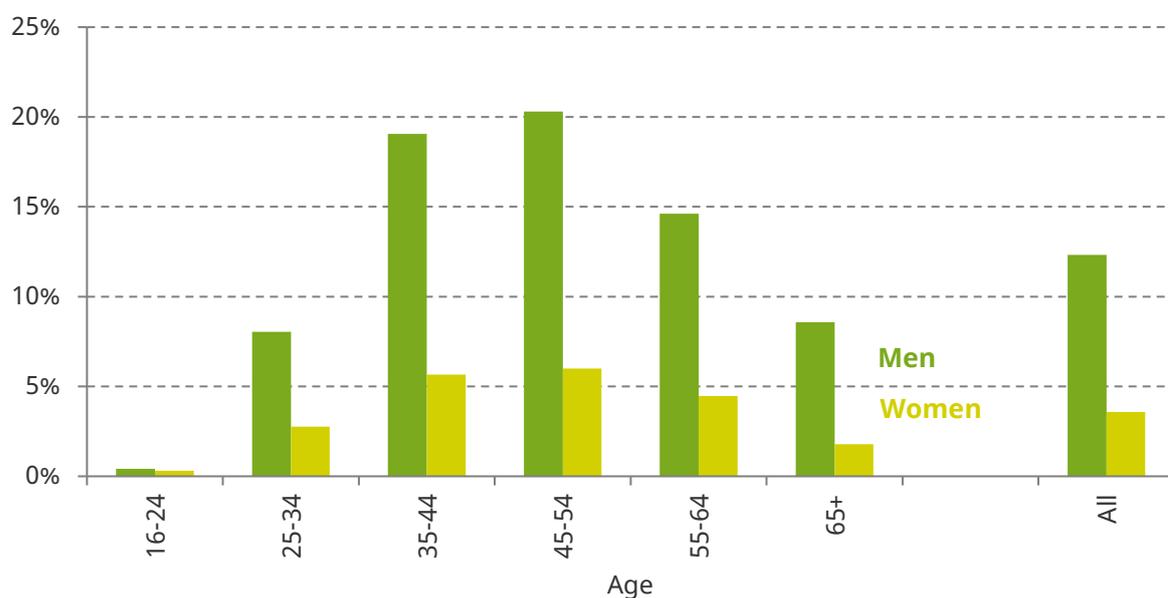
Source: Authors calculations using Family Resources Survey 2017–18 and TAXBEN, the IFS microsimulation model.

Average personal incomes vary substantially over a lifetime and between genders, and so not surprisingly there is a clear age pattern in the individuals that would see their tax liability fall as a result of this policy. As Figure 2 shows, these people are concentrated around the middle of working age and are considerably more likely to be men than women, with 20% of men and 6% of women between 35 and 54 seeing a tax cut as a result of the policy. This means that while at a given point in time just 8% of adults would gain from the reform, a considerably larger number would at some point in their lives, and a larger number still would at some point be part of a household where someone gains. It is impossible to estimate that number with any precision, but it would not be unreasonable to suggest that at least a quarter of the population would at some point in their lives live in a household which would gain from a higher threshold. While at an individual level a

much larger share of men gain than women, the same is not true at a household level: 14% of women are in households which gain from the policy, compared to 16% of men.

The figure also shows that 9% of men and 2% of women over 65 gain from the reform. Those over state pension age do not pay NICs (even on their earnings, if they are still in work), meaning that a taxpayer over state pension age will typically gain twice as much as a working-age person with the same income. Overall we find that, among those that do see a tax cut as a result of the policy, those over 65 on average see a cut about 60% larger than those under 65. Seen another way, while those over 65 only make up about one in seven of the individuals that gain from the policy, about a fifth of the total reduction in tax accrues to them.

Figure 2. Fraction of individuals gaining from raising the HRT, by age and sex



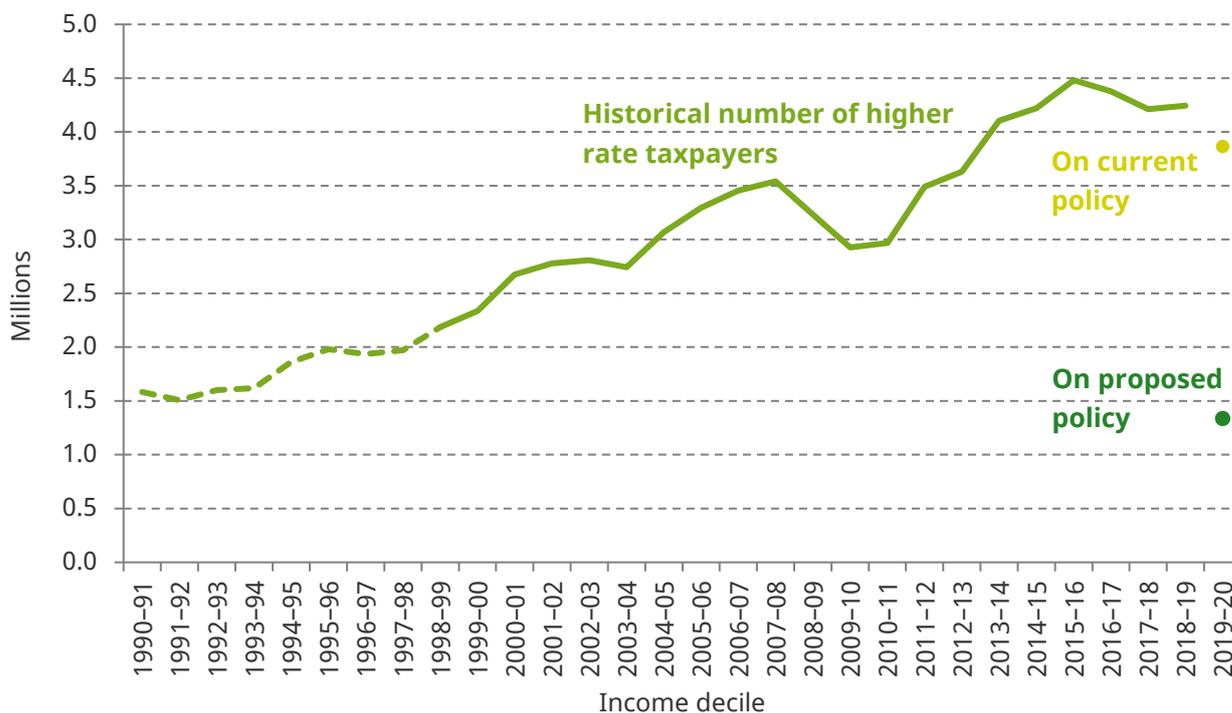
Note: Scotland is not included.

Source: Authors calculations using Family Resources Survey 2017–18 and TAXBEN, the IFS microsimulation model.

The number of people paying higher rate tax has, as observed by Mr. Johnson, grown over the years. This is seen in Figure 3, which shows the number of higher rate taxpayers over time (outside of Scotland). Between 1990–91 and 2018–19 the number of higher rate taxpayers increased by almost 170%. It has declined a bit in recent years as the real value of the HRT has increased (partially – though not entirely – undoing the real cuts to the HRT introduced by the government since 2010). In 2019–20 the HRT was increased to £50,000, which we expect will leave the number of higher rate taxpayers at just under 4 million.² If the HRT were increased to £80,000, and taxpayers did not change their behaviour as a result, the number of higher rate taxpayers would fall by about two-thirds, to 1.3 million – the lowest figure since the individual tax system was introduced in 1990–91.

² This is slightly more than the number of individuals who gain from the policy reported above. That is because there are a small number of higher rate taxpayers who lose from the reform (as explained in footnote 1).

Figure 3. Number of higher rate taxpayers, 1990–91 to 2019–20, current and proposed policy



Note: Scotland is not included. Numbers from 1990–91 to 1998–99 are an estimate based on the number of higher rate taxpayers across the UK as a whole because nation-specific figures are not available for that period.

Source: Authors calculations using Family Resources Survey 2017–18, TAXBEN, the IFS microsimulation model, and HMRC, *Income tax statistics*, Table 2.2.

These calculations assume that the £80,000 HRT is brought in this year. In reality the government might choose to reach £80,000 over a number of years, which would reduce the cost of the policy (since by default the HRT increases with inflation anyway) and reduce the impact on the number of higher rate taxpayers. For example, if we were to reach an £80,000 threshold in 2023–24, assuming inflation rises as predicted by the Office for Budget Responsibility, the cost would be about £1 billion per year lower and the number of higher rate taxpayers would fall to 1.6 million rather than 1.3 million as would happen if this were implemented immediately. That would still represent one of the biggest changes to our income tax system in quite some time.

Raising the NICs threshold

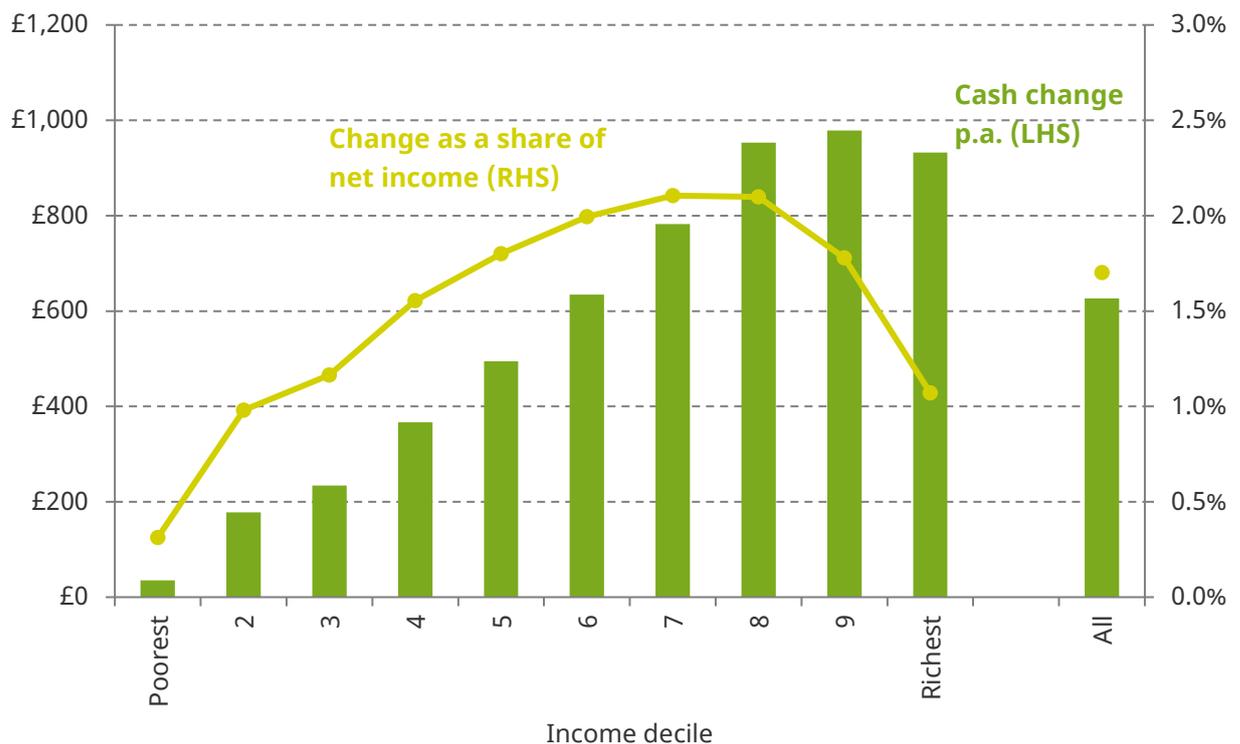
Currently, only earnings above £8,632 per year³ are subject to NICs (employee, employer, and self-employed). Mr. Johnson has not stated how much he would like to raise this threshold by, nor whether he would raise just the employee and self-employed thresholds or the employer one too. If just the employee and self-employed thresholds are changed, raising the threshold by £1,000 takes 600,000 workers out of NICs altogether and costs the

³ Strictly speaking NICs is levied on a weekly or monthly basis, not an annual basis. However for simplicity we refer to the annual equivalent in this briefing not.

government about £3 billion per year. If the employer one is changed as well, the cost goes up to £4½ billion per year. Raising the threshold to £12,500 (as proposed by Dominic Raab) would cost £11 billion per year if just the employee and self-employed thresholds are raised, or £17 billion if employer ones are as well, and would take 2.4 million workers out of NICs.

Any of these policies would have a larger proportional impact on the after-tax earnings of low earning workers than high earning ones (though the *very* lowest earning workers – who currently do not pay NICs – would be unaffected). However, when we look at the impact of the policy on household incomes, the picture is rather different. Figure 4 shows the distributional impact of raising all NICs thresholds, including that for employer NICs, to £12,500.⁴ 16 million households gain from the policy, but as the figure makes clear, the largest proportional gains go to those in the middle to upper part of the income distribution. This happens for two key reasons. First, those in households towards the bottom of the income distribution are much less likely to be in work, and of course only workers benefit from this policy. Second, households nearer the bottom get a larger share of their income from benefits, rather than earnings, which means that the policy has a smaller impact on their incomes.

Figure 4. Distributional effects of raising the NICs thresholds (employee, self-employed, employer) to £12,500



⁴ In the short run, employers rather than workers would bear the cost of the rise in employer NICs. However, basic economic theory suggests that, in the long run, earnings should adjust so that the burden of a tax on earnings is felt by the same people regardless of whether it is formally levied on the employer or the employee. In practice the burden of all NICs – and income tax – is probably shared between the employer and employee, but it is difficult to know the relative sizes of those shares, and so here we assume that the full burden of all NICs is borne by the employee.

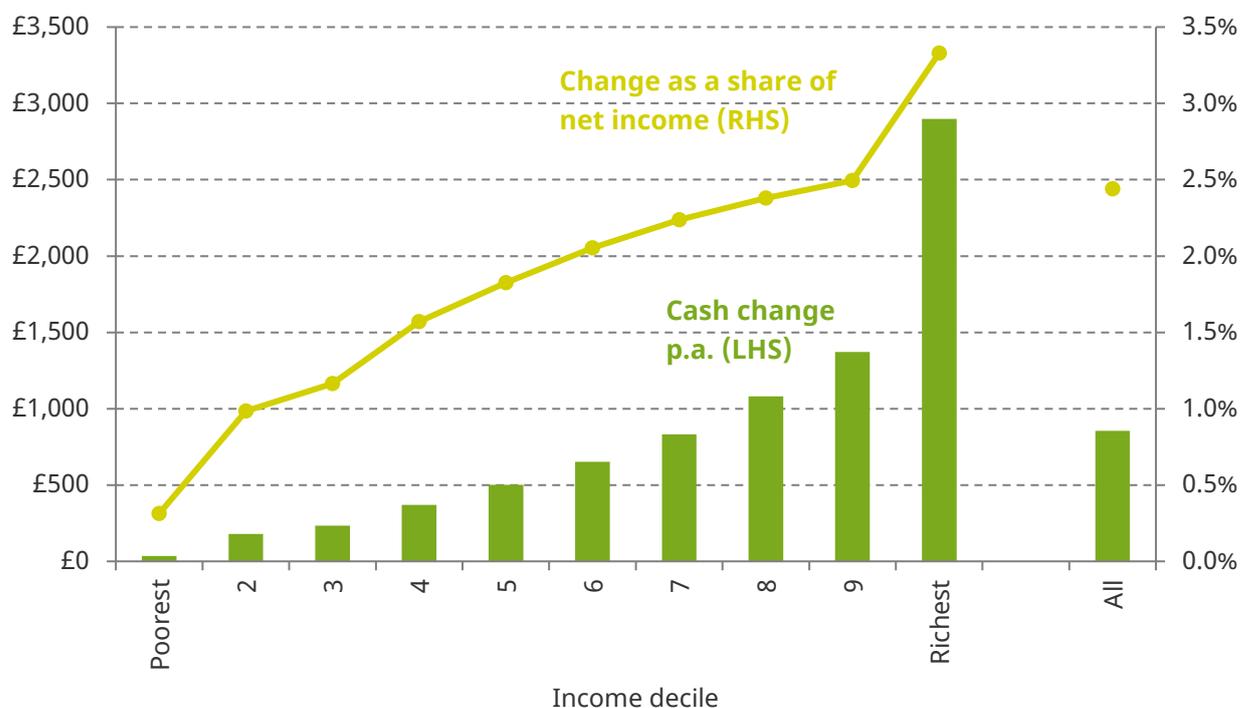
Note: Income decile groups are derived by dividing all households into 10 equal-sized groups according to income adjusted for household size using the modified OECD equivalence scale.

Source: Authors calculations using Family Resources Survey 2017-18 and TAXBEN, the IFS microsimulation model.

Unlike the raising of the HRT, which would have a larger impact on affected pensioners than working-age people, raising the NICs threshold has very little impact on pensioners. That is because all unearned income (including pension income) is not subject to NICs, and even earnings is exempt from employee NICs for those over state pension age.

The total distributional impact of raising the HRT and the NICs threshold would depend upon the timeframe over which the policies are implemented, how much the NICs threshold is increased by, and whether the increase applies to employer NICs too. As a purely illustrative example, the effect (outside of Scotland) of immediately raising the HRT to £80,000 and all NICs thresholds to £12,500 is shown in Figure 5.

Figure 5. Distributional effects of raising the HRT to £80,000 and raising NICs thresholds (employee, self-employed, employer) to £12,500



Note: Income decile groups are derived by dividing all households into 10 equal-sized groups according to income adjusted for household size using the modified OECD equivalence scale. Scotland is not included.

Source: Authors calculations using Family Resources Survey 2017-18 and TAXBEN, the IFS microsimulation model.