IFS Green Budget 2019
Options for cutting direct personal taxes and supporting low earners

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Boris Johnson’s campaign promises

1. Raise income tax higher rate threshold from £50k to £80k

2. Raise threshold for paying NICs
   - Currently £8,632 (£8,788 in 2020–21)
   - Yet unspecified amount
   - Not known whether employer NICs threshold will be raised too
Taxes as a share of national income

Source: OBR public finances databank (all taxes, direct personal taxes after 1999), OECD revenue statistics (direct personal taxes pre-1999)

Notes: Direct personal taxes in OECD data include income tax (1110), social security contributions (2000) and payroll taxes (3000)
Taxes in the UK and other developed countries

Notes and sources: See Figure 8.1 of IFS Green Budget 2019
Income tax and employee NICs schedule
Working-age employees in England, Wales and Northern Ireland

Notes and sources: See Figure 8.2 of IFS Green Budget 2019
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Effects of £80k HRT in 2020–21

Effects on individuals

• 3.7m individuals gain £2,280 per year on average
• Highest-income 8% of adults
  – Offset tax increases for very highest-income individuals since 2009
  – But those with slightly lower incomes (£50k-£100k) also gain

Effects on households

• 9.5 million people live in a household that gains
  – 75% of total gains accrue to the highest-income 10% of households
• A quarter of the population likely to live in a household that gains at some point in their lives
Higher- or additional-rate taxpayers as a share of the adult population

On current policy

2.5m people out of higher rate tax

£80k HRT in 2020

Source: See Figure 8.5 of IFS Green Budget 2019
Notes: Excludes Scotland. Figures for 1990 to 1998 are estimates based on the number of higher-rate taxpayers across the UK as a whole because nation-specific figures are not available for that period.
Income tax and employee NICs schedule
Working-age employee in England, Wales and Northern Ireland

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Notes and sources: See Figure 8.2 of IFS Green Budget 2019
Personal allowance and NICs thresholds

Source: HMRC rates and allowances
Notes: For thresholds for working-age employee with income below £100k
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Distributional effects of spending £3bn on policies to help low-earning families

£3bn increase to NICs (starting) thresholds

Notes and sources: Working household defined as one with at least one person in paid work. See Figure 8.9 of IFS Green Budget 2019
Alternative ways to support low-earning families

Work allowances in universal credit

- For most groups, considerably lower than planned 2012 levels
- Abolished for non-disabled families without children

Alternative policy to £3bn NICs cut

- Reinstate 2012 plans for all groups for which work allowances have fallen
- Further increase all work allowances by 20%

Drawbacks of increasing means-tested benefits

- Potential stigma
- Administration costs
- Mixed effects on work incentives
Distributional effects of spending £3bn on policies to help low-earning families

Notes and sources: Working household defined as one with at least one person in paid work. See Figure 8.9 of IFS Green Budget 2019

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Conclusion

Large tax cuts at a time of economic uncertainty

- HRT rise alone would cost £8bn if implemented by 2024–25
- NICs rise costs at least £3bn for each £1k rise; could cost up to £17bn

Policies would benefit high-income households more

- Highest-income 10% could gain up to £3,500 a year on average
- Poorest 10% would gain less than £30 a year on average

Alternative policies to achieve intended aims

- Could take opportunity to remove personal allowance taper (arbitrary and opaque spike in marginal tax rates)
- Could target low-earning families through work allowances in universal credit