

IFS Green Budget 2019

Options for cutting direct personal taxes and supporting low earners

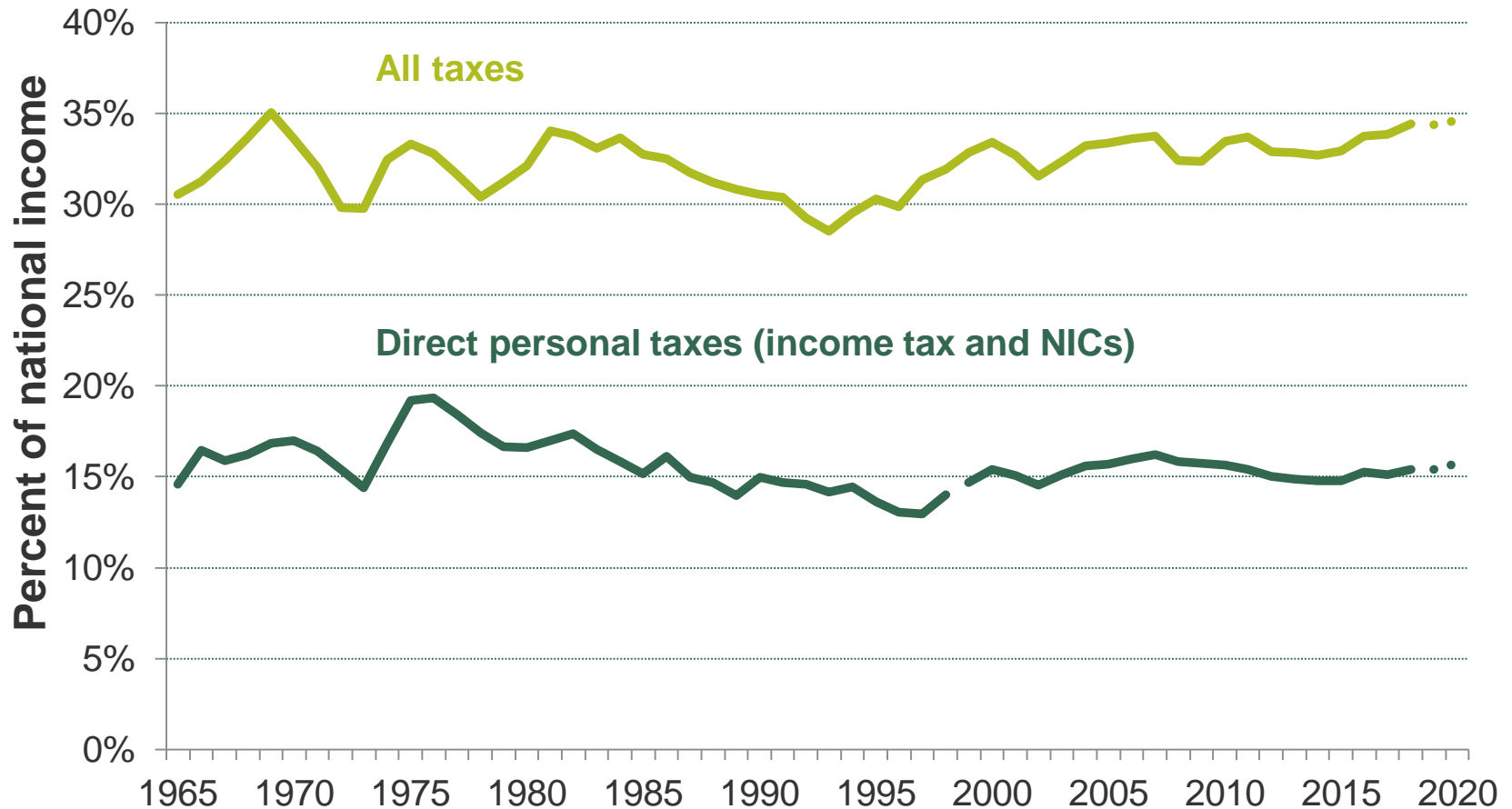
Xiaowei Xu

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

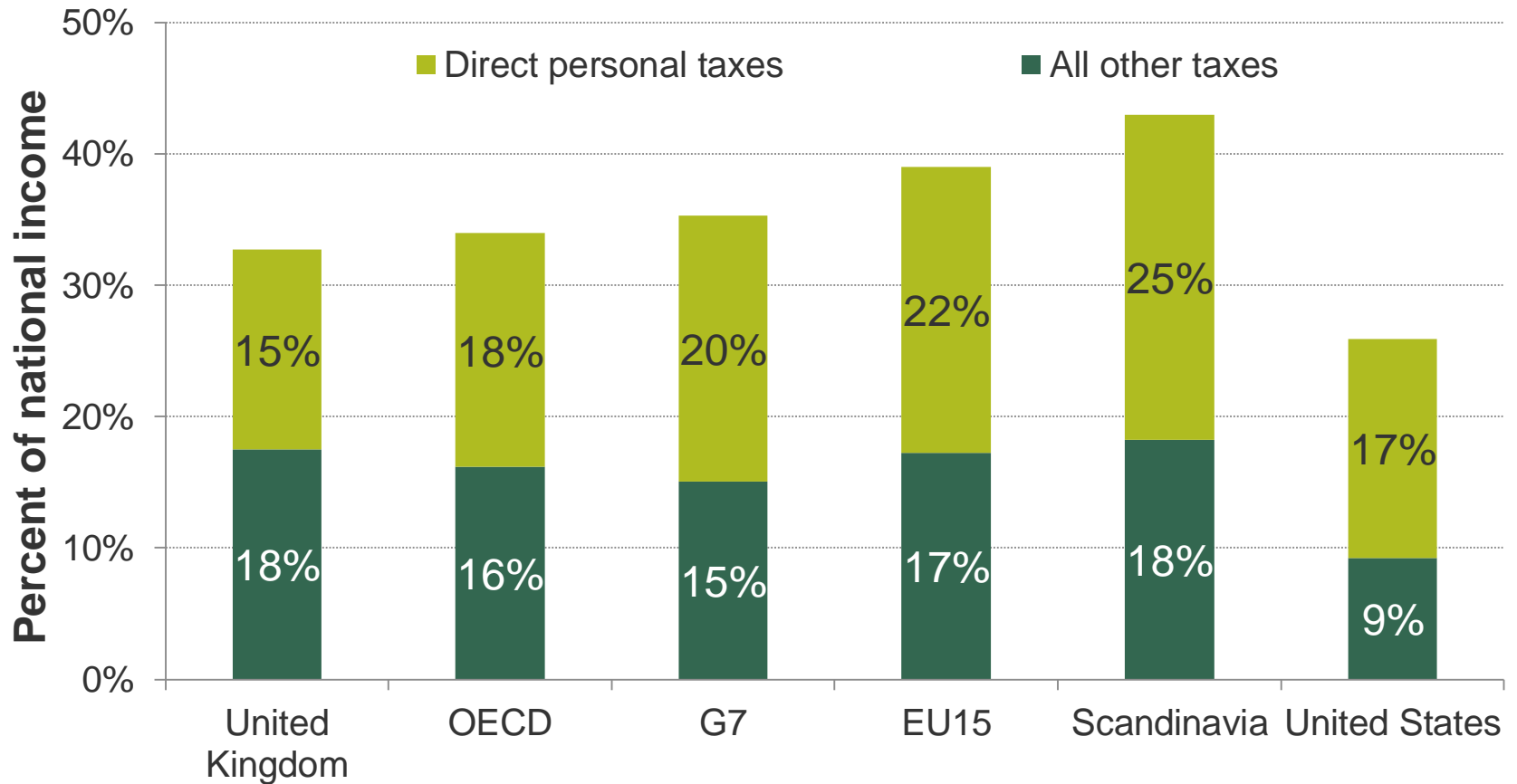
Taxes as a share of national income



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)

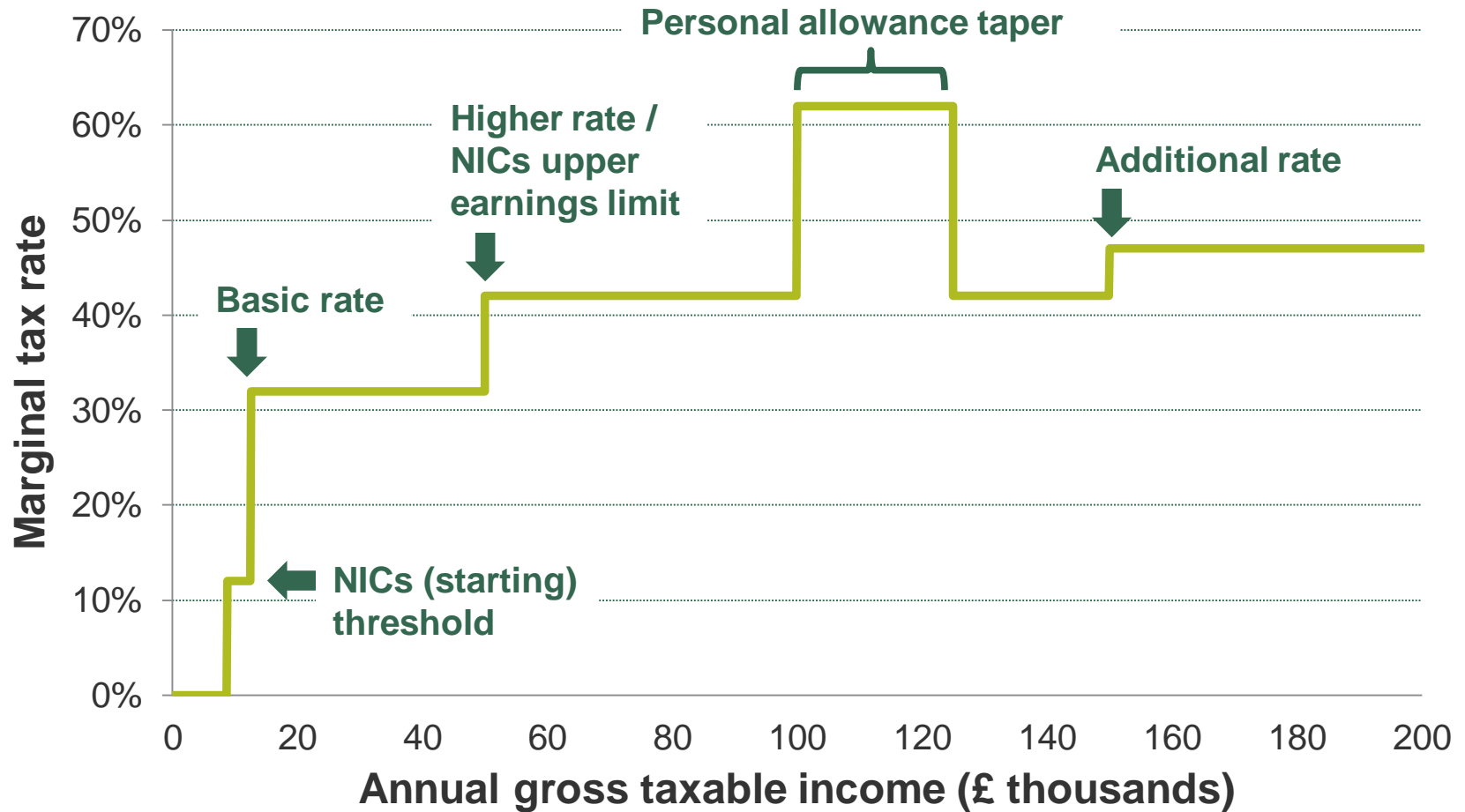
Taxes in the UK and other developed countries



Notes and sources: See Figure 8.1 of IFS Green Budget 2019

Income tax and employee NICs schedule

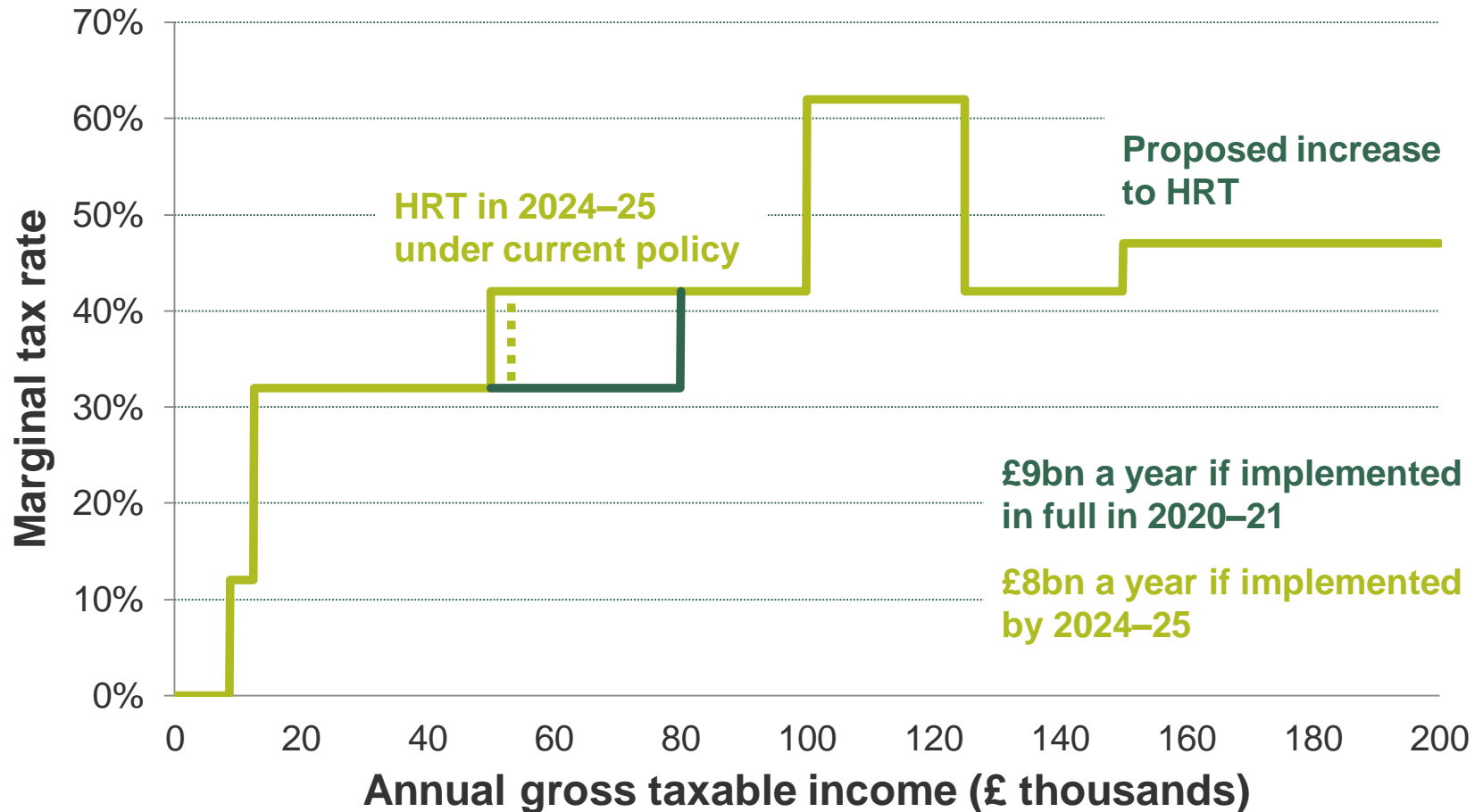
Working-age employees in England, Wales and Northern Ireland



Notes and sources: See Figure 8.2 of IFS Green Budget 2019

Income tax and employee NICs schedule

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Effects of £80k HRT in 2020–21

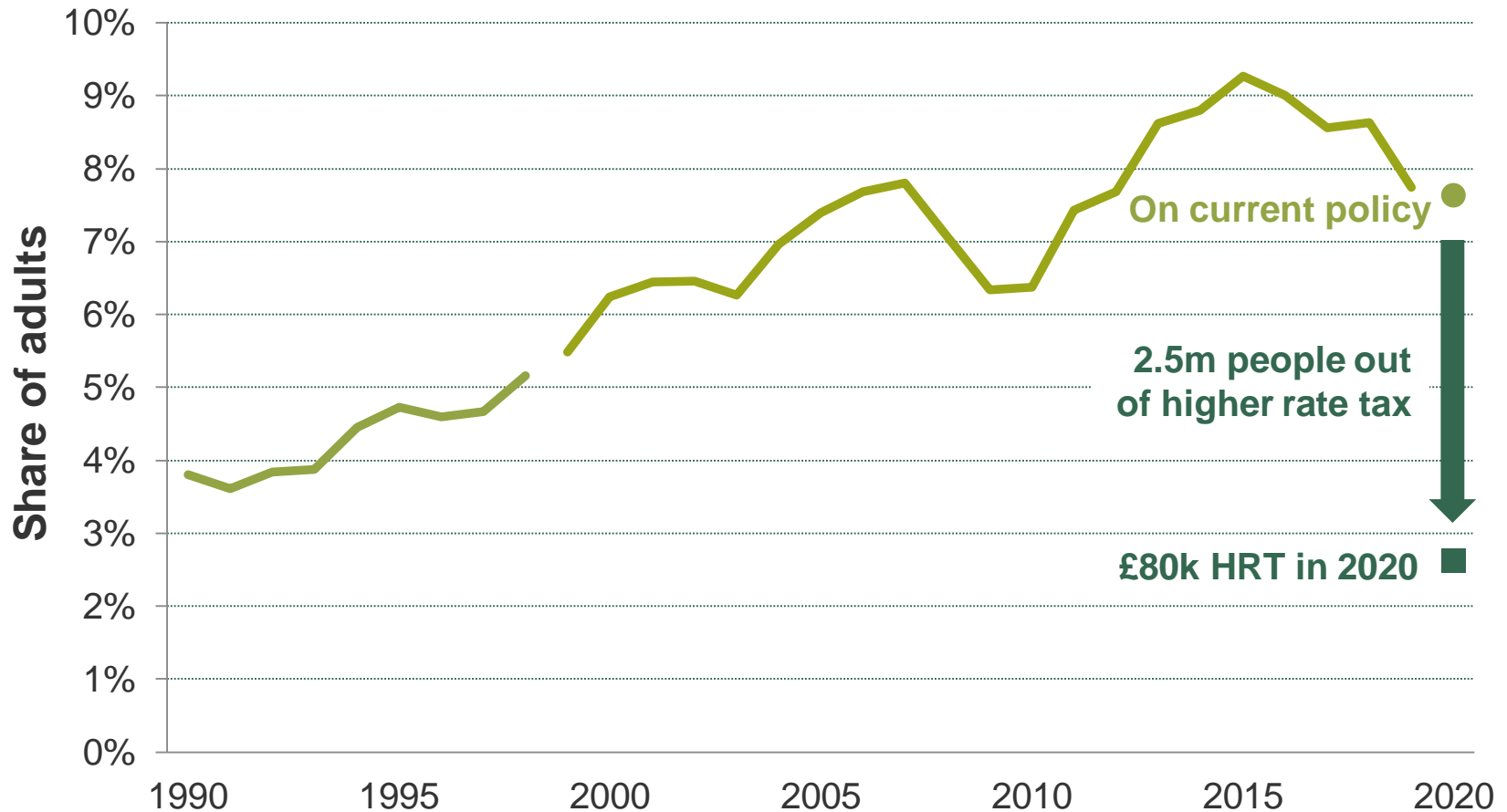
Effects on individuals

- 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

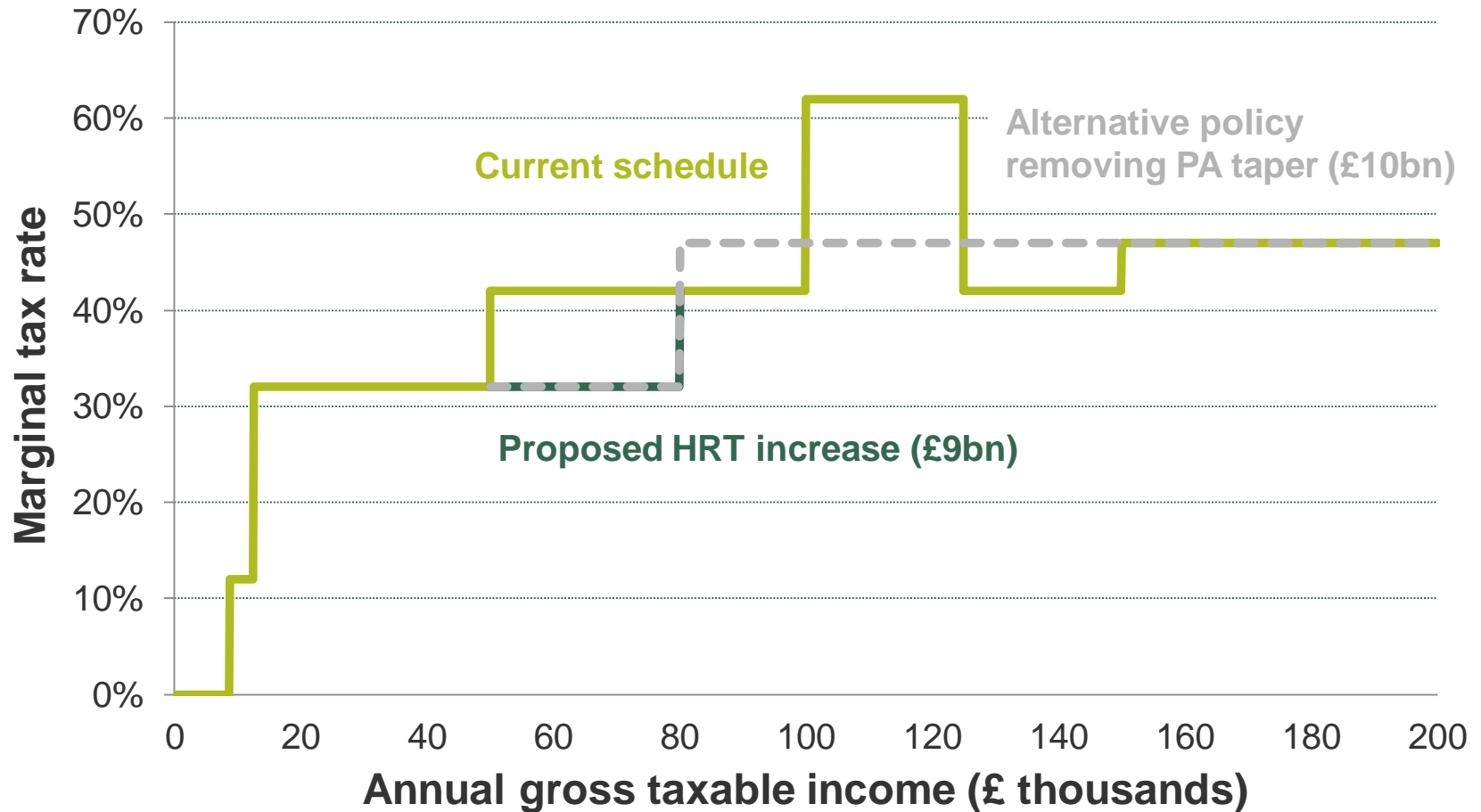


Source: See Figure 8.5 of IFS Green Budget 2019

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

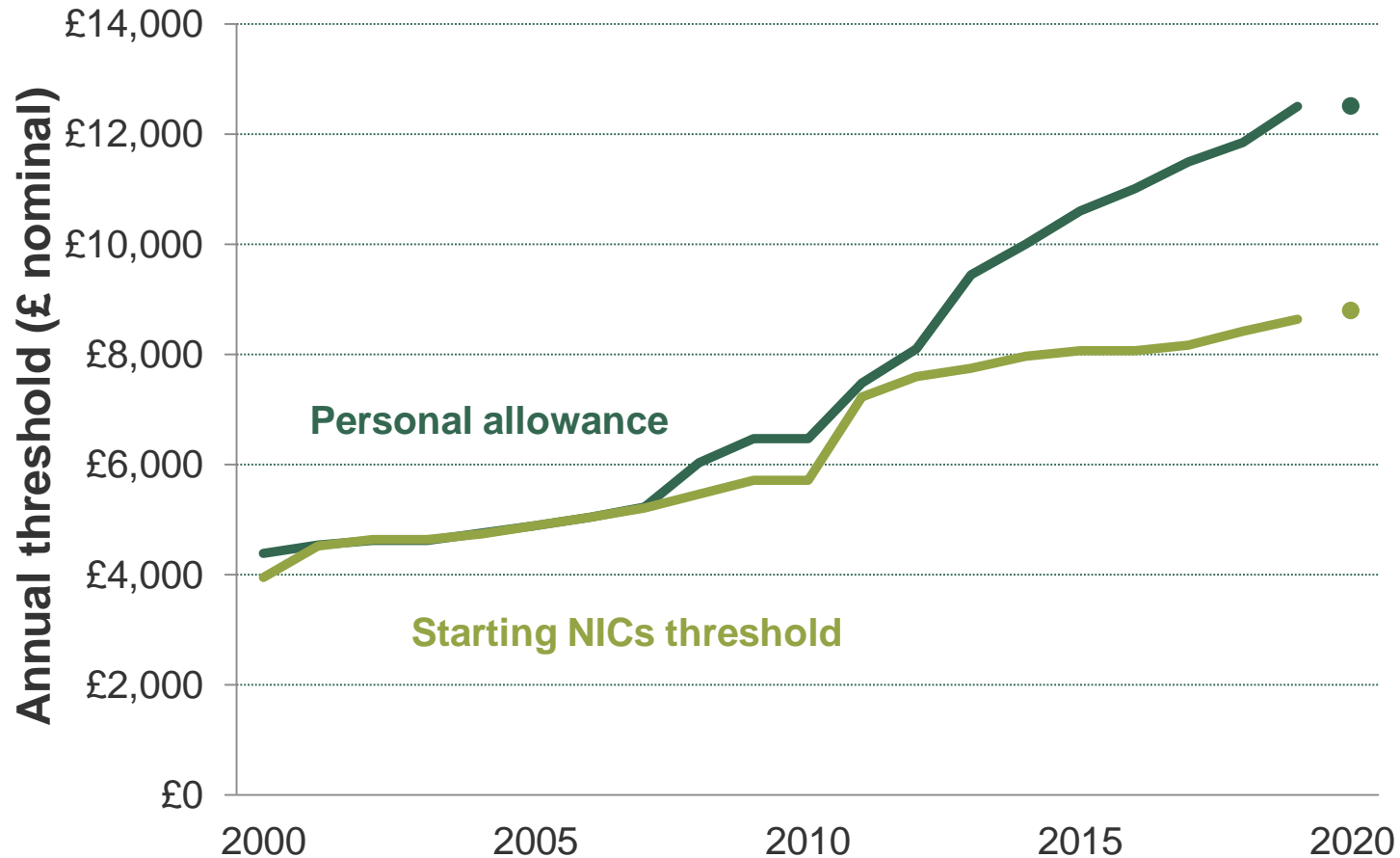
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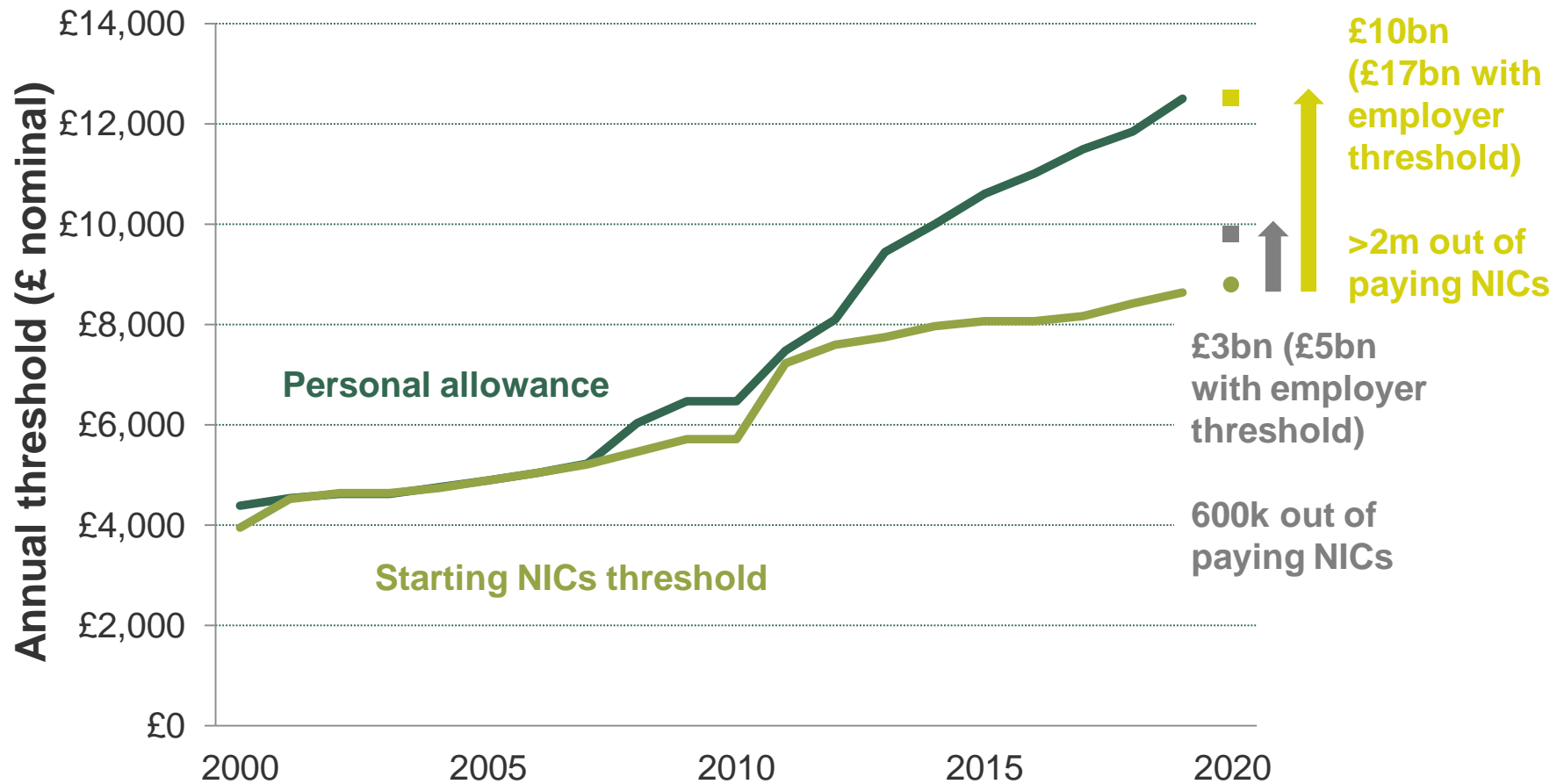
Personal allowance and NICs thresholds



Source: HMRC rates and allowances

Notes: For thresholds for working-age employee with income below £100k

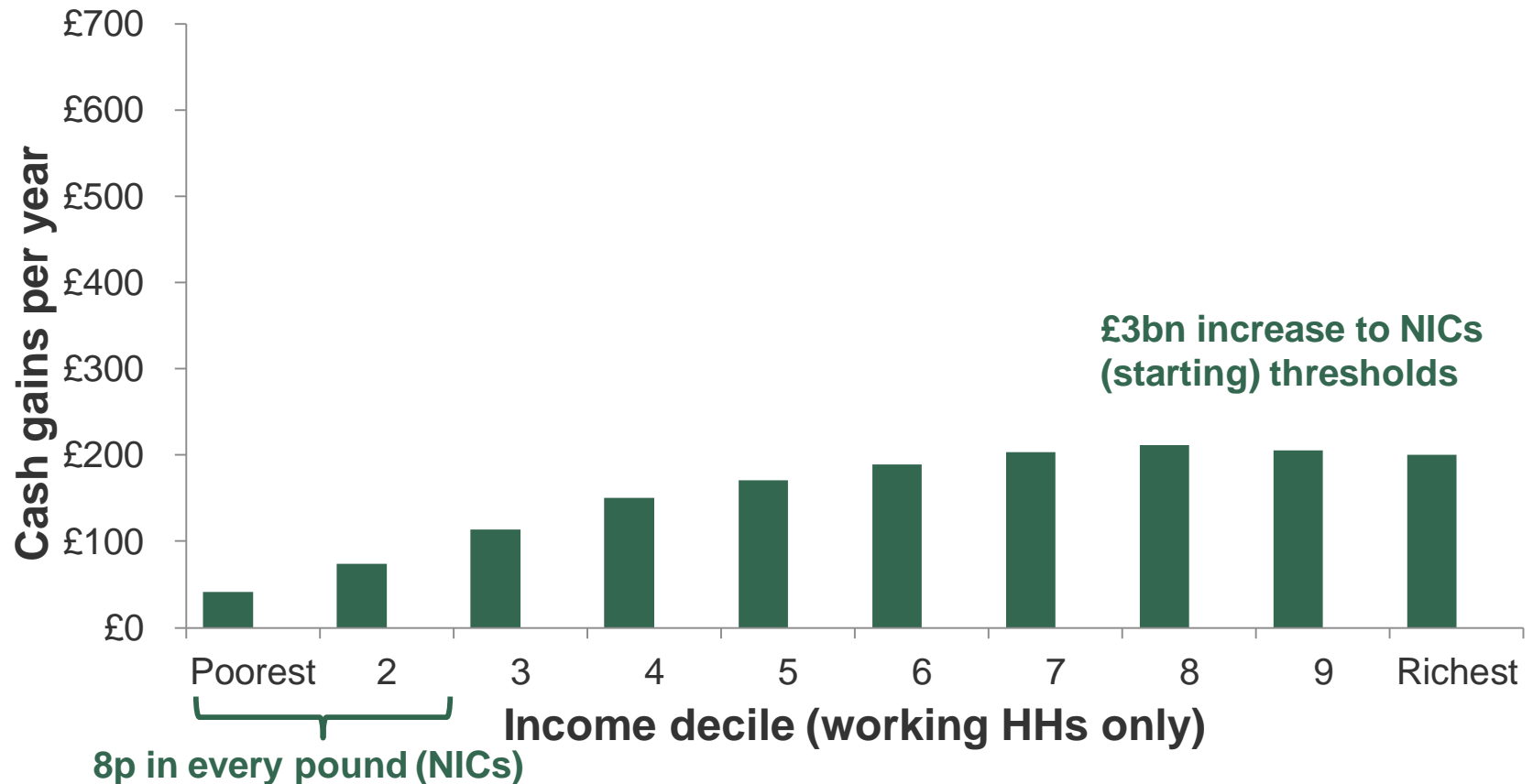
Personal allowance and NICs thresholds



Source: HMRC rates and allowances

Notes: For thresholds for working-age employee with income below £100k

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

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

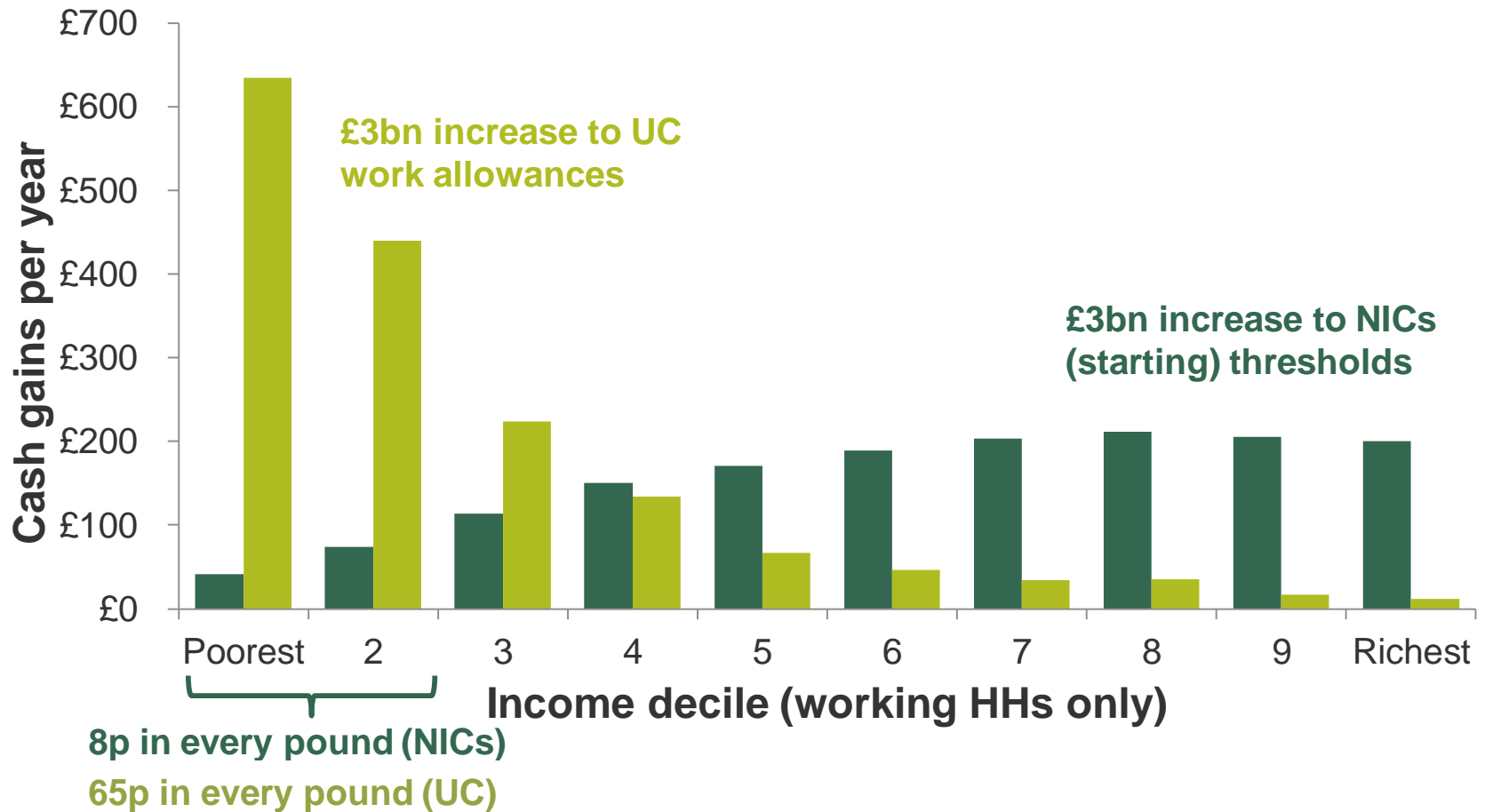
Alternative policy to £3bn NICs cut

- 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

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