General election analysis 2017

Find our up-to-date analysis here:
http://election2017.ifis.org.uk
@theifs #ge2017
Institute for Fiscal Studies
Tax proposals: Labours’ by far the biggest

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

- Corporation tax rate increases, £19.4bn
- Anti-avoidance measures, £8.8bn
- Efficiency review of corporate tax reliefs, £3.8bn
- Stamp duty, £5.6bn
- Income tax and excessive pay levy, £7.7bn
- Other, £7.2bn
Corporation tax: plans compared

Sources: Labour Party Manifesto; IFS calculations.

Labour’s plans:

- **Main rate**
  - April 2010: 28%
  - April 2011: 26%
  - April 2012: 24%
  - April 2013: 22%
  - April 2014: 20%
  - April 2015: 18%
  - April 2016: 16%
  - April 2017: 14%
  - April 2018: 12%
  - April 2019: 10%

- **Small profits rate**
  - April 2010: £19.4 billion
  - April 2011: £5.4 billion

Current plans:

- **Main rate**
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- **Small profits rate**
  - April 2010: £19.4 billion
  - April 2011: £5.4 billion
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  • Upper & out of date estimate used as central estimate for ‘Mayfair loophole’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

Cost: £1.8bn per year (2017-18 prices)

Current
Conservative plan

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

Annual taxable income (£000s)

Marginal income tax rate

Cost: £1.8bn per year (2017-18 prices)
The income tax schedule
As if changes in place now

Liberal Democrat plan
Revenue: £6bn (2017-18 prices)

Current

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

<table>
<thead>
<tr>
<th>Proposal</th>
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<tr>
<td>Reverse cuts to child tax credit (family element; limit to 2 children)</td>
<td>4.8</td>
<td>×</td>
<td>×</td>
<td>✓</td>
</tr>
<tr>
<td>Stop benefit freeze</td>
<td>3.3</td>
<td>×</td>
<td>×</td>
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</tr>
<tr>
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<td>3.0</td>
<td>×</td>
<td>£2 billion allocated</td>
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Sources: Conservative Party Manifesto; Labour Party Manifesto; Liberal Democrat manifesto.
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<td>Implement court ruling on PIP</td>
<td>0.8</td>
<td>×</td>
<td>✓</td>
<td>×</td>
</tr>
<tr>
<td>Reverse cut to ESA WRAG element</td>
<td>0.7</td>
<td>×</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Abolish the so-called 'bedroom tax'</td>
<td>0.4</td>
<td>×</td>
<td>✓</td>
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<tr>
<td>Increase carer’s allowance or extend eligibility</td>
<td>0.2 - 0.4</td>
<td>×</td>
<td>✓</td>
<td>✓</td>
</tr>
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<td>Reintroduce housing benefit for 18-21s</td>
<td>Negligible</td>
<td>×</td>
<td>✓</td>
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<td>Scrap bereavement support payment reforms</td>
<td>Negligible</td>
<td>×</td>
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Sources: Conservative Party Manifesto; Labour Party Manifesto; Liberal Democrat manifesto.
Long run distributional impact of personal tax and benefit measures already planned

% change in net income

Income Decile Group

Poorest  2  3  4  5  6  7  8  9  Richest  All

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Long run distributional impact of personal tax and benefit measures

% Change in net income

Current plans

Current plans + Labour manifesto

Current plans + Conservative manifesto

Current plans + Lib Dem manifesto

Poorest 2 3 4 5 6 7 8 9 Richest All

Income Decile Group
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

Change in annual net income (£)

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Current plans

Current plans + Labour manifesto

Current plans + Conservative manifesto

Current plans + Lib Dem manifesto
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