Personal tax and benefit measures

Tom Waters
Personal taxes and benefits in the Budget

Taxes:
- Income tax giveaway to meet manifesto pledge one year early
- Confirmation of fuel duty freeze (again)
- Beer, cider, spirit duties frozen

Benefits:
- Protections for those transferring to Universal Credit
- Rollout pushed back (again)
- Increase in generosity of system
Income tax changes

Personal allowance (PA) and higher rate threshold (HRT)
• PA raised to £12,500, HRT to £50,000 in 2019-20, then frozen for a year
• Default inflation uprating: £12,390 and £48,590 in 2020-21

PA increase benefits around 30 million taxpayers, HRT 4 million

Gains in 2020-21 (in 2018-19 prices):
• Typical basic rate taxpayer – £21 per year
• Typical higher rate taxpayer – £156 per year

Cost to Exchequer £1.4 billion p.a.
Number of income taxpayers

Source: HMRC, Table 2.1
Note: Data points for 2008-09 are linear interpolations.
Number of income taxpayers

Source: HMRC, Table 2.1
Note: Data points for 2008-09 are linear interpolations
Number of income taxpayers

6 million fewer taxpayers as a result of changes since 2010

All income taxpayers (LHS)

Higher/ additional rate taxpayers (RHS)

Source: HMRC, Table 2.1
Note: Data points for 2008-09 are linear interpolations
Number of income taxpayers

All income taxpayers (LHS)

Higher/ additional rate taxpayers (RHS)

Taking 300k out of higher rate tax

Source: HMRC, Table 2.1
Note: Data points for 2008-09 are linear interpolations
Number of income taxpayers

Still 900k more in higher rate than if HRT unchanged since 2010

Source: HMRC, Table 2.1
Note: Data points for 2008-09 are linear interpolations
Universal credit (UC) replacing six major means-tested benefits

- Large potential benefits from simplification and getting rid of very weakest work incentives
- Currently 1m claimants, eventually planned to rise to c. 7m – 1 in 3 working age families – getting a total of £60bn p.a.
- Lots of losers, lots of winners, but overall a cut to entitlements – though OBR expect increased take-up
  - Recipients protected in cash terms when moved to UC

Yesterday:

- Number of changes to ease transition, esp. for self-employed, disabled, out of work claimants
- Rollout pushed back again – more than pays for policies to ease transition
- Increase to some work allowances
Universal Credit rollout

By the end of the year, almost all new working-age benefit claimants will be on UC

Date for existing benefit claimants to be moved over has been pushed back again

- Full rollout now not expected to finish until mid-2024
UC rollout

Average caseload (million)

March 2013 forecast  
Successive forecasts  
November 2017 forecast  
October 2018 forecast

Personal taxes and benefits  
© Institute for Fiscal Studies
Increase to work allowances

Work allowances – the amount you can earn before your UC starts to be withdrawn

Summer Budget 2015 takeaway: cut work allowances for majority of families
  – Cut to zero for non-disabled families without children

Autumn Budget 2016 giveaway: reduced taper rate

Yesterday giveaway: families with children or disabled claimants see work allowance increase of £83 p.m. from 2019-20. Benefits 2.4m families by £52 p.m.
  – Still zero for non-disabled families without children
  – For others, leaves work allowances for renters higher than they were before Summer Budget 2015, and lower for owner-occupiers
Increase to work allowances
Couple with two children, owner-occupiers

Before Summer Budget 2015

Monthly UC entitlement (£)

Monthly earnings, net of tax (£)

© Institute for Fiscal Studies
Increase to work allowances
Couple with two children, owner-occupiers

Before Summer Budget 2015
Before Budget 2018
Increase to work allowances
Couple with two children, owner-occupiers


Giveaway yesterday: £1.7bn p.a.
Universal Credit: overall winners and losers
Universal Credit: overall winners and losers
Change in annual entitlement among those entitled

- Lose > £1000
- Lose £100-£1000

Note: Four household types do not include multiple family households or pensioner households
Universal Credit: overall winners and losers
Change in annual entitlement among those entitled

Note: Four household types do not include multiple family households or pensioner households
Universal Credit: overall winners and losers
Change in annual entitlement among those entitled

- Lose > £1000
- Lose £100-£1000
- Lose or gain < £100
- Gain £100-£1000
- Gain > £1000

Note: Four household types do not include multiple family households or pensioner households
Universal Credit: overall winners and losers
Change in annual entitlement among those entitled

- Lose > £1000
- Lose £100-£1000
- Lose or gain < £100
- Gain £100-£1000
- Gain > £1000

- No kids, working
- Parents, working
- No kids, workless
- Parents, workless
- All

Note: Four household types do not include multiple family households or pensioner households
Long run impact of personal tax/benefit reforms since 2015

Note: All bar includes adjustment to Scottish block grant that is not included in decile impacts
Long run impact of personal tax/benefit reforms since 2015

Gain/loss as % of net household income

Gain/loss in different income deciles due to personal tax and benefit reforms. The graph shows the impact on the poorest and richest deciles, as well as the overall impact.

Note: All bar includes adjustment to Scottish block grant that is not included in decile impacts.
Long run impact of personal tax/benefit reforms since 2015

Gain/loss as % of net household income

-12 -10 -8 -6 -4 -2 0 2

Poorest 2 3 4 5 6 7 8 9 Richest All

Income decile

Other tax/benefit reforms
2 Child Limit and Family Premium
Universal Credit
Total – after Budget

Note: All bar includes adjustment to Scottish block grant that is not included in decile impacts
Long run impact of personal tax/benefit reforms since 2015

Gain/loss as % of net household income

Poorest 2 3 4 5 6 7 8 9 Richest All

Income decile

Note: All bar includes adjustment to Scottish block grant that is not included in decile impacts
Long run impact of personal tax/benefit reforms announced yesterday

Gain/loss as % of net household income

% of net income (left axis)

£ per year (right axis)

Note: All bar includes adjustment to Scottish block grant that is not included in decile impacts
Still more social security cuts to come

Forecast saving from social security measures announced since June 2010

Note: Effect of move to CPI indexation held constant from 2015–16 onwards; Excludes triple lock.
Source: Office for Budget Responsibility Policy Measures Database, various Economic and Fiscal Outlook; IFS calculations.
Conclusion

Modest income tax giveaway, especially benefiting higher rate taxpayers

Universal Credit changes

- Protections introduced may ease transitions
- ... the timings of which are again pushed back
- Work allowance giveaway partly undoes previous takeaways
- But still many winners and losers
- And many other benefit cuts since 2015, only partly implemented