Tax and benefit measures

Tom Waters
Taxes and benefits in the Budget

No huge changes, but some modest reforms to...

1. Alcohol and fuel duties
2. Universal Credit
3. Business taxes

Also an £11,850 personal allowance and £46,350 higher rate threshold – unchanged in real terms
‘Inevitable’ freeze in fuel duties...

‘Inevitable’ freeze in fuel duty rates costs £800m

- 8th consecutive year Government has frozen fuel duty – bringing the total cost of freezes since 2010 to over £6bn p.a.
‘Inevitable’ freeze in fuel duties...

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Tax and benefit measures
‘Inevitable’ freeze in fuel duties...
...alongside other ‘traditional’ cuts to alcohol duties

‘Inevitable’ freeze in fuel duty rates costs £800m

- 8\textsuperscript{th} consecutive year Government has frozen fuel duty policy – bringing the total cost of freezes since 2010 to over £6bn p.a.
- Yet Government forecasts still assume fuel duties will rise: but continuing to do last minute freezes flatters the public finances

Government also announced a ‘traditional’ freeze in alcohol duties

- 6\textsuperscript{th} real terms cut since 2010, bringing total cost to £1bn annually

... and an increase in duty on higher-strength cider from 2019
... & an increase in duty on higher-strength cider
Changes to universal credit

Universal credit (UC) replacing six major means-tested benefits

• Large potential benefits from simplification and getting rid of very weakest work incentives

• Currently c. 600k claimants, rising to 7m by 2022-23

• But number of issues with roll-out – delayed again yesterday
Plans for rolling out UC – a history

Average caseload (million)


March 2013 forecast
Successive forecasts
November 2016 forecast
November 2017 forecast
Changes to universal credit

Universal credit replacing six major means-tested benefits

• Currently c. 600k claimants, rising to 7m by 2022-23
• Large potential benefits from simplification and getting rid of very weakest work incentives
• But number of issues with roll-out – delayed again yesterday

3 changes announced yesterday to designed to address 'six-week wait'

1. Abolition of 7-day waiting period – reduces wait for first normal UC payment from 6 to 5 weeks
2. Advance loans now up to 100% of expected entitlement – prev. 50% cap.
3. Can now still get housing benefit for first two weeks of UC claim

Total giveaway of £330m in 2019-20 – declines after that
Bigger picture: UC is part of large package of benefit cuts

Universal credit will reduce benefit entitlements by about £5bn p.a. in the long run

• Creates lots of winners and losers

Most working-age benefits frozen in April 2018 and 2019

• 4-year freeze now expected to save c.£4½ bn p.a., with 11m households affected losing over £400 p.a. on average.

And in long-run low-income families to lose significantly from cuts to child tax credit

• Long-run saving of around £5bn a year
Long run impact of tax and benefit reforms since May 2015

Notes: Assumes full take-up of means-tested benefits and tax credits and all changes fully in place.
Long run impact of tax and benefit reforms since May 2015

Change in annual net income

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Notes: Assumes full take-up of means-tested benefits and tax credits and all changes fully in place.
Long run impact of tax and benefit reforms since May 2015

Change in annual net income

Income Decile Group

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Long run impact of tax and benefit reforms since May 2015

Change in annual net income

- Budget reforms (left axis)
- Before Budget (left axis)
- Total (left axis)
- Total as a % of net income (right axis)

Income Decile Group

Notes: Assumes full take-up of means-tested benefits and tax credits and all changes fully in place.
Business taxes

Increase main R&D credit from 11% to 12% (-£175m)

Business rates giveaways (-£520m)
  • Bring forward CPI uprating to 2018-19
  • Move to revaluations every 3 years

Anti-avoidance measures (+£1.5bn)

Capital Gains (+£685m)
  • Freeze indexation allowance

VAT threshold frozen at £85,000 for 2 years (+£170m)
Conclusion

No huge giveaways or takeaways in taxes or benefits yesterday

Some changes on duties:
• Ongoing fuel duty freeze becoming increasingly costly
• Cider reform represents a small detail in the bigger picture

Universal Credit reforms may well ease early days for claimants
• But bigger picture remains substantial cuts to working-age benefits

Business taxes
• Series of small changes, overall a revenue raiser