



Institute for
Fiscal Studies



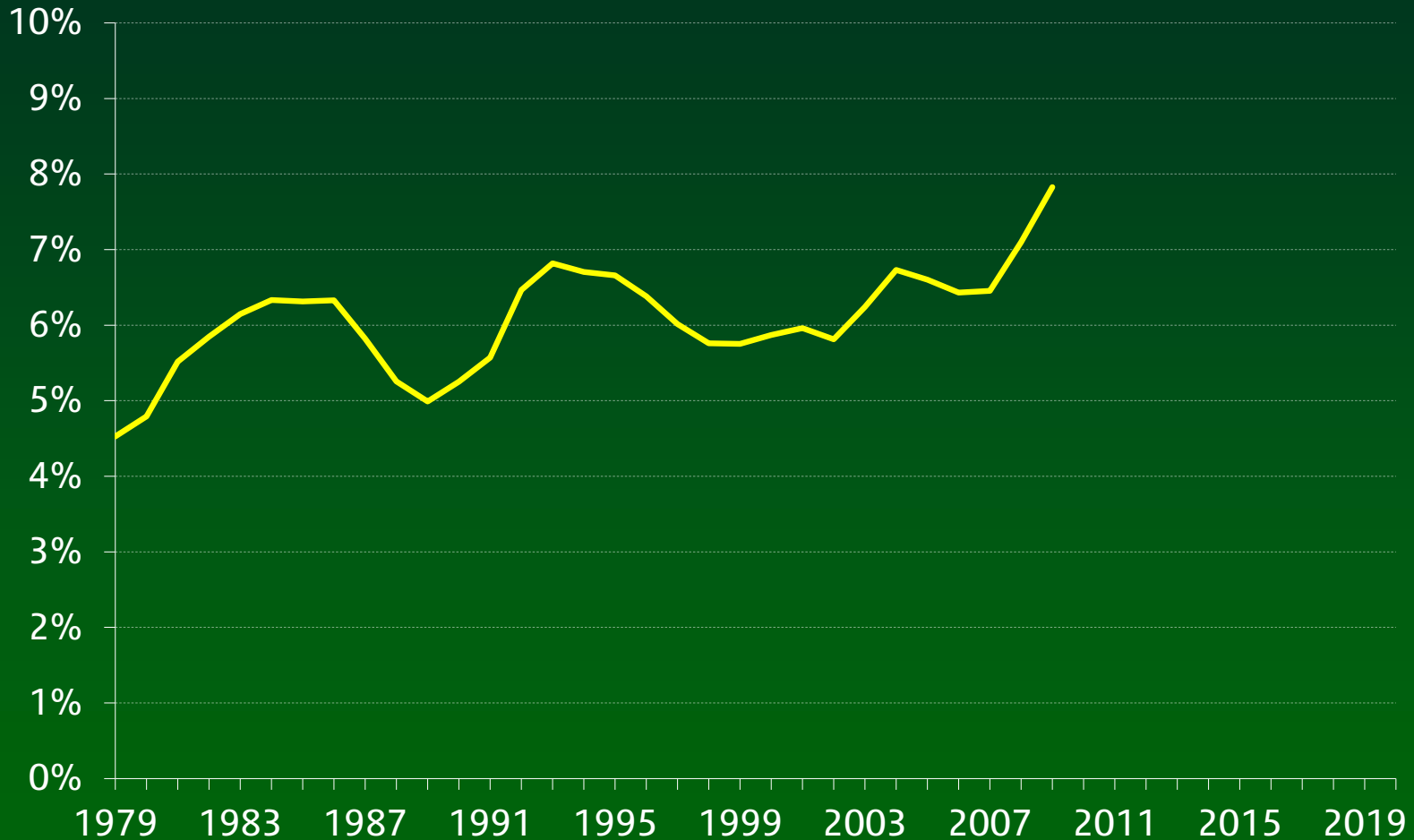
Benefit and tax credit changes

Andrew Hood

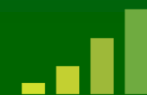
The big picture

- Government still planning £12bn cut to annual benefit spending by end of the parliament
 - But less than half delivered by 2017-18
 - £4bn from freeze to 2020, £4-5bn additional cuts to universal credit, £1½bn cuts to housing benefit spending (plus other smaller changes)
- Benefit spending excluding state pensions in 2020-21 forecast to be at its lowest as a share of national income for 30 years

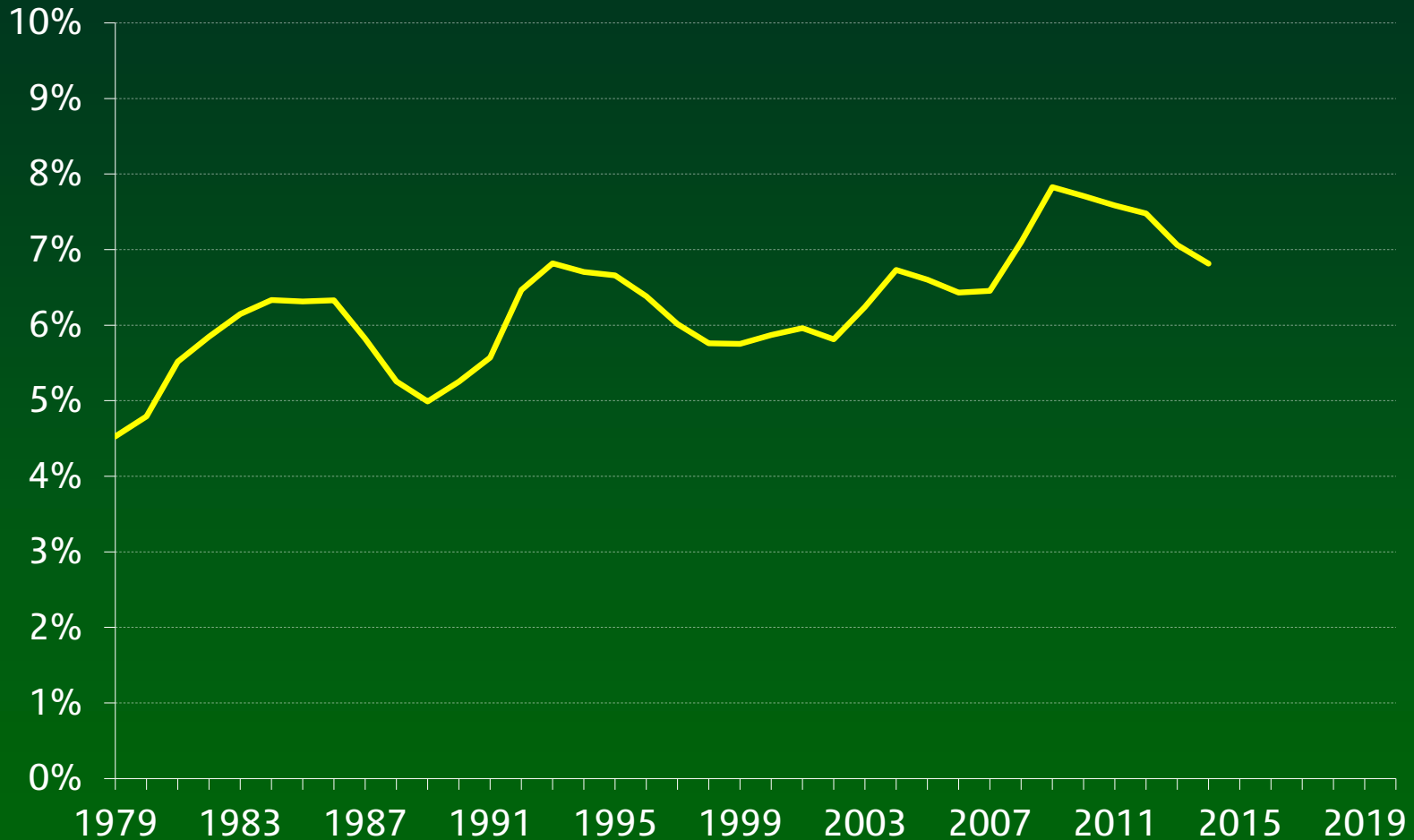
Benefit/tax credit spending excluding state pensions, as % of national income



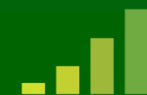
Note: Years are financial years. Data points from 2015-16 are projections, marked with dotted lines.
Author's calculations using November 2015 EFO and July 2015 DWP benefit expenditure tables



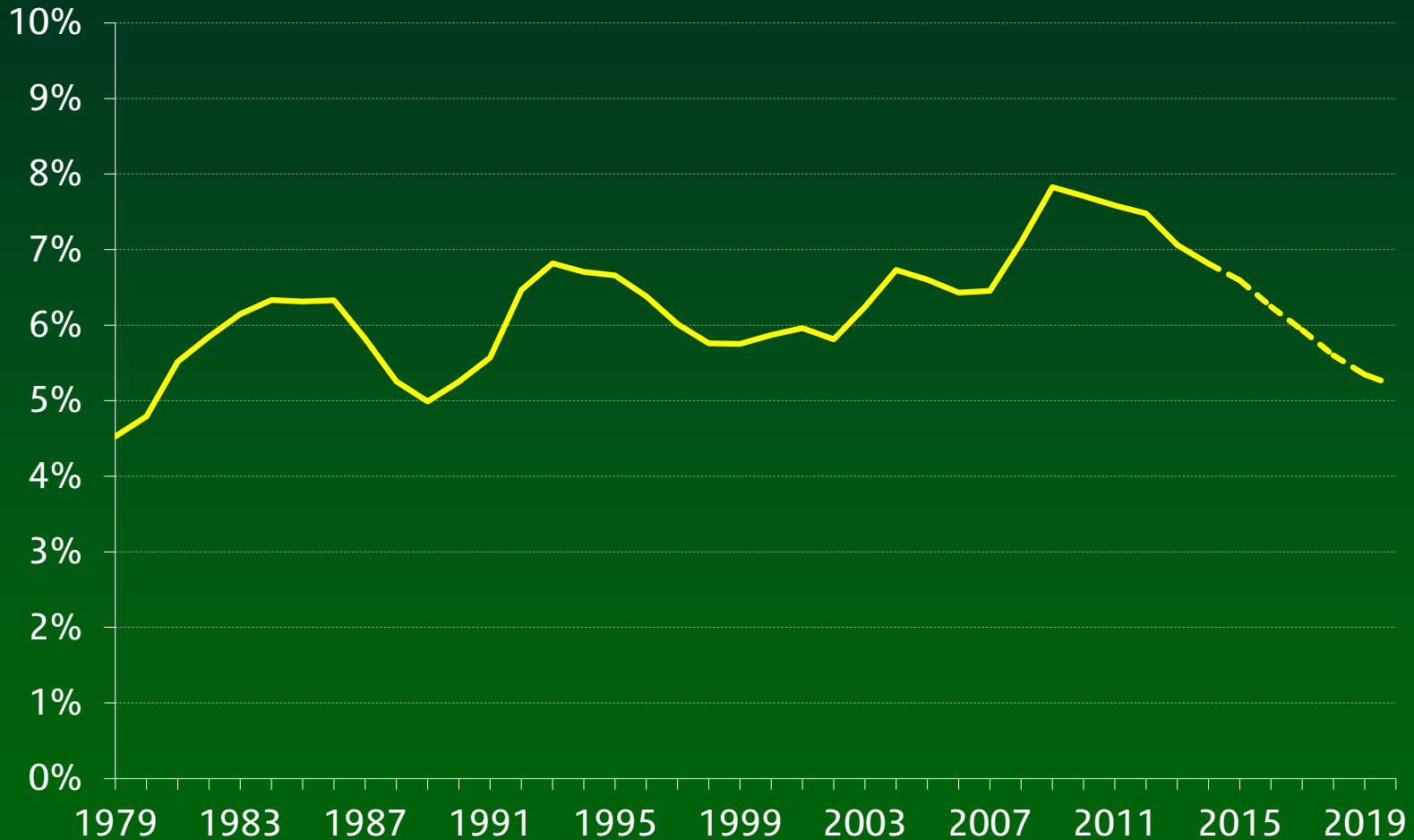
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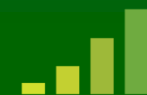
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Benefit/tax credit spending excluding state pensions, as % of national income



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The tax credit U-turn

- July 2015 Budget announced £4.4bn cut to tax credits for low-income working families in April 2016
 - Cut in income threshold from £6,420 to £3,850
 - Increase in taper rate from 41% to 48%
- Those two cuts were cancelled yesterday
 - Cost: £3.4bn in 2016-17 (not £4.4bn)
 - Lower cost is combination of avoidable mistakes in official July costing and forecast changes

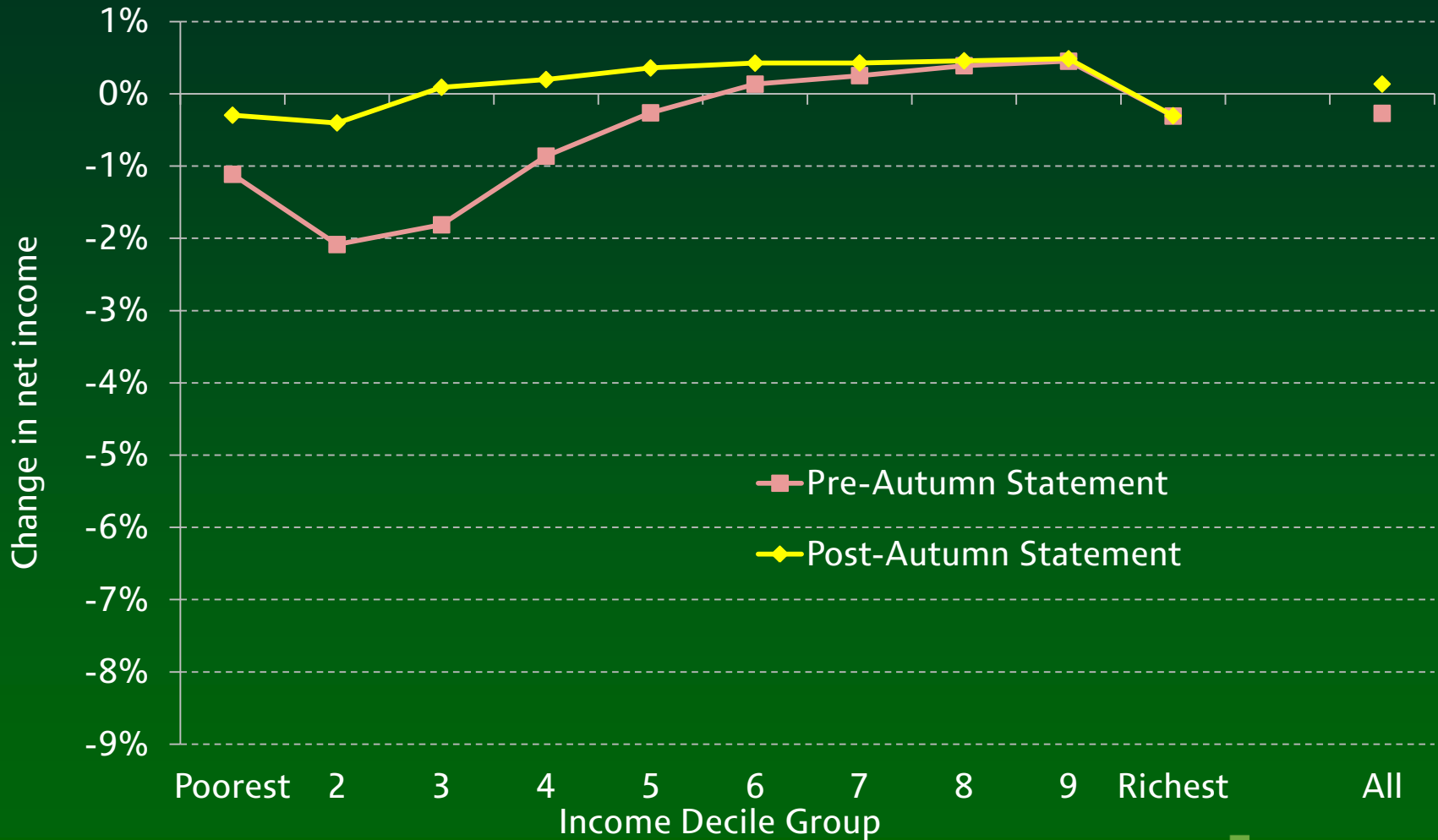
Housing benefit cut for social tenants

- Local caps on HB in private sector extended to new social tenancies
 - Applies from April 2018, on tenancies signed from April 2016
 - Cuts HB by £225m in 2020-21
- Cut will get bigger. If applied to all social tenants now:
 - HB would be cut by £1.1 bn (from base of around £25bn)
 - 800,000 households would lose average of £1,300 per year
- Long-run effects would be larger still if social rents grow faster than HB caps (which are CPI-indexed)
- The caps are increasingly arbitrary and in need of reform
 - They depend on 2012-13 level of 30th percentile of private sector rents (for properties of relevant size in local area)



Short-run impact of tax and benefit changes

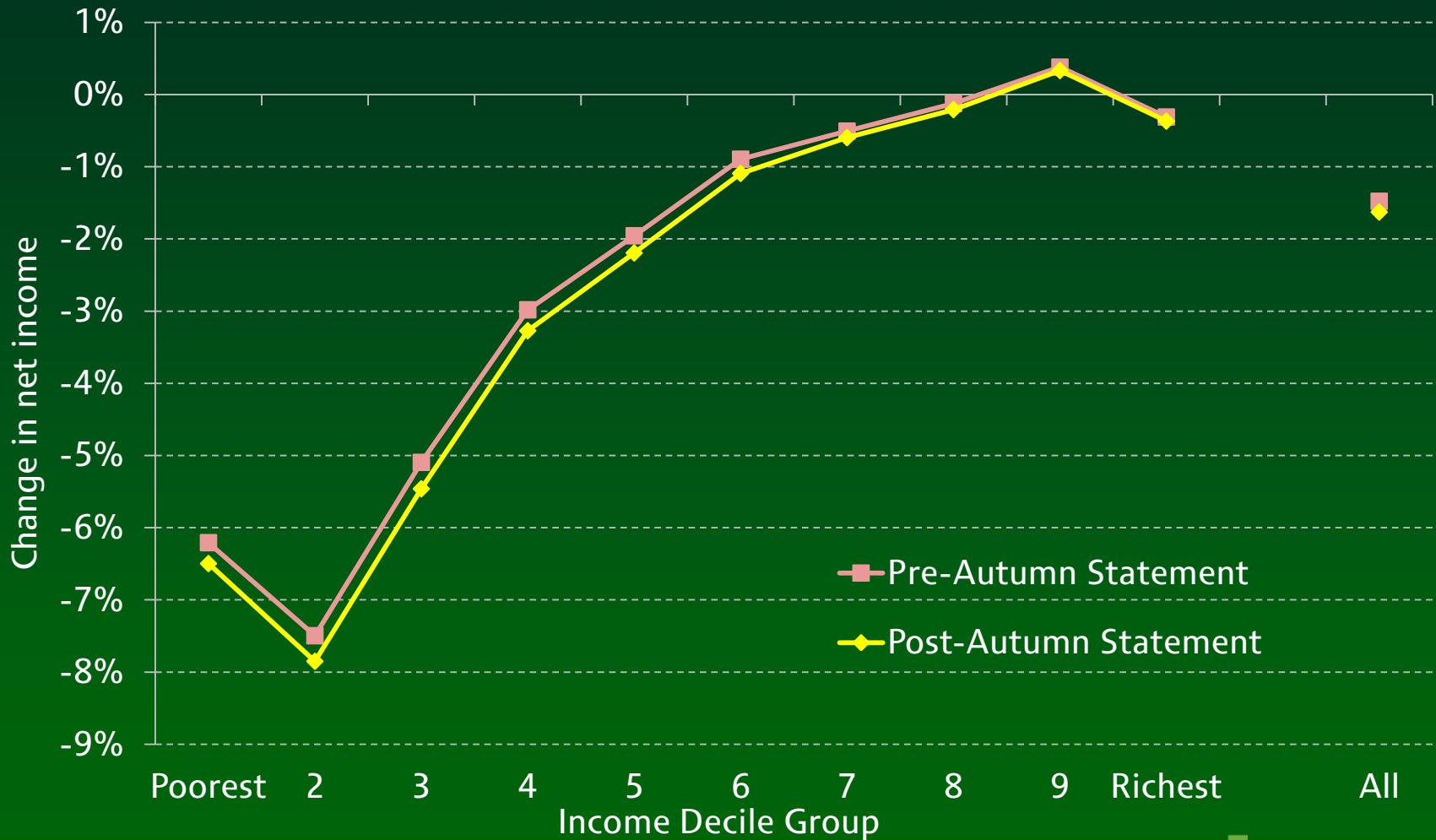
Changes in April 2016 only



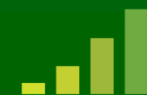
Note: Assumes full take-up of means-tested benefits and tax credits.

Long-run impact of tax and benefit changes

All changes introduced May 2015-April 2019 fully in place



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Benefit system still much less generous in long run

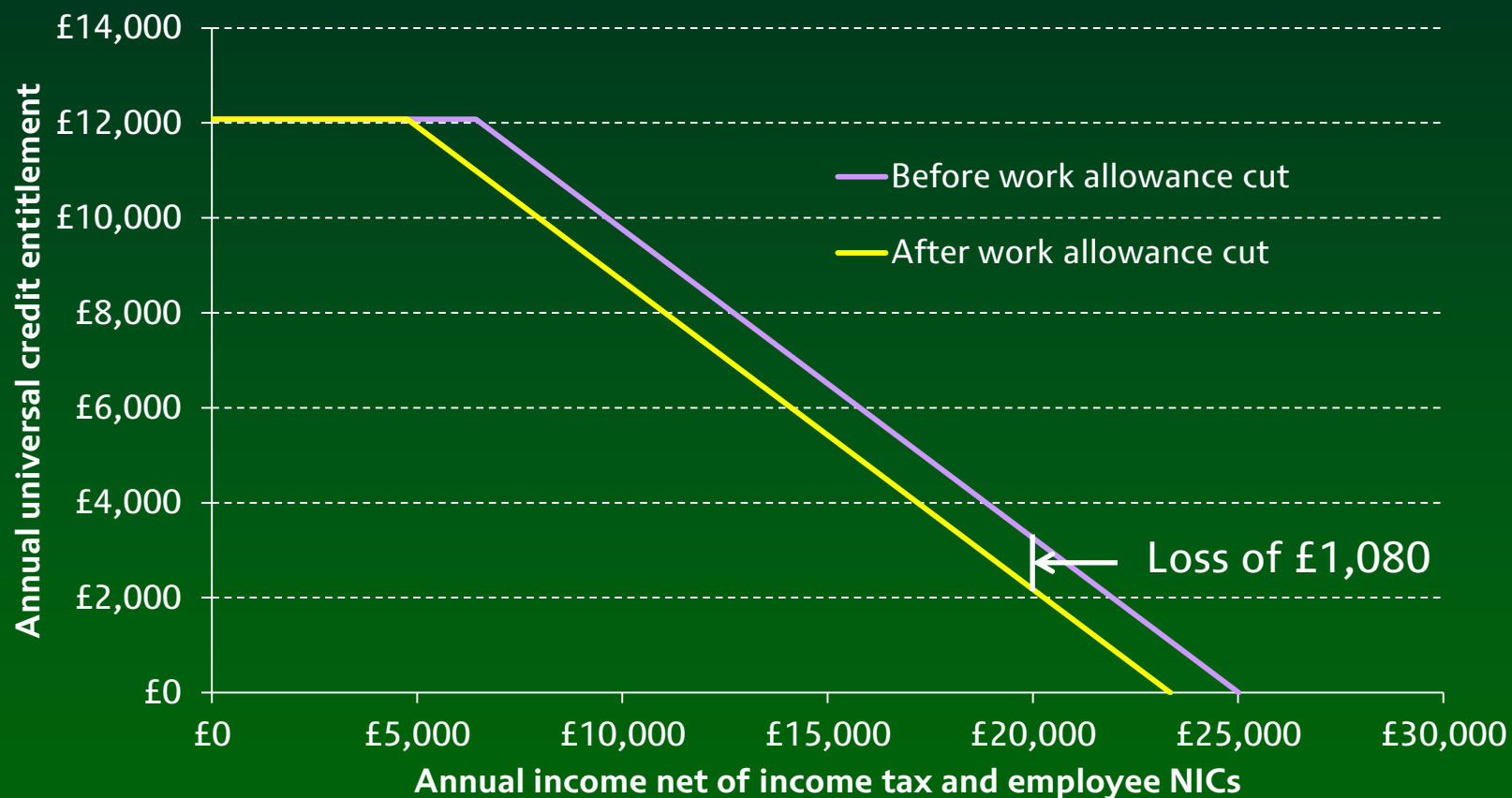
1. Lots of other benefit cuts announced in July that are going ahead (and more announced yesterday)
 - e.g. freeze until 2020, 2-child limit in tax credits & universal credit
 2. Reversal of tax credit cuts makes no difference in long run
 - Tax credits being replaced by universal credit
- Work incentives strengthened on average in long run
 - Cuts to out-of-work benefits as well as in-work benefits
 - Those with working partners have less benefit income to lose by moving into work

Universal credit still less generous than pre-election plans

- UC replacing tax credits (along with 4 other means-tested benefits)
 - Under previous plan, UC roughly as generous as system it replaces
 - Though significant gains and losses for different families
- UC unaffected by yesterday's tax credit U-turn
 - Cut to work allowances announced in July still going ahead
 - Will affect similar group to abandoned tax credit cuts

Example of work allowance cut announced in July

Couple with 2 children, owner-occupiers



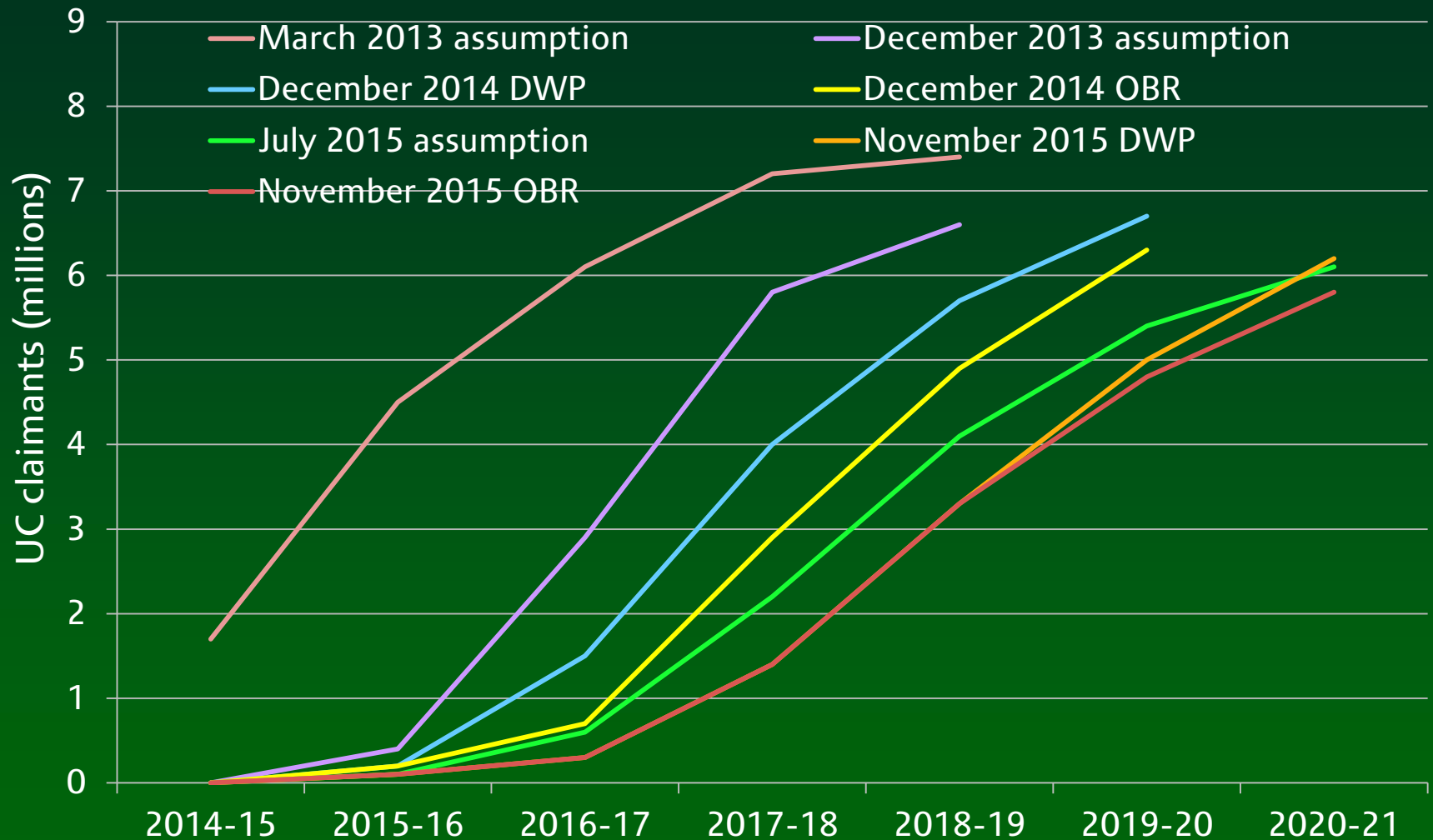
Universal credit vs. the system it is replacing

- UC now represents additional cut on top of other changes
 - Cuts benefit entitlements by £3.7bn a year in the long run
 - Existing claimants protected in cash terms when moved onto UC
- 4.5m working families affected by introduction of UC
 - 2.6m lose an average of £1,600 a year
 - 1.9m gain an average of £1,400 a year
 - Total cut of £1.5bn a year
- 1.8m non-working families affected by introduction of UC
 - 1.2m lose an average of £2,500 a year
 - 0.6m gain an average of £1,000 a year
 - Total cut of £2.2bn a year

Universal credit vs. the system it is replacing

- UC now represents additional cut on top of other changes
 - Cuts benefit entitlements by £2.7bn a year in the long run
 - Existing claimants protected in cash terms when moved onto UC
- 3.9m working households affected by introduction of UC
 - 2.1m lose an average of £1,600 a year
 - 1.8m gain an average of £1,500 a year
 - Total cut of £0.7bn a year
- 1.5m non-working households affected by introduction of UC
 - 1.1m lose an average of £2,300 a year
 - 0.5m gain an average of £1,000 a year
 - Total cut of £2.0bn a year

Timing of universal credit roll-out uncertain...



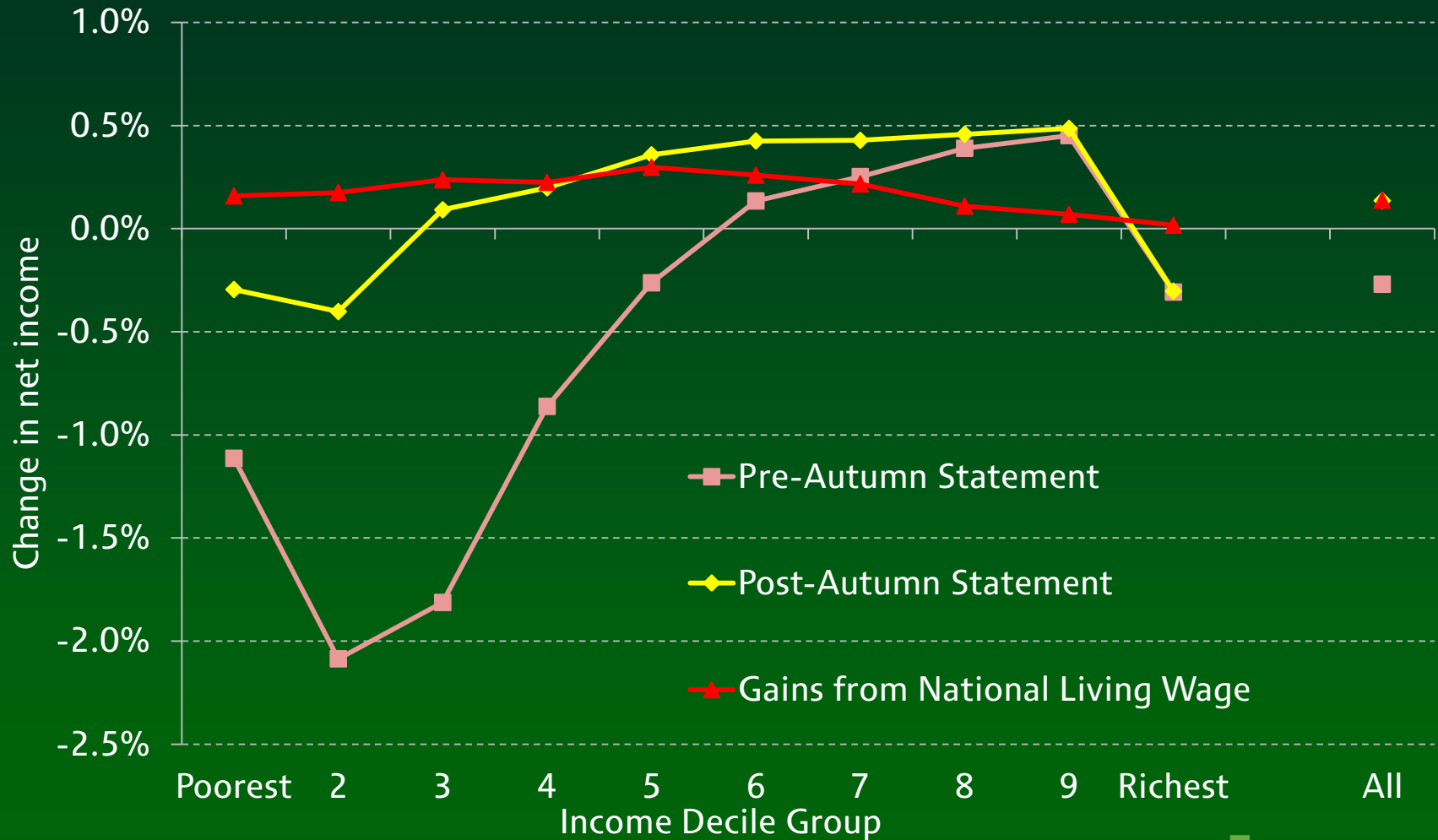
Summary

- Big decision yesterday was to scrap two planned cuts to tax credits
- But in fact, tax credit U-turn has no long run effect
 - Tax credits being replaced by universal credit
 - UC unaffected by yesterday's announcement
- Government still planning deep cuts to working-age benefits
 - Including for low-income working families
 - Though overall package will strengthen work incentives on average

ADDITIONAL DISTRIBUTIONAL ANALYSIS

Short-run impact of tax and benefit changes

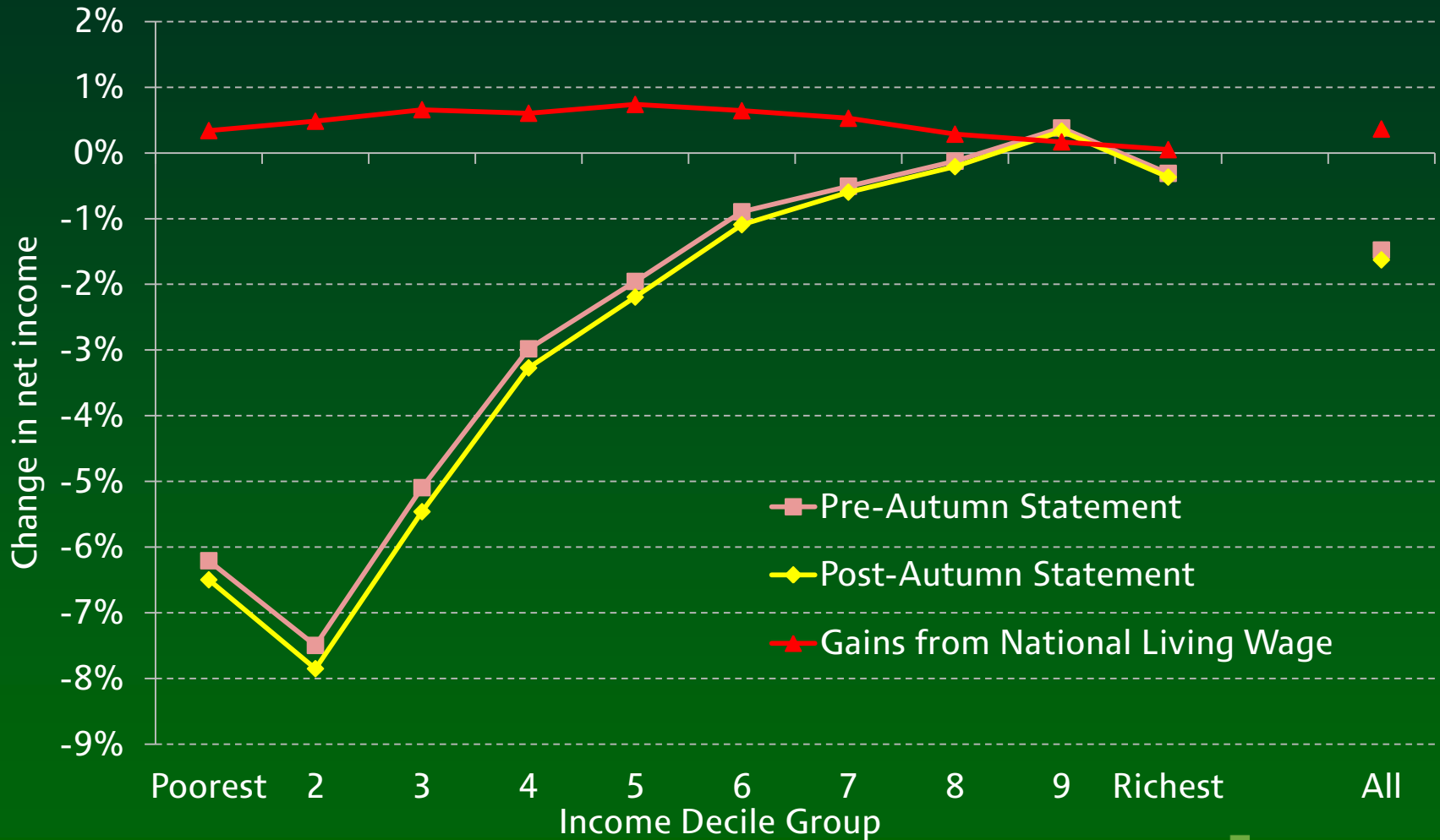
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Long-run impact of tax and benefit changes

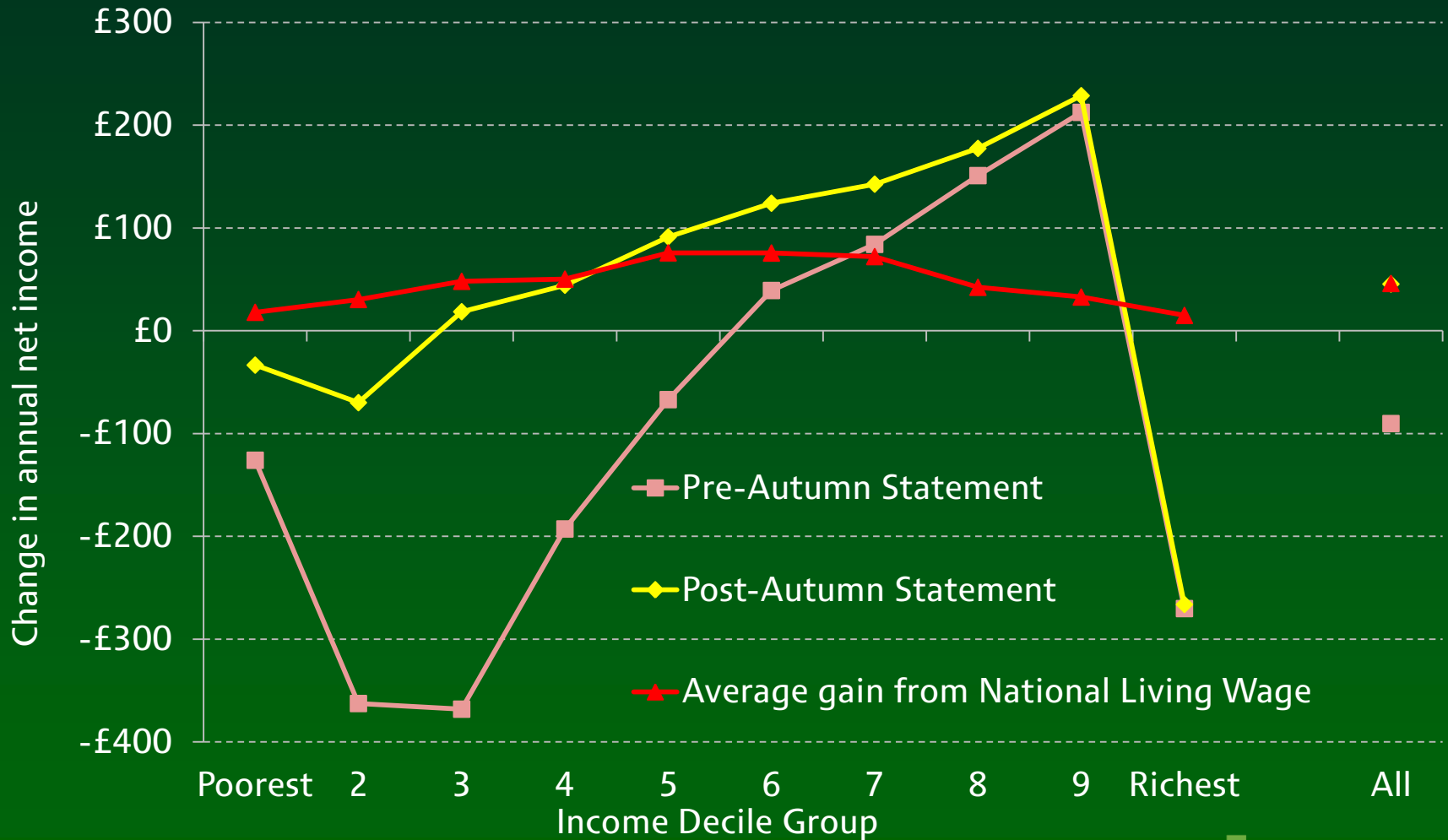
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Short-run impact of tax and benefit changes

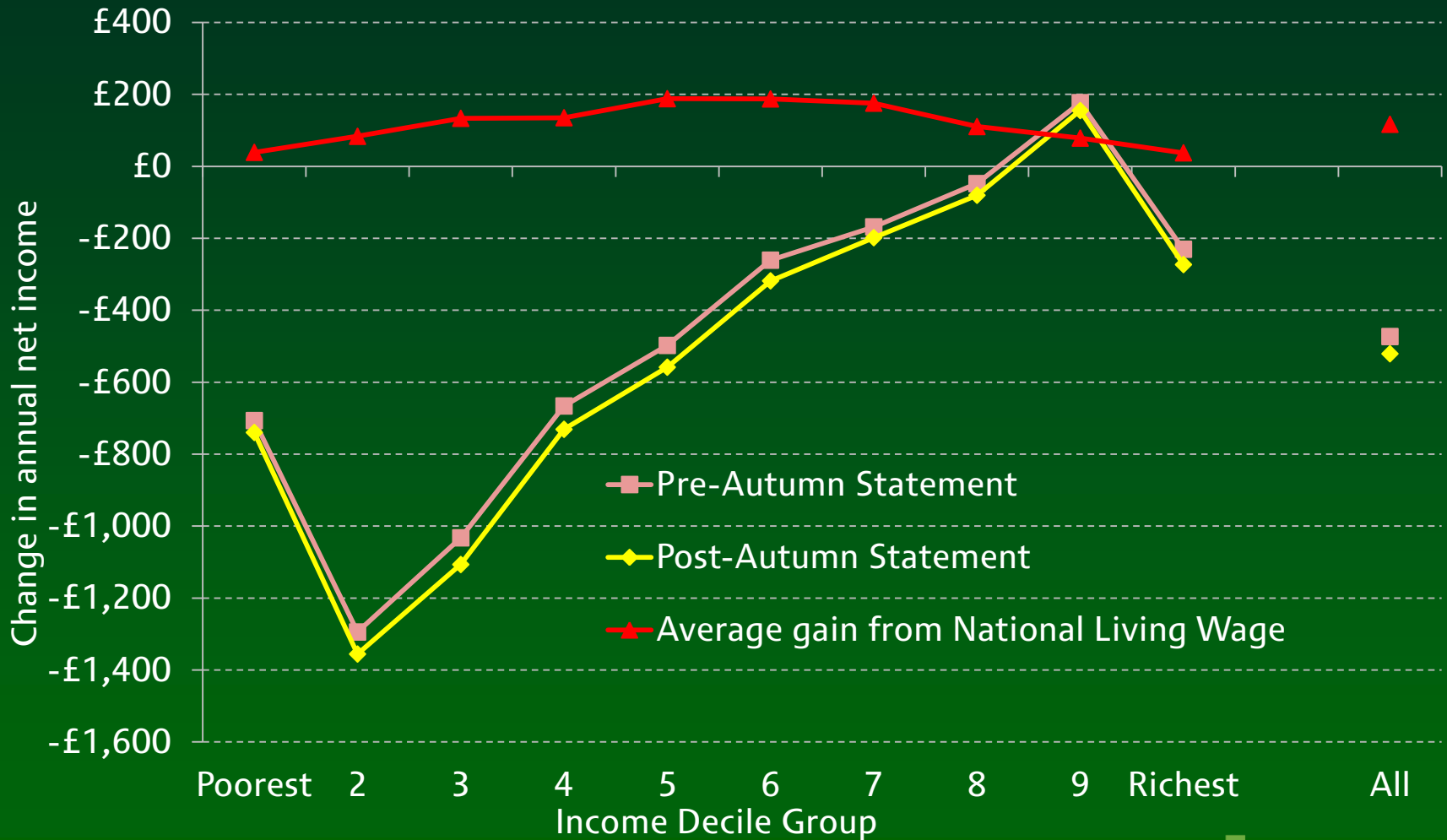
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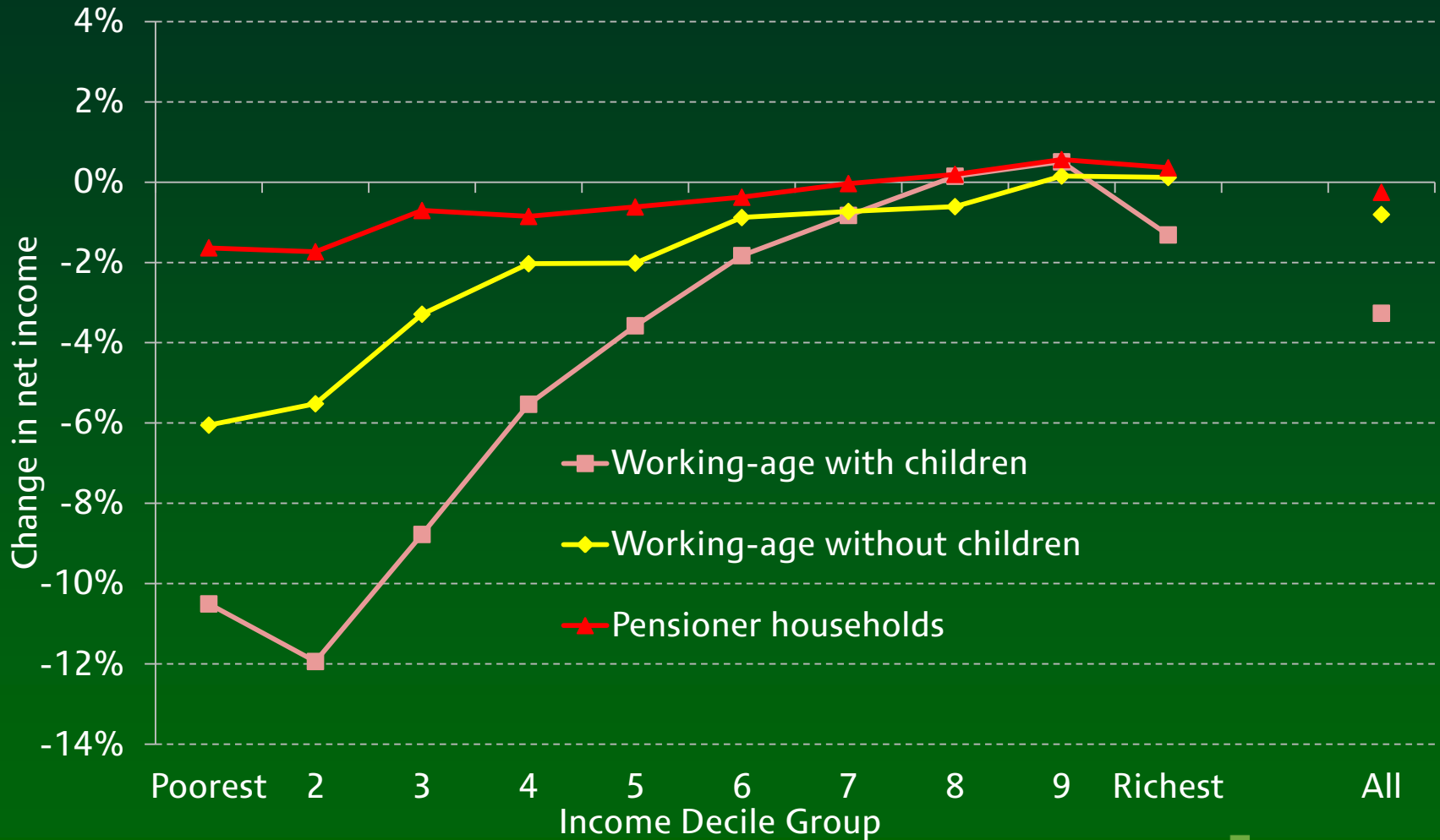
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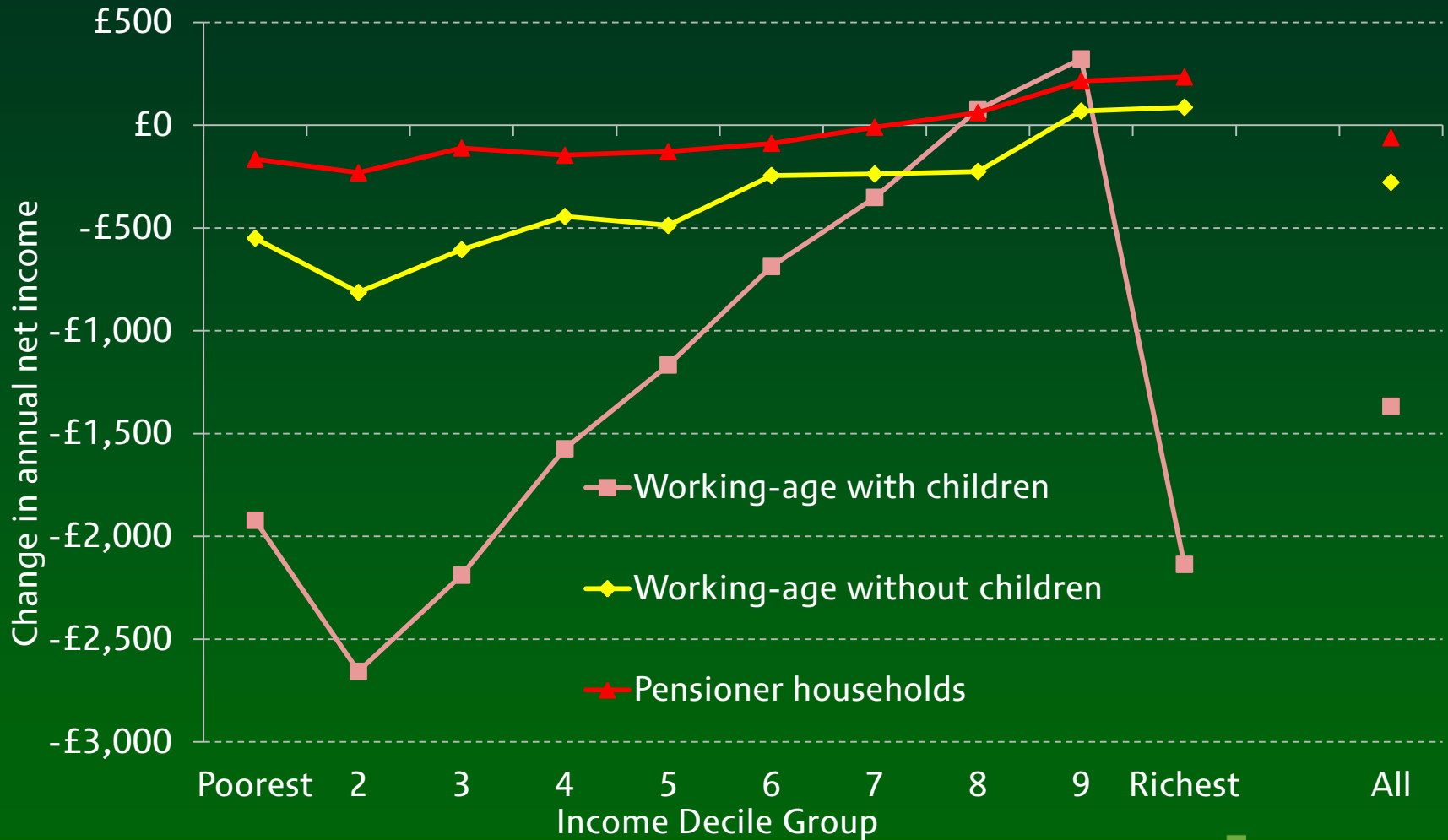
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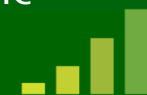


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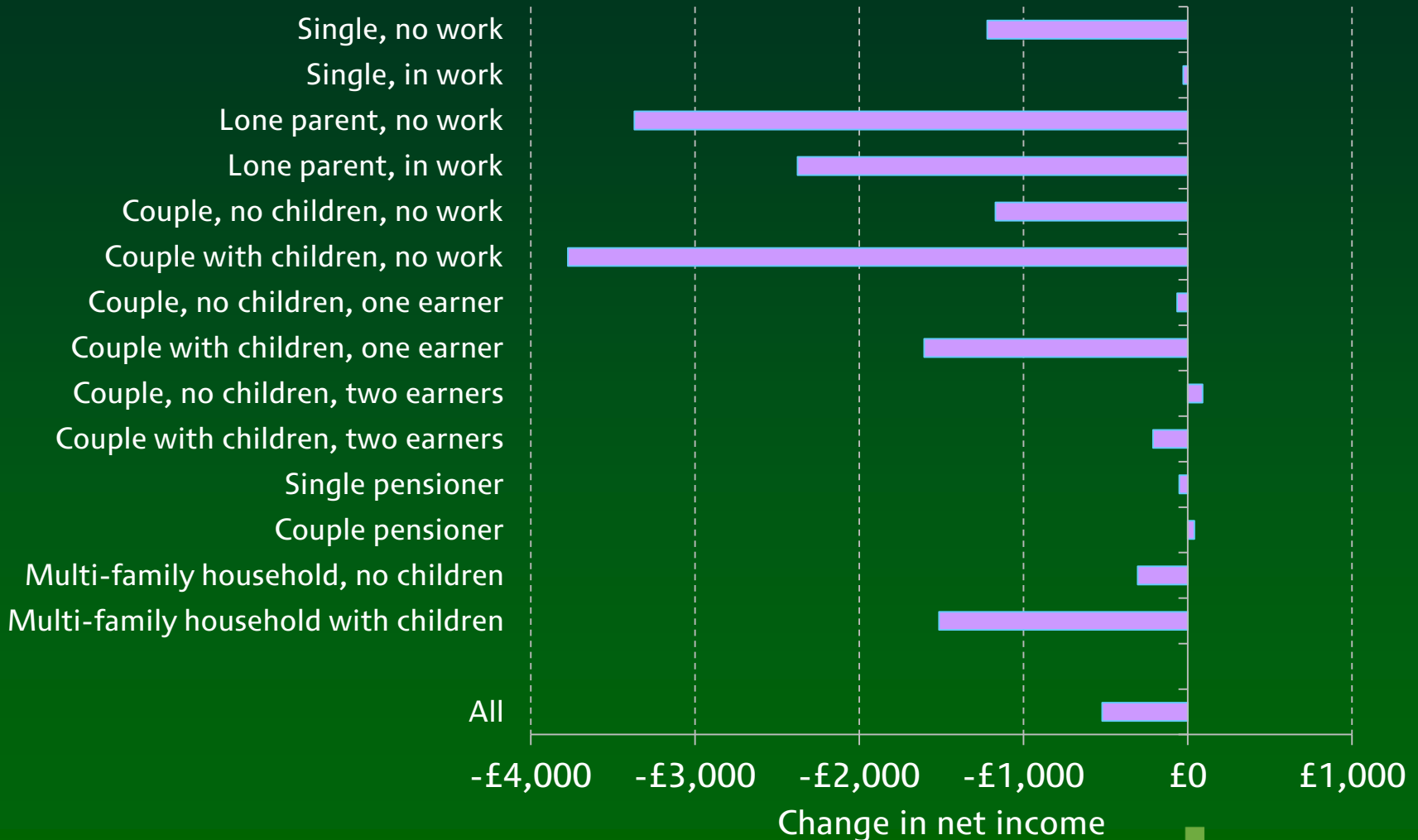


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