Personal taxes and benefits

Stuart Adam
Stamp duty land tax on housing transactions

Tax payable

- May 1997
- May 2010
- 3 December 2014

Sale price

- £0
- £50,000
- £100,000
- £150,000
- £200,000
- £250,000
- £500,000
- £1,000,000
- £1,500,000
- £2,000,000
- £2,500,000

£40,000
Number of housing transactions by value, 2013-14
Stamp duty land tax on housing transactions

Tax payable

Sale price

3 December 2014

4 December 2014

£0 £50,000 £100,000 £150,000 £200,000 £250,000 £500,000 £1,000,000 £1,500,000 £2,000,000 £2,500,000

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Gains from yesterday’s SDLT announcement

Average tax cut of £1,500 on 700,000 sales per year = £1.1bn cost

Average tax rise of £27,000 on 18,000 sales per year = £0.5bn saving

Net cost £0.6bn before behavioural response; £0.8bn after behavioural response

Note: average tax cut/rise figures approximate as based on number of transactions in 2013-14 and policy costings for 2015-16 to 2017-18
Revenue from SDLT on residential property

With yesterday's announcement

Without yesterday’s announcement

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A different kind of mansion tax

• Yesterday’s announcement meant a big tax rise on high-value houses: how does it compare to Labour and Lib Dem ‘mansion tax’ proposals?

• Don’t yet have full details of Labour and Lib Dem proposals

• Labour has said tax would be £3,000 per year on £2-3m properties
  – For yesterday’s announcement to be a bigger tax increase:
    • A £2m property would have to change hands every 4½ years
    • A £3m property would have to change hands every 21 years

• But note that most of the £1.2bn Labour wants to raise would come from much higher charges on properties >£3m
  – Don’t know how high, so can’t compare with yesterday’s announcement
Evaluating the SDLT reform

• Gains and losses will mostly be felt by properties’ current owners
  – Property prices rise/fall to reflect change in expected future SDLT

• Move away from a ‘slab’ structure is a clear improvement

• But why only for residential property?
  – All the arguments for reform apply to non-residential property too

• SDLT still fundamentally flawed: shouldn’t tax transactions at all
  – Why impose heavier tax on properties that change hands more often?
  – Assets should be held by the people who value them most
  – Reduced labour mobility one symptom of this more fundamental problem

  ➢ SDLT should be replaced with better-designed property taxes

• A very bad tax transformed into a bad tax
A £10,600 income tax allowance in 2015-16

- Personal allowance and higher-rate threshold will be £100 higher than previously announced
  - Costs £640 million per year
  - Basic-rate taxpayers gain £20 a year
  - Higher-rate taxpayers with incomes <£121,000 gain £30 a year
A £10,600 income tax allowance in 2015-16

• Personal allowance and higher-rate threshold will be £100 higher than previously announced
  – Costs £640 million per year
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• Overall, changes to personal allowance and higher-rate threshold announced/implemented by the coalition will, in 2015–16:
  – Cost £11.5bn/£7.7bn
  – Make basic-rate taxpayers £593/£567 a year better off
  – Make higher-rate taxpayers £38 a year better off / £471 a year worse off
Some bequeathed pensions will never be subject to income tax

- Pension contributions tax-relieved in exchange for income tax on the future pension income

- Autumn Statement confirmed tax cut for DC pensions bequeathed:
  - If die before age 75 then pot bequeathed will be completely free of tax (was only previously true if pension had not been touched)
  - If die after 75 with an unannuitised DC pension then pot bequeathed will be taxed at recipient’s marginal income tax rate when withdrawn

- Never subjecting this income to income tax is astonishingly generous
  - and why be more generous to heirs of those who die before age 75?
Universal credit

• Further delays to roll-out, plus OBR now assuming revised plans won’t be delivered on time
  – Saves £915m in 2017-18 but costs £395m in 2019-20

• Confirmation that childcare element to rise from 70% to 85% of eligible childcare spending in April 2016
  – Costs £310m in 2019-20

• Work allowances frozen for additional year (until April 2018)
  – Saves £145m in 2019-20
  – Reduces the amount people can earn before UC withdrawn
  – Third time announced real cuts to work allowances before UC even rolled out: a 6% real-terms cut in total
Postgraduate student loans

- Variant of a 2011 proposal from CentreForum
- Loans of up to £10,000 available for under-30s doing taught Masters courses from September 2016
  - Government figures imply 84,000 eligible students in first year
- To consult on repayment details, but govt illustrates one possibility...
- Interest charged at RPI inflation + 3%
  - Undergraduate loans charged that much only when earning >£41,000
- Repayments at 9% of income above £21,000
  - On top of 9% undergraduate loan repayments, making 18% in total
    - + basic-rate income tax & employee NICs = 50% marginal rate
    - + higher-rate income tax & employee NICs = 60% marginal rate
- Outstanding debt presumably written off after 30 years
  - As per undergraduate loans

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Postgraduate student loans

• We expect only 57% of value of undergraduate loans will be repaid
• With postgraduate loans, government expects around 100%, i.e. no long-run Exchequer cost
  – Smaller loans, so more likely to be paid off within 30 years
  – Higher interest rate
  – Those with postgraduate degrees earn more
• Not 100% for each individual: still some redistribution
  – Lowest earners will see much of their loan written off
  – Higher-earning majority will pay back in full, with heavy interest
• Given high interest rate, will students who can get by without the cash and who expect high future earnings prefer not to borrow?
  – Government expects only 47,000 students (56% of those eligible) to take up loans in 2016
Summary

- Sensible improvement to stamp duty, but remains badly designed tax
- Small additional increase in income tax personal allowance
- Astonishingly generous treatment of some bequeathed pension pots
- More delays and changes to universal credit
- Welcome introduction of postgraduate student loans
  - But devil may be in the detail