

BRIEFING

ANALYSIS OF TAX AND BENEFIT CHANGES IN THE AUTUMN STATEMENT

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IDEAS to
CHANGE POLICY

ANALYSIS OF TAX AND BENEFIT CHANGES IN THE AUTUMN STATEMENT

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Key points¹

- **Reforms to welfare made in the 2012 autumn statement will increase the number of children living in poverty by 200,000 in 2017/18.** By limiting rises in the value of most working-age benefits to 1 per cent for three years, as opposed to linking their increases to inflation, the amount of support given to low-income families in real terms will fall significantly. This change will push many families and children into relative poverty. The numbers of children, adults and households in poverty will all rise by 200,000.
- **By 2017/18, reforms to personal taxes made in the 2012 autumn statement will provide the greatest benefit to those on middle incomes, but will not reverse the impact of real cuts to welfare.** For households in the middle of the income distribution, the increase in the personal allowance will provide a small increase to incomes. But the poorest households gain less from this change, and households in almost all sections of the income distribution will see a greater amount taken away through the 1 per cent cap on benefits uprating than is handed to them via personal tax reform.
- **The combined changes to taxes and benefits will have an impact on families both in and out of work.** As a proportion of income, the changes announced in the 2012 autumn statement will have the greatest impact on those out of work, who will see their incomes fall on average by 0.44 per cent. But in real cash terms, the amount that families who are in work will lose is larger, at an average of £1.50 a week.

¹ All values are in 2017/18 prices.

Introduction

In the 2012 autumn statement, the chancellor George Osborne announced several important changes to the tax and benefit system, which will come into force in April 2013. These include:

- An increase in the higher-rate threshold for income tax: This will increase by 1 per cent in 2014/15 and 2015/16, with equivalent changes in the upper earnings and profit limits for national insurance contributions.
- An increase in the personal allowance: This will increase by £235 to £9,440 in 2013/14.
- Changes to the uprating of benefits: Most working-age benefits – excluding disability, carer and pensioner premiums – will increase by 1 per cent for three years from 2013/14. Child benefit will be frozen for one year as previously planned, and will then increase by 1 per cent for two years.²
- Changes to the uprating of tax credits: The child and working tax credits are also subject to 1 per cent uprating, excluding their disability elements. The basic and 30-hour elements will be frozen for the first year, as set out in the June 2010 budget, and will then be subject to 1 per cent increases in 2014/15 and 2015/16.

IPPR's analysis

IPPR's tax benefit model allows us to project forward the level of tax and benefits outlined in the autumn statement, as well as household earnings using Office for Budget Responsibility (OBR) projections of average earnings growth.

We looked at the impact of the autumn statement reforms in 2017/18, assuming the following:

- After three years of 1 per cent uprating, working-age benefits will revert to increasing in line with the consumer price index (CPI), as was previously the case.
- After two years of 1 per cent increases in 2014/15 and 2015/16, the higher-rate threshold for income tax will revert to increasing in line with the retail price index (RPI).³ The personal allowance is assumed to increase by RPI each year.⁴

We compared this level of taxes and benefits against a baseline that assumes the reforms had not been announced:

- Working-age benefits that are subject to the 1 per cent uprating would instead have increased according to CPI indexation.
- Those benefits that were frozen for three years, as set out in the June 2010 budget, would have reverted in 2014/15 to CPI indexation.
- The higher-rate threshold and personal allowance would have increased by RPI each year, but starting from the 2013/14 levels set out in the March 2012 budget.

We analysed the cost, distributional and poverty impact of these differences between the two scenarios in 2017/18.

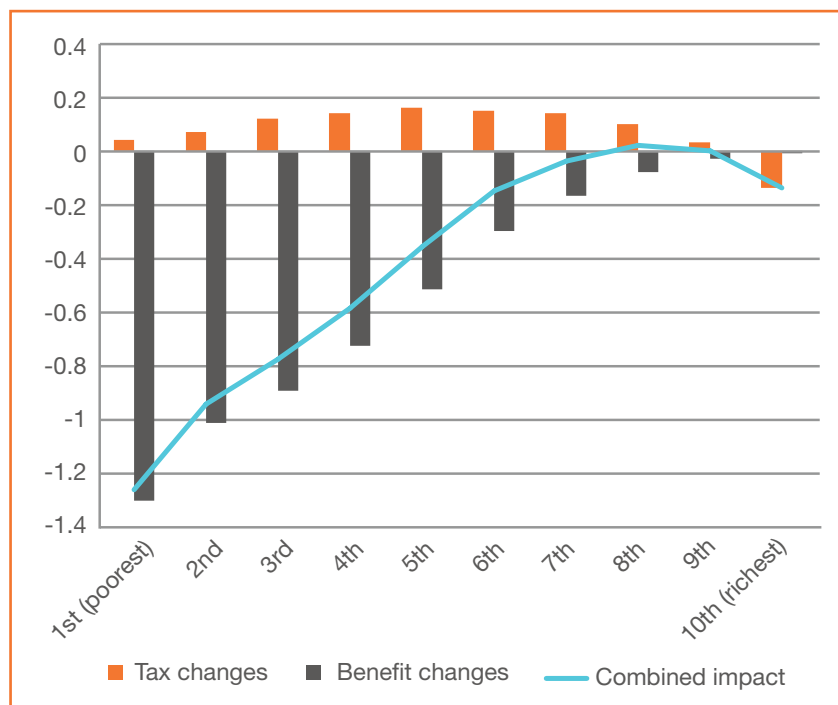
2 The full list of benefits that are subject to the 1 per cent uprating are: jobseeker's allowance, employment and support allowance, income support, housing benefit, maternity allowance, statutory sick pay, statutory maternity pay, statutory paternity pay and statutory adoption pay.

3 As outlined in HM Revenue and Customs impact assessment: <http://www.hmrc.gov.uk/tiin/2012/tiin1080.pdf>

4 Indexation of at least RPI for the personal allowance is required according to the Income Tax Act 2007.

The impact of the autumn statement reforms

Figure 1
Distributional impact
of tax and benefit
changes in 2017/18
(by household, before
housing costs, % of
weekly income)



Key points

- Reforms to benefits will have the greatest impact at the bottom and in the middle of the income distribution. The 1 per cent uprating of working-age benefits has a much larger impact on poorer households, who are more likely to be claiming the in- and out-of-work benefits that are affected by the reform, and for whom those benefits make up a larger proportion of their income. Tax changes have little impact on the poorest households, as they are unlikely to be earning an income above the personal allowance. Taking both sets of reforms together, the poorest 10th of households can expect to lose just over 1.2 per cent of weekly income in 2017/18.
- Most households gain slightly from the income tax changes. Only the top 10 per cent of households lose from the income tax changes. While the personal allowance is higher under the proposed reform, the higher-rate threshold at which individuals start to pay 40 per cent tax is lower and so the gain to higher-income households is limited. In addition, the very highest earners also lose their personal allowance as income rises above £100,000, so would expect to lose out from the changes. Still, the loss to this group is small as a proportion of their earnings, at just over -0.01 per cent of weekly income.

Table 1
Poverty impact of tax and benefit changes, 2017/18 ('000,000s)

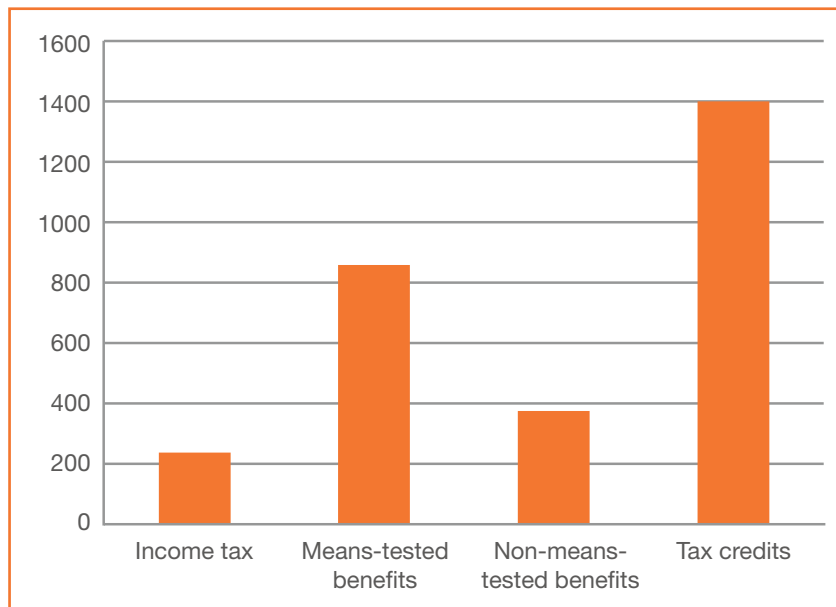
	Baseline scenario	Reform scenario	Difference
Number of households	4.7	4.8	0.2
Number of adults	7.5	7.8	0.2
Number of children	2.3	2.5	0.2

Notes: Poverty defined as those living in households with an income below 60% of median income, before housing costs. Poverty lines are recalculated under the reform scenario. Amounts may not sum due to rounding

Key points

- As shown by figure 1, the combined impact of the tax and benefit reforms is likely to be greatest for those on the lowest incomes, so we would expect to see increases in poverty levels as a result.
- Under the reform scenario, the number of families and individuals in relative poverty will increase. Our modelling suggests that the number of households earning below 60 per cent of median income, before housing costs, will increase by 200,000, as will the number of adults and the number of children.
- The number of families earning below 60 per cent of median income, before housing costs, will increase to 4.8 million, the number of adults to 7.8 million, and the number of children to 2.5 million.

Figure 2
How much do these measures save in 2017/18? (£m)



Key points

- The combined cost of maintaining the baseline scenario of CPI uprating of benefits would be more than £2.6 billion.
- In the reform scenario, the largest saving made is through the 1 per cent uprating of tax credits, which saves £1.4 billion.
- The increased revenue generated by reducing the higher-rate threshold in real terms for two years outweighs the cost of increasing the personal tax allowance. The net saving from income tax measures is just over £200 million.

Other impacts of reforms

- Out-of-work families will be hit hardest, as a proportion of income, with their weekly incomes falling by 0.44 per cent on average, compared to a fall of 0.22 per cent among those in work. But in real cash terms, the amount that families who are in work will lose is larger, at an average of £1.50 a week against £1.37 for families out of work.
- Larger families will be hit harder. Families with no children will see their weekly incomes fall by 0.04 per cent on average, families with three children by 1.04 per cent.
- Among family types, single parents will see the greatest fall in their weekly incomes, by 1.64 per cent on average.

ANNEX

ANALYSIS DATA

Table A1
Distributional analysis
2017/18

Decile	Average change in weekly income (£)	Percentage change in weekly income	Average weekly income in category
1st (poorest)	-3.08	-1.27	£242
2nd	-3.02	-0.95	£318
3rd	-2.96	-0.78	£379
4th	-2.58	-0.59	£436
5th	-1.78	-0.36	£495
6th	-0.83	-0.15	£548
7th	-0.24	-0.04	£626
8th	0.12	0.02	£747
9th	0.02	0	£915
10th (richest)	-2.32	-0.14	£1,635

Table A2
Poverty impact 2017/18
(all '000,000s)

	Baseline scenario	Reform scenario	Difference
Number of households			
Below 60% median income (BHC)	4.7	4.8	0.2
Below 60% median income (AHC)	5.7	5.8	0.1
Below 50% median income (BHC)	2.7	2.8	0.1
Number of adults			
Below 60% median income (BHC)	7.5	7.8	0.2
Below 60% median income (AHC)	9.4	9.6	0.2
Below 50% median income (BHC)	4.4	4.6	0.1
Number of children			
Below 60% median income (BHC)	2.3	2.5	0.2
Below 60% median income (AHC)	3.5	3.8	0.2
Below 50% median income (BHC)	1.2	1.3	0.1

Notes: Poverty lines are recalculated under the reform scenario.
BHC = before housing costs; AHC = after housing costs.
Amounts may not sum due to rounding.

Table A3
Reform scenario
costings 2017/18 (£m)

Category	Saving
Income tax	233
Means-tested benefits	850
<i>Council tax benefit</i>	78
<i>Housing benefit</i>	163
<i>Income support</i>	373
<i>Non-contributory jobseeker's allowance</i>	235
Non-means-tested benefits	370
<i>Child benefit</i>	293
<i>Maternity allowance</i>	14
<i>Contributory jobseeker's allowance</i>	63
Tax credits	1,386
<i>Child tax credit</i>	1,033
<i>Working tax credit</i>	352

Note: Subtotals may not sum due to rounding.

Table A4
Distributional impact by
family characteristics
2017/18

Category	Average change in weekly income (£)	Percentage change in weekly income	Average weekly income in category
Work status			
Families out of work	-1.37	-0.44	£313
Families in work	-1.50	-0.22	£696
Number of children			
None	-0.18	-0.04	£466
1	-3.39	-0.49	£686
2	-4.95	-0.61	£813
3	-8.17	-1.04	£786
4 or more	-12.49	-1.57	£796
Family type			
Single no children	-0.57	-0.18	£318
Single with children	-7.45	-1.64	£455
Couple no children	-0.10	-0.01	£800
Couple with children	-4.04	-0.46	£872
Single pensioner	0.11	0.04	£297
Couple pensioner	0.22	0.04	£515