

Institute for
Fiscal Studies

Personal tax and benefit changes

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What's coming up

- Direct taxes
- Benefits and tax credits
- Indirect taxes
- Distributional impact of Budget measures
- Distributional impact of all Labour's reforms from 1997 to 2010

Direct tax changes

- Big income tax rises in April 2010
 - 50p income tax rate above £150,000 from April 2010
 - Withdrawal of personal allowance above £100,000 from April 2010
- More takeaways in the medium term
 - Restriction of tax relief on pension contributions
 - 1% increase in employee and employer National Insurance rates from April 2011
 - End of temporary £130 increase in personal allowance in April 2011
 - Freeze in basic rate limit in April 2011
 - Freeze in higher rate threshold in April 2012
- All these still going ahead
- Nothing new yesterday

Tax credit and benefit changes

- Small pre-announced giveaways to low-income households
 - One-off real increase in some benefits in April 2010
 - Small increase in child element of CTC in April 2010
- Budget had small giveaways to pensioners and low income households
 - Higher rate of Winter Fuel Payments continued for another year (one-off cost of £600m in 2010–11)
 - Income Support Mortgage Interest assumed interest rate kept high for another six months (one-off cost of £165m in 2010–11)
 - Higher rate of Child Tax Credit for one and two year-olds from April 2012 (costs £180m a year from 2012–13)
- Attempt to reduce cost of Local Housing Allowance by excluding high-rent properties from calculation of average local rent
 - Saves £50m a year in long run

Indirect taxes: alcohol and tobacco duties

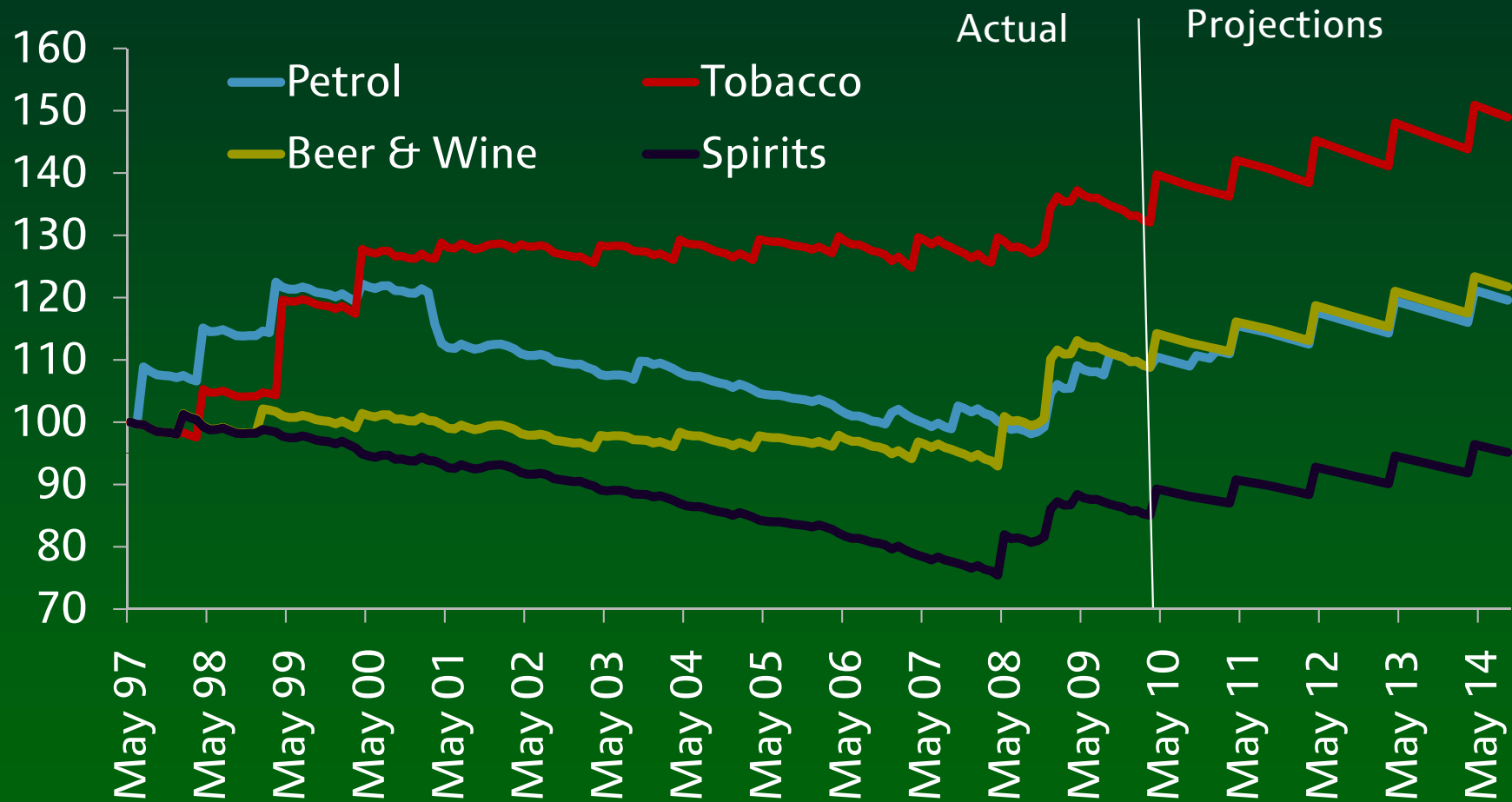
- Beer, Wine and Spirits
 - Budget 2008 policy of 2% increases on top of normal indexation to be extended for another two years to 2014
 - Raises £190m a year from 2014–15
- Cider
 - Duties on cider are approximately half of those on beer of similar strength
 - Budget 2010 announced a 10% real increase in duty on cider and changed technical definition of what cider is
 - Raises £15m a year
- Tobacco
 - Immediate increase in total duty of RPI + 1%
 - Tobacco duties to rise by 2% on top of normal indexation each April from 2011 to 2014
 - Raises £275m a year from 2014–15

Indirect taxes: fuel duty

- 1993-1999: duties increased above inflation each year
 - Normal indexation plus 3% from 1993, 5% from 1995, 6% from 1997
 - Escalator abandoned in Budget 2000
- Since then: sporadic increases, not more than inflation uprating
 - Increases tended to be deferred and/or cancelled when oil price high
- Budget 2009:
 - 2p increase in September 2009
 - 1p increases on top of normal indexation every April up to 2013
- Budget 2010:
 - Pre-announced increase of 2.76p (RPI + 1p) due in April to be applied in three stages: April 2010, October 2010, January 2011
 - One-off cost of £550m in 2010–11
 - Escalator extended one year to 2014
 - Raises £425m a year from 2014–15

Real-terms duties

May 1997 = 100

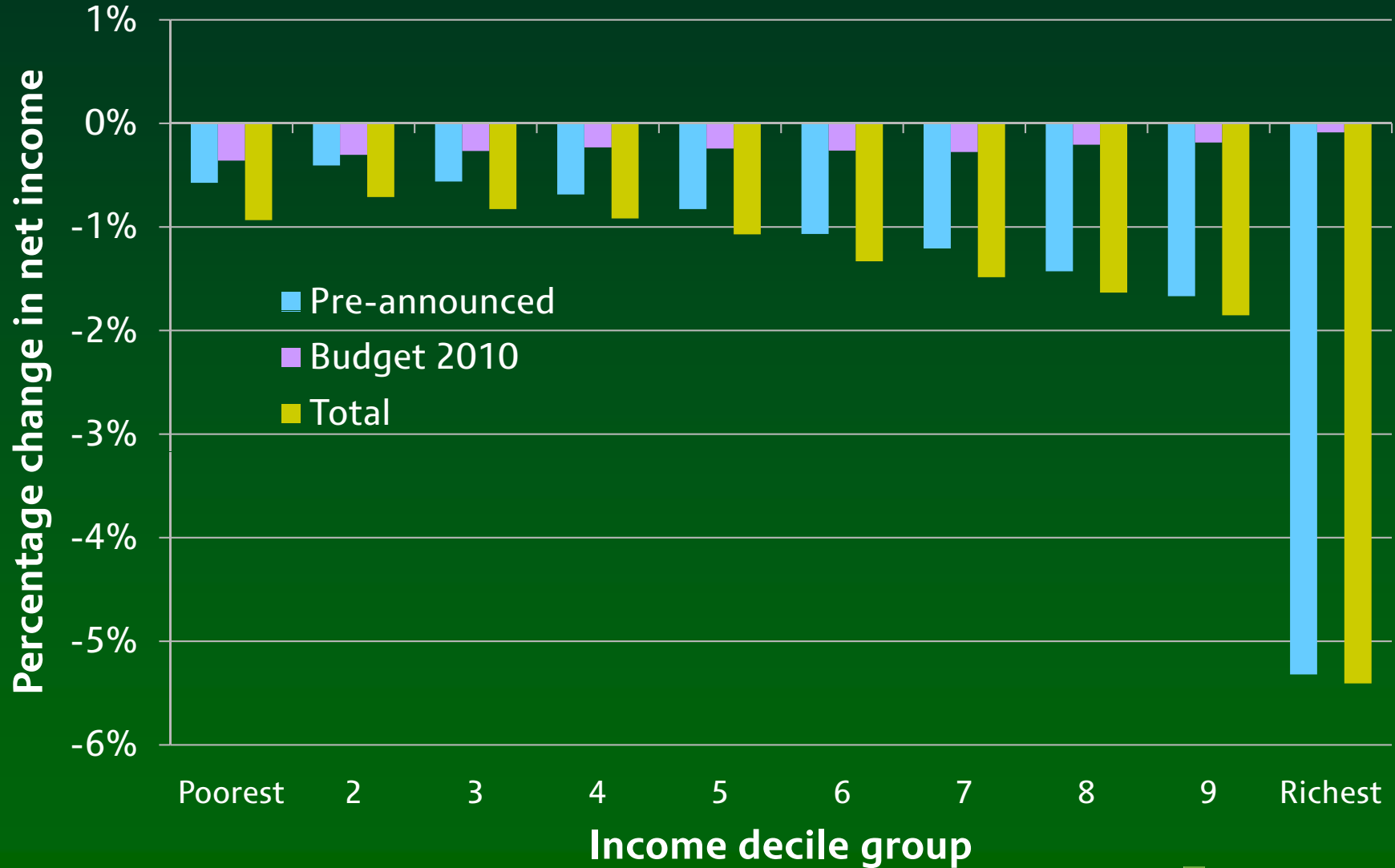


Immediate changes for April 2010



Note: does not include measures that are difficult to assign to particular households, e.g. business taxes, IHT, stamp duty

Distributional impact of all changes to 2014



Note: does not include measures that are difficult to assign to particular households, e.g. business taxes, IHT, stamp duty. Assumes employer NICs incident on employees in the form of lower wages.

The distributional impact of Labour from 1997 to 2010

- Compare April 2010 tax and benefit system to that which would have been in place under the ‘no reform’ scenario underlying the Public Finances
 - This generally involves increasing all benefit amounts and tax thresholds in line with inflation
- Unlike in previous analysis, account for taxes that are difficult to assign to particular households by assuming that these affect households in proportion to their income
- Doesn’t show how household incomes have changed – incomes have grown across whole distribution
- Further analysis of Labour’s tax and benefit changes will be published soon as part of our election coverage – this is a sneak preview

The distributional impact of Labour from 1997 to 2010



The distributional impact of Labour from 1997 to 2010

