

# Reforms, rollouts and freezes in the tax and benefit system

Thursday 6th October  
11:00 - 12:00





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@TheIFS

# Reforms, rollouts and freezes in the UK tax and benefit system



Economic  
and Social  
Research Council



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# How is the personal tax and benefit system set to change?

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# Headline tax announcements



- Abolition of the planned health and social care levy and reversal of temporary NI rise in November 2022
- 1p cut to basic rate of income tax in 2023–4
- ~~Abolition of the additional rate of income tax~~

# Benefit policy rollouts

- Replacement of legacy benefits with Universal Credit
- ‘Two child limit’ for tax credits and universal credit
- Removal of family premium
- Removal of work-related activity premium
- Removal of entitlement to pensioner benefits for mixed age couples

# Freezes I



- By default, many tax and benefit parameters rise by some index – RPI, CPI or average earnings
- Ensures that parameters keep some meaningful real value
- But some parameters are frozen, either temporarily or permanently, meaning their real value changes significantly over time...

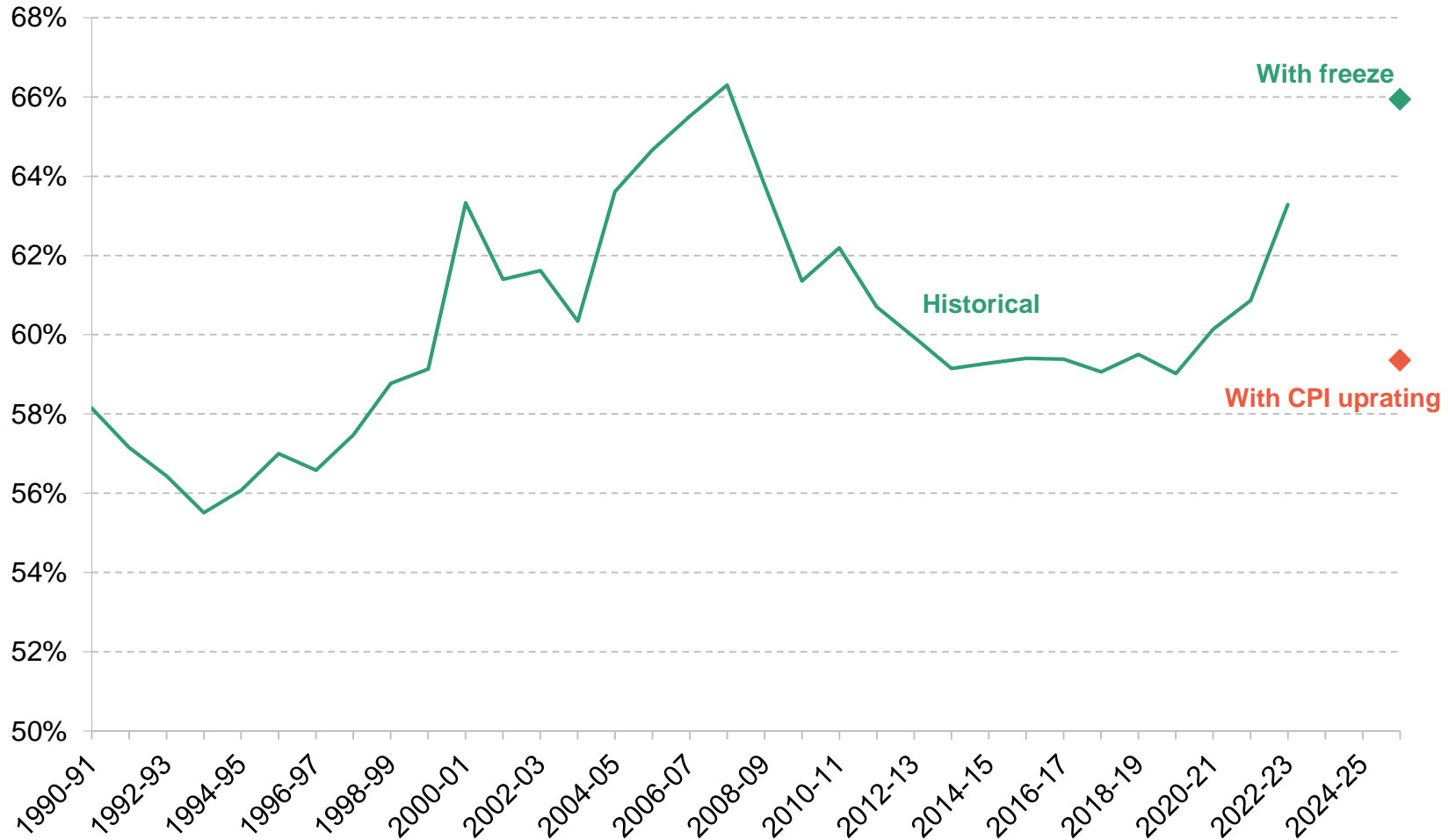
# Freezes II



- Freezes to tax thresholds, including
  - Income tax personal allowance + higher rate threshold (last year)
  - National Insurance primary threshold (this year)
  
- Freezes to benefit thresholds and amounts
  - Benefit cap (2016)
  - Child benefit taper thresholds (2013)
  - Christmas bonus (1977)

# Income tax threshold freezes

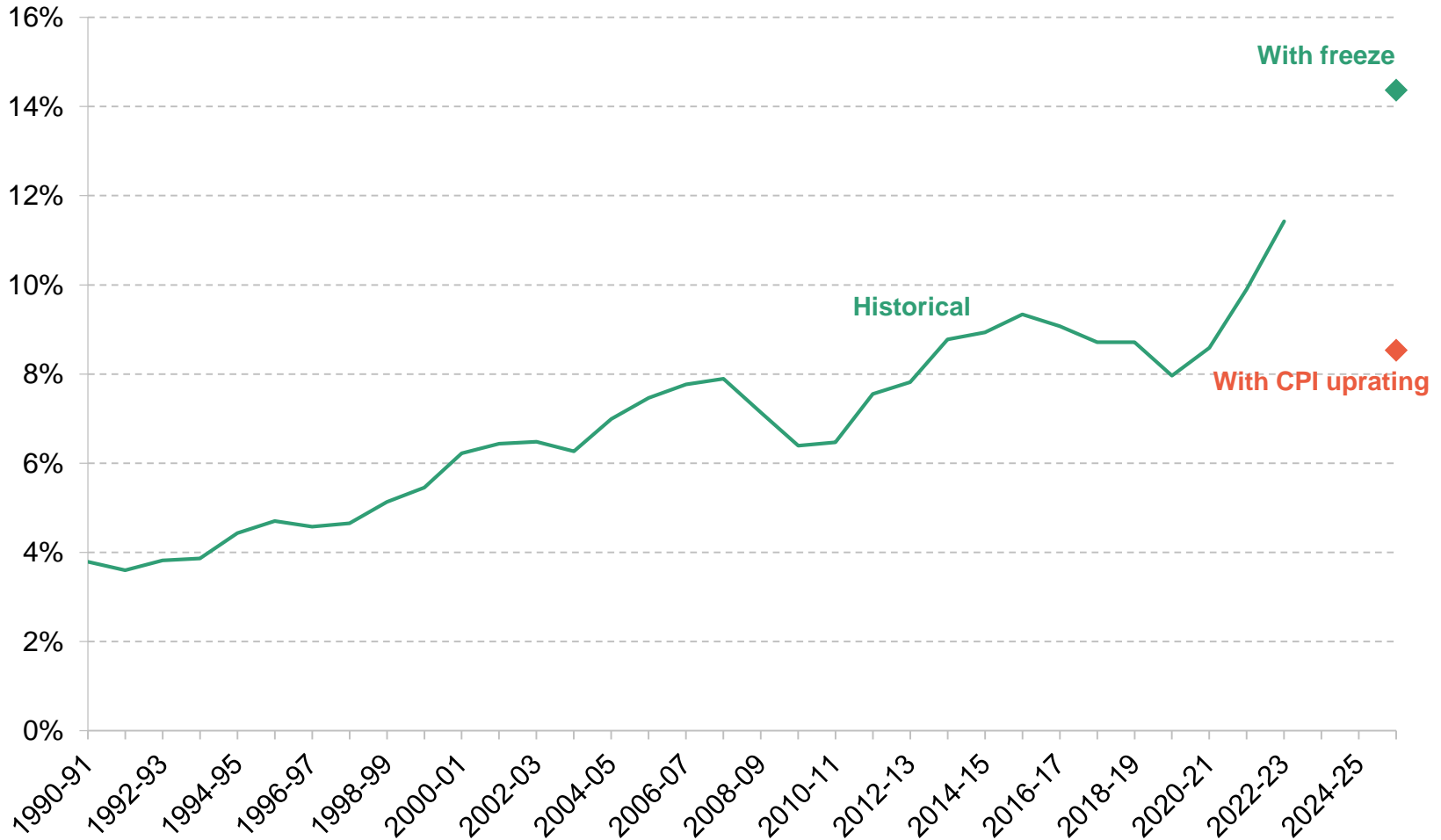
## Proportion of adults who are taxpayers



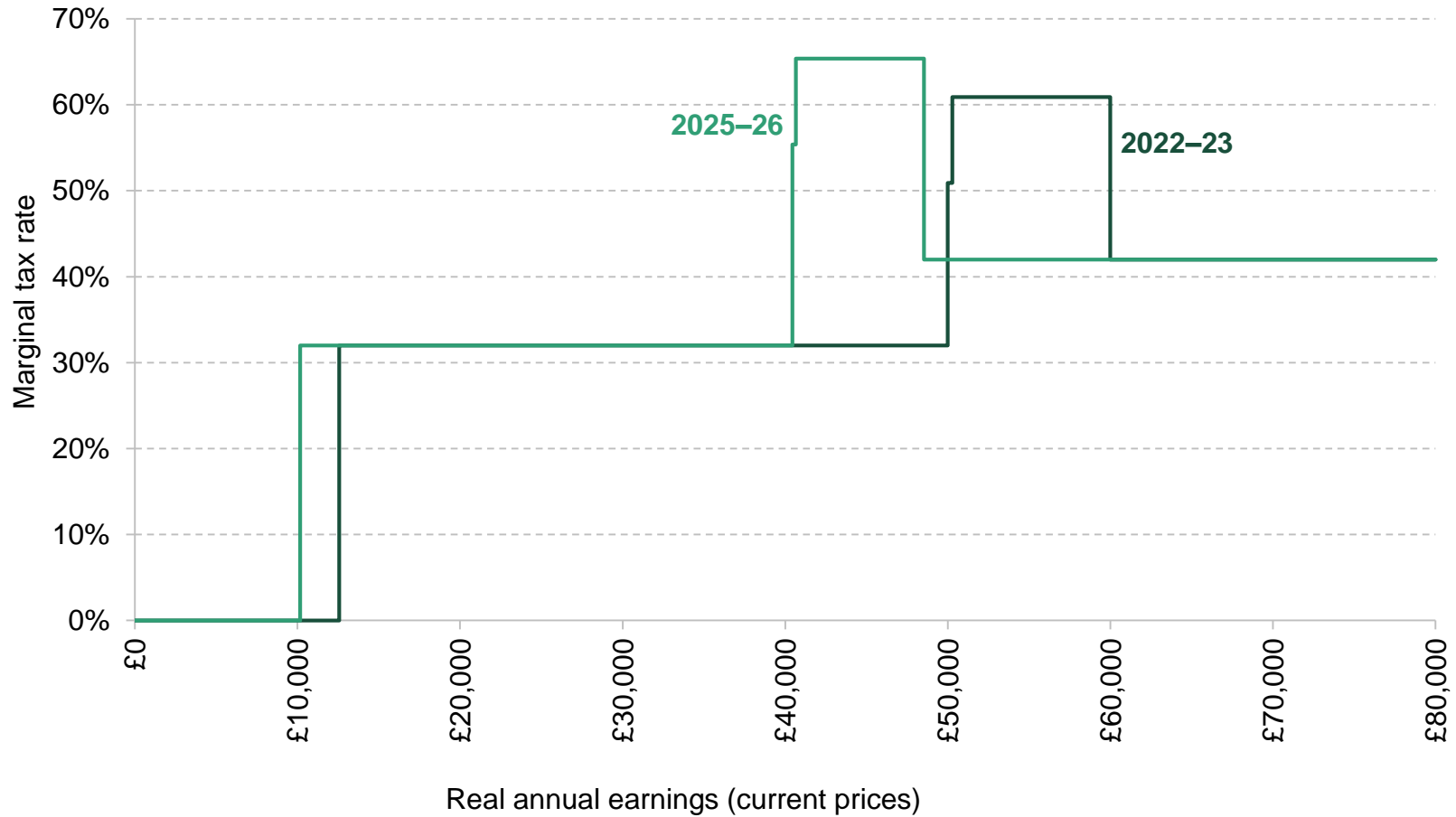


# Income tax threshold freezes II

## Proportion of adults who are higher rate taxpayers



# Child benefit taper threshold freezes



Note: single or higher earner in a couple, with two children

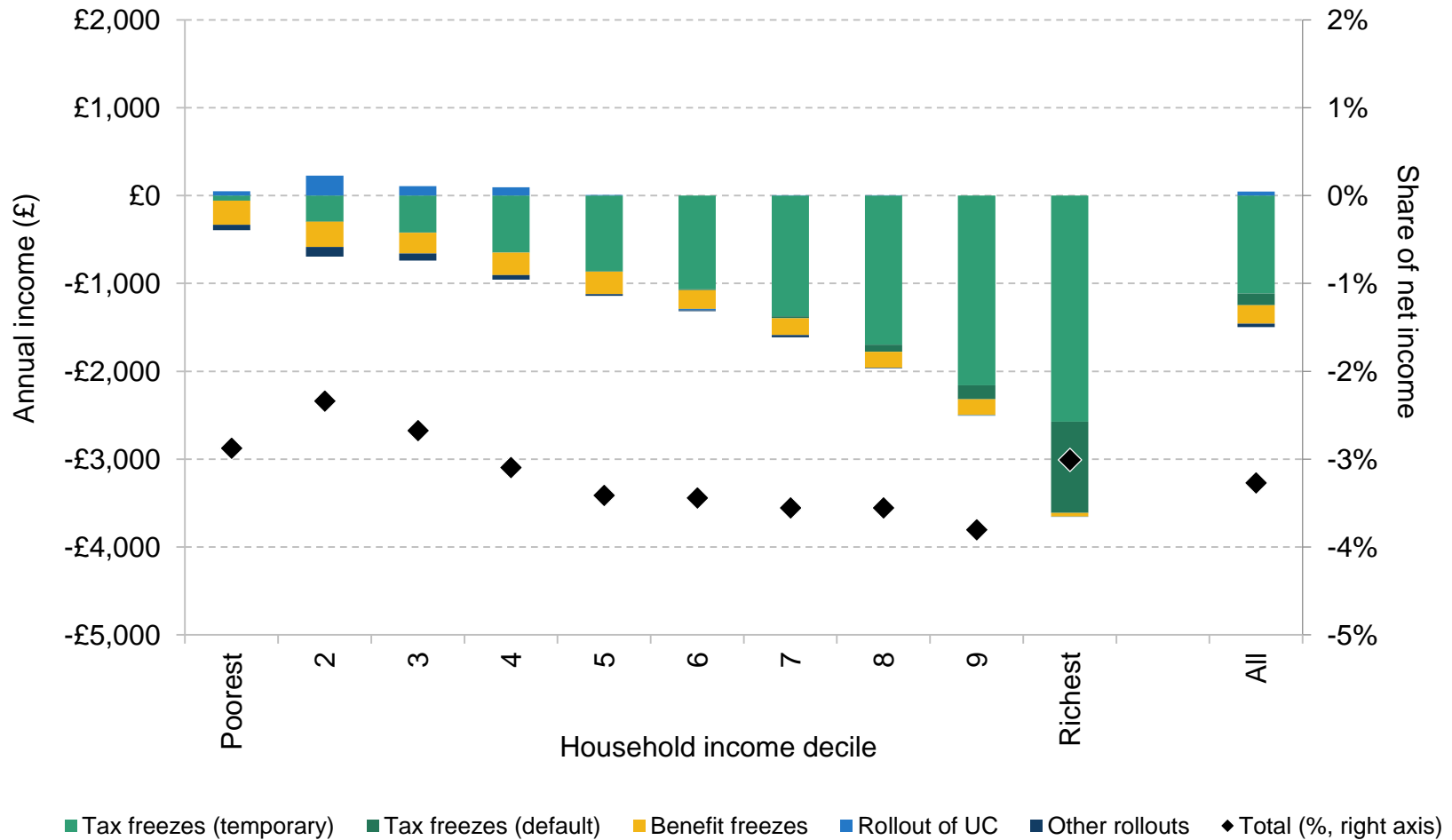


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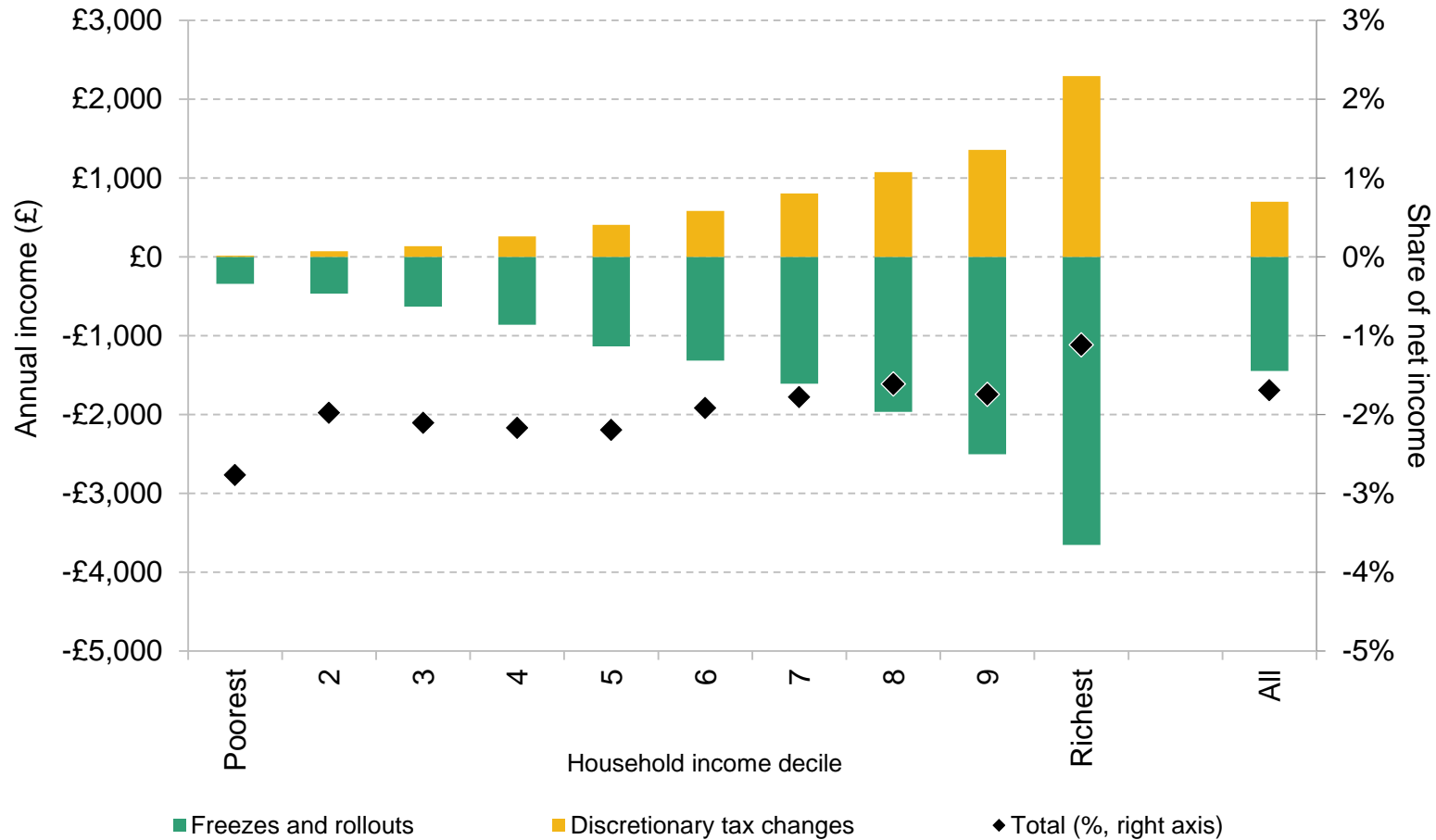
# Distributional analysis of impact

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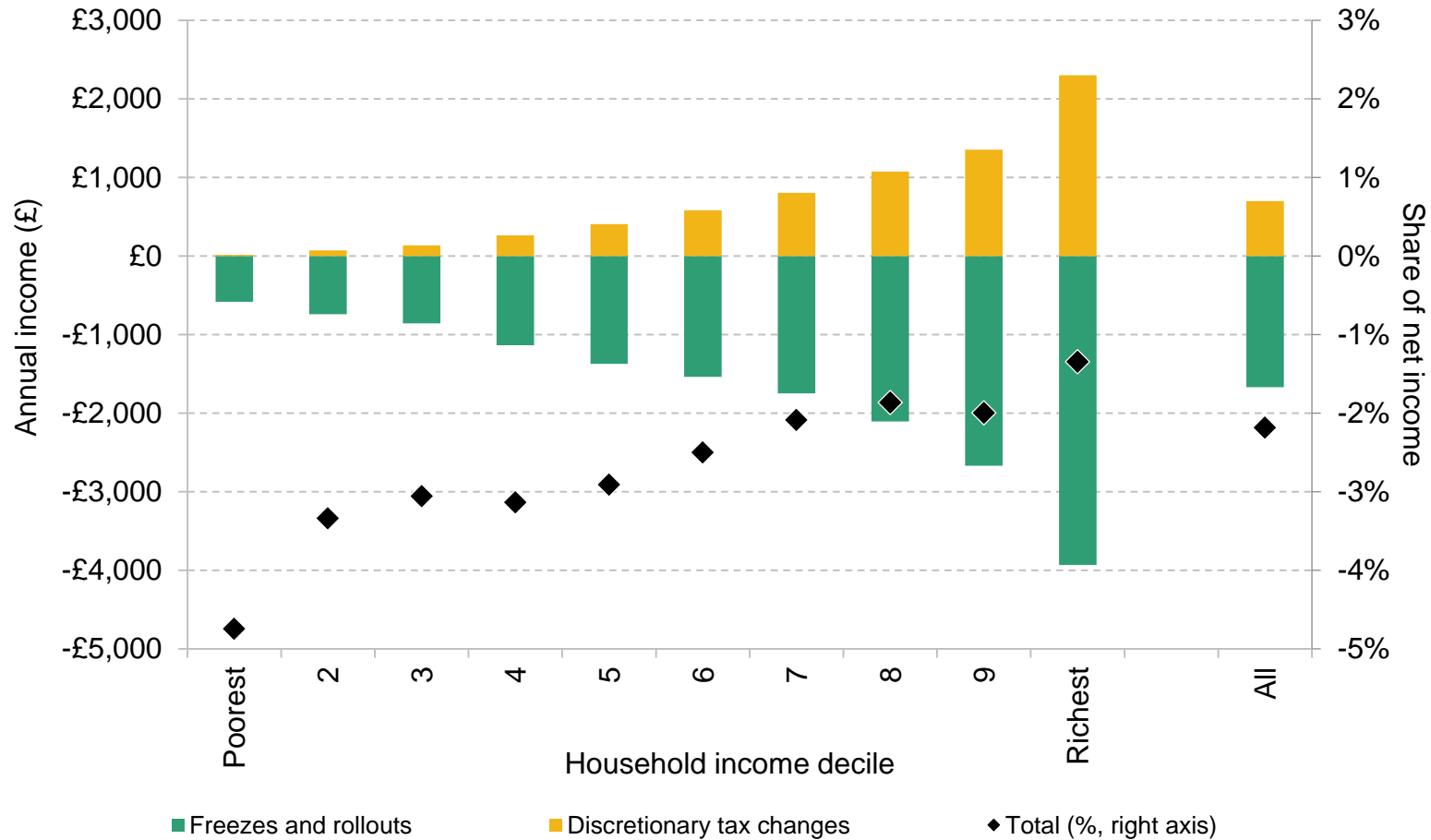
# Freezes + rollouts to 2025



# Headline announcements to 2025



# Freezes, rollouts + headline announcements to 2030





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# Policy recommendations + conclusions

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# Why do freezes matter?

- Bad policy design –
  - High and unpredictable inflation means value of taxes and benefits relative to prices + earnings unpredictable
  - Impact on work incentives
  
- Stealthy changes
  - Large changes to taxes and benefits go unnoticed
  - Bad for transparency and public debate



# Policy recommendations

- By default, uprate all parameters by a sensibly chosen index
- Whether to use earnings or prices a political decision
- RPI should not be used
- But makes sense to uprate related parameters by the same index
  - E.g. benefits cap should move with benefit entitlements
  - E.g. income tax thresholds

# Conclusions



- The shape of the tax and benefit system is being changed by parameter freezes
- Freezes and gradual rollouts are more than offsetting the impact of headline announcements
- Freezing parameters is bad policy design and bad for transparency

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