

Proposed tax and benefit reforms: winners and losers

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Measuring the changes

- Taxes and benefits only – not public services
- Compare possible tax and benefit systems at the time of a possible next general election (2009-10):
 1. No change from current (default uprating)
 2. Only changes already announced by the government (and accepted by the opposition parties)
 3. Additional changes proposed by the Conservatives
 4. Additional changes proposed by the Liberal Democrats
- Effects in 2009-10, expressed in 2005-06 prices
 - Not effects *during* the period
 - Different from the parties' published costings

Allocating the changes

- Model effect on individual households where possible
 - Incorporate non-take-up of pension credit and council tax benefit
- Data limitations mean we cannot model all the pre-announced reforms
 - Allocate the remainder proportionately to income
- Exclude parties' proposals on paid maternity leave
- Assume no change in households' behaviour
 - Important for costing some policies
 - Ignores indirect effects of reforms via the wider economy

Winter payments for pensioners

2005:

£200 Winter Fuel Allowance for 60-79, £300 for 80+

Plus “one-off” £200 if 65+ and don’t receive pension credit guarantee

Plus “one-off” £50 if 70+ and receive pension credit guarantee

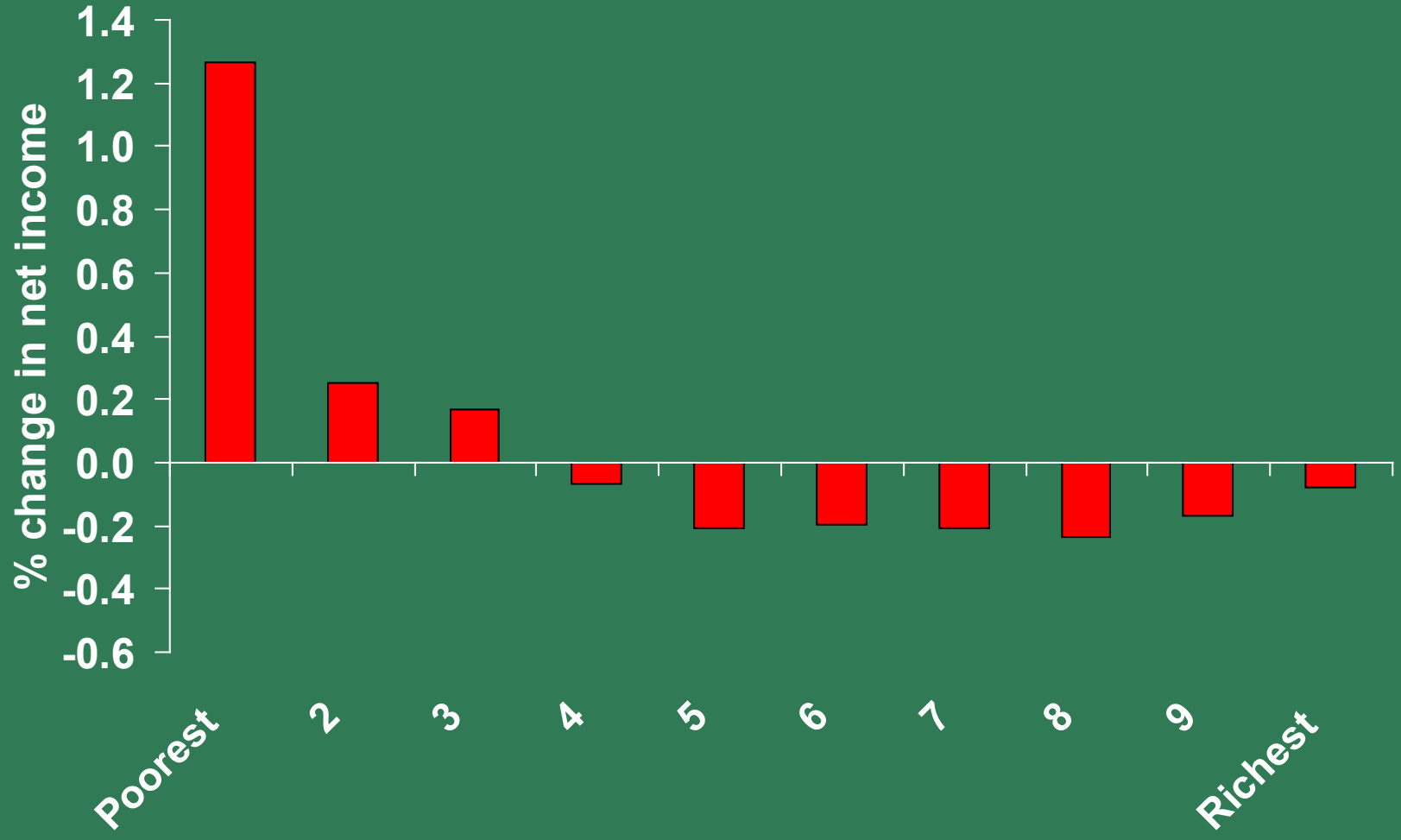
Planned 2006:

£150 Winter Fuel Allowance for 60+

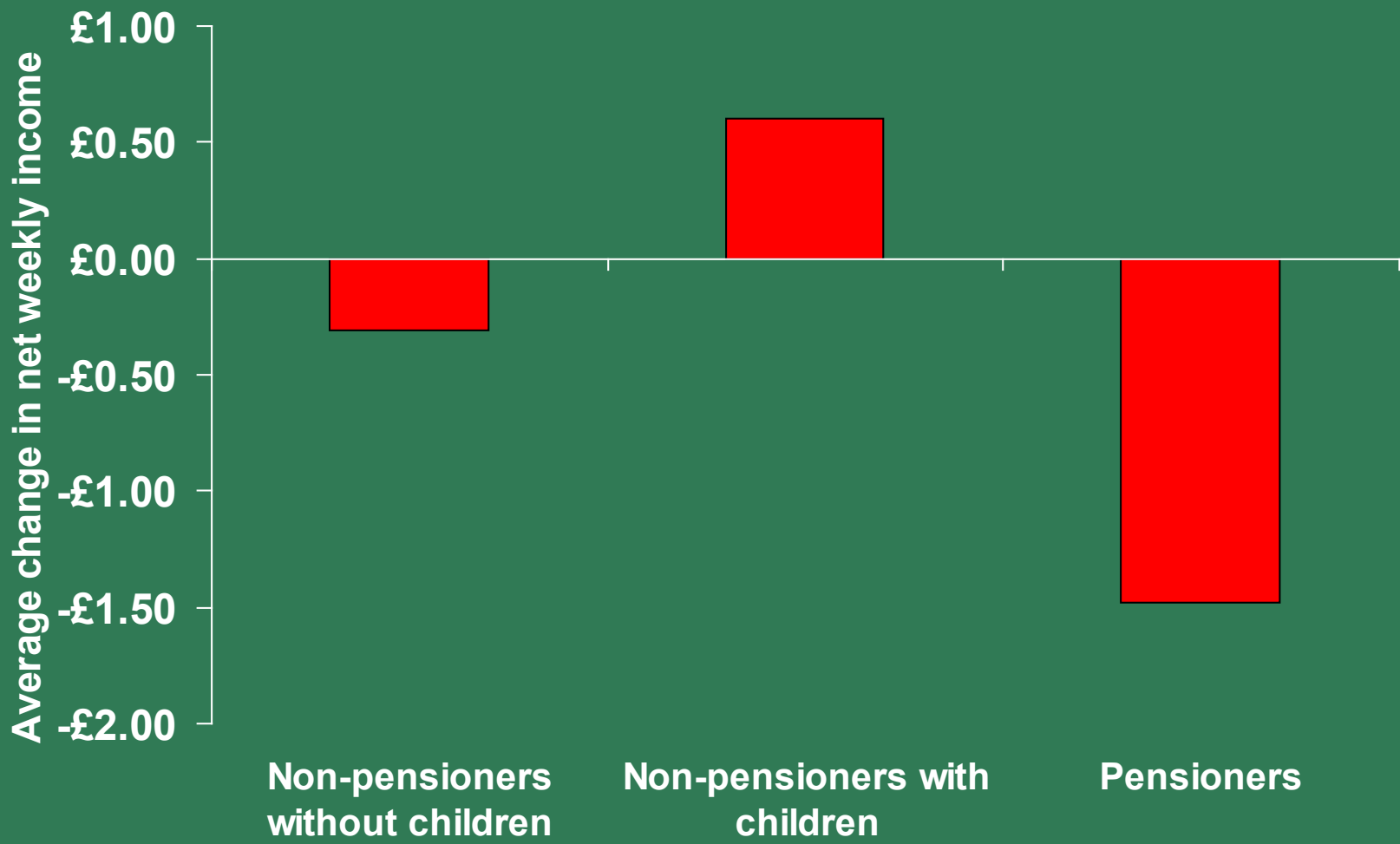
Changes already announced

Measures directly affecting households	Revenue
Winter payments return to 1999 levels	£1.7 bn
Delayed fuel duty revalorisation	£0.2 bn
Earnings-index pension credit guarantee until 2007-08	- £0.4 bn
Earnings-index child element of CTC until 2007-08	- £0.5 bn
Childcare tax credit increased from 70% to 80%	- £0.1 bn
Paid maternity leave extended to 9 months	- £0.3 bn
Above-inflation increases in inheritance tax threshold	- £0.1 bn
Total (including other small measures)	£0.1 bn
Total including measures affecting businesses	£0.5 bn

Changes already announced



Changes already announced



Conservatives' proposals

Change in 2009-10 relative to Labour, 2005-06 prices

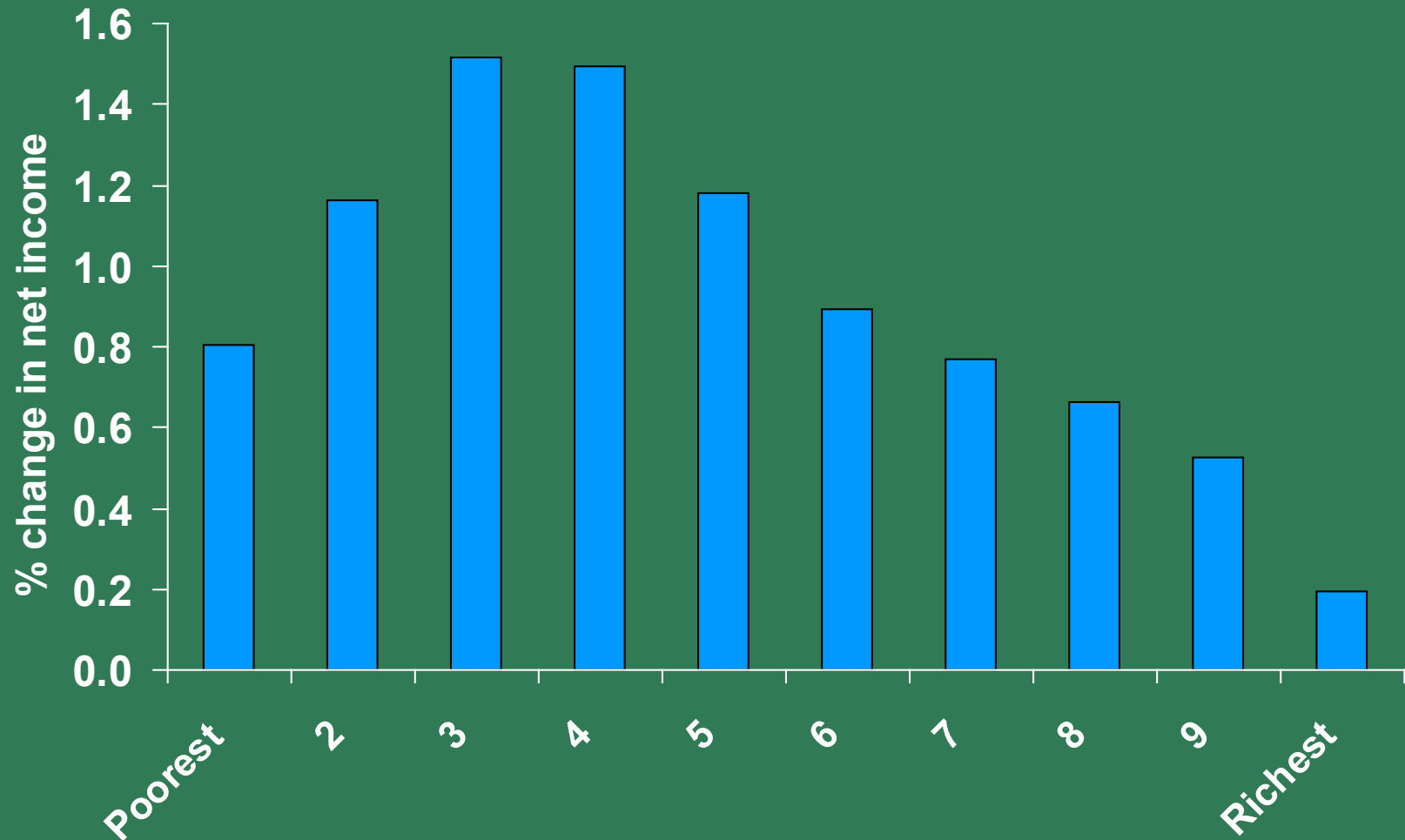
Measure	Revenue
Discount on net council bills of some pensioners	- £1.2 bn
Increase stamp duty threshold to £250,000	- £0.8 bn
Support for employee pension contributions	- £0.9 bn
Earnings-index basic state pension every year	- £1.4 bn
Introduce Flexible Childcare credit	- £0.5 bn
Total	- £4.7 bn

Cancelling revaluation

- Cancellation would redistribute from people with below-average property price rises to people with above-average property price rises
 - From North to South
 - Also redistribution within areas
- Should have no net revenue effect (apart from possible administrative savings)
 - But would councils use the confusion to raise rates?
- Not sensible to base a 2007-08 property value tax on 1991 property values
- Frequent pre-announced revaluations would be desirable

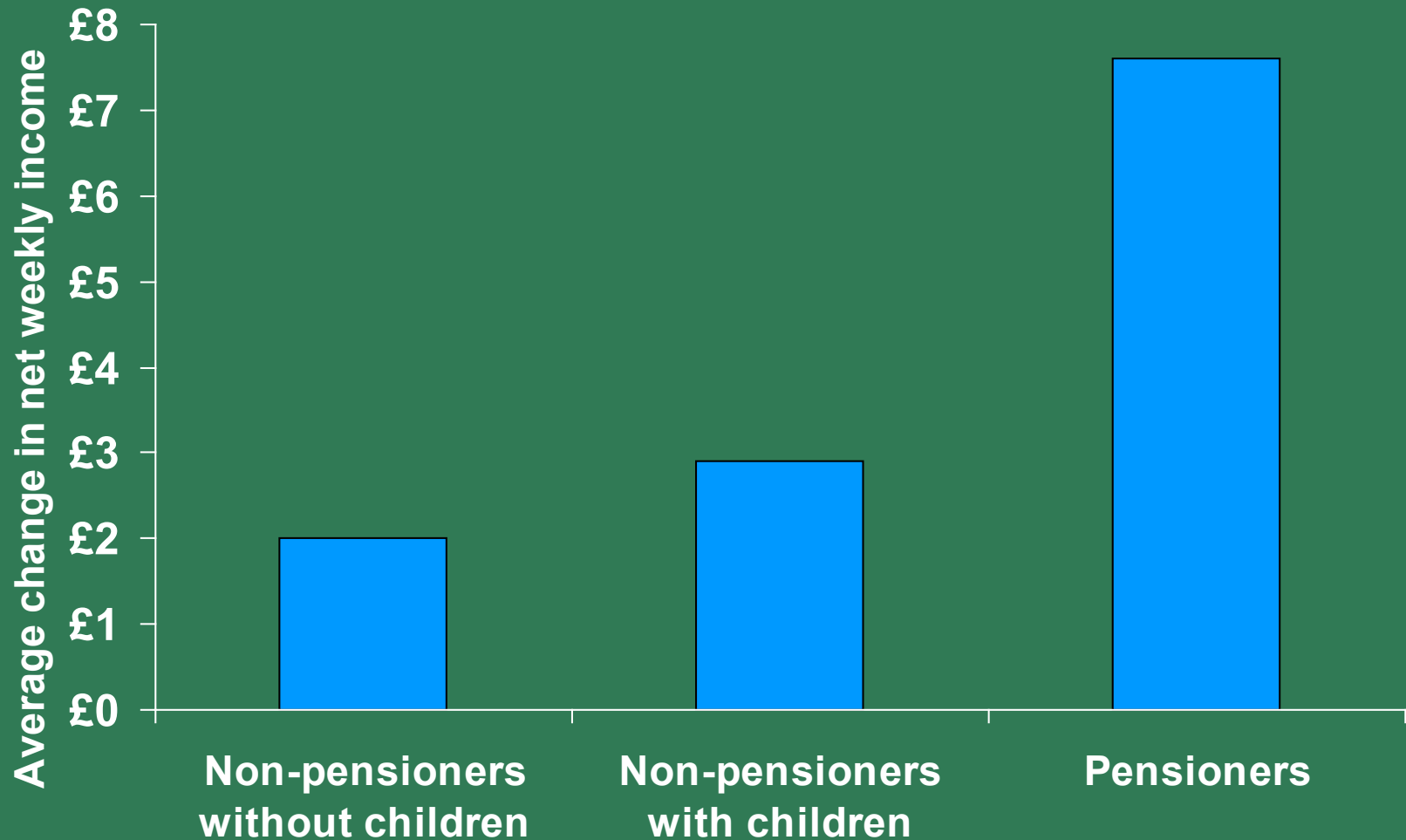
Conservatives' proposals

Change in 2009-10 relative to Labour, 2005-06 prices



Conservatives' proposals

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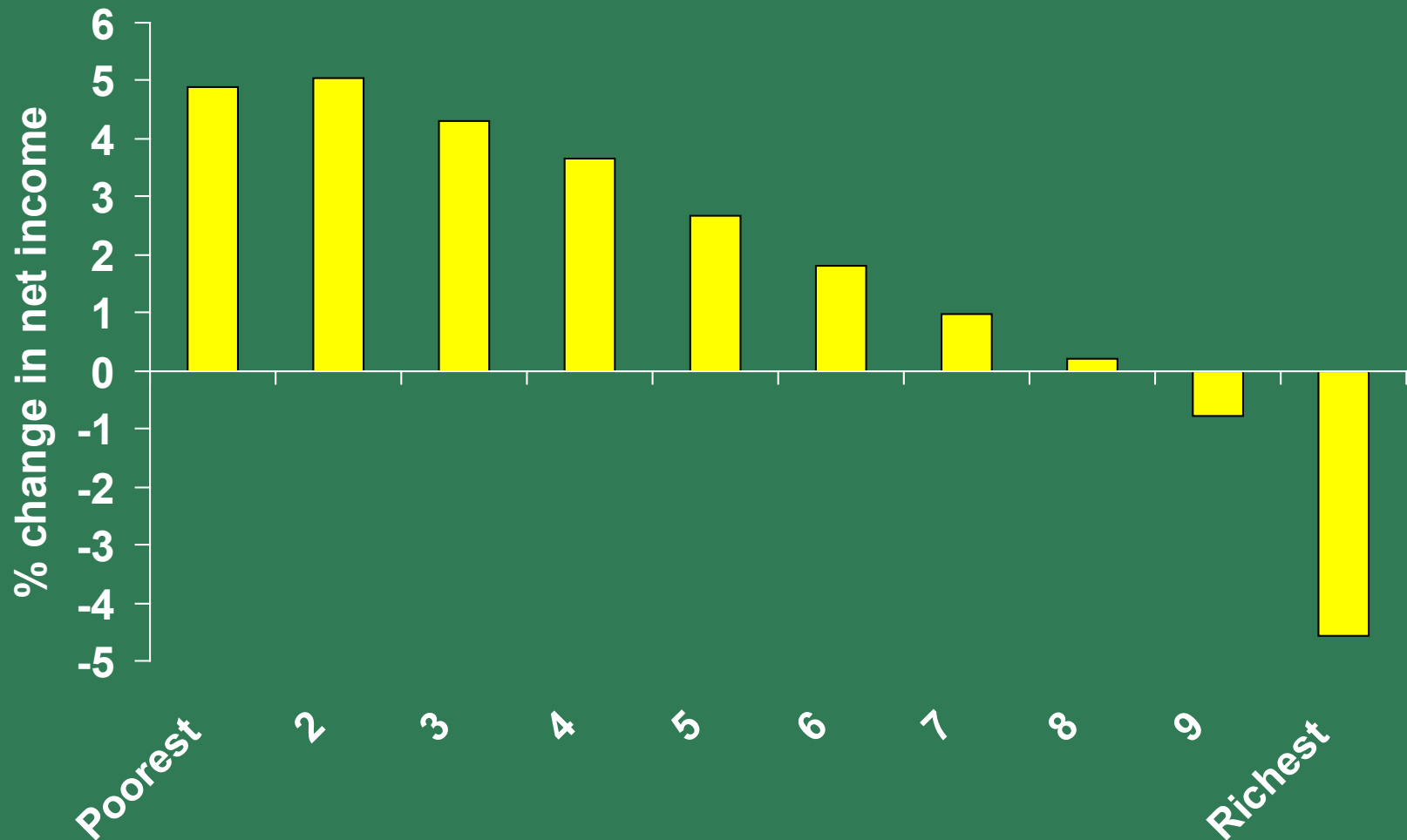
Liberal Democrats' proposals Change

in 2009-10 relative to Labour, 2005-06 prices

Measure	Revenue
Replace council tax with local income tax	- £2.3 bn
49% income tax rate on incomes above £100,000	£5.6 bn
Citizen's Pension for those aged 75 or over	- £3.2 bn
Increase stamp duty threshold to £150,000	- £0.1 bn
Total	£0.0 bn

Liberal Democrats' proposals

Change in 2009-10 relative to Labour, 2005-06 prices



Liberal Democrats' proposals

Change in 2009-10 relative to Labour, 2005-06 prices



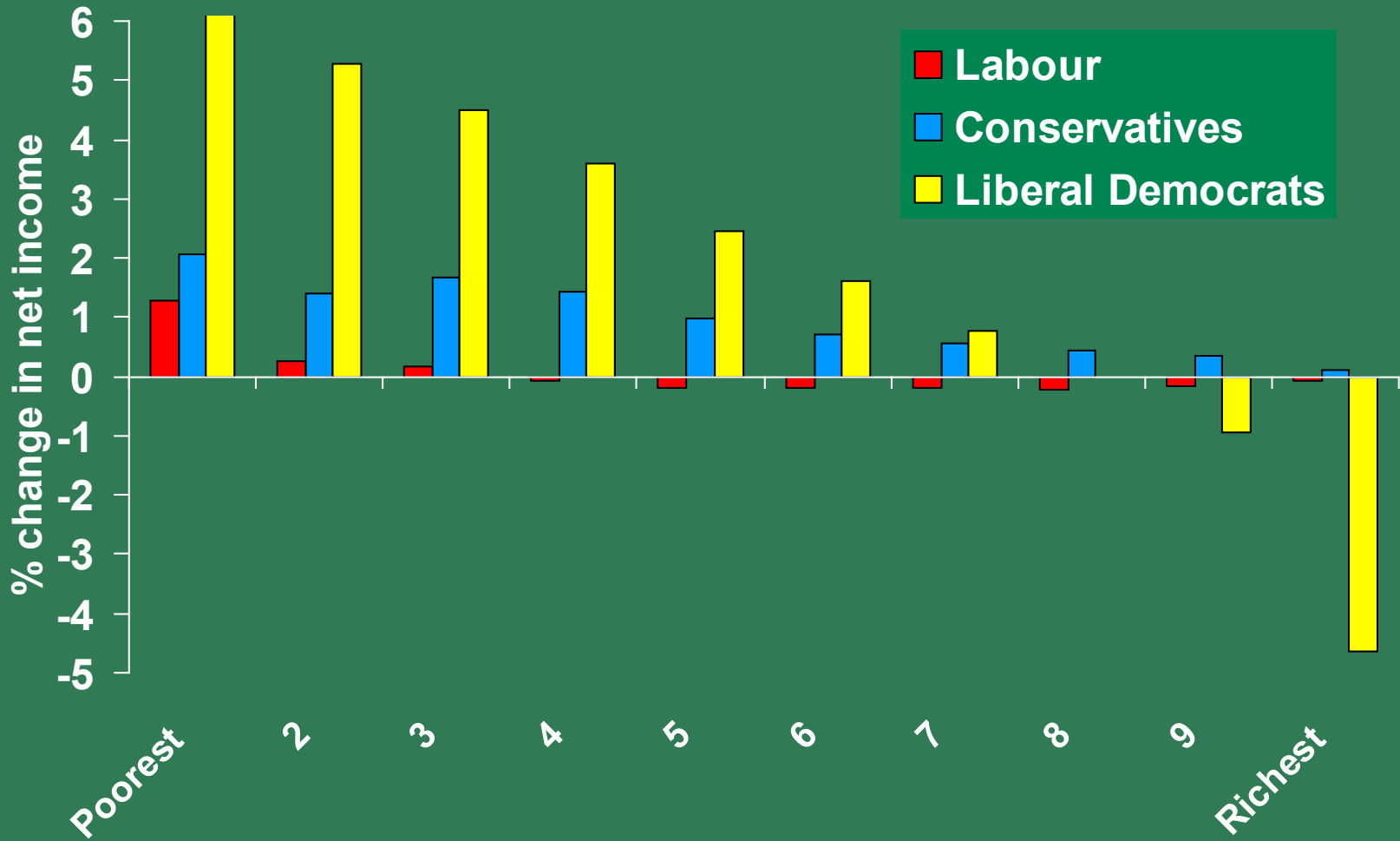
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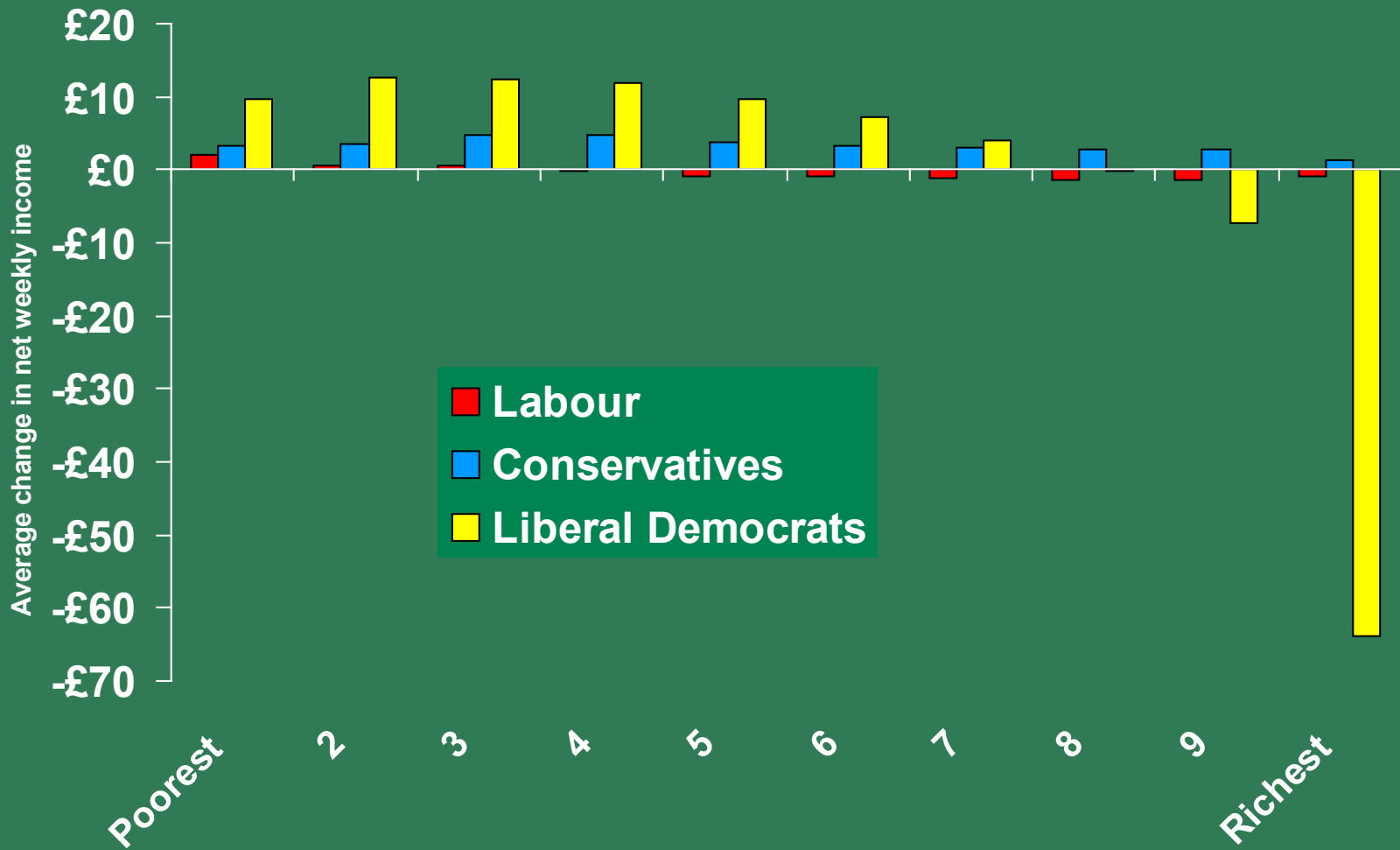
Comparing the parties

Change in 2009-10 relative to default uprating only



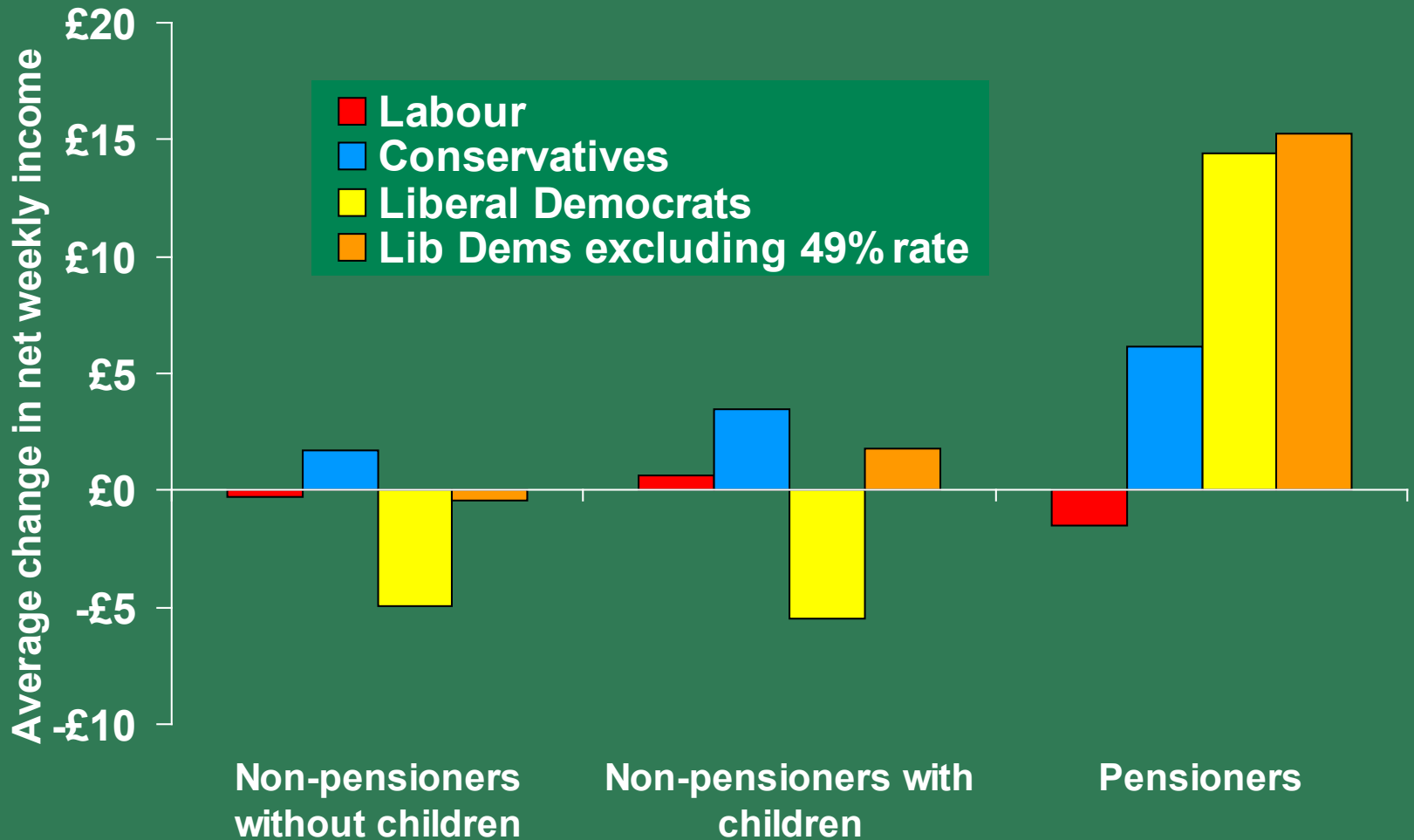
Comparing the parties

Change in 2009-10 relative to default uprating only



Comparing the parties

Change in 2009-10 relative to default uprating only



Some interesting comparisons

- With Labour's reforms since 1997
 - Labour to date has engaged in substantial redistribution
 - Its stated third term policies are much less ambitious
 - The effects of the Liberal Democrats' policies look most similar to those of Labour to date
- With the parties' 2001 manifestos
 - Labour is planning to do much less than in 2001
 - Both the Conservatives and the Liberal Democrats are offering more progressive packages than in 2001
 - This is despite the progressiveness of Labour's reforms since 2001

Conclusions

- **Labour is proposing little reform in its third term**
 - This contrasts with the extensive reforms of its first two terms
 - What if tax revenues undershoot Treasury expectations?
- **The Conservatives are offering giveaways to all household types, funded by cuts in public spending**
 - What if cutting public spending proves more difficult than they expect?
- **The Liberal Democrats are offering a strongly redistributive package, funded by 49% tax rate**
 - What if the 49% rate fails to raise as much as they expect?
 - What if tax revenues undershoot Treasury expectations?
- **Both opposition parties are proposing more progressive packages than in 2001**
- **Both opposition parties are concentrating the gains heavily on pensioners**

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