



October 2021

Xiaowei Xu, IFS

@TheIFS

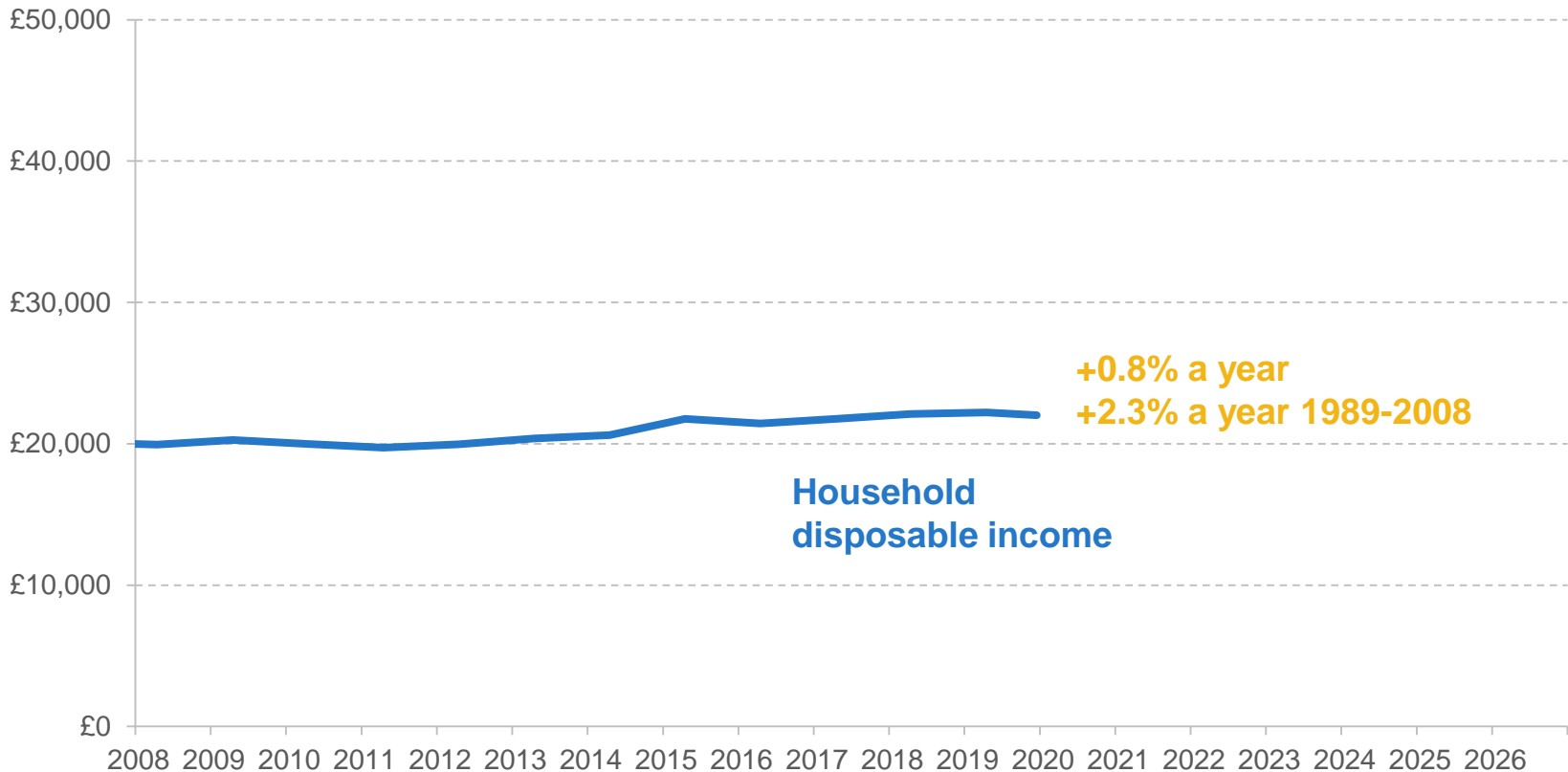
Living standards



Economic
and Social
Research Council

Stagnation in incomes and earnings

Average (mean) annual gross earnings and household disposable income, current prices

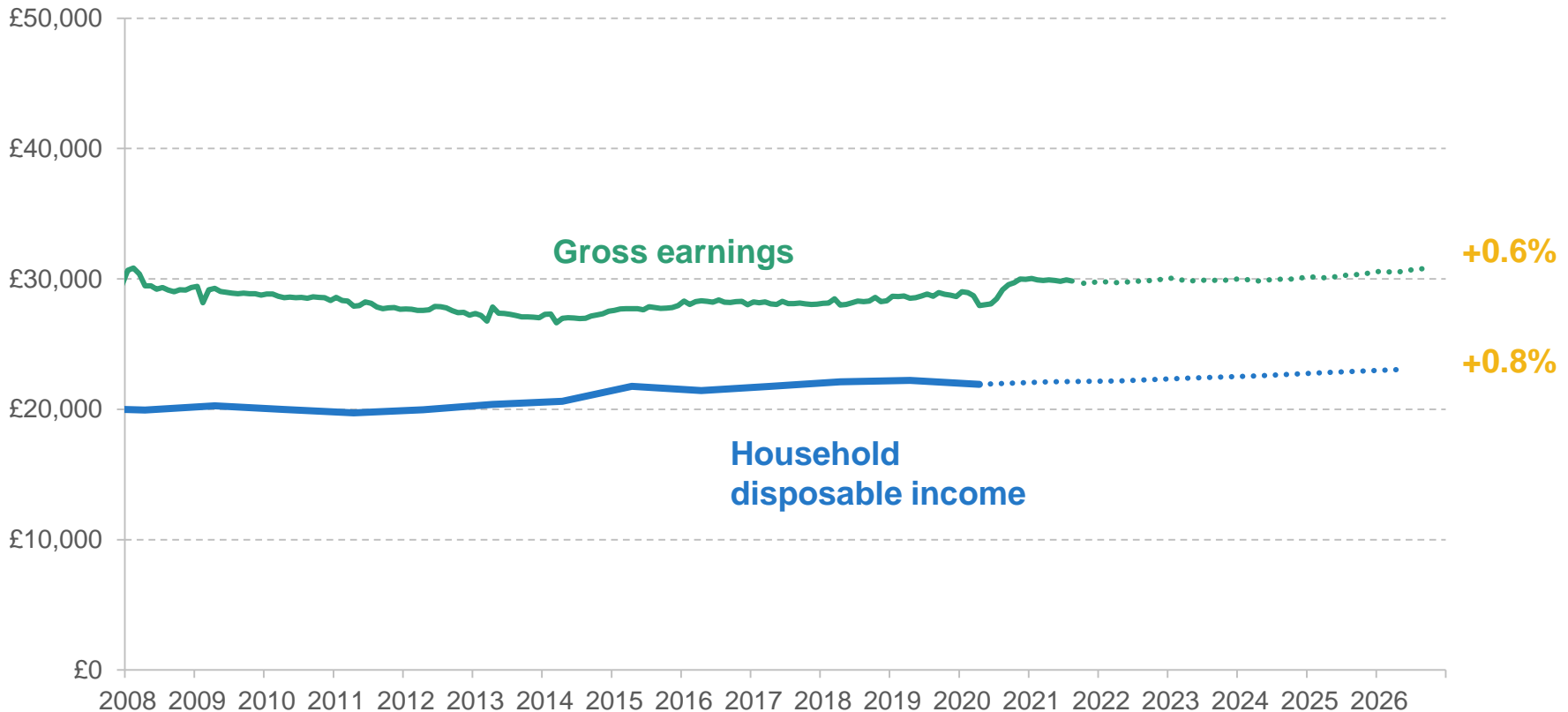


Source: ONS AWE, ONS RHDI, OBR EFO

Notes: Historical series deflated using CPIH. Forecasts deflated using CPI. AWE before 2000 not seasonally adjusted.

Stagnation in incomes and earnings

Average (mean) annual gross earnings and household disposable income, current prices

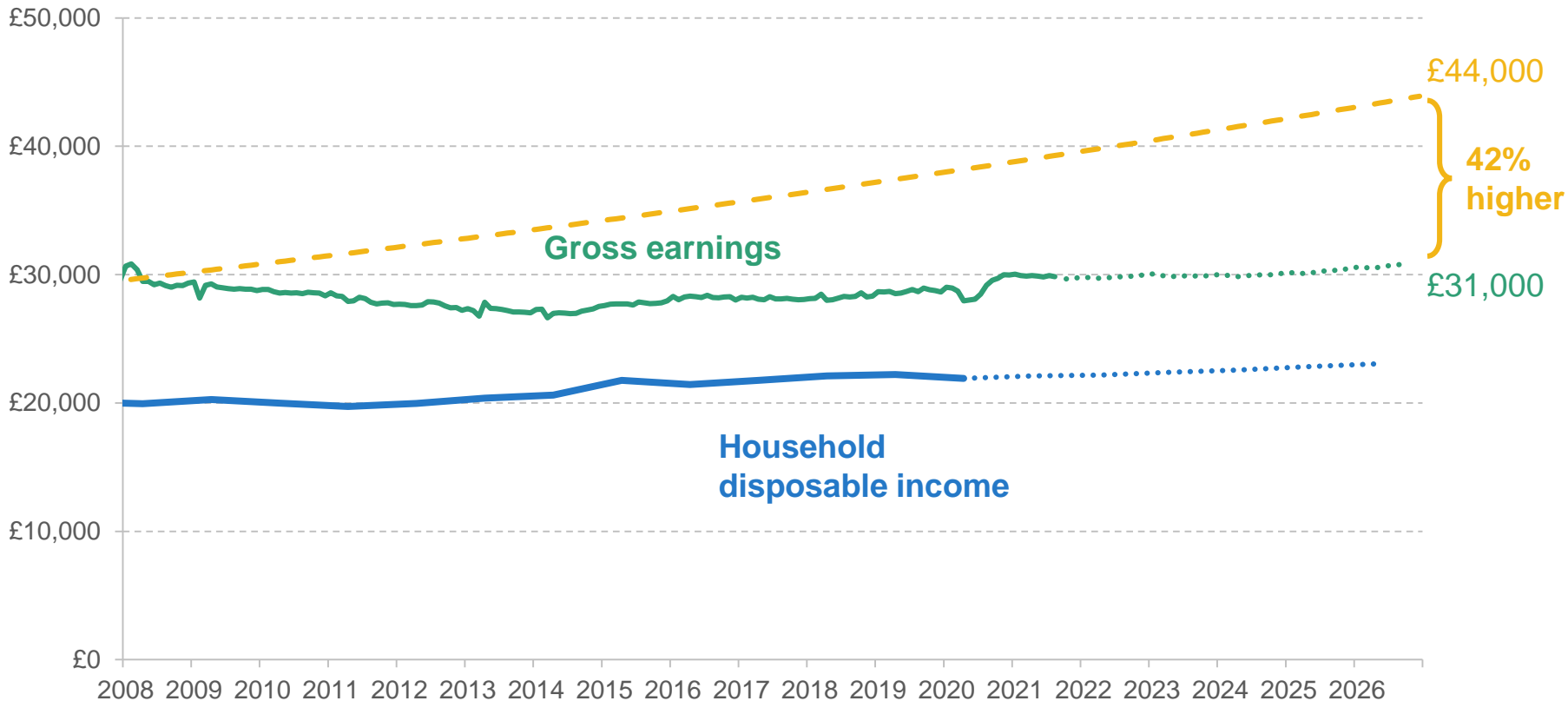


Source: ONS AWE, ONS RHDI, OBR EFO

Notes: Historical series deflated using CPIH. Forecasts deflated using CPI. AWE before 2000 not seasonally adjusted.

Stagnation in incomes and earnings

Average (mean) annual gross earnings and household disposable income, current prices



Source: ONS AWE, ONS RHDI, OBR EFO

Notes: Historical series deflated using CPIH. Forecasts deflated using CPI. AWE before 2000 not seasonally adjusted.

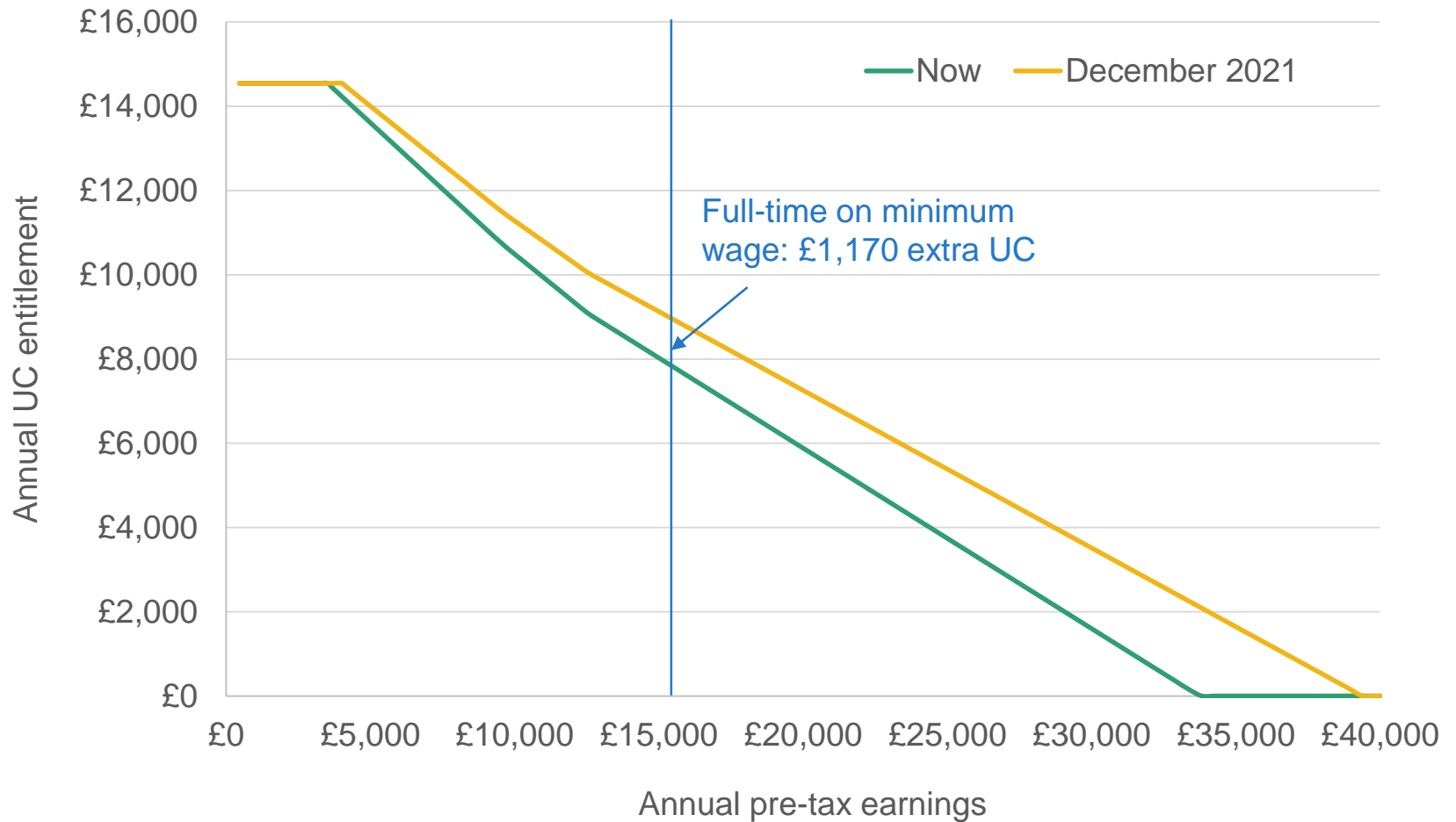
Tax and benefit changes



Increase in UC work allowance (£500/year), reduction in taper rate (63% to 55%)

- Cost £2.8bn in 2025-26

Example: changes to UC work allowance and taper rate for lone parent with 1 child



Notes: Assumes rent of £150 per week.

Tax and benefit changes

Increase in UC work allowance (£500/year), reduction in taper rate (63% to 55%)

- Cost £2.8bn in 2025-26

1.25% Health and social care levy

- Raise £13bn in 2025-26
- Earnings over £9,880 next year

Tax and benefit changes

Increase in UC work allowance (£500/year), reduction in taper rate (63% to 55%)

- Cost £2.8bn in 2025-26

1.25% Health and social care levy

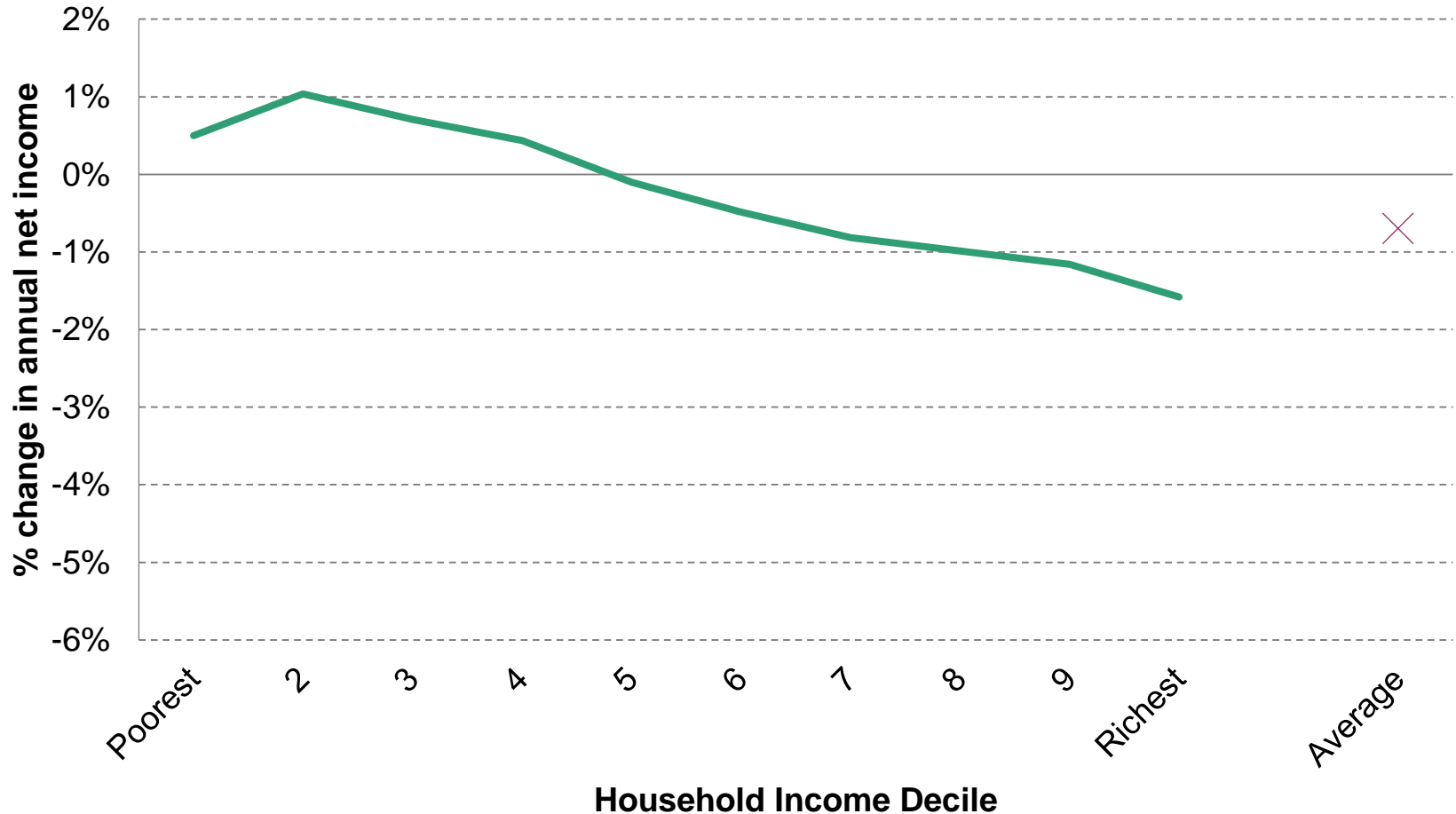
- Raise £13bn in 2025-26
- Earnings over £9,880 next year

PA and HRT frozen

- 10% real cut by 2025-26 (previously forecast 7%)
- Raise £11bn in 2025-26 (previously forecast £7bn)

Gains at bottom of income distribution and falls at top

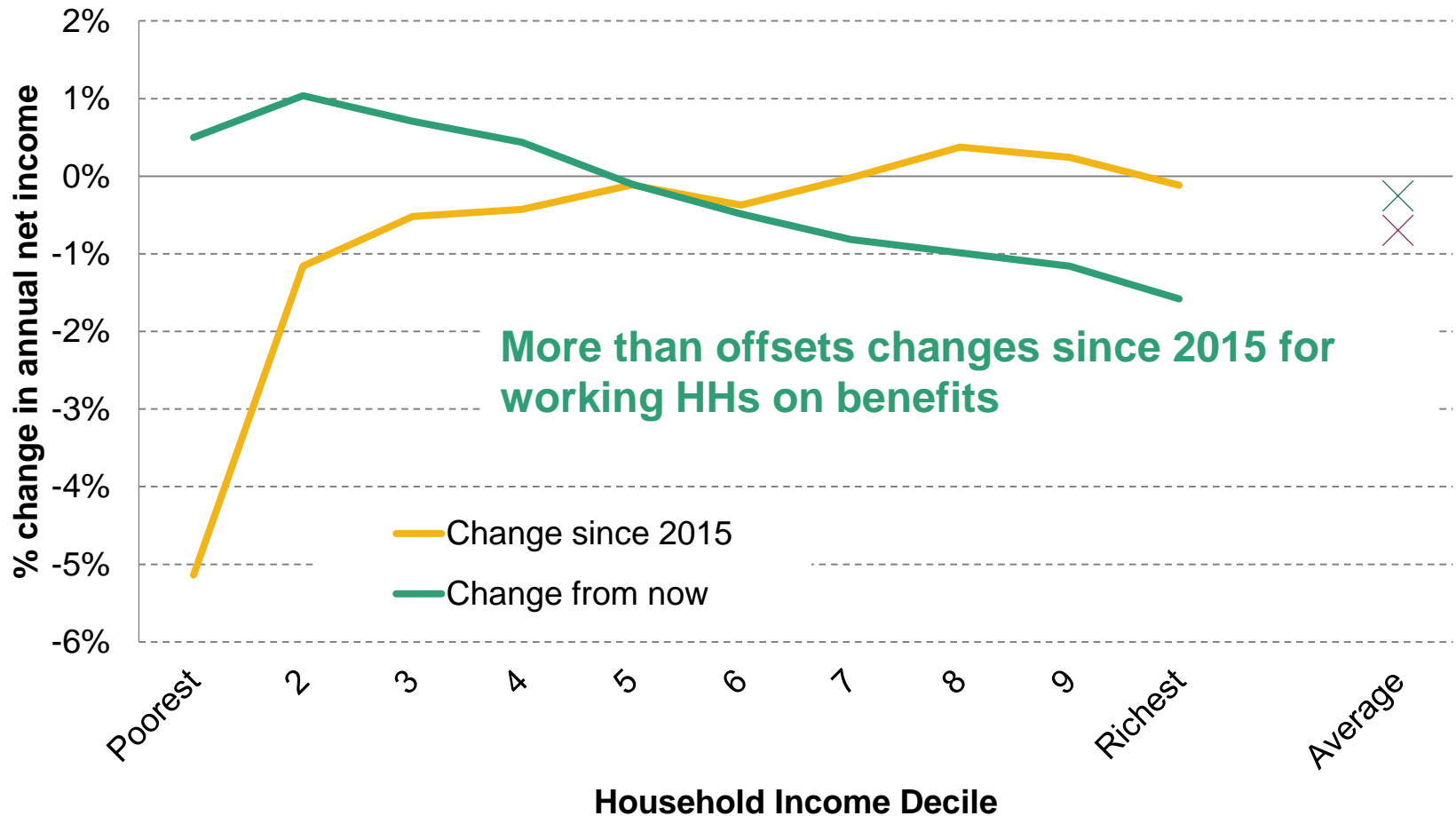
Change in net income from 2021-22 to 2022-23



Note: See appendix slides for policies modelled

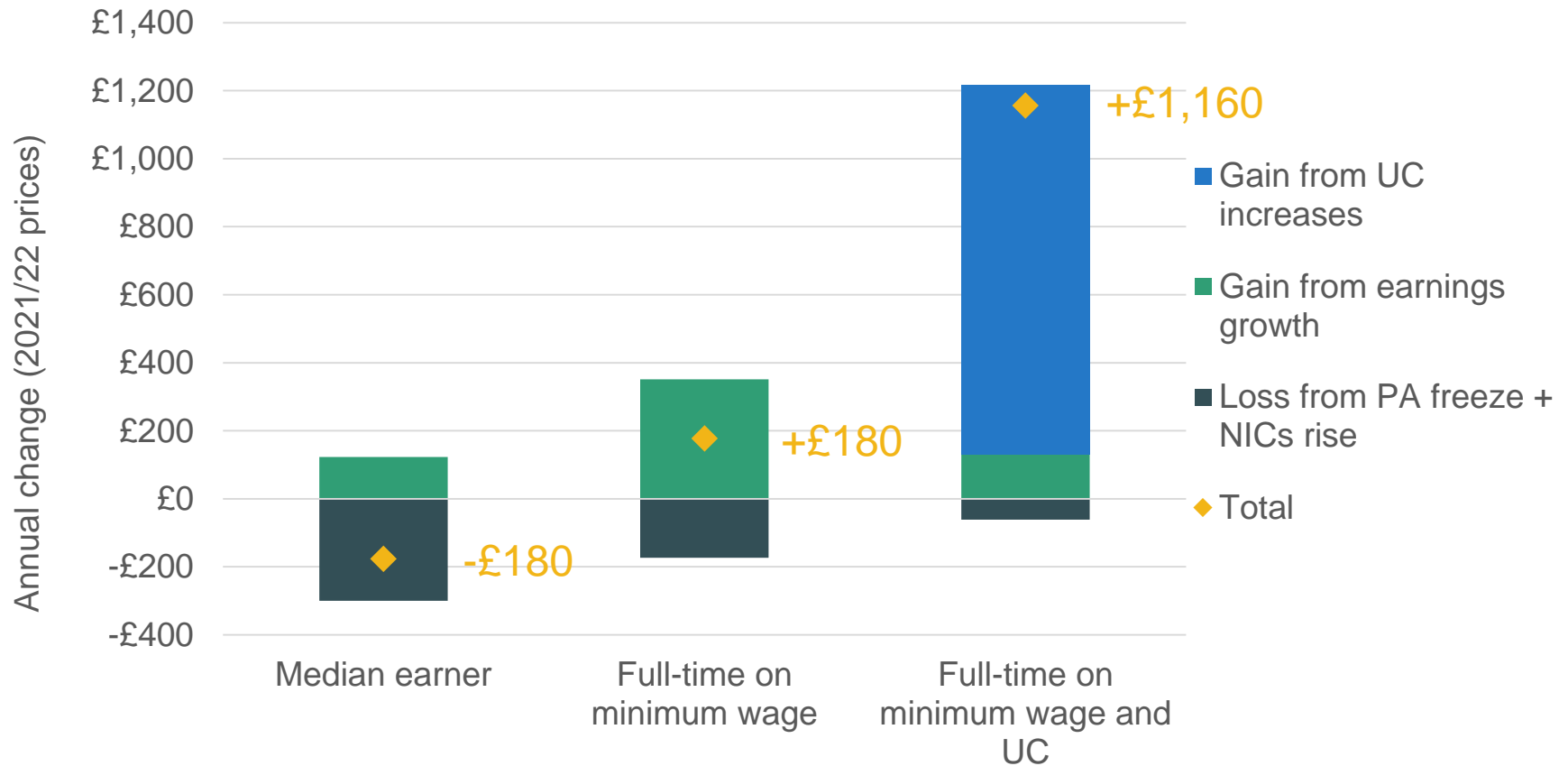
Gains at bottom of income distribution and falls at top

Change in net income from 2021-22 and 2015-16 to 2022-23



Note: See appendix slides for policies modelled

What does this mean for real incomes over the coming year?



Notes: We use the OBR forecasts for earnings growth and inflation between 2021Q4 and 2022Q4. "Full-time" is defined as 35 hours per week. Earnings, direct tax liability and universal credit entitlement all interact with each other, so the order in which they are modelled affects the apportionment: effects are modelled in the order listed on right hand side. The minimum wage worker on UC is assumed to be a renter and to be on the UC taper both before and after reforms

No respite for workless households

- ~4 million workless families on UC
- Just lost temporary £1,000/year Universal Credit uplift
- On top of that, rising inflation eroding value of benefits
 - This means they lose *additional* 1% in real terms by April 2022 compared to a year earlier
 - Another 3% by March 2023 (before benefits catch up in April)
- Continued shift towards in-work households
- Benefits for out-of-work adults without children has not increased in real terms since 1975

Summary



- Continued stagnation in incomes and earnings
- High inflation means many households will see living standards fall
- Households on low incomes, low pay will see modest gains
- Workless households will struggle in coming years

The Institute for Fiscal Studies
7 Ridgmount Street
London
WC1E 7AE

www.ifs.org.uk



2021-22 vs. 2022-23

- 1.25% increase in employee and self-employed NICs, including for those over State Pension Age
- Freeze in the personal allowance and higher rate threshold
- Freeze to fuel and alcohol duty
- Increase in tobacco duty via the tobacco duty escalator
- Freeze in Local Housing Allowance
- Further rollout of the "two child limit" and removal of the family premium
- Reduction in the Universal Credit taper to 55% from 63%
- Increase in Universal Credit work allowances of £500 per year (for those already with a work allowance)

Policies modelled

2015-16 vs. 2022-23

- 1.25% increase in employee and self-employed NICs, including for those over State Pension Age
- Increases to the personal allowance and higher rate threshold
- Various reforms to fuel, alcohol, and tobacco duties
- Real terms increases to council tax rates
- Four year freeze in most working-age benefits
- Increase in Local Housing Allowance rates to 30th percentile of local rents, followed by a freeze
- Introduction of the "two child limit" and removal of the family premium
- Introduction of Universal Credit
- Reduction in the Universal Credit taper to 55% from 65%
- Various changes to Universal Credit work allowances
- Increases to Pension Credit
- Reduction in the benefit cap