



September 2022

Xiaowei Xu

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The outlook for households



Economic
and Social
Research Council



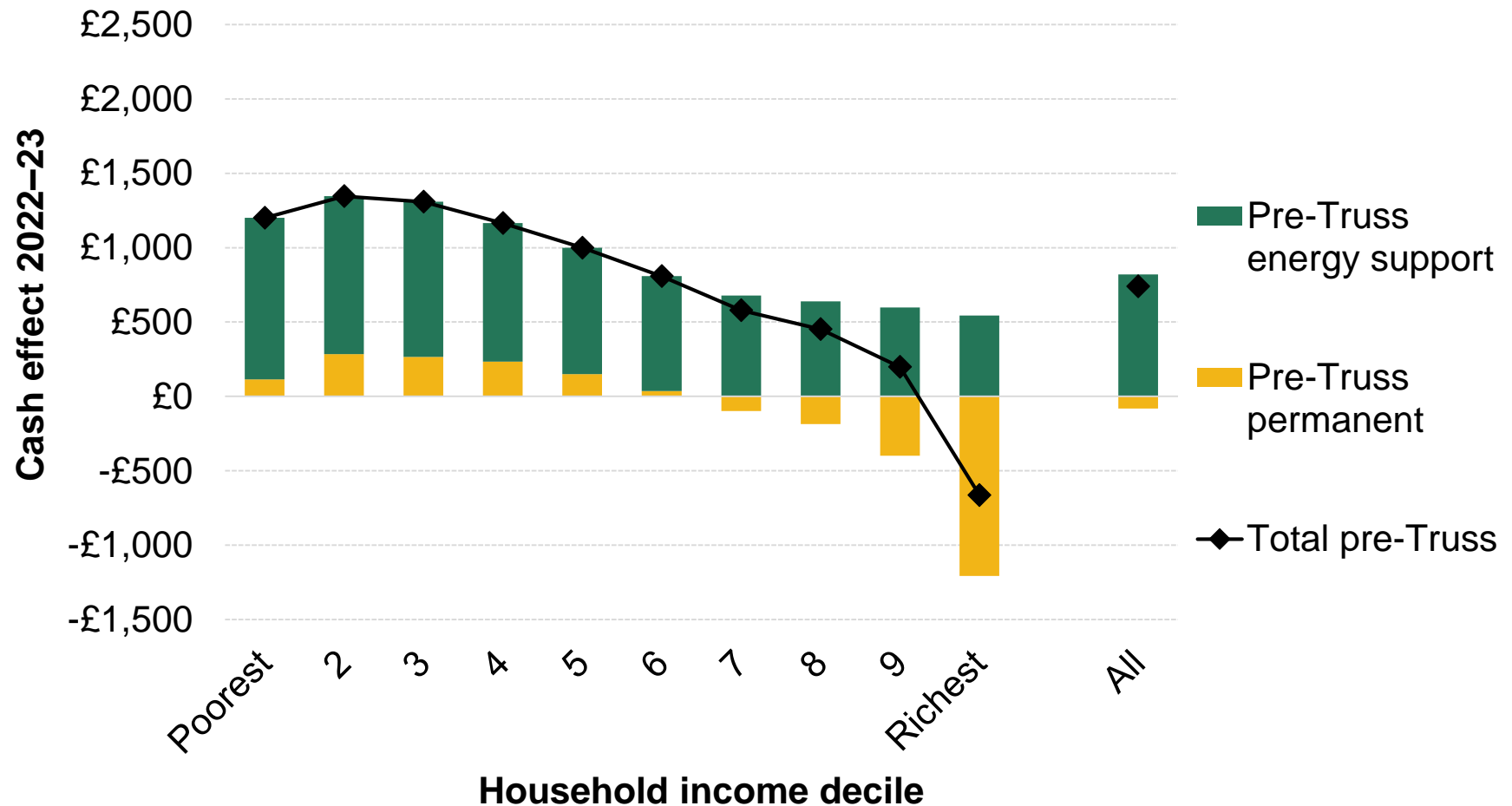
2022–23: direct tax and benefit measures since Autumn 2021

Announced before September 2022

- Rise in UC work allowances and cut to UC taper (£2bn; November 2021)
- Rise in employee and self-employed NICs threshold (£6bn; July 2022 employees, April 2022 self-employed)
- 1.25 ppt rise in employee, self-employed and employer NICs (-£17bn of which £8bn employee NICs; April 2022)
 - Up from 12% below UEL; 2% above UEL; 13.8% employer NICs
- Freeze in personal allowance and higher rate income tax threshold (-£3bn; April 2022)
- Large package of support to help with fuel and energy costs (£26bn)

2022–23: distributional impact

Impact of measures implemented since November 2021



Notes: Assumes that in the short run rise in employer NICs is borne by employers.

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Announced in September 2022

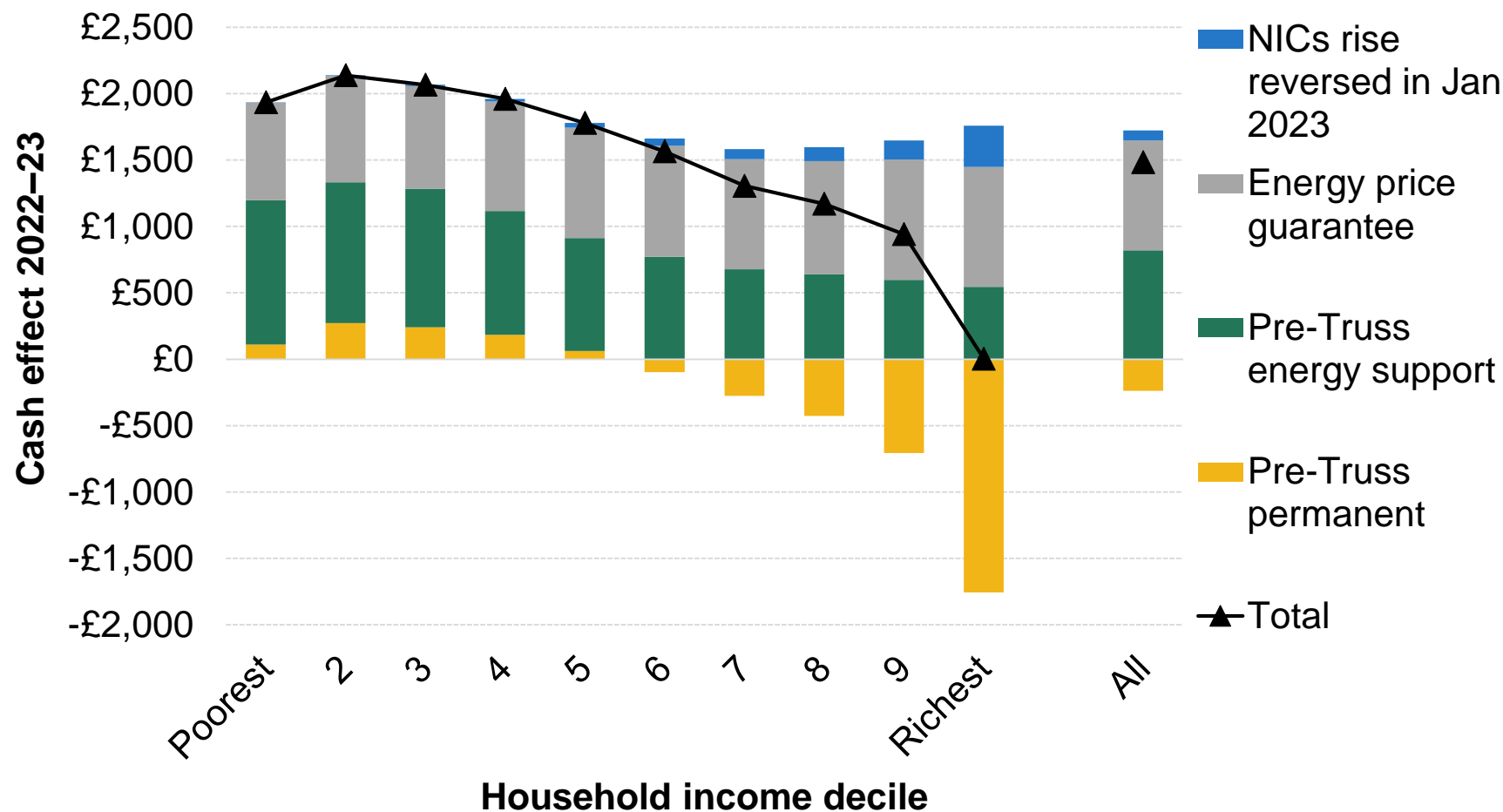
- Energy price guarantee (£26bn)

Expected tomorrow

- Reversal of NICs rise / cancellation of HSC levy

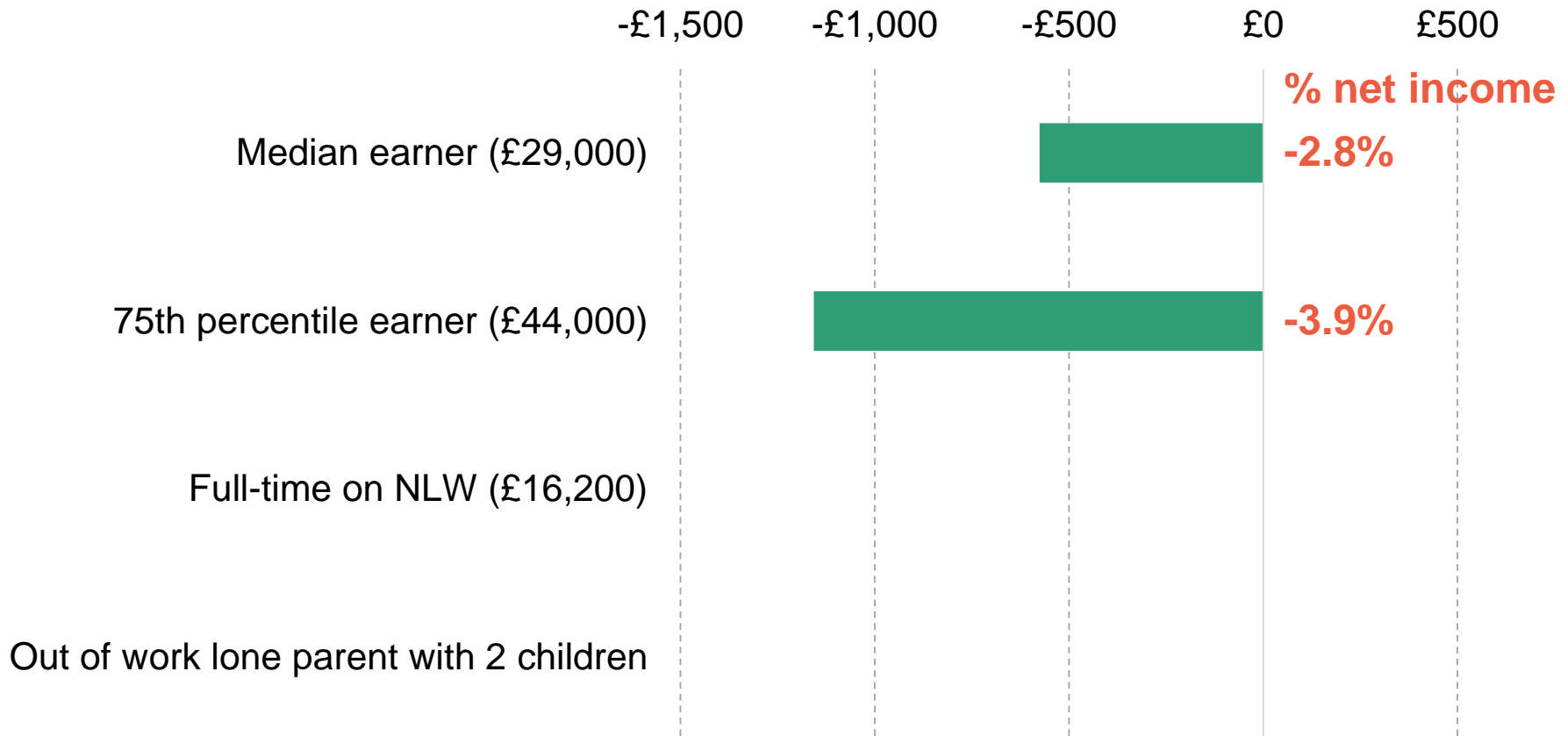
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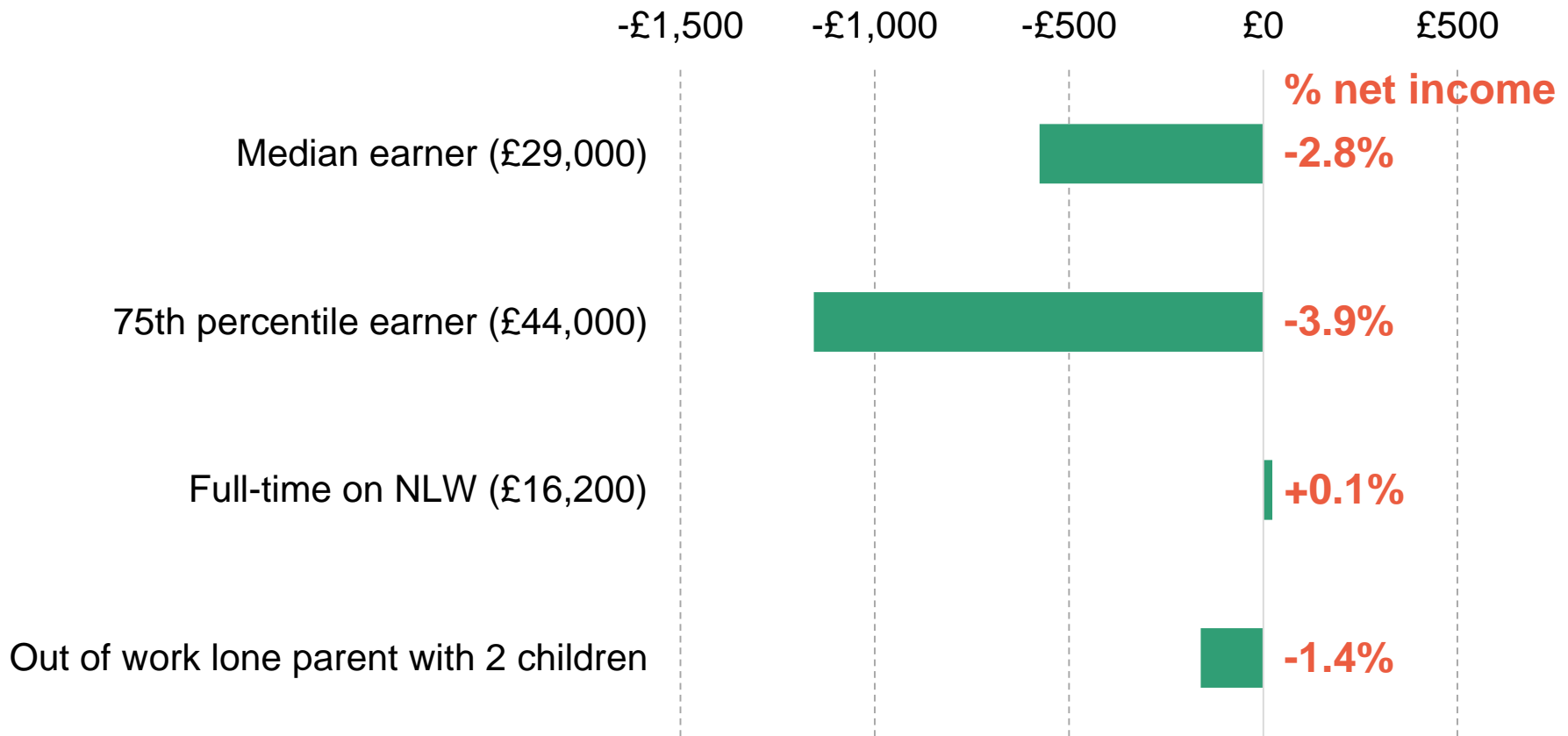
Changes in real take-home income in 2022–23 compared to last year



Notes: Assumes NICs rise reversed in January 2023. First 3 households receive no benefits and have no working partner. Last household is assumed to be lone parent homeowner with 2 children. None of the households are disabled and all are in council tax band A-D properties. Assumes same inflation rate for all households.

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Reversal of NICs rise

Options for reversing NICs rise:

- Go back to previous rates
 - Will NICs threshold rise be reversed too?
- Only reverse part of rise
 - Only cut rate below UEL
 - Only cut rate for employees and self-employed

Some increase in employment and hours worked is likely, but would be very small

- Average effective marginal tax rate among all workers falls from 37.4% to 36.4% (1.1ppt)
 - Just 0.4ppt fall (from 61.2%) for workers on means-tested working-age benefits

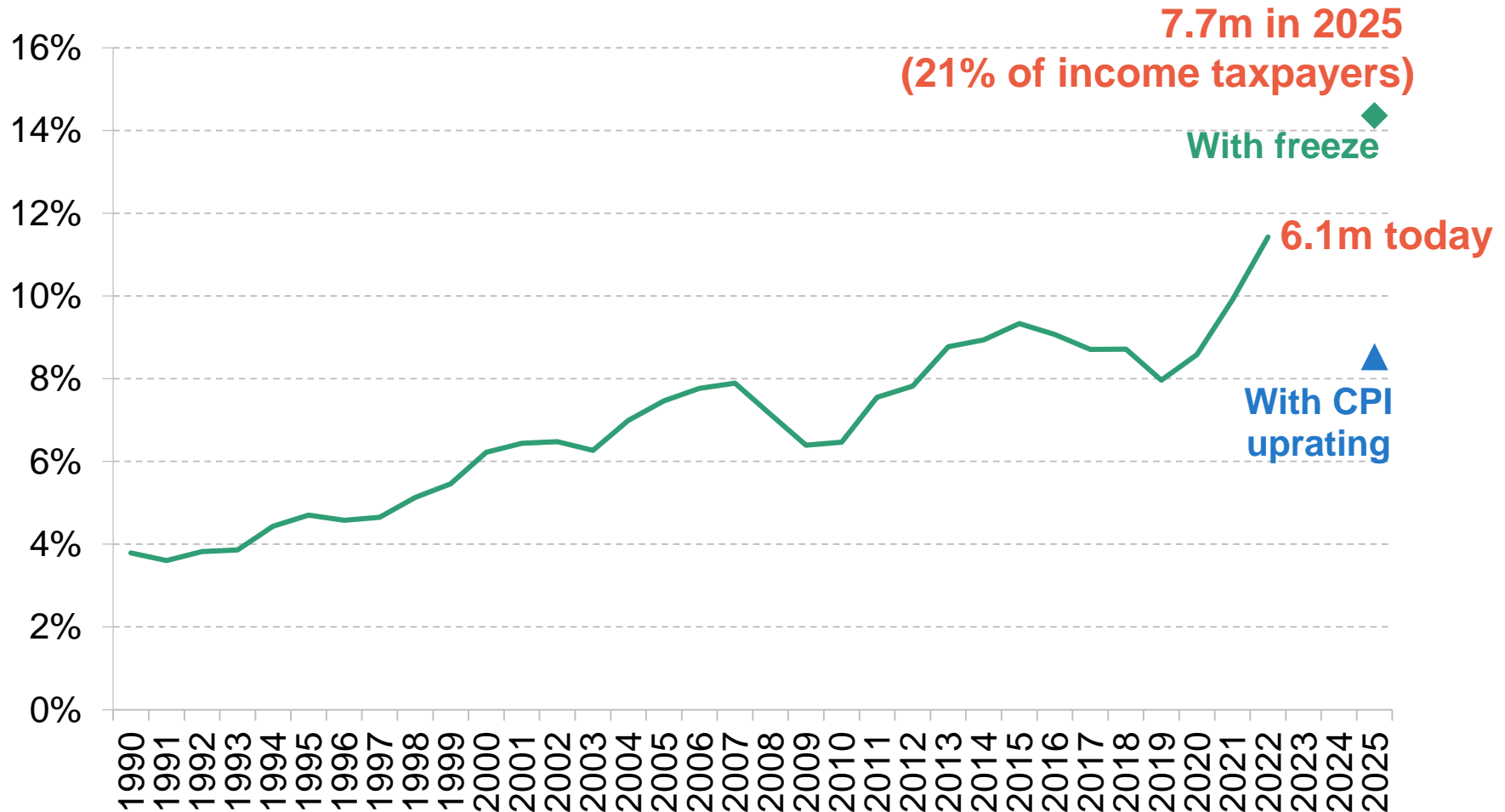
Looking beyond 2022

Announced before September 2022

- Income tax thresholds frozen until 2025–26
 - High inflation means much larger impact than expected
 - Forecast to raise £8bn by 2025–26 when announced; £30bn based on latest inflation figures

Big rise in share of higher rate taxpayers

Number of higher rate taxpayers as a share of adults



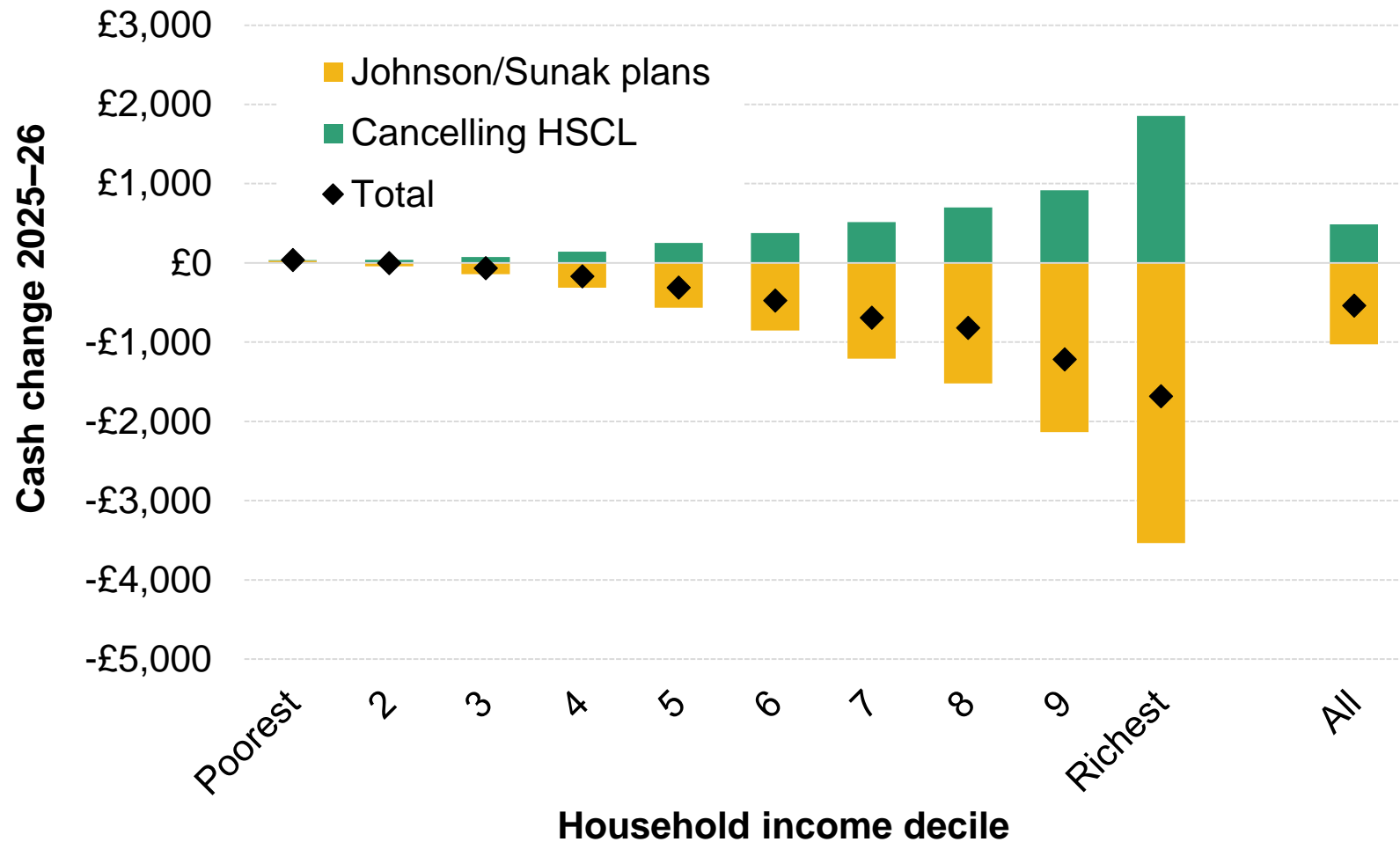
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- Income tax thresholds frozen until 2025–26
 - High inflation means much larger impact than expected
 - Forecast to raise £8bn by 2025–26 when announced; £30bn based on latest inflation figures
- NICs threshold to be frozen with personal allowance until 2025–26 (-£4bn)
- 1p off basic rate of income tax (£6bn; April 2024)

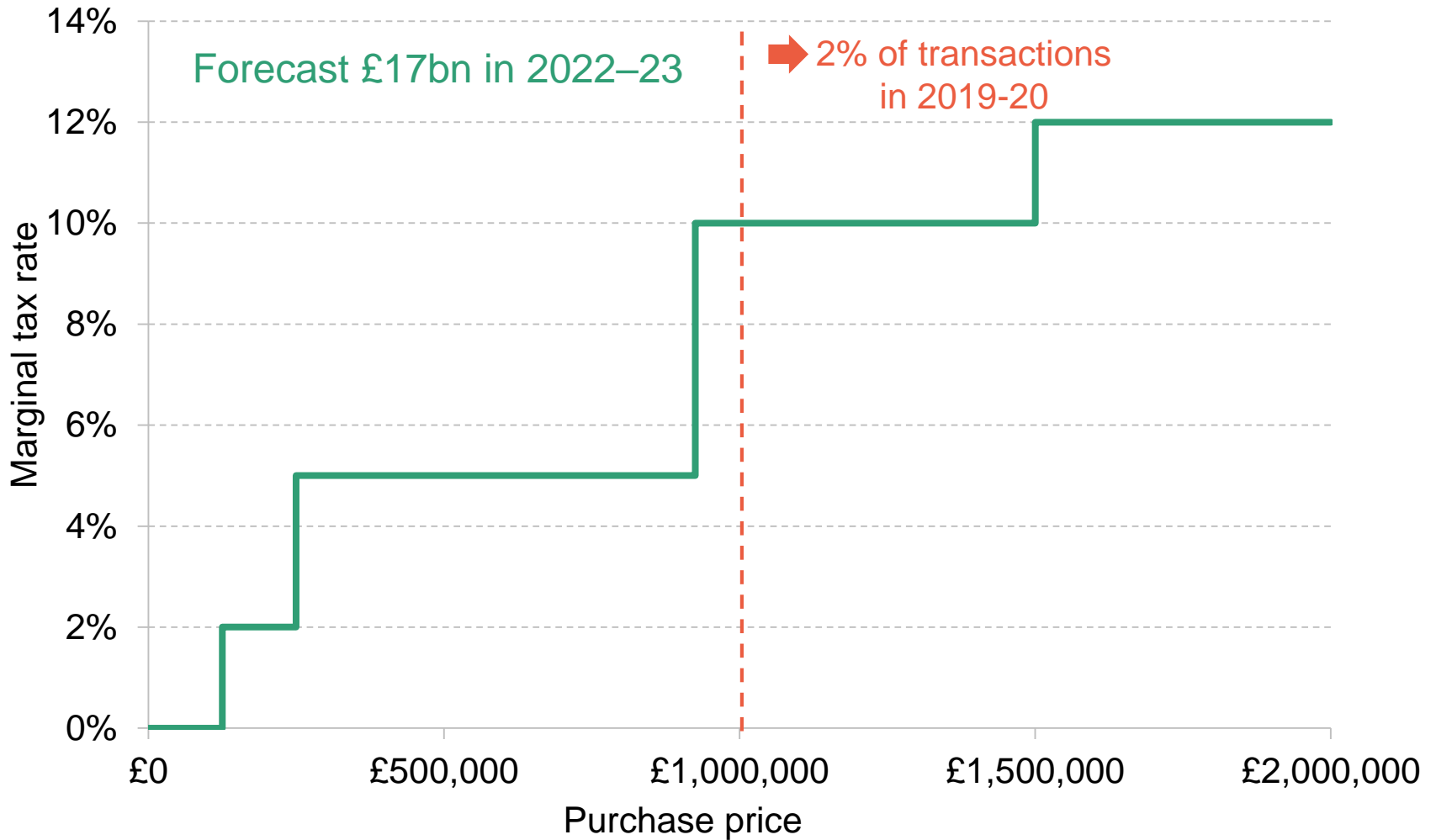
2025–26: distributional impact

Impact of measures implemented since November 2021, 2022–23 prices



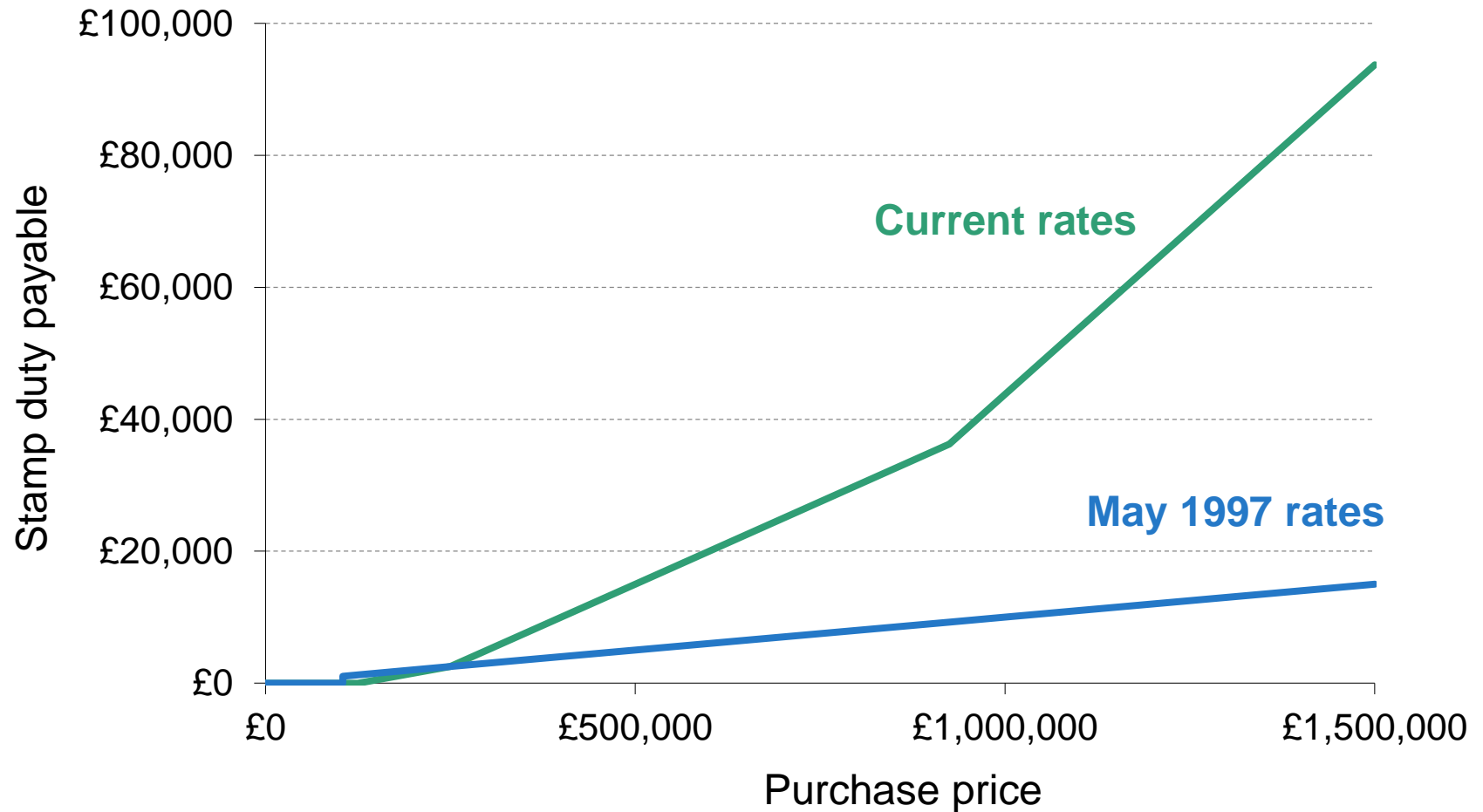
Notes: Assumes that in the long run rise in employer NICs is fully incident on workers.

Stamp duty marginal tax rates



Note: England and Northern Ireland. MTR assumes not a first-time buyer and no other residential property.

Huge increase in stamp duty in recent decades



Note: 1997 threshold at which stamp duty becomes payable converted to 2022–23 prices using CPIH.

Conclusions

- Huge package of support this year
 - But median earner still set to see ~£600 (3%) fall in real incomes
- Johnson and Sunak introduced large, progressive set of tax increases
- Reversal of NICs rise / HSCCL will undo nearly half of previous increase, but higher-income households still face substantial tax rises

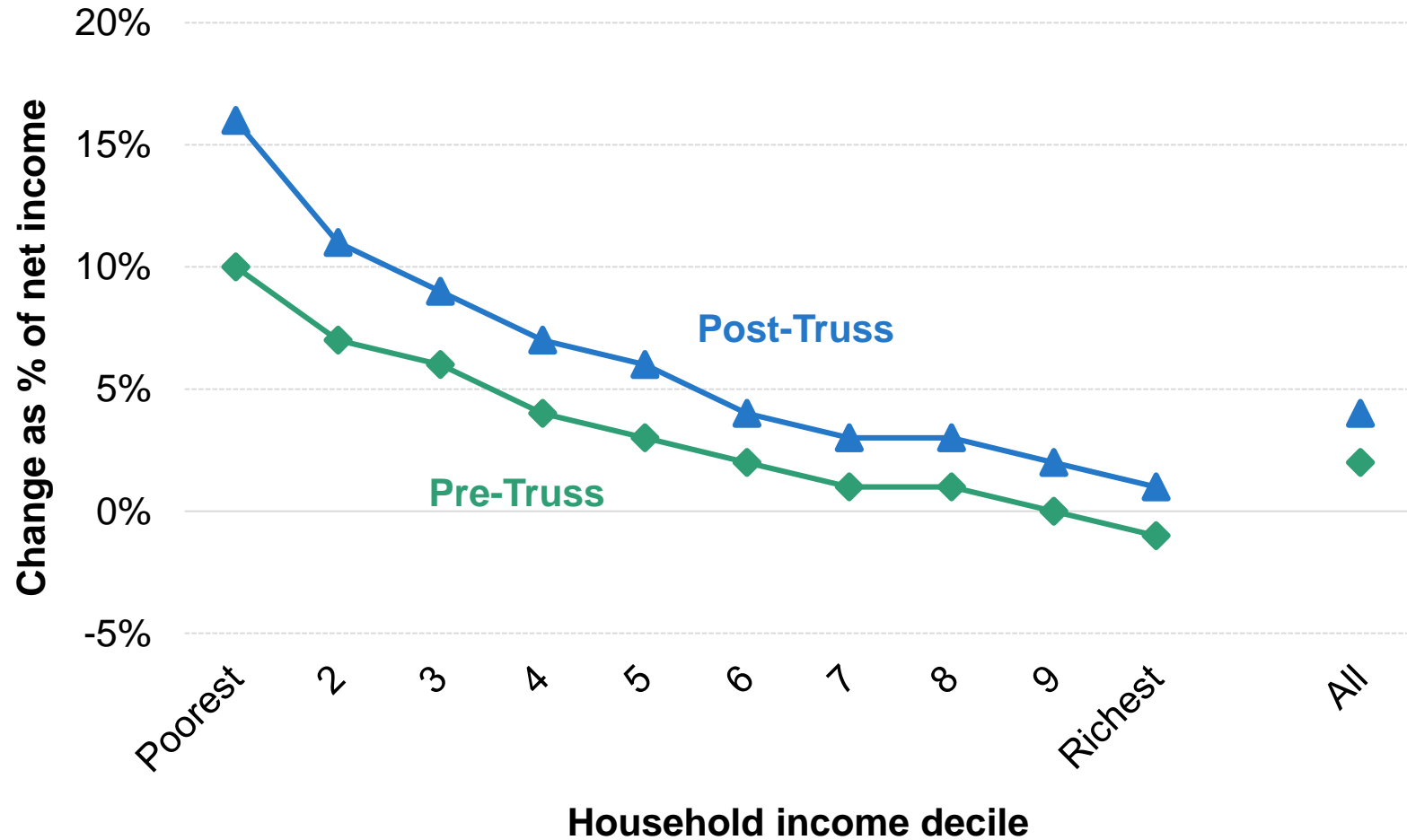
The Institute for Fiscal Studies
7 Ridgmount Street
London
WC1E 7AE

www.ifs.org.uk



2022–23: distributional impact

Impact of measures implemented since November 2021



2025–26 : distributional impact

Impact of measures implemented since November 2021

