



Tom Waters

IFS-CIOT debate on income tax

@TheIFS



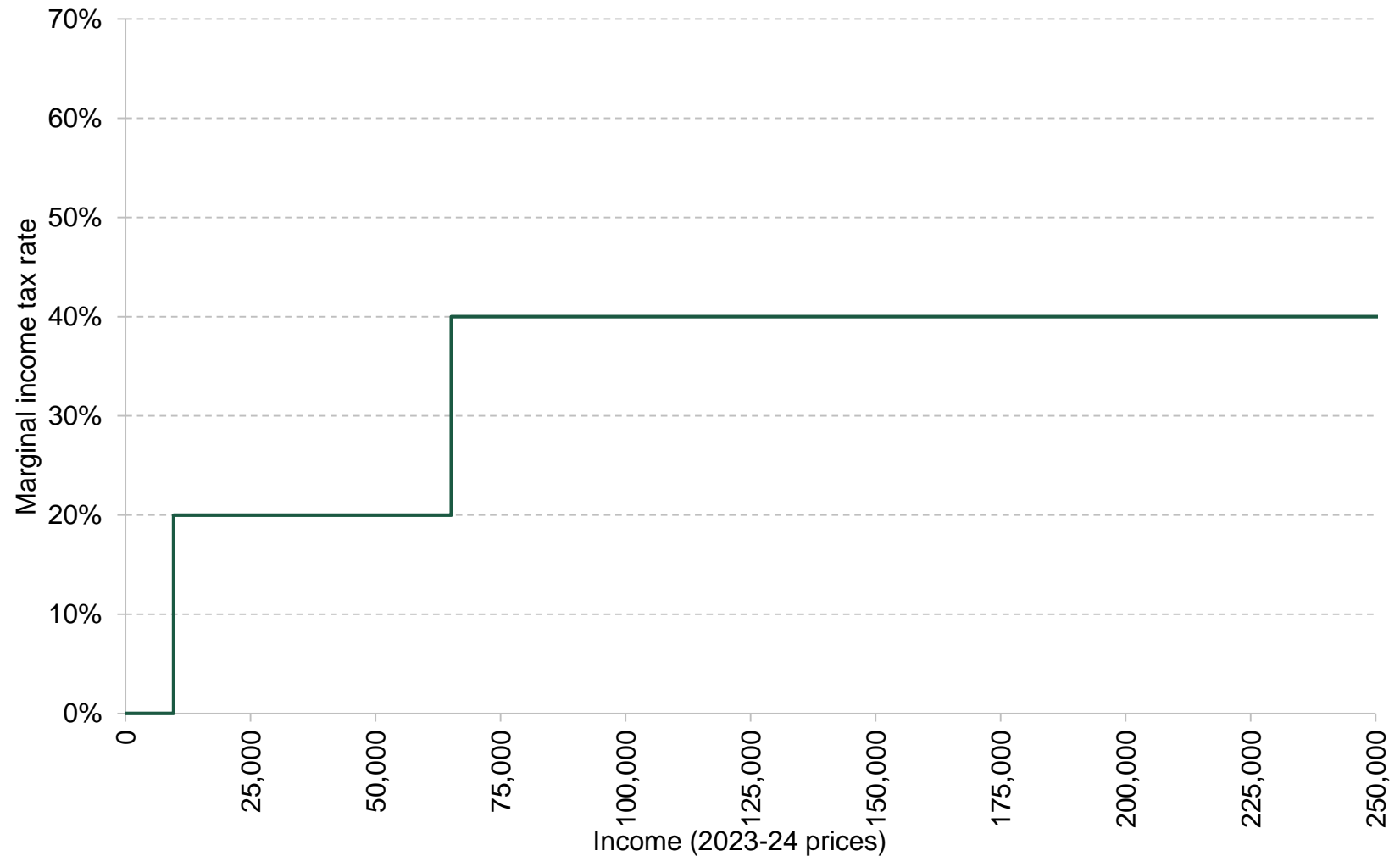
Economic
and Social
Research Council



**An (increasingly) odd
looking system**

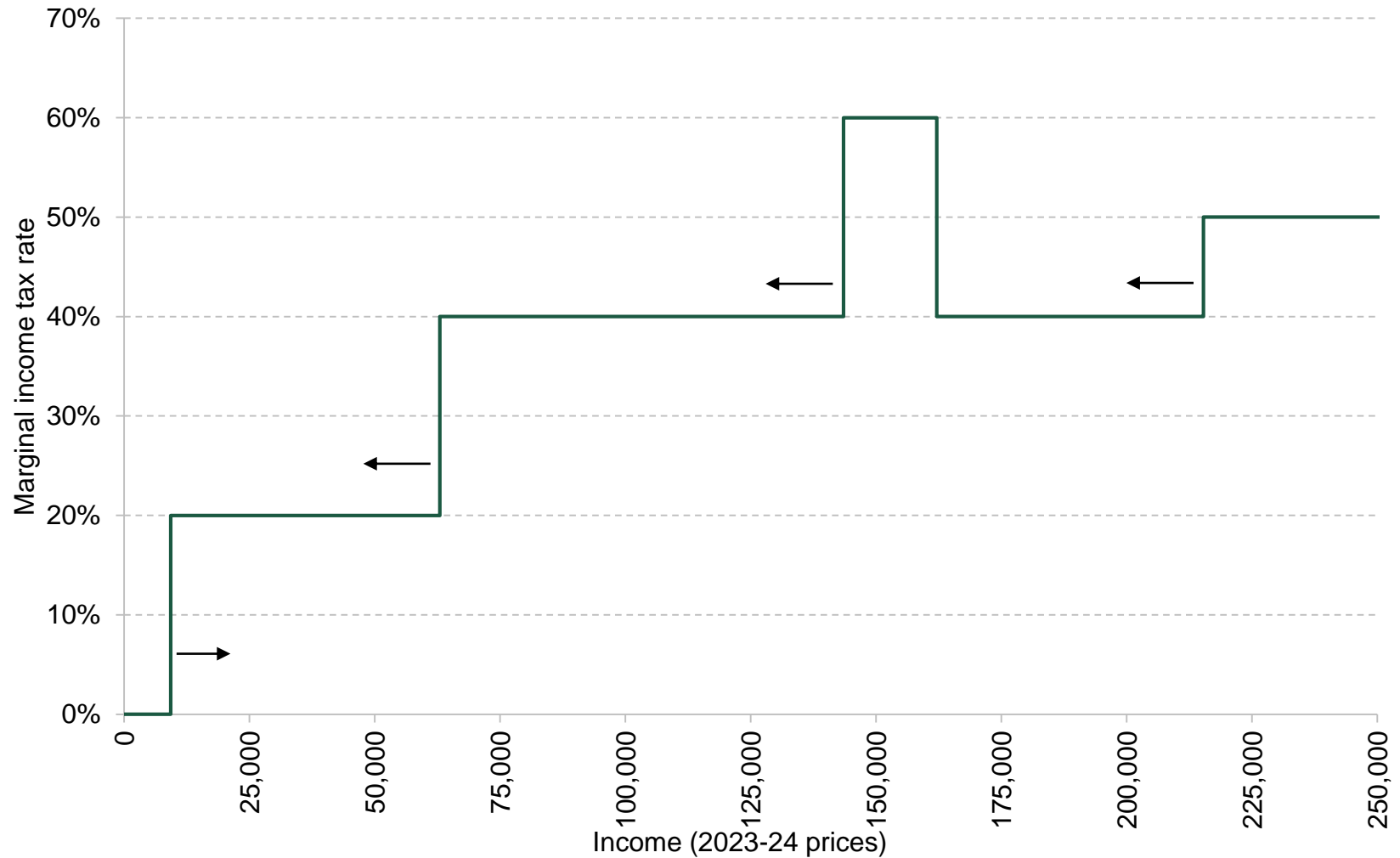
Marginal income tax rates

2009



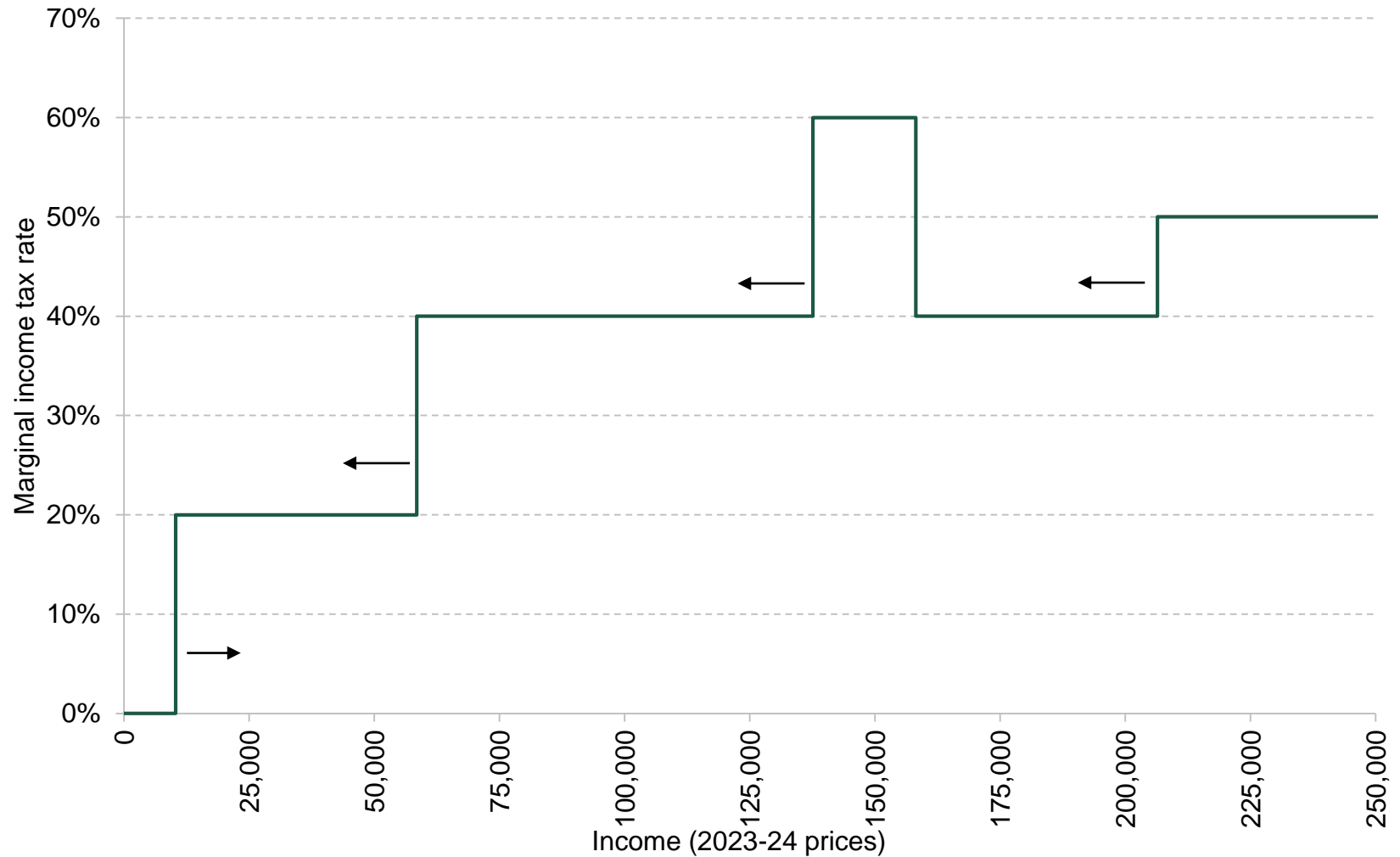
Marginal income tax rates

2010



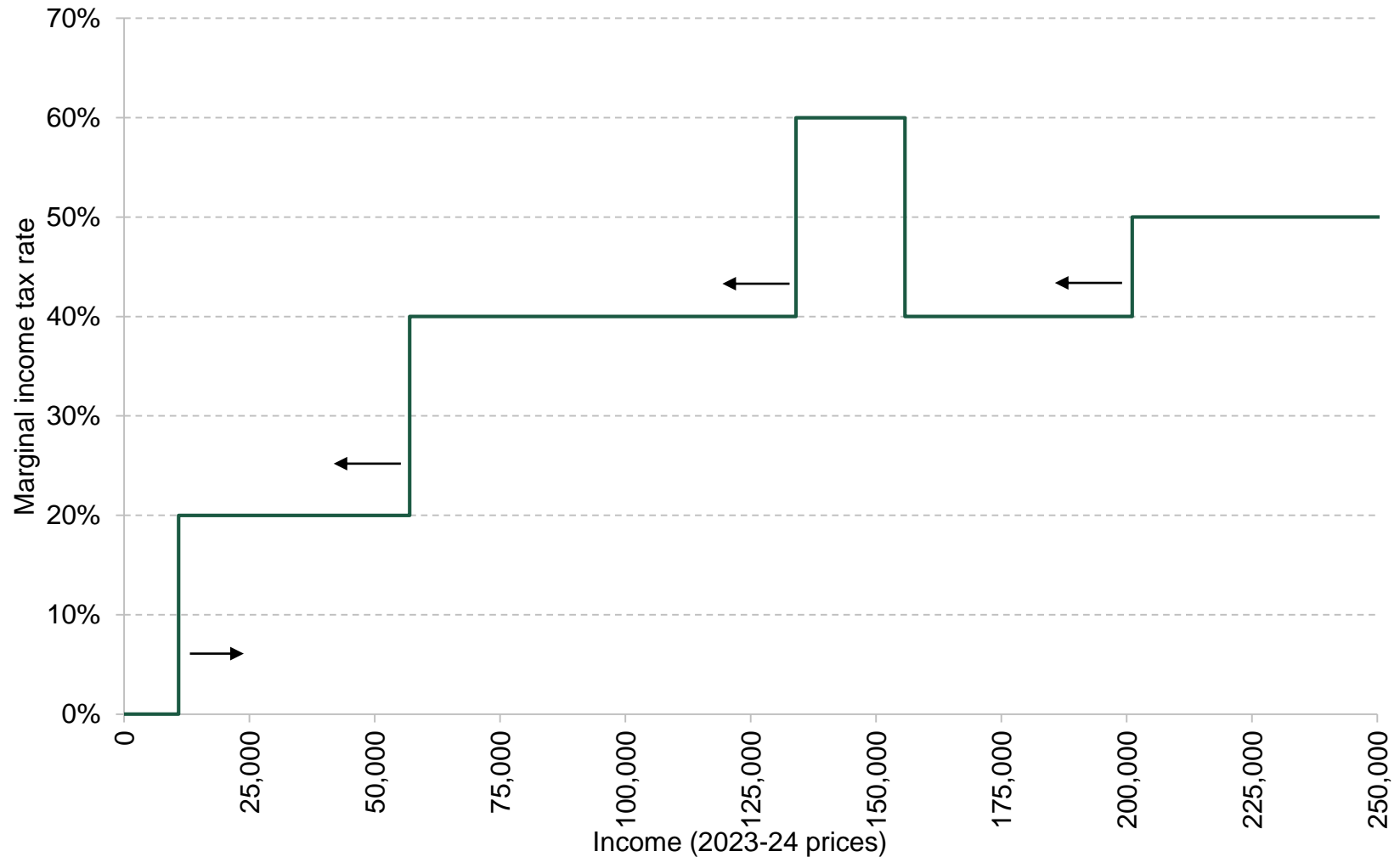
Marginal income tax rates

2011



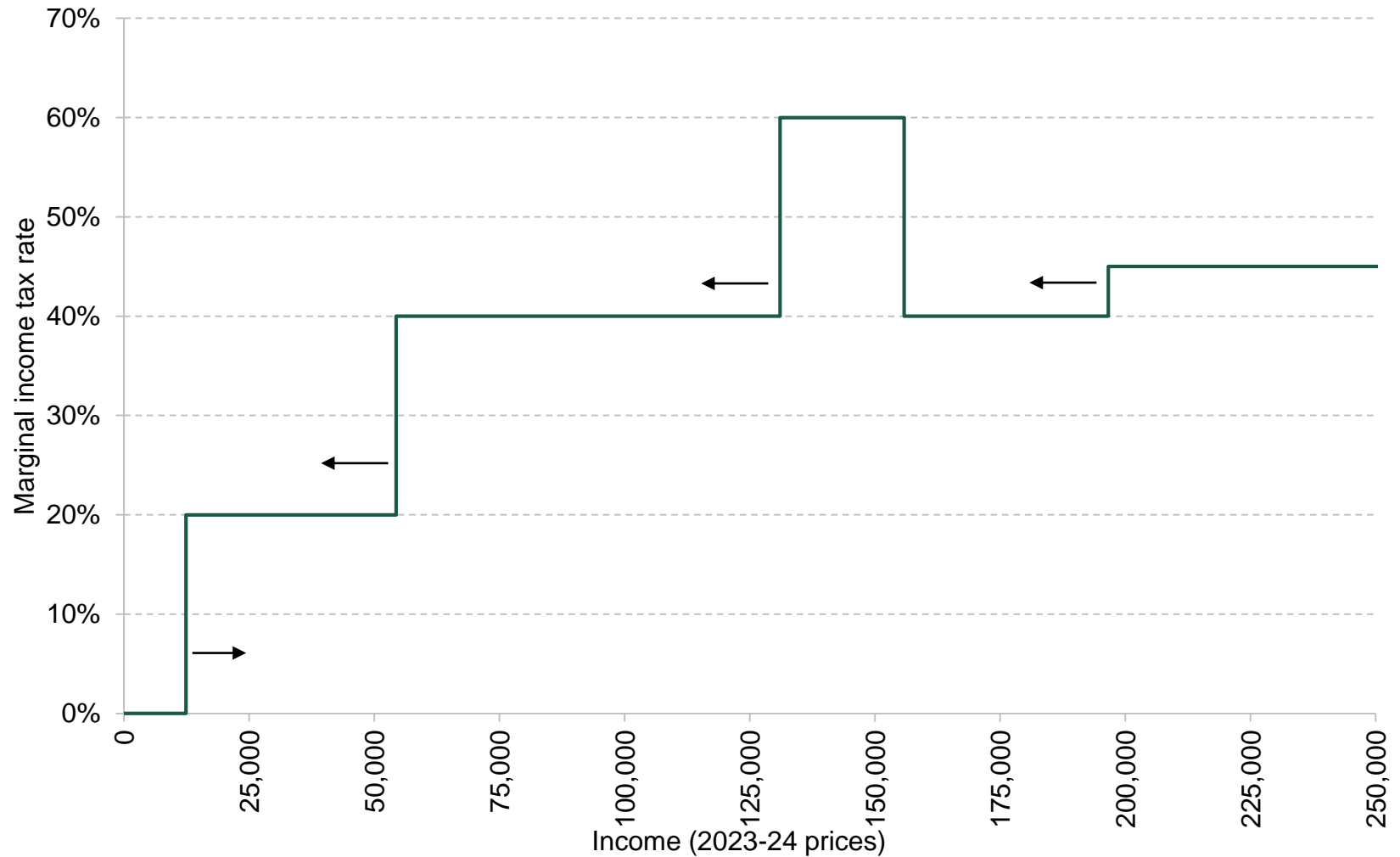
Marginal income tax rates

2012



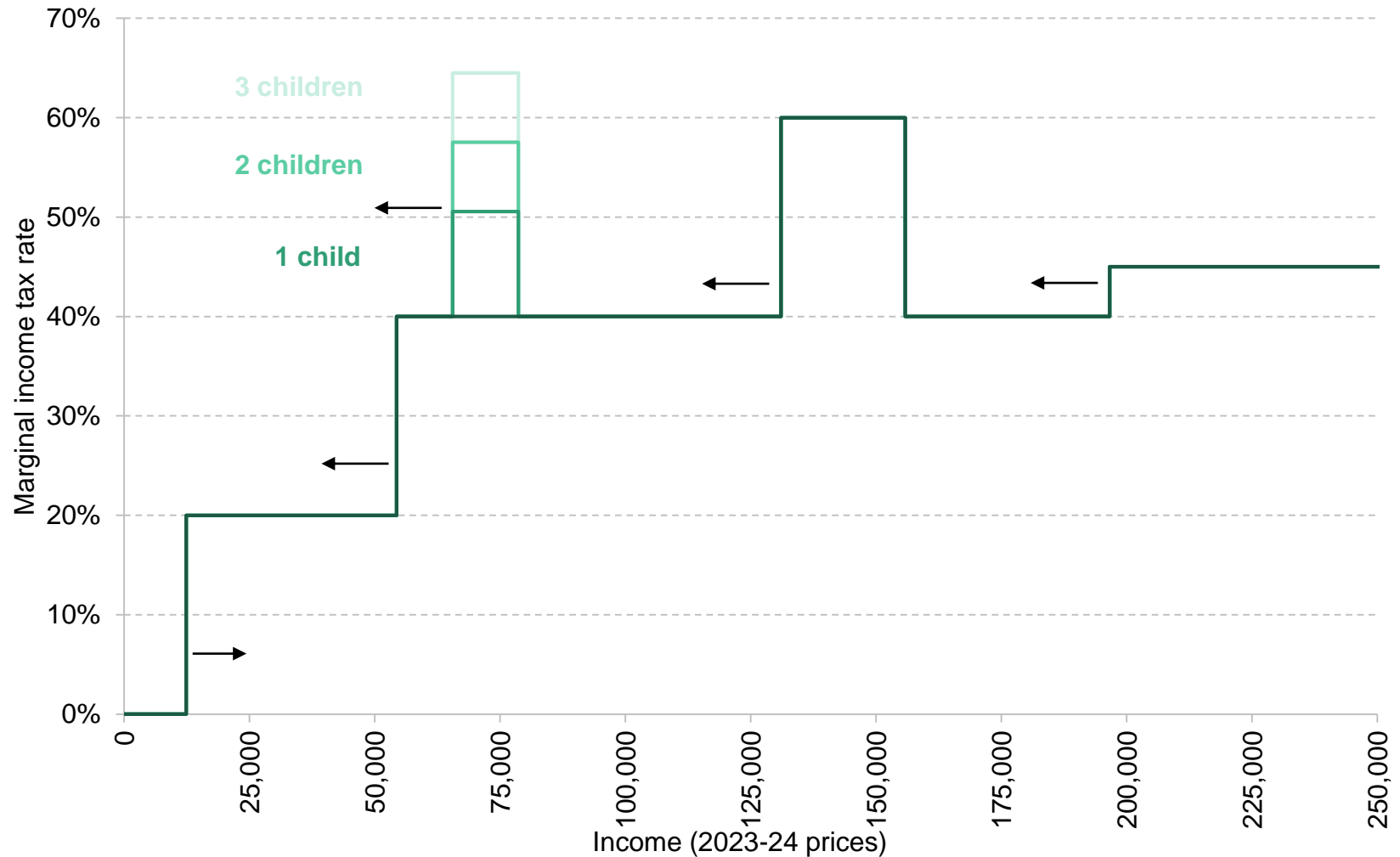
Marginal income tax rates

2013



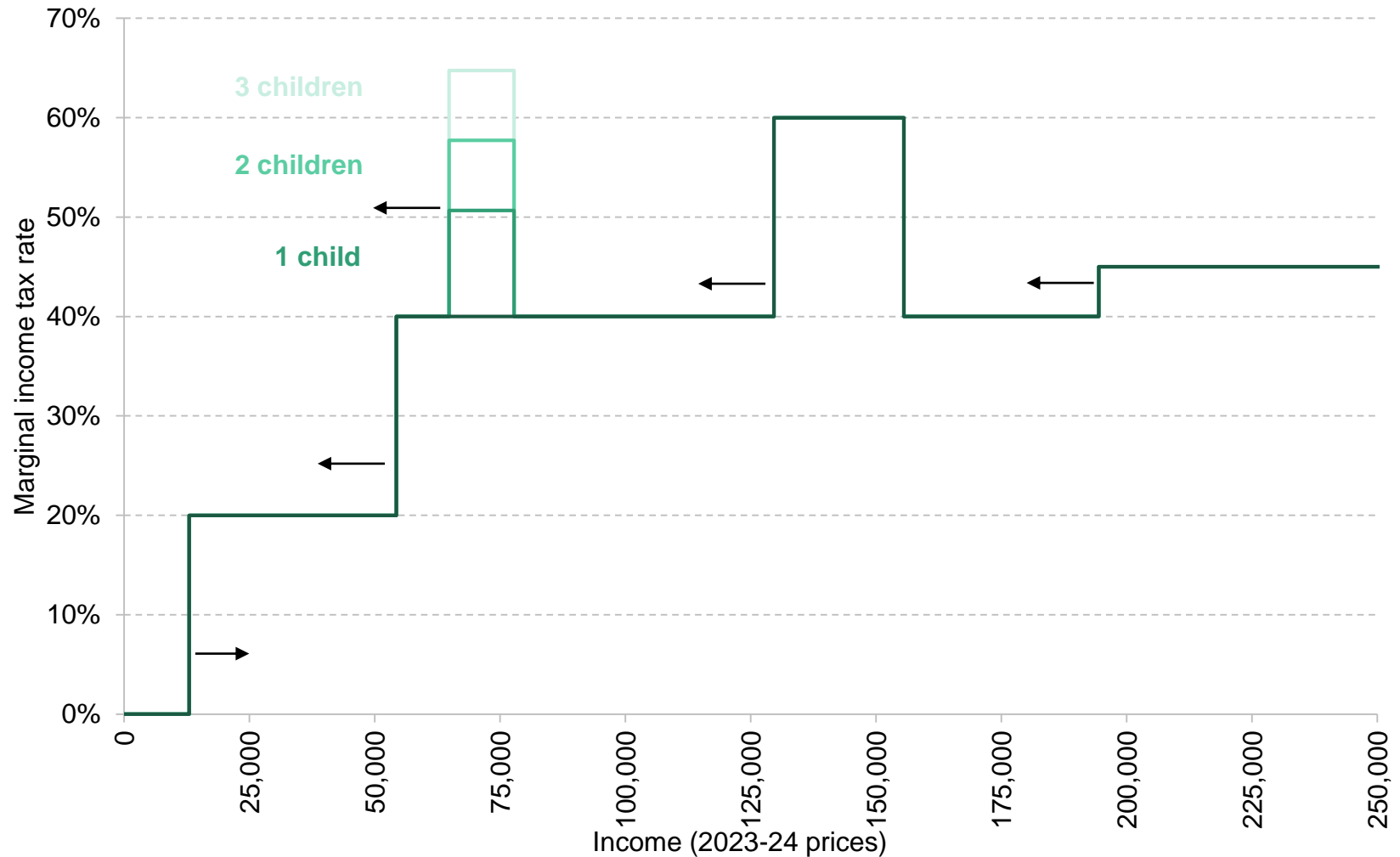
Marginal income tax rates

2013



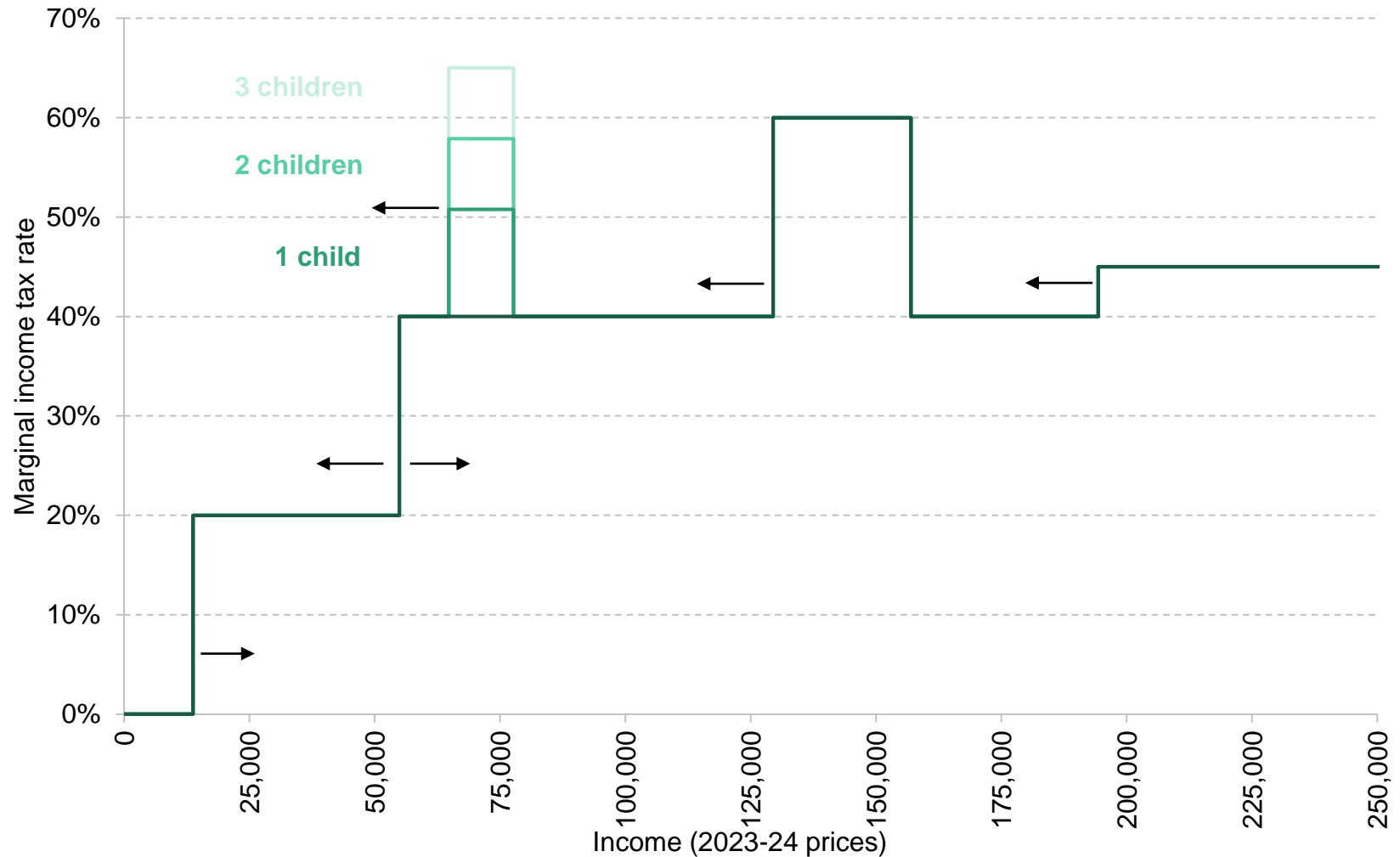
Marginal income tax rates

2014



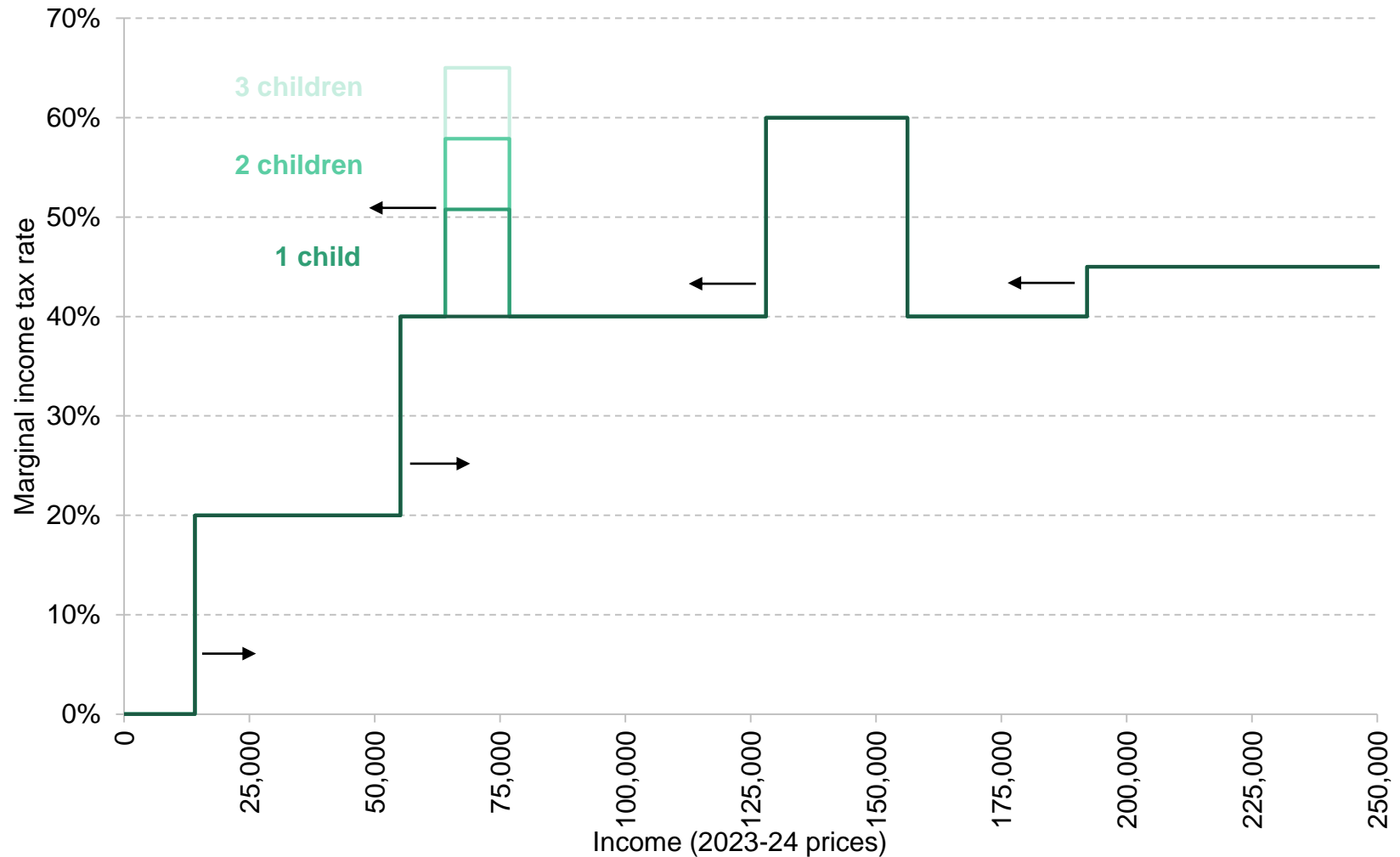
Marginal income tax rates

2015



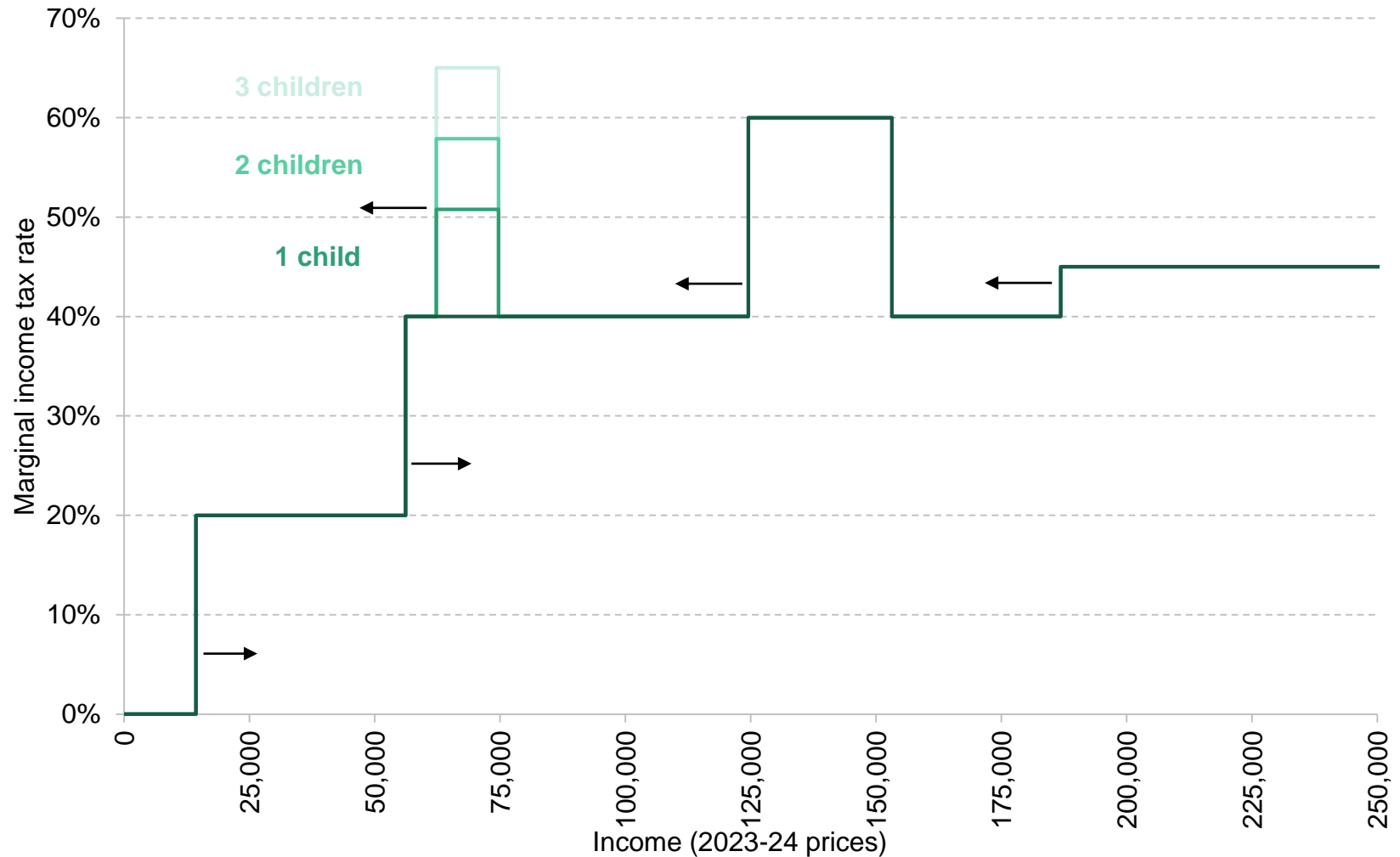
Marginal income tax rates

2016



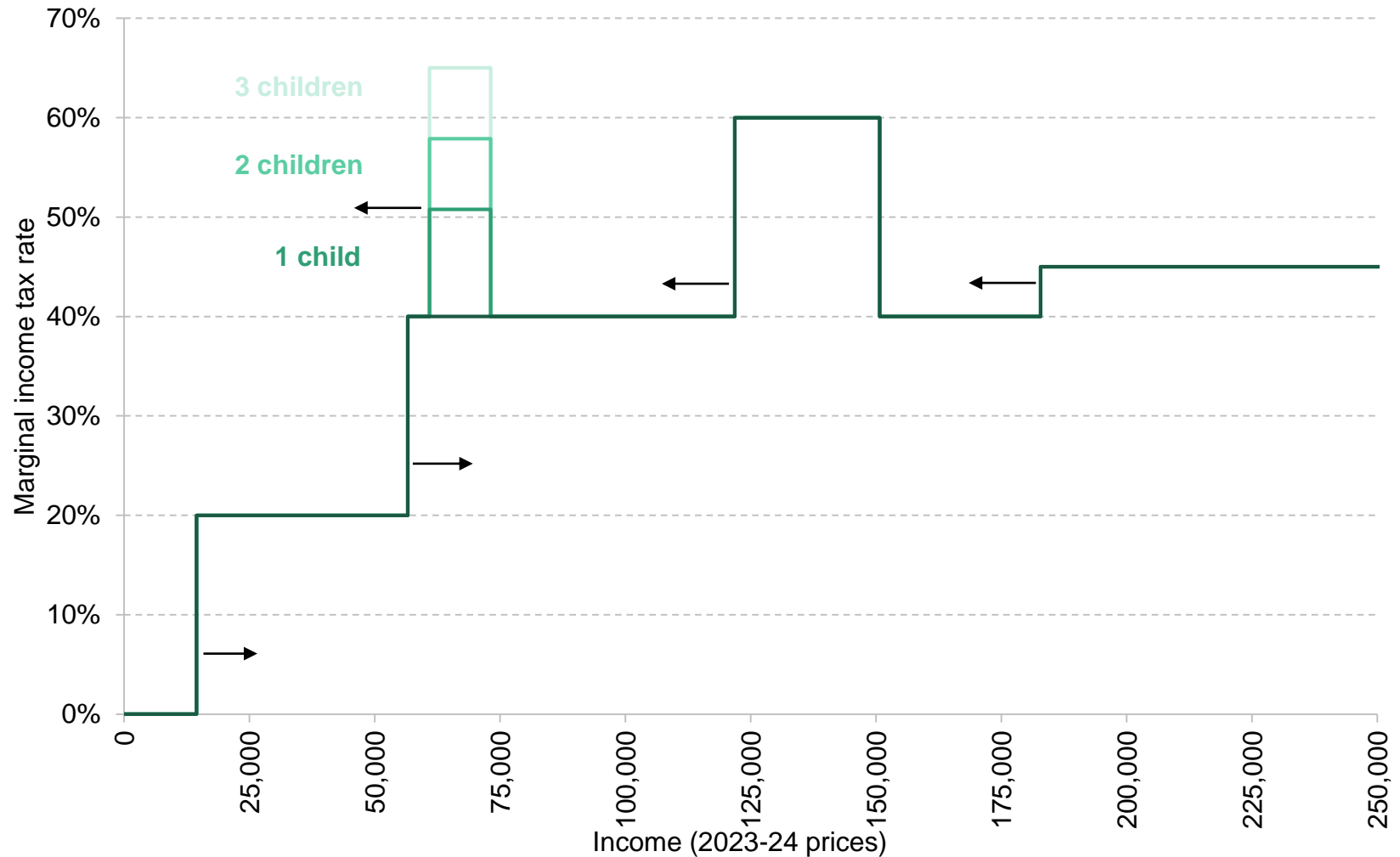
Marginal income tax rates

2017



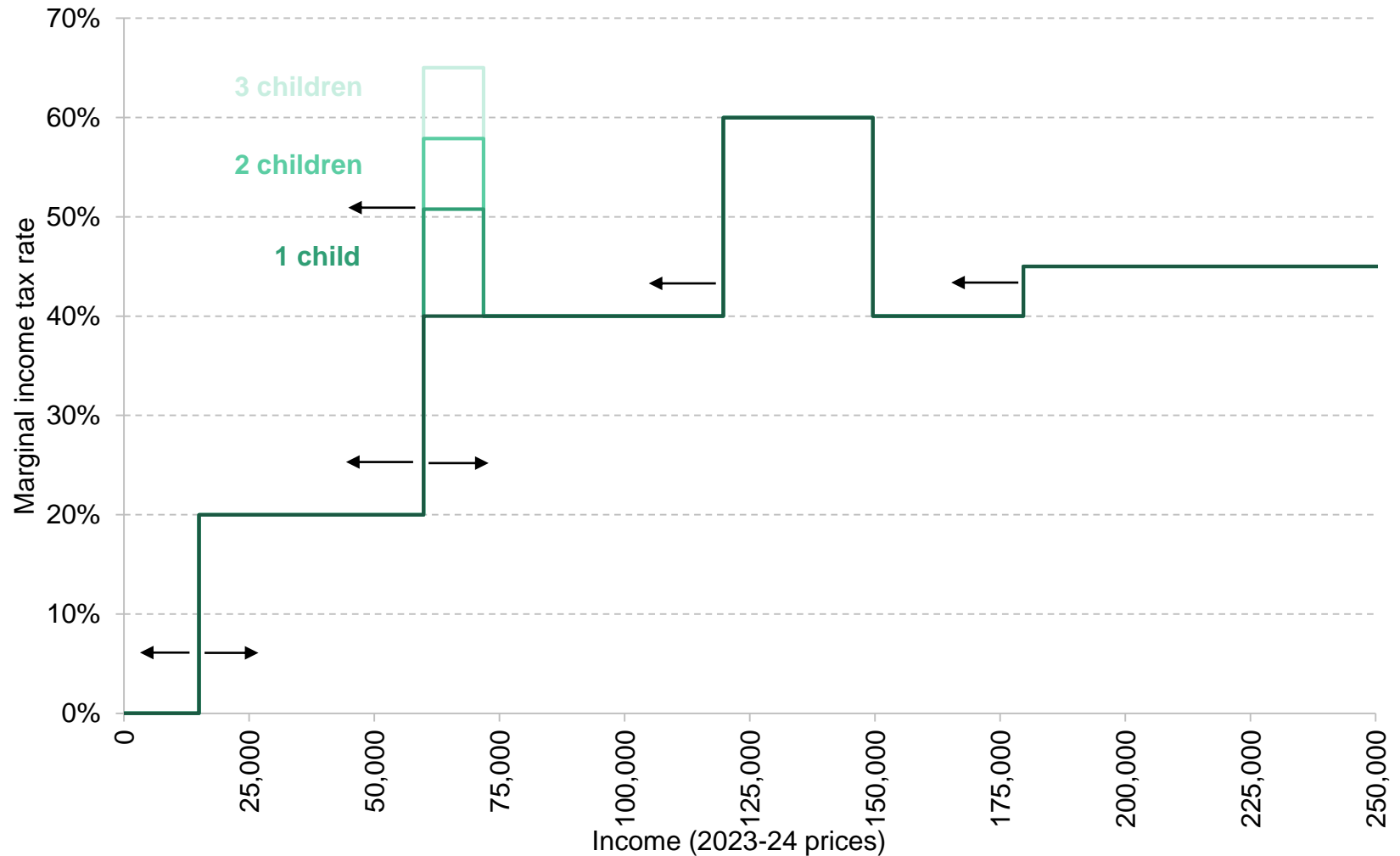
Marginal income tax rates

2018



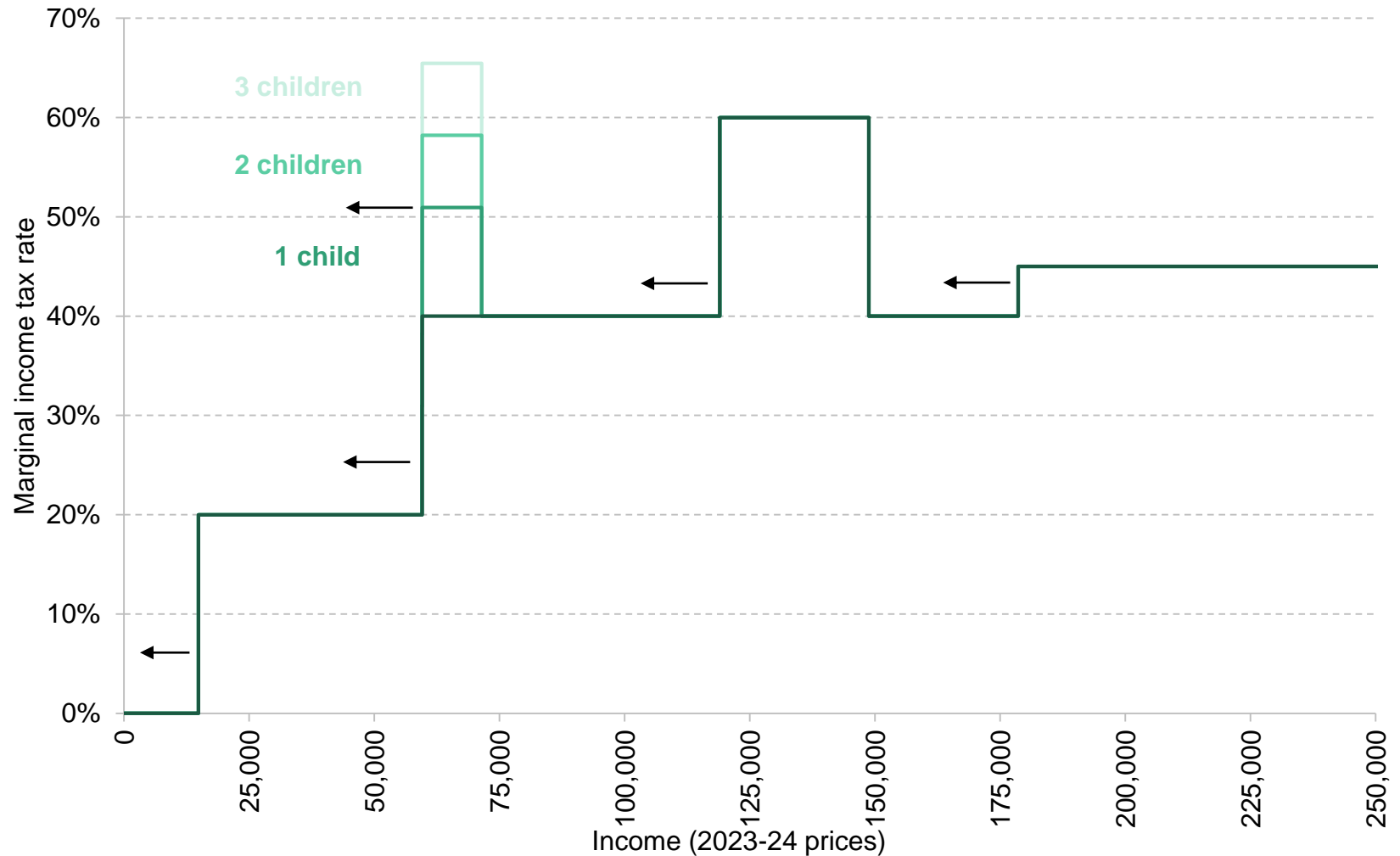
Marginal income tax rates

2019



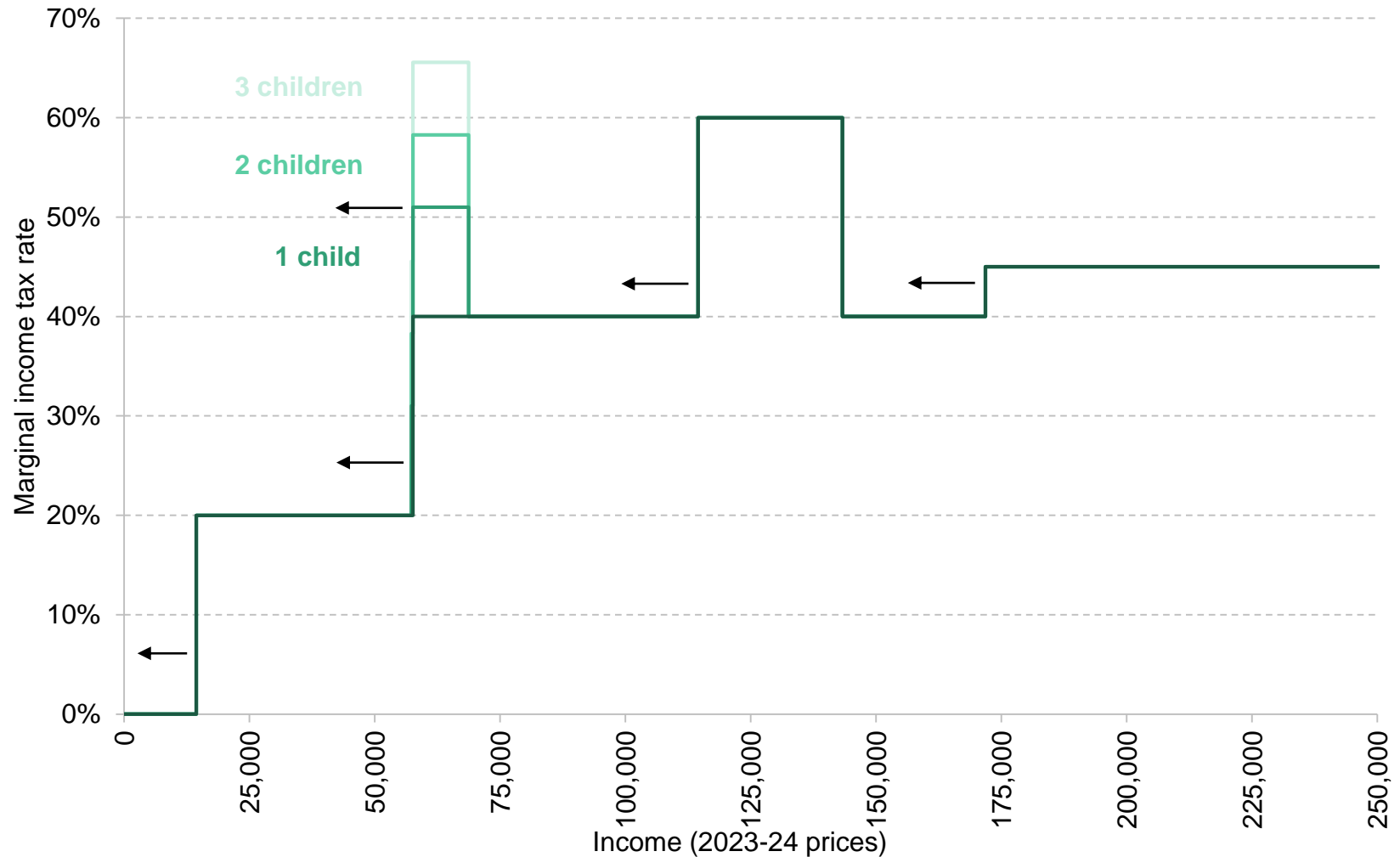
Marginal income tax rates

2020



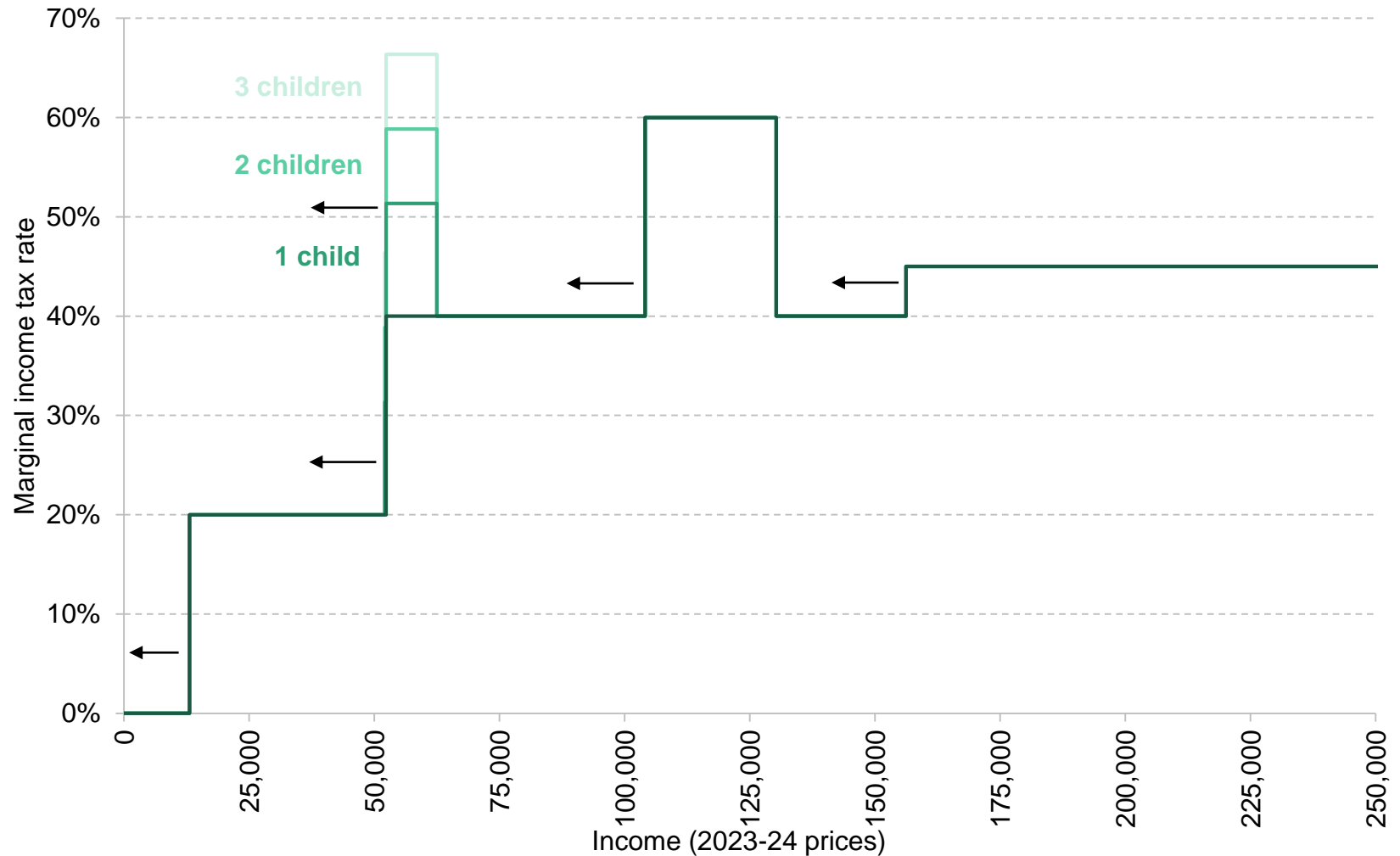
Marginal income tax rates

2021



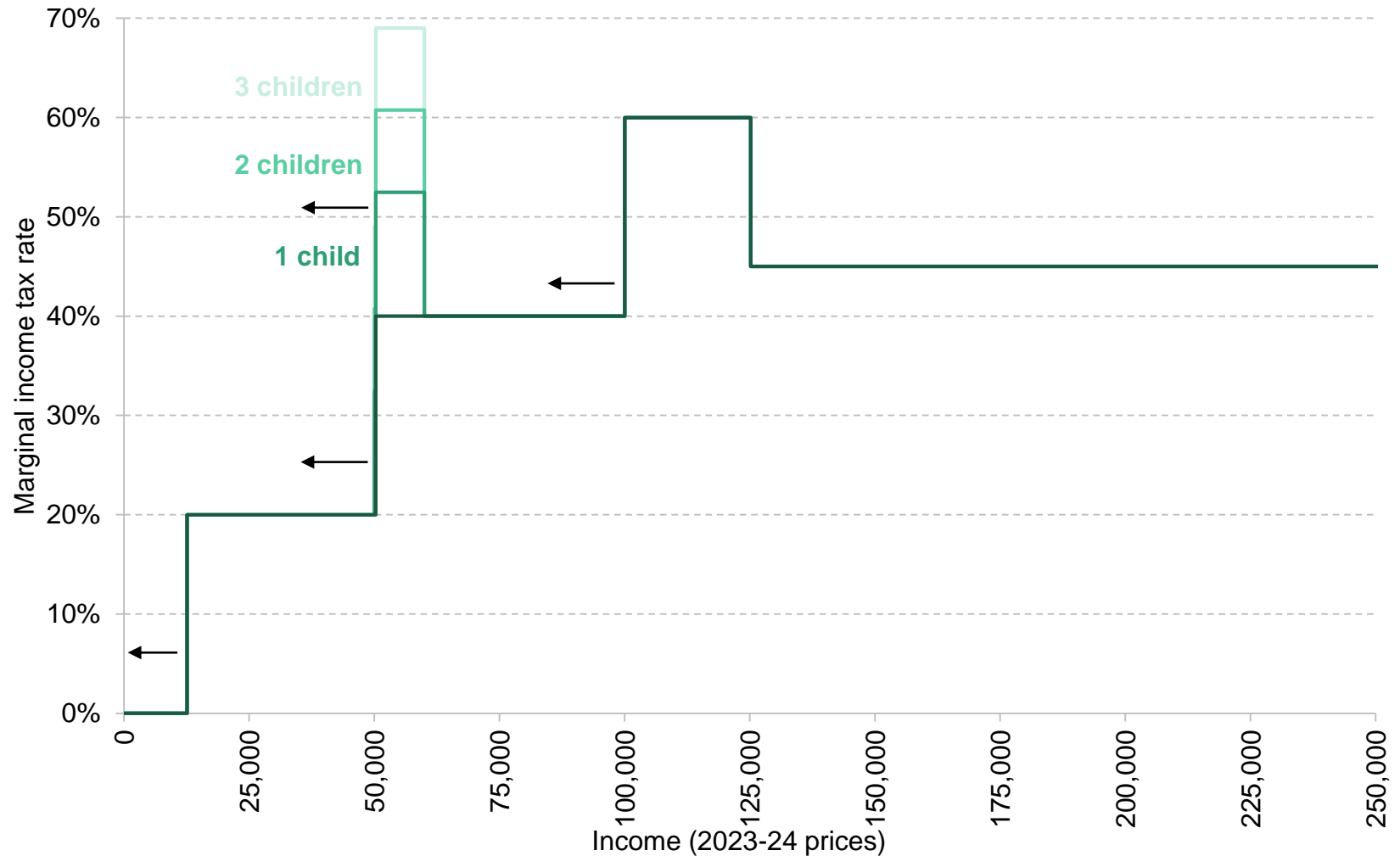
Marginal income tax rates

2022



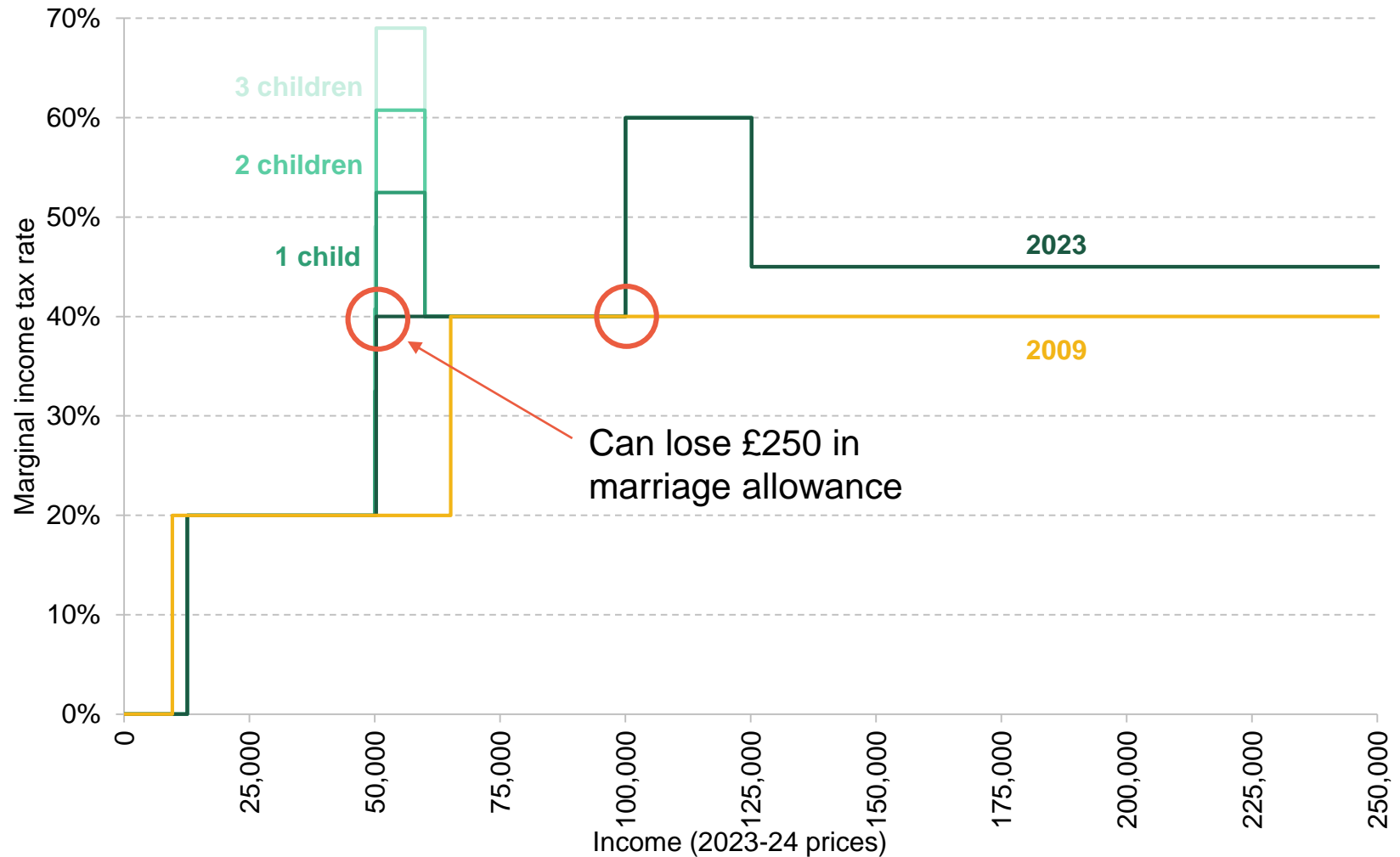
Marginal income tax rates

2023

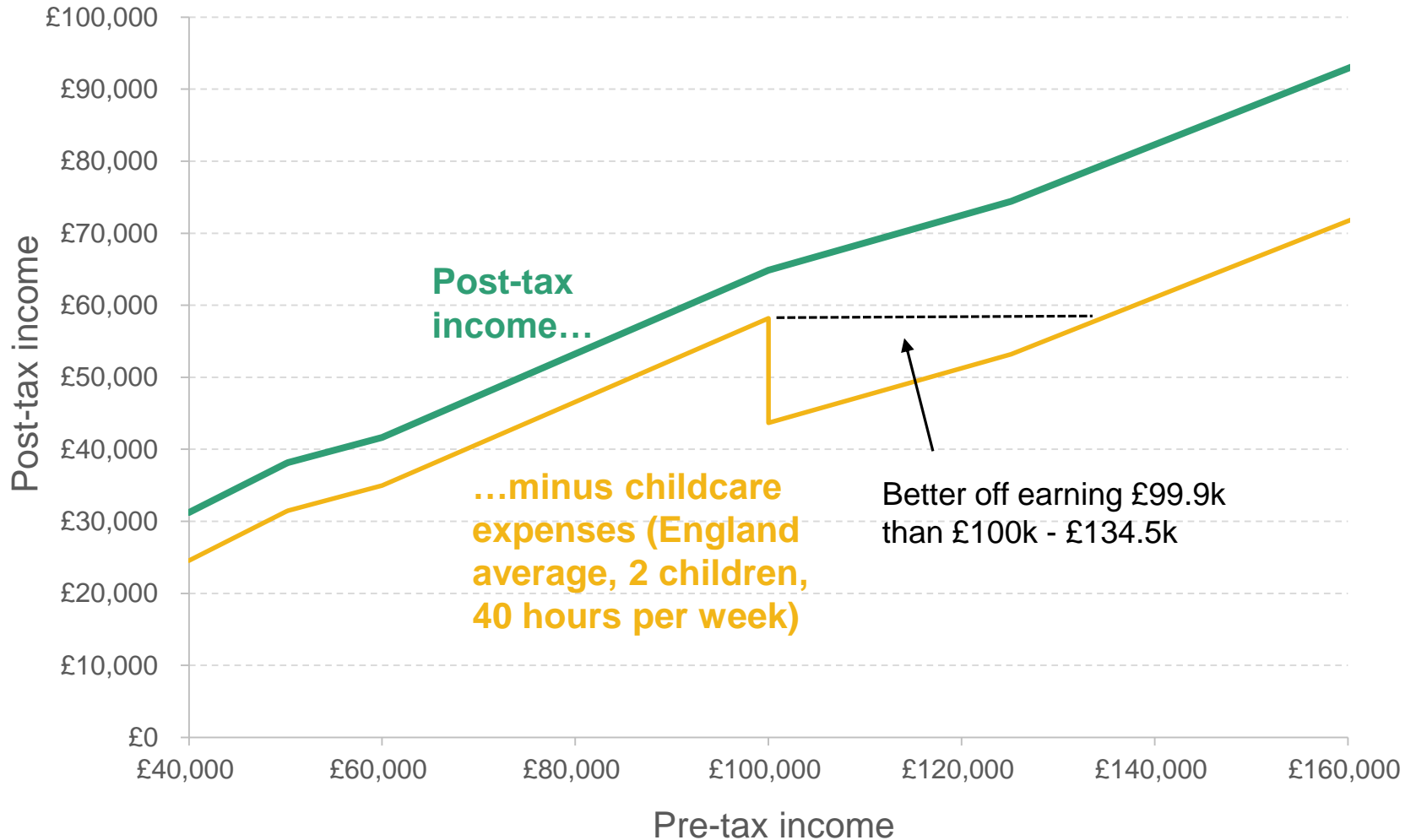


Marginal income tax rates

2023 vs. 2009



Huge incentives for high-earning parents to keep taxable income below £100,000



Note: Assumes mean hourly childcare prices from the Childcare early years and providers survey 2022([Childcare and early years provider survey, Reporting year 2022 – Explore education statistics – GOV.UK \(explore-education-statistics.service.gov.uk\)](https://www.gov.uk/explore-education-statistics)).
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Why does all this matter?

Efficiency

- High tax rates discourage work that individuals would otherwise want to do
 - Or encourage tax avoidance
- Cliff edges – cause people to arrange affairs to be just below

Equity and transparency

- People in very similar situations treated very differently
- Hard to know what one's marginal tax rate is



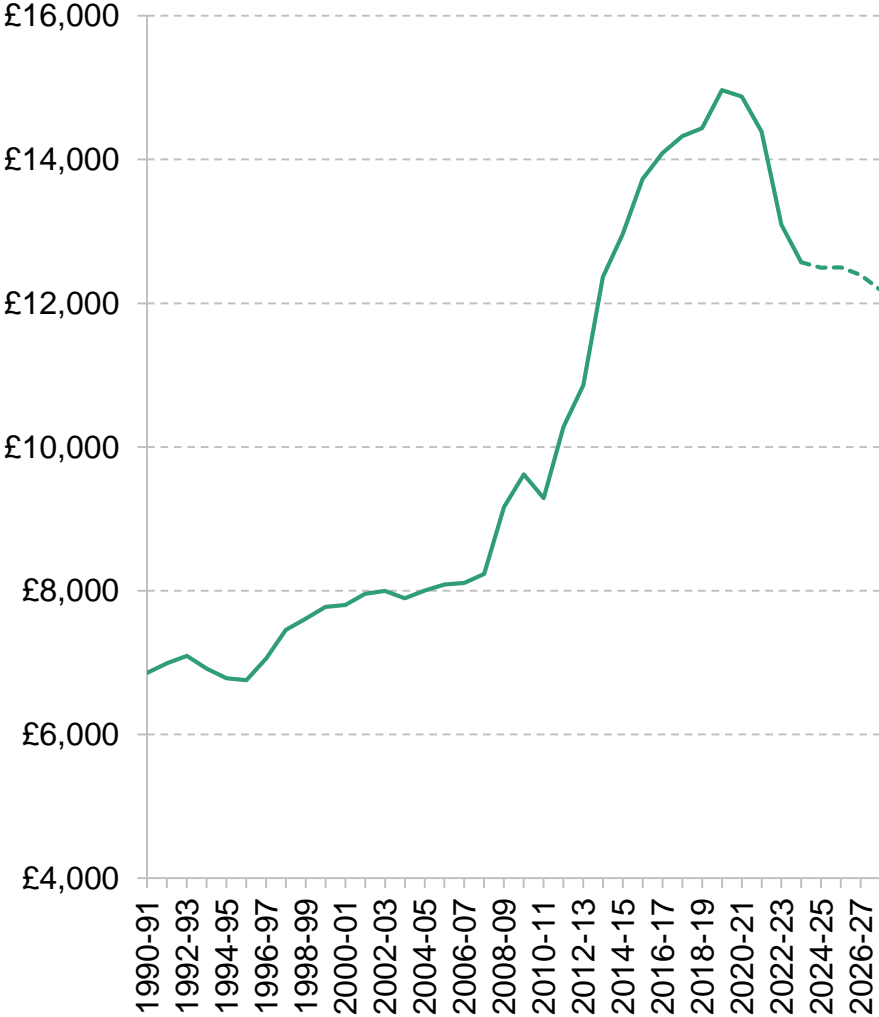
The growing reach of high marginal tax rates

Personal allowance & higher rate threshold

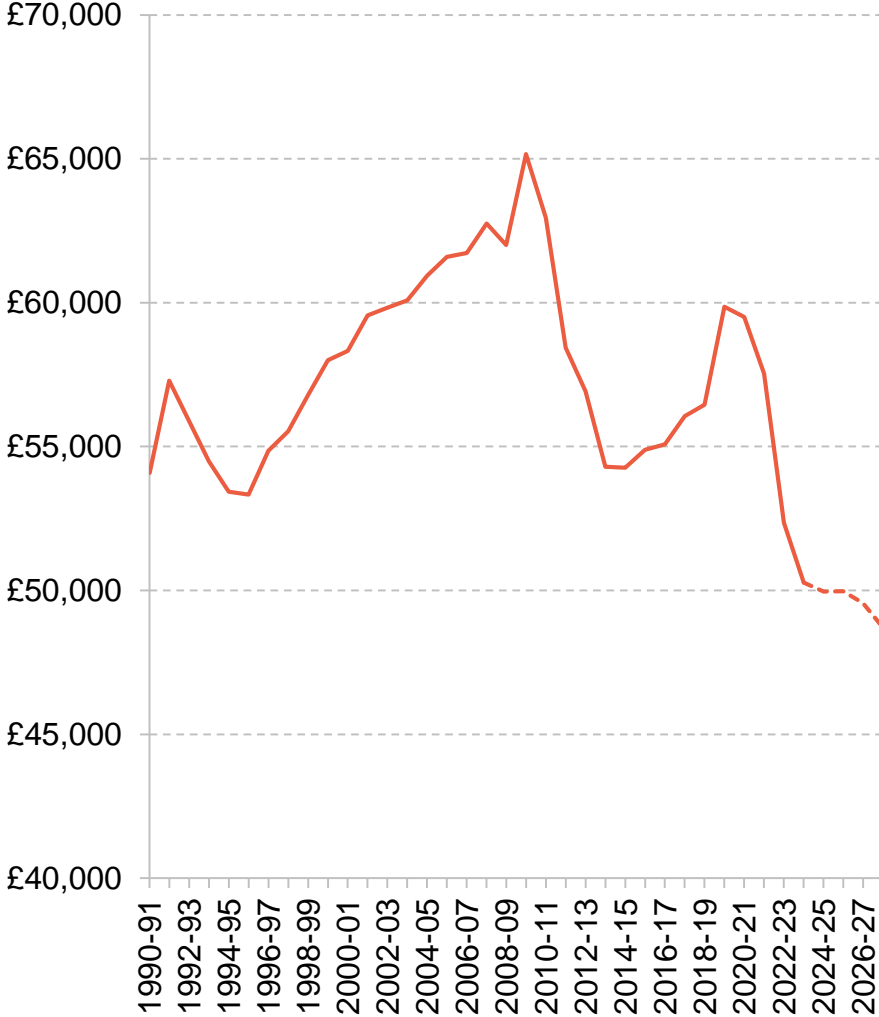


2023-24 prices

Real personal allowance

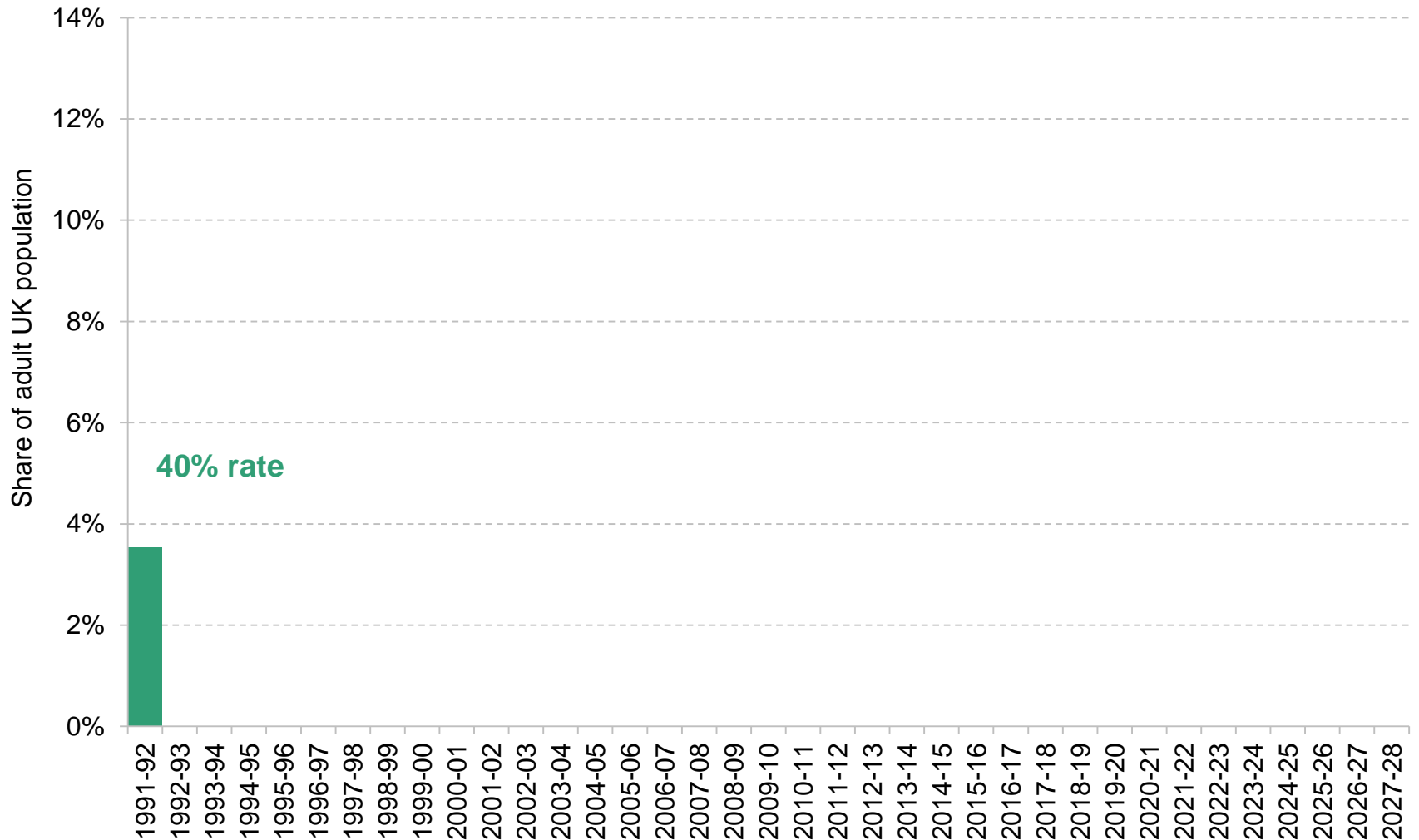


Real higher rate threshold



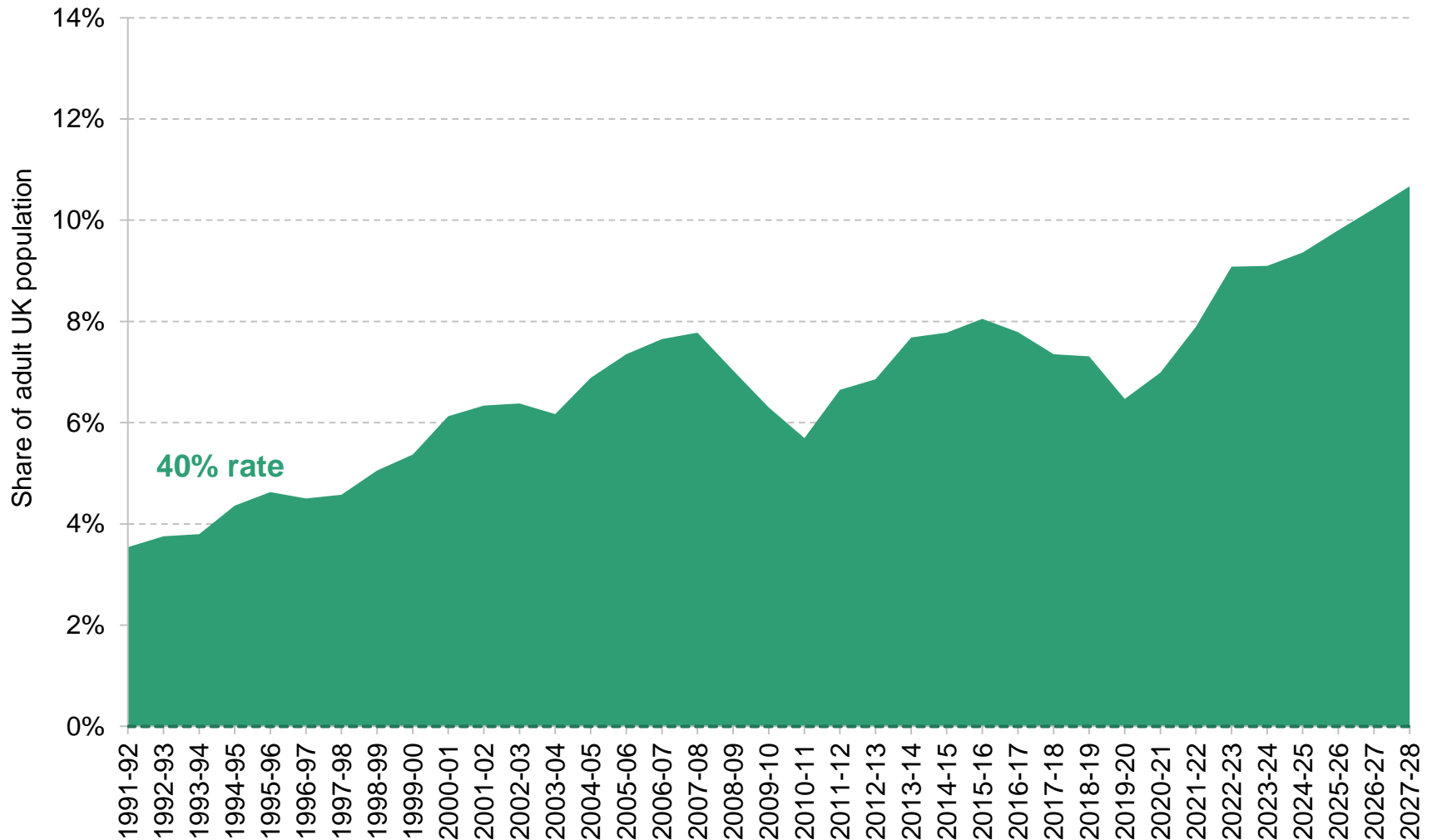
More and more paying high rates

Share of adults by marginal income tax rate



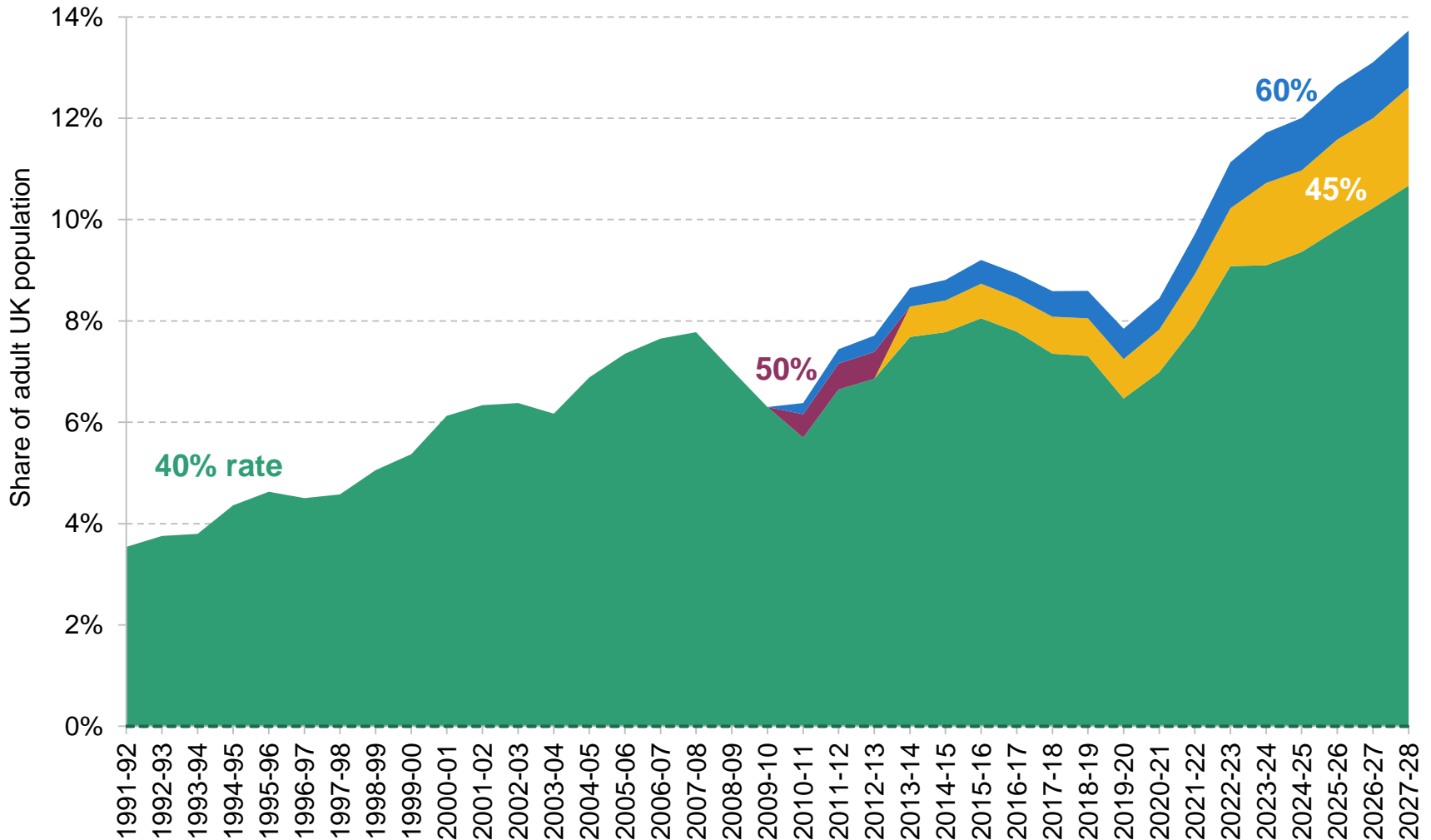
More and more paying high rates

Share of adults by marginal income tax rate



More and more paying high rates

Share of adults by marginal income tax rate





How might the government reform income tax?

What do we want from an income tax system?

- Avoid arbitrarily high rates
- Simplicity
- Transparency
- Policymakers, not inflation, deciding what the system looks like

Some options for reform

Child benefit taper

- Re-universalise
- Integrate into universal credit so properly means-tested
- Constant taper rate, rather than higher for more kids
- At least uprate £50,000 & £60,000 thresholds!

Personal allowance taper at £100,000

- Remove (and could lower start of 45p rate to offset)

Marriage allowance

- Abolish
- Make available to all, not just basic rate taxpayers
- Re-introduce joint taxation

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