



Sam Ray-Chaudhuri

Personal taxes and benefits

@TheIFS

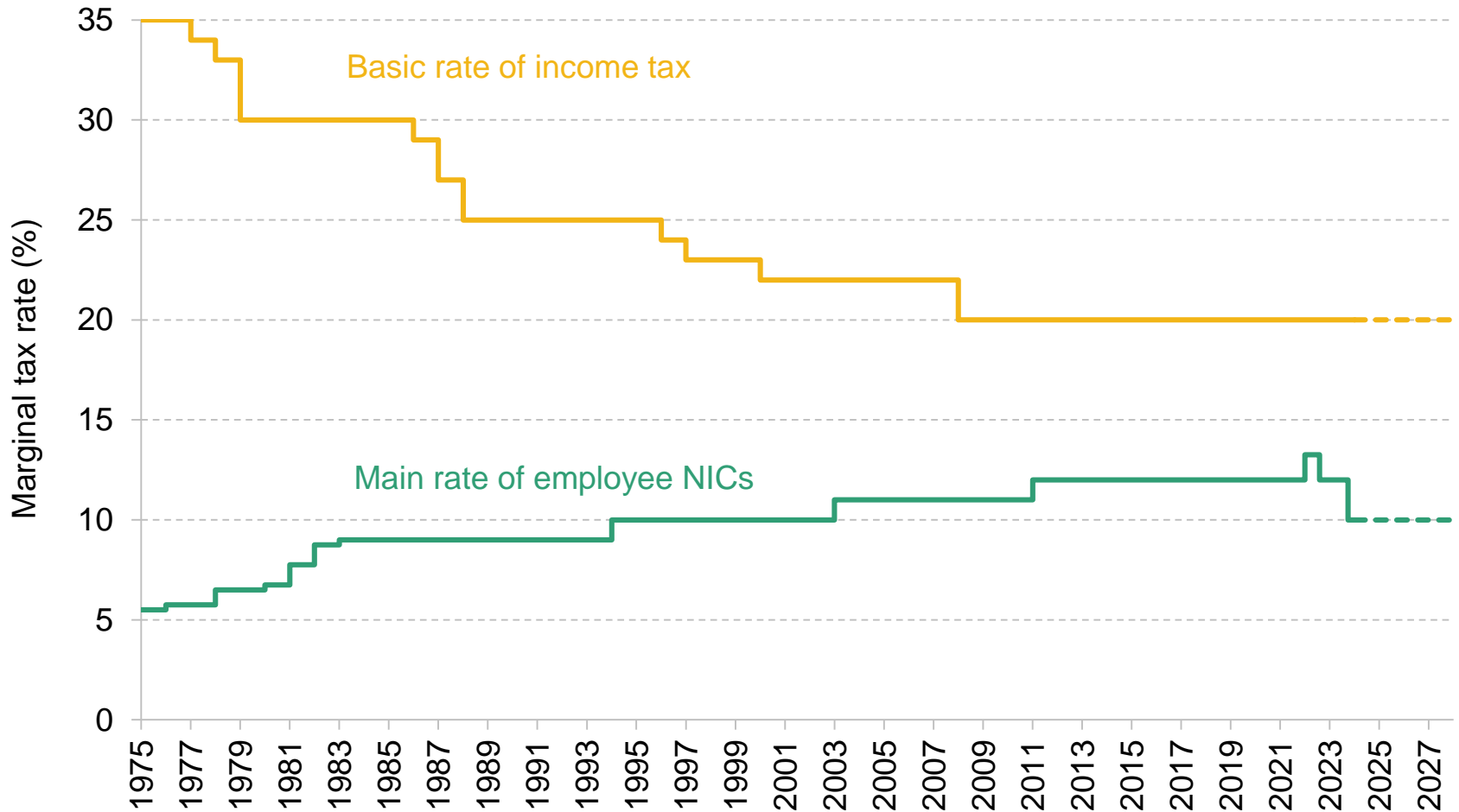


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ANALYSIS OF
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Cuts to National Insurance

- From January: Employee rate cut from **12%** to **10%** below upper earnings limit
- From April: Main self-employed rate cut from **9%** to **8%**, and flat rate Class 2 NICs abolished
 - Simplifies NICs for the self-employed
- Benefits nearly **30m** workers, at a cost of around **£10bn** per year
- Small giveaways in the context of tax threshold freezes since 2021
 - Giving back **less than £1 of every £4 taken away**

A change of direction



Notes: Horizontal axis shows April of the year in question. Assumes contracted into SERPS/S2P where relevant. Between 1985 and 1989 a range of NICs rates applied, between 5% and 9%.

Pensioners vs working age

- NICs cut does not benefit pensioners, since they don't pay NICs
- Also gained less from increases in personal allowance during 2010s
 - **50%** of over 65s paid tax in 2010, now **68%**

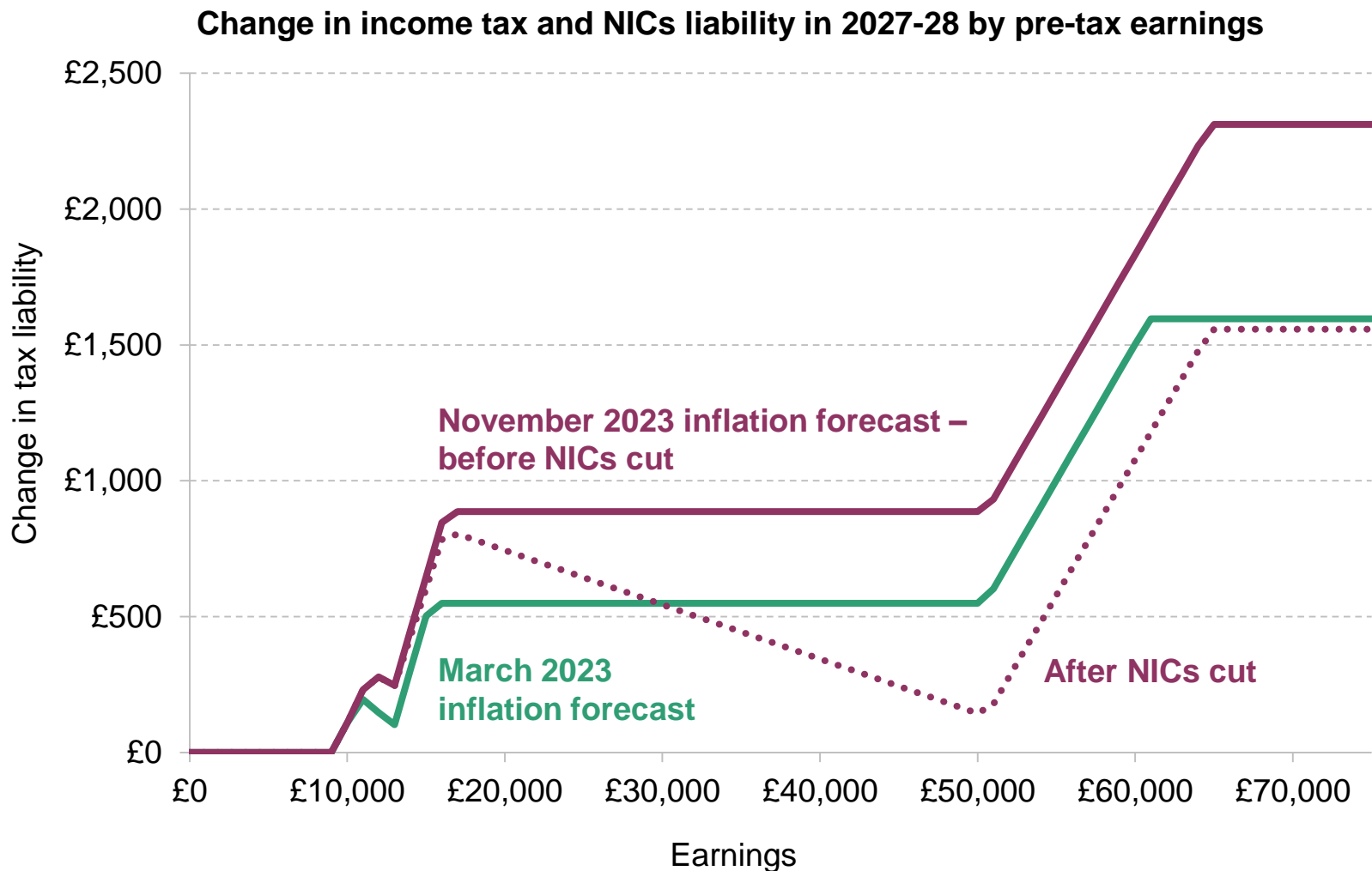
For an individual with £25,000 pre-tax income (2024-25 prices) :

- **2010-11:** Employee pays £4,849, pensioner pays £2,093
- **2024-25:** Employee pays £3,728, pensioner pays £2,486

Basic benefit entitlement for a pensioner and working-age person with no other income:

- **2010-11:** Working age receives £5,132, pensioner receives £10,397
- **2024-25:** Working age receives £4,705, pensioner receives £11,343

Rate cuts undo threshold freezes unevenly

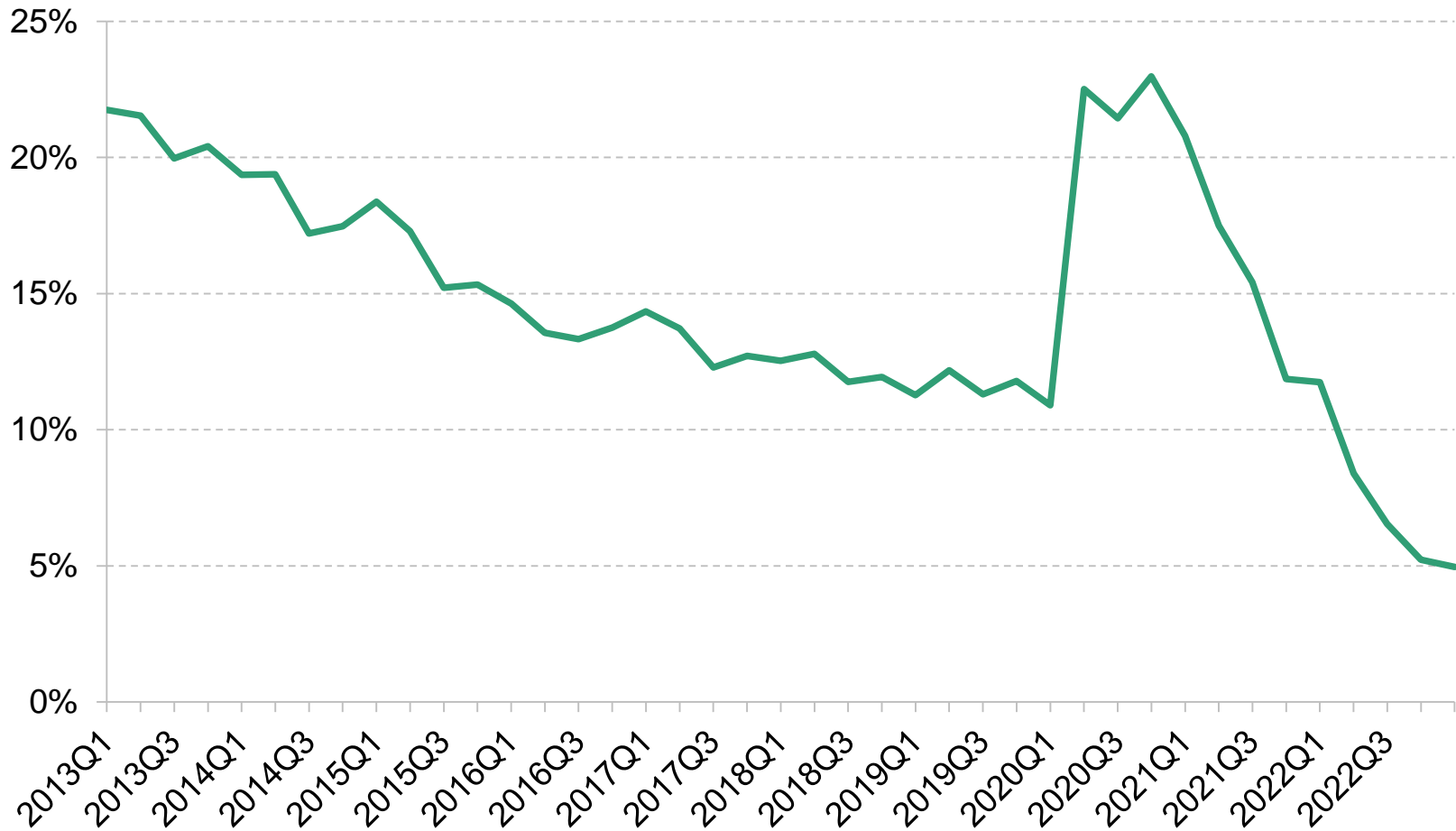


Support for private renters

- **40%** of private renters receive support with their housing costs
- Since April 2020, caps on support (LHA rates) have been frozen
- At a time of rapidly rising rents this has created huge **affordability pressures**
- Extent **varies across areas** – since rents have grown differentially

Declining housing support

Share of private rental properties on Zoopla which can be covered by housing benefit

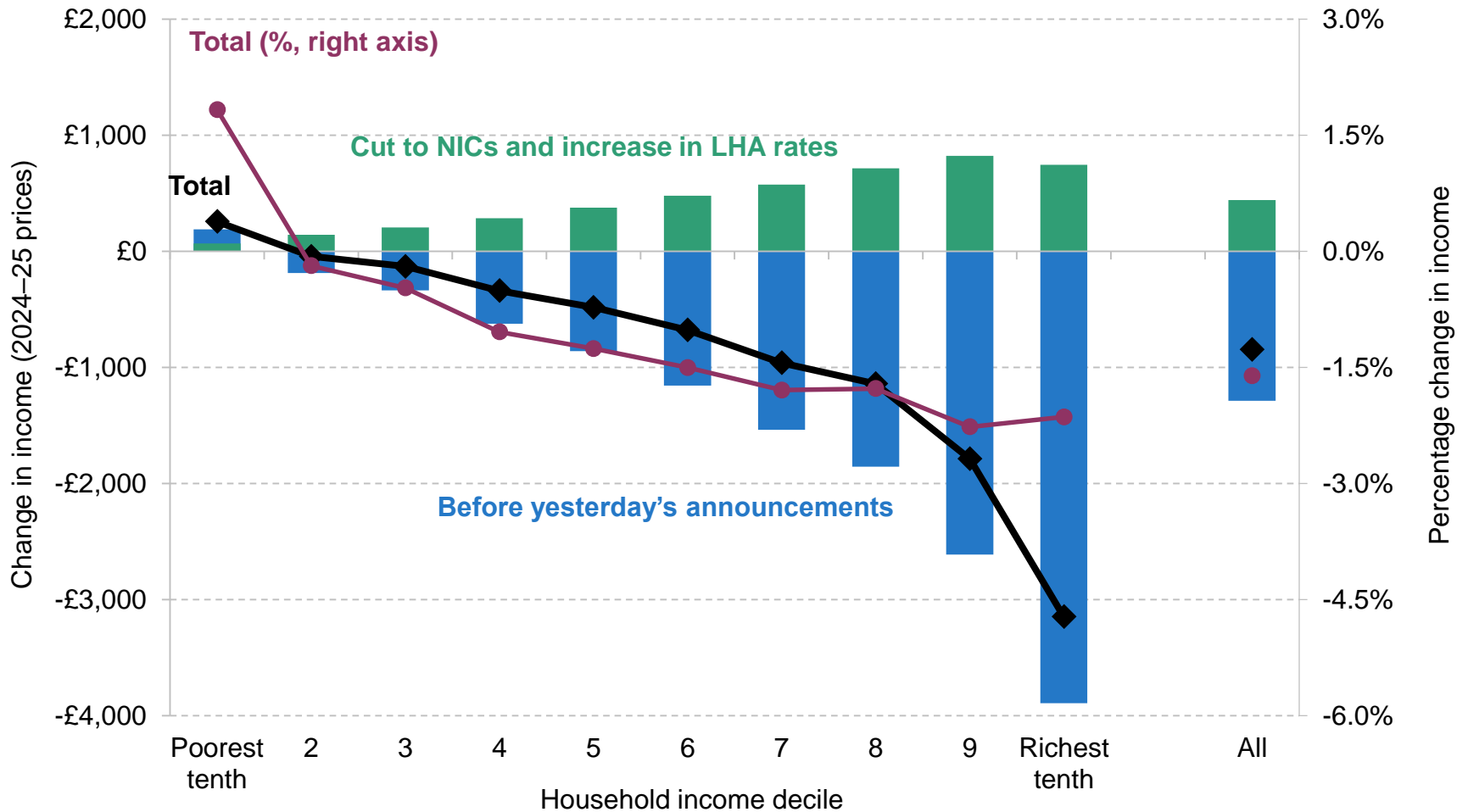


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- Extent **varies across areas** – since rents have grown differentially
- Next year LHA rates will be increased back to **30th percentile** of local rent levels, costing £1.3 billion
- But still frozen thereafter - **no indexation to rents**

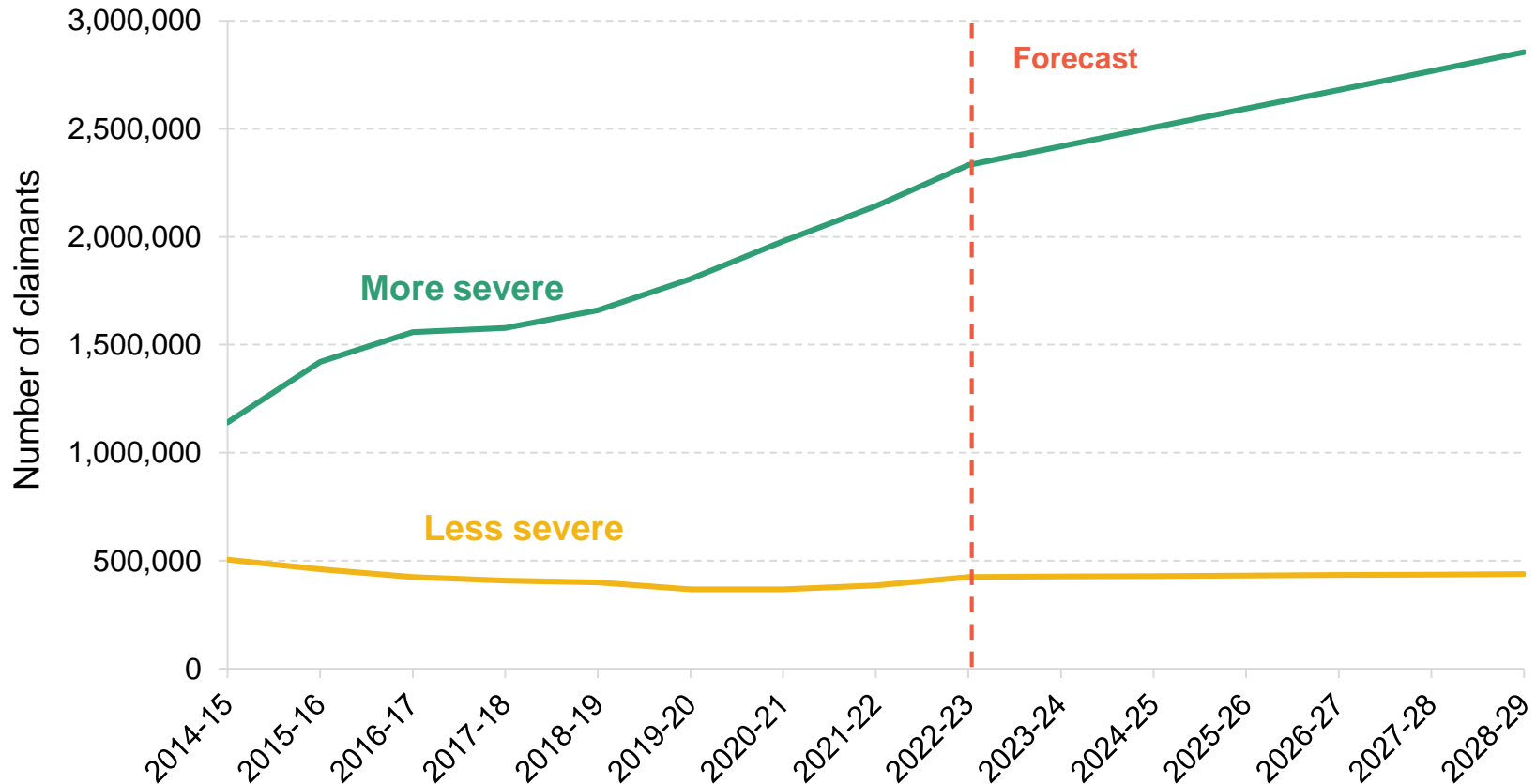
Distributional analysis – 2027-28

Change in 2027-28 from tax and benefit measures since April 2019



Reforms to incapacity benefits

Number of claimants of incapacity benefits assessed as having a more or less severe condition



Note: Years 2023-24 to 2027-28 are linearly interpolated.

Source: Authors' calculations using OBR, "Economic and fiscal outlook – November 2023" and OBR, "Fiscal risks and sustainability – July 2023"

Reforms to incapacity benefits

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Changes for **new** claimants from April 2025:

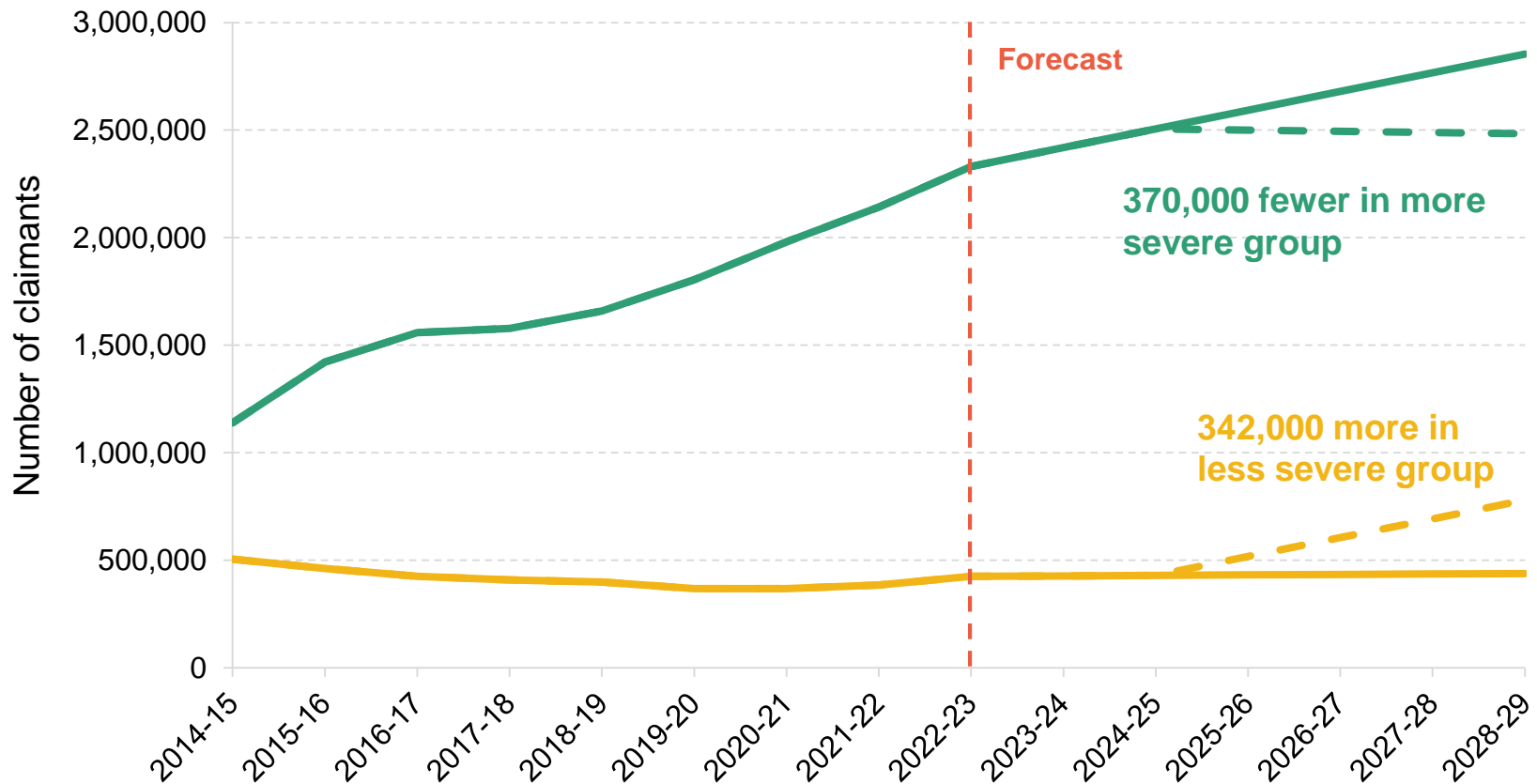
- **Severely limited mobility** will no longer lead to assignment to more severe group
- Raise threshold for assignment to more severe group due to **‘Substantial Risk’**.

Changes for **existing** claimants from April 2025:

- **Abolish reassessments**, no chance of losing benefit income

Reforms to incapacity benefits

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Reforms to incapacity benefits

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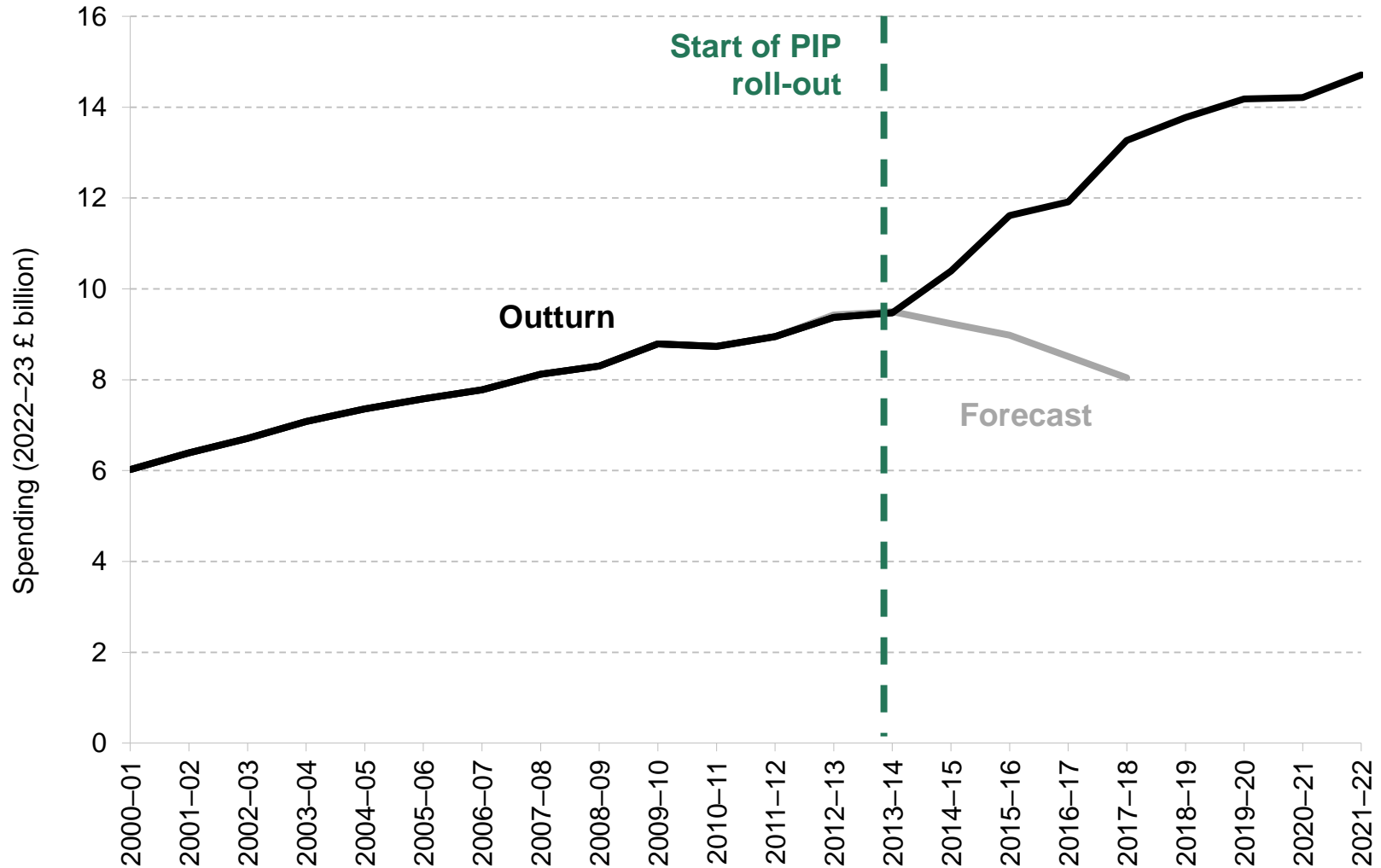
For **existing** claimants:

- **Abolish reassessments**, no chance of losing benefit income

BUT...

- Only **short-run impact**, as assessment due to be scrapped in next few years
- In future, eligibility will depend on PIP receipt – caseload rapidly rising

Previous reforms have failed to deliver **PIFs** expected savings



Source: Cribb et al. (2022), "Living standards of working-age disability benefits recipients in the UK"

Summary

- Visible cuts to National Insurance contributions lower taxes for almost 30 million, but long way off undoing less visible increases from freezing thresholds
- Rebasing LHA rates will alleviate pressures **temporarily**.
 - Repeat of past mistakes – no indexation
- Changes to assessment for incapacity benefit set to reduce caseload.
 - Deliver some **short-run savings**
 - Long-term fiscal risk relates to **PIP** which is **unaffected**

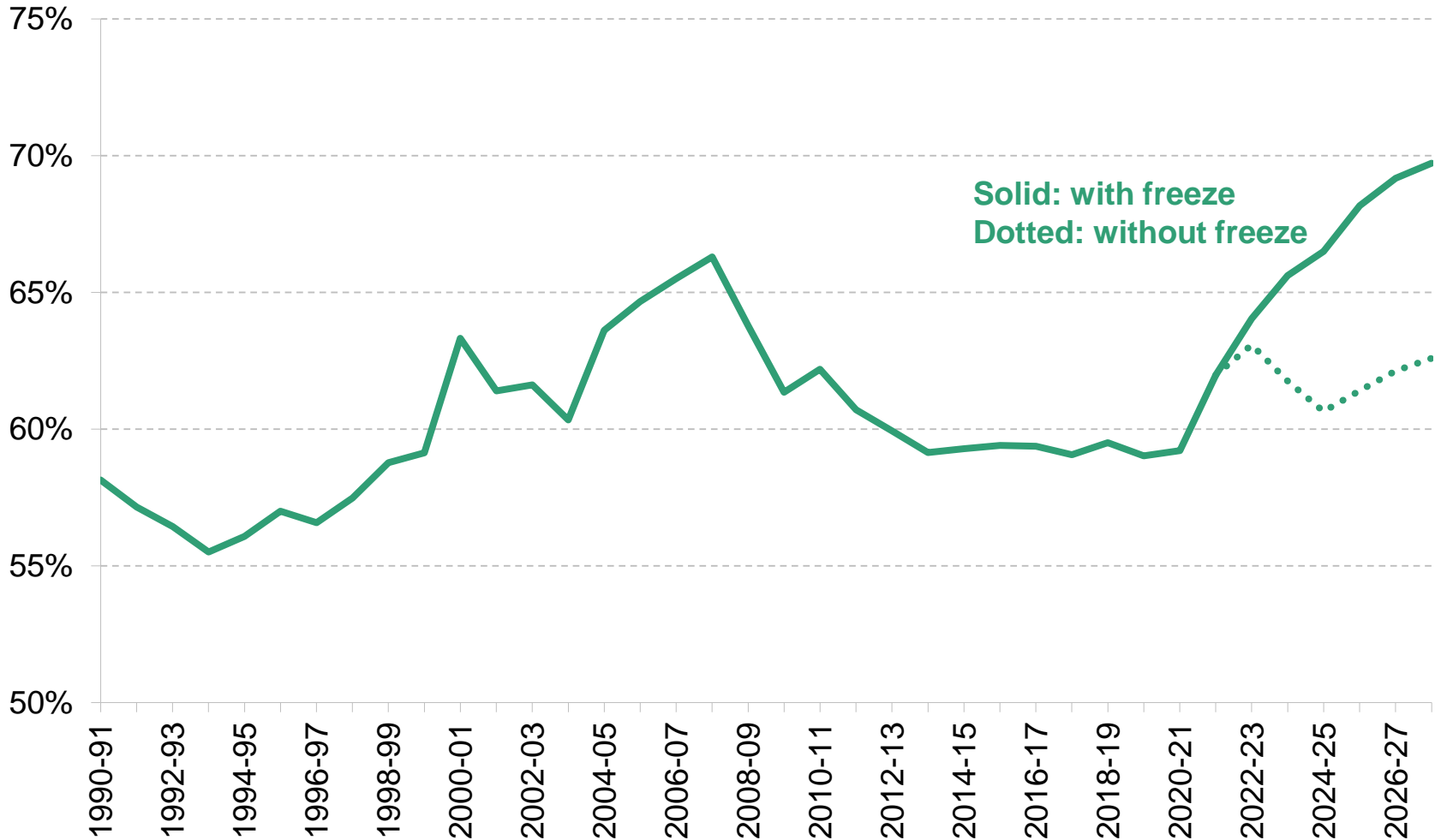
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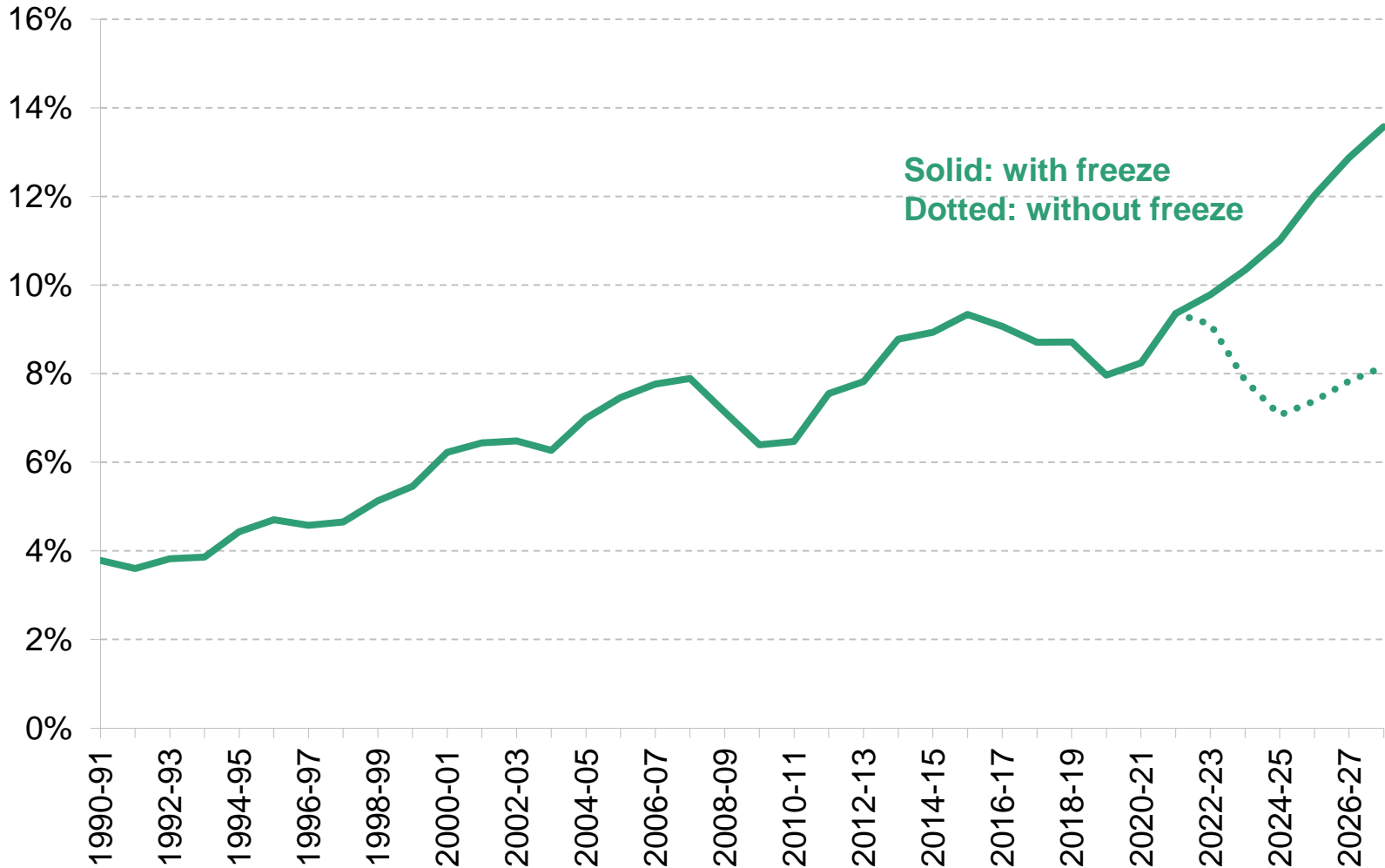


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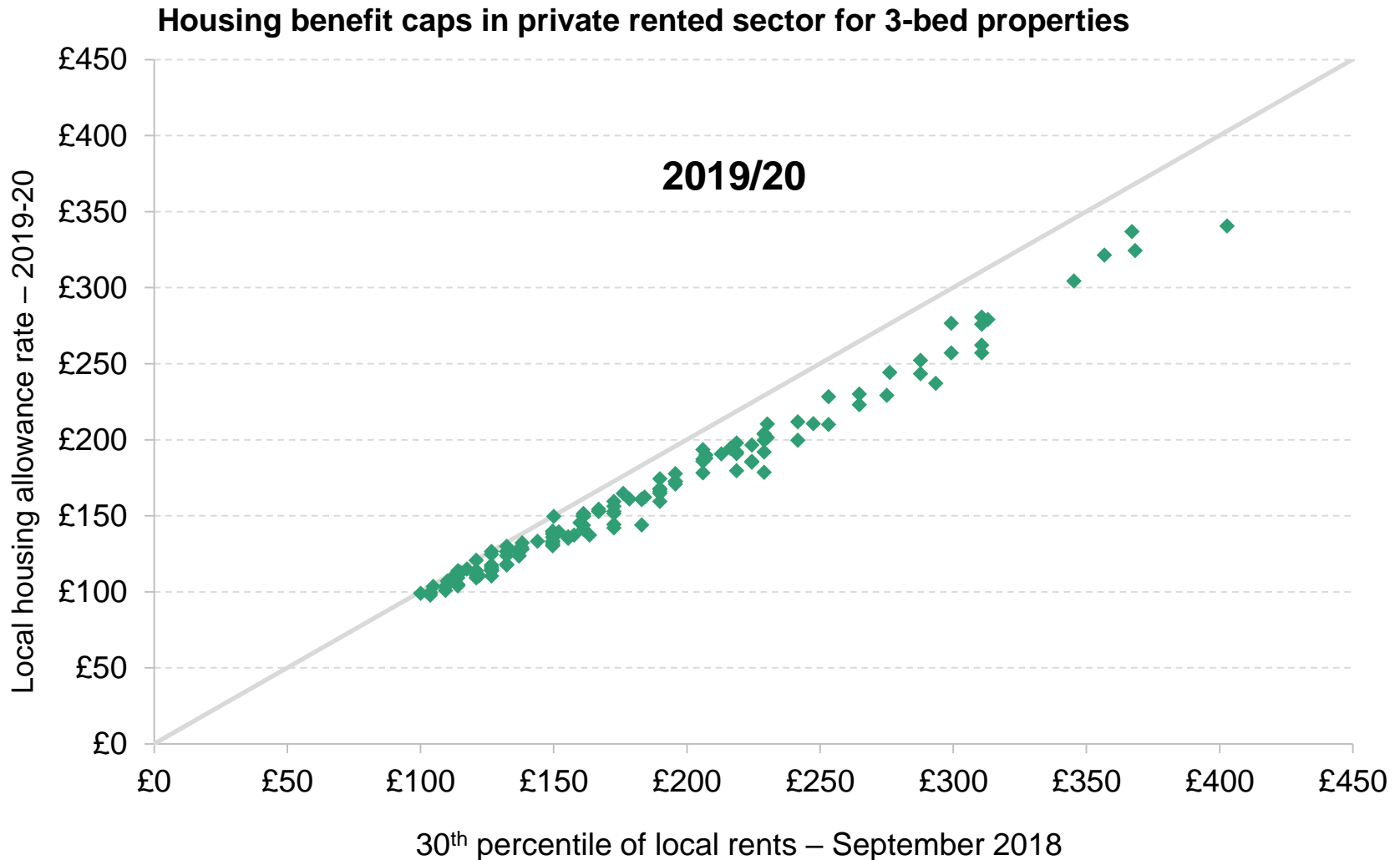
Share of adults paying income tax, IIFS



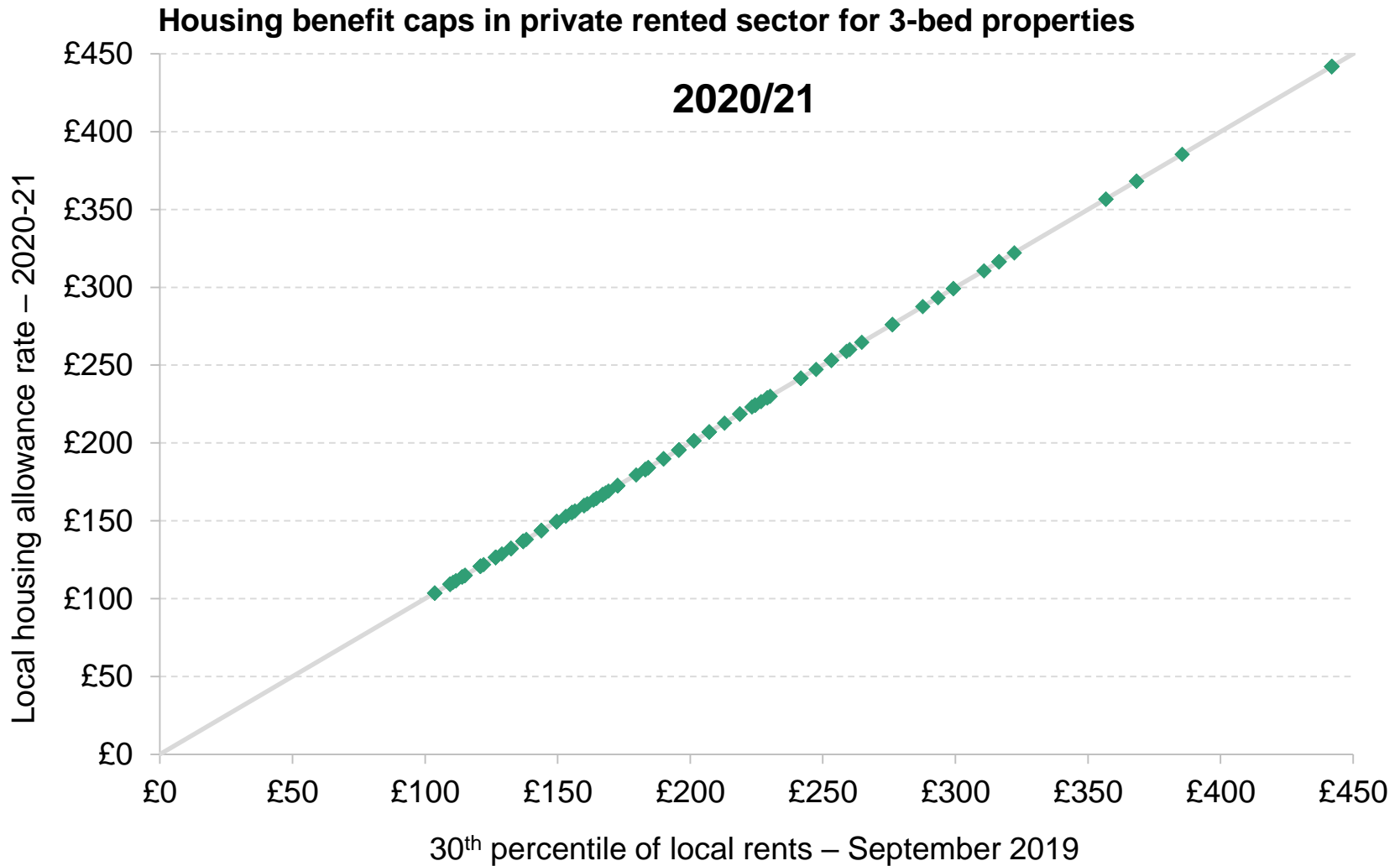
Share of adults paying higher rate IIRs income tax



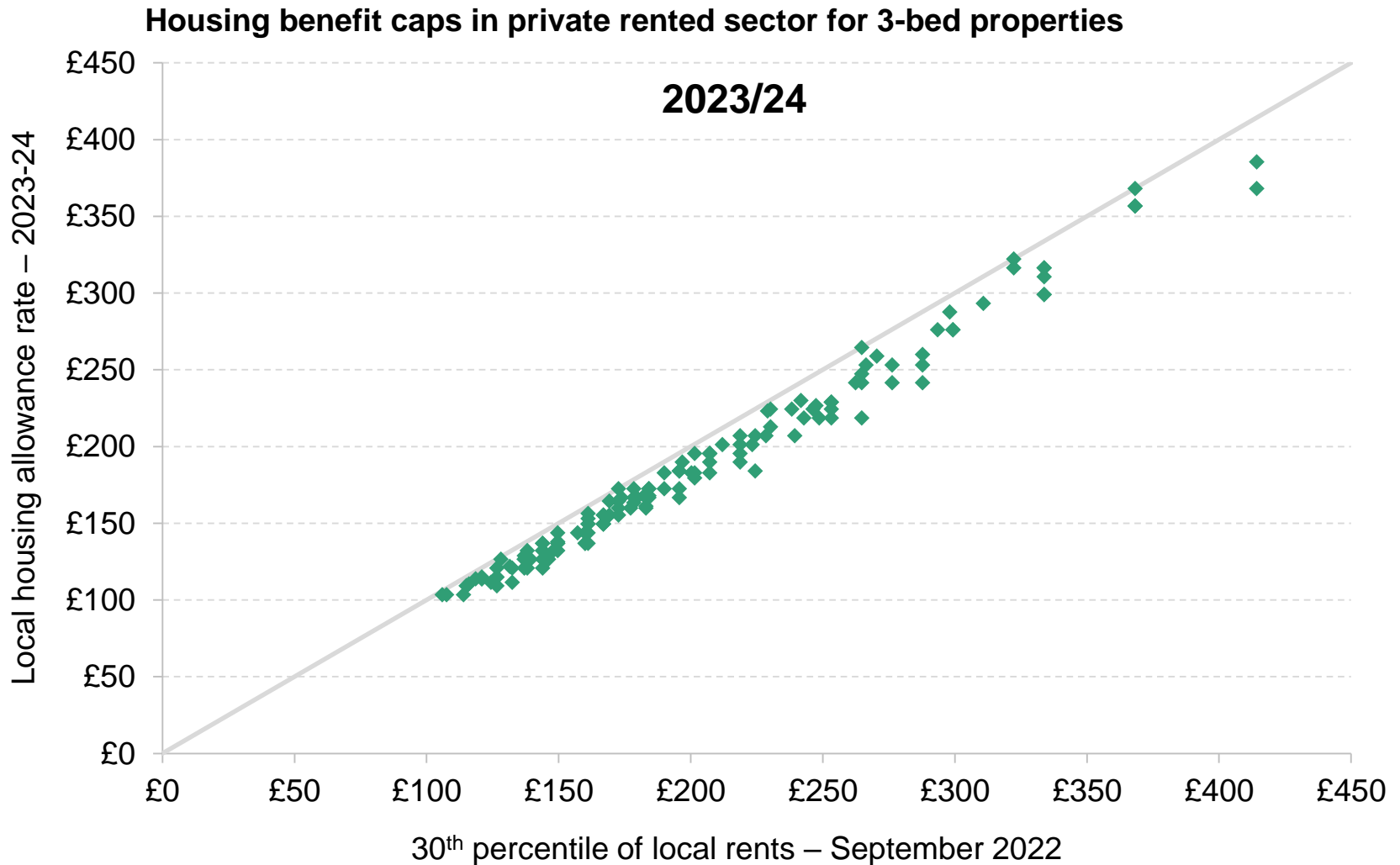
LHA changes only a temporary solution



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