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

Between 1985 and 1989 a range of NICs rates applied, between 5% and 9%.

Notes: Horizontal axis shows April of the year in question. Assumes contracted into SERPS/S2P where relevant.
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

Change in income tax and NICs liability in 2027-28 by pre-tax earnings

- **March 2023 inflation forecast**
- **November 2023 inflation forecast**
- After NICs cut

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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

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Declining housing support

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

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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

- 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

-6.0%
-4.5%
-3.0%
-1.5%
0.0%
1.5%
3.0%

-£4,000
-£3,000
-£2,000
-£1,000
£0
£1,000
£2,000

Poorest tenth
2
3
4
5
6
7
8
9
Richest tenth
All

Percentage change in income

Total (%, right axis)

Cut to NICs and increase in LHA rates

Before yesterday’s announcements

Change in income (2024-25 prices)

Household income decile

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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

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

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

Forecast

370,000 fewer in more severe group

342,000 more in less severe group

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

Changes for new claimants:

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

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 expected savings

Source: Cribb et al. (2022), “Living standards of working-age disability benefits recipients in the UK"
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
Share of adults paying income tax.

Solid: with freeze
Dotted: without freeze
Share of adults paying higher rate income tax

Solid: with freeze
Dotted: without freeze
LHA changes only a temporary solution

Housing benefit caps in private rented sector for 3-bed properties

Local housing allowance rate – 2019-20

30th percentile of local rents – September 2018
LHA changes only a temporary solution

Housing benefit caps in private rented sector for 3-bed properties

2020/21

Local housing allowance rate – 2020-21

30th percentile of local rents – September 2019

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LHA changes only a temporary solution

Housing benefit caps in private rented sector for 3-bed properties

Local housing allowance rate – 2023-24

30th percentile of local rents – September 2022

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LHA changes only a temporary solution

Housing benefit caps in private rented sector for 3-bed properties

2024/25

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