NICs, Income Tax and Child Benefit

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@TheIFS
A change of direction

Note: Assumes contracted into SERPS/S2P where relevant. Between 1985 and 1989 a range of employee and employer NICs rates applied.
Recent NICs cuts offset freezes for about half of employees...

Effect in 2024-25 of tax changes since 2021

Income tax and NICs threshold changes and freezes

4p NICs cuts

Total change

Note: All amounts are for employees. Figure assumes changes to employer NICs are fully incident on employees, and gives changes based on earnings if employer NICs had not been raised, in 2024-25 prices.
Recent NICs cuts offset freezes for about half of employees...

Effect in 2024-25 of tax changes since 2021

Note: All amounts are for employees. Figure assumes changes to employer NICs are fully incident on employees, and gives changes based on earnings if employer NICs had not been raised, in 2024-25 prices.
... falling to one third by 2027-28, while only those who pay NICs gain

Effect in 2027-28 of tax changes since 2021

Note: All amounts are for employees. Figure assumes changes to employer NICs are fully incident on employees, and gives changes based on earnings if employer NICs had not been raised, in 2024-25 prices.
Pensioners have lost from tax changes relative to employees since 2010...

Personal taxes

<table>
<thead>
<tr>
<th>Income tax + NICs (2024-25 prices)</th>
</tr>
</thead>
</table>

- **Individual with £25,000 income**

<table>
<thead>
<tr>
<th>Year</th>
<th>Employee</th>
<th>Pensioner</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>£5,000</td>
<td>£2,000</td>
</tr>
<tr>
<td>2024-25</td>
<td>£10,000</td>
<td>£3,000</td>
</tr>
</tbody>
</table>

- **Individual with £75,000 income**

<table>
<thead>
<tr>
<th>Year</th>
<th>Employee</th>
<th>Pensioner</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>£20,000</td>
<td>£25,000</td>
</tr>
<tr>
<td>2024-25</td>
<td>£25,000</td>
<td>£25,000</td>
</tr>
</tbody>
</table>

Notes: Figure includes income tax and employee NICs.
...but gained in other ways

Benefit entitlement

Individual out of work

<table>
<thead>
<tr>
<th>Year</th>
<th>Working Age</th>
<th>Pensioner</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>£4,800</td>
<td>£10,000</td>
</tr>
<tr>
<td>2024-25</td>
<td>£4,800</td>
<td>£12,000</td>
</tr>
</tbody>
</table>

Notes: Basic benefit entitlement for pensioner and working-age person with no other income
Child benefit reforms

- Child benefit was universal until 2013. Since then:
  - When income of highest-income parent in household exceeds £50k, CB gradually withdrawn, and all gone by £60k
  - Withdrawn through high income child benefit charge (HICBC)
  - £50k and £60k thresholds fixed in nominal terms ever since: 1m (13%) families affected was set to increase to 2.4m (30%)

- From April:
  - £50k and £60k thresholds raised to £60k and £80k (cost: £0.4bn)
  - The number of families affected will decrease to 1.8m (22%)
HICBC weakens work incentives

Marginal tax rates for highest income member of family

Marginal tax rates include income tax, employee NICs and withdrawal of child benefit.
Government plans to move to family-income assessment, like other means-tested benefits, as it is (now) concerned with cases such as:

- Couple with income of £120k split evenly: keep all CB
- One-earner couple with income of £80k: lose all CB

Not administratively easy to change to a family income-based assessment within income tax

Winners and losers - illustrative example.: if for couples withdraw CB between £86k - £106k joint income:

- revenue neutral, but 550k couples lose, and 550k gain

Longer term: basing HICBC on family income
Still a muddle?

- Principled arguments about merits of joint or individual assessment
  - But current system is weird hybrid: not the best answer to any question

- Govt now moving to full joint assessment of child benefit

- We will have two, separate, income-related benefits for families with children, both based on family income…
  - yet withdrawn with different rules, through different administrative mechanisms
Overall most households have gained since 2019

Change in 2024-25 from personal tax and benefit measures since April 2019

-4% -3% -2% -1% 0% 1% 2% 3% 4%

-£2,000 -£1,500 -£1,000 -£500 £0 £500 £1,000 £1,500 £2,000

Percentage change in income

Household income decile

Before yesterday’s announcements

Total

Other changes

Cut to NICs

Before yesterday’s announcements

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But those gains are mostly wiped out by 2027-28

Change in income (2024-25 prices)

Household income decile

Total (%, 2024-25 axis)

Total (%, 2027-28 axis)

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