



Tom Waters

24 June 2024

@TheIFS

Personal tax and welfare

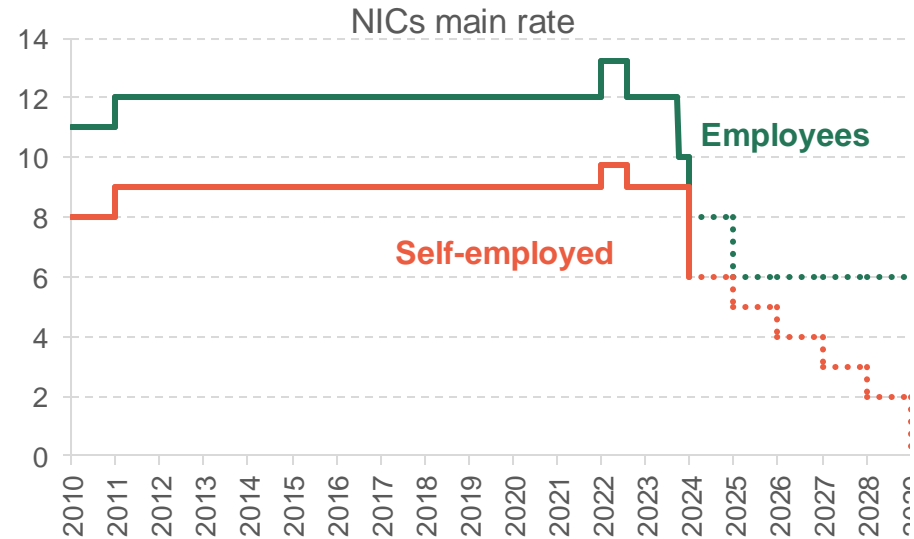
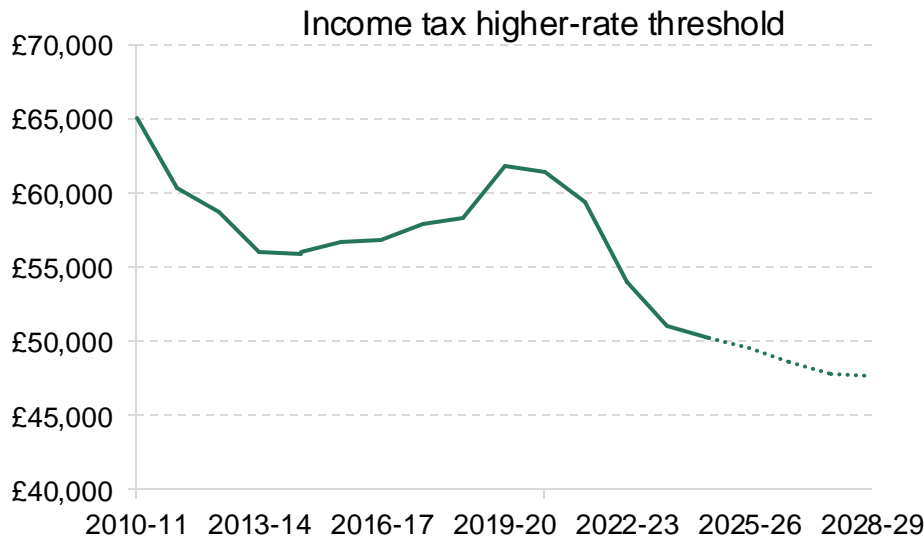
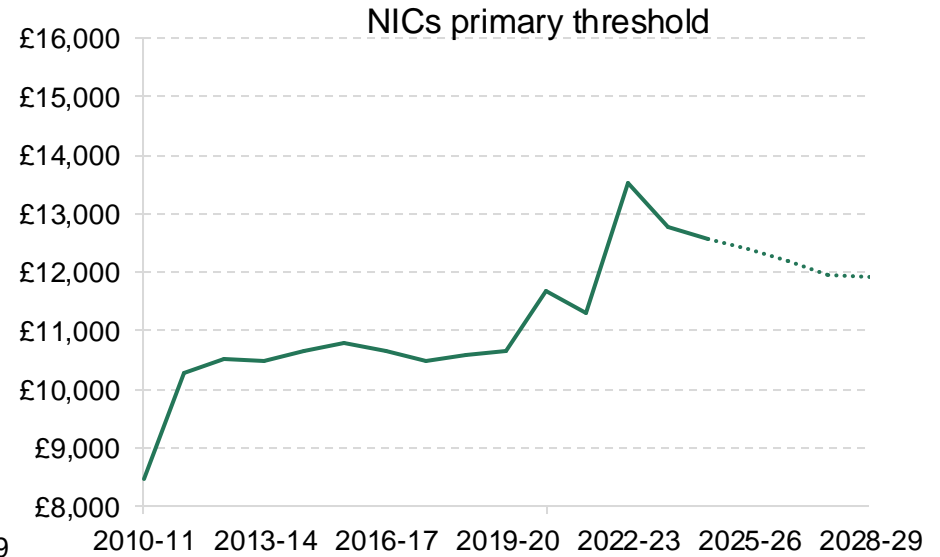
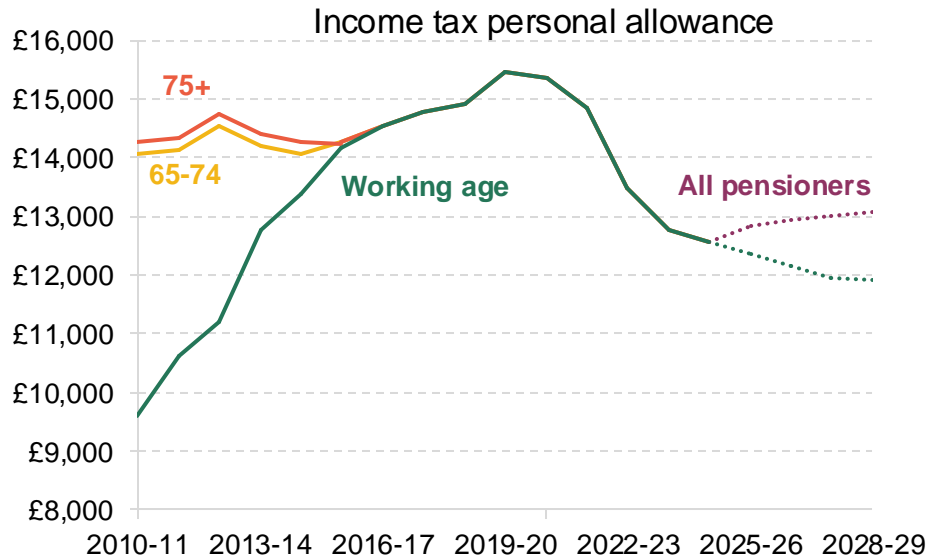


Personal tax

- Labour - £2bn tax rise:
 - VAT on private school fees, raise tax on non-doms & private equity
 - Overwhelmingly hits high (largely very high) income households
- Conservatives - £16bn tax cut:
 - Main rate of NICs for employees from 8% to 6%; ambition to abolish
 - Abolish main rate of NICs for self-employed
 - Inc. tax personal allowance for pensioners – rise with state pension
- Both hope to get £5-6bn from reducing avoidance/evasion
- **Against a backdrop of recent personal tax reforms (threshold freezes, NICs cuts) and another £10bn tax rise still to come**
 - Neither party announced a deviation

From tax roller coaster...

Current + Conservatives' plans in dots



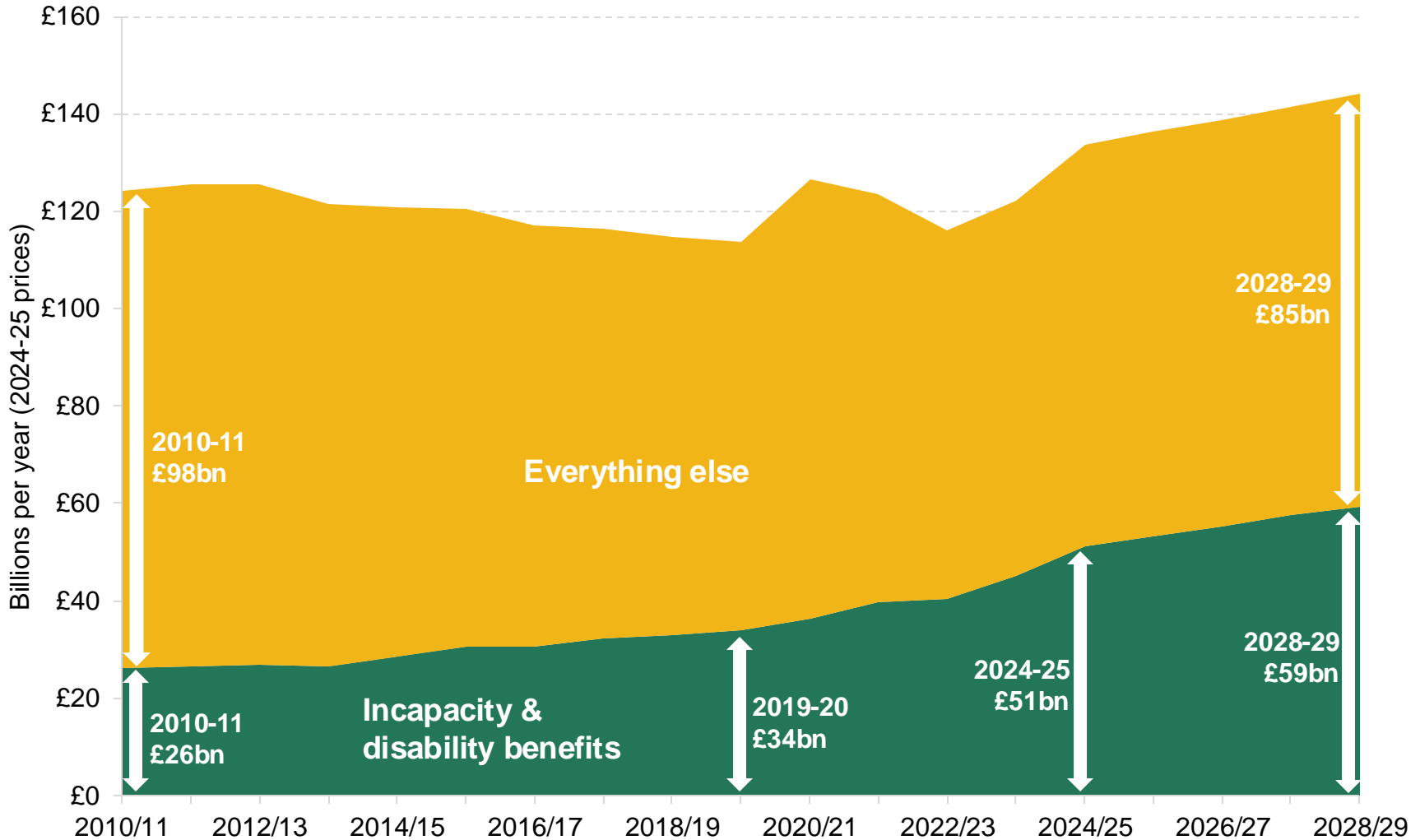
Note: Figures based on tax system in April of the year in question. All cash values are in 2024-25 prices

Child benefit

- High income child benefit charge, introduced by Coalition, is a mess:
 - Strange hybrid between individual & joint tax – income of lower earner irrelevant
 - Implies high marginal tax rates for those with several kids
- No plans from Labour
- Conservatives – make means-testing based on *joint* household income and raise thresholds so fewer affected
 - Families that lose some CB: 1.8m → 0.9m
 - Clearly a more coherent means-test
 - Administratively complex – tax system is individual

Rising spending on health-related benefits

Annual working-age spending (2024-25 prices)

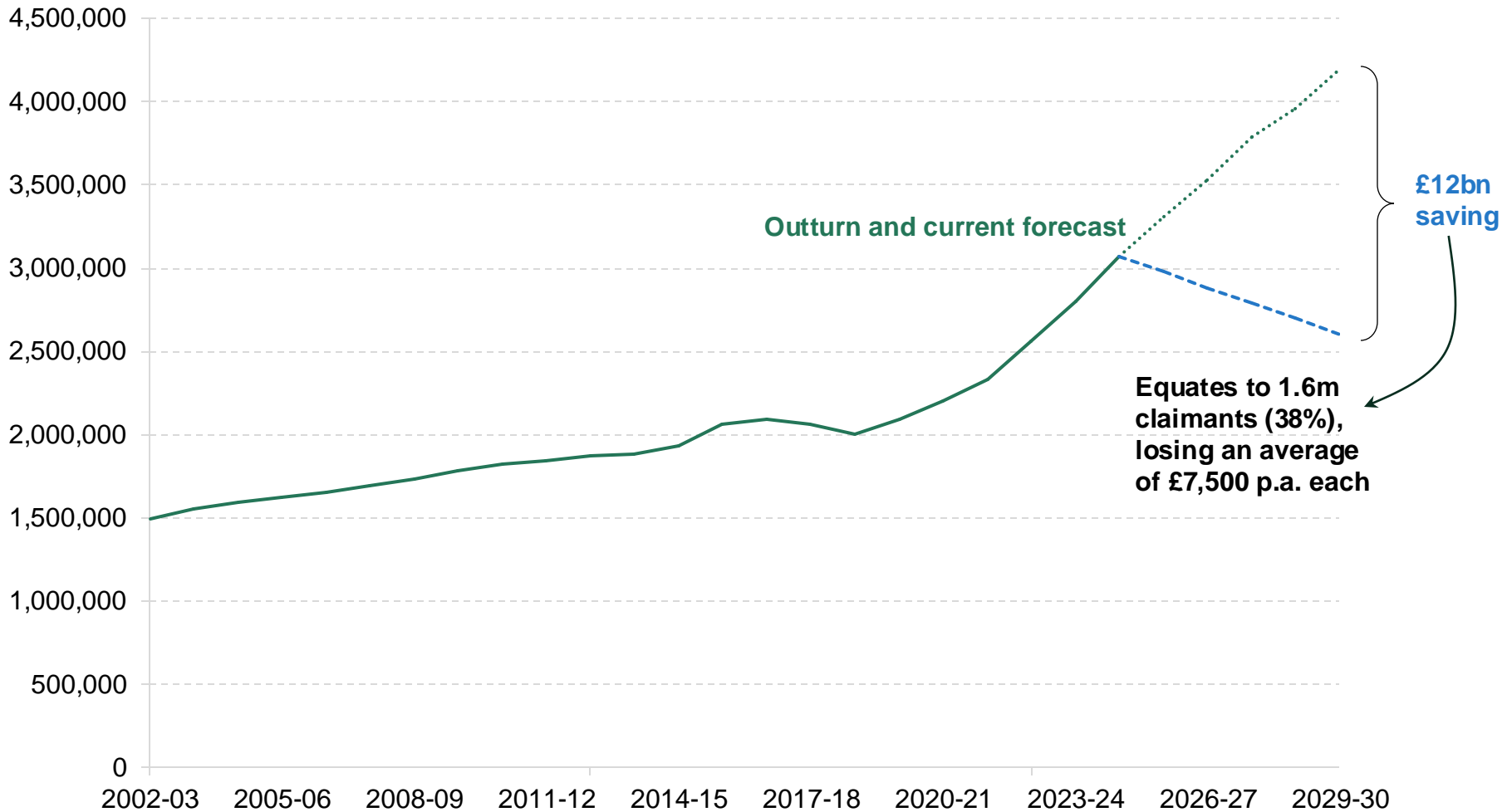


Note: GB spending, except excludes disability benefit spending in Scotland, which is devolved; excludes child DLA

Rising spending on health-related benefits

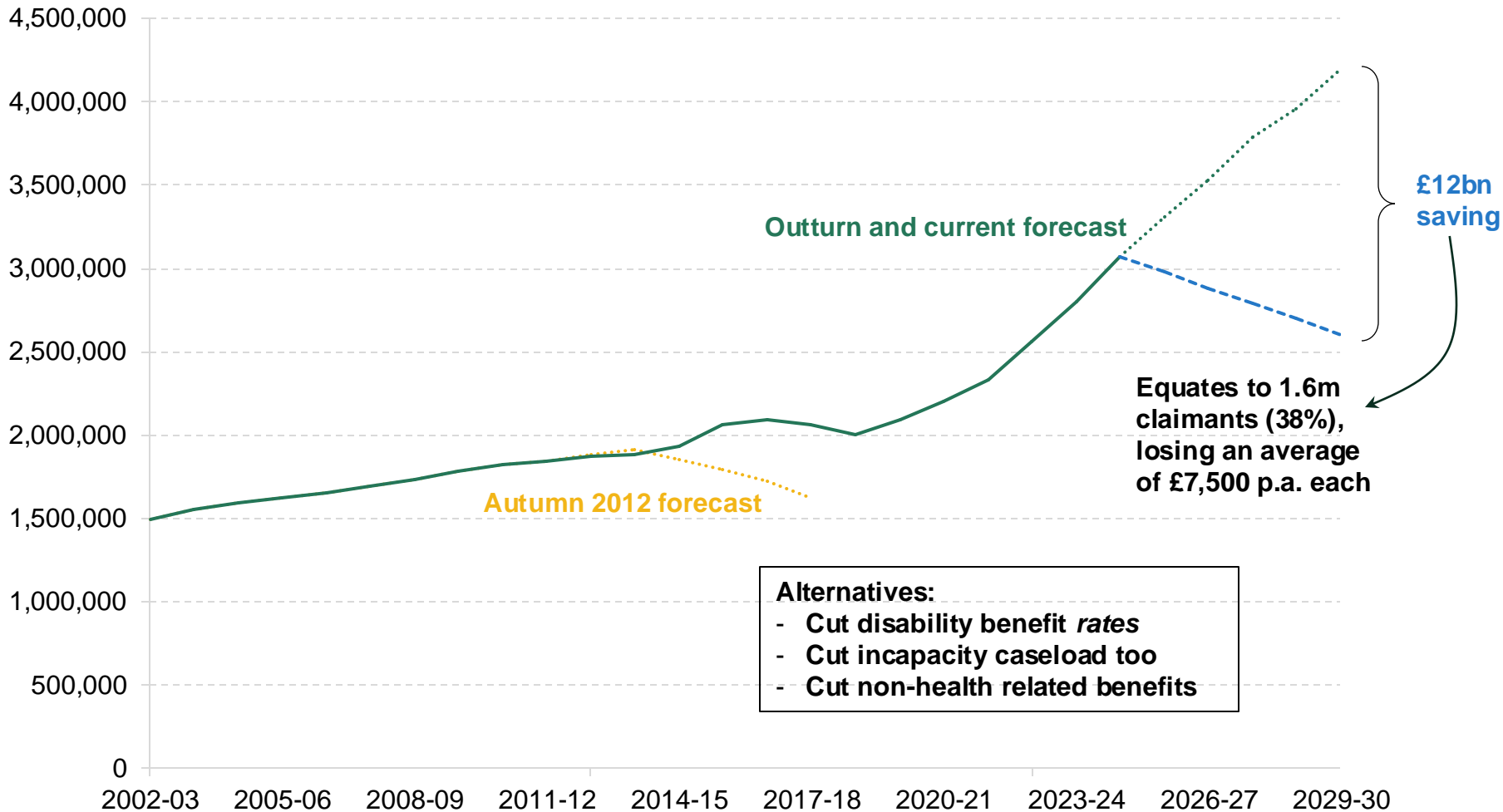
- Clearly reasonable to be concerned about this
- Conservatives: intention to shave £12bn off welfare. Of policies listed in manifesto, only one not already in forecast & *potentially* big: a reform to disability benefits (with limited detail)
 - View seems to be: as spending is increasing so fast, ‘just’ need to hold it to current/pre-pandemic levels to make huge savings – true, but would require substantial action

Working-age disability benefit caseload



Note: England and Wales only. Latest OBR forecast only goes up to 2028-29; we extrapolate to get a forecast for 2029-30

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Rising spend on health-related benefits

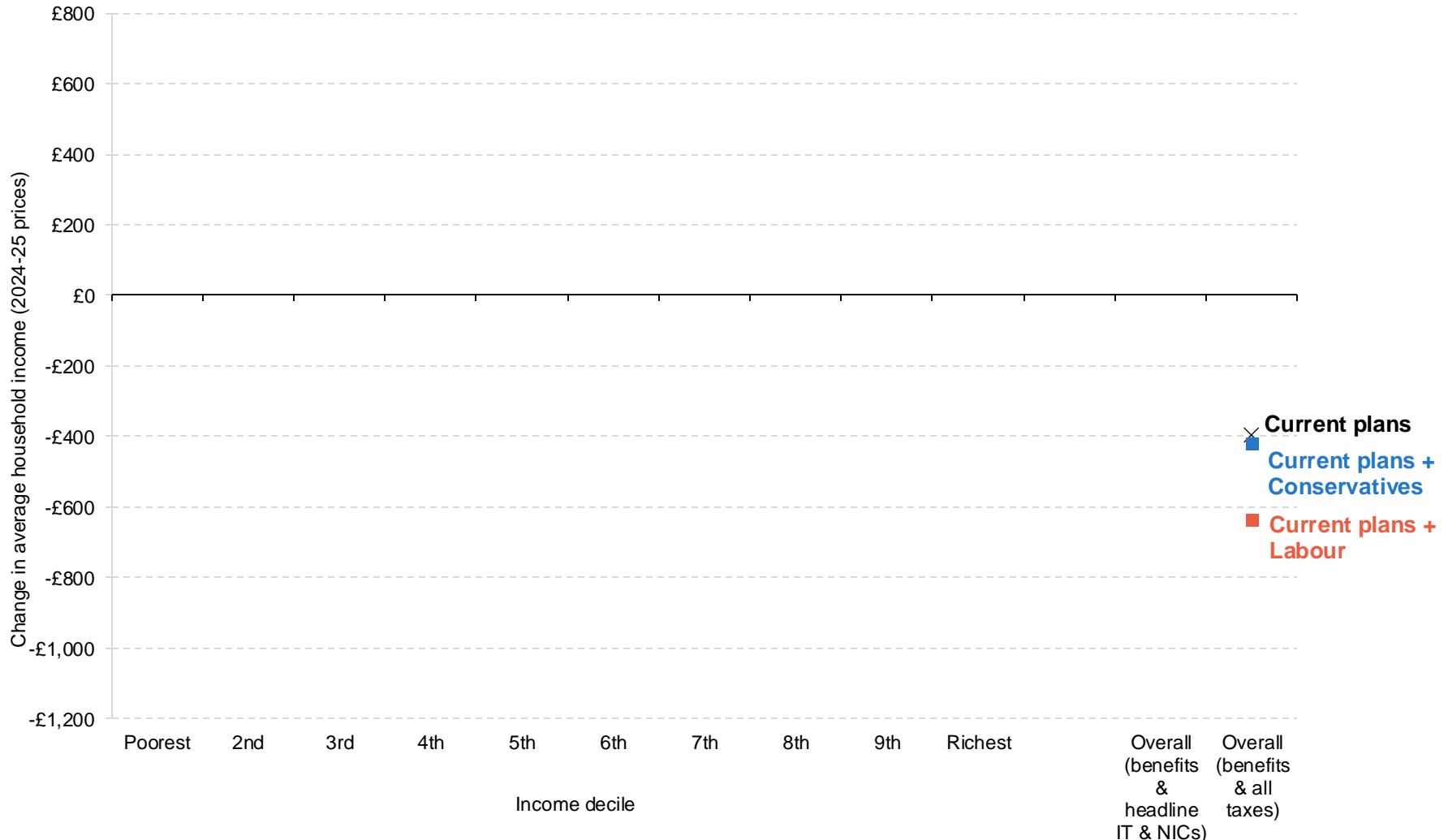
- Clearly reasonable to be concerned about this
- Conservatives: intention to shave £12bn off welfare. Of policies listed in manifesto, only one not already in forecast & *potentially* big: a reform to disability benefits (with limited detail)
 - 2015 election: Conservatives promised £12bn cut – made substantial progress with range of policies – but politically very hard
- Labour – couple of indications of intent, also not very concrete
 - Reform or replace assessment for incapacity benefits
 - Develop ‘a proper plan to support disabled people to work’
- **Absent sudden improvements in national health, whoever wins will likely have to make hard choices here: accept much higher spending or significantly tighten the system**

Welfare and child poverty

- Labour – ‘develop an ambitious strategy to reduce child poverty’
 - Relative child poverty: 27% to 30% since 2010-11
- Been here before – in 1999 Labour had plans to ‘end child poverty’
 - Welfare doing much of the heavy lifting
- This time: no significant welfare announcements, including on two-child limit, benefit cap, ‘bedroom tax’
 - Two-child limit will *increasingly* bite over time – extra 670k children affected across next parliament
 - Can certainly make progress through other means, but harder to get significant quick results – more pressure on pub. finances?

Impact of benefits & taxes on incomes

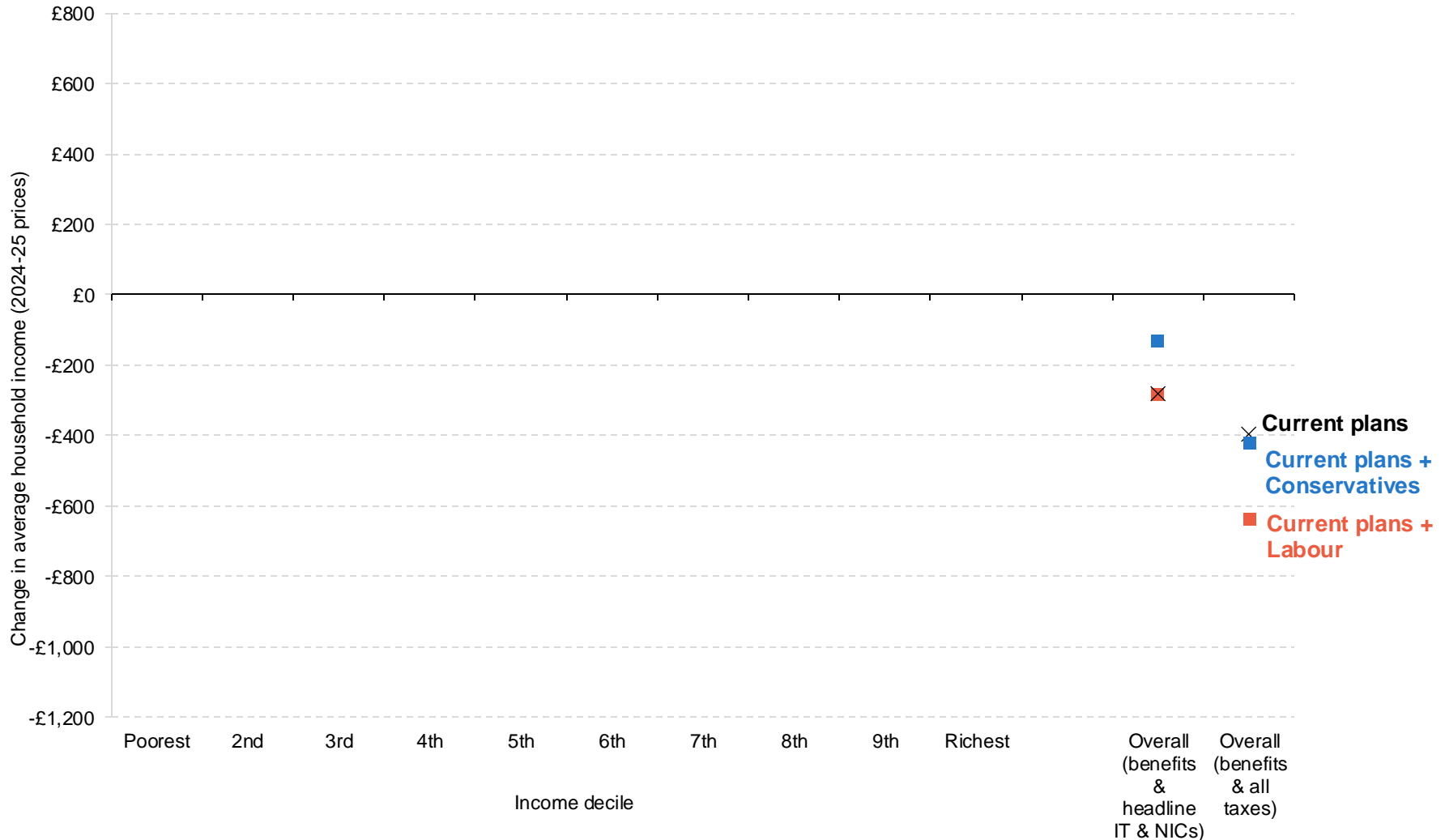
Compared to 2024-25 tax & benefit system



Note: values for income deciles and for "Overall (benefits & headline IT & NICs)" do not include revenue from several policies, including anti-tax avoidance and evasion measures; non-dom policies; Labour's VAT on private schools and carried interest reforms. These are included in the "Overall (benefits & all taxes)" markers.

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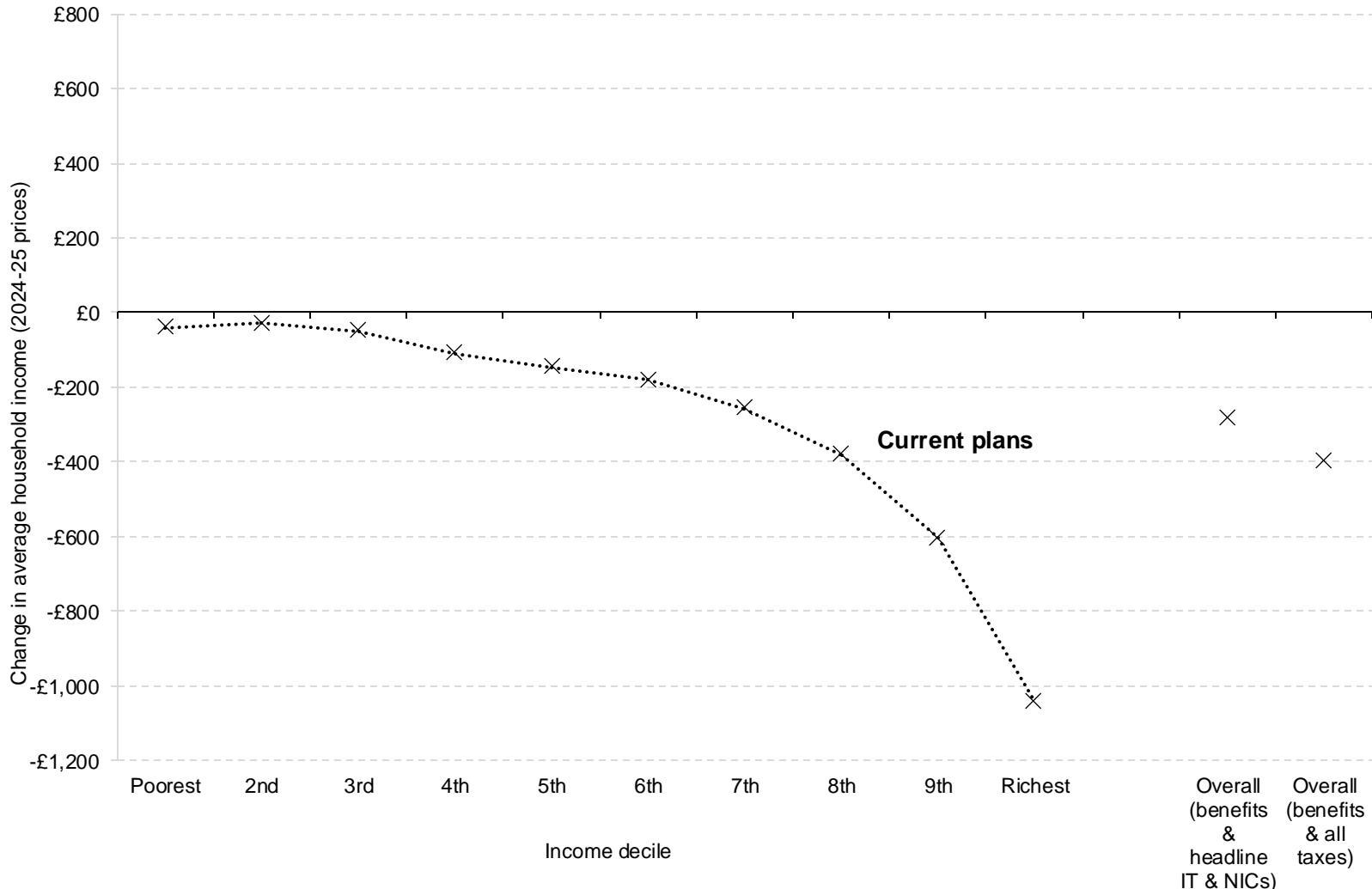
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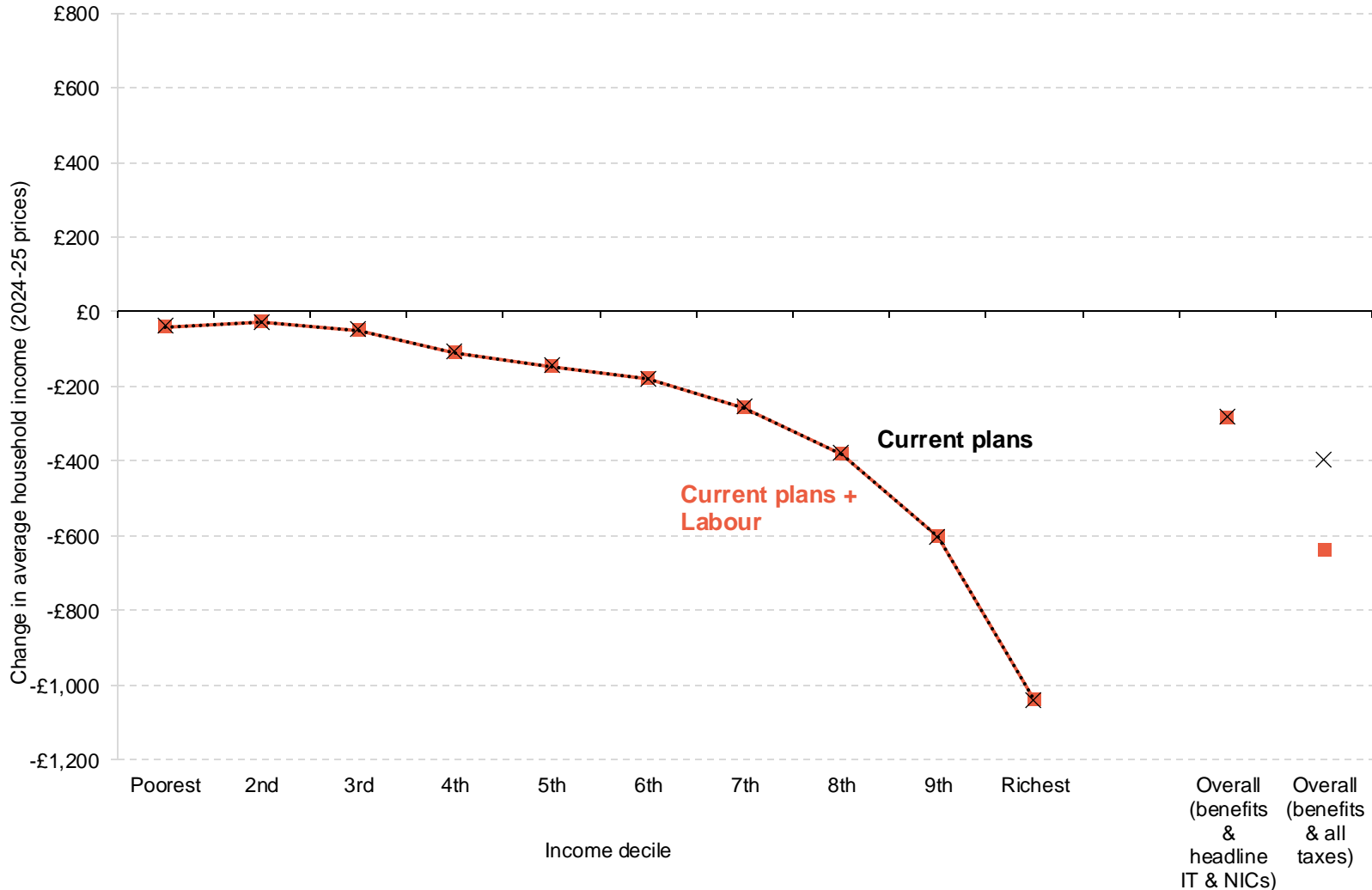
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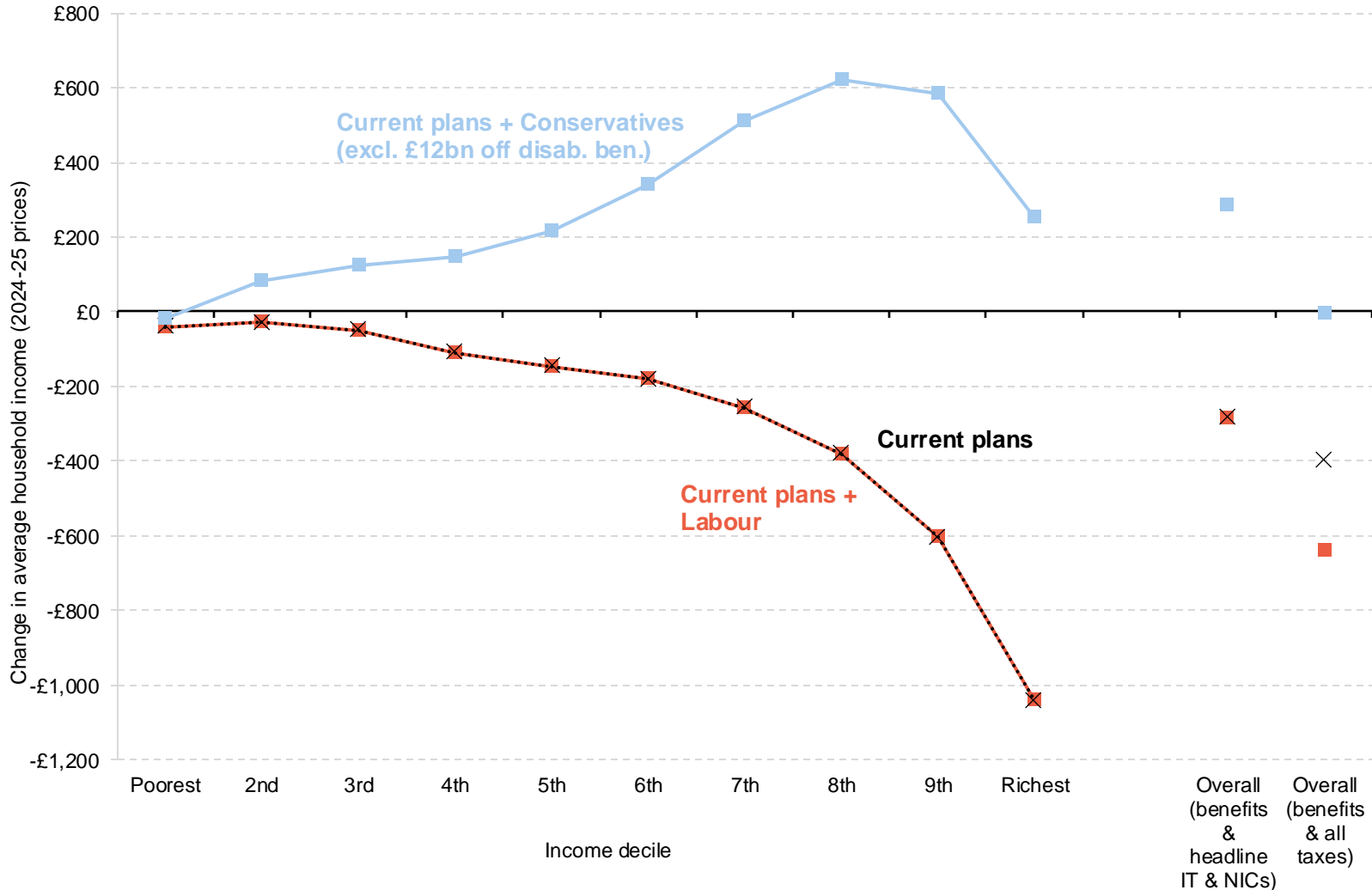
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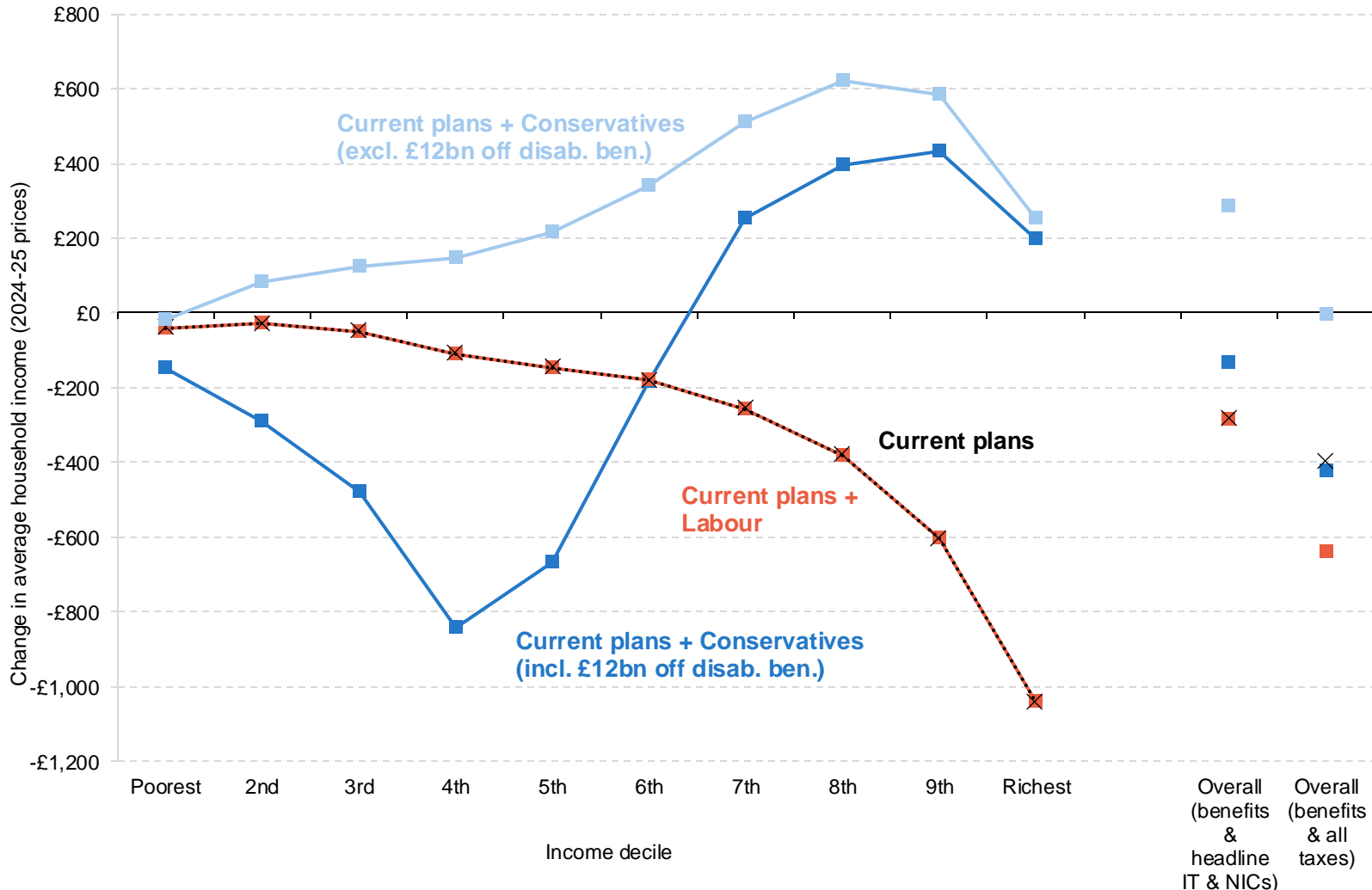
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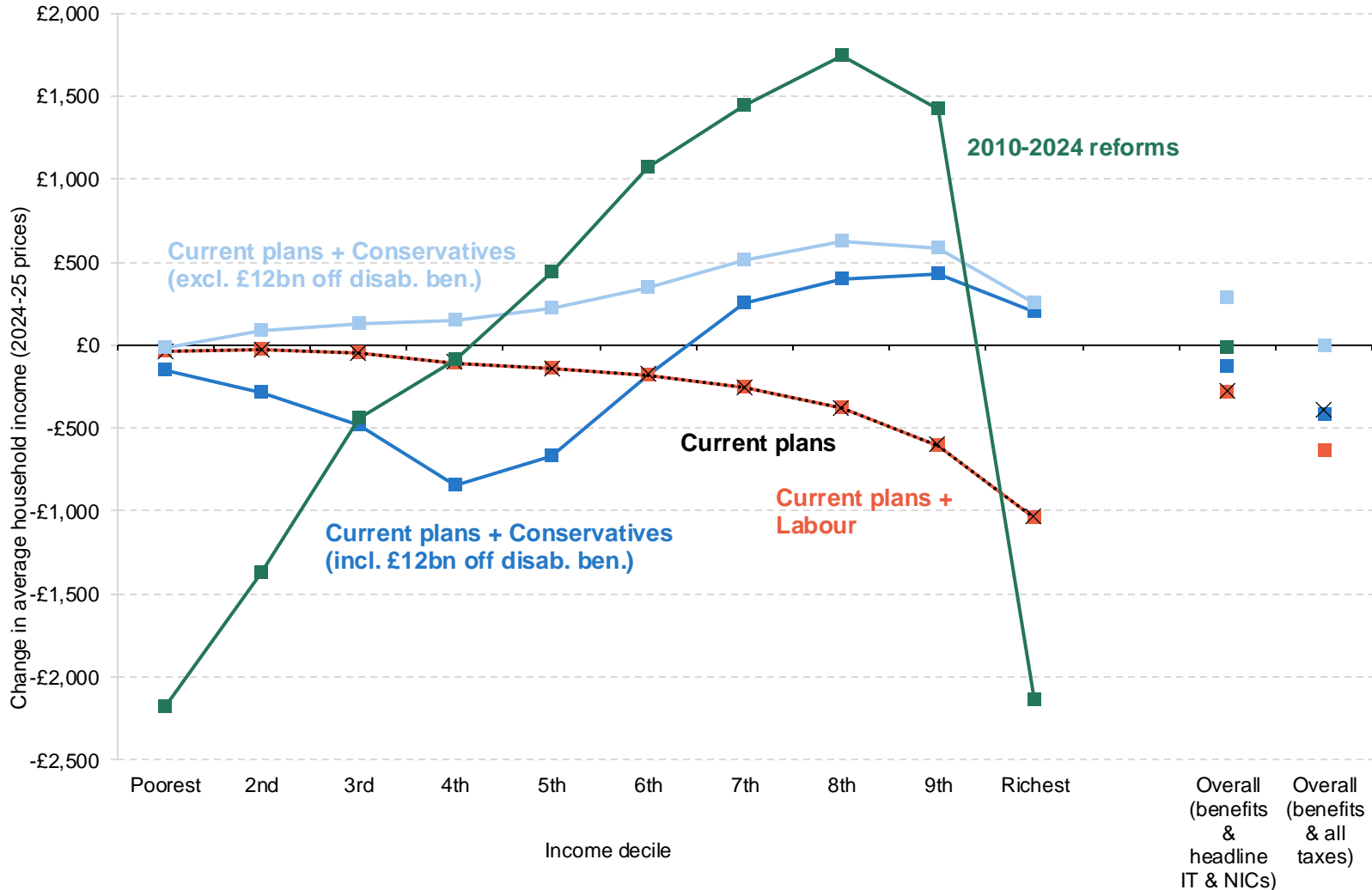
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Summary

- Labour broadly keeping to existing personal tax & benefit plans – implies takeaways from the top
- Conservatives plan tax cuts increasing incomes for top half, paid for by benefit cuts largely among bottom half
- But all fairly small beer compared to reforms of last 14 years

- Whoever wins faces a challenge with rapidly rising health-related benefit spending

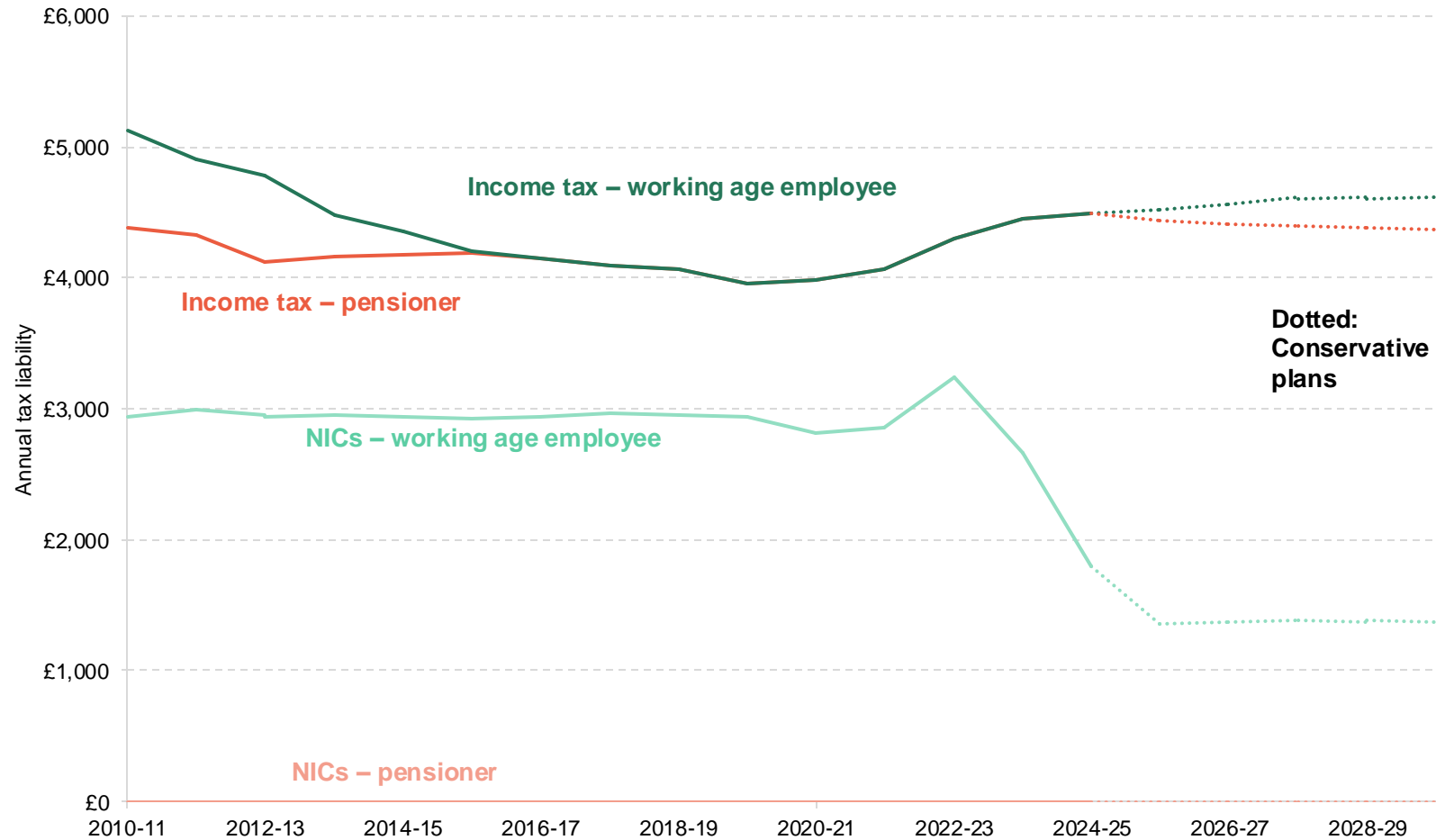
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Tax liabilities by age

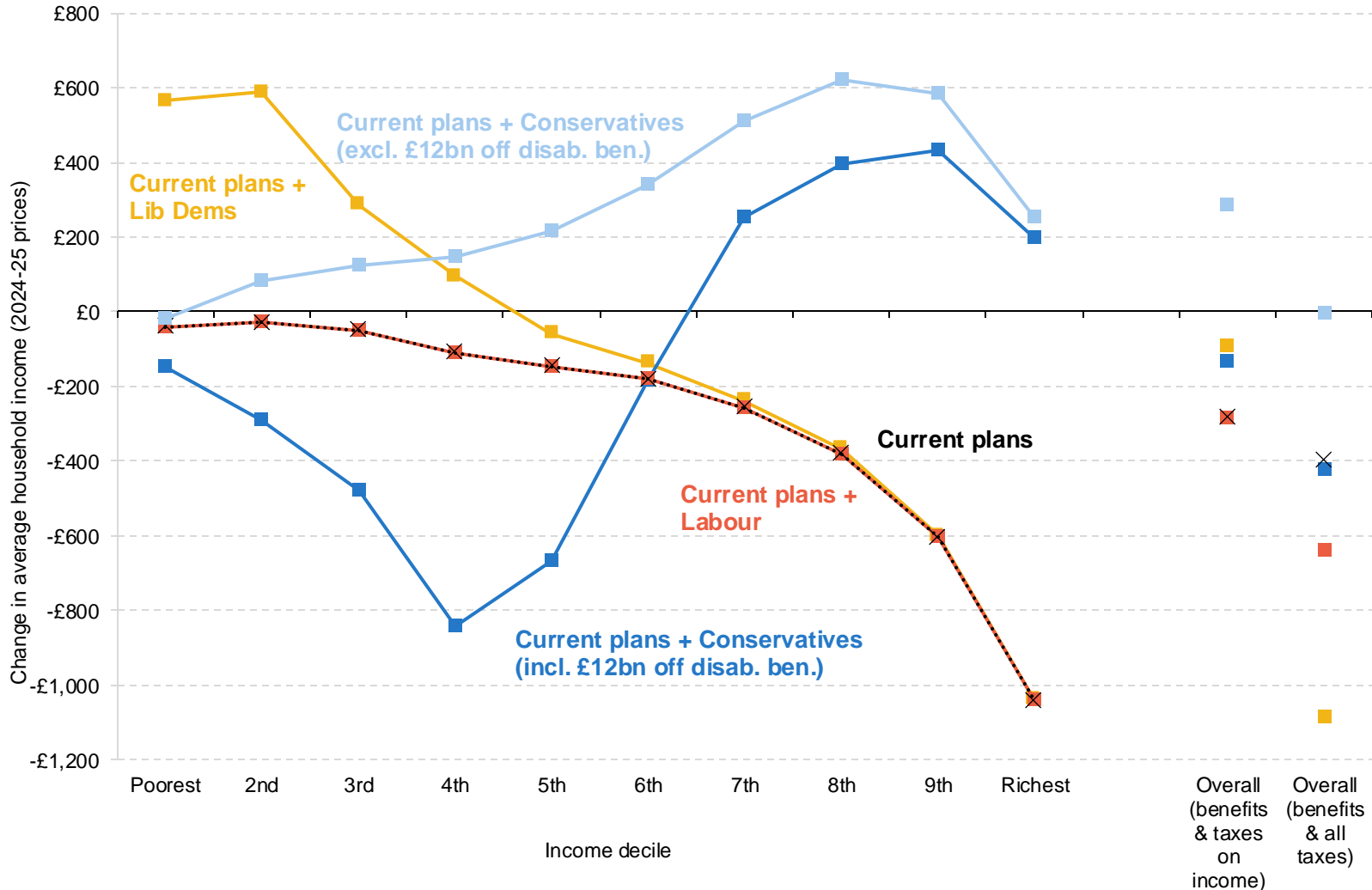
For a working-age employee & pensioner with £35,000 income in today's prices



Note: Assumes that the pensioner is over 75 years old and receives all their income from pensions. Figures show liabilities based on system in April of the year in question.

Impact of benefits & taxes on incomes

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