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@TheIFS

Isaac Delestre

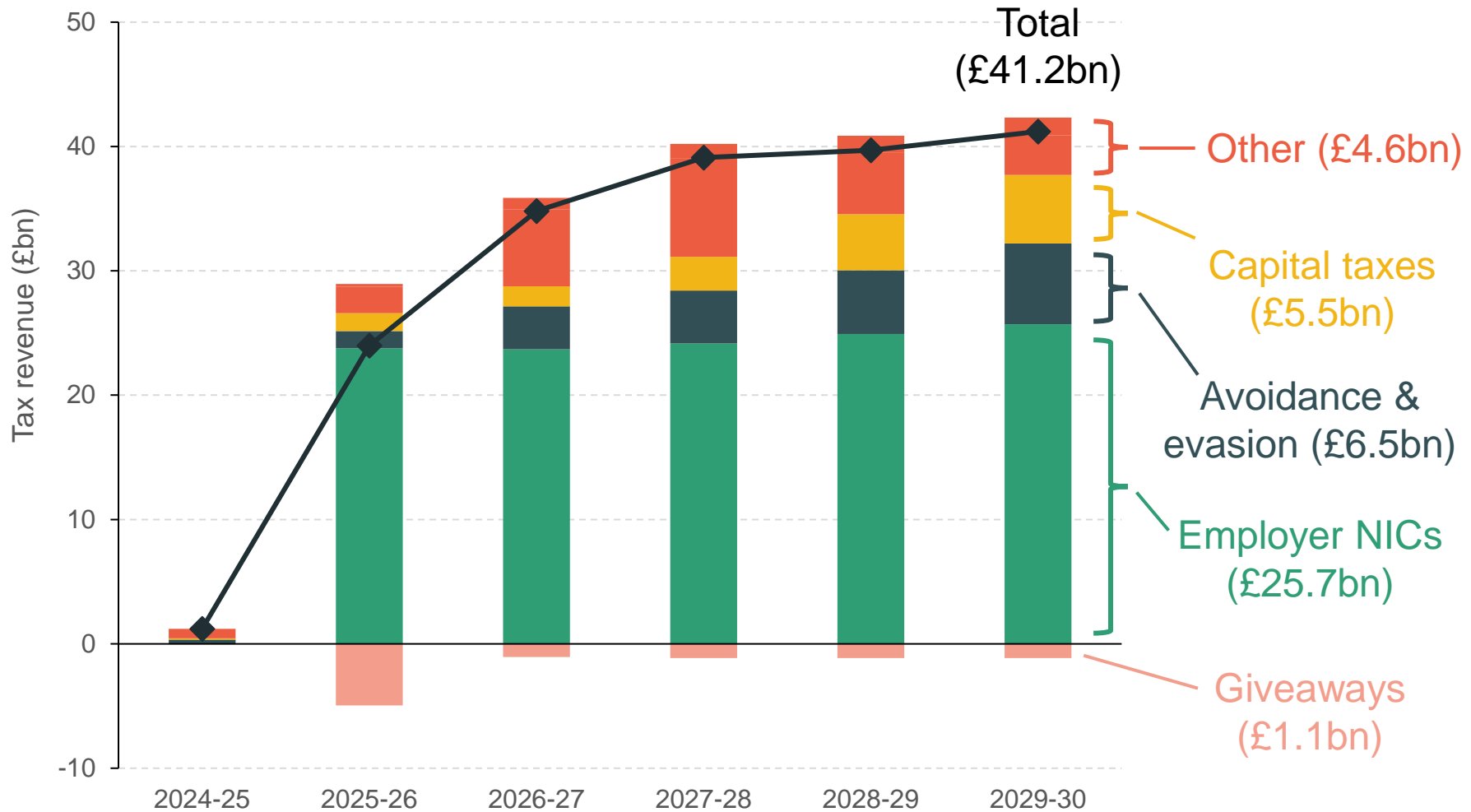
# Tax measures



Economic  
and Social  
Research Council

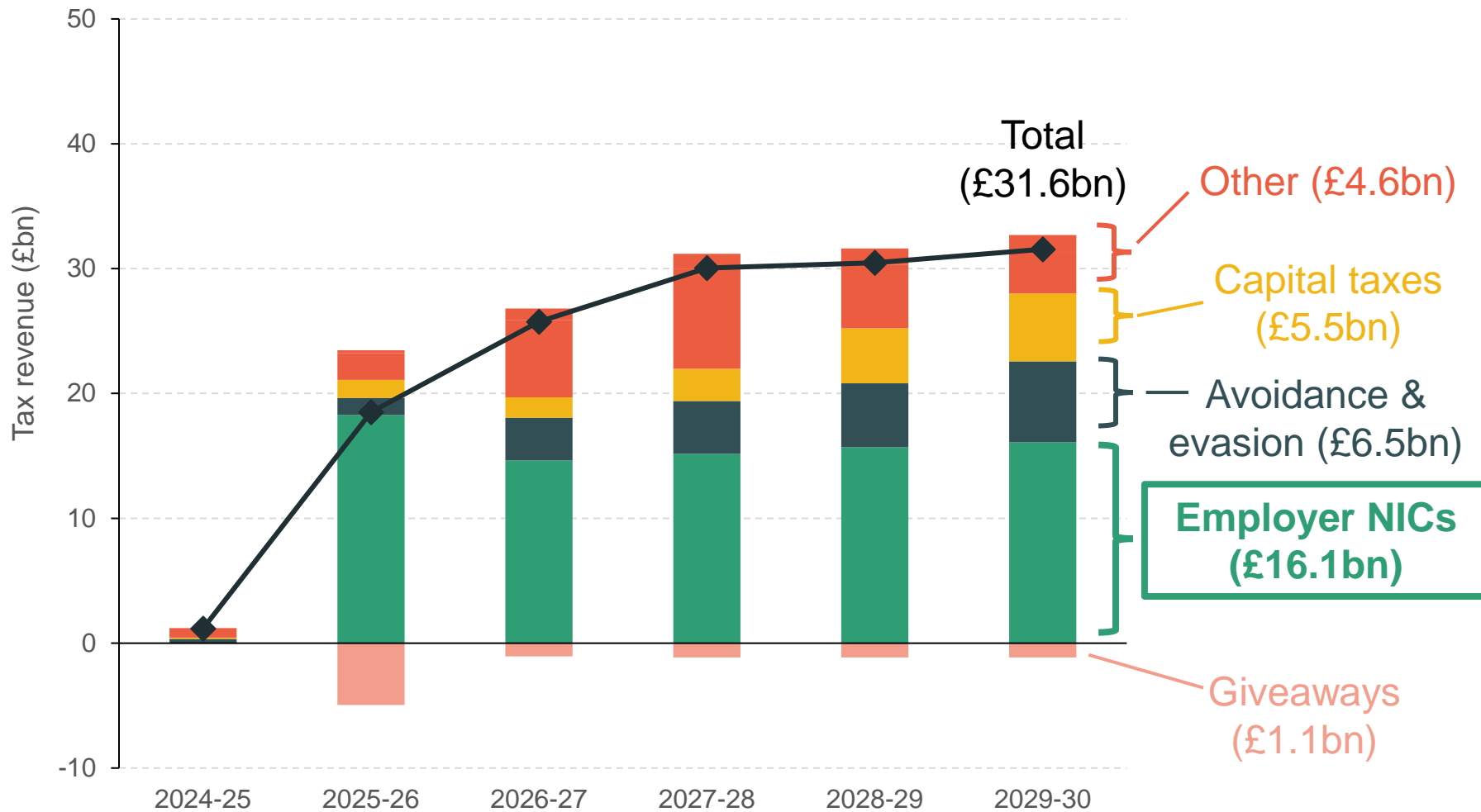
# What's in the Budget?

## Scorecard measures



# What's in the Budget?

With OBR adjustment



# Manifesto promises delivered

- Large package of anti-avoidance & evasion measures
- New regime for non-doms
- VAT on private schools
- Energy profits levy: extended until March 2030, rate 35% to 38%, and allowances cut
- Capital gains tax rates on carried interest increased

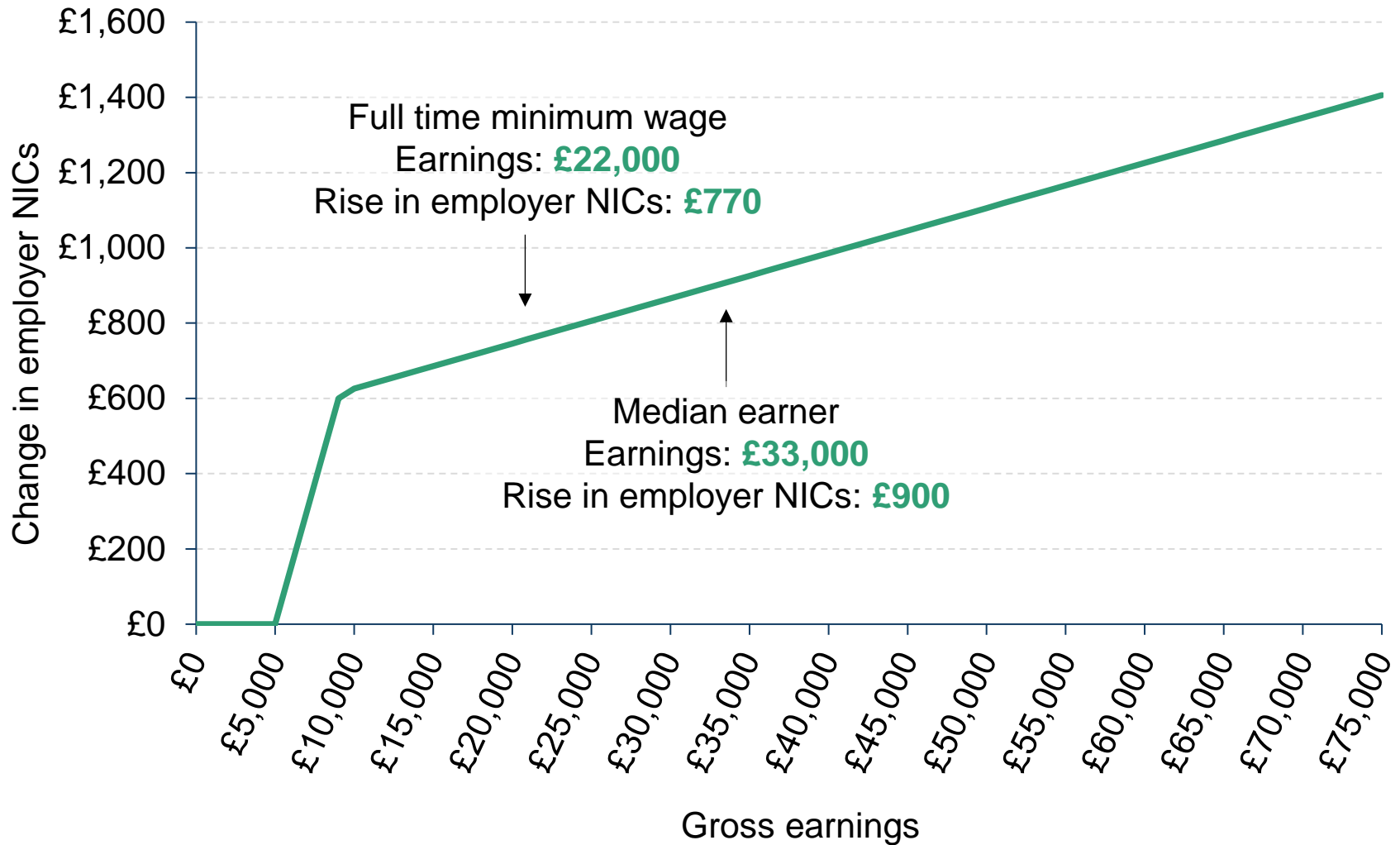
# National Insurance contributions



## From April 2025:

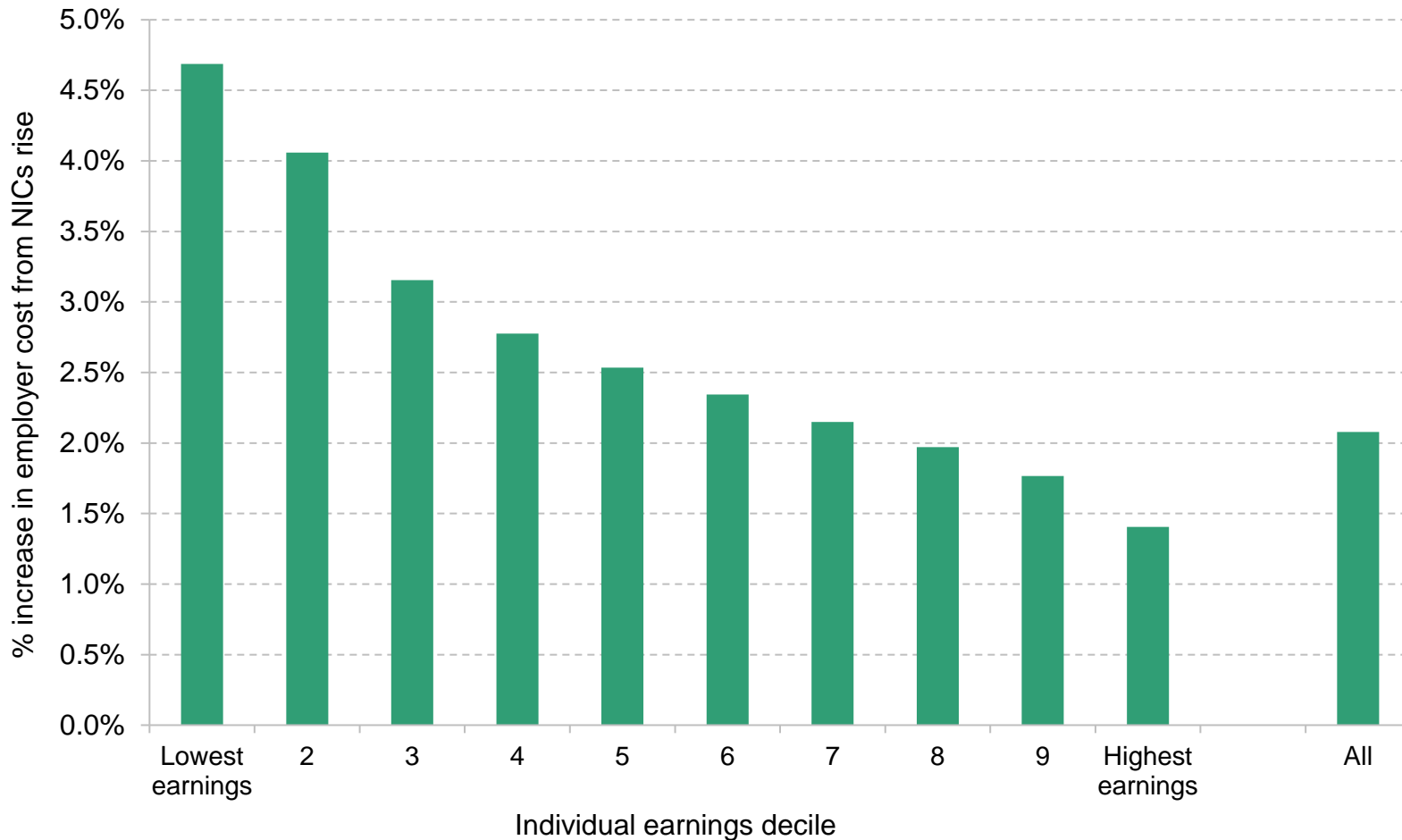
- Employer NICs increases from 13.8% to 15%
- Cut in the earnings threshold from £9,100 to £5,000 p.a.

# Increase in NICs, 2025-26



Note: Assumes employer already making full use of the employment allowance without the example employee. April 2025 National Living Wage rate already in place.

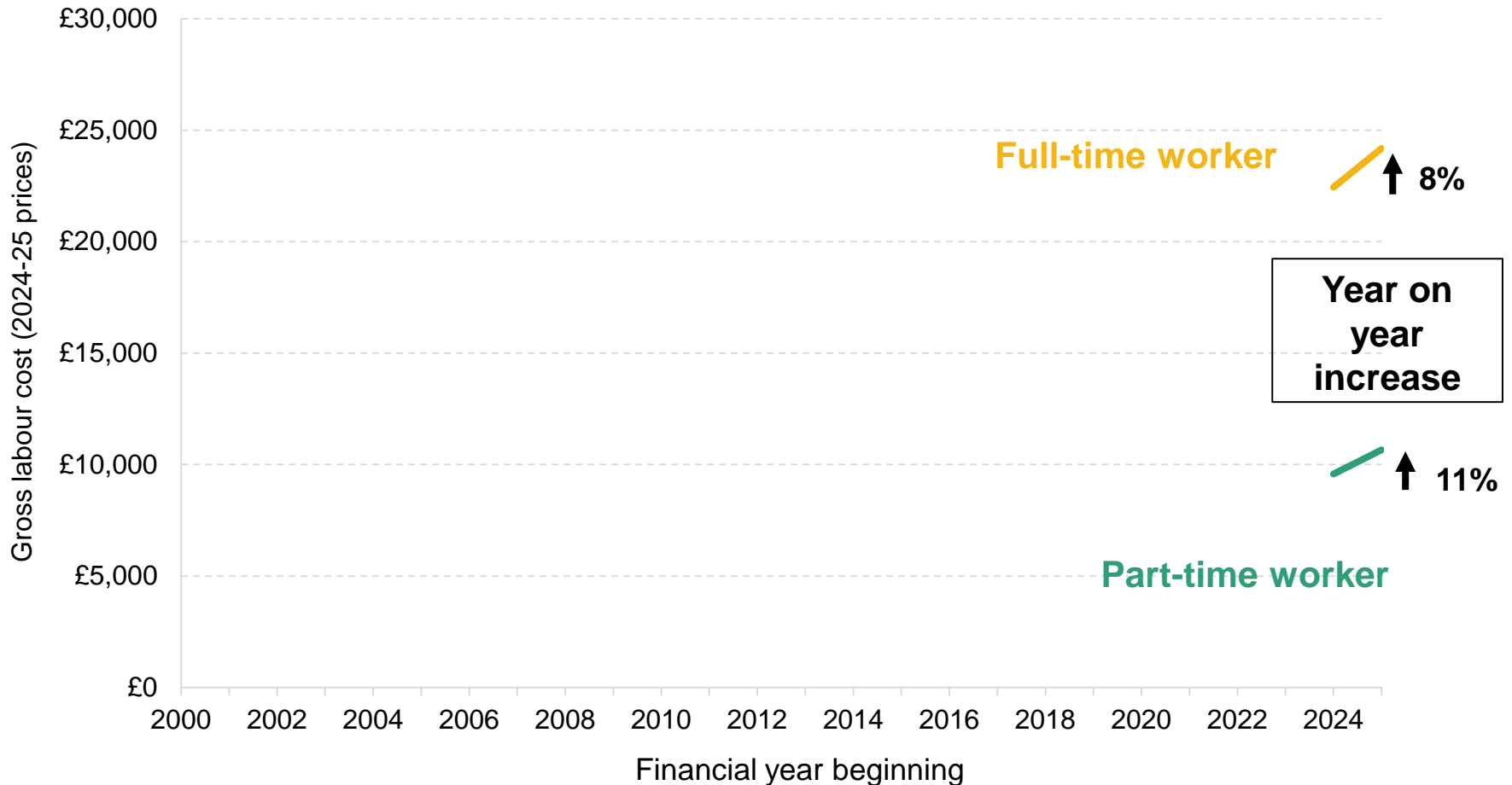
# % increase in labour cost biggest for low earners



Note: 2025–26 prices. Excludes increase in employment allowance. Does not include increase in labour cost from April 2025 minimum wage rises.

# NICs rise on top of min wage rise

## Gross real terms labour cost, minimum wage workers

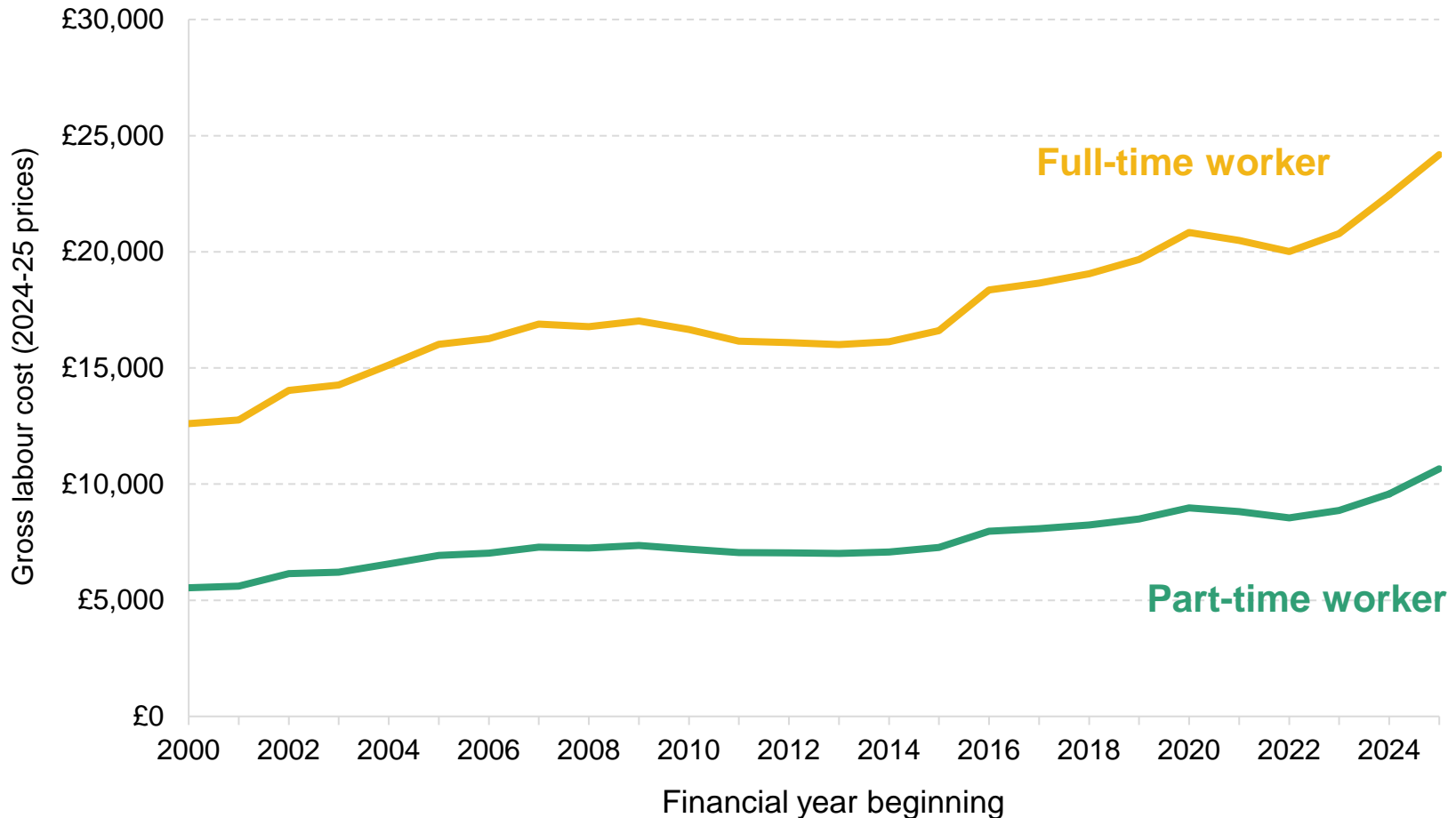


Note: Labour cost = salary + employer NICs. Assumes employer already making full use of the employment allowance without the example employee. Based on worker aged over 25. Full-time worker works 35 hours per week, and part-time worker 16 hours per week.  
Source: OBR EFO October 2024, ONS, TAXBEN



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# National Insurance contributions



## From April 2025:

- Employer NICs increases from 13.8% to 15%
- Cut in the earnings threshold from £9,100 to £5,000 p.a.
- Employment allowance increases from £5,000 to £10,500
  
- Small employers hit least hard
- Bigger employers with lots of low paid staff hit hardest

# National Insurance contributions

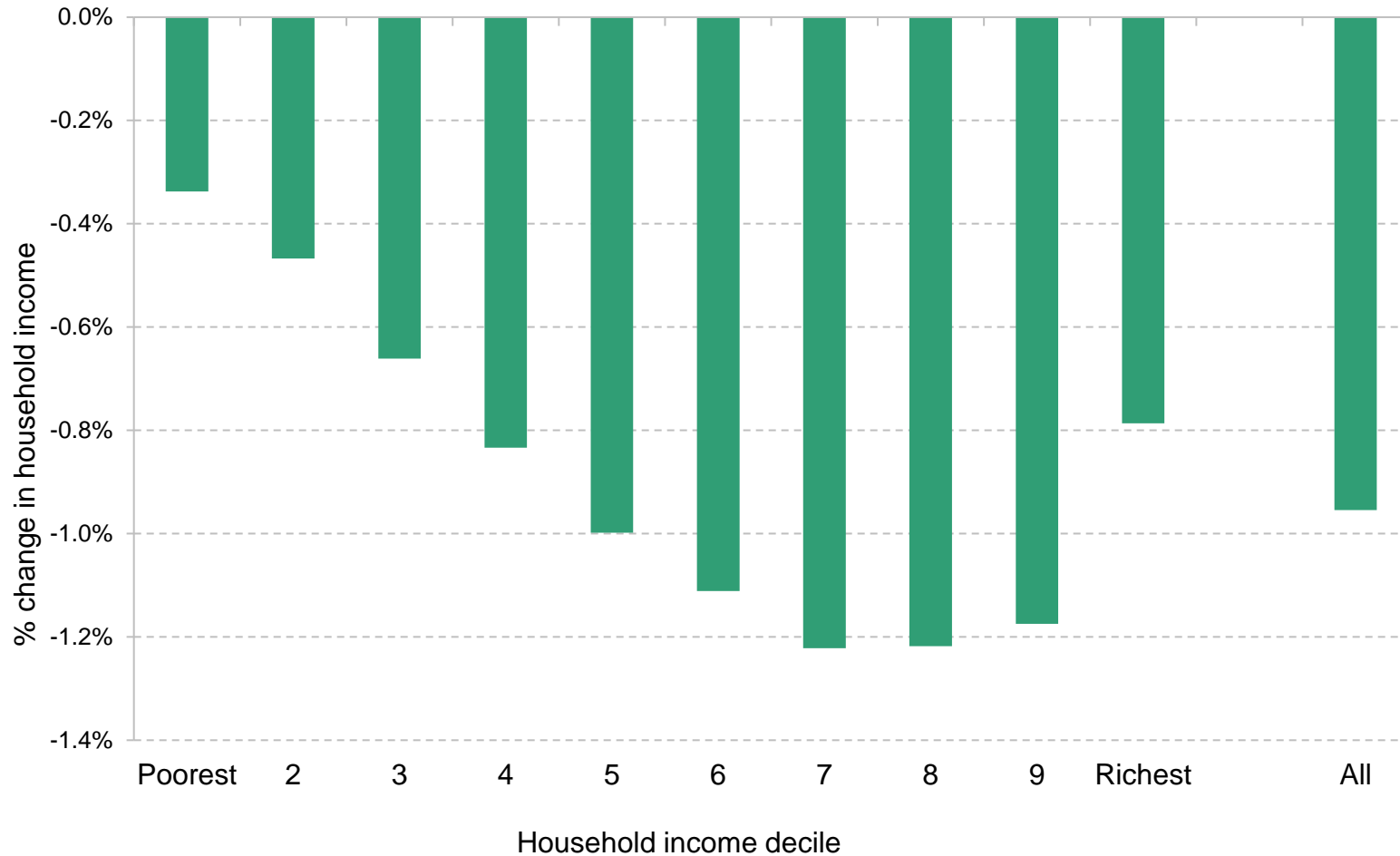
## Who bears the burden?

- **OBR assumption (from 2026-27):**
  - 61% wages
  - 15% prices
  - 24% profits

## How will people & businesses respond?

- Reduce total work (fewer workers & fewer hours)
- Shift towards self-employment
- More employer pension contributions (instead of salary)

# Distributional effects of NICs increase (assuming passed in full to workers)



Note: Excludes increase in employment allowance. Assumes other changes to employer NICs fully incident on the employee whose earnings are taxed.

Source: OBR EFO October 2024, TAXBEN, Family Resources Survey 2022–23

# Inheritance tax

- Pensions to be brought into taxable estates: £1.5bn (and rising)
- Agricultural & business reliefs halved above £1m: £0.5bn
- Extending threshold freeze by 2 years to 2029-30: £0.4bn
- Share of deaths incurring IHT up from 5% in 2023 to 10% in 2029

## A step towards a better designed inheritance tax

- Reasonable arguments both for & against IHT
- But so long as it exists, it should apply to all assets equally
- Scaling back reliefs a step towards a better designed system

# Capital gains tax

- Main rates of CGT rise immediately from 10% & 20% to 18% & 24%
- Business asset disposal relief (BADR) and investors' relief (IR) rates rise from 10% to 14% in 2025 and then to 18% in 2026
- IR lifetime limit reduced from £10m to £1m
- Carried interest rate rises from 28% to 32% in 2025 & 34% in 2026
- Raises a total of £2.5bn

## Fiddling with rates not grappling with reform

- ✓ Reduces disparity in tax rates between gains & income
- ✗ Increases tax penalty on saving, investment & risk-taking

# The sinners and the saints

## Taxes up on...

- Flying: £0.7bn
- Tobacco: £0.2bn
- Sugary drinks: £0.1bn
- Buying 2<sup>nd</sup>/rental property (stamp duty top-up 3%→5%): £0.3bn

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## Taxes down on...

- Draught beer (1p off a pint): £0.1bn
- Driving (fuel duty frozen & 5p cut extended): £1bn

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# Conclusions

- Big rise in tax
  - Tax revenue reaching highest ever share of national income
- Manifesto tax rises delivered
- Large increase in National Insurance contributions
  - Alongside higher min wage & expanded employment rights
  - Creates risks for low-income workers
- Noticeable lack of serious tax reform (if not now, when?)

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