



Tom Waters

@TheIFS

Personal tax and benefits

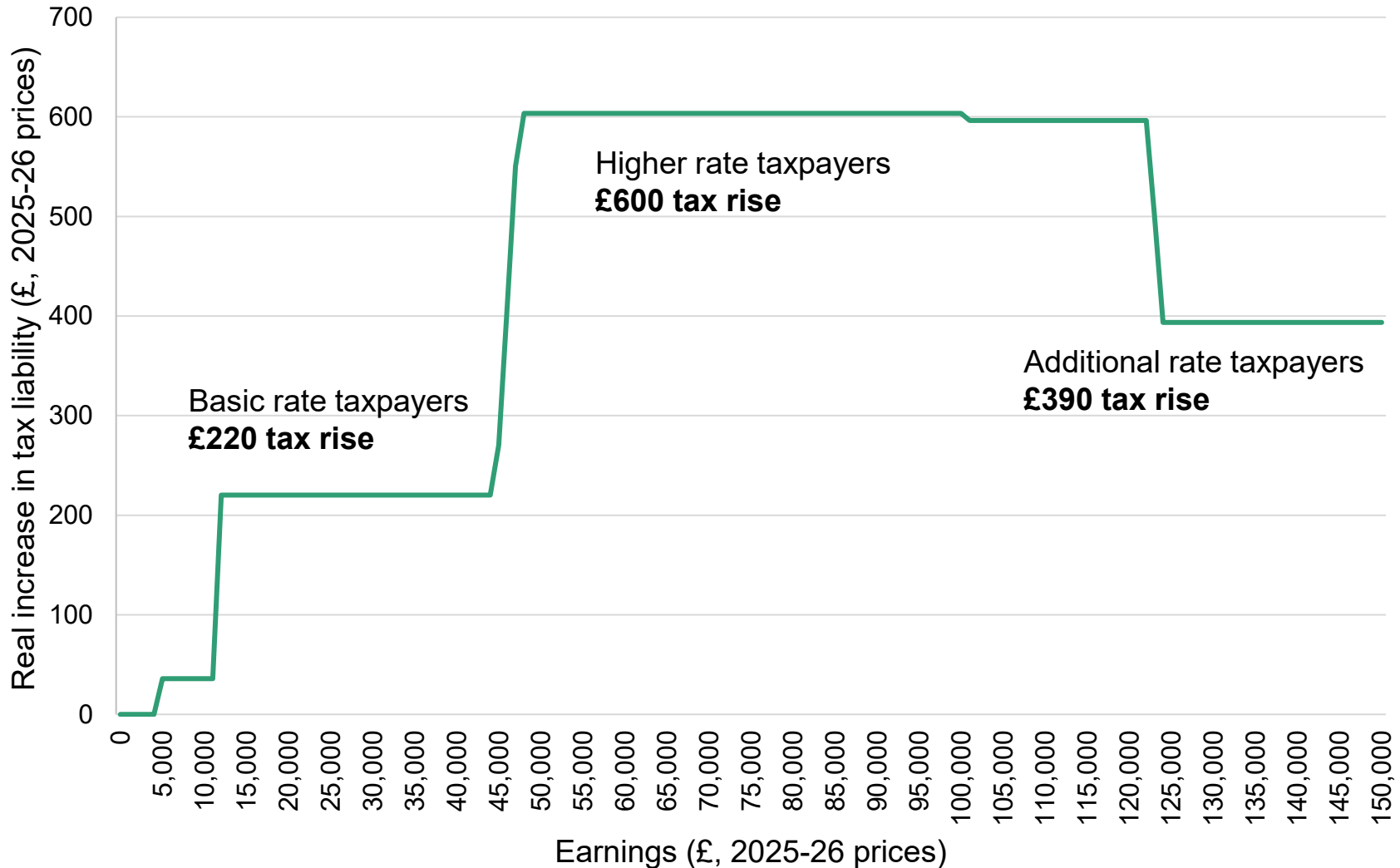
(More) freezes to tax thresholds



- Almost all major personal tax thresholds frozen since at least June 2022 – real-terms tax rise
- Existing plans were to resume normal inflation uprating in April 2028 – now pushed back to April 2031

(More) freezes to tax thresholds

Effect of new threshold freezes on employee tax liabilities in 2030-31



Note: Assumes rise in employer NICs is incident on employees

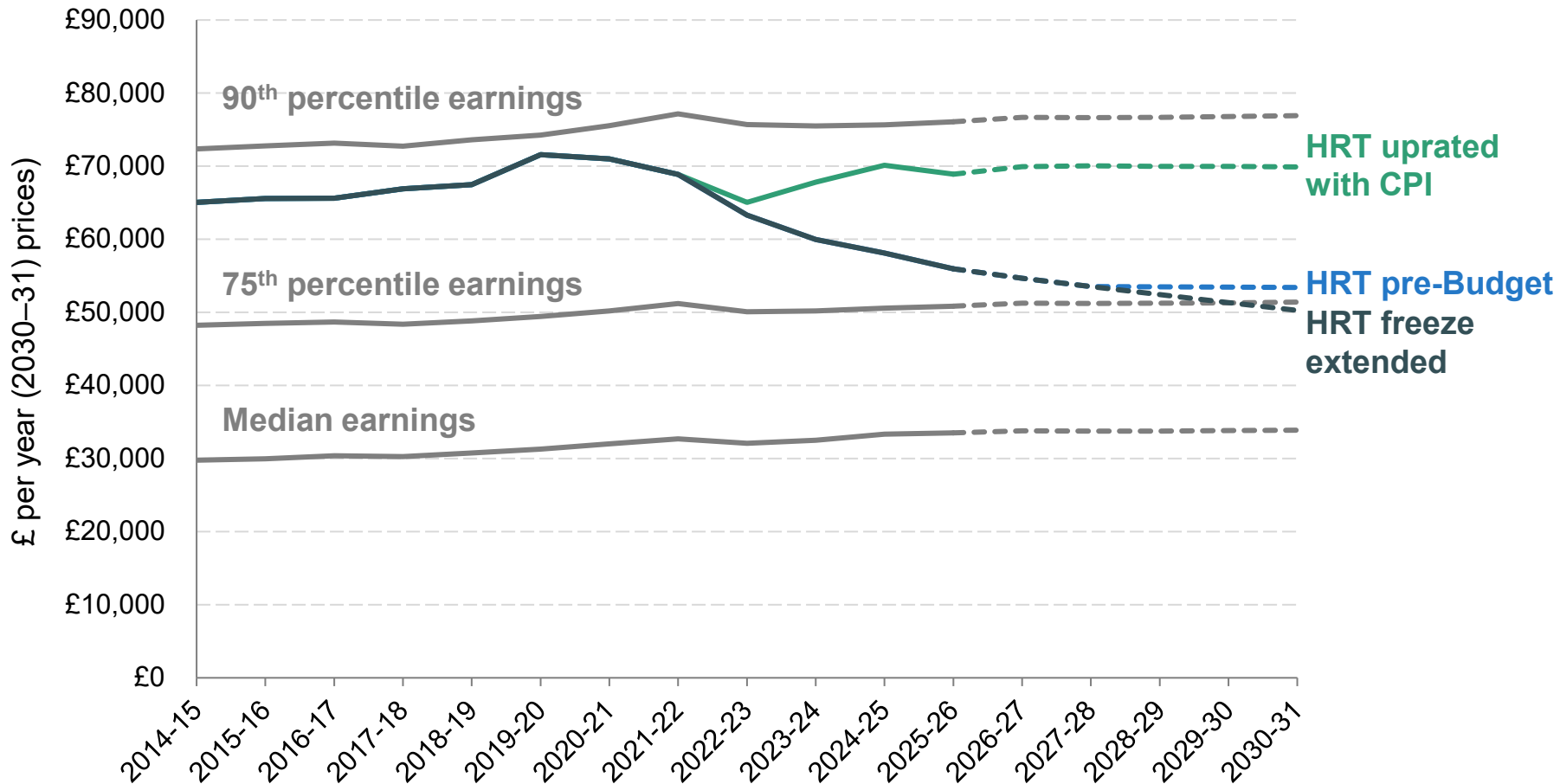
(More) freezes to tax thresholds



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- By 2030–31 freeze as a whole brings:
 - 5.2m more into income tax – 700,000 more than in 2027–28
 - 4.8m more into higher rate tax – 1.0m more than in 2027–28

A quarter of employees set to pay higher-rate tax

Higher-rate threshold (HRT) and employee earnings percentiles



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- Given inflation *forecast*, expected to raise £13bn by 2030-31. But based on previous differences between forecast & outturn inflation:
 - Roughly 25% chance it raises >£21bn, 25% chance it raises <£8bn

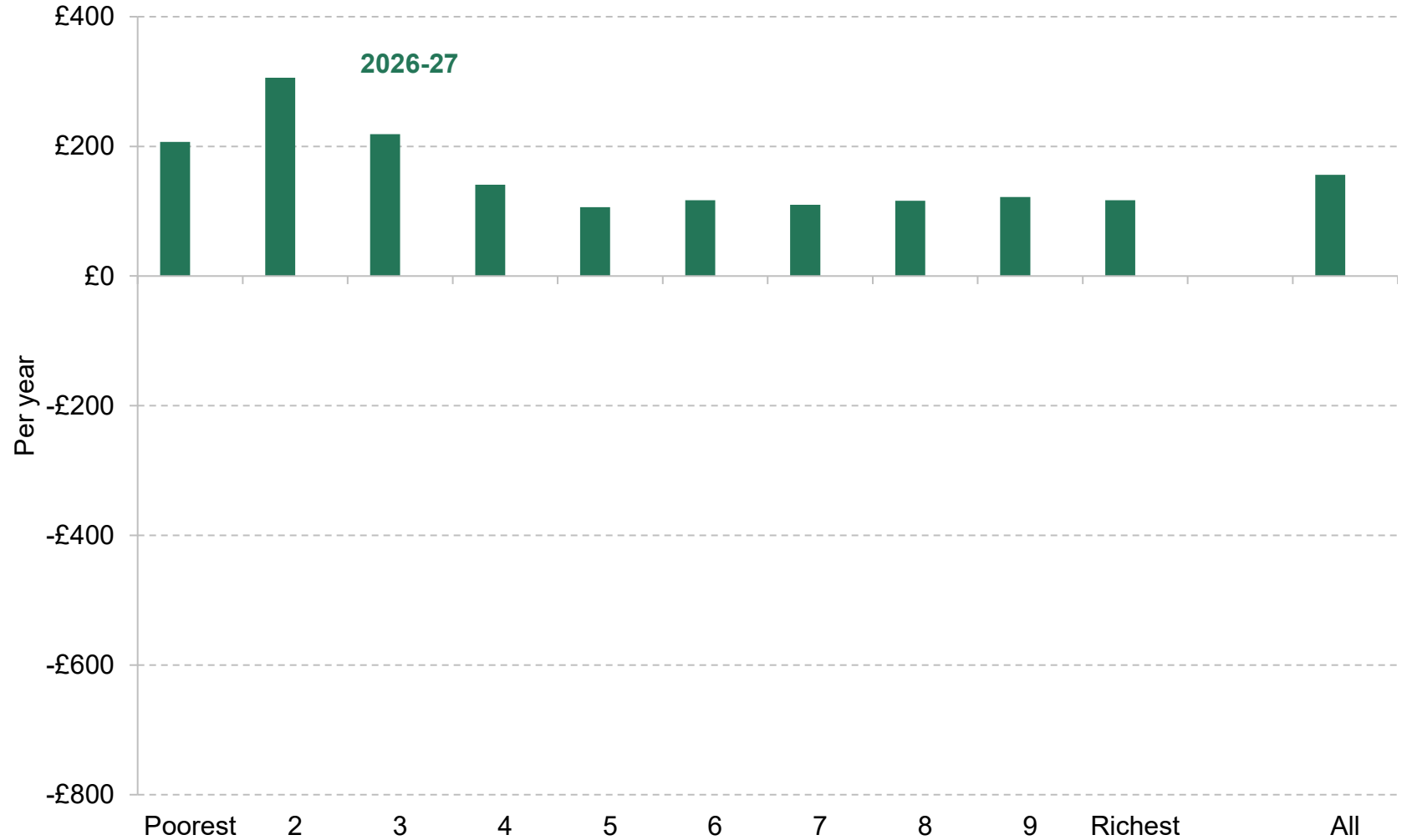
Two-child limit scrapped

- Universal credit claimants usually get £3,500 per year for each child
- But not for third & subsequent kids born after April 2017: the two-child limit
- Will be scrapped this April – increasing benefits for 560,000 families in 2029-30 at a cost of £3.2 billion
- Gov't estimates will reduce relative child poverty by 450,000: 3.1ppts
 - Well targeted at reducing headline poverty
 - But does less for 'deep poverty': 140,000 children (in particularly poor families) also affected by *separate* benefit cap – so gain nothing

Progressive giveaways in the short run...



Distributional impact of Budget reforms in 2026–27



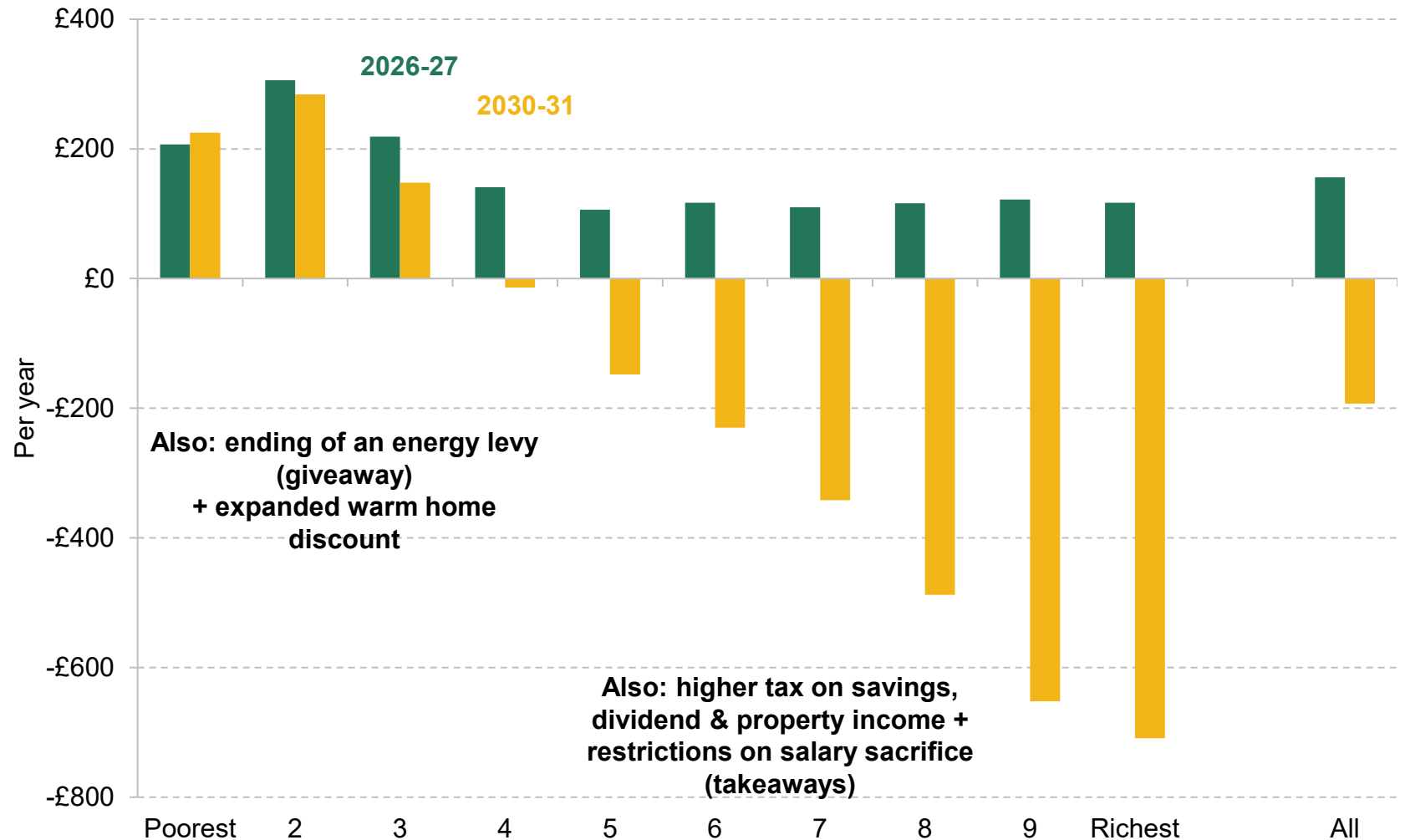
Note: Excludes Scotland

Personal tax and benefits

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... but bigger takeaways in the longer run

Distributional impact of Budget reforms in 2030–31



Note: Excludes Scotland

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Stepping back...



- OBR has downgraded productivity → lower real GDP per capita
- Together with significant rises in tax and despite some high profile giveaways...

Real household disposable income growth remains poor

Annualised RHDHI growth per capita, by parliament



Note: 2015 to 2017 and 2017 to 2019 parliaments have been combined

Conclusion

- Two of the highest profile policy decisions
 - One big, broad based but uncertain tax rise
 - Another much smaller, very targeted benefit rise
- These decisions matter – but in the long run, the key to living standards growth will be found in rising productivity