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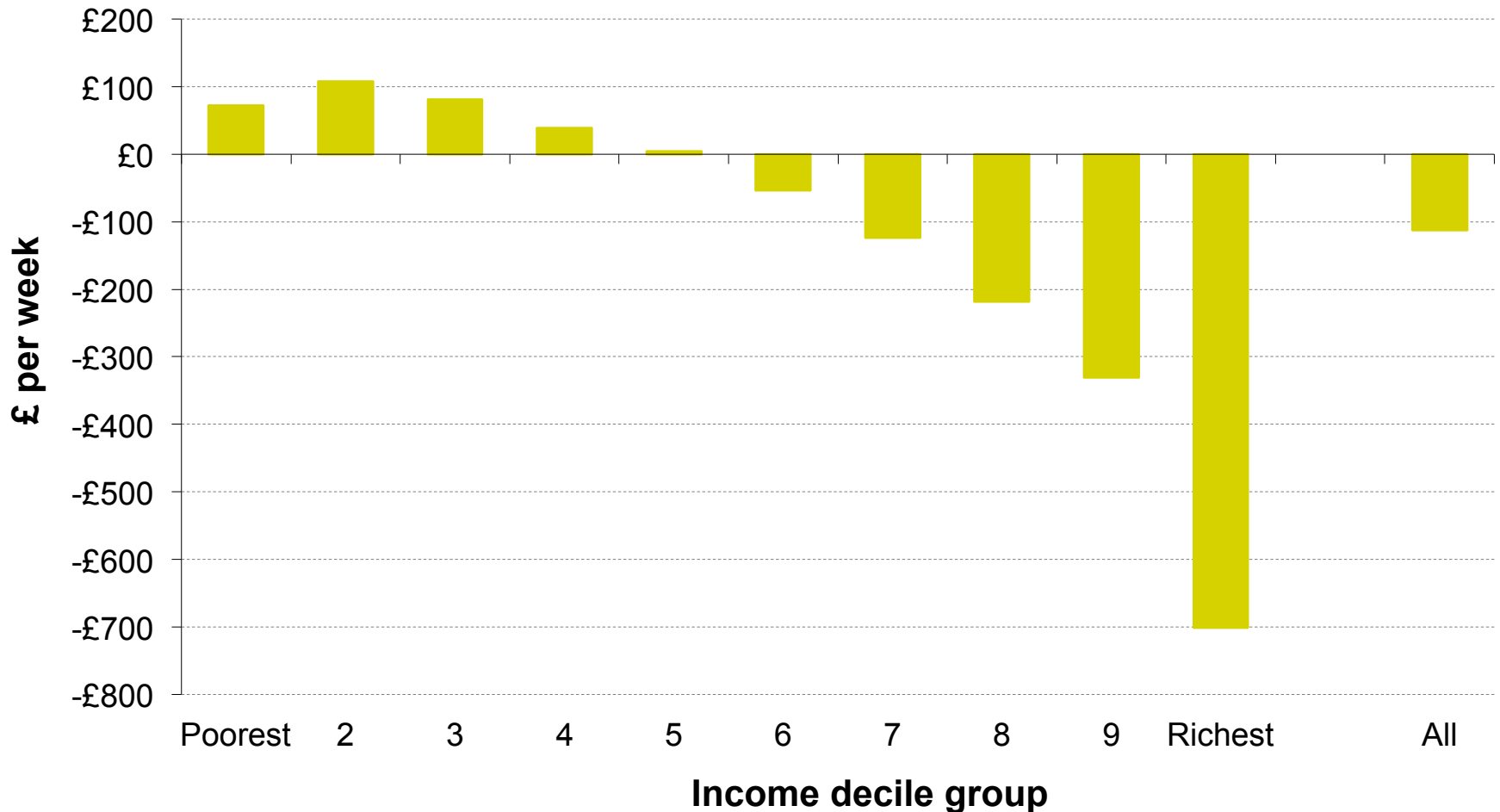
# A Lifetime Perspective on Taxes, Benefits, Inequality and Redistribution

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Nevin Economic Research Institute, Wednesday 13 July 2016

# Key function of tax & benefit system is redistribution

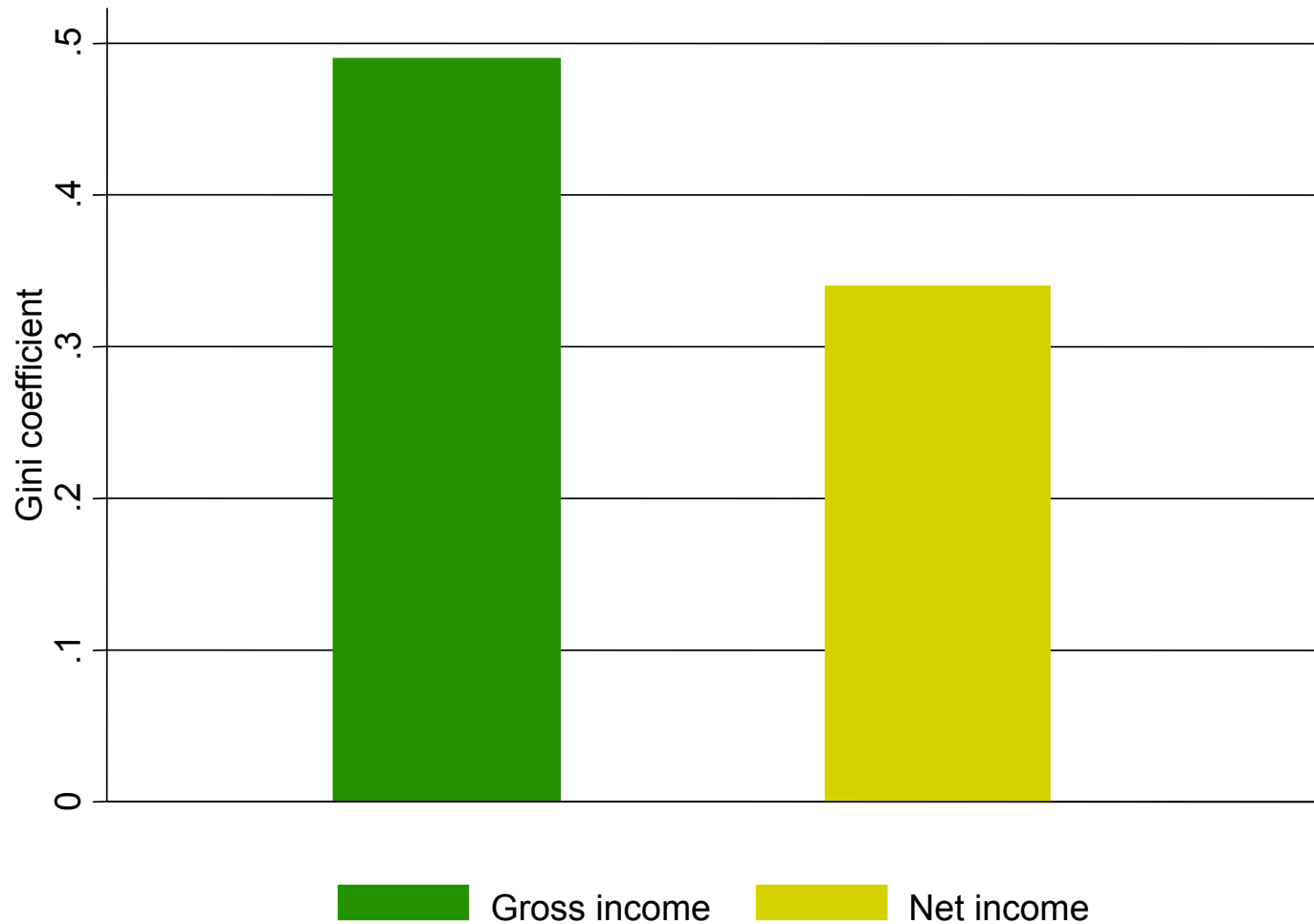
## Net transfers from state by income decile: 2013-14 system



Notes: see Figure 9.1 in IFS Green Budget 2013, Chapter 9.

Source: Authors' calculations using the IFS tax and benefit microsimulation model, TAXBEN, to apply the 2013-14 tax and benefit system to uprated data from the 2010 Living Costs and Food Survey.

... which significantly reduces income inequality



Notes: see Table 3.1 in 'Redistribution from a Lifetime Perspective'. Both bars show cross-section

## But individuals' circumstances vary a lot over time

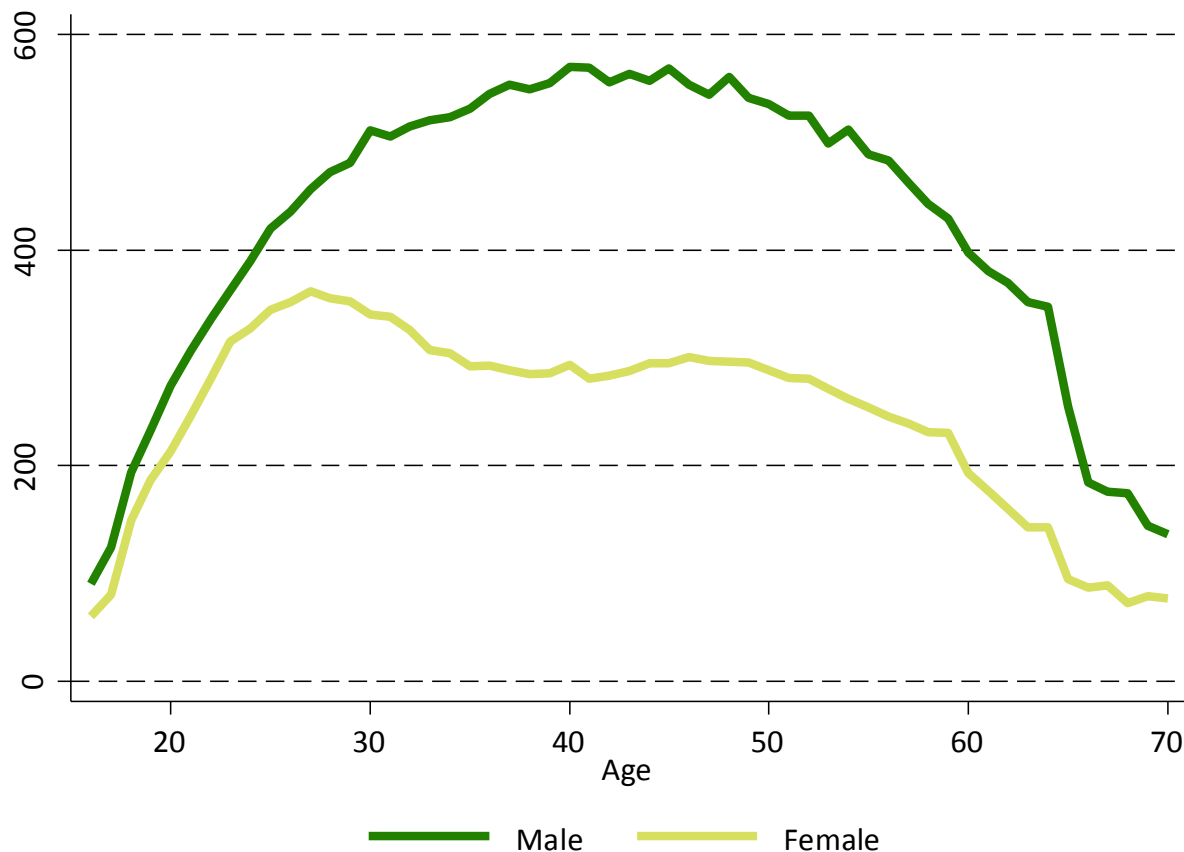
State	Average at point in time	Ever over 18-waves
In a couple	64.4%	87.2%
Married	56.0%	80.7%
Has child aged 18 or under	28.1%	52.3%
Disabled	7.7%	26.8%
Unemployed	4.7%	23.9%

Source: Table 2.2 from <http://www.ifs.org.uk/publications/7130>

Note: Authors' calculations based on BHPS data. Includes all non-dependants aged 16+. The 'average across waves' column includes all waves and is weighted using cross-sectional weights. The 'ever observed' columns are calculated for individuals observed in all waves from wave 1 to the destination wave and weighted using longitudinal weights. The final two lines (earnings quintiles) only include individuals who are employed in all relevant waves.

# ... and earnings display a strong age profile

## Median gross earnings of employees by age & sex



Source: Figure 2.2 from <http://www.ifs.org.uk/publications/7130>

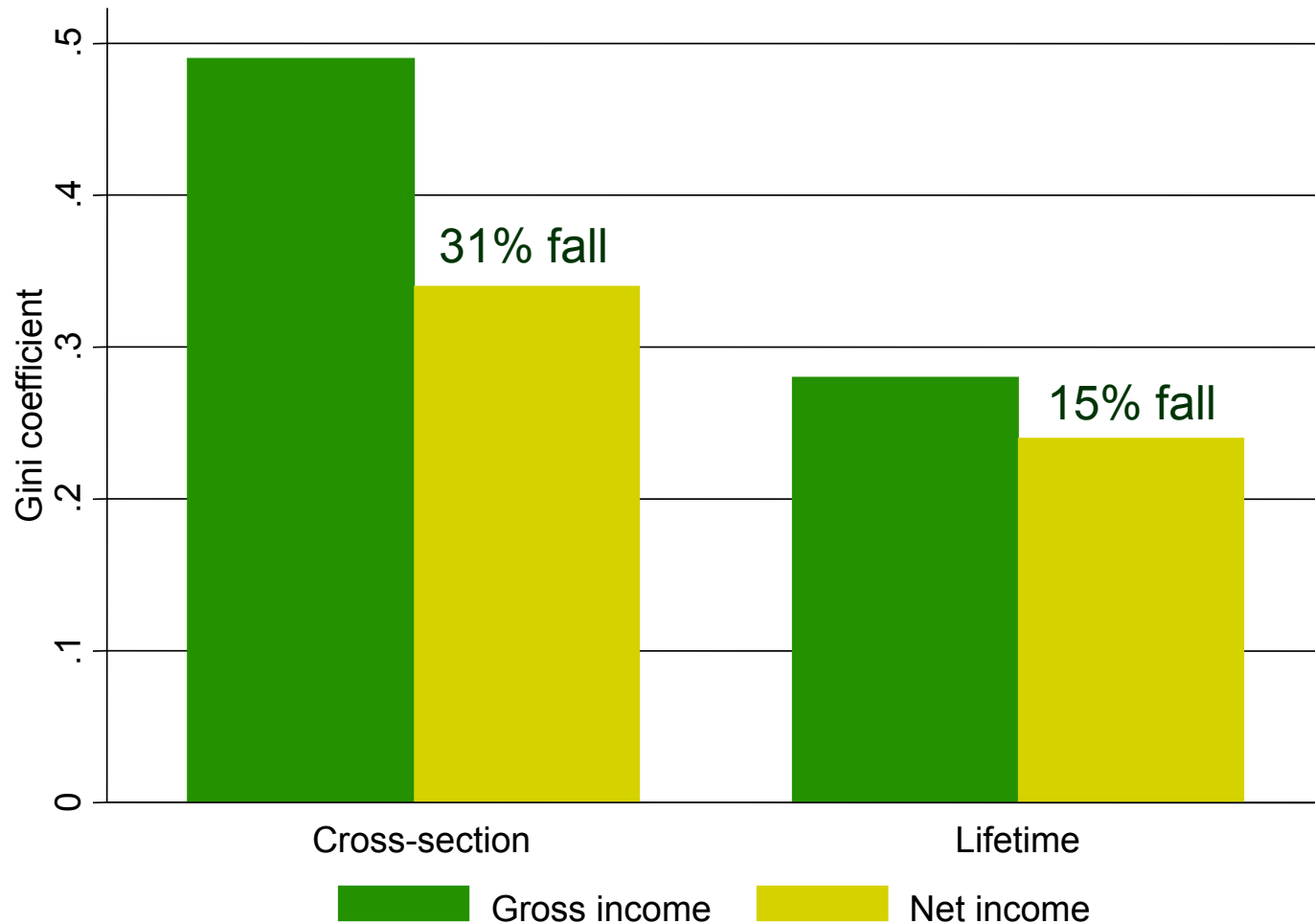
Note: Authors' calculations based on pooled data from all 18 waves of the BHPS. Includes all employed non-dependants aged 16–70. Results are weighted using cross-sectional weights. Gross earnings are before taxes and benefits and are updated to December 2012 prices.

# Suggests might want to take lifetime perspective

- May change our assessment of:
  - Income inequality & the role of the tax and benefit system
  - The progressivity of tax and benefit reforms
  - How policy should be designed to redistribute resources
- Most analysis of the tax & benefit system is based solely on cross-sectional information because of data limitations
  - Levell, Roantree and Shaw (2015) simulated the lifetimes of the baby-boom cohort (1945-54) in order to address some of these questions
  - Used British Household Panel Survey (BHPS) used to model transitions between consecutive years and Living Costs and Food Survey (LCFS) to adjust simulations to match cross-sectional distributions
  - Include most personal taxes and benefits, assuming full take-up; exclude benefits of public service spending

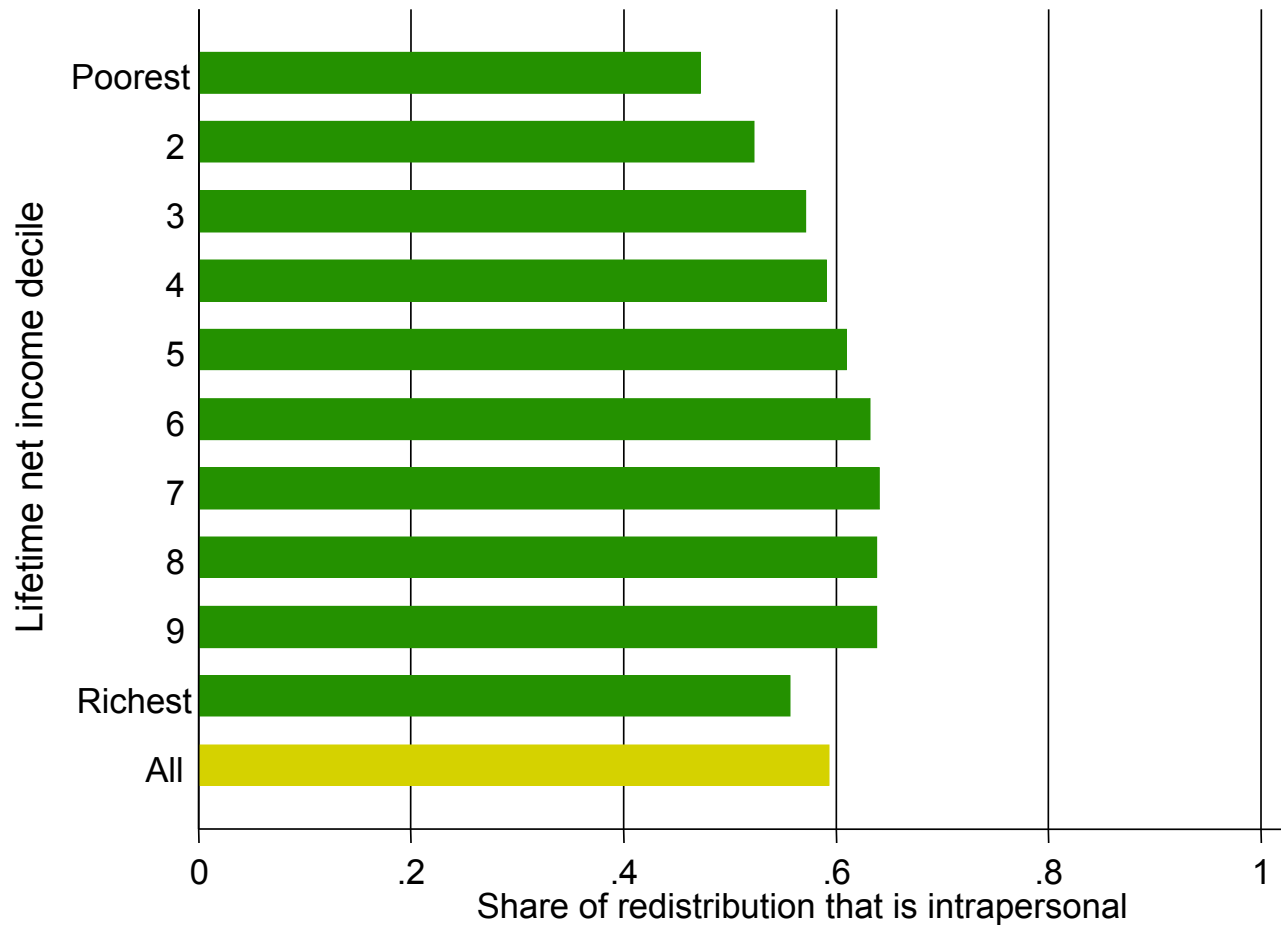
# From a lifetime perspective...

The tax & benefit system does less to reduce inequality between people



# From a lifetime perspective...

... as more of what it does is intrapersonal redistribution

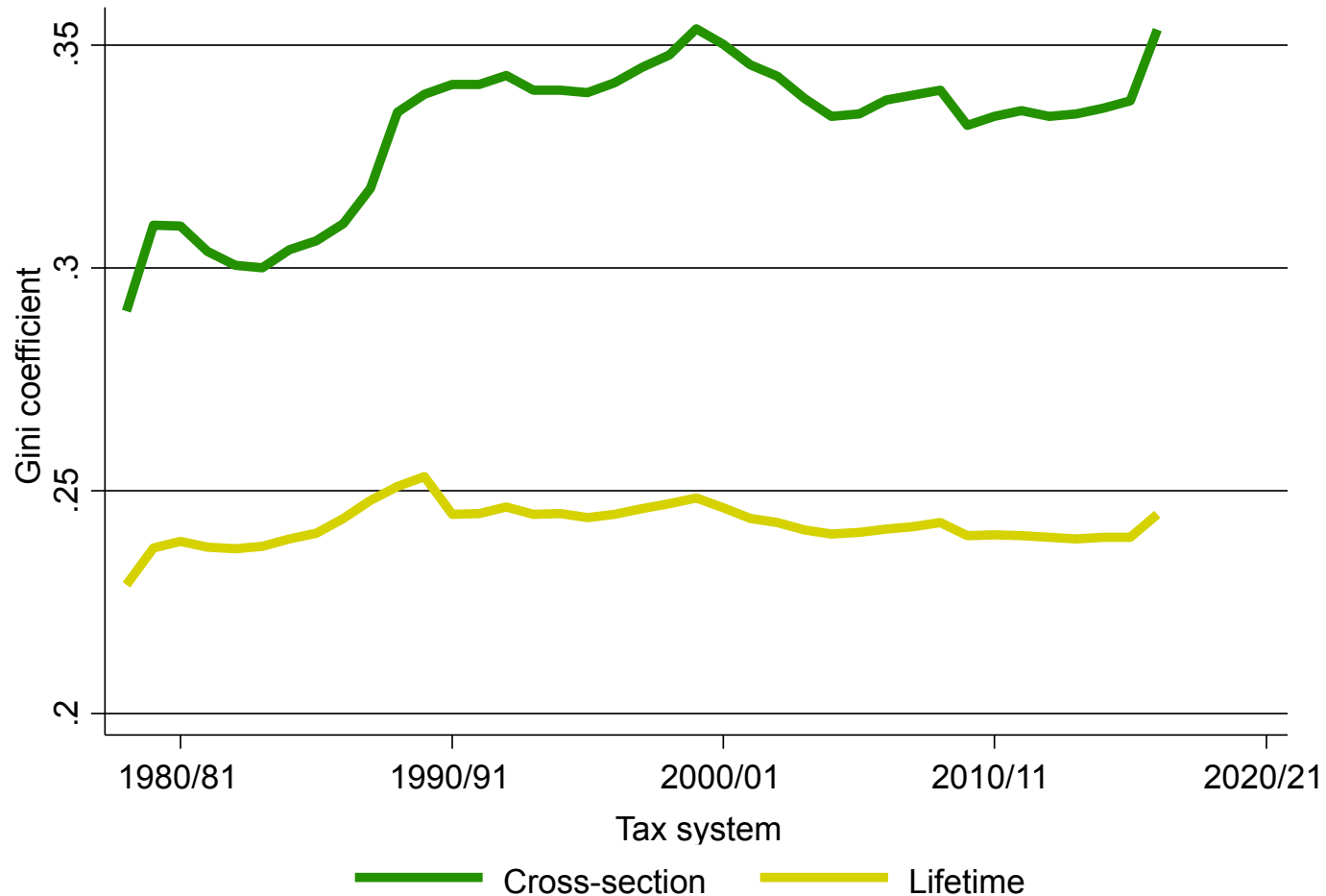


Notes: see Figure 3.7 in 'Redistribution from a Lifetime Perspective'



# From a lifetime perspective...

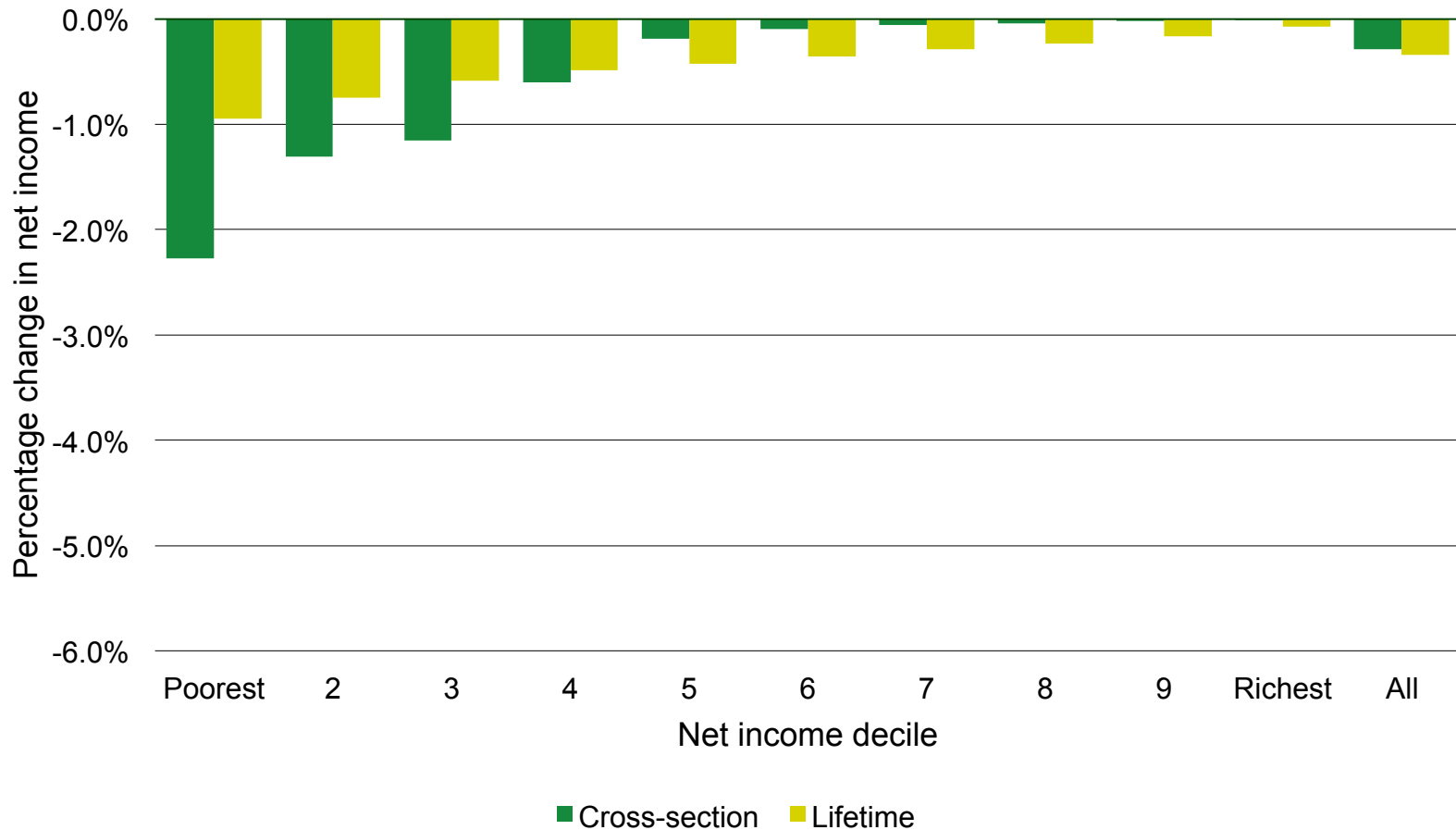
Tax and benefit reforms have a less dramatic effect on inequality



Notes: see Figure 4.1 in 'Redistribution from a Lifetime Perspective'

# From a lifetime perspective...

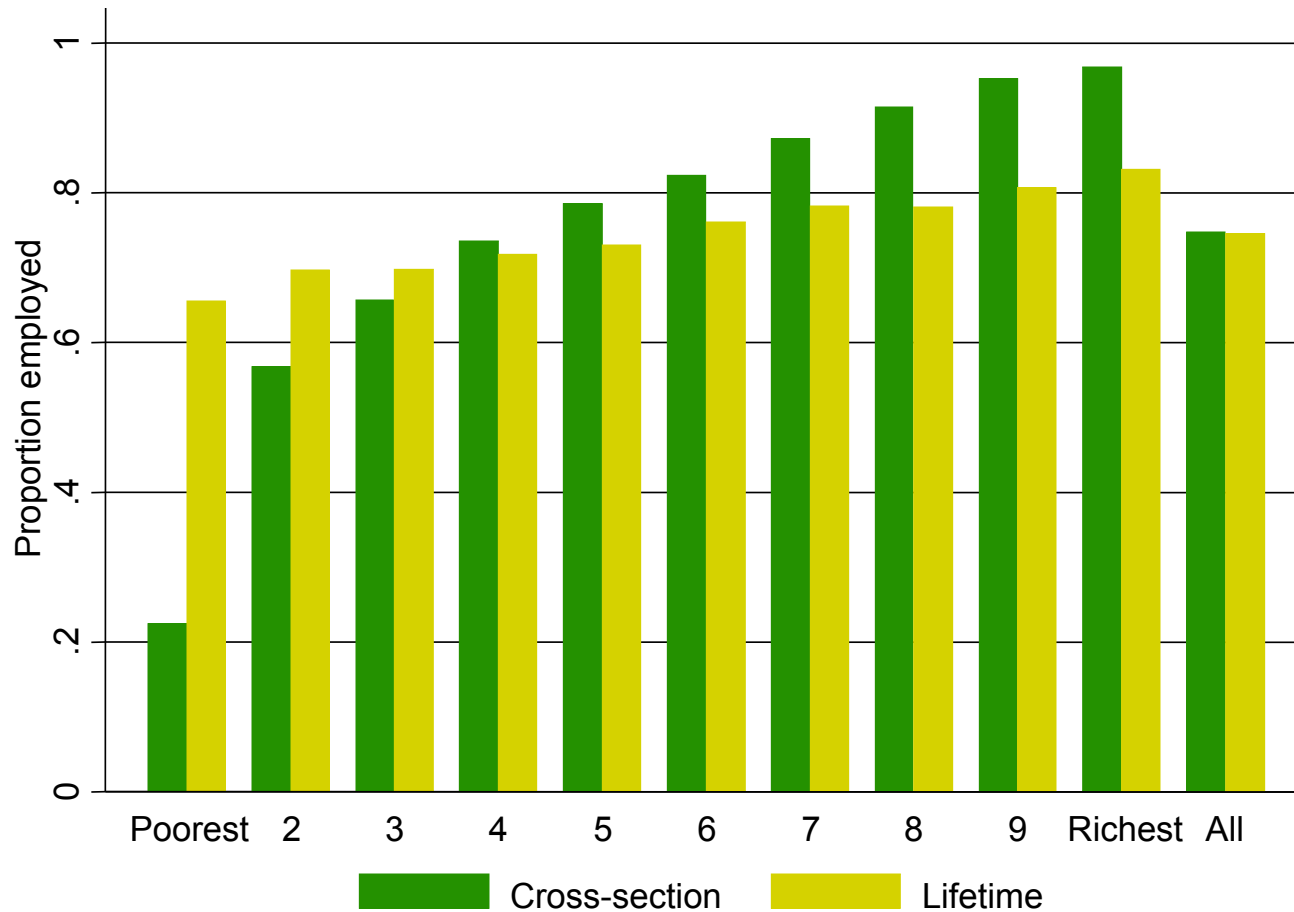
... and smaller distributional consequences: e.g. 4-year benefit freeze



Notes: see Figure 4.4 in 'Redistribution from a Lifetime Perspective'

# From a lifetime perspective...

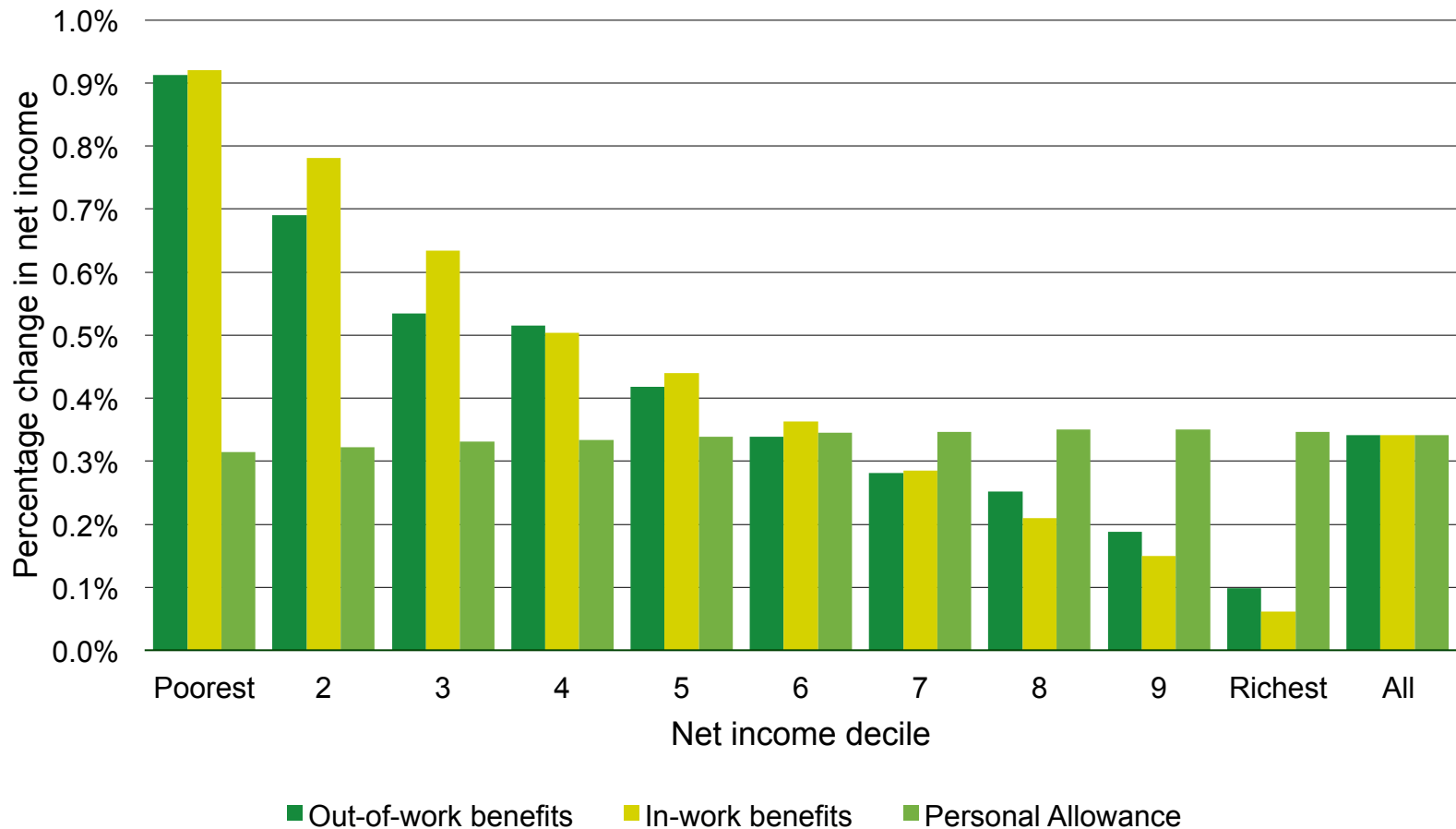
Key factor: even the lifetime poor spend majority of lives in work



Notes: see Figure 2.4 in 'Redistribution from a Lifetime Perspective'

# From a lifetime perspective...

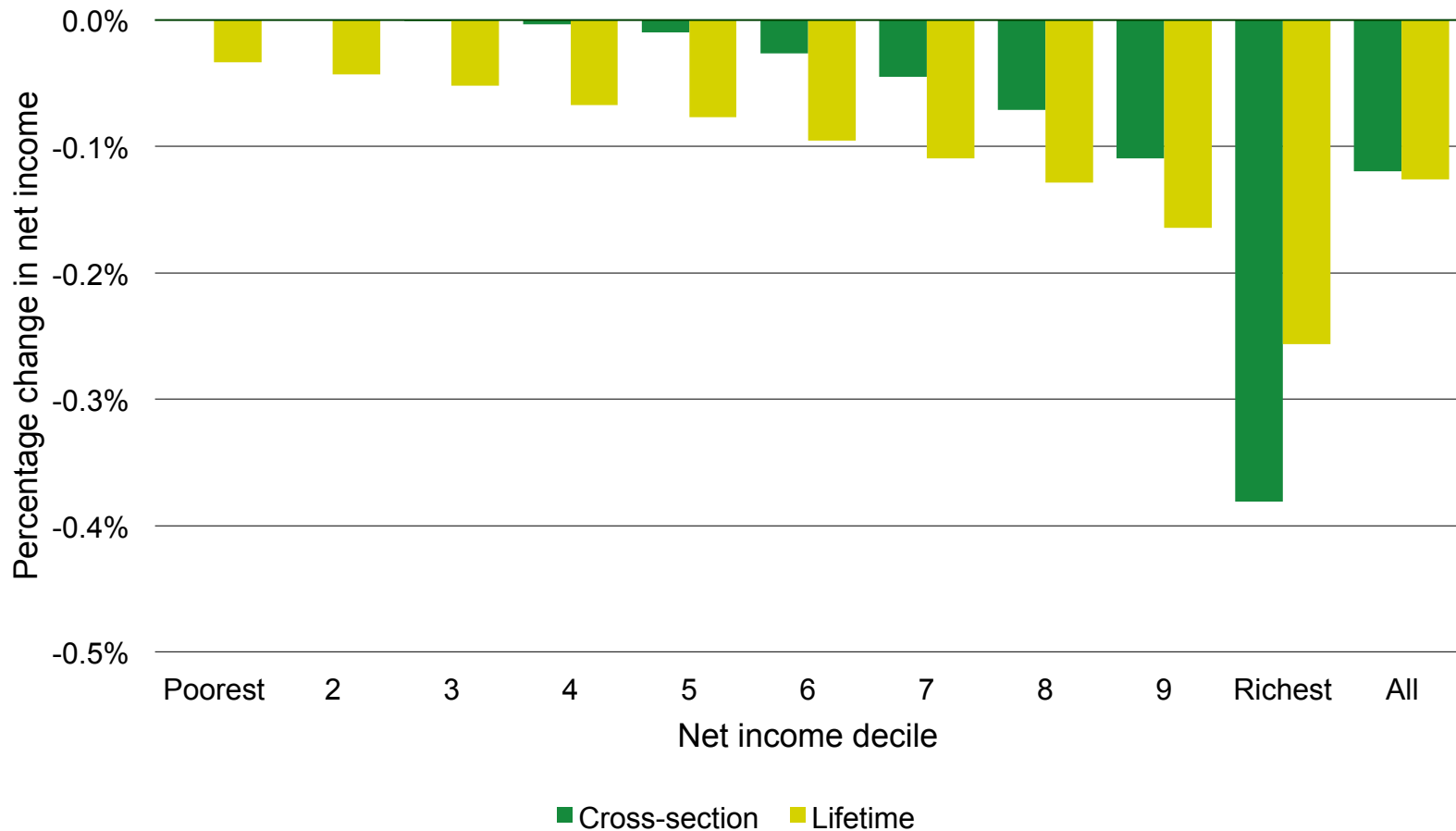
Increases to in-work benefits most effective way of redistributing to poor



Notes: see Figure 5.4 in 'Redistribution from a Lifetime Perspective'

# From a lifetime perspective...

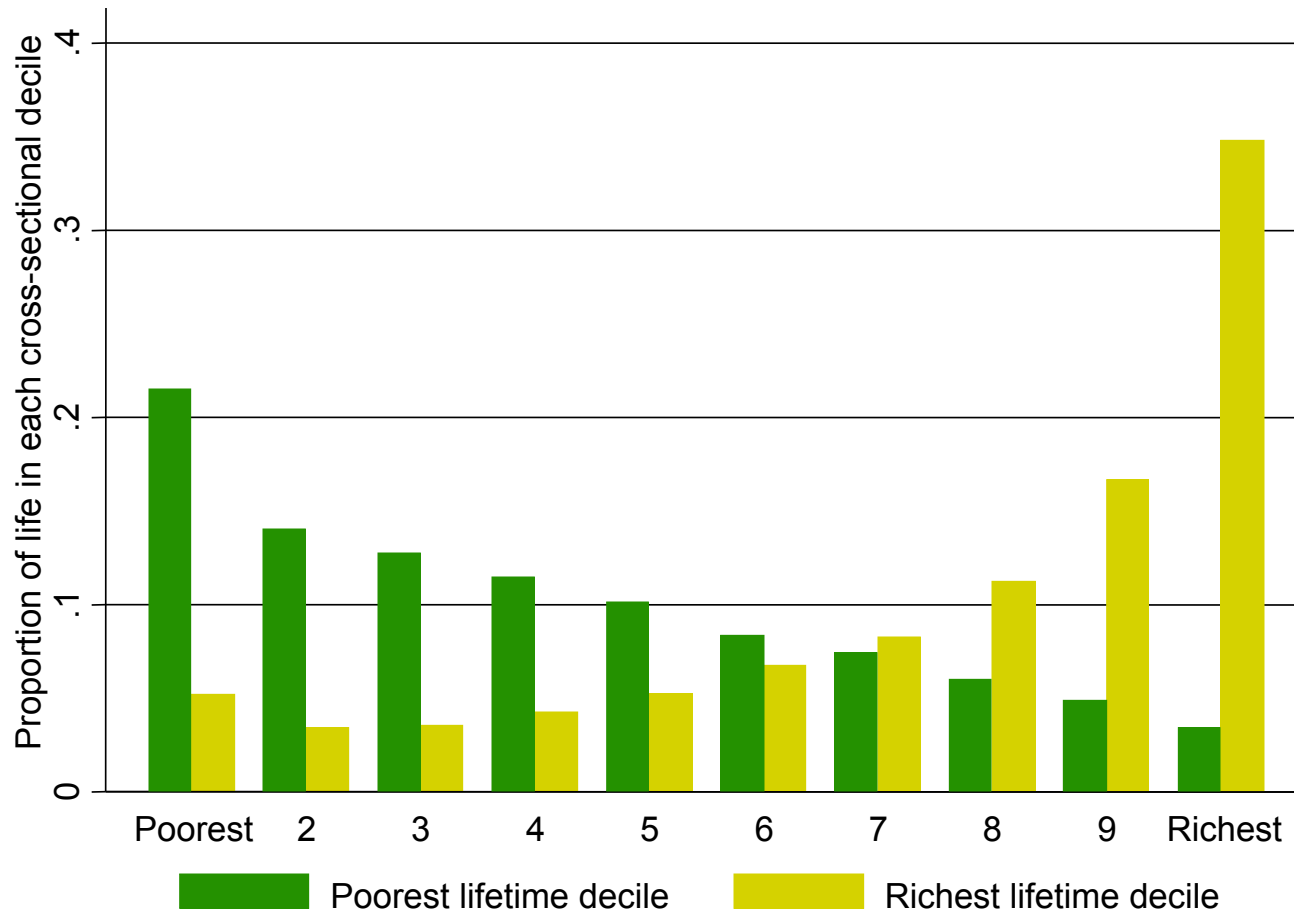
... and increases in higher-rate of income tax for redistributing from rich



Notes: see Figure 5.5 in 'Redistribution from a Lifetime Perspective'

# From a lifetime perspective...

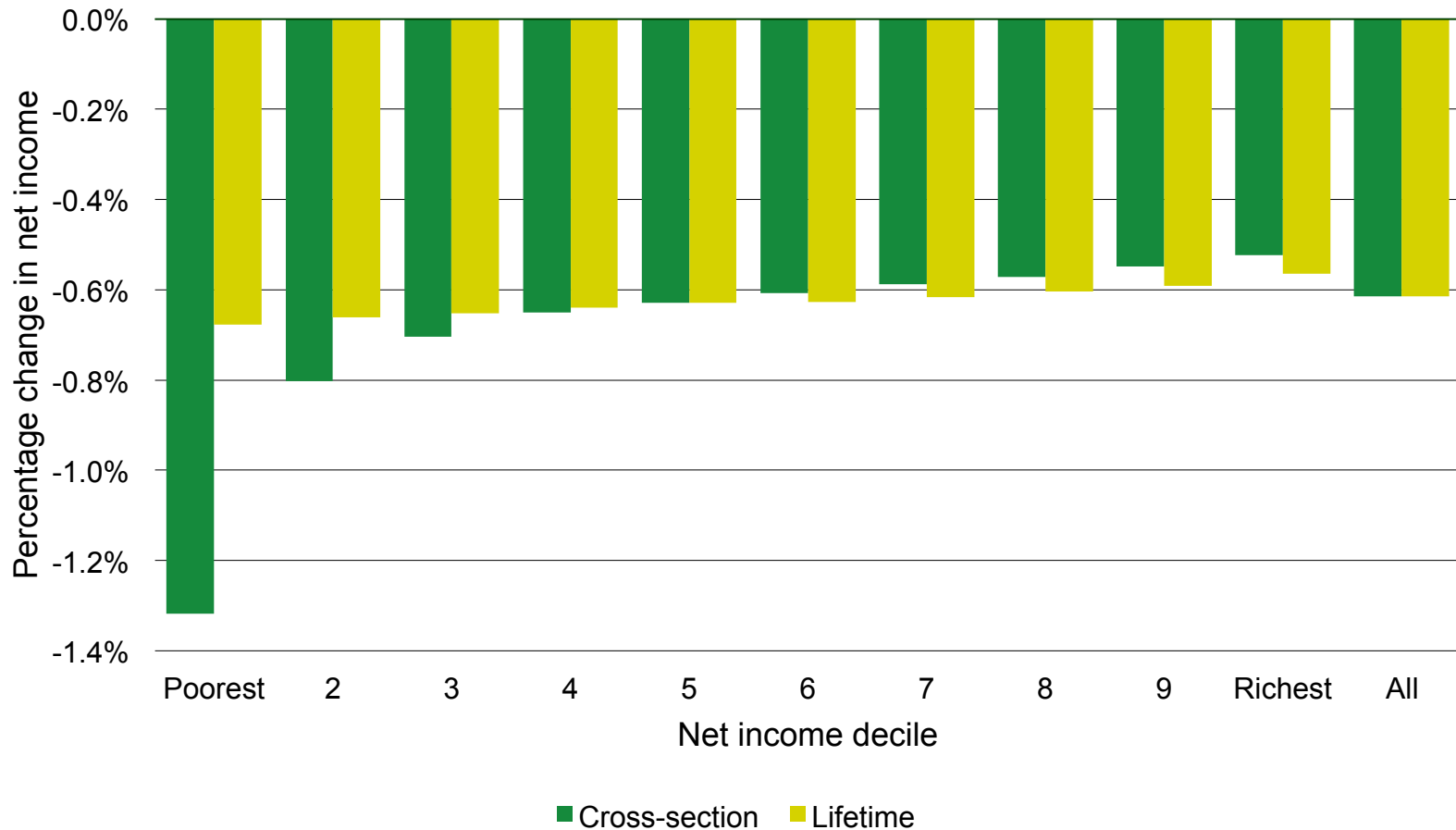
... driven by strong persistence earnings at the top



Notes: see Figure 2.8 in 'Redistribution from a Lifetime Perspective'

# From a lifetime perspective...

Increases in the main rate of VAT are close to neutral



Notes: see Figure 5.1 in 'Redistribution from a Lifetime Perspective'

# What implications does this all have for policy?

1. Policymakers should be clearer about their objectives: trying to alleviate short-run hardship or redistribute lifetime resources?
2. “Working” and “non-working” families is not a useful distinction
3. Policymakers looking to reduce inequality or transfer resources to the lifetime poor might favour doing so through in-work benefits
4. The potential exists to achieve what the existing tax & benefit system does more efficiently





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