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Personal taxes and benefits

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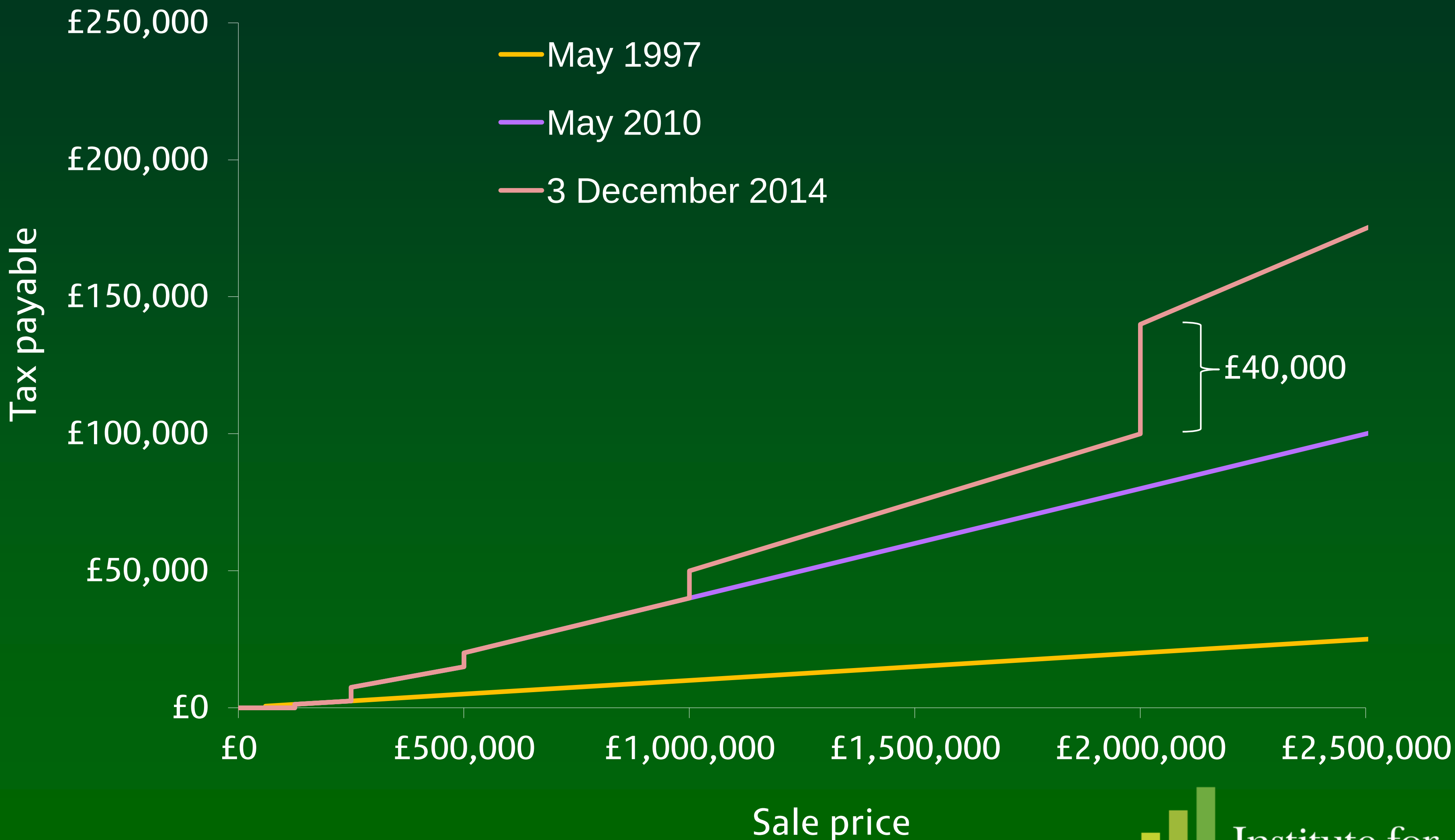
E·S·R·C ECONOMIC & SOCIAL RESEARCH COUNCIL

Stamp duty land tax on housing transactions



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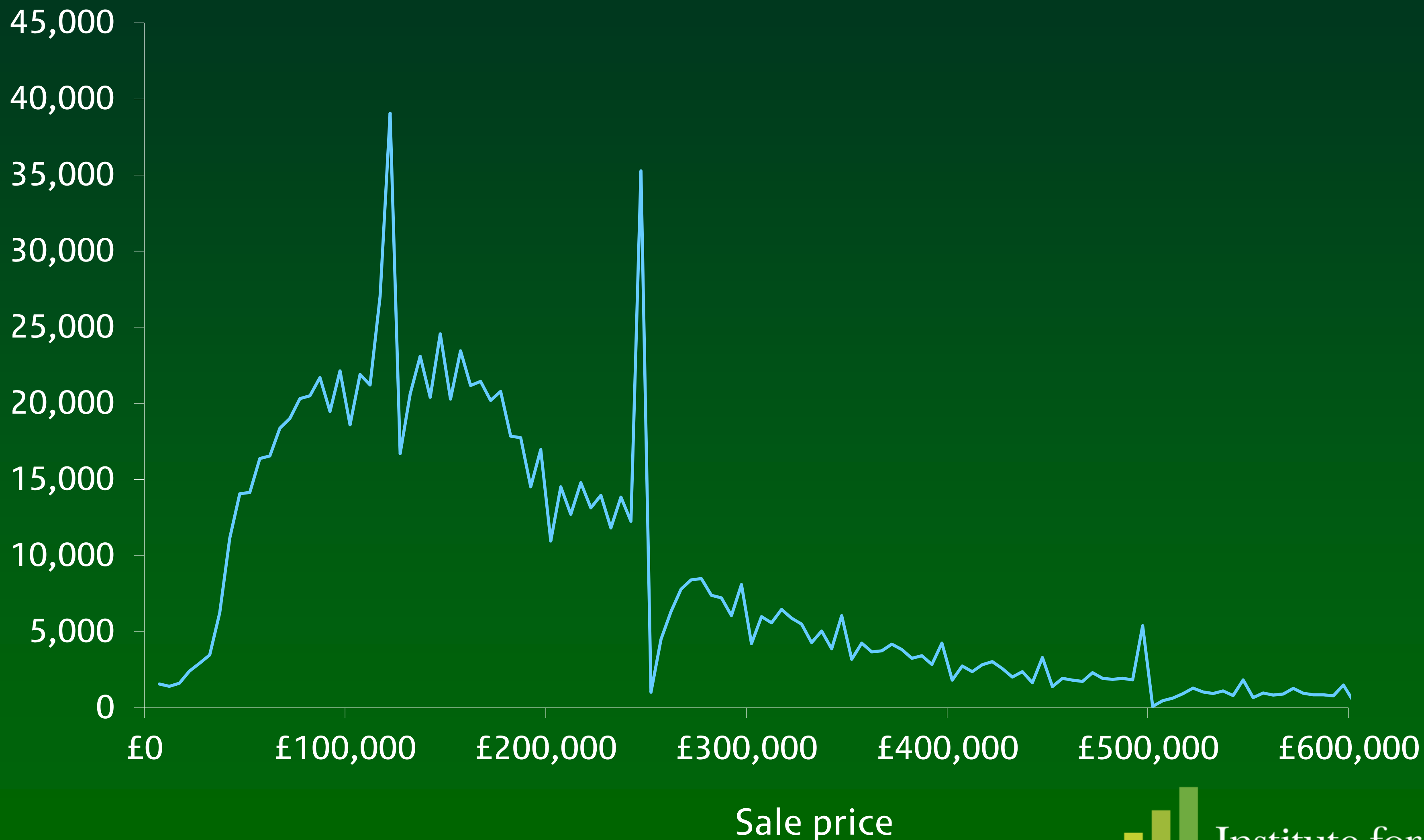
Number of housing transactions by value, 2013-14



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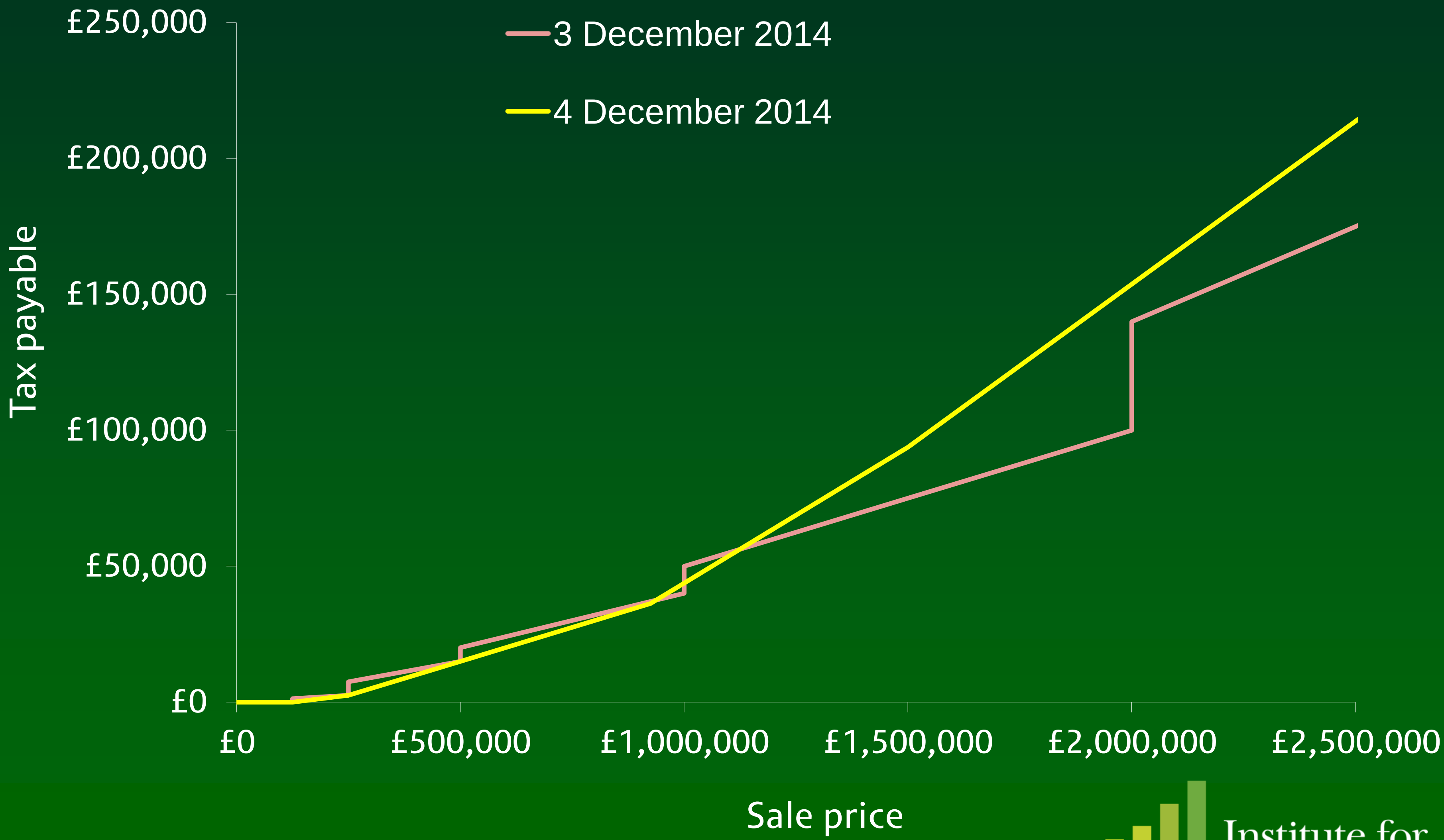
Stamp duty land tax on housing transactions



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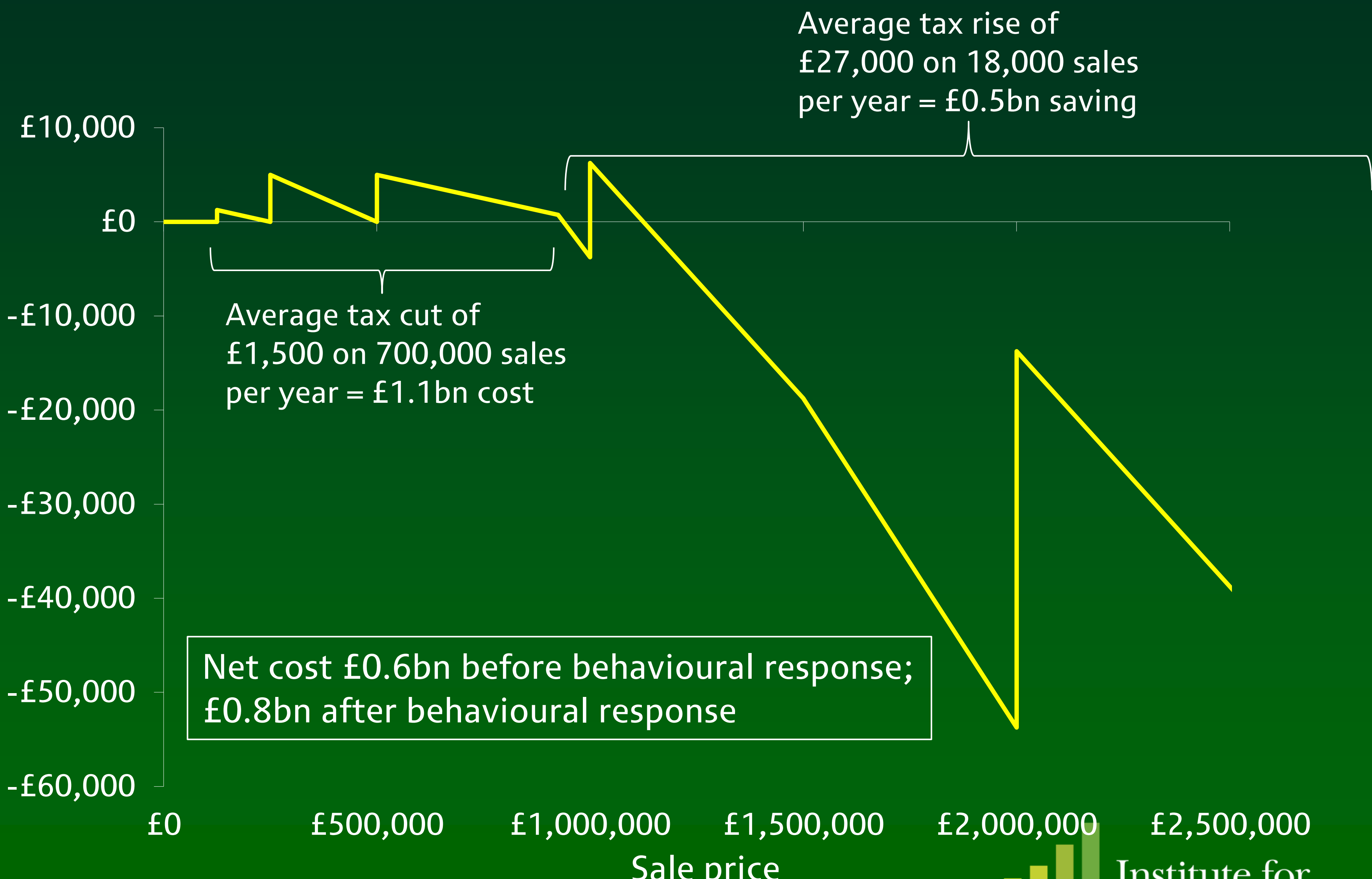
Gains from yesterday's SDLT announcement



Note: average tax cut/rise figures approximate as based on number of transactions in 2013-14 and policy costings for 2015-16 to 2017-18

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Revenue from SDLT on residential property

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A different kind of mansion tax

- Yesterday's announcement meant a big tax rise on high-value houses: how does it compare to Labour and Lib Dem 'mansion tax' proposals?
- Don't yet have full details of Labour and Lib Dem proposals
- Labour has said tax would be £3,000 per year on £2-3m properties
  - For yesterday's announcement to be a bigger tax increase:
    - A £2m property would have to change hands every 4½ years
    - A £3m property would have to change hands every 21 years
- But note that most of the £1.2bn Labour wants to raise would come from much higher charges on properties >£3m
  - Don't know how high, so can't compare with yesterday's announcement

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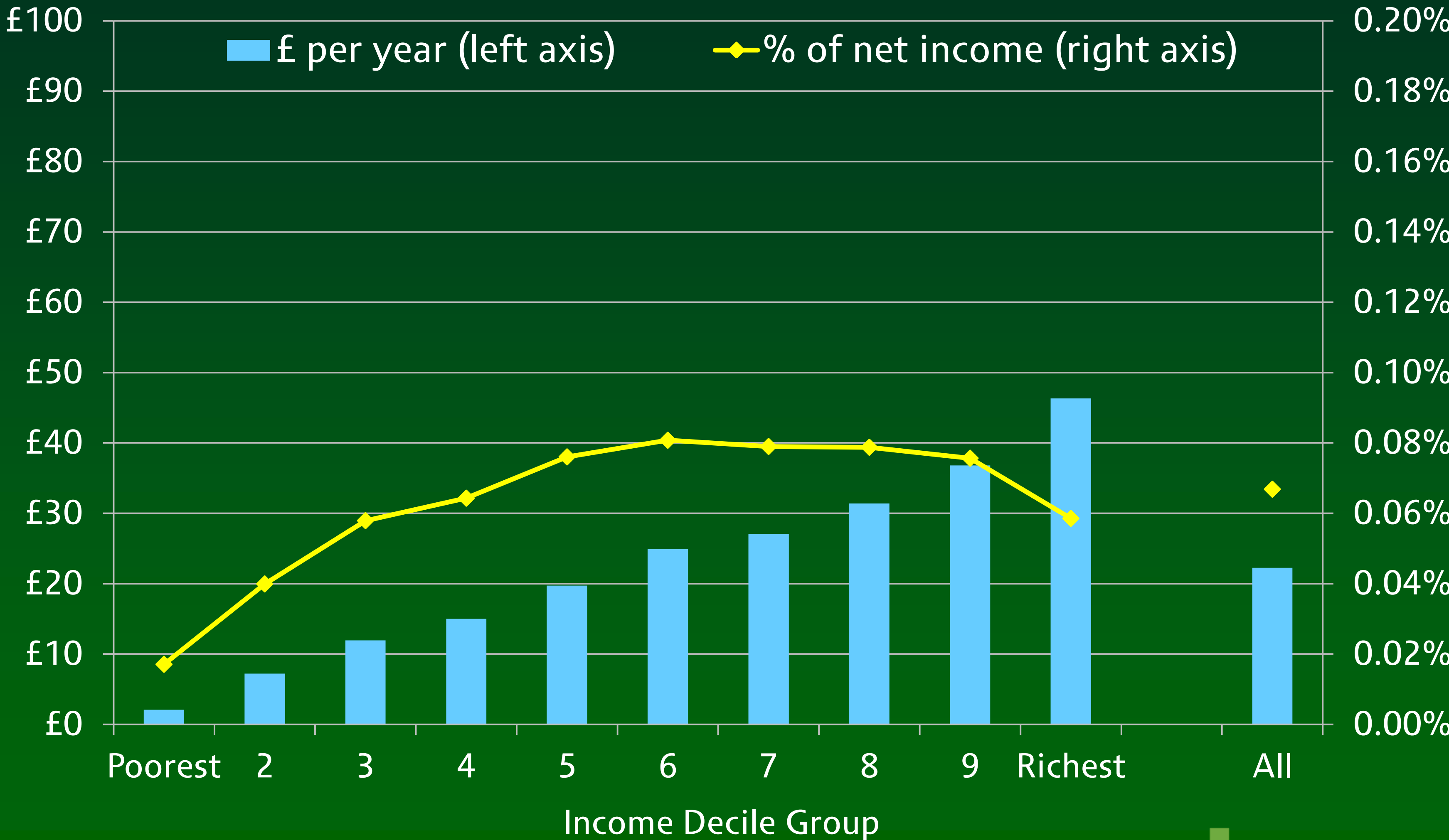
Evaluating the SDLT reform

- Gains and losses will mostly be felt by properties' current owners
  - Property prices rise/fall to reflect change in expected future SDLT
- Move away from a 'slab' structure is a clear improvement
- But why only for residential property?
  - All the arguments for reform apply to non-residential property too
- SDLT still fundamentally flawed: shouldn't tax transactions at all
  - Why impose heavier tax on properties that change hands more often?
  - Assets should be held by the people who value them most
  - Reduced labour mobility one symptom of this more fundamental problem
  - ➢ SDLT should be replaced with better-designed property taxes
- A very bad tax transformed into a bad tax

A £10,600 income tax allowance in 2015-16

- Personal allowance and higher-rate threshold will be £100 higher than previously announced
  - Costs £640 million per year
  - Basic-rate taxpayers gain £20 a year
  - Higher-rate taxpayers with incomes <£121,000 gain £30 a year

Yesterday's personal allowance change



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A £10,600 income tax allowance in 2015-16

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  - Costs £640 million per year
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- Overall, changes to personal allowance and higher-rate threshold announced/implemented by the coalition will, in 2015–16:
  - Cost £11.5bn/£7.7bn
  - Make basic-rate taxpayers £593/£567 a year better off
  - Make higher-rate taxpayers £38 a year better off / £471 a year worse off

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Some bequeathed pensions will never be subject to income tax

- Pension contributions tax-relieved in exchange for income tax on the future pension income
- Autumn Statement confirmed tax cut for DC pensions bequeathed:
  - If die before age 75 then pot bequeathed will be completely free of tax (was only previously true if pension had not been touched)
  - If die after 75 with an unannuitised DC pension then pot bequeathed will be taxed at recipient's marginal income tax rate when withdrawn
- Never subjecting this income to income tax is astonishingly generous
  - and why be more generous to heirs of those who die before age 75?

Universal credit

- Further delays to roll-out, plus OBR now assuming revised plans won’t be delivered on time
  – Saves £915m in 2017-18 but costs £395m in 2019-20
- Confirmation that childcare element to rise from 70% to 85% of eligible childcare spending in April 2016
  – Costs £310m in 2019-20
- Work allowances frozen for additional year (until April 2018)
  – Saves £145m in 2019-20
  – Reduces the amount people can earn before UC withdrawn
  – Third time announced real cuts to work allowances before UC even rolled out: a 6% real-terms cut in total

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Postgraduate student loans

- Variant of a 2011 proposal from CentreForum
- Loans of up to £10,000 available for under-30s doing taught Masters courses from September 2016
  - Government figures imply 84,000 eligible students in first year
- To consult on repayment details, but govt illustrates one possibility…
- Interest charged at RPI inflation + 3%
  - Undergraduate loans charged that much only when earning >£41,000
- Repayments at 9% of income above £21,000
  - On top of 9% undergraduate loan repayments, making 18% in total
  - + basic-rate income tax & employee NICs = 50% marginal rate
  - + higher-rate income tax & employee NICs = 60% marginal rate
- Outstanding debt presumably written off after 30 years
  - As per undergraduate loans

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Postgraduate student loans

- We expect only 57% of value of undergraduate loans will be repaid
- With postgraduate loans, government expects around 100%, i.e. no long-run Exchequer cost
  - Smaller loans, so more likely to be paid off within 30 years
  - Higher interest rate
  - Those with postgraduate degrees earn more
- Not 100% for each individual: still some redistribution
  - Lowest earners will see much of their loan written off
  - Higher-earning majority will pay back in full, with heavy interest
- Given high interest rate, will students who can get by without the cash and who expect high future earnings prefer not to borrow?
  - Government expects only 47,000 students (56% of those eligible) to take up loans in 2016

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Summary

- Sensible improvement to stamp duty, but remains badly designed tax
- Small additional increase in income tax personal allowance
- Astonishingly generous treatment of some bequeathed pension pots
- More delays and changes to universal credit
- Welcome introduction of postgraduate student loans
  - But devil may be in the detail

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