

## **Average losses for pensioner households from tax and benefit changes to be introduced between January 2011 and April 2014**

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This note provides details on the average losses among pensioner households from tax and benefit reforms that will be introduced between January 2011 and April 2014, including the increases in the standard VAT rate and fuel duty that came into effect at the beginning of January 2011. This analysis is consistent with the analysis of the distributional impact of tax and benefit changes presented at the IFS's post-Spending Review briefing on 21<sup>st</sup> October 2010

(<http://www.ifs.org.uk/publications/5313>). This showed that pensioner households are relatively less affected compared to other groups in the population from these tax and benefit changes.

Note that this analysis excludes pensioners living in households with other non-pensioners, such as those living with adult children, and pensioners not living in private households, such as those in care homes.

The key measures affecting pensioners announced by the previous government were:

- A reduction in Winter Fuel Payments from £250 to £200 for those aged 60 to 79 and from £400 to £300 for those aged 80 or over from 2011–12;
- Increases in fuel, alcohol and tobacco duties; and
- A 1.5% real-terms cut in the value of some disability benefits in April 2011.

Those announced in the June 2010 Budget were:

- An increase in the standard rate of VAT to 20%;
- A triple-lock for the Basic State Pension, so that it will rise by the highest of earnings growth, CPI inflation or 2.5% each April from 2011. The Office for Budget Responsibility's forecasts suggest that this will mean more generous increases in the Basic State Pension in April 2012 and April 2013 than would otherwise have been the case;
- An increase in the Pension Credit guarantee in April 2011; and
- Using the CPI rather than the RPI to uprate most disability benefits from April 2011.

Those announced in the Spending Review were:

- A four-year nominal freeze in the maximum amount of Pension Credit Savings Credit that can be claimed from April 2011; and
- A 10% cut in expenditure on Council Tax Benefit from April 2013. We assume that Local Authorities implement this by means-testing the benefit more aggressively.

### **Results**

Table 1 below shows the average annual cash loss among pensioners from tax and benefit changes to be introduced by 2012–13, separated into those resulting from changes announced by the previous government, those announced in the June 2010 Budget and those announced in the

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<sup>1</sup> This research was funded by the ESRC Centre for the Microeconomic Analysis of Public Policy at IFS (RES-544-28-5001).

Spending Review. Within the June Budget changes, the loss resulting from the increase in the standard VAT rate to 20% is separated out. These losses are also presented as a percentage of net income, and we also include the overall average loss among all households for comparison.

**Table 1: Average losses among pensioners from tax and benefit reforms to be introduced between 2010–11 and 2012–13**

Measures:	Average annual cash loss among pensioners	Loss as a percentage of net income
Announced by previous government	-£152	-0.81%
June 2010 Budget	-£182	-0.97%
- Of which, VAT	-£212	-1.13%
Spending Review	-£57	-0.30%
Overall	-£391	-2.08%
Memo: overall average loss among all households	-£836	-2.74%

Over half of the loss to pensioners from the tax and benefit reforms that are due to be introduced between 2010–11 and 2012–13 result from the increase in VAT that occurred on 4<sup>th</sup> January 2011. Other reforms announced in the June 2010 Budget will result in a small gain on average for pensioners, in particular the triple-lock for the Basic State Pension and the increase in the Pension Credit guarantee in April 2011.

Table 2 extends this analysis to also include those tax and benefit changes to be introduced between 2012–13 and 2014–15.

**Table 2: Average losses among pensioners from tax and benefit reforms to be introduced between 2010–11 and 2014–15**

Measures:	Average annual cash loss among pensioners	Loss as a percentage of net income
Announced by previous government	-£163	-0.87%
June 2010 Budget	-£304	-1.61%
- Of which, VAT	-£212	-1.13%
Spending Review	-£63	-0.33%
Overall	-£529	-2.81%
Memo: overall average loss among all households	-£1,166	-3.82%

We can see that only the June Budget contained significant measures affecting pensioners that come into force in April 2013 or later. The decision to uprate most disability benefits in line with the CPI rather than the RPI is the main factor responsible for this.