The Budget and household finances

Tom Waters
The Budget and household finances

- Policies to support household incomes
  - Furlough
  - Self-employed income support scheme (SEISS)
  - Universal Credit

- Tax changes
  - Income tax threshold freezes
  - Freezes to rates/thresholds of other taxes
Furlough scheme extension

The Budget and household finances

Source: HMRC CJRS statistics February 2021, Forecasts from OBR EFO March 2021

OBR predicts rise in unemployment of 300k after furlough ends

In July pay 10% of salary (+ NICs & pension)

In August and Sept pay 20% of salary (+NICs & pension)
SEISS extension

- Fifth SEISS payment will cover May-September
  - Concentrated on those reporting higher falls in turnover during pandemic
SEISS extension

SEISS payment for a self-employed person with pre-pandemic profits of £8,000 per year

Cost of fifth SEISS payment from May to September similar to extension of furlough scheme over same period (£6-7bn)

Reported change in turnover from 2019-20 to 2020-21

Note: Self-employed are eligible if they report profits being “significantly” affected by the pandemic. £8,000 was median profits of self-employed sole traders in 2015-16 (Cribb, Miller and Pope 2020).
SEISS extension

- Fifth SEISS payment will cover May-September
  - Concentrated on those reporting higher falls in turnover during pandemic
- HMRC will now use 2019-20 tax returns to include more people in SEISS for fourth & fifth payment
  - Most notably around 200k “newly self employed”
  - Plus some who are now eligible based on 2019-20 tax return
  - Still choosing to not include around 1.3 million people earning over £50k or <50% income from self-employment
Government extended the UC uplift of £20 per week for another 6 months. Now due to expire at the end of September.

- Also extended uplift for those on Working Tax Credit, paid in lump sum of £500 (for administrative reasons)
- Together affect 6m families – almost a quarter of working age
- 2.5 million on out-of-work pre-UC benefits not seen increases in benefits during pandemic (mostly out of work for health reasons)
Characteristics of UC claimants

- **In employment**: 39% (2.3m adults)
- **Aged 16-34**: 47% (2.8m adults)
- **Renters**: 57% (2.8m families)
- **Single, without children**: 57% (2.8m families)
- **Lone parent**: 25% (1.2m families)

Government extended the UC uplift of £20 per week for another 6 months. Now due to expire at the end of September.

- Also extended uplift for those on Working Tax Credit, paid in lump sum of £500 (for administrative reasons)
- 2.5 million on out-of-work pre-UC benefits not seen increases in benefits during pandemic (mostly out of work for health reasons)

No gradual removal of uplift. Expiry at end of Sept means:

- Monthly income fall by £80 for 4½ million low-income families
- Further extensions would not be a complete surprise
Change in earnings
Real average earnings, change since 2008Q1

Note: Inflation measured using CPI index. IFS calculations using OBR’s EFO March 2021
Dotted line is forecast.
Income tax thresholds frozen

- Personal allowance and higher rate threshold frozen for four years
- Implying a 7% real cut
**Income tax thresholds frozen**

**Personal allowance in real terms (2021-22 prices)**

- **£0**
- **£2,000**
- **£4,000**
- **£6,000**
- **£8,000**
- **£10,000**
- **£12,000**
- **£14,000**


- **60% increase** = **£25bn+ p.a.**

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Income tax thresholds frozen

Personal allowance in real terms (2021-22 prices)

- 66% of adults pay income tax
- 62% of adults pay income tax
- 60% of adults pay income tax
Income tax thresholds frozen

Personal allowance in real terms (2021-22 prices)

- 66% of adults pay income tax
- 62% of adults pay income tax
- 60% of adults pay income tax
- 63% of adults pay income tax
Income tax thresholds frozen

Higher rate threshold in real terms (2021-22 prices)

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<th>Year</th>
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<td>1990-91</td>
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Income tax thresholds frozen

Higher rate threshold in real terms (2021-22 prices)

Higher rate threshold, in real terms (2021-22 prices)

- 3.8% of adults pay higher rate tax
- 7.9% of adults pay higher rate tax
- 8.7% of adults pay higher rate tax
Income tax thresholds frozen

Higher rate threshold in real terms (2021-22 prices)

- Income tax thresholds frozen
- Higher rate threshold in real terms (2021-22 prices)

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3.8% of adults pay higher rate tax
7.9% of adults pay higher rate tax
8.7% of adults pay higher rate tax
11% of adults pay higher rate tax
Income tax thresholds frozen

Higher rate threshold in real terms (2021-22 prices)

3.8% of adults pay higher rate tax

Share of taxpayers paying higher rate:
1990-91 – 1 in 15
2025-26 – 1 in 6

11% of adults pay higher rate tax
Income tax thresholds frozen
Higher rate threshold in real terms (2021-22 prices)

Higher rate threshold, in real terms (2021-22 prices)

Additional rate threshold (£150k+) already frozen
Number paying: 236,000 in 2010-11 to 481,000 in 2020-21

11% of adults pay higher rate tax

3.8% of adults pay higher rate tax

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Distributional impact of freezing PA & HRT

Change in net income (£ per year, left axis)

Change (%) right axis)

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Distributional impact of freezing PA & HRT vs. raising rates

Freezing thresholds
Distributional impact of freezing PA & HRT vs. raising rates

- **Freezing thresholds**: The blue line shows a steady decrease in change in net income (%), starting from the Poorest and ending at the Richest, indicating a consistent negative impact on all income groups.
- **Raising rates**: The yellow line starts higher compared to freezing thresholds and shows a less pronounced decrease, indicating a lesser negative impact on net income.

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Many other taxes/thresholds frozen

Some are giveaways… (£1bn)

- Fuel duty – 11th year, now costing £12bn p.a.
  - But, again, promise to increase next year!
- Alcohol duties

Others are takeaways… (£1bn)

- Pensions lifetime allowance – since 2008 changes to taxation of pensions contributions at least every other year
- Inheritance tax thresholds
- Capital gains tax allowance
- VAT registration threshold
Conclusion

- Extensions to support schemes makes sense when much of the economy locked down, as does phasing out SEISS & furlough
  - Though many self-emp remain ineligible
  - UC uplift extended but with no gradual removal – important to communicate plans to claimants – but govt may (again) struggle to fulfil commitment to end it

- Real cuts to personal allowance represent big reversal – but only undoes a fraction of increases in the past decade
  - More and more getting pulled into higher rate tax