GLAECONOMICS

Pre fiscal announcement interim analysis on possible personal tax changes

September 2022

Key results

- Abolishing the social care levy, and introducing a 1p cut in income tax are both regressive measures as higher earners benefit more
- Someone earning £150,000 a year, the point at which the highest 45% rate of income tax starts, would gain from these changes by over £1,950 a year
- An employee with low earnings working in London at the tenth percentile point in 2021, that is £11,000 a year, would gain nothing from these changes

Assumptions

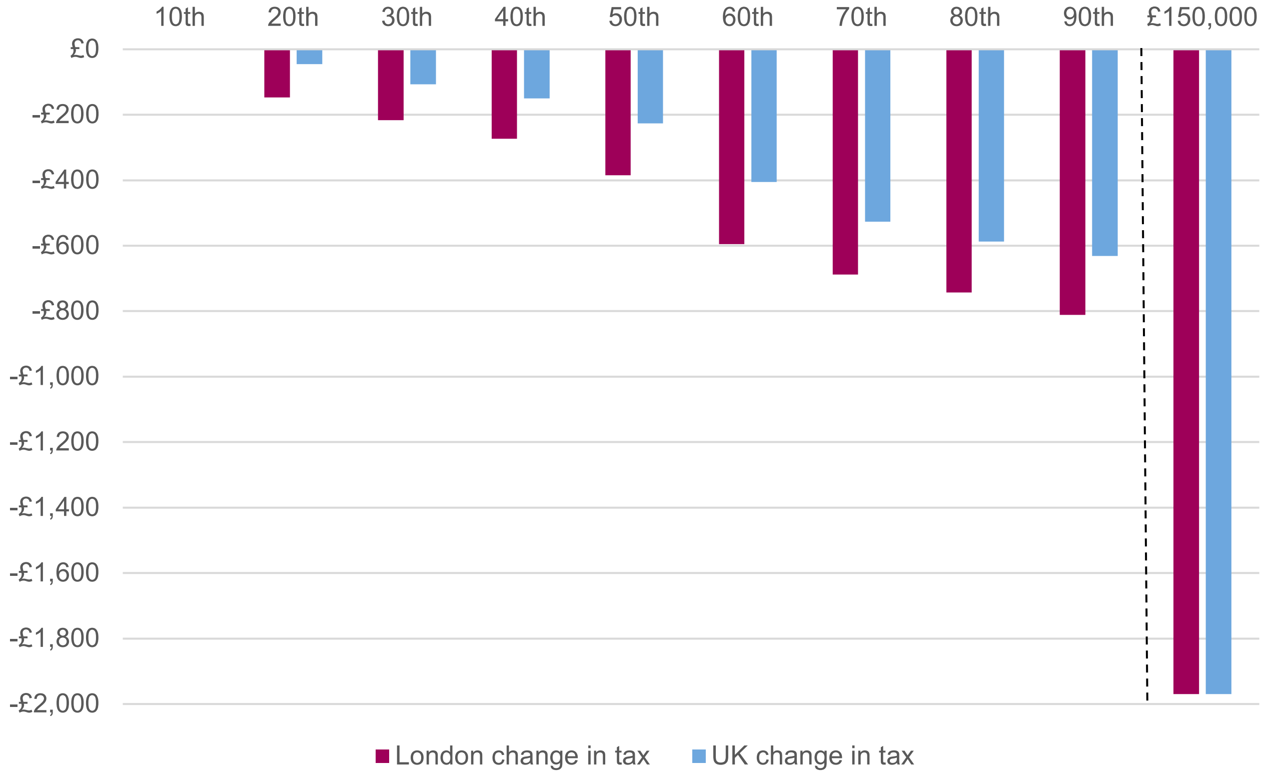
For the tax year 2022-23 the Government has frozen the rates and thresholds for income tax, and for national insurance increased the primary threshold, the point at which the tax is paid, and introduced the social care levy. This levy increased national insurance rates by 1.25%. The modelling of individual earnings in this note assumes that the Government reduces income tax by 1% and abolishes the social care levy.

Analysis

The income tax change would benefit higher earners by £250 a year, as it only applies within a particular earnings band, while the national insurance change has no limit as there is no upper limit to the payment of this tax. Someone earning £150,000 a year, the point at which the highest 45% rate of income tax starts, would gain by £1,700 a year. In total, this person would gain from these changes by over £1,950 a year. In contrast, someone with low earnings in London at the tenth decile point in 2021, that is £11,000 a year, would gain nothing from these changes. That is, these measures are regressive distributing gains increasingly to the better off.

Figures 1 and 2 provide more information on the impact of the changes by employee earnings decile in 2021 for London and the UK, and for annual earnings of £150,000.

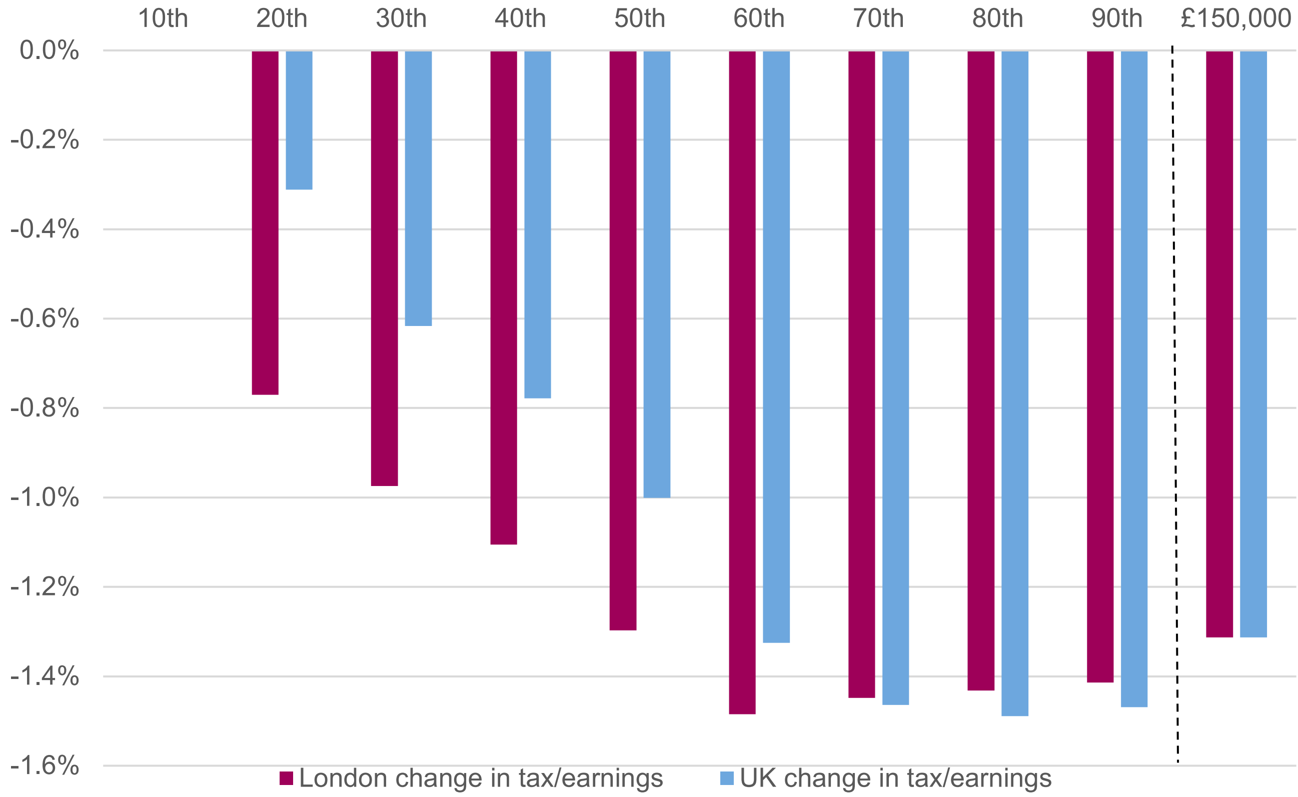
Figure 1: Change in tax paid of proposed measures by London and UK employee earnings by decile percentile point[1] and at highest tax threshold



Source: ONS ASHE and GLA Economics calculations

[1] Note the earnings distribution in London is not the same as for the UK. The two charts in this note are for particular percentile points on these distributions, except for the £150k earnings bars. Earnings at each of these points is higher in London, and so taxes raised are higher.

Figure 2: Change in tax to earnings ratio of proposed measures by London and UK earnings decile and at highest tax threshold



Source: ONS ASHE and GLA Economics calculations

This analysis does not provide an assessment of changes to individual and household income. For those on lower incomes an increase in net earnings will be offset, partly or fully, by lower benefit income from Universal Credit and other income-related benefits. That is, the full earnings distributional effects of these changes will be larger than the analysis presented here. Second, labour market participation varies across households. A household may have one or two earners, and there may be a mix of high and low earners in a household. So, it is not possible to infer the impacts of these proposed tax changes for household income distribution from this analysis.

For more information please contact GLA Economics
Greater London Authority, City Hall, Kamal Chunchie Way, London E16 1ZE
Tel: 02079834000 e-mail: glaeconomics@london.gov.uk