

## Press Release

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### Rich to lose most from new measures in April, as 750,000 brought into higher rate tax

As the governor of the Bank of England predicts stagnant real earnings for some time to come, households will be hit by a further average £200 a year loss from tax increases and benefit cuts due in April. In addition there will be big changes in marginal tax rates for some. Around 750,000 more people will become higher rate taxpayers as a result of a reduction in the level of income at which the higher rate starts to bite. This reduction accompanies the increase of £1,000 in the tax allowance which itself will take 500,000 other people out of tax altogether.

These are among the findings of new analysis done at the IFS in preparation for the launch of our annual IFS *Green Budget* on Wednesday February 2.

Losses from new measures in April will hit higher income households hardest. They will lose from the NI increase, will not gain from the increased income tax allowance and a minority will lose from the restriction in the amount that can be contributed tax free to a pension. The richest tenth<sup>1</sup> will on average lose 3% of their net income from changes in April compared with an average 1% for the population as a whole. Those with the highest incomes have already been hit by the new 50p rate on incomes above £150,000 and the loss of the personal tax allowance for all those with incomes over £100,000.

At the other end of the spectrum those dependent on means-tested benefits will be hit by the decision to raise benefits in line with the Consumer Prices Index (3.1%) as against the higher Retail Prices Index or Rossi Index (4.6% and 4.8% respectively)<sup>2</sup>.

In addition to a complex pattern of winners and losers there will be some big changes in the marginal tax (and tax credit withdrawal) rates faced by many. An extra 750,000 higher rate taxpayers will be created. One little noticed reform will also see up to 175,000 working age individuals, with an annual income around £40,000, facing an increase in their effective marginal tax from just over 30% to more than 70%. This is caused by a reduction in the income at which the family element of child tax credit starts to be withdrawn, and a very sharp increase in the rate at which it is withdrawn.

James Browne, a Senior Research Economist at the IFS and the chapter's author said "Further reductions in household income are inevitable as government policies aimed at helping to reduce government borrowing from its post second world war high are introduced. The set of the changes coming in April is complex and the pattern of gains and losses reflects this. Perhaps less remarked upon are the changes in marginal tax rates. While taking 500,000 out of tax altogether, the way that the government has increased the personal allowance to ensure that higher rate taxpayers don't gain will

<sup>1</sup> The richest tenth includes single people without children earning more than £40,000 and single-earner couples with 2 children earning more than £100,000.

<sup>2</sup> These are September figures, which are the ones used to determine benefit uprating

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increase the number of higher rate taxpayers by 750,000. We calculate that a further 850,000 would be brought into this higher rate bracket by 2014-15 if the government reaches its ambition of a £10,000 allowance in the same way”.

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Notes to Editors:

1. Chapter 12 of the IFS Green Budget 2011 entitled ‘The effects of tax and benefit reforms to be introduced in April 2011’ by James Browne will be released on Monday 31<sup>st</sup> January 2011. For embargoed copies of the report or other queries, contact Bonnie Brimstone at IFS on 020 7291 4800 or [bonnie\\_b@ifs.org.uk](mailto:bonnie_b@ifs.org.uk).
2. The IFS Green Budget 2011 will be launched on the morning of Wednesday 2nd February 2011. Please contact Bonnie Brimstone (020 7291 4800, 07730 667013 or [bonnie\\_b@ifs.org.uk](mailto:bonnie_b@ifs.org.uk)) for details if you would like to register to attend.
3. The analysis presented in this press release takes into account only tax and benefit reforms to be introduced in April 2011. The analysis in the Green Budget chapter also includes the indirect tax changes in January 2011.

The government has announced a large number of tax and benefit reforms to take effect throughout this Parliament. Previous IFS research has analysed the distributional impact of all reforms due to be introduced by April 2012 and April 2014 (see <http://www.ifs.org.uk/publications/5313>). The government has also announced its intention to introduce, from October 2013, a single benefit called Universal Credit that will replace most means-tested benefits and tax credits for those of working age, and previous IFS research has assessed how this might affect household incomes and measures of work incentives, based on details in the November 2010 White Paper (see <http://www.ifs.org.uk/publications/5415>).