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By Antony Seely

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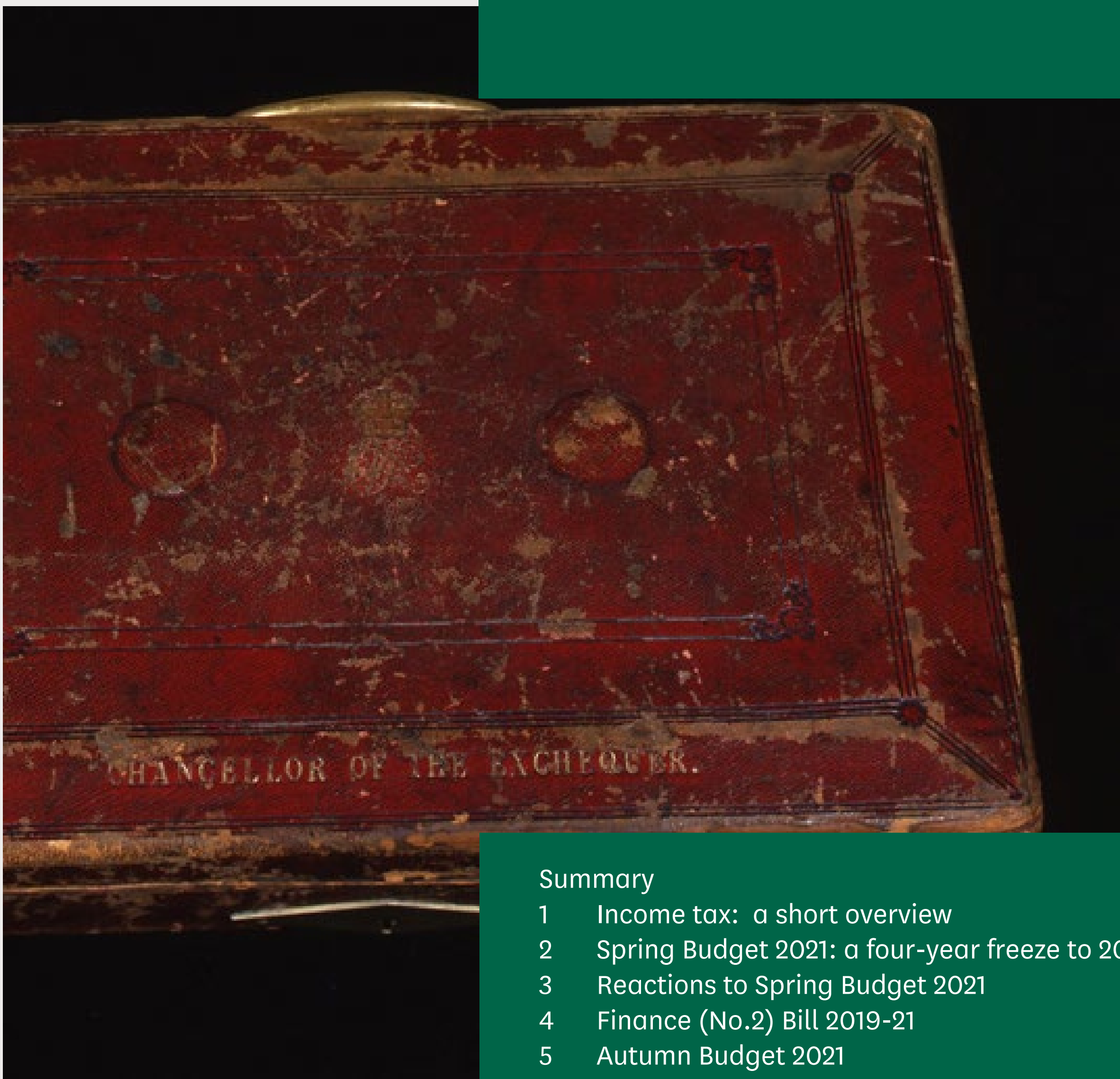
# Spring Budget 2021: personal allowance and higher rate threshold




Summary



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# Summary

## The structure of income tax

Income tax is charged at three rates: the basic rate, the higher rate and the additional rate. For 2022/23 these three rates were 20%, 40% and 45%.

Tax is charged on someone's taxable income at the basic rate up to the basic rate limit. For 2022/23 this was set at £37,700. 'Taxable income' excludes personal allowances, which represent the amount of money someone may receive free of tax. The personal allowance was set at £12,570 for 2022/23. As a result the higher rate threshold – the point at which individuals become liable to pay tax at the 40% higher rate – was £50,270 for 2022/23.

Tax is charged at the 45% additional rate on income above the higher rate threshold. In 2022/23 this was set at £150,000.

HM Revenue & Customs (HMRC) publish details of income tax rates, personal allowances and reliefs for past years, as well as figures for the numbers of individual income taxpayers. In 2022/23 income tax was paid by 34.6 million people. In this year there were 28.2 million basic rate taxpayers, 5.28 million higher rate taxpayers, and 555,000 additional rate taxpayers.

## Receipts from income tax

Income tax provides the biggest source of revenue for the Government.

Income tax raised £250 billion in 2022/23. By comparison National Insurance contributions (NICs) and VAT raised £177 billion, and £162 billion, in the same year. Taken together the three taxes raise just under 60% of UK Government revenues. The Library briefing Tax statistics: an overview provides more details.

In its overview of income tax the Office for Budget Responsibility (OBR) note that the main reason income tax is the biggest source of revenue is that personal income makes up the majority of total national income. There are many sources of personal income on which income tax is levied. These include: labour income (the wages and salaries of employees and earnings of the self-employed), income from investments (including interest on savings and the rental income from buy-to-let properties) and pensions income (from both the state pension and any occupational or private pensions).

HMRC estimate that in 2023/24 the top 10% of income taxpayers will contribute around 60% of income tax receipts. The bottom 50% of income taxpayers (with incomes under £29,000) will contribute about 10% of income tax receipts. These figures only include those paying income tax. They exclude, for instance, anyone whose income is too low to be charged income tax. Section 3 of the Library briefing Tax statistics: an overview presents more information on how the amounts of tax paid varies across individuals or households with different incomes and how taxes affect incomes.

## Spring Budget 2021: freezing the personal allowance and higher rate threshold

In the Spring 2021 Budget the then Chancellor Rishi Sunak announced that the personal allowance and the higher rate threshold would be frozen for the four-year period 2022/23 to 2025/26. At the time this measure was forecast to raise £1.56 billion in 2022/23, rising to £8.18 billion by 2025/26. This freeze was confirmed by the Government in the Autumn Budget presented on 27 October 2021. The rates of income tax for 2022/23 were unchanged.

## Autumn Statement 2022: extending the freeze for two more years

The Chancellor Jeremy Hunt presented Autumn Statement 2022 on 17 November 2022. The Chancellor announced that while income tax rates would be unchanged, the personal allowance and the higher rate threshold would be frozen for an additional two years, up to April 2028. In addition, the higher rate threshold would be cut from £150,000 to £125,140 from 6 April 2023. Mr Hunt confirmed this extended freeze in Autumn Statement 2023, presented on 22 November 2023.

The OBR estimate that the six-year freeze will raise £35.7 billion by 2028/29. The OBR forecast that between 2022/23 and 2028/29 this policy will result in nearly 4 million additional individuals paying income tax, and 3 million more people paying the higher rate. In addition 400,000 more individuals will have moved to the additional rate band. Total receipts from income tax are forecast to rise from £250 billion in 2022/23 to £364 billion in 2028/29.

The impact that inflation has on tax receipts and the number of taxpayers paying more in tax when allowances and thresholds are frozen is known as ‘fiscal drag’. The Library briefing Fiscal drag: an explainer discusses this in more detail.

# 1 Income tax: a short overview

## 1.1 Receipts

Income tax is charged on an individual's income over the course of the tax year (6 April to 5 April the following year). The tax is the UK Government's largest single source of tax revenue. Income tax raised £250 billion in 2022/23. This represents 27% of all tax receipts.[1]

In 2022/23 income tax was paid by 34.6 million people. In this year there were 28.2 basic rate taxpayers, 5.28 million higher rate taxpayers, and 555,000 additional rate taxpayers.[2]

The amount of income tax an individual should pay - their tax liability - is determined by a number of factors including: their level of income, the type of income, the level of allowance to which they are entitled, and where in the UK they are located (as some aspects of income tax have been devolved).[3]

Income tax is collected in a variety of different ways:

- for the majority of employees, it is paid via the pay-as-you-earn (PAYE) system. The amount of tax to be paid is calculated by the employer and transferred directly to HMRC. This is also known as being deducted at source. It means the individual does not need to deal directly with HMRC and that the tax is paid promptly.

- for some taxpayers it is paid via the self-assessment (SA) system. The amount of tax to be paid is calculated by the individual and declared on a tax return sent to HMRC. Tax returns and associated payments are completed after the tax year has ended – in most cases in the following January (so January 2024 for the 2022/23 tax year).

- other smaller sources of income tax include company income tax, non-self-assessment repayments (for example, when employees have paid too much tax through the PAYE system), settlements following an HMRC investigation, and some receipts that cannot be allocated to a particular source.[4]

1 OBR, Economic and Fiscal Outlook, CP 944 (PDF) November 2023 p152 (Table A5: Current receipts)
2 HMRC, National statistics: Number of individual income tax payers (Table 2.1), 29 June 2023
3 "What is income tax?", HMRC, Income Tax receipts : Background documentation, November 2020
4 OBR, Tax by Tax: Income Tax, updated July 2023

HMRC publishes statistics on income tax receipts, and income tax liabilities.[5] It explains the difference between receipts and liabilities and when one would want to use one measure as opposed to the other:

> Liabilities are amounts of tax due on incomes arising in a given tax year, whereas receipts show amounts paid and collected in a given year. Due to lags in the Income Tax payment regimes, particularly for Self Assessment, liabilities and receipts for the same year can differ significantly.
>
> Liabilities and receipts will also differ for other reasons, for example when over or underpayments occur which are repaid or recovered in a later year altering total receipts in that year in a way unrelated to tax liabilities for that year. Moreover the methods for producing Income Tax receipts and liability statistics are different (receipts statistics are based on administrative data sources whereas liability statistics are compiled using a sample of tax return data).
>
> If you require statistics about how much tax is actually paid and collected by HMRC in any given tax year, or information on how the tax has been collected, then the information you require is contained within this publication. The nature of how Income Tax is collected means it is not possible to analyse receipts by taxpayer characteristics, for example, by taxpayer's marginal tax rate, age or gender. However, these analyses are possible through modelling of Income Tax liabilities based on a representative sample of taxpayers using administrative data.
>
> If you require detailed breakdowns of Income Taxpayer numbers and the distribution of tax liabilities across taxpayers and tax bands, then you should look at statistics on tax liabilities. These statistics on tax liabilities also reflect more closely and directly than tax receipts the impact of changes in the tax regime and in the wider economy.[6]

HMRC estimate that in 2022/23 the top 1% of income taxpayers (those with the largest incomes) received 13% of all income and contributed 29% of income tax receipts.[7] The top 10% of income taxpayers (including the top 1%) contributed around 61% of income tax receipts. The bottom 50% of income taxpayers (with incomes under £28,200) contributed just over 9% of income tax receipts. It is important to note that these figures only include those paying income tax. They exclude, for instance, anyone whose income is too low to be charged income tax.

HMRC's estimates were updated in June 2023. The respective shares of income tax liabilities for the top 1%, the top 10% and the bottom 50% of income taxpayers are forecast to be broadly similar in 2023/24 to what they were in 2022/23.[8]

5 HMRC, Statistics for Income Tax receipts, updated November 2020; Income Tax statistics and distributions, updated June 2023

6 "What is the difference between Income Tax receipts and Income Tax liabilities?" in, HMRC, Income Tax receipts : Background documentation, November 2020

7 HMRC, National Statistics: Shares of total income tax liability (Table 2.4), 29 June 2023

8 In 2023/24 it is forecast that the top 1% will account for 28.5% of income tax liabilities; the top 10% will account for 60.3%, and the bottom 50% (who will have incomes up to 29,000) will account for 9.5% of income tax liabilities (as above).

In 1999/00 income tax receipts were not concentrated to quite the same extent as they are now. The top 1% contributed 21% of income tax receipts in 1999/00, with the top 10% contributing 50%. Some of the increased concentration in income tax receipts towards the top of the distribution can be put down to an increase in the share of total income going to those at the top of income distribution.

Policy changes made since the 2007/08 financial crisis recession have also had an effect. For example, the tax-free personal allowance has been withdrawn for those with incomes over £100,000,[9] the threshold at which the higher income tax rate is paid has been lowered,[10] the income tax relief individuals can claim on pension contributions has been reduced, and the tax rate on income over £150,000 has increased.

The Library briefing Tax statistics: an overview provides further distributional analysis of the UK tax system.

## 1.2 Structure

### Tax rates and thresholds (2022/23)

#### Income from earnings, pensions, profits

All 'non-savings' income – income from earnings, pensions, taxable social security benefits, trading profits and income from property – are subject to income tax at the same rates.

For 2022/23 income tax on these categories of income is charged at three rates: the basic rate of 20%, the higher rate of 40% and the additional rate of 45%. All three rates are unchanged from 2021/22.[11]

The 20% basic rate applies to taxable income up to a threshold of £37,700. Taxable income excludes personal allowances, which represent the amount of money someone may receive free of tax. Taking the personal allowance into account, which is set at £12,570 for 2022/23, someone will start to pay the 40% higher rate when their annual income exceeds £50,270.

Taxable income in excess of the threshold is charged at the higher rate of 40%, up to £150,000. Income earned above this threshold is charged tax at 45%. The personal allowance is withdrawn gradually for those with incomes above £100,000, by £1 for every £2 someone's income exceeds this limit. As a result, when someone's income exceeds £150,000, they will not receive any personal allowance, and will pay the 45% additional rate on income above this threshold.

9 The allowance is reduced by £1 for every £2 income is over £100,000.
10 In real terms – that is, after adjusting for inflation.
11 HM Treasury (HMT), Overview of Tax Legislation and Rates, October 2021 (Annex A)

## Table 1 Taxable income rates (income tax), 2021/22 and 2022/23

| 2021/22 | | 2022/23 | |
|---|---|---|---|
| Taxable income | Tax rate | Taxable income | Tax rate |
| £12,571 – £50,270 | 20% | £12,571 – £50,270 | 20% |
| £50,271 - £150,000 | 40% | £50,271 - £150,000 | 40% |
| Over £150,000 | 45% | Over £150,000 | 45% |

Source: GOV.UK, Income Tax rates and Personal Allowances [Online], GOV.UK

Two new allowances which apply to income from property and income from trading were introduced from April 2017. Individuals with property income or trading income below the level of the allowance do not need to declare this income or pay tax on it. Both allowances are set at £1,000 for 2022/23.[12]

### Scottish taxpayers

From 2017/18 the Scottish Government has had the power to set all income tax rates and thresholds to apply to Scottish taxpayers' non-savings and non-dividend income.[13] It does not have the power to set the personal allowance. For 2022/23 the Scottish Government has set five rates of income tax: the starter rate of 19%; the basic rate of 20%; the intermediate rate of 21%; the higher rate of 41%; and the top rate of 46%. It has also set the four thresholds at which these rates take effect. These rates and thresholds are:[14]

## Table 2 Taxable income rates (income tax) for Scotland, 2022/23

| Taxable income | Tax rate |
|---|---|
| £12,571 - £14,732 | 19% |
| £14,733 - £25,688 | 20% |
| £25,689 - £43,662 | 21% |
| £43,663 - £150,000 | 41% |
| Above £150,000 | 46% |

The table assumes someone is in receipt of the UK personal allowance, which is reduced by £1 for every £2 earned over £100,000.

Source: Scottish Government, Scottish Income Tax: 2022-23, 8 March 2022

12 HMRC, Tax-free allowances on property and trading income, May 2019. see also, Low Incomes Tax Reform Group (LITRG), Trading allowance, 6 April 2023; and, Property income, 6 April 2023.

13 Provision to this effect was made by the Scotland Act 2016 (specifically, section 13 of the Act).

14 The Scottish Government publishes details of these rates and thresholds: Scottish Income Tax, ret'd March 2024. See also, LITRG, Scottish income tax: more detail, 6 April 2023.

### Savings and dividend income

For 2022/23 savings income – such as interest – is charged at 0% for income up to £5,000. Above this limit savings income is charged tax at the basic rate of 20%, up to the basic rate limit of £37,700. Savings income above this limit is charged at the 40% higher rate, up to the higher rate limit of £150,000. Savings income above this limit is charged at the 45% additional rate.

Since April 2016 savers have been entitled to claim a Personal Savings Allowance (PSA). This applies a 0% rate for up to £1,000 of savings income for basic rate taxpayers. The allowance applies a 0% rate for up to £500 of savings income for higher rate taxpayers. Additional rate taxpayers are not eligible for the allowance. Historically savings income has been taxed at source by banks and building societies at 20%. Alongside the introduction of the PSA, automatic deduction of tax at source was withdrawn.[15]

For 2022/23 dividend income is charged at 0% for income up to £2,000 – the Dividend Allowance. Above this limit dividend income is charged tax at a basic rate of 8.75%, up to the basic rate limit. Dividend income above this limit is charged at a higher rate of 33.75%, up to the higher rate limit. Dividend income above this limit is charged at an additional rate of 39.35%. All three rates of tax on dividend income are increased by 1.25 percentage points for 2022/23.

In calculating tax liability, dividend and savings income are regarded as the ‘top slice’ of income, with dividends the highest.[16]

## Income tax allowances (2022/23)

### Personal allowance

Every taxpayer resident in the United Kingdom is entitled to claim a personal allowance that can be set against any type of income for tax purposes. For 2022/23 this allowance is £12,570.[17]

Since April 2010 the personal allowance has been withdrawn from individuals whose incomes exceed £100,000. The allowance is reduced by £1 for every £2 above this income limit, until completely withdrawn. This income limit is unchanged for 2022/23.

In May 2010, the Coalition Government announced that over the 2010-15 Parliament it would substantially increase the personal allowance, set at £6,475 for 2010/11, up to £10,000. The allowance was increased each year, to

[15] For more details see, HMRC, Tax on savings interest, ret’d March 2024

[16] See also, LITRG, Tax on savings and investments, 6 April 2023

[17] HMT, Overview of Tax Legislation and Rates, October 2021 (Annex A). see also, LITRG, Tax allowances, 6 April 2023.

reach £10,000 for 2014/15.[18] In the Conservative Government's first Budget after the 2015 General Election, the then Chancellor George Osborne pledged to increase the allowance to £12,500 and the higher rate threshold to £50,000, by the end of the Parliament.[19]

In the 2018 Budget the then Chancellor Philip Hammond confirmed that the personal allowance and higher rate threshold would be set at £12,500 and £50,000 respectively for 2019/20. The then Chancellor went on to state that both would be frozen for 2020/21, and then increased in line with CPI inflation from 2021/22.[20]

In the Spring 2021 Budget the then Chancellor Rishi Sunak announced that the personal allowance would be frozen at £12,570 from April 2022, for the four-year period 2022/23 to 2025/26.[21]

Most income tax thresholds and allowances are increased at the start of every tax year in line with statutory indexation provisions, unless Parliament intervenes (further background is given in the text box below).

### Indexation of Income Tax Allowances and Thresholds

For many years income tax legislation has required the main personal allowances and income tax thresholds to be increased in line with the Retail Prices Index (RPI) unless Parliament determines otherwise. This statutory requirement - the so-called "Rooker-Wise" amendment - was introduced under section 22 of the Finance Act 1977.[22] The amendment was successfully made through the cross-party co-operation of Jeff Rooker, Audrey Wise and Nigel Lawson.  All three argued that without indexation, inflation acted as an unauthorised, unintended and unknown increase in taxation.  By requiring that any real changes in allowances would be voted on, the amendment ensured that changes in the income tax structure would be 'out in the open'. Indeed, for many years following, allowances went up in line with inflation or by more than inflation.[23]

In the 2011 Budget the Coalition Government announced that from April 2012 the default indexation assumption for direct taxes would be the Consumer Price Index (CPI), though RPI would be retained for some allowances and thresholds for the duration of the 2010 Parliament.[24] This approach was amended in the light of three measures: the phased withdrawal of the age-

18 For more details see Commons Library briefing CBP6569, Income tax : increases in the personal allowance since 2010. This was last updated on 15 November 2018.
19 Summer Budget 2015, HC246, (PDF) July 2015 paras 1.130-4
20 Budget 2018, HC1629, (PDF) October 2018 para 3.7
21 Budget 2021, HC 1226, (PDF) March 2021 para 2.74
22 The statutory requirement to uprate allowances and thresholds, is consolidated in sections 57 & 21 of the Income Tax Act 2007, as amended
23 HL Deb 7 January 2010 c121WA
24 Budget 2011, HC 836, (PDF) March 2011 para 1.128. see also, Office of National Statistics, Users and uses of consumer price inflation statistics, October 2016

related allowances for taxpayers from April 2013; the increase in the personal allowance in 'real terms' – by more than inflation – in both 2014/15 and 2015/16; and, the increase in the higher rate threshold by 1% in the first of those years.

Any elements of the direct tax system that were indexed by reference to RPI are now indexed by reference to CPI.[25] The threshold for the additional rate (£150,000), and the income limit for the tapered withdrawal of the personal allowance (£100,000), were not included in these provisions, and have been fixed in monetary value.

When uprating the main allowances and thresholds, the relevant inflation rate is the increase in inflation in the year to September, prior to the start of the following tax year.[26] When allowances and thresholds are increased in line with inflation, they are rounded up to the nearest £10 or £100. For personal allowances, this income limit is £10; for the basic rate limit, it is £100.

### Blind person's allowance

Any person registered as blind is entitled to the blind person's allowance, in addition to their personal allowance. The allowance is set at £2,600 for 2022/23. If someone has insufficient income to make use of the allowance it can be transferred to their spouse or civil partner.[27]

### Marriage allowance

Individuals whose income is insufficient to make full use of their personal allowance may transfer a fraction of the allowance to their spouse or civil partner, up to a set amount. Individuals cannot make use of the transferable tax allowance for married couples and civil partners – or, marriage allowance, as it is known – if their spouse or partner is liable to tax above the basic rate of tax. The allowance was introduced in 2015/16, set at 10% of the value of the personal allowance. This remains the case. For 2022/23 the maximum that can be transferred is £1,260.[28] In effect the recipient is entitled to a tax credit worth up to £252 to set against their tax bill.

Individuals who may wish to apply to have part of their allowance transferred in this way to their partner may register with HMRC either online or by phone. Eligible couples can backdate their claim for the allowance for up to four years.[29] In the Autumn 2017 Budget the Government announced that claims

25 HM Treasury, Spring Budget 2023 : policy costings, (PDF) March 2023 pp63-69 (Annex A: Indexation in the public forecast baseline)

26 for details see, HM Treasury, Tax benefit reference manual: 2009-2010 edition, (PDF) July 2009, paras 1.16-19. [HC DEP 2009-1987]

27 HMRC, Blind Person's Allowance, ret'd March 2024

28 HMT, Overview of Tax Legislation and Rates, October 2021 (Annex A)

29 HMRC, Marriage allowance, ret'd March 2024

for the allowance would be allowed in cases where a partner has died before the claim was made, and that these claims would be able to be backdated by up to four years.[30]

## 1.3 Historical trends (2007/08 to 2018/19)

In April 2020 the Office for Budget Responsibility published a paper on the evolution of tax revenues and other sources of government income between 2007-08 and 2018-19, "respectively the last full year before the financial crisis and the last full year before the coronavirus crisis."[31]

Over this period income tax receipts as a share of GDP have fallen steadily, with a fall in both the tax base, and the effective tax rate.

Table 3.1: Income tax receipts

| | Per cent of GDP | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
| Receipts | 10.0 | 9.5 | 9.5 | 9.3 | 9.2 | 8.8 | 8.9 | 8.8 | 8.9 | 8.8 | 8.8 | 9.0 |
| Tax base | 63.5 | 62.9 | 61.3 | 59.7 | 58.8 | 57.0 | 58.2 | 58.7 | 59.1 | 57.5 | 57.7 | 59.7 |
| Effective tax rate | 15.7 | 15.2 | 15.5 | 15.6 | 15.6 | 15.5 | 15.3 | 14.9 | 15.1 | 15.2 | 15.3 | 15.4 |
| | Selected features of income tax schedule, per cent (unless otherwise stated) | | | | | | | | | | | |
| Basic rate | 22 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 |
| Higher rate | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| Additional rate | - | - | - | 50 | 50 | 50 | 45 | 45 | 45 | 45 | 45 | 45 |
| Personal Allowance (£s) | 5,225 | 6,035 | 6,475 | 6,475 | 7,475 | 8,105 | 9,440 | 10,000 | 10,600 | 11,000 | 11,500 | 11,850 |

Note: Tax base is defined as the National Accounts measure of wages and salaries, mixed income and other forms of non-employment income, including savings and dividends. See annex for more information.

Two main factors explain the fall in the effective tax rate over the decade:

- Several policy changes to rates and thresholds have reduced effective tax rates for most taxpayers. Successive above-inflation rises in the personal allowance have also substantially reduced the proportion of adults who pay any income tax at all – reducing the overall effective tax rate on personal income across the whole economy.
- The weakness in average earnings growth has put downward pressure on tax receipts due to the progressive schedule of rates that individuals face.[32]

In turn, these changes have had a "marked impact on the composition of the income tax paying population." It is estimated that the proportion of all adults paying income tax has fallen from 66.3 to 59.7 per cent, while "HMRC data on the earnings of the self-employed also suggest that the strong growth in self-employment over the past decade has been concentrated

30 Autumn Budget 2017, HC587, November 2017 para 3.6. See also, Commons Library briefing CBP870, Income tax allowances for married couples. This was updated in April 2023.

31 James Mee, The evolution of public sector receipts over the past decade: OBR Working paper No.15, April 2020 (Abstract)

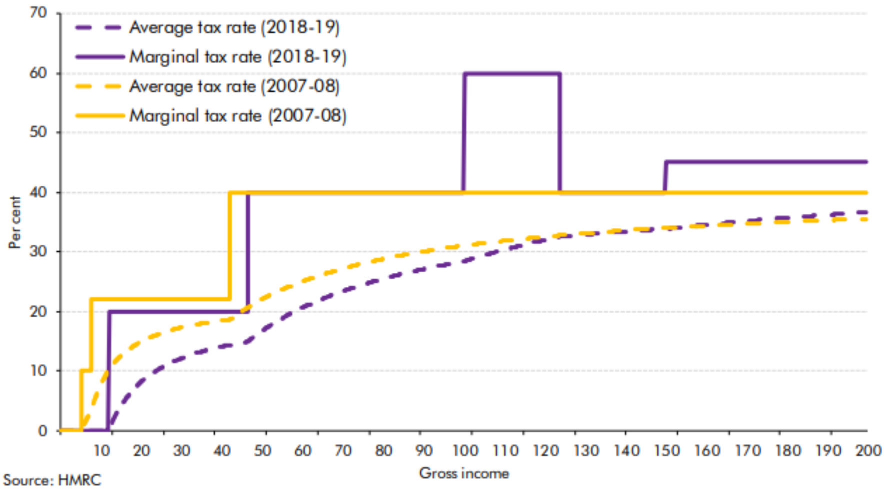
32 as above pp17-18

among those reporting earnings at or below the personal allowance, so is likely to have lowered the proportion further."[33]

In addition, "average income tax rates on most employment income have fallen for all taxpayers earning up to around £150,000", driven by a number of policy changes:[34]

- **Several above-inflation increases in the personal allowance.** These have steadily increased the amount of earned income that is not subject to income tax. In 2007/08, the personal allowance for those aged under 65 was £5,225 a year. Eleven years on, this had more than doubled to £11,850. If the personal allowance had increased in line with the Government's stated uprating policy in 2007/08, it would have reached £7,340 in 2018/19 – over £4,500 (nearly 40 per cent) less than the actual threshold.
- **Changes to existing marginal rates.** In 2007/08, taxpayers with income of less than £7,455 a year faced a starting 10 per cent tax rate. This rate was abolished in 2008/09. The basic rate was cut from 22 to 20 per cent in 2008/09 where it has remained, while the higher rate has remained unchanged at 40 per cent throughout the period.
- **The introduction of a new additional rate.** A new top rate of 45 per cent for those with incomes over £150,000 was announced by the Labour Government in 2008. This was increased to 50 per cent in 2009 before it was introduced in 2010/11. The Coalition then lowered it to 45 per cent in 2013/14.
- **The introduction of the tapered personal allowance.** In 2008, the Labour Government announced a restriction on the personal allowance for high earners, which was introduced in 2010. This reduces an individual's personal allowance by £1 for every additional £2 earned over £100,000 – in effect introducing a higher marginal tax rate of 60 per cent for those taxpayers affected until their personal allowance reaches zero.

Chart 3.4: Income tax average and marginal tax rates, 2007-08 and 2018-19




Source: HMRC

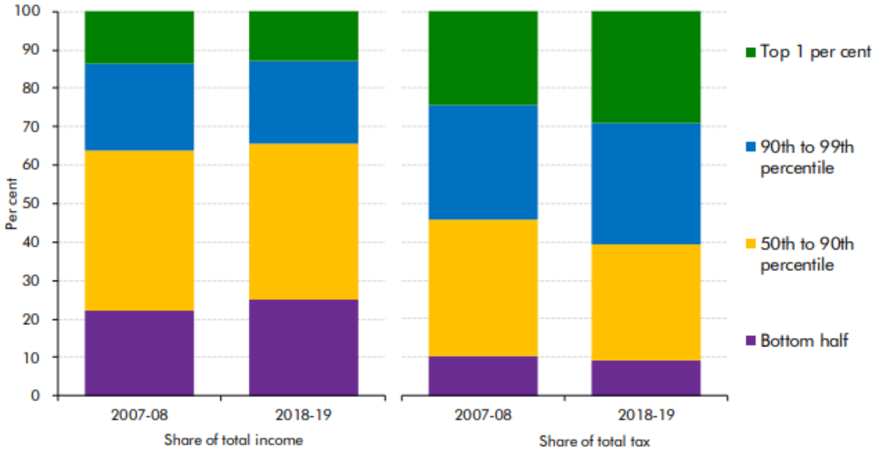
33 as above p19

34 as above pp20-21

Finally, as noted above, the share of income tax receipts paid by higher earners has risen:[35]

> HMRC data suggest that this has been driven by a rising average tax rate paid by higher earners (primarily due to the introduction of the additional rate), rather than their incomes rising faster than at other points in the earnings distribution.
>
> For instance, Chart 3.5 shows that the share of pre-tax income received by the top 1 per cent of taxpayers has fallen from 13.4 to 12.7 per cent over the period.[36] This contrasts with the share of all income tax paid, which has risen from 24.4 to 29.1 per cent.

Chart 3.5: Distribution of taxpayer income and income tax liabilities, 2007-08 versus 2018-19




Source: HMRC

[35] as above pp21-22

[36] This fall needs to be considered in the context of the overall fall in the number of taxpayers, which generates two effects working in opposite directions. First, the top 1 per cent of taxpayers would be less numerous as the total number of taxpayers falls. This would result in the top 1 per cent having higher average incomes than a decade ago, since it now covers a smaller proportion of the overall income distribution. Second, the average income of all income taxpayers should be higher than it was a decade ago, since more of those with lower average earnings no longer pay income tax.

# 2 Spring Budget 2021: a four-year freeze to 2025/26

In his Budget statement on 3 March 2021 the then Chancellor Rishi Sunak confirmed that the personal allowance and higher rate threshold would rise in line with inflation for 2021/22 as previously announced, but that they would both be frozen from April 2022 for four years, up to April 2026:

> Our response to coronavirus has been fair […] and our approach to fixing the public finances will be fair too, asking more of those people and businesses who can afford to contribute and protecting those who cannot. So this Government are not going to raise the rates of income tax, national insurance or VAT; instead, our first step is to freeze personal tax thresholds […] We will […] increase [the personal allowance] next year to £12,570, but we will then keep it at this more generous level until April 2026. The higher rate threshold will similarly be increased next year to £50,270 and will then also remain at that level for the same period.[37]

The Chancellor went on to observe that, "nobody's take-home pay will be less than it is now as a result of this policy, but I want to be clear with all Members that this policy does remove the incremental benefit created had thresholds continued to increase with inflation."[38] Mr Sunak also announced that several other thresholds and allowances would be frozen:

> I will also maintain at their current levels until April 2026 the inheritance tax thresholds, the pensions lifetime allowance, the annual exempt amount in capital gains tax, and for two years from April 2022 the VAT registration threshold, which, at £85,000, will remain more than twice as generous as the EU and OECD averages.[39]

Further details were provided in the Budget report:

> **Personal Allowance and higher rate threshold (HRT)** – The income tax Personal Allowance will rise with CPI as planned to £12,570 from April 2021 and will remain at this level until April 2026. The income tax HRT will rise as planned to £50,270 from April 2021 and will remain at this level until April 2026. The Personal Allowance applies across the UK. The HRT for savings and dividend income will also apply UK-wide. The HRT for non-savings and non-dividend income will apply to taxpayers in England, Wales, and Northern Ireland.
>
> **National Insurance contributions (NICs) thresholds** – As previously announced, and legislated for in February 2021, in 2021-22 NICs thresholds will rise with CPI, bringing the NICs Primary Threshold/Lower Profits Limit to £9,568 and the Upper Earnings Limit (UEL)/Upper Profits Limit (UPL) to £50,270, in line

37 HC Deb 3 March 2021 c256

38 as above

39 as above

> with the income tax HRT. The UEL/UPL will then remain aligned with the HRT at £50,270 until April 2026. All other NICs thresholds will be considered and set at future fiscal events. NICs thresholds apply across the UK.
>
> **Capital Gains Tax Annual Exempt Amount (AEA) uprating** – The value of gains that a taxpayer can realise before paying Capital Gains Tax, the AEA, will be maintained at the present level until April 2026. It will remain at £12,300 for individuals, personal representatives and some types of trusts and £6,150 for most trusts [...]
>
> **Inheritance tax nil-rate band and residence nil-rate band** – The inheritance tax nil-rate bands will remain at existing levels until April 2026. The nil-rate band will continue at £325,000, the residence nil-rate band will continue at £175,000, and the residence nil-rate band taper will continue to start at £2 million. Qualifying estates can continue to pass on up to £500,000 and the qualifying estate of a surviving spouse or civil partner can continue to pass on up to £1 million without an inheritance tax liability [...]
>
> **Pensions Lifetime Allowance** – The government will maintain the Lifetime Allowance at its current level of £1,073,100 until April 2026 [...]
>
> **VAT threshold** – The VAT registration and deregistration thresholds will not change for a further period of two years from 1 April 2022, giving businesses certainty.[40]

At the time the freeze in the personal allowance, higher rate threshold and NICs upper earnings limit/upper profits limit was forecast to raise £1.56 billion in 2022/23, rising to £8.18 billion in 2025/26. The freezes for other thresholds and allowances were also forecast to boost tax receipts:[41]

| | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|---|
| **Income Tax: maintain PA & HRT at 2021-22 levels up to & including 2025-26[1]** | 0 | * | +1,555 | +3,655 | +5,790 | +8,180 |
| **VAT: maintain RT at £85,000 up to & up to and including 2023-24** | 0 | 0 | +55 | +125 | +135 | +165 |
| **IHT: maintain thresholds at 2020-21 levels up to & including 2025-26** | 0 | +15 | +70 | +165 | +290 | +445 |
| **PLA : maintain at £1,073,100 up to & up to and including 2025-26** | -10 | +80 | +150 | +215 | +255 | +300 |
| **CGT: maintain the AEA at £12,300 up to & including 2025-26** | 0 | * | +5 | +10 | +20 | +30 |

* Negligible
PA : Personal Allowance. HRT : Higher Rate Threshold. RT : Registration Threshold. IHT : Inheritance Tax. PLA : Pensions Lifetime Allowance. CGT: Capital Gains Tax. AEA : Annual Exempt Amount
[1] Including the National Insurance Upper Earnings Limit and Upper Profits Limit, which will remain aligned to the higher rate threshold at £50,270 for these years.

The OBR noted in its Economic and Fiscal Outlook published alongside the Budget report that the tax rises announced in the Budget "increase the tax

40 Budget 2021, HC 1226, (PDF) March 2021 pp52-3
41 as above p42 (Table 2.1 – items 23-27)

burden from 34.0 to 35.0 per cent of GDP in 2025/26, its highest level since Roy Jenkins was Chancellor in the late 1960s."[42]

In the context of the Chancellor's decision to freeze these allowances and thresholds to raise taxes rather than increase the rates of income tax, VAT or NICs, it is worth noting that the Conservative Party's manifesto for the 2019 General Election had stated, "We promise not to raise the rates of income tax, National Insurance or VAT." The manifesto also stated that a Conservative administration would "raise the National Insurance threshold to £9,500 next year ... Our ultimate ambition is to ensure that the first £12,500 you earn is completely free of tax."[43]

In the 2020 Budget the Chancellor announced an increase in the NICs 'primary threshold', the point at which employees start to pay the main 12% NICs rate, from £166 a week to £183.[44] By contrast, the personal allowance and basic rate limit were both frozen for 2020/21, as had been announced in the 2018 Budget.[45]

HMRC set out details of the freeze to the personal allowance and higher rate threshold in a tax information and impact note, published alongside the Budget. This also provided details of the impact this was expected to have on individuals, households and families, and the equalities impact by both gender and age.[46]

Alongside the Budget report the Treasury published analysis of the "estimated impact of tax, welfare and public service spending changes announced since Spending Round 2019 [...] that carry a direct, quantifiable impact on households." Most of the analysis looked at 2021/22, though the Treasury published separate analysis of the impact of the freeze to the personal allowance and basic rate limit in 2022/23, alongside other relevant tax and welfare measures:[47]

42 OBR, Economic and fiscal outlook, CP387, March 2021 pp6-7. As the OBR noted the tax base for corporation tax had broadened over the past decade, with restrictions placed on several of the deductions that reduce taxable profits relative to total profits (as above pp111-114, Box 3.2).

43 Conservative and Unionist Party, Manifesto 2019, November 2019 p15

44 Budget 2020, HC 121, (PDF) March 2020 para 2.172. This was estimated to cost £2.1bn to £2.4bn a year, over the forecast period 2020/21 to 2024/25 (as above Table 2.1 – item 12).

45 Budget 2018, HC 1629, (PDF) March 2018 para 3.7. Provision to this effect was made by s5 of the Finance Act 2019.

46 HMRC, Income Tax Personal Allowance and the basic rate limit from 6 April 2022 to 5 April 2026, 3 March 2021

47 HMT, Impact on households: distributional analysis to accompany Budget 2021, March 2021 p22

Chart 2.D: Impact of Budget 2021 tax and welfare decisions on households in 2022-23, as a percentage of net income, by income decile

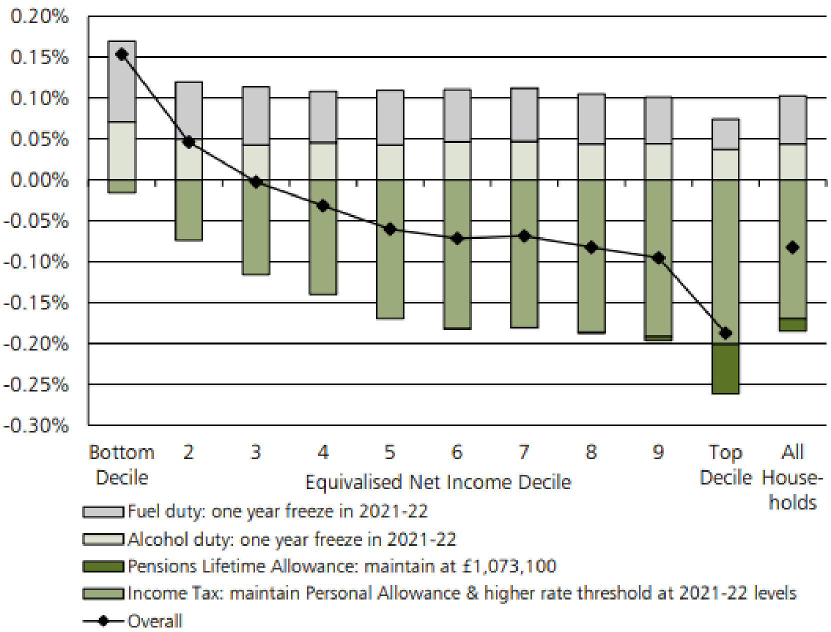
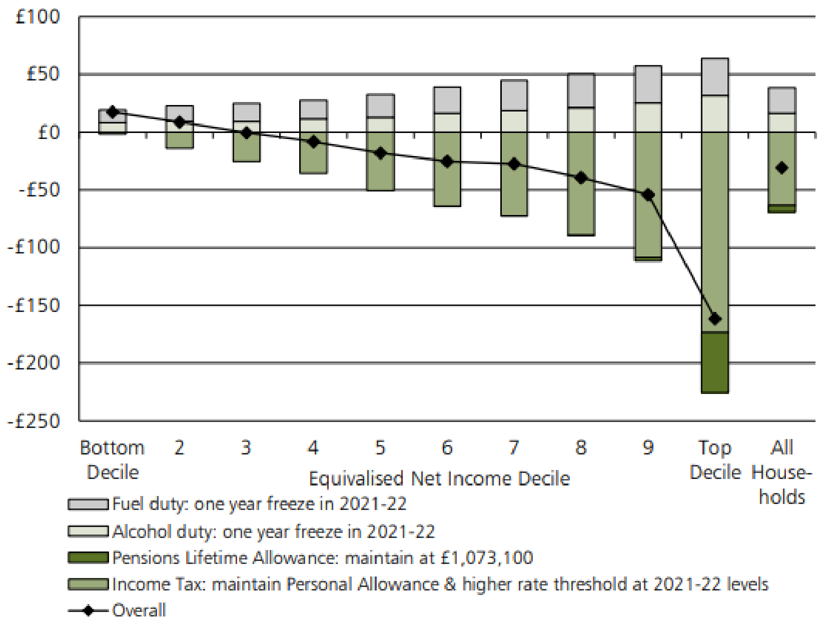



Chart 2.E: Impact of Budget 2021 tax and welfare decisions on households in 2022-23, in cash terms (£ per year), by income decile



# 3 Reactions to Spring Budget 2021

The Chancellor's decision to raise income tax by freezing the personal allowance and basic rate limit was widely described as a 'stealth tax'.[48]

The Financial Times quoted Matthew Phillips, director of wealth planning at Canaccord Genuity Wealth Management, as saying, "In real terms, it is actually a tax increase. It just doesn't look like that."[49] Writing in the paper Merryn Somerset Webb, editor-in-chief of MoneyWeek noted, "The higher inflation rises, the higher the effective bill for the income tax payer — in both real and nominal terms [...] over the next five years, the Treasury expects to raise £19.3bn from the income tax allowance freezes [...] an awful lot of people will feel oddly poorer soon — and they will not be quite sure why."[50]

The Guardian quoted Becky O'Connor, head of pensions and savings at Interactive Investor, as saying, "freezing allowances is a back-handed way of raising taxes [...] Frozen allowances and thresholds have a habit of remaining fixed for many years, dragging more people into tax charges over time."[51] Writing in the Times, James Coney, the paper's Money editor, commented, "freezing allowances is an old and very effective trick pulled by successive Conservative chancellors" though he went on to suggest that, "most people will acknowledge that the pain of paying a little bit more each year in such desperate times is better than facing steeper rises in other taxes."[52]

Torsten Bell, chief executive of the Resolution Foundation, termed the freezes to allowances and thresholds "the least visible options" for rising taxes, noting that the majority of extra receipts from the freeze to the personal allowance and basic rate limit "will come from the richest fifth of households, who will pay 12 times as much as the bottom fifth of households, on average."[53] The Resolution Foundation provided further details in their assessment of the Budget:

> Given forecasts for CPI, default uprating would have taken them to £13,540 and £54,340 by April 2025 respectively. This means a typical standard basic-rate tax payer will pay £194 a year more in tax in 2025-26 than if allowances had been uprated with inflation: someone between £54,340 and £100,000 would

[48] The impact that inflation has on tax receipts and the numbers of taxpayers paying more tax when tax allowances and thresholds is sometimes referred to as 'fiscal drag'. Commons Library research briefing CBP9687 Fiscal drag: an explainer explores this in more detail.

[49] "'Stealth' raid on income tax thresholds", Financial Times, 3 March 2021. See also, "Rishi Sunak's £65bn budget tax increases are highest in 28 years", Guardian, 3 March 2021

[50] "Opinion: Sunak's tax freezes are not as harmless as they seem", Financial Times, 3 March 2021. See also, "The invisible tax", Taxation, 25 March 2021.

[51] "Extra 1.3m people in UK to start paying income tax over next five years", Guardian, 4 March 2021

[52] "Comment: Catching more people in the tax net just by standing still", Times, 4 March 2021

[53] "Budget 2021 is big, bold and carries some big risks", Times, 4 March 2021

> pay £1,008 more, and someone with income over £125,000 would pay £814 a year more (the amount is lower as anyone earning above £125,000 does not receive a personal allowance, and so is unaffected by it being frozen).
>
> Alongside these, there is also a freeze in the Upper Earning and Upper Profit Limits in the National Insurance contributions system (as they are aligned with the higher-rate threshold): these are the points at which the rate of employee and self-employed NICs falls, so freezes in these limits actually reduce NI contributions for those with earnings above £50,270. […]
>
> The personal allowance has increased considerably since 2010-11, and, even with a four-year freeze, it would still be 42 per cent higher in real-terms than the value in 2010-11, compared to 53 per cent without the freeze.
>
> The higher-rate threshold, however, has not seen a consistent path in the past two decades: it rose under Labour governments, fell sharply in the first years of the coalition government, but has been rising in real-terms in recent years.[54]

In November 2020 the Resolution Foundation had published a report on the Government's options for fiscal consolidation,[55] and as part of this discussed the case for freezing the personal allowance and higher rate threshold in April 2020, concluding that although "April 2020 is certainly not the time to implement overall tax rises", there were "four reasons why continued threshold freezes might be justifiable" (**emphasis added)**:

> **First, the scale of the tax rise in 2021-22 would be minimal.** These tax thresholds are by default increased in line with September CPI inflation, which was 0.5 per cent. the personal allowance rise would mean a £12 tax rise over the whole year […]
>
> **Second, while the overall stance of fiscal policy should still be expansionary, there is scope for tax rises within that.** That £400 million raised by freezing the thresholds could – and should – easily be redirected towards temporary stimulus (or indeed to help avoid the currently scheduled benefit cuts).
>
> **Third […] there are good reasons to keep these tax thresholds at £12,500 and £50,000 specifically** […]
>
> As with National Insurance (NI), the assumption used in the fiscal forecasts is that the personal allowance rises in line with CPI inflation each year. Based on current inflation forecasts, that suggests a personal allowance of around £13,250 by 2024-25. But given the manifesto ambition to eventually raise the NI threshold to £12,500 and "ensure that the first £12,500 you earn is completely free of tax",[56] the Government could reasonably argue that maintaining the IT

54 Torsten Bell et al, Spending fast, taxing slow: Resolution Foundation analysis of Budget 2021, (PDF) March 2021 pp38-9. The report illustrated the real-terms value of these income tax thresholds over time (see Figure 29 and Figure 30). See also, Joanne Walker, "Income tax freeze – what does it mean for taxpayers?", CIOT blog, 10 March 2021.

55 Resolution Foundation press notice, Unhealthy finances: How to support the economy today and repair the public finances tomorrow, 11 November 2020

56 See, Conservative and Unionist Party, Manifesto 2019, November 2019 p15

> threshold at £12,500 is very much in keeping with this goal, and doing so would allow the NI threshold to close the gap with its IT equivalent.[57]
>
> Moreover, even with a four-year freeze, the personal allowance would still be £4,000 (and almost 50 per cent) higher than if there had been consistent CPI-uprating – rather than large tax cuts – since 2010-11 […]
>
> The case is equally strong for maintaining the higher-rate threshold at £50,000 – its 2020- 21 and 2019-20 level.[58] Indeed, it might seem unfair to continue to freeze the threshold for basic-rate tax but not that for higher-rate tax, particularly given that higher earners' incomes have been relatively unaffected by the coronavirus crisis.[59]
>
> Keeping this threshold at £50,000 – rather than £50,000 and a bit (if uprated) – has some small advantages in complementing other thresholds in the tax system. The additional rate of IT kicks in at £150,000 (not linked to inflation), and the personal allowance is withdrawn once incomes reach £100,000 (ditto). What's more, Child Benefit begins to be withdrawn at a non-inflation-indexed threshold of £50,000 (via the High Income Child Benefit Charge); meaning that raising the higher rate threshold above that point would mean partially removing Child Benefit from some basic-rate taxpayers, which might be politically controversial […] If the thresholds are allowed to diverge from these figures, it may be politically harder to later implement a new freeze.
>
> **And fourth, the length of the freeze determines how much it will raise in future**, so delaying the beginning of a freeze means delaying the point at which a given annual yield is realised (which is not the case for many other tax policies).[60]

In its response to the Budget, the Low Incomes Tax Reform Group also highlighted the gap between the threshold for taxpayers starting to pay NICs and the personal allowance. The charity also suggested that freezing the allowance provided the Government with an opportunity to deliver its manifesto commitment regarding NICs:

> Victoria Todd, Head of LITRG, said: "Those earning between the class 1 primary National Insurance threshold – or, if self-employed, the class 4 lower profits limi4 – and the personal allowance do not benefit from increases in the personal allowance. The cost on them is National Insurance (at 12% for the employed and 9% for the self-employed respectively).
>
> "Freezing the personal allowance for five years gives an opportunity – in line with the government's 2019 manifesto commitment– to continue aligning the point at which classes 1 and 4 National Insurance begin to be paid with the personal allowance. As well as benefiting those on the lowest incomes,

---

57 Note that the marriage tax allowance is set at 10 per cent of the personal allowance: i.e. currently £1,250. Freezing the latter would mean freezing the former.

58 This threshold is devolved to Scotland, where it is currently £43,430. The IT higher rate threshold is technically separate from the higher NI threshold (the upper earnings limit / upper profit limit). But they have been aligned (at least outside Scotland) since 2009. So we assume they remain so. This means extra forecast IT from a higher rate threshold freeze is partially offset by lower NI.

59 M Brewer & L Gardiner, Return to spender: Findings on family incomes and spending from the Resolution Foundation's coronavirus survey, Resolution Foundation, June 2020.

60 George Bangham et al., Unhealthy finances: How to support the economy today and repair the public finances tomorrow (PDF), Resolution Foundation November 2020 pp103-4

> because national insurance will not be paid until income reaches a higher point, having two different thresholds for tax and NI also causes confusion. We hope that the government will use future fiscal events to deliver on this commitment."[61]

In the Institute for Fiscal Studies' analysis of the Budget, Paul Johnson, IFS director, acknowledged that, as the Chancellor had noted, freezing the personal allowance was "a progressive tax increase", but said it was "the least progressive way of raising income tax":

> Even four years of freezes though will undo only a fraction of the increases we saw over the 2010s. Note that those increases in the allowance over the 2010s were key to ensuring the remarkable result that middle earners did not lose out from austerity in terms of higher taxes and lower benefits. This rise will hit "middle England". A political risk perhaps.

Mr Johnson went on to argue that by contrast freezing the higher rate threshold "will follow something of a pattern":

> By 2025 we could have over 5 million higher rate taxpayers compared with the 4.1 million we currently have and far higher than the 3 million there were in 2010. Freezing things for a long period makes a big difference. There are, for example, now twice as many people paying the additional 45% rate of income tax as there were when it was introduced in April 2010 because the £150,000 threshold has remained unchanged in nominal terms for over a decade.[62]

As part of its coverage of the Budget the Institute of Chartered Accountants for England and Wales (ICAEW) noted that "ahead of the Budget, there were rumours that a freeze could apply to this year's thresholds and rates, which would have created a significant administrative burden for HMRC, employers and payroll software developers alike. ICAEW welcomes the government's decision to continue as planned, having previously announced the increases and laid the legislation to put them into effect."[63]

In its submission to the Treasury Committee on the Budget the Chartered Institute of Taxation (CIOT) welcomed the decision to announce the freeze some time in advance, as this gave certainty and stability. The freeze would also "raise substantial revenues whilst, prima facie, not damaging growth." The CIOT went onto to argue that "the opportunity should be taken to consider what future policy should be in these areas":

> For example:
>
> - Is increasing the income tax threshold the most targeted way of helping people on the lowest pay, or providing better work incentives, as compared to say, alignment of lower NIC thresholds and / or increasing the work allowance in Universal Credit, and / or reducing the rate at

61 LITRG press notice, Freezing personal allowance gives opportunity to align tax and national insurance thresholds, 3 March 2021

62 "Opening remarks from IFS Director Paul Johnson", IFS Budget 2021, 4 March 2021. In his presentation on the impact of the Budget on household finances (PDF) Tom Waters illustrated this: "The Budget and household finances: Tom Waters", IFS Budget 2021, 4 March 2021 (slide 19).

63 ICAEW press notice, Chancellor announces big tax freeze, 3 March 2021

which Universal Credit is withdrawn as claimants are able to earn more money? This rate of withdrawal, sometimes combined with loss of 'passported' benefits, can act as a higher marginal effective rate of tax than the formal tax system.

- Should the income tax and NIC thresholds be aligned? The government has confirmed that the NIC Upper Earnings Limit and Upper Profits Limit will continue to be tied to the income tax higher rate threshold until 2026. However, the Primary Threshold and Lower Profits Limit for NICs will continue to be set at fiscal events during this period, so they may continue to increase. If this were the case, there would be an opportunity for the government to realign the point at which NICs are paid with the point at which income tax is payable. While this might create more of a cliff-edge, with liability to both tax and NI arising simultaneously, it would be simpler for low-earning individuals to understand when they become liable to deductions.

- The current pensions tax relief system was introduced in Finance Act 2004, after many years of painstaking work and consultation, and this is the first year since then it hasn't undergone significant amendments. We think that there is a case for a review of the pensions tax relief system with the aim of removing the complexity introduced over the couple of decades and striking a better (and better understood) balance between affordability, fairness and strengthening the incentive to save.[64]

The Treasury Committee held three evidence sessions on the Budget over 8-11 March 2021, but this aspect of the Budget was not raised very much.

At the Committee's second session Harriet Baldwin (Conservative) asked Torsten Bell (Chief Executive, Resolution Foundation) as to whether the freeze in allowance could be described as a progressive tax increase:

> **Harriett Baldwin**: Torsten, the major personal tax rises that were in the Budget were around freezing the personal allowances and the rate at which you pay higher rate. Is that going to mean that men pay more income tax? In terms of progressiveness, that seems quite a progressive approach. Does that mean there is a disparity between what men and women will be paying?
>
> **Torsten Bell**: Focusing specifically on the threshold freezes in the income tax system, overall, that is progressive tax rise, with the exception of the very highest, who do not benefit from a personal allowance anyway and so are not affected by the freeze, but forgetting them for a second. Big picture, yes, higher earners will pay more of that than lower earners. That means that, overall, men will pay more of it than women. If you care about who comes into tax at all, there are more women around the income tax threshold. The overall amount of tax paid will be a higher percentage for men than for women.[65]

Richard Hughes, Chairman of the OBR gave evidence on the first of these sessions, and in his evidence he described the Budget as being composed of

64 Treasury Committee, Budget 2021: Written Evidence – CIOT (BGT0001), 15 April 2021 para 6.2-3

65 Treasury Committee, Oral evidence: Budget 2021, HC 1196, (PDF) 10 March 2021 Q186. As noted, the PA is withdrawn by £1 for every £2 someone's income exceeds £100,000 – so for someone with an income over £125,000 their allowance is zero. see also, Torsten Bell et al, Spending fast, taxing slow: Resolution Foundation analysis of Budget 2021, (PDF) March 2021 pp40-41 (Figure 31)

"three buckets, each with its own respective timing" – a 'rescue phase', a 'recovery phase', and then a 'repair phase', the last featuring this income tax increase:

> I would categorise [the Budget] into three buckets, each with its own respective timing. Partly, the Budget extended the rescue funding, which the Government have been providing to households and businesses to make it through the pandemic. It has added about £44 billion to that to take the grand total up to £344 billion spent since the start of the pandemic. That is funding that expires at the end of 2021-22.
>
> There is then a recovery phase of this Budget, the centrepiece of which is the super-deduction for corporate investment, which ends up costing around £12 billion a year and £27 billion in total. That is designed to stoke the fires of the recovery in the way in which we described, bringing investment forward, to give you not just a recovery in consumption but also a recovery in business investment and potentially a more balanced recovery across the two.
>
> Then there is a repair phase, in the final two years of the forecast, where the Government raise about £30 billion through a combination of corporate tax rises and freezes in the personal allowance and higher rate thresholds, plus around £4 billion to £5 billion of further cuts to their plans for public spending beyond the pandemic years. All in all, that raises about £30 billion.
>
> In trying to think about what the Chancellor has done in what is a very policy-active Budget, he does those three things at three different points in our five-year forecast. [66]

[66] Treasury Committee, Oral evidence: Budget 2021, HC 1191, (PDF) 8 March 2021 Q79

# 4 Finance (No.2) Bill 2019-21

The Finance (No.2) Bill 2019-21 and the explanatory notes to the Bill (Bill 270 EN 2019-21), were published on 11 March 2021.[67] Provision to freeze the personal allowance and basic rate limit for the four years 2022/23 to 2025/26 was made by clause 5 of the Bill.[68]

Several Members raised this measure during the debates on the Budget after the Chancellor's statement; as the CIOT noted in their overview of the debates "Conservative MPs hardly mentioned the freezing of the income tax personal allowance but opposition MPs were strongly critical, and opposed this resolution in a vote at the end of the debate."[69]

As is normal practice the Ways and Means resolutions which underpin the provisions in the annual Finance Bill were put to the House at the end of the Budget debates,[70] and in the event the House only voted on one of these – the resolution which relates to the freeze of the personal allowance and basic rate threshold after 2021/22.[71]

Clause 5 of the Bill was one of those selected for debate by the Committee of the Whole House on 19 April. On this occasion the then Financial Secretary to the Treasury, Jesse Norman, set out the Government's case for this measure:

> This is a universal, progressive and fair measure being taken to fund public services and rebuild the public finances, and it ensures that the highest-earning households will contribute more. Indeed, the top 20% of highest-income households will contribute 15 times that of the bottom 20% of lowest-income households [...] The Office for Budget Responsibility forecast that UK GDP will reach its pre-virus peak by the second quarter of 2022. The Bank of England forecast that it will happen at the beginning of 2022. In the light of those estimates, it is reasonable and fair for the Government to uphold the start of this policy from April 2022.[72]

Speaking for the Opposition, James Murray, noted "the effect of the clause will be to make half of all people in the UK pay more tax from next year." Speaking for the SNP Alison Thewliss argued the freeze was "a tax cut by stealth" and that "the lowest earners will be the hardest hit by this policy."

67 Full details of the Bill's scrutiny are collated on its page on the Parliament site.
68 This now forms section 5 of the Finance Act 2021.
69 "Labour force vote on income tax allowance freeze", CIOT blog, 12 March 2021. For example, contributions by John McDonnell (HC Deb 8 March 2021 c569), John Trickett (c573), Maria Eagle (c598), Ed Davey (HC Deb 9 March 2021 c694), Ian Byrne (HC Deb 11 March 2021 c719), Kerry McCarthy (c740), Emma Hardy (c753),
70 Commons Library research briefing CBP813 The Budget and the annual Finance Bill provides an explanation of this procedure.
71 HC Deb 11 March 2021 cc766-9
72 HC Deb 19 April 2021 c696

Sarah Olney, for the Liberal Democrats, suggested the measure broke a commitment in the Conservative Party's 2019 manifesto not to raise income tax on working families: "freezing of the personal allowance and the higher tax bands means that more working people will pay tax and at higher rates than they would otherwise have expected."[73]

In the event the House voted to agree to the clause (by 356 to 224), and this now forms section 5 of Finance Act 2021.

73 as above c698, c703, c709

# 5 Autumn Budget 2021

On 27 October 2021 the Chancellor presented the Autumn Budget. The freeze in tax allowances to apply from April 2022 was not mentioned in the Chancellor's speech or the Budget report, although the personal allowance and higher rate threshold for 2022/23 were confirmed at this time.[74]

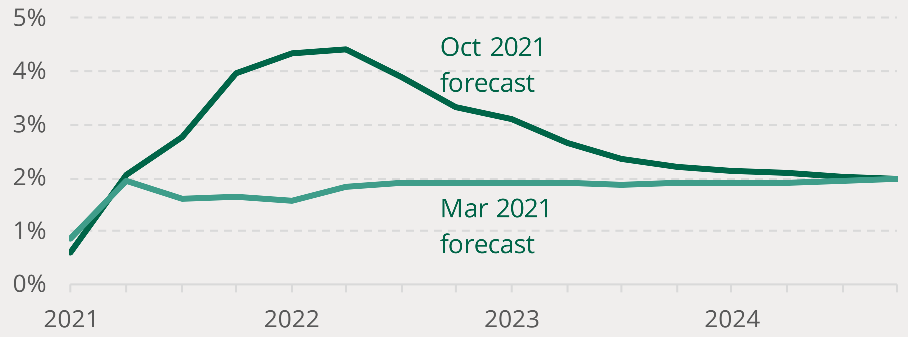
At this time the Treasury published updated estimates for the Exchequer impact of this income tax increase. The four-year freeze to the personal allowance and the higher rate threshold was estimated to raise £2.77 billion in 2022/23, rising to £13.04 billion in 2025/26 (around £4.9 billion more than forecast in March 2021).[75]

The main reason for the increase in the projected yield from this measure was higher inflation (both actual and forecast).

In its Economic and Fiscal Outlook published alongside the Budget, the OBR forecast significantly higher inflation, compared with its forecast at the time of the March 2021 Budget.[76]

**The OBR now forecast higher inflation**

CPI inflation: % change on a year earlier




Source: OBR. Economic and fiscal outlook – October 2021, Chart 2.29

Higher inflation means that, in the absence of the freezes, the personal allowance and basic rate limit would have been expected to rise faster than

74 HM Treasury, Autumn Budget 2021: overview of tax legislation and rates, October 2021 (Annex A: Rates and Allowances).

75 HM Treasury, Autumn Budget 2021: Table 5.2: measures announced at Spring Budget 2021 or earlier that will take effect from October 2021 or later, October 2021 (item b)

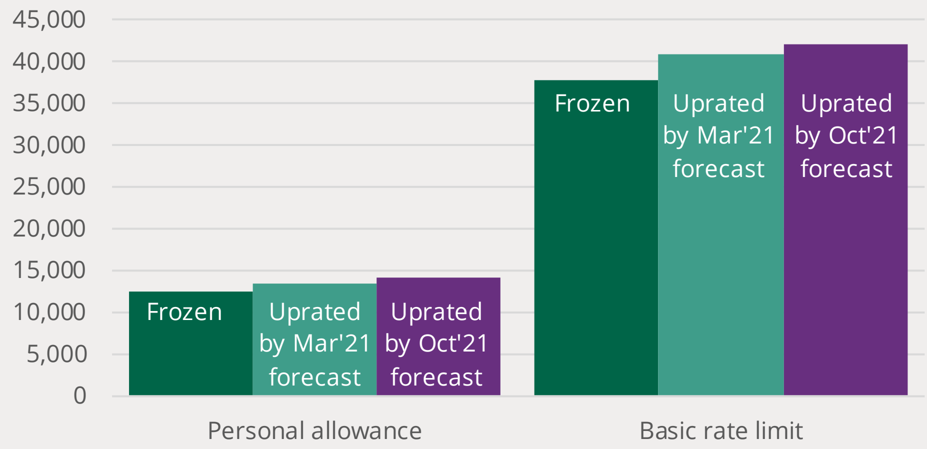
76 The default position is for the allowances to be uprated by September's Consumer Prices Index (CPI) from the September prior to the start of the financial year.

was the case in March 2021. The higher these allowances would have been, the more the Treasury saves by freezing them. Having lower frozen allowances means that more people pay income tax, income tax is charged on a greater amount of people's incomes and more income is subject to the higher rates of income tax.[77]

The OBR also forecast that earnings and employment would be higher than they did in March 2021. These factors also contribute to the freezes raising more than was expected in March 2021. However, higher inflation was the most significant reason.[78]

**Freezing tax allowances means that they won't be as high in the future**

Comparison of freeze in tax allowances with inflation increases, 2025/26




Source: Library calculations based on OBR. Economic and fiscal outlook – March 2021, supplementary table 1.7 and Economic and fiscal outlook – October 2021, supplementary table 1.7;

Some weeks after the Budget the Treasury Committee held an evidence session on the cost of living; during the session Robert Joyce, deputy director of the IFS, noted the impact that inflation was having on this policy:

> Inflation getting higher than expected, which is the driver of the living standards crisis, has made this policy bigger than was intended. I think that is a relevant thing to point out. From that perspective, there would be coherence in the Government saying, "Hang on a minute. When we set this policy, we expected an X per cent real cut in these thresholds. That is what we wanted, so let's do that." That would imply a bit of a nominal increase.
>
> The wider lesson there is that it would be a lot better if the Government set their policies in real terms. If they want to increase thresholds by inflation

77 As noted above Commons Library briefing CBP9687 Fiscal drag: an explainer explores this in more detail.

78 OBR, Economic and fiscal outlook, CP 545, October 2021 Table 2.12. In January 2022 the OBR published further detail on its forecasts regarding this income tax rise (OBR, Supplementary forecast information release: The effect of the personal allowance and higher rate threshold freezes on taxpayer numbers, 13 January 2022)

> minus 2%, they should say that, rather than making the real change dependent on an unknown future rate of inflation. That is really the issue that we should tidy up. Governments keep doing that.[79]

Writing in the Times at this time, IFS Director Paul Johnson argued "so benign has inflation been, and so used have politicians and policymakers become to inflation that is low and stable, that rather a lot of public policy is no longer robust to rising prices":

> Some of that is recent and deliberate. The decision a year ago to announce a four-year freeze in the level of income tax allowances was intended at the time to add up to a £7 billion tax increase. It is likely to end up raising taxes by £11 billion or more as higher inflation eats away at the real value of the allowances. We should be grateful, at least, that the benefit freeze, in place between 2016 and 2019, is no longer in operation. Freezing benefits and tax allowances over long periods is not good policy. The actual effects are unknowable in advance.[80]

Following the Budget, the Finance (No.2) Bill 2021-22 was published on 4 November.

Income tax is an annual tax: the authority to levy it expires at the end of the tax year, so that the annual Finance Bill will reimpose the income tax charge for the coming year.[81] In the case of this Bill, clause 1 and 2 set the charge for income tax and the corresponding rates for 2022/23. As noted above, statutory provision to freeze tax allowances for the next four years had already been made – by section 5 of Finance Act 2021 – so the Bill did not need to set these allowances for 2022/23. Both clauses were agreed, unamended, when considered by Public Bill Committee on 14 December.[82]

The Chancellor had announced the date for the Autumn Budget on 7 September 2021.[83] That day, in a departure from precedent, the then Prime Minister Boris Johnson gave a statement announcing a major tax reform: a new tax – the Health and Social Care Levy – to substantially increase funding for health and social care over the next three years.[84] The Levy, based on National Insurance contributions, would be introduced in two stages:

- In 2022/23 the rate of primary Class 1 NICs for employees charged on their earnings, the rate of secondary Class 1 NICs for employers charged on their employees' earnings, and the rate of Class 4 NICs for the self-employed charged on their trading profits, would be increased by 1.25 percentage points.
- In 2023/24 a separate Levy set at 1.25% will be introduced, replacing this temporary increase in NICs rates. Liability to the Levy would be extended to individuals in employment who are over State Pension age. At present

79 Treasury Committee, Oral evidence: The cost of living, HC 1094, 31 January 2022 Q25

80 Paul Johnson, We let our guard down on inflation and now we must parry the blows, Institute For Fiscal Studies, 17 January 2022

81 HMT, Overview of Tax Legislation & Rates, October 2021 para 1.1

82 Public Bill Committee (Finance Bill), First Sitting, 14 December 2021 cc4-6

83 Written Statement HCWS268, 7 September 2021

84 HC Deb 7 September 2021 cc153-5

pensioners are not liable to pay NICs on any earnings they receive from employment.[85]

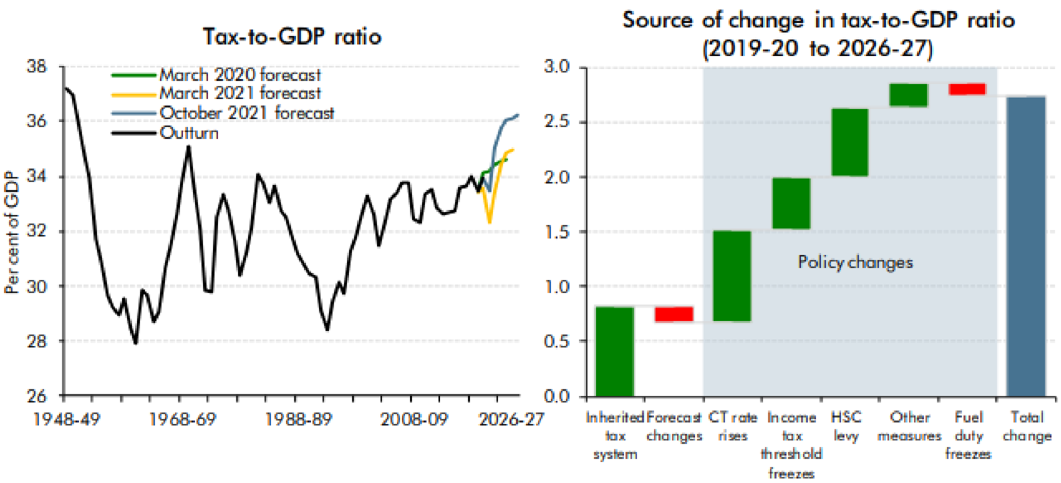
Income from dividends is exempt from NICs, so as part of this reform package the Government announced that the rates of income tax on dividends would be increased by 1.25 percentage points from April 2022.

Initially the Levy was forecast to raise between £12.4 billion and £13 billion a year for health and social care over the next five years. The yield from the increase in dividend tax rates was forecast to be £650m in 2024/25, rising to £815m in 2025/26, and £905m in 2026/27. [86]

The day after the Prime Minister's statement the Government published the Health and Social Care Levy Bill to provide for these tax changes, and, in an example of 'fast track' procedure, all of the Bill's stages in the House of Commons were taken in a single day the next week.[87]

In its Economic and Fiscal Outlook published alongside the Autumn Budget, the OBR noted that "stronger and more tax-rich growth, coupled with the tax rises announced over the last two Budgets, raise the tax burden from 33.5 per cent of GDP recorded before the pandemic in 2019/20 to 36.2 per cent of GDP by 2026/27 – its highest level since late in Clement Attlee's post-war Labour Government in the early 1950s":

Chart 1.6: Taxes as a share of GDP and sources of change since March 2020




**Note**: Both outturn and forecast are based on the vintage of nominal GDP data that was available when we closed the pre -measures forecast, so do not reflect upward revisions in the latest Quarterly National Accounts.

85 HM Government, Build Back Better: Our Plan for Health and Social Care, CP 506, September 2021 para 80, para 91-92

86 Autumn Budget & Spending Review, HC 822, (PDF) October 2021 (Table 5.1 – item 10, item 11).

87 For more details see, Commons Library research briefing CBP9310, Health and Social Care Levy Act 2021. This was last updated on 6 October 2022.

Alongside a modest increase reflected in the plans the Chancellor inherited in March 2020, this 2.7 percentage point increase in the tax take is largely thanks to the combined effects of three tax rises announced by this Chancellor:

- **Increases in the main rate of corporation tax** to 25 per cent from April 2023 onwards, as a result of the cancelling of the cut from 19 to 17 per cent at the March 2020 Budget and then raising the rate from 19 to 25 per cent at the March 2021 Budget. These together raise £25.7 billion (0.9 per cent of GDP) a year by 2026-27.
- The five-year **income tax personal allowance and higher rate threshold freeze** from the March 2021 Budget, which raises £13.9 billion (0.5 per cent of GDP) by 2026-27.
- September's announcement of a new **health and social care levy** of 1.25 per cent on employees, employers and the self-employed directly raises £18.2 billion (0.6 per cent of GDP) by 2026-27 (although net of its effect on wages it raises £15.0 billion).

All else equal, applying the upward revision to 2020-21 nominal GDP of 2.3 per cent to all years of the forecast would reduce the National Accounts tax -to-GDP ratio by 0.8 per cent of GDP across the forecast. This would still leave the tax-to-GDP ratio at its highest since 1951. Source: ONS, OBR[88]

In March 2022 the Institute for Fiscal Studies published some analysis of this trend, noting that the anticipated increase in taxation by 2024/25 – putting up the tax burden by 2% of GDP – represented "a substantial increase in the size of the British state."[89]

88 OBR, Economic and fiscal outlook, CP 545, October 2021 para 1.21. The figure for the tax burden "refers to the National Accounts measure of taxes and National Insurance contributions."

89 Isaac Delestre, Helen Miller and Ben Saranko, Boris Johnson and Rishi Sunak have announced tax rises worth 2% of GDP in just two years – the same as Tony Blair and Gordon Brown did in ten - Institute For Fiscal Studies, 17 March 2022

# 6 Developments leading up to Autumn Statement 2022

## 6.1 Spring Statement 2022

On 23 March 2022 the Chancellor presented his Spring Statement to the House.[90] This fiscal event bore some similarities to a Budget, as the Chancellor announced two important tax measures: an increase in National Insurance thresholds for the coming year and a cut in the rate of fuel duty.[91] He also announced plans for future tax reform, which included a proposal to cut the basic rate of income tax from 20% to 19% from April 2024.[92]

Although the Chancellor did not announce any changes to the Government's policy for freezing the personal allowance and the higher rate threshold, the OBR published updated estimates of the impact of this measure. The OBR's forecast for inflation for the coming year was considerably higher than its forecast the previous October, with a knock-on impact for the extra tax receipts from this income tax rise.[93]

In its discussion of the personal tax measures in the Spring Statement, the OBR stated that it expected the measure would £18.0 billion by 2025/26, compared with its estimate of £8.2 billon made a year before, at the time of the Spring 2021 Budget.[94] The OBR also updated its estimates of the impact that this measure would have on the number of individuals brought into paying income tax, and the number who would be brought into the higher rate band. By 2025/26 the OBR forecast that an additional 2.77 million people would be paying tax, and an additional 2 million would be in the higher rate tax bracket.[95]

In this context it is worth noting that in June 2022 HMRC published updated statistics on income tax liabilities.[96] As part of this, it is forecast that the

90 HC Deb 23 March 2022 cc337-373; HMT press notice, Chancellor announces tax cuts to support families with cost of living, 23 March 2022; Spring Statement, CP653, March 2022

91 HMT, Spring Statement 2022: Personal Tax Factsheet, 23 March 2022. Statutory provision for this increase in NI thresholds was made by the National Insurance Contributions (Increase of Thresholds) Act 2022; and, HMT, Spring Statement 2022: Fuel Duty Factsheet, 23 March 2022. Statutory provision for this measure was made by Order (SI 2022/365).

92 HM Treasury, Spring Statement Tax Plan, March 2022

93 For more details see, Commons Library briefing CBP9505, Spring Statement 2022: a summary.

94 OBR, Economic & Fiscal Outlook, CP 648, (PDF) March 2022 p205. See also PQ HL873, 23 June 2022.

95 as above p102. See also, PQ HL1614, 21 July 2022.

96 HMRC, Income Tax liabilities statistics: tax year 2019/20 to tax year 2022/23, 30 June 2022

numbers of higher rate taxpayers would rise from 3.83 million in 2019/20 to 5.51 million in 2022/23.[97]

In a piece in the Times Paul Johnson noted that the higher receipts the Chancellor expected from this measure had given him the opportunity to cut the basic rate of tax: "[The reappearance of inflation] drove just about everything in last week's spring statement and is what allowed [the Chancellor] to cut taxation rates while increasing the tax burden and to cut planned spending on public services without announcing anything":

> In the face of this unexpected surge in prices I can see the logic behind most of his policies. Increase the point at which national insurance contributions start to be paid? Good for him. It helps low earners while aligning the NI system with income tax. Take the opportunity to announce a cut in the basic rate of income tax? I don't like the policy, especially when set alongside the increase in national insurance contributions rates, but I can see the political attraction.
>
> After all, inflation makes it a free giveaway. The freezing of the income tax personal allowance and higher rate threshold rake in so much money when inflation is high that income tax revenues won't suffer at all when the basic rate is cut.[98]

Writing in the Financial Times Chris Giles, the paper's economics editor, observed "Sunak was silent last week on the OBR's new estimate that [this measure] will now raise £18.8bn annually […] The £10.6bn additional inflation tax in 2026/27 on this measure alone is precisely the same value as the combined cost of 1p off the basic rate of income tax and the rise in national insurance threshold, according to the OBR."[99]

In answer to a PQ in June 2022 the then Financial Secretary to the Treasury, Lucy Frazer, reiterated the Government's plans to cut the basic rate of tax, while underlining that this would "require continued fiscal discipline and depend on the broader economy."[100]

## 6.2 The Government's Growth Plan

Following the Spring Statement in March 2022, there were a series of major political developments:

- the resignation of Boris Johnson as leader of the Conservative Party on 7 July;

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97 In 2019/20 HMRC state there were 3.83m higher rate taxpayers, and 421,000 additional rate taxpayers. For 2022/23 the forecast is 5.51m and 629,000 respectively. HMRC, Table 2.1 Number of individual Income Tax payers, 30 June 2022. see also, "Extra 2m workers pay higher-rate tax under Boris Johnson", Times, 30 June 202.2

98 Paul Johnson, High inflation threatens to raise nightmare scenario for pensioners, Institute For Fiscal Studies, 28 March 2022

99 "Rishi Sunak's decisions have raised the spectre of an 'inflation tax'", Financial Times, 31 March 2022

100 PQ11628, 10 June 2022

- the victory of Liz Truss in the Conservative Party leadership campaign and her appointment as Prime Minister on 6 September, followed by her appointment of Kwasi Kwarteng as Chancellor;
- the resignation of Kwasi Kwarteng on 14 October, and the appointment of Jeremy Hunt as Chancellor;
- the resignation of Liz Truss on 20 October, and the appointment of Rishi Sunak as Prime Minister on 25 October.[101]

As Chancellor, on 23 September Kwasi Kwarteng presented a series of major tax measures as part of the Government's Growth Plan. These measures included the cancellation of the Health and Social Care Levy,[102] a cut in the basic rate of income tax to 19% from April 2023, and the withdrawal of the 45% additional rate leaving a single higher rate of 40%.[103] Mr Kwarteng's statement was clearly a fiscal event, but in a departure from normal precedent it was not accompanied by an official forecast by the OBR.

Following his appointment as Chancellor, on 17 October Jeremy Hunt announced a series of changes to the Government's fiscal plans.[104] Mr Hunt confirmed that nearly all of the tax measures announced in the Growth Plan would be reversed, with some exceptions: principally, the cancellation of the Health and Social Care Levy.[105] Mr Hunt also announced that in addition to reversing plans to cut the basic rate of tax in April 2023, the basic rate would remain at 20%, and would "do so indefinitely until economic circumstances allow for it to be cut."[106]

Subsequently in a letter to the Treasury Committee Mr Hunt confirmed he would present an Autumn Statement, with the accompanying OBR forecast, on 17 November 2022.[107]

101 Commons Library briefing CBP813 The Budget and the annual Finance Bill has a longer narrative of these events.

102 HMT, Reversal of the Health and Social Care Levy Factsheet, 23 September 2022; HMRC, Reversal of the Health and Social Care Levy and in-year reductions for NICs rates, 23 September 2022

103 HMT, Income Tax factsheet, 23 September 2022. As noted in the Spring Statement 2022 the then Chancellor had proposed a 1 percentage point cut in the basic rate from April 2024.

104 HC Deb 17 October 2022 cc395-430

105 Legislation to provide for the cancellation of the Levy was made in a 'stand alone' Bill. Commons Library briefing CBP9626 Health and Social Care Levy (Repeal) Bill 2022-23 provides further details.

106 HC Deb 17 October 2022 c396

107 Treasury Committee, Correspondence from the Chancellor of the Exchequer, relating to the Autumn Statement and the Office for Budget Responsibility forecasts, 26 October 2022

# 7 Autumn Statement 2022: extending the freeze to April 2028

## 7.1 Autumn Statement 2022

On 17 November 2022 Chancellor Jeremy Hunt presented the Autumn Statement to the House. As part of his statement the Chancellor announced that both the personal allowance and the higher rate threshold would be frozen for an additional two years, along with thresholds for National Insurance contributions and inheritance tax:

> I have tried to be fair by following two broad principles: first, we ask those with more to contribute more; and secondly, we avoid the tax rises that damage growth. [...] I am maintaining at current levels the income tax personal allowance, higher rate threshold, main national insurance thresholds and the inheritance tax thresholds for a further two years, taking us to April 2028. Even after that, we will still have the most generous set of tax-free allowances of any G7 country.[108]

The Chancellor also announced a cut in the threshold for the 45% additional rate of income tax, from £150,000 to £125,140 from April 2023; and, a freeze in the employers national insurance threshold up to April 2028.[109]

As noted, the personal allowance is gradually withdrawn for taxpayers with an income above £100,000. The allowance is cut by £1 for every £2 of income above this threshold. As the allowance is set at £12,570, once someone's income reaches £125,140 they will have had their entire allowance withdrawn: £100,000 + (£12,570 x 2).[110] Withdrawing the personal allowance this way means that individuals whose income lies between £100,000 and £125,140 face a marginal rate of tax of 60%, not 40%. When the additional rate threshold was set at £150,000, the marginal rate would drop from 60% to 40% for incomes above £125,140, before rising to 45% for incomes above £150,000. Setting the additional rate threshold at £125,140 removed the 40% band over this income range.[111]

At the time the Government stated that legislation to provide for the two-year extension to the freeze of the personal allowance, higher rate threshold and

108 HC Deb 17 November 2022 c846. See also, HMT press notice, Chancellor delivers plan for stability, growth and public services, 17 November 2022

109 as above

110 HMRC, Income Tax Additional Rate Threshold from 6 April 2023, 21 November 2022

111 In their response to the Autumn Statement the Resolution Foundation noted this measure represented 'a small simplification' (Torsten Bell et al, Help today, squeeze tomorrow – Putting the 2022 Autumn Statement in context (PDF), Resolution Foundation, November 2022 p26).

inheritance tax threshold would be included in an Autumn Finance Bill; the freeze in National Insurance thresholds would be legislated for in secondary legislation.[112]

The freeze in both income tax and NICs thresholds for individuals was estimated to raise £1.26 billion in 2027/28.[113] By contrast the five-year freeze to NICs thresholds for employers was forecast to raise £3.2 billion in 2023/24, rising to £5.8 billion by 2027/28.[114]

The Autumn Statement also confirmed the cut in the additional rate threshold from £150,000 to £125,140 from 6 April 2023 would be legislated for in the forthcoming Autumn Finance Bill. This tax increase was forecast to raise £420 million in 2023/24, rising to £855 million by 2027/28.[115]

In its Economic and Fiscal Outlook the OBR noted that the freezes "take the real value of the personal allowance in 2027/28 back to its 2013/14 level, which was mid-way through the Coalition Government's series of above-inflation increases that raised its real value by around half between 2010/11 and 2015/16."[116]

HMRC published a series of tax information and impact notes on the measures in the Autumn Finance Bill, one of which considered the freeze to both income tax and NICs allowances and thresholds. It noted that the measure was "expected to bring 92,000 individuals into Income Tax and 55,000 into paying NICs by 2027 to 2028 (there will be a significant overlap between these groups)" while "actual impacts for individual taxpayers will vary according to individual circumstances."[117]

A second impact note covered the new additional rate threshold, and noted that, "From 2023 to 2024, this measure will impact around 792,000 taxpayers of whom around 232,000 will pay the additional rate of tax who would not have done so had this threshold been maintained at £150,000." It went on to state that, "for those with income between £125,140 and £150,000, the average cash loss is £621 in 2023 to 2024. For those with income above £150,000 the average cash loss is £1,256 in 2023 to 2024."[118]

112 Autumn Statement 2022, CP 751 (PDF), November 2022 para 5.17-9. See also, HMRC, Income Tax Personal Allowance and the basic rate limit, and certain National Insurance contributions thresholds from 6 April 2026 to 5 April 2028, 21 November 2022.

113 as above p59 (Table 5.1 – item 25). HM Treasury, Autumn Statement 2022 Policy Costings (PDF), November 2022 p19. It was estimated the measure would not have a financial impact in 2026/27. The OBR forecast CPI inflation to be **negative** in 2025 : specifically -0.8% (Economic and Fiscal Outlook, CP 749, November 2022, Table A.1, p55)

114 Autumn Statement 2022, CP 751, (PDF) November 2022 p60 (Table 5.1 – item 32). A footnote to Table 5.1 notes that in this case, "This measure is expected to have an indirect effect on wages. The impact of this effect on tax receipts is captured as part of the wider OBR forecast."

115 Autumn Statement 2022, CP 751, (PDF) November 2022 para 5.20, Table 5.1 – item 27.

116 OBR, Economic and Fiscal Outlook, CP 749, November 2022 pp33-4

117 HMRC, Income Tax Personal Allowance and the basic rate limit, and certain National Insurance contributions thresholds from 6 April 2026 to 5 April 2028, 21 November 2022

118 HMRC, Income Tax Additional Rate Threshold from 6 April 2023, 21 November 2022

## 7.2 Initial response to the two-year extended freeze

There was a lot of press speculation before the Autumn Statement that the Chancellor would extend the freeze to the personal allowance and higher rate threshold.[119] This may explain why there was less coverage of this decision than other measures.[120] Looking just at income tax, the Financial Times consumer editor Clear Barrett highlighted the fact that the Chancellor's cut in the additional rate threshold had not removed the impact of the withdrawal of the personal allowance for those earning over £100,000: that is, a marginal rate of 60%, over the range of earnings when taxpayers may still claim part of the allowance.[121]

In its commentary on the 2022 Autumn Statement, the Resolution Foundation noted that the two-year extension was "not currently expected to have as large an impact as those taking effect in April 2023 and April 2024" but that "the full impact of the six-year personal allowance freeze is substantial":

> The personal allowance would have been expected to reach £15,400 in 2027/28, rather than £12,570, a difference equivalent to paying £600 more in Income Tax that year. A higher personal allowance was a signature tax cut of the 2010s: this freeze undoes around half (49 per cent) of those rises in real terms, and takes its level back to around where it was in 2013/14.[122]

The authors went on to argue that relying on threshold freezes rather than increases in tax rates (such as the Health and Social Care Levy) made "the distribution of tax rises less fair, in some ways, than it could have been":

> The Levy had its own inequities, and the combination of raising NI while cutting the basic rate of Income Tax (which was policy under Cha ncellor Sunak) was particularly nonsensical. But to raise additional revenue from Income Tax and personal NI contributions via threshold freezes does lead to some regressive results.[123]

Introducing the IFS' analysis of the 2022 Autumn Statement, IFS director Paul Johnson noted that the four-year freeze announced in Budget 2021 constituted "a very big tax increase indeed", while the increase by extending it by two years was "relatively modest by comparison." Mr Johnson went on to observe that the cut to the additional rate threshold represented "a big and fundamental change to our income tax system":

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119 For example, "Freeze in UK income tax thresholds predicted to raise £30bn a year", Financial Times, 9 November 2022

120 "Autumn Statement: Millions of Britons face higher tax bands", Financial Times, 17 November 2022

121 "Stealth taxes, not wealth taxes", Financial Times, 17 November 2022

122 Torsten Bell et al, Help today, squeeze tomorrow – Putting the 2022 Autumn Statement in context (PDF), Resolution Foundation, November 2022 p28

123 as above p30. Figure 24 on p31 of the report presents some analysis of the distributional impact of this approach to raising income tax.

> Reducing the point at which the additional 45% rate of income tax kicks in raises less than £1 billion a year […]
>
> [However], what will change a lot is the structure of income tax. When the additional rate was introduced in 2010 only around 200,000 people paid it. Now anyone earning over £100,000 will pay at 60% on incomes up to £125,140, and at 45% over that. Altogether 4% of adults, around 2 million people, will be paying income tax at 60% or 45% by 2027-28. That's more than were paying the higher 40% rate back in 1990. Meanwhile we expect there to be nearly 8 million people paying at that 40% rate.
>
> This is a big and fundamental change to our income tax system and a big increase in the marginal rate of tax faced by millions.[124]

In his presentation IFS senior economist Stuart Adam noted that by 2027/28 it was estimated there would be more people with a marginal rate of tax of 45/60%, than the number who were liable to the higher-rate 1990/91. Further to that, with multi-year freezes to all the main income tax and NICs thresholds, the size of this tax rise would "depend hugely on what inflation turns out to be."[125] The point was also made in the IFS' first response to the Chancellor's statement, published the same day:

> As ever, using freezes to raise revenue can be politically easier than other options and it does have the advantage of avoiding sharp overnight reductions in income, but it also comes with significant downsides, especially when implemented over several years. The real-terms impacts are highly uncertain because they depend on unknown future rates of inflation. The past few months illustrate this starkly. Inflation expectations have fallen, meaning that the freezes already announced are now expected to raise less than previously thought.[126]

## 7.3 Autumn Finance Bill 2022

As anticipated, some days after the Autumn Statement the Government introduced a short Finance Bill, which included provisions to set the personal allowance and the higher rate threshold for the two-years 2026/27 and 2027/28. After its second reading on 28 November, the Bill's Committee stage was taken on the floor of the House on a single day: 30 November 2022.

On this occasion the then Financial Secretary Victoria Atkins set out the Government's case for the two-year freeze as follows:

> Clause 5 will set the personal allowance at £12,570 and the basic rate limit at £37,700 for 2026-27 and 2027-28. Those thresholds, which have already been fixed at the current levels until April 2026, will be maintained for a further two years until April 2028 […]

124 Paul Johnson, Autumn Statement 2022: Opening Remarks, IFS, 18 November 2022 pp7-8
125 Stuart Adam, Autumn Statement 2022: Tax changes [PDF], IFS, 18 November 2022 (Slide 4,2)
126 Paul Johnson et al., Autumn Statement 2022 response, Institute for Fiscal Studies, 17 November 2022

> Thanks to previous significant real-terms increases, [the personal allowance] will still be more than £2,000 higher by April 2028 than if it had been uprated by inflation since 2010, with an estimated 1.6 million more people taken out of paying tax. Approximately 30% of people do not pay tax as a result of the personal allowance. I hope Government Members are proud that we have achieved that.
>
> This Government also enacted the largest ever increase to a personal tax starting threshold in July this year by raising the national insurance starting threshold to £12,570, ensuring that some of the lowest earners do not pay any tax. That means that in 2028 someone on the average salary of £28,000 will still pay almost £900 less in tax than if tax thresholds had gone up with inflation since 2010. The income tax higher rate threshold is still high enough to protect the vast majority of people from paying the higher rate of income tax; approximately 80% of taxpayers pay tax at the basic rate.[127]

Speaking for the Opposition James Murray argued that the clause "represents the latest stealth tax on working people", and that abolishing the tax treatment of 'non-domiciled' individuals would be a much fairer way to raise more funds.[128]

Speaking for the Liberal Democrats Helen Morgan also termed the measure an "unfair stealth raid", and moved an amendment to the clause that would require HMRC to "write to all those affected by those income tax threshold freezes, to tell them whether they are paying more tax than they normally would and, crucially, whether they have been dragged into a higher tax band."[129]

In response the then Financial Secretary opposed the amendment, noting that "HMRC already takes forward such information in practice by informing employed people and pensioners of changes to their tax code", while "self-employed people will receive assessments informing them of their tax liabilities and HMRC has an existing online service where people can check their income tax estimates and tax codes at any time."[130] In the event the House rejected the amendment – by 285 votes to 55 – and agreed to the clause by 285 votes to 210.[131]

On this occasion Victoria Atkins also noted the Government's decision to set the additional rate threshold at £125,140 "precisely because that is the end of the taper rate for the personal allowance […] I will happily admit that the tax system is very complicated, but we have tried to simplify that part of it."[132]

127 HC Deb 30 November 2022 cc931-2

128 HC Deb 30 November 2022 c938

129 HC Deb 30 November 2022 c947

130 HC Deb 30 November 2022 c954

131 This provision now forms section 5 of Finance Act 2023. National Insurance thresholds for 2023/24 were set by Order (SI 2023/236). At this time the Government stated that thresholds for future years would be set annually, as is standard practice (Explanatory Memorandum to […] SI 2023/236 (PDF), March 2023 para 7.7).

132 HC Deb 30 November 2022 c932

## 7.4 Spring Budget 2023

The Chancellor presented the Spring Budget 2023 on 15 March 2023. Mr Hunt did not mention the decision to freeze the personal allowance and higher rate threshold up to April 2028 in his Budget statement, although he noted that "because of rises in tax thresholds made by successive Conservative Chancellors, people in our country can earn £1,000 a month without paying a penny of tax or national insurance."[133] Similarly the freeze to these allowances, and the other allowances and thresholds set in Autumn Statement 2022, was not mentioned in the Budget report.

In their Economic and Fiscal Outlook the OBR noted that the resulting 'fiscal drag' from the freeze to these personal tax allowances "is set to raise significant sums as the average effective tax rate (total tax paid as a share of total income) rises more quickly over time. This happens as nominal earnings rise relative to tax thresholds, so that more of taxpayers' income is taxed, and more of what is taxed falls into higher tax bands."[134]

The OBR estimated that the effect of freezing these thresholds, with the cut in the additional rate threshold and freezes to both employee and employer NICs thresholds would be to "increase receipts by a combined £29.3 billion a year (1.0 per cent of GDP) in 2027/28 […] Based on HMRC ready reckoners, this would be equivalent to a 4p increase in the basic rate of income tax. It is dominated by the yield from freezing the personal allowance and the higher rate threshold."[135]

The OBR also updated its estimates of the impact of fiscal drag on the additional number of individuals who would start to pay income tax, and those paying it at either the higher or additional rate band:

> As nominal earnings grow, these measures bring more people into income tax and NICs, and pull more taxpayers into higher and additional rates than would have occurred had the thresholds continued to rise with CPI inflation (ie, there would be fewer taxpayers subject to each marginal tax rate in the counterfactual, assuming the same level of earnings growth).
>
> Based on our latest forecasts for earnings growth and CPI inflation, these measures are expected to generate 3.2 million (9 per cent more) new taxpayers, 2.1 million (47 per cent more) new higher-rate taxpayers, and 0.35 million (47 per cent more) additional-rate taxpayers by the end of the forecast than would have been had the thresholds continued to be uprated with inflation or, in the case of the ART, remained flat at a higher level.[136]

Finally the OBR also updated its forecasts for the tax burden (that is, the ratio of National Accounts taxes to GDP), seeing it rise 37.7% of GDP in 2027/28

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133 HC Deb 15 March 2023 c836
134 OBR, Economic and Fiscal Outlook, CP 804, March 2023 p65 (Box 3.2)
135 as above p66 (Box 3.2)
136 as above pp66-7 (Box 3.2)

"which would be a post-war high and is 4.7 percentage points above where it stood before the pandemic."[137]

Generally, coverage of the Spring Budget 2023 focused on the new measures the Chancellor announced in Budget statement – principally proposals for the extension of free childcare to working families with children under 3, and changes to the tax reliefs for private pension savings.

As part of the IFS' response, Isaac Delestre gave a presentation on tax changes, and noted that the previously announced freezes to income tax and NICs would "bite hard": a freeze that would cost most basic-rate taxpayers £500 and most higher-rate payers £1000 in the coming tax year.[138] IFS director Paul Johnson was one of a number of economists who gave evidence to the Treasury Select Committee after the Budget, and, noting the trend of wages rising "a lot less quickly" than prices, added, "what makes that more substantial in terms of the impact on household incomes is that the freezing of personal tax allowances and thresholds is a really very big tax rise over this period. If you look back to when this began last year to when it is intended to end, we are looking at something like a £30 billion tax increase."[139]

The issue was also raised when the Committee took evidence from the OBR, when Dame Angela Eagle (Labour) suggested to Professor David Miles CBE (Member of Budget Responsibility Committee) that fiscal drag was creating a "substantial but stealthy rise in tax rates for people":

> **Dame Angela Eagle**: If you had frozen income tax thresholds and inflation is 10.1% at least for this year and not zero by the end of the year, fiscal drag, even if they do not have much of a pay increase, will mean that people are dragged into higher rates. We have a cost of living crisis, falling real incomes and quite a substantial but stealthy rise in tax rates for people.
>
> **Professor Miles**: You are right: it is a rise in tax rates [...] It is one of the many painful means of trying to close the gap between tax revenues and spending. I suppose that, at one level, you could say that the only source of tax revenue, in a sense, is the people of the country.
>
> There are many ways you can get the money. You could try to do it through VAT. You could do it through corporation tax, but, ultimately, of course corporations are owned by households. At one level, it has to come from somewhere and this is just one of the more important ways of trying to close the gap and stop the stock of debt carrying on going up.[140]

137 as above pp77-78. Further to these figures the report looked at the UK's tax burden in historical and international context (see Box 4.2). David Smith, the Sunday Times economics editor, commented on this trend : "Don't be fooled, we're on the road to higher tax", Sunday Times, 26 March 2023.

138 Issac Delestre, Changes to the tax system (PDF), IFS Spring Budget 2023, 16 March 2023; IFS (@TheIFS), X/Twitter 25 March 2023 [accessed 19/10/2023]. See also, Adam Corlett, Happy new tax year, 2023!, Resolution Foundation, 1 April 2023.

139 Treasury Committee, Oral evidence: Budget 2023, HC 1217, 21 March 2023 Q42

140 Treasury Committee, Oral evidence: Budget 2023, HC 1217, 22 March 2023 Q131

Dame Angela went on to ask Richard Hughes (Chair of the OBR) if the Economic and Fiscal Outlook should have provided “more transparency about these tax levels”:

> **Richard Hughes**: We have tried to spell this out, not so much to be unpleasant to the Government, but just to show this is a really big source of where the Government is getting extra revenue over the next five years and why the tax burden is going up. It is accounting for anywhere between one percentage point and two percentage points of that 5% rise in the tax burden over the period between the pandemic and the end of our forecast.[141]

When the Chancellor gave evidence to the Committee, Dame Angela asked him why he had decided to freeze thresholds rather than put up tax rates:

> **Dame Angela Eagle**: Why not be up front and put it on the basic rate? If you freeze thresholds, it happens stealthily. You accept that, surely?
>
> **Jeremy Hunt**: I happen to think this is a better way of doing it. Let me say to you: I have been completely up front.
>
> I have never hidden the fact that we have extended the threshold freeze. But overall, one of the things I am most proud of is that since 2010, because of increases in the threshold for both tax and national insurance, someone on the average salary of £28,000 a year is paying £1,000 less tax and national insurance than they were paying in 2010. That is the aggregate impact of our commitment.[142]

## 7.5 Autumn Statement 2023

On 5 September 2023 the Chancellor confirmed that following the pattern of the previous year, the next fiscal event would be an Autumn Statement, to be presented on 22 November 2023.[143]

The following month the Institute for Fiscal Studies (IFS) published its analysis of the Chancellor’s options for tax and spending changes in its Green Budget.[144] As part of this IFS researchers looked at a number of risks posed by different policies to the state of the public finances, including the decision to freeze personal tax thresholds up to 2027/28. As the authors noted, “what started out as a four-year freeze to income tax thresholds to raise an estimated £8 billion is now a plan for a six-year freeze – and one that now

141 as above Q132

142 Treasury Committee, Oral evidence: Budget 2023, HC 1217, 29 March 2023 Q205. See also, HL Deb 4 July 2023 cc1107-10; PQ193118, 13 July 2023.

143 HM Treasury press notice, Autumn Statement 2023 date confirmed, 5 September 2023

144 Institute for Fiscal Studies press notice, No room for unfunded tax cuts or spending increases – this year or next, 17 October 2023

applies to NICs thresholds as well as income tax – which we estimate would raise £52 billion in 2027/28."[145]

The scale of this tax rise is considerable. By comparison the "biggest single tax-raising measure in recent history" – the decision in the June 2010 Budget to increase the standard rate of VAT from 17½% to 20% - is estimated to raise £21 billion in 2027/28. To raise an equivalent sum of money from putting up tax rates would require "increasing both the basic and higher rate of income tax by 6p, or increasing the main rate of VAT from 20% to 26%."[146] As IFS director Paul Johnson noted, the freeze "really is a staggeringly big tax increase" and "it's a key part of why taxes are rising to [their] highest level ever."[147]

Freezing thresholds this way is also unprecedented in recent history. "In recent history, the UK has frozen the income tax personal allowance on a number of occasions (1981/82, 1993/94 and 1994/95, 2003/04, 2010/11 and 2020/21) but never more than two years in a row." If the freeze remained in place until 2027/28, the personal allowance would still be, in real terms, "above the level seen in any year prior to 2013/14."[148]

The freeze would also have implications for two other aspects of the income tax system: the allowance that taxpayers aged 65 and over are entitled to claim; and, the income threshold for the higher rate of tax:

> Those aged 65 and over used to be able to receive an enhanced income tax allowance, but this was phased out between 2010/11 and 2015/16 at the same time as there were sharp increases in the personal allowance. As a result, the tax-free allowance for this group has already been reduced to below its 2008–09 level, and under the ongoing freeze in 2027/28 it is set to be reduced to its lowest real-terms value since 2002/03.
>
> For the higher-rate threshold the story is also different [...] Between 2010/11 and 2015/16, its value was actually cut in cash terms, let alone real terms, as the government wanted the gains from the large increases in the personal allowance to be more targeted at basic-rate taxpayers than they would otherwise have been.
>
> As a result, the current value of the higher-rate threshold, £50,270, is already 22% lower in real terms than it would be had it increased in line with inflation since 2010/11. Freezing this threshold through to 2027/28 would, under the Bank of England's August 2023 forecast, lead to it falling to 28% lower than its 2010/11 level.[149]

145 Carl Emmerson Martin Mikloš Isabel Stockton, Policy risks to the fiscal outlook, IFS Green Budget, 17 October 2023 p35

146 as above p6

147 Paul Johnson (@PJTheEconomist), Twitter/X, 17 October 2023 (accessed 30/10/2023). See also, "Sunak's tax freeze nets UK government £40bn bonus", Financial Times, 6 October 2023; Torsten Bell, "Top of the Charts: Euston, we have a problem", Resolution Foundation, 6 October 2023.

148 Carl Emmerson Martin Mikloš Isabel Stockton, Policy risks to the fiscal outlook, IFS Green Budget, 17 October 2023 p6

149 as above. See also, Robert Colville, "It's time for this remorseless, relentless fiscal drag to end", Times, 10 November 2023; "Why the Times is calling for Jeremy Hunt to end stealth taxes", Times, 10 November 2023.

In the event the Chancellor did not mention the Government's approach to freezing the personal allowance and the higher rate threshold in the Autumn Statement.

However, Mr Hunt announced certain other changes to personal taxation – specifically, three reforms to National Insurance contributions:

- A 2 percentage point cut in the main rate of NICs paid by employees, from 12% to 10%, from 6 January 2024.
- A 1 percentage point cut in the main rate of NICs paid by the self-employed, from 9% to 8%, from 6 April 2024.
- Removing the requirement for the self-employed to pay the flat-rate Class 2 NICs charge if their annual profits exceeded the lower-profits limit (£6,725 a year), from 6 April 2024.[150]

It is estimated the cost of these tax cuts will be £10 billion by 2028/29, with an average five-year cost of £9.7 billion a year.[151] Following the Autumn Statement the Government introduced legislation to make these changes to NICs.[152]

At this time the OBR published updated estimates of the impact of the freeze to the personal allowance and higher rate threshold up to 2028/29, as well as the associated freezes to NICs thresholds. It forecast that over the period 2022/23 to 2028/29, the set of threshold freezes would result in nearly 4 million additional individuals paying income tax, while 3 million more would have moved to the higher rate, and 400,000 more onto the additional rate. "This represents an increase in the number of taxpayers in each band of income tax – 11 per cent for the basic rate band, 68 per cent for the higher rate and 49 per cent for the additional rate."[153]

In terms of tax revenues, the OBR forecast that "relative to raising thresholds by CPI, this set of freezes are now estimated to raise £42.9 billion […] by 2027/28 and £44.6 billion by the end of the forecast (1.4 per cent of GDP)." By contrast "the reduction in the employee rate of NICs in this Autumn Statement will reduce the impact of the primary threshold freeze by only around £180 million."[154] The OBR went on to note that "frozen thresholds are the largest contributor to the rising overall economy-wide tax burden – responsible for

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150 HC Deb 22 November 2023 c334; Autumn Statement, CP 977 (PDF), November 2023 para 5.13

151 OBR, Economic and Fiscal Outlook, CP 944 (PDF), November 2023 para 3.6. see also, HMRC, A reduction in the main rates of Primary Class 1 and Class 4 NICs and the removal of the requirement to pay Class 2 NICs: tax information and impact note, 23 November 2023.

152 For details see, Commons Library research briefing CBP9898, National Insurance Contributions (Reduction in Rates) Bill 2023-24.

153 OBR, Economic and Fiscal Outlook, CP 944, November 2023 pp69-70 (Box 3.1)

154 The £180 million figure is just the interaction with November 2022's freeze in the primary threshold. It does not account for the raising of the primary threshold in March 2022. Taken together, the two changes to the primary threshold in 2022 were a net Exchequer cost. The NICs cuts announced in this Autumn Statement slightly reduces the net cost of the 2022 measures.

almost a third the 4.5 per cent of GDP increase in taxes from 2019/20 to 2028/29."[155]

As part of the IFS' presentation on the Autumn Statement, Paul Johnson, IFS director, argued that it was important to see the impact of the Chancellor's decision to cut NICs for employees and the self-employment in the context of the continued freeze to thresholds: "

> It bears repeating that the £10 billion or so cut in the NIC rates pales into relative insignificance alongside the long-term increase in personal taxes created by the six year freeze in allowances and thresholds. Higher than expected inflation has added around £14 billion to the size of that fiscal drag just since March, taking the total to some £50 billion. As a result, the level of personal taxation expected in 2027/28 is much the same as was expected after the March Budget. The NICs cut is essentially, though not quite, offsetting greater than expected fiscal drag.

He went on to argue that "if you are going to cut the rate of either income tax or NICs, though, cutting the NI rate was the right decision – and an unusual one":

> Over the past 40 years NI rates have tended to rise as the basic rate of income tax has been cut. This is in fact the first cut to the main NI rate in modern history (other than the reversal of the short lived 2022 increase that was to become the health and social care levy that was never actually implemented). Until now this was a tax that only seemed to go one way.[156]

In their presentation on the Autumn Statement the Resolution Foundation observed that changes to both income tax and NICs over the past six years had left most taxpayers worse off, with some exceptions:

> Zooming out to look at the impact of all of this Parliament's Income Tax and NI policy changes, including the full six-year threshold freeze, almost all those paying Income Tax or National Insurance lose out. The new £10 billion tax cut compares to a £45 billion tax rise in 2028-29 from previous policies, meaning a net personal tax rise of around £1,200 per household [...]
>
> Some narrow groups of employees may be net winners, however: those earning around £50,000 (who receive the full benefit of the NI rate cut) and some very low earners who have benefited most from past increases in the NI threshold. Overall, the combination of threshold freezes and rate cuts leaves a strange distribution of tax rises (and cuts) that is hard to justify.[157]

In this context Dan Neidle, a tax lawyer, published the results of some polling carried out by WeThink, on behalf of his Tax Policy Associates think-tank, about the impact people thought the cut in NICs rates would have, and more generally, the change in the tax burden over the past year and a half. As he

155 OBR, Economic and Fiscal Outlook, CP 944, November 2023 pp69-70 (Box 3.1)

156 Paul Johnson, Introductory Comments: Autumn Statement 2023, (PDF) Institute for Fiscal Studies, 23 November 2023 p4

157 Torsten Bell and others, A pre-election Statement: putting the Autumn Statement 2023 in context, Resolution Foundation, 23 November 2023 p25

noted, the share of respondents who believed that they were paying more tax was surprisingly low:

> The national insurance cut is much smaller than the approximately £50bn raised from "fiscal drag" – holding tax thresholds steady in nominal terms as inflation erodes their real value [...] It's interesting that fiscal drag is not "cutting through" as an issue, given that it is both a real effect, and the subject of frequent press commentary.[158]

The Treasury Select Committee held an enquiry on the Autumn Statement, which consisted of three evidence sessions: with officials from the OBR on 28 November, with a number of economists on the same day, and with the Chancellor on 29 November.

The Government's decision to maintain the freeze in the personal allowance and higher rate threshold was not a major theme to these exchanges. That noted, in the first of these sessions Anne Marie Morris (Conservative) asked Professor David Miles (lead on economic analysis at the OBR) on the impact of the Autumn Statement on the incentives for individuals to work more. Professor Miles noted that the cut in NICs was "unambiguously a positive" but the impact from freezing income tax thresholds was "quite complicated to work out":

> [This is] because most people do not cross the boundary: they stay as basic rate taxpayers or higher rate taxpayers, or they stay as non-taxpayers because they do not get to the limit to pay tax. Most people do not change the boundaries, but a lot of those people might find that their standard of living is a little bit lower, and so they have an incentive to work more. There is a smaller group of people who face a really substantial change in the incentive to work at the margin, and they work less.
>
> At the moment, we are doing some analysis to try to work out what the net effect of those is, and it is actually pretty complicated. We will have a clearer view on it by the spring Budget, and we will be able to give you a firmer answer on what the net effect of that is, but the national insurance thing in itself is positive for the supply of labour in the UK.[159]

In February 2024 the OBR published further detail of its estimates made at the time of the Autumn Statement of the impact of the reduction in NICs rates on labour supply.[160] As part of this it noted "as indicated in our November 2023 Economic and Fiscal Outlook, we also intend to use the same modelling approach to analyse the impacts on labour supply of frozen personal tax thresholds in the context of the recent high inflation."[161]

158 Tax Policy Associates, Are voters noticing fiscal drag?, 26 November 2023

159 Treasury Select Committee, Oral evidence: Autumn Statement 2023, HC 286, 28 November 2023 Q45

160 The OBR had estimated the cut in NICs rates for both employees and the self-employed would increase hours worked by 0.3 per cent, or 94,000 in full-time equivalent terms (OBR, Economic and Fiscal Outlook, CP 944, November 2023 para 3.7).

161 OBR, The labour supply effects of the Autumn 2023 National Insurance contributions cut (PDF), 8 February 204 para 21

As noted, one of the consequences of the decision to freeze the personal allowance and higher rate threshold has been a substantial increase in both the numbers of individuals paying income tax, and the numbers liable to the higher rate or additional rate. In December 2023 HMRC's CEO Jim Harra gave evidence to the Public Accounts Committee on HMRC's performance over the past year. Mr Harra highlighted the impact that this trend was having on HMRC's compliance workload:

> There are more and more people coming into the income tax system all the time [...] In addition, more customers are going into the higher rates and into the additional rate brackets. In addition, that means—there are other factors as well—going into more complex ends of the tax system [...] The key pressure on HMRC is that more taxpayers, and more taxpayers engaging in the part of the tax system where they have to actively engage with it, means more contact with the tax system and therefore more contact with HMRC.
>
> You have seen that in our telephone calls and our post. Last year, both went up by about 3 million—so about 3 million more phone calls and about 3 million more items of correspondence for us to deal with. That is a key pressure for us operationally, just handling the service that those customers need.[162]

In answer to a question from Peter Grant (SNP), Mr Harra explained that HMRC were not being given extra funds to cope with this increased workload:

> We have regular negotiations with Treasury on the resources that we need. We sometimes get additional resources to deal with pressures, either just external pressures coming from the economy or from policy change. By and large, when it comes to the growth in our contact demand, no, we are not getting more resources to answer more phone calls or deal with more post.[163]

Given the constraint on funding, and the fact that in many cases taxpayers can now answer their queries using online services instead, HMRC has sought to redirect demand to digital services. Later in the session Angela MacDonald, HMRC Second Permanent Secretary, stated that the department anticipated it would be able to meet its service standards within its current funding budget, if it managed to cut incoming phone and post contact by 30% by 2024/25, compared to 2021/22.[164]

In its final report, published in February 2024, the Committee was strongly critical of the continued decline seen in HMRC's service standards.[165] While the Committee noted HMRC's strategy to encourage the take-up of online services, it observed the concerns raised by several organisations that the department's digital services "lacked the functionality needed for taxpayers

162 Public Accounts Committee, Oral evidence: HMRC Standard Report 2022-23, HC 76, 14 December 2023 Q31. In this session Angela MacDonald, HMRC Second Permanent Secretary, said post and phone traffic were rising by more than 10% a year (as above Q83).

163 as above Q32

164 as above Qs84-5

165 Public Accounts Committee press notice, 'All-time low': HMRC customer service deteriorates amid taxpayers' exasperation, 28 February 2024. See also, "MPs rebuke HMRC for 'unacceptable' customer service", Financial Times, 28 February 2024.

and agents to use effectively."[166] The Committee went on to recommend that "HM Treasury and HMRC should ensure HMRC's customer services are sufficiently resourced in the short as well as the longer-term so that it can meet its service standards until its digital services adequately address the needs of taxpayers and their agents."[167]

While there has been speculation as to whether the Government might cancel the continued freeze in the Spring Budget on 6 March 2024,[168] to date Ministers have not given any indication that this is being considered.[169] The Institute for Fiscal Studies has published some analysis of the policy risks for the public finances, and suggested that the decision to maintain the freeze in allowances for a further three years was one of these:

> The fact that pretty much all thresholds in the personal direct tax system are being frozen in cash terms through to 2027/28 is also a policy risk for the public finances.
>
> [These freezes ...] are forecast to raise around £44 billion in 2027/28, of which £29 billion will be in place 2024/25. The risk to the public finances relates to whether the subsequent freezes will in fact go ahead. For example, freezing the income tax personal allowance will reverse around two-thirds of the real-terms increase in the personal allowance seen in the 2010s and will increase the share of adults paying income tax to above 66%, a level that has only been seen once before (in 2007/08 at the end of Gordon Brown's Chancellorship).[170] This large increase in taxpayer numbers could lead to pressure on the Chancellor, or his successor, to end the planned six-year freeze – much longer than any previously attempted or delivered – early.[171]

166 Public Accounts Committee, HMRC performance in 2022/23, HC 76 (PDF), 28 February 2024 p9

167 as above p5

168 see, for example, "Forget tax cuts and end the big freeze now", Times, 24 February 2024

169 see, for example, PQ12901, 9 February 2024

170 Emmerson, C., Mikloš, M. and Stockton, I "Policy risks to the fiscal outlook", in C. Emmerson, P. Johnson and B. Zaranko (eds), The IFS Green Budget, October 2023.

171 Emmerson, C., Mikloš, M. and Stockton, I., The context for the March 2024 Budget, Institute for Fiscal Studies, 27 February 2024 pp27-28