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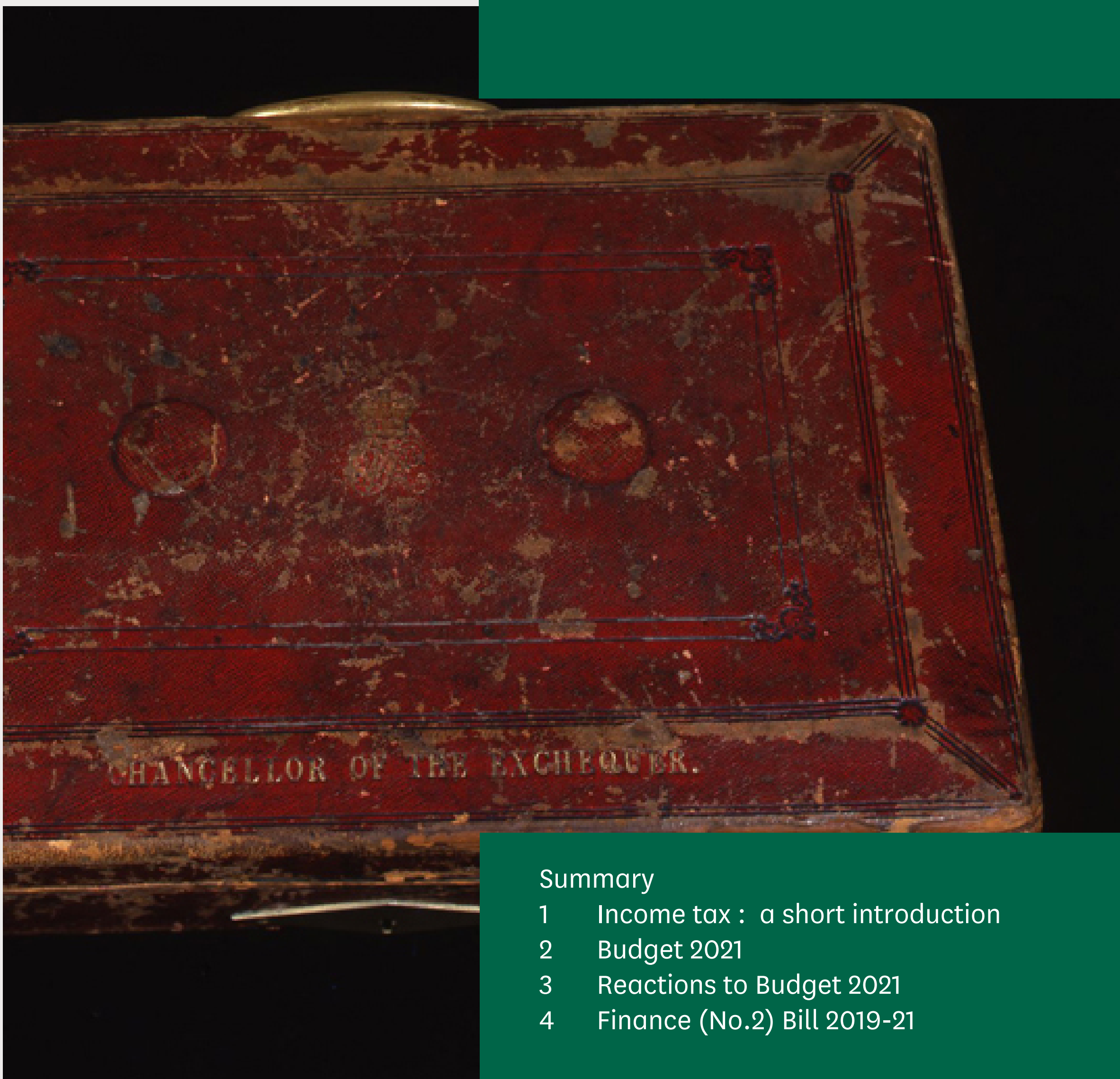
By Antony Seely

26 July 2021

Budget 2021 : personal allowance & higher rate threshold



Summary

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Summary

Income tax provides the biggest source of revenue for the Exchequer. In 2021/22 it is forecast to raise £198.2 billion. By comparison National Insurance contributions (NICs) and VAT are forecast to raise £146.8 billion, and £127.9 billion, in the same year. Taken together the three taxes raise just under 60% of UK government revenues.[1]

The Office for Budget Responsibility note, "The main reason that 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)."[2]

According to HM Revenue & Customs, in 2020/21 the top 10% of income taxpayers (including the top 1%) were expected to contribute around 60% of income tax receipts. The bottom 50% of income taxpayers (with incomes under £25,900) were expected to contribute around 9% of income tax receipts.[3] **These figures only include those paying income tax***.* They exclude, for instance, anyone whose income is too low to be charged income tax.[4]

Income tax on earned income is charged at three rates: the basic rate, the higher rate and the additional rate. For 2021/22 these three rates are 20%, 40% and 45% respectively. Tax is charged on taxable income at the basic rate up to the basic rate limit, set at £37,700. 'Taxable income' excludes personal allowances, which represent the amount of money someone may receive free of tax. Tax is charged at the higher rate on taxable income between the basic rate limit and the higher rate limit, set at £150,000. All three tax rates are unchanged from 2020/21.

The personal allowance is set at £12,570 for 2021/22. Both the allowance and the basic rate limit have been increased in line with inflation from 2020/21. As a result the higher rate threshold – the point at which individuals become liable to pay tax at the 40% higher rate – is £50,270 for 2021/22.[5]

1 Office for Budget Responsibility, *Economic and fiscal outlook*, CP387, March 2021 p103 (Table 3.4: Current Receipts). Current receipts are forecast to be £819.3 billion in 2021/22.

2 OBR, *Tax by Tax: Income Tax*, updated July 2021

3 HMRC, *National Statistics: Table 2.4 Shares of total Income Tax liability*, June 2021

4 *Tax statistics: an overview*, Commons Briefing paper CBP8513, 15 February 2021 (see section 3.1)

5 HM Treasury, *Budget 2021: overview of tax legislation and rates*, March 2021 (Annex A: Rates and Allowances).

In the 2021 Budget the 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.[6] This measure is forecast to raise £1.56 billion in 2022/23, rising to £8.18 billion in 2025/26.[7] Total receipts from income tax are forecast to rise from £198.2 billion in 2021/22 to £248.2 billion by 2025/16.[8]

This paper discusses the details of the Chancellor's announcement, and the response there has been to it to date.

[6] HC Deb 3 March 2021 c256

[7] *Budget 2021*, HC 1226, March 2021 (Table 2.1 – item 23). £1.6bn in 2022/23; £3.7bn in 2023/24; £5.8bn in 2024/25; and, £8.2bn in 2025/26.

[8] OBR, *Economic and fiscal outlook*, CP387, March 2021 p103 (Table 3.4: Current Receipts).

1 Income tax : a short introduction

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.

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).[9]

In 2019/20 income tax raised £193.6 billion. That represented 23.4% of all receipts and was equivalent to £6,800 per household and 8.7% of national income.[10]

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 tax payers 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 2022 for the 2020/21 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.[11]

[9] "What is income tax?", HMRC, *Income Tax receipts : Background documentation*, November 2020
[10] OBR, *Tax by Tax: Income Tax*, updated July 2021
[11] *ibid.*

HMRC publishes statistics on income tax receipts,[12] and income tax liabilities.[13] It explains the difference between receipts and liabilities and when one would want to use one 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.[14]

In 2020/21 it is estimated that the top 1% of income taxpayers (those with the largest incomes) received 12% of all income and contribute 28% of income tax receipts.[15] The top 10% of income taxpayers (including the top 1%) are expected to contribute around 60% of income tax receipts. The bottom 50% of income taxpayers (with incomes under £25,900) are expected to contribute around 9% 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.

In 1999/00 income tax receipts weren't concentrated to quite the same extent as they are now. The top 1% contributed 21% of income tax receipts in

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12 HMRC, *Statistics for Income Tax receipts*, updated November 2020

13 HMRC, *Income Tax statistics and distributions*, updated June 2021

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

15 HMRC, *National Statistics: Table 2.4 Shares of total Income Tax liability*, updated June 2021

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 2007-2008 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,[16] the threshold at which the higher income tax rate is paid has been lowered,[17] the income tax relief individuals can claim on pension contributions has been reduced and the tax rate on income over £150,000 has increased

For further distributional analysis of the UK tax system see, Tax statistics: an overview, Commons Briefing paper CBP8513, 15 February 2021.

1.2 Structure

Tax rates and thresholds

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 2021/22 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%.

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.

Taxable income in excess of the £37,700 threshold is charged at the higher rate of 40%, up to £150,000. Income earned above this threshold is charged tax at 45%.

Taxable income	Tax rate
£0 - £37,700	**20%**
£37,701 - £150,000	**40%**
Over £150,000	**45%**

16 The allowance is reduced by £1 for every £2 income is over £100,000.

17 In real terms ie after adjusting for inflation.

Two allowances apply to income from property and income from trading. 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 2020/21.[18]

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. It does not have the power to set the level of the income tax personal allowance.

For 2021/22 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 set out below – the table assumes someone is in receipt of the UK personal allowance:[19]

Taxable income	Tax rate
Over £12,570 - £14,667	**19%**
Over £14,667 - £25,296	**20%**
Over £25,296 - £43,662	**21%**
Over £43,662 - £150,000	**41%**
Above £150,000*	**46%**

* Personal Allowance is reduced by £1 for every £2 earned over £100,000

Savings and dividend income

For 2021/22 savings income 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 new 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

18 HMRC, *Tax-free allowances on property and trading income*, May 2019. see also, Low Incomes Tax Reform Group, *What is the trading allowance?*, June 2021 & *Renting out a property*, July 2021

19 The Scottish Government publishes details of these rates and thresholds on its site.

source by banks and building societies at 20%. Alongside the introduction of the PSA, automatic deduction of tax at source was withdrawn.[20]

For 2021/22 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 7.5%, up to the basic rate limit. Dividend income above this limit is charged at a higher rate of 32.5%, up to the higher rate limit. Dividend income above this limit is charged at an additional rate of 38.1%.[21]

Income tax allowances

Personal allowance

Every taxpayer resident in the United Kingdom is entitled to a **personal allowance** that can be set against any type of income for tax purposes. For 2021/22 this allowance is £12,570.

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 reach £10,000 for 2014/15.[22] 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.[23] 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.[24] This increase in the personal allowance for 2021/22 was confirmed in Budget 2021, along with the announcement that the allowance would be frozen at this level from April 2022 to April 2016.[25]

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.

Blind person's allowance

Any person registered as blind is entitled to the **blind person's allowance**. The allowance is set at £2,520 for 2021/22. If someone has insufficient income to make use of the allowance it can be transferred to their spouse or civil partner.

[20] For more details see, HMRC, *Tax on savings interest*, ret'd July 2021
[21] See also, Low Incomes Tax Reform Group, *Savings and tax*, July 2021
[22] For more details see, *Income tax : increases in the personal allowance since 2010*, Commons Briefing paper CBP6569, 15 November 2018.
[23] *Summer Budget 2015*, HC246, July 2015 paras 1.130-4
[24] *Budget 2018*, HC1629, October 2018 para 3.7
[25] *Budget 2021*, HC 1221, March 2021 para 2.74

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 April 2015. For 2021/22 the maximum that can be transferred is £1,260. 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.[26] In the Autumn 2017 Budget the Government announced that claims 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 4 years.[27]

*

For further details see, Low Incomes Tax Reform Group, *What tax allowances am I entitled to?*, April 2021

*

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 overleaf).

[26] HMRC, *Marriage allowance*, ret'd March 2021.

[27] *Autumn Budget 2017*, HC587, November 2017 para 3.6. See also, *Income tax allowances for married couples*, CBP870, 19 March 2021.

Indexation of Income Tax Allowances & 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*.[1] 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 since then, allowances went up in line with inflation or by more than inflation.[2]

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.[3] This approach was amended in the light of three measures: the phased withdrawal of the age-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.[4] The threshold for the additional rate (£150,000), and the income limit for the tapered withdrawal of the personal allowance (£100,000), have not been included in these provisions, and are 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.[5] 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. CPI rose by 0.5% in the year to September 2020.[6]

In the Spending Review in November 2020 the Government confirmed that it would "increase the 2021-22 Income Tax Personal Allowance and Higher Rate Threshold in line with the September CPI figure", and use this figure "as the basis for setting all National Insurance limits and thresholds, and the rates of Class 2 & 3 National Insurance contributions, for 2021-22."[7] Provision to increase the personal allowance – and the other allowances covered by this provision – as well as to increase the higher rate threshold in line with inflation for 2021/22 was made by Order: SI 2021/111.

Notes

[1] The statutory requirement to uprate allowances and thresholds, is consolidated in sections 57 & 21 of the *Income Tax Act 2007*, as amended

[2] HL Deb 7 January 2010 c121WA

[3] *Budget 2011*, HC 836, March 2011 para 1.128. see also, Office of National Statistics, *Users and uses of consumer price inflation statistics*, October 2016

[4] HMT *2021 Budget : policy costings*, March 2021 pp50-4 (Annex A).

[5] HMT, *Tax benefit reference manual: 2009-2010 edition*, July 2009, paras 1.16-19. [HC DEP 2009-1987]

[6] ONS, *UK Consumer Price Inflation: September 2020*, October 2020

[7] HM Treasury, *Spending Review 2020*, CP330, November 2020 para 1.36

1.3 Historical trends

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."[28]

Over this period income tax receipts as a share of GDP have fallen steadily …

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.

… with a fall in both the tax base, and the effective tax rate. In the latter case 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.[29]

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 among those reporting earnings at or below the personal allowance, so is likely to have lowered the proportion further."[30]

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

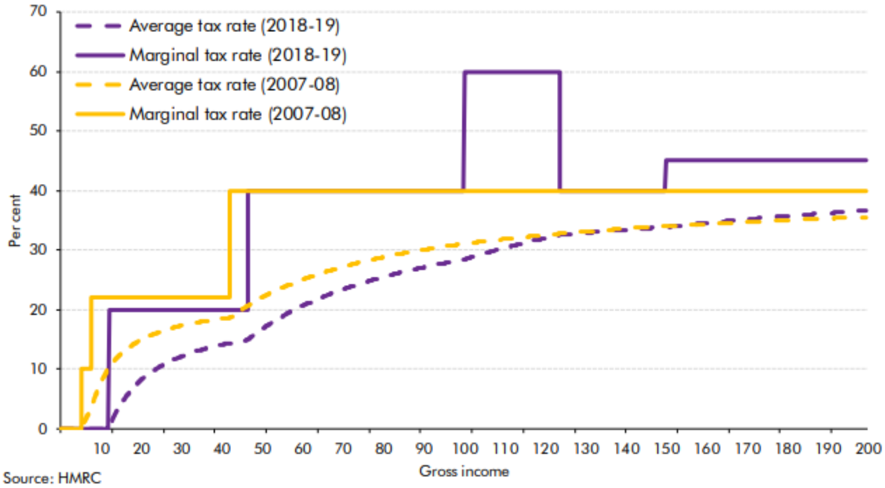
[29] *op.cit.* pp17-18

[30] *op.cit.* p19

In addition, "average income tax rates on most employment income have fallen for all taxpayers earing up to around £150,000", driven by a number of policy changes:[31]

- **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



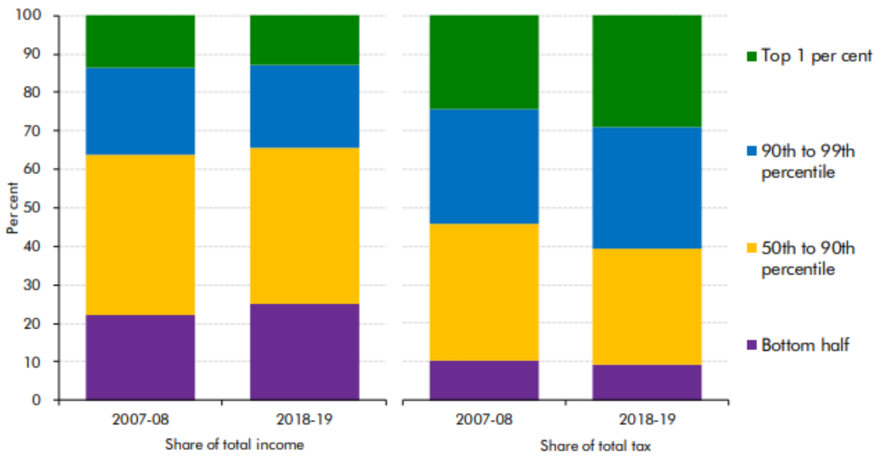
Source: HMRC

[31] *op.cit.* pp20-21

Finally, as noted above, the share of income tax receipts paid by higher earners has risen:[32]

> 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.[33] 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

[32] *op.cit.* pp21-22

[33] 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 Budget 2021

In his Budget statement on 3 March 2021 the 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, with the poorest households benefiting the most from our interventions, 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 have nearly doubled the income tax personal allowance over the last decade, making it the most generous of any G20 country. We will of course deliver our promise to increase it again 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. 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.[34]

The Chancellor also announced a freeze of certain other thresholds and allowances:

> 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.[35]

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

[34] HC Deb 3 March 2021 c256

[35] *ibid.*

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 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.[36]

The freeze in the personal allowance, higher rate threshold and NICs upper earnings limit/upper profits limit is forecast to raise £1.56 billion in 2022/23, rising to £8.18 billion in 2025/26.

The freeze in other thresholds and the pensions lifetime allowance (PLA) will also boost Exchequer receipts:[37]

[36] *Budget 2021*, HC 1226, March 2021 pp52-3

[37] *op.cit.* p42 (Table 2.1 – items 23-27)

	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.

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."[38]

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.[39] By contrast, the personal allowance and basic rate limit were both frozen for 2020/21, as had been announced in the 2018 Budget.[40]

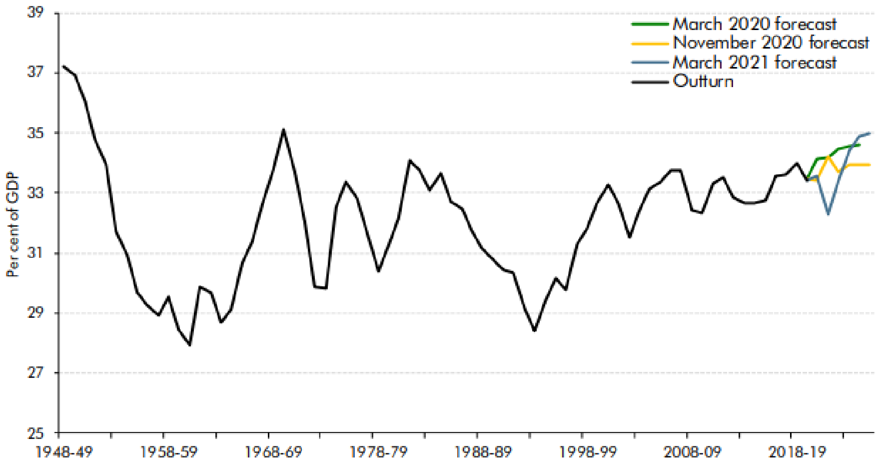
Turning back to the 2021 Budget, in its *Economic & Fiscal Outlook* published alongside the Budget report the OBR note that the tax rises announced in the Budget "increase the tax burden from 34.0 to 35.0 per cent of GDP in 2025/26, its highest level since Roy Jenkins was Chancellor in the late 1960s":

> Over half of this increase is as a result of a 6 percentage point increase in the corporation tax rate to 25 per cent. This brings the headline corporation tax rate back into line with the advanced economy average but still well below its long-run historical average in the UK of around 35 per cent. However, the widening of the tax base [for corporation tax] over the past decade means that this relatively modest increase in the headline rate leaves corporation

38 Conservative and Unionist Party, *Manifesto 2019*, November 2019 p15
39 *Budget 2020*, HC 121, 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 (*op.cit.* Table 2.1 – item 12).
40 *Budget 2018*, HC 1629, March 2018 para 3.7. Provision to this effect was made by s5 of the *Finance Act 2019*.

> tax raising 3.2 per cent of GDP in revenue by 2025-26, its highest since 1989-90.

Chart 1.2: Tax as a share of nominal GDP



Source: ONS, OBR

> Freezes to the income tax personal allowance and higher rate threshold for four years bring 1.3 million people into the tax system and create 1 million higher rate taxpayers by 2025-26.[41]

As the OBR note the tax base for corporation tax has broadened over the past decade, with restrictions placed on several of the deductions that reduce taxable profits relative to total profits.[42]

HMRC's tax information & impact note, published alongside the Budget, give further details of this measure:

> This measure will maintain the Personal Allowance and basic rate limit at their 2021 to 2022 levels up to and including 2025 to 2026. … From 2026 to 2027 onwards, existing legislation means that the default is for the Personal Allowance and basic rate limit to be indexed with Consumer Price Index (CPI). …
>
> **Current law**
>
> The Personal Allowance is indexed with CPI under section 57 of the Income Tax Act 2007.
>
> The basic rate limit is also indexed with CPI, under section 21 of the Income Tax Act 2007.
>
> The Personal Allowance is set at £12,570 for 2021 to 2022, and the basic rate limit is set at £37,700 for 2021 to 2022.

41 OBR, *Economic and fiscal outlook*, CP387, March 2021 pp6-7
42 *op.cit.* pp111-114 (Box 3.2)

> The higher rate threshold is equal to the Personal Allowance added to the basic rate limit. As a result, the higher rate threshold will be £50,270 in 2021 to 2022.
>
> The National Insurance contributions Upper Earnings Limit and Upper Profits Limit are set at £50,270 for 2021 to 2022.
>
> **Proposed revisions**
>
> Legislation will be introduced in Finance Bill 2021 to set the Personal Allowance (PA) for 2022 to 2023 at £12,570, and the basic rate limit (BRL) for 2022 to 2023 at £37,700.
>
> These thresholds will remain set at £12,570 and £37,700 for 2023 to 2024, 2024 to 2025, and 2025 to 2026, and the legislative default is that they would rise in line with CPI thereafter.
>
> The following table sets out the thresholds to include the changes from this measure.

	2022/23	2023/24	2024/25	2025/26
PA	£12,570	£12,570	£12,570	£12,570
BRL	£37,700	£37,700	£37,70	£37,700

> The National Insurance contributions Upper Earnings Limit and Upper Profits Limit will remain aligned to the higher rate threshold at £50,270 for 2022/23 [to] … 2025/26. The National Insurance contributions Upper Earnings Limit and Upper Profits Limit will be legislated for in the annual setting of National Insurance contributions rates, limits and thresholds as standard.[43]

HMRC's assessment goes on to give details of the impact this is expected to have on individuals, households and families …

> The impact analysis that follows relates specifically to the impact of the legislative provisions outlined above. Gains and losses are presented compared to the income tax and National Insurance contributions individuals would have faced if these thresholds were indexed with CPI from 2022 to 2023 onwards.

… for 2022/23 …

> From 2022 to 2023, this measure will impact 32.5 million individuals, of whom 27.7 million will be basic rate taxpayers, 4 million will be higher rate taxpayers, and 475,000 will be additional rate taxpayers. A basic rate taxpayer will have an average real loss of £41, a higher

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

rate taxpayer will have an average real loss of £165, and an additional rate taxpayer will have an average real loss of £73.

There will be 479,000 individuals with an average real gain of £35 in 2022 to 2023. These gains include Scottish higher rate taxpayers and part-time workers (or individuals with fluctuating incomes) who do not lose from maintaining the higher rate threshold but benefit from maintaining the Upper Profits and Upper Earnings Limits for National Insurance contributions.

The measure will bring 319,000 individuals into income tax in 2022 to 2023, and 186,000 individuals into the higher rate of income tax compared to if these thresholds were indexed with inflation.

… and for 2025/26 …

By 2025 to 2026, the final year of this measure, it will impact 33.3 million individuals, of whom 27.1 million will be basic rate taxpayers, 4.3 million will be higher rate taxpayers, and 591,000 will be additional rate taxpayers. A basic rate taxpayer will have an average real loss of £196, a higher rate taxpayer will have an average real loss of £734, and an additional rate taxpayer will have an average real loss of £324.

There will be 1.9 million individuals with an average real gain of £80 in 2025 to 2026. These gains include Scottish higher rate taxpayers and part-time workers (or individuals with fluctuating incomes) who do not lose from maintaining the higher rate threshold but benefit from maintaining the Upper Profits and Upper Earnings Limits for National Insurance contributions.

The measure will bring 1.3 million individuals into income tax by 2025 to 2026, and 1 million individuals into the higher rate of income tax compared to if these thresholds were indexed with inflation.[44]

… and the equalities impact, first for 2020/23 by gender …

Income tax changes apply regardless of personal circumstances or protected characteristics such as gender, race or disability. Equalities impacts will reflect the composition of the income tax paying population.

From this measure, 2022 to 2023 estimated impacts by gender are:

- 32.5 million individuals will lose – of these, 18.9 million (58%) are male and 13.7 million (42%) are female

---

[44] *ibid.*

- 319,000 individuals will be brought into tax – of these, 142,000 (45%) are male and 177,000 (55%) are female
- 186,000 individuals will be brought into the higher rate of tax – of these, 128,000 (69%) are male and 58,000 (31%) are female
- 479,000 individuals will gain from the proposed measure, of which 306,000 (64%) are male and 173,000 (36%) are female

... and by age ...

From this measure, 2022 to 2023 estimated impacts by age are:

- 32.5 million individuals will lose – of these, 25.5 million (78%) are below State Pension age and 7 million (22%) are above State Pension age
- 319,000 individuals will be brought into tax – of these, 210,000 (66%) are below State Pension age and 109,000 (34%) are above State Pension age
- 186,000 individuals will be brought into the higher rate of tax – of these, 164,000 (88%) are below State Pension age and 22,000 (12%) are above State Pension age
- 479,000 individuals will gain from the proposed measure, of which more than 99% are below State Pension age

... and second for 2025/26, by gender ...

From this measure, 2025 to 2026 estimated impacts by gender are:

- 33.3 million individuals will lose – of these, 19 million (57%) are male and 14.3 million (43%) are female
- 1.3 million individuals will be brought into tax – of these, 565,000 (42%) are male and 776,000 (58%) are female
- 1 million individuals will be brought into the higher rate of tax – of these, 671,000 (67%) are male and 331,000 (33%) are female
- 1.9 million individuals will gain from the proposed measure, of which 1.3 million (67%) are male and 622,000 (33%) are female

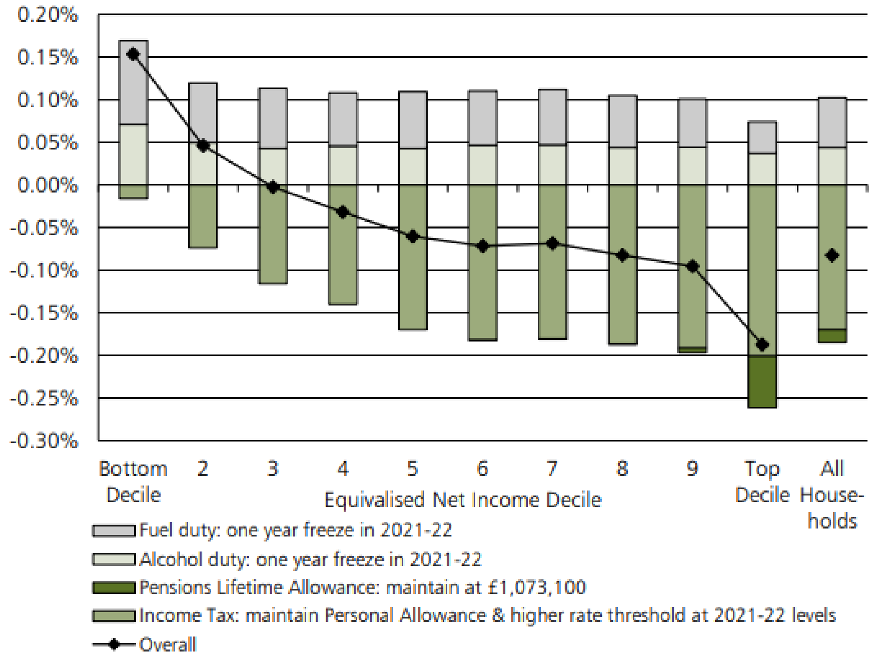
... and by age ...

From this measure, 2025 to 2026 estimated impacts by age are:

- 33.3 million individuals will lose – of these, 25.6 million (77%) are below State Pension age and 7.7 million (23%) are above State Pension age
- 1.3 million individuals will be brought into tax – of these, 873,000 (65%) are below State Pension age and 467,000 (35%) are above State Pension age
- 1 million individuals will be brought into higher rate of tax – of these, 877,000 (88%) are below State Pension age and 124,000 (12%) are above State Pension age
- 1.9 million individuals will gain from the proposed measure, of which more than 99% are below State Pension age.[45]

Alongside the Budget report the Treasury published its 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 is presented in 2021/22, but 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:[46]

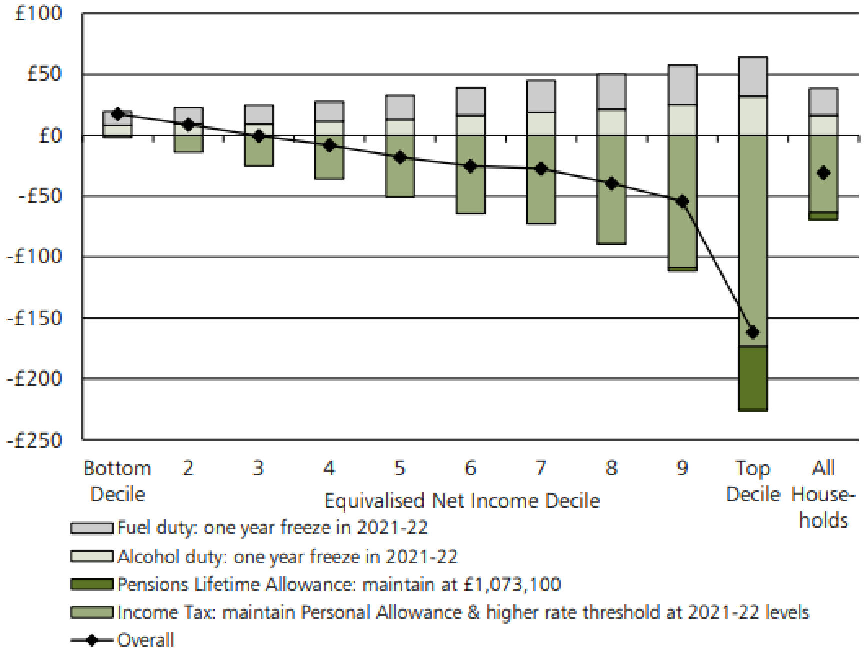
Chart 2.D: Impact of Budget 2021 tax and welfare decisions on households in 2022-23, as a percentage of net income, by income decile



[45] *ibid.*

[46] HMT, *Impact on households: distributional analysis to accompany Budget 2021*, March 2021 p22

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 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'. 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."[47] 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."[48]

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."[49] 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."[50]

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."[51] 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 pay £1,008 more, and someone with income over £125,000 would pay £814 a year more (the

[47] "'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

[48] "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.

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

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

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

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.

Figure 29 and Figure 30 show the real-terms value of these income tax thresholds over time (the slight real fall in these thresholds after 2021 under default uprating arises because inflation is rising over the period, and thresholds are indexed to a lagged measure of inflation).

FIGURE 29: **A frozen personal allowance would still be high in historical terms**

Income Tax personal allowance, in 2021-22 CPI adjusted prices: UK, 1990-91 to 2025-26

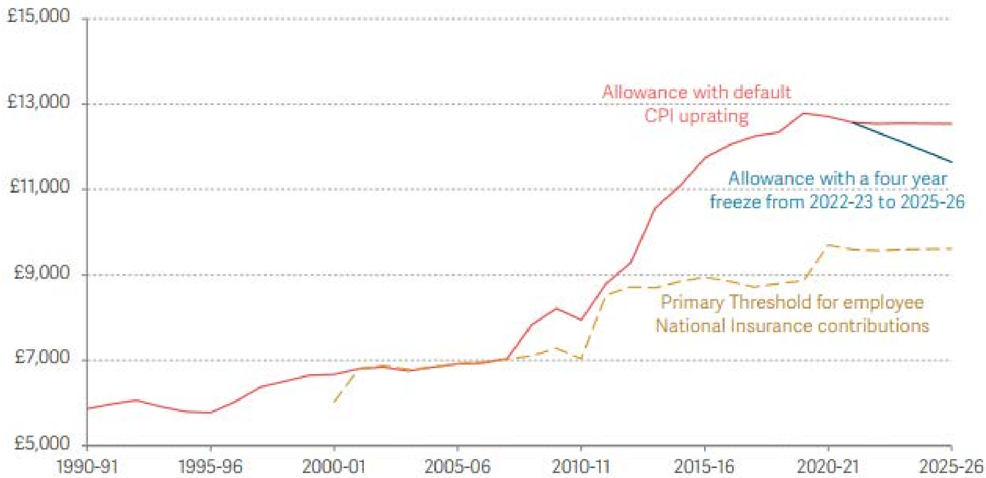


FIGURE 30: **The higher rate threshold for Income Tax has been volatile since the financial crisis**

Income Tax higher-rate threshold, in 2021-22 CPI adjusted prices: UK, 1990-91 to 2025-26

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.[52]

In November 2020 the Resolution Foundation published a report on the Government's options for fiscal consolidation,[53] 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",[54] the Government could reasonably argue that maintaining the IT 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.[55]
>
> Moreover, even with a four-year freeze, the personal allowance would still be £4,000 (and almost 50 per cent) higher than if there

52 Torsten Bell et al, *Spending fast, taxing slow: Resolution Foundation analysis of Budget 2021*, March 2021 pp38-9. See also, Joanne Walker, "Income tax freeze – what does it mean for taxpayers?", *CIOT blog*, 10 March 2021.

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

54 See, Conservative and Unionist Party, *Manifesto 2019*, November 2019 p15

55 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.

> 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.[56] 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.[57]
>
> 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).[58]

In its response to the 2021 Budget, the Low Incomes Tax Reform Group also highlighted the gap between the threshold for taxpayers starting to pay NICs and the personal allowance – and suggested that freezing the allowance provided the Government with an opportunity to deliver its manifesto commitment regarding NICs:

> Victoria Todd, Head of LITRG, said: "Although freezing the personal allowance for a period of five years will mean that anyone earning above £12,570 will end up paying more tax, we think there is an opportunity for the government to use this period to benefit those on the lowest incomes and reduce complexity.
>
> "Those earning between the class 1 primary National Insurance threshold – or, if self-employed, the class 4 lower profits limit4 – and the personal allowance do not benefit from increases in the personal

[56] 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.

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

[58] George Bangham et al., *Unhealthy finances: How to support the economy today and repair the public finances tomorrow*, November 2020 pp103-4

> 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, 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."[59]

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":

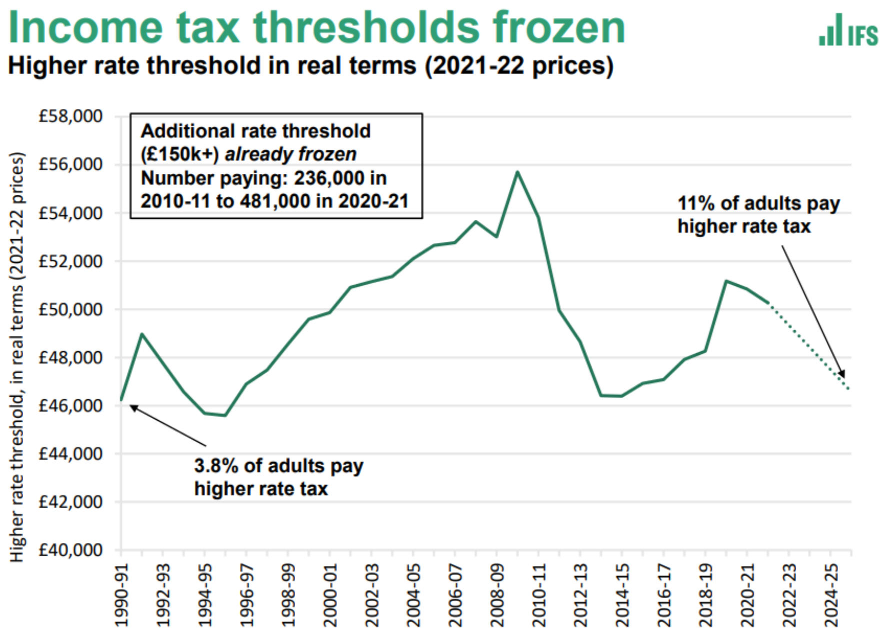
> By 2025 we could have over 5 million higher rate taxpayers compared with the 4.1 million we currently have and far higher than the 3 million there were in 2010. Freezing things for a long period makes a big difference. There are, for example, now twice as many people paying the additional 45% rate 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.[60]

In his presentation on the impact of the Budget on household finances Tom Waters at the IFS illustrated this trend as follows:[61]

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

60 "Opening remarks from IFS Director Paul Johnson", *IFS Budget 2021*, 4 March 2021

61 "The Budget and household finances: Tom Waters", *IFS Budget 2021*, 4 March 2021 (slide 19)



As part of its coverage of the Budget the Institute of Chartered Accountants (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."[62]

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 it "complies with many of the Committee's principles (certainty, stability etc). It will also raise substantial revenues whilst, prima facie, not damaging growth." The CIOT went onto to argue that "having frozen these thresholds, 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 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

[62] ICAEW press notice, *Chancellor announces big tax freeze*, 3 March 2021

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.[63]

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

At the Committee's second session Harriet Baldwin 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

[63] Treasury Committee, *Budget 2021: Written Evidence – CIOT (BGT0001)*, 15 April 2021 para 6.2-3

> overall amount of tax paid will be a higher percentage for men than for women.[64]

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 "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:

> **Felicity Buchan**: … My questions are on fiscal stimulus and consolidation. Perhaps I can ask Richard quite a generic question. How would you categorise this Budget in those terms?
>
> **Richard Hughes**: I would categorise it 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.[65]

[64] Treasury Committee, *Oral evidence: Budget 2021*, HC 1196, 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*, March 2021 pp40-41 (Figure 31)

[65] Treasury Committee, *Oral evidence: Budget 2021*, HC 1191, 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.[66] 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.

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."[67]

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,[68] 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.[69]

Following the publication of the Bill the issue does not appear to have come up in the House, with the exception of this PQ:

> **Owen Thompson** : To ask the Chancellor of the Exchequer, if he will make it his policy to not freeze the threshold for payment of the basic rate of income tax in the financial year 2021-22 to avoid penalising low earners.
>
> **Jesse Norman** : As confirmed at Budget, the Government will fulfil its promise to increase the income tax Personal Allowance to £12,570 in financial year 2021-22. The Government has almost doubled the Personal Allowance since 2010 and it is now the highest basic personal tax allowance of all countries in the G20. The decision to maintain the Personal Allowance at this higher level will not come into effect until April 2022, when the economy will be on a stronger footing.[70]

[66] Full details of the Bill's scrutiny are collated on its page on the Parliament site.

[67] "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),

[68] For an explanation of this procedure see, *The Budget and the annual Finance Bill*, Commons Briefing paper CBP813, 28 June 2021

[69] HC Deb 11 March 2021 cc766-9

[70] PQ173090, 25 March 2021

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 Financial Secretary to the Treasury, Jesse Norman, set out the Government's case for this measure:

> Clause 5 maintains the income tax personal allowance and the basic rate limit at their 2021-22 levels from April 2022 until April 2026. 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.[71]

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", while Sarah Olney, for the Liberal Democrats, suggest the measure broke a commitment in the Conservative Party's 2019 manifesto: "the Government made clear commitments in their 2019 manifesto that they would not raise income tax on working families and they have broken that commitment in this Bill. The 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."[72]

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. Subsequently the measure does not appear to have been raised in Parliament.

[71] HC Deb 19 April 2021 c696

[72] *op.cit.* c698, c703, c709