

Research Briefing

5 April 2024

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Fiscal drag: An explainer



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Summary

What is fiscal drag?

Freezing tax thresholds increases people's taxable income without nominal tax rates actually increasing. This results in additional revenue to the Government. This phenomenon is called 'fiscal drag', as [more taxpayers are 'dragged' into paying tax, or into paying tax at a higher rate.](#)

Although fiscal drag is not uncommon, its size depends on three elements: the setting of thresholds and allowances (also known as just 'thresholds'), growth in prices (inflation), and growth in earnings. How thresholds are set is an important determinant of the magnitude of fiscal drag, especially if inflation is high.

How does the Government set tax thresholds?

The process of increasing thresholds proportionally in line with the growth of an index (such as inflation) is called 'indexation'.

The Government has a policy of [increasing certain thresholds each year in line with inflation](#) (PDF). This process is known as 'uprating'. Uprating policies are not always observed. When thresholds and allowances are 'frozen', there is an overall increase in tax paid to the Treasury without an actual increase in tax rates.

In the UK, a number of tax thresholds (particularly income tax ones) have been frozen since April 2022, and are currently [expected to remain so until April 2028.](#)

Fiscal drag: A sensible 'stealth tax'?

The impact of the tax thresholds freezes has been analysed by the OBR in multiple Economic and Fiscal Outlooks since the first announcement in the 2021 Spring Budget. In terms of income tax, the latest estimate is that the freeze of income tax thresholds [will raise over £33.5 billion a year in 2028/29](#) (PDF).

Since freezing thresholds raises overall tax revenue without tax rates actually increasing, the policy has also been branded as a "stealth tax", as reported

by the Observer in its [analysis of the 2022 Autumn Statement](#). Think tanks such as [the Resolution Foundation](#) (PDF) and [the Institute for Fiscal Studies](#) (PDF) have warned against relying on freezing thresholds for a long time as a way to raise revenue. However, other commentators have argued there is a case for this type of tax measure. An [editorial in the Financial Times in March 2022](#) said that they did not oppose ‘stealth taxes’ in principle, arguing that the thresholds freeze in a high-inflation environment would help raise revenue to cover the cost of Covid-19 schemes. However, they also added that, in a high-inflation environment, the reduction in the real value of people’s incomes would be felt. The Government said that [the value of the Personal Allowance \(the amount of money which is income tax-free\) is the highest in the G20](#), and that the Government had almost doubled it since 2010.

What policy decisions on tax thresholds have been made since 2021?

Spring Budget 2021

In the [2021 Spring Budget](#), as Chancellor, Rishi Sunak announced the income tax personal allowance and higher rate threshold (HRT) would be uprated in line with inflation for 2021/22 (following the default indexation policy), and then remain frozen from April 2022 until 2026.

At the time, the Office for Budget Responsibility (OBR) estimated in its [Economic and Fiscal Outlook](#) that the measure was going to raise £8 billion per year by 2025/26.

Spring Statement 2022: Freezing National Insurance thresholds

In the [2022 Spring Statement](#), then Chancellor Rishi Sunak announced that thresholds at which employees and the self-employed would start paying National Insurance Contributions (NICs) would be aligned with the income tax personal allowance. Both were therefore raised from £9,880 to £12,570 per year. These thresholds would then remain at the same level until 2025/26, in alignment with the income tax thresholds.

[In the Spring Statement, Rishi Sunak said raising the NICs thresholds would deliver an average saving of £330 in the year from July 2022](#). OBR analysis in the [March 2022 Economic and Fiscal Outlook](#) said the amount saved by taxpayers would diminish until 2025/26 due to NICs thresholds being frozen.

Autumn Statement 2022

In the 2022 Autumn Statement, Chancellor Jeremy Hunt announced the freeze of the income tax personal allowance and HRT, as well as the NICs thresholds, [would be extended to April 2028 instead of ending in 2026](#). He

also announced that the threshold at which employers start paying NICs (the ‘secondary threshold’) would be frozen at its current rate until April 2028. Additionally, he also announced that the threshold at which people start paying the 45% rate of income tax (the ‘additional rate threshold’) would be decreased from £150,000 to £125,140.

1 Introduction

Since April 2022, a number of thresholds in the tax system have been frozen. This is contrary to the Government’s default policy, where thresholds would be increased year on year in line with inflation.¹

Freezing tax thresholds increases people’s taxable income without nominal tax rates actually increasing. This results in increased revenue to the Government. This phenomenon is called ‘fiscal drag’.

When the freeze was first implemented, the then Chancellor, Rishi Sunak, stated that it was needed to “begin the work to fix our public finances.”²

1.1 Why does fiscal drag matter?

Because of high inflation, in November 2023, the Office for Budget Responsibility (OBR) – the UK’s public finances watchdog and official forecaster – estimated that the freeze of the income tax thresholds will raise over £35 billion a year by 2028/29, over four times as much as forecast for 2025/26 when the policy was originally announced in March 2021.³ This represents significant additional revenue to the Government. As a result of this, the Institute for Fiscal Studies (IFS) estimated in 2022 that “freezes to personal tax [thresholds] alone will reduce households’ income by £1,250 on average by 2025/26.”⁴ This increases the tax burden on households without personal tax rates actually changing.

1.2 What does this briefing cover?

This briefing explains what fiscal drag is and how it works. It discusses the Government’s policy of increasing tax thresholds and describes recent exceptions to it. It also looks at key estimates and media, professional, and parliamentary commentary. Most additional revenue comes from the freeze of income tax thresholds: therefore, the briefing chiefly focuses on them.

¹ HM Treasury, [Spring Budget 2023: Policy Costings](#) (PDF), GOV.UK, March 2023, p63

² HC Deb [Q3 March 2021](#), c256

³ OBR, [Economic and Fiscal Outlook](#) (PDF), March 2023, p66

⁴ IFS, [Reforms, roll-outs and freezes in the tax and benefits system](#), October 2022, p1

However, it is important to note that other thresholds have been frozen (for instance, certain National Insurance contributions thresholds).⁵

⁵ OBR, [Economic and Fiscal Outlook](#) (PDF), March 2023, p66

2

What is the Government's uprating policy?

The Government's approach to uprating tax allowances and thresholds, as well as social security benefits, is set out in the Treasury's Policy Costings document published alongside each Budget (for example, [Annex A to the Treasury's Policy Costings document for the 2023 Autumn Statement](#) – PDF).⁶ The OBR uses these policies to base its forecasts if the Government has not set an alternative policy.

Traditionally, many thresholds and allowances are uprated each year based on inflation. This is also known as “indexation”. Box 1 explains the two measures of inflation used for uprating.

1 Uprating and inflation: CPI and RPI

A rise in the general level of prices in an economy is referred to as inflation. There are different indexes used to measure inflation.

The Consumer Price Index (CPI) measures the level of price inflation faced by consumers. CPI is the default measure used to index income tax thresholds such as the personal allowance and the basic rate limit, as well as National Insurance Contributions thresholds like the Primary and Secondary Thresholds. The assumption is that these thresholds will be uprated each year in line with the previous September's CPI inflation rate.⁷

The Retail Price Index (RPI) rate is an alternative measure of inflation and is the default measure used to index some other elements of the tax system. RPI includes owner-occupied housing costs (such as mortgage payments) and excludes households with the very highest and lowest incomes.⁸ RPI is particularly used for the uprating of excise duty rates, such as alcohol duties.

RPI and CPI use different mathematical formulas. RPI is no longer recognised as an official national statistic as its calculation does not meet international standards. The Library research briefing [Inflation: Key economic indicators](#) has more on this.⁹

⁶ HM Treasury, [Autumn Statement 2023: Policy Costings](#) (PDF), GOV.UK, November 2023, p64

⁷ As above

⁸ Office for National Statistics, [Shortcomings of the Retail Prices Index as a measure of inflation](#), 8 March 2018

⁹ Commons Library research briefing CBP-2792, [Inflation: Key economic indicators](#)

2.1

Why are tax thresholds uprated?

The uprating of certain tax thresholds was originally introduced in the Finance Act 1977, section 22.¹⁰ It was introduced via an amendment led by Jeff Rooker (Labour) and Audrey Wise (Labour), supported by Nigel Lawson (Conservative). This was happening in a context where the real value of tax allowances was being eroded as they were static whilst inflation was increasing.¹¹

During a Standing Committee debate on the Finance Bill, Nigel Lawson said that “by not increasing allowances to keep pace with inflation [...], provided there is no indexation in the tax system, the government have cut those real values.”¹² Audrey Wise said that there was no reason for a particular level of personal allowance to be considered adequate for a certain year, to then allow it to be eroded in following years.¹³

The Institute for Fiscal Studies (IFS) has also argued that uprating year on year is a sensible approach as it ensures that thresholds and allowances (and, ultimately, the amount of money people take home) “keep up with some meaningful real values.”¹⁴

2.2

How does uprating work?

The Government’s policy set out in the Treasury’s costings document represents the ‘default’ approach. In other words, this is what is expected to happen unless the Government sets a different direction for a given year for a specific allowance, threshold, or benefit. The OBR uses the indexation assumptions when it produces its forecasts for the public finances and includes the impact of any decision by the Government not to follow this approach.

The example in Box 2 below explains how income tax thresholds were uprated in line with CPI inflation for tax year 2020/21.

¹⁰ [Finance Act 1977 \(as enacted\), s22](#)

¹¹ “[Budget rebellions remain scarce](#)”, BBC News, 24 April 2008

¹² HC Standing Committee D Deb 14 June 1977, vol III c448

¹³ As above, c457

¹⁴ IFS, [Reforms, roll-outs and freezes in the tax and benefit system – IFS Green Budget 2022 – Chapter 5](#) (PDF), 2022, Institute for Fiscal Studies, p4

2 Uprating in practice: Income tax

The personal allowance is the amount of income that is income tax -free. The higher rate threshold is the threshold at which someone starts paying income at the 40% rate.

In tax year 2020/21, the personal allowance was set at £12,500. In the following tax year (2021/22), the threshold was changed to £12,570. CPI was 0.5% in the month used for uprating (September 2020) and the increase was rounded up to the nearest £10.¹⁵

Similarly, the higher rate threshold was uprated from £50,000 to £50,270, also in line with CPI inflation in September 2020. The higher rate threshold increase is rounded up to the nearest £100.¹⁶

Current and previous years' [Income Tax thresholds and allowances can be found in HMRC guidance on the Government website](#).

Currently, contrary to the default policy, there is a freeze to various thresholds in the tax system, including income tax and NICs.

2.3

Are all thresholds subject to uprating policies?

No. Some thresholds are set in cash terms, meaning there is no assumption that they will be uprated. The IFS has said there are “historical reasons, and sometimes [...] reasons of deliberate policy reform” for some thresholds to remain frozen.¹⁷

The additional rate of income tax is an example of this. During the 2022 Autumn Statement, Chancellor Jeremy Hunt announced that the Additional Rate threshold would be decreased from £150,000 to £125,140 from the start of the new tax year (6 April 2023).¹⁸ Prior, that threshold had been set at £150,000 since its introduction in 2010/11.¹⁹

¹⁵ Office for National Statistics (ONS), [Consumer price inflation, UK: September 2020](#), 21 October 2020

¹⁶ HM Treasury, [Spring Budget 2023: Policy Costings](#) (PDF), GOV.UK, March 2023, p63

¹⁷ IFS, [Reforms, roll-outs and freezes in the tax and benefit system – IFS Green Budget 2022 – Chapter 5](#) (PDF), 2022, Institute for Fiscal Studies, p4

¹⁸ HM Treasury, [Autumn Statement 2022](#) (PDF), GOV.UK, November 2022, p17

¹⁹ HMRC, [Income Tax rates and allowances for current and past years](#), GOV.UK, 30 March 2023

3 How does fiscal drag happen?

Three factors can impact fiscal drag:

- Where tax thresholds are set
- Inflation (growth in prices)
- Growth in earnings

The extent of fiscal drag is determined by a combination of these three factors. Currently, the freezing of tax thresholds in a context of high inflation magnifies its impact. This is true regardless of whether earnings grow or not.

Three different scenarios where someone's income is impacted by fiscal drag are shown below:

- When someone's salary does not grow and tax thresholds are frozen
- When someone's salary grows and tax thresholds are frozen
- When tax thresholds are updated, and wage growth is higher than inflation

The calculations and thresholds used are explained in Annex A at the end of this briefing.

3.1 Fiscal drag when tax thresholds and wages remain fixed

Box 3 shows the effect of fiscal drag on an individual's income when their earnings do not grow and thresholds are frozen.

3 Worked example

Jenny earns £27,000. Her salary is fixed.

In 2020/21, the income tax personal allowance was £12,500. Jenny paid £2,900 in income tax for that year.

In 2021/22, the income tax personal allowance increased to £12,570 (based on the September 2020 rate of inflation of 0.5%). For that tax year, Jenny paid £2,886 in income tax.

By default, the income tax personal allowance threshold would have risen by 3.1% (the rate of inflation in September 2021) for tax year 2022/23. If that had been the case, the new basic rate threshold would have been £12,960. Jenny would have paid £2,808 in income tax.

However, the Government announced that the personal allowance would be maintained at the £12,570 value until 2025/26, and Jenny still pays £2,886 in income tax instead of £2,808 in 2022/23.

This means that (all else staying equal) she is paying £78 more in tax than she would have if the tax thresholds had been indexed in line with inflation.

3.2 Fiscal drag when tax thresholds are fixed and wages increase

Box 4 shows the impact of fiscal drag when earnings are growing and tax thresholds are frozen at a certain level.

4 Worked example

Laurie earns £12,000 in tax year 2020/21. Because the personal allowance is £12,500, he does not pay any income tax.

In 2021/22, his salary increases to £12,560. In that tax year, the personal allowance is uprated to £12,570. He does not pay any income tax, though he would have had to if the personal allowance had not been uprated.

In 2022/23, Laurie's employers increase his salary by 3.1%, in line with the September 2021 rate of inflation.²⁰ His salary is now £12,960.

Because the income tax threshold is frozen at £12,570 (instead of rising by 3.1% to £12,960), Laurie now starts paying income tax on the £390 he earns above the personal allowance. This is equivalent to £78 for 2022/23.

Box 4 demonstrates that people's wages going up while thresholds are frozen could mean people exceed thresholds and pay a higher tax rate for part of their income.

²⁰ This figure is used as an example – employers do not have to observe inflation rates when determining pay increases.

In the example above, before 2022/23, the earnings were within the personal allowance. If the personal allowance threshold had risen by 3.1%, it would have remained above the level of Laurie's earnings.

A similar effect can happen for those paying income tax at the 20% basic rate who, due to thresholds being frozen, end up having to start paying income tax at the 40% higher rate for part of their earnings.

3.3

Fiscal drag when tax thresholds are uprated and wage growth outpaces inflation

Fiscal drag usually also occurs when thresholds are uprated with inflation.

Typically, wage growth outpaces inflation (meaning the percentage growth in earnings is higher than the percentage uprate of thresholds). When this happens, more taxpayers will have a higher percentage of taxable income, and some will have income that falls into higher tax brackets.

An example of how this works is given in Box 5 below.

5 Worked example

Andy earns £33,000 a year in 2020/21. The tax-free personal allowance is £12,500. For that tax year, they pay £4,100 in income tax (12.4% of their gross income).

Andy receives a pay rise of 4%. Their salary is now £34,320. For tax year 2021/22, the personal allowance was uprated to £12,570, in line with the 0.5% rate of inflation in September 2020.²¹

For that tax year, Andy will pay £4,350 in income tax (12.7% of their gross income).

²¹ Office for National Statistics, [Consumer price inflation, UK: September 2020](#), 21 October 2020

4 Recent policy on freezing allowances and thresholds

In several fiscal statements in 2021 and 2022, consecutive Chancellors have announced policy decisions on various thresholds and allowances in the tax system. These have included income tax and National Insurance contributions.

The policy decisions have impacted the magnitude of fiscal drag, particularly as inflation increased substantially in 2022.

4.1 Spring Budget 2021: Freezing income tax thresholds

In the [2021 Spring Budget speech](#), then Chancellor Rishi Sunak announced measures to “balance the extraordinary support [...] provided to the economy [...] with the need to begin the work to fix our public finances.”²²

He said the Government would uprate the income tax personal allowance to £12,570 for 2021/22, after having nearly doubled it over the previous decade. The higher rate threshold would also be uprated to £50,270. He then said that both thresholds would be frozen at that rate until April 2026.

The freeze to income tax thresholds was analysed by the OBR in its [March 2021 Economic and Fiscal Outlook](#). The OBR said the freezes to the threshold until 2025/26 “would bring 1.3 million people into the tax system and create 1 million higher rate taxpayers.”²³

This puts in context what was shown in Box 4 in section 3.1 of this briefing. More information is provided in the Library briefing on [the changes to the personal allowance and higher rate threshold announced in the Spring Budget](#).²⁴

The OBR estimated the measure would raise £8 billion a year by 2025/26. This is a direct effect of fiscal drag due to what Rishi Sunak defined as the

²² HC Deb [03 March 2021](#), c256

²³ Office for Budget Responsibility, [Economic and Fiscal Outlook](#) (PDF), March 2021, p17

²⁴ Commons Library Briefing CBP-9186, [Spring Budget 2021: personal allowance and higher rate threshold](#)

“[removal of] the incremental benefit created had thresholds continued to increase with inflation.”²⁵

4.2 Spring Statement 2022: National Insurance contributions thresholds

In the 2022 Spring Statement, the then Chancellor announced that the Primary Threshold (PT) for Class 1 NICs and Lower Profits Limit (LPL) for Class 4 NICs would be aligned with the income tax personal allowance, raising them from £9,880 to £12,570 per year in July 2022.²⁶

These thresholds were set to remain aligned with the income tax ones. Since the income tax thresholds were to be maintained at the same level until April 2026, it followed that NICs thresholds would remain at that level as well.

Rishi Sunak announced in the Spring Statement that the alignment of the NICs threshold to the income tax personal allowance would save a typical employee over £330 in the year from July 2022.²⁷

In August 2022, the IFS forecast the long-term impact of the freeze of the threshold in the context of high inflation, looking at how much money a typical employee would save. IFS senior research economist Tom Waters estimated that, as a result of NICs thresholds being frozen, the forecast saving would decrease to £48 in 2025/26.²⁸

4.3 Autumn Statement 2022

On 17 November 2022, Chancellor Jeremy Hunt delivered the Autumn Statement in a speech to the House of Commons.²⁹ The statement was published jointly with the November 2022 Economic and Fiscal Outlook by the OBR.³⁰

²⁵ HC Deb [03 March 2021](#), c256

²⁶ HC Deb [23 March 2022](#), c340

²⁷ As above. This change took place in July 2022, rather than at the beginning of the tax year. HM Treasury published further information on this at the time in a [factsheet on personal tax](#), and HMRC provided [detail on the NICs changes](#) in a policy paper.

²⁸ Tom Waters (@TomWatersEcon). "The government raised the threshold at which you start paying National Insurance, but then is freezing it (prev policy was to uprate with inflation). This year, that saves a typical employee £269. But because inflation is so high, by 25-26 (last year of freeze), it saves just £48" (Twitter). 10 August 2022 [Accessed 20 September 2022]. Available from <https://twitter.com/TomWatersEcon/status/1557306821756551169>

²⁹ HC Deb [17 November 2022](#), c844

³⁰ HM Treasury, [Autumn Statement 2022](#) (PDF), GOV.UK, November 2022; see also OBR, [Economic and fiscal outlook – November 2022](#), November 2022

The Chancellor announced an extension of the freeze of the income tax personal allowance and higher rate threshold, and the NICs Class 1 Primary Threshold and Class 4 Lower Profits Limit for two further years (to 2027/28).³¹

He also announced a freeze in the National Insurance secondary threshold for employer contributions from April 2023 to April 2028.³² The Government legislated this through secondary legislation, which came into force in April 2023.³³

Additionally, the Chancellor announced that the additional rate threshold for income tax would be lowered. Therefore, from 6 April 2023, the additional rate of 45% would apply to earnings above £125,140 (a reduction from the previous threshold of £150,000).³⁴

4.4

Following fiscal statements

The income tax and NICs thresholds freeze was not altered or commented on by the Government during the Spring Budget 2023.³⁵

At Autumn Statement 2023, Chancellor Hunt maintained the policy. However, he also announced a cut in the headline rate of National Insurance contributions for employees and the self-employed. The Chancellor said the Government would cut the main rate of NICs for employees from 12% to 10%. He also announced that the main rate of NICs for the self-employed would be cut from 9% to 8%, and that the requirement of the self-employed to pay the flat-rate NICs charge (Class 2 NICs) would be cancelled.³⁶

More information about this is discussed in the Library research briefing on the [National Insurance Contributions \(Reduction in Rates\) Bill 2023-24](#).³⁷

At Budget 2024, similarly, the Chancellor did not announce any changes to the policy. Additionally, similarly to the Autumn Statement, he announced a further cut to the main rate of NICs for employees from 10% to 8%; and a reduction in the main rate of NICs for the self-employed from 8% to 6%.³⁸

³¹ HC Deb [17 November 2022](#), c846

³² HC Deb [17 November 2022](#), c846. See also HM Treasury, [Autumn Statement 2022](#) (PDF), GOV.UK, November 2022, p49

³³ [The Social Security \(Contributions\) \(Rates, Limits and Thresholds Amendments and National Insurance Funds Payments\) Regulations 2023](#)

³⁴ HMRC, [Income Tax Additional Rate Threshold from 6 April 2023](#), GOV.UK, 21 November 2022

³⁵ HC Deb [15 March 2023](#), cc833-847

³⁶ HM Treasury, [Autumn Statement 2023](#) (PDF), GOV.UK, November 2023, pp42-43

³⁷ Commons Library research briefing CBP-9898, [National Insurance Contributions \(Reduction in Rates\) Bill 2023-24](#)

³⁸ HM Treasury, [Budget 2024](#) (PDF), GOV.UK, March 2024, p2

More information about this is discussed in the Library research briefing on the National Insurance Contributions (Reduction in Rates) (No. 2) Bill 2023-24.³⁹

³⁹ Commons Library research briefing CBP-9982, [National Insurance Contributions \(Reduction in Rates\) \(No. 2\) Bill 2023-24](#)

5 Analysis and commentary

5.1 How much revenue is the Government raising through fiscal drag?

The estimate of how much the freeze in tax thresholds is going to raise has changed significantly between March 2021 and November 2023.

In its March 2021 forecast, the OBR forecast that freezing income tax thresholds (until April 2026) would raise around £8 billion per year by 2025/26, relative to the thresholds rising with inflation.⁴⁰ However, at the time, the OBR had also forecast that CPI inflation would not exceed 2% over the following five years.⁴¹

The rate of inflation rose well above 2% since then. It reached 11.1% in October 2022, the highest rate since 1981.⁴² The latest CPI inflation rate reported by the Office for National Statistics (ONS) was 4.0% in January 2024, still over double than the original forecast in March 2021.⁴³ Therefore, the revenue from fiscal drag will be larger than originally forecast.

In subsequent forecasts, the OBR has therefore changed its estimates of how much the thresholds freeze will raise.⁴⁴

The table below shows the changes in the forecasts of how much the income tax thresholds freeze will raise by 2028/29. The table also includes the estimated revenue raised by the extension of the freeze announced by Chancellor Jeremy Hunt in the November 2022 Autumn Statement.

Nearly all this revenue is raised through the freeze of the personal allowance and the higher rate threshold. Most professional commentary also focuses on this element of the freeze.

⁴⁰ OBR, [Economic and Fiscal Outlook](#) (PDF), March 2021, para 1.34

⁴¹ As above, pp70-71

⁴² “[As it happened: Coping with inflation: ‘You can’t cut back on nothing’](#)” BBC News [Online], 16 November 2022. The Library briefing on [Inflation: Key Economic Indicators](#) gives up-to-date data on CPI and RPI inflation rates.

⁴³ Office for National Statistics (ONS), [Consumer price inflation, UK: October 2023](#), 15 November 2023

⁴⁴ The latest figures are provided by OBR, [Economic and Fiscal Outlook](#) (PDF), November 2023, p69

OBR estimated revenue from PA and HRT freeze								
£ billion								
	Forecast date	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Freeze of the PA and HRT to 2025/26	March 2021	1.5	3.6	5.8	8.2	-	-	-
	October 2021	-	-	-	-	13.9	-	-
	March 2022	2.9	10.4	15.5	18	18.8	-	-
	November 2022	-	-	-	-	26.0	-	-
	March 2023*	2.9	13.1	21.9	23.4	23.9	25.5	-
	November 2023*	2.9	13.5	23.3	28.7	29.9	34.3	35.7
	March 2024*	2.9	13.5	23.2	27.0	29.4	32.3	33.6

Notes: PA is the Personal Allowance, HRT is the Higher Rate Threshold

* = the figures for March 2023, November 2023, and March 2024 also include forecasts of the extension of the freeze to 2027/28 and 2028/29

Sources: HM Treasury, [Budget 2021: policy costings](#) (PDF), GOV.UK, March 2021; OBR, Economic and Fiscal Outlook: [March 2021](#), [October 2021](#), [March 2022](#), [November 2022](#), [March 2023](#), [November 2023](#), [March 2024](#)

Most recently, the OBR forecast the freeze will raise over £33.5 billion by 2028/29.⁴⁵ By comparison, the abolition of the pensions Lifetime Allowance, which was significantly discussed during and after the March 2023 Budget, is estimated to cost £835 million a year by 2027/28.⁴⁶

The OBR added that between 2022/23 and 2028/29, 3.7 million people will have begun paying income tax than if thresholds had been indexed with inflation. For higher rate taxpayers, this number is 2.7 million.⁴⁷

In terms of overall revenue gained from these freezes, the OBR has forecast that maintaining the personal allowance, the higher rate threshold, and the Class 1 NICs threshold at the same level will raise £41.1 billion in 2028/29. This is mostly driven by the freeze in the personal allowance and higher rate threshold, which raises £33.6 billion on revenue by 2028/29. They added that this figure is over £1 billion higher than predicted in March 2023 due to “higher and more persistent inflation”.⁴⁸

In March 2023, the OBR added that the real value of the Personal Allowance in 2027/28 will go back to its level in 2013/14 because of the freeze.⁴⁹ In March 2024, they gave further figures, saying that that if thresholds had been uprated in line with inflation, the personal allowance would now be set at £15,220 in 2024/25 (over £2,500 than the current level); the higher rate threshold would also be set at a different rate, at £61,020 (almost £11,000 higher than its current rate).⁵⁰

⁴⁵ OBR, [Economic and Fiscal Outlook – March 2024](#), March 2024, para 3.40, p68

⁴⁶ HM Treasury, [Spring Budget 2023: Costings](#) (PDF), GOV.UK, March 2023, p15

⁴⁷ OBR, [Economic and Fiscal Outlook – March 2024](#), March 2024, para 3.39, p67

⁴⁸ As above, para 3.40 p68

⁴⁹ OBR, [Economic and Fiscal Outlook: March 2023](#) (PDF), March 2023, p66

⁵⁰ OBR, [Economic and Fiscal Outlook – March 2024](#), March 2024, table 3.6, p67

5.2

Commentary

In an HMRC policy paper, the Government said the objective of the income tax thresholds freeze was to “take steps to make sure the sustainability of the public finances and fund our vital public services in a fair and sustainable way.”⁵¹

When the freeze was first announced in March 2021, there was debate on the policy’s fairness. Several opposition MPs commented on it as a “stealth tax”.⁵² Intervening in the debate, Sammy Wilson (Democratic Unionist Party) said that the Chancellor had been upfront about the “painful choices” that had to be made, such as freezing tax thresholds. There was also a recognition of the need to start raising funds to support the economic recovery following Covid-19.⁵³

However, the 2021 announcement was implemented with an OBR inflation forecast not exceeding 2% by the end of the forecast period (2025/26). Indeed, when asked by Owen Thompson (Scottish National Party) whether the Government would change its policy to freeze the personal allowance, then Financial Secretary Jesse Norman said that “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.”⁵⁴

As the rate of inflation began growing in 2022, and the impact of fiscal drag magnified, the commentary around the measure has focussed increasingly on the impact this would have on UK households.

Commentary about this policy and its impact is also provided in the Library research briefing on the [Spring Budget 2021: personal allowance and higher rate threshold](#).⁵⁵

5.3

Commentary following Spring Budget 2021

There was a consensus that raising taxes via freezing allowances was a ‘stealthy’ way to raise money. Matthew Phillips, director of wealth planning at Canaccord Genuity Wealth Management, said that the freeze was “actually a tax increase. It just doesn’t look like that.”⁵⁶ Head of pensions and savings at Interactive Investor, Becky O’Connor, said that “freezing allowances is a back-

⁵¹ HMRC, [Income Tax Personal Allowance and the basic rate limit from 6 April 2022 to 5 April 2026](#), GOV.UK, 3 March 2021

⁵² For instance, Jeremy Corbyn (HC Deb [23 March 2021](#), c283), Alison Thewliss (HC Deb [4 March 2021](#), c434), Wendy Chamberlain ([cc458-9](#)), John Trickett (HC Deb [8 March 2021](#), c573).

⁵³ HC Deb [3 March 2021](#), c290

⁵⁴ PQ 173090 [on [Income Tax: Low Incomes](#)], 25 March 2021

⁵⁵ Commons Library research briefing CBP-9186, [Spring Budget 2021: personal allowance and higher rate threshold](#)

⁵⁶ “[‘Stealth’ raid on income tax thresholds](#)”, Financial Times, 3 March 2021

handed way of raising taxes”.⁵⁷ On the other hand, James Coney, the money editor for the Times, added 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.”⁵⁸

Torsten Bell of the Resolution Foundation discussed the distributional impact of the measure, saying that most of the additional money raised by the freeze “will come from the richest fifth of households, who will pay 12 times as much as the bottom fifth of households, on average.”⁵⁹ In 2020, the Resolution Foundation had already said that a freeze to tax thresholds could be justifiable.⁶⁰

Paul Johnson of the Institute for Fiscal Studies (IFS) argued that the freeze of the personal allowance was a progressive tax increase and added that even a four-year freeze “will undo only a fraction of the increases we saw over the 2010s.” He also said that those increases to the personal allowance had ensured “middle earners did not lose out from austerity [...]. This rise will hit ‘middle England’. A political risk perhaps.”⁶¹

During the debate on the Ways and Means resolutions prior to the introduction of the Finance (No.2) Bill 2019-21, opposition MPs expressed criticism of the policy proposal.⁶² It was the only resolution MPs divided on.⁶³

5.4

Commentary following Autumn Budget 2021

No changes to the policy were announced at the Autumn Budget in October 2021. However, the OBR published updated forecasts for the UK economy, including inflation forecasts. The OBR predicted higher rates of inflation than it had predicted in March. Writing in the Times following the Autumn Budget, Paul Johnson of the IFS noted that “freezing [...] tax allowances over long periods is not good policy. The actual effects are unknowable in advance.”⁶⁴

⁵⁷ [“Extra 1.3m people in UK to start paying income tax over next five years”](#), Guardian, 4 March 2021

⁵⁸ [“Comment: Catching more people in the tax net just by standing still”](#), Times, 4 March 2021

⁵⁹ [“Budget 2021 is big, bold and carries some big risks”](#), Times, 4 March 2021

⁶⁰ Resolution Foundation, [Unhealthy finances – How to support the economy today and repair the public finances tomorrow](#) (PDF), November 2020

⁶¹ [“Opening remarks from IFS Director Paul Johnson”](#), IFS Budget 2021, 4 March 2021

⁶² 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](#))

⁶³ [Budget Resolutions and Economic Situation – Division 236: held on Tuesday 9 March 2021](#), UK Parliament

⁶⁴ Paul Johnson, [We let our guard down on inflation and now we must parry the blows](#), Institute For Fiscal Studies, 17 January 2022

5.5

Commentary following Spring Statement 2022

The then Chancellor did not announce changes to the policy at Spring Statement 2022. The impact of the freeze was not mentioned by MPs in the response to Rishi Sunak's statement.⁶⁵ In its commentary, the Financial Times argued that "fiscal drag might be a reasonable, if underhand, strategy when growth is strong and real incomes are steadily rising."⁶⁶ However, they added that the UK was not in that situation, and that in the current circumstances, "few Britons will fail to notice that their wages no longer pay for what they used to."⁶⁷

5.6

Commentary following Autumn Statement 2022

At Autumn Statement 2022, Jeremy Hunt extended the freeze to tax thresholds to April 2028. In its commentary on the 2022 Autumn Statement, the Resolution Foundation think tank warned against relying on threshold freezes to the extent the Government is. It argued that the freezes are not as well targeted at those on higher incomes as increases to tax rates, raising questions of fairness.⁶⁸

Following the 2022 Autumn Statement, the IFS said there were downsides of "using freezes to raise revenue", arguing that the lack of certainty over future rates of inflation cast doubts on the "real-term impacts" of the freeze.⁶⁹

It was however noted by some commentators that the original four-year freeze announced in 2021 would be the policy that would bring in most revenue. By comparison, the extension of the freeze to 2027/28 would be "relatively modest by comparison."⁷⁰

When the policy was legislated in the Finance (No.2) Bill 2021-22, the Government stressed that the UK's personal allowance was "the most generous tax-free personal allowance of any G7 country", and that it would still be over £2,000 higher by April 2028 than if it had been uprated by inflation since 2010.⁷¹

⁶⁵ HC Deb [23 March 2022](#), cc337-373

⁶⁶ "[No winners in Sunak's fiscal drag race](#)", Financial Times [Online], 25 March 2022

⁶⁷ "[No winners in Sunak's fiscal drag race](#)", Financial Times [Online], 25 March 2022

⁶⁸ Resolution Foundation, [Help today, squeeze tomorrow – Putting the 2022 Autumn Statement in context](#) (PDF), November 2022

⁶⁹ Institute for Fiscal Studies, [Autumn Statement 2022 response](#), Institute for Fiscal Studies, 17 November 2022

⁷⁰ Paul Johnson, [Autumn Statement 2022: Opening Remarks](#), IFS, 18 November 2022 pp7-8

⁷¹ HC Deb [30 November 2022](#), cc931-932

Speaking for their parties, James Murray (Labour) and Helen Morgan (Liberal Democrats) pointed out that the extension of the freeze would represent an additional “stealth tax” on the UK population.⁷² Peter Grant (Scottish National Party) added that the Chancellor should have been more transparent and “admit how much additional tax somebody on a minimum wage would be paying as a result of there being no increase in the tax bands.”⁷³

In an intervention in the debate, Anthony Browne (Conservative) said that the then Chancellor had been clear that the Government was going to freeze tax thresholds. Therefore, there could be no accusation that he was introducing a “stealth tax rise.”⁷⁴

5.7 Commentary following Spring Budget 2023

In April 2023, the Resolution Foundation said that, if income tax thresholds had risen in line with inflation for 2023/24, the personal allowance would be £13,840, and the higher rate threshold £55,340.⁷⁵

The freeze in 2023/24 will cost a basic-rate employee just over £400, and a higher-rate taxpayer over £900.⁷⁶ The Foundation added that, of the £25 billion the freeze will raise in 2027/28, £12 billion will be raised by the freeze in April 2023 alone. Again, this is due to the impact of high inflation.

They said that “for further comparison, the net cost of cancelling the Health and Social Care Levy was £15 billion.”⁷⁷

In May 2023, the IFS released a new report forecasting the impact of the thresholds freeze on taxpayers by 2027/28.⁷⁸ They estimated that, by the end of the freeze period, the measure will represent the “largest single tax-raising measure” since the near-doubling of the VAT rate by then Chancellor Geoffrey Howe in 1979.⁷⁹

The IFS report makes specific reference to higher rate taxpayers (those paying the 40% or 45% marginal rates). They estimated that the freeze of the tax thresholds and the reduction of the threshold at which taxpayers start paying the 45% rate will mean 2.5 million more taxpayers will be paying those rates by 2027/28.⁸⁰ The IFS also published indicative figures showing the types of employees that are likely to be brought into paying higher rates of tax. The IFS notes that in the early 1990s, only the highest paid employees in

⁷² See, for instance, James Murray (HC Deb [30 November 2022](#), c938), Helen Morgan ([c946](#))

⁷³ HC Deb [30 November 2022](#), cc944-5

⁷⁴ As above, [c945](#)

⁷⁵ Resolution Foundation, [Happy new tax year, 2023!](#), 1 April 2023

⁷⁶ As above

⁷⁷ As above

⁷⁸ IFS, [A deepening freeze: more adults than ever are paying higher-rate tax](#), 16 May 2023

⁷⁹ As above, p3

⁸⁰ As above, p4

professions such as nursing, machinery workers, electricians, and teachers would be paying the higher rate of tax. The IFS forecasts that, by 2027/28, the following are expected to be paying income tax at the higher rate:

- More than one in eight nurses
- One in six machinists and fitters
- One in five electricians
- One in four teachers⁸¹

5.8 Commentary following Autumn Statement 2023

The OBR's November 2023 Economic and Fiscal Outlook forecast higher rates of inflation than the March forecast.

The commentary around the freeze of tax thresholds increased significantly at the time of the 2023 Autumn Statement, even though there was no announcement on this policy. During the statement, the Chancellor announced a series of measures, chiefly a reduction in the rate of NICs for employees from 12% to 10% (from January 2024), and for the self-employed from 9% to 8% (from April 2024).⁸²

Responding to the Chancellor's speech, Shadow Chancellor Rachel Reeves (Labour) said that she had long argued that taxes on working people were too high, citing the freeze to income tax and NICs thresholds as an example.⁸³

Several MPs referred to the UK's tax burden, which was predicted to be the highest in 70 years, despite some headline tax cuts announced during the statement.⁸⁴

The Chancellor was asked by Angela Eagle (Labour) whether the freeze would remain in place. He answered that the Government had taken "difficult decisions" such as implementing the freeze in order to control borrowing and reduce inflation.⁸⁵

⁸¹ IFS, [A deepening freeze: more adults than ever are paying higher-rate tax](#), 16 May 2023, p6

⁸² HM Treasury, [Autumn Statement 2023](#) (PDF), GOV.UK, November 2023, pp41-43

⁸³ HC Deb [22 November 2023](#), c338

⁸⁴ See, for instance, James Murray (HC Deb [22 November 2023](#), c363), Drew Henry ([c369](#)) Priti Patel ([cc386-87](#)), Angela Eagle ([c390](#)), Tulip Siddiq ([c420](#)), Jonathan Reynolds (HC Deb [23 November 2023](#), c481), Peter Grant ([c484](#)), Matt Western ([c495](#)), Samantha Dixon ([c506](#)), Alan Brown ([c515](#)). The official forecast is available at OBR, [Economic and Fiscal Outlook: November 2023](#) (PDF), November 2023, chart 4.1, p77

⁸⁵ HC Deb [22 November 2023](#), c347

Commentators also compared headline tax cuts announced in the Autumn Statement (particularly the reduction of the headline NICs rate for employees from 12% to 10%) with the cumulative impact of the tax thresholds freeze. The Resolution Foundation said the following:

Personal taxes are generally going up, not down, with the big tax cuts announced in the Autumn Statement (totalling £10 billion) dwarfed by the previously announced tax rises (the freezing of NI and income tax thresholds for six years is now expected to raise £45 billion).⁸⁶

The IFS added that the tax reductions announced in the statement would give back “less than £1 of every £4 taken away”.⁸⁷

Following the statement, several news outlets also used the comparison, with several stating that the tax burden would still remain “on course to reach its highest level since the Second World War” regardless of the headline tax cuts announced.⁸⁸

In the run-up to the Autumn Statement, the Guardian quoted the chief analyst of the Joseph Rowntree Foundation (JRF), Peter Matejic, saying that although the measure would “drag poorer households into paying income tax for the first time”, the top decile of earners would pay more as a result of the freeze than the poorest half combined.⁸⁹

5.9 Commentary following Budget 2024

At Budget 2024, Chancellor Jeremy Hunt did not announce any changes to the setting of tax thresholds, which are still due to be frozen up to April 2028. The Chancellor, however, announced a series of measures affecting the tax system: primarily, reduction in the rate of NICs for employees (from 10% to 8%) and for the self-employed (from 8% to 6%).⁹⁰ This tax cut builds on the Government’s decision at Autumn Statement 2023 to reduce the headline rate of NICs for employees from 12% to 10%, and for the self-employed from 9% to 8%.

⁸⁶ Resolution Foundation, [A pre-election Statement](#) (PDF), p3

⁸⁷ IFS, [Personal taxes and benefits](#) (PDF), 23 November 2023, p2

⁸⁸ “[UK tax burden remains set for post-war record high, despite cuts](#)”, London Evening Standard, 22 November 2023. For similar commentary, see also “[Tories hail Chancellor’s tax-cutting Autumn Statement after he gives Brits a £450 boost by slashing 2p off national insurance and hands firms £10bn perk – but watchdog warns the burden will STILL hit a post-war record with 3m dragged into higher rate](#)”, Mail Online, 22 November 2023; “[Jeremy Hunt hails biggest tax cuts since Thatcher but plans condemned as ‘not good for growth’](#)”, The Independent, 22 November 2023; “[Millions of workers to be dragged into 40pc income tax band](#)”, The Telegraph, 22 November 2023; “[National insurance cuts swamped by stealth tax rise, says fiscal watchdog](#)”, Financial Times, 22 November 2023; “[The hidden tax rise in the Autumn Statement](#)”, BBC News, 23 November 2023

⁸⁹ “[Pressure grows on Hunt to cut income tax as millions more face paying it](#)”, The Guardian, 21 November 2023

⁹⁰ HM Treasury, [Budget 2024](#) (PDF), GOV.UK, March 2024, p2

In their response to the statement, the spokespeople for the three main opposition parties or mention fiscal drag: the Leader of the Opposition, Keir Starmer, the spokesperson for the Scottish National Party, Drew Hendry, and the leader of the Liberal Democrats, Ed Davey. They pointed out that maintaining tax thresholds at the current level would diminish or even cancel out the benefit of headline tax cuts (such as the one announced for NICs rates).⁹¹

Fiscal drag, or the effect of freezing tax thresholds on taxpayers, was also raised by a number of backbench MPs, including Dame Angela Eagle (Labour), Priti Patel (Conservative), Suella Braverman (Conservative), and Ian Blackford (SNP).⁹²

Media and professional commentary

Recently, fiscal drag has been reported increasingly more widely by media outlets in the UK. Immediately prior to the Budget, newspapers had been reporting the increased effect of freezing tax allowances on taxpayers.⁹³ Ahead of the Budget, Helen Thornley, Technical Officer at the Association of Taxation Technicians, predicted that “a discussion of the effects of fiscal drag [would very likely be] on the agenda.”⁹⁴ The TaxPayers’ Alliance also called on the Government to reduce the amount of income tax paid by taxpayers, either via cuts to headline rates, or via “unfreezing the thresholds”.⁹⁵

Following the event, several major media outlets addressed the impact of fiscal drag in the context of the measures announced in the Budget. The Financial Times argued that “more income will keep been caught in higher brackets” due to the thresholds freeze regardless of the headline tax cuts announced by the Chancellor.⁹⁶ The Independent similarly noted that the impact of the national insurance cut would be offset by fiscal drag.⁹⁷ The Telegraph reported comments by the Institute for Fiscal Studies and argued that, regardless of the measures announced in the budget, “middle-class earners will still be paying more tax”.⁹⁸ The day after the Budget, City AM also explained that the overall tax burden in the UK was increasing, despite headline tax cuts, due to fiscal drag. However, they also noted that the budget measures would still benefit some taxpayers overall, regardless of the thresholds freezes:

⁹¹ HC Deb [6 March 2024](#), c856 (Keir Starmer); cc864-865 (Drew Hendry), and c875 (Ed Davey)

⁹² As above, c871 (Angela Eagle), c881 (Priti Patel), c901 (Suella Braverman), and c909 (Ian Blackford)

⁹³ See, for instance, “[Two million set for ‘stealth tax’ rise in next year without Budget help](#)”, iNews, 2 March 2024; “[Conservatives must back wealth creation](#)”, The Daily Telegraph, 1 March 2024; “[HMRC struggling to cope as customer service levels hit ‘all-time low’](#)”, The Guardian, 28 February 2024; and “Pensioners set to be hit by Hunt’s stealth tax raid”, Mail on Sunday, 3 March 2024 [accessed via Nexis News]

⁹⁴ “[Is fiscal drag getting you down yet?](#)”, AccountingWeb, 1 March 2024

⁹⁵ TaxPayers’ Alliance, [Cut income tax now – Sign the petition](#), accessed on 8 March 2024

⁹⁶ “[Chancellor’s fiscal drag act leaves Tories no better of them before](#)”, Financial Times, 6 March 2024

⁹⁷ “[Personal taxes cuts to lowest level since 1975, but gains offset by fiscal drag](#)”, Independent, 6 March 2024

⁹⁸ “[Middle classes will still be worse off despite Hunt’s tax cuts, says IFS](#)”, The Telegraph, 6 March 2024

Employees and middle incomes are the big winners, when considering the combined impact of thresholds freezes and personal tax cuts.

79% of employees will pay less tax next year as a result of the changes, according to the Resolution Foundation, with an average gain of £450.⁹⁹

In a report published the day after the Budget, the Resolution Foundation analysed the combined impact of the reductions in NICs rates announced that Autumn Statement 2023 and Budget 2024 together with the freeze in thresholds (from April 2024). They concluded that the majority of employees would overall benefit from these measures:

If we consider this April's freeze alongside the two National Insurance cuts, an estimated 79 per cent of employees will be net winners, but those earning £19,000 or less (typically part-time workers) would have been better off with normal tax thresholds operating them with these tax cuts.¹⁰⁰

The Foundation, however, also examined the overall package of policies announced at budget 2024 alongside the freeze in thresholds, and concluded that the combined impact of the freeze alongside the policy changes would make employees earning between £26,000-£60,000 a year “net winners”, whereas those earning above or below this bracket in a worse-off position.¹⁰¹

Following the Budget, the IFS also analysed the combined effect of the thresholds freezes and the headline NICs rates cuts. Tom Wernham, an economist at the Institute, explained the effect in 2024/25 would be a net benefit for around half of employees, situated in the upper-middle band of the income distribution. The IFS forecasts the bottom 40% of employees will see that tax liabilities rise, as the impact of the freezes outweighs the reduction in the headline rate of NICs. The top 10% of earners is also predicted to have tax liabilities rise.¹⁰² Tom Wernham added that the combined effect of this in 2027/28 would be different: in that year, only a third of employees (earning between £33,000 and £55,000 a year) would see a net gain.¹⁰³

Writing in the Taxation magazine, chief executive of tax accountancy firm Blick Rothenberg, Nimesh Shah, argued that low earners were going to be disproportionately disadvantaged by the freeze of the thresholds; he pointed out that the personal allowance would have stood at over £15,000 if it had been uprated in line with inflation.¹⁰⁴ He also added that although the freeze to the thresholds has made the issue more severe, fiscal drag was already an issue before:

While the personal allowance increased very quickly to a five-figure sum (of £10,000) during the time of the coalition government, it as not actually

⁹⁹ “[Fact-checking Jeremy Hunt's Spring Budget: Who are the real winners and losers?](#)”, City AM, 7 March 2024

¹⁰⁰ Resolution Foundation, [Back for more? Putting the 2024 Spring Budget in context](#) (PDF), March 2024, p18

¹⁰¹ As above, pp21-22

¹⁰² IFS, [Spring Budget 2024: IFS presentations](#), 7 March 2024

¹⁰³ As above

¹⁰⁴ “Relentless drip”, Taxation magazine [hardcopy], 28 March 2024

increased enough since 2010 to date. The increase to the personal allowance has been a modest £6,095 or, put another way, around £450 for each year of this government.¹⁰⁵

¹⁰⁵ “Relentless drip”, Taxation magazine [hardcopy], 28 March 2024

6

Annex A: Calculations

The calculations in this briefing use income tax rates for 2019/20, 2020/21, and from 2021/22 to 2027/28.

Income tax rates, 2019/20 to 2027/28			
	2019/20	2020/21	2021/22 to 2027/28
Personal Allowance (0%)	Up to £12,500	Up to £12,500	Up to £12,570
Basic Rate (20%)	£12,501 - £50,000	£12,501 - £50,000	£12,571 - £50,270
Higher Rate (40%)	£50,001 - £150,000	£50,001 - £150,000	£50,271 - £150,000
Additional Rate (45%)	Over £150,000	Over £150,000	Over £150,000

Source: HMRC, [Income Tax rates and allowances for current and past years](#), GOV.UK, 30 March 2023

Below is an example of an income tax liability based on a yearly income of £60,500 in tax year 2022/23.

The Personal Allowance is £12,570. This means that the first £12,570 are not liable for income tax. Their taxable income, therefore, is £47,930.

Their taxable income is below the additional rate threshold, but above the higher rate threshold, so they pay 20% on their earnings within the basic rate limit. This is the portion between £12,570 and £50,270 (£37,700).

$$£37,700 * \frac{20}{100} = £7,540$$

Furthermore, the individual also has to pay income tax at the higher rate for their remaining taxable income:

$$£47,930 - £37,700 = £10,230$$

On this income, income tax is paid at the 40% higher rate:

$$£10,230 * \frac{40}{100} = £4,092$$

The total income tax liability on earnings of £60,500 is:

$$£7,540 + £4,092 = £11,632$$

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