



Llywodraeth Cymru
Welsh Government

Summer Budget 2015

The impact of the UK Government's welfare,
personal tax and minimum wage reforms in
Wales

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Summer Budget 2015 – The impact of the UK Government’s welfare, personal tax and minimum wage reforms in Wales

- Audience** This report has been produced primarily for the Welsh Government’s Ministerial Task and Finish Group on Welfare Reform and relevant policy and analytical officials.
- Overview** This report includes analysis that has been undertaken by the Welsh Government as part of its programme of research to assess the impact of the UK Government’s welfare reforms in Wales.
- Action required** None – for information only.
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- Additional copies** This document can be accessed from the Welsh Government’s website at www.gov.wales/topics/people-and-communities/

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Summary of key findings

- Significant welfare cuts of £13 billion a year by 2020-21 were announced in the UK Government's Summer Budget 2015.

Freeze most working-age benefits, tax credits and Local Housing Allowances

- The largest single cut to welfare spending is set to come from freezing most working-age benefits and tax credits for 4 years from 2016-17, saving around £4 billion a year by 2020-21.
- The Institute for Fiscal Studies (IFS) estimates 13 million families will be affected across the UK, losing £260 a year on average. 7.4 million of these are in work, losing £280 a year on average. Our estimates suggest amongst those affected in Wales are 360,000 families in receipt of Child Benefit. Some claimants will be in receipt of more than one affected benefit or tax credit.

Reduce income thresholds in tax credits and work allowances in Universal Credit

- The reduction in the level of earnings at which a household's tax credits or Universal Credit will start to be withdrawn from April 2016 is a significant change, which will reduce the incentive to work. The IFS estimate this will affect 3 million families in the UK, who will lose around £1,000 a year on average. Our estimates suggest 130,000 – 160,000 families in Wales will be affected.

Limit child element to 2 children for new births in tax credits and new claims in UC

- There were 117,000 families with 2 or more children in receipt of tax credits in Wales in 2013-14. These families will be affected if they have any more children after April 2017.

Reduce the annual amount of benefit out-of-work families can receive from £26,000 to £23,000 inside London and £20,000 outside London

- The Department for Work and Pensions (DWP) estimates an average total of 126,000 households in Great Britain will be affected by the cap in 2017-18, with 92,000 of them additional over the current policy. Within these households, the number of adults affected is 156,000 and the number of children is 330,000. These households will have their benefits reduced by an average of around £63 per week in 2017-18.
- Our initial estimate is around 5,000 households in Wales will be affected by the lowering of the household benefit cap.

Remove entitlement to housing support for most childless 18-21 year olds who are out of work

- In February 2015, there were around 1,060 claimants in Wales aged 18-21 in receipt of Jobseeker's Allowance and Housing Benefit with no children. Although the current caseload will be protected from the changes to housing support for out-of-work 18-21 year olds due to be introduced in April 2017, a similar caseload would be expected under Universal Credit if this policy had not been introduced. Therefore, this is used as the best indicator of the impact of the policy in the medium term. Numbers affected would be slightly lower given exemptions to this policy.

Increase Universal Credit parent conditionality to those with children aged 3 and over (instead of aged 5 and over)

- From September 2017, parents with a youngest child aged 3 or older, who are able to work, will be expected to look for work if they are claiming Universal Credit. DWP estimate this measure will affect around 220,000 claimants in the UK. We expect around 7,000 - 8,000 lone parents in Wales to be affected. Based on evidence of the impact of previous increases to the conditionality regime for parents, it is expected there will be positive impacts on employment.

Align Work-Related Activity Group rate with Jobseeker's Allowance for new claims

- Employment and Support Allowance payments (and the Universal Credit Limited Capability for Work element) for those deemed able to work will be aligned with Jobseeker's Allowance and the standard rate of Universal Credit. This will apply to new claims only from April 2017.
- DWP estimate 500,000 families in the UK will be affected in the longer term. We estimate around 37,000 affected claimants will be in Wales. DWP estimate the notional¹ loss for those affected will be around £28 a week.

Remove family element in tax credits and Universal Credit, and the family premium in Housing Benefit, for new claims

- Those starting a family after April 2017 will no longer be eligible for the family element in tax credits (£545 per year per family). The equivalent in Universal Credit, known as the first child premium (a premium of £45.41 a month), will also not be available for new claims after April 2017. Similar changes will be made to Housing Benefit by removing the family premium for children born, or claims made, after April 2016.
- The IFS estimate around 4 million families will be affected by this measure. Losses will be notional so there will be no cash losers. The numbers affected in Wales are expected to build up to around 200,000 families in the longer term.

¹ This is a measure of the entitlement claimants would have been eligible for had the policy not been changed, rather than claimants losing income they had already been receiving (i.e. a cash loss).

Further increase in the income tax personal allowance

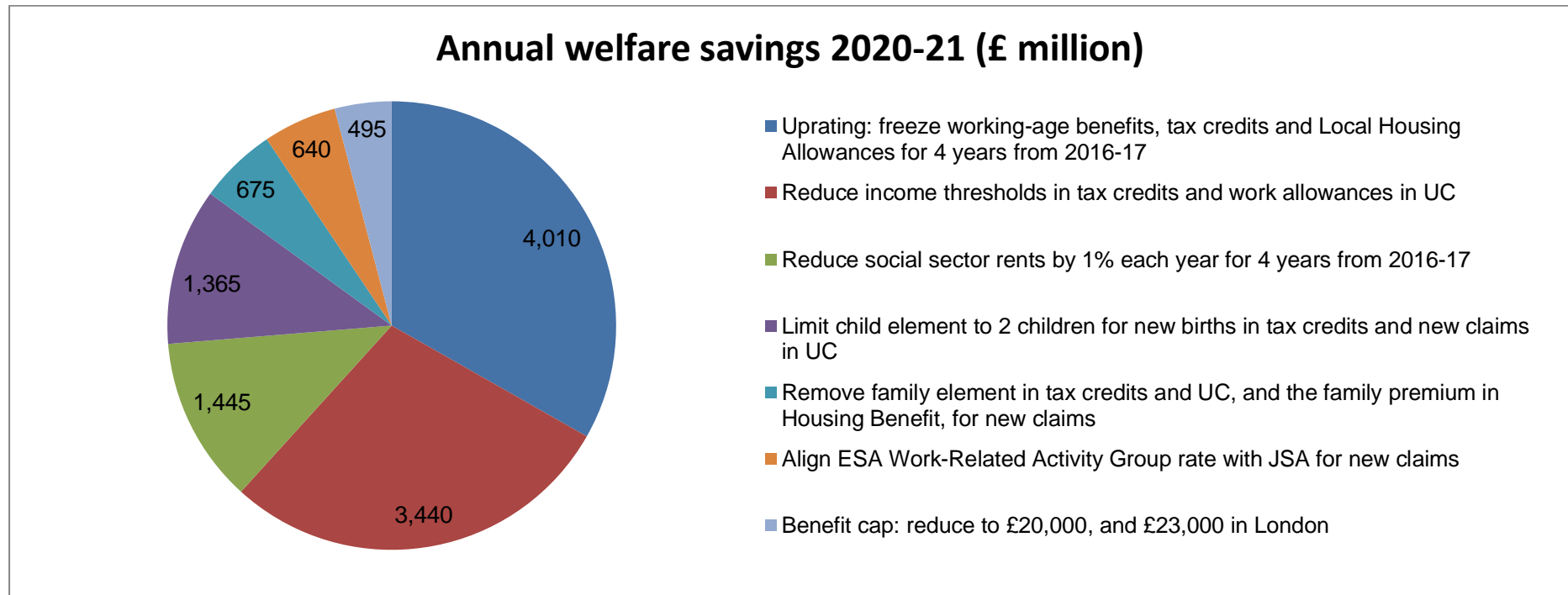
- The point at which someone starts to pay income tax, known as the income tax personal allowance, will increase from £10,600 in 2015-16 to £11,000 in 2016-17 and £11,200 in 2017-18.
- The IFS estimate basic rate taxpayers will be better off by £40 a year as a result of this measure. The biggest gainers are two-earner couples where both can benefit from the higher allowance, and therefore, those in the middle and upper-middle parts of the income distribution gain the most as a percentage of income. Increasing the personal allowance would not increase the incomes of the very poorest in society.

Total impacts of tax and benefit changes, and the effect of the higher minimum wage

- Analysis by the IFS shows the UK Government's tax and benefit changes take much more from low income households than higher income households between April 2015 and April 2019. For example, households in the poorest income groups lose around 7 per cent of net income on average compared to a negligible loss on average for the richest income group. The average loss for all households is around 1.5 per cent of net income.
- The IFS report many of the working families affected by the tax credit cuts will not be compensated by the higher minimum wage, and unequivocally on average, tax credit recipients in work will be made worse off by the measures in the UK Government's Summer Budget.

1. Introduction

The UK Government's Summer Budget 2015 confirmed annual welfare spending will be cut by £12 billion. This will take four years (i.e. by 2019-20) instead of the two years initially expected prior to the Budget. Annual welfare cuts are forecast to increase further to around £13 billion in 2020-21. The seven main welfare cuts, which account for 93 per cent of the annual savings in 2020-21, are summarised in the chart below. The largest cuts to welfare spending are set to come from freezing most working-age benefits and tax credits and the reduction in the level of earnings at which a household's tax credits or Universal Credit (UC) will start to be withdrawn.



Data source: HM Treasury (2015) Summer Budget 2015

Initial estimates of the impact of the welfare cuts in Wales are included in Section 2. Some claimants will be affected by more than one of these measures. Section 3 outlines the welfare cuts which apply to England. Section 4 summarises the main personal tax measures, while Section 5 analyses the combined impact of the welfare and tax changes. Section 6 considers the impact of the change to the National Minimum Wage for those over 25.

A summary of the Welsh Government's response to welfare reform to date will be published later in September 2015. You will be able to access this via the following link: <http://gov.wales/topics/people-and-communities/welfare-reform-in-wales>

2. Early analysis of the impact of the Summer Budget 2015 welfare cuts in Wales

Policy change	Timescale	Estimated impact
1. Freeze most ² working-age benefits, tax credits and Local Housing Allowances	From 2016-17 to 2019-20	<p>The benefits and tax credits affected by this change are listed below along with caseload data for Wales³.</p> <ul style="list-style-type: none"> • Jobseeker's Allowance (JSA): 46,200 claimants • Employment and Support Allowance (ESA) Work-Related Activity Group only: 36,500 claimants • Income Support: 46,600 claimants • Child Benefit: 359,900 families • Housing Benefit: 247,900 claimants (including 73,600 Local Housing Allowance tenants) • Child Tax Credit and Working Tax Credit: 238,000 families (including 74,000 out-of-work families, 133,000 in-work families with children and 30,000 in-work families with no children), and 384,000 children. <p>As there will be some overlap between these claimants (e.g. those claiming both JSA and Housing Benefit), it has not been possible to produce an estimate of the total number of affected claimants/families in Wales from this data. The IFS, which has access to a wider range of data and modelling tools, estimates this policy will affect 13 million families in Great Britain, who will lose £260 a year on average (7.4 million of these are in work, losing £280 a year on average)⁴. This measure, which is the largest welfare cut in the Summer Budget 2015, is forecast to save the UK Exchequer around £4.0 billion a year by 2020-21⁵. The largest savings come from tax credits (£2.0 billion in 2020-21), followed by Child Benefit (£0.6 billion) and ESA (£0.6 billion)⁶. However, the savings realised will be sensitive to differences between forecast and actual inflation.</p> <p>Although there are exemptions² for those benefits/tax credits designed to help with the extra costs of disability (e.g. Disability Living Allowance), which will rise in line with the Consumer Price Index (CPI), many families with disabled people will still be affected. For example, the main rates of means-tested benefits, the main tax credit elements, the ESA Work-Related Activity Group component, and the equivalents within Universal Credit, will be frozen. In terms of age, DWP's Impact Assessment⁷ notes those aged 30 – 50 years old are most likely to be affected (as they are more likely to include children and therefore be affected by changes to child-related benefits). However, younger households (where the head is under 30 years old) are likely to lose the most as a proportion of income. On an individual basis, women are more likely to be affected than men. This is likely to be because around 90 per cent of lone parents are women (i.e. the family type most likely to claim the affected benefits). In terms of ethnicity, those households where the head reports themselves as Black/African/Caribbean/Black British are most likely to be affected by this policy. However, Asian/British Asian people and other Ethnic Groups are likely to see the highest notional losses.</p> <p>This policy also raises issues around a further widening between the treatment of pensioners and those of working-age, the impact on low-income working families, and the extent to which households dependent on out-of-work benefits can meet minimum needs⁸. Indeed, research by the Joseph Rowntree Foundation⁹ suggests most people reliant on out-of-work benefits (particularly single adults) do not reach a minimum acceptable income.</p>

² This will apply to Jobseeker's Allowance, Employment and Support Allowance, Income Support, Child Benefit, applicable amounts for Housing Benefit, Local Housing Allowance rates, with provision for high rent areas, Child Tax Credit and Working Tax Credit. This excludes: Maternity Allowance, Statutory Sick Pay,

Policy change	Timescale	Estimated impact
2. Reduce income thresholds in tax credits and work allowances in Universal Credit	From 2016-17	<p>The amount a family can earn before tax credits start to be withdrawn will be reduced from £6,420 to £3,850. The equivalents in Universal Credit (work allowances) will be reduced to £4,764 for those without housing costs, £2,304 for those with housing costs, and removed altogether for non-disabled claimants without children.</p> <p>The IFS estimates this policy will affect around 3 million families in Great Britain, who will lose just over £1,000 a year on average. Significant work allowances, which improve the incentive to move into work, were a fundamental part of the design of the UC system. However, this measure will substantially change the effects and structure of UC. For example, it will reduce the incentive for the first earner in a family to enter work. This measure will protect those on the lowest incomes, mostly those not in work, at the expense of low earners (most of whom will not be compensated by the higher national minimum wage). The IFS have commented this is an interesting choice as it focuses cuts in the tax credit/UC system on families in work much more than those out of work¹⁰. This measure is forecast to save the UK Exchequer around £3.4 billion a year by 2020-21¹¹.</p> <p>HM Revenue and Customs (HMRC) statistics show there were 34,000 in-work families in receipt of tax credits in Wales in 2013-14 with an annual household income of up to £6,240. Some of these families will have an income above £3,850 and therefore will be affected by this measure, along with 130,000 other in-work families in Wales who have an annual household income between £6,420 - £50,000¹². Therefore, in total, it is estimated around 130,000 – 160,000 families in Wales will be affected by this measure.</p>

Statutory Maternity Pay, Statutory Paternity Pay, Statutory Shared Parental Pay, Statutory Adoption Pay, disability, carers and pensioners' premia in the frozen benefits/tax credits, the Employment and Support Allowance Support Group component, other disability (i.e. Disability Living Allowance and Personal Independence Payment), carer (i.e. Carer's Allowance) and pensioner benefits, which will continue to be uprated in relation to prices or earnings as applicable.

³ Sources: ONS Nomis Website (Jobseeker's Allowance, Employment and Support Allowance, and Income Support data for November 2014); DWP StatXplore (Housing Benefit data for February 2015); HMRC Child Benefit Statistics – Geographical Analysis, August 2014; HMRC Child and Working Tax Credit Statistics Finalised Annual Awards 2013-14 – Geographical Analysis. Figures are rounded to the nearest 100.

⁴ Hood, A. (2015) Benefit changes and distributional analysis. A presentation for the IFS Post-Budget Briefing Event on 9 July 2015.

http://www.ifs.org.uk/tools_and_resources/budget/505

⁵ Source: HM Treasury Summer Budget 2015.

⁶ Office for Budget Responsibility (2015) Economic and Fiscal Outlook, July 2015.

⁷ DWP (2015) Welfare Reform and Work Bill: Impact Assessment of the benefit rate freeze (July 2015).

⁸ House of Commons Library (2015) Welfare Reform and Work Bill. Briefing Paper Number 07252.

⁹ Hirsch, Donald (2015) A minimum income standard for the UK in 2015. A report for the Joseph Rowntree Foundation.

¹⁰ Hood, A. (2015) Benefit changes and distributional analysis. A presentation for the IFS Post-Budget Briefing Event on 9 July 2015; Johnson, P. (2015) Opening remarks - IFS Post-Budget Briefing Event on 9 July 2015 http://www.ifs.org.uk/tools_and_resources/budget/505

¹¹ Source: HM Treasury Summer Budget 2015.

¹² HMRC Child and Working Tax Credits Statistics Finalised Annual Awards 2013-14 – Geographical Analysis.

Policy change	Timescale	Estimated impact
3. Increase tax credit taper rate from 41 per cent to 48 per cent	From 2016-17	<p>This measure increases the rate at which a household's or person's tax credit award is withdrawn once they earn more than £3,850. This will reduce the incentive to move into work or to work more hours. This measure is forecast to save the UK Exchequer around £0.3 billion a year by 2020-21¹³.</p> <p>Based on HMRC statistics for 2013-14, we estimate between 130,000 – 160,000 families in Wales are earning above the new lower income threshold in tax credits (£3,850) and would therefore be affected by this measure¹⁴.</p>
4. Limit child element to 2 children for new births in tax credits and new claims in UC	From 2017-18	<p>Support provided to families through the child element of Child Tax Credit will be limited to 2 children, so any subsequent children born after April 2017 will not be eligible for further support. An equivalent change will be made in Housing Benefit too. This will also apply under Universal Credit to families who make a new claim from April 2017. This measure is forecast to save the UK Exchequer around £1.4 billion a year by 2020-21¹⁵. The IFS estimates the long-run saving (£3 billion a year) will be even greater as transitional protection for existing families declines, and has commented this is a significant step in weakening the relationship between need and entitlement in the benefit system¹⁶.</p> <p>There will be provisions for exceptional cases including multiple births. Households who have been in receipt of tax credits or Universal Credit with an interruption of less than 6 months will be protected. All children with disabilities will continue to receive the Disabled Child Element or Severely Disabled Child Element in tax credits and the equivalent in Universal Credit. This measure will be on a rolling basis. For example, if the eldest child reaches the age where they no longer qualify for Child Tax Credit, and there is a third child in the family born on or after the 6 April 2017, that child will qualify for the individual element. This measure will not impact on the childcare element of Working Tax Credit or Universal Credit.</p> <p>At the time of writing, each extra child brings an additional £2,780 a year in financial support through Child Tax Credit (a higher rate applies where the child is disabled/severely disabled). This policy change will reduce the amount of tax credits for future claimants with 3 or more children who fall outside the exemptions above. HMRC statistics show there were 43,000 families (including 26,000 families in work) with 3 or more children in receipt of tax credits in Wales in 2013-14. The entitlement of these existing claimants will be unaffected unless they have more children after April 2017. There are also 74,000 families with 2 children in receipt of tax credits in Wales in 2013-14¹⁷. Likewise, these families will also be affected if they have any more children after April 2017 (unless they fall within the exemptions). Behavioural responses in terms of the impact of this limited support on childbearing is uncertain at this stage. Although IFS analysis¹⁸ has found a link between benefit support for children and childbearing, there is currently no evidence on the strength of these effects.</p> <p>DWP's Impact Assessment¹⁹ notes females may be more likely to be affected than males as a high proportion of lone parents (most of whom are female) are in receipt of Child Tax Credit. Ethnic minority households may also be more likely to be affected as, on average, they are more likely to be in receipt of these benefits and have larger families. Of households in receipt of welfare benefits, those with a disability are less likely to have children, and are therefore, less likely to be affected.</p>

¹³ Source: HM Treasury Summer Budget 2015.

¹⁴ HMRC Child and Working Tax Credits Statistics Finalised Annual Awards 2013-14 – Geographical Analysis.

¹⁵ Source: HM Treasury Summer Budget 2015.

¹⁶ Hood, A. (2015) Benefit changes and distributional analysis. A presentation for the IFS Post-Budget Briefing Event on 9 July 2015.

¹⁷ HMRC Child and Working Tax Credits Statistics Finalised Annual Awards 2013-14 – Geographical Analysis.

Policy change	Timescale	Estimated impact
5. Reduce the annual amount of benefit out-of-work families can receive from £26,000 to £23,000 inside London and £20,000 outside London	From 2016-17	<p>The household benefit cap, which applies to out-of-work families, will be cut from £26,000 (£18,200 for single adults without children) to £23,000 (£15,410 for single adults without children) inside London and £20,000 (£13,400 for single adults without children) outside London. HM Treasury note a £23,000 cap is equivalent to typical pre-tax earnings of around £29,000, and a £20,000 cap is equivalent to typical pre-tax earnings of around £25,000. This breaks the current link between the cap and average earnings. Exemptions apply for the most vulnerable disabled people. This measure is forecast to save the UK Exchequer around £0.5 billion a year by 2020-21²⁰. However, the IFS estimate a lower saving of £200m in 2020-21 after other changes to the benefits are taken into account²¹. £800 million of support for the most vulnerable claimants will be provided over the next 5 years (from 2016-17) through Discretionary Housing Payments.</p> <p>DWP²² estimates an average total of 126,000 households in Great Britain will be affected by the cap in 2017-18, with 92,000 of them additional over the current policy. Within these households, the number of adults affected is 156,000 and the number of children is 330,000. Overall, these households will have their benefits reduced by an average of around £63 per week in 2017-18. We estimate around 5,000 households²³ in Wales will be affected by the lowering of the household benefit cap from £26,000 to £20,000. This is an indicative estimate of the numbers affected, and is subject to change. We estimate around 1,000 households would have been affected by the current cap in 2017-18, who would lose a further £6,000 per year. In addition, around 4,000 other workless families who have a benefit income of between £20,000 and £26,000 (who would lose less than £6,000 per year) would be affected. These estimates do not take into account any behavioural responses (e.g. moving into work). Although evidence from the evaluation of the impact of the household benefit cap so far shows some of those affected have responded positively by moving into work, the large majority of affected claimants have responded neither by moving into work nor by moving house²⁴.</p> <p>DWP's Impact Assessment²⁵ suggests the majority (64 per cent) of those affected by the cap are single females, with most of these being lone parents given the majority of those affected by the policy are expected to have children (around 59 per cent of the caseload are estimated to be female lone parents). It is estimated 12 per cent of those affected are single males. In terms of age, the cap applies to working-age benefits and the Impact Assessment suggests around three-quarters of additional households affected will be 25 – 44 years old (based on the age of the main claimant). This is because younger claimants (aged under 25) generally receive less in benefit payments and are less likely to have children. Households in receipt of some disability benefits (including Disability Living Allowance/Personal Independence Payment, Attendance Allowance, Industrial Injuries Benefit, and the support component of ESA) are exempt from the cap. In terms of the impact on carers, DWP estimate 94 per cent of households in receipt of Carer's Allowance who have a benefit income above the lower cap are exempt, mainly because the person they care for is in the same household and is in receipt of an exempt disability benefit. Although DWP are not able to precisely quantify the number of capped households where a member is from an ethnic minority (due to data issues), we know a large proportion of affected households are larger families. DWP note those from cultural backgrounds and ethnic minorities who have a high prevalence of large families are more likely to be affected.</p>

¹⁸ Brewer, M. et al (2009) Does welfare reform affect fertility? Evidence from the UK. <http://www.ifs.org.uk/wps/wp0809.pdf>

¹⁹ DWP (2015) Welfare Reform and Work Bill: Impact Assessment of Tax Credits and Universal Credit, changes to child element and family element (July 2015).

²⁰ Source: HM Treasury Summer Budget 2015.

²¹ Hood, A. (2015) Benefit changes and distributional analysis. A presentation for the IFS Post-Budget Briefing Event on 9 July 2015.

²² DWP (2015) Welfare Reform and Work Bill: Impact Assessment for the benefit cap (July 2015).

Policy change	Timescale	Estimated impact
6. UC parent conditionality from when youngest child turns 3	From September 2017	<p>Since May 2012, parents within the benefits system with a youngest child aged 5 or over (reduced from 7 or over), who are able to work, have been expected to look for work. From September 2017, this age threshold will be reduced further, as parents with a youngest child aged 3 or older, including lone parents, who are able to work will be expected to look for work if they are claiming Universal Credit. When their youngest child turns 2, they will be expected to prepare for work. These parents will receive support from Jobcentre Plus. This measure is forecast to save the UK Exchequer £30 million a year by 2020-21²⁶.</p> <p>Based on historic benefit flows, DWP estimate this measure will affect around 220,000 responsible carers claiming Universal Credit in Great Britain with a youngest child aged 3 or 4, with over 75 per cent of these being lone parents²⁷.</p> <p>In August 2013 (the latest published data with this breakdown²⁸), there were around 7,900 lone parents in Wales in receipt of Income Support with a youngest child aged 3 or 4, and 14,600 lone parents in receipt of Income Support with a youngest child under 3. Although this data is not up-to-date, it provides a useful indication of the likely numbers affected by this policy. More recent data for November 2014²⁹, shows there 21,200 lone parents (most of whom are female) in Wales in receipt of Income Support with a youngest child under 5 (which is lower than the equivalent figure for August 2013, 22,600 claimants). We therefore expect around 7,000 - 8,000 lone parents in Wales to be affected by this measure.</p> <p>This measure is designed to improve work incentives. For example, the Lone Parent Obligation Impact Assessment³⁰ provides evidence on the effect on employment outcomes as a result of increasing requirements on lone parents to look for, and be available for, work. The evidence shows employment for carers of 9 year olds increased by around 10 percentage points more than it would have happened otherwise 9 months after the intervention. This pattern was also seen when the age of the youngest child was further reduced.</p>

²³ This estimate is based on a number of data sources including: Department for Work and Pension (DWP) household benefit cap statistics <https://www.gov.uk/government/collections/benefit-cap-statistics>; DWP (2015) Welfare Reform and Work Bill: Impact Assessment for the benefit cap <http://services.parliament.uk/bills/2015-16/welfarereformandwork/documents.html>; and, analysis published by the IFS <http://www.ifs.org.uk/uploads/publications/bns/BN172.pdf>

²⁴ Emmerson, C. and Joyce, R. (2014) Coping with the cap? An IFS Observation <http://www.ifs.org.uk/publications/7482>

²⁵ DWP (2015) Welfare Reform and Work Bill: Impact Assessment for the benefit cap.

²⁶ Source: HM Treasury Summer Budget 2015.

²⁷ DWP (2015) Welfare Reform and Work Bill: Impact Assessment of the change in conditionality for responsible carers on Universal Credit (July 2015).

²⁸ Prince, S. (2014) Income Support Lone Parents by Jobcentre Plus District and Age of Youngest Child. DWP Ad-hoc Statistical Release (March 2014) <https://www.gov.uk/government/statistics/income-support-for-lone-parents-by-jobcentre-plus-district-and-age-of-youngest-child> Figures rounded to the nearest 100.

²⁹ DWP Tabulation Tool <http://83.244.183.180/100pc/> Figures rounded to the nearest 100.

³⁰ Avram, S. et al (2013) Lone parent obligations: an impact assessment. A report for the Department for Work and Pensions. http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211688/rrep845.pdf

Policy change	Timescale	Estimated impact
7. Align Work-Related Activity Group (WRAG) rate with Jobseeker's Allowance for new claims	From 2017-18	<p>ESA payments (and the Universal Credit Limited Capability for Work element), for future claimants only, who are deemed able to work (i.e. those in the WRAG) will be aligned with JSA and the standard rate of Universal Credit. The ESA Support Group rate/Universal Credit Limited Capability for Work and Work-Related Activity rate will continue to be paid to those with the most severe work-limiting health conditions and disabilities (who currently make up around 65 per cent of the ESA caseload in Wales³¹). No current claimants will be affected by this change, and therefore there will be no cash losses. New funding (increasing from £60 million in 2017-18 to £100 million a year in 2020-21) for additional practical support will be provided to help claimants return to work. For example, this change means from April 2017, new ESA WRAG claimants who are single and over 25 will be entitled to £73.10 per week in line with the JSA rate compared to £102.15 under the current ESA WRAG rate (i.e. a difference of £29.05 a week or around £1,500 a year). This measure is forecast to save the UK Exchequer £0.6 billion a year by 2020-21³².</p> <p>The numbers affected in Great Britain are expected to build up to around 500,000 families in the longer term, using the current stock of 500,000 WRAG claimants as a proxy for the affected population³³. The stock of WRAG claimants in Wales is around 37,000³⁴. The notional³⁵ loss to each family is estimated to be around £28 a week (10 per cent notional reduction in net income in 2019-20 prices). Those in the lower half of the income distribution are more likely to be affected (as they are more likely to be in receipt of the ESA WRAG component or UC Limited Capability for Work element) than those in the upper half of the income distribution³⁶. In terms of behavioural responses, this measure is designed to improve work incentives. Although there will be a stronger incentive to get into the Support Group, some claimants may choose not to apply for ESA, stay on JSA/UC standard rate and look for work. There will be offsetting impacts for those who move into work.</p> <p>Protected groups – DWP's Impact Assessment notes an equal number of men and women are likely to be affected by this measure. However, men are likely to notionally lose slightly more than women (£22 a week or 7 per cent of net weekly income compared to £20 a week for women or 6 per cent of net weekly income). This is likely due to the fact there are a larger number of single men in receipt of the benefit who live in families with fewer other income sources (e.g. earnings or other state support), and therefore the notional loss represents a greater proportion of their income³⁷.</p> <p>Although those with the most severe work-limiting health conditions and disabilities are exempt from this measure, the majority of those affected are in families where someone describes themselves as disabled (based on the Equality Act 2010 definition). This reflects the fact that those who report themselves as having a disability are more likely to qualify for the benefits which this measure applies to³⁸.</p> <p>As this measure applies to working-age claimants, pensioners will not be directly affected. DWP has limited/no information on the remaining protected characteristics.</p>

³¹ ONS Nomis Website, Employment and Support Allowance data for November 2014 <http://www.nomisweb.co.uk/>

³² Source: HM Treasury Summer Budget 2015.

³³ DWP (2015) Welfare Reform and Work Bill: Impact Assessment to remove the ESA Work-Related Activity Component and the UC Limited Capability for Work element for new claims (July 2015).

³⁴ ONS Nomis Website, Employment and Support Allowance data for November 2014 <http://www.nomisweb.co.uk/>

Policy change	Timescale	Estimated impact
8. Remove entitlement to housing support for most childless 18-21 year olds who are out of work	From 2017-18	Those out of work aged 18-21 making new claims to Universal Credit will not be automatically entitled to the housing element. There are exemptions for vulnerable people, those with children, those who may not be able to return home to live with their parents, and those who have been in work for 6 months prior to making a claim, who will continue to be able to receive housing support for up to 6 months while they look for work. This measure is forecast to save the UK Exchequer around £40 million a year by 2020-21 ³⁹ . In February 2015, there were 1,060 claimants in Wales aged 18-21 in receipt of JSA and Housing Benefit with no children, with an average weekly Housing Benefit payment of around £90 per week ⁴⁰ (and a total of around £5 million a year in Wales). Although the current caseload will be protected from this change, a similar caseload would be expected under Universal Credit had this policy not been introduced. Therefore, it is used as the best indicator of the impact of the policy in the medium term. This measure would increase the incentive to move into paid work, or alternatively to claim a different out-of-work benefit such as ESA or Income Support.
9. Remove family element in tax credits and Universal Credit, and the family premium in Housing Benefit, for new claims	From 2016-17 (for Housing Benefit. Tax credits and Universal Credit will be affected from 2017-18)	<p>Those starting a family after April 2017 will no longer be eligible for the family element (basic element for families responsible for one or more children or qualifying young people) in tax credits (£545 per year per family). The equivalent in Universal Credit, known as the first child premium (£277.08 per month for the first child compared to the rate for each additional child, £231.67, i.e. a premium of £45.41 a month⁴¹), will also not be available for new claims after April 2017. Similar changes will be made to Housing Benefit by removing the family premium for children born or claims made after April 2016. Households who have been in receipt of tax credits or Universal Credit with an interruption of less than 6 months will be protected, as will a lone parent already on UC forming a couple with a single claimant not on UC, and those moving from tax credits to UC. This measure is forecast to save the UK Exchequer £0.7 billion a year by 2020-21⁴². The IFS estimates the long-run saving (£2 billion a year) will be even greater as transitional protection for existing families declines⁴³.</p> <p>The IFS estimate around 4 million families will be affected by this measure⁴⁴. Losses will be notional so there will be no cash losers. The numbers affected in Wales are expected to build up to around 200,000 families in the longer term, using the current stock of families in receipt of Child Tax Credits as a proxy for the affected population⁴⁵. DWP's Impact Assessment⁴⁶ notes females may be more likely to be affected than males as a high proportion of lone parents (most of whom are female) are in receipt of Child Tax Credit. Ethnic minority households may also be more likely to be affected as, on average, they are more likely to be in receipt of these benefits. Of households in receipt of welfare benefits, those with a disability are less likely to have children, and are therefore, less likely to be affected.</p>

³⁵ This is a measure of the entitlement claimants would have been eligible for had the policy not been changed, rather than claimants losing income they had already been receiving (i.e. a cash loss).

³⁶ DWP (2015) Welfare Reform and Work Bill: Impact Assessment to remove the ESA Work-Related Activity Component and the UC Limited Capability for Work element for new claims (July 2015).

³⁷ Ibid.

³⁸ Ibid.

³⁹ Source: HM Treasury Summer Budget 2015.

⁴⁰ DWP StatXplore - Housing Benefit data for February 2015.

⁴¹ House of Commons Library (2014) 2015 Benefit Uprating (rates relate to the 2015/16 financial year).

⁴² Source: HM Treasury Summer Budget 2015.

⁴³ Hood, A. (2015) Benefit changes and distributional analysis. A presentation for the IFS Post-Budget Briefing Event on 9 July 2015.

⁴⁴ Ibid.

Policy change	Timescale	Estimated impact
10. Introduction of a Youth Obligation for 18-21 year olds on Universal Credit	From 2017-18	<p>The UK Government's Summer Budget 2015 announced young people aged 18-21 will be required to participate in an intensive regime of support from day 1 of their benefit claim. The initial three weeks of the claim will involve more 'intensive' support (details are not yet fully developed, however, we understand they could include more regular meetings with the Work Coach), and after 6 months of the claim they will be mandated to either apply for an apprenticeship or skills training opportunity, undertake work experience or a work placement with the aim of gaining the skills they need to move into sustainable employment.</p> <p>DWP has indicated around 50,000 young people across the UK and 4,000 in Wales will be affected by the Youth Obligation. The details and mechanics around this are still to be developed by DWP and we will ensure we fully understand the implications for Welsh Government / European Social Funded provision (such as apprenticeships and other training programmes), especially in view of the conditionality which will be placed on this measure.</p>
11. Support for Mortgage Interest: change from welfare payment to loan	From 2018-19	<p>Currently, those who receive benefits to help pay their mortgage interest are able to do so indefinitely with no need to pay anything back. However, the Summer Budget announced the Support for Mortgage Interest (SMI) scheme will be converted into a loan, so homeowners repay the financial support they receive. From April 2018, new SMI payments will be paid as a loan. Loans will be repaid upon sale of the house, or when claimants return to work. This measure is forecast to save the UK Exchequer around £251 million a year by 2020-21⁴⁷.</p> <p>This measure will affect all those receiving SMI (when they are deemed to be financially able to make repayments). According to DWP's Impact Assessment, there are currently 170,000 claimants in Great Britain receiving SMI. Around 55 per cent are working age and 45 per cent pension age. In 2018-19, this figure is projected to be 160,000, with 63 per cent of working age and 37 per cent pension age⁴⁸. In February 2015, there were approximately 1,000 Income Support claimants and 370 Jobseeker's Allowance claimants in Wales receiving SMI⁴⁹. Data on the number of Employment and Support Allowance and Pension Credit claimants receiving SMI is not published at a Wales level.</p>

⁴⁵ Welsh Government estimate based on HMRC Child and Working Tax Credits Statistics Finalised Annual Awards 2013-14 – Geographical Analysis.

⁴⁶ DWP (2015) Welfare Reform and Work Bill: Impact Assessment of Tax Credits and Universal Credit, changes to child element and family element (July 2015).

⁴⁷ OBR costing referred to in DWP (2015) Welfare Reform and Work Bill: Impact Assessment for Converting Support for Mortgage Interest from a benefit into a loan.

⁴⁸ DWP (2015) Welfare Reform and Work Bill: Impact Assessment for Converting Support for Mortgage Interest from a benefit into a loan.

⁴⁹ Data obtained from DWP's Tabulation Tool <http://83.244.183.180/100pc/>

3. Welfare cuts which apply to England only

Policy change	Timescale	Estimated impact
12. Reduce social sector rents in England by 1 per cent each year for four years	From 2016-17	<p>The UK Government recently announced social rents in England will be reduced by 1 per cent each year for four years from 2016-17. This measure is forecast to save the UK Exchequer £1.4 billion a year in 2020-21⁵⁰. According to IFS analysis⁵¹, this represents a 12 per cent cut relative to the previous policy in England (rents increasing by CPI + 1 percentage point per year) based on current forecasts, and will mean 1.2 million families not on Housing Benefit will gain by an average of around £700 per year (in current prices). As the majority (2.7 million) of social tenant families in England are on Housing Benefit, they do not directly gain, however, their work incentives will be strengthened. The IFS has commented it is odd to count what is clearly an increase in subsidy to social tenants, as a welfare cut. This is an additional cost which will fall on local authorities and housing associations⁵². The Office for Budget Responsibility (OBR) took the unusual step of warning the Chancellor that his strategy of instructing Housing Associations as to their policies could have the unintended consequence of bringing them into the public sector. If that were to happen, recorded public debt and borrowing would rise⁵³. In terms of the impact on social landlords, the IFS estimate total rental income will be reduced by at least £2.5 billion a year (in current prices), which the UK Government hopes will be absorbed through efficiency savings. However, this may have knock-on effects for maintenance and/or construction⁵⁴.</p> <p>Housing is a devolved matter in Wales. An agreement is currently in place with social landlords which enables social rents to be increased each year by a set formula, up to 2018-19. Current social landlord business plans include support for Welsh Housing Quality Standards, new build and tenant services and are based upon this assumption. Further to the UK Budget announcements on 8th July, the Welsh Government is working closely with key stakeholders to gather information and identify potential implications for any potential change and the impact this may have on current and future tenants, social landlords and their funders. The Welsh Government will be meeting with all key stakeholders in September to consider options moving forward for our social rent policy.</p>
13. Higher income social tenants in England to pay market rents	From 2017-18	<p>Social housing tenants on higher incomes (£40,000 and above in London and £30,000 and above elsewhere in England) will be required to pay market rate, or near market rate, rents for their accommodation. The policy aims to ensure a fair level of rent is paid, or social housing is made available for those whose need is greater. Local authorities will repay the rent subsidy they recover from high income tenants to the Exchequer. Housing Associations could use the rent subsidy they recover to reinvest in new housing. This measure is forecast to save the UK Exchequer £0.2 billion a year by 2020-21⁵⁵. As mentioned above, housing is a devolved matter in Wales, and there are currently no plans to implement such a policy in Wales.</p>

⁵⁰ Source: HM Treasury Summer Budget 2015.

⁵¹ Hood, A. (2015) Benefit changes and distributional analysis. A presentation for the IFS Post-Budget Briefing Event on 9 July 2015.

⁵² Johnson, P. (2015) Opening Remarks - IFS Post-Budget Briefing Event on 9 July 2015.

⁵³ Office for Budget Responsibility (2015) Economic and Fiscal Outlook, July 2015.

⁵⁴ Hood, A. (2015) Benefit changes and distributional analysis. A presentation for the IFS Post-Budget Briefing Event on 9 July 2015.

⁵⁵ Source: HM Treasury Summer Budget 2015.

4. Personal tax measures

- The main personal tax measures announced in the UK Government's Summer Budget 2015 are as follows:
 - The point at which someone starts to pay income tax, known as the **income tax personal allowance**, will continue to increase faster than inflation. This will **increase from £10,600 in 2015-16 to £11,000 in 2016-17 and £11,200 in 2017-18**. These increases are greater than initially planned (i.e. an increase to £10,800 in 2016-17 and £11,000 in 2017-18). The UK Government has also pledged to raise the personal allowance to £12,500 by the end of this parliament. This measure is forecast to cost the UK Exchequer £1.2 billion a year by 2017-18⁵⁶ (assuming individuals do not change their behaviour in response to the change⁵⁷), and the IFS estimate basic rate taxpayers will be better off by £40 a year as a result of this measure⁵⁸. It is worth noting since the personal allowance has increased over the last five years, fewer low income individuals pay income tax now and so no longer benefit from further increases in the personal allowance. In 2014, 57 per cent of adults in the UK paid income tax (down from 61 per cent in 2010-11), meaning the lowest-income 43 per cent of adults would not benefit from further increases in the personal allowance⁵⁹. As so many people do not pay income tax, and given interactions between the tax and benefit system, and the fact that the biggest gainers are two-earner couples where both can benefit from the higher allowance, increases in the personal allowance benefit those in the middle and upper-middle parts of the income distribution the most (as a percentage of income). The highest average cash gain from increasing the personal allowance occurs in the second-richest tenth of the income distribution. Increasing the personal allowance would not increase the incomes of the very poorest in society⁶⁰. The IFS note increasing the primary threshold at which employee National Insurance Contributions (NICs) start to be payable (£8,060 a year for full-year workers) would help more low earners compared to an increase in the income tax personal allowance⁶¹.

Further increases will, though, help those aged 65 and over. Few people in this category have benefited from the increases up to now. They have historically benefited from a higher personal allowance than under-65s, however, the personal allowance for those aged under 65 has caught up with the personal allowances for those aged 65 and over. The personal allowance will be the same for individuals of all ages from 2016–17, meaning pensioners' personal allowances will also increase if the main personal allowance is increased further.

⁵⁶ Source: HM Treasury Summer Budget 2015.

⁵⁷ The IFS note while there may be some effect in increasing work incentives, this is likely to be quantitatively small and hence this 'first-round' estimate of costs is probably adequate (Adam, S. et al, 2015, Taxes and Benefits: The Parties' Plans. IFS Briefing Note BN172).

⁵⁸ Adam, S. (2015) Tax measures. A presentation for the IFS Post-Budget Briefing Event on 9 July 2015.

⁵⁹ Ibid.

⁶⁰ Ibid. Note: Universal Credit is means-tested on after-tax income, which means reductions in income tax reduce the amount of means-tested support people receive. This interaction between the tax and benefit systems means taxpayers receiving Universal Credit will typically only receive 35 per cent of the benefit of reductions in tax liabilities resulting from an increase in the personal allowance.

⁶¹ Ibid.

- The level at which the higher rate of income tax (40 per cent) is applied, the **higher rate income threshold, will increase from £42,385 in 2015-16 to £43,000 in 2016-17**. This measure is forecast to cost the UK Exchequer £0.2 billion a year by 2017-18⁶², and the IFS estimate higher rate tax taxpayers with incomes of less than £122,000 will gain £70 a year from the combination of this policy and the income tax personal allowance changes⁶³. Clearly, increases in the higher-rate threshold, will only benefit higher-rate taxpayers, who are typically located towards the top of the income distribution. Projected estimates for 2015-16 show out of all taxpayers in Wales, 140,000 (or 10 per cent) are higher rate taxpayers⁶⁴.
- The **inheritance tax threshold (IHT) for couples will increase to £1 million from 2020-21**. This measure is forecast to cost the UK Exchequer £0.9 billion a year by 2020-21 and is expected to reduce the number of estates in the UK to have a tax liability in 2020-21 to 37,000, which is around the same level as in 2014-15. Without the policy, 63,000 estates are forecast to have a tax liability in 2020-21⁶⁵. The gains from this IHT cut will go disproportionately to those towards the top of the income distribution⁶⁶. Most people are not affected by Inheritance Tax. Approximately only 2.9 per cent of all deaths in the UK during 2011-12 led to an IHT charge, which is a similar proportion to earlier years⁶⁷. In 2011-12, the amount of Inheritance Tax due in Wales was £53 million out of £2.7 billion for the UK as a whole (i.e. 2 per cent), with 500 taxpayers in Wales out of 16,000 for the UK as a whole (i.e. 3 per cent)⁶⁸.
- In order to pay for the reforms to inheritance tax and to control the cost of pensions tax relief, from 2016-17, a **taper will be applied to the Annual Allowance (the limit on the amount of tax relieved pension saving which can be made by an individual or their employer each year) for those with adjusted annual incomes⁶⁹, including their own and employer's pensions contributions, over £150,000**. For every £2 of adjusted income over £150,000, an individual's Annual Allowance will be reduced by £1, down to a minimum of £10,000 (compared to the current £40,000 annual limit). This measure is forecast to save the UK Exchequer £1.3 billion a year by 2020-21⁷⁰. HMRC estimates around 300,000 pension savers in the UK will be affected by this measure⁷¹.

⁶² Source: HM Treasury Summer Budget 2015.

⁶³ Ibid.

⁶⁴ DWP (2015) Income Tax Statistics and Distributions – Table 2.2: Number of income taxpayers, by country <https://www.gov.uk/government/statistics/number-of-individual-income-taxpayers-by-marginal-rate-gender-and-age-by-country>

⁶⁵ Source: HM Treasury Summer Budget 2015.

⁶⁶ Adam, S. et al (2015) Taxes and Benefits: The Parties' Plans. IFS Briefing Note BN172.

⁶⁷ <https://www.gov.uk/government/statistics/inheritance-tax-statistics-2010-to-2011>

⁶⁸ <https://www.gov.uk/government/statistics/inheritance-tax-taxpaying-estates-provisional-amounts-of-tax-paid-in-2010-to-2011-by-government-office-regions>

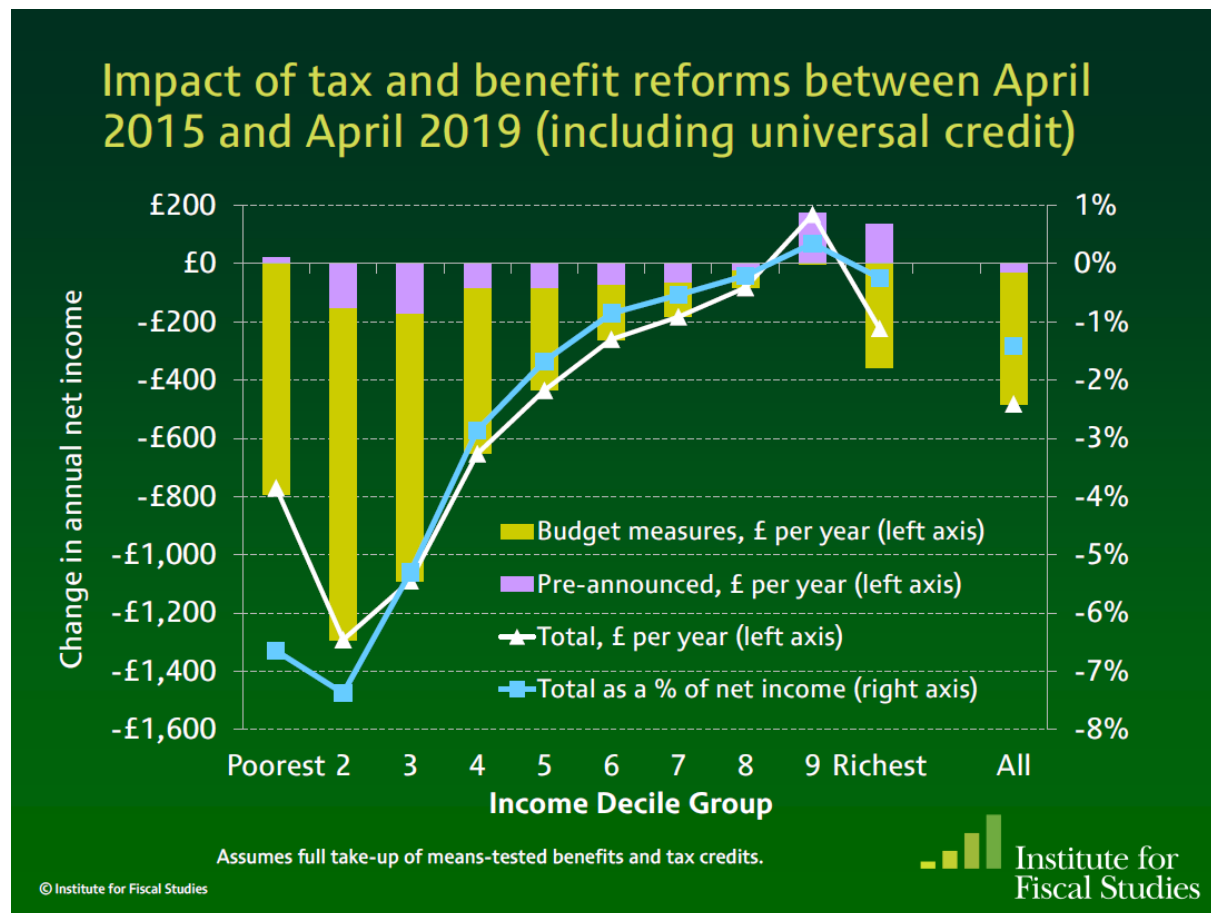
⁶⁹ Includes taxable earnings and all pension contributions, but excludes charitable contributions.

⁷⁰ Source: HM Treasury Summer Budget 2015.

⁷¹ HMRC (2015) Pensions tapered annual allowance.

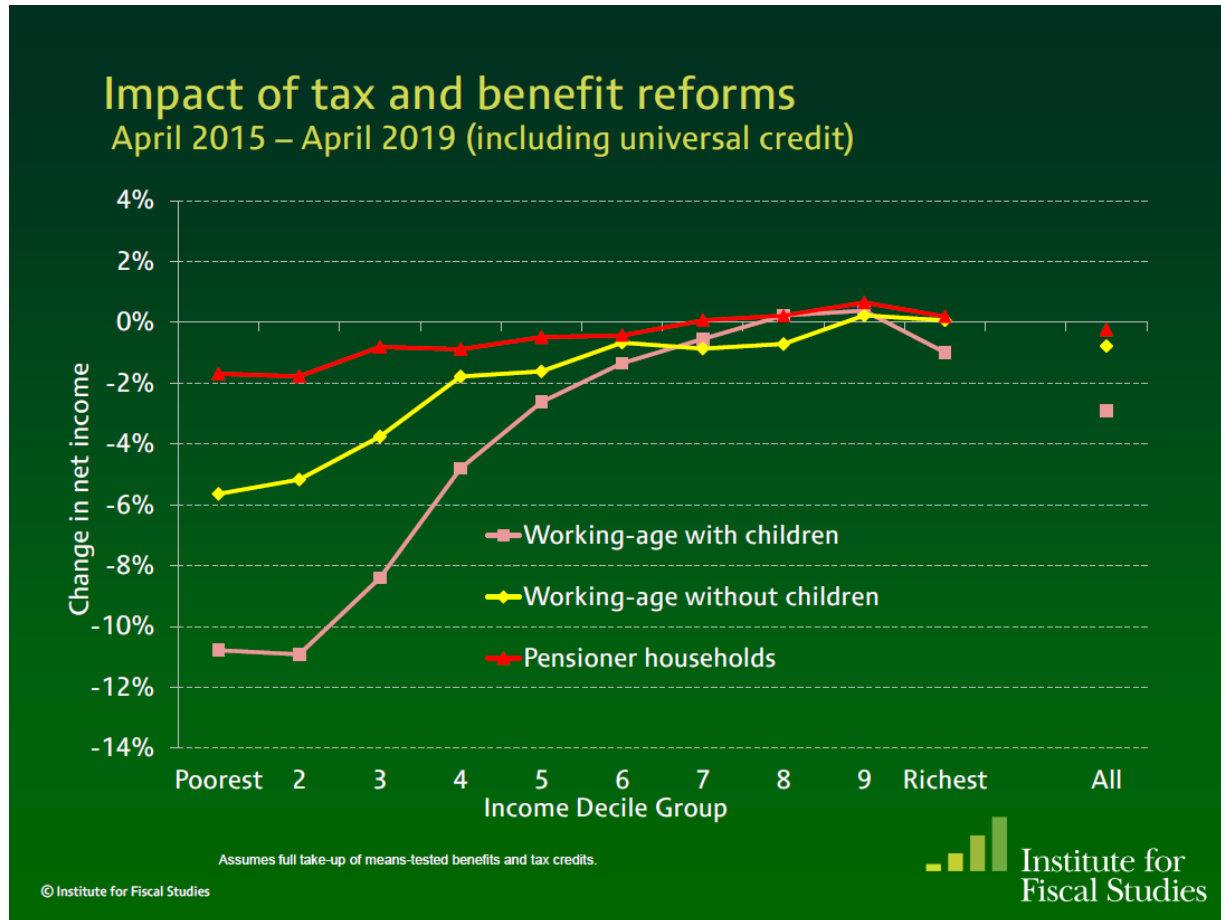
5. Distributional impact of tax and benefit reforms (percentage of net income)

- Analysis by the IFS shows the UK Government's tax and benefit changes take much more from low income households than higher income households between April 2015 and April 2019. This will have negative implications for poverty. For example, as illustrated by the chart below, households in the poorest income groups lose around 7 per cent of net income on average compared to a negligible loss on average for the richest income group. The average loss for all households is around 1.5 per cent of net income.



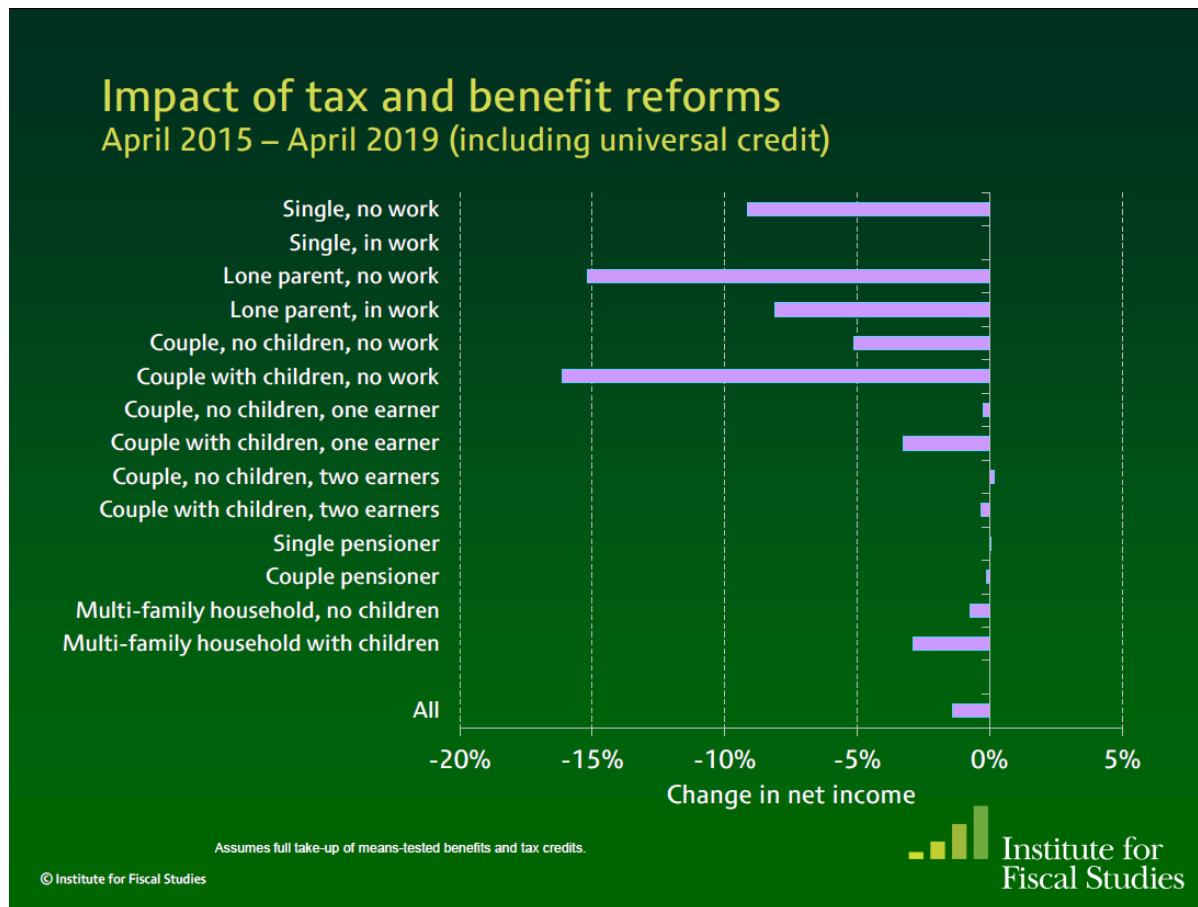
Source: Hood, A. (2015) Benefit changes and distributional analysis. A presentation for the IFS Post-Budget Briefing Event on 9 July 2015.

- The chart below illustrates the impact of the tax and benefit reforms by household type. This shows the reforms hit working-age households with children, particularly those who are poor, the hardest. For example, on average, working-age households with children lose around 3 per cent of net income compared to less than 1 per cent for working-age households without children, and pensioners. A chart illustrating cash losses can be found in **Annex 1**.



Source: Hood, A. (2015) Benefit changes and distributional analysis. A presentation for the IFS Post-Budget Briefing Event on 9 July 2015.

- By detailed household type, those who are out of work with children see the largest losses as a percentage of net income, on average. For example, on average, a couple with children who are out of work lose around 16 per cent of net income and a lone parent who is out of work loses around 15 per cent of net income, compared to a small gain on average for a two-earner couple with no children and an average loss of around 1.5 per cent for all households. A chart illustrating cash losses can be found in **Annex 1**.



Source: Hood, A. (2015) Benefit changes and distributional analysis. A presentation for the IFS Post-Budget Briefing Event on 9 July 2015

6. Higher national minimum wage for those aged 25 and over

- From April 2016, a higher national minimum wage (NMW) will be introduced for those aged 25 and over. The Chancellor has referred to this as the 'National Living Wage'. The initial rate will be set at £7.20 an hour, which is an increase of 70p relative to the current rate, and 50p above the increase which will come into effect in October 2015. The rate is then set to increase so it will reach 60 per cent of median hourly earnings by 2020. Based on the OBR's earnings forecasts, this will be £9.35 in April 2020, which is 13 per cent higher than would otherwise have been the case (i.e. if the NMW rose in line with average hourly earnings)⁷².
- Although this policy has been referred to as the 'National Living Wage', this is not the same as the voluntary Living Wage, which has been established by the Living Wage Foundation. The current UK Living Wage for outside of London is £7.85 per hour, and this calculated by the Centre for Research in Social Policy (CRSP), Loughborough University and set annually in November by the Living Wage Foundation. The calculation is based on the Minimum Income Standard for the United Kingdom, as suggested by research undertaken by CRSP. The research considers what households need in order to have a minimum acceptable standard of living. As this research takes into account the amount of benefit and tax credit income an individual would receive, the welfare cuts announced in the Summer Budget would further increase the living wage required to achieve the minimum standard⁷³.
- The OBR estimates 2.7 million people who earn less than £9.35 an hour in 2020 would see an hourly pay increase, with knock-on effects for those further up the wage distribution (with a further 3.25 million people estimated to also see a wage increase). The IFS note those directly affected are relatively likely to be part-time and female, with half having a working partner⁷⁴. There were an estimated 143,970 workers in Wales over the age of 25 earning less than £7.20 an hour in 2014 (65,985 were full-time employees and 77,985 were part-time)⁷⁵.
- The OBR has also estimated the indirect effects on the economy. These estimates show there may be reduced hours and employment as well as higher wages. For example, the OBR's central estimate is a fall in employment of 60,000 in 2020, which is equivalent to 2 per cent of those directly affected. However, there is significant uncertainty surrounding this estimate. The OBR's forecast for GDP has also been revised down by 0.1 per cent in 2020 as a result of this announcement.
- There has been much discussion about the extent to which the proposed higher minimum wage for those aged 25 and over will offset the effects of reduced tax credits. The IFS has made two important points in relation to this discussion: first, different groups are affected by the different policies, which have different aims and effects. For example, many of the gainers from the

⁷² OBR (2015) Economic and Fiscal Outlook, July 2015.

⁷³ Scottish Government (2015) Initial Assessment of Budget Tax and Benefit Reforms, July 2015.

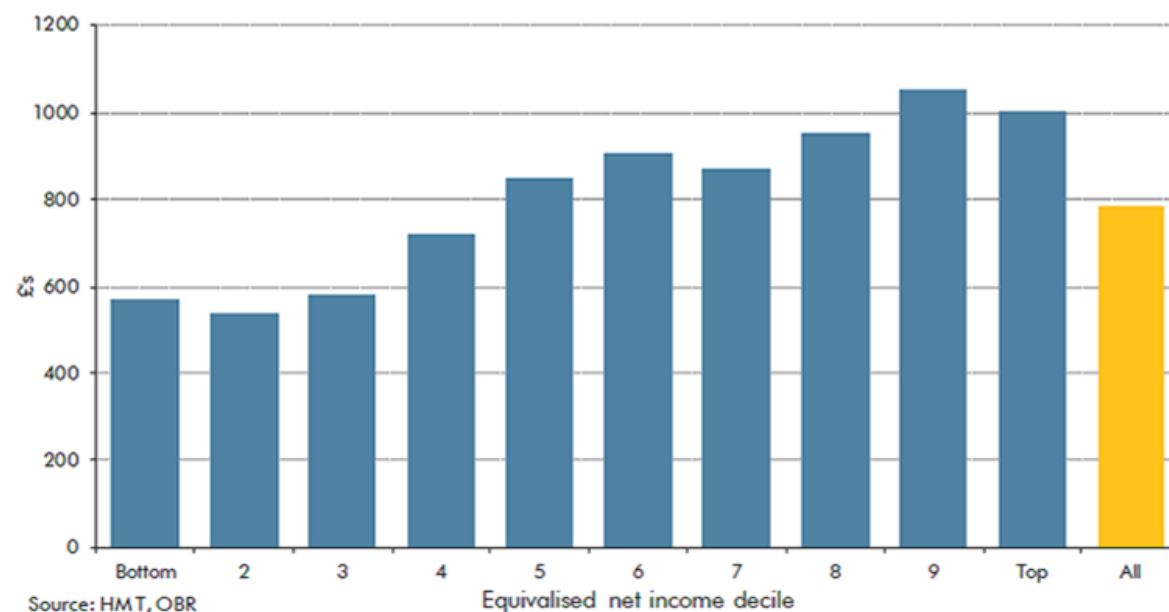
⁷⁴ Source: Hood, A. (2015) Benefit changes and distributional analysis. A presentation for the IFS Post-Budget Briefing Event on 9 July 2015.

⁷⁵ Source: Annual Survey of Hours and Earnings (ASHE). Note: ASHE excludes self-employment.

higher wage are single childless or have a partner on higher earnings, and are not in receipt of tax credits; second, the gross increase in employment income from the higher wage is around £4 billion (with some lost in income tax, National Insurance Contributions, and withdrawn benefits), which is significantly smaller than the takeaway from the welfare cuts (£13 billion a year by 2020-21). Furthermore, as mentioned above, many of those benefitting from the higher wage will not be tax credit recipients. The IFS has highlighted unequivocally on average, tax credit recipients in work will be made worse off by the measures in the Summer Budget⁷⁶.

- OBR analysis shows although the higher wage for those aged 25 and over boosts individuals' earnings towards the bottom of the *individual* income distribution, it is expected to have almost the reverse effect on the distribution of *household* incomes in cash terms. This is because many workers gaining from the higher wage will be households' second earners. The OBR estimate around half the cash gains in household income may accrue to the top half of the household income distribution. This is partly because workers in higher income deciles gaining from the measure will receive a larger cash amount as illustrated in the chart below⁷⁷. For example, on average, the highest income households gain around £1,000 a year as a result of the higher wage compared to an average gain of less than £600 a year for the lowest income households.

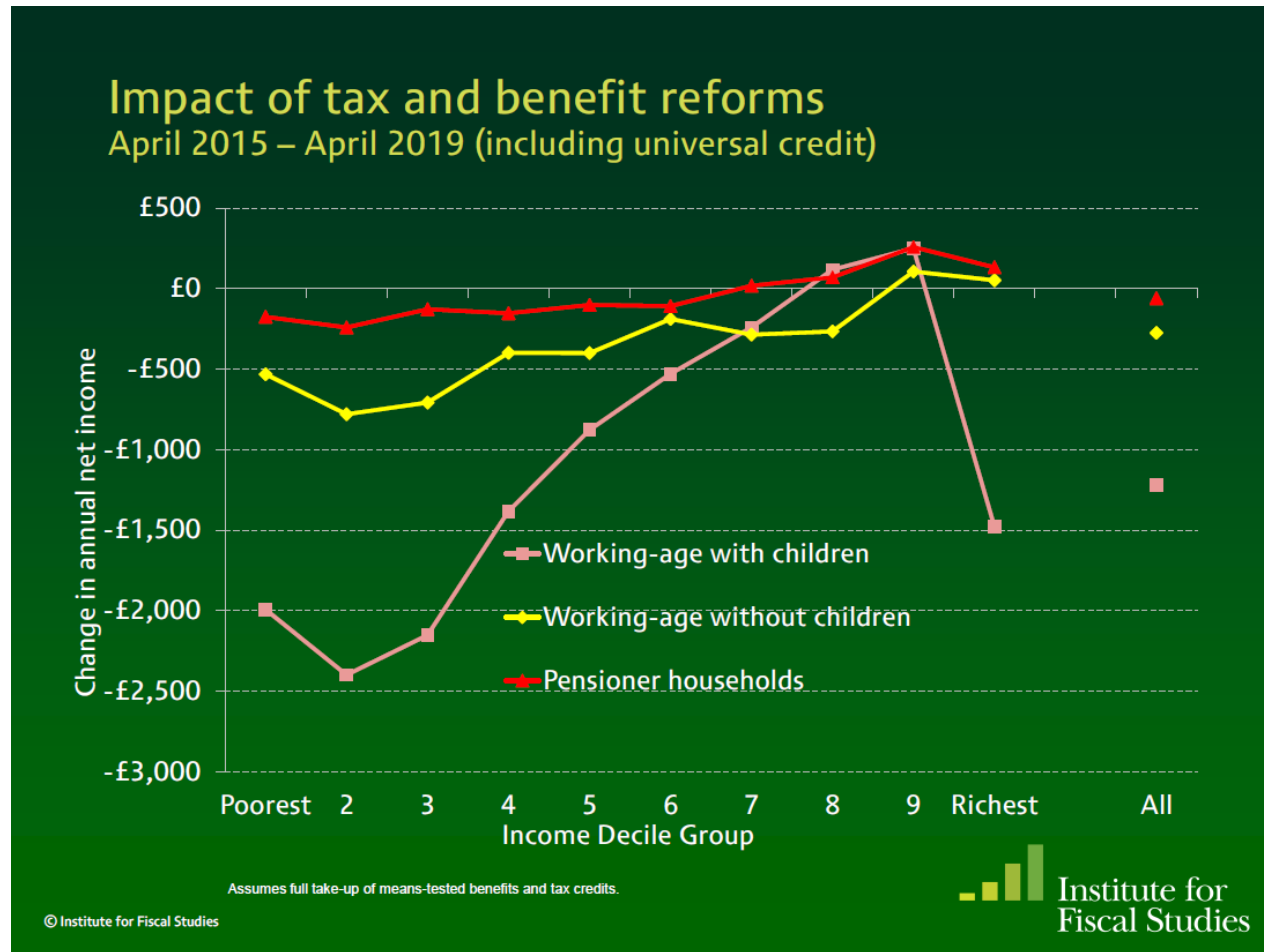
Average annual gains to gaining households in 2020



⁷⁶ Johnson, P. (2015) Opening Remarks - IFS Post-Budget Briefing Event on 9 July 2015.

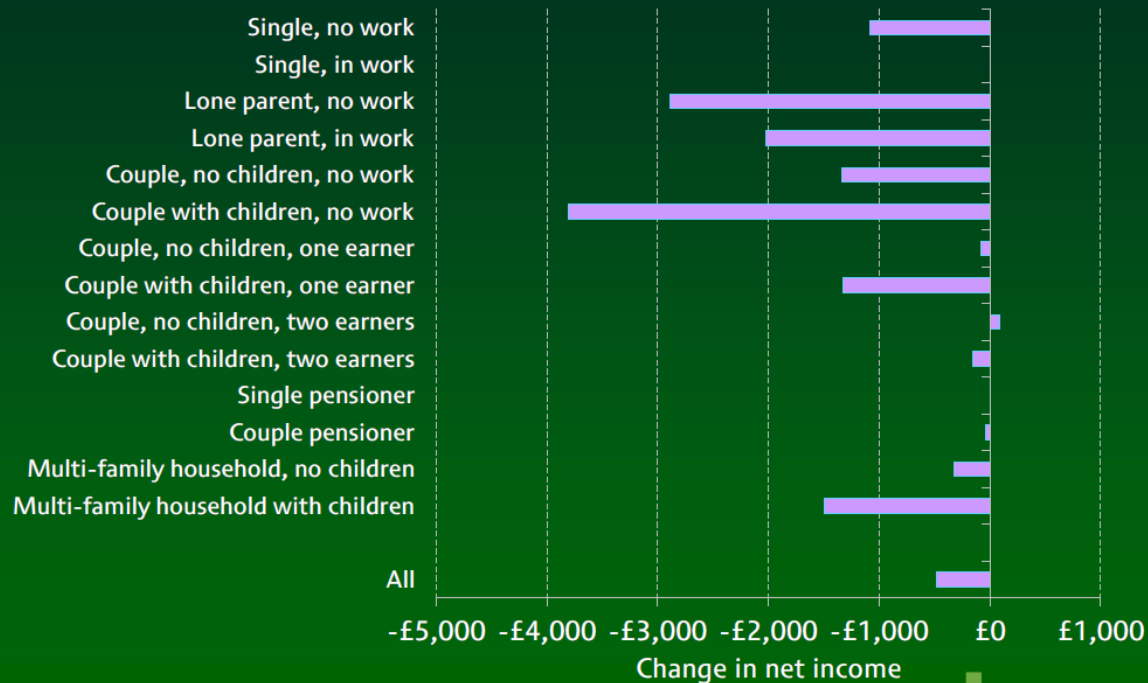
⁷⁷ OBR (2015) Economic and Fiscal Outlook, July 2015.

Annex 1 - Distributional impact of tax and benefit reforms (cash terms)



Source: Hood, A. (2015) Benefit changes and distributional analysis. A presentation for the IFS Post-Budget Briefing Event on 9 July 2015

Impact of tax and benefit reforms April 2015 – April 2019 (including universal credit)



Assumes full take-up of means-tested benefits and tax credits.

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Source: Hood, A. (2015) Benefit changes and distributional analysis. A presentation for the IFS Post-Budget Briefing Event on 9 July 2015