

## Note on the social impact of Budget 2011 and previous economic announcements

This short note examines the social impact of the announcements made in June Budget 2010, Spending Review 2010 and Budget 2011.

Budget 2011 provides information on the cost or yield of all measures with a fiscal impact announced at or before the publication of Spending Review 2010 which take effect from April 2011 or later.

### Switch to CPI

Table 1 (2.2) below shows that the largest single gain to the Treasury comes from switching benefits, tax credits and public service pensions to CPI indexation from 2011-12 (£10.595bn) announced at the June Budget 2010. This was followed by a further announcement to shift direct taxes to CPI indexation, bringing in another £1bn to the Treasury. This “technical “switch impacts ordinary people and their families and raises more than four times the amount raised by the Bankers’ Levy in 2015/16.

As a result of this change, the IFS says that most means-tested benefits will go up by 3.1% rather than 4.8% and that most contributory and universal benefits will go up by 3.1% rather than 4.6%.

### Impact on individuals

A number of measures were included in Budget 2011 to help individuals with the rising cost of living. These included an increase in the personal tax allowance and a reduction in fuel duty. However, these have to be placed in the context of previous announcements around benefits, such as reductions to the tax credit system.

Table 1 also shows the effects on individuals and families. These include:

- reducing contributory Employment and Support Allowance to one year which will raise £1bn for the Treasury in 2015/16
- changes to Working Tax Credit which will raise over £2bn pounds in 2015/16
- reductions to council tax and housing benefit amounting to over £1bn.

**Table 1 Measures which take place from April 2011**

	Head	£ million					
		2011-12	2012-13	2013-14	2014-15	2015-16	
<b>Measures announced at Spending Review 2010</b>							
a	Contributory Employment and Support Allowance: time limit for those in the Work Related Activity Group to one year from 2012-13	Spend	0	+450	+815	+1,100	+1,180
b	Housing Benefit: increase age limit for shared room rate from 25 to 35 from January 2012	Spend	+10	+170	+230	+215	+205
c	Total household benefit payments capped on the basis of average take-home pay for working households from 2013-14	Spend	0	0	+225	+270	+270
d	Disability Living Allowance: remove mobility components for claimants in residential care from April 2013 <sup>2</sup>	Spend	0	0	+155	+160	+160
e	Savings Credit: freeze maximum award for four years from 2011-12	Spend	+225	+280	+330	+415	+425
f	Council Tax Benefit: 10 per cent reduction in expenditure and localisation	Tax	0	0	+490	+490	+490
g	Child Benefit: remove from families with a higher rate taxpayer from January 2013	Spend	0	+600	+2,435	+2,485	+2,530
h	Working Tax Credit: freeze in the basic and 30 hour elements for three years from 2011-12	Spend	+270	+750	+975	+1,030	+1,035
i	Working Tax Credit: reduce payable costs through childcare element from 80 per cent to 70 per cent restoring 2006 rate from 2011-12	Spend	+335	+350	+370	+390	+405
j	Child Tax Credit: increase the child element by £30 in 2011 and £50 in 2012	Spend	-270	-695	-690	-690	-655
k	Working Tax Credit: increase working hours requirement for couples with children to 24 hours	Spend	0	+515	+510	+505	+515
l	Child and Working Tax Credits: use real time information	Spend	0	0	0	+395	+355
m	Public service pensions: increase in employee contribution rates	Spend	0	+160	+1,270	+1,760	+1,850
n	Renewable Heat Incentives: efficiency savings from 2011-12	Spend	+5	+15	+45	+110	+180
o	Carbon Reduction Commitment: no recycling of revenues from 2011-12	Spend	+715	+735	+1,010	+1,040	+1,080
p	Coinage: reduction in metal cost	Spend	0	+10	+10	+10	+10
q	Equitable life payments	Spend	-520	-315	-210	-100	-70
r	Capitalisation: support for local authority restructuring	Spend	-240	0	0	0	0
s	Public Works Loan Board: interest rate increase	Spend	+165	+330	+400	+465	+525
t	TfL Metronet: replace borrowing with central government grant	Spend	+325	+300	+200	+185	0
u	Right to Buy: surrender full receipts to Exchequer receipts	Spend	+25	+30	+40	+40	+45
v	Housing Revenue Account System: reform	Spend	+25	+25	+25	+25	+5
w	Northern Ireland Reinvestment and Reform Initiative	Spend	-175	0	0	0	0

**Measures announced before June Budget 2010**

bf	Freeze higher rate threshold in 2012-13 (2009 Pre-Budget Report)	Tax	0	+590	+1,310	+1,260	+1,340
bg	Increase NICs primary threshold in 2011-12 (2009 Pre-Budget Report)	Tax	-1,340	-1,360	-1,380	-1,520	-1,660
bh	Increase main employee NICs rate by 1 per cent from 2011-12 (2009 Pre-Budget Report)	Tax	+3,580	+3,700	+3,890	+4,100	+4,330
bi	Increase additional employee NICs rate by 1 per cent from 2011-12 (2009 Pre-Budget Report)	Tax	+600	+600	+620	+660	+710
bj	Increase employer NICs rate by 1 per cent from 2011-12 (2009 Pre-Budget Report)	Tax	+4,580	+4,690	+4,930	+5,200	+5,490
bk	Increase main self-employed NICs rate by 1 per cent from 2011-12 (2009 Pre-Budget Report)	Tax	+220	+200	+200	+190	+180
bl	Increase additional self-employed NICs rate by 1 per cent from 2011-12 (2009 Pre-Budget Report)	Tax	+70	+70	+60	+50	+50
bm	Pensions tax: restrict tax relief <sup>4</sup>	Tax	+1,200	+2,300	+4,400	+4,400	+4,300
bn	Auto-enrolment: slower introduction (2009 Pre-Budget Report)	Tax	0	+100	+700	+1,700	+2,100
bo	Individual savings account: indexation from 2011-12 (March Budget 2010)	Tax	-5	-15	-40	-90	-175
bp	SDLT: properties over £1m from 2011-12 (March Budget 2010)	Tax	+50	+170	+210	+250	+290
bq	Inheritance tax: freeze threshold from 2011-12 to 2014-15 (March Budget 2010)	Tax	+50	+170	+295	+420	+505
br	Salary sacrifice: workplace canteens from 2011-12 (2009 Pre-Budget Report)	Tax	+110	+110	+110	+110	+110
bs	Seafarers' Earning Deduction (2009 Pre-Budget Report)	Tax	-5	-5	-5	-5	-5
bt	Alcohol duty: increase in rates in 2013-14 and 2014-15 (March Budget 2010)	Tax	0	0	+110	+215	+210
bu	Patent box from 2013-14 (2009 Pre-Budget Report)	Tax	0	0	-500	-800	-900
bv	Venture Capital Schemes: State Aid changes (2009 Pre-Budget Report)	Tax	-20	-30	-40	-40	-40
bw	Landfill tax: increase in 2014-15 (2009 Pre-Budget Report)	Tax	0	0	0	+70	+70
bx	Climate change levy: reduction of relief from 2011-12 (2009 Pre-Budget Report)	Tax	+40	+50	+50	+50	+55
by	Company car tax: extend bands from 2012-13 (Budget 2009)	Tax	0	+120	+120	+125	+125
bz	Company car tax: changes to bands and abolition of cap from 2011-12 (Budget 2009)	Tax	+85	+75	+70	+65	+65
ca	EU Emissions Trading Scheme auctions: amendments from 2011-12 (March Budget 2010)	Tax	-10	0	0	0	0
cb	Childcare: employer supported childcare tax relief from 2011-12 (2009 Pre-Budget Report)	Tax	+15	+40	+65	+85	+100
cc	Working tax credit: extend eligibility for over 60s from 2011-12 (March Budget 2010)	Spend	-20	-20	-20	-20	-20

<sup>4</sup> Negligible.

<sup>1</sup> Costings reflect the OBR's latest economic and fiscal determinants.

<sup>2</sup> See table 2.1 and paragraph 2.63.

<sup>3</sup> See table 2.1 and paragraph 2.62.

<sup>4</sup> See paragraph 2.51.

## Impact on households

Table 2 and 3 below, published in the Budget 2011 document, shows the impact of all tax, tax credit and benefit measures by income distribution. It can be seen that these measures affect households disproportionately and that, while the top decile takes the greater hit, lower decile households lose out disproportionately.

**Table 2 Impact of all measures as a per cent of net income by income distribution**

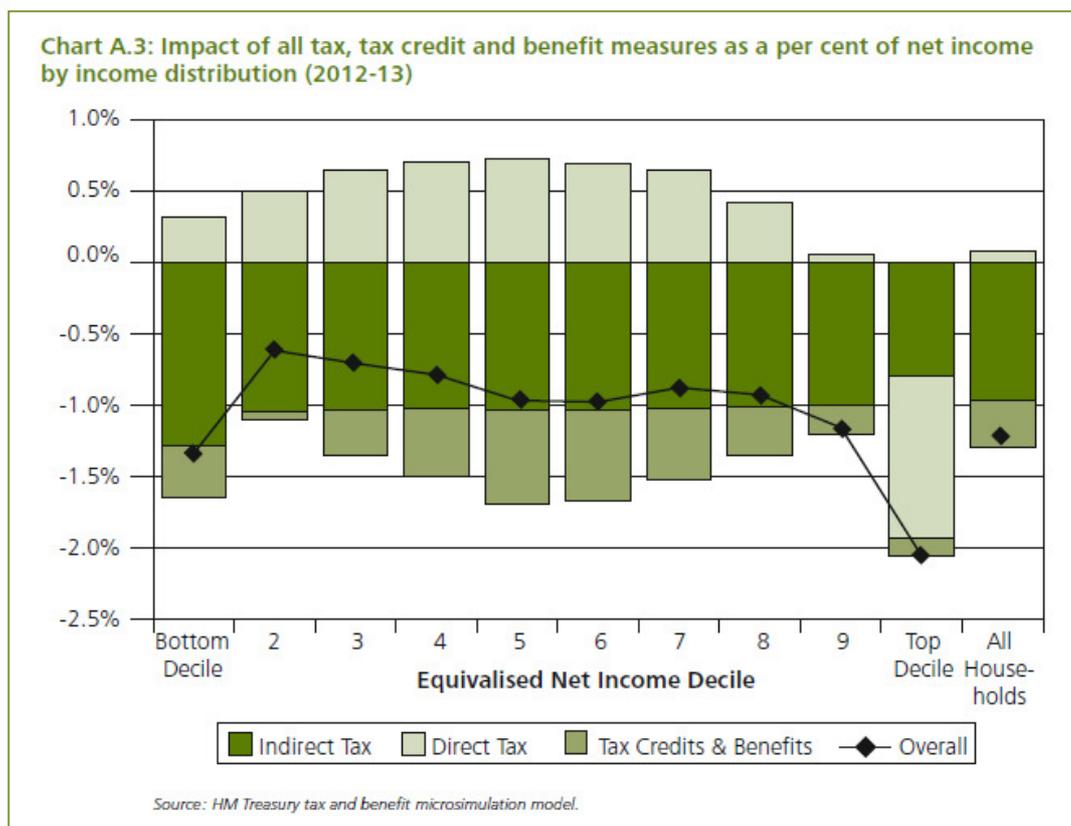


Table 3 Impact of all measures as a per cent of net income by income distribution

