LITRG Budget summary: is austerity really coming to an end?

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01 December 2018

LITRG published a summary of the Budget announcements that affect those on low to modest incomes, explaining the effects of some of them.

Following Budget 2018, the LITRG technical team examined the announcements in relation to tax and benefits, to work out how they might affect those on low to modest incomes. The key theme of the Budget was that the hard work of the British people is paying off, and that as a result austerity is drawing to an end. The Chancellor said that he wanted to ensure a positive future for the UK by investing in public services, supporting business and improving living standards.

The summary covers many changes, but looks at the increases to the personal allowance, universal credit announcements, minimum wage increases and the capital gains tax changes in particular detail.

For example, the summary notes that the increase in the personal allowance means that the government will meet its manifesto commitment one year earlier than planned. For many, this was a welcome announcement as it will mean they have more cash in their pockets, however LITRG noted that it does little to help those on the lowest incomes. Those already earning under the current personal allowance of £11,850 will gain nothing from this change. Those earning above £11,850 may benefit, but by how much depends on whether they receive tax credits or other means-tested benefits such as universal credit or housing benefit. Those with incomes above £11,850 who are receiving universal credit will most likely see a reduction in their benefit. This is because universal credit, like other means-tested benefits, is based on net income, so as the amount of tax they pay reduces, their universal credit award also reduces.

In order to help those on the very lowest incomes, another option would be to increase work allowances in universal credit. This is the amount that claimants can earn before their benefits start to be withdrawn. Increasing work allowances helps those on the lowest incomes who currently see no benefit from any increase in the personal allowance and provides a valuable work incentive. The announcement that the work allowance for households with children and some people with disabilities will be increased by £1,000 per annum from April 2019 was therefore very welcome. However, the measure fell short of reversing the previous cuts to work allowances and means not all working claimants benefit from the change.

In addition, LITRG used the summary to draw attention to their Budget representation on the net pay arrangements for pensions problem which affects lower earners. It was disappointing that the government chose not to address this issue, in particular as the LITRG representation had provided a possible solution to this problem. In summary, there is an inconsistency in the tax rules, which means that many people who earn below (or just above) the personal allowance and who are in net pay arrangement pension schemes are losing out on tax relief on their pension contributions, in contrast to those who use relief at source schemes. The increase in the personal allowance, coupled with the increase in contributions required under auto enrolment from April 2019, means this problem is likely to affect more people in 2019/20 and by a bigger amount.

Overall, while LITRG welcomed a number of the announcements in the Budget, for example the changes to universal credit, we thought many of these could have gone further. Moreover, LITRG considered there were several missed opportunities, not least the failure to take note of LITRG's Budget representation on net pay arrangements for pensions noted above.

Some of the interactions pointed out in the article, particularly in relation to the personal allowance, highlight the complexity faced by low income individuals in trying to understand whether they are better off and, if so, by how much, as a result of Budget 2018.

The LITRG summary can be found on the LITRG website.