BRIEFING | INCOME, SAVINGS AND DEBT | HOUSING | SOCIAL SECURITY

Rebuilding living standards and economic security

Bold action on housing, energy, social security and insecure work can return incomes to growth for low- and middle-income households, more than offsetting price shocks from Middle East conflict.

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Executive summary

Another price shock from conflict in the Middle East threatens to make this the worst parliament on record for living standards, with lowest-income households bearing the brunt. Bold action on housing, energy, social security and insecure work — funded through tax reform — can increase disposable incomes for the majority of households, with the greatest gains for those on lower incomes.

It can return incomes to growth for the majority, and deliver a bigger boost to middle-income households by 2029/30 than a plausible scenario upgrade in GDP growth, while acting to reduce inflation.

Recommendations

- Control the growth of private rents and re-link Local Housing Allowance (LHA) to the 30th percentile.
- Introduce an affordable energy guarantee that provides a portion of cheaper energy to all households designed to cover a typical household's basic energy use, with larger amounts for families based on need and means.
- Move towards a protected minimum amount of support in Universal Credit (UC) that at least covers essential costs.
- Improve the in-work safety net against life shocks, for example through stronger pay protections against parenthood and sickness.

1. Middle East conflict will hurt all living standards, but hit the poorest hardest

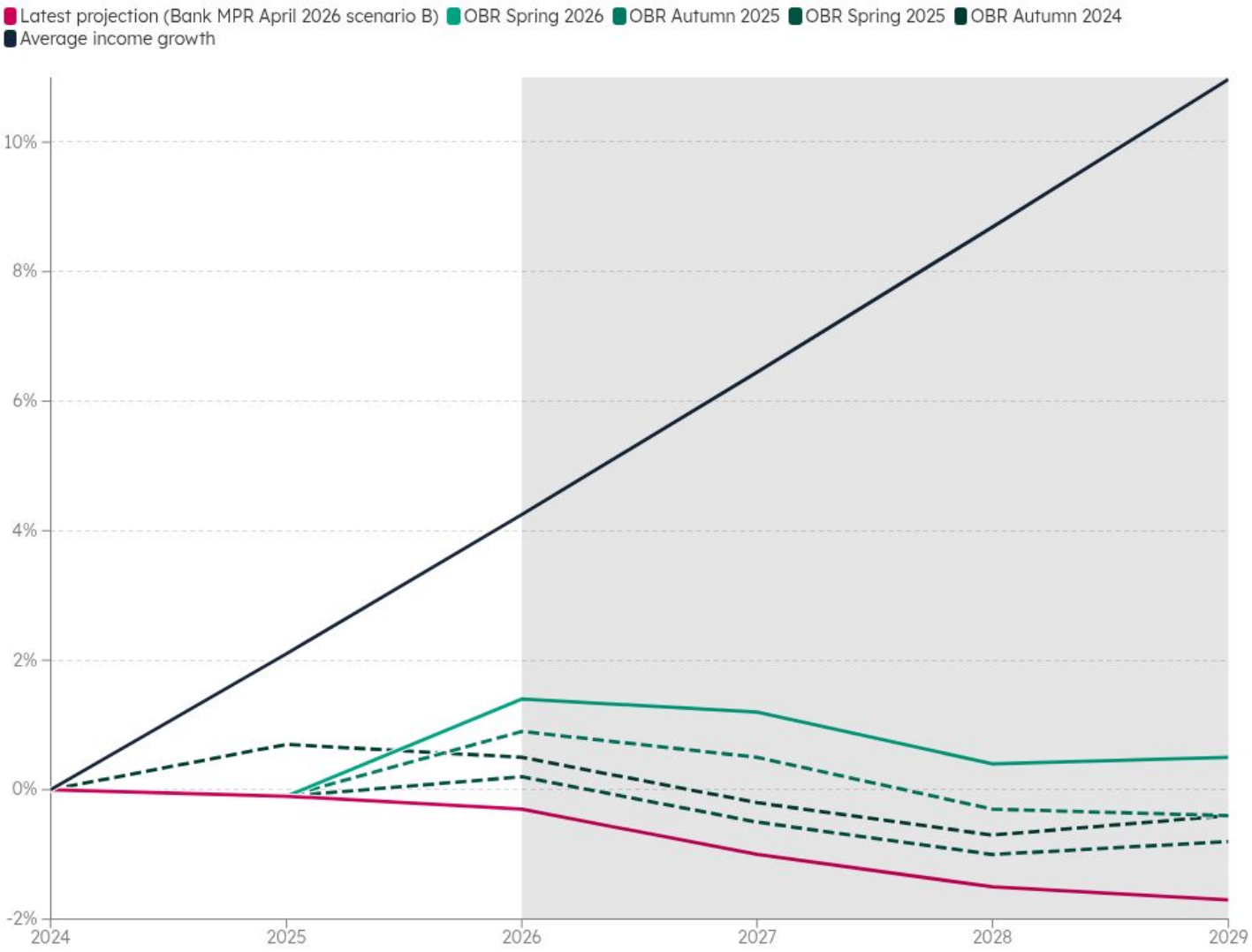
Five months on from the start of the war in Iran we can begin to show the impact on living standards in the UK. Forecasts from the Spring Budget, prior to the start of the conflict in the Middle East, implied real average disposable incomes — measured after housing costs have been deducted — would be 0.5% (or £230 per year, all prices henceforth in 2026/27) higher in 2029/30 than in 2024/25.

This was already a bleak outlook compared to the average 5-year period, where real incomes would normally grow by 11.0%,[1] or the equivalent of a nearly £5,000 increase in annual income. But now, taking into account the possible impacts from the Middle East the latest forecasts from the Bank of England's April Monetary Policy Report imply that average household incomes will instead be 1.7% (or £740) lower in 2029/30 than in 2024/25.

There remains considerable uncertainty around these projections. In mid-June oil prices fell on reports of a US-Iran peace agreement and lower than expected inflation figures for May reduced the Bank of England's inflation expectations in their June meeting. However, this volatility and the weak outlook underline the precarity of the UK's living standards position.

Figure 1: Conflict overseas looks to have undone the marginal improvement in projected living standards since the parliament began

Percentage change in household disposable income after housing costs (2026/27 prices) by projection and historical average growth, April 2024 to April 2029



Source: JRF analysis of DWP, 2023/24 Family Resources Survey using v02_93 of the IPPR Tax Benefit Microsimulation (IPPRTBM) model. Projections estimated using data from OBR, various Economic and Fiscal Outlook (EFO); Bank of England, April 2026 Monetary Policy Report; IFS, Living Standards, Inequality, and Poverty Spreadsheet.
Note: The MPR scenario blends changes between the February MPR and scenario B in April with Spring projections from the OBR. No change to housing costs is modelled in the MPR scenario. The shaded region is modelled income based on forecast data from the OBR, unshaded is modelled using historical data. Average income growth based on data from 1961 – 2019/20.

Both before and after the effects from the Middle East, the lowest-income households were expected to bear the brunt of a painful living standards outlook. Average incomes for the poorest fifth are now expected to fall by 3.4% (£450) over this parliament. This will come on top of the largest proportionate squeeze from the first half of the 2020s. Without policy intervention, incomes for this group are now projected to be 5.3% (or £710) lower in 2029/30 than they were a decade previously.

But the squeeze is also palpable near the middle of the income distribution too (Figure 2). The second and third poorest fifths of the population are now set to see their income growth stutter this parliament — growing by 0.3% (£70) in the second poorest fifth and falling by 0.6% (£220) in the middle-income fifth on average by 2029, compared to the historical trend that would have seen a rise worth £2,900 and £3,950 respectively.[2]

Successive forecasts over the past 2 years show that the living standards outlook can change, but progress has been too slow and insufficient. Between the fiscal events in Spring 2025 and Spring 2026, the outlook improved for this parliament by 1.4 percentage points (£830) for the average household and 4.1 percentage points (£460) for low-income households, partly as a result of the reversal of most of the proposed cuts to disability benefits, removing the two-child limit and action on energy bills. However, this progress was not enough to return incomes at the bottom of the distribution to growth, and is expected to be undone by the worsening outlook resulting from the conflict in the Middle East.

Figure 2: Most families are set to have a worse parliament for living standards than the last one, with the poorest hit hardest

Percentage change in household disposable income after housing costs (2026/27 prices) by income quintile, using OBR outturn data for the last parliament and by projection, April 2024 to April 2029



Source: JRF analysis of DWP, 2023/24 Family Resources Survey using v02_93 of the IPPR Tax Benefit Microsimulation (IPPRTBM) model. Projections estimated using data from OBR, various Economic and Fiscal Outlook (EFO); Bank of England, April 2026 Monetary Policy Report.
Note: The MPR scenario blends changes between the February MPR and scenario B in April with Spring projections from the OBR. No change to housing costs is modelled in the MPR scenario.

2. Government can make a difference

It doesn't have to be this way.

JRF has begun to set out a range of policy options with the power to make a material difference to households' living standards, reform our economic systems, and build the resilience required for the turbulence of the twenty-first century.

These proposals are built around 6 basic components that everyone needs in order to feel economically secure:

- an affordable home to live in
- the essential energy to heat and run that home
- a safety net so that essential goods are always affordable
- protection from shocks to income from life events, like falling sick or starting a family
- community spaces, groups and activities to help build everyday connections and resilience
- affordable social care.

Across a series of policy papers, JRF has begun to set out the policy detail across the first 3 of these areas, with more forthcoming in all 6 areas.

An affordable home

In the 2 years since the UK general election, rents in the UK have risen by an average of nearly 8% — almost £1,200 more expensive per year (Worsdale et al., 2026a). Over the past 15–20 years, market rents have settled at a persistently high proportion of incomes, taking up one third of household incomes on average. The share of private renters in the UK that spend over 40% of their income on rent is amongst the highest of all advanced economies (OECD, 2024).

This is no longer a fringe issue; renting in the private sector has become the norm for large parts of the population. Nearly 1 in 5 homes are privately rented, including the homes of 1 in 4 children and, by 2040, a forecasted 2 million pensioners (Worsdale et al., 2026a; Independent Age, 2024).

A lack of supply of new homes has increased housing costs and has allowed landlords to make supernormal profits through capital gains and higher rents. Under these conditions, controlling rents could improve the living standards for renters while maintaining the viability of landlord investment.

If, for example, from 2025/26 rents were capped at the rate of the Consumer Price Index (CPI) within tenancies, and CPI + 2% between tenancies, then private renting households would save on average almost £1,200 per year by 2030/31 (Worsdale et al., 2026b). It would also make it cheaper for the Government to relink the Local Housing Allowance to the 30th percentile of local rents and keep it there, reversing the cash-terms freeze in place since April 2024.

The impact of controlled growth in rents on landlords can be cushioned by reforming the inefficient and poorly targeted system of rental income taxation. Mortgaged landlords are only entitled to mortgage interest tax relief at the basic rate of income tax, meaning many landlords are being taxed on revenues rather than profits. While failure to charge National Insurance Contributions (NICs) means rental income attracts a lower effective tax rate than earned income.

Our previous modelling suggests that reinstating mortgage interest relief and applying NICs to rental income, alongside a rent control, would result in fewer landlords making a negative return on their rental income by 2030 than is projected under current arrangements with no rent control, but with existing tax treatment of rental income.

Affordable energy

Basic energy use is one of a household's essential goods, like food and clean water; however, during crises it is lower-income households who end up paying the highest price. In 2023–24, the lowest-income fifth of households spent 18% of their disposable income on energy costs, compared to just 4% in the richest fifth of households.[3] In 2025, 1 in 11 households were living in fuel poverty (DESNZ, 2026). In the 6 months to November 2025, more than half of low-income households have had to go without heating to reduce their energy bills (Belfield et al., 2025).

An Affordable Energy Guarantee would provide a portion of cheaper energy to all households designed to cover a typical household's basic energy use (Cook et al.,

2026). All households would receive a unit-rate discount on energy use beneath the ‘essential’ threshold, and pay market rate for energy above this threshold. This support would be provided to everyone, but the ’essential threshold’ would be adjusted for household size, with extra support for people on low incomes and those with high energy needs.

This approach has the unique effect of providing support that is both universal and targeted. Energy is an essential good for all households and should be provided at minimum cost to all. But limiting the subsidy to essential energy use only prevents the largest energy consumers receiving the greatest benefit.

The policy design also retains the price incentive to reduce non-essential energy use (for example through home efficiency) as part of the transition to net zero, and focuses support on low-income households for whom essential energy costs make up the largest share of income.

All households should be able to meet their essential energy needs and afford the energy necessary for a decent quality of life, through the transition to net zero and beyond. The creation of an Affordable Energy Guarantee would provide the Government with the policy architecture needed to distribute widespread support to bridge the gap between where we are now and the low-cost, low-carbon energy system of the future.

Guaranteed essentials

Everyone's circumstances can change. Losing your job, needing to care for a sick family member, breaking up with your partner — these are things that can happen to any of us. Our social security system should offer support to anyone in need of help, but right now it's not providing enough to cover the cost of life's essentials, such as food, household bills and travel, with around 5 in 6 low-income households receiving Universal Credit going without (JRF and Trussell, 2026).

The basic rate of Universal Credit should at least cover these essential costs. But it is not currently set according to any independent calculation of the price of essentials, and for those over 25 is only £98 a week for a single adult and £154 for a couple. JRF and Trussell estimate that a single adult needs at least £120 a week to afford essentials and a couple needs £205. This means a shortfall of over £20 a week for a single adult and over £50 for a couple. Often people receive even less as they face deductions from their support which are automatically taken at unaffordable rates, for example to pay off debts to the government or as a result of the benefit cap.

An Essentials Guarantee in Universal Credit, with an independent process to regularly recommend its level, would ensure everyone has a protected minimum amount of support to afford essentials. This would create a legal minimum, so it is at least enough to afford essentials, and cannot be pulled below this amount by reductions such as debt deductions or the benefit cap.

Secure work

Earnings from work provide the vast majority of income for the vast majority of households. This means that the risk of sudden falls in earnings from work poses a substantial risk to household's economic and financial security. In-work statutory protections for the most common of these income shocks — caring for a newborn and falling unwell — are meagre for all workers and provide weak income replacement.

This risk is particularly present for those in solo self-employed work, which is often characterised as having volatile incomes and uncertain working hours, and which currently does not benefit from the same protections in sick pay and parental leave as for employees. The rise of the 'gig economy', which primarily relies on low-paid solo self-employed workers, means this is affecting more people, with estimates from the number of people working on 'gig platforms' ranging widely depending on survey from 460,000[4] to 4.4[5] million people.

Insecure self-employment means that having to take time off work results in lost earnings. Extending statutory sick pay to the self-employed, increasing the maternity allowance to match the entitlement for employees, and creating a new Paternity Allowance for self-employed fathers would reduce hardship during difficult times and reduce uncertainty and stress for all self-employed people.

The Government should go further to increase the security of incomes from work in both employment and self-employment. The UK has one of the lowest levels of statutory paid paternity leave in the Organisation for Economic Co-ordination and

Development (OECD) — at just 2 weeks this is less than one sixth of the OECD average. Increasing the duration and generosity of paid paternity leave for employees and self-employees, alongside increasing the generosity of maternity pay, is vital to provide families the support and stability required at a key time in life. Support to cover periods of sickness could also be made more generous than the existing support offered by Statutory Sick Pay.

3. What this could look like in practice

In Table 1, we set out an illustrative version that is a step towards each of the policies set out above to highlight the role this would play in boosting living standards.

Table 1: Illustrative policy description and costings

Policy Area	Policy	Cost in 2029/30 (2026/27 prices)
Housing	Rent cap of the lower of the rate of Consumer Price Index (CPI) and earnings within and between tenancies from 2027/28. Lower rental income reduces tax revenue by an estimated £600 million, which is partially offset by lower housing benefits.	£500 million
	Relinking the Local Housing Allowance to the 30th percentile of local rents from 2027/28.	£1,200 million
Social security	A £7 per week uplift in the standard allowance of Universal Credit for single people and £14 for couples over 25, with younger recipients receiving the same standard allowance as others.	£2,900 million

Policy Area	Policy	Cost in 2029/30 (2026/27 prices)
Introduce a Protected Minimum Floor (PMF) that caps reductions to Universal Credit such as debt deductions or the benefit cap to 15% of the standard allowance.	£1,700 million	

Policy Area	Policy	Cost in 2029/30 (2026/27 prices)
Work	Extend Statutory Sick Pay to the self-employed.	£400 million
	6 weeks Paternity Pay for employees and self-employed at 90% replacement rate capped at £1,200 per week.	£2,100 million
	20 weeks at 90% average weekly earnings for self-employed and employees with a cap up to £1,200 per week and then for the next 19 weeks they will be getting £206.19 or 90% of your average weekly earnings (whichever is lower).	£2,700 million
Energy	An affordable energy allowance reducing the unit price of the first 26 and 111 kWh of electricity and gas by around 20% respectively, with an additional energy allowance of 6 and 28 per child and fully discounted energy for all those on means-tested and disability benefits.	£6,900 million
Total		£18,400 million

Note: Policy costings are slightly dependent on the order of modelling, for which we have implanted housing policies first, followed by social security, then work and finally energy. In particular, rent caps will reduce the cost of rebasing the LHA and

introducing the Protected Minimum Floor. For example, as shown in Worsdale et al. (2026b) — who model a similar rent control scenario with caps at CPI within tenancy and CPI + 2% between tenancies applied from 2025/26 with the LHA reset to the 30th percentile in 2028/29 — rent controls reduce the annual cost of housing benefits in 2030/31 by £600m (in 2030/31 prices) after the LHA has been rebased to market rents. The cost of policies is for 2029/30 in 2026/27 prices. The cap on paternity and maternity policies is in 2026/27 prices.

Paying for the policies

This policy mix would cost an estimated £18.4 billion per year in 2029/30.

The exact parameters of support in this policy mix are illustrative and are deliberately designed to be variable to adapt and respond to wider economic circumstances.

This policy proposal is not making a comment on the level of additional borrowing the Government should undertake — this should be determined by the inflationary environment, need for demand stimulus, and the Government's fiscal position.

Instead, here we demonstrate that this illustrative policy mix is both plausible and affordable, without the need to increase government debt where additional borrowing is undesirable. This can be funded with 2 tax reforms that would not only raise the necessary tax revenues but also improve the efficiency and fairness of the system in the process.

Equalising Capital Gains Tax (CGT) rates with rates of income tax would mean that people paid a similar tax rate regardless of the source of their income, and remove the incentive for people to disguise their income as capital gains to attract a lower rate of tax. Closing loopholes that allow people to avoid paying Capital Gains Tax entirely, by holding onto an asset until death or emigrating from the UK, would remove the incentive to keep assets longer than is economically efficient.

Introducing an investment allowance — so that capital gains are only paid on returns above the risk-free rate of return — would prevent the system from disincentivising saving and investment. As well as removing these costly economic distortions, for 2029/30 these reforms would raise an estimated £10.7 billion in 2026/27 prices, after accounting for behavioural responses.

Currently, investment income from rents, savings and dividends do not attract National Insurance Contributions (NICs). This means they have lower effective tax rates than income from work. Rachel Reeves went some way to address this in the Autumn Budget 2025 when an additional 2 percentage points were added to the income tax rates for rents, saving and dividends. In her speech she declared (House of Commons, 2025):

"It's not fair that the tax system treats different types of income so differently."

Rachel Reeves

However, this change did not fully close the gap. Employee NICs below the upper earnings limit are 8% for employees and Employer NICs (of 15%) add to the effective tax rate on earnings from work. Equalising the tax rate on rents, savings and dividends with the effective tax rate on work would make the tax system fairer, reduce the tax incentive bias towards certain economic activities, and raise an additional £7.7 billion in tax (before accounting for behavioural impacts).

As Capital Gains Tax (CGT) is paid on the profit when an individual sells an asset, this does not typically appear in income-based modelling. Selling an asset is transferring one form of wealth to another and neither the profit nor the tax appears as traditionally defined income. In Figure 3, we illustrate the impact the CGT reform has on different households.

However, this analysis should be interpreted with caution. The impacts are shown as a percentage of income despite the fact the tax is levied on remuneration not included in the measure of income. The sorting of households into income quintiles also does not account for the capital gain remuneration. To be affected by the reform, a household must be in the top 10% of capital gains remuneration. There are some households in lower income quintiles with low traditional income, but very high capital gains income. In these instances, the traditional measure of income does not truly reflect the resources available.

For this modelling, we use the post-behavioural CGT costing (see Methodology) to be consistent with the revenue used in the policy package. This does not capture the cost to households of behavioural change, nor the benefit resulting from the

increased economic efficiency of this tax reform as discussed in Advani et al. (2024).

Impact on incomes

Income is not the only thing that matters. Household economic security is about a lot more. It is protection from an unexpected rent hike, an unaffordable energy bill or a missed work shift. It is knowing support is available if you lose your job or are unable to work. It is a system of care to look after yourself or loved ones. It is social — a sense of community and support around you — and it is emotional — a freedom from the mental stress of debilitating uncertainty. It provides a platform for dignity, opportunity and hope that enables people to make their fullest contribution to society and the economy.

The program of policies we have set out puts us on a path towards delivering this. Not only to provide the support people need today, but to build a system of certainty that provides people the confidence to succeed tomorrow.

However, looking at how the policy proposals can support low-income households' financial living standards is a good place to start — especially given falls in incomes experienced recently.

This is a plausible and affordable policy mix that begins to rebuild the economic security of households, can restore recent losses for the lowest-income households, and have widespread positive impacts. In summary, an intervention of this kind could be the difference between an acceleration in the living standards squeeze for almost

everyone — and for those who can least afford it most of all — and an outlook where the majority of households are actually getting better off. Beneath, the key impacts of the policies are as follows:

- Higher disposable incomes for the majority, with the greatest gains for lower-income households. On average, only the richest fifth of households or those with significant remuneration are materially worse off after the combined effects of new support and reformed taxation.
- A return to net growth in disposable incomes for the majority. On average, the bottom 60% of the distribution will see their incomes return to growth this parliament, while low-income households will more than recover the hit to incomes from the last parliament as well.
- The increase to disposable incomes is superior in our illustrative policy mix compared to a world that has no comparable government intervention but has plausibly higher economic growth. On average, the lowest income 60% of households are better off in 2029/30 under our policy mix compared to a world where productivity growth was to return to the OBR's previous assumptions before they were downgraded last summer.
- Inflation is lower. Because the proposals pertaining to energy bills and rents work through mechanically lowering the price, the result is that headline inflation could also be lower by 0.5 percentage points in the year that an Affordable Energy Guarantee is implemented. This helps reduce the risk of inflation persistence from the coming energy price shock, and helps the Bank of England to keep interest rates lower than they might otherwise be.

Higher disposable incomes for the majority

The benefits are widespread and progressive.

The policies increase incomes in the lowest-income quintile by £1,020 per year (in 2026/27 prices), an increase worth 8.0% of income in 2029/30 (Figure 3).

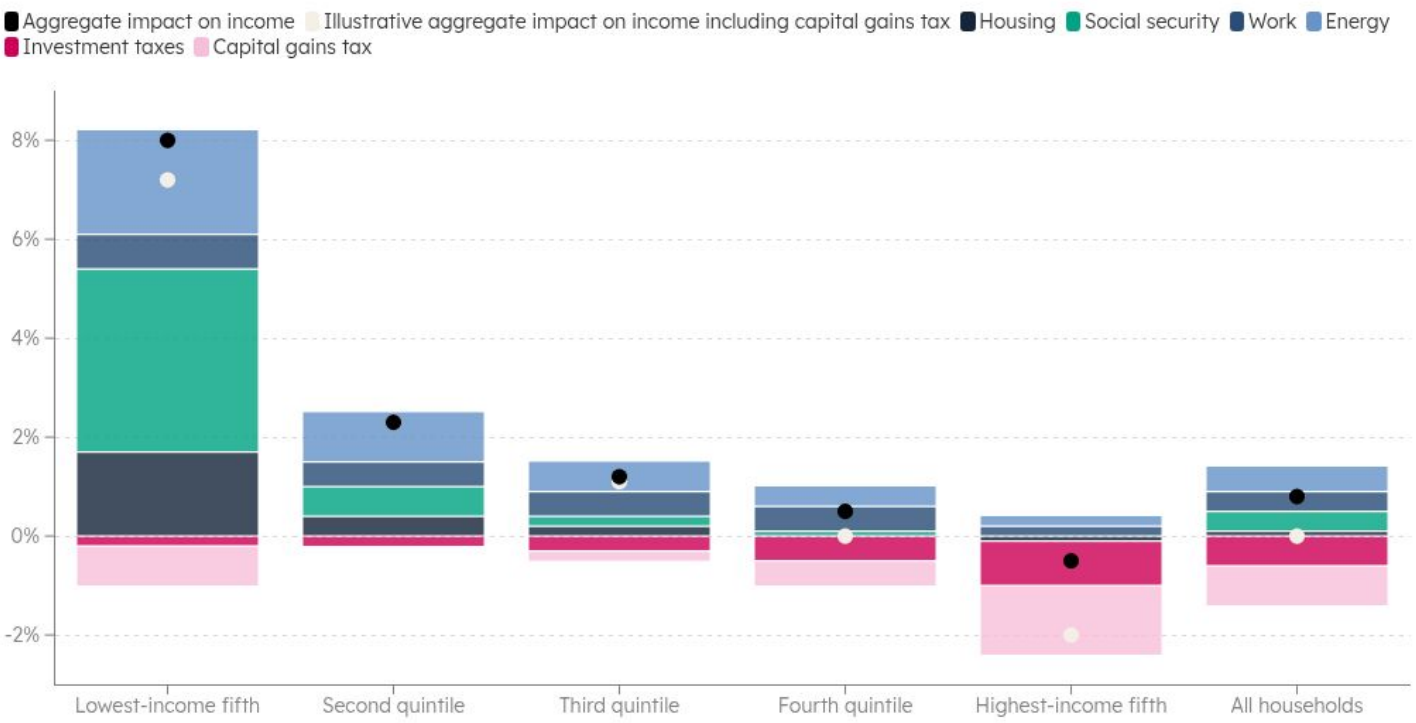
Households across the lower end and middle of the income distribution are better off. Those in the middle of the income distribution are £440 (1.2% of income) per year better off. On average, only the richest fifth of households are materially worse off as a consequence of the policies.

As discussed above, the capital gains tax reform does not affect income, but for completeness Figure 3 shows how the impact of this reform is distributed across households. The effect is concentrated in the higher income quintile — those that have the highest capital gains also tend to have the higher income — but there are some costs to lower income households. However, it is important to note that, by definition, these households have very high capital gains income and so the traditional income measure on which these figures are based and does not effectively capture the resources these households have available. For the remainder of these paper we revert to focus on only the impacts on income, but as Figure 3 shows the key results remain true even after accounting for the impact of the CGT reform.

1 of 2

Figure 3a: The benefits are progressive and widespread

Percentage change in household disposable income after housing costs (2026/27 prices) for each policy in 2029/30, by income quintile



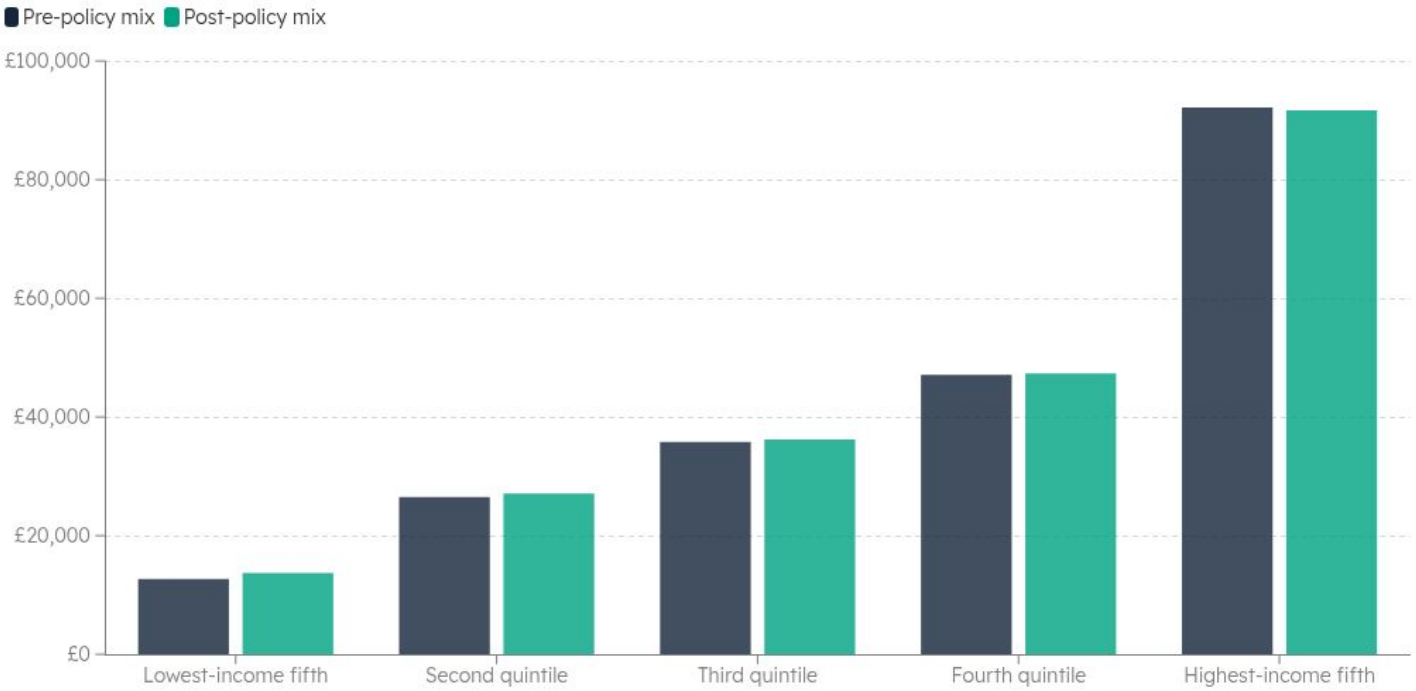
Source: JRF analysis of DWP, 2023/24 Family Resources Survey using v02_93 of the IPPR Tax Benefit Microsimulation (IPPRTBM) model; ONS, Wealth and Assets Survey Round 8; HMRC, Survey of Personal Incomes Public Use Tape 2022/23. Projections estimated using data from Bank of England, April 2026 Monetary Policy Report.
Note: Housing and social security policies are modelled in that order, meaning impacts would differ slightly if implemented individually. Work, energy, and tax policies are modelled top-down afterwards. Some caution should be taken when interpreting the impact of capital gains tax (CGT). Capital gains are not counted in a conventional definition of income. Therefore, baseline for the percentage change in household income does not include capital gains and similarly these gains are not considered when sorting households into income quintiles. For example, some households with significant gains are categorised as among the lowest-fifth of households in terms of incomes. There are 12 such records in the Wealth and Assets Survey in wave 8, with average weighted gains of £420,000.

This policy mix has such a transformative impact on the living standards of those on the lowest incomes you would be forgiven for thinking that it causes a radical or

implausible upheaval to the overall income distribution. Figure 4 shows that this is not the case. Even with the proposed reforms, average disposable household income in the top quintile is 6.6 times larger than in the bottom quintile and 2.5 times more than the average household.

Figure 4: Households with incomes in the top 20% will still have 2.5 times that of the average household

Household disposable income after housing costs in 2029/30 (2026/27 prices) with and without the policy mix, by income quintile



Source: JRF analysis of DWP, 2023/24 Family Resources Survey using v02_93 of the IPPR Tax Benefit Microsimulation (IPPRTBM) model; ONS, Wealth and Assets Survey Round 8; HMRC, Survey of Personal Incomes Public Use Tape 2022/23. Projections estimated using data from Bank of England, April 2026 Monetary Policy Report.
Note: Values do not include the change in remuneration resulting from equalising capital gains tax as this is not included in the conventional definition of income.

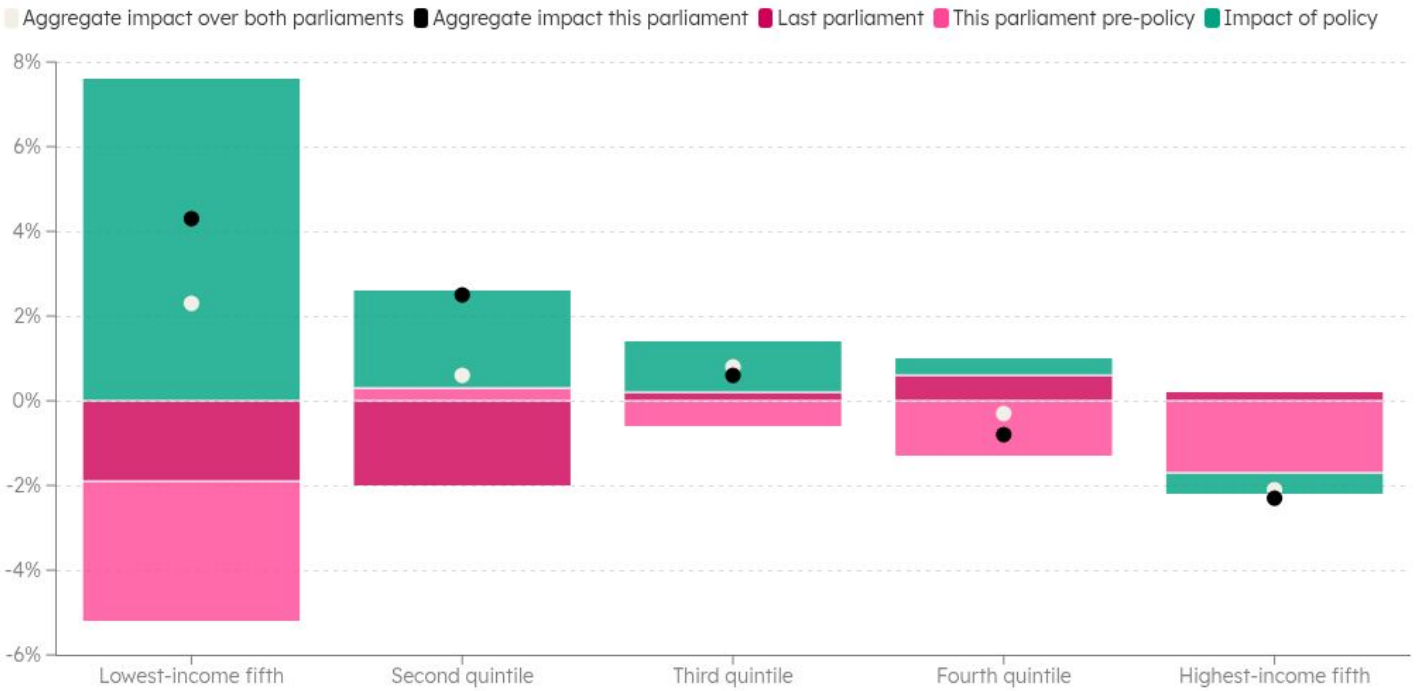
A return to income growth for the majority

As shown in Figure 5, for low-income households this more than offsets not just the projected income fall this parliament, but over the whole decade to 2029/30. From a reduction of 5.3%, they will instead see real income growth of 2.3%.

These policies are the difference between an outlook that accelerates the squeeze on living standards for almost everyone, and for those who can least afford it most of all, to one where the majority of households are getting better off, and where those who are not getting better are the ones most able to absorb it.

Figure 5: The majority of people would be better off over this parliament and the last decade

Percentage change in household disposable income after housing costs (2026/27 prices) by income quintile, using OBR outturn data for the last parliament, April 2019 to April 2024, and by projection, April 2024 to April 2029



Source: JRF analysis of DWP, 2023/24 Family Resources Survey using v02_93 of the IPPR Tax Benefit Microsimulation (IPPRTBM) model; ONS, Wealth and Assets Survey Round 8; HMRC, Survey of Personal Incomes Public Use Tape 2022/23. Projections estimated using data from Bank of England, April 2026 Monetary Policy Report.
Note: Values do not include the change in remuneration resulting from equalising capital gains tax as this is not included in the conventional definition of income.

A bigger impact than a growth improvement for the majority

Figure 6 compares the income impact in 2029/30 of this policy mix to an improvement in the economic growth outlook. The high productivity scenario models

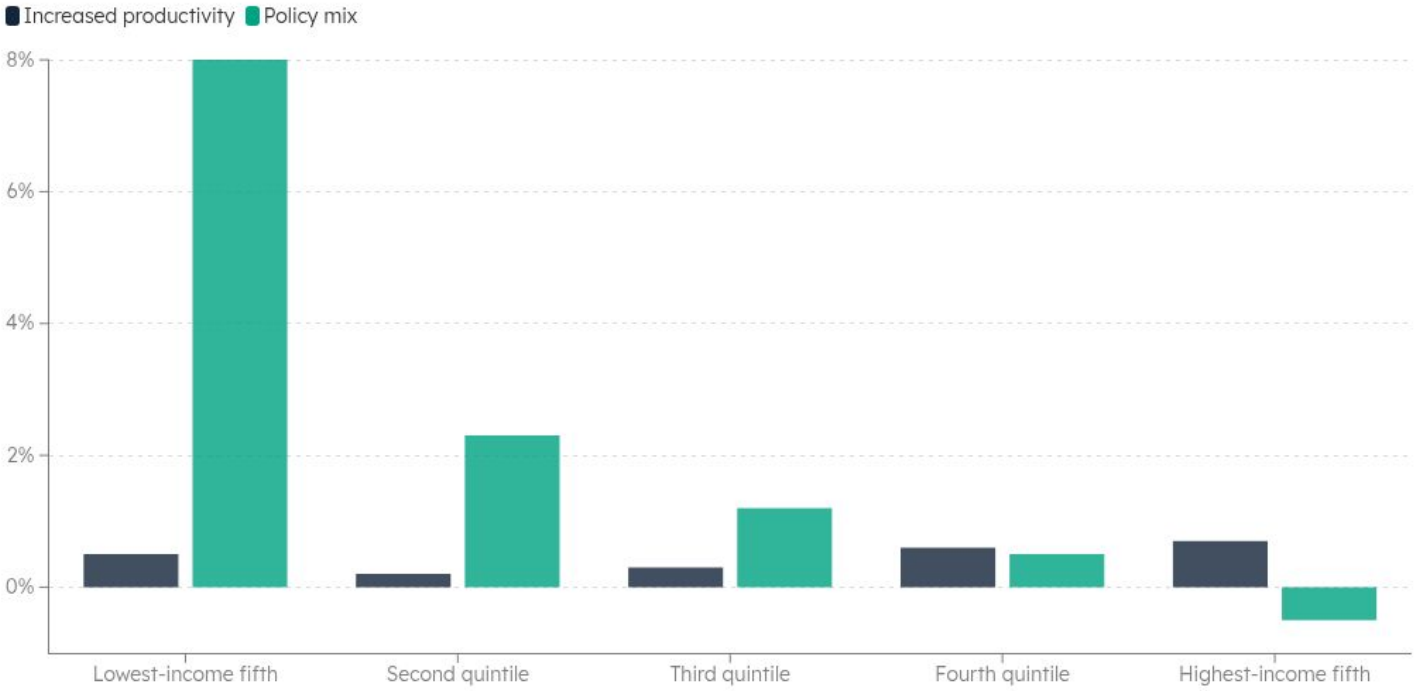
the improvement in real wages that would be expected if productivity were to return to 1.3% per year in the medium term — as used in the OBR forecast before the productivity downgrade in November 2025.

This is not a question of delivering policy aiming at improving living standards or productivity. Higher productivity growth is vital to the sustainability of long-term improvements in living standards and should always be an important government objective. However, this analysis highlights the insufficiency of targeting productivity growth alone. The higher productivity scenario improves living standards, but in the short-term these improvements are small and those at the bottom of the income distribution benefit the least.

In 2029/30, households in the middle of the income distribution benefit more from the illustrative housing, energy, social security, work and tax reforms than they would do from an improved productivity outlook.

Figure 6: The income benefit of productivity gains is insufficient in the short term

Percentage change in household disposable income after housing costs (2026/27 prices) in 2029/30 in a higher productivity scenario and with the policy mix, by income quintile



Source: JRF analysis of DWP, 2023/24 Family Resources Survey using v02_93 of the IPPR Tax Benefit Microsimulation (IPPRTBM) model; ONS, Wealth and Assets Survey Round 8; HMRC, Survey of Personal Incomes Public Use Tape 2022/23. Projections estimated using data from Bank of England, April 2026 Monetary Policy Report.
Note: The increased productivity scenario blends changes between the February MPR and scenario B in April with Spring projections from the OBR. We also reverse the downgrade to OBR's medium-term productivity, with real earnings 0.3 points higher by the end of the parliament. No change to housing costs is modelled in the MPR scenarios. Taxes are around £6 billion higher in the increased productivity scenario, which could be used to fund interventions to raise living standards. Values do not include the change in remuneration resulting from equalising capital gains tax as this is not included in the conventional definition of income.

Impact by policy

Controlling rents reduces the housing costs of private renters at the cost of reducing rental incomes of landlords. A share of this reduced rental income would flow

overseas to international landlords; however, it is not possible to accurately estimate this share and so for simplicity the full impact is assigned to UK households (slightly overestimating the income hit from the policy).

Controlling rents has a progressive impact because lower-income households are more likely to rent privately — 34% of households in the lowest income quintile rent privately compared to 9% in the highest income quintile[6] — while over half (54)% of landlords who have reduced income from the policy are in the highest income quintile. Relinking LHA to the 30th percentile of rents also predominantly benefits lower-income households. This is especially true when paired with the Protected Minimum Floor.

Social security represents the core of the safety net in our economic system. Moving towards a system where social security covers the basic cost of essentials also benefits the lowest-income households the most, as these are the households than are most reliant on Universal Credit as a source of income.

Reducing the cost of essential energy benefits households across the distribution; however, essential energy takes up a greater share of budgets of lower-income households and so they benefit more as a share of income. Reducing energy costs does not directly increase disposable income, instead it increases a measure of a disposable income by reducing essential costs. For simplicity, the impact is shown here as the equivalent increase in income equal to this saving.

The maternity, paternity and sick pay policies modelled in the in-work safety net support earnings during periods where workers would have otherwise experienced earnings shocks. As higher-income households are more reliant on earnings for a greater share of income, a greater share of the benefit of these policies go to higher-income households (although impact is relatively equal as a share of income). The fact that these policies reduce income volatility highlights the importance of looking beyond static income distribution results.

The impact of equalising CGT rates with rates of income tax alongside re-introducing an investment allowance, removing the death uplift, and implementing an exit tax largely impacts the top income quintile. This is because those receiving capital gains tend to be higher income on average, and the reintroduction of an investment allowance means many CGT taxpayers who do not make exceedingly high returns are better off under the policy. Advani et al. (2024) estimate that 51% of CGT taxpayers in 2020 would have been better off, and that 68% of the additional revenue from our proposed reform comes from the top 0.1% of richest taxpayers.

Income from rent, savings and dividend also disproportionately goes to higher-income households meaning that equalising tax rates on rental, savings and dividend income with tax rates on earnings also has a progressive impact.

Keeping a lid on inflation

In the current context of elevated energy prices resulting from the conflict in the Middle East, policymakers are rightfully concerned about keeping inflation down.

The policy mix outlined in this briefing is fiscally neutral so there is no first order inflationary stimulus to the economy. However, this does constitute a redistribution from the highest-income households to the lowest-income households. As lower-income households have lower saving rates (higher marginal propensity to consume), this might lead to an overall increase in demand in the economy, although this will be small compared to the inflationary impact of a fiscal expansion.

Cutting against this, the policy mix we have outlined actually acts to reduce inflation by reducing consumer prices directly, and the headline rate of CPI if the Office for National Statistics (ONS) factor changes into their estimation approach. The reducing the costs of essential energy could have a one-off impact reducing inflation by 0.4 percentage points in the year it is implemented and reducing the growth in rent prices, takes on average 0.1 percentage points off inflation over the forecast horizon.

This is important because, while the Bank of England typically 'look through' short-term changes in inflation, keeping the headline rate low can reduce the second-round inflationary effects (for example, through index-linked uprating and wage bargaining) and therefore help keep interest rates lower.

4. Conclusion

The outlook for living standards has been too bleak for too long and small improvements at recent fiscal events have been insufficient. This is underlined by analysis using the latest forecasts from the Bank of England implying that the conflict in the Middle East threatens to more than undo any recent progress — leaving projected average disposable income in 2029/30 more than 1.7% lower than at the beginning of the parliament.

Lowest-income households are expected to bear the brunt of this impact. Incomes in the lowest-income fifth of households are expected to fall by 3.4% during this parliament, on the back of falling by nearly 2% over the last parliament.

This briefing sets out how to start addressing this problem with a mix of plausible and affordable reforms that:

- reduce the cost of essential energy
- control the growth in private rents and relink LHA to the 30th percentile of rents
- begin to bring the support in Universal Credit in line with the cost of essentials
- expand the in-work income protections to self-employed people, and improve their level

- can be funded by economically efficient and progressive tax reforms to Capital Gains Tax and investment income.

This policy mix is progressive, widespread and big enough to make a difference.

It increases incomes in the lowest-income quintile by £1,020 per year — this is the difference between a continued squeeze on already stretched budgets and returning incomes to growth for those who need it most.

It represents a return to net growth in disposable incomes for the majority. On average, the bottom 60% of the distribution will see their incomes return to growth this parliament. On average, no income quintile other than the richest will be materially worse off after the combined effects of new support and reformed taxation.

It has a more material impact on living standards for most households than an improved economic outlook in the short-term. On average, the lowest-income 60% of households are better off in 2029/30 under our policies compared to a world where productivity growth returns to the OBR's previous assumptions, before they were downgraded last summer.

The issue of living standards is too big and too important for small tweaks. We need wholesale policy reform that fundamentally rethinks how we build household economic security, and this policy mix provides a blueprint for how we can make a start.

Methodology

Tax modelling

To estimate the revenue from higher CGT rates, we have used official CGT statistics (https://www.gov.uk/government/statistics/capital-gains-tax-statistics) on the proportion of capital gains received by individuals with different levels of income, and then scaled up Office for Budget Responsibility (OBR, 2026) projections for CGT revenue in line with the proposed uplift in CGT rates across basic, higher and additional rate taxpayers (taking account of gains from carried interest and gains subject to Business Asset Disposal Relief). All revenue estimates are expressed in 2026/27 prices.

Taking account of the latest rates of CGT (introduced in 2024) and applying the income breakdown from the CGT statistics to the latest OBR projection, it is estimated that equalising CGT rates with Income Tax would raise around £13 billion in 2026/27, rising to £17 billion in 2029/30, in the absence of any other reform or behavioural response.

We estimate the impact of the additional reforms outlined (an investment allowance, the removal of the 'death uplift', and applying CGT on gains made while UK resident) based on the results from Advani et al. (2024); the net effect is to increase revenues by a further £0.6 billion in 2029/30.

Finally, adjusting for behavioural responses in line with the modelling estimates from Advani et al. (2024), we estimate that in 2029/30 revenue will be £10.7 billion higher.

To apportion the share of revenue that is paid by households in different income quintiles we note the findings in Advani et al. (2024) that only the top decile of individuals by remuneration will pay higher taxes under the combined reforms, and have used the Wealth and Assets Survey (WAS) to analyse how these individuals are distributed across household income quintiles.

To estimate the revenue raised from equalising tax rates on rental, savings and dividend income with tax rates on earnings, we have used HMRC, Survey of Personal Incomes (SPI) microdata. For each taxpayer in the survey we have identified the tax rate that is applied to each source of income, taking account of the amounts of income they have, the relevant order in which different forms of income are taxed, and relevant deductions and reliefs, and have then applied the current and proposed rates of tax to estimate how much tax liabilities will increase for each individual and in aggregate.

These estimates do not account for any behavioural response. To estimate the share of revenue that is raised from households in each income quintile we have used Wealth and Assets Survey data to identify the household income quintile for the individuals who are affected by our proposals.

In both cases the future value of earnings is line with our interpretation of the Bank of England's April Monetary Policy Report scenario B (see below). Growth in rental

income accounts for the impact of rent controls. Savings income and dividends use Office of Budget Responsibility (OBR) projections from their March 2026 Economic and Fiscal Outlook (EFO).

Policy modelling

To estimate projected living standards and the potential impact of the policies presented in this paper we use the Institute for Public Policy Research Tax and Benefit Model (IPPRTBM), version 02_93 and the 2023/24 Family Resources Survey (FRS). Together with economic data such as inflation, earnings, and housing costs, they create a representative picture of living standards in the UK.

Estimates of the living standards projection at each fiscal event applies the relevant OBR Economic and Fiscal Outlook (EFO) to the IPPRTBM as well as any policy changes. To obtain our updated scenarios, used to reflect the impact of conflict in the Middle East, we apply scenario B projections from the Bank of England's April 2026 Monetary Policy Report (MPR) to the Spring 2026 EFO.

The upside scenario reverses the recent downgrade to OBR's medium-term productivity, with real earnings 0.3 points higher by the end of the parliament. Disability benefits caseloads are in line with the latest DWP projections for all scenarios, except Spring 2025 where caseloads are adjusted for cuts proposed at the time.

Details of the policies modelled are set out in Table 1. Policies are modelled sequentially in the order shown, meaning a policy implemented in isolation may have different costs. The base scenario is the Bank of England's scenario B, with uprating accounting for reduced growth of private rents.

Housing policy and the increase to the standard allowance are modelled in the IPPRTBM, with Universal Credit take-up held constant throughout. The remaining policies are implemented post-model. The PMF is calculated at a household level, while energy and work policies are applied top-down to the population based on distributions from the IPPR Rising Block Tariff Model (Cook and Wenham, 2025) and multiple years of FRS respectively.

Distributions of some work policies are based on earnings of similar groups, for example maternity-leave costings use earnings of mothers with a child aged 1–5 years. Costings and distributional impact of tax are also applied top-down, following the method set out above.

Notes

1. Over the period between 1961 and 2019/20.
2. This applies the average 11% income to the respective quintiles. Average income growth between 1961–2019/20 has been slightly slower at the bottom of the income distribution reflecting rising income inequality.
3. JRF analysis of Office for National Statistics (ONS) — Family spending in the UK: April 2023 to March 2024 (ONS, 2025).
4. Chartered Institute of Personnel and Development (CIPD) analysis of experimental Labour Force Survey questions — The gig economy: What does it really look like? (CIPD, 2023).
5. Trades Union Congress (TUC) research in 2021 found 14.7% of working people, estimated at 4.4 million people, were working for gig economy platforms at least once a week in England and Wales (TUC, 2021).
6. JRF analysis of Department for Work and Pensions (DWP), Stat-Xplore (DWP, 2026).

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