

## JRF Briefing

# WHAT WILL #BUDGET2012 MEAN FOR UK POVERTY?

JRF is one of the largest social policy charities in the UK. This briefing draws on evidence from our research to show how potential policy decisions in the Budget would affect poor places and people in the UK.

It looks at six issues: raising the income tax threshold; tax credits, work incentives and poverty rates; the 'mansion tax' and housing; increasing housing supply; older people; and funding social care.

### Raising the income tax threshold

- A single person needed to earn at least £15,000 per year before tax in 2011 to afford a minimum standard of living. A couple with a single earner and two [children need at least £31,600](#).<sup>1</sup> This amount is known as the Minimum Income Standard (MIS).
- Raising the threshold at which income is taxed would lower the amount people need to earn. If a single person paid no tax whatsoever, their earnings requirement would only be £12,600; a single earner couple would need only [£26,100](#).<sup>2</sup>
- In April 2011, the income tax threshold was increased by £1,000. The MIS earnings requirement increased for all groups from 2010–2011. For single people, this increase (3.9 per cent) was slightly below inflation (4.5 per cent Consumer Prices Index [CPI]) – and so in real terms, was a tiny decrease – due to the threshold rise. However, for families with children the gains were more than outweighed by freezing child benefit, reducing tax credits and reducing child care reimbursement.
- **Taken in isolation, raising the income tax threshold to £10,000, as the Coalition Government intends, would make it easier for low-income people to attain a decent standard of living. However, it would be a mistake to consider its impact separately from other taxes and benefits, which have a crucial impact on how much people need to earn to live.**

<sup>1</sup> A Minimum Income Standard for the UK in 2011, JRF, <http://www.jrf.org.uk/sites/files/jrf/minimum-income-standard-2011-summary.pdf>

<sup>2</sup> A Minimum Income Standard for the UK in 2011, JRF, <http://www.jrf.org.uk/sites/files/jrf/minimum-income-standard-2011-full.pdf>

- Tax levels are also always set in the context of the entire income distribution. Raising the threshold reduces taxes for everyone (unless more people are moved into a higher tax rate, as in the case of the 2011 threshold rise), and the policy has a net cost to the Exchequer. Some low earners will also have high-earning partners, so while raising the threshold will help them, it is a relatively inefficient way to do so.

### Tax credits, work incentives and poverty rates

- **This Government risks repeating the mistakes of the previous one, and focusing too much on tax and benefit incentives as the only solution to poverty.**
- Underemployment (defined as those who are unemployed, those economically inactive but want paid work and those working part-time who want full time) has remained remarkably static and high for the past 15 years, at around [4–6 million people](#). Unemployment is high, and has been rising since 2004. Tax and benefits changes do nothing to change this basic picture of long-term lack of demand for jobs. Budget 2012 would need to introduce a labour market revolution to change that picture.
- This Government has made two major decisions impacting long-term poverty rates: to introduce Universal Credit, which will lift about 950,000 people out of relative poverty; and to uprate benefits by the CPI, not Retail Prices Index (RPI), [which will more than outweigh those gains](#).<sup>3</sup> Budget 2012 is unlikely to take any decisions (e.g. tinkering with tax credits) that will dent the long-term impact of these existing policies.

### The ‘mansion tax’ and housing

- The damaging boom and bust cycle in the UK housing market should be a key focus of [housing policy](#).<sup>4</sup> **While a ‘mansion tax’ is a step in the right direction, it ignores the urgent need to make our system of property taxes fairer and to dampen house price volatility.**
- Council Tax, for example, relies on an out-of-date valuation, last set in 1991; an estimated [3.7 million households](#) (17% of all English households) are paying too much due to the failure of subsequent Governments to re-band the tax.<sup>5</sup> It also has just eight different categories to cover a vast range of property prices, meaning proportionally higher rates for lower-value properties. A property just inside the top rate is worth about 5 times as much as a Band D property – £320,001 compared with £68,001 – but is liable for an average of just [double the council tax](#).<sup>6</sup>

<sup>3</sup> *Child and Working-Age poverty from 2010 to 2020*, JRF, November 2011

<sup>4</sup> This section draws on the work of the JRF’s Housing Market Taskforce, available at <http://www.jrf.org.uk/work/workarea/housing-market-task-force>

<sup>5</sup> *Lyons Inquiry into Local Government*, DCLG, 2007, p.233 : <http://www.communities.gov.uk/documents/localgovernment/pdf/158064.pdf>

<sup>6</sup> DCLG Council Tax statistics: <http://www.communities.gov.uk/localgovernment/localregional/localgovernmentfinance/statistics/counciltax/>

- This amounts to a compelling case for immediate reform. In the short-term this would involve revaluation and a greater number of bands. In the long term this would be best structured through a national property tax with a finer and [fairer structure](#).<sup>7</sup> **A ‘mansion tax’ recognises the need to tax property with greater regard to value, but is not the comprehensive overhaul really needed.**
- Stamp Duty could also be reformed. It should follow a [‘slice’ structure](#), so that the higher rate of tax is paid only on the part of the house price that exceeds the threshold, rather than on the whole cost.<sup>8</sup> As stamp duty thresholds have been updated in a way that exacerbates house-price cycles, these should also be regularly updated to reflect real prices. Again, a ‘mansion tax’ would do nothing to resolve these pressing issues.

## Increasing housing supply

- Increasing the housing supply is one of the most urgent tasks facing this Government. The shortage of housing leads to a more volatile market and fuels high housing costs for households whether they are renting or buying.
- There are a range of approaches that might be taken to increase supply. These include risk sharing between land owners and developers through deferred payment for sites for new residential development and over provisioning of planning permission to bring sites forward. Large publicly owned sites could also be carved into smaller parcels allowing a range of big and small developers to compete for sites and diversifying the housing products on offer.
- Given the increasing pressure on the private rented sector, more consideration needs to be given to increasing the supply of rented housing whilst balancing the interests of landlords and tenants. Budget 2012 should explore more incentives for landlords to build new private rented supply, in return for specified guarantees from landlords (and buy to let mortgage lenders) on issues such as rent levels and tenancy length. This could take various forms such as the German system of tax relief on landlords’ operating costs.<sup>9</sup>

## Older people

- Pensioners are the only group that can currently achieve [the income needed for a decent standard of living](#), if all possible credits and benefits are claimed.<sup>10</sup> Pensioners also saw a sustained drop in relative poverty rates in the past 15 years (28 per cent in 1994/5 to 15 per cent

<sup>7</sup> *Tackling housing market volatility in the UK*, JRF, 2011: <http://www.jrf.org.uk/publications/tackling-housing-market-volatility-uk> .

<sup>8</sup> *Tackling housing market volatility in the UK*, JRF, 2011: <http://www.jrf.org.uk/publications/tackling-housing-market-volatility-uk>

<sup>9</sup> *Housing Taxation and Subsidies*, JRF, 2010, p.3: <http://www.jrf.org.uk/sites/files/jrf/housing-taxation-systems-full.pdf>

<sup>10</sup> *A Minimum Income Standard for the UK in 2011*, JRF, <http://www.jrf.org.uk/sites/files/jrf/minimum-income-standard-2011-summary.pdf>

in 2009/10<sup>11</sup>), and the 2011 Autumn Statement continued the approach of successive Governments by uprating pensions by 5.3 per cent.

- However, extremes of income are much more common among older age groups – particularly 55–64-year-olds – with higher numbers of both very poor and very rich people.<sup>12</sup>
- Moreover, the number of pensioners dependent on the state for their incomes has also remained roughly constant over the past 15 years.<sup>13</sup>
- Crucially, take-up of benefits among older people is very uneven – an estimated 40 per cent do not claim Council Tax Benefit, 37 per cent Pensions Credit and 16 percent Housing benefits.<sup>14</sup>
- **This means that Budget 2012 should be wary of jeopardising the situation of older people, and should maintain the progress of the past 15 years in improving their incomes.**

### Funding social care

- Budget 2012 must address the funding of social care. JRF and others in the sector have published extensive research to how to fund care in a way that is fair, simple to understand, and social and financially unsustainable.<sup>15</sup>
- For some time, Government has known the possible range of solutions. The report of the Dilnot Commission set out a clear plan for action, with individuals paying for their care up to a cap of £35,000, at a cost to the state of [£1.7 billion](#).<sup>16</sup>
- This is a fair and practical option. **Budget 2012 should accept and implement the financial changes set out in the Dilnot review.**

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<sup>11</sup> *Monitoring Poverty and Social Exclusion 2011*, JRF: <http://www.jrf.org.uk/publications/monitoring-poverty-2011> Indicator 3A

<sup>12</sup> *Monitoring Poverty and Social Exclusion 2011*, JRF: <http://www.jrf.org.uk/publications/monitoring-poverty-2011> Indicator 35B

<sup>13</sup> *Monitoring Poverty and Social Exclusion 2011*, JRF: <http://www.jrf.org.uk/publications/monitoring-poverty-2011> Indicator 36A

<sup>14</sup> *Monitoring Poverty and Social Exclusion 2011*, JRF: <http://www.jrf.org.uk/publications/monitoring-poverty-2011> Indicator 37B

<sup>15</sup> More information on JRF's work in this area can be found here: <http://www.jrf.org.uk/work/workarea/paying-for-long-term-care>

<sup>16</sup> <http://www.dilnotcommission.dh.gov.uk/our-report/>