Briefing

Resolution Foundation

Resolution Foundation analysis of the 2013 Budget

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The Chancellor's fourth Budget was a relatively quiet affair. While pre-announced changes mean that millions of households will face further reductions in benefit and tax credit receipts from April, the latest financial statement said nothing new about welfare cuts (though it confirmed that departmental spending is set to be tightened still further) and was instead more noticeable for some modest giveaways. Some are broad-based but small, from the latest increase in the income tax personal allowance to reductions in fuel and beer duties; others are more targeted, including a new scheme designed to boost homeownership and a new focus on childcare.

All should provide some welcome relief for households, but the distribution of gains is not straightforward. Perhaps most troublingly, the latest projections from the OBR mean that the measures come against a backdrop of an ever-tightening squeeze on earnings. In this note, we consider some of key announcements affecting households.

1 The wage squeeze

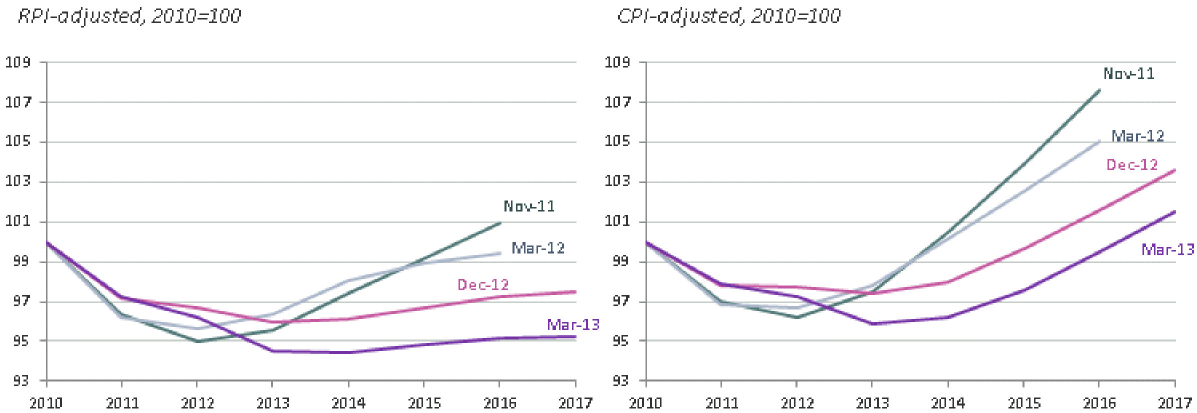
Despite once again revising its growth forecasts down, the OBR's latest *Economic and Fiscal Outlook*, noted that the labour market "continues to surprise on the upside". Employment is projected to rise in each year of the forecast period and unemployment is set to fall back from a 2014 peak of 8 per cent to 6.9 per cent in 2017.

While employment has proved surprising resilient, wages continue to disappoint. As research undertaken for the Commission on Living Standards has shown, real wages have become more sensitive to unemployment over the last decade, meaning that the jobless total may need to fall further than it has needed to in the past before any significant improvement in pay is achieved.1

As Figure 1 shows, the OBR has consistently downgraded its projections for growth in average earnings. Using the Retail Prices Index (RPI) measure of inflation, the latest revision suggests that average earnings will fall by 1.7 per cent in real terms in 2013, almost a full percentage point lower than the projection in December 2012 (-0.8 per cent). The OBR figures mean that the squeeze on average earnings is set to continue into 2014, followed by a very slow recovery in the following three years. The second panel in Figure 1 shows that the picture looks better if we use the (lower) Consumer Prices Index (CPI) measure of inflation, but the pattern of downgrades remains the same.

[1] P Gregg & S Machin, *What a drag: The chilling impact of unemployment on real wages*, September 2012, Resolution Foundation

Figure 1: Changes in OBR projections for average earnings

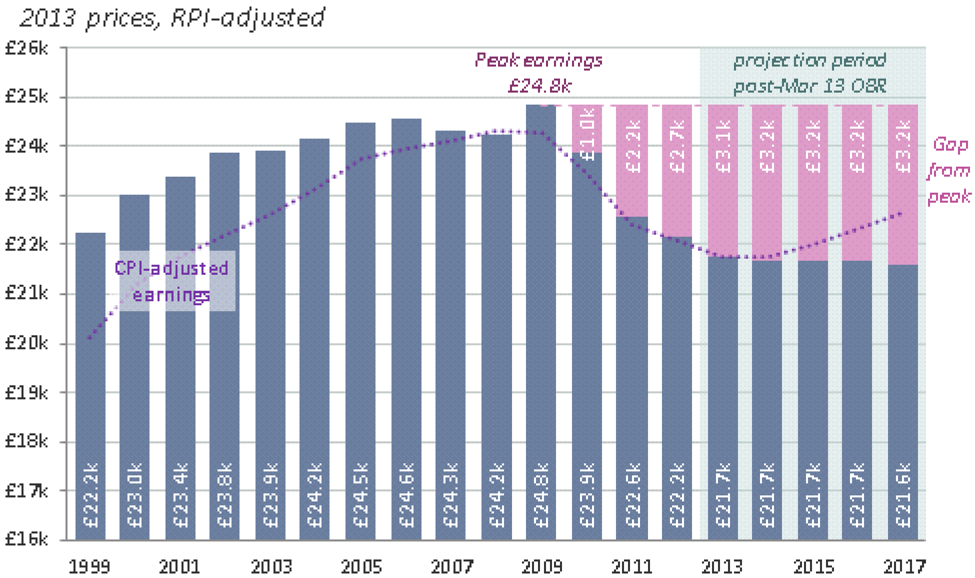


Source: OBR, *Fiscal and Economic Outlook*, various

Yet the picture for 'typical' workers may be worse still. Median pay has consistently grown more slowly than the average over the past decade or so. In Figure 2, we assume that the ratio between median and average earnings that has been in place between 1999 and 2012 continues across the OBR projection period. Taking this approach (and using the RPI measure of inflation) we find that median pay is set to fall in each of the next eight years. So, while typical workers earned £24,800 a year in 2009, by 2015 the median salary is now forecast to stand at just below £21,600: a 'wage gap' of £3,200.

Again, using the CPI measure of inflation produces a more positive, but still troubling, trend. On this measure, median earnings are set to fall from a peak of £24,300 in 2008 to a low of £22,300 in 2016: a wage gap of £2,000.

Figure 2: Annual median earnings among all employees



Notes: Outturn data from ONS, *Annual Survey of Hours and Earnings*. Projections are calculated with reference to OBR projections for average earnings, with the forecasts being adjusted to reflect how closely median earnings have tracked average earnings in the period 1999-2012.

Sources: Resolution Foundation analysis of OBR, *Fiscal and Economic Outlook*, March 2013; ONS, *Annual Survey of Hours and Earnings*; ONS, *Quarterly National Accounts*; and ONS, *Labour Force Survey*

2 The personal tax allowance

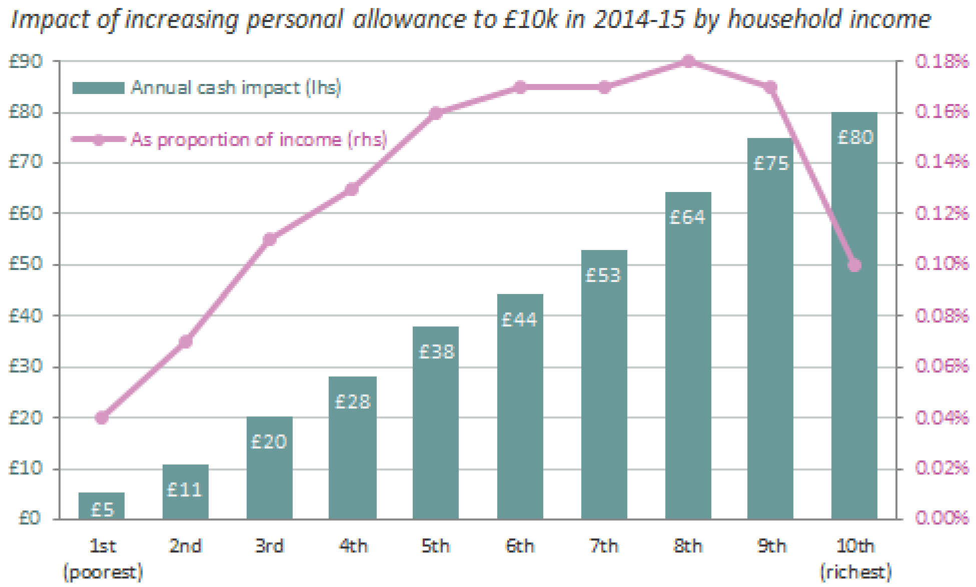
In the face of this on-going squeeze on earnings, the Chancellor once again focused on increasing the personal tax allowance – the amount an individual can earn before they become liable for income tax. By raising the allowance to £10,000 in April 2014, he brought forward his promise to reach this level by the end of the Parliament by a year.

With RPI inflation projected to be 3.3 per cent in September 2013, the allowance would have been increased to £9,760 from April 2014 in the absence of the Budget announcement. As such, all taxpayers above the new threshold but below the £100,000 limit at which the personal allowance begins to be withdrawn are set to benefit from an additional £240 of tax-free allowance. This is equivalent to £48 per worker.

The distribution of these gains at the *household* level clearly depends on the number of eligible workers living within families at different points in the income distribution. As Figure 3 shows, in cash terms the benefits grow across the distribution – reflecting the higher concentration of workers in better-off families. Indeed, among the poorest 10 per cent of households, the average gain is set to be just £5 a year. In contrast, those in the richest 10 per cent of households stand to gain £80 a year. Of the overall £1.1 billion giveaway estimated by HMT, around three-quarters is therefore set to flow to households in the top half of the income distribution.

The presence of workers earning above £100,000 in the top two income deciles means that the gains decline in proportional terms at the top of the distribution, though it is again the top half which looks to gain most.

Figure 3: Impact in 2014-15 of the £10k tax allowance



Source: Resolution Foundation analysis using IPPR tax benefit model

3 Fuel and alcohol duties

Alongside this change to direct taxation, the Chancellor made two announcements in relation to indirect taxes that were similarly designed to ease the squeeze on families: a cancellation of the September 2013 RPI increase in fuel duty; and an immediate 2 per cent reduction in duty on beer followed by a cancellation of the duty escalator from April 2014.

The Treasury expects the first measure to cost £810 million in 2014-15 (the first year in which it will be fully applicable), while the move on beer is set to cost around £215 million. As with the personal allowance increase, such broad-based moves are likely to result in modest gains at the individual household level. In this instance however, we might expect those on low to middle incomes to benefit disproportionately.

Our analysis of spending patterns (Table 1) reveals that those on low to middle incomes spend around 5 per cent of their disposable income on motor fuel, compared with less than 4 per cent among those in higher income households. Similarly, low to middle income households spend a slightly higher proportion of their income (3.1 per cent) on alcoholic drink (all kinds rather than just beer) than higher income households (2.5 per cent).

Of course, this means that higher income households spend larger amounts on both fuel and alcohol in cash terms, but low to middle income households are likely to gain more as a proportion of their income.

Table 1: Average spend on fuel and alcohol by household income: 2010

	Low to middle income households	Higher income households
Spend on motor fuels		
As % total expenditure	4.9%	4.5%
As % disposable income	5.2%	3.7%
Spend on alcoholic drink		
As % total expenditure	2.9%	3.1%
As % disposable income	3.1%	2.5%

Source: Resolution Foundation analysis of *Living Costs and Food Survey 2010*

4 Childcare[2]

The budget included two separate measures to increase the financial support available to families with childcare costs. The first is the introduction of a new system of tax-free childcare vouchers, labelled as childcare tax relief by the government.[3] Under the scheme families will receive a voucher to cover 20 per cent of their childcare costs up to £6,000 a year, meaning maximum support per child of £1,200. To qualify, all adults (i.e. both parents or the single parent) must be in work, earning less than £150,000 per year, and not be in receipt of Universal Credit.

Around £750 million of new money has been allocated to the new childcare tax relief system. The total cost will be higher because it will also absorb the £750 million already spent on the existing employer-supported childcare voucher system, which the new scheme will eventually replace.[4] The new voucher scheme is scheduled to launch in the autumn of 2015. It will initially only apply to children under the age of five, but will eventually be extended to include children up to the age of 12.

The second childcare measure announced in the budget is a £200 million increase in the level of childcare support for some families under the new Universal Credit (UC) system. Before the Budget announcement, Universal Credit was to provide families with 70 per cent of their childcare costs. Under the new plans, families in which all parents are in work *and paying income tax* will have 85 per cent of their childcare costs covered. In cash terms, the difference between the 70 per cent and 85 per cent level of support can equate to as much as £1,365 per year for families with one child in childcare, and £2,340 for families with two or more children in childcare.[5]

Who benefits from the new childcare announcements?

Figure 4 shows who benefits from the new childcare announcements, quantifying the number of beneficiaries in each quintile of the income distribution from the poorest households (on the left) to the richest households (on the right).

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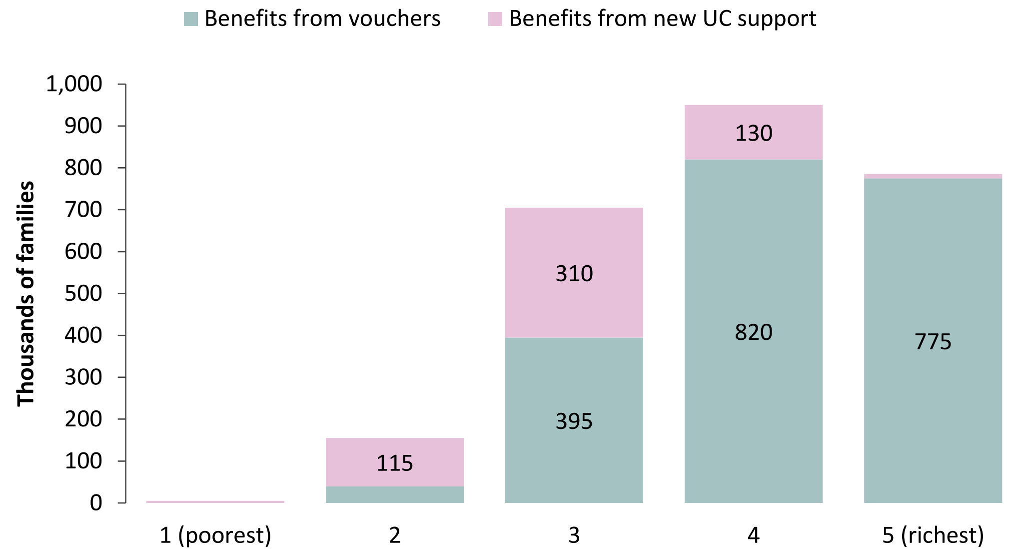
[2] The estimates presented in this section are based on Resolution Foundation analysis of the 2010-11Family Resources Survey (FRS) using the IPPR tax-benefit model. This is a microsimulation model which determines tax liabilities and benefit entitlements for all benefit units in the FRS dataset based on their income and family characteristics information as recorded in the survey. In this case the focus is on UC, with UC eligibility determined according to the UC system as it will be in 2015-16, with the 2010-11 income data uprated to 2015-16 in line with the OBRs projections for the annual growth of mean disposable income over this period.

[3] Because the scheme will also support households earning too little to pay tax it is not strictly speaking a tax relief scheme. In this sense, the choice to support 20 per cent of parent's childcare costs is arbitrary and could be increased or decreased in future years.

[4] The existing employer-supported childcare voucher scheme allows parents to receive some part of their salary in childcare vouchers which can be spent on childcare provided by registered providers. The benefit to parents is that they do not pay any income tax or NICs on the amount of salary they receive as vouchers. The voucher value is capped at £55 per week for basic rate tax payers, £28 for higher rate tax payers and (as of April 2013 when the top rate is cut to 45 per cent) £25 per week for additional rate tax payers, which equates to tax savings of £933 per year for basic rate tax payers and £623 per year for higher and additional rate tax payers. The incentive to employers to participate in the scheme is that they do not pay any employers' NICs on any salary paid as vouchers. However, this incentive is not always enough to persuade employers to participate, and a key drawback of the scheme is that many parents cannot benefit from childcare vouchers because their employer does not provide them.

[5] Childcare support can cover a maximum of £175 per week for families with one child in childcare and £300 per week for families with two or more children in childcare. The maximum cash value of the annual gain of moving to 85 per cent for families with one child in childcare is calculated as follows: £175 x 15% x 52 = £1,365. For families with two or more children the calculation is: £300 x 15% x 52 = £2,340.

Figure 4: Distribution of families eligible for UC and tax relief childcare reforms



Source: Resolution Foundation analysis using IPPR tax-benefit model and DWP, Family Resources Survey 2010-11.

Notes: (1) UC eligibility according to 2015-16 UC system, with earnings uprated to 2015-16.

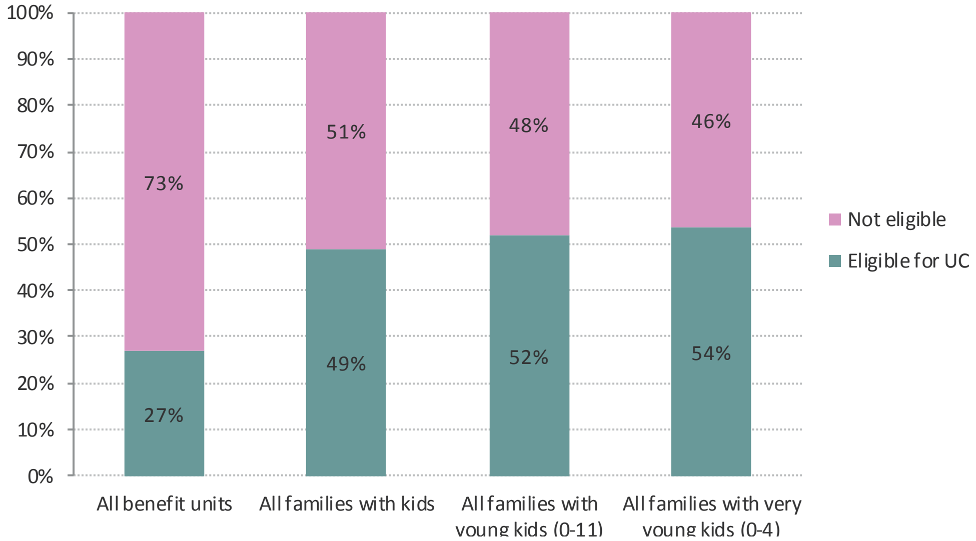
(2) Number of families potentially eligible for UC support relates to all UC families with at least one dependent child (aged 0-19). Number of families eligible for vouchers relates to all non-UC-eligible families with children aged 0-11 in which with both adults in work but earning under £150k

(2) Families eligible for 85% childcare support if all adults are in work with earnings above the income tax threshold (£10,320 in 2015).

(3) Income groups defined over all benefit units on modelled 2013-14 net BHC income (i.e. pre-UC system).

Because new childcare vouchers will not be available for households on Universal Credit, they will mostly benefit better off families. Of those families who are eligible for the tax-free childcare voucher, 80 per cent are in the top 40 per cent of the income distribution. Almost no families (just 1 per cent) in the bottom 40 per cent of the income distribution will be eligible for the vouchers. Figure 5 helps to explain these results. It shows that over half of all families with dependent children will be eligible for Universal Credit and therefore ruled out the new childcare tax relief vouchers. This explains why the new voucher policy, rather than being universal, benefits very few low to middle income households.

Figure 5: What proportion of families are eligible for Universal Credit?



Source: Resolution Foundation analysis using IPPR tax-benefit model and DWP, Family Resources Survey 2010-11.

Notes: (1) UC eligibility according to 2015-16 UC system, with earnings uprated to 2015-16.

(2) The benefit unit is how individuals are grouped together when determining eligibility for benefits, (unlike tax which is determined at an individual level). There are three types of benefit units: (i) families (i.e. one or two adults with dependent children); (ii) couples with no children; (iii) single adults with no children. It is possible for a household to contain more than one benefit unit; for example a couple living with their adult child would count as two distinct benefit units.

Our analysis of the distribution of the new childcare vouchers takes into account the fact that they are restricted to families that don't contain an individual earning £150,000 or more. This restriction excludes only a very small group (60,000) of the very richest households. In addition, around 600,000 families will not be eligible for the new vouchers because they contain non-working adults (for example, a stay at home parent). This is a change from the current employer-supported voucher system, in which support can be claimed by single earning couples.

In the case of new support through Universal Credit, of the 1.5 million working families with children who are eligible for Universal Credit only 600,000 families will potentially benefit – around 40 per cent. Over 900,000 working families with children who are eligible for Universal Credit – 60 per cent of the total – will be excluded from the extra support because they do not earn enough to pay income tax, usually because one or both parents is in low-paid, part-time work. These figures include families with older dependent children, suggesting that the true take up figure is likely to be far lower than 600,000.

As Figure 4 showed, the families that are eligible for additional support through Universal Credit are among the better off families on UC, towards the middle of the overall income distribution. This is because they are likely to work longer hours or earn a higher hourly wage and so earn enough to pay tax. Of those families who are eligible for additional support through Universal Credit a quarter are in the top 40 per cent of the income distribution. Only 21 per cent of families who are eligible for the new support through Universal Credit are in the bottom 40 per cent of the income distribution. The bulk of the families eligible for the new 85% rate of support will come from the middle 20% of the income distribution.

It is important to note that some of the 900,000 working families on Universal Credit who are excluded from the new more generous support will still benefit from other changes in Universal Credit. In particular, around 200,000 families will receive significantly more help than they do today because they currently work under 16 hours a week. These families cannot currently claim help with childcare costs but will be able to claim 70% of their childcare costs under UC. (NB. this is a pre-existing feature of UC and a positive aspect of the new system. It is not an announcement made in the Budget). In addition, some will benefit from the government's extension of 15 hours a week of free childcare to 40 per cent of the most disadvantaged two year olds, although the specific impact of this new support is at yet unclear.

In summary, when looked at in the round, the new childcare measures announced in the budget are skewed towards higher-income families. Of the nearly £1bn earmarked for childcare, £750m is going towards the new system of tax-free childcare vouchers, which we have seen benefits mostly better off households. Meanwhile the £200m of additional support through Universal Credit will offer no extra support many of the lowest paid households. Overall, 1.7 million families in the top 40 per cent will be eligible for one of the new offers of childcare support, compared to just 160,000 families in the bottom 40 per cent. All in all, around 6 per cent of those eligible for the new support will be in the bottom 40 per cent of the income distribution and around two thirds (67 per cent) in the top 40 per cent.

While it is right that the government is making childcare more affordable for families, the focus of additional childcare spending on these higher-income families fails to address the fact that it is low- and modest-income families that face the highest barriers to work from childcare costs.

5 Housing

The Budget had a strong focus on supporting access to home ownership. The government announced a new 'Help to Buy' programme which has two main elements:

- *£3.5 billion for interest free equity loans to support individuals who can raise a 5 per cent deposit to buy a new build property worth up to £600,000.*

  This is an extension of the existing 'First Buy' scheme but is now open to all buyers not only first time buyers and no longer has an income cap on eligibility. Individuals put up a 5 per cent deposit and are loaned 20 per cent of the value of the property by the government and fund the rest of the purchase through a 75 per cent loan to value mortgage. The scheme is expected to be able to support 74,000 people into a new home over three years.

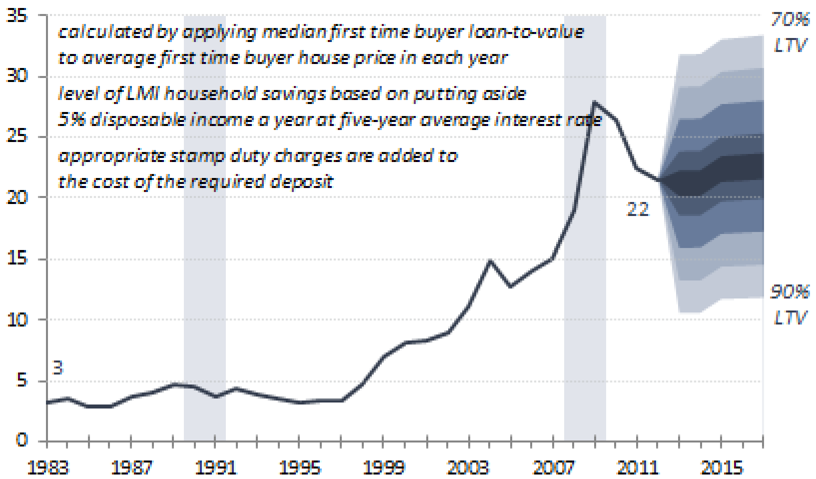
- *£12 billion of mortgage guarantees for individuals who can raise a 5 per cent deposit and qualify for a 95 per cent loan to value mortgage.*

  This is an extension of the existing 'New Buy' scheme but is now open to new build and existing properties. Individuals put up a 5 per cent deposit and secure a 95 per cent loan to value mortgage from a standard lender. The government provides a guarantee of 15 per cent of the value of the mortgage. The available funding is expected to provide guarantees on up to £130 billion of mortgage debt.

The UK has a massive shortfall in housing supply. While the equity loan scheme is tied to new build properties, the larger mortgage guarantee scheme is not. There is, therefore, a risk that increasing the availability of mortgages without a corresponding focus on new supply will serve to push up prices and create a new housing bubble.

From the perspective of the low to middle income group, neither scheme is likely to offer much help. Figure 6 shows how long the average low to middle income household would have to save for a deposit on a typical first time home. Even at 95 per cent loan to value, raising a deposit would still require saving 5 per cent of income a year for over 10 years when the reality facing many families in the group is that they are spending an ever greater share of income on essentials and are unable to save at all.

Figure 6: Time taken to save for deposit on a typical first time home



Furthermore, in parts of the country with high house prices, even help with a deposit will leave many households unable to meet monthly mortgage payments without spending a disproportionate share of their income on housing. For example, in a fifth of all London Local Authorities, low income households would have to spend over half of their income on monthly mortgage payments to be able to service a 75 per cent loan to value mortgage. This would be prohibitive regardless of the availability of an equity loan from government.

Lastly, with a house price cap for both schemes of £600,000 and time-limited funding available, it is likely that mortgage lenders will continue to favour better off households rather than those who are further from the mortgage market. Lenders will seek to minimise their risks. Arguably, this is prudent given that high loan to value mortgages in the past have brought households into home ownership who have subsequently found it a challenge to service their mortgage debt.

In addition to the 'Help to Buy' scheme, the Budget included two less noticed initiatives around the supply of new rented homes that will do more to help low and modest income households. The first is an additional £750 million for the Build to Rent fund that was announced in last year's Autumn Statement. This is focused on stimulating the development of purpose built rental accommodation and investment by private institutional funders that will provide a better quality, long term housing option for those who are unlikely to be able to access home ownership and will remain in the private rented sector. The development of a build to let sector in the UK as an alternative to buy to let will be important for low to middle income families who currently face variable quality and a perceived lack of security in the private market.

There was also a £225 million increase in the debt guarantee available for affordable housing. This will provide an additional 15,000 affordable homes. However, in light of the relaxation of eligibility criteria for Right to Buy also announced in the Budget, there is likely to be an ongoing decline in the stock of social housing. For the first time, the percentage of households living in the private rented sector is now greater than those living in the social sector. The Budget measures are likely to do little to reverse this trend.

6 The overall squeeze: case studies

As already noted, the various giveaways announced in the latest Budget need to be considered against a much longer list of pre-announced cuts in benefits and tax credits – some of which are already biting and many of which are yet to come. They must also be viewed against the backdrop of the on-going squeeze on real earnings. In this final section, we consider the cumulative impact of the wage squeeze and the tax and benefit squeeze on a sample of four typical low to middle income households.

In the case studies that follow, we model the direct impacts of the changes in salaries (based on recent trends in wages in the lower half of the income distribution) and changes in income tax, National Insurance, tax credits, Child Benefit and Education Maintenance Allowances that have taken place since 2010-11. We do not include the effects of changes in local taxes such as Council Tax, or indirect taxes such as VAT or fuel duty.

The single-earner couple

We look first at Aaron and Sophie. They are a couple with three children aged 3, 5 and 7 and are reliant on Aaron's wage alone. In 2010-11 Aaron earned around £38,000 a year (in 2012-13 prices) and the family qualified for nearly £1,000 of Child Tax Credit (CTC) and £2,660 of Child Benefit.

Aaron & Sophie

Three children, aged 3, 5 and 7; single-earner working 35 hours a week

2012-13 prices (£)	2013-14	2014-15	2015-16	Change from 2010-11 *in 2013-14*	*in 2014-15*	*in 2015-16*
Gross earnings	34,650	34,661	34,905	-3,344	-3,333	-3,089
Post-tax earnings	26,292	26,354	26,493	-2,012	-1,950	-1,811
Child Tax Credit	1,314	1,019	574	+338	+43	-401
Child Benefit	2,373	2,333	2,285	-285	-326	-374
Total household income	29,980	29,706	29,352	-1,959	-2,233	-2,587
of which: change in gross earnings (the wage squeeze)				*-3,344*	*-3,333*	*-3,089*
changes in taxes, benefits and tax credits (the tax/benefit squeeze)				*+1,385*	*+1,101*	*+502*
changes announced in Budget 2013				*+*	*+45*	*+35*
Proportionate change in total income				*-6.1%*	*-7.0%*	*-8.1%*

Notes: All increases in rates and thresholds and earnings based on information in Budget 2011, Autumn Statement 2011, Budget 2012, Autumn Statement 2012 and Budget 2013.
Budget 2011 measures specified here include shift to CPI indexation of direct taxation and above inflation increase in income tax personal allowance in 2012-13. Autumn Statement measures relate to removal of the above-indexation increase in the child element of the CTC and the freezing the couple and single parent elements of the WTC. Fuel duty changes are absorbed in the underlying inflation forecasts. Budget 2012 measures include the above-inflation increase in the personal allowance in 2013-14. Autumn Statement 2012 measures include £235 increase in the personal tax allowance in 2013 and the 1% uprating of working-age benefits, tax credits and the higher rate threshold. Budget 2013 measures include the increase in the personal tax allowance to £10,000 in April 2014.

Source: RF calculations based on stylised family

Although the family benefitted from above-inflation increases in CTC in 2011, tightened eligibility and falling real-terms awards mean that they have since found their entitlement falling steadily. They have also been hit by the freezing of Child Benefit rates. Nevertheless, they have benefitted from the above-inflation increases in the personal tax allowance (including the acceleration of the move to £10,000 announced in Budget 2013) and are therefore set to have gained around £500 from the various tax and benefit changes by 2015-16 compared to their position in 2010-11.

Overall, however, their post-tax income is set to be around £2,600 lower than in 2010-11 (or -8.1 per cent), driven entirely by a wage squeeze of £3,100.

The dual-earner couple reliant on childcare

Ben and Mandie have two children – one aged under 1 and one aged 4 – and are both in work. Between them they earned just under £34,000 in 2010-11 and qualified for £8,100 in Working Tax Credit (WTC), including help with childcare costs, £6,200 in CTC and £1,900 in Child Benefit.

Despite increases in the personal tax allowance, real-terms cuts in various tax credit elements – particularly childcare support – and Child Benefit are set to contribute to an overall tax-benefit squeeze of more than £3,100 in 2015-16 compared to their position in 2010-11. With Mandie earning just under £10,000 in 2015-16, they will not be eligible for the additional help with childcare that the Chancellor announced from April 2016 for those families in receipt of Universal Credit in which both parents pay income tax, though the offer of such support could act as an incentive for Mandie to take on more hours if available.

Combined with a wage squeeze of more than £2,700, their overall real-terms post-tax income is set to be £5,900 (-13.5 per cent) lower in 2015-16 than in 2010-11.

Ben & Mandie

Two children, aged under-1 and 4; dual-earners working 42 hours a week in total

2012-13 prices (£)	2013-14	2014-15	2015-16	Change from 2010-11 *in 2013-14*	*in 2014-15*	*in 2015-16*
Gross earnings	30,690	30,699	30,916	-2,962	-2,952	-2,736
Post-tax earnings	26,283	26,343	26,465	-1,115	-1,054	-932
Working Tax Credit	5,084	4,646	4,069	-3,051	-3,489	-4,066
Child Tax Credit	5,799	5,698	5,576	-377	-479	-601
Child Benefit	1,698	1,669	1,634	-204	-233	-268
Total household income	38,864	38,356	37,743	-4,747	-5,255	-5,868
of which: change in gross earnings (the wage squeeze)				*-2,962*	*-2,952*	*-2,736*
changes in taxes, benefits and tax credits (the tax/benefit squeeze)				*-1,785*	*-2,303*	*-3,132*
changes announced in Budget 2013				*+*	*+45*	*+35*
Proportionate change in total income				*-10.9%*	*-12.0%*	*-13.5%*

Notes: All increases in rates and thresholds and earnings based on information in Budget 2011, Autumn Statement 2011, Budget 2012, Autumn Statement 2012 and Budget 2013.
Budget 2011 measures specified here include shift to CPI indexation of direct taxation and above inflation increase in income tax personal allowance in 2012-13. Autumn Statement measures relate to removal of the above-indexation increase in the child element of the CTC and the freezing the couple and single parent elements of the WTC. Fuel duty changes are absorbed in the underlying inflation forecasts. Budget 2012 measures include the above-inflation increase in the personal allowance in 2013-14. Autumn Statement 2012 measures include £235 increase in the personal tax allowance in 2013 and the 1% uprating of working-age benefits, tax credits and the higher rate threshold. Budget 2013 measures include the increase in the personal tax allowance to £10,000 in April 2014.

Source: RF calculations based on stylised family

The working single mother

Nikki is a single mother with two children, aged three and 17. She works full-time and relies on childcare for her young daughter. In 2010-11 she earned £26,100 (in 2012-13 prices) and received substantial support in the form of CTC, WTC (including childcare support) and Child Benefit, and her son received an Education Maintenance Allowance (EMA) while still in college.

Subsequent removal of EMAs and cuts in childcare support and other benefits produced a significant tax and benefit squeeze, amounting to £2,700 by the end of the period. With an additional £2,100 wage squeeze to contend with, Nikki's income is some £4,800 lower in 2015-16 than in 2010-11, a fall of 14.3 per cent.

The introduction of additional childcare support for taxpaying lower income parents from April 2016 is likely to offset some of this decline, though she will remain significantly worse off than in 2010-11.

Nikki

Two children, aged 3 & 17 (still in education); single-parent working 32.5 hours a week

2012-13 prices (£)	2013-14	2014-15	2015-16	Change from 2010-11 *in 2013-14*	*in 2014-15*	*in 2015-16*
Gross earnings	23,760	23,767	23,935	-2,293	-2,286	-2,118
Post-tax earnings	18,887	18,947	19,034	-1,178	-1,118	-1,032
Working Tax Credit	3,516	3,199	2,775	-1,937	-2,254	-2,679
Child Tax Credit	5,799	5,698	5,576	+214	+113	-9
Child Benefit	1,698	1,669	1,634	-204	-233	-268
EMAs	0	0	0	-847	-847	-847
Total household income	29,901	29,513	29,018	-3,952	-4,340	-4,834
of which: change in gross earnings (the wage squeeze)				*-2,293*	*-2,286*	*-2,118*
changes in taxes, benefits and tax credits (the tax/benefit squeeze)				*-1,659*	*-2,054*	*-2,716*
changes announced in Budget 2013				*+*	*+45*	*+35*
Proportionate change in total income				*-11.7%*	*-12.8%*	*-14.3%*

Notes: All increases in rates and thresholds and earnings based on information in Budget 2011, Autumn Statement 2011, Budget 2012, Autumn Statement 2012 and Budget 2013.
Budget 2011 measures specified here include shift to CPI indexation of direct taxation and above inflation increase in income tax personal allowance in 2012-13. Autumn Statement measures relate to removal of the above-indexation increase in the child element of the CTC and the freezing the couple and single parent elements of the WTC. Fuel duty changes are absorbed in the underlying inflation forecasts. Budget 2012 measures include the above-inflation increase in the personal allowance in 2013-14. Autumn Statement 2012 measures include £235 increase in the personal tax allowance in 2013 and the 1% uprating of working-age benefits, tax credits and the higher rate threshold. Budget 2013 measures include the increase in the personal tax allowance to £10,000 in April 2014.

Source: RF calculations based on stylised family

The childless couple

Some families have done better than others – particularly those without children. Josh and Katie are just such a couple. They have not qualified for any benefits over the period and have therefore been unaffected by cuts in welfare spending. They have however benefited from above-inflation increases in the personal tax allowance. In 2010-11, their combined earnings were just under £21,200 (in 2012-13 prices), resulting in a net income of £18,400.

However, while the income tax changes will have boosted their incomes by £920 in 2015-16, these gains will have been more than offset by the wage squeeze. Even for this couple, post-tax income is set to fall by 4.4 per cent over the period.

Josh & Katie

Couple, no children; dual earners, one working full-time, one part-time

2012-13 prices (£)	2013-14	2014-15	2015-16	Change from 2010-11 *in 2013-14*	*in 2014-15*	*in 2015-16*
Gross earnings	19,305	19,311	19,447	-1,863	-1,857	-1,721
Post-tax earnings	17,442	17,501	17,577	-935	-876	-800
Total household income	17,442	17,501	17,577	-935	-876	-800
of which: change in gross earnings (the wage squeeze)				*-1,863*	*-1,857*	*-1,721*
changes in taxes, benefits and tax credits (the tax/benefit squeeze)				*+927*	*+981*	*+921*
changes announced in Budget 2013				*+*	*+45*	*+35*
Proportionate change in total income				*-5.1%*	*-4.8%*	*-4.4%*

Notes: All increases in rates and thresholds and earnings based on information in Budget 2011, Autumn Statement 2011, Budget 2012, Autumn Statement 2012 and Budget 2013.
Budget 2011 measures specified here include shift to CPI indexation of direct taxation and above inflation increase in income tax personal allowance in 2012-13. Autumn Statement measures relate to removal of the above-indexation increase in the child element of the CTC and the freezing the couple and single parent elements of the WTC. Fuel duty changes are absorbed in the underlying inflation forecasts. Budget 2012 measures include the above-inflation increase in the personal allowance in 2013-14. Autumn Statement 2012 measures include £235 increase in the personal tax allowance in 2013 and the 1% uprating of working-age benefits, tax credits and the higher rate threshold. Budget 2013 measures include the increase in the personal tax allowance to £10,000 in April 2014.

Source: RF calculations based on stylised family

Appendix: Recent major tax and benefit announcements affecting household budgets

Budget 2013 (Osborne)

- Increase the income tax personal allowance to £10,000 in April 2014
- Cancel the September 2013 RPI increase in fuel duty
- Cancel the alcohol duty escalator of RPI + 2% for beer with a 2 per cent reduction in the duty from 25 March 2013 and RPI increase in 2014-15
- Introduce the Tax-Free Childcare Scheme, replacing the existing Employer Supported Childcare scheme from autumn 2015
- Offering additional childcare support at the same time to families eligible for Universal Credit in which all parents are paying income tax
- Introduce Help to Buy from April 2013, which will extend the existing First Buy scheme and create a mortgage guarantee for lenders who offer mortgages to people with deposits of between 5 per cent and 20 per cent on all properties with a value of up to £600,000

Autumn Statement 2012 (Osborne)

- Increase the income tax personal allowance by an additional £235 in April 2013
- Raise the higher rate threshold by 1 per cent in April 2014 and April 2015
- Increase all working-age discretionary benefits and tax credits by 1 per cent for three years from April 2013
- Increase Child Benefit by 1 per cent for two years from April 2014
- Increase Local Housing Allowance y 1 per cent for two years from April 2014
- Increase Universal Credit awards by 1 per cent for two years from April 2014
- Restrict tax relief on pension contributions

Budget 2012 (Osborne)

- Increase the income tax personal allowance by £1,100 in April 2013
- Reduce the basic rate limit by £2,125 and the higher rate threshold by £1,100 from April 2013
- Restrict age-related personal allowances to existing recipients from April 2013 and abolish once aligned with the main allowance
- Additional rate on income tax reduced from 50 per cent to 45 per cent from April 2013
- Introduction of a tapered reduction of Child Benefit for those on incomes between £50k to £60k from January 2013
- Tobacco duty rates increased by RPI + 5 per cent from Budget day
- Vehicle Excise Duty rates to rise in line with RPI from April 2012

Autumn Statement 2011 (Osborne)

- Delay January 2012 fuel duty to August 2012 and scrap August 2012 increase
- Cancel the above-inflation increase in the child element of Child Tax Credit planned for April 2012
- Freeze couple and lone parent elements of Working Tax Credit in 2012-13

Budget 2011 (Osborne)

- Increase income tax personal allowance by £630 in April 2012
- Freeze higher rate threshold in April 2012
- Change default uprating of direct tax thresholds from RPI to CPI from April 2012
- Reduce fuel duty by 1ppl from 23 March 2011
- Delay fuel duty RPI increases planned for April 2011 and April 2012 until January 2012 and August 2012 respectively

Spending Review 2010 (Osborne)

- Localise Council Tax Benefit in England and reduce expenditure by 10 per cent from 2013-14
- Increase child element of Child Tax Credit by a further £30 in April 2011 and by £50 in April 2012
- Freeze basic and 30 hour element of Working Tax Credit for three years from 2011-12
- Increase Working Tax Credit working hours requirement to 24 hours for couples with children from April 2012
- Reduce maximum payable costs through childcare element of Working Tax Credit form 80 per cent to 70 per cent from April 2011

June Budget 2010 (Osborne)

- Increase income tax personal allowance by £1,000 in April 2011
- Freeze basic rate limit in April 2013
- Increase employer NICs threshold by £21 a week above inflation in 2011-12
- Increase main VAT rate from 17.5 per cent to 20 per cent in January 2011
- Increase the child element of Child Tax Credit by £150 above inflation in 2011-12 and by £60 above inflation in 2012-13
- Remove the baby element of the Child Tax Credit from April 2011
- Cancel the Child Tax Credit supplement for children age one and two planned for April 2012
- Remove the 50 plus element of Working Tax Credit from April 2012
- Reduce the second income threshold for tax credits to £40,000 from April 2011
- Increase first and second tax credit withdrawal rates to 41 per cent from 2011-12
- Taper the family element of Child Tax Credit immediately after the child element from April 2012
- Reduce the tax credit income disregard from £25,000 to £10,000 in 2011-12 and then to £5,000 in April 2013
- Introduce a tax credit income disregard of £2,500 for falls in income from April 2012

March Budget 2010 (Darling)

- Increase child element of Child Tax Credit by £208 for children aged 1 and 2 from April 2012
- Implement April 2010 increase in fuel duties in three phases (April 2010, October 2010 and January 2011)
- Increase fuel duties by 1p above inflation in April 2014
- Increase alcohol duties by RPI + 2 per cent in April 2013 and April 2014
- Increase tobacco duties by RPI + 1 per cent on Budget day and by RPI + 2 per cent in each year from 2011-12 to 2014-15

Pre-Budget Report 2009 (Darling)

- Freeze higher rate threshold in April 2012

- Additional 0.5 percentage points on all employee, employer and self-employed NICs rates from April 2011
- Increase employee NICs thresholds by £570 in April 2011 (in addition to previous announcement of alignment with income tax personal allowance
- Freeze NICs upper earnings limit in April 2012
- Increase Working Tax Credit by RPI + 1.5 per cent in April 2010 and by RPI – 1.5 per cent in April 2011

Budget 2009 (Darling)

- Bring forward introduction of new additional rate of income tax to April 2010 and increase rate from 45 per cent to 50 per cent
- Taper income tax personal allowance on earnings above £100,000 from April 2010
- Increase fuel duties by 2p in September 2009 and by RPI + 1p in April 2010, April 2011, April 2012 and April 2013
- Increase flat rate tobacco duties by 2 per cent in nominal terms
- Increase child element of Child Tax Credit by £20 in April 2010

The Resolution Foundation

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

- undertaking research and economic analysis to understand the challenges facing people on a low to middle income;
- developing practical and effective policy proposals; and
- engaging with policy makers and stakeholders to influence decision-making and bring about change.

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