Resolution Foundation

Intergenerational Commission

BRIEFING

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A BUDGET FOR INTERGENERATIONAL FAIRNESS?

Tax and benefit options at the Autumn Budget from the perspective of different generations

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Summary

Beyond facing down expected economic downgrades and clarifying the direction on Brexit, resetting the agenda on intergenerational fairness has emerged as a top priority for the Chancellor in this month's Budget. This focus reflects a growing body of evidence showing that generation-on-generation living standards progress is under threat for today's young adults – as analysis for the Resolution Foundation's Intergenerational Commission has demonstrated over the past year.

Restarting this progress will require far-reaching and long-term solutions in a range of areas including housing, labour market security, reforms across the tax system and the funding of social care. This briefing note does not seek to cover all of this ground. Rather, we focus on the levers that Chancellors most frequently turn to at Budget time – the taxation of income, and working-age benefits.

Our objective is not to offer recommendations nor an internally-funded package. Instead, we demonstrate the intergenerational parameters by which policies should more frequently be judged, by assessing the impact both <u>across</u> and <u>within</u> generations of options that have been offered to the Chancellor or are readily available to him.

In terms of ways in which the government could support incomes:

- *Some within his party have called on the Chancellor to offer income tax or National Insurance cuts to the young. Our analysis shows that while well-focused from an intergenerational perspective, such an approach is expensive, highly regressive and adds complexity to the tax code. For example, a reduction in the basic rate of income tax to 15 per cent for adults under 30 would cost £3.2 billion in 2021-22, with more than half of this money flowing to the richest fifth of 20-somethings.*

- *Un-freezing working-age benefits would provide a better-targeted boost to young families' living standards. Uprating benefits in line with inflation in April 2018 would cost around £2 billion in 2021-22, with more than half (56 per cent) of this money spent on millennials, predominantly benefitting low-income members of this generation.*

- *Boosting welfare spending in other ways – for example by increasing Universal Credit work allowances for families with children or reducing the taper rate – would ease the burden for young low-income families further, and retain the focus on less well-off millennials.*

In terms of ways in which the government could fund policy priorities:

- *Rather than add new age-related inequalities into the tax system, the Chancellor could instead tackle existing ones by making workers of all ages pay the same National Insurance contributions (NICs). Removing the exemption from employee and self-employed NICs for workers at or above the State Pension age would raise around £1 billion in 2021-22, with more than four-fifths of this revenue drawn from the highest-income 20 per cent of pensioners.*

- *Freezing the level at which people start paying income tax once it has reached the manifesto target of £12,500 would raise £700 million in 2021-22, with the impact strongly focused on the highest-income adults within both the millennial and baby boomer generations.*

Resetting the agenda on intergenerational fairness will require a broader approach than tax and benefit changes of this nature. In particular, government action to boost housing

supply will be essential, as the debate in the run up to this month's Budget has rightly highlighted. In the coming months the Intergenerational Commission will outline options for a fairer deal across the generations in these and a range of other areas.

Going into the first Autumn Budget, intergenerational fairness is high on the political agenda

Later this month the Chancellor will deliver his first Autumn Budget against a complex backdrop that includes expected downgrades to the UK's economic outlook[1] and continued uncertainty as to the nature of the post-Brexit relationship with the EU. As well as facing down these headwinds, members of his party have expressed a desire that Philip Hammond delivers a bold and revolutionary budget, in particular by resetting the agenda on intergenerational fairness.[2]

These calls reflect the fact that younger voters were instrumental to the swing to Labour in the recent General Election.[3] But they also speak to a growing body of evidence showing that the promise of generation-upon-generation living standards progress is under threat for today's young adults. For example, research by the Resolution Foundation's Intergenerational Commission shows that those born in the late 1980s are earning no more than those born 15 years before them were at the same age; millennials (born 1981-2000) are half as likely to own a home at 30 as baby boomers (born 1946-1965) were; and both the net incomes and consumption of the young have fallen relative to those of older adults.[4]

In this context, it's right to ask how the government can restore intergenerational fairness in the policies it pursues. The scale of the challenge is such that far-reaching and long-term solutions will be required. These will include boosting the supply of houses; protecting young people from the worst excesses of both labour market and housing insecurity; reforming social care funding; and considering the treatment of wealth across the tax system.

These are among the areas in which the Intergenerational Commission will be offering proposals in its final report next year, and laying out the main policy options in the lead-up to this. This briefing does not attempt to cover all of this ground nor focus on what might be deemed the 'biggest ticket' policy choices. Rather, by way of illustration, here we adopt a generational lens on the policies that Chancellors frequently turn to when they stand up at the dispatch box – taxes on income, and the benefit system. These are also the choices which have the most direct, visible and immediate impact on households. We reflect on suggestions that have reportedly been offered to the Chancellor, and provide our own examples to demonstrate the impact of different approaches.

1 R Partington & P Inman, 'UK productivity estimates must be 'significantly' lowered, admits OBR', *The Guardian*, 10 October 2017. A forthcoming Resolution Foundation briefing will discuss the likely implications of changes to the Office for Budget Responsibility's forecasts.

2 T Shipman, 'Philip Hammond plots 'big, bold' budget', *The Sunday Times*, 15 October 2017

3 Ipsos MORI, *How the voters voted in the 2017 election*, June 2017

4 L Gardiner, 'Why intergenerational fairness is rising up the agenda, in 10 charts', *Resolution Foundation blog*, 30 September 2017

Policy decisions should be judged on their impacts both *across* and *within* generations

While it is common to assess fiscal statements according to their impact across regions and income groups, the impact of policies on different generations is much less frequently discussed. Building on previous work for the Intergenerational Commission,[5] the analysis in this briefing seeks to address this gap, showing the incidence of various spending and revenue-raising choices across the age distribution.

At the outset it is important to recognise that such an approach does not provide a comprehensive assessment of generational outcomes resulting from specific policy choices. As well as any 'dynamic' effects that static analyses like these do not account for, generations progress up the age distribution over lifetimes, so today's 'losers' might be tomorrow's 'winners'. However policy is fungible over time, perhaps especially so in the case of taxes and benefit spending. In addition, our economic analysis shows that jobs and housing market trends are putting downward pressure on the *current* living standards of young adults in particular. As such, it remains essential to consider the short-to-medium term impacts of policy changes on those at different stages of life, and particularly the instances where they exacerbate living standards pressures deriving from market outcomes.

The average impact of a policy at different ages is not the only perspective that a generational assessment should take. Analysis has highlighted areas in which inequalities *within* generations show signs of increasing or may do so in future.[6] As such, in this analysis we also demonstrate the impact of policies across income groups within younger and older generations, with *inter*-generationally fair outcomes that reduce (or at least avoid amplifying) *intra*-generational inequalities as the goal.

Tax cuts for the young have been posited, but are expensive and concentrate support on the better-off

Alongside some limited discussion of policies to support first-time buyers or housebuilding, the recent debate on how the Budget could support the young has focused on targeted tax breaks. For example, cuts to National Insurance contributions (NICs) for the young are reportedly being considered by the Treasury.[7] In the same vein, Conservative MP Nadhim Zahawi has called for a reduction in the basic rate of income tax to 15 per cent for adults under 30.[8] By way of illustration, here we demonstrate the impact

5 For example, see: L Gardiner, 'Can political parties capture the hearts and minds of young and old alike on polling day?', *Resolution Foundation blog*, 1 June 2017

6 For example, see: A Corlett, *As time goes by: Shifting incomes and inequality between and within Generations,* Resolution Foundation, February 2017; C D'Arcy & L Gardiner, *The generation of wealth: Asset accumulation across and within cohorts,* Resolution Foundation, June 2017; A Hood & R Joyce, *Inheritances and inequality across and within generations*, Institute for Fiscal Studies, January 2017

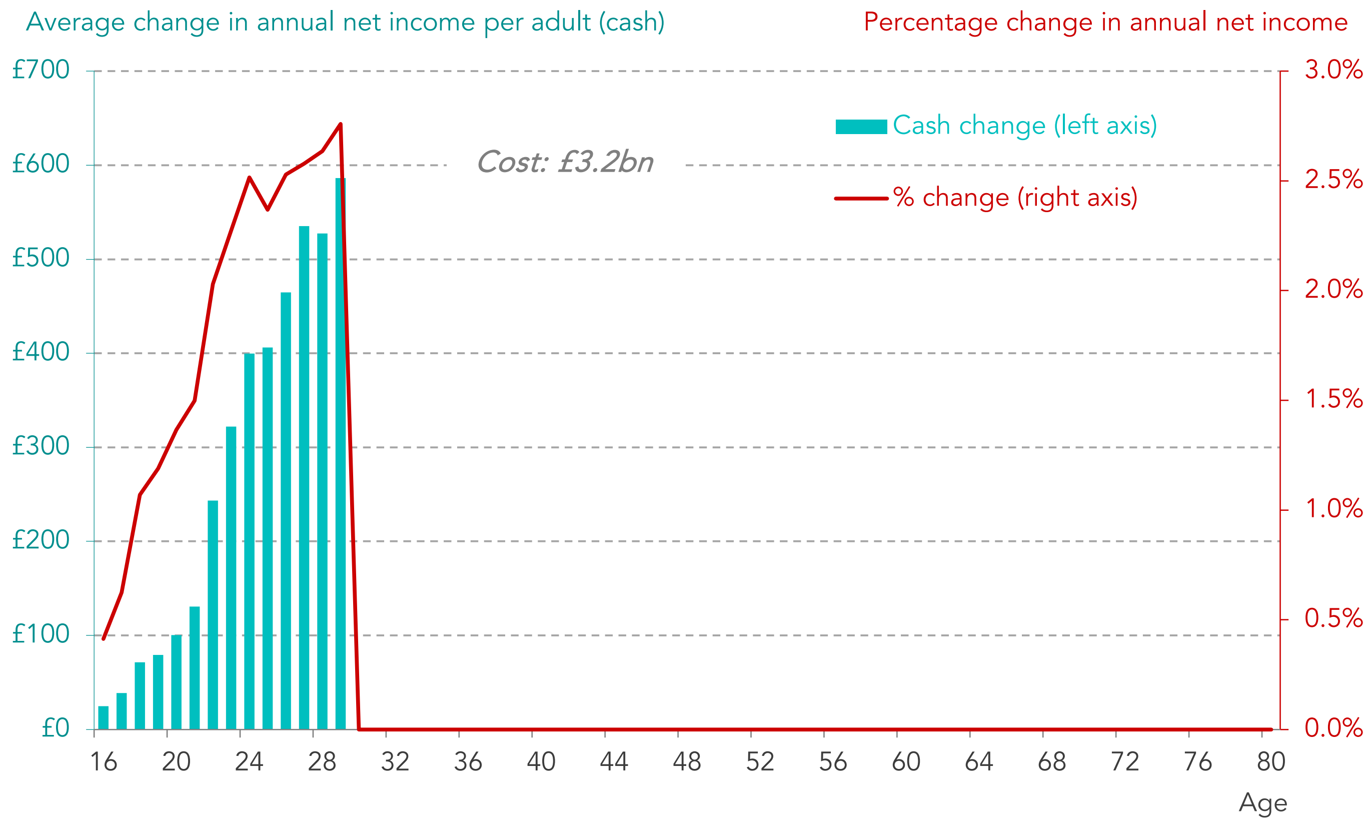
7 J Elgot & H McDonald, 'Philip Hammond under pressure to deliver bold budget, say Tory sources', *The Guardian*, 15 October 2017

8 Nadhim Zahawi, 'Nadhim Zahawi: Why the basic rate of income tax for younger people should be cut', *ConservativeHome*, 4 September 2017

of a basic rate reduction from 20 per cent to 15 per cent for the under-30s, noting that changes to young people's main rate of National Insurance would have a similar distributional effect.[9]

Figure 1 shows the impact of this policy across the age distribution. Average gains are largest for those in their late 20s because they tend to earn more than their younger counterparts. A typical late-twenties employee earning around £22,000 in 2021-22 would gain by £470 per year.

Figure 1: **Impact of reducing the basic rate of income tax to 15 per cent for adults under 30, by age: 2021-22, UK**



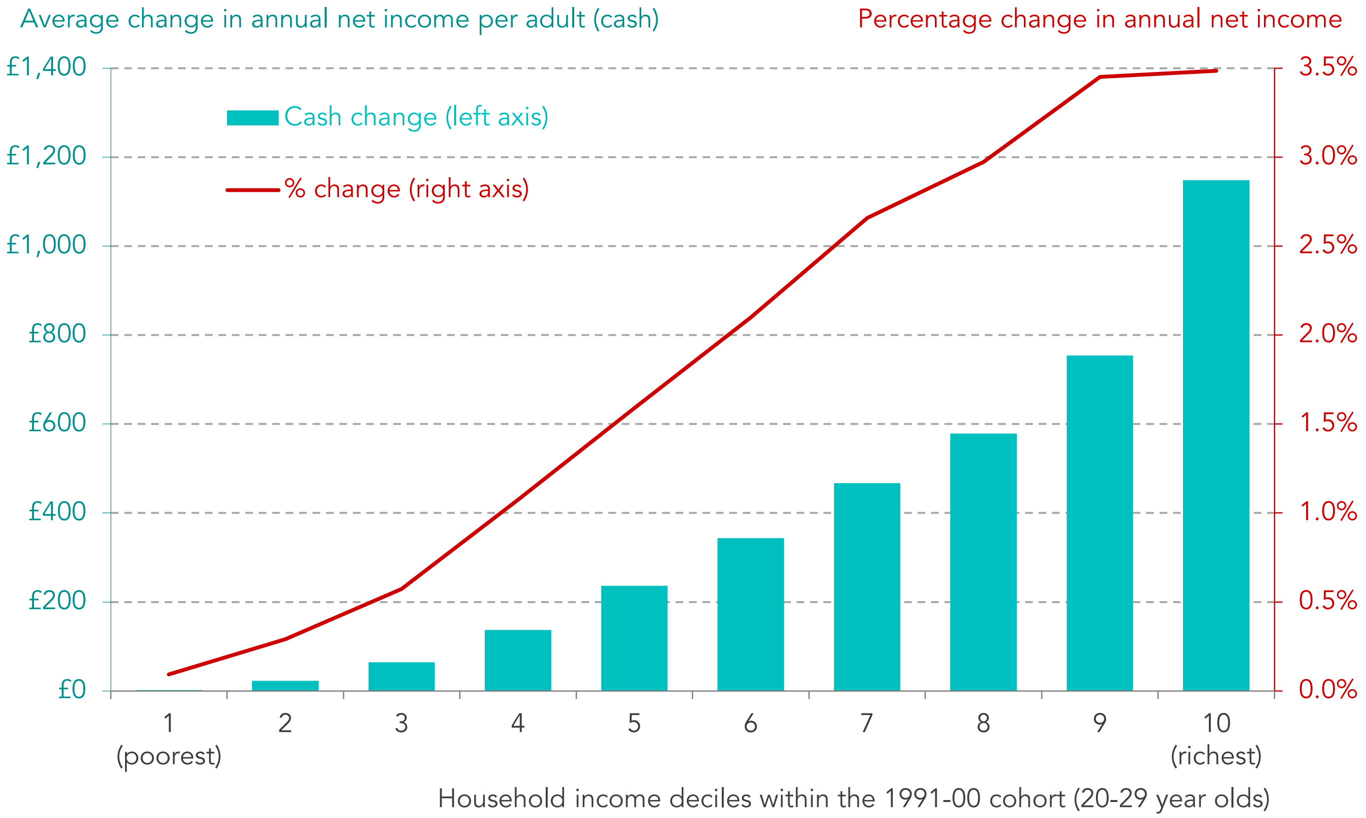
Notes: Estimates include the impact of population growth at different ages to 2021-22. We assume Universal Credit is fully rolled out, and that all families are making new or changed claims to this benefit (i.e. we do not include any impacts from transitional protection).

Source: RF analysis using the IPPR tax-benefit model; ONS, *2016-based National Population Projections*

9 Changes to income tax or National Insurance *thresholds* (as opposed to *rates*) would be somewhat more focused on young adults, and somewhat less regressive within the cohort. However the shape of the distributions would be roughly similar overall.

We estimate that this policy would cost £3.2 billion by 2021-22.[10] Importantly, more than half (51 per cent) of this £3.2 billion would flow to the richest fifth of 20-somethings, and more than twice as much to the 10 ten per cent as to the bottom half (30 per cent compared to 12 per cent). Figure 2 demonstrates the intra-cohort effect of this policy, showing that the proportional impact on incomes is twice as large at the top of the distribution as it is in the middle.

Figure 2: **Impact of reducing the basic rate of income tax to 15 per cent for adults under 30, by income deciles within the 1991-00 cohort: 2021-22, UK**



Notes: Estimates include the impact of population growth at different ages to 2021-22. Income deciles based on equivalised household before housing costs incomes. We assume Universal Credit is fully rolled out, and that all families are making new or changed claims to this benefit (i.e. we do not include any impacts from transitional protection).

Source: RF analysis using the IPPR tax-benefit model; ONS, *2016-based National Population Projections*

10 By combining the proportion of tax paid by adults under 30 (roughly 7 per cent) according to HMRC statistics with HMRC's 'ready reckoner' estimates for the direct cost of changing the basic rate of income tax, Nadhim Zahawi suggested this policy might cost £1.4 billion. Our figure is higher than this estimate for three reasons. First, our estimate is for 2021-22 whereas his is for 2018-19 (using Zahawi's method would produce a figure of approximately £1.7 billion for 2021-22). Second, as well as direct tax effects we include the knock-on effects on benefit spending (this adds around £0.1 billion to the cost). And third and most importantly, our estimate (using microsimulation modelling based on household surveys) accounts for the fact that the proportion of *basic rate income tax* paid by adults under 30 (13 per cent) is larger than the proportion of *total income tax* paid within this age group. This distinction means that Zahawi's method produces an underestimate (regardless of the year chosen or the inclusion of knock-on effects on benefit spending).

Beyond the cost and regressive nature of this policy option within the cohort, there are good arguments to be made from an efficiency perspective against introducing new age-related allowances within the tax system. Income tax is the primary instrument for redistribution in the UK, and maintaining its power to do so over time rests on conserving simplicity and prioritising broad horizontal parity in marginal rates. For these reasons, we should be cautious of delivering long-term intergenerational fairness via youth-focused tax breaks.

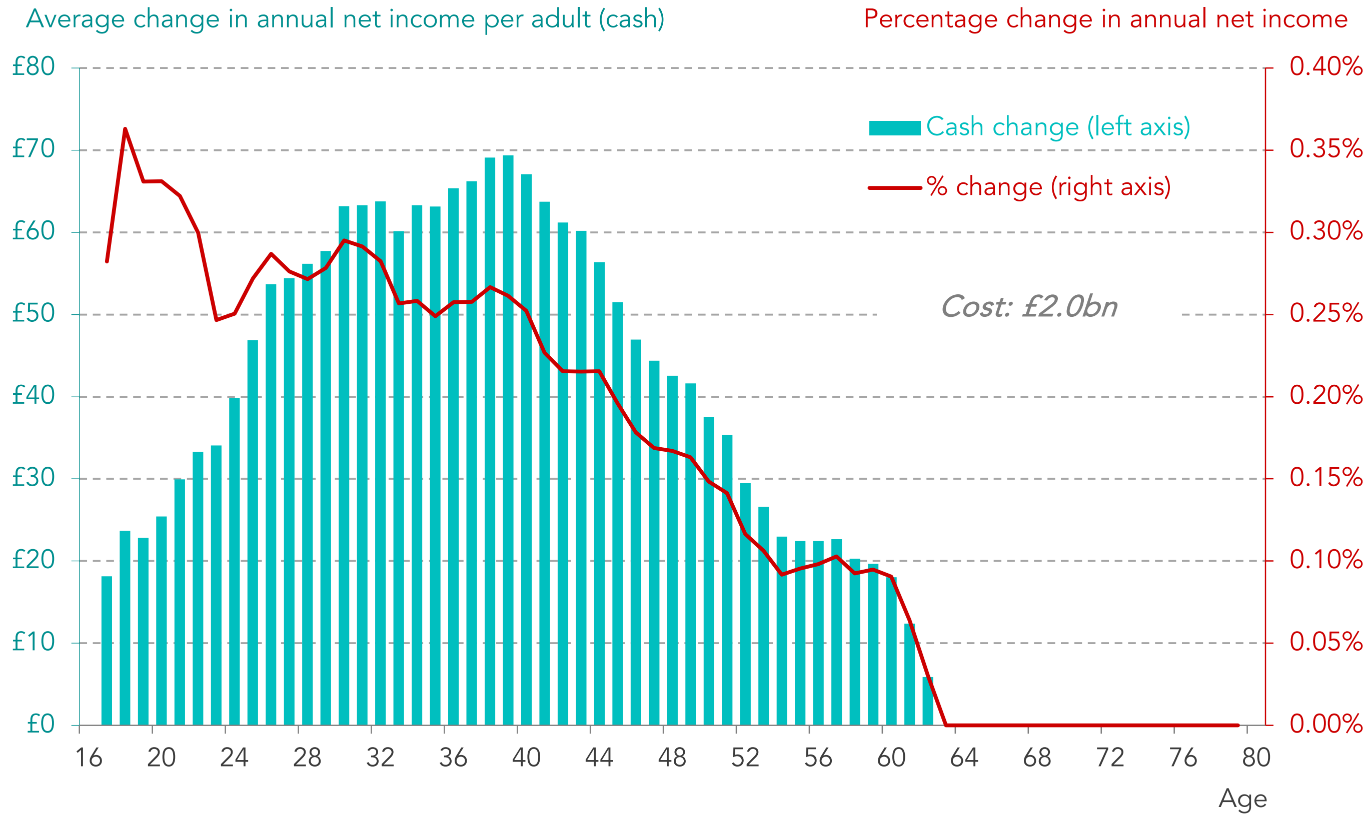
Un-freezing working-age benefits would provide a better-targeted boost to young families' living standards

A more targeted approach to supporting less well-off young people in particular could be taken via the working age benefit system. One aspect of the system that warrants consideration is the four-year freeze to working age benefits currently in place, breaking from the usual practice of uprating benefit amounts in line with inflation each April. As previous Resolution Foundation has demonstrated, the fact that inflation has come in much higher than was expected when the policy was formulated has vastly increased both the government savings generated by this policy and the real cost to low-income families. For example, the revenue from year three of the benefit freeze has almost doubled to £1.9 billion in 2018-19, and a single-earner couple with two children loses £315 from the freezing of benefits in that year.[11]

A minimal approach would be for the government to compensate families for the higher-than-expected rate of inflation. Here we demonstrate the impact of cancelling year three of the working age benefits freeze altogether and instead uprating in line with CPI inflation in April 2018. As Figure 3 demonstrates, this would cost £2.0 billion by 2021-22 (slightly higher than the in-year cost of £1.9 billion for 2018-19 due to the effects of inflation in the following years), with over half (56 per cent) of this money going to millennials who will be aged 20-39 in that year. If working age benefits were also unfrozen in April 2019, the cumulative cost by 2021-22 would be close to £4 billion (with the effects across the age distribution similar).

11 D Finch, 'Let it go Chancellor. Why Philip Hammond should revisit the benefit freeze in next month's Budget', *Resolution Foundation blog*, 15 October 2017

Figure 3: **Impact of un-freezing working age benefits in April 2018, by age: 2021-22, UK**

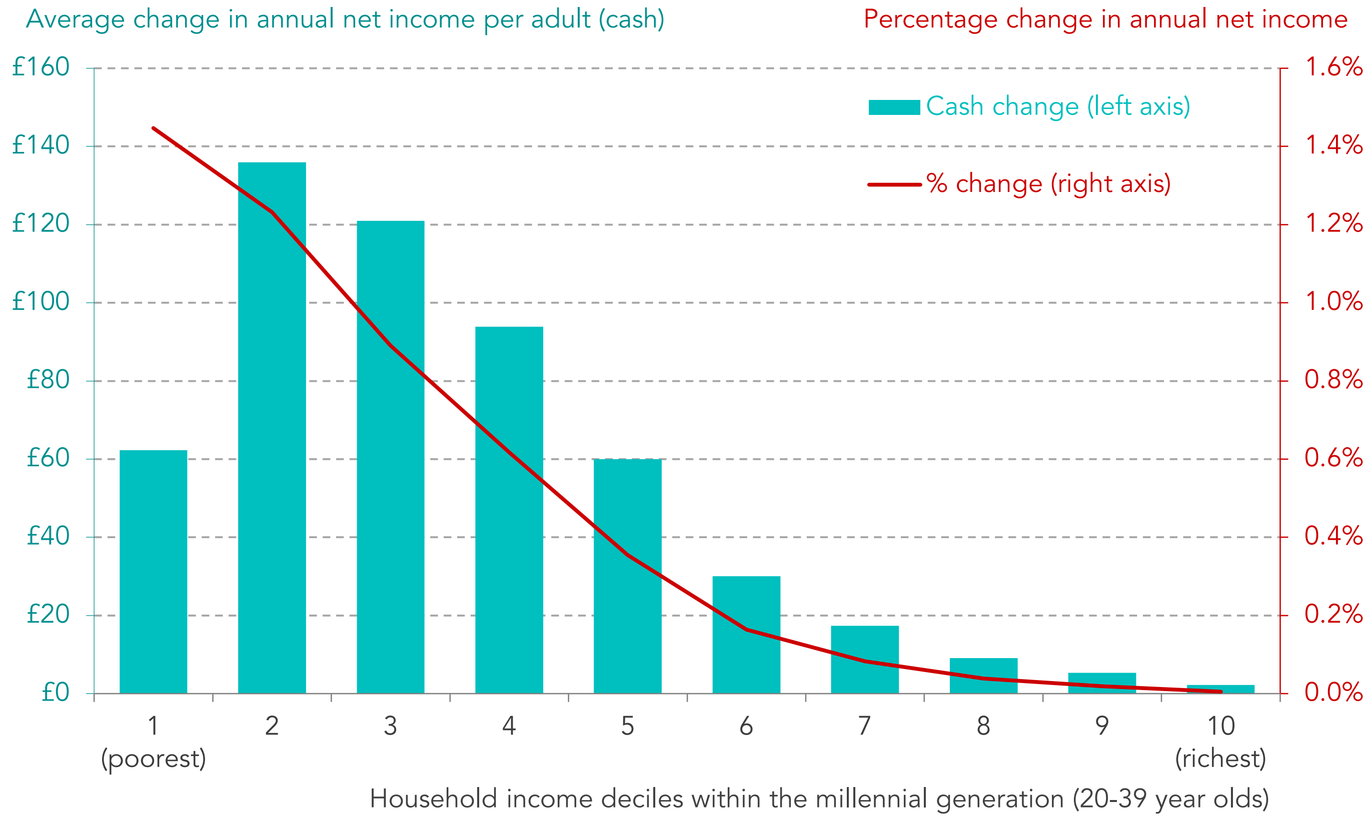


Notes: Estimates include the impact of population growth at different ages to 2021-22. We assume Universal Credit is fully rolled out, and that all families are making new or changed claims to this benefit (i.e. we do not include any impacts from transitional protection).

Source: RF analysis using the IPPR tax-benefit model; ONS, *2016-based National Population Projections*

As well as being focused on millennials when considering the average effects at different ages, Figure 4 demonstrates that un-freezing working age benefits next April would be strongly progressive within this generation. 88 per cent of the money flowing to millennials would go to the poorest half of families within the generation, and the proportional impact on incomes would be five times as high at the bottom of the millennial distribution as in the middle.

Figure 4: **Impact of un-freezing working age benefits in April 2018, by income deciles within the millennial generation: 2021-22, UK**



Notes: Estimates include the impact of population growth at different ages to 2021-22. We assume Universal Credit is fully rolled out, and that all families are making new or changed claims to this benefit (i.e. we do not include any impacts from transitional protection).

Source: RF analysis using the IPPR tax-benefit model; ONS, *2016-based National Population Projections*

Boosting Universal Credit in other ways would ease the burden for young low-income families further

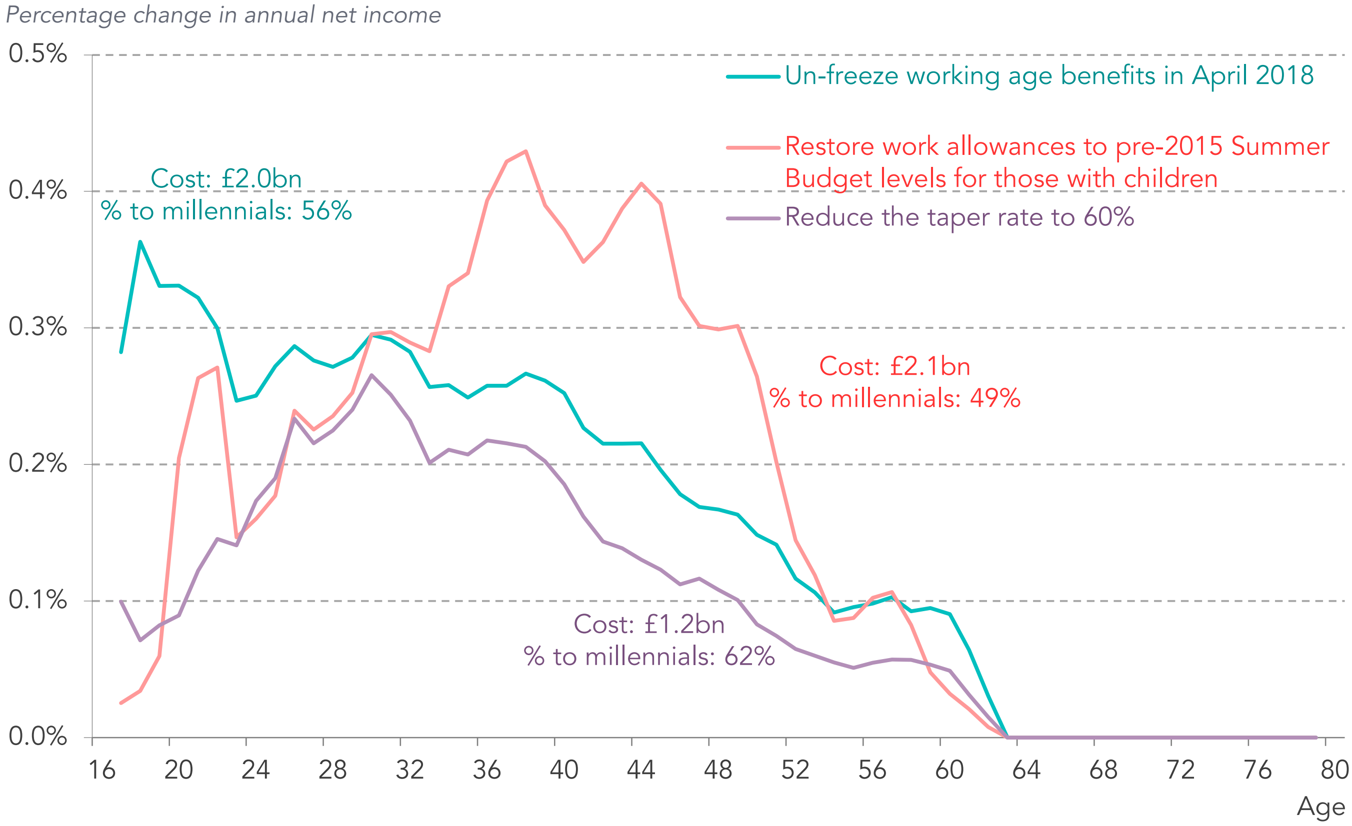
Un-freezing working age benefits is not the only option for consideration when thinking about how the government could support young families through the benefit system, particularly older millennials who are now moving into the expensive early phase of parenthood. One aspect of the new Universal Credit (UC) system that has received much attention of late is the waiting period of at least six weeks before initial payments are received. The Resolution Foundation has previously recommended removing the seven waiting days and reducing processing time to ensure payments happen a week and a half earlier, at a cost of £150 million-£200 million per year.[12] The impacts of this relatively low-cost policy would be spread across UC-recipient families of different ages.

Beyond this change, Figure 5 considers the effects of a couple of other options for boosting UC. These are restoring work allowances for families with children to the levels intended before the cuts introduced in the 2015 Summer Budget; and reducing the

12 M Brewer, D Finch & D Tomlinson, *Universal Remedy: Ensuring Universal Credit is fit for purpose*, Resolution Foundation, October 2017

rate at which support is tapered away as earnings rise to 60 per cent (following the cut from 65 per cent to 63 per cent at last year's Autumn Statement). Both of these policies would improve the incentives to enter and progress in work – a fundamental intention sitting behind the design of UC. The costs of these options in 2021-22 are £2.2 billion and £1.2 billion respectively, with at least around half of the increase in spending going to millennials in each case.

Figure 5: **Impact of different changes to Universal Credit and other working age benefits, by age: 2021-22, UK**

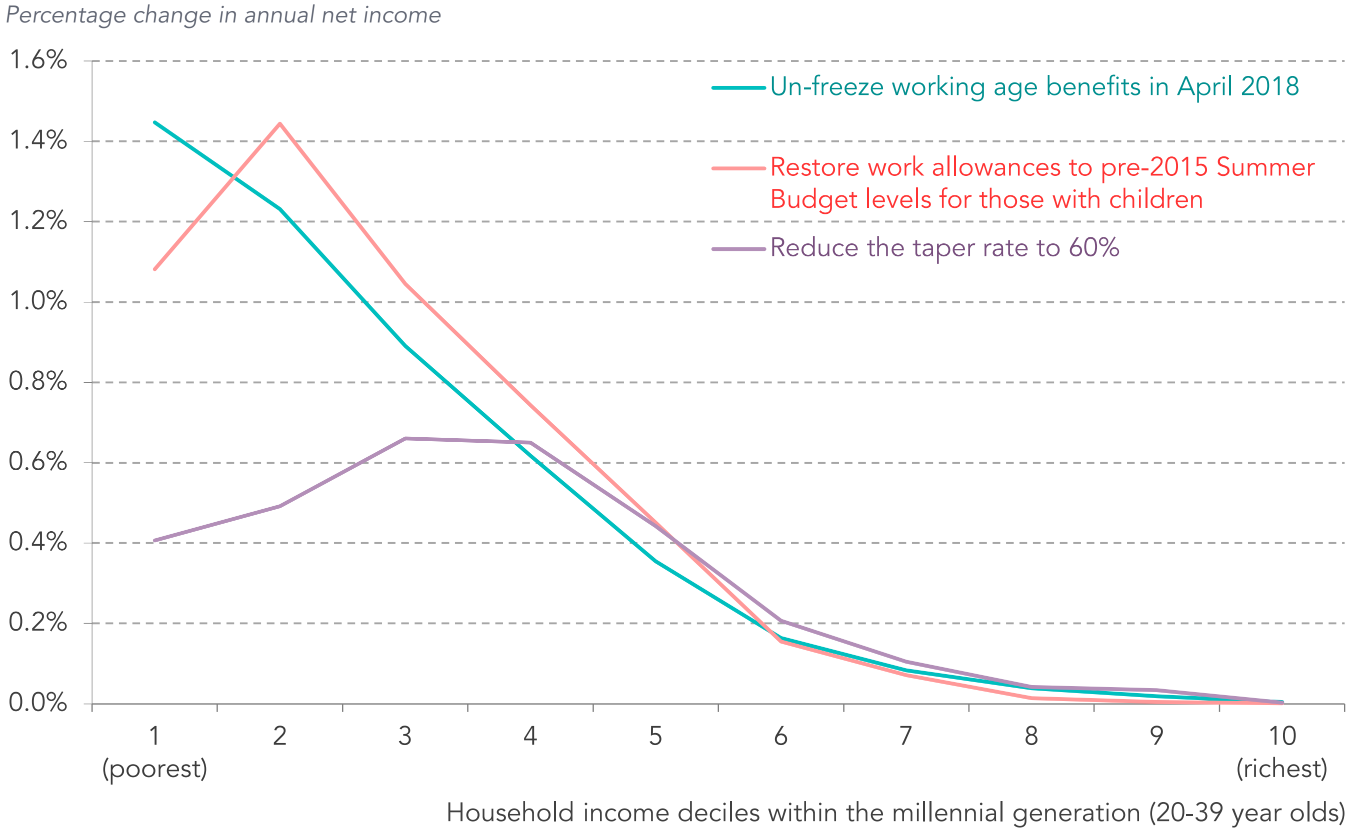


Notes: Estimates include the impact of population growth at different ages to 2021-22. The impact of restoring work allowances or reducing the taper is estimated predicated on benefits having been un-frozen in April 2018. We assume Universal Credit is fully rolled out, and that all families are making new or changed claims to this benefit (i.e. we do not include any impacts from transitional protection).

Source: RF analysis using the IPPR tax-benefit model; ONS, *2016-based National Population Projections*

Figure 6 demonstrates the proportional impact of these options across the income distribution within the millennial generation. In each case at least four-fifths of increased spending on millennials would be felt by the poorer half of the generation.

Figure 6: **Impact of different changes to Universal Credit and other working age benefits, by income deciles within the millennial generation: 2021-22, UK**



Notes: Estimates include the impact of population growth at different ages to 2021-22. The impact of restoring work allowances or reducing the taper is estimated predicated on benefits having been un-frozen in April 2018. We assume Universal Credit is fully rolled out, and that all families are making new or changed claims to this benefit (i.e. we do not include any impacts from transitional protection).

Source: RF analysis using the IPPR tax-benefit model; ONS, *2016-based National Population Projections*

In sum, while they come with substantial price tags, approaches to supporting families via the working age benefit system are well-focused on members of younger generations currently bearing the brunt of jobs and housing market living standards pressures. In addition, they are strongly progressive from an intra-generational perspective.

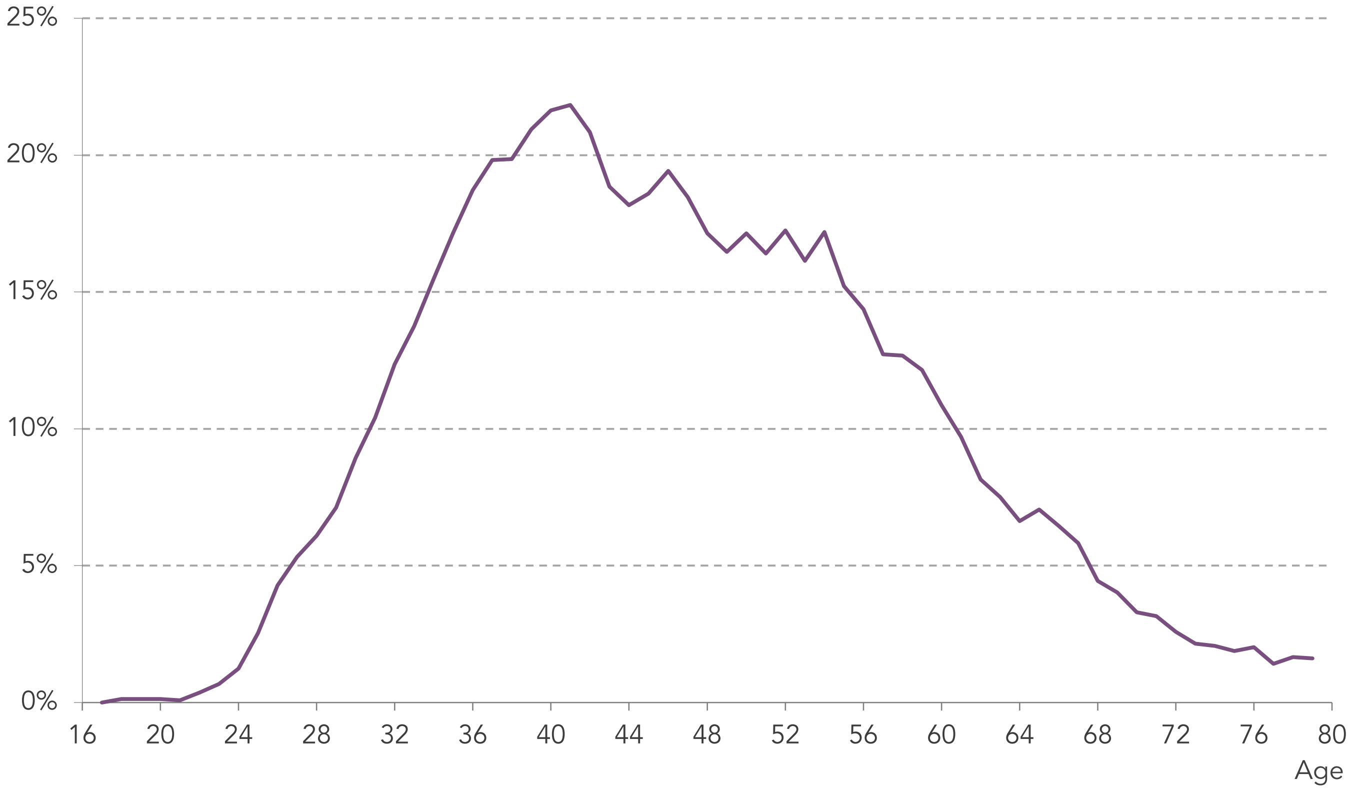
Some have suggested raising revenues by reducing pensions tax relief, which would affect higher earners mainly in generation X

Budget giveaways – in the form of spending increases or tax cuts – are only one side of the intergenerational fairness coin. Also under consideration should be the inter- and intra-generational impacts of policies that raise revenue in order to fund spending choices (by implication tax increases or spending cuts), particularly if the Chancellor is unwilling or unable to increase borrowing overall. The options in this paper are not recommendations and as such we do not seek to present a balanced or internally-funded package here. Nonetheless, the remainder of this analysis moves away from spending options and takes a generational lens on revenue-raising options suggested to or available to the Chancellor.

For example, some of those calling for income tax or NICs reductions for young adults last month suggested reducing income tax relief on pension contributions as a generationally fair funding option.[13] Tax relief on pension contributions is currently offered at adults' marginal rate, although limited by annual allowances. As previous Resolution Foundation analysis has shown, this system is highly regressive and favours high-earning higher-rate taxpayers, compared for example to flat(ter) rate tax relief on contributions, or taxing contributions instead of receipts in retirement.[14]

It is not possible to set out the full impacts across and within generations of various options for reducing pensions tax relief here. However, to the extent that any changes are focused on reducing reliefs for higher-rate taxpayers, the short-run impacts would be concentrated on the highest-earning members of generation X (born 1976-1980, aged 40-54 in 2021-22). Figure 7 demonstrates this, showing that paying the higher-rate of income tax is most common in one's 40s and early 50s.

Figure 7: **Proportion of adults who are higher-rate income taxpayers, by age: 2021-22, UK**



Source: RF analysis using the IPPR tax-benefit model

13 J Elgot & H McDonald, 'Philip Hammond under pressure to deliver bold budget, say Tory sources', *The Guardian*, 15 October 2017

14 Levying income tax on contributions rather than reliefs is often seen as a more progressive approach because many people who are higher-rate taxpayers during working age move to being basic rate payers in retirement. See: A Corlett & M Whittaker, *Save it for another day: Pension tax relief and options for reform*, Resolution Foundation, March 2016

There are other elements of pensions taxation that would certainly merit attention, for example the level of the tax-free lump sum individuals can draw down at retirement. And the application of NICs to private pension contributions and receipts is an important area of consideration alongside their treatment in the income tax system. Only the minority of private pension contributions made by employees are subject to any NICs, with all receipts exempt. As an example of what a more intra-generationally equal approach might look like, previous analysis by the Institute of Fiscal Studies has shown that moving to a system where NICs (like income tax) is levied on receipts would be both an important source of revenue and strongly progressive within the pensioner population.[15] It's of course worth saying that some level of favourable tax treatment of pensions is justified in order to incentivise this form of restricted saving and facilitate income-smoothing. But with evidence that the current system is suboptimal both across and within cohorts, future work for the Intergenerational Commission will consider the treatment of private pensions across the income tax and National Insurance systems in more detail.

Rather than add new age-related inequalities to the tax system, the Chancellor could raise cash by removing existing ones

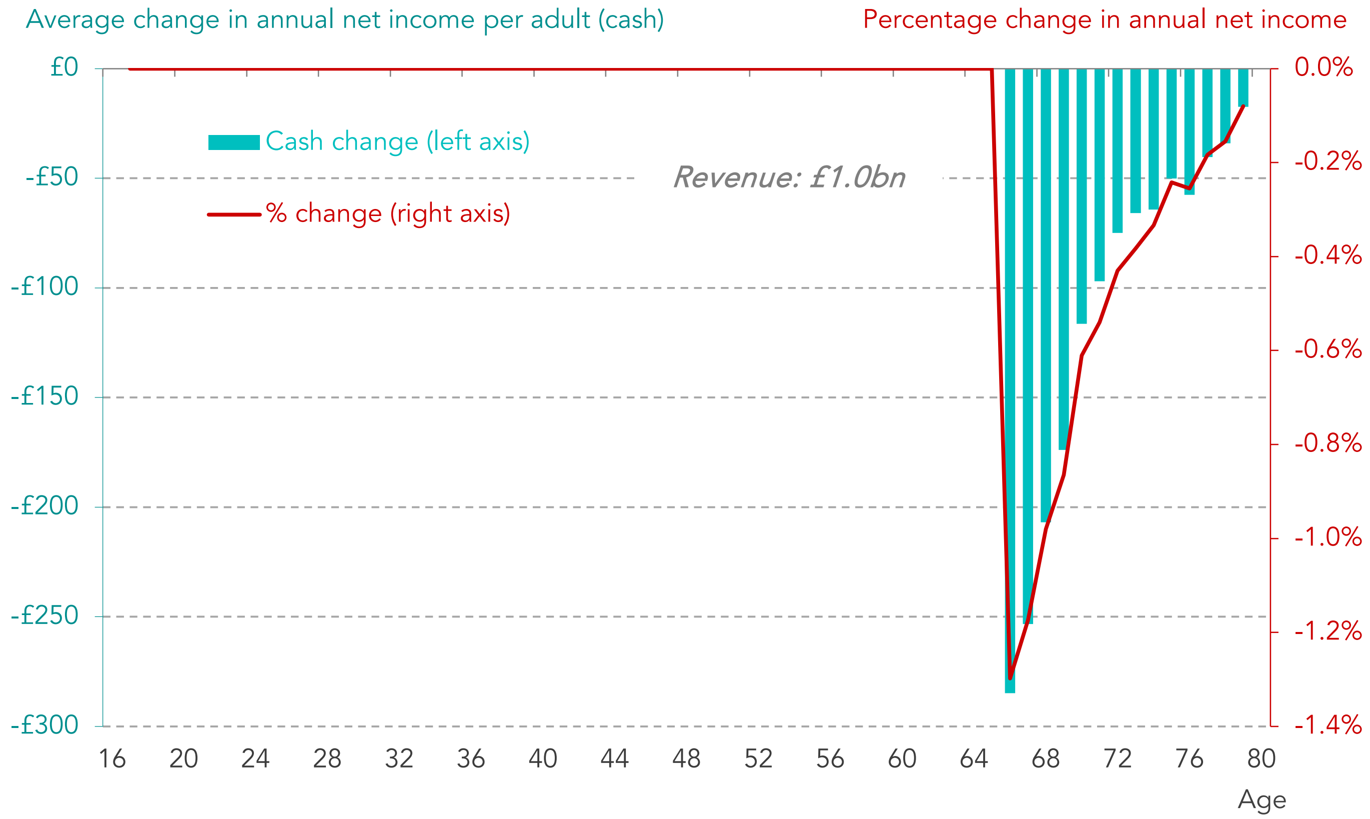
In a similar vein to the treatment of private pension receipts by the National Insurance system discussed above, an option the Chancellor could consider would be to equalise the NICs treatment of pensioners' employment income. Workers at or over the State Pension age (SPA) currently pay no Class 1 employee or Class 2 and Class 4 self-employed NICs, an exemption that is now harder to justify given National Insurance no longer operates as a contributory system (although is justified by some on the basis of incentivising working later in life).

Here we demonstrate the impact of levying the same NICs on workers of all ages. Our estimates are for 2021-22 and account for the State Pension Age (SPA) rising to 66 for both sexes between now and then and the likely effects of this (and other wider demographic and social shifts) on post-SPA employment rates. Figure 8 shows the impact of this policy across the age distribution, with an estimated overall revenue of £1.0 billion.[16] A typical late-60s employee earning around £15,000 in 2021-22 would be worse off by around £720 per year.

15 S Adam, J Browne & P Johnson, *Pensioners and the tax and benefit system*, Institute for Fiscal Studies, 2012

16 This estimate is in line with the £890 million cost for the 2015-16 tax year previously estimated by the Institute for Fiscal Studies. See: S Adam & B Roantree, 'Options for increasing tax', in C Emmerson, P Johnson & R Joyce (eds.), *The IFS Green Budget*, February 2015

Figure 8: **Impact of levying all National Insurance contributions on pensioners' employment income, by age: 2021-22, UK**

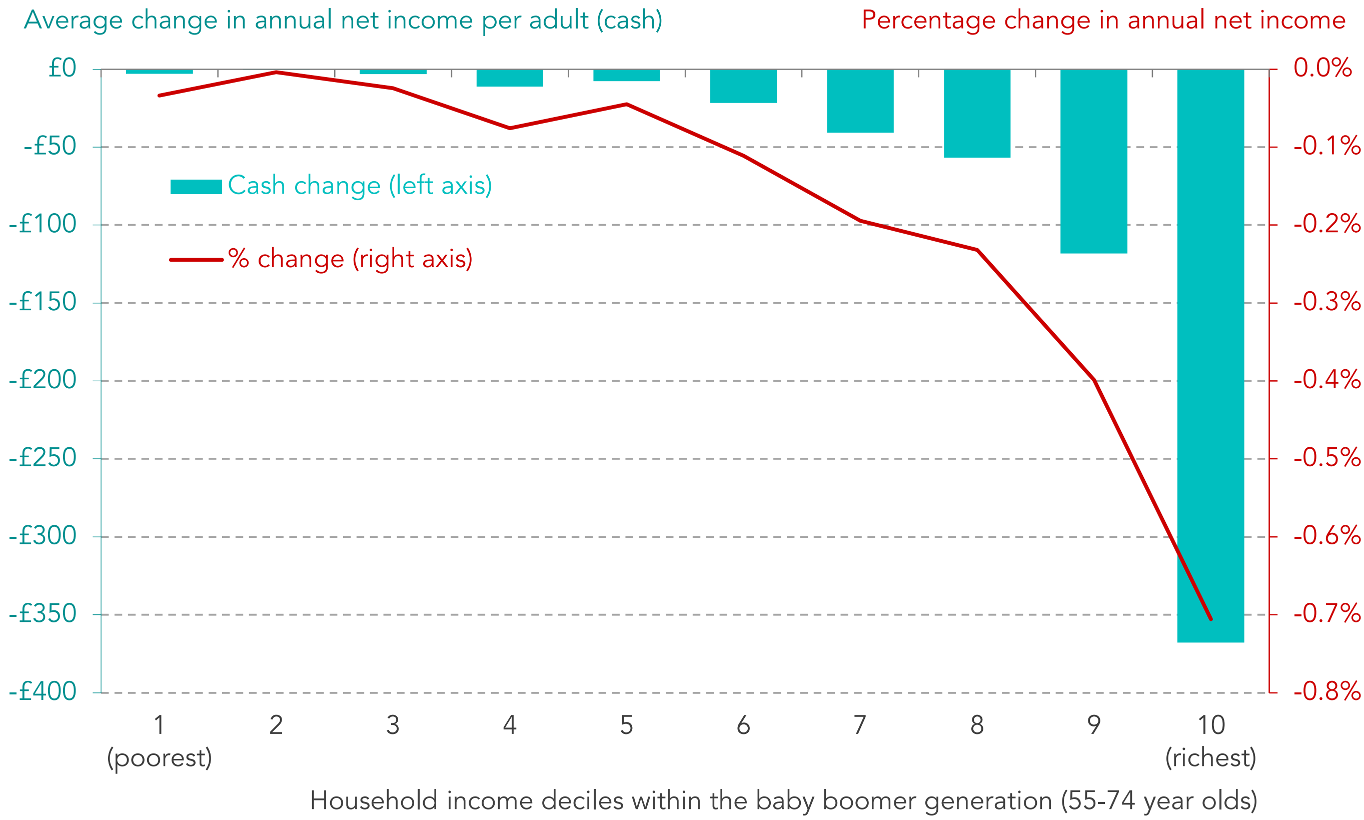


Notes: Covers Class 1 employee NICs and Class 2 and Class 4 NICs levied on the self-employed. Estimates include the impact of population growth and rising labour market participation at different ages to 2021-22.

Source: RF analysis using the IPPR tax-benefit model; ONS, *2016-based National Population Projections*; OBR, *Fiscal sustainability report*, January 2017

The intra-generational impact of this policy is highly progressive. Figure 9 shows its impact across the income distribution of baby boomers, who provide more than 90 per cent of overall revenues by 2021-22. More than three-quarters (77 per cent) of this money would come from the richest 20 per cent of baby boomers. Similarly, considering the post-SPA pensioner population as a whole, more than four-fifths (82 per cent) of revenue is drawn from the highest-income 20 per cent of pensioners.

Figure 9: **Impact of levying all National Insurance contributions on pensioners' employment income, by income deciles within the baby boomer generation: 2021-22, UK**



Notes: Covers Class 1 employee NICs and Class 2 and Class 4 NICS levied on the self-employed. Estimates include the impact of population growth and rising labour market participation at different ages to 2021-22. Income deciles based on equivalised household before housing costs incomes.

Source: RF analysis using the IPPR tax-benefit model; ONS, *2016-based National Population Projections*; OBR, *Fiscal sustainability report*, January 2017

In contrast to the youth-focused tax breaks discussed above, this policy would be in the spirit of strengthening simplicity and parity in the tax system. Of course, the Chancellor may be unwilling to return to controversial NICs reforms having had to U-turn on a change for the self-employed in the March Budget, but a generational lens suggests this approach merits consideration nonetheless.

Freezing the personal tax allowance once it has reached £12,500 is progressive within older and younger generations

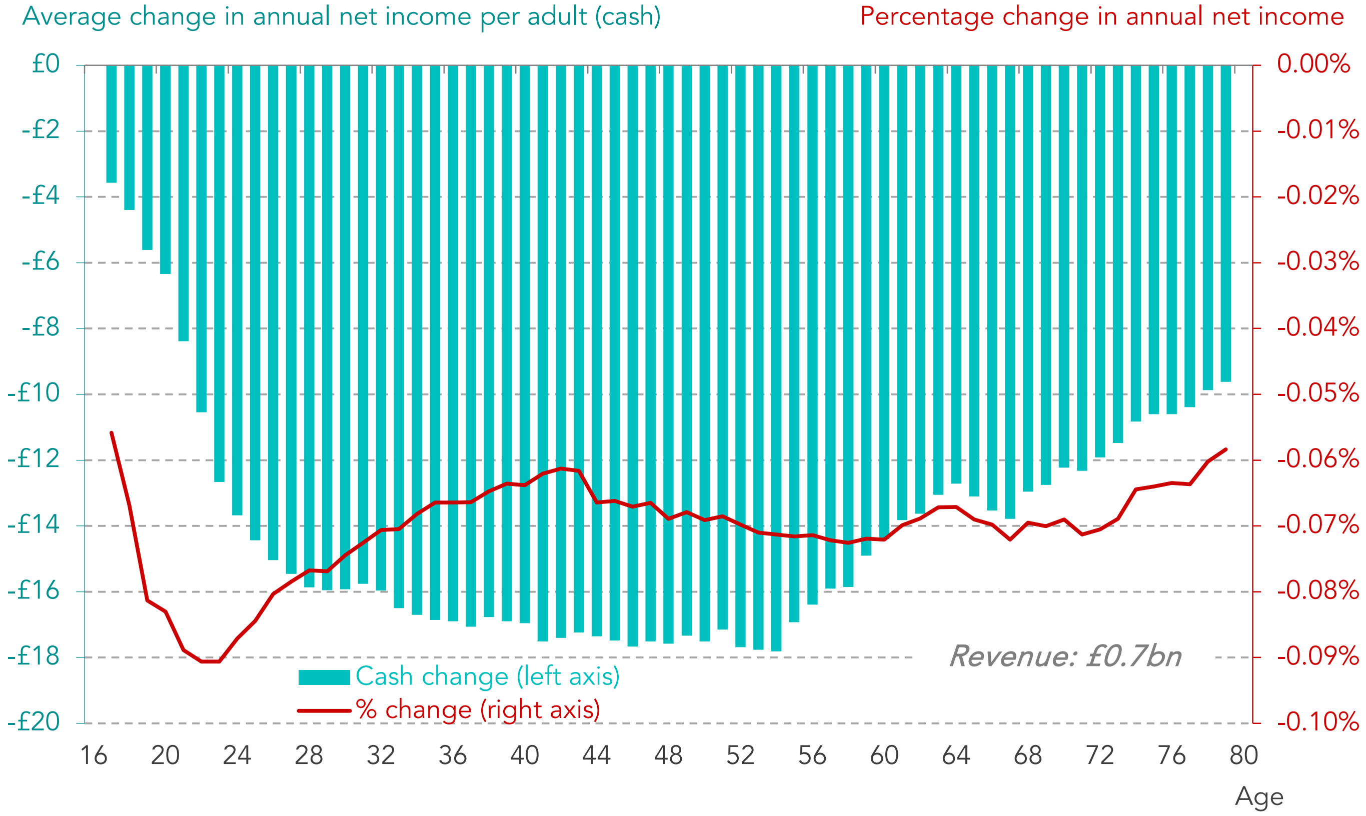
Above-inflation increases in the level below which people pay no income tax was a flagship Budget and Autumn Statement offer during the Coalition government. Building on this, further increasing the personal tax allowance (PTA) to £12,500 and the higher rate threshold to £50,000 by the end of the parliament were prominent commitments in the past two Conservative manifestos. Previous Resolution Foundation analysis has shown that these tax cuts tend to be expensive and are regressive overall.[17]

17 A Hurrell, *Analysing the impact of increasing the personal tax allowance to £10,500 in 2015*, Resolution Foundation, March 2014

Faster-than-expected inflation following the decision to leave the EU will make it easier for the government to meet these manifesto commitments. For example, we now expect that by just following inflation, the PTA will reach £12,620 in 2021-22. With such rapid increases in the point at which people start paying income tax in recent years (the PTA was just £6,475 in 2010-11, 35 per cent lower than the current rate in real terms), an argument could be made to press pause on further PTA increases after the £12,500 milestone has been reached.

By way of illustration, here we demonstrate the impact that a £12,500 PTA in 2021-22 (as opposed to a PTA of £12,620) would have across the age distribution. Figure 10 shows that this policy – raising £700 million of revenue in 2021-22 – has relatively even proportional impacts across the age distribution, with the cash reductions in income greatest between the ages of around 35 and 50. Basic rate taxpayers would be worse off by £24 per year in 2021-22 under this policy.

Figure 10: **Impact of freezing the Personal Tax Allowance at £12,500 in 2021-22, by age: 2021-22, UK**

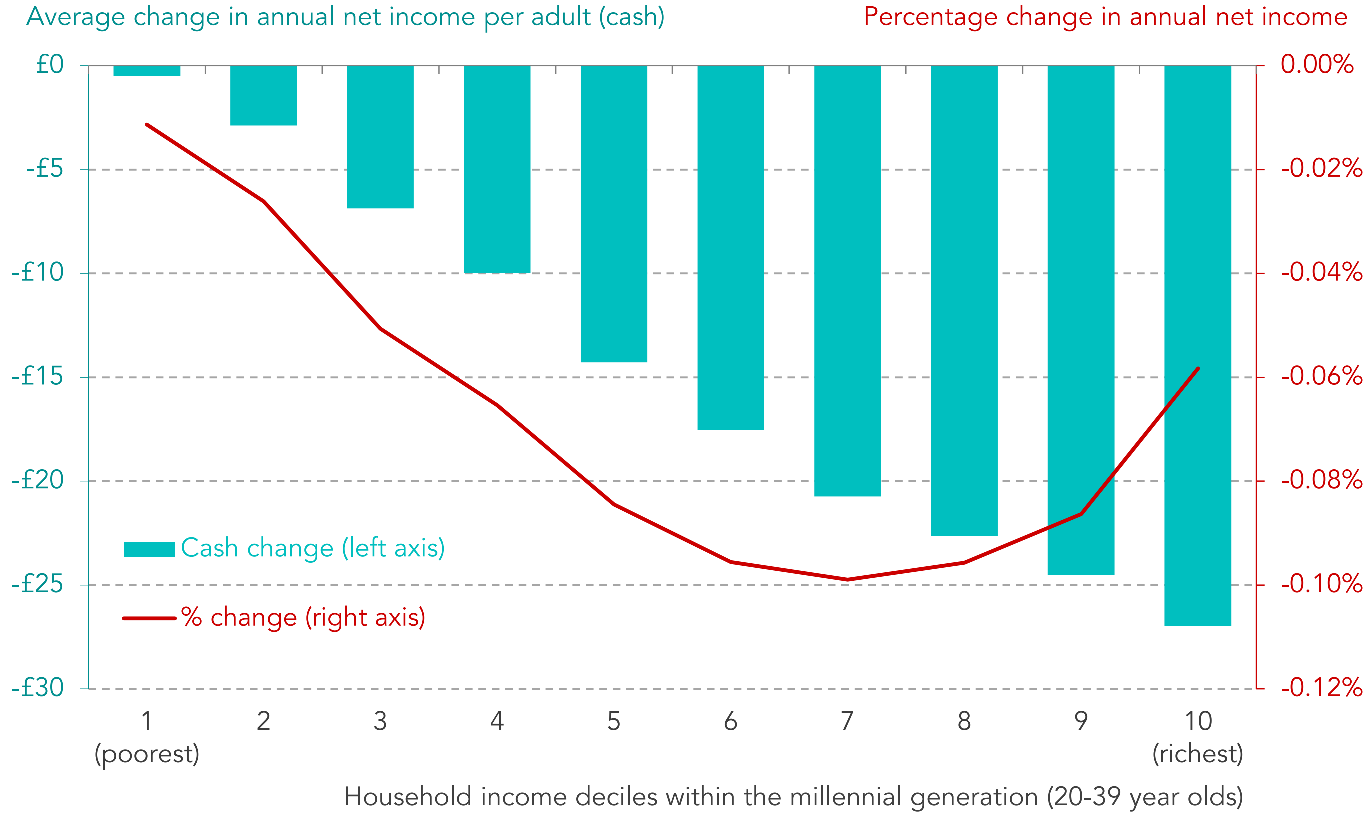


Notes: Estimates include the impact of population growth at different ages to 2021-22. We assume Universal Credit is fully rolled out, and that all families are making new or changed claims to this benefit (i.e. we do not include any impacts from transitional protection).

Source: RF analysis using the IPPR tax-benefit model; ONS, *2016-based National Population Projections*

Set against these relatively even impacts across the age distribution is the fact that this policy is progressive from an intra-generational perspective. Figure 11 and Figure 12 show these within-cohort effects for the millennials and the baby boomers respectively. In both cases, three-quarters of revenue from the generation is drawn from the higher-income half of the generation.

Figure 11: **Impact of freezing the Personal Tax Allowance at £12,500 in 2021-22, by income deciles within the millennial generation: 2021-22, UK**



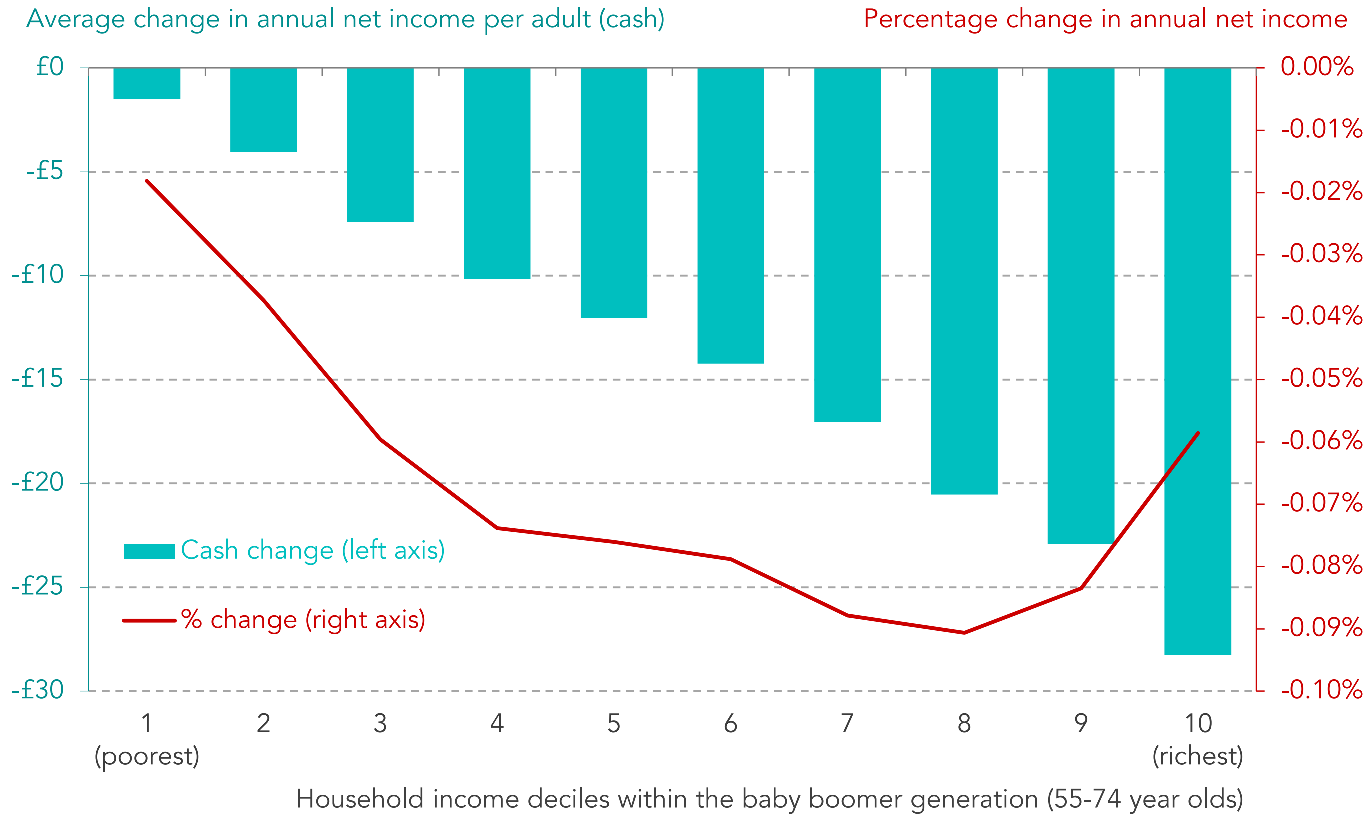
Notes: Estimates include the impact of population growth at different ages to 2021-22. We assume Universal Credit is fully rolled out, and that all families are making new or changed claims to this benefit (i.e. we do not include any impacts from transitional protection).

Source: RF analysis using the IPPR tax-benefit model; ONS, *2016-based National Population Projections*

A full agenda for renewing the intergenerational contract must accompany any tax and benefit takeaways and giveaways in this month's Budget

In this briefing we have assessed the inter- and intra-generational implications of the tax and welfare choices that have been offered to or are readily available to the Chancellor in his first Autumn Budget later this month. These are not presented as definitive recommendations, and nor have we put together a comprehensive or internally-funded package. Rather, we have explored the impact of various options in order to focus attention on the intergenerational parameters by which policies should more frequently be judged.

Figure 12: **Impact of freezing the Personal Tax Allowance at £12,500 in 2021-22, by income deciles within the baby boomer generation: 2021-22, UK**



Notes: Estimates include the impact of population growth at different ages to 2021-22. We assume Universal Credit is fully rolled out, and that all families are making new or changed claims to this benefit (i.e. we do not include any impacts from transitional protection).

Source: RF analysis using the IPPR tax-benefit model; ONS, *2016-based National Population Projections*

However, analysis for the Intergenerational Commission has made clear that policies to reset the agenda on intergenerational fairness will have to reach much further than taxes on income, and the benefit system. In particular, housing must take centre-stage, indeed the other item on the agenda in the run-in to the Budget has been bold government action in the quest to get more houses built. This focus is absolutely correct – analysis for the Intergenerational Commission shows that cohort-on-cohort increases in the share of income spent on housing are probably the strongest headwind to generational living standards progress. Recent Resolution Foundation analysis has suggested how the Chancellor might create for himself a little more wriggle-room to face down this critical challenge.[18]

18 T Bell, 'Strictly Come Building: How housing can make a star turn in the upcoming Budget', *Resolution Foundation blog*, 9 November 2017

Beyond housing supply, the government's intergenerational to-do list will include the likes of capital taxation, labour market insecurity and reforms to social care funding. These challenges are probably much broader than the focus the Chancellor wishes to take in his upcoming Budget. But they are unavoidable over the longer term if politicians of all parties are to make good on their increasingly vociferous commitments to creating a fairer deal across the generations. As such, the Intergenerational Commission will be developing policy options in these and other areas in the coming months.

Resolution Foundation

Intergenerational Commission

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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