

Happy new tax year 2026

Putting tax and social security changes in the context of rising energy bills

2 April 2026

Lalitha Try

The start of April marks the beginning of the new tax year, meaning households will face a wide range of tax, benefit and utility bill changes. Benefit changes in April will boost incomes for the poorest families, particularly the removal of the two-child limit, which will give back £4,560 this year to the affected families. Unemployment benefits will, for the first time since 1983, be permanently uprated by more than the default inflation rate, but will still be 5 per cent lower in real terms than they were in 2010-11. And personal tax threshold freezes continue to drag down incomes, as do Council Tax rises.

Energy bills will fall in April, but the outlook for the year as a whole is very uncertain due to the war in Iran. The energy price cap will almost certainly rise in July: even in the plausible best-case scenario, annual bills would rise by around £130, and in a higher-price scenario bills could settle at close to £2,100, returning to a level at which the Government has historically intervened. Under Cornwall Insight's latest forecast, a typical household will be expected to spend £30 more on energy in Q3 than if the price cap had remained at its Q2 level, as 14 per cent of energy spending takes place in Q3. Given that lower-income households spend more of their income on energy and related costs (such as fuel and food) than higher-income ones, they will be hardest hit by this price rise, with households in the lowest income decile experiencing a rate of inflation that is 0.9 percentage points higher than that of the highest income decile.

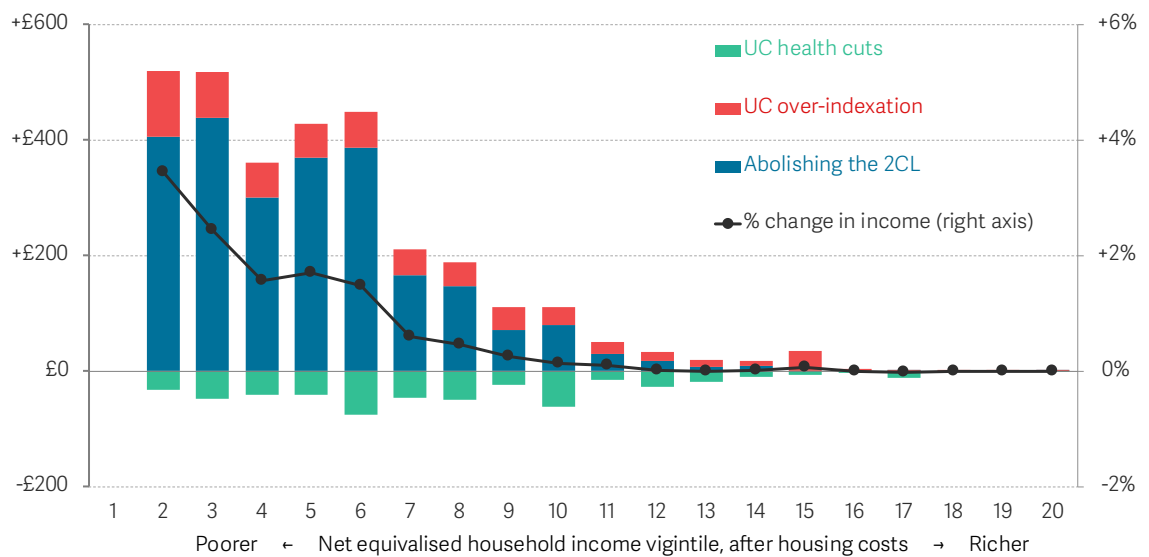
A range of tax and benefit policies are coming into force this April, alongside changes in the energy price cap.¹ But this year there is much more uncertainty than usual: the impact of the war in Iran on oil and gas prices is a serious headwind to living standards in the UK over the coming months. This spotlight sets out some of the key changes that will affect household incomes in 2026-27, and how the conflict in the Middle East could affect this as the year goes on.

Some big benefit rises are set to boost incomes for low-income households

Three major benefit changes take effect in April 2026, and the impact of these is shown in Figure 1. The most important of these is abolishing the two-child limit – a much-needed step

to bring down child poverty (and reduce a [growing gap](#) between poverty rates for children in families with three or more children and families with one or two children) and to eliminate a major unfairness in the benefit system. Its impact is significant: the Government [estimates](#) that the removal will bring child poverty down by 450,000 in 2029-30. In 2026-27, the average family who benefits from the two-child limit being scrapped [will gain £4,560](#), pushing up the incomes of the poorest fifth of households by £290 on average.²

Figure 1 **Low-income households will gain significantly from benefit changes**
Change in annual income as a result of benefit policy changes in 2026-27, by income vigintile: UK



Source: RF analysis of DWP, Family Resources Survey using the IPPR Tax-Benefit Model.

There are smaller gains for all families receiving Universal Credit (UC), shown in the red bars in Figure 1. April 2026 marks the first of four years that the UC standard allowance will rise by more than inflation ([an extra 2.3 per cent](#) this year, with UC being 4.8 percent higher than it would have been otherwise by 2029-30), and the first time since UC was introduced that it has been increased by more than the previous September’s inflation rate or by more than the State Pension. The UC standard allowance will rise by £6 a week, which will increase incomes for the bottom fifth by £90 on average. This above-inflation uprating will [cost](#) the Government £810 million in 2026-27, while abolishing the two-child limit [costs](#) £2.4 billion in 2026-27, rising to £3.1 billion by 2029-30.

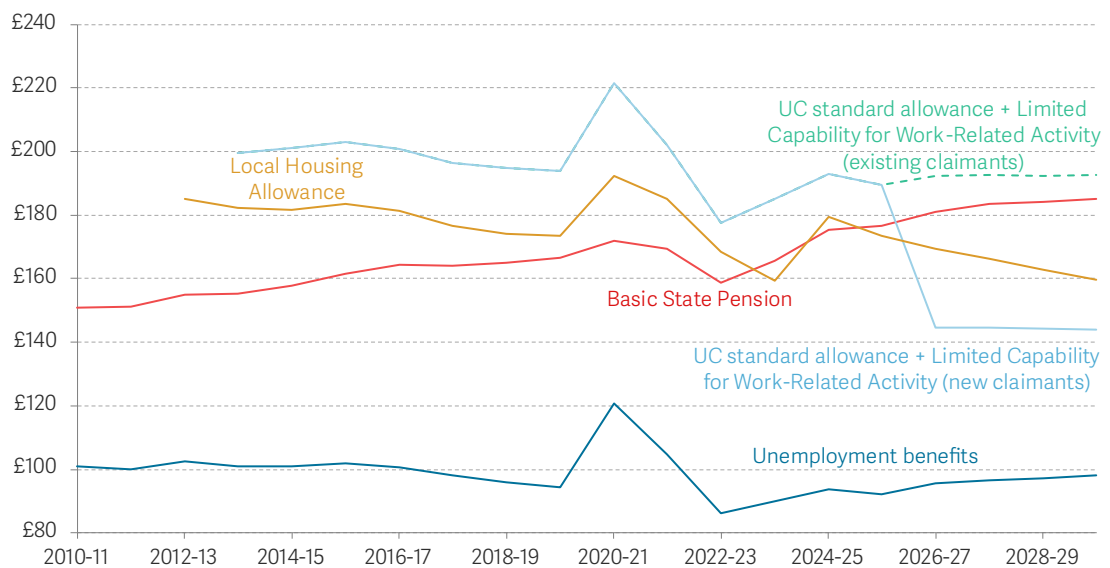
This over-indexation of UC is taking place as part of the Government’s plans to shift the balance of social security entitlements away from incapacity benefits and towards the standard element of UC.³ The flip side is that from April 2026, new UC Health claimants will receive a health element that is half the rate of that for existing claimants, at £50 a week. For existing claimants, UC Health will rise by 1.5 per cent (as opposed to 3.8 per cent, September 2025’s rate of inflation), so that their combined UC award will rise by inflation. These changes will reduce incomes in the bottom fifth of the income distribution by an average of £40 (the

green bars in Figure 1), although the losses (compared to a world without these changes) will clearly be much greater among the new claimants of UC Health that are directly affected.

The standard allowance of UC will rise this year, but this still leaves unemployment benefits 5 per cent lower than they were in 2010-11

Figure 2 shows where these changes leave the real-terms levels of different benefits. This year’s UC uplift means that the basic rate of unemployment benefits will go up by more than inflation for the [first time since 1983](#).⁴ But the impact of this rise should not be overstated. The real-terms value of unemployment benefit is 5 per cent lower now than it was in 2010-11, 16 years ago, whereas the State Pension has risen by 20 per cent (and earnings [rose](#) by 5 per cent) over the same period. Indeed, only 63 per cent of the real-terms deterioration of the basic rate of unemployment benefit since 2010-11 will have been undone by 2026-27.

Figure 2 **Unemployment benefits are still 5 per cent lower than they were in 2010-11**
Weekly real-terms value of various benefits: UK



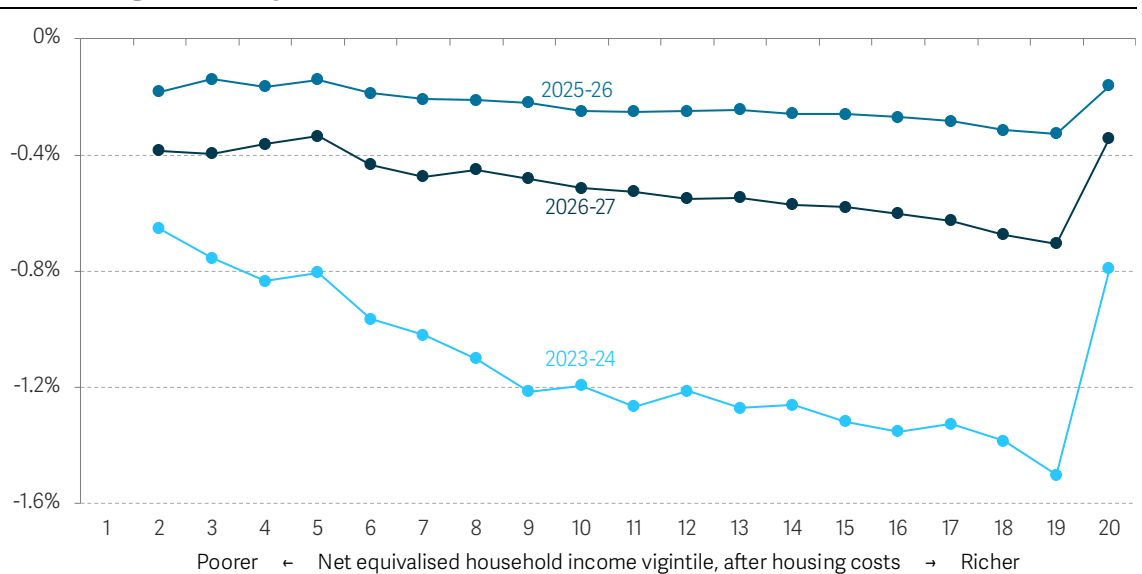
Notes: Local Housing Allowance data is the BRMA average for category C properties (2 bed). Unemployment benefits refers to the single person 25 and over UC standard allowance from 2019-20 onwards, and JSA before that.
Source: RF analysis of DWP, Abstract of Benefit Statistics; ONS, Consumer Prices; Universal Credit Act 2025.

Unlike UC and the State Pension, however, Local Housing Allowance (LHA) rates are set to continue falling in real terms through 2026-27. This is because, unlike other parts of the benefits system, LHA rates do not rise with inflation each year, and so the rates for 2026-27 will remain equal to the 30th percentile of local rents in the 12 months to September 2023. Private rents have risen markedly since then and, as of February 2026, they were 20 per cent higher on average than when LHA was last linked to market rents – a huge drag on incomes for the families affected. The cash shortfall individual tenants face this April depends on where they live, but a family living in an average two-bedroom property in Gloucester, for example, would see a shortfall of £160 a month between their rent and housing support.⁵

Tax threshold freezes and Council Tax rises will drag down on incomes

Although the Government has not increased any rates of taxes on incomes in 2026-27, households will still be paying more tax than they were the year before. This is because April 2026 sees the fifth instalment of a nine-year-long freeze on personal tax thresholds. Figure 3 shows the impact on household incomes across the distribution of each one-year personal tax threshold freeze this year, last year and in 2023-24. This latest threshold freeze has a larger impact on household income than last year’s, as thresholds would have been uprated by 3.8 per cent if they had not been frozen compared to 1.7 per cent last year. However, the impact will be smaller than the impact of the threshold freeze was in 2023-24, when inflation was close to its peak and thresholds would have gone up by 10.1 per cent if they were uprated by inflation. Indeed, this year, the threshold freeze means that households in the bottom half of the income distribution will be 0.4 per cent poorer than they would have been otherwise, compared to 0.2 per cent in 2025-26 and 1.0 per cent in 2023-24.

Figure 3 Frozen tax thresholds will drag down on incomes more than they did last year, but less than they did in 2023-24
Proportional change in annual income as a result of personal tax threshold freezes, by income quintile and year: UK



Source: RF analysis of DWP, Family Resources Survey using the IPPR Tax-Benefit Model.

The fiscal drag created by tax threshold freezes has a material impact on the taxes that people are paying. If thresholds had not been frozen this year, the personal tax allowance would be £500 higher than it is now, and the higher rate threshold would be £2,000 higher. This means that someone working 35 hours a week earning the National Living Wage (NLW) is paying £130 a year more tax than they would have been paying if personal tax thresholds were not frozen this year (and if the NLW had risen by the same amount).

Threshold freezes are considered a stealth tax that taxpayers may not notice, but one tax that is very noticeable, because it is paid in the form of a bill, is Council Tax, which is set to rise significantly across the country. In most places in England, it will increase by 5 per cent.⁶ In [Wales](#), Council Tax will rise by an average of 4.9 per cent, and in [Scotland](#) it will rise by between 4 and 10 per cent. These increases will have a disproportionate impact on low-income households as Council Tax is [strongly regressive](#): the very richest households only spend 1 per cent of their income on it, whereas it takes up 5 per cent of the very poorest households' incomes, even after accounting for Council Tax Rebates.

The war in Iran is set to increase energy prices

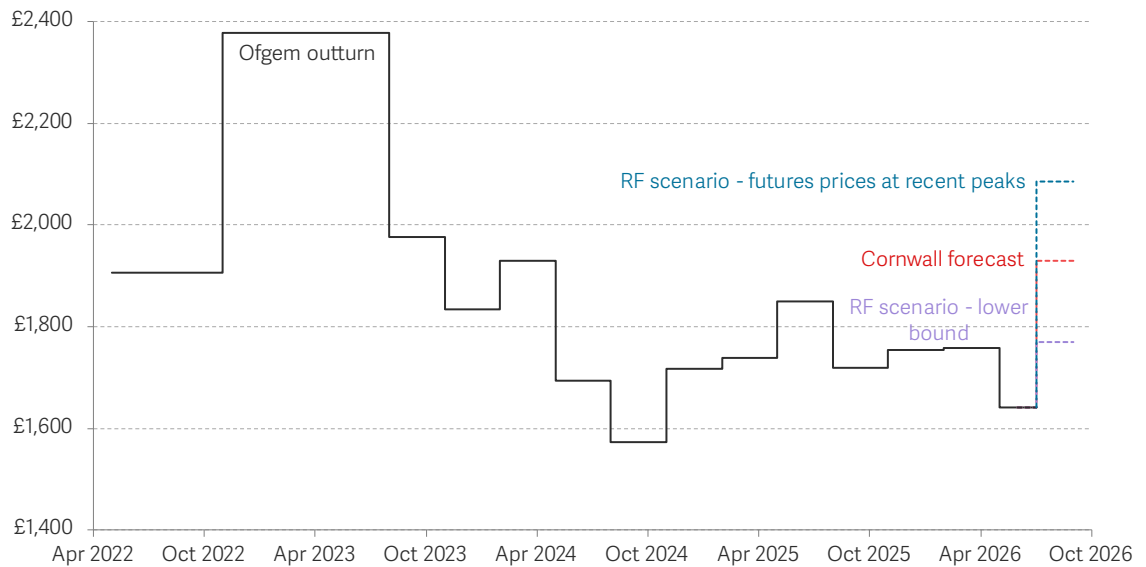
These changes to the tax and benefits system coincide with the quarterly change in the energy price cap. In April 2026, the price cap will fall by 7 per cent, or £117, thanks to the decision at the 2025 Budget to [remove some of the policy costs from energy bills](#). But the outlook for energy prices over the rest of the tax year is highly uncertain.

The ongoing conflict in the Middle East has driven the price of oil and gas up sharply: oil prices are hovering at around [\\$110 a barrel](#) (compared to under \$70 a barrel before war broke out), and wholesale gas prices are also up. Crucially, futures contracts that will dictate the level of the next (and subsequent) price caps have surged: Q3 2026 gas prices have [close to doubled](#) and those for winter 2026-27 (i.e. Q4 2026 and Q1 2027) are around 75 per cent higher than at the start of March. It is still uncertain how long the war will go on and how severe it will be, but Figure 4 shows a range of scenarios for how the impact of the war could feed into the energy price cap in Q3 2026.

The [latest Cornwall Insight forecast](#) is for the price cap to rise by about £290 on 1 July to reach £1,929. But we are only halfway through the assessment window for the next cap, and prices remain extremely volatile. In Figure 4 we present a 'lower bound' for where energy bills could land in the autumn, based on a quick return to pre-invasion gas and electricity futures prices, and a 'futures prices at recent peaks' scenario that assumes the highest price observed for these contracts to date becomes the average for the remainder of the assessment period. This shows that, even in the best-case scenario, annual bills would rise by around £130 – wiping out the Government's bill discount. But in the higher-price scenario, annual bills could rise by around £450 to settle at close to £2,100, returning to a level at which the Government has previously intervened.

However, it is important to realise that the impact of changing energy prices will be much smaller for households in the summer than in other months: in normal times, only 6 per cent of total gas consumption and 21 per cent of total electricity consumption happens in Q3 (or 14 per cent of spending overall). Under Cornwall Insight's price cap forecast for Q3, a typical household would be expected to spend only £30 more in Q3 than if the price cap remained the same as it was in Q2.

Figure 4 **The war in Iran is set to drive up energy bills in Q3 2026**
Price cap outturn and forecasts: GB



Notes: Forecasts here are the most recent as of 31 March 2026. The 'lower bound' scenario is based on an immediate return to pre-invasion average wholesale gas and electricity futures prices, with these prices sustained over the remainder of the price cap assessment window. The 'futures prices at recent peaks' estimate assumes that the highest end-of-day assessed price observed for Q3 NBP and baseload electricity futures contracts during the assessment window to-date is the average price for the remaining period.

Source: Cornwall Insight, price cap data; Intercontinental exchange data, Ofgem Price Cap Methodology, RF calculations.

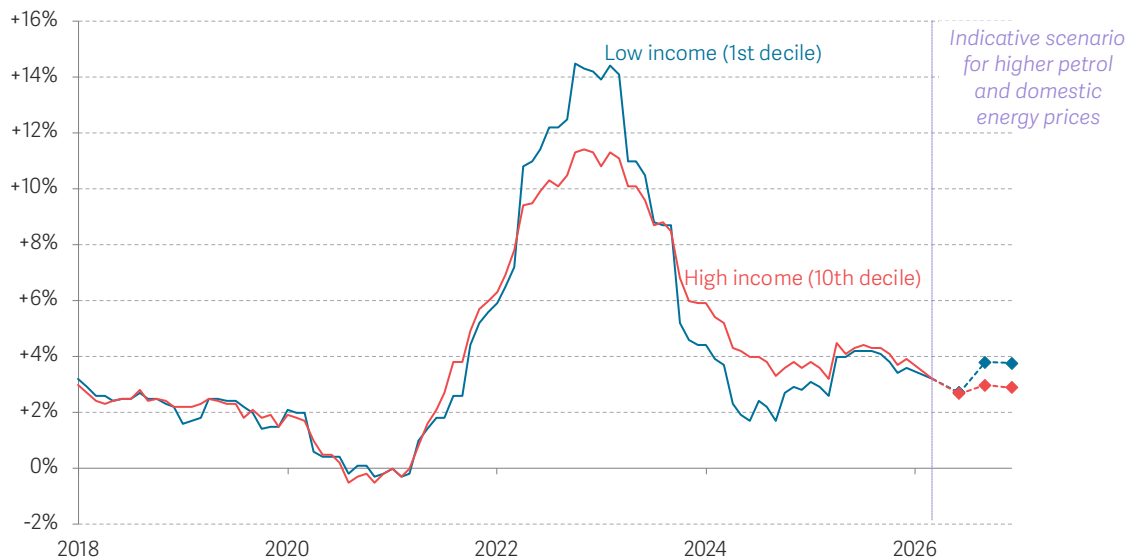
An energy- and fuel-driven inflation shock will be the most damaging for low-income households

A cost of living shock driven by energy and fuel will be the most damaging to low-income households, who [spend a higher proportion of their income](#) on these items. Energy takes up 11 per cent of spending for the second decile of the income distribution, compared to 6 per cent for the ninth. Higher-income households spend more on fuel than lower-income households do (4 per cent for the ninth decile compared to 3 per cent for the second), but households across the distribution spend less on fuel than energy.

Figure 5 shows what inflation rates experienced by families across the income distribution might look like under an inflation shock scenario consistent with the Cornwall Insight price cap estimate shown in Figure 4 (using the ONS' Household Cost Indices measure).⁷ By Q4 2026, the gap between the inflation rates experienced by the first and tenth income decile would be 0.9 percentage points, with the poorest decile experiencing inflation of 3.8 per cent and the richest experiencing inflation of 2.9 per cent. This is proportional to the disparity we saw in early 2023 when the lowest-income households faced a rate of inflation 3.1 percentage points higher than the highest-income households at a much higher level of headline inflation. But this is likely to be an underestimate of both the size and distributional disparity of the eventual inflation shock by the end of 2026, as this scenario only accounts for higher petrol prices and energy bills, and doesn't consider the possible impact on food or

other goods and services. Indeed, the [Bank of England forecasts](#) that inflation will reach 3 per cent in Q2 2026 and 3.5 per cent in Q3 2026, while the [OECD](#) forecasts that it will be 4 per cent in 2026.

Figure 5 **The coming inflation shock will disproportionately impact low-income households**
 Household Cost Index inflation experienced by low- and high-income households: UK



Notes: Scenario assumes unleaded petrol rises to £1.50 per litre and diesel to £1.80 per litre from March and that the energy price cap rises to £1,929 in July. The baseline for the scenario is based on the Bank of England's February Monetary Policy Report forecast for CPI inflation adjusted for the difference between HCI and CPI inflation. Source: Bank of England, Monetary Policy Report, February 2026; and ONS, Household Cost Indices & Consumer Price Inflation.

The impact of war in the Middle East has made the outlook for 2026-27 very uncertain. Much-needed boosts to benefit income have come at a good time, as low-income households will be disproportionately impacted by the coming inflation shock. However, if the war continues, the Government should stand ready to support the families that need it most with their energy bills. The [best way](#) to do this is through a social tariff, which would be able to target support based on both income and energy need.⁸

¹ The author would like to thank Hannah Aldridge, Jonny Marshall, Simon Pittaway and James Smith for their contributions, and Mike Brewer, Ruth Curtice and Hannah Slaughter for their comments. Any errors remain the author's own. Data citations: Households Below Average Income (series page [here](#)): Department for Work and Pensions. (2021). Households Below Average Income. [data series]. 3rd Release. UK Data Service. SN: 2000022, DOI: <http://doi.org/10.5255/UKDA-Series-2000022>.

² Not all families previously subject to the two-child limit will gain the full amount from it being abolished, due to the benefit cap. The Government [estimates](#) that by 2029-30, around 50,000 families will not benefit due to already being benefit capped, and another 10,000 will partially benefit due to their benefit income breaching the cap after the policy change.

³ Because the Government has committed to the young person's UC standard allowance and health element collectively rising by at least inflation, the UC standard allowance for all under-25s will actually rise by 6.8 per

cent. See endnote 2 in L Try, *Catching Up? Benefit uprating policy for April 2026*, Resolution Foundation, October 2025, <https://doi.org/10.63492/drr1990>.

4 In practice, however, the basic rate of UC has increased in real terms in some years (as shown in Figure 2) where the actual inflation rate during the year has been lower than the previous September's rate used for uprating.

5 Gloucester was chosen as its the rental market where the two-bedroom LHA is the median for England. We assume rents at the 30th percentile track the average. Source: RF analysis of ONS, Price Index of Private Rents, UK; Valuation Office Agency, Local Housing Allowance (LHA) rates applicable from April 2025 to March 2026.

6 There are [seven councils](#) that have been granted permission by the Government to increase Council Tax by more than 5 per cent: Worcestershire, Shropshire, North Somerset, Trafford, Warrington, Windsor and Maidenhead, and Bournemouth, Christchurch and Poole.

7 Specifically, this is one where the energy price cap rises to £1,929 in July, and unleaded petrol rises to £1.50 per litre and diesel to £1.80 per litre from March.

8 The Government has already allocated £53 million to support families who use heating oil. But only 1.7 million households in the UK use heating oil to warm their homes, so the vast majority will be unaffected by this support.