



Care and State Pension Reform:
Indicative revenue effects on pensions and pensioners
March 2018



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Introduction

As part of the CASPeR project, options for reform of long-term care for older people have been analysed, many of which would increase Government spending. This paper considers how revenue could be raised to fund this increased spending.

HMRC analysis projects that for the 2018-19 tax year, increasing income tax rates for all taxpayers by 1p in every £ would raise £4.8 billion (HMRC 2018) for the UK. As an alternative, a reduction of income tax personal allowances for all taxpayers by £100 would raise £580 million (HMRC 2018).²

However, given concerns over intergenerational fairness, it may be of interest to consider how much revenue could be raised from measures aimed at raising revenue solely from older people. We have examined illustrative measures which modify income tax or National Insurance contributions (NI) for people over State Pension age (SPa).

The analysis considers the Survey of Personal Incomes public use tape dataset.³ The dataset includes a representative sample of incomes for the 2014-15 year. Results are presented in 2014-15 terms and reflect 2014-15 tax rates and allowances. No projection modelling to bring the figures up to date or consider any potential behavioural response has been undertaken. Moreover, the results are designed to present an order of magnitude of impact that could be associated with such changes to the taxation or National Insurance systems.

- Section 1 considers the number of individuals aged over (SPa) who have an income tax liability.
- Section 2 considers the potential impact of raising income tax rates upon individuals aged over SPa.
- Section 3 considers the potential impact of reducing personal allowances upon individuals aged over SPa.
- Section 4 considers the potential impact of changes to the National Insurance system with respect to pensions and individuals aged over SPa.

² 2018-19, HMRC Direct effects of illustrative tax changes

³ HM Revenue and Customs. KAI Data, Policy and Co-Ordination. (2017). *Survey of Personal Incomes, 2014-2015: Public Use Tape*. [data collection]. UK Data Service. SN: 8239, <http://doi.org/10.5255/UKDA-SN-8239-1>

Section one: the number of taxpayers and the amount of tax paid

Currently pension income (from both the state and private pension saving) is subject to income tax. In the 2014-15 tax year this resulted in around two thirds of people aged over State Pension age (SPa), paying income tax with 6.8 million individuals paying approximately £22 billion of income tax [Tables 1-3].

22% of UK taxpayers were aged over SPa, accounting for 17% of income tax liability.

Table 1: The number of taxpayers aged over SPa by income quintile (000's)

Income quintile	Marginal tax rate				All taxpayers
	Non-taxpayers	Starter / Basic rate	Higher Rate	Additional rate	
1 (lowest)	2,072	2	-	-	2
2	1,357	718	-	-	718
3	126	1,950	-	-	1,950
4	3	2,071	-	-	2,071
5 (highest)	2	1,500	541	32	2,073
All incomes	3,559	6,241	541	32	6,813

Table 2: Average income of individuals aged over SPa by income quintile (£ pa)

Income quintile	Marginal tax rate				All
	Non taxpayers	Starter / Basic rate	Higher Rate	Additional rate	
1 (lowest)	5,300	3,400	-	-	5,300
2	9,600	11,100	-	-	10,100
3	13,200	13,700	-	-	13,700
4	18,400	19,400	-	-	19,400
5 (highest)	41,900	31,200	63,700	324,100	44,100
All incomes	7,300	19,500	63,700	324,100	28,200

Table 3: The tax liability (minus tax credits) of individuals aged over SPa by income quintile (£ million)

Income quintile	Marginal tax rate				All taxpayers
	Non-taxpayers	Starter / Basic rate	Higher Rate	Additional rate	
1 (lowest)	-	1	-	-	1
2	-	80	-	-	80
3	-	1,159	-	-	1,159
4	-	3,476	-	-	3,476
5 (highest)	-	5,885	7,599	3,771	17,255
All incomes	-	10,601	7,599	3,771	21,972

Key points

- Approximately one in three individuals over SPa has no income tax liability.
- Due to having tax credits and non-taxable sources of income there are non-taxpayers throughout the income distribution, however most have lower incomes.
- Around 83% of the tax liability is paid by those in the top quintile (5th) of the income distribution, and half of income tax liability is paid by those with a higher or additional marginal rate of income tax.
- There is a lower proportion of individuals at higher and additional rates of income tax above SPa than within the population in general. This is due to higher incomes generally being associated with employment income.

Section two: the impact of increasing income tax rates

Currently increasing income tax rates for all taxpayers by 1p in every £ would raise £4.8bn based upon HMRC projections for 2018-19 tax year.⁴

Restricting the analysis to those aged over SPA using the 2014-15 The Survey of Personal Incomes dataset, raising income tax rates by 1p in the £ could raise approximately £950 million upon the £94.5 billion of taxable income attributed to those aged over SPA [Tables 4-5]. All taxpayers will be impacted, so the number of individuals who would be affected by such a measure is the same as the number of taxpayers in Table 1.

Restricting the impact to higher and additional tax rates results in an impact of around £200 million, affecting around 570,000 taxpayers. Allowance has not been made for the increased cost of collecting tax receipts which HMRC estimate to outweigh any potential yield for increasing the additional rate tax in 2018-19.⁵

No allowance is made for the impact of tax credits which would reduce the impact a little.

Table 4: The impact of increasing income tax rates by 1p in the £: Additional tax liability (£ million) by marginal tax rate

Marginal tax rate	Additional tax liability (£ million)	
	1% on higher rate and additional rate tax only	1% on all rates
Non-taxpayers	-	-
Starter / Basic rate	-	560
Higher rate	110	290
Additional rate	90	100
Total	200	950

⁴ 2018-19, HMRC Direct effects of illustrative tax changes

⁵ 2018-19, HMRC Direct effects of illustrative tax changes

Table 5: The impact of increasing income tax rates by 1p in the £: Additional tax liability (£ million) by income quintile

Income quintile	Additional tax liability (£ million)	
	1% on higher rate and additional rate tax only	1% on all rates
1 (lowest)	-	-
2	-	-
3	-	70
4	-	180
5 (highest)	200	690
All incomes	200	950

Section three: the impact of reducing personal allowances

Currently reducing income tax personal allowances for all taxpayers by £100 would raise £580 million based upon HMRC projections for the 2018-19 tax year.⁶

Restricting the analysis to those aged over SPA using the 2014-15 The Survey of Personal Incomes dataset, approximately £145 million could be raised by reducing income tax allowances by £100 [Tables 6-7]. All taxpayers will be impacted, so the number of individuals who would be affected by such a measure is the same as the number of taxpayers in Table 3.

This omits the impact of tax credits or people crossing between marginal tax rates, however the total impact of this would not be expected to be significant.

Table 6: The impact of reducing personal allowances by £100: Additional tax liability (£ million) by marginal tax rate

Marginal tax rate	Additional tax liability (£ million)
Non-taxpayers	-
Starter / Basic rate	120
Higher rate	20
Additional rate	0
Total	140

Table 7: The impact of reducing personal allowances by £100: Additional tax liability (£ million) by income quintile

Income quintile	Additional tax liability (£ million)
1 (lowest)	-
2	10
3	40
4	40
5 (highest)	50
All incomes	140

⁶ 2018-19, HMRC Direct effects of illustrative tax changes

Section four: the impact of changes to the National Insurance system

Currently National Insurance (NI) is not paid on income by individuals over State Pension age (SPa), nor upon pension income prior to SPa.

The measures considered in Table 8 are:

- **NI on private pensions below SPa:** National Insurance contributions (NICs) have been estimated upon private pension income for individuals below SPa
 - Class 1 NIC rates have been applied through adding the private pension income to pay.
 - This does not reflect the current situation whereby individuals have an allowance associated with each employer as private pension saving may be associated with previous (rather than current employment).
 - This will overstate the number of individuals impacted as well as their liability.
- **NI on earnings above SPa:** Employee and self-employed NICs have been estimated upon earnings for individuals above SPa
 - Class 1 NIC rates have been applied to employment income.
 - Class 2 and Class 4 NIC rates have been applied to self-employment profits.
- **NI on private pensions above SPa:** Employee and self-employed NICs have been estimated upon earnings as well as any private pension income for individuals above SPa.
 - Class 1 NIC rates have been applied to private pension income.
- **NI on earnings above SPa and private pensions above SPa:** Employer NICs have been estimated upon private pension income for individuals above SPa
 - Class 1 NIC rates have been applied to private pension income and to employment pay.
 - Class 2 and Class 4 NIC rates have been applied to self-employment profits.

Employer NICs changes have not been included as these figures address liabilities attached to individuals rather than business.

Making pension income liable to NI could be regarded as double taxation. Where pension contributions are made through salary sacrifice, employee NICs are effectively relieved. Such arrangements could be used to mitigate criticism of a system which could otherwise be regarded to impose double taxation.

There is no system in place for NI liability upon pension income, and the implementation of any system could be both complex and contentious. These figures are supplied to demonstrate the order of magnitude that would be associated with the revenue from one potential system.

Table 8: The impact of National Insurance changes

Measure	Number of people impacted (000's)	Average impact (£ pa)	Total Additional liability (£ million)
NI on private pensions below SPa	1,752	2,100	3,700
NI on earnings above SPa	1,001	1,400	1,400
NI on private pensions above SPa	3,014	1,200	3,500
NI on earnings above SPa and private pensions above SPa	3,913	1,300	5,200

No account has been made of multiple jobs. An individual will have a personal allowance associated with each employer. This will result in overestimating the potential revenue associated with National Insurance upon employment.

Private pension income has been included with employment income to assess an individual's liability, making it subject to Class 1 National Insurance contributions.

2014-15 NIC rates and allowances have been used for consistency with the data.

Acknowledgements and Contact Details

Editing decisions remain with the authors who take responsibility for any remaining errors or omissions.

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