

7 December 2023

## **Supplementary forecast information release**

### **Additional taxpayers by tax rate band created by the freeze on personal allowance and higher rate thresholds, and the reduction in the additional rate threshold for income tax**

1.1 The OBR is releasing this information following a request for further detail in respect of our November 2023 *Economic and fiscal outlook (EFO)* concerning the impact of the freezes to the personal allowance and higher rate threshold for income tax, and the reduction of the additional rate threshold. We will, as far as possible, meet any requests to release supplementary forecast information where this will improve the quality of public debate on the public finances. Our full release policy is available on our website.

#### **Background**

- 1.2 As discussed in Box 3.1 in the November 2023 *EFO*, most thresholds in the income tax and NICs systems are currently frozen in cash terms as a result of various policy measures announced in successive statements. In the absence of these measures, default indexation policy would have been for these thresholds to rise each April in line with the rate of CPI inflation recorded in the preceding September.
- 1.3 The Autumn Statement in November 2022 reduced the income tax additional rate threshold from £150,000 to match the end of the personal allowance (PA) taper - £125,140 – and remains frozen with the PA until 2027-28. In the absence of this measure, the threshold would have remained at £150,000 (it was not indexed to inflation).
- 1.4 Each of these measures raises tax receipts by boosting fiscal drag – i.e. by increasing the proportion of incomes that are taxed and the proportion that are taxed at the higher rate – and brings more people into income tax and NICs, and more taxpayers into higher and additional rates.
- 1.5 Table 1.1 provides additional data to that shown in Chart B in Box 3.1 in the *EFO*, showing the number of taxpayers under default indexation policy (the counterfactual) and under current Government policy.

Table 1.1: Numbers of new, higher rate, and additional rate taxpayers created by the freeze to the personal allowance and higher rate threshold, and the lowering of the additional rate threshold

	Millions						
	Forecast						
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
<b>Number of taxpayers</b>							
With indexation	34.2	34.1	34.0	34.1	34.4	34.9	35.2
Without indexation	34.7	36.2	37.2	37.8	38.4	38.8	39.2
...brought into income tax	0.5	2.1	3.2	3.7	3.9	4.0	4.0
<b>Number of higher-rate taxpayers</b>							
With indexation	5.0	4.6	4.3	4.1	4.2	4.4	4.5
Without indexation	5.4	6.0	6.4	6.7	7.0	7.4	7.5
...brought into higher rate band	0.4	1.4	2.2	2.6	2.8	3.0	3.0
<b>Number of additional-rate taxpayers</b>							
Previous £150,000 threshold	0.6	0.6	0.7	0.7	0.8	0.8	0.9
Aligned to end of PA taper	0.6	0.9	1.0	1.0	1.1	1.2	1.3
...brought into additional-rate band	-	0.3	0.3	0.3	0.4	0.4	0.4
...brought into higher and additional rates	0.4	1.6	2.5	2.9	3.2	3.4	3.5

Note: "With indexation" for the basic and higher rates assumes both rise with CPI inflation from March 2021. "Without indexation" for the years 2022-23 to 2027-28. Indexed in both 2021-22 and 2028-29

1.6 Table 1.2 provides the measures of inflation used to uprate the thresholds in the counterfactual and Table 1.3 provides the thresholds used in the counterfactual.

Table 1.2: CPI measures used to uprate the thresholds (excluding the additional rate threshold (ART))

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Autumn Budget 2023 CPI	3.1%	10.1%	6.7%	3.4%	1.5%	1.4%	1.7%

Note: September CPI measures are used to uprate the following financial year's thresholds. The analysis was done on Round 3 rather than final inflation forecasts (which were 0.1 percentage points different in some years). This does not have a material effect on the results.

Table 1.3: Counterfactual and actual thresholds (Annual, £)

	£'s						
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
<b>Income tax thresholds</b>							
<b>Personal allowance (post measures)</b>							
With indexation <sup>1</sup>	12,960	14,270	15,220	15,740	15,980	16,200	16,490
Without indexation <sup>2</sup>	12,570	12,570	12,570	12,570	12,570	12,570	12,790
<b>Higher rate threshold (HRT); Upper earnings limit (UEL); Upper profits limit (UPL)</b>							
With indexation <sup>1</sup>	51,860	57,170	61,020	63,140	64,180	65,100	66,290
Without indexation <sup>2</sup>	50,270	50,270	50,270	50,270	50,270	50,270	51,190
<b>Additional rate threshold (ART)</b>							
Previous £150,000 threshold	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Aligned to end of PA taper	150,000	125,140	125,140	125,140	125,140	125,140	125,580
<b>National Insurance contributions thresholds</b>							
<b>Primary threshold (PT); Lower profits limit (LPL)</b>							
With indexation <sup>1</sup>	9,880	10,868	11,596	12,012	12,220	12,376	12,584
Without indexation <sup>3</sup>	11,908	12,570	12,570	12,570	12,570	12,570	12,790
<b>Secondary threshold (ST)</b>							
With indexation <sup>1</sup>	9,100	10,036	10,712	11,076	11,232	11,388	11,596
Without indexation <sup>4</sup>	9,100	9,100	9,100	9,100	9,100	9,100	9,256

<sup>1</sup> "With indexation" for the basic and higher rates assumes both rise with CPI inflation from March 2021. For PT and LPL, assumes it continues to rise with inflation from March 2022. For ST, assume it continues to rise with inflation from March 2023.

<sup>2</sup> "Without indexation" for the years 2022-23 to 2027-28. Indexed in both 2021-22 and 2028-29.

<sup>3</sup> The PT and LPL are not indexed between 2023-24 and 2027-28 following an in-year change on 5 July 2022 that raised the threshold to £12,570 from £9,880. The 2022-23 figure of £11,908 is the LPL for that year and the weighted average of the PT before and after the increase. They are both indexed in 2028-29.

<sup>4</sup> The secondary threshold was frozen at the Autumn Statement 2022 from 2023-24 to 2027-28.