

13 January 2022

Supplementary forecast information release

The effect of the personal allowance and higher rate threshold freezes on taxpayer numbers

1.1 The OBR is releasing this information following a request for further detail in respect of our October 2021 *Economic and fiscal outlook (EFO)* concerning the impact of the personal allowance and higher rate threshold freezes. 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 The March 2021 Budget announced that the personal allowance and higher rate threshold would be frozen in cash terms at their 2021-22 levels for each year up to and including 2025-26. The National Insurance upper earnings limit and upper profits limit will remain aligned to the higher rate threshold over the same period. In the absence of this policy measure, 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. Freezing the thresholds therefore raises tax receipts by boosting fiscal drag – i.e. by increasing both the proportion of incomes that are taxed and the proportion that are taxed at the higher rate.

1.3 The amount raised and the number of people brought into paying income tax or paying the higher rate by the measure depends on actual and forecast CPI inflation, which determines what the thresholds would have been in the absence of the measure. As Table 1.1 shows, the upward revisions to our inflation forecast in October 2021 meant that the differences between the pre- and post-measure thresholds were greater in our October forecast than they had been in the March forecast when the measure was announced.

Table 1.1: Income tax thresholds: March 2021 versus October 2021 EFOs

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Personal allowance (£)						
March pre-measure	12,570	12,780	13,030	13,280	13,540	
October pre-measure	12,570	12,960	13,470	13,790	14,070	14,350
October post-measure	12,570	12,570	12,570	12,570	12,570	12,820
March post- vs pre-measure		-210	-460	-710	-970	
October post- vs pre-measure		-390	-900	-1,220	-1,500	-1,530
Difference		-180	-440	-510	-530	
Higher rate threshold (£)						
March pre-measure	50,270	51,180	52,230	53,280	54,340	
October pre-measure	50,270	51,860	53,970	55,290	56,470	57,650
October post-measure	50,270	50,270	50,270	50,270	50,270	51,320
March post- vs pre-measure		-910	-1,960	-3,010	-4,070	
October post- vs pre-measure		-1,590	-3,700	-5,020	-6,200	-6,330
Difference		-680	-1,740	-2,010	-2,130	

Revised policy costing

1.4 The higher path for CPI inflation in our October *EFO* resulted in the estimated yield from the measure being revised up significantly (Table 1.2). By the final year of the freeze in 2025-26, the amount raised was £4.9 billion greater than assumed in our March 2021 forecast.

Table 1.2: Yield from the measure: March 2021 versus October 2021 *EFO*s

	£ billion				
	Forecast				
	2022-23	2023-24	2024-25	2025-26	2026-27
March <i>EFO</i>	1.6	3.7	5.8	8.2	
October <i>EFO</i>	2.8	7.1	10.3	13.0	13.9
Difference	1.2	3.4	4.5	4.9	

1.5 The higher estimated yield was consistent with more people with incomes between the pre- and post-measure personal allowance being brought into paying income tax, and more people with incomes between the pre- and post-measure higher rate threshold becoming higher rate taxpayers (Table 1.3). By 2025-26, our October forecast is consistent with:

- 1.95 million more individuals estimated to pay some income tax as their incomes exceed the personal allowance, revised up from 1.34 million in our March forecast.
- 1.50 million more taxpayers estimated to have some of their income liable at the higher rate of income tax, revised up from 1.00 million in our March forecast.

Table 1.3: Additional income taxpayers and higher rate payers as a result of the measure: March 2021 versus October 2021 *EFO*s

	Thousands			
	Forecast			
	2022-23	2023-24	2024-25	2025-26
Brought into tax				
March <i>EFO</i>	319	704	1,027	1,341
October <i>EFO</i>	552	1,251	1,641	1,954
Difference	233	547	614	613
Brought into higher rate band				
March <i>EFO</i>	186	443	739	1,002
October <i>EFO</i>	427	900	1,202	1,496
Difference	241	457	463	494