

8 December 2022

## Supplementary forecast information release

### The yield from freezing the personal allowance and higher rate threshold of income tax and NICs thresholds

- 1.1 The OBR is releasing this information following a request for further detail in respect of our November 2022 *Economic and fiscal outlook (EFO)* concerning the impact of the freezes to the personal allowance and higher rate threshold for income tax, and the primary threshold (PT), lower profits limit (LPL), upper earnings limit (UEL), and secondary threshold (ST) for National Insurance contributions (NICs). 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 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:
- **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 NICs upper earnings limit and upper profits limit remain aligned to the higher rate threshold over the same period, so were frozen in cash terms too.
  - **The March 2022 Spring Statement** increased the NICs primary threshold and lower profits limit to align with the personal allowance from July 2022 for the remainder of the 2022-23 fiscal year. These thresholds were then frozen in cash terms at these higher levels from 2023-24 to 2025-26.
  - **The November 2022 Autumn Statement** extended existing freezes up to and including 2027-28 and also froze the NICs secondary threshold (the employer NICs threshold) from 2023-24 to 2027-28.
- 1.3 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. Freezing the thresholds therefore 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.
- 1.4 The amount raised by the measures relative to that counterfactual where thresholds increased with inflation depends on our forecast for CPI inflation, which determines what the thresholds would have been in their absence. The higher path for CPI inflation in our November 2022 *EFO* resulted in a higher estimated yield from the measure (Table 1.1).

- 1.5 These figures do not include the cost of the initial rise in the NICs primary threshold and lower profits limit that took effect midway through 2022-23 but do include the yield associated with not raising those thresholds with inflation in subsequent years.

Table 1.1: Yield from the personal tax and NICs threshold freezes relative to thresholds being raised in line with CPI inflation

	£ billion					
	Forecast					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Income tax threshold freezes	2.9	13.3	21.1	23.2	23.8	25.7
NICs threshold freezes	0.0	4.7	8.6	8.9	8.8	9.3
<b>Total</b>	<b>2.9</b>	<b>17.9</b>	<b>29.8</b>	<b>32.1</b>	<b>32.7</b>	<b>35.0</b>