Impact on households:
distributional analysis to accompany Budget 2016
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Impact on households

1.1 This document presents the impact of the government’s tax, welfare, and spending decisions on households. It considers how policy changes affect the share of public spending received by households, and the share of tax they pay. Alongside the direct impacts on household incomes because of changes to the tax and welfare system, this document also examines benefits in kind from public services.

1.2 The analysis considers policy changes since June Budget 2010, up to and including Budget 2016. It also includes the effects of policies that were announced before June Budget 2010 and were implemented in the last Parliament, in order to present the impacts of the fiscal consolidation as a whole. The analysis is presented for 2019-20.

1.3 The analysis has been published online as a supplementary document to Budget 2016.

Impact across the distribution of household incomes

1.4 The analysis in this document demonstrates the impact of government decisions on the distribution of tax paid and spending received by households. Because all public spending has to be funded in the long run, the analysis abstracts from the level of government borrowing rather than presenting an extra pound of borrowing as necessarily being a gain to households. It does this by presenting relative proportions of tax paid and spending received across the household income distribution, rather than cash impacts.

1.5 The analysis divides households into five income groups, called quintiles, ordered from the fifth of households with the lowest incomes to the fifth of households with the highest incomes. To control for differences in the size and composition of households, incomes are first adjusted through a process called equivalisation. The steps involved in this process are set out in Chapter 2.

1.6 The analysis in Charts 1.A, 1.B, and 1.C considers the distributional impacts on households of government policy by comparing the share of public spending accruing to each income quintile and the share of taxes paid by each income quintile under the 2010-11 system with 2019-20.

1.7 HM Treasury conducts an ongoing programme of model development, and incorporates updated economic assumptions, as well as the analysis of new policy announcements, at each fiscal event. For that reason the charts in this publication are not directly comparable to the charts published at Autumn Statement and Spending Review 2015, and any difference between the two should not necessarily be interpreted as the impact of Budget 2016.

1.8 Chart 1.A shows the distribution of public spending that directly benefits households and the distribution of the taxes that they would have paid under the 2010-11 system, and how these distributions will have changed in 2019-20 as a result of policy changes. The first series (labelled 2010-11) shows what the distributions would have looked like in 2019-20 without any policy changes since 2010-11. The second series (labelled 2019-20) then adds in the effect of all the policy changes since 2010-11. Differences between these two series can therefore be attributed to policy. The figures behind this chart are set out in Table 1.A.1

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1 The total amount of tax raised in this chart is not the same number as the total amount of spending paid out to households. For this reason, it would be incorrect to calculate a net position using the tax and spending bars, and the chart does not present any net impacts of tax paid plus spending received.
1.9 If public spending were spread completely evenly, so that every household received exactly the same amount of welfare and public service spending, then all the spending bars in the chart would be 20%, as indicated by the dashed line. This also applies to the tax bars.

1.10 Chart 1.A shows that the proportion of public spending received by households in each income quintile remains similar between the 2010-11 system and 2019-20, indicating that reductions in public spending since the start of the last Parliament will have not altered its overall distribution. In contrast, the share of taxes paid by the richest households will have increased, resulting in the richest 20% of households paying over 50% of taxes in 2019-20.

**Chart 1.A: Impacts of policy changes on the distribution of tax and public spending, comparing the 2010-11 system with 2019-20**

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</thead>
<tbody>
<tr>
<td>Spending received</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010-11</td>
<td>24%</td>
<td>25%</td>
<td>26%</td>
<td>26%</td>
<td>22%</td>
<td>22%</td>
<td>16%</td>
<td>17%</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>2019-20</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax paid</td>
<td>6%</td>
<td>6%</td>
<td>9%</td>
<td>8%</td>
<td>14%</td>
<td>13%</td>
<td>22%</td>
<td>21%</td>
<td>49%</td>
<td>52%</td>
</tr>
</tbody>
</table>

Source: HM Treasury microsimulation model

**Table 1.A: Proportion of spending received and tax paid in each income quintile, comparing the 2010-11 system with 2019-20**

1.11 Chart 1.A and Table 1.A show that:

- changes to public spending since 2010-11 will have little effect on its overall distribution
- the distribution of spending is progressive; half of all public spending goes to the poorest 40% of households
• the distribution of taxation is also highly progressive; the richest 20% of households will be paying a greater proportion of taxes in 2019-20 than in the 2010-11 system

• in 2019-20 over half of taxes will be paid by the richest 20% of households, who will contribute more in taxes than the remaining 80% put together

• as the richest will pay an increasing share of taxes, those in the remaining quintiles will be paying a smaller share; this is due to the increases to the personal allowance and policies that increase taxes on the richest

1.12 The spending bars in Chart 1.A above comprise spending on both public services, such as the NHS, schools, and early years childcare, as well as welfare spending, such as the state pension, out of work and disability benefits, and tax credits. Chart 1.B breaks these bars into their constituent parts to demonstrate the difference in the distributions of each type of spending, and how these have changed since 2010-11 as a result of government policy. Table 1.B shows the proportions of total public service spending received by each income quintile, split by welfare and public service spending.

1.13 Once again, the shape of a perfectly even distribution of spending (20% in each quintile) is indicated by the dashed line. The fact that bars for the lower income quintiles are above this line, and for higher income quintiles are below, demonstrates that public spending provides proportionally more support for lower income families.

![Chart 1.B: Impacts of policy changes on the distribution of public service spending and welfare spending, comparing the 2010-11 system with 2019-20](chart.png)

Source: HM Treasury microsimulation model
Table 1.B: Proportion of overall public spending received in each income quintile, split by welfare and public service spending, and comparing the 2010-11 system with 2019-20

<table>
<thead>
<tr>
<th>Bottom quintile</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Top quintile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welfare</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10-11</td>
<td>11%</td>
<td>11%</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>2019-20</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Public services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10-11</td>
<td>13%</td>
<td>14%</td>
<td>13%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: HM Treasury microsimulation model
Figures may not sum to 100%, or to totals in Table 1.A, due to rounding

1.14 Chart 1.B and Table 1.B show that the distributions of spending on both public services and welfare peak in quintile 2. This is because this quintile includes a lot of families with children who receive a relatively large share of public spending, notably through education.

1.15 Chart 1.B and Table 1.B show that:

- changes to public spending since 2010-11 will have little effect on its overall distribution, with half of all spending on welfare and public services going to the poorest 40% of households
- while spending on both welfare and public services is progressive, a large part of public service spending goes on services of a universal nature, like the NHS
- the means-testing of much of welfare spending means that its distribution is more skewed towards the lower income quintiles than is the distribution of benefits in kind from public services; most of the spending on welfare that benefits households higher up the income distribution is spending on the state pension
- at the lower end of the income distribution, and the second income quintile in particular, support will have shifted since 2010-11 from cash transfers through welfare, to benefits in kind from public services

1.16 Chart 1.C and Table 1.C below show the proportion of total tax paid by each income quintile, broken down by direct and indirect tax,\(^2\) and show how the share of each type of tax paid by each quintile will have changed since 2010-11 as a result of government policy. They provide more detail than the tax bars in Chart 1.A, which show direct and indirect taxes together. Unlike in Chart 1.A, Chart 1.C expresses these as positive values, so a taller bar on this chart indicates a greater proportion of taxes being paid.

1.17 Chart 1.C shows that the highest income households pay the bulk of taxes; in fact, the 20% with the highest incomes will pay more in tax in 2019-20 than the remaining 80% put together.

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\(^2\) Direct tax is defined as tax which is directly incident upon, and paid by, households to the Exchequer. Income tax, for example, is drawn directly from an individual’s income. Indirect tax is paid by a third party. For example, Value Added Tax (VAT) is paid by businesses to the Exchequer, but the costs of this tax are passed through into prices, and therefore onto households.
Chart 1.C: Impacts of policy changes on the distribution of direct and indirect taxes, comparing the 2010-11 system with 2019-20

Source: HM Treasury microsimulation model

Table 1.C: Proportion of total household taxes paid by each income quintile, split by direct and indirect taxes, and comparing the 2010-11 system with 2019-20

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<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>Direct tax</td>
<td>3%</td>
<td>2%</td>
<td>5%</td>
<td>4%</td>
<td>9%</td>
<td>8%</td>
<td>15%</td>
<td>13%</td>
</tr>
<tr>
<td>Indirect tax</td>
<td>3%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>5%</td>
<td>6%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Direct tax (2010-11 system)</td>
<td></td>
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<td></td>
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<tr>
<td>Indirect tax (2010-11 system)</td>
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<td></td>
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<tr>
<td>Direct tax (2019-20)</td>
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<td></td>
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<tr>
<td>Indirect tax (2019-20)</td>
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</tr>
</tbody>
</table>

Source: HM Treasury microsimulation model
Figures may not sum to 100%, or to totals in Table 1.A, due to rounding

1.18 Chart 1.C shows that the majority of taxes paid, particularly at the higher end of the income distribution, are direct taxes. Because individuals in the lowest income households are often below the thresholds for Income Tax and National Insurance contributions, households in the lowest income quintiles tend to pay a relatively greater proportion of indirect tax than direct tax.

1.19 The difference between the 2010-11 series and 2019-20 series shows that the proportion of taxes paid by the highest income quintile will have risen as a result of policy changes since 2010, and that this has primarily been driven by changes that increase the direct tax liability of high income households. By contrast, the proportion of direct taxes paid by households in lower and middle income quintiles will have fallen. This is largely due to increases in the personal allowance.

1.20 Chart 1.C shows that:

- the richest 20% will be paying a greater proportion of taxes in 2019-20 than in the 2010-11 system as a result of government policy
- as the richest will be paying an increasing share of the total tax revenue collected from households, those in the remaining quintiles will be paying a smaller share; the proportion of direct tax that will be paid by the bottom quintile will have fallen
due to the increases to the personal allowance and policies that increase taxes on the richest

- the distribution of indirect taxes by income quintile will remain similar when comparing the 2010-11 system and 2019-20

**Impacts of public service spending by type of household**

1.21 Chart 1.D shows the average amount of public service spending that will be received by different household types, in 2019-20, on a per capita basis. These values reflect the cost of the benefit in kind provided by public services. This spending is further broken down by spending area, of which the two largest are health and education.

![Chart 1.D: Average amount of spending on public services used, by household type and spending area, per capita (£ per year, 2019-20)](chart)

*Source: HM Treasury microsimulation model*

1.22 Chart 1.D shows that, in general, public service spending is targeted to support households with children and households with pensioners. Pensioner households receive high levels of support through health spending. Families with children benefit primarily from education spending, and childless families of working age particularly benefit from employment support and skills spending.

**Wider economy changes**

1.23 The previous section shows that the state plays a significant role in the distribution of income through taxes and public spending. However, wider economic factors, such as employment, the rate of earnings growth, and inflation also have impacts on households’ standard of living. This section draws on a range of data sources to provide the wider economic context.

1.24 Chart 1.E presents the distribution and level of original incomes before taxes and welfare, i.e. earnings, private pensions, and incomes from savings and investments, between 2007-08 and 2014-15, the most recent year for which data by income quintile are available. The two key drivers of change in this chart are (i) changes in the employment rate and (ii) the rate at which earnings are increasing. This sense of how household incomes have changed over this earlier...
period provides a backdrop for considering the effects of the government’s tax and spending decisions presented in the previous sections.

**Chart 1.E: Contributions to real changes in original (before benefits and taxes) income 2007-08 to 2014-15, as a percentage of 2007-08 original income, by income quintile**

1.25 The chart shows that:

- on average, households in higher quintiles saw the largest reductions in real original income between 2007-08 and 2014-15
- on average, households in the bottom quintile saw their incomes protected against the effects of inflation

1.26 The trend in original incomes can be explained by a combination of increases to the protection to low income workers from the National Minimum Wage, increases in pensioner incomes, and a fall in worklessness during this period. Because the data cover a broad time period, the kind of families that appear in each quintile can change between years as things like employment rates, the demographic make-up of the country, and the circumstances of pensioners change.

1.27 The most recent data on earnings growth show that median full-time weekly earnings grew by 1.9% in real terms in the period April 2014 to April 2015. In addition, growth was strongest at the 10th percentile (near the bottom of the income distribution), where nominal earnings grew by 3.1%. At the 90th percentile (near the top of the income distribution), earnings grew by 0.9%.

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3 Source: Office for National Statistics, Annual Survey of Hours and Earnings
2 Data sources and methodology

2.1 This section explains in detail the data sources and methodology used to produce the charts presented in this document. All figures in this document are calculated as economic estimates, including the effects of assumptions and results from economic analyses that have a material impact. They are therefore outside the domain of official statistics.

Defining income

2.2 This analysis uses equivalised net household income, before housing costs, as the key measure through which to rank households from lowest income to highest income. This measure comprises a number of details:

- **Equivalised**: equivalisation is a process that adjusts a household’s net income to take into account the size and composition of the household. This reflects the fact that larger households will require a higher net income to achieve the same economic well-being and standard of living as a household with fewer members. Net incomes are adjusted in comparison to a couple with no children. To calculate the net equivalised income for a household, each person is given a factor based on their position in the household relative to the head of the household and their age. The equivalisation factors used in the analysis are the modified OECD factors (as used in the Department for Work and Pensions’ Households Below Average Income publication).

- **Net**: household incomes are ranked after deductions from direct taxes, and after additions from welfare benefits. Deductions from indirect taxes, or additions through benefits in kind from public services, are not used to rank households.

- **Household**: incomes are assessed in aggregate at the household, not individual, level. A household can comprise a single individual, a single family (referred to as a benefit unit), or multiple families.

- **Before Housing Costs**: housing costs such as rent or the cost of servicing a mortgage are not deducted from household incomes.

The household income distribution

2.3 Table 2.A below shows the median gross income (private income, including earnings, private pensions, savings and investments, plus benefit income) for different household types in each equivalised net income quintile.

2.4 The incomes in this analysis are calculated on an equivalised net income basis (i.e. after tax and benefits) to better capture households’ standard of living. The table below shows median gross (pre-tax) incomes within each quintile, which gives a less precise estimation of a household’s position on the income distribution than net income but, because many people think about their incomes or salaries in gross rather than net terms, is easier to understand.

2.5 Table 2.A should therefore be used to approximate where a household will be found in the income distribution. For example, if a household consisting of two adults earns £32,600 per year between them, there is a high likelihood that this household will be found in the third...
income quintile. However, this is not guaranteed, because different gross household incomes can result in different net household incomes, depending on how many earners there are in the household, the size of the household, and which benefits the household qualifies for.

Table 2.A: Median gross income for each income quintile for different household compositions (£ per year, 2019-20)

<table>
<thead>
<tr>
<th>Median gross income of households in quintile</th>
<th>1 adult</th>
<th>1 adult and 1 child</th>
<th>2 adults</th>
<th>2 adults and 1 child</th>
<th>2 adults and 2 children</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top quintile</td>
<td>50,400</td>
<td>62,300</td>
<td>77,400</td>
<td>98,900</td>
<td>123,500</td>
</tr>
<tr>
<td>Fourth quintile</td>
<td>30,900</td>
<td>42,400</td>
<td>46,600</td>
<td>61,400</td>
<td>73,500</td>
</tr>
<tr>
<td>Third quintile</td>
<td>21,400</td>
<td>28,000</td>
<td>32,600</td>
<td>43,300</td>
<td>52,600</td>
</tr>
<tr>
<td>Second quintile</td>
<td>15,600</td>
<td>20,600</td>
<td>23,700</td>
<td>30,400</td>
<td>37,600</td>
</tr>
<tr>
<td>Bottom quintile</td>
<td>10,500</td>
<td>14,300</td>
<td>16,200</td>
<td>20,600</td>
<td>25,700</td>
</tr>
</tbody>
</table>

Source: HM Treasury microsimulation model

Analysis of the tax and welfare system

2.6 Analysis of the tax and welfare system is calculated using the Intra-Governmental Tax and Benefit microsimulation model (IGOTM). This model is underpinned by data from the Living Costs and Food Survey (LCF). The small sample size of the LCF means that to be able to produce robust analysis three years of data have been pooled together, specifically 2010-11 to 2012-13. This data is then projected forward to reflect the financial year being modelled, using historical Annual Survey of Hours and Earnings (ASHE) data on earnings growth at different points across the distribution as well as the latest OBR average earnings and inflation forecasts.

2.7 Throughout the analysis, individual employees are assumed to be paid at least the appropriate level of the National Minimum Wage or National Living Wage, which has been uprated from announced levels to 2019-20 based on the OBR forecast for average earnings, assuming that the National Living Wage reaches 60% of median earnings by 2020. The model makes no changes to the underlying employment levels or expenditure patterns in the base data.

2.8 The impacts of tax and welfare measures that can be modelled robustly at a household level are derived using this projected data. We model two policy settings: the first is a view of 2019-20 that reflects all government policy changes announced at this Budget, and all other fiscal events since June Budget 2010. This also includes policies that were announced by the previous government, but implemented from May 2010. The second is a view of 2019-20 which assumes that the system as it was before June Budget 2010 continued, where tax and benefit thresholds are increased in line with the policy at the time. Detail of the process by which these policy settings are constructed is given below.

2.9 This type of analysis does not capture:

- changes to regulation (e.g. the National Living Wage), which are not changes to the distribution of tax receipts or public spending
- “windfall” income, such as inheritances, and the taxes paid on it, where the receipt of the income would temporarily shift the household’s position in the income distribution, distorting the analysis
• exchequer impacts resulting from reduced fraud, error, or debt (FED) in the welfare system, as full compliance with the rules of the welfare system is assumed throughout the modelling
• exchequer impacts resulting from reduced tax evasion, as full compliance with the rules of the tax system is assumed throughout the modelling; avoidance measures are captured where they result in a change in tax liability in the year being analysed
• levies, such as the soft drinks industry levy or apprenticeship levy, that do not have a clear and direct impact on households

2.10 Within the tax system, the main taxes covered in this analysis are: income tax, employee National Insurance Contributions, council tax, VAT, insurance premium tax, fuel duty, alcohol duty, tobacco duty, stamp duty land tax (SDLT) and, for the first time in this publication, air passenger duty (APD).

2.11 Within the welfare system, the most significant welfare benefits covered are: the state pension, pension credit, winter fuel payments, attendance allowance, jobseeker’s allowance, employment and support allowance, income support, Working Tax Credit, Child Tax Credit, child benefit, disability living allowance, personal independence payments, housing benefit, and Universal Credit.

Analysis of tax and welfare measures that are not microsimulated

2.12 Not all measures can be reliably modelled using IGOTM due to data and/or modelling constraints. Tax and welfare changes that cannot be modelled robustly using microsimulation modelling are apportioned to quintiles, according to the exchequer costs or savings from the measures, based on assumptions about where the impacts are likely to fall.

2.13 The IGOTM model is currently a model of the pre Universal Credit (legacy) welfare system. Although that means that HMT microsimulation modelling cannot currently capture the effects of Universal Credit (UC), or of any changes to it, these impacts are apportioned across households to ensure that the policy is fully reflected in the charts.

2.14 The fact that Universal Credit will be largely rolled out by 2019-20 means that households will be receiving a different amount of welfare in 2019-20 than they would have done without UC; we refer to this as the marginal impact of UC over the legacy system. In order to capture this marginal impact in 2019-20, the microsimulation modelling of the legacy benefits that people would have received is added to the net exchequer cost of the marginal impact of UC. The difference between the welfare spending under the legacy and the UC systems in 2019-20 is apportioned across the distribution of the marginal impact of Universal Credit using estimates from the Department for Work and Pensions.

2.15 The net impact used for this analysis excludes exchequer savings from reductions to fraud, error, and debt which result from the introduction of UC, because the modelling assumes full compliance with the rules of the tax and welfare systems. The updated rollout schedule and increased transitional protection resulting from the maintenance of the income threshold and taper in tax credits also use costings net of FED and are apportioned across the distribution of the marginal impact.

2.16 HM Treasury runs a continuous programme of model development and anticipates including full microsimulation modelling of Universal Credit in the near future.
Analysis of spending on public services

2.17 The analysis of the benefits in kind provided by public service spending is also derived from HM Treasury’s IGOTM model. However, the modelling approach taken for public services is slightly different. There are two general approaches to the modelling of resource spending on public services (referred to as Resource Departmental Expenditure Limits: RDEL) depending on whether service use is reported in the Living Costs and Food Survey (LCF), which underpins the modelling. Where this is the case, no additional data is required and the approach is similar to that used for most tax and welfare modelling. An example of this is spending on schools, which can be modelled directly because the LCF contains information on the number of children by age in each household who attend a state-funded school.

2.18 Where the LCF does not contain information about use of the service, additional data sources are required. This additional data is used to identify characteristics associated with the use of the service and then to derive probabilities of service use conditional on these characteristics. This could include a wide range of characteristics, although the variables considered must be common to both the additional data and the LCF data used in the microsimulation model. For example, use may vary by age, income, family composition, and geographic location.

2.19 Where possible the probability of using a given public service is estimated through a regression model. However, because of data limitations, this is not always possible and many probabilities have instead been estimated through cross-tabulations.

2.20 These probabilities are then applied to the LCF data in the microsimulation model. Total spending (both actual and for the baseline) is then allocated according to each household’s relative likelihood of using the service. Impacts of changes in RDEL spending are calculated alongside tax and welfare and presented across the income distribution.

2.21 The analysis covers the services delivered by the Department of Health, the Department for Education, the Department for Work and Pensions, the Department for Communities and Local Government, the Department for Business, Innovation and Skills, the Department for Transport, Local Government, the Ministry of Justice, and the Department for Culture, Media and Sport.

2.22 This analysis only includes spending on frontline public services with a direct benefit to households. The analysis excludes:

- administrative spending
- capital spending, and the depreciation of capital assets
- spending funded through the reserve
- public sector pay and public service pensions policy

Constructing charts 1.A – 1.C

2.23 Charts 1.A to 1.C are derived through analysis of the combined impacts of all tax, welfare, and public service spending decisions since June Budget 2010, in order to present the impacts of all the current and coalition governments’ consolidation decisions. Whilst each chart shows a different facet of the overall shape of tax and public spending, the broad principles behind each of these charts are similar. All analysis of public service spending is limited to England only.

2.24 This analysis is modelled in two stages. First, the impacts over the 2010 to 2015 Parliament that were calculated at Budget 2015 are used. In this stage, LCF input data that covers 2008-09 to 2010-11 are used in order to construct the baseline and to model the impacts of policy changes
through to 2015-16 announced in the last Parliament. Second, impacts of policy changes in the current parliament, up to and including Budget 2016 are estimated on top of this. In this second stage the newest available LCF input data, covering 2010-11 to 2012-13, are used, and the counterfactual is updated to be the policy setting at the end of the 2010 to 2015 Parliament.

2.25 The two sets of impacts are combined with the modelling of the 2010-11 baseline, and all figures are converted into the same year’s price terms. This two-stage approach ensures that analysis of policy decisions in the current Parliament is underpinned by the data that most accurately reflects the present composition of the underlying population, while avoiding the double counting of policy impacts that would occur in trying to re-run analysis from the last Parliament on the new data.

2.26 Households are then ranked from lowest income to highest income, using household equivalised net incomes (as outlined above), and this ranking is divided into five equally sized groups called quintiles, across which analysis is performed.

2.27 Within each quintile, the share of public spending received in the 2010-11 baseline, and then the 2019-20 policy setting, is determined and is expressed as a percentage. The same process is repeated for the share of tax paid.

### Constructing chart 1.D

2.28 Chart 1.D takes the aggregate amount of spending on public services, and divides it across three household types. This chart presents per capita spending, but values within this chart are not equivalised in any other way.

2.29 Household groupings are defined as follows:

- if a household contains a person aged over the state pension age, it is classed as a pensioner household
- within those households that remain, those that contain children aged 17 or under are classified as households with children
- remaining households are classified as households without children

2.30 This means that, for example, a pensioner couple living with a family with children would be classed as a pensioner household. These mixed households are not separated out in this chart, but have a relatively minor impact on the overall figures.

2.31 Spending is separated into four categories:

- health spending consists entirely of NHS spending
- education spending consists of Department for Education spending on primary and secondary education, and the Department for Business, Innovation, and Skills spending on further and higher education
- social care consists of local authority spending on residential and domiciliary social care
- employment support consists of spending on employment skills and jobseeker support through the Department for Business, Innovation, and Skills and the Department for Work and Pensions
- all other departmental spending with a direct benefit to households is included in the “other” category
Constructing chart 1.E

2.32 Chart 1.E is constructed using the ONS series “The Effects of Taxes and Benefits on Household Income, 2013-14” (Table 14.A) and the ONS release “Household disposable income and inequality, financial year ending 2015” (Table 1). Figures are deflated using the implied household deflator published alongside the latter release.

Budget 2016 measures included in this analysis

2.33 This analysis includes the following tax measures announced at Budget 2016:

- Personal Allowance: increase to £11,500 in April 2017
- Higher Rate Threshold: increase to £45,000 in April 2017
- Lifetime ISA (tax impacts) and raise ISA limit to £20,000
- Self Employed: abolish Class 2 NICs
- Disguised remuneration: tackling new schemes
- Off-payroll working: transfer liability to public sector employers
- Asset Managers: reform treatment of performance awards
- Fuel Duty: freeze in April 2016
- Alcohol Duty: freeze for beer, spirits and cider
- Hand-rolling Tobacco: increase by RPI+5%
- Insurance Premium Tax: increase by 0.5% in September 2016

2.34 This analysis includes the following spending measures announced at Budget 2016:

- Lifetime ISA (spending impacts)
- Education: doubling the school sports premium
- Education: longer school day and breakfast clubs
- Education: full academisation and accelerate transition to National Funding Formula
- Education: Northern Powerhouse
- Help to Save
- Personal Independence Payments: aids and appliances
- Benefit Cap: exemption for recipients of carers allowance
- Local Housing Allowance: implement for new tenancies from April 2017
- Exempting War Pension payments made to injured veterans from the social care means test

2.35 Certain personal tax and welfare measures announced at Budget 2016 remain out of scope of this analysis due to data and/or modelling constraints. These include:

- Changes to Capital Gains Tax (CGT)
- Sharing Economy: £1,000 allowance for both trading and property income
- Removing employer tax advantage of different forms of remuneration: pay-offs over £30,000
- Benefit Cap: exemption for recipients of guardians allowance

2.36 As set out in paragraph 1.7, HM Treasury conducts an ongoing programme of model development, and we will continue to explore whether we can bring analysis of these measures into our model in the future.

2.37 The announced £3.5 billion reduction to departmental budgets in 2019-20 is not captured, as the detailed decisions required for modelling the impacts on public services have not yet been made. This is consistent with the previous treatment of departmental budget reductions in this analysis at the fiscal event in which they were announced.
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This document can be downloaded from www.gov.uk

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