

The gendered impact on incomes of increasing benefits versus raising the NI threshold

Two policy alternatives were being discussed to address the cost-of-living crisis from April 2022:

- 1) Increase benefits in line with forecast inflation for Spring 2022 (7%) rather than by the September 2021 measure of 3.1%;
- 2) Raise the threshold at which people start paying National Insurance Contributions to be the same as the income tax Personal Allowance (£12,570).

The Chancellor has opted to raise the NI threshold, which will make NI a more progressive tax. However, increasing benefits in line with inflation would be the most progressive choice of the two, benefitting the poorest more.

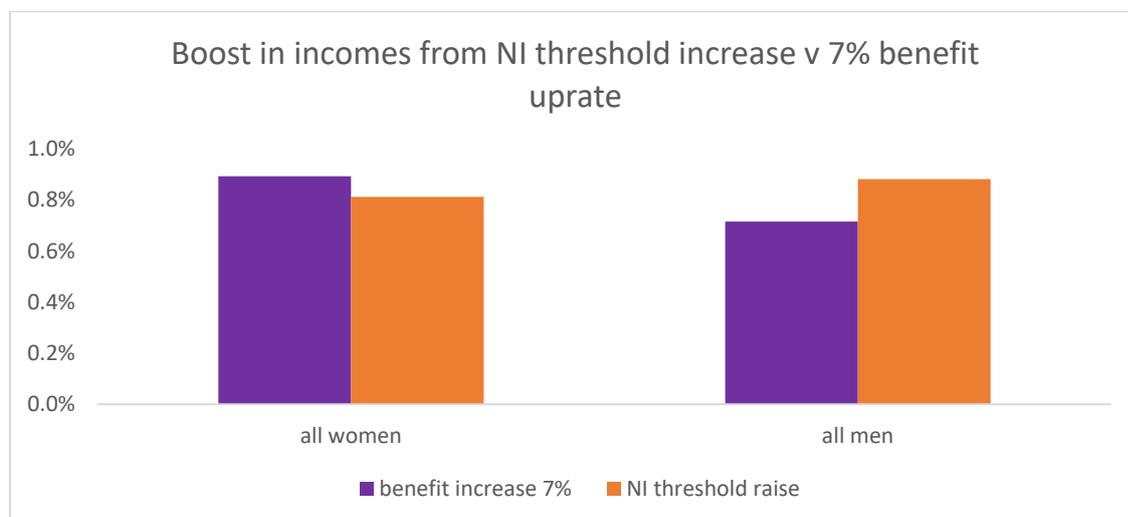
Neither measure would go far towards addressing the cost-of-living crisis, increasing average family incomes by just 0.8% and 0.9% respectively compared with forecast inflation of over 7%. However, they do have slightly different consequences for different families.

In this short note we compare the impact of these two policies. We find that women, pensioners, single parents, and lower-income families would benefit more from an in-line-with-inflation increase in benefits, compared to the rise in the NI threshold.

The cost for the public purse is similar: the additional increase in benefits would cost around £8.3bn this year, while the rise in National Insurance would reduce tax revenues by £9.1bn. The decision is therefore political, rather than motivated by budgetary considerations.

Not allowing the fabric of our social security system to deteriorate more by protecting the real value of benefits would be the more progressive policy, putting money into the pockets of the people for whom this cost-of-living crisis is an emergency.

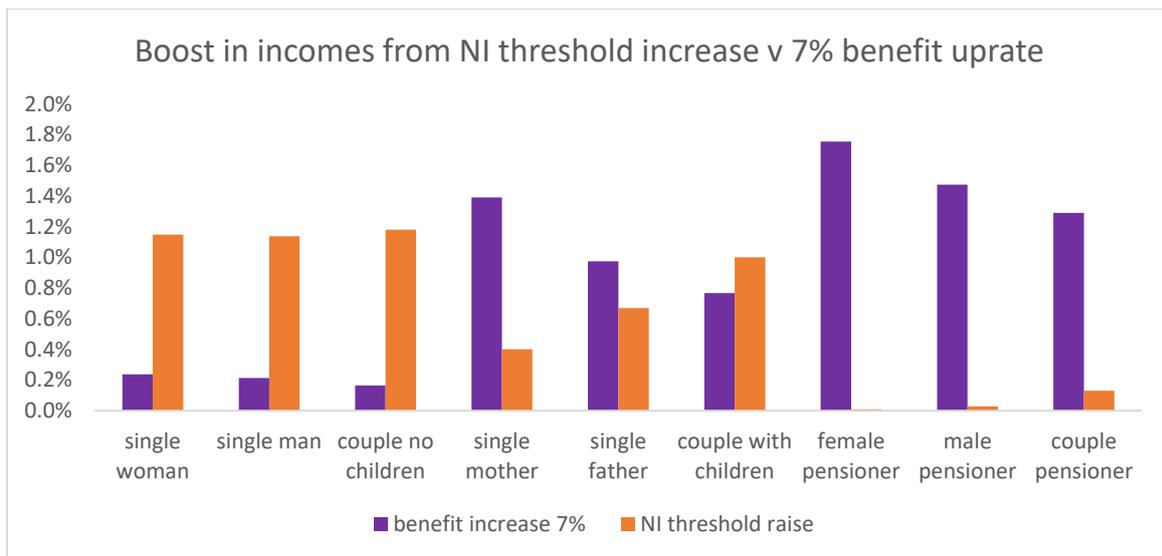
Chart 1.



The results presented here are based on UKMOD version A3.0+. UKMOD is maintained, developed and managed by the Centre for Microsimulation and Policy Analysis (CeMPA) at the University of Essex. The process of extending and updating UKMOD is financially supported by the Nuffield Foundation (2018-2021). The results and their interpretation are the author's sole responsibility.

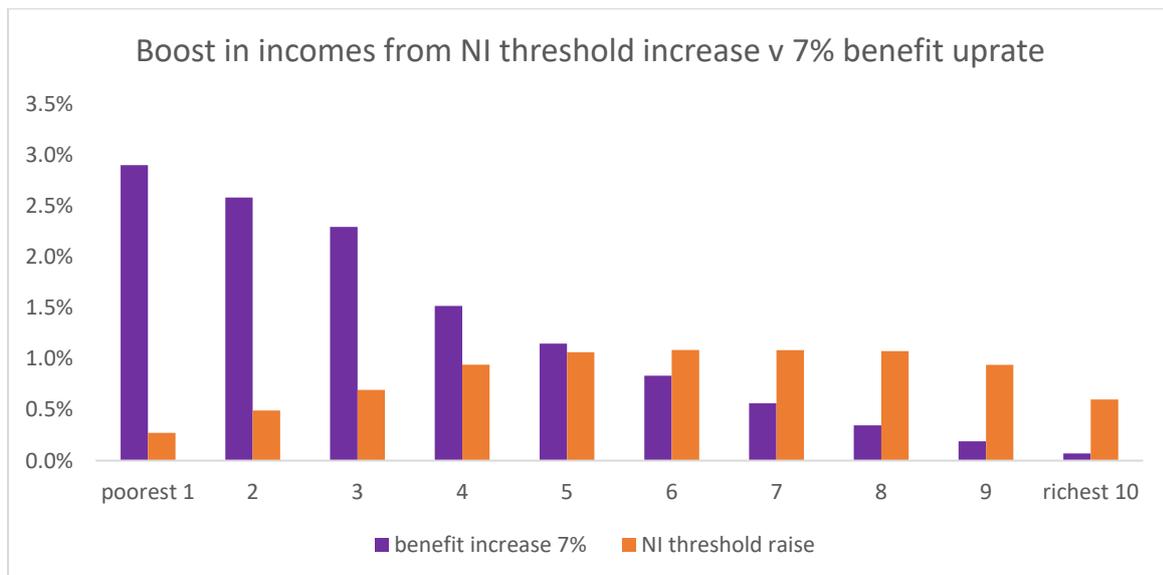
- Women would be slightly better off if benefits were uprated in line with April inflation compared to a raise in the National Insurance threshold.
- Men will benefit more from a NI threshold increase.

Chart 2.



- Single people and couples with no children are significantly better off from an increase in the NI threshold compared to a benefit uprate of 7%. For couples with children, the difference is smaller.
- Single parents, and single mothers in particular, would benefit a large deal more from a benefit increase of 7%, as opposed to a rise in the NI threshold.
- For pensioners, a higher benefit uprate would be much more beneficial, as they barely gain from a raise of NI threshold.

Chart 3.



- Raising the NI contributions threshold is a policy that benefits middle- and higher-income families more than poorer families.
- Increasing benefits in line with the April forecast inflation, on the other hand, is the more progressive policy, benefitting the families for whom the cost-of-living crisis is an emergency.

Nevertheless the rise in the NICs threshold mitigates the impact of the NICs rise on women and poorer families, and we would support this move in itself for that reason. If the Chancellor wants to recoup the tax revenue lost by the rise in this threshold, he could raise the Upper Earnings Limit accordingly.

It is vital that any fall in revenue raised from NICs is not allowed to impact on investment going into Health and Social Care. More, not less, is needed because of inflation.

Neither of the two policies under consideration do anything more than tinker at the edges of a crisis in which real incomes have manifestly failed to keep up with the rapidly rising cost of living. Far more fundamental reforms are needed if the current crisis is not to result in a substantial increase in poverty, hunger and an inability to keep warm.



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