

Treasury Committee

Oral evidence: Budget 2017, HC 1069

Tuesday 14 March 2017

Ordered by the House of Commons to be published on 15 March 2017.

[Watch the meeting](#)

Members present: Mr Andrew Tyrie (Chair); Helen Goodman; Stephen Hammond; Mr Jacob Rees-Mogg; Wes Streeting.

Questions 94 - 171

Witnesses

I: Paul Johnson, Director, Institute for Fiscal Studies; Carl Emmerson Deputy Director, Institute for Fiscal Studies; Helen Miller, Associate Director, Institute for Fiscal Studies.



Examination of Witnesses

Witnesses: Paul Johnson, Carl Emmerson and Helen Miller.

Q94 **Chair:** Thank you very much for coming to give evidence to us today on this. How should I describe it? It is a mini-Budget, a sort of three-quarters Budget. It is certainly on the smaller side by historical standards. People are measuring it by the size of the Red Book. Some of the greatest Budgets of the post-war years generated very short Red Books, so I do not think we should use that as a criterion. Can I begin with national insurance contributions, NICs? Do you think it is right that the self-employed should be compensated through the tax system for the additional risks that they take and how easy is it to identify those risks, Mr Johnson?

Paul Johnson: First of all, it is worth saying that the tax benefit is very big so, relative to the employee and employer contributions of over 22%, the self-employed are facing a much smaller tax. On the whole, it is pretty hard to justify anything like that scale of tax.

Q95 **Chair:** The question is: do you think there should be something that justifies it? Is there something to justify a gap?

Paul Johnson: Historically, there has been the justification that the self-employed are entitled to significantly smaller state benefits than employees. That gap is almost completely closed now, particularly with the introduction of a single-tier pension, so the only difference is in terms of maternity benefits and contributing to jobseeker's allowance. That might imply a difference in national insurance rates of up to 1 percentage point, but certainly no more than that. Other differences are, first of all, very different according to the type of self-employment that people are in.

Chair: Let us talk about the genuinely self-employed, the self-employed self-employed, not people who might easily have been in the employed sector. Let us just concentrate on that end of the spectrum.

Paul Johnson: Then you need to think about exactly what it is you want to compensate or subsidise. Is it that you want to compensate or subsidise for the additional risk that people are taking, as you were saying? You need to ask, first of all, why we want to subsidise risk. We do not subsidise all risk and we do not think that all risk is a good thing. Secondly, if you do want to do it, why do it in a blanket way through the tax system, which subsidises or helps an awful lot of people who are not taking those risks? Do you want to find a better way of achieving that? Thirdly, you want to think about the scale. As I suggested earlier, the scale is very big indeed at the moment.

Q96 **Chair:** Do you think NICs are a pure tax?

Paul Johnson: Yes.



HOUSE OF COMMONS

Q97 **Chair:** Therefore, the contributory principle that suggests there is a close and much more hypothecated relationship is gradually going.

Paul Johnson: There is very little left of the contributory principle. It is now very hard to avoid getting the full single-tier pension. Only very small groups are not going to achieve that and the pension is, by far and away, the biggest part of what is supposed to be the contributory principle.

Q98 **Chair:** To summarise your answer, you think that, if there is a differential that can be justified on the basis of what they receive, the differential to the self-employed should be very small. That is for the maternity. If it is to be any larger on account of compensation for risk, for example, we need to think much more clearly about what risks are entailed. It is your view that they should probably be dealt with not through the tax system, but through public spending.

Paul Johnson: On that second point, we need to think much more clearly about what we value, from a societal point of view, about the self-employed and think very carefully through the sorts of things you might want to do, if anything.

Q99 **Chair:** I am asking you that question. I know you think very carefully, so I am hoping you have thought very carefully. There is an argument out there, a strong one, that this is the enterprise culture that drives economies and keeps them flexible.

Paul Johnson: It is very hard to justify the current tax system on the basis of that argument.

Chair: You do not agree with that argument.

Paul Johnson: No.

Q100 **Mr Rees-Mogg:** I have one question on language about NICs. When you say "subsidise", you mean that people are allowed to keep their own money and therefore it is not a subsidy. That is very important; it is their money.

Paul Johnson: One can think about tax subsidies in all sorts of different ways but, on the whole, when one is talking about one group paying less than another for doing very similar things, one can think about that as a subsidy.

Q101 **Mr Rees-Mogg:** That is only if you assume that it is the Government's money first. It is not. It is the taxpayer's money and the Government are not giving a subsidy by not taking your money. That is very important linguistically, because it slightly shows the angle that you are coming from.

Paul Johnson: To put it another way, you are charging other people more tax in order to reduce the tax on another group.

Q102 **Mr Rees-Mogg:** You are charging people more tax, not necessarily in



HOUSE OF COMMONS

order to do anything else with the others. You are just charging people more tax. Language is very important, because it gives an indication of where you are coming from. You always seem to be in favour of higher taxes, which worries me.

Paul Johnson: Absolutely not at all. What we are saying here is that there is a case for horizontal equity between people. If you want a lower rate of tax across the board, that is absolutely reasonable.

Mr Rees-Mogg: You did not suggest that.

Paul Johnson: It is much harder to make a case for treating this group very differently from this group, when they are doing a very similar thing. That creates complexity and cost to the economy and to those who are not benefiting from the reduced tax.

Mr Rees-Mogg: You did not make a case for lower tax for the others. You made a case for higher tax for the self-employed.

Paul Johnson: We are making a case for bringing the two together.

Q103 **Mr Rees-Mogg:** I wanted to come on to a specific point and ask your view on the £3,000 exemption for small companies, for your first employee, on national insurance contributions by employers. A constituent came to see me to say that he used to employ 10 people and now they have all set up as their own company, because that gives them £30,000 of employer's contribution NICs for free. I wonder whether you have looked into the distorting effect of specific tax incentives and, rather more broadly, the danger of having those sorts of nice-to-do baubles that end up causing unintended consequences.

Paul Johnson: That is exactly the point we are making, in a sense. That particular subsidy, or whatever you want to call it—

Mr Rees-Mogg: I do not like the word "subsidy".

Paul Johnson: It is not surprising that it has that effect, because it creates a very clear incentive in the system to do that, as does treating self-employed and employed people very differently, which is one of the reasons why we have all these court cases about whether someone is self-employed or employed. When you create very different tax treatments of very similar activities, you create these incentives to change your behaviour purely for tax reasons.

Q104 **Mr Rees-Mogg:** Have you done any work specifically on the £3,000 limit?

Paul Johnson: We have not. I do not know whether that would be empirically possible at the moment.

Helen Miller: At the moment, we do not have the data that would let us look at that. We have looked at other bits of the tax system. For the data we do have, you can see very clearly that individuals respond to tax



HOUSE OF COMMONS

incentives. Whatever data we have, where we can see we have had tax incentives, people respond to them very sharply, but we cannot see that particular one yet.

Carl Emmerson: There was a measure in the Autumn Statement that tries to reduce the extent to which people were gaming that change in the way that the Government did not want to see. In addition to seeing data before the Autumn Statement, we would also like to see to what extent the Government have reduced this problem.

Q105 **Mr Rees-Mogg:** Can I move on to dividend tax, please, and the issue of forestalling? There seems to have been £800 million of revenue that the Government did not get because people took forestalling action. How much consultation can you safely have without creating a very large amount of forestalling? What balance do you think Governments should aim for?

Paul Johnson: It is clearly a difficult balance. There are some issues where you do not particularly need consultation, where you can avoid forestalling, for example moving the top rate from 40% to 50% and back down to 45%. There was not and did not need to be any consultation about that but, in each case, giving a year's notice created an awful lot of forestalling. On dividend tax changes, I do not know how much consultation is intended, because there is clearly another set of changes coming in next year, which people have been given a full year's notice of. What we clearly learn is that, if you give that particularly to people who have the opportunity to do this, you create a lot of forestalling, so the balance of risk in terms of issues like dividend taxation is clearly towards forestalling.

Q106 **Mr Rees-Mogg:** Following on from what you were saying about NICs, do you think that the taxation approach to dividends should be exactly the same as the taxation approach to earned income? In the 1970s, there was a surplus tax on unearned income at quite a high level. Now, unearned income is actually more favourably taxed than earned income. Is this something that the IFS thinks is sensible in terms of encouraging savings and so forth, or is it something that it thinks is distortive?

Paul Johnson: It is something we have thought about a lot and you are getting right to the centre of the way that the tax system works. Broadly speaking, one would want to be taxing them all at the same rate, but adjusting the tax base, so that you are not reducing incentives to save and invest. Effectively, you have to offset any savings or investment that you are doing against the rate. That would effectively provide more generous treatment for investments, for example, that self-employed and incorporated people do, but to charge a higher rate of tax on the returns that they therefore make. That is quite a big change, and it is important that it is not simply increasing the rate of tax on investment income. It is reducing the base in order to ensure that you are not taxing the normal returns on savings or investment.



HOUSE OF COMMONS

Q107 **Mr Rees-Mogg:** Do you get that by reducing corporation tax? If they keep the money within the company and invest it in building up the company, they pay a lower rate of tax, but then they pay more when they take the money out.

Paul Johnson: No, it is rather the reverse of that, in a sense that, while you are doing investment, you would effectively be paying no tax on the returns to that investment, but you would be paying a higher rate of tax on the rest of the return that you are making.

Q108 **Mr Rees-Mogg:** In terms of the complications caused by having the different rates, you move into lots of anti-avoidance mechanisms to stop people moving things around. Do you think that one of these that might be useful is to go back to the old close companies rules, so that dividends from close companies are tracked differently to those from non-close companies?

Helen Miller: The short answer is no, I do not think it would be better. Whenever you put boundaries into the tax system and define a set of companies, you give people incentives to try to be one type or the other type, depending on which type they are better off under. If there is just another boundary, you get more avoidance problems around that boundary. You might fix one problem, but you create another problem. There is no economically good reason to treat those types of companies differently. It is more like a sticking plaster: "We cannot do the proper thing, so we will just fiddle these guys and sort these guys out". It would be better just to get a grip on the kinds of issues that Paul is talking about, sort out the tax base and the rates, and that would be applicable to all individuals, regardless of the type of company they chose to reorganise themselves under.

Q109 **Mr Rees-Mogg:** That would be a broadly simpler system with fewer allowances and exceptions, and therefore probably also a lower rate, but a more uniform rate.

Helen Miller: It would be a simpler system, in the sense that you would get rid of lots of the boundaries in the tax system and a lot of the allowances we currently have. At least you could choose to get rid of them if you wanted to, or you could keep them if you wanted to. You would be narrowing the tax base, in the sense that some investment that is currently being taxed would be taken out of tax, so that would reduce your revenue. It is not that you would be broadening the tax base and therefore you could slash rates. You could choose to do that, but that would lose you revenue, so you would be narrowing the tax base, at least in some cases. You could choose whichever rate you thought was applicable.

Q110 **Mr Rees-Mogg:** I have a final question on this. It is just to ask Mr Johnson if you think it meets the Treasury's six principles of tax policy, changing the dividend rate one year after it has been introduced.



Paul Johnson: It is unfortunate that so many things have happened in a slightly un-joined-up way. On the self-employed, of course, we have had two changes in the last couple of years, first of all giving them more pension and getting rid of class 2 NICs. Now we have the change to class 4. Doing that together would have made more sense. The point you are making is that we introduced this £5,000 dividend allowance just a year ago and we are now taking that down to £2,000. It does not look like a clear strategy over time. Taking all of that together, in one go, would have made an awful lot more sense.

Q111 **Mr Rees-Mogg:** If I can now move on completely to the welfare cap, starting with first principles, do you think it is a good idea to legislate for caps or for spending targets, which you then do not meet, so you adjust the way of meeting them, or do you think that this could easily lead to bad policymaking and misallocation of resources? Mr Emmerson, you look as if you are very keen to respond to this.

Carl Emmerson: In a perfect world, we want policymakers to make the right policy decisions and explain them very clearly. The welfare cap is based on a suspicion that sometimes welfare spending might turn out to be more than you intended and, rather than cut it back, you take the easier choice of doing something else or just ignoring it. We are in a world where policymakers are not making perfect decisions; they are hiding problems or pushing them into the future. Having a cap that says that, if spending goes above a certain level that you can choose in advance, we have to either rein it back below that level or explain our decision not to could help to make policymaking better. It could be a good guide. The operation of it has hardly been great so far. We have had only one breach of the cap and, in that moment, the Chancellor decided not to do a whole load of welfare cuts that he had announced just a few months earlier. We cannot really say that this cap has been tested and proven to lead to better policymaking as a result.

Alongside the cap, we have the "Welfare trends report", which the OBR produces each year and which I think is a very good innovation. The new Chancellor has made some changes to the welfare cap. Adjusting the benefit spend for changes in inflation is a good move. The move to assessing it every five years, rather than every year, is a bad move and I cannot help but be a bit cynical about the fact that it will not actually get tested until after the date of the next general election, which means it cannot be breached in this Parliament.

Q112 **Mr Rees-Mogg:** That was my next question. You think that the new 3% margin and the five-year timetable is a bad move, because it makes it so flexible that it becomes meaningless.

Carl Emmerson: It cannot be breached in this Parliament. None of the fiscal targets can be breached in this Parliament, actually. I think that is unfortunate. The 3% margin just makes it easier to hit. You clearly would not want to have a 0% margin. I do not really have a view about exactly how big a margin you would want to have. The other thing they



HOUSE OF COMMONS

have done, though, is to say that, if welfare spending is creeping up, just because inflation has turned out a bit higher, that is okay. Adjusting for changes to inflation is a good thing. Reasonable people can disagree about how big the margin should be, but 3% is a bit bigger than what Mr Osborne chose to have.

Q113 Mr Rees-Mogg: How arbitrary do you think the things that are included within the cap and those that are not included are? Roughly 52% of welfare spending is in the cap and the rest is not. There is a slightly growing share outside. Is this important or is this just a fair part of pensions policy?

Carl Emmerson: The "Welfare trends report" is focusing on all of welfare spending, so we still have a check on the whole lot. What is excluded is the state pension, where we have quite reasonably argued that we think about that in a longer-term view. The Government have pointed to their desire to push up the state pension age if longevity keeps rising, which is fine. Of course, the current pensioner population would not suffer from an increase in the state pension age and they would benefit if, for example, the triple lock turns out to be more expensive than we intended. There is still a risk that the taxpayer is bearing there and perhaps communication on that could be better.

The other things that are excluded are very cyclical benefits. Again, I do not think we want to muddle up how jobseeker's allowance is temporarily costing us more, just because unemployment is temporarily a lot higher, with, for example, housing or disability benefits costing more in a more structural way. Excluding the cyclical bits, I definitely approve. On the state pension, we need more of a conversation about what the cost of the triple lock has been and whether it is a cost that we want to bear.

Q114 Mr Rees-Mogg: More broadly on this approach to public spending, with having these caps and having a target with overseas aid, which is much more fixed than the cap for welfare, does this not lead to distortions in expenditure? You are trying to achieve something that is based on so many moving parts that to get it absolutely right is extremely difficult, but constrains your policymaking decisions.

Carl Emmerson: The welfare cap is constraining your policymaking in a good way, hopefully, in the sense that it stops you from just hiding problems that appear. The overseas aid target is quite different, in that it is only ever going to cost us 0.7% of our GNI. We may think that is too high or too low. People will disagree about that, but it is not going to suddenly cost us more. The problem there seems to be more about if we should care about what bang for our buck we are really getting with this money, rather than how much we are spending.

Q115 Mr Rees-Mogg: If you have an era of austerity, you are boxed in. The Government have fixed expenditure that is relatively small—the health service, education, the list goes on. On the other hand, they promise not to raise a whole set of taxes. This point was raised by the Chairman in



his speech after the Budget. You really constrain what a Chancellor can do in responding to circumstances. I am poking away at this to see if you think that it may be good politics, but it is actually rather bad economics.

Carl Emerson: I started this set of questions on the welfare cap by saying that, ideally, we just want policymakers to make the right decisions and we do not want to constrain them at all. If we suspect that people are sometimes tempted into letting problems be hidden away, we might want to put some constraints in place. Elsewhere, you might think that it is quite reasonable for those seeking election to set out exactly what they will do in certain circumstances. If you want to pledge in your manifesto "Whatever the world looks like, I will spend 0.7% of GNI", I do not think we should stop you from doing that.

Q116 **Stephen Hammond:** Good morning. You made a comment a moment ago that you were not sure that there was any clear strategy over time, about some of the products in the tax and savings market. Can we just have a look a couple more of those? You were very critical of the tiered approach and the effect that that had in terms of stamp duty. Do you take the same approach to the reforms to probate?

Paul Johnson: It is the same structure. As you say, it is a slab structure such that, as your estate goes over a certain level, there is a big increase in the amount of probate duty that you pay. That never feels like a terribly sensible structure. That said, while there will be some opportunities for gaming that, the economic consequences of that will be smaller than the stamp duty changes, but it will create some incentives to game the estate around those levels.

Q117 **Stephen Hammond:** You think there will be relatively small opportunities. You do not think that a lot of people will take the decision to give away a lot of their estate to pull themselves just under those levels.

Paul Johnson: They might, but do not forget of course that, with the 40% marginal rate, if it is only a few thousand pounds of difference in the estate, that will very quickly be accounted for by that 40% marginal rate, which would soon outweigh any effect of the probate duty, where the maximum is £20,000. It is not a very sensible structure and it will have some impact but, relative to stamp duty, it is going to be a small one.

Stephen Hammond: I take that point but, nonetheless, it is creating some odd perversions and disincentives.

Paul Johnson: There are some odd incentives at the margin, for sure.

Q118 **Stephen Hammond:** If you take it at a wider basis, do you think it is a disincentive to save?

Paul Johnson: That probate charge is so small that, if it creates a disincentive, it is not a disincentive that we would ever be able to measure. It is small relative to other things happening in the system.



HOUSE OF COMMONS

Relative to a 40% marginal rate on inheritance, which is £40,000 for every £100,000, a maximum of £20,000 in the probate for £2 million estates that would otherwise have inheritance tax of well over £0.5 million, while I do not disagree with what you are saying in principle, is pretty small empirically.

Q119 Stephen Hammond: I take your point that it is small in scale. There are two points that come out of that. Firstly in terms of the principle, although it is technically not a tax, do you think that there was significant and sufficient consultation prior to it being implemented? Given that almost all the consultation that there was of it was relatively limited, because it was not widely spread, and showed almost total opposition, is there any point to tax consultation if the Government are going to just do it anyway?

Paul Johnson: I confess that I was not aware of the consultation or the scale of it, so I cannot really give a sensible answer to that.

Carl Emmerson: I know that in your question you said that it is not technically a tax. The OBR have said that they are expecting the ONS to decide in future that it is now a tax, because of its structure. Under the old probate fee, essentially, the Government would incur some costs in valuing your estate, and the ONS said that you could just offset the fee against those costs and that it did not count as a tax or as a spend; it is all just netted out. In the new world, the OBR are saying that they think the ONS will decide that the spending that the Government do on valuing your estate is public spending and the income they get from the probate will not net that off; it will in fact be a tax receipt. Their view is that the ONS will deem this to be a tax now because of its structure.

Q120 Stephen Hammond: I take the point that you have made a couple of times that it is smaller empirically. Do you think that there is an overall message coming from the Government, in most of the measures they are introducing at the moment, that there is a disincentive to save?

Paul Johnson: There is a range. Over the last few years, we have had changes moving in different directions. For higher earners, the incentive to save in a pension has been reduced very significantly.

Q121 Stephen Hammond: It is not just for higher earners, is it, because of the way it is calculated? You will hit the lifetime allowance if you are earning £35,000 after 15 years of saving.

Paul Johnson: For some groups, there has been a reduction in the incentives for pension saving. Clearly auto-enrolment has improved the incentives. The limits for ISAs have doubled since 2010, so that is a big increase in incentive. For the first time, the LISA actually provides something that is a better bet for some people than a pension, which is quite a big change. What is very striking is that, five years ago, you could put 25 times as much into a pension as you could put into an ISA. Now, you can only put in twice as much in any year, with a lifetime limit on the pensions, which there is not on ISAs. We have actually had quite



HOUSE OF COMMONS

a radical change in the shape of savings incentives away from the pension shape, which is tax-free now and taxed when it comes out, towards the ISA shape, which is taxed now and tax-free when it comes out. While a year ago the then Chancellor did not make the big changes to pensions that he consulted on to move the whole thing to an ISA style, gradually, we have moved to a savings world that is much more towards the ISA-type savings and away from the pension-type savings.

Q122 Stephen Hammond: Would there be any benefit to the overall savings level if the lifetime allowance was done away with? It drives you back towards pensions.

Paul Johnson: If the lifetime allowance were done away with, it would move it towards pensions. The main group that that would help would be those currently fortunate enough to be in defined-benefit schemes. Actually getting to the lifetime allowance, given the annual allowance limits, is going to be pretty hard work for someone who is putting money into a defined-contribution scheme. If you can only put in £40,000 a year, you would have to do that for quite a lot of years to get £1 million.

Stephen Hammond: The way you factor it up actually takes you there very quickly. If it is a factor of 20, you get there much more quickly than you are assuming.

Paul Johnson: You can get there. You are much more likely to get there in a defined-benefit scheme.

Stephen Hammond: True but, even with a defined-contribution scheme, you can get there very quickly.

Paul Johnson: You can get there over a period. Clearly it would simplify the system. It would help a significant group of people and it would get rid of what is a distortion in the system. Equally, the way in which the allowance is tapered away for people at over £150,000, between £150,000 and £210,000, is a very odd distortion in the system.

Q123 Stephen Hammond: Given the fact that most people are now in DC schemes or auto-enrolment schemes, your view is that the movement away from the benefit in pensions and towards ISAs and LISAs is a sensible one.

Paul Johnson: I do not have a terribly strong view about which is the better way of doing things. As I have said, it has not been an entirely transparent move, because there was a consultation on a fully transparent move and that was pulled away from. Giving people the choice is pretty sensible. There is a strong case for having that choice. I have more of a problem with the annual. In a sense, it is up to Government to decide how much they think it is reasonable to give tax incentives to people for over their lifetime. Why would you want to constrain people on their annual amounts as well as their lifetime amounts, I struggle with. If I wanted to liberalise one of those, I would



liberalise the annual thing, rather than the lifetime thing, because that would give people the freedom to put in money when and if they can.

Carl Emerson: In fact, referring to an earlier question about the self-employed and the employed, the annual allowance punishes people who might want to make very big contributions in a few years, within a £1 million cap. They might be the kind of people who are, for example, disproportionately self-employed. If you want to say that everyone can put £1 million tax-free upfront into a pension, why would you want to punish those people who want to make lumpy contributions, potentially because their incomes just happen to fluctuate a lot? One group of those is the self-employed.

Q124 **Stephen Hammond:** You mentioned the LISA a few moments ago. I just wanted to ask a couple of questions about that. Firstly, there has been very mixed publicity about it, some of which has been around whether or not there are going to be necessary risk warnings. Last year in evidence to this Committee, you said, Mr Johnson, "I would be surprised if there was a big problem with people losing their employer contribution. It is clear that the employer contribution to a pension is valuable". A lot of the risk statements have been about people transferring out of a pension scheme into a LISA. Your view last year that most people recognise the value of that contribution from the employer remains your view.

Paul Johnson: Particularly in the context of automatic enrolment, where the evidence so far is that the nudge for people to do that is very effective, to the extent that people are not going to actively un-auto-enrol. At least at current rates, it is pretty clear that people are not taking that active decision. There is some risk. There is potentially some confusion created by the LISA because, up until now, it has been absolutely clear that for pretty much everybody a pension is the more tax-advantaged method of saving, so long as you are happy to keep something stuck there until you are somewhat older. The LISA is a more tax-advantaged method of saving for those who cannot get an employer contribution. The danger is that it might muddy the waters, muddy the advice and muddy the clarity a little bit, but it is an additional choice that people have.

Q125 **Stephen Hammond:** On the analysis that you have done, are there any circumstances where a LISA would be better value for a saver than where there is a DC scheme with an employer contribution?

Paul Johnson: If the employer contribution is small enough. The upfront contribution to the LISA is worth 25% of what you are putting in and the employer contribution could be less than that. I do not know exactly where the cut-off is but, if the employer contribution is only a couple of hundred pounds, then the LISA may well be worth more.



HOUSE OF COMMONS

Carl Emmerson: The other example where it would be worth more is if you want to buy your first home. You cannot access the money from a pension to do that before an age that is something like 55.

Stephen Hammond: It is 55.

Carl Emmerson: It is something like that. You can access it from a LISA at any point, if you are buying your first home.

Stephen Hammond: That makes it quite an attractive product for young people.

Carl Emmerson: If they are saving for that purpose, it does.

Q126 **Stephen Hammond:** Although it is not a universal product, it is likely to be a successful product for those who are looking for that purpose. Some of the naysayers are more likely just to be people who are not prepared to offer that product, rather than there being any intrinsic problem with the product.

Paul Johnson: I cannot see why it would not be attractive. It has a £1,000 upfront bonus. I cannot see why that would not be attractive, quite honestly.

Q127 **Wes Streeting:** I am going to focus primarily on the issues of social care and business rates. Given that I am still a serving councillor in the London Borough of Redbridge for another year, I should declare that. I am a vice-president of the Local Government Association as well. I want to begin with social care. Obviously there was some additional help in the Budget to meet the demands of the social care crisis, but we see a range of estimates about what the actual funding gap is. Has IFS put a clear number on what you think the funding gap is in social care spending by 2020, say?

Paul Johnson: I do not think we can put a gap on it. What we can say is that, if all of the money—and this is an “if”—that has been allocated to social care in the Budget goes on social care, that will take adult social care spending roughly back to where it was in 2010. If all of that money goes, it is a big increase this year of 7% or 8% relative to last year, but there are three big caveats to that. First, it is not entirely clear that all of that money will have to go to social care, because as you know councils will have a degree of autonomy over exactly how that money gets spent. Secondly, if it does all go, that is a sudden change. Will that be spent as carefully and sensibly as it could be? Thirdly, while there is as much money per adult as there was in 2010, there are an awful lot more older people needing social care, so the age-adjusted or real amount available will still be less than it was in 2010.

Q128 **Wes Streeting:** My personal view, for what it is worth, is that social care pressures are such that I imagine lots of councils will put this money where it should go, which is into social care. You are right to question whether or not the impact would be felt in the way that we would like.



HOUSE OF COMMONS

As you will know following debates in Parliament, we often have debates about whether the spending is going up and where it sits relative to the past. You are also right to point out that the nature of the ageing population means that there are greater demands on services. On that basis, the LGA, the Nuffield Trust and the Health Foundation have all said that the Budget announcements are insufficient to tackle the scale of the pressure in adult social care. Would the IFS agree with that assessment?

Paul Johnson: I do not think we have a view about what the right amount of money to spend is. As I said, our view is that this will leave spending per adult, once you take account of need and age, significantly lower than it was in 2010 but, relative to 2016-17, it is a substantial increase. It is a 7% or 8% increase in a year and that is a significant change.

Q129 **Wes Streeting:** In your opening remarks on the Budget, in reference to the plans for a social care Green Paper, you called for “a little less conversation, a little more action”, citing Elvis. What did you have in mind?

Paul Johnson: The reason for that statement is, as you know, there have been an awful lot of consultations, Green Papers, reviews and so on of social care, over the last several years. There was a very extensive and well thought out set of proposals that Andrew Dilnot came up with four or five years ago, which seem to have been put very much on the back burner. To be honest, I doubt whether a further set of reviews will come up with anything that has not been known from some of those previous pieces of work. In the end, a decision, quite a big, high-level policy decision, needs to be taken about the appropriate way of funding social care.

Essentially, the truth is that we have the information that we need. It is just a question of making a political choice about the extent to which we want this to be privately funded, the extent to which we want to put more state funding in, the extent to which we want this to be locally or centrally funded. It is not a statement to which I know the right answer. The Chancellor, the Prime Minister and others have enough information to make a decision, because it has been reviewed so very many times before.

Q130 **Wes Streeting:** While the Government are in listening mode with the Green Paper, you are not pointing to particular approaches or policy solutions.

Paul Johnson: As I was indicating, there is a lot to be said from the set of proposals that were in the Dilnot review.

Q131 **Wes Streeting:** There is a risk, is there not? I have suggested what I think local authorities will do but, in terms of public finances and the outcomes that we would like to see, there is a risk around whether or not all parts of the system will pull in the right direction and will have the right level of resource to do so. For example, one of the ways in which



HOUSE OF COMMONS

the NHS needs to manage the pressures on its resource base is to deal with the issue of delayed discharges. If a local authority is not in a position to make sure that care is provided, either in a residential care setting or community-based setting, the delayed discharge problem will continue. How big a risk does the IFS think this is to the stability of public finances and the assumptions that are made in the budget about the importance of tackling those sorts of areas?

Paul Johnson: Again, it is very hard to put specific numbers on that, but it is very striking, as you will know from speaking to people running NHS organisations, that their first priority is not more money for them; it is more money for the social care system to prevent exactly the kind of occurrences that you are describing. This clearly is something that is terribly important to deal with. As the Budget document points out, the issue is different in different local authorities. Dealing with the specifics as well as the general level of funding is important, but I completely agree with the premise of your question, which is that dealing with this bottleneck in the system will help, right the way back into the health service.

Q132 Wes Streeting: One of the challenges that we face in terms of trying to influence not just government policy, but government resource allocation over the coming period, is how you determine the question that you were unable to answer at the outset. How much money, how much resource, is needed to deal with the social care crisis? In some of your answers, you have indicated that absolute funding is not the right metric to consider because, alongside the funding pot, you have to consider the growing pressures and the changing population. Are there particular metrics that you think we should be using or metrics that IFS would use? It is difficult for us to push the Government to allocate more resources without a substantial evidence base, so I am surprised that the IFS has not thought about a figure or what the resource pressure might be.

Paul Johnson: We are never in a position and we would never say that the right amount to spend, whether it is on transport, health, education or anything else, is X. What we can do is point out how those levels have changed and how that relates to the changing level of demand. Clearly, the amount of money going in has not kept up with anything like the increased level of demand, in terms of need.

It is also important to be clear that this is a period when the resources of the older population who are likely to need care have also been rising. This is clearly something that is not just state-funded; it is provided informally and informal care resources have gone up. A swiftly increasing fraction of older people are married and therefore have partners who can provide some care, and a swiftly increasing proportion of older people have significant private resources of their own. That needs to be taken into account as well. It is one of the reasons why, if one is going to review this whole set of issues, one needs to take into account all of that, as well as the increasing levels of need, to determine how to fund it and



HOUSE OF COMMONS

the right level of resource. No, we cannot give you a number that an extra X billion is required, I am afraid.

- Q133 **Wes Streeting:** Sure, I understand. The Chancellor's flexibility to draw on additional resources to meet funding pressures on areas like adult social care has been heavily constrained by the commitments made by his predecessor, particularly in the last Conservative manifesto. Do you think, given the social care pressures and where the concentrations of wealth are, that it was a mistake to rule out increases in inheritance tax, for example, or to look at the wealth that people have after they no longer need it, after they have passed on somewhere else, to help deal with the social care crisis?

Paul Johnson: In the end, that is just a big political choice. It is worth noting that, if you look at what has happened to inheritance tax, the threshold has been frozen for a long period and it is intended to continue to be frozen. In that sense, inheritance tax has been biting more. The main home allowance coming in, in April, will bring that down again. If there is to be a review, as indicated by the Chancellor, it is unfortunate that you rule out what might be a plausible policy before you do the review. Like how much we spend on overseas aid, that is one of those big political questions that Chancellors need to provide answers to.

- Q134 **Wes Streeting:** I want to move on to the issue of business rates. There are business rates generally and then there was this discount for pubs. Just picking up on that one side issue, which seemed to me to derive from special pleading by effective Back-Bench lobbies rather than maybe the most pressing needs, even the discount for pubs got some good headlines, but it was pretty small beer, was it not? It was pretty small beer, in terms of the pressures that pubs are facing. Would you agree?

Helen Miller: Yes.

Paul Johnson: Yes, it is a small amount of money.

Wes Streeting: It was not quite as bad as Jonny Reynolds' puns last night about the Chancellor not quite excelling as Spreadsheet Phil. I had to get small beer in there.

Carl Emmerson: If we want a simpler tax system, of course, we should just apply business rates uniformly. If we want to have some special cases that we particularly like, supposing we decide we would like to have more pubs, we might think about the best way to allow that to happen. It might not be the business rates system. Even if you do think it is the business rates system, it is unlikely to be a temporary thing. Why do you want to have pubs supported for a short period of time, as opposed to, say, in 2020 or 2025? That would look rather odd.

- Q135 **Wes Streeting:** In some ways, Carl, you have just opened up the area that I wanted to go into around business rates. You pointed to a more substantial reform of the business rates system. The Government have made a mistake really, have they not, by trying to tinker with the system



HOUSE OF COMMONS

as they have gone along, rather than addressing the whole issue of business rates in a holistic sense, whether they are fit for purpose and the impact they are having on the success or otherwise of businesses across the UK? It would probably have been better for the Government to have reflected on reform of the system before embarking in the way that they have. Is that a fair criticism?

Carl Emmerson: There may be some near-term issues about people being unpleasantly surprised by big increases in their rates bills, which may well provide a justification for some transitional relief. The fundamental problems in business rates are twofold. First, we should not go seven years without a revaluation. We should have them more frequently. That will mean that people will not see such changes in their bills because, naturally, over a shorter period of time, you will not get such big changes in the tax base differential across the country, so that would help. The other thing we should do is to try to focus the tax more on the value of the business land, not on the property that sits on the land.

Q136 Wes Streeting: One of my concerns, particularly as a London MP, is that property prices in the city have just spiralled out of control. There has to be a place on high streets throughout the city, whether in the centre or in the suburbs, not just for the big national brands, which are also struggling with their high street presence actually, but also the small independent businesses and the family businesses, whether that is the halal butcher or the local hairdressers. Do you think that this is another example where the overheating of the property market in London is skewing the national debate, and there is a good case for devolution of this policy at a London-wide level?

Paul Johnson: You are right that this is very much a London issue, in the sense that London is the only region where business rates have risen on average, as a result of the revaluation. They have risen quite significantly. One effect of that is a significantly increased redistribution of those business rates from London to the rest of the country. That reflects what business rates are for, in a sense. They are supposed to reflect the fact that the value of properties has risen so much more here than elsewhere.

That is a separate question from your one about high streets, butchers and so on. If we think that there are sorts of businesses that we want to support differentially from the rest, we must be very clear about why we want to do that, and then either do it from within the business rates system in a consistent way or do it in some other way, but be very clear that we think there is something valuable there and design a policy in order to achieve what we actually want to achieve. I suspect that the answer is not to put a blanket reduction in business rates on all shops, for example.

Q137 Wes Streeting: You have indicated the merits of business rates as they previously operated, which is that the receipts can then be redistributed



HOUSE OF COMMONS

equitably to fund different services across the country. Although it is characterised as a London issue, there is very much an issue for a local authority like mine. We are a commuter suburb in London. If I were the leader of Westminster or the leader of Camden, I would be very much in favour of greater business rate retention, because that gives me a huge pot of money to spend on local services. As a former deputy leader of Redbridge, I am slightly less enthusiastic about the concentration of resources in zone 1. Do you think this is an issue that the Government ought to reconsider, as part of a broader look at business rates?

Paul Johnson: It is important that the business rates that will be retained are only the marginal increase as a result of new property. The revaluation does not result in more retention, initially. What it means is that a 1% increase in the business rate property in Westminster will be worth an enormous amount of money, whereas a 1% increase in many other local authorities will be worth very little. The value of growth to Westminster will be very big and, equally, the value or the cost of contraction will also be very big. The value or cost of that happening in other local authorities will be very much smaller. It is important to be clear that the reason for this redistribution from London to the rest of the country is simply the increase in the value of property that already exists, which is not going to be retained.

Q138 **Wes Streeting:** The final thing I wanted to ask on business rates was about the discretionary support that has been announced. Do you think that this is sufficient and where do you think it should be concentrated? Where is the need for relief?

Paul Johnson: It is being concentrated in London, as you would expect, given that that is where most of the increases are happening. I do not think we have a view, similar to your previous question, about sufficiency. This is a judgment. The key point, as Carl was making, is that at the moment this is resulting in 40%-plus increases in some people's business rates pretty much overnight. The main reason for that is that we have left it seven years since revaluing and there has been a lot of relative change. There is a problem with a tax that changes by that much overnight. The best way of getting around that is doing a revaluation much more frequently. The second best way of doing it is to provide some proper transitional relief. To the extent that this helps some of those businesses that are facing very big overnight changes, it will help.

Wes Streeting: The relief itself is effectively concentrated to the areas where it is most needed.

Paul Johnson: That is my understanding.

Helen Miller: It is going to be allocated across the country according to those areas that saw the biggest increases; then local authorities will have the discretion to decide, in their areas, whether they want to pick those businesses that had the larger proportional increase or another



HOUSE OF COMMONS

group of businesses at the small end of that. They will be able to target it at what they think, so it will be a choice for them.

Wes Streeting: It is not fashionable to stick up for greater spending or a concentration of support for London but, in this case, it is needed. We need all the friends we can get to stick up for greater funding concentration in London.

Q139 **Chair:** Mr Emmerson, when you were talking about what is needed to try to stop this cliff-edge problem on business rates happening again, you said we need more frequent revaluations but, as you know, those are quite difficult to manage. They are administratively quite complex. Have you examined the possibility of using indexation followed by periodic adjustment when the indexation gets out of line?

Carl Emmerson: That would be a neat way through the problem. If a full revaluation is very extensive, then perhaps every year you just revalue all the properties in a particular area by the average and, at a slightly less frequent period, perhaps even few years, you decide to do a proper revaluation. You could then move forward with that, going forwards. You could even compensate people when you felt you had been a bit harsh with the average that was applied in the area to date. That would seem to be a natural way forwards, with perhaps annual broad-brush revaluations.

Chair: You have not examined that approach at all.

Carl Emmerson: We have not examined the practicality, but we have in theory.

Q140 **Chair:** Is it not the case that the collection through modern technology—I suppose “big data” is the fashionable phrase for what we are talking about—of the information required to do that indexation now makes that approach possible, whereas it did not only 10 years ago?

Carl Emmerson: It would seem that it is much cheaper to do now than it used to be. I think it is completely plausible that you could do that. Of course, measuring everybody’s incomes and measuring everyone’s profits is not easy either, and we manage to do that on an annual basis. I certainly have a lot of sympathy with the idea that we do something broad-brush every year and then something more comprehensive less frequently.

Q141 **Chair:** Is it not all so much fairer? After all, a group of people who are now having reductions in their business rates have been paying higher rates than they should for part or all of that seven-year period. Another group has actually been collecting a windfall before they hit this cliff edge, for which they are now going to get some relief. That is the harsh HMRC view of the matter, but you can see that there is also more than a shred of truth in it, or do you not agree with that?



HOUSE OF COMMONS

Carl Emerson: No, I agree with that. We are trying to tax people based on the rent that they are paying. It would seem more natural to do that on the current year, just as in the council tax system in England it seems pretty odd that we tax you on how much your house was worth in 1991, as opposed to what it was worth in 2017, say.

Chair: That is a much bigger cliff-edge problem, which I am sure does need attention.

Paul Johnson: It is now.

Q142 **Chair:** It is not one that I am cross-examining you on, at the moment. You said that there were two problems. One is the house versus property problem that is the basis of the tax, and the other is the frequent revaluations, which we have just discussed. Is there not a third, which is the appeals system? The appeals system must be fast enough, even if it is not quite as rigorous as the current system in ensuring that everybody gets exactly the right answer, to enable any process of frequent revaluation or indexation to be accomplished because, without it, the appeals for the previous year will still be carrying on while you are enjoying or suffering an alteration to the rate.

Carl Emerson: That seems to be another issue of fairness. You want to get people's values as best you can and, in the cases where you get it wrong, you want to have a swift appeals system to set that right.

Q143 **Chair:** Have you looked at that issue? You know that the Government have announced reforms in this area; have you looked at those?

Carl Emerson: I have not looked at those, no.

Q144 **Chair:** You have no view on whether you think that is going to take a trip.

Carl Emerson: No.

Paul Johnson: It is worth saying that the way the appeals system works at the moment creates uncertainty, not just for businesses, but significantly for local authorities' cash flow. Different authorities have put different amounts of money aside to deal with appeals.

Chair: That is another and more detailed reason for supposing that my concern is justified.

Paul Johnson: The impact on local authority budgets, according to where they end up on the appeals and how well prepared they are, will be very different and very significant between different local authorities.

Q145 **Chair:** A moment ago, one of you introduced the thought of this huge cliff edge in the system, all the way from 1991 or 1992 through to 25-year growth in this cliff edge. Have you given serious thought to how to deal with that?



HOUSE OF COMMONS

Paul Johnson: In terms of how you would transition towards where we are at the moment, not in detail, it would be fair to say.

Chair: Have you at all?

Paul Johnson: We have looked at the broad consequence of moving from where we are to something based on current values in a little bit of detail, in terms of the scale of the changes. The transitional arrangements you could put in would be I guess of the kind that one normally does, which is to say that, in X years' time, we will get you from here to there and the amount that you pay will go up gradually over that period. That is the sort of thing that one would presumably do as part of a transition.

Chair: The answer to my question is you have not done that.

Paul Johnson: We have not looked at the transitional issues, no.

Carl Emmerson: It is just a choice on a spectrum.

Q146 **Chair:** The second question is this. It is true of course that there is a heap of unfairness in the existing system of a similar type with respect to council tax valuations, but writ even larger than with business rate revaluations, both on the upside and the downside. The biggest of all is the absence of any appreciation of the consequences of house price movements in central London, the mansion tax point, which means that people have moved into what would have been a much higher level of tax under the old rates, but are now capped out through the council tax banding system. Do you have a view on how to address that problem? There is a lot of money involved there, by the way. A very large proportion of what people consider to be the uncollected tax is in that area.

Paul Johnson: You see the same sort of thing in stamp duty, where a very high fraction of the stamp duty that is collected is from property transactions in central London, reflecting exactly what you are describing.

Chair: Some argue it is a rough and ready substitute. It is very rough and ready; one is on a stock and one is on a flow.

Paul Johnson: Exactly, so one can understand why, from a practical point of view, it is easier to collect stamp duty, but it is clearly more damaging in the sense that it creates problems for the housing market.

Q147 **Chair:** The question I am asking you is if you have done any work on what could or should be done to deal with that aspect of the unfairness, in the absence of a revaluation. Because we have not had a revaluation, there is unfairness around. I am just addressing that particular aspect of it.

Paul Johnson: Without a revaluation, all that you could presumably do would be to change the relationship between bands.



HOUSE OF COMMONS

Q148 **Chair:** Rather than speculate now, what I am asking is whether you have thought that through.

Paul Johnson: Not in the absence of a revaluation, no.

Q149 **Chair:** Do you think it might be helpful if the IFS did some work on these things we are identifying that have not been thought through, which are quite important? There might be some public policy merit in all of them.

Paul Johnson: We will think about what we can do. I struggle with the idea of making changes without a revaluation, but we will take that back.

Chair: Why? Lots of people have come forward with quite prudent proposals and they say things, some of which have ended up in manifestos, of that type.

Paul Johnson: I assume that you are referring to the mansion tax, which I assume would have been based on up-to-date values.

Q150 **Chair:** There are others that have been floated as well, so I am very surprised by the reply you have just given. It is clear that a revaluation is a massive political undertaking. You only have to look at the origins of the poll tax farrago to see what revaluations do for the political system. I am asking you to think through a more modest proposal that addresses one important aspect of the unfairness, but also raises a lot of revenue.

Paul Johnson: We will try. I am really struggling to see how you could make changes without actually valuing the properties.

Q151 **Chair:** You have not addressed it or thought about it very much, so why do you not come back to us with it after you have struggled a little more?

Paul Johnson: As I say, I will see what we can think of, but it is very hard to think of doing something that does not address current values.

Q152 **Chair:** Can we expect something from the IFS on this or not?

Paul Johnson: It may be of the kind that we really cannot think of anything that does not address current values. You are asking me right on the spot here, but it is very hard to see what you can do.

Q153 **Helen Goodman:** If you have done something that includes revaluation, or can do much more easily, it would also be extremely interesting. Continuing with this local government theme, where have most of the cuts to local government fallen up to now?

Paul Johnson: As you know, the cuts are essentially from central redistribution to local government. Over the years, up until this year or last year, most of those came as straight percentage cuts to the central government grant. Because certain kinds of local authorities are more dependent on that grant than others, some local authorities have suffered more and those tended to be metropolitan authorities, including in London, and those with the more deprived population, because they were more dependent on grants. Up until now, it has been those more



HOUSE OF COMMONS

grant-dependent local authorities, which tend to have been the poorer local authorities and some metropolitan areas. Going forward, the formula is being adjusted, such that the impact on overall budgets will be more similar across different local authorities.

Q154 **Helen Goodman:** Thank you. I guess there are two dimensions one can look at. One would be a geographical dimension and the other would be the dimension of which services. Have you done analysis on either of those bases?

Paul Johnson: We have, yes.

Q155 **Helen Goodman:** Could you share that with us, please?

Paul Johnson: Yes.

Q156 **Helen Goodman:** Thank you very much. I want to ask you some questions about the schools budget funding in particular. In 2015, you said, "Current or day-to-day spending on schools in England has been relatively protected". Is that still the case?

Paul Johnson: Relative to most other public services, yes. If you look at current spending on schools up to 2015, spending per pupil actually grew a small amount over the period 2010-15, largely because there was a significant increase in the pupil premium. On average across schools, there was an increase. If you look at the planned period of 2015-20, school spending is being frozen in real terms. That means a real-terms cut of 7% or so per pupil going forward, so there is a change there. School spending is falling per pupil, going forward, whereas it did not fall per pupil under the last Government. If you look over the period from 2010-20 that is a significantly less ungenerous settlement than many other public services have received.

Q157 **Helen Goodman:** The NAO thinks it is 8% actually. Do you think that these reductions in per-pupil funding can be achieved without any impact on outcomes for children?

Paul Johnson: I do not know the answer to that question. The evidence on the relationship between spending and child outcomes is not as strong as you might expect it to be. It is worth saying that, if you look at spending across the school system, spending on sixth forms is the bit that has really been hit very substantially over the last 20 years. Relating that to outcomes, even that scale of change has been quite difficult, so I do not know the answer to that question.

Q158 **Helen Goodman:** The Government have chosen to spend some money on new selective free schools, nearly £1 billion over the whole period. Had that been spread across the entire schools budget, what would the impact on the per-pupil reduction have been? Do you know?

Paul Johnson: I do not have that number to hand.

Q159 **Helen Goodman:** Is it possible for you to work that out?



HOUSE OF COMMONS

Carl Emerson: Yes, although I think that might be capital spending and the per-pupil numbers we just gave you were day-to-day spending.

Helen Goodman: That is true.

Carl Emerson: I think they are slightly different things.

Q160 **Helen Goodman:** They are slightly different things, but suppose that instead of being spent on capital it was spent day-to-day. Maybe this was a question for the OBR and I did not ask them this yesterday, but have the forecast budgets for current spend on schooling over the next five years taken account of these additional places? How will that work? For example, I have 50 schools in my constituency. Were there to be a new free school set up in my constituency, where would the current funding for that come from? Would it mean that the cuts that the schools are already facing would be even greater?

Paul Johnson: I do not know the details of the funding of free schools, I am afraid. We can come back on that.

Q161 **Helen Goodman:** The per-pupil funding is falling, because the population of schoolchildren is increasing. Is there any evidence that free schools are being set up in places where the pressure on school places is the greatest?

Paul Johnson: We have not looked at that specifically. The National Audit Office has looked at that and concluded that there is certainly some evidence that they are being set up where that is not the case.

Q162 **Helen Goodman:** You think this is more something for the NAO than for you to look into. Is that what you are saying?

Paul Johnson: This is something that the NAO has looked into and we have not.

Q163 **Helen Goodman:** Fine, I will not ask you any more about it, but I will ask you one more question that links schools funding to distribution. As you know, in the way the Government are measuring the distributional impact of all the changes that they are making, they are not just looking at taxes and benefits; they are also looking at public services. Is there any data suggesting who will benefit from the free school places and whether that will be even across the income distribution or skewed in some other way?

Paul Johnson: I am pretty sure that the answer to that is no, there is not.

Q164 **Helen Goodman:** Do you think that the numbers are so small that they would be de minimis and it would not really make any difference anyway or do you think they might be significant?

Paul Johnson: I am trying to think of the data. Data that tells you the incomes of the parents of the children who go to free schools and how



HOUSE OF COMMONS

that compares with others is not something that I am aware of, I am afraid.

Q165 **Helen Goodman:** In the tables that he published on distribution, the Chancellor did not split out his November measures from his March measures. You split that out in what you published last year. Would you like to set out what the distributional impacts of the two events were separately?

Paul Johnson: We looked at last week's announcements and of course they are extremely small overall. They are broadly slightly progressive, because of the extra dividend tax and national insurance payments paid by people higher up the earnings distribution. If you look at everything that has been announced since 2015, so in this Parliament, you clearly get very big losses towards the bottom of the income distribution, because there are substantial cuts to tax credits and benefits, not least the freeze to benefits, so you then get a distributional chart that looks at big reductions at the bottom and much less going on towards the top. To be honest, I cannot remember what was in the November statement.

Carl Emmerson: No, I cannot remember, but both are small relative to the bigger picture, which really comes from the two announcements that Mr Osborne did in 2015. They are the most significant announcements affecting household incomes in this Parliament.

Q166 **Helen Goodman:** You mean the freeze on benefits and what is the other one?

Carl Emmerson: The set of measures announced in July and the autumn of 2015 are the most significant measures affecting household incomes in this Parliament. Everything announced in the Autumn Statement and the most recent Budget is very small relative to that.

Q167 **Helen Goodman:** There is one line in the Budget that no one seems to have taken into account and I am interested in it. It is line 26: "Tax Credit Debt: enhanced collection". This is described as a previously announced welfare policy decision. However, over the final three years of the survey period, this raises over £500 million and I am a bit puzzled by this. I wondered if you knew what was going on here. I cannot quite understand how it can be a previously announced decision, but only now people are seeing that this is £500 million being taken out of the tax credit system. Do you know what is going on here?

Carl Emmerson: By "previously announced", they mean that it was announced between the Autumn Statement and the Budget. It is not a new announcement on Budget day; it was not announced before the Budget day, but it was not announced at the time of the Autumn Statement. That is why it is making it to this table and not the next table, in the Budget document.

Q168 **Helen Goodman:** What is this change? We took a lot of evidence about six months ago from some people called Concentrix, who did a big



HOUSE OF COMMONS

exercise in checking out fraud in the tax credits system. They seriously overdid this and a lot of people suffered as a consequence. What is this line 26? What is going on here? Do you know?

Carl Emmerson: I only know the information that is in paragraph 352, which is saying that it was announced at the start of February and it is something they are doing with their powers to use something called direct earnings attachments, and I do not know what those words mean, I am afraid.

Helen Goodman: I know what a direct earnings attachment is. It means that, if you decide that somebody has been overpaid, you can make a legal order to get it out of their salary. That is what that means.

Carl Emmerson: They are going to make more use of those powers.

Q169 **Helen Goodman:** In looking at the distributional charts that you made, where you looked at the freeze on benefits, did you take account of this as well? I would have thought that £500 million was not negligible.

Carl Emmerson: We did not. Per year it is a small amount, relative to the big measures—the two-child limit, the freeze on welfare payments, working-age benefits and the cuts to tax credits. It is small relative to that. The kind of data that we use would not really allow us to include this kind of measure even if we wanted to, because we do not have evidence on who has received more than they should have done and therefore has to repay as a result of this measure. Even if we wanted to include it we could not, but it is pretty small in the big scheme of things.

Paul Johnson: Just to give you a sense of scale, these are about £100 million a year against £12 billion a year or so from other cuts, so you would not be able to see it on a chart.

Q170 **Helen Goodman:** You have looked at the impact of the NICs changes that the Chancellor announced. Did you look at the changes to dividend taxation on the distribution chart? Is there any impact from those?

Paul Johnson: Again, we do not have the data to look at that on a distributional chart, but it is pretty clear that that will hit people towards the top of the distribution.

Q171 **Helen Goodman:** The OBR has said that the top end of the income distribution will be disproportionately hit by the UK exiting the EU. It is talking about salary compression at the top end of the distribution. Do you agree with that?

Paul Johnson: We do not have any separate estimates of that. I think what the OBR is saying is that two things are happening here. One is that we will potentially lose some of the highest earners, as French bankers move back to Paris, for example. The other is that the level of pay in financial services particularly, which they refer to, may do less well than it otherwise would have done. We do not have anything looking forward. We have looked back, and this is clearly not a Brexit-related



HOUSE OF COMMONS

thing, but it is clearly the case that the earnings distribution has compressed reasonably significantly over the last five or six years. Indeed, the 99th percentile has fallen relative to earnings at the middle and at the bottom. Going forward, the OBR has set out its assumptions, which look sensible, but we have not done, and are not in a position to do, our own projections of what the impact of Brexit might be on the earnings distribution.

Chair: Thank you very much for coming to give evidence to us this morning. It is still this morning. We have had a number of exchanges where we would appreciate it if you could do some work for Parliament. We would be very grateful if you could give serious thought to it and come back to us on what you think can be accomplished and, if necessary, put that work in train. If you do not think you can do it, suggest how it might be accomplished and in some detail, please. We would like to have a look at that. You are, after all, largely a public-sector-funded institution and an independent one. Parliament needs resources of your type to enable it to perform its job properly. Thank you very much indeed.