

Lord Forsyth
Economic Affairs Committee
House of Lords
London
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Re: Inquiry into the economics of Universal Credit

Dear Lord Forsyth,

Many thanks for inviting me to give evidence to the Economic Affairs Committee on 25th February.

You asked about the cost to the Exchequer of changing the taper rate and work allowances in Universal Credit (UC). We estimate that a reduction in the taper rate of 1 percentage point would cost the government about £350 million per year. An increase in work allowances of £50 per month for those that already have a work allowance (families with children and families with a person who is assessed as having limited capability for work) would cost about £1 billion per year. Extending that increase to include those who currently do not have a work allowance would raise the cost by approximately another £300 million per year. These figures are all in 2020–21 prices and correspond to the cost of these changes when UC is fully rolled out.

Scaling these numbers up or down proportionately for moderately (though not massively) larger or smaller changes in the taper rate or work allowances will provide a rough guide to their cost.

Note that the figures presented here are the cost to central government. Many local authorities means test council tax support against UC income. Thus, increases to the generosity of UC will, for some claimants, reduce their council tax support entitlement – representing a saving for local authorities.

Best wishes,



Tom Waters
Senior Research Economist, Institute for Fiscal Studies