

The abolition of the 10p rate

- On April 6th, the income tax rise on the lowest paid announced in Gordon Brown's 2007 Budget comes into force. Many cleaners, waiters, and shop assistants will see their tax rate double overnight.
- The Treasury has confirmed that 5.3 million families will lose out in total – even when the changes to tax credits are taken into account. One in every five families will be worse off.
- The amount lost by each family could be anything up to £446.

Who will be affected?

- The IFS estimate about 5.3 million families losing in total, even taking into account the effect of the tax credit changes. These 5.3m comprise:
 - **2.2 million single working people** with no children who are not getting the working tax credit, because they earn more than £12,500 but less than £18,000, or because they work fewer than 30 hours, or because they are too young. **They lose about £300 per year** on average per family.
 - **1.2 million two earner couples with no children**, who may not qualify for the working tax credit, or they may fail to take it up, or because they both lose from the income tax and national insurance changes but there is only one gain from the tax credit which is assessed on the household. **The biggest loss would be £446**, for a couple both of whom were on £7,445.
 - **0.7 million two earner couples with children**,

who lose again twice from the income tax and national insurance changes but maybe only gain once from child tax credit/working tax credit.

- **0.5 million non-workers** who pay more tax on their taxable benefit or pensions than they gain. Those might be early retirees or incapacity benefit claimants.
- **0.4 million one earner couples without children**, who will be in a range of about £17,000 to £18,500 where they are not compensated.
- **0.3 million women between the ages of 60 and 64** who do not get tax credits and are too young to be compensated by the rise in the pensioner tax allowance.

Quotes

Low Pay Commission: *"We are particularly concerned about the effect of the abolition of the 10p starter rate on young people in work who are not eligible for Working Tax Credit"* (Low Pay Commission, September 2007)

Lynne Jones MP (Lab): *"We have to some extent neglected poorer people who haven't got children. There are many people who are single who are struggling on very low incomes"* (March 2007)

Geoffrey Robinson MP (Lab): *"I have bone to pick with the Chancellor and the Treasury Front Bench about the removal of the 10 per cent basic rate. I cannot believe that that is the last word from my right hon. and hon. Friends on the subject. It is hurting many people whom the Government never set out in any of their policies—I accept that that is a consequence and not an intention of the Budget—to hurt. Indeed, when the 10p rate was introduced it was precisely to alleviate those problems that, in part, we are now creating.... the matter should be revisited, and I hope that we will do so before the next Budget"* (March 2007)

Frank Field MP (Lab): *“Constituents of mine who earn only one sixth of what we earn are paying £3 a week more and I have tabled questions asking how many other people are similarly affected. Is my right hon. Friend satisfied with the balance the Government have struck, and when might I receive a reply to my questions?”*

Steven Timms MP (Lab): *“My right hon. Friend may be correct about that. Some, no doubt, will find themselves a little worse off next year as a result of the changes in the Bill”*

Mr Fallon: *“Mr Neale, Mr Chote gave evidence to us on Monday and said that there were about 5.3 million families losing out from the Budget. What is your figure?”*

Mark Neale (HM Treasury, Managing Director, Budget, Tax & Welfare): *“I think the figure that Robert Chote gave you is in the right ball-park.”*

Who loses out, and how much?

Cleaners: £5,883, pay £66 more
Bar staff: £6,108, pay £88 more
Catering assistants: £7,041, pay £182 more
Retail cashiers: £7,288, pay £206 more
Sales assistants: £7,999, pay £212 more
Library clerks: £9,227, pay £188 more
Hairdressers: £9,437, pay £183 more
Receptions: £10,983, pay £152 more
Home carers: £11,527, pay £142 more
Nursery nurses: £11,675, pay £139 more
School secretaries: £12,347, pay £125 more
Cooks: £12,559, pay £121 more
Dental nurses: £12,731, pay £117 more
Veterinary nurses: £12,965, pay £113 more
Typists: £13,836, pay £95 more
Call centre operators: £14,230, pay £88 more
Bakers: £14,918, pay £74 more
Florists: £15,403, pay £64 more
Caretakers: £15,466, pay £63 more
Farm workers: £15,610, pay £60 more

Legal secretaries £15,784, pay £56 more
Groundsmen: £16,169, pay £49 more
Hospital porters: £16,578, pay £41 more
Van drivers: £16,826, pay £36 more
Road sweepers: £16,888, pay £34 more
Pub managers: £16,935, pay £33 more
Traffic wardens: £17,330, pay £26 more
Security guards: £18,310, pay £6 more

Source: ONS, Annual Survey of Hours and Earnings, 2007