European Commission

EUROPEAN SOCIAL POLICY NETWORK (ESPN)

Financing social protection

United Kingdom

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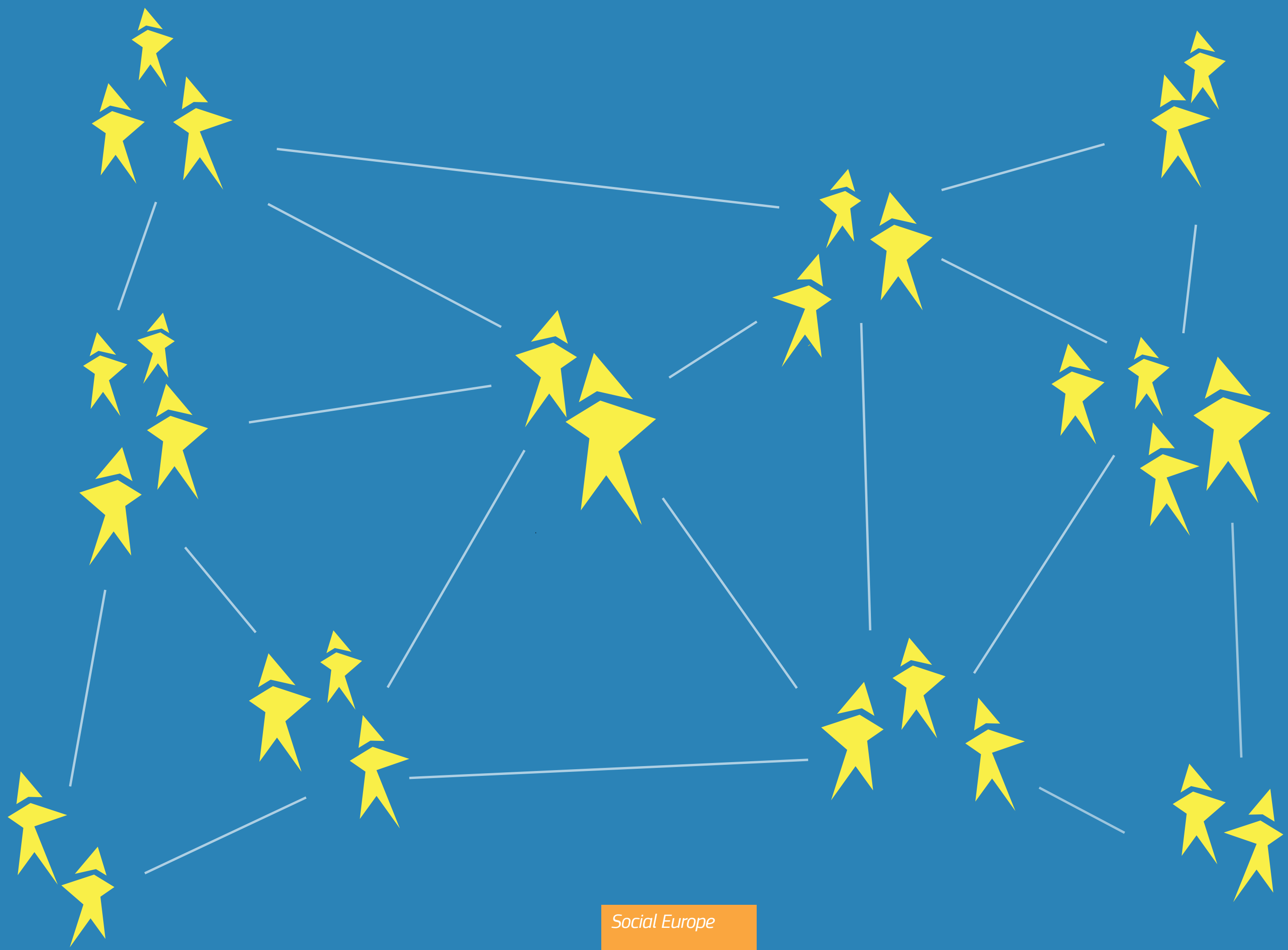

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European Social Policy Network (ESPN)

ESPN Thematic Report on Financing social protection

United Kingdom

2019

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Directorate-General for Employment, Social Affairs and Inclusion

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Contents

Summary

In the UK social protection, including the National Health Service (NHS), is funded out of general taxation and National Insurance contributions (NICs). There is no necessary link between changes to taxation and social protection provided. This makes it more difficult to trace the connection between sources of financing and social protection in the UK.

One source of revenue is National Insurance contributions. A record of paying NICS is required to qualify for the state pension, contributory Job Seeker's Allowance, contributory Employment and Support Allowance, maternity allowance and Bereavement Benefit but not the NHS. There is a separate National Insurance Fund for contributory benefits including the state pension, the level of which is overseen by the Government Actuary. In addition to employee and employer NICs, there is also a contribution from general taxation to the NI Fund, which was abolished after 1988/89 and then reinstated in 1993/94. Although contribution records (including credited contributions) govern entitlement to the benefits listed above, the amount of benefit is not related to either contributions paid or the level of earnings (except in the state pension, which still has earnings-related elements that are being phased out).

General tax revenue is provided by direct and indirect taxes. Direct taxes on income are broadly progressive and indirect taxes on consumption are broadly regressive. The overall tax system is broadly proportional. There have been no substantial changes in the level of taxation since 2005; but there have been many reforms, including contrasting real increases in personal tax allowances but not in the NICs threshold.

Overall public expenditure has fallen as a percentage of GDP. Expenditure on social security rose after 2005/06 but has been falling since 2012/13 as a percentage of GDP. Most of the reduction in social security spending has come from working age benefits, including unemployment benefits, housing benefits and family benefits. Spending on disability benefits has risen and spending on pensions is more or less stable.

The main driver of change has been policy. Demographic changes have been small. Unemployment rose after 2005/06 and then fell rapidly after 2011/12. Real earnings fell after the crisis, but the minimum wage has been increasing faster than average wages. Rents have risen. The main policy changes influencing spending have been the freeze and the many cuts to working age benefits and increases in the state pension age. There has also been an increase in the qualifying years required for a (new) state pension.

Since 2005/06 real spending on the health service has increased and it has not fallen as a percentage of GDP. However, modelling indicates that health spending needs to increase by 4% per year to maintain the real level, given technical advances and the ageing of the population, which has not happened since 2010. Pressures on spending have been exacerbated by cuts in social care spending and both process and outcome indicators show that the health service is failing.

The major problem is not the mix of tax revenues but the political decision in 2010 to reduce the deficit largely by cuts in expenditure rather than by increasing taxes. In fact, the thresholds for paying direct taxes have been increased in real terms.

The results are now "inflicting unnecessary misery in one of the richest countries in the world" (UN Special Rapporteur on Extreme Poverty and Human Rights 2018).

Social protection spending needs to increase and thus taxation needs to rise to fund it.

There are debates about big reforms such as a hypothecated tax for the NHS, or a basic income to replace benefits and direct tax allowances. There is also an ongoing debate and consultation about the entitlement of the self-employed to contributory benefits, and about the administrative integration of NICs with income tax.

The paper suggests 10 reforms to the existing tax and NICs system in order to raise more revenue and make the UK system more redistributive.

1 Current levels and past changes in financing social protection

ESSPROS data

ESSPROS data summarised in Table 1 indicates that expenditure on social protection rose from 24.8% of GDP in 2005 to 28.9% in 2011 and then fell to 26.2% in 2016. It shows that in 2005 29.5% of social protection expenditure went on sickness/health, 39.8% on old age and 30.7% on other areas. By 2016 the percentages were 32.6%, 41.9% and 25.5%. Within other areas, expenditure on disability, survivors, unemployment, and social exclusion all fell between 2005 and 2016, while expenditure on family and housing benefit increased. It shows that the share of expenditure on means-tested benefits increased from 14.6% in 2005 to 21.4% in 2010 and then fell to 17.6% in 2016. In 2015 the effective tax and contributions rate was 3.4% from tax unchanged since 2007. The division of financing for net social expenditure in 2007 was 38.1% social contributions, 44.4% government and 17.5% other. By 2015 it was 36.1%, 49.6% and 14.3% respectively. In 2013 0.1% was tax expenditures, 0.9% mandatory private social expenditure and a net contribution after paying tax of 0.9%.

Table 1: ESSPROS data on expenditure in the UK "Statistical annex on financing social protection: levels and structure (2005-2016)"

	Year	Share of gross expenditure on social protection in total GDP, 2005-2016	Gross expenditure on social protection in real terms (i.e. at constant 2005 prices), 2005-2016	Share of expenditure on means-tested benefits, 2005-2016
% of GDP	2005	24.8	100	14.6
	2006	24.8	102	14.5
	2007	24.6	104.2	20.2
	2008	25.7	107	20.8
	2009	28.4	113.6	21.4
	2010	28.8	117	21.3
	2011	28.9	117.8	20.8
	2012	28.9	119.5	20.2
	2013	28.3	119.3	19.4
	2014	27.5	119.1	18.6
	2015	27.6	122.8	17.7
	2016	26.2	119.2	17.6

	PERCENTAGE POINT CHANGE			
	2005-2008	2008-2010	2010-2016	2005-2016
Share of gross expenditure on social protection in total GDP, 2005-2016	0.9	3.1	-2.6	1.4
Gross expenditure on social protection in real terms (i.e. at constant 2005 prices), 2005-2016	2.3	4.6	0.3	1.6
Share of expenditure on means-tested benefits, 2005-2016	6.2	0.5	-3.7	3

	% OF GDP						%-point difference		
	Gross expenditure			Net expenditure			Net minus gross		
	2007	2010	2015	2007	2010	2015	2007	2010	2015
Gross and net social protection expenditure	24.7	29	27.7	23.8	28	26.8	-0.9	-1	-0.9

	% of gross social protection expenditure								
	2007			2010			2015		
	Tax	Contrib.	Sum	Tax	Contrib.	Sum	Tax	Contrib.	Sum
Effective tax and social contribution rates on social protection expenditure	3.4	0	3.4	3.4	0	3.4	3.4	0	3.4

	% of total receipts								
	2007			2010			2015		
	Social contrib.	General government	Other	Social contrib.	General government	Other	Social contrib.	General government	Other
Division of financing for net social protection expenditure by main source, 2007-2015	38.1	44.4	17.5	41.5	40.7	17.9	36.1	49.6	14.3

	Difference in % of total receipts, net minus gross					
	2007		2010		2015	
	Social contrib.	General govermment	Social contrib.	General govermment	Social contrib.	General govermment
Division of financing for net social protection expenditure by main source, 2007-2015	1	-1.5	1.3	-1.8	1	-1.4

	tax expenditures	mandatory private social expenditure	taxes+contributions on mandatory expenditure	net mandatory private expenditure
Tax expenditures and mandatory private social expenditure, 2013	0.1	0.9	0.1	0.9

Source: Spasova and Ward (2019), Annex ESSPROS tables.[1]

[1] Spasova S. and Ward T. (2019). *Social protection expenditure and its financing in Europe, A study of national policies 2019*, European Social Policy Network (ESPN), Brussels: European Commission.

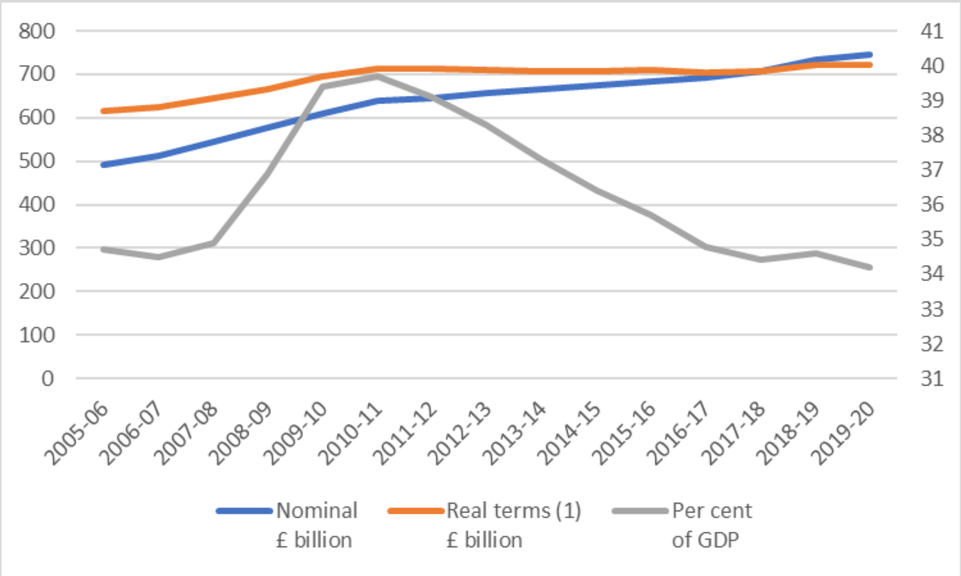
National data

National data have the advantage over ESSPROS data of being more up-to-date. ESSPROS currently takes us to 2016 or 2015; but many of the biggest cuts in social protection have taken place after the election of the Conservative Government in 2015 and a large proportion are not yet fully implemented. The ESSPROS data are also difficult to interpret and understand in the context of the fact that social protection in the UK is largely funded out of general tax revenue rather than social contributions.

1.1 Expenditure

Figure 1 shows that public expenditure has grown in nominal and real terms since 2005/06 (left hand axis); but it has fallen as a proportion of GDP (right hand axis), from 39.7% in 2010/11 to 34.2% in 2016/17. But of course not all that expenditure is devoted to social protection.

Figure 1: Public expenditure trends 2005/6 to 2016/17



Source: Own calculations from HM Treasury, Public Expenditure Statistical analysis 2018.

The main focus of this report is social protection, including pensions and health care. So we will first explore social security expenditure in more detail. It can be seen in Table 2 that expenditure on social protection benefits as a percentage of GDP rose after 2005/06 to 9.7% by 2012/13 and then fell to 8.3% (forecast) for 2019/20. Expenditure on children fell after 2010, on working age people[2] it rose until 2012/13 and then fell, and even spending on pensioners as a proportion of GDP has been falling since 2014/15. Table 3 breaks that down further and shows trends in spending in 2017/18 real terms since 2013/14. Overall, social protection spending has fallen by more than £7 €8.3 billion per year. Most of that has been the result of falls in spending on unemployment benefits, housing benefit and family benefits. In contrast, spending on disability benefits has risen and spending on pensions has remained stable.

[2] Basically non-pensioners receiving social protection

Table 2 Benefit expenditure, as a percentage of Gross Domestic Product

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Children	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Working age	2.6%	2.6%	2.6%	2.7%	3.2%	3.2%	3.2%	3.2%	2.9%	2.8%	2.8%	2.7%	2.7%	2.8%	2.7%	2.6%
Pensioners	5.3%	5.2%	5.3%	5.8%	6.2%	6.2%	6.3%	6.4%	6.2%	6.2%	6.1%	5.9%	5.8%	5.7%	5.6%	5.5%
Contributory	4.3%	4.2%	4.3%	4.6%	5.0%	5.0%	5.1%	5.2%	5.1%	5.1%	5.1%	5.0%	5.0%	4.9%	4.9%	4.8%
Income-related	2.5%	2.5%	2.5%	2.6%	3.0%	3.0%	3.0%	3.0%	2.6%	2.5%	2.4%	2.3%	2.2%	2.2%	2.0%	2.0%
Non-contributory / non-income-related	1.4%	1.3%	1.3%	1.4%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.4%	1.5%	1.5%
Total	**8.2%**	**8.0%**	**8.1%**	**8.7%**	**9.6%**	**9.5%**	**9.6%**	**9.7%**	**9.2%**	**9.1%**	**9.0%**	**8.7%**	**8.6%**	**8.6%**	**8.4%**	**8.3%**

Source: HM Treasury Public Expenditure Statistical Analysis 2018.

Table 3 Public sector expenditure on services by sub-function, 2013-14 to 2017-18 £[3]million 2017-18 real terms

	2013-14	2014-15	2015-16	2016-17	2017-18
of which: personal social services	31081	31727	31639	31681	31651
10.1 Sickness and disability	50853	52574	55363	54390	55192
10.2 Old age	123970	124286	124838	123963	124327
10.3 Survivors	1231	1209	1213	1177	1019
10.4 Family and children	26715	26467	26341	25365	24334
10.5 Unemployment	5363	3640	2804	2265	2022
10.6 Housing	28659	27695	27246	25588	24138
10.7 Social exclusion (family benefits and tax credits)	34735	33633	33365	32844	33033
10.9 Social protection n.e.c.	3901	4121	4111	4339	4177
Total social protection	275428	273625	275282	269930	268241

Extracted Table 5.2 Public Expenditure Statistical Analysis 2018 using GDP deflators given in Table f1. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/726871/PESA_2018_Accessible.pdf

1.1.1 Drivers of changes in social protection spending

Demographic

The number of recipients of the basic state pension rose from 11.59 million in 2005/06 to 12.96 million in 2014/15 but since then it has fallen to 12.55 million (2019/20). Part of this is due to policy change, particularly increases in the pensionable age (see below); but ageing in the UK is on something of a plateau as we await the 1960s baby boom generation reaching pension age towards the end of the 2020s. Despite more pensioners living to older ages there is no evidence that this has driven up the number of recipients of attendance allowance (non-means-tested benefit given for the additional costs of disability for those over pension age) – indeed, the number has fallen over the period.

The number of children in the population has been falling over the period, and the number receiving child benefit has fallen from 13.1 million to 12.8 million, which partly explains the fall in expenditure on benefits for children. The fertility rate has been below the replacement rate (slightly above 2 births per woman) over the whole period.

Family structure has continued to change, with an increasing proportion of households being single, both with and without children, which might be expected to drive up public expenditure, especially on housing and potentially social protection. However, there has also been a recent and dramatic reduction in teenage conceptions, and a sharp increase in the proportion of lone-parent families in employment, both of which are likely to drive down social protection expenditure.

Economic

Undoubtedly the labour market has been a key determinant of changes in social protection expenditure. Following the global economic crisis, unemployment increased sharply and the number of recipients of unemployment benefit (jobseeker's allowance) increased from 870,000 in 2005/06 to 1.52 million by 2011/12; but since then it has dropped rapidly, to 604,000 in 2018/19. However, despite this decline in unemployment, there has been no

[3] £1=€1.18

diminution in the numbers of working age people receiving incapacity benefit/employment and support allowance, which has been one of the main reasons why expenditure on disability (including incapacity) benefits has increased.

The other economic factor that might have been expected to influence social protection expenditure is what has been happening to earnings. The bulk of in-work benefits are means tested and thus, if earnings increase in the largely means-tested system in the UK, benefit expenditure falls. While there has been a long period following the crisis when real earnings fell (with public sector pay frozen and then subject to a 1% per annum cap), earnings at the bottom end of the distribution have risen recently, thanks to real increases in the statutory minimum wage, the new, increased 'national living wage' for those aged 25 or more, and a small but increasing proportion of employers adopting the (higher) 'voluntary living wage'.[4]

Finally, housing construction recovered more slowly from the global financial crisis than housing prices.[5] The under-supply of social housing means that many more people, in particular families with children, are having to live in private rented accommodation, which being more expensive than social housing pushes up social expenditure on housing benefit. This increase has only been controlled by limits on the amount of private rents covered by housing benefit.

Policy

Given that demographic pressures have been broadly benign, that unemployment is at a near record low,[6] and that low earnings have been increasing faster than average earnings, the main driver of changes in social protection expenditure has mainly been policy.

After the banking crisis began in 2008, the Labour Government's response was generally anti-cyclical – benefit upratings were maintained and brought forward, and taxes were increased on the better off. Child poverty continued to fall despite a sharp increase in unemployment. When the Coalition Government came to power in 2010, it reversed these measures and set out to reduce the deficit and cut public expenditure as a proportion of GDP. The measures were initially designed to take 80% from spending and 20% in increased taxation; but in the event almost all of it has been taken from spending, because the Coalition chose to raise personal tax allowances in real terms, including raising the higher rate threshold.[7]

Some benefits were abolished, whilst working age benefits were uprated by the Consumer Price Index rather than the higher Retail Price Index. Limits to housing benefit were imposed, including the 'bedroom tax' (or 'abolition of the spare room subsidy' in social housing, as the government called this). Public sector pay was frozen. Huge cuts were made in services, particularly local government services. Having won the 2015 General Election, the Conservatives announced a whole new raft of cuts, including freezing working age benefits, cutting universal credit, lowering the benefit cap (the maximum in means-tested benefits for families) and introducing the two-child limit for tax credits and universal credit.

£37 (€35.2) billion per annum (real terms, 2018/19 prices) will have been taken from social security and tax credits spending, excluding the state pension and pension credit, by 2020/21 – roughly 23% of what total expenditure might have been had these measures

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[4] A minimum wage higher than the statutory minimum wage / national living wage, which is based on a Minimum Income Standard, i.e. averaging modest costs of living for different kinds of households with assumed hours of paid work for the adult(s).

[5] Pittini, A., Koessl, G., Dijol, J., Lakatos, E. and Ghekiere, L. (2017) *The state of housing in the EU 2018,* Brussels: Housing Europe

[6] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/december2018#unemployment

[7] http://sticerd.lse.ac.uk/case/_new/research/Social_Policy_in_a_Cold_Climate/Programme_Reports_and_event_information.asp

not been implemented,[8] (or about £10,000 (€11200) (€12544) per child until about 2019–20), leaving it at about the same level in real terms as in 2006/07.[9] However, the autumn 2018 Budget announced that the largest cut made in UC – to the work allowance – would be reversed for families with children and those with limited capability to work, meaning that the allowance (disregard) would be increased by £1000 (€1120) per year.

There have been many analyses of the cumulative distributional consequences of these measures, most recently by Reed and Portes for the Equality and Human Rights Commission.[10] The conclusions are clear: the lowest income deciles have had the biggest losses; the poorest local authorities have suffered the biggest revenue losses; the cuts have hit the incomes of families with children most. Poor lone parents are the biggest losers and rich pensioners have hardly been touched. There is more to come – benefits are frozen until 2020, and Universal Credit and the two-child limit are still being rolled out.

The Institute for Fiscal Studies[11] estimates that child poverty rates will now rise rapidly to 2021 and beyond, effectively sweeping away all the gains made in poverty reduction after 1999. Wages at the bottom of the distribution have recently been rising more rapidly than the average, thanks to improvements in the statutory minimum wage (especially the 'national living wage'), and the unemployment rate at 4.1% is at a near record low. So, it is not wages nor unemployment driving up poverty. It is austerity policies.

The cuts have not been successful in eradicating the deficit in the public finances. In March 2018, the Office for Budget Responsibility (OBR)[12] forecast a deficit of £21.4 €35 billion in 2022/23, saying that it expected the deficit to move below 2 per cent of GDP in 2018/19 and then to fall slowly over the four years to 2022/23. One important reason why more deficit reduction has not been achieved is that the public expenditure cuts were offset by cuts in income and other taxes. Nor has the strategy been successful in raising economic growth - the economy has been growing, but by only 0.4% in the second quarter of 2018. The OBR revised its GDP growth forecast down to 1.5% for 2018,[13] and to 1.2% for 2019.[14]

As well as the general austerity measures, the government has taken three other steps to control or reduce social protection spending:

1. The introduction of Personal Independence Payment (PIP) to replace Disability Living Allowance and the new enhanced assessment regime and conditionality for Employment and Support Allowance (ESA) have certainly caused hassle and hardship for disabled people. They may have resulted in slowing the increase in expenditure, but they have not succeeded in reducing total expenditure (despite the declared aim to cut spending on PIP by 20% compared to DLA) and the numbers of recipients of both PIP and ESA have risen.[15]

2. The Coalition Government sought to reduce the costs of child benefit by introducing a High Income Child Benefit (tax) Charge. It arises when a lone parent or a partner in a couple claims Child Benefit in respect of one or more children. If the income of the lone parent, or one of the partners (whether the couple are married or in a civil partnership) exceeds £50,000 €59,000 'adjusted net income' per year, they become liable to the High Income Child Benefit Charge, which claws back 1% of the total Child Benefit received for each £100 €118 of income above £50,000 €59,000, until all of it is withdrawn at £60,000 €69690. Since the total amount of Child Benefit

[8] 'Welfare savings 2010-11 to 2020-21', *House of Commons Library Briefing paper CBP 7667*, 26 July 2017 http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7667

[9] https://www.childrenscommissioner.gov.uk/wp-content/uploads/2018/06/Public-Spending-on-Children-in-England-CCO-JUNE-2018.pdf

[10] https://www.equalityhumanrights.com/sites/default/files/cumulative-impact-assessment-report.pdf

[11] https://www.ifs.org.uk/publications/10030

[12] http://obr.uk/efo/economic-fiscal-outlook-march-2018/

[13] http://obr.uk/efo/economic-fiscal-outlook-march-2018/

[14] https://cdn.obr.uk/ExecSummary_March_2019.pdf

[15] https://www.gov.uk/government/collections/benefit-expenditure-tables

received depends on both the benefit rate and the number of children, and the income range for withdrawal is fixed at £10,000 €11,800, the implied marginal tax rates for larger families with an earner at this level can be well over 60%.[16] It is estimated that1 in 5 families with children will lose at least some child benefit by 2022.[17]

3. Since the June 2010 Budget, the Basic State Pension has been uprated using the 'triple lock' - the highest of CPI inflation or average earnings growth or 2.5% each year. The triple lock has resulted in a big improvement in the real level of the pension, and especially in comparison with earnings, since the start of the recession.[18] However, the government has sought to control pension expenditure in the future. The new State Pension was introduced from April 2016 at a slightly higher level for people retiring after that date. But it also increased the qualifying years for contributions: the number of qualifying years required to claim the full pension rises to 35 years, and includes a minimum qualifying period, of 10 years.[19] The new State Pension is based on individual contributions and people will not be able to claim on their spouse's (or civil partner's) contributions at retirement, or if they are widowed or divorced. The Pensions Act 2011 raised the state pension age (SPA) for women progressively from 60 to 65 by 2018, and for both men and women to 66 between 2018 and 2020. The Work and Pensions Select Committee heard evidence that confusion is rife, including amongst some women who realised very late that receipt of their state pension was years further away than they had thought and planned for. WASPI (Women against State Pension Inequality) has been formed to campaign for better transitional arrangements.

   It was intended that in future the state pension age was to be reviewed every six years and raised in line with developments in life expectancy.[20] The Government was planning to raise the state pension age from 66 to 67 between 2026 and 2028. However, this has now been overtaken by the Cridland review,[21] which pointed out that, between now and 2036/37, annual state pension spending is set to rise by an extra 1% of GDP, from 5.2% to 6.2%. The review recommended raising the SPA from 67 to 68 by 2039, seven years earlier than the previous timetable suggested. In July 2017, the Secretary of State for Work and Pensions announced[22] that the Government intends to follow the recommendations of Cridland and increase the SPA from 67 to 68 in 2037–39. The increase in the pension age has been announced coincidentally at the same time as evidence has emerged that life expectancy has stalled since 2010; it has been judged entirely possible that f austerity has had an impact on this.[23]

   The main question about the future adequacy of the state pension concerns how it will be indexed.[24] There is a statutory requirement to index at least in line with earnings. The means-tested Pension Credit has been uprated in line with the CPI.

[16] Recovery of Child Benefit adds 10.8% to the taxpayer's marginal tax rate for one child, 17.9% for two children and 25% for three children. This means that an individual with three children and an 'adjusted net income' between £50,000 and £60,000 per year faces a marginal tax rate over that range of 65%.

[17] https://www.ifs.org.uk/publications/13791

[18] Bradshaw, J. (2017) Trends in pensioner incomes, Blog: http://jonathanbradshaw.blogspot.co.uk/2017/12/trends-in-pensioner-poverty.html

[19] Until 2010, a person was not entitled to any basic state pension if they did not have enough qualifying years to be entitled to at least 25% of the full rate. This meant 10 years for a woman and 11 for a man, due to the difference in male and female state pension age.

[20] Chancellor's *Autumn Statement* 5 Dec. 2013: https://www.gov.uk/government/publications/autumn-statement-2013-documents, p. 89 point 2.72

[21] https://www.gov.uk/government/publications/state-pension-age-independent-review-final-report

[22] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/630065/state-pension-age-review-final-report.pdf

[23] http://www.ucl.ac.uk/iehc/iehc-news/michael-marmot-life-expectancy

[24] http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN05649

In the 2017 election manifesto, the Conservatives promised to maintain the triple lock until 2020 and then replace it with a double lock (prices or earnings rises). However, the 26 June 2017 agreement between the Conservative and Democratic Unionist Parties said that both parties had agreed "no change to Pensions Triple Lock". The House of Commons Library estimates[25] that in 2015/16 the basic state pension was 14% higher in nominal terms than in 2011/12, and by 2022/23 it might be 39% higher, because of the triple lock. The triple lock ensures adequacy; but it comes at some cost, and may not be sustainable.[26] [27] [28] The Government Actuary, in the latest quinquennial review of National Insurance Contributions, concluded that the NI Fund balance is expected to increase until around 2024-25, without any Treasury grants being required but, without additional support in addition to NICs, the Fund balance will fall rapidly to exhaustion in around 2032-33. Treasury grants would be required from around 2030 but would consistently need to exceed the current limits from 2060-61.[29]

Trends in health spending

Health spending increased in real terms from £107 €126 billion in 2005 to £146 €172 billion in 2018 (in 2017/18 prices), and from 6.2% in 2005 to 7.1% in 2018 as a share of GDP.[30] The issue is whether this has been sufficient to keep pace with rising demands. Charlesworth and Bloor[31] have recently asked what metric can be used to determine the "right" amount of spending. One is to compare the proportion of GDP spent on health by other rich countries and the latest evidence is that the UK matches the average of the EU15 and exceeds that of the EU28 and the Organisation for Economic Cooperation and Development (OECD). However, the UK's GDP per capita is below the EU15 average, which implies that less money per person on average is spent on health. In terms of tangible resources and measures of process the UK compares poorly. The UK has below average numbers of doctors, nurses, hospital beds, MRI machines, and CT scanners per head. Quite sophisticated modelling has been undertaken,[32] [33] [34] [35] taking into account the contribution of five main factors: population size and age structure, technology, productivity, pay and other cost pressures, and the relative priority countries attach to healthcare as they get richer. This has concluded that cost pressures are growing at 4% per year. Although this is in line with the rate of increase in spending in the 70 years since the NHS was founded, **it is much higher than rates of health spending increase since 2010**. In recent years these pressures have been exacerbated by funding constraints not just on the NHS but more severely on social care, which is inextricably linked to increasing demands on the

[25] http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7812#fullreport

[26] http://budgetresponsibility.org.uk/fsr/fiscal-sustainability-report-january-2017/

[27] http://www.pensionspolicyinstitute.org.uk/press/press-releases/what-level-of-pension-contribution-is-needed-to-obtain-an-adequate-retirement-income

[28] https://www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/news-parliament-2015/triple-lock-withdrawal-comment-16-17/

[29] https://www.gov.uk/government/publications/government-actuarys-quinquennial-review-of-the-national-insurance-fund-as-at-april-2015

[30] https://www.gov.uk/government/statistics/public-spending-statistics-release-february-2019

[31] Charlesworth, A. and Bloor, K. (2018) '70 years of NHS funding: how do we know how much is enough?' *BMJ* 2018; 361 doi: https://doi.org/10.1136/bmj.k2373 (Published 14 June 2018)

[32] Wanless D. (2002) *Securing our future health: taking a long-term view*. Final report. HM Treasury. http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/consult_wanless_index.htm

[33] NHS England (2014). *Five year forward view*. https://www.england.nhs.uk/wp-content/uploads/2014/10/5yfv-web.pdf

[34] Maisonneuve, C. and Oliveira Martins, T.J. (2013) 'A projection method for public health and long-term care expenditures', *SSRN Electronic Journal*, doi:10.1787/18151973

Przywara, B. (2010) 'Projecting future health care expenditure at European level: drivers, methodology and main results'. *European Commission Economic Papers* 417. http://ec.europa.eu/economy_finance/publications/economic_paper/2010/pdf/ecp417_en.pdf

[35] Licchetta, M. and Stelmach, M. (2016) *Fiscal sustainability analytical paper: fiscal sustainability and public spending on health.* http://obr.uk/docs/dlm_uploads/Health-FSAP.pdf

healthcare system. Process measures that may indicate excess demand, such as breaches in mixed sex wards in hospitals and waiting times (in emergency departments and for planned surgery) have recently worsened, particularly since 2013-14. Some outcome indicators, including life expectancy and infant mortality, are showing signs of worsening, although many factors contribute to these trends. Brexit is likely to cause further resource constraints, particularly in terms of staff. However, the government has committed to spending an extra £20.5 billion €24 (14% over the level of expenditure in 2018) per year on the NHS by the end of five years in the context of the NHS Plan.

2 Current mix and past changes in the sources of financing social protection

2.1 Revenue

In the UK social protection is funded out of general tax revenue, if this is defined as including NICs. In the tax year starting in April 2019 (2019-2020), the Government planned to raise £810 (€855) billion in tax revenue, about a third of Britain's national income.[36] The way this is broken down between the various taxes is shown in Table 4, which is divided into two parts. It can be seen in Figure 2 that there has been little change in tax revenue as a proportion of GDP since 1997. It was 33.2% before the financial crisis and it was 33.2% in 2016.

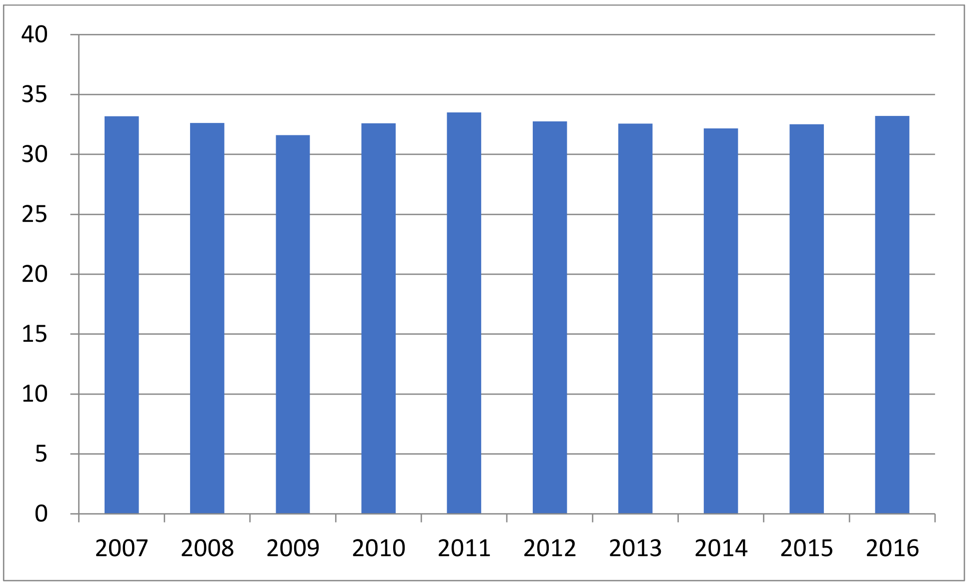
Table 4: Sources of tax revenue 2019/20

Direct taxes	£ Billion
Income tax	193 (€227)
National Insurance contributions	142 (€168)
Corporation Tax	60 (€71)
Capital gains tax	9 (€11)
Inheritance tax	6 (€7)
Stamp duty	13 (€15)
Indirect taxes	**£ Billion**
Value added tax	156 (€184)
Council Tax	36 (€42)
Business Rates	31 (€37)
Fuel duties	28 (€33)
Tobacco duties	9 (€11)
Alcohol duties	13 (€15)
Vehicle excise duties	6 (€7)
Other taxes	54 (€64)

Source:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752202/Budget_2018_red_web.pdf

[36] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752202/Budget_2018_red_web.pdf

Figure 2: Total tax revenue as a proportion of GDP



Source: *https://www.oecd-ilibrary.org/taxation/data/revenue-statistics/comparative-tables_data-00262-en*

In the UK, social protection is mostly funded out of general tax revenues, both direct and indirect. National Insurance contributions (NICs) only fund part of social protection and are often treated as just another form of taxation.[37] They are paid by employed earners, employers and self-employed people. To qualify for the state pension and a small number of contributory benefits (contributory Job Seeker's Allowance, contributory Employment and Support Allowance, Maternity Allowance and Bereavement Benefit) claimants must have a contribution record. To qualify for some statutory payments from employers (Statutory Maternity Pay and Statutory Sick Pay), employees' earnings must also on average reach the lower earnings limit, the level at which NICs start to apply (£116 €137/week) – though a zero rate is applied until earnings reach the primary threshold (£162 €191/week).[38]

The National Insurance (NI) Fund is made up of contributions from employees, employers and the self-employed, and a payment from general taxation from the Treasury (abolished, after 1988/89 and then reinstated in 1993/94). These elements can be varied according to calls on the Fund and the economic situation; the Treasury contribution in particular acts as a flexible element. The level of the Fund is reviewed regularly by the Government Actuary.[39] However, the level of benefit once someone has qualified for it is now independent of contributions paid, except for the remaining earnings-related element of the state pension, which is being phased out. Credited contributions can be used in some situations to qualify for benefits and are given (for example) when someone is off work ill or unemployed. There are also arrangements for caring periods to count towards the state pension, though it is no longer possible to inherit one's pension entitlement via a partner's contributions. As noted, employees earning between the lower earnings limit and the primary threshold are treated as though they are paying NICs, but do not do so. For employees, there is a lower NIC rate above the upper earnings limit. Self-employed people

[37] See https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN04517 for more details

[38] The average wage was £527/week in December 2018, making the lower earnings limit 22% of this.

[39] E.g. see https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/748572/Great_Britain_National_Insurance_Fund_Account_-_2017_to_2018.pdfhttps://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/748572/Great_Britain_National_Insurance_Fund_Account_-_2017_to_2018.pdf

have a flat-rate NIC, plus profits related NICs up to a certain level and a lower percentage rate above that.[40]

The National Health Service (NHS) is funded out of general revenue, including NICs, and health care is provided free at the point of demand without regard to contributions, though part of the National Insurance Fund is diverted to the NHS, and NICs were increased with a rationale related to NHS funding by Labour when in office. About one-fifth of NICs revenue goes to the NHS.[41] In addition, employers are reimbursed out of the NI Fund for certain payments (Statutory Maternity Pay, Statutory Adoption Pay, Statutory Paternity Pay and Statutory Shared Parental Leave, and until 2014 for smaller employers Statutory Sick Pay) that depend on employees qualifying by their average earnings reaching the level at which NICs start to apply.[42]

So, as discussed above, state provision of social protection including health care in the UK is funded out of general taxation (including NICs for some contributory benefits and payments from employers). There is no direct link between the structure of financing and the benefit or service, except for contributions that count for qualifying for certain contributory benefits). There have been many recent changes in the structure of taxation and NICs, which are summarised in this section; but they have taken place independently of the changes, mainly cuts, to expenditure on social protection. These cuts were said to have been designed to contribute to reducing the deficit in the public accounts; but this effort was less successful than it might have been, thanks to cuts made in direct taxation mainly by raising the income tax threshold. Indeed, researchers found that taking inflation into account between 2010 and 2015/15, cuts to benefits were offset by tax cuts.[43]

Table 5 summarises the ESSPROS data on the sources of revenue for different elements of the UK's social protection system. Old age and survivors' benefits are predominantly financed from contributions and that share has grown over time. Benefits for family and children, housing costs and social exclusion are exclusively funded by general tax revenue. Table 6 summarises the ESSPROS data for the UK on financing by social contributions by sub-category, between 2005 and 2015. Employers contribute about half the funding for old age, survivors and unemployment benefits and very little for health and sickness and family and child benefits.

According to the ESSPROS data,[44] in 2005 48.8% of revenue came from social contributions, 49.6% from general government contributions and 1.6% from other sources. By 2016 the shares had changed, to 38.2% from social contributions,[45] 48.8% from general government contributions and 13.1% from other sources. The share of social contributions by employers fell from 34.8% in 2005 to 28.2% in 2016 and the share by employees fell from 13.3% to 9.5%. The share of government contributions in 2005 was 20.8% from earmarked taxes and 28.8% from general government revenue; by 2016, 48.8% came from general government revenue and nothing from earmarked taxes.[46]

[40] https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN04517

[41] https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN04517

[42] https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN04517

[43] Research by John Hills and colleagues at LSE for 'Social Policy in a Cold Climate': http://sticerd.lse.ac.uk/case/_new/research/Social_Policy_in_a_Cold_Climate.asp

[44] "Statistical annex on financing social protection: levels and structure (2005-2016)".

[45] National insurance contributions are currently 12%, and 2% above the upper earnings limit. The employer rate is 13.8%. In 2018/19, the lower earnings limit is £116 per week and the upper earnings limit is £892 per week.

[46] Which indicates a classificatory change.

Table 5: ESSPROS data on sources of revenue for benefits UK

	2008			2010			2015		
	Social contrib.	Govt revenue	Other receipts	Social contrib.	Govt revenue	Other receipts	Social contrib.	Govt revenue	Other receipts
Old age	58.5	13.4	28.1	60.7	11.4	27.9	64.2	10.6	25.3
Health care and sickness	7.1	90.2	2.7	9.3	86.4	4.3	5.6	89.8	4.5
Survivors	70.0	4.6	25.5	70.8	3.5	25.7	59.4	16.8	23.8
Disability	26.1	73.8	0.1	24.6	75.3	0.1	16.5	83.4	0.0
Unemployment	47.5	52.5	0.0	37.5	62.5	0.0	35.4	64.1	0.5
Family and children	5.9	94.1	0.0	8.1	91.9	0.0	4.9	95.1	0.0
Housing	0	100	0	0	100	0	0	100	0
Social exclusion	0	100	0	0	100	0	0	100	0

Source: Spasova and Ward (2019), Annex ESSPROS tables.

Table 6: Breakdown of the financing by social contributions by sub-category, 2005-2015 (% of total financing)

	2008				2010				2015			
	Employers	Employees	Self-employed	Benefit recipients	Employers	Employees	Self-employed	Benefit recipients	Employers	Employees	Self-employed	Benefit recipients
Old age	41.6	16.3	0.6	0.0	45.4	14.8	0.5	0.0	46.5	17.0	0.6	0.0
Health and sickness	6.8	0.3	0.0	0.0	9.0	0.3	0.0	0.0	5.5	0.1	0.0	0.0
Survivors	52.9	16.4	0.6	0.0	55.7	14.5	0.5	0.0	43.2	15.7	0.6	0.0
Disability	17.4	8.3	0.5	0.0	16.7	7.4	0.5	0.0	11.1	5.1	0.3	0.0
Unemployment	43.7	3.5	0.2	0.1	34.4	2.8	0.2	0.1	33.8	1.5	0.1	0.0
Family and children	3.5	2.3	0.1	0.0	4.7	3.1	0.2	0.0	2.9	1.9	0.1	0.0

Source: Spasova and Ward (2019), Annex ESSPROS tables.

Direct taxes, which depend on the circumstances – mostly the incomes or profits – of individual taxpayers or companies account for more than half the total, with income tax the single biggest contributor. Indirect taxes are charged on particular kinds of spending; the most important of these is Value Added Tax (VAT).

The best source of data on the impact of direct and indirect taxes is the Office for National Statistics series *The effects of taxes and benefits on household incomes,*[47] produced each year since 1977. Note that the analysis here is at the household, not the individual, level. Figures 3-5 show the percentage of gross income paid in taxes by each decile group (from the lowest 10% of households, Decile 1, to the highest 10% of households, Decile 10). The figures are presented for three years: 2007/08, just before the financial crisis; 2010/11, at the change of government; and the latest, 2016/17. A distinction is made between direct taxes and contributions – income tax, NICs and Council Tax - and indirect taxes - VAT, duties and Intermediate taxes.[48]

The first thing to note is how flat the distribution is – beyond the first decile, households are paying about the same proportion of their gross income in tax regardless of their income. The tax system in the UK is proportional rather than vertically progressive. (The results for the first decile are possibly misleading for two reasons – first, income is not always reliably reported at the bottom end of the distribution, and second, and relatedly, there are self-employed households under-reporting their incomes but having higher levels of consumption and hence indirect taxes.)

The second thing to note is that income tax and NICs are progressive taxes and council tax and the indirect taxes are regressive taxes. The redistributive effects of the two types of taxes cancel each other out.

Thirdly, there is very little evidence here of changes in the overall average incidence of the tax and NICs system over these ten years - despite the many changes in tax rates and allowances made in successive Budgets over the period (see Section 2). A household without children would pay an average of 36% of its gross income in tax in 2007/08, 35% in 2010/11 and 35% in 2016/17. There is evidence of a very slight shift from direct to indirect taxation as a proportion of the tax paid. A household without children would have paid an average of 56% of their total tax bill in income tax and NICs in 2007/08, 54% in 2010/11 and 54% in 2016/17.

These charts are for non-retired households without children; but there are no differences in the taxes paid by households with and without children, because children are no longer recognised in the tax system. The benefit and tax credit systems take account of some of the costs of rearing children. However, the high-income child benefit tax charge means that, if child benefit is not given up by the partner claiming it in a household in which there is someone on 'adjusted net income' of £50,000 €59,00 per year or more, additional income tax will be paid, up to the value of child benefit received at £60,000 €70,800 per year.

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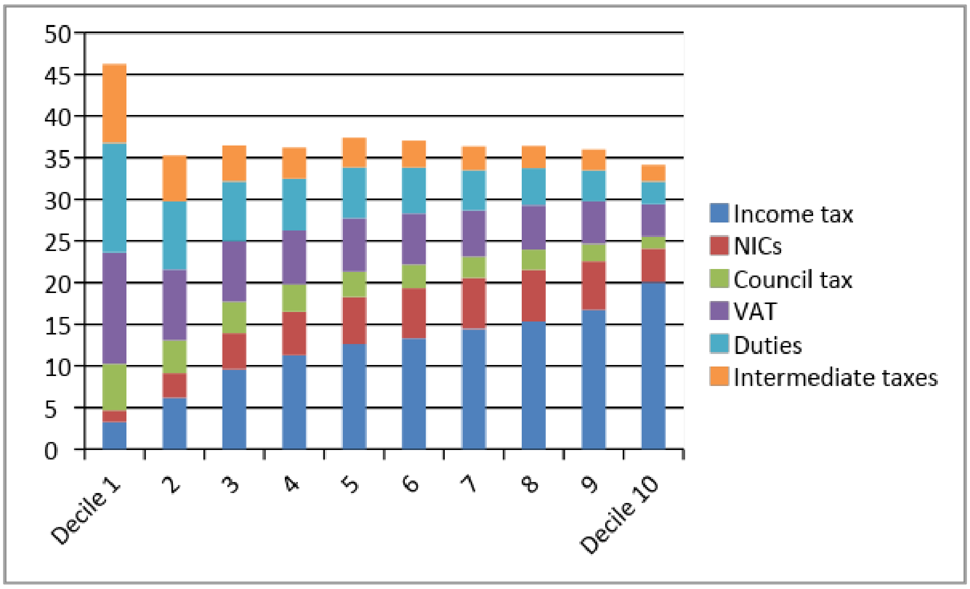
[47] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014

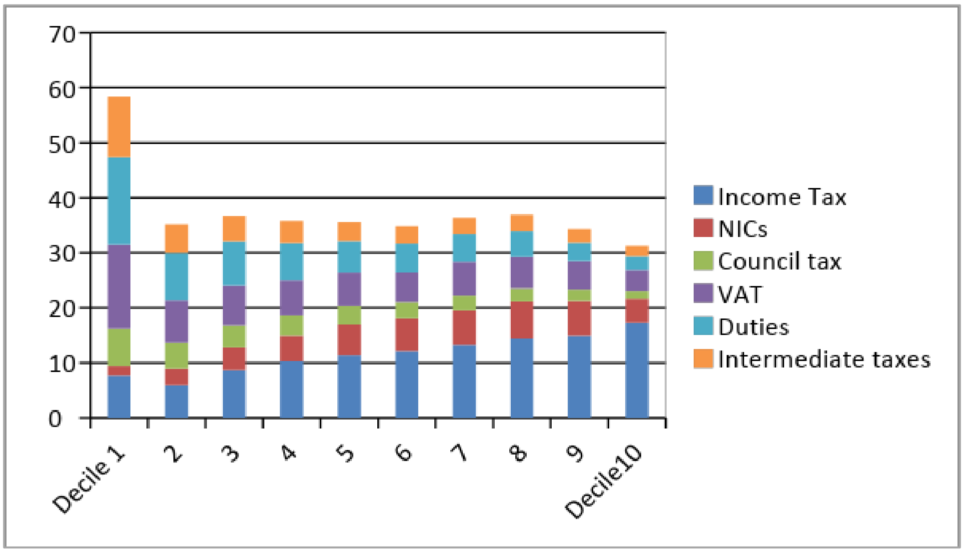
[48] Indirect taxes on intermediate goods and services include: rates on commercial and industrial property, motor vehicle duties, duties on hydrocarbon oils, employers' contributions to National Insurance, the National Health Service (NHS), the industrial injuries fund and the redundancy payments scheme, customs (import) duties, stamp duties, VAT (on the intermediate stages of exempt goods), Independent Commission franchise payments, landfill tax, Consumer Credit Act fees, bank levy. For more information on the methodology see https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/theeffectsoftaxesandbenefitsonhouseholdincome/technicalreport

Figure 3: 2007-2008 Non-retired households no children. % of gross income paid in tax



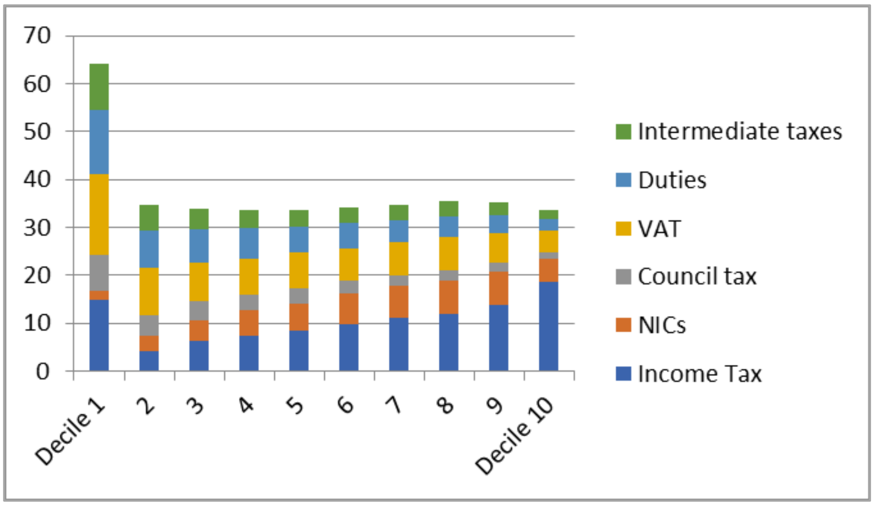
Source: Own calculations using Office for National Statistics, The effects of taxes and benefits on household incomes, 2007/08.

Figure 4: 2010-2011 Non-retired households no children % of gross income paid in tax



Source: Own calculations using Office for National Statistics, The effects of taxes and benefits on household incomes, 2010/11.

Figure 5: 2016-2017 Non-retired households no children % of gross income paid in tax



Source: Own calculations using Office for National Statistics, The effects of taxes and benefits on household incomes, 2016/17.

The UK is not a high tax country comparatively. The proportion of GDP taken in tax is below the international average. The UK also has one of the lowest proportions of total tax taken in direct taxes. The top rate of income and social security taxes is one of the lowest and the starting rate is one of the highest in the OECD. The tax rates in the UK are middling and less progressive than many other countries. The UK has the second lowest corporation tax rate in the OECD. The standard rate of VAT is comparatively low.[49]

2.2 What has happened to the UK tax system since the financial crisis?

Social protection is funded out of general taxation – that is, any and all of the taxes listed in Table 4 above. In summary, there are three big taxes – income tax, NICs and value added tax. The overall impact of these taxes is proportionate. The progressive nature of direct taxes - income tax and NICs - is wiped out by the regressive nature of Council Tax and indirect taxes. Taxation makes a very limited contribution to horizontal equity; this is left to social security policy. There is very little evidence of changes in the impact of tax since 2007/08; but there has been a very slight shift from direct to indirect tax.
There was a rapid increase in inequality in income before taxes in the 1980s; but the distribution has remained more or less stable since then. Inequality in original income is most unequal. Adding cash benefits reduces it substantially, as does deducting direct taxes. Adding indirect taxes cancels out the effect of direct taxes. The quintile shares of income have not changed much since 2005/06. In 2016/17, the top quintile has a final income after taking account of benefits, all taxes and the value of services in kind, four times that of the bottom quintile. After adjusting for household type, the top decile has an equivalent household income eight times that of the bottom decile.

The UK is not a high tax country comparatively. The proportion of GDP taken in tax is below the international average. The UK also has one of the lowest proportions of total tax taken in direct taxes. The top rate of income and social security taxes is one of the lowest and the starting rate is one of the highest in the OECD. The tax rates in the UK are middling and less progressive than many other countries. The UK has the second lowest corporation tax rate in the OECD. The standard rate of VAT is comparatively low.

[49] See Bradshaw, J. (2019) 'International comparisons', in J. Bradshaw (ed.) *Let's Talk about Tax*, London: Child Poverty Action Group (forthcoming)

There have been many changes to the rates and thresholds of taxes since the financial crisis.[50] In this section we will only comment on NICs.

National insurance contributions (NICs)

NICS is the only element that is directly related to social protection. In 2007/08, the lower earnings limit for NICs was £87 €103 per week and the upper earnings limit was £670 €791 per week. The class 1 employee contribution rate was 11%, and 1% above the upper earnings limit, and the employer's contribution was 12.8% on all earnings above the lower earnings limit. By 2010/11, the lower earnings limit was £97 €70.8 and the upper earnings limit £844 €996 per week. The contribution rates were unchanged. Under the Coalition Government, the lower earnings limit was increased progressively to £111 €131 per week in 2014/15; but the upper earnings limit was reduced to £805 €950. All the rates were increased – to 12%, and 2% above the upper earnings limit - and the employer rate was increased to 13.8%. In 2018/19, the thresholds are £116 €137 and £892 €1052 per week, with the NIC rates unchanged. However, changes introduced by Labour mean NICs are now not payable by employees until the primary threshold is reached.[51] This is £162 €192 per week in 2018/19. Employees earning between the lower earnings limit and the primary threshold are treated as if they were paying NICs.

This threshold of £162 €192 per week (2018/19) is also when employers start paying NICs. (Employers with apprentices or young employees pay zero rates up to the upper earnings limit.) For the last few years the government has given a flat-rate reduction of NICs to employers, now of £3,000 €3540,[52] with the aim of stimulating additional employment creation.

The lower rate for those in contracted-out pensions no longer exists since 2016/17. This is due to phasing out any state earnings-related pension with the new state pension scheme.

Self-employed people pay very low flat-rate contributions (Class 2) once their profits reach a certain level,[53] and Class 4 NICs on higher profits.[54] Class 4 NICs paid by self-employed people with profits over £8,424 €9940 for the year do not usually count towards state benefits.

Following a review of self-employment in 2016,[55] the government proposed abolishing Class 2 NICs, and introducing a different way of qualifying for NI benefits involving Class 4 NICs and voluntary NICs. However, having postponed this, it then abandoned it.[56] In the 2017 Budget, the Chancellor proposed to increase the Class 4 NICs rate for the self-employed to bring them more in line with employees' NICs. This was in part because the self-employed will gain disproportionately from the new state pension, and in part in response to concerns about 'bogus' self-employment in response to lower taxes and NICs,[57] as well as a potential extension of parental leave rights to self-employed people. The Chancellor also referred to the need to ensure sustainability of the tax base. Most commentators agreed this was a sensible move. However, outrage from the government's

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[50] For a summary, see Bradshaw, J. and Ohrnial, T. (2019) 'What has happened to the tax system since 2010?', in J. Bradshaw (ed.) *Let's Talk about Tax*, London: Child Poverty Action Group (forthcoming)

[51] https://www.gov.uk/government/publications/rates-and-allowances-national-insurance-contributions/rates-and-allowances-national-insurance-contributions

[52] https://www.gov.uk/claim-employment-allowance

[53] Now paid together with Class 4 NICs in the annual tax return rather than every quarter

[54] See Seely, A (2018), 'National insurance contributions (NICs) and the self-employed', *Briefing paper no. 7918,* London: House of Commons Library: https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7918

[55] Deane, J, 2016, *Self-employment review: An independent report*, London: UK Government, www.gov.uk/government/publications/self-employment-review

[56] House of Commons *Hansard*, Written Statement HCWS944, 6 September 2018, https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-09-06/HCWS944/

[57] See, for example, https://publications.parliament.uk/pa/cm201617/cmselect/cmworpen/847/847.pdf

own supporters as well as the tabloid press resulted in these proposals being dropped,[58] though the official HM Treasury line is that they are delayed "to ensure that there is enough time to work with Parliament and stakeholders on the detail of reforms".[59]

The more restricted entitlement to NI benefits, and reductions in their level in relation to average earnings, have led to the contributory benefits system being described as giving 'nothing for something' to many people.[60] This is exacerbated by the recent real increases in the personal tax allowance, not matched by similar increases in the NI threshold.

With the abolition of any earnings-related element of the state pension, there has been concern about insufficient saving towards private pensions. This has led to the introduction of auto enrolment,[61] phased in by size of employer from 2012. Employees not already in an occupational pension scheme but earning over a certain amount pay a low level of contributions towards a pension scheme unless they choose to opt out. The employer pays a matching contribution (3% from April 2019, with employees paying 8% from then). A review in 2017[62] said that 9 million individuals had been auto-enrolled, with 9 out of 10 continuing to save, though the impact of increasing contribution rates is not yet known, and the redistributive element of the state earnings-related pension scheme is absent. Proposals for reforms to auto enrolment are intended to be implemented in the mid-2020s. In the meantime, private insurance companies are suggesting that auto enrolment is a good model for widespread private insurance to be introduced for employees.

[58] Bennett, F. (forthcoming) 'Social protection for the self-employed in the UK: the disappearing contributions increase', *Journal of Poverty and Social Justice*

[59] Para 3.10 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/661480/autumn_budget_2017_web.pdf

[60] https://www.tuc.org.uk/sites/default/files/contributory_benefits.pdf

[61] https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06417; for background see https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN04847

[62] https://www.gov.uk/government/publications/automatic-enrolment-review-2017-maintaining-the-momentum

3. Strengths and weaknesses of the existing mix of financing options and potential future sources of financing - national debate on the topic (if any)

The major problems facing social protection at present relate not only to the mix but also to the level of taxation, due to the political decision made in 2010 to reduce the deficit largely by cutting expenditure rather than by increasing taxes. The consequences of this strategy are now being felt in rising poverty, growing homelessness, worsening health outcomes, longer waiting lists, increased dependence on food banks and so on. As the UN Special Rapporteur on Extreme Poverty and Human Rights said in his visit in November 2018:

> "The UK Government's policies and drastic cuts to social support are entrenching high levels of poverty and inflicting unnecessary misery in one of the richest countries in the world. The Government has remained in a state of denial, and ministers insisted to me that all is well and running according to plan. Despite making some reluctant tweaks to basic policy, there has been a determined resistance to change in response to the many problems which so many people at all levels have brought to my attention."[63]

In order to tackle the problem of child poverty and a struggling health service, as well as a totally inadequate social protection system, the UK needs to **spend more**. In the case of social protection, the freeze in benefit levels for most working age benefits must be lifted and the two-child limit, the benefit cap and the 'bedroom tax'[64] abolished, rent limits for housing benefit for private tenants raised and the other cuts to working age benefits reversed. The health service needs more resources year on year. To achieve this calls for increases in general tax revenue.

The UK's tax system is currently an accretion of improvised tinkering that is impossible to defend on any principled basis.[65] There are some debates about 'big' reforms. One is the suggestion that a hypothecated tax should be introduced to, for example, fund the health service,[66] on the basis that this might enable taxes to be increased without political costs.[67] At least one health economist thinks this is a silly idea.68

There has been debate about aligning the income tax and NICs system for some time, primarily from the point of view of simplifying administration for employers, although the Office for Tax Simplification has also argued that NICs no longer reflect the structure of the modern labour market.69 Sometimes, however, this debate seems to stem from a view that NICs are just another form of taxation, which is contested.70 (Employers could arguably also pay NICs as a simpler payroll levy.) There is also a common view that NICs are not paid into a separate fund to support social insurance benefits, which is in fact the case. According to the Mirrlees review of taxation, "NI is not a true social insurance scheme; it is just another tax on earnings, and the current system invites politicians to

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[63] Press release at the end of the visit of Philip Alston to the UK as the UN Special Rapporteur on Extreme Poverty and Human Rights, 16 November 2018.

[64] Called by the government the abolition of the spare room subsidy in social housing

[65] Johnson, P. (2014) 'Tax without Design: Recent Developments in UK Tax Policy', *Fiscal Studies*, vol. 35, no. 3, pp. 243–273 (2014) 0143-5671

[66] Perhaps a designated element of National Insurance Contributions, to be named National Health Service Contributions, for example.

[67] The Commission on Taxation and Citizenship (2000) in *Paying for Progress: The politics of tax for public spending,* London: Fabian Society argued the case for and against a hypothecated tax for the NHS

[68] https://blogs.bmj.com/bmj/2018/03/29/john-appleby-a-dedicated-tax-to-fund-the-nhs-a-zombie-policy-idea/. See also https://www.bmj.com/content/356/bmj.j471 and https://www.kingsfund.org.uk/sites/default/files/2018-05/Hypothecated_funding_Kings_Fund_May_2018.pdf

[69] Office for Tax Simplification (2016), *The closer alignment of income tax and national insurance*, www.gov.uk/government/publications/closer-alignment-of-income-tax-and-national-insurance-contributions

[70] See, for example, McKay, S. (forthcoming, 2019) in J. Bradshaw (ed.), *Let's talk about tax*, London: Child Poverty Action Group

play games with NICs". As noted above, there is a NI Fund, which can only be spent on contributory benefits, though there is no governance of this by the social partners.

Another big idea is that a basic income scheme should replace the whole system of tax allowances and benefits.71 This is supported both from the Left and the Right,72 and in the UK the Shadow Chancellor John McDonnell is said to be studying the possibility.[73] There are also many critics.[74] Scotland will be experimenting with a basic income in certain local areas soon. Four areas will explore the feasibility of local pilots. The Scottish Government confirmed in May 2018 that it would provide £250,000 €295,000over two years to support this.[75] Proposals for a partial rather than a full basic income have also been put forward recently.76

There are many more straightforward opportunities for reforming the existing tax structure, making it more progressive and raising more revenue. There is no space in this report to discuss these in detail, but a shortlist of ten might include the following:[77]

1. Do not keep raising the **income tax** threshold in real terms – it benefits higher rate tax payers most and does nothing to help people with no earnings or incomes below the (constantly increasing) threshold. Introduce a lower starting rate and a more graduated set of rates.
2. Consider removing or increasing the upper earnings limit on **National Insurance contributions** (whilst noting that this reduces still further the idea of NICs as social insurance contributions, given the flat-rate nature of UK benefits). Bring the treatment of employees and self-employed people closer together, in terms of how their contributions relate to the benefits they can qualify for, and the impact on their incomes. Increase the NICS tax base by incorporating all incomes of those in employment, including the earnings of pensioners. Introduce an equivalent impost on income from savings and capital gains. Remove the NICS exemptions for 'salary sacrifice' schemes.
3. Remove the freeze on **fuel duty.**
4. Increase **Corporation Tax** rates. Tax all profits of international companies' sales in the UK.
5. Grasp the nettle of rate revaluation and enable **council tax** to become more progressive.
6. Introduce a net **wealth tax.**

[71] See Bennett, F. (2017) 'Universal basic income far from reality of UK's existing social security system', *ESPN Flash Report 2017/19,* ESPN: https://ec.europa.eu/social/BlobServlet?docId=17531&langId=en

[72] See, from the Left, Van Parijs, P. (1991) 'Why Surfers Should be Fed: The Liberal Case for an Unconditional Basic Income', *Philosophy & Public Affairs*, Vol. 20, No. 2, pp. 101-131; and Van Parijs, P. and Vanderborght, Y. (2017) *Basic Income: A Radical Proposal for a Free Society and a Sane Economy*, Harvard University Press. And from the Right: Charles Murray (2006), *Guaranteed Income as a Replacement for the Welfare State,* Oxford: Foundation for Law, Justice and Society

[73] E.g. see *The Guardian*, 11 March 2019: https://www.theguardian.com/politics/2019/mar/11/scrap-tax-free-personal-allowance-and-pay-everyone-48-a-week

[74] Marsh, A. (2019) 'Direct taxes and cash benefits: effects and reforms' in Bradshaw, J. (ed.) *Let's talk about tax,* London: Child Poverty Action Group; Piachaud, D. (2018) 'Basic income: confusion, claims and choices', *Journal of Poverty and Social Justice* 26(3): 299-314. The Institute for Policy Research at Bath University has modelled different versions of a basic income, e.g. see https://www.bath.ac.uk/publications/assessing-the-case-for-a-universal-basic-income-in-the-uk/

[75] https://basicincome.scot/whats-happening-scotland/. See also https://basicincome.scot/2019/02/01/exploring-the-practicalities-of-a-basic-income-pilot-a-report-by-the-scottish-citizens-basic-income-steering-group/

[76] https://basicincome.org/news/2018/11/a-partial-basic-income-as-a-response-to-our-society-widening-inequality/

[77] These and others are discussed in Bradshaw, J. (ed.) (forthcoming, 2019) *Let's talk about tax*, London: Child Poverty Action Group.

7. Tackle tax evasion. Close tax avoidance loopholes.
8. Recognise **child benefit** as a means of achieving at least some degree of horizontal equity in the tax system – which means abolishing the High Income Child Benefit Charge. If better-off people should pay more tax, this should include those without children as well as those who are currently bringing them up. Abolish the transferable tax allowance for married couples and civil partners, which unlike child benefit is not granted in recognition of genuine dependence.
9. Tax gains arising from disposal of main residence.
10. Abolish inheritance tax reliefs and non-domiciled loopholes. Introduce a Lifetime Receipts Tax to replace Inheritance Tax.

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