

Income tax freezes

You asked about:

- Additional higher rate taxpayers by region
- Additional tax paid by freezing the higher rate threshold by region
- Additional basic rate taxpayers by region
- Additional tax paid by freezing the personal allowance by region

Notes on the method

Our analysis uses the UKMOD policy simulation model version A2.51+ developed and maintained by the Centre for Microsimulation and Policy Analysis (CeMPA) at the University of Essex Institute for Social and Economic Research (ISER), supported by the Nuffield Foundation, with underlying data on household incomes and circumstances drawn from the Family Resources Survey (FRS), uprated to 2025/26. The UKMOD model is explained in more detail in [CeMPA's latest country report](#). We've made no attempt to assess the potential effect of behavioural response of people when faced with different tax thresholds.

There are many variables in the UKMOD simulation model, particularly for the benefits system. After the current year, these are, broadly speaking, uprated using forecasts produced by the Office for Budget Responsibility. We have uprated some of the key variables (relating to income/wage growth, income tax, National Insurance, and key parts of the benefits system) for the latest OBR forecasts (October 2021).

We've analysed two sets of policies below (a) the current Government policy where the personal allowance and higher rate threshold are frozen until 2025/26; and, (b) a counterfactual where the allowance and threshold increase by inflation, which [would be the default](#) if not for the freezes. We've used the OBR's inflation forecasts to increase the thresholds.¹

In the main, Scotland is excluded from the analysis as the Scottish Government decides income tax thresholds there. The Scottish Government don't, however, decide the personal allowance. We have included notes for Scotland on this where relevant.

People brought into income tax or the higher rate threshold

The table below provides estimates of the number of (a) people brought into income tax by the freeze to the personal allowance, and (b) people brought into the higher rate of income tax by the freeze to the higher rate threshold.

¹ Specifically, we've used the OBR's CPI inflation for Q3 in the relevant year, as reported in Supplementary Table 1.7 of the [OBR's October 2021 Economic and fiscal outlook](#)

We estimate, for instance, that around 80,000 more people in the North East will be paying income tax in 2025/26 due to the freeze in the personal allowance, compared with the counterfactual where the allowance increases by inflation. We estimate that around 45,000 more people in the North East will pay the higher rate of income tax in 2025/26 due to the freeze in the higher rate threshold.²

When the policy was first announced (Spring Budget 2021) future inflation was forecast to be lower than (a) it turned out to be and (b) is now forecast in the future. If the tax thresholds weren't frozen they would grow by inflation – the higher inflation, the higher the thresholds. For example, when the freeze was announced we estimated that without the freeze the tax-free personal allowance would have increased to £13,540 in 2025/26. The higher inflation forecasts in the OBR's 2021 Autumn Budget forecast means that we now estimate that the personal allowance would increase to £14,070 in 2025/26 if it wasn't frozen. The freeze means that in 2025/26 the personal allowance will still be at £12,570.

Based on the OBR's latest inflation forecasts we estimate that the higher rate threshold would be £56,270 in 2025/26. The higher rate threshold is the sum of the personal allowance and the basic rate limit, which are actually the tax thresholds being frozen.

Income tax freezes: estimated additional taxpayers and higher rate taxpayers, by region, 2025/26

Comparison is with counterfactual where the threshold rises with inflation

	Additional income taxpayers	Additional higher rate taxpayers
North East	80,000	45,000
North West	190,000	140,000
Yorkshire and the Humber	135,000	95,000
East Midlands	120,000	95,000
West Midlands	155,000	100,000
East of England	165,000	135,000
London	155,000	210,000
South East	210,000	235,000
South West	160,000	115,000
Wales	85,000	55,000
Northern Ireland	40,000	25,000
UK excluding Scotland	1,495,000	1,245,000

² The higher rate threshold is the sum of two parts of the income tax system – the personal allowance and the basic rate limit. In 2021/22, the personal allowance is £12,570 and the basic rate limit is £37,700, which means the higher rate threshold is £50,270 (£12,570+£37,700). Freezing the higher rate threshold is achieved by freezing the personal allowance and the basic rate limit.

Notes: We estimate that the personal allowance freeze will mean an additional 145,000 income taxpayers in Scotland in 2025/26. In theory, while the Scottish Government can't change the personal allowance, they can introduce a 0% band which would effectively increase the personal allowance on non-savings, non-dividends income in Scotland.

Impact on household incomes, by region

The table below looks at the impact of the freezes on households' disposable income. Disposable incomes are the income the household has after benefits have been added and personal taxes (largely income tax and national insurance) have been paid. To get the fullest picture of how the income tax freezes affect household incomes it's best to consider the impact that they have across the system, as there are links between taxes and benefits.

The table below provides estimates of the average cost per household of the income tax freezes in 2025/26, by region. It also shows the total cost across the region. The estimates are approximate and uncertain, so avoid treating small differences between regions as significant.

Across all regions, household disposable incomes are estimated to be around 1% lower in 2025/26 than they would be if there was no freeze to income tax thresholds. Households in London and the South East are estimated to see the largest impact in cash terms. Both see losses of around £500 per household. Per household losses in London are estimated to be a little higher, but as we say they estimate are fairly approximate so don't read too much into this difference.

We estimate that the freezes cost households across the UK (excluding Scotland) around £10.9 billion in 2025/26. The freeze costs households in the South East around £1.9 billion and those in London around £1.8 billion.

Income tax freezes: impact on households' disposable incomes, 2025/26

Comparison is with counterfactual where the thresholds rise with inflation

	Impact per household		Aggregate impact in the region £ million
	£ per household	% of disposable income	
North East	-340	-1.0%	-400
North West	-380	-1.0%	-1,200
Yorkshire and the Humber	-380	-1.0%	-900
East Midlands	-420	-1.1%	-800
West Midlands	-390	-1.1%	-900
East of England	-470	-1.1%	-1,200
London	-510	-1.0%	-1,800
South East	-500	-1.1%	-1,900
South West	-430	-1.1%	-1,000
Wales	-370	-1.0%	-500
Northern Ireland	-370	-1.0%	-300
UK excluding Scotland	-430	-1.1%	-10,900

Notes: % figure is relative to disposable incomes without the freezes to income tax thresholds

Box 1: Freezing the higher rate threshold

The higher rate threshold doesn't exist in the income tax system – it is the sum of two parts of the system – the personal allowance and the basic rate limit.

In 2021/22, the personal allowance is £12,570 and the basic rate limit is £37,700, which means the higher rate threshold is £50,270 (£12,570+£37,700).

The Government is freezing the higher rate threshold through freezes to the personal allowance and the basic rate limit.

Due to interactions across the tax and benefit system it is difficult to precisely express how much of households' losses are due to the personal allowance freeze and how much are due to the higher rate threshold freeze. In the table below we've estimated the cost to households if just the personal allowance were frozen and have assumed that the rest of the total cost is attributable to freezing the basic rate limit (see Box 1 for explanation of the basic rate limit's role in freezing the higher rate threshold).

London, South East and East of England all see losses attributable to the basic rate limit freeze of over £100 per household. These are the regions with the [highest incomes in the UK](#).

Income tax freezes: impact on households' disposable incomes, 2025/26

Comparison is with counterfactual where the threshold rises with inflation

	Personal allowance (freeze)		Remainder (approximately attributable to basic rate limit freeze)	
	£ per household	% of disposable income	£ per household	% of disposable income
North East	-290	-0.8%	-50	-0.2%
North West	-310	-0.8%	-70	-0.2%
Yorkshire and the Humber	-320	-0.9%	-60	-0.2%
East Midlands	-350	-0.9%	-70	-0.2%
West Midlands	-320	-0.9%	-70	-0.2%
East of England	-360	-0.8%	-110	-0.3%
London	-360	-0.7%	-150	-0.3%
South East	-370	-0.8%	-130	-0.3%
South West	-350	-0.9%	-80	-0.2%
Wales	-310	-0.9%	-60	-0.2%
Northern Ireland	-320	-0.9%	-50	-0.1%
UK excluding Scotland	-340	-0.8%	-90	-0.2%

The costs attributable to the freeze in the basic rate limit would be larger if we were only looking at income tax alone but freezing the basic rate limit directly lowers NICs payments for those with earnings above the higher rate threshold. This is because the level of earnings at which employees start paying the lower 2% rate of NICs (3.25% from April 2022) rather than the higher 12% rate (13.25% from April 2022) is aligned with the higher rate threshold. Freezing the basic rate limit keeps this threshold in the NICs system lower than it otherwise would be so more of people's earnings will be charged at the 2% rate.

Treasury estimates of potential raised revenue

The Treasury estimates that the freezes will raise around £13 billion in 2025/26.³ This is a larger figure than the £10.9 billion which we've estimated as the cost to households. There are various reasons for the differences, including that the Treasury's estimate includes the impact on corporation tax receipts, the cost for

³ HM Treasury. [Autumn Budget and Spending Review 2021](#), Table 5.2

Scottish taxpayers and the impact on the Scottish Government's budget.⁴ Also, the model we use is different to the Treasury's.

⁴ For more on the "block grant adjustments" see [the Scottish Fiscal Commission](#) and section 3 of the Library briefing [The Barnett formula](#).