

# Did the UK Policy Response to Covid-19 Protect Household Incomes?

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# What we do

- Analyse the UK policy response to Covid-19 and its impact on household incomes in April-May in the UK
- Use a tax-benefit model (UKMOD) combined with different sources of household micro-data to predict household incomes
- Analyse how much income protection is provided by:
  - earnings subsidies (the Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme)
  - Covid-related state benefit increases
  - tax-benefit automatic stabilisers

# The UK policy response and tax-benefit policies

- Earnings subsidies

- Coronavirus Job Retention Scheme (CJRS)

- worker's hours reduced to 0 without being laid-off
- 80% of gross earnings, up to £2,500 per month

- Self-Employment Income Support Scheme (SEISS)

- first payment in May
- 80% of the average of last 3 years' profits, up to £2,500 per month
- self-employed can continue earning while receiving grant

- State benefits

- unemployment benefits: Jobseeker's Allowance

- income-related benefits: Universal Credit (UC)

- Covid-related benefit increases

- UC increase of £20 per week (28% for singles, 17% for couples); increase to rent component; improved access for self-employed

- Income tax and NIC

- as earnings drop, after-tax income falls by less than pre-tax income

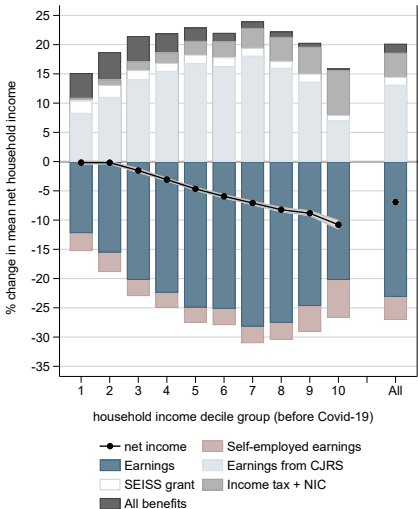
# Simulations and data

- Baseline data: Family Resources Survey 2018/19
  - financial value of income data uprated to (pre-Covid) 2020 prices
  - what the population would have looked like in April 2020 had there been no Covid-19
- Simulation of Covid-19 employment shocks
  - use April and May Understanding Society COVID-19 Study on employment and earnings changes by sex, age and industry
  - simulate similarly-sized shocks on the sample of FRS workers:
    - unemployed (3.9%)
    - furloughed (receive support from CJRS) (26.2%)
    - still employed (not furloughed) but reduced earnings and hours (11.2%)
    - no change (i.e. no drop in earnings) (58.7%)
  - 49.3% of self-employed simulated to take-up SEISS grant in May
- Use UKMOD to calculate benefit entitlements, income tax liabilities and NIC, and household net income
  - keep take-up behaviour of benefits *fixed*

# Scenarios

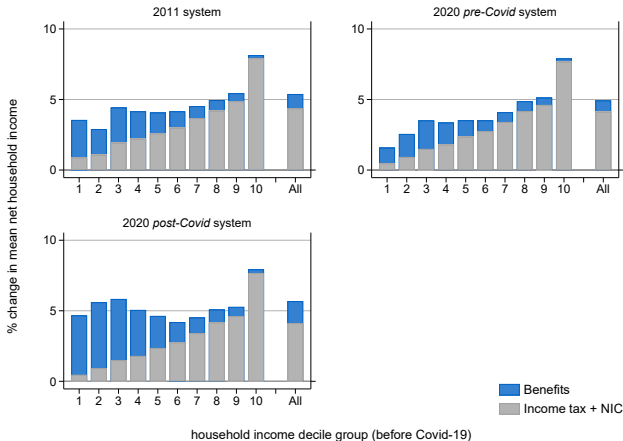
- **Baseline:** 2020 income distribution without Covid
- **Incomes after shocks and post-Covid policies**
  - comparison with baseline shows effect of earnings subsidies, Covid-related benefit increases and tax-benefit automatic stabilisers
  - incomes averaged over April and May

# Change in mean net income due to the crisis by decile of pre-crisis incomes



Notes: The figure shows the distributional impact of the employment and earnings shocks and the UK policy response. Changes in income based on equivalised household net income.

# The impact of the 2011 versus the 2020 pre-/post-Covid tax-benefit systems on household net incomes



Notes: 2011 tax-benefit parameters in 2020 prices and applied on the earnings distribution before and after Covid-19.

# Summary

- Households will lose a substantial share of their net income (7% on average)
  - Proportional losses are largest for higher-income families
  - Overall impact on income inequality is small
- Earnings subsidies will protect household incomes across the entire distribution and provide the main insurance mechanism
- Covid-related benefit increases and tax-benefit automatic stabilisers will also help mitigate income losses
- Due to a near-decade of austerity, even after extra benefit spending, the ability of the 2020 tax-benefit system to insure against shocks is similar to the 2011 pre-austerity system

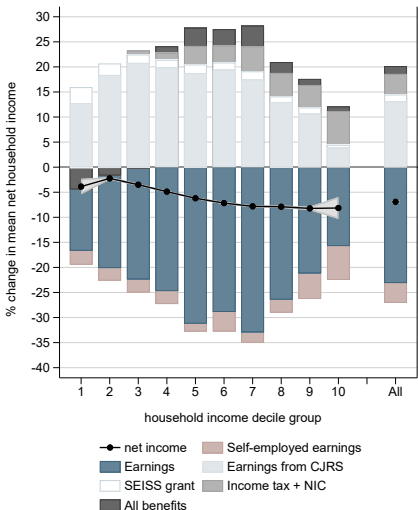


Thank you!

Brewer, M. and I. Tasseva (2020):  
“Did the UK Policy Response to Covid-19  
Protect Household Incomes?”, *EUROMOD  
Working Paper 12/20*

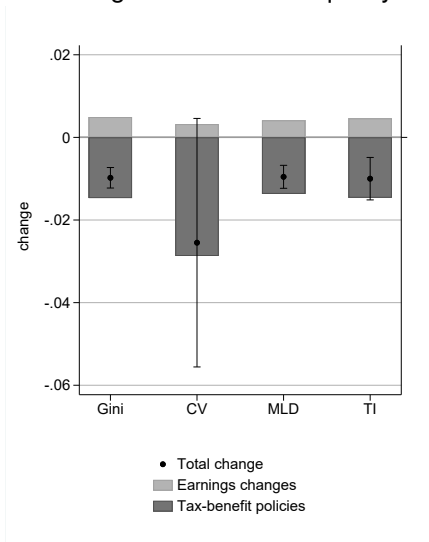


## Change in mean net income by decile: households ranking *not fixed*



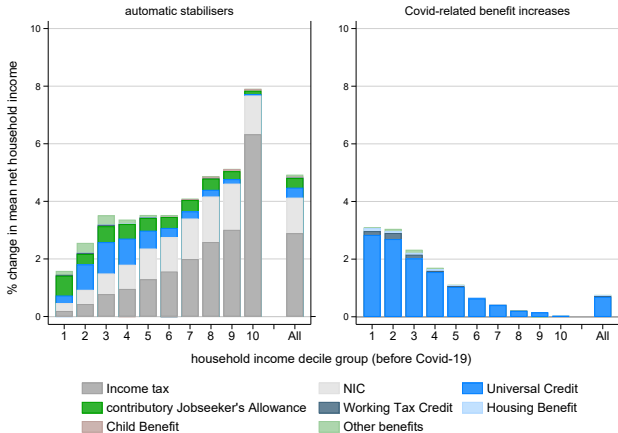
Notes: The figure shows the distributional impact of the employment and earnings shocks and the UK policy response. Changes in income based on equivalised household net income.

## Changes in income inequality



Notes: The figure shows the impact on inequality of the employment and earnings shocks and the UK policy response. CV=coefficient of variation; MLD=mean log deviation; TI=Theil index. Changes in income inequality based on equivalised household net income.

# Change in mean net income by tax-benefit policy



Notes: Changes in total net income and the contribution of earnings changes and JRS subsidies are omitted. Changes in income based on equivalised household net income. Other benefits include the Council Tax Reduction, Child Tax Credit, Income support, income-related Employment and Support Allowance, income-based JSA, Pension Credit, Scottish benefits (Sure Start Maternity Grant and Best Start Grant). No simulations to Statutory Sickness Pay.