The Cost of Frozen Tax Thresholds: What Minimum-Wage Workers Keep, What Employers Pay and What Government Collects

Nov 24, 2026 · @George

An analysis of UK wage and tax policy, with household case studies from Wigan, Greater Manchester. Published by Robicon Digital Ltd (robicon.co.uk). Independently audited by Claude (Anthropic) and counter-audited by ChatGPT (OpenAI); both audits are reconciled in section 8.

Summary

Two adults working full-time at the statutory minimum wage paid about **£3,068 more income tax** between April 2022 and April 2026 than they would have if the Personal Allowance had kept rising with inflation. Including the 2026–27 tax year, the gap is projected to reach **£4,472**.

Even so, real take-home minimum-wage pay has risen by about **9.3% since 2021**. The freeze has limited the improvement in real net pay; it has not reversed it.

How much of any tax cut a family keeps depends on its benefits. Where the Universal Credit earnings taper applies in full, a household keeps **45p of each £1** of income tax relief. In the two Wigan case studies, a one-earner family keeps 45%. A two-earner family, whose earnings take it just above the point where UC stops, keeps 100%, as does any household without UC.

Raising the Personal Allowance would increase take-home pay without directly increasing employers' payroll costs. But the cost moves to the Exchequer, and it is national. Restoring the 2016 ratio of allowance to minimum-wage pay would cost tens of billions of pounds a year, and most of the gain would go to people earning well above the minimum wage.

The statutory minimum wage would still rise each year under its own rules. A higher allowance would not relieve employers of those increases.

Headline figure	Value
Minimum wage growth, 2021–22 to 2026–27	+42.6%
Personal Allowance growth over the same period	0%

Headline figure	Value
Real growth in net minimum-wage pay since 2021	+9.3%
Extra income tax, two full-time workers, April 2022 – April 2026	£3,068
Same, including the 2026–27 projection	£4,472
Annual tax saving per worker if the 2016 ratio were restored	£1,372
Employer cost of delivering the same net gain through pay (incl. NI and pension)	£2,249 per worker

1. Why this matters

The Personal Allowance, the income on which no income tax is paid, has been fixed at £12,570 since April 2021. Over the same period the National Living Wage rose from £8.91 to £12.71 an hour. As a result, a growing share of each minimum-wage pay rise is now taxed.

The freeze was announced in March 2021 and extended in November 2022 by a Conservative government. It was extended again, to April 2031, in the November 2025 Budget by a Labour government. The analysis below is about its effects, not its authors.

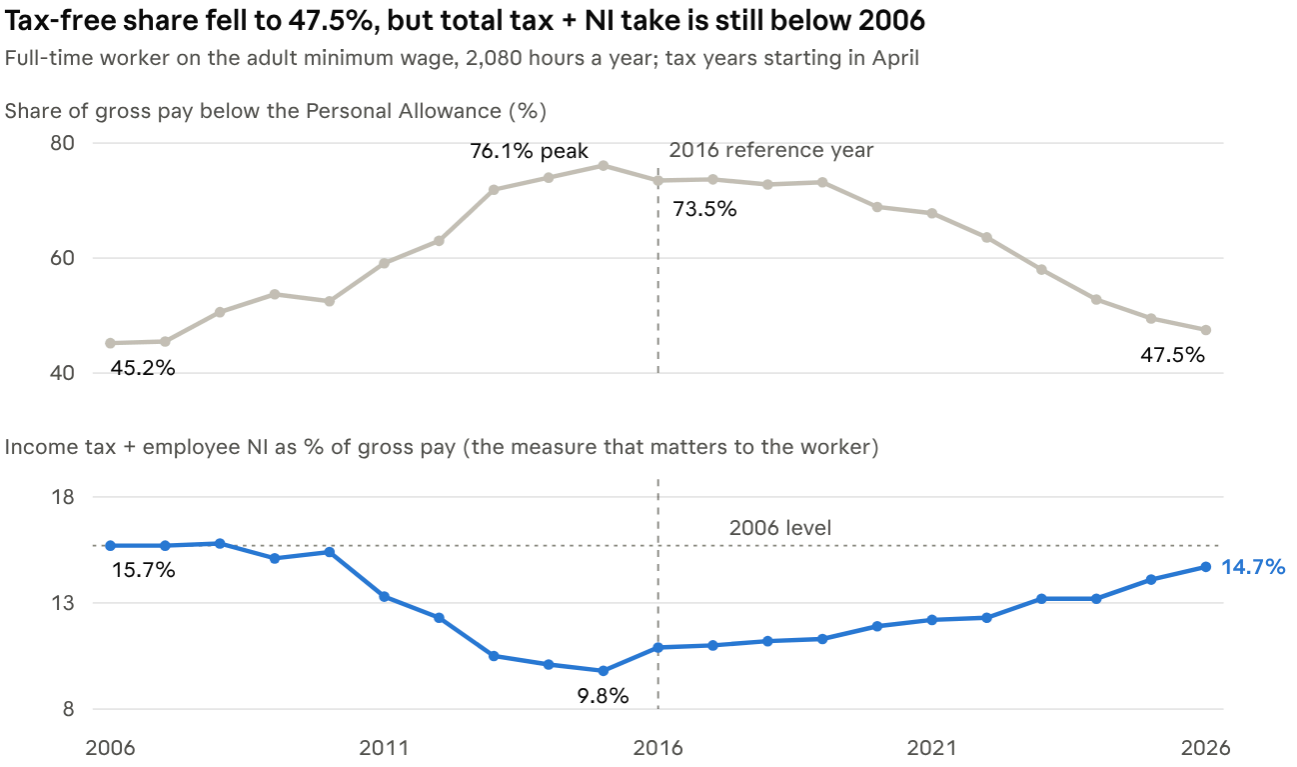
The paper answers four questions:

1. How has the tax on full-time minimum-wage pay changed since 2006?
2. How much extra tax has the freeze cost minimum-wage workers?
3. How much of a tax cut would working families actually keep, once Universal Credit is taken into account?
4. How do a higher allowance, an NI cut and changes to Universal Credit compare, for families, employers and the Exchequer?

All figures use a worker on 40 hours a week for 52 weeks (2,080 hours), with no overtime, taxed under the rules for England, Wales and Northern Ireland. Scotland sets its own income tax bands. Household case studies use Wigan rents, council tax and water charges; the tax findings apply nationally.

2. Wages and tax, 2006–2026

The share of full-time minimum-wage pay covered by the Personal Allowance fell from 73.5% in 2016 to 47.5% in 2026. That is a real and large change. But income tax is only part of what comes out of a pay packet. Counting employee National Insurance too, a minimum-wage worker pays 14.7% of gross pay in 2026: more than in 2015 (9.8%), but still less than in 2006 (15.7%). Cuts to employee NI from 12% to 8% in 2024 offset much of the effect of the freeze.



Calculated from GOV.UK minimum wage rates, HMRC Personal Allowances, NI thresholds and rates; tax years 2006–07 to 2026–27. Full series in section 8.

The tax-free share peaked at 76.1% in 2015 and averaged 61.6% over 2006–2026. The 2016 reference year sits near that peak, which followed the large allowance increases of 2010–15.

Real take-home pay

After tax, NI and inflation, a full-time minimum-wage worker takes home more today than in any earlier reference year.

Tax year	Hourly rate	Net pay, cash	Net pay in Sept 2026 prices	Real change to 2026–27
2006–07	£5.35	£9,376	£16,763	+34.5%

Tax year	Hourly rate	Net pay, cash	Net pay in Sept 2026 prices	Real change to 2026–27
2016–17	£7.20	£13,351	£19,011	+18.6%
2021–22	£8.91	£16,264	£20,631	+9.3%
2026–27	£12.71	£22,554	£22,554	Not applicable

Prices are adjusted with the ONS CPI index (series D7BT): 80.6 in October 2006, 101.2 in October 2016, 113.6 in October 2021 and 144.1 in September 2026. CPI measures average national prices. Low-income renters may have faced higher inflation; in Wigan, private rents rose 6.4% in the year to October 2026, while CPI rose 3.5% in the year to September 2026.

3. The cost of the Personal Allowance freeze

By default, the law raises the Personal Allowance each April in line with the previous September's CPI, rounding the result up to the next £10 (Income Tax Act 2007, section 57). Had that rule applied, the allowance would be £16,080 in 2026–27 instead of £12,570. Two full-time minimum-wage workers paid £3,068 more income tax over the four completed years to April 2026.

Tax year	September CPI	Indexed allowance	Extra tax, one worker	Extra tax, two workers
2022–23	3.1%	£12,960	£78	£156
2023–24	10.1%	£14,270	£340	£680
2024–25	6.7%	£15,230	£532	£1,064
2025–26	1.7%	£15,490	£584	£1,168
Completed years, to April 2026			**£1,534**	**£3,068**
2026–27 (projected; year ends 5 April 2027)	3.8%	£16,080	£702	£1,404
Including 2026–27			**£2,236**	**£4,472**

The Institute for Fiscal Studies puts the indexed allowance at £16,070. The £10 difference comes from method: compounding CPI without annual rounding gives £16,071.76, while the statutory rule rounds up each year. This paper uses the statutory method.

These figures measure extra income tax paid compared with the counterfactual. They are not the same as lost household income. For families on Universal Credit, part of any tax saving would have been offset by a lower UC award (section 4).

An alternative benchmark, not a counterfactual

If the allowance had instead risen in line with the National Living Wage from 2021, it would be £17,931 in 2026–27, and two workers would have paid £6,619 less tax by April 2027. No law has ever linked the allowance to the minimum wage, so this is a policy proposal for comparison, not a measure of what the freeze "cost".

Looking ahead

The freeze is now set to last until April 2031. The IFS projects that the gap between the frozen allowance and an inflation-indexed one will reach £4,870 by 2030–31.

4. What working families actually keep

A working couple with two children renting privately in Wigan is entitled to Universal Credit if one adult works full-time at the minimum wage. If both do, their earnings take them just above the point where UC stops. UC is reduced by 55p for every £1 of net earnings above a work allowance. So when income tax falls, UC falls too, and the family keeps only part of the tax cut.

Case studies: couple, two children, 2-bedroom private rent in Wigan, 2026–27 (monthly)

Line	One full-time earner	Two full-time earners	Basis
Net earnings after tax and NI	£1,879.51	£3,759.02	Section 8
Universal Credit	£975.97	£0.00	See note 1
Child Benefit	£194.78	£194.78	£27.05 + £17.90 a week
Household income	**£3,050.26**	**£3,953.80**	
Rent, 2 bedrooms	−£707.00	−£707.00	ONS, Wigan average, Oct 2026
Council tax, Band A (Band C: −£159.37)	−£119.53	−£119.53	Wigan 2026–27; Council Tax Support not modelled

Line	One full-time earner	Two full-time earners	Basis
Energy	−£161.25	−£161.25	Ofgem cap Oct–Dec 2026, pre-July 2026 typical use (£1,935 a year)
Water and sewerage	−£55.04	−£55.04	United Utilities average, £660.50 a year
Left for food, transport, clothing and everything else	**£2,007.44**	**£2,910.98**	

Note 1: UC = couple standard allowance £666.97 + two child elements of £303.94 + housing element £500 (the Wigan Local Housing Allowance rate for 2 bedrooms, below the actual rent), minus 55% of net earnings above the £427 work allowance. Both children are assumed to be born after 6 April 2017, so both are under 10 throughout 2026–27. Under the Local Housing Allowance size criteria, two children under 10 are expected to share a bedroom, so the family is entitled to 2 bedrooms. For the two-earner family the taper (£1,832.61) exceeds the maximum award (£1,774.85), so it receives no UC; it is £57.76 a month above the cut-off. If the elder child was born before 6 April 2017, the first child element is £47.94 a month higher; if that child is also 10 or over and of a different sex from the younger, the family is entitled to 3 bedrooms (LHA £595). The two-child limit ended on 6 April 2026 and does not affect these families.

The second full-time job raises household income by £903.54 a month, although it brings in £1,879.51 of net pay, because the family's UC of £975.97 is withdrawn in full.

How much of a tax cut each household keeps

Under the 2016-ratio allowance (£19,431, section 5), each worker's income tax falls by £114.35 a month.

Household	Monthly tax cut	Kept after UC	Share kept	Net cost to the Exchequer, per year
One earner on UC	£114.35	£51.46	45%	about £618 (£1,372 tax forgone, about £755 recovered through lower UC)
Two earners, above the UC cut-off	£228.70	£228.70	100%	£2,744

Household	Monthly tax cut	Kept after UC	Share kept	Net cost to the Exchequer, per year
Any worker not on UC	£114.35	£114.35	100%	£1,372

The 45% rule applies only while a household is on the UC taper and has enough UC left to absorb the reduction. Once UC reaches zero, further tax cuts are kept in full.

Not included

- Council Tax Support. Wigan runs a means-tested scheme, unchanged for 2026–27. It would reduce the council tax bill of the one-earner family, and could itself be reduced as income rises.
- The UC childcare element (up to 85% of eligible costs), free school meals and other passported help.
- Workplace pension contributions. With auto-enrolment at 4% of qualifying earnings, net cash falls by about £30 a month for the one-earner family and £118 for the two-earner family, after UC adjusts (the contributions would take the two-earner family back onto a UC award of about £16).

5. Alternatives compared

Five ways of raising the take-home income of low-paid working families are compared below. None of them adds to employers' payroll costs; all of them cost the Exchequer. Allowance and NI changes reach every taxpayer. UC changes reach only families on Universal Credit. Policies should not be ranked by household gain alone, because their national costs and coverage differ greatly.

Option	Gain per worker, not on UC (per month)	One-earner family on UC (per month)	Two-earner family, above the UC cut-off (per month)	National cost, as published or estimated
Personal Allowance restored to the CPI-indexed £16,080	£58.50	£26.33	£117.00	About £28–29bn a year: illustrative linear extrapolation from IFS and HMRC rules of thumb; gross revenue; no behaviour or UC savings

Option	Gain per worker, not on UC (per month)	One-earner family on UC (per month)	Two-earner family, above the UC cut-off (per month)	National cost, as published or estimated
Personal Allowance at the 2016 ratio, £19,431	£114.35	£51.46	£228.70	About £55–57bn a year: illustrative linear extrapolation; HMRC notes the true cost of large rises is lower; no official costing
Employee NI main rate cut from 8% to 6%	£23.11	£10.40	£46.22	About £9bn a year, by comparison with the January 2024 2p cut (£8.7–9.3bn a year, OBR-certified, 2024–25 to 2028–29)
UC work allowance raised by £100 a month	£0	£55.00	£0	Not costed
UC taper cut from 55% to 50%	£0	£72.63	£108.84	Not costed

The two-earner family is £57.76 a month above the UC cut-off, so it keeps tax and NI cuts in full. A £100 higher work allowance still leaves it £2.76 a month short of entitlement, while a 50% taper brings it back onto a UC award of £108.84.

For scale: the government costed the 2021 package that cut the UC taper from 63% to 55% and raised work allowances by £500 a year at about £2.2bn a year. The Resolution Foundation put it at about £3bn. A 1p cut in the basic rate of income tax costs about £7.4bn a year (IFS).

Note on the 2016 benchmark: the 2016 ratio is 73.45% (£11,000 ÷ £14,976), rounded to 73.5% for this paper. Using the unrounded ratio gives an allowance of £19,418 and a saving of £114.13 a month per worker, instead of £19,431 and £114.35.

Who gains from a higher allowance

- Every basic-rate taxpayer earning above the new allowance gains the same cash amount as a full-time minimum-wage worker. Higher-rate taxpayers gain more, unless the basic-rate band is cut to compensate.

- About a quarter of adults have incomes too low to pay income tax and gain nothing, including many part-time workers (IFS).
- The IFS finds the gains from a higher allowance are "n-shaped" across the income distribution, peaking around the sixth decile.
- Earlier IFS analysis found that raising UC work allowances raises the incomes of the poorest fifth of households far more than an equally costly NI threshold rise.

The choice between these options is a political judgement about who should gain and how it is paid for. This paper sets out the effects; it does not recommend one.

6. Employers: what the pay route would cost

A full-time National Living Wage employee costs an employer £30,258 a year in 2026–27, of which £26,437 is gross pay. Delivering the same £1,372 net gain as the 2016-ratio allowance through a pay rise instead would cost an employer about £2,249 per worker a year.

Annual cost of one full-time NLW employee, 2026–27

Component	Employer with no Employment Allowance left	Employer covered by its Employment Allowance
Gross pay (£12.71 × 2,080)	£26,436.80	£26,436.80
Employer NI, 15% above £5,000	£3,215.52	£0
Employer pension, 3% of earnings above £6,240	£605.90	£605.90
Total	**£30,258.22**	**£27,042.70**

The £10,500 Employment Allowance covers the employer NI of about 3.3 full-time NLW workers. A business with ten such workers pays £32,155 of employer NI before the allowance and £21,655 after it.

Delivering £1,372 a year more take-home pay through wages

Because a basic-rate worker loses 28p of each extra £1 (20% tax and 8% NI), a £1,372 net gain needs £1,905.85 of extra gross pay. That raises the hourly rate from £12.71 to £13.63.

Employer cost of that rise	Per worker	Ten workers
Gross pay plus 15% employer NI	£2,191.72	£21,917

Employer cost of that rise	Per worker	Ten workers
Plus 3% employer pension	£2,248.90	£22,489
Employer covered by its Employment Allowance (pension only)	£1,963.03	Not applicable

For workers on Universal Credit, a pay rise is also partly withdrawn through the taper, so the gain to the family would be lower than £1,372.

What this comparison does and does not mean

- It compares two ways of delivering the same net gain. It is not an estimate of savings: no employer's current costs fall if the Personal Allowance rises.
- The National Living Wage is set by law each year on Low Pay Commission advice, with a remit of at least two-thirds of median earnings. A higher allowance would not relieve employers of future statutory increases.
- Pay above the legal minimum is set by employers, workers and market conditions. Whether a tax cut would slow those rises is discussed in section 7.

7. What the evidence does not show

This study began with broader hypotheses. Testing them showed that several cannot be supported on the evidence available, and they are reported here rather than dropped.

Claim	Status	Why
Minimum-wage workers are worse off in real terms than in 2006 or 2021	Not supported	Real net pay rose 34.5% since 2006 and 9.3% since 2021 (section 2)
The tax burden on minimum-wage pay is higher than ever	Not supported	Income tax plus NI is 14.7% of gross pay, below 2006's 15.7%
A higher allowance increases take-home pay at unchanged gross wages	Demonstrated	Arithmetic (sections 4 and 6)
A higher allowance reduces employers' obligation to raise the minimum wage	Not supported	The NLW is statutory and set against median earnings

Claim	Status	Why
A higher allowance reduces pressure for voluntary pay rises	Plausible, not established	Studies of US in-work tax credits (Rothstein 2010) find employers capture part of worker tax relief through slower pay growth. No UK study of the Personal Allowance was found.
A higher allowance is well targeted at low-paid families	Not supported	Most of the gain goes to middle and higher earners; a household on the full UC taper keeps 45% while UC entitlement remains; the modelled two-earner family has no UC and keeps 100%
Working families in Greater Manchester are worse off overall than 20 years ago	Not tested	Needs consistent historical data on benefits, rents, food and energy, which is not yet available (section 8)

Pressures the freeze does not explain

Some of what families feel in 2026 has other causes, which a balanced account should name:

- **Rent above housing support.** Wigan's average 2-bedroom rent is £707 a month, while the 2-bedroom Local Housing Allowance rate, the most rent UC will count, is frozen at £500. The £207 gap is illustrative: LHA rates apply to Broad Rental Market Areas and ONS rents to local authorities, and of the two modelled families only the one-earner family receives UC housing support. The gap is larger than what an inflation-indexed allowance would be worth to two full-time workers: £117 a month.
- **Mortgage rates.** On a typical Wigan semi (£207,000, 90% loan, 25 years), repayments rise from £793 a month at the October 2021 2-year fixed rate (2.04%) to £1,155 at the October 2026 rate (5.60%).
- **Withdrawal of Universal Credit.** A second full-time earner adds £904 a month to household income, not £1,880, because the family's UC is withdrawn in full (section 4).

8. Methods, limitations and correction record

Method

- Gross pay = adult minimum hourly rate × 2,080 hours. The adult rate applied to ages 22+ until September 2010 and 21+ until March 2016; the National Living Wage applied to ages 25+ from April 2016, 23+ from April 2021 and 21+ from April 2024.
- For 2006–2015 the October rate is applied to the whole April–April tax year. This slightly overstates annual pay in those years.
- Income tax: 10% starting band (£2,150 in 2006–07, £2,230 in 2007–08) then 22%; 20% from 2008–09.
- Employee NI: 11% to 2010–11; 12% from 2011–12; 12.73% effective in 2022–23 (13.25% to 5 November 2022); 11.5% effective in 2023–24 (10% from 6 January 2024); 8% from 2024–25. The 2022–23 primary threshold is the effective annual £11,908.
- Figures are annual. Real payroll applies thresholds per pay period and can differ by a few pounds.
- Universal Credit uses 2026–27 rates. National costs are labelled by type, as set out in section 5.

Full annual series (calculated)

Tax year	Rate	Personal Allowance	NI threshold	NI rate	Gross	Income tax	Employee NI	Net
2006–07	£5.35	£5,035	£5,044	11%	£11,128	£1,082	£669	£9,376
2007–08	£5.52	£5,225	£5,200	11%	£11,482	£1,109	£691	£9,682
2008–09	£5.73	£6,035	£5,460	11%	£11,918	£1,177	£710	£10,031
2009–10	£5.80	£6,475	£5,720	11%	£12,064	£1,118	£698	£10,248
2010–11	£5.93	£6,475	£5,720	11%	£12,334	£1,172	£728	£10,435
2011–12	£6.08	£7,475	£7,228	12%	£12,646	£1,034	£650	£10,962
2012–13	£6.19	£8,105	£7,592	12%	£12,875	£954	£634	£11,287
2013–14	£6.31	£9,440	£7,748	12%	£13,125	£737	£645	£11,743
2014–15	£6.50	£10,000	£7,956	12%	£13,520	£704	£668	£12,148
2015–16	£6.70	£10,600	£8,060	12%	£13,936	£667	£705	£12,564
2016–17	£7.20	£11,000	£8,060	12%	£14,976	£795	£830	£13,351
2017–18	£7.50	£11,500	£8,164	12%	£15,600	£820	£892	£13,888
2018–19	£7.83	£11,850	£8,424	12%	£16,286	£887	£943	£14,456
2019–20	£8.21	£12,500	£8,632	12%	£17,077	£915	£1,013	£15,148
2020–21	£8.72	£12,500	£9,516	12%	£18,138	£1,128	£1,035	£15,975
2021–22	£8.91	£12,570	£9,568	12%	£18,533	£1,193	£1,076	£16,264

Tax year	Rate	Personal Allowance	NI threshold	NI rate	Gross	Income tax	Employee NI	Net
2022–23	£9.50	£12,570	£11,908	12.73%	£19,760	£1,438	£999	£17,323
2023–24	£10.42	£12,570	£12,570	11.5%	£21,674	£1,821	£1,047	£18,806
2024–25	£11.44	£12,570	£12,570	8%	£23,795	£2,245	£898	£20,652
2025–26	£12.21	£12,570	£12,570	8%	£25,397	£2,565	£1,026	£21,805
2026–27	£12.71	£12,570	£12,570	8%	£26,437	£2,773	£1,109	£22,554

Limitations

- Results describe a full-time worker at the adult minimum wage. Part-time workers, younger workers and the self-employed are affected differently.
- The household cases are illustrations for one family type, not averages for Wigan.
- Council Tax Support, childcare support and pension contributions are not modelled in the case studies.
- National costs for allowance changes are illustrative linear extrapolations. Only HMRC microsimulation can produce reliable figures.
- The 2006 Wigan house price and the 2006–07 Child Benefit rates were not used in the findings because they could not be checked against a primary source.

Correction record

This paper replaces an earlier draft, "Twenty Years of Working and Living in Greater Manchester". An independent audit by Claude (Anthropic) and a counter-audit by ChatGPT (OpenAI) led to these changes:

Earlier draft	Correction
Household budget left out Universal Credit; one-earner family shown £343 a month short	UC included; the family has £2,007 a month after housing, council tax, energy and water
Tax-free share used as the only burden measure	Income tax plus employee NI added as the main measure
CPI-indexed allowance stated as £16,170 in one summary	Corrected to £16,080 (statutory rounding); IFS method gives £16,070
Cumulative cost presented as money already lost	Split into completed years (£3,068) and projected 2026–27 (£1,404)

Earlier draft	Correction
Cost of a higher allowance shown as £1,200 per worker	National cost shown: tens of billions a year
Employer cost excluded pension and Employment Allowance	Both included
Higher allowance said to reduce wage pressure	Reclassified: not supported for the statutory minimum; plausible but unproven above it
Rate described as for workers aged 25+ throughout	Age bands corrected
20-year living-standards claims, Pint Index and historical household budgets	Removed until consistent historical data is available
Case studies used 3 bedrooms (LHA £595, rent £847), although two children under 10 share a bedroom under the LHA size criteria	Corrected to 2 bedrooms (LHA £500, ONS rent £707). The one-earner family's UC is £975.97; the two-earner family is no longer on UC. Dependent figures in sections 4, 5 and 7 revised; national findings unchanged

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