JOURNALIST SUMMARY

The Cost of Frozen Tax Thresholds

What Minimum-Wage Workers Keep, What Employers Pay and What Government Collects

Figures as at 24 November 2026.
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Executive summary

Two adults working full-time at the National Living Wage paid approximately £3,068 more in income tax over the four completed tax years between April 2022 and April 2026 than they would have if the Personal Allowance had continued rising with inflation. Including the full 2026–27 tax year, the cumulative difference is projected to reach £4,472.

However, the research also finds that real take-home minimum-wage pay has increased by approximately 9.3% since 2021. Frozen tax thresholds have limited the improvement in real net pay rather than reversed it.

The study examines the interaction between wages, personal taxation, employer payroll costs and Universal Credit. It compares five policy alternatives and uses illustrative household budgets from Wigan, Greater Manchester.

1. Key findings

Indicator	Finding
National Living Wage growth since 2021	+42.6%
Personal Allowance growth since 2021	0%
Real net minimum-wage pay growth since 2021	+9.3%
Additional income tax, two workers, four completed tax years	£3,068
Including the projected 2026–27 tax year	£4,472
Inflation-indexed Personal Allowance in 2026–27	£16,080
Annual tax saving per worker under the 2016-ratio scenario	£1,372
Employer cost of delivering the equivalent net gain through wages	£2,249

2. Twenty years of wages and taxation

In 2016, approximately 73.5% of a full-time minimum-wage worker's gross earnings were covered by the Personal Allowance. By 2026, this proportion had fallen to 47.5%. However, including employee National Insurance produces a more complete picture of the overall deduction from earnings.

Year	Share of gross pay covered by Personal Allowance	Income tax and employee NI as a share of gross pay
2006	45.2%	15.7%
2015	76.1%	9.8%
2016	73.5%	10.9%
2021	67.8%	12.2%
2026	47.5%	14.7%

Reductions in employee National Insurance have partly offset the effect of frozen income tax thresholds.

After adjusting for CPI inflation, real minimum-wage take-home pay has increased by 34.5% since 2006 and 9.3% since 2021.

These figures measure real net employment earnings, not overall household living standards. CPI is a national average and may not fully reflect the experience of low-income renters.

3. The cost of the Personal Allowance freeze

The Personal Allowance has remained at £12,570 since April 2021. Applying the normal statutory CPI indexation mechanism under section 57 of the Income Tax Act 2007 would have increased it to £16,080 in 2026–27.

Tax year	Additional income tax for two full-time workers
2022–23	£156
2023–24	£680
2024–25	£1,064
2025–26	£1,168
Completed years	£3,068
2026–27, projected	£1,404
Total including projection	£4,472

These figures measure additional income tax relative to the statutory indexation counterfactual. They do not necessarily represent lost disposable household income after means-tested benefits.

An alternative scenario linking the allowance to National Living Wage growth from 2021 produces a cumulative tax difference of £6,619 by April 2027. This is a hypothetical policy benchmark, not a previously established statutory mechanism.

4. Household case studies: Wigan, Greater Manchester

The research models two households consisting of a couple with two children renting a two-bedroom property. Both children are assumed to be under 10, so under the Local Housing Allowance size criteria they are expected to share a bedroom.

Monthly indicator	One full-time earner	Two full-time earners
Net employment income	£1,879.51	£3,759.02
Universal Credit	£975.97	£0.00
Child Benefit	£194.78	£194.78
Total household income	£3,050.26	£3,953.80
Private rent	£707.00	£707.00
Council tax	£119.53	£119.53
Energy	£161.25	£161.25
Water and sewerage	£55.04	£55.04
Remaining income	£2,007.44	£2,910.98

Remaining income must cover food, transport, clothing and all other household expenditure.

The second full-time job generates £1,879.51 in monthly net employment income, but increases total household income by only £903.54 because the family's Universal Credit of £975.97 is withdrawn in full.

The average two-bedroom private rent in Wigan is £707 per month (ONS, October 2026), compared with a Local Housing Allowance rate of £500 for 2026–27, the maximum rent Universal Credit will count. The comparison is illustrative: LHA rates apply to Broad Rental Market Areas, ONS rents to local authorities.

The resulting £207 monthly gap exceeds the £117 monthly income tax saving available to two full-time minimum-wage workers under inflation indexation. The modelled two-earner household is just above the Universal Credit cut-off, so it would keep that saving in full.

5. Policy alternatives

The study compares five approaches to improving the income of low-paid working households.

Policy	Monthly gain per worker not on UC	One-earner UC household	Two-earner household (above UC cut-off)
Restore inflation-indexed Personal Allowance	£58.50	£26.33	£117.00
Restore 2016 allowance-to-wage ratio	£114.35	£51.46	£228.70
Reduce employee NI from 8% to 6%	£23.11	£10.40	£46.22
Increase UC work allowance by £100	£0	£55.00	£0
Reduce UC taper from 55% to 50%	£0	£72.63	£108.84

Where the UC earnings taper applies in full and UC entitlement remains, households retain 45p of each £1 of income tax relief. The modelled two-earner household has no UC entitlement and retains the full saving.

5. Policy alternatives (continued)

The national fiscal costs differ substantially.

Policy	Indicative annual national cost
Inflation-indexed Personal Allowance	Approximately £28–29 billion
Restore 2016 allowance-to-wage ratio	Approximately £55–57 billion
Reduce employee NI by two percentage points	Approximately £9 billion
Increase UC work allowance	Not costed
Reduce UC taper to 50%	Not costed

The Personal Allowance estimates are illustrative linear extrapolations of gross revenue effects. They do not account for behavioural changes or reductions in Universal Credit expenditure and are not official policy costings. The NI estimate is based on comparison with the January 2024 reduction.

6. Implications for employers

A full-time National Living Wage employee costs an employer approximately £30,258 annually in 2026–27, including employer National Insurance and minimum employer pension contributions, before Employment Allowance.

The research compares two routes to increasing annual take-home pay by approximately £1,372 per worker:

- A higher Personal Allowance, with no direct additional employer payroll cost.
- A gross wage increase, costing approximately £2,249 annually when employer NI and pension contributions apply.

The allowance route transfers the fiscal cost to the Exchequer. Most of the gain would go to taxpayers earning above the minimum wage.

Neither route removes the statutory obligation to implement future National Living Wage increases.

The £10,500 Employment Allowance covers the employer NI contributions of approximately 3.3 full-time National Living Wage workers, subject to employer eligibility.

7. What the evidence does not show

The research does not establish that:

- Minimum-wage workers are worse off in real employment earnings than in 2006 or 2021.
- Income tax and employee NI deductions are at their highest historical level.
- Increasing the Personal Allowance would reduce employers' statutory minimum-wage obligations.
- A higher allowance is necessarily the most cost-effective way to support low-income households.
- Overall household living standards in Greater Manchester have declined over the past twenty years.

These distinctions are important when interpreting the findings.

8. Methodology and transparency

The study assumes adult minimum-wage employment of 40 hours per week for 52 weeks, with income tax rules applicable in England, Wales and Northern Ireland. Scotland sets its own income tax bands, so the income tax figures do not apply there.

It uses historical wage rates, tax allowances, National Insurance thresholds and CPI indices alongside 2026–27 Universal Credit rules and local housing costs.

Household budgets are illustrative and exclude certain factors, including Council Tax Support, childcare assistance and workplace pension contributions.

The analysis was AI-assisted and cross-audited using two AI systems: Claude (Anthropic) and ChatGPT (OpenAI). This process does not constitute academic peer review.

The full paper contains the methodology, limitations, correction record and 26 references. An accompanying Excel workbook provides reproducible calculations and reconciliation checks.

Related research: the findings are consistent with published work on fiscal drag and low pay by the Institute for Fiscal Studies, the Low Incomes Tax Reform Group, the Resolution Foundation, the Office for Budget Responsibility and the Low Pay Commission. This study adds reproducible household case studies for Wigan and a comparison of the employer cost of the pay route with the tax and Universal Credit routes.

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Supporting materials: full research paper, Excel calculation workbook and historical charts.

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