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Frozen tax thresholds cost two full-time minimum-wage workers more than £3,000 in extra income tax since 2022, research finds

New research examines the relationship between minimum-wage earnings, taxation, employer costs and Universal Credit, with household case studies from Greater Manchester.

Two adults working full-time at the National Living Wage paid approximately £3,068 more in income tax over the four completed tax years to April 2026 than they would have if the Personal Allowance had continued rising with inflation, according to new research by Robicon Digital Ltd.

Including the full 2026–27 tax year, the cumulative difference is projected to reach £4,472.

The study, The Cost of Frozen Tax Thresholds: What Minimum-Wage Workers Keep, What Employers Pay and What Government Collects, examines twenty years of minimum-wage earnings, income tax and National Insurance.

Since April 2021, the National Living Wage has increased from £8.91 to £12.71 an hour, a rise of 42.6%. Over the same period, the tax-free Personal Allowance has remained fixed at £12,570.

Had normal statutory inflation indexation continued, the allowance would have reached £16,080 in 2026–27.

However, the research challenges the assumption that minimum-wage workers are necessarily worse off in real earnings than before the freeze.

After accounting for income tax, employee National Insurance and CPI inflation, real take-home minimum-wage pay has increased by approximately 9.3% since 2021.

The findings indicate that frozen tax thresholds have limited the improvement in real net pay rather than reversed it.

George Dobritoiu, Director of Robicon Digital Ltd and author of the study, said: “The freeze has taken a real bite out of minimum-wage pay rises, but it has not wiped them out. What families keep depends as much on Universal Credit and rent as on income tax.”

The interaction between tax and benefits

The study also examines how changes in personal taxation affect households receiving Universal Credit.

Where the earnings taper applies in full, households retain only 45p of each £1 of income tax relief, with the remainder offset by lower Universal Credit payments.

Using illustrative household budgets from Wigan, Greater Manchester, the research finds that a second full-time minimum-wage job generates approximately £1,880 in additional monthly net employment income, but increases total household income by only £904 because the family's Universal Credit is withdrawn in full.

The study also identifies an illustrative £207 monthly difference between average two-bedroom private rent in Wigan and the Local Housing Allowance rate, the maximum rent Universal Credit will count.

These findings demonstrate why changes to income tax alone may not fully address the financial pressures facing low-paid working households.

What higher take-home pay means for employers

The research compares five policy options for increasing the income of working households, including changes to the Personal Allowance, employee National Insurance and Universal Credit.

Restoring the ratio between the Personal Allowance and minimum-wage earnings observed in 2016 would increase a full-time minimum-wage worker's annual take-home pay by approximately £1,372.

Delivering the same net increase through higher gross wages would cost an employer approximately £2,249 per worker annually, including additional employer National Insurance and pension contributions.

A higher Personal Allowance would not directly increase employer payroll costs. However, it would transfer the fiscal cost to the Exchequer and would benefit many taxpayers earning above the minimum wage.

The research estimates that restoring the 2016 ratio could carry a gross national cost of approximately £55–57 billion annually, based on illustrative linear extrapolations rather than official policy costings.

A higher allowance would not remove employers' obligation to implement statutory minimum-wage increases.

A contribution to the wider policy debate

The research does not endorse a particular political party or recommend a single fiscal policy.

Instead, it examines the trade-offs between household income, employer costs, government revenue and the distribution of financial support across different groups.

The full study, supporting calculations and historical charts are available from Robicon Digital Ltd:

https://robicon.co.uk/research/frozen-tax-thresholds

Notes to editors

1. The research assumes adult minimum-wage employment of 40 hours per week for 52 weeks.
2. The £3,068 figure relates to four completed tax years, from April 2022 to April 2026.
3. The £4,472 figure includes the projected full 2026–27 tax year, ending on 5 April 2027.
4. Additional income tax is not necessarily equivalent to lost disposable household income after means-tested benefits.
5. The Wigan household budgets are illustrative case studies, not representative household averages.
6. Real pay calculations use national CPI inflation. Individual households may have experienced different changes in living costs.
7. The Personal Allowance 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.
8. National cost estimates for substantial Personal Allowance increases are illustrative and exclude behavioural changes and Universal Credit offsets.
9. The analysis was AI-assisted and cross-audited using Claude (Anthropic) and ChatGPT (OpenAI). This is not academic peer review.
10. The supporting research materials include a detailed methodology, historical calculations, a correction record and 26 references.
11. Income tax figures apply to England, Wales and Northern Ireland; Scotland sets its own income tax bands.
12. 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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