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Link the personal allowance to inflation [1]

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The above chart shows the level of the personal income allowance from 1979 to the present day. The blue line is the nominal level. It seems that chancellors have only ever increased or maintained the current level, and with good reason, given the unimaginable political backlash of decreasing it. But the red line is the real level of the personal allowance, when adjusted for inflation. This tells a different story. Although there has been a general trend for it to increase, there have been many occasions when it has actually decreased, harming the poorest, hard-working families the most. In this way, chancellors have been able to deliver real tax increases, purely through waiting for inflation to have its effects.

In order to stop the abuses of this Inflation Tax, the level of the personal allowance should be linked to inflation. That way, chancellors would only ever politically be able to increase or maintain the real personal allowance.

Secondly, the ASI has long advocated that the working poor be taken out of tax altogether. Thus, the green line shows the level of the national minimum wage since it was started in 1998, assuming a 42.7 hour week (the UK average), for 52 weeks. Even the recent acceleration of the real personal allowance therefore falls far short of taking minimum wage workers out of income tax altogether. To take the working poor out of tax, the personal allowance must not only be indexed to inflation, but raised above this level too.

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