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The 2026 Budget Statement: Fiscal and Distributional Effects – UKMOD Projections

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Executive summary

This note presents estimates of the fiscal and distributional impact of six measures announced in the UK Government's 2026 Budget, with a horizon extending to the fiscal year 2029/30. The analysis is conducted using UKMOD, the tax-benefit microsimulation model developed by the Centre for Economic Microsimulation and Policy Analysis (CeMPA) which captures the immediate ("morning after") effects of the Budget reforms. We compare our results to the HM Treasury's official costings and two independent analyses from PolicyEngine and the Resolution Foundation.

Key findings:

- Cost-of-living measures are worth most relative to income for low-income households. The VAT cut is the most progressive, and fuel duty the least.
- The energy payment reaches most households. Those at the bottom of the distribution gain more than 1% of their income.
- The Pension Tax Allowance gives small gains concentrated among single pensioners (3.8%) and the poor.
- Property and savings tax rises fall mainly on the top deciles, however, loses only cross 1% of income.
- The Parental Allowance reaches few households (0.6%), mostly in the middle-upper deciles.
- Combined effects show progressive support in 2026/27, reducing poverty after housing costs (AHC) by 0.2 percentage points (around 150,000 individuals). From 2027/28, it results in small losses (under 0.1% of income) among the top deciles

1. Introduction

On the 28th of October 2026, the UK Government announced the 2026 Budget with comprised of 98 policy decisions (HM Treasury, 2026a). This paper uses UKMOD - the tax-benefit microsimulation model developed by the Centre for Economic Microsimulation and Policy Analysis (CeMPA) - to estimate the fiscal and distributional effects of six measures that act directly on household tax and benefits: the Household Energy Payment, the cut to VAT on domestic electricity, the extension of the fuel duty cut, the new Parental Allowance, the Pension Tax Allowance, and the increase in tax rates on property and savings income.

We compare UKMOD's estimates with the HM Treasury official costings and with independent analyses by PolicyEngine (2026) and the Resolution Foundation (Alridge et al., 2026). The paper is structured as follows: Section 2 describes the methodology and Section 3 describes the updates made to UKMOD. Section 4 compares the fiscal cost of each measure with HM Treasury estimates, and Section 5 presents the distributional effects of the individual reforms. Section 6 presents the combined effects of all measures; Section 7 compares our results with other analyse; Section 8 concludes.

2. Methodology

This analysis uses UKMOD, a static tax-benefit microsimulation model developed by the Centre for Microsimulation and Policy Analysis (CeMPA) at the Institute for Social and Economic Research, based at the University of Essex (Richiardi et al. 2021).[1] UKMOD analyses the effects of changes in tax-benefit policies whilst keeping the population and the behaviours of the population fixed. This allows for detailed analysis of the immediate ("morning after") effects of policies, at both the household and aggregate level.

We isolate the effects of selected Budget reforms by comparing, for each year, a baseline scenario under pre-Budget policy with a reform scenario post-Budget. We repeat the analysis for each policy in isolation, and for the whole package. Baseline and reform scenarios use identical input data and economic assumptions, with UKMOD uprating factors based on the statistics reported by the Office for Budget Responsibility (OBR) in the October 2026 edition of the Economic and Fiscal Outlook (EFO). Thus, any differences between scenarios are a result of the policies alone.

Our analysis uses UKMOD version B2026.05, the latest public release, updated to include the Budget measures described in Section 3. Input data are derived from the 2024/25 Family Resources Survey (FRS input data version uk_2024_d2).

[1] See https://www.microsimulation.ac.uk/ukmod

3. Model updates

UKMOD has been updated to include the following six measures announced in the 2026 Budget:

- Household energy payment: £100 council tax rebate for bands A-D (January 2027).
- Support for energy bills: cut VAT on domestic electricity from 5% to 0% (October 2026 to July 2027).
- Fuel duty: extend the temporary 5p-per-litre duty cut and defer the planned Retail Prices Index (RPI) increase (to July 2027).
- Parental Allowance: establish a Parental Allowance for fathers, partners, and adopters in Great Britain (from April 2029).
- Pension Tax Allowance: removing the income tax liability for pensioners with total income up to the value of the new State Pension (April 2027 to April 2030).
- Property and savings income tax increase: all rates increased by 2 percentage points (from April 2027).

Furthermore, as UKMOD simulates the direct effects of tax and benefit policy on household incomes, measures that lie beyond this scope (such as changes to public service spending) are not modelled.

4. Fiscal costs: UKMOD vs Budget

Table 1 compares UKMOD estimates of the fiscal impact of each measure with HM Treasury's costings. Differences in estimates occur for several reasons including timing, data sources and behavioural responses. UKMOD estimates for the VAT cut and fuel duty are within 10% of the Treasury's costings. For the Pension Tax Allowance, UKMOD estimates are around 16-18% lower, although the absolute difference is modest at £8-24m. UKMOD estimates for the Household Energy Payment are 15% lower than the Treasury: this is likely due to the Treasury figure including an additional £100 million for local authorities to provide discretionary financial support for those not eligible for the £100 rebate, and an additional component relating to provisions for Northern Ireland under the Barnett formula.[2] As for property and savings tax, UKMOD estimates in 2027/28 are more than three times the size of the Treasury's. This large difference could be attributed to the timing of when tax is recorded: the Treasury figures are consistent with tax upon receipt,[3] whereas UKMOD simulates tax liabilities in the year in which the income is received. However, in 2028/29 UKMOD estimates are lower. This could reflect UKMOD's forward projections from the 2024/25 FRS that account only for inflationary differences and do not capture growth in property and savings income – as assumed in HM Treasury's forecasts. Lastly,

[2] Department for Energy Security and Net Zero (2026) What the Autumn Budget means for your energy bills (https://www.gov.uk/government/news/what-the-autumn-budget-2026-means-for-your-energy-bills)
[3] HM Treasury (2026b) Budget 2026: Policy costings

the UKMOD estimate for the Parental Allowance are substantially higher than the Treasury's (£190m vs £70m) which assumes an 89% take-up rate. In UKMOD, the Parental Allowance is modelled on Maternity Allowance, and is projected on the assumption of full take-up, which helps to explain some of the difference. Furthermore, projections for the new Parental Allowance are limited to 61 recipients identified from the FRS sample (around 123,000 individuals once weighted), introducing small-sample issues

Table 1: Policy measures and their projected cost/revenue (HM Treasury vs UKMOD)

Policy	Costed Year(s)	Type	HM Treasury projection	UKMOD estimates	Ratio (UKMOD÷HM Treasury)
Household Energy Payment (£100 council tax rebate, bands A-D)	2026/27	Cost	£2.6bn	£2.2bn	0.85*
VAT on domestic electricity reduced by 5%	2026/27	Cost	£755m	£820m	1.09
Fuel duty extended 5p cut and defer the RPI rise to 1st July 2027	2027/28	Cost	£780m	£828m	1.06†
Parental Allowance for fathers, partners, and adopters	2029/30	Cost	£70m	£190m	2.71‡
Pension Tax Allowance	2027	Revenue	£45m	£37m	0.82
	2029	Revenue	£150m	£126m	0.84
Property and savings income tax rates increased by 2%	2027	Revenue	£160m	£587m	3.67§
	2029	Revenue	£955	£624m	0.65¶

Notes: *Offset by £500m additional indirect taxes in UKMOD; †VAT excluded on the accompanying rise in consumer expenditure in UKMOD; ‡Offset by £30m in indirect taxes in UKMOD; §Budget is £35m in property taxes + £125m in savings taxes; ¶Budget is £435m in property raxes + £520m in savings taxes
Source: HM Treasury (2026) Budget 2026, Table 6.1; UKMOD estimates.

HM Treasury also allows for behavioural responses in four of the modelled measures (HM Treasury, 2026b), whereas the UKMOD estimates reflect that of a static model and do not

capture them. The Treasury's costings account for: additional usage of tax-efficient assets such as Individual Savings Accounts (ISAs) for the savings income tax; tax-motivated incorporation and higher non-compliance for property income tax; households switching some energy consumption from gas to electricity for the VAT cut; and consumers adjusting how much fuel they buy as prices change for the fuel duty. The Treasury does not account for behavioural responses in its costings for the Parental Allowance (beyond assumptions concerning take-up) and the Pension Tax Allowance (the Treasury assumes that individuals' ability to manage their income to retain entitlement is limited).

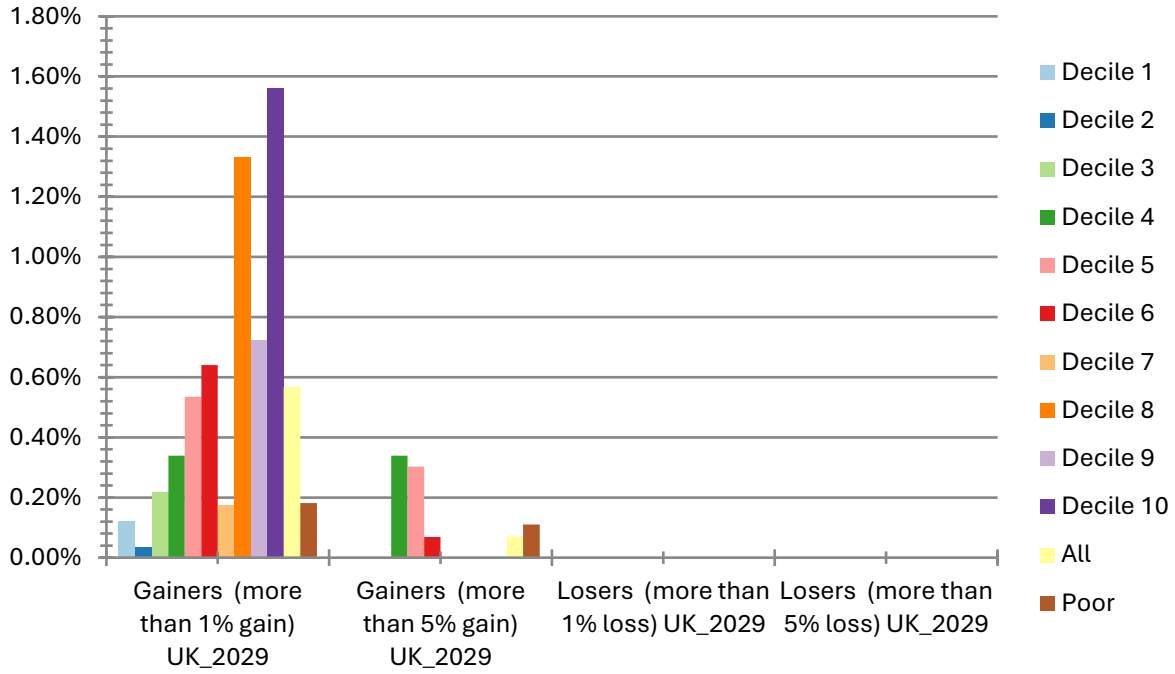
5. Distributional effects of individual reforms

This section presents the distributional effects each measure in one of two ways: the share of individuals gaining or losing more than 1% or 5% of their equivalised household disposable income, and the average percentage change in equivalised household disposable income across deciles, poor households (households whose disposable income is less than 60% of the median household disposable income), and the population as a whole.

5.1 Parental Allowance

Figure 1 shows that the share of individuals gaining more than 1% of their disposable income is highest in the top decile at approximately 1.6%, followed by the 8th decile at around 1.3%, compared with about 0.6% of individuals overall. Gains of more than 5% appear only in deciles 4-6, which effects about 0.07% of individuals. Therefore, individuals in higher-income households are more likely to gain than those with lower household incomes; however, those with lower-middle incomes gain more relative to income. This is consistent with a flat-rate payment: the same amount is a higher proportion of a lower household income. The high share of gainers in the upper deciles reflects the distribution of people eligible for additional support under the new scheme, as projected by the model.

Figure 1: Gainers and losers by equivalised household disposable income decile



5.2 Pension Tax Allowance

In Figure 2 gainers from the Pension Tax Allowance are concentrated around the bottom of the income distribution: around 1.1% of individuals in the lowest decile gain more than 1% of their disposable income and 0.8% of individuals in poor households compared with 0.3% of individuals overall. This falls to around 0.6-0.7% in the 2nd and 3rd decile. The results by household-type in Figure 3 mirror these: single pensioners are the most likely beneficiaries of the Pension Tax Allowance, with approximately 3.8% of individuals in single-pensioner households gaining more than 1% of their disposable income, compared with 0.5% of couple-pensioner households. Only 0.03% of individuals in single pensioners gain more than 5% of their income. These small gains fit the design of the Pension Tax Allowance: it only removes tax on income up to the level of the new State Pension and thus benefits pensioners whose total income is at or just over the level of the State Pension.

Figure 2. Gainers and losers by equivalised household disposable income decile

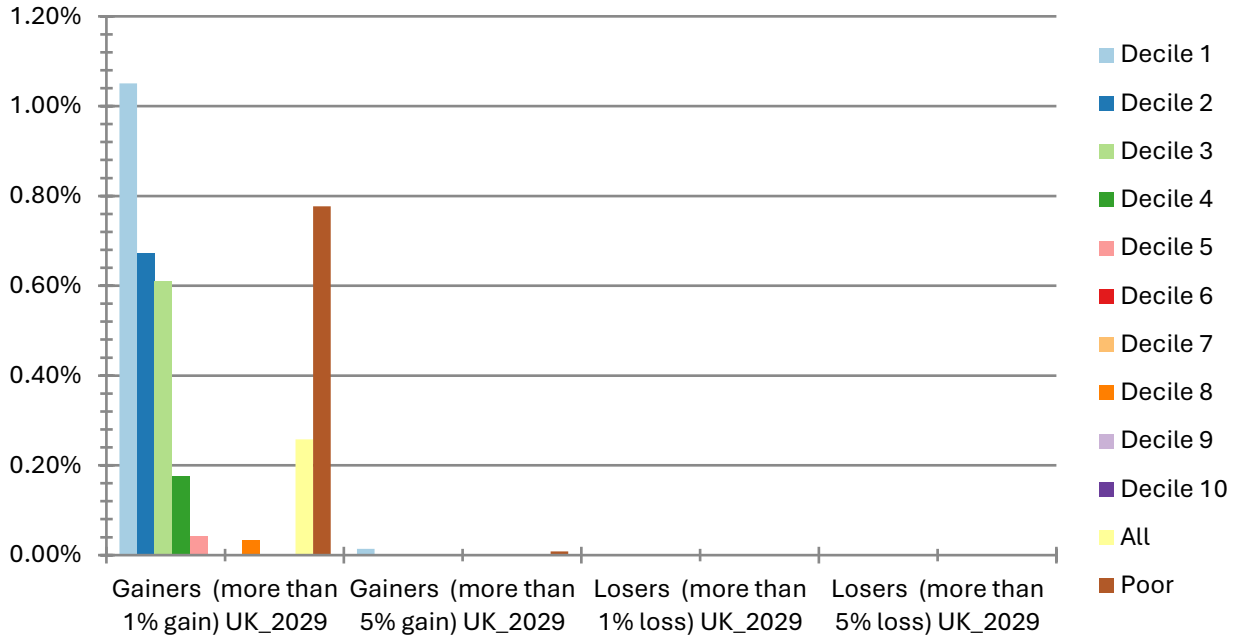
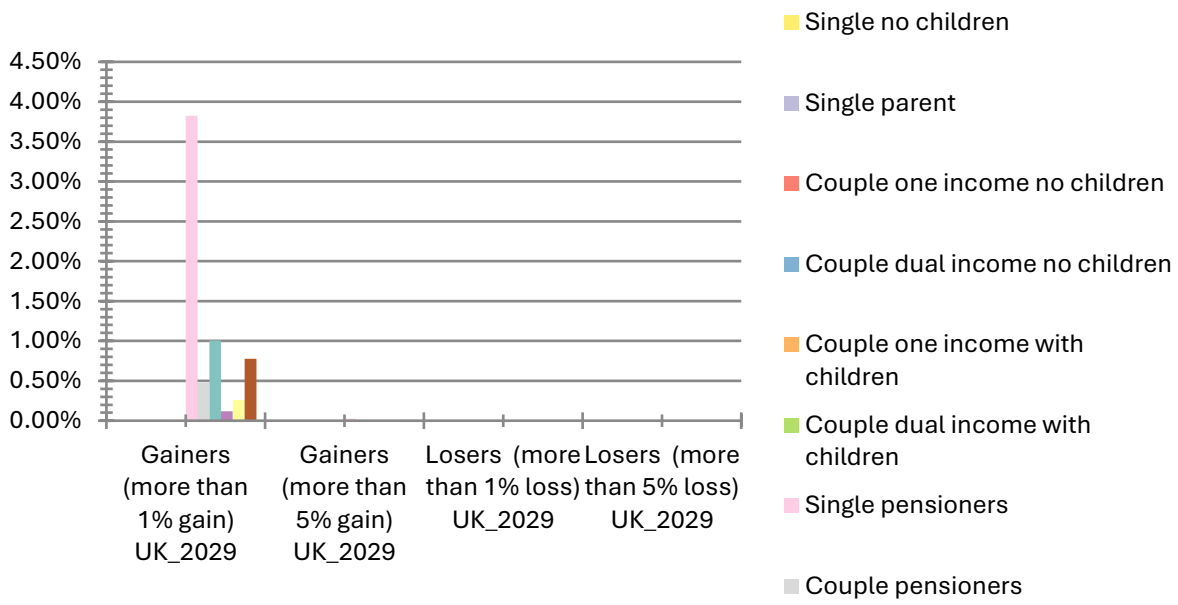


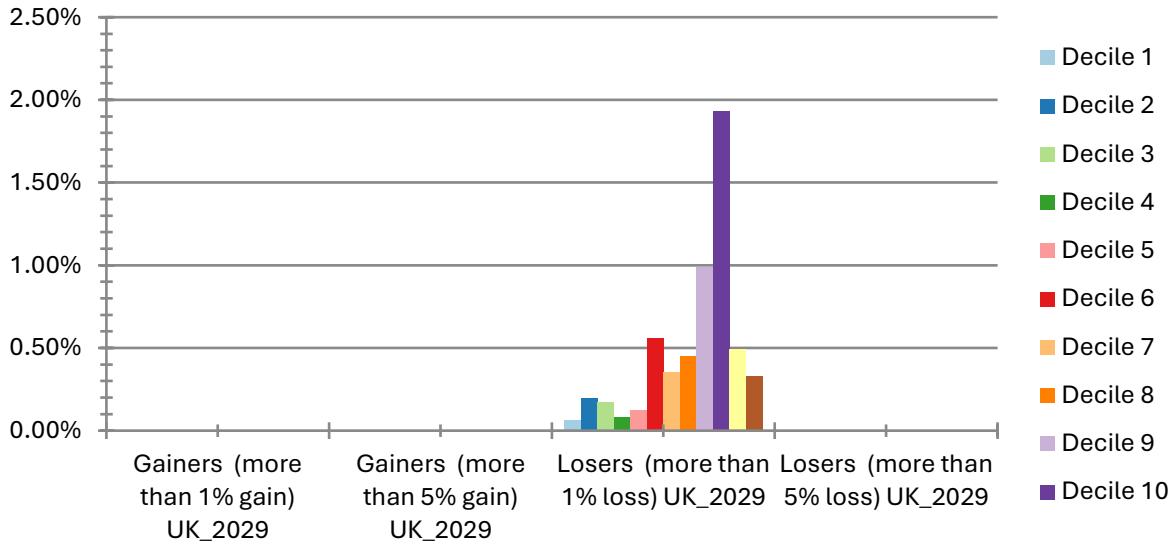
Figure 3. Gainers and losers by household type



5.3 Property and savings tax in 2027

Figure 4 shows that the largest losers from the property and savings income tax increases are concentrated at the top of the distribution: around 1.9% of individuals in the 10th decile and 1% of individuals in the 9th decile lose more than 1% of their disposable income compared to only 0.5% of individuals overall. Generally, the share of losses declines further down the distribution to 0.2% in the 2nd decile. No individuals lose more than 5% of their disposable income. This distribution of affected households reflects the underlying distribution of savings and stockownership as described by FRS data. It should be noted that UKMOD projections do not account for the (hypothetical) behavioural adjustments embedded in the figures reported in the Budget.

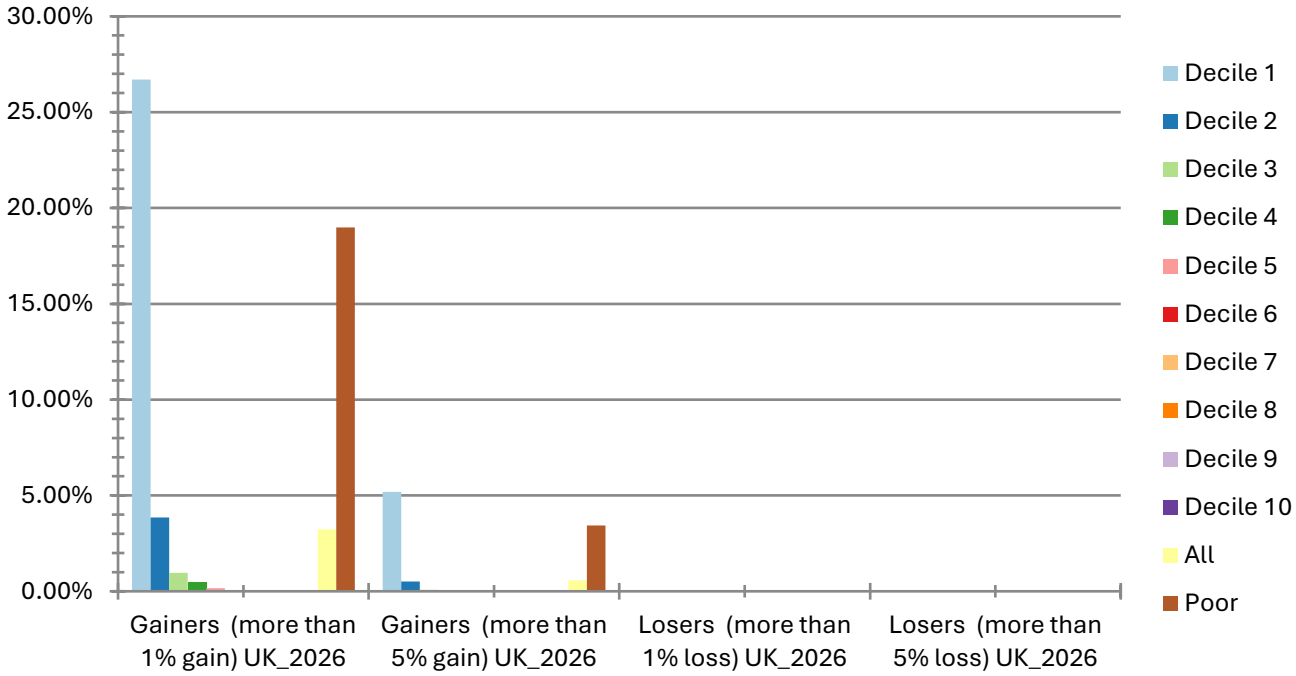
Figure 4. Gainers and losers by equivalised household disposable income decile



5.4 Household Energy Payment (£100 CT rebate, bands A-D)

The £100 Council Tax rebate is a meaningful share of disposable income for low-income households. The results in Figure 5 clearly reflect this: almost 27% of individuals in the 1st decile gain more than 1% of their disposable income, compared with fewer than 1% of individuals of the 3rd decile and upwards. In addition, around 5% of individuals in the 1st decile gain more than 5% of their disposable income. Gains in other deciles are not absent but small relative to income. As eligibility is based on Council Tax band rather than income, there are still many middle-income households who receive the payment, but it represents less than 1% of their income (DESNZ, 2026).

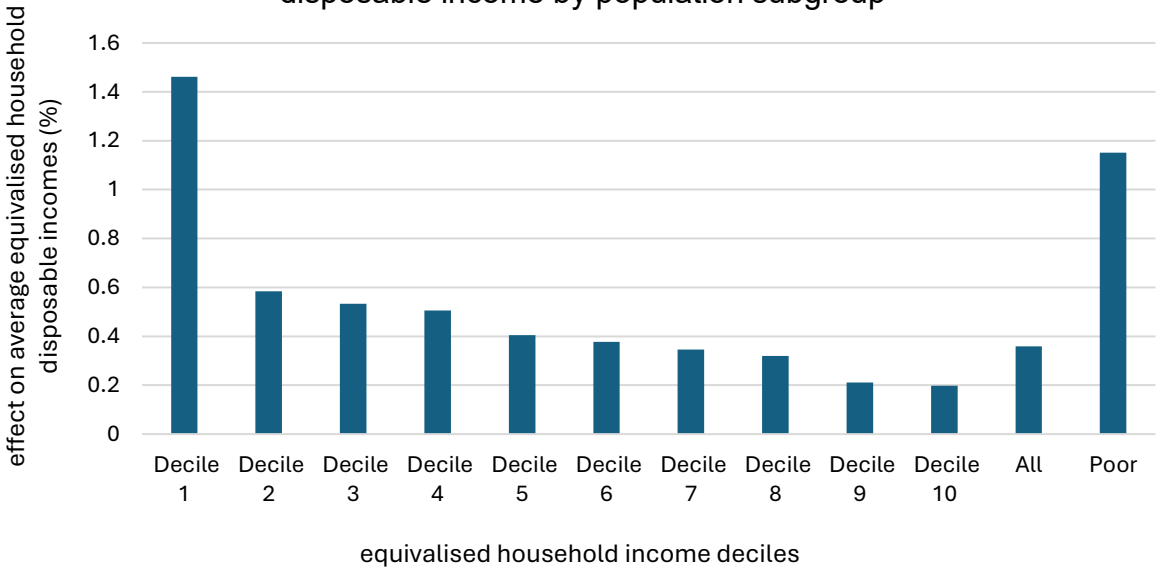
Figure 5. Gainers and losers by equivalised household disposable income decile



5.5 VAT cut on domestic electricity

Figure 6 shows that the support for energy bills raises average disposable income in every decile by modest amounts: 0.36% on average. The effect is progressive relative to income, ranging from around 1.5% in the 1st decile to 0.2% in the 10th decile, and 1.15% for individuals in poor households. This progressive effect may reflect the larger share of income that low-income budgets spend on electricity.

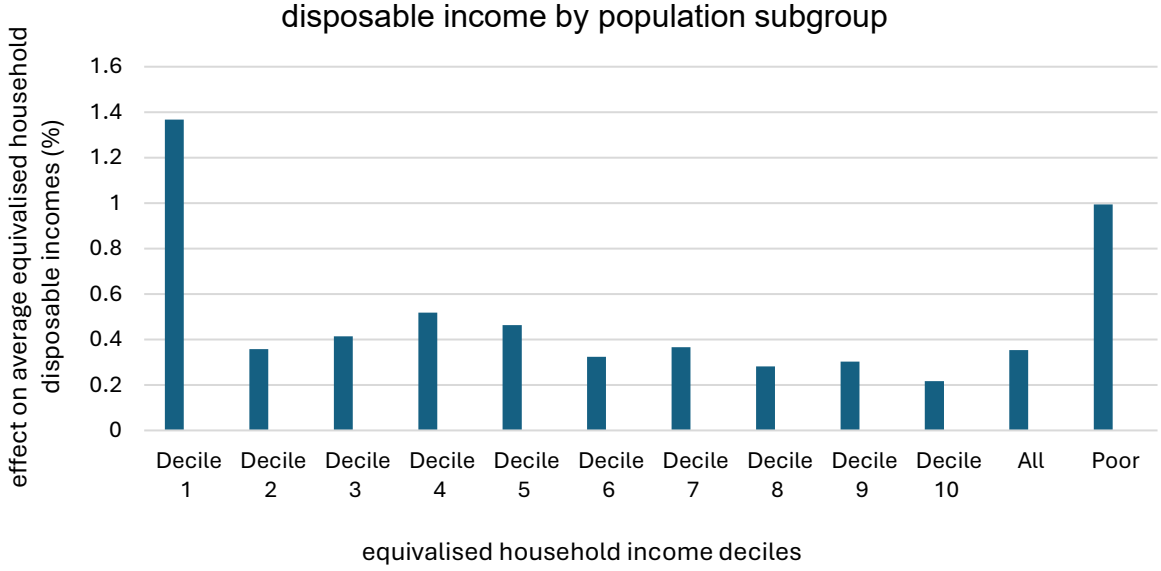
Figure 6. Effect of announcement on average equivalised disposable income by population subgroup



5.6 Fuel duty freeze and extension of 5p cut

Figure 7 shows that the gains are largest relative to income for lower-income households, although less consistently progressive than the VAT cut. Gains to disposable income peak for the 1st decile at approximately 1.4%, and again in the lower middle of the distribution (around 0.5% for the 4th decile) compared with 0.35% on average and around 1% for individuals in poor households. Gains then decline to around 0.2% for the 10th decile.

Figure 7. Effect of announcement on average equivalised disposable income by population subgroup



6. Combined effects of the package

In this section, we present the combined effects of the six modelled measures in each fiscal year from 2026/27 to 2029/30, comparing baseline scenarios (no Budget measures) against scenarios in which each year's measures are implemented.

Table 2 shows that the combined fiscal profile follows a similar pattern to the HM Treasury's costings of the same measures: a net fiscal cost in the first two years, followed by net revenue from 2028/29 (HM Treasury, 2026a).

Table 2: Fiscal summary of combined effects (£m)

Fiscal year*	2026/27	2027/28	2028/29	2029/30
Measures in effect	Household Energy Payment, VAT cut, fuel duty freeze	VAT cut, fuel duty freeze, property and savings tax increase	Pension Tax Allowance, property and savings tax increase	Parental Allowance
Revenue (direct taxes)†	0	+551	+540	+498
Revenue (indirect taxes)	+50	-920	-88	-48
Expenditure	+2,222	+1	+1	+191
Net fiscal impact	-2,172	-370	+451	+259

Source: UKMOD output; UKMOD Statistics Presenter
Notes: *UKMOD policy systems for each year are labelled by the fiscal year they represent; †calculated with total adjusted indirect taxes;

The distributional effects of the combined modelled measures in 2026/27 are progressive. Mean equivalised household income rises most in the first and second deciles around 0.9% and 0.4%, then steadily declines to approximately 0.04% in the tenth decile. The effects of this package are largely driven by the Household Energy Payment (Figure 8). In addition, the measures reduce relative poverty (AHC) by around 0.2 percentage points; however, in later years the effects on poverty and inequality are negligible (Table 3).

Table 3: Combined effects on poverty and inequality

	2026/27	2027/28	2028/29	2029/30
AHC poverty (%)	-0.219	0.026	-0.002	0.005
AHC poverty (individuals)	-149,727	17,674	-1,136	3,342
BHC poverty (%)	-0.179	-0.001	0	-0.017
Gini, AHC disposable income	-0.0007	-0.0002	-0.0002	-0.0002

Source: UKMOD output; UKMOD Statistics Presenter

Figure 9 shows the distributional effects for the rest of the series. From 2027/28, the balance of the measures shifts from support to revenue raising with smaller effects on income (less than 0.1% for each decile). Incomes in the lower end of the distribution are largely unaffected until 2029/30, whilst higher deciles lose in each year: most notably the

tenth decile, which loses around 0.09% of disposable income in 2027/28 and 2028/29, reflecting the increases in property and savings income tax.

Figure 8: effect of announcements on mean equivalised household disposable income by decile (AHC), 2026/27 only

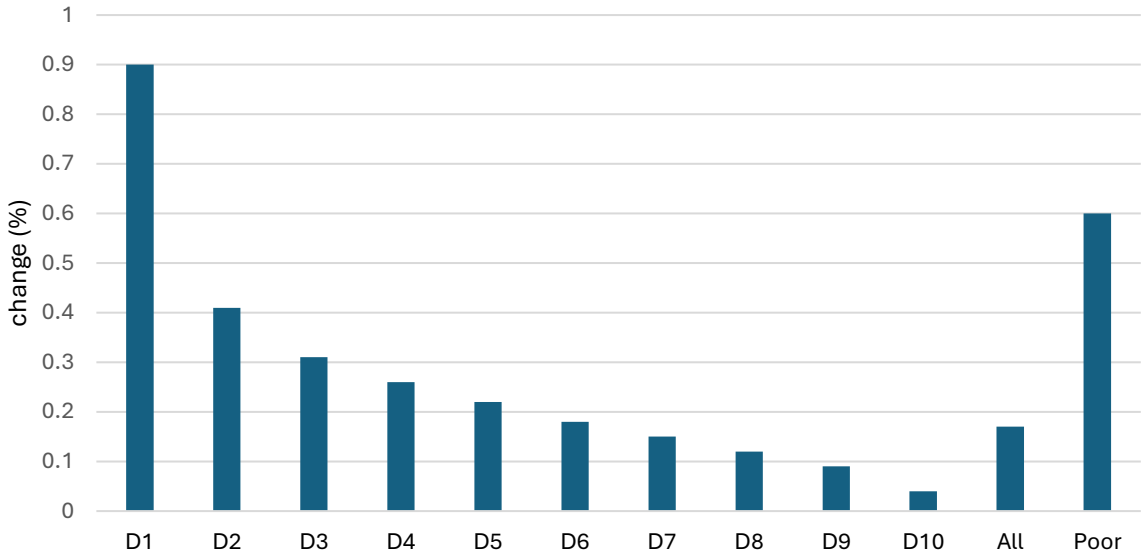
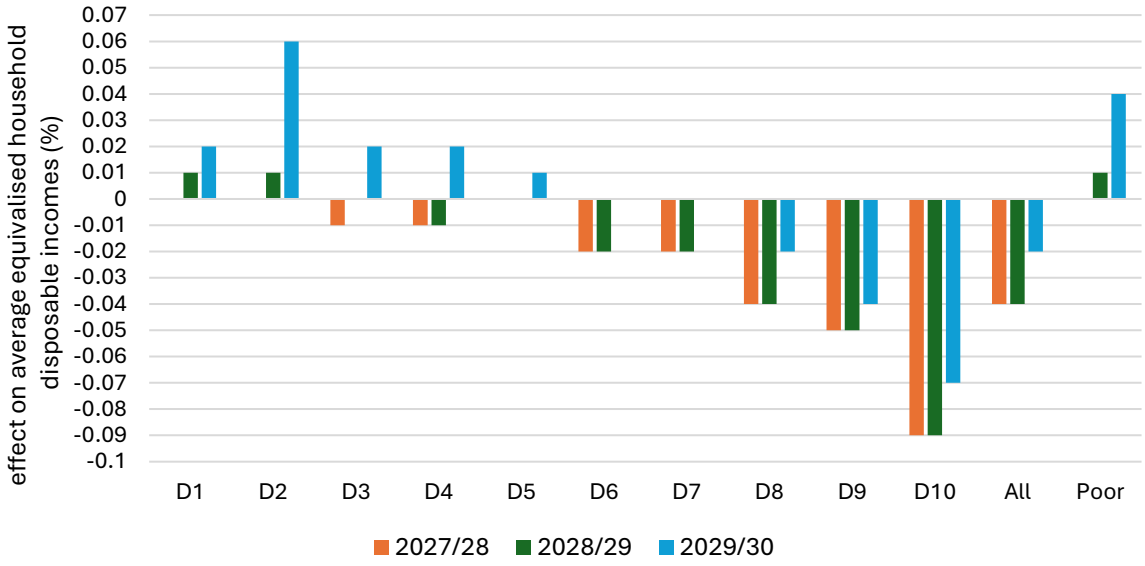


Figure 9: effect of announcements on mean equivalised household disposable income by decile (AHC), 2027/28-2029/30



7. Comparison with other analyses

In this section we compare UKMOD estimates with two independent analyses: PolicyEngine (fiscal and distributional) and the Resolution Foundation (distributional). Each approach uses different models, data, and sets of measures.

PolicyEngine uses its own survey-based dataset (Microcosm UK 2024-25) in which they calibrated prices and earnings before the budget with the OBR's October 2026 Economic and Fiscal Outlook (OBR, 2026). Their estimates come from their own static model like UKMOD, with no behavioural responses. Table 4 compares estimates from UKMOD, PolicyEngine and the Treasury. The cost estimates of the models are broadly similar: PolicyEngine's estimate for Household Energy Payment is £0.3bn less than UKMOD's. This is likely explained by PolicyEngine's modelling excluding payments to Wales and Scotland, which UKMOD includes. The costing of the VAT cut, and Pension Tax Allowance also produce very similar estimates for the models differing by approximately £20-22m. Both UKMOD and PolicyEngine report Property Income Tax estimates well-above the Treasury's £35m. PolicyEngine attributes this to the Treasury's allowance of behavioural responses and official Self-Assessment payments being costed a year later rather than the year they cover, pointing out that the OBR adds almost no Self-Assessment receipts in 2027/28 and then £1bn in 2028/29.[4] Fuel duty (£521m vs UKMOD's £828m) is where the models differ the most, which could be due to how each model imputes fuel spending.

The Resolution Foundation (RF) does not produce its own costings but provides us with a useful comparison of distributional effects using the Institute for Public Policy Research (IPPR) tax-benefit model with HBAI data and results by vigintile, in £ per household (Aldridge et al. 2026). Its analysis excludes the bottom 5%.

The RF reports a roughly similar cash gain for most households in terms of energy support (energy payment, VAT and fuel) at approximately £140-£150 per year, decreasing at the top vigintiles. In terms of income share, it falls from 1.1-0.1% which is consistent with UKMOD's estimates in Figures 5-7. This estimate is also based on Wales and Scotland receiving the payment – as UKMOD models. For property and savings tax, losses are concentrated at the top vigintiles (around £275 per year, whereas gains of less than £40 are received elsewhere) which is similar pattern to Figure 4. The largest difference occurs in the Pension Tax Allowance where UKMOD reports the most gainers in the 1st decile, in comparison to RF's findings that gains are slightly higher in the distribution (vigintiles 3-7). This could reflect different measures (averages £s against the share of individuals gaining) and data.

[4] OBR's Economic and Fiscal Outlook, Table 4.4.

Table 4: Fiscal impact of modelled measures (£m)

Measure	Source	2026/27	2027/28	2028/29	2029/30
Household energy payment	HM Treasury	-2,625	-	-	-
	UKMOD	-2,222	-	-	-
	PolicyEngine	-1,969	-	-	-
VAT cut on domestic electricity to 0%	HM Treasury	-755	-305	-	-
	UKMOD	-820	n/a	-	-
	PolicyEngine	-840	-353	-	-
Fuel duty: 5p cut extended, RPI rise deferred	HM Treasury	-575	-780	-	-
	UKMOD	n/a	-828	-	-
	PolicyEngine	-301	-521	-	-
Parental Allowance	HM Treasury	-	-	-	-70
	UKMOD	-	-	-	-190
	PolicyEngine	n/m	n/m	n/m	n/m
Pension Tax Allowance	HM Treasury	-	-45	-90	-150
	UKMOD	-	-37	-64	-126
	PolicyEngine	-	-30	-83	-144
Property and savings income tax (+2ppts)	HM Treasury	+15	+160	+1,130	+955
	UKMOD	n/a	+587	+605	+624
	PolicyEngine	n/a	+399	n/a	n/a

Notes: n/m "not modelled"; n/a "not available"
Sources: UKMOD estimates; PolicyEngine (2026) UK Autumn Budget 2026 briefing; HM Treasury (2026a), Table 6.1.

Overall, the three analyses broadly agree on the gainers and losers of these measures from the 2026 Budget. The main differences are in the fuel duty costs and the distribution of the Pension Tax Allowance.

8. Conclusions

This note uses UKMOD to produce static, 'morning after' estimates of the individual and combined fiscal and distributional effects of six Budget 2026 measures and compares them to official costings from HM Treasury, and independent analyses from PolicyEngine, and the Resolution Foundation.

The Budget provides short-term, mildly progressive support in the fiscal year 2026/27 reducing poverty (AHC) by approximately 150,000 individuals (around 0.2 percentage points). This is followed in subsequent years by modest revenue raising concentrated among households at the top of the income distribution, where average income losses less than 0.1%. The fiscal profile of our estimates also maps in the direction of HM Treasury's costings: a net fiscal cost in the first two years followed by net revenue from 2028/29.

We find that UKMOD's estimates are broadly in line with official and independent sources, and where large differences may occur, they have identifiable explanations (e.g., timings, coverage, and data). As our estimates are static, they do not capture behavioural responses, which HM Treasury's costings include. Therefore, future analyses may benefit from utilising UKMOD's behavioural add-on.

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