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<https://www.gov.uk/government/publications/direct-effects-of-illustrative-tax-changes>

KAI Data Policy and
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Direct effects of illustrative tax changes

Introduction

1. This table is a 'ready reckoner' showing estimates of the effects of illustrative tax changes on tax receipts from 2015-16 to 2017-18. These are based on an April 2015 implementation. Various illustrative changes are presented for Income Tax, Tax Credits, Corporation Tax, Capital Gains Tax, Inheritance Tax and National Insurance Contributions. For the remaining taxes, the table shows a one per cent or one percentage point change, assuming other duties are unchanged. All estimates are on an indexed basis, i.e. thresholds and rates are assumed to rise with inflation.
2. Estimates are shown on a National Accounts basis, which aims to recognise tax as the tax liability arises, irrespective of when the tax is received by HMRC. However, for some taxes the National Accounts basis is actually when HMRC receives the payment, reflecting the difficulty in assessing the period to which the liability relates. These taxes include Corporation Tax, self-assessment Income Tax, Inheritance Tax and Capital Gains Tax.
3. The figures in the table have been updated in line with the latest economy and fiscal forecasts from the Office for Budget Responsibility. Tax revenues depend on a number of key economic variables, such as GDP, prices, earnings and consumer expenditure.

Methodology

4. The cost of the effects, unless otherwise stated, is estimated using standard HMRC models and methodologies. For new measures announced at Autumn Statement 2014 the methodologies are described in a supplementary policy costings document, published by HM Treasury¹.
5. The estimates only consider the direct impact of a measure on the tax base to which it is being applied, or to closely related tax bases. Effects on other tax bases and on wider economic factors, such as inflation and investment, are generally excluded as these are usually captured through the OBR's economy forecast.
6. For duty rate increases – for example to alcohols, tobacco and fuel duty – it is assumed that changes are fully passed through to the consumer in higher or lower prices, which subsequently affects consumer demand.
7. Unless otherwise stated, the effects of the illustrative changes can be scaled up or down to provide a reasonable guide to the potential effects. A

¹ <https://www.gov.uk/government/topical-events/autumn-statement-2014>

reduction of 2p in a tax rate will cost roughly twice as much as a reduction of 1p; however the extra cost of increasing an income tax allowance or rate limit by more than the amount shown falls as the allowance or rate limit rises. Therefore, estimates are given for different percentage changes, and for reductions as well as increases, for the main income tax allowance and limits.

8. The total cost of a group of changes can be broadly assessed by adding together the estimated revenue effects of each change. However, if for example, income tax allowances are increased substantially and combined with a reduction in the basic or higher rate, the cost of the rate reductions will be reduced. In such cases, the cost or yield obtained by adding components from the ready reckoner should be considered only as a general guide.

Other useful information

9. Our publications have moved to the GOV.UK site where you can also find publications by other Government bodies.

<https://www.gov.uk/>

10. Or if you wish to view all of HMRC taxes areas go to the main menu:

<https://www.gov.uk/government/organisations/hm-revenue-customs/about/statistics>

11. A quality report on the relevance, accuracy and reliability of the costings in this table can be found here:

<https://www.gov.uk/government/publications/quality-report-direct-effects-of-illustrative-changes>

12. A copy of the table is included within this bulletin, and separate EXCEL and PDF versions are available here:

<https://www.gov.uk/government/publications/direct-effects-of-illustrative-tax-changes>

13. The Office for Budget Responsibility has produced a general guide to explaining policy costings in more detail. The document is available here:

http://cdn.budgetresponsibility.org.uk/27814-BriefingPaperNo_6.pdf

14. For new measures announced at Autumn Statement 2014 the methodologies are described in a supplementary policy costings document, published by HM Treasury. This is available here:

<https://www.gov.uk/government/topical-events/autumn-statement-2014>

Direct effects of illustrative changes¹

£m

2015-16 2016-17 2017-18

	2015-16	2016-17	2017-18
Income Tax			
Rates			
Change starting rate for savings income by 1p ²	Neg	15	15
Change savings basic rate by 1p	40	40	50
Change basic rate by 1p ³	3850	4400	4500
Change basic rate in Scotland by 1p ³	335	375	385
Change higher rate by 1p	805	1200	1200
Change additional rate by 1p			
Increase (yield)	75	140	135
Decrease (Cost)	90	165	160
Allowances and reliefs			
Change personal allowance by £100	515	600	595
Change age-related personal allowances by £100	70	75	70
Change aged income limit by £500	Neg	Neg	Neg
Change all personal allowances by 1 per cent	625	720	715
Change all personal allowances by 10 per cent	6110	7105	7155
Limits			
Change starting rate limit for savings income by £100	Neg	5	5
Change basic rate limit by 1 per cent	250	340	330
Change basic rate limit by 10 per cent:			
Increase (cost)	2255	3275	3325
Decrease (yield)	2700	3850	3800
Allowances, starting and basic rate limits			
Change all main allowances, starting and basic rate limits by 1 per cent	870	1065	1045
Change all main allowances, starting and basic rate limits by 10 per cent:			
Increase (cost)	8210	10235	10330
Decrease (yield)	9300	11050	10250
Working Tax Credit			
Increase basic element by £100 (cost)	320	330	330
Decrease basic element by £100 (yield)	320	330	340
Increase 30-hour element by £100 (cost)	225	245	250
Decrease 30-hour element by £100 (yield)	235	225	225
Increase additional elements for couples and lone parents by £100 (cost)	280	300	300
Decrease additional elements for couples and lone parents by £100 (yield)	290	280	305
Child Tax Credit			
Increase family element by £100 (cost) ⁴	430	420	420
Decrease family element by £100 (yield) ⁴	415	435	440
Increase child element by £100 (cost)	780	785	790
Decrease child element by £100 (yield)	780	815	850
Common Features			
Increase first and second income thresholds by £100 (cost)	100	105	105
Decrease first and second income thresholds by £100 (yield)	105	100	100
Corporation tax			
Increase Corporation tax by 1 percentage point ⁵	530	1565	1810
Capital gains tax			
Increase entrepreneurs' relief rate by 1 percentage point	0	60	70
Increase lower capital gains tax rate by 1 percentage point	0	0	0
Increase higher capital gains tax rate by 1 percentage point	0	0	-30
Increase annual exempt amount by £500 for individuals and £250 for trusts	0	20	20
Inheritance tax			
Increase standard rate for estates left on death by 1 percentage point	45	105	125
Increase nil rate band by £5,000 (cost)	40	100	120
National insurance contributions			
Rates			
Change Class 1 employee main rate by 1 percent point	3700	3800	3950
Change Class 1 employee additional rate by 1 percent point	850	910	980
Change Class 1 employer rate by 1 percentage point ⁶	4700	4900	5100
Change Class 2 rate by £1 per week	150	150	150
Change Class 4 main rate by 1 percentage point	250	260	260
Change Class 4 additional rate by 1 percentage point	160	160	170
Limits			
Change employee entry threshold by £2 per week	240	270	270
Change employer threshold by £2 per week	310	290	290
Change lower profits limit by £104 per year	20	20	20
Change upper profits limit by £520 per year	10	10	10
Change upper earnings limit by £10 per week	240	250	250

Table continues on the next page.

One per cent change	Indicative level of current duty on a typical item ⁷			
Beer and cider duties ⁸	Pint of beer: 44p	25	25	25
Wine duties ⁹	75cl bottle of table wine: £2.05	40	40	45
Spirits duties ¹⁰	70cl bottle of spirits: £7.66	20	20	25
Tobacco duties ¹¹	Packet of 20 cigarettes: £4.84	30	20	20
Petrol	Litre of petrol: 57.95p	90	90	90
Diesel	Litre of diesel: 57.95p	160	170	180
Rebated oil	Litre of gas oil: 11.14p	5	5	5
Vehicle Excise Duty ^{12,13}	e.g. Petrol/diesel cars band G: £175	40	40	45
Air passenger duty ¹²	e.g. Band A economy flight: £13	25	25	25
Landfill tax	Tonne of waste: £2.50/£72	10	10	10
Climate change levy	100kWh of business electricity: 54.1p	5	5	5
Aggregates levy	Tonne of aggregate: £2.00	Neg	5	5
VAT				
Change reduced rate by 1 percentage point		350	350	400
Change standard rate by 1 percentage point		5250	5400	5550
Insurance premium tax				
Change standard rate by 1 percentage point		490	510	520
Change higher rate by 1 percentage point		10	10	10
Stamp duty land tax				
Cut 2 per cent marginal rate by 1 percentage point (Cost) ¹⁴		720	805	880
Raise 2 per cent marginal rate by 1 percentage point (Yield) ¹⁴		705	780	855
Cut 5 per cent marginal rate by 1 percentage point (Cost) ¹⁴		695	805	935
Raise 5 per cent marginal rate by 1 percentage point (Yield) ¹⁴		670	770	895
Cut 10 per cent marginal rate by 1 percentage point (Cost) ¹⁴		65	70	85
Raise 10 per cent marginal rate by 1 percentage point (Yield) ¹⁴		60	65	80
Cut 12 per cent marginal rate by 1 percentage point (Cost) ¹⁴		95	90	110
Raise 12 per cent marginal rate by 1 percentage point (Yield) ^{14,15}		80	75	90
Increase £125,000 threshold by £10,000 (Cost) ¹⁴		155	170	180
Decrease £125,000 threshold by £10,000 (Yield) ¹⁴		170	185	200

Table updated December 2014

1 Estimates are measured from the relevant standard indexed base, i.e. they show the impacts of the various illustrative changes on top of what is already assumed in the indexed baseline (generally revalorisation plus any announced pre-commitments). The changes are applied from April 2015.

2 Starting rate available for savings income only from April 2008.

3 Excluding savings and dividends income.

4 Excluding family element, baby addition.

5 Main rate and small profits rate will be aligned from 2015-16. Implementing a change leads to a small receipt effect in the first year and larger changes in subsequent years as there is a delay between tax liabilities accruing and becoming due for payment to HMRC. Therefore changes to previous years are not directly comparable.

6 Estimates include Class 1A and Class 1B national insurance contributions paid by employers.

7 These figures are illustrative as at December 2014.

8 Beer and cider: revenue figures are based on duty increases on beer below 22% abv, still cider exceeding 1.2% but less than 8.5% abv and sparkling cider

9 Wine: revenue figures are based on duty increases for wine and made wine from 1.2% but not exceeding 22% abv. Also including sparkling cider from 5.5% to 8.5% abv. A typical item of wine is assumed to be still wine of 5.5% to 15% abv.

10 Spirits: revenue figures are based on duty increases on products of 22% abv and over. A typical item of spirits is assumed to be 38.8% abv. Also included are spirits based RTDs.

11 Duty on cigarettes has specific and ad valorem elements. The figures shown are for a one per cent change in specific duties for all tobacco products. For cigarettes, it represents the duty at the weighted average price. Implementing a change leads to a larger change in receipts in the first year and smaller changes in subsequent years as a

12 Change applies to all VED and APD rates.

13 All VED rates are updated in line with RPI, rounded to the nearest £5 - except motorbikes which are rounded to the nearest £1.

14 Estimates for just residential transactions.

15 We have used our standard behavioural assumptions. However, marginal rates in excess of 12% are outside of HM Revenue & Customs or the Office for Budget Responsibility's standard behavioural assumptions so these estimates should be treated with additional caution.

This table does not fall within the scope of National Statistics due to a certain amount of forecasting.

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