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

KAI – Knowledge, Analysis & Intelligence

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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 2016-17 to 2018-19, based on an April 2016 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 July 2015 Budget Statement 2015 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 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

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

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 are available on 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 2015 the methodologies are described in a supplementary policy costings document, published by HM Treasury. This is available <https://www.gov.uk/government/topical-events>

Direct effects of illustrative changes¹

	£m		
	2016-17	2017-18	2018-19
Income Tax rates			
Change starting rate for savings income by 1p ²	Neg	Neg	Neg
Change savings basic rate by 1p	30	45	50
Change basic rate by 1p ³	4000	4600	4700
Change basic rate in Scotland by 1p ³	345	390	400
Change higher rate by 1p	830	1250	1250
Change additional rate by 1p			
Increase (yield)	85	160	150
Decrease (Cost)	100	190	180
Income Tax allowances and reliefs			
Change personal allowance by £100	590	740	800
Change aged income limit by £500	Neg	Neg	Neg
Change all personal allowances by 1 per cent	660	770	780
Change all personal allowances by 10 per cent	6440	7540	7605
Income Tax limits			
Change starting rate limit for savings income by £100	Neg	5	5
Change basic rate limit by 1 per cent	260	355	345
Change basic rate limit by 10 per cent:			
Increase (cost)	2375	3425	3500
Decrease (yield)	2850	4000	4100
Income Tax allowances, starting and basic rate limits			
Change all main allowances, starting and basic rate limits by 1 per cent	915	1130	1125
Change all main allowances, starting and basic rate limits by 10 per cent:			
Increase (cost)	8640	10790	10930
Decrease (yield)	9800	12250	12400
Working Tax Credit			
Increase basic element by £100 (cost)	320	320	340
Decrease basic element by £100 (yield)	330	330	320
Increase 30-hour element by £100 (cost)	220	230	250
Decrease 30-hour element by £100 (yield)	230	230	230
Increase additional elements for couples and lone parents by £100 (cost)	280	290	300
Decrease additional elements for couples and lone parents by £100 (yield)	290	280	280
Child Tax Credit			
Increase family element by £100 (cost) ⁴	400	410	410
Decrease family element by £100 (yield) ⁴	420	420	420
Increase child element by £100 (cost)	760	770	770
Decrease child element by £100 (yield)	790	770	800
Common Features			
Increase first and second income thresholds by £100 (cost)	110	110	110
Decrease first and second income thresholds by £100 (yield)	100	100	100
Corporation tax			
Increase Corporation tax by 1 percentage point ⁵	785	1815	1955
Capital gains tax			
Increase entrepreneurs' relief rate by 1 percentage point	0	120	140
Increase lower capital gains tax rate by 1 percentage point	0	10	10
Increase higher capital gains tax rate by 1 percentage point	10	100	90
Increase annual exempt amount by £500 for individuals and £250 for trusts	0	20	25
Inheritance tax			
Increase standard rate for estates left on death by 1 percentage point	50	105	115
Increase nil rate band by £5,000 (cost)	45	85	75
National insurance contributions rates			
Change Class 1 employee main rate by 1 percent point	3850	4000	4200
Change Class 1 employee additional rate by 1 percent point	950	1050	1100
Change Class 1 employer rate by 1 percentage point ⁶	4950	5200	5450
Change Class 2 rate by £1 per week	150	150	150
Change Class 4 main rate by 1 percentage point	270	280	290
Change Class 4 additional rate by 1 percentage point	170	170	180
National insurance contributions limits			
Change employee entry threshold by £2 per week	260	290	290
Change employer threshold by £2 per week	330	300	300
Change lower profits limit by £104 per year	20	20	25
Change upper profits limit by £520 per year	10	10	10
Change upper earnings limit by £10 per week	260	270	270

Table continues on the next page.

One per cent change on:	Indicative level of current duty on a typical item⁷			
Beer and cider duties ⁸	Pint of beer: 43p	25	25	25
Wine duties ⁹	75cl bottle of table wine: £2.05	40	40	45
Spirits duties ¹⁰	70cl bottle of spirits: £7.51	20	25	25
Tobacco duties ¹¹	Packet of 20 cigarettes: £5.13	10	10	10
Petrol	Litre of petrol: 57.95p	90	80	80
Diesel	Litre of diesel: 57.95p	160	170	170
Rebated oil	Litre of gas oil: 11.14p	5	5	5
Vehicle Excise Duty ¹²	e.g. Petrol/diesel cars band G: £180	185	185	190
Air passenger duty ¹³	e.g. Band A economy flight: £13	105	110	115
Landfill tax	Tonne of waste: £2.60/£82.60	5	5	5
Climate change levy	100kWh of business electricity: 54.1p	neg	neg	neg
Aggregates levy	Tonne of aggregate: £2.00	5	5	5
VAT				
Change reduced rate by 1 percentage point		350	400	400
Change standard rate by 1 percentage point		5450	5600	5800
Insurance premium tax				
Change standard rate by 1 percentage point		460	480	490
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		730	800	890
Raise 2 per cent marginal rate by 1 percentage point (Yield) ¹⁴		710	780	860
Cut 5 per cent marginal rate by 1 percentage point (Cost) ¹⁴		690	790	930
Raise 5 per cent marginal rate by 1 percentage point (Yield) ¹⁴		660	760	890
Cut 10 per cent marginal rate by 1 percentage point (Cost) ¹⁴		60	70	90
Raise 10 per cent marginal rate by 1 percentage point (Yield) ¹⁴		60	70	80
Cut 12 per cent marginal rate by 1 percentage point (Cost) ¹⁴		70	80	100
Raise 12 per cent marginal rate by 1 percentage point (Yield) ^{14,15}		60	70	90
Increase £125,000 threshold by £10,000 (Cost) ¹⁴		160	170	180
Decrease £125,000 threshold by £10,000 (Yield) ¹⁴		160	170	190

Table update July 2015

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, including rounding rules). The changes are applied from April 2016.

2 Assumes minimum savings allowance of 20%.

3 Excluding savings and dividends income.

4 Excluding family element, baby addition.

5 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. For periods starting on/after 1 April 2017 companies with profits of over £20m will move to new payment due dates.

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

7 These figures are illustrative as at July 2015.

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 exceeding 1.2% up to 5.5% abv. A typical item of beer is assumed to be 4.2% abv.

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 directly after a fiscal event leads to a larger change in receipts in the first year and smaller

12 Since Budget 2015, the ready reckoner for VED is based on increasing all rates by £5, except motorcycles which are increased by £1. This is a change of methodology from previous published estimates up to and including Autumn Statement 2014, which were provided as a 1 per cent change, so are not directly comparable. This

13 Since Budget 2015, the ready reckoner for APD is based on increasing all rates by £1. This is a change of methodology from previous published estimates up to and including Autumn Statement 2014, which were provided as a 1 per cent change, so are not directly comparable. This methodology reflects that actual APD rates are

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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