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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 November 2015 Autumn Statement 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 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.

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

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://budgetresponsibility.org.uk/category/topics/policy-costings/>

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	Note
Income Tax rates				
Change starting rate for savings income by 1p	Neg	10	10	2
Change savings basic rate by 1p	Neg	25	30	
Change basic rate by 1p	3950	4500	4600	3
Change Scottish Rate of Income Tax by 1p	475	495	520	4
Change higher rate by 1p	805	1150	1150	
Change additional rate by 1p				
Increase (yield)	80	140	135	
Decrease (Cost)	95	165	160	
Income Tax allowances and reliefs				
Change personal allowance by £100	585	730	800	
Change aged income limit by £500	Neg	Neg	Neg	
Change all personal allowances by 1 per cent	660	775	785	
Change all personal allowances by 10 per cent	6460	7560	7665	
Income Tax limits				
Change starting rate limit for savings income by £100	Neg	5	5	
Change basic rate limit by 1 per cent	255	340	360	
Change basic rate limit by 10 per cent:				
Increase (cost)	2300	3115	3255	
Decrease (yield)	2700	3700	3900	
Income Tax allowances, starting and basic rate limits				
Change all main allowances, starting and basic rate limits by 1 per cent	915	1115	1145	
Change all main allowances, starting and basic rate limits by 10 per cent:				
Increase (cost)	8615	10500	10720	
Decrease (yield)	9750	12000	12250	
Working Tax Credit				
Increase basic element by £100 (cost)	320	310	310	
Decrease basic element by £100 (yield)	310	300	300	
Increase 30-hour element by £100 (cost)	220	220	210	
Decrease 30-hour element by £100 (yield)	210	210	200	
Increase additional elements for couples and lone parents by £100 (cost)	280	280	280	
Decrease additional elements for couples and lone parents by £100 (yield)	270	270	270	
Child Tax Credit				
Increase family element by £100 (cost)	400	390	370	5
Decrease family element by £100 (yield)	410	400	390	5
Increase child element by £100 (cost)	780	780	770	
Decrease child element by £100 (yield)	750	750	740	
Common Features				
Increase income threshold by £100 (cost)	100	100	100	
Decrease income threshold by £100 (yield)	100	100	100	
Corporation tax				
Increase Corporation tax by 1 percentage point	735	1920	2040	6
Capital gains tax				
Increase entrepreneurs' relief rate by 1 percentage point	10	165	175	
Increase lower capital gains tax rate by 1 percentage point	0	10	10	
Increase higher capital gains tax rate by 1 percentage point	15	115	100	
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	110	120	
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	920	990	1050	
Change Class 1 employer rate by 1 percentage point	4900	5150	5400	7
Change Class 2 rate by £1 per week	150	150	150	
Change Class 4 main rate by 1 percentage point	280	290	300	
Change Class 4 additional rate by 1 percentage point	170	180	180	
National insurance contributions limits				
Change employee entry threshold by £2 per week	260	420	420	
Change employer threshold by £2 per week	330	480	490	
Change lower profits limit by £104 per year	25	25	25	
Change upper profits limit by £520 per year	10	10	10	
Change upper earnings limit by £10 per week	250	260	260	

Table continues on the next page.

One per cent change on:	Indicative level of current duty on a typical item				
Beer and cider duties	Pint of beer: 44p	25	25	25	8 & 9
Wine duties	75cl bottle of table wine: £2.05	40	40	45	8 & 10
Spirits duties	70cl bottle of spirits: £7.51	25	25	25	8 & 11
Tobacco duties	Packet of 20 cigarettes: £5.08	20	10	10	8 & 12
Petrol	Litre of petrol: 57.95p	90	90	80	8
Diesel	Litre of diesel: 57.95p	170	170	180	8
Rebated oil	Litre of gas oil: 11.14p	5	5	5	8
Landfill tax	Tonne of waste: £2.60/£82.60	5	5	5	8
Climate change levy	100kWh of business electricity: 54.1p	10	10	10	8
Aggregates levy	Tonne of aggregate: £2.00	5	5	5	8
Vehicle excise duty					
Increase rates by £1 for motorbikes and £5 for all other vehicles	e.g. Petrol/diesel cars band G: £180	160	160	170	8 & 13
Air passenger duty					
Increase all rates by £1	e.g. Band A economy flight: £13	105	110	110	8 & 14
VAT					
Change reduced rate by 1 percentage point		400	400	450	
Change standard rate by 1 percentage point		5500	5650	5900	
Insurance premium tax					
Change standard rate by 1 percentage point		440	470	480	
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)		755	805	850	15
Raise 2 per cent marginal rate by 1 percentage point (Yield)		735	780	830	15
Cut 5 per cent marginal rate by 1 percentage point (Cost)		720	805	900	15
Raise 5 per cent marginal rate by 1 percentage point (Yield)		690	770	860	15
Cut 10 per cent marginal rate by 1 percentage point (Cost)		65	75	85	15
Raise 10 per cent marginal rate by 1 percentage point (Yield)		60	70	80	15
Cut 12 per cent marginal rate by 1 percentage point (Cost)		70	85	100	15
Raise 12 per cent marginal rate by 1 percentage point (Yield)		60	70	85	15 & 16
Increase £125,000 threshold by £10,000 (Cost)		165	170	175	15
Decrease £125,000 threshold by £10,000 (Yield)		170	175	180	15

Table updated November 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 Increase to Basic Rate, Higher Rate and Additional Rate, excluding savings and dividends income. Includes behavioural effect on Scotland Government revenues. Standard behavioural assumptions based on UK wide changes to tax rates are used. There is some uncertainty over whether these assumptions are as appropriate for Scotland only changes.

5 Excluding family element, baby addition.

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

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

8 These figures are illustrative as at November 2015.

9 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 approximately 4.2% abv.

10 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.

11 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 on 22% abv. A typical item of spirits is assumed to be 38.8% abv. Also included are spirits based on 22% abv.

12 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 changes in subsequent years as a smaller consumption response is expected in the first year than in later years. This does not apply to changes announced in advance.

13 At Budget 2015, the basis for the ready reckoner for VED was revised to increase motorcycle rates by £1 and all other rates by £5, which reflects the rounding of VED rates to the nearest £1/£5. For Autumn Statement 2015, the methodology has been further revised to exclude vehicles in the zero rate category from the indicative change. Due to this change the estimates are not directly comparable to earlier versions of this publication.

14 At Budget 2015, the basis for the ready reckoner for APD was revised to increase all rates by £1, which reflects that actual APD rates are rounded to the nearest £1. Due to this change of methodology, the estimates in this publication are not directly comparable to previously published estimates up to and including Autumn Statement 2014, which were provided on the basis of a 1 per cent change in the rate.

15 Estimates for just residential transactions.

16 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. For general enquiries about National Statistics contact the National Statistics Public Enquiry Service.

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