



HM Revenue  
& Customs

Coverage:  
United Kingdom

Theme:  
The Economy

Released:  
19<sup>th</sup> April 2017

Next Release:  
Dec 2017/Jan 2018

Frequency of release:  
Bi-annual

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

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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 2018-19 to 2020-21, based on an April 2018 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.
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 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 and include adjustments for policy changes announced at Spring Budget 2017. Tax revenues depend on a number of key economic variables, such as GDP, prices, earnings and consumer expenditure.

## Methodology

4. The costs of the effects, unless otherwise stated, are estimated using standard HMRC models and methodologies.
5. All estimates show the impacts of the various illustrative changes on top of what is already assumed in the indexed baseline i.e. generally revalorisation plus any rates and allowances announced previously up to and including Spring Budget 2017. The changes are applied from April 2018.
6. 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.
7. 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.
8. Unless otherwise stated, the effects of the illustrative changes can be scaled up or down to provide a rough guide to the potential effects. A reduction of 2p in a tax rate will cost around 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.
9. 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

10. Our publications are available on the GOV.UK site where you can also find publications by other Government bodies here:  
<https://www.gov.uk/>
11. Or if you wish to view all of HMRC taxes areas go to the main menu here:  
<https://www.gov.uk/government/organisations/hm-revenue-customs/about/statistics>
12. 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>
13. 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>
14. 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/>
15. For new measures announced at Spring Budget 2017 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>

# Direct effects of illustrative changes<sup>1</sup>

	£m			
	2018-19	2019-20	2020-21	Note
<b>Income Tax rates</b>				
Change starting rate for savings income by 1p	Neg	5	5	2
Change savings basic rate by 1p	Neg	25	25	3
Change basic rate by 1p	4050	4550	4600	4
Change higher rate by 1p	840	1200	1150	
Change additional rate by 1p				
Increase (yield)	90	165	150	
Decrease (Cost)	100	185	180	
<b>Income Tax allowances and reliefs</b>				
Change personal allowance by £100	585	665	655	
Change aged income limit by £500	Neg	Neg	Neg	
Change all personal allowances by 1 per cent	715	815	860	
Change all personal allowances by 10 per cent	6950	8100	8150	
Change Savings allowance by £100 for BR and £50 for HR taxpayers	Neg	20	20	
Change dividend allowance by £1,000	15	315	290	
<b>Income Tax limits</b>				
Change starting rate limit for savings income by £100	Neg	Neg	Neg	
Change basic rate limit by 1 per cent	245	370	455	
Change basic rate limit by 10 per cent:				
Increase (cost)	2250	3100	3150	
Decrease (yield)	2750	3700	3700	
<b>Income Tax allowances, starting and basic rate limits</b>				
Change all main allowances, starting and basic rate limits by 1 per cent	955	1200	1300	
Change all main allowances, starting and basic rate limits by 10 per cent:				
Increase (cost)	9050	11050	11150	
Decrease (yield)	10300	11950	11950	
<b>Working Tax Credit</b>				
Increase basic element by £100 (cost)	295	280	300	
Decrease basic element by £100 (yield)	285	280	280	
Increase 30-hour element by £100 (cost)	200	190	190	
Decrease 30-hour element by £100 (yield)	190	195	200	
Increase additional elements for couples and lone parents by £100 (cost)	260	250	270	
Decrease additional elements for couples and lone parents by £100 (yield)	250	260	250	
<b>Child Tax Credit</b>				
Increase family element by £100 (cost)	350	350	320	5
Decrease family element by £100 (yield)	365	335	335	5
Increase child element by £100 (cost)	715	685	730	
Decrease child element by £100 (yield)	690	680	675	
<b>Common Features</b>				
Increase income threshold by £100 (cost)	100	95	95	
Decrease income threshold by £100 (yield)	95	100	100	
<b>Corporation tax</b>				
Increase Corporation tax by 1 percentage point	2480	2400	2605	6
<b>Capital gains tax</b>				
Increase entrepreneurs' relief rate by 1 percentage point	10	215	200	
Increase lower capital gains tax rate by 1 percentage point	Neg	15	15	
Increase higher capital gains tax rate by 1 percentage point	15	65	45	
Increase annual exempt amount by £500 for individuals and £250 for trusts	0	25	25	
<b>Inheritance tax</b>				
Increase standard rate for estates left on death by 1 percentage point	55	125	145	
Increase nil rate band by £5,000 (cost)	35	75	85	
<b>National insurance contributions rates</b>				7 & 8
Change Class 1 employee main rate by 1 percent point	4050	4150	4300	
Change Class 1 employee additional rate by 1 percent point	820	820	850	
Change Class 1 employer rate by 1 percentage point	4950	5050	5250	
Change Class 4 main rate by 1 percentage point	320	340	310	
Change Class 4 additional rate by 1 percentage point	240	250	250	
<b>National insurance contributions limits</b>				
Change employee entry threshold by £2 per week	260	290	290	
Change employer threshold by £2 per week	310	340	340	
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	170	170	180	

<b>One per cent change on:</b>	<b>Indicative level of current duty on a typical item</b>				
Beer and cider duties	Pint of beer: 46p	25	25	25	9
Wine duties	75cl bottle of table wine: £2.16	40	45	45	10
Spirits duties	70cl bottle of spirits: £7.81	25	25	25	11
Tobacco duties	Packet of 20 cigarettes: £5.57	20	10	10	12
Petrol	Litre of petrol: 57.95p	85	80	75	
Diesel	Litre of diesel: 57.95p	180	185	190	
Rebated oil	Litre of gas oil: 11.14p	5	5	5	
Landfill tax	Tonne of waste: £2.70/£86.10	5	5	5	4
Climate change levy	100kWh of business electricity: 56.8p	10	10	10	
Aggregates levy	Tonne of aggregate: £2.00	5	5	5	
<b>Vehicle excise duty</b>					
Increase rates by £1 for motorbikes and £5 for all other vehicles	e.g. Petrol/diesel cars band G: £190	185	190	200	13
<b>Air passenger duty</b>					
Increase reduced rate by £1	e.g. Band A economy flight: £13	110	110	115	14
<b>VAT</b>					
Change reduced rate by 1 percentage point		350	370	380	
Change standard rate by 1 percentage point		6000	6250	6500	
<b>Insurance premium tax</b>					
Change standard rate by 1 percentage point		395	405	405	
Change higher rate by 1 percentage point		15	15	15	
<b>Stamp duty land tax</b>					
Cut 2 per cent marginal rate by 1 percentage point (Cost)		765	790	820	4 & 15
Raise 2 per cent marginal rate by 1 percentage point (Yield)		740	770	795	4 & 15
Cut 5 per cent marginal rate by 1 percentage point (Cost)		825	895	970	4 & 15
Raise 5 per cent marginal rate by 1 percentage point (Yield)		790	850	925	4 & 15
Cut 10 per cent marginal rate by 1 percentage point (Cost)		85	95	105	4 & 15
Raise 10 per cent marginal rate by 1 percentage point (Yield)		85	95	105	4 & 15
Cut 12 per cent marginal rate by 1 percentage point (Cost)		95	105	115	4, 15 & 16
Raise 12 per cent marginal rate by 1 percentage point (Yield)		85	95	100	4, 15 & 16
Increase £125,000 threshold by £10,000 (Cost)		155	160	165	4 & 15
Decrease £125,000 threshold by £10,000 (Yield)		160	165	165	4 & 15

#### Table updated in April 2017

- 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 2018.
- Stamp Duty Land Tax and Landfill Tax are already devolved to the Scottish Government. Devolution will be extended to Income Tax rates and thresholds relating to non-savings and non-dividend income from April 2017 and Air Passenger Duty in April 18. The illustrative changes produced for these taxes reflect the illustrative impact on UK government tax revenues (i.e. the impact on tax revenues from England, Wales, and Northern Ireland) only along with the associated adjustment to the Scottish Government's block grant for the particular measure (as set out in the Scottish Government's fiscal framework).
- Assumes minimum savings allowance of 20%.
- Excluding savings and dividends income.
- Excluding family element, baby addition.
- The new ONS approach to recording Corporation Tax (CT) receipts in the public sector finances data on a time-shifted basis rather than a cash basis. This approach time-adjusts cash receipts so that they are recorded closer to the time when the economic activity that created the liabilities took place. One feature of the National Accounts methodology is that time-shifting of estimated effects on cash receipts can result in a policy change having an impact prior to the year in which it comes into effect. The estimated effect for 2017-18 is £480m as under the National Accounts methodology for Corporation Tax (CT) timing adjustments are made to bring forward some of the estimated effects on tax receipts.
- Estimates include Class 1A and Class 1B national insurance contributions paid by employers. The baseline for the main rate change to Class 4 National Insurance Contributions assumes a rate of 9 per cent.
- As announced at Budget 2016 Class 2 National Insurance contributions (NICs) were abolished effective from April 2018. The impact of illustrative changes are therefore no longer included in this table.
- 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.
- 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.
- 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.
- 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.
- At Budget 2015, the basis 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 was further revised to exclude vehicles in the zero rate category from the indicative change. From April 2017, a new VED system comes into effect which has higher rates for some categories of vehicles. Due to these changes the estimates are not directly comparable to earlier versions of this publication.
- At Budget 2016, the basis for APD was revised to increase the reduced rate by £1, which reflects that actual APD rates are rounded to the nearest £1. Standard rates and premium rates are set at 2 and 6 times the reduced rate. Due to this change of methodology, the estimates published after Budget 2016 are not directly comparable to previously published estimates up to and including Autumn Statement 2015, which were provided on the basis of a 1 per cent change in the rate.
- For Spring Budget 2017 the forecast was adjusted based on latest outturn and to add the additional properties element which is now produced on a seasonal basis, and accounts for expected refunds. This follows a change at Autumn Statement 2016, where in agreement with OBR, the forecasting model was changed to include base year data for periods after the December 2014 stamp duty reform was introduced. For this reason these estimates are not directly comparable with releases prior to Autumn Statement 2016.
- 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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You can also find National Statistics on the internet at [www.statistics.gov.uk](http://www.statistics.gov.uk).