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

KAI - Knowledge, Analysis & Intelligence

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and Coordination

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 Autumn 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 Autumn 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 HMRC National Statistics and official statistics publications 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/statistics/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/statistics/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 Autumn 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/uploads/system/uploads/attachment_data/file/661428/Autumn_Budget_Policy_costings_document_web.pdf

Direct effects of illustrative changes¹

	£m				
	2018-19	2019-20	2020-21	Note	
Income Tax rates					
Change starting rate for savings income by 1p	Neg	5	5	2	
Change savings basic rate by 1p	Neg	15	15	3	
Change basic rate by 1p	4000	4450	4450	4	
Change higher rate by 1p	780	1050	1000		
Change additional rate by 1p					
Increase (yield)	60	100	90		
Decrease (Cost)	75	125	120		
Income Tax allowances and reliefs					
Change personal allowance by £100	580	650	640		
Change aged income limit by £500	Neg	Neg	Neg		
Change all personal allowances by 1 per cent	705	855	845		
Change all personal allowances by 10 per cent	6900	7900	7900		
Change Savings allowance by £100 for BR and £50 for HR taxpayers	Neg	15	15		
Change dividend allowance by £1,000	Neg	305	285		
Income Tax limits					
Change starting rate limit for savings income by £100	Neg	Neg	Neg		
Change basic rate limit by 1 per cent	230	340	345		
Change basic rate limit by 10 per cent:					
Increase (cost)	2150	2850	2800		
Decrease (yield)	2600	3400	3400		
Income Tax allowances, starting and basic rate limits					
Change all main allowances, starting and basic rate limits by 1 per cent	935	1200	1200		
Change all main allowances, starting and basic rate limits by 10 per cent:					
Increase (cost)	8850	10600	10550		
Decrease (yield)	10050	12000	12050		
Working Tax Credit					
Increase basic element by £100 (cost)	290	280	290		
Decrease basic element by £100 (yield)	280	275	285		
Increase 30-hour element by £100 (cost)	190	185	190		
Decrease 30-hour element by £100 (yield)	185	185	190		
Increase additional elements for couples and lone parents by £100 (cost)	260	250	260		
Decrease additional elements for couples and lone parents by £100 (yield)	250	255	265		
Child Tax Credit					
Increase family element by £100 (cost)	340	340	320		
Decrease family element by £100 (yield)	355	330	330		
Increase child element by £100 (cost)	695	665	685		
Decrease child element by £100 (yield)	670	660	705		
Common Features					
Increase income threshold by £100 (cost)	100	95	95		
Decrease income threshold by £100 (yield)	95	95	95		
Corporation tax					
Increase Corporation tax by 1 percentage point	1900	2400	2650	6	
Capital gains tax					
Increase entrepreneurs' relief rate by 1 percentage point	10	190	215		
Increase lower capital gains tax rate by 1 percentage point	Neg	20	20		
Increase higher capital gains tax rate by 1 percentage point	15	60	35		
Increase annual exempt amount by £500 for individuals and £250 for trusts	0	25	30		
Inheritance tax					
Increase standard rate for estates left on death by 1 percentage point	55	125	145		
Increase nil rate band by £5,000 (cost)	30	70	75		
National insurance contributions rates				7 & 8	
Change Class 1 employee main rate by 1 percent point	4050	4200	4300		
Change Class 1 employee additional rate by 1 percent point	890	910	940		
Change Class 1 employer rate by 1 percentage point	5550	5700	5850	21	
Change Class 4 main rate by 1 percentage point	270	280	280		
Change Class 4 additional rate by 1 percentage point	210	210	220		
National insurance contributions limits					
Change employee entry threshold by £2 per week	290	290	300		
Change employer threshold by £2 per week	340	340	340		
Change lower profits limit by £104 per year	20	20	20		
Change upper profits limit by £520 per year	5	5	5		
Change upper earnings limit by £10 per week	160	160	170		
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	9
Wine duties	75cl bottle of table wine: £2.16	40	40	45	10
Spirits duties	70cl bottle of spirits: £7.79	25	25	25	11
Tobacco duties	Packet of 20 cigarettes: £5.45	15	5	5	12
Petrol	Litre of petrol: 57.95p	90	85	85	
Diesel	Litre of diesel: 57.95p	180	185	190	
Rebated oil	Litre of gas oil: 11.14p	5	5	5	
Climate change levy	100kWh of business electricity: 56.8p	10	10	10	
Carbon price support	£18/tonne of carbon	5	5	5	20
Aggregates levy	Tonne of aggregate: £2.00	5	5	5	
Landfill tax	Tonne of waste: £2.70/£86.10	5	5	5	17
Vehicle excise duty					
Increase rates by £1 for motorbikes and £5 for all other vehicles	e.g. Petrol/diesel cars band G: £190	180	180	210	13
Air passenger duty					
Increase reduced rate by £1	e.g. Band A economy flight: £13	110	110	120	14

VAT

Change reduced rate by 1 percentage point	320	330	345
Change standard rate by 1 percentage point	6000	6200	6400

Insurance premium tax

Change standard rate by 1 percentage point	430	430	430
Change higher rate by 1 percentage point	15	15	15

Stamp duty land tax

Cut 2 per cent marginal rate by 1 percentage point (Cost)	730	755	725	15, 16 & 18
Raise 2 per cent marginal rate by 1 percentage point (Yield)	690	715	690	15, 16 & 18
Cut 5 per cent marginal rate by 1 percentage point (Cost)	755	760	760	15, 16 & 18
Raise 5 per cent marginal rate by 1 percentage point (Yield)	705	690	700	15, 16 & 18
Cut 10 per cent marginal rate by 1 percentage point (Cost)	60	65	65	15, 16 & 18
Raise 10 per cent marginal rate by 1 percentage point (Yield)	55	60	60	15, 16 & 18
Cut 12 per cent marginal rate by 1 percentage point (Cost)	45	40	40	15, 16 & 18
Raise 12 per cent marginal rate by 1 percentage point (Yield)	35	25	30	15, 16 & 18
Increase £125,000 threshold by £10,000 (Cost)	155	155	150	15, 16 & 18
Decrease £125,000 threshold by £10,000 (Yield)	155	160	150	15, 16 & 18

Table last updated in April 2017

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 2017.

2. Assumes minimum savings allowance of 20%.

3. Excluding savings and dividends income.

4. Income tax rates and thresholds for non-savings, non-dividend income will be devolved for to the Scottish Parliament from 2017-18. An agreement between the UK and Scottish Governments on the Scottish Government's fiscal framework sets out revised funding arrangements in light of this devolution of powers. As a result of this agreement all Income Tax illustrative changes above (apart from those exclusively for savings or dividends income) show the exchequer impact on the UK Government (i.e. the impact on Income Tax revenues from England, Scotland and Northern Ireland, plus the associated change in the Scottish Government's block grant). Landfill Tax was devolved to Scotland from 1 April 2015. The ready reckoner does not include Scotland.

6. 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 £330m 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.

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

8. These figures are illustrative as at December 2017.

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 4.1% abv. The duty paid on beer and spirits is relative to the alcoholic strength of drink, therefore exact duty rates will vary with 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 38.7% abv. Also included are spirits based RTDs. The duty paid on beer and spirits is relative to the alcoholic strength of the drink therefore exact duty rates will vary with 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.

As ad valorem duty paid on cigarettes is relative to their price, the exact duty on a pack varies with pack price. This figure is based on the weighted average price (WAP) in 2016, the latest published figure. In previous years, this figure has been based on an estimated WAP. Therefore these figures are not directly comparable to previous estimates.

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 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.

14. APD rates are normally updated with RPI before being rounded to the nearest pound. The reckoner assumes a £1 increase in the reduced rates for short and long haul flights. From 1 April 2019, the long haul APD structure will be changed so that the reduced rate is frozen for one year and the ratio between reduced and standard rates will increase from 1:2 to 1:2.2. The short haul rate structure will remain unchanged with a ratio of 1:2 between reduced and standard rates.

15. These estimates account for main rates of residential SDLT, the Higher Rates of Duty on Additional Dwellings and the First Time Buyer relief.

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.

18. SDLT is devolved to the Scottish Government, and will be devolved to the Welsh Government from April 2018. An agreement between the UK and Scottish Governments on the Scottish Government's fiscal framework sets out revised funding arrangements in light of this devolution of powers and a similar agreement exists for Wales. As a result of these agreements all SDLT illustrative changes above (show the exchequer impact on the UK Government (i.e. the impact on Income Tax revenues from England and Northern Ireland, plus the associated change in the Scottish and Welsh Governments' block grants).

19. As announced at Budget 2016 Class 2 National Insurance contributions (NICs) were abolished effective from April 2018. At Autumn Statement 17, this abolition was delayed by a year to April 2019. Therefore the impact of illustrative changes are 0 from 2019-20.

20. Currently announced policy is for the rate to be capped at £18/tonne until 2020-21 when it will increase in line with the Retail Price Index (RPI). The reckoner has been calculated by applying the 1% increase to the 2018-19 rate, keeping that rate in 2019-20 and then increasing that rate by RPI in 2020-21.

21. A change to the rate of Class 1 employer national insurance contributions (NICs) would have substantial additional negative Exchequer effects from earnings and business profits depending on the assumed incidence of an employer NICs rate increase. These judgements are made by the Office of Budget Responsibility with the effects captured in their economic and fiscal forecasts. These effects are not captured here. Prior to the January 2018 publication some of this effect was captured in the direct effects presented in this table resulting in lower yield estimates for a 1 percentage point increase in employer NICs.