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https://www.gov.uk/government/statistics/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 2019-2020 to 2021-22, based on an April 2019 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 announced at Budget 2018. 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 Budget 2018. The changes are applied from April 2019.

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:
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 Budget 2018 the methodologies are described in a supplementary policy costings document, published by HM Treasury. This is available here:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752208/Budget_2018_policy_costings_PDF.pdf

Direct effects of illustrative changes[1]

		Current Estimates	£m		
		2019-20	2020-21	2021-22	Note
Income Tax rates					
Change starting rate for savings income by 1p		Neg	5	5	2
Change savings basic rate by 1p		Neg	25	30	3
Change basic rate by 1p		4300	4900	4950	4
Change higher rate by 1p		855	1250	1200	5
Change additional rate by 1p					
Increase (yield)		110	205	195	5
Decrease (Cost)		120	230	225	5
Income Tax allowances and reliefs					
Change personal allowance by £100		580	730	725	
Change all personal allowances by 1 per cent		745	865	860	
Change all personal allowances by 10 per cent		7200	8400	8400	
Change Savings allowance by £100 for BR and £50 for HR taxpayers		Neg	25	25	
Change dividend allowance by £1,000		Neg	310	300	5
Income Tax limits					
Change starting rate limit for savings income by £100		Neg	Neg	5	
Change basic rate limit by 1 per cent		240	335	340	5
Change basic rate limit by 10 per cent:					
Increase (cost)		2200	3150	3150	5
Decrease (yield)		2650	3750	3750	5
Income Tax allowances, starting and basic rate limits					
Change all main allowances, starting and basic rate limits by 1 per cent		980	1200	1200	5
Change all main allowances, starting and basic rate limits by 10 per cent:					
Increase (cost)		9300	11400	11350	5
Decrease (yield)		10500	12950	12950	5
Working Tax Credit					
Increase basic element by £100 (cost)		270	285	300	22
Decrease basic element by £100 (yield)		265	260	260	22
Increase 30-hour element by £100 (cost)		165	165	165	22
Decrease 30-hour element by £100 (yield)		170	175	175	22
Increase additional elements for couples and lone parents by £100 (cost)		245	240	240	22
Decrease additional elements for couples and lone parents by £100 (yield)		250	255	265	22
Child Tax Credit					22
Increase family element by £100 (cost)		325	300	280	22
Decrease family element by £100 (yield)		315	310	290	22
Increase child element by £100 (cost)		660	650	640	22
Decrease child element by £100 (yield)		660	695	705	22
Common Features to Working and Child Tax Credit					22
Increase income threshold by £100 (cost)		95	100	100	22
Decrease income threshold by £100 (yield)		95	95	100	22
Child Benefit					
Increase first child rate by £1 per week (cost)		375	395	415	
Decrease first child rate by £1 per week (yield)		375	375	380	
Increase subsequent child rate by £1 per week (cost)		275	290	290	
Decrease subsequent child rate by £1 per week (yield)		275	275	290	
Corporation tax					
Increase Corporation tax by 1 percentage point		2000	2900	3100	6
Capital gains tax					7
Increase entrepreneurs' relief rate by 1 percentage point		10	195	185	
Increase main lower capital gains tax rate by 1 percentage point		0	25	20	
Increase main higher capital gains tax rate by 1 percentage point		15	65	60	
Increase annual exempt amount by £500 for individuals and £250 for trusts		5	25	25	
Inheritance tax					8
Increase standard rate for estates left on death by 1 percentage point		60	135	150	
Increase nil rate band by £5,000 (cost)		30	70	75	
National insurance contributions rates					9
Change Class 1 employee main rate by 1 percent point		4150	4200	4300	5
Change Class 1 employee additional rate by 1 percent point		840	870	890	5
Change Class 1 employer rate by 1 percentage point		5850	6000	6150	10
Change Class 2 rate by £1 per week		170	180	180	
Change Class 4 main rate by 1 percentage point		350	360	320	5
Change Class 4 additional rate by 1 percentage point		230	240	230	5
National insurance contributions limits					
Change employee entry threshold by £2 per week		310	310	310	
Change employer threshold by £2 per week		350	350	350	
Change lower profits limit by £104 per year		25	20	25	
Change upper profits limit by £520 per year		10	10	10	
Change upper earnings limit by £10 per week		140	150	150	
One per cent change on:	**Indicative level of current duty on a typical item**				
Beer and cider duties	Pint of beer: 44p	30	30	30	11 & 15
Wine duties	75cl bottle of table wine: £2.16	40	45	45	12 & 15
Spirits duties	70cl bottle of spirits: £7.79	25	25	30	13 & 15
Tobacco duties	Packet of 20 cigarettes: £5.88	10	5	5	14 & 15
Petrol	Litre of petrol: 57.95p	95	100	100	
Diesel	Litre of diesel: 57.95p	180	185	195	
Rebated oil	Litre of gas oil: 11.14p	5	5	5	
Climate change levy	100kWh of business electricity: 84.7p	10	15	15	16
Carbon price support	£18/tonne of carbon	5	5	5	
Aggregates levy	Tonne of aggregate: £2.00	5	5	5	
Landfill tax	Tonne of waste: £2.90/£91.35	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	190	195	195	
Air passenger duty					
Increase reduced rate by £1	e.g. Band A economy flight: £13	120	125	130	18
VAT					
Change reduced rate by 1 percentage point		310	320	330	
Change standard rate by 1 percentage point		6350	6550	6750	
Insurance premium tax					
Change standard rate by 1 percentage point		440	440	440	
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)		610	640	680	19, 20, 21
Raise 2 per cent marginal rate by 1 percentage point (Yield)		580	610	650	19, 20, 21
Cut 5 per cent marginal rate by 1 percentage point (Cost)		745	765	860	19, 20, 21
Raise 5 per cent marginal rate by 1 percentage point (Yield)		695	690	785	19, 20, 21
Cut 10 per cent marginal rate by 1 percentage point (Cost)		50	55	60	19, 20, 21
Raise 10 per cent marginal rate by 1 percentage point (Yield)		45	50	55	19, 20, 21
Cut 12 per cent marginal rate by 1 percentage point (Cost)		35	25	30	19, 20, 21
Raise 12 per cent marginal rate by 1 percentage point (Yield)		25	15	20	19, 20, 21
Increase £125,000 threshold by £10,000 (Cost)		125	130	135	19, 20, 21
Decrease £125,000 threshold by £10,000 (Yield)		125	130	135	19, 20, 21
Decrease Higher Rates of Duty on Additional Dwellings by 1 percentage point (Cost)		575	555	570	19, 20, 21
Increase Higher Rates of Duty on Additional Dwellings by 1 percentage point (Yield)		475	450	470	19, 20, 21

Table last updated in January 2019

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 2019.

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 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, Wales 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.

5.These exchequer impacts include estimates of taxpayers' behavioural responses. There can be significant uncertainty around these modelling assumptions - particularly with relation to changes to the income tax and National Insurance Contribution rates of additional rate taxpayers.

6. Corporation tax is presented as "time-adjusted cash", in line with the way the Office for National Statistics (ONS) reports these revenues in the Public Sector Finances. The methodology for calculating time-adjusted cash aligns receipts more closely to the period of the economic activity that generates the tax liability. This approach was adopted as the standard by the ONS, HMRC and HMT in February 2017, has been approved by the Office for Budget Responsibility and is applied to all policy measures relating to taxes presented on this basis – more information on the methodology is given in the ONS article "Improvements to accruals methodology for Corporation Tax, Bank Corporation Tax Surcharge and the Bank Levy: 2017". As the article explains, the approach is known to show a relatively small impact before the policy start date, but to a large extent this is simply a feature of the adopted methodology itself (Section 5). This is estimated to be around £600 million in 2018-19.

7. Estimates have been revised in line with new outturn data and updates to the Capital Gains Tax forecast.

8. Due to the six month lag between the date of death and when inheritance tax becomes due, receipts in the first year of the policy change will be lower than in subsequent years.

9. Estimates include Class 1A and Class 1B National Insurance paid by employers. As announced in September 2018, the government will not proceed with the abolition of Class 2 National Insurance contributions (NICs) and therefore the impact of illustrative changes for Class 2 NICs have been included again.

10. 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.

11. 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.

12. 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.

13. 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.

14. Duty on cigarettes has specific and ad valorem elements. As ad valorum duty paid on cigarettes is relative to their price, the exact duty on a pack varies with pack price. The indicative duty figure is based on the weighted average price (WAP) in 2017 and current duty rates. Prior to January 2018, this figure has been based on an estimated WAP. Therefore these figures are not directly comparable to estimates before this time. The revenue estimates shown are for a one per cent change in specific duties for all tobacco products. 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.

15. To align with other estimates in this publication, alcohol and tobacco duty rate changes are assumed to take effect from 1st April 2019. In practice, as announced at Autumn Budget 2017, the OBR's forecast now assumes that alcohol duties will be uprated on 1 February, and tobacco duties will be uprated at 6pm on Budget day.

16. As announced at Budget 2018, from 2020-21 rates of the Climate Change Levy will change in order to begin rebalancing the electricity and gas rates. Due to this change and the updated tax base, the figures in this publication are not comparable to earlier releases.

17. Landfill Tax (LFT) is being devolved to Wales from 1 April 2018. This has no impact on the RR as their share of LFT is very small, but should be noted that these figures are for England and Northern Ireland only.

18. Air Passenger Duty (APD) rates are normally uprated 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, respectively. This change is reflected in this release.

19. These estimates account for transactions paying standard rates of SDLT, the Higher Rates of Duty on Additional Dwellings and the First Time Buyer relief.

20. We have used our standard behavioural assumptions. However, marginal rates in excess of 12%, and the Higher Rates of Duty on Additional Dwellings, 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.

21. 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 SDLT revenues from England and Northern Ireland, plus the associated change in the Scottish and Welsh Governments' block grants).

22. Tax credits are being replaced by Universal Credit (UC). In line with standard forecast methodology agreed with the Office for Budget Responsibility, these costings are on a legacy basis which assumes UC does not exist. Consequently, the financial impacts of changes to rates and thresholds will overstate their true level, particularly in the latter years as more tax credit claimants move across to UC.