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KAI Indirect Taxes, Customs and Coordination

Direct effects of illustrative tax changes

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KAI - Knowledge, Analysis & Intelligence

Introduction

1. This table is a 'ready reckoner' showing estimates of the effects of illustrative tax changes on tax receipts from 2020-2021 to 2022-23, based on an April 2020 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 Spring Statement 2019. 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 Statement 2019. The changes are applied from April 2020.

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:
https://obr.uk/forecasts-in-depth/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		
		2020-21	2021-22	2022-23	Note
Income Tax rates					
Change starting rate for savings income by 1p		0	10	10	2
Change basic rate by 1p		4500	5650	5600	3
Change higher rate by 1p		940	1350	1300	4
Change additional rate by 1p					
Increase (yield)		125	240	220	4
Decrease (Cost)		140	265	265	4
Income Tax allowances and reliefs					
Change personal allowance by £100		605	700	680	
Change personal allowances by 1 per cent		775	900	875	
Change personal allowances by 10 per cent		7550	8850	8750	
Change Savings allowance by £100 for BR and £50 for HR taxpayers		0	35	30	
Change dividend allowance by £1,000		0	365	360	4
Income Tax limits					
Change starting rate limit for savings income by £100		Neg	5	5	
Change basic rate limit by 1 per cent		255	300	270	4
Change basic rate limit by 10 per cent:					
Increase (cost)		2350	3300	3300	4
Decrease (yield)		2850	4050	4100	4
Income Tax allowances, starting and basic rate limits					
Change all main allowances, starting and basic rate limits by 1 per cent		1000	1200	1150	4
Change all main allowances, starting and basic rate limits by 10 per cent:					
Increase (cost)		9750	12000	11900	4
Decrease (yield)		11050	13850	13850	4
Working Tax Credit					
Increase basic element by £100 (cost)		260	255	250	20
Decrease basic element by £100 (yield)		265	260	270	20
Increase 30-hour element by £100 (cost)		160	160	150	20
Decrease 30-hour element by £100 (yield)		165	160	165	20
Increase additional elements for couples and lone parents by £100 (cost)		235	250	245	20
Decrease additional elements for couples and lone parents by £100 (yield)		245	230	245	20
Child Tax Credit					20
Increase family element by £100 (cost)		295	275	260	20
Decrease family element by £100 (yield)		305	285	265	20
Increase child element by £100 (cost)		640	650	660	20
Decrease child element by £100 (yield)		660	645	615	20
Common Features to Working and Child Tax Credit					20
Increase income threshold by £100 (cost)		95	95	100	20
Decrease income threshold by £100 (yield)		90	95	95	20
Child Benefit					
Increase first child rate by £1 per week (cost)		375	370	370	
Decrease first child rate by £1 per week (yield)		375	370	385	
Increase subsequent child rate by £1 per week (cost)		275	280	280	
Decrease subsequent child rate by £1 per week (yield)		275	270	280	
Corporation tax					
Increase Corporation tax by 1 percentage point		2000	2800	3100	5
Capital gains tax					6
Increase entrepreneurs' relief rate by 1 percentage point (yield)		10	190	190	6
Increase main lower capital gains tax rate by 1 percentage point (yield)		-5	10	5	6
Increase main higher capital gains tax rate by 1 percentage point (yield)		-25	55	30	6
Increase annual exempt amount by £500 for individuals and £250 for trusts (cost)		0	15	10	6
Inheritance tax					7
Increase standard rate for estates left on death by 1 percentage point		55	125	140	21
Increase Nil Rate Band by £5,000 (cost)		30	65	70	
Increase Residence Nil Rate Band by £5,000 (cost)		10	20	25	22
National insurance contributions rates					8
Change Class 1 employee main rate by 1 percent point		4200	4300	4450	4
Change Class 1 employee additional rate by 1 percent point		1000	1000	1050	4
Change Class 1 employer rate by 1 percentage point		6150	6350	6550	9
Change Class 2 rate by £1 per week		170	210	180	
Change Class 4 main rate by 1 percentage point		380	440	330	4
Change Class 4 additional rate by 1 percentage point		210	240	200	4
National insurance contributions limits					
Change employee entry threshold by £2 per week		300	320	310	
Change employer threshold by £2 per week		350	360	360	
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		150	160	160	
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	10 & 14
Wine duties	75cl bottle of table wine: £2.16	40	45	45	11 & 14
Spirits duties	70cl bottle of spirits: £7.79	25	30	30	12 & 14
Tobacco duties	Packet of 20 cigarettes: £5.88	10	5	5	13 & 14
Petrol	Litre of petrol: 57.95p	95	100	100	
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: 84.7p	10	15	15	
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	Neg	15

Vehicle excise duty					
Increase rates by £1 for motorbikes and £5 for all other vehicles	e.g. Petrol/diesel cars band G: £200	200	200	205	
Air passenger duty					
Increase reduced rate by £1	e.g. Band A economy flight: £13	125	130	130	16
VAT					
Change reduced rate by 1 percentage point		310	325	335	
Change standard rate by 1 percentage point		6650	6850	7050	
Insurance premium tax					
Change standard rate by 1 percentage point		445	445	445	
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	650	695	17, 18, 19
Raise 2 per cent marginal rate by 1 percentage point (Yield)		575	620	665	17, 18, 19
Cut 5 per cent marginal rate by 1 percentage point (Cost)		725	760	865	17, 18, 19
Raise 5 per cent marginal rate by 1 percentage point (Yield)		670	680	790	17, 18, 19
Cut 10 per cent marginal rate by 1 percentage point (Cost)		50	55	60	17, 18, 19
Raise 10 per cent marginal rate by 1 percentage point (Yield)		45	50	60	17, 18, 19
Cut 12 per cent marginal rate by 1 percentage point (Cost)		30	25	35	17, 18, 19
Raise 12 per cent marginal rate by 1 percentage point (Yield)		25	15	25	17, 18, 19
Increase £125,000 threshold by £10,000 (Cost)		120	130	135	17, 18, 19
Decrease £125,000 threshold by £10,000 (Yield)		125	135	140	17, 18, 19
Decrease Higher Rates of Duty on Additional Dwellings by 1 percentage point (Cost)		495	525	570	17, 18, 19
Increase Higher Rates of Duty on Additional Dwellings by 1 percentage point (Yield)		400	420	470	17, 18, 19

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 2020.

2. Assumes minimum savings allowance of 20%.

3. 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.

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

5. 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 £400 million in 2019-20.

6. Estimates have been revised in line with new outturn data and updates to the Capital Gains Tax forecast. All estimates include behavioural impacts on Capital Gains Tax, Income Tax and Stamp Duty Land Tax. Previous published numbers on the Annual Exempt Amount included a static impact on Capital Gains Tax only. Previous estimates of the effect of increasing Capital Gains Tax rates did not include the impact on Stamp Duty Land Tax.

7. 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.

8. 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.

9. 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.

10. 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.

11. 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.

12. 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.

13. 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.

14. To align with other estimates in this publication, alcohol and tobacco duty rate changes are assumed to take effect from 1st April 2020. 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.

15. Landfill Tax (LFT) has been devolved to Scotland and Wales. The ready reckoner relates to England and Northern Ireland only.

16. 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.

17. These should be treated as tentative and are subject to future changes as we are reviewing our current methodology. Our current estimates account for transactions paying standard rates of SDLT, the Higher Rates of Duty on Additional Dwellings and the First Time Buyer relief.

18. 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.

19. 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).

20. 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.

21. Increase to main rate and reduced rate of inheritance tax.

22. In addition to the inheritance tax standard nil rate band (currently £325,000) a residence nil rate band (RNRB) has been introduced from 6 April 2017. This is available when residential property is left to direct descendants.