Appendix A: Forecasting public finances

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This appendix looks at the techniques used for the Green Budget public finance forecasts. It starts by comparing the forecasts made for borrowing in 2003–04 in last year's Green Budget and the December 2003 Pre-Budget Report with the eventual out-turn. It then goes on to provide more background information to the short-term and medium-term public finance forecasts that are set out in Chapter 4.

A.1 The accuracy of our previous forecasts

The December 2004 Pre-Budget Report gave an out-turn figure for £34.8 billion of public sector net borrowing in 2003–04. This was closer to the £36.7 billion deficit forecast in the January 2004 IFS Green Budget than to the £37.4 billion deficit expected by the Treasury in the December 2003 Pre-Budget Report. Table A.1 shows both forecasts alongside the out-turn from the December 2004 Pre-Budget Report.

Current receipts came in lower than both the Treasury and the Green Budget forecast. The Treasury's forecast was within 1% of the final out-turn and the IFS forecast was just over 1% higher than the eventual outturn.

Table A.1 A comparison of last year's IFS Green Budget forecast and the Treasury's December 2003 Pre-Budget Report forecast with the estimated out-turn for 2003–04 from the December 2004 Pre-Budget Report

£ billion	**HM Treasury Pre-Budget Report forecast December 2003**	**IFS Green Budget forecast, January 2004**	**Estimate, Pre-Budget Report, December 2004**
Current receipts	422.8	423.2	418.7
Current expenditure	442.1	441.9	439.8
Of which:			
Departmental expenditure limits	266.3	266.3	264.6
Annually managed expenditure	193.9	193.6	189.0
Public sector net borrowing	37.4	36.7	34.8
Surplus on current budget	–19.3	–18.7	–21.1

Source: Out-turn figures for 2003–04 from HM Treasury, *Pre-Budget Report*, Cm. 6408, London, December 2004. Forecasts from HM Treasury, *Pre-Budget Report 2003,* Cm 6042, London, 2003, and table 3.2 of R. Chote, C. Emmerson and Z. Oldfield (eds), *The IFS Green Budget: January 2004,* Commentary no. 95, Institute for Fiscal Studies, London, 2004. http://www.ifs.org.uk/budgets/gb2004/index.php.

Table A.2 shows the breakdown of the forecasts for tax receipts contained in the December 2003 Pre-Budget Report and the January 2004 Green Budget. Both sets of predictions overestimated total receipts, although the Treasury's Pre-Budget Report forecast did so by a smaller margin. Receipts from all of the major taxes except Value Added Tax and council tax were overestimated. The largest absolute error for both the Pre-Budget Report's and the IFS

Green Budget forecast was in corporation tax: the November 2003 Pre-Budget Report overestimated corporation tax receipts by £0.8 billion while the Green Budget forecast's overestimate was marginally higher at £0.9 billion.

Table A.2 IFS Green Budget and treasury main errors in forecasting tax receipts, 2003–04

£ billion	Pre-Budget Report, December 2003	IFS Green Budget forecast, January 2004
Income tax (gross of tax credits)	0.5	0.4
Corporation tax (gross of tax credits)	0.8	0.9
Value added tax	–0.1	–0.1
Council tax	0.1	0.1
National insurance contributions	0.1	0.5
Other taxes and receipts	3.1	3.1
Total	*4.1*	*4.5*

Source: Out-turn figures for 2003–04 from HM Treasury, *Pre-Budget Report*, Cm. 6408, London, December 2004. Forecasts from HM Treasury, *Pre-Budget Report 2003,* Cm 6042, London, 2003, and table 3.2 of R. Chote, C. Emmerson and Z. Oldfield (eds), *The IFS Green Budget: January 2004,* Commentary no. 95, Institute for Fiscal Studies, London, 2004. http://www.ifs.org.uk/budgets/gb2004/index.php.

A.2 Techniques used in our forecasts

For the current financial year, three different sources of information are examined before coming to a judgement for each element of government revenue. In addition to the latest Treasury forecast from the December 2004 Pre-Budget Report, we use information from the revenues implied by a current receipts method, and the IFS modelled approach.[1]

1. **Information from current receipts.** The current receipts method uses the information on receipts received in the current financial year compared with those received up to the same point in the previous financial year. An estimate for the current year's receipts is then calculated using the following formula:

$$\textit{2004–05 forecast} = \frac{\textit{Receipts received so far this year}}{\textit{Receipts received to the same point last year}} \times \textit{2003–04 receipts.}$$

While this is useful when forecasting revenues in the current financial year, it cannot provide projections for borrowing in future years. Also, particular caution should be used when revenues are cyclical or changes have been made that may affect the timing of payments – for example, the effect of moving to a quarterly system of corporation tax payments.

2. **The IFS modelled receipts approach.** This estimates growth in each of the taxes using forecasts for the growth in the tax base relevant to each tax, combined with an estimate of the elasticity of revenue with respect to the growth in the tax base. Information on the revenue effects of pre-announced tax changes from previous

[1] For a more detailed explanation of both these techniques, see C. Giles and J. Hall, 'Forecasting the PSBR outside government: the IFS perspective', *Fiscal Studies*, 1998, vol. 19, pp. 83–100.

Budgets is then added in order to reach a forecast. Hence, modelled receipts can be summarised by the following formula:

2004–05 forecast = (*2003–04 receipts* × *Tax-base change* × *Elasticity*) + *Tax changes.*

This technique enables forecasts to be made for future years, given the expected structure of the tax system. It should be noted that these forecasts become considerably less accurate for later years, since forecasts for changes in tax bases, estimates of elasticities and the impact of tax changes all become less accurate.

The elasticities are largely estimated from TAXBEN, the IFS tax and benefit model. The estimates for income tax elasticities are supplemented by a model of the responsiveness of income tax revenues to changes in employment and wages. For fuel, an elasticity calculated from previous IFS research is used.[2] Elasticities for beer, spirit, wine and tobacco duties are taken from the median elasticity found in a range of UK studies.[3]

A.3 Forecasts for 2004–05

The Green Budget forecast is a judgement based on the Treasury's latest forecast contained in the December 2004 Pre-Budget Report, the current receipts method and the IFS modelled approach. Each of these is presented in Table A.3. Overall, we expect lower receipts and higher current spending than the Treasury, leading to a larger deficit on current budget. We also expect lower investment spending, and the net effect is for a slightly higher forecast for overall borrowing.

Inland Revenue receipts

For **income tax** (net of tax credits), we forecast £122.5 billion, which is lower than the PBR forecast of £123.7 billion. Our estimate is broadly consistent with the current receipts projection for net income tax and capital gains tax of £124.7 billion. The IFS modelled forecast seems overly pessimistic in the light of current receipts so far this year.

Our forecast for **corporation tax** (net of tax credits) is £31.7 billion. This is lower than the Treasury forecast of £32.4 billion. The current receipts forecast suggests that net receipts will be £32.0 billion, while the IFS modelled forecast suggests a slightly lower £31.2 billion.

Our forecast for **stamp duties** matches the Treasury's, with expected receipts of £8.8 billion this year. This is lower than the current receipts forecast and higher than the IFS modelled forecast, which are for £9.3 billion and £8.4 billion of receipts respectively. The current receipts forecast reflects the recent increases in equity prices but implicitly assumes that these will persist for the remaining months of the year.

We forecast £78.5 billion for **National Insurance Contributions**. This is £0.8 billion above the Treasury's forecast of £77.7 billion and reflects the higher forecasts given by both the current receipts and the IFS model forecast, of £78.9 billion and £78.8 billion respectively.

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[2] L. Blow and I. Crawford, *The Distributional Effects of Taxes on Private Motoring*, Commentary no. 65, IFS, London, 1997.

Table A.3 Forecasts for government borrowing in 2004–05

£ billion	*PBR Dec. 2004*	*Current receipts method*	*IFS forecasting model*	*IFS forecast judgement*
Inland Revenue				
Income tax (net of tax credits)	123.7	124.7 [f]	121.8	122.5
Corporation tax (net of tax credits)	32.4	32.0	31.2	31.7
National Insurance Contributions	77.7	78.9	78.8	78.5
Petroleum revenue tax	1.5	1.2	1.2	1.5
Capital gains tax	2.0	n/a [f]	2.4	2.0
Inheritance tax	2.9	3.0	2.7	2.9
Stamp duties	8.8	9.3	8.4	8.8
Total Inland Revenue (net of tax credits)	**249.0**	**249.1**	**246.5**	**247.9**
Customs and Excise				
Value added tax (VAT)	73.5	73.0	73.6	73.0
Fuel duties	23.6	23.6	23.9	23.6
Tobacco duties	8.1	8.1	8.4	8.1
Spirits duties	2.4	2.4	2.6	2.4
Wine duties	2.1	2.2	2.2	2.1
Beer and cider duties	3.3	3.3	3.4	3.3
Betting and gaming duties	1.4	1.4	1.4	1.4
Air passenger duty	0.9	0.9	0.8	0.9
Insurance premium tax	2.5	2.4	2.4	2.5
Landfill tax	0.7	0.7	0.6	0.7
Climate change levy	0.8	0.8	0.8	0.8
Aggregates levy	0.3	0.3	0.3	0.3
Customs duties and levies	2.1	2.1	1.9	2.1
Total Customs and Excise	**121.6**	**121.0**	**122.4**	**121.2**
Vehicle excise duties	5.0	5.0	5.0	5.0
Business rates [a]	19.0	19.0	19.0	19.0
Council tax [b]	19.7	19.7	19.7	19.7
Other taxes and royalties [c]	11.3	11.3	11.8	11.3
Net taxes and NI contributions [d]	**425.5**	**425.1**	**424.5**	**424.1**
Other adjustments [e]	25.5	25.5	25.5	25.5
Current receipts	**451.0**	**450.6**	**450.0**	**449.6**
Current spending	**463.5**	**463.5**	**468.3**	**465.5**
Current balance	**–12.5**	**–12.9**	**–18.3**	**–15.9**
Net investment	21.7	21.7	21.7	18.5
Public sector net borrowing	**34.2**	**34.6**	**40.0**	**34.4**

[a] Includes district council rates in Northern Ireland paid by business.
[b] Net of council tax benefit.
[c] Includes VAT refunds and money paid into the National Lottery Distribution Fund.
[d] Includes VAT and 'traditional own resources' contributions to EC budget.
[e] This line is a sum of accruals adjustments on taxes, tax credit adjustment, interest and dividends and other receipts, less own resources contribution to EC Budget and PC corporation tax payments.
[f] Current receipts estimate of income tax revenues includes capital gains tax.
Sources: Treasury forecasts from HM Treasury, *Pre-Budget Report*, Cm.6408, London, December 2004; this table is similar to Table B13 (p. 209); IFS calculations.

[3] M. Chambers, 'Consumers' demand and excise duty receipts equations for alcohol, tobacco, petrol and derv', Government Economic Service, Working Paper no. 138, August 1999.

Customs and Excise taxes

We forecast **VAT** receipts of £73.0 billion, £0.5 billion lower than the Treasury's forecast and in line with the current receipts forecast. The IFS modelled forecast of £73.6 billion fails to take into account the fact that VAT receipts look disappointing over the important Christmas period.

We forecast that **fuel duties** will yield £23.6 billion, which is the same as both the Treasury's forecast and that predicted by the current receipts method.

Other government receipts

For all other receipts, we take the Treasury's forecasts.

Government expenditure

We forecast **current spending** to equal £465.5 billion, which is £2.0 billion higher than the Treasury's forecast. This is because we assume that half the rate of overspending seen so far this year on central government current spending persists for the remainder of the year, thus increasing current spending by £2.0 billion. While a continuation of the current rate would lead to higher spending than our forecast, we take into account the fact that in recent months this rate has slowed.

Our forecasts allow for lower **public sector net investment** in 2004–05 than the Treasury is predicting by £3.2 billion, again reflecting a difference equal to half the underspending implied by the spending seen so far in the financial year. In line with recent experience we assume that this persists (in cash terms) into next year.

Government borrowing

As a result of forecasting lower government revenues and higher current expenditure, we forecast a **deficit on current budget** of £15.9 billion for 2004–05. This is some £3.4 billion more pessimistic than the £12.5 billion deficit forecast by the Treasury.

We forecast that **public sector net borrowing** will be £34.4 billion, which is £0.2 billion more than the £34.2 billion forecast by the Treasury, as our reduced net investment spending nearly cancels out the increased deficit on the current budget.

A.4 Medium term forecasts

Compliance with the golden rule is judged over the economic cycle, and any assessment of the fiscal stance should take into account the performance of the economy. Table A.4 presents the underlying macroeconomic forecasts underlying the Green Budget forecasts under the three different economic scenarios used. For the Green Budget baseline forecast, the Treasury's macroeconomic forecasts are used. These assume that national income will grow by 3¼% in 2004–05, 3% in 2005–06 and thereafter at ¼ percentage point below the Treasury's estimate of trend growth, namely 2½% in 2006–07 and 2¼% thereafter. Under the first alternative Green Budget scenario (the Morgan Stanley central case) growth in national income is expected to be lower this year and next, but higher in subsequent years, partly reflecting a higher trend rate of growth assumption than under the Treasury's forecasts. The second alternative Green Budget scenario (the Morgan Stanley 'worse' case scenario) growth is lower every year until 2008–09 reflecting a pessimistic view of the economy. This is driven by an assumption of markedly lower real consumer spending growth, which is also shown in the table, alongside employment, real earnings growth and the GDP deflator.

Under the Green Budget baseline scenario published Treasury forecasts are used where available, for all macroeconomic assumptions. Under all scenarios, the growth in corporate profits is not used for corporation tax figures, due to difficulties in forecasting these profits in the current climate. Instead of this, we assume that in the medium term, corporation tax receipts are assumed to return to their average level in recent years.

Table A.4. Medium-term public finances forecasts under 'cautious' assumptions

	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
Green Budget baseline (PBR 'cautious' assumptions)						
Gross domestic product (GDP)	3¼	3	2½	2¼	2¼	2¼
Real consumers' expenditure	3 ¼	2 ¼	2	2	2	2
Employment	1.0	0.7	0.7	0.7	0.5	0.5
Real wages	1½	2	2	1¾	1¾	1¾
GDP deflator	2¼	2½	2¾	2¾	2¾	2¾
Alternative Green Budget scenario I (Morgan Stanley central case)						
Gross domestic product (GDP)	2¾	2¼	2¾	2½	2½	2½
Real consumers' expenditure	2½	2	2½	2½	2¼	2¼
Employment	0.9	0.1	0.8	0.5	0.5	0.5
Real wages	¾	2	2¼	2¼	2¼	2¼
GDP deflator	2	2¼	2¾	2¾	2¾	2¾
Alternative Green Budget scenario II (Morgan Stanley 'worse' case)						
Gross domestic product (GDP)	2 ¾	¾	1 ½	2	2 ¼	2 ¼
Real consumers' expenditure	2½	–¼	¾	1	1	1
Employment	0.8	–1.3	–0.6	0	0.3	0.3
Real wages	1¾	1¼	1½	1½	1½	1½
GDP deflator	3	1¾	2	2½	2¾	2¾

Sources: Authors' calculations and Treasury forecasts from HM Treasury, *Pre-Budget Report*, Cm. 6408, London, December 2004.

Appendix B: Budgets since 1979

This appendix summarises the main tax measures introduced in each Budget since 1979. Statutory indexation of thresholds and limits is not included.

1979 Budget, Geoffrey Howe

Income tax	Basic rate cut from 33% to 30%.
	Top rate cut from 83% to 60% on earned income and from 98% to 75% on unearned income.
VAT	Two-tier rates of 8% and 12.5% replaced by single 15% rate.
Excise duties	Alcohol and tobacco duties reduced; petrol duty increased.
Company taxes	Petroleum revenue tax rate increased from 45% to 60%.

1980 Budget, Geoffrey Howe

Income tax	Reduced rate of 25% abolished.
National Insurance	Employee rate increased from 6.5% to 6.75% (contracted in).
	Employer rate increased from 10% to 10.2% (contracted in).
Capital taxes	Stamp duty threshold on property increased from £15,000 to £20,000.
	Capital transfer tax threshold doubled from £25,000 to £50,000.
Company taxes	Petroleum revenue tax rate increased from 60% to 70%.

1981 Budget, Geoffrey Howe

Income tax	Personal allowances frozen in cash terms, implying a cut in real terms.
National Insurance	Employee rate increased from 6.75% to 7.75% (contracted in).
Excise duties	Sharp increases (beer and petrol up 24%, cigarettes up 16%).

1982 Budget, Geoffrey Howe

Income tax	Personal allowances increased in real terms.
National Insurance	Employee rate increased from 7.75% to 8.75% (contracted in).
	Employer National Insurance surcharge reduced from 3.5% to 2%, and to 1.5% from April 1983.
Capital taxes	Indexation provisions introduced for capital gains tax.
	Stamp duty threshold on property increased from £20,000 to £25,000.
Company taxes	Petroleum revenue tax rate increased from 70% to 75%.

1983 Budget, Geoffrey Howe

Income tax	Personal allowances increased in real terms.
	Mortgage interest relief ceiling raised from £25,000 to £30,000.
National Insurance	Employee rate increased from 8.75% to 9% (contracted in).
	Employer National Insurance surcharge cut from 1.5% to 1%.
Company taxes	Licence royalties abolished for all new oilfields.

1984 Budget, Nigel Lawson

Income tax	Personal allowances increased in real terms.
	Investment income surcharge abolished.
	Relief on life assurance premiums abolished for new policies.
National Insurance	Employer National Insurance surcharge abolished.
Excise duties	Duty on wine cut sharply; increases on beer and cigarettes.
Capital taxes	Stamp duty threshold on property increased from £25,000 to £30,000.
	Highest rate of stamp duty reduced from 2% to 1%.
	Top rate of capital transfer tax cut from 75% to 60%.

Company taxes	Corporation tax rate to be reduced from 52% in 1982–83 to 50% in 1983–84, 45% in 1984–85, 40% in 1985–86 and 35% in 1986–87.
	Stock relief abolished.
	First-year allowances to be phased out and replaced by 25% writing-down allowances.

1985 Budget, Nigel Lawson

Income tax	Personal allowances increased in real terms.
National Insurance	Employee and employer contributions restructured, with reduced rates for lower earners.
	Upper ceiling on employer contributions abolished.
Company taxes	Development land tax abolished.

1986 Budget, Nigel Lawson

Income tax	Basic rate reduced from 30% to 29%.
	Announcement of the introduction of tax relief for profit-related pay (PRP) schemes in 1987.
	Tax relief for Personal Equity Plans (PEPs) introduced.
Capital taxes	Capital transfer tax replaced with inheritance tax.
	Stamp duty for shares reduced from 1% to 0.5%.

1987 Budget, Nigel Lawson

Income tax	Basic rate reduced from 29% to 27%.
Excise duties	Duties held constant in cash terms, implying a real cut.
Capital taxes	Inheritance tax threshold increased from £71,000 to £90,000.
	Number of inheritance tax rates cut from seven to four.
	New arrangements to encourage personal pensions.

1988 Budget, Nigel Lawson

Income tax	Personal allowances increased in real terms.
	Basic rate reduced from 27% to 25%.
	All rates above 40% abolished.
	Announcement of separate taxation of husband and wife from 1990.
	Company car scale charges doubled.
Capital taxes	Capital gains accruing before 1982 written off for capital gains tax purposes.
	Capital gains tax rates changed to equal marginal income tax rates.
	Inheritance tax threshold increased from £90,000 to £110,000.
	Inheritance tax rates reduced to a single rate of 40%.

1989 Budget, Nigel Lawson

Income tax	Limit for higher age relief reduced to 75.
	Age allowance taper reduced to 50%.
	Pensioner ‘earnings rule’ abolished.
	PEPs extended.
National Insurance	Employee 5% and 7% bands abolished.
	Lower 2% rate for employees introduced on earnings below lower earnings limit.
Excise duties	Petrol duties adjusted to favour unleaded fuel.

1990 Budget, John Major

Income tax	Basic-rate limit frozen.
	Employer-provided work-place nurseries exempted from tax.
	Introduction of Tax-Exempt Special Savings Accounts (TESSAs).
	Abolition of composite rate of tax announced.

Capital taxes	Plans for abolition of stamp duty on shares announced.
Company taxes	Corporation tax rate cut from 35% to 34%.

1991 Budget, Norman Lamont

Income tax	Married couple's allowance frozen. Mortgage interest relief restricted to the basic rate of tax. PEPs extended. Company car scale charges raised by 20%. National Insurance Employer contributions to be charged on company cars and free fuel from 1992–93.
VAT	Standard rate of VAT raised from 15% to 17.5%.
Company taxes	Corporation tax rate cut from 34% to 33%.
Local taxes	Community charge bills subsidised by £140 per adult.

1992 Budget, Norman Lamont

Income tax	Reduced rate of 20% introduced on first £2,000 of taxable income. Married couple's allowance frozen. Basic-rate limit frozen. PEPs limit on investment and unit trusts raised from £3,000 to the overall limit, £6,000.
Excise duties	Further widening in leaded–unleaded petrol duty differential. Car tax halved from 10% to 5% and abolished from November 1992.

1993 Spring Budget, Norman Lamont

Income tax	20% band widened to £3,000 by April 1994. Personal allowances and basic-rate limit frozen. Married couple's allowance and mortgage interest relief restricted to 20% from April 1994. National Insurance Contribution rates for employees and self-employed up 1 percentage point from April 1994. VAT Extended to domestic fuel at 8% from April 1994 and at 17.5% from April 1995.
Excise duties	Duties increased above inflation, except spirits (frozen). Announced commitment to increase duties on road fuel by at least 3% p.a. in real terms.
Capital taxes	Stamp duty threshold doubled to £60,000. Company taxes Advance corporation tax (ACT) rate reduced to 22.5% from April 1993 and to 20% from April 1994. Dividend 'tax credit' down to 20%. Basic rate of tax on dividends reduced to 20%.
Local taxes	Community charge abolished, council tax introduced.

1993 Autumn Budget, Kenneth Clarke

Income tax	Personal allowances and basic-rate limit frozen. Married couple's allowance and mortgage interest relief restricted to 15% from April 1995. National Insurance Main rate for employer contributions reduced by 0.2 of a percentage point to 10.2%. Lower rates of employer contributions reduced by 1 percentage point.
Excise duties	No increase on spirits and beer. Most other duties increased above indexation. Commitment to raise tobacco duties by at least 3% p.a. in real terms. Commitment to raise road fuel duties by at least 3% p.a. in real terms increased to 5% p.a. in real terms. Insurance premium tax and air passenger duty introduced.

1994 Budget, Kenneth Clarke

Income tax	All age-related personal allowances increased above inflation.
	VAT Abandonment of second stage of VAT on domestic fuel – rate to stay at 8%.
Excise duties	Alcohol duties raised by an average of 4%.
	Tobacco duties increased by more than inflation.
	Duties on road fuel increased above inflation; diesel duties brought in line with duties on unleaded petrol.
	Other Landfill tax planned for 1996 and businesses to be compensated through lower employer National Insurance contributions.

1995 Budget, Kenneth Clarke

Income tax	Basic rate of income tax reduced from 25% to 24%.
	Personal allowances increased above inflation from April 1996.
	Lower-rate band and basic-rate limit increased by more than indexation.
	Tax on savings income cut from 25% to 20% for basic-rate taxpayers.
National Insurance	Tax relief on Class 4 National Insurance contributions withdrawn.
	Main rate for employers cut from 10.2% to 10% from April 1997.
	Rate of Class 4 contributions reduced from 7.3% to 6%.
Excise duties	Beer, wine and most cider duties frozen; spirits cut by 4%.
	Most tobacco duties up by 3% in real terms.
	Petrol and diesel tax (duty and VAT) raised by 3.5p per litre, or 5% real increase.
Capital taxes	Inheritance tax threshold raised to £200,000, £40,000 more than indexation.
Company taxes	Small companies' rate cut from 25% to 24%.
Other taxes	Landfill tax introduced at two rates, of £2 and £7 per tonne.

1996 Budget, Kenneth Clarke

Income tax	Personal allowances increased by more than inflation from April 1997.
	Basic-rate limit and married couple's allowance indexed.
	Basic rate cut to 23%.
	Tax relief for profit-related pay phased out from 1998–99.
Excise duties	Beer, wine and cider duties frozen; duty on spirits cut by 4%.
	Air passenger duty doubled, insurance premium tax up to 4%.
	Tobacco up by 5% in real terms, hand-rolling tobacco indexed.
	Petrol and diesel up by 5% in real terms.
Company taxes	Small companies' rate cut to 23%.
	Capital allowances cut for long-lived assets.
Local taxes	Transitional relief for small companies extended.

1997 Summer Budget, Gordon Brown

Income tax	Mortgage interest relief cut to 10% from April 1998.
VAT	Rate on domestic fuel cut from 8% to 5%.
	Excise duties Road fuel duties commitment raised from 5% p.a. to 6% p.a. real increase.
	Tobacco duty commitment raised from 3% p.a. to 5% p.a. real increase.
Capital taxes	Graduated stamp duty introduced: 1% for properties between £60,000 and £250,000; 1.5% between £250,000 and £500,000; 2% over £500,000.
Company taxes	Windfall tax on privatised utilities.
	Main corporation tax rate cut from 33% to 31% from April 1997.
	Small companies' rate cut from 23% to 21% from April 1997.
	Dividend tax credits for pension funds and other companies abolished immediately, for all others from April 1999.

1998 Spring Budget, Gordon Brown

Income tax	Working families' tax credit from October 1999. Married couple's allowance restricted to 10% from April 1999. Individual Savings Accounts (ISAs) from April 1999. Tax on company cars increased.
National Insurance	'Entry fee' abolished for employees from April 1999.
Excise duties	Differential widened between diesel and unleaded petrol.
Capital taxes	Personal capital gains tax reformed: indexation abolished and taper introduced. Stamp duty raised to 2% on properties between £250,000 and £500,000, 3% on properties over £500,000.
Company taxes	ACT abolished from April 1999 and quarterly payments system introduced. Main rate cut to 30%, small companies' rate to 20% from April 1999.

1999 Budget, Gordon Brown

Income tax	Basic rate cut from 23% to 22% from April 2000. New 10% starting rate from April 1999; 20% rate abolished. Married couple's allowance abolished from 2000 for under-65s. Children's tax credit announced from April 2001. Mortgage interest relief abolished from April 2000. High mileage discounts for company cars reduced.
National Insurance	Starting point for payment of employee National Insurance contributions aligned with income tax by April 2001. Upper earnings limit raised above inflation in both April 2000 and April 2001. Self-employed structure reformed from April 2000. Employer contributions on all benefits in kind. Employer rate cut by 0.5 of a percentage point from April 2001.
Capital taxes	Stamp duty raised to 2.5% on properties between £250,000 and £500,000, 3.5% on properties over £500,000.
Company taxes	New 10% corporation tax rate for companies with low profits introduced from April 2000. Climate change levy from 2001–02.

2000 Budget, Gordon Brown

Income tax	Working families' tax credit and child premiums in children's tax credit increased.
National Insurance	Employer rate to be cut by 0.3 of a percentage point from April 2001, instead of 0.5 of a percentage point, to reflect reduction in climate change levy. Further cut in employer rate by 0.1 of a percentage point from April 2002, to balance introduction of aggregates levy.
Excise duties	Road fuel duty frozen in real terms. Cigarettes increased by 5% in real terms.
Capital taxes	Stamp duty raised to 3% on properties between £250,000 and £500,000, 4% on properties over £500,000.
Company taxes	Climate change levy cut by £0.7 billion from introduction in April 2001. Aggregates levy introduced from April 2002.

2001 Budget, Gordon Brown

Income tax	Working families' tax credit and child premiums in children's tax credit increased. Overindexation of starting-rate band. ISA limit extended to £7,000 p.a. until April 2006.
Excise duties	Duties for ultra-low sulphur petrol cut by 2p and for ultra-low sulphur diesel cut by 3p.

	Tobacco duties increased with inflation; alcohol duties frozen.
Company taxes	Abolition of withholding tax on intra-UK corporate interest.

2002 Budget, Gordon Brown

Income tax	Child tax credit introduced to replace various income-related payments for children. Working tax credit introduced for both families with and families without children; working families' tax credit abolished.
	Personal allowances for those aged under 65 to be frozen in cash terms in April 2003.
National Insurance	Uncapped 1 percentage point increase in employee, employer and self-employed rates from April 2003.
	Primary and secondary thresholds and lower profits limit to be frozen in cash terms in April 2003.
Excise duties	Fuel duties frozen in cash terms.
Company taxes	Small companies' rate cut from 20% to 19%.
	Starting rate of corporation tax reduced from 10% to 0%.
	Research and development tax credit introduced for larger companies at 25% rate.
	Reform to North Sea taxation.

2003 Budget, Gordon Brown

Excise duties	Fuel duties frozen in cash terms until 1 October 2003.
	Duty differential of 0.5p relative to ultra-low-sulphur fuels introduced from September 2004.

2004 Budget, Gordon Brown

Excise duties	Fuel duties frozen in cash terms until 1 September 2004 and then increased in line with inflation (cash freeze subsequently extended until April 2005).
	Duty on tobacco, beer and wine increased in line with inflation, duty on spirits frozen in cash terms until the end of the parliament.
Company taxes	New minimum tax rate of 19% on distributed profits.

Appendix C: Headline tax and benefit rates and thresholds

	2004–05 level	2005–06 level[a]
Income tax		
Personal allowance: under age 65	£4,745 p.a.	£4,895 p.a.
aged 65–74	£6,830 p.a.	£7,090 p.a.
aged 75 and over	£6,950 p.a.	£7,220 p.a.
Married couple's allowance, restricted to 10%:		
aged 65 or over on 6 April 2000	£5,725 p.a.	£5,905 p.a.
aged 75 or over	£5,795 p.a.	£5,975 p.a.
Lower rate	10%	10%
Basic rate	22%	22%
Higher rate	40%	40%
Starting rate limit	£2,020 p.a.	£2,090 p.a.
Basic rate limit	£31,400 p.a.	£32,400 p.a.
Tax rates on interest income	10%, 20%, 40%	10%, 20%, 40%
Tax rates on dividend income	10%, 32.5%[b]	10%, 32.5%[b]
National Insurance		
Lower earnings limit (LEL)	£79 p.w.	£82 p.w.
Upper earnings limit (UEL)	£610 p.w.	£630 p.w.
Earnings threshold (employee and employer)	£91 p.w.	£94 p.w.
Class 1 contracted-in rate: employee – below UEL	11%	11%
– above UEL	1%	1%
employer – below UEL	12.8%	12.8%
– above UEL	12.8%	12.8%
Class 1 contracted-out rate: employee – below UEL	9.4%	9.4%
(salary-related schemes) – above UEL	1%	1%
employer – below UEL	9.3%	9.3%
– above UEL	12.8%	12.8%
Corporation tax		
Rates: lower rate	zero[c]	zero[c]
small companies' rate	19%	19%
standard rate	30%	30%
Capital gains tax		
Annual exemption limit: individuals	£8,200 p.a.	£8,500 p.a.
trusts	£4,100 p.a.	£4,250 p.a.
Non-business assets: higher-rate taxpayers	24%–40%	24%–40%
basic-rate taxpayers	12%–20%	12%–20%
Business assets: higher-rate taxpayers	10%–40%	10%–40%
basic-rate taxpayers	5%–20%	5%–20%
Inheritance tax		
Threshold	£263,000	£272,000
Rate for transfer at or near death	40%	40%

Continues

Continued

	2004–05 level	2005–06 level[a]
Value added tax		
Standard rate	17.5%	17.5%
Reduced rate	5%	5%
Registration threshold	£58,000 p.a.	£60,000 p.a.
Excise duties		
Beer (pint at 3.9% abv)	28p	29p
Wine (75cl bottle at 12% abv)	123p	125p
Spirits (70cl bottle at 40% abv)	548p	560p
20 cigarettes: specific duty	200p	205p
ad valorem (22% of retail price)	98p	100p
Ultra-low-sulphur petrol (litre)	47p	48p
Ultra-low-sulphur diesel (litre)	47p	48p
Air passenger duty		
Destinations within the EU: economy	£5	£5
club/first class	£10	£10
Destinations outside the EU: economy	£20	£20
club/first class	£40	£40
Betting and gaming duty		
Gross profits tax	15%	15%
Spread betting rate: financial bets	3%	3%
other bets	10%	10%
Insurance premium tax		
Standard rate	5%	5%
Higher rate (for insurance sold accompanying certain goods and services)	17.5%	17.5%
Stamp duty		
Land and buildings:		
standard residential threshold	£60,000 p.a.	£60,000 p.a.
non-residential or disadvantaged area threshold[d]	£150,000 p.a.	£150,000 p.a.
rate: up to threshold	0%	0%
threshold–£250,000	1%	1%
£250,000–£500,000	3%	3%
above £500,000	4%	4%
Stocks and shares: rate	0.5%	0.5%
Vehicle excise duty		
Graduated system (for new cars from 1 March 2001)	£55/65–£165 p.a.	£55/65–£170 p.a.
Standard rate	£165 p.a.	£170 p.a.
Small-car rate (engines up to 1,549cc)	£110 p.a.	£110 p.a.
Heavy goods vehicles (varies according to vehicle type and weight)	£160–£1,850 p.a.	£165–£1,890 p.a.
Landfill levy		
Standard rate	£15 per tonne	£18 per tonne
Low rate (inactive waste only)	£2 per tonne	£2 per tonne

Continues

Continued

	2004–05 level	2005–06 level[a]
Business rates		
2000 valuations, rate applicable in:		
England	45.6%	
Scotland	48.8%	
Wales	45.2%	
2005 valuations, rate applicable in:		
England (rateable value at least £15,000[e]):		42.2%
Scotland (rateable value at least £25,000):		46.55%
Wales:		42.1%
Council tax		
Average rate band D council tax: England	£1,167	Councils to set
Income support / income-based jobseeker's allowance		
Single (aged 25 or over)	£55.65 p.w.	£56.20 p.w.
Couple (both aged 18 or over)	£87.30 p.w.	£88.15 p.w.
Basic state pension		
Single	£79.60 p.w.	£82.05 p.w.
Couple	£127.25 p.w.	£131.20 p.w.
Winter fuel payment: for those aged 60-69	£200	£200
for those aged 70-79	£300	£250
for those aged 80 or over	£400	£350
Pension credit		
Guarantee credit for those aged 60 or over: single	£105.45 p.w.	£109.45 p.w.
couple	£160.95 p.w.	£167.05 p.w.
Savings credit for those aged 65 or over:		
threshold – single	£79.60 p.w.	£82.05 p.w.
threshold – couple	£127.25 p.w.	£131.20 p.w.
maximum – single	£15.51 p.w.	£16.44 p.w.
maximum – couple	£20.22 p.w.	£21.55 p.w.
withdrawal rate	40%	40%
Child benefit		
First child	£16.50 p.w.	£17.00 p.w.
Other children	£11.05 p.w.	£11.40 p.w.
Child tax credit		
Family element	£545 p.a.	£545 p.a.
Family element for first year of a child's life	£1,090 p.a.	£1,090 p.a.
Child element	£1,625 p.a.	£1,690 p.a.
Disabled child element	£2,215 p.a.	£2,285 p.a.
Working tax credit		
Basic element	£1,570 p.a.	£1,620 p.a.
Couples and lone-parent element	£1,545 p.a.	£1,595 p.a.
30-hour element	£640 p.a.	£660 p.a.
Disabled worker element	£2,100 p.a.	£2,165 p.a.
Childcare element:		
maximum eligible cost for one child	£135.00 p.w.	£175.00 p.w.
maximum eligible cost for two or more children	£200.00 p.w.	£300.00 p.w.
proportion of eligible costs covered	70%	70%

Continues

Continued

		2004–05 level	2005–06 level[a]
Features common to child and working tax credits			
First income threshold		£5,060 p.a.	£5,220 p.a.
First income threshold if entitled to child tax credit only		£13,480 p.a.	£13,910 p.a.
First withdrawal rate		37%	37%
Second income threshold		£50,000 p.a.	£50,000 p.a.
Second withdrawal rate		1 in 15	1 in 15
Maternity benefits			
Sure Start maternity grant		£500	£500
Statutory maternity and paternity pay:	weeks 1–6	90% earnings	90% earnings
	weeks 7–26	£102.80 p.w., or 90% earnings if lower	£106.00 p.w., or 90% earnings if lower
Maternity allowance		£102.80 p.w.	£106.00 p.w.

a 2005–06 figures take pre-announced values where available and estimated results of standard indexation otherwise.
b Offsetting tax credit available which reduces effective tax rates to 0% and 25%.
c Minimum rate of 19% applies on distributed profits.
d Land and buildings that are both non-residential and in designated disadvantaged areas are exempt altogether from stamp duty.
e £21,500 in Greater London.
Note: For descriptions of the tax and benefit systems, see S. Adam, A Survey of the UK Tax System, Briefing Note no. 9, Institute for Fiscal Studies, London, 2004 (www.ifs.org.uk/bns/bn09.pdf) and C. Crawford and J. Shaw, A Survey of the UK Benefit System, Briefing Note no. 13, Institute for Fiscal Studies, London, 2004 (www.ifs.org.uk/bns/bn13.pdf) respectively.
Sources: Various HM Treasury, Inland Revenue and HM Customs and Excise Press Releases, April 2004 and December 2004; HM Treasury, Pre-Budget Report: December 2004, London, 2004 (www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr04/prebud_pbr04_index.cfm); www.inlandrevenue.gov.uk; www.hmce.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageExcise_InfoGuides; www.dvla.gov.uk/vehicles/taxation.htm; www.dwp.gov.uk/lifeevent/benefits/index.asp; www.statistics.gov.uk/pdfdir/cpibrief1204.pdf; www.local.odpm.gov.uk/finance/ctax/data/tab123.pdf; www.mybusinessrates.gov.uk/rates/ubr/index.html; www.scotland.gov.uk/News/Releases/2004/12/08152716; www.wales.gov.uk/servlet/PressReleaseBySubject?area_code=37D4DAD4000ED1930000064A00000000&document_code=N000000000000000000000000026996&p_arch=null&module=dynamicpages&month_year=12|2004.

Appendix D: Tax revenues ready reckoner

Table D.1. Direct effects of illustrative changes in taxation to take effect April 2005

	Cost/yield 2005–06 (£m)
Income tax	
Rates	
Change starting rate by 1p[a]	590
Change basic rate by 1p[b]	3,500
Change higher rate by 1p[c]	1,140
Change basic rate in Scotland by 1p	280
Allowances	
Change personal allowance by £100	620
Starting-rate limit	
Change starting-rate limit by £100	320
Basic-rate limit	
Change basic-rate limit by 1%	200
Change basic-rate limit by 10%:	
increase (cost)	1,850
decrease (yield)	2,250
Allowances and limits	
Change all main allowances, starting- and basic-rate limits:	
increase/decrease by 1%	610
increase by 10% (cost)	5,900
decrease by 10% (yield)	6,600
National Insurance contributions	
Rates	
Change Class 1 employee rate between earnings threshold and upper earnings limit by 1 percentage point	3,400
Change Class 1 employee rate above upper earnings limit by 1 percentage point	770
Change Class 1 employer rate by 1 percentage point	4,250
Change Class 2 (self-employed) rate by £1 a week	145
Change Class 4 (self-employed) rate between lower and upper profit limits by 1 percentage point	335
Change Class 4 (self-employed) rate above upper profit limit by 1 percentage point	185
Thresholds	
Change employee earnings threshold and self-employed lower profits limit by £2 per week	265
Change employer earnings threshold by £2 per week	295
Change upper earnings limit and upper profits limit by £10 per week	155

a Including savings income taxable at the starting rate, but excluding dividend income.
b Including savings income taxable at the lower rate (but not the starting rate), and excluding dividends.
c Excluding dividend income.

Continues

Continued

	Cost/yield 2005–06 (£m)
Corporation tax	
Change main rate by 1 percentage point	950
Change small companies' rate by 1 percentage point	180
Capital gains tax	
Increase annual exempt amount by £500 for individuals and £250 for trustees	20
Inheritance tax	
Change rate by 1 percentage point	95
Increase threshold by £5,000	80
Stamp duty land tax	
Change 1 per cent rate by 1 percentage point	1,260
Change 4 per cent rate by 1 percentage point	700
Increase £250,000 threshold by £5,000	50
Excise duties[d]	
Beer up 0.3p a pint	40
Wine up 1.4p a bottle (75cl)	15
Spirits up 6.4p a bottle (70cl)	10
Cigarettes up 3.5p a packet (20 king-size)	negligible
Petrol (ultra-low-sulphur) up 0.5p a litre	105
Diesel (ultra-low-sulphur) up 0.5p a litre	100
VAT	
Change both standard and reduced rates by 1 percentage point	4,450
VAT coverage	**2004–05**
Extend VAT to:	
food	10,450
construction of new homes	6,700
domestic and international (UK portion) passenger transport	2,350
books, newspapers and magazines	1,650
water and sewerage services	1,000
children's clothing	1,200
drugs and supplies on prescription	1,150

d Figures are calculated given the price and tax charged on a typical item.

Note: The revenue effect is computed for changes to the 2005–06 tax system (suitably indexed) and relates to the full-year effect, except for changes to the coverage of VAT, which refer to 2004–05. Costs/yields are given on an accruals basis, except for VAT and excise duties, which are given on a national accounts basis.

Source: HM Treasury, Tax Ready Reckoner and Tax Reliefs, London, December 2004 (www.hm-treasury.gov.uk/media/8F5/9F/pbr04tax_ready_182.pdf).