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 2005–06 in last year's Green Budget and the December 2005 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 5.

A.1 The accuracy of our previous forecasts

The January 2006 IFS Green Budget forecasts for the main fiscal aggregates were similar to those published by the Treasury in the December 2005 Pre-Budget Report. As such, the errors for each of the forecasts *ex post* are similar. The December 2006 Pre-Budget Report estimated that public sector net borrowing in 2005–06 was £37.5 billion. This is higher than both the Treasury's December 2005 Pre-Budget Report forecast of £37.0 billion and the January 2006 IFS Green Budget forecast of £36.8 billion. The deficit on the current budget was £15.1 billion, which was a larger deficit than either the Treasury forecast in the December 2005 Pre-Budget Report (£10.6 billion) or IFS forecast in the January 2006 Green Budget (£10.5 billion).

Current receipts came in stronger than forecast in either the December 2005 Pre-Budget Report or the January 2006 IFS Green Budget. However, between the publication of these forecasts and the end of the financial year, there was a reclassification of BBC licence fee receipts and corresponding spending. The effect of this was to increase both receipts and current spending by about £3 billion; so overall there was no net effect on borrowing or the current budget.[1] In the absence of this reclassification, receipts would have come in just below both the Treasury and Green Budget forecasts.

Current spending (including depreciation) came in £7 billion higher than both the Treasury and the January 2006 Green Budget forecasts. However, around half of this difference is due to the reclassification of spending financed by the BBC licence fee and was directly offset by higher receipts. Public sector net investment, in contrast, was lower than either the December 2005 Pre-Budget Report or the January 2006 IFS Green Budget forecast suggested.

Table A.2 shows the breakdown of the main errors in the forecasts for tax receipts contained in the December 2005 Pre-Budget Report and the January 2006 IFS Green Budget. Both sets of predictions underestimated total receipts. Net income tax receipts were overestimated by both the December 2005 Pre-Budget Report and the January 2006 IFS Green Budget by about

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[1] Source: Paragraph 3.36, page 27, and paragraph 4.32, page 38, of HM Treasury, *End of Year Fiscal Report*, 2006 (http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr06/assoc_docs/prebud_pbr06_adfiscal.cfm). For more details, see M. Kellaway and H. Shanks, *National Accounts Classifications: Public Sector Broadcasting*, ONS, 2006 (http://www.statistics.gov.uk/articles/nojournal/PSB_article_190106.pdf).

Table A.1. A comparison of last year's IFS Green Budget forecast and the Treasury's December 2005 Pre-Budget Report forecast with the estimated out-turn for 2005–06 from the December 2006 Pre-Budget Report

£ billion	HM Treasury Pre-Budget Report forecast, December 2005	IFS Green Budget forecast, January 2006	Estimate, Pre-Budget Report, December 2006
Current receipts	483.0	483.1	485.3
Current expenditure[a]	493.6	493.6	500.4
Net investment	26.3	26.3	22.4
Public sector net borrowing	37.0	36.8	37.5
Surplus on current budget	–10.6	–10.5	–15.1

[a] Includes depreciation.

Sources: Out-turn figures for 2005–06 from HM Treasury, *Pre-Budget Report 2006*, Cm. 6984, December 2006 (http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr06/report/prebud_pbr06_repindex.cfm). Forecasts from HM Treasury, *Pre-Budget Report 2005*, Cm. 6701, December 2005 (http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr05/prebud_pbr05_index.cfm), and table 5.2 of R. Chote, C. Emmerson, R. Harrison and D. Miles (eds), *The IFS Green Budget: January 2006*, IFS Commentary 100 (http://www.ifs.org.uk/budgets/gb2006/index.php).

Table A.2. IFS Green Budget and Treasury main errors in forecasting tax receipts, 2005–06

£ billion	Pre-Budget Report, December 2005	IFS Green Budget, January 2006
Income tax (net of tax credits)	0.8	1.1
National Insurance contributions	–1.3	–1.3
Value added tax	1.5	1.5
Corporation tax (net of tax credits)	–0.6	–0.4
Net taxes & National Insurance contributions	*1.0*	*1.2*
Non-tax receipts[a]	–3.3	–3.4
Total current receipts	*–2.3*	*–2.2*

[a] Includes accruals adjustments on taxes, the tax credits adjustments, interest and dividends, gross operating surplus and rent; net of oil royalties and business rate payments by local authorities, the own resources contribution to the EU budget and PC corporation tax payments.

Source: Out-turn figures for 2005–06 from HM Treasury, *Pre-Budget Report 2006*, Cm. 6984, December 2006 (http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr06/report/prebud_pbr06_repindex.cfm). Forecasts from HM Treasury, *Pre-Budget Report 2005*, Cm. 6701, December 2005 (http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr05/prebud_pbr05_index.cfm), and table 5.3 of R. Chote, C. Emmerson, R. Harrison and D. Miles (eds), *The IFS Green Budget: January 2006*, IFS Commentary 100 (http://www.ifs.org.uk/budgets/gb2006/index.php).

£1 billion. However, this was offset by an underestimate of £1.3 billion in both forecasts of receipts from National Insurance contributions. The largest absolute forecast error in tax receipts was in the forecasts for VAT receipts: both the December 2005 Pre-Budget Report and the January 2006 IFS Green Budget overestimated VAT receipts by £1.5 billion. However, the largest absolute error overall for both forecasts was in non-tax receipts: the December 2005 Pre-Budget Report underestimated these by £3.3 billion, while the January 2006 IFS Green Budget underestimated them by £3.4 billion, with both errors largely being caused by the reclassification of the BBC licence fee receipts.

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 2006 Pre-Budget Report, we use information from the revenues implied by a current receipts method, and the IFS modelled approach.[2]

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:

   $$\text{2006–07 forecast} = \frac{\text{Receipts received so far this year}}{\text{Receipts received to the same point last year}} \times \text{2005–06 receipts.}$$

   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.

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

   $$\text{2006–07 forecast} = (\text{2005–06 receipts} \times \text{Tax-base change} \times \text{Elasticity}) + \text{Tax changes.}$$

   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.[3] Elasticities for beer, spirit, wine and tobacco duties are taken from the median elasticity found in a range of UK studies.[4]

[2] 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*, 19, 83–100, 1998.

[3] L. Blow and I. Crawford, *The Distributional Effects of Taxes on Private Motoring*, IFS Commentary 65, 1997.

[4] M. Chambers, 'Consumers' demand and excise duty receipts equations for alcohol, tobacco, petrol and DERV', Government Economic Service, Working Paper 138, August 1999.

A.3 Forecasts for 2006–07

The Green Budget forecast is a judgement based on the Treasury's latest forecast contained in the December 2006 Pre-Budget Report, the current receipts method and the IFS modelled approach. Each of these is presented in Table A.3. There is very little divergence between our expectation of receipts and spending in 2006–07 and those published in the Pre-Budget Report.

HM Revenue and Customs receipts

For **income tax** (net of tax credits), we forecast £141.0 billion, which is below the PBR forecast, reflecting weaker in-year current receipts (£144.4 billion including capital gains tax) and lower forecasts from the IFS forecasting model of £139.3 billion than that projected by the PBR.

Our forecast for **corporation tax** (net of tax credits) is £47.4 billion. This is the same as the Treasury forecast. The current receipts forecast suggests that net receipts will be £49.7 billion, but this is inflated due to the fact that the profile in 2005–06 was distorted by policy changes announced in the March 2005 Budget. As a result of these, there was a large increase in revenues in January 2006 that is not expected to be repeated this year. The IFS modelled forecast suggests receipts of just £44.2 billion. However, we discount this given that the Treasury should have significantly more information on short-term corporation tax receipts in particular.

Our forecast for receipts from **stamp duties** of £13.0 billion is slightly higher than the Treasury's forecast of £12.7 billion, and lies between the IFS modelled forecast (£11.9 billion) and the current receipts projection (£13.6 billion).

Our forecast for **National Insurance contributions** matches that of the Treasury (£88.5 billion). This is roughly halfway between the current receipts forecast (£87.7 billion) and the IFS modelled receipts forecast (£89.8 billion).

We forecast **VAT** receipts of £77.0 billion, which is higher than the Treasury's forecast (£76.2 billion) and between the forecast from the current receipts projection (£77.2 billion) and the IFS modelled receipts (£76.8 billion).

We forecast that **fuel duties** will yield £23.7 billion, which is the same as the Treasury's projection. This is between the current receipts forecast (£23.4 billion) and the IFS modelled receipts forecast (£24.9 billion).

Other government receipts

For all other receipts, we take the Treasury's forecasts for 2006–07.

Government expenditure

We forecast that **current spending** in 2006–07 will be £527.7 billion, which is £2.0 billion higher than the Treasury's forecast. So far this year, central government has overspent and requires a slowdown in order to meet the Pre-Budget Report forecast for current spending for the year as a whole. The slowdown has begun in recent months, but it needs to continue and be accelerated further. Whilst some of the apparent overspend earlier in the year may be due to changes in the timing of spending, we assume that some of it will not be fully compensated by lower spending in the last three months of this financial year and that over the remaining months of 2006–07 only half of the required slowdown will be achieved. We therefore forecast a £2.0 billion overspend in 2006–07.

Table A.3. Forecasts for government borrowing in 2006–07

£ billion	PBR Dec. 2006	Current receipts method	IFS forecasting model	IFS forecast judgement
HM Revenue and Customs				
Income tax (net of tax credits)	141.5	144.4[e]	139.3	141.0
National Insurance contributions	88.5	87.7	89.8	88.5
Value added tax (VAT)	76.2	77.2	76.8	77.0
Corporation tax (net of tax credits)	47.4	49.7	44.2	47.4
Petroleum revenue tax	2.3	2.8	2.0	2.3
Fuel duties	23.7	23.4	24.9	23.7
Capital gains tax	4.0	n/a[e]	3.6	4.0
Inheritance tax	3.6	3.7	3.5	3.6
Stamp duties	12.7	13.6	11.9	13.0
Tobacco duties	8.0	7.7	8.4	8.0
Spirits duties	2.3	2.2	2.6	2.3
Wine duties	2.4	2.3	2.5	2.4
Beer and cider duties	3.3	3.2	3.5	3.3
Betting and gaming duties	1.4	1.4	1.5	1.4
Air passenger duty	1.1	1.0	1.1	1.1
Insurance premium tax	2.3	2.3	2.4	2.3
Landfill tax	0.8	0.8	0.5	0.8
Climate change levy	0.7	0.7	0.7	0.7
Aggregates levy	0.3	0.3	0.3	0.3
Customs duties and levies	2.3	2.4	2.4	2.3
Total HMRC	**424.7**	**426.8**	**421.8**	**425.4**
Vehicle excise duties	5.1	5.1	5.4	5.1
Business rates	21.5	21.5	20.6	21.5
Council tax[a]	22.5	22.5	22.5	22.5
Other taxes and royalties[b]	13.3	13.3	13.4	13.3
Net taxes and NI contributions[c]	**487.1**	**489.2**	**483.7**	**487.8**
Other adjustments[d]	30.7	30.7	30.7	30.7
Current receipts	**517.9**	**519.9**	**514.4**	**518.5**
Current spending	**525.7**	**525.7**	**527.7**	**527.7**
Current balance	**–7.9**	**–5.8**	**–13.3**	**–9.2**
Net investment	28.9	28.9	28.9	28.9
Public sector net borrowing	**36.8**	**34.7**	**42.2**	**38.1**

[a] PBR figures are based on stylised assumptions rather than government forecasts.
[b] Includes VAT refunds and money paid into the National Lottery Distribution Fund.
[c] Includes VAT and the traditional 'own resources' contributions to the EU budget.
[d] This line is a sum of accruals adjustments on taxes, tax credit adjustment, interest and dividends, and other receipts, less own resources contribution to EU budget and PC corporation tax payments.
[e] Current receipts estimate of income tax revenues includes capital gains tax.

Sources: PBR forecasts from HM Treasury, *Pre-Budget Report 2006*, Cm. 6984, December 2006 (http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr06/report/prebud_pbr06_repindex.cfm); this table is similar to table B13, page 234. IFS calculations.

We assume that the Treasury's forecast for £28.9 billion of **public sector net investment** in 2006–07 is accurate. Despite the fact that net investment is running ahead of the level consistent with the PBR projection being met, there remains a chance that the Treasury will in fact underspend on public sector net investment, as in recent years net investment has tended to be revised down *ex post*. Either way, a deviation on the Treasury's forecast on net investment would have no impact on the golden rule.

Government borrowing

As a result of forecasting higher current expenditure (which is only partially offset by our forecast of slightly higher government revenues), we forecast a **deficit on current budget** of £9.2 billion for 2006–07. This is £1.3 billion more pessimistic than the £7.9 billion deficit forecast by the Treasury.

Since we forecast the same level of net investment in 2006–07 as the Treasury does, our forecast for **public sector net borrowing** (£38.1 billion) is also £1.3 billion higher than the Treasury forecast of £36.8 billion.

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 macroeconomic forecasts underlying the Green Budget forecasts in each of the three economic scenarios used.

For the Green Budget baseline forecast, the Treasury's macroeconomic forecasts are used. These assume that national income will grow by 2¾% in 2006–07 and 2007–08 and thereafter at 2½% (which for the period from 2007–08 onwards is a ¼ percentage point below the Treasury's central estimate of trend growth). Under the first alternative Green Budget scenario (the Morgan Stanley central case), growth in national income is expected to be the same this year, lower next year, the same in 2008–09 and 2010–11 but higher in 2009–10 and 2011–12. The second alternative Green Budget scenario (the Morgan Stanley 'pessimistic' case) growth is the same in 2006–07 but lower in every year thereafter. This is associated with lower real consumer spending growth, which is also shown in the table, alongside employment, real earnings growth and the GDP deflator.

The Green Budget baseline scenario uses published Treasury forecasts for all macroeconomic assumptions, where these are available. Under all the 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, we assume that in the medium term, underlying corporation tax receipts remain constant as a share of national income.

Table A.4. Medium-term public finances forecasts under different macroeconomic assumptions

	2006–07	2007–08	2008–09	2009–10	2010–11	2011–12
Green Budget baseline (PBR assumptions)						
Gross domestic product (GDP)	2¾	2¾	2½	2½	2½	2½
Real consumers' expenditure	2	2¼	2¼	2¼	2½	2½
Employment	0.9	0.8	0.8	0.8	0.8	0.8
Real wages	¾	1	1½	1½	1½	1½
GDP deflator	2¾	2¾	2¾	2¾	2¾	2¾
Alternative Green Budget scenario I (Morgan Stanley central case)						
Gross domestic product (GDP)	2¾	2¼	2½	2¾	2½	2¾
Real consumers' expenditure	2	2	1¾	2½	2¼	2½
Employment	0.8	0.7	0.7	1.0	1.0	1.1
Real wages	¼	1½	1¾	1¾	1¾	1¾
GDP deflator	3	2½	2¼	2½	2½	2½
Alternative Green Budget scenario II (Morgan Stanley 'pessimistic' case)						
Gross domestic product (GDP)	2¾	1¾	2	2¼	2¼	2¼
Real consumers' expenditure	2¼	1	1¼	2	2	2
Employment	0.7	0.5	0.5	1.0	1.0	1.1
Real wages	½	1¼	1¾	1¾	1¾	1¾
GDP deflator	3¼	3	2½	2½	2½	2½

Sources: Authors' calculations and Treasury forecasts from HM Treasury, *Pre-Budget Report 2006*, Cm. 6984, December 2006, http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr06/report/prebud_pbr06_repindex.cfm

Appendix B: Headline tax and benefit rates and thresholds

	2006–07 level	2007–08 level[a]
Income tax		
Personal allowance: under age 65	£5,035 p.a.	£5,225 p.a.
aged 65–74	£7,280 p.a.	£7,550 p.a.
aged 75 and over	£7,420 p.a.	£7,690 p.a.
Married couple's allowance, restricted to 10%:		
aged 65 or over on 6 April 2000	£6,065 p.a.	£6,285 p.a.
aged 75 or over	£6,135 p.a.	£6,135 p.a.
Lower rate	10%	10%
Basic rate	22%	22%
Higher rate	40%	40%
Starting rate limit	£2,150 p.a.	£2,230 p.a.
Basic rate limit	£33,300 p.a.	£34,600 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)	£84 p.w.	£87 p.w.
Upper earnings limit (UEL)	£645 p.w.	£670 p.w.
Earnings threshold (employee and employer)	£97 p.w.	£100 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%	9.1%
– above UEL	12.8%	12.8%
Corporation tax		
Rates: small companies' rate	19%	19%
standard rate	30%	30%
Capital gains tax		
Annual exemption limit: individuals	£8,800 p.a.	£9,200 p.a.
trusts	£4,400 p.a.	£4,600 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	£285,000	£300,000
Rate for transfer at or near death	40%	40%

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	2006–07 level	2007–08 level[a]
Value added tax		
Standard rate	17.5%	17.5%
Reduced rate	5%	5%
Registration threshold	£61,000 p.a.	£64,000 p.a.
Excise duties		
Beer (pint at 3.9% abv)	29p	30p
Wine (75cl bottle at 12% abv)	129p	133p
Spirits (70cl bottle at 40% abv)	548p	566p
20 cigarettes: specific duty	210p	218p
ad valorem (22% of retail price)	106p	109p
Ultra-low-sulphur petrol (litre)	48p[c]	50p
Ultra-low-sulphur diesel (litre)	48p[c]	50p
Air passenger duty		
European destinations: economy	£5[d]	£10[d]
club/first class	£10[d]	£20[d]
Non-European destinations: economy	£20[d]	£40[d]
club/first class	£40[d]	£80[d]
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	£125,000 p.a.	£125,000 p.a.
residential threshold in disadvantaged areas	£150,000 p.a.	£150,000 p.a.
non-residential threshold	£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)	£0–£215 p.a.[e]	£0–£220 p.a.[e]
Standard rate	£175 p.a.	£180 p.a.
Small-car rate (engines up to 1,549cc)	£115 p.a.	£120 p.a.
Heavy goods vehicles (varies according to vehicle type and weight)	£160–£1,850 p.a.	£165–£1,920 p.a.
Landfill tax		
Standard rate	£21 per tonne	£24 per tonne
Lower rate (inactive waste only)	£2 per tonne	£2 per tonne

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		2006–07 level	2007–08 level[a]
Climate change levy			
Electricity		0.430p/kWh	0.441p/kWh
Natural gas		0.150p/kWh	0.154p/kWh
Coal		1.170p/kg	1.201p/kg
Liquefied petroleum gas		0.960p/kg	0.985p/kg
Business rates			
Rate applicable for high-value properties[f] in:	England	43.3%	44.4%
	Scotland	45.3%	44.4%
	Wales	43.2%	44.8%
Council tax			
Average rate band D council tax in England and Wales		£1,250 p.a.	Councils to set
Income support / income-based jobseeker's allowance			
Single (aged 25 or over)		£57.45 p.w.	£59.15 p.w.
Couple (both aged 18 or over)		£90.10 p.w.	£92.80 p.w.
Basic state pension			
Single		£84.25 p.w.	£87.30 p.w.
Couple		£134.75 p.w.	£139.60 p.w.
Winter fuel payment:	for those aged 60–79	£200	£200
	for those aged 80 or over	£300	£300
Pension credit			
Guarantee credit for those aged 60 or over:	single	£114.05 p.w.	£119.05 p.w.
	couple	£174.05 p.w.	£181.70 p.w.
Savings credit for those aged 65 or over:			
threshold – single		£84.25 p.w.	£87.30 p.w.
threshold – couple		£134.75 p.w.	£139.60 p.w.
maximum – single		£17.88 p.w.	£19.05 p.w.
maximum – couple		£23.58 p.w.	£25.26 p.w.
withdrawal rate		40%	40%
Child benefit			
First child		£17.45 p.w.	£18.10 p.w.
Other children		£11.70 p.w.	£12.10 p.w.
Child tax credit			
Family element (doubled for first year of a child's life)		£545 p.a.	£545 p.a.
Child element		£1,765 p.a.	£1,845 p.a.
Disabled child element		£2,350 p.a.	£2,440 p.a.
Working tax credit			
Basic element		£1,665 p.a.	£1,730 p.a.
Couples and lone-parent element		£1,640 p.a.	£1,700 p.a.
30-hour element		£680 p.a.	£705 p.a.
Disabled worker element		£2,225 p.a.	£2,310 p.a.
Childcare element:			
maximum eligible cost for one child		£175.00 p.w.	£175.00 p.w.
maximum eligible cost for two or more children		£300.00 p.w.	£300.00 p.w.
proportion of eligible costs covered		80%	80%

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	2006–07 level	2007–08 level[a]
Features common to child and working tax credits		
First threshold	£5,220 p.a.	£5,220 p.a.
First threshold if entitled to child tax credit only	£14,155 p.a.	£14,495 p.a.
First withdrawal rate	37%	37%
Second 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 pay: weeks 1–6	90% earnings	90% earnings
weeks 7–26	£108.85 p.w., or 90% earnings if lower	£112.75 p.w., or 90% earnings if lower
weeks 27–33	Zero	£112.75 p.w., or 90% earnings if lower
Maternity allowance	£108.85 p.w.	£112.75 p.w.

a. 2007–08 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. Applied from 7 December 2006 rather than the beginning of the tax year. Up to that point, the duty rates were 47p on both petrol and diesel.
d. 2007–08 rates apply from 1 February 2007 rather than the beginning of the tax year. European refers to flights within the European Economic Area (EEA) up to 31 January 2007 and to the European Common Aviation Area Agreement (ECAAA) areas from 1 February 2007.
e. Highest rate applies only to cars registered on or after 23 March 2006. For cars registered before this date, the highest rates are £195 and £200 for 2006–07 and 2007–08 respectively.
f. Applies where rateable values are at least £21,500 in Greater London, £15,000 in the rest of England, £29,000 in Scotland, and to all non-domestic properties in Wales. Lower rates apply below these thresholds.
Sources: Various HM Treasury and HM Revenue and Customs Press Releases, March 2006 and December 2006; HM Treasury, *2006 Pre-Budget Report*, December 2006 (http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr06/prebud_pbr06_index.cfm); HM Treasury, *Tax Ready Reckoner and Tax Reliefs*, December 2006 (http://www.hm-treasury.gov.uk/media/77C/B3/pbr06_taxreadyreckoner.pdf); http://www.hmrc.gov.uk/; http://www.dwp.gov.uk/mediacentre/pressreleases/2006/dec/hsc-14-071206-rates.pdf; http://direct.gov.uk/Motoring/OwningAVehicle/HowToTaxYourVehicle/HowToTaxYourVehicleArticles/fs/en?CONTENT_ID=4022118&chk=7JgfMw; http://www.statistics.gov.uk/pdfdir/cpibrief0107.pdf; http://www.local.odpm.gov.uk/finance/ctax/ctax067.pdf; http://www.local.dtlr.gov.uk/finance/busrats/bri62006.pdf; http://www.scotland.gov.uk/Topics/Government/local-government/17999/11199; http://new.wales.gov.uk/news/archivepress/localgovculpress/locgovpress2006/1086396/?lang=en.

For descriptions of the tax and benefit systems, see S. Adam and J. Browne, *A Survey of the UK Tax System*, IFS Briefing Note 9, 2006 (http://www.ifs.org.uk/bns/bn09.pdf) and D. Phillips and L. Sibieta, *A Survey of the UK Benefit System*, IFS Briefing Note 13, 2006 (http://www.ifs.org.uk/bns/bn13.pdf) respectively.

For a summary of the main tax measures introduced in each Budget and Pre-Budget Report since 1979, see http://www.ifs.org.uk/ff/budget_measures.xls.

For estimates of the effects of various illustrative tax changes on government revenues, see HM Treasury, *Tax Ready Reckoner and Tax Reliefs*, December 2006 (http://www.hm-treasury.gov.uk/media/77C/B3/pbr06_taxreadyreckoner.pdf).