

Appendix A: Forecasting public finances

This appendix describes the techniques used for our public finance forecasts. It starts by comparing the forecasts made for borrowing in 2001–02 in last year’s Green Budget and the November 2001 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 3.

A.1 The accuracy of our previous forecasts

The November 2002 Pre-Budget Report¹ gave an out-turn figure for a balance of £0.0 billion on public sector net borrowing in 2001–02 (excluding spending associated with the windfall tax). This was almost exactly halfway between the £1.4 billion deficit expected by the Treasury in the November 2001 Pre-Budget Report² and the £1.6 billion surplus forecast in the January 2002 IFS Green Budget.³ Table A.1 shows both forecasts alongside the estimated out-turn for 2001–02 from the November 2002 Pre-Budget Report.⁴

Both the Treasury and IFS forecast higher current receipts than were realised. Both of these forecasts for receipts were reasonably accurate, being within 1% of the final out-turn.

Table A.2 shows the breakdown of both the Treasury’s and IFS’s main errors in forecasting tax receipts for 2001–02. Although the overall effect was an overestimate of receipts, both sets of predictions underestimated both income tax and council tax, with income tax presenting the greatest deviation in any direction. The November 2001 Pre-Budget Report underestimated income tax receipts by £6.0 billion, while the IFS forecast was £4.6 billion too low. The most significant overestimates were for corporation tax and social security

¹ HM Treasury, *Pre-Budget Report 2002*, Cm. 5664, London, 2002 (www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr02/prebud_pbr02_index.cfm).

² HM Treasury, *Pre-Budget Report 2001*, London, 2001 (www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr01/prebud_pbr01_index.cfm).

³ A. Dilnot, C. Emmerson and H. Simpson (eds), *The IFS Green Budget: January 2002*, Commentary no. 87, Institute for Fiscal Studies, London, 2002 (www.ifs.org.uk/gbfiles/gb2002.shtml).

⁴ More recent information on the out-turn for 2001–02 suggests that current receipts were £390.4 billion, that total managed expenditure was £389.7 billion and that therefore there was a surplus on public sector net borrowing (including spending associated with the windfall tax) of £0.7 billion. This suggests that receipts were closer to the Treasury forecast, and that spending and public sector net borrowing were closer to the January 2002 IFS Green Budget forecast, than is suggested by the PBR out-turn figures discussed here. Source: Office for National Statistics Press Release, ‘Public Sector Accounts: 3rd Quarter 2002’, 23 December 2002 (www.statistics.gov.uk/pdfdir/psa1202.pdf). In this appendix, we examine the PBR out-turn rather than the latest available figures since no breakdown by type of expenditure or tax is currently available for the latest figures.

contributions. The November 2001 Pre-Budget Report overestimated their yields by £0.9 billion and £1.1 billion respectively, while the IFS forecasts were £0.9 billion and £0.3 billion too high respectively.

Table A.1. A comparison of last year's IFS Green Budget forecast and the Treasury November 2001 Pre-Budget Report forecast with the estimated out-turn for 2001–02 from the November 2002 Pre-Budget Report (£ billion)

	HM Treasury Pre-Budget Report forecast, November 2001	IFS Green Budget forecast, January 2002	Estimate, Pre-Budget Report, November 2002
Current receipts	391.2	391.4	390.7
Total managed expenditure	393.7	391.1	391.8
<i>Of which:</i>			
Departmental expenditure limits	212.5	210.0	212.1
Annually managed expenditure	181.1	181.1	179.7
PSNB ^a	1.4	-1.6	0.0

^a PSNB excludes spending financed by the windfall tax.

Table A.2. IFS Green Budget and Treasury main errors in forecasting tax receipts, 2001–02 (£ billion)

	Pre-Budget Report forecast, November 2001	IFS Green Budget forecast, January 2002
Income tax ^a	-6.0	-4.6
Corporation tax	0.9	0.9
Value added tax	0.3	0.3
Fuel duties	0.3	0.2
Social security contributions	1.1	0.3
Council tax	-0.5	-0.5
Other taxes and receipts	4.4	4.1
<i>Total</i>	0.5	0.7

^a Net of tax credits.

Source: Out-turn figures for 2001–02 from HM Treasury, *Pre-Budget Report 2002*, Cm. 5664, London, 2002 (www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr02/prebud_pbr02_index.cfm).

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 November 2002 Pre-Budget Report, we use information from the revenues implied by a current receipts method, and the IFS modelled approach.⁵

⁵ 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.

- 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:

$$2002-03 \text{ forecast} = \frac{\text{Receipts received so far this year}}{\text{Receipts received to the same point last year}} \times 2001-02 \text{ receipts.}$$

While this is useful when forecasting revenues in the current financial year, it cannot provide projections for borrowing in future years. Also, 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 Budgets is then added in order to reach a forecast. Hence, modelled receipts can be summarised by the following formula:

$$2002-03 \text{ forecast} = (2001-02 \text{ receipts} \times \text{Tax-base change} \times \text{Elasticity}) + \text{Tax changes.}$$

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.⁶ Elasticities for beer, spirit, wine and tobacco duties are taken from the median elasticity found in a range of UK studies.⁷

A.3 Forecasts for 2002–03

The Green Budget forecast is a judgement based on the Treasury's latest forecast contained in the November 2002 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 than the Treasury, leading to higher borrowing and a larger deficit on current budget.

⁶ L. Blow and I. Crawford, *The Distributional Effects of Taxes on Private Motoring*, Commentary no. 65, IFS, London, 1997.

⁷ M. Chambers, 'Consumers' demand and excise duty receipts equations for alcohol, tobacco, petrol and derv', Government Economic Service, Working Paper no. 138, August 1999.

Table A.3. Forecasts for government borrowing in 2002–03 (£ billion)

	<i>Pre-Budget Report Nov. 2002</i>	<i>Current receipts</i>	<i>IFS forecasting model</i>	<i>IFS forecast judgement</i>
<i>Inland Revenue</i>				
Income tax (gross of tax credits)	114.1	111.9 ^{h,i}	111.9 ^h	110.0 ^h
Corporation tax (CT) ^a	29.3	28.3 ^h	33.4 ^h	28.5 ^h
Tax credits ^b	-3.5	n/a	n/a	n/a
Petroleum revenue tax	1.1	0.8	1.3	1.1
Capital gains tax	2.0	n/a	3.1	2.0
Inheritance tax	2.4	2.4	2.4	2.4
Stamp duties	8.2	7.6	7.6	7.8
Social security contributions	65.5	63.9	64.9	65.0
Total Inland Revenue (net of tax credits)	219.1	214.9	224.5	216.8
<i>Customs and Excise</i>				
Value added tax (VAT)	64.5	63.7	64.5	63.7
Fuel duties	22.4	22.2	22.5	22.4
Tobacco duties	8.2	8.4	8.1	8.2
Spirit duties	2.2	2.3	2.2	2.2
Wine duties	1.9	2.0	2.1	1.9
Beer and cider duties	3.1	3.2	3.2	3.1
Betting and gaming duties	1.3	1.2	1.4	1.3
Air passenger duty	0.8	0.8	0.8	0.8
Insurance premium tax	2.1	2.2	2.0	2.1
Landfill tax	0.5	0.5	0.6	0.5
Climate change levy	0.9	0.9	0.9	0.9
Aggregates levy	0.2	0.2	0.2	0.2
Customs duties and levies	2.0	1.9	2.0	2.0
Total Customs and Excise	110.1	109.4	110.5	109.3
Vehicle excise duties	4.4	4.4	4.3	4.4
Oil royalties	0.5	0.5	0.5	0.5
Business rates ^c	18.0	18.0	18.3	18.0
Council tax	16.6	16.6	16.0	16.6
Other taxes and royalties ^d	10.9	10.9	10.4	10.9
Total taxes and social security contribns^e	379.6	374.8	384.5	376.5
Accruals adjustments on taxes	-0.6	-0.6	-0.6	-0.6
Less Own resources contribution to EU	-3.0	-3.0	-3.0	-3.0
Less Public corporations' CT payments	-0.2	-0.2	-0.2	-0.2
Tax credits ^f	1.2	1.2	1.2	1.2
Interest and dividends	4.1	4.1	4.1	4.1
Other receipts	18.6	18.6	18.6	18.6
Current receipts	399.7	394.9	404.6	396.6
Current spending	405.5	405.4	405.4	405.4
Current balance^g	-5.7	-10.6	-0.8	-8.8
Net investment	14.3	13.3	13.3	13.3
Public sector net borrowing^g	20.1	23.9	14.1	22.1

^a National accounts measure: gross of enhanced and payable tax credits. ^b Includes enhanced and payable company tax credits. ^c Includes district council rates in Northern Ireland.

^d Includes money paid into the National Lottery Distribution Fund. ^e Includes VAT and 'traditional own resources' contributions to EC budget. Cash basis. ^f Excludes children's tax credit and other tax credits that score as a tax repayment in the National Accounts. ^g Includes expenditure associated with the windfall tax. ^h Net of tax credits. ⁱ Includes capital gains tax. Sources: Treasury forecasts from HM Treasury, *Pre-Budget Report 2002*, Cm. 5664, London, 2002 (www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr02/prebud_pbr02_index.cfm) – this table is similar to table B12 on page 197; information on current receipts from ONS / HM Treasury, 'Public Sector Finances: December 2002', Press Release, 21 January 2003 (www.statistics.gov.uk/pdfdir/psf0103.pdf); IFS calculations.

Inland Revenue receipts

For **income tax** (net of tax credits), we forecast £110.0 billion, which is lower than the PBR forecast, since the Treasury forecasts gross receipts of £114.1 billion with tax credits accounting for around £3 billion. Our estimate takes into account the fact that the current receipts estimate is for £109.9 billion (assuming capital gains tax of £2.0 billion), but allows for a slight improvement in the strength of income tax receipts towards the end of the financial year.

Our forecast for **corporation tax** is £28.5 billion, which is £0.8 billion below the Treasury forecast of £29.3 billion. This is due to the current receipts forecast suggesting that receipts will be just £28.3 billion. No weight is given to the IFS modelled forecast since this does not take into account any decline in company profits associated with the fall in the stock market. While the current receipts forecast for corporate tax receipts has not been useful in the past due to the change in timing of corporation tax receipts, our calculations suggest that this should no longer be a problem, as there is no longer a timing-of-receipts issue arising from the transition from the old corporation tax system to the new one.

Our forecast for **stamp duties** is receipts of £7.8 billion this year. This is slightly higher than the current receipts forecast and the IFS modelled forecast, both of which are for £7.6 billion of receipts, but still £0.4 billion below the PBR forecast of £8.2 billion.

With **social security contributions**, we forecast £65.0 billion, which is £0.5 billion below the Treasury's forecast of £65.5 billion. This is due to evidence from both the IFS forecasting model (£64.9 billion) and the current receipts method (£63.9 billion), which suggests that the Treasury's forecast might not be met.

Customs and Excise taxes

We forecast **VAT** receipts of £63.7 billion, lower than the Treasury's forecast of £64.5 billion. This is due to the information from current receipts, which suggests revenues will be lower than the Treasury's forecast.

We forecast that **fuel duties** will yield £22.4 billion, which is the same as the Treasury's forecast. This is because both current receipts and the IFS forecasting model give very similar forecasts.

Other government receipts

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

Government expenditure

We forecast **current spending** to equal £405.4 billion, which is just £0.1 billion lower than the Treasury's forecast. This is because we assume that the £0.1 billion left in the AME (annually managed expenditure) margin from the Pre-Budget Report is not used. We also assume that the special reserve addition of £1 billion, which has been allocated to finance the potential conflict in Iraq, is spent in 2002–03. While some or all of this might be carried forward into 2003–04, the timing of the expenditure will not have any direct

impact on the public finances or the interpretation of whether the fiscal rules have been breached.

Our forecasts allow for a £1 billion underspend on **public sector net investment** in 2002–03. This is due to the growth in public sector net investment seen so far this year being lower than that forecast by the Treasury for the year as a whole.

Government borrowing

As a result of lower government revenues (offset very slightly by lower current expenditure), we forecast a **deficit on current budget** of £8.8 billion for 2002–03. This is some £3.1 billion lower than the £5.7 billion forecast by the Treasury.

We forecast that **public sector net borrowing** will be £22.1 billion, which is £2.0 billion more than the £20.1 billion forecast by the Treasury.

A.4 Medium-term forecasts

Any assessment of the fiscal stance, and whether the Chancellor is going to be successful in meeting his two fiscal ‘rules’, should be judged over the economic cycle. Table A.4 presents the macroeconomic forecasts underlying the baseline IFS forecast for government borrowing. For our central forecast, we use the Treasury’s ‘cautious’ forecast for GDP growth of 2% in 2002–03, 2¾% in 2003–04, 3% in 2004–05 and 2¾% in 2005–06. In 2006–07 and 2007–08, we expect growth to be in line with the Treasury’s lower-bound forecast for trend growth in those years of 2½% and 2¼% respectively.

Table A.4. Main macroeconomic assumptions used in the baseline forecast (% growth in variable)

	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08
Gross domestic product (GDP)	2	2¾	3	2¾	2½	2¼
Real consumers’ expenditure	¾	2½	2¾	2¼	2¼	2
Employment	0	¼	¼	¼	¼	¼
Real wages	2	2½	2¾	2½	2¼	2
GDP deflator	2½	2¼	2½	2½	2½	2½

Sources: GDP forecasts and GDP deflator from table B3 of HM Treasury, *Pre-Budget Report 2002*, Cm. 5664, London, 2002 (www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr02/prebud_pbr02_index.cfm). Consumers’ expenditure based on table A8 of HM Treasury, *Pre-Budget Report 2002*, until 2004–05; following GDP growth thereafter. Employment growth: IFS estimates consistent with table A3 of HM Treasury, *Pre-Budget Report 2002*. Real wages growth: IFS estimates based on GDP growth.

The IFS model also requires forecasts for growth in consumers’ expenditure, employment and wages. These are set out in Table A.4 too. Where possible, published Treasury forecasts are used. The model also requires a forecast of growth in corporate profits. Due to the difficulties in forecasting this, particularly in the present climate, we instead assume that, in the medium term, corporation tax receipts rise back to the average level seen in recent years.

Appendix B: Distributional effects of pre-announced direct tax and benefit reforms due in 2003–04

This appendix considers the distributional impact of reforms to direct taxes and benefits that were announced in Pre-Budget Report 2001 and Budget 2002 but that do not take effect until 2003–04. The fact that these reforms will have a significant effect on the incomes of many families at the beginning of the new financial year in April (with further changes affecting those aged 65 or over in October) will doubtless be in the Chancellor's mind as he decides what measures to announce in Budget 2003 and when they should take effect.

Our analysis shows that just over 60% of the money raised by the tax rises due in the coming financial year will be offset by extra spending on benefits and tax credits, leaving a net increase in personal taxes less benefits of around £3 billion a year.¹ On average, those aged 60 or over gain from the increases in the minimum income guarantee (MIG), the basic state pension and the pension credit and they pay little extra tax. Families without children pay more tax with few compensating gains, while families with children lie somewhere in between. The overall impact will be progressive, with families gaining, on average, at the bottom of the income distribution and losing, on average, at the top. This is in line with the impact of Labour's other changes to direct taxes and benefits since 1997.²

B.1 What reforms do we consider?

The complete list of tax and benefit reforms taking effect in 2003–04 can be derived from the 2002 Budget.³ Those considered in this analysis are listed below. All are effective from April 2003, except the pension credit.⁴

¹ All figures in this appendix are in 2002 prices. Our estimates are that the tax rises will raise £7.9 billion, that the benefit and credit changes in April 2003 will cost £3.8 billion and that the pension credit will have a full-year cost of £2.1 billion. However, the pension credit starts in October 2003, halving its estimated cost in 2003–04; if we counted the full-year cost of the pension credit, then the changes in 2003–04 would only raise £2 billion.

² See Chapter 9.

³ Chapter A of HM Treasury, *Financial Statement and Budget Report*, HC592, Stationery Office, London, 2002 (www.hm-treasury.gov.uk/budget/bud_index.cfm). Benefit rates taking effect from April 2003 were confirmed in Department for Work and Pensions, 'Pensioners and New Mothers Set to Gain from Cash Gains', Press Release, 18 November 2002, www.dwp.gov.uk/mediacentre/pressreleases/2002/nov/cfd1811-uprt.htm.

⁴ There are other, more minor, changes to benefits and personal taxes due which are not considered in our model, such as increases in statutory maternity pay and the maternity allowance. Taxes and benefits that have been increased in line with inflation do not count as changes. Chapter 5 analyses the changes to National Insurance; HM Treasury, *The Child and*

- A freeze in the personal allowance for income tax for those aged under 65, equivalent to a real reduction of 1.7%.⁵
- A freeze in the thresholds beyond which employers, employees and the self-employed pay National Insurance (NI) contributions, again equivalent to a real reduction of 1.7%.
- A 1 percentage point increase in employee NI contributions, paid on all earnings above the primary threshold.
- A 1 percentage point increase in employer NI contributions, paid on all earnings above the secondary threshold.
- A 1 percentage point increase in self-employed NI contributions, paid on all profits above the lower profits limit.
- Overindexation of the personal allowance for those aged 65 or over.
- Introduction of the child tax credit and the working tax credit, and abolition of the children's tax credit and the working families' tax credit.⁶
- Abolition of child dependency increases in non-means-tested benefits.⁷
- An above-inflation increase in the basic state pension for pensioners (and linked benefits), and an increase in the MIG for those aged 60 or over.
- Introduction of the pension credit for those aged 65 or over (October 2003).

B.2 Distributional impacts of the reforms

In the tables in this appendix, we show the distributional impacts of the following:

Working Tax Credits, The Modernisation of Britain's Tax and Benefit System no. 10, London, 2002 (www.hm-treasury.gov.uk/mediastore/otherfiles/new_tax_credits.pdf), explains how the new tax credits will work; Department for Work and Pensions, *Pension Credit: The Government's Proposals*, London, 2001 (www.dwp.gov.uk/publications/dwp/2001/pencred/pencred.pdf), and T. Clark, *Rewarding Saving and Alleviating Poverty? The Final Pension Credit Proposals*, Briefing Note no. 22, IFS, London, 2002 (www.ifs.org.uk/pensions/bn22.pdf), explain the details of the pension credit; for details of all benefit rates from April 2003, see Department for Work and Pensions, 'Pensioners and New Mothers Set to Gain from Cash Gains', Press Release, 18 November 2002, www.dwp.gov.uk/mediacentre/pressreleases/2002/nov/cfd1811-uprt.htm.

⁵ 1.7% was the headline rate of inflation (RPI) in September 2002, which is the rate usually used to adjust tax allowances and thresholds.

⁶ Families with children on income support will not be affected by the child tax credit until April 2004: see Chapter 4.

⁷ This reform only applies to new claimants, but we model the long-run impact of this change by abolishing the increases for existing claimants.

- (1) the direct tax rises that take effect in April 2003 (i.e. the freeze in income tax personal allowances, the rises in NI rates and the freeze in the thresholds for NI);
- (2) all reforms that take effect in April 2003 (i.e. the tax rises in (1), plus the increases in benefits and tax credits other than the pension credit);
- (3) all reforms that take effect in 2003–04 (i.e. the tax rises in (1), plus the benefit and tax credit increases in (2), plus the new pension credit).

In line with usual practice, we assume that the increase in NI paid by employers is passed on to the employee in the form of lower earnings, and that it therefore has the same impact as a rise in employee NI.⁸ But in some tables, we show separately the impact of the rise in employer NI rates and the freezing of the secondary threshold, in case readers wish to subtract it.

Tables B.1 and B.2 show the average impact on each decile of the population, as a proportion of disposable income and in cash terms.⁹ Tables B.3 and B.4 show the average impact on a number of different family types. Table B.5 shows how many families gain and lose from the reforms.

Tables B.1 and B.2 show the following:

- The tax rises are progressive: the rich, on average, lose a greater proportion of their income than the poor.
- Just under half the approximately £8 billion raised by the NI and income tax increases is offset by the extra spending on benefits and tax credits in April 2003, rising to over 60% once the pension credit is included.
- In the top two income deciles, the change in employer NI accounts for around half of the average loss.
- All but the richest tenth of families will see noticeable average gains from the new tax credits and other benefit changes, but the impact is greater in the lower income deciles.
- The combined impact of a tax rise that hurts the rich more than the poor, and new credits that benefit the poor more than the rich, is clearly progressive. This is in keeping with the distributional impact of personal tax and benefit changes since 1997.¹⁰ On average, the bottom five deciles gain and the top five deciles lose, with decile 2 gaining the most.¹¹

⁸ This assumption is discussed in more detail in Chapter 9.

⁹ Gains and losses are shown per week; the difference between full-year and part-year changes discussed in footnote 1 is therefore not an issue. See Table B.6 for the income bands corresponding to each decile.

¹⁰ See figure 3 in M. Brewer, T. Clark and M. Wakefield, 'Social security in the UK under New Labour: what did the third way mean for welfare reform?', *Fiscal Studies*, 2002, vol. 23, pp. 505–37.

¹¹ If we do not consider the impact of raising employer NI, the bottom six income deciles gain on average and the top four deciles lose on average.

Table B.1. Percentage gains across the income distribution from reforms in 2003–04

	Direct tax changes in April 2003	All changes in April 2003	All changes in 2003–04	Employer NI only
Poorest	-0.08	3.43	3.94	-0.02
Decile 2	-0.14	3.24	5.62	-0.06
Decile 3	-0.43	2.65	4.08	-0.22
Decile 4	-0.73	1.32	2.52	-0.35
Decile 5	-1.04	-0.02	0.79	-0.50
Decile 6	-1.38	-0.71	-0.23	-0.67
Decile 7	-1.58	-1.11	-0.87	-0.77
Decile 8	-1.89	-1.60	-1.55	-0.94
Decile 9	-2.10	-1.99	-1.98	-1.06
Richest	-2.35	-2.35	-2.35	-1.13
Overall	-1.62	-0.84	-0.42	-0.78

Notes: The first three columns include the effects of employer NI; this is given separately in the final column and can be subtracted if required. Income deciles are derived by dividing all families (with and without children) into 10 equally sized groups according to income adjusted for family size using the McClements equivalence scale. Decile 1 contains the poorest tenth of the population, decile 2 the second poorest and so on, up to decile 10, which contains the richest tenth.

Source: IFS tax and benefit model, TAXBEN, based on 2000–01 Family Resources Survey.

Table B.2. Weekly cash gains across the income distribution from reforms in 2003–04 (2002 prices)

	Direct tax changes in April 2003	All changes in April 2003	All changes in 2003–04	Employer NI only
Poorest	-0.06	2.46	2.83	-0.01
Decile 2	-0.21	4.77	8.28	-0.09
Decile 3	-0.77	4.82	7.40	-0.40
Decile 4	-1.48	2.68	5.12	-0.69
Decile 5	-2.41	-0.05	1.82	-1.09
Decile 6	-3.71	-1.92	-0.63	-1.68
Decile 7	-4.97	-3.47	-2.74	-2.25
Decile 8	-7.10	-6.03	-5.82	-3.26
Decile 9	-9.78	-9.27	-9.23	-4.49
Richest	-19.95	-19.96	-19.95	-8.53
Overall	-5.04	-2.60	-1.29	-2.25

Notes: As for Table B.1.

Source: As for Table B.1.

Tables B.3 and B.4 show the following:

- On average, families with someone in work are net losers, with pensioners and those not working gaining.
- On average, families with children fare better than those without. For example, single-earner couples with children will lose an average of £9.81 a week from the tax rises, but gain an average of £6.70 a week from the new tax credits. This will leave them an average of £3.11 a week worse off, compared with an average loss of £4.33 for single-earner couples without children, who tend to gain less from the new tax credits.

Table B.3. Percentage gains from reforms in 2003–04, by family type

	Direct tax changes in April 2003	All changes in April 2003	All changes in 2003–04	Employer NI only
Single, not working	-0.05	0.08	0.14	0.00
Single, employed	-2.25	-1.89	-1.89	-1.14
Single-parent family	-0.61	4.14	4.15	-0.33
0-earner couple w/o kids	-0.10	0.27	0.69	-0.01
0-earner couple with kids	-0.03	5.16	5.19	0.00
1-earner couple w/o kids	-1.87	-1.21	-1.18	-0.90
1-earner couple with kids	-2.06	-0.65	-0.65	-1.01
2-earner couple w/o kids	-2.32	-2.24	-2.24	-1.13
2-earner couple with kids	-2.22	-1.64	-1.64	-1.10
Single pensioner	-0.03	1.06	3.99	-0.02
Couple pensioner	-0.09	0.67	2.59	-0.05
Overall	-1.62	-0.84	-0.42	-0.78

Notes: The first three columns include the effects of employer NI; this is given separately in the final column and can be subtracted if required. Families are classified as pensioners if either adult is a pensioner (male: 65 or over; female: 60 or over). Some of these families also contain children; some male recipients of the MIG can therefore be found in non-pensioner families. See Table B.7 for the number of families of each type.

Source: IFS tax and benefit model, TAXBEN, based on 2000–01 Family Resources Survey.

Table B.4. Weekly cash gains from reforms in 2003–04, by family type (2002 prices)

	Direct tax changes in April 2003	All changes in April 2003	All changes in 2003–04	Employer NI only
Single, not working	-0.04	0.08	0.13	0.00
Single, employed	-5.29	-4.45	-4.44	-2.41
Single-parent family	-1.46	9.91	9.94	-0.77
0-earner couple w/o kids	-0.25	0.70	1.78	-0.02
0-earner couple with kids	-0.07	13.90	13.98	0.00
1-earner couple w/o kids	-6.86	-4.45	-4.33	-3.00
1-earner couple with kids	-9.81	-3.11	-3.11	-4.33
2-earner couple w/o kids	-12.55	-12.15	-12.12	-5.51
2-earner couple with kids	-12.53	-9.26	-9.26	-5.59
Single pensioner	-0.06	1.88	7.07	-0.03
Couple pensioner	-0.27	2.12	8.24	-0.15
Overall	-5.04	-2.60	-1.29	-2.25

Notes: As for Table B.3.

Source: As for Table B.3.

Table B.5 shows the following:

- The new tax credits sharply reduce the number of lone parents who would otherwise have suffered significant income losses as a result of the tax increases – the number of lone parents more than £1 a week worse off falls from 540,000 to 130,000, and 1.6 million will be net gainers. The number of couples with children losing more than £1 a week is reduced proportionately less by the tax credits – from 4.5 million to 3.4 million – with 1.6 million couples with children ending up net gainers.

Table B.5. Numbers of winners and losers, by family type

Number of families (thousands)	Direct tax changes in April 2003	All changes in April 2003	All changes in 2003–04
Single, no children			
losing >£10 per week	725	725	725
losing £1–£10 per week	5,335	5,061	5,055
staying within +/-£1	4,294	4,138	4,132
gaining £1–£10 per week	0	233	238
gaining >£10 per week	0	197	203
Single with children			
losing >£10 per week	36	26	26
losing £1–£10 per week	507	103	103
staying within +/-£1	1,239	37	37
gaining £1–£10 per week	0	1,052	1,050
gaining >£10 per week	0	565	567
Couple, no children			
losing >£10 per week	2,093	2,085	2,085
losing £1–£10 per week	2,748	2,547	2,543
staying within +/-£1	1,215	997	953
gaining £1–£10 per week	0	283	296
gaining >£10 per week	0	145	179
Couple with children			
losing >£10 per week	2,121	1,817	1,817
losing £1–£10 per week	2,332	1,608	1,608
staying within +/-£1	728	138	138
gaining £1–£10 per week	0	935	934
gaining >£10 per week	0	684	685
Pensioners			
losing >£10 per week	8	7	7
losing £1–£10 per week	190	109	109
staying within +/-£1	6,622	635	501
gaining £1–£10 per week	0	6,055	4,139
gaining >£10 per week	0	15	2,065
Total			
losing >£10 per week	4,984	4,661	4,661
losing £1–£10 per week	11,113	9,427	9,418
staying within +/-£1	14,098	5,943	5,760
gaining £1–£10 per week	0	8,559	6,658
gaining >£10 per week	0	1,608	3,700

Notes: As for Table B.3. Totals may not sum due to rounding.

Source: As for Table B.3.

- Of the 1.6 million lone parents who gain overall from the changes, 1.2 million earn too little to be affected by the tax rises. Amongst the 1.6 million couples with children who gain overall from the changes, between 0.6 million and 0.7 million earn too little to be affected by the tax rises. This means that just over a fifth of couples with children affected by the tax rises will gain more in tax credits than they lose in extra tax payments.

- Around 90% of pensioner families (6 million) will gain by at least £1 a week from the pension credit and the overindexation of the state pension and income tax allowance.
- A small number of working-age families without children – mostly older workers – gain from the introduction of the new working tax credit, with around 380,000 gaining more than £10 a week.
- Across the whole population, around 16 million families will lose by £1 a week or more from the tax rises due in April 2003. Accounting for all the changes due in 2003–04, around 14 million families will lose by £1 a week or more, and 10 million families will gain by £1 a week or more, with 6 million families relatively unaffected. Of the 10 million families that gain, at least 8 million (mostly pensioners) are unaffected by the tax rises; this again shows that the changes to benefits and credits are playing a small role in compensating families that will be paying more tax.

Table B.6. Income bands for each decile for different family types (net household income in £ per year, 2002 prices, *after* direct taxes and benefits)

	Single, no children	Couple, no children	Couple, two children
Poorest	0–5,400	0–8,800	0–12,600
Decile 2	5,400–6,500	8,800–10,700	12,600–15,300
Decile 3	6,500–7,600	10,700–12,500	15,300–17,900
Decile 4	7,600–8,800	12,500–14,400	17,900–20,600
Decile 5	8,800–10,100	14,400–16,600	20,600–23,700
Decile 6	10,100–11,700	16,600–19,100	23,700–27,300
Decile 7	11,700–13,500	19,100–22,200	27,300–31,800
Decile 8	13,500–16,100	22,200–26,400	31,800–37,800
Decile 9	16,100–20,400	26,400–33,400	37,800–47,800
Richest	20,400–	33,400–	47,800–

Note: There are 3,020,000 families in each decile.

Source: IFS tax and benefit model, TAXBEN, based on 2000–01 Family Resources Survey.

Table B.7. Estimated number of families in Great Britain, by family type

	Number of families (millions)
Single, not working	3.3
Single, employed	7.1
Single-parent family (working or not working)	1.8
0-earner couple w/o kids	0.9
0-earner couple with kids	0.4
1-earner couple w/o kids	1.6
1-earner couple with kids	1.6
2-earner couple w/o kids	3.5
2-earner couple with kids	3.2
Single pensioner	4.2
Couple pensioner	2.7
Total	30.2

Source: IFS tax and benefit model, TAXBEN, based on 2000–01 Family Resources Survey.

Appendix C: 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%.

Green Budget, January 2003

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.
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. 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.
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Green Budget, January 2003

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	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.

Appendix D: Headline tax and benefit rates and thresholds

	2002–03 level	2003–04 level ^a
Income tax		
Personal allowance: under age 65	£4,615 p.a.	£4,615 p.a.
aged 65–74	£6,100 p.a.	£6,610 p.a.
aged 75 and over	£6,370 p.a.	£6,720 p.a.
Married couple's allowance, restricted to 10%: aged 65 or over on 6 April 2000	£5,465 p.a.	£5,565 p.a.
aged 75 or over	£5,535 p.a.	£5,635 p.a.
Lower rate	10%	10%
Basic rate	22%	22%
Higher rate	40%	40%
Lower-rate limit	£1,920 p.a.	£1,960 p.a.
Basic-rate limit	£29,900 p.a.	£30,500 p.a.
Pension earnings cap	£97,200 p.a.	£98,900 p.a.
Tax rates on interest income	10%, 20%, 40%	10%, 20%, 40%
Tax rates on dividend income	10%, 32.5%	10%, 32.5%
Children's tax credit ^b	£5,290 p.a.	Replaced by
Children's tax credit for first year of a child's life ^b	£10,490 p.a.	child tax credit
National Insurance		
Lower earnings limit (LEL)	£75 p.w.	£77 p.w.
Upper earnings limit (UEL)	£585 p.w.	£595 p.w.
Earnings threshold (employee and employer)	£89 p.w.	£89 p.w.
Class 1 contracted-in rate: employee – below UEL	10%	11%
– above UEL	zero	1%
employer – below UEL	11.8%	12.8%
– above UEL	11.8%	12.8%
Class 1 contracted-out rate: employee – below UEL	8.4%	9.4%
(salary-related schemes) – above UEL	zero	1%
employer – below UEL	8.3%	9.3%
– above UEL	11.8%	12.8%
Corporation tax		
Rates: lower rate	zero	zero
small companies' rate	19%	19%
standard rate	30%	30%
Capital gains tax		
Annual exemption limit: individuals	£7,700 p.a.	£7,900 p.a.
trusts	£3,850 p.a.	£3,950 p.a.
Non-business assets: top-rate taxpayers	24%–40%	24%–40%
basic-rate taxpayers	12%–20%	12%–20%
Business assets: top-rate taxpayers	10%–40%	10%–40%
basic-rate taxpayers	5%–20%	5%–20%
Inheritance tax		
Threshold	£250,000	£255,000
Rate for transfer at or near death	40%	40%
Value added tax		
Standard rate	17.5%	17.5%
Reduced rate	5%	5%

Continues

Continued

	2002–03 level	2003–04 level ^a
Excise duties		
Beer (pint)	26p	27p
Wine (75cl bottle)	116p	119p
Spirits (70cl bottle)	548p	561p
20 cigarettes: specific duty	188p	194p
<i>ad valorem</i> (22% of retail price)	92p	93p
Ultra-low sulphur petrol (litre)	46p	47p
Ultra-low sulphur diesel (litre)	46p	47p
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: threshold	£60,000 p.a.	£60,000 p.a.
rate: up to £60,000	0%	0%
£60,000–£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	£60–£160 p.a.	
Standard rate	£160 p.a.	
Small-car rate (engines up to 1,549cc)	£105 p.a.	
Heavy goods vehicles (varies according to vehicle type and weight)	£160–£1,850 p.a.	
Landfill levy		
Standard rate	£13 per tonne	£14 per tonne
Low rate (inactive waste only)	£2 per tonne	£2 per tonne
Local taxes		
Average rate band D council tax: England	£976	
Income support / income-based jobseeker's allowance		
Single (aged 25 or over)	£53.95 p.w.	£54.65 p.w.
Couple (both aged 18 or over)	£84.65 p.w.	£85.75 p.w.
Family premium	£14.75 p.w.	£15.75 p.w.
Child allowance: aged under 16	£37.00 p.w.	£38.50 p.w.
aged 16–18	£37.80 p.w.	£38.50 p.w.
Minimum income guarantee for those aged 60 or over:		
single	£98.15 p.w.	£102.10 p.w.
couple	£149.80 p.w.	£155.80 p.w.
Pension credit taper (from October 2003)	n/a	40%
Winter fuel payment for those aged 60 or over	£200	£200

Continues

Continued

	2002–03 level	2003–04 level ^a
Child benefit		
First child	£15.75 p.w.	£16.05 p.w.
Other children	£10.55 p.w.	£10.75 p.w.
Basic state pension		
Single	£75.50 p.w.	£77.45 p.w.
Couple	£120.70 p.w.	£123.80 p.w.
Working families' tax credit		
Basic (adult) credit	£62.50 p.w.	} Replaced by child tax credit and working tax credit
30-hour credit	£11.65 p.w.	
Child credit: aged under 16	£26.45 p.w.	
aged 16–18	£27.20 p.w.	
Disabled child credit	£35.50 p.w.	
Applicable amount (i.e. threshold or earnings disregard)	£94.50 p.w.	
Childcare tax credit:		
maximum eligible cost for one child	£135.00 p.w.	
maximum eligible cost for two or more children	£200.00 p.w.	
proportion of eligible costs covered	70%	
Child tax credit		
Family element	n/a	£545 p.a.
Family element for first year of a child's life	n/a	£1,090 p.a.
Child element	n/a	£1,445 p.a.
Disabled child element	n/a	£2,155 p.a.
Working tax credit		
Basic element	n/a	£1,525 p.a.
Couples and lone-parent element	n/a	£1,500 p.a.
30-hour element	n/a	£620 p.a.
Disabled worker element	n/a	£2,040 p.a.
Childcare element:		
maximum eligible cost for one child	n/a	£135.00 p.w.
maximum eligible cost for two or more children	n/a	£200.00 p.w.
proportion of eligible costs covered	n/a	70%
Features common to child and working tax credits		
First income threshold	n/a	£5,060 p.a.
First income threshold if entitled to child tax credit only	n/a	£13,230 p.a.
First withdrawal rate	n/a	37%
Second income threshold	n/a	£50,000 p.a.
Second withdrawal rate	n/a	1 in 15
Maternity benefits		
Sure Start maternity grant	£500	£500
Statutory maternity pay: weeks 1–6	90% earnings	90% earnings
weeks 7–18	£75.00 p.w.	£100.00 p.w.
weeks 19–26	zero	£100.00 p.w.
Maternity allowance: weeks 1–18	£75.00 p.w.	£100.00 p.w.
weeks 19–26	zero	£100.00 p.w.

^a 2003–04 figures assume no discretionary changes apart from pre-announced measures and statutory indexation where appropriate.

^b Allowance is available at a flat rate of 10% and is tapered away from families that include a higher-rate taxpayer.

Sources: Various HM Treasury, Inland Revenue and HM Customs and Excise Press Releases, April 2002 and November 2002; HM Treasury, *Tax Ready Reckoner and Tax Reliefs*, London, 2002 (www.hm-treasury.gov.uk/media/DB8B5/adtrr02.pdf); www.inlandrevenue.gov.uk/rates; www.hmce.gov.uk/business/othertaxes/othertaxes.htm; www.dwp.gov.uk/lifeevent/benefits/index.htm; www.local.dtlr.gov.uk/finance/ctax/ctax023.htm; Tolley, *Tolley's Tax Data 2002–03*, London, 2002.

Appendix E: Tax revenues ready reckoner

Table E.1. Direct effects of illustrative changes in taxation to take effect April 2003

	Cost/yield (non-indexed base) 2003–04 (£m)
Income tax	
Rates	
Change starting rate by 1p ^a	560
Change basic rate by 1p ^b	3,250
Change higher rate by 1p	1,120
Change basic rate in Scotland by 1p	260
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%	190
Change basic-rate limit by 10%:	
increase (cost)	1,700
decrease (yield)	2,100
Allowances and limits	
Change all main allowances, starting- and basic-rate limits:	
increase/decrease by 1%	590
increase by 10% (cost)	5,600
decrease by 10% (yield)	6,300
National Insurance	
Rates	
Change Class 1 employee rate between entry threshold and upper earnings limit by 1 percentage point	3,150
Change Class 1 employee rate above upper earnings limit by 1 percentage point	655
Change Class 1 employer rate by 1 percentage point	3,950
Change Class 2 (self-employed) rate by £1 a week	130
Change Class 4 (self-employed) rate by 1 percentage point	290
Allowances	
Change employee entry threshold by £2 per week	245
Change employer entry threshold by £2 per week	290
Change upper earnings limit by £10 per week	125

^a Including savings income taxable at the starting rate, but excluding dividend income.

^b Covering savings income (but not the starting rate), and excluding dividends.

Continues

Continued

	Cost/yield (non-indexed base) 2003–04 (£m)
Corporation tax	
Change main rate by 1 percentage point	1,150
Change small companies' rate by 1 percentage point	240
Capital gains tax	
Increase annual exempt amount by £500 for individuals and £250 for trustees	10
Inheritance tax	
Change rate by 1 percentage point	75
Increase threshold by £5,000	65
Excise duties^c	
Beer up 0.3p a pint	35
Wine up 1.4p a bottle (75cl)	15
Spirits up 6.4p a bottle (70cl)	5
Cigarettes up 3.6p a packet (20 king-size)	65
Petrol up 0.5p a litre	120
Diesel (ultra-low sulphur) up 0.5p a litre	110
Change insurance premium tax (both standard and higher rates) by 1 percentage point	315
VAT	
Change both standard and reduced rates by 1 percentage point	3,840
VAT coverage	
	2002–03
Extend VAT to:	
food	9,350
construction of new homes	3,400
domestic and international (UK portion) passenger transport	1,750
books, newspapers and magazines	1,450
water and sewerage services	950
children's clothing	800
drugs and supplies on prescription	800

^c Figures are calculated given the price and tax charged on a typical item. All changes are assumed to be implemented in April 2003.

Note: The revenue effect is computed for changes to the 2003–04 tax system and relates to the full-year effect, except for changes to the coverage of VAT which refer to 2002–03

Source: HM Treasury, *Tax Ready Reckoner and Tax Reliefs*, London, November 2002 (www.hm-treasury.gov.uk/mediastore/otherfiles/adtrr02.pdf).