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 Report 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 Report and the £1.6 billion surplus forecast in the January 2002 IFS Green Budget. Table A.1 shows both forecasts alongside the estimated out-turn for 2001–02 from the November 2002 Pre-Budget Report.

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.

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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)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current receipts</td>
<td>391.2</td>
<td>391.4</td>
</tr>
<tr>
<td>Total managed expenditure</td>
<td>393.7</td>
<td>391.1</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Departmental expenditure limits</td>
<td>212.5</td>
<td>210.0</td>
</tr>
<tr>
<td>Annually managed expenditure</td>
<td>181.1</td>
<td>181.1</td>
</tr>
<tr>
<td>PSNB(^a)</td>
<td>1.4</td>
<td>–1.6</td>
</tr>
</tbody>
</table>

\(^a\) 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)

<table>
<thead>
<tr>
<th>Pre-Budget Report forecast, November 2001</th>
<th>IFS Green Budget forecast, January 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax(^a)</td>
<td>–6.0</td>
</tr>
<tr>
<td>Corporation tax</td>
<td>0.9</td>
</tr>
<tr>
<td>Value added tax</td>
<td>0.3</td>
</tr>
<tr>
<td>Fuel duties</td>
<td>0.3</td>
</tr>
<tr>
<td>Social security contributions</td>
<td>1.1</td>
</tr>
<tr>
<td>Council tax</td>
<td>–0.5</td>
</tr>
<tr>
<td>Other taxes and receipts</td>
<td>4.4</td>
</tr>
<tr>
<td>Total</td>
<td>0.5</td>
</tr>
</tbody>
</table>

\(^a\) Net of tax credits.


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.\(^5\)

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:

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

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:

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

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

### 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.

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

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

<sup>a</sup> National accounts measure: gross of enhanced and payable tax credits.  
<sup>b</sup> Includes enhanced and payable company tax credits.  
<sup>c</sup> Includes district council rates in Northern Ireland.  
<sup>d</sup> Includes money paid into the National Lottery Distribution Fund.  
<sup>e</sup> Includes VAT and ‘traditional own resources’ contributions to EC budget. Cash basis.  
<sup>f</sup> Excludes children’s tax credit and other tax credits that score as a tax repayment in the National Accounts.  
<sup>g</sup> Includes expenditure associated with the windfall tax.  
<sup>h</sup> Net of tax credits.  
<sup>i</sup> Includes capital gains tax.  
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
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)**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product (GDP)</td>
<td>2</td>
<td>2¾</td>
<td>3</td>
<td>2¼</td>
<td>2½</td>
<td>2¾</td>
</tr>
<tr>
<td>Real consumers’ expenditure</td>
<td>3½</td>
<td>2½</td>
<td>2¼</td>
<td>2¼</td>
<td>2¼</td>
<td>2¼</td>
</tr>
<tr>
<td>Employment</td>
<td>0</td>
<td>¼</td>
<td>¼</td>
<td>¼</td>
<td>¼</td>
<td>¼</td>
</tr>
<tr>
<td>Real wages</td>
<td>2</td>
<td>2½</td>
<td>2¼</td>
<td>2½</td>
<td>2¼</td>
<td>2½</td>
</tr>
<tr>
<td>GDP deflator</td>
<td>2½</td>
<td>2¾</td>
<td>2½</td>
<td>2½</td>
<td>2½</td>
<td>2½</td>
</tr>
</tbody>
</table>


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. 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.

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. Those considered in this analysis are listed below. All are effective from April 2003, except the pension credit.

---

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.


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:

---

\(^5\) 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.


\(^11\) 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

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

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)

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

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

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

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)

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

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

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

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)

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

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

<table>
<thead>
<tr>
<th>Family Type</th>
<th>Number of families (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single, not working</td>
<td>3.3</td>
</tr>
<tr>
<td>Single, employed</td>
<td>7.1</td>
</tr>
<tr>
<td>Single-parent family (working or not working)</td>
<td>1.8</td>
</tr>
<tr>
<td>0-earner couple w/o kids</td>
<td>0.9</td>
</tr>
<tr>
<td>0-earner couple with kids</td>
<td>0.4</td>
</tr>
<tr>
<td>1-earner couple w/o kids</td>
<td>1.6</td>
</tr>
<tr>
<td>1-earner couple with kids</td>
<td>1.6</td>
</tr>
<tr>
<td>2-earner couple w/o kids</td>
<td>3.5</td>
</tr>
<tr>
<td>2-earner couple with kids</td>
<td>3.2</td>
</tr>
<tr>
<td>Single pensioner</td>
<td>4.2</td>
</tr>
<tr>
<td>Couple pensioner</td>
<td>2.7</td>
</tr>
<tr>
<td>Total</td>
<td>30.2</td>
</tr>
</tbody>
</table>

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.
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.
Appendix C

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%.
Capital taxes: Announcement of the introduction of tax relief for profit-related pay (PRP) schemes in 1987.
Capital taxes: Tax relief for Personal Equity Plans (PEPs) introduced.

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.
Capital taxes: Number of inheritance tax rates cut from seven to four.
Capital taxes: New arrangements to encourage personal pensions.

1988 Budget, Nigel Lawson
Income tax: Personal allowances increased in real terms.
Income tax: Basic rate reduced from 27% to 25%.
Income tax: All rates above 40% abolished.
Income tax: Announcement of separate taxation of husband and wife from 1990.
Income tax: Company car scale charges doubled.
Capital taxes: Capital gains accruing before 1982 written off for capital gains tax purposes.
Capital taxes: Capital gains tax rates changed to equal marginal income tax rates.
Capital taxes: Inheritance tax threshold increased from £90,000 to £110,000.
Capital taxes: Inheritance tax rates reduced to a single rate of 40%.

1989 Budget, Nigel Lawson
Income tax: Limit for higher age relief reduced to 75.
Income tax: Age allowance taper reduced to 50%.
Income tax: Pensioner ‘earnings rule’ abolished.
National Insurance: Employee 5% and 7% bands abolished.
National Insurance: 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.
Income tax: Employer-provided work-place nurseries exempted from tax.
Income tax: Introduction of Tax-Exempt Special Savings Accounts (TESSAs).
National Insurance: 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.
Income tax: Mortgage interest relief restricted to the basic rate of tax.
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.  
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.
Appendix C

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%.

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%.

Local taxes  Capital allowances cut for long-lived assets.

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.

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.
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.

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**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.

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**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.

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**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

<table>
<thead>
<tr>
<th></th>
<th>2002–03 level</th>
<th>2003–04 level</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income tax</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal allowance:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>under age 65</td>
<td>£4,615 p.a.</td>
<td>£4,615 p.a.</td>
</tr>
<tr>
<td>aged 65–74</td>
<td>£6,100 p.a.</td>
<td>£6,610 p.a.</td>
</tr>
<tr>
<td>aged 75 and over</td>
<td>£6,370 p.a.</td>
<td>£6,720 p.a.</td>
</tr>
<tr>
<td>Married couple’s allowance, restricted to 10%:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>aged 65 or over on 6 April 2000</td>
<td>£5,465 p.a.</td>
<td>£5,565 p.a.</td>
</tr>
<tr>
<td>aged 75 or over</td>
<td>£5,535 p.a.</td>
<td>£5,635 p.a.</td>
</tr>
<tr>
<td>Lower rate</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Basic rate</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>Higher rate</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>Lower-rate limit</td>
<td>£1,920 p.a.</td>
<td>£1,960 p.a.</td>
</tr>
<tr>
<td>Basic-rate limit</td>
<td>£29,900 p.a.</td>
<td>£30,500 p.a.</td>
</tr>
<tr>
<td>Pension earnings cap</td>
<td>£97,200 p.a.</td>
<td>£98,900 p.a.</td>
</tr>
<tr>
<td>Tax rates on interest income</td>
<td>10%, 20%, 40%</td>
<td>10%, 20%, 40%</td>
</tr>
<tr>
<td>Tax rates on dividend income</td>
<td>10%, 32.5%</td>
<td>10%, 32.5%</td>
</tr>
<tr>
<td>Children’s tax credit</td>
<td>£5,290 p.a.</td>
<td>Replaced by</td>
</tr>
<tr>
<td>Children’s tax credit for first year of a child’s life</td>
<td>£10,490 p.a.</td>
<td>child tax credit</td>
</tr>
</tbody>
</table>

| **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%           |
| Class 1 contracted-out rate: employee – below UEL (salary-related schemes) | 8.4% | 9.4% |
| – below UEL               | 11.8%         | 12.8%        |
| – above UEL               | 11.8%         | 12.8%        |
| Class 1 contracted-out rate: 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%            |
Continued

<table>
<thead>
<tr>
<th>Excise duties</th>
<th>2002–03 level</th>
<th>2003–04 level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer (pint)</td>
<td>26p</td>
<td>27p</td>
</tr>
<tr>
<td>Wine (75cl bottle)</td>
<td>116p</td>
<td>119p</td>
</tr>
<tr>
<td>Spirits (70cl bottle)</td>
<td>548p</td>
<td>561p</td>
</tr>
<tr>
<td>20 cigarettes: specific duty</td>
<td>188p</td>
<td>194p</td>
</tr>
<tr>
<td>[ad valorem (22% of retail price)]</td>
<td>92p</td>
<td>93p</td>
</tr>
<tr>
<td>Ultra-low sulphur petrol (litre)</td>
<td>46p</td>
<td>47p</td>
</tr>
<tr>
<td>Ultra-low sulphur diesel (litre)</td>
<td>46p</td>
<td>47p</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Air passenger duty</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Destinations within the EU: economy</td>
<td>£5</td>
</tr>
<tr>
<td>club/first class</td>
<td>£10</td>
</tr>
<tr>
<td>Destinations outside the EU: economy</td>
<td>£20</td>
</tr>
<tr>
<td>club/first class</td>
<td>£40</td>
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<table>
<thead>
<tr>
<th>Betting and gaming duty</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profits tax</td>
<td>15%</td>
</tr>
<tr>
<td>Spread betting rate: financial bets</td>
<td>3%</td>
</tr>
<tr>
<td>other bets</td>
<td>10%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Insurance premium tax</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard rate</td>
<td>5%</td>
</tr>
<tr>
<td>Higher rate (for insurance sold accompanying certain goods and services)</td>
<td>17.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stamp duty</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and buildings: threshold</td>
<td>£60,000 p.a.</td>
</tr>
<tr>
<td>rate: up to £60,000</td>
<td>0%</td>
</tr>
<tr>
<td>£60,000–£250,000</td>
<td>1%</td>
</tr>
<tr>
<td>£250,000–£500,000</td>
<td>3%</td>
</tr>
<tr>
<td>above £500,000</td>
<td>4%</td>
</tr>
<tr>
<td>Stocks and shares: rate</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Vehicle excise duty</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Graduated system for new cars from 1 March 2001</td>
<td>£60–£160 p.a.</td>
</tr>
<tr>
<td>Standard rate</td>
<td>£160 p.a.</td>
</tr>
<tr>
<td>Small-car rate (engines up to 1,549cc)</td>
<td>£105 p.a.</td>
</tr>
<tr>
<td>Heavy goods vehicles (varies according to vehicle type and weight)</td>
<td>£160–£1,850 p.a.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Landfill levy</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Standard rate</td>
<td>£13 per tonne</td>
</tr>
<tr>
<td>Low rate (inactive waste only)</td>
<td>£2 per tonne</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Local taxes</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average rate band D council tax: England</td>
<td>£976</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income support / income-based jobseeker’s allowance</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Single (aged 25 or over)</td>
<td>£53.95 p.w.</td>
</tr>
<tr>
<td>Couple (both aged 18 or over)</td>
<td>£84.65 p.w.</td>
</tr>
<tr>
<td>Family premium</td>
<td>£14.75 p.w.</td>
</tr>
<tr>
<td>Child allowance: aged under 16</td>
<td>£37.00 p.w.</td>
</tr>
<tr>
<td>aged 16–18</td>
<td>£37.80 p.w.</td>
</tr>
<tr>
<td>Minimum income guarantee for those aged 60 or over:</td>
<td></td>
</tr>
<tr>
<td>single</td>
<td>£98.15 p.w.</td>
</tr>
<tr>
<td>couple</td>
<td>£149.80 p.w.</td>
</tr>
<tr>
<td>Pension credit taper (from October 2003)</td>
<td>n/a</td>
</tr>
<tr>
<td>Winter fuel payment for those aged 60 or over</td>
<td>£200</td>
</tr>
</tbody>
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Continues
### Child benefit

<table>
<thead>
<tr>
<th></th>
<th>2002–03 level</th>
<th>2003–04 level</th>
</tr>
</thead>
<tbody>
<tr>
<td>First child</td>
<td>£15.75 p.w.</td>
<td>£16.05 p.w.</td>
</tr>
<tr>
<td>Other children</td>
<td>£10.55 p.w.</td>
<td>£10.75 p.w.</td>
</tr>
</tbody>
</table>

### Basic state pension

<table>
<thead>
<tr>
<th></th>
<th>2002–03 level</th>
<th>2003–04 level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>£75.50 p.w.</td>
<td>£77.45 p.w.</td>
</tr>
<tr>
<td>Couple</td>
<td>£120.70 p.w.</td>
<td>£123.80 p.w.</td>
</tr>
</tbody>
</table>

### Working families’ tax credit

| Basic (adult) credit | £62.50 p.w. |  |
| 30-hour credit      | £11.65 p.w. |  |
| Child credit: aged under 16 | £26.45 p.w. |  |
|                      | £27.20 p.w. | Replaced by child tax credit |
| Disabled child credit| £35.50 p.w. |  |
| Applicable amount (i.e. threshold or earnings disregard) | £94.50 p.w. | and working tax credit |
| Childcare tax credit: maximum eligible cost for one child | £135.00 p.w. |  |
|                     | £200.00 p.w. |  |
|                     | 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: first 6 weeks | 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. |

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

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

Appendix E: Tax revenues ready reckoner

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

<table>
<thead>
<tr>
<th>Cost/yield (non-indexed base) 2003–04 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income tax</strong></td>
</tr>
<tr>
<td><strong>Rates</strong></td>
</tr>
<tr>
<td>Change starting rate by 1p(^a)</td>
</tr>
<tr>
<td>Change basic rate by 1p(^b)</td>
</tr>
<tr>
<td>Change higher rate by 1p</td>
</tr>
<tr>
<td>Change basic rate in Scotland by 1p</td>
</tr>
<tr>
<td><strong>Allowances</strong></td>
</tr>
<tr>
<td>Change personal allowance by £100</td>
</tr>
<tr>
<td><strong>Starting-rate limit</strong></td>
</tr>
<tr>
<td>Change starting-rate limit by £100</td>
</tr>
<tr>
<td><strong>Basic-rate limit</strong></td>
</tr>
<tr>
<td>Change basic-rate limit by 1%</td>
</tr>
<tr>
<td>Change basic-rate limit by 10%:</td>
</tr>
<tr>
<td>increase (cost)</td>
</tr>
<tr>
<td>decrease (yield)</td>
</tr>
<tr>
<td><strong>Allowances and limits</strong></td>
</tr>
<tr>
<td>Change all main allowances, starting- and basic-rate limits:</td>
</tr>
<tr>
<td>increase/decrease by 1%</td>
</tr>
<tr>
<td>increase by 10% (cost)</td>
</tr>
<tr>
<td>decrease by 10% (yield)</td>
</tr>
<tr>
<td><strong>National Insurance</strong></td>
</tr>
<tr>
<td><strong>Rates</strong></td>
</tr>
<tr>
<td>Change Class 1 employee rate between entry threshold and upper earnings limit by 1 percentage point</td>
</tr>
<tr>
<td>Change Class 1 employee rate above upper earnings limit by 1 percentage point</td>
</tr>
<tr>
<td>Change Class 1 employer rate by 1 percentage point</td>
</tr>
<tr>
<td>Change Class 2 (self-employed) rate by £1 a week</td>
</tr>
<tr>
<td>Change Class 4 (self-employed) rate by 1 percentage point</td>
</tr>
<tr>
<td><strong>Allowances</strong></td>
</tr>
<tr>
<td>Change employee entry threshold by £2 per week</td>
</tr>
<tr>
<td>Change employer entry threshold by £2 per week</td>
</tr>
<tr>
<td>Change upper earnings limit by £10 per week</td>
</tr>
</tbody>
</table>

\(^a\) 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
### 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
- 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
- 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

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*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.
