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 2002–03 in last year's Green Budget and the November 2002 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 December 2003 Pre-Budget Report[1] gave an out-turn figure of £22.5 billion for public sector net borrowing in 2002–03. This was closer to the £22.1 billion deficit forecast in the January 2003 IFS Green Budget than to the £20.1 billion deficit expected by the Treasury in the November 2002 Pre-Budget Report.[2] Table A.1 shows both forecasts alongside the out-turn from the December 2003 Pre-Budget Report.

Table A.1. A comparison of last year's IFS Green Budget forecast and the Treasury's November 2002 Pre-Budget Report forecast with the estimated out-turn for 2002–03 from the December 2003 Pre-Budget Report (£ billion)

	HM Treasury Pre-Budget Report forecast, November 2002	IFS Green Budget forecast, January 2003	Estimate, Pre-Budget Report, December 2003
Current receipts	399.7	396.6	396.5
Total managed expenditure	419.8	418.7	419.1
Of which:			
Departmental expenditure limits	241.3	240.3	241.6
Annually managed expenditure	178.5	178.4	177.5
PSNB	20.1	22.1	22.5

Both the Treasury and IFS forecast higher current receipts than were realised. The Treasury's forecast was within 1% of the final out-turn and the IFS forecast was within one tenth of 1%, so both were reasonably accurate.

Table A.2 shows the breakdown of both the Treasury's and IFS's main errors in forecasting tax receipts for 2002–03. Both sets of predictions overestimated total receipts, although the IFS Green Budget forecast did so by a smaller margin. Receipts from all of the major taxes except corporation tax and council tax were overestimated. The largest absolute error for the Pre-Budget

[1] HM Treasury, *Pre-Budget Report 2003*, Cm. 6042, London, 2003 (www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr03/prebud_pbr03_index.cfm).

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

Report's forecast was in income tax: the November 2002 Pre-Budget Report overestimated income tax receipts by £1.5 billion. The Green Budget forecast's single largest deviation was its £0.7 billion underestimate of corporation tax revenue.

Table A.2. IFS Green Budget and Treasury main errors in forecasting tax receipts, 2002–03 (£ billion)

	Pre-Budget Report forecast, November 2002	IFS Green Budget forecast, January 2003
Income tax[a]	1.5	0.5
Corporation tax[a]	–0.3	–0.7
Value added tax	1.0	0.2
Fuel duties	0.3	0.3
Social security contributions	0.8	0.3
Council tax	–0.1	–0.1
Other taxes and receipts	–0.1	–0.4
Total	*3.2*	*0.1*

[a] Gross of enhanced and payable tax credits.
Sources: Out-turn figures for 2002–03 from HM Treasury, *Pre-Budget Report 2003*, Cm. 6042, London, 2003. Forecasts from HM Treasury, *Pre-Budget Report 2002*, Cm. 5664, London, 2002 and table 3.2, p. 33, of R. Chote, C. Emmerson and H. Simpson (eds), *The IFS Green Budget: January 2003*, Commentary no. 92, Institute for Fiscal Studies, London, 2003 (www.ifs.org.uk/gbfiles/gb2003.shtml).

A.2 Techniques used in our forecasts

For the current financial year, three different sources of information are examined before coming to a judgement for each element of government revenue. In addition to the latest Treasury forecast from the December 2003 Pre-Budget Report, we use information from the revenues implied by a current receipts method, and the IFS modelled approach.[3]

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

$$\textit{2003–04 forecast} = \frac{\textit{Receipts received so far this year}}{\textit{Receipts received to the same point last year}} \times \textit{2002–03 receipts.}$$

   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.

[3] 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.

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:

   2003–04 forecast = (*2002–03 receipts* × *Tax-base change* × *Elasticity*) + *Tax changes*.

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

   The elasticities are largely estimated from TAXBEN, the IFS tax and benefit model. The estimates for income tax elasticities are supplemented by a model of the responsiveness of income tax revenues to changes in employment and wages. For fuel, an elasticity calculated from previous IFS research is used.[4] Elasticities for beer, spirit, wine and tobacco duties are taken from the median elasticity found in a range of UK studies.[5]

A.3 Forecasts for 2003–04

The Green Budget forecast is a judgement based on the Treasury's latest forecast contained in the December 2003 Pre-Budget Report, the current receipts method and the IFS modelled approach. Each of these is presented in Table A.3. Overall, we expect slightly higher receipts than the Treasury, leading to lower borrowing and a smaller deficit on current budget.

Inland Revenue receipts

For **income tax** (gross of tax credits), we forecast receipts of £118.7 billion, which is marginally lower than the PBR forecast of £118.8 billion. Our estimate is broadly consistent with the current receipts projection for net income tax and capital gains tax of £115.5 billion. The IFS modelled forecast is too optimistic because, as stated in the PBR,[6] the average tax rate on income tax has fallen so far this year, due to factors such as low levels of bonuses (which are generally received by higher-rate taxpayers). The IFS model does not allow for such a compositional change.

Our forecast for **corporation tax** (gross of tax credits) is £29.5 billion. This is almost the same as the Treasury forecast of £29.4 billion. The current receipts

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[4] L. Blow and I. Crawford, *The Distributional Effects of Taxes on Private Motoring*, Commentary no. 65, Institute for Fiscal Studies, London, 1997.

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

[6] Source: Paragraph B51, page 219 of HM Treasury, *Pre-Budget Report*, Cm. 6042, London, December 2003.

Table A.3. Forecasts for government borrowing in 2003–04 (£ billion)

	Pre-Budget Report Dec. 2003	*Current receipts method*	*IFS forecasting model*	*IFS forecast judgement*
Inland Revenue				
Income tax (gross of tax credits)	118.8	115.5[h,i]	120.9	118.7
Corporation tax (CT)[a]	29.4	28.4[h]	30.2	29.5
Tax credits[b]	–4.6	n/a	–4.6	–4.6
Petroleum revenue tax	1.4	1.3	1.0	1.4
Capital gains tax	1.0	n/a	1.7	1.0
Inheritance tax	2.5	2.4	2.6	2.5
Stamp duties	7.5	7.0	8.1	7.5
Social security contributions	72.6	71.1	74.1	73.0
Total Inland Revenue (net of tax credits)	**228.6**	**225.7**	**234.0**	**229.0**
Customs and Excise				
Value added tax (VAT)	69.0	69.1	67.5	69.0
Fuel duties	22.9	22.5	22.9	22.9
Tobacco duties	8.0	8.0	8.4	8.0
Spirit duties	2.4	2.4	2.4	2.4
Wine duties	1.9	1.9	2.0	1.9
Beer and cider duties	3.2	3.3	3.2	3.2
Betting and gaming duties	1.3	1.3	1.4	1.3
Air passenger duty	0.8	0.7	0.7	0.8
Insurance premium tax	2.3	2.3	2.2	2.3
Landfill tax	0.6	0.6	0.6	0.6
Climate change levy	0.8	0.8	0.8	0.8
Aggregates levy	0.3	0.3	0.2	0.3
Customs duties and levies	1.9	1.9	2.0	1.9
Total Customs and Excise	**115.5**	**115.1**	**114.4**	**115.5**
Vehicle excise duties	4.9	4.8	4.9	4.9
Business rates[c]	18.7	18.7	18.7	18.7
Council tax[d]	18.4	18.4	18.4	18.4
Other taxes and royalties[e]	12.5	12.5	12.5	12.5
Total net taxes and social sec. contribns[f]	**398.6**	**395.3**	**403.0**	**399.0**
Accruals adjustments on taxes	2.8	2.8	2.8	2.8
Less Own resources contribution to EU	–4.5	–4.5	–4.5	–4.5
Less Public corporations' CT payments	–0.1	–0.1	–0.1	–0.1
Tax credits adjustment[g]	0.5	0.5	0.5	0.5
Interest and dividends	4.1	4.1	4.1	4.1
Other receipts	21.4	21.4	21.4	21.4
Current receipts	**422.8**	**419.5**	**427.2**	**423.2**
Current spending	**442.1**	**442.1**	**441.9**	**441.9**
Current balance	**–19.3**	**–22.6**	**–14.7**	**–18.7**
Net investment	18.0	18.0	18.0	18.0
Public sector net borrowing	**37.4**	**40.6**	**32.7**	**36.7**

[a] Gross of enhanced and payable tax credits. [b] Includes enhanced company tax credits that offset tax liability. [c] Includes district council rates in Northern Ireland paid by business. [d] Net of council tax benefit. [e] Includes VAT refunds and money paid into the National Lottery Distribution Fund. [f] Includes VAT and 'traditional own resources' contributions to EC budget. [g] Tax credits which are scored as negative tax in the calculation of NTSSC but expenditure in the national accounts. [h] Net of tax credits. [i] Includes capital gains tax.

Sources: Treasury forecasts from HM Treasury, *Pre-Budget Report 2003*, Cm. 6042, London, 2003 (this table is similar to table B9 on page 217); information on current receipts from ONS / HM Treasury, 'Public Sector Finances: December 2003', Press Release, 21 January 2004 (www.statistics.gov.uk/pdfdir/psf0104.pdf); IFS calculations.

forecast suggests that net receipts will be just £28.4 billion. We are discounting this forecast as too pessimistic because it uses a rate of growth based on the difference between receipts from the first nine months of 2002–03 and receipts from the first nine months of 2003–04. The former are unusually high due to the effects of the transition from the old to the new corporation tax payment system, so the rate of growth has been lower than would otherwise have been the case. This has depressed the rate of projected growth over the next three months, which makes the forecast for 2003–04 too low. By contrast, the IFS modelled forecast suggests a more optimistic £30.2 billion, which we judge to be too high because it assumes that corporation tax as a share of national income will gradually recover to its long-run average without allowing for the recent muted growth in corporate profits.

Our forecast for **stamp duties** matches the Treasury's, with expected receipts of £7.5 billion this year. This is slightly higher than the current receipts forecast and lower than the IFS modelled forecast, which are for £7.0 billion and £8.1 billion of receipts respectively. The current receipts forecast reflects the fact that land and property transactions have been lower to date than in previous years but does not fully take account of the recent growth in both equity and house prices (assuming that these persist for the remaining months of the year).

We forecast £73.0 billion for **social security contributions**. This is £0.4 billion above the Treasury's forecast of £72.6 billion. Although our forecast is below the IFS forecasting model's figure of £74.1 billion, it is above the current receipts forecast of £71.1 billion. This is because problems with the timing of social security payments suggest that the latter probably understates the amount that the Treasury will ultimately receive in social security payments.

Customs and Excise taxes

We forecast **VAT** receipts of £69.0 billion, which is the same as the Treasury's forecast. This is basically in line with the current receipts forecast of £69.1 billion. The IFS modelled forecast of £67.5 billion fails to take into account the fact that VAT receipts so far have grown faster than consumer spending.

We forecast that **fuel duties** will yield £22.9 billion, which is the same as both the Treasury's forecast and that predicted by the IFS model.

Other government receipts

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

Government expenditure

We forecast **current spending** to equal £441.9 billion, which is £0.2 billion lower than the Treasury's forecast. This is because we assume that the £0.3 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 £2.5 billion, which has been allocated to finance the Ministry of Defence's commitments in Iraq, is spent in 2003–04. While some or all of this might be carried forward into 2004–05, 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 the same amount of spending on **public sector net investment** in 2003–04 as the Treasury is predicting. The growth in public sector net investment seen so far this year is currently slightly above that forecast by the Treasury for the year as a whole.

Government borrowing

As a result of forecasting higher government revenues and lower current expenditure, we forecast a **deficit on current budget** of £18.7 billion for 2003–04. This is some £0.6 billion more favourable than the £19.3 billion deficit forecast by the Treasury.

We forecast that **public sector net borrowing** will be £36.7 billion, which is £0.7 billion less than the £37.4 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 2¼% in 2003–04, 3¼% 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)

	2003–04	**2004–05**	**2005–06**	**2006–07**	**2007–08**
Gross domestic product (GDP)	2¼	3¼	2¾	2½	2¼
Real consumers’ expenditure	2½	2¼	2¼	2¼	2¼
Employment	0.2	0.2	0.2	0.2	0.2
Real wages	1	1½	2	2	2
GDP deflator	2¾	2½	2½	2¾	2¾

Sources: GDP forecasts and GDP deflator – table B3 of HM Treasury, *Pre-Budget Report*, Cm 6042, HM Treasury, December 2003. Consumers’ expenditure – based on table A8 of HM Treasury, *Pre-Budget Report 2003*, until 2005–06 and follows GDP growth thereafter. Employment growth – IFS estimates consistent with table A3 of HM Treasury, *Pre-Budget Report 2003*. Real wages growth – IFS estimates based on median of independent forecasts for 2003–04 and 2004–05, and on HM Treasury cautious estimate of long-run productivity growth thereafter.

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. A forecast of growth in corporate profits is required too. 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: Budgets since 1979

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

1979 Budget, Geoffrey Howe

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

1980 Budget, Geoffrey Howe

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

1981 Budget, Geoffrey Howe

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

1982 Budget, Geoffrey Howe

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

1983 Budget, Geoffrey Howe

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

1984 Budget, Nigel Lawson

Income tax	Personal allowances increased in real terms.
	Investment income surcharge abolished.
	Relief on life assurance premiums abolished for new policies.
National Insurance	Employer National Insurance surcharge abolished.
Excise duties	Duty on wine cut sharply; increases on beer and cigarettes.
Capital taxes	Stamp duty threshold on property increased from £25,000 to £30,000.
	Highest rate of stamp duty reduced from 2% to 1%.
	Top rate of capital transfer tax cut from 75% to 60%.
Company taxes	Corporation tax rate to be reduced from 52% in 1982–83 to 50% in 1983–84, 45% in 1984–85, 40% in 1985–86 and 35% in 1986–87.
	Stock relief abolished.
	First-year allowances to be phased out and replaced by 25% writing-down allowances.

1985 Budget, Nigel Lawson

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

1986 Budget, Nigel Lawson

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

1987 Budget, Nigel Lawson

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

1988 Budget, Nigel Lawson

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

1989 Budget, Nigel Lawson

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

1990 Budget, John Major

Income tax	Basic-rate limit frozen.
	Employer-provided work-place nurseries exempted from tax.
	Introduction of Tax-Exempt Special Savings Accounts (TESSAs).
	Abolition of composite rate of tax announced.
Capital taxes	Plans for abolition of stamp duty on shares announced.
Company taxes	Corporation tax rate cut from 35% to 34%.

1991 Budget, Norman Lamont

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

Local taxes	Community charge bills subsidised by £140 per adult.

1992 Budget, Norman Lamont

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

1993 Spring Budget, Norman Lamont

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

1993 Autumn Budget, Kenneth Clarke

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

1994 Budget, Kenneth Clarke

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

1995 Budget, Kenneth Clarke

Income tax	Basic rate of income tax reduced from 25% to 24%. Personal allowances increased above inflation from April 1996. Lower-rate band and basic-rate limit increased by more than indexation. Tax on savings income cut from 25% to 20% for basic-rate taxpayers.

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

1996 Budget, Kenneth Clarke

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

1997 Summer Budget, Gordon Brown

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

1998 Spring Budget, Gordon Brown

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

1999 Budget, Gordon Brown

Income tax	Basic rate cut from 23% to 22% from April 2000.
	New 10% starting rate from April 1999; 20% rate abolished.
	Married couple's allowance abolished from 2000 for under-65s.
	Children's tax credit announced from April 2001.
	Mortgage interest relief abolished from April 2000.
	High mileage discounts for company cars reduced.

National Insurance	Starting point for payment of employee National Insurance contributions aligned with income tax by April 2001. Upper earnings limit raised above inflation in both April 2000 and April 2001. Self-employed structure reformed from April 2000. Employer contributions on all benefits in kind. Employer rate cut by 0.5 of a percentage point from April 2001.
Capital taxes	Stamp duty raised to 2.5% on properties between £250,000 and £500,000, 3.5% on properties over £500,000.
Company taxes	New 10% corporation tax rate for companies with low profits introduced from April 2000. Climate change levy from 2001–02.

2000 Budget, Gordon Brown

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

2001 Budget, Gordon Brown

Income tax	Working families' tax credit and child premiums in children's tax credit increased. Overindexation of starting-rate band. ISA limit extended to £7,000 p.a. until April 2006.
Excise duties	Duties for ultra-low sulphur petrol cut by 2p and for ultra-low sulphur diesel cut by 3p. Tobacco duties increased with inflation; alcohol duties frozen.
Company taxes	Abolition of withholding tax on intra-UK corporate interest.

2002 Budget, Gordon Brown

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

2003 Budget, Gordon Brown

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

Appendix C: Headline tax and benefit rates and thresholds

	2003–04 level	2004–05 level[a]
Income tax		
Personal allowance: under age 65	£4,615 p.a.	£4,745 p.a.
aged 65–74	£6,610 p.a.	£6,830 p.a.
aged 75 and over	£6,720 p.a.	£6,950 p.a.
Married couple's allowance, restricted to 10% flat rate:		
aged 65 or over on 6 April 2000	£5,565 p.a.	£5,725 p.a.
aged 75 or over	£5,635 p.a.	£5,795 p.a.
Lower rate	10%	10%
Basic rate	22%	22%
Higher rate	40%	40%
Lower-rate limit	£1,960 p.a.	£2,020 p.a.
Basic-rate limit	£30,500 p.a.	£31,400 p.a.
Pension earnings cap	£99,000 p.a.	£102,000 p.a
Tax rates on interest income	10%, 20%, 40%	10%, 20%, 40%
Tax rates on dividend income	10%, 32.5%[b]	10%, 32.5%[b]
National Insurance		
Lower earnings limit (LEL)	£77 p.w.	£79 p.w.
Upper earnings limit (UEL)	£595 p.w.	£610 p.w.
Earnings threshold (employee and employer)	£89 p.w.	£91 p.w.
Class 1 contracted-in rate: employee – below UEL	11%	11%
– above UEL	1%	1%
employer – below UEL	12.8%	12.8%
– above UEL	12.8%	12.8%
Class 1 contracted-out rate: employee – below UEL	9.4%	9.4%
(salary-related schemes) – above UEL	1%	1%
employer – below UEL	9.3%	9.3%
– above UEL	12.8%	12.8%
Corporation tax		
Rates: lower rate	zero	zero
small companies' rate	19%	19%
standard rate	30%	30%
Capital gains tax		
Annual exemption limit: individuals	£7,900 p.a.	£8,200 p.a.
trusts	£3,950 p.a.	£4,100 p.a.
Non-business assets: higher-rate taxpayers	24%–40%	24%–40%
basic-rate taxpayers	12%–20%	12%–20%
Business assets: higher-rate taxpayers	10%–40%	10%–40%
basic-rate taxpayers	5%–20%	5%–20%
Inheritance tax		
Threshold	£255,000	£263,000
Rate for transfer at or near death	40%	40%
Value added tax		
Standard rate	17.5%	17.5%
Reduced rate	5%	5%

Continues

Continued

	2003–04 level	2004–05 level[a]
Excise duties		
Beer (pint)	27p	28p
Wine (75cl bottle)	119p	123p
Spirits (70cl bottle)	548p	567p
20 cigarettes: specific duty	194p	201p
ad valorem (22% of retail price)	94p	97p
Ultra-low-sulphur petrol (litre)	47p	49p
Ultra-low-sulphur diesel (litre)	47p	49p
Air passenger duty		
Destinations within the EU: economy	£5	£5
club/first class	£10	£10
Destinations outside the EU: economy	£20	£20
club/first class	£40	£40
Betting and gaming duty		
Gross profits tax	15%	15%
Spread betting rate: financial bets	3%	3%
other bets	10%	10%
Insurance premium tax		
Standard rate	5%	5%
Higher rate (for insurance sold accompanying certain goods and services)	17.5%	17.5%
Stamp duty		
Land and buildings:		
standard residential threshold	£60,000 p.a.	£60,000 p.a.
non-residential or disadvantaged area threshold[c]	£150,000 p.a.	£150,000 p.a.
rate: up to threshold	0%	0%
threshold–£250,000	1%	1%
£250,000–£500,000	3%	3%
above £500,000	4%	4%
Stocks and shares: rate	0.5%	0.5%
Vehicle excise duty		
Graduated system (for new cars from 1 March 2001)	£65–£160 p.a.	£65–£160 p.a.
Standard rate	£165 p.a.	£165 p.a.
Small-car rate (engines up to 1,549cc)	£110 p.a.	£110 p.a.
Heavy goods vehicles (varies according to vehicle type and weight)	£160–£1,850 p.a.	£160–£1,850 p.a.
Landfill levy		
Standard rate	£14 per tonne	£15 per tonne
Low rate (inactive waste only)	£2 per tonne	£2 per tonne
Business rates		
Rate applicable in: England	44.4%	44.4%
Scotland	47.8%	47.8%
Wales	44.0%	44.0%
Local taxes		
Average rate band D council tax: England	£1,102	

Continues

Continued

	2003–04 level	2004–05 level[a]
Income support / income-based jobseeker's allowance		
Single (aged 25 or over)	£54.65 p.w.	£55.65 p.w.
Couple (both aged 18 or over)	£85.75 p.w.	£87.30 p.w.
Basic state pension		
Single	£77.45 p.w.	£79.60 p.w.
Couple	£123.80 p.w.	£127.25 p.w.
Winter fuel payment for those aged 60 or over	£200	£200
Additional payment for those aged 80 or over	£100	£100
Pension credit		
Guarantee credit for those aged 60 or over: single	£102.10 p.w.	£105.45 p.w.
couple	£155.80 p.w.	£160.95 p.w.
Savings credit for those aged 65 or over:		
threshold – single	£77.45 p.w.	£79.60 p.w.
threshold – couple	£123.80 p.w.	£127.25 p.w.
maximum – single	£14.79 p.w.	£15.51 p.w.
maximum – couple	£19.20 p.w.	£20.22 p.w.
withdrawal rate	40%	40%
Child benefit		
First child	£16.05 p.w.	£16.50 p.w.
Other children	£10.75 p.w.	£11.05 p.w.
Child tax credit		
Family element	£545 p.a.	£545 p.a.
Family element for first year of a child's life	£1,090 p.a.	£1,090 p.a.
Child element	£1,445 p.a.	£1,625 p.a.
Disabled child element	£2,155 p.a.	£2,215 p.a.
Working tax credit		
Basic element	£1,525 p.a.	£1,570 p.a.
Couples and lone-parent element	£1,500 p.a.	£1,545 p.a.
30-hour element	£620 p.a.	£640 p.a.
Disabled worker element	£2,040 p.a.	£2,100 p.a.
Childcare element:		
maximum eligible cost for one child	£135.00 p.w.	£135.00 p.w.
maximum eligible cost for two or more children	£200.00 p.w.	£200.00 p.w.
proportion of eligible costs covered	70%	70%
Features common to child and working tax credits		
First income threshold	£5,060 p.a.	£5,060 p.a.
First income threshold if entitled to child tax credit only	£13,230 p.a.	£13,480 p.a.
First withdrawal rate	37%	37%
Second income threshold	£50,000 p.a.	£50,000 p.a.
Second withdrawal rate	1 in 15	1 in 15
Maternity benefits		
Sure Start maternity grant	£500	£500
Statutory maternity and paternity pay: weeks 1–6	90% earnings	90% earnings
weeks 7–26	£100.00 p.w., or 90% earnings if lower	£102.80 p.w., or 90% earnings if lower
Maternity allowance	£100.00 p.w.	£102.80 p.w.

[a] 2004–05 figures assume statutory indexation where appropriate and no further discretionary changes apart from pre-announced measures.
[b] Offsetting tax credit available which reduces effective tax rates to 0% and 25%.
[c] Land and buildings that are both non-residential and in designated disadvantaged areas are exempt altogether from stamp duty.

Note: For descriptions of the tax and benefit systems, see S. Adam and J. Shaw, *A Survey of the UK Tax System*, Briefing Note no. 9, Institute for Fiscal Studies, London, 2003 (www.ifs.org.uk/taxsystem/taxsurvey.pdf) and A. Leicester and J. Shaw, *A Survey of the UK Benefit System*, Briefing Note no. 13, Institute for Fiscal Studies, London, 2003 (www.ifs.org.uk/taxsystem/benefitsurvey.pdf) respectively.
Sources: Various HM Treasury, Inland Revenue and HM Customs and Excise Press Releases, April 2003 and December 2003; HM Treasury, *Tax Ready Reckoner and Tax Reliefs*, London, 2003 (www.hm-treasury.gov.uk/media//AAB24/pbr03_trr.pdf); www.inlandrevenue.gov.uk/rates; www.hmce.gov.uk/business/othertaxes/othertaxes.htm; www.dvla.gov.uk/vehicles/taxation.htm; www.dwp.gov.uk/lifeevent/benefits/index.asp; www.local.odpm.gov.uk/finance/ctax/data/tab1finl.pdf; Tolley, *Tolley's Tax Data 2003–04*, London, 2003.

Appendix D: Tax revenues ready reckoner

Table D.1. Direct effects of illustrative changes in taxation to take effect April 2004

	Cost/yield (non-indexed base) 2004–05 (£m)
Income tax	
Rates	
Change starting rate by 1p[a]	600
Change basic rate by 1p[b]	3,350
Change higher rate by 1p	1,150
Change basic rate in Scotland by 1p	270
Allowances	
Change personal allowance by £100	630
Starting-rate limit	
Change starting-rate limit by £100	330
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%	610
increase by 10% (cost)	5,800
decrease by 10% (yield)	6,500
National Insurance	
Rates	
Change Class 1 employee rate between earnings threshold and upper earnings limit by 1 percentage point	3,200
Change Class 1 employee rate above upper earnings limit by 1 percentage point	680
Change Class 1 employer rate by 1 percentage point	4,050
Change Class 2 (self-employed) rate by £1 a week	150
Change Class 4 (self-employed) rate by 1 percentage point	310
Thresholds	
Change employee earnings threshold by £2 per week	245
Change employer earnings threshold by £2 per week	290
Change upper earnings limit by £10 per week	130

[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) 2004–05 (£m)
Corporation tax	
Change main rate by 1 percentage point	1,050
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	80
Increase threshold by £5,000	70
Excise duties[c]	
Beer up 0.3p a pint	40
Wine up 1.4p a bottle (75cl)	15
Spirits up 6.4p a bottle (70cl)	10
Cigarettes up 3.5p a packet (20 king-size)	60
Petrol (ultra-low-sulphur) up 0.5p a litre	135
Diesel (ultra-low-sulphur) up 0.5p a litre	105
Change insurance premium tax (both standard and higher rates) by 1 percentage point	310
VAT	
Change both standard and reduced rates by 1 percentage point	4,140
VAT coverage	**2003–04**
Extend VAT to:	
food	10,050
construction of new homes	4,450
domestic and international (UK portion) passenger transport	2,200
books, newspapers and magazines	1,550
water and sewerage services	950
children's clothing	1,150
drugs and supplies on prescription	900

[c] Figures are calculated given the price and tax charged on a typical item.

Note: The revenue effect is computed for changes to the 2004–05 tax system and relates to the full-year effect, except for changes to the coverage of VAT which refer to 2003–04. Costs/yields are given on an accruals basis.

Source: HM Treasury, *Tax Ready Reckoner and Tax Reliefs*, London, December 2003 (www.hm-treasury.gov.uk/media//AAB24/pbr03_trr.pdf).