

# Tax ready reckoner and tax reliefs

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November 2002



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# TAX READY RECKONER AND TAX RELIEFS

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**1** This booklet provides estimates of the effects of various illustrative tax changes on tax revenues in 2003–04 and 2004–05 (plus 2005–06 for indirect taxes), and estimates of the costs of the main tax reliefs in 2001–02 and 2002–03.

## Tax ready reckoner

**2** The effects of tax changes on tax revenues depend on a number of economic variables such as prices, earnings and consumers' expenditure. The estimates shown here are in line with the Pre-Budget Report forecast and are based on the tax system following Finance Act 2002.

**3** The tables show estimates of the direct effects of tax changes on tax revenues. In practice, tax changes will themselves affect economic variables and benefit payments, which in turn will have further effects on tax revenues and on public sector net borrowing (PSNB). Estimated direct effects are not, therefore, the same as the effects on the PSNB.

**4** The main tax rates for the current year, 2002–03, are shown in Table 1.

## Direct taxes

**5** Except where figures have been pre-announced in Financial Statement and Budget Reports and Pre-Budget Reports, Table 2 shows allowances, thresholds and limits for income tax, inheritance tax and capital gains tax for 2003–04, assuming the standard method of indexation (using the September 2002 RPI increase of 1.7 per cent) and after applying the statutory rounding rules for each of the taxes.

**6** Estimates of the costs of this indexation are shown in Table 3 on a **national accounts basis** (NAB). The national accounts basis aims to recognise tax as the tax liability accrues, irrespective of when the tax is received by the Exchequer. However, some taxes are scored on a receipts basis, principally reflecting the difficulty in assessing the period to which the tax liability relates. Examples of such taxes are corporation tax, self-assessment income tax, inheritance tax and capital gains tax. This approach is consistent with other Government publications. Figures are also given on a full-year **accruals basis**, as provided in previous versions.

**7** Tables 4 and 5 show estimates of the direct revenue effects of illustrative changes in income tax, corporation tax, capital gains tax, inheritance tax and national insurance contributions taking effect from April 2003. Estimates are measured from the relevant standard indexed base.

## TAX READY RECKONER AND TAX RELIEFS

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**8** The effects of the illustrative changes can be scaled up or down over a reasonably wide range. However, the extra cost of a marginal change in allowances or, in particular, the basic rate limit tends to fall as the allowances or limits rise. For this reason the tables show the effects of different percentage changes for both increases and reductions.

**9** The total cost of a group of changes can be broadly assessed by adding together the revenue effects of each change. However, if allowances are increased substantially and combined with a reduction in the starting, basic or higher rate, the cost of the rate reductions will be reduced. In such cases, the cost or yield obtained by adding components from the ready reckoner should be considered only as a general guide.

**Indirect taxes** **10** Table 6 shows the revenue effects of a one per cent or one percentage point change in indirect taxes, assuming other duties are unchanged.

**11** Within limits the illustrative changes can be scaled up or down to give a reasonable guide to the revenue effects. However, with large changes the margins of uncertainty surrounding the effects on sales and hence on revenue become progressively larger, and scaled estimates will be less reliable

**Tax reliefs** **12** There are a number of different types of tax relief. The effect of some reliefs is to help or encourage particular types of individuals, activities or products. Such reliefs are often alternatives to public expenditure and have similar effects. They are hence called “tax expenditures”.

**13** Many allowances and reliefs can reasonably be regarded (or partly regarded) as an integral part of the tax structure – called ‘structural reliefs’. Some do no more than recognise the expense incurred in obtaining income. Others reflect a more general concept of “taxable capacity” – the personal allowances are a good example. To the extent that income tax is based on ability to pay, it does not seek to collect tax from those with the smallest incomes. But even with structural reliefs of the latter kind, the Government has some discretion about the level at which they are set.

**14** Many other reliefs combine both structural and discretionary components. Capital allowances, for example, can provide relief for depreciation at a commercial rate as well as an element of accelerated relief. It is the latter element which represents additional help provided to business by the Government and is a “tax expenditure”.

**15** Table 7 provides the latest estimates of the revenue costs of some of the main reliefs against tax and national insurance contributions in 2001–02 and preliminary estimates for 2002–03 broken down into the three categories identified above. The figures are on a full-year accruals basis. The split is inevitably broad-brush: the distinction between structural reliefs and tax expenditures is not always straightforward.

16 A number of points should be noted about the figures:

- they should only be regarded as broad estimates. As the loss of revenue from reliefs cannot be directly observed, the estimates are often based on simplifying assumptions. The cost of a relief also depends on the tax base against which it is measured;
- each relief is costed separately. In some cases the combined cost of a number of reliefs will differ significantly from the sum of the figures for the individual reliefs; and
- the figures do not allow for any behavioural changes as a result of the reliefs. In practice, if a relief was withdrawn, taxpayers' behaviour would often alter so that the actual yield from ending the relief would be different from, and often smaller than, that shown. The sizes of behavioural change will obviously depend on the measure examined and possible alternative behaviours. For example, removing the tax privileges of one form of saving may just lead people to switch to another tax-privileged form of saving.

## TAX READY RECKONER AND TAX RELIEFS

Table 1: 2002–03 tax rates

	Per cent
<b>Income tax and capital gains tax</b>	
starting rate	10
basic rate <sup>1</sup>	22
higher rate <sup>2</sup>	40
<b>Inheritance tax</b>	40
<b>Corporation tax</b>	
starting rate	0
small companies' rate	19
main rate	30
<b>VAT standard rate</b>	17.5

1. For income between the starting rate limit and the basic rate limit, the rates of tax applicable to savings (including capital gains) and dividend income are 20 per cent and 10 per cent respectively.

2. The rate applicable to dividend income above the basic rate limit is 32.5 per cent.

Table 2: Allowances and limits

	£	
	2002–03	2003–04 <sup>10</sup>
<b>Income tax</b>		
Personal allowance	4,615	4,615
Personal allowance (age 65–74)	6,100	6,610
Personal allowance (age 75 and over)	6,370	6,720
Children's Tax Credit <sup>1,2</sup>	5,290	-
Children's Tax Credit (baby rate) <sup>1,2,3</sup>	10,490	-
Married couple's allowance (born before 6 April 1935) <sup>1</sup>	5,465	5,565
Married couple's allowance (age 75 and over) <sup>1</sup>	5,535	5,635
Blind person's allowance	1,480	1,510
Aged income limit <sup>4</sup>	17,900	18,300
Starting rate limit	1,920	1,960
Basic rate limit <sup>5</sup>	29,900	30,500

## TAX READY RECKONER AND TAX RELIEFS

Table 2: Allowances and limits (continued...)

	£	
	2002-03	2003-04 <sup>10</sup>
<b>Income tax (continued...)</b>		
<i>Tax credits (weekly amounts) <sup>6</sup></i>		
Basic tax credit (WFTC)	62.50 <sup>7</sup>	-
Basic tax credit (DPTC – lone parent or couple)	95.30 <sup>7</sup>	-
Basic tax credit (DPTC – single person)	62.10 <sup>7</sup>	-
30 hour tax credit	11.65	-
Child tax credit – under 16	26.45	-
Child tax credit – 16-18 <sup>8</sup>	27.20	-
Disabled child tax credit	35.50	-
Enhanced disability tax credit – lone parent or couple	16.25	-
Enhanced disability tax credit (DPTC – single person)	11.25	-
Enhanced disability tax credit – child	46.75	-
Income threshold – lone parent or couple	94.50	-
Income threshold – (DPTC – single person)	73.50	-
<i>New tax credits (annual amounts)</i>		
<i>Working Tax Credit <sup>9</sup></i>		
Basic element	-	1,525
Couple and lone parent element	-	1,500
30 hour element	-	620
Disabled worker element	-	2,040
Enhanced disabled adult element	-	865
Childcare element		
maximum eligible cost for one child	-	7,040
maximum eligible cost for two or more children	-	10,430
per cent of eligible costs covered	-	70%
<i>Child Tax Credit <sup>9</sup></i>		
Family element	-	545
Family element, baby addition <sup>3</sup>	-	545
Child element	-	1,445
Disabled child element	-	2,155
Enhanced disabled child element	-	865
<i>Common Features to Working and Child Tax Credit <sup>9</sup></i>		
First income threshold	-	5,060
First withdrawal rate (per cent)	-	37%
Second income threshold	-	50,000
Second withdrawal rate (per cent)	-	6.67%

## TAX READY RECKONER AND TAX RELIEFS

Table 2: Allowances and limits (continued...)

	£	
	2002-03	2003-04 <sup>10</sup>
<b>Inheritance tax threshold</b>	250,000	255,000
<b>Capital gains tax</b>		
Annual exempt amount: individuals	7,700	7,900
Annual exempt amount: trustees	3,850	3,950

1. Allowance available at a flat rate of 10 per cent.
2. The credit is tapered away from families where one or both partners is a higher rate taxpayer.
3. For babies born on or after 6 April 2002, in the first year of a child's life. Relates to both Children's Tax Credit and Child Tax Credit.
4. If the total income, less allowable deductions, of a taxpayer aged 65 or over exceeds this limit, the age-related allowances are reduced by £1 for each £2 of income over the aged income limit until the basic levels of the personal and married couple's allowances (MCA) are reached. In 2002-03 and 2003-04 the indexed minimum amount of MCA for older taxpayers who retain the married couple's allowance are £2,110 and £2,150 respectively.
5. Higher rate income tax (or the Schedule F upper rate if appropriate) is payable on income (less those allowances given as deductions from income) in excess of the basic rate limit.
6. Applies only to WFTC and DPTC. Low and middle income families with a child may qualify for WFTC if one adult is working 16 or more hours a week, they are resident and entitled to work in the UK and their savings are less than £8,000. The entitlement is calculated by totalling the appropriate credits for the family and deducting any income in excess of the income threshold at the rate of 55 pence in the pound. Savings in excess of £3,000 also reduce entitlement by £1 for each £250 of excess. The credits can also include a childcare tax credit of 70 per cent of eligible childcare costs subject to a maximum of £135 per week for one child with childcare and £200 for two or more children. Entitlement rules for DPTC are the same as for WFTC except that: it can be paid only to persons whose disability puts them at a disadvantage in getting a job; people with no children are eligible; and the savings limit is £16,000.
7. £2.50 lower for awards starting before June 2002.
8. The 16-18 child credits apply from the September following the 16th birthday.
9. With effect from 8 April 2003, WFTC, DPTC and the Children's Tax Credit will be replaced by two new tax credits: The Child Tax Credit (CTC) and the Working Tax Credit (WTC). The Child Tax Credit will also extend support to families with children not in receipt of the current tax credits; for example, families with savings more than £8,000, and so ineligible for WFTC. The Working Tax Credit will also extend support for working households without children where at least one adult is aged 25 or over. (NB: following a transitional period, the CTC will replace child and family premia currently paid in Income Support and income-based Jobseekers' Allowance). The new tax credits will be made up of a number of elements, listed in the table, withdrawn at the rates shown for families with pre-tax incomes above the relevant income thresholds. The Working Tax Credit, including the childcare element, will be withdrawn before the Child Tax Credit. The family element will be paid at a flat rate to those families with incomes below the second threshold, and withdrawn at the second withdrawal rate for those whose income is above the second threshold. For a transitional period, families receiving Income Support and income-based Jobseekers' Allowance will receive support for children through these benefits, equivalent to Child Tax Credit rates. More details on how the new tax credits will work are published in 'The Child and Working Tax Credits', available from the HM Treasury website.
10. Except where figures have been pre-announced in Financial Statement and Budget Reports and Pre-Budget Reports, figures are calculated by applying 1.7 per cent indexation and statutory rounding rules.

## TAX READY RECKONER AND TAX RELIEFS

Table 3: Cost of indexation for 2003–04 and 2004–05

	£ million			
	2003–04 (accruals)	2004–05 <sup>4</sup> (accruals)	2003–04 (NAB)	2004–05 <sup>4</sup> (NAB)
Indexation of income tax allowances, starting and basic rate limits	1,120	2,040	940	2,030
of which:				
Increases in allowances <sup>1,2</sup>	610	1,080	530	1,040
Increase in the starting-rate limit <sup>1,2,3</sup>	130	170	120	170
Increase in the basic-rate limit <sup>1,2,3</sup>	380	560	280	550
Increase in the Child Tax Credit <sup>5,6</sup>	-	370	-	370
Increase in the Working Tax Credit <sup>1,3,5</sup>	-	160	-	170
Indexation of inheritance tax threshold <sup>1</sup>	70	70	30	60
Indexation of capital gains tax annual exempt amount <sup>1</sup>	5	5	0	5

1. Figures assume 1.7 per cent indexation for 2003–04 and 2.5 per cent in the following year.

2. Includes the consequential effects on capital gains tax.

3. Additional cost after previous change has been introduced.

4. Assuming the changes in 2003–04 are carried through to 2004–05.

5. Figures are not provided for 2003–04, since the Child Tax Credit and Working Tax Credit were introduced in this year, and replaced quite different systems of support in the form of WFTC, DPTC and Children's Tax Credit, as well as extending support to families without children (see note 6 of Table 2).

6. Figures assume 4.5 per cent indexation for child element of Child Tax Credit and 2.5 per cent for other elements of CTC (such as the family element) in 2004–05.

Table 4: Direct effects of illustrative changes in income tax<sup>1</sup>

	£ million cost/yield			
	2003–04 (accruals)	2004–05 <sup>7</sup> (accruals)	2003–04 (NAB)	2004–05 <sup>7</sup> (NAB)
<i>Rates</i>				
Change starting-rate by 1p <sup>2</sup>	560	590	500	610
Change lower rate on savings income by 1p <sup>3</sup>	50	50	40	60
Change basic-rate by 1p <sup>4</sup>	3,250	3,550	2,850	3,650
Change basic-rate in Scotland by 1p <sup>4</sup>	260	280	230	290
Change higher-rate by 1p	1,120	1,290	800	1,350
Change higher-rate for dividends by 1p	90	90	0	110
<i>Allowances and reliefs</i>				
Change personal allowance by £100	620	650	530	680
Change age-related personal allowances by £100 <sup>5</sup>	70	80	65	85
Change age-related married couple's allowances by £100 <sup>6</sup>	5	10	5	10
Change aged income limit by £500	25	30	15	30
Change all personal allowances by 1 per cent <sup>7</sup>	330	350	290	360
Change all personal allowances by 10 per cent <sup>7</sup>	3,250	3,450	2,850	3,600

## TAX READY RECKONER AND TAX RELIEFS

Table 4: Direct effects of illustrative changes in income tax <sup>1</sup> (continued...)

	£ million cost/yield			
	2003-04 (accruals)	2004-05 <sup>7</sup> (accruals)	2003-04 (NAB)	2004-05 <sup>7</sup> (NAB)
<i>Limits</i>				
Change starting-rate limit by £100	320	340	290	350
Change basic-rate limit by 1 per cent <sup>7</sup>	190	210	140	220
Change basic-rate limit by 10 per cent: <sup>7</sup>				
Increase (cost)	1,700	1,900	1,250	2,000
Decrease (yield)	2,100	2,350	1,550	2,450
<i>Allowances, starting and basic-rate limits</i>				
Change all main allowances, starting and basic-rate limits by 1 per cent <sup>7</sup>	590	640	490	670
Change all main allowances, starting and basic-rate limits by 10 per cent: <sup>7</sup>				
Increase (cost)	5,600	6,100	4,700	6,400
Decrease (yield)	6,300	6,800	5,200	7,100
<i>Working Tax Credit</i>				
Change basic element by £100	170	170	180	180
Change 30-hour element by £100	170	170	130	140
Change additional element for couples and lone parents by £100	180	170	190	180
<i>Child Tax Credit</i>				
Change family element by £100 <sup>8</sup>	580	580	580	570
Change child element by £100 <sup>9</sup>	670	670	670	670
<i>Common Features</i>				
Change first income threshold by £100 <sup>10</sup>	40	50	40	50
Change second income threshold by £1,000	20	20	20	20

1. The estimates are rounded and, unless otherwise shown, the figures apply to both increases and decreases. The extent of rounding reflects the desire to avoid undue compounding of its effects when numbers are pro-rated, rather than the accuracy of the estimates. The figures include consequential effects on the yield of capital gains tax. Changes are assumed to take effect from April 2003.

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

3. Covering savings income (but not in the starting rate), and excluding dividends. This includes the consequential effects on the liability of higher-rate taxpayers. The lower rate of tax on savings applies to income between the starting rate limit and the basic rate limit.

4. Excluding savings income taxed at the lower or starting rates or dividends.

5. Allowances for those aged 65-74 and aged 75 and over.

6. Allowances for those born before 6 April 1935.

7. Assuming the changes in 2003-04 are carried through to 2004-05.

8. Excluding family element, baby addition.

9. Includes increasing child elements for those receiving Income Support and income-based Jobseekers' Allowance.

10. Includes increases to both the first income threshold and the first threshold for those entitled to Child Tax Credit only.

## TAX READY RECKONER AND TAX RELIEFS

Table 5: Direct effects of illustrative changes in other direct taxes and national insurance contributions <sup>1</sup>

	£ million cost/yield			
	2003-04 (accruals)	2004-05 <sup>9</sup> (accruals)	2003-04 (NAB)	2004-05 <sup>9</sup> (NAB)
<b>Corporation tax</b>				
Raise starting rate by 1 percentage point <sup>2</sup>	15	15	0	10
Change small companies' rate by 1 percentage point <sup>2</sup>	240	250	0	200
Change main rate by 1 percentage point <sup>2</sup>	1,150	1,300	600	1,150
<b>Capital gains tax</b>				
Increase annual exempt amount by £500 for individuals and £250 for trustees	10	15	0	10
<b>Inheritance tax</b>				
Change rate by 1 percentage point	75	75	30	65
Increase threshold by £5,000	65	70	30	55
<b>National insurance contributions</b>				
<i>Rates</i>				
Change Class 1 employee main rate by 1 percentage point <sup>3</sup>	3,150	3,300	3,150	3,300
Change Class 1 employee additional rate by 1 percentage point <sup>4</sup>	655	720	655	720
Change Class 1 employer rate by 1 percentage point	3,950	4,200	3,950	4,200
Change Class 2 rate by £1 per week <sup>5</sup>	130	135	130	135
Change Class 4 main rate by 1 percentage point <sup>6,7</sup>	290	305	290	305
Change Class 4 additional rate by 1 percentage point <sup>6,8</sup>	155	165	155	165
<i>Limits</i>				
Change employee entry threshold by £2 per week	245	255	245	255
Change employer threshold by £2 per week	290	300	290	300
Change lower profits limit by £104 per year (£2 per week)	20	20	20	20
Change upper profits limit by £520 per year (£10 per week)	15	15	15	15
Change upper earnings limit by £10 per week	125	135	125	135

- The estimated revenue effects of the changes on receipts are rounded. The extent of rounding reflects the desire to avoid undue compounding of its effects when numbers are pro-rated, rather than the accuracy of the estimates. Changes are assumed to take effect from April 2003.*
- Estimates assume rate changes apply to profits from 1 April 2003. The effects on receipts of the main rate change take account of the introduction of instalment payments.*
- Rate charged between the entry threshold and upper earnings limit.*
- Rate charged above the upper earnings limit.*
- Flat rate contributions payable by the self-employed with earnings above the small earnings exception rate in 2002-03.*
- Profit related contributions payable by the self-employed.*
- Rate between the lower and upper profits limits.*
- Rate charged above the upper profits limits.*
- Assuming the changes in 2003-04 are carried through to 2004-05.*

## TAX READY RECKONER AND TAX RELIEFS

Table 6: Direct effects of an illustrative change in indirect tax rates <sup>1</sup>

One per cent change	Indicative level of duty on a typical item <sup>2</sup>	Typical item	Tax change of a typical item <sup>2</sup>	£ million cost/yield <sup>3</sup>		
				2003-04 (NAB)	2004-05 (NAB)	2005-06 (NAB)
Beer and cider <sup>4</sup>	28p	Pint of beer	0.3p	35	40	40
Wine <sup>4</sup>	£1.16	75cl bottle of table wine	1.4p	15	15	15
Spirits <sup>4</sup>	£5.48	70cl bottle of whisky	6.4p	5	5	5
Tobacco <sup>4,5</sup>	£2.88	20 king size cigarettes	3.4p	65	70	70
Petrol <sup>4</sup>	45.82p	Litre of unleaded petrol	0.5p	120	120	125
Diesel (ULS) <sup>4</sup>	45.82p	Litre of ultra low sulphur	0.5p	110	120	125
Vehicle Excise Duty <sup>6</sup>	£160	Car <sup>7</sup>	£1.60	50	55	60
Air Passenger Duty <sup>8</sup>	£5	Economy flight departure to EEA destination	5p	10	10	10
Landfill tax	£3/£13	Tonne of waste	3p/13p	5	5	5
Climate Change Levy <sup>4,9</sup>	43p	100 kWh of industrial electricity	0.4p	5	10	10
Aggregates Levy	£1.60	Tonne of aggregate	1.6p	5	5	5
<i>One percentage point change</i>						
VAT – reduced and standard rates		Current rates are 5%, 17.5%		3,840	4,015	4,195
Insurance Premium Tax – standard and higher rates		Current rates are 5%, 17.5%		315	435	460

1. These are estimated on the assumption that total household expenditure at basic prices (formerly consumers' expenditure at factor cost) does not change. The base assumes tax rates implemented by Finance Act 2002.
2. These figures are illustrative only. They do not equate to the weighted average level of duty on each item.
3. Assuming implementation in April 2003 for all taxes except Insurance Premium Tax (July 2003).
4. The tax change and revenue yield equals the change in duty plus the consequential VAT (at standard rate). Alcohol estimates are based on revised elasticities of demand. A GES working paper on these and their estimation will be published post-PBR.
5. Duty on cigarettes has specific and ad valorem elements. The figures shown are for a one per cent change in total duty for cigarettes and in the specific duties for other products.
6. All Vehicle Excise Duty, including HGVs, cars, light vans and motorcycles.
7. Registered before 1 March 2002. Engine size greater than 1549cc.
8. All Air Passenger Duty, including both economy and business rates of travel for Intra-EU and Non-EU flights.
9. All Climate Change Levy, including coal, gas, coke, Liquefied Petroleum Gas (LPG) and electricity.

Table 7: Estimated costs of principal tax expenditures and structural reliefs <sup>1</sup>

	£ million	
	2001-02	2002-03
<b>Tax Expenditures</b>		
<b>Income tax</b>		
Relief for:		
Approved pension schemes <sup>2,3*</sup>	13,900	13,900
Approved profit sharing schemes <sup>4*</sup>	190	100
Share Incentive Plan <sup>5,6*</sup>	40	150
Approved savings-related share option schemes <sup>5,7,8*</sup>	300	310
Personal Equity Plans <sup>9*</sup>	700	600
Individual Savings Accounts <sup>*</sup>	725	875
Venture Capital Trusts <sup>10*</sup>	60	40
Enterprise Investment Scheme <sup>11*</sup>	280	260
Professional subscriptions <sup>12*</sup>	50	50
Rent a room	100	100
Exemption of:		
First £30,000 of payments on termination of employment <sup>*</sup>	850	850
Interest on National Savings Certificates including index-linked certificates	170	140
Tax Exempt Special Savings Account interest <sup>13*</sup>	150	100
Premium Bond prizes <sup>*</sup>	110	90
Income of charities <sup>14*</sup>	850	900
Foreign service allowance paid to Crown servants abroad <sup>*</sup>	70	80
First £8,000 of reimbursed relocation packages provided by employers <sup>*</sup>	300	300
Tax credits:		
Life assurance premiums (for contracts made prior to 14 March 1984) <sup>15</sup>	95	85
Children's Tax Credit	2,100	2,300
Working Families' Tax Credit	5,400	6,300
Disabled Person's Tax Credit	130	160
<b>Income tax and Corporation tax</b>		
Film tax relief	240	300
<b>Corporation Tax</b>		
R&D Tax Credits <sup>16*</sup>	80	450
Relief for clearing contaminated land <sup>17*</sup>	90	75
<b>National Insurance Contributions</b>		
Relief for:		
Approved profit sharing schemes <sup>18*</sup>	130	70
Share Incentive Plan <sup>18*</sup>	20	90
Approved savings-related share option schemes <sup>18*</sup>	210	210
Employer contributions to approved pension schemes <sup>19</sup>	4,800	4,900
<b>Capital gains tax</b>		
Exemption of gains arising on disposal of only or main residence <sup>20</sup>	6,000	11,000
Retirement relief <sup>*</sup>	80	20
<b>Inheritance tax</b>		
Relief for:		
Agricultural property <sup>*</sup>	120	130
Business property <sup>*</sup>	120	110
Exemption of transfers to charities on death <sup>*</sup>	360	350
<b>Value Added Tax</b> <sup>21</sup>		
Zero-rating of:		
Food	9,150	9,350
Construction of new dwellings (includes refunds to DIY builders) <sup>*</sup>	3,050	3,400
Domestic passenger transport	1,650	1,750
International passenger transport (UK portion) <sup>*</sup>	200	250
Books, newspapers and magazines	1,400	1,450
Children's clothing	800	800
Water and sewerage services	950	950
Drugs and supplies on prescription	750	800
Supplies to charities <sup>22*</sup>	150	200
Ships and aircraft above a certain size	450	500
Vehicles and other supplies to disabled people <sup>22</sup>	350	400
Lower rate on domestic fuel and power <sup>23</sup>	1,750	1,850
Lower rate for certain residential conversions <sup>24</sup>	100	100

Table 7: Estimated costs of principal tax expenditures and structural reliefs (continued...)<sup>1</sup>

	£ million		£ million	
	2001-02	2002-03	2001-02	2002-03
<b>Structural Reliefs</b>				
<b>Reliefs with Tax Expenditure and Structural Components</b>				
<b>Income tax</b>				
Personal allowance	34,800	35,900	1,400	1,500
<b>Income tax and corporation tax</b>				
Double taxation relief <sup>25*</sup>	6,500	6,500	750	750
<b>Corporation tax</b>				
Reduced rate of corporation tax on policy holders' fraction of profit <sup>*</sup>	400	100	140	150
<b>National insurance contributions</b>				
Contracted-out rebate occupational schemes: <sup>*</sup>				
Rebates deducted at source by employers	6,780	7,690	90	90
Rebates paid by the Contributions Agency direct to the scheme	120	140	250	280
Personal pensions	2,820	3,760	460	460
<b>Value added tax</b> <sup>21</sup>				
Refunds to:				
Northern Ireland Government bodies of VAT incurred on non-business purchases under the Section 99 refund scheme	250	250	90	100
Local Authority-type bodies of VAT incurred on non-business purchases under the Section 33 refund scheme	4,850	5,100	100	130
Central Government, Health Authorities and NHS Trusts of VAT incurred on contracted-out services under the Section 41 (3) refund scheme	2,650	2,800	340	260
<b>Income tax and corporation tax</b>				
Capital allowances <sup>31*</sup>	16,500	17,200	1,900	2,200
Of which:				
First year allowances for SMEs <sup>*</sup>	230	400	160	350
First year allowances for small enterprises for information and communication technology	70	130	0	170
Enhanced capital allowances for energy saving technology	90	90		
Accelerated capital allowances for Enterprise Zones	100	100		
<b>Capital gains tax</b>				
Indexation allowance and rebasing to March 1982 <sup>32</sup>	340	260		
Taper relief <sup>*</sup>	575	625		
Exemption of:				
Annual exempt amount (half of the individual's exemption for trustees) <sup>*</sup>	1,200	900		
Gains accrued but unrealised at death <sup>33*</sup>	750	500		

Table 7: Estimated costs of principal tax expenditures and structural reliefs (continued ...)<sup>1</sup>

	£ million		£ million	
	2001-02	2002-03	2001-02	2002-03
<b>Petroleum revenue tax</b> <sup>34</sup>				
Uplift on qualifying expenditure	150	130		
Oil allowance	600	525		
Safeguard: a protection for return on capital cost	260	170		
Tariff receipts allowance	60	50		
Exemption for gas sold to British Gas under pre-July 1975 contracts	200	150		
<b>Inheritance tax</b>				
Nil rate band for chargeable transfers not exceeding the threshold <sup>*</sup>	7,100	8,000		
Exemption of transfers on death to surviving spouses <sup>35</sup>	1,300	1,300		
<b>Stamp duties</b>				
Exemption of transfers of land and property where the consideration does not exceed the £60,000 threshold <sup>36*</sup>	160	160		
Exemption of transfers in designated disadvantaged wards where the consideration does not exceed £150,000 <sup>36*</sup>	10	55		
<b>National insurance contributions</b>				
Reduced contributions for self-employed not attributable to reduced benefit eligibility (constant cost basis)			2,300	1,600
<b>Value added tax</b> <sup>21</sup>				
Exemption of:				
Rent on domestic dwellings <sup>*</sup>			2,600	2,750
Rent on commercial properties <sup>38*</sup>			450	450
Private education			150	150
Health services <sup>*</sup>			600	650
Postal services			400	400
Burial and cremation			100	100
Finance and insurance <sup>39*</sup>			2,250	2,350
Betting and gaming and lottery			900	900
Small traders <sup>40</sup>			400	400

*\* These figures are particularly tentative and subject to a wide margin of error.*

## TAX READY RECKONER AND TAX RELIEFS

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### Notes for Table 7

1. *Costs are on an accruals basis unless otherwise specified and only reliefs with an estimated cost of at least £50 million are included. The costs of the personal income tax allowances do not cover individuals who are not on Inland Revenue records because their income is below the tax threshold.*
2. *The baseline for calculation is unapproved schemes. The figure is the sum of the front-end relief on contributions plus the relief on the investment income of funds, net of the tax paid on current pension payments. Relief on capital gains made by funds is not included, due to lack of information about duration of holdings.*
3. *The cost of tax relief for employers' contributions is included on the basis that under present arrangements employers' contributions are not taxable as a benefit in kind of the employee.*
4. *The costs take into account that tax relief is denied where the participants sell the shares within three years of the date of appropriation.*
5. *Since 6 April 1999 national insurance has been payable by both employer and employee on the gains arising when share options are exercised outside an Inland Revenue approved scheme (or are cancelled or assigned) and where the shares or the option are readily convertible into cash.*
6. *The Share Incentive Plan, formally known as the all-employee share ownership plan, was introduced in Finance Act 2000.*
7. *The costs take into account the partial offset provided by liability to capital gains tax arising from disposals of shares acquired under the scheme.*
8. *Excludes the cost of the tax-free bonus or interest received under a SAYE contract.*
9. *Includes the cost of exempting gains within Personal Equity Plans (PEPs) from capital gains tax (CGT). No subscriptions have been made to PEPs since 5 April 1999, but savers holding PEPs can continue holding them under current rules.*
10. *Includes the CGT costs of deferral reliefs and exempting gains from tax.*
11. *The figure includes the CGT cost of deferral relief.*
12. *Allowable under S201 ICTA 1988.*
13. *No new Tax Exempt Special Savings Accounts (TESSAs) have been taken out since 5 April 1999, but those taken out up to that date are able to run their full five year course.*
14. *These figures comprise:*
  - i. *the total sum paid to charities, certain heritage bodies and museums, and scientific research associations in respect of: tax credits on dividends (including transitional relief) and income tax deducted at source from other investment income; payments under deeds of covenant; and donations under the Gift Aid scheme and the cost of the payroll giving scheme. Information is not available about income received by these bodies without deduction of tax, and no allowance in the figures is made for this; and*
  - ii. *an estimate of the higher rate relief received by the payers of covenanted sums and donations under Gift Aid and higher rate relief for donations of shares and, for 2002-03 onwards, real property.*
15. *Including the cost of deductions at source for non-taxpayers.*
16. *R&D tax credits were introduced for SME companies for accounting periods ending on or after 1 April 2000. Credits were introduced for all other companies for accounting periods on or after 1 April 2002.*
17. *Companies that acquire land in a contaminated site will be able to claim an accelerated repayable tax credit on any additional site preparation cost for cleaning up the land for accounting periods ending on or after 1 April 2001.*
18. *Since 6 April 1999 national insurance has been payable by both employer and employee on the gains arising when share options are exercised outside an Inland Revenue approved scheme (or are cancelled or assigned) and where the shares or the options are readily converted into cash.*
19. *The baseline for the calculation is employer contributions to unapproved pension schemes.*
20. *Calculated on the assumption that there would be no relief for gains when disposal proceeds were applied to the purchase of another house. The costs quoted do not represent the yield from abolition of the relief. Consequential effects on the housing market would substantially reduce the yield.*
21. *Some of these tax expenditures and reliefs are mandatory or permitted under the EC 6th VAT Directive and some are derogations from the Directive. These estimates are produced on a national accounts basis*

## TAX READY RECKONER AND TAX RELIEFS

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- following the adoption of the European System of Accounts in autumn 1998. This new accounting system has had a particular effect on the costing for the exemption of rent on commercial properties. Some refinements in both data and methodology have also been included.*
22. *Costs exclude zero-rating of items appearing higher in the list and reduced rate on domestic fuel and power.*
  23. *These figures are estimates of the cost of the difference between the standard rate of VAT and the reduced rate (of 5 per cent).*
  24. *A lower rate for the conversion and renovation of certain residential properties came into effect on 12 May 2001.*
  25. *Based on provisional corporation tax assessment data for accounting periods ending in 2000-01 and the results of the 2000-01 Survey of Personal Incomes.*
  26. *These figures represent the cost of the excess of the age-related personal allowance over the corresponding allowances for non-aged taxpayers. They include £60 million in 2001-02 and £70 million in 2002-03 for the cost of the higher age-related allowances for those aged 75 and over.*
  27. *Taxed at the lower rate from 1996-97.*
  28. *The figures assume that Child Benefit is paid to the mother or lone father.*
  29. *Incapacity benefit replaced invalidity benefit and sickness benefit from April 1995. Benefit for new claimants after that date is taxable, except for benefit received in the first twenty-eight weeks of incapacity. Incapacity benefit paid to existing claimants at April 1995 remains exempt.*
  30. *The new starting rate for corporation tax applied from 1 April 2000.*
  31. *The figures for capital allowances are net of balancing charges. They include writing down and other allowances.*
    - i. *First year allowances for expenditure by small and medium sized enterprises (SMEs) on plant and machinery are available for expenditure incurred on or after 2 July 1997.*
    - ii. *100 per cent first year allowances available to small enterprises investing in information and communication from 1 April 2000 to 31 March 2003.*
    - iii. *100 per cent first year allowances available for certain energy saving investments from April 2001.*
  32. *The estimated costs relate to gains of individuals and trustees only. Company gains are not included because of estimation difficulties.*
  33. *These estimates assume deferral relief on transfer of assets between spouses would be available.*
  34. *The figures are net of any consequential effect on corporation tax and represent the effect on calendar year accruals in 2001 and 2002. The cost of all types of expenditure relief (i.e. capital expenditure, including uplift, operating expenditure and exploration and appraisal expenditure) is £1,600 million in 2001-02 and £1,300 million in 2002-03. These figures reflect the fact that, in the case of petroleum revenue tax, no distinction is made between revenue and capital.*
  35. *These costs are in respect only of transfers for which an account is submitted to the Capital Taxes Office.*
  36. *The threshold does not apply to transfers of shares.*
  37. *The estimates shown are net of any revenue loss that might arise from removing VAT exemption. Where an exempt trader provides goods or services to registered traders whose output is standard rated, there is likely to be some revenue gain to the Exchequer from the exemption. The taxable supply of the registered trader is likely implicitly to include an element in respect of the value added by the exempt trader and this element will be liable to VAT.*
  38. *The methodology for calculating this estimate has been reviewed and updated.*
  39. *The methodology for calculating this estimate has been reviewed and updated. The estimate includes an element for the indirect charges financial institutions make to their customers through charging higher interest rates to borrowers and paying lower rates to lenders; in practice identifying such indirect charges for VAT purposes would be extremely difficult. Because of the large volumes of transactions between these sectors covered in this estimate, the sum of individual estimates for each sector will differ from the joint estimate provided here.*
  40. *This cost relates to the exemption of traders below the turnover limit for VAT registration, currently £55,000.*

