

# Tax ready reckoner and tax reliefs

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# TAX READY RECKONER AND TAX RELIEFS

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1 This document provides estimates of the effects of various illustrative tax changes on tax revenues in 2005–06 and 2006–07 (and 2007–08 for indirect taxes), and estimates of the costs of the main tax reliefs in 2003–04 and 2004–05.

## 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 forecasts and are based on the tax system following the Finance Act 2004.

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 PSNB.

4 The main tax rates for the current tax year, 2004–05, are shown in Table 1.

## Direct taxes

5 Except where figures have been pre-announced in Financial Statements and Budget Reports and Pre-Budget Reports, Table 2 shows allowances, thresholds and limits for income tax, personal tax credits, inheritance tax and capital gains tax for 2005–06, assuming the standard method of indexation (using the September 2004 RPI increase of 3.1 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, stamp duty land 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, personal tax credits, corporation tax, capital gains tax, inheritance tax, stamp duty land tax and national insurance contributions taking effect from April 2005. 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 illustrative change in indirect taxes, assuming other duties are unchanged from April 05.

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; scaled estimates will therefore 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 such structural reliefs, 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 this element that 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 2003–04 and preliminary estimates for 2004–05. 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 tax relief 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 simplified assumptions. The cost of a relief also depends on the tax base against which it is measured. Largely because of the difficulties of estimation, the published tables are not comprehensive, but do cover the major reliefs and allowances;
  
- €# 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 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: 2004–05 main tax rates

	Per cent
<b>Income tax and capital gains tax <sup>1</sup></b>	
starting rate	10
basic rate <sup>2</sup>	22
higher rate <sup>3</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. The rate applicable to trusts is 40 per cent.

2. For savings income and capital gains between the starting rate limit and the basic rate limit the rate of tax is 20 per cent; for dividend income between those limits the rate of tax is 10 per cent.

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

Table 2: Allowances and limits

	£ million	
	2004–05	2005–06 <sup>1</sup>
<b>Income tax</b>		
Personal allowance	4,745	4,895 <sup>2</sup>
Personal allowance (age 65–74)	6,830	7,090 <sup>2</sup>
Personal allowance (age 75 and over)	6,950	7,220 <sup>2</sup>
Married couple's allowance (born before 6 April 1935) <sup>3</sup>	5,725	5,905 <sup>2</sup>
Married couple's allowance (age 75 and over) <sup>3</sup>	5,795	5,975 <sup>2</sup>
Blind person's allowance	1,560	1,610 <sup>2</sup>
Aged income limit <sup>4</sup>	18,900	19,500 <sup>2</sup>
Starting rate limit	2,020	2,090
Basic rate limit <sup>5</sup>	31,400	32,400

## TAX READY RECKONER AND TAX RELIEFS

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

	£ million	
	2004-05	2005-06 <sup>1</sup>
<b>Income tax (continued...)</b>		
<i>Tax credits (annual amounts)</i>		
<i>Working Tax Credit</i> <sup>6</sup>		
Basic element	1,570	1,620 <sup>2</sup>
Couple and lone parent element	1,545	1,595 <sup>2</sup>
30 hour element	640	660 <sup>2</sup>
Disabled worker element	2,100	2,165 <sup>2</sup>
Enhanced disabled adult element	890	920 <sup>2</sup>
Childcare element		
maximum eligible cost for one child	£135 per week	£175 per week <sup>2</sup>
maximum eligible cost for two or more children	£200 per week	£300 per week <sup>2</sup>
per cent of eligible costs covered	70%	70% <sup>2</sup>
<i>Child Tax Credit</i> <sup>6</sup>		
Family element	545	545 <sup>2</sup>
Family element, baby addition <sup>7</sup>	545	545 <sup>2</sup>
Child element	1,625	1,690 <sup>2</sup>
Disabled child element	2,215	2,285 <sup>2</sup>
Enhanced disabled child element	890	920 <sup>2</sup>
<i>Common Features to Working and Child Tax Credit</i> <sup>6</sup>		
First income threshold	5,060	5,220 <sup>2</sup>
First withdrawal rate (per cent)	37%	37% <sup>2</sup>
Second income threshold	50,000	50,000 <sup>2</sup>
Second withdrawal rate (per cent)	6.67%	6.67% <sup>2</sup>
First threshold for those entitled to Child Tax Credit only	13,480	13,910 <sup>2</sup>
<b>Inheritance tax threshold</b>	263,000	272,000
<b>Capital gains tax</b>		
Annual exempt amount: individuals	8,200	8,500
Annual exempt amount: trustees	4,100	4,250

## TAX READY RECKONER AND TAX RELIEFS

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

1. Except where figures have been pre-announced in a Financial Statement and Budget Report or a Pre-Budget Report, figures are calculated by applying 3.1 per cent indexation and statutory rounding rules.
2. These figures have been pre-announced and confirmed in either a Financial Statement and Budget Report or a Pre-Budget Report.
3. Allowance available at a flat rate of 10 per cent.
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 2004–05 and 2005–06 the indexed minimum amount of MCA for older taxpayers who retain the married couple's allowance are £2,210 and £2,280 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. The Working Tax Credit (WTC) is available to families with children, disabled workers and to some other working households without children where at least one adult is aged 25 or over. The Child Tax Credit (CTC) is available to families with children. These tax credits are 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 WTC, including the childcare element, is withdrawn before the CTC. The family element of CTC is 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 Jobseeker's Allowance will receive support for children through these benefits, equivalent to CTC rates. More details on how these tax credits work are published in 'The Child and Working Tax Credits', available from the HM Treasury website.
7. Available for any period in which the family is responsible for a child aged under one year.

Table 3: Cost of indexation for 2005–06 and 2006–07

	£ million			
	2005–06 (accruals)	2006–07 <sup>1</sup> (accruals)	2005–06 (NAB)	2006–07 <sup>1</sup> (NAB)
Indexation of all income tax allowances, starting and basic rate limits <sup>2</sup>	2,490	1,970	2,200	2,190
of which:				
Increases in allowances <sup>2</sup>	1,130	910	970	1,000
Increase in the starting-rate limit <sup>2,3</sup>	220	160	200	180
Increase in the basic-rate limit <sup>2,3</sup>	660	550	500	630
Increase in the Child Tax Credit <sup>2,4</sup>	360	260	390	280
Increase in the Working Tax Credit <sup>2</sup>	120	90	140	100
Indexation of inheritance tax threshold <sup>2</sup>	150	155	70	135
Indexation of capital gains tax annual exempt amount <sup>2</sup>	15	15	0	10

1. Assuming the changes in 2005–06 are carried through to 2006–07.

2. Figures assume 3.1 per cent indexation for 2005–06 and 2.4 per cent in the following year. Costs based on unrounded indexation.

3. Additional cost after change set out in the line above has been introduced.

4. Includes increasing child element for those receiving Income Support and income-based Jobseeker's Allowance. These families are due to migrate on to the Child Tax Credit. Until then, the child allowances in Income Support and Jobseeker's Allowance will increase in line with the Child Tax Credit.

## TAX READY RECKONER AND TAX RELIEFS

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

	£ million cost/yield			
	2005–06 (accruals)	2006–07 <sup>2</sup> (accruals)	2005–06 (NAB)	2006–07 <sup>2</sup> (NAB)
<i>Rates</i>				
Change starting-rate by 1p <sup>3</sup>	590	620	520	640
Change lower rate on savings income by 1p <sup>4</sup>	100	110	70	100
Change basic-rate by 1p <sup>5</sup>	3,400	3,600	3,000	3,750
Change basic-rate in Scotland by 1p <sup>5</sup>	280	290	250	300
Change higher-rate by 1p <sup>6</sup>	1,140	1,250	810	1,330
Change higher-rate for dividends by 1p	125	130	0	155
<i>Allowances and reliefs</i>				
Change personal allowance by £100	620	640	530	670
Change age-related personal allowances by £100 <sup>7</sup>	70	70	60	75
Change age-related married couple's allowances by £100 <sup>8</sup>	5	5	5	5
Change aged income limit by £500	25	25	15	30
Change all personal allowances by 1 per cent	340	360	290	370
Change all personal allowances by 10 per cent	3,350	3,500	2,900	3,650
<i>Limits</i>				
Change starting-rate limit by £100	320	330	280	340
Change basic-rate limit by 1 per cent	200	220	150	230
Change basic-rate limit by 10 per cent:				
Increase (cost)	1,850	2,000	1,400	2,100
Decrease (yield)	2,250	2,400	1,700	2,550
<i>Allowances, starting and basic-rate limits</i>				
Change all main allowances, starting and basic-rate limits by 1 per cent	610	650	510	680
Change all main allowances, starting and basic-rate limits by 10 per cent:				
Increase (cost)	5,900	6,200	4,900	6,500
Decrease (yield)	6,600	6,900	5,500	7,300
<i>Working Tax Credit</i>				
Change basic element by £100	190	190	220	220
Change 30-hour element by £100	140	140	160	160
Change additional elements for couples and lone parents by £100	180	180	200	200

## TAX READY RECKONER AND TAX RELIEFS

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

	£ million cost/yield			
	2005-06 (accruals)	2006-07 <sup>2</sup> (accruals)	2005-06 (NAB)	2006-07 <sup>2</sup> (NAB)
<i>Child Tax Credit</i>				
Change family element by £100 <sup>9</sup>	580	580	620	620
Change child element by £100 <sup>10</sup>	670	660	720	710
<i>Common Features</i>				
Change first income threshold by £100	80	80	110	110
Change second income threshold by £1,000	10	10	10	10

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 2005.
2. Assuming the changes in 2005-06 continue to 2006-07.
3. Including savings income taxable at the starting rate, but excluding dividend income.
4. 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.
5. Excluding savings income taxed at the lower or starting rates or dividends.
6. Excludes dividend income.
7. Allowances for those aged 65-74 and aged 75 and over.
8. Allowances for those born before 6 April 1935.
9. Excluding family element, baby addition.
10. Includes increasing child element for those receiving Income Support and Jobseeker's Allowance. These families are due to migrate on to the Child Tax Credit. Until then, the child allowances in Income Support and Jobseeker's Allowance will increase in line with the Child Tax Credit.

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

	£ million cost/yield			
	2005-06 (accruals)	2006-07 <sup>2</sup> (accruals)	2005-06 (NAB)	2006-07 <sup>2</sup> (NAB)
<b>Corporation tax</b>				
Raise starting rate by 1 percentage point <sup>3</sup>	20	20	0	15
Change small companies' rate by 1 percentage point <sup>3</sup>	180	190	0	140
Change main rate by 1 percentage point	950	1,450	700	1,350
<b>Capital gains tax</b>				
Increase annual exempt amount by £500 for individuals and £250 for trustees	20	20	0	20
<b>Inheritance tax</b>				
Change rate by 1 percentage point	95	100	45	90
Increase threshold by £5,000	80	80	35	75

## TAX READY RECKONER AND TAX RELIEFS

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

	£ million cost/yield			
	2005-06 (accruals)	2006-07 <sup>2</sup> (accruals)	2005-06 (NAB)	2006-07 <sup>2</sup> (NAB)
<b>Stamp duty land tax</b>				
Change 1 per cent rate by 1 percentage point <sup>4</sup>	1,260	1,220	1,150	1,220
Change 4 per cent rate by 1 percentage point <sup>4</sup>	700	750	650	750
Change rate on leases by 1 percentage point <sup>4</sup>	190	210	170	210
Increase £250,000 threshold by £5,000 <sup>4</sup>	50	70	40	70
<b>National insurance contributions</b>				
<i>Rates</i>				
Change Class 1 employee main rate by 1 percentage point <sup>5</sup>	3,400	3,550	3,400	3,550
Change Class 1 employee additional rate by 1 percentage point <sup>6</sup>	770	845	770	845
Change Class 1 employer rate by 1 percentage point	4,250	4,500	4,250	4,500
Change Class 2 rate by £1 per week <sup>7</sup>	145	150	145	150
Change Class 4 main rate by 1 percentage point <sup>8,9</sup>	335	350	335	350
Change Class 4 additional rate by 1 percentage point <sup>8,10</sup>	185	200	185	200
<i>Limits</i>				
Change employee entry threshold by £2 per week	245	255	245	255
Change employer threshold by £2 per week	295	305	295	305
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)	20	20	20	20
Change upper earnings limit by £10 per week <sup>11</sup>	135	155	135	155

1. The estimated revenue effects of the changes in 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 2005.

2. Assuming the changes in 2005-06 are carried through to 2006-07.

3. Estimates assume rate changes apply to profits from April 2005

4. Estimates include both residential and commercial transactions.

5. Rate charged between the entry threshold and upper earnings limit.

6. Rate charged above the upper earnings limit.

7. Flat rate contributions payable by the self-employed with earnings above the small earnings exception rate.

8. Profit related contributions payable by the self-employed.

9. Rate between the lower and upper profits limits.

10. Rate charged above the upper profits limits.

11. Estimates include both employees and employers national insurance contributions.

## TAX READY RECKONER AND TAX RELIEFS

Table 6: Direct effects of illustrative changes 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>		
				2005–06 (NAB)	2006–07 (NAB)	2007–08 (NAB)
Beer and cider <sup>4</sup>	30p	Pint of beer	0.3p	40	40	40
Wine <sup>4</sup>	£1.23	75cl bottle of table wine	1.4p	15	15	20
Spirits <sup>4</sup>	£5.48	70cl bottle of whisky	6p	10	10	5
Tobacco <sup>4,5</sup>	£3.05	20 king size cigarettes	3.5p	neg	neg	neg
Petrol <sup>4</sup>	47.10p	Litre of ultra low sulphur	0.5p	105	105	110
Diesel <sup>4</sup>	47.10p	Litre of ultra low sulphur	0.5p	100	100	110
Vehicle Excise Duty <sup>6</sup>	£165	Car <sup>7</sup>	£1.65	50	50	50
Air passenger duty <sup>8</sup>	£5	Economy flight departure <sup>9</sup>	5p	neg	5	5
Landfill tax <sup>10</sup>	£2/£15	Tonne of waste	2p/18p	10	10	10
Climate change levy <sup>4,11</sup>	43p	100 kWh of business electricity	0.4p	10	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%		4,450	4,675	4,885
Insurance premium tax – standard and higher rates		Current rates are 5%, 17.5%		380	535	565

neg = negligible

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 2004.
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 2005 for all taxes except insurance premium tax (July 2005).
4. The tax change and revenue yield equals the change in duty plus the consequential VAT (at standard rate).
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. These figures are based on ONS data published in June 2004. They do not take account of the new smuggled share figure for cigarettes published today. Illustrative changes in tobacco duty are based on elasticity of demand estimates from the forthcoming GES working paper no 150 'The Demand for Tobacco Products in the UK', December 2004.
6. All Vehicle Excise Duty, including HGVs, cars, light vans and motorcycles.
7. Registered before 1 March 2001. Engine size greater than 1549cc.
8. Change applies to all air passenger duties, including both economy and business rates of travel for all flights.
9. Economy flight departure to European Economic Area, and Switzerland.
10. As announced in the 2002 Pre-Budget Report, the standard rate of landfill tax will increase by £3 per tonne in 2005-06 to £18 per tonne and by at least £3 per tonne in 2006-07 and 2007-08.
11. Change applies to all rates of climate change levy, including electricity, gas supplied by a gas utility, any petroleum gas or other gaseous hydrocarbon supplied in a gaseous state, and coke, coal, and lignite.

## TAX READY RECKONER AND TAX RELIEFS

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

	£ million	
	2003-04	2004-05
<b><u>Tax Expenditures</u></b>		
<b>Income tax</b>		
Relief for:		
Approved pension schemes <sup>2,3*</sup>	11,400	12,900
Share Incentive Plan <sup>4*</sup>	160	180
Approved savings-related share option schemes <sup>4,5*</sup>	140	160
Enterprise Management Incentives	50	60
Personal Equity Plans <sup>6*</sup>	625	425
Individual Savings Accounts *	1,000	1,200
Venture Capital Trusts	15	75
Enterprise Investment Scheme <sup>7*</sup>	180	180
Professional subscriptions <sup>8*</sup>	70	70
Rent a room *	90	90
Exemption of:		
First £30,000 of payments on termination of employment *	800	800
Interest on National Savings Certificates including index-linked certificates *	120	120
Tax Exempt Special Savings Account interest <sup>9*</sup>	50	0
Premium Bond prizes *	100	150
Income of charities <sup>10*</sup>	1,000	950
Foreign service allowance paid to Crown servants abroad *	90	90
First £8,000 of reimbursed relocation packages provided by employers *	300	300
Tax credits:		
Life assurance premiums (for contracts made prior to 14 March 1984) <sup>11</sup>	80	50
Child Tax Credit <sup>12</sup>	2,800	3,000
Working Tax Credit <sup>12</sup>	1,200	900
<b>Corporation tax</b>		
R&D tax credits <sup>13*</sup>	430	450
Relief for clearing contaminated land	75	80
<b>Income tax and corporation tax</b>		
Film tax relief <sup>14</sup>	140	70
<b>National insurance contributions</b>		
Relief for:		
Share Incentive Plan *	110	120
Approved savings-related share option schemes *	110	120
Employer contributions to approved pension schemes <sup>15*</sup>	5,800	6,600
<b>Capital gains tax</b>		
Exemption of gains arising on disposal of only or main residence <sup>16</sup>	10,500	12,000

## TAX READY RECKONER AND TAX RELIEFS

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

	£ million	
	2003-04	2004-05
<b>Inheritance tax</b>		
Relief for:		
Agricultural property *	190	200
Business property *	170	180
Exemption of transfers to charities on death *	340	380
<b>Value added tax <sup>17</sup></b>		
Zero-rating of:		
Food	10,050	10,450
Construction of new dwellings (includes refunds to DIY builders) <sup>18*</sup>	6,300	6,700
Domestic passenger transport	2,000	2,100
International passenger transport (UK portion) *	150	150
Books, newspapers and magazines	1,650	1,650
Children's clothing	1,150	1,200
Water and sewerage services	1,000	1,000
Drugs and supplies on prescription	1,100	1,150
Supplies to charities <sup>19*</sup>	200	200
Ships and aircraft above a certain size	450	500
Vehicles and other supplies to disabled people <sup>19</sup>	400	400
Reduced rate for: <sup>20</sup>		
Domestic fuel and power	1,800	1,800
Certain residential conversions and renovations	150	150
Energy-saving materials <sup>21</sup>	50	50
Women's sanitary products <sup>21</sup>	50	50
<b>Structural Reliefs</b>		
<b>Income tax</b>		
Personal allowance	36,400	37,900
<b>Corporation tax</b>		
Life companies reduced rate of corporation tax on policy holders' fraction of profit *	400	450
<b>Income tax and corporation tax</b>		
Double taxation relief <sup>22*</sup>	7,000	7,000
<b>National insurance contributions</b>		
Contracted-out rebate occupational schemes: *		
Rebates deducted at source by employers	6,900	7,200
Rebates paid by the Contributions Agency direct to the scheme	300	300
Personal and stakeholder pensions	3,400	3,500
<b>Value added tax <sup>17</sup></b>		
Refunds to:		
Northern Ireland Government bodies of VAT incurred on non-business purchases under the Section 99 refund scheme	250	300
Local Authority-type bodies of VAT incurred on non-business purchases under the Section 33 refund scheme (includes national museums and galleries under the Section 33A refund scheme)	6,000	6,650
Central Government, Health Authorities and NHS Trusts of VAT incurred on contracted-out services under the Section 41 (3) refund scheme	3,650	3,650

## TAX READY RECKONER AND TAX RELIEFS

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

	£ million	
	2003-04	2004-05
<b>Reliefs with Tax Expenditure and Structural Components</b>		
<b>Income tax</b>		
Age-related allowances <sup>23</sup>	2,000	2,100
Exemption of:		
British Government securities where owner not ordinarily resident in the United Kingdom *	850	850
Child Benefit (including one parent benefit) <sup>24</sup> *	980	1,070
Long-term incapacity benefit <sup>25</sup> *	610	610
Industrial disablement benefits *	80	80
Attendance allowance *	250	320
Disability living allowance *	500	550
War disablement benefits *	100	100
War widow's pension *	70	70
<b>Corporation tax</b>		
Small companies' reduced corporation tax rate	2,300	2,500
Starting rate of corporation tax	350	240
Exemption for gains on substantial shareholdings	260	260
<b>Income tax and corporation tax</b>		
Capital allowances <sup>26</sup> *	17,900	18,600
Of which:		
First year allowances for SMEs <sup>27</sup> *	180	180
First year allowances for small enterprises for information and communication technology <sup>28</sup>	160	0
Enhanced capital allowances for energy saving technology <sup>29</sup>	180	180
Accelerated capital allowances for Enterprise Zones	490	350
<b>Capital gains tax</b>		
Indexation allowance and rebasing to March 1982 <sup>30</sup>	300	300
Taper relief *	1,100	2,000
Exemption of:		
Annual exempt amount (half of the individual's exemption for trustees) *	1,100	1,500
Gains accrued but unrealised at death <sup>31</sup> *	600	650
<b>Petroleum revenue tax <sup>32</sup></b>		
Uplift on qualifying expenditure	180	130
Oil allowance	500	490
Safeguard: a protection for return on capital cost	220	120
Tariff receipts allowance	30	30
Exemption for gas sold to British Gas under pre-July 1975 contracts	80	100
<b>Inheritance tax</b>		
Nil rate band for chargeable transfers not exceeding the threshold *	8,500	9,500
Exemption of transfers on death to surviving spouses <sup>33</sup>	1,400	1,600

## TAX READY RECKONER AND TAX RELIEFS

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

	£ million	
	2003-04	2004-05
<b>Stamp duty land tax</b>		
Exemption of transfers of land and property where the consideration does not exceed the £60,000 threshold and from December 2003 non-residential land and property where the consideration does not exceed the £150,000 threshold <sup>34 *</sup>	150	170
Exemption of all residential transfers in designated disadvantaged wards where the consideration exceeds £60,000 but does not exceed £150,000 and exemption of all non-residential transfers <sup>34 *</sup>	530	1,000
Transfers to charities	40	60
Transfers between associated companies	610	740
Transfers to registered social landlords	160	60
<b>National insurance contributions</b>		
Reduced contributions for self-employed not attributable to reduced benefit eligibility (constant cost basis)	1,700	1,900
<b>Value added tax <sup>17</sup></b>		
Exemption of: <sup>35</sup>		
Rent on domestic dwellings *	2,550	2,700
Rent on commercial properties <sup>36 *</sup>	100	100
Private education	250	250
Health services *	700	750
Postal services	400	400
Burial and cremation	100	100
Finance and insurance <sup>37 *</sup>	2,400	2,550
Betting and gaming and lottery duties	1,150	1,200
Small traders <sup>38 *</sup>	450	450
<b>Vehicle Excise Duty</b>		
Exemption for disabled motorists	140	140

\* 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. *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.*
5. *Excludes the cost of the tax-free bonus or interest received under a SAYE contract. The costs take into account the partial offset provided by liability to capital gains tax arising from disposals of shares acquired under the scheme.*
6. *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.*
7. *The figure includes the CGT cost of deferral relief and exempting gains from tax.*
8. *Allowable under Sections 343 and 344 ITEPA 2003.*
9. *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.*
10. *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, from 2002-03 onwards, real property.*
11. *Including the cost of deductions at source for non-taxpayers.*
12. *These figures represent only the negative tax element of the tax credit payments. Negative tax is that part of the credit that is less than or equal to the tax liability of the family. Payments exceeding this liability are treated as public expenditure and are not included in these figures.*
13. *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. These figures represent only the negative tax element of the tax credit payments. Negative tax is that part of the tax relief due to the enhanced expenditure (i.e. amounts in excess of 100 per cent of the expenditure) which offsets liability to corporation tax. Directly payable tax credits are treated as public expenditure and are not included in these figures.*
14. *Section 48 of the Finance Act (No 2) 1997 introduced a tax relief for British qualifying films with total production expenditure not exceeding £15 million.*
15. *The baseline for the calculation is employer contributions to unapproved pension schemes.*
16. *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.*
17. *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 following the adoption of the European System of Accounts in autumn 1998. The list of VAT reliefs shown here is not exhaustive and excludes those reliefs (such as for bank notes or works of art) which are either estimated to cost less than £50m per year, or which cannot be quantified.*
18. *The methodology behind the construction figure has been revised and updated.*
19. *Costs exclude the zero-rating of items appearing higher in the list and the reduced rate on domestic fuel and power.*
20. *The figures for all reduced-rate items are estimates of the cost of the difference between the standard rate of VAT and the reduced rate of 5 per cent.*

## TAX READY RECKONER AND TAX RELIEFS

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21. *These estimates have been included in this list for the first time to reflect previous Budget measures.*
22. *Based on provisional corporation tax assessment data for accounting periods ending in 2002-03 and the results of the 2002-03 Survey of Personal Incomes.*
23. *These figures represent the cost of the excess of the age-related personal allowance over the corresponding allowances for non-aged taxpayers. They include £30 million in 2003-04 and £30 million in 2004-05 for the cost of the higher age-related allowances for those aged 75 and over.*
24. *The figures assume that Child Benefit is paid to the mother or lone father.*
25. *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.*
26. *The figures for capital allowances are on an accruals basis, net of balancing charges and reflect the cost in the year investment takes place. Because enhanced capital allowances bring forward tax relief from future years, most of the first year cost will be offset by lower allowances claims in the future.*
27. *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.*
28. *100 per cent first year allowances available to small enterprises investing in information and communication from 1 April 2000 to 31 March 2004.*
29. *100 per cent first year allowances are available for certain energy saving investments from April 2001.*
30. *The estimated costs relate to gains of individuals and trustees only. Company gains are not included because of estimation difficulties.*
31. *These estimates assume deferral relief on transfer of assets between spouses would be available.*
32. *The figures are net of any consequential effect on corporation tax and represent the effect on calendar year accruals in 2003 and 2004. The cost of all types of expenditure relief (i.e. capital expenditure, including uplift, operating expenditure and exploration and appraisal expenditure) is £1,350 million in 2003-04 and £1,400 million in 2004-05. These figures reflect the fact that, in the case of petroleum revenue tax, no distinction is made between revenue and capital.*
33. *These costs are in respect only of transfers for which an account is submitted to the Capital Taxes Office.*
34. *The threshold does not apply to transfers of shares. Includes likely effect of substitution of Disadvantaged Area Relief for other SDLT reliefs (such as Group Relief) and claiming of Disadvantaged Area Relief for transactions undertaken in earlier years.*
35. *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.*
36. *The methodology behind this figure has been revised and updated.*
37. *This 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. Hence the figures shown are tentative.*
38. *This cost relates to the exemption of traders below the turnover limit for VAT registration, currently £58,000.*