

These tables fall outside the scope of National Statistics.

Table 1.5: Tax expenditures and structural reliefs, 2007-08 and 2008-09

1. Table 1.5 shows the estimated costs of tax allowances and reliefs for 2007-08 and 2008-09. Only reliefs whose cost is £50m or more are included here. Reliefs whose cost is below £50m, or for which insufficient data exist upon which to base any reasonable estimates, are included in Tables B.1 and B.2.
2. The effect of some tax reliefs is to help or encourage particular types of individuals, activities or products. Such reliefs are often an alternative to public expenditure, and have similar effects. They are therefore called 'tax expenditures'. Other reliefs serve a different purpose. They may, for example, allow for the costs incurred in generating income, or reflect the board objectives of the tax, or be designed to simplify compliance or administration. Such reliefs are called 'structural reliefs'.
3. Some reliefs cannot be classified as either a tax expenditure or a structural relief, because they combine elements of both. For example, capital allowances give relief for the depreciation of most business assets in arriving at taxable profits – a structural relief – but where the allowances exceed true economic depreciation there is an element of accelerated relief – a tax expenditure.
4. All costs, except where specifically referred to in the footnotes, are the effects on the tax liabilities for each year, not receipts in each year. The classification of reliefs as tax expenditures, structural reliefs, and those with elements of both is broadbrush, and the distinction between tax expenditures and structural reliefs in particular is not always straightforward.
5. In interpreting the figures, the following considerations should be borne in mind:
 - i. each relief is costs separately: the combined cost of number of reliefs may differ significantly from the sum of the figures for the individual reliefs;
 - ii. the estimates do not allow for any behavioural changes as a result of the reliefs i.e. they represent the reduction in tax liabilities from the existence of the relief, and cannot generally be interpreted as the yield from withdrawing it. In practice withdrawing a relief – the exemption from capital gains tax on sale of owner-occupied houses is a good example – would often result in significant changes in taxpayers' behaviour and might require changes to other reliefs;
 - iii. the costs of the personal income tax allowance do not cover individuals who are not on Inland Revenue records because their income is below the tax threshold.

Table 1.6: Direct effect of illustrative tax changes, 2009-10 to 2011-12

6. Table 1.6 is a 'ready reckoner' showing the estimated effects of various illustrative tax changes on tax receipts in 2009-10 to 2011-12. The tax changes are assumed to take effect from April 2009. The estimates depend on forecasts of economic variables such as prices, earnings and interest rates. They are consistent with the November 2008 Pre-Budget Report. The estimates only cover the effects of tax changes on tax receipts. In practice changes to the tax regime will affect economic variables which in turn have further effects on tax receipts.
7. The figures are shown on a full accrual basis and 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.
8. The table is designed to be used as a ready reckoner. The effects of the changes can be scaled up or down over a reasonably wide range. Thus a reduction of 2p in a tax rate will cost roughly twice as much as a reduction of 1p. However, the extra cost of increasing an income tax allowance or rate limit by more than the amount shown falls as the allowance or rate limit rises. Therefore, estimates

are given for difference percentage changes, and for reductions as well as increases, for the main income tax allowance and limits.

9. The total cost or yield of a group of changes can be broadly assessed by adding together the estimated revenue effects of each change. However, if income tax allowances are increased substantially then the cost of a subsequent cut in tax rates will be reduced. In such cases the revenue effects of combining components from the ready reckoner can only be taken as a rough guide.