

1.5 Estimated costs of the principal tax expenditure and structural reliefs

	£ million	
	2008-09	2009-10
Tax Expenditures		
Income tax ¹		
Relief for:		
Registered pension schemes ^{2*}	18,900	19,700
Share Incentive Plan [*]	95	100
Save As You Earn ^{3*}	100	110
Enterprise Management Incentives [*]	135	145
Approved Company Share Option Plans [*]	65	60
Individual Savings Accounts ⁴	2,200	1,600
Venture Capital Trusts ^{5*}	70	80
Enterprise Investment Scheme ^{5*}	130	180
Professional subscriptions [*]	80	80
Rent a room [*]	120	120
Seafarers' Earnings Deduction [*]	160	170
Exemption of:		
First £30,000 of payments on termination of employment [*]	900	1,200
Interest on National Savings Certificates including index-linked certificates [*]	140	150
Premium Bond prizes [*]	200	110
Income of charities ^{6*}	1,300	1,300
Foreign service allowance paid to Crown servants abroad [*]	85	95
Personal Tax Credits ⁷	5,440	6,210
Employer Supported Childcare exemption [*]	500	600
Student maintenance awards	110	120
Corporation tax		
R&D tax credits ^{8*}	600	680
National insurance contributions		
Relief for:		
Share Incentive Plan [*]	65	70
Save As You Earn [*]	70	75
Enterprise Management Incentives	55	60
Employer contributions to registered pension schemes ^{9*}	8,200	8,300
Capital gains tax		
Exemption of gains arising on disposal of only or main residence ¹⁰	5,000	3,700
Inheritance tax		
Relief for:		
Agricultural property [*]	195	190
Business property [*]	150	155
Exemption of transfers to charities on death [*]	295	295
Value added tax ¹¹		
Zero-rating of:		
Food	11,450	10,650
Construction of new dwellings (includes refunds to DIY builders) [*]	5,700	5,350
Domestic passenger transport	2,600	2,350
International passenger transport (UK portion) [*]	150	150
Books, newspapers and magazines	1,500	1,350
Children's clothing	1,200	1,100
Water and sewerage services	1,350	1,300
Drugs and supplies on prescription	1,450	1,350
Supplies to charities ^{12*}	200	200
Ships and aircraft above a certain size	650	600
Vehicles and other supplies to disabled people ¹²	350	350
Reduced rate for: ¹³		
Domestic fuel and power	3,950	3,750
Certain residential conversions and renovations	150	150
Energy-saving materials	50	50
Women's sanitary products	50	50
Landfill tax		
Exemption of waste for contaminated land	55	70
Climate change levy		
Reduced rate for participants in Climate Change agreements	280	260
Exemption of electricity generated from certain renewable resources ¹⁴	70	90
Hydrocarbon oils duty		
Rate differential for biofuels	250	300

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Structural Reliefs		
Income tax ¹		
Personal allowance	50,100	51,800
Corporation tax		
Life companies reduced rate of corporation tax on policy holders' fraction of profit [*]	650	400
Tonnage tax ¹⁵	100	100
Income tax and corporation tax		
Double taxation relief and foreign dividends exemption [*]	15,000	15,000
National insurance contributions		
Contracted-out rebate occupational schemes: [*]		
Rebates deducted at source by employers	8,330	8,030
Rebates paid by the National Insurance Contributions office direct to the scheme	230	240
Contracted-out rebate personal and stakeholder pension schemes	2,430	2,400
Value added tax ¹¹		
Refunds to:		
Northern Ireland Government bodies of VAT incurred on non-business purchases under the Section 99 refund scheme	300	250
Local Authority-type bodies of VAT incurred on non-business purchases under the Section 33 refund scheme (includes museums and galleries under the Section 33A refund scheme)	8,050	7,550
Central Government, Health Authorities and NHS Trusts of VAT incurred on contracted-out services under the Section 41 (3) refund scheme	4,600	4,450
Hydrocarbon oils duty		
Tied oils scheme (Industrial Relief Scheme) ^{16, 25}	1,100	1,200
Climate change levy		
Supply of taxable commodities not for burning or consuming in the UK	225	215
Reliefs with Tax Expenditure and Structural Components		
Income tax ¹		
Age-related allowances ¹⁷	2,600	2,500
Exemption of:		
British Government securities where owner not ordinarily resident in UK [*]	2,140	2,600
Child benefit (including one parent benefit) [*]	1,190	1,200
Long-term incapacity benefit [*]	370	320
Attendance allowance [*]	160	150
Disability living allowance [*]	400	450
War disablement benefits [*]	70	70
Corporation tax		
Small companies' reduced corporation tax rate	3,100	3,200
Exemption for gains on substantial shareholdings	260	260
Income tax and corporation tax ¹		
Capital allowances ^{18*}	21,500	21,100
Of which:		
Annual Investment Allowance ¹⁹	1,550	1,500
Enhanced capital allowances for energy saving technology	100	100
Accelerated capital allowances for enterprise zones	50	50
Capital gains tax		
Exemption of:		
Annual exempt amount (half of the individual's exemption for trustees) [*]	1,500	1,500
Gains accrued but unrealised at death ^{20*}	290	280
Petroleum revenue tax ²¹		
Oil allowance	670	550
Tariff receipts allowance	60	60
Inheritance tax		
Nil rate band for chargeable transfers not exceeding the threshold [*]	10,300	10,200
Exemption of transfers on death to surviving spouses ²²	1,900	1,900
Stamp duty land tax		
Exemption of transfers of residential land and property where the consideration does not exceed the £125,000 threshold and non-residential land and property where the consideration does not exceed the £150,000 threshold ^{23*}	340	340
Transfers to charities	160	140
Group relief	740	570
Transfers to registered social landlords	130	100
Transfers involving public bodies	150	15
National insurance contributions		
Reduced contributions for self-employed not attributable to reduced benefit eligibility	1,900	1,850
Value added tax ¹¹		
Exemption of: ²⁴		
Rent on domestic dwellings [*]	3,850	3,450
Supplies of commercial property [*]	200	200
Education ^{25*}	1,150	1,050
Health services [*]	850	800
Postal services	200	200
Burial and cremation	100	100
Finance and insurance ^{25*}	3,050	2,800
Betting and gaming and lottery duties [*]	1,300	1,200
Small traders below the turnover limit for VAT registration [*]	1,500	1,350
Air Passenger Duty		
Non-passengers (e.g. cabin crew)	110	115
Vehicle Excise Duty		
Exemption for disabled motorists	180	180

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

¹The costs of the personal income tax allowances do not cover individuals who are not on HMRC records because their income is below the tax threshold.

²The cost of the tax relief is calculated as the tax that would be paid by registered pension schemes if they were not registered with HMRC and thus not able to benefit from the tax privileges associated with being a registered pension scheme. The figure is the sum of the front-end relief on contributions plus the relief on investment income of funds net of tax paid on current pension payments.

³Excludes the cost of the tax-free bonus or interest received under a Save As You Earn contract.

⁴From April 2008 all PEPs automatically became stocks and shares ISAs, therefore the cost of relief for PEPs is included in the cost of ISAs from 2008-09.

⁵These figures include the capital gains cost as well as the income tax cost.

⁶These figures comprise the total sum paid to charities and other qualifying bodies in respect of income tax deducted at source from eligible investment income and basic rate tax relief on donations under the Gift Aid scheme. Information is not available about income received by these bodies without deduction of tax, and no allowance is made for this. The figures also include an estimate of income tax relief, which is received by donors.

⁷These figures represent only the negative tax element of the tax credit payments. Negative tax is that part of the tax credit that is less than or equal to the tax liability of the family. The equivalent figures for the public expenditure element of tax credit payments are £18,460 million in 2008-09 and £21,190 million in 2009-10.

⁸These figures represent only the negative tax element of R&D tax credits. 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. The equivalent figures for the public expenditure element of R&D tax credits are £150 million in 2008-09 and £160 million in 2009-10.

⁹This value of the National Insurance Contribution relief is based on the assumption that should registered pension schemes become not registered with HMRC, employer contributions to them would be subject to NI charges as if they were earnings.

¹⁰The estimated cost of the exemption of main residence from capital gains tax does not represent the yield if this exemption were to be abolished, as consequential behavioural effects would substantially reduce yield.

¹¹Some of these tax expenditures and reliefs are mandatory or permitted under the EC 6th VAT Directive and some are derogations from the Directive. All the cost estimates relating to VAT are based on the actual standard rate of VAT that applied in the relevant periods – so the costings take into account the temporary reduction in the standard rate of VAT to 15.0% for a 13 month period between 1 December 2009 and 31 December 2009. After 31 December 2009, it is assumed that the standard rate of VAT is 17.5%.

¹²Costs exclude the zero-rating of items appearing elsewhere in the list.

¹³The 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.

¹⁴Supplies of electricity derived from renewable sources excluding those from hydro-electric stations with more than 10 Megawatts generating capacity.

¹⁵A concessionary tax regime for shipping companies.

¹⁶Exempt oils used for purposes other than heating and in engines.

¹⁷These figures represent the cost of the excess of the age-related personal allowance over the corresponding allowances of non-aged taxpayers. They include £45 million in 2008-09 and £45 million in 2009-10 for the cost of the higher age-related allowances for those aged 75 and over.

¹⁸The 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.

¹⁹From April 2008 Annual Investment Allowance, available to all businesses regardless of size, replaced the First Year Allowances previously available to SMEs.

²⁰These estimates assume that assets transferred between spouses or civil partners on death would be exempt from capital gains tax.

²¹The figures are net of any consequential effect on corporation tax and represent the effect on calendar year accruals in 2008 and 2009. The cost of all types of expenditure relief (i.e. capital expenditure, including uplift, operating expenditure and exploration and appraisal expenditure) is £1,800 million in 2008-09 and £1,600 million in 2009-10. These figures reflect the fact that, in the case of petroleum revenue tax, no distinction is made between revenue and capital.

²²Includes civil partnerships. These costs are only in respect of transfers for which an account is submitted to HMRC.

²³Ignores the temporary increase in the £125,000 threshold to £175,000 for residential transactions (from September 2008 to December 2009).

²⁴Traders are unable to charge output tax on exempt goods and services, but are also unable to reclaim input tax. These estimates reflect the net effect of VAT exemption, compared to applying the standard rate of VAT. There may also be some additional revenue gain as a result of the exemption; some of the costs of irrecoverable input tax may be reflected within the prices of intermediate goods and services. This could then feed through the supply chain to the final prices of other taxable goods and services, and to the amount of VAT collected on them. This additional effect is not included in the estimates explicitly.

²⁵The methodology for these figures has been revised and updated.