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1979 BUDGET EXPLANATORY TABLES

The Income Tax Proposals

The Chancellor's main income tax proposals are as follows:

- Increases in the main personal allowances of over 18 per cent compared with 1978-79. These increases are double those contained in the pre-Election Caretaker Finance Act. The proposed increases are:

	1978-79 level £	Proposed increase £	1979-80 proposed level £
Single person's allowance (and wife's earned income relief)	985	180	1165
Married man's allowance	1535	280	1815
Age allowance (single)	1300	240	1540
Age allowance (married)	2075	380	2455
Additional personal allowance	550	100	650

- A 3p cut in basic rate from 33 per cent to 30 per cent.
- A cut from 83 per cent to 60 per cent in the top rate of income tax.
- A raising of the point (from £8000 to £10000) at which higher rate tax starts to be paid; and a stretching out of the higher rate bands.

The new structure of tax rates will be:

Rate of tax	1979-80 taxable income	1978-79 taxable income
£	£	£
25	0- 750	0- 750
30	751-10,000	
33		751- 8,000
40	10,001-12,000	8,001- 9,000
45	12,001-15,000	9,001-10,000
50	15,001-20,000	10,001-11,000
55	20,001-25,000	11,001-12,500
60	over 25,000	12,501-14,000
65		14,001-16,000
70		16,001-18,500
75		18,501-24,000
83		over 24,000

- An increase in the threshold for the investment income surcharge to £5000 for all taxpayers. This doubles the threshold for those aged 65 or over and more than doubles it for those under 65. The 10 per cent rate of surcharge is to be abolished.
- An increase in the age allowance income limit from £4000 (in 1978-79) to £5000.

The Indirect Tax Proposals

The Chancellor's main indirect tax proposals are:

- Unification of the standard and higher rates of VAT at 15 per cent.
- Increases of around 7p a gallon in petrol and derv duties, and $\frac{1}{2}$ p a gallon in rebated oil duty (excluding burning oil and paraffin).

Vat in this country covers about half of consumer expenditure. It does not apply to necessities like food, children's clothing, domestic heating and lighting, public transport or housing. In general these items tend to account for a larger proportion of total expenditure at lower than at higher income levels. Unification at 15 per cent means, therefore, that the average effective rate of VAT on total consumer spending will be about 8 per cent. Up-to-date comparable figures for other EEC countries are not available. They depend on the changing pattern of consumption as well as the latest structure of VAT rates. The most recent comparative figures (1976) suggest that the new UK effective rate will be amongst the lowest in the Community. The figures for many other EEC countries are in the range of 11 to 15 per cent.

Petrol taxation has been falling sharply in real terms in the last few years. Between February 1974 and April 1979, a period in which the RPI increased by 110 per cent, petrol taxation rose by only 78 per cent. And the share of taxation in the total price of petrol has fallen from over 60 per cent in the spring of 1973 before the oil price rise to less than 43 per cent immediately before the Budget. It will now be about 48 per cent, assuming a price after the Budget of around £1.05 a gallon.

Timing of Changes

The changes in the duties on petrol, derv and rebated oil will take effect from 6pm today. The unification of VAT will take effect from Monday 18 June.

The increases in the personal allowances (including refunds of tax overpaid since 6 April) should be reflected in pay packets for the bulk of those on PAYE on the first pay day after 12 July. The cut in basic rate and the reductions in higher rate tax (again with refunds) should affect pay packets from the first pay day after 5 October.

The Effects of the Changes

The substantial cuts in income tax are the keystone of the Chancellor's policy. They are designed to improve incentives by giving greater rewards for hard work, responsibility and success. Those at the bottom of the earnings ladder should benefit in particular from the increases in the personal allowances. Those in the middle will benefit from the cut in basic rate. And the higher rate taxpayer will benefit in particular from the reduction in the present high marginal rates.

The Chancellor explained in his Budget Speech that the cuts in income tax are only the first instalment of changes to come.

The increases in the personal allowances mean that no tax at all will be paid by some 1.3 million people who would have been liable had the allowances remained at 1978-79 levels; over 700,000 of these would have been liable if the allowances had remained at the level fixed in the Caretaker Finance Act. The increases in the higher rate threshold will mean that there will be some 450,000 fewer higher rate taxpayers than would otherwise have been the case.

The loss of revenue because of the cuts in income tax will be some £3.5 billion in 1979-80 and some £4.5 billion in a full year.

The room for the cuts in income tax has come from a combination of reductions in public expenditure and increases in VAT and the duties on petrol, derv and rebated oil. The indirect tax changes taken together will raise about £2.4 billion in 1979-80 and £4.7 billion in a full year. The direct impact on the RPI will be about $3\frac{1}{2}$ per cent.

The switch from taxes on income to taxes on spending will substantially increase the freedom of wage and salary earners - those who produce our goods and services - to do with their money what they, and not the Government, think best.

As the Chancellor pointed out in his Budget Speech, the income tax reductions will be retrospective to April 1979, so the benefit of a full year's tax cuts will be concentrated into the next ten months. Over this period, the increase in net take home pay arising from the reductions in income tax will more than make up for the rise in prices associated with the changes in VAT and oil duties.

The Explanatory Tables

The attached tables 1 to 6 show the effects, compared with 1978-79, of the changes in income tax proposed in the Budget on single and married taxpayers at different levels of income for the 1979-80 financial year as a whole. There are separate tables for elderly persons benefiting from the increases in the age allowances and the age allowance income limit, as well as from the changes in the investment income surcharge. Tables 5 and 6 give the information in the form of weekly instead of annual incomes at levels up to £200 a week, averaged over the whole year.

Table 7 shows the weekly net income of a family with two young children in 1979-80, compared with 1978-79, after taking account of the increases in Child Benefit and National Insurance contributions.

Tables 8 and 9 show how, for single people and married couples, the income tax burden - the proportion of income taken in income tax - has varied between 1973-74 and 1979-80. (The comparative income levels have been arrived at by reference to the retail prices index.)

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94/79

SINGLE PERSONS - INCOME ALL EARNED - ANNUAL FIGURES

TABLE 1

Income	Charge for 1978/79		Proposed charge for 1979/80		Reduction in tax after proposed changes
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	
£	£	per cent	£	per cent	£
1,500	129	8.6	84	5.6	45
2,000	275	13.8	213	10.7	62
2,500	440	17.6	363	14.5	77
3,000	605	20.2	513	17.1	92
3,500	770	22.0	663	18.9	107
4,000	935	23.4	813	20.3	122
4,500	1,100	24.4	963	21.4	137
5,000	1,265	25.3	1,113	22.3	152
6,000	1,595	26.6	1,413	23.6	182
7,000	1,925	27.5	1,713	24.5	212
8,000	2,255	28.2	2,013	25.2	242
9,000	2,586	28.7	2,313	25.7	273
10,000	2,987	29.9	2,613	26.1	374
15,000	5,664	37.8	4,588	30.6	1,076
20,000	9,091	45.5	7,030	35.2	2,061
25,000	12,843	51.4	9,722	38.9	3,121
30,000	16,992	56.6	12,663	42.2	4,329

TABLE 2

MARRIED COUPLES - INCOME ALL EARNED - ANNUAL FIGURES

Income	Charge for 1978/79		Proposed charge for 1979/80		Reduction in tax after proposed changes
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	
£	£	per cent	£	per cent	£
2,000	116	5.8	46	2.3	70
2,500	258	10.3	171	6.9	87
3,000	423	14.1	318	10.6	105
3,500	588	16.8	468	13.4	120
4,000	753	18.8	618	15.5	135
4,500	918	20.4	768	17.1	150
5,000	1,083	21.7	918	18.4	165
6,000	1,413	23.6	1,218	20.3	195
7,000	1,743	24.9	1,518	21.7	225
8,000	2,073	25.9	1,818	22.7	255
9,000	2,403	26.7	2,118	23.5	285
10,000	2,766	27.7	2,418	24.2	348
15,000	5,334	35.6	4,296	28.6	1,038
20,000	8,680	43.4	6,705	33.5	1,975
25,000	12,428	49.7	9,364	37.5	3,064
30,000	16,535	55.1	12,273	40.9	4,262

ELDERLY SINGLE PERSONS (AGED 65 OR OVER) - ANNUAL FIGURES

TABLE 3

Income	Charge for 1978/79		Proposed charge for 1979/80		Reduction in tax after proposed changes
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	
£	£	per cent	£	per cent	£
Income all earned					
2,000	175	8.8	115	5.8	60
2,500	335	13.4	250	10.0	85
3,000	500	16.7	400	13.4	100
3,500	665	19.0	550	15.7	115
4,000	830	20.8	700	17.5	130
4,500	1,100	24.4	850	18.9	250
5,000	1,265	25.3	1,000	20.0	265
5,500	1,429	26.0	1,250	22.7	179
6,000	1,595	26.6	1,413	23.6	182
7,000	1,925	27.5	1,713	24.5	212
8,000	2,255	28.2	2,013	25.2	242
9,000	2,586	28.7	2,313	25.7	273
10,000	2,987	29.9	2,613	26.1	374
Income half earned, half from investments					
Up to £5,000 as above					
5,500	1,454	26.5	1,250	22.7	204
6,000	1,645	27.4	1,413	23.6	232
7,000	2,050	29.3	1,713	24.5	337
8,000	2,455	30.7	2,013	25.2	442
9,000	2,861	31.8	2,313	25.7	548
10,000	3,337	33.4	2,613	26.1	724

TABLE 4

ELDERLY MARRIED COUPLES (EITHER HUSBAND OR WIFE AGED 65 OR OVER) - ANNUAL FIGURES

Income	Charge for 1978/79		Proposed charge for 1979/80		Reduction in tax after proposed changes
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	
£	£	per cent	£	per cent	£
Income all earned					
2,500	106	4.3	11	0.5	95
3,000	245	8.2	136	4.5	109
3,500	410	11.7	276	7.9	134
4,000	575	14.4	426	10.7	149
4,500	850	18.9	576	12.8	274
5,000	1,083	21.7	726	14.5	357
5,500	1,248	22.7	976	17.7	272
6,000	1,413	23.6	1,218	20.3	195
7,000	1,743	24.9	1,518	21.7	225
8,000	2,073	25.9	1,818	22.7	255
9,000	2,403	26.7	2,118	23.5	285
10,000	2,766	27.7	2,418	24.2	348
Income half earned, half from investments					
Up to £5,000 as above					
5,500	1,273	23.2	976	17.7	297
6,000	1,463	24.4	1,218	20.3	245
7,000	1,868	26.7	1,518	21.7	350
8,000	2,273	28.4	1,818	22.7	455
9,000	2,678	29.8	2,118	23.5	560
10,000	3,116	31.2	2,418	24.2	698

TABLE 9

SINGLE AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES

Income	Charge for 1978/79		Proposed charge for 1979/80		Reduction in tax after proposed changes
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	
£	£	per cent	£	per cent	£
	Single persons				
30.00	2.77	9.2	1.90	6.3	0.87
35.00	4.15	11.8	3.15	9.0	1.00
40.00	5.80	14.5	4.56	11.4	1.24
50.00	9.10	18.2	7.56	15.1	1.54
60.00	12.40	20.7	10.56	17.6	1.84
70.00	15.70	22.4	13.56	19.4	2.14
80.00	19.00	23.7	16.56	20.7	2.44
90.00	22.30	24.8	19.56	21.7	2.74
100.00	25.60	25.6	22.56	22.6	3.04
120.00	32.20	26.8	28.56	23.8	3.64
150.00	42.10	28.1	37.56	25.0	4.54
200.00	60.90	30.5	52.56	26.3	8.34
	Married Couples				
35.00	1.37	3.9	0.02	0.1	1.35
40.00	2.62	6.6	1.27	3.2	1.35
50.00	5.61	11.2	3.81	7.6	1.80
60.00	8.91	14.8	6.81	11.3	2.10
70.00	12.21	17.4	9.81	14.0	2.40
80.00	15.51	19.4	12.81	16.0	2.70
90.00	18.81	20.9	15.81	17.6	3.00
100.00	22.11	22.1	18.81	18.8	3.30
120.00	28.71	23.9	24.81	20.7	3.90
150.00	38.61	25.7	33.81	22.5	4.80
200.00	56.27	28.1	48.81	24.4	7.46

ELDERLY SINGLE AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES

TABLE 6

Income	Charge for 1978/79		Proposed charge for 1979/80		Reduction in tax after proposed changes
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	
£	£	per cent	£	per cent	£
	Elderly Single persons				
30.00	1.25	4.2	0.10	0.3	1.15
35.00	2.50	7.1	1.35	3.8	1.15
40.00	3.80	9.5	2.60	6.5	1.20
50.00	7.09	14.2	5.39	10.8	1.70
60.00	10.39	17.3	8.39	14.0	2.00
70.00	13.69	19.6	11.39	16.3	2.30
80.00	17.67	22.1	14.39	18.0	3.28
90.00	22.29	24.8	17.39	19.3	4.90
100.00	25.59	25.6	21.16	21.2	4.43
120.00	32.20	26.8	28.56	23.8	3.64
150.00	42.10	28.1	37.56	25.0	4.54
200.00	60.90	30.5	52.56	26.3	8.34
	Elderly Married Couples				
50.00	2.53	5.0	0.70	1.4	1.83
60.00	5.48	9.1	3.20	5.3	2.28
70.00	8.78	12.5	6.12	8.7	2.66
80.00	12.76	15.9	9.12	11.4	3.64
90.00	18.26	20.3	12.12	13.5	6.14
100.00	22.10	22.1	15.88	15.9	6.22
120.00	28.71	23.9	24.81	20.7	3.90
150.00	38.61	25.7	33.81	22.5	4.80
200.00	56.27	28.1	48.81	24.4	7.46

TABLE 7

FAMILIES WITH CHILDREN
MARRIED COUPLE WITH 2 CHILDREN NOT OVER 11 - NET WEEKLY INCOME

Weekly earnings	Net weekly income in 1978/79 (after November 1978 increase in child benefit) (See Note)				Net weekly income in 1979/80 including proposed tax changes				Increase in net income
	Child benefit	Income tax	National insurance contributions	Net income	Child benefit	Income tax	National insurance contributions	Net income	
£	£	£	£	£	£	£	£	£	£
35.00	6.00	0.41	2.27	38.32	8.00	0.02	2.27	40.71	2.39
40.00	6.00	1.66	2.60	41.74	8.00	1.27	2.60	44.13	2.39
50.00	6.00	4.33	3.25	48.42	8.00	3.81	3.25	50.94	2.52
60.00	6.00	7.63	3.90	54.47	8.00	6.81	3.90	57.29	2.82
70.00	6.00	10.93	4.55	60.52	8.00	9.81	4.55	63.64	3.12
80.00	6.00	14.23	5.20	66.57	8.00	12.81	5.20	69.99	3.42
90.00	6.00	17.53	5.85	72.62	8.00	15.81	5.85	76.34	3.72
100.00	6.00	20.83	6.50	78.67	8.00	18.81	6.50	82.69	4.02
120.00	6.00	27.43	7.80	90.77	8.00	24.81	7.80	95.39	4.62
150.00	6.00	37.33	7.80	110.87	8.00	33.81	8.77	115.42	4.55
200.00	6.00	54.73	7.80	143.47	8.00	48.81	8.77	150.42	6.95

Notes

Net income is earnings, less tax and national insurance contributions, plus child benefit. It does not include any means-tested benefit.

National insurance contributions are for a person not contracted out of the new pension scheme.

Child Benefit was increased from £2.30 to £3.00 a week for each child in November 1978.

TABLE 8

SINGLE PERSON - INCOME ALL EARNED - COMPARISON WITH 1973/74

Income in 1979/80	Proposed charge for 1979/80		Equivalent gross income in 1973/74	Tax charged in 1973/74		Change in the percentage of income taken in tax (Column A minus column B)
	Income tax	Percentage of total income taken in tax (A)		Income tax	Percentage of gross income taken in tax (B)	
£	£	per cent	£	£	per cent	per cent
1,500	84	5.6	645	15	2.3	3.3
2,000	213	10.7	860	79	9.2	1.5
2,500	363	14.5	1,075	144	13.4	1.1
3,000	513	17.1	1,290	208	16.2	0.9
3,500	663	18.9	1,505	273	18.1	0.8
4,000	813	20.3	1,720	337	19.6	0.7
4,500	963	21.4	1,935	402	20.8	0.6
5,000	1,113	22.3	2,151	467	21.7	0.6
6,000	1,413	23.6	2,581	596	23.1	0.5
7,000	1,713	24.5	3,011	725	24.1	0.4
8,000	2,013	25.2	3,441	854	24.8	0.4
9,000	2,313	25.7	3,871	983	25.4	0.3
10,000	2,613	26.1	4,301	1,112	25.9	0.2
15,000	4,588	30.6	6,452	1,843	28.6	2.0
20,000	7,030	35.2	8,602	2,854	33.2	2.0
25,000	9,722	38.9	10,753	4,045	37.6	1.3
30,000	12,663	42.2	12,903	5,350	41.5	0.7

The equivalent gross income in 1973/74 is obtained by dividing the 1979/80 income by 2.325, the factor by which prices (measured by the retail prices index) have increased between April 1973 and April 1979.

TABLE 9

MARRIED COUPLES - INCOME ALL EARNED - COMPARISON WITH 1973/74

Income in 1979/80	Proposed charge for 1979/80		Equivalent gross income in 1973/74	Tax charged in 1973/74		Change in the percentage of income taken in tax (Column A minus column B)
	Income tax	Percentage of total income taken in tax (A)		Income tax	Percentage of gross income taken in tax (B)	
£	£	per cent	£	£	per cent	per cent
2,000	46	2.3	860	25	3.0	-0.7
2,500	171	6.9	1,075	90	8.4	-1.5
3,000	318	10.6	1,290	154	12.0	-1.4
3,500	468	13.4	1,505	219	14.6	-1.2
4,000	618	15.5	1,720	283	16.5	-1.0
4,500	768	17.1	1,935	348	18.0	-0.9
5,000	918	18.4	2,151	413	19.2	-0.8
6,000	1,218	20.3	2,581	542	21.0	-0.7
7,000	1,518	21.7	3,011	671	22.3	-0.6
8,000	1,818	22.7	3,441	800	23.2	-0.5
9,000	2,118	23.5	3,871	929	24.0	-0.5
10,000	2,418	24.2	4,301	1,058	24.6	-0.4
15,000	4,296	28.6	6,452	1,771	27.5	1.1
20,000	6,705	33.5	8,602	2,763	32.1	1.4
25,000	9,364	37.5	10,753	3,938	36.6	0.9
30,000	12,273	40.9	12,903	5,233	40.6	0.3

The equivalent gross income in 1973/74 is obtained by dividing the 1979/80 income by 2.325, the factor by which prices (measured by the retail prices index) have increased between April 1973 and April 1979.