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PRIME MINISTER

To see

MJ

TAX AND PRICE INDEX, MARCH 1980

The Tax and Price Index (TPI) for March was 127.2 based on January 1978=100. Over the twelve months to March the increase in the TPI is 17.6 per cent compared with an increase of 19.8 per cent in the Retail Prices Index (RPI). The March figures are not affected by the measures announced in the Budget. For both the RPI and the TPI, these measures will first be reflected in the April figures.

TAX AND PRICE INDEX

	TPI (January 1978 = 100)		Percentage change in TPI over 12 months		Corresponding change in RPI	
	1979	1980	1979	1980	1979	1980
January	106.1	123.2	6.1	16.1	9.3	18.4
February	107.2	125.3	6.5	16.9	9.6	19.1
March	108.2	127.2	6.6	17.6	9.8	19.8
April	110.5		12.3*		10.1	
May	111.6		12.7*		10.3	
June	113.8		13.8*		11.4	
July	113.8		13.2		15.6	
August	114.9		13.4		15.8	
September	116.2		14.1		16.5	
October	117.6		14.8		17.2	
November	118.8		15.1		17.4	
December	119.8		14.9		17.2	

* These figures reflect the changes in the 1978 Finance Act, which affect the TPI from April 1978, but not the 1979 Budget changes which are included from July 1979.

prepared by the Government Statistical Service

Notes to editors

1. The purpose and methodology of the TPI were described in an article in the August 1979 issue of Economic Trends and in the September Economic Progress Report published by the Treasury. The series from January 1974 to November 1979 was published in the monthly Digest of Statistics for December. A short account comparing movements in that series with those in the RPI and in the index of average earnings appeared in the Treasury's January 1980 Economic Progress Report.

2. The purpose is to produce a single index which measures changes in both direct taxes (including national insurance contributions) and in retail prices for a representative cross-section of taxpayers. Thus, while the RPI may be used to measure changes in the purchasing power of after-tax income (and of the income of non-taxpayers), the TPI takes account of the fact that taxpayers will have more or less to spend according to changes in direct taxation. The index measures the change in gross taxable income which would maintain after-tax income in real terms.

3. The change over twelve months in the March Retail Prices Index, which measures changes in the prices paid by households for the goods and services they buy, reflects the price increases resulting from increases in Value Added Tax and other indirect taxes in the June 1979 Budget(as the reference day for March 1980 is 18 March, it is not affected by the Budget announcements of 26 March). The RPI does not reflect the corresponding or offsetting changes in income tax in the June 1979 Budget. The Tax and Price Index is an additional, more comprehensive index.

4. Movements in the TPI show the effects on taxpayers' costs of both inflation and inflationary fiscal drag, and changes in tax rates and thresholds. Budget changes usually occur once a year. So movements over periods of twelve months should be the main interest since they will normally include the combined effects of the Budget changes and movements in the general price level. However the timing of Budgets may affect the most useful period over which to make comparisons.

5. Between Budgets the TPI will rise more than the RPI because of inflationary fiscal drag, ie the extra income which would offset the loss in spending power as a result of the rise in prices is assumed in the index to be taxed at full marginal rates. This explains why the increase in the TPI in March over February is 1.5 per cent compared with an increase of 1.4 per cent in the RPI. But, as mentioned in the previous paragraph, it is the change over twelve months which should be the focus of interest.

6. Non-taxpayers and income groups earning over £12,000 a year at January 1980 are excluded from the TPI. Non-taxpayers are excluded because the RPI or the associated indices for pensioner households already provide a measure of the changes which would maintain the purchasing power of both net and gross incomes. Higher incomes (though not all higher rate taxpayers in some of the earlier years) are excluded because the changes in their tax liability are not necessarily representative of the majority of taxpayers, and because they are excluded in broadly the same percentage terms (the top 4 per cent) from the households on whose expenditure patterns the RPI is based. Otherwise, everybody is included whether working or retired so long as they pay tax.

7. The TPI reflects changes in people's tax liabilities. If the index were to reflect actual payments rather than liabilities it would be subject to highly erratic movements which would be very difficult to interpret and could be misleading. The principle behind the choice of tax liabilities is already reflected in the RPI, which measures the prices people face. For example, electricity price increases are incorporated in the RPI when people begin to incur them, not when the bills or the new rates are rendered some three months later.

8. The index is a composite index based on data collected in a sample of tax records selected in the Inland Revenue's Survey of Personal Incomes in 1977/78. After the exclusion of the higher-incomes groups the sample comprises 80,000 tax units at different levels of income and in different tax circumstances. The gross income used in the index is the taxable income of these 80,000 tax units, ie their pay, self-employment income, pensions and investment income; non-taxable income, in particular child benefit, is excluded.