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A Narrative Account of Income and Consumption Tax Changes in the United Kingdom 1973-2009

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Abstract

This companion paper sets out the detailed narrative classification of the exogenous tax changes used in Nguyen, Onnis, and Rossi (2017) 'The Macroeconomic Effects of Income and Consumption Tax Changes'.

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1 Introduction

The identification strategy used in Nguyen, Onnis, and Rossi (2017) consists in using the narratively identified exogenous policy changes as instruments or 'proxy' for the true (latent) tax shocks in a structural VAR fashion, i.e. 'Proxy-SVAR', see Stock and Watson (2012) and Mertens and Ravn (2014). The crucial point of this identification strategy consists in assuming that narrative measures of exogenous policy changes correlate with latent tax shocks but are orthogonal to other structural shocks. Hence, this approach uses the information provided by narrative datasets but it is robust to potential measurement errors as it does not require perfect correlation between the narrative measures and the latent structural tax shocks. At the same time, it avoids any identifying assumption or prior for the key structural elasticities. In turn, these elasticities are directly estimated within the econometric model.

The aim of this paper is to present in details our novel narrative measure of consumption and income tax shocks for the United Kingdom for the period 1973-2009. Our measure of tax changes complements Cloyne (2012, 2013)'s dataset by decomposing the total tax liabilities changes into the following subcomponents: i) Value-added tax liabilities (VAT), ii) consumption-related duties tax liabilities (Duties), iii) personal income tax liabilities (PI), iv) corporate tax liabilities (CI), v) national insurance tax liabilities (NIC), vi) petroleum income tax (PetIT) and vii) a residual category with other revenue changing tax measures (OT).[1] We aggregate i) and ii) as consumption taxes, while we consider the total of iii), iv), v) and vi) as income taxes. Precise categorisation and grouping are reported in Table 1.

We then classify by motivation each tax change of the subcomponents and retain only the 'exogenous' tax changes, i.e. those uncorrelated with current or prospective economic conditions. For this task, most of the information is reported in Cloyne (2013) and its companion paper Cloyne (2012). However in some cases there is not quite enough detail for our categorisation. For example, Cloyne (2012) precisely catalogues all the major tax changes, their implementation dates and revenue ef-

[1] We group in the OT residual category, stamp duties, landfill tax, business rate, aggregate levy, climate change levy and other minor taxes.

Table 1 – Inside Income and Consumption Taxes

Group	Sub-category
Income	1. Self assessed income tax.
	2. Capital gains tax.
	3. National Insurance Contributions.
	4. Pay As You Earn (PAYE) Income Tax.
	5. Other personal income taxes.
	6. Corporation tax.
	7. Petroleum revenue tax.
	8. Miscellaneous.
Consumption	1. Value Added Tax (VAT).
	2. Fuel Duties.
	3. Alcohol Duties (from 1993 onwards).
	4. Tobacco Duties.
	5. Other Duties.

Notes: The category 'Other personal income taxes' mainly consists of repayments and those tax credits recorded as negative taxes plus company IT and TDSI (tax deduction scheme for interest). The category 'Other duties' includes: Vehicle excise duties (VED), taxes on betting, gaming, lottery, Camelot payments to National Lottery (from 1986 onwards), air passenger duty (from 1995 onwards), insurance premium tax (from 1995 onwards).

fects. However, the minor tax changes are not fully discussed (for brevity) and, in some (rare but still important) cases, the types of tax changes are not specifically categorised in a manner that is precise enough for our purpose. Therefore, we supplement Cloyne (2012) with additional information from the Financial Statements and Budget Reports (FSBR), the Pre-Budget documets (from 1997 onwards), the Budget speech by the Chancellor of the Exchequer and related entries, the minutes of the British parliament and the total liability effects of each Budget.[2] Furthermore, we discriminate between anticipated and non-anticipated tax shocks. We classify as non-anticipated all those liability changes that were implemented during one quarter from their announcement date and use only these non-anticipated exogenous tax changes. By doing so we avoid possible anticipation effects of tax reforms, see Mertens and Ravn (2012). Table 2 details the classification method of the legislated tax changes. In what follows we describe in details all the exogenous, non-anticipated consumption and income tax changes legislated between 1973 and 2009.

[2]The minutes of the British Parliament can be downloaded at http://hansard.millbanksystems.com/, while total the total liability effects of each Budget are taken from Cloyne (2012) and www.jamescloyne.webspace.virginmedia.com/data.pdf.

Table 2 – Classification of different tax changes, Cloyne (2012, 2013).

Group	Sub-category	Explanation and examples
Endogenous	1. Demand Management (**DM**)	1.a Targeting the aggregate level of demand e.g. to boost investment, consumption, growth, or curb inflation. 1.b Specific help to households and individuals by stimulating disposable income. 1.c Dealing with a balance of payments crisis via demand.
	2. Supply Stimulus (**SS**)	2.a Certain help for businesses during a downturn (e.g. NIC cut). 2.b Short term sector support (e.g. targeted tax cuts for a sector).
	3. Deficit Reduction (**DR**)	3.a Direct measures to deal with a budget or external deficit.
	4. Spending Driven (**SD**)	4.a Taxes which fund specific spending commitments contemporaneously caused.
Exogenous	1. Long-Run performance (**LR**)	1.a Measures to improve competitiveness, productivity, efficiency and long-run growth (but not taken to offset a shock). 1.b Simplification and deregulation measures. 1.c Long-term support for business or sectors of the economy.
	2. Ideological (**IL**)	2.a Long-term social or political goals, independent of their effect on performance and not to offset current shocks. 2.b Some anti-avoidance measures (where no other motive is given).
	3. External (**ET**)	3.a Court rulings and enforcement of directives.
	4. Deficit Consolidation (**DC**)	4.a Measures to lower inherited deficit for reasons of economic philosophy or to offset current actions in the future. 4.b Does not include actions forced on the government, or decisions contemporaneous motivated by a current shock.

2 The Narrative Dataset

2.1 Budget 6th March 1973

Chancellor: Anthony Barber; **Prime Minister**: Edward Heath (Conservative)

Main objectives: The 1973 Budget aimed to 'keep the economy growing, and to keep it growing over the next year or so at a rate comparable with that we have now achieved' (HC Deb 06 March 1973 vol 852 c238). The Chancellor also argued that 'the Budget should on this occasion be broadly neutral' as 'I believe that on this basis the economy will continue to grow at an annual rate of around 5 per cent over the 18 months from the second half of 1972 to the first half of 1974' (HC Deb 06 March 1973 vol 852 c249). Consequently, there were no discretionary stimulus or slowdown, implying that most of tax changes are exogenous as justified by the discussions below.

- **Consumption Tax Changes**

    1. VAT reduction for food, children clothes and footwear. **Liability effect**: -165m £, second quarter.[3] **Motivation**: Ideological. As documented in Cloyne (2012), these changes appear social objectives. For instance, purchase tax on food 'falls heavily on families with children' and 'The day has passed when these items can seriously be regarded as luxuries in the old sense of the word' (HC Deb 06 March 1973 vol 852 c276). Or, the footwear change follows from recommendations in a report commissioned to 'consider to what extent the price of children's footwear contributes to the incidence of foot abnormalities' (HC Deb 06 March 1973 vol 852 c275). The change in clothing tax follows an admission: 'I can sum up my decision by saying on Shrove Tuesday, the traditional day of repentance: 'I was wrong'. It will be zero-rated' (HC Deb 06 March 1973 vol 852 c275).

- **Income Tax Changes**

    1. Closing of some loopholes in the structure of Corporation Tax. **Liability effect**: 100m £, second quarter. **Motivation**: Ideological. '[...] unless I could also take action to counter certain artificial manipulations of the group relief provisions involving in effect the sale of capital and other allowances at a discount. This abuse was spreading rapidly and there was reason to fear a possible loss of tax of the order of £100 million a year.' (HC Deb 06 March 1973 vol 852 c262).

[3]Following Cloyne (2012, 2013), we assume that changes implemented in the second half of a calendar quarter have their economic effect in the next quarter.

2. Increase in the income limit for age exemption. **Liability effect**: -12m £, 1973Q2. **Motivation**: Ideological. 'The purpose of this exemption is to recognise the special position of the elderly. The limits will be raised so that no married couple, where either spouse is aged 65 or over, will pay any tax on an income of £1,000 or less.' (HC Deb 06 March 1973 vol 852 c266).

2.2 Budget 6th April 1976

Chancellor: Denis Healey; **Prime Minister**: James Callaghan (Labour)
Main objectives: The Budget aimed to create the conditions in which 'output and productivity are most likely to increase' and 'wage costs can be kept as low as possible, without unnecessarily reducing real take home pay' (HC Deb 06 April 1976 vol 909 cc245-246).

- **Income tax changes**

1. Change in allowances in the year of marriage. **Liability effect**: 60m £, second quarter **Motivation**: Long Run. '[...] to correct an anomaly which has caused a lot of unnecessary work. In the year in which a couple marry, the woman is at present entitled to the single person's allowance against her income before marriage and her husband is entitled to the wife's earnings allowance against her post-marriage earnings. I propose to end this duplication of allowances in the year of marriage' (HC Deb 06 April 1976 vol 909 c263).

2. Increase in child allowance. **Liability effect**: -300m £, second quarter. **Motivation**: Ideological. This measure, together with a rise in age allowance and the age allowance income limit shown below, was design 'primarily to help sections of the population, like the old and children, who will not be involved in the coming negotiations on incomes policy' (HC Deb 06 April 1976 vol 909 c 274).

3. Increase in age allowance by income limit. **Liability effect**: -10m £, second quarter. **Motivation**: Ideological. See previous point.
4. Increase in age allowance. **Liability effect**: -54m £, second quarter. **Motivation**: Ideological. See previous point.

2.3 Budget, 11 April and Finance Bill, 8 May 1978

Chancellor: Denis Healey; **Prime Minister**: James Callaghan (Labour)
Main objectives: The Chancellor explained the Government's main objective 'must be to reduce the intolerable level of unemployment by stimulating demand in ways which create jobs at home without refuelling inflation' (HC Deb 11 April 1978 vol 947 c1187). The tone therefore is generally one of stimulating demand. However, there are some measures seemingly more aimed at boosting industrial performance.

- **Income tax changes**

1. Reduction of income tax rate by 1p, (Amendments during the 1978 Finance Bill debate). **Liability effect**: -370m £, second quarter. **Motivation**: Long Run. 'The way in which that ought to happen should be... by securing a reduction in the basic rate of tax and by doing something to restore incentives to the skilled worker, to the manager and to those who had their hopes raised last year by the Chancellor and have seen them as readily dashed this year' (HC Deb 08 May 1978 vol 949 c801).

2.4 Budget 12 June 1979

Chancellor: Geoffrey Howe; **Prime Minister**: Margaret Thatcher (Conservative)
Main objectives: The overall goal of the Budget was to transfer the burden of taxation from income to spending. Most of the measures are therefore classified either as 'long run' or 'ideological'. On the 12 of June 1979, The Chancellor of the Exchequer, Sir Geoffrey Howe announced: 'We made it clear in our manifesto that we intended to switch some of the tax burden from taxes on earnings to taxes on spending. This is the only way that we can restore incentives and make it more

worth while to work and, at the same time, increase the freedom of choice of the individual. We must make a start now' (HC Deb 12 June 1979 vol 968 cc249-250).

Specifically, the four objectives of the budget were: i) strengthening incentives; ii) enlarge freedom of choice and reduce the role of the State; iii) reduce the burden of financing in the public sector; and iv) ensure those taking part in collective bargaining understand the consequences of their actions, to promote a proper sense of responsibility (HC Deb 12 June 1979 vol 968 c240).

Part of the income tax cuts were implemented more than 90 days from the announcement date, and therefore they are excluded.

- **Consumption tax changes**

  1. Base VAT rate unified at 15 percent. **Liability effect**: 4175m £, third quarter. **Motivation**: Long Run. See the discussion on the main objectives of this Budget. The increase in VAT was very close to the total value of the income tax remissions, therefore funding the switch in the tax burden.

- **Income tax changes**

  1. Increase in single and married allowances. **Liability effect**: -915.4m £, third quarter. **Motivation**: Long Run. 'That brings me to the keystone of our policy. Excessive rates of income tax bear a heavy responsibility for the lack-lustre performance of the British economy. We need, therefore, to cut income tax at all levels. For the reasons I have already explained, I cannot do as much this year as I should have liked, and I cannot do as much as is needed. But, although it is only a first instalment, there should be no doubt in anyone's mind that this Budget marks a turning point' (HC Deb 12 June 1979 vol 968 c258).
  2. Increase in additional personal allowance by 100p. **Liability effect**: -6.4m £, third quarter. **Motivation**: Long Run. See above.

3. Increase in age allowance by 240p and 380p and income limit. **Liability effect**: -104.2m £, third quarter. **Motivation**: Ideological. This measure aimed to help specific sections of society.
4. Exemption of war widows' pensions. **Liability effect**: -6m £, third quarter. **Motivation**: Ideological. See previous point.

2.5 Budget 9th March 1982

Chancellor: Geoffrey Howe; **Prime Minister**: Margaret Thatcher (Conservative)
Main objectives: the Chancellor argued that 'Borrow, borrow, borrow' would not help the unemployed, better to secure lower borrowing and stable prices and at the same time 'to achieve substantial tax reforms, to promote the wider ownership of wealth, and to encourage the productive private sector' (HC Deb 09 March 1982 vol 19 c757). As noted in Cloyne (2012), this Budget began work on the Government's exogenous, long-term objectives.

- **Consumption tax changes**

1. Increase in Tobacco duties. **Liability effect**: 170m £, second quarter. **Motivation**: Long Run. 'For the Excise duties there has grown up in recent years a sensible presumption that they should be adjusted in line with the movement in prices from one year to the next. . . That is the basis of my approach to Excise duty changes this year' (HC Deb 09 March 1982 vol 19 c742). Then 'I start with the duty on tobacco. Last year the duty was increased twice—in March as part of the Budget measures and in July to help recoup the loss of revenue from the derv duty reduction' (HC Deb 09 March 1982 vol 19 c742). Given that the overall stance of the Budget provides significant remissions for exogenous, long-run reasons regarding income tax, the above changes are part of the package to fund the remissions and thus classified as exogenous, long-run.
2. Changes in rates of duty on light oil. **Liability effect**: 410m £, second quarter. **Motivation**: Long Run. '[...] Next, the oil duties. Last

year, as the House will recall, I felt it right to go some way to meet the representations made to me by hon. Members in favour of a lower increase in the case of derv than of petrol, in view of the impact of derv duty on industrial and distribution costs. I have decided this year slightly to widen that differential' (HC Deb 09 March 1982 vol 19 c742). See also previous point.

3. Changes in rates of duty on heavy oil. **Liability effect**: 85m £, second quarter. **Motivation**: Long Run. See above.
4. Changes in rates of duty on spirits. **Liability effect**: 30m £, second quarter. **Motivation**: Long Run. 'Next, alcoholic drinks. I propose to increase the duties from midnight tonight by amounts which represent about 2p on the price of a typical pint of beer, lop on a bottle of table wine, and 13p on a bottle of sherry—all including VAT. The full increase in the price of a bottle of spirits necessary to take account of inflation would have been over 50p.' (HC Deb 09 March 1982 vol 19 c742). See above.
5. Changes in rates of duty on beer. **Liability effect**: 175m £, second quarter. **Motivation**: Long Run. See above.
6. Changes in rates of duty on wine and made-wine. **Liability effect**: 38m £, second quarter. **Motivation**: Long Run. See above.
7. Minor changes on cider, pool betting and gaming duties. **Liability effect**: 12m £, second quarter. **Motivation**: Long Run. See above.
8. Changes in rates of Vehicle Excise Duty. **Liability effect**: 225m £, second quarter. **Motivation**: Long Run. See above.

- **Income tax changes**

1. Personal income tax cuts. **Liability effect**: -260m £, second quarter. **Motivation**: Long Run. 'For the vast majority of individuals what really matters is income tax...Quite rightly people look for some reduction in

their own tax burden... the paramount aim of this Budget is to help industry, to encourage business, and to create jobs. But I want also to help people directly. The one helps the other. People need industry; but industry also needs people—as workers, as customers, as investors. We remain firmly committed as ever, over the years, to reduce the burden of direct taxation. It is essential to do so to improve incentives, to remove disincentives and to reduce the poverty trap' (HC Deb 09 March 1982 vol 19 c756).

2.6 Budget 15th March 1983

Chancellor: Geoffrey Howe; **Prime Minister**: Margaret Thatcher (Conservative)
Main objectives: The Chancellor announced: 'I begin, as last year, by making it clear that I shall today be proposing further significant cuts in the taxes paid both by businesses and by individuals. These proposals will be consistent with our medium-term strategy for effective control of the money supply, for lower public borrowing, and for further progress on inflation'(HC Deb 15 March 1983 vol 39 c134). 'I propose therefore to increase the duty on petrol by about 4p a gallon, including VAT. In the case of dery I propose an increase, including VAT, of about 3p a gallon. These changes will take effect for oil delivered from refineries and warehouses from 6 pm tonight' (HC Deb 15 March 1983 vol 39 c134).

- **Consumption tax changes**

  1. Changes of duties on light oil. **Liability effect**: 190m £, second quarter. **Motivation**: Long Run. 'In successive Budgets I have sought to establish the sensible presumption that the excise duties should be adjusted broadly in line with the movement of prices from one year to the next. This is essential if we are to maintain the right balance between direct and indirect taxes' (HC Deb 15 March 1983 vol 39 c146).

  2. Changes of duties on heavy oil. **Liability effect**: 40m £, second quarter. **Motivation**: Long Run. See above.

3. Changes of duties on vehicles. **Liability effect**: 130m £, second quarter. **Motivation**: Long Run. ‘I also propose a number of changes in the rates of vehicle excise duty. For cars and light vans the duty will be increased by £5, from £80 to £85. On goods vehicles, the new duty structure introduced last year allows me to spread the burden more fairly’ (HC Deb 15 March 1983 vol 39 c147). Also see the main objectives of Budget above.

4. Changes of duties on tobacco. **Liability effect**: 100m £, second quarter. **Motivation**: Long Run. ‘As for tobacco, I propose to increase the duty by the equivalent, including VAT, of 3p on the price of a packet of 20 cigarettes. There will be consequential increases for cigars and hand-rolling tobacco, but no increase for pipe tobacco’ (HC Deb 15 March 1983 vol 39 c147). Also see the main objectives of Budget above.

5. Changes of duties on beer, wine, spirits, cider and perry. **Liability effect**: 90m+ 25m+ 25m+ 5m £. **Motivation**: Long Run. ‘I propose to increase the duties from midnight tonight by amounts which represent, including VAT, about 25p on a bottle of spirits, 5p on a bottle of table wine, 7p on a bottle of sherry and 1p on the price of a typical pint of beer. On cider, which is increasingly competing with beer, I propose a similar increase of 1p a pint’ (HC Deb 15 March 1983 vol 39 c147).

- **Income tax changes**

1. Personal income tax changes. **Liability effect**: -1490m £, second quarter. **Motivation**: Long Run. The Chancellor argued that ‘the burden of tax on people, under successive Governments, becoming so unacceptably high... But the fact is that reductions in personal taxation themselves help business and employment... Yet for years in Britain the tax system and the tax burden have discouraged individual effort, commitment and enterprise. By strengthening incentives through lower personal taxes, Government can help increase the commitment to business success at

every level. . . .Cuts in personal tax provide a vital stimulus for lasting growth and jobs' (HC Deb 15 March 1983 vol 39 c155). 'This year I also propose an increase of 14 per cent. But because inflation is today so much lower, that now represents a real increase of not 2 per cent as last year, but 8.5 per cent. Income tax thresholds will be increased for the single person from £1,565 to £1,785 and, for the married man, from £2,445 to £2,795. The additional personal allowance paid to single parents, and the widow's bereavement allowance, will be increased in consequence from £880 to £1,010 The age allowance for a single person will go up from £2,070 to £2,360, and for a married person from £3,295 to £3,755' (HC Deb 15 March 1983 vol 39 c156).

2.7 Budget 13th March 1984

Chancellor: Nigel Lawson; **Prime Minister**: Margaret Thatcher (Conservative)
Main objectives: 'My Budget today has two themes—first, the further reduction of inflation; and, second, a series of tax reforms designed to enable the economy to work better, reforms to stimulate enterprise and set British business on the road to profitable expansion, reforms that will help to bring new jobs' (HC Deb 13 March 1984 vol 56 c286). 'This emphasised the need for a switch from taxes on earnings to taxes on spending' (HC Deb 13 March 1984 vol 56 c301).

- **Consumption tax changes**

  1. Withdrawal of certain VAT zero rates. **Liability effect**: 650m £, second quarter. **Motivation**: Long Run. 'I propose no change in the rate of VAT. Instead, I intend to broaden the base of the tax by extending the 15 per cent rate to two areas of expenditure that have hitherto been zero rated...First, alterations to buildings...Secondly, food. Most food is zero rated, but food served in restaurants is taxed, together with a miscellaneous range of items including ice cream, confectionery, soft drinks and crisps, which were brought into tax' (HC Deb 13 March

1984 vol 56 c303). 'The extra revenue raised in this way will enable me, within the overall framework of a neutral Budget, to lighten the burden of income tax' (HC Deb 13 March 1984 vol 56 c303). As part of the overall income tax reform package, this measure is classified as exogenous and long-run.

2. Changes in light and heavy oil duties. **Liability effect**: 225m+45m £, second quarter. **Motivation**: Long Run. 'I propose to increase the duties on petrol and derv by amounts which, including VAT, will raise the price at the pumps by 4½p and 3½p a gallon respectively.' See above also.

3. Changes in tobacco duties. **Liability effect**: 340m £, second quarter. **Motivation**: Long Run. ' I therefore propose an increase in the tobacco duty which, including VAT, will put lop on the price of a packet of cigarettes, with corresponding increases for hand-rolling tobacco and cigars' (HC Deb 13 March 1984 vol 56 c303). See above also.

4. Changes in vehicle excise duties (VED). **Liability effect**: 110m £, second quarter. **Motivation**: Long Run. See above.

5. Changes in beer, spirits, cider and perry duties. **Liability effect**: 180m+ 10m+ 15m £, second quarter. **Motivation**: Long Run. 'I propose to increase the duty on beer by the minimum amount needed to comply with the judgment and maintain revenue: 2p on a typical pint of beer, including VAT...As for the rest of the alcoholic drinks, cider, which increasingly competes with beer but attracts a lower duty, will go up by 3p a pint' (HC Deb 13 March 1984 vol 56 c303).

- **Income tax changes**

1. Personal income tax changes. **Liability effect**: -1470m £, second quarter. **Motivation**: Long Run. 'I have decided that, this year, the right course is to use every penny I have in hand, within the framework of a

revenue-neutral Budget, to lift the level of the basic tax thresholds, for the married and single alike. It makes very little sense to be collecting income tax from people who are at the same time receiving means-tested benefits. Moreover, low tax thresholds worsen the poverty and unemployment traps, so that there is little if any financial incentive to find a better job or even any job at all. There is, alas, no quick or cheap solution to these problems. But that is all the more reason to make a further move towards solving them now. I propose to increase the other thresholds in line with the statutory indexation requirement, but by no more. The first higher rate of 40 percent. will apply when taxable income reaches £15,400 a year and the top rate of 60 percent. to taxable income over £38,100. The single age allowance will rise from £2,360 to £2,490 and the married age allowance from £3,755 to £3,955...' (HC Deb 13 March 1984 vol 56 c303).

2. Abolition of stock relief (corporate). **Liability effect**: 900m £, second quarter. **Motivation**: Long Run. The Chancellor explained 'the Government have two responsibilities towards British business and industry. The first is to ensure that they do not have to bear an excessive burden of taxation. The second is to ensure that, given a particular burden, it is structured in the way that does least damage to the nation's economic performance... My purpose, therefore, is to phase out some unnecessary reliefs in order to bring about, over time, a markedly lower rate of tax on company profits' (HC Deb 13 March 1984 vol 56 c295). 'As the House will recall, this was introduced by the last Labour Government as a form of emergency help to businesses facing the ravages of high inflation. Those days are past; and the relief is no longer necessary. Company liquidity has improved and, above all, inflation has fallen sharply. Accordingly, I propose not to allow stock relief for increases in prices after this month' (HC Deb 13 March 1984 vol 56 c296).

3. Reduction in the first year allowance for machinery and plant (corporate).

Liability effect: 375m £, second quarter. **Motivation**: Long Run. 'I propose to restructure the capital allowances in three annual stages. In the case of plant and machinery, and assets whose allowances are linked with them, the first year allowance will be reduced from 100 per cent. to 75 per cent' (HC Deb 13 March 1984 vol 56 c296). Also, see previous point.

4. Reduction in rate of initial allowance for industrial buildings and assured tenancies (corporate). **Liability effect**: 15m £, second quarter. **Motivation**: Long Run. See above.

5. Reduction in basic tax rates for small companies (corporate). **Liability effect**: -160m £, second quarter. **Motivation**: Long Run. '[...] the majority of companies are not liable to pay the main rate of corporation tax at all. For them it is the small companies' rate, at present 38 per cent., which applies. I propose to reduce this rate forthwith to 30 per cent. for profits earned in 1983–84 and thereafter' (HC Deb 13 March 1984 vol 56 c298). This change, together with reductions in main tax rates for companies 'hold out an exciting opportunity for British industry as a whole: an opportunity further to improve its profitability and to expand, building on the recovery that is already well under way. Higher profits after tax will encourage and reward enterprise, stimulate start innovation in all its forms, and create more jobs' (HC Deb 13 March 1984 vol 56 c298).

6. Reduction in main tax rates for companies (corporate). **Liability effect**: -1380m £, second quarter. **Motivation**: Long Run. 'The changes that I have just announced, in capital allowances and stock relief, enable me to embark on a major programme of progressive reductions in the main rate of corporation tax. For profits earned in the year just ending, on which tax is generally payable in 1984–85, the rate will be cut from 52 per cent. to 50 per cent. For profits earned in 1984–85 the rate will be further

cut to 45 per cent. Looking further ahead, to profits earned in 1985–86, the rate will go down to 40 per cent; and for profits earned in 1986–87 the main rate of corporation tax will be 35 per cent —no fewer than 17 percentage points below the current rate' (HC Deb 13 March 1984 vol 56 c297). As noted in Cloyne (2012), these changes were assigned the full year cost to this date.

7. Abolition of life assurance premium relief for new policies. **Liability effect**: 180m £, second quarter. **Motivation**: Long Run. 'Next, life assurance. The main effect of life assurance premium relief today is unduly to favour institutional rather than direct investment. It has also spawned a multiplicity of well-advertised tax management schemes and no fewer than 50 pages of legislation attempting to deal with its abuse. I therefore propose to withdraw the relief on all new contracts made after today. I stress that this change will apply only to new, or newly enhanced, policies, taken out after today' (HC Deb 13 March 1984 vol 56 c293).

2.8 Budget 19th March 1985

Chancellor: Nigel Lawson; **Prime Minister**: Margaret Thatcher (Conservative)
Main objectives: 'My Budget last year shifted some of the burden of personal taxation from earnings to spending. Today I propose to make a further move in this direction' (HC Deb 19 March 1985 75 c795). 'The Government's economic strategy has two key components: a monetary policy designed to bring down inflation and a supply side policy designed to improve the competitive performance of the economy...The supply side policy is rooted in a profound conviction, born of practical experience both at home and overseas, that the way to improve economic performance and create more jobs is to encourage enterprise, efficiency and flexibility; to promote competition, deregulation and free markets; to press ahead with privatisation and to improve incentives' (HC Deb 19 March 1985 75 c784). Thus, almost all the tax changes were, in the end, exogenous long-run changes.

- **Consumption tax changes**

1. Increases in beer, cider, perry, wine and spirits duties. **Liability effect**: 125m + 45m +10m £, second quarter. **Motivation**: Long Run. 'I propose increases which, including VAT, will put between 1p and 2p a pint on most beer, depending on its strength, 1p a pint on cider, 6p on a bottle of table wine and about 10p a bottle on sparkling or fortified wine. In recognition of the current difficulties of the Scotch whisky industry, however, I propose to increase the duty on spirits by only 10p a bottle' (HC Deb 19 March 1985 75 c795). Also, see the main objectives of this Budget.

2. Increase in tobacco duties. **Liability effect**: 180m £, second quarter. **Motivation**: Long Run. 'I propose to increase the duty on cigarettes and hand-rolling tobacco by the equivalent, including VAT, of 6p on a packet of 20 cigarettes' (HC Deb 19 March 1985 75 c795).

3. Increase in petrol and diesel duties. **Liability effect**: 250m £, second quarter. **Motivation**: Long Run. 'I propose to increase the duty on petrol and derv by amounts which, including VAT, will raise the price at the pumps by approximately 4p and 3¼p a gallon respectively.'

4. Increase in VED. **Liability effect**: 230m £, second quarter. **Motivation**: Long Run. 'I propose this year, however, to raise more revenue from the vehicle excise duty. For cars and light vans the duty will go up by £10 to £100' (HC Deb 19 March 1985 75 c795).

5. A number of other changes to VAT. **Liability effect**: 70m £, second quarter. **Motivation**: Long Run. The Chancellor explained, (combined with the excise duty increases) 'will help me to lighten the burden of income tax' (HC Deb 19 March 1985 vol 75 c797).

- **Income tax changes**

1. Increases in main, additional and age allowances. **Liability effect**: -910m £. **Motivation**: Long Run. 'Increases in the basic tax thresholds

benefit all taxpayers, but they give proportionately more help to those on low incomes. This year, a Budget for jobs and for enterprise has to give high priority to raising the tax thresholds' (HC Deb 19 March 1985 75 c797).

2.9 Budget 18th March 1986

Chancellor: Nigel Lawson; **Prime Minister**: Margaret Thatcher (Conservative)

Main objectives: The Chancellor argued that it was able to accommodate a modest net reduction in the real burden of taxation of just under £1 billion (0.3 per cent of GDP). Th overall theme was to foster long run growth with 'the creation of a climate in which business and industry flourish' (HC Deb 18 March 1986 vol 94 c173) and and almost all the changes were exogenous, long-run or ideological.

- **Consumption tax changes**

  1. Increase in tobacco duties. **Liability effect**: 335m £, second quarter. **Motivation**: Ideological. 'In the light of the representations that I have received on health grounds, I have decided to increase the duty on cigarettes by appreciably more than is needed to keep pace with inflation. I therefore propose an increase in the duty on cigarettes and hand-rolling tobacco by the equivalent, including VAT, of approximately 11p on a packet of 20 cigarettes' (HC Deb 18 March 1986 vol 94 c180).

- **Income tax changes**

  1. Reduction of 1p in the basic rate. **Liability effect**: -1245m £, second quarter. **Motivation**: Long run. 'The burden of income tax is still too great. Nothing could be further from the truth than the claim that we have a choice between cutting tax and cutting unemployment, for the two go hand in hand. It is no accident that the two most successful economies in the world, both overall and specifically in terms of job creation—those of the United States and Japan—have the lowest level of tax as a proportion

of GDP. Reductions in taxation motivate new businesses and improve incentives at work. They are a principal engine of the enterprise culture, on which our future prosperity and employment opportunities depend' (HC Deb 18 March 1986 vol 94 c182).

2. Increase in the higher rate thresholds (but less than statutory indexation). **Liability effect**: 30m £, second quarter. **Motivation**: Long run. See above.

3. Rules for pension funds surpluses. **Liability effect**: 250m £, second quarter. **Motivation**: Long run. 'I do need to deal with the growing problem of the rules governing pension fund surpluses. The dramatic improvement in the financial climate compared with a decade ago, most notably as a result of the sharp fall in inflation, has seen a number of pension funds become heavily over-funded. This presents a double problem, both aspects of which the Inland Revenue is at present having to deal with through the exercise of its discretionary powers....The absence of clear rules on how surpluses should and may be dealt with, and the consequent reliance that has to be placed on the exercise by the Inland Revenue of its discretion, have created considerable uncertainty and have unnecessarily constrained trustees' freedom of action. Therefore, I propose to replace these discretionary arrangements with clear and objective statutory provisions' (HC Deb 18 March 1986 vol 94 c176). This measure, therefore, relates to a longer-term reform to improve the tax system.

2.10 Budget 17th March 1987

Chancellor: Nigel Lawson; **Prime Minister**: Margaret Thatcher (Conservative)

Main objectives: Mainly supply side reforms. ' I shall propose some changes in taxation designed to improve still further the prospects that lie before us' (HC Deb 17 March 1987 vol 112 c815). Therefore, all the tax changes will be exogenous long-run or ideological.

- **Consumption tax changes**

  1. No statutory change in rate of duty on petrol, derv and minor oil. **Liability effect**: -210m -55m -5m £, second quarter. **Motivation**: Ideological. 'No motive is given for this change or the decision to freeze most rates of duty – despite setting the expectation of inflation rises each year. The decision does not appear correlated with macroeconomic factors but may reflect the impending General Election. I argue that it is safe to regard this as an exogenous decision, and probably a political choice.' Cloyne (2012, page 87).
  2. No statutory change in rate of duty on beer, spirits and wine. **Liability effect**: -70m -30m -20m £, second quarter. **Motivation**: Ideological. See above.
  3. No statutory change in rate of duty on tobacco. **Liability effect**: -100m £, second quarter. **Motivation**: Ideological. See above.
  4. No statutory change in rate of duty on vehicles (VED). **Liability effect**: -100m £, second quarter. **Motivation**: Ideological. See above.
  5. New rules relating to VAT deductions. **Liability effect**: 400m £, second quarter. **Motivation**: Ideological. 'In any ongoing programme of tax reduction and reform, where much still remains to be done, an essential element must always be the elimination of unintended or unjustified tax breaks, which cause rates of tax generally to be higher than they need to be. Accordingly, I have five proposals to make today to that end' (HC Deb 17 March 1987 vol 112 c822).

- **Income tax changes**

  1. Reduction of 2p in the basic rate. **Liability effect**: -2690m £, second quarter. **Motivation**: Long run. 'There is now a worldwide consensus on the economic desirability of tax reform and tax reduction, and in particular the reduction of income tax... Lower rates of tax sharpen up

incentives and stimulate enterprise, which in turn is the only route to better economic performance. And it is only by improving our economic performance that we will be able to afford to spend more on public services; and only by improving our economic performance that we will be able to create jobs on the scale that we all want to see' (HC Deb 17 March 1987 vol 112 c827).

2. Further increase in age allowance. **Liability effect**: -10m £, second quarter. **Motivation**: Long run. See above.

3. Changes to higher rate thresholds (below statutory). **Liability effect**: 80m £, second quarter. **Motivation**: Long run. See above and Cloyne (2012).

4. Taxation of indexed gains taxed in full at normal Corporation tax rates (corporate). **Liability effect**: 80m £, second quarter. **Motivation**: Long run. 'The low rate of corporation tax enables me to introduce a further simplification into the system. At present, while companies' capital gains are liable to corporation tax, the amount of such gains is first adjusted by a certain fraction so that the effective rate of tax is the same as that on capital gains made by individuals... The corporation tax rate for small companies is now below the capital gains tax rate. I therefore propose that, from today, companies' capital gains be charged at the appropriate corporation tax rate, without adjustment' (HC Deb 17 March 1987 vol 112 c819).

5. Changes to the rules for dual resident companies (corporate). **Liability effect**: 125m £, second quarter. **Motivation**: Ideological. 'I propose to change the law so that companies in multinational groups which enjoy dual residence will no longer be able to secure tax relief twice on one and the same interest payment. Genuine trading companies will not be affected' (HC Deb 17 March 1987 vol 112 c822).

2.11 Budget 15th March 1988

Chancellor: Nigel Lawson; **Prime Minister**: Margaret Thatcher (Conservative)

Main objectives: Supply side reforms, changes in the structure of taxation. The Chancellor mentioned that ‘I shall propose a number of measures designed to improve the performance of the economy still further, by changing the structure of taxation’ (HC Deb 15 March 1988 vol 129 c993). Also, ‘the way to a strong economy is to boost incentives and enterprise. And that means, among other things, keeping income tax as low as possible’ (HC Deb 15 March 1988 vol 129 c1006). Therefore, the tax changes in this Budget are all exogenous.

- **Income tax changes**

  1. Reduction of 2p in basic tax rate. **Liability effect**: -3000m £, second quarter. **Motivation**: Long run. ‘In our general election manifesto last year, we committed ourselves to reducing the basic rate of income tax to 25 pence in the pound as soon as it was prudent to do so. This pledge followed a reduction of two pence in the pound to 27 pence in last year’s Budget’ (HC Deb 15 March 1988 vol 129 c1008).

  2. Abolition of higher rates of income tax. **Liability effect**: -2070m £, second quarter. **Motivation**: Long run. ‘ The reason for the worldwide trend towards lower top rates of tax is clear. Excessive rates of income tax destroy enterprise, encourage avoidance, and drive talent to more hospitable shores overseas. As a result, so far from raising additional revenue, over time they actually raise less...After nine years at 60 per cent, I propose to abolish all the higher rates of tax above 40 per cent. This major reform will leave us with one of the simplest systems of income tax in the world, consisting of a basic rate of 25 per cent and a single higher rate of 40 per cent. And, indeed, a system of personal taxation in which there is no rate anywhere in excess of 40 per cent’ (HC Deb 15 March 1988 vol 129 c1011).

3. Increases in allowances. i) Increase in single allowance and married allowance; ii) increase in additional personal allowance and widow's bereavement; iii) increase in age allowance (65-79); iv) increase in age allowance (80 and over); v) increase in income limit for age allowance of 800£; vi) increase in basic rate limit. **Liability effect**: i)-810m ii)-10m iii)-55m iv)-10m v)-10m vi)-125m£, second quarter. **Motivation**: Long run. 'Reforming income tax is not simply a matter of cutting the rates. I also have to look at all the various allowances and reliefs to ensure that they are still justified' (HC Deb 15 March 1988 vol 129 c1006).

4. Fringe benefits-car benefit scales. **Liability effect**: 310m £, second quarter. **Motivation**: Long run. 'benefits in kind—perhaps better known as perks. One of the biggest tax-induced distortions in the economy today is the growing tendency to provide remuneration in kind rather than in cash. It must be right to move towards a system of lower taxes all round and fewer tax breaks of this kind... Independent studies, based on figures supplied by the AA, suggest that an employee with a typical company car may be taxed on only about a quarter of its true value. This discrepancy is too great to be allowed to continue' (HC Deb 15 March 1988 vol 129 c1007). This measure was designed to raise a considerable amount of revenue and thus offset the rest of the reforming package, therefore classified with the other measures as exogenous long-run.

5. Abolition of tax relief on home improvements loan. **Liability effect**: 200m £, second quarter. **Motivation**: Ideological. ' This concerns the parallel tax relief for home improvement loans. Most of these loans are for fittings such as double glazing, and have played a significant part in the recent growth of consumer credit without in any way contributing to the expansion of home ownership. This may be partly due to the substantial scope for abuse, as loans ostensibly taken out for home improvements are used for other purposes, a matter which was the subject of a recent report from the Public Accounts Committee. I propose, therefore, to

end tax relief for all new home improvement loans taken out after 5 April. Existing home improvement loans will be unaffected' (HC Deb 15 March 1988 vol 129 c1006).

6. Abolition of tax relief on new non-charitable covenants. **Liability effect**: 200m £, second quarter. **Motivation**: Ideological. 'Charitable covenants apart, I propose to take all new covenants made by individuals on or after today out of the tax system altogether. In other words, people receiving payments under covenants will not be liable to tax on them, and those making the payments will not be able to claim tax relief on them. The tax treatment of existing covenants will continue unchanged'(HC Deb 15 March 1988 vol 129 c1001).

2.12 Budget 14th March 1989

Chancellor: Nigel Lawson; **Prime Minister**: Margaret Thatcher (Conservative)
Main objectives: Continuing the program of supply side reforms, i.e. reforming taxation. 'Strong sustainable growth is achieved, not through any artificial stimulus, but by allowing markets to work again and restoring the enterprise culture; by removing unnecessary restrictions and controls and rolling back the frontiers of the State; by reforming trade union law and promoting all forms of capital ownership; and by reforming and reducing taxation...The best contribution the Government can make to this is to carry forward the process of supply side reform, to help make the economy work better. That is the objective of the specific measures to which I shall turn in the second part of my statement' (HC Deb 14 March 1989 vol 149 cc293-5). Again, the reforms were all exogenous, long-run or ideological.

- **Consumption tax changes**

1. No statutory changes in rate of duty on: i) 4 star petrol; ii) derv; iii) minor oils; iv) tobacco products; v) spirits; vi) beer; vii) cider and perry; viii) wine and wine made. **Liability effect**: i) -395m; ii) -105m; iii) -10m; iv) -250m; v) -70m; vi) -155m; vii) -5m; viii) -50m £, second

quarter. **Motivation**: Ideological. 'No motivation is given for this, so I must assume that it was a political decision. I therefore classify it as exogenous, ideological.' Cloyne (2012, page 90).

2. Revised tax regime for construction, buildings and land. **Liability effect**: 440m £, second quarter. **Motivation**: External ruling (EU). 'As the House knows, Her Majesty's Government are obliged to implement the European Court's judgement that certain of our zero rates of VAT on supplies to business, notably on non-residential construction, but also on fuel and power and on water, are not lawful. This derives from the court's interpretation of the Community's sixth VAT directive, to which the United Kingdom agreed in 1977' (HC Deb 14 March 1989 vol 149 c304).

- **Income tax changes**

1. Increase in car benefit scales (corporate). **Liability effect**: 200m £, second quarter. **Motivation**: Long run. 'When I doubled the car scales in last year's Budget, I made it clear that this still left this benefit significantly undertaxed. Accordingly, I propose to increase the car scales by one third' (HC Deb 14 March 1989 vol 149 c299). This measure is considered as an offsetting measure and thus exogenous, long-run.

2.13 Budget 19th March 1991

Chancellor: Norman Lamont; **Prime Minister**: John Major (conservative).

Main objectives: The main goal was to continue with the supply-side reforms who characterised the Conservative party tenure: ' I intend to carry forward my predecessor's work. My central economic aim is to bring inflation down and keep it down. Beyond that, my objective is to encourage enterprise by creating a broadly based tax system that allows markets to do their job with the minimum of distortion and Government interference...Although there is no scope this year for an overall reduction in taxes, my Budget today will include measures to help business through the recession in the short term and to encourage it to invest for the longer term. It will provide assistance for families. It will also further the process of tax reform and make some radical changes in the tax system.' HC Deb 19 March 1991 vol 188 c163.

- **Consumption tax changes**

    1. Increase in the standard VAT rate to 17.5 percent. **Liability effect**: 5515m £, second quarter. **Motivation**: Ideological. 'I have concluded that local taxes are being asked to bear too large a burden, and that the level of the community charge is still too high. However, if local taxes are to fall, and if the standard of local services is to be maintained, taxes elsewhere must rise. I propose, therefore, to make a substantial switch from local taxation to central taxation. I am proposing, therefore, from 1 April to increase the standard rate of value added tax by two and a half percentage points to 17½ per cent. VAT is a broadly based tax which falls on consumers rather than producers. Since much consumer spending is zero-rated, it bears less heavily on poorer households than on the better-off, so raising VAT is not only an efficient but also a fair way to raise the necessary finance' (HC Deb 19 March 1991 vol 188 c180).

    2. Increase in duties: i) tobacco; ii) leaded petrol; iii) unleaded petrol; iv) derv. **Liability effect**: i) 335m; ii) 265m; iii) 230m; iv) 130m £, second quarter. **Motivation**: Ideological. 'There are strong health arguments for a big duty increase on tobacco. In recent years, the duty has fallen in real terms, and cigarette consumption, having declined in the early 1980s, has since begun to turn up again. Raising the duty will help to counter this unwelcome trend... The motor car imposes large costs on others in the form of pollution and congestion. I have decided therefore to increase the duties on petrol and derv by 15 per cent, giving the private

motorist a strong incentive to choose more fuel-efficient vehicles, and ensuring that those who pollute most, pay most. This is fully in line with the policy set out last year in the Government's White Paper on the environment' (HC Deb 19 March 1991 vol 188 cc175-6).

- **Income tax changes**

  1. Reductions in main corporate tax rate (corporate). **Liability effect**: -450m - 350m £, second quarter. **Motivation**: Long run. 'Corporation tax rates have remained unchanged at 35 per cent since 1986. I believe that the time has come to cut the main rate of corporation tax again... My main concern in this Budget is to encourage profitable firms to go on investing in Britain's future. The best way in which to do that is to increase still further the post-tax return on successful investment projects' (HC Deb 19 March 1991 vol 188 cc171-72).

  2. Benefits in kind: increase in car scales of 20 percent. **Liability effect**: 250m £, second quarter. **Motivation**: Deficit consolidation. 'Many motorists do not own their own cars but drive those provided by their employers. The scales for taxing the private use of company cars have been substantially increased in recent Budgets, but many employers continue to pay their employees in cars rather than in money. I propose to increase the car scales again this year by 20 per cent' (HC Deb 19 March 1991 vol 188 c176). This measure was increased to offset partly the remissions. As discussed in Cloyne (2012), in general the Budget's tone was not one of deficit reduction. Instead, the revenue raising measures were designed to reduce the deficit in the future – especially as many of them only yielded their full revenue in later years. So this measure is categorised as exogenous, deficit consolidation.

  3. Employers' contributions on private benefit of company cars in terms of National Insurance contributions. **Liability effect**: 550m £, second quarter. **Motivation**: Deficit consolidation. See previous point. Also,

the Chancellor argued that ‘If people are paid in kind, there is no reason why they should be taxed more lightly than people paid in cash, yet our present system also gives employers an incentive to provide employees with cars rather than cash. Under our present arrangements, they avoid making any contribution to the national insurance fund on the benefit that the employee receives from private use of a car... [These measures] will reduce an anomaly in the national insurance contributions system, making it more neutral between different kinds of payment, and will widen the national insurance contributions base’ (HC Deb 19 March 1991 vol 188 c176).

2.14 Budget 10th March 1992

Chancellor: Norman Lamont; **Prime Minister**: John Major (conservative).

Main objectives: The main goal was to continue with the supply-side reforms who characterised the Conservative party tenure: ‘ It is to continue the supply-side reforms of the 1980s. Low tax and light government have produced an economic environment which spurs competition and rewards enterprise. Our job now is to build on them to help people and businesses make the most of recovery. And that will be the theme of my Budget today’ (HC Deb 10 March 1992 vol 205 c748).

- **Consumption tax changes**

    1. Increase duties on i) leaded petrol and ii) cigarettes. **Liability effect**: i) 145m; ii) 325m £, second quarter. **Motivation**: Long run. ‘On leaded petrol, I propose a rather larger increase, of 7 1/2 per cent., taking the tax differential between leaded and unleaded petrol to over 5p a litre. That will continue our long-standing and successful policy of encouraging motorists to move away from leaded petrol, which now represents little more than half the market... propose to raise the duty on tobacco by about 10 per cent—roughly the same real increase as last year. That will add 13p to the price of a packet of 20 cigarettes. The duties on other

tobacco products will also rise by about 10 per cent, apart from that on pipe tobacco, which will rise only in line with inflation. Benjamin Franklin once remarked that nothing was certain except death and taxes, but for some people the latter may help to delay the former' (HC Deb 10 March 1992 vol 205 c757). Their face-value motivations suggest that they would be exogenous. Moreover, these duty changes appear to offset exogenous long-run tax cuts in this Budget, so they are classified in the same category.

- **Income tax changes**

  1. New lower rate of income tax (20 per cent). **Liability effect**: -2320 £, second quarter. **Motivation**: Long run. 'It is neither necessary nor desirable that anyone earning more than their personal allowances should start paying income tax at a rate of 25 per cent. I believe that we can and should reduce that burden... That will improve their work incentives and make it more worthwhile for those not currently in work to take lower paid jobs' (HC Deb 10 March 1992 vol 205 c760).

  2. No statutory change in the married couple's allowance. **Liability effect**: 210 £, second quarter. **Motivation**: Long run. 'No justification is given for keeping these fixed but it saved a sizeable amount to revenue. This partly offset the income tax change remissions' Cloyne (2012).

  3. No statutory change in the basic rate limit. **Liability effect**: 290 £, second quarter. **Motivation**: Long run. See above.

  4. Changes to treatment of payments of rent between connected persons (corporate). **Liability effect**: 200 £, second quarter. **Motivation**: Ideological. 'I also propose to introduce legislation to prevent the business tax rules from being manipulated to secure an unjustifiable tax deferment when rent is paid between connected persons. The manipulation which has already occurred has involved tax of some hundreds of millions of

pounds. This loophole will be closed immediately' (HC Deb 10 March 1992 vol 205 c755).

2.15 Budget 29th November 1994

Chancellor: Kenneth Clarke; **Prime Minister**: John Major (conservative).

Main objectives: The three priorities: 'I have three priorities in my Budget this year. The first priority is to keep the economy on track to achieve the great prize of sustainable growth. This recovery offers the best prospect that the British people have faced for many years to enjoy the benefits of growth that does not pass through illusory boom to painful bust. My second priority has been to use this recovery wisely to encourage the creation of more jobs, particularly for people who have been out of work for some time. We must combine greater prosperity for the majority of our people with measures to prevent the emergence of a deprived underclass, excluded from the opportunity to work and dependent on welfare. The third priority is to strengthen the economy in the longer term. We must aim for a modern economy in which the growth of enterprising companies will give people a greater sense of confidence in the flow of new jobs that will always be required to replace the old jobs eroded by technology and competition' (HC Deb 29 November 1994 vol 250 c1079).

Measures relating to income tax were implemented after 90 days from the announcement date, and therefore they are excluded.

- **Consumption tax changes**

  1. Anti avoidance measures: i) VAT on land and property blocking loopholes; ii) Recovery of VAT on share issues restricted ; iii) Prevention of abuse of de minimis limits. **Liability effect**: i) 215m; ii) 100m; iii) 20m £, first quarter of 1995. **Motivation**: Long run. 'I am delighted that there now appears to be a wide political consensus in the House on the need to close loopholes and to prevent the artificial avoidance of

taxation...This year, I intend to go further by tackling the artificial avoidance of VAT on property transactions and share issues, by stopping the purchase of companies simply to make use of their surplus management expenses and by preventing tax avoidance through operations with discounted securities' (HC Deb 29 November 1994 vol 250 c1094). Being to offset exogenous long-run remissions, this measure is classified in the same category.

2. Increase in fuel excise duties: i) unleaded petrol up to 7.5%; ii) diesel up to 9%. **Liability effect**: i) 25m; ii)145m £, first quarter of 1995. **Motivation**: Long run. ' It is an essential part of the plans that I set out last year to deliver healthy public finances as quickly as possible and it forms an important part of the Government's strategy to return carbon dioxide emissions to their 1990 level in the year 2000' (HC Deb 29 November 1994 vol 250 c1095).

2.16 Budget 9th March 1999 and Pre-Budget Report 1st November 1999

Chancellor: Gordon Brown; **Prime Minister**: Tony Blair (Labour).

Main objectives: The majority of the March Budget concentrates on the key themes of promoting enterprise, making progress on the environment, helping families and the elderly, making work pay, helping people back into work and modernising public services: 'With this, the last Budget of the 20th century, we also leave behind the century-long sterile conflicts between Governments of the left, who have too often undervalued wealth creation and enterprise, and Governments of the right, who have been too indifferent to public services and fairness. In contrast, this is a new Labour Budget built on the central idea that our future depends on enterprise and fairness together. The more enterprising Britain is, the more wealth we create, the higher our standard of public services and our standard of living can be—not just for the few, but for all of us. The fairer Britain is, the more open Britain is to the talents of all, from whatever class and background, the more enterprising and prosperous all of Britain will be. Because enterprise and fairness are founded on securing sound economic fundamentals, this Budget will lock in monetary and fiscal stability for the long term' (HC Deb 09 March 1999 vol. 327 c173).

- **Income tax changes**

  1. A new 10% rate. **Liability effect**: -1800m £, second quarter. **Motivation**: Ideological. '...to put work first in the tax and benefit system. . . The new 10p band will help to ease the poverty trap whereby people on low pay are discouraged from climbing the earnings ladder. At present, around 700,000 people lose more than 70 pence for every extra pound they earn. After the implementation of Budget 99, this figure will fall by around two-thirds' (EFSR 1999, paragraphs 4.49-4.51).

2.17 Budget 21th March 2000 and Pre-Budget Report 8th November 2000

Chancellor: Gordon Brown; **Prime Minister**: Tony Blair (Labour).
Main objectives: In March Budget, '[...] a Britain of opportunity and security not just for a few but for all: with stability locked in and enterprise growing, we can meet our prosperity goal—to close the productivity gap; full employment goal—employment opportunity for all; our education goal—50 per cent. of young people in higher education by 2010; with 800,000 children already lifted out of poverty and Britain's civic society renewing itself, we can meet our anti-poverty goal—to halve child poverty by 2010, on the way to ending it by 2020' (HC Deb 21 March 2000 vol 346 c859).

- **Income tax changes**

  1. New all-employee share plan from. **Liability effect**: -370m£, second quarter. **Motivation**: Long run. 'To support firms' own efforts to foster a more enterprising and productive relationship with their employees' (EFSR March 2000, paragraph 3.37).

2. Permanent first year capital allowances for SME at 40% (Corporate). **Liability effect**: -330m£, second quarter. **Motivation**: Long run. 'To encourage all SMEs, manufacturing and services, companies and unincorporated, to invest from their own resources in capital stock' (EFSR March 2000, paragraph 3.32).

3. Controlled foreign companies (Corporate). **Liability effect**: 180m£, second quarter. **Motivation**: Ideological. 'Budget 2000 includes measures to strengthen the Controlled Foreign Company provisions, in addition to the designer rate measure announced' (FSBR March 2000, Securing the tax base, page 144). This measure belongs to a package of anti-avoidance measures which were introduced by arguing 'Tax-driven schemes, devices and structures, if allowed to flourish unchecked, not only cause ordinary taxpayers to have to make good the resultant loss of revenue but can also give one business an unfair competitive advantage over another' (EFSR March 2000, paragraph 5.116).

4. Rent factoring scheme (Corporate). **Liability effect**: 80m£, second quarter. **Motivation**: Ideological. 'Legislation will be introduced to counter rent factoring schemes to take effect from 21 March 2000' (FSBR March 2000, Securing the tax base, page 144). Also see previous point.

5. Changes in double taxation relief (Corporate). **Liability effect**: 120m£, second quarter. **Motivation**: Long run. 'Tax-driven schemes, devices and structures, if allowed to flourish unchecked, not only cause ordinary taxpayers to have to make good the resultant loss of revenue but can also give one business an unfair competitive advantage over another.' EFSR March 2000, paragraph 5.116.

2.18 Budget 7th March 2001 and Pre-Budget Report 27st November 2001

Chancellor: Gordon Brown; **Prime Minister**: Tony Blair (Labour).

Main objectives: Long term objectives: full employment, high productivity, education opportunity and the end of child poverty. 'We know as a nation that, after a generation of under-investment in both industry and our public services, the ambitions that we have for our country high productivity and full employment, education opportunity for all and an end to child poverty, a modern NHS and modernised public services — can only be realised if we make the choice to invest for the long-term' (HC Deb 7 March 2001 c295). In the PBR, 'The Pre-Budget Report describes the next steps in the Government's strategy for meeting its long-term goals — combining a stronger, more enterprising economy with a fairer, more just society' (PBR November 2001, paragraph 1.5).

Income tax changes

1. Over indexation of starting band at 10%. **Liability effect**: -950m £, second quarter. **Motivation**: Long run. 'To achieve our goal of full employment, I have previously cut the basic rate of income tax and I have introduced a 10p tax rate... To reward savers, pensioners and hard working families, my aim now and in the next Parliament is to ensure that more of savers', pensioners' and working people's incomes, now taxed at the 22p rate, should be taxed at the lower 10p rate' (HC Deb 07 March 2001 vol 364 c307).

2. Controlled foreign companies (Corporate). **Liability effect**: 20m£, second quarter. **Motivation**: Ideological. 'to close a loophole in the Controlled Foreign Companies provisions' (REV BN 19, March 2001).

3. Increase in the Enterprise Management Initiative limit (Corporate, Pre-Budget 2001). **Liability effect**: -40m £, first quarter 2002. **Motivation**: Long run. 'The change will be of particular help to small, dynamic manufacturing enterprises, which are more likely to have assets in excess of the current limit' (PBR November 2001, page 42)

2.19 Budget 17th April 2002 and Pre-Budget Report 27st November 2002

Chancellor: Gordon Brown; **Prime Minister**: Tony Blair (Labour).

Main objectives: Maintain the previous long-term view. In March Budget, the Chancellor argued: 'our task is to address, through reform, three major long-term challenges: the challenge of enterprise, with new incentives to raise investment and to reward entrepreneurship; the challenge of family prosperity for all. . . the challenge of renewing our public services...' (HC Deb 17 April 2002 vol 383 c577). Overall, the Budget's objectives were longer-term: 'our first long-term challenge is, through higher productivity and investment and a stronger national consensus on the importance of enterprise, to build a more prosperous Britain' (HC Deb 17 April 2002 vol 383 c580).

In November PBR, the tone was long-term again, 'As Britain meets the challenges of the wider global economy, the pre-Budget report will also outline further labour market, capital market and product market reforms to improve British science, skills and enterprise, and I will outline proposals for continuing public service reform and tax and benefit modernisation showing that, both in Britain and abroad, strong economies and fair societies advance together. . . If stability is the precondition for economic progress, enterprise is its driving force' (HC Deb 27 November 2002 vol 395 cc318-322).

- **Consumption tax changes**

  1. VAT exceptions for services provided by state regulated welfare agencies (Pre-Budget). **Liability effect**: -35m £, first quarter 2003. **Motivation**: Ideological. '...consistent with the VAT treatment of similar services provided by charities and public bodies' (FSBR 2003, page 195).

- **Income tax changes**

  1. Reduction of small companies tax rate to 19% and starting rate to 0% (Corporate). **Liability effect**: -450m £, second quarter. **Motiva-**

tion: Long run. 'This Budget seeks to build from this a culture of entrepreneurship in every community... And to send out the strongest signal about the importance that we attach to small businesses and the creation of wealth I propose to reduce the 10p starting rate of corporation tax... from 10p to zero... this is now the most favourable Corporation Tax regime for small companies in any of the advanced industrial countries' (HC Deb 17 April 2002 vol 383 c581).

2. Reform of taxation of intellectual property (Corporate). **Liability effect**: -190m £, second quarter. **Motivation**: Long run. '... to build a corporate tax regime which recognises the realities of the modern business environment and competes with the best in the world' (EFSR 2002, page 48).

3. Research and development tax credit at 25% (Corporate). **Liability effect**: -400m £, second quarter. 'By international standards, levels of innovation in the U.K. have historically been low... Budget 2000 introduced an RD tax credit for small and medium-sized companies... and is now introducing an RD tax credit for large companies.' EFSR 2002, paragraph 3.53.

2.20 Budget 9th April 2003 and Pre-Budget Report 10th December 2003

Chancellor: Gordon Brown; **Prime Minister**: Tony Blair (Labour).

Main objectives: 'The Budget sets out the next steps in the Government's programme of economic reform to build a stronger, more enterprising economy based on dynamic and flexible markets and underpinned by fairness and social justice' (EFSR 2003 paragraph 1.4). 'There were measures "to promote enterprise, innovation and skills, and support to help people find and succeed in work... further steps to advance flexibility and fairness together... [and] reforms to tackle avoidance and advance fairness in the tax system, to ensure that everyone contributes fairly to the public services from which they benefit' (EFSR 2003 paragraph 1.13).

- **Consumption tax changes**

  1. Changes in alcohol duties. **Liability effect**: -30m £, second quarter. **Motivation**: Ideological. 'To increase fairness in the alcohol duty regime' (EFSR 2003, page 123).

  2. Freeze air passenger duties. **Liability effect**: -30m £, second quarter. **Motivation**: Ideological. As noted in Cloyne (2012), this is a political objective and, thus, classified as exogenous, ideological.

  3. Increase in fuel duties, increase rebated oils by 1p above revalorisation. **Liability effect**: 100m £, second quarter. **Motivation**: Ideological. 'Duty incentives have been effective in encouraging an early switch to environmentally-friendly road fuels, but rebated gas oil and fuel oil continue to contribute to local air quality problems' (EFSR 2003, page 161).

  4. Improvements to the VAT flat-rate scheme (Pre-Budget). **Liability effect**: -30m £, first quarter 2004. **Motivation**: Long run. '[next] steps the Government is taking to strengthen the drivers of productivity growth' (PBR 2003, page 57).

- **Income tax changes**

  1. Capital allowances: increases in the thresholds defining SMEs (Corporate, Pre-budget). **Liability effect**: -160m £, second quarter. **Motivation**: Long run. 'Providing a cash flow benefit for smaller firms investing in plant and machinery of nearly £400 million over the next three years' (PBR 2003, page 63). This measure, therefore, aimed to support business.

2.21 Budget 17th March 2004 and Pre-Budget Report 2nd December 2004

Chancellor: Gordon Brown; **Prime Minister**: Tony Blair (Labour).

Main objectives: This budget continues on pursuing the Blair's government long term objectives: 'raising productivity growth by promoting enterprise, flexibility, science, innovation and skills; providing employment opportunity for all by promoting a flexible labour market; fairness, tackling child and pensioner poverty; world class public services; and the environment' (EFSR 2004, paragraph 1.6). Little had changed in tone in the PBR in comparison to the March Budget.

- **Consumption tax changes**

  1. Freeze rates in VED. **Liability effect**: -135m £, second quarter. **Motivation**: Ideological. No much explanation given, we follow Cloyne (2012).

  2. Freeze in Alcohol duties. **Liability effect**: -70m £, second quarter. **Motivation**: Ideological. 'In order to minimise and offset the compliance costs to the legitimate trade...helping to absorb the costs associated with tax stamps.' EFSR 2004, page 122.

  3. Rebated oils: narrowing the differential between rebated oils and main road fuels (Pre-budget). **Liability effect**: -110m £, first quarter 2005. **Motivation**: Ideological. 'Part of a package of measures that aim to reduce further oils fraud in the U.K.' PBR December 2004, page 139.

2.22 Budget 16th March 2005 and Pre-Budget Report 5th December 2005

Chancellor: Gordon Brown; **Prime Minister**: Tony Blair (Labour).

Main objectives: Continuing with long term goals. The chancellor stated that 'Facing a future of intense global competition, Britain must be prepared and be equipped: long-term prosperity secured only if we make the right decisions to be world leaders in science, enterprise and education; family prosperity secured only if we also match a strong economy with investments to help parents balance work and family life, to give every child the best possible start in life, and to deliver a fair deal for pensioners' (HC Deb 16 March 2005 257). When it comes to PBR, "In 2005-06 and 2006-07 there is expected to be a modest tightening in the impact of fiscal policy with the effect of the tighter fiscal stance just outweighing the effect of the automatic stabilisers"; therefore, almost all measures are obviously revenue raisers as endogenous, deficit reduction.

- **Consumption tax changes**

    1. Changes to VED. **Liability effect**: -50m £, second quarter. **Motivation**: Ideological. '[The Government] will align V.E.D. lettering with the new energy efficiency labelling scheme to be introduced by industry into car showrooms later this year, ahead of E.U. proposals for such labels. This will help consumers to make fully-informed vehicle choices' (EFSR 2005, page 160).

- **Income tax changes**

    1. ISAs: extension of higher investment limits. **Liability effect**: -100m £, second quarter. **Motivation**: Ideological. 'The household savings ratio is now 5.6 per cent — four times that of the USA and Canada — and 16 million people now have individual savings accounts. The decision that I have to make is whether to extend the tax-free advantages for the first £7,000 of savings in ISAs. I propose to extend that exemption for the whole of the next five years' (HC Deb 16 March 2005 c265).

2.23 Budget 22th March 2006 and Pre-Budget Report 6th December 2006

Chancellor: Gordon Brown; **Prime Minister**: Tony Blair (Labour).

Main objectives: Particular emphasis on Long term objectives, 'Further measures to boost productivity and growth, to build on the UK's position as a leading location for inward investment, advance the science and innovation ten-year framework, and to reduce further the burden of regulation on business; steps to tackle the global challenge of climate change... measures to modernise the tax system, and to tackle tax fraud and avoidance... and defers the inflation-based increase in main road fuel duties' (EFSR 2006, chapter 1). Regarding the PBR, 'most of these were tax increases and overwhelmingly offset the remissions, including the extra spending for schools. It seems need for fiscal fortification was, to some extent, recognised and the PBR shows that the discretionary measures did tighten policy' (Cloyne, 2012), therefore implying endogenous tax changes.

- **Consumption tax changes**

  1. Freeze of alcohol and other duties. **Liability effect**: -30m £, second quarter. **Motivation**: Ideological. 'The Government remains committed to creating a fairer balance of taxation on different alcoholic drinks' (EFSR 2006, page 119).

- **Income tax changes**

  1. Extending RD tax credit (Corporate). **Liability effect**: -40m £, second quarter. **Motivation**: Long run. 'The Government has noted evidence of lower levels of innovation among companies with 250-500 employees. In the light of the recommendations of the Cox Review, the Government wishes to better support for RD investment in growing firms' (EFSR 2006, page 62).

  2. Changes to group relief in corporation tax (Corporate). **Liability effect**: -50m £, second quarter. **Motivation**: Long run. 'The Government is determined to maintain the overall competitiveness of the UK business tax system and will continue its constructive dialogue with business on international tax issues' (EFSR 2006, page 116).

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