



HM TREASURY

1 Horse Guards Road
London
SW1A 2HQ

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Philip Taylor

Information Rights Unit

Email: request-12654-
9f4ee54c@whatdotheyknow.com

Tel: 0207 270 4558
Fax: 0207 270 4861

www.hm-treasury.gov.uk
FOI.responses@hm-treasury.gsi.gov.uk

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Dear Mr Taylor

Freedom of Information Act 2000: Gradual removal of the personal allowance over £100,000

Thank you for your further letter dated 25 June 2009. This was in response to our reply of 24 June to your Freedom of Information (FOI) request of the 30 May 2009.

You have asked for an internal review as you feel that HM Treasury's interpretation of your request is too narrow, particularly in our understanding of the 'impact assessment' that you asked for. I would like to take this opportunity to further explain how we interpreted your initial FOI request and the links to the publicly available information that we provided to you.

In your original request you asked for the '*Treasury's impact assessment of the changes*' referring to the reduction in the personal allowance for those with incomes of over £100,000 announced at the 2009 Budget. Although an 'impact assessment' may mean different things to different individuals, as we set out in our reply it is a specific document published by the Government that summarises costs and benefits arising from potential policy changes, and can accompany changes to tax announced in Budgets and Pre Budget Reports. As your request was about changes to tax, we interpreted your request to refer to this type of impact assessment, and our response gave a full summary of what we meant by this, and why one was not produced in relation to the 2009 Budget announcement.

In your letter of 25 June you further describe what you mean when you refer to an impact assessment – in this case how the Treasury modelled the expected behavioural assumptions of individuals from this measure. This interpretation is different to the one that the Treasury made, but I hope that you will appreciate that we made this interpretation because 'impact assessments' are a regular feature of tax changes (26 were issued at the 2009 Budget), and provide a summary of the cost, benefits and impacts of tax changes.

Although we did not have any recorded information that we believed was within the scope of your request, we provided links to the publicly available information describing the basis of assessment by which the Government estimated the behavioural impact from these changes. I have set out below some more background as to how this process was done.

First, the Government makes a forecast of the theoretical yield that a tax measure would collect in the absence of any behavioural responses by taxpayers to the change. The Government then makes an estimate of the extent to which behavioural responses may result in changes in taxable incomes, and adjusts its forecast of yield from the measure accordingly. The estimates of behavioural response are informed by applied economic research on the sensitivity of incomes to tax rates, in particular studies of 'taxable income elasticities'. The taxable income elasticity is a measure of how



much declared income changes in response to a percentage change in the income retention rate (the retention rate being one minus the tax rate). While there are a variety of possible behavioural responses, the estimates of elasticities are generally based on observation of trends in income reflecting all the effects combined. The Government's approach is therefore to encapsulate all behavioural effects within a composite estimate. The links to the published information provided a summary of the Government's assessment of the behaviour.

In making judgments on behaviour, the changes made to the taper of the personal allowances for those with incomes of over £100,000, and the 50% rate which applies to taxable income over £150,000 were examined together. Although most of the discussions transcribed in these documents relate to the impact of the 50% rate, I can confirm that the behavioural impact (reducing yield to 31% of the theoretical yield) quoted in questions 224 and 225 on page 34 of the evidence submitted to the Treasury Select Committee on Budget 2009, is a cumulative behavioural assessment of the impact of both measures.

I hope that this explains why we interpreted your request in the way we did and gives more context to the publicly available information that we directed you to. I can confirm that we do not hold any information relating to the "margin of risk" of these behavioural assessments as you originally requested.

I hope that this response is helpful to you. However, if you remain unsatisfied and would like us to continue with the internal review process, please contact me. It will be helpful to us if you remember to quote the reference number above in any future communications.

Melanie Scoulding
Information Rights Unit

Your right to complain under the Freedom of Information Act 2000

If you are not happy with this reply, you may request a review by writing to HM Treasury, Information Rights Unit, 2/S2, 1 Horse Guards Road, London SW1A 2HQ.

Email FOI.responses@hm-treasury.gov.uk

Any review request must be made within 2 months of the date of this letter.

It would assist our review if you set out which aspects of the reply concern you and why you are dissatisfied.

If you are not content with the outcome your complaint, you may apply directly to the Information Commissioner for a decision. Generally, the ICO cannot make a decision unless you have exhausted the complaints procedure provided by the Treasury. The Information Commissioner can be contacted at: The Information Commissioner's Office, Wycliffe House, Water Lane, Wilmslow, Cheshire SK9 5AF.

