

## ESTIMATED EFFECTS ON THE RETAIL PRICES INDEX OF THE APRIL 2002 BUDGET

Changes	Percentage points contribution to the RPI 1-month change	Timing of effect
<b>Changes to excise duties<sup>1</sup></b>		
<u>Tobacco</u>		
Duties up in line with inflation (up 6p on a packet of 20 cigarettes, 2p on 5 small cigars, 5p on 25g hand-rolling tobacco)	+0.05	17 April 2002
<u>Alcohol</u>		
Duty on beers, wines and spirits frozen, duty on cider and perry cut by 2% and spirit based drinks not exceeding 5.5% alcohol (coolers) taxed at the same rate as spirits.	+0.02	28 April 2002
<u>Vehicle excise duty</u>		
Reduction of £30 for cars emitting less than 120g CO <sub>2</sub> /km and registered since 1 March 2001.	Negligible	1 May 2002
<u>Air-passenger Duty</u>		
Duty on economy flights reduced from £20 to £5 to standardise across European destinations <sup>2</sup>	Negligible	1 November 2002

*Footnotes*

1. As well as VAT, this includes specific duty and, for cigarettes, ad valorem tax.
2. Effects of duty changes for First/Club Class flights not calculated, as these are likely to be purchased either for business use or by the top 4% of households (and therefore excluded from the RPI)

### Notes

1) All effects are estimates only.

2) Duty increases expressed in real terms assume a base inflation rate of 1.9 per cent. Percentage points contributions to the RPI 1-month change use average retail prices as measured in the March 2002 RPI. This may mean that the effects expressed in pence may differ from those calculated by other sources or as announced in the Budget.

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3) Calculations assume that the duty changes are passed on in full to consumers.

4) Other changes to indirect taxation announced in the Budget are assumed to have negligible impact on the RPI.

### **Comparison of measures in the 2001 and 2002 Budgets**

<b>Change</b>	<b>Percentage points effect on the one-month change in the Retail Prices Index</b>	
	<u>March 2001 Budget</u>	<u>April 2002 Budget</u>
<u>Excise duties</u>	-0.17	+0.07
<i>of which</i>		
Road Fuel	- 0.15	n/a
Tobacco	+0.04	+0.05
Alcohol	0.00	+0.02
Vehicle excise duty	- 0.06	0.00
<u>Air Passenger Duty</u>	n/a	0.00
<b>Other effects</b>		
<u>Adults Cycle Helmets</u>	-0.01	n/a
VAT abolished on adult's cycle helmets		
<u>Child's Car Seats</u>	0.00	n/a
VAT reduced to 5%		
<b>Total effect of Budget measures</b>	<b>-0.18</b>	<b>+0.07</b>

n/a – not applicable

### **Effect on the RPI 12-month rate**

**The overall increase to the RPI of the measures announced in this year's Budget is estimated to be about 0.07 percentage points in contrast to a decrease of 0.18 percentage points last year.**

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The following table shows the likely timing of effects on the RPI 12-month rate, assuming all announced changes are, or have been, passed on immediately and in full to consumers. In practice, this is unlikely: changes in road fuel and vehicle excise duties usually affect the index immediately, whilst changes to tobacco and alcohol duties affect the index over a period of several months as stocks deplete.

**Cumulative effects on the all items RPI 12-month rate of recent Budgets**

<b>RPI Date</b>	<b>Cause</b>	<b>Effect</b>	<b>Cumulative Effect</b>
April 2002	Last year's abolition of VAT on adult cycle helmets drops out of 12 month comparison	+0.01	
	Last year's changes in air passenger duty (announced in March 2000 Budget) drop out of 12 month comparison	+0.03	+0.04
May 2002	Increase in tobacco duties	+0.05	
	Increase in alcohol duties	+0.02	+0.11
July 2002	Last year's decreases in vehicle excise duty (up to 1550cc cars) drop out of 12 month comparison	+0.06	+0.17

**For more information**

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