

INTRODUCTION

The Economic and Fiscal Strategy Report (EFSR) explains how the measures and other policy decisions taken in the Budget build on those already introduced to advance the Government's long-term goals:

- raising the sustainable rate of productivity growth through reforms to enhance the flexibility of product and capital markets and to promote enterprise, innovation and skills;
- sustaining a higher proportion of people in work than ever before on the basis of a flexible labour market that adjusts rapidly to changing conditions and delivers employment opportunity for all;
- creating a fairer, more inclusive society with opportunity and security for all, eradicating child poverty and tackling pensioner poverty;
- establishing world class public services to underpin a flexible and high productivity economy through investment and reform; and
- tackling the global challenges of poverty and climate change through steps to achieve the Millenium Development Goals and to deliver the UK's commitments under the Kyoto Protocol.

This chapter of the Financial Statement and Budget Report (FSBR) brings together in summary form all the measures and decisions announced in Budget 2003 that affect the Budget arithmetic, giving their estimated effect on government revenue or spending up to 2005-06.¹ It includes those measures announced since Budget 2002, including in the 2002 Pre-Budget Report. The chapter also sets out how the Budget measures affect the tax and benefit system and government spending. This includes a summary of the main rates and allowances for the personal tax and benefit system, the business tax system, Value Added Tax (VAT), environmental taxes, and other indirect taxes and duties, following the Budget.

The appendices to this chapter provide background information on the Budget measures:

- Appendix A1 provides details of tax changes and other policy decisions which were announced in Budget 2002 or earlier, but which take effect from or after April 2003;
- Appendix A2 explains in detail how the effects of the Budget measures on government revenues are calculated; and
- Appendix A3 provides estimates of the revenue costs to the Government of some of the main tax allowances and reliefs.

BUDGET POLICY DECISIONS

Table A.1 summarises the Budget measures and sets out their effects on government revenue and spending. These include tax measures, national insurance contribution measures, measures that affect Annually Managed Expenditure (AME), and additions to Departmental Expenditure Limits (DEL). Measures that are financed from existing DEL provisions are not included.

¹ The contents of the brackets after each measure in this chapter refer to the line in Tables A.1 and A.2 where its cost or yield is shown. The symbol '-' means that the proposal has no Exchequer effect. The symbol '*' means that the effect is negligible, amounting to less than £3 million a year.

Table A.1: Budget 2003 policy decisions

	(+ve is an Exchequer yield)			£ million
	2003-04 indexed	2004-05 indexed	2005-06 indexed	2003-04 non-indexed
MEETING THE PRODUCTIVITY CHALLENGE				
1 100 per cent first year capital allowances for ICT	-5	-160	+70	-5
2 VAT flat-rate scheme upper limit of £150,000	-15	-15	-15	-15
3 Revalorise VAT registration and deregistration thresholds	0	0	0	-5
4 VAT: simplify the treatment of business gifts	*	-5	-5	-5
5 VAT: electronically supplied services	+20	+25	+30	+20
6 Simplified import VAT accounting	-5	-20	-20	-5
7 Improvements to research and development tax credit	-20	-40	-50	-20
8 Employment benefits: deregulatory measures	-5	-5	-5	-5
9 Reform of North Sea infrastructure taxation	0	-15	-20	0
10 Life companies: change to policyholder rate and apportionment of profits	-25	-40	-40	-25
INCREASING EMPLOYMENT OPPORTUNITY FOR ALL				
11 Income tax: indexation of starting and basic rate limits	0	0	0	-400
12 Housing Benefit disregard	0	-45	-45	0
BUILDING A FAIRER SOCIETY				
Supporting families and pensioners				
13 Child Trust Fund	-350	-230	-235	-350
14 Tax exemption for foster carers	0	-5	-5	0
15 Income tax exemption for reimbursed homeworking costs	-5	-5	-5	-5
16 Extend hospital downrating exemption to 52 weeks	-30	-15	-15	-30
17 Indexation of the pension schemes earnings cap	0	0	0	-5
18 £100 payment to older pensioners	-180	-180	-180	-180
Protecting tax revenues¹				
19 Tackling avoidance and creating a fairer system: equity remuneration	+110	+90	+95	+110
20 Chargeable gains: anti-avoidance involving second-hand life insurance policies	0	+30	+30	0
21 Capital gains tax: countering avoidance schemes through offshore trusts	0	+5	+5	0
22 Loan relationships: closing loopholes	+25	+50	+50	+25
23 Tackling avoidance through sale and repurchase agreements	+30	+50	+50	+30
24 Income tax: avoidance through relevant discounted securities	+20	+20	+20	+20
25 Service companies: closing loopholes used by domestic workers	+15	+15	+15	+15
26 VAT anti-fraud measures	+225	+230	+235	+225
27 VAT on continuous supplies	*	+15	+15	*

Table A.1: Budget 2003 policy decisions

	(+ve is an Exchequer yield)			£ million
	2003-04 indexed	2004-05 indexed	2005-06 indexed	2003-04 non-indexed
Duties and other tax changes				
28 Treatment of options for the purposes of tax on chargeable gains	0	+20	+40	0
29 Inheritance tax: indexation of threshold	0	0	0	-30
30 Electronic payment for large employers	0	+10	+10	0
31 Introduction of gross profits tax for bingo	-20	-25	-20	-20
32 Amusement machines licensing duty: freeze of rates	-5	-5	-5	0
33 General betting duty: minor amendments	+5	+5	+5	+5
34 Tobacco duties: revalorisation of rates	0	0	0	+170
35 Alcohol duties: revalorise beer and wine, freeze other rates	-35	-35	-30	+145
PROTECTING THE ENVIRONMENT				
36 Landfill tax: £3 increases from 2005-06	0	0	+140	0
37 Climate change levy: freeze rates	-20	-20	-20	0
38 Aggregates levy: freeze rates	-10	-10	-10	+10
39 Enhanced capital allowances for water-efficient technologies	-20	-30	-25	-20
40 Enhanced capital allowances for additional energy-saving technologies	-5	-5	-10	-5
Transport and the environment				
41 Company car tax: emissions level for minimum charge	0	0	+125	0
42 Fuel duties: revalorisation of rates from 1 October	-300	0	0	+300
43 Fuel duties: new duty rate for bioethanol from January 2005	0	-5	-30	0
44 Fuel duties: increase rebated oils by 1p above revalorisation	+95	+95	+100	+95
45 Air passenger duties: freeze of rates	-25	-25	-30	0
46 Changes to Vehicle Excise Duty	+30	+30	+35	-95
47 VAT: revalorisation of car fuel scale charges	0	0	0	+10
OTHER POLICY DECISIONS				
48 Recycled revenues from landfill tax increases	0	0	-140	
TOTAL BUDGET MEASURES	-505	-250	+110	-45
* Negligible				
ADDITIONAL BUDGET POLICY DECISIONS				
Resetting of the AME margin	+805	-980	-1,750	

¹ In addition, further details of the package of measures to modernise stamp duty announced in Budget 2002 are set out in Table A2.1. The original yield set out in Budget 2002 (Tables 1.2 and A.1) has been updated, and a reduced yield (by £10 million in 2003-04, and £100 million in 2004-05) included in Budget 2003 fiscal projections.

Table A.2 summarises the impact on government revenue and spending of other measures introduced since Budget 2002, including those announced in the 2002 Pre-Budget Report.

Table A.2: Other measures announced since Budget 2002

		(+ve is an Exchequer yield)			£ million
		2003-04 indexed	2004-05 indexed	2005-06 indexed	2003-04 non-indexed
MEETING THE PRODUCTIVITY CHALLENGE					
a	† Share schemes – statutory corporation tax deduction	+5	–45	–75	+5
INCREASING EMPLOYMENT OPPORTUNITY FOR ALL					
b	Housing benefit: standard rate Pathfinders	–5	–20	–30	–5
c	† Transition to work: extending the Job Grant	0	–15	–15	0
BUILDING A FAIRER SOCIETY					
d	† Income tax: indexation of aged income limits and other allowances	0	0	0	–20
e	† Freeze of class 2 national insurance contributions	–5	–5	–5	0
f	† Extension of the Payroll Giving supplement for one year	–10	0	0	–10
g	VAT exemption for services provided by state regulated welfare agencies	–35	–35	–35	–35
h	† Abolition of North Sea Royalty from 1 January 2003	–180	–180	–150	–180
i	† Increase in the Social Fund budget	–25	–35	–45	–25
j	VAT on privately operated tolls	+10	+10	+10	+10
Anti-avoidance measures					
k	† Abuse of Employee Benefit Trusts	+315	+425	+435	+315
l	† Claims for unfairly accelerated capital allowances	+25	+30	+30	+20
m	Life assurance companies: anti-avoidance	+60	+80	+80	+60
n	Derivative contracts: closing loopholes	+300	0	0	+300
o	† Controlled foreign companies: anti-avoidance measures	0	+50	+170	0
p	† Avoidance of VAT on sales of freehold buildings	+165	+165	+165	+165
q	Controlled foreign companies: removing Ireland from excluded countries list	+15	+15	+15	+15
PROTECTING THE ENVIRONMENT					
r	† Replacement of Landfill Tax Credit Scheme	+100	+110	+110	+100
s	Registered dealers in controlled oils	–10	–5	0	–10
ADDITIONAL POLICY DECISIONS					
	† Additional waste spending in DEL	–100	–110	–110	
TOTAL POLICY DECISIONS		+625	+435	+550	+705

† Announced in 2002 Pre-Budget Report.

Note: As required by the Code for Fiscal Stability, the 2002 Pre-Budget Report economic and fiscal projections were based on, and included the impact of, all Government decisions and all other circumstances where the impact of these decisions could be quantified with reasonable accuracy by the day the projections were finalised.

PERSONAL TAXES AND SPENDING MEASURES

Income tax

- Bands, rates and personal allowances** As announced in Budget 2002, the personal allowance is frozen at £4,615. The personal allowance for people aged 65-74 increases to £6,610 and for those aged 75 or over it increases by £240 above statutory indexation to £6,720. The income limit for age-related allowances, blind person's allowance and the married couple's allowance all rise in line with statutory indexation. Budget 2003 announces that the starting and basic rate limits are increased in line with statutory indexation, and there are no changes to the income tax rates. (d, 11)
- The maximum earnings for which pension provision may be made with income tax relief (the "earnings cap") is increased in line with statutory indexation to £99,000. (17)
- Childcare element of the Working Tax Credit** From April 2004, the restrictions will be removed in the childcare element of the Working Tax Credit that prevent mothers on paid maternity leave receiving help with the costs of childcare for their new babies. (*)
- Reimbursed homeworking expenses** From 6 April 2003, employers will be able to meet additional homeworking costs incurred by employees who work at home without it giving rise to an income tax charge. (15)
- Foster carers** From 6 April 2003, the income of foster carers will be exempt from income tax beneath a fixed threshold amount of £10,000 a year per residence plus an amount per child of £200 a week for each child under 11, and £250 a week for each child aged 11 or over. (14)
- Adoption allowances** As announced in the 2002 Pre-Budget Report, a measure will be introduced to ensure that financial support to adopters under the Children and Adoption Act 2002 continues to be free from tax. (-)
- Personal pensions** A measure will be introduced to remove any doubt that employer and member contributions to personal pension schemes are subject to the earnings cap. (-)
- Life insurance** Fully retrospective measures will be introduced to ensure that any charge by the insurer for an exceptional risk of disability or critical illness is disregarded when determining whether a life policy is a qualifying policy, and to exclude certain group life policies from the chargeable events regime. A further measure, taking effect from 9 April 2003, will correct anomalies in the taxation of life insurance policies held by charitable trusts and of annuity contracts sold by friendly societies. (*)
- A measure will be introduced, with effect from 6 April 2004, to reduce to 20 per cent the amount of tax treated as paid on gains by individuals and trustees. This measure reflects a reduction in the rate of tax to be charged on certain profits made by life insurance companies. (10)
- Claims at end of enquiries** Self Assessment taxpayers will be given rights to make, amend and withdraw claims and elections at the end of an enquiry into a return in line with the rights they enjoy where a 'discovery' assessment is made. The measure will apply to enquiries concluded from Royal Assent. (*)
- Employment benefits** Some of the monetary limits in exemptions for minor employment benefits will be increased later this year. (8)

Table A.3: Bands of taxable income 2003-04

2002-03	£ a year	2003-04	£ a year
Starting rate 10 per cent	0 - 1,920	Starting rate 10 per cent	0 - 1,960
Basic rate ^{1,2} 22 per cent	1,921 - 29,900	Basic rate ^{1,2} 22 per cent	1,961 - 30,500
Higher rate ² 40 per cent	over 29,900	Higher rate ² 40 per cent	Over 30,500

¹ The rate of tax applicable to savings income in Section 1A ICTA 1988 remains at 20 per cent for income between the starting and basic rate limits.

² The rates applicable to dividends are 10 per cent for income up to the basic rate limit and 32.5 per cent above that.

Table A.4: Income tax allowances 2003-04

	2002-03	£ a year 2003-04	Increase
Personal allowance			
age under 65	4,615	4,615	0
age 65-74	6,100	6,610	510
age 75 and over	6,370	6,720	350
Married couple's allowance¹			
age 65 before 6 April 2000	5,465	5,565	100
age 75 and over	5,535	5,635	100
minimum amount ²	2,110	2,150	40
Income limit for age-related allowances	17,900	18,300	400
Blind person's allowance	1,480	1,510	30

¹ Tax relief for this allowance is restricted to 10 per cent.

² This is also the maximum relief for maintenance payments where at least one of the parties is born before 6 April 1935.

Table A.5: Child and Working Tax Credits rates and thresholds

	2003-04 £ a year
Working Tax Credit	
Basic element	1,525
Couples' and lone parent elements	1,500
30 hour element	620
Disabled worker element	2,040
Enhanced disabled worker element	865
50plus return to work payment, 16-30 hours	1,045
50plus return to work payment, 30+ hours	1,565
Childcare element	
– maximum eligible cost for one child	£135 a week
– maximum eligible cost for two or more children	£200 a week
– per cent of eligible costs covered	70
Child Tax Credit	
Family element	545
Family element, baby addition	545
Child element	1,445
Disabled child additional element	2,155
Enhanced disabled child additional element	865
Common features	
First income threshold	5,060
First withdrawal rate (per cent)	37
Second income threshold	50,000
Second withdrawal rate	1 in 15
First threshold for those entitled to Child Tax Credit only	13,230

Effects on the Scottish Parliament's tax varying powers – statement regarding Section 76 of the Scotland Act 1998

A one penny change in the Scottish variable rate in 2003-04 could be worth approximately plus or minus £260 million in a full year, broadly unaffected by these changes. In the Treasury's view, an amendment of the Scottish Parliament's tax-varying powers is not required as a result of these changes.

National insurance contributions

As announced in the 2002 Pre-Budget Report, the rate of Class 2 national insurance contributions (NICs) for the self-employed is frozen at £2.00 per week, and the rate of Class 3 voluntary contributions is increased in line with inflation to £6.95 per week. The special Class 2 rate for volunteer development workers is increased in line with inflation to £3.85 per week, and for share fishermen is frozen at £2.65 per week. The other NIC rates, thresholds and limits for 2003-04 were announced in Budget 2002. (e, *)

Table A.6: Class I national insurance contribution rates 2003-04

Weekly earnings ¹	Employee (primary) NIC rate ² (per cent)	Employer (secondary) NIC rate ³ (per cent)
Below £77 (LEL)	0	0
£77 to £89 (PT/ST)	0 ⁴	0
£89 to £595 (UEL)	11	12.8
Above £595	1	12.8

¹ The limits are defined as LEL – lower earnings limit; PT – primary threshold; ST – secondary threshold; and UEL – upper earnings limit.

² The contracted-out rebate for primary contributions in 2003–04 is 1.6 per cent of earnings between the LEL and UEL for contracted-out salary-related schemes (COSRS) and contracted out money purchase schemes (COMPS).

³ The contracted-out rebate for secondary contributions is 3.5 per cent of earnings between the LEL and UEL for COSRS and 1.0 per cent for COMPS. For COMPS, an additional age-related rebate is paid direct to the scheme following the end of the tax year. For appropriate personal pensions, the employee and employer pay NICs at the standard, not contracted-out, rate. An age and earnings-related rebate is paid direct to the personal pension provider following the end of the tax year.

⁴ No NICs are actually payable but a notional primary Class I NIC will be deemed to have been paid in respect of earnings between LEL and PT to Protect benefit entitlement.

Table A.7: Self-employed national insurance contribution rates 2003–04

Annual Profits ¹	Self employed NICs	
	Class 2	Class 4
Below £4,095 (SEE)	0 ²	0
£4,095 and above	£2 a week	
£4,095 to £4,615 (LPL)		0
£4,615 to £30,940 (UPL)		8 per cent
Above £30,940		1 per cent

¹ The limits are defined as LPL – lower profits limit and UPL – upper profits limit.

² The self-employed may apply for exception from paying Class 2 contributions if their earnings are less than, or expected to be less than, the level of the small earnings exception (SEE).

Inheritance tax

Threshold The threshold is increased in line with inflation, to £255,000, for new tax charges arising on or after 6 April 2003. (29)

Charities and giving

Payroll Giving supplement As announced in the 2002 Pre-Budget Report, the 10 per cent government supplement on donations to charities made through Payroll Giving schemes will be extended for a further year, until 5 April 2004. (f)

BENEFITS

- Child Trust Fund** Budget 2003 introduces a new Child Trust Fund, with entitlement backdated to include children born from September 2002. The Child Trust Fund will provide a Government endowment of £250 for every child at birth, rising to £500 for children from low-income families who also qualify for the full Child Tax Credit. Parents, family and friends will be able to add additional contributions up to an annual limit of £1,000. The fund will mature when the child reaches the age of eighteen. Child Trust Fund accounts are expected to be available from 2005. (13)
- Housing Benefit** From April 2004 the calculation of Housing Benefit will disregard £11.90 of earnings for all tenants who are claiming, or are entitled to claim, the Working Tax Credit, replacing the current 30 hour premium disregard. (12)
- From October 2003, a flat rate Housing Benefit system will be rolled out in Pathfinder areas, under which claims from private rented sector tenants will be paid at the local reference rent for their circumstances, regardless of the accommodation they choose to live in. (b)
- As announced in the 2002 Pre-Budget Report, from April 2004 claimants of Incapacity Benefit or Severe Disablement Allowance will be treated in the same way as Jobseeker's Allowance and Income Support claimants when they return to work and will benefit from the Housing Benefit run-on. (*)
- Job Grant** As announced in the 2002 Pre-Budget Report, from October 2004, the Job Grant will be available to those who move into work following six months on Jobseeker's Allowance, Incapacity Benefit or Income Support, including lone parents, and a new rate of £250 for households with children will be introduced. Partners of benefit claimants will also be eligible. These arrangements will replace the Back to Work Bonus and the lone parent Income Support run-on. (c)
- Hospital downrating of benefits** From May 2003, the period during which all inpatients continue to receive their full state pension and most of their full benefits will be extended to 52 weeks. Attendance Allowance, Disability Living Allowance and Invalid Care Allowance will cease after four weeks, as now. (16)
- Payment to older pensioners** From 2003-04 and for the lifetime of this Parliament, households with a pensioner aged 80 or over will receive an extra £100 in addition to the £200 winter fuel payment. (18)
- The Social Fund** As announced in the 2002 Pre-Budget Report, from April 2003, the maximum payment for the fixed element of the funeral grant rises from £600 to £700, and £90 million will be added to the budget of the Discretionary Social Fund over the three years to 2005-06. (i)

TAX ON CHARGEABLE GAINS AND STAMP TAXES

Tax on chargeable gains

- Annual exempt amount** The capital gains tax (CGT) annual exempt amount is increased in line with statutory indexation to £7,900. (-)
- Taper relief** For periods of ownership from 6 April 2004, an asset used in a trade carried on by individuals, trustees of settlements, personal representatives or certain partnerships will qualify as a business asset for CGT purposes, regardless of whether its owner is involved in carrying on the trade. (*)
- Options and capital gains** A measure will be introduced to restore the basis of calculating gains where assets are acquired by exercising options to the generally understood position before the Court of Appeal judgement in *Mansworth v Jelley*. It will apply where options are exercised on or after 10 April 2003. (28)

Offshore trusts A measure will be introduced to counter an avoidance device where the trustees of an offshore trust have made capital gains and put in place a structure aimed at distributing capital to beneficiaries without triggering a CGT charge on those beneficiaries. The measure applies to payments made to beneficiaries on or after 9 April 2003. (21)

Simplification A package of measures will be introduced to simplify CGT with effect from 10 April 2003 or for the tax year 2003-04 onwards. They will reduce compliance burdens and allow some capital losses to be carried back and set off against gains of earlier tax years. (*)

Life insurance A measure will be introduced with effect from 9 April 2003 to close two loopholes in the chargeable gains rules for disposals of second-hand life insurance policies. (20)

Stamp duty

Modernising stamp duty Budget 2002 announced immediate measures to counter stamp duty avoidance, and a wide-ranging reform to apply stamp duty fairly to transactions in UK land and buildings from late 2003. Table A.1 in Budget 2002 set out figures for the expected revenue yield. Following consultation, this Budget announces the details of those measures to be introduced in December 2003, and, in Appendix A2, publishes a breakdown of the effect on government revenue.

From December 2003:

- more effective enforcement and compliance powers will take effect, commensurate with those already in place for other taxes;
- anti-avoidance rules will help enforce the charge on all transfers of UK land and buildings;
- a proposed reform of lease duty, which will levy 1 per cent on the net present value of rental payments in new leases, where that value exceeds the relevant zero rate threshold;
- the upper threshold of the zero rate band for non-residential property will be increased from £60,000 to £150,000, for both transfers and new leases. (It will remain at £60,000 for residential transfers and leases);
- VAT will be excluded from chargeable consideration for stamp duty on new leases where the landlord has not opted to charge VAT by the time the lease is granted; and
- the stamp duty treatment of property purchases by individuals funded using certain types of alternative mortgage products will be put on a level footing with those funded using conventional mortgage arrangements.

Shares A measure will be introduced to allow stamp duty to continue applying in respect of stock and marketable securities following the implementation of modernising stamp duty. (*)

Registered Social Landlords Homeless families may be housed by Registered Social Landlords (RSLs) under agreements with the Housing Authorities. The tenancy agreements between the family and the RSL will be exempt from stamp duty. This measure is being backdated to transactions completed on or after 1 January 2000. (*)

BUSINESS TAXES AND SPENDING MEASURES

Tax on business profits

- Corporation tax rates** The main rate of corporation tax will be set at 30 per cent for financial year 2004. The small companies rate and the starting rate are unchanged at 19 per cent and zero per cent respectively for financial year 2003. (-)
- Deductibility of interest against tax** A measure will be introduced for accounting periods ending on or after 9 April 2003 to formalise the current practice of disallowing interest on certain items – NICs and student loan repayments paid by all employers and tax paid by employers in the construction industry – against tax. (*)
- Company liquidations and administrations** There will be a package of measures required to enable implementation of the insolvency provisions of the Enterprise Act 2002. One provision takes effect on 9 April 2003 and the remainder will commence at the same time as the new corporate insolvency rules. (*)
- Treasury shares** Department of Trade and Industry (DTI) regulations will allow listed companies to purchase their own shares and hold them in treasury. New tax rules will be introduced to treat shares purchased into treasury as if they had been cancelled, and shares sold out of treasury as new issues. The tax changes and the DTI regulations will be effective from the same date. (*)
- Court Common Investment Funds** The provision which deems Court Common Investment Funds to be authorised unit trusts will be amended to extend the category of investors to hold units in such funds with effect from 6 April 2003. (-)
- Controlled foreign companies** In line with the announcement on 23 July 2002, controlled foreign companies operating in Ireland can no longer benefit from automatic exemption under the Excluded Country Regulations by virtue of changes to the regulations which were laid before Parliament on 20 September 2002 and took effect for accounting periods commencing on or after 11 October 2002. (q)
- As announced in November 2002, the rules for controlled foreign companies in the Hong Kong and Macao Special Administrative Regions of China are being changed to ensure such companies continue to be able to benefit from exemption in cases where it was always intended that they should. The necessary legislation will apply retrospectively with effect from 1 July 1997 (Hong Kong subsidiaries) and 20 December 1999 (Macao subsidiaries). (-)
- Life insurance** Two measures will be introduced to simplify and rationalise the taxation of life insurance companies. They affect the rate of tax charged on the policyholders' share of capital gains and rental income, and the way profits are apportioned between policyholders and shareholders. These measures apply for the financial year 2003 onwards and periods beginning on or after 1 January 2003 respectively. (10)

Royalties and other direct taxes

- North Sea Taxation** As announced in the 2002 Pre-Budget Report, North Sea Royalty was abolished with effect from 1 January 2003. (h)

From 1 January 2004, petroleum revenue tax will be removed for all new third party tariffing business under contracts completed on or after 9 April 2003 relating to use of pipelines and other infrastructure in the UK and on its continental shelf. (9)

Incentives for businesses and employees

Capital allowances Expenditure from 1 April 2003 on designated water-efficient technologies will qualify for 100 per cent first year allowances. The Government will publish the Water Technology list which will identify the eligible technologies. Claims for the enhanced capital allowances may be made when both the publication of this list and Royal Assent have taken place. (39)

The designated energy-efficient technologies qualifying for 100 per cent first year allowances will be expanded later in 2003, subject to agreement with the European Commission. (40)

The 100 per cent first year allowances for investment by small enterprises in information and communications technology (ICT) will be extended for one further year, until 31 March 2004. (1)

Research and development tax credits The Government will reduce the minimum expenditure to £10,000, simplify the rules for apportioning staff costs and allow companies to claim for the costs of agency workers. These changes will take effect from 9 April 2003 for large companies and from a date to be announced for SMEs. The circumstances in which SMEs can claim under 'large company' rules will also be widened with effect from 9 April 2003. (7)

Urban Regeneration Companies As announced in the 2002 Pre-Budget Report, contributions made by businesses on or after 1 April 2003 towards the running costs of Urban Regeneration Companies will be deductible when computing taxable profits. (*)

Employee share schemes As announced in the 2002 Pre-Budget Report, a statutory corporation tax deduction for the cost of providing shares for employee share schemes will be available for accounting periods commencing on or after 1 January 2003. (a)

Some of the tax-incentivised share schemes rules will be simplified to make them easier for employers to administer with effect from Royal Assent. Other improvements to the schemes will come into effect from 9 April 2003. (19)

Securing the tax base

Leasing and tonnage tax As announced on 19 December 2002, the restrictions on capital allowances that can be claimed by lessors of ships to tonnage tax companies will be extended to all types of leasing arrangements except for ordinary ship charters. The measure will apply to leases entered into from that date. (-)

Life insurance As announced on 23 December 2002, a package of measures will be introduced to prevent a small number of companies from exploiting particular circumstances to pay much less tax than other companies writing similar business and to remove other anomalies. Most of the changes will take effect for accounting periods commencing on or after 1 January 2003. They apply to capital gains and losses, the measure of profits for certain types of business and transfers of business. (m)

Measures will be introduced, with effect from 9 April 2003, to close two loopholes in connection with the taxation of non-charitable trusts; and to prevent tax avoidance on maturity of certain life policies. (*)

Controlled foreign companies As announced in the 2002 Pre-Budget Report, a loophole in one of the exemptions from the controlled foreign company rules that allowed profits from extended warranties, credit protection and other UK source business to escape taxation will be closed with effect for accounting periods commencing on or after 27 November 2002.(o)

Loan relationships and derivative contracts As announced on 30 September 2002, legislation will be introduced to counter an avoidance scheme involving off-market currency contracts and to ensure that surplus non-trading loan relationship deficits are carried forward correctly. The measures will apply from that date. (n)

Measures will be introduced with effect from 9 April 2003 to counter an avoidance scheme involving the connected party rules and to ensure that intra-group transactions are taxed in line with accounts. (22)

Employee Benefit Trusts As announced in the 2002 Pre-Budget Report, a package of measures will be introduced with effect from November 2002 to prevent employers using Employee Benefit Trusts (EBTs) to avoid tax and NICs. The employer's tax deduction for EBT contributions will be deferred until the EBT makes a payment to the employee that is liable to tax and NICs. It will also be made clear who is responsible for paying NICs on payments made to employees by an EBT. (k)

Service companies The rules that apply to workers that supply services through an intermediary, such as a service company, will be extended to cover those that are engaged in a domestic capacity, from 10 April 2003 for income tax, with NICs rules coming into force soon after Royal Assent. (25)

Employee share schemes Some loopholes in the rules relating to share-based remuneration will be closed with effect from 9 and 16 April 2003. In addition, the treatment of restricted shares will be made simpler and fairer, taking effect soon after Royal Assent. (19)

Sale and repurchase agreements Measures will be introduced, with effect from 9 April 2003, to prevent avoidance involving sale and repurchase agreements (repo) by ensuring that different parts of the repo legislation work together coherently. The changes will also clarify the workings of the repo rules. (23)

Relevant discounted securities As announced on 27 March 2003, legislation will be introduced with effect from that date to prevent exploitation of the relevant discounted securities (RDS) rules and align the taxation of RDS more closely with that of normal interest bearing securities. (24)

Capital allowances As announced in the 2002 Pre-Budget Report, businesses will be prevented from claiming artificially accelerated capital allowances with effect from 27 November 2002. (l)

As announced on 26 March 2003, a measure will be introduced to counter an avoidance scheme that exploits the fact that 100 per cent ICT allowances are available for software acquired for licensing, but not for software purchased for leasing. The measure affects expenditure incurred from that date. (-)

Other measures

Withholding tax As announced in the 2002 Pre-Budget Report, annual interest payments made by recognised clearing houses and recognised investment exchanges while providing central counterparty clearing services, can be paid without deduction of tax at source from 1 April 2003. Payments to the nominees of certain UK tax-exempt bodies can be made without deduction of tax at source from 1 December 2002. (*)

UK-authorized open-ended investment funds As announced on 16 October 2002, measures will be introduced with effect from that date to make it easier for UK-authorized investment funds to pay interest without deduction of tax to foreign investors and to exempt those investors from the potential charge to inheritance tax on their holdings. (*)

Admissibility of evidence into hearings The provisions regarding the admissibility of evidence into hearings, when a taxpayer was offered an incentive to provide it, will be updated to make the Inland Revenue's procedures further compliant with human rights legislation. The changes will apply to statements made and documents produced from Royal Assent. (*)

Exchange of information There will be a minor amendment to the vires for exchange of information under international agreements to bring them into line with international standards. (-)

PAYE regulations The powers for making PAYE regulations will be modernised to support the Tax Law Rewrite Project's rewrite of the PAYE regulations in line with their original purpose and long-standing practices. (*)

E-payment Mandatory electronic payment will be introduced, from April 2004, for employers with 250 or more employees, to ensure prompt payment of PAYE and other statutory deductions, promote modern communication methods and lower administration costs for Government and business. The cashflow advantage, currently enjoyed by businesses that pay by cheque on the due date, will be built into the system and will not be affected by the change. (30)

VALUE ADDED TAX (VAT)

Simplifying VAT for small businesses The Government will take further steps to help small and newly-registered businesses reduce their VAT compliance costs, improve their cash flow and manage their entry into the VAT system. From 10 April 2003:

- the VAT registration threshold will increase from £55,000 to £56,000 broadly in line with inflation; (3)
- the VAT flat-rate scheme will be extended to businesses with a turnover up to £150,000; (2) and
- the turnover limit for immediate entry to the VAT annual accounting scheme for newly-registered businesses will also rise to £150,000. (*)

Modernising and simplifying VAT From 1 December 2003 a new scheme will allow approved importers to benefit from reductions in the level of bank guarantees they have to provide in order to cover their import VAT liability. (6)

From 1 October 2003 the VAT treatment of a series of business gifts will come into line with that which already applies to single gifts, removing the need for businesses to account for VAT on gifts up to £50 in value. (4)

From 1 July 2003, changes to the VAT place of supply rules, to comply with the E-Commerce Directive, will mean that non-EU businesses providing electronically supplied services to EU consumers will be required to register and account for VAT on their services; a special scheme will allow them to register, account for and pay VAT electronically in the UK. (5)

From Royal Assent, UK legislation concerning mutual assistance between EU tax authorities will be consolidated, and new powers will be introduced to amend references in that legislation to accommodate future changes to EU legislation. (*)

Exemption from VAT was introduced on 31 January 2003 for services provided by state-regulated welfare agencies, consistent with the VAT treatment of similar services provided by charities and public bodies. (g)

From 1 February 2003, privately operated tolls became liable to VAT, complying with a ruling in 2000 by the European Court of Justice. At the time of the ruling the Government stated its intention that there should be no increase in toll charges on account of VAT, and suitable financial arrangements for toll operators were therefore also put in place on 1 February 2003. (j)

Tackling VAT fraud Budget 2003 introduces a package of measures to tackle VAT fraud: (26)

- from midnight on Budget day, businesses that consistently trade in supply chains involving missing traders or those who become insolvent may be required to provide security, as a condition of continuing to trade;
- in order to tackle missing trader fraud, both suppliers and recipients of specified goods and services may become jointly and severally liable for the VAT due from missing traders in the supply chain. This measure takes effect from midnight on Budget day and has built-in safeguards to protect those unwittingly caught; and

- from 16 April 2003, businesses trading in specified goods who do not hold a valid tax invoice, and who cannot provide further evidence to support the bona fide nature of a transaction, will not be allowed to reclaim the VAT charged by their supplier.

Tackling VAT avoidance From 1 August 2003 new rules will ensure that businesses making certain ongoing or continuous supplies to connected persons will have to account for VAT on those supplies at least once per year, preventing them from delaying or postponing indefinitely the payment of VAT. (27)

Legislation was introduced at the time of the Pre-Budget Report to prevent avoidance of VAT involving the sale of new freehold commercial buildings. From Budget day, this legislation will be simplified to reduce burdens on non-avoiders, and new rules will strengthen the measure. (p)

From Budget day, new rules will be introduced to prevent VAT avoidance in relation to the private or non-business use of land and buildings. (*)

ENVIRONMENTAL AND TRANSPORT TAXES

Climate change levy The rates of the climate change levy (CCL) are frozen. (37)

Budget 2003 also introduces a package of technical changes to CCL legislation:

- following Royal Assent, regulations will be laid to confirm the extra-statutory exemption from CCL for products used in secondary recycling processes which compete with exempt primary processes; (-)
- regulations to be laid after Royal Assent will allow qualifying operators of Combined Heat and Power (CHP) stations to claim relief from CCL on input fuel used to produce electricity in accordance with the actual energy-efficiency of their plant; (*) and
- new rules to require electricity suppliers to account for CCL where the amount of levy-free electricity sold exceeds that purchased from renewable or CHP sources. For renewable sources this will take effect for averaging periods ending on or after 31 March 2003. For CHP sources it will apply for averaging periods beginning from 1 April 2003. (*)

Aggregates levy The rate of aggregates levy is frozen at £1.60 per tonne. (38)

Landfill tax Following consultation announced in the 2002 Pre-Budget Report, the standard rate of landfill tax will increase by £3 per tonne in 2005-06 to £18 per tonne, and by at least £3 per tonne each year thereafter, on the way to a medium to long-term rate of £35 per tonne. A package of measures will be introduced from 2005-06 to recycle revenue from these increases to business and local government. (36, 48)

Landfill Tax Credit Scheme From 1 April 2003, the Landfill Tax Credit Scheme is reduced to approximately one-third of its previous level, and refocused on local community environmental projects. The proportion of the remaining funds – £100 million in 2003-04 and £110 million in 2004-05 – to be spent in England has been allocated to public spending on a new sustainable waste delivery programme. (r)

Vehicle Excise Duty From 1 May 2003 a new car vehicle excise duty (VED) band (AAA) for the least polluting vehicles will be introduced. All other car and van VED rates will increase by £5. The VED rates for Reduced Pollution buses, Reduced Pollution General Haulage vehicles, Trade Licences and Special Trailer duty will all increase by £5. Trailer supplements for rigids over 12 tonnes, that haul drawbars in excess of 4 tonnes, will increase by £7. Motorcycle, lorry and all other VED rates are frozen. (46)

A measure, taking effect from Budget day, will be introduced to put beyond any doubt that articulated goods vehicles are excepted from a higher rate of VED when used with reduced axle numbers in specified circumstances. (-)

Table A.8a: VED bands and rates for cars registered after 1 March 2001 (graduated VED)

VED band	CO ₂ emissions (g/km)	Cars using alternative fuels	VED rate (£)	
			Petrol car	Diesel car
AAA	100 and below	55	65	75
AA	101 to 120	65	75	85
A	121 to 150	95	105	115
B	151 to 165	115	125	135
C	166 to 185	135	145	155
D	186 and above	155	160	165

Table A.8b: VED bands and rates for cars and vans registered before 1 March 2001 (pre-graduated VED)

Engine size	VED rate (£)
1549cc and below	110
Above 1549cc	165

Company car tax The level of CO₂ emissions qualifying for the minimum company car tax charge will be reduced by 5g/km to 140g/km from 6 April 2005. The percentage charge rises in 1 per cent steps to a maximum charge of 35 per cent and the level of CO₂ emissions relating to each percentage charge will also be reduced by 5g/km. (41)

Car fuel scale charges From 1 May 2003 the VAT car fuel scale charge, which provides a simplified method for taxing the private use of road fuel bought by VAT registered businesses, will be adjusted to reflect changes in pump prices since Budget 2002. (47)

Fuel duties Duty on road fuel oils will rise in line with inflation from 1 October 2003. This will increase the duty on ultra-low sulphur petrol and diesel by 1.28 pence per litre. (42)

From 1 September 2004, sulphur-free fuels will benefit from a duty differential of half a penny per litre relative to the rate for ultra-low sulphur fuels.

Biodiesel From 1 October 2003, duty on biodiesel will increase by 1.28 pence per litre. (42)

Bioethanol As announced in the 2002 Pre-Budget Report, a reduced rate of duty will be introduced for bioethanol, of 20 pence per litre less than the prevailing rate for sulphur-free petrol. This new rate will become effective from 1 January 2005. (43)

Red diesel fuel oil and light oil The duty rates on rebated gas oil ('red diesel'), fuel oil and light oil used as a furnace fuel increase by 1 penny per litre above revalorisation from Budget day 2003. (44)

Controlled oils scheme As announced at Budget 2002, since January 2003 HM Customs and Excise have approved distributors of rebated gas oil to deal in such fuels under the Registered Distributors of Controlled Oils Scheme. The scheme came into effect on 1 April 2003, and the Government has agreed a light-touch application of the scheme for its first three months, to allow distributors time to align their IT systems with their new record keeping obligations. (s)

Air passenger duty Air passenger duty rates are frozen. (45)

OTHER INDIRECT TAXES AND DUTIES

Tobacco duties From 6pm on Budget day 2003 tobacco duty rates will rise in line with inflation by 2.8 per cent, to maintain the real price of tobacco. (34)

Table A.9: Changes to tobacco duties

	Effect of tax ¹ on typical item (increase in pence)	Unit
Cigarettes	8.4	packet of 20
Cigars	3.0	packet of 5
Hand-rolling tobacco	8.1	25g
Pipe tobacco	5.0	25g

¹ Tax refers to duty plus VAT.

Alcohol duties Excise duty rates on spirits, sparkling wine and cider will be frozen, while the rates on beer and wine will rise in line with inflation by 2.8 per cent, from midnight on 13 April 2003. (35)

Table A.10: Changes to alcohol duties

	Effect of tax ¹ on typical item (increase in pence)	Unit
Beer	0.9	pint of lager
Wine	3.8	75cl bottle
Fortified wine	5.1	75cl bottle
Lower strength sparkling wine	0.0	75cl bottle
Higher strength sparkling wine	0.0	75cl bottle
Spirits	0.0	70cl bottle
Spirits-based RTDs	0.0	275ml bottle
Still cider	0.0	litre
Strong cider	0.0	litre
Sparkling cider	0.0	75cl bottle

¹ Tax refers to duty plus VAT.

Betting and gaming duties Bingo duty will be abolished from 4 August 2003 and replaced by a 15 per cent tax on the gross profits of bingo companies. (31)

The duty rates for General Betting Duty, pool betting duty and the lottery duty are all frozen at current levels. (-)

From 1 September 2003, bets made on course, except for those at horserace and dog tracks, will be subject to General Betting Duty, and all licensed bookmakers and pool betting operators will be allowed to carry forward losses from one accounting period to the next when calculating the tax due on their gross profits. From 1 June 2003, betting exchanges will be taxed at 15 per cent of the commission they charge their customers for facilitating betting through the exchange. (33)

Gaming duty bandings will rise in line with inflation for accounting periods starting on or after 1 April 2003. (-)

Amusement machine licence fees are frozen at their current levels in Budget 2003, and the Betting and Gaming Duties act 1984 will be updated from Royal Assent, to ensure that machines taking bank notes, debit, credit and smart cards are liable to these fees. (32)

Insurance premium tax From Royal Assent, the definition of ‘connected persons’ contained within insurance premium tax (IPT) legislation will be extended to bring divided companies (for example ‘protected cell companies’) within its scope. This will prevent an avoidance scheme, and ensure that insurance provided with certain other products by such companies is liable to the higher rate of IPT. (*)

Enforcing customs duties Following Royal Assent, legislation will be laid to introduce a new system of civil penalties (fines) for breaches of customs laws by importers and exporters, complementing the existing criminal sanctions for more serious offences. (*)

ADDITIONAL SPENDING AND DEBT MANAGEMENT DECISIONS

Managing government debt The Finance Bill will make technical changes to National Loans Fund (NLF) legislation that will enable the accounts for the NLF to be compiled on an accruals basis and make a number of other minor changes. It will also reduce unnecessary administration of the Debt Management Account (DMA) by abolishing the statutory requirement that caps the DMA’s borrowing.

Contingency provisions The Government has increased its contingency provision to £3 billion to ensure that resources are available to cover the full cost of the UK’s military obligations in Iraq.

Departmental Expenditure Limits This Budget transfers over half a billion pounds over the next three years from within total Departmental Expenditure Limits to the budgets of individual departments. These allocations are:

- £332 million to fund a package of counter-terrorism measures that will enhance the security of the UK and the ability of the police and other security services to counter the terrorist threat;
- £174 million for correctional services in England and Wales; and
- £66 million to the Inland Revenue to support implementation of the new compliance and enforcement package for direct tax and NICs, launched in this Budget.

Annually Managed Expenditure margin As described in Chapter 6, to protect committed investment while responding prudently to heightened global risks, the Government has decided to make no further allocations from the Capital Modernisation Fund (CMF). Instead, unallocated CMF funding will be transferred to Annually Managed Expenditure (AME) to contribute to the rebuilding of the AME margin to ensure that the public spending projections include a prudent and cautious safety margin against unexpected events. Resetting the AME margin to £1 billion, £2 billion and £3 billion for the years 2003-04, 2004-05 and 2005-06, in accordance with usual practice, increases projections for Totally Managed Expenditure (TME) by £1 billion in 2004-05 and by £1.8 billion in 2005-06, compared with those made in the 2002 Pre-Budget Report.

A

APPENDICES

APPENDIX AI: MEASURES ANNOUNCED IN BUDGET 2002 OR EARLIER

This appendix sets out a number of tax, national insurance contribution (NIC), social security benefit and other changes which were announced in Budget 2002 or earlier and which take effect from April 2003 or later. The revenue effects of these measures have been taken into account in previous economic and fiscal projections.

Table AI.1: Measures announced in Budget 2002 or earlier which take effect from April 2003 or later

	(+ve is an Exchequer yield)			£ million
	2003-04 indexed	2004-05 indexed	2005-06 indexed	2003-04 non-indexed
a Freeze of income tax personal allowance and national insurance thresholds	+650	+1,050	+1,050	0
b Additional class 1 primary NICs for employees	+3,500	+3,650	+3,900	+3,500
c Additional class 1 secondary NICs for employers	+3,900	+4,100	+4,350	+3,900
d Additional class 4 NICs for the self-employed	+400	+450	+500	+400
e NICs: Indexation of the Upper Earnings Limit and Upper Profits Limit	0	0	0	-150
f Working Tax Credit (WTC) for families without children	-200	-300	-300	-300
g Child Tax Credit and WTC for families with children and associated measures	-2,400	-2,400	-2,400	-2,300
h Income tax: over-indexation of age-related allowances for ages 65 or over	-230	-400	-570	-310
i Eligibility of home childcare for the childcare element of WTC	-10	-15	-20	-10
j Measures to encourage charitable giving	-40	-30	-20	-40
k E-filing incentives for payroll	0	0	-40	0
l Stamp duty: removal of £150,000 cap for commercial properties in disadvantaged communities	-90	-50	-50	-90
m VAT anti-avoidance: face value vouchers	+110	+105	+95	+110
n £1 per tonne increase in landfill tax each year from 2000 until 2004	+115	+140	+145	+115
o Extend Statutory Maternity Pay and Maternity Allowance from 18 to 26 weeks from April 2003	-175	-225	-225	-175
p Introduce two weeks paid paternity leave from April 2003	-65	-65	-65	-65
q Introduce paid adoption leave for one parent from April 2003	-10	-10	-10	-10
r Guaranteed increase in basic state pension	-230	-240	-250	-230
s Introduction of Pension Credit	-985	-2,060	-2,245	-985
TOTAL	+4,240	+3,700	+3,845	+3,360

* Negligible

The 2003-04 income tax personal allowance for those aged under 65, the NIC primary and secondary thresholds and the lower profits limits are all frozen at 2002-03 levels. (a)

For 2003-04, there is an additional class 1 primary NIC for employees of 1 per cent on all earnings above the primary threshold. This means that NICs are charged at a rate of 11 per cent on earnings between the primary threshold and the upper earnings limit, and at a rate of 1 per cent on earnings above the upper earnings limit. (b)

For 2003-04, there is an additional class 1 secondary NIC for employers of 1 per cent on all earnings above the secondary threshold. This means that NICs are charged at a rate of 12.8 per cent on earnings above the secondary threshold. (c)

For 2003-04, there is an additional class 4 NIC for the self-employed of 1 per cent on all earnings above the lower profits limit. This means that NICs are charged at a rate of 8 per cent on profits between the lower and the upper profits limits, and at a rate of 1 per cent on profits above the upper profits limit. (d)

For 2003-04, the NICs upper earnings and profits limits are increased in line with inflation. (e)

From April 2003, the Working Tax Credit replaces the previous elements of support for adults, including childcare costs, in the Working Families' Tax Credit, Disabled Person's Tax Credit and the New Deal Employment Credit for those aged 50 and over. The Working Tax Credit also provides support for working households without children or a disabled adult where at least one adult is aged 25 or over and working at least 30 hours a week. The Child Tax Credit replaces the previous, income-related elements of support for children in the Working Families' Tax Credit, Disabled Person's Tax Credit and Children's Tax Credit. From 2004, it will also replace support for children in Income Support and income-based Jobseeker's Allowance. (f, g)

The 2003-04 personal allowance for those aged 65 – 74 is increased to £6,610, and for those aged 75 or over it is increased by £240 above statutory indexation. (h)

From April 2003, eligibility for the childcare element of the Working Tax Credit includes those who use approved childcare in their own home. (i)

Since 6 April 2003, higher rate taxpayers are able to carry back to the previous year their relief on Gift Aid donations and, from April 2004, taxpayers will be able to nominate a charity to receive a tax repayment that is due to them. (j)

Following the recommendations of the Carter Review of Payroll Services, and regulation making powers introduced in Finance Act 2002, regulations will be made to require employers to file their end of year returns electronically. These requirements will be phased in over a number of years beginning for the year 2004-05 for businesses with 250 or more employees. Incentives for small employers to switch to electronic filing will be introduced beginning for the year 2004-05. (k)

All non-residential property transactions completed on or after 10 April 2003 in the 2,000 most disadvantaged areas in the UK will be exempt from stamp duty. (l)

Following consultation, legislation will be introduced from Budget day to ensure that intermediaries who sell face value vouchers account for VAT on the sale. (m)

In line with the Government's commitment in Budget 1999 to increase the standard rate of landfill tax by £1 per tonne each year until 2004, the rate increased from £13 per tonne to £14 per tonne on 1 April 2003. (n)

In Northern Ireland the aggregates levy is being phased in for aggregates used in processed products, as a result of which the rate for aggregate in these products is 20 per cent of the full rate from 1 April 2003.

The Government announced in Budget 2002 that it would – on receipt of EU state aids approval – exempt from the climate change levy two further sources of energy generation sold via licensed electricity suppliers:

- electricity from combined heat and power (CHP) plants; and
- electricity from coal mine methane.

The exemption for electricity from CHP plants was introduced on 1 April 2003.

From April 2003 the duration of Statutory Maternity Pay (SMP) and Maternity Allowance increase from 18 to 26 weeks. The first 6 weeks continue to be paid at 90 per cent of earnings, followed by the flat rate period, which increases from 12 to 20 weeks. (o)

From April 2003 the first ever paid paternity leave is introduced at the same flat rate as SMP for 2 weeks. Low-paid fathers on paternity leave get access to Income Support. (p)

From April 2003 the first ever paid adoption leave is introduced at the same flat rate and duration as SMP. (q)

The full basic state pension has risen to £77.45 a week for single pensioners and £123.80 a week for couples from 7 April 2003. Subsequently, the basic state pension will rise each year by 2.5 per cent or the increase in the September Retail Prices Index, whichever is higher. (r)

From 6 October 2003, the Pension Credit will bring pensioners' income up to a guaranteed minimum entitlement of £102.10 a week for single pensioners and £155.80 for couples. Those aged 65 and over whose savings, second pensions or earnings give them incomes of up to around £139 a week for single pensioners and nearly £204 a week for couples will also be entitled to a reward. (s)

APPENDIX A2: EXPLAINING THE COSTINGS

This appendix explains how the Exchequer effects of the Budget measures are calculated. In the context of these calculations, the net Exchequer effects for measures may include amounts for taxes, national insurance contributions, social security benefits and other charges to the Exchequer and, for HM Customs and Excise, penalties.

Calculating the costings

The net Exchequer effect of a Budget measure is generally calculated as the difference between applying the pre-Budget and post-Budget tax and benefit regimes to the levels of total income and spending at factor cost expected after the Budget. The estimates do not therefore include any effect the tax changes themselves have on overall levels of income and spending. They do, however, take account of other effects on behaviour, where they are likely to have a significant and quantifiable effect on the yield and any consequential changes in revenue from related taxes and benefits. These include estimated changes in the composition or timing of income, spending or other tax determinants. For example, the estimated yield from increasing the excise duty on petrol includes the change in the yield of VAT and other excise duties resulting from the new pattern of spending. The calculation of the expected effect of changes in duty rates on consumer demand for excise goods, assumes that any change in duty is passed on in full to consumers. Where the effect of one tax change is affected by implementation of others, the measures are generally costed in the order in which they appear in tables A.1, A.2 and A1.1.

The non-indexed base columns in Tables A.1, A.2 and A1.1, show the revenue effect of changes in allowances, thresholds and rates of duty (including the effect of any measures previously announced but not yet implemented) from their pre-Budget level. The indexed base columns strip out the effects of inflation by increasing the allowances, thresholds and rates of duty in line with prices in this and future Budgets.

Where the Government has a policy which has been previously announced but not yet implemented, this is also stripped out of the indexed numbers. Such measures are included in tables A.2 or A1.1. Measures announced in this Budget, in table A.1, are assumed to be indexed in the same way for future Budgets.

The indexed base has been calculated on the assumption that, each year:

- income tax and national insurance contribution allowances and thresholds, and the single person, couple, lone parent and disabled worker elements of the Working Tax Credit increase in line with the annual increase in the Retail Prices Index (RPI) to the September prior to the Budget;
- the child elements of the Child Tax Credit will rise in line with the annual increase in average earnings for the lifetime of this Parliament;
- VAT thresholds and gaming duty bands rise in line with the increase in the RPI to the December prior to the Budget; and
- air passenger duty, climate change levy, vehicle excise duty and fuel, tobacco and alcohol duties all rise in line with the projected annual increase in the RPI to the September following the Budget.

Implementation dates are assumed to be: Budget day for fuel and tobacco duties; 4 days after Budget day for alcohol duties; May for amusement machine licence duty; July for insurance premium tax; November for air passenger duty; and April for all other taxes, duties and tax credits.

The yields of anti-avoidance measures represent the estimated direct effect of the measures with the existing level of activity.

These costings are shown on a National Accounts basis. The National Accounts basis aims to recognise tax when the tax liability accrues irrespective of when the tax is received by the Exchequer. However, some taxes are scored on a receipt basis, principally due to the difficulty in assessing the period to which the tax liability relates. Examples of such taxes are corporation tax, self assessment income tax, inheritance tax and capital gains tax. This approach is consistent with other government publications.

Notes on individual Budget issues

The following notes provide further information on the costings for a small number of issues, to help explain the basis for costing the particular measure, or give details of effects on government revenue in the longer term.

Capital gains tax taper relief The cost is expected to increase to £15 million by 2008-09.

Stamp duty modernisation The expected yield from measures to reform stamp duty on land and buildings in the UK was published in Budget 2002, when a firm announcement to introduce the reform was made. Following consultation on modernising stamp duty, this Budget confirms the details of and changes to the measures which will be implemented as part of this reform. The estimated yield, set out in table A2.1, has been revised (downwards by £10 million in 2003-04, and £100 million in 2004-05) to reflect these details and more recent data on property transactions.

Table A2.1: Effect on government revenue of stamp duty modernisation

	Indexed cost or yield (£ million) (+ve is an exchequer yield)			
	2002-03	2003-04	2004-05	2005-06
Measures enacted in Finance Act 2002	110	110	130	160
Further anti-avoidance measures	0	*	80	130
Proposed reform of lease duty	0	50	190	210
Increase of zero rate threshold to £150,000 for non-residential transfers	0	-10	-20	-20
Changes to stamp duty consideration (VAT)	0	-10	-30	-30
Alternative property finance arrangements	0	*	*	*
Total	110	140	350	450

* Negligible

Capital allowances The revenue effect of extending 100 per cent first year allowances for information and communication technology equipment for small enterprises covers both companies and unincorporated businesses. The yield is expected to decline to £20 million in 2006-07 and then slowly thereafter.

The revenue effect of the 100 per cent first year allowances for water technologies covers both companies and unincorporated businesses. The cost declines slowly after 2005-06.

Tackling VAT fraud The estimated yield reflects the direct effects expected from these measures with the existing level of activity but excludes additional indirect revenue gains from deterrent effects. Such indirect effects cannot be separated from other indirect effects delivered within the VAT strategy.

Fuel duties The public finances currently assume that the half a penny per litre differential for sulphur-free fuels relative to ultra-low sulphur fuels will be introduced on a revenue-neutral basis. If a decision is made in the future to introduce the differential on a basis that is not revenue-neutral, the revenue impact of this decision would be set out accordingly at the time the decision is made.

APPENDIX A3: TAX ALLOWANCES AND RELIEFS

This appendix provides estimates of the revenue cost of some of the main tax allowances and reliefs.

Tax reliefs can serve a number of purposes. In some cases they may be used to assist or encourage particular individuals, activities or products. They may thus be an alternative to public expenditure. In this case they are often termed “tax expenditures”. There may, for instance, be a choice between giving tax relief as an allowance or deduction against tax, or by an offsetting cash payment.

Many allowances and reliefs can reasonably be regarded (or partly regarded) as an integral part of the tax structure – called “structural reliefs”. Some do no more than recognise the expense incurred in obtaining income. Others reflect a more general concept of “taxable capacity”. The personal allowances are a good example: to the extent that income tax is based on ability to pay, it does not seek to collect tax from those with the smallest incomes. But even with structural reliefs of the latter kind, the Government has some discretion about the level at which they are set.

Many other reliefs combine both structural and discretionary components. Capital allowances, for example, provide relief for depreciation at a commercial rate as well as an element of accelerated relief. It is the latter element which represents additional help provided to business by the Government and is a “tax expenditure”.

The loss of revenue associated with tax reliefs and allowances cannot be directly observed, and estimates have to be made. This involves calculating the amount of tax that individuals or firms would have had to pay if there were no exemptions or deductions for certain categories of income or expenditure, and comparing it with the actual amount of tax due. The Government regularly publishes estimates of tax expenditures and reliefs for both HM Customs and Excise and Inland Revenue taxes. Largely because of the difficulties of estimation, the published tables are not comprehensive but do cover the major reliefs and allowances.

The estimates in Table A3.1 below show the total cost of each relief. The classification of reliefs as tax expenditures, structural reliefs and those elements combining both is broad brush and the distinction between the expenditures and structural reliefs is not always straightforward. In many cases, the estimated costs are extremely tentative and based on simplifying assumptions. The figures make no allowance for the fact that changes in tax reliefs may cause people to change their behaviour. This means that figures in Table A3.1 are not directly comparable with those of the main Budget measures.

Estimation of behavioural effects is notoriously difficult. The sizes of behavioural changes will obviously depend on the measure examined and possible alternative behaviours. For example, removing the tax privileges of one form of saving may just lead people to switch to another form of tax privileged saving.

Table A3.1 also gives details relating to VAT, which is collected by HM Customs and Excise. It shows the estimated yield forgone by not applying the standard rate of VAT – 17.5 per cent – to goods and services which are currently zero rated, reduced rated, exempt or outside the scope of VAT. Estimates of the scale of structural reliefs for local authorities and equivalent bodies are also shown. Again, the figures are estimates and must be treated with caution. In line with the treatment of Inland Revenue taxes, they make no allowance for changes in behaviour.

The estimated costs of reliefs and allowances given in Table A3.1 cannot be added up to give a meaningful total. The combined yield of withdrawing two related allowances could differ significantly from the sum of individual costs. Similarly the sum of the costs of component parts of reliefs may differ from the total shown.

Further details on individual tax allowances and reliefs can be found in *Tax ready reckoner and tax reliefs*, published alongside the 2002 Pre-Budget Report.

Table A3.1: Estimated costs of principal tax expenditure and structural reliefs

	£ million	
	2001-02	2002-03
TAX EXPENDITURES		
Income tax		
Relief for:		
Approved pension schemes	13,000	13,700
Approved profit-sharing schemes	190	100
Share Incentive Plan	40	150
Approved savings-related share option schemes	240	160
Personal Equity Plans	700	575
Individual Savings Accounts	725	825
Venture Capital Trusts	60	35
Enterprise Investment Scheme	260	240
Professional subscriptions	50	50
Rent-a-room	100	100
Exemption of:		
First £30,000 of payments on termination of employment	850	850
Interest of National Savings Certificates including index-linked certificates	170	160
Tax Exempt Special Savings Account interest	150	100
Premium Bond prizes	110	90
Income of charities	850	900
Foreign service allowance paid to Crown servants abroad	70	80
First £8,000 of reimbursed relocation packages provided by employers	300	300
Tax credits:		
Life assurance premiums (for contracts made prior to 14 March 1984)	95	85
Children's Tax Credit	2,100	2,300
Working Families' Tax Credit	5,500	6,300
Disabled Person's Tax Credit	130	160
Income tax and Corporation tax		
Film tax relief	240	300
Corporation tax		
R&D Tax Credits	150	600
National insurance contributions		
Relief for:		
Approved profit-sharing schemes	130	70
Share Incentive Plan	20	90
Approved savings-related share option schemes	160	110
Employer contributions to approved pension schemes	4,800	4,900
Capital gains tax		
Exemption of gains arising on disposal of only or main residence	6,000	11,000
Retirement relief	70	30

Table A3.1: Estimated costs of principal tax expenditure and structural reliefs

	£ million	
	2001-02	2002-03
Inheritance tax		
Relief for:		
Agricultural property	110	120
Business property	110	90
Exemption of transfers to charities on death	340	330
Value added tax		
Zero-rating of:		
Food	9,150	9,350
Construction of new dwellings (includes refunds to DIY builders)	3,050	3,400
Domestic passenger transport	1,650	1,750
International passenger transport (UK portion)	200	250
Books, newspapers and magazines	1,400	1,450
Children's clothing	800	800
Water and sewerage services	950	950
Drugs and supplies on prescription	750	800
Supplies to charities	150	200
Ships and aircraft above a certain size	450	500
Vehicles and other supplies to disabled people	350	400
Lower rate on domestic fuel and power	1,750	1,850
Lower rate for certain residential conversions	100	100
STRUCTURAL RELIEFS		
Income tax		
Personal allowance	34,800	35,900
Income tax and corporation tax		
Double taxation relief	7,000	7,000
Corporation tax		
Reduced rate of corporation tax on policy holders' fraction of profit	350	150
National insurance contributions		
Contracted-out rebate occupational schemes:		
Rebates deducted at source by employers	6,600	7,470
Rebates paid by the Contributions Agency direct to the scheme	270	310
Personal pensions	2,830	3,770
Value added tax		
Refunds to:		
Northern Ireland Government bodies of VAT incurred on non-business purchases under the Section 99 refund scheme	250	250
Local Authority-type bodies of VAT incurred on non-business purchases under the Section 33 refund scheme	4,850	5,050
Central government, health authorities and NHS Trusts of VAT incurred on contracted-out services under the Section 41 (3) refund scheme	2,650	2,750

Table A3.1: Estimated costs of principal tax expenditure and structural reliefs

	£ million	
	2001-02	2002-03
RELIEFS WITH TAX EXPENDITURE AND STRUCTURAL COMPONENTS		
Income tax		
Age-related allowances	1,400	1,500
Exemption of:		
British Government securities where owner not ordinarily resident in the United Kingdom	750	750
Child Benefit (including one parent benefit)	880	920
Long-term incapacity benefit	140	170
Industrial disablement benefits	90	80
Attendance allowance	250	260
Disability living allowance	460	460
War disablement benefits	90	90
War widow's pensions	50	60
Corporation tax		
Small companies' reduced rate corporation rate	1,900	2,000
Starting rate of corporation tax	160	350
Exemption of gains on substantial shareholdings	0	170
Income tax and corporation tax		
Capital allowances, of which:	16,900	17,700
First year allowances for SMEs	230	400
First year allowances for small enterprises for information and communication technology	70	130
Enhanced capital allowances for energy saving technology	90	90
Accelerated capital allowances for Enterprise Zones	100	100
Capital gains tax		
Indexation allowance and rebasing to March 1982	300	230
Taper relief	530	600
Exemption of:		
Annual exempt amount (half of the individual's exemption for trustees)	1,050	750
Gains accrued but unrealised at death	800	550
Petroleum revenue tax		
Uplift of qualifying expenditure	180	150
Oil allowance	550	450
Safeguard: a protection for return on capital cost	275	180
Tariff receipts allowance	50	45
Exemption for gas sold to British Gas under pre-July 1975 contracts	210	120
Inheritance tax		
Nil rate band for chargeable transfers not exceeding the threshold	7,400	8,300
Exemption of transfers on death to surviving spouses	1,400	1,400
Stamp duties		
Exemption of transfers of land and property where the consideration does not exceed the £60,000 threshold	160	150
Exemption of transfers in designated disadvantaged wards where the consideration does not exceed £150,000	10	70
National insurance contributions		
Reduced contributions for self-employed not attributable to reduced benefit eligibility (constant cost basis)	2,100	1,700

Table A3.1: Estimated costs of principal tax expenditure and structural reliefs

	£ million	
	2001-02	2002-03
Value added tax		
Exemption of:		
Rent on domestic dwellings	2,600	2,750
Rent on commercial property	450	450
Private education	150	150
Health services	600	650
Postal services	400	400
Burial and cremation	100	100
Finance and insurance	2,250	2,350
Betting, gaming and lottery duties	900	900
Small traders	400	400

