

Low inflation and interest rates mean many households will have higher real incomes in 2009. In addition, households have benefited from action that the Government has taken to support economic recovery, including an increase in the personal allowance and a temporary cut in VAT. However, the Government recognises that many households have been hit by the downturn, including those affected by rising unemployment or by falling hours or wages.

Budget 2009 announces further Government action to support employment, to help savers and families with children, to support pensioners and to help people manage their finances, including:

- **an additional £1.7 billion set aside for the Department for Work and Pensions** to sustain the high numbers of individuals currently moving off Jobseeker's Allowance in the early months of each claim and provide support for the minority who remain unemployed for longer periods;
- **a guaranteed job, training or work placement for all 18-24 year olds who reach 12 months unemployed** to ensure no young people are left behind due to long-term unemployment;
- **an additional payment alongside this year's Winter Fuel Payment, worth £100 for households with someone aged over 80 and £50 for households with someone aged over 60;**
- **an increase in the annual investment limit for Individual Saving Accounts to £10,200, up to £5,100 of which can be saved in cash.** These higher limits will be available to people aged 50 and over from 6 October 2009 and available to all from 6 April 2010, directly benefiting over five million people who currently use their full ISA allowance;
- **an increase to the child element of the Child Tax Credit of an additional £20 a year above indexation from April 2010,** providing valuable support to families with children;
- **an additional £125 million in 2009-10 and £145 million in 2010-11 allocated to the Social Fund;** and
- **an increase in the level of statutory redundancy pay, making the weekly rate £380.**

Budget 2009 also announces a package of measures to help homeowners, homebuyers and the housing market:

- **a £600 million funding package of measures to build more homes through unlocking sites currently sitting dormant;** and
- **an extension of the stamp duty holiday for all houses costing up to £175,000 until 31 December 2009.**

In addition, Budget 2009 announces:

- **that from April 2010, an additional rate of income tax of 50 per cent will apply to income over £150,000, and the income tax personal allowance will be restricted for those with incomes over £100,000;**
- **that from April 2011, tax relief on pensions contributions will be restricted for those with incomes of £150,000 and over, and tapered down until it is 20 per cent;** and
- **changes to alcohol and tobacco duties, and a package of measures which will protect £3 billion of tax receipts a year by 2010-11 from tax evasion and avoidance.**

**5.1** Budget 2009 announces further action by the Government to support households, building on measures announced at and since the 2008 Pre-Budget Report. The Budget also announces changes to income tax and pensions tax relief which will ensure that those individuals with the highest incomes make the largest contribution to fiscal consolidation.

**5.2** Action to support the stability and effective functioning of the financial system, as set out in Chapter 3, has secured people's savings and allowed banks to continue to provide finance to support businesses, jobs and growth.

**5.3** Many households are also benefiting from the combination of falling energy and mortgage costs, factors which are also contributing to low inflation:

- reductions in interest rates mean that, on average, the 4.5 million people on tracker mortgages are saving £230 per month. They will also benefit those who have come to the end of fixed rate deals who would otherwise have faced a rise in their repayment costs;
- CPI inflation has fallen from 5.2 per cent in September 2008 to 2.9 per cent in March 2009. RPI inflation, which includes mortgage interest payments, was -0.4 per cent in March 2009 and is forecast to fall further this year. This means that for those in work real incomes will grow; and
- households that rely on state sources of income such as benefits or pensions will have seen gains from April, with the largest cash increase in benefits since the early 1990s. These households will see further increases in their purchasing power next April as benefits are held constant while prices fall, and the basic State Pension increases by 2.5 per cent.

**5.4** These gains have been reinforced by action taken by the Government at the Pre-Budget Report to provide broader support for the economy through the fiscal stimulus, and to provide additional financial support for those who need it most. Families and individuals are already receiving this additional support:

- from the reduction in VAT from 17.5 per cent to 15 per cent throughout 2009;
- 22 million basic rate taxpayers under 65 gain £145 in 2009-10 from increases to the personal allowance, up from £120 in 2008-09, as compared to the position in April 2008;
- 7.5 million families with children and 12 million pensioners have benefited from bringing forward increases to Child Benefit and the Child Tax Credit, the introduction of the Health in Pregnancy Grant, and the one-off £60 payment to pensioners made earlier this year; and
- around 355,000 households who have experienced a drop in income are receiving more tax credits than they would otherwise have done, and have therefore benefited from the inbuilt flexibility and responsiveness of the tax credits system.

**5.5** However, the Government recognises that many households are facing more difficult circumstances, and uncertainty, as a result of the downturn. Budget 2009 provides additional targeted support to help those who have been hit hardest.

## Supporting Working Households

**Tax credits flexibility** **5.6** The tax credit system, put in place by this Government, is specifically designed to provide additional support when people need it most. In the year ahead, the inbuilt flexibility of the tax credits system will provide extra support to families that find themselves living on a lower income.

### Box 5.1: Tax credits – flexible support when household income changes

Tax credits are available to nine out of ten families with children, and to 1.5 million working people without children on low incomes. The Government spent an extra £4 billion on tax credits in 2008-09 compared to the previous year, and in April significantly increased the support available. The additional help available as a result of the inbuilt flexibility of tax credits can be substantial:

- a working couple with two children whose income falls from £25,000 to £10,000 per year could benefit by up to an extra £112 per week; and
- a couple working on the National Minimum Wage (NMW) without children where one partner becomes unemployed could become eligible for up to £68 per week.

Tax credits can also help people experiencing changes to their work situation by continuing to provide support for four weeks after people cease to qualify for the Working Tax Credit (WTC).

The Government recognises that many people are now working reduced hours and so **from 31 July this protection, worth up to £32 per week for someone on NMW, will be extended to cover people who would lose their entitlement to WTC because of a move to part-time working. The Budget also announces extensions to this protection to include support for childcare.**

People can notify HMRC of their changed income and circumstances over the phone, and they could rapidly benefit from the additional support. This support is benefiting an even larger number of households than normal, with around 355,000 households who were living on a lower income in March receiving on average £35 more per week in tax credits, 55,000 more than at the same time last year. **From the end of this month HMRC will also refocus its tax credit marketing to remind people to provide up-to-date information if their circumstances change.**

**Increasing take-up of Working Tax Credit for those without children** **5.7** Take-up of tax credits by families with children is already very high. **HMRC has now set an ambitious target to raise take-up of WTC among people without children by 100,000 by April 2011.** HMRC will continue to expand its work with employers to increase take-up, which is now reaching around 750,000 employees at over 50 organisations, and its work with Jobcentre Plus to help those going in and out of work. **In the coming year HMRC will also begin new research-driven marketing aimed at the half a million people who stand to gain the most from taking up WTC, and launch a pilot using data from Pay As You Earn records to identify and contact potentially eligible people.**

**The Working Tax Credit and the National Minimum Wage** **5.8** At the same time, the Government will continue to improve incentives for people to participate and progress in the labour market to ensure that people are well placed to make the most of the opportunities available now, and when growth in the economy resumes. From this April, the Government has increased the support available through WTC. The Government also acted on the recommendations of the independent Low Pay Commission (LPC) by increasing the hourly NMW from 1 October 2008: to £5.73 for adults; to £4.77 for 18-21 year olds; and to £3.53 for 16-17 year olds. The LPC will publish their recommendations for October 2009 NMW rates in May 2009.

**Improving gains to work** **5.9** These steps help to ensure that people have an incentive to enter the labour market. Table 5.1 shows that, since introducing the NMW in April 1999, the Government has substantially increased the minimum income that people can expect when moving into work.

**Table 5.1: Weekly minimum income guarantees (MIGs)**

	April 1999	April 2009	Percentage increase in real terms <sup>1</sup>
Family <sup>2</sup> with one child, full-time work	£182	£305	31%
Family <sup>2</sup> with one child, part-time work	£136	£237	36%
Single person, 25 or over, full-time work	£113	£196	35%
Couple, no children, 25 or over, full-time work	£117	£232	55%
Single disabled person in full-time work	£139	£244	37%
Single disabled person in part-time work	£109	£176	26%

Assumes the prevailing rate of NMW and that the family is eligible for Family Credit/Disability Working Allowance and Working Tax Credit/Child Tax Credit. Full-time work is assumed to be 35 hours. Part-time work is assumed to be 16 hours.

<sup>1</sup> RPI growth is taken from HM Treasury's economic forecasts.

<sup>2</sup> Applies to lone-parent families and couples with children alike.

**The poverty trap** **5.10** Marginal deduction rates (MDRs) are one measure of the extent of the poverty trap, which occurs when those in work have limited incentives to increase their earnings. They show how much of each additional pound of earnings is lost due to taxes and withdrawn benefits or tax credits. Table 5.2 shows the reduction in the number of families facing MDRs in excess of 70 per cent since 1997. The increased numbers facing MDRs of between 60 and 70 per cent reflects the introduction and increased generosity of tax credits since 1999, which has extended financial support to many more families, including, for the first time, those without children.

**Table 5.2: The effect of the Government's reforms on high marginal deduction rates**

Marginal deduction rate <sup>1</sup>	Before Budget 1998	2009-10 system of tax and benefits
Over 100 per cent	5,000	0
Over 90 per cent	130,000	60,000
Over 80 per cent	300,000	225,000
Over 70 per cent	740,000	305,000
Over 60 per cent	760,000	1,960,000

<sup>1</sup> Marginal deduction rates are for working heads of families in receipt of income-related benefits or tax credits where at least one person works 16 hours or more a week, and the head of the family is not receiving pensioner or disability premia.

Note: Figures are cumulative. Estimates for the 2009-10 system of taxes and benefits are calibrated to tax credits statistics for April 2007, and earlier data for Housing and Council Tax Benefits. The estimates make explicit allowance for families newly entitled to Housing and Council Tax Benefits from October 2009, but any such estimates are subject to significant uncertainties, in particular concerning likely take-up.

## Supporting families to reduce child poverty

**Tackling child poverty** **5.11** Between the late 1970s and the mid 1990s child poverty in the UK doubled. In 1999, the Government pledged to eradicate child poverty within a generation. As a result of investment across the UK significant progress has been made. Between 1998-99 and 2006-07 some 600,000 children were lifted out of relative poverty. Measures announced in and since Budget 2007 will lift around 500,000 more children out of relative poverty.

**How families are being supported already** **5.12** Despite this progress the Government recognises that the global economic difficulties have meant that many families across the country are facing new pressures. The Government's priority is to help all households, particularly the vulnerable. The 2008 Pre-Budget Report set out the following increases in financial support, which families are now receiving:

- the bringing forward of increases to Child Benefit, worth over £22 on average to families, between January 2009 and April 2009, to support all families across the UK;
- the bringing forward of the Government's commitment to increase the child element of the Child Tax Credit by £25 above indexation from April 2010 to April 2009, so that the child element increased by £150 a year in April 2009; and
- the introduction in April 2009 of the Health in Pregnancy Grant, worth £190 for all women after the 25th week of pregnancy, is expected to benefit 780,000 families a year.

**5.13** Budget 2009 builds on this progress and sets out the next steps for supporting vulnerable groups through the downturn. To further help low-to-middle-income families, **the child element of the Child Tax Credit will increase by an additional £20 a year above indexation from April 2010 providing valuable support to families with children.**

**5.14** As described in Box 5.1, the flexibility and responsiveness of tax credits is designed to tailor financial support to current circumstances and respond quickly to changing needs. To help minimise disruption to children in families falling out of work, and to ensure parents can continue to use childcare while they look for work, **the Government will amend the law to make clear that from 31 July the current four-week run-on of entitlement to WTC also covers the childcare element, worth on average £68 per week, including for couples when only one partner stops working.**

**5.15** Take-up of tax credits is higher than for any previous system of income-related support. However, the Government is not complacent. Take-up of other benefits is not as high, and tackling child poverty for the long term will require ensuring that financial support reaches everyone who needs it. The Government is grateful for the work of the Take-up Taskforce, established at the 2008 Pre-Budget Report and will work to **join up the delivery of financial support and help local authorities in improving take-up of tax credits and benefits.**

**The long term 5.16** The Government remains committed to the sustainable eradication of child poverty and will enshrine this target in legislation. Legislation will drive action to ensure the Government achieves its vision of a fairer society where every child has the opportunity to achieve their potential.

**Box 5.2: Child poverty Bill**

In *Ending Child Poverty: Making it Happen*,<sup>1</sup> published in January, the Government set out its proposals to legislate on the commitment to eradicate child poverty to ensure that it remains a national priority and that all parts of society are enabled to play their role in tackling child poverty. The Government will publish a summary of the consultation responses alongside the introduction of a Bill which will be published shortly. The Bill will:

- create a clear definition of success in primary legislation. Legislation will set child poverty targets using relative low income; persistent poverty; and material deprivation combined with low income indicators. In addition, reflecting the views of many respondents, **legislation will reflect the need to make progress on absolute low income;**
- create a clear and transparent accountability framework. Legislation will require the Government to publish a child poverty strategy, to be refreshed every three years, evaluating progress towards the 2020 vision and setting milestones for future action across a wide range of policy areas. In recognition of stakeholders' views, **legislation will also require the Government to have regard to advice published by an expert commission ahead of each three-year strategy;** and
- improve partnership working and collaboration to tackle child poverty at a local level. **Legislation will require local authorities and delivery partners to work together to tackle child poverty and to set out the contribution that they will make in their local areas.**

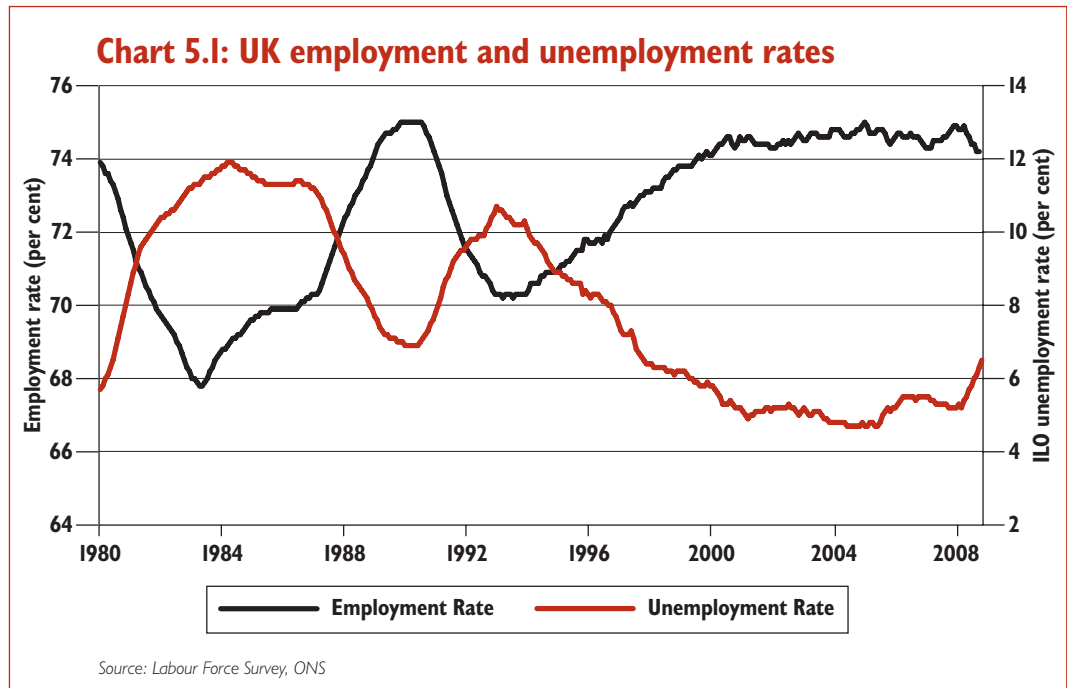
## Labour market performance

**5.17** The recent deterioration in the economy has put pressure on the labour market, and the Government recognises that many people are concerned about their employment prospects.

**5.18** The UK labour market has entered the downturn from a position of strength. In January 2008, claimant count unemployment fell below 800,000 for the first time in over 32 years, and employment recorded a historic high in the three months to May 2008. However, unemployment has increased sharply since 2008, particularly during the first quarter of 2009.

**5.19** Welfare reforms since 1997 have helped to create an open, dynamic and flexible labour market in the UK that is responding to the challenge of rising unemployment. Jobcentre Plus is also continuing to provide an effective service, ensuring large numbers of people move back into work quickly during this downturn.

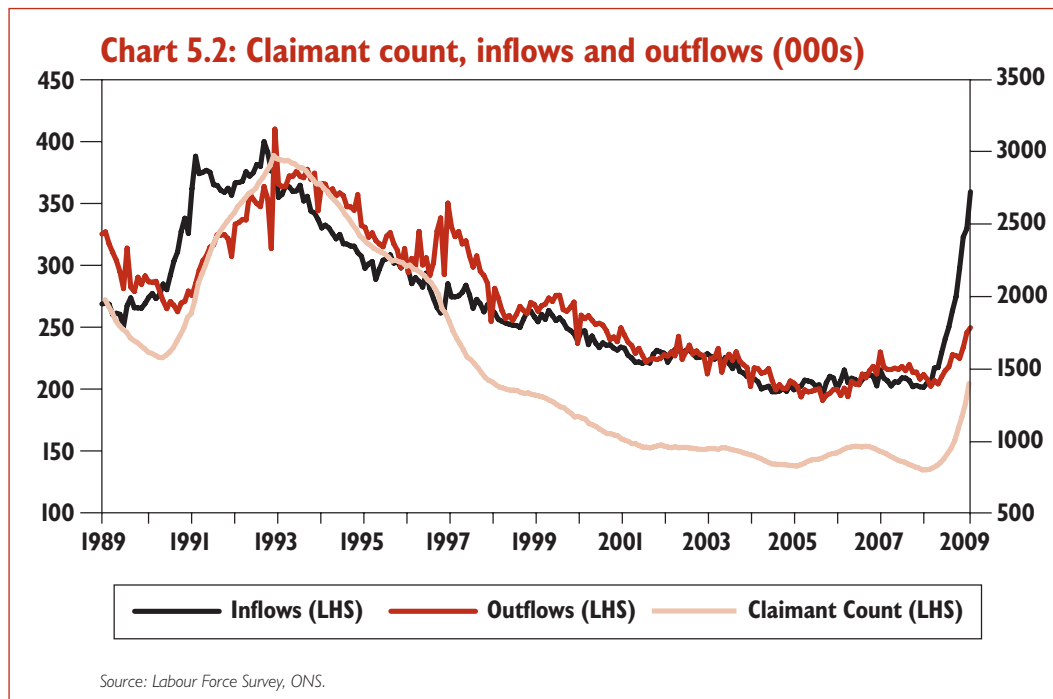
<sup>1</sup>*Ending Child Poverty: Making it Happen*, HM Government, January 2009 (available at <http://www.hm-treasury.gov.uk>)



## Responding to Labour Market Conditions

**5.20** The loss of jobs can devastate families and communities, and as seen in the 1980s recession can lead to long-term detachment from the labour market. In particular, the concentration of unemployment amongst certain groups, or in certain areas, can have long-lasting social costs. The Government is therefore taking action now to help individuals move back to work as quickly as possible, and to support those most affected by unemployment.

**Current Support – Jobcentre Plus 5.21** The reforms to Jobcentre Plus and Jobseekers Allowance (JSA) since 1997 have ensured that for the majority of new claimants, unemployment is short-lived, with 57 per cent of people moving off JSA within three months. Because of this, the rise in unemployment is starting from a much lower base than in the previous recession (see Chart 5.1). In addition, as Chart 5.2 shows, numbers moving off JSA have increased quickly – an average of a quarter of a million people a month in the start of the year. There continues to be considerable demand for new workers, with over 10,000 new vacancies being made available in Jobcentre Plus every working day.



**Help announced  
at the Pre-Budget  
Report**

**5.22** The Government recognises that extra support is needed through the recession. That is why the 2008 Pre-Budget Report delivered a fiscal stimulus to bolster the economy, stimulate growth and increase demand for jobs, along with an additional £1.3 billion to support Jobcentre Plus delivery.

**5.23** Action the Government has taken from the 2008 Pre-Budget Report onwards has already had a critical impact in supporting employment (see Box 5.3). In addition to the fiscal stimulus and support for Jobcentre Plus, the January Employment Summit announced a further £500 million package, offering support for up to 500,000 jobseekers. Along with systemic measures including the Asset Protection Scheme and Capital Guarantee Scheme, targeted business finance measures, including the Working Capital Scheme and Enterprise Finance Guarantees, are already playing a key role by supporting lending to employers. The Treasury Infrastructure Finance Unit was established on 3 March 2009 to lend to those Private Finance Initiative (PFI) projects that cannot raise sufficient debt finance due to current market conditions. It is safeguarding £13 billion of PFI projects currently in procurement – protecting tens of thousands of jobs across the construction sector.

### Box 5.3: 2008 Pre-Budget Report Employment Package and January Employment Summit

The fiscal stimulus delivered at the 2008 Pre-Budget Report is expected to support employment across the economy. It was complemented by a substantial employment package including:

- £1.3 billion to ensure Jobcentre Plus can continue to deliver the JSA regime effectively for higher numbers of people. Despite rising unemployment, more than three out of four who claim unemployment benefits move off them within six months, and over a million people have moved back into work since November;
- £158 million to provide skills support to people under notice of redundancy, or who have become unemployed. Over two years this will help 40,000 people to improve their skills or re-enter the job market through a two to eight week personalised package of support;
- increased provision for the Rapid Response Service to expand its support to small-scale as well as large-scale redundancies. This service provides onsite support for employees in finding a new job, even before a redundancy takes place. Since the Pre-Budget Report over 1,500 employers have used the service;
- the creation of the National Employment Partnership between Government and major employers to agree strategies to help people back into work; and
- steps to expand Local Employment Partnerships (LEPs). Since their creation in 2007, over 145,000 individuals have found jobs through LEPs.

Further support was announced at the January Employment Summit to help the minority that remain unemployed for over six months. Support now includes up to £2,500 for employers that recruit and train those in receipt of JSA for six months or more, as well as training places, volunteering opportunities and financial support and advice for those wanting to set up their own business.

**G20 – targeting growth and jobs** **5.24** At the London Summit, G20 Leaders committed to support those affected by the downturn by creating employment opportunities. Leaders welcomed the reports of the London Jobs Summit and the key principles proposed, to support employment by stimulating growth and to focus on the most vulnerable through active labour market policies.

## Providing support and employment opportunities across the economy

**Further funding for Jobcentre Plus** **5.25** The most effective way of limiting the impacts of unemployment on individuals, their families and communities is to ensure that the existing regime continues to deliver a rapid return to work. Therefore, **the Government is setting aside an additional £1.7 billion for the Department for Work and Pensions to ensure that Jobcentre Plus has the capacity to deliver a personalised service to individuals and the Flexible New Deal (FND) employment programme will provide individuals who become long-term unemployed with dedicated support from an employment specialist to help them move back into work.**

**Guaranteed support for young people** **5.26** The Government is committed to ensuring that no young person is permanently disadvantaged by the recession. The economic and social consequences of inaction would be scarring for individuals, families and their communities. Action taken at this Budget (see Box 5.4) will reduce the chance of detachment from work and maintain individuals' skills bases and productivity levels, enabling people to take advantage of opportunities as the economy moves into the upturn.

**Box 5.4: Creating opportunities and supporting the long-term unemployed**

The Government announces a range of measures that will help support the long-term unemployed including:

- guaranteeing everyone aged between 18 and 24 **who has been claiming JSA for 12 months a job, work placement or work-related skills training for at least six months.** If it becomes necessary to do so, the Government will work with local authorities and other delivery partners to determine how participation in one of these options could be made mandatory;
- **funding for Care First, offering 50,000 traineeships for young people in the care sector.** Social care providers will receive a subsidy for offering sustained employment and training to young people who have been out of work for 12 months. This will give them the skills and experience they need for a career in this growing sector;
- **funding for local authorities and partners to take forward the creation of 100,000 new jobs in socially useful activity. 10,000 of these will be green jobs;** and
- the public sector will ensure that 25 per cent of their external recruitment is targeted at individuals without a job.

To support communities most affected by rising unemployment, **the Government will allocate additional funding for local authorities to provide a further 50,000 jobs in areas of high unemployment across the country.**

**5.27** To help provide adequate support for individuals who have been made redundant **the Government announces a one-off increase in the level of statutory redundancy pay, making the weekly rate £380.** The Government is also considering whether to introduce a new 'floor' which would set a minimum level for statutory redundancy payment rates, and would legislate on this in the next Parliament.

**Creating opportunities across the economy**

**5.28** This Budget also provides additional employment opportunities through further investment in the UK's infrastructure, supports employment in key strategic industries and provides further targeted support to employers through the tax system. New investment in housing, low-carbon initiatives and other key infrastructure projects as set out in Chapters 6 and 7 will directly employ around 15,000 people in 2009-10. Support for strategic industries and enhanced capital allowances are set out in Chapter 4 and will further support employment throughout the economy.

**5.29** Targeted cash-flow support for businesses through HMRC's Business Payment Support Service has already helped 100,000 businesses employing 600,000 people. Together with the Loss Carry Back tax changes the Government is extending in the Budget, over 1.5 million people will be working in firms receiving targeted government cash-flow support by April 2010.

## **A fair and effective benefit system**

**5.30** The Government's objectives for the working age benefits system are based on the following principles:

- maximising work incentives, to ensure that people are supported into employment and not left behind dependent on benefits;
- promoting fairness, by targeting support on those who need it most; and

- seeking affordability and value for money for taxpayers, to support sustainable public finances.

**Welfare Reform White Paper 5.31** Over the last 11 years the Government has transformed a largely passive welfare state into an active one, based on a clear framework of rights and responsibilities. The Welfare Reform White Paper, *Raising expectations and increasing support: reforming welfare for the future*,<sup>2</sup> announced the next stage of reform that will require nearly everyone to take up the employment support available to them.

**Housing Benefit reforms 5.32** The joint Department for Work and Pensions and HM Treasury internal review of Housing Benefit was announced at Budget 2008, to examine its effectiveness in promoting work incentives, efficiency and fairness, and providing value for money. Indications from this internal work are that some claimants may be able to afford accommodation that is out of reach of working families on low incomes. Furthermore, costs of Housing Benefit have been rising above inflation despite static caseloads. Taking steps to address these challenges while ensuring that claimants continue to have access to suitable accommodation will be difficult. The Government therefore intends to launch a consultation shortly on the measures it can take to improve the incentives for those returning to work and reduce total spending on Housing Benefit in the medium term, while maintaining access to suitable housing for those who cannot work.

**5.33** The Local Housing Allowance (LHA) was introduced in April 2008, and costs have exceeded the planned expenditure for this policy. To bring the cost into line with what is affordable, whilst still ensuring all recipients can afford their rent, **the Budget announces that from April 2010 there will no longer be scope for anyone to receive more LHA than they have to pay in rent.** Existing claimants will move onto the new arrangements on the anniversary of their claim.

## Helping people manage their finances

**5.34** Alongside taking action to help those looking for work, and to support households feeling the impact of the economic downturn, the Government wants to assist people in making informed financial decisions and in accessing help if they need it. To build on the measures announced at the 2008 Pre-Budget Report, the Government is providing further support for those who need it most and helping to ensure that individuals are in a good position to manage their finances now, and as the economy recovers.

**Social Fund 5.35** As the labour market becomes more difficult and access to affordable credit reduces, some people can find managing their budgets difficult. Social Fund loans provide interest free credit to vulnerable people, allowing them to meet, and spread the payment of, unexpected costs. **In recognition of increased demand on the Social Fund the Government will allocate the fund an additional £125 million in 2009-10 and £145 million in 2010-11.** This provides additional support to the Social Fund, as it makes around an additional two million loans over the next two years.

**Growth Fund 5.36** Since 2005, the Government has committed £80 million to a financial inclusion Growth Fund. This has enabled third sector lenders, such as credit unions and Community Development Financial Institutions, to make over 160,000 affordable loans to financially excluded customers. **The Government believes it is vital to enable these lenders to continue to grow. The Government is therefore committing an extra £18.75 million to the Growth Fund, which will enable lenders to make an additional 85,000 loans by 2011.**

<sup>2</sup>*Raising expectations and increasing support: reforming welfare for the future*, Department for Work and Pensions, December 2008 (available at <http://www.dwp.gov.uk>).

**Box 5.5: Raising levels of financial capability in the UK**

The Government and the Financial Services Authority (FSA) last week launched the £12 million Money Guidance pathfinder, offering help with money issues online, over the phone and face-to-face across the North West and North East of England. The pathfinder builds on the FSA's MoneyMadedclear website and helpline, which people can access wherever they are in the UK.

The Government is committed to ensuring that every adult in the UK will be able to access impartial financial guidance to help them make informed decisions and avoid the distress of unmanageable debt.

**The Government announces that roll-out of a national Money Guidance Service will begin in 2010**, subject to preliminary findings from the pathfinder demonstrating that the service can be effective. It intends to introduce legislation to implement Money Guidance and to direct dormant account funds for financial capability to support delivery of the service.

The Government also believes that every child in the UK should learn in school how to deal with life's financial challenges confidently and capably. The Government will shortly publish the recommendations of an independent review on how best to make financial capability a statutory part of the secondary curriculum in England. Adults can also benefit from financial education, and **the Government welcomes Lloyds Banking Group's commitment to fund a £4 million programme to support financial capability through adult education, as part of the bank's recapitalisation agreement.**

**Debt advice 5.37** Since April 2006 the Government has invested over £130 million in a face-to-face money advice project aimed at the most vulnerable households. So far the project has helped over 193,000 people with their debt problems. At the 2008 Pre-Budget Report the Government announced further support to allow everyone to access debt advice, which has helped almost 18,000 extra people since February 2009. Over 600,000 visits were made to Directgov pages on debt advice between January and March 2009.

**5.38** In December the Government agreed a new set of fair principles with credit card companies to give breathing space to borrowers struggling to repay their debts. In addition, this summer the Department for Business, Enterprise and Regulatory Reform will publish a White Paper on consumer rights. This will set out proposals to provide further help to people in difficulty with their finances and proposals to strengthen the UK's credit regime, including proposals aimed at:

- maintaining access for the financially excluded and tackling the illegal money lending sector;
- promoting responsible lending and borrowing;
- raising standards in debt collection and to protect groups who are particularly vulnerable such as the mentally ill; and
- setting a longer-term direction for the sector and its regulation that will deliver continuing access to affordable credit, enhanced consumer protection and financial stability.

**Financial inclusion 5.39** The Government is committed to ensuring that everyone has the opportunity to access the financial services needed to participate fully in society. The Government welcomes the Financial Inclusion Taskforce's report, published in April 2009, highlighting progress towards the Government's financial inclusion objectives and future priorities.

## Promoting savings

**5.40** The Government seeks to support saving and asset ownership for all across the lifecycle – from childhood, through working life and into retirement. Since 1997, the Government's savings strategy has focused on developing a range of savings opportunities suitable for each life stage, providing incentives for saving through the tax and benefit system, and empowering individuals with the capability to make the right savings choices.

**5.41** The Government recognises that low interest rates, which are benefiting many people with mortgages, have meant that savers have seen their return from savings fall. In particular, this has affected those people who have retired, or are beginning to prepare for retirement, who are more reliant on their income from savings to meet day-to-day needs or fund discretionary purchases.

**Individual Savings Accounts** **5.42** Building on recent changes which increased investment limits for Individual Savings Accounts (ISAs) and made them more flexible, the Government is now taking targeted action to help people aged 50 and over with their savings. **For the tax year 2009-10, the annual ISA investment limit will increase for everyone aged 50 and over. Individuals will be able to save £10,200 in their ISA, up to £5,100 of which can be saved in cash.** To allow ISA providers time to adjust their systems, deposits above the current ISA allowance can only be made from October 2009.

**5.43** This will enable people who have retired or are beginning to prepare for retirement to move taxed savings into a tax-advantaged ISA, rewarding those who have saved by improving their returns.

**5.44** The Government also recognises that people need to be supported to save as the economy emerges from the downturn. **The Government will therefore extend these increases in the ISA limits to everyone from 6 April 2010. The annual ISA investment limit will increase for every adult to £10,200, up to £5,100 of which can be saved in cash.**

**5.45** This will give over 18 million ISA holders the opportunity to increase their tax-advantaged savings and directly benefit over five million individuals who make full use of either their cash or their overall investment limits.

**Saving Gateway** **5.46** The Saving Gateway uses matching (a government contribution for each pound saved) to encourage saving for working-age people on lower incomes and to promote engagement with mainstream financial services. The Saving Gateway will be introduced nationally, with the first accounts available in 2010. To provide a strong and easily understood incentive to save, the Government will contribute 50 pence for each pound saved in the scheme.

**5.47** The Saving Gateway Accounts Bill is currently before Parliament. The Government has sponsored an amendment to the Bill, to provide that **recipients of Carer's Allowance will be eligible to open Saving Gateway accounts, meaning that around half a million claimants of Carer's Allowance will now be eligible.** Overall, around eight million people will be eligible for the scheme.

**Child Trust Fund 5.48** The Child Trust Fund (CTF) is a long term savings and investment account for children. It was introduced in 2005 to strengthen the saving habit of future generations, promote financial education and ensure that every child has access to their own financial asset on entering adult life. Over four million children now have a CTF.

**5.49** The scheme provides £250 for all children at birth and age seven, with an additional £250 for children in lower income families. From 6 April 2009 the requirement for parents to send in their voucher when opening their child's account was removed, making account opening even easier. September 2009 will see the first Government payments to seven year olds.

**Additional payments for disabled children 5.50** The Government recognises that disabled children are likely to have greater financial needs when they make the transition to adulthood. **The Government will contribute an additional £100 a year to the CTF accounts of all disabled children, with severely disabled children receiving £200 a year.**

**Employee share schemes 5.51** The number of companies offering a tax-advantaged share scheme to their employees has doubled since 2000, with Save As You Earn (SAYE) and the Share Incentive Plan currently used by over four million people. The schemes encourage saving and asset ownership, allow employees to benefit from the growth potential offered by shares, and encourage employees to become greater stakeholders in their workplace. **The Government announces that it is introducing a package of measures that will improve the administration of SAYE.** This will support companies and administrators who run SAYE schemes to do so more efficiently and with minimal administrative burdens. The Government will keep tax-advantaged share schemes under review to ensure that the widest range of employees can benefit from them.

## Supporting people in later life

**5.52** The Government is committed to tackling pensioner poverty, promoting greater independence and well-being in later life, encouraging and rewarding saving, and enabling people to meet their income aspirations in retirement. In seeking to achieve this it provides incentives for people to save for their retirement, and supports all pensioners, with additional support targeted on those who need it most. In the downturn the Government's priority remains to support the most vulnerable.

**Support for pensioners 5.53** Between 1996-97 and 2006-07, pensioners' incomes rose by 29 per cent in real terms. The basic State Pension has increased by seven per cent in real terms since 1997, while the introduction of Winter Fuel Payments helps older people to keep their homes warm. The Government also provides free off-peak bus travel, free eye tests and free prescriptions for those aged over 60, while those aged over 75 also receive a free television licence.

**5.54** The Government introduced Pension Credit in 2003, guaranteeing a minimum income for pensioner households while rewarding those who have made modest additional provision for their retirement. In 2008-09, no single pensioner needed to live on less than £124 a week whereas in 1997 the poorest pensioners had to live on around £69 a week, an increase of over a third in real terms. The Government spent over £13 billion more in 2008-09 on pensioners than it would have if the policies in place in 1997 had continued, with around half of this expenditure going to the poorest third of pensioners. Overall, 900,000 pensioner households have been lifted out of relative poverty since 1997, and a pensioner is now no more likely to be in poverty than someone from the population as a whole.

**5.55** In the 2008 Pre-Budget Report the Government set out further action to support pensioners, especially those on lower incomes, through the global economic downturn. This included:

- an above-indexation increase in the standard minimum income guarantee in Pension Credit which means no single pensioner need live on less than £130 a week in 2009-10 and no pensioner couple on less than £198 a week;

- a £4.55 a week increase in the full basic State Pension to £95.25 a week in 2009-10, effectively brought forward to January 2009 by making a payment of £60 to each pensioner earlier this year; and
- an increase in the age-related tax allowance to £9,490 for those aged between 65 and 74, and to £9,640 for those aged over 75.

**5.56** Budget 2009 announces additional targeted support for pensioners to ensure they continue to receive support where it is needed most.

**Winter Fuel Payments** **5.57** The Government has committed to pay Winter Fuel Payments of £200 for households with someone aged over 60, and £300 with someone over 80, for the lifetime of this Parliament. To provide further support, **Budget 2009 announces an additional payment this winter, worth £100 for households with someone aged over 80 and £50 for households with someone aged over 60.** This will increase this winter's payments to £400 for households with someone aged over 80 and £250 for households with someone aged over 60.

**Pensioners who receive income from savings** **5.58** Historically low interest rates have particularly impacted on pensioners, who are more likely than people of working age to draw income from savings. The increases in ISA limits announced in the Budget will help those pensioners who pay tax on their savings. To provide additional support to lower-income pensioners who receive income from savings **the Government will:**

- **raise the capital disregard in Pension Credit, and pensioner-related Housing and Council Tax Benefit, from £6,000 to £10,000 in November 2009.** This will increase the income of 540,000 pensioner households by £4 per week on average; and
- **launch a new tax back campaign,** contacting all 2.7 million Pension Credit recipients to encourage them to claim back tax they may have overpaid on their savings income and, where possible, register to receive interest on their savings tax-free in future. This will be worth £200 on average to those pensioners who have overpaid tax in the past.

**Maximising retirement income** **5.59** By shopping around, people can increase their retirement income by up to 20 per cent. This is especially important in the downturn. **The new Moneymade clear website and helpline will be available to support people across the UK who are approaching retirement,** to work out their options and help them to find the best annuity deals. This will build on the Government's existing work to help people to get the most out of their pension savings.

**Social care** **5.60** Demographic trends will result in a substantial increase in the number of people in need of care and support. Delivering a care and support system that meets the aspirations of everyone who needs care, while coping with increased demand for support, requires more than incremental increases in social care funding – it requires a radical rethink of the way the state helps people with care needs. Following extensive public engagement, the Government will in June consult in a Green Paper on a range of options to reform the existing social care system and other forms of support, to create a new offer for people who need care and support.

**State pension reforms** **5.61** Reforms to make the state pension fairer and more widely available will be implemented in April 2010 including a reduction in the number of qualifying years required for entitlement to the full basic State Pension and reforms to the system for crediting those with caring responsibilities to reflect the different ways in which people contribute to society. As a result of these changes around 70 per cent of women reaching state pension age will be entitled to a full basic State Pension compared to 50 per cent without reform. By 2025 around 90 per cent

will be entitled to a full basic State Pension. **Building on these reforms, the Government announces that grandparents and other adult family members who care for their grandchildren or other members of their family aged 12 or younger for 20 hours or more a week will be able to gain National Insurance credits toward the basic State Pension from April 2011.**

**5.62** In addition to making more people eligible for a state pension, the Government has legislated to increase its generosity by introducing the earnings uprating of the basic State Pension. The Government remains committed to introduce earnings uprating of the basic State Pension in 2012-13, subject to affordability and the fiscal position, or in any event by the end of the next Parliament at the latest. This commitment ensures the balance is struck between meeting the challenges identified by the Pensions Commission and ensuring the sustainability of the Government's pension reforms.

**Modernising pensions tax administration** **5.63** Budget 2009 also announces changes to ensure that the pensions tax system responds to recent policy developments (see paragraphs 5.90 to 5.95). **The Government will also introduce minor changes to the pensions tax system in Finance Bill 2009, including the power to provide for payments from the Financial Assistance Scheme and the Financial Services Compensation Scheme to receive equivalent tax treatment as if they had been received from the original pension scheme or insurer.**

## Helping homeowners and housing

**5.64** The Government's objective for housing continues to be to ensure everyone has access to a decent home at a price they can afford. The financial market disruption and global economic downturn are continuing to impact on the housing market. House prices have fallen by around 20 per cent since their peak in late 2007, and unemployment and other economic factors are putting some households under financial pressure. The availability of credit remains constrained and, notwithstanding recent increases, mortgage approvals for house purchases are close to historic lows. Low levels of effective demand have also had a negative effect on the house building industry.

**5.65** In this context, Budget 2009 provides further support for homeowners, homebuyers and housing supply in addition to that already provided (see Box 5.6).

**Box 5.6 Existing support for homeowners, homebuyers and housing supply**

The Government announced a £1 billion housing package on 2 September 2008, which included:

- the Mortgage Rescue Scheme to help some of the most vulnerable households avoid repossession;
- improving Support for Mortgage Interest (SMI) arrangements by increasing the capital limit and reducing waiting periods for new working age claims;
- HomeBuy Direct, a new shared equity scheme, helping eligible first-time buyers get on the property ladder;
- bringing forward £400 million of spending to deliver new social housing; and
- a stamp duty land tax holiday on property sold for £175,000 or less.

The 2008 Pre-Budget Report announced:

- the bringing forward of £775 million spending on housing investment and regeneration as part of the fiscal stimulus, including £150 million on new social housing;
- the extension of the Mortgage Rescue Scheme to include second charge mortgages;
- the improvement of SMI by further increasing the capital limit to £200,000 for new working age claims and maintaining payments at Standard Interest Rate (SIR) of 6.08 per cent for six months from December 2008, for all claimants;
- that a lending panel would be established, bringing together Government, lenders and consumer groups;
- a commitment from the major lenders not to initiate repossession proceedings within at least three months of an account going into arrears; and
- extended debt advice for people in financial difficulties.

**Support for  
homeowners in  
difficulty**

**5.66** The recent falls in interest rates mean that, overall, households are paying the smallest amount of interest as a proportion of income since records began in 1987. Bank Rate has fallen from five per cent in September 2008 to 0.5 per cent from March 2009, benefiting up to 4.5 million homeowners on tracker mortgages. However, increases in unemployment mean that some households are struggling to keep up their mortgage payments.

**5.67** The Government is committed to ensuring that lenders lend responsibly, borrowers are protected, and there is appropriate support for those facing financial difficulties. Statutory regulation of mortgages by the FSA is now supported by a new mortgage pre-action protocol. This was introduced in November 2008, and provides clear guidance on actions the courts expect lenders to take before making a claim for possession. This helps to ensure that repossessions are a last resort and that lenders enter discussions with borrowers to find alternative solutions wherever possible.

**5.68** Current economic conditions present new challenges, and the Government is committed to ensuring that the financial regulatory system remains up to date. At the 2008 Pre-Budget Report, the Government announced the creation of a new lending panel to monitor lending to businesses and households and drive up standards of industry best practice in lending decisions. As part of this new monitoring approach, the Bank of England is publishing a monetary report, *Trends in Lending*,<sup>3</sup> the first of which was published on 21 April, and draws on a new collection of data covering the major UK lenders.

**5.69** The Mortgage Rescue Scheme and Homeowner Mortgage Support Scheme, together with changes to Support for Mortgage Interest (SMI) will help to ensure that homeowners who

<sup>3</sup> *Trends in Lending*, Bank of England, April 2009 (available at [www.bankofengland.co.uk](http://www.bankofengland.co.uk)).

experience a temporary fall in income, lose employment, or are otherwise vulnerable, are able to remain in their homes. In light of house price falls over the past year, **the Government is extending its support for vulnerable homeowners in financial difficulty through widening the eligibility criteria for the Mortgage Rescue Scheme so that households in negative equity are not excluded.** As part of this the Government is announcing a £20 million fund to enable local authorities to extend small loans to families at risk of homelessness through repossession or eviction.

**5.70** The Homeowner Mortgage Support Scheme went live on 21 April. The scheme defers some of borrowers' interest payments for up to two years, where this is appropriate to their individual circumstances and subject to suitable independent debt advice, with the Government guaranteeing a proportion of the deferred interest. Lenders covering more than 80 per cent of the mortgage market will now be providing enhanced support to their customers in this way.

**5.71** As interest rates remain low, leaving some people, particularly those with fixed rate mortgages, at risk of shortfalls, **the Budget announces that the Standard Interest Rate used to calculate SMI will be maintained at 6.08 per cent for a further six months before being reviewed.** This will benefit around 220,000 homeowners.

**Support for homebuyers** **5.72** Despite falling house prices, many prospective homebuyers are still finding it difficult to access the housing market due to restricted access to mortgage finance and increased deposit requirements.

**5.73** To help support the availability of mortgage finance, on 19 January 2009, the Government announced it would establish a guarantee scheme for asset-backed securities. As set out in detail in Chapter 3, **the Budget announces that the scheme is available, at first until October 2009,** for banks and building societies to use alongside the existing Credit Guarantee Scheme (CGS) to support their lending in the economy. The scheme extends the funding options open to banks and building societies under the existing CGS to residential mortgage-backed securities (RMBS).

**5.74** On 2 September 2008, the Government announced a stamp duty land tax (SDLT) holiday for all houses costing up to £175,000. Around 60 per cent of all residential purchases will be exempt from SDLT during the period of the holiday. **To provide further support for first time buyers, the Budget announces the Government is extending the holiday for four months, until 31 December 2009.**

**Support for housing supply** **5.75** Alongside the need to support homeowners and homebuyers in current conditions, the long-term challenges for housing supply remain, as set out in the Barker *Review of Housing Supply*.<sup>4</sup> That is why the Government has set an ambitious target of providing an additional 240,000 homes per year by 2016. It remains important to maintain momentum on improving the responsiveness of housing supply, both to meet the needs of a growing population in the future, and to support economic recovery, by reducing housing market volatility, helping macroeconomic stability, and supporting growth through increasing labour market flexibility. The Government is therefore focused on action to retain capacity and skills in the house building industry, and to promote conditions for a robust supply response as the housing market recovers.

**5.76** **Budget 2009 announces a £600 million fund to stimulate housing development in the short-term and boost capacity in the house building industry.** In England this will deliver up to an additional 10,000 new homes through:

<sup>4</sup>*Review of Housing Supply – Delivering Stability: Securing our Future Housing Needs*, Kate Barker, March 2004 (available at [www.barkerreview.org.uk](http://www.barkerreview.org.uk))

- £400 million to unlock currently stalled housing developments, leveraging in private development finance through a combination of reducing up-front costs with equity, gap and infrastructure funding, and supporting viability with an expansion in the provision of HomeBuy Direct, and increased funding for affordable housing; and
- £100 million of new funding for local authorities to deliver new social housing at higher energy efficiency standards.

**Preparing for a strong recovery** **5.77** Building on the package to support housing supply in the short term, the Budget reaffirms the Government's long-term commitments on housing supply and looks to prepare the housing market to respond post-recovery.

**5.78** The Government will report at the 2009 Pre-Budget Report on progress and set out its strategy to support a timely and effective housing supply response through the recovery, in order to maximise delivery of high quality, energy efficient homes, supporting our long term housing supply and environmental objectives. This will cover measures to:

- ensure sufficient land for development, through housing allocations in local plans and further action on public sector land, supported by a responsive and efficient planning system;
- deliver effective and coordinated infrastructure provision;
- promote a strong and diverse house building sector;
- continue to ensure the increased long-term supply of social and affordable housing; and
- ensure a proportionate approach to land-value capture and cumulative regulation.

**5.79** As part of this, **the Government will identify, working with industry and other partners, the best regulatory and policy framework to support the Government's long-term housing objectives.**

**5.80** As a first step, **the Government will assist industry by delaying the introduction of the community infrastructure levy until 6 April 2010.**

## Supporting charities

**5.81** A vibrant and thriving third sector is a key component of a fair, cohesive and enterprising society. The Government is committed to strengthening the resilience of the sector and helping to build its long-term financial sustainability, at a time when many organisations are experiencing increased demand on their services, declining corporate and contract income, and the effects of the global turbulence in the financial markets.

**Hardship Loan Fund** **5.82** In recognition of the immediate challenges this poses for the sector, building on the Government's £42.5 million action plan launched in February to support the third sector during the economic downturn.<sup>5</sup> **Budget 2009 announces the launch of new £20 million Hardship Fund** to provide grant support to third sector organisations, delivering front-line services to the most vulnerable and disadvantaged in society, that have been affected by the recession, with demonstrable resource constraints due to cash-flow difficulties of increased demand.

<sup>5</sup>Real help for communities: Volunteers, charities and social enterprises, Office of the Third Sector, February 2009.

**Gift Aid 5.83** The Government continues to explore ideas to improve Gift Aid, and has commissioned research into the effect of redirecting higher-rate relief from donors to charities.

**Social Investment Wholesale Bank 5.84** To support the long-term growth of a thriving third sector, **the Government will consult on the design and functions of a Social Investment Wholesale Bank** the Office of the Third Sector will report back with substantive proposals. As previously announced, funding available in England as a result of the implementation of the Dormant Banks and Building Societies Account Act 2008, will focus on youth facilities, financial inclusion and capability, and, if recourses permit, a Social Investment Wholesale Bank. A Social Investment Wholesale Bank would be a wholesaler of social investment finance, designed to support the long-term of a thriving third sector. By working with existing investors and lenders at the retail level, a Social Investment Wholesale Bank would aim to increase the supply of investment in the third sector, and strengthen demand for finance and develop the social investment market.

**Substantial donors 5.85** The Government has considered its response to the consultation on the anti-avoidance rules around substantial donors to charity. **Budget announces further informal consultation with the sector to develop new rules based around an effective anti-avoidance purpose test.** The Government aims to bring forward proposals at the 2009 Pre-Budget Report, with a view to legislating in 2010.

**Charity Authorised Investment Funds 5.86** The Government recognises the importance of Common Investment Funds and Common Deposit Funds to the charitable sector. **The Government will consult shortly in conjunction with the Charity Commission on ways to bring these funds more fully under the FSA's regulation whilst preserving their existing tax reliefs.**

## A MODERN AND FAIR TAX SYSTEM

**5.87** A modern and fair tax system helps individuals and businesses by encouraging work and saving, keeping pace with developments in business practice and the global economy and raising revenue. For the system to be effective everyone must pay his or her fair share.

### Changes to the personal tax system from 2010-11 onwards

**5.88** As set out in Chapter 2, the Government will build on the fiscal consolidation announced in the 2008 Pre-Budget Report. Further reforms to income tax will ensure that those individuals most able to, make more of a contribution to that consolidation. **From April 2010:**

- **an additional rate of income tax of 50 per cent will apply to income over £150,000, with a rate of 42.5 per cent for dividend income.** This replaces the introduction in April 2011 of the 45 per cent rate announced at the 2008 Pre-Budget Report;
- **the tax rate applicable to trusts will increase to 50 per cent; and**
- **the income tax personal allowance will gradually be restricted for those with incomes over £100,000. The personal allowance will be reduced at a rate of £1 for every £2 over £100,000 until completely withdrawn.** This replaces the two-stage withdrawal announced at the 2008 Pre-Budget Report.

**5.89** These changes mean that no-one with an income under £100,000 will pay more income tax.

**Pensions tax relief 5.90** Tax relief, estimated to be worth around £30 billion in 2007-08,<sup>6</sup> is provided on pension contributions to support pension saving and help individuals produce an income in retirement. This represents an important component of the Government's support for pension saving among low and middle-income earners. In 2006 the Government introduced a new simplified tax regime, responding to criticism that the tax regime for pension saving had become so complex that it was discouraging saving. In reforming the regime the Government sought to strike a balance between the interests of pension savers and the interests of the wider taxpayer. Seeking to achieve this, the Government maintained tax relief at the marginal rate but set two limits – a lifetime allowance, currently standing at £1.75 million, and an annual allowance currently standing at £245,000 or 100 per cent of income whichever is the lower.

**5.91** Those on highest incomes benefit disproportionately from this relief, and the personal tax changes announced in this Budget would increase the value of the reliefs given to individuals with the highest incomes. This would exacerbate the current situation whereby in 2008-09 individuals with income over £150,000 represented 1.5 per cent of pensions savers, yet received a quarter of all tax relief on contributions (£6.1 billion). This amounted to an average of £27,000 per person, an amount in excess of median earnings, and compares with £1,000 for people who pay income tax at the basic rate.

**5.92** The 2008 Pre-Budget Report announced that the Government would maintain the lifetime allowance at £1.8 million for five years up to and including 2015-16. To ensure fairness, affordability and sustainability of tax reliefs, **Budget 2009 announces that, in addition, from April 2011, tax relief on pension contributions will be restricted for those with incomes of £150,000 and over.** From that level of income, the value of pensions tax relief will be tapered down until it is 20 per cent for those on incomes over £180,000, making it worth the same for each pound of contribution to pension entitlement as for a basic rate income taxpayer. This restriction applies to all contributions, including employers', but employers will continue to receive full relief on their contributions into employees' pensions through corporation tax and NICs.

**5.93** **The Government will consult business, pension fund trustees, the insurance and pensions industries, and other stakeholders to ensure that defined benefit pension schemes are treated fairly in relation to defined contribution pension schemes and personal pensions. It will want to arrive at the most appropriate method of valuing pension benefits of those with over £150,000 in defined benefit pension schemes and of valuing the related employer contributions.** The Government will use this consultation to engage with stakeholders to introduce the new system in a way that minimises administrative burdens.

**5.94** Given the importance of consulting on this measure, introduction before 2011-12 would be inappropriate. This means that, in the absence of any further changes, it would be possible for individuals to take advantage of the pensions tax relief while it is still available to them at the higher rate by making substantial additional pension contributions prior to the restriction taking effect. The Government's assessment is that unless it takes action significant revenues would be at risk over the two years before implementation. In anticipation of the change, **the Government is therefore including legislation in this year's Finance Bill to prevent forestalling in this way whilst permitting individuals to continue to receive tax relief at the higher rate on the higher of £20,000 or their normal pattern of contributions. This legislation will apply with effect from 22 April 2009.** Those who have never earned in excess of £150,000 a year are unaffected, as are those who continue with their regular, at least quarterly, pattern of contributions or normal benefit accrual.

<sup>6</sup>Gross tax relief is estimated at £29.3 billion in 2007-08. Income tax receipts on pensions in payment is approximately £10.4 billion, making net tax relief £18.9 billion. This has doubled from a level of £9.3 billion in 1998-99. A further £8.2 billion is given as relief from National Insurance Contributions.

**5.95** Following changes to the personal tax system, the Government will consider consequential changes to pension tax charges which are designed to recover the tax relief provided in certain circumstances. Pension tax charges apply, for example, when allowances are exceeded and in connection with unauthorised payments. The Government will provide details in the 2009 Pre-Budget Report.

### Protecting tax revenues

**5.96** Tax evasion and avoidance undermine fiscal sustainability, damage the delivery of policy objectives, impose significant costs on society and shift a greater tax burden on to ordinary taxpayers. Budget 2009 builds on previous progress by further tackling evasion and robustly challenging avoidance, continuing the delivery of a modern framework for HMRC's powers and helping ensure a fair tax system. The total changes will raise over £1 billion during the period 2009-10 to 2011-12, and protect a further £3 billion of tax receipts a year by 2010-11 from tax evasion and avoidance.

**Offshore disclosure 5.97** Offshore accounts are being used by some to shield undeclared taxable income. HMRC will seek to issue notices requiring financial institutions to provide information about offshore account holders. **The Government announces that a New Disclosure Opportunity will run until March 2010.** This will give holders of offshore accounts an opportunity to disclose, of their own accord, if they have unpaid tax or duties and to settle debts. HMRC will pursue those who do not disclose.

#### Box 5.7: International action to tackle tax evasion

The Government has been leading international efforts to tackle tax havens and tax evasion through its Presidency of the G20. At the London Summit earlier this month leaders:

- called on all countries to adopt the international standard for tax information exchange, which is vital to improving transparency and exchange of tax information between jurisdictions;
- noted the OECD's publication of a list of countries assessed by the Global Forum against the international standard for exchange of tax information;
- welcomed important new commitments from countries that had previously used banking secrecy to adhere to the international standard for tax information exchange;
- agreed to take firm action against jurisdictions that do not meet international tax standards, including standing ready to deploy counter measures to protect public finances and financial systems against jurisdictions that do not meet international standards of tax transparency; and
- agreed to develop proposals, by the end of 2009, to make it easier for developing countries to secure the benefits of a new cooperative tax environment.

**Ensuring compliance in tax system 5.98** The Government announces a number of measures to ensure that businesses and individuals pay the right amount of tax and reduce the opportunity for evasion, avoidance or non-compliance:

- **it will legislate for the publication by HMRC of the names of both corporate and individual taxpayers who incur a penalty because they have deliberately understated more than £25,000 of tax;**
- **it will establish a statutory requirement for senior accounting officers of major corporates to certify personally that adequate controls to prepare accurate tax computations are in place;**

- HMRC will require those who have incurred a penalty for deliberate understatement of over £5,000 of tax to provide more information about their tax affairs for up to five years to ensure they have proper systems to be able to make a correct tax return; and
- HMRC will shortly issue a draft code of practice on taxation for the banking sector, along with a consultation document.

**Disclosure regime** Disclosure of Tax Avoidance Schemes (DOTAS) is an important part of the tax framework providing HMRC with early warning of avoidance schemes. DOTAS has already effectively countered over £11 billion in avoidance opportunities since its introduction in 2004. Budget 2009 announces that HMRC will begin discussions with a view to extending the avoidance ‘hallmarks’ to ensure they continue to bear down on avoidance and revising the penalty regime to introduce tougher sanctions for the non-compliant.

**Tax avoidance 5.99** The Government announces that it is taking action with immediate effect to address a number of avoidance schemes:

- the introduction of a foreign exchange targeted anti-avoidance rule to prevent tax avoidance schemes that seek to exploit the foreign exchange tax matching provisions;
- legislation to stop abuse of the manufactured overseas dividend rules, and clarification of the double tax relief rules to counter abusive schemes;
- legislation to clarify the rules of the corporate intangible fixed asset regime by confirming that goodwill is treated as intended;
- legislation to target avoidance schemes involving financial products;
- changes to the North Sea fiscal regime to ensure companies cannot access tax relief for decommissioning oil and gas infrastructure years in advance of the decommissioning actually being carried out; and
- legislation to tackle avoidance where an employee or director of a company is provided with living accommodation through the payment of a lease premium rather than a full market rent for the use of the property.

**Principles-based approaches 5.100** Following consultation, the Government will introduce principles-based legislation in the Finance Bill relating to disguised interest and transfers of income streams.

**Avoidance “Spotlight” 5.101** The Budget announces that HMRC will soon publish a “Spotlight” on tax avoidance with details of a number of avoidance schemes that will be challenged when encountered.

**MTIC fraud 5.102** In March 2009, the Government secured European Council support for an extension to the UK’s targeted reverse charge derogation until April 2011, preventing fraudsters from resuming activity in their goods of choice, and providing certainty for legitimate traders in these goods. In addition, changes to the VAT treatment of cross-border trade include new arrangements, from 1 January 2010, for reporting and sharing information on the intra-EU sale of goods, further strengthening the Government’s anti-fraud strategy.

**Alcohol fraud strategy 5.103** The Government is committed to tackling alcohol fraud, which damages legitimate businesses and costs jobs. HMRC and the UK Borders Agency are setting out a comprehensive programme of work to target all forms of alcohol fraud and the criminal networks behind it alongside the Budget.

## Modernising tax administration

- Review of HMRC powers** **5.104** The Review of HMRC powers, deterrents and safeguards continues work to provide a modern framework of law and practice for HMRC, delivering greater consistency across taxes and strong safeguards for taxpayers. This work will support the majority of taxpayers who seek to meet their obligations, while ensuring HMRC can tackle the minority who try to gain an unfair advantage. **The Government announces legislation to:**
- align the penalty regimes across taxes for late filing of returns and late payment of tax;
  - harmonise, where practical, the way interest is charged and paid across all taxes with one rate charged on underpayments and one rate paid out on overpayments, tracked to Bank Rate;
  - make it easier for taxpayers to pay what they owe on time and support HMRC in effectively tackling those who pay late, with payment instalment schemes and powers to trace missing debtors, collect small debts through PAYE, and recover costs in successful court actions for debt; and
  - apply the new compliance checking framework for the main taxes to the other taxes, providing for more aligned record keeping rules, information and inspection powers, and assessment and claim time limits.
- A Charter for HMRC** **5.105** Consultation continues on a new Charter that will provide a clear statement of the principles governing HMRC's relationship with citizens and businesses. **The Government 2009 announces that HMRC will launch the Charter by autumn 2009.**
- Working with Tax Agents** **5.106** The Government announces a first round of consultation looking at how **HMRC can build on its relationship with tax agents and professional bodies.**
- Pay As You Earn** **5.107** Pay As You Earn (PAYE) is a fundamental part of the UK tax system. Although it has been increasingly computerised, the fundamental process remains as it was when introduced in 1944. **The Government will consider whether the underlying processes could be improved to reduce costs to employers and the public purse, while still providing a high quality PAYE service.**
- Updating error or mistake relief** **5.108** The Government will **modernise the regime governing claims to recover overpaid income tax, capital gains tax and corporation tax to provide a simpler and more consistent approach with enhanced taxpayer safeguards.**
- Cross border VAT changes 2010** **5.109** The Government has worked closely with business over the **implementation of EU VAT changes on cross-border trade, which will begin on 1 January 2010.** This will modernise the VAT treatment of intra-EU supplies of services, streamline the recovery of VAT incurred in other EU countries and speed up the provision of information. The Government recognises the challenges this will bring for UK businesses and continues to discuss implementation issues with EU partners.

## Making a fair contribution

- Alcohol duty** **5.II0** Alcohol duty rates will increase by 2 per cent on 23 April 2009. This will add one penny to the price of a pint of beer, 13 pence to the price of a bottle of spirits and 4 pence to the price of a bottle of wine.
- Tobacco duty** **5.III** The Government is committed to maintaining high rates of tobacco duty to support health policy on smoking, while taking account of the impact on tobacco smuggling. **Budget**

**2009 announces that on 22 April 2009 tobacco duty rates will increase by 2 per cent.** This will add 7 pence to a packet of 20 cigarettes.

**Gambling duty 5.II2** The Government announces the following changes to gambling duties:

- to simplify the regime, **participation fees for bingo will no longer be subject to VAT and bingo duty will rise to 22 per cent on 27 April 2009;** and
- **Amusement Machine Licence Duty (AMLD) will increase on 22 April 2009.** On 1 June 2009 AMLD categories will be recalibrated to reflect regulatory changes. The Government will also consult on moving the taxation of gaming machines onto a gross profits tax basis.

**Inheritance tax 5.II3** The Government is **extending the inheritance tax agricultural property and woodlands reliefs to the European Economic Area from 22 April 2009.**

**False self-employment 5.II4** The Government remains committed to addressing false self-employment in the construction industry. **The Government will consult with a view to future legislation to ensure that construction workers and those they work for are taxed appropriately.** The Government will work with the construction industry to ensure that any legislation is effectively targeted and the industry retains a flexible labour supply.

**Foreign Exchange 5.II5** The Government is aware of certain structured arrangements (often described as overhedging or underhedging) which, although not normally undertaken for tax avoidance, involve fragmenting transactions across group companies to ensure the Exchequer bears the full economic risk to the group. The Government believes that the economic risks should be shared between the Exchequer and business as Parliament intended. **HMRC will publish a Technical Note in the summer setting out these issues and potential approaches in more detail.**

**Furnished holiday lettings 5.II6** **Budget 2009 announces the repeal of the Furnished Holiday Lettings (FHL) rules from April 2010.** Until the repeal takes effect, the FHL rules will be extended to those with qualifying furnished holiday lettings elsewhere in the European Economic Area.

**Dividend tax credit 5.II7** As announced in Budget 2008, the non-payable personal dividend tax credit will be extended to investors with a 10 per cent or greater shareholding in a non-UK resident company. This will be subject to anti-avoidance provisions which are designed to limit burdens for investors while preventing abuse. The Government will continue to monitor this area, and will take immediate action if any avoidance activity is nevertheless identified. **Budget 2009 also announces that the non-payable credit will be extended to all dividends from offshore funds from 22 April 2009, except for distributions from offshore funds with more than 60 per cent of interest bearing assets, which will be taxed as interest.**

**Offshore funds 5.II8** Budget 2009 announces changes to the offshore funds tax regime from 1 December 2009 by:

- **removing tax barriers impacting the development of offshore funds and legislating for a new definition of an offshore fund,** following extensive consultation; and
- **changing the tax treatment of investors in some contract-based offshore funds.** The treatment for capital gains tax will be aligned with that of overseas unit trusts to reduce administrative burdens for UK investors. The Government will also discuss with industry how to make similar changes to the tax treatment of chargeable gains for investors subject to corporation tax.

