

2006 Pre-Budget Report

PRESS NOTICES

6 December 2006

CONTENTS:

PN	Press Notice
01	Investing in Britain's potential: Building our long-term future
02	Income tax allowances, National Insurance Contributions, Child and Working Tax Credit, Air Passenger Duty and fuel duties
03	Ensuring fairness for all taxpayers

2006 Pre-Budget Report

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INVESTING IN BRITAIN'S POTENTIAL: BUILDING OUR LONG-TERM FUTURE

The Government's economic objective is to build a strong economy and a fair society, where there is opportunity and security for all.

The long-term decisions the Government has taken – giving independence to the Bank of England, new fiscal rules and a reduction in debt – have created a strong platform of economic stability. In the UK, with low and stable inflation, interest rates set by the Monetary Policy Committee to meet the Government's symmetric inflation target, and fiscal policy supporting monetary policy over the cycle, the economy has grown continuously throughout this period. The UK economy is currently experiencing its longest unbroken expansion since quarterly records began, with GDP now having grown for 57 consecutive quarters.

The global economy is in the midst of radical transformation with far reaching and fundamental changes in technology, production and trading patterns. Rapid technological change continues to impact on how individuals, business and communities interact with each other and how they expect to interact with the state. Global security is being reshaped as the international community responds to the ongoing threat of international terrorism, conflict and the challenges of ending world poverty. The pressures that economic and population growth are placing on the earth's natural resources and climate are increasingly apparent, presenting an urgent need for international cooperation.

This transformation will present both challenges and opportunities for the UK. Individuals, businesses and communities all need to be ready to respond to the changing global environment. Stable, flexible, skilled and innovative economies will prosper. This Pre-Budget Report sets out further reforms to lock in stability and to invest in the UK's future – including: a new ambition for world-class skills; a commitment to further investment in education; reforms to the UK's planning and transport infrastructure; measures to tackle the global challenge of climate change; and further measures to secure fairness and opportunity for all.

MAINTAINING MACROECONOMIC STABILITY

The Government's long term economic goal is to maintain macroeconomic stability, ensuring the fiscal rules are met at all times and that inflation remains low.

Growth of the UK economy since Budget 2006 has been higher than forecast. Domestically, growth has been driven by higher than expected business investment. Externally, the recovery in the euro area has boosted export growth. The UK economy is currently experiencing its longest unbroken expansion on record, with GDP now having grown for 57 consecutive quarters. With volatility in the UK economy at historically low levels and now the lowest in the G7, the domestic stability delivered by the Government's macroeconomic framework puts the UK in a strong position to respond to the global economic challenges of the next decade.

In light of new evidence published since Budget 2006, the Treasury has reviewed the underpinning assumptions for its neutral trend growth assumption from 2007 onwards, which it has revised to continue at $2\frac{3}{4}$ per cent a year, consistent with the neutral rate since 2001. This revised $2\frac{3}{4}$ per cent trend rate of output growth anchors the Pre-Budget Report economic forecast. GDP is forecast to grow by $2\frac{3}{4}$ per cent in 2006, above the Budget 2006 forecast range, rising to $2\frac{3}{4}$ to $3\frac{1}{4}$ per cent in 2007 when the output gap is expected to close. Growth is expected to remain close to trend in 2008 and 2009.

The interim forecast update of the projections for the public finances published in this Pre-Budget Report show that the Government is meeting its strict fiscal rules:

- the current budget since the start of the current economic cycle in 1997-98 shows an average annual surplus up to 2006-07 of 0.1 per cent of GDP and the Government is therefore meeting the golden rule on the basis of cautious assumptions. There is a margin against the golden rule of £8 billion in this cycle, including the Annually Managed Expenditure (AME) margin; and
- public sector net debt remains low and stable over the forecast period, remaining below 39 per cent of GDP, below the 40 per cent ceiling set in the sustainable investment rule.

MEETING THE PRODUCTIVITY CHALLENGE

In an increasingly integrated and competitive global economy, raising UK productivity is critical to delivering continued economic growth and sustained increases in standards of living. In the last decade, significant progress has been made to strengthen UK productivity growth, through investment in infrastructure, a more highly skilled workforce, and increasing the attractiveness and openness of the UK as a place to invest. The 2006 Pre-Budget Report sets out how the Government is building on this success to lay the foundations for sustained long-term productivity growth. Key measures include:

- **investing in a new ambition for world-class skills**, increasing adult skills across all levels and strengthening employer voice in their provision – by taking forward the recommendations of the Leitch Review;
- **investing in the growth of the UK’s science and innovation system** – through a single health research fund of at least £1 billion, taking forward the recommendations of the Cooksey Review, and ensuring a more balanced, coherent and flexible regime for intellectual property, as set out in the Gowers Review;
- **enabling greater flexibility in the land use planning system** to ensure it contributes to economic growth while delivering its wider sustainable development goals – by taking forward the Barker Review;
- **investing in transport infrastructure** to maximise the return on investment in transport – by taking forward the recommendations of the Eddington Transport Study;
- **investing in the growth of sustainable housing supply** – including further acceleration of the release of surplus public sector land and greater ambitions for assisted home ownership through shared equity schemes; and
- **increasing business flexibility by reducing unnecessary burdens on business** – by creating certainty for business, by implementing the recommendations of the Varney Review of HMRC Links with Large Business, and driving forward implementation of the Hampton Review’s risk-based approach to regulation, and the Davidson Review’s recommendations to reduce any gold plating of EU legislation.

Further details on these and other measures are set out below:

Skills

The Leitch Review of Skills, published on 5 December, sets out a vision for achieving a world-class skills base in the UK by 2020. This means doubling attainment at most levels and establishing stretching targets for improving the basic, intermediate and higher level skills of the workforce by 2020.

The Government welcomes the Leitch Review and will consider how best to achieve the Leitch ambitions and implement its recommendations, alongside the level of resources it will allocate to them, as part of the 2007 Comprehensive Spending Review process.

This Pre-Budget Report confirms the appointment of Sir Digby Jones as the Government's Skills Envoy to work with employers to build a national consensus on skills. In particular, he will encourage all leading employers to commit to supporting training for their low skilled employees.

Promoting and Facilitating Health Research

The Cooksey Review of Health Research into the establishment of a new single health research fund is published today. The Government welcomes the review, and will take Sir David's recommendations forward, including establishing the Office for Strategic Coordination of Health Research (OSCHR). The OSCHR will work with the Medical Research Council (MRC) and Department of Health (DH) to: set the Government's health research strategy; set the budget required to deliver the health research strategy and the objectives for the DH and the MRC; and monitor the delivery of the health research strategy against objectives. The Government has appointed Professor John Bell as Acting Chair of OSCHR.

The Intellectual Property Regime

The Government welcomes the *Gowers Review of Intellectual Property*, published today, and will take forward the recommendations for which it is responsible to ensure that the UK Intellectual Property (IP) regime is fit for the digital age. The Government firmly believes in the importance of strong enforcement of IP to support the UK's most creative industries. The review's recommendations on IP enforcement will bring significant benefits for UK businesses. So that copyright law is effectively enforced, the Government will allocate an additional £5m to Trading Standards in 2007-2008 to support the implementation of new powers and duties to tackle copyright infringement.

The review also recommends a number of measures to improve access and reduce costs for businesses using the IP regime. An independent Strategic Advisory Board for Intellectual Property policy will be established to raise the performance of IP policy-making. This Board will receive £500,000 from the Patent Office to commission research on emerging IP trends.

Planning and Infrastructure

The final report of the *Barker Review of Land Use Planning* was published on 5 December. It sets out a range of recommendations for improving the speed, responsiveness and efficiency of the planning system, and the fiscal incentives holding and developing brownfield land and commercial property, in the context of the Government's wider sustainable development objectives. The Government welcomes Kate Barker's report, which it will take forward and agrees with her overall analysis. The Government will set out, in a White Paper in spring 2007, its proposals in response to her recommendations for improving the speed, responsiveness and efficiency of land use planning, and for taking forward Kate Barker's and Rod Eddington's proposals for reform of major infrastructure planning.

Transport and Sustainable Economic Growth

Last week, Sir Rod Eddington published his study on the long-term impact of transport decisions on the UK's productivity, stability and growth. The Government welcomes the study and announces that, in the light of its findings, it will review the long-term transport policy framework to support sustainable economic growth, as well as the transport implications for the Comprehensive Spending Review.

Promoting home ownership through shared equity schemes

The Shared Equity Task Force report is published today. In response to this report, the Government will seek to extend the reach of the Open Market HomeBuy Scheme to households on lower incomes, and will be launching a competition for lenders to join in a 2008-09 to 2010-11 round of the scheme. The Government now expects that over 160,000 households will be assisted into homeownership through shared equity schemes by 2010.

Delivering Better Regulation

Last week, the Chancellor outlined a series of policies that will encourage faster implementation of the Hampton principles set out in *Implementing Hampton: from enforcement to compliance*. This will ensure that the risk-

based approach to regulation is embedded at both the national and local level, resulting in fewer forms, fewer inspections, better advice, and better coordination between regulatory bodies.

The Government also welcomed and accepted in full the recommendations of the Davidson Review on Implementation of EU Legislation and the Macrory Review, *Regulatory justice: making sanctions effective*, to reduce unnecessary over-implementation, creating a level playing field for all businesses and ensuring that there is no financial incentive from non-compliance.

Peter Rogers (Chief Executive, Westminster City Council) has agreed to work with the Better Regulation Executive to examine approximately 60 areas of legislation that local authorities enforce, and recommend, by the Budget, specific high-risk national priorities. Local authorities will be free to add their own local priorities.

Sir David Varney's Review of Links with Large Business

The Government has endorsed in full the recommendations of Sir David Varney's review of links with large business. The review's proposals will provide business with greater certainty about the tax treatment of transactions; more efficient resolution of tax issues; and a more cost effective approach to administering tax affairs based on an efficient risk-based audit approach.

Competition

The Pre-Budget Report describes how, as a result of the Enterprise Act and other reforms, the UK Competition Authorities, which are ranked within the global top five (Competition Review 2006) have launched investigations into over 800 mergers and 150 potential cases of abuse of dominance or cartel behaviour. 24 potentially anticompetitive mergers have been remedied and formal decisions made on 39 abuse of dominance or cartel cases, leading to estimated consumer savings of at least £750 million.

THE REGIONAL DIMENSION

The Pre-Budget Report announces measures to improve the performance of regional institutions, further develop the regional evidence base, and ensure strong regional input into the Budget process, including:

- setting out the Government's progress against its regional performance target. There is emerging evidence of narrowing the gap in growth rates between the best and worst performing regions, underpinned by strong employment and skills performance in the North, Midlands and South West regions; and
- asking the Regional Development Agencies to contribute to the development of Budget 2007 in three key areas: engagement with and the role of the private sector; regional competitiveness in a global context; and improving evaluation and transparency.

INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

The Government's long-term goal for the labour market is to achieve employment opportunity for all – the modern definition of full employment. This means that everyone should be given appropriate support and advice to enable them to find and retain a job, with the opportunity to gain skills and experience, thereby helping to meet the productivity challenge. This Pre-Budget Report describes the further steps the Government is taking towards the attainment of employment opportunity for all:

- **extending the support offered to lone parents who move into work** by maintaining the In-Work Credit in the current pilot areas for a further six months;
- **improving the Jobseeker's Allowance intervention regime** by offering expert work-search support at the new claim stage, and extending the Job Grant of £100 (£250 to claimants with children) to 18-24 year old jobseekers;
- **improving enforcement of the National Minimum Wage by increasing by 50 per cent the resources allocated to tackle non-compliance and raising penalties for the seriously non-compliant;**
- **providing funding to improve the administration of Housing Benefit and to raise awareness that Housing Benefit is available to those in work;**
- **taking forward measures to simplify and reduce error in the benefits system; and**

- **raising the earnings disregard to Housing Benefit and Council Tax Benefit in line with indexation to £15.45 in April 2007**, ensuring that claimants gain from increases in the rate of Working Tax Credits.

Further details of these and other measures are set out below:

Lone parents and work

Helping lone parents move into work is a key Government objective. The Pre-Budget Report announces an extension of the In-Work Credit for lone parents in the current pilot areas until June 2007. This means that around 250,000 eligible lone parents will continue to benefit from improved financial gains to work.

Increased support for jobseekers

To increase support for jobseekers, the Chancellor announced today that every new Jobseeker's Allowance claimant will be offered expert help with their job search, delivered through Jobseeker Direct, as soon as they make a new benefit claim. This will enable new jobseekers to start looking for work as soon as they become unemployed, and ensure that they are given the help they need to move back into work as quickly as possible.

Housing Benefit

In order to ensure that people claiming Housing Benefit or Council Tax Benefit gain from the increases in the rates of Working Tax Credit, this Pre-Budget Report also announces that the earnings disregard in Housing Benefit and Council Tax Benefit will be raised in line with indexation, increasing to £15.45 in April 2007.

The Government today announced a package of measures to further improve the administration of Housing Benefit, including funding to complete the roll-out of the National Performance Management Framework, which will allow local authorities to benchmark and track their performance. In addition, the Government will fund improved data transfer between the Department for Work and Pensions and local authorities.

National Minimum Wage

The National Minimum Wage guarantees a fair minimum income from work. From October 2006, the adult rate of the National Minimum Wage rose to £5.35 and the rate for workers aged 18 to 21 rose to £4.45. For the National

Minimum Wage to be effective, and in order to ensure that workers see the benefits of the increased rate, it must be adequately enforced. The Chancellor therefore today announced that resources devoted to National Minimum Wage enforcement in 2007-08 will be increased by 50 per cent.

BUILDING A FAIRER SOCIETY

The Government is committed to promoting fairness alongside flexibility and enterprise to ensure that everyone can take advantage of opportunities to fulfil their potential. The Government's reforms of the welfare state reflect its aims of eradicating child poverty, supporting families to balance their work and family lives, promoting saving and ensuring security for all in old age. The Government is also committed to a modern and fair tax system that ensures that everyone pays their fair share of tax. This Pre-Budget Report sets out the next steps the Government is taking to support these aims, including:

- **announcing that from April 2007, the value of the child element of Child Tax Credit will rise by £80 to £1,845 per year;**
- **from April 2009, additional support for all families, with every mother-to-be becoming eligible for Child Benefit from week 29 of their pregnancy, so that women will be up to £200 better off;**
- **an extension of the Warm Front programme, targeting 300,000 of the most vulnerable pensioner and other households, community by community;**
- **making Individual Savings Accounts (ISAs) permanent, beyond 2010,** to provide stability for savers and certainty for the industry. In addition, the introduction of a package of reforms to the ISA, designed to simplify the regime, will make it more flexible for savers and providers and further promote saving;
- **a package of measures responding to the consultation on the role of the third sector in social and economic regeneration,** including the establishment of a new £30 million Community Asset Transfer fund and the guarantee of three years of funding passed on to third sector organisations;
- **the establishment of an international research collaborative for the development sciences,** led by a high level steering board including leading scientists; and

- **further reforms to modernise the tax system and protect tax revenues**, including work to tackle avoidance.

Further details of these and other measures are set out below:

Extending child benefit to pregnant women

The Government remains firmly committed to its goal of eradicating child poverty in a generation. In recognition of the importance of a healthy diet during pregnancy, and the additional costs that parents face when their children are born, the Government will introduce from April 2009, a new entitlement for all pregnant women to receive Child Benefit from the 29th week of their pregnancy. The additional entitlement will be worth up to £200.

Fuel poverty

New investment to further enable the efficient and effective co-ordination and delivery of Warm Front and Energy Efficiency Commitment was announced by the Chancellor today. A fund of £7.5 million will bring forward projects aimed at using an area-based approach to identify households and provide them with the right coordinated set of advice and measures.

Reform of the ISA regime

The conclusion of the Government's internal review of the Individual Savings Account was published alongside this Pre-Budget Report. *Individual Savings Accounts: proposed reforms* sets out the Government's proposals for implementation and seeks views on a range of practical measures, including;

- making ISAs permanent with an overall annual investment limit of at least £7,000;
- bringing Personal Equity Plans (PEPs) within the ISA wrapper;
- removing the Mini/Maxi distinction within ISAs;
- allowing Child Trust Fund accounts to roll over into ISAs on maturity; and
- allowing transfers from the cash into the stocks and shares component of ISAs.

The third sector

The Government's interim report into the future role of the third sector in social and economic regeneration is published alongside this Pre-Budget Report and announces:

- a new Community Assets Fund of £30 million to support communities and community groups to take on the management or ownership of assets;
- a commitment from Government to see three-year funding settlements passed to third sector organisations as the norm, rather than the exception; and
- allocation of an extra £6.5 million within the Safer and Stronger Communities block of Local Area Agreements.

New initiatives to tackle financial inclusion

Today the Government announced details of a number of measures being implemented as part of its wider strategy to promote financial inclusion. Key measures include:

- details of a £5.4 million campaign to assist financially excluded people to access mainstream banking and credit products; and
- new funding of £2.5 million to increase the number of new advisers, specialising in free face-to-face debt and money advice in areas of high financial exclusion, to over 500.

The Chancellor today announced measures to ensure the tax system continues to keep pace with developments in business practice and the global economy by enhancing certainty and reducing complexity, thereby maintaining the competitiveness of the UK tax system.

Modernising the tax system

Controlled Foreign Companies (CFCs) and foreign profits

The Government is determined to maintain the overall competitiveness of the UK and since the Budget has held a productive dialogue with stakeholders on the taxation of foreign profits. Following the recent European Court of Justice

judgment in the Cadbury Schweppes case, changes are announced today to the CFC rules to ensure they remain effective and to provide increased certainty for business. The Government remains committed to exploring a wider package of reform relating to the taxation of foreign profits, in consultation with business, in 2007.

Reform of insurance tax

As part of its commitment to simplification, the Government is announcing a package of measures to simplify some of the tax rules governing life assurance companies, and to reform and modernise the current taxation rules for general insurers' reserves.

Stamp Duty on Shares

To enhance and develop the market in Exchange Traded Funds (ETFs), the Chancellor is announcing today the removal of Stamp Duty Reserve Tax from the purchase of overseas ETFs.

Construction Industry Scheme

The Chancellor today confirmed that the new Construction Industry Scheme will be introduced in April 2007. The scheme will help the construction industry comply with their tax obligations, while reducing regulatory burdens.

Reform of EU Travellers' Allowances

The Chancellor today welcomed the recent decision by EU Member States to double the tax-free allowance for international travellers returning from trips outside the EU.

A package of measures to combat avoidance has also been announced by the Chancellor today, further details of which are set out in Press Notice 3.

DELIVERING HIGH QUALITY PUBLIC SERVICES

The Government's aim is to deliver world-class public services through sustained investment and far-reaching reform. The 1998 Comprehensive Spending Review (CSR) put in place a modernised framework for public spending and performance management to support the delivery of the Government's long-term priorities.

A decade on from the start of the first CSR, the Government is now conducting a second CSR reporting in 2007. Building on an analysis of the

key long-term challenges facing the UK, the 2007 CSR provides the opportunity to assess what further investments and reforms are needed to equip the UK to respond. In preparation for the 2007 CSR, this Pre-Budget Report announces:

- **solid progress in the Government's SR04 efficiency programme**, with departments and local authorities reporting gains of £13.3 billion by September 2006, over halfway towards the target of over £21 billion by 2007-08;
- building on this success, **the baseline savings ambition for the 2007 CSR period will be at least 3 per cent per year across central and local government**, with a focus on net cashable savings to free-up resources to meet the challenges ahead;
- **administration budgets across departments will be reduced by at least 5 per cent per year in real terms over the 2007 CSR period**, releasing resources for reallocation to frontline services;
- **an early CSR07 settlement for the Department for Constitutional Affairs**, which will see its budget fall by an annual average of 3.5 per cent in real terms over the 2007 CSR period;
- **an early CSR07 settlement for education capital with investment rising from £8.3 billion in 2007-08 to £10.2 billion in 2010-11**, a total of £36 billion over the next four years; and
- **the publication of Sir David Varney's review of public service transformation**, making recommendations to strengthen and join up public service delivery and make public services more efficient and responsive to the needs of users.

The Pre-Budget report outlines further measures directing resources to the Government's priorities, including:

- **a further £130 million direct to schools in England in 2007-08**, including to support personalised teaching and extended services;
- an increased focus on small group and one-to-one support, with **the Every Child a Reader scheme rolled out nationally to 30,000 children a year by 2010-11**, and **an additional £10 million in 2007-08 to increase personalised support in schools** where boys are falling behind; and

- **an additional £84 million to support the ongoing expansion of counterterrorism capabilities in the Intelligence Agencies.**

Further details of these and other measures are set out below:

2007 Comprehensive Spending Review (CSR)

A decade on from the start of the first Comprehensive Spending Review (CSR), the Government is now conducting a second CSR reporting in 2007, to assess what further investments and reforms are needed to equip the UK to respond to the challenges and opportunities of the decade ahead.

In preparation for the CSR, all departments have been assessing the potential for delivering better value for money in public services. The Pre-Budget Report confirms the baseline savings ambition of at least 3 per cent per year across central and local government over the CSR period. In addition, administration budgets across departments will be reduced by 5 per cent per year in real terms, taking them to a new low as a share of public spending.

This Pre-Budget Report also announces an early CSR 2007 spending settlement for the Department for Constitutional Affairs (DCA), which will see its budget reduce by an annual 3.5 per cent in real terms over the CSR period. This settlement, together with £100 million of up-front transformation funding, will enable DCA to take forward a series of investments and reforms to improve the efficiency and delivery of justice.

Transforming public services

Sir David Varney today published his review of service transformation. The Government strongly welcomes this report and will:

- implement a service transformation programme as part of the 2007 Comprehensive Spending Review. This will improve the quality of public services for citizens and businesses, in particular the most vulnerable in society who have the hardest task in accessing services;
- publish a delivery plan next year to implement the review's recommendations for the 2007 CSR. This will include plans for better coordinating online services, contact centres and face-to-face services across Government;

- study the feasibility of a change of circumstance service, under the leadership of the Secretary of State for Work and Pensions, starting with bereavement; and
- strengthen substantially the cross-government DirectGov and Businesslink e-services programmes, working with the key departments involved.

Education

The Chancellor today announced a four-year settlement for educational investment. Building on the substantial increases in education capital investment since 1997, investment will rise to £10.2 billion in 2010-11, with additional investment of £250 million, £750 million and £1,850 million over the years 2008-09 to 2010-11, a total of £36 billion invested in the fabric of educational institutions over the next four years. This is equivalent to annual average growth in real terms of 4.1 per cent over the CSR 2007 period.

The Chancellor also announced a package of measures to improve pupil literacy and help reduce the gender attainment gap, including a £130 million increase in direct payments to schools in England to support personalised teaching and extended services. Direct payments to schools in England will rise to an average of £200 per pupil for primary schools and £225 per pupil for secondary schools.

PROTECTING THE ENVIRONMENT

The Government is committed to delivering a strong economy based not just on high and stable levels of growth and employment but also on high standards of environmental stewardship. Climate change is a very significant challenge, and the recently published Stern Review on the Economics of Climate Change has highlighted how long-term global prosperity will be undermined if early and coordinated international action is not taken. This Pre-Budget Report sets out the next stage in the Government's strategy for tackling climate change both domestically and globally, including:

- **promoting the development of a global carbon market** through the expansion and strengthening of the EU Emissions Trading Scheme and linking it to schemes outside the EU;
- **taking further steps towards realising carbon capture and storage technology**, including tendering for consulting engineers to help enable a decision in 2007 on whether to support a UK-based demonstration plant;

- **an increase in all rates of air passenger duty**, with effect from 1 February 2007, in recognition of the environmental costs of air travel;
- **an inflation-based increase of 1.25 pence per litre (ppl) in the rate of road fuel duty with effect from midnight tonight**; and the same increase of 1.25 ppl in duty for rebated fuels, maintaining the differential with main fuel duty rates;
- **a package of measures to encourage the development of the biofuels market** and innovative types of biofuels;
- **an ambition for all new homes to be zero carbon within a decade with a time-limited stamp duty exemption** for the vast majority of new zero-carbon homes that meet this standard;
- **legislation to ensure householders installing microgeneration are not subject to income tax** on any payment for surplus electricity exported back to the grid; and
- **the extension of the Landlords Energy Saving Allowance** to 2015 and to corporate landlords.

The Pre-Budget Report also reports on the Government's strategy for tackling other environmental challenges, including:

- **confirmation that the standard rate of landfill tax will increase by £3 per tonne to £24 per tonne with effect from 1 April 2007**. The Government will also consider the case for steeper increases in the tax from 2008.

Further details of these and other measures are set out below:

Climate change and energy efficiency

Following the Stern Review, the UK will continue to make links with other countries across the EU and internationally to deepen and strengthen emissions trading. The Pre-Budget report announces:

- Europe's Finance Ministers, led by the UK, have secured the first step towards expanding the European Union Emissions Trading Scheme (EU ETS), as the countries of the European Free Trade Area (Iceland, Norway, Switzerland and Liechtenstein) have agreed in principle to work towards the creation of a pan European trading scheme;

- a partnership between the UK and the Government of New Zealand to develop joint work and to share advice and experience on emissions trading and other economic instruments to tackle climate change; and
- a partnership between the UK Treasury and the French Finance Ministry to develop joint work on economic instruments to tackle climate change, particularly around the improvement of the functioning of the EU emissions trading scheme.

Carbon Capture and Storage (CCS)

The Stern Review highlighted the role that CCS technology could play in lowering emissions, particularly in fast-growing economies with growing fossil fuel consumption. The Pre-Budget Report announces:

- that the Department of Trade and Industry will tender for consulting engineers to ensure that the Government's understanding of the costs of CCS is robust and help ascertain the value for money of supporting a demonstration plant in the UK, as a step towards taking a decision on this in 2007; and
- further collaboration on CCS with Norway, agreeing the terms of reference for a joint study of the infrastructure needed to transport and store carbon dioxide below the North Sea.

Air Passenger Duty (APD)

The Government remains committed to inclusion of aviation within the European Union Emissions Trading Scheme (EU ETS) but recognises the challenges in introducing emissions trading to this sector. In the light of this, the Pre-Budget Report announces that rates of air passenger duty will double with effect from 1 February 2007.

Main road fuel duties

In Budget 2006, owing to sustained oil market volatility, the inflation-based increase in main fuel duty rates was deferred until 1 September 2006. However, with the risk of volatility remaining high, the Government announced in July that the increase would not go ahead in September and the position would be reviewed at the time of the Pre-Budget Report. Since July pump prices have fallen back on average by between 8 and 12 pence per litre. The Pre Budget Report announces that:

- main fuel duty rates will increase in line with inflation by 1.25 pence per litre from midnight tonight; and
- the changes to other fuel duties announced at Budget 2006 will also take effect from midnight.

Haulage

Following the successful cooperation in the Haulage Industry Task Group, the Government today publishes a report by the Group that summarises the outcomes of this work. The Government will also undertake a detailed feasibility study into options for establishing a database covering all foreign hauliers entering and working in the UK - including a vignette - in order to establish whether this would provide good value for money.

Measures to encourage Biofuels

The Pre-Budget Report announces:

- an extension of the 20ppl biofuel duty differential to enable a pilot involving the use of biomass in conventional fuel production to go ahead;
- an extension of the 20ppl biofuel duty differential to a new second generation biodiesel which offers potential environmental benefits;
- a duty rate reduction for pilots which will use biofuel mixed with rebated gas oil, to develop the off-road use of biofuels; and
- that the Government will consider the case for extending the duty incentive for renewable natural gas (biogas) and for an incentive in company car tax to support the take up of flex fuel vehicles capable of using high-blend bioethanol E85.

Stamp duty exemption for new zero carbon homes

It is the Government's ambition that within a decade, all new homes in England and Wales will be zero carbon. The Pre-Budget Report announces a time limited exemption from stamp duty for the vast majority of new zero-carbon homes. Full details will be made available at Budget 2007.

Improving waste management and managing natural resources

Landfill tax

Landfill tax increases the price of waste sent to landfill, encouraging more sustainable ways of managing waste. The standard rate of landfill tax, applying to active wastes (those that give off emissions), is currently £21 per tonne. The Pre-Budget Report confirms that from 1 April 2007, the standard rate of landfill tax will increase by a further £3 per tonne to £24 per tonne.

The Government will also consider whether the standard rate needs to increase more steeply from 2008 onwards, or go beyond the £35 per tonne already committed to for the medium to long-term in order to encourage greater diversion of waste from landfill and more sustainable waste management options.

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6 December 2006

INCOME TAX ALLOWANCES, NATIONAL INSURANCE CONTRIBUTIONS, CHILD AND WORKING TAX CREDIT, FUEL DUTY AND AIR PASSENGER DUTY RATES

Rates and allowances for the Working and Child Tax Credits, Child Benefit/Guardian's Allowance, Income Tax, National Insurance Contributions, fuel and air passenger duties are set out below.

Working and Child Tax Credit rates 2007-08

£ per year (unless stated)	2006-07	Change	2007-08
Working Tax Credit			
Basic element	£1,665	+£65	£1,730
Couple and lone parent element	£1,640	+£60	£1,700
30 hour element	£680	+£25	£705
Disabled worker element	£2,225	+£85	£2,310
Severe disability element	£945	+£35	£980
50+ Return to work payment (16-29 hours)	£1,140	+£45	£1,185
50+ Return to work payment (30+ hours)	£1,705	+£65	£1,770
Childcare Element of the Working Tax Credit			
Maximum eligible cost for one child	£175 per week	-	£175 per week
Maximum eligible cost for two or more children	£300 per week	-	£300 per week
Percentage of eligible costs covered	80%	-	80%
Child Tax Credit			
Family element	£545	-	£545
Family element, baby addition	£545	-	£545
Child element	£1,765	+£80	£1,845
Disabled child element	£2,350	+£90	£2,440
Severely disabled child element	£945	+£35	£980
Income thresholds and withdrawal rates			
First income threshold	£5,220	-	£5,220
First withdrawal rate (per cent)	37%	-	37%
Second income threshold	£50,000	-	£50,000
Second withdrawal rate (per cent)	6.67%	-	6.67%
First threshold for those entitled to Child Tax Credit only	£14,155	+£340	£14,495
Income disregard	£25,000	-	£25,000

Child Benefit/Guardian's Allowance Rates, 2007-08

£ per week	2006-07	Change	2007-08
Eldest/Only Child	£17.45	+£0.65	£18.10
Other Children	£11.70	+£0.40	£12.10
Eldest/Only Child (lone parent's rate)	£17.55		ABOLISHED
Guardian's Allowance	£12.50	+£0.45	£12.95

Income Tax Personal and Age-related Allowances 2007-08

£ per year	2006-07	Change	2007-08
Personal allowance (age under 65)	£5,035	+£190	£5,225
Personal allowance (age 65-74)	£7,280	+£270	£7,550
Personal allowance (age 75 and over)	£7,420	+£270	£7,690
Blind Person's Allowance	£1,660	+£70	£1,730
Married couple's allowance* (aged less than 75 and born before 6th April 1935)	£6,065	+£220	£6,285
Married couple's allowance* (age 75 and over)	£6,135	+£230	£6,365
Married couple's allowance* - minimum amount	£2,350	+£90	£2,440
Income limit for age-related allowances	£20,100	+£800	£20,900

* Tax relief for the married couple's allowance is given at the rate of 10 per cent

National Insurance Contributions, 2007-08

£ per week (unless stated)	2006-07	Change	2007-08
Lower earnings limit, primary Class 1	£84	+£3	£87
Upper earnings limit, primary Class 1	£645	+£25	£670
Primary threshold	£97	+£3	£100
Secondary threshold	£97	+£3	£100
Employees' primary Class 1 rate between primary threshold and upper earnings limit	11%	-	11%
Employees' primary Class 1 rate above upper earnings limit	1%	-	1%
Employees' contracted-out rebate - salary-related schemes	1.6%	-	1.6%
Employees' contracted-out rebate - money-purchase schemes	1.6%	-	1.6%
Married women's reduced rate between primary threshold and upper earnings limit	4.85%	-	4.85%
Married women's reduced rate above upper earnings limit	1%	-	1%

Employers' secondary Class 1 rate above secondary threshold	12.8%	-	12.8%
Employers' contracted-out rebate, salary-related schemes	3.5%	+0.2%	3.7%
Employers' contracted-out rebate, money-purchase schemes	1%	+0.4%	1.4%
Class 2 rate (per week)	£2.10	+£0.10	£2.20
Class 2 small earnings exception	£4,465 per year	+£170	£4,635 per year
Special Class 2 rate for share fishermen (per week)	£2.75	+£0.10	£2.85
Special Class 2 rate for volunteer development workers	£4.20	+£0.15	£4.35
Class 3 rate (per week)	£7.55	+£0.25	£7.80
Class 4 lower profits limit	£5,035 per year	+£190	+£5,225 per year
Class 4 upper profits limit	£33,540 per year	+£1,300	£34,840 per year
Class 4 rate between lower profits limit and upper profits limit	8%	-	8%
Class 4 rate above upper profits limit	1%	-	1%

Fuel Duty Rates from 7 December 2006

Pence per litre (unless stated)	Old duty rate	Change	New duty rate
Ultra-low sulphur petrol/diesel	47.1p	+1.25p	48.35p
Sulphur-free petrol/diesel	47.1p	+1.25p	48.35p
Biodiesel	27.1p	+1.25p	28.35p
Bioethanol	27.1p	+1.25p	28.35p
Liquefied petroleum gas used as road fuel	9p per kg	+3.21p per kg (equivalent to 2.25p per litre)	12.21p per kg
Natural gas used as road fuel	9p per kg	+1.81p per kg (equivalent to 1.25p per litre)	10.81p per kg
Rebated gas oil (red diesel)	6.44p	+1.25p	7.69p
Fuel Oil	6.04p	+1.25p	7.29p

Air Passenger Duty Rates from 1 February 2007

£ per UK flight departure		Old duty rate	Change	New duty rate
Passengers flying to EEA destinations and certain other European countries	In lowest class of travel	£5	+\$5	£10
	In other than lowest class of travel	£10	+\$10	£20
Passengers flying to other destinations	In lowest class of travel	£20	+\$20	£40
	In other than lowest class of travel	£40	+\$40	£80

DETAILS

Child and Working Tax Credit rates and Child Benefit

Child Benefit is raised in line with inflation.

The child element of Child Tax Credit (CTC) increases in line with average earnings. The disabled child element and severely disabled elements rise with inflation. The family element (normal and baby addition) remains frozen at £545 per year. The income threshold for CTC only rises to £14,495 per year. The income threshold for CTC family element only remains at £50,000 per year.

The maximum eligible childcare costs remains at £175 for one child and £300 for two or more children. The percentage of eligible childcare costs remains at 80 per cent.

The disregard in Tax Credits for increases in income between one tax year and the next remains at £25,000.

Income tax rates and allowances

All income tax allowances will be increased in line with inflation. The personal allowance will increase to £5,225.

The age-related personal allowances will rise to £7,550 for people aged between 65 and 74 and to £7,690 for those aged 75 and over. This will mean

that in 2007-08 no one aged 65 or over need pay tax on an income of up to £145 a week. Around half of all pensioners pay no tax on their income.

National insurance contributions

A draft re-rating order, accompanied by a report by the Government Actuary on the effect the order will have on the National Insurance Fund, will be laid before Parliament in due course.

Employers' and employees' contributions

In line with the Social Security Contributions and Benefits Act 1992, the lower earnings limit for employees' Class 1 contributions is to be raised to £87 a week. It is set at the level of the basic state pension for a single person from April 2007, rounded down to the nearest pound. This is the lowest level of earnings that can count towards entitlement to contributory benefits.

The primary and secondary thresholds for Class 1 contributions will increase in line with inflation to £100 a week, the same as the weekly amount of the income tax personal allowance. This means that employees and employers will pay no income tax or Class 1 contributions on earnings below this level.

The upper earnings limit for employee's Class 1 contributions will be raised to £670 a week, in line with inflation.

The standard main rate of employee's Class 1 contributions below the upper earnings limit will continue to be 11 per cent, and above the limit the rate will continue to be 1 per cent.

The standard rate of employers' Class 1 contributions will continue to be 12.8 per cent.

The self-employed

The flat rate of Class 2 contributions will increase to £2.20 a week. Those with earnings below the annual small earnings exception can apply to be exempted from paying Class 2 contributions; this limit will be raised to £4,635. The annual lower profits limit for Class 4 contributions will increase in line with inflation to £5,225.

The upper profits limit for Class 4 contributions will be raised to £34,840 in line with inflation, to maintain the link with employees' earnings liable to Class 1 contributions at the main rate.

The self-employed will pay Class 4 contributions on all their profits above the lower profits limit. The rate of Class 4 contributions will be 8 per cent on profits below the upper profits limit, and 1 per cent on profits above that limit.

Share fishermen

The special rate of Class 2 contributions for share fisherman, which allows them to build entitlement to contributory Jobseeker's Allowance in addition to the other contributory benefits available to the self-employed, will increase to £2.85 a week.

Volunteer development workers

The special rate of Class 2 contributions for volunteer development workers, that entitles them to the full range of contributory benefits, will be increased by 15 pence to £4.35 in line with the statutory formula of 5 per cent of the primary Class 1 lower earnings limit.

Paying voluntary contributions

The rate of Class 3 voluntary contributions will increase to £7.80 per week in line with inflation.

Fuel duties

The government announces today that main fuel duty rates will increase in line with inflation by 1.25 pence per litre, with effect from midnight tonight. The Government will also increase the duty rates for rebated oils, biofuels and road fuel gases, in line with the Budget announcement.

Air passenger duty

The Government will increase air passenger duty (APD) rates with effect from 1 February 2007. The intra-EU rate for the lowest class of travel will rise from £5 to £10 and the rate for other classes from £10 to £20. The long-haul rate for the lowest class of travel will rise from £20 to £40 and the rate for other classes from £40 to £80.

To ensure consistency within the air passenger duty system, the scope of European rates of air passenger duty will also be widened to include all of the signatories to the European Common Aviation Area Agreement, with effect from 1 February 2007.

NOTES FOR EDITORS

Section 41 of the Tax Credits Act requires a report to be laid before Parliament each year reviewing the amounts of certain tax credit elements and thresholds. Section 145 of the Social Security Contributions and Benefits Act 1992 requires an annual review of Child Benefit rates. Section 150 of the Social Security Administration Act 1992 requires the weekly rate of Guardian's Allowance to be increased in line with prices.

Income tax allowances are updated each year by indexation unless legislation is passed to override its effects. Statutory indexation for 2007-08 is based on changes to the Retail Prices Index in the year to September 2006 (3.6 per

cent). A statutory instrument – the Income Tax (Indexation) (No. 2) Order 2007 – has been laid today, confirming the effect of indexation on the personal allowances, blind person's allowance, the age-related allowances, the married couples' allowances and the income limit for age related allowances for 2007-08.

2006 Pre-Budget Report

6 December 2006

ENSURING FAIRNESS FOR ALL TAXPAYERS

A package of measures aimed at ensuring certainty and equity in the tax system was announced by the Chancellor today. These measures will ensure that all individuals and companies contribute their fair share to the provision of public services, while maintaining the UK's status as a competitive and dynamic economy.

The measures, which will protect revenue for investment in public services, are targeted at tax avoidance. Many of the measures have been informed by the disclosure rules introduced in Finance Act 2004, which allow HM Revenue and Customs (HMRC) to identify and target specific risks to the tax system. The package includes a strengthening of the disclosure regime, and the use of targeted anti-avoidance measures as a proportionate response to those who seek to avoid paying their fair share.

DETAILS

FAIRNESS AND CERTAINTY FOR TAXPAYERS

Managed Service Company Schemes

The Government is taking action to tackle Managed Service Company (MSC) schemes which are used to avoid paying employed levels of tax and NICs. Income received by workers in MSCs in relation to services provided through the MSC will be subject to employed levels of tax and NICs, with the MSC obliged to operate Pay As You Earn (PAYE) and deduct tax and Class 1 NICs on that income - and the rules for tax relief for travel expenses will be the same as for other employed workers. The Government will also address the problem of MSCs escaping payment of tax and NICs due by allowing the recovery of these debts from appropriate third parties.

This will protect the Exchequer and ensure a level playing field for compliant businesses and workers. The Intermediaries legislation will remain in place for Personal Service Companies.

The Government is consulting on the draft legislation to implement this measure. The draft legislation and questions for consultation are set out in the consultation document *Tackling Managed Service Companies*, published alongside the Pre-Budget Report today.

Six-Year Limitation Period for all Direct Tax Claims

The Government today announced that it will legislate to ensure that the limitation period for the recovery of direct tax paid by mistake of law is six years from the date of payment. This is to ensure consistency with the limitation period for making claims in respect of direct taxes paid under assessment as a result of a mistake in a tax return, as specified in section 33 Taxes Management Act 1970 and paragraph 51 schedule 18 Finance Act 1998. This follows a recent House of Lords decision and restores the balance of interests secured by such a limitation.

Taking no action would risk unwarranted transfers from taxpayers in general to the current shareholders of certain claimant companies. The provision will have retrospective effect, but will not disturb the entitlement of those who have secured what amounts to a final judgment in their favour prior to 6 December 2006.

VAT – Partial Exemption ‘Special Method’

Following consultation over the summer, changes will be made to the VAT partial exemption regime with effect from 1 April 2007. Businesses will be required to declare the suitability of their proposed ‘special method’, for the calculation of VAT liability, before it is approved by HMRC. This will greatly speed up the approvals process benefiting the vast majority of the 20,000 businesses that choose to operate a partial exemption special method.

Details of the measure are set out in PBR note 25.

Protecting Pensions Tax Relief

The Government today announced action to ensure that pensions tax relief continues to be used to produce an income in retirement. The Government will tighten up the rules on Alternatively Secured Pensions (ASP), introducing a minimum income requirement, setting a higher maximum income and imposing an unauthorised payments charge where ASP funds remaining on the death of a member are transferred to pension funds of other members in the scheme.

Details of the measure are set out in PBR note 13.

Life Insurance Companies

A measure will be introduced to ensure that transactions involving the transfer, by life insurers, of assets valued according to regulatory principles do not have inappropriate tax consequences.

Details of the measure are set out in Pre-Budget Report note 11.

TACKLING AVOIDANCE

Disclosure Regime - tackling non-compliance

Budget 2004 introduced a disclosure regime that has enabled the Government to respond to avoidance more swiftly and in a more targeted fashion. In order to ensure that the regime functions consistently, the Government will consult on a new power to investigate a scheme where there are reasonable grounds to believe that a promoter has failed to comply with its statutory disclosure obligations. HMRC will publish a consultation document later this month.

A Targeted Anti-Avoidance Rule for Capital Losses

The Government today announced that schemes designed to enable individuals, trustees and personal representatives to gain a tax advantage from contrived capital losses will be closed with effect from today. This will be delivered by a targeted anti-avoidance rule ensuring that allowable capital losses are restricted only to those arising from genuine commercial transactions.

Details of the measure are set out in Pre-Budget Report note 18.

Stamp Duty Land Tax – Closure of avoidance schemes

Measures to counter avoidance of stamp duty land tax will come into force from 2pm today. These will make ineffective a number of schemes involving the use of leases, partnerships and sub-sales, that are currently being exploited in an attempt to avoid paying stamp duty land tax.

Details of the measure are set out in Pre-Budget Report note 17.

Taxation of Companies – Closure of avoidance schemes

The Government announced measures, effective from today, to tackle artificial schemes, brought to light under the disclosure rules. These schemes are used by companies to avoid tax by exploiting certain aspects of legislation, including the rules on manufactured payments, exchange gains and losses, annual payments, double taxation relief, lease and leaseback and controlled foreign companies (the public quotation exemption)¹.

Details of these measures are set out in Pre-Budget Report notes 1 and 6.

FRAUD

Missing Trader Intra-Community Fraud

The Government has strengthened its strategy for tackling Missing Trader Intra-Community (MITC) VAT fraud in response to a rapid increase in attempted fraud in the latter part of 2005-06 and the first quarter of 2006-07. The number of staff deployed has been increased to over 1400 and focusing on:

- identifying and prosecuting the criminals behind the fraud;
- working internationally to combat cross-border fraud;
- identifying and tracking those goods most susceptible to MITC fraud; and
- more in-depth checking of suspect repayment claims

A significant proportion of these attempted frauds are stopped so the estimated potential impact on VAT receipts is much smaller. New estimates, which take account of mutations in the fraud are published today. These show that attempted MITC fraud grew to between £3.5billion and £4.75billion in 2005-06 whilst the negative impact on VAT receipts is estimated to be between £2 billion and £3 billion. As part of the wider international strategy, negotiations are continuing with European partners to secure a derogation necessary to introduce reverse charge accounting for goods most commonly used in the fraud.

¹ See PN1 for changes to the controlled foreign companies rules following the European Court of Justice ruling in Cadbury Schweppes.

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GOVERNMENT DEPARTMENT INTERNET SITES

Further information and all published documents relating to 2005 Pre-Budget Report may be found on the Internet at the following addresses:

HM Treasury: www.hm-treasury.gov.uk

HM Revenue & Customs: www.hmrc.gov.uk