

2008 Pre-Budget Report

PRESS NOTICES

24 November 2008

CONTENTS:

PN	Press Notice
01	Facing global challenges: supporting people through difficult times
02	Value Added Tax, Income tax allowances, National Insurance Contributions, Child and Working Tax Credit rates 2009-10 and other rates
03	Ensuring fairness for all taxpayers

2008 Pre-Budget Report

FACING GLOBAL CHALLENGES: SUPPORTING PEOPLE THROUGH DIFFICULT TIMES

The Government's objective is to build a strong economy and a fair society, where there is opportunity and security for all. The 2008 Pre-Budget Report, *Facing global challenges: supporting people through difficult times*, presents updated assessments and forecasts of the economy and public finances, and reports on how in the face of major global economic shocks the Government intends to support the economy, businesses and households through these uncertain times while delivering its long-term goals.

This Pre-Budget Report describes the next steps the Government is taking to support the economy, business and households through these difficult times and to maintain macroeconomic stability in the long-term:

- ensures financial stability, with further action to meet the global economic challenges;
- supports business, through an immediate support package for business adversely affected by global economic conditions, and reforms that continue to promote the long-term competitiveness of the UK;
- helps people and ensures fairness, by providing support for low and middle income households now when they need it, helping homeowners, tackling child poverty, supporting employment, and delivering security for all in retirement;
- improves public services, locking in investment alongside public service reform, while ensuring the economy is supported in the short term and public finances remain sound in the medium term; and
- delivers on the environmental goals, such as climate change and the need for greater energy efficiency, while supporting low carbon growth.

MAINTAINING MACROECONOMIC STABILITY

Over the past year, major shocks have hit the economies of every country in the world. While commodity prices have recently eased, the credit shock has intensified into the worst global financial crisis for generations, a crisis that is being addressed by a global policy response of unprecedented scale and scope. These developments mean economic prospects are subject to

exceptional uncertainty, but it is clear that the UK, like many advanced economies, has moved into recession. Asset markets and the financial sector have been severely affected, with persistent implications for the public finances.

The economic and fiscal climate is exceptionally challenging, but because of the macroeconomic framework introduced in 1997 the UK is facing these shocks from a solid foundation. The Government remains committed to the macroeconomic framework and the objectives enshrined within it. Credible medium-term objectives and mechanisms for short-term flexibility mean that the Bank of England and the Government can deliver the necessary support to the economy without compromising their respective commitments to low inflation and sound public finances.

The Government's immediate priority is to continue to support the economy through these difficult times. This Pre-Budget Report announces that the Government will support families and businesses, including by:

- temporarily reducing the Value Added Tax (VAT) rate to 15 per cent with effect from 1 December 2008 to 31 December 2009; and
- bringing forward £3 billion of capital spending from 2010-11 to 2008-09 and 2009-10 the years when the impact of the shock is likely to be the strongest.

Over the medium term, the Government's fiscal policy objective is to ensure the sustainability of the public finances, in order to protect economic stability and long-term growth. The Government will therefore deliver a sustained fiscal consolidation from 2010-11, when the economy is expected to be recovering and able to support a reduction in borrowing. In particular:

- the income tax personal allowance will be restricted for those with incomes over £100,000 from April 2010 and a new additional higher rate of income tax of 45 per cent will be introduced for those with incomes above £150,000 from April 2011;
- the employee, employer and self-employed rates of National Insurance Contributions will increase by 0.5 per cent from April 2011, when economic growth is forecast to be above trend rates and real incomes are growing strongly; and
- the Government will increase its Value for Money target in 2010-11 by £5 billion. Current spending will grow on average from 2011-12 to 2013-14 at 1.2 per cent a year in real terms, and public sector net investment will move to 1.8 per cent of GDP by 2013-14.

To underpin this consolidation, consistent with the *Code for Fiscal Stability*, the Government is setting a temporary operating rule: to set policies to improve the cyclically-adjusted current budget each year, once the economy emerges from the downturn, so it reaches balance and debt is falling as a proportion of GDP once the global shocks have worked their way through the economy in full.

The fiscal projections set out in this Pre-Budget Report are consistent with returning to cyclically adjusted current balance and debt falling as a share of the economy by 2015-16 when the global shocks will have worked through the economy in full. They imply, as the economy emerges from the downturn, an adjustment in the cyclically-adjusted current balance of over 0.5 per cent of GDP a year from 2010-11.

ENSURING FINANCIAL STABILITY

Since July 2007, the global economy has experienced levels of financial instability not seen for generations. The Government's objectives for addressing these threats to the financial system have been focussed around the need to support stability and restore confidence in the financial system; protect depositors' money; and safeguard the interests of taxpayers. The Government has intervened decisively to prevent system collapse, addressing concerns about liquidity, solvency and funding.

Given the global nature of the instability, the Government's international priorities include:

- as the 2009 Chair of the G20, making rapid progress on priority issues for the future of the international financial regulatory system;
- ensuring that the EU learns the lessons from the crisis, in particular regarding supervision and deposit protection arrangements for banks operating across borders; and
- reviewing the long term opportunities and challenges for the UK's crown dependencies and overseas territories as financial centres.

Within the UK, the Government's immediate priorities include:

- continuing to monitor the financial system to ensure that it is able to support the wider economy, including through appropriate levels of lending to businesses and households;

- strengthening the Banking Bill to enhance the Authorities' ability to deal with banking group holding companies and the insolvency of investment firms; and
- introducing measures to facilitate the raising of equity capital.

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

Rights Issue Review Group

The Government welcomes the report by the Rights Issues Review Group - a working group co-chaired by HM Treasury and the FSA. The Government agrees with the recommendations to improve the efficiency and orderliness of the UK's equity capital raising process by shortening the rights issue process from the 39 days it can take to 32, and for many issues shortening the process to 16 days. Efficient and orderly capital raising techniques are essential to enable companies to raise capital at least cost and preserve the integrity of the market and the issuer's reputation. Improvements will therefore benefit the market, companies and shareholders.

Review of offshore financial centres

The Pre-Budget Report today announces a review into the long-term opportunities and challenges for the UK's crown dependencies and overseas territories as offshore financial centres. The review will enable the UK Government and Governments in the territories to take a considered look at the position of the UK's offshore financial centres in the global economy. The review will cover financial supervision and transparency; fiscal arrangements; financial crisis management and resolution arrangements; and international cooperation. The review will not consider changes to the UK's constitutional relationship. Interim conclusions will be produced for Budget 2009, with fuller conclusions later in the year.

SUPPORTING BUSINESS

Businesses are facing an exceptionally challenging economic climate with uncertainty over the short to medium term. The Government is taking action to help businesses to respond in the short term, through:

- measures to help small and medium sized enterprises (SMEs) facing credit constraints, including a new Small Business Finance Scheme;
- a new HMRC Business Payment Support Service to allow businesses in temporary financial difficulty to pay their HMRC tax bills on a timetable they can afford;

- more generous tax relief for businesses now making losses, by allowing temporary additional carry-back of up to £50,000 of losses; and
- the modification of a number of planned tax reforms, including the deferral of the increase in the small companies rate of corporation tax, a temporary increase in the threshold at which an empty property becomes liable for business rates, and the reform of air passenger duty, rather than proceeding with a per plane tax.

To ensure the UK is in a strong position to respond to the longer-term challenges, the Government will take forward further measures, including:

- a package of reforms to the taxation of foreign profits, including the introduction of a foreign dividend exemption for large and medium-sized businesses, supported by a worldwide debt cap on interest;
- a review of the controlled foreign companies anti-avoidance rules consistent with a further move towards a territorial approach;
- measures to enhance SMEs' access to government contracts, including a new online portal for all government contracts over £20,000; and
- a set of devolutionary proposals, to be agreed with local authorities in city-regions on a voluntary basis to increase their ability to drive sustainable economic growth.

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

Measures to improve the availability of finance for SMEs

To help SMEs with working capital and investment needs:

- early in 2009, the Government will launch a Small Business Finance Scheme - a new temporary guarantee scheme to enable up to £1 billion of new Government supported lending by banks;
- the Export Credits Guarantee Department, in conjunction with the banks, will introduce a temporary guarantee scheme to support a £1 billion facility providing smaller exporters with better access to short-term working capital;
- the Government will also make available a capital fund of £50 million providing equity or quasi-equity to SMEs who are overleveraged;

- earlier in November 2008, Advantage West Midlands launched a transition fund for viable SMEs facing financial difficulties. Other RDAs will launch similar loan funds, now totalling £25 million, to help businesses over the next six months. The package of measures above includes £110 million of contribution from RDAs; and
- early in 2009, the Government will launch, with Business Link, a new easily accessible portal, to direct credit-worthy SMEs who are experiencing problems accessing credit.

Temporary extension to loss relief rules

To further help the cash flow position of businesses that have recently become loss-making, trading loss carry-back will be temporarily extended from one to three years for up to £50,000 of losses. This measure will apply for one year from 24 November 2008 for companies and unincorporated businesses.

HMRC Business Payment Support Service

Her Majesty's Revenue and Customs (HMRC) will provide a new service for businesses in temporary financial difficulty and unable to pay their tax bills to spread payment of their bills over a timetable they can afford. The service will cover all taxes paid by business, including corporation tax, VAT, PAYE, income tax and National Insurance Contributions.

Small companies' rate of corporation tax

The Government is deferring for one year the planned increase in the small companies' rate of corporation tax. The rate will remain at 21 per cent during 2009-10.

Empty Property Rate Relief

The Government is temporarily increasing the threshold at which an empty property becomes liable for business rates. For financial year 2009-10 empty properties with a rateable value of less than £15,000 will be exempt from business rates - exempting an estimated 70 per cent of empty properties.

Interest-free payment schedule for backdated business rates bills

To reduce the cash flow impact on businesses, given current economic difficulties, the Government will legislate to give more time to pay certain backdated business rates bills issued before 31 March 2010. Business facing such bills will be able to pay their liability for previous years in equal interest-

free installments over 8 years, rather than immediately. Beneficiaries will include several occupiers of ports who have been affected by recent rating reviews.

Taxation of foreign profits

The Government is today announcing reforms to enhance the competitiveness of the corporate tax system to make the UK a more attractive location for multinational business.

The Government will bring forward a balanced package of reforms to the taxation of foreign profits in Finance Bill 2009 to deliver an exemption from tax for most foreign dividends received by large and medium sized groups, regardless of the level of shareholding. A Targeted Anti-Avoidance Rule will apply to protect against any avoidance activity seeking to exploit these dividend exemptions. The exemption will be supported by a worldwide debt cap on interest, extension of the unallowable purpose rules, and consequential changes to the Controlled Foreign Company (CFC) rules. In addition, the existing Treasury consent rules will be reformed. Draft clauses will be issued in December for consultation.

The Government will also continue to examine options for reform of the CFC rules. Any reform will aim to improve the way the CFC rules achieve their objective of taxing profits diverted from the UK. Coupled with the exemption for foreign dividends, this represents a clear move further towards a territorial approach to taxing foreign subsidiaries so that a new CFC system should not tax profits that are genuinely earned in overseas subsidiaries. There will be continued consultation through 2009.

European Investment Bank

The Government welcomes the commitment of UK lenders to approach the EIB to access these funds. Following negotiations between UK banks and the EIB, £1 billion of EIB funds will be available to SMEs in the UK by the end of 2008.

Tax Simplification

Following discussions with business, the Pre-Budget Report sets out the next set of simplifications from its four ongoing simplification reviews and further, targeted measures to help sectors across the UK economy, including employers, the self-employed and the financial services sector.

North Sea Fiscal Regime

The Government remains committed to maximising the economic recovery of the UK's oil and gas reserves. Following further discussions with stakeholders, the Government is today publishing its proposals for further reforms to the North Sea fiscal regime.

Insurance claims equalisation reserve

The Government today announces its intention to legislate to align the tax treatment of Lloyd's claims equalisation reserves with that of other general insurers.

Competition in the Water Markets

PBR announces a package of measures to extend and enhance retail competition in water markets for large non-domestic customers in England. The Government will: lower the usage threshold above which businesses are eligible to switch supplier from 50ML to 5ML; extend the competition regime to retail wastewater services; remove the current access pricing arrangement for water from legislation replacing it with simplified criteria to be introduced by Ofwat; and introduce nationally agreed codes to be co-ordinated by Ofwat. The Government is strongly minded to mandate the legal separation of the retail arm of a company from the rest of its operations and will respond to this when it receives the final report of the Independent Review of Competition and Innovation in the Water Markets. The Government will consult on the implementation of the reforms.

The Government's response to Francesco Caio's review of next-generation broadband

In response to Francesco Caio's independent review of investment in super-fast "next-generation access" broadband (NGA), the Government will support market-led investment through initiatives to remove uncertainties and lower the cost of infrastructure roll-out. The Government will also set out its vision for NGA and undertake a benchmarking exercise when the full response is published later this week. In addition the Government today announces that it will look again at the spectrum to be released by Digital Switchover in order to maximise benefits for UK companies and consumers.

Government's response to the Glover Committee Independent Report

The Government accepts all of the recommendations put forward in the Glover Committee's report, published alongside the 2008 Pre-Budget Report. The Committee was set up in Budget 2008 to provide advice on how the

Government can help small firms win a greater share of public procurement. The Government will advertise Government contracts worth more than £20,000 in a single free online portal, introduce measures to reduce bureaucracy and make opportunities more transparent for small businesses.

Regional Policy Highlights

PBR announces that Government will develop new devolutionary proposals with local authorities in key city-regions to support growth. The Government will task Regional Development Agencies to work with city-regions to ensure local economic capacity is in place.

Meeting the economic challenges in every region is also published alongside PBR, setting out how the Government will continue to support the national and sub-national levels of the economy and outlining how RDAs and other regional and local partners are focusing their activity on supporting businesses through tougher economic times.

The UK Economy: addressing long term strategic challenges

The UK economy: addressing long-term strategic challenges sets out how Government will respond to the main challenges that are likely to face the UK economy over the coming decade. It shows how the Government has made it a priority since 1997 to build macroeconomic stability, and to promote UK productivity growth. Looking forward, the Government will continue to promote macroeconomic stability and ensure that the outcomes of the programmes crucial for long-term growth are protected during economic slowdown, whilst ensuring value for money.

HELPING PEOPLE FAIRLY

The Government has already taken action to help people through the current global economic difficulties. To provide additional support for low- and middle-income taxpayers, the Government will:

- make permanent the £600 increase in the income tax personal allowance announced in May 2008 with a further increase of £130, meaning basic rate taxpayers pay £145 less tax a year in 2009-10;
- bring forward April's increase in Child Benefit to January, worth an additional £22 on average to families and bring forward its commitment to increase the child element of the Child Tax Credit by £25 above indexation in April 2010 to April 2009; and

- pay £60 to all pensioners in the New Year, which is equivalent to bringing forward the April increase in the Basic State Pension for a single pensioner to January.

The Government is committed to supporting households facing financial difficulties. A new Lending Panel will improve monitoring of lending to households and businesses. Individuals can also expect:

- help through mortgage rescue and support for Mortgage Interest Schemes for eligible homeowners in difficulty;
- a commitment from major mortgage lenders on the Panel not to initiate repossession action within at least three months of an owner occupier going into arrears; and
- free and impartial debt advice through increased Government funding.

To ensure that those facing redundancy and seeking employment are helped back into work as quickly as possible the Government announces:

- an additional £1.3bn to continue delivering effective support for the unemployed to find a new job;
- a National Employment Partnership bringing together the Government and major employers to tackle rising unemployment; and
- refocusing Train to Gain to provide support in pre-redundancy situations, expanding the Rapid Response Scheme to target small and large scale redundancies and extending local employment partnerships to focus on the short term unemployed.

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

Personal tax and National Insurance Contributions

This Pre-Budget Report makes permanent the £600 increase in the personal allowance and the £1,200 reduction in the basic rate limit announced in May, and announces further reforms to personal tax. These changes will provide additional help for low to middle income families next year. In April 2009, the Government will increase the personal allowance by £130 above indexation. This is on top of the £600 increase for 2008-09. It means 22 million basic rate tax payers under 65 will pay £145 less tax in real terms in 2009-10.

The Government will also maintain the additional £130 of personal allowance in April 2010. The real terms benefit will increase in 2010-11 when the RPI measure of inflation is projected to be negative.

The Government is also taking action to consolidate the public finances:

- from April 2010 the personal allowance will be restricted to half its value for those with incomes over £100,000, so that it is worth the same as to a basic rate taxpayer, and to zero for those with incomes over £140,000;
- from April 2011 an additional higher rate of income tax of 45% will be introduced for incomes above £150,000;
- from April 2011, the lifetime and annual allowances for tax-free pension savings will be held constant at £1.8 million and £255,000 respectively, for five years, up to and including 2015-16; and
- from April 2011 a 0.5% increase in the employer, employee and self-employed rates of NICs (both main and additional rates) alongside an increase in the point at which people begin to pay NICs to align this with the income tax personal allowance.

These reforms and the measures announced in May, will permanently reduce the number of households paying more net tax as a result of the Budget 2007 personal tax changes from 5.3 million originally to 500,000 by 2011-12. As a result of all the measures taken since Budget 2008, in April 2011, 23 million taxpayers with incomes below £40,000 will pay less tax and NICs than in April 2008 in real terms. The benefit from the increase in the point at which people start to pay NICs in April 2011 will mean that people earning less than £20,000 will pay less NICs, even with the 0.5 per cent increase in the NICs rate.

Extension of debt advice services

The Government is committed to ensuring that any family facing debts which they cannot manage can access free impartial debt advice to help them get back on track. Building on ongoing Government investment in the debt advice sector, today's Pre-Budget Report announces additional Government funding of £5.85 million for an extension of telephone advice services and £10 million to extend face-to-face advice services to ensure everyone has access to free debt advice when they need it. This additional funding for increased debt advice capacity will be complemented by an online destination at www.direct.gov.uk/debtadvice, which will enable people to get information on free and impartial sources of debt advice.

Households and Housing

Building on the September Housing Package, the Government is providing additional support in order to help people and households in financial difficulty through:

- establishing a Lending Panel to monitor lending to both businesses and households. Reporting to the Chancellor of the Exchequer and the Secretary of State, BERR, the Panel will bring together lenders, trade bodies, consumer groups, and the Government, regulators and the Bank of England;
- a commitment for the coming year by the major mortgage lenders, not to repossess homes within three months of the owner occupier going into arrears;
- protecting more vulnerable homeowners in financial difficulty by extending the Mortgage Rescue scheme to cover second charge lending; and
- increasing the generosity of the Support for Mortgage Interest scheme for homeowners who lose their jobs.

The Government is also supporting housing supply and affordability through:

- as part of the broader fiscal stimulus package, bringing forward a further £775m of housing and regeneration investment including £575m to provide additional support for social rented homes;
- helping more people get on the property ladder by assessing the need for further tax-relieved savings options for first time buyers saving for their first home;
- welcoming Sir James Crosby's report published alongside PBR, and proceeding to work up a detailed scheme based on Sir James' recommendation of a government guarantee, for a temporary period, on the interest and principal of high quality mortgage-backed bonds, and seeking State Aid approval to proceed. The Government will take into consideration the interaction between this recommendation and the Credit Guarantee Scheme, and update on its position by the Budget. It will continue to keep under review what more can be done to ensure the continued supply of secured and unsecured credit in the economy.

Child Poverty

The Government remains firmly committed to eradicating child poverty and since 1997 has made substantial progress. The Pre-Budget Report sets out the steps the Government will be taking, including:

- bringing forward its commitment to increase the child element of the child tax credit by £25 above indexation in April 2010 to April 2009. The child element will therefore increase by £75 above indexation to £2,235;
- bringing forward its commitment to increase Child Benefit from £18.80 to £20pw for the first child, and from £12.55 to £13.20pw for subsequent children to January 2009; and
- setting out that the Prime Ministers announcement to legislate on the commitment to eradicate child poverty by 2020 will be taken forward through a child poverty bill in 2009.

Supporting people in later life

The Government is committed to uprating the basic State Pension by RPI or 2.5%, whichever is higher. In April 2009 the level of a full State Pension will rise in line with prices to £95.25 a week. In addition, the Government announces that it will make a payment in the New Year of £60 for each pensioner, equivalent to bringing forward uprating of the basic State Pension from April to January. A £60 payment will also be made to 2.5m individuals who are in receipt of certain other benefits.

The Government today also announces an above-indexation increase in Pension Credit's minimum income guarantee to £130.00 for single pensioners and £198.45 for couples in 2009-10.

The Saving Gateway

The Government today announces that it will contribute 50p for each pound saved in the new national Saving Gateway. This will provide a strong and easily understood incentive to save for around 8 million people on lower incomes. The Saving Gateway will be introduced nationally in 2010.

People on qualifying benefits and tax credits will have the opportunity to open Saving Gateway accounts through a range of financial institutions such as banks, building societies and credit unions. Building on the strength of the Post Office as a trusted brand, the Saving Gateway will also be available through the Post Office.

Supporting Employment

The Government is responding to rising unemployment with a comprehensive package of support to help people move back into work as quickly as possible. This PBR announces that an additional £1.3 billion will be set aside for the Department for Work and Pensions over the next two years to ensure Jobcentre Plus capacity is in place to respond effectively to rising unemployment.

The Government is also refocusing and expanding three existing schemes, to help people facing redundancy move seamlessly into a new job. This includes:

- Substantial expansion of Jobcentre Plus' employer engagement capacity;
- Strengthening and expanding the Rapid Response Service; and
- Extending Train to Gain to provide new training to people before they are made redundant.

This package will be underpinned by a radical new partnership with employers. Over 20 Chief Executives from top national companies have agreed to support the Government through a National Employment Partnership – chaired by the Prime Minister.

Income Shifting

The Government firmly believes it is unfair to allow a minority of individuals to benefit financially from shifting part of their income to someone else who is subject to a lower rate of tax, known as income shifting. The Government has consulted on this issue but, given the current economic challenges, the Government is deferring action and will not bring forward legislation at Finance Bill 2009. The Government will instead keep this issue under review.

A Charter for HMRC

The Government today announces that it will begin consultation in January on the wording of a Charter for HMRC, as an important contribution to its relationship with individuals, businesses and tax agents. This follows a major consultation over the summer on the scope of a Charter.

IMPROVING PUBLIC SERVICES

Over the last ten years, record levels of investment coupled with reform have generated real and enduring improvements in Britain's schools, hospitals and other public services. The 2008 Pre-Budget Report continues high levels of investment, reprioritises spending to support the economy and announces an ambitious extension of its plans to increase value for money.

The Pre-Budget Report announces:

- as part of the Government's fiscal stimulus package, bringing forward £3bn of capital spending from 2010-11 into 2009-10 and 2008-09;
- new spending measures including additional funding for Jobcentre Plus to help people move back to work;
- that the Government has overachieved against the targets set by the Gershon efficiency programme including delivering £26.5bn in savings;
- that additional value for money savings have been identified through the work of Operational Efficiency Programme;
- that further value for money savings will be delivered within the 2007 CSR period and beyond through a set of Public Value Programme (PVP) reforms across major areas of spend;
- assumptions for spending growth from 2011-12 onwards, with current spending growing in real terms by 1.3% in 2011-12, 1.2% in 2012-13 and 1.1% in 2013-14 and public sector net investment moving to 1.8% of GDP by 2013-14.

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

Fiscal stimulus

Building on record levels of investment in public services since 1997, the Government will act to support the economy through the downturn by bringing forward £3bn of capital spending in a number of sectors including transport, housing and regeneration, health and education, and the environment. This package will support different industries and jobs across the country.

Value for money and future spending growth

2004 Spending Review: final report on the efficiency programme is published alongside the Pre-Budget Report, and details the Government's significant

over-delivery of its efficiency, workforce and relocation targets for the 2004 Spending Review period.

Pre-Budget Report announces emerging findings from the Operational Efficiency Programme, which suggest that billions of pounds of savings could be realised across the Programme's five workstrands, including back office functions and asset management. It also announces the appointment of Sir Michael Bichard, Executive Director of the Institute for Government, to lead work on local incentives and empowerment.

Building on this record of delivery, and on the emerging findings from the Operational Efficiency and Public Value Programmes, the existing cross-Government value for money target for 2010 will be increased to £35 billion, releasing £5 billion of additional recoverable savings in 2010-11. Savings that can be achieved by individual departments will be set out, and allocations for 2010-11 adjusted accordingly, at Budget 2009.

Further value for money savings beyond the CSR07 period will be identified through the Operational Efficiency and Public Value Programmes, reporting in Budget 2009.

DELIVERING ON ENVIRONMENTAL GOALS

Action to achieve environmental goals remains a high priority for the Government in current economic circumstances. The Pre-Budget Report contributes to meeting the UK's ambitious long-term environmental goals, while supporting low-carbon growth by:

- introducing a green stimulus – ensuring part of the fiscal stimulus supports low-carbon growth and jobs by accelerating £535 million of capital spending on energy efficiency, rail transport, and adaptation measures;
- successfully securing inclusion of aviation in the EU Emissions Trading Scheme from 2012 and holding Europe's first Phase II carbon auction on 19 November 2008;
- retaining the Renewables Obligation to provide financial support for large-scale renewable electricity and extending it by at least ten years, ensuring investors can plan with confidence for the future; and
- following a fall in pump prices by over 20 pence per litre from their summer peaks, the postponed two pence per litre fuel increase will go ahead on 1 December 2008.

At the same time, the Pre-Budget Report shows how environmental policies can respond flexibly to help people and businesses through tough times, while reducing carbon emissions:

- installing 600,000 insulation measures this winter, up to 70 per cent on last winter, through the £6.8bn Home Energy Saving Programme, half of which is funded by energy companies;
- continuing to provide a clearer environmental signal through reform to vehicle excise duty, while ensuring that no driver in any given band will pay more than £5 extra in 2009 or £30 extra in 2010; and
- reforming air passenger duty from 1 November 2009, moving from two to four distance bands to improve environmental signals.

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

Green Stimulus

As part of the fiscal stimulus, the Government is accelerating and providing additional resources worth £535 million to promote its environmental objectives and support low-carbon growth. This stimulus will help to sustain and expand the estimated 350,000 jobs in the UK low-carbon sector.

The stimulus comprises:

- £100 million of new funding for Warm Front on top of £50 million spending on the programme brought forward now to support the economy. This stimulus will help around 60,000 households in total cut their energy bills through insulation and improved heating systems.
- £60 million to provide 16,000 social houses with energy efficiency and heating measures as part of an accelerated Decent Homes programme.
- £300 million to accelerate the delivery of up to 200 new carriages to expand capacity on the rail network.
- £20 million of spending on flood defences.
- £5 million of spending on British Waterways network infrastructure.

Auctioning allowances in Phase II of the EU ETS

The UK held the first ever auction of carbon allowances under Phase II of the EU Emissions Trading Scheme (EU ETS) on 19 November. Four million allowances were sold raising over £54 million. The EU ETS caps emissions

from power generation and heavy industry and covers around half of UK carbon dioxide emissions.

Supporting low carbon technology and infrastructure

Today, the Secretary of State for Energy and Climate Change has confirmed that the Government is committed to retaining the Renewables Obligation for large-scale renewable electricity and will extend it by a further ten years to at least 2037. This will ensure that investors can plan with confidence for the future, making renewable electricity more viable.

Fuel duty

As a result of falling oil prices, pump prices have now fallen by more than 20 pence per litre from their July peaks. The Pre-Budget Report therefore announces that the 2 pence per litre increase in fuel duty planned for 2008 will now take place on 1 December 2008. However, as a result of the 2.5 per cent cut in VAT this December, the cost of petrol and diesel will fall for private motorists who should see no increase in the price they pay at the pump this year from this measure.

The Pre-Budget report also confirms that, as pre-announced in Budget 2008, main fuel duties will further increase by 1.84 pence per litre on 1 April 2009; and 0.5 pence per litre above indexation on 1 April 2010.

Vehicle excise duty

Since 2001, post-2001 vehicle excise duty (VED) has been based on different rates depending on carbon dioxide emissions from cars. Budget 2008 announced further reform of this structure, to reflect changes to the fuel efficiency of vehicles.

The Pre-Budget Report confirms the introduction of new VED bands in 2009. However, it also announces that to reduce pressures on motorists during the current economic downturn there will be no significant rate changes until 2010, and no driver in any given band will pay more than £30 more in that year. Details of this reform include:

- from April 2009, six new bands of VED will be introduced, taking the total to 13. However, VED rates will not increase by more than £5 for any car in this year;
- from April 2010, in order for the new bands to create an environmental incentive, the Government will start to separate out the 13 differential rates;

- from April 2010, a differential First-Year Rate for new vehicles will be introduced as announced in Budget 2008, in order to provide a stronger signal to consumers at the point of purchase; and
- cars that emit over 225 g/km, but were registered between 1 March 2001 and 23 March 2006, will be moved into new band K in 2009 and stay there in 2010. This will mean that they maintain their exemption from the top rate of VED.

Cars registered before 2001 – which account for around a third of the fleet – are not subject to these reforms, because comprehensive data on their CO₂ emissions is not available. Instead, pre-2001 cars are subject to a separate VED regime, based on engine size.

Aviation

At the 2007 Pre-Budget Report, the Government announced it would consult on proposals to replace air passenger duty (APD) with a per plane tax.

The Government has listened to the points made during the consultation process, and its decision on aviation taxation has been determined by the need to ensure greater stability in tax policy at a time of economic uncertainty while maintaining its commitment to environmental objectives. The Government has decided to reform the APD regime rather than proceed with a per-plane tax.

From 1 November 2009, APD will be structured around four distance bands, set at intervals of 2000 miles from London. This reform will ensure that those flying farther, and therefore contributing more to emissions from aviation, will pay more.

The Government believes that action at an international level is needed to ensure the sustainable development of this sector. The Government has succeeded in its aim of obtaining unanimous agreement to include aviation in the EU ETS from 2012 at a cap of 97 per cent of 2004-06 emissions. Phase III details are being negotiated as part of the EU Climate and Energy package.

Capital allowances for business cars

The Pre-Budget Report confirms the Government's intention to modernise the tax relief for business expenditure on cars. The existing arrangements will be replaced by an emissions based approach. This reform will take effect from 1 April 2009 for corporation tax and 6 April 2009 for income tax. A technical note and draft legislation setting out the full detail will be published shortly.

2008 Pre-Budget Report

VALUE ADDED TAX, INCOME TAX ALLOWANCES, NATIONAL INSURANCE CONTRIBUTIONS, CHILD AND WORKING TAX CREDIT RATES 2009-10 AND OTHER RATES

2009-10 rates and allowances for Value Added Tax, Income Tax, National Insurance Contributions, the Working and Child Tax Credits and Child Benefit/Guardian's Allowance, fuel duties and vehicle excise duties are set out below.

Value Added Tax (VAT)

	Current rate	On and after 1 Dec 2008	On and after 1 Jan 2010
Standard rate	17.5%	15%	17.5%

Income tax

£ per year (unless stated)	2008-09	Change	2009-10
Income tax personal and age-related allowances			
Personal allowance (age under 65)	£6,035	+£440	£6,475
Personal allowance (age 65-74)	£9,030	+£460	£9,490
Personal allowance (age 75 and over)	£9,180	+£460	£9,640
Married couple's allowance* (aged less than 75 and born before 6th April 1935)	£6,535	+£330	£6,865
Married couple's allowance* (age 75 and over)	£6,625	+£340	£6,965
Married couple's allowance* - minimum amount	£2,540	+£130	£2,670
Income limit for age-related allowances	£21,800	+£1,100	£22,900
Blind person's allowance	£1,800	+£90	£1,890
Pension schemes allowances			
Annual Allowance	£235,000	+£10,000	£245,000
Lifetime Allowance	£1,650,000	+£100,000	£1,750,000

*Married couple's allowance is given at the rate of 10 per cent.

Income tax: taxable bands

2008-09	£ per year	2009-10	£ per year
Starting savings rate 10%*	£0-£2320	Starting savings rate 10%	£0-£2440
Basic rate: 20%*	£0-£34,800	Basic rate: 20%*	£0-£37,400
Higher rate: 40%*	Over £34,800	Higher rate: 40%*	Over £37,400

* There is a 10p starting rate for savings only. If an individual's non savings taxable income exceeds the starting rate limit, the 10p starting rate for savings will not be available for savings income.

National insurance contributions

£ per week (unless stated)	2008-09	Change	2009-10
Lower earnings limit, primary Class 1	£90	+£5	£95
Upper earnings limit, primary Class 1	£770	+£74	£844
Upper Accruals Point	N/A	N/A	£770
Primary threshold	£105	+£5	£110
Secondary threshold	£105	+£5	£110
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 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	3.7%	-	3.7%
Employers' contracted-out rebate, money-purchase schemes	1.4%	-	1.4%
Class 2 rate	£2.30	+£0.10	£2.40
Class 2 small earnings exception (per year)	£4,825	+£250	£5,075
Special Class 2 rate for share fishermen	£2.95	+0.10	£3.05
Special Class 2 rate for volunteer development workers	£4.50	+£0.25	£4.75
Class 3 rate (per week)	£8.10	+£3.95	£12.05
Class 4 lower profits limit (per year)	£5,435	+£280	£5,715
Class 4 upper profits limit (per year)	£40,040	+£3,835	£43,875
Class 4 rate between lower profits limit and upper profits limit	8%	-	8%
Class 4 rate above upper profits limit	1%	-	1%

Working and Child Tax Credits rates

£ per year (unless stated)	April 2008	Change	April 2009
Working Tax Credit			
Basic element	£1,800	+£90	£1,890
Couple and lone parent element	£1,770	+£90	£1,860
30 hour element	£735	+£40	£775
Disabled worker element	£2,405	+£125	£2,530
Severe disability element	£1,020	+£55	£1,075
50+ Return to work payment (16-29 hours)	£1,235	+£65	£1,300
50+ Return to work payment (30+ hours)	£1,840	+£95	£1,935
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	£2,085	+£150	£2,235
Disabled child element	£2,540	+£130	£2,670
Severely disabled child element	£1,020	+£55	£1,075
Income thresholds and withdrawal rates			
First income threshold	£6,420	-	£6,420
First withdrawal rate	39%	-	39%
Second income threshold	£50,000	-	£50,000
Second withdrawal rate	6.67%	-	6.67%
First threshold for those entitled to Child Tax Credit only	£15,575	+£465	£16,040
Income disregard	£25,000	-	£25,000

Child Benefit rates (from 5 January 2009)

£ per week	April 2008	Change	Jan 2009
Eldest/Only Child	£18.80	+£1.20	£20.00
Other Children	£12.55	+£0.65	£13.20

Guardian's Allowance rates

£ per week	April 2008	Change	April 2009
Guardian's Allowance	£13.45	+£0.65	£14.10

Tobacco duty rates

From 6pm on 24 November 2008, tobacco duty rates will be:

Product	Duty
Cigarettes	24 per cent of the retail price plus £112.07 per thousand cigarettes
Cigars	£169.74 per kilogram
Hand-rolling tobacco	£122.01 per kilogram
Other smoking tobacco and chewing tobacco	£74.63 per kilogram

The impact of the tobacco duty changes is shown in the table below. This does not show the offsetting impact of the reduction in VAT, which will vary between products of different price.

Product	Typical unit	Excise duty including VAT at 15% on duty
Cigarettes (premium)	Packet of 20	17p
Cigars	Packet of 5	5p
Hand-rolling tobacco	25g	13p
Other smoking tobacco and chewing tobacco	25g	8p

Alcohol duty rates

From 1 December 2008, duties on alcohol will be:

Product and basis of duty	Duty
Rate per litre of pure alcohol	
Spirits	£23.05
Spirits-based RTDs ready to drink	£23.05
Wine and made-wine: exceeding 22% abv.	£23.05
Rate per hectolitre per cent of alcohol in the beer	
Beer	£16.15
Rate per hectolitre of product	
Still cider and perry: exceeding 1.2% - not exceeding 7.5% abv.	£31.21
Still cider and perry: exceeding 7.5% - less than 8.5% abv.	£46.83
Sparkling cider and perry: exceeding 1.2% - not exceeding 5.5% abv.	£31.21
Sparkling cider and perry:	£203.14

exceeding 5.5% - less than 8.5% abv.	
Wine and made-wine: exceeding 1.2% - not exceeding 4% abv.	£64.65
Wine and made-wine: exceeding 4% - not exceeding 5.5% abv.	£88.90
Still wine and made-wine: exceeding 5.5% - not exceeding 15% abv.	£209.82
Wine and made-wine: exceeding 15% - not exceeding 22% abv.	£279.74
Sparkling wine and made-wine: exceeding 5.5% - less than 8.5% abv.	£203.14
Sparkling wine and made-wine: 8.5% and above - not exceeding 15% abv.	£268.75

The impact of the alcohol duty changes is shown in the table below. This does not show the offsetting impact of the reduction in VAT, which will vary between products and depending on the point of sale.

Product	Typical unit	Excise duty including VAT @ 15% of the duty
Beer @ 4.2% abv	pint	3p
Wine	75cl bottle	13p
Sparkling wine	75cl bottle	17p
Spirits @ 38.77% ave abv	70cl bottle	53p
Spirits-based RTDs ready to drink	275ml bottle	3p
Cider & perry	litre	3p

Air Passenger Duty Rates

Air Passenger Duty rate changes will take effect from 1 November 2009 and from 1 November 2010.

Band and distance of capital city of destination country in miles from the UK	In the lowest class of travel (reduced rate)		In other than the lowest class of travel (standard rate)	
	On and after 1 Nov 2009	On and after 1 Nov 2010	On and after 1 Nov 2009	On and after 1 Nov 2010
Band A (0 - 2000)	£11	£12	£22	£24
Band B (2001 – 4000)	£45	£60	£90	£120
Band C (4001 – 6000)	£50	£75	£100	£150
Band D (over 6000)	£55	£85	£110	£170

Fuel duties

Fuel duty rate changes will take effect from 1 December 2008 and 1 April 2009.

Fuel Type	Duty rate (pence per litre, unless stated)		
	Current Rate	On and after 1 Dec 2008	On and after 1 April 2009
Ultra-low sulphur petrol/diesel	50.35	52.35	54.19
Sulphur-free petrol/diesel	50.35	52.35	54.19
Biodiesel	30.35	32.35	34.19
Bioethanol	30.35	32.35	34.19
Liquefied petroleum gas used as road fuel	16.49p per kg	20.77p per kg	24.82p per kg
Natural gas used as road fuel	13.70p per kg	16.60p per kg	19.26p per kg
Rebated gas oil (red diesel)	9.69	10.07	10.42
Fuel Oil	9.29	9.66	10.00

Vehicle excise duty

Cars registered on or after 1 March 2001

Vehicle Excise Duty for Cars registered on or after 1 March 2001: current rates (2008-09)

VED band	CO ₂ emissions (g/km)	2008-09*
A	Up to 100	£0
B	101-120	£35
C	121-150	£120
D	151-165	£145
E	166-185	£170
F**	Over 185	£210
G	Over 225	£400

*Alternative fuel discount: A-E £20, F-G £15

** Includes cars emitting over 225g/km registered between 1 March 2001 and 23 March 2006

Vehicle Excise Duty for Cars registered on or after 1 March 2001: 2009-10 and 2010-11 standard rates

VED band	CO ₂ emissions (g/km)	Change from 2008-09 to 2009-10	Standard rate 2009-10*	Standard rate 2010-11*
A	Up to 100	+£0	£0	£0
B	101-110	+£0	£35	£20
C	111-120	+£0	£35	£30
D	121-130	+£0	£120	£90
E	131-140	+£0	£120	£110
F	141-150	+£5	£125	£125

G	151-165	+£5	£150	£155
H	166-175	+£5	£175	£180
I	176-185	+£5	£175	£200
J	186-200	+£5	£215	£235
K**	201-225	+£5	£215	£245
L	226-255	+£5	£405	£425
M	Over 255	+£5	£405	£435

*Alternative fuel discount: 2009-10, A-I £20, J-M £15; 2010-11 onwards, £10 all cars

**Includes cars emitting over 225g/km registered between 1 March 2001 and 23 March 2006

Vehicle Excise Duty for brand new Cars: 2010-11 first-year rates

VED band	CO ₂ emissions (g/km)	First-year rate 2010-11
A	Up to 100	£0
B	101-110	£0
C	111-120	£0
D	121-130	£0
E	131-140	£110
F	141-150	£125
G	151-165	£155
H	166-175	£250
I	176-185	£300
J	186-200	£425
K	201-225	£550
L	226-255	£750
M	Over 255	£950

Cars and light goods vehicles registered before 1 March 2001

Vehicle Excise Duty for Private and Light Goods Vehicles registered before 1 March 2001: 2009-10 and 2010-11 rates

VED band	Change	2009-10 rate	2010-11 rate
Up to 1549cc	+£5	£125	£125
Over 1549cc	+£5	£190	£205

Light goods vehicles registered on or after 1 March 2001

Vehicle Excise Duty for Light Goods Vehicles registered on or after 1 March 2001: 2009-10 and 2010-11 rates

VED band	Change	2009-10 rate	2010-11 rate
Euro 4* & 5** discount rate	+£5	£125	£125
Standard rate	+£5	£185	£200

*for Euro 4 compliant vans registered between 1 March 2003 and 31 December 2006

**for Euro 5 compliant vans registered between 1 January 2009 and 31 December 2010

Motorbikes and Heavy Goods Vehicles

Vehicle Excise Duty for Motorcycles: 2009-10 rates

VED band	Change	2009-10 rate
Up to 150cc	-	£15
151-400cc	-	£33
401-600cc	-	£48
Over 600cc	-	£66

Vehicle Excise Duty for Heavy Goods Vehicles and related vehicles: 2009-10 rates

VED band	Change	Standard rate 2009-10	Reduced Pollution Certificate Rate 2009-10
A	-	£165	£160
B	-	£200	£160
C	-	£450	£210
D	-	£650	£280
E	-	£1,200	£700
F	-	£1,500	£1,000
G	-	£1,850	£1,350

DETAILS

Further details of changes in 2009-10 (and, where indicated, later years) are set out below:

Value Added Tax (VAT)

There will be a temporary reduction in the standard rate of VAT to 15% from 1 December 2008 until 31 December 2009 as part of a fiscal stimulus.

Income tax rates and allowances

The main rates of income tax for 2009/10 will remain at 20% for basic rate taxpayers and 40% for higher-rate taxpayers.

The age related allowance has been raised in line with inflation to £9,490 for people aged between 65 and 74 and to £9,640 for those aged 75 and over. This will mean that in 2009-10 no one aged 65 or over need pay tax on an income of up to £182 a week.

The personal allowance for people aged under 65 will increase by £130 above indexation on top of the £600 increase this May to £6,475.

The annual (AA) and lifetime allowances (LTA) for pensions tax relief were set in the Finance Act 2004 for the period 2006/07 until 2010/11. The LTA will rise to £1.75m in 2009/10 and then to £1.8m in 2010/11; the AA will at the same time be increased to £245,000 and then £255,000. Thereafter, both the LTA and AA will remain constant at their 2010/11 rates for a period of five years, up to and including 2015/16.

National insurance contributions

The starting point for employers', employees' and self-employed NICs in 2009-10 will increase in line with inflation to £110 per week. NICs are not paid on earnings or profits below this amount. The upper earnings and profits limits for NICs will increase from £770 to £844 per week. For the self-employed, the rate of Class 2 contributions will increase to £2.40 per week.

The weekly rate of voluntary Class 3 contributions for the 2009/10 tax year will be £12.05 per week. This rate supports an amendment to the Pensions Bill, tabled by DWP Ministers on 29 October 2008, that relaxes the time limits for the payment of voluntary NICs by individuals approaching state pension age. The amendment allows individuals with 20 qualifying years on their record (which may include any complete year of Home Responsibilities Protection) who reach State Pension age between 6 April 2008 and 5 April 2015 to pay an additional six years of voluntary Class 3 contributions for any missing years since 1975/76. As announced during the Bill debate, this rate is designed to make the amendment cost neutral overall. The number of qualifying years required to receive a full State Pension falls from 44 for a man and 39 for a woman to 30 for both men and women from 6 April 2010. This significantly increases the value of voluntary Class 3 contributions to those who buy them. The actuarial value of Class 3 contributions is around £45 per week.

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 £95 a week. It is set at the level of the basic state pension for a single person from April 2009, rounded down to the nearest pound. This is the lowest level of weekly 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 £110 a week. Employees and employers will pay no Class 1 contributions on earnings below this level.

The upper earnings limit for employees' Class 1 contributions will be raised to £844 a week, aligning it with the weekly equivalent of the higher rate threshold, the level at which higher rate tax starts to be paid.

The standard main rate of employees' 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 £2.40 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 £5,075. The annual lower profits limit for Class 4 contributions will increase in line with inflation to £5,715.

The upper profits limit for Class 4 contributions will be raised to £43,875, to align it with the level at which higher rate tax begins to be paid.

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

Child and Working Tax Credits rates and Child Benefit

Child Benefit is increasing to £20 for the first child, and in line with inflation for subsequent children. These changes will be brought forward from April 2009 to 5 January 2009.

All elements of the Working Tax Credit, apart from the childcare element, are increasing in line with inflation. The limits on eligible childcare costs in the childcare element remain at £175 for one child and £300 for two or more children. The proportion of childcare costs payable through the childcare element of WTC remains at 80%.

The child element of the Child Tax Credit is increasing by £75 above average earnings indexation. This includes the Government's commitment to increase the child element by £50 above indexation in April 2009, and also brings forward the Government's commitment to increase the child element by £25 above indexation in April 2010 to April 2009. The elements for disabled

children and severely disabled children are increasing in line with inflation from April 2009. The family element and baby addition remain unchanged.

The income threshold for receiving maximum CTC only is increasing to £16,040, equivalent to the effective threshold for lone parents and couples receiving both WTC and CTC. The threshold for receiving maximum WTC remains at £6,040, and the threshold for receiving maximum family element of CTC remains at £50,000. The withdrawal rate for the family element remains at 6.67%, and for the rest of tax credits at 39%. The disregard for changes in income during the tax year remains at £25,000.

Air Passenger Duty

Air passenger duty will be reformed from a two-band system, to a four-band system from 1 November 2009. The four distance bands will be set at 2,000 mile intervals from London, and destinations will be categorised based on the distance from London to the capital city of the destination country/territory. A list of countries/territories by bands can be found on the HM Revenue and Customs (HMRC) website: www.hmrc.gov.uk.

Each band will have two rates, one for the standard class of travel and one for other classes of travel. Changes will have effect in relation to any carriage of a passenger that begins on or after 1 November 2009, irrespective of when the ticket for travel was booked or purchased. The scope of APD remains the same, and all existing exemptions will continue to apply, details can be found on the HMRC website.

Fuel duty

This PBR announces that the main fuel duty rates will increase by 2 pence per litre on 1 December 2008.

Duty rates for rebated oils will also rise in proportion to main road fuel duties on this date. The duty differential for compressed natural gas will be maintained and the differential for liquefied petroleum gas will decrease by 1 pence per litre.

Vehicle excise duty (VED)

Changes to this year's VED rates will take effect from 1 April 2009.

On 1 April 2009, new emissions based VED bandings will be introduced for all cars registered on or after 1 March 2001. Full rates are set out in the table above.

Both VED rates for cars and light goods vehicles registered before 1 March 2001 will increase by £5 in 2009. In 2010, the higher rate will increase by £15 and the lower rate will be frozen.

The standard VED rate for light goods vehicles registered on or after 1 March 2001 will increase by £5 in 2009. The discounted rate for eligible light goods diesel vehicles achieving early compliance with Euro 4 and 5 emissions standards will also be increased by £5. In 2010, the standard rate will be increased by £15 and the discounted rate will be frozen.

VED rates for motorbikes, Heavy Goods Vehicles (HGVs), Special Types Vehicles, Combined Transport vehicles and all related vehicles will be frozen in 2009.

Lottery Taxation

Following in depth analysis of the impact of switching lottery duty to a gross profits tax, the Government announces that it will retain the stakes based system of lottery taxation because of uncertainty over the likely impact of a change at this time.

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.

2008 Pre-Budget Report

ENSURING FAIRNESS FOR ALL TAXPAYERS

The Chancellor announced today a package of measures designed to protect the tax system from abuse and ensure that all individuals and businesses pay the right amount of tax.

It is particularly important in the current economic circumstances that the Government ensures the tax system is applied consistently, robustly tackling those who seek to reduce their tax payments in an unfair way and fraudsters making criminal attacks on the tax system. The PBR package includes a new anti-tobacco smuggling strategy; improvements to the avoidance scheme disclosure regime; and the use of a number of targeted measures to ensure fairness, protect the UK's competitive business environment and sustain public finances.

PROTECTING TAX REVENUES

DETAILS

Tackling Tobacco and Alcohol Fraud and Smuggling

The Government publishes today a joint tobacco smuggling strategy, prepared by HM Revenue and Customs and the UK Border Agency. This explains how, building on successes to date, they will work together to tackle the evolving smuggling threat. The Government also announces today that HM Revenue and Customs and the UK Border Agency will publish a refreshed alcohol strategy by the time of Budget 2009. This will strengthen the current spirits fraud strategy and extend it to cover all forms of alcohol fraud ensuring that the approach to tackling alcohol fraud and smuggling keeps pace with developments in this area.

Further improvements to avoidance scheme disclosure regime

The Government today announces further amendments to the disclosure regime, introduced at Budget 2004. HMRC is simplifying and improving the procedure by which users of disclosed schemes report the Scheme Reference Number (SRN) back to HMRC. This will clarify how and when users are to report SRNs and will improve identification of users of these avoidance schemes, enhancing the Government's ability to respond to avoidance swiftly and in a targeted fashion.

Details of the measure are set out in PBR Note 22.

Leasing: anti-avoidance

The Government announced on 13 November that it would take action, effective from that date, to prevent a loss of tax:

- on transactions involving the leasing of plant or machinery under long funding leases;
- on the sale of a company that is an intermediate lessor of plant or machinery; and
- on rents payable on long funding leases of films.

Details of the measures are set out in PBR Notes 11/12/13. Draft legislation and draft explanatory notes are contained in Technical Notes published on 13 November 2008 and today on HMRC's website.

Further consultation on principles-based approach to tackling avoidance in the area of financial products

The Government is today publishing consultation documents, including draft legislation, on principles-based legislation to counter avoidance involving disguised interest and transfers of income streams, with the intention, if appropriate, of introducing legislation in Finance Bill 2009. This follows consultation and subsequent work with stakeholders on proposals introduced in the 2007 Pre-Budget Report. The principles-based approach is intended to tackle this kind of avoidance in a simpler and clearer way than through frequent legislative fixes.

Real Estate Investment Trusts (UK-REITs) - Companies that are not property investment companies and UK-REITs

The Government considers UK-REITs, launched in January 2007 and designed to provide a new tax regime for property investment companies, to have been a marked success. However, contrary to the Government's objectives, some businesses that are not property investment companies (they do not have high enough income coming from the rental of property to third party tenants) have developed corporate structures that would allow them to participate in the UK-REITs regime. The Government will legislate in Finance Bill 2009 to prevent this.

The Government will issue draft legislation for consultation in the New Year to ensure that it does not create any unintended consequences for existing UK-

REITs. The Government is also willing to have discussions to consider whether other parts of the tax code create any unnecessary barriers to becoming a UK-REIT.

Income shifting

The Government firmly believes it is unfair to allow a minority of individuals to benefit financially from shifting part of their income to someone else who is subject to a lower rate of tax - known as income shifting. The Government has consulted on this issue, but given the current economic challenges is deferring action on income shifting and will not bring forward legislation at Finance Bill 2009. The Government will instead keep this issue under review.

VAT anti-forestalling

To prevent the creation of artificial arrangements to avoid the return of the VAT rate to 17.5 per cent, anti-forestalling legislation will be presented to Parliament as part of Finance Bill 2009. The Financial Secretary to the Treasury will make a written statement to Parliament on 25 November, announcing the intention to bring anti-forestalling legislation before Parliament in Finance Bill 2009. The anti-forestalling legislation will apply from 25 November for the specific circumstances set out in the statement.

HM TREASURY PRESS OFFICE

Press enquiries: 020 7270 5238

Non-media enquiries: 020 7270 4558

HM REVENUE AND CUSTOMS PRESS OFFICE

Press enquiries: **Personal tax:**
020 7147 2318 / 0051 / 2333 / 0394

Business tax:
020 7147 0798

Law Enforcement:
020 7147 0052
(out of hours: 07860 359544)

GOVERNMENT DEPARTMENT INTERNET SITES

Further information and all published documents relating to 2008 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