

Pre-Budget Report 2009

PRESS NOTICES

9 December 2009

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SECURING THE RECOVERY: GROWTH AND OPPORTUNITY

The Government's objective is to build a strong economy and a fair society, where there is opportunity and security for all. The 2009 Pre-Budget Report, *Securing the recovery: growth and opportunity* presents updated assessments and forecasts of the economy and public finances and reports on how, in the face of the downturn, the Government is delivering support to the economy, businesses and households to secure the recovery and provide a platform for growth and opportunity.

The Pre-Budget Report announces:

- support for business and growth, including extending empty property relief, extending the Enterprise Finance Guarantee and deferring the increase in the Small Companies rate for another year, a £200m addition to the Strategic Investment Fund in 2010-11, the establishment of Infrastructure UK, and the introduction of a patent box from April 2013;
- support for low carbon growth, through doubling from two to four the UK's commitment to fund carbon capture and storage demonstration projects, increasing support for low carbon vehicles, and additional funding for low carbon industries and energy efficiency, including Warm Front; and
- support for individuals, so that 18-24's claiming Jobseekers Allowance for six months will be guaranteed a job, work placement or work-related skills training, and extending free school meals to primary school pupils in low income working families.

The Pre-Budget Report announces that a temporary payroll tax of 50 per cent will apply to discretionary bonuses above £25,000 for each individual employee.

The Pre-Budget Report announces action to maintain the path of fiscal consolidation and to protect front line public services:

- an increase of 0.5 per cent in the employee, employers and self-employed rates of national insurance contributions (NICs) from April 2011, alongside an increase in the point at which individuals start to pay NICs to protect 15 million people on incomes below £20,000;
- a freeze in the point at which individuals start to pay the higher rate of income tax in 2012-13; and
- the restriction of pensions tax relief from April 2011 will apply to those with gross incomes over £150,000, where gross income incorporates all pension contributions, including those funded by an employer.

The Pre-Budget Report confirms that the Government will stick to planned levels of overall departmental spending in 2010-11, and announces that public sector current expenditure will grow by an average of 0.8 per cent a year in real terms from 2011-12 until 2014-15. It sets out a package to ensure that in 2011-12 and 2012-13, 95 per cent NHS front line spending rises in line with inflation, spending on front line schools rises by 0.7 per cent a year in real terms and that sufficient funding will be provided to enable the number of police officers to be maintained. To free up resources for this, it also announces £11 billion of savings through smarter government, £5 billion from targeting and prioritising spending and in addition reforms will be made to public sector pay and pensions.

The Pre-Budget Report sets out the Government's plans to reduce borrowing to 5.5 per cent of GDP in 2013-14, consistent with debt falling in 2015-16. These plans will be embedded in legislation through the Fiscal Responsibility Bill.



MAINTAINING MACROECONOMIC STABILITY

Global shocks have precipitated the most severe and synchronised global recession since the Great Depression, leading to a sharper fall in UK output at the start of this year than was expected at Budget 2009. However, timely and effective action by governments around the world has helped to avoid a significantly worse outcome and there are tentative signs of recovery in the world and UK economies.

In the UK there is evidence that, compared with the 1990s recession, employment has held up relative to output, fewer firms have gone into liquidation and fewer houses have been repossessed.

This reflects the action that the Government has taken to promote labour market flexibility since 1997 and to support jobs and businesses with cash-flow problems during the downturn. In line with the Budget 2009 forecast, GDP growth is expected to return by the end of the year, before picking up through 2010 and 2011. However, risks to the recovery remain and withdrawing support too quickly could undermine recovery. The Government will continue to provide support where it is needed to secure sustainable growth, in particular policies to ensure well-functioning financial markets are crucial to the future of the economy. Bank Rate is at a historically low level of 0.5 per cent and is expected to continue to provide an on-going and powerful stimulus throughout next year.

Setting a credible consolidation path to ensure sustainable public finances is a key element of the Government's macroeconomic strategy, and is essential for economic stability and the long-term health of the economy. Despite weaker than expected economic growth in the first part of the year, the Pre-Budget Report projection of public sector net borrowing in 2009-10 is broadly unchanged from Budget at 12.6 per cent. As a result, the estimate of cyclically-adjusted net borrowing has declined to 9.0 per cent of GDP. This Pre-Budget Report announces measures that maintain the path of consolidation set in Budget 2009 and reinforce the fairness of the tax system. The measures include:

- **an additional 0.5 per cent increase in the employee, employer and self-employed rates of national insurance contributions (NICs) from April 2011, alongside an increase in the point at which individuals start to pay NICs to protect 15 million people on incomes below £20,000;**
- **the point at which individuals start to pay the higher rate of income tax will be frozen in 2012-13; and**
- **the restriction of pensions tax relief from April 2011 will apply to those with gross incomes of £150,000 and over, where gross income incorporates all pension contributions, including those funded by an employer. This will be subject to an income floor, so that individuals with pre-tax incomes (excluding employer pension contributions) of less than £130,000 will be unaffected.**

In addition, public sector current expenditure will grow by an average of 0.8 per cent a year in real terms between 2011-12 and 2014-15.

Public sector net borrowing reaches 5.5 per cent of GDP in 2013-14, as forecast at the Budget, more than halving the 2009-10 level of the deficit over four years. Government borrowing falls year-on-year across the forecast horizon. The plans set out in this Pre-Budget Report are consistent with debt falling as a share of GDP in 2015-16. **These consolidation plans will be embedded in legislation through the Government's Fiscal Responsibility Bill.**



Fiscal Responsibility Bill

The Pre-Budget Report announces that the Government is introducing the Fiscal Responsibility Bill to Parliament. The Bill enshrines the Government's consolidation plans in legislation and represents a significant reform in the way that the Government is held to account for delivering its fiscal plans, giving Parliament a clear role in the setting and monitoring of medium-term fiscal plans



REFORMING FINANCIAL SERVICES

A strong and thriving UK financial services sector supports UK growth and prosperity. In order for this positive contribution to be delivered, market participants and regulators need to ensure that the sector's development is sustainable and supports long-term economic growth. The Government attaches great importance to tackling the remuneration practices that contributed to excessive risk-taking by the banking industry. The 2009 Pre-Budget Report announces that:

- **a temporary bank payroll tax of 50 per cent will apply to discretionary bonuses above £25,000 awarded in the period from Pre-Budget Report to 5 April 2010 for each individual employee.**

The Government has taken decisive steps to maintain financial stability and promote the flow of credit to the economy. The success of these financial sector interventions is reflected in a downward assessment of their eventual net fiscal cost. Building on these interventions, the 2009 Pre-Budget Report announces that the Government will:

- **explore ways of encouraging more sustainable, transparent and standardised mortgage-backed securities markets;**
- **consult on and promote the UK regulated covered bond market; and**
- **publish a discussion paper on developing non-bank lending channels.**

The Government will shortly announce a package of measures to reduce the impact of any future failure of systemically important investment banks. It is also working at the national, EU and global level to shape the future development of the financial services sector. The 2009 Pre-Budget Report announces:

- **the introduction of a Code of Practice on taxation for banks;**
- **a new advisory group on professional and financial services;**
- **measures to promote a level playing field for Islamic finance products;**
- **a specific Governance Code for Building Societies and other mutuals; and**
- **the commencement of a new regulatory framework for recognised inter-bank payments systems.**

Competition and choice are central to responsive and well functioning markets. The Government is taking steps to promote competition in financial services, and to ensure that consumers are empowered to make informed choices, have access to the services they need, and are appropriately protected. The 2009 Pre-Budget Report announces:

- **£20 million to fund the national rollout of the Money Guidance service in 2010-11, helping one million people to manage their money better; and**
- **£5 million to fund extended opening hours at Citizens Advice bureaux in 2010-11, helping an additional 300,000 people.**

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

Code of Practice on taxation for Banks

The Chancellor announced on 16 March 2009 that HM Revenue & Customs (HMRC) would publish a Code of Practice to encourage banks to comply with the spirit as well as the letter of the law. After a period of consultation the Government will today introduce



the Code, which it expects all banks operating in the UK to adopt. The Code asks banks to have governance around tax, integrated into business decision-making and open and transparent relationships with HMRC.

A response document and Impact Assessment are published today on the HMRC website.

Advisory Group on Financial and Professional Services

The Government remains committed to ensuring that the UK's financial services sector remains strong in the long term, given its economic importance, and that the UK's comparative advantage in this sector remains.

The Pre-Budget Report announces that the Chancellor will convene a new advisory group on financial and professional services, as a smaller and more focused successor to the former High-Level Group. It will act as a critical sounding board for the Government with respect to policies pertaining to the long-term future of the sector and their cumulative impact, and will ensure that the conclusions from the competitiveness reports are followed through.

Bank payroll tax

The Government attaches great importance to tackling the remuneration practices that contributed to excessive risk taking by the banking industry. It announces, with effect from today, that where bank or building society employees are awarded discretionary bonuses above £25,000 in the period from the Pre-Budget Report to 5 April 2010, employers paying these bonuses will pay an additional bank payroll tax of 50 per cent on the excess over this threshold. This one-off tax will not be deductible in computing the taxable profits of affected companies.

The tax will apply until 5 April 2010, but the Government will consider extending the period of charge so that the tax remains in place until the relevant provisions of the Financial Services Bill come into force. Where there is evidence of avoidance schemes being put in place the Government will take action to close those schemes.

More details of this tax are in a Technical Note, published today on HMRC's website.



SUPPORTING BUSINESS AND GROWTH

Following a year in which the global economy entered the most severe and synchronised recession since the Great Depression, the Government is determined to ensure that the UK remains an attractive place to do business, and to create a strong and stable platform for future growth.

The action that the Government is taking to put the public finances onto a sustainable footing, and to ensure that the financial markets are properly functioning, is key to providing the macroeconomic stability that business needs.

In addition to action economy-wide, the Government continues to take targeted measures to:

- support businesses into the recovery: by **continuing the Business Payment Support Service** that has already enabled over 160,000 businesses to spread over £4 billion of tax; **extending the temporary increase in the threshold for empty property rate relief**; and **further deferring the increase in the Small Companies' Rate of corporation tax**;
- ensure that business has access to the capital it needs: through the legally binding lending commitments made by the Royal Bank of Scotland and Lloyds Banking Group; by making an additional £500 million of lending available to small and medium-sized enterprises through a **12-month continuation of the Enterprise Finance Guarantee**; and by **creating a new Growth Capital Fund**, along with the £325 million UK Innovation Investment Fund;
- build on the unprecedented investment in infrastructure over the last decade and ensure the UK is ready to face the challenges of the transition to a low-carbon economy by **creating Infrastructure UK**, which will help facilitate private sector investment in infrastructure, and help ensure that publicly-funded infrastructure is effectively prioritized and delivered; and
- drive innovation by **introducing a Patent Box**, a reduced rate of corporation tax applying to income from patents from April 2013, to strengthen the incentives to invest in innovative industries, and through **additional funding of £200 million for the Strategic Investment Fund** that will include £150 million to support low-carbon investment, as set out in Chapter 7.

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

Supporting the recovery

Business Payment Support Service (BPSS)

Launched at the 2008 Pre-Budget Report, HMRC's Business Payment Support Service (BPSS) allows businesses facing temporary financial difficulties more time to pay their tax bills. The service has already helped over 160,000 businesses, employing more than 1.2 million people, spread over £4 billion of tax. Of this, more than £3 billion has already been repaid.

The Pre-Budget Report announces that HMRC will continue to offer this service to business as part of its time to pay arrangements.



Business rates: Empty Property Relief

The 2008 Pre-Budget Report announced that empty properties with rateable values of up to £15,000 would be exempt from business rates for 2009-10, exempting an estimated 70 per cent of empty properties from paying business rates.

The Pre-Budget Report announces that the Government will extend the temporary increase in the threshold for empty property relief for a further year. For 2010-11, empty commercial properties with rateable values up to £18,000 will be exempt from business rates, continuing the exemption for an estimated 70 per cent of empty properties.

Small Companies Rate of corporation tax

To support small companies during the recovery, 2009 Pre-Budget Report announces a further 1 year deferral in the planned increase in the small companies' rate of corporation tax. The rate will remain at 21 per cent in 2010/11, after which it will increase to 22 per cent.

End of the temporary reduction in the VAT standard rate on 31 December

As announced at 2008 Pre-Budget Report and confirmed in Budget 2009, the temporary reduction in standard rate of VAT to 15 per cent will end on 31 December 2009. The temporary VAT reduction will have delivered stimulus of about £11.5bn into the economy.

The Pre-Budget Report confirms arrangements to smooth the transition for businesses back to the 17.5 per cent rate. There will be a "period of grace" for businesses trading across the midnight deadline to charge the lower 15 per cent rate until they close (or until 6 a.m., whichever is earlier), and plans to let shops add the extra VAT to prices at the tills for up to 28 days, giving them extra time to complete the re-pricing of their stock.

The rates under the Flat Rate scheme are amended to reflect the end of the temporary reduction of the standard rate of VAT, as well as the latest data on VAT payments by the various sectors.

Ensuring access to finance

Enterprise Finance Guarantee

The Enterprise Finance Guarantee has provided targeted support for viable businesses with less than £25 million turnover who have no or insufficient security.



Since its launch on 14 January 2009, nearly £1 billion of eligible applications from almost 9,000 small and medium-sized enterprises (SMEs) have been granted, are being processed or are being assessed.

Recognising the continuing challenges that small business face in accessing finance, the Pre-Budget Report announces that the scheme will be continued for a further 12 months, providing an additional £500 million of bank lending available to SMEs.

Growth Capital Fund

The Rowlands Growth Capital Review published in November 2009 found that a structural gap exists in the provision of growth capital to small and medium enterprises (SMEs). There are around 30,000 growing SMEs, of which 10 per cent in any year could struggle to access capital.

In response to the review's recommendations, the Pre-Budget Report announces the creation of the Growth Capital Fund to invest in small and medium size businesses, targeting growing companies seeking amounts of between £2m and £10m. Following an initial approach from the investment banking community and further contact with the retail banks, the Government is in discussions with a group of Global and UK banks who want to ensure that they are able to play a meaningful role in ensuring the UK economic recovery. We will work rapidly with these banks to establish a world class, fully commercial Growth Fund that will work for the benefit of the economy and will be announcing initial investors and fund structure in the New Year.

Investing in infrastructure

Infrastructure UK (IUK)

The Pre-Budget Report announces the establishment of Infrastructure UK (IUK). IUK will be responsible for advising Government on long-term national infrastructure priorities including how we support a transition to low carbon economy. IUK will help prioritise Government's investment in infrastructure, identify and address major cross-cutting issues affecting UK infrastructure, and improve the way Government supports the delivery of infrastructure projects and programmes. IUK will develop a strategy for national infrastructure by Budget 2010 that will provide a long-term vision for national infrastructure. IUK will be led by Paul Skinner as Chair and James Stewart as Chief Executive.

Driving innovation

Patent box



Government is committed to ensuring the UK remains an attractive location for investing in and undertaking innovative activity, supporting growth and building on the UK's innovative strengths. Budget 2009 announced the Government would work with business to examine the balance of taxation on innovative activity, including intellectual property. As part of this work, the Government has looked at the case for a reduced rate of Corporation Tax applied to income from patents (a so called "Patent Box").

The PBR announces that Government will introduce a Patent Box applying to income from April 2013 to strengthen the incentives to invest in innovative industries and ensure the UK remains an attractive location for innovation. Government will consult with business in time for Finance Bill 2011 on the detailed design of the patent box, which will apply to patents granted after the legislation is passed.

North Sea

The economic production of the UK's oil and gas reserves is central to ensuring access to secure and affordable energy supplies.

Following discussions with industry stakeholders, the Government announces changes to the criteria for the High Pressure, High Temperature field allowance. These changes could support the recovery of around 300 million additional barrels of oil and gas from the North Sea. The Government also announces further technical changes to ensure the fiscal regime is effective in supporting investment.

The area to the west of the Shetland Islands is the last major underdeveloped area in the North Sea, and could contain up to 20% of the UK's remaining reserves. The Government is in discussions with industry regarding the economics of developments in the West of Shetlands area and the case for any fiscal support.

Strategic Investment Fund

Budget 2009 announced a £750 million Strategic Investment Fund to support advanced industrial projects of strategic importance that will drive the UK's future growth including in advanced manufacturing and low carbon.

The Pre-Budget Report announces a £200 million extension to the Strategic Investment Fund (SIF) including a major £150 million contribution to low carbon projects. The SIF will continue to facilitate investment in high-growth areas as the economy moves forward into recovery. Specific projects include £50 million to encourage manufacturing facilities in the offshore wind industry, £30 million to help the chemicals industry on Teesside decarbonise while maintaining competitiveness, £30 million for low carbon transport, and £40 million for other low carbon projects. £5 million is also allocated to



the Technology Strategy Board to advance new prize funds in emerging technologies. £45 million remains to be allocated.

Landline Duty

HM Treasury, HM Revenue and Customs, and the Department for Business, Innovation and Skills will shortly consult on the implementation of the Landline Duty.

The Landline Duty of 50 pence per month for each line is being introduced to help fund the roll-out of superfast broadband - Next Generation Access - to 90 per cent of the country by 2017. The Digital Britain White Paper committed to introduce the new duty in the financial year 2010-11.

Maintaining open and competitive markets

Controlled Foreign Company (CFC) reform

The Government remains committed to reforming the Controlled Foreign Company rules and the Pre-Budget Report announces that the Government will publish a document on the shape of the new regime early in the New Year.

Enhancing Skills

Support for Internships

PBR announces that, in response to the recommendations of the Milburn report on access to professions, Government will contribute £8 million towards a new financial support scheme to provide bursary-style support for undergraduates undertaking short unpaid internships in professions with historically low access. Support will be available as early as Summer 2010 and once fully operational will support around 10,000 internships a year. Further details on the scheme will be published in the Government's response to the report, due in early 2010.

Supporting Enterprise

Enterprise support for ex-service personnel

As part of the Government's commitment to supporting service personnel returning from conflict, including those who may be disabled as a result of their service, PBR announces new funding of up to £5 million for enterprise support. This funding will assist returning personnel by reducing the costs and barriers associated with self-employment and setting up a new business. It will also allow targeted mentoring support to help more businesses operated by ex-service personnel to thrive and grow.



ACHIEVING FAIRNESS AND PROVIDING OPPORTUNITY

Government support for people to move back into work, combined with a dynamic and flexible labour market, has helped over 3.2 million people to leave unemployment benefit since the 2008 Pre-Budget Report. This has helped unemployment remain lower than expected at the time of Budget 2009. The Government is therefore using some of the £3 billion funding for Jobcentre Plus and employment programmes from the 2008 Pre-Budget Report and Budget 2009 to provide additional support for those adversely affected by the recession. This additional support includes **bringing forward the young persons guarantee, so that 18-24s claiming Jobseeker's Allowance for six months will now be guaranteed a job, work placement or work-related skills training.**

The Government recognises that making the transition into work can be difficult and, to help families to make this move, the Government will **extend free school meals to primary school pupils in low income working families in England from September 2010.**

The 2009 Pre-Budget Report announces further Government action to provide support for households during the early stages of economic recovery, including increasing the basic State Pension by 2.5 per cent, the child element of the Child Tax Credit by £20 above earnings indexation, and **other benefits and tax credits normally linked to the Retail Prices Index (RPI) by 1.5 per cent.**

The Government announces further action to ensure that fiscal consolidation is broad-based, with those on the highest income making the greatest contribution:

- **an additional 0.5 per cent increase in the employee, employer and self-employed rates of national insurance contributions (NICs) from April 2011, alongside an increase in the point at which individuals start to pay NICs to protect 15 million people on incomes below £20,000;**
- **the point at which individuals start to pay the higher rate of income tax will be frozen in 2012-13; and**
- **the restriction of pensions tax relief from April 2011 will apply to those with gross incomes of £150,000 and over, where gross income incorporates all pension contributions, including those funded by an employer. This will be subject to an income floor, so that individuals with pre-tax incomes (excluding employer pension contributions) of less than £130,000 will be unaffected.**

In 2009-10, just 2.5 per cent of estates are expected to pay inheritance tax. **The Government is therefore freezing the inheritance tax allowance at £325,000 in 2010-11.**

The Government continues to take action to protect revenues from those seeking to evade and avoid paying their fair share of tax. Building on existing measures, the Government will introduce **a package of measures which will protect around £5 billion per year from evasion and avoidance**

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

National Insurance Contributions

The Pre-Budget Report announces that the employee, employer and self-employed rates of National Insurance Contributions (NICs) will increase by 0.5 per cent in April



2011 in addition to the 0.5% increase announced at the 2008 Pre-Budget Report.

To ensure that the lowest earners are protected from the rise in NICs rates, the level at which people start to pay NICs will increase in April 2011 by £570 above the level previously announced. Those paying the standard employee rate and earning under £20,000 will pay less NICs overall as result of these changes.

Personal Tax

The Government has today announced that as part of the package to support sound public finances, the point at which individuals start to pay the higher rate of income tax , known as the higher rate threshold, will be maintained in 2012/13 at 2011/12 levels. The upper earnings limit and the upper profits limit for national insurance will continue to be aligned with the higher rate threshold. To ensure that those on low incomes do not lose out the personal allowance will be indexed in line with inflation in 2012/13

Child poverty

The Pre-Budget Report announces further support to families, reinforcing the Government's commitment to the Child Poverty Bill, which sets in legislation the goal to eradicate child poverty by 2020. The measures include:

- Helping low income families make the transition into work by extending the entitlement to Free School Meals to primary school aged children of low income working families benefiting around 500,000 children. In addition to this, the Government is also extending the current pilots testing universal provision of Free School Meals so that there is one in every English region.
- allowing parents to divide a period of paid leave between them in the second six months of their child's life, helping them to balance work and family life;
- working with local authorities and schools to promote existing guidance and advise local authorities providing grants for school uniforms on how to target support on those who need it most;
- action to improve and join up delivery of local services, including a new public resource in 2010 to bring together information on a range of benefits and entitlements.

Since the Government made its pledge to eradicate child poverty within a generation significant progress has been made. Between 1998-99 and 2007-08 some 500,000 children were lifted out of relative poverty. Taken together, measures announced in and since Budget 2007 will lift around 550,000 children out of poverty.



Social Investment Wholesale Bank

The Pre-Budget Report announces a commitment and forward timetable towards the establishment of a Social Investment Wholesale Bank. This is backed up by an intention to commit up to £75m start-up funding from dormant account assets, subject to availability and alongside other priorities.

The Social Investment Wholesale Bank will be a wholesaler of social investment finance. It will aim to leverage in investment for organisations with social impact from a wide range of sources to improve their access to finance. The bank will also aim to increase financial inclusion by supporting Community Development Finance Institutions and credit unions. The institution would be independent from Government.

Employment package

The Pre-Budget Report announces that a guaranteed offer of a job, work placement or work-related skills training will be made to all young people aged 18-24 unemployed for six months.

This brings forward from 12 months the young person's guarantee announced at the Budget in April, and builds on the success of local authorities and private and voluntary sector partners in bidding to provide 100,000 new jobs across the country through the Future Jobs Fund. Already, up to 95,000 high quality jobs have been awarded for young people out of work and adults in areas hardest hit by the recession.

Pensions

State Pension

The Pre-Budget Report announces that in April 2010 the level of the basic State Pension will increase by 2.5 per cent, meaning a full basic State Pension will be worth £97.65 a week. The full couples' rate for those whose entitlement is based on their spouse or civil partner's pension will increase to £156.15 a week.

These increases are in line with the Government's commitment to uprate the basic State Pension by RPI or 2.5 per cent, whichever is higher.

Pension credit

There will also be an above-indexation increase in Pension Credit's minimum income guarantee, the Chancellor announced today, to £132.60 for single pensioners and £202.40 for couples in 2009-10.



Pensions tax relief

Budget 2009 announced that, in order to ensure that the pensions tax relief system remains fair, affordable, and sustainable, tax relief on pension contributions would be restricted from April 2011 for individuals with incomes of £150,000 or over.

The Government is clear that the restriction should apply as fairly as possible between individuals in different types of pension schemes and employment, and with different remuneration arrangements, while remaining targeted on those on the highest incomes. For this reason, the Government announces that the restriction will apply to those with gross incomes of £150,000 and over, where gross income incorporates all pension contributions, including the value of any pension benefit funded by, or eventually funded by, an individual's employer. This will be subject to an income floor such that those with pre-tax incomes, excluding the value of any employer contributions, of less than £130,000 are unaffected. In order to protect tax revenues, the anti-forestalling regime introduced at Budget 2009 will be extended to apply to individuals on incomes of £130,000 and over from 9 December 2009.

The Government is today launching a formal consultation on the implementation of this change and welcomes responses. The consultation will run for 12 weeks until 3rd March 2010. HM Treasury and HM Revenue and Customs will be holding a series of stakeholder workshops during the consultation period.

Housing

Housing Recovery Strategy

The Pre-Budget Report announces the components of the Government's wider strategy to support a timely and effective housing supply response through the recovery, in order to maximise delivery of high quality, energy efficient homes.

The Government will be taking action to:

- Ensure more land is brought forward for development, through improving local authorities' five-year land supplies by carrying out comprehensive checks, publishing results and withholding incentive funding if they are not in place, and setting out at Budget 2010 what action might be required to secure delivery;
- Reduce regulation and ensure requirements do not unduly constrain house building by scaling back section 106 requirements; considering in early 2010 the case for and form of regulation on Lifetime Homes with any move to make it mandatory not occurring until 2013 at the earliest; and establishing a national baseline for total regulatory costs by Budget 2010, working in parallel with industry to identify reductions;



- Promote a strong and diverse house building industry by carrying out a study of drivers of housing growth and the steps Government or industry could take to improve diversity and innovation, reporting by Budget 2010;
- Enhance the role of local authorities in planning and enabling housing growth locally, and in building new social housing, including examining the scope for local authorities to borrow against the revenues from new council homes to support the delivery of housing where this offers value for money, and considering interactions with wider reforms to the council housing finance system; and
- Deliver effective and coordinated infrastructure nationally and locally, including developing further reform proposals through Infrastructure UK and through six Total Capital case studies, working with the Homes and Communities Agency (HCA), local authorities and other government agencies.

Consultation on growing the Private Rented Sector

The Pre-Budget Report announces that the Government will issue a consultation document early in 2010, which will build on the work of the Rugg Review, to consider the contribution the Private Rented Sector could make to addressing demand and increasing housing supply, and any barriers to investment.

Extension of HomeBuy Direct through 2010-11

The Pre-Budget Report announces that Government is providing further help for first-time buyers by making available over £150 million total investment for HomeBuy Direct in 2010-11 through bringing forward funding from this year and prioritising housing for first-time buyers within the Kickstart programme. This will deliver an increase of around 3,000 more households helped above the original 10,000 target.

Standard Interest Rate applied to the Support for Mortgage Interest scheme

The Pre-Budget Report announces that the Standard Interest Rate used to calculate Support for Mortgage Interest will be frozen at 6.08 per cent for a further six months.

220,000 homeowners have benefited from the SMI rate freeze since it was announced in the 2008 Pre-Budget Report. The extension of the rate freeze will run until 30 June 2010, providing continued support to those facing financial difficulty and helping protect them against repossession.

Local Authority guideline rent increases for 2010-11

The Pre-Budget report announces that the average guideline rent increase for 2010-11 will be reduced from 6.1 per cent to 3.1 per cent for local authority tenants. This will help



councils to set rents that are affordable and fair for their tenants and ensure that councils have sufficient resources for the coming year.

Fair contribution to tax

Offshore evasion

The Pre-Budget Report announces robust measures to tackle offshore tax evasion. Legislation will be brought forward to ensure that those who fail to declare offshore tax liabilities will face the tough penalties attracted by deliberate tax evasion. There will also be a new requirement to notify HMRC when opening offshore bank accounts in certain jurisdictions, supported by a separate penalty regime. Evading tax offshore could therefore result in combined penalties of up to 200 per cent of the unpaid tax.

HMRC is gaining access to data from over 300 financial institutions on UK taxpayers with offshore accounts. The 'New Disclosure Opportunity' gives those with undeclared offshore assets a final opportunity to come forward to pay tax, interest and a reduced penalty. The deadline for notifications is 4th January 2010. This is the last chance for offshore tax evaders - if they do not come forward now, they can expect much tougher penalties in the future.

Freezing the Inheritance Tax Nil Rate Band

The Pre-Budget Report announces that the Inheritance Tax allowance for 2010-11 will be frozen at its current level of £325,000.

Just 2.5 per cent of estates left on death are expected to pay Inheritance Tax in 2009-10. The number of estates paying Inheritance Tax has never been lower. The Pre-Budget Report announces that the allowance is therefore remaining at its current level to ensure that the wealthiest estates continue to make a fair contribution to the public finances.

Alcohol, tobacco and gambling

Alcohol and tobacco duty rates

As announced in the 2008 Pre-Budget Report, alcohol and tobacco duty rates will remain at current levels when the standard rate of VAT returns to 17.5 per cent in January 2010.

Bingo duty

The Pre-Budget Report announces that bingo duty is to be reduced to 20 per cent from Budget 2010.



PROTECTING PUBLIC SERVICES

Since 1997, record levels of investment matched by reform have enabled the Government to achieve lasting improvements in Britain's public services.

The Government's short-term priority is to continue to support the most vulnerable families and businesses until recovery is secured. The 2009 Pre-Budget Report announces new short-term spending measures, including **£300 million to bring forward the offer of a job, training or a work placement to every 18 to 24 year old who has been claiming Jobseeker's Allowance for six months, and a freeze in the Standard Interest Rate used to calculate Support for Mortgage Interest at 6.08 per cent for a further six months, benefiting an estimated 220,000 homeowners.**

The 2009 Pre-Budget Report confirms that the Government will stick to planned levels of overall departmental spending in 2010-11 to help support the economy through the downturn, but from 2011-12 onwards spending growth will reduce to help halve the deficit over the next four years. The 2009 Pre-Budget Report announces an additional 0.5 per cent increase in employee, employer and self-employed rates of national insurance contributions. As a result, public sector current expenditure will grow by an average of 0.8 per cent a year from 2011-12 until 2014-15. Public sector net investment will move to 1.25 per cent of GDP by 2013-14 and will remain at that level in 2014-15.

The 2009 Pre-Budget Report sets out a package to ensure that, in 2011-12 and 2012-13, NHS front-line spending – the 95 per cent of spending that supports patient care – rises in line with inflation, spending on front-line schools rises by 0.7 per cent a year in real terms and spending on 16 to 19 participation rises in real terms by 0.9 per cent a year. Spending on Sure Start Children's Centres will be maintained in line with inflation. Sufficient funding will be provided to police authorities to enable them to maintain the number of police officers and community support officers, and spending on overseas aid will remain on track to reach 0.7 per cent of Gross National Income (GNI) by 2013.

At the same time, the 2009 Pre-Budget Report announces new efficiencies and reforms across the public sector including:

- **£11 billion of savings by 2012-13 through smarter government** for example through rationalising Arms Length Bodies, greater use of online systems for providing advice and information to the public, cutting consultancy spend by 50 per cent, and better management of government assets;
- **£5 billion of savings by 2012-13 from targeting and prioritising spending** including by reforming the Criminal Justice System and legal aid, reducing lower priority provision within the adult skills budget, phasing out temporary employment programmes, and reducing the cost and scope of the NHS IT Programme;
- **a one per cent cap on public sector pay settlements in 2011-12 and 2012-13, delivering £3.4 billion of savings a year by 2012-13; and**
- **reforms to public service pensions to save £1 billion a year from 2012-13 onwards.**

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



Public Sector Current Expenditure (PSCE) and Public Sector Net Investment (PSNI) assumptions from 2011-12 to 2014-15.

The Pre-Budget Report sets assumptions for spending growth from 2011-12 to 2014-15 which allow continued investment in public services whilst ensuring sustainable public finances in the medium term: with current spending growing by an average of 0.8 per cent a year in real terms and public sector net investment moving to 1.25 per cent of GDP by 2014-15.

Protecting frontline public services

As the rate of spending growth slows, the Government will continue to protect investment in key frontline public service priorities.

In assessing the resources needed to maintain high quality healthcare, the 2009 Pre-Budget Report announces a package to ensure that NHS near-cash frontline spending - the 95 per cent or so of spending that supports patient care - will rise in line with inflation in 2010-11 and 2012-13.

The PBR makes an assessment of the resources necessary to protect frontline education and announces a package for 2011-12 and 2012-13 that will ensure near-cash funding for frontline schools (3-16s) rises in real terms by 0.7 per cent a year, and near-cash funding for 16 to 19 participation rises in real terms by 0.9 per cent a year. Resource spending on sure start children's centres will be maintained in line with inflation.

Sufficient funding will be provided to police authorities to allow them to maintain the number of police officers and community support officers; and spending on overseas aid will remain on track to reach 0.7 per cent of GDP by 2013.

Public Value Programme savings

The Government has looked at the opportunities to deliver efficiencies across the public sector by cutting lower value or lower priority programmes or projects. On the basis of early findings from the Public Value Programme, the Pre-Budget Report announces £5 billion a year of additional savings by 2012-13 including for example reforming the criminal justice system and payments made to public servants posted overseas.

Smarter government savings

The Pre-Budget Report announces further details of the £12 billion of savings set out in "Putting the frontline first: smarter government" to be achieved through delivering



services in a smarter, more effective way and announces that £11 billion a year of these savings will be delivered by 2012-13.

£8 billion of the £11 billion to be delivered by 2012-13 are savings identified by five external advisers as part of the Operational Efficiency Programme (OEP) through improving back office functions, IT, collaborative procurement and property running costs.

£3 billion of the £11 billion are additional to OEP and the Pre-Budget Report provides further details on how these will be achieved by 2012-13 including through more efficient waste collection and disposal, streamlining arms length bodies and through improving energy efficiency.

Progress towards the Government's 2007 Comprehensive Spending Review value for money target of £35bn

Departments have made good progress towards their targets as part of the £35 billion of cash-releasing savings. The Pre-Budget Report announces that savings of £8.5bn have been delivered so far. This includes savings reported across all departments in 2008-09 and, where available, departmental savings reported in the first half of 2009-10.

Public Sector Pay and Pensions

The public sector paybill makes up around half of departmental budgets so restraint will be critical in delivering fiscal consolidation, protecting frontline workforces and minimising the effect of tighter budgets on workforce numbers. The Pre Budget Report sets out an ambitious package of measures across public sector pay and pensions - in both areas, the Government expects senior staff on higher incomes to show leadership.

a) Public Sector Pay

PBR 2009 announces:

- Government will be seeking a 1 per cent cap on basic pay uplifts across the public sector for 2011-12 and 2012-13, generating savings to departments of £3.4 billion by 2012-13. This builds on an announcement in October that Government will seek awards up to 1 per cent in 2010-11 for key public sector workforces not in multi year deals.
- For senior staff, a set of fundamental reforms to pay-setting:
 - new scrutiny of pay levels above £150,000 and bonuses above £50,000
 - new requirements to publish salaries to increase transparency and accountability
 - the Prime Minister will ask Bill Cockburn as Chair of the Senior Salaries Review Body to lead a review of senior pay across the public sector, reporting by Budget 2010



This builds on Government proposals in October for a pay freeze in 2010-11 for senior groups including chief executives of NDPBs, senior civil servants, judges, senior NHS managers, consultant doctors and GPs.

b) Public Service Pensions

As pensions become more valuable due to people living longer, cap and share reforms in the NHS, Teachers, Local Government and Civil Service pension schemes will cap the contribution of employers, thereby limiting the liability of the taxpayer.

PBR 2009 announces:

- these reforms will save around £1bn from 2012-13 and at least twice this amount over the long term; and
- as part of cap and share, the Government expects that those earning the highest salaries will pay a greater contribution towards their pensions.

DEL Reserve in 09-10 and 10-11

The 2009 Pre-Budget Report announces an additional £2.5 billion for the 2010-11 Reserve to allow the Government to continue to meet the cost of the Military Operations in Afghanistan.

Frontline flexibilities & Total Place

The Pre-Budget Report sets out how Government will free up frontline public services to innovate and collaborate, building on the strong commitments made in “Putting the frontline first: smarter government”. PBR includes interim findings from the Total Place pilots, launched at Budget 2009 and announces steps to increase freedoms and flexibilities for frontline staff in public services, including consulting on proposals to extend non-medical prescribing for certain allied health professionals and working with the NHS to explore options to support GPs in referring patients to high quality and cost-effective alternative settings. This demonstrates the Government's commitment to drive forward public sector reform, accelerating the movement of power away from Whitehall to those on the front line.



SUPPORTING LOW CARBON GROWTH

The UK is playing a leading role on climate change, setting the agenda for the international negotiations and taking radical domestic action to promote low-carbon growth. The Government is committed to an ambitious global deal at the UN negotiations in Copenhagen.

The UK is at the forefront of a worldwide low-carbon economic recovery. The Pre-Budget Report provides a further £400 million to support business investment in low-carbon growth and help households reduce energy costs. Combined with policies announced since September 2008, this could support over £15 billion of additional public and private investment in the low-carbon and energy sectors over the next three years. **The Pre-Budget Report announces:**

- **additional support for offshore wind projects accredited from April 2010 to March 2014 via the Renewables Obligation;**
- **doubling to four the UK's commitment to fund carbon capture and storage demonstration projects via contributions from electricity suppliers;**
- **establishing Infrastructure UK to leverage further investment in low-carbon projects including by: investing €100 million in a European Investment Bank-led fund to deploy up to €1.5 billion of equity and €5 billion of debt in low-carbon infrastructure; and considering the case for a low-carbon investment institution;**
- **£120 million for low-carbon industries in the UK, including new manufacturing and testing facilities for offshore wind, and support to improve energy use in the chemicals industry;**
- **£200 million to improve energy efficiency and tackle fuel poverty by: offering £400 for up to 125,000 households to upgrade their old boilers to the latest efficient models with a greener boiler incentive; and providing extra resources for Warm Front to help 75,000 of the most vulnerable households with heating and insulation;**
- **confirming that the income received by those who generate small-scale renewable electricity for their home through the clean energy cash-back scheme, worth on average £900 in 2010, will be tax free;**
- **helping one million more vulnerable households with discounts on their energy bills by increasing support provided by energy companies from £150 million to £300 million by 2013-14;**
- **increasing support for low-carbon vehicles through exempting electric cars from company car tax from 2010, introducing a 100 per cent first-year allowance for electric vans, and investing a further £30 million on low-carbon transport projects.**

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

Renewables Obligation for offshore wind projects

The Pre-Budget Report announces that the temporary increase in Renewables Obligation Certificates (ROCs) for offshore wind will be amended so that all projects



accredited between April 2010 and March 2014 will qualify for 2 ROCs, supporting at least an additional £400 million of investment. It also announces that technical change to improve the certainty of the ROC price will be brought forward to 2011.

Carbon Capture and Storage

The Pre-Budget Report announces that Government will double the commitment to CCS and support four carbon capture and storage projects, phased over the period 2014 to 2018. This will help to commercialise this important technology in the fight to tackle climate change. The demonstration programme will be funded through a levy on electricity suppliers, the legislation for which is contained in the Energy Bill currently being considered by Parliament.

Energy investment funding

The Government is establishing Infrastructure UK (IUK) to leverage further investment in low carbon energy including by: investing €100 (£90) million into the 2020 European Fund for Energy, Climate Change and Infrastructure to deploy up to €1.5 billion equity and €5 billion debt for low-carbon infrastructure projects, such as offshore wind; and considering the case for a low carbon investment institution.

Support for low carbon technologies

The Pre-Budget Report announces an additional £150 million investment to support low carbon technologies. This package includes:

- £50 million to investment in the development of the UK offshore wind industry, including funding for new manufacturing and testing facilities;
- £40 million support for low carbon technologies, including continued support for small-scale and community-level low-carbon energy generation;
- 30 million for the chemicals industry on Teesside to lead the way in demonstrating how to decarbonise the process industry across Europe, while maintaining its competitiveness;
- £30 million for green transport projects, including an expansion of the Technology Strategy Board's ultra-low-carbon vehicles competition;

Greener Boiler Incentive scheme

The Pre-Budget Report announces a £400 incentive to help up to 125,000 households upgrade old inefficient boilers to the latest energy efficient models, (available to those who buy a new efficient boiler or renewable heat unit to replace a working G rated boiler).



Tax-free clean energy cash-back worth around £900 per year

The Pre-Budget Report confirms that the income received by those who generate small scale renewable electricity for their own use through the clean energy cash back scheme (Feed-in Tariffs), worth on average £900 in 2010, will be tax-free. This will save £180 on average for a household paying the basic tax rate in 2010.

Help to install renewable energy

The Pre-Budget Report announces that the Government will consult next year on measures to help low-income households take advantage of clean energy cash-back.

Support to heat homes

The Pre-Budget Report announces an additional £150m to provide resources for the Warm Front scheme, providing free and subsidised heating and insulation for 75,000 vulnerable households to heat their homes.

Support for energy bills

The Pre-Budget Report announces an increase in the amount of help provided by energy companies from £150 million to £300 million a year by 2013-14. These resources could provide discounts for an additional 1 million households.

Support for low-carbon transport

The Pre-Budget Report announces further support through the taxation system for electric vehicles, to help catalyse the markets for electric cars and vans. From April 2010:

- all electric cars will be exempt from Company Car Tax for a period of 5 years;
- all electric vans will be exempt from Van Benefit Charge for 5 years; and
- a 100 per cent first-year allowance will be provided for the purchase of electric vans, subject to confirming compatibility with State aid rules.

£30 million in funding will also be provided to support the development of low-carbon transport, including through an expansion of the Technology Strategy Board's ultra-low carbon vehicles competition.

Company Car Tax

The Pre-Budget Report confirms that from 2012, the CO₂ emissions thresholds for Company Car Tax (CCT) bands will be shifted down by 5g CO₂ per km, and the



graduated table of CCT bands will be extended downwards to a new 10 per cent band for cars emitting up to 99g CO₂ per km, in place of the existing 10 per cent band.

Fuel Benefit Charge

The Pre-Budget Report announces that, to support the public finances and encourage fuel-efficient travel, the fuel benefit charge multiplier will increase from £16,900 to £18,000 from 6 April 2010.

2009 Pre-Budget Report

Press Notice 2

2009 Pre-Budget Report announcements on rates and allowances in 2010-11

Press Notice 2 summarises 2009 Pre-Budget Report announcements on 2010-11 rates and allowances for Value Added Tax, Income Tax, Inheritance Tax, Corporation Tax, National Insurance Contributions, Child and Working Tax Credit rates, Child Benefit, Guardian's Allowance, Stamp Duty Land Tax, Bingo duty, Landline Duty, VED and Fuel duty.

Value Added Tax (VAT)

	Current rate	On and after 1 January 2010
Standard rate	15%	17.5%

Income tax allowances

£ per year (unless stated)	2009-10	Change	2010-11
Income tax personal and age-related allowances			
Personal allowance (age under 65)	£6,475	-	£6,475
Personal allowance (age 65-74)	£9,490	-	£9,490
Personal allowance (age 75 and over)	£9,640	-	£9,640
Married couple's allowance* (age 75 and over)	£6,965	-	£6,965
Married couple's allowance* - minimum amount	£2,670	-	£2,670
Income limit for age-related allowances	£22,900	-	£22,900
Blind person's allowance	£1,890	-	£1,890

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

Income tax: taxable bands

2009-10	£ per year	2010-11	£ per year
Starting savings rate: 10%*	£0-£2,440	Starting savings rate: 10%*	£0-£2,440
Basic rate: 20%	£0-£37,400	Basic rate: 20%	£0-£37,400
Higher rate: 40%	Over £37,400	Higher rate: 40%	£37,401-£150,000
		Additional rate: 50%	Over £150,000

* 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.



HM TREASURY

Inheritance tax

£ per year (unless stated)	2009-10	Change	2010-11
Individual inheritance tax allowance	£325,000	-	£325,000

Corporation tax on profits

£ per year (unless stated)	2009-2010	2010-2011
£0-£300,000	21%	21%*
£300,001 - £1,500,000	Marginal Relief	Marginal Relief
£1,500,001 or more	28 %	28 %

* The planned small companies' rate increase to 22% is deferred until 2011-12.

National insurance contributions

£ per week (unless stated)	2009-10	Change	2010-11
Lower earnings limit, primary Class 1	£95	£2	£97
Upper earnings limit, primary Class 1	£844	-	£844
Upper Accruals Point	£770	-	£770
Primary threshold	£110	-	£110
Secondary threshold	£110	-	£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	£2.40	-	£2.40
Class 2 small earnings exception (per year)	£5,075	-	£5,075
Special Class 2 rate for share fishermen	£3.05	-	£3.05
Special Class 2 rate for volunteer development workers	£4.75	£0.10	£4.85
Class 3 rate (per week)	£12.05	-	£12.05



HM TREASURY

£ per week (unless stated)	2009-10	Change	2010-11
Class 4 lower profits limit (per year)	£5,715	-	£5,715
Class 4 upper profits limit (per year)	£43,875	-	£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 2009	Change	April 2010
Working Tax Credit			
Basic element	£1,890	£30	£1,920
Couple and lone parent element	£1,860	£30	£1,890
30 hour element	£775	£15	£790
Disabled worker element	£2,530	£40	£2,570
Severe disability element	£1,075	£20	£1,095
50+ Return to work payment (16-29 hours)	£1,300	£20	£1,320
50+ Return to work payment (30+ hours)	£1,935	£30	£1,965
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	£2,235	£65	£2,300
Disabled child element	£2,670	£45	£2,715
Severely disabled child element	£1,075	£20	£1,095
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	£16,040	£150	£16,190
Income disregard	£25,000	-	£25,000

Child Benefit

£ per week	Jan 2009	Change	April 2010
Eldest/Only Child	£20	30p	£20.30
Other Children	£13.20	20p	£13.40

**Guardian's Allowance**

£ per week	April 2009	Change	April 2010
Guardian's Allowance	£14.10	20p	£14.30

Stamp taxes and duties**Transfers of land and buildings (consideration paid)**

Rate	Residential in disadvantaged areas	Residential outside disadvantaged areas	Non-residential
	Total value of consideration		
Zero	£0 - £150,000 after 31 December 2009 (£0 - £175,000 until 31 December 2009)	£0 - £125,000 after 31 December 2009 (£0 - £175,000 until 31 December 2009)	£0 - £150,000
1%	Over £150,000 - £250,000 after 31 December 2009 (Over £175,000- £250,000 until 31 December 2009)	Over £125,000 - £250,000 after 31 December 2009 (Over £175,000- £250,000 until 31 December 2009)	Over £150,000 - £250,000
3%	Over £250,000 - £500,000	Over £250,000 - £500,000	Over £250,000 - £500,000
4%	Over £500,000	Over £500,000	Over £500,000

Bingo duty

Bingo duty will be reduced to 20% at Budget 2010.

Landline Duty

Landline Duty will be introduced at a rate of 50p per month for each line from 1 October 2010.

**Vehicle excise duty
Motorbikes****Vehicle Excise Duty for Motorcycles: 2010-11 rates**

VED band	Change from 2009-10 to 2010-11	2010-11 rate
Up to 150cc	-	£15
151-400cc	-	£33
401-600cc	+\$2	£50
Over 600cc	+\$4	£70



DETAILS

Further details of 2009 Pre-Budget Report announced changes in 2010-11 are set out below:

VAT - Flat Rate Scheme

2009 Pre-Budget Report confirms the reversion of the VAT standard rate to 17.5 per cent from 1 January 2010.

2009 Pre-Budget Report also announces that sectoral rates for the VAT Flat Rate Scheme (FRS) are updated. Details of new sectoral rates are available on the HMRC website at www.hmrc.gov.uk. The FRS provides optional simplified VAT arrangements for businesses with turnover up to £150,000.

Income tax rates and allowances

2009 Pre-Budget Report announces that the main rates of income tax for 2010-11 will remain at 20 per cent for basic rate taxpayers and 40 per cent for higher-rate taxpayers. As announced at Budget 2009 an additional rate of tax of 50 per cent will apply on income over £150,000.

As announced at the 2008 Pre-Budget Report, tax allowances and thresholds will be frozen in 2010-11 at a time when RPI is negative, with taxpayers receiving a real terms benefit from the maintenance of 2009-10 levels.

This means that the personal allowance for 2010-11 will remain at £6,475 and the age related allowance will remain at £9,490 for people aged between 65 and 74, and to £9,640 for those aged 75 and over. In 2010-11 no one aged 65 or over need pay tax on an income of up to £182 a week.

Inheritance Tax

2009 Pre-Budget Report announces that the inheritance tax allowance will be frozen at £325,000 for individuals and at £650,000 for married couples and civil partners in 2010-11.

National insurance contributions

2009 Pre-Budget Report announces that the starting point for employers', employees' and self employed National Insurance Contributions (NICs) will be maintained at £110 per week despite RPI being negative. The upper earnings and profits limits for Class 1 and Class 4 NICs respectively will also be maintained at their current level of £844 a week, and for the self-employed, the rate of Class 2 contributions will continue to be £2.40 a week. Class 3 contributions will also remain at their current rate of £12.05. In line with the increase in the amount of the state pension, the lower earnings limit and the special class 2 rate for volunteer development workers which are linked to this level will rise to £97 a week and £4.85 a week respectively.



Small companies' rate of corporation tax

The 2008 Pre-Budget Report announced that the planned rise in the small companies' rate to 22 per cent would be deferred until 2010-11. The 2009 Pre-Budget Report announces this rise will be deferred for a further year until 2011-12, so the rate will freeze at 21 per cent until April 2011.

Tax Credits and Child Benefit

As announced in Budget 2009, the child element of the Child Tax Credit will rise by £20 above indexation in April 2010, an increase of £65 in cash terms.

The Government will increase Child Benefit, Guardian's Allowance, the disability elements of the Child Tax Credit, all elements of the Working Tax Credit (WTC), apart from the childcare element, and the disregard for WTC in Housing Benefit by 1.5 per cent in April 2010. The threshold for receipt of the maximum Child Tax Credit award will rise to £16,190, reflecting the income level at which a family in receipt of the basic and couple's or lone parent's element of WTC would have their entitlement to WTC tapered to zero. Other rates and thresholds in tax credits will remain unchanged.

Stamp Duty Land Tax (SDLT)

2009 Pre-Budget Report confirms the SDLT holiday for residential properties up to the value of £175,000 will end as planned on 31 December 2009.

Fuel duties

As originally announced at Budget 2008, the duty differential for biofuels will cease from 1 April 2010. The 2009 Pre-Budget Report announces that the duty differential will continue for two years for biofuels made from used cooking oils.

Vehicle excise duty (VED)

2009 Pre-Budget Report announces that VED rates for motorbikes in 2010-11 will increase by £4 in the highest band, and by £2 in the second highest band, from 1 April 2010. VED rates for motorbikes in the lower two bands will be frozen.

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.

2009 Pre-Budget Report

Press Notice 3

Protecting Tax Revenues

Today the Chancellor announces a series of measures to protect the tax system from abuse and ensure that all individuals and businesses pay their fair share of tax.

The UK has been at the forefront of international efforts to clamp down on tax havens and offshore evasion. The UK Presidency of the G20 has delivered a step change in improving tax transparency, opening up tax havens so that evaders have nowhere to hide.

This PBR includes measures to tackle avoidance, including enhancements to strengthen the disclosure regime, and new penalties and powers to combat offshore evasion. The total package of measures to protect tax revenues raises £165 million by 2011-12 and protects around £5 billion of tax receipts per year from erosion by tax evasion and avoidance.

Details

Offshore evasion

The Pre-Budget Report announces robust measures to tackle offshore tax evasion. Legislation will be brought forward to ensure that those who fail to declare offshore tax liabilities will face the tough penalties attracted by deliberate tax evasion. There will also be a new requirement to notify HMRC when opening offshore bank accounts in certain jurisdictions, supported by a separate penalty regime. Evading tax offshore could therefore result in combined penalties of up to 200 per cent of the unpaid tax.

HMRC is gaining access to data from over 300 financial institutions on UK taxpayers with offshore accounts. The 'New Disclosure Opportunity' gives those with undeclared offshore assets a final opportunity to come forward to pay tax, interest and a reduced penalty. The deadline for notifications is 4th January 2010. This is the last chance for offshore tax evaders - if they do not come forward now, they can expect much tougher penalties in the future.

Code of Practice on taxation for Banks

The Chancellor announced on 16th March that HM Revenue & Customs (HMRC) would publish a Code of Practice to encourage banks to comply with the spirit as well as the letter of the law. After a period of consultation the Government will



today introduce the Code, which it expects all banks operating in the UK to adopt. The Code asks banks to have governance around tax, integrated into business decision-making and open and transparent relationships with HMRC.

A response document and Impact Assessment have been published today on HMRC's website.

Consultation on the disclosure regime

The Government today announces it is publishing a document seeking views on the implementation of measures intended to strengthen and enhance the Disclosure of Tax Avoidance Schemes (DOTAS) regime. The measures include enhanced penalties for failure to disclose a scheme, a requirement for promoters to provide lists of clients to whom they have issued scheme reference numbers, and new "hallmarks" (descriptions of schemes required to be disclosed).

Closing down inheritance tax avoidance schemes

The Government today announces, with immediate effect, the closure of two artificial schemes designed to avoid inheritance tax charges on relevant property trusts. First, where a person transfers property into a trust in which they retain a future interest they will be charged inheritance tax if they become entitled to an actual interest under the trust. Second, where a person purchases an interest in a trust that interest will be treated as part of their estate for inheritance tax purposes. Draft legislation is published today.

The Government announces it is also examining wider solutions to the problem of trusts being used to avoid inheritance tax charges.

Closing an IPT avoidance scheme

The Government today announces, with immediate effect, a measure to close down an Insurance Premium Tax (IPT) avoidance scheme. The measure prevents avoidance of IPT through 'administration fees' being artificially carved out of taxable insurance premiums. Draft legislation is published for comment.

Avoidance using Index-Linked Gilts

The Government today announces, with immediate effect, a measure aimed at companies or groups of companies that undertake artificial structured finance transactions using index-linked gilt-edged securities (ILGs) to create a tax loss without being exposed to any economic risk. This measure will ensure the inflationary return of the ILG is not tax-free where the company or group,



internationally hedges its exposure to that gain. Draft legislation is published today for comment.

Finance leasing avoidance

The Government today announces, with immediate effect, that it is countering two types of artificial avoidance involving the leasing of plant or machinery. It will ensure that:

- lessor companies are unable to generate tax losses using arrangements intended to result in tax relief in excess of the value of the taxable income; and
- companies and other businesses are prevented from turning a tax-timing advantage into a permanent advantage by ceasing to be within the charge to tax following the sale of the right to income from a lease of plant or machinery.

Draft legislation is published for comment.

Sale of lessor companies avoidance

The Government today announces, with immediate effect, that it is acting to prevent companies artificially using consortium arrangements to seek to undermine the effectiveness of Schedule 10 Finance Act 2006, the “Sale of Lessor Companies Legislation”. Draft legislation is published for comment.

Preventing avoidance of SDRT

The Government announces a measure to prevent the potential avoidance of Stamp Taxes on Shares where UK shares - intended for non-EU markets - are deliberately routed through EU clearance services or depository banks. The measure will allow markets in UK shares that are held abroad to continue to function smoothly whilst guarding against attempts to avoid tax. Draft legislation will be published shortly.

Apportionment rules for life insurance companies

Following Written Ministerial Statements to Parliament on 15 July and subsequent informal consultation, the Government today publishes legislation to stop an avoidance scheme by changing the current apportionment rules for life insurance companies so that amounts representing deferred profits are always taxed at the appropriate effective tax rate whenever they accrue and emerge. Draft legislation is published for comment.



Capital Allowances Transfers

Following a Written Ministerial Statement on 21 July, the Government today publishes draft legislation for comment to counter avoidance schemes involving capital allowances on plant and machinery. The legislation will prevent tax avoidance through the transfer of an entitlement to benefit from capital allowances on plant or machinery, used for the purpose of a trade, where the tax written down value of the plant or machinery exceeds its balance sheet value.

The Government also announces additions to the legislation, effective from today, which:

- ensure it also applies to postponed allowances;
- ensure that sales by non-corporate shareholders are within the scope of the rules; and
- prevent artificial reductions to the tax written down value.

Overhedging and underhedging

The Government today announces that following consultation draft legislation has been published, to be effective from 1 April 2010, to prevent UK groups from passing on all of the volatility risk from certain overhedging and underhedging transactions to the Exchequer. Draft legislation is published for comment.

Hidden Economy Advisory Group

Today the Government announces the formation of a Hidden Economy Advisory Group to consider what actions HMRC can take to increase the number of people that make the transition from the hidden to the formal economy.

The Pre-Budget Report in 1999 commissioned a report into the hidden economy by Lord Grabiner QC, which reported at Budget 2000. In the intervening ten years, there have been significant institutional, policy and socio-economic changes that have impacted upon the hidden economy. There is thus an opportunity once again to utilise external expertise in considering these issues.

Restricting the tax exemption for workplace canteens

The Government today announces that it will legislate to restrict the tax exemption for workplace canteens. This will only affect employees and employers who use the exemption in conjunction with salary sacrifice or flexible benefit arrangements. Such arrangements are intended to allow some employees to purchase canteen meals out of gross pay and hence obtain a significant tax advantage over the majority of employees who purchase meals using their net pay. The legislation will



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not affect general canteen subsidies that are available to all employees, for example where the employer provides a subsidy that is reflected in lower canteen prices. The legislation will take effect from 6 April 2011.

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GOVERNMENT DEPARTMENT INTERNET SITES

Further information and all published documents relating to the 2009 Pre-Budget Report may be found on the Internet at the following addresses:

HM Treasury: www.hmtreasury.gov.uk

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