

Budget 2002

17 April 2002

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BUDGET 2002

THE STRENGTH TO MAKE LONG-TERM DECISIONS: INVESTING IN AN ENTERPRISING, FAIRER BRITAIN

Long-term decisions to invest in a fairer, more enterprising Britain are set out in the Budget delivered by Chancellor Gordon Brown today.

From a platform of economic strength and stability, the Budget provides significant new investment to reform the National Health Service - placing the NHS on a sustainable long-term financial footing.

The Budget takes further steps to promote an enterprise culture throughout Britain, supporting business growth and development by rewarding innovation and reducing regulation and compliance costs.

It also announces the next steps in the Government's programme of welfare reform, introducing a new system of support through the tax and benefit system to promote work and support families with children, extending opportunity and tackling poverty and exclusion across the UK.

To maintain the conditions for economic stability, while advancing the Government's priorities, the Budget raises the level of national insurance contributions and freezes the income tax personal allowance next year.

As a result of personal tax and benefit measures, in 2003-04:

- a person on median earnings of £21,400 will pay an additional £3.70 a week in income tax and national insurance contributions;
- a single earner family on median earnings of £21,400 and with two children will be £3.90 a week better off as a result of the Child Tax Credit; and
- 50 per cent of families with children will be better off.

KEY BUDGET MEASURES

Key measures in Budget 2002 include:

- a significant increase in **resources for the NHS**, conditional on reform, to place the health service on a sustainable long-term financial footing;
- a **1 per cent increase in national insurance contributions (NICs)** paid by employers, employees and the self-employed on all earnings above the NICs threshold from April 2003;
- a freeze in the **income tax personal allowance** for those aged under 65 and the NICs thresholds in 2003-04;
- a new **Child Tax Credit** from April 2003 providing a secure stream of income for families with children;
- a new **Working Tax Credit** from April 2003 to make work pay for people on low incomes whether or not they have children or a disability;
- an immediate cut in the starting rate of **corporation tax** from 10 per cent to zero, and a reduction in the small companies' rate from 20 per cent to 19 per cent;
- a new **25 per cent tax credit to boost research and development** by large companies, complementing that already available for SMEs;
- an increase of £2.50 in the **basic credit in the Working Families' Tax Credit, and the couple and lone parent credits in the Disabled Person's Tax Credit** from June 2002;
- an increase of £3.50 in the **child allowances in Income Support and Jobseeker's Allowance** from October 2002;
- a freeze in the **duties on spirits, wine and beer**, reduced duty rates for small brewers, an increase in the **duty on spirits-based coolers** to the level of spirits, and an increase in **tobacco duty** in line with inflation;
- a **freeze in all road fuel duties**, including ultra-sulphur petrol and diesel, and a freeze in vehicle excise duty rates; and
- a package of **measures to close loopholes in the tax system**, promoting fairness and protecting the government revenue base.

DELIVERING HIGH QUALITY PUBLIC SERVICES

Strong and dependable public services are vital to extend opportunity, tackle poverty and social exclusion and improve the quality of life for all. They also lay the foundations for a stronger economy.

Budget 2002 sustains and increases the resources for public services already announced, **adding a further £4 billion to Departmental Expenditure Limits (DEL) in 2003-04**. The Budget also sets overall spending limits for the 2002 Spending Review, covering the three years to 2005-06, that allow for:

- **current spending**, excluding spending on health, to increase by 2½ per cent a year in real terms in 2004-05 and 2005-06. Current spending will rise in total by an average of 3.3 per cent a year in real terms over the same period; and
- a further increase in **net public sector investment** from its target of 1.8 per cent of GDP in 2003-04 to 2 per cent of GDP by 2005-06, continuing to tackle the legacy of under-investment in Britain's infrastructure.

A modern National Health Service and social care system

In Budget 2000, the Chancellor invited Derek Wanless to lead an independent review of the factors affecting the health service in the UK over the next two decades and their implications for funding and other resource requirements. Following widespread consultation, and the publication of an interim review in November 2001, the final report of the review is now being published.

The Government welcomes and agrees with the conclusions of the Wanless Review. A health service, free at the point of need, and accessible to all regardless of their wealth, remains the right principle for today's NHS. But Britain needs to invest significantly more in the NHS to achieve the reform and modernisation needed to ensure it matches the world's best.

Budget 2002 takes forward the Government's commitment to improve national healthcare standards throughout the country by announcing the largest ever sustained increase in health spending in the history of the NHS:

- immediately allocating **£2.4 billion of the new DEL addition to UK health spending, and providing for 7.4 per cent a year real terms growth in UK NHS spending over the next five years** - placing the health service on a sustainable long-term financial footing. As a result of this investment:

- UK spending on the NHS will rise from **£65.4 billion in 2002-03 to £105.6 billion in 2007-08**; and
- NHS cash spending per household will rise from £2,370 in 2001-02 to £4,060 in 2007-08 - a 48 per cent rise in real terms.

The Government also agrees with the Wanless Review that the interface between the NHS and social care services provided by local authorities requires new investment to get the best out of additional health spending. In Budget 2002 the Government is:

- immediately allocating **£0.4 billion to social services spending in England in 2003-04 and providing for 6 per cent average annual real terms growth in resources for personal social services** over the three years from 2003-04 to 2005-06.

Budget 2002 also releases resources in 2002-03 in order to accelerate delivery in the priority areas of education and crime reduction by providing:

- **£100 million from the Capital Modernisation Fund for 2002-03 to enhance the ability of schools across the UK to tackle past under-investment.** This will enable additional direct capital payments worth almost £2,500 to a typical primary school and over £7,100 to a typical secondary school; and
- **a package of £250 million, with an extra £110 million from the Reserve, for the Home Office** in 2002-03, targeted on efforts to tackle street crime and associated pressures, and countering the threat of terrorism.

MAINTAINING ECONOMIC STABILITY

Economic stability and sound public finances provide the best foundation for long-term investment in public services and rising national prosperity.

The Budget maintains the conditions for economic stability, ensuring that the fiscal rules will continue to be met while taking long-term decisions to promote work and enterprise, tackle child poverty, and invest record amounts in the National Health Service. To ensure sound public finances over the medium-term:

- there will be an **additional 1 per cent national insurance contribution (NIC) by employers, employees and the self-employed on all earnings above the NICs threshold of £89 per week**. This is in addition to existing rates of contribution below the upper earnings limit for employees and the upper profits limit for the self-employed; and
- the **income tax personal allowance for those aged under 65 and the NICs thresholds will be frozen** in 2003-04, except for the pensioners' age-related allowances which will be increased by more than inflation.

As a result of these and other Budget measures, in April 2003:

- a person on median earnings of £21,400 will pay an additional £3.70 a week in income tax and national insurance contributions;
- a person on 50 per cent of median earnings (£10,700) will pay an additional £1.65 a week in income tax and national insurance contributions;
- a person on 150 per cent of median earnings (£32,100) will pay an additional £5.75 a week in income tax and national insurance contributions;
- no pensioner aged 65 or over will pay tax on income of less than £127 a week, as well as paying no national insurance contributions; and
- as a result of all personal tax and benefit measures, including the Child Tax Credit and Working Tax Credit, a single earner family on median earnings of £21,400 and with two children will be £3.90 a week better off. A single person, aged 25 or over, working 35 hours a week at the National Minimum Wage will be £21.55 a week better off.

The Government believes that general taxation and national insurance contributions are the best way of ensuring that the costs of investment in the health service are spread as widely and as fairly as possible; and that health care is based on need, not ability to pay.

A strong and stable economy

Last year was a difficult year for the world economy, but with sound economic fundamentals and decisive macroeconomic policy action, the UK economy proved more resilient than on previous occasions, growing faster than any other G7 economy over the year as a whole. In Budget 2002:

- based on prudent, audited assumptions, the Government remains firmly on track to meet its two **strict fiscal rules** over the economic cycle, including in the cautious case;
- the **fiscal stance** in the Pre-Budget Report is locked in this year and over the next two years. Compared with the Pre-Budget Report, there is a small fiscal tightening over the next two years as growth gathers pace and the economy returns to trend;
- the **economy** is expected to grow by 2 to 2½ per cent this year and by 3 to 3½ per cent in 2003, before returning to trend in 2004. Growth is also expected to become more balanced as stronger global demand provides impetus to investment and exports; and
- **inflation** is forecast to remain low and close to the Government's target of 2½ per cent for the 12-month increase in the RPI excluding mortgage interest payments. Budget 2002 reaffirms the inflation target.

The Government has also examined the prospects for trend output growth in the UK economy and has concluded that **a neutral view of trend growth is 2¾ per cent a year** - in line with a number of respected independent organisations, including the IMF. This neutral assumption forms the mid-points of the Budget 2002 economic forecast ranges. For reasons of prudence, projections of the public finances continue to be based on a deliberately cautious assumption for trend output growth that is ¼ percentage point lower than the Government's neutral view. As required by the Code for Fiscal Stability, this assumption has been audited by the National Audit Office who have concluded that basing the fiscal projections on a 2½ per cent trend growth rate is both reasonable and cautious.

Further details are set out in a new paper, *Trend growth: Recent developments and prospects*, released today.

MEETING THE PRODUCTIVITY CHALLENGE

High productivity growth is vital for long-term prosperity. UK productivity growth has long lagged behind that of other major economies, with a substantial gap against the US, France and Germany. The Government's goal is that Britain should achieve a faster rate of productivity growth than its major competitors over the next decade, closing the productivity gap.

Government has a key role to play in enhancing productivity growth, working alongside business, trade unions and other stakeholders. The Government's Enterprise Bill, introduced on 26 March, implements a comprehensive programme of reform to strengthen the UK competition regime and modernise the laws on insolvency, bringing down barriers to enterprise and helping to create a truly entrepreneurial culture.

Budget 2002 takes further steps to support the drivers of productivity growth – promoting enterprise, innovation and skills across the country.

Encouraging enterprise and supporting small business

The Government is committed to rewarding entrepreneurial spirit, ensuring a ladder of opportunity for all, with support at every stage, to help new and small businesses develop and prosper. Budget 2002 introduces significant new measures, including:

- changes to corporation tax rates, with effect from 1 April 2002:
 - the **corporation tax starting rate is reduced from 10 per cent to zero**, meaning that 150,000 companies will no longer pay any corporation tax; and
 - the **small companies' rate is reduced by 1 percentage point to 19 per cent**, benefiting over 335,000 additional companies.

These reforms mean that all companies with taxable profits of less than £10,000 will pay no corporation tax. Small tax paying companies will save a maximum of £3000 and average of £700 every year.

- following the recommendations of the Carter review of payroll administration, implementing a **three-stage move towards universal electronic filing of employer returns**, with incentive payments to assist and encourage smaller employers to make greater use of IT;
- **easing the impact of VAT on small and medium-sized enterprises** by increasing the VAT registration threshold from £54,000 to £55,000, introducing an optional flat rate scheme designed to cut compliance costs, and reforming the VAT annual accounting scheme; and
- announcing successful bidders to run six **investment readiness pilot projects** across the country, to inform small firms about different

financing options and offer a programme of practical support to help small businesses become investment-ready.

In addition, the Department of Trade and Industry will shortly consult on a **national strategy for business start-ups**, including proposals for a new resource pack and help-line for people starting out in business.

Budget 2002 also takes steps to establish and maintain a **modern business tax system** that competes with the best in the world, including:

- **an exemption for gains and losses on substantial shareholdings** to ensure that important business decisions on corporate restructuring and reinvestment are made for commercial, rather than tax, reasons;
- a new regime for providing **relief to companies for the costs of intellectual property, goodwill and other intangible assets** to encourage business to take advantage of new opportunities in the emerging knowledge-based economy;
- **abolishing stamp duty for transfers of goodwill**, to reduce the costs of buying businesses;
- **a new regime for loan relationships, derivative contracts and foreign exchange gains and losses** from October 2002;
- further reform of the rules governing **withholding tax at source**; and
- **simplification of the CGT regime**, to reduce the compliance costs of those who invest in business.

For further details of these reforms see the separate press releases *REV/C&E1* and *REV/C&E2*.

Enterprise in disadvantaged areas

Budget 2002 takes further steps to promote enterprise, investment and wealth creation in Britain's most deprived communities, establishing 2000 enterprise neighbourhoods across the country:

- since November 2001 an exemption from stamp duty has been available for all property transfers up to £150,000 in the UK's most disadvantaged areas. To reduce further the cost to business of investing in these areas, Budget 2002 announces that **stamp duty will be abolished on all non-**

residential property transfers in disadvantaged areas, once state aids approval is obtained. The Government will legislate in the Finance Bill; and

- a new **Community Investment Tax Credit (CITC)**, worth 25 per cent of investment, will be introduced to encourage private investment in both not-for-profit and profit-seeking enterprises in under-invested communities. The tax credit will be available to both individual and corporate investors making either debt or equity investments. The accreditation process for the CITC will be run by the Small Business Service and will become operational following EU state aids approval.

Supporting innovation

Innovation is a key catalyst for productivity growth. To improve the UK's innovation performance, the Government is introducing a **new tax credit to boost research and development by larger companies**, complementing that already available for SMEs. The new relief will:

- be a **simple volume credit** based on the total amount of research and development companies undertake;
- provide a **25 per cent rate of super-deduction** for qualifying R&D expenditure against taxable profits; and
- be **granted to the company actually undertaking the R&D** so as to provide a deduction for all qualifying R&D undertaken in the UK. To promote business links with academic research, companies that fund research undertaken collaboratively with universities, charities and other not-for-profit organisations will also qualify.

Improving workforce skills

Building Britain's skills base is key to raising productivity. A highly skilled workforce promotes innovation, increases flexibility in the workplace and helps to ensure that the benefits of new technologies are realised.

The Pre-Budget Report set out a vision for UK training and skills based on shared responsibilities between employers, individuals and government, and announced that pilot schemes would be launched to test different approaches to help working people upgrade their skills and support employers who need more highly skilled staff to build stronger business.

Budget 2002 announces further details:

- **Employer Training Pilots** will be operated by local Learning and Skills Councils in Birmingham and Solihull, Derbyshire, Essex, Greater Manchester, Tyne and Wear, and Wiltshire and Swindon from September 2002;
- the pilots will offer free basic skills and level 2 courses to low-skilled employees from participating firms, and will provide information, advice and guidance to both individuals and their employers. Participating firms will be asked to offer their low-skilled employees paid time off to train - the pilots will test two different levels of time off; and
- participating employers will receive financial support from their local Learning and Skills Council in recognition of the time taken off to train by their low-skilled staff. The pilots will test three different levels of compensation for employers, with small firms (those employing less than 50 people) being paid up to 150 per cent of wage costs.

Further details of the Employer Training Pilots are set out in a new document, *Developing workforce skills: Piloting a new approach*, published today.

The Government also believes that increasing the take-up of Investors in People (IiP) by small organisations is a key priority for raising skill levels across the economy. Budget 2002 therefore announces **additional funding of £30 million for the Learning and Skills Council to encourage small organisations to reach the IiP standard.**

INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

Tough action taken by the Government has secured substantial improvements in the strength of Britain's labour market.

The New Deal has been successful in tackling long-term youth unemployment and unemployment among those 25 and over, and help has been extended to lone parents, disabled people and other disadvantaged groups. Employment is 1½ million higher today, than in spring 1997. And unemployment (on the International Labour Organisation definition) is the lowest among the major industrialised nations.

The Government is determined to advance its goal of having a greater proportion of people in work than ever before by the end of the decade. By helping people move from welfare to work and making work pay, the

Government is creating employment opportunity for all in every region. Budget 2002 announces the next steps:

- a new **Working Tax Credit** will be introduced in 2003 to help tackle poor work incentives and persistent poverty among working people, including those without children. The Working Tax Credit will replace the adult elements of the Working Families' Tax Credit, the Disabled Person's Tax Credit and the Employment Credit 50+. Budget 2002 announces the rates and thresholds for the Working Tax Credit. On its introduction, the Credit will guarantee minimum incomes of:
 - £237 a week for a family with one child and one earner working full time on the National Minimum Wage; and
 - £183 a week for a single earner couple without children or a disability, aged 25 or over and working full time on the National Minimum Wage.
- the basic credit in the **Working Families' Tax Credit and the couple and lone parent credits in the Disabled Person's Tax Credit will be increased by £2.50 a week** from June 2002, on top of the increases in line with inflation in April 2002;
- the Government's tax and benefit reforms to make work pay are underpinned by the **National Minimum Wage (NMW)**. As announced by the Secretary of State for Trade and Industry on 15 April the NMW will be increased to £4.20 for workers aged 22 and over and to £3.60 for workers aged 18 to 21 in October 2002;
- **eligibility for the New Deal for those aged 25 and over will be extended in pilot areas** to jobseekers who have been unemployed for a total of 18 months over the previous three years. Eligible individuals will be identified at their 6 month 'Restart' interview. Jobseekers who have experienced repeated spells of unemployment are at particular risk of becoming long-term unemployed, and the pilots will test the effectiveness of intervening earlier to support this group;
- following success within the New Deal for young people, **mandatory Gateway to work courses** will be introduced for all jobseekers on the New Deal 25+ in London, Manchester, Dundee and Swansea to help those facing difficulties re-entering the labour market;

- following the success of recent pilots, a new **mentoring service** will start to be introduced to provide support and advice to lone parents seeking to enter work, through their personal adviser interview;
- **mandatory personal adviser meetings will be extended** to all lone parents on Income Support with children under the age of five – the biggest single group of lone parents – ensuring that all lone parents are in future subject to the personal adviser regime;
- **childcare coordinators** will be established in every Jobcentre Plus district from April 2003 to improve access to information about local childcare provision;
- **eligibility for the childcare tax credit element of the Working Tax Credit will be extended** from April 2003 to those who use approved childcare in their own homes - benefiting families who need home-based care, such as those with disabled children or parents who work outside conventional hours; and
- further support will be introduced to help jobseeker's travel to work, including a new dedicated **£5 million fund to help Action Teams support transport solutions** in deprived areas where transport is a barrier to work, and an expansion of personalised **travel planning services in Jobcentres**.

Details of the Working Tax Credit are set out in a new document, *The Child and Working Tax Credits*, published today. Further details are also available in the separate press release, *REV3*.

BUILDING A FAIRER SOCIETY

A strong and productive economy must be underpinned by fairness and social inclusion so that everyone has the chance to fulfil their potential and share in rising national prosperity. Budget 2002 builds on the support already announced or available to help abolish child poverty, tackle poverty among pensioners, encourage and reward saving, tackle international poverty and promote a modern and fair tax system.

Support for families and children

The Government is committed to ensuring that every child has the best possible start in life. It has set a goal to halve child poverty by 2010 and to abolish it within a generation. Budget 2002 takes further steps to support

families with children, targeting help on those who need it most, when they need it most. The Government is now:

- introducing a new **Child Tax Credit** from April 2003, which will provide a single, seamless system of income-related support for families with children. The Child Tax Credit will bring together the assistance for children currently provided through the Working Families' and Disabled Person's Tax Credits, the Children's Tax Credit, Income Support and Jobseeker's Allowance. The Budget announces the rates and thresholds for the Child Tax Credit. On its introduction, the Child Tax Credit, and universal Child Benefit, will guarantee support for the first child of:
 - £26.50 a week for the 85 per cent of families with an income of less than £50,000 a year; and
 - £54.25 a week for the 25 per cent of families with an income of less than £13,000 a year.
- **increasing the child allowances in Income Support and Jobseeker's Allowance by £3.50 a week** from October 2002, to reduce further the numbers of children living in poverty.

Details of the Child Tax Credit are set out in a new document, *The Child and Working Tax Credits*, published today. Further details are also available in the separate press release, *REV3*.

As a result of the Government's personal tax and benefit reforms since 1997, including the changes to national insurance contributions and the income tax personal allowance announced in this Budget, by April 2003:

- families with children will be, on average, £1,200 a year better off; and
- families with children in the poorest fifth of the population will be on average over £2,400 a year better off in real terms;

Fairness for pensioners

The Government is determined to tackle pensioner poverty. Over 2 million pensioners now benefit from the extra support provided by the Minimum Income Guarantee (MIG) which will be uprated in line with earnings throughout this Parliament. Budget 2002 confirms the further, comprehensive package of measures announced in the Pre-Budget Report:

- the **Pension Credit** will be introduced from October 2003 to tackle the complexities and unfairness of the old system and ensure that pensioners on low or modest incomes are rewarded, rather than penalised, for their savings. The Pension Credit will extend support to around half of all pensioner households and provide, on average, just over £400 extra a year to eligible pensioners;
- the **basic state pension** will rise by at least £100 a year for a single pensioner and £160 a year for pensioner couples in 2003-04. The Government guarantees that the basic state pension will rise subsequently each year by 2.5 per cent or the increase in the September RPI, whichever is higher; and
- the **winter fuel payment** will be maintained at £200 for the rest of this Parliament, benefiting around 8 million households each year.

For pensioners who pay income tax, Budget 2002 also increases the **income tax personal allowance for 65 to 74 year olds** in 2003-04 to £6,610, ensuring that no pensioner aged 65 or over will pay tax on income of less than £127 a week. Subsequently, the age-related allowances will be raised at least in line with earnings rather than prices for the remainder of this Parliament.

As a result of the Government's tax and benefit reforms, compared with the 1997 system, following the introduction of the Pension Credit from 2003:

- the average pensioner household will be over £1,150 a year better off – around £22.50 extra a week in real terms; and
- the poorest third of pensioner households will have gained over £1,500 a year in real terms.

Supporting saving

Savings and assets provide security, comfort in retirement, long-term independence and increased opportunity.

Helping people provide for financial security in old age is vital to protect future pensioners from the poverty and inequality that many of today's pensioners have had to bear. In addition to the launch of the State Second Pension, and stakeholder pensions, the Government now plans to:

- **modernise the annuities market to increase the choice for consumers** and help to ensure that annuities provide a secure income

in retirement. Following consultation, the Government will, consistent with its stated principles:

- work with annuity providers to increase flexibility by allowing those who have an annuity to change the terms of their contract with their existing provider; and
- bring forward powers to enable new generic kinds of annuity to be used to turn pension savings into retirement income.

The Government has also set up three coordinated reviews to examine different aspects of pension provision and will consult on their proposals later this year. The aim will be to reduce complex regulation, improve information and education and consider what action the Government and employers might take to encourage employees to save towards their retirement.

To investigate how best to extend the benefits of saving to lower income groups the Government is also now **launching Saving Gateway pilot projects**, which are expected to begin in four pilot areas located in Gorton (South-east Manchester), Tower Hamlets (East London), Cumbria and Cambridgeshire, from August 2002, lasting for 2½ years. The Government has reached an agreement with Halifax plc to act as partner in the pilots, providing the services of its branches, staff and account systems in the pilot areas.

A modern and fair tax system

Budget 2002 introduces further measures to promote a modern and fair tax system which reflects developments in business practice, in which everyone - individuals and businesses alike - pays their fair share:

- new measures to close loopholes in **stamp duty** on large commercial property transactions, and a reform to modernise stamp duty on land and buildings in the UK. Legislation will be brought forward immediately to discourage a number of avoidance techniques. Longer-term reform will build on this to modernise the stamp duty charge and help to pave the way for electronic conveyancing in the future, making house-buying faster and more efficient (*see press notice REV4 for further details*);
- important changes to the **North Sea tax regime** to ensure a regime that raises a fair share of revenue while promoting long-term investment. With effect from Budget day, the new regime introduces a 10 per cent supplementary charge on North Sea profits and provides a 100 per cent

first year capital allowance for capital expenditure. The Government intends, subject to consultation on the appropriate timing, to abolish North Sea Royalty (*see press notice REV/C&E1 for further details*);

- measures to **modernise the taxation of foreign companies operating in the UK through branches**, bringing the UK closer into line with international practice. The new regime will mean that branches pay a fairer share of corporation tax, reflecting the profits they make from activities carried out in the UK. The reform builds on existing rules in the UK tax system that already apply to foreign companies operating in the UK through subsidiaries (*see press notice REV/C&E1 for further details*);
- a freeze in the **duties on spirits, wine and beer** produced by larger brewers; reduced rates of duty on beer produced by the UK's small brewing industry; an increase in the **duty on spirits-based coolers** to the level of that on spirits; and an increase in **tobacco duties** in line with inflation (*see press notice C&E1 for further details*);
- further **support through the tax system for charities**, including reform of the current VAT reliefs for charity buildings, and new steps to encourage donations. The Government is introducing a new tax relief for gifts to charities of land and buildings, enabling higher rate taxpayers to immediately claim Gift Aid for donations when they make their tax return and announcing plans to allow taxpayers to direct tax repayments to nominated charities;
- a package of **tax measures to support community amateur sports clubs** (CASCs). This will give CASCs access to tax reliefs on income and donations, similar to those available to charities. In addition, £20 million will be allocated to the Capital Modernisation Fund to provide new or refurbished community sports facilities (*see press notice HMT3 for further details*);
- following the successful reforms of betting and pools tax, the Government will, as the next step, consider the scope to **abolish the tax on bingo stakes and replace it with a gross profits tax on bingo companies**;
- a range of further measures to tackle indirect tax fraud and unfair tax avoidance, including:

- a comprehensive strategy to tackle the rising problem of **oils fraud** by tightening controls on the distribution and use of rebated fuels and increasing detection and investigation of their misuse;
- a joint programme of **cooperation with the spirits industry** to identify, trace and track illicit consignments of spirits;
- reforms to block a number of abusive **VAT avoidance** schemes; and
- changes to the **tax regime for British qualifying films** to restrict relief to films intended for theatrical release at the commercial cinema, subject to discussion with the industry on the details of implementation.

The Government is also **reviewing the residence and domicile rules** as they affect the tax liabilities of individuals. The Government will report on this issue in time for the Pre-Budget Report.

Promoting international poverty reduction

The Government is committed to tackling global poverty and helping to achieve the international community's Millennium Development Goals (MDGs) by 2015. To advance this ambitious agenda, Budget 2002:

- **announces a new tax credit for R&D into drugs and vaccines** to treat specific diseases threatening lives in the least developed countries. The credit will allow companies to deduct from their pre-tax profits an additional 50 per cent of expenditure on R&D into vaccines and medicines for the prevention and treatment of malaria, tuberculosis and some variants of HIV/AIDS. Companies will also be able to claim relief on financial contributions to charities, universities and scientific research organisations conducting research into these diseases;
- announces a **new relief to encourage industry to donate medicines, medical supplies and equipment to developing countries**; and
- confirms the launch of a new **Commonwealth Education Fund** with a £10 million initial endowment to promote high quality primary education for the world's poorest children. The Government will match private contributions to the Fund, pound for pound including tax relief.

PROTECTING THE ENVIRONMENT

While economic growth is key to rising national prosperity, the Government recognises that it must not come at the expense of the environment. Sustainable development is vital to ensure a better quality of life for everyone, today and for generations to come.

Budget 2002 implements and announces further measures to tackle climate change, improve local air quality, regenerate Britain's towns and cities, and protect Britain's countryside and natural resources.

Improving business energy-efficiency

The Government is continuing to encourage business to improve its energy-efficiency, including:

- introducing **two further exemptions from the climate change levy** for electricity generated from good quality **combined heat and power**, and from **coal mine methane**, in recognition of their environmental benefits;
- following the Green Technology Challenge, introducing new **enhanced capital allowances** for business investment in five further groups of energy-saving technologies, subject to EU state aids approval; and
- enabling business to deliver reduced greenhouse gas emissions at the lowest possible cost through **the world's first economy-wide emissions trading scheme**, launched in April 2002.

A fair deal for transport

Decisions on fuel duties and other transport taxes must take account of environment, economic and social objectives. To promote its environmental objectives, while responding to recent high and volatile world oil prices, the Government is now:

- freezing the **duty on all road fuels and road fuel gases** - including ultra-low sulphur petrol (ULSP) and diesel (ULSD) - reducing duty by around 1 pence a litre in real terms;
- planning to introduce **duty incentives favouring sulphur-free fuels** in 2003, and to exempt **hydrogen** from fuel duty in the future, to promote the production and take-up of this environmentally-friendly form of fuel;

- freezing **vehicle excise duty (VED)** rates, and introducing a new low-carbon VED rate offering a £30 discount for the very cleanest cars producing less than 120g/km. Budget 2002 also announces reforms to VED for motorcycles - which will lead to over 600,000 motorcyclists paying lower rates of VED - and a reform of van VED, including a new discounted rate for vans which meet the challenging euro-IV emissions standard;
- introducing **enhanced capital allowances for the purchase of business cars** with the cleanest engines, and on a revenue neutral basis **restructuring the fuel scale charge** from 2003-04 to relate it to carbon dioxide emissions rather than engine size; and
- announcing further details of plans to introduce a **distance-based road-user charge for lorries** operating in the UK, within the next three to four years, in order to ensure that lorry operators from overseas pay their fair share towards the cost of using UK roads, while ensuring that the overall cost to the UK haulage industry does not rise.

In addition to these measures, Budget 2002 also freezes the rates of **air passenger duty (APD)** and extends the lower rates of APD that currently apply to flights within the European Economic Area (EEA), to flights to the EU applicant countries and to Switzerland.

Regenerating towns and cities and protecting the countryside

As well as tackling global problems of climate change, the Government is working to address local environmental issues, regenerating towns and cities and protecting Britain's countryside and natural resources:

- tightening the **enforcement of VED** as part of the drive to tackle abandoned vehicles, as announced by the Secretary of State for Transport, Local Government and the Regions earlier this month;
- introducing the **aggregates levy** from 1 April 2002, to reflect the environmental costs imposed by aggregates quarrying;
- consulting the waste oils industry on proposals to enhance the marketability of regenerated, or **recycled oils**;
- continuing to monitor the progress of the voluntary package of measures to reduce the environmental impact of **pesticides** use, which to date has

made satisfactory progress, to ensure it delivers benefits above and beyond those that would result from a pesticides tax; and

- announcing a review of **the role economic instruments might play in addressing environmental issues associated with agriculture**, including nutrient pollution.

Further details of the Government's environmental strategy are set out in the separate press release, *HMT2*.

NOTES FOR EDITORS

Further details of the Budget 2002 announcements can be found on the Treasury's website: www.hm-treasury.gov.uk. More details are also included in the press notices listed below. Copies of Inland Revenue and HM Customs and Excise Budget Technical Notes can be found on their websites at www.inlandrevenue.gov.uk and www.hmce.gov.uk respectively:

HM Treasury:

HMT 1	Budget 2002: The Strength to make long-term decisions: Investing in an enterprising, fairer Britain
HMT 2	Working with business and consumers to protect the environment
HMT 3	Support for community amateur sports clubs

Inland Revenue and HM Customs and Excise:

REV/C&E 1	A modern and competitive business tax system
REV/C&E 2	Supporting small businesses and entrepreneurs

Inland Revenue:

REV 1	Inland Revenue tax rates and allowances for 2002-03
REV 2	National insurance rates 2003-04
REV 3	New tax credits: A £2.7 billion boost for families and the low paid
REV 4	Stamp duty on UK land and buildings

HM Customs and Excise:

C&E 1	Alcohol and tobacco duties
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HM CUSTOMS AND EXCISE PRESS OFFICE

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GOVERNMENT DEPARTMENT INTERNET SITES

Further information and all published documents relating to Budget 2002 may be found on the Internet at the following addresses:

HM Treasury www.hm-treasury.gov.uk

Inland Revenue www.inlandrevenue.gov.uk

HM Customs and Excise www.hmce.gov.uk

Budget 2002

HMT 2

17 April 2002

WORKING WITH BUSINESS AND CONSUMERS TO PROTECT THE ENVIRONMENT

Chancellor Gordon Brown today announced further important steps in the Government's strategy to protect the environment, continuing to work with business and consumers.

Commenting on the announcements, the Financial Secretary, Paul Boateng said:

"We are today showing that environmental protection can be achieved by working with business and consumers, harnessing the power of markets rather than working against them. Economic efficiency and environmental protection can go hand in hand. Wherever we can make markets and the economy work more effectively and in turn secure environmental benefits we will do so.

"The launch of the greenhouse gas emissions trading scheme this April – the first and only economy-wide scheme in the world – is the most graphic example yet. But it is just one of many steps taken in recent years towards a more sustainable future – economically, socially and environmentally. We are using combinations of taxes and other economic instruments such as permit trading schemes to deliver environmental results more efficiently than extra regulation would achieve – and we are today committing ourselves to investigate where these approaches can be applied to further environmental issues."

Building on its recent Budgets, the Government today announced a series of targeted measures to help to deliver environmental benefits.

- **Business energy efficiency:** the Government has announced further support for business energy efficiency through the climate change levy (CCL) and business tax system. Complete exemption from the CCL will be introduced for electricity generated by good quality **combined heat and power (CHP)** or **coal mine methane**, subject to EU state aids approval. Five new groups of **energy-saving technologies** will join the eight technologies already benefiting from **enhanced capital**

allowances (ECAs) against tax. Furthermore, the availability of ECAs for these environmental technologies will be extended to equipment for **leasing**. These steps build on the introduction of the CCL and associated measures in April 2001 (forecast to reduce emissions by 5 million tonnes of carbon a year by 2010) and the launch of the emissions trading scheme in April 2002 (in which business committed to save 1.1 million tonnes of carbon a year by 2006). CCL rates are frozen;

- **Cleaner, more efficient vehicles:** as part of its strategy for Powering Future Vehicles, the Government has today introduced a **new reduced band of vehicle excise duty (VED)** for the most efficient, “low-carbon” cars. Taken alongside its announcement that it will freeze VED for all other cars, this will mean a difference of £100 a year in VED between the most and least polluting cars. The Government has also today announced further support for the most efficient cars in the form of **enhanced capital allowances (ECAs)**, following the Green Technology Challenge. These measures complement changes to VED introduced in March 2001 and the reform of company car taxation in April 2002.
- **Cleaner fuels for the future:** new support for cleaner fuels includes an announcement that the Government intends to **introduce a fuel duty differential for sulphur-free petrol and diesel in 2003** and the launch of a second competition for pilot projects researching future fuels to qualify for fuel duty reductions or exemptions under the **Green Fuel Challenge**. Subject to the outcome of a pilot project under the first round of that competition, the Government intends to **exempt hydrogen from fuel duty** for a limited period to encourage its further development and early take-up. The Government will also provide **enhanced capital allowances (ECAs) for installing compressed natural gas (CNG) and hydrogen fuel infrastructure**. And, as announced in Budget 2001, in recognition of its environmental benefits, **biodiesel will shortly benefit from a new, lower rate of duty**, 20 pence per litre less than ultra-low sulphur diesel.
- **Modernising road haulage taxation:** the Government has today announced that it aims to introduce a **distance-based road-user charge for lorries** by 2005 or 2006. In recognition that the UK haulage industry already contributes towards these costs, the Government will introduce off-setting tax cuts for the haulage industry when the new charge is introduced. More details will be outlined very shortly. This follows the Government’s announcement in the November 2000 Pre-Budget Report of its interest in lorry road-user charging and the wide-ranging simplified and environmentally based reforms to lorry VED in

December 2001. To provide stability, Budget 2002 freezes VED for lorries.

Other progress and measures announced today by the Government include:

- **fuel duty:** freezing the rates of duty on road fuels, responding to the recent high and volatile level of world oil prices;
- **oils fraud:** announcing a comprehensive strategy to tackle the rising problem of oils fraud, including the introduction of an approval scheme designed to tighten controls on the distribution network for rebated fuel;
- **motorcycles:** announcing reforms to motorcycle VED reflecting changes to the motorcycle fleet and the benefits of motorcycles compared with cars, especially for commuting, to take effect for licences starting from May 2002, and benefit around 600,000 motorcycle users;
- **vans:** announcing a new, reduced VED rate for more environmentally-friendly vans which meet the euro-IV emissions standard from March 2003, while freezing VED for other vans;
- **buses:** to ensure that the support of over £1 billion a year to buses contributes most effectively to the Government's transport objectives and improving bus services, the Government will review existing support mechanisms, and in particular will review the fuel duty rebate for buses to assess whether it provides effective support for buses in a way that is consistent with the Government's objectives. This review will take place as part of Spending Review 2002 and the current review of the 10-Year Transport Plan. VED for buses is frozen;
- **employer-subsidised bus services:** announcing that employees receiving free or discounted travel on buses subsidised by their employers will not pay tax on it as a benefit in kind;
- **fuel for employees:** announcing a revenue-neutral reform of the fuel scale charge, under which employees pay tax on fuel received free from their employers for personal use, to make it reflect from 2003-04 the environmental efficiency of their car rather than its engine size, in line with the company car tax system;
- **air passenger duty (APD):** freezing the current rates of APD and, from 1 November 2002, extending the scope of the reduced rates that currently apply to European Economic Area destinations, to include

Switzerland and countries applying to join the European Union. The Government will be considering the role of economic instruments to deal with the environmental impacts of aviation as part of the Aviation White Paper;

- **waste:** building on the annual £1 per tonne increases in landfill tax, including in April 2002, the Government anticipates that the standard rate of landfill tax will need to be increased significantly in the medium term as part of the mix of future policy measures. Future decisions on landfill tax and the case for a tax on incineration will be informed by the Performance and Innovation Unit (PIU) waste project findings. The Government has also announced that it will consult during 2002 about the tax treatment of waste oil used as a fuel, as part of its commitment, outlined in Waste Strategy 2000, to examine ways of enhancing the competitiveness of regenerated, or recycled, oils;
- **aggregates levy:** confirming that the aggregates levy was introduced from 1 April 2002, with all revenues from the introduction of the levy recycled back to business via a cut in employers' NICs and the £35m Sustainability Fund;
- **pesticides:** reporting back on the progress to date of the voluntary agreement to reduce the environmental impact of pesticides, while confirming that a tax on pesticides remains a real option for the future;
- **improvements in the public space:** taking forward changes to the operation of VED to ensure that car-owners remain liable for their cars, to help crack down on abandoned vehicles and to assist more generally in tackling crime.

The Government also announced that it will review the potential to extend the use of economic instruments for environmental purposes, including to:

- **address environmental issues, such as nutrient pollution, associated with agriculture,** helping to provide a level playing field for less environmentally harmful forms of farming;
- **improve household energy efficiency,** while tackling fuel poverty and maintaining its commitment not to introduce new taxes on the use of energy by households.

The Government will also develop with stakeholders its strategy to tackle environmental issues using economic instruments where appropriate over the coming months.

DETAILS

Climate change levy

1. The exemption for electricity from good quality combined heat and power (CHP) systems will mean that all the energy used and produced by such systems will now be exempt from the levy. This recognises the environmental benefits of CHP and will provide a further incentive for business to use this technology. Similarly, the exemption for electricity produced from coal mine methane will encourage the beneficial use of this form of energy which otherwise leads to damaging emissions of methane gas to the atmosphere. These exemptions are subject to EU state aid approval.
2. The Government welcomes the European Commission's recent decision that the exemption from the levy for fuel used in dual-use processes is a logical and integral part of the levy. The Government has considered options for extending relief to certain secondary processes which compete with processes which benefit from the dual-use or non-fuel use exemptions, and has taken up this idea with the Commission. The Government welcomes the Commission's decision that such an exemption would be a compatible state aid, and will now be evaluating these options further.

Business energy efficiency

3. Enhanced capital allowances (ECAs) for spending on designated energy-saving plant and machinery were introduced in 2001 as part of the climate change package to help businesses reduce their energy needs. From today, they are extended so that lessors may claim ECAs on qualifying energy-saving assets for leasing.
4. Proposals for enhanced capital allowances are announced today for five further groups of energy-saving technologies, as part of the follow-up to the Green Technology Challenge. The new qualifying technologies are:
 - heat pumps;

- radiant and warm air heaters;
- solar heaters;
- energy-efficient refrigeration equipment, including display cabinets;
and
- compressor equipment.

Work to define precise performance standards is continuing and, subject to EU state aids approval, the Government anticipates that the technology groups will be added to the list of qualifying technologies during the Summer

Emissions trading scheme

5. The Government's emissions trading scheme was launched on 2 April 2002. Thirty-four organisations successfully bid to join the scheme in an auction for permits held on 11-12 March 2002. In addition, nearly 6,000 companies with targets under the climate change levy negotiated agreements will be able to engage in trading to meet their targets at the end of their first target periods later this year. Approved emissions reduction projects will also be able to sell credits into the scheme. Further information is available in DEFRA news release 99/02, published on 13 March 2002.

Fuel duty

6. The rates of duty on road fuels and non-road fuel oils (such as red diesel) are frozen, reducing duty on the main road fuels in real terms by around 1 pence per litre.
7. As announced in Budget 2001, the Government will introduce a new rate of duty for biodiesel of 25.82 pence per litre, 20 pence per litre below the ultra-low sulphur diesel (ULSD) rate, to take effect from Royal Assent.
8. In 2003, the Government intends to introduce a duty incentive to encourage the production and use of sulphur-free fuels.
9. Subject to the outcome of a pilot project, the Government intends to exempt hydrogen used as a road fuel from fuel duty in the future for a limited period to encourage its further development and early take-up.

Oils fraud

10. Like other forms of indirect tax fraud, the use of illicit fuel in road vehicles drains government revenue, funds other forms of organised crime, and

undermines honest businesses. The abuse of rebated fuels, which tend to have higher sulphur contents than ordinary fuels, also threatens the Government's environmental objectives and damages vehicle engines.

11. Following consultation in the November 2001 Pre-Budget Report, the Government today announced a comprehensive strategy to tackle the rising problem of oils fraud, comprising:

- the introduction of a new approval scheme designed to tighten controls on the distribution network for rebated fuels, such as 'red diesel' intended for off-road use and kerosene intended for home heating, helping Customs to prevent and detect their misuse;
- the introduction of tighter controls on the use of duty-free oils in industrial processes (known as 'tied oils');
- the introduction of a new, EU-wide 'Euromarker' to be added to rebated fuels, designed to make it easier to detect vehicles using rebated fuel purchased abroad for illicit use on the UK's roads; and
- the release of additional resources this year to enable the effective enforcement of these new controls, including the deployment of over increased staff and investment in new technology to support the detection and investigation of oils fraud.

Enhanced capital allowances for low emission cars

12. From today, all businesses can claim 100 per cent enhanced capital allowances on their investments in new cars emitting up to 120g/km of carbon dioxide; and vehicle refuelling infrastructure for compressed natural gas or hydrogen fuel. These allowances will be reviewed over time.

Free fuel for employees

13. From April 2003 the new fuel scale charge will be linked to the Carbon dioxide emissions of the car, including the same discounts and premiums as in the company car tax system. There will also be a proportionate reduction if an employee receiving free fuel decides to opt out part way through the year.

Employer-subsidised bus services

14. Budget 2002 introduces a benefit-in-kind tax exemption for employees receiving free or discounted travel on buses subsidised by their employers.

VED

15. Budget 2002 freezes VED rates on all vehicles.
16. For new licenses commencing from May 2002, the Government is introducing a new 'AA' VED band for low carbon cars emitting up to 120g/km of carbon dioxide and first registered from March 2001. This will reduce the VED rate for these cars by £30 and increases the incentive to choose the very cleanest cars to up to £100. Cars that will qualify for the new reduced band include the most efficient versions of the Ford Fiesta, Vauxhall Astra and Peugeot 206, as well as the hybrid electric-diesel Honda Insight and Toyota Prius.
17. From March 2003, new vans which meet the new euro IV emissions standard will qualify for a reduced VED rate of £105.
18. For licences commencing from May 2002, there are new rates for motorcycle VED as follows:

Engine size	VED rate
Up to 150 cc	£15
151 – 400 cc	£30
401 – 600 cc	£45
Above 600 cc	£60

19. VED licences used by the motorcycle trade will be reduced to £60.
20. For licences commencing from May 2002, the new rates for tricycle VED will be £15 for vehicles up to 150 cc, and £60 for all others.
21. For licenses commencing from June 2002, all lorries registered on the islands of Harris and Lewis, and Orkney and Shetland and which travel only 5 kilometres from their disembarkation point on the UK mainland, will have the option to pay the small islands goods vehicle VED rate of £165.

22. Finance Bill 2002 will include provisions for a new offence to ensure that, in future, the registered keeper is liable for an unlicensed vehicle.
23. From Royal Assent of the Finance Bill, the DVLA will be able to use information contained on the databases of the Department of Work and Pensions and the Ministry of Defence to enable the efficient licensing for those disabled motorists who qualify for a VED exemption.
24. Finance Bill 2002 contains provisions to correct an anomaly in the Vehicle Excise Registration Act to ensure that the engine capacity for all vehicles is calculated on the correct basis.

Lorry road-user charging

25. Budget 2002 announces the Government's decision to introduce a distance-based lorry road-user charge following its consultation launched in the Pre-Budget Report. This will make foreign lorry operators pay towards the costs they impose in the UK and, as it will be complemented by offsetting tax reductions when it is introduced, will not increase costs for the UK haulage industry. The Government aims to introduce the new charge in 2005 or 2006. Further details will be outlined shortly.

Air passenger duty

26. From 1 November 2002 the European Economic Area for the purpose of setting APD rates will be redefined to include all EU applicant countries (including Malta) and Switzerland. Flights to the following countries (as well as those within the UK) will now qualify for the EEA rate: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherland, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland and Turkey.

Aggregates levy

27. The aggregates levy was introduced as planned on 1 April 2002. Part of the revenue from the levy is being used for the new £35 million per year Sustainability Fund. DEFRA are responsible for the Fund in England, while the Devolved Administrations are responsible for the Fund in Scotland, Wales and Northern Ireland.

Waste

28. The increase in the standard rate of landfill tax to £13 per tonne on 1 April 2002 was part of the planned annual increase in the tax from 2000 to 2004. The Cabinet Office Performance and Innovation Unit is currently undertaking a review of waste policy and future waste taxation will be considered in the light of the PIU's conclusions.
29. The Government is currently consulting on the future of the landfill tax credit scheme (LTCS). The consultation seeks views both on options for funding mechanisms and on priorities for support. Responses to this consultation will be considered in the context of Spending Review 2002.

NOTES FOR EDITORS

Further details of the Government's strategy to tackle indirect tax fraud are available in *press notice C&E 1*. Copies of the PBR paper *Tackling Indirect Tax Fraud* are available from the HM Treasury and HM Customs and Excise websites (addresses below).

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Budget 2002

HMT 3

17 April 2002

SUPPORT FOR COMMUNITY AMATEUR SPORTS CLUBS

Following consultation, the Budget introduces a package of tax reliefs to support community amateur sports clubs (CASCs). The tax package provides an alternative route for CASCs to access tax reliefs on their income and donations from local people, which are similar to the tax reliefs normally given to charities. It will be available for CASCs who cannot or do not wish to apply for charitable status.

In addition to the tax reliefs, the Budget allocates a further £20 million from the Capital Modernisation Fund to renovate and improve community sports facilities.

The Charity Commission will publish tomorrow its revised guidelines for applying for charitable status, reflecting the input of the sports sector. Sports clubs are free to choose to apply either to the Charity Commission for charitable status, and the tax treatment that goes with charitable status, or directly to the Inland Revenue for the tax reliefs specifically for CASCs.

Announcing this package of support, Paul Boateng, Financial Secretary to the Treasury, said:

“Amateur sports clubs are at the heart of sport and community life up and down the country. The Charity Commission’s decision to recognise as charitable CASCs that “promote community participation in healthy recreation” will enable many sports clubs to access the valuable tax benefits that go with charitable status. However, the Government wants to ensure that financial benefits reach all sports clubs. The Budget therefore introduces a package of tax reliefs to enable clubs to reduce tax bills on any income and gain additional benefit from donations made by local people. In addition, a further £20 million of capital expenditure will be made available for investing in enhanced community sports facilities. Together these measures provide an unprecedented boost for community sport.”

DETAILS

Tax package for CASCs

The tax package is as set out in the November 2001 consultation document, "Promoting Sport in the Community". The main reliefs, available from April 2002 are:

- Fundraising income up to £15,000 exempt from tax;
- Income from interest exempt from tax;
- Rental income up to £10,000 exempt from tax;
- Disposals exempt from capital gains tax;
- Gift aid on individual donations;
- Inheritance tax relief on gifts;
- Gifts of assets on no-gain, no-loss basis for capital gains;
- Business relief on gifts of trading stock.

To benefit, CASCs must be open to the whole community, organised on an amateur basis, and their main purpose must be to provide facilities for, and promote participation in, an eligible sport. Eligible sports will initially be defined with reference to those recognised by national Sports Councils.

£20 million for community sports facilities

To support capital investment to improve public services, the Government set up the Capital Modernisation Fund (CMF) in the Comprehensive Spending Review. The CMF provides capital resources to fund innovative methods of improving the quality of public services across all government departments. Between 1999-00 and 2003-04 the CMF will allocate nearly £5 billion to departments on a competitive basis.

An allocation of £20 million will be made available in 2003-04 for DCMS to distribute, with the help of Sport England. The money will be used to enhance community sports facilities through either major refurbishment or replacement of existing amenities.

Charity Commission guidelines

Revised guidelines for applications for charitable status will be published tomorrow, reflecting input from sports' representative bodies. Full details

available from the Charity Commission's Internet site: www.charity-commission.gov.uk

NOTES FOR EDITORS

Sports clubs have long sought, in their own words, "parity with charity".

The Chancellor of the Exchequer said in his 2001 Budget statement on 7 March, "At the centre of our communities are also thousands of non-profit sports clubs, and we will now consider the best way for the tax system to give them further support and to recognise their contribution to our community life."

A tax package was prepared in consultation with sports clubs and their representative bodies. At the same time, the Charity Commission's review of its registers concluded that it would recognise as charitable "the promotion of community participation in healthy recreation by the provision of facilities for the playing of particular sports".

On 30 November 2001, a consultation document – 'Promoting Sport in the Community' – was published, announcing the details of a tax package alongside the Charity Commission decision. The consultation process gave sports clubs and their representative bodies an opportunity to reflect on the Charity Commission's decision and say if they thought it would not work for them. Sports bodies have also made representations to the Charity Commission to revise and improve on the guidelines originally published.

A summary of responses to the consultation "Promoting Sport in the Community" is available from the Treasury's Internet site.

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Budget 2002

REV/C&E1

17 April 2002

A MODERN AND COMPETITIVE BUSINESS TAX SYSTEM

A package of reforms to the business tax system will provide longer-term stability for business and a competitive business environment, promoting investment and innovation.

Paymaster General, Dawn Primarolo, said:

“This Government is pressing ahead with a pro-enterprise, pro-competition and pro-business agenda. We have delivered on economic stability and higher employment, now it is time to move forward with measures to boost productivity and close the gap with our competitors. Only on the basis of a dynamic, enterprising and productive economy can we generate the resources we need to put our public services on a secure long-term footing.”

Promoting productivity, growth and jobs

The package confirms the recently announced measures:

- A new **R&D tax credit** available to all companies not already qualifying for the SME R&D tax credit. As announced, this will operate as a simple volume tax credit payable to the company carrying out the R&D. Budget 2002 further announces that the credit will be payable at a 25% headline rate. This will provide an additional £400 million a year support for investment in new technology by UK industry. The new credit will build on the existing R&D tax credits for SMEs in increasing innovation and improving the productivity of the UK economy.
- An exemption regime for capital gains and losses on **substantial shareholdings** will reduce the tax on UK business by £150 million a year and ensure that important business decisions on restructuring and reinvestment can be made for commercial, rather than tax, reasons.
- A relief for **intellectual property, goodwill and other intangible assets** to encourage business to take advantage of new opportunities in the

knowledge-based economy. It will be worth about £200 million a year to UK businesses, rising to a maximum of £350 million a year in the longer term.

In addition the Government is announcing:

- A **stamp duty exemption for transfers of goodwill** to reduce the tax bill on transfers of business putting goodwill on the same footing as intellectual property;
- A package of measures to tackle the **avoidance of stamp duty** on commercial property transactions, and a reform to **stamp duty on land and buildings** in the UK. This will ensure that in future stamp duty applies fairly to all relevant transactions, and pave the way for the introduction of electronic conveyancing. (*see press notice REV 4 for further details*);
- a package of **corporation tax cuts** - reducing the starting rate from 10 pence to zero and the small companies' rate from 20 per cent to 19 per cent (*see press notice REV/C&E 2 for further details*);
- A modernised and simplified regime for **loan relationships, derivative contracts and foreign exchange gains and losses** from 1 October 2002 to provide certainty and stability for business;

Modernising the business tax system

- Changes to the **North Sea tax regime** to put in place a stable regime for the future to ensure a regime that raises a fair share of revenue on their profits while promoting long term investment:
 - companies producing oil and gas from the UK or UK Continental Shelf will pay a supplementary charge of 10 per cent in addition to the current 30 per cent corporation tax;
 - to encourage investment, a 100 per cent first year allowance for capital expenditure will be available to North Sea companies; and
 - the Government intends, subject to consultation on the appropriate timing, to abolish North Sea Royalty.
- a measure to **modernise the taxation of foreign companies** operating in the UK through branches. Capital will be attributed to a UK branch for

tax purposes, based on the capital it would need to trade if the branch were an independent, free-standing company. This will bring the UK closer into line with established international practice, ensuring a level playing field between foreign companies (mainly banks) and their UK based competitors. The Government will be consulting on the technical detail of the legislation;

- A consultation on **further changes to the corporate tax system** building on the reforms announced in this Budget and taking forward the Government's programme of modernisation of the corporate tax system to ensure that the UK remains the best possible place for business;
- **Reforms to the rules governing changes of accounting basis** were announced on 1 August 2001. Draft clauses have been consulted on and revised clauses will be published in the Finance Bill;
- Measures to protect the tax base and to root out tax avoidance whilst facilitating business efficiency and promoting competitiveness, including:
 - restriction of the tax reliefs for expenditure on the production of "**British qualifying films**", subject to discussion with the industry on the details of the implementation. This will refocus the reliefs on the original intention of stimulating the production of films in the UK and to promote growth, employment, investment and opportunities in the British film industry. These changes will apply from 17 April 2002.
 - a reserve power to bring within the charge to tax under the **controlled foreign companies (CFC)** legislation all CFCs that are located in overseas jurisdictions where harmful tax practices are prevalent. The reserve power will enable the UK to protect itself from the continuation of such practices in those jurisdictions.

Reducing regulation and compliance costs

A further package of measures will help reduce the tax and compliance burden on business – another essential step towards a more modern, flexible and efficient tax system, helping business thrive. Alongside improvements to capital gains tax – confirmed in the November 2001 Pre-Budget Report – these measures will help ensure that the UK is one of the most attractive locations for business investment. These measures include:

- Further **reform of the rules on deducting tax at source from corporate interest and royalty payments** to reduce the number of occasions when tax has to be withheld at source;
- Simplification of the rules for **life insurance companies investing in venture capital partnerships**, will reduce compliance costs and encourage investments. This measure will take forward recommendations made by Paul Myners in his review on institutional investment.
- A package of measures **simplifying the capital gains tax system**, designed to help employees and business and typically reduce the tax compliance cost.
- Consultation on the **offshore funds tax regime**.

Press Notices

REV 3 Stamp Duty on UK land and buildings

REV/C&E 2 Supporting Small Businesses and Entrepreneurs

DETAILS

Promoting productivity, growth and jobs

- A new **R&D tax credit**, to complement the SME tax credit introduced in Budget 2000, took effect from 1 April 2002. The new credit is given at a headline rate of 25 per cent. This will reduce the after tax cost of the full amount of qualifying R&D by 7.5 per cent for a company paying corporation tax at the standard rate.
- A new exemption for gains and losses on **substantial shareholdings**, to provide business with the flexibility it requires to restructure rapidly in response to emerging global opportunities. The exemption, which took effect from 1 April 2002 applies where:
 - an independent trading company or a company which is a member of a trading group disposes of a substantial shareholding in another company which is itself a trading company or the holding company of a trading group; and

- the investing company has held 10 per cent or more of the ordinary shares of the company invested in for a period of at least twelve months in the two years before the share sale.
- A new regime for **intangible assets** will provide relief to companies for the costs of intellectual property, goodwill and other intangible assets. The new regime took effect from 1 April 2002 and:
 - covers the cost of acquiring intellectual property, goodwill and other intangible assets providing relief where none had previously been available;
 - ensures that relief for future acquisitions will be given on a consistent basis following, as far as possible, the amortisation reflected in companies' accounts.
- The rules on **stock valuation** on the transfer of a business will be modernised with effect from Royal Assent to achieve a better fit with both the new intangibles and other existing tax rules.
- Transfers of goodwill will be exempt from **stamp duty**, reducing the tax bill when businesses with goodwill are bought and sold. This exemption will put goodwill on the same footing as intellectual property (exempted from stamp duty in 2000);
- A new regime for **loan relationships, derivative contracts and foreign exchange gains and losses** will take effect for accounting periods beginning on or after 1 October 2002, or earlier where special rules apply. It will:
 - extend the scope of the financial instruments regime to give certainty of tax treatment to most derivative contracts, including those which had not been developed when the original rules were introduced;
 - enable companies to get relief for bad debts in a wider range of circumstances; and
 - merge the legislation on foreign exchange gains and losses into the loan relationships and derivative contracts system.
- The legislation includes targeted anti-avoidance measures, effective from 26 July 2001, 19 December 2001 and 26 March 2002 to counter avoidance schemes involving:

- premiums and discounts on currency contracts;
 - convertible, exchangeable and asset-linked securities; and
 - relevant discounted securities.
- Some relaxations have been made to the rules announced originally to ensure that normal commercial financing transactions are not hindered.
 - The reform of the loan relationships regime includes measures which, in line with the changes proposed in the Enterprise Bill, will facilitate the rescue of companies experiencing financial difficulties.

Modernising the business tax system

- In last year's Budget the Chancellor made it clear that, in considering the next steps for **North Sea taxation**, the Government's approach would be guided not by short-term factors but by the need for a regime that raises a fair share of revenue and promotes long-term investment in the North Sea. In line with this commitment, the Government has now decided on the reforms it wishes to bring forward.
- It is widely recognised that the present North Sea fiscal regime does not strike the right balance between promoting investment and taking an adequate share of revenue derived from a national resource. The Government has therefore decided to introduce from today a supplementary charge on profits from the production of oil and gas in the UK and on the UK Continental Shelf (UKCS). The charge will apply at 10 per cent, in addition to the standard corporation tax rate of 30 per cent, and will only affect companies producing oil or gas in the UK or on the UKCS. In virtually all respects, the supplementary charge will be calculated on the same basis as normal corporation tax, although there will be no deduction for financing costs against the 10 per cent charge.
- The Government wants to encourage long-term investment in the North Sea. From today, therefore, most capital investment in the North Sea will qualify for an immediate 100 per cent allowance against general corporation tax and the supplementary charge, rather than the 25 per cent allowance currently available.
- The Government intends, subject to consultation on the appropriate timing, to abolish North Sea Royalty, which applies only to older fields. Some – but not all – of the fields that pay Royalty are nearing the end of production. The Government therefore wants to consider the future of

Royalty in relation to future investment in older fields and field decommissioning.

- These changes put in place a sustainable regime for the long term. They strike the right balance between the need to raise a fair share of tax for the nation and the need to promote long-term investment.
- Recent OECD work shows that the UK rules on attributing capital to **branches of overseas companies** are out of line with international practice. The proposed reform will address this weakness, by attributing to a UK branch of a foreign company a share of the company's capital (i.e. share capital and retained profits) for tax purposes, based on the capital needed if the branch were an independent, free-standing company. The new regime will apply to accounting periods starting on or after 1 January 2003. There will be consultation on the technical detail of legislation, based around draft clauses to be published shortly
- This reform will bring the UK closer into line with established international practice. It will help ensure that the treatment of foreign company branches here in the UK is similar to that of both UK companies and foreign companies with UK subsidiaries. This will ensure a level playing field and enhance competition. The reform will also mean that foreign company branches pay a fairer share of UK corporation tax, reflecting the profits they make from their UK activities.
- The consultation on **further reforms of the corporate tax system** will:
 - consider the case for bringing the remaining taxable gains of companies into an income regime as a natural extension of the changes introduced in this Budget, including an approach for land and buildings that might mirror that for intellectual property;
 - examine the merits of rationalising the schedular system; and
 - review the scope for greater alignment between the treatment of investment and trading companies.
- The consultation document will be issued in the summer. Changes of this sort would have to take account of a range of issues including the special position of businesses such as life assurance.

- A package of **VAT anti-avoidance measures** which will help to protect the tax base, remove distortions and ensure that businesses pay their fair share of tax, including:
 - blocking a scheme used to avoid VAT on second-hand goods, particularly in respect of business cars;
 - following consultation, legislating at the earliest opportunity to block loopholes in the VAT treatment of face-value vouchers; and
 - ensuring that the VAT recovered by the largest partially-exempt businesses fairly reflects their level of taxable activity.

The **changes to film tax relief** will include a measure to restrict the main tax relief, for British qualifying films with budgets not exceeding £15 million, to production expenditure which has been paid at the time the film is completed, or is unconditionally payable within four months of the date the film is completed.

- The **reserve CFC power** to bring within the charge to tax made by the CFC rules all CFCs that are located in overseas jurisdictions where harmful tax practices are prevalent, would give the UK the power to protect itself from the continuation of such practices in those jurisdictions. The charge to tax made by the CFC rules is limited, in effect, to CFCs which predominantly receive certain limited types of (mainly passive) income, or which meet certain other conditions. However, it is not appropriate for any CFCs to be outside the charge to tax in the CFC rules when they are located in jurisdictions where harmful tax practices are prevalent. And so the measure introduces the reserve power for the Treasury to make regulations specifying jurisdictions where all CFCs would fall within the charge to tax of the CFC rules. The Chancellor is determined to promote fair tax competition and to take effective action against jurisdictions that do not remove their harmful tax practices. He hopes that jurisdictions will remove those practices so that it will not be necessary to make regulations designating any of them.

Reducing regulation and compliance costs

- Further changes to the system of deducting tax at source from **corporate interest and royalty payments** will ensure that from October 2002:

- Companies will not have to deduct tax from interest, royalties, annuities and annual payments paid to specified bodies that are exempt from UK tax and who would otherwise simply have to reclaim that tax at a later stage. The rules for deducting tax from payments made by local authorities will be aligned with those that apply to companies;
- UK companies will be able to make royalty payments to non-residents without deducting tax where they have a reasonable belief that the non-resident would be able to reclaim the tax under a double taxation treaty; and
- UK financial dealers will be able to pay interest without deduction of tax in the course of financial trading, so strengthening their competitiveness in this major international industry. Securities houses will be subject to the same regime as banks for deducting tax at source on interest payments to individuals.
- A simplification of the calculation of capital gains arising to **life companies and friendly societies investing in certain venture capital partnerships**, avoiding the need for the valuation of unquoted shares, normally a complex and burdensome task:
 - the investment by the life company in the partnership will be treated as a single asset, acquired when it became a partner;
 - capital gains on disposals (including part-disposals) of that asset will be calculated by reference to distributions from the partnership to the company, rather than to the values and sale proceeds of the underlying shares;
- A number of measures to simplify and modernise the **VAT system**, including implementation of EU-wide standards on VAT invoicing, and abolition of outdated VAT provisions concerning the recovery of debts and the production of printed matter.
- A package of measures **simplifying capital gains tax (CGT)**, produced after extensive consultation, including the following measures to help employees and business:
 - employees may acquire shares on the same day via different share option schemes. Exercising the options may give rise to an income tax charge in some schemes but not in others, and where it does

employees sometimes sell shares in order to pay the tax. The CGT rules do not, however, identify the shares sold as the shares that produced the income tax liability. These rules are being changed so that employees will be able to elect for a different rule that will typically reduce any CGT liability on that sale; and

- incorporation relief rolls over the CGT charge when a business and its assets are transferred to a company. Instead the charge arises when the shares in the company are sold. Businessmen and women will now be allowed to elect that the relief does not apply. This will reduce the tax cost in some cases where the shares are sold before the full benefit of business assets taper relief can be realised.
- A consultation on the **offshore funds tax regime**. The Government has decided to consult with fund managers and other interested parties on how the current regime for taxing investment returns from overseas collective investment schemes, or 'offshore funds' as they are commonly known, might be improved. Since their introduction in 1984, the rules have changed little. However, over that period a number of commercial, regulatory and tax developments have had a significant impact upon the worldwide investment funds sector. In the light of these changes the existing rules may no longer be the best way of delivering the original objectives of the scheme. The Government will therefore consult on:
 - whether the regime should be retained, and if so what reforms can or should be made to it; or
 - whether the regime should be abolished, and if so what arrangements can or should be put in its place.

NOTES FOR EDITORS

R&D Tax Credit

- A consultation on extending R&D tax credits to all companies was announced in Budget 2001, with the consultation document "*Increasing Innovation*", which set out the choice between an incremental credit (given to companies that increase R&D spending), and a volume credit (given to all companies undertaking qualifying R&D).

- The November 2001 Pre-Budget Report confirmed that a volume tax credit would be introduced and announced further consultation into detailed design options, set out in the document *“Designs for Innovation”*.
- On 26 March 2002, the Chancellor confirmed that the credit would be a “simple volume” design, which rewards companies for the full amount of qualifying R&D they undertake. This Budget announces that the rate of relief will be 25 per cent.
- A Regulatory Impact Assessment has been prepared and available on the internet at www.inlandrevenue.gov.uk.

Exemption for substantial shareholdings

- A Regulatory Impact Assessment and a summary of comments on the draft legislation published on 27 November 2001 are available on the Inland Revenue website.

Loan relationships, derivative contracts and foreign exchange gains and losses

- The legislation announced today has been the subject of extensive consultation begun in 2000 and leading, shortly after the 2001 Pre-Budget Report, to publication of a Technical Note entitled *“Loan Relationships, Derivative Contracts and Foreign Exchange Gains and Losses”*, which contained draft legislation.
- A Regulatory Impact Assessment has been prepared and available on the internet at www.inlandrevenue.gov.uk

Controlled foreign companies (CFCs)

- The CFC rules are designed to stop UK companies reducing their tax liabilities by diverting profits to foreign companies under their control, which are situated in low tax jurisdictions. The rules work by, broadly, charging UK parent companies of CFCs on an amount equal to the profits that would otherwise avoid tax.
- There are a number of exemptions from the CFC rules to ensure that the rules only deal with controlled foreign companies that are used for the purpose of reducing UK tax.

Capital Gains Tax Simplification

- As part of his Enterprise for All announcement on 18 June 2001, the Chancellor of the Exchequer opened a consultation to simplify capital gains tax within the existing policy framework. The Government is very grateful to the 24 organisations and individuals who replied to the consultation and also to the members of the Capital Gains Tax Review Group who explored options with the Inland Revenue. A summary of replies to consultation is published on the Inland Revenue's website.
- The Government remains committed to exploring opportunities for further simplification of capital gains tax, specifically looking at the scope for simplifying:
 - the taxation of part disposals of shares and units acquired in monthly purchase schemes; and
 - foreign currency transactions, for example, it can be complex to calculate gains where there are multiple deposits and withdrawals from a foreign currency bank account.

Life companies and friendly societies investing in venture capital partnerships

- The Myners' report entitled *"Institutional Investment in the UK: a review"* was published in March 2001. The Chancellor announced at Budget 2001 that the Government would be taking forward all of the report's recommendations. A link to the Myners report can be found on the HM Treasury website.

Offshore funds

- The offshore funds regime was introduced in 1984. It governs the taxation of all UK resident investors in overseas collective investment schemes or 'offshore funds'.
- Its purpose is to counter the use of particular types of fund to convert income flows into capital gains. Prior to its introduction, a UK resident investor could accumulate income in a particular type of offshore fund and, when the investment was realised, be subject only to capital gains tax rather than having to pay income tax on the accumulating income.

- The operation of the scheme has attracted increasing comment in recent years, not least because of the nature of the compliance obligations a fund has to meet annually if its investors are to preserve capital gains tax treatment on the disposal of their interests. One of the main aims of the consultation exercise is to identify ways to make the scheme, or any successor to it, more user-friendly.

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Budget 2002

REV/C&E 2

17 April 2002

SUPPORTING SMALL BUSINESSES AND ENTREPRENEURS

Budget 2002 is a Budget for enterprise - small businesses received a further boost today as the Chancellor announced a package of measures to cut taxes and reduce compliance costs, promoting entrepreneurial spirit and supporting new business start-ups.

The package will offer reductions in tax and compliance cost burdens for up to 900,000 businesses in the UK. It includes:

- **cutting the corporation tax starting rate from 10 per cent to zero**, meaning that 150,000 companies will no longer pay any corporation tax;
- **cutting the small companies' rate from 20 per cent to 19 per cent**, benefiting over 335,000 additional companies;
- measures to ease the impact of **VAT on small business** including:
 - **an increase in the VAT registration threshold** to £55,000, keeping 4,000 businesses out of the VAT net;
 - an **optional flat rate scheme**, which will allow 500,000 small firms to cut their compliance costs by up to £1,000, and will be extended to 200,000 more small firms with turnovers up to £150,000 next April;
 - the **removal of automatic penalties** for all those firms with turnovers of up to £150,000, who will instead first be offered help and advice when they are late with their VAT payments;
 - reforms designed to make it easier for businesses to join the **VAT annual accounting scheme**, and to recover VAT on bad debts; and
 - the introduction next year of a **targeted scheme to allow approved importers to delay accounting for VAT** on their

imports, significantly cutting compliance costs and improving cashflow.

- **implementing a three-stage move towards universal electronic filing of employer PAYE returns, with financial incentives to encourage small employers** to make greater use of IT, as recommended by the Carter Review of Payroll Services;
- **a cut in beer duty for small brewers from June 2002**, offering a 50 per cent cut in duty for those producing up to half a million litres and duty savings worth over £120,000 for breweries producing up to 3 million litres of beer per year. In total, 9 out of 10 breweries will benefit from the scheme;
- **providing greater flexibility for Venture Capital Trusts (VCTs)** by enabling VCTs to merge or be wound up without investors losing tax reliefs;
- announcing today successful bidders for pilot projects to help small firms get '**investment ready**' by improving their ability to attract external finance to meet their growth aspirations;
- **modernising the way the Construction Industry Scheme** deductions are set off against tax liabilities during the year to improve the cash flow of around 20,000 companies in the construction industry.

For more information, see

Press Notices

REV/C&E1	A modern and competitive business tax system
REV 1	Inland Revenue tax rates and allowances for 2002-03
C&E 1	Alcohol and tobacco duties

DETAILS

The package of measures includes:

- **Cutting corporation tax**
 - *Cutting the starting rate of corporation tax* from 10 per cent to zero and the small companies' rate from 20 to 19 per cent. From 1 April 2002 companies with profits of up to £10,000 will benefit from a

zero starting rate of corporation tax and those with profits between £10,000 and £50,000 will benefit from the reduction in the starting rate through marginal relief. Companies with profits between £50,000 and £300,000 will have their rate cut from 20 per cent to 19 per cent and those with profits of between £300,000 and £1,500,000 will benefit from this change through marginal relief. Overall, these changes will benefit around 485,000 smaller companies. An average small company will save around £700 a year (*see press notice REV 1 for further details*).

- The Inland Revenue is also considering the compliance implications for companies, clubs and associations within the zero rate band and will be issuing guidance in due course.

- **Simplifying corporation tax**
 - Small businesses will also benefit from consultation on the wider reform of corporation tax looking at rationalising the schedular system, the scope for greater alignment between the treatment of investment and trading companies and the case for bringing the remaining taxable gains made by companies into an income regime (*see press notice REV/C&E1 for further details*).

- **Simplifying VAT for small businesses**
 - *The annual taxable turnover limit*, which determines whether a person must be registered for VAT, will be increased in line with inflation to £55,000, keeping 4,000 small businesses out of the VAT net and maintaining the UK's VAT registration threshold as the highest in Europe;

 - *A new optional flat rate scheme* will simplify the way small businesses account for VAT. Businesses with a taxable turnover up to £100,000 will no longer have to keep records of the VAT charged on each individual purchase and sale and will instead be able simply to calculate their net VAT liability by applying a flat rate percentage to their total turnover. This will offer compliance cost savings of up to £1,000 per year for more than 500,000 businesses, including at least:
 - 32,000 small manufacturers;
 - 15,000 agricultural businesses;
 - 22,000 transport companies; and

- 11,000 pubs.
- *The Government intends next year to extend the flat rate scheme to 200,000 additional businesses with turnovers up to £150,000. From next year, the Government will also ensure that all businesses with turnovers up to £150,000 will first be offered advice and support when they are late with their payments, rather than having to face automatic fines.*
- *Changes to simplify the VAT annual accounting scheme will include simplifying the payment patterns for all participants in the scheme and removing the existing 12 month qualifying period before firms can join the scheme for businesses with an annual turnover of up to £100,000.*
- *The arrangements for VAT bad debt relief will be simplified, removing the requirement for supplier business to send letters to their debtors notifying them that they are claiming relief.*
- Following consultation, a scheme will be introduced next year, for approved importers with sustained compliance records, removing the requirement to pay the VAT due on imports up front, a requirement currently estimated to cost UK importers £175 million per year in compliance and cashflow costs.
- **Implementation of the Carter Review** recommendations on payroll:
 - Following publication of Patrick Carter's Review of Payroll Services at the Pre-Budget Report, ministers invited comments on the detail of the recommendations. The consultation showed general support for the principle of greater use of information technology to help employers manage the task of dealing with payroll, although some concern about the requirement for e-filing by small employers. The responses also endorsed the proposals that the Inland Revenue should encourage employers to deal with Government electronically and should improve the support it offers to employers.
 - The Government is therefore proposing a three stage move towards e-filing:
 - Employers with 250 or more employees will be required to file electronically from 2004-05;

- Employers with 50 or more employees will be required to file electronically and beginning with the year 2005-06;
- The **incentive payments** recommended by the review to encourage smaller employers with fewer than 50 employees to file electronically will begin from 2004-05 at the level of £250, tapering to £75 by 2008-09. The Government proposes that electronic filing of employer returns will become a universal requirement from 2010 for the filing of 2009-10 returns;
- To support business in the switch to using new technology, the Inland Revenue will be expanding the payroll support given by Business Support Teams and the employers' helpline. These teams offer one to one visits to new and small business to help and give advice on all aspects of business requirements for tax and NICs. The Inland Revenue will also introduce further enhancements to its website.
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- **Small brewers**
 - *A cut in beer duty for small brewers* will be introduced from June 2002 to support the nation's traditional small brewing industry. Brewers producing up to a half a million litres will enjoy a 50 per cent cut in duty, equivalent to £40 off each barrel they produce. All brewers producing up to 3 million litres of beer per year will enjoy a cut in duty. In total, 9 out of every 10 of the nation's breweries will benefit from the scheme including all micro and regional brewers, the majority of which are based in rural areas (*see press notice C&E1 for further details*).
- **Encouraging entrepreneurship**
 - *Providing greater flexibility for Venture Capital Trusts (VCTs)*. With effect from today there will be greater flexibility for users of the VCT scheme. New provisions will give flexibility to VCTs and their investors to consider options on being wound up or merged from a commercial standpoint rather than with regard to the tax implications.

- *Helping firms become 'investment ready'*. The Government is committed to improving the ability of entrepreneurs to make use of risk capital by ensuring that more know how to access it and understand its benefits. The Government is today announcing successful bidders to run six pilot projects to inform small firms about their financing options and offer a programme of support to help them become 'investment ready'.
- **Changes to the Construction Industry Scheme**
 - From 6 April 2002 companies operating as subcontractors in the Construction Industry Scheme (CIS) who receive payments net of CIS deductions will benefit from new arrangements that will improve their cash flow. Companies who have deductions made from their income as subcontractors will no longer have to wait until the end of their accounting period before they can set off these deductions against other liabilities. The deductions can now be set off against PAYE and NICs and any CIS liabilities due from employees and subcontractors they engage.
 - This will particularly help small and medium sized companies who have little or no corporation tax liability as well as companies for whom construction is a small part of their activity. Around 20,000 small and medium sized companies will benefit from this measure.
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NOTES FOR EDITORS

- The Venture Capital Trust (VCT) scheme started on 6 April 1995. It offers a range of tax reliefs for individuals investing up to £100,000 per tax year in VCTs which are quoted companies that invest in small unquoted higher risk trading companies.
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- **Changes to the Construction Industry Scheme**
 - From 6 April 2002 companies operating as subcontractors in the Construction Industry Scheme (CIS) who receive payments net of CIS deductions will benefit from new arrangements that will improve their cash flow. Companies who have deductions made from their income as subcontractors will no longer have to wait until the end of their accounting period before they can set off these deductions against other liabilities. The deductions can now be set off against PAYE and NICs and any CIS liabilities due from employees and subcontractors they engage.
 - This will particularly help small and medium sized companies who have little or no corporation tax liability as well as companies for whom construction is a small part of their activity. Around 20,000 small and medium sized companies will benefit from this measure.
 - A Regulatory Impact Assessment has been prepared and is available on the internet from www.inlandrevenue.gov.uk.

NOTES FOR EDITORS

- The Venture Capital Trust (VCT) scheme started on 6 April 1995. It offers a range of tax reliefs for individuals investing up to £100,000 per tax year in VCTs which are quoted companies that invest in small unquoted higher risk trading companies.
- The Inland Revenue's employers' helpline, offering support to new and small business, can be reached on 0845 7143143.

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Budget 2002

REV 1

17 April 2002

INLAND REVENUE TAX RATES AND ALLOWANCES FOR 2002-03

Rates and allowances for income tax, corporation tax, capital gains tax, inheritance tax and the pension schemes earnings cap are set out below.

	2001-02 (£)	2002-03 (£)	Increase (£)
Income tax allowances			
Personal allowance	4 535	4 615	80
Personal allowance for people aged 65-74	5 990	6 100	110
Personal allowance for people aged 75 and over	6 260	6 370	110
Income limit for age-related allowances	17 600	17 900	300
Married couple's allowance for people born before 6 April 1935	5 365	5 465	100
Married couple's allowance –aged 75 or more	5 435	5 535	100
Minimum amount of married couple's allowance	2 070	2 110	40
Children's tax credit	5 200	5 290	90
Children's tax credit – baby rate	-	10 490	-
Blind person's allowance	1 450	1 480	30
Capital gains tax annual exempt amount:			
Individuals etc:	7 500	7 700	200
Other trustees:	3 750	3 850	100
Inheritance tax threshold	242 000	250 000	8 000
Pension schemes earnings cap	95 400	97 200	1 800

Taxable bands 2001-02 (£)		Taxable bands 2002-03 (£)	
Starting rate 10 per cent	0 – 1 880	Starting rate 10 per cent	0 – 1 920
Basic rate 22 per cent	1 881 – 29 400	Basic rate 22 per cent	1 921 – 29 900
Higher rate 40 per cent	Over 29 400	Higher rate 40 per cent	Over 29 900

Corporation tax profits 2001-02 (£)		Corporation tax profits 2002-03 (£)	
Starting rate 10 per cent	0 – 10 000	Starting rate zero	0 – 10 000
Marginal relief	10 001 – 50 000	Marginal relief	10 001 – 50 000
Small companies' rate 20 per cent	50 001 – 300 000	Small companies' rate 19 per cent	50 001 – 300 000
Marginal relief	300 001 – 1 500 000	Marginal relief	300 001 – 1 500 000
Main rate 30 per cent	1 500 001 or more	Main rate 30 per cent	1 500 001 or more

The main rate of corporation tax for 2003-04 will be 30 per cent.

NOTES FOR EDITORS

Income tax rates and allowances

1. The rate of tax applicable to savings income in section 1A, ICTA 1988, other than dividends, is 20 per cent for income falling between the starting rate and basic rate limits. The rates of tax applicable to dividends are 10 per cent for income below the basic rate limit and 32.5 per cent above it.
2. The rate of relief for the continuing married couple's allowance and maintenance relief for people born before 6 April 1935, and for the children's tax credit, is 10 per cent.
3. As announced in Budget 2001, a baby rate of children's tax credit has been introduced from April 2002. This will mean that for these families CTC will be worth up to £1,049 in the tax year of the child's birth.
4. For 2003-04, the income tax personal allowance for those aged under 65 will be frozen. The personal allowance for those aged 65 – 74 will be increased to £6,610, and for those aged 75 or over it will be increased to £240 above statutory indexation.

Capital Gains Tax (CGT)

5. The annual exempt amount is increased to £7,700 for individuals, trustees of settlements for the disabled, and personal representatives of the estate of a deceased person, and £3,850 for other trustees. For individuals, the amount chargeable to CGT is added to the income liable to income tax and is treated as the top part of that total. CGT is charged at the following rates: below the starting rate limit at 10 per cent, between the starting rate limit and basic rate limit at 20 per cent, and above the basic rate limit at 40 per cent.

Rates for trusts

6. The rate applicable to trusts remains unchanged at 34 per cent for 2002-03 and the Schedule F trust rate remains unchanged at 25 per cent.

Inheritance tax

7. The value of estates above the threshold is taxed at 40 per cent. The threshold is being increased by £3000 more than statutory indexation. The estimated number of taxpaying estates in 2002-03 will be about 24,000. This is around 4 in 100 deaths.

Pensions schemes earnings cap

8. The main effect of the cap is to set a ceiling on the contributions that can be paid to, and the benefits that can be paid by, tax approved pension schemes. It generally applies to people who contribute to a personal pension scheme, joined an occupational scheme set up since 14 March 1989, or joined any occupational scheme from 1 June 1989 that was set up before 14 March 1989. From 6 April 2001 the cap will apply to people who contribute to stakeholder pension schemes.

Corporation tax

9. The corporation tax starting rate is reduced from 10 per cent to zero for companies with taxable profits below £10,000. The small companies' rate is reduced from 20 to 19 per cent for companies with taxable profits between £50,000 and £300,000.
10. Marginal relief eases the transition from the starting rate to the small companies' rate for companies with profits between £10,000 and £50,000. The fraction used in the calculation of this marginal relief will be $\frac{19}{400}$. Marginal relief also applies to companies with profits between £300,000 and £1,500,000. The fraction used in the calculation of this marginal relief will be $\frac{11}{400}$.
11. The profits limits may be reduced for a company which is part of a group or has associated companies. The lower rates and marginal reliefs do not apply to close investment holding companies.

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Budget 2002

REV 2

17 April 2002

NATIONAL INSURANCE RATES 2003-04

The Chancellor today announced an increase in the rates of National Insurance contributions (NICs) which will be introduced in 2003-04. There will be an additional 1 per cent national insurance contribution (NIC) by employers, employees and the self-employed on all earnings above the NICs threshold of £89 per week. This is in addition to existing rates of contribution below the upper earnings limit for employees and the upper profits limit for the self-employed.

This means that the starting point for both employers' and employees' NICs in 2003-04 will be £89 per week and no employee will pay NICs on earnings below this amount.

DETAILS

Rates and thresholds are set out below.

	2002-03	2003-04
Primary threshold	£89 per week	£89 per week
Secondary threshold	£89 per week	£89 per week
Employees' primary class 1 rate on earnings between primary threshold and upper earnings limit	10%	11%
Employees' primary class 1 rate on earnings above upper earnings limit	-	1%
Employers' secondary class 1 rate on earnings above secondary threshold	11.8%	12.8%
Lower profits limit (for self-employed Class 4 contribution)	£4,615	£4,615
Class 4 rate on profits between lower and upper profits limit	7%	8%
Class 4 rate on profits above upper profits limit	-	1%

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Budget 2002

REV 3

17 April 2002

NEW TAX CREDITS: A £2.7 BILLION BOOST FOR FAMILIES AND THE LOW PAID

Two new tax credits – the Child Tax Credit and the Working Tax Credit – will be introduced from April 2003 providing an additional £2.7 billion to support families with children, tackle poverty and make work pay.

Announcing the rates and thresholds for the new tax credits, the Paymaster General, Dawn Primarolo said:

“The Child Tax Credit and Working Tax Credit modernise the existing tax credit system to improve support for children whether or not their parents are in jobs and to make work pay. We are determined to build a tax system fit for the 21st century and these new credits mark a radical step forward in our tax and benefit reforms.”

- Child Tax Credit will combine all income-related support for children and will be paid direct to the main carer, usually the mother, creating one system of support spanning welfare and work;
- The Working Tax Credit will provide a guaranteed income from full-time work for those aged 25 or over without children or a disability of £183 per week for couples and £154 per week for single people;
- The Child Tax Credit will provide a total of £13 billion in support, benefiting around 5.75 million families;
- For the first child, universal Child Benefit and the Child Tax Credit will provide £54.25 a week to all families with incomes less than £13,000 while all families with incomes less than £50,000 are guaranteed £26.50 a week;
- Child Tax Credit will be extended to some who are currently excluded from all but Child Benefit such as students and student nurses;

- From April 2004, the child elements of the Child Tax Credit will be uprated at least in line with earnings rather than prices for the rest of the Parliament.

The Child Tax Credit brings together the various strands of support for families with children – the child elements in Income Support, Jobseeker's Allowance, Working Families' Tax Credit (WFTC), Disabled Person's Tax Credit (DPTC) and the Children's Tax Credit – into one streamlined system.

The Working Tax Credit will broadly replicate the adult support in WFTC and extend the principles of WFTC and DPTC to adults without children to create one transparent instrument to make work pay, paid through the wage packet. It will also include support with the costs of childcare, building on the success of the existing childcare component of WFTC and DPTC.

NOTES FOR EDITORS

The new tax credits will offer recipients a number of advantages over the current systems of support. Compared to the current WFTC and DPTC, the main advantages are:

- greater generosity – a single earner couple working full-time at the National Minimum Wage with two children will receive around £400 a year more from the new tax credits compared to WFTC and the existing Children's Tax Credit;
- less form filling – families will have one renewal each year, rather than two; and
- better incentives to save – families will no longer be unfairly penalised for having savings. The system will treat income from savings just like any other income. For example a single earner family earning £18,000 with £6,000 of savings (generating £300 of interest a year) would gain over £14 a week from the new tax credits, mainly as a result of the abolition of the capital rules.

Families receiving Income Support or income-based Jobseeker's Allowance (IS/JSA) will automatically receive full Child Tax Credit. For them, the main advantages are:

- greater generosity – compared to the child allowances in IS/JSA. For example, most families with two children on IS/JSA will gain over £9 a week from the Child Tax Credit; and
- more security on the move into work – families continue to receive Child Tax Credit when they return to work without the need to reapply. The Child Tax Credit will be paid at the maximum rate for all families until income reaches £13,000 a year, delivering a secure stream of income for families moving off welfare and into work.

Compared to the current Children’s Tax Credit, the new tax credits will offer a number of advantages:

- payment to the main carer - the Child Tax Credit will be paid direct to the main carer, usually the mother, providing a secure and regular stream of income; and
- a fairer system – awards will be based on the income of the family, so one and two earner couples on the same income will be treated the same. For example, under the Child Tax Credit a single earner family on £40,000 will receive £545 a year, the same as a couple where both earn £20,000 and £320 a year more than they would have received from the Children’s Tax Credit.

The Child Tax Credit

The Child Tax Credit replaces the income-related child elements of out of work benefits (Income Support and Jobseeker’s Allowance), the Working Families’ and Disabled Person’s Tax Credits and the Children’s Tax Credit, building on the foundation of universal Child Benefit. The Child Tax Credit will provide £13 billion of support, benefiting around 5.75 million families.

The new system will offer families with children a number of benefits over the current systems of support. The Child Tax Credit will provide:-

- a continuous stream of income for families with children, which does not depend on the work status of the parents, creating a stable income bridge when families move into work;
- extended eligibility, to some who are currently excluded from all but Child Benefit, such as students and student nurses;

- a system in which all support for children is paid direct to the person with main responsibility for the child's care, in line with Child Benefit;
- a more transparent system which brings together all income-related child payments into a single payable tax credit administered by the Inland Revenue;
- greater flexibility, enabling families to continue to access support from one system, even as their incomes rise or circumstances change; and
- a common framework for assessment, so that most families are part of a single, inclusive system ending the stigma often associated with more traditional forms of support.

Budget 2002 announces the rates and thresholds for the new tax credits (fully detailed in the Annex). As an illustration for families with two children, Child Tax Credit and Child Benefit will work together to provide:

- at least £26.80 a week in support guaranteed for all families;
- £37.25 a week in support guaranteed for families with an income of less than £50,000; and
- £92.75 a week in support guaranteed for families with an income of less than £13,000 a year.

In advance of the introduction of the Child Tax Credit, the child allowances in Income Support and Jobseeker's Allowance will be brought into line with those in Working Families' Tax Credit from October 2002, providing an increase of £3.50 a week.

The Working Tax Credit

The Working Tax Credit will make work pay for low income workers. It replaces the Working Families' Tax Credit, Disabled Person's Tax Credit and New Deal 50 plus Employment Credit. It improves on these forms of support by:

- increasing the minimum income guarantee for a single disabled person working full time from £172 a week now to £194 a week in April 2003; and

- improving the work incentives of second earners in couples with children, for example, in a family with two children where the first earner has an income of £14,100 (half average earnings) and the non-working partner takes a part-time job at typical entry wages, the gain to work will increase by over £14 a week in 2003-04 compared to the current system.

The Working Tax Credit will also for the first time extend support to those aged 25 or more without children or a disability where they work at least 30 hours a week. For this group, the Working Tax Credit means:

- a guaranteed minimum income from full-time work of £183 for couples and £154 for single people; and
- improved gains to work - for a couple where one person moves into full-time work, the gain to work will rise to nearly £50 a week compared with £20 now.

Budget 2002 announces the rates and thresholds that will apply to the Working Tax Credit from April 2003 (fully detailed in the Annex). In advance of the introduction of the new tax credits, the basic credit in the Working Families' Tax Credit and the couple and lone parent credits in the Disabled Person's Tax Credit will rise by £2.50 from June 2002.

Responsive tax credits

The Working and Child Tax Credits will be based on annual income for a tax year and will run for up to 12 months. They are designed to combine continuity of support for those whose circumstances are stable, with the flexibility to respond quickly for those who are experiencing change.

At the start of the tax year or the start of a claim, the tax credits award will be based on the current circumstances (for example, number of children, hours worked) of the individual or couple claiming and on their income for the last tax year. Those with income below the first withdrawal threshold will be paid the full amount of tax credits available for their circumstances. Those who qualify for Income Support or income-based Jobseeker's Allowance will also be entitled to maximum Child Tax Credit, without a further income test.

Those with income over the threshold will have their maximum tax credit award reduced by 37p for every pound of income (before tax and NICs) over the threshold. Claimants eligible for both the Working Tax Credit and the Child Tax Credit will have their maximum awards reduced in the order:

- Working Tax Credit apart from childcare;
- The childcare element of Working Tax Credit;
- Child Tax Credit apart from the family element; and finally
- the family element where income exceeds the higher threshold of £50,000

That means that Working Tax Credit paid through employers is the first to be withdrawn, so that for many families with children, tax credits will be paid wholly to the person with main responsibility for the child's care.

Once an award has been set, it can run until the end of the tax year when entitlement will be reviewed. But if there is a change affecting the maximum available amount of tax credit, the tax credit award can be adjusted from the point of the change.

An award can also be adjusted if income in the current year falls in comparison with last year. This will help people who have a fall in income to stay in work. Awards will also be based on the income of the current year if income rises in comparison with the previous year. But to maintain the incentive to increase earnings, rises in income of up to £2,500 will be ignored and only the rise in income over £2,500 can trigger a reduction in a tax credit award.

For more details see *The Child and Working Tax Credits*, published by HM Treasury today

Working Tax Credit and Child Tax Credit - Ensuring A Smooth Transition

The Government wants to ensure that people receiving one of the current tax credits, who will be eligible for one or both of the new credits make a claim for the new tax credits in good time and do not experience any gaps in support. To this end, a number of changes are being made this year to prepare for the transition.

Claims for Working Tax Credit and Child Tax Credit

Subject to the necessary legislation being approved, later this year, the Inland Revenue will begin writing to all those currently receiving one of the existing tax credits inviting them either to apply for the new tax credits on-line, or to complete and return the paper form they will be receiving. Help will be provided both on-line and with the form and additional support will be available by phone or in person at local Inland Revenue offices. The Revenue

wants to ensure that all those eligible for the new tax credits claim as soon as possible so that they will start to receive payments in April 2003.

People not currently receiving tax credits but who think they may be eligible will be encouraged to go on-line and check their eligibility. If they find they are entitled to tax credits, they will be able to make their application electronically – there and then. Otherwise, people will be able to ring up for a paper form, or pick one up from Inland Revenue Enquiry Centres. An extensive publicity campaign is planned to help ensure no-one misses out.

Special Arrangements for WFTC and DPTC recipients

To avoid people having to renew their tax credit awards for relatively short periods in the run-up to April 2003, and help ensure a smooth transition to the new tax credits, awards of WFTC and DPTC will be lengthened from this summer.

From June this year, all new awards of WFTC and DPTC will run until 7 April 2003 instead of the normal 26 weeks. This will mean that no-one will have to re-apply for WFTC or DPTC from December 2002 onwards for an award which would last for less than four months.

To ensure that **all** WFTC and DPTC awards end on 7 April 2003, to coincide with the introduction of the new tax credits, awards starting on or after 15 October 2002 will be shortened and will run to that date.

Changes to social security benefits

Child Tax Credit will replace the child elements of Income Support, including the Minimum Income Guarantee, and income-based Jobseeker's Allowance and the support for children currently provided within certain other benefits. The Child Tax Credit replaces Child Dependency increases paid in non-means tested benefits for new claims to Retirement Benefit, Bereavement Benefit, Incapacity Benefit (including residual Severe Disablement Allowance) and Invalid Care Allowance. Existing recipients will have their entitlement transitionally protected.

For families who receive income related benefits, continuity of payment will be of particular importance. The Government has, therefore, decided that there will be a transition period for people on these benefits, to minimise the risks in this area. Current plans are for:

- families with children on the Minimum Income Guarantee to be migrated to Child Tax Credit by October 2003, to coincide with the planned introduction of Pension Credit; and

- families on Income Support or income-based Jobseeker's allowance to be migrated to Child Tax Credit from April 2004.

Families will not be disadvantaged by the transition period. The rates of the child elements within the income related benefits will be adjusted so that families receive the same amount in respect of their children as they would if they were receiving Child Tax Credit. For the vast majority of families in this position, there will be no need for them to claim Child Tax Credit until they move into work. If they are still on benefit when the migration begins, the Department for Work and Pensions will handle their cases automatically.

Helping Employers

Paying WFTC and DPTC through the wage packet has been a key element in delivering on the promise to make work pay. The Government is committed to that principle, which is why the new Working Tax Credit will be paid to employees through the wage packet, providing a clear and targeted top-up to wages.

But the Government also wants to ensure the transition to Working Tax Credit runs smoothly for employers. The system for paying Working Tax Credit through the wage packet will build on the successful WFTC system. But there will be some key simplifications to the system which will together save employers £11 million annually.

To allow employers time to adjust to the new system and to smooth the transition to the Working Tax Credit for claimants, payments of WFTC and DPTC by employers will gradually be phased out from 27 August. All awards of WFTC and DPTC in place before 27 August will be paid as normal for the first 26 weeks, but the Inland Revenue will make the remaining payments up to 7 April 2003. Awards which begin on or after 27 August will be paid direct by the Inland Revenue throughout.

Employers should not, therefore, have to make payments of WFTC or DPTC alongside the new Working Tax Credit. This will ensure that payment of the Working Tax Credit through the wage packet is introduced with minimum disruption to employers and employees.

More detail about the Working Tax Credit and the Child Tax Credit and how the new system will work is available in a **new document, *The Child and Working Tax Credits***, published today by HM Treasury and the Inland Revenue.

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PRESS NOTICE ANNEX

Rates and thresholds

The rates and thresholds of the new tax credits are shown in the table below.

Working Tax Credit¹	2003-04, £ per year	Weekly equivalents (£)
Basic element	1,525.00	29.20
Additional couple's and lone parent element	1,500.00	28.80
30 hour element	620.00	11.90
Disabled worker element	2,040.00	39.15
Enhanced disabled adult element	865.00	16.60
50plus return to work payment, 16-29 hours ²	1,045.00	20.00
50plus return to work payment, 30+ hours ²	1,565.00	30.00
Childcare element		
- maximum eligible cost		200.00
- maximum eligible cost for 1 child		135.00
- percent of eligible costs covered		70%

Notes

1. Apart from those mentioned in the footnote below, the elements for which claimants are eligible can be added together to arrive at the maximum amount of tax credit available.
2. These elements are mutually exclusive. Where an individual works enough hours to qualify for the 50plus return to work payment (30+ hours), they cannot also qualify for the 50plus return to work payment (16-29 hours).

Child Tax Credit	2003-04, £ per year	Weekly equivalents (£)
Family element ¹	545.00	10.45
Family element, baby addition ¹	545.00	10.45
Child element ²	1,445.00	27.75
Disabled child additional element ²	2,155.00	41.30
Enhanced disabled child additional element ²	865.00	16.60

Notes

1. Only one family element is available per family. Families are entitled to the family element and the baby addition in the first year of a child's life.
2. As well as one family element, a family will be entitled to a child element for each child for whom it has responsibility. For each child, the child elements which are appropriate may be added together to arrive at the maximum amount available for that child.

Common features	2003-04 £ per year	Weekly equivalents (£)
First income threshold	5,060.00	97.00
First withdrawal rate	37%	-
Second income threshold	50,000.00	958.90
Second withdrawal rate	1 in 15	-
First threshold for those entitled to Child Tax Credit only	13,230.00	253.76

Budget 2002

REV 4

17 April 2002

STAMP DUTY ON UK LAND AND BUILDINGS

The Chancellor today announced a package of measures to tackle current avoidance of stamp duty on commercial property transactions and launched major reform to modernise stamp duty on land and buildings in the UK.

Tackling avoidance

Legislation will be included in Finance Bill 2002 to discourage a range of techniques currently used to avoid stamp duty on high-value property deals. Left unchecked, this activity represents a major threat to the Exchequer. The Government is therefore determined to take steps to ensure stamp duty is paid on the full range of transactions in UK property. These measures bring forward a fundamental part of the longer-term modernisation of stamp duty.

Modernising stamp duty

The main reforms are set out in a consultative document published today, which seeks views on the detail of the modernised regime. Legislation will be included in the Finance Bill 2003 to reform stamp duty. The reform will build on the 2002 measures to tackle avoidance, and will:

- support the Government's e-business agenda, in particular the introduction of paperless electronic conveyancing, and
- update the framework of the tax, bringing it into line with more modern taxes.

Individual home-buyers and their agents will see no immediate effect, but the reform will help pave the way for purchases to be conducted electronically in the future, making the house-buying process faster and more efficient.

In welcoming the changes, the Economic Secretary to the Treasury, Ruth Kelly, said:

"The case for change is overwhelming. Stamp duty on UK land and buildings is outdated. It does not reflect current commercial practice and it is not suited to the rapidly developing world of e-business. Moreover we are determined to stop the growing avoidance of stamp duty by a minority at the expense of the majority."

DETAILS: 2002 MEASURES

In order to discourage certain avoidance devices, legislation will be brought forward in the 2002 Finance Bill to:

- 'claw back' group relief where UK property has been transferred from one company to another in the same group, and within two years the company in receipt of the property leaves the group.
- 'claw back' the partial relief under Section 76 FA 1986 where a company acquires the whole or part of an undertaking of another company in exchange for shares in the acquiring company, and within two years control of the acquiring company passes to a third party.
- extend the penalty regime for documents executed in the UK to documents (relating to UK land or buildings) executed outside the UK. Penalties for the late stamping of documents executed outside the UK will in future run from 30 days after the date of execution.
- bring contracts for the sale of interests in land with a market value in excess of £10 million into charge, to tackle the avoidance of stamp duty on large deals through 'resting on contract' – where companies deliberately do not complete a transaction in the traditional way to avoid paying stamp duty on the document that effectively transfers ownership of property.

Taken together, these measures will ensure stamp duty is payable where a transfer artificially 'rests' on contract, discourage the use of companies set up to avoid stamp duty on UK property, and stop the increasing exploitation of the existing stamp duty reliefs for company reorganisations.

DETAILS: MODERNISING STAMP DUTY ON LAND AND BUILDINGS IN THE UK

Impact of the revised regime

For the vast majority of individual house-buyers, tenants and their agents, and for most businesses, stamp duty will continue to be payable on transactions in the usual way, though there will be changes to the administration of the tax. Modernisation will pave the way for future changes to the house-buying process, in particular, the introduction of electronic documents that will, over time, replace the current paper-based systems.

For more complex, higher-value commercial transactions, the revised regime will be less open to abuse and will provide a streamlined approach to assessing and collecting any stamp duty due. The consultation will invite views on the detail of how this will work in practice.

Scope of the charge

The reformed stamp duty charge will apply to all transactions in respect of interests in UK land and buildings. So, as now, it will apply to purchases of freeholds and leaseholds over £60,000, and to certain new leases. The reform will not have any significant impact on either the stamp duty, or the main stamp duty reserve tax (SDRT), charge on shares.

It is anticipated that all existing reliefs and provisions will be carried forward to the revised regime, unless they are no longer needed or could be exploited to undermine that regime. In particular, the stamp duty relief for land and property in disadvantaged areas (*see press notice HMT1 for details on this relief*) will be carried forward.

New reliefs

The revised regime will not apply to:

- transfers of, and agreements to transfer, goodwill. These will be exempted from stamp duty with effect from 23 April 2002. This change puts goodwill on a consistent footing with other intellectual property, and will bring immediate benefit to sales of UK businesses. (*see press notice REVC&E1 for further details*)
- transfers of debts. These will be removed from the scope of the modernised stamp duty regime with effect from late 2003 and will make it easier for companies to raise finance through debt factoring and the issue of bonds secured on debt portfolios.

Tackling avoidance

A key objective of modernising is to stop avoidance and ensure that everyone pays their full share of the tax. Under the revised regime, a range of current avoidance techniques will be stopped.

In particular, there will be specific rules to stop avoidance through the use of companies and non-corporate vehicles (such as trusts and partnerships), often known as “special purpose vehicles” or SPVs. Under the revised stamp duty regime, the Government proposes to create a charge triggered in certain circumstances by transfers of shares or interests in a limited range of property-owning vehicles. Broadly, the charge will be equivalent to the stamp duty that would be due if the land and buildings contained in the vehicle had been transferred directly to a new owner. The intention is to put the stamp duty treatment of property transfers by way of special vehicles on the same footing as transfers by way of sale.

The charge will apply to all qualifying transactions taking place after the introduction of the rules, including future transactions in vehicles already in existence, and regardless of whether they are registered inside or outside the UK.

The precise scope of this charge, and the type of vehicles affected, will be the subject of detailed discussion in the summer as part of the wider consultation.

Stamp duty on new leases

The Government also wishes to review the current stamp duty charge on the grant of new leases (known as “lease duty”). At present this charge does not always reflect modern commercial practice nor the value of the lease. The Government would welcome views on the best methodology for charging new leases, with the presumption that the revised charge will:

- correspond more closely to the stamp duty charge on a freehold transfer or lease assignment of a property of similar value;
- better reflect modern commercial practice; and
- discourage the use of leases to reduce the stamp duty charge on the sale of freehold property.

Stamp duty on shares

In the main, transfers of shares and securities are charged to stamp duty reserve tax (SDRT), which was introduced in 1986. This reform will not disturb

the scope and impact of the main SDRT charge and of stamp duty as it applies to share transfers.

NOTES FOR EDITORS

Stamp duty is over three hundred years old and the legislation was last consolidated in 1891. It is a charge on documents that transfer property, and most of the yield arises from conveyances of land and transfers of shares. The modernising proposals focus on the transactions in UK land and buildings (the existing rules for shares will remain unchanged).

When duty is paid, stamps are still impressed physically on the document concerned. Unlike more modern taxes there is no provision for the tax to be collected directly from taxpayers by assessment. The main sanction for failure to pay is that the document cannot be registered with the UK land registries or other registry, or used in evidence in court proceedings.

Stamp duty on land and property currently raises over £4 billion (of which, about £300 million relates to lease duty). It is paid each year by around 1.4 million individuals buying houses, around 80,000 companies purchasing commercial property, land or housing stock, and around 250,000 individuals and businesses taking out new leases on residential and commercial property.

During the last few years, however, there has been a growth in arrangements designed to avoid stamp duty on transfers of land and buildings, relying on amongst other things the lack of enforcement powers.

A tax on paper documents is simply not suited to modern commercial practice, e-business or future developments in the house-buying process. In particular, a primary reason for modernising stamp duty is to introduce a regime that is fully able to support wider Government plans to facilitate e-business. For England and Wales, HM Land Registry is to publish a major consultation on the plans for e-conveyancing shortly. The Keeper of the Registers of Scotland also intends to consult on the results of the recently completed pilot of "Automated Registration of Title to Land" later this year. The Inland Revenue has worked closely with both these offices over the past months, and it is generally agreed that, ultimately, such electronic systems will encompass the collection of stamp duty.

Copies of the consultative document are available on the Inland Revenue website at www.inlandrevenue.gov.uk/consult_new. Alternatively, they can be obtained from the following address:

Inland Revenue Visitors Information Centre
Ground Floor, South West Wing, Bush House, Strand, London WC2B 4RD

The closing date for responses is 19 July 2002.

A partial Regulatory Impact Assessment has been prepared for the reform of stamp duty and is available on the Revenue website or from the above address.

HM TREASURY PRESS OFFICE

Press enquiries: 020 7270 5238

Non-media enquiries: 020 7270 4558

INLAND REVENUE PRESS OFFICE

Press enquiries: 020 7438 6692 / 6706 / 7327
(out of hours: 07860 359544)

Non-media enquiries: 020 7438 6420
(office hours only)

GOVERNMENT DEPARTMENT INTERNET SITES

Further information and all published documents relating to Budget 2002 may be found on the Internet at the following addresses:

HM Treasury www.hm-treasury.gov.uk

Inland Revenue www.inlandrevenue.gov.uk

HM Customs and Excise www.hmce.gov.uk

Budget 2002

C&E 1

17 April 2002

ALCOHOL AND TOBACCO DUTIES

Duty on spirits will be frozen for the fifth successive year, and duty on beer produced by the smallest brewers will be cut in half, the Chancellor announced today. Duty on beer and wine will also be frozen, while tobacco duties will rise in line with inflation.

Spirits

Spirits duty will be frozen for the fifth Budget in succession - the longest period without an increase since the 1950s - to strengthen the international competitiveness and domestic base of the UK spirits industry. Without those freezes, a bottle of spirits would be 73 pence more expensive than it is today. The Government also decided against the introduction of tax stamps on bottles of spirits, which would have significantly increased industry costs, and instead announced plans to work with the spirits industry to tackle the problems of fraud.

Small breweries

A radical reform of beer duty will be introduced this June to support the nation's traditional small brewing industry, with reduced rates of duty worth more than £120,000 for breweries producing up to 3 million litres of beer per year, and a 50 per cent cut in duty for those producing up to half a million litres, equivalent to £40 off each barrel they produce. In total, 9 out of every 10 UK breweries will benefit from the scheme.

Other alcohol duties

Duties on wine and the beer produced by larger brewers will also be frozen for the second Budget in succession. Duty on spirits-based coolers – which has until now been set at a concessionary low rate – will be brought into line with spirits. Duty on cider will be cut by half a penny per pint in real terms.

Tobacco

Tobacco duties will rise in line with inflation to maintain the real cost of cigarettes and thereby support the Government's objectives to reduce smoking. Tax on a packet of 20 cigarettes will go up by 6 pence.

DETAILS

Small breweries

1. Britain's several hundred small breweries make a valuable contribution to the nation's cultural heritage, particularly in rural communities, bringing both tradition and diversity to the UK beer market. The Government is keen to celebrate the talents and skills of the nation's small brewers, and help them compete effectively for their fair share of the beer market.
2. For more than 20 years, the nation's small brewing industry and real ale drinkers have been calling for the introduction of reduced rates of duty on the beer produced by small brewers, both to help them invest in the growth of their businesses, and to help them compete on price with larger brewers when selling their products to pubs and other retailers.
3. Following consultation over the past year, the Government has now decided to introduce a relief scheme for small brewers this June, in time for the start of the World Cup, following Royal Assent of the Finance Bill. Under this scheme:
 - brewers producing up to half a million litres (around 3,000 barrels or 900,000 pints) per year will receive a 50 per cent cut in duty, equivalent to £40 off each barrel they produce; and
 - brewers producing up to three million litres per year will receive progressive rates of relief worth over £120,000 to each brewer, equivalent to a 50 per cent cut on the first half million litres they produce.
4. 9 out of every 10 brewers in the UK will benefit, including all micro brewers and local brewers, the majority of which are based in rural areas. Some of the eligible brewers currently own their own village pubs, and many more are expected to use the savings from the scheme to buy one.
5. Similar duty relief schemes currently operate in seven other EU Member States with strong brewing heritages, including Germany and Belgium, but the UK scheme will be one of the best-targeted, simplest and most generous schemes anywhere in the EU – with the 50 per cent relief for the smallest brewers the maximum available under EC law.

6. More than a hundred Members of Parliament recently signed a motion calling for the introduction of a relief scheme, although – at £15 million – the cost of the Government's scheme is almost three times as generous as the one they had proposed. The scheme is also strongly supported by the Society of Independent Brewers, the Campaign for Real Ale, the Village Retail Services Association and the Council for the Protection of Rural England.

Alcohol

7. Since 1997, the Government has taken consistent steps to deliver a fairer balance in the burden of taxation falling on different alcoholic drinks and on different types of drink-producers. In addition to the introduction of the duty relief scheme for small brewers, Budget 2002 introduces a further package of measures to increase the fairness of the alcohol duty regime.

8. The duty on spirits has been frozen in order to strengthen both the international competitiveness and the domestic base of the UK spirits industry, a measure equivalent to a real-terms cut of 12 pence per bottle.

9. Duty on spirits is now 34 per cent lower in real-terms than it was 20 years ago, and thanks to the duty freezes in the last 5 Budgets, a bottle of spirits is now 73 pence less expensive than it would otherwise have been.

10. Duties on wine and beer produced by larger brewers will also be frozen for the second Budget in succession. Without those freezes, there would now be 6 pence more duty on a bottle of wine and a penny more duty on a pint of beer.

11. Duty on cider has also been cut by half a penny per pint to support this traditional and mainly rural-based industry, which now uses around half the UK's total production of apples.

12. In real-terms, the cuts in spirits, beer, wine and cider duties in the last two Budgets have saved the nation's drinkers around £200 million, and given a valuable boost to drinks producers, pubs and other retailers.

13. Spirits-based coolers (also known as designer drinks or alcopops) are currently taxed at the same concessionary rate which applies to low-alcohol wines. Consumption of coolers more than doubled between 1999 and 2001. Over that same period, despite the duty falling in real-terms, the average pub price of coolers rose by significantly above the rate of inflation.

14. Tax as a proportion of retail price is now lower for coolers than for any other type of alcoholic drink, in both the on and off trades. Their share of the market is now as big as cider, and is continuing to grow at a rapid rate.

15. The Government no longer believes the concessionary duty treatment for coolers can be justified, particularly given the Chief Medical Officer's recently-stated concerns about the association of coolers with binge drinking among younger people. The duty on a standard 275ml bottle will therefore increase by around 11 pence, bringing their rate of duty into line with normal spirits.

Tobacco

16. Smoking is the single greatest cause of preventable illness and premature death in the UK, killing 120,000 people every year. Research has consistently shown that the demand for cigarettes is affected by their price, and that high tax levels can consequently play an important role in reducing overall tobacco consumption.

17. Maintaining the real price of cigarettes and tobacco therefore helps to encourage existing smokers to smoke less or quit, and to discourage children and young people from taking up the habit. The tax on tobacco is therefore increased in line with inflation from 6pm today by:

- 6 pence on a typical packet of 20 cigarettes;
- 2 pence on a pack of 5 small cigars;
- 5 pence on a 25 gram pack of hand-rolling tobacco; and
- 3 pence on a 25 gram pack of pipe tobacco.

Tackling Tobacco Smuggling

18. In addition to maintaining the real price of cigarettes through the duty system, the Government has sought to increase the average price for consumers by clamping down on the supply of cheap smuggled tobacco.

19. In the 2001 Pre-Budget Report, the Government announced the results from the first year of its *Tackling Tobacco Smuggling* strategy, indicating that Customs are on track to slow, stop and reverse the previously rapid growth in the market share of smuggled cigarettes. In 2000-2001, Customs:

- seized 2.8 billion cigarettes destined for the illicit market (almost a billion more than were seized in 1999-2000);
- introduced the first wave of X-ray scanners at the nation's ports, which – in their first six months – detected 80 million cigarettes;

- broke up 43 major organised crime gangs involved in large-scale smuggling and supply of cigarettes;
- cut the revenue losses from cross-Channel passenger smuggling by more than three-quarters; and
- hit their key target to hold the share of the UK market currently taken up by smuggled cigarettes to 21 per cent, compared to the 25 per cent share that was forecast if the strategy had not been introduced.

Tackling spirits fraud

20. In *Tackling Indirect Tax Fraud*, published alongside the November 2001 Pre-Budget Report, the Government announced its determination to apply the successful experience of its tobacco strategy to other areas of indirect tax fraud.

21. As part of this, the Government announced a number of further steps designed to strengthen its efforts to tackle large-scale spirits fraud, which involves the diversion of duty free spirits for sale on the domestic market.

22. Customs have already increased their efforts to tackle the diversion of spirits consignments by:

- improving the identification of fraudulent or forged documentation;
- deploying an additional 146 staff to controlling excise warehouses;
- expanding its specialist excise intelligence research capacity;
- introducing tough new sanctions for hauliers who allow their vehicles to be used for diversion fraud;
- reviewing existing warehouse approvals with a view to weeding out warehouses which have carried out or facilitated fraud; and
- agreeing with the National Lottery operator that retailers found selling illicit spirits will have their lottery terminals removed.

23. One further measure which had been recommended to the Government was to introduce a 'tax stamp' on bottles of spirits to make it easier to identify illicit, non duty-paid goods when they appeared in the normal retail market. The Pre-Budget Report announced that there would be consultation on the costs, benefits and practicalities of introducing a tax stamps system.

24. It was clear from this consultation process that the introduction of tax stamps would have a severe impact on the productivity and compliance costs of the spirits industry, which – if passed on in full – could have had a significant impact on retail prices for spirits.

25. The Government does not currently consider those costs proportionate to the benefits of tax stamps, particularly if alternative means of making progress to those objectives can be pursued.

26. Customs will therefore work together with the industry on a joint strategy to identify, trace and track illicit consignments of spirits, radically increasing their exchange of information and making fraud easier to detect through the development of product testing kits and enhanced bar code data.

27. Additional funding will also be made available to Customs this year, enabling them to step up the volume of intelligence-based checks on inward freight consignments of duty-suspended spirits (making full use of the national network of x-ray scanners), increase disruption of the criminal gangs engaged in spirits fraud, and strengthen their controls on UK excise warehouses.

NOTES FOR EDITORS

1. Small brewers whose annual production is between 5,000 and 30,000 hectolitres will pay a proportion of the standard duty rate, calculated as:

$$\frac{\text{Annual production} - 2500}{\text{Annual production}}$$

2. Annual production will be calculated according to production levels over the previous calendar year. Brewers will claim the relief on monthly returns.

3. 'Coolers' have previously been known as 'alcopops' and are often referred to as 'Ready-to-Drinks', 'Designer Drinks' or 'Pre-Mixed Drinks'. Well-known brands include Smirnoff Ice, Bacardi Breezer, Hooch, Metz, Archers Aqua, Red Square and WKD.

4. The 2001 Annual Report from the Chief Medical Officer highlighted a worrying increase in alcohol-related health problems and said that "*recent years have, in particular, seen younger drinkers attracted to a new ranges of designer drinks with a relatively high alcohol content.*"

5. The duty on cigarettes has ad valorem (per cent of price) and specific (duty applied per quantity of product) elements. Raising the specific duty by approximately 2.2 per cent and maintaining the ad valorem duty at 22 per cent increases the total duty by about 1.9 per cent in line with inflation. The duties on all other tobacco products are wholly specific.

6. Revalorisation is an uprating in line with inflation applied to keep duties, benefits and allowances constant in real terms. Excise duties use the forecast RPI figure for the September following the Budget. Allowances against tax use historic RPI to the September preceding the Budget. In Budget 2002, the forecast RPI – based on Q3 2001 to Q3 2002 – used for excise duties is 1.91 per cent whereas the historic RPI to September 2001 is 1.69 per cent.

7. Further details of the Government's Budget proposals to tackle indirect tax fraud can be seen in *press notice HMT2*. Copies of *Tackling Tobacco Smuggling* and *Tackling Indirect Tax Fraud* are available from the HM Treasury and HM Customs and Excise websites (addresses below).

8. Details for businesses are published in Budget Notes. These are available from the Customs and Excise and HM Treasury Internet sites.

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