

The Government is committed to building a fairer and more inclusive society in which everyone can contribute to, and benefit from, the country's rising economic prosperity. The Pre-Budget Report set out the challenges the Government faces in tackling child poverty and supporting families, providing security for pensioners, rewarding work and saving, delivering world-class public services, and concentrating extra help on the people and communities that need it most. Budget 2001 builds on the reforms achieved so far.

Supporting families with children and tackling child poverty by:

- introducing the Children's Tax Credit at £10 a week – £1.50 more than previously planned – also reflected in higher Income Support and Jobseeker's Allowance child credits;
- raising the Children's Tax Credit by a further £10 to £20 a week – making it worth up to £1,000 a year – in the year of a child's birth from April 2002;
- increasing the basic credits in the Working Families' Tax Credit and Disabled Person's Tax Credit by £5 a week above inflation from June 2001; and
- announcing a rise in maternity pay from £60.20 to £100, an extension of the period of paid maternity leave from 18 to 26 weeks, and the introduction of two weeks' paid paternity leave.

Helping pensioners by:

- as announced in the Pre-Budget Report, increasing the basic state pension for single pensioners by £5 a week to £72.50 a week, with a further £3 a week increase to follow in 2002;
- as announced in the Pre-Budget Report, raising the Minimum Income Guarantee to £92.15 a week for single pensioners and £140.55 a week for couples in April 2001, and at least £100 a week for single pensioners and £154 a week for couples by April 2003; and
- raising the age-related personal tax allowances by £240 above indexation in 2003–04.

Delivering high quality public services by:

- allocating an additional £2¹/₃ billion over three years to investment in schools, hospitals and tackling drug-related crime.

Creating a modern and fair tax system by:

- introducing a new scheme to allow national museums and galleries to reclaim VAT;
- replacing general betting duty with a gross profits tax, thereby abolishing all tax on punters; and
- tackling tax abuse and avoidance.

INTRODUCTION

The previous chapters discuss the action the Government is taking to build a strong and stable economy for the long term, based on high and stable levels of growth and employment. This chapter describes how the Government is acting to ensure that this strong, productive economy is underpinned by a fair and inclusive society in which everyone has the chance to fulfil their potential and improve their quality of life – regardless of gender, disability, ethnicity, age, family circumstance or where they live. It sets out the Government's approach to, and support for:

- families and children;
- people with disabilities;
- pensioners;
- savings;
- high quality public services;
- strengthening community life; and
- a fair and modern tax system.

SUPPORT FOR FAMILIES AND CHILDREN

5.1 Over the past two decades, families with children lost out in the tax and benefits system and the proportion of children living in low-income households more than doubled. At the same time, families with children have taken a decreasing overall share of national income. Between 1979 and 1995–96, average incomes after housing costs rose by 35 per cent for working households with children, and by 43 per cent for those without. Since 1997, the Government has been determined to provide more support for families with children.

5.2 The Government has made a firm commitment to help families with children through the tax and benefit system. In doing so, it is guided by the following principles:

- recognising the costs and responsibilities which come with parenthood, by providing extra financial support for all families with children; and
- targeting help on those who need it most, when they need it most. This includes families on lower incomes, and those with a new baby.

5.3 The Government has introduced a series of reforms to support all families with children, reflecting its belief that that while parents are responsible for the upbringing of their children, government should contribute towards the costs. Budget 2001 builds on the achievements so far:

- record increases in universal Child Benefit, which have seen the rate for the first child rise by 26 per cent in real terms since 1997. **As announced in Budget 2000, Child Benefit will rise in line with indexation from April 2001: to £15.50 for the first child and to £10.35 for subsequent children;**
- introducing the Children's Tax Credit from April 2001, replacing the married couple's allowance abolished in April 2000. **Budget 2001 announces that the Children's Tax Credit will be introduced at £10 a week – £1.50 more than previously planned – thereby fulfilling the aim of providing a family tax cut of up to £520 a year from which around 5 million families can benefit.** This will be equivalent to a reduction in the basic rate of income tax of nearly 3p for a single-earner family on average earnings;
- to increase support for families with the youngest children, Budget 2001 announces that from April 2002 **the Children's Tax Credit will be increased by £10 a week for families in the year of a child's birth.** The credit will be worth up to £1,000 for around 500,000 families each year;

- the introduction of the Working Families' Tax Credit (WFTC), which is benefiting more than 1.1 million families, around 300,000 more than received Family Credit at its peak. **Budget 2001 announces that the basic credit in WFTC will be increased by an additional £5 over inflation from June 2001, with a similar increase in the basic credits in the DPTC.** This means families will, on average, be receiving around £35 a week more than Family Credit, compared with £30 now; and
- increases in Income Support and other income-related benefits have meant that rates for children under 11 have been increased by 72 per cent in real terms since 1997. As families on income-related benefits will not benefit from the increase in WFTC or the Children's Tax Credit, **Budget 2001 announces a £1.50 increase in the child allowances in Income Support and Jobseeker's Allowance from October 2001, to match the rise in the Children's Tax Credit in this Budget.**

Box 5.1: Financial support for families and the work-life balance

In the past, parents have not had enough choice over how to balance work and caring for their children. In some families both partners had to work because in-work benefits were not generous enough. Yet for couples on the lowest incomes, and many lone parents, high marginal deduction rates and insufficient help with childcare costs meant that for women in particular, taking a job was often not financially worthwhile. Maternity provision was poor, so mothers on low incomes were forced either to return to work very early after the birth of a child, or to give up their jobs and claim benefit instead. Provision for paternity leave was negligible.

The Government's reforms have begun to correct these failings.

- The new Children's Tax Credit, available to families with one earner or two, will provide up to £520 a year for 5 million families. Budget 2001 announces that from April 2002, this will be increased to £20 a week, up to £1000 a year, for families in the year of a child's birth.
- This Budget announces extended and increased rates of Statutory Maternity Pay, plus two weeks' paid paternity leave. Together with changes already announced, including a new flexibility in WFTC that allows parents to reclaim as soon as a child is born. This means that parents now receive much better financial support when the challenges of balancing work and family are often greatest.
- The increased generosity in the WFTC means that lower-income parents are better supported if one chooses to stay at home, or if one or both decide to work fewer hours. From April 2001, the WFTC guarantees a minimum income of £214 for a family with one child and one partner working 35 hours a week at the minimum wage. To get this income under Family Credit, both partners would have had to work, one full-time and one 20 hours at the minimum wage. Similarly, part-time work of 16 hours now guarantees a minimum income of £154. A family would have needed to work 20 hours under Family Credit to generate this income.
- The reforms have also ensured that for the lowest-income working families, mothers who choose to go back to work keep more of what they earn. Cuts in national insurance, the new 10p income tax band, the lower taper on the WFTC, and the childcare tax credit all help to make work more attractive for people working part-time and/or on lower hourly wages, many of whom are women.

Supporting parents around the time of a child's birth

Help for low-income mothers

5.4 Mothers on low incomes face particularly difficult and restricted choices about how they support their children in the early months. In the past, the tax and benefit system has not provided adequate support: financial help has not been available quickly enough and some of the lowest-paid women have been excluded from maternity pay and tax credits.

5.5 In order to direct more help at the poorest families, the Government has already:

- extended the Maternity Allowance to women earning less than the lower earnings limit but at least £30 a week;
- introduced a new Sure Start Maternity Grant to replace the old maternity payment, then increased it to £300 from December 2000. The Government announced in the Pre-Budget Report that, **from October 2001, the £500 capital limit will be abolished;** and
- provided further support through tax credits. **From April 2001, mothers will be able to apply for the WFTC when they are on maternity leave** (entitled to either Maternity Allowance or Statutory Maternity Pay) rather than having to wait until they return to work. Also, for the first time, **families will be able to make a new WFTC claim as soon as a child is born**, getting a credit for the new baby immediately, rather than having to wait until their current award comes to an end.

5.6 This Budget builds further on these reforms. **From April 2002, the Government will increase the Sure Start Maternity Grant by £200 to £500** – five times the level in 1997. Around 215,000 families on income-related benefits and tax credits will benefit from the grant every year. Payment is linked to contact with a healthcare professional, to ensure expert advice on child development and services.

Maternity pay and parental leave

5.7 The Government has introduced further reforms to benefit working parents. It has increased statutory maternity leave from 14 to 18 weeks, and has introduced new rights to parental leave and to time off to look after dependants. However, the Government believes that the current system does not provide parents with sufficient support in balancing work and family responsibilities. For example, too many mothers:

- are forced to return to work when their new baby is very young. Just over half of women taking maternity leave take 18 weeks or less. The most common reason given for returning to work early is financial need; or
- lose touch with the labour market completely. A third of women who worked during pregnancy do not return to work after maternity leave. The evidence shows that it is in the first few years after giving birth that the pay gap between men and women widens. Also, a drop in pay is more likely when a woman breaks the link with her previous employer after having a baby.

5.8 In Budget 2000, the Chancellor announced a review to consider what further improvements might be made to maternity pay and parental leave. The review, which has been led by the Secretary of State for Trade and Industry, published a green paper in December 2000 – *Work and Parents: Competitiveness and Choice* – outlining several options for reform. The Government will bring forward detailed proposals in the light of the consultation exercise. In the meantime, **Budget 2001 sets out reforms of financial support for families in this area.**

Maternity pay 5.9 Good maternity provision gives women a real chance to stay at home during the crucial first months after giving birth, and can ease the choice over whether to return to work afterwards. The Government has therefore decided to:

- **increase the flat rate of Statutory Maternity Pay (after the first six weeks it is paid at a flat £60.20 a week) and Maternity Allowance.** The rate will rise to £75 a week from April 2002, then, allowing time to legislate for reform of the structure of the system, to £100 a week from April 2003. All 360,000 women entitled to Statutory Maternity Pay or Maternity Allowance each year will get either the new flat rate or, as under the current rules, 90 per cent of their previous earnings if that is lower; and
- **extend the period of maternity pay,** at this enhanced rate, from 18 to 26 weeks, from April 2003. All mothers on Statutory Maternity Pay or Maternity Allowance will be entitled to a further 8 weeks of pay.

Paid paternity leave 5.10 The Government intends to do more for working fathers too. Offering a period of paid leave after the birth would enable fathers to have the choice to spend more time with their partner and new child. **The Government will therefore introduce, from 2003, the right to two weeks of paid paternity leave for working fathers, paid at the same flat rate as Statutory Maternity Pay.**

Paid adoption leave 5.11 Since 1999, adoptive parents have been entitled to parental leave, but they do not receive any statutory paid leave in the vital first months after adopting their child. The Government's review has found widespread support for change. **The Government will therefore introduce paid adoption leave from 2003, paid for the same period and at the same flat rate as SMP, starting when the child is first placed with the family. Adoptive parents will be able to choose which of them takes time off work and receives the payment.**

Extra help for employers 5.12 The Government recognises the valuable role that businesses play in administering SMP. In turn, maternity provision and other family-friendly policies are an important way for businesses to retain and motivate their employees. Many employers go far beyond the statutory minimum, seeing this as good business sense and an opportunity to boost their profitability and productivity.

5.13 Because small businesses can face particular difficulties in administering maternity pay, firms with an annual National Insurance liability of £20,000 or less can qualify for Small Employer Relief. This allows them to claim back in full the SMP they pay (larger employers are reimbursed 92 per cent of their costs), plus a percentage on top in compensation. In order to offer greater support to smaller firms, **the Government will, from 2002, double the threshold for Small Employer Relief to £40,000. This will allow an extra 11,000 firms a year to qualify for extra compensation. It means that around 60 per cent of the employers paying SMP every year will qualify.**

5.14 Alongside these improvements in financial support for parents, the Government will also announce reforms to the framework of parental and maternity rights and entitlements. As noted above, the full detail of all the reforms will be announced in the light of the responses to the green paper consultation. The Government will work closely with employers, parents and other experts in an attempt to simplify the current system, minimise the costs of change and make it as easy as possible for businesses to build their own provision on top of the new arrangements.

5.15 The Government's improvements in provision for families around the arrival of a new child, including the Children's Tax Credit, worth up to £1,000 for families in the year of a child's birth, mean that from 2003:

- reforms to Statutory Maternity Pay and Maternity Allowance will give up to £1,200 extra to all the 360,000 mothers a year who get maternity pay;
- taking maternity pay and the increased Children's Tax Credit together, there will be up to £2,200 extra in the first year for families with a new baby; and
- with the WFTC and higher Statutory Maternity Pay most women who were working beforehand will be guaranteed a minimum income of £200 a week for up to 6 months after the birth.

Box 5.2: A new framework of support for families with children

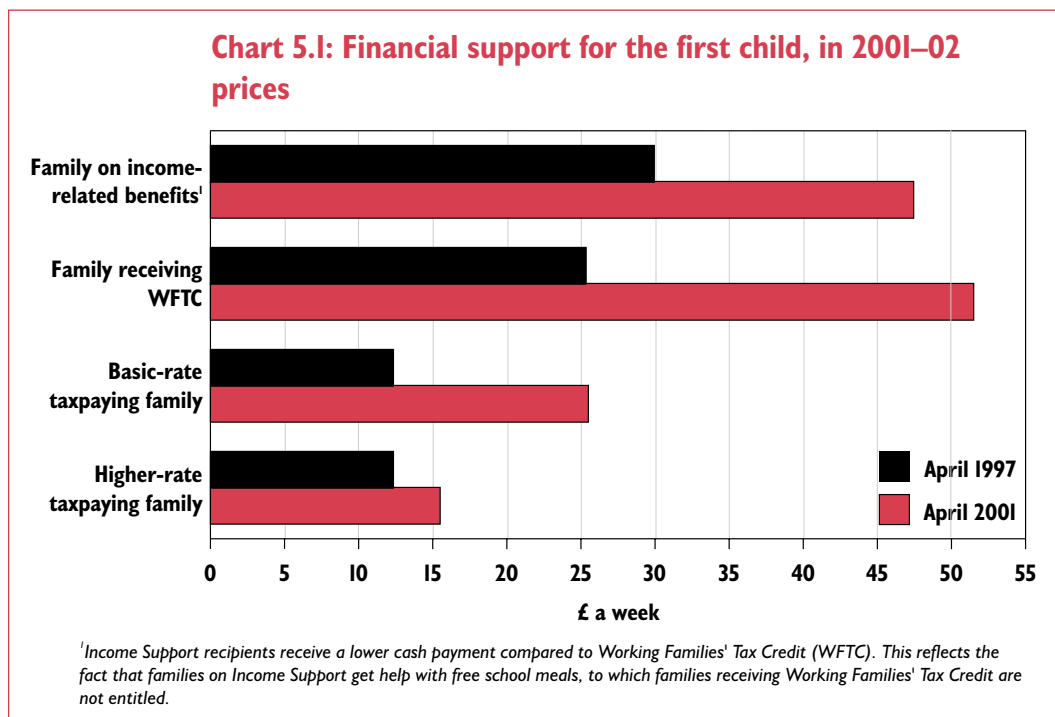
Substantial progress has been made in achieving the Government's goals of supporting families with children and tackling child poverty. However, further progress is restricted by the nature of the instruments the Government has at its disposal. In a modern economy, the tax and benefits systems must work together to help tackle poverty and provide opportunity.

The Government intends, from 2003, to introduce a single new tax credit for families with children. This will bring together the different strands of support for children in the Working Families' Tax Credit, Disabled Person's Tax Credit, Income Support/Jobseeker's Allowance and Children's Tax Credit, building on the foundation of universal Child Benefit. This new tax credit for families with children will be paid direct to the main carer in the family, and provide a seamless and secure means of support. The new system will also assess eligibility on the basis of household income. It will be complemented by the new employment tax credit, discussed in Box 4.4.

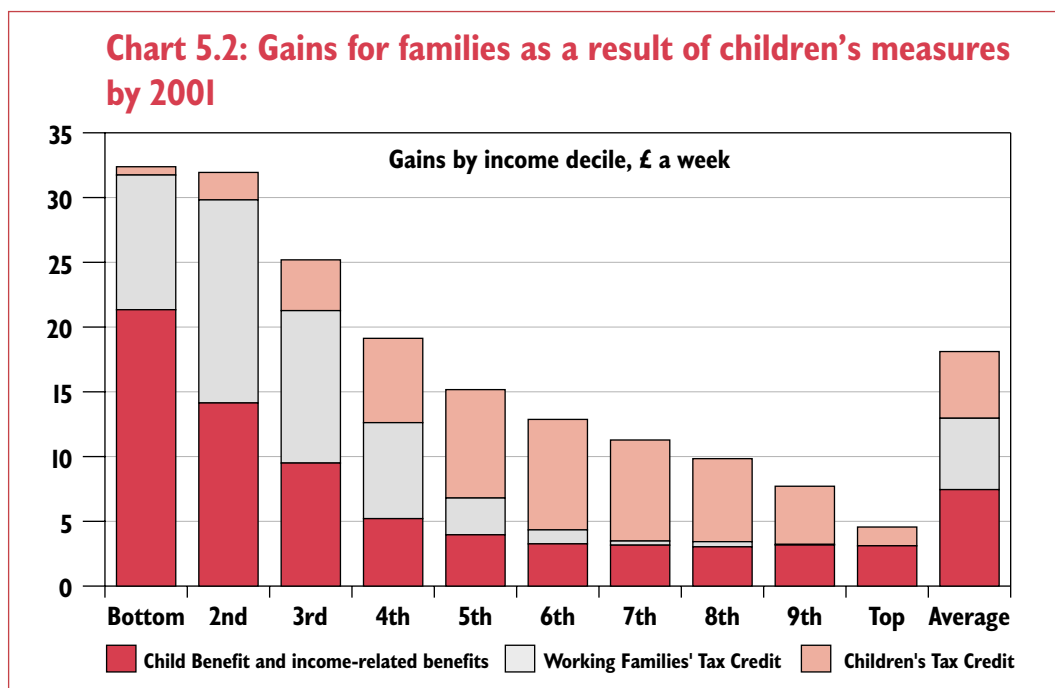
The Government is carefully considering the detailed design parameters for the new credits, and has received a number of representations in response to the Treasury paper *Tackling Poverty and Making Work Pay – Tax Credits for the 21st Century*, published in March 2000. The experience of other countries that have also introduced similar tax credits for children, such as Canada and Australia, is also being examined. To further aid discussion, more details on the new tax credit for children and employment tax credit will be published in the summer.

The effect of the Government’s financial measures to support families with children

5.16 Chart 5.1 shows that financial support available through the tax and benefits system has increased for all families with children, while the greatest increases have been targeted on families on lower incomes.



5.17 Chart 5.2 shows the impact of the reforms by decile on families with children.



5.18 With the latest increases, as a result of the Government’s tax and benefit reforms over the Parliament as a whole:

- families with children will be, on average, £1,000 a year better off;

- a family with two children on half average earnings of £12,700 will be £3,000 a year better off in real terms; and
- a family on average earnings of £25,400 and with two children will be £520 a year better off, as well as having the lowest direct tax burden since 1972.

5.19 Chart 5.3 shows the effects of the Government's personal tax and benefit reforms on households of working age, whether or not they have children.



The challenge of abolishing child poverty

5.20 The Government wants every child to have the best possible start in life, and has pledged to abolish child poverty within a generation and to halve it within ten years. The 2000 Spending Review introduced a new milestone with a Public Service Agreement target to reduce by at least a quarter the number of children living in households with an income of less than 60 per cent of the median by 2004.

5.21 Child poverty is a complex problem and therefore requires a multi-dimensional approach. The Government's strategy includes:

- ensuring a decent family income, with work for those who can and extra support for those who cannot;
- access to excellent public services – including a world class education system for all, ensuring that children from poor backgrounds have the skills and education they need to break the cycle of disadvantage;
- targeted interventions such as the Sure Start Programme and Children's Fund, for those with additional needs and at key stages in life; and
- harnessing the power and expertise of the voluntary and community sectors, providing support for innovation and good practice, and fostering a strategic partnership with these sectors to fight child poverty.

5.22 The Government's second annual report on tackling poverty and social exclusion¹ sets out the progress the Government has made in these areas and the scale of the task ahead.

¹ *Opportunity for All*, Second Annual Report 2000, Department of Social Security (Cm4865).

Importance of a good education

5.23 Education has a vital influence on a child's life chances. It is critical to employment opportunity and to the well being of people throughout their lives. The Government is determined to remove educational barriers that prevent equal life chances for all.

5.24 As described in the Pre-Budget Report, the national literacy and numeracy programme has been instrumental in raising attainment at age 11. The Government is now extending the principles of the programme to the early years of secondary school. In addition, it has set out plans to diversify the system, with each school developing its own unique ethos and approach.

Box 5.3: Child poverty ambition

The Government has set a long-term ambition to abolish child poverty in a generation and halve it in ten years. Child poverty is a multi-dimensional problem, but low income is a fundamental issue. A substantial body of evidence shows that children who grow up in low-income households experience disadvantage and lack of opportunity that affects not only their own current and future experience as adults but also the life chances of their children.

Budget 2001 announces £1.1 billion extra in direct financial support to families, to secure and build on measures to date, as the economy continues to grow. Tax and benefit reforms announced in this Parliament will lift over 1.2 million children out of relative poverty. Budget 2001 tax and benefit changes will lift 170,000 children out of poverty.

Number of children lifted out of poverty

	Below 50% median	Below 60% median	Below 70% median
Children lifted out of low-income households by measures announced in this Parliament	2.0 million	1.2 million	500,000

Incomes are measured after housing costs and include the self-employed.

Thresholds are the same as those used in "Opportunity for All".

Families with children in the poorest fifth of the population will on average be £1,700 a year better off, a real increase of around 15 per cent in their incomes, as a result of personal tax and benefit reforms announced in this Parliament. These families include around 4 million children.

In addition, the Government has started to make significant progress on tackling the causes of poverty and persistent poverty:

- since spring 1997, the number of children in workless households has fallen by over 300,000 and the lone parent employment rate has risen above 50 per cent for the first time in over 20 years;
- since 1997, the number of children in families claiming out of work benefits for two or more years consecutively has fallen by over 200,000 – more than 10 per cent.

5.25 The Government is reforming the incentives and conditions faced by teachers to ensure that all pupils benefit from good quality teaching. It has already introduced performance-related pay, training salaries and "golden hellos" for shortage subjects. The targeting of incentives is being extended. As announced in February 2001, for newly-qualified teachers covering shortage subjects, student loans will be repaid by the Government over a 10-year period.

5.26 To improve and modernise school buildings, the Government increased capital spending on schools threefold between 1996–97 and 2000–01; in England, £7.8 billion will be spent on school buildings over the next three years, with a further £1.1 billion for ICT.

Targeted services to tackle child poverty

Sure Start 5.27 Sure Start is a radical strategy that aims to tackle the causes of poverty and social exclusion. Local, community-led programmes work in partnership with parents-to-be, parents and children to promote the physical, intellectual and social development of babies and young children – particularly those who are disadvantaged – so that they can flourish at home and when they get to school.

5.28 The 2000 Spending Review more than doubled planned expenditure to provide for at least 500 local programmes by 2003–04. 260 local programmes have already been announced and will be operational by April 2002 – 129 are already delivering services to over 10,000 children in disadvantaged areas each month, with over 2,000 new children being contacted each month. Under these local programmes, almost all parents are visited within two months of the birth of their baby.

Children's Fund 5.29 The 2000 Spending Review announced £450 million for a new Children's Fund, over the three years to 2003–04. The majority of the Fund will be targeted at increased preventative services for children (primarily those aged 5 to 13) and their families, helping them before they hit crisis. Part of the Fund, £70 million over three years, will be distributed directly to local community groups through a network of local funds administered by the voluntary sector, for children of all ages.

5.30 The Children's Fund sets out to provide improved joined-up support for children, young people and their families. The Government wants to see local agencies working alongside voluntary and community groups, faith groups, children, young people and parents. Guidance for partnerships for increased preventative services has been issued to an initial 40 local authority areas. The Fund will be rolled out across the whole of England by 2003–04. Children's Fund partnerships are expected to provide services such as mentoring, after school clubs and parenting support.

FAIRNESS FOR PEOPLE WITH DISABILITIES

5.31 The Government is determined to increase opportunities for people with disabilities to live fulfilling and independent lives. The New Deal for Disabled People, described in Chapter 4, is helping those who want to work, with advice and support specific to their needs. The Disabled Person's Tax Credit, also discussed in Chapter 4, increases the gains to work for people with disabilities. From January 2000, the maximum earnings disregard in the Independent Living Fund was increased from £30 to £106.50 a week. This further removes barriers to work for people with disabilities, and ensures that work pays for those Fund beneficiaries who wish to take up employment.

Disability Income Guarantee 5.32 The Government is also providing greater security for those people with disabilities who cannot work. Budget 2000 announced that **from April 2001, severely disabled people under 60 years of age on income-related benefits will receive a guaranteed income**, delivered through a new premium, of at least £142 a week for single people, and £186.80 a week for couples. Families with severely disabled children will benefit from an extra £11.05 a week for each disabled child. Also from April 2001, the Government will be providing new and additional support for severely disabled people through the Disabled Person's Tax Credit and Working Families' Tax Credit. Enhanced disability tax credits will be awarded when adults or children are entitled to the highest rate care component of Disability Living Allowance.

Support for families with disabled children **5.33** The Government recognises that families with disabled children are often under extreme pressure and need extra help. From October 2000, the disabled child credit in the Disabled Person's Tax Credit was extended to families in receipt of the Working Families' Tax Credit. **From April 2001, the disabled child premium in income-related benefits and tax credits will be increased to £30 a week for each eligible child, an increase of £7.40 more than the normal uprating.** Over 100,000 families will gain. **From April 2001 the Government is extending the Disabled Living Allowance higher rate mobility component to severely disabled children aged 3 and 4, providing extra help worth £38.65 a week. Also from April 2001, reforms to Incapacity Benefit will provide up to £26.40 a week more for people who were disabled before the age of 20, once they have been on Incapacity Benefit for a year.**

5.34 In June 2000, the Government announced a package of measures aimed at easing the burdens on families with children suffering from vaccine damage. From July 2000, the one-off payment under the Vaccine Damage Payment (VDP) scheme was increased to £100,000 (a threefold increase from 1997 levels) and previous VDP recipients will also receive top-up awards to bring the value of their payment (at current prices) up to the new level. **The Government intends to bring forward legislation to reduce the disability threshold for eligibility to VDP from 80 per cent to 60 per cent and to extend the time limit for making a claim to encompass all young people up to the age of 21.**

Help for carers **5.35** In November 2000, the Government announced a series of reforms to help carers. **From April 2001 the earnings threshold in Invalid Care Allowance will be raised from £50 to £72 a week.** This will make it easier for carers to combine work and caring. **As soon as is practicable, the Government will extend eligibility to Invalid Care Allowance to carers over 65 and introduce an 8-week run-on after the death of the person being cared for. From April 2001, the Carers Premium in Income Support will be raised by over £10 per week to £24.40, benefiting over 210,000 of the poorest carers.**

FAIRNESS FOR PENSIONERS

5.36 In the Pre-Budget Report, the Government announced a comprehensive set of reforms for pensioners, based around the principles of:

- ending pensioner poverty;
- enabling today's workforce – tomorrow's pensioners – to plan ahead to make decent provision for their own retirement, protecting themselves against poverty in the future;
- rewarding today's low and modest income pensioners who have worked hard to provide for their own retirement; and
- treating pensioners in the tax system fairly, and paving the way to further tax and benefit integration.

Tackling pensioner poverty

5.37 The Government's first priority has been to help those in greatest need. Over the past 20 years, the gap between rich and poor pensioners has grown. Like those of working-age, the richest fifth of pensioners are now three times better off than the lowest fifth. Too many pensioners have not shared in the rising prosperity of the country.

5.38 To address this growing divide, the Government reformed Income Support to introduce a more generous Minimum Income Guarantee (MIG). The MIG has raised the income of poorer pensioners and has risen in line with earnings, ensuring that the incomes of these pensioners have kept pace with the incomes of the wider population. Around 2 million pensioners now benefit from this additional support.

5.39 The current system, however, continues to penalise low-income pensioners who have worked hard to build up savings for their retirement. This is why, as a first step, the Government has taken action on the capital rules attached to the MIG. Currently these capital rules allow pensioners to have only £3,000 of savings without any reduction in benefit. Savings over that level reduce benefit entitlement. With over £8,000 of savings, MIG entitlement is removed altogether. **As announced in Budget 2000, from April 2001, the Government will double the lower limit to £6,000 and increase the upper limit from £8,000 to £12,000 to reward savers.**

5.40 The Pre-Budget Report announced further action to tackle pensioner poverty from this April by **aligning the lower rates of the MIG to equal its highest rate, and raising this above and beyond earnings. From April 2001, the new, simplified MIG will be £92.15 a week for single pensioners, and £140.55 a week for couples.** Based on current projections, following the introduction of a new Pension Credit as set out below, from April 2003 the earnings-linked guaranteed minimum income will be at least £100 a week for single pensioners, and at least £154 a week for couples.

Security for all pensioners

5.41 The Government is also committed to ensuring security in retirement for all pensioners, not just the poorest. It has therefore introduced:

- Winter Fuel Payments, set in the Pre-Budget Report at £200 for December 2000, paid to every household with someone aged 60 or over – 8.5 million in total – each winter. The level of future payments will be set by the Secretary of State for Social Security later in the year;
- free TV licences for households with someone aged 75 or over. Over 3 million households are benefiting – almost half of which are in the bottom three income deciles;
- free eye tests for all those over 60;
- **free passes giving an entitlement to concessionary travel for all pensioners from April 2001;**
- measures to combat fuel poverty through the Home Energy Efficiency Scheme, the Government's Affordable Warmth Programme, a reduced VAT rate of 5 per cent to grant-funded installation of heating systems and a reduced rate of VAT on domestic fuel; and
- plans for a new pensioner organisation to transform the way that the Government provides services to pensioners.

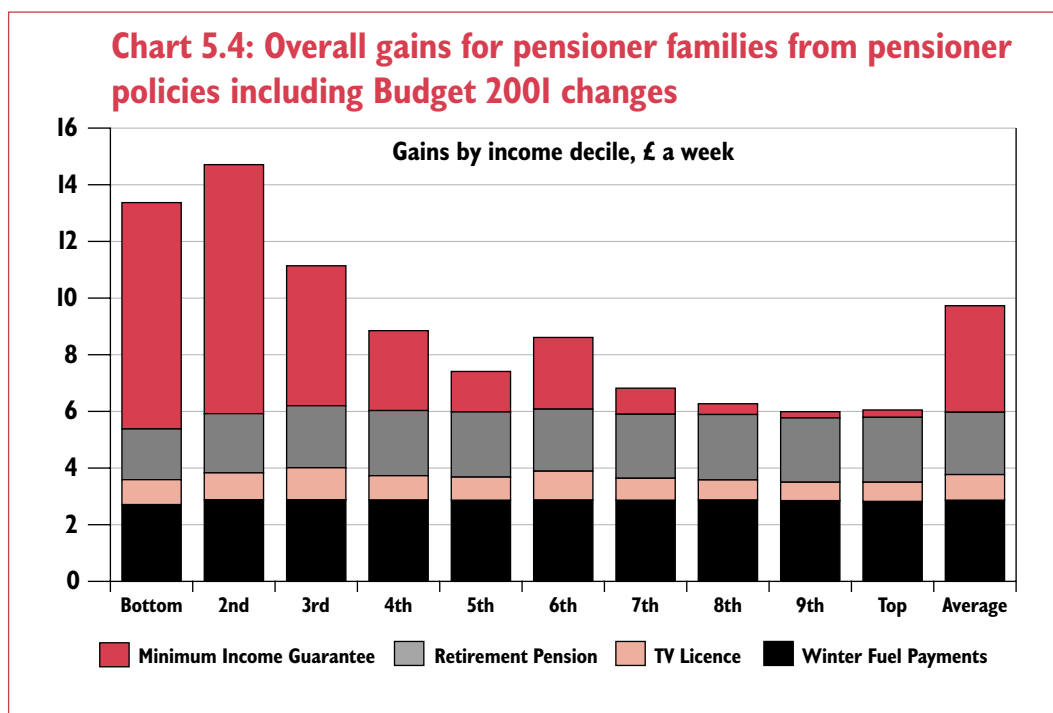
5.42 **The extension of the 10p income band tax in Budget 2001 by £300 over inflation will benefit over 3 million pensioners. By next year, seven out of ten pensioners will pay no tax at all, or tax at the 10p rate.**

5.43 The Government has proposed further radical reform through a new Pension Credit from 2003, as set out below, in order to bring substantial gains not just to the poorest but also to those on low and modest incomes. Ahead of the introduction of the Credit, the Government is taking further action to help these pensioners, as announced in the Pre-Budget Report. **The Government will therefore increase the basic state pension by £5 to £72.50 a week in April 2001, and by a further £3 to £75.50 a week in April 2002 for single pensioners.** For couples this will mean an increase of £8 to £115.90 a week in April 2001, and a further £4.80 to £120.70 a week in April 2002. Based on current forecasts, from April 2003 the basic state pension will be at least £77 a week for single pensioners and £123 a week for couples, reflecting the return to normal price uprating from 2003.

5.44 The Government's tax and benefit reforms mean that, compared to 1997, from April 2001:

- the average pensioner household will be £600 a year, over £11 a week, better off;
- virtually all pensioner households will be better off than they would have been with an earnings link in the basic state pension; and
- around 2 million of the poorest pensioner households will be at least £800 a year better off - a real terms rise in living standard of at least 17 per cent. Younger couples on the MIG will see a gain of over £1,400 a year in real terms since 1997.

5.45 Chart 5.4 shows the distributional impact of these reforms.



5.46 Next year the Government will be spending £4.5 billion a year extra in real terms on pensioners as a result of policies since 1997. In 2002–03, this will rise to £5.5 billion extra a year. This will get £2 billion more next year to the poorest third of pensioners – five times more than an earnings link in the basic state pension would have given them.

Helping tomorrow's pensioners through second-tier pensions

5.47 To help protect future pensioners from the poverty and inequality many of today's pensioners have had to bear, the Government is providing today's workers with the opportunity to build up a decent second-tier pension by the time they retire, through:

- SERPS reform, which will provide more support than in the past for moderate and lower paid workers, and for carers and the disabled. Some 18 million people stand to gain from the introduction of the State Second Pension in April 2002; and
- stakeholder pensions, which will provide a safe, flexible, low-cost way to save for retirement for moderate and higher earners, from this April.

Next steps: the Pension Credit – rewarding low and modest income pensioners

5.48 The Government believes that there is more to do to tackle pensioner poverty and inequality, and to help ensure all pensioners share in rising prosperity. This means providing greater support, not only for the very poorest but also for those on low and modest incomes.

5.49 To achieve this, the Government is determined to tackle both the unfairness of the current system, which means that pensioners on the MIG see little or no gain from having saved, and its complexity, which deters many pensioners from claiming their entitlement. In November 2000, the Secretary of State for Social Security published, for consultation, detailed proposals for a Pension Credit to be introduced from 2003. The Pension Credit (see Box 5.x) will:

- reward low and modest retirement incomes above the level of the basic state pension - a cash reward for every pound of second-tier pension, earnings or investment income for those on the Credit;
- modernise the system by abolishing the capital rules and weekly means-test, and instead bring the system closer in line with the tax system, improving its transparency and administration, and paving the way for further tax and benefit integration; and
- act to end pensioner poverty by simplifying and increasing the MIG, and by linking this to the rise in earnings throughout the next Parliament.

5.50 Based on current assumptions about future growth in prices and earnings, and taking account of the further changes the Government plans to make, when introduced from 2003 the Credit will:

- reward pensioners whose savings, second pensions or earnings give them incomes of up to around £135 a week for single pensioners and £200 a week for couples;
- mean that no single pensioner need live on less than £100 a week – £154 a week for couples; and
- thereby entitle half of all pensioner households – around 5.5 million individual pensioners – to more support.

Help for pensioners who pay tax

5.51 In the same way that the Pension Credit will deliver year-on-year increases to poor and modest income pensioners, so the Government intends to help older taxpayers too.

5.52 Most pensioners have no income tax to pay. But for those who do, **the Government has decided to raise the age-related personal allowances in 2003–04 by £240 over and above indexation.** On current forecasts, that would take the allowances to £6,510 for those aged 65 to 74 and to £6,800 for those aged 75 or more. The Government has also decided **to increase the allowances by reference to the rise in earnings rather than prices throughout the next Parliament.** In the same way that a pensioner on an income of £130 a week will be entitled to a Pension Credit of £2 a week extra, so a pensioner paying tax at 22 per cent on an income of £170 a week will receive £1 extra a week in 2003–04 through this more generous tax allowance. Over 3 million pensioners aged 65 or more will benefit from the increase.

Box 5.4: How the Pension Credit will work

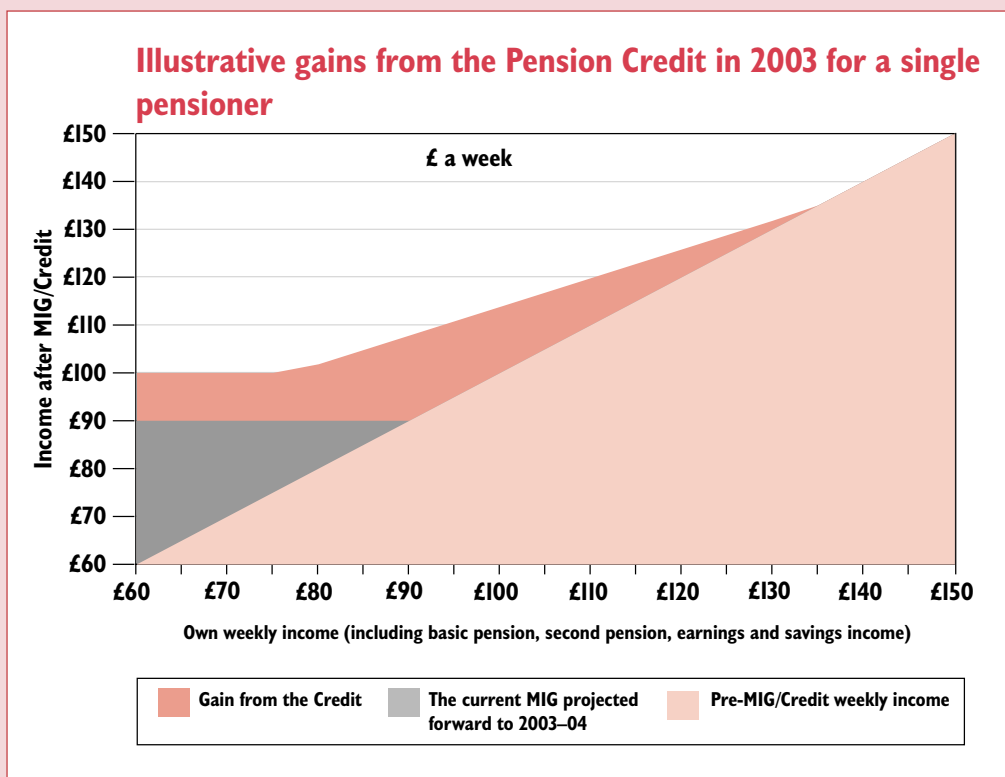
The proposed Pension Credit will reward pensioners for having built up savings during their working lives, or for carrying on working beyond retirement age.

Under the current system, pensioners on the MIG lose a pound of benefit for every extra pound of their second pension or earnings income. Many also either see their benefit dramatically reduced, or are excluded altogether, simply because they have quite small amounts of capital.

The Pension Credit will instead look more fairly at the income a pensioner has to live on. It will simplify the system, fixing awards for longer periods of time, in place of intrusive means-testing, to give pensioners the security they need. It will also end the pound for pound withdrawal in the MIG. At present, many pensioners are no better off from having saved. Under the proposed system a pensioner's post-Credit income will be at least 60p above the guaranteed minimum income level for every pound of second pension, savings or earnings income they build up above the level of the basic state pension.

For illustration, under current arrangements a pensioner in 2003 with basic state pension of £77 a week and occupational pension of £20 a week would have her income topped up by £3 to the level of the MIG, at £100 a week. She would see no gain at all from her occupational pension. Under the Government's proposals though, she will receive £15 a week of Pension Credit, taking her income to £112 a week.

The Government proposes to link the Credit to the growth in average earnings. This means that all pensioners receiving the Credit will receive, year on year, a larger increase in support from the state than they would receive from an earnings link in the basic state pension.



5.53 The Pension Credit and associated changes represent a further step in the Government's programme of bringing the tax and benefit systems closer together. Over time, it is the Government's intention to take tax and benefit integration further: in particular, to make receipt of the Credit more automatic, to take steps to reduce overlap between the two systems, and ultimately to merge support for older people through the credit and the tax system to create a seamless and integrated system of support.

SUPPORTING SAVERS

The Government's savings strategy

5.54 The Government's strategy for saving was set out in a paper, *Helping People to Save*, published alongside the Pre-Budget Report. The Government wants more people to enjoy the benefits of having savings for independence throughout their lives, for security if things go wrong, and for comfort in old age. ISAs and stakeholder pensions help spread tax-advantaged saving to more groups. The Pension Credit will ensure that people who have saved for their retirement are not unfairly penalised. The Government is also tackling a number of other problems that may have discouraged saving in the past, including poor returns for small savers, inaccessible and inflexible savings products and a lack of effective competition in the financial services industry.

5.55 These measures fit within the Government's overall strategy to encourage saving:

- creating the right environment for saving;
- creating the right incentives for people to save; and
- providing information and education to help people make the right saving choices.

5.56 The right environment for saving involves a stable macroeconomy with low inflation, employment opportunity for all, a well-regulated and efficient market in financial services, and flexible and accessible savings products. The right incentives are created by a tax and benefit system which supports saving and does not penalise savers, along with lower charges to enhance the rewards to saving. Clear, impartial information and greater financial literacy enable people to make the right saving choices.

Individual Savings Accounts (ISAs)

5.57 A key part of this strategy was the introduction of Individual Savings Accounts (ISAs). These have proved extremely popular, with 8.5 million people opening accounts and over £28 billion invested in their first year – a third more than was invested in Tax Exempt Special Savings Accounts (TESSAs) and Personal Equity Plans (PEPs) during their last, and most successful year. The success of ISAs has continued this year, with £20 billion invested in ISAs during the first three quarters of 2000–01 – nearly £3 billion more than had been invested by this time last year.

5.58 ISAs – particularly mini cash ISAs – have succeeded in attracting relatively more low-income and younger savers than TESSAs and PEPs. More than a quarter of mini cash ISAs have been taken out by those earning less than £11,500 a year, compared with around one in five TESSAs and one in six PEPs.²

5.59 As well as spreading tax relief more widely, ISAs have also proved to be more generous than a continuation of the old PEPs and TESSAs regime. In this tax year, savers will have paid almost £100 million less in tax than would have been the case with PEPs and TESSAs. Next year, they will pay almost £300 million less. But the Government is going further than this. **As announced in the Pre-Budget Report, the £7,000 per year contribution limit will be extended for five years, together with the higher £3,000 limit for cash.** By 2006, savers will have gained a total of £700 million from this measure. In total, the introduction of ISAs means

² Inland Revenue analysis of the NOP Financial Research Survey for 1999–2000.

that, in 2005–06, savers will be receiving £800 million a year more in tax relief than if PEPs and TESSAs had remained.

10p rate of income tax for savers **5.60** Budget 2001 announces a further change that will help savers. **The extension of the 10p rate of income tax by £300 over and above indexation from April 2001 will apply to savings income and benefit around 1 million savers, many of whom are pensioners.**

Stakeholder pensions **5.61** One of the key aims of the Government's savings strategy is to help people provide for financial security and comfort in old age. To achieve this, the Government gives generous tax reliefs to pensions, on the grounds that these provide a secure income throughout retirement. The Government is committed to extending the benefits of pension saving to previously excluded groups, particularly through the introduction of stakeholder pensions. These are regulated, low cost, good value and flexible products to provide a retirement income.

5.62 Stakeholders will be particularly suitable for moderate earners without a current pension. From October 2001, employers with 5 or more employees that do not offer an employer's pension to all employees will have to offer access to a stakeholder to eligible employees. This will make stakeholders available through the workplace to the majority of those currently without a private pension.

5.63 Those without earnings will also be able to contribute at least £3,600 a year to a stakeholder pension. So, for the first time, people caring for children, on a career break or studying will have access to a tax favoured retirement savings product. In addition, members of employers' schemes earning less than £30,000 per year will also be able to contribute to a stakeholder pension alongside their occupational scheme.

5.64 The Government is on track to meet its target – to make stakeholders widely available from this April. There are already 30 approved stakeholder schemes with 9 more applications pending.

Individual Pension Accounts **5.65** To enhance the transparency and flexibility of pension saving, Individual Pension Accounts (IPAs) will be available from April 2001. An IPA is a new way of holding assets inside a pension scheme. It is a package of investments – like a stocks and shares ISA, but for pension savings. **Budget 2001 introduces measures to exempt transactions in collective investment schemes from stamp duty reserve tax where the units and shares involved are held in IPAs.** This will remove a significant distortion in the competition between unit-linked life insurance based products and pensions using pooled funds.

Annuities **5.66** Pensions provide a secure income throughout retirement. Where a pension fund has been built up through a defined contribution scheme, an annuity is currently the only financial product that can guarantee this, as it guards against the risk of someone's savings running out during their lifetime. This is especially important given recent increases in longevity.

5.67 The Government has received representations on proposals for annuity reform. This is a complex area and many of the ideas submitted would have substantial costs, running into many hundreds of millions of pounds. The Government, however, appreciates that concern has been expressed and will continue discussions with interested parties on workable and affordable alternatives. In the meantime, the Government believes that developments in the annuity market can help to address some of the concerns that have been expressed.

5.68 The Government is keen to enable those buying annuities to make better-informed decisions on the basis of transparent products and clear information. It therefore welcomes recent moves by annuity providers to develop more flexible annuity products that will enable those pensioners for whom it is desirable to remain invested in equities. As the annuity market grows, it should aim to meet the demand for greater investment choice and higher

returns. **The Inland Revenue will continue to work with the industry to ensure that the tax rules do not unnecessarily restrict the development of these products and this market.**

5.69 The Government is also concerned that some people may not be exercising their open market option – to purchase an annuity from another provider to the one with whom they invested their pension. Pensioners could be substantially worse off for not shopping around when buying their annuities. **The Government will therefore be working with the regulators to consider whether more needs to be done to encourage and enable consumers to shop around.**

Fair treatment for savings **5.70** The Government will also ensure that small savers are not unfairly penalised by the tax and benefit system. The Pension Credit will provide fair treatment for pensioners with savings, and other changes will also benefit low-income families who save. **By October 2001 the Government will abolish the £500 capital limits in the Sure Start Maternity Grant and Funeral Payments to ensure that families on low incomes with small amounts of savings receive support from the Government to help cover the costs associated with the birth of a baby or the death of a close relative.** This will benefit up to 25,000 low-income families every year. The next phase of modernising the social security and tax credit system offers an opportunity for a thorough review of the treatment of income and capital in assessing entitlement to support for working-age families.

Information on financial products **5.71** Within its wider regulatory role, the FSA is responsible for promoting understanding of the financial system. Following consultation, the FSA is moving closer to launching published tables of information about several ranges of retail financial products. **Those to be made available first, in the summer of 2001, will cover endowment policies, investment bonds, mortgages, personal pensions and pooled fund ISAs.** The tables will be accurate, authoritative and kept continuously up to date on the FSA website.

Encouraging small savers **5.72** The Government's priority for saving is to encourage people on low or moderate earnings to save. It is already beginning to achieve this with ISAs. From April 2001, 4 million people on low or moderate earnings without access to good occupational pension schemes will have access to stakeholder pensions which will offer a low cost, flexible and secure way to save for retirement. The Government intends to consult the financial services industry to look at further ways of encouraging people on low and moderate incomes to save. This could build on the experience of matched funding policies, such as the Individual Development Accounts operating in the US.

HIGH QUALITY PUBLIC SERVICES

5.73 The Government's aim is to deliver high quality public services that everyone can rely on. By maintaining economic stability and sound fiscal management, the Government was able last year to announce sustained and sustainable increases in the resources available for Britain's priority public services over the coming three years.

5.74 The 2000 Spending Review provided for average annual real growth in spending for the three years from 2000-01 of 5.2 per cent for education, 5.6 per cent for health, 20 per cent for transport, 12 per cent for housing, and 4.2 per cent for the criminal justice system. **As a result of the prudent management of the public finances, Budget 2001 can add to these resources by allocating an extra £2¹/₃ billion over the next three years.**

5.75 The money will go straight to the front line, giving those who are managing services the resources they need to deliver results and meet targets. It will provide, over the next three years, on top of the plans announced last July:

- **an extra £1 billion for education.** In England, additions of £837 million over three years will go to schools. £600 million over three years will go direct to

head teachers to modernise buildings and equipment, and improve pupil attainment. This will mean primary schools will receive additional direct payments of between £3,000 and £13,000 a year; and secondary schools will get additions of between £10,000 and £23,000 a year. A further £200 million fund over 3 years will help schools implement new recruitment and retention incentives for teachers. The Secretary of State for Education and Employment will announce further details of these allocations;

- **an extra £1 billion for health.** In England, additions of £835 million over three years will go direct to the NHS. £450 million over three years will go to frontline hospital investment to help pay for new equipment such as scanners, and replace old Nightingale wards. Each of the acute hospital trusts will get between £½ million and £1 million a year. A further new fund for recruitment and retention will help to tackle shortages of key staff in the health service. The Secretary of State for Health will announce further details of these and other allocations; and
- **an extra £⅓ billion to help tackle drugs.** In England and Wales, additions of £220 million over three years will go straight to Crime and Disorder Reduction Partnerships to help local communities drive out drugs and drug-related crime. Each of the 376 Partnerships should get up to £0.5 million over three years and those with larger areas and the worst problems to tackle, up to £1 million over 3 years. Further resources will also be provided to support voluntary action against drugs by leaders of the business and sporting world. Ministers will announce further details of these measures shortly.

5.76 The Pre-Budget Report confirmed that the Chancellor was commissioning a long-term assessment of the technological, demographic and medical trends over the next two decades that will affect the health service. This review will be led by Derek Wanless, former Group Chief Executive of Nat West Bank, who will report to the Chancellor in time for the start of the next Spending Review in 2002.

STRENGTHENING COMMUNITY LIFE

Local PSAs 5.77 The 2000 Spending Review announced the introduction of local Public Service Agreements in 20 pilot local authorities – a new initiative to strengthen links between central and local government and promote better outcomes. In return for committing to targets local authorities will be able to negotiate the removal of rules and regulations that hinder performance, and stand to gain financial rewards for improved outcomes. The Government plans to extend this approach to an additional 130 local authorities over the following two years.

5.78 Local Strategic Partnerships made up of public, private, community and voluntary sector partners in each local authority area will work to co-ordinate work on ensuring public services meet the needs of residents.

5.79 Chapter 3 describes the measures the Government is taking to encourage enterprise in disadvantaged areas, and Chapter 6 sets out the Government's approach to improving the environment in our towns and cities, working towards a genuine urban renaissance. Chapter 5 describes how the Government is working with local people to deliver better public services for all.

5.80 Conditions in Britain's most disadvantaged communities are unacceptably poor. For example, child poverty in the poorest 10 per cent of wards is three times the national average. Those living in poorer neighbourhoods often have to put up not only with a rundown physical environment and limited opportunities, but also the worst public services. The Government is committed to tackling social exclusion and helping to build stronger communities across Britain.

Public services to tackle social exclusion

5.81 The 2000 Spending Review set specific PSA targets to ensure that everybody, wherever they live, can expect a decent minimum level of public services. These ‘floor’ targets are designed to close the gap between our most deprived communities and the rest of the country by improving health, education and employment outcomes, reducing crime and improving the condition of social housing.

Neighbourhood Renewal Fund **5.82** The Neighbourhood Renewal Fund will provide £900 million over the next three years to the 88 most deprived areas in England. This will provide additional help to Local Authorities and other key partners to make early progress in improving services to those most in need.

Action Plan for Neighbourhood Renewal **5.83** The Government launched the Action Plan for Neighbourhood Renewal in January 2001. The report set out the Government’s vision to narrow the gap between poor neighbourhoods and the rest, so that within 10 to 20 years, no one should be seriously disadvantaged by where they live. Improved mainstream services are a key element of this strategy.

5.84 As part of their wider role, Local Strategic Partnerships (LSPs) will be expected to take an overarching view, considering all the interlinked problems in an area to ensure that all aspects of action to tackle social exclusion work on a co-ordinated basis. LSPs will help rationalise this work and reduce bureaucracy. The consultation period on draft guidance is now completed and the final version will be published shortly.

5.85 The Government recognises that community involvement is crucial for the successful implementation of local policies and additional resources have been allocated to ensure meaningful participation. The Community Empowerment Fund, worth over £35 million in three years, will be available for the 88 most deprived communities from April 2001. This will ensure that local people and the community sector have the resources to play a role in LSPs, on a par with statutory partners. Community Chests also offer £50 million over the next three years to support community projects such as mother and toddler groups and self-help programmes in disadvantaged areas.

An urban renaissance **5.86** The Urban White Paper, published in November 2000 set out a comprehensive strategy to maximise the potential of all towns and cities. The Government wants to build upon lessons learnt from successful places and narrow the gap between them and the rest. The strategy aims to make all urban areas attractive places, in which people want to live, work and spend their leisure time.

Strengthening rural communities **5.87** The Government’s vision for the countryside, as set out in the Rural White Paper in November 2000, is of thriving rural communities with access to high quality public services, a diverse rural economy providing high and sustainable levels of employment, an enhanced and sustainable environment which all can enjoy, and a countryside which can shape its own future with its voice heard by Government at all levels. To help deliver this vision, the Government has allocated more than £600 million over the next three years for implementation of the England Rural Development Programme.

5.88 The Government recognises the severe difficulties currently being experienced by farmers and farming communities as a result of the outbreak of Foot and Mouth Disease. It is working hard with the industry to re-establish conditions in which the countryside can prosper, both contributing to and benefiting from rising economic prosperity.

Strong communities and the voluntary sector

5.89 Budget 2000 introduced an enhanced package of tax reliefs aimed at getting Britain giving more to charity. As a result of the Government’s reforms, donations to charities by UK taxpayers – large and small, regular and one-off – can now attract tax relief.

5.90 The Government has received a number of representations seeking extension of the reliefs to amateur sports clubs that play a valuable and important role in promoting the health and cohesion of their local communities but do not attract tax relief, because they are not recognised as charitable. **Over the next few months the Government will consult on the best way for tax relief to help community amateur sports clubs that make a positive contribution to their local communities.**

TACKLING GLOBAL POVERTY

5.91 The Government applies the same principles of fairness that underpin its domestic agenda to its work in the international community. The Government has been a leading advocate of debt relief through the Heavily Indebted Poor Countries (HIPC) initiative. It was at the forefront of the international effort that saw 22 countries start to receive debt relief worth around \$50 billion by the end of last year, and to benefit from the UK's policy of 100 per cent bilateral debt relief. In December 2000, the Chancellor announced that, for those countries that cannot yet benefit from debt relief – for example because of involvement in conflict – all debt payments to the UK Government would be held in trust, and returned when they are able to put in place an effective strategy for reducing poverty.

Meeting the 2015 International Development Targets

5.92 The Government is committed to meeting the 2015 International Development Targets, which include halving the proportion of people living in extreme poverty and providing universal access to primary education. On 26th February 2001, the Chancellor and Secretary of State for International Development hosted a major international conference to promote more effective action in the fight against child poverty. The heads of international organisations such as the IMF, World Bank, UNICEF, UNDP and OECD, along with governments, faith groups and non-governmental organisations from both developing and developed countries met to discuss what action each needs to take to ensure the targets are met.

Fund for education in the Commonwealth

5.93 75 million children in Commonwealth countries lack a basic education. **At the 26th February conference, the Government announced that a fund will be created, for Her Majesty the Queen's Jubilee Year, to speed the introduction of universal primary education in the Commonwealth.** The fund will help to build fair and effective education systems and create new opportunities for disadvantaged groups. The business community will be encouraged to support this effort.

A new commitment to fight the diseases of poverty

5.94 Every year 6 million people die from HIV/AIDS, malaria and tuberculosis, almost all in the world's poorest countries. At the 26th February conference, the Chancellor and Secretary of State for International Development set out a comprehensive strategy to step up the fight against these killer diseases. They announced a new international initiative to secure the resources to purchase existing medicines, and to create the market required to stimulate research into new vaccines. The Government is also investing in the health care systems required to ensure that drugs and vaccines are delivered effectively. Since 1997 the Department for International Development has invested £1 billion in primary health care systems, delivered through bilateral cooperation. A comprehensive study by the Cabinet Office's Performance and Innovation Unit, working closely with the Department for International Development and the Treasury, will examine further options, and draw up plans for a comprehensive global strategy.

5.95 Budget 2001 sets out proposals for further incentives to create affordable health interventions for the poorest countries:

- **a new tax credit for research and development on drugs and vaccines for the diseases of poverty.** The credit will be additional to existing incentives, and to any further tax credits for research and development introduced following the consultation process announced in this Budget. Companies undertaking research into specified diseases will be eligible for an extra 50 per cent relief on

qualifying expenditure. The Government will consult on the details of the new credit, the coverage of which will depend upon the response from the pharmaceutical industry. The Government will consider extending the credit to cover activity undertaken overseas by UK firms, although this will depend upon assurances from the industry that it will respond to this wider coverage with genuinely new commitments; and

- **a new incentive to encourage the pharmaceutical industry to raise the level of donations of drugs and vaccines**, and to do so in a more consistent manner, in support of developing countries' own health strategy and the needs of their people. Where drugs, vaccines and associated medical equipment are donated to designated international aid agencies and public health authorities, the value of the items donated will not be brought into charge to tax. Ancillary expenditure, such as distribution and transport costs, will be fully tax deductible.

A MODERN AND FAIR TAX SYSTEM

5.96 The opportunity to make the sustained increases in investment in public services described above has been hard-won, partly by maintaining economic stability and high levels of growth, but also through prudent management of the public finances based on a tax system in which everyone pays their fair share. Building on the reforms of the last three Budgets, Budget 2001 announces further measures to modernise the tax system and tackle tax avoidance.

Modernising VAT

Museums 5.97 The Government is committed to universal access to the main national museums and galleries. However, the current VAT rules mean that museums and galleries which do not charge for admissions cannot recover all the VAT they incur on the things that they buy.

5.98 **The Government has therefore decided to introduce a new scheme that will refund national museums and galleries the VAT they incur on their purchases when they allow the public free admission, thereby removing this barrier to free entry.** The Government will be consulting museums and galleries on the details of the scheme, which will be introduced by September 2001. Eligible museums and galleries that do not currently charge will be able to reclaim the VAT they incur from 1 April 2001.

Vehicles adapted for disabled persons 5.99 There is currently a zero rate of VAT on the sale of motor vehicles designed and adapted for use by people with disabilities. **The Government has decided to modernise this zero rate by widening the range of vehicles available to be purchased VAT free by disabled people from 1 April 2001.**

Children's car seats 5.100 Around 6,000 children under eight years old are killed or injured each year on Britain's roads. It is vital that child car seats are correctly fitted and used to help protect children from harm when travelling by car. **The VAT rate on children's car seats will be reduced from 17.5 per cent to 5 per cent.** This will reduce the cost of buying an essential piece of safety equipment, and encourage parents to buy better quality car seats, which can often be easier to fit.

Modernising relief for children's clothing 5.101 The zero rate of VAT on children's clothing and footwear provides valuable support to families by cutting the cost of buying essential goods for their children. However, some clothes and shoes, particularly those worn by today's bigger and taller children, fall outside the scope of the zero rate. **From 1 April 2001, the rules relating to this zero rate will be updated and simplified.** This will allow more children to benefit from zero-rating and reduce the costs to business of administering the relief.

Excise duties

Alcohol 5.102 Britain's several hundred small breweries make a valuable contribution to employment and community life. **To support this industry, the Government is minded to introduce a reduced rate of duty on the beer produced by small breweries,** and will be considering the scope for doing so in the coming year. In addition, **the Government has once again decided to freeze the duty rate on spirits** in order to strengthen both the international competitiveness and domestic base of the UK spirits industry. **Duty on beer, wine and other alcoholic drinks will also be frozen.**

Tobacco 5.103 Smoking is the single greatest cause of preventable illness and premature death in the UK, killing 120,000 people every year. The duty on cigarettes has so far risen by 30 per cent in real terms since May 1997, encouraging existing smokers to smoke less or quit and discouraging children and young people from taking up the habit, thereby helping to prevent many more premature deaths. Maintaining the real price of cigarettes and tobacco supports these vital health objectives. **Tobacco duty will therefore be increased in line with inflation from Budget day.** The Government will also continue to crack down on the supply of cheap smuggled tobacco.

Tobacco smuggling 5.104 It is widely recognised that tobacco smuggling not only undermines the Government's health objectives, but brings with it widespread and serious criminality. In March 2000, the Government announced its *Tackling Tobacco Smuggling* strategy, which is designed first to slow the growth in tobacco smuggling, which has been on a strong upward trend, and then to put it into decline within three years. The strategy provided £209 million for investment in 1,000 extra staff and new equipment such as X-ray scanners.

5.105 This strategy is at an early stage but is beginning to show results. In the first nine months of 2000–01, Customs seized more than 2.1 billion cigarettes destined for the UK market: 1.4 billion in the UK itself and 700 million through joint operations with overseas enforcement agencies. Customs investigators have also broken up 38 major organised crime gangs involved in the smuggling and supply of huge volumes of illicit cigarettes.

5.106 As announced in Budget 2000, "UK duty paid" marks are being introduced on packets of cigarettes and hand-rolling tobacco to help in the identification of smuggled goods. **From 1 July 2001, it will be a criminal offence to transport, sell, offer for sale or allow the use of premises for the sale of unmarked cigarettes and hand-rolling tobacco.** This will deter individuals and retailers from selling unmarked goods, and encourage owners of pubs and managers of workplaces to prevent sales taking place on their premises.

5.107 Smuggling is provisionally estimated to have accounted for 22 per cent of the UK cigarette market in 2000, close to Customs' target of 21 per cent. The strategy is in its first year, and as more front-line staff are put in place, new X-ray scanners come on line, and pack marks are introduced, Customs will be able to take even more effective action against the criminals involved in tobacco smuggling.

Betting

Moving to a gross profits tax 5.108 In March 2000, the Government launched a consultation exercise on the scope for modernising general betting duty. In considering its response to that consultation, the Government's objective has been to deliver a business environment in which the British betting industry can compete in both the domestic and international markets, taking full advantage of the opportunities offered by the development of e-commerce, while ensuring that the future revenue stream from betting is protected.

5.109 To deliver this objective, general betting duty will be replaced with a gross profits tax by 1 January 2002 thereby abolishing all tax on punters. Under the new system, the current duty of 6.75 per cent on total stakes will be replaced with a 15 per cent tax on bookmakers' gross profits, defined as the difference between the stakes laid with them and the winnings they pay out.

5.110 This reformed structure makes it possible for bookmakers to absorb the tax and to end the 9 per cent "deduction" that they currently charge on stakes. It therefore makes it possible for bookmakers to develop their domestic and international business from an onshore base, competing from a position of strength in the growing global market for telephone and internet betting.

5.111 As a result of the changes announced in Budget 2001, the largest UK bookmakers have said that they will relocate their offshore operations to the UK. They expect to take advantage of the new duty system, the UK's reputation as a centre of bookmaking integrity and expertise, and the skilled staff and IT infrastructure that is available from a UK base to grow their e-commerce businesses, bringing international business and increased employment opportunities to the UK. The extra domestic and international betting turnover the reform will generate should enable both the betting and racing industries to prosper. Government revenues will share in the gain from increased turnover in the medium term.

Tackling tax avoidance

5.112 Budget 2001 announces further measures to tackle tax avoidance and close loopholes. These are detailed in Chapter A of the Financial Statement and Budget Report.