

## BUDGET 2003 PRESS NOTICES

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## **BUDGET 2003**

### **BUILDING A BRITAIN OF ECONOMIC STRENGTH AND SOCIAL JUSTICE**

New measures to build a Britain of economic strength and social justice are set out in the Budget, delivered by the Chancellor, Gordon Brown, today.

Against a backdrop of global economic uncertainty and hostilities in Iraq, the Budget sets out the long-term reforms that will leave Britain well placed to deal with the impact of global events, and benefit from the coming global upturn, to build a Britain of economic strength and social justice, a Britain that is enterprising, flexible and fair.

From strong foundations, and having steered a stable course through the most rapid slowdown in the world economy for thirty years, Budget 2003:

- forecasts the economy to grow by 2 to 2½ per cent this year as the world economy recovers, rising to 3 to 3½ per cent in 2004 and 2005;
- shows that the public finances remain sound, and that the Government is firmly on track to meet its strict fiscal rules over the economic cycle, while meeting international and public spending commitments;
- announces new measures to enhance flexibility and dynamism in labour, product and capital markets – measures for flexibility that will deliver opportunity and prosperity in every region; and
- takes steps to advance fairness with flexibility, with further support for some of the most vulnerable pensioners in the country and a new Child Trust Fund to help strengthen the saving habit of future generations.

## KEY BUDGET MEASURES

Key announcements in Budget 2003 include:

- **a new Child Trust Fund** providing children born from September 2002 with an initial endowment at birth of £250, rising to £500 for the poorest families, to strengthen the saving habit of future generations;
- **an extra £100 on top of the £200 winter fuel payment, to households with a pensioner aged 80 or over**, for the lifetime of this Parliament;
- **an extension, to 52 weeks, of the period over which all pensioners in hospital receive their full state pension**;
- **a package of support for new and growing businesses**, including proposals to improve access to finance, simplify tax and reduce regulatory burdens, and measures for the 2,000 Enterprise Areas;
- **new measures to increase the supply of housing**, promote flexibility in the housing market, and streamline and simplify the planning regime;
- **further steps to improve skills in the workforce**, with Enterprise Advisers in schools, details of additional Employer Training Pilots and reforms to facilitate migration as a source of skills in the economy;
- **substantial reform of Housing Benefit** to improve gains to work, facilitate labour mobility, and deliver a more reliable service to claimants;
- **more intensive support to help lone parents and partners** of out-of-work benefit claimants find work, with pilots of a new worksearch premium for lone parents and an enhanced New Deal for partners;
- **a new compliance and enforcement package** to protect direct tax revenues and designed to save £1.6 billion over the next three years;
- an increase in tobacco, beer and wine **duties** in line with inflation and a freeze in the duty on spirits, sparkling wine and cider; and
- **a deferred increase in the main road fuel duties** in line with inflation from 1 October, new duty incentives for environmentally-friendly road fuels, and a new lower rate of vehicle excise duty for the cleanest cars.

## MAINTAINING MACROECONOMIC STABILITY

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

Increased global uncertainty in recent months has led to sharp declines on equity markets and rising oil prices, restraining global economic activity. G7 growth this year is now forecast to be weaker than expected at the time of the Pre-Budget Report, with prospects for the Euro-area particularly badly affected. GDP in the G7 economies is now expected to grow by just 1¾ per cent in 2003, and that in the Euro-area by just 1 per cent.

International developments continue to influence prospects for the UK economy and persistent uncertainty and subdued global growth have affected business confidence and investment in recent months. Nonetheless, low inflation and sound public finances have allowed macroeconomic policy to support the economy during this period of global weakness and left the UK better placed than in previous world slowdowns to maintain economic stability. Comparisons with major competitors show the UK, with North America, as the fastest growing of the G7 industrialised economies in 2001 and 2002.

The Budget 2003 projections show that:

- **the economy** is forecast to grow by 2 to 2½ per cent in 2003 as uncertainties diminish and the global recovery strengthens, and by 3 to 3½ per cent next year and in 2005 as the economy returns to trend;
- **RPIX inflation** is forecast to remain low and close to the Government's 2½ per cent target throughout the forecast period; and
- **the public finances** remain sound. Based on prudent audited assumptions, and despite continued uncertainty in the world economy, the Government is firmly on track to meet its two strict fiscal rules over the economic cycle, including in the cautious case, while meeting its international and public spending commitments.

## **PROMOTING PRODUCTIVITY AND FLEXIBILITY**

Productivity growth underpins strong economic performance and sustained increases in living standards. The Government's long-term goal is that Britain will achieve a faster rate of productivity growth than its main competitors, closing the productivity gap.

In the modern global economy, faster productivity growth demands new flexibility in labour, product and capital markets. Flexibility ensures that the economy responds to economic change efficiently and quickly, and in a way that maintains high employment, low inflation and unemployment, and growth in real incomes. Were the UK to join EMU, the need for flexibility would be greater still, as the ability to adjust interest and exchange rates would no longer be available. Dynamic labour, product and capital markets, and a

stable and flexible housing market, would be vital to avoid putting at risk high and stable levels of growth and employment.

Building on the reforms to the competition regime and the support for businesses already introduced, Budget 2003 sets out the further steps the Government is taking to support the drivers of productivity growth.

### **Promoting enterprise and innovation**

The Government is committed to building an enterprise society in which people from all backgrounds and all areas of the country consider and act upon enterprise opportunities. Budget 2003 announces further action to support small and growing businesses, including:

- **proposals to improve access to finance for small businesses**, with consultation on Small Business Investment Companies, reforms to the Enterprise Investment Scheme and Venture Capital Trust provisions, and tax relief for the incidental costs incurred by SMEs in issuing equity. Further details of the Government's proposals are set out in a new document, *Bridging the finance gap: a consultation on improving access to growth capital for small businesses*, published alongside the Budget;
- **deregulatory reforms** to ease the regulatory burden on small businesses, including amendment of the Company Law definition of small- and medium-sized companies to increase the turnover thresholds to the maxima allowed under EU law. Legislation to establish the new definitions will be introduced as soon as the new EU maxima come into force later this year;
- **further steps to promote research and development (R&D)** activity by business, including reforms to improve the operation of existing R&D tax credits to ensure that more businesses can claim a wider range of relief and consultation on improving the definition of R&D used for the tax credits to ensure it remains consistent with technological developments and is competitive internationally;
- **further proposals to help businesses in Enterprise Areas**, including a second community development venture fund and enhanced capital allowances. From 10 April, all non-residential transactions in these areas are exempt from stamp duty, regardless of value;
- **£16 million over two years to fund Enterprise Advisers** to work alongside headteachers in around 1,000 secondary schools in deprived areas to ensure that pupils gain better knowledge of business and enterprise. Budget 2003 also launches a new £1 million Enterprise Promotion Fund, to support private and voluntary sector creativity in promoting enterprise;

- **a new package of training support for SMEs** delivered in partnership with high street banks. The package will use the banks' existing communication networks to stimulate demand for advice and training. It will be managed by a steering group chaired by Sue Brownson, chief executive of Blue Bell BMW;
- **a series of measures to simplify VAT for businesses**, including an increase in the registration threshold in line with inflation and extension of the optional flat rate and annual accounting schemes to businesses with turnover of up to £150,000;
- **further reform of capital gains tax (CGT)**, including an extension of business assets taper relief to improve access to let property for unincorporated traders and new measures to simplify the CGT regime;
- **a package of measures to simplify employee share schemes**, to enable and encourage companies to offer them to their employees;
- **an extension of 100 per cent first year capital allowances** for small businesses investing in information and communication technologies for one further year; and
- **the abolition of Petroleum Revenue Tax** from 1 January 2004 on all new third party tariffing business under contracts completed on, or after, Budget day relating to the use of pipelines and other infrastructure in the UK and on its continental shelf.

Further information on these and other reforms to help businesses are set out in the separate press notices, PN 05 and PN 06.

## **Improving UK skills**

Improving skills is central to raising UK productivity growth. Skilled labour is an important driver of economic performance and helps to deliver a more flexible and adaptable labour market, enabling firms to update working practices and products at the rate demanded by global markets and making the economy more flexible and productive in the long term.

The Government is planning to publish a Skills Strategy in June 2003, setting out a framework for action by government, individuals and employers to tackle deficiencies in the skills base. The Strategy will propose measures to support employers facing barriers in raising skills levels, improve vocational opportunities for young people, engage more low-skilled adults in training, and make further education funding and qualification structures more responsive to the needs of the economy. Budget 2003 announces further support to improve levels of skills throughout the UK workforce, including:

- **the launch of six new Employer Training Pilots** in Berkshire, East London, Kent, Leicester, Shropshire and South Yorkshire to test new approaches to improving access to training for those in the workforce. The new pilots will be backed by £130 million of funding and will now run in around one quarter of local Learning and Skills Council areas. The extension of Employer Training Pilots will help to strengthen evaluation of the scheme and provide important evidence to inform the development of national policy, complementing work in other areas;
- **improvements to the Highly Skilled Migrants Programme**, including a new threshold for eligibility to encompass a wider range of highly skilled applicants, a new category for younger applicants, and taking partners' achievements into account in assessing individual applications. The changes will take effect from August 2003; and
- **further steps to facilitate migration as a source of skills in the UK**, including a new entitlement for foreign students of science, technology, engineering and maths to work in the UK for 12 months after graduation from a UK institution, reform of the Working Holidaymakers scheme, and action to improve potential migrants and employers' access to information on migration routes.

### **Improving housing supply and simplifying planning**

A stable and flexible housing market is essential to a healthy economy and has a significant influence on macroeconomic stability. Housing market imbalances can act as a brake on economic development and lead to social disadvantage. The effect the housing market has on macroeconomic stability could be much more significant were the UK to join EMU.

The Government's *Sustainable communities* strategy includes reforms to increase the supply of housing, particularly affordable housing. Budget 2003 announces further significant measures, including:

- a new requirement that local authority plans make provision for at least 10 years potential supply of housing, while continuing to prioritise brownfield development;
- a new right for the Deputy Prime Minister to call in for his own decision major housing developments where local authorities are not delivering housing numbers and where intervention will speed up delivery;
- a new review, to be led by Kate Barker, of issues affecting housing supply in the UK, including competition, the capacity and finance of the house-building industry, new technology, possible fiscal instruments, the interaction of these factors with the planning system, and sustainable development objectives;

- consideration of whether, in the medium term, the Government's objectives will require a system of binding local development plans to increase certainty and ensure the stability of the housing market; and
- a new review of the UK mortgage market, by Professor David Miles, to assess the supply and demand side factors limiting the development of the market for fixed and long-term fixed rate mortgages.

## **INCREASING EMPLOYMENT OPPORTUNITY FOR ALL**

The Government's long-term goal is employment opportunity for all – the modern definition of full employment. Its aim is to ensure a higher proportion of people in work than ever before by 2010.

A dynamic and flexible labour market that equips people to adapt to changes in global and domestic demand, and which has the institutional flexibility to deliver high employment and low unemployment across the economic cycle, is key to achieving the Government's goal.

The UK labour market generally exhibits a high degree of flexibility. This has helped to deliver a strong performance in recent years, despite difficult and uncertain global conditions. The New Deal programmes have helped to deliver substantial reductions in the numbers of young and older long-term unemployed people and help has been extended to other workless benefit claimants, including lone parents, disabled people and partners.

Reforms to the tax and benefit system, underpinned by the National Minimum Wage and the Working Tax Credit, have improved incentives to work, helping the labour market to respond flexibly to economic shocks, while preserving a degree of stability in workers' incomes. Unemployment in the UK on the International Labour Organisation (ILO) definition is the lowest among the G7 economies and employment has risen to record highs.

Building on measures to raise levels of skills in the workforce, Budget 2003 describes the additional steps the Government is taking to strengthen flexibility in the labour market, ensuring it can adapt to changing circumstances and deliver high and sustainable employment, including:

- **extra help for unemployed people searching for jobs.** Budget 2003 introduces a series of reforms to improve the effectiveness of Jobseeker's Allowance at helping people adapt to changing economic conditions, including additional interventions in the first six months;

- **greater flexibility and discretion for Jobcentre Plus districts** to respond to local conditions, with a new discretionary fund to address specific employment barriers affecting local communities, a more flexible approach to the length and design of the options within the New Deal for young people, and greater rewards for successful managers;
- **reform of Housing Benefit** to improve financial gains to work, facilitate labour mobility, and to deliver greater reliability in the service to claimants. From April 2004, claims will disregard the first £11.90 of income for tenants eligible for the Working Tax Credit, and the claims process will be simplified. The Government also intends to introduce a new flat rate local housing allowance in the private sector throughout the country as soon as possible, starting with pathfinders from October 2003. A flat rate system in the social sector will be introduced as soon as rent restructuring and increased choice create a better market;
- **extending the help provided by Employment Zones** more widely and encouraging innovation among providers. From April 2004, Employment Zones will replace the New Deal for lone parents (NDLP) in the five London Zones, and will replace the New Deal for lone parents returning for a second or subsequent work-focused interview in the other Zones. Multiple providers will also be introduced in the five London Employment Zones, as well as in the Birmingham, Liverpool and Glasgow Zones;
- **a package of reforms to help lone parents**, including a new £20 per week worksearch premium in eight pilot areas for lone parents actively seeking work, a flexible fund to help Jobcentre Plus managers improve access to debt advisory services, and a new communications and outreach strategy in six cities with high lone parent populations;
- **an enhanced New Deal for partners in April 2004**, offering greater help to unemployed partners of benefit claimants. The enhanced New Deal will provide the same package of support as that available to lone parents, including a training allowance and help with childcare; and
- **extra support to help people from ethnic minorities**, including a new policy fund of £8 million over the next two years to help Jobcentre Plus managers help people from ethnic minorities into work, and specialist advisers in areas with high ethnic minority populations.

As announced last month, **the National Minimum Wage** for adult workers aged 22 or over will be increased to £4.50 an hour from October 2003 and, subject to a review by the Low Pay Commission (LPC) next year, to £4.85 from October 2004. For workers aged between 18 and 21 and those in training, the rate will rise to £3.80 from October 2003 and

to £4.10 from October 2004. The LPC estimates that at least 1.3 million low paid workers will benefit from the new rates in October 2003 and 1.7 million in 2004.

Paid from this month, the Working Tax Credit will help to tackle poor work incentives and persistent poverty among working people. Alongside the National Minimum Wage, it will help to ensure that the labour market responds flexibly to economic shocks, while preserving a degree of stability in workers' incomes. From October 2003, the Working Tax Credit and the National Minimum Wage will guarantee minimum incomes of:

- £241 a week for a family with one child and one earner working full-time on the National Minimum Wage; and
- £187 a week for a single earner couple aged 25 or over and working full-time on the National Minimum Wage.

## **BUILDING A FAIRER SOCIETY**

The Government is determined to ensure that flexibility and fairness are advanced together so that rising national prosperity can be shared by all. Policies for flexibility need not be implemented at the expense of those for fairness, but should be pursued together. Budget 2003 sets out the next steps in the Government's strategy for supporting families, providing security in old age, encouraging saving, and delivering 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 and has set a long-term goal to halve child poverty by 2010 and to eradicate it within a generation.

The Government is committed to a Public Service Agreement target to reduce the number of children living in low-income households by a quarter by 2004-05. Between 1998-99 and 2001-02 the number of children in low-income households fell by 400,000 after housing costs and by 500,000 before housing costs. The Government is therefore around halfway towards meeting its target in half of the time. On one measure it is over halfway, while on the other, it is slightly less than halfway.

Paid from this month, the Child Tax Credit will help to lift more children out of poverty, advancing the Government's child poverty goal. Around 5¾ million families with children are expected to benefit from the Child Tax Credit. As a result of all personal tax and benefit measures taking effect from this month, including the Child and Working Tax

Credits and the freezing of the income tax personal allowance and increase in national insurance contributions announced in Budget 2002:

- a single earner family on median earnings of £21,400 and with two children will be nearly £5.00 a week better off, largely because of the new Child Tax Credit; and
- 50 per cent of families with children will be better off, even after the changes to income tax and national insurance contributions.

As a result of all personal tax and benefit measures since 1997, on average, families with children are £1,200 a year better off in real terms, while those in the poorest fifth of the population are £2,500 a year better off in real terms.

Building on the reforms already introduced, Budget 2003 announces further steps to improve support for families with children, including:

- **a review of financial support for 16 to 19 year olds**, including the financial incentives for young people to participate in education and training. The Government has also agreed that the Low Pay Commission should look into the advantages and disadvantages of a minimum wage for 16 and 17 year olds and will consider the interaction between existing support and any new minimum wage as part of this review. The review will report in spring 2004;
- **tax relief for employer contributions to home-working costs**. From April 2003, the income tax charge that arises when employers contribute to additional household costs incurred by employees working at home will be abolished, increasing incentives for employers to offer flexible working arrangements for their staff; and
- **a new personal tax exemption for foster carers** receiving less than £10,000 a year per residence plus an additional amount per child, to facilitate recruitment and retention of carers.

### **Fairness for today's pensioners**

The Government is committed to tackling pensioner poverty and to ensuring that all pensioners are able to share in rising national prosperity.

The introduction of the Pension Credit from October 2003 – at a cost of £2 billion in the first full year – will ensure that millions of pensioners who have saved for their retirement benefit from having done so. Around half of all pensioner households stand to gain an additional £400 a year on average under the Pension Credit, with some gaining up to £1,000 a year.

The Government is pursuing a comprehensive strategy to maximise take-up, involving personal direct mailing and extensive publicity to ensure that all pensioner households claim what they are entitled to. The Government is determined that at least three million households should receive the Pension Credit by 2006 – the first time a Government target has been set for the take-up of an entitlement.

To provide further support for some of the most vulnerable pensioners in society, Budget 2003:

- **provides an additional £100, on top of the £200 winter fuel payment, to households with a pensioner aged 80 or over**, for the lifetime of this Parliament; and
- **extends, to 52 weeks, the period over which all pensioners in hospital receive their full state pension.** Since the introduction of the welfare state, hospital inpatients, including pensioners, have seen their benefits and state pension reduced after just six weeks, leading to financial insecurity and distress. This reform will provide greater financial security for all those who experience longer stays in hospital.

From 2004-05, following the introduction of the Pension Credit, the Government will be spending around £9.2 billion more in real terms on pensioners as a result of measures introduced since 1997. Compared with the 1997 system, as a result of the Government's measures to support pensioners, including the Pension Credit, on average, from October 2003:

- pensioner households will be £1,250 a year better off in real terms – around £24 extra a week; and
- the poorest third of pensioner households will have gained £1,600 a year in real terms – over £30 extra a week.

### **Support for tomorrow's pensioners**

Above the foundation of support provided for today's workers in retirement, individuals, where possible supported by their employers, are responsible for deciding the level of income on which they plan to retire, and need to plan their saving and working patterns accordingly. The Government is taking steps to help today's workers plan effectively for their retirement, by:

- **consulting on proposals set out in the Pensions Green Paper** to raise levels of pension saving. A series of seminars and events have been held with key stakeholders and around 750 responses have been submitted. The Government is

currently considering responses and has established a new Pensions Commission to review the regime for private pensions and long-term savings and to assess the voluntarist approach. The Commission expects to publish its work programme shortly; and

- **consulting on proposals to simplify the taxation of pensions.** The consultation period ends on 11 April and the Government intends to publish its plans for legislation in the summer.

### **Promoting saving and asset ownership**

Saving and assets provide people with security in times of adversity, long-term independence and opportunity, and comfort in retirement.

Budget 2003 **introduces a new Child Trust Fund** providing every child born from September 2002 with an endowment at birth of £250, rising to £500 for children in the poorest one third of families who also qualify for the full Child Tax Credit. Both progressive and universal, the Child Trust Fund will help to strengthen the saving habit of future generations and spread the benefits of asset ownership to all. Further details are set out in press release PN 03.

The Government welcomes the aim of the Sandler Review of Long-term Savings to minimise tax-generated distortions and create a more level tax playing-field in savings and investment. The Government intends to consider the Review's recommendations relating to the taxation of life insurance policies further within a wider framework that takes account of ongoing regulatory change and other developments such as corporation tax reform.

### **Delivering a modern and fair tax system**

Budget 2003 introduces further measures to deliver a modern and fair tax system which keeps pace with developments in business practice and raises sufficient revenue to support the Government's objectives.

Taxpayers who contribute their fair share of taxes expect that others will do likewise and that the Government will take action against those who abuse the system. Budget 2003 therefore takes further action to prevent abuse, avoidance and non-compliance in the tax system, including through:

- **the launch of a new compliance and enforcement package** designed to strengthen the Inland Revenue's ability to target its compliance activity towards high-value and high-risk areas and to produce £1.6 billion in total additional revenue over the next three years. An additional £66 million is being provided to the Inland Revenue to implement the package, which will focus on three high risk areas,

including the non-payment of tax and national insurance debts from failure to file tax returns, the use of offshore accounts, and avoidance of corporation tax and national insurance contributions;

- **immediate action to close loopholes in the direct tax system.** Measures announced today will save up to £250 million per annum in future years, reducing burdens on compliant taxpayers and protecting revenue for investment in public services; and
- **a package of further measures to reduce VAT fraud and avoidance,** building on the first ever concerted strategy for tackling VAT revenue losses launched at the time of the 2002 Pre-Budget Report.

Further details of these measures are set out in the separate press release, PN 07. In addition, Budget 2003 announces further action to modernise and simplify the tax system, including:

- **details of a major reform of stamp duty,** announced in Budget 2002, to tackle avoidance by companies and reduce distortions in the charge applying to leases, while protecting small businesses and paving the way for e-conveyancing. From December 2003, subject to further consultation, the existing charge applying to leases will be replaced with a single one per cent charge on the total value of rental payments, and a new exemption for all commercial transfers under £150,000 will be introduced, lifting many small business purchases and leases out of stamp duty. Further details are set out in the separate release, PN 05;
- **new rates of tobacco and alcohol duties.** Budget 2003 raises tobacco duty in line with inflation – adding eight pence to a typical packet of 20 cigarettes. Beer and wine duties rise in line with inflation, adding one penny to a pint of beer and four pence to a standard bottle of wine. The duty on spirits, cider and sparkling wine is frozen;
- **further steps to modernise the taxation of gambling,** replacing the existing bingo duty with a single 15 per cent tax on the gross profits of bingo companies from 4 August 2003. The Government will also consult shortly on reform of Amusement Machine Licence Duty; and
- **review of the residence and domicile rules** as they affect the tax liabilities of individuals. As the next steps in this review, a background paper is published alongside the Budget to provide a framework for further analysis and discussion and ensure that any specific options for reform are based on the widest possible understanding of their effect.

## **DELIVERING HIGH QUALITY PUBLIC SERVICES**

Strong and dependable public services lay the foundations for a flexible, high productivity economy. They are also central to the Government's strategy for tackling poverty and social exclusion. A healthy and educated workforce, modern and reliable transport network, and adequate supply of affordable housing promote productivity and flexibility and help to ensure opportunity and security for all. The Government's long-term goal is to deliver world-class public services through sustained increases in investment and reforms to deliver efficient and responsive services which meet public expectations throughout the country and deliver value for money to taxpayers.

Budget 2002 delivered the largest ever sustained increase in spending on the UK National Health Service (NHS) – 7.2 per cent annual average real terms growth over five years – funded by a 1 per cent increase in national insurance contributions (NICs) on all earnings above the NICs threshold from this month and a freeze in the income tax personal allowance for those aged under 65 in 2003-04. Matched with comprehensive plans for reform, these resources reverse three decades of underinvestment in health and will secure the future of an NHS that is free at the point of use and accessible to all. Budget 2003:

- **provides £332 million to invest in counter-terrorism measures** over the next three years, to ensure that UK citizens are protected within the UK from the threat of international terrorism;
- **sets out key issues to be investigated in the run-up to the next Spending Review**, including a new study into the scope for relocating public service staff from London and the South East to other parts of the country, and an update of the long-term challenges in implementing the 'fully engaged' scenario set out in last year's Wanless Review of long-term health trends, with a particular focus on preventative health and health inequalities;
- **sets out a framework for raising public services productivity**, which complements the Government's wider approach to raising productivity in the private sector, in a new discussion paper, *Public services: meeting the productivity challenge*, published alongside the Budget; and
- **provides details of the next steps in reform**, with steps to increase regional and local flexibility in public service pay systems and to increase transparency about performance, including through the introduction this month of regular reporting on the Treasury website of performance against all new Public Service Agreement targets.

## **PROTECTING THE ENVIRONMENT**

The Government's Sustainable Development Strategy aims to deliver a better quality of life for everyone, today and for future generations. This requires action to improve and preserve the quality of the environment. The Government is determined to meet the challenges of climate change, poor air quality and degradation in urban and rural areas, ensuring that economic and social progress go hand in hand with environmental improvement.

### **Promoting energy-efficiency and better waste management**

Budget 2003 outlines the next steps in the Government's work to promote greater energy efficiency by businesses and households and more effective management of resources in the waste stream, including:

- **further action to improve waste management** to help tackle climate change and local disamenity and to promote recycling, including:
  - **an increase in the standard rate of that landfill tax** of £3 per tonne in 2005-06 and increases of at least £3 per tonne in future years, on the way to a medium- to long-term rate of £35 per tonne. The landfill tax rises to £14 this year, to £15 in 2004-05, and to £18 in 2005-06;
  - **further detailed consultation on options to ensure that landfill tax increases are revenue neutral to business as a whole;**
  - **a Waste Management Performance Fund** to help local authorities improve waste performance for all households; and
  - **a new sustainable waste delivery programme** to reduce waste volumes and to promote recycling and the development of new waste management technologies;
- **a freeze in the rates of the climate change levy;**
- **new enhanced capital allowances** to promote investment in energy-saving new technologies and to encourage more efficient water use;
- **detailed consultation on specific measures to encourage household energy efficiency**, following initial consultation; and
- **a freeze in the rates of the aggregates levy.**

## Transport and the environment

Decisions on fuel duties and other transport taxes must take account of environmental, economic, and social objectives. Budget 2003:

- **defers annual revalorisation of the main road fuel duties** until 1 October 2003, owing to the recent high and volatile level of oil prices as a result of military conflict in Iraq. The duty on biodiesel also rises in line with inflation from the same date, while that on road fuel gases is frozen;
- **introduces a duty differential for sulphur-free fuels** of half a penny per litre relative to the rates for ultra-low sulphur fuels from September 2004, to encourage the early introduction and use of these fuels;
- **introduces a new lower rate of duty for bioethanol** 20 pence per litre below the rates for ultra-low sulphur fuels from 1 January 2005;
- **increases the duty on red diesel and fuel oil** by one penny per litre above revalorisation, in view of the high sulphur content of these fuels;
- **introduces a new lower rate of vehicle excise duty (VED)** for the most environmentally-friendly cars with very low levels of carbon dioxide emissions. Car and van VED rates are revalorised and rounded to the nearest £5. VED for motorcycles and lorries is frozen; and
- **freezes the rates of air passenger duty.**

Further details of the Government's environmental strategy are set out in the separate press notice, PN 04.

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## **NOTES FOR EDITORS**

Further details of Budget 2003 announcements can be found on the HM Treasury website: [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk). Additional detail is also included in the press notices listed below. Copies of Inland Revenue and HM Customs and Excise Budget Notes can be found on their websites at [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk) and [www.hmce.gov.uk](http://www.hmce.gov.uk) respectively.

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### **HM TREASURY PRESS OFFICE**

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Non-media enquiries: 020 7270 4558

### **INLAND REVENUE PRESS OFFICE**

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(out of hours: 07860 359544)

Non-media enquiries: 020 7944 3000  
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## **HM CUSTOMS AND EXCISE PRESS OFFICE**

Press enquiries: 020 7865 4775 / 5472  
(out of hours:020 7620 1313)

Non-media enquiries: 0845 010 9000 (National Advice Service)

## **GOVERNMENT DEPARTMENT INTERNET SITES**

Further information and all published documents relating to Budget 2003 may be found on the Internet at the following addresses:

HM Treasury [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

Inland Revenue [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)

HM Customs and Excise [www.hmce.gov.uk](http://www.hmce.gov.uk)

## PROMOTING FLEXIBILITY ACROSS THE REGIONS

Budget 2003 takes new steps to promote greater regional flexibility. In a flexible and dynamic economy, regions must be empowered to harness their indigenous strengths, tackling weaknesses in education, innovation and skills, to promote growth and full employment in all communities. Key steps include:

- a package of new reforms to promote enterprise, innovation and skills growth in every region, and to reduce regulatory burdens;
- **a new study led by Sir Michael Lyons, to examine departmental proposals for relocating civil service and public service staff** from London and the South East to other parts of the country. The Chancellor and Deputy Prime Minister have commissioned an independent review, for which each Government department has been invited to identify opportunities for relocation;
- **measures to ensure that public service pay systems are more responsive to regional labour market conditions.** The Pay Review bodies, which cover 40 per cent of the public sector, will have a remit to take into account regional and local factors;
- **the structured involvement, for the first time, of the nine English Regional Development Agencies (RDAs) in preparatory work for the Budget.** In recognition of their strong regional knowledge, the RDAs were asked to provide advice on measures to increase regional flexibility. Budget 2003 reflects and responds to their input; and
- **new steps to promote dialogue and discussion with the regions** to strengthen their input into future policy-making, including new regional statements of the key Budget decisions.

Measures suggested by the RDAs, to which the Treasury is responding positively today, include:

- on **enterprise**, focusing resources on deprived areas to encourage enterprise in schools – the Budget is announcing the provision of Enterprise Advisors for secondary schools in deprived areas from September 2003;

- on **innovation**, that universities should be encouraged to engage in knowledge transfer – the Budget is today announcing work to help enable regional Science and Industry Councils to do more to connect business with the research base;
- on **regulatory reform**, work with Government to consider how the regulatory burden on small firms can be minimised – the Budget is today announcing new support to reduce red tape, simplify the tax system and improve access to finance for small businesses; and
- on **skills**, greater flexibility to meet employer needs – pilots of regional management of post-19 skills budgets began in four regions (the East, South East, North East and North West) last week.

Commenting on the contribution made by the RDAs, the Chancellor said:

“The focus of this Budget is flexibility and fairness, at both a national and regional level. For the first time, the Treasury asked the Regional Development Agencies to make a formal contribution to the Budget. This strong regional input, together with Ministerial visits to the English regions, has ensured that this Budget responds to the needs and priorities of the English regions. I look forward to the RDAs’ response to the Budget”.

Yorkshire Forward Chairman Sir Graham Hall, who leads the RDAs on Treasury matters and is the current RDA Chair of Chairs, said:

“We welcome the opportunity to input into the Budget development process. Rather than seeking additional resources, our recommendations focused on areas where monies could be better employed and more flexibility could improve local delivery. I am pleased that the Treasury has considered our suggestions seriously and we look forward to repeating this exercise in future years to help the Government achieve sustainable economic growth in all UK regions and narrow the gap in regional disparities”.

Derek Mapp, Chair of the East Midlands Development Agency, commented:

“A continued shift away from central subsidies and towards local flexibility and incentives is the right way to kick-start regional economic growth, driving up levels of enterprise, skills, innovation, investment and productivity – all vital to the UK’s international competitiveness. The Regional Development Agencies are the catalysts for change, stimulating the economic heartbeat of the English Regions. As the move to devolve powers and responsibility gathers pace, the Regional Economic Strategies take on even greater significance as the basis for determining priorities in the regions”.

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## DETAILS

### **RDA involvement in the Budget process**

The process by which the RDAs contribute to the Budget builds on earlier Budgets and the 2002 Spending Review, where RDAs provided their collected proposals on a range of issues. By specifically asking the RDAs to focus on four themes, the Treasury ensured that the RDAs focused on areas where their regional knowledge and experience allows them to add value to preparing the Budget. The Annex to this press notice gives full details of the RDAs' input to the Budget process, and the Treasury's response to each of their suggestions.

RDAs for the 8 English regions (outside London) were established on 1 April 1999. The London Development Agency was established in July 2000 as an executive body of the Greater London Authority. Since 2002, the RDAs have had increased flexibility over their funding streams. This allows them to determine their own priorities, based on the needs of the region. This flexibility will increase as the commitments inherited by the RDAs reduce over the next two to three years. The RDAs' combined budget will rise to £2 billion per year by 2005-06, from £1.6 billion in 2002-03.

### **Relocation review**

The Government has commissioned a new study into the scope for relocating employment opportunities in the public services. The increased local and regional focus to policy-making, backed up by traditional issues of cost-effectiveness imply a case for reviewing the location of civil servants and other public service workers.

The details of a potential relocation policy will be prepared by the next Spending Review. The Chancellor and Deputy Prime Minister have commissioned an independent review, for which each Government department has been invited to identify opportunities for relocation.

### **Regional pay flexibility**

The Government's cross-cutting review of the public sector labour market, conducted as part of the 2002 Spending Review, found that public sector wages vary far less by region compared with those in the private sector. The review concluded that there was significant scope to increase the flexibility and responsiveness of the public sector labour market through the setting of pay and conditions.

Budget 2003 announces that measures will be implemented to ensure that public sector pay systems include a stronger regional and local dimension, where appropriate. This

includes the civil service, Pay Review Body groups and other public sector workers. More locally responsive public sector pay systems will ensure that low paid workers do not lose out, and service users across the country will benefit from better public services. Further details will be announced in the coming months.

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## NOTES FOR EDITORS

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Inland Revenue [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)

HM Customs and Excise [www.hmce.gov.uk](http://www.hmce.gov.uk)

**Annex: The Treasury's response to RDA input into Budget 2003**

### ENTERPRISE

#### **RDA Proposal: Promoting enterprise in disadvantaged areas**

The low level and rate of business start-ups in disadvantaged areas in all regions was identified by the RDAs as an area of concern. The RDAs see a key role for the education sector (especially schools) in increasing enterprise in disadvantaged areas.

#### **RDA Proposal: School-based promotion**

Secondary and tertiary education systems should be re-focused to present enterprise and innovation in a more positive light and to provide experience-based learning opportunities built around enterprise. Support and guidance offered to schools should be considered in the context of the 'Review of Enterprise and the Economy in Education' (February 2002)

by Sir Howard Davies. This could be coupled with innovative formats, such as a campaign involving high profile regional and national role models. The £75 million of resources committed by Government to implement the Davies review should be targeted in the 2,000 Enterprise Areas.

### **Treasury response**

The Government agrees that efforts to build an enterprise culture must begin in schools. Following the recommendations of the Davies Review, the Department for Education and Skills is currently designing pilots to investigate how best to provide pupils with five days of enterprise experience in their school career. The pilots will begin in 2003 and cover around 250 secondary schools, including a number of schools in Enterprise Areas. Rigorous evaluation of these pilots will inform a national roll out from 2005-06. Budget 2003 also announces:

- £16 million over two years to fund Enterprise Advisors, who will work alongside head teachers in 1,000 secondary schools in disadvantaged areas, to encourage enterprise practice among teachers and pupils. These advisors will be funded from existing LSC resources and accessed through the network of Education Business Links Consortia; and
- the establishment of a new £1 million Enterprise Promotion Fund, to support private and voluntary sector creativity in promoting enterprise awareness across schools, business and the wider non-business community. The Fund will offer resources to projects meeting specific enterprise objectives and demonstrating significant private sector support.

### **RDA Proposal: Enterprise outreach**

Funding for organisations that help develop enterprise ideas and opportunities for communities and individuals in disadvantaged areas should be targeted in Enterprise Areas, using social enterprise and other grass roots organisations under the strategic direction of RDAs. The new Small Business Service (SBS) / RDA pilots should explore mechanisms to channel resources effectively to support enterprise outreach work (perhaps using childcare provision as an example). SBS targets should be revised with greater emphasis on increasing levels of enterprise in deprived areas to encourage funding of enterprise outreach work.

### **Treasury response**

The SBS has a key role to play in meeting the DTI Public Service Agreement target to increase levels of enterprise in disadvantaged communities. It is developing seven core strategies, two of which will include a strong outreach component in order to ensure that the objectives of the strategies are met.

The 2002 Spending Review announced an additional £40 million by 2005-06 for the SBS, compared with 2002-03. It was also announced that the Phoenix Fund would be extended by two years beyond March 2004, delivering an extra £50 million to promote enterprise among disadvantaged groups, including through targeted outreach programmes. These activities will complement ongoing work to promote an enterprise culture.

The RDA / SBS pilots, by aligning business support services with Regional Economic Strategies, will better enable RDAs to use the Business Links network to reach all parts of the business community.

### **RDA Proposal: Graduate business start-up support**

There should be provision of targeted support (funding and advice) to graduates starting up businesses in disadvantaged areas (near their home or place of study). Government should explore the use of a part write-off of student loans for graduates setting up enterprises in disadvantaged areas.

### **Treasury response**

The Government recognises that more people between the ages of 16 and 25 consider starting up a business than any other age group. Therefore, in order to support graduate start-up, the Government will consider establishing a National Council for Graduate Entrepreneurship to act as a central information source for students and graduates considering starting up in business. The aim of the Council would be to engage careers advisers, academics, institutions and organisations to promote and facilitate self-employment as a viable career option, including through promotional shows, networking events and mentoring opportunities. The Government does not believe that partially writing off student loans would be the most cost-effective way of targeting business support.

### **RDA Proposal: Transition out of the informal economy**

There should be provision of a transition period for those starting a new enterprise, targeted at the 2,000 Enterprise Areas. There should also be a one-off amnesty for those operating businesses in the informal economy to become legitimate.

### **Treasury response**

Budget 2003 announces that from 10 April Customs & Excise will operate, as part of its VAT strategy, a time-limited incentive scheme for businesses not registered for VAT, but trading above the registration threshold, to move into VAT registration.

Under existing rules, businesses and others who have failed to notify the Inland Revenue that they are liable to pay tax can also substantially reduce tax penalties, often to nil, if they come forward voluntarily. The Inland Revenue also has a confidential help-line for businesses in the informal economy.

## **INNOVATION**

### **RDA Proposal: Encouraging small and medium-sized enterprises (SMEs) to innovate**

The RDAs recognise the importance of SMEs in creating employment, but in some cases the contribution of SMEs to innovation and exploitation of new technologies has been less significant than larger firms. The lack of innovation culture and specialist skills, and the need for better information for SMEs are highlighted by the RDAs as reasons for the relative under-performance of SMEs in innovation. The RDAs propose that the relative importance of a third stream of funding for knowledge transfer from higher education institutions should be raised significantly to help the culture-change in higher education.

### **Treasury response**

The Government welcomes the contribution RDAs can make to promote innovation. In the 2002 Pre-Budget Report, an Innovation Review led by the DTI was announced. This review will provide a wide-ranging review of business innovation and its contribution to UK productivity growth. It is looking at current strengths and weaknesses of innovation policy at the regional level, and will report to the Government in summer 2003 on how innovation policy can be improved in future. The Treasury also announced, in the 2002 Pre-Budget Report, an independent review of business-university interactions, led by Richard Lambert, and reporting to the Government in late summer 2003. One of the review's terms of reference is to look at the national, regional and local economic impacts of business-university interactions, including how RDAs and Sector Skills Councils can best support such interactions. Both review teams are actively engaging with the RDAs.

The Secretary of State for Trade and Industry, Patricia Hewitt, has asked Sir Tom McKillop (as chair of the first Regional Science and Industry Council) to work with the RDAs to ensure that best practice in promoting innovation and knowledge transfer is shared and spread rapidly between the regions.

Building on the success of the R&D tax credit in encouraging research in all regions, the Budget announces a series of improvements to the existing tax credits for R&D for SMEs and large companies.

### **RDA Proposal: Addressing funding gaps**

There is a need to raise significantly the relative importance of the third stream of higher education funding to encourage a change of culture in higher education funding to send clear signals about the importance of working with SMEs. There should be support for proof of concept funds<sup>1</sup> based in each region, by raising the share of higher education institution resources delivered through the third stream of funding (RDAs are supporting such funds as well through existing resources).

### **Treasury response**

In the 2002 Spending Review, the Government increased funds available for the Higher Education Innovation Fund (HEIF) – the third stream, and combined it with funding previously allocated to University Challenge and Science Enterprise Challenge to form a permanent third stream of funding to universities (in addition to teaching and research). The second round of HEIF will have funding of £187 million in total, for investment between 2004 and 2006. The 2002 Spending Review also increased the resources available to DTI for other knowledge transfer activities to £300 million by 2005-06.

The Government's science strategy "Investing in Innovation" (July 2002) set out that RDAs should be involved in the development and prioritisation of universities' proposals for the use of HEIF, and that the Government will consider how to make use of the RDAs' regional perspective in the allocation of knowledge transfer funding. RDAs will be encouraged to assist with the development and prioritisation of universities' proposals alongside regional strategies. The Government is consulting on the details of this arrangement.

### **RDA Proposal: Innovation through the supply chain**

Government should encourage large firms and major public sector procurers to join forces with a number of RDAs and others, to sell innovation benefits through the supply chain to SMEs in a more systematic way. The NHS (and other key public procurers) should work in partnership with RDAs in SME supplier development to encourage best practice in SMEs and expand procurement opportunities.

### **Treasury response**

In the 2002 Pre-Budget Report, the Government welcomed the Competition Commission's recommendations to improve competition in procurement, and announced that the Office of Government Commerce (OGC) would be considering steps to increase competition, and thereby value for money; and to encourage better long term capacity planning, in markets where the Government possesses significant purchasing power. The OGC has appointed a team to undertake this work, which is supported by a working

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<sup>1</sup> For higher education institutions and other public sector research establishments

group comprising the DTI, the Small Business Service and the Treasury. The OGC will report to Ministers in the summer.

The OGC is already taking further steps to enable SMEs to compete for government contracts and deliver value for money. OGC has produced a booklet and video for public sector purchasing staff, launched an Internet portal, [www.supplyinggovernment.gov.uk](http://www.supplyinggovernment.gov.uk), to advise SMEs on access to government contracts; and has simplified the financial appraisal of suppliers to make it easier for SMEs to bid.

In addition, the Better Regulation Task Force's report on reducing the barriers to SMEs in doing business with the public sector will be published in May. The Government will ask the OGC, the SBS and the Local Government Procurement Forum, where appropriate, to act on their recommendations.

The NHS is also encouraging SMEs to play a greater role in its procurement by producing material to explain how purchasing works in the NHS, working with suppliers – including SMEs – to innovate for future NHS purchasing needs, working with trade associations to keep suppliers up to date on changes to the NHS, and using standard sets of Terms and Conditions and contracts, which are available on the internet. The NHS also provides a helpdesk telephone line for suppliers and, in October 2002, launched a Supplier Information Database that enables suppliers to provide pre-tender and pre-qualification information once only.

### **RDA Proposal: Promoting better foresighting work**

There should be a focus on “completion of cycle” in foresight work (nationally and regionally) by continuing dissemination to and engagement with SMEs. This should use SME-based case studies and role models to highlight benefits, building on work done regionally and nationally and better relaying messages through to SMEs concerning market opportunities.

### **Treasury response**

The DTI Innovation Review will be looking at issues and policies in this area and the Government encourages RDAs to contribute their views and suggestions to this review.

## **REGULATORY REFORM**

### **RDA Proposal: Working with Government to reduce regulatory burden**

RDAs have recognised that the Government has sought to reduce what are seen as unnecessary, out-dated or overly complex regulations. The RDAs welcomed the work of the Regulatory Impact Unit and the Better Regulation Task Force and the introduction of Regulatory Impact Assessments. The introduction of the Regulatory Reform Action Plan

and Regulatory Reform Orders, as a structured means for identifying existing legislation which needs reform, and the introduction of an improved small firms impact test, as part of Regulatory Impact Assessments, will help ensure that regulation is necessary and proportionate. The RDAs would welcome an annual summit with Government, in collaboration with other organisations, to raise and discuss practical suggestions to ease the regulatory burden on new business start-ups and growing businesses.

### **Treasury response**

The Government welcomes this proposal and will consider any specific and practicable suggestions for lightening the regulatory burden on business, while continuing to meet agreed policy objectives. The Government recognises the need to continue to improve the dialogue between Government departments and the regions and will consider the best means of taking this forward.

### **RDA Proposal: Regulations impacting on micro growth businesses**

At present the costs of regulation commence at various key growth stages of micro businesses (the first employees, the fifth employee, moving over the VAT threshold, etc) and can become a barrier to growth. There is little co-ordination across Government and its agencies on how SMEs can be helped through what can be a complex maze. National research should establish a stronger evidence base on regulations that most affect small businesses as they attempt to grow.

A revamped Regulatory Impact Assessment (RIA) would lead to the identification of those sectors and size of businesses on which regulation would place the most burdens and in what way. Once pressure points have been identified, it would be imperative that the Government devotes energy and resources to alleviate problems identified. There should also be consideration of the impact of environmental regulation and taxes on SMEs. The Climate change levy agreement target-setting and verification need to be made more cost-effective and less burdensome (e.g., by self-verification).

### **Treasury response**

To reduce the burdens on small businesses, Budget 2003 announces changes to company law, extending the less onerous accounting and reporting regime to more small businesses and clearer principles for future employment regulation. Further measures to reduce the burdens on SMEs include an increase in the VAT threshold in line with inflation and steps to reduce the burden of statistical surveys.

Following the Cross-cutting Review on Services for Small Businesses, the SBS is increasing its capability to conduct research on small business needs, including regulation, and fully meet its remit to become a centre of expertise on small business issues.

The SBS is tasked by its Public Service Agreement to make the UK the best place in the world to start and grow a business by 2005. Progress against this target is measured through international comparisons conducted by organisations such as the OECD and through independent reviews, such as the Growth Plus annual survey. The SBS is working to meet this target through individual programmes such as the recently launched Start-up pack and forthcoming Business.gov, as well as working with other Government bodies to improve the support they offer to small business through the regulatory process.

Business Links already provide generic advice on regulations affecting business. More importantly, however, regulators themselves are increasingly being pro-active in supporting businesses in meeting regulatory requirements in line with the Enforcement Concordat. Improved guidance on the concordat is currently subject to public consultation. The Government recognises that regulation should facilitate innovation and is currently preparing its responses to the BRTF reports.

RIA guidance (issued in February) makes clear the need for assessments to consider the costs and benefits on different business sectors, with a particular focus on the impact on small businesses. The Government and the SBS will continue to work with businesses to ensure effective implementation.

## **SKILLS**

### **RDA Proposal: Addressing skills and training shortages**

The RDAs propose that the education and skills sectors should be more responsive to employer needs. Training provision is often inflexible and fails to meet adequately the needs of employers and employees. The need to raise skill levels across the UK and the link between this and enhancing productivity and competitiveness is also recognised by the RDAs.

### **Treasury response**

The UK has a large number of adults who lack basic literacy and numeracy skills and also a large number of adults in the workforce with low skills. This poor skills performance is a major factor in the productivity gap between the UK and its competitors. The Government has introduced a successful basic skills strategy and is tackling the lack of intermediate skills in the workforce. The Department for Education and Skills has a target of reducing the number of adults in the workforce who lack level 2 skills (around 8 million) by 40 per cent by 2010.

### **RDA Proposal: Flexibility to meet employer needs**

The full NVQ base is not always relevant to employers. Meeting employer needs should drive funding. Learning and Skills Councils (LSCs) should have the flexibility to respond to

regional skill needs identified through the Framework for Regional Employment and Skills Action (FRESA) process. There should be provision of 20-30 per cent of local LSC resources as 'single pot' funding driven by agreed regional skills needs. The RDA adult learning (and SBS) pilots should be used to test the benefits of moving towards funding and incentives built around employer needs.

### **Treasury response**

The Review of Funding of Adult Learning is looking at how to get greater flexibility to meet employer needs, including examining the relationship between funding and qualifications, which Government recognises is too rigid. The review is ongoing and will feed into the National Skills Strategy, setting out how the Government will achieve its targets in this area, which will be published in June 2003.

RDA/LSC pilots will look at how local delivery can be tailored to meet regional skills needs. The Government welcomes the RDAs' suggestion that pilots might be used to test different funding and qualification arrangements. RDAs, LSCs, the Department for Education and Skills and the Treasury are currently engaged in work to develop flexibility for these pilots, including on funding and qualifications. The Government will be considering suggestions such as the 'single pot' for some LSC money in the context of the review of funding and RDA/LSC pilots. The Success for All reform programme for further education is introducing key measures to increase employer responsiveness across the sector.

### **RDA Proposal: Workforce development**

At a time of national high employment, but also employer cut backs in investment, there is a danger of a drop in employer investment in training. The RDAs support the introduction of tax credits for employers providing training to employees (tied to the achievement of an NVQ level 2 or 3 qualification). To take account of the lower incidence of training amongst smaller firms this could be restricted to smaller employers. Credits could vary regionally and be linked to sectors identified as priorities in each region's FRESAs. The RDAs also support waivers on tuition fees or bursaries where there are identified national skill shortages, for example engineering, ICT and technology.

### **Treasury response**

The Government has an open mind on the use of fiscal incentives for training. However, policy in this area is being developed in the context of the Employer Training Pilots, which are currently testing a variety of models based around compensating firms that provide employees with time off to train.

While the White Paper on higher education did not include proposals for a waiver of tuition fees or bursaries for shortage subjects, it reiterated the Government's commitment

to two-year foundation degrees, which in many cases will provide a relatively cost-effective option. The White Paper also proposed that universities that have implemented Access Agreements should be able to vary tuition fees from £0 to £3000. This will create a strong financial incentive for universities to price effectively to retain the viability of courses.

### **RDA Proposal: Skills for employability**

A national approach to promote a greater understanding of the world of work into the 14 to 19 and Higher Education curriculums is needed. Besides developing employability skills, such a programme would seek to increase the amount of business knowledge promoted within learning and encourage an awareness of entrepreneurship. The £75m of resources committed by Government to implement the Howard Davies recommendations should be targeted on the 2,000 Enterprise Areas.

### **Treasury response**

A working group led by Mike Tomlinson is reviewing the 14-19 phase of education and will report on how to improve the vocational opportunities available to young people. The National Modern Apprenticeship Taskforce was launched in February to increase the numbers of employers offering work-based learning to young people, and Budget 2003 announces its work plan.

### **RDA Proposal: Leadership and management skills**

The Government is proposing a comprehensive response to the Council for Excellence in Management and Leadership report. There should be full recognition of the need for training, preferably accredited to a common standard, for small start-ups and micro businesses

### **Treasury response**

Working in partnership with high street banks, the Government will develop a new package to support the development of SMEs. The package will include:

- measures to stimulate the demand for advice and training by SMEs, including banks making entrepreneurs more aware of the direct benefits of training through improved business performance; and

- a web-based training directory to improve the links between the demand for training by SMEs and the diversity of public and private sector provision of training, and offer access to on-line counselling and mentoring.

A steering group chaired by Sue Brownson OBE, chief executive of Blue Bell BMW and member of the Small Firms Council, will oversee the management and development of the support package. The group will include banks, the Small Business Service, University for industry/Learndirect, small business organisations and a range of entrepreneurs.

## STRENGTHENING THE SAVING HABIT OF FUTURE GENERATIONS

The savings of future generations were given a boost today with the launch in Budget 2003 of a new Child Trust Fund, providing children born from September 2002 with an endowment at birth.

The Child Trust Fund is universal and progressive – providing a Government endowment for all new-born children, with those in low-income families receiving the largest sums. The Fund will build up over 18 years, providing young people with a stock of assets to invest in their futures. It will help to strengthen the saving habit of future generations and spread the benefits of asset ownership to all.

Ruth Kelly, Financial Secretary to the Treasury, said:

“The Child Trust Fund is a groundbreaking new initiative which will strengthen financial education, promote positive attitudes to saving and ensure that all children, regardless of family background, will benefit from access to a stock of financial assets when they start their adult lives. It is based around the Government’s belief in progressive universalism – benefiting every child while offering more help to those in most need.”

The Child Trust Fund (CTF) will be introduced to benefit children across the UK by:

- providing an initial **endowment at birth for every child of £250**, rising to £500 for children from low-income families who also qualify for full Child Tax Credit – around a third of all children;
- allowing **additional contributions** to be made by parents, family members and friends, up to an annual limit of £1,000;
- **being accessible when children reach 18 years of age**, whereupon there will be no restriction of the use of assets; and
- **being delivered through open market competition**, with accounts expected to be available by 2005, enabling a wide range of authorised providers to offer the CTF.

The Government will publish further details of the CTF in summer 2003 including product specifications, sales regulation, limits on investment risk, the default investment option

and the extent of any incentives for contributions into the CTF. This will ensure that providers and other stakeholders have the opportunity to comment on the detailed implementation plans.

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## DETAILS

### **Developing the Child Trust Fund (CTF)**

A final paper describing the full details of the CTF will be published in summer 2003. Budget 2003 sets out the main details.

There will be two rates of initial Government endowment, at £250 and £500. The higher rate endowment will be available for children from low-income families who also qualify for full Child Tax Credit – around one third of all families. Optional additional contributions from parents, family members, friends and children themselves, can be paid into the CTF up to an annual limit of £1,000.

—Access to assets in the fund, including any additional contributions, will be permissible only upon account maturity at the age of eighteen. There will be no restriction on the use of assets at maturity, at which point funds could be rolled over into other savings products.

—Provision of the CTF will be by open market competition – any authorised provider will be able to enter the market, subject to meeting the conditions of the CTF.

The Government is currently seeking views<sup>2</sup> on whether explicitly to link the CTF to the range of stakeholder products recommended by the Sandler review of retail savings. In the light of the views put forward by providers, the Government will publish a final paper in summer 2003 describing full product proposals for the CTF to ensure that providers and other stakeholders have an opportunity to comment on the detailed implementation plans for the Child Trust Fund. The paper will address a range of issues, including product specifications, limits on investment risk, the default investment option and the extent of any incentives for contributions into the CTF.

### **Saving and Assets strategy**

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<sup>2</sup> [\*Proposed product specifications for Sandler 'stakeholder' products, HM Treasury and the Department for Work and Pensions, February 2003.\*](#)

The CTF is an important part of the Government's Saving and Assets strategy which is focused on:

- improving the environment for saving, with macroeconomic stability and an efficient and well-regulated market in financial services;
- creating the right incentives for saving, by ensuring that the tax and benefit system does not unfairly penalise savers and by assisting those on lower incomes;
- empowering individuals with financial information, improved access to advice, and simpler and easier to understand savings products; and
- developing savings products suitable for each stage in a person's life cycle. As the scale of saving increases, proceeds from one product may be rolled into the next, helping people to progress up the savings ladder.

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## NOTES FOR EDITORS

The Government has formally consulted twice on the CTF. The first consultation on the CTF, *Saving and Assets for All*, was published in April 2001. A further document, *Delivering Saving and Assets for All*, was published in November 2001, reporting on the results of the first consultation and describing further work on the potential methods of delivery for the CTF. Both of these documents are available on the Treasury's website.

The Government received a large number of responses from a wide variety of providers, including banks, building societies, investment management firms, life insurers, friendly societies and others. Consumer organisations, charities and other stakeholders also provided significant contributions to the consultation process.

In the 2002 Pre-Budget Report the Government announced that following consultation it had decided to offer the CTF through open market competition. The 2002 Pre-Budget Report also announced the Government's intention to work with key stakeholders on the detailed design and implementation of the CTF, and to consider the relationship between the CTF and the suite of stakeholder investment products recommended by the Sandler review.

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Inland Revenue [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)

9 April 2003

## PROTECTING THE ENVIRONMENT

Chancellor Gordon Brown today announced further steps in the Government's strategy to protect the environment, whilst continuing to ensure the competitiveness of UK industry.

Economic Secretary, John Healey said:

"This Budget underlines the Government's commitment to sustainable development. Given the current global economic downturn, we have today announced some important tax freezes to help maintain business competitiveness. However, the Government is committed to tackling environmental problems, by ensuring the polluter pays and introducing new incentives for more environmentally-friendly behaviour".

Measures announced today to balance environmental responsibility with UK competitiveness include:

- **deferred annual revalorisation of the main road fuel duties** until 1 October 2003, owing to the recent high and volatile oil prices, as a result of military conflict in Iraq;
- **a new duty differential for sulphur-free fuels from 1 September 2004, of 0.5 pence per litre relative to the rates for ultra-low sulphur fuels**, to encourage the early introduction and take up of these fuels;
- **an increase in the duties for rebated gas oil (red diesel) and fuel oil** – which have higher levels of sulphur than road fuels – by one penny per litre above revalorisation, from today;
- **the introduction of a new duty incentive for bioethanol used as a road fuel**, set at 20 pence per litre below the prevailing rate for sulphur-free petrol, from 1 January 2005;
- **a new lower carbon dioxide VED band from 1 May 2003** for the most environmentally-friendly cars. Alongside the standard revalorisation and the rounding, an increase in the VED rate for cars and vans by £5; this increases the VED differential between the least and the most polluting cars to £110 per annum;

- a **lower level of emissions for the minimum company car tax charge** in 2005-06 – 5 grams lower at 140 grams per kilometre of carbon dioxide;
  - a **freeze in the rates of air passenger duty** in the light of heightened global uncertainty;
  - **new enhanced capital allowances** for water efficient and energy-saving technologies;
  - a package of **reforms to improve waste management**, including:
    - **confirming that the standard rate of the landfill tax** rises to £14 per tonne in 2003-04 and to £15 per tonne in 2004-05. The rate will subsequently be increased by £3 to £18 per tonne in 2005-06 and by at least £3 per tonne each year thereafter, on the way to a medium- to long-term rate of £35 per tonne;
    - **further detailed consultation on options for a package of measures to ensure that landfill tax increases are revenue neutral to business as a whole**;
    - a **Waste Management Performance Fund** to help local authorities in England improve waste performance for all households; and
    - a **sustainable waste delivery programme** to reduce waste volumes and promote recycling and new waste management technologies, using resources from the reformed Landfill Tax Credit Scheme; and
  - **further detailed consultation on specific measures to encourage household energy efficiency.**
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## DETAILS

### Fuel duty

Owing to the recent high and volatile oil prices, as a result of military conflict in Iraq, this Budget announces that the Government is deferring the annual revalorisation of the main road fuel duties until 1 October 2003.

From 6pm today, the Government will increase the rate of duty on rebated gas oil (red diesel) and fuel oil by one penny per litre above revalorisation. The Government will consult producers, distributors and users of red diesel and fuel oil, together with environmental groups, to establish whether preferential duty rates for rebated oils with low sulphur content would offer worthwhile benefits in terms of reducing emissions.

From 1 September 2004, the Government will introduce a new rate of duty for sulphur-free petrol and diesel, set at 0.5 pence per litre relative to the rate for ultra-low sulphur fuels. This will encourage the early introduction and take up of these fuels. Further details will be announced in due course. From 1 January 2005, the Government will introduce a new rate of duty for bioethanol, set at 20 pence per litre below the rate for sulphur-free petrol.

The Government intends to consult stakeholders on ways to ensure that fiscal incentives and other policy measures for road fuel gas continue to reflect the Government's environmental and other policy objectives, with a view to announcing decisions on future means of Government support in the 2003

Pre-Budget Report. Budget 2003 freezes duty on road fuel gases.

| <b>Fuel type</b>       | <b>Previous duty</b> | <b>Duty from Budget day</b> | <b>Duty from 1 October 2003</b> | <b>Change</b> |
|------------------------|----------------------|-----------------------------|---------------------------------|---------------|
| <b>ULSP/D</b>          | 45.82p per litre     | 45.82p                      | 47.10p                          | +1.28p        |
| <b>Red diesel</b>      | 3.13p per litre      | 4.22p                       | 4.22p                           | +1.09p        |
| <b>Road fuel gases</b> | 9p per kilogram      | 9p                          | 9p                              | Nil           |
| <b>Biodiesel</b>       | 25.82p per litre     | 25.82p                      | 27.10p                          | +1.28p        |

### **Vehicle Excise Duty (VED)**

Following the introduction of graduated VED for cars, Budget 2003 introduces a new rate of VED to provide an incentive for the use of cleaner cars. The most environmentally

friendly cars (with carbon dioxide (CO<sub>2</sub>) emissions below 100g/km) will now pay as little as £55 per annum, while the most polluting vehicles (those that produce CO<sub>2</sub> emissions of 186g/km or more) will now pay up to £165. VED rates are increased by £5 for cars and vans. VED for lorries and motorcycles will be frozen.

### VED for PLG class (cars and vans) from 1 May 2003

Registered before 1 March 2001

|                         |         |
|-------------------------|---------|
| <b>1549cc and below</b> | £110 pa |
| <b>Above 1549cc</b>     | £165 pa |

Registered on and after 1 March 2001 (graduated VED)

| VED band   | CO <sub>2</sub> emissions (g/km) | Cars using alternative fuels (£pa) | Petrol car (£pa) | Diesel car (£pa) |
|------------|----------------------------------|------------------------------------|------------------|------------------|
| <b>AAA</b> | Up to and including 100          | 55                                 | 65               | 75               |
| <b>AA</b>  | 101 to 120                       | 65                                 | 75               | 85               |
| <b>A</b>   | 121 to 150                       | 95                                 | 105              | 115              |
| <b>B</b>   | 151 to 165                       | 115                                | 125              | 135              |
| <b>C</b>   | 166 to 185                       | 135                                | 145              | 155              |
| <b>D</b>   | 186 and above                    | 155                                | 160              | 165              |

### Company cars and vans

Since April 2002 the system of company car taxation has been based on CO<sub>2</sub> emissions. The levels of CO<sub>2</sub> emissions qualifying for the minimum charge up to 2004-05 were announced in Budget 2000 and have been reduced by 10g CO<sub>2</sub>/km each year. Budget 2003 announces that the level of CO<sub>2</sub> emissions qualifying for the minimum charge in 2005-06 will be reduced by 5g/km CO<sub>2</sub>, at 140g/km CO<sub>2</sub>.

Following the Budget 2002 announcement that the Government would review the tax treatment of the private use of vans provided by employers, taking account of environmental benefits, fairness and modern working practices, the Government will consult formally on the tax treatment of company vans shortly after the Budget.

## **Enhanced Capital Allowances (ECAs) for water efficient technology and energy-saving technologies**

The Government announced today that 100% ECAs would be available to all businesses for investments in designated water efficient technologies. The qualifying technology categories will be meters, flow controllers, leakage detection equipment, efficient taps and efficient toilets. The specific technologies that qualify will be published in the Water Technology List following Royal Assent of the Finance Bill. Capital allowances may be claimed for qualifying investments made on or after 1 April 2003.

On energy efficiency, the Government also announced that it will introduce further ECAs for investments in automatic metering and monitoring equipment. The existing boiler, compressed air and refrigeration technologies will also be expanded. Work to define precise performance standards for these technologies is continuing and the Government expects to add these groups to the lists of qualifying technologies during the summer, subject to state aids approval.

## **Waste**

The Government today confirmed that the standard rate of landfill tax, which applies to household and other active waste disposed of in licensed landfill sites, increased from £13 per tonne to £14 per tonne from 1 April 2003 and will increase by a further £1 to £15 per tonne from 1 April 2004 in line with the escalator announced in Budget 1999. The Government also confirmed that the standard rate will increase by £3 per tonne in 2005-06 and thereafter by at least £3 per tonne each year towards a rate of £35 per tonne in the medium- to long-term. The lower rate of landfill tax, applying to inactive or inert waste, remains unchanged at £2 per tonne.

As stated in the 2002 Pre-Budget Report, increases in the standard rate of landfill tax will be introduced in a way that is revenue neutral to business as a whole. Discussions with business and other stakeholder groups have indicated that there is broad support for a package of measures, including some tailored support to those sectors facing the greatest waste management challenges. The Government will pursue this through further development of options and further consultation with stakeholders. Decisions on a package of measures will be announced in the 2003 Pre-Budget Report.

Consistent with its commitment to empowering local government, the Government will reform the Waste Minimisation and Recycling Fund into a local authority Waste Management Performance Fund in England. The Fund will provide non-ringfenced incentives for local government to deliver a step-change in sustainable waste performance for all households. Final decisions on the start date of the Performance

Fund, and its operational details, will be announced following further consultation with local government stakeholders. Decisions on how the landfill tax increases will be made revenue neutral to local government will be taken at the same time.

Following reform of the Landfill Tax Credit Scheme, a proportion of the funding previously going through the scheme – £100 million in 2003-04 and £110 million in 2004-05 and 2005-06 – will be redirected to public spending on a new sustainable waste delivery programme. The spending programme in England, to be managed by DEFRA, will seek to help households reduce the amount of waste they produce, increase access to doorstep collection of materials for recycling, promote the development of new and viable waste management technologies, and provide local authorities with the support they need to deliver best practice. Details of the programme will be announced by DEFRA.

The Government has commissioned a review of the environmental and health effects of all waste management and disposal options. The case for using economic instruments for waste incineration will be considered in light of this work, and in consultation with other stakeholders.

### **The Landfill Tax Credit Scheme (LTCS)**

The successor tax credit scheme will provide around £47 million per year for spending on local community environmental projects, ensuring that funding for this type of project remains broadly similar to current levels. Following discussion with stakeholders, the Government will introduce regulations by the summer to extend the scope of the scheme to include habitat creation projects on land that need not have public access, in order to support wildlife habitats.

The Government will also continue work with Entrust, the regulator of the scheme, and other stakeholders to improve the scheme's operation. Administration of the scheme will be simplified through a reduction in the level of information required from projects and through the use of common systems wherever possible. Better information will be recorded on project funding and audit processes will be improved. The Government will also improve monitoring and evaluation of the scheme and develop measures of value for money. The Government will finalise these changes by the summer.

### **Climate change levy (CCL)**

The rates of CCL will be frozen in 2003-04.

DEFRA has reported a fall of 3.5 per cent in UK CO<sub>2</sub> emissions in 2002 compared to 2001. It has also reported on the performance of the energy-intensive sectors of industry in meeting their first negotiated agreement targets.

The 44 sectors of industry covered by the agreements have cut carbon dioxide releases

into the atmosphere in 2002 by 13.5 million tonnes (3.7 million tonnes carbon) against a 2000 baseline, almost three times above target. Although a large proportion of this has come from just one sector (steel), the other sectors have exceeded their targets by almost one million tonnes of carbon dioxide. Companies covered by the agreements have bought and used almost 600,000 emissions trading allowances to meet their targets, and have either sold or retained the equivalent of 4 million tonnes of carbon dioxide.

As set out in the 1999 Pre-Budget Report, the Government remains willing to consider alternative criteria for defining energy intensive sectors of industry eligible for entry into negotiated agreements. However, any criteria must meet the four tests which were set out when the levy was initially announced: they must have a clear rationale, and be administratively simple, legally robust, and consistent with EU state aids rules. The Government is exploring with business whether any criteria can be identified which meet the four tests and which would enable agreements to be extended to other energy intensive sectors subject to international competition, as part of its strategy of developing and enhancing the levy to improve its environmental effectiveness.

### **Domestic energy efficiency**

The Government conducted an initial consultation on the potential for using additional economic instruments to improve household energy efficiency in 2002. After considering all the responses, the Government will shortly undertake further detailed consultation on specific measures to encourage household energy efficiency.

### **Sustainable housing**

The Government will be undertaking a new review of the factors affecting the supply of housing. The review will include consideration of the interaction between housing supply and sustainable development objectives. The Government will also continue to consider the use of economic instruments to support regeneration and encourage brownfield development.

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## **NOTES FOR EDITORS**

### **Sulphur-free fuels**

Under EU agreements, sulphur-free fuels must replace conventional road fuels by 2009. The duty incentive that will be introduced from 1 September 2004 is designed to facilitate this process, and will help to offset the extra costs of production of these more environmentally friendly fuels.

A sulphur-free fuel has a sulphur content not exceeding 10 parts per million. Sulphur-free fuels give immediate greenhouse gas emissions improvements in existing cars, because they enable catalytic converters to function more effectively. They also offer greater long-term reductions in carbon dioxide emissions when used with new engine technologies. In the short- to medium-term, however, because of additional refining requirements, sulphur-free fuels need more energy to produce than ultra-low sulphur fuels, resulting in higher carbon dioxide emissions from oil refineries removing the sulphur. The Government has chosen the date of introduction carefully to ensure that environmental benefits overall are maximised.

### **Bioethanol**

Bioethanol is usually produced from crops such as sugar beet and wheat. In some countries it is widely used as a road fuel, when blended with petrol, and it can reduce tailpipe emissions of greenhouse gases and local air pollutants. Bioethanol can also be produced from waste materials such as forestry residues and straw. The Government will continue to examine the best way of promoting bioethanol from less conventional feedstocks.

The reduced rate of duty (from 1 January 2005) is consistent with the Government's strategy of sustainable development and environmental objectives, and will help to meet the extra costs of production of this more environmentally friendly form of fuel.

### **Rebated gas oil and fuel oil**

Duty differentials in favour of ULSD and ULSP have been effective in encouraging a switch to these more environmentally friendly road fuels. Use of oil other than as road fuel, however, continues to contribute to problems with local air quality. Rebated gas oil (red diesel) will still be taxed at over 40 pence per litre less than the ULSD rate, but has a permitted sulphur content of up to 2,000 parts per million (compared with a maximum of 50 parts per million for ULSD). Fuel oil is taxed below the red diesel rate but has a permitted sulphur content of up to 10,000 parts per million.

### **Enhanced capital allowances**

Business expenditure on plant and machinery normally qualifies for tax relief as capital allowances, given at a rate of 25% a year on the reducing balance basis. Special schemes enable a business to claim a greater amount of tax relief against its profits over period in which it makes the investment. The main schemes are 100 per cent enhanced capital allowances for energy-saving investments and 40 per cent first-year allowances for investments by SMEs.

## **Climate change levy**

The CCL was introduced on 1 April 2001 as an environmental tax on the use of energy by business and the public sector. The purpose of the CCL is to encourage the efficient use of energy, in order to help meet the UK's targets for cutting emissions of greenhouse gases.

The revenue raised by the levy is recycled back to business, primarily through the 0.3 percentage point reduction – worth around £1.7 billion in 2003-04 – in employers' national insurance contributions introduced with the levy. Revenue from the levy also provides support for investment in energy efficiency measures through 100 per cent enhanced capital allowances and support for the Carbon Trust, which provides advice for business and supports the development of low carbon technologies. The levy and package of associated measures form part of the Government's strategy for moving the burden of tax from 'beneficial' activity such as employment to 'detrimental' activity such as pollution.

## **Negotiated climate change agreements**

Since the start of CCL, 44 eligible energy intensive sectors of industry have been able to enter into negotiated agreements to improve their energy efficiency and reduce emissions in return for an 80 per cent discount from the levy. Facilities that have been certified by DEFRA as having met their 2002 targets can continue to benefit from the levy discount from April 2003 to March 2005.

## **Exemption from CCL for energy used in certain recycling processes**

In July 2002 an extra-statutory concession was introduced that exempts from the CCL energy used for certain environmentally-friendly industrial recycling processes. This exemption applies to such recycling processes that compete with processes that use fuels for non-energy purposes or for dual energy/non energy use (e.g. coke used in steel blast furnaces). Legislation for the extra statutory concession is being introduced in Finance Bill 2003.

Fuels used for non-energy purposes or for dual energy/non-energy uses are not subject to the climate change levy. The extra-statutory concession allows competing recycling processes that use less energy to benefit from a similar exemption. Businesses and trade organisations that believe the energy product used in their processes should be eligible for the exemption, and who have not already done so, should submit details and evidence to Customs and Excise. Customs and Excise will determine whether each individual process justifies an exemption. Exemptions have been backdated to 1 April 2001.

## **Aggregates levy**

The aggregates levy was introduced on 1 April 2002 at £1.60 per tonne of virgin aggregate, and is an environmental tax on the commercial exploitation of aggregates in the UK. The objective of the levy is to reduce the demand for virgin aggregate and encourage the use of re-cycled materials, thereby reducing the environmental costs associated with quarrying operations, including noise, dust, visual intrusion, loss of amenity and damage to biodiversity. The rate of the aggregates levy is frozen in Budget 2003.

To support businesses and communities affected by aggregates extraction the introduction of the aggregates levy was accompanied by a new Aggregates Levy Sustainability Fund (ALSF) and a 0.1 percentage point reduction in employer NICs. The ALSF in England was launched in April 2002 and its work to date has concentrated on reducing the demand for primary aggregates, promoting environmentally-friendly extraction and transport, and reducing the local impact of aggregates extraction.

The Government is phasing in the aggregates levy over 5 years for aggregates used in the manufacture of processed products in Northern Ireland. This relief recognises the unique position of processed product manufacturers in the province, which face increased international competition because of the land boundary with the Republic of Ireland. The Government is continuing to review the impact of the phasing-in of the levy in Northern Ireland.

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HM Customs and Excise [www.hmce.gov.uk](http://www.hmce.gov.uk)

## MODERNISING THE TAXATION OF PROPERTY

Budget 2003 confirms the details of and changes to a package of reforms to the taxation of residential, commercial and investment property. These reforms are a major step towards modernising the tax treatment of UK property, and will close loopholes, remove distortions and enhance the sector's contribution to economic growth, development and regeneration.

Financial Secretary Ruth Kelly, said:

“The Government recognises the important contribution of the property sector to the UK's economic and social well-being. Commercial property is an important factor of production, contributing directly to economic growth, and making possible the renewal of the urban landscape. The Government's long-term aim is to remove tax distortions and facilitate an efficient property sector that can better support its economic and social objectives. This package of proposals and measures is a major step forward”.

This Budget confirms the details of and changes to the modernised regime for stamp duty announced in Budget 2002, including:

- **rolling out the modernised stamp duty regime** for UK land and buildings, including new compliance and enforcement powers, tougher anti-avoidance measures, and a proposed new regime for leases, from 1 December 2003;
- subject to further consultation, the existing charge applying to leases will be replaced with a single one per cent charge on the net present value of rental payments, and a **new exemption for commercial leases under £150,000** will be introduced;
- **further consultation on the stamp duty treatment of complex commercial transactions** including on property held through partnerships, to ensure the charge is levied fairly;
- **from 15 April, changes to strengthen the anti-avoidance measures** involving group and acquisition relief clawbacks in the existing stamp duty regime;
- **significant changes for commercial property transactions**, including:

- **from 10 April, relieving stamp duty on all non-residential property transactions in the 2,000 Enterprise Areas;**
- **from 1 December, an increased zero rate band upper threshold of £150,000 for commercial property transfers and leases; and**
- **a commitment to consider the commercial and residential markets separately** in future decisions on stamp duty;
- **retrospectively exempting from stamp duty tenancy agreements between Registered Social Landlords and tenants** entered into under arrangements with housing authorities to house the homeless;
- **from 1 December, ensuring that property purchases by individuals funded through alternative financing arrangements are put on a level footing for stamp duty purposes with purchases funded through conventional mortgages;**
- **from 1 December, abolition of stamp duty on transactions involving property other than land, shares and interests in partnerships; and**
- **from 6 April 2004, a more generous capital gains tax regime for let property** used in a business, extending business assets taper relief to let property used by unincorporated traders.

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## DETAILS

### **Modernising stamp duty**

Budget 2003 confirms the details of and changes to the modernised regime for stamp duty announced in Budget 2002. The revised regime, which will apply from 1 December 2003, will have a reinforced legal basis and modern enforcement powers commensurate with other taxes. It will stop the abuse that has been pervasive in high-value commercial transactions, while reducing the burden on smaller businesses and modernising the administration of the tax for individuals.

The new regime will expand a range of anti-avoidance powers to discourage the transfer of properties into companies (sometimes called special purpose vehicles) in certain circumstances. A number of changes to the group and acquisition relief clawback provisions will be introduced with immediate effect, including extending the period in which these clawbacks can be withdrawn to three years.

The Government proposes further consultation on the transfer of land into and out of a partnership by a partner, and the need for a stamp duty charge on transfers of interests in partnerships that hold UK land. This is in order to prevent the use of partnerships to transfer property without incurring a stamp duty charge. Pending introduction of the new measures, the stamp duty treatment of partnership interests will continue as now.

The modernised regime comes into force for transactions completed on or after 1 December 2003, where those transactions relate to contracts entered into after Royal Assent of the Finance Bill. This means that transactions enacted before Royal Assent will broadly always be chargeable under the existing stamp duty regime, no matter when completed. There will be special rules for certain options made after 16 April - transactions arising from those options may be subject to modernised stamp duty if they arise after implementation of the new regime. Full details about transitional provisions will be available when the Finance Bill is published on 16 April.

The modernised stamp duty regime will see the abolition of stamp duty on transactions involving property other than land, shares and interests in partnerships. This de-regulation will take many transactions out of stamp duty altogether, significantly transfers of book debts and other receivables.

The vast majority of individuals buying or renting residential property will see no immediate changes under the new regime, though there will be some administrative changes (such as a redesigned form) which their solicitors or conveyancers will handle for them, as they do now. Over time, modernisation will offer new electronic ways of notifying liability and paying stamp duty, and help speed up the house-buying process.

In future, and once improvements to the administration of stamp duty have been implemented, the Government is prepared to consider additional changes that differentiate between the commercial and residential markets; taking into account the economic circumstances of the two sectors, and the need to ensure fairness between taxpayers.

### **Stamp duty on new leases**

Under the modernised regime, the Government also proposes to update the existing charge on the grant of new leases (known as "lease duty") to bring it closer into line with the charge on transfers of freehold land and buildings. Legislation to achieve this will be included in the Finance Bill and the changes will have effect from 1 December, subject to further consultation.

At present the charge is calculated by reference to lease length and the average annual rent, with four different rates applying. This approach does not properly reflect the value

of the lease over time, and creates distortions, particularly around the points where rates change. Under the proposals, the new charge will follow modern commercial practice in valuing the rent payable over the term of the lease at its discounted net present value (NPV) and there will be a single rate of 1 per cent of the NPV of rental payments, where the NPV exceeds the zero rate band threshold of £60,000 (for residential property) or £150,000 (for non-residential property). Premiums will continue to be taxed as now at the same rates as freehold transfers. This will reduce the tax distortion between holding property as leasehold and as freehold, and between different types of leases.

In addition, from 1 December 2003, VAT will be excluded from treatment as consideration for a new lease provided the landlord has not opted to charge VAT by the time the lease is granted. Under the current regime, lease duty is calculated on the assumption that VAT is charged on rent, unless the lease specifically prohibits the charging of VAT.

### **Threshold for non-residential property**

The Budget introduces a measure designed to exclude more small businesses from charge to stamp duty from 1 December 2003. The stamp duty zero rate band threshold will be significantly increased from £60,000 to £150,000 for non-residential purchases, eliminating the charge on around 18 per cent of commercial property acquisitions. The new zero rate threshold will apply to non-residential new leases where the NPV of rents is not more than £150,000, taking around 60 per cent of new commercial leases out of charge altogether.

### **Alternative property finance arrangements**

Modernisation allows for fairer treatment of property purchases by individuals financed by certain types of alternative mortgage products. From 1 December 2003, and in certain circumstances before then, individuals using such products will be able to benefit from this fairer treatment, putting the stamp duty treatment of purchases financed this way on a level footing with purchases financed by conventional mortgage products. The Government believes that a range of individual consumers will benefit from increased choice in the mortgage market.

### **Disadvantaged areas**

From 10 April, stamp duty will no longer have to be paid on certain non-residential property transactions in disadvantaged areas. Regulations build on the existing exemption from stamp duty on all property in disadvantaged areas where the consideration does not exceed £150,000. The move takes forward the Government's aim of regenerating the most deprived areas in the UK. The Inland Revenue is today publishing a Statement of Practice, SP1/2003 which sets out detailed guidance on the relief from stamp duty in disadvantaged areas.

## **Registered Social Landlords**

Registered Social Landlords enter in to contracts with housing authorities to house the homeless. Budget 2003 removes the obligation on Registered Social Landlords and tenants to pay stamp duty on certain tenancy agreements. The measure will apply retrospectively to tenancy agreements entered into on or after 1st January 2000. This supports the Government's policy on housing the homeless.

## **Other commercial property measures**

The extension of capital gains tax business assets taper relief improves access to let property for unincorporated traders from 6 April 2004, thereby meeting a recommendation of the Curry Report (Policy Commission on Farming and Food).

Inflexible lease terms can restrain businesses growth and expose them to undue risk. The Government is working with all parts of the industry to promote a voluntary Code of Conduct on Commercial Leases to improve the flexibility of lease terms. The effectiveness of this is being independently evaluated. Should the interim evaluation show that there has been little progress towards greater flexibility, the Government will consult later this year on possible legislative options.

Tax reforms may also have a role to play in improving the efficiency and flexibility of the property investment market. The Government will discuss with the industry the appropriate tax treatment of new property derivative products. Consultation on corporation tax reform also provides an opportunity to consider the tax treatment of commercial property. The Government will explore with the industry evidence for the effectiveness of further measures to improve the efficiency and flexibility of commercial property.

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## **NOTES FOR EDITORS**

### **Stamp duty measures with immediate effect**

This Budget confirms the details of and changes to the modernised regime for stamp duty announced in Budget 2002.

A number of changes to the group and acquisition relief clawback provisions will be introduced with immediate effect. These are:

- Extending the period in which group and acquisition relief clawbacks can be withdrawn to three years;

- Closing a loophole whereby the clawback could have been avoided by transferring the land into a connected company before selling the original company together with the connected company;
- Ensuring that group or acquisition relief will be withdrawn unless stamp duty has been paid on the market value of land that is subsequently reacquired by the original company.

The changes will generally apply to documents executed after 14 April. The existing rules will continue to apply where the document gives effect to a contract made on or before 9 April, unless the document results from the exercise of an option, an assignment, or further contract made after 9 April. Equivalent provisions will apply from 1 December in the modernised regime.

### **Modernising stamp duty – new regime for leases**

Both before and after the implementation of the modernised regime:

- stamp duty applies to the grant of a new lease (including sub-leases);
- lease duty applies to the rent payable under a new lease;
- where a premium is payable for the grant of a lease, this is at the same rates as freehold transfers, except that where rent of over £600 a year is also payable, in which case the zero rate does not apply to the premium; and
- where an existing lease is transferred, this is charged at the same rates as freehold transfers.

### **New regime for the rental element of leases**

Currently, stamp duty on the rental element of new leases (often called “lease duty”) is calculated by reference to the average annual rent and charged at 1, 2, 12 or 24 per cent depending on lease length. This regime produces distortions with very steep jumps between rates for certain lease lengths. From December, the proposed charge will be based on the net present value (NPV) of all the rental payments due over the term of the lease. Using NPV recognises the time value of money – rental payments received in the future are worth less than equivalent payments received now. The new regime will discount future rents at 3.5 per cent per annum as recommended in the Treasury’s “Green Book”.

**Example: a ten-year lease with £10,000 rent per annum. Rental payments total £100,000 over the life of the lease, but once discounted the NPV is £83,166.**

Under the proposed relief for smaller leases, non-residential rental leases where the NPV of rents over the life of the lease does not exceed £150,000 will be exempt from charge. This will take around 60 per cent of all commercial leases out of charge.

## **Examples:**

- a 10-year commercial lease will be exempt if rent is below £18,000 each year;
- a 25-year commercial lease will be exempt if rent is below £9,100 each year; and
- a commercial lease of any length will be exempt if rent is below £5,250 each year.

Many short residential leases are already exempt from lease duty on the rental element because very low rents, such as ground rents, are payable. Leases of furnished property for a term of less than a year currently attract only a £5 stamp. From December stamp duty at 0 per cent will apply where the NPV of rents is below £60,000. This means that a 2-year rental lease will be exempt if rent is below £31,500 each year, a 5-year rental lease will be exempt if rent is below £13,250 each year and a rental lease of any length will be exempt if rent is below £2,100 each year. This approach keeps over 90 per cent of all residential leases out of the charge.

## **Relief for disadvantaged areas**

The existing exemption for all property in disadvantaged areas where the consideration does not exceed £150,000 was introduced on 30 November 2001. At the time the Chancellor announced that, subject to State Aid approval, he intended to substantially increase or abolish the limit for non-residential property. Approval was given on 21 January 2003, and takes effect from 10 April.

## **Capital gains tax (CGT)**

CGT taper relief reduces the amount of CGT payable by bringing only a proportion of the gain into charge. The longer an asset has been owned before it is sold, the smaller the proportion. A more generous taper applies for business assets than other assets, and the effective rate of tax for gains on business assets for higher-rate taxpayers who have held the assets for at least two years is 10 per cent.

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HM Customs and Excise [www.hmce.gov.uk](http://www.hmce.gov.uk)

9 April 2003

## **SUPPORTING BUSINESS AND ENTREPRENEURSHIP**

A package of reforms to the business tax system to enhance the competitive UK business environment, promote investment and innovation, improve access to finance for SMEs and encourage enterprise in disadvantaged communities, was announced today.

Paymaster General, Dawn Primarolo, said:

“A competitive business environment coupled with a modern tax system is vital to underpin strong economic growth in the UK. This Budget takes further steps to strengthen the business environment and to ensure that all regions in the UK are able to share in a dynamic and enterprising economy”.

The Economic Secretary, John Healey, said:

“For too long inadequate access to skills, finance and new technologies has held businesses back from achieving their full growth potential. This Budget builds on existing measures to tackle these barriers to growth and takes further steps to cut red tape for small business. These reforms will help narrow the long-standing productivity gap with our competitors, and ensure that the UK remains one of the best places for businesses to start and grow.”

Budget 2003 also takes further steps to modernise and simplify the tax system, cut red tape and reduce the administrative burden on business. The measures outlined today will offer benefits for up to 3.7 million businesses in the UK.

## **Innovation, investment and skills**

To encourage innovation, investment and training by small businesses, Budget 2003:

- extends **100 per cent first-year capital allowances for information and communication technology** until 31 March 2004, to encourage up to 3.7 million businesses to invest in information technology and succeed in the knowledge economy;
- introduces **improvements to research and development (R&D) tax credits** for all companies, including a review of the R&D definition, the reduction of the minimum expenditure threshold to £10,000 and extension of the coverage of the large company scheme, making it easier for SMEs in particular to access the credits;
- a new package in partnership with high street banks to **support advice and training by small businesses**, including the creation of a web-based training directory;
- more details on the extension of **Employer Training Pilots** to six further Learning and Skills Councils areas, as announced in the 2002 Pre-Budget Report; and
- the establishment of the employer-led task force on **Modern Apprentices**, to ensure that the MA scheme meets the needs of firms across a range of sectors, of all sizes.

## **Access to finance**

To improve access to finance for SMEs, Budget 2003 **launches a new consultation, *Bridging the Finance Gap: a consultation on improving access to growth capital for small business***, to examine the scope for:

- applying the highly successful US **Small Business Investment Company model** to the UK;
- further enhancing the effectiveness of the **Enterprise Investment Scheme, Venture Capital Trusts** and the **Small Business Firms Loan Guarantee**; and
- improving the **tax treatment of the incidental costs of equity finance**.

## Regulation and compliance costs

Budget 2003 supports businesses with measures to **reduce regulation and compliance costs**, and **simplify the tax system**, including:

- aligning the Company Law definitions of small and medium-sized companies with the maxima allowed under EU law, as soon as the new EU maxima come into force. This will:
  - extend **less onerous accounting and reporting arrangements** to more small companies; and
  - allow **more businesses to benefit from the 40 per cent plant and machinery** and 100 per cent ICT allowances.
- the recent launch by the DTI of the **no-nonsense guide to government rules and regulations** to help people setting up in business;
- measures to promote **employee share schemes**, reducing the burdens on employers who offer these schemes to their employees;
- a package of measures to **simplify capital gains tax**, including a relaxation of reporting requirements in cases where there is no liability;
- consultation on a package of measures designed to increase fairness in the **recovery of VAT**;
- following consultation, the introduction from 1 December 2003 of a scheme to **reduce import VAT compliance costs for approved businesses**;
- consultation in this summer on raising the statutory audit threshold, releasing more SMEs from audit obligations, with plans to be set out in the Pre-Budget Report;
- specific measures to help small and newly-registered businesses **reduce their VAT compliance costs** by up to £1,000, improve cash flow and manage their entry into the VAT system. These include:
  - increasing the annual taxable turnover limit in line with inflation from £55,000 to £56,000, from 10 April 2003 lifting 2,000 small business out of the VAT regime;
  - increasing the turnover ceiling to £150,000, from 10 April 2003, for businesses wishing to use the flat-rate scheme and for newly registered businesses wishing to use the annual accounting scheme;

- relaxation of automatic late payment penalties for more businesses, with turnover of up to £150,000; and
  - a new incentive scheme to encourage small businesses into the VAT system. The scheme includes reduced penalties for late notification.
- **fairer and more consistent regulatory enforcement** at the local level through revised guidance on the voluntary Enforcement Concordat – with the Government standing ready to introduce statutory codes of enforcement practice if necessary;
  - further action by the National Statistician to **minimise the load of statistical surveys**, building on the success of the ONS modernisation programme, including the rationalisation of some surveys, the wider use of administrative data and the greater use of new technology in data collection;
  - producing **revised and simplified guidance on the Data Protection Act** to assist small businesses by the end of May;
  - **more business secondees to government** to take forward reviews of the construction, transport and environmental service sectors to identify deregulatory measures; and
  - **reform of the Construction Industry Scheme** in April 2005, to reduce the regulatory burden on businesses.

### **Modernising and simplifying the tax system**

The Government is committed to **modernising the tax system** so that it keeps pace with the way in which business is conducted and changes in the business environment. Budget 2003 announces:

- further consultation in the summer on **reform of the corporation tax system**, setting out the Government's strategy for taking forward reform. The Government will consider the reform of corporation tax in its broader European and international context;
- **promotion of the use of modern communication methods** to reduce administrative costs for government and business, and ensuring prompt payment by requiring electronic payment of in-year PAYE and other statutory deductions;
- **removal of Petroleum Revenue Tax from 1 January 2004** from new business contracts completed on or after Budget day involving the third party use of pipelines and other infrastructure in the North Sea. The Government will also consult on further ways to increase levels of North Sea exploration and maximise economic recovery of North Sea oil and gas; and

- a consultation to be published shortly on proposals to **simplify the procedure for paying Manufactured Overseas Dividends** (MODs) without accounting for withholding tax.

### **Enterprise in disadvantaged areas**

The Government wants to encourage enterprise and investment in all regions of the UK. Building on the removal of stamp duty on all commercial property transactions in Enterprise Areas, the Government will:

- **invest £16 million over two years to fund Enterprise Advisers**, to work alongside headteachers in around 1,000 secondary schools in deprived areas. Enterprise Advisers will complement the Davies Review pilots to investigate how best to provide pupils with five days of enterprise experience in their school career. These will begin in 2003 and cover around 250 secondary schools, including a number of schools in the 2,000 Enterprise Areas. Rigorous evaluation of the pilots will inform a national roll-out from 2005-06;
- **introduce a new £1 million Enterprise Promotion Fund**, to support private and voluntary sector creativity in promoting enterprise awareness across schools, business and the wider non-business community. The Fund will offer resources to projects meeting specific enterprise objectives and demonstrating significant private sector support;
- **improve services available to SMEs** with action by HM Customs & Excise for businesses in Enterprise Areas to increase awareness of its services and the piloting of enhanced forms of support to businesses;
- **evaluate investment in a new community venture capital fund**, building on the positive beginning of the Bridges Community Development Venture Fund, to make investments in growth enterprises in disadvantaged communities; and
- **consider how enhanced capital allowances for particular types of expenditure in Enterprise Areas** could tackle specific market failures to encourage business investment in these areas.

To help support development by enterprise in disadvantaged areas, the Government will also participate in a series of events planned by NatWest and the Royal Bank of Scotland for Enterprise Areas, which will bring together local stakeholders such as local authorities and RDAs, as well as the private sector, to review the channels through which local economic activity can contribute to wider neighbourhood renewal.

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## **DETAILS**

### **Research and development (R&D) tax credit**

The present definition of R&D for tax purposes is contained in guidelines published by the DTI, which were subject to wide consultation before they were set out in 2000. The Government wishes to ensure that the definition still reflects the full range of innovative activities carried out by UK R&D companies. A consultation will seek views on how the current R&D guidelines can be improved. The Government will also consider whether any extensions to the current definition should be limited initially to the SME scheme.

Companies currently only receive the R&D tax credit when they spend more than £25,000 on R&D in an accounting period. This threshold will be reduced to £10,000, allowing more SMEs in particular to claim the credit.

Some companies use cutting edge software in their R&D that may have a very short useful life, the costs of which are not currently covered by the credit. Subject to consultation on a definition, to focus the credit where it is most needed, the Government proposes to extend the credit to cover such costs.

At present, a company cannot claim the R&D tax credit for costs of employees who spend less than 20 per cent of their time on R&D; if they spend more than 80 per cent of their time on R&D, it can claim 100 per cent of them. To simplify the credit and allow more R&D time to qualify this rule will be replaced by a simple apportionment.

The scope of the large company scheme is to be widened to allow SMEs to claim, where they are not entitled to the SME credit because they receive state aid or another subsidy. This more closely aligns the position of SMEs to that of large companies.

### **Training package to develop small businesses**

This new package, in partnership with banks, supports the development of small businesses and includes measures for banks to promote to SMEs the benefits to training, and signposting them to a new web-based training directory. A steering group chaired by Sue Brownson OBE, chief executive of Blue Bell BMW and member of the Small Firms Council, will oversee the management and development of the support package. The group will include banks, the Small Business Service, University for industry/Learndirect, small business organisations and a range of entrepreneurs.

## **Access to Finance**

The Government is publishing today a consultation document, *Bridging the finance gap: a consultation on improving access to growth capital for small businesses* examining the ability of SMEs to access the finance they need to invest and grow. Although businesses are better able to access finance than they were a decade ago, thanks to a more stable macroeconomic environment, there remain difficulties for businesses with growth potential and viable business plans seeking to raise equity funding in sums of less than £1 million.

The consultation document considers the scope to apply a variant of the US Small Business Investment Company (SBIC) model in the UK. SBICs have made an important contribution to the development of the US venture capital sector, and now account for 58 per cent of all venture capital investments in US small businesses. The consultation also explores options to enhance further the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) scheme so that they better address the equity gap. The EIS and VCT schemes have played a significant and growing role in the supply of private equity funding in recent years.

The Government's approach to improving access to finance recognises that stimulating demand for growth capital is as important as raising its supply. The Government will therefore be working with the accountancy profession in the coming months to explore ways to improve the quality of financial advice available to SMEs. In addition, the consultation invites views on whether the tax treatment of the incidental costs incurred by SMEs in raising equity finance presents a significant obstacle to businesses seeking equity funding.

## **Company Law Changes and Capital Allowances**

The EU maxima are currently under review with changes to be confirmed later in the summer. Legislation to establish the new definitions will be introduced as soon as the new EU maxima come into force.

Raising the Company Law thresholds will increase the number of businesses eligible for the 40 per cent first year capital allowances for plant and machinery expenditure by small and medium-sized businesses and, until they expire on 31 March 2004, the 100 per cent first year allowances for ICT expenditure by small businesses.

## **Start-up guide**

*'The no-nonsense guide to: Government rules and regulations for setting up your business'* is a comprehensive guide bringing together information from across Government to help entrepreneurs understand which regulations apply to them and what services are available to help them. It will be available from a range of public and private sector intermediaries, including Business Links, and can be accessed online at [www.businesslink.org/setup](http://www.businesslink.org/setup), or via the DTI Publications Orderline on 0870 150 2500.

### **Simplification of employee share schemes**

The Government has introduced measures to modernise and simplify employee share schemes, including:

- changes to the Company Share Option Plan (CSOP), to remove the rule which denies tax relief on options exercised within three years of a previous exercise, and measures to simplify the approvals process;
- changes to the Share Incentive Plan (SIP) to allow employees to purchase partnership shares out of annual bonuses, give employers flexibility in how they determine salary for the purchase of partnership shares, ensure employees moving between employers within a group are not disadvantaged and align the holding period for dividend shares with the holding period for the base shares;
- changes to the Save As You Earn (SAYE) share option scheme to provide employees with a right to exercise their option where they lose their jobs through injury, disability, redundancy or retirement following a company take-over or restructuring; and
- extension of the time limit from 30 to 90 days for employees to reimburse the PAYE tax paid on their behalf by the employer. The new 90-day period will also apply for national insurance purposes on charges that arise if the PAYE tax paid is not reimbursed.

### **Capital gains tax (CGT)**

Budget 2003 introduces measures to support enterprise and simplify CGT, including:

- relaxation of the rules which determine whether the capital gains pages of a tax return need to be completed for 2003-04 onwards;
- a more generous treatment for losses arising after 9 April 2003 where people dispose of certain rights to future payments which they acquired when selling assets; and
- simplification of the rules applying where people obtain certain earn-out rights in exchange for shares or debentures and want the rights to be treated as securities so

that a CGT rollover treatment can apply. Rights conferred after 9 April 2003 will automatically be treated as securities unless people elect otherwise.

The Government remains committed to exploring opportunities for further simplification of CGT, including the treatment of foreign currency.

### **VAT: Making input tax recovery fairer**

The Government will shortly launch a consultation on measures designed to make the rules for the recovery of input tax fairer. The consultation runs until 31 August 2003 and the Government is keen to hear the views of taxpayers, their advisers and representative bodies.

### **Simplified accounting for VAT at import**

Following detailed consultation announced in Budget 2002, changes to the duty deferment system will be introduced from 1 December 2003, allowing approved importers to provide reduced or zero security against deferred VAT payments. The new system will deliver up to £80 million a year in compliance savings for UK importers.

### **VAT reforms for small business**

A range of reforms will help small and newly registered businesses reduce their VAT compliance costs, improve their cash flow and manage their entry into the VAT system. The increase in the annual taxable turnover limit maintains the UK's threshold as the highest in the EU. Businesses wishing to trade below the threshold need not register for VAT (although they may register voluntarily if they wish). The de-registration threshold is increased from £53,000 to £54,000, ensuring that businesses trading around the threshold do not have to register and de-register as their turnover fluctuates.

### **Audit Threshold**

In 2000 the Government raised the statutory audit threshold from £350,000 to £1 million, freeing up an additional 150,000 companies from the obligation of an independent audit. The Government is currently reviewing the impact of that change and will consult in the summer on possibilities for increasing the threshold further to ease the burden on more companies. The Government will set out its plans in the Pre-Budget Report.

### **Enforcement Concordat**

The Government's Enforcement Concordat embeds the principles of good enforcement into the practice of central and local government enforcers. However, implementation of the Concordat's principles of good enforcement has been inconsistent and monitoring has

been insufficient to gain an accurate picture of the effects the Concordat has on enforcement practice.

On 6 March the Government published a consultation document *Enforcement Concordat: Good Practice Guide for England and Wales*, which seeks to improve the performance of enforcement bodies so that they apply the principles of good enforcement consistently. The guidance also seeks views on arrangements for monitoring the performance of enforcement bodies.

The Regulatory Reform Act provides Government with a reserve power to set out statutory codes of practice in enforcement. The Government stands ready to exercise this power should some enforcers continue to use over-zealous means of enforcement in contravention of the Concordat.

### **Reform of the Construction Industry Scheme**

A consultation paper was published in the 2002 Pre-Budget Report, proposing major reform of the Construction Industry Scheme. The new proposals included replacing CIS documentation with an Inland Revenue run verification service and periodic returns, and a new employment status declaration to help the Construction Industry get the employment status of its workers right.

In response, the Construction Industry showed broad support for the new proposals, and is now invited to work with the Inland Revenue to implement the new scheme in April 2005.

### **Corporation tax**

The August 2002 consultation document, *Reform of Corporation Tax*, explored three areas for potential further reform, with an aim of reducing the tax distortions in the current regime and producing a modern, coherent and competitive tax system reflecting the reality of today's business environment. It analysed:

- the tax treatment of capital assets not covered by earlier reforms;
- rationalisation of the schedular system; and
- the differences in the treatment of trading and investment companies.

Over 150 written responses to the document were received. A series of consultative meetings was held in autumn 2002 with representative groups and business. During 2003 there has been a further series of meetings with representatives of particular sectors of industry to explore the issues in more depth. A second consultation document will be

published in the summer setting out the Government's strategy for taking forward these reforms, and considering them in their broader European and international context.

The Government is determined to protect the corporation tax system against legal challenges under European law, particularly where these challenges have the potential to undermine international agreements. The continuing consultation on corporation tax reform will provide the opportunity for the Government to discuss with business the legislative options to ensure that the UK regime remains robust.

### **Electronic payment**

To promote modernisation, from April 2004 mandatory electronic payment of PAYE will be introduced for large employers, moving away from current outmoded and less secure paper-based systems. This reduces administrative costs for government and business and will ensure prompt payment and prevent the unfair exploitation of the current cheque payment rules, which can be used to delay transfers to the exchequer. The cash flow advantage, currently enjoyed by businesses that pay by cheque on the due date, will be built into the system and will not be affected by the change.

### **Petroleum Revenue Tax**

The lower tariff levels arising from the exemption from petroleum revenue tax of new North Sea tariff business should encourage optimum use of pipelines and other infrastructure on the UK continental shelf, promote the development of marginal North Sea projects and facilitate the cross-flow of business with neighbouring North Sea countries. The Government will consult the industry on whether there are further cost-effective, targeted measures, whether on tax or in other areas, to increase the current low level of exploration, and help maximise economic recovery in the North Sea.

### **Manufactured Overseas Dividends (MODs)**

MODs must normally be paid under deduction of tax. However, the vast majority of overseas recipients are entitled to be paid without deduction, subject to a certification procedure. That procedure is time-consuming and imposes administrative costs. Therefore, the Government is consulting on proposals that would allow MODs to be paid to non-UK recipients without accounting for tax. This should reduce costs and give UK based firms access to a wider range of trading partners.

### **Enterprise in disadvantaged areas**

From Budget day stamp duty has been removed on all commercial property transactions in Enterprise Areas – the most disadvantaged areas of the UK. This follows the

exemption from stamp duty of all transactions below £150,000 in these areas in November 2001. The Inland Revenue website has a full list of those areas eligible for the stamp duty exemption, at [www.inlandrevenue.gov.uk/so/disadvantaged.htm](http://www.inlandrevenue.gov.uk/so/disadvantaged.htm).

Customs and Excise will be taking measures to improve their services to SMEs in disadvantaged areas through:

- a programme of awareness raising events in Enterprise Areas, designed to encourage businesses to attend Business Advice Open Days. These events provide the opportunity for businesses to obtain face-to-face advice from Customs, and a wide range of other Government agencies. Details of events planned can be found at [www.hmce.gov.uk](http://www.hmce.gov.uk) ; and
- pilots of enhanced support services to businesses in disadvantaged areas – three operating across the north of England (West Yorkshire, Tyne and Wear and East Lancashire), working with small businesses approaching the VAT registration threshold. Another will be based in Salford and work in the north of England with small businesses experiencing unexpected difficulties in meeting their VAT obligations.

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## NOTES FOR EDITORS

### **Employee Share Schemes**

Tax and national insurance incentives are available under the following schemes, subject to Inland Revenue approval:

- Company Share Option Plan, (CSOP) – up to £30,000 worth of share options can be given to selected staff. As long as these are kept for at least 3 years and no more than 10 years then no tax or NICs is payable;
- Share Incentive Plan, (SIP) – an all employee share plan which provides for tax and NICs relief on up to £9,000 worth of shares each year; and
- Save As You Earn, (SAYE or Sharesave) – an all employee share option plan which allows employees to save directly from their earnings an agreed monthly amount between £5 to £250 for a period of 3 or 5 years. At the end of the agreed period the employee can either buy shares in the company at up to 20 per cent discount or receive a cash bonus, tax and NICs free.

## **Capital gains tax**

The measures announced today have emerged from consultation with the Capital Gains Tax Review Group (set up in 2000). They build on a package of measures introduced in Finance Act 2002.

## **Making input tax recovery fairer**

The rules relating to the recovery of VAT on purchases (input VAT) have remained untouched for several years. Among the factors influencing the Government's decision to review the scope for reform are:

- recognition that the rules are in some instances unfair, obscure and place unnecessary burdens on business and Government; and
- growing pressure for change from within the land and property sector.

The Government's reform proposals address a range of issues including VAT incurred on purchases prior to VAT registration, VAT and the option to tax buildings, and VAT recovery following a change of intention about the use of a purchase. Copies of the consultation document may be found on the Customs & Excise website.

## **VAT flat-rate scheme and annual accounting scheme**

In Budget 2002, the Chancellor announced that the qualifying turnover ceiling for these schemes would increase from £100,000 to £150,000 in April 2003.

The flat-rate scheme offers significant compliance cost savings for businesses, by reducing their record-keeping requirements and simplifying their calculation of VAT due.

The annual accounting scheme allows businesses to make one annual VAT return rather than monthly or quarterly returns, with interim payments during the year and a final balancing payment with their annual return. This helps businesses to reduce compliance costs and to manage their cash flow throughout the year.

## **VAT incentive scheme**

The scheme is part of the Government's new VAT strategy, which was published in *Protecting Indirect Tax Revenues* alongside the 2002 Pre-Budget Report. It identifies small businesses, which may be liable to register for VAT, and aims to provide advice, support and incentives to help them move into the VAT system.

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## FAIRNESS IN TAXATION – PROTECTING TAX REVENUES

A package of reforms to tackle tax fraud and avoidance was unveiled in Budget 2003 today. The reforms will produce additional revenue, deliver significant savings and ensure that the burden of tax does not fall unfairly on taxpayers who play by the rules.

Central to today's reform is the launch of a new compliance and enforcement package for direct tax and national insurance contributions (NICs). The package involves investment of £66 million over the next three years, and is expected to produce at least an additional revenue totalling £1.6 billion over the same period. The package is the first step in a new strategic approach for Inland Revenue compliance work, and is part of the Government's ongoing commitment to create a modern and fair tax system. The additional resources will be deployed in three areas:

- protecting the Exchequer from non-payment of tax and NICs debts and from failure to file tax returns;
- tackling fraud involving concealment of undeclared income or profits offshore; and
- countering avoidance of corporation tax and of NICs and tax on employment income.

Commenting on the compliance and enforcement package, Paymaster General Dawn Primarolo said:

“We want to make sure that the burden of tax does not fall unfairly on taxpayers who play by the rules and pay their fair share. This package is the first step in a new strategic approach to compliance work, designed to modernise the way risks to revenue are assessed and managed by the Inland Revenue. It identifies areas of the tax system where the potential loss of revenue is high and targets resources and compliance activity accordingly; and creates a more stable framework upon which to plan public investment”.

To complement this package, Budget 2003 also announces a range of further measures to tackle instances of direct tax avoidance, protecting around £250 million per annum in future years, including:

- **action to prevent tax and NICs avoidance** through the payment of share-based remuneration;

- **measures to close loopholes** in the chargeable gains regime for second-hand life policies and prevent avoidance of capital gains tax through complex transactions using offshore trusts;

- **steps to tackle avoidance through sale and repurchase agreements;**

**new measures to close loopholes in the loan relationships and derivative contracts regimes;** and

- **as announced in March, action to counter tax avoidance using relevant discounted securities** and to prevent exploitation of the 100 per cent allowances for small business investment in information and communications technology (ICT).

Rapid financial market and regulatory changes are leading to the development of innovative debt instruments that are economically equivalent to equity. This creates particular challenges for the tax system. The Government will continue to monitor the market for these innovative debt instruments and, if appropriate, will consider with the industry any changes to their tax treatment needed to protect revenues.

Budget 2003 also restores the **tax treatment of capital gains and losses on the exercise of options** to that which was generally understood to apply before the judgement in the case of *Mansworth v Jelley*. The change will apply to options exercised on or after 10 April.

These measures complement the Government's strategy for protecting indirect tax revenues, details of which were published alongside the 2002 Pre-Budget Report. To consolidate and build upon these existing strategies, Budget 2003 announces that the Government will:

- introduce further measures to support the VAT strategy and to **reduce instances of VAT fraud and avoidance;** and
- consult shortly on further measures to **reduce opportunities for alcohol fraud.**

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## DETAILS

### **Inland Revenue compliance and enforcement package**

The compliance and enforcement package for the Inland Revenue, announced in the Budget today, is the first step in a new strategic approach being developed by the Inland Revenue to manage the risks of non-compliance. The aim is to ensure that such risks are analysed systematically and high-risk areas clearly identified, that Inland Revenue responses are tailored to address them, that expected outcomes are clearly identified from the start, and that these are effectively monitored and evaluated.

## **Inland Revenue taxation anti-avoidance measures**

To complement the compliance and enforcement package, the Government is taking action to close a number of direct tax loopholes. In addition to those already outlined above, these include:

- action to **prevent tax avoidance in connection with life insurance policies held in trusts**;
- steps to **counter the abuse of the rules on part withdrawals from life insurance policies**;
- measures to remedy deficiencies in the taxation rules for **life insurance companies**; and
- action to **prevent tax and NICs avoidance by those engaging domestic workers through a service company**.

## **VAT anti-fraud measures**

To protect indirect tax revenue, the Government is introducing new VAT anti-fraud measures designed to:

- impose, subject to safeguards, **joint and several liability for payment of VAT** on both the supplier and the recipient of supplies of specified goods and services;
- allow Customs and Excise to **deny recovery of VAT in circumstances where the taxpayer holds an invalid tax invoice** and cannot further prove the bona fide nature of the transaction; and
- **extend existing security powers** so that security can be required from any business involved in a VAT supply chain where there is evidence of actual or potential fraud or evasion.

## **VAT anti-avoidance measures**

Budget 2003 introduces VAT anti-avoidance measures designed to:

- prevent avoidance of VAT in relation to the private and non-business **use of land and buildings**;
- prevent businesses from delaying, sometimes indefinitely, accounting for VAT on certain on-going **supplies to connected businesses**; and

- following consultation announced in Budget 2002, prevent VAT losses through avoidance and leakage from the sale of **face-value vouchers**.

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## NOTES FOR EDITORS

### **Inland Revenue compliance and enforcement package**

An additional £66 million is being provided to the Inland Revenue over the next three years to support the compliance and enforcement package. The package is expected to produce at least an additional revenue totaling £1.6 billion over the same period, but in line with the Government's cautious approach to the public finances a lower total figure of under £1.4 billion has been included in the forecast over these three years. The Comptroller and Auditor General has audited the projections and has concluded that they are based on a reasonable approach and incorporate caution.

### **Protecting VAT revenue**

The Government published *Protecting indirect tax revenue* alongside the 2002 Pre-Budget Report. This set out the Government's estimates of revenue losses within the VAT system and its strategy for tackling them. The strategy is designed to produce more than £2 billion a year in additional revenue by 2005-06. It explained that, of total VAT losses, VAT Missing Trader Intra-Community (MTIC) fraud is estimated to have cost between £1.7 and £2.75 billion in 2001-02; and the Government would consider further legislative steps to tackle the problem if required. The Government also allocated extra resources to identify and tackle abusive tax avoidance schemes, including tightening up legislation where necessary.

Further details of these measures can be found in the Budget Notes published today.

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9 April 2003

## INLAND REVENUE RATES AND ALLOWANCES FOR 2003-04

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

|  | 2002-03 (£)         | 2003-04 (£)                                | Increase (£)       |
|--|---------------------|--|--------------------|
| <b>Income tax allowances</b>                                   |                     |  |                    |
| Personal allowance   | 4,615               | 4,615                                      | 0                  |
| Personal allowance for people aged 65-74                       | 6,100               | 6,610                                      | 510                |
| Personal allowance for people aged 75 and over                 | 6,370               | 6,720                                      | 350                |
| Income limit for age-related allowances                        | 17,900              | 18,300                                     | 400                |
| Married couple's allowance for people born before 6 April 1935 | 5,465               | 5,565                                      | 100                |
| Married couple's allowance – aged 75 or more                   | 5,535               | 5,635                                      | 100                |
| Minimum amount of married couple's allowance                   | 2,110               | 2,150                                      | 40                 |
| Blind person's allowance                                       | 1,480               | 1,510                                      | 30                 |
| <b>Capital gains tax annual exempt amount:</b>                 |                     |  |                    |
| Individuals etc:   | 7,700               | 7,900                                      | 200                |
| Other trustees:  | 3,850               | 3,950                                      | 100                |
| <b>Inheritance tax threshold</b>                               | 250,000             | 255,000                                    | 5,000              |
| <b>Pension schemes earnings cap</b>                            | 97,200              | 99,000                                     | 1,800              |
| <b>Taxable bands 2002-03 (£)</b>                               |                     | <b>Taxable bands 2003-04 (£)</b>           |                    |
| Starting rate 10 per cent                                      | 0 – 1,920           | Starting rate 10 per cent                  | 0-1,960            |
| Basic rate 22 per cent   | 1,921 – 29,900      | Basic rate 22 per cent                     | 1,961-30,500       |
| Higher rate 40 per cent  | Over 29,900         | Higher rate 40 per cent                    | Over 30,500        |
| <b>Corporation tax profits 2002-03 (£)</b>                     |                     | <b>Corporation tax profits 2003-04 (£)</b> |                    |
| Starting rate zero   | 0 – 10,000          | Starting rate zero                         | 0 – 10,000         |
| Marginal relief  | 10,001 – 50,000     | Marginal relief                            | 10,001 – 50,000    |
| Small companies' rate 19 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 2004–05 will be 30 per cent.

## National insurance contributions

Rates previously announced in Budget 2002 and 2002 Pre-Budget Report

| Item   | 2003-04   |
|--|---|
| Lower earnings limit, primary Class 1                    | £77 per week  |
| Upper earnings limit, primary Class 1                    | £595 per week   |
| Primary threshold  | £89 per week  |
| Secondary threshold                                      | £89 per week  |
| Employees' primary Class 1 rate                          | 11% of £89.01 to £595 per week<br>1% above £595 per week      |
| Employees' contracted-out rebate                         | 1.6 per cent  |
| Married women's reduced rate                             | 4.85% of £89.01 to £595 per week<br>1% above £595 per week    |
| Employers' secondary Class 1 rate                        | 12.8% above £89 per week                                      |
| Employers' contracted-out rebate, salary-related schemes | 3.5 per cent  |
| Employers' contracted-out rebate, money-purchase schemes | 1.0 per cent  |
| Class 2 rate   | £2.00 per week  |
| Class 2 small earnings exception                         | £4,095 per year   |
| Special Class 2 rate for share fishermen                 | £2.65 per week  |
| Special Class 2 rate for volunteer development workers   | £3.85 per week  |
| Class 3 rate   | £6.95 per week  |
| Class 4 lower profits limit                              | £4,615 per year   |
| Class 4 upper profits limit                              | £30,940 per year  |
| Class 4 rate   | 8% of £4,615 to £30,940 per year<br>1% above £30,940 per year |

## Stamp taxes from Budget day to 30 November 2003

### Transfers of property (consideration paid)

| Rate (%) | All property            | Disadvantaged areas      |                 |
|----------|-------------------------|--------------------------|-----------------|
|          |                         | Residential              | Non-residential |
| Zero     | £0 - 60,000             | £0 - 150,000             | All             |
| 1        | Over £60,000 - 250,000  | Over £150,000 – 250,000  |                 |
| 3        | Over £250,000 – 500,000 | Over £250,000 – £500,000 |                 |
| 4        | Over £500,000           | Over £500,000            |                 |

## New leases (lease duty)

### Duty on rent

| Term   | Rate of charge on average annual rent |
|--|---------------------------------------|
| Not exceeding 7 years                          | 1 per cent *                          |
| More than 7 years but not exceeding 35 years   | 2 per cent                            |
| More than 35 years but not exceeding 100 years | 12 per cent                           |
| More than 100 years                            | 24 per cent                           |

\* applies only where the rent exceeds £5,000 per annum

Duty on **premium** is the same as for transfers of property (except special rules apply for premium where rent exceeds £600 annually)

## Stamp taxes from 1 December 2003 (implementation of stamp duty land tax)

### Transfers of property (consideration paid)

| Rate (%) | All land in the UK      |                         | Land in disadvantaged areas |                 |
|----------|-------------------------|-------------------------|-----------------------------|-----------------|
|          | Residential             | Non-residential         | Residential                 | Non-residential |
| Zero     | £60,000                 | £150,000                | £150,000                    | All             |
| 1        | Over £60,000 – 250,000  | Over £150,000 – 250,000 | Over £150,000 – 250,000     |                 |
| 3        | Over £250,000 – 500,000 | Over £250,000 – 500,000 | Over £250,000 – £500,000    |                 |
| 4        | Over £500,000           | Over £500,000           | Over £500,000               |                 |

Property that is not land, shares or interests in partnerships will no longer be subject to stamp duty.

## New leases

### Proposed duty on rent\*

| Rate (%) | Net present value of rent |                 |
|----------|---------------------------|-----------------|
|          | Residential               | Non-residential |
| Zero     | £0 - £60,000              | £0 - £150,000   |
| 1%       | Over £60,000              | Over £150,000   |

\* Subject to consultation

Duty on **premium** is the same as for transfers of land (except special rules apply for premium where rent exceeds £600 annually).

The rate of **stamp duty / stamp duty reserve tax** on the **transfer of shares and securities** is unchanged at 0.5 per cent for 2003-04.

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## NOTES FOR EDITORS

### Income tax rates and allowances

The Chancellor has today announced that, for 2003-04, the income tax bands will increase by indexation and that there will be no change in income tax rates.

As announced in Budget 2002, 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 above inflation to £6,610, and for those aged 75 or over it will be increased to £6,720. This means that no one 65 or over will pay tax unless their income reaches £127 per week. Other allowances will be increased by indexation.

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.

The rate of relief for the continuing married couple's allowance and maintenance relief for people born before 6 April 1935 is 10 per cent.

### National insurance contributions

National insurance (NIC) rates and thresholds for 2003-04 were announced in Budget 2002 and the 2002 Pre Budget Report. The primary and secondary thresholds will be frozen, along with the rate of Class 2 contributions. Other national insurance limits have been increased in line with inflation.

Employers will pay 1 per cent more NICs on earnings above the secondary threshold. All employees will pay an additional 1 per cent on their earnings above the primary threshold up to the upper earnings limit. They will also pay NICs at 1 per cent on earnings above the upper earnings limit. This one per cent increase is purely to fund extra resources for the NHS.

The self-employed will pay an additional 1 per cent Class 4 contributions on their profits or gains between the lower profits limit and upper profits limit. They will also pay Class 4 NICs at 1 per cent on all profits or gains above the upper profits limit.

### **Capital gains tax (CGT)**

The annual exempt amount is set at £7,900 for the tax year 2003-04 for individuals, personal representatives of deceased persons, trustees of certain settlements for the disabled, and £3,950 for most 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**

The rate applicable to trusts remains unchanged at 34 per cent for 2003-04 and the Schedule F trust rate remains unchanged at 25 per cent.

### **Inheritance tax**

The value of estates above the threshold is taxed at 40 per cent. The threshold is being increased by statutory indexation to £255,000 for taxable transfers in 2003 - 04. The estimated number of taxpaying estates in 2003-04 will be about 29,500. This is around 5 in 100 deaths.

### **Pension schemes earnings cap**

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 applied to people who contribute to stakeholder pension schemes. For 2003-04 the cap is increased to £99,000.

### **Corporation tax**

The corporation tax main rate is 30 per cent. The small companies' rate is 19 per cent for companies with taxable profits between £50,000 and £300,000 and the starting rate is zero for companies with taxable profits of £10,000 or below.

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 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 11/400.

The profits limits may be reduced for a company that is part of a group or has associated companies. The lower rates and marginal reliefs do not apply to close investment holding companies.

### **Stamp taxes**

From midnight on Budget day stamp duty on non-residential land and buildings is removed altogether in around 2000 disadvantaged areas. People investing in residential land and buildings in disadvantaged areas will continue to benefit from an exemption from stamp duty where the consideration does not exceed £150,000. The Inland Revenue is today publishing a Statement of Practice on the definition of residential property for the purposes of this relief.

Currently, **stamp duty on leases** (often called "lease duty") is calculated by reference to the average annual rent. From 1 December 2003 (the implementation of stamp duty land tax), the proposed charge is to be based on the net present value (NPV) of all the rental payments due over the term of the lease.

Further details of changes to stamp duty on land are set out in the separate press release, PN 04.

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## **GOVERNMENT DEPARTMENT INTERNET SITES**

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

HM Treasury [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

Inland Revenue [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)

HM Customs and Excise [www.hmce.gov.uk](http://www.hmce.gov.uk)

9 April 2003

## **IMPROVING HOUSING SUPPLY AND SIMPLIFYING PLANNING**

Budget 2003 announces three substantial new housing-related reviews to help improve both housing supply and mortgage finance in the UK.

Building on the reforms already announced to deliver a step change in planning policy, further significant changes in the planning, supply and finance of housing will be required to address both demand and supply in the housing market to tackle market failures, significantly increase the responsiveness of supply to demand, and reduce national and regional price volatility. This includes requiring new Regional Spatial Strategies to take account of volatility in the housing market and promote macro-economic stability as part of delivering sustainable development; tough and credible measures, including intervention, where local authorities are not delivering housing numbers in high demand areas; and exploring whether, in the medium term, achieving Government objectives will require a system of binding local plans.

Kate Barker will review issues underlying the lack of supply and responsiveness of housing in the UK, and Professor David Miles will review the factors underlying the low take-up of fixed rate mortgages in the UK. The Deputy Prime Minister is also asking Sir John Egan to develop a skills and training strategy for economic development, regeneration and planning.

### **Reviewing housing supply in the UK**

The poor responsiveness of new housing supply to rising house prices is a complex problem. In the light of its reforms to the planning system, the Government has asked Kate Barker, formerly of the CBI and now a member of the Bank of England's Monetary Policy Committee, to conduct a review of issues affecting supply of housing in the UK, in particular:

- the role of competition, capacity and finance of the house-building industry;

- the interaction of these factors with the planning system and sustainable development objectives; and
- if appropriate, identify options for Government action, including the use of fiscal instruments.

This review will complement the work of the Sustainable Home Ownership Taskforce announced by the Deputy Prime Minister on 18 March.

### **Reviewing the UK fixed rate mortgage market**

The proportion of fixed – as opposed to variable – rate mortgages is markedly low in the UK in comparison with many European countries and the USA. This is one reason for the greater sensitivity of UK household finances to interest rates compared with that in many other countries. The Chancellor has asked Professor David Miles to undertake a review of the factors underlying the low take-up of fixed rate mortgages in the UK. The review will:

- establish why the share of fixed-rate mortgages in the UK is low compared with the US and many other EU countries; and
- examine whether there has been any market failure that has held back the market for fixed and long-term fixed-rate mortgages.

### **Development, regeneration and planning**

Too often the planning system is seen as reactive and regulatory, rather than as a positive tool for change. To promote culture change in the planning regime, the Deputy Prime Minister has invited Sir John Egan to develop a skills and training strategy for economic development, regeneration and planning to deliver sustainable communities, building on the efforts of the Royal Town Planning Institute to examine its own structure and the educational requirements leading to a planning qualification.

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## **DETAILS**

Further details of these reviews and the reforms to housing supply and planning are set out in Chapters two and three of the Budget document. Their terms of reference are set out below.

### **Housing supply review – Terms of reference**

- Conduct a review of issues underlying the lack of supply and responsiveness of housing in the UK.
- In particular to consider:
  - the role of competition, capacity, technology and finance of the house-building industry; and
  - the interaction of these factors with the planning system and the Government's sustainable development objectives.
- Consult with key stakeholders to establish views and inform analysis.
- If appropriate, identify options for Government action, including the use of fiscal instruments.
- Deliver an interim report to the Chancellor and Deputy Prime Minister by autumn 2003.

### **UK fixed rate mortgage market review – Terms of reference**

- Undertake analysis of supply and demand side factors limiting the development of the fixed rate mortgage market in the UK to establish why the share of fixed-rate mortgages is so low compared to the United States and many other EU countries;
- Consult with key stakeholders to establish views and inform analysis.
- Examine whether there has been any market failure that has held back the market for fixed and long-term fixed rate mortgages and consider associated opportunities, risks and potential costs.
- Deliver an interim report by autumn 2003 and a comprehensive report and recommendations to the Chancellor by Budget 2004.

Details of Sir John Egan's review will be made available from the Office of the Deputy Prime minister.

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## **NOTES FOR EDITORS**

Professor David Miles will chair the review of the UK fixed rate mortgage market. He is Professor of Financial Economics at Imperial College, University of London and has long specialised in the economics of financial markets, pensions and housing.

Kate Barker will chair the review of housing supply in the UK. She has been an external member of the Bank of England's Monetary Policy Committee since June 2001 and was previously Chief Economic Advisor at the CBI.

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