

## INTRODUCTION

This chapter sets out the measures and other policy decisions in Budget 2001 which affect the Budget arithmetic and includes those announced since Budget 2000. The effects<sup>1</sup> of the Budget decisions on Government revenues are set out in Tables A.11 and A.12 and explained in Appendix A1. Tax measures, national insurance contribution measures and measures which affect Annually Managed Expenditure (AME) are included, as are additions to Departmental Expenditure Limits (DEL). Measures which are financed from existing DEL provisions or other sources, such as the Employment Opportunities Fund, are not included. Changes announced in Budget 2000 or earlier which take effect after this Budget are set out in Appendix A2. Appendix A3 provides estimates of the revenue costs of some of the main tax allowances and reliefs.

## PERSONAL TAXES AND SPENDING MEASURES

### Income tax 2001–02

- Bands, rates and personal allowances** The personal allowance will increase to £4,535 as already announced. The age-related personal allowance and income limit, the basic rate limit, blind person's allowance and, where applicable, the married couple's allowance will all rise in line with statutory indexation.(19, d)<sup>1</sup>
- 10p starting rate limit** The 10p starting rate limit will be increased from £1,520 to £1,880, an increase of £300 above indexation.(18)
- WFTC and DPTC** As announced on 9 November 2000, the Working Families' Tax Credit (WFTC) and Disabled Person's Tax Credit (DPTC) weekly rates and thresholds will rise in line with the Rossi index from 10 April.(e)
- The disabled child tax credit in WFTC and DPTC will increase by £7.40 above indexation. (j) New enhanced disability tax credits in WFTC and DPTC will be introduced from 10 April 2001, providing extra amounts of £16 per week for qualifying couples and lone parents and, for DPTC, £11.05 per week for single people. Qualifying children will receive the new credit at a rate of £41.05 per week, including the disabled child tax credit. (i)
- From 5 June 2001 the basic tax credits in the WFTC and the DPTC will be increased by a further £5 and the limits on eligible childcare costs paid through the childcare tax credit component of WFTC and DPTC will be increased to £135 a week for the childcare costs of one child and £200 a week for the childcare costs of two or more children.(22, 23)
- Children's Tax Credit** The Children's Tax Credit will be increased by £1.50 per week, so that it will be worth up to £10 per week (£520 per year) from its introduction in April 2001.(20)
- Individual Savings Accounts (ISA)** As announced in the Pre-Budget Report: the higher ISA overall subscription limit of £7,000 and the £3,000 cash sublimit will be extended for a further five years (l); 16 and 17-year olds will be allowed to take out a cash ISA within the £3,000 sublimit from 2001–02 (\*); and the ISA rules on investments, transfers and administrative procedures will be extended to Personal Equity Plans.(\*).

<sup>1</sup> The contents of the brackets after each measure in this chapter refer to the line in Tables A.11 and A.12 where its yield or cost is shown. The symbol "-" means that the proposal has no Exchequer effect. "\*" means that the effect is negligible, amounting to less than £3 million a year.

The maximum earnings for which pension provision may be made with income tax relief (the “earnings cap”) will be increased in line with statutory indexation to £95,400. (\*)

**Table A.1: Bands of taxable income 2001–02<sup>1</sup>**

2000–01	£	2001–02	£
Starting rate 10 per cent	0 – 1,520	Starting rate 10 per cent	0 – 1,880
Basic <sup>1,2</sup> rate 22 per cent	1,521 – 28,400	Basic <sup>1,2</sup> rate 22 per cent	1,881 – 29,400
Higher <sup>2</sup> rate 40 per cent	over £28,400	Higher <sup>2</sup> rate 40 per cent	over £29,400

<sup>1</sup> The rate of tax applicable to savings income in Section 1A ICTA 1988 remains at 20 per cent for income between the starting and basic rate limits.

<sup>2</sup> The rates applicable to dividends are 10 per cent for income up to the basic rate limit and 32.5 per cent above that.

**Table A.2: Income tax allowances 2001–02**

	£		
	2000–01	2001–02	Increase
Personal allowance			
age under 65	4,385	4,535	150
age 65–74	5,790	5,990	200
age 75 and over	6,050	6,260	210
Married couple's allowance <sup>1</sup>			
age 65 before 6 April 2000	5,185	5,365	180
age 75 and over	5,255	5,435	180
minimum amount <sup>2</sup>	2,000	2,070	70
Children's Tax Credit <sup>1</sup>	–	5,200	5,200
Income limit for age-related allowances	17,000	17,600	600
Blind person's allowance	1,400	1,450	50

<sup>1</sup> Tax relief for these allowances is restricted to 10 per cent.

<sup>2</sup> This is also the maximum relief for maintenance payments where at least one of the parties is aged 65 before 6 April 2000.

**Table A.3: Working Families' Tax Credit and Disabled Person's Tax Credit**

	£ per week		
	2000–01	2001–02	Increase
Basic tax credit (WFTC)	53.15	59.00 <sup>6</sup>	5.85
Basic tax credit (DPTC - lone parent or couple)	84.90	91.25 <sup>6</sup>	6.35
Basic tax credit (DPTC - single person)	55.15	61.05 <sup>6</sup>	5.90
30-hour tax credit	11.25	11.45	0.20
Child tax credit - under 16	25.60 <sup>5</sup>	26.00	0.40
Child tax credit - 16–18 <sup>1</sup>	26.35	26.75	0.40
Disabled child tax credit <sup>2</sup>	22.25	30.00	7.75
Enhanced disability tax credit - lone parent or couple	–	16.00	16.00
Enhanced disability tax credit (DPTC - single person)	–	11.05	11.05
Enhanced disability tax credit - child <sup>3</sup>	(22.25)	41.05	18.80
Maximum eligible childcare costs allowed <sup>4</sup> - 1 child	100.00	135.00 <sup>7</sup>	35.00
Maximum eligible childcare costs allowed <sup>4</sup> - 2+ children	150.00	200.00 <sup>7</sup>	50.00
Income threshold - lone parent or couple	91.45	92.90	1.45
Income threshold - (DPTC - single person)	71.10	72.25	1.15

<sup>1</sup> The 16–18 rate applies to awards starting from the September following the 16th birthday.

<sup>2</sup> Payable in addition to the child tax credit. For WFTC, only for awards starting from October 2000.

<sup>3</sup> Payable instead of the disabled child tax credit for relevant awards starting from April 2001.

<sup>4</sup> Childcare tax credit covers 70 per cent of eligible childcare costs up to the maximum allowed.

<sup>5</sup> For awards starting from June 2000. The rate for awards starting in April and May 2000 was £21.25.

<sup>6</sup> For awards starting from June 2001 (an increase of £5.00 on awards starting during April and May 2001).

<sup>7</sup> For awards starting from June 2001. The 2000–01 levels apply to awards starting during April and May.

### Income tax 2002–03

**Children's Tax Credit** The Children's Tax Credit will be increased to £20 per week, up to £1,000 per year, plus indexation for families in the year of a child's birth for children born from 6 April 2002.(21)

### Income tax 2003–04

**Age-related allowances** The age-related personal allowances will be raised by £240 above indexation from April 2003.(4)

### Effects on the Scottish Parliament's tax varying powers – statement regarding Section 76 of the Scotland Act 1998

A one penny change in the Scottish variable rate in 2001–02 could be worth approximately plus or minus £230 million, broadly unaffected by these changes. In the Treasury's view, an amendment of the Scottish Parliament's tax-varying powers is not required as a result of these changes.

### Inheritance tax

**Threshold** The threshold will be increased by statutory indexation to £242,000.(33)

### Taxes on capital gains

**Annual exempt amount** The capital gains tax annual exempt amount will be increased by statutory indexation to £7,500.(-)

**Business assets taper** As announced in the Pre-Budget Report, employee shareholdings in non-trading companies will qualify for business assets taper relief. This will apply where the employee does not have a material interest of more than 10 per cent.(a,\*)

The rules designed to counter avoidance of capital gains tax through use of offshore companies will be amended to ensure that they work fairly and effectively without hindering genuine overseas trade.(17)

### Stamp duty

**Urban regeneration** As announced in the Pre-Budget Report, stamp duty will be abolished for all property transactions in the most disadvantaged areas following Royal Assent. This will encourage urban renewal and stimulate property markets.(q)

**Individual Pension Accounts** As announced on 11 July 2000, investments in collective investment schemes held within an Individual Pension Account may be adjusted free of stamp duty from 6 April 2001.(\*)

### National insurance 2001-02

The rate of Class 2 national insurance contributions for the self employed and the special Class 2 rate for share fishermen are frozen at £2 and £2.65 per week respectively. The annual Small Earnings Exemption, the special rate of Class 2 contributions for Volunteer Development Workers and the rate of Class 3 voluntary contributions will all be increased in line with statutory indexation. (f)

**Table A.4: National insurance contribution rates 2001–02**

Weekly earnings <sup>1</sup>	Employee (primary) NICs rate <sup>2</sup> (per cent)	Employer (secondary) NICs rate <sup>3</sup> (per cent)
£0 to £72 (LEL)	0	0
£72 to £87 (PT/ST)	0 <sup>4</sup>	0
£87 to £575 (UEL)	10	11.9
Above £575	0	11.9

<sup>1</sup> The limits are defined as LEL – lower earnings limit; PT – primary threshold; ST – secondary threshold; and UEL – upper earnings limit.

<sup>2</sup> The contracted-out rebate for primary contributions in 2000–01 is 1.6 per cent of earnings between the LEL and UEL for all forms of contracting out: contracted-out salary-related schemes (COSRS), contracted-out money purchase schemes (COMPS) and appropriate personal pensions (APPs).

<sup>3</sup> The contracted-out rebate for secondary contributions is 3 per cent of earnings between the LEL and UEL for contracted-out salary-related schemes. For contracted-out money purchase schemes, the employer's contracted-out rebate varies according to the age of the employee. For appropriate personal pensions, the total rebate (primary and secondary combined) applicable to earnings is, like the rebate for COMPS, related to the age of the employee.

<sup>4</sup> No NICs are actually payable but a notional primary Class 1 NIC will be deemed to have been paid in respect of earnings between LEL and PT to protect benefit entitlement.

**Table A.5: Self-employed national insurance contribution rates 2001–02**

Annual profits	Self employed NICs	
	Class 2	Class 4
Below £3,955 (SEE)	0 <sup>1</sup>	0
£3,955 to £4,535	£2 per week	0
£4,535 to £29,900	0	7
Above £29,900	0	0

<sup>1</sup> The self-employed may apply for exception from paying Class 2 contributions if their earnings are less than, or expected to be less than, the level of the Small Earnings Exception (SEE).

## National insurance 2002–03

**Table A.6: National insurance contribution rates 2002–03**

Weekly earnings <sup>1</sup>	Employee (primary) NICs rate <sup>2</sup> (per cent)	Employer (secondary) NICs rate <sup>3</sup> (per cent)
Below £75 (LEL)	0	0
£75 to £89 (PT/ST)	0 <sup>4</sup>	0
£89 to £590 (UEL)	10	11.8
Above £590	0	11.8

<sup>1,2,3,4</sup> See table A.4 subject to note 3 below.

<sup>3</sup> The contracted out rebate for secondary contributions is 3.5 per cent of earnings between the LEL and UEL for contracted out salary rebated schemes.

## Benefits 2001–02

**Capital limits** As announced in the Pre-Budget Report, the £500 capital limits in the Sure Start Maternity Grant and Funeral Payments will be abolished from October 2001. (k)

**Pensioners** As announced in the Pre-Budget Report, the basic state pension will be increased to £72.50 a week for single pensioners and £115.90 for pensioner couples, from April 2001. The minimum income guarantee for pensioners will be aligned at a rate of £92.15 a week for single people and £140.55 for couples. (g)

**Disability and carers package** As announced on 9 November 2000, an enhanced disability premium will be introduced into Income Support from April 2001, worth an additional £11.05 a week for singles and £16 a week for couples. The Disabled Child Premium in income-related benefits will be increased by

£7.40 over indexation to £30 a week. The Carers Premium in Income Support will be raised by £10.25 a week to £24.40. (h)

**Income Support and Jobseeker's Allowance**

The child premia within Income Support and Jobseeker's Allowance will be increased by £1.50 per week from October 2001.(24)

**Benefits 2002–03**

**Sure Start Maternity Grant**

The Sure Start Maternity Grant will be increased from £300 to £500 from April 2002.(28)

**Maternity Allowance and Statutory Maternity Pay**

From April 2002, the flat rate of Maternity Allowance and Statutory Maternity Pay will be increased to £75 a week.(25)

The qualifying threshold for Small Employer Relief, which allows small businesses to claim a higher rate of reimbursement for paying Statutory Maternity Pay, will increase to an annual national insurance liability of £40,000 from April 2002.(27)

**Pensioners**

As announced in the Pre-Budget Report, the basic state pension will be increased to £75.50 a week for single pensioners and £120.70 for pensioner couples, from April 2002.(g)

**Benefits 2003–04**

**Maternity Allowance and Parental Leave**

From April 2003, Maternity Allowance and the flat rate of Statutory Maternity Pay will be increased to £100 a week, or 90 per cent of previous earnings if less. The payment period will be extended from 18 to 26 weeks.(25, 26)

**Paid paternity and adoption leave**

From April 2003, paid paternity leave will be introduced for working fathers. It will be paid for two weeks, at the same rate as Statutory Maternity Pay.(29)

From April 2003 paid adoption leave will be introduced, to allow one adoptive parent to claim paid leave at the same rate, and for the same period, as Statutory Maternity Pay.(30)

**BUSINESS TAX AND SPENDING MEASURES**

**Tax on business profits**

Minor improvements will be made to Capital Allowances Act 2001.(-)

**Capital allowances**

As announced on 7 August 2000, capital allowances will be available for the costs of preparing oil installations for reuse, and removing and mothballing them when their eventual fate is unknown, on the same basis as currently available for demolition. This will apply to abandonment programmes approved from that date.(\*)

As announced in the Pre-Budget Report, in addition to the reduced rate of VAT for some residential conversions, property owners and occupiers will be able to claim 100 per cent first year capital allowances for expenditure on the renovation or conversion of vacant or underused space above shops to create flats for residential letting. The relief will apply to expenditure from Royal Assent.(r)

**Tax relief on contaminated land**

Companies that acquire land in a contaminated state will be able to claim an accelerated repayable tax credit on any additional site preparation cost for cleaning up the land following Royal Assent. The level of the credit has been enhanced to 150 per cent compared with the figure of 100 per cent announced in the Pre-Budget Report.(46,s)

- Section 48 film tax relief** The 100 per cent write-off of production and acquisition expenditure, on completion, for British qualifying films with budgets not exceeding £15 million will be extended to cover expenditure incurred to 1 July 2005.(16)
- De minimis limits for business gifts** The de minimis limit for business gifts will be increased to £50 for business taxes and VAT. This will come into effect: for self-employed income tax for accounting periods ending after 5 April 2001; for corporation tax for accounting periods commencing from 1 April 2001; and for VAT for gifts made on or after 8 March 2001. (38)
- Life insurance** Insurers will be required to give policyholders details of gains on life insurance products with effect from 6 April 2002. The law relating to transfers of shares in such products will be clarified with effect from 2001–02.(39)
- Changes to double taxation relief** As announced in the Pre-Budget Report, the formula used to calculate the mixer cap will be simplified for dividends paid to the UK on or after 31 March 2001. Foreign tax arising at more than one level in a chain of companies will be able to count towards the final measure of relief. In addition, the rate of underlying tax paid on dividends from UK subsidiaries of overseas holding companies will be deemed to the current rate of corporation tax and it will be possible to make a partial claim for foreign tax. Double taxation relief for non-residents trading in the UK will apply to chargeable, rather than accounting, periods ending on or after 21 March 2000.(\*)
- Amendments to group rules** A measure will be introduced to clarify the operation of the amended degrouping charge and notional transfers legislation with effect from 1 April 2000.(\*)
- Abolition of withholding tax** Existing rules requiring companies to withhold tax on intra-UK payments of interest and royalties made to companies within the charge to corporation tax will be abolished from 1 April 2001, as announced in the Pre-Budget Report. Withholding tax on intra-UK company to company annuities and annual payments will also be lifted from 1 April 2001.(2)
- Limited liability partnerships (LLPs)** As announced in the Pre-Budget Report, tax loss through the use of LLPs (including through property investment LLPs) as an alternative to current business arrangements will be prevented. A new measure will clarify the general rules to treat LLPs as partnerships for tax purposes. The measures will apply from 6 April 2001, the date when LLPs will become available.(-)

### Value added tax (VAT)

- Easing the impact of VAT on SMEs** A package of measures aimed at easing the impact of VAT for small and medium-size enterprises (SMEs) will be introduced as follows:
- The VAT registration threshold will be increased broadly in line with inflation from £52,000 to £54,000 from 1 April 2001 and the deregistration threshold will increase from £50,000 to £52,000. (c)
- As announced in the Pre-Budget Report, from 1 April 2001 the turnover limit at which businesses can join the cash accounting scheme will be increased from £350,000 to £600,000 and for the annual accounting scheme from £300,000 to £600,000. The turnover limit at which businesses must leave the schemes will be increased to £750,000.(-)
- Modernising VAT relief** From 1 April 2001, the scope of the existing zero rate for motor vehicles designed or substantially and permanently adapted for use by people with disabilities will be adjusted to include a wider choice of vehicles.(34)
- Following Royal Assent, the rate of VAT on children's car seats will be reduced from 17.5 per cent to 5 per cent.(35)
- From 1 April 2001, the zero-rating of young children's clothing and footwear will be simplified and modernised.(36)

A new VAT refund scheme will be introduced by 1 September 2001 for national museums and galleries offering free admission to the public. Eligible bodies which do not currently charge will be able to recover the VAT they incur from 1 April 2001.(37)

The Government will introduce a UK wide grant scheme to help offset the VAT costs of repairs to listed buildings which are used as places of worship. The effect of the grant will be to reduce the VAT costs to 5 per cent for new work undertaken from 1 April 2001.

### Incentives for investors, entrepreneurs and employees

**Enhancements to EIS, VCT and CVS** From 7 March 2001, the proportion of money raised under the Enterprise Investment Scheme (EIS), Venture Capital Trust (VCT) schemes and Corporate Venturing Scheme (CVS) that has to be employed within 12 months will be reduced. Rules that withdraw EIS reliefs when a company floats on a recognised Stock Exchange will be relaxed and a corresponding change will be made to the rules for loss relief on investments in trading companies. Other technical improvements will also be made to the EIS.(15)

**Expansion of EMI** The value of shares over which Enterprise Management Incentive (EMI) options can be granted will be doubled to £3 million per company from Royal Assent and the limit on the number of participating employees will be removed. There will also be other technical improvements.(1)

**All-employee share ownership plan (AESOP)** Employees will not pay stamp duty when they buy partnership and dividend shares from an AESOP trust from Royal Assent thereby ending the potential for a double charge to stamp duty when a trust sells shares to an employee. There will also be other technical improvements.(14)

**NICs on share options** As announced in the Pre-Budget Report, companies will be able to settle NICs liabilities on the growth in value of some employee share options that were granted to employees between 6 April 1999 and 19 May 2000. This will take effect from Royal Assent of the Social Security Contributions (Share Options) Bill 2001.(b)

### Securing the tax base

**Direct taxes** As announced on 2 October 2000, legislation will be introduced to counter stock lending avoidance schemes with effect from that date.(-)

A measure will be introduced, with effect from 7 March 2001, to close a loophole in the Controlled Foreign Companies provisions. It affects a small number of companies, predominantly financial traders.(40)

New rules will prevent avoidance of petroleum revenue tax (PRT) arising in connection with the decommissioning of North Sea oil installations. PRT relief for expenditure on decommissioning installations in fields producing gas which is exempt from PRT will be extended to take fairer account of the use of those installations by other fields in return for tariffs which were liable to PRT. The changes will apply from 7 March 2001.(\*)

### Other measures

**Pension schemes in surplus** The special charge on payments to employers out of surplus funds held by tax approved pension schemes will be reduced to 35 per cent. This will apply to all payments made after Royal Assent.(\*)

**Self assessment legislation** As announced on 10 November 2000, a package of measures will improve and clarify the legislation governing assessments, amendments, appeals and collection under self assessment. (\*)

## ENVIRONMENTAL TAXES AND SPENDING MEASURES

**Climate change levy** Exempt unlicensed electricity suppliers will not be charged climate change levy (to be introduced from 1 April 2001) on the proportion of their input fuel that is ultimately for an excluded or exempt purpose in line with the treatment of autogenerators.(\*)

Taxable commodities used in a combined heat and power station by a third party will benefit from the climate change levy exemption.(\*)

### Transport and the environment

**Car fuel scale charges** From 6 April 2001 the VAT car fuel scale charge for private motoring in company cars will be adjusted for the movement in pump prices between Budget 2000 and Budget 2001. The corresponding income tax scale charge as announced in Budget 98 will be increased by 20 percentage points above this adjustment.(41)

**Fuel duties** As announced in the Pre-Budget Report, fuel duties and non-road fuel oil duties will be frozen (o). In addition, with effect from 7 March 2001 the duty rate for ultra low sulphur petrol will be cut by 2 pence per litre (6). As announced on 21 February 2001, the duty rate for unleaded petrol will be cut by 2p per litre from 7 March 2001 to 14 June 2001.(42) The duty rate for ultra-low sulphur diesel will be cut by 3 pence per litre.(7)

The separate duty rate for higher-octane unleaded petrol ('super unleaded' and 'lead replacement petrol') will be abolished with effect from 7 March 2001.(8)

**Green fuels** From 7 March 2001 the duty rate on gaseous road fuels will be cut from 15 pence per kilogramme to 9 pence per kilogramme, broadly equivalent to a 3 pence per litre cut. After this reduction, duty on gaseous road fuels will not be increased in real terms until 2004 at the earliest.(9)

Budget 2002 will introduce a new duty rate for biodiesel. This will be set at 20 pence per litre lower than the duty rate on ultra-low sulphur diesel.(10)

From Royal Assent the Government will have the power to allow duty reductions or exemptions for approved pilot projects. This year, the Government plans to launch pilot projects to assess the feasibility and/or environmental benefits of hydrogen, methanol, bioethanol and biogas.(-)

**Green travel** As announced in the Pre-Budget Report, VAT will be removed from 1 April 2000 from the purchase of adult cycle helmets and the VAT zero-rating for passenger transport will be extended from vehicles with 11 or more passenger seats to vehicles with 9 or more passenger seats.(\*)

From April 2002 the 3 per cent diesel supplement for company cars achieving the Euro-IV emission standard will be removed, discounts for alternatively fuelled company cars will be introduced and the passenger seating threshold on works buses qualifying for tax exemptions will be lowered from 12 to 9.(n)

**Authorised mileage rates** As announced in the Pre-Budget Report, the authorised mileage rates for business trips in cars up to 1500cc will be increased from April 2001 to 40 pence for the first 4,000 miles per year and 25 pence for further miles. The rates for the two higher bands will be frozen.

From April 2002 the cycle rate for business trips will be increased to 20 pence per mile.(m) As proposed in the Pre – Budget Report, there will also be a single statutory tax and NICs free rate of 40 pence per mile for the first 10,000 business miles per year for all sizes of car plus 25 pence for additional miles. The passenger rate for business trips will be increased to 5 pence per mile. (5)

**Table A.7: Changes to duties on road fuels and other hydrocarbon oils**

	Changes in duty (per cent)	Effect of tax <sup>1</sup> on typical item (increase in pence)	Unit
Leaded petrol	–	–	litre
Unleaded petrol <sup>2,3</sup>	–4.10	–2.4	litre
Diesel	–	–	litre
Ultra-low sulphur diesel	–6.15	–3.5	litre
Ultra-low sulphur petrol <sup>3</sup>	–4.18	–2.4	litre
Gas oil	–	–	litre
Fuel oil	–	–	litre
AVGAS	–	–	litre
Road fuel gas	–40	–7.1	kg

<sup>1</sup> Tax refers to duty plus VAT, except for gas oil and fuel oil, which is shown exclusive of VAT.

<sup>2</sup> The reduction in duty on unleaded petrol is from 7 March 2001 until 14 June 2001 after which the duty rate will be 48.82 pence.

<sup>3</sup> The differential duty rate for higher octane unleaded petrol (HOUP) will be abolished; regular HOUP will be taxed as unleaded petrol and ultra-low sulphur HOUP will be taxed as ultra-low sulphur petrol and all other HOUP will be taxed as unleaded petrol.

**Table A.8: Bands and rates for the graduated VED system for new cars**

VED band	CO <sub>2</sub> emission level (grammes per kilometre)	Cars using cleaner fuels	£	
			Petrol car	Diesel car
A	Up to 150g	90	100	110
B	151g/km to 165g/km	110	120	130
C	166g/km to 185g/km	130	140	150
D	186g/km and above	150	155	160

**Vehicle Excise** The VED rates for cars, taxis, motorcycles and buses will be frozen in this Budget.(43)

**Duties**

From 1 July 2001 the reduced VED rate for smaller-engined cars will be extended to 1549cc. Owners of qualifying cars who have taken out licences between 1 November 2000 and 30 June 2001 will receive a rebate of up to £55 per licence in July 2001.(11)

From 1 December 2001 the lorry VED rates shown below will replace the transitional lorry VED rates in force since 1 December 2000.(12,p)

**Table A.9: Lorry VED rates****Table A.9a: VED rates**

Band	£	
	Standard VED rate	RPC VED rate
A	165	160
B	200	160
C	450	210
D	650	280
E	1,200	700
F	1,500	1,000
G	1,850	1,350

**Table A.9b: VED bands for rigid lorries**

Vehicle	2 axles	3 axles	4 or more axles
not over 7.5t	A	A	A
not over 15t	B	B	B
not over 21t	D	B	B
not over 23t	–	C	B
not over 25t	–	D	C
not over 27t	–	D	D
not over 32t	–	–	E

**Table A.9c: VED bands for 2 axle tractive lorries**

Vehicle	1 or more axle trailer	2 or more axle trailer	3 or more axle trailer
not over 25t	A	A	A
not over 28t	C	A	A
not over 31t	D	D	A
not over 34t	E	E	C
not over 38t	F	F	E
not over 40t	G	G	G

**Table A.9d: VED bands for 3 axle tractive unit articulated lorries**

Vehicle	1 or more axle trailer	2 or more axle trailer	3 or more axle trailer
not over 28t	A	A	A
not over 31t	C	A	A
not over 33t	E	C	A
not over 34t	E	D	A
not over 36t	E	D	C
not over 38t	F	E	D
not over 44t	G	G	E

From 1 April 2001 there will be no VED charge for all vehicles in the special concessionary VED class (including tractors and similar agricultural vehicles) and electric motorcycles. The DVLA will automatically reimburse outstanding months on such VED discs in May 2001, backdating the rebates to 1 March 2001.(13)

From 1 December 2001 the VED rate on recovery vehicles will be changed to £165 for recovery vehicles up to 25 tonnes and £415 for recovery vehicles over 25 tonnes. (\*)

From 1 December 2001 the transitional VED rate on special types vehicles in force since 1 December 2000 will be made permanent: £2,585 for special types vehicles without a reduced pollution certificate and £2,085 for special types vehicles with a reduced pollution certificate.

(\*)

From Royal Assent, mobile concrete and other pumps will be reclassified as mobile cranes and will therefore qualify for the special vehicles VED rate. (\*)

From Royal Assent, the link between the payment of VED refunds and the Statutory Off-Road Notification (SORN) system will be abolished. In addition, the Secretary of State for the Environment, Transport and the Regions will have the right to waive the requirement for the VED disc to be surrendered at the time of refund in certain circumstances. (-)

## Land use

**Urban regeneration** The scope of the reduced rate of VAT for conversions announced in the Pre-Budget Report will be extended to include Houses with Multiple Occupation, residential communal homes and conversions from non-residential properties following Royal Assent.(44)

As announced in the Pre-Budget Report, an adjustment to the zero rate of VAT to provide relief for the sale of renovated houses that have been empty for 10 years or more will be introduced from 1 August 2001. In addition to the capital allowances changes, from Royal Assent the reduced rate of VAT (5 per cent) will be extended to the renovation of dwellings that have been continuously empty for at least three years from Royal Assent.(45, r)

## Other indirect taxes

### Excise duties

**Tobacco duties** The duties on all tobacco products will be increased by 1.8 per cent in line with inflation, typically 5.8 pence on a packet of 20 cigarettes, from 6pm on 7 March 2001.(32)

From 1 July 2001, it will be a criminal offence to transport, sell, offer for sale or allow the use of premises for the sale of tobacco without a 'UK duty paid' pack mark.

**Table A.10: Changes to tobacco duties**

	Changes in duty (per cent)	Effect of tax <sup>1</sup> on typical item (increase in pence)	Unit
Cigarettes	1.8	5.8	packet of 20
Cigars	1.8	1.9	packet of 5
Hand-rolling tobacco	1.8	5.0	25g
Pipe tobacco	1.8	3.0	25g

<sup>1</sup> Tax refers to duty plus VAT.

**Alcohol duties** Alcohol duties will be frozen in this Budget.(31)

**Dilution of cider** From Royal Assent, the Government will introduce legislation to prohibit the tax avoidance practice of diluting cider after the duty point.(-)

**Betting and gaming duties** By 1 January 2002, general betting duty will be replaced with a gross profits tax, calculated using a rate of 15 per cent applied to gross margins, except for spread betting where rates of 3 per cent on financial and 10 per cent on other spread bets will be used.(3)

Additionally, bets placed with brokers or with agents holding bookmakers' permits (except for agents acting on behalf of the TOTE) will be brought within the scope of the new duty system. The on-course exemption for betting at racecourses and greyhound tracks will be retained. The Government will be consulting on whether to retain the on-course exemption for betting at other sports venues or to bring betting at those venues within the scope of the new system.

The gaming duty bands will be updated on 1 April 2001 in line with inflation.(-)

**Modernising indirect taxes** A statutory provision to pay compensatory interest on excise duty that has been wrongly levied or where there is undue delay in the repayment of excise duties will be introduced from a date to be appointed. It will also provide for excise duty to be repaid to persons or businesses incorrectly refused the authority or approval to obtain goods relieved of duty.(-)

The VAT reduced rate legislation (Schedule A1 to the Value Added Tax Act 1994) will be simplified, making it clearer and more consistent with other legislation on VAT reliefs.(-)

**Appointment of tax representatives** From 1 January 2002 the power of the UK to require the appointment of a tax representative for Non Established Taxable Person (NETPs) from the EU or other countries with which the UK has similar mutual assistance arrangements to those existing in the EU will be removed.(-)

## ADDITIONAL SPENDING DECISIONS

**Additions to Departmental Expenditure Limits (DEL)** This Budget provides £2<sup>1</sup>/<sub>3</sub> billion over the next three years to Departmental Expenditure Limits (DEL) for key public services. These are:

- £1 billion for education, including, in England, £600 million over three years direct funding to head teachers to modernise buildings and equipment and improve pupil attainment and a £200 million fund over three years for recruitment and retention incentives for teachers;
- £1 billion for health including, in England, £450 million over three years for front line hospital investment and a new fund for recruitment and retention incentives for key health service staff;
- £330 million to help tackle drugs, including, in England and Wales, £220 million over three years for Crime and Disorder Partnerships to drive out drug related crime in local communities and resources to support voluntary action against drugs by leaders of the business and sport world; and
- an addition of £60 million to the Capital Modernisation Fund in 2001-02.

**AME Margin** This Budget sets the Annually Managed Expenditure (AME) margin to £1 billion in 2001-02, £2 billion in 2002-03 and £3 billion in 2003-04, a reduction of £1.7 billion, £1.6 billion and £1.6 billion respectively since the Pre-Budget Report.

Table A.1 I: Budget 2001 policy decisions

		( +ve is an Exchequer yield)			£ million
		2001–02	2002–03	2003–04	2001–02
		indexed	indexed	indexed	non-indexed
<b>PBR CONSULTATION MEASURES</b>					
1	Enterprise Management Incentives: expansion	–10	–15	–20	–10
2	Abolition of withholding tax on intra-UK corporate interest	–250	–25	*	–250
3	General betting duty: reform by January 2002	–45	–145	–100	–45
4	Over index aged income allowances by £240 from April 2003	0	0	–120	0
5	Authorised mileage rates	0	–5	–5	0
<b>Fuel duty</b>					
6	Ultra-low sulphur petrol: cut duty by 2p	–445	–470	–465	–445
7	Ultra-low sulphur diesel: cut duty by 3p	–610	–620	–625	–610
8	Abolition of higher rate on higher octane unleaded petrol (including lead replacement petrol)	–85	–80	–65	–85
9	Road fuel gases: cut duty by 6p per kg	*	–5	–5	*
10	Biodiesel: cut duty by 20p from Royal Assent 2002	0	–10	–15	0
<b>Vehicle Excise Duty</b>					
11	Increase threshold for reduced VED rates for private and light goods vehicles tax class to 1549cc from November 2000	–430	–270	–250	–430
12	Introduction of reformed VED system for lorries	–105	–310	–310	–105
13	Abolition of VED for tractors	–15	–15	–15	–15
<b>Total: PBR consultation measures (tax and AME)</b>		<b>–1,995</b>	<b>–1,970</b>	<b>–1,995</b>	<b>–1,995</b>
<b>NEW BUDGET MEASURES</b>					
<b>MEETING THE PRODUCTIVITY CHALLENGE</b>					
14	All-employee share ownership plan: stamp duty exemption on purchase of shares from trust	*	*	–5	*
15	EIS/VCTs/CVS: enhancement	–5	–5	–5	–5
16	Films: extension of 100 per cent write-off for production costs	0	*	–50	0
17	Improved flexibility of close company foreign capital gains rules	*	–10	–10	*
<b>INCREASING EMPLOYMENT OPPORTUNITY FOR ALL</b>					
18	Income Tax: over-indexation of starting rate band by £300 from £1,520 to £1,880	–750	–950	–950	–900
19	Income Tax: indexation of basic rate limit	0	0	0	–400
<b>FAIRNESS FOR FAMILIES AND COMMUNITIES</b>					
<b>Supporting families with children</b>					
20	Increase Children's Tax Credit by £1.50 to £10 from April 2001	–230	–310	–310	–230
21	Increase Children's Tax Credit by a further £10 for families in the year of a child's birth from April 2002	0	–170	–250	0
22	Increase Working Families' Tax Credit (WFTC) basic credit by £5 from June 2001	–165	–300	–315	–165
23	Increase WFTC childcare tax credit limit from June 2001 to £135 for child care costs for one child and £200 for two or more	–5	–15	–15	–5
24	Increase Income Support and Jobseeker's Allowance child premia by £1.50 from October 2001	–120	–245	–250	–120
<b>Maternity package</b>					
25	Raise flat rate Statutory Maternity Pay and Maternity Allowance to £75 from April 2002 and £100 from April 2003	0	–45	–205	0
26	Extend Statutory Maternity Pay and Maternity Allowance from 18 to 26 weeks from April 2003	0	0	–160	0
27	Small Employer Relief: expand eligibility from April 2002	0	–30	–30	0
28	Increase Sure Start Maternity Grant by £200 from April 2002	0	–40	–40	0
29	Introduce two weeks paid paternity leave from April 2003	0	0	–50	0
30	Introduce paid adoption leave for one parent from April 2003	0	0	–5	0

		(+ve is an Exchequer yield)			£ million
		2001–02 indexed	2002–03 indexed	2003–04 indexed	2001–02 non-indexed
<b>Duties and other tax changes</b>					
31	Alcohol: freeze duties	-90	-90	-90	0
32	Tobacco: revalorise duties	0	0	0	+125
33	Inheritance tax: index threshold	0	0	0	-40
34	VAT: modernising relief on vehicles adapted for people with disabilities	-10	-10	-10	-10
35	VAT: reduced rate on children's car seats	-5	-5	-5	-5
36	VAT: modernising relief for young children's clothing and footwear	-20	-20	-20	-20
37	VAT: refund scheme for national museums and galleries	-10	-15	-15	-10
38	Increase in de minimis limit for business gifts for business taxes and VAT	-15	-15	-15	-15
39	Life insurance policies: policyholder information	*	*	+10	*
40	Controlled foreign companies	0	+20	+20	0
<b>PROTECTING THE ENVIRONMENT</b>					
41	VAT: revalorisation of fuel scale charges	0	0	0	-15
42	Unleaded petrol: cut duty by 2p from 7 March 2001 to 14 June 2001	-15	0	0	-15
<b>Vehicle Excise Duty</b>					
43	Freeze car VED for one year	-85	-85	-85	0
<b>Urban regeneration</b>					
44	VAT: extend scope of reduced rate on conversion of residential dwellings	-25	-35	-35	-25
45	VAT: reduced rate on renovations of homes empty for 3 or more years	-5	-5	-5	-5
46	Enhanced tax relief for cleaning contaminated sites	-15	-35	-40	-15
<b>Total: new Budget measures (tax and AME)</b>		<b>-1,570</b>	<b>-2,415</b>	<b>-2,940</b>	<b>-1,875</b>
<b>Total: Budget measures (tax and AME)</b>		<b>-3,565</b>	<b>-4,385</b>	<b>-4,935</b>	<b>-3,870</b>
<b>ADDITIONAL BUDGET POLICY DECISIONS</b>					
Additions to DEL					
	Education	-290	-330	-380	
	Health	-360	-355	-290	
	Fighting crime and drugs	-70	-110	-155	
	Carrying forward of DEL underspend	-1,000	0	0	
	Additions to Capital Modernisation Fund	-60	0	0	
	Change to AME margin	+1,730	+1,580	+1,610	
<b>TOTAL: BUDGET POLICY DECISIONS</b>		<b>-3,615</b>	<b>-3,600</b>	<b>-4,150</b>	

\* Negligible

Table A.12: Other measures announced since Budget 2000

		(+ve is an Exchequer yield)			£ million
		2001–02 indexed	2002–03 indexed	2003–04 indexed	2001–02 non-indexed
<b>MEETING THE PRODUCTIVITY CHALLENGE</b>					
a	Extend CGT business asset definition	–5	–5	–10	–5
b	Unapproved share options	+200	–230	–80	+200
c	VAT: indexation of registration and deregistration thresholds	0	0	0	–10
<b>INCREASING EMPLOYMENT OPPORTUNITY FOR ALL</b>					
d	Income tax: indexation of aged income limit and most allowances	0	0	0	–1,150
e	Indexation of Working Families' Tax Credit (WFTC) and Disabled Person's Tax Credit (DPTC) rates and thresholds	0	0	0	–100
f	Indexation of national insurance limits and freeze of Class 2 rates	–5	–5	–5	–430
<b>FAIRNESS FOR FAMILIES AND COMMUNITIES</b>					
g	Pensioners' package	–1,610	–2,440	–2,580	–1,790
h	Disability and carers package	–195	–210	–220	–195
i	WFTC and DPTC: enhanced disability credits	–15	–20	–20	–15
j	WFTC and DPTC: increase in disabled child credit	–5	–10	–10	–5
k	Abolition of capital limits for Sure Start Maternity Grant and Funeral Payments	–10	–15	–15	–10
l	Extending £7,000 ISA limit for 5 years to April 2006	–20	–80	–140	–20
<b>PROTECTING THE ENVIRONMENT</b>					
m	Reform of authorised mileage rates	–40	–40	–40	–40
n	Green travel package	–5	–10	–10	–5
o	One year nominal freeze for all fuel duties from April 2001	–395	–405	–415	0
p	Rebate of lorry VED	–160	0	0	–170
<b>Urban regeneration package</b>					
q	Stamp duty: exemption for property within disadvantaged communities	–60	–100	–100	–60
r	Tax relief for residential conversions	–50	–80	–80	–50
s	Tax relief for cleaning contaminated sites	–35	–50	–35	–35
<b>TOTAL</b>		<b>–2,410</b>	<b>–3,700</b>	<b>–3,760</b>	<b>–3,890</b>

Note: As required by the Code for Fiscal Stability, the November 2000 Pre-Budget Report economic and fiscal projections were based on and included the impact of all Government decisions and all other circumstances where the impact of these decisions and circumstances could be quantified with reasonable accuracy by the day the projections were finalised.

## APPENDIX A1 : EXPLAINING THE COSTINGS

This appendix explains how the Exchequer effects of the Budget measures are calculated. In the context of these calculations, the net Exchequer effects for measures may include amounts for taxes, national insurance contributions, social security benefits and other charges to the Exchequer and, for Customs and Excise, penalties.

### The general approach

The net Exchequer effect of a Budget measure is generally calculated as the difference between applying the pre and post Budget tax regimes to the levels of total income and spending at factor cost expected after the Budget. The estimates do not therefore include any effect the tax changes themselves have on overall levels of income and spending. They do, however, take account of other effects on behaviour where they are likely to have a significant and quantifiable effect on the yield and any consequential changes in revenue from related taxes. These include estimated changes in the composition or timing of income, spending or other tax determinants. For example, the estimated yield from increasing the excise duty on petrol includes the change in the yield of VAT and other excise duties resulting from the new pattern of spending. Where the effect of one tax change is affected by implementation of others, the measures are generally costed in the order in which they appear in Table A.11 and A.12.

The non-indexed base columns in Tables A.11 and A.12 show the revenue effect of changes in allowances, thresholds and rates of duty (including the effect of any measures, such as the increases in the standard rate of landfill tax, previously announced but not yet implemented) from their pre-Budget level. The indexed base columns strip out the effects of inflation by increasing the allowances, thresholds and rates of duty in line with prices in this and future Budgets.

Where the Government has a pre-announced policy, such as the increases in the standard rate of landfill tax previously announced but not yet implemented, this is also stripped out of the indexed numbers. Measures announced in this Budget are assumed to be indexed in the same way for future Budgets.

The indexed base has been calculated on the assumption that each year fuel, tobacco and alcohol duties and allowances and thresholds, other than VAT, gaming duties and tax credits, rise in line with the projected increase in the RPI over 12 months to the September following the Budget, assuming implementation dates of March for fuel and tobacco and April for alcohol. Tax credits are assumed to rise in line with the Rossi index. The VAT thresholds and all other duties are assumed to rise in line with the RPI increase over the year to the previous December (2.9 per cent in the year to December 2000). Increases in VAT, gaming duty bands and landfill tax are assumed to be implemented in April, amusement machine licence duty in August and air passenger duty in November.

These costings are shown on a National Accounts basis. The National Accounts basis aims to recognise tax when the tax liability accrues irrespective of when the tax is received by the Exchequer. However, some taxes are scored on a receipts basis, principally due to the difficulty in assessing the period to which the tax liability relates. Examples of such taxes are corporation tax, self assessment income tax, inheritance tax and capital gains tax. This approach is consistent with other Government publications.

## Notes on Individual Budget Measures

### Anti-avoidance measures

The yields represent the estimated direct effect of the measures with the existing level of activity. Without these measures, there could be a significant future loss of revenue currently included in the baseline.

### Working Families' Tax Credit

The revenue effects include the consequential changes to the basic credit and childcare tax credit limits within the Disabled Person's Tax Credit. (22,23)

### ISA subscription limits

The cost will rise to £275 million by 2006–07. (l)

### Income tax bands and allowances

The full year cost of increasing age related allowances is £150 million in 2003–4. (4)

### Capital gains business assets taper relief

The cost will rise to £15 million from 2004–05. (a)

### Pensioners' package

These costings include the consequential change to income tax and national insurance rebates. (g)

### Tax relief for residential conversions

The estimated costs combine the effects of the adjustment to the zero rate of VAT to provide relief for the sale of renovated houses that have been empty for 10 years or more and the introduction of 100 per cent first year capital allowances for creating flats above shops for residential letting. (r)

### Films: extension of 100 per cent write off for production costs

The cost is expected to rise to £90 million in 2004–05 and then decline in 2005–06. After that, some companies may pay higher tax because their expenditure will have been relieved in earlier years. (16)

### Life insurance: policyholder information

Following this change, policyholders will receive more information on life policy gains, facilitating completion of their tax returns. The estimated yield relates to the consequential improvement in compliance. (40)

### VAT relief for national museums and galleries

The £10-15 million cost represents the cost of refunding the VAT currently incurred by those national museums and galleries who offer free admission to the public, together with the lost VAT on the admission charges of those national museums and galleries who move to free admission. (38)

### Ultra-low sulphur petrol

This assumes that the announced duty cut encourages the take-up of ultra-low sulphur petrol as a substitute for standard unleaded petrol. (6)

### General betting duty

This assumes that the announced reform encourages repatriation of the largest UK bookmakers and expansion of the domestic market. (3)

## APPENDIX A2 : TAX CHANGES ANNOUNCED IN BUDGET 2000 OR EARLIER

This appendix sets out a number of tax, national insurance contribution, social security benefit and other changes to the Exchequer which were announced before the Budget, the effects of which are taken into account in the forecasts.

**Table A2.1: Measures announced in Budget 2000 or earlier which take effect after this Budget**

	(+ve is an Exchequer yield)			£ million
	2001–02 indexed	2002–03 indexed	2003–04 indexed	2001–02 non-indexed
<b>INLAND REVENUE TAXES</b>				
1 Abolition of withholding tax on international bonds and foreign dividends	-400	0	+25	-400
2 Reduction of employer NICs rates by 0.3 percentage points from April 2001	-1,050	-1,100	-1,150	-1,050
3 Reduction of employer NICs rates by 0.1 percentage points from April 2002	0	-370	-380	+0
Employee NICs:				
4 Align lower earnings threshold with income tax personal allowance in April 2001	-850	-950	-950	-1,200
5 Increase upper earnings limit to £575 in April 2001	+260	+270	+280	+560
6 Introduction of Children's Tax Credit of £8.50 per week from April 2001	-1,300	-1,750	-1,750	-1,300
7 Stakeholder pensions	-600	-1,650	-2,150	-600
8 Extension of WFTC to those receiving maternity pay from April 2001	-40	-70	-90	-40
9 Double taxation relief	+5	+5	-15	+5
10 Car fuel scale charge	+50	+150	+150	+50
11 Enhanced capital allowances for energy saving technologies	-70	-130	-110	-70
12 Company car taxation	0	*	-25	+0
<b>CUSTOMS AND EXCISE TAXES</b>				
13 Climate change levy	+1,000	+1,030	+1,055	+1,000
14 Aggregates levy	0	+380	+385	+0
15 £1 per tonne increase in landfill tax each year	+30	+55	+75	+35
16 Air passenger duty: restructuring	-80	-90	-100	-80
<b>TOTAL</b>	<b>-3,045</b>	<b>-4,220</b>	<b>-4,750</b>	<b>-2,090</b>

\* Negligible

### Inland Revenue taxes

Withholding tax rules for Paying and Collecting Agents of international bonds and foreign dividends will be abolished from April 2001 and instead the Inland Revenue will collect routine information about the savings income of all individuals. (1)

The rate of employer national insurance contributions will be reduced by 0.3 percentage points from April 2001. This will help to ensure that all the revenues from the climate change levy are recycled to business. The revenues from the aggregates levy will be recycled through a further reduction of 0.1 percentage points from April 2002. (2,3)

The level of earnings above which people will pay national insurance contributions will be aligned with the income tax personal allowance. The level of earnings above which employees will pay no further national insurance contributions (the upper earnings limit) will also increase to maintain the earnings base upon which national insurance contributions are paid. (4,5)

A new Children's Tax Credit will be introduced from 6 April 2001 for families with children. A credit of up to £8.50 per week, tapered away from families where one or both of the parties is a higher rate taxpayer was announced in Budget 2000. The increases announced in this Budget are included in Table A.11. (6)

The costs of stakeholder pensions include:

- income tax relief on contributions to stakeholder pensions including those made by qualifying employees in occupational pension schemes;
- national insurance rebates to stakeholder pensions and tax relief associated with the employees' part of those rebates;
- additional costs from aligning the tax regime for personal pensions with that for stakeholder pensions;
- higher NIC rebates from appropriate personal pensions and stakeholder pensions following the change from SERPS to State Second Pension in April 2002;

The annual cost is expected to reach around £5 billion by 2050 after taking account of the savings on SERPs and contracting out deductions.(7)

Two administrative reforms to the WFTC and DPTC from April 2001 will allow a new claim to be made immediately on the birth of a child to reflect the family's change of circumstances and will enable any mother who works 16 hours or more prior to the birth of a child and who is in receipt of Statutory Maternity Pay or Maternity Allowance to meet the work criteria for WFTC and DPTC. (8)

The revenue effects shown on this table for double taxation changes relate to those changes which come into effect from 31 March 2001.(9)

The Chancellor announced in Budget 98 that scale charges for fuel provided for private motoring in company cars would increase by 20 per cent above revalorisation from 6 April 1998 in each of the following four years. (10)

Businesses will qualify for 100 per cent first year capital allowances on expenditure on designated energy saving technologies following the publication of the 'Energy Technology List' to be issued on 1 April 2001 by the Department of the Environment Transport and the Regions. This change will partially offset the cost to business of the climate change levy. (11)

From April 2002, the tax and Class 1A NICs charge for company cars will be linked to the CO<sub>2</sub> exhaust emissions. The cost of this measure will rise to £75 million in 2004–05. (12)

### Customs and Excise taxes

As announced in Budget 99, the Government is to introduce a climate change levy on energy use by business with effect from 1 April 2001. The products subject to the levy are electricity (0.43p/kWh), gas (0.15p/kWh), liquefied petroleum gas (0.96p/kg) and solid fuels (1.17p/kg). (13)

A levy on the commercial exploitation of aggregates in the UK will be introduced on 1 April 2002. The levy will be charged at a rate of £1.60 per tonne. (14)

The standard rate of landfill tax will be increased from £11 per tonne to £12 per tonne with effect from 1 April 2001, in line with the Government's commitment to increase the rate by £1 per tonne each year until at least April 2004. (15)

As announced in Budget 2000, from 1 April 2001, the duty on economy flights within the European Economic Area (EEA) will be reduced from £10 to £5. In addition, all flights to the Scottish Highlands and Islands will be exempt from duty. The duty on economy flights and other destinations will remain at £20. The rate for club and first class fares for destinations in the EEA will remain at £10, but will rise from £20 to £40 for other destinations. The return leg exemption for flights within the UK will be abolished from April 2001. (16)

## APPENDIX A3: TAX ALLOWANCES AND RELIEFS

This appendix provides estimates of the revenue cost of some of the main tax allowances and reliefs.

Tax reliefs can serve a number of purposes. In some cases they may be used to assist or encourage particular individuals, activities or products. They may thus be an alternative to public expenditure. In this case they are often termed “tax expenditures”. There may, for instance, be a choice between giving tax relief as an allowance or deduction against tax, or by an offsetting cash payment.

Many allowances and reliefs can reasonably be regarded (or partly regarded) as an integral part of the tax structure – called “structural reliefs”. Some do no more than recognise the expense incurred in obtaining income. Others reflect a more general concept of “taxable capacity”: the personal allowances are a good example. To the extent that income tax is based on ability to pay, it does not seek to collect tax from those with the smallest incomes. But even with structural reliefs of the latter kind, the Government has some discretion about the level at which they are set.

Many other reliefs combine both structural and discretionary components. Capital allowances, for example, provide relief for depreciation at a commercial rate as well as an element of accelerated relief. It is the latter element which represents additional help provided to business by the Government and is a “tax expenditure”.

The loss of revenue associated with tax reliefs and allowances cannot be directly observed, and estimates have to be made. This involves calculating the amount of tax that individuals or firms would have had to pay if there were no exemptions or deductions for certain categories of income or expenditure, and comparing it with the actual amount of tax due. The Government regularly publishes estimates of tax expenditures and reliefs for both Customs and Excise and Inland Revenue taxes. Largely because of the difficulties of estimation, the published tables are not comprehensive but do cover the major reliefs and allowances.

The estimates in Table A3.1 below show the total cost of each relief. The classification of reliefs as tax expenditures, structural reliefs and those elements combining both is broad brush and the distinction between the expenditures and structural reliefs is not always straightforward. In many cases the estimated costs are extremely tentative and based on simplifying assumptions. The figures make no allowance for the fact that changes in tax reliefs may cause people to change their behaviour. This means that figures in table A3.1 are not directly comparable with those of the main Budget measures.

Estimation of behavioural effects is notoriously difficult. The sizes of behavioural change will obviously depend on the measure examined and possible alternative behaviours. For example, removing the tax privileges of one form of saving may just lead people to switch to another tax privileged form of saving.

Table A3.1 also gives details of reliefs relating to VAT, which is collected by Customs and Excise. It shows the estimated yield forgone by not applying the standard rate of VAT (17.5 per cent) to goods and services which are currently zero-rated, reduced-rated, exempt or outside the scope of VAT. Estimates of the scale of structural reliefs for local authorities and equivalent bodies are also shown. Again, the figures are estimates and must be treated with caution. In line with the treatment of Inland Revenue taxes, they make no allowance for changes in behaviour.

The estimated costs of reliefs and allowances given in Table A3.1 cannot be added up to give a meaningful total. The combined yield of withdrawing two related allowances could differ significantly from the sum of individual costs. Similarly the sum of the costs of component parts of reliefs may differ from the total shown.

More details on individual allowances and reliefs can be found in the HM Treasury publication “*Tax Ready Reckoner and Tax Reliefs*”, November 2000.

**Table A3.1: Estimated costs of principal tax expenditure and structural reliefs**

	£ million	
	1999–00	2000–01
<b>TAX EXPENDITURES</b>		
<b>Income Tax</b>		
Relief for:		
Approved pension schemes	11,500	12,400
Approved profit sharing schemes	190	200
New all-employee share ownership plan	0	80
Approved discretionary share option schemes	100	60
Approved savings-related share option schemes	420	410
Personal Equity Plans	1,000	950
Individual Savings Accounts	120	450
Venture Capital Trusts	100	190
Enterprise Investment Scheme	110	130
Profit related pay	900	130
Vocational training	55	50
Exemption of:		
First £30,000 of payments on termination of employment	1,100	1,100
Interest on National Savings Certificates including index-linked certificates	180	200
Tax Exempt Special Savings Account interest	375	400
Premium Bond prizes	90	130
SAYE	90	60
Income of charities	925	950
Foreign service allowance paid to Crown servants abroad	100	100
First £8,000 of reimbursed relocation packages provided by employers	300	300
Tax Credits:		
Life assurance premiums (for contracts made prior to 14 March 1984)	110	100
Mortgage interest and life annuities interest	1,600	70
Working Families’ Tax Credit	1,010	4,600
Disabled Person’s Tax Credit	20	100
<b>Capital gains tax</b>		
Exemption of gains arising on disposal of only or main residence	3,100	3,400
Retirement relief	210	170
<b>Inheritance tax</b>		
Relief for:		
Agricultural property	90	90
Business property	110	110
Exemption of transfers to charities on death	310	320
<b>Value Added Tax</b>		
Zero-rating of:		
Food	8,200	8,150
Construction of new dwellings (includes refunds to DIY builders)	2,700	2,900
Domestic passenger transport	1,550	1,600

**Table A3.1: Estimated costs of principal tax expenditure and structural reliefs**

	£ million	
	1999–2000	2000–2001
International passenger transport	200	200
Books, newspapers and magazines	1,450	1,500
Children's clothing	1,000	1,050
Water and sewerage services	1,000	1,000
Drugs and supplies on prescription	600	650
Supplies to charities	150	200
Ships and aircraft above a certain size	350	400
Vehicles and other supplies to disabled people	250	250
Lower rate on domestic fuel and power	1,600	1,550
<b>STRUCTURAL RELIEFS</b>		
<b>Income tax</b>		
Personal allowance	32,500	32,100
<b>Income tax and corporation tax</b>		
Double taxation relief	6,000	6,000
<b>Corporation tax</b>		
Reduced rate of corporation tax on policy holders' fraction of profit	450	400
<b>National insurance contributions</b>		
Contracted-out rebates occupational schemes:		
Occupational schemes deducted from national insurance contributions received	5,890	6,310
Occupational schemes (COMPS) paid by the Contributions Agency direct to scheme	110	120
Personal pensions	2,390	2,570
<b>Value Added Tax</b>		
Refunds to:		
Local authorities and Northern Ireland government of VAT incurred on non-business purchases	3,700	3,900
The BBC and ITN of VAT incurred on non-business purchases	250	250
Central Government, Health Authorities and NHS Trusts on contracted-out services and projects under private finance initiative	1,850	1,950
<b>RELIEFS WITH TAX EXPENDITURE AND STRUCTURAL COMPONENTS</b>		
<b>Income Tax</b>		
Married couple's allowance	1,900	0
Age-related allowances	1,400	1,700
Additional personal allowance	160	0
Relief for maintenance payments	70	5
Exemption of:		
British government securities where owner not ordinarily resident in the United Kingdom	850	850
Child benefit (including one parent benefit)	830	880
Long-term incapacity benefit	200	140
Industrial disablement benefits	80	80
Attendance allowance	220	220
Disability living allowance	390	410
War disablement benefits	90	80
War widow's pension	60	60
<b>Income tax and corporation tax</b>		
Capital allowance of which:	17,900	18,700

**Table A3.1: Estimated costs of principal tax expenditure and structural reliefs**

	£ million	
	1999–2000	2000–2001
Temporary first year allowances for SMEs	300	170
<b>Corporation tax</b>		
Small companies' reduced corporation tax rate	1,700	1,800
Starting rate of corporation tax	0	150
<b>Capital gains tax</b>		
Indexation allowance and rebasing to March 1982	500	400
Taper relief	130	320
Exemption of:		
Annual exempt amount (half of the individual's exemption for trustees)	2,000	1,500
Gains accrued but unrealised at death	1,100	1,100
<b>Petroleum revenue tax</b>		
Uplift on qualifying expenditure	200	300
Relief for exploration and appraisal expenditure	30	50
Oil allowance	300	600
Safeguard: a protection for return on capital cost	300	250
Tariff receipts allowance	70	100
Exemption for gas sold to British Gas under pre-July 1975 contracts	140	170
<b>Inheritance tax</b>		
Nil rate band for chargeable transfers not exceeding the threshold	5,600	5,900
Exemption of transfers on death to surviving spouses	1,100	1,200
<b>Stamp Duties</b>		
Exemption of transfers of land and property where the considerations do not exceed the threshold	240	200
<b>National insurance contributions</b>		
Reduced contributions for self-employed not attributable to reduced benefit eligibility	2,400	2,300
<b>Value Added Tax</b>		
Exemption of:		
Rent on domestic dwellings	2,850	3,000
Rent payable by exempt businesses on commercial property	450	500
Private education	350	350
Health services	500	500
Postal services	400	400
Burial and cremation	100	100
Finance and insurance	100	100
Betting and gaming and lottery	750	750
Small traders	100	100