

# Budget 2008

## PRESS NOTICES

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# Budget 2008

## **STABILITY AND OPPORTUNITY: BUILDING A STRONG SUSTAINABLE FUTURE**

The Government's economic objective is to build a strong economy and a fair society, where there is opportunity and security for all.

The long-term decisions the Government has taken – independence for the Bank of England, new fiscal rules and a reduction in debt – have created a strong platform of economic stability. With low and stable inflation, interest rates set by the Monetary Policy Committee to meet the Government's symmetric inflation target, and fiscal policy supporting monetary policy over the cycle, the economy has grown continuously for 62 consecutive quarters.

The world economy is now facing a more challenging environment than was apparent at the time of the 2007 Pre-Budget Report, with continued disruption in global financial markets. While the UK and other economies have benefited significantly from globalisation, recent events have shown how interconnected capital markets mean shocks in one region can easily be transmitted elsewhere.

This Budget sets out the action the Government is taking to support the economy in the short term, to ensure the resilience of the past decade continues, combined with action to make further progress against its long-term goals of:

- maintaining macroeconomic stability, ensuring the fiscal rules are met and that inflation remains low;
- sustainable growth and prosperity, through reforms that promote enterprise and business growth, simplify the tax system, enhance flexibility and promote science, innovation and skills;
- ensuring fairness and opportunity for all, tackling child and pensioner poverty, providing opportunity for all children and young people, delivering security for all in retirement, and ensuring a modern and fair tax system where everyone pays their fair share of tax;
- creating stronger communities and effective public services, and improving long-term housing supply and affordability; and

- ensuring an environmentally sustainable world, with action to address the global challenge of climate change.

## **MAINTAINING MACROECONOMIC STABILITY**

The Government's long-term goal is to maintain macroeconomic stability in order to achieve its objective of a fair society where there is security and opportunity for all.

The UK economy continued to perform strongly in 2007, growing 3 per cent on a year earlier, the fastest growth rate among the G7 economies. Employment reached a record high and claimant count unemployment fell to a 32 year low. The UK is the only G7 economy to have avoided any single quarter of negative growth over the past decade. The flexibility and resilience of the UK economy provides a solid platform from which to face the global economic shocks from the continued disruption in global financial markets and the increase in energy and commodity prices. UK GDP growth is forecast to slow from 3 per cent in 2007 to 1¾ to 2¼ per cent in 2008, before picking up to 2¼ to 2¾ per cent in 2009 and 2½ to 3 per cent in 2010.

Despite the impact of financial market disruption on the public finances, the Budget 2008 projections show that the Government is meeting its strict fiscal rules:

- the current budget shows an average surplus as a percentage of GDP over the current economic cycle, which began in 1997-1998, ensuring the Government is meeting the golden rule. The current budget moves clearly into surplus from 2010-11 onwards; and
- public sector net debt is projected to remain low and stable over the forecast period, stabilising below the 40 per cent ceiling set in the sustainable investment rule.

## **SUSTAINABLE GROWTH AND PROSPERITY**

Over the last decade, coinciding with significant reform programmes, UK productivity has improved and levels of employment have risen to record highs. However, at a time of far reaching change in the global economy, the Government must continue to provide a stable policy framework, so that business has the certainty to plan ahead, while ensuring that policy remains responsive to changing circumstances.

Budget 2008 includes short-term measures to enable small and growing businesses to access the resources they need during a time of global financial market disruption. At the same time it builds on progress to date by

announcing longer-term measures designed around the levers available to Government to encourage productivity growth. These measures include:

- **access to finance measures including enhancing the Small Firms Loan Guarantee Scheme and Enterprise Capital Funds** to support small firms in accessing the resources they need to start up and grow;
- **a package of reforms on regulation and tax simplification and implementation of the business tax reforms announced in Budget 2007**, including the lowest rate of Corporation Tax in the G7;
- **further implementation of the Leitch and Sainsbury Reviews** to build on improvements in the UK skills base and to provide a world-class science base and innovation framework;
- **exploring options to make better use of transport infrastructure, on top of the major programme of investment** announced in the 2007 Comprehensive Spending Review;
- **progress on business support simplification and measures to ensure better access to Government procurement for small firms;** and
- **a study of public service markets and a new framework for infrastructure procurement.**

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

### **Access to finance**

Budget 2008 introduces a package of measures to support small businesses access the finance and resources they need to start up and grow, responding to business needs in the short term:

- A temporary increase of 20% in the amount of finance available through the Small Firms Loan Guarantee scheme, and relaxation of the restrictions on firm age to allow access to the scheme for a wider range of small firms;
- The Government will work with the banks to explore mechanisms to ensure small firms are able to access the most appropriate forms of finance, including mezzanine products. It will also provide additional Enterprise Capital Funds of £30 million to support this type of provision;
- A new capital fund primarily focused on businesses run by women;

- An increase in the Enterprise Investment Scheme's investor limit from £400,000 to £500,000 in any one tax year (subject to EU State Aid approval), and a consultation on how best to simplify operation of the scheme; and
- An increase in the value of share options an individual can hold under the Enterprise Management Incentive scheme from £100,000 to £120,000.

## **Regulation**

Government will consult on the proposed introduction of regulatory budgets, which would cap the costs of new regulation.

## **Improved procurement for small and medium sized enterprises (SMEs)**

The Government today announces the creation of an advisory committee, to provide advice for the 2008 Pre-Budget Report on necessary action to reduce the barriers to SMEs competing for public sector contracts, and on the practicality of setting a goal for SMEs to win 30 per cent of all public sector business in the next five years. As a part of the Enterprise Strategy the Government also today announces:

- free trial periods for all suppliers newly registering with Supply2Gov; and
- that firms supplying public services to Government will be able to sell public sector invoices to debt specialists.

## **Enterprise Education**

Building on existing provision, a strategy is set out for developing seamless enterprise education, from primary schools to higher education, underpinned by £210 million announced at the 2007 Comprehensive Spending Review. This will include:

- Establishment of a National Enterprise Academy to equip 16-19 year olds with enterprise skills;
- Creation of University Enterprise Networks to further develop relevant skills during higher education.

## **Enterprise Strategy**

Building on the announcements above, the Enterprise Strategy, published today, sets out how Government will further encourage business start up and growth. Focused on small and medium sized businesses, the strategy sets out a new framework for Government action, structured around the enablers of Enterprise - Culture, Knowledge and Skills, Access to Finance, Regulatory framework, and business innovation

## **Tax simplification**

The Government today announces the next stage in its rolling programme of tax simplification to further enhance UK productivity and competitiveness.

Following discussions with business and tax professionals, the Government today announces the initial outcomes on the three tax simplification reviews launched at the 2007 Pre-Budget Report:

- VAT rules and administration: consulting on ideas to simplify operation of the partial exemption regime and capital goods scheme, and exploring the continuing need for business to seek permission from HMRC before taxing otherwise VAT-exempt supplies of land and property;
- Anti-avoidance legislation: repealing outdated and complex anti-avoidance provisions on bond washing, employment securities and other transactions in securities; and
- Corporation Tax rules for related companies: simplifying the associated companies rules relating to the small companies rate of Corporation Tax.

Building on the significant reforms to the business tax system announced in Budget 2007, due to take effect from April 2008, and responding to representations from business, the Budget further simplifies Corporation Tax by:

- reforming capital allowances to allow 500,000 businesses to write off pools of £1000 or less; and
- announcing a new review in which HM Treasury and HMRC, working in partnership with business, will look at how to simplify the Corporation Tax calculations and returns for smaller companies.

The Government also announces over 20 further tax simplification measures, which will help sectors across the UK economy, including further modernising the tax system for financial services and the charitable sector.

### **North Sea Fiscal Regime Reform**

The Government remains committed to ensuring that the North Sea fiscal regime promotes investment and production, while ensuring a fair return for the UK taxpayer. Following the publication of the consultation document *Securing a sustainable future* in December 2007 the Government today announces a package of reforms to the North Sea fiscal regime to help encourage investment and maximise production. The Government will continue to engage with stakeholders on outstanding issues.

### **Asset Management**

The Government today announces a package of tax measures which will enhance the competitiveness of the UK asset management sector, remove tax as a barrier to commercial developments and make the tax system fairer for investors. The measures include launching a new tax regime for Property Authorised Investment Funds which will commence on 6 April 2008. The package of measures has resulted from close dialogue with the asset management industry, in particular addressing issues raised in the Investment Management Association/KPMG report *Taxation and the Competitiveness of UK Funds*.

### **Islamic finance**

Following a commitment made in April 2007, the Government has been examining the feasibility of a sovereign sukuk issuance. A final announcement on the outcome of that work at this time would be premature, given the range of issues being considered. The Government remains committed to examining this issue and in Finance Bill 2008 will take legal powers to facilitate any potential future issuance. An update to the work programme, including a response to the recently closed public consultation, will be provided in the summer of 2008.

In addition, the Government has today announced a package of measures to further support Islamic finance in the UK. The Government aims, subject to consultation, to provide relief from stamp duty land tax (SDLT) for alternative finance investment bonds. The Government will also amend legislation to treat these instruments as loan capital for stamp duty and stamp duty reserve tax purposes, and modify legislation that will allow corporation and income tax rules on these instruments to be amended in the future by regulations, should that prove necessary. Finally the Government and the Financial Services

Authority will work together with stakeholders to clarify the regulatory treatment of these instruments.

## **Science and Innovation**

The Science and Innovation White Paper will be published on 13 March and will outline significant progress in implementing the Sainsbury Review's recommendations. The White Paper will also set out DIUS' forward strategy for promoting innovation. The Budget today outlines key commitments including: proposals on how to ensure Government procurement promotes innovation; the development of an independent innovation index to measure innovation throughout the economy; the piloting of a Further Education Specialisation and Innovation Fund; and a doubling of the number of Knowledge Transfer Partnerships supported by the Technology Strategy Board. The Budget also announces that the Government will invest £10 million over five years in "Project Enthuse" to support the professional development of science teachers in all secondary schools, working in partnership with business and the Wellcome Trust.

## **Further progress towards implementing the Leitch review and improving workforce skills**

Through Skills Accounts the Government will ensure that every adult can access investment in their skills. To expand this investment, Budget 2008 announces £60m of additional funding for adult skills, focused on Level 3, which will support increased opportunity and progression. This will provide new opportunities for people to realise their talents, offer adults a second chance to retrain and will be used to test new ways of delivering training. It will also enable leading employers to take on more adult apprentices.

## **Investing in infrastructure**

The Government reaffirms its commitment to exploring national road pricing. Budget 2008 announces an invitation to tender to the private sector to run a number of projects based on charging by time of day, distance traveled and route chosen. The Government will make available sufficient funding to ensure these projects test the impact of financial incentives on driver behaviour.

Today the Government publishes *Infrastructure procurement: delivering long term value* setting out the next steps the Government is taking to secure value for money in its procurement of assets, infrastructure and long-term service provision.

## FAIRNESS AND OPPORTUNITY FOR ALL

The Government is committed to employment opportunity for all. As well as ensuring that individuals can take advantage of the opportunities of an increasingly globalised world, it is also crucial to the ambition of eradicating child poverty and promoting saving. The Government's approach to delivering on this commitment is twofold: integrating the tax and welfare system, so that work always pays; and providing everyone with the support they need to find, retain and progress in work. The Government is also committed to providing better incentives for saving, including for old age. This complements the action the Government is taking to enhance financial security for today's pensioners.

The Government is committed to a modern and fair tax system that ensures everyone pays their fair share of tax to support public services and meet the fiscal rules.

This Budget sets out the next steps the Government is taking to support these aims, including:

- **further financial support for children**, which will lift up to 250,000 children out of poverty;
- **Work Capability Assessments for all existing Incapacity Benefit claimants**, focusing on what people can do in work;
- **further action, with the energy companies and Ofgem, to help vulnerable groups deal with rising energy prices;**
- **alongside the Winter Fuel Payment, an additional one-off payment of £100 to over-80s households and £50 to over-60s households in 2008-09.** This will benefit around 9 million households;
- **the Saving Gateway**, which is a cash saving scheme for those on lower incomes, **will be introduced nationally, with the first accounts available to savers in 2010;**
- **increasing all alcohol duty rates by 6 per cent.** This will add 4 pence to the price of a pint of beer, 14 pence to the price of a bottle of wine and 55 pence to the price of a bottle of spirits;
- **increasing tobacco duty in line with inflation.** This will add 11 pence to the price of a packet of cigarettes; and
- **further reforms to modernise the tax system, modernise tax administration and protect tax revenues.**

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

## **Residence and Domicile**

The Government will implement the package of reforms announced at the 2007 Pre-Budget Report subject to some changes made in the light of consultation.

Key changes following consultation mean:

- income and gains in offshore trusts will only be taxed when they are remitted to the UK, even if these come from UK assets;
- children will not pay the £30,000 charge;
- the £30,000 charge should be creditable against foreign tax;
- art works brought into the UK for public display or for repair and restoration will face no new tax charges;
- where art works owned by offshore trusts are sold in the UK tax will only be paid when the trust remits the gain to the UK; and
- people with unremitted offshore income and gains of under £2,000 are exempt from the £30,000 charge and the changes to personal allowances.

The Budget announces that the rules in this area will not be substantially revisited for the rest of this or the next Parliament.

### Background

The reform package strikes the right balance between competitiveness and fairness by keeping the special rules for non-domiciles which help to make the UK an attractive destination for international talent and investment, while also ensuring that people living in the UK over the longer term make a greater contribution.

The reform package covers:

- an annual £30,000 charge on remittance basis users who have been resident in the UK for more than 7 out of the past 10 years;
- the removal of tax free personal allowances for remittance basis users;

- a tightening of the day counting rules which establish UK residence; and
- a package of loophole closing measures.

## **Child Poverty**

The Government is firmly committed to tackling child poverty and since 1997 has made considerable progress against its objectives. The Budget sets out the next steps, including measures to make significant further progress towards the target of halving child poverty by 2010, which are expected to lift up to 250,000 children out of poverty. The Budget announces:

- an increase in the first child rate of Child Benefit to £20 a week from April 2009, reinforcing the Government's commitment to Child Benefit as the foundation of financial support for all families;
- an increase in the child element of the Child Tax Credit by £50 a year above indexation from April 2009 to further help low to middle income families; and
- Child Benefit will be disregarded in calculating income for Housing and Council Tax Benefit from October 2009, improving work incentives for many of the lowest paid families and boosting their incomes. A working family with one child on the lowest incomes will gain up to £17 a week from this change.

*Ending child poverty: everybody's business*, published today, sets out the strategy for the next decade as the Government takes further steps towards eradicating child poverty by 2020. In line with this renewed approach Budget 2008 also announces that the Government will invest an additional £10 million in 2008-09, £35 million in 2009-10 and £80 million in 2010-11 in piloting new approaches to increasing parental employment and raising incomes, tackling deprivation in communities and improving poor children's life chances across the UK to prepare for the next decade.

## **Support for pensioners**

Building on the Government's substantial commitment to help pensioners, Budget 2008 announces an additional one-off payment of £100 to households with someone aged 80 or over and £50 to households with someone aged 60 or over, to be paid alongside the Winter Fuel Payment in 2008-09.

## **Helping vulnerable households heat their home**

Budget announces further action, with the energy companies and Ofgem, to help vulnerable groups deal with rising energy prices.

## **Incapacity Benefit Reform**

From late 2008, an integrated and simplified Employment and Support Allowance (ESA) will replace the current system of incapacity benefits for new claimants and will have a clearer balance of rights and responsibilities. The introduction of ESA will be accompanied by a new Work Capability Assessment (WCA), which will apply to new claimants from October 2008. To ensure that the increased focus on a person's capability to work has an impact for current as well as future claimants, the Budget announces that all existing incapacity benefits claimants will be required to take the Work Capability Assessment from April 2010.

The Government is also looking at the way it contracts with specialist providers to support existing long-term incapacity benefits claimants. The Government will explore using a new funding mechanism to reward private and voluntary sector specialist providers for investing in helping long-term incapacity benefits claimants to return to work.

## **Housing Benefit**

The Government is already taking forward the largest structural reform of Housing Benefit (HB) for 20 years through the flat-rate Local Housing Allowance (LHA), with national roll-out in the private rented sector from April 2008. The Budget announces that, as the LHA is rolled out, the Government will undertake a comprehensive review of the working age HB system, to look at its effectiveness in promoting work, efficiency and fairness, and to ensure that it represents value for money for the taxpayer.

## **The Saving Gateway – introduction of a national scheme**

Following the success of pilots in promoting saving and financial inclusion, the Saving Gateway will be introduced nationally, with the first accounts available to savers in 2010. The Saving Gateway is a cash saving scheme for those on lower incomes. Individuals in receipt of the following benefits and tax credits will be entitled to open an account in the national scheme: Working Tax Credits; Child Tax Credits paid at the maximum rate; Income Support; Jobseeker's Allowance; Incapacity Benefit; Employment and Support Allowance and Severe Disablement Allowance.

Saving Gateway accounts will be offered by financial institutions such as banks and building societies, and will run for two years. At the end of the accounts the Government will match (make a contribution for each pound saved) money which people have saved into their accounts. Third sector organisations such as credit unions, social housing providers and the Citizens Advice Bureau have expressed interest in providing information and support for savers in the scheme. A consultation document *The Saving Gateway: Operating a National Scheme*, is published alongside the Budget.

### **Alcohol Duty Rates**

As incomes have risen, alcohol has become increasingly more affordable. A 6 per cent increase in all alcohol duty rates will come into effect on 17 March 2008. This will add 4 pence to the price of a pint of beer, 55 pence to the price of a bottle of spirits and 14 pence to the price of a bottle of wine. In order to ensure that alcohol duties keep pace with rising incomes alcohol duty rates will increase by 2 per cent above the rate of inflation in future years.

### **Tobacco Duty Rates**

Maintaining high levels of tax on tobacco helps to reduce overall tobacco consumption. Budget 2008 therefore announces that, from 6pm on Budget day, tobacco duties will increase in line with inflation, adding 11 pence to the price of a packet of 20 cigarettes.

### **Smoking Cessation Products**

The rate of VAT on smoking cessation products was reduced to 5 per cent on 1 July 2007. Since then retail prices of these items have dropped whilst sales have increased. To further support the Government objective to reduce smoking prevalence the reduced rate will be continued beyond its original expiry date of 30th June 2008.

### **Review of HMRC Powers: penalties, compliance checks and debt management**

The Budget announces further measures from HMRC's review of powers, deterrents and safeguards. This package of measures will:

- extend a common approach to penalties for incorrect tax returns to all taxes and duties and introduce a single framework of penalties for failing to notify a new taxable activity;

- modernise the approach to compliance checks and assessing errors across income tax, capital gains tax, corporation tax, PAYE, VAT and NICs to provide better clarity and consistency and to allow flexible approaches which respond better to taxpayers' circumstances; and
- make it easier for taxpayers to pay what they owe on time and support HMRC in effectively tackling those who pay late by accepting payment by credit card; setting off repayments of one tax against the debts of another; and aligning and modernising HMRC's civil debt enforcement powers.

## **STRONGER COMMUNITIES AND EFFECTIVE PUBLIC SERVICES**

The Government's aim is to deliver world-class public services through sustained investment matched by reform, supporting strong and sustainable communities and a better quality of life. The Government is supporting schools and wider children's services to raise attainment for all pupils, is bringing forward a package of measures to help respond to short-term and long-term housing challenges and is supporting the third sector with a package of measures to enhance Gift Aid. The Budget announces:

- that in order to maintain the pace of reform the Government will **achieve significant further operational savings in the post-CSR period** and will launch the **Public Value Programme** to look at all major areas of public spending to identify where there is scope to improve value for money;
- the Department for Children Schools and Families will take forward a **£200 million package over the next three years** to bring forward by a year to 2011 the Government's ambition for **no school to have fewer than 30 per cent of its pupils achieving 5 A\* to C at GCSE**, including English and maths;
- **a package of measures to deliver decent and affordable housing for all** by increasing housing supply and making housing more affordable;
- **a Working Group that will take forward market initiatives to improve liquidity in the mortgage-backed securities market**. The Working Group will include the mortgage industry, the investment industry and also HM Treasury, the Bank of England and the Financial Services Authority. The Working Group will report initially to the Chancellor in summer 2008 and present proposals at the time of the 2008 Pre-Budget Report;

- **the Government is inviting views on options for a UK legislative framework to deliver more affordable long-term fixed-rate mortgages** and the lessons to be learned from international markets and institutions. The Government will work with a wide range of stakeholders and experts and will provide an update at the 2008 Pre-Budget Report;
- **a transitional rate of Gift Aid worth around £300 million over three years**, enabling Gift Aid to be paid at a rate of 22 per cent in 2008-09, 2009-10, and 2010-11 from 6 April; and
- **a number of measures that reduce burdens on charities and include major reform to the auditing process, a comprehensive programme for bringing additional smaller charities into Gift Aid** and measures to increase the awareness of Gift Aid including the **launch of targeted marketing tools.**

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

### **Value for money**

The Budget announces plans to build on the success of the existing public sector efficiency programme. Departments have now reported efficiency savings of over £23 billion for the Spending Review 04 period and have published plans which will deliver another £30 billion of savings by 2010-11. The Government intends to go further than this in the period beyond 2011 and the Chief Secretary to the Treasury will set out detailed plans in the summer for how Government will maintain discipline on administration and back-office costs and ensure efficiency in the public sector keeps pace with developments in the private sector. The Government will set out in Budget 2009 what level of savings will be delivered. Alongside this, the Budget today launches the Public Value Programme to look at major areas of public spending and find smarter ways of doing business and saving money. Initial areas identified for investigation include road-building, commissioning in the health sector, regeneration spending and public sector IT projects.

### **Bringing forward schools' target**

Budget 2008 announces that the Department for Children, Schools and Families (DCSF) will take forward a £200 million package over the next three years, to raise the level of support and challenge for low-attaining schools, bringing forward by a year to 2011 the Government's ambition that there should be no schools with fewer than 30 per cent of pupils attaining 5 A\* to C at GCSE, including English and Math's. By 2011, the Government will expect

all schools to have achieved this benchmark or to be subject to formal intervention.

The new package will support rolling out the successful London Challenge model across the country; empowering more of the best head teachers to help turn around low attaining schools; creating new trusts and federations based on successful schools; and, in areas of greatest need, driving forward a faster expansion of the Academies programme. DCSF will publish a detailed strategy for delivering the Government's floor target ambition in the summer.

### **Management of corporate assets**

To support the introduction of asset management strategies the Treasury and Shareholder Executive will undertake an assessment of the governance, business plans and future development strategies of each of the trading funds and a selection of public corporations.

### **Housing Finance Review**

The Housing Finance Review published today contains analysis and proposals to improve the mortgage-backed securities market as a stable source of mortgage finance and encourage the availability of affordable and flexible mortgage products which help borrowers manage risks better.

Well-functioning mortgage-backed securities markets are critical for an efficient mortgage market. The UK legislative framework for covered bonds implemented last week makes an important contribution. Furthermore, the Government is announcing a Working Group that will take forward market initiatives to improve liquidity in the mortgage-backed securities market. The Working Group will include the mortgage industry and the investment industry, and also the Treasury, the Bank of England and the FSA. It will present proposals at the time of the 2008 Pre-Budget Report.

Long-term fixed-rate mortgages can bring benefits for some borrowers by helping them manage the risks of a mortgage by protecting them from unexpected interest rate rises over a long period. To help lenders finance more affordable long-term fixed-rate mortgages the Government is inviting views on options for a UK framework to deliver more affordable long-term fixed-rate mortgages, including the lessons to be learned from international markets and institutions. The Government will work with a wide range of stakeholders and experts and will provide an update at the Pre-Budget Report.

## **Tax incentives for development of brownfield land**

The Government will legislate in Finance Bill 2009 to extend land remediation relief to expenditure on derelict land and to the removal of Japanese knotweed by treatment from 1 April 2009. It will also introduce secondary legislation later this year to phase out the landfill tax exemption for waste from the clean up of contaminated land from 1 April 2012.

The Government will consult on draft legislation for both reforms to land remediation relief and the landfill tax exemption for waste from the clean up of contaminated land in the summer.

## **Stamp duty land tax (SDLT) treatment of shared ownership**

From today, changes to SDLT rules will ensure that in the vast majority of cases, buyers of shared ownership products will only pay SDLT on acquiring the final 20 per cent of the property, unless they elect to pay SDLT upfront.

## **Promoting giving through Gift Aid**

Budget 2008 announces a comprehensive package of measures in response to the Gift Aid consultation, including major reform to the auditing process; a programme for bringing additional smaller charities into Gift Aid; redesign of guidance; and the launch of targeted marketing tools. This Budget also announces that although the basic rate of tax will be 20%, Gift Aid will be paid at a transitional rate of 22% from 2008-09 to 2010-11; providing charities with additional Gift Aid worth around £300 million over three years.

## **A MORE SECURE, FAIR AND ENVIRONMENTALLY SUSTAINABLE WORLD**

Tackling climate change is the most serious and pressing global environmental challenge the world faces. Budget 2008 sets out new policies to reduce emissions across all major sectors of the economy and ensure the UK continues to lead the climate change agenda internationally. The Government is also acting to protect the UK's natural environment.

Budget 2008 announces:

- **laying the ground work for the introduction of five-year carbon budgets, and that the first budgets will be set alongside Budget 2009;**
- **reform of car vehicle excise duty rates and bandings, introducing new bands from 2009 to reward drivers of the cleanest cars, and**

**higher first year rates in 2010-11** to influence purchasing choices. As a result of these changes the majority of drivers will be better or no worse off;

- **the planned fuel duty increase of 2 pence per litre in April 2008 will be delayed until 1 October 2008. Main road fuel duty rates will rise by 1.84 pence per litre on 1 April 2009, and will increase by 0.5 pence per litre above inflation on 1 April 2010;**
- **auctioning 100 per cent of allowances for large electricity producers in Phase III of the EU Emissions Trading Scheme;**
- **funding for the Green Homes Service to advise consumers on how to reduce carbon emissions, waste and water consumption;**
- **strengthening the environmental incentives for taxation of business cars, along with simplifying measures;**
- **incentivising only the most sustainable biofuels, by shifting support away from the duty differential to the Renewable Transport Fuel Obligation in future years;**
- **increasing climate change levy rates in line with inflation, in order to maintain the environmental incentive effect;**
- **to strengthen the environmental signal through taxation, forecast tax revenues from the new per plane duty, due to replace air passenger duty on 1 November 2009, will increase by 10 per cent in the second full year of operation;**
- **an ambition for all new non-domestic buildings to be zero carbon from 2019 with consultation on the timeline and its feasibility and new public sector buildings from 2018;**
- **extending the Stamp Duty Land Tax exemption from zero carbon homes to new flats, retrospectively from 1 October 2007;**
- **that to eliminate single-use carrier bags, the Government will legislate and impose a charge if retailers do not take voluntary action; and**
- **increasing the aggregates levy from 1 April 2009 to maintain its environmental impact.**

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

### **Long term targets**

The UK is currently working towards a long-term goal of reducing CO<sub>2</sub> emissions by at least 60 per cent by 2050. The evidence now suggests that as part of an international agreement the UK may have to reduce emissions by 80 per cent. The Government has asked the climate change committee for its advice on this point.

### **Carbon budgets**

The Climate Change Bill will commit the Government to fixed and binding 5-year carbon budgets, based on the advice of the independent Committee on Climate Change. The Government announces its intention to set out alongside Budget 2009 the first three carbon budgets and its plans for meeting them.

### **UK International and European leadership on Climate Change**

The UK has been at the heart of efforts to tackle climate change in the EU and globally. It has been instrumental in the development of emissions trading and carbon markets as a tool for tackling climate change cost-effective, and in the launch of the ambitious EU package in January 2008 and in Bali last December, where the UN launched negotiations for a climate change deal beyond 2012.

### **100% auctioning for allowances allocated to large electricity generators in Phase III of the EU ETS**

From 2013 onwards large electricity producers will have to buy 100% of their EU ETS allowances, if there is scope in the new EU ETS Directive to do so. This will remove the possibility of generators making windfall profits from free EU ETS allowances, ensuring that the polluter pays.

### **Renewables**

In summer 2008, the Government will launch a full consultation on what more we should do to increase renewable energy use, including how to address barriers to renewables such as planning and grid access.

## **Low carbon technologies**

Budget 2008 announces that the Energy Technologies Institute's first projects will be offshore wind (a £40m joint fund with the Carbon Trust) and marine, wave and tidal flow (up to £20m).

Budget 2008 also announces that the domestic Environmental Transformation Fund allocates over £400 million, to ensure that technologies that are in the later stage of development can be brought to market and demonstrated, including:

- Carbon Trust technology programmes (over £90 million);
- Energy efficiency demonstration and deployment (over £45 million); and
- Renewable energy and low carbon technologies (at least £200m).

The Government today announces that, alongside the CCS demonstration competition, BERR will shortly launch a new call for expression of interest to demonstrate component parts of CCS. They will also consult soon on the required regulatory framework, as well as the definition of 'capture readiness', and whether all new coal power stations should prove that they are 'capture-ready'.

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

The climate change levy package, introduced in 2001, has been the principal element of the Government's policy approach to encouraging business to reduce their energy demand. Budget 2008 announces:

- that CCL rates will rise in line with current inflation from April 2009; and
- a simplification in CCL requirements.

## **The King Review of low carbon cars**

The King Review of low-carbon cars publishes its final report alongside this Budget and the Government welcomes this report. The Review makes recommendations for action to cut emissions from transport in four key areas: reducing vehicle emissions; cleaner fuels; consumer behaviour; and research and development. In light of the Review's key recommendations, Budget 2008 announces:

- Government support for setting an EU-wide longer term target for car manufacturers to reduce average new car CO<sub>2</sub> to 100g/km by 2020;

- that the duty differential for biofuels will be abolished in 2010/11 and from then the Renewable Transport Fuel Obligation will provide the total incentive for biofuels, reflecting carbon efficiency and sustainability;
- that the Department for Transport will collaborate with the low carbon vehicle partnership to explore initiatives highlighted by the review to raise consumer awareness of environmental impacts; and
- a £40 million research programme into low carbon vehicle concepts.

A full Government response will be published in the summer.

### **Vehicle Excise Duty**

The King Review found that that a typical driver can reduce their CO2 emissions by 25 per cent by choosing the most efficient vehicle in their preferred class. In addition, the Review concludes that a longer-term target of reducing average new car CO2 emissions to 100g/km by 2020 is achievable. In order to support this target, and further strengthen the environmental incentive to develop and purchase fuel-efficient cars, Budget 2008 announces reform of the Vehicle Excise Duty (VED) structure. From 2009, VED will be restructured so that people gain financially by choosing the greenest cars. From 2010, there will be a new higher first year rate to influence purchasing choices.

Specific changes:

- six new VED bands from 2009-10 – including a new top band (band M) for most polluting cars that emit more than 255g CO2/km;
- reducing the standard rate, in 2009-10, for all new and existing cars that emit 150g of CO2/km or less; and increasing the rate on the most polluting cars to £425;
- from 2010-11, extending the zero rate of VED, during first year of ownership, to all new cars that emit 130g CO2/km or less;
- holding the first year rate for all new cars that emit between 131 to 160g CO2/km equal to the standard rate in 2010-11;
- for the most polluting cars a first year rate of £950 in 2010-11;

As a result of these changes, the majority of motorists are better or no worse off in 2009.

## **Taxation of business travel**

In addition to VED reform, Budget 2008 announces that Government will further promote the take up of cleaner cars through reforms to the taxation of business travel.

### Replacing the existing capital allowance treatment for business cars with an emissions based approach

With effect from 1 April 2009 for corporation tax purposes (6 April 2009 for income tax) the capital allowance treatment of all cars will be reformed. Expenditure on cars with CO<sub>2</sub> emissions above 160g/km will attract 10 per cent Writing Down Allowance (WDA) and expenditure on cars with CO<sub>2</sub> emissions of 160g/km or below will attract 20 per cent WDA. Subject to State aid approval, cars leased to those in receipt of certain disability allowances will be placed in the 20 per cent main pool, regardless of their CO<sub>2</sub> performance.

The rules which disallow a proportion of car lease rental payments will be reformed in line with the new capital allowances rules. The new disallowance will be 15 per cent of the relevant payments, applied to cars dealt with in the 10 per cent special rate pool. The Government is considering the option of applying the disallowance only to the final business user in a chain of leases.

### In addition to this:

- the 100 per cent first year allowances (FYA) for the cleanest cars will be extended from 31 March 2008 to 31 March 2013 and the qualifying CO<sub>2</sub> emissions threshold will be reduced to 110g/km;
- the 100 per cent FYA for gas re-fuelling infrastructure investment will also be extended from 31 March 2008 to 31 March 2013, and its scope expanded to include biogas infrastructure;
- company car tax rates will be increased on all but the cleanest cars emitting less than 135g CO<sub>2</sub>/km or less in 2010-11;
- the incentive to drive fewer miles will be strengthened by increasing the fuel benefit charge at least in line with the Retail Prices Index from April 2009; and
- tax-free mileage allowances (AMAPs) rates and thresholds will be maintained at current levels.

## **Fuel Duty Rates**

The Government's policy is that fuel duty rates should rise each year at least in line with inflation as the UK seeks to reduce polluting emissions and fund public services. Budget 2008 therefore confirms that main road fuel duty rates will rise by 1.84 pence per litre on 1 April 2009, and announces that rates will then also increase by 0.5 pence per litre above indexation on 1 April 2010.

Budget 2008 also announces that the planned fuel duty increase of 2 pence per litre in April 2008 will now take place on 1 October 2008. The Government can also confirm that rebated oils duty increases will also be deferred until 1 October 2008, when they will rise in proportion to main road fuel duties. These rates will also rise by the same proportion as main road fuel duties in the subsequent two years.

## **Aviation Taxes**

At Pre-Budget Report 2007, the Government announced that it intended to replace air passenger duty (APD) with a duty payable per plane rather than per passenger. This reform will take place on 1 November 2009, and has the objective of sending a better environmental signal, and ensuring that aviation makes a greater contribution to covering its environmental costs and contributing to funding public services. Budget 2008 announces that the Government will continue to strengthen this environmental signal, by increasing the forecast total tax revenue from aviation duty by 10 per cent in 2011-12, the second full year of operation for the new per plane duty.

The public consultation on the design of the new per plane duty opened on 31 January and will close on 24 April.

## **Package to encourage the Energy Services industry**

Energy Service Companies (ESCOs) promote energy efficiency by providing information, finance and energy saving measures. ESCOs can help businesses identify ways to save money and lower their emissions. Budget 2008 announces that the Government will: develop voluntary agreements with energy suppliers to provide and promote energy services; raise awareness amongst businesses of the energy services industry; roll out smart meters to medium and large businesses; and lead by example to help develop the market through innovative procurement.

## **Zero-carbon non-domestic buildings**

Government announces an ambition for all new non-domestic buildings to be zero carbon from 2019. The Government will consult this year on the timeline

for this ambition and its feasibility, and review progress in 2013. The policy is estimated to save approximately 75 million tonnes of carbon dioxide in the next thirty years.

The Government is committed to leading the way toward zero carbon in new buildings. Building on the zero-carbon schools ambition, it is the Government's ambition for all new public sector buildings to be zero carbon from 2018. There are key barriers that will have to be overcome in the coming months and years to deliver this, and there may be specific areas where achieving zero carbon presents particular challenges. The Government will therefore establish a Taskforce to advise on the timeline, how to reduce carbon emissions in the intervening period, and the particular challenges faced in some sectors such as hospitals, prisons and defence establishments.

### **Zero-carbon homes**

To meet the ambition for all new homes to be zero carbon from 2016 the Government today announces that it will:

- extend the Stamp Duty Land Tax exemption to new flats, retrospectively from 1 October 2007;
- set out the definition for a zero-carbon home for the purposes of the 2016 ambition by the end of 2008, following a consultation in summer;
- provide pump-prime funding for a new 2016 delivery unit that will launch this year to guide, monitor and co-ordinate the zero-carbon programme;
- ensure all new homes built on surplus central government land released through the surplus public sector land programme from April 2008 will reach a minimum of Level 3 of the Code for Sustainable Homes.

### **Consumer information and action**

Budget 2008 makes it easier for consumers and individuals to play their part in tackling climate change through the provision of information, support and advice:

Practical advice in the coming year will be provided to over 2 million households through the new Green Homes Service, and the Carbon Emissions Reduction target, which will deliver 154 million lifetime tonnes of carbon dioxide savings through obligations on energy companies to install energy efficiency and microgeneration measures in people's homes

The Energy Savings trust will also be working with Ofgem and energy suppliers to provide consumers access to easily comparable information on export tariffs for microgeneration through the Green Homes Service.

The Government is also supportive of the work Ofgem are doing to cut customer confusion by issuing standards for green tariffs and will be continuing work with them to reduce administrative barriers for microgenerators under the renewables obligation.

As part of their renewable energy strategy in the summer, BERR will consult on the best options for support mechanisms for microgeneration at individual and community levels including feed-in-tariffs.

### **Single use carrier bags**

The Government has already called on retailers to take voluntary action to encourage the shift away from single-use carrier bags. The Government is committed to taking strong action, and so Budget 2008 announces that the Climate Change Bill will legislate so that, if there is not sufficient progress on a voluntary basis by the end of the year, the Government can exercise powers early next year to impose a charge on these bags.

The Government will consult in the meantime on the operation of the charge and how to ensure that any money raised goes to environmental charities. The Government will ensure that donations made by retailers to charitable causes out of any money raised will attract tax relief in the normal way.

# Budget 2008

## INCOME TAX ALLOWANCES, NATIONAL INSURANCE CONTRIBUTIONS, CHILD AND WORKING TAX CREDIT RATES 2008-09 AND OTHER RATES

2008-09 rates and allowances for Income Tax, National Insurance Contributions, the Working and Child Tax Credits, Child Benefit/Guardian's Allowance, stamp duty land tax, tobacco and alcohol duties, fuel duties, and vehicle excise duties are set out below.

### Income tax, capital gains tax, and inheritance tax

£ per year (unless stated)	2007-08	Change	2008-09
<b>Income tax personal and age-related allowances</b>			
Personal allowance (age under 65)	£5,225	+£210	£5,435
Personal allowance (age 65-74)	£7,550	+£1,480	£9,030
Personal allowance (age 75 and over)	£7,690	+£1,490	£9,180
Married couple's allowance* (aged less than 75 and born before 6th April 1935)	£6,285	+£250	£6,535
Married couple's allowance* (age 75 and over)	£6,365	+£260	£6,625
Married couple's allowance* - minimum amount	£2,440	+£100	£2,540
Income limit for age-related allowances	£20,900	+£900	£21,800
Blind person's allowance	£1,730	+£70	£1,800
<b>Capital gains tax annual exempt amount</b>			
Individuals etc.	£9,200	+£400	£9,600
Most trustees	£4,600	+£200	£4,800
<b>Individual inheritance tax allowance</b>	£300,000	+£12,000	£312,000
<b>Pension schemes allowances</b>			
Annual Allowance	£225,000	+£10,000	£235,000
Lifetime Allowance	£1,600,000	+£50,000	£1,650,000

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

### Income tax: taxable bands

2007-08	£ per year	2008-09	£ per year
Starting rate: 10%	£0-£2,230		
Basic rate: 22%	£2,231-£34,600	Basic rate: 20%*	£0-£36,000
Higher rate: 40%	Over £34,600	Higher rate: 40%*	Over £36,000

\* There will be a new 10% starting rate for savings income only, with a limit of £2320. If an individual's taxable non-savings income is above this limit then the 10% savings rate will not be applicable. There are no changes to the 10% dividend ordinary rate or the 32.5% dividend upper rate.

## Corporation tax on profits

£ per year (unless stated)	2007-08	2008-09
£0-£300,000	20%	21%
£300,001 - £1,500,000	Marginal relief	Marginal relief
£1,500,001 or more	30%	28%

## National insurance contributions

£ per week (unless stated)	2007-08	Change	2008-09
Lower earnings limit, primary Class 1	£87	+\$3	£90
Upper earnings limit, primary Class 1	£670	+\$100	£770
Primary threshold	£100	+\$5	£105
Secondary threshold	£100	+\$5	£105
Employees' primary Class 1 rate between primary threshold and upper earnings limit	11%	-	11%
Employees' primary Class 1 rate above upper earnings limit	1%	-	1%
Employees' contracted-out rebate - salary-related schemes	1.6%	-	1.6%
Employees' contracted-out rebate - money-purchase schemes	1.6%	-	1.6%
Married women's reduced rate between primary threshold and upper earnings limit	4.85%	-	4.85%
Married women's rate above upper earnings limit	1%	-	1%
Employers' secondary Class 1 rate above secondary threshold	12.8%	-	12.8%
Employers' contracted-out rebate, salary-related schemes	3.7%	-	3.7%
Employers' contracted-out rebate, money-purchase schemes	1.4%	-	1.4%
Class 2 rate	£2.20	+\$0.10	£2.30
Class 2 small earnings exception (per year)	£4,635	+\$190	£4,825
• Special Class 2 rate for share fishermen	£2.85	+0.10	£2.95
Special Class 2 rate for volunteer development workers	£4.35	+\$0.15	£4.50
Class 3 rate (per week)	£7.80	£0.30	£8.10
Class 4 lower profits limit (per year)	+\$5,225	+\$210	£5,435
Class 4 upper profits limit (per year)	£34,840	+\$5,200	£40,040
Class 4 rate between lower profits limit and upper profits limit	8%	-	8%
Class 4 rate above upper profits limit	1%	-	1%

### Working and Child Tax Credits rates

£ per year (unless stated)	2007-08	Change	2008-09
<b>Working Tax Credit</b>			
Basic element	£1,730	+£70	£1,800
Couple and lone parent element	£1,700	+£70	£1,770
30 hour element	£705	+£30	£735
Disabled worker element	£2,310	+£95	£2,405
Severe disability element	£980	+£40	£1,020
50+ Return to work payment (16-29 hours)	£1,185	+£50	£1,235
50+ Return to work payment (30+ hours)	£1,770	+£70	£1,840
<b>Childcare element of the Working Tax Credit</b>			
Maximum eligible cost for one child	£175 per week	-	£175 per week
Maximum eligible cost for two or more children	£300 per week	-	£300 per week
Percentage of eligible costs covered	80%	-	80%
<b>Child Tax Credit</b>			
Family element	£545	-	£545
Family element, baby addition	£545	-	£545
Child element	£1,845	+£240	£2,085
Disabled child element	£2,440	+£100	£2,540
Severely disabled child element	£980	+£40	£1,020
<b>Income thresholds and withdrawal rates</b>			
First income threshold	£5,220	+£1,200	£6,420
First withdrawal rate	37%	+2%	39%
Second income threshold	£50,000	-	£50,000
Second withdrawal rate	6.67%	-	6.67%
First threshold for those entitled to Child Tax Credit only	£14,495	+£1,080	£15,575
Income disregard	£25,000	-	£25,000

### Child Benefit and Guardian's Allowance rates from 6 April 2008.

£ per week	2007-08	Change	2008-09
Eldest/Only Child	£18.10	+£0.70	£18.80
Other Children	£12.10	+£0.45	£12.55
Guardian's Allowance	£12.95	+£0.50	£13.45

## Stamp taxes and duties

### Transfers of land and buildings (consideration paid)

Rate	Residential in disadvantaged areas	Residential outside disadvantaged areas	Non-residential
	Total value of consideration		
Zero	£0 - £150,000	£0 - £125,000	£0 - £150,000
1%	Over £150,000 - £250,000	Over £125,000 - £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

### New leases (lease duty)

Duty on the premium is the same as for transfers of land (except that special rules apply for non-residential land and property premium where rent exceeds £1,000 annually. The rules no longer apply to residential property from 12 March 2008). Duty on the rent is charged on any part of the net present value (NPV) which exceeds the threshold.

Rate	Net Present Value of rent		
	Residential in disadvantaged areas	Residential outside disadvantaged areas	Non-residential
	Slice of NPV		
Zero	£0 - £150,000	£0 - £125,000	£0 - £150,000
1%	Over £150,000	Over £125,000	Over £150,000

### Transfers of shares and stocks

The rate of stamp duty/stamp duty reserve tax on the transfer of shares and securities is unchanged at 0.5 per cent for 2008-09.

## Tobacco duty rates

From 6pm on 12 March 2008, tobacco duty rates will be:

Product	Duty	Effect of tax* on typical item (increase in pence)	Typical unit
Cigarettes	22 per cent of the retail price plus £112.07 per thousand cigarettes	11p	packet of 20
Cigars	£163.22 per kilogram	4p	packet of 5
Hand-rolling tobacco	£117.32 per kilogram	11p	25g
Other smoking tobacco and chewing tobacco	£71.76 per kilogram	6p	25g of pipe tobacco

\* Tax refers to duty plus VAT

## Alcohol duty rates

From 17 March 2008, duties on alcohol will be:

Product and basis of duty	Duty
<b>Rate per litre of pure alcohol</b>	
Spirits	£21.35
Spirits-based ready to drink	£21.35
Wine and made-wine: exceeding 22% abv.	£21.35
<b>Rate per hectolitre per cent of alcohol in the beer</b>	
Beer	£14.96
<b>Rate per hectolitre of product</b>	
Still cider and perry: exceeding 1.2% - not exceeding 7.5% abv.	£28.90
Still cider and perry: exceeding 7.5% - less than 8.5% abv.	£43.37
Sparkling cider and perry: exceeding 1.2% - not exceeding 5.5% abv.	£28.90
Sparkling cider and perry: exceeding 5.5% - less than 8.5% abv.	£188.10
Still and sparkling wine and made-wine: exceeding 1.2% - not exceeding 4% abv.	£59.87
Still and sparkling wine and made-wine: exceeding 4% - not exceeding 5.5% abv.	£82.32
Still wine and made-wine: exceeding 5.5% - not exceeding 15% abv.	£194.28
Still and sparkling wine and made-wine: exceeding 15% - not exceeding 22% abv.	£259.02

Sparkling wine and made-wine: exceeding 5.5% - less than 8.5% abv.	£188.10
Sparkling wine and made-wine: 8.5% and above - not exceeding 15% abv.	£248.85

Product	Effect of tax* on typical item (increase in pence)	Typical unit
Beer (4.2% abv)	4p	pint of beer
Wine	3p	175 ml glass
Wine	14p	75cl bottle
Sparkling wine	18p	75cl bottle
Spirits (37.5% abv)	55p	70cl bottle
Spirits-based ready to drinks	3p	275ml bottle
Cider	3p	litre
Sparkling cider	14p	75cl bottle

\* Tax refers to duty plus VAT

## Fuel duties

All fuel duty rate changes will take effect from 1 October 2008.

Pence per litre (unless stated)	Old duty rate	Change	New duty rate
Ultra-low sulphur petrol/diesel	50.35p	+2p	52.35p
Sulphur-free petrol/diesel	50.35p	+ 2p	52.35p
Biodiesel	30.35p	+2p	32.35p
Bioethanol	30.35p	+ 2p	32.35p
Liquefied petroleum gas used as road fuel	16.49p per kg	+ 4.28p per kg	20.77p per kg
Natural gas used as road fuel	13.70p per kg	+ 2.89p per kg	13.70p per kg
Rebated gas oil (red diesel)	9.69p	+ 0.38p	10.07p
Fuel Oil	9.29p	+ 0.37p	9.66p

## Vehicle excise duty for Private and Light Goods Vehicles

### Pre-graduated VED (registered before March 2001)

£ per year	Change	New rate
1549cc and below	+£5	£120
above 1549cc	+£5	£185

### Graduated VED for Private Vehicles (registered from March 2001)

£ per year VED band	CO <sub>2</sub> (g/km)	Change	Alternative Fuel cars	Petrol and Diesel cars
A	100 and below	-	£0	£0
B	101 to 120	-	£15	£35
C	121 to 150	+£5	£100	£120
D	151 to 165	+£5	£125	£145
E	166 to 185	+£5	£150	£170
F	186 to 225	+£5	£195	£210
G*	226 and above	+£100	£385	£400

\*for new cars registered from 23 March 2006

### Vehicle excise duty for Light Goods Vehicles (registered from March 2001)

£ per year	Change	New rate
Euro IV incentive rate*	+£5	£120
Standard rate	+£5	£180

\*for Euro IV compliant vans registered between 1 March 2003 and 31 December 2006

### Vehicle excise duty for motorcycles

£ per year	Change	New rate
150cc and below	-	£15
151-400cc	+£1	£33
401-600cc	+£1	£48
above 600cc	+£2	£66

## Vehicle excise duty for motorised tricycles

£ per year	Change	New rate
150cc and below	-	£15
above 600cc	+£2	£66

Changes to VED rates will take effect from 13 March 2008.

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## DETAILS

Further details of changes in 2008-09 are set out below.

### Income tax rates and allowances

The personal allowance for the under 65s will increase in line with inflation to £5,435.

As announced at Budget 2007 the age related allowance has been raised by £1,180 above inflation to £9,030 for people aged between 65 and 74 and to £9,180 for those aged 75 and over. This will mean that in 2008-09 no one aged 65 or over need pay tax on an income of up to £173 a week. Over half of pensioners pay no tax on their income.

As announced at Budget 2007 the basic rate of income tax will be reduced from 22p to 20p – the lowest basic rate in over 75 years. The 20p basic rate tax limit will increase in line with prices to £36,000. The 10p starting rate of tax will be removed for non savings income and replaced with a new 10p starting rate for savings income with a rate limit of £2,320.

Full details on these changes are published in HM Revenue & Customs' Budget Note - Modernising the Personal Tax System ([www.hmrc.gov.uk](http://www.hmrc.gov.uk)).

### National insurance contributions

National insurance contribution (NIC) rates and thresholds for 2008-09 were announced shortly after the 2007 Pre-Budget Report.

The starting point for employers', employees' and self-employed NICs in 2008-09 will increase in line with inflation to £105 per week. NICs are not paid on earnings or profits below this amount. The upper earnings and profits limits for Class 1 and

4 NICs respectively will increase from 2008 from £670 to £770 per week. For the self-employed, the rate of Class 2 contributions will increase to £2.30 per week.

### **Capital gains tax**

The capital gains tax (CGT) annual exempt amount is increased in line with statutory indexation to £9,600 for the tax year 2008-09 for individuals, personal representatives of deceased persons and trustees of certain settlements for the disabled. The annual exempt amount for most other trustees is increased to £4,800.

Every husband, wife, civil partner and child has his or her own £9,600 annual exempt amount.

For gains above the annual exempt amount the CGT rate for 2008-09 will be 18 per cent. In addition, a new entrepreneurs' relief will reduce the effective tax rate on some gains to 10 per cent.

### **Non-payable dividend tax credit**

There is currently a one ninth non-payable dividend tax credit available for UK individuals receiving dividends from UK resident companies. Higher rate taxpayers, who are liable to tax at 32.5 per cent, in practice only pay 25 per cent (of the net dividend) because part of the tax liability is covered by the tax credit. Basic rate taxpayers who are liable to tax at 10 per cent, in practice do not pay any tax on dividends from UK companies because the tax liability will be entirely covered by the tax credit.

Budget 2007 announced a simplification of the tax system for UK individuals with foreign shares. From April 2008 the non-payable dividend tax credit will be extended to dividends from non-UK resident companies, provided the investor owns less than a 10 per cent shareholding.

Budget 2008 announces that from April 2009, the non-payable dividend tax credit will be further extended to investors with a 10 per cent or greater shareholding in a non-UK resident company, unless the source country does not levy a tax on corporate profits similar to corporation tax.

### **Inheritance tax**

As announced in Budgets 2006 and 2007, the inheritance tax allowance will be increased by more than statutory indexation in each of the next three years. The

allowance for the tax year 2008-09 is £312,000 for individuals or £624,000 for married couples and civil partners; for 2009-10 it will be £325,000 for individuals or £650,000 for married couples and civil partners; and for 2010-11 it will be £350,000 for individuals or £700,000 for married couples and civil partners. The value of estates over and above the allowance is taxed at 40 per cent. The proportion of estates forecast to pay inheritance tax in 2008-09 is 5%.

### **Corporation tax**

As announced in the major package of reforms to the business tax system at Budget 2007, the main rate in Corporation Tax will be reduced from 30% to 28% from this April. This package also announced that in 2008-09 the Small Companies rate will increase from 20 per cent to 21 per cent.

### **Capital Allowances**

From 1 April 2008 for corporation tax and 6 April 2008 for income tax, changes will apply to the rates of capital allowances. Allowances for plant and machinery will reduce to 20%, allowances for long-life assets will increase to 10% and a new classification of features integral to a building will be introduced at a rate of 10%. The amount of relief claimable under industrial and agricultural buildings allowances will be reduced by one quarter, as part of phasing them out in full by 2011. First-year allowances for small and medium-sized enterprises will be replaced by a new Annual Investment Allowance of £50,000 for most businesses regardless of size, giving relief on 100% of the first £50,000 of expenditure.

Loss making companies investing in plant and machinery which qualifies for Enhanced capital allowances for environmentally beneficial and energy saving technologies will be able to surrender losses from qualifying expenditure for a cash payment of 19% of the expenditure, subject to a cap of the higher of £250,000 or a company's PAYE/National Insurance Contributions liabilities.

From April 2008, the rate of research and development tax credits will rise from 125% to 130% for large companies and from 150% to 175% for SMEs (the SME increase is subject to approval from the European Commission and will be made effective by Treasury Order from a date not earlier than 1 April 2008).

### **Child and Working Tax Credits rates and Child Benefit**

Child Benefit is raised in line with statutory indexation.

The child element of Child Tax Credit (CTC) increases by £175 above average earnings. The disabled child element and severely disabled elements rise with statutory indexation. The family element (normal and baby addition) remains frozen at £545 per year. The income threshold for CTC only rises to £15,575 per year. The income threshold for CTC family element only remains at £50,000 per year.

The maximum eligible childcare costs remains at £175 for one child and £300 for two or more children. The percentage of eligible childcare costs remains at 80 per cent.

The disregard in Tax Credits for increases in income between one tax year and the next remains at £25,000.

### **Stamp taxes and duty**

The rates and thresholds for stamp duty land tax (SDLT) remain unchanged. For residential land and property, the rates are 0 per cent for transactions of £125,000 or less, 1 per cent for over £125,000 to £250,000, 3 per cent for over £250,000 to £500,000 and 4 per cent for over £500,000. The 0 per cent band for residential transfers in designated disadvantaged areas extends to £150,000. For non-residential land and property, the rates are 0 per cent for transactions of £150,000 or less, 1 per cent for over £150,000 to £250,000, and thereafter the same as for residential land and property.

For new leases, the rates applicable in respect of the premium are the same as for transfers of land and buildings (except that special rules apply where the rent exceeds £1,000 annually for non-residential land and property. The £600 threshold has been abolished for residential land and property with effect from 12 March 2008).

For the rental element of new leases, the charge is based on the net present value (NPV), which is the total of the discounted annual rental payments. The NPV is charged at 1 per cent on the excess over £125,000 for residential land and property and 1 per cent on the excess over £150,000 for non-residential land and property.

## **Tobacco duties**

From 6pm on 12 March 2008, tobacco duty rates will rise in line with inflation.

## **Alcohol duty**

Duty on all alcohol products will be increased by 6 per cent, from 17 March 2008.

## **Fuel duty**

It is the Government's policy that fuel duty rates should rise each year at least in line with inflation as the UK seeks to reduce polluting emissions and fund public services. Budget 2008 therefore confirms that main road fuel duty rates will rise by 1.84 pence per litre on 1 April 2009, and announces that rates will then also increase by 0.5 pence per litre above indexation on 1 April 2010. Budget 2008 also announces that the planned fuel duty increase of 2 pence per litre in April 2008 will now take place on 1 October 2008.

The Government can also confirm that rebated oils duty increases will also be deferred until 1 October 2008, when they will rise in proportion to main road fuel duties. These rates will also rise by the same proportion as main road fuel duties in the subsequent two years. The compressed natural gas differential will be maintained until 2010-11 and the liquefied petroleum gas differential will decrease by 1 pence per litre on each of 1 October 2008, 1 April 2009 and 1 April 2010.

## **Vehicle excise duty (VED)**

The graduated VED rate for band A will remain frozen at £0 and band B will remain frozen at £35. The rates for bands C-F will rise by £5. Band G will be raised to £400.

VED rates for all cars registered before 2001 and all light goods vehicles will rise by £5.

The rates for motorbikes in the lower band (150cc and below) will be frozen, with other bands increasing by £1, except the rate for above 600cc which will increase by £2.

The lower VED rate for motorized tricycles will be frozen, with the higher rate increased by £2.

VED rates for Heavy Goods Vehicles (HGV), Special Types Vehicles, Combined Transport Vehicles and all vehicle categories that are linked to the basic goods rate will be frozen.

Changes to this year's VED rates will take effect from 13 March 2008.

### **NOTES FOR EDITORS**

Section 41 of the Tax Credits Act requires a report to be laid before Parliament each year reviewing the amounts of certain tax credit elements and thresholds. Section 145 of the Social Security Contributions and Benefits Act 1992 requires an annual review of Child Benefit rates. Section 150 of the Social Security Administration Act 1992 requires the weekly rate of Guardian's Allowance to be increased in line with prices.



# Budget 2008

## ENSURING FAIRNESS FOR ALL TAXPAYERS

The Chancellor today announced a series of measures to ensure that all individuals and companies pay their fair share of tax.

The Government is determined to continue to challenge those who try to reduce their tax payments in an unfair way, and to support those who seek to comply. The Budget package includes a strengthening of the disclosure regime, and the use of targeted anti-avoidance measures as a proportionate response to those who seek to avoid paying their fair share. These measures support the provision of public services whilst protecting the UK's competitive business environment.

Many of these measures have been informed by the disclosure rules, which allow HM Revenue and Customs (HMRC) to identify and target specific risks to the tax system.

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## DETAILS

### TACKLING AVOIDANCE AND PROTECTING TAX REVENUES

#### **Improvements to avoidance scheme disclosure regime**

The Government today announced amendments to the disclosure regime to improve the process of disclosure of Scheme Reference Numbers from promoters to end users of schemes. This will improve identification of users of these avoidance schemes, thereby providing fairness for those taxpayers who already comply.

Details of the measure are set out in Budget Note 67.

#### **Sideways loss relief – closure of avoidance schemes**

The Government today announced a measure, effective immediately, to counter the continued avoidance of tax through the use of sideways loss relief. These schemes, involving individuals acting other than in partnership, are a variation of schemes involving the abuse of partnership structures, which the Government took action to tackle on 2 March 2007. At that time, the

Government made clear that avoiding tax through the use of sideways loss relief is unacceptable.

Details of the measure are set out in Budget Note 63.

### **North Sea management expenses**

The Government today announced a measure, effective from today, to close a loophole that has allowed oil and gas companies to offset the expenses of managing their investment business against their ring-fenced profits. This activity runs counter to the clear and consistent principle that losses cannot be brought into the ring-fence to offset profits from oil and gas production.

Details of the measure are set out in Budget note 26.

### **Financial products avoidance: Disguised interest and Transfers of income streams**

The Government today announced targeted legislation, effective from today, to address avoidance involving financial products. These cover schemes relating to:

- Transfers of income streams by transfers of rents under a lease of plant and machinery; and
- Disguised interest, where arrangements are entered into to avoid tax on returns that are economically equivalent to interest.

The Government also announced that the introduction of principles-based legislation in these areas would be deferred to Finance Bill 2009 to allow more time for consultation.

Details of the measures are set out in Budget Note 21.

### **Partnership and trust avoidance in the controlled foreign companies (CFC) legislation**

The Government announced action, effective from today, to counter avoidance schemes used by some international groups of companies to circumvent the application of the CFC legislation through the use of trusts and partnerships.

Draft legislation and the draft explanatory note have been published on the HMRC website today, prior to inclusion in Finance Bill 2008.

Details of the measure are set out in Budget Note 22.

### **Corporate intangible assets regime**

The Government today announced a measure, effective from today, to clarify that the related party rules in the corporate intangible assets regime are unaffected by a company or partnership's administration, liquidation or insolvency arrangements.

Details of the measure are set out in Budget Note 23.

### **Capital allowances buying and acceleration**

The Government today announced a measure to counter arrangements intended to make capital allowances available to groups with no long-term interest in a trade, and to accelerate the rate at which capital allowances are available.

The measure will have effect where a company sells its trade on or after today.

Details of the measure are set out in Budget Note 24.

### **Life insurance companies: interest paid and regulatory waivers**

The Government announced a measure, effective from today, to ensure that interest paid by a life insurance company on a deposit-back from a reinsurer, as part of an arrangement to reinsure pension business, is correctly allocated to that business.

Details of this measure are set out in the Budget Note 37.

The Government will in future give consideration to whether Financial Services Authority waivers should be disregarded where there could be serious loss of tax, but only after discussion of the effect of specific waivers with the insurance industry.

### **Double Taxation Treaty Abuse**

The Government today announced measures to tackle an avoidance scheme that seeks to use the UK's Double Taxation Agreements (DTAs) to avoid UK tax. This involves artificially diverting income of a UK resident individual to a foreign partnership comprised of foreign trustees and claiming that the provisions of the UK's DTAs exempt the partnership profits from UK tax, not only in the hands of the foreign partners but also in the hands of the UK beneficiaries.

Details of the measure are set out in Budget Note 66.

### **Employment related securities and earnings**

The Government today announced a measure, effective from today, to clarify the legislation relating to employment-related shares and securities, to ensure rules to prevent double taxation are not exploited to reduce the amount of tax and National Insurance paid on employment income.

Draft legislation and draft explanatory notes have been published on the HMRC website today, prior to inclusion in Finance Bill 2008.

Details of the measure are set out in Budget Note 25.

### **Stamp duty land tax (SDLT)**

The Government announced today that, following consultation, it will extend the SDLT disclosure rules to residential property worth at least £1m. This will be enacted by secondary legislation later this year, following consultation on the detail.

The Government also today announced a measure, effective from today, to counter schemes that aim to avoid the payment of SDLT by misusing group relief provisions and provisions that relieve financial institutions from SDLT using alternative finance schemes to lease property to a person.

Legislation will be included in Finance Bill 2008 and details of this measure are set out in Budget Note 58.

### **Income shifting**

The Government firmly believes it is unfair that some individuals can arrange their affairs to gain a tax advantage by shifting part of their income to another person who is subject to a lower rate of tax.

The Government has considered the responses received to the recent consultation and believes that a further period of consultation will ensure that legislation in this area provides clarity and certainty for businesses and their advisers.

The Government now intends to introduce legislation through Finance Bill 2009 and will not enact legislation effective from 6 April 2008.

### **Strategy to protect tax revenues**

The Government is committed to supporting those who want to comply, and to deterring and challenging those who attempt to pay less than their fair share.

The comprehensive action it has taken has already reduced underpayments of tax, as well as reducing costs for compliant tax payers. *Protecting Tax Revenues*, published by HMRC alongside the Budget, sets out the progress made so far and how HMRC is responding to new challenges by further strengthening its strategy.

### **Vehicle excise duty (VED) refunds**

The Government today announced that VED refunds will be restricted to the registered keeper of a vehicle and applicable only when a vehicle: has been stolen, destroyed, sold or otherwise disposed of; become eligible for a nil license; declared as statutorily off-the-road; or permanently exported. This will help ensure that motorists cannot avoid paying a pre announced rate of VED.

### **Transitional period for VAT claims**

The Government today announced that claims for repayment of VAT, for the tax periods indicated below, will become subject to a three-year time limit on 1 April 2009:

- Tax periods before 4 December 1996 (tax previously overdeclared)
- Tax periods before 1 May 1997 (tax previously underclaimed).

Details of the measure are set out in Budget Note 78.

### **UK Borders Agency and Strategy for Tackling Tobacco Smuggling**

The creation of the new UK Borders Agency (UKBA), integrating the frontier work of HMRC with the Borders and Immigration Agency and UK Visas, represents an opportunity to enhance Government's strategy to combat excise fraud.

The Chancellor has therefore asked Liam Byrne, Minister responsible for the new agency, to develop a comprehensive strategy to exert further downward pressure on the volume of tobacco smuggling. To be developed and published by the UKBA by the time of the Pre-Budget Report this year, it will specify how the UKBA will aim to improve both detection and deterrence by, for example:

- using the range of data sources available to the new Agency to improve targeting of high risk freight movements (particularly from within the EU);
- exploiting the expanded reach of the UKBA at all points of entry/exit, e.g. to tackle tobacco smuggling at regional airports;

- working with postal and fast parcel couriers to curb the increasing use of those services by smugglers squeezed from other routes; and
- building on the experience in the visa and immigration areas by improving links with the international transport community to work with them to prevent misuse of their services by tobacco smugglers.

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## **GOVERNMENT DEPARTMENT INTERNET SITES**

Further information and all published documents relating to Budget 2008 may be found on the Internet at the following addresses:

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

HM Revenue & Customs: [www.hmrc.gov.uk](http://www.hmrc.gov.uk)