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## BUDGET POLICY DECISIONS

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**A.1** The Economic and Fiscal Strategy Report (EFSR) explains how the measures and other decisions announced in Budget 2006 build on those already introduced to advance the Government's long-term goals. This chapter of the Financial Statement and Budget Report (FSBR) brings together in summary form all the measures and decisions announced in Budget 2006 and since Budget 2005, including in the 2005 Pre-Budget Report, that affect the Budget arithmetic, giving their estimated effect on government revenues and spending to 2008-09.<sup>1</sup>

**A.2** The chapter sets out how the Budget 2006 measures affect the tax and benefit system and government spending. This includes a summary of the main rates and allowances for the personal tax and benefit system, the business tax system, Value Added Tax, environmental taxes, and other indirect taxes.

**A.3** The appendices to this chapter provide additional information on Budget measures:

- Appendix A1 provides details of tax changes and other policy decisions which were announced in Budget 2005 or earlier, but which take effect from or after April 2006;
- Appendix A2 explains in detail how the effects of the Budget measures on government revenues are calculated; and
- Appendix A3 provides estimates of the costs to the Government of some of the main tax allowances and reliefs.

## BUDGET POLICY DECISIONS

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**A.4** Table A1 summarises the Budget 2006 measures and their effects on government revenues and spending. These include tax measures, national insurance contributions (NICs) measures, measures that affect Annually Managed Expenditure (AME), and additions to Departmental Expenditure Limits (DEL). Measures that are financed from existing DEL provisions are not included.

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<sup>1</sup>The contents of the brackets after each measure in this chapter refer to the line in Tables A1 and A2 where its costs or yield is shown. The symbol '-' indicates that the proposal has no Exchequer effect. The symbol '\*' indicates that the effect is negligible, amounting to less than £3 million a year.

Table AI: Budget 2006 policy decisions

	(+ve is an Exchequer yield)			£ million
	2006-07 indexed	2007-08 indexed	2008-09 indexed	2006-07 non-indexed
<b>MEETING THE PRODUCTIVITY CHALLENGE</b>				
1 Changes to venture capital schemes	*	-15	-15	*
2 Extending the scope of R&D tax credits	0	-15	-40	0
3 Real Estate Investment Trusts	+35	+155	+130	+35
<b>INCREASING EMPLOYMENT OPPORTUNITY FOR ALL</b>				
4 Work Focused Interviews for lone parents	0	-20	0	0
5 Doubling skills coaching pilots for women	-5	-5	0	-5
6 Expanding the National Employer Training Programme	-10	-10	0	-10
7 Matched funding for Sector Skill Councils	-5	-5	0	-5
<b>BUILDING A FAIRER SOCIETY</b>				
<b>Supporting families and communities</b>				
8 Income tax: indexation of starting and basic rate limits	0	0	0	-570
9 Child Tax Credit: uprating child element in line with earnings until 2009-10	0	0	-200	0
10 Employer-supported childcare	-10	-20	-25	-10
11 Inheritance tax: increase of threshold	0	0	-10	0
12 Stamp duty land tax: increase of threshold	-40	-30	-30	-40
<b>Protecting tax revenues</b>				
13 Financial products avoidance	+125	+135	+100	+125
14 VAT: Countering Missing Trader Fraud	+100	+500	+425	+100
15 Countering CGT avoidance	0	+40	+35	0
16 Avoidance using employment related securities	+70	+65	+45	+70
17 VAT: supplies of goods under finance agreements	*	+10	+15	*
18 Rebated oils: changes to excepted vehicles schedule	0	+10	+10	0
<b>Duties and other tax changes</b>				
19 Alcohol duties: freeze spirits, cider and sparkling wine, revalorise beer and wine duties	-35	-30	-30	+170
20 Tobacco duties: revalorise rates	0	0	0	+25
21 VAT: reduced rate for contraceptive products	-5	-10	-10	-5
22 Further changes to oil valuation for tax purposes	+40	+80	+80	+40
23 Changes to group relief in corporation tax	-50	-50	-50	-50
24 Film tax reliefs: expanding the scope	*	-10	-10	*
25 Stamp duty land tax: ending relief for initial transfers into unit trusts	+50	+50	+40	+50
26 Removal of income tax exemption for loaned computers	+50	+100	+150	+50
27 Aligning the inheritance tax treatment for trusts	0	+15	+15	0
<b>PROTECTING THE ENVIRONMENT</b>				
<b>Environment</b>				
28 Climate change levy: revalorise from 1 April 2007	-20	-20	-20	0
29 Climate change levy: exemption of gas used in Northern Ireland	*	*	-5	*
30 Aggregates levy: freeze	-10	-10	-10	0
31 Enhanced Capital Allowances for water efficient technologies	*	-5	-5	*
32 Increasing the landfill tax credit scheme	-10	-10	-10	-10
<b>Transport</b>				
33 VAT: revalorise fuel scale charges	0	0	0	+10
34 Company car tax thresholds	-10	-20	+25	-10
35 Fuel duties: revalorise rates from 1 September 2006	-275	0	0	+380

**Table A1: Budget 2006 policy decisions**

	(+ve is an Exchequer yield)			£ million
	2006-07 indexed	2007-08 indexed	2008-09 indexed	2006-07 non-indexed
36 Fuel duties: maintain differential for rebated oils from 1 September 2006	+40	+75	+80	+50
37 Fuel duties: maintain differential for biodiesel and bioethanol until 2008	*	0	+10	0
38 Fuel duties: maintain differential for road fuel gases	*	0	+5	*
39 Vehicle Excise Duties: enhancing environmental incentives	+5	+5	+5	+115
40 Other VED changes	0	+20	+35	+10
41 Air passenger duty: freeze	-10	-30	-30	0
<b>OTHER POLICY DECISIONS</b>				
42 Supporting further education reform	0	-55	0	0
43 Direct payments to schools	-270	-440	0	-270
44 Additional Police Community Support Officers	-100	0	0	-100
45 2012 Olympics: supporting elite athletes	-30	-35	0	-30
<b>TOTAL POLICY DECISIONS</b>	<b>-380</b>	<b>+415</b>	<b>+705</b>	<b>+115</b>
<i>* negligible</i>				
<b>MEMO ITEMS</b>				
Resetting of the AME margin	-90	+200		

**A.5** Table A2 summarises the impact on government revenues and spending of other measures introduced since Budget 2005, including those measures announced in the 2005 Pre-Budget Report.

**Table A2: Other measures announced since Budget 2005**

	(+ve is an Exchequer yield)			£ million
	2006-07 indexed	2007-08 indexed	2008-09 indexed	2006-07 non-indexed
<b>MEETING THE PRODUCTIVITY CHALLENGE</b>				
a † VAT: increased thresholds for cash and annual accounting schemes	*	-55	0	*
b † 50% first year capital allowances for small enterprises	0	-60	+15	0
<b>INCREASING EMPLOYMENT OPPORTUNITY FOR ALL</b>				
c † Indexation of the Working Tax Credit	0	0	0	-300
d † Increase in Housing Benefit disregard	-5	-5	-5	-5
<b>BUILDING A FAIRER SOCIETY</b>				
e † Tax credits package	-100	+200	+50	-100
f † Reform of film tax incentives	+30	-10	+30	+30
g † Sale of lessors	+35	+85	+155	+35
h † Oil valuation for tax purposes	+40	+80	+80	+40
i † Tackling tax motivated incorporation	-50	+390	+530	-50
j † Indexation of income tax allowances	0	0	0	-870
k † Indexation of national insurance rates and limits	0	0	0	-550
l † Class 2 NICs: no increase in flat rate charge for self employed	-5	-5	-5	0
m NICs quinquennial review of contracted-out rebates	0	-15	+55	0
n Tax exemption for bank accounts of holocaust survivors	-5	*	*	-5
o Stamp duty on shares: reconstruction relief	-20	-20	-20	-20
p † Aligning taxation of gambling machines with the Gambling Act	+25	+40	+30	+30
q † North Sea oil: increase in supplementary charge and first year allowance elections	+900	+2,300	+2,400	+900
r † Introducing Ringfence Expenditure Supplement	0	*	-5	0
s † Continued higher Winter Fuel Payments	-665	-680	-690	-665
t † Tackling pensioner fuel poverty	-150	-125	0	-150
<b>Protecting revenues</b>				
u † Financial avoidance using stock lending arrangements	+30	+30	+30	+30
v Life assurance companies: closing avoidance opportunities	+115	+85	+85	+115
w † Corporate intangible assets avoidance	+90	+120	+120	+90
x † Prevention of abuse of corporate capital losses	+210	+300	+300	+210
y † Capital gains: preventing abuse of capital redemption policies	+35	+100	+75	+35
z † Enhancing the strategy to tackle tobacco smuggling	+50	+90	+115	+50
aa † Preventing income tax avoidance from transfer of assets abroad	*	+10	+30	*
<b>PROTECTING THE ENVIRONMENT</b>				
ab † Enhanced Capital Allowances for the cleanest biofuels production plant	0	-30	-20	0
ac † Fuel duties: freeze of main rates	-625	-630	-650	0
ad † Fuel duties: freeze of biofuel rates	-5	-5	-15	0
ae † Fuel duties: freeze of road fuel gases	-5	-5	-5	0
af † Exemption of oils used for electricity generation	-5	-5	-5	-5
<b>TOTAL POLICY DECISIONS<sup>1</sup></b>	<b>-80</b>	<b>+2,180</b>	<b>+2,690</b>	<b>-1,155</b>

\* negligible.

† Announced in the 2005 Pre-Budget Report.

<sup>1</sup> Excludes the effects of measures taken to manage the transition arising from the move to International Accounting Standards and changes to the Income recognition rules in UK GAAP. The impact of these changes is detailed in Table A2.1.

Note: As required by the Code for Fiscal Stability, the 2005 Pre-Budget Report economic and fiscal projections were based on, and included the impact of, all Government decisions and circumstances that could be quantified with reasonable accuracy by the day the projections were finalised.

## PERSONAL TAX AND SPENDING MEASURES

### Income tax

- Bands, rates and personal allowances** **A.6** As announced in the 2005 Pre-Budget Report, all income tax personal allowances will be increased by statutory indexation. (j)
- A.7** The starting and basic rate limits are increased with statutory indexation and there are no changes to the income tax rates. (8)
- A.8** As announced in Budget 2004 the Lifetime Allowance for tax privileged pension schemes will be £1.5 million for 2006-07. The Annual Allowance will be £215,000 for 2006-07.

**Table A3: Bands of taxable income 2006-07**

	2005-06	£ a year	2006-07	£ a year
Starting rate 10 per cent		0 – 2,090	Starting rate 10 per cent	0 – 2,150
Basic <sup>1,2</sup> rate 22 per cent		2,091 – 32,400	Basic <sup>1,2</sup> rate 22 per cent	2,151 – 33,300
Higher <sup>2</sup> rate 40 per cent		over 32,400	Higher <sup>2</sup> rate 40 per cent	over 33,300

<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 A4: Income tax allowances 2006-07**

	2005-06	£ a year 2006-07	Increase
Personal allowance			
age under 65	4,895	5,035	140
age 65-74	7,090	7,280	190
age 75 and over	7,220	7,420	200
Married couple's allowance <sup>1</sup>			
aged less than 75 and born before 6th April 1935	5,905	6,065	160
age 75 and over	5,975	6,135	160
minimum amount <sup>2</sup>	2,280	2,350	70
Income limit for age-related allowances	19,500	20,100	600
Blind person's allowance	1,610	1,660	50

<sup>1</sup> Tax relief for this allowance 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 born before 6 April 1935.

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

**A.9** A one penny change in the Scottish variable rate in 2006-07 could be worth approximately plus or minus £280 million, and is broadly unaffected by these changes. In the Treasury's view, an amendment to the Scottish Parliament's tax-varying powers is not required as a result of these changes.

### National insurance contributions

**A.10** As announced in the 2005 Pre-Budget Report, the national insurance contributions (NICs) thresholds and limits will increase in line with inflation. There will be no change to NICs rates for employers and employees, or the profit-related NICs paid by the self-employed. (k)

**A.11** The flat rate of Class 2 NICs paid by the self-employed and the special rate of Class 2 for share fishermen will be frozen at 2005-06 levels which are £2.10 and £2.75 respectively. All other NICs rates for 2006-07 will increase in line with inflation: the special rate of Class 2 for volunteer development workers will be £4.20; the rate of Class 3 voluntary contributions will be £7.55. (l)

**A.12** As announced on 1 March 2006, from April 2007 the reduction in total employer and employee NICs for individuals in defined benefit occupational schemes who have contracted out of the state second pension will increase from 5.1 per cent to 5.3 per cent. For individuals in defined contribution pension schemes who have contracted out, the NICs rebate below the age-related cap will increase by between 0.5 per cent and 1.9 per cent, while the cap will be reduced from 10.5 per cent to 7.4 per cent. (m)

**Table A5: Class I national insurance contribution rates 2006-07**

Earnings <sup>1</sup> £ per week	Employee (primary) NICs rate <sup>2</sup> per cent	Employer (secondary) NICs rate <sup>3</sup> per cent
Below £84 (LEL)	0	0
£84 to £97 (PT/ST)	0 <sup>4</sup>	0
£97 to £645 (UEL)	11	12.8
Above £645	1	12.8

<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 2006–07 is 1.6 per cent of earnings between the LEL and UEL for contracted-out salary-related schemes (COSRS) and contracted-out money purchase schemes (COMPS).

<sup>3</sup> The contracted-out rebate for secondary contributions is 3.5 per cent of earnings between the LEL and UEL for COSRS and 1.0 per cent for COMPS. For COMPS, an additional age-related rebate is paid direct to the scheme following the end of the tax year. For approved personal pensions, the employee and employer pay NICs at the standard, not contracted-out rate. An age and earnings related rebate is paid direct to the personal pension provider following the end of the tax year.

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

**Table A6: Self-employed national insurance contribution rates 2006-07**

Annual Profits <sup>1</sup> £ per year	Self employed NICs	
	Class 2 £ per week	Class 4 per cent
Below £4,465 (SEE)	0 <sup>2</sup>	0
£4,465 to £5,035 (LPL)	£2.10	0
£5,035 to £33,540 (UPL)		8
Above £33,540		1

<sup>1</sup> The limits are defined as LPL – lower profits limit and UPL – upper profits limit.

<sup>2</sup> The self-employed may apply for exemption 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).

## Other personal taxes, benefits and spending measures

**Tax credits A.13** As announced in the 2005 Pre-Budget Report, the Government will introduce a number of measures to improve the operation of tax credits, providing greater certainty for claimants, while maintaining flexibility to respond to falls in income and changes in circumstances. The disregard in tax credits for increases in income between one tax year and the next will rise from £2,500 to £25,000 from April 2006. (e)

**Child Tax Credit A.14** As announced in the 2005 Pre-Budget Report, the child element of the Child Tax Credit will be increased by £75 to £1,765 a year from 6 April 2006, in line with earnings growth.

**A.15** The Government will increase the child element of the Child Tax Credit at least in line with average earnings up to, and including, 2009-10. (9)

**Working Tax Credit A.16** As announced in the 2005 Pre-Budget Report, all the elements of Working Tax Credit rise in line with inflation (the increase in the RPI in the year to September 2005), as do the disabled child elements of Child Tax Credit. (c)

**A.17** As announced in the 2005 Pre-Budget Report, the earnings disregard in Housing Benefit and Council Tax Benefit will rise in line with inflation to £14.90 in April 2006. (d)

**Child Trust Fund A.18** The Government will make further payments of £250 into Child Trust Fund accounts at age 7, with children from lower-income families receiving £500. (–)

**Table A7: Child and Working Tax Credits rates and thresholds**

	2006-07 £ a year
<b>Working Tax Credit</b>	
Basic element	1,665
Couples' and lone parent element	1,640
30 hour element	680
Disabled worker element	2,225
Severe disability element	945
50+ Return to work payment (16-29 hours)	1,140
50+ Return to work payment (30+ hours)	1,705
<b>Childcare element of the Working Tax Credit</b>	
Maximum eligible cost for one child	£175 per week
Maximum eligible cost for two or more children	£300 per week
Per cent of eligible costs covered	80 per cent
<b>Child Tax Credit</b>	
Family element	545
Family element, baby addition	545
Child element	1,765
Disabled child element	2,350
Severely disabled child element	945
<b>Income thresholds and withdrawal rates</b>	
First income threshold	5,220
First withdrawal rate (per cent)	37 per cent
Second income threshold	50,000
Second withdrawal rate (per cent)	6.67 per cent
First threshold for those entitled to Child Tax Credit only	14,155
Income disregard	25,000

**Individual Savings Accounts A.19** As announced in the 2005 Pre-Budget Report, legislation was introduced with effect from 27 December 2005 enabling Credit Unions to sell products within the cash component of an ISA. (\*)

**Fuel poverty A.20** As announced in the 2005 Pre-Budget Report, the Government will set aside £300 million over the next 3 years to assist pensioners in installing central heating systems and will continue Winter Fuel Payments to the over 60s for the duration of this Parliament. (s)(t)

**Pensions tax simplification A.21** Budget 2006 announces a small package of supplementary measures to ensure, with effect from 6 April 2006, the new pensions tax regime operates as intended. (\*)

**A.22** As announced in the 2005 Pre-Budget Report, the Government has also taken action to prevent abuse of the pension simplification rules by bringing forward legislation commencing on 6 April 2006 to prevent tax advantages being gained when Self Invested Personal Pension schemes invest in residential property, or individuals recycle pension lump sums to generate artificial levels of tax relief. (-)

- IHT and pensions simplification** **A.23** As announced in the 2005 Pre-Budget Report, legislation will be brought forward in Finance Bill 2006 to clarify how inheritance tax will apply to choices under the new pension scheme rules which take effect from 6 April 2006. (–)
- Employer-supported childcare** **A.24** From April 2006 the tax and national insurance exemption for employer-supported childcare will be increased from £50 to £55 per week. The qualifying conditions will remain unchanged. (10)
- Employer-provided equipment** **A.25** The Government will remove the current exemption for employer-provided equipment from 6 April 2006. The tax exemption for mobile phones will be refocused to prevent exploitation, also with effect from 6 April 2006. (26)
- VDU users: eye tests and glasses** **A.26** A measure will be introduced, with effect from 6 April 2006, to remove the tax charge where an employer pays for eye tests and/or corrective glasses for VDU users. (\*)
- Holocaust victims** **A.27** As announced on 19 July 2005, legislation will be introduced which will exempt from tax certain payments made in relation to UK and foreign bank and building society accounts of Holocaust victims. The exemption will cover payments made from 6 April 1996 onwards. (n)
- Charity payments in benefits** **A.28** As announced in the 2005 Pre-Budget Report, from October 2006 charitable, voluntary and personal injury income payments will be fully disregarded when assessing eligibility for Income Support and Jobseeker's Allowance. In addition a 52-week grace period will be introduced for personal injury lump sum payments when assessing eligibility for these benefits and for working age Housing Benefit and Council Tax Benefit. (\*)
- Housing Benefit** **A.29** A package of measures will be introduced to further simplify and reduce anomalies in the Housing Benefit system, including:
- applying more regulations equally to both customers and their partners;
  - implementing regulations that clarify the treatment of owner-occupiers and former owner-occupiers and their partners; and
  - enabling tenants to receive Housing Benefit on the rental portion of a shared ownership arrangement, where the tenancy is granted by an organisation other than a Housing Association or Housing Authority. (–)
- Support for lone parents** **A.30** From April 2007, all lone parents who have been on benefit for at least a year will, at a minimum, be required to attend a Work Focused Interview every six months. (4)
- Women and Work Commission** **A.31** In response to the Women and Work Commission Report *Shaping a Fairer Future*,<sup>2</sup> the Government today announces a package of measures to enhance lifelong learning opportunities for women in training and work. (5) (6) (7)

<sup>2</sup> *Shaping a Fairer Future*, Women and Work Commission, February 2006.

## CHARITIES AND COMMUNITIES

**Gift Aid declarations** **A.32** As announced in the 2005 Pre-Budget Report, with effect from 1 November 2005, charities no longer need to send donors a written record of oral declarations, provided that the charity keeps sufficient records of declarations, available for audit by HM Revenue and Customs. (–)

**Gift Aid for charity subsidiaries** **A.33** As announced in the 2005 Pre-Budget Report, with effect from 1 April 2006, a measure will be introduced to enable subsidiary companies owned by one or more charities to donate their profits to parent charities using Gift Aid. (\*)

**Exemption for trading profits** **A.34** A measure will be introduced for chargeable periods commencing on or after 22 March 2006 extending tax exemption for trades that are wholly charitable, to trades that are only partially charitable. Exemption will be available in respect of the profits of the part trade that is charitable. (\*)

**Social housing sinking funds** **A.35** As announced in the 2005 Pre-Budget Report, the trust rate of tax on income for service charge and sinking funds which are held on trust for tenants and leaseholders in social housing will be reduced to a standard rate from 6 April 2006. (\*)

**Band Aid Charitable Trust** **A.36** The Government will make a special payment to the Band Aid Charitable Trust, representing its existing commitment to cover the cost of the VAT collected on sales of the Live Aid DVD up to 2009-10, and an additional one-off donation of £250,000 in support of the Live 8 DVD.

**2012 Olympics: elite athletes** **A.37** The Government will make available up to £200 million over the next seven years to fund elite athletes, including paralympic athletes. (42)

**London Olympic Games and Paralympic Games** **A.38** In accordance with the Government's commitments on tax in the bid, measures will be introduced to exempt the London Organising Committee of the Olympic Games from corporation tax, with effect from 22 October 2004, and to provide powers to make tax provisions in relation to the International Olympic Committee and non-UK resident competitors and support staff. (–)

## TAXES ON CHARGEABLE GAINS, INHERITANCE TAX AND STAMP TAXES

**Capital gains tax A.39** The capital gains tax annual exempt amount is increased in line with statutory indexation to £8,800. (\*)

**Inheritance tax A.40** As announced in Budget 2005, the inheritance tax threshold will increase above statutory indexation to £285,000 for new tax charges arising on or after 6 April 2006, and again to £300,000 for new tax charges arising on or after 6 April 2007. Budget 2006 announces the inheritance tax threshold will continue to increase above expected statutory indexation to £312,000 in 2008-09 and £325,000 in 2009-10. (11)

**Tax regime for trusts A.41** A measure will be introduced, with effect from 22 March 2006, to provide that the inheritance tax exemptions which presently apply to some types of trust will only be available in certain prescribed circumstances. (27)

**A.42** A package of measures will be introduced with effect from 6 April 2006, to reduce burdens on the smallest trusts and harmonise key trust-related tests and definitions for income tax and capital gains tax. (\*)

**Stamp duty land tax A.43** From 23 March 2003 the starting threshold for stamp duty land tax will increase from £120,000 to £125,000 for residential property transactions. The starting thresholds for residential transactions in Enterprise Areas and commercial transactions remain at £150,000. (12)

**SDLT: deregulatory amendments A.44** A number of measures will be introduced simplifying the stamp duty land tax legislation and thereby reducing compliance burdens. Some of these measures will take effect from 12 April 2006 and others from Royal Assent. (\*)

**Stamps: company acquisitions and reconstructions A.45** Following the announcement on 22 July 2005 a measure will be introduced, effective from the day after Royal Assent, to enable relief from stamp duty and stamp duty reserve tax in respect of certain corporate acquisitions and reconstructions to be claimed by companies registered outside the UK as well as those registered in the UK. (o)

## BUSINESS TAXES AND SPENDING MEASURES

**Corporation tax A.46** The main rate of corporation tax will be set at 30 per cent for financial year 2007-08. As announced in the 2005 Pre-Budget report, the non-corporate distribution and starting rates of corporation tax will be replaced with a new single banding set at the existing small companies' rate of 19 per cent from 1 April 2006. (-) (i)

**A.47** As announced in the 2005 Pre-Budget Report, from April 2006 the rate of first year capital allowances for small businesses' spending on plant and machinery will be increased from 40 per cent to 50 per cent for a period of one year. (b)

**Group relief A.48** With effect from 1 April 2006, the Government will introduce a small extension to the group relief legislation for companies which will, in some very limited circumstances, allow a UK company to claim relief for otherwise unrelievable foreign losses incurred in the European Economic Area. (23)

**Demutualisation and transfers of insurance business A.49** Measures will be introduced, with effect from 22 March 2006, to provide a relief from stamp duty land tax on a demutualisation and to provide reliefs from unintended tax charges in connection with transfers of insurance business generally. (-)

- Apportionment rules** **A.50** A measure was introduced, generally with effect from 1 January 2006, to permanently extend the apportionment rules for income and gains from a life assurance company's inherited estate. (–)
- Life insurance policies** **A.51** As announced on 7 October 2005, a measure was introduced with effect from that date, preserving and simplifying existing practice to ensure that unexpected tax effects do not arise for holders of qualifying life assurance policies where there is a variation in the basis on which any investment element in the policy is allocated to them by the insurer. (\*)
- North Sea oil taxation** **A.52** As announced in the 2005 Pre-Budget Report, with effect from 1 January 2006, the supplementary charge is increased to 20 per cent. North Sea oil companies will be able to elect to defer 100 per cent relief for capital expenditure incurred in 2005 into the following year. (q)
- A.53** As announced in the 2005 Pre-Budget Report, with effect from 1 January 2006, a Ring Fence Expenditure Supplement was introduced to uplift all expenditure by North Sea oil companies without taxable income to ensure the value of tax relief is maintained over time. This will replace and extend the current Exploration Expenditure Supplement. (r)
- Oil tax pricing** **A.54** As announced in the 2005 Pre-Budget Report, with effect from 1 July 2006, changes will be made to the way in which oil is valued for non arm's length transactions to ensure a fairer and less distortionary tax system. (h)
- Nominations scheme and blended oils** **A.55** A package of measures will be introduced, with effect from 1 July 2006, making changes to the Nominations Scheme and sales of blended oils. This will remove or refine rules that are distorting the tax system and ensure a level playing field for all North Sea oil companies. (22)
- Energy Act 2004** **A.56** Measures will be introduced, with effect from 22 March 2006, to ensure that tax provisions in sections 29 and 30 of Energy Act 2004 have the intended effect. (–)
- Sale of lessors** **A.57** As announced in the 2005 Pre-Budget Report, with effect from 5 December 2005, a package of measures was introduced to address a potential loss of tax when a lessor company that has benefited from capital allowances, changes hands. (g)
- Alternative finance products** **A.58** From 1 April 2006 for corporation tax, and 6 April 2006 for income tax, further alternative finance products, including diminishing musharaka and wakala transactions, will receive tax treatment equivalent to that of existing products. (\*)
- A.59** A measure will be introduced with effect from Royal Assent which will extend to all entities, including companies, the reliefs from multiple stamp duty land tax charges currently enjoyed by individuals. (\*)
- Accounting standards** **A.60** As announced in the 2005 Pre-Budget Report, the Government will legislate in Finance Bill 2006 to enable most businesses affected by changes in the income recognition rules in UK GAAP to spread any extra tax charge arising in respect of periods of account ending on or after 22 June 2005 over three to six years.
- A.61** As announced in the 2005 Pre-Budget Report, with effect from 1 January 2005 a measure was introduced to amend the definition of a securitisation company to exclude companies other than those with permitted activities.

- Film tax relief A.62** As announced in the 2005 Pre-Budget Report, subject to state aid approval, from 1 April 2006 new incentives for filmmaking will be introduced to replace the existing reliefs. Budget 2006 also announces the minimum UK spend threshold will be set at 25 per cent. (f) (24)
- Lloyds: double taxation relief A.63** As announced in the 2005 Pre-Budget Report, regulations will be introduced with effect from accounting periods ending on or after 31 December 2006 to simplify double taxation relief for Lloyd's corporate underwriters. These regulations are being drafted in consultation with the Lloyd's market. (\*)
- Venture capital schemes A.64** From 6 April 2006 the Government will introduce a new rate of 30 per cent income tax relief for investments in Venture Capital Trusts (VCTs) together with further changes to refocus the VCT scheme, Enterprise Investment Scheme and Corporate Venturing Scheme on small companies facing barriers to accessing finance. (1)
- Real Estate Investment Trusts A.65** The Government will introduce UK Real Estate Investment Trusts (UK-REITs), with effect from 1 January 2007, to improve the efficiency of the property investment market. A conversion charge will be applied to companies electing to join the regime to ensure no overall cost to the Exchequer. (3)
- Housing Investment Trusts A.66** In parallel to the introduction of UK-REITs, legislation relating to Housing Investment Trusts is being repealed in relation to accounting periods beginning on or after the day on which the Finance Bill is passed. (–)
- R&D tax credits A.67** The Government intends to extend additional support to R&D performing companies with between 250 and 500 employees, subject to the outcome of state aid discussions with the European Commission. Detailed proposals will be published later this year. (2)
- A.68** As announced in December 2005, with effect from 1 April 2006, the time limit and claims process for claiming a payable credit will be brought into line with the rules for claiming enhanced relief. In addition, minor technical changes will be made to expand the scope of the R&D tax credits, subject to state aid approval. (\*)
- Enterprise Management Incentives A.69** As announced on 5 December 2005, a measure will be introduced, effective from 1 September 2003, to allow intended corporation tax relief where companies grant discounted Enterprise Management Incentive options to employees over shares that carry restrictions or conversion rights. (\*)
- Employee share ownership A.70** As announced in the 2005 Pre-Budget Report, HM Revenue and Customs intends to improve further the process for administration of tax-advantaged employee share schemes. (–)

## VALUE ADDED TAX

- VAT registration A.71** From 1 April 2006, the VAT registration threshold will be increased from £60,000 to £61,000 and the deregistration threshold from £58,000 to £59,000. (\*)
- Flexible payment options A.72** As announced in the 2005 Pre-Budget Report, from 1 April 2006 the turnover threshold up to which businesses can take advantage of the Annual Accounting Scheme will increase from £660,000 to £1.35 million. The Government has also written to the European Commission for a derogation to increase the turnover limit. (a)

**Imported works of art** **A.73** Following a recent judgement by the European Court of Justice, the Government is amending the law concerning valuation of imported works of art. Following Royal Assent any auctioneer's fees involved will be taxed at the standard rate of VAT. (\*)

**Buildings and land** **A.74** A measure will be introduced with effect from Royal Assent to enable legislation to be enacted that will replace current VAT option to tax land and property provisions with legislation that is clearer and easier to use. (\*)

**Option to tax** **A.75** As announced in the 2005 Pre-Budget Report, a package of measures will be introduced between 2006 and 2009 to implement changes necessary to facilitate the revocation of the option to tax. (-)

**Contraceptive products** **A.76** With effect from 1 July 2006, the Government will reduce the rate of VAT chargeable on contraceptive products to 5 per cent. The full list of goods and services subject to a reduced rate of VAT will therefore be: children's car seats, contraceptive products, domestic fuel and power, installation of energy-saving materials and heating equipment, certain residential conversions and renovations, certain non-exempt welfare activities and women's sanitary products. (21)

## ENVIRONMENTAL AND TRANSPORT TAXES

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**Climate change levy** **A.77** Climate change levy (CCL) rates will increase in line with current inflation from 1 April 2007. (28)

**CCL: rate for horticulture** **A.78** As announced in the 2005 Pre-Budget Report, the temporary 50 per cent rate of CCL for energy used in horticulture will expire after 31 March 2006 as state aid approval has now been granted for the horticulture sector to sign a climate change agreement. (-)

**CCL: Northern Ireland gas exemption** **A.79** The exemption from CCL for natural gas in Northern Ireland will be extended for a further five years, until 31 March 2011. (29)

**Reduced VAT rate for wood-fuelled boilers** **A.80** As announced in the 2005 Pre-Budget Report, a reduced rate of VAT of 5 per cent was introduced on 1 January 2006 for the installation of wood-fuelled boilers. (\*)

- Landlords Energy Saving Allowance** **A.81** The Landlords Energy Saving Allowance – an allowance of up to £1500 for landlords who invest in cavity wall, loft or solid wall insulation – will be extended to draught proofing and the insulation of hot water systems. (\*)
- Fuel duties** **A.82** The 2005 Pre-Budget Report announced a continuation of the freeze on main fuel duty rates. Budget 2006 announces an inflation-based increase for main fuel duties, but because of continuing oil market volatility the changes in rates will be deferred until 1 September 2006. (ac) (35)
- Rebated oils duties** **A.83** The 2005 Pre-Budget Report announced an immediate increase of 1.22 pence per litre (ppl) in the duty on rebated oils. Budget 2006 announces rebated oils duties will increase by 1.25ppl from 1 September, to maintain the differential with main fuel duty rates and support the UK Oils Strategy. (–) (36)
- Energy products directive** **A.84** The Government will apply for renewal of the derogations on private pleasure flying, private pleasure crafts, and waste oils. (–)
- Red diesel: excepted vehicles** **A.85** The excepted vehicles schedule will be revised from 1 April 2007 to clarify the vehicles permitted to use red diesel. (18)
- Electricity generation** **A.86** As announced in the 2005 Pre-Budget Report, with effect from 1 January 2006, rebated heavy oils used to generate electricity have been relieved from duty. (af)
- Biofuels** **A.87** The 2005 Pre-Budget Report announced the 20ppl duty incentive for biodiesel and bioethanol would be guaranteed until 2007-08. Budget 2006 announces the duty incentive will be further guaranteed until 2008-09. (ad) (37)
- ECAs for biofuels** **A.88** As announced in the 2005 Pre-Budget Report, subject to state aids approval, the Government will establish an Enhanced Capital Allowance scheme for the cleanest biofuels production plant. (ab)
- Road fuel gases** **A.89** The 2005 Pre-Budget Report announced a continuation in the freeze in duty rates on road fuel gases. Budget 2006 announces natural gas (NG) rates will increase by the equivalent of 1.25ppl, maintaining the differential with main rates. Liquefied petroleum gas (LPG) rates will increase by the equivalent of 2.25ppl to reduce the differential with main fuel duty by 1ppl and reflect more accurately their environmental benefits. Both changes will be deferred until 1 September 2006. (ae)
- A.90** The Government today also announces the duty differential between LPG and main road fuels will be reduced by the equivalent of 1ppl each year to 2008-09, and that the duty differential between NG rates and main duty rates will be maintained each year until 2008-09, to reflect the differing environmental benefits of the two fuel types. (38)
- Vehicle excise duty** **A.91** The Government today announces a new higher band of Graduated VED (G) for the most polluting new cars, set at £210, and the reduction, to £0, of Band A. Bands B and C are also reduced. Bands D and E are frozen and band F is increased. (39)

**A.92** Motorbike VED rates and the standard rate for light goods vehicles will be increased in line with inflation. VED for Heavy Goods Vehicles and buses will be frozen in 2006-07. The reduced rate of VED for Euro IV vans will be removed for vans registered after the date on which these emissions standards become mandatory for all new vehicles (31 December 2006), but remain for the life of existing vans meeting the requirements registered before that date. All changes to VED take effect for licences taken out from 23 March 2006. (40)

**Company car tax A.93** From 6 April 2008, the level of carbon dioxide emissions qualifying for the lower 15 per cent threshold of company car tax will reduce by 5 grams per kilometre (g/km) from 140 g/km to 135 g/km. In addition, a new 10 per cent band for cars with carbon dioxide emissions of 120g/km or below will be introduced. (34)

**Fuel benefit rates A.94** The company car fuel benefit tax charge will remain frozen at £14,400 for 2006-07. (-)

**Revalorisation of fuel scale charge A.95** From 1 May 2006, the VAT fuel scale charges will be increased in line with pump prices. In addition, as confirmed in the 2005 Pre-Budget Report, the fuel scale charge will be based on carbon dioxide emissions from 1 May 2007. (33)

**Air passenger duty A.96** The Government today announces a freeze in the rates of Air Passenger Duty. (41)

**A.97** From 1 November 2006, the scope of the European rate of Air Passenger Duty will be widened to include Croatia, as an applicant country to the European Union. (\*)

**Landfill tax A.98** As confirmed in the 2005 Pre-Budget Report, with effect from 1 April 2006, the standard rate of landfill tax will increase by £3 per tonne to £21 per tonne in 2006/07. The lower rate for inert wastes remains at £2 per tonne.

**Landfill Tax Credit Scheme A.99** The Government today announces the value of the Landfill Tax Credit Scheme for 2006-07 will increase to £60 million. (32)

**Aggregates levy A.100** The Government today announces the rate of the aggregates levy will remain frozen at £1.60 per tonne in 2006-07. (30)

**Enhanced capital allowances A.101** The list of designated water-efficient technologies qualifying for 100 per cent enhanced first-year capital allowances will be expanded during 2006, to include three further technology classes. (31)

**Table A8a: VED bands and rates for cars registered after 1 March 2001 (graduated VED)**

VED band	CO <sub>2</sub> emissions (g/km)	Cars using alternative fuels	VED rate (£)	
			Petrol car	Diesel car
A	100 and below	0	0	0
B	101 to 120	30	40	50
C	121 to 150	90	100	110
D	151 to 165	115	125	135
E	166 to 185	140	150	160
F	186 and above <sup>1</sup>	180	190	195
G	226 and above <sup>2</sup>	200	210	215

<sup>1</sup> Cars registered before 23 March 2006.

<sup>2</sup> Cars registered on or after 23 March 2006.

**Table A8b: VED bands and rates for private and light goods vehicles registered before 1 March 2001 (pre-graduated VED)**

Engine size	VED rate (£)
1549cc and below	110
Above 1549cc	175

## OTHER INDIRECT TAXES AND DUTIES

**Tobacco duties A.102** From 6pm on Budget Day 2006, tobacco duty rates will rise in line with inflation to maintain the real price of tobacco. (20)

**Table A9: Changes to tobacco duties**

	Effect of tax <sup>1</sup> on typical item (increase in pence)	Unit
Cigarettes	9	packet of 20
Cigars	3	packet of 5
Hand-rolling tobacco	8	25g
Pipe tobacco	5	25g

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

**Alcohol duties A.103** Excise duty rates on spirits, cider and sparkling wine will be frozen, while the rates on beer and wine will increase in line with inflation from midnight on 26 March 2006. (19)

**Table A10: Changes to alcohol duties**

	Effect of tax <sup>1</sup> on typical item (increase in pence)	Unit
Beer	1	Pint of beer @ 4.2% abv
Wine	1	175ml glass typical strength
Wine	4	75cl bottle typical strength
Sparkling Wine	0	75cl bottle typical strength
Spirits	0	70cl bottle @ 37.5% abv
Spirits-based RTDs	0	275ml bottle @ 5.4% abv
Cider	0	Pint of cider typical strength
Sparkling cider	0	175ml typical strength

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

- Simplification of alcohol duty** **A.I04** A number of obsolete regulatory requirements will be removed from the alcohol legislation and others will be simplified. Changes to regulations will come into effect from 1 May 2006, and changes to primary law from Royal Assent. (\*)
- Betting and gaming duties** **A.I05** Gaming duty bands will rise in line with inflation for accounting periods starting on or after 1 April 2006. (-)
- Gaming machines** **A.I06** Measures will be introduced to simplify some administrative aspects of amusement machine licence duty. (\*)
- A.I07** As announced in the 2005 Pre-Budget Report, the definition of gaming machines for VAT purposes was changed from 6 December 2005. In addition a further measure will be introduced, with effect from 1 August 2006, to align the excise definition of a gaming machine with the Gambling Act and introduce new rates and licence categories. (p)

## PROTECTING TAX REVENUES

- Extending the disclosure regime** **A.I08** Further to the announcement in the 2005 Pre-Budget Report, a measure will be introduced, with effect from 1 July 2006, to update and extend the disclosure regime to the whole of income tax, corporation tax and capital gains tax.
- Employment-related securities** **A.I09** A measure is introduced, effective from 2 December 2004, to prevent employment-related securities options being used in avoidance schemes. (16)
- Life assurance companies** **A.I10** As announced on 29 September 2005, measures were introduced effective from that date, to prevent life assurance companies deducting payments of bonuses paid out of untaxed surplus and deferring taxation of gains from investments. (v)
- Stock lending arrangements** **A.I11** As announced in the 2005 Pre-Budget Report, a measure was introduced, with effect from 5 December 2005, to prevent companies and others from avoiding tax on interest using schemes involving stock lending arrangements. (u)
- Dividend strips** **A.I12** As announced on 20 January 2006, a measure was introduced, with effect from that date, to prevent avoidance of tax by financial institutions and share dealers through the purchase and sale of the rights to dividends on shares. (-)
- Financial products** **A.I13** A package of measures will be introduced, with effect from 22 March 2006, to prevent avoidance of tax using schemes involving financial products. (13)
- Corporate capital losses** **A.I14** As announced in the 2005 Pre-Budget Report, three targeted anti-avoidance rules were introduced, with effect from 5 December 2005, to prevent tax motivated behaviour involving the creation and use of capital losses by companies. (x)
- Intangible assets** **A.I15** As announced in the 2005 Pre-Budget Report, measures will be introduced, with effect from 5 December 2005, to prevent unintended tax relief from arising where rights in existing intangible assets are transferred between related parties. (w)
- Chargeable gains: policies of insurance etc** **A.I16** As announced in the 2005 Pre-Budget Report, with effect from 5 December 2005, a measure was introduced to counter tax avoidance schemes designed to generate capital losses on certain insurance policies (including capital redemption policies) and annuities. (y)
- Protecting charitable tax reliefs** **A.I17** A package of measures will be introduced to counter abuse of charitable reliefs. With effect from 22 March 2006 new rules will prevent donors extracting value from a charity and make it easier to restrict charitable tax reliefs where a charity has incurred non-charitable expenditure. With effect from 1 April 2006 all companies will be subject to the same limit on benefits received as a result of a gift to charity. (\*)

- Transfer of assets abroad** **A.II8** As announced in the 2005 Pre-Budget Report, loopholes were closed, with effect from 5 December 2005, in the legislation that prevents UK resident individuals avoiding income tax by transferring assets to overseas trusts and companies. (aa)
- IHT: avoidance** **A.II9** As announced in the 2005 Pre-Budget Report, a measure was introduced with effect from 5 December 2005, to counter inheritance tax avoidance that uses second-hand interests in foreign trusts and close a loophole which allows individuals to avoid paying either inheritance tax or the income tax charge on pre-owned assets. (\*)
- Controlled Foreign Company rules** **A.I20** A measure will be introduced, with effect from 22 March 2006, to bring additional treaty non-resident companies within the Controlled Foreign Companies legislation. (–)
- VAT: face value vouchers** **A.I21** A package of targeted anti-avoidance measures will be introduced, with effect from Royal Assent, to help prevent avoidance involving face value vouchers, such as phone cards. (\*)
- VAT: MTIC – reverse charge** **A.I22** A measure will be introduced to put in place a framework for a revised mechanism for accounting for VAT on certain goods to tackle Missing Trader Intra-Community (MTIC) fraud. (14)
- VAT: MTIC – enhanced powers** **A.I23** Measures will be introduced, with effect from Royal Assent, to confirm HM Revenue and Customs' right to evidence inspection of goods and allow HM Revenue and Customs to direct individual businesses to keep additional records, where these might assist in identifying tax loss through MTIC fraud. (\*)
- Supplies by finance companies** **A.I24** A measure will be introduced to close a loophole in the VAT treatment of goods sold, for the second time, by a finance company. The basis on which bad debt relief is claimed in connection with certain credit agreements will also be simplified. These measures take effect in relation to goods delivered under such agreements on or after 1 September 2006. (17)
- Film partnerships** **A.I25** As announced on 10 March 2006, with effect from that date, a measure was introduced to counter a scheme which sought to provide individuals in film partnerships with a tax advantage greater than the amount invested while avoiding any taxable income at a later date. (–)
- Film exit schemes** **A.I26** As announced on 20 December 2005, a measure was introduced, with effect from that date, to counter avoidance by individuals in partnerships where existing exits legislation is triggered without establishing a tax charge. (–)
- Tackling tobacco smuggling** **A.I27** The Government today publishes a refreshed strategy to tackle tobacco smuggling. This includes the measures announced in the 2005 Pre-Budget Report to further restrict the availability of cigarettes and hand-rolling tobacco to smugglers, and to tackle the problem of counterfeit tobacco products. (z)
- Mutual assistance** **A.I28** As announced in the 2005 Pre-Budget Report, legislation will be introduced in Finance Bill 2006 to extend current mutual assistance arrangements to cover the exchange of information on all taxes and assistance in the recovery of tax debts.
- CGT: bed and breakfasting rules** **A.I29** A measure will be introduced with effect from 22 March 2006, to counter tax avoidance schemes by preventing bed and breakfasting identification rules applying to certain disposals of securities. (15)
- SDLT: seeding relief** **A.I30** With effect from 22 March 2006 seeding relief for newly formed unit trusts will be withdrawn. (25)

## ADDITIONAL SPENDING AND DEBT MANAGEMENT DECISIONS

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**Annually Managed Expenditure** **A.I31** In line with usual practice, this Budget sets the Annually Managed Expenditure (AME) margin to £1 billion in 2006-07 and £2 billion in 2007-08.

**Police Community Support Officers** **A.I32** The Government will provide an additional £100 million to bring Police Community Support Officer recruitment to 16,000 by April 2007. This will also fund development of a new service to publish local crime and police performance data on a regulatory basis. (45)

**Direct payments to schools** **A.I33** Budget 2006 announces additional resources of £270 million in 2006-07 and £440 million in 2007-08. This will provide further resources to support personalisation in schools in England, including a total of £585 million in direct payments to headteachers over the next two years. (43)

**Further education reform** **A.I34** A package of measures will be introduced to support a programme of reform in further education, details will be set out in a forthcoming White Paper to be published on 27 March 2006. (44)

# BUDGET POLICY DECISIONS: APPENDICES

## APPENDIX AI: MEASURES ANNOUNCED IN BUDGET 2005 OR EARLIER

**AI.1** This appendix sets out a number of tax, benefit and other changes which were announced in Budget 2005 or earlier and which will take effect from April 2006 or later. The revenue effects of these measures have been taken into account in previous economic and fiscal projections.

**Table AI.1: Measures announced in Budget 2005 or earlier which take effect from April 2006 or later**

	(+ve is an Exchequer yield)			£ million
	2006-07 indexed	2007-08 indexed	2008-09 indexed	2006-07 non-indexed
<i>a</i> Child Tax Credit: uprate child element in line with earnings until 2007-08	-210	-450	-440	-510
<i>b</i> Working Tax Credit: increase childcare element to 80%	-130	-130	-130	-130
<i>c</i> Improving support to 16-19 year olds in learning	-135	-155	-220	-135
<i>d</i> Extension of paid maternity leave to 9 months	0	-385	-385	0
<i>e</i> ISAs: extension of higher investment limits until April 2010	-65	-150	-220	-65
<i>f</i> Increase lower capital limits within means tested benefits	-15	-15	-15	-15
<i>g</i> Increasing capital limits for IS/JSA from £8,000 to £16,000	-5	-5	-5	-5
<i>h</i> Social Fund reform	-5	-5	-5	-5
<i>i</i> Incapacity benefit: linking rules	-10	-20	-20	-10
<i>j</i> Pension tax simplification	-25	-70	-165	-25
<i>k</i> Abolition of hospital downrating	-65	-65	-65	-65
<i>l</i> Modernising the taxation of leasing	+65	+170	+215	+65
<i>m</i> Company car tax: reform of the diesel supplement	+55	+130	+200	+55
<b>TOTAL POLICY DECISIONS</b>	<b>-545</b>	<b>-1,150</b>	<b>-1,255</b>	<b>-845</b>

**Child Tax Credit AI.2** As announced in Budget 2005, the child element of the Child Tax Credit will increase at least in line with average earnings up to and including 2007-08. (a)

**Working Tax Credit AI.3** As announced in the 2004 Pre-Budget Report, from April 2006 the maximum proportion of childcare costs covered by the childcare element of the Working Tax Credit will be increased from 70 to 80 per cent. (b)

**Extending financial support to 16-19s in learning AI.4** As announced in Budget 2005, from April 2006 Child Benefit, Child Tax Credit and Income Support will be extended to 19-year-olds completing a course of non-advanced education or training which they started before their 19th birthday, up to a limit of age 20, and Child Benefit and Child Tax Credit will be extended to unwaged trainees on work-based learning programmes arranged by the Government. (c)

**Statutory Maternity Pay AI.5** As announced in the 2004 Pre-Budget Report, paid maternity leave will be extended from six to nine months from April 2007. (d)

**Individual Saving Accounts AI.6** As announced in the 2004 Pre-Budget Report, the Government will extend further the existing higher ISA limits of £7,000, with a maximum of £3,000 in cash, until at least April 2010. (e)

**Treatment of capital limits** **AI.7** As announced in Budget 2004 and Budget 2005, from April 2006 the threshold above which savings begin to reduce eligibility for Income Support, Jobseeker's Allowance, Housing Benefit and Council Tax Benefit will be raised from £3,000 to £6,000. (f)

**AI.8** As announced in Budget 2005, from April 2006 the upper capital thresholds for Income Support and Jobseeker's Allowance will be raised from £8,000 and £16,000. (g)

**Social Fund** **AI.9** As announced in the 2004 Pre-Budget Report, the Government will enact a package of measures to reform the Social Fund, including the abolition of the double debt rule and the lowering of the highest loan repayment rates. (h)

**Linking rules** **AI.10** As announced in Budget 2005, the incapacity benefits linking rules will be improved from October 2006 to better support claimants during the transition from benefits to work. (i)

**Pension tax simplification** **AI.11** As announced in Budget 2004 and legislated in Finance Acts 2004 and 2005, reforms will be introduced, with effect from 6 April 2006, to simplify the current pension tax regime. There will be a single universal regime for tax privileged pensions to replace the existing complex regimes. (j)

**Hospital downrating** **AI.12** As announced in Budget 2005, downrating of the basic state pension and some other benefits for those staying in hospital for more than 52 weeks will be abolished from April 2006. (k)

**Leasing** **AI.13** As announced in the 2004 Pre-Budget Report, from 1 April 2006 the taxation of leased plant and machinery will be aligned with the tax treatment of other similar forms of finance. (l)

**Company car tax** **AI.14** As announced in the 2004 Pre-Budget Report, from 6 April 2006, the waiver of the 3 per cent diesel supplement for diesel cars that meet Euro IV emissions standards will cease for cars registered on or after 1 January 2006. The Regulation introducing this change (SI 2005/2209) was laid before the House of Commons on 8 August 2005. (m)

## APPENDIX A2: EXPLAINING THE COSTINGS

**A2.1** 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, including penalties.

### Calculating the costings

**A2.2** The net Exchequer effect of a Budget measure is generally calculated as the difference between applying the pre-Budget and post-Budget tax and benefit 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. However, they do take account of other effects on behaviour where they are likely to have a significant and quantifiable effect on the cost or yield and any consequential changes in revenue from related taxes and benefits.

**A2.3** 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 spirits would include the change in the yield of VAT and other excise duties resulting from the new pattern of spending. The calculation of the expected effect of changes in duty rates on consumer demand for excise goods assumes that any change in duty is passed on in full to consumers. 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 Tables A1, A2 and A1.1.

**A2.4** The non-indexed base columns shown in Tables A1, A2 and A1.1 show the revenue effect of changes in allowances, thresholds and rates of duty including the effect of any measures 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.

**A2.5** A policy which has been previously announced but not yet implemented 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:

- income tax and national insurance allowances and thresholds, and the single person, couple, lone parent and disabled worker elements of the Working Tax Credit and the capital gains tax annual exempt amount all increase in line with the Retail Price Index (RPI) to the September prior to the Budget;
- the child element of the Child Tax Credit rises in line with the annual increase in average earnings until 2008-09;
- the inheritance tax threshold rises to £285,000 in 2006-07 and £300,000 in 2007-08;
- air passenger duty, climate change levy, aggregates levy, vehicle excise duty, fuel, tobacco and alcohol duties all rise in line with the projected annual increase in the RPI to the September following the Budget; and
- VAT thresholds and gaming duty bands rise in line with the increase in the RPI to the December prior to the Budget.

**A2.6** Implementation dates are assumed to be: Budget day for fuel and tobacco duties; 10 days after Budget day for alcohol duties; May for amusement machine licence duty; July for insurance premium tax; November for air passenger duty; and April for all other taxes, duties and tax credits.

**A2.7** The yields of measures that close tax avoidance loopholes or tackle tax fraud represent the estimated direct Exchequer effect of the measures with the existing level of activity.

**A2.8** 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

**International Accounting Standards A2.9** As announced, the Government has brought in legislation to make the tax system compatible with International Accounting Standards (IAS), and also announced its intention to bring in legislation to spread the impact of changes to the income recognition rules in UK Generally Accepted Accounting Practice (GAAP). The Government continues to work with business to manage the impact of accounting changes. Table A2.1 details the impact on the underlying profile of tax receipts and the arrangements to manage the transition for tax purposes of the following aspects:

- changes announced in July 2005, spreading over 10 years the majority of the transitional arrangements from the move to International Accounting Standards;
- the treatment of impairment losses under the new International Accounting Standards; and
- the changes in income recognition rules in UK GAAP.

**Table A2.1: Impact of the changes to accounting standards**

	(+ve is an Exchequer yield)			£ million
	2006-07 indexed	2007-08 indexed	2008-09 indexed	2006-07 non-indexed
IAS: general transition – impact on corporation tax revenues	-340	-80	+50	-340
IAS: general transition – effect of transitional arrangements	+340	+80	-50	+340
IAS: treatment of impairment losses – impact on corporation tax revenues	-680	-230	0	-680
IAS: treatment of impairment losses – effect of transitional arrangements	+610	+140	-90	+610
Income recognition rules: impact on income tax revenues	+380	+40	0	+380
Income recognition rules: effect of transitional arrangements	-240	+70	+75	-240
<b>TOTAL</b>	<b>+70</b>	<b>+20</b>	<b>-15</b>	<b>+70</b>

**Employment related securities options A2.10** This measure consists of anti-avoidance legislation utilising the retrospective powers introduced following the Paymaster General's statement of 2 December 2004. The revenues shown in Table A1 are additional to the amounts included in estimated receipts for 2005-06 from the remuneration-based avoidance measure announced in the 2004 Pre-Budget Report.

**VAT: MTIC – reverse charge A2.11** As required by the *Code for fiscal stability*<sup>3</sup> the fiscal impact from this measure is included in the public finance projections on a cautious basis to ensure all Government decisions and circumstances are included by the day the projections are finalised.

**Corporation tax A2.12** The estimated impact in 2006-07 is reduced from the 2005 Pre-Budget Report forecast due to changes in distribution practices by some companies as a result of the announcement.

**Child Trust Fund A2.13** The long-run cost of Child Trust Fund age 7 payments is expected to be £240 million a year.

**Sale of lessors A2.14** The yield is expected to increase to £225 million by 2010-11.

<sup>3</sup> *Code for fiscal stability*, HM Treasury, 1998.

- Film tax reliefs** **A2.15** The yield from the replacement of current film tax reliefs announced in the 2005 Pre-Budget Report is expect to increase to £70 million by 2009-10 and then reduce gradually to around zero by 2017-18.
- North sea oil taxation** **A2.16** The revenue yield from this measure has been revised since the 2005 Pre-Budget Report to take into account revised forecasting assumptions. In particular an estimated £0.75 billion in receipts previously expected to be recieved in 2006-07 was received in the latter part of 2005-06 as companies elected to defer relief for capital expenditure.
- VED: environmental incentives** **A2.17** The cost to the Exchequer is expected to be £10 million over six years.

## APPENDIX A3: TAX ALLOWANCES AND RELIEFS

**A3.1** This appendix provides estimates of the revenue cost of some of the main tax allowances and reliefs.

**A3.2** Tax reliefs can serve a number of purposes. In some cases they may be used to assist or encourage particular individuals, activities or products, and so may be an alternative to public expenditure. In this case they are often termed ‘tax expenditures’. There may, for example, be a choice between giving a tax relief as an allowance or deduction against tax, or by an offsetting cash payment.

**A3.3** 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. However, 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’.

**A3.4** 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.

**A3.5** 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 broadbrush 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 and must be treated with caution. 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 shown earlier in this chapter.

**A3.6** Estimation of behavioural effects is difficult. The sizes of behavioural changes will obviously depend on the measure examined and possible alternative behaviours. For example, removing the tax privileges of a form of saving may just lead people to switch to another tax-privileged form of saving.

**A3.7** The estimated costs of reliefs and allowances given in Table A3.1 are costed separately and 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.

**A3.8** The Government regularly publishes estimates of tax expenditures and reliefs. Largely because of the difficulties of estimation, the published tables are not comprehensive but do cover the major reliefs and allowances. The figures are shown on a full-year accruals basis unless otherwise specified and only reliefs with an estimated annual costs of at least £50 million are shown. The costs of minor tax reliefs can be found on the HM Revenue and Customs websites. More details on individual tax allowances and reliefs can be found in the HM Treasury publication, *Tax ready reckoner and tax reliefs*, published alongside the 2005 Pre-Budget Report.

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

	£ million	
	2004-05	2005-06
<b>TAX EXPENDITURES</b>		
<b>Income tax</b>		
Relief for:		
Approved pension schemes	12,300	13,700
Share Incentive Plan	260	320
Approved savings-related share schemes	110	130
Enterprise Management Incentives	50	60
Approved Company Share Option Plans	100	120
Personal Equity Plans	450	450
Individual Savings Accounts	1,175	1,300
Venture Capital Trusts	220	315
Enterprise Investment Scheme	170	140
Professional subscriptions	75	90
Rent a room	90	90
Exemption of:		
First £30,000 of payments on termination of employment	1,000	1,000
Interest on National Savings Certificates including index-linked certificates	120	100
Premium Bond prizes	150	170
Income of charities	890	1,020
Foreign service allowance paid to Crown servants abroad	95	85
First £8,000 of reimbursed relocation packages provided by employers	300	300
Life assurance premiums (for contracts made prior to 14 March 1984)	55	55
Tax credits:		
Child Tax Credit	3,300	3,600
Working Tax Credit	1,100	1,000
<b>Corporation tax</b>		
R&D tax credits	480	510
<b>Income tax and corporation tax</b>		
Small budget film tax relief	350	340
Large budget film tax relief	170	220
<b>National insurance contributions</b>		
Relief for:		
Share Incentive Plan	180	210
Approved savings-related share schemes	80	90
Employer contributions to approved pension schemes	6,700	7,400
<b>Capital gains tax</b>		
Exemption of gains arising on disposal of only or main residence	13,000	12,500

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

	£ million	
	2004-05	2005-06
<b>Inheritance tax</b>		
Relief for:		
Agricultural property	215	225
Business property	180	200
Exemption of transfers to charities on death	385	425
<b>Value added tax</b>		
Zero-rating of:		
Food	10,200	10,600
Construction of new dwellings (includes refunds to DIY builders)	6,400	6,550
Domestic passenger transport	2,150	2,250
International passenger transport (UK portion)	100	100
Books, newspapers and magazines	1,550	1,550
Children's clothing	1,150	1,200
Water and sewerage services	1,050	1,050
Drugs and supplies on prescription	1,300	1,350
Supplies to charities	200	200
Ships and aircraft above a certain size	600	600
Vehicles and other supplies to disabled people	400	400
Reduced rate for:		
Domestic fuel and power	2,000	2,000
Certain residential conversions and renovations	150	150
Energy-saving materials	50	50
Women's sanitary products	50	50
<b>STRUCTURAL RELIEFS</b>		
<b>Income tax</b>		
Personal allowance	36,700	38,200
<b>Corporation tax</b>		
Life companies reduced rate of corporation tax on policy holders' fraction of profit	750	950
<b>Income tax and corporation tax</b>		
Double taxation relief	8,000	8,000
<b>National insurance contributions</b>		
Contracted-out rebate occupational schemes:		
Rebates deducted at source by employers	7,200	7,400
Rebates paid by the Contributions Agency direct to the scheme	200	200
Personal and stakeholder pensions	2,400	2,200

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

	£ million	
	2004-05	2005-06
<b>Value added tax</b>		
Refunds to:		
Northern Ireland Government bodies of VAT incurred on non-business purchases under the Section 99 refund scheme	300	300
Local Authority-type bodies of VAT incurred on non-business purchases under the Section 33 refund scheme (includes national museums and galleries under the Section 33A refund scheme)	6,650	7,550
Central Government, Health Authorities and NHS Trusts of VAT incurred on contracted-out services under the Section 41(3) refund scheme	3,700	3,900
<b>RELIEFS WITH TAX EXPENDITURE AND STRUCTURAL COMPONENTS</b>		
<b>Income tax</b>		
Age-related allowances	2,200	2,300
Reduced rate for savings	170	200
Exemption of:		
British Government securities where owner not ordinarily resident in the UK	970	970
Child Benefit (including one parent benefit)	1,060	1,090
Long-term incapacity benefit	610	610
Industrial disablement benefits	50	50
Attendance allowance	100	100
Disability living allowance	320	330
War disablement benefits	90	100
War widow's pension	70	70
<b>Corporation tax</b>		
Small companies' reduced corporation tax rate	3,530	3,860
Starting rate of corporation tax	410	460
Exemption for gains on substantial shareholdings	260	260
<b>Income tax and corporation tax</b>		
Capital allowances	17,700	18,100
Of which:		
First year allowances for SMEs	370	450
Enhanced capital allowances for energy saving technology	180	170
<b>Capital gains tax</b>		
Indexation allowance and rebasing to March 1982	290	270
Taper relief	3,500	4,500
Exemption of:		
Annual exempt amount (half of the individual's exemption for trustees)	1,550	1,850
Gains accrued but unrealised at death	650	700

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

	£ million	
	2004-05	2005-06
<b>Petroleum revenue tax</b>		
Uplift on qualifying expenditure	160	70
Oil allowance	560	820
Safeguard: a protection for return on capital cost	130	40
Tariff receipts allowance	40	40
Exemption for gas sold to British Gas under pre-July 1975 contracts	60	90
<b>Inheritance tax</b>		
Nil rate band for chargeable transfers not exceeding the threshold	9,400	10,000
Exemption of transfers on death to surviving spouses	1,600	1,800
<b>Stamp duty land tax</b>		
Exemption of transfers of land and property where the consideration does not exceed the £60,000 threshold in 2004-05 and the £120,000 threshold in 2005-06 and non-residential land and property where the consideration does not exceed the £150,000 threshold	170	530
Exemption of all residential transfers in designated disadvantaged wards where the consideration exceeds £60,000 in 2004-05, £120,000 in 2005-06 but does not exceed £150,000, and exemption of all non-residential transfers in designated disadvantaged wards in 2004-05	1,000	240
Transfers to charities	60	120
Group relief	770	1,730
Transfers to registered social landlords	60	60
<b>National insurance contributions</b>		
Reduced contributions for self-employed not attributable to reduced benefit eligibility (constant cost basis)	1,700	1,900
<b>Value added tax</b>		
Exemption of:		
Rent on domestic dwellings	2,850	2,950
Supplies of commercial property	150	150
Private education	300	300
Health services	800	850
Postal services	500	500
Burial and cremation	100	100
Finance and insurance	3,650	3,900
Betting and gaming and lottery duties	1,200	1,250
Small traders below the turnover limit for VAT registration	300	300
<b>Vehicle Excise Duty</b>		
Exemption for disabled motorists	140	140