

EXPLANTORY NOTE

CLAUSE 98: RATES AND RATE BANDS FOR THE NEXT THREE YEARS

SUMMARY

1. Clause 98 provides for successive increases in the inheritance tax threshold to £275,000 in 2005/06 (rather than £272,000 given by the statutory indexation formula); £285,000 in 2006/07; and £300,000 in 2007/08. Any excess above these tax-free amounts remains chargeable to tax at 40%.

DETAILS OF THE CLAUSE

2. Subsection 1 provides for new rate tables in Schedule 1 to the Inheritance Tax Act 1984 (IHTA) for each of the three successive years commencing on 6 April 2005.
3. Subsection 2 makes clear that the statutory indexation formula at section 8 IHTA will resume (unless Parliament decides otherwise) from the year 2008/09 (by reference to any increase in the retail prices index (RPI) in the 12 months to September 2007).
4. Subsections 3, 4 and 5 specify the three new tables.
5. Subsection 6 disapplies the statutory indexation provision (referred to above) which would otherwise have applied to uprate the threshold in each of these years by reference to the RPI.

BACKGROUND NOTES

6. The inheritance tax threshold increases automatically each year by the rise in the RPI over the year to the previous September, unless

**BOARD OF INLAND REVENUE
RESOLUTIONS 50
PROCEDURE (FUTURE
TAXATION) (e)**

**FINANCE (No. 2) BILL 2005
CLAUSE 98**

Parliament decides otherwise. This clause over-rides this provision and sets the threshold for the next three years. For 2005/06 the threshold has been increased by £3,000 beyond statutory indexation, to £275,000. The threshold for the following two years will be £285,000 (2006-07) and £300,000 (2007-08) respectively.

7. The indexed level for the year 2005-06, £272,000, was announced by statutory order (The Inheritance Tax (Indexation) Order 2005 No.718) made on 16 March 2005.

EXPLANATORY NOTE

CLAUSE 99: RATE OF LANDFILL TAX

SUMMARY

1. Clause 99 increases the standard rate of landfill tax from £15 per tonne to £18 per tonne on relevant waste disposals at licensed landfill sites made, or treated as made, on or after 1 April 2005.

DETAILS OF THE CLAUSE

2. Subsection (1) substitutes “£18” for “£15” in section 42(1)(a) and (2) of the Finance Act 1996 (amount of landfill tax).

3. Subsection (2) provides for the change to take effect from 1 April 2005.

BACKGROUND

4. Landfill tax was introduced on 1 October 1996. It encourages waste producers and the waste management industry to switch to more sustainable alternatives. The tax applies to active and inactive waste, disposed of at a licensed landfill site. Active waste attracts the standard rate of tax, whilst inactive waste is subject to a lower rate of £2 per tonne.

5. This increase to the standard rate was announced in the 2002 Pre-Budget Report and confirmed in Budget 2003. That announcement stated that, following this year’s £3 per tonne increase, the standard rate of landfill tax will increase again by at least £3 per tonne in 2006-7 and the years thereafter, on the way to a level of £35 per tonne in the medium to long-term.

EXPLANATORY NOTE

CLAUSE 100: LORRY ROAD-USER CHARGE

SUMMARY

1. Clause 100 amends s137 of the Finance Act 2002 to provide that a Minister or government department may incur expenditure in connection with preparations for lorry road-user charge (including any fuel credit) and may enter into contracts in connection with lorry road-user charge (including any fuel credit).

DETAILS OF THE CLAUSE

2. Clause 100 amends s137 of the Finance Act 2002 by substituting a new subsection (7).

3. The new subsection (7)(a) provides that a Minister or government department may incur expenditure in connection with preparations for lorry road-user charge (LRUC). This includes expenditure in connection with any fuel credit to be paid in respect of fuelling of lorries which are chargeable for LRUC purposes.

4. The new subsection (7)(b) provides that a Minister or government department may enter into contracts for the development or provision of equipment, systems or services to be used in connection with LRUC (including any fuel credit).

BACKGROUND

5. A tax, called lorry road-user charge, is currently being developed by HM Customs and Excise working with the Department for Transport and HM Treasury. LRUC is scheduled to be phased in from 2007-08.

6. The paving legislation for LRUC is in section 137 of the Finance Act 2002 (as amended). This Clause clarifies that section.

7. The objective for LRUC is that all lorry road-users should contribute equally toward the costs they impose when using UK roads, regardless of their nationality. The background is set out in a series of Progress Reports *Modernising the taxation of the haulage industry 1-3*.

**CUSTOMS AND EXCISE
PROCEDURE (LORRY ROAD
USER CHARGE)
FINANCE (MONEY) (b)**

**FINANCE (No. 2) BILL 2005
CLAUSE 100**

8. The Government has already announced that there will be an offsetting tax cut by way of a fuel duty repayment scheme (which it proposes to operate by way of a fuel credit) so that LRUC will not increase the overall tax burden on that sector of the haulage industry that buys fuel in the UK.

9. A procurement exercise is currently underway for the infrastructure and systems required to deliver LRUC (including any fuel credit) and contract award is scheduled for around the end of 2005.