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BUDGET POLICY DECISIONS

A1 The Economic and Fiscal Strategy Report (EFSR) explains how the measures and other decisions announced in Budget 2005 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 that affect the Budget arithmetic, announced in Budget 2005 and since Budget 2004, including in the 2004 Pre-Budget Report, giving their estimated effect on government revenues and spending to 2007-08.¹

A2 The chapter sets out how the Budget 2005 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 (VAT), environmental taxes, and other indirect taxes.

A3 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 2004 or earlier, but which take effect from or after April 2005;
- 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

A4 Table A.1 summarises the Budget 2005 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.

¹ The contents of the brackets after each measure in this chapter refer to the line in Tables A.1 and A.2 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 2005 policy decisions

	(+ve is an Exchequer yield)			£ million
	2005-06 indexed	2006-07 indexed	2007-08 indexed	2005-06 non-indexed
MEETING THE PRODUCTIVITY CHALLENGE				
1 Tonnage tax: adjustments	*	-5	-5	*
2 VAT: revalorise registration and deregistration thresholds	0	0	0	-5
3 Film tax reform	*	-50	*	*
4 Local Enterprise Growth Initiative	-15	-65	-125	-15
5 Stamp duty land tax: ending commercial disadvantaged areas relief	+340	+350	+370	+340
6 Enterprise and creativity	0	-5	-10	0
INCREASING EMPLOYMENT OPPORTUNITY FOR ALL				
7 Housing benefit and council tax benefit: simplification	-5	-5	-5	-5
8 Incapacity benefit: linking rules	0	-10	-20	0
BUILDING A FAIRER SOCIETY				
Supporting families and communities				
9 Income tax: indexation of starting and basic rate limits	0	0	0	-700
10 Child Tax Credit: uprating child element in line with earnings until 2007-08	0	-260	-480	0
11 Stamp duty land tax: increase threshold to £120,000	-250	-240	-220	-250
12 ISAs: extension of higher investment limits until April 2010	0	-35	-100	0
13 Free local off-peak bus travel for pensioners and disabled people	0	-420	-440	0
14 Abolition of hospital downrating	0	-65	-65	0
15 Payment for the over 65s	-800	0	0	-800
16 Supporting youth volunteering	-10	-30	-80	-10
17 Increasing capital limits for IS/JSA from £8,000 to £16,000	0	-5	-5	0
Protecting tax revenues				
18 Preventing avoidance of tax on capital gains	*	+70	+105	*
19 Stamp duty land tax: avoidance	+20	+20	+15	+20
20 Financial products avoidance	+280	+430	+430	+280
21 Double tax relief: anti-avoidance rule	+130	+200	+200	+130
22 Intangible assets: closing loopholes	+15	+25	+25	+15
23 Counteracting avoidance through arbitrage	+130	+200	+200	+130
24 Red diesel: supporting the UK oils fraud strategy	+40	+70	+70	+45
25 VAT: partial exemption loopholes	+25	+30	+25	+25
26 VAT: warehousing avoidance	+20	+25	+25	+20
Duties and other tax changes				
27 Inheritance tax: increase of threshold	-20	-60	-130	-90
28 Alcohol duties: revalorise beer and wine duties and freeze other rates	-10	-10	-10	+150
29 Tobacco: revalorise rates	0	0	0	+20
30 Modernising North Sea corporation tax	+1,100	+210	+170	+1,100
31 VAT: supplies promoting the welfare of vulnerable people	-5	-5	-5	-5
32 VAT: extension of listed places of worship scheme	0	-10	-10	0
33 VAT: construction and repair of memorials by charities	-5	-5	-5	-5
PROTECTING THE ENVIRONMENT				
Environment				
34 Climate change levy: freeze	-20	-20	-20	0
35 Aggregates levy: freeze	-10	-10	-10	0
36 VAT: reduced rate on micro-CHP boilers	*	-5	-5	*

Table A1: Budget 2005 policy decisions

	(+ve is an Exchequer yield)			£ million
	2005-06 indexed	2006-07 indexed	2007-08 indexed	2005-06 non-indexed
PROTECTING THE ENVIRONMENT				
Transport				
37 VAT: revalorise fuel scale charges	0	0	0	+10
38 Fuel duties: revalorise rates from 1 September 2005	-235	0	0	+330
39 Fuel duties: narrowing the differential of road fuel gases until 2007	*	0	+5	*
40 Fuel duties: differentials for biodiesel and bioethanol until 2007	*	0	+5	*
41 Incentivising the use of biomass	0	-5	-5	0
42 Air passenger duty: freeze rates	-10	-25	-30	0
43 Changes to Vehicle Excise Duty	-40	-45	-50	+85
OTHER POLICY DECISIONS				
44 Education and skills measures	0	-300	-400	0
45 Special reserve allocation ¹	-400	0	0	-400
TOTAL POLICY DECISIONS	+265	-65	-590	+415
*negligible				
MEMO ITEMS				
Resetting of the AME margin	+1,880	+370	-260	
Direct taxes compliance package ²	0	+25	+355	

¹This is in addition to the Budget 2005 decision to allocate £340 million to the special reserve for 2004-05.

²Net of additional resources allocated to Inland Revenue.

A5 Table A.2 summarises the impact on government revenues and spending of other measures introduced since Budget 2004, including those measures announced in the 2004 Pre-Budget Report.

Table A2: Other measures announced since Budget 2004

	(+ve is an Exchequer yield)			£ million
	2005-06 indexed	2006-07 indexed	2007-08 indexed	2005-06 non-indexed
MEETING THE PRODUCTIVITY CHALLENGE				
a † National Employer Training Programme	0	-80	-160	0
b † New Deal for Skills	-10	-10	-25	-10
INCREASING EMPLOYMENT OPPORTUNITY FOR ALL				
c † Incapacity benefit: additional Pathways to Work	*	-60	-65	*
d † Increasing Working Tax Credit thresholds	-140	-140	-140	-140
BUILDING A FAIRER SOCIETY				
e † Indexation of income tax allowances	0	0	0	-830
f † Indexation of national insurance rates and limits	0	0	0	-460
g † Indexation of Working Tax Credit	0	0	0	-200
h † Social Fund reform	0	-5	-5	0
i † £50 payment for the over 70s	-250	0	0	-250
j † Indexation of the pension earnings cap	0	0	0	-5
k Improving support to 16-19 year olds in learning	0	-135	-155	0
l † Tax consequences of the Civil Partnerships Act	*	-5	-5	*
m † VAT: grant to Band Aid 20	-5	*	*	-5
n VAT: grant to the Tsunami Appeal	-5	0	0	-5
o † Modernising the taxation of leasing	0	+65	+170	0
10 year Childcare Strategy				
p † Working Tax Credit: increase childcare element to 80%	0	-130	-130	0
q † Working Tax Credit: increase childcare limits to £175/£300 per week	-30	-30	-30	-30
r † Extension of paid maternity leave to 9 months	0	0	-345	0
s † Improving childcare quality and sustainability	0	-240	-155	0
Protecting revenues				
t † Capital gains options avoidance	+50	+80	+80	+50
u † Remuneration based avoidance	+500	+500	+500	+500
v † Films: reform and avoidance	+90	+110	+120	+90
w † Life insurance companies avoidance	+40	+60	+60	+40
x † Abuse of Controlled Foreign Companies regime	+30	+50	+80	+30
y † Abuse of double tax relief	+145	+200	+200	+145
z † VAT: abuse of input tax rules	+45	+45	+50	+45
aa † Loans and financial instruments avoidance	+115	+150	+150	+115
ab Rent factoring for plant and machinery	+5	+5	+5	+5
ac Businesses financed by a related party	+5	+10	+20	+5
PROTECTING THE ENVIRONMENT				
ad † Company car tax: reform of diesel supplement	0	+40	+100	0
ae † Fuel duties: freeze of main rates	-665	-685	-710	0
af † Rebated oils: narrowing of the differential	-105	-110	-110	-110
OTHER POLICY DECISIONS				
ag † Addition to local authorities	-150	0	0	-150
TOTAL POLICY DECISIONS	-335	-315	-500	-1,170

* negligible

† Announced in the 2004 Pre-Budget Report

Note: As required by the Code for Fiscal Stability, the 2004 Pre-Budget Report economic and fiscal projections were based on and included the impact of all Government decisions and all other circumstances where the impact of these decisions and circumstances could be quantified with reasonable accuracy by the day the projections were finalised.

PERSONAL TAXES AND SPENDING MEASURES

Income Tax

Bands, rates and personal allowances **A6** As announced in the 2004 Pre-Budget Report, the income tax personal allowances for those aged 65 or over will increase in line with earnings to £7,090 for those aged 65-74, and for those aged 75 or over to £7,220. Other allowances, including the personal allowance for those aged under 65, will be increased by statutory indexation. (e)

A7 The starting and basic rate limits are increased with statutory indexation and there are no changes to the income tax rates. (9)

A8 The maximum earnings for which pension provision may be made with income tax relief is increased in line with statutory indexation. The final remuneration for calculating pension benefits from Occupational Pension Schemes will be aligned with the earnings cap with effect from 6 April 2005. (j)

Table A3: Bands of taxable income 2005-06

2004-05	£ a year	2005-06	£ a year
Starting rate 10 per cent	0 – 2,020	Starting rate 10 per cent	0 – 2,090
Basic rate ^{1,2} 22 per cent	2,021 – 31,400	Basic rate ^{1,2} 22 per cent	2,091 – 32,400
Higher rate ² 40 per cent	over 31,400	Higher rate ² 40 per cent	over 32,400

¹ 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.

² 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 2005-06

	2004-05	£ a year 2005-06	Increase
Personal allowance			
age under 65	4,745	4,895	150
age 65-74	6,830	7,090	260
age 75 and over	6,950	7,220	270
Married couple's allowance ¹			
aged less than 75 and born before 6th April 1935	5,725	5,905	180
age 75 and over	5,795	5,975	180
minimum amount ²	2,210	2,280	70
Income limit for age-related allowances	18,900	19,500	600
Blind person's allowance	1,560	1,610	50

¹ Tax relief for this allowance is restricted to 10 per cent.

² 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

A9 A one penny change in the Scottish variable rate in 2005-06 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

A10 As announced in the 2004 Pre-Budget Report, the national insurance contributions (NICs) thresholds and limits will increase in line with inflation. There will be no change in NICs rates for employers and employees, or the profit-related NICs paid by the self-employed. (f)

A11 Other NICs rates for 2005-06 will increase in line with inflation; for the self-employed the rate of Class 2 contributions will be £2.10, the special rate of Class 2 contributions for share fishermen will be £2.75, the rate of Class 3 voluntary contributions will be £7.35 and the special rate of Class 2 contributions for volunteer development workers will be £4.10. (f)

Table A5: Class I national insurance contribution rates 2005-06

Earnings ¹	Employee (primary) NICs rate ²	Employer (secondary) NICs rate ³
£ per week	per cent	per cent
Below £82 (LEL)	0	0
£82 to £94 (PT/ST)	0 ⁴	0
£94 to £630 (UEL)	11	12.8
Above £630	1	12.8

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

² The contracted-out rebate for primary contributions in 2005–06 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).

³ 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.

⁴ 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 2005–06

Profits ¹	Self employed NICs	
	Class 2 £ per week	Class 4 per cent
£ per year		
Below £4,345 (SEE)	0 ²	0
£4,345 to £4,895 (LPL)	£2.10	0
£4,895 to £32,760 (UPL)		8
Above £32,760		1

¹ The limits are defined as LPL – lower profits limit and UPL – upper profits limit.

² 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 and spending measures

- Child Tax Credit A12** As announced in the 2004 Pre-Budget Report, the child element of the Child Tax Credit will be raised to £1,690 a year. This Budget announces that the child element of the Child Tax Credit will rise at least in line with earnings in 2006-07 and 2007-08. (10).
- Working Tax Credit A13** As announced in the 2004 Pre-Budget Report, the limits on the costs of eligible childcare within the childcare element of the Working Tax Credit will rise to £175 per week for one child and £300 per week for two or more children from 6 April 2005. (q)
- A14** As announced in the 2004 Pre-Budget Report the maximum proportion of childcare costs that can be claimed within the childcare element of Working Tax Credit will increase from 70 per cent to 80 per cent from 6 April 2006. (p)
- A15** As announced in the 2004 Pre-Budget Report, the income threshold above which the Working Tax Credit is tapered will increase in line with inflation to £5,220 in 2005-06. (g) From 6 April 2005 the Government will change the way in which income from tax credits is taken into account in Housing Benefit and Council Tax Benefit. (d)
- Payment via employer A16** The Inland Revenue will be issuing targeted publicity to make employees aware of the changes to the way their Working Tax Credit is paid. Employers will be required to send one targeted letter to individual employees shortly before the phasing out begins to explain the changes. Inland Revenue will be consulting employers' representatives about the arrangements for phasing out payments via employers and will be refining the regulatory impact assessment to be published with the regulations. (-)
- VAT and child care A17** From 1 April 2005, where local authorities are under a statutory obligation to ensure adequate welfare provision, the Government will refund them all of the VAT that they incur in the provision of these services, such as childcare and Children's Centres. (*)
- Childcare vouchers A18** As announced in the 2004 Pre-Budget Report, from 6 April 2005, the £50 a week tax and national insurance contributions exemption on childcare vouchers will apply to the face value of the childcare vouchers, and associated administration costs and service charges will also be exempt from tax and NICs. (*)
- Childcare Transformation Fund A19** As announced in the 2004 Pre-Budget Report, the Government will create a Transformation Fund worth £125 million each year from April 2006 to invest in childcare provision. (s)
- Child Trust Fund A20** The Government will extend the list of qualifying investments for Child Trust Fund accounts to include all Financial Services Authority-authorised retail investment schemes. Credit Unions will be allowed to offer Child Trust Fund cash accounts in addition to Stakeholder accounts. (*)
- Individual Savings Accounts A21** Following consultation, the Government will extend further the existing higher ISA limits to April 2010. (12)
- A22** The Government will extend the list of qualifying investments for ISAs to include all Financial Services Authority-authorised retail investment schemes. (*)
- Stakeholder products A23** As announced in July 2004, following the Sandler Review of the retail savings industry, the Government will introduce a new 'Stakeholder' suite of savings and investment products in April 2005. This Budget announces £4 million to inform consumers of the Stakeholder suite in 2005-06.

- Pension lump sum** **A24** As announced in the 2004 Pre-Budget Report, with effect from 6 April 2005, pensioners choosing to defer their state pension for at least a year will be able to have their marginal rate of tax deducted from the lump sum. (*)
- Pensions tax simplification** **A25** In addition to the measures legislated for in Finance Act 2004, a further series of measures will be introduced, taking effect from 6 April 2006. These will provide additional flexibility for schemes and individuals, smooth the transition from the old to the new regime, and introduce further anti-abuse and compliance rules. (*)
- A26** These new measures will build on the transitional rule announced in the 2004 Pre-Budget Report to allow certain funeral expenses currently paid by occupational schemes to continue to be paid tax-free. As announced on 1 November 2004, a measure taking forward online service will be introduced with effect from 6 April 2006. (-)
- Pension Protection Fund** **A27** A measure will be introduced to give the Pension Protection Fund the same tax privileges and treatment as an approved or registered pension scheme with effect from 6 April 2005. (-)
- Armed Forces pensions and compensation** **A28** A measure will be introduced, effective from 6 April 2005, to ensure that recipients of benefits payable under new Armed Forces pension and compensation schemes operational from that date will be in the same tax position as those receiving pension and attributable benefits under the existing Armed Forces Pension Scheme. It will also exempt in-service injury awards paid to service personnel from tax. (*)
- Loaned computer and bicycle exemption** **A29** As announced on 21 February 2005, with effect from 6 April 2005, the rules for calculating the value of the benefit in kind that arises where an employee purchases a computer or bicycle that has previously been loaned to an employee by the employer will be simplified. (*)
- Outplacement counselling** **A30** A measure will be introduced, with effect from 6 April 2005, to extend the tax-free provision of outplacement counselling and retraining exemptions to part-time employees. (*)
- EU Mutual Assistance Directive** **A31** As announced on 2 December 2004, with effect from 1 January 2005, the UK tax authorities may send documents to a UK-resident taxpayer at the request of another EU Member State that relate to a tax liability of the taxpayer in the other Member State. (-)
- Civil Partnerships** **A32** As announced on 31 March 2004, for tax purposes civil partners will be treated the same as married couples. This will be effective from the start of the civil partnership scheme on 5 December 2005. (l)
- Thalidomide Trust** **A33** As announced on 15 July 2004, with effect from 5 August 2004, payments from the Thalidomide Trust to victims of Thalidomide are not counted as income for the purposes of calculating the victims' income tax liabilities and their entitlement to tax credits. (*)

Table A7: Child and Working Tax Credits rates and thresholds

	2005-06 £ a year
Working Tax Credit	
Basic element	1,620
Couples' and lone parent element	1,595
30 hour element	660
Disabled worker element	2,165
Severe disability element	920
50+ Return to work payment (16-29 hours)	1,110
50+ Return to work payment (30+ hours)	1,660
Childcare element of the Working Tax Credit	
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	70 per cent
Child Tax Credit	
Family element	545
Family element, baby addition	545
Child element	1,690
Disabled child element	2,285
Severely disabled child element	920
Income thresholds and withdrawal rates	
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	13,910
Income disregard	2,500

BENEFITS

Free local bus travel **A34** This Budget announces that free local area bus travel in England will be extended to all people aged 60 or over and disabled people during off peak hours with effect from April 2006. (13)

Pension Credit **A35** As announced in the 2004 Pre-Budget Report, the guarantee element of Pension Credit will increase by earnings until 2008.

Hospital downrating **A36** This Budget announces that hospital downrating of the basic state pensions will be abolished from April 2006. (14)

Helping pensioners **A37** This Budget announces additional payments to all council tax paying households with someone aged over 65 which, when combined with payments announced at the 2004 Pre-Budget Report, will mean such households receive £200, to be paid alongside the 2005 Winter Fuel Payments. (15) (i).

Extending financial support for 16 – 19s in learning **A38** Entitlement to Child Benefit, Child Tax Credit and Income Support will be extended in respect of 19 year olds completing a course of non-advanced education or training. Child Benefit and Child Tax Credit will be extended to the parents of unwaged trainees aged 16-19 on Government-arranged training programmes. Corresponding changes will be made to Income Support and, in England, to the Education Maintenance Allowance. Subject to Parliamentary approval of the Child Benefit Bill, these changes will take effect from 10 April 2006. (k)

- In-Work Credit A39** As announced in the 2004 Pre-Budget Report, there will be an extension of the £40 per week In-Work Credit for lone parents to six further pilot areas.
- Learning Allowance A40** As announced in the 2004 Pre-Budget Report, from April 2006, the Government will pilot the approach of allowing the longer-term unemployed benefit claimants to take up free, full-time training.
- Linking rules A41** This Budget announces an improvement to the incapacity benefits linking rules to better support claimants during the transition from benefits to work. (8)
- Pathways to work A42** As announced in the 2004 Pre-Budget Report, the Pathways to Work pilots will be expanded to a further 14 Jobcentre Plus districts. (c)
- Housing Benefit A43** As announced in the 2004 Pre-Budget Report, a Housing Benefit Reform Fund worth £180 million will be launched during 2006-08 to help DWP roll out flat-rate allowances and to improve the administration and structure of the Housing Benefit system.
- A44** This Budget announces that the date of claim rules for Housing Benefit and Council Tax Benefit will be aligned with other income related benefits from April 2005. From April 2006, the Government will also introduce a number of other changes in Housing and Council Tax Benefit to simplify the claiming and administration of Housing and Council Tax Benefit. (7)
- A45** From 2006, the Government intends to introduce improved IT links between Local Authorities and the Department for Work and Pensions to provide faster and more accurate processing of Housing and Council Tax Benefit.
- Social Fund reform A46** As announced in the 2004 Pre-Budget Report, reforms to the Social Fund, amounting to an increase in funding for the Social Fund of £210 million over the three years to 2008-09, will be implemented in April 2006. (h)
- Treatment of capital limits A47** From April 2006, the Government will raise the upper capital thresholds for Income Support and Jobseeker's Allowance from £8,000 to £16,000. (17)
- Paid maternity leave A48** As announced in the 2004 Pre-Budget Report, paid maternity leave will be extended to 9 months from April 2007, and there will be an increase in the flat rate of Statutory Maternity Pay, Maternity Allowance and Statutory Adoption Pay, and Statutory Paternity Pay to £106 a week from April 2005. (r)

CHARITIES AND COMMUNITIES

- Youth volunteering A49** Up to £100 million will be made available over the next three years to take forward the recommendations of the Russell Commission. (16)
- Queen Mother memorial A50** The Government will make available up to £2 million from the sale of a commemorative coin in order to create a memorial to HM Queen Elizabeth, the Queen Mother.
- Gift Aid and Admissions A51** As announced in 2004 Pre-Budget Report, the statutory exemption in relation to Gift Aid and admission charges will be changed from April 2006. (*)
- VAT and the Tsunami A52** The Government will make a special donation in 2005-06 to the Disasters Emergency Committee equivalent to the VAT collected from the fund-raising activities. (n)
- VAT and Band Aid A53** The Government will make a special donation in 2005-06 to the Band Aid Charitable Trust to cover the cost of the VAT collected on the Band Aid 20 single and Live Aid DVD. Further donations will be made to cover sales up to financial year 2009-10. (m)

- VAT and Memorials A54** An interim grant scheme to cover VAT costs incurred by charities in the construction, renovation and maintenance of memorials will be introduced whilst the Government negotiates at the European level for a permanent reduced rate. (33)
- VAT: listed places of worship A55** The Government will extend the listed places of worship scheme so that funding will be available three years to 2007-08, whilst the Government negotiates at the European level for a permanent reduced rate. (32)
- VAT: reduced rate A56** The Government will introduce a new reduced rate of VAT for certain supplies of advice or information connected with or intended to promote the welfare of elderly or disabled people, or children. (31)

TAXES ON CHARGEABLE GAINS, INHERITANCE TAX AND STAMP TAXES

- Capital gains tax A57** The capital gains tax annual exempt amount is increased in line with statutory indexation to £8,500. (-)
- Inheritance tax A58** The inheritance tax threshold will increase above statutory indexation from £263,000 to £275,000 for new tax charges arising on or after 6 April 2005. The threshold will increase again 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. (27)

Stamp taxes

- Stamp duty land tax thresholds A59** From 17 March 2005, the zero-rate threshold for stamp duty land tax will increase from £60,000 to £120,000 for residential property transactions. The zero-rate threshold for residential property transactions within the Enterprise Areas remains at £150,000. (11)
- Disadvantaged areas relief A60** With effect from 17 March 2005, the commercial stamp duty land tax disadvantaged areas relief will end. Temporary state aids clearance for this relief was granted from 2003 until the end of 2006. (5)
- Stamp duty land tax relief A61** As announced on 2 July 2004, a change to the charities relief for stamp duty land tax was introduced with effect from 22 July 2004. (*)
- Technical changes A62** A measure will be introduced, with effect from Royal Assent, to ensure that the Valuation Office Agency in Great Britain, and the Valuation and Lands Agency in Northern Ireland, have access to information on stamp duty land tax returns. (*)
- E-conveyancing A63** A further measure will be introduced, with effect from Royal Assent, to provide powers to make regulations to facilitate electronic conveyancing. (*)
- Stamp duty reserve tax A64** A measure will be introduced, with effect from Royal Assent, to extend the relief for intermediaries and for repurchases and stock lending to members of a Multilateral Trading Facility (MTF), as defined by the EU Markets in Financial Instruments Directive. (-)
- A65** In addition, a further measure will be introduced, with effect from Royal Assent, to amend the relief for demutualisation of insurance companies. (-)

BUSINESS TAXES AND SPENDING MEASURES

Tax on business profits

- Corporation tax A66** The main rate of corporation tax will be set at 30 per cent for financial year 2006-07. The small companies rate and the starting rate are unchanged at 19 per cent and zero per cent respectively for the financial year 2005-06. The non-corporate distribution rate is also unchanged at 19 per cent for the financial year 2005-06. (–)
- Leasing A67** As announced in the 2004 Pre-Budget Report, the Government will align the tax treatment of leasing with that of other forms of finance. Legislation on these proposals will be included in Finance Bill 2006. (o)
- European Company Statute A68** A package of measures will be introduced, with effect from 1 April 2005, to allow European companies based in the UK to be taxed on a similar basis to UK companies. (*)
- Parent Subsidiary Directive A69** As announced on 31 January 2005, measures were introduced to change the Parent Subsidiary Directive in relation to dividends paid on or after 1 January 2005. (*)
- International Accounting Standards A70** As announced in the 2004 Pre-Budget Report, a package of measures was introduced to address specific technical issues, to defer the impact of certain transitional adjustments and to allow UK accounting standards to be used for one additional year by certain companies used to raise funds by the securitisation of assets with effect from 1 January 2005. In addition, as announced on 14 December 2004, a measure was introduced to prevent forestalling of the transitional rules. It applies to transactions occurring on or after 14 December 2004. (*)
- A71** In addition, measures were introduced to extend the class of securitisation companies covered by the one-year deferral and to enable a new tax regime for securitisation companies to be introduced. This also applies from 1 January 2005. (*)
- Lloyd's regulations A72** Legislation will be introduced in Finance Bill 2005 amending the powers for making regulations relating to the taxation of Lloyd's underwriters with effect from Royal Assent. (–)
- Deemed transfers of assets by companies A73** A measure will be introduced in Finance Bill 2005, with effect from 16 March 2005, covering deemed transfers of assets between group members prior to disposal where the transferee is not UK-resident but trades in the UK through a permanent establishment. (–)
- Tonnage tax A74** A package of measures will be introduced giving companies a new opportunity to elect in to tonnage tax and to extend activities which qualify under the scheme. Changes will be made to bring the scheme into line with revised EU guidelines on state aid for maritime transport. (1)
- North Sea taxation A75** For companies operating within the North Sea ring fence, the instalment payment arrangements for North Sea corporation tax will be amended for accounting periods ending after 30 June 2005. (30)
- Authorised Investment Funds A76** Measures will be introduced to change the taxation of AIFs, which will include powers to make further changes in regulations designed to facilitate a more flexible approach to investment strategies. Legislation will be included in Finance Bill 2005. (*)

Shari'a compliant financial products **A77** Legislation will be included in Finance Bill 2005 to amend the tax rules so that the mark-up on a Murabaha transaction and the profit-share on a Mudaraba arrangement are taxed on a level playing field with equivalent banking products. Stamp duty land tax reliefs for Islamic house purchase schemes will be extended to include a new Shari'a compliant product. (–)

VAT: small businesses **A78** From 1 April 2005, the VAT registration threshold will increase from £58,000 to £60,000, and the deregistration threshold from £56,000 to £58,000. (2)

Incentives for businesses and employees

National Employer Training Programme **A79** As announced in the 2004 Pre-Budget Report, the Government will roll out a National Employer Training Programme from 2006-07 that will cover the whole country by 2007-08. (a)

Education exemption **A80** A measure will be introduced, with effect from 1 September 2005, simplifying the rules which will allow employers to make scholarship payments of up to £15,000 tax and NICs free in an academic year to an employee for periods of attendance on a full time educational course at a University or technical college. (*)

New Deal for Skills **A81** As announced in the 2004 Pre-Budget Report, from April 2005 'skills coaches' will be piloted in eight Jobcentre Plus districts. (b)

University spin-offs **A82** As announced in the 2004 Pre-Budget Report, legislation will be introduced to remove the tax uncertainty for researchers involved in university spin-off companies with effect from 2 December 2004. (*)

Higher education finance **A83** As announced in the 2004 Pre-Budget Report, the Government will trial a three year matched funding scheme to support the Higher Education sector to build its capacity to increase the voluntary giving it receives. (44)

Film tax relief **A84** The current tax relief for low budget films, which is due to expire on 1 July 2005, will be extended to 31 March 2006 or a later appointed date. (3) The current tax relief for large budget films will be replaced with a new relief with a similar structure to that previously announced to replace the current relief for low budget films.

Energy Act consequentials **A85** Measures will be introduced consequential to changes in the Energy Act 2004 and the Health Protection Agency Act 2004, to remove exemptions, with effect from 1 April 2005 for the United Kingdom Atomic Energy Authority and after 1 April 2005 for the National Radiological Protection Board. (*)

Northern Ireland Water Service **A86** A measure will be introduced, with effect from Royal Assent to provide the powers to make tax provisions in Treasury regulations in relation to the Northern Ireland Water Service. This will allow the appropriate tax provisions to be made to deal with the consequences of the reorganisation of the Northern Ireland Water Service. (*)

ENVIRONMENTAL AND TRANSPORT TAXES

Aggregates levy **A87** The rate of aggregates levy is frozen at £1.60 per tonne in Budget 2005. (35)

Climate change levy **A88** The rates of the climate change levy for 2005-06 are frozen. (34)

- Household energy efficiency** **A89** The Landlord's Energy Saving Allowance (LESA) will be extended to cover solid wall insulation with effect from 7 April 2005. (*)
- VAT: reduced rates** **A90** A reduced rate of VAT of 5 per cent will apply to air source heat pumps (*); and micro combined heat and power (micro-CHP) boilers with effect from 6 April 2005. (36).
- VAT: car fuel scale charges** **A91** From 1 May 2005, the VAT fuel scale charges, which provide a simplified method for taxing the private use of road fuel bought by VAT registered businesses, will be adjusted in line with the average price of fuel. The Government also intends, subject to European Commission approval and informal discussions with business, to reform the charge to a CO₂ basis. (37)
- Fuel duties** **A92** The Government today announces an RPI-based increase in duty rates of 1.22 pence per litre for main road fuels. Due to the sustained volatility in the oil market, the changes in rates will be deferred to 1 September 2005. (38)
- Road fuel gases** **A93** The Government today announces, with effect from 1 September 2005, a narrowing of the duty differential for liquefied petroleum gas by one penny in 2005-06, and again in 2006-07 and 2007-08. The duty differential between natural gas and main road fuels will remain the same for the next three years. (39)
- Biofuels** **A94** The 20 pence duty differential for biodiesel and bioethanol will be guaranteed until at least 2007-08. (40)
- A95** Government will undertake a pilot project to examine the potential for encouraging the use of biomass in conventional fuel production. (41)
- Rebated oils** **A96** To support the UK oils fraud strategy, the Government today announces an increase in duty for rebated oils of 1.22 pence per litre. This increase will also be applied to heavy fuel oil, reflecting the polluting nature of the fuel, and will take effect from 1 September 2005. (24)
- Company car tax** **A97** The Government today announces that the threshold for the minimum percentage charge rate will remain frozen at 140g per kilometre for 2007-08. (-)
- A98** The discount system for bi-fuel and hybrid electric cars will be simplified to replace the existing provisions with a 1 per cent increase in the basic percentage discounts. These changes will take effect from 6 April 2006. (*)
- Company car tax – diesel supplement** **A99** 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. (ad)
- Company car fuel** **AI00** The company car fuel calculation figure will be frozen at £14,400 in 2005-06. (-)
- Air passenger duty** **AI01** The Government today announces a freeze on air passenger duty (APD) rates. (42)
- Vehicle excise duty** **AI02** VED rates will be frozen for the four least polluting carbon dioxide bands and increased by £5 for the two most polluting bands, as well as for private and light goods vehicles of over 1549cc registered before 1 March 2001. Changes take effect for licences commencing 1 April 2005. (43)

Table A8a: VED bands and rates for private vehicles registered on or after 1 March 2001 (graduated VED)

VED band	CO ₂ emissions (g/km)	Cars using alternative fuels	VED rate (£)	
			Petrol car	Diesel car
A	100 and below	55	65	75
B	101 to 120	65	75	85
C	121 to 150	95	105	115
D	151 to 165	115	125	135
E	166 to 185	140	150	160
F	186 and above	160	165	170

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	170

OTHER INDIRECT TAXES AND DUTIES

Tobacco duties AI03 From 6pm on Budget Day 2005, tobacco duty rates will rise in line with inflation to maintain the real price of tobacco. (29)

Table A9: Changes to tobacco duties

	Effect of tax ¹ on typical item (increase in pence)	Unit
Cigarettes	7	packet of 20
Cigars	3	packet of 5
Hand-rolling tobacco	8	25g
Pipe tobacco	5	25g

¹ Tax refers to duty plus VAT.

Alcohol duties AI04 Excise duty rates on cider and sparkling wine are frozen, while the rates on beer and wine are increased in line with inflation from midnight on 20 March 2005. As announced in Budget 2004, excise duty rates on spirits are frozen. (28)

Table A10: Changes to alcohol duties

	Effect of tax ¹ 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

¹ Tax refers to duty plus VAT.

Betting and gaming duties **AI05** Gaming duty bandings will rise in line with inflation for accounting periods starting on or after 1 April 2005. (–)

AI06 Amusement machine licence fees are frozen at their current levels in Budget 2005. (*)

PROTECTING TAX REVENUES

Tackling avoidance schemes **AI07** A measure will be introduced, with effect from 1 July 2005, requiring promoters or users to disclose the details of certain schemes and arrangements involving stamp duty land tax on commercial property that might be expected to give a tax advantage.

AI08 Following Royal Assent, two additions will be made to the list of VAT avoidance schemes that must be notified to Customs and Excise by businesses with an annual turnover over £600,000. Following Royal Assent, an addition will also be made to the hallmarks used to identify those VAT avoidance schemes that must be notified by businesses with annual turnover exceeding £10 million. A new rule will also be added to ensure that obtaining a tax advantage includes reducing irrecoverable VAT.

Avoidance through arbitrage **AI09** A measure will be introduced, with effect from 16 March 2005, to counter the exploitation by companies of differences within and between tax codes in order to obtain a UK tax advantage. (23)

Double taxation relief **AI10** Measures will be introduced, with effect from 16 March 2005, to allow the Inland Revenue to cancel the effect of tax avoidance schemes that produce excessive DTR claims and to take action against known DTR avoidance schemes. In addition, as announced on 10 February 2005 measures were introduced to counter the acquisition of foreign tax credits for tax avoidance purposes with effect from that date. (21)

AI11 As announced in the 2004 Pre-Budget Report, existing DTR rules for trade receipts will be reinforced with effect from 16 March 2005. Targeted action against specific avoidance schemes involving DTR was introduced with effect from 2 December 2004. (y)

Controlled Foreign Company rules **AI12** As announced in the 2004 Pre-Budget Report, with effect from 2 December 2004, a package of measures was introduced to stop a number of avoidance schemes that allowed the artificial diversion of profits from the UK. In addition one of the exemption rules has been strengthened to prevent its use in avoidance schemes and will take effect from 31 March 2005. (x)

Employment related securities **AI13** As announced in the 2004 Pre-Budget Report, with effect from 2 December 2004, legislation will be introduced to tackle avoidance schemes using employment-related securities disclosed to the Inland Revenue under the new avoidance disclosure rules. (u)

Businesses financed by a related party **AI14** As announced on 4 March 2005, changes to transfer pricing and loan relationship rules will be included in Finance Bill 2005, to prevent businesses from avoiding tax by restructuring their finances. The changes will have effect from 4 March 2005. (ac)

Capital gains **AI15** As announced in the 2004 Pre-Budget Report, a measure was introduced, with effect from 2 December 2004, to counter certain avoidance schemes involving options to acquire or dispose of assets where options are exercised at uncommercial prices to avoid tax on chargeable gains or to create or augment losses. (t)

AI16 Measures will be introduced, with effect from 16 March 2005, to counter avoidance of tax on capital gains. The measures ensure that the interaction between residence rules and double taxation agreements cannot be exploited to avoid UK tax on capital gains. With effect from 16 March 2005, the range of assets which are treated as located in the UK for the purposes of tax on capital gains is being expanded. (18)

- Partnerships: restrictions on loss relief** **AI17** On 26 March 2004, measures were announced with effect from that date to prevent certain partners in a film partnership from claiming loss relief against other income and gains. (–)
- Financial product avoidance** **AI18** A package of measures will be introduced, with effect from 16 March 2005, to prevent a variety of income, corporation and capital gains taxation avoidance. The measures prevent avoidance by companies and individuals using financial product based schemes and build on announcements made in the 2004 Pre-Budget Report and on 10 February 2005. (20) (aa)
- Rent factoring** **AI19** As announced on 2 July 2004, a measure was introduced with effect from that date to counter avoidance whereby businesses could sell rental streams from leases of plant or machinery for a sum that was not brought into charge as income. (ab)
- Life companies** **AI20** As announced in the 2004 Pre-Budget Report, measures were introduced to prevent tax avoidance in connection with transfers of business between life insurance companies with effect from 2 December 2004. (–)
- AI21** As announced in the 2004 Pre-Budget Report, measures were introduced to enable the apportionment rules governing the distribution of income and gains between the various categories of life assurance business to be improved. Additional measures reflecting changes to the regulatory accounting rules for life insurance companies will also be introduced, effective for accounting periods starting on or after 1 January 2005. (w)
- Intangible fixed assets** **AI22** A package of measures will be introduced, with effect from 16 March 2005, to ensure intangible fixed assets transferred between related parties do not benefit from unintended tax relief. (22)
- Stamp duty land tax** **AI23** A package of measure will be introduced, with effect from 17 March 2005, to counter avoidance of stamp duty land tax, including measures to ensure that group relief rules work as intended. (19)
- Film and partnership tax relief** **AI24** As announced in the 2004 Pre-Budget Report, with effect from 2 December 2004, a package of measures was introduced to end the abuse of tax reliefs for UK film production and of trading loss relief for partners in a partnership. (v)
- Gifts of shares and securities to charities** **AI25** As announced on 2 July 2004, with effect from that date, a measure was introduced to prevent individuals from obtaining income tax relief on an amount in excess of the benefit received by a charity from the donation of shares and securities. (*)
- VAT: Customs' warehouses** **AI26** Following Royal Assent, legislation will enable HM Customs and Excise to make regulations requiring certain types of supplies of goods in Customs' warehouses to be taxed according to the normal domestic VAT rules to ensure the correct amount of VAT is accounted for. (26)
- VAT: partial exemption** **AI27** With effect from 1 April 2005, changes will be introduced to address weaknesses in partial exemption methods and ensure the amount of VAT on the costs that businesses can recover is fair. (25)
- VAT: unjust enrichment** **AI28** From 23 March 2005, the use of unjust enrichment defence by HM Customs and Excise will be extended to cover all claims by businesses for refunds of overcharged and over accounted for VAT, irrespective of whether they are in a payment or repayment position on individual VAT returns. (*)
- VAT: value of supplies** **AI29** From 17 March 2005, a special valuation provision will ensure that the value of supplies of natural gas and electricity from an overseas supplier, in cases where the customer is liable to account for the VAT, is derived from the full consideration payable to the supplier. (*)

VAT: financial and insurance supplies **AI30** As announced in the 2004 Pre-Budget Report, since 3 December 2004 businesses that incur VAT on costs used to make a supply of shares (or other incidental financial supply) are required to apportion the VAT based on the use to which the costs are put. (z)

AI31 As announced in the 2004 Pre-Budget Report, legislation has been put in place to stop unregistered non-EU businesses reclaiming UK VAT incurred since 3 December 2004 in the course of making exempt financial and insurance supplies to customers outside the EU. (*)

ADDITIONAL SPENDING AND DEBT MANAGEMENT DECISIONS

Local Authorities **AI32** As announced in the 2004 Pre-Budget Report, direct grant to local government will be increased by more than £600 million above the grant set for 2005-06 in the 2002 Spending Review settlement. To fund this increase, Departments have reallocated £512 million of existing funding from central programmes to local authorities. An additional £150 million in new funding has also been allocated to local government.

Local Enterprise Growth Initiative **AI33** The Government will introduce a Local Enterprise Growth Initiative (LEGI), worth £50 million in 2006-07, rising to £150 million per year in 2008-09 (subject to confirmation in the 2006 Spending Review). (4)

AI34 In addition, Enterprise Areas will be supported by £5 million over three years for the new Entrepreneur Scholarship and £5 million over three years for long-term support for business incubation. (*)

NS&I Ombudsman **AI35** National Savings and Investments (NS&I) will join the jurisdiction of the Financial Ombudsman Service. The post of the Parliamentary Adjudicator, responsible for NS&I's previously separate arbitration system, will be abolished. New complaints will be handled by the Financial Ombudsman Service from the first calendar day of the second month after Royal Assent. (-)

Annually Managed Expenditure **AI36** In line with usual practice, this Budget sets the Annually Managed Expenditure (AME) margin to £1 billion in 2005-06, £2 billion in 2006-07 and £3 billion in 2007-08.

Special reserve **AI37** In the 2004 Pre-Budget Report, the Government added £520 million to the special reserve for 2004-05. In this Budget, the Government provides a further £340 million for the special reserve in 2004-05 and £400 million for the special reserve in 2005-06, reflecting the continuing costs of the military conflict in Iraq and its other international obligations. (45)

Departmental Expenditure Limits **AI38** This Budget allocates an addition to the Department for Education and Skills from within total Departmental Expenditure Limits for a package of education and skills measures as described in the EFSR. (44)

AI39 An addition will be made to Inland Revenue DEL between 2005-06 and 2007-08 to implement measures announced in this Budget to improve direct tax and NICs compliance.

AI40 From April 2006, the Arts Council England will have increased capacity for programmes related to management and leadership within the cultural sector. (6)

BUDGET POLICY DECISIONS: APPENDICES

APPENDIX AI: MEASURES ANNOUNCED IN BUDGET 2004 OR EARLIER

AI41 This appendix sets out a number of tax, benefit and other changes which were announced in Budget 2004 or earlier and which will take effect from April 2005 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 2004 or earlier which take effect from April 2005 or later

	(+ve is an Exchequer yield)			£ million
	2005-06 indexed	2006-07 indexed	2007-08 indexed	2005-06 non-indexed
<i>a</i> Business premises renovation allowance	-10	-35	-30	-10
<i>b</i> Local Authority Business Growth Incentives	-240	-320	-375	-240
<i>c</i> Housing Benefit: private sector second round pathfinders	-15	-15	-15	-15
<i>d</i> Housing Benefit: align rules with those of tax credits	-35	-35	-35	-35
<i>e</i> Bringing medium term stakeholder products into ISAs	-20	-40	-50	-20
<i>f</i> Pension tax simplification	0	-25	-70	0
<i>g</i> Employer supported childcare	-20	-25	-40	-20
<i>h</i> Modernising trusts	0	-5	-5	0
<i>i</i> Reform of the Construction Industry Scheme	+40	+80	+110	+40
<i>j</i> Tackling alcohol fraud	+10	+30	+85	+10
<i>k</i> Pre-owned assets	+50	+50	+50	+50
<i>l</i> Increase capital limits within means tested benefits	0	-15	-15	0
<i>m</i> State pension: deferral, lump sum and increments	-10	-25	-60	-10
<i>n</i> E-filing incentives for payroll	-200	-275	-200	-200
<i>o</i> Company vans: reform	-30	-30	*	-30
<i>p</i> Changes to Climate Change Agreement criteria	-25	-25	-25	-25
<i>q</i> Aggregates levy: extension of Northern Ireland credit scheme	-20	-25	-30	-20
<i>r</i> Company car tax: emissions level for minimum charge	+80	+70	+60	+80
<i>s</i> Landfill tax: £3 increases from 2005-06	+125	+245	+360	+125
<i>t</i> Enhanced Capital Allowances for energy saving technologies	-10	-20	-20	-10
TOTAL POLICY DECISIONS	-330	-440	-305	-330

*Negligible.

Individual Savings Accounts AI42 As announced in the 2003 Pre-Budget Report, from 6 April 2005, Stakeholder medium-term investment products and existing life insurance products will be available through stocks and shares Individual Savings Accounts (ISAs). (*e*)

Employer-supported childcare AI43 As announced in the 2003 Pre-Budget Report, from 6 April 2005 employer-contracted childcare and employer-provided childcare vouchers up to £50 a week will be exempt from tax and national insurance. (*g*)

Pensions AI44 As announced in Budget 2004, a package of measures will be introduced, with effect from 6 April 2006, to simplify radically the current pension tax regime. The existing eight regimes will be replaced with a single universal regime for all tax privileged pension savings. (*f*)

- AI45** As announced in the 2003 Pre-Budget Report, those choosing to defer their state pension for at least one year from April 2005 will be able to take a taxable lump sum. (*m*)
- Housing Benefit AI46** As announced in Budget 2004, a second set of Local Housing Allowance Pathfinders will be introduced in the private rented sector from 2005. (*c*)
- AI47** As announced in Budget 2004, a package of measures will be introduced, taking effect from April 2005, to simplify the rules surrounding entitlement and take-up of Housing Benefit, and how the rules align with those for other support, such as tax credits and Pension Credit. (*d*)
- Capital limits AI48** As announced in Budget 2004, 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. (*l*)
- Company vans AI49** From 6 April 2005, the benefit an employee derives from private use of a company van will be revised. There will be a nil charge for vans where the van has to be taken home, but otherwise no private use is allowed. Transitionally, the current rates will remain until 2007 when there will be a single scale charge of £3,000 and an additional charge of £500 for fuel provided for private use. (*o*)
- Business premises renovation allowance AI50** As announced in the 2003 Pre-Budget Report, the Government will introduce, subject to state aid approval, a business premises renovation allowance scheme in 2005, providing 100 per cent capital allowances for the costs of renovating business properties in Enterprise Areas that have been vacant for at least a year. (*a*)
- Payroll services AI51** As announced in Budget 2002, incentives for small employers to switch to electronic filing will be introduced. (*n*)
- Scientific Research Organisations AI52** As announced in Budget 2004 the tax exemption for scientific research organisations will be updated, to bring it into line with the definition of research and development used in the rest of the tax system and to transfer the responsibility for their regulation from the DTI to the Inland Revenue. These changes will be included in Finance Bill 2005. (*)
- Local Authority Business Growth Incentives AI53** As announced in the 2003 Pre-Budget Report, a Local Authority Business Growth Incentives Scheme will be introduced from April 2005 to allow local authorities to retain a proportion of growth in local National Non-Domestic Rates revenues. (*b*)
- Construction Industry Scheme AI54** As announced in Budget 2004, the Government will introduce a revised Construction Industry Scheme from April 2006. It will replace the present cards, certificates and vouchers with an Inland Revenue verification service and monthly returns. (*i*)
- Climate change agreements AI55** Budget 2004 announced new eligibility criteria to widen the entitlement to relief from the climate change levy through climate change agreements, to be introduced once EU state aids approval is obtained. (*p*)
- Northern Ireland relief scheme AI56** Budget 2004 announced that the Northern Ireland relief scheme will be extended for businesses prepared to sign agreements committing them to make environmental improvements to the way they operate. (*q*)
- Company car tax AI57** The level of carbon dioxide emissions qualifying for the minimum company car tax petrol percentage (15 per cent) will reduce from 6 April 2005 by 5 grams per kilometre from 145 grams per kilometre to 140 grams per kilometre for 2005-06 and 2006-07. (*r*)
- Landfill tax AI58** As announced in the 2002 Pre-Budget Report, the standard rate of landfill tax will increase from £15 to £18 per tonne in 2005-06. (*s*)

- Energy saving technologies** **AI59** As announced in Budget 2004, the designated energy-saving and water-efficient technologies qualifying for 100 per cent enhanced first-year capital allowances (ECA) will be expanded. (*t*)
- Tackling alcohol fraud** **AI60** As announced in Budget 2004, legislation will be implemented early in 2006-07 which requires producer of spirits to apply a UK paid tax duty stamp to certain of their products. (*j*)
- Modernising the taxation of trusts** **AI61** As announced at Budget 2004, a special regime for certain trusts with vulnerable beneficiaries (backdated to 6 April 2004) will be introduced together with a standard rate band (with effect from 6 April 2005) for all trusts that pay tax at the rate applicable to trusts. (*h*)
- AI62** As announced in the 2003 Pre-Budget Report, a measure will have effect from 6 April 2005, to charge income tax on people who benefit from free or low-cost enjoyment of assets they formerly owned. (*k*)

APPENDIX A2: EXPLAINING THE COSTING

AI63 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

AI64 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 yield and any consequential changes in revenue from related taxes and benefits. 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.

AI65 The non-indexed base columns 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.

AI66 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, each year:

- income tax and NIC allowances and thresholds and the single person, couple, lone parent and disabled worker elements of the Working Tax Credit 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 2007-08;
- air passenger duty, climate change levy, aggregates levy, vehicle excise duty and 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.

AI67 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.

AI68 The yields of measures that close tax avoidance loopholes represent the estimated direct Exchequer effect of the measures with the existing level of activity.

AI69 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 receipt 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

Company car tax AI70 The yield from the reform of the diesel supplement is expected to increase to £170 million by 2009-10.

Leasing AI71 The yield is expected to increase to £225 million by 2009-10.

Individual Savings Accounts AI72 The cost is expected to increase to £280 million by 2009-10.

APPENDIX A3: TAX ALLOWANCES AND RELIEFS

AI73 This appendix provides estimates of the revenue cost of some of the main tax allowances and reliefs.

AI74 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 tax relief as an allowance or deduction against tax, or by an offsetting cash payment.

AI75 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'.

A176 The loss of revenue associated with tax reliefs and allowances cannot be directly observed, and estimates have to be made. This involves calculating the amount of tax that individuals or firms would have had to pay if there were no exemptions or deductions for certain categories of income or expenditure, and comparing it with the actual amount of tax due. The Government regularly publishes estimates of tax expenditures and reliefs. Largely because of the difficulties of estimation, the published tables are not comprehensive but do cover the major reliefs and allowances.

A177 The estimates in Table A3.1 below show the total cost of each relief. The classification of reliefs as tax expenditures, structural reliefs and those elements combining both is broad-brush and the distinction between the expenditures and structural reliefs is not always straightforward. In many cases the estimated costs are extremely tentative and based on simplifying assumptions. The figures make no allowance for the fact that changes in tax reliefs may cause people to change their behaviour. This means that figures in Table A3.1 are not directly comparable with those of the main Budget measures.

A178 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.

A179 Table A3.1 also gives details relating to VAT. It shows the estimated yield forgone by not applying the standard rate of VAT (17.5 per cent) to goods and services which are currently zero-rated, reduced-rated, exempt or outside the scope of VAT. Estimates of the scale of structural reliefs for local authorities and equivalent bodies are also shown. Again, the figures are estimates and must be treated with caution - in line with the other taxes, they make no allowance for changes in behaviour.

A180 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.

A181 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 2004 Pre-Budget Report.

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

	£ million	
	2003-04	2004-05
TAX EXPENDITURES		
Income tax		
Relief for:		
Approved pension schemes	11,400	12,900
Share Incentive Plan	160	180
Approved savings-related share option schemes	140	160
Enterprise Management Incentives	50	60
Personal Equity Plans	625	425
Individual Savings Accounts	1,000	1,200
Venture Capital Trusts	30	130
Enterprise Investment Scheme	180	180
Professional subscriptions	70	70
Rent a room	90	90
Exemption of:		
First £30,000 of payments on termination of employment	800	800
Interest of National Savings Certificates including index-linked certificates	120	120
Tax Exempt Special Savings Account interest	50	0
Premium Bond prizes	100	150
Income of charities	950	950
Foreign service allowance paid to Crown servants abroad	90	100
First £8,000 of reimbursed relocation packages provided by employers	300	300
Tax credits:		
Life assurance premiums (for contracts made prior to 14 March 1984)	80	55
Child Tax Credit	2,800	3,000
Working Tax Credit	1,200	1,100
Income tax and corporation tax		
Film tax relief	140	70
Corporation tax		
R&D Tax Credits	430	450
National insurance contributions		
Relief for:		
Share Incentive Plan	110	120
Approved savings-related share option schemes	110	120
Employer contributions to approved pension schemes	5,800	6,600
Capital gains tax		
Exemption of gains arising on disposal of only or main residence	10,500	13,000

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

	£ million	
	2003-04	2004-05
Inheritance tax		
Relief for:		
Agricultural property	190	200
Business property	170	180
Exemption of transfers to charities on death	340	390
Value added tax		
Zero-rating of:		
Food	10,050	10,450
Construction of new dwellings (includes refunds to DIY builders)	6,300	6,700
Domestic passenger transport	2,000	2,100
International passenger transport (UK portion)	150	150
Books, newspapers and magazines	1,650	1,650
Children's clothing	1,150	1,200
Water and sewerage services	1,000	1,000
Drugs and supplies on prescription	1,100	1,150
Supplies to charities	200	200
Ships and aircraft above a certain size	450	500
Vehicles and other supplies to disabled people	400	400
Reduced rate for:		
Domestic fuel and power	1,800	1,800
Certain residential conversions and renovations	150	150
Energy saving materials	50	50
Women's sanitary products	50	50
STRUCTURAL RELIEFS		
Income tax		
Personal allowance	36,500	38,000
Income tax and corporation tax		
Double taxation relief	7,000	7,000
Corporation tax		
Life companies reduced rate of corporation tax on policy holders' fraction of profit	550	750
National insurance contributions		
Contracted-out rebate occupational schemes:		
Rebates deducted at source by employers	6,900	7,200
Rebates paid by the Contributions Agency direct to the scheme	300	300
Personal pensions	3,400	3,500

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

	£ million	
	2003-04	2004-05
Value added tax		
Refunds to:		
Northern Ireland Government bodies of VAT incurred on non-business purchases under the Section 99 refund scheme	250	300
Local Authority-type bodies of VAT incurred on non-business purchases under the section 33 refund scheme (includes national museums and galleries under section 33a refund scheme)	6,000	6,650
Central Government, Health Authorities and NHS Trusts of VAT incurred on contracted-out services under the Section 41 (3) refund scheme	3,650	3,650
RELIEFS WITH TAX EXPENDITURE AND STRUCTURAL COMPONENTS		
Income tax		
Age-related allowances	2,000	2,100
Exemption of:		
British Government securities where owner not ordinarily resident in the United Kingdom	850	850
Child Benefit (including one parent benefit)	1,030	1,070
Long-term incapacity benefit	250	260
Industrial disablement benefits	60	60
Attendance allowance	80	80
Disability living allowance	300	310
War disablement benefits	90	90
War widows' pensions	70	70
Corporation tax		
Small companies' reduced rate corporation rate	2,300	2,500
Starting rate of corporation tax	350	240
Exemption of gains on substantial shareholdings	260	260
Income tax and corporation tax		
Capital allowances	17,920	18,610
Of which:		
First year allowances for SMEs	350	370
First year allowances for small enterprises for information and communication technology	160	0
Enhanced capital allowances for energy saving technology	180	180
Accelerated capital allowances for Enterprise Zones	370	190
Capital gains tax		
Indexation allowance and rebasing to March 1982	330	320
Taper relief	2,750	3,750
Exemption of:		
Annual exempt amount (half of the individual's exemption for trustees)	1,050	1,400
Gains accrued but unrealised at death	600	650

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

	£ million	
	2003-04	2004-05
Petroleum revenue tax		
Uplift of qualifying expenditure	180	130
Oil allowance	530	510
Safeguard: a protection for return on capital cost	220	120
Tariff receipts allowance	30	30
Exemption for gas sold to British Gas under pre-July 1975 contracts	80	100
Inheritance tax		
Nil rate band for chargeable transfers not exceeding the threshold	8,700	9,400
Exemption of transfers on death to surviving spouses	1,400	1,600
Stamp duty land tax		
Exemption of transfers of land and property where the consideration does not exceed the £60,000 threshold and from December 2003 non-residential land and property where the consideration does not exceed £150,000	140	160
Exemption of residential transfers in designated disadvantaged wards where the consideration exceeds £60,000 but does not exceed £150,000 and exemption of all non-residential transfers	530	1,000
Transfers to charities	40	70
Transfers between associated companies	610	700
Transfers to registered social landlords	160	70
National insurance contributions		
Reduced contributions for self-employed not attributable to reduced benefit eligibility (constant cost basis)	1,600	1,900
Value added tax		
Exemption of:		
Rent on domestic dwellings	2,550	2,700
Rent on commercial properties	100	100
Private education	250	250
Health services	700	750
Postal services	400	400
Burial and cremation	100	100
Finance and insurance	2,400	2,550
Betting, gaming and lottery duties	1,150	1,200
Small traders	450	450
Vehicle Excise Duty		
Exemption for disabled motorists	140	140
Exemption for classic cars	50	50

