

Budget 2005

PN 1

16 March 2005

Investing for our future: Fairness and opportunity for Britain's hard-working families

The Chancellor of the Exchequer, Gordon Brown, today set out measures to deliver the Government's objective of building a strong economy and fair society, where there is opportunity and security for all.

Over the past four years, while many industrialised countries have suffered economic downturns, including the US and much of the euro area, the UK has continued to grow every quarter – now with 50 quarters of unbroken economic growth, the longest period since records began – with unemployment at record lows and low and stable inflation and interest rates.

This economic stability provides the platform for building prosperity, advancing enterprise and productivity and achieving social justice with security and opportunity for all.

In the face of the challenges and opportunities of the rapidly evolving global economy, the Government is committed to taking the long-term decisions to invest in the UK's future. In particular, high levels of education and skills will allow the UK to harness technological improvements and become more productive, and are key to the Government's ambition of creating a flexible, enterprising and innovative economy.

Today's Budget:

- shows that the economy is growing strongly and that the Government is meeting its strict fiscal rules for the public finances;
- announces a long-term programme of investment to deliver twenty-first century facilities in primary schools, along with further support for ICT in schools and funding to help schools deliver extended services;
- sets out further measures to help young people develop skills, including improving financial support for 16 to 19 year olds in learning; and piloting a new allowance for 16 to 17 year olds not in education, employment and training;

- sets out radical reforms to reduce the regulatory burden on business, through implementing the recommendations of the Hampton Review of regulatory inspection and enforcement, the recommendations of the Better Regulation Taskforce report on controlling the stock and flow of regulations, and applying the principles of better regulation in Europe;
- announces free local bus travel for people over the age of 60 and disabled people from April 2006, and an additional payment guaranteeing that council tax paying households with someone over 65 will receive £200 towards the cost of council tax;
- announces further measures to help families, including a commitment to increase the child element of the Child Tax Credit in line with average earnings up to 2007-08;
- takes further steps to extend employment opportunity for all, through measures which focus help and support on those who face the greatest barriers to work;
- doubles the starting threshold of stamp duty land tax to £120,000 for all residential property transactions;
- provides a further £340 million for the special reserve in 2004-05 and £400m in 2005-06 for military operations in Iraq and the UK's other international obligations;
- announces a new better targeted Local Enterprise Growth Initiative to drive forward local business-led regeneration, following the end of time-limited relief on commercial property purchases in disadvantaged areas;
- introduces a range of measures to modernise the tax system and to tackle tax fraud and avoidance; and
- defers the inflation-based increase in main road fuel duties to 1 September 2005, in response to sustained volatility in oil prices.

MAINTAINING MACROECONOMIC STABILITY

The Government's long-term economic goal is to maintain macroeconomic stability, ensuring the fiscal rules are met at all times and that inflation remains

low. The domestic stability delivered by the Government's macroeconomic framework has enabled the UK economy to grow steadily through a challenging period for the global economy.

World growth in 2004 recovered to its strongest level for nearly 30 years and it remains robust. For 2004 as a whole, UK GDP rose by 3.1 per cent, its fastest rate of growth for four years, consistent with the 3 to 3½ per cent forecast range that the Government maintained unchanged after it was first published in the 2002 Pre-Budget Report. Growth has already become more balanced, with a further acceleration in business investment in 2004 and private consumption growing at sustainable rates. With world growth retaining much of its momentum and UK business and consumer confidence strong, GDP is expected to grow by 3 to 3½ per cent in 2005 as the remaining slack in the economy is absorbed before the output gap is closed around the end of the year. Growth is then expected to return to between 2½ to 3 per cent in 2006, consistent with its trend rate.

The Budget 2005 projections for the public finances are broadly in line with the 2004 Pre-Budget Report and show that the Government is meeting its strict fiscal rules:

- the current budget shows an average surplus as a percentage of GDP over the current economic cycle, even using cautious assumptions, ensuring the Government is meeting the golden rule. Beyond the end of the current cycle, the current budget moves clearly into surplus including, by the end of the projection period, the cyclically-adjusted current budget in the cautious case; and
- public sector net debt is projected to remain low and stable over the forecast period, stabilising at a level well below the 40 per cent ceiling in the sustainable investment rule.

MEETING THE PRODUCTIVITY CHALLENGE

Productivity growth underpins strong economic performance and sustained increases in living standards. The Government's long-term goal is for the UK to achieve a faster rate of productivity growth than its major competitors. The Budget announcements include:

- **a package of radical reforms to tackle the burden of regulation on business**, while maintaining standards of protection for the public, consumers and employees, through:

- adopting a risk-based approach to inspection and enforcement, streamlining regulatory structures and increasing accountability in order to reduce the costs to business of administering regulation, as recommended by the Hampton Review, and setting new targets to reduce the administrative burden over time;
 - building on the success of the Panel for Regulatory Accountability (PRA) by ensuring that regulation is only used where necessary, that it is not 'gold plated' if it originates from EU law, and that all Whitehall departments strengthen their focus on removing outdated and unnecessary regulations as recommended by the Better Regulation Task Force (BRTF); and
 - applying the principles of better regulation in Europe through the Six Presidencies initiative.
- consistent with the Hampton principles, a strategy to meet stretching new targets **to reduce the administrative burden of the tax system for small businesses**, including in the short term cutting the tax return for 500,000 of the smallest businesses and rolling out options for paying and managing VAT online;
- **taking forward the ten-year Science and Innovation Investment Framework**, including a UK Stem Cell Initiative, chaired by Sir John Pattison, to formulate a ten-year vision for stem cell research, creating a platform for co-ordinated public and private research funding; a mandatory requirement that at least 2.5 per cent of public sector extramural R&D spending will be with SMEs; and engaging with business to ensure that the R&D tax credit better supports UK businesses with high potential to become major innovative firms of the future;
- **to support the Government's major new investment in education and skills** including plans for investment to deliver twenty first century facilities in primary schools and significant investment in further education colleges, plans to enhance workforce skills including continued support for the Employer Training Pilots and support for the new Union Academy;
- **further support for enterprise**, through a new Local Enterprise Growth Initiative worth £150m per year by 2008-09, to boost enterprise in the most deprived areas of England, following the end of the time-

limited commercial stamp duty land tax credit disadvantaged areas relief; and Regional Development Agencies' (RDAs) plans for the development of business coaching focused on businesses with high growth prospects;

- **a package of measures to increase the contribution of creativity to productivity growth**, including a review, led by George Cox, on how best to use the UK's world class creative industries and universities to support and develop the creativity of SMEs; and action by the RDAs to support the integration of design into corporate strategy and product and market development, including through the Design Council's Immersion Programme; and
- as a further step in reforming the investment chain, **taking forward the Morris Review recommendations** to promote greater competition in actuarial services and in advice to pension funds on investment issues, including asset allocation and fund manager selection, and to strengthen regulation of the actuarial profession.

Further details of these and other measures to encourage enterprise, productivity and skills are set out below.

Regulatory reform

The Chancellor today announced a serious systemic reform of Britain's regulatory system to deliver lower costs to business while maintaining excellent regulatory outcomes. Building upon reforms made in the 2004 Pre-Budget Report, the Budget announces new measures to ensure that regulation is only applied where there is no alternative, that the burden to business of administering regulations is reduced over time and that the UK presses forward with regulatory reform in Europe.

Hampton Review: the final report of the Hampton Review, '*Reducing Administrative Burdens: Effective Inspection and Enforcement*' is published alongside the Budget. The Government accepts its recommendations in full. The review recommends a set of principles which all regulatory bodies will adopt. Regulators will incorporate a comprehensive risk based approach to their inspection and enforcement activities, focusing resources upon the areas of high risk and ensuring that businesses have access to good advice. Once implemented, the need for inspections could be reduced by a third (around one million fewer inspections), the number of forms sent out by regulators could be reduced by twenty five per cent, and 31 existing national regulatory

bodies will be rationalised into 7 thematic areas so that businesses have fewer regulators to deal with. See Press Notice 4 for further detail.

Regulating only where necessary: building on the success of the Prime Minister's Panel for Regulatory Accountability (PRA), which has delivered commitments from the DTI and Defra to reduce the regulatory burden they impose upon businesses by £1 billion and 25 per cent respectively, the Government is further strengthening its focus upon removing unnecessary regulations. The Budget accepts the recommendations of the Better Regulation Task Force's (BRTF) report, published alongside the Budget, (*Regulation - Less is More: Reducing Burdens, Improving Outcomes*) and will adopt a more rigorous approach to assessing new regulatory proposals that force departments to focus upon the removal of outdated and unnecessary regulations whenever they make new regulatory proposals. Businesses and business organisations will also, for the first time, have a formal role to play in helping government identify deregulatory proposals.

Tackling goldplating: alongside the Budget, the Government is publishing new guidelines for the transposition of European legislation into UK law to ensure that the UK implements EU laws in the clearest and least burdensome way possible. UK law will have to follow EU law as closely as possible, not going beyond the minimum standards and scope required by the EU unless specifically approved by the PRA, with clearer guidance for parliament and businesses and new checks to prevent over-implementation.

Reducing the cost of administering regulation: as well as pursuing better and more proportionate regulation overall, the Government believes that the costs to businesses of administering regulations should be as low as they possibly can be, without compromising regulatory outcomes. The Government accepts the recommendation of the BRTF report that it should measure the burden to businesses of administering regulations and set a target or targets for reducing it. Departments will achieve reductions against these targets by implementing the recommendations of the Hampton Review.

Implementation of reforms: the Government will bring forward early legislation to implement the recommendations of the Hampton Review. The Review anticipates that it will take 2-4 years to implement its reforms fully, and Philip Hampton has agreed to work with the Government to oversee implementation. The Government will also establish a new Better Regulation Executive (BRE) in the Cabinet Office to bring greater weight behind the implementation of the radical reforms announced in the Budget.

Regulatory reform in Europe: in December 2004 the Finance and Economics Ministers of Ireland, the Netherlands, Luxembourg, the UK, Austria and Finland launched an updated and extended initiative establishing regulatory reform as a priority of the six EU Presidencies through to the end of 2006. The initiative presented a series of proposals for ongoing reform of the regulatory regime in Europe, including to further develop the competitiveness testing of all new regulations, exercise stronger and more effective control over the administrative burdens associated with EU regulation, make faster progress in simplifying the existing stock of EU laws, and improve business input into the regulatory reform process. During its presidency of the EU in the second half of 2005, the UK Government will seek to promote the risk based principles of best-practice, recommended by the Hampton Review, resisting inflexibilities in dossiers such as the working time directive and chemicals regulation.

Reducing the administrative costs of tax for small business

Following the final report of the Hampton Review, the Government has today published its vision of how, once integrated, HM Revenue and Customs (HMRC) will deliver real improvements in its relationship with small business and minimise administrative burdens. *Working towards a new relationship: A consultation on priorities for reducing the administrative burdens of the tax system on small business* provides an opportunity for small businesses and their advisors to comment on whether the vision and measures outlined in the paper reflect their concerns and priorities, and seeks to initiate a dialogue that will lead to an improved relationship.

As a result of the measures set out in the paper, small businesses can, over time, expect to understand their tax liabilities more easily and:

- provide information to HMRC only once;
- spend less time dealing with inspections;
- benefit from a range of modern flexible payment options;
- enjoy a single point of contact with the new department; and
- have access to co-ordinated, clear and helpful support and education when and in the form they need it.

The new department will set stretching targets for real cost reductions that will be set and published.

Enterprise in deprived areas

Local Enterprise Growth Initiative (LEGI): the Government is introducing a new LEGI worth £50 million in 2006-2007, rising to £150 million per year by

2008-2009 (subject to confirmation in the 2006 Spending Review), as part of its commitment to reducing the enterprise gap and improving the business environment in the most deprived areas of England. A consultation document has been issued today to determine the final details of the policy.

The LEGI will provide long-term, flexible investment in the most deprived local communities – determined by the Neighbourhood Renewal Fund areas – to support locally-developed proposals that pursue new or proven ways of stimulating economic activity and productivity through enterprise development. The LEGI will provide local authorities and their communities new freedoms to make decisions, in partnerships with business and the Regional Development Agencies, on how best to support both small business start-ups and existing business to grow.

The Government will provide £10 million worth of pump-priming resources to eligible local authorities during 2005-06, to support the development of local enterprise growth proposals, with the first round of funding from LEGI worth £50 million per year being made available during 2006-2007. The Office of the Deputy Prime Minister – with support from the Small Business Service – will administer the LEGI through the network of Government Offices.

The LEGI will follow the time-limited commercial stamp duty land tax disadvantaged areas relief which the Budget announces will end on 16 March 2005. LEGI will better target support to drive forward local enterprise development and business regeneration for the long term. State aid clearance for the temporary stamp duty relief expires on 31 December 2006. The enhanced residential stamp duty threshold of £150,000 will continue to benefit home buyers in Enterprise Areas.

Film tax reliefs

The Government announced in the 2004 Pre-Budget Report that it would review the relief used by large budget films, to ensure that it remains an effective means of delivering Government objectives for supporting a sustainable UK film industry. The Government has concluded that the current relief for large budget films is no longer effective for this purpose. The Government is concerned that the sale and leaseback structures currently used to access the relief are inefficient, a target for abuse, make the cost of providing support untenable and might contribute to industry fragility and instability.

The Government therefore intends to replace the current relief used by large budget films next year with a structure similar to the new tax relief model that has previously been proposed for low budget films, details of which were

launched in an Inland Revenue Technical Note, on 21 September 2004. The Government remains committed to the principles and terms of the proposed new relief but recognises that the industry has concerns, in the short term, about its practical operation. The Government has therefore decided to extend the current relief for low budget films until at least 31 March 2006.

This will enable the formal consultation on draft legislation to consider issues across the entire film sector and will ensure that tax reliefs for low and large budget film production are provided on a coherent and consistent basis. An announcement of the timetable for publication of a consultation document, including draft legislation and formal consultation with the industry will be made shortly. The transition from the current to the new film tax reliefs will then be effected next year, subject to state aid clearance.

PROMOTING FLEXIBILITY ACROSS THE REGIONS

The Budget takes new steps to stimulate regional growth, promote further devolved decision making and strengthen regional institutions. The Government believes regions should have the freedom and flexibilities to harness their indigenous strengths, tackle weaknesses in enterprise, skills and innovation and promote growth and full employment in their communities.

Stimulating regional growth: Budget 2005 welcomes the Regional Development Agencies' (RDAs) publication of High Growth Business Coaching, which sets out how they will develop and deliver focused coaching for new and existing businesses with high growth prospects and high-potential entrepreneurs in the pre-start-up phase in each region. It also announces:

- the designation of further Science Cities in Nottingham, Birmingham and Bristol;
- proposals for a new Local Enterprise Growth Initiative (LEGI) worth £150 million per year by 2008-09, to promote enterprise and economic activity in the most disadvantaged areas of England;
- measures to raise productivity through plans to reduce compliance costs for business by implementing the Hampton Review; and
- measures to increase the contribution of creativity to productivity growth, including a review by George Cox of how SMEs can make better use of design.

Strengthening regional institutions: the Government will strengthen regional institutions by:

- announcing the emerging proposals of the HMT/ODPM Review, aimed at improving the efficiency and effectiveness of the Government Office Network;
- introducing an independent assessment, conducted by the National Audit Office, for the RDAs on a rolling basis during 2005-06. This is based on last year's Initial Performance Assessment (IPA) of the London Development Agency (LDA).

Devolving decision making: the Government has consulted on proposals to give the regions a stronger voice in future spending reviews, including establishing regional transport funding allocations for the first time and providing guidance on long term planning assumptions for regional transport, housing and economic development. The Government has held consultation events with stakeholders across the English regions, and received 107 written responses by the consultation deadline of 10 March, and is currently considering this feedback. The Government will set out how it intends to proceed in due course.

The Government intends to increase flexibilities for the LDA and strengthen its accountability to the London Mayor in the way it offers financial assistance, recognising LDA's 'good' rating in its Initial Performance Assessment

INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

The Government's long-term goal is employment opportunity for all – the modern definition of full employment. It aims to ensure a higher proportion of people in work than ever before by 2010. The Budget announces:

- **improvements to the incapacity benefits linking rules**, including an automatic guarantee of entitlement to the rules on a move into employment; a single, extended linking rules period of 104 weeks; and immediate re-qualification for the rules on a return to benefit;
- **examining Jobseeker's Allowance sanctions and the potential for a fixed fines system**, to maintain an effective balance between rights and responsibilities by improving the capacity to respond swiftly and effectively in cases of non-compliance;

- **supporting young people not in education, employment or training** (details set out below);
- **accepting the National Employment Panel's recommendations on employment and small business growth for ethnic and faith minorities**, and developing proposals for implementing the report's recommendations, including the establishment of Centres for Vocational Excellence in Entrepreneurship;
- **a package of measures to help simplify and improve Housing and Council Tax Benefit** by making further improvements in administration; and
- **improving IT links between Local Authorities and the Department for Work and Pensions** to allow faster and more accurate processing of Housing Benefit claims.

Further details of measures to increase employment opportunity announced today are given below.

Incapacity benefit linking rules

The Government is committed to enabling people with a health condition or a disability to move into work. This Budget announces an improvement to the incapacity benefits linking rules, which allow claimants who move into employment to reclaim any higher rates of benefit on the same terms. The changes include an automatic guarantee of entitlement to the rules on a move into employment; a standard linking rules period of 104 weeks for all; and, where they need to return to incapacity benefits during this period, ensuring that claimants re-qualify immediately for the rules rather than having to wait a further 28 weeks.

Jobseeker's Allowance sanction

An effective balance between rights and responsibilities requires effective penalties for failure to carry out responsibilities. The current sanctions for jobseekers can be heavy-handed, with lengthy processes, and are often imposed long after the instance of non-compliance. The Government will therefore examine Jobseeker's Allowance sanctions and the potential for a system based on fixed fines.

Ethnic minorities

The Government is determined to narrow the gap between the ethnic minority employment rate and the overall employment rate to ensure that all ethnic and faith minority groups are fully benefiting from the Government's policies. To add to previous targeted interventions such as ethnic minority outreach, specialist employment advisers and Fair Cities, the National Employment Panel (NEP) is recommending a new commitment by government and the private sector to eradicate the disadvantage faced by some ethnic minority groups. The recommendations include a new focus on five major cities to improve and encourage the growth of employment and enterprise for ethnic and faith minority groups. The Government accepts the NEP's recommendations, and will develop proposals for taking them forward.

BUILDING A FAIRER SOCIETY

The Government is committed to promoting fairness alongside flexibility and enterprise to ensure that everyone can take advantage of opportunities to fulfil their potential. Measures include:

- building on previous increases in financial support for families, a **commitment to increase the child element of the Child Tax Credit at least in line with average earnings up to 2007-08;**
- **enhancing the development of young people's skills**, through measures to improve financial support for 16 to 19 year olds in learning, including through extending Child Benefit and the Child Tax Credit from April 2006;
- to support parents and improve children's learning, **an additional £35 million in 2006-07 and 2007-08 for the Parenting Fund and to improve early learning help for families;**
- **free off-peak local area bus travel for all people over 60 and disabled people in England from April 2006;**
- **an additional payment guaranteeing that council tax paying households with someone over 65 will receive £200 towards the cost of council tax;**
- **extending the existing higher Individual Savings Account limits to April 2010**, to promote further saving;

- **consulting on payments at secondary school age in the Child Trust Fund;**
- **investing up to £100 million over the next three years, to deliver the Government's response to the Russell Commission report on youth volunteering**, including a volunteering opportunities fund rising to £40 million by 2007-08, conditional on matched contributions from the private sector support;
- **doubling the starting threshold of stamp duty land tax to £120,000 for residential property transactions**, exempting 300,000 more home buyers from stamp duty every year;
- **increasing the threshold for inheritance tax** to £275,000 in 2005-06, £285,000 in 2006-07 and £300,000 in 2007-08;
- **fair tax treatment for Shari'a compliant financial products**, ensuring a level playing field with equivalent banking products; and
- further reforms to **modernise the tax system**, including better aligning North Sea corporation tax payments with those for petroleum revenue tax, and a number of measures to clamp down on **tax fraud and avoidance**.

Further detail of these measures is set out below.

Extending financial support to 16-19 year olds

Today the Chancellor confirmed his intention to extend Child Benefit and the Child Tax Credit to the families of unwaged trainees and 19 year olds finishing a course they started before they turned 19. These measures demonstrate the Government's commitment to increasing the flow of skilled young people into employment by raising post-16 participation in education and training. Around 180,000 young people a year will benefit from this extension of financial assistance, supporting their choice between education and training and enabling them to complete their course and gain qualifications.

To engage 16-17 year olds not in employment and ensure that no teenager faces long-term unemployment, the Chancellor also announced that, from April 2006, £60 million over two years will be allocated to a new Activity Agreement and Allowance pilot through which 16-17 year olds can receive an allowance in return for taking steps to progress towards formal learning.

Building on the success of the Education Maintenance Allowance in raising post-16 participation, the aim is to support and encourage all young people to achieve their potential through education and training.

Fairness for today's pensioners

The Government is continuing to ensure that all pensioners can share in rising national prosperity by announcing several measures to benefit pensioners. These include free off peak local area bus travel for disabled people and those aged over 60 in England from April 2006.

The Government understands the position of older people on fixed incomes facing pressures such as council tax bills. Alongside Council Tax Benefit for poorer pensioners, the Government believes it is right to help elderly households with their council tax. This Budget announces an additional payment to all council tax paying households with someone over 65. This means that, in addition to the Winter Fuel Payment, announced in the 2004 Pre-Budget Report, some 4.7 million council tax paying households with someone over 65, will also receive £200. These payments will be made at the same time as the 2005 Winter Fuel Payment.

Pensioners entering hospital from April 2005 will also continue to receive their state retirement pension entitlement and their full entitlement to Incapacity Benefit, Severe Disablement Allowance and Income Support for the duration of their stay in hospital from April 2006.

Promoting saving and asset ownership

The Government seeks to provide targeted support and incentives for saving from childhood, through working life and into retirement. The Budget announces action to further promote saving and asset ownership:

Individual Savings Accounts (ISAs): ISAs continue to be extremely popular with savers. Over 16 million people - more than one in three adults - now have an ISA and over £160 billion has been subscribed since 1999. These savings are supported by around £1.6 billion in tax relief every year. When ISAs were introduced in 1999 they were guaranteed to run for an initial ten years to 2009, and the overall annual investment limit was set at £5,000, with a maximum of £1,000 in cash. The Government set higher initial limits to encourage new saving. The Chancellor announced in the Budget that, in response to representations, the Government has decided to extend the existing higher ISA limits not just to 2009 but a year further to 2010, extending

the guaranteed duration of ISAs from 10 to at least 11 years and taking the cumulative total that could be saved tax-free since 1997 to over £100,000.

Child Trust Fund: the Government launched the Child Trust Fund in January 2005. The list of official providers and distributors has continued to grow and there are now over 90, including institutions from across the financial services industry and numerous high street retailers. All children born since 1 September 2002 receive at least £250 to invest in a long-term savings and investment account and children from families with lower incomes receive £500. Children, parents, family and friends are together able to contribute up to £1,200 a year to each account and there is no tax for them to pay on any interest or gains made on this money. Child Trust Fund accounts become fully operational on 6 April 2005.

The 2004 Pre-Budget Report announced that the Government is consulting on a further payment of £250 for all children at age seven, with children from low-income families receiving £500. In today's Budget, the Chancellor announced that the Government will now consult on what further payments should be made at secondary school age.

Stamp duty land tax relief

The Chancellor announced today that the starting threshold for residential stamp duty land tax will double to £120,000 from 17 March 2005. This increase will take 300,000 more homebuyers out of the scope of stamp duty every year, and mean that over 50 per cent of first-time buyers will now not pay stamp duty.

Shari'a compliant financial products

Shari'a compliant financial products were given a boost by the announcement of new measures in the Budget to ensure fair tax treatment. Following consultation announced in the 2004 Pre-Budget Report, legislation will be included in the Finance Bill 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.

Russell Commission

The Russell Commission, led by Ian Russell, Chief Executive of Scottish Power, reports today, concluding that there is widespread support and

enthusiasm for a step change in the number of young people volunteering, the diversity of young volunteers and the quality of the volunteering opportunities. The Government welcomes the report and will invest up to £100 million over the next three years to set up a new national framework for youth volunteering, including a volunteering opportunities fund rising to £40 million by 2007-08, conditional on matched contributions from the private sector support, to achieve the shared ambition of a million new young volunteers within 5 years.

Modernising the business tax system and protecting tax revenues

The Government is taking forward further proposals to modernise the business tax system, including changes to the way oil companies pay North Sea corporation tax.

A package of measures to combat tax fraud and avoidance has been announced by the Chancellor today. Further details are set out in PN3.

DELIVERING HIGH QUALITY PUBLIC SERVICES

The Government's aim is to deliver world-class public services through sustained investment and ongoing reform. Budget 2005 sets out a long-term investment programme for education. To ensure that rising educational standards are locked in and to address future challenges, the Budget announcements include:

- a long-term programme of investment to deliver twenty-first century facilities in primary schools, rebuilding or radically refurbishing over 50 per cent over around 15 years;
- further support for ICT in schools to help the most disadvantaged pupils;
- funding to help schools deliver extended services; and
- steps towards every 16-18 year old having access to education and training.

The Government is taking its agenda for public services reform further, and will announce proposals to rationalise inspection and regulation of public services, building on the approach of the Hampton Review. The Government

will merge the eleven main public services inspectorates currently operating into four bodies, reducing costs and the burden on front-line public services.

Investing in skills

The Government has committed record levels of investment to education, and expenditure on UK education is projected to rise to 5.6 per cent of GDP by 2008. Budget 2005 builds on this progress by announcing further investment to support the Government's vision of schools at the heart of the community and delivering personalised learning that meets the needs of all pupils.

Budget 2005 announces:

- **a long-term commitment to deliver twenty first century learning facilities in primary schools, and ensuring that they are able to play a role at the heart of their communities connecting local public services. Additional funding of £150m will be available in 2008-09, rising to £500m.** Together with funds for strategic investment already in the system, the Government estimates that this additional funding will, over around 15 years, provide for a wide-ranging programme of rebuilding, refurbishing and upgrading covering at least 50 per cent of primary schools in England. Those primary schools not benefiting directly from the programme will continue to receive support for their maintenance and smaller scale capital needs;
- to help schools meet the challenges that provision of extended services involves in the shorter-term, **an increase in the grant paid directly to every primary and secondary headteacher in England in 2006-07** bringing the payment in that year for a typical primary school up to around £34,000 and for the typical secondary school up to around £109,000. A further increase the following year will bring the payment for a typical primary school up to around £36,000 in 2007-08, and for the typical secondary school to around £115,000;
- **an additional £350 million of capital investment in the further education estate to be made over 2008-09 to 2009-10**, a step change in capital investment to the sector allowing transformation towards world class vocational establishments, responsive to the needs of employers and learners. The Government aims to transform the further education sector to create world-class institutions of learning, supporting increased post-16 and adult participation in education and training and enhancing the reputation of the vocational and apprenticeship route;

- **a further £25m ICT capital funding in 2006-07 and 2007-08, allocated to schools in deprived areas to bridge the digital divide. Budget 2005 also announces that DfES will double their contribution to the e-Learning Foundation to £600,000 a year from 2005-06, to allow the Foundation to increase their support for schemes which enable schools to lease laptops to pupils.**
- **additional funding to support the roll out of the Teach First scheme across four further cities from 2007** to help outstanding graduates to gain experience teaching students in challenging schools. The Government has already announced the expansion of the Teach First scheme to Manchester from 2006;
- **new measures to ensure 16 to 18 years olds who have left school are in the education and training, including:**
 - a pilot scheme offering 16 and 17 year olds who are not in education, training or employment financial support in return for a commitment to progress towards formal learning; and
 - piloting a negotiated Learning Agreement for all 16 and 17 year olds in work with no training, building on the existing statutory right to time off to study or train. The pilots will test the effectiveness of a range of financial incentives in encouraging employers and employees to take up this offer and in supporting apprenticeships as a key route for 16-17 year olds in the labour market.

Rationalising public service inspectorates

Alongside the Hampton Review, the Chancellor today announced a rationalisation of public service inspection that, it is expected, will merge 11 public service inspectorates into 4. The reforms follow up the Government's policy on inspection, agreed with all inspectorates, in July 2003 and should be in place by 2008.

The new inspectorates will cover: justice and community safety; adult social care and health; children's services, education and skills; and local services. The new inspectorates will work together to develop common, risk-based, approaches, providing assurance to the public as well as driving improvement. Burdens on providers will be reduced through a more co-ordinated approach with, for example, the development of a gatekeeper and co-ordinator for all inspection activity impacting on local authorities.

A major programme of consultation, legislation and implementation will be needed to get the new bodies up and running. Closer working between inspectorates is already under way and formal consultation on the proposals for a single justice and community safety inspectorate and a single local services inspectorate will be published shortly. Further proposals will follow in due course.

Invest to Save Budget – inclusive communities

The Government is announcing the allocation of £37 million from the Invest to Save Budget – Inclusive Communities Fund, to 37 innovative projects, encouraging new and joined-up ways of working that strengthen local communities. A number of partnerships plan to make use of volunteers and mentors to improve services for the most needy and vulnerable. In the year of the volunteer, Invest to Save – Inclusive Communities will fund some 5,000 volunteering opportunities.

PROTECTING THE ENVIRONMENT

The Government is committed to delivering sustainable growth and a better environment and to tackling the global challenge of climate change. The Budget announces:

- in support of the UK's leadership role in tackling climate change, including through its EU and G8 presidencies, **a package of new measures to support further action on the abatement of greenhouse gas emissions, including new fiscal incentives, an energy services summit, a new UK energy research partnership and a new energy efficiency theme as part of the Government's Invest to Save Budget;**
- **the publication of an independent evaluation of the climate change levy**, which concludes that this measure will deliver annual savings of over 3.5 million tonnes of carbon in 2010, well above the originally forecast savings;
- **two new reduced rates of VAT for the installation of low carbon technologies, and an extension of the Landlord's Energy Savings Allowance** to cover solid wall installation;
- **the deferral to 1 September 2005 of the inflation-only increase of main road fuel duties, reflecting sustained volatility in oil prices,**

and of a 1.22 pence per litre increase in duty on rebated fuels, which will support the strategy to tackle oils fraud;

- **a freeze in the threshold for the minimum percentage charge rate of company car tax** at 140g per kilometre for 2007–08, and simplifications to the company car tax system;
- **a freeze of the vehicle excise duty (VED) rates for the lowest four bands of graduated VED for cars – the majority of new cars –** and the standard increase of £5 for the two most polluting bands and for the over 1549cc band for pre March 2001 vehicles;
- **progress on work to assess the feasibility of a biofuels obligation** as part of a package of measures to support the development of biofuels;
- **a freeze in the rate of the aggregates levy, and the rates of climate change levy and air passenger duty;** and
- **an increase in line with inflation of the landfill tax credit scheme.**

Progress with environmental fiscal measures

This Budget includes assessments of the Government's experience to date of using environmental taxes, which show that they are meeting their objectives. An independent review of the climate change levy concludes that it should deliver savings of over 3.5 million tonnes of carbon (MtC) by 2010. On the aggregates levy, sales of primary aggregate in Great Britain fell by 8 per cent between 2001 and 2003 against a background of buoyant construction growth, and recycled aggregates are increasing. On the landfill tax, the amount of waste going to landfill is falling.

Delivering a clean and efficient transport system

Road fuel duties: since 2000, duty on main road fuels used in the UK has fallen in real terms by nearly 12 per cent, a saving of nearly 6 pence per litre of fuel for motorists, while the cost of motoring has also fallen to below 1990 levels, in part owing to increasing fuel efficiency. It is the Government's policy that fuel duty should rise at least in line with inflation as the Government seeks to meet its targets of reducing polluting emissions and funding public services. The Budget announces today an inflation-only increase of 1.22p per litre for main road fuel duties but owing to the sustained volatility in the oil market, the changes in rates will be deferred until 1 September 2005.

Promoting biofuels: the Government considers that biofuels can offer a cost-effective option for reducing emissions from road transport, as well as contributing to the future sustainability of fuel. As announced at the 2004 Pre-Budget Report, the Government is undertaking a feasibility study and consultative process on a possible Renewable Transport Fuels Obligation (RTFO). The RTFO would require a specified proportion of aggregate fuel sales to come from a renewable source and would draw on the experience of the Obligation for Renewable Electricity. A cross-Government group led by the Department for Transport (DfT) has been set up and is currently holding a series of stakeholder workshops to discuss specific aspects of how an RTFO could work in practice. Detailed work will continue over the coming months with a view to informing decisions later in the year.

VED: a freeze of the vehicle excise duty (VED) rates for the lowest four bands of graduated VED for cars, and the standard increase of £5 for the two most polluting bands, as well as for private and light goods vehicles of over 1549cc registered before 1 March 2001. The VED bands will be re-named A-F, from the current lettering of AAA-D, while retaining their current carbon dioxide emission level. This will align VED lettering with new the new energy efficiency labelling being introduced by industry into car showrooms later this year, ahead of EU proposals for such labels. This will help consumers to make fully informed vehicle choices

NOTES FOR EDITORS

Rationalising public services' Inspectorates

The report of the review, *Inspecting for Improvement, developing a customer focused approach* and *the Government's Policy on Inspection of Public Services*, along with further material on the strategy for reforming inspection are available on the Cabinet Office website at www.cabinetoffice.gov.uk/opsr/.

Further details of Budget 2005 announcements can be found on the HM Treasury website: www.hm-treasury.gov.uk.

Budget 2005

PN 2

16 March 2005

INCOME TAX RATES AND ALLOWANCES, NATIONAL INSURANCE CONTRIBUTIONS AND OTHER TAX AND DUTY RATES FOR 2005-06

Rates and allowances for income tax, capital gains tax, inheritance tax, the pension schemes earnings cap, corporation tax, national insurance contributions, Working and Child Tax Credits, Child Benefit, stamp taxes, tobacco duty, alcohol duty, fuel duty and vehicle excise duty are set out below.

Income tax, capital gains tax, and inheritance tax

£ per year (unless stated)	2004-05	Change	2005-06
Income tax personal and age-related allowances			
Personal allowance (age under 65)	£4,745	+£150	£4,895
Personal allowance (age 65-74)	£6,830	+£260	£7,090
Personal allowance (age 75 and over)	£6,950	+£270	£7,220
Married couple's allowance* (aged less than 75 and born before 6th April 1935)	£5,725	+£180	£5,905
Married couple's allowance* (age 75 and over)	£5,795	+£180	£5,975
Married couple's allowance* - minimum amount	£2,210	+£70	£2,280
Income limit for age-related allowances	£18,900	+£600	£19,500
Blind person's allowance	£1,560	+£50	£1,610
Capital gains tax annual exempt amount			
Individuals etc.	£8,200	+ £300	£8,500
Most trustees	£4,100	+ £150	£4,250
Inheritance tax threshold	£263,000	+£12,000	£275,000
Pension schemes earnings cap			
Pension schemes earnings cap (1989 Cap)	£102,000	+£3,600	£105,600
Occupational Pension Schemes final remuneration cap (1987 Cap)	£100,000	+£5,600	£105,600
Occupational Pension Schemes tax free lump sum (1987 Cap)	£150,000	+£8,400	£158,400

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

Income tax: taxable bands

£ per year	2004-05	2005-06
Starting rate: 10%	£0-£2,020	£0 - £2,090
Basic rate: 22%	£2,020-£31,400	£2,090 - £32,400
Higher rate: 40%	over £31,400	over £32,400

Corporation tax on profits

£ per year (unless stated)	2004-05	2005-06
Starting rate: 0%	£0 – £10,000	£0 – £10,000
Marginal relief	£10,001 – £50,000	£10,001 – £50,000
Small companies' rate: 19%	£50,001–£300,000	£50,001–£300,000
Marginal relief	£300,001–£1,500,000	£300,001–£1,500,000
Main rate: 30%	£1,500,001 or more	£1,500,001 or more
Non-corporate distribution rate	19%	19%

National insurance contributions

£ per week (unless stated)	2004-05	Change	2005-06
Lower earnings limit, primary class 1	£79	+£3	£82
Upper earnings limit, primary class 1	£610	+£20	£630
Primary threshold	£91	+£3	£94
Secondary threshold	£91	+£3	£94
Employees' primary class 1 rate between primary threshold and upper earnings limit	11%	-	11%
Employees' primary class 1 rate above upper earnings limit	1%	-	1%
Employees' contracted-out rebate	1.6%	-	1.6%
Married women's reduced rate between primary threshold and upper earnings limit	4.85%	-	4.85%
Married women's rate above upper earnings limit	1%	-	1%
Employers' secondary Class 1 rate above secondary threshold	12.8%	-	12.8%
Employers' contracted-out rebate, salary-related schemes	3.5%	-	3.5%
Employers' contracted-out rebate, money-purchase schemes	1%	-	1%
Class 2 rate	£2.05	+£0.05	£2.10
Class 2 small earnings exception	£4,215 per year	+£130 per year	£4,345 per year
Special Class 2 rate for share fishermen	£2.70	+£0.05	£2.75
Special Class 2 rate for volunteer development workers	£3.95	+£0.15	£4.10
Class 3 rate	£7.15	+£0.20	£7.35
Class 4 lower profits limit	£4,745 per year	+£150 per year	£4,895 per year
Class 4 upper profits limit	£31,720 per year	+£1,040 per year	£32,760 per year
Class 4 rate between lower profits limit and upper profits limit	8%	-	8%
Class 4 rate above upper profits limit	1%	-	1%

Working and Child Tax Credits rates

£ per year (unless stated)	2004-05	Change	2005-06
Working Tax Credit			
Basic element	£1,570	+£50	£1,620
Couple and lone parent element	£1,545	+£50	£1,595
30 hour element	£640	+£20	£660
Disabled worker element	£2,100	+£65	£2,165
Severe disability element	£890	+£30	£920
50+ Return to work payment (16-29 hours)	£1,075	+£35	£1,110
50+ Return to work payment (30+ hours)	£1,610	+£50	£1,660
Childcare element of the Working Tax Credit			
Maximum eligible cost for one child	£135 per week	+£40 per week	£175 per week
Maximum eligible cost for two or more children	£200 per week	+£100 per week	£300 per week
Percentage of eligible costs covered	70%	-	70%
Child Tax Credit			
Family element	£545	-	£545
Family element, baby addition	£545	-	£545
Child element	£1,625	+£65	£1,690
Disabled child element	£2,215	+£70	£2,285
Severely disabled child element	£890	+£30	£920
Income thresholds and withdrawal rates			
First income threshold	£5,060	+£160	£5,220
First withdrawal rate (per cent)	37%	-	37%
Second income threshold	£50,000	-	£50,000
Second withdrawal rate (per cent)	6.67%	-	6.67%
First threshold for those entitled to Child Tax Credit only	£13,480	+£430	£13,910
Income disregard	£2,500	-	£2,500

Child Benefit and Guardian's Allowance rates from 11 April 2005

£ per week	2004-05	Change	2005-06
Eldest/Only Child	£16.50	+£0.50	£17.00
Other Children	£11.05	+£0.35	£11.40
Eldest/Only Child (Lone Parent Rate)	£17.55	-	£17.55
Guardian's Allowance	£11.85	+£0.35	£12.20

Stamp taxes and duties

Transfers of land and buildings (consideration paid) from 17 March 2005

Rate	Residential in disadvantaged areas	Residential outside disadvantaged areas	Non-residential
	Total value of consideration		
Zero	£0 - £150,000	£0 - £120,000	£0 - £150,000
1%	Over £150,000 - £250,000	Over £120,000 - £250,000	Over £150,000 - £250,000
3%	Over £250,000 - £500,000	Over £250,000 - £500,000	Over £250,000 - £500,000
4%	Over £500,000	Over £500,000	Over £500,000

New leases (lease duty)

Duty on the premium is the same as for transfers of land (except that special rules apply for premium where rent exceeds £600 annually). Duty on the rent is charged on the Net Present Value (NPV). A per cent rate applies to the amount of NPV in excess of the threshold.

Rate	Net Present Value of rent	
	Residential	Non-residential
	Slice of NPV	
Zero	£0 - £120,000	£0 - £150,000
1%	Over £120,000	Over £150,000

The rate of stamp duty/stamp duty reserve tax on the transfer of shares and securities is unchanged at 0.5 per cent for 2005-06.

Tobacco duty rates

From 6pm on 16 March 2005, tobacco duty rates will be:

Product	Duty	Effect of tax* on typical item (increase in pence)	Typical unit
Cigarettes	22 per cent of the retail price plus £102.39 per thousand cigarettes	7p	packet of 20
Cigars	£149.12 per kilogram	3p	packet of 5
Hand-rolling tobacco	£107.18 per kilogram	8p	25g
Other smoking tobacco and chewing tobacco	£65.56 per kilogram	5p	25g of pipe tobacco

* Tax refers to duty plus VAT

Alcohol duty rates

From midnight on 20 March 2005, duties on alcohol will be:

Product	Effect of tax* on typical item (increase in pence)	Typical unit
Beer	1p	pint of beer
Wine	1p	175 ml glass
Wine	4p	75cl bottle
Sparkling wine	-	75cl bottle
Spirits	-	70cl bottle
Spirits-based RTDs	-	275ml bottle
Cider	-	litre
Sparkling cider	-	75cl bottle

* Tax refers to duty plus VAT

Product and basis of duty	Duty
Rate per litre of pure alcohol	
Spirits	£19.56
Spirits-based RTDs	£19.56
Wine and made-wine: exceeding 22% abv.	£19.56
Rate per hectolitre per cent of alcohol in the beer	
Beer	£12.92
Rate per hectolitre of product	
Still cider and perry: exceeding 1.2% - not exceeding 7.5% abv.	£25.61
Still cider and perry: exceeding 7.5% - less than 8.5% abv.	£38.43
Sparkling cider and perry: exceeding 1.2% - not exceeding 5.5% abv.	£25.61
Sparkling cider and perry: exceeding 5.5% - less than 8.5% abv.	£166.70
Wine and made-wine: exceeding 1.2% - not exceeding 4% abv.	£51.69
Wine and made-wine: exceeding 4% - not exceeding 5.5% abv.	£71.07
Still wine and made-wine: exceeding 5.5% - not exceeding 15% abv.	£167.72
Wine and made-wine: Exceeding 15% - not exceeding 22% abv.	£223.62
Sparkling wine and made-wine: exceeding 5.5% - less than 8.5% abv.	£166.70
Sparkling wine and made-wine: 8.5% and above - not exceeding 15% abv.	£220.54

Fuel duties

All fuel duty rate changes will take effect from 1 September 2005.

Pence per litre (unless stated)	Old duty rate	Change	New duty rate
Sulphur-free petrol/diesel	47.1p	+1.22p	48.32p
Ultra low sulphur petrol/diesel	47.1p	+1.22p	48.32p
Biodiesel	27.1p	+1.22p	28.32p
Bioethanol	27.1p	+1.22p	28.32p
Road fuel gas other than natural gas (e.g. Liquefied petroleum gas LPG)	9p per kg	+ 3.7p per kg	12.7p per kg
Natural gas used as road fuel	9p per kg	+ 1.8p per kg	10.8p per kg
Rebated gas oil (red diesel)	5.22p	+1.22p	6.44p
Rebated fuel oil	4.82p	+1.22p	6.04p

Vehicle excise duty for Private and Light Goods Vehicles

Pre-graduated VED (registered before March 2001)

£ per year	Change	New rate
1549cc and below	-	£110
above 1549cc	+£5	£170

Graduated VED for Private Vehicles (registered from March 2001)

£ per year VED band	CO ₂ (g/km)	Change	Alternative fuel cars	Petrol cars	Diesel cars
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	+£5	£140	£150	£160
F	186 and above	+£5	£160	£165	£170

DETAILS

Income tax rates and allowances

The Chancellor announced today that the income tax starting rate limit and basic rate limit are to increase in line with indexation to £2,090 and £32,400 respectively. The taxable bands are updated each year by indexation unless legislation is passed to override this. A statutory instrument – the Income Tax (Indexation) Order 2005 - has been laid today to give effect to the indexation increases.

As announced in the 2004 Pre-Budget Report, the personal allowance for those aged 65 and over will increase in line with earnings from April to £7,090 for those aged 65-74, and for those aged 75 or over to £7,220. This means that no one 65 or over will pay tax unless their income reaches £136 per week.

Other allowances, including the personal allowance for those under 65, will be increased by indexation as announced in the Pre-Budget Report. The rate of relief for the continuing married couple's allowance and maintenance relief for people born before 6 April 1935 is 10 per cent.

National insurance contributions

National insurance contribution (NIC) rates and thresholds for 2005-06 were announced in the 2004 Pre-Budget Report. The starting point for employers', employees' and self-employed NICs in 2005-06 will increase in line with inflation to £94 per week. NICs are not paid on earnings or profits below this amount. The upper earnings and profits limits for NICs will increase from April 2005 in line with inflation from £610 to £630 per week (£32,760 per year). For the self-employed, the rate of Class 2 contributions will be increased in line with inflation to £2.10 per week.

Capital gains tax (CGT)

The capital gains tax annual exempt amount is increased in line with statutory indexation to £8,500 for the tax year 2005-06 for individuals, personal representatives of deceased persons, trustees of certain settlements for the disabled.

Gains arising on disposal of a principal private residence will continue to exempt from capital gains tax.

Inheritance tax

The inheritance tax threshold is increased beyond statutory indexation to £275,000 for 2005-06. The value of estates above the threshold is taxed at 40 per cent. The estimated number of taxpaying estates in 2005-06 will be about 37,000. This is around 6 in 100 deaths. The threshold will be £285,000 for 2006-07 and £300,000 for 2007-08.

Corporation tax

As in 2004-05, the corporation tax main rate is 30 per cent. The small companies' rate is 19 per cent for companies with taxable profits between £50,000 and £300,000 and the starting rate is zero for companies with taxable profits below £10,000. The corporation tax main rate for 2006-07 will also be 30 per cent.

Marginal relief eases the transition from the starting rate to the small companies' rate for companies with profits between £10,000 and £50,000. The fraction used in the calculation of this marginal relief will be $19/400$. Marginal relief also applies to companies with profits between £300,000 and £1,500,000. The fraction used in the calculation of this marginal relief will be $11/400$.

The profits limits may be reduced for a company that is part of a group or has associated companies. The lower rates and marginal reliefs do not apply to close investment holding companies.

Child and Working Tax Credits rates and Child Benefit

As announced in the Pre-Budget Report, from 6 April 2005, the child element of Child Tax Credit will be increased by £65 per year to £1,690 per year, in line with average earnings. In addition, the disabled child elements of Child Tax Credit will be up-rated in line with inflation. The elements of Working Tax Credit will also rise in line with inflation. The rates of Child Benefit and Guardian's Allowance will rise in line with inflation from 11 April 2005.

The child element of Child Tax Credit will increase at least in line with average earnings up to and including 2007-08.

Childcare

The limits on eligible childcare costs in Working Tax Credit will rise to £175 per week for families with one child and £300 per week for those with two or more children from April 2005; the maximum share of eligible costs covered will be 70 per cent in 2005-06, rising to 80 per cent in 2006-07.

Stamp taxes and duty

The rates for Stamp Duty Land Tax remain unchanged. However the threshold for zero per cent transactions is doubled to £120,000 from 17 March 2005. For residential land and property, the rates and revised thresholds are

zero per cent for transactions in consideration of £120,000 or less, 1 per cent for consideration over £120,000 to £250,000, 3 per cent for consideration over £250,000 to £500,000 and 4 per cent on consideration over £500,000. For all non-residential land and property, the rates are zero per cent for transactions in consideration of £150,000 or less, 1 per cent for consideration over £150,000 to £250,000, and thereafter the same as for residential land and property.

The zero per cent band for residential property transactions in Designated Disadvantaged Areas remains at £150,000. The previous exemption for non-residential transactions in Designated Disadvantaged Areas ends today, 16 March 2005.

For new leases, the rates applicable in respect of the premium are the same as for transfers of land and buildings (except that special rules apply where the rent exceeds £600 annually). For the rental element of new leases, the charge is based on the Net Present Value (NPV), which is the total of the discounted annual rental payments. The NPV is charged at 1 per cent on the excess over £120,000 for residential land and property, and 1 per cent on the excess over £150,000 for non-residential land and property.

Tobacco duty

From 6 pm on 16 March 2005, tobacco duty rates will rise in line with inflation, to maintain the real price of tobacco.

Alcohol duty

From midnight on 20 March 2005, duties on beer and wine will increase in line with inflation. Duties on spirits, cider and sparkling wine will not change.

Fuel duty

It is the Government's policy that fuel duty should rise at least in line with inflation as it seeks to meet its targets of reducing polluting emissions and funding public services. Main road fuel duties will increase in line with inflation by 1.22p per litre. Owing to the sustained volatility in the oil market, the changes in rates will be deferred until 1 September 2005. And the planned duty differentials for biofuels and road fuel gases will continue until 2007-08, consistent with the Government's alternative fuels framework.

Vehicle excise duty

Following the freeze in VED in Budget 2004, and to underline VED's environmental focus, VED rates will be frozen for the four least polluting carbon dioxide bands and increased by the standard £5 for the two most polluting bands, as well as for cars and light goods vehicles of over 1549cc registered before 1 March 2001. Changes take effect for licences commencing 1 April 2005.

Budget 2005

PN 3

16 March 2005

PROTECTING TAX REVENUES

A package of measures to tackle tax fraud and avoidance was announced by the Chancellor today. The reforms will protect revenue for investment in public services and ensure that an unfair burden does not fall on the vast majority of taxpayers who pay their fair share.

A number of the measures have been informed by the disclosure rules introduced in 2004. These provide early warning of avoidance schemes, enabling the Government and Revenue Departments to respond to avoidance in a targeted manner, whether by means of legislation or litigation, without creating unnecessary burdens for compliant taxpayers. The Revenue Departments continue to analyse disclosures received and further action will be taken as and when appropriate.

DETAILS

Disclosure rules

The disclosure rules require promoters or users of certain tax avoidance schemes or arrangements to provide information to the Revenue Departments. Building on the success of the disclosure rules, the Chancellor today announces an extension of the rules to include:

- €# schemes involving stamp duty land tax on commercial property; and
- €# two more listed VAT schemes and an additional VAT hallmark.

Avoidance through arbitrage

A measure is being introduced with effect from today to prevent companies playing off different sets of tax rules to gain a UK tax advantage. This will prevent companies exploiting differences in the way tax rules apply to them and has been targeted to impact only where a UK tax advantage is sought. The legislation will only apply if the Inland Revenue issue a notice and will not

apply if the tax reduction is minimal. The Inland Revenue is publishing detailed guidance and will provide informal clearances from today.

Abuse of double taxation relief

In line with the announcement on double taxation relief (DTR) in the 2004 Pre-Budget Report, a new measure is being introduced to prevent tax avoidance schemes that exploit DTR rules. The legislation takes effect from today and will deny excessive DTR where:

- €# relief results from a scheme or arrangement that has tax avoidance as a sole or main objective; and
- €# one or more of five circumstances, as specified in the legislation, apply.

The legislation also gives effect to the announcement made on 10 February 2005 that claims would be denied in respect of income acquired for the purposes of securing excessive DTR (for example, foreign dividend buying).

The legislation only applies if the Inland Revenue issue a notice and will not apply if the tax reduction is minimal. The Inland Revenue is publishing detailed guidance and will provide informal clearances from today.

Tax on capital gains

Three new measures to counter avoidance of tax on capital gains are being introduced with effect from today. The new rules will:

- €# ensure that trustees of settlements who are UK resident for capital gains tax purposes for only part of a tax year cannot exploit certain double taxation agreements to avoid UK tax;
- €# ensure that individuals cannot exploit certain double taxation agreements to avoid UK tax on capital gains realised while they are temporarily non-UK resident for tax purposes; and
- €# expand the range of assets that are treated as located in the UK for the purposes of tax on capital gains.

Financial products

A package of measures targeting avoidance by companies and individuals using financial products is being introduced with effect from today. This builds on the closure of two schemes with immediate effect on 10 February 2005. The following schemes, reported under the disclosure rules, are being blocked:

- €# conversion by companies of interest-like income into a form that it is subject to lower tax or no tax;
- €# exploitation of the group continuity rules for loan relationships and derivative contracts to convert income into capital, or take advantage of different accounting methods used by different companies within a group;
- €# exploitation of the relief available to companies for annual payments as charges on income; and
- €# rent factoring schemes that attempt to circumvent the Finance Act 2000 anti-avoidance rules by arranging deals that exceed the 15 year exception limit.

A further measure introduced today puts beyond doubt that an income tax scheme involving a stock loan of gilts, which is said to result in a double deduction under the manufactured interest and Accrued Income Scheme (AIS) anti-avoidance rules, does not work.

Corporate intangible assets

A marketed avoidance scheme for the corporate intangible assets regime is being blocked with effect from today. This will ensure that intangible assets existing before the regime commenced in April 2002 only qualify for tax relief under the regime when acquired by companies from unrelated parties. This measure ensures that the regime operates as intended.

Changes will also be made to the market value rules within the intangibles regime to ensure that other tax provisions work as intended.

Stamp duty land tax

A number of avoidance schemes, which have been used to reduce or eliminate liability to stamp duty land tax (SDLT) on land transactions, will be blocked with effect from tomorrow. These include:

- €# exploitation of group relief and acquisition relief to enable land to be transferred out of a group without the purchaser paying SDLT or tax at 0.5 per cent;
- €# use of nominees to avoid the charge on leases; and
- €# schemes purporting to disguise the purchase price as a (potentially repayable) loan or deposit.

Partial exemption

The aim of the VAT partial exemption rules is to achieve fair recovery of input tax for businesses that make a mixture of exempt and taxable supplies. Four measures are being introduced to prevent certain revenue losses and ensure fair recovery of VAT. These measures include widening the circumstances in which Customs will issue a Special Method Override Notice and will come into effect from 1 April 2005.

Customs' warehousing regimes

A loophole that has allowed some businesses to exploit the VAT-free status of sales within UK Customs' warehouses will be closed after Royal Assent to the Finance Bill. The measure will allow Customs to make regulations requiring certain types of *supplies* of goods in Customs' warehouses to be taxed according to normal domestic VAT rules, rather than benefiting from the tax-free status that is normally applied to supplies of warehoused goods.

The measure will ensure that correct amounts of VAT are paid overall. The regulations will only be used to target artificial arrangements designed to avoid tax and will not affect the overwhelming majority of businesses enjoying the trade facilitation measure of VAT-free trading within Customs' warehouses.

Tobacco strategy

Tobacco smuggling involves serious widespread criminality and costs over £2.5 billion a year in lost revenue. Since the launch of the '*Tackling Tobacco Smuggling*' strategy in 2000, the illicit cigarette market has been reduced to 15 per cent, down by more than a quarter from its peak.

The Government's aim is to reduce the smuggled market share still further. As part of this effort, the Government will continue to target the increasing numbers of counterfeit cigarettes being sold. More than half the cigarettes now being seized are counterfeit, and many are made with tobacco leaves contaminated with cadmium and arsenic, posing additional risks to smokers. The Government is also considering further action to tackle smuggling of hand-rolling tobacco with a view to announcing a package of further measures later in the year.

Alcohol strategy

Further details of the duty stamps scheme, being introduced in 2006 to tackle spirits fraud, were announced today. The scheme is a vital part of the Government's strategy for tackling alcohol fraud, and is designed to be tough on spirits fraud while minimising compliance costs for legitimate businesses. Following close consultation with the industry, the Government has decided:

- £# that the benefits of duty stamps can be delivered without attaching financial liability to the stamps;
- £# to provide targeted exemptions for mobile operators (such as ferries and airlines) and spirits of less than 30 per cent alcohol by volume;
- £# not to include a class exemption for liqueurs; and
- £# to adopt the industry proposal to allow stamps to be incorporated into bottle labels and to do so in a way that allows them to be printed by the industry's own label printers. Businesses will have the option to use freestanding duty stamps.

Compliance costs for the scheme will be less than the estimates published in the 2004 Pre-Budget Report, without compromising the effectiveness of the scheme.

UK oils fraud strategy

To support further the UK oils fraud strategy the Government today announced an increase in duty of 1.22 pence per litre for rebated oils, with effect from 1 September 2005.

In 2003 oils fraud cost the Exchequer around £850 million in Great Britain. Introduced in Budget 2002 the strategy specifically targets the misuse of rebated oils and is a combination of new regulatory regimes and enhanced law enforcement activity. Today's announcement narrows the differential in duty rates between rebated oils and main road fuels, reducing incentives for fraud by significantly reducing fraudsters' profits.

NOTES FOR EDITORS

Further information can be found in the Budget Notes and other documents published on the Inland Revenue and HM Customs and Excise websites www.inlandrevenue.gov.uk and www.hmce.gov.uk.

Budget 2005

PN 4

16 March 2005

HAMPTON REVIEW

Philip Hampton today published his final report '*Reducing administrative burdens: effective inspection and enforcement*'. His review considers how to reduce administrative burdens on business without compromising the UK's excellent regulatory outcomes.

He finds that there is much good practice in UK regulation, but also that the system, as a whole, is complicated and good practice is not uniform. Overlaps in regulators' activities mean there are too many forms, too many duplicate information requests and multiple inspections imposed on businesses.

The Review proposes entrenching the principle of risk assessment throughout the regulatory system, so that the burden of enforcement falls most on highest-risk businesses and least on those with the best records of compliance. At present, not only are unnecessary inspections carried out, but necessary inspections are not carried out. Under the proposals in the report, inspection rates would be reduced where risks are low, but enhanced where necessary.

The Review estimates, based on regulators' past experience, that comprehensive risk assessment in a streamlined structure could:

- €# reduce the need for inspections by up to a third, which means around one million fewer inspections; and
- €# reduce the number of forms regulators send out by perhaps 25 per cent.

In addition, the review recommends:

- €# making much more use of advice, again applying the principle of risk assessment;
- €# substantially reducing the need for form-filling – in practice, most businesses' most frequent and direct experience of regulatory enforcement – and other regulatory information requirements;
- €# applying tougher and more consistent penalties where these are deserved;

- €# reducing the number of regulators that businesses have to deal with, by merging 31 national regulators into 7;
- €# entrenching reform by requiring all new policies and regulations to consider enforcement, and use existing structures wherever possible; and
- €# creating a new business-led body at the centre of Government to drive implementation of the recommendations and challenge departments on their regulatory performance.

Philip Hampton has agreed to work with the Government to ensure effective implementation of his recommendations.

NOTES FOR EDITORS:

1. The full report can be downloaded on the Review's website at: <http://www.hm-treasury.gov.uk/hampton>.
2. The Hampton Review was commissioned in Budget 2004.
3. The Review covers the inspection and enforcement work of 63 national regulators, as well as the 203 trading standards offices and 408 environmental health offices in English, Scottish and Welsh local authorities. Economic regulators like Ofwat and Ofgem, and those bodies covered by the work of the Office of Public Sector Reform are not covered by the Review.
4. The Review has not examined regulators, such as the Scottish Environmental Protection Agency, which are the responsibility of the devolved institutions in Scotland, Wales and Northern Ireland. Many regulators within the scope of the review, including the Health and Safety Executive, the Food Standards Agency, and the Office of Fair Trading, operate UK or Great Britain wide. The Review's recommendations on these bodies will need to be implemented following discussions between the UK Government and the devolved administrations.
5. Philip Hampton is a former finance director of Lloyds TSB, BT and British Gas. On 19 July 2004 he was appointed chairman of J. Sainsbury plc.

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