

# Budget 2007

REGIONAL PRESS NOTICE

21 March 2007

## **Budget 2007 IN SCOTLAND**

The Chancellor today announced a series of measures to increase productivity, improve people's access to employment, build a fairer society, improve public services and protect the environment in Scotland.

This Budget sets out further reforms to lock in stability and to invest in the UK's future, including a major package of reforms to the corporate tax system to enhance international competitiveness, encourage investment and promote innovation, reducing the main rate of corporation tax to 28 per cent April 2008, the lowest rate in the G7.

The Government is committed to promoting fairness alongside flexibility and enterprise to ensure that everyone can take advantage of opportunities to fulfil their potential. The Budget announces the next stage of reforms to the tax and benefit system, including removing the 10 pence starting rate and cutting the basic rate of income tax from 22 pence to 20 pence in April 2008, alongside increases in the Child Tax Credit and the threshold for the Working Tax Credit.

The Government's aim is to deliver world-class public services through sustained investment matched by far-reaching reform.

Overall economic developments are as forecast at the Pre-Budget Report. The UK economy grew by 2¾ per cent in 2006, as forecast in the Pre-Budget Report. The Budget 2007 economic forecast is little changed from that of the Pre-Budget Report. GDP is forecast to grow by 2¾ to 3¼ per cent in 2007, and then at trend rates of 2½ to 3 per cent.

The Budget 2007 projections for the public finances are broadly in line with the 2006 Pre-Budget Report and show that the Government is meeting its strict fiscal rules.

Measures announced today which are particularly relevant to individuals and businesses in Scotland include:

- **An additional £1835 million for the Scottish Executive as a consequence of spending increases announced in the Budget for Government Departments.**

- **a major package of reforms to the corporate tax system** to promote growth by enhancing international competitiveness, encouraging investment and promoting innovation:
  - a reduction in the headline corporate tax rate from 30 per cent to 28 per cent from April 2008, making it the most competitive rate in the G7 and other major economies;
  - modernising and simplifying the capital allowance system;
  - further enhancements to the SME and large company R&D tax credit schemes;
  - increasing the small companies' rate to reduce the advantage of extracting labour income by way of dividends; and
  - the introduction of a new Annual Investment Allowance (AIA) of £50,000 for all businesses who invest to grow.
  
- **encouraging growth through innovation** by increasing the headline SME R&D tax credit rate from 150 percent to 175 percent; and increasing the R&D tax credit rate from 125 per cent to 130 per cent from April 2008. This will build on the 285 R&D tax credit claims made in Scotland last year;
  
- further helping lone parents stay in employment, by **continuing to make In-Work Credit available to eligible lone parents in the current pilot areas until June 2008, benefiting over 7,400 parents in Scotland.**
  
- following the Low Pay Commission recommendations, **raising the adult rate of the National Minimum Wage will rise to £5.52 per hour**, the youth rate, for workers aged between 18 to 21, to £4.60 and the development rate, for 16 and 17 year olds to £3.40; all from October 2007. This will benefit around 110,000 people on the minimum wage in Scotland;
  
- **to provide further help to lone parents to stay in employment, by continuing to make In-Work Credit available to eligible lone parents in the current pilot areas until June 2008;**
  
- **removing the starting rate and cutting the basic rates of income tax from 22 pence to 20 pence in April 2008**, creating a simpler structure of two rates; a 20 pence basic and a 40 pence higher rate. This will benefit around 2.3 million households in Scotland;
  
- **increasing the upper earnings limit for national insurance by £75 a week above indexation in April 2008 and, from April 2009, fully aligning it with the higher rate threshold** – the point at which taxpayers start to pay the higher rate of income tax, further simplifying the system;

- **raising the aligned higher rate threshold and upper earnings limit by £800 a year above indexation in April 2009;**
- **increasing the higher personal allowances paid to those aged 65 or over by £1,180 above indexation in April 2008, thereby taking 50,000 over-65s out of tax in Scotland. By April 2011, no pensioner aged 75 or over will pay any tax until their income reaches £10,000;**
- **increasing the child element of the Child Tax Credit by £150 a year above earnings indexation in April 2008, raising the child element to £2,080 a year. This will be of potential benefit to 222,000 families receiving Child Tax Credit in Scotland;**
- **an increase in the weekly rate of Child Benefit for the eldest child to £20 in April 2010, providing support to all families in line with the principle of progressive universalism. This will benefit the 604,000 families in Scotland who receive Child Benefit;**
- **further reforms to modernise the tax system and protect tax revenues, including measures to tackle avoidance;**
- measures to help tackle climate change, including an announcement that from 1 October 2007 **all new zero carbon homes costing up to £500,000 will pay no stamp duty, with zero carbon homes costing in excess of £500,000 receiving a reduction in their stamp duty bill of £15,000.**
- **an increase in fuel duty rates of 2 pence per litre (ppl) from 1 October 2007, and increases in the next two years of 2ppl and 1.84ppl respectively, and announcing car vehicle excise duty rates for the next three years, including rates for the most polluting cars rising to £400 and rates for clean cars in band B falling to £35.**
- A discussion paper on the North Sea fiscal regime was published alongside the Budget.

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## **NOTES FOR EDITORS**

Further details of 2007 Budget Report announcements can be found on the HM Treasury website: [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).

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### **GOVERNMENT DEPARTMENT INTERNET SITES**

Further information and all published documents relating to 2006 Pre-Budget Report may be found on the Internet at the following addresses:

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