

Financial Statement and Budget Report

A

BUDGET POLICY DECISIONS

A.1 The Economic and Fiscal Strategy Report (EFSR) explains how the measures and other decisions announced in Budget 2007 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 that have been announced since Budget 2006 and gives their estimated effect on government revenues and spending to 2009-10. This chapter also 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.¹

A.2 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 2006 or earlier, but which take effect from or after April 2007;
- 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

A.3 Table A1 summarises the Budget 2007 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 A1 and A2 where its costs or yield is shown. The symbol '-' indicates that the proposal has no Exchequer effect until at least 2010-11. The symbol '*' indicates that the effect is negligible, amounting to less than £3 million a year.

Table AI: Budget 2007 policy decisions

	(+ve is an Exchequer yield)			£ million
	2007-08 indexed	2008-09 indexed	2009-10 indexed	2007-08 non-indexed
Corporate tax reform				
1 Main rate of Corporation Tax reduced to 28%	-140	-1,385	-2,230	-140
2 General plant and machinery capital allowances at 20%	0	+1,490	+2,270	0
3 Long-life plant and machinery capital allowances at 10%	0	-210	-380	0
4 Integral fixtures capital allowance at 10%	0	+70	+200	0
5 Industrial Buildings Allowance: phased abolition	0	+75	+225	0
6 Small Companies Rate of Corporation Tax phased to 22%	+10	+370	+820	+10
7 One-year extension of 50% First Year Allowances for small enterprises	-35	-250	+80	-35
8 New Annual Investment Allowance at £50,000	0	-30	-920	0
9 R&D tax credit increase to 130%	0	-40	-90	0
10 SME R&D tax credit increase to 175%	0	-30	-60	0
11 Payable Enhanced Capital Allowances	0	-20	-40	0
12 Reform of Venture Capital Schemes	0	+30	+30	0
13 VAT: revalorisation of registration and deregistration thresholds	0	0	0	-5
Personal tax reform				
14 Income Tax: indexation of starting and basic rate limits	0	0	0	-870
15 Remove starting rate of Income Tax on non-savings income	0	+7,320	+8,630	0
16 Increase Age Allowances by £1,180 and raise for 75s and over to £10,000	0	-810	-950	0
17 Increase Child Tax Credit by £150 above indexation	0	-880	-1,020	0
18 Raise the threshold of the Working Tax Credit by £1,200	0	-1,310	-1,310	0
19 Increasing the Tax Credit withdrawal rate by 2 per cent	0	+600	+620	0
20 Income Tax and NICs: phased alignment of higher thresholds	0	+1,110	+1,490	0
21 Income Tax and NICs: raising the higher rate threshold and upper earnings limit	0	0	-250	0
22 Basic rate of Income Tax reduced to 20 pence	0	-8,090	-9,640	0
23 Working Tax Credit continued for 4 weeks after leaving work	-10	-15	-20	-10
Supporting families and communities				
24 Raising the ISA cash limit by £600 and the overall limit by £200	0	-15	-50	0
25 Benefit simplification	0	-5	*	0
26 VAT: reduced rates on products for the elderly	-5	-10	-10	-5
Modernising the tax system				
27 Extension of the dividend tax credit	0	-5	-15	0
28 VAT: reduced rate for smoking cessation products	-10	*	0	-10
29 Energy Products Directive: expiry of derogation	0	+10	+30	0
30 Abolition of Small Consignments' Relief for excise duties	+5	+5	+5	+5
31 Gift aid: increase in benefits	0	-5	-5	0
32 Sale and repurchase agreements: tax treatment	+40	+60	+60	+40
33 VAT: non-business use of assets	+10	+15	+20	+15
34 General insurers' reserves: transitional relief	0	-70	-20	0
Protecting tax revenues				
35 Life insurance companies: financing arrangements	+120	+165	+165	+120
36 Loss-buying	+30	+45	+50	+30
37 VAT: countering missing trader fraud	+50	+45	+35	+50
38 Strengthening the disclosure regime	+15	+30	+30	+15

Table A1: Budget 2007 policy decisions

	(+ve is an Exchequer yield)			£ million
	2007-08 indexed	2008-09 indexed	2009-10 indexed	2007-08 non-indexed
Duties changes				
39 Alcohol duties: revalorise beer, wine and sparkling wine, freeze spirits	-20	-15	-10	+210
40 Tobacco duties: revalorise	0	0	0	+40
41 Gaming duties: changes to duty bands and rates	+30	+35	+35	+35
Property				
42 Rationalisation of empty property relief	0	+950	+900	0
Protecting the environment				
43 Expansion of Enhanced Capital Allowances for water-efficient technologies	*	*	-5	*
Supporting a clean and efficient transport system				
44 VED: enhancing environmental incentives	+125	+220	+280	+230
45 Road fuel duties: increases from 1 October 2007	-380	+490	+660	+480
46 Rebated oils duties: increases from 1 October 2007	+50	+125	+135	+65
47 Biofuels: extension of differential to 2009-10	0	0	+10	0
48 Road fuel gas: continuation of differentials to 2009-10	0	0	+5	0
49 Renewal of reduced pollution certificate scheme for lorries	0	0	-5	0
Protecting the UK's natural resources				
50 Aggregates levy: encouraging the sustainable use of resources	-10	+40	+45	0
Improving waste management				
51 Landfill tax: supporting recycling	0	+175	+325	0
Other policy decisions				
52 Special reserve	-400	0	0	-400
TOTAL POLICY DECISIONS	-525	+280	+125	-130
* Negligible				
MEMO ITEM				
Resetting of the AME margin	-1,000			

A.4 Table A2 summarises the impact on government revenues and spending of other measures introduced since Budget 2006, including those measures announced in the 2006 Pre-Budget Report.

Table A2: Other measures announced since Budget 2006

	(+ve is an Exchequer yield)			£ million
	2007-08 indexed	2008-09 indexed	2009-10 indexed	2007-08 non-indexed
Increasing employment opportunity for all				
a † Increase in Housing Benefit disregard	-5	-	-	-5
b Housing Benefit subsidy rate for temporary accommodation	+10	-	-	*
c † Supporting people into work through extending the job grant	-5	-	-	-5
Building a fairer society				
d † Indexation of the Working Tax Credit	0	0	0	-420
e † July renewal deadline for Child and Working Tax Credits ¹	+60	+20	+10	+60
f † Indexation of income tax allowances	0	0	0	-1,280
g † Indexation of national insurance rates and limits	0	0	0	-345
h † Tackling Managed Service Companies	+350	+450	+250	+350
i † Film tax reliefs: transitional arrangements	-20	-20	*	-20
j † Life assurance companies reform	-15	-20	-10	-15
k † Simplification of general insurers' reserves	0	+130	+150	0
l † VAT: partial exemption special method	+20	+20	+25	+20
m VAT: supplies by health professionals	+5	+5	+10	+5
n † Construction Industry Scheme deduction rates	+250	-10	-20	+250
o † Increasing travellers' allowance from outside the EU	-15	-15	-15	-15
Protecting revenues				
p † Controlled Foreign Companies: repeal of public quotation exemption	+125	+160	+160	+125
q † Tackling avoidance using structured finance arrangements	+15	+15	+15	+15
r † Countering corporation tax avoidance	+180	+195	+195	+180
s † Life assurance companies: valuation rules	+95	+95	+95	+95
t † Stamp Duty Land Tax anti-avoidance	+75	+70	+70	+75
u † Countering CGT avoidance	+70	+130	+120	+70
v Avoidance by partnerships using sideways loss relief	+400	+300	+60	+400
w Countering avoidance by financial traders	+30	+45	+50	+30
Protecting the environment				
x † Air passenger duty rates ²	+1,000	+1,100	+1,200	+1,000
y † Fuel duties: revalorise main rates from 7 December 2006	0	0	0	+630
z † Fuel duties: maintain the differential for rebated oils from 7 December 2006	0	0	0	+85
aa † Fuel duties: maintain the differential for biofuels from 7 December 2006	0	0	0	+5
ab † Rebated oils: changes to excepted vehicle schedule	-5	0	0	-5
ac † Extension of the Landlords Energy Saving Allowance	0	-10	-10	0
Other policy decisions				
ad † Direct payments to schools	-155	-	-	-155
TOTAL POLICY DECISIONS	+2,465	+2,660	+2,355	+1,130

* Negligible.

† Announced in the 2006 Pre-Budget Report.

- Included within the current spending growth assumption from 2008-09 onwards.

¹ AME spending element included within the current spending growth assumption from 2008-09 onwards.

² The costing assumes revalorisation annually from 1 April 2008.

PERSONAL TAX AND SPENDING MEASURES

Income Tax

Bands, rates and personal allowances **A.5** As announced in the 2006 Pre-Budget Report, all income tax personal allowances will be increased by statutory indexation for 2007-08. (f)

A.6 The starting and basic rate limits for 2007-08 are increased with statutory indexation and there are no changes to the income tax rates this year. (14)

A.7 As announced at Budget 2004, the lifetime allowance for tax privileged pension schemes will be £1.6 million in 2007-08. The annual allowance will be £225,000 for 2007-08.

Table A3: Bands of taxable income 2007-08

2006-07	£ a year	2007-08	£ a year
Starting rate 10 per cent	0-2,150	Starting rate 10 per cent	0-2,230
Basic ^{1,2} rate 22 per cent	2,151-33,300	Basic ^{1,2} rate 22 per cent	2,231-34,600
Higher ² rate 40 per cent	over 33,300	Higher ² rate 40 per cent	over 34,600

¹ The rate of tax applicable to interest 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

	2006-07	£ a year 2007-08	Increase
Personal allowance			
age under 65	5,035	5,225	190
age 65-74	7,280	7,550	270
age 75 and over	7,420	7,690	270
Married couple's allowance ¹			
aged less than 75 and born before 6th April 1935	6,065	6,285	220
aged 75 and over	6,135	6,365	230
minimum amount ²	2,350	2,440	90
Income limit for age-related allowances	20,100	20,900	800
Blind person's allowance	1,660	1,730	70

¹ Tax relief for these allowances 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

A.8 A one penny change in the Scottish variable rate in 2007-2008 could be worth approximately plus or minus £300 million, and is unaffected by Budget 2007. After the reforms announced in Chapter 5, a one penny change in the Scottish variable rate in 2008-2009 could then be worth approximately plus or minus £370 million, compared with plus or minus £310 million that year without these changes. None of these figures include an estimate of the behavioural impacts of invoking the Scottish variable rate. In HM Treasury's view, an amendment to the Scottish Parliament's tax-varying powers is not required as a result of these changes.

National insurance contributions

A.9 As announced in the 2006 Pre-Budget Report, the national insurance contributions (NICs) thresholds, limits and flat rates will increase in line with statutory indexation for 2007-08. There will be no change to NICs rates for employers and employees, or to the rate of profit-related NICs paid by the self-employed. (g)

Table A5: Class 1 national insurance contribution rates 2007-08

Earnings ¹ £ per week	Employee (primary) NICs rate ² per cent	Employer (secondary) NICs rate ³ per cent
Below £87 (LEL)	0	0
£87 to £100 (PT/ST)	0 ⁴	0
£100 to £670 (UEL)	11	12.8
Above £670	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 2007-08 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 3.7 per cent of earnings between the LEL and UEL for COSRS and 1.4 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 appropriate 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 year.

⁴ No NICs are actually payable but a Class 1 NIC is treated as having been paid in respect of earnings between LEL and PT to protect benefit entitlement.

Table A6: Self-employed national insurance contribution rates 2007-08

Annual profits ¹ £ per year	Self-employed NICs	
	Class 2 £ per week	Class 4 per cent
Below £4,635 (SEE)	0 ²	0
£4,635 to £5,225 (LPL)	£2.20	0
£5,225 to £34,840 (UPL)		8
Above £34,840		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).

Modernising the personal tax and benefit system

A.10 From 6 April 2008, the 10 pence starting rate will be removed for earned income but will continue to be available for savings income and capital gains. (15)

A.11 From 6 April 2008, the additional age-related income tax allowances for those aged 65 and over will rise by £1,180 above indexation. By April 2011, the age-related allowance for those aged 75 and over will increase to £10,000. (16)

A.12 From 6 April 2008, the child element of the Child Tax Credit will be increased by £150 a year above earnings indexation. (17)

A.13 From 6 April 2008, the income threshold at which the Working Tax Credit is received in full will be increased by £1,200 to £6,420 per year. (18)

A.14 From 6 April 2008, the rate at which tax credits are withdrawn will increase from 37 per cent to 39 per cent. (19)

A.15 From 6 April 2008, the threshold of earnings above which people pay 1 per cent NICs (the upper earnings limit, UEL) will increase by £75 per week. The following year the UEL will be aligned with the point at which the higher rate of tax becomes payable. The upper profits limit (UPL) rises with the UEL. (20)

A.16 From 6 April 2009, the higher rate threshold will be increased by £800 above indexation. (21)

A.17 From 6 April 2008, the basic rate of income tax will be reduced from 22 pence to 20 pence. (22)

A.18 From 6 April 2007, HMRC will introduce a four-week run-on of entitlement to Working Tax Credit from the day a claimant ceases to work over 16 hours. (23)

Other personal taxes, benefits and spending measures

Tax credits **A.19** As announced in the 2006 Pre-Budget Report, the renewal period for Child and Working Tax Credit will be reduced from five to four months from July 2007. (e)

Working Tax Credit **A.20** As announced in the 2006 Pre-Budget Report, all the elements of Working Tax Credit rise in line with indexation for 2007-08. (d)

Table A7: Working and Child Tax Credits rates and thresholds

	2007-08 £ a year
Working Tax Credit	
Basic element	1,730
Couples and lone parent element	1,700
30 hour element	705
Disabled worker element	2,310
Severe disability element	980
50+ Return to work payment (16-29 hours)	1,185
50+ Return to work payment (30+ hours)	1,770
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	80%
Child Tax Credit	
Family element	545
Family element, baby addition	545
Child element	1,845
Disabled child element	2,440
Severely disabled child element	980
Income thresholds and withdrawal rates	
First income threshold	5,220
First withdrawal rate (per cent)	37%
Second income threshold	50,000
Second withdrawal rate (per cent)	6.67%
First threshold for those entitled to Child Tax Credit only	14,495
Income disregard	25,000

Managed Service Companies **A.21** As announced in the 2006 Pre-Budget Report, with effect from 6 April 2007 for tax and 6 August 2007 for NICs, those working through Managed Service Companies (MSCs) will pay employed levels of tax and NICs, with the MSC obliged to operate pay as you earn (PAYE) and deduct tax and Class 1 NICs. Where the MSC is unable to pay its PAYE or NICs liability, debts arising from Royal Assent may be transferred to appropriate third parties. (h)

- Dividend tax credit: non-UK dividends** **A.22** From 6 April 2008, the non-payable dividend tax credit will be extended to dividends from non-UK resident companies, subject to certain conditions. A person will qualify for the non-payable dividend tax credit if they have less than a 10 per cent shareholding in the distributing non-UK resident company and in total they receive less than £5,000 per year of dividends from non-UK resident companies. (27)
- Individual Savings Accounts** **A.23** From 6 April 2008 the Individual Savings Account (ISA) annual investment limit will rise to £7,200, with a maximum of £3,600 in cash. (24)
- A.24** As announced in the 2006 Pre-Budget Report, a package of reforms to the ISA regime will be implemented from 6 April 2008. (*)
- Building Society bonuses** **A.25** Regulations were laid on 1 December 2006 with effect from 1 January 2007, ensuring that Building Society bonuses that are paid to holders of Child Trust Fund accounts or ISAs can be paid directly into the account free of tax. This does not affect the tax treatment of demutualisation bonuses. (*)
- Pensions tax simplification** **A.26** A package of technical improvements will be introduced to ensure that the pensions tax rules continue to meet the original intentions of the regime. (*)
- A.27** An individual's entitlement to tax relief on pension contributions will be removed where these are used to fund personal term assurance policies. For contributions under occupational pension schemes, this will apply where the insurer received the application for the policy on or after 29 March 2007. For contributions under other registered pension schemes, this will apply where the insurer received the application for the policy on or after 14 December 2006. (*)
- A.28** As announced in the 2006 Pre-Budget Report, changes will be introduced to the tax regime for alternatively secured pensions (ASPs) with effect from 6 April 2007 to bring practice in line with policy intention and ensure tax privileged pension funds are used to secure an income in retirement, whilst meeting the needs of those with principled religious objections to annuities. (-)
- Housing and Council Tax benefits** **A.29** As announced in the 2006 Pre-Budget Report, the earnings disregard in Housing Benefit and Council Tax Benefit will rise in line with inflation to £15.45 with effect from 6 April 2007. (a)
- A.30** From 1 April 2007 the maximum amount of Housing Benefit subsidy payable on temporary accommodation to local authorities outside London will be frozen, and the maximum amount payable to London local authorities will be reduced. (b)
- Child benefit** **A.31** The rate of child benefit for the eldest child will rise above standard uprating to a total value of £20 per week from 6 April 2010. (-)
- Job grant for benefit claimants** **A.32** As announced in the 2006 Pre-Budget Report, from 6 December 2006 Jobseeker's Allowance claimants aged under 25 who had children when they moved into work after being unemployed for six months or more will receive entitlement to the Job Grant of £100 or £250. (c)
- Armed Forces Redundancy Scheme** **A.33** A measure will be introduced with effect from 6 April 2006 to ensure that payments under the 2006 Armed Forces Redundancy Scheme will be tax-free in the same way as payments under the 1975 scheme. (-)
- Homes abroad owned through companies** **A.34** Draft legislation will be published later this year which will ensure that individuals who have or will purchase a home abroad through a company will not face a benefit in kind tax charge on their private use of the property. When legislation is introduced it will apply to future and past tax years. (*)

Benefit simplification A.35 A package of alignment measures will be introduced during 2007-08 to streamline rules on benefit payment periods, the backdating period for Disability Living Allowance and Attendance Allowance forms, the treatment of rental income and termination payments. (25)

CHARITIES AND COMMUNITIES

Gift aid A.36 With effect from 6 April 2007, the value of benefits that donors may receive as a result of a donation made within the gift aid regime will increase to 5 per cent of the donation for those donating £1000 or more, with the upper limit on benefits received increasing to £500. (31)

Charities and educational institutions A.37 A measure will be introduced with effect from 6 April 2007 to ensure that salary costs are correctly deducted when an employer seconded an employee to a charity or educational institution. (-)

TAXES ON CHARGEABLE GAINS, INHERITANCE TAX, ASSETS AND PROPERTY

Capital gains tax A.38 The capital gains tax annual exempt amount is increased in line with statutory indexation to £9,200 from 6 April 2007. (-)

Tax regime for trusts A.39 As announced on 9 October 2006, with effect from 6 April 2006, a measure will be introduced amending a minor omission in the 2006 Trust Modernisation legislation for payments for the buy back of company shares. In addition, as announced on 9 February 2007, with effect from 6 April 2007, a measure will be introduced amending a minor omission for chargeable event gains on some types of life insurance. (*)

Inheritance tax A.40 As announced at Budgets 2005 and 2006, the inheritance tax (IHT) nil-rate band allowance will increase to £300,000 in 2007-08, £312,000 in 2008-09 and £325,000 in 2009-10. Budget 2007 announces the IHT nil-rate band will increase to £350,000 in 2010-11. (-)

A.41 A measure will be introduced, with effect from 21 March 2007 to ensure that, in certain situations, people can elect back into the inheritance tax regime after the normal self assessment deadline, rather than incurring the pre-owned assets charge. (-)

SDLT: simplification A.42 [A measure will be introduced with effect from Royal Assent which will reduce the amount of Stamp Duty Land Tax (SDLT) paid in many cases where property is exchanged between connected persons by no longer treating these exchanges as linked transactions. (-)

A.43 A measure will be introduced with effect from Royal Assent, allowing payment of Stamp Duty Land Tax to be made separately from submission of the land transaction return. In addition, provision will be made to allow for electronic submission of the Stamp Duty Land Tax self certificate. (*)

SDLT: shared ownership trusts A.44 A measure will be introduced with effect from Royal Assent to extend relief for shared ownership leases to shared ownership trusts. (*)

SDLT: surplus school land A.45 A measure will be introduced with effect from 25 May 2007 to modify relief for transfers of surplus school land. (*)

Stamp duty on shares **A.46** As announced in the 2006-Pre Budget Report, regulations came into effect on 1 February 2007 exempting from stamp duty reserve tax (SDRT) purchases of shares in non-UK resident exchange traded funds. (*)

Empty property relief **A.47** The empty property relief in national non-domestic rates is to be reformed from 1 April 2008 so that office and retail premises receive 100 per cent relief for a three month period and industrial and warehouse premises receive 100 per cent relief for a six month period when first falling empty. Relief will end for property remaining empty beyond these periods. Charities will be exempt from the effects of this reform. (42)

Sinking funds **A.48** From 6 April 2007, a relief from the 40 per cent trust rate of tax on income arising from service charges and sinking funds held by private sector landlords on trust will take effect. (*)

BUSINESS TAXES, TAXATION OF FINANCIAL SERVICES AND SPENDING MEASURES

Modernising the corporate tax system

Corporation tax rates **A.49** The main rate of corporation tax will be set at 28 per cent for the financial year 2008-09. The small companies' rate will be set at 20 per cent for the financial year 2007-08; 21 per cent in 2008-09; and 22 per cent in 2009-10. (1) (6)

Capital allowances **A.50** Capital allowances for plant and machinery investment will be reduced from 25 per cent to 20 per cent from April 2008. (2)

A.51 Capital allowances for long-life plant and machinery investment will be increased from 6 per cent to 10 per cent from April 2008. (3)

A.52 Fixtures that are integral to a building will be separately identified and will receive a new capital allowance rate of 10 per cent from April 2008. (4)

Industrial buildings allowance **A.53** The industrial buildings allowance will be removed in stages between 2008-2011. The allowance will be reduced to 3 per cent for the financial year 2008-09, 2 per cent for 2009-10, 1 per cent for 2010-11 and 0 per cent from April 2011. (5)

Capital allowances for small enterprises **A.54** The capital allowances for small enterprises will continue to be 50 per cent in the financial year 2007-08. (7)

Annual Investment Allowance **A.55** An Annual Investment Allowance of £50,000 per annum for plant and machinery investment will be introduced from April 2008. (8)

R&D tax credits **A.56** Subject to state aids approval, the enhanced deduction element of the SME R&D tax credits will increase from 150 per cent to 175 per cent from April 2008. The value of the payable credit available will remain broadly at its current value of 24 per cent of qualifying expenditure. The rate of company R&D tax credit will increase from 125 per cent to 130 per cent from April 2008. (9) (10)

Enhanced capital allowances **A.57** Payable enhanced capital allowances for energy-efficient and water-efficient technology – and for biofuels plant which make good carbon balance inherent in their design – will be introduced from April 2008. Loss-making companies investing in energy and water efficient technology, and in the cleanest biofuels plant will be able to claim a payable cash credit. (11)

Tax based venture capital schemes **A.64** From Royal Assent, companies receiving funding under the Enterprise Investment Scheme (EIS) and the Corporate Venturing Scheme (CVS) will be subject to an employee headcount of fewer than 50 and an investment tranche size limit of £2 million per year. These limits will also apply to companies receiving investments from Venture Capital Trusts (VCTs) from funds raised on or after 6 April 2007. In addition, a number of technical improvements to the schemes will be made. (12)

Other business taxes, taxation of financial services and spending measures

Film tax **A.58** The European Commission gave final state aid clearance for the cultural test, which acts as the gateway to the new film tax relief. To ensure continuity in film tax relief during the transition to the new system, Section 42 relief for films was extended until 31 December 2006. The new film tax relief commenced from 1 January 2007. (i)

A.59 A measure will be introduced allowing companies to elect out of the film rules. Such an election applies to all films starting principal photography in the accounting period for which it is made, and in all subsequent periods. (*)

Securitisation companies **A.60** A measure will be introduced to amend legislation relating to securitisation companies, to take effect from Royal Assent. (-)

HMRC online services **A.61** Following Lord Carter's Review of HMRC's Online Services, the Government will introduce a package of measures to encourage the use of electronic filing and payment, starting with self-assessment from 31 October 2008. (*)

Companies: early filing **A.62** As announced in the 2006 Pre-Budget Report, a package of measures will be introduced to encourage companies to file their tax returns early, and to send their accounts to Companies House simultaneously. (*)

Construction Industry Scheme **A.63** As announced in the 2006 Pre-Budget Report, the new Construction Industry Scheme will commence on 6 April 2007 with deduction rates of 20 per cent for those registered for net payment and 30 per cent for those not registered in the scheme. (n)

Community investment tax relief **A.64** Regulations will be introduced setting out a revised criteria of accreditation for the Community Investment Tax Relief (CITR) scheme. Following this change, from the third anniversary of accreditation, at least 75 per cent of CITR funds must be 'on average' rather than 'at all times' onward-invested in relevant investments. (*)

North Sea Oil taxation **A.65** As announced in the Pre-Budget report 2006, from 1 July 2007, oil and gas fields will be removed from the charge to Petroleum Revenue Tax if they are redeveloped following full decommissioning. (*)

UK stock exchanges **A.66** As announced on 20 February 2007, the Government will no longer require transactions in shares admitted to trading on a regulated market under EU Markets in Financial Instruments Directive (MiFID) to be reported to that market, or intermediaries to be members of that market, in order for intermediaries to benefit from stamp duty relief, to take effect from 1 November 2007. The Government is also modernising the definition of 'recognised stock exchange' for tax purposes to allow shares traded on other markets regulated under MiFID to benefit from the same tax arrangements that currently only apply to listed shares which are traded on the London Stock Exchange. (-)

- Offshore Funds tax regime** **A.67** The restriction on the structure of multi-tiered funds in the Offshore Funds regime will be removed. This will take effect for accounting periods beginning on or after 1 January 2007. There will also be minor changes to assist with the practical application of the regime, including: amending the definition of an Offshore Fund, effective for accounting periods beginning on or after 1 January 2007; and the treatment of losses on disposal of units or shares for losses arising on or after 6 April 2007 for income tax payers, and on or after 1 April 2007 for corporation tax payers. (-)
- Property Authorised Investment Funds** **A.68** The Government has been continuing to consider the taxation position for Authorised Investment Funds investing in property. A framework for taking this issue forward can be found on HM Treasury website. (*)
- Investment Manager Exemption** **A.69** The group of activities considered eligible for the Investment Manager Exemption will be extended to include certain instruments for carbon trading. This extension is intended to be effective from 12 April 2007. (-)
- Islamic finance** **A.70** A measure will be introduced to clarify the taxation of alternative finance securitisations, to take effect from 1 April 2007 for companies and 6 April 2007 for individuals. (-)
- A.71** As announced in October 2006, regulations will be introduced to extend the Community Investment Tax Relief scheme to include Islamic financial products. (*)
- General insurers' reserves** **A.72** As announced in the 2006 Pre-Budget Report, the existing complex tax rules dealing with the reserves of general insurance companies and Lloyd's will be repealed, subject to transitional rules, and replaced. The detail of the transitional rule and the basis for replacement accounts-based rules are now announced. The new rules will have effect for periods of account ending on or after Royal Assent. (k) (34)
- Lloyd's** **A.73** As announced in the 2006 Pre-Budget Report, a measure will be introduced, effective for Lloyd's corporate members whose final underwriting year is 2007 or later, to allow trading losses to be transferred with an underwriting business where there is continuity of ownership. (*)
- Life insurance** **A.74** As announced in the 2006 Pre-Budget Report, five existing categories of long-term business will be merged into a single new category with effect for periods commencing on or after 1 January 2007. (j)
- A.75** As announced in the 2006 Pre-Budget Report, the current complex rules for dealing with transfers of business between life insurance companies will be replaced by simplified provisions, including a narrowly targeted anti-avoidance rule and a clearance procedure. Some measures will apply for periods beginning on or after 1 January 2007. Others will apply from an appointed day. The appointed day will be determined after consultation with the industry. (-)
- A.76** As announced in principle in the 2006 Pre-Budget Report, a measure is introduced setting out in statute the circumstances in which the profits of a life insurance company will be computed under Case I of Schedule D, rather than under the I minus E basis, with effect from periods commencing on or after 1 January 2007. (-)
- A.77** A package of measures will be introduced, with effect from periods commencing on or after 1 January 2007, to modify the treatment of structural assets and correct miscellaneous anomalies among the life insurance tax provisions. (-)

A.78 A package of measures, some announced in the 2006 Pre-Budget Report and some in Budget 2007, will be introduced that allows the tax exemption to be retained on the transfer of existing tax exempt business from friendly societies to life insurance companies and deals with anomalies which can arise on assignment of tax exempt policies. The measures will apply to transfers assignments taking place from Royal Assent and for assignments taking place after 1 January 2007. (-)

A.79 As announced on 18 and 19 December 2006, a package of measures was introduced, with effect from periods ending on or after 31 December 2006, to spread the tax cost where life insurance companies take advantage of the relaxation of the regulatory rules, announced by the Financial Services Authority, to release non-profit reserves. (-)

VALUE ADDED TAX

VAT registration A.80 From 1 April 2007 the VAT registration threshold will be increased from £61,000 to £64,000 and the deregistration threshold from £59,000 to £62,000. (13)

EU travellers' allowances A.81 As announced in the 2006 Pre-Budget Report, the tax-free allowance for international travellers returning from trips outside the EU will double to £290 following a decision in November by EU Member States. The new limit is likely to come into force in 2007. (o)

Partial exemption A.82 As announced in the 2006 Pre-Budget Report, with effect from 1 April 2007, a package of measures will be introduced to strengthen and simplify the partial exemption special method regime. (l)

Non-business use of assets A.83 A measure will be introduced with effect from 1 September 2007 to regulate VAT accounting on non-business use of assets allocated wholly to business purposes. (33)

Smoking cessation products A.84 From 1 July 2007, the Government will introduce a reduced VAT rate of 5 per cent for one year for over the counter sales of smoking cessation products. (28)

Health professionals A.85 As announced on 30 January 2007, certain supplies by health professionals which are not medical care will be liable to VAT at 17.5 per cent from 1 May 2007. (m)

Retention of records A.86 As announced in the 2006 Pre-Budget Report, VAT record keeping requirements for businesses transferred as a going concern will be brought into line with other tax and regulatory regimes, so that in most cases the seller retains his records. This will have effect from 1 September 2007. (-)

Housing alterations for the elderly A.87 From 1 July 2007 the rate of VAT for certain home alterations that support the needs of elderly people will be reduced to 5 per cent. (26)

ENVIRONMENTAL AND TRANSPORT TAXES

- Climate Change Levy** **A.88** The rates of Climate Change Levy (CCL) will be indexed from 1 April 2008. (-)
- Climate change simplification** **A.89** A package of measures will be introduced and brought fully into effect by autumn 2007 to simplify aspects of the climate change levy, particularly concerning relief certification. (*)
- Zero-carbon homes and stamp duty** **A.90** A relief from stamp duty land tax will be introduced with effect from 1 October 2007 for new homes built to a zero-carbon standard to be set in regulations. The exemption will be time limited to 30 September 2012. The relief will provide exemption from tax liability when the house costs £500,000 or less and will provide a £15,000 reduction in tax liability to all homes worth more than £500,000. (*)
- Vehicle Excise Duty** **A.91** Graduated Vehicle Excise Duty (VED) rates for band G cars will increase to £300 in 2007-08, £400 in 2008-09 and frozen in 2009-10. Band B reduces to £35 this year, with this rate then frozen for the next 2 years. Band F increases by £10 in 2007-08 and £5 in each of the next two years. Rates for Bands C-E, pre-2001 cars and vans, and post-2001 vans will rise by £5 in each of the next three years. VED rates for petrol and diesel cars are aligned. In 2007-08 only, the rates for motorbikes in the lower band will be frozen, with higher bands increased by £1-£2; and rates for heavy goods vehicles (HGV), special types vehicles, combined transport vehicles and all vehicle categories that are linked to the basic goods rate will be frozen. Changes to VED rates for 2007-08 take effect from 22 March 2007. (44)
- Lorry Reduced Pollution Certificates** **A.92** A renewed scheme of Reduced Pollution Certificates for lorries and buses will come into force from 1 October 2007. The nature of the scheme will be similar to the one that existed prior to October 2006 for Euro IV vehicles. (49)
- Fuel duties** **A.93** As announced in the 2006 Pre-Budget Report, with effect from 7 December 2006, an inflation-based rise in main road fuel duty was introduced. With effect from the same date the differentials with biofuels, rebated oils and compressed natural gas duty rates were maintained, and the differential with liquefied petroleum gas was decreased by 1 penny per litre (ppl). (y)(z)(aa)
- A.94** With effect from 1 October 2007 there will be a 2ppl increase in main road fuel duties. On 1 April 2008 and 1 April 2009 respectively rates will rise by 2ppl and then 1.84ppl. Consequential changes will be made to road fuel gas and biofuel duty rates in line with previous commitments. (45)
- A.95** Road fuel gases differentials were previously announced until 2008-2009. The compressed natural gas differential will be maintained until 2009-10 and the liquefied petroleum gas differential will decrease each year by 1ppl on 1 October 2007, 1 April 2008 and 1 April 2009. (48)
- A.96** The 20ppl duty incentive for biofuels is already guaranteed until 2008-09. It will be now extended until 2009-10. (47)
- A.97** The differential between main road fuel and rebated oils duties will be maintained in 2007-08. In the subsequent two years rebated oils rates will increase by the same proportions as main road fuel duties. (46)

- Second generation biofuels** **A.98** As announced in the 2006 Pre-Budget Report, the definition of biodiesel is being reviewed to ensure that new second generation biodiesels with environmental benefits are included. (-)
- Extending biofuels to other users** **A.99** As announced in the 2006 Pre-Budget Report, with effect from 1 March 2007, red diesel and biodiesel blends may be used in approved pilot schemes at the red diesel rate (7.69ppl). (*)
- Enhanced Capital Allowance for biofuel plants** **A.100** The Government will re-apply for state aids clearance, and subject to that, will introduce 100 per cent first year allowance for biofuels plant that meet certain qualifying criteria, as proposed. A payable enhanced capital allowance will be introduced for companies not in taxable profit to ensure both profit making and loss making firms have an incentive to invest in the cleanest biofuels plant. (-)
- Biomass in fuel production** **A.101** As announced in the 2006 Pre-Budget Report, the 20ppl fuel differential was introduced on 12 January 2007 to enable a pilot involving the use of biomass in conventional fuel production to go ahead. (-)
- Biogas** **A.102** The duty incentive for biogas used as a road fuel will be extended at least at its current rate until 2011-12. (-)
- Company car tax** **A.103** The thresholds for the 2009-10 minimum percentage charge rate will be frozen at the 2008-09 levels. From 6 April 2008 a 2 per cent CCT discount for company cars capable of using high-blend bioethanol E85 will be introduced. (*)
- Fuel benefit charge** **A.104** The fixed figure on which the company car fuel benefit charge is based will be maintained at £14,400 for 2007-08. (-)
- Fuel scale charge** **A.105** From 1 May 2007, VAT fuel scale charges will be based on carbon dioxide emissions and revalued in line with pump prices. (-)
- Air passenger duty** **A.106** As announced in the 2006 Pre-Budget Report, air passenger duty rates doubled from 1 February 2007. (x)
- A.107** As announced in the 2006 Pre-Budget Report, the scope of the European rates of air passenger duty now includes all signatories to the European Common Aviation Agreement from 1 February 2007. (*)
- Aggregates levy** **A.108** The rate of aggregates levy will increase to £1.95 per tonne from 1 April 2008. (50)
- Aggregates levy scope exemption for railways** **A.109** An exemption from aggregates levy for the aggregate arising from the construction and maintenance of railways, tramways and monorails will be introduced. (*)
- Landfill tax** **A.110** From 1 April 2008, the standard rate of landfill tax will increase each year by £8 per tonne each year until at least 2010-11. The lower rate of landfill tax will also increase to £2.50 per tonne. (51)
- Landfill communities fund** **A.111** The value of the landfill communities fund (previously known as the landfill tax credit scheme) for 2007-08 will increase by £5 million from 1 April 2007. This fund will be worth £65 million for 2007-08. (*)

Enhanced Capital Allowance scheme for waste **A.II2** There will be a review of the classes of equipment that can qualify for Enhanced Capital Allowances (ECAs) for good quality combined heat and power (CHP) to ensure that the scheme includes all necessary equipment for CHP facilities to use solid refuse fuel. (*)

Microgeneration **A.II3** As announced in the 2006 Pre-Budget Report, legislation in Finance Act 2007 will confirm that householders installing microgeneration for their personal use will not be subject to income tax on any payment for surplus electricity exported to the grid. For these same householders, Renewables Obligation Certificates acquired in respect of electricity generated from microgeneration technologies on their property will not give rise to an income tax or capital gains tax charge from 6 April 2007. (-)

Landlords Energy Saving Allowance **A.II4** As announced in the 2006 Pre-Budget Report, subject to state aids approval, the Landlords Energy Saving Allowance will be extended to corporate landlords; there will be an extension to the existing sunset clause from 2009 to 2015; the allowance will be applied per property rather than per building; and the addition of the acquisition and installation of floor insulation will qualify as an investment. (ac)

Rebated oil: excepted vehicles **A.II5** As announced in the 2006 Pre-Budget Report, from 1 April 2007 changes will take effect to the schedule of excepted vehicles entitled to use rebated oil. (ab)

Energy Products Directive **A.II6** Following the non renewal of derogations to the Energy Products Directive on fuel used in private air navigation and private boating, the Government will implement the required legislative changes from 1 November 2008. (29)

Enhanced capital allowances **A.II7** The list of designated water-efficient technologies qualifying for 100 per cent enhanced first-year capital allowances will be expanded during 2007, to include three further technology classes. (43)

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

CO ₂ emissions VED band	2007-08 ¹		2008-09		2009-10	
	alternative (g/km)	standard fuel	alternative fuel	standard fuel	alternative fuel	standard fuel
A 100 and below	0	0	0	0	0	0
B 101 to 120	15	35	15	35	15	35
C 121 to 150	95	115	100	120	105	125
D 151 to 165	120	140	125	145	130	150
E 166 to 185	145	165	150	170	155	175
F 186 and above ²	190	205	195	210	200	215
G 226 and above ³	285	300	385	400	385	400

¹ Rates take effect from 22 March 2007.

² Cars registered before 23 March 2006.

³ Cars registered on or after 23 March 2006.

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

Engine size	2007-08 ¹	2008-09	2009-10
1549cc and below	115	120	125
Above 1549cc	180	185	190

¹ Rates take effect from 22 March 2007.

OTHER INDIRECT TAXES AND DUTIES

Tobacco duty A.II8 From 6pm on 21 March 2007, tobacco duty rates will be indexed to maintain the real price of tobacco. (40)

Table A9: Changes to tobacco duties

	Effect of tax ¹ on typical item (increase in pence)	Unit
Cigarettes	11	packet of 20
Cigars	4	packet of 5
Hand-rolling tobacco	11	25g
Pipe tobacco	7	25g

¹ Tax refers to duty plus VAT.

Alcohol duties A.II9 Excise duty on spirits will be frozen; rates on beer, wine, sparkling wine and cider will be indexed, from 26 March 2007. (39)

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	5	75cl bottle typical strength
Sparkling wine	7	75cl bottle typical strength
Spirits	0	70cl bottle @ 37.5% abv
Spirits-based RTDs	0	275ml bottle @ 5.4% abv
Cider	1	Litre of cider typical strength
Sparkling cider	5	75cl bottle typical strength

¹ Tax refers to duty plus VAT.

Betting and gaming duties A.I20 Gaming duty bands are increased in line with inflation and rates have been changed for accounting periods starting on or after 1 April 2007: the 2.5 per cent starting is abolished; the 12.5 per cent rate increases to 15 per cent; and a new rate of 50 per cent is introduced on gross yield from gaming in excess of £10 million. (41)

A.I21 Remote gaming will be brought within the scope of gambling taxation at the rate of 15 per cent on an operator's gross profits. In addition, participation fees for remote gaming will not be liable to VAT. (*)

A.I22 Changes to align Amusement Machine Licence Duty categories with a DCMS Order will come into effect from midnight 21 March 2007. The rates of Amusement Machine Licence Duty will be frozen. (-)

A.I23 A measure will be introduced, with effect from Royal Assent and another appointed day, making consequential amendments to the Betting and Gaming Duties Act, the Finance Act 1993, and the Finance Act 1997 to ensure the scope and charging provisions of the betting and gaming duties are preserved. (-)

Small consignments relief A.I24 A measure will be introduced with effect from Royal Assent to repeal the UK relief from duty for small, non-commercial consignments of excise goods. (30)

PROTECTING TAX REVENUES

- Controlled Foreign Companies rules** **A.I25** As announced in the 2006 Pre-Budget Report, with effect from 6 December 2006, measures were introduced to amend the Controlled Foreign Companies (CFC) rules following the European Court of Justice (ECJ) judgment in Cadbury Schweppes, and to remove the public quotation exemption to prevent specific avoidance. (p)
- Structured finance** **A.I26** A measure to tackle avoidance involving structured finance schemes was announced on 6 June 2006 and enacted in Finance Act 2006. (q)
- Six year limitation period for direct tax claims** **A.I27** As announced in the 2006 Pre-Budget Report, legislation will be introduced to ensure that the limitation period for the recovery of direct tax paid by reason of mistake of law is six years from the date of payment. The provision will have retrospective effect, but will not disturb the entitlement of those who have secured what amounts to a final judgment in their favour prior to 6 December 2006. (-)
- Sideways loss relief** **A.I28** As announced on 2 March 2007, and with effect from that date, measures to counter avoidance will be introduced which prevent individuals using trading partnerships generating losses that can be claimed as sideways loss relief. (v)
- Insurance premium tax** **A.I39** A measure will be introduced, with effect from 22 March 2007, amending the Insurance Premium Tax definition of “premium” to prevent exploitation of a potential loophole. (*)
- Life policies and commissions** **A.I30** A measure will be introduced to prevent avoidance of tax using schemes involving life policies and commission arrangements. This applies to new policies made on or after 21 March 2007 and to existing policies if certain variations or exercises of options are made on or after that day. (-)
- Stamp Duty on Shares** **A.I31** As announced in the 2006 Pre-Budget Report, a package of measures will be introduced with effect from 1 November 2007 to ensure that reliefs for stamp duty on shares and Stamp Duty Reserve Tax continue to operate effectively following implementation of the EU Markets in Financial Instruments Directive (MiFID). (*)
- Stamp Duty Land Tax** **A.I32** As announced in the 2006 Pre-Budget Report, a package of measures was introduced, with effect from 6 December 2006 to counter schemes designed to avoid Stamp Duty Land Tax. (t)
- Capital gains tax** **A.I33** As announced in the 2006 Pre-Budget Report, a measure was introduced with effect from 6 December 2006 to counter schemes involving the creation and use of artificial capital losses to avoid tax. (u)
- Disclosure of tax avoidance schemes** **A.I34** As announced in the 2006 Pre-Budget Report, new powers will be introduced, with effect from Royal Assent, for HMRC to investigate a scheme where there are reasonable grounds to believe a promoter has failed to comply with a statutory disclosure obligation. (38)
- Corporate capital loss and gain buying** **A.I35** A measure will be introduced with effect from 22 March 2007, amending one of the targeted anti-avoidance rules on buying corporate gains and losses to ensure that it works as intended. (-)
- A.I36** A measure will be introduced, with effect from 6 March 2007, to prevent avoidance of tax on corporate gains using schemes involving options. (-)
- Life insurance** **A.I37** A measure will be introduced with effect from periods commencing on or after 1 January 2007 to simplify and strengthen the tax law relating to certain financing arrangements utilised by life insurance companies. (35)

- A.138** As announced in the 2006 Pre-Budget Report, a measure was introduced with effect from 6 December 2006 to ensure that any difference between the fair value of an asset held in an insurance company's long-term insurance fund and the admissible value of the asset under the regulatory rules is brought into account when the asset leaves the long-term insurance fund. (s)
- Penalties for incorrect returns** **A.139** A measure will be introduced, with effect from 1 April 2009, to align penalties across income tax, national insurance contributions, corporation tax and VAT. (-)
- Joint and several liability** **A.140** A measure will be introduced with effect from 1 May 2007 to extend the Joint and Several Liability provisions introduced in 2003 to counter MTIC fraud. Also from Royal Assent a power will be introduced to amend the circumstances in which VAT-registered businesses are presumed to have reasonable grounds to suspect that VAT will go unpaid to HMRC. (37)
- Employee benefit trusts** **A.141** A measure will be introduced with effect from 21 March 2007 to prevent schemes side-stepping anti-avoidance legislation relating to employee benefit trusts. (-)
- Sale and repurchase agreements** **A.142** A new accounts-based regime for taxing sale and repurchase (repo) agreements for companies will be introduced to replace the current rules. The measure will take effect from a date to be determined by Treasury Order. (32)
- Financial products** **A.143** As announced in the 2006 Pre-Budget Report, a package of measures was introduced, with effect from 6 December 2006, to prevent avoidance of tax using schemes involving financial products. Further measures were announced and effective from 6 and 7 March 2007. (r) (w)
- Double taxation relief** **A.144** As announced in the 2006 Pre-Budget Report, measures were introduced to prevent companies from avoiding the effect of legislation in Finance Act 2005 on the basis that the tax in respect of which double taxation relief is being claimed is UK tax rather than foreign tax. The changes apply to schemes where there is any action (or failure to act), any relevant tax is paid, or any relevant income is received, on or after 6 December 2006. (r)
- Sale of lessor companies** **A.145** As announced on 22 November 2006, measures were introduced with effect from that date to counter schemes which are intended to undermine legislation introduced in Finance Act 2006. Measures countering further schemes are announced with effect from 21 March 2007. (-)
- Loss-buying** **A.146** A measure will be introduced to prevent companies buying the trading losses of corporate members of Lloyd's who are leaving the market and with which they have no previous economic connection. The measure will be effective for changes in the ownership of corporate members on 21 March 2007. (36)

ADDITIONAL SPENDING AND DEBT MANAGEMENT DECISIONS

- 2007 Comprehensive Spending Review** **A.147** Budget 2007 sets firm overall departmental spending limits for the 2007 Comprehensive Spending Review (CSR) period of 2008-09, 2009-10 and 2010-11. This allows current spending to increase by an average of 1.9 per cent per year over three years and maintain net investment at $2\frac{1}{4}$ per cent of GDP. Final plans for DEL and AME spending will be set in the Comprehensive Spending Review. Budget 2007 announces that education spending will rise 2.5 per cent a year in real terms (5.3 per cent in nominal terms) on average over the CSR period.
- Annually Managed Expenditure** **A.148** In line with usual practice, Budget 2007 sets the Annually Managed Expenditure (AME) margin to £1 billion in 2007-08.
- Special reserve** **A.149** Budget 2007 allocates £400 million to the special reserve in 2007-08 to make provision for the continuing costs of military operations in Iraq and Afghanistan and other international commitments. (52)
- Schools standards grant** **A.150** The 2006 Pre-Budget Report announced a further £130 million direct to schools in England in 2007-08, including to support personalised teaching and extended services. These additions mean that direct payments to schools will rise to an average of £200 per pupil for primary schools and £225 per pupil for secondary schools. (ad)

BUDGET POLICY DECISIONS: APPENDICES

APPENDIX AI: MEASURES ANNOUNCED IN BUDGET 2006 OR EARLIER

AI.1 This appendix sets out a number of tax, benefit and other changes which were announced in Budget 2006 or earlier and which will take effect from April 2007 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 2006 or earlier which take effect from April 2007 or later

	(+ve is an Exchequer yield)			£ million
	2007-08 indexed	2008-09 indexed	2009-10 indexed	2007-08 non-indexed
<i>a</i> VAT Cash Accounting: increase in threshold for eligibility	-120	0	0	-120
<i>b</i> VAT: Countering Missing Trader Intra Community fraud	+135	+155	+120	+135
<i>c</i> Extension of paid maternity leave to 9 months	-385	-385	-385	-385
<i>d</i> NICs quinquennial review of contracted-out rebates	+25	+75	+175	+15
<i>e</i> Enhanced capital allowances for the cleanest biofuels production plants	0	-30	-20	0
<i>f</i> Extending the scope of R&D tax credits	-15	-40	-40	-15
<i>g</i> Work focussed interviews for lone parents	-20	0	0	-20
<i>h</i> Child Tax Credit: uprate child element in line with earnings in 2008-09 and 2009-10	0	-230	-520	0
<i>i</i> Inheritance tax: Increase threshold to £312k in 2008-09, £325k in 2009-10, and indexation thereafter	0	-10	-50	0
<i>j</i> Business Premises Renovation Allowance	-20	-30	-30	-20
<i>k</i> Broader definition of registered childcare	-35	-85	-130	-35
<i>l</i> Climate Change Levy revalorisation	0	0	0	+20
TOTAL POLICY DECISIONS	-435	-580	-880	-425

VAT cash accounting AI.2 As announced in the 2005 Pre-Budget Report, the turnover below which businesses are eligible for cash accounting is to be increased from £660,000 to £1.35m. This will take effect from 1 April 2007. (a)

Missing Trader Intra Community fraud AI.3 As announced in Budget 2006, and following receipt of the necessary derogation from EU law, from 1 June 2007, a change of VAT accounting procedure (the reverse charge) for certain goods, in order to counter MTIC fraud will be introduced. The costing has been revised to reflect a significant reduction in fraud levels, the revised start date, and a change in the coverage of the measure, which will apply to business-to-business transactions greater than £5,000 involving mobile telephones and computer chips. (b)

Statutory Maternity Pay AI.4 As announced in the 2004 Pre-Budget Report, paid maternity leave will be extended to 9 months from April 2007. (c)

- National insurance contributions** **AI.5** As announced on 1 March 2006, from April 2007 the reduction in total employer and employee NICs for individuals in defined benefit occupational schemes who have contracted out of the state second pension will increase from 5.1 per cent to 5.3 per cent. For individuals in defined contribution pension schemes who have contracted out, the NICs rebate below the age-related cap will increase by between 0.5 per cent and 1.9 per cent, while the cap will be reduced from 10.5 per cent to 7.4 per cent. (d)
- Capital allowance for biofuel production** **AI.6** As announced in the 2005 Pre-Budget report, subject to state aids approval, the Government will establish an Enhanced Capital Allowance scheme for the cleanest biofuels production plant. (e)
- R&D tax credits** **AI.7** As announced in Budget 2006, legislation will be introduced in Finance Act 2007 to extend the SME R&D tax credit scheme to companies with between 250 and 500 employees. The legislation will be activated at a later date subject to state aids approval from the European Commission and once activated the extension is expected to apply to R&D expenditure from 1 April 2007. (f)
- Lone parents** **AI.8** As announced in Budget 2006, from April 2007 all lone parents who have been on benefit for at least a year will, at a minimum, be required to attend a Work Focused Interview every six months. (g)
- Child Tax Credit** **AI.9** As announced in Budget 2006, the child element of the Child Tax Credit will increase at least in line with average earnings up to and including 2009-10. (h)
- Inheritance tax** **AI.10** As announced at Budget 2005, the nil-rate band for inheritance tax will rise faster than statutory inflation to £300,000 for new tax charges arising on or after 6 April 2007. As further announced at Budget 2006, it will continue to rise above forecast inflation to £312,000 in 2008-09, and £325,000 in 2009-10. (i)
- Business Premises Renovation Allowance** **AI.11** Businesses Premises Renovation Allowance (BPRA) will come into effect from 11 April 2007. This scheme will provide 100 per cent capital allowances for the costs of renovating business property that has been vacant for at least a year, in a deprived area as defined by the UK Assisted Areas map. The reduced costing for 2007-08 reflects the delayed implementation. (j)
- Registered childcare** **AI.12** In the context of the Childcare Act 2006, from April 2007 there will be a new Voluntary Ofsted Childcare Register. This will broaden the scope for new types of care to be Ofsted registered. (k)
- Climate Change Levy** **AI.13** As announced at Budget 2006, with effect from 1 April 2007 the rates of the Climate Change Levy will increase in line with inflation. (l)

APPENDIX A2: EXPLAINING THE COSTING

A2.1 This appendix explains how the Exchequer effects of the Budget measures are calculated. In the context of these calculations, the net Exchequer effects for measures may include amounts for taxes, national insurance contributions, social security benefits and other charges to the Exchequer, including penalties.

Calculating the costings

A2.2 The net Exchequer effect of a Budget measure is generally calculated as the difference between applying the pre-Budget and post-Budget tax and benefit regimes to the levels of total income and spending at factor cost expected after the Budget. The estimates do not therefore include any effect of the tax changes themselves on overall levels of income and spending. However, they do take account of other effects on behaviour where they are likely to have a significant and quantifiable effect on the cost or yield and any consequential changes in revenue from related taxes and benefits.

A2.3 These may 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 rate 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 normally costed in the order in which they appear in Tables A1, A2 and A1.1.

A2.4 The non-indexed base columns shown in Tables A1, A2 and A1.1 show the revenue effect of changes in allowances, thresholds and rates of duty, including the effect of any measures previously announced but not yet implemented, from their pre-Budget level. The indexed base columns strip out the effects of indexation by increasing the allowances, thresholds and rates of duty in line with their forecast assumptions.

A2.5 A policy which has been previously announced but not yet implemented is also stripped out of the indexed numbers. The indexed base has been calculated on the assumption that:

- income tax and national insurance allowances and thresholds, and the single person, couple, lone parent and disabled worker elements of the Working Tax Credit, inheritance tax nil-rate band allowance threshold and the capital gains tax annual exempt amount all increase in line with the Retail Price Index (RPI) to the September prior to the Budget;
- the child element of the Child Tax Credit rises in line with the annual increase in average earnings in the year to the second quarter prior to the Budget, until 2009-10;
- air passenger duty, climate change levy, aggregates levy, vehicle excise duty, fuel, tobacco and alcohol duties all rise in line with the projected annual increase in the RPI to the third quarter following the Budget; and
- VAT thresholds and gaming duty bands rise in line with the increase in the RPI to the December prior to the Budget.

A2.6 Implementation dates are assumed to be: Budget day for fuel and tobacco duties; the first Monday after Budget day for alcohol duties; May for amusement machine licence duty; July for insurance premium tax, and April for all other taxes, duties and tax credits, including air passenger duty from 2008.

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

A2.8 These costings are shown on a National Accounts basis. The National Accounts basis aims to recognise tax when the tax liability accrues irrespective of when the tax is received by the Exchequer. However, some taxes are scored on a receipts basis, principally due to the difficulty in assessing the period to which the tax liability relates. Examples of such taxes are corporation tax, self-assessment income tax, inheritance tax and capital gains tax. This approach is consistent with other Government publications.

Notes on individual Budget measures

VAT: cash accounting **A2.9** The cost of this measure has been revised since Budget 2006 to take into account new assumptions on projected take up following recent external research.

Zero-carbon homes and stamp duty **A2.10** The Exchequer cost is expected to rise to around £15 million by 2011-12.

General insurers' reserves **A2.11** The Exchequer yield is expected to reduce gradually to zero by 2013-14.

APPENDIX A3: TAX ALLOWANCES AND RELIEFS

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

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

A3.3 Many allowances and reliefs can reasonably be regarded (or partly regarded) as an integral part of the tax structure – so called 'structural reliefs'. Some do no more than recognise the expense incurred in obtaining income. Others reflect a more general concept of 'taxable capacity'. The personal allowances are a good example: to the extent that income tax is based on ability to pay, it does not seek to collect tax from those with the smallest incomes. However, even with structural reliefs of the latter kind, the Government has some discretion about the level at which they are set. Many other reliefs combine both structural and discretionary components. Capital allowances, for example, provide relief for depreciation at a commercial rate as well as an element of accelerated relief. It is the latter element which represents additional help provided to business by the Government and is a 'tax expenditure'.

A3.4 The loss of revenue associated with tax reliefs and allowances cannot be directly observed, and estimates have to be made. This involves calculating the amount of tax that individuals or firms would have had to pay if there were no exemptions or deductions for certain categories of income or expenditure, and comparing it with the actual amount of tax due.

A3.5 The estimates in Table A3.1 below show the total cost of each relief. The classification of reliefs as tax expenditures, structural reliefs and those elements combining both is broadbrush and the distinction between the expenditures and structural reliefs is not always straightforward. In many cases the estimated costs are extremely tentative and based on simplifying assumptions and must be treated with caution. The figures make no allowance for the fact that changes in tax reliefs may cause people to change their behaviour. This means that figures in Table A3.1 are not directly comparable with those of the main Budget measures shown earlier in this chapter.

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

A3.7 The estimated costs of reliefs and allowances given in Table A3.1 are costed separately and cannot be added up to give a meaningful total. The combined yield of withdrawing two related allowances could differ significantly from the sum of individual costs. Similarly the sum of the costs of component parts of reliefs may differ from the total shown.

A3.8 The Government regularly publishes estimates of tax expenditures and reliefs. Largely because of the difficulties of estimation, the published tables are not comprehensive but do cover the major reliefs and allowances. The figures are shown on a full-year accruals basis unless otherwise specified and only reliefs with an estimated annual costs of at least £50 million are shown. The costs of minor tax reliefs can be found on the HM Revenue and Customs website. 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 2006

Pre-Budget Report.

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

	£ million	
	2005-06	2006-07
TAX EXPENDITURES		
Income tax		
Relief for:		
Approved pension schemes	14,300	16,300
Share Incentive Plan	250	280
Approved savings-related share schemes	120	140
Enterprise Management Incentives	110	120
Approved Company Share Option Plans	170	190
Personal Equity Plans	450	475
Individual Savings Accounts	1,350	1,625
Venture Capital Trusts	325	75
Enterprise Investment Scheme	160	140
Professional subscriptions	80	80
Rent a room	100	100
Exemption of:		
First £30,000 of payments on termination of employment	800	800
Interest on National Savings Certificates including index-linked certificates	110	150
Premium Bond prizes	170	200
Income of charities	1,100	1,200
Foreign service allowance paid to Crown servants abroad	90	95
First £8,000 of reimbursed relocation packages provided by employers	300	300
Life assurance premiums (for contracts made prior to 14 March 1984)	55	50
Personal Tax Credits	4,400	4,600
Corporation tax		
R&D tax credits	440	450
Income tax and corporation tax		
Small budget film tax relief	420	240
Large budget film tax relief	280	240
National insurance contributions		
Relief for:		
Share Incentive Plan	170	190
Approved savings-related share schemes	80	90
Approved company share-option plans	50	60
Employer contributions to approved pension schemes		
Capital gains tax		
Exemption of gains arising on disposal of only or main residence	13,000	15,000

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

	£ million	
	2005-06	2006-07
Inheritance tax		
Relief for:		
Agricultural property	210	240
Business property	320	370
Exemption of transfers to charities on death	460	530
Value added tax		
Zero-rating of:		
Food	10,500	10,800
Construction of new dwellings (includes refunds to DIY builders)	7,200	7,700
Domestic passenger transport	2,200	2,250
International passenger transport (UK portion)	100	100
Books, newspapers and magazines	1,600	1,650
Children's clothing	1,200	1,250
Water and sewerage services	1,200	1,200
Drugs and supplies on prescription	1,150	1,200
Supplies to charities	200	200
Ships and aircraft above a certain size	600	650
Vehicles and other supplies to disabled people	400	450
Reduced rate for:		
Domestic fuel and power	2,200	2,200
Certain residential conversions and renovations	150	150
Energy-saving materials	50	50
Women's sanitary products	50	50
STRUCTURAL RELIEFS		
Income tax		
Personal allowance	40,200	42,000
Corporation tax		
Life companies reduced rate of corporation tax on policy holders' fraction of profit	1,050	1,250
Income tax and corporation tax		
Double taxation relief	10,000	10,000
National insurance contributions		
Contracted-out rebate occupational schemes:		
Rebates deducted at source by employers	7,200	7,500
Rebates paid by the Contributions Agency direct to the scheme	200	200
Personal and stakeholder pensions	2,400	2,200

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

	£ million	
	2005-06	2006-07
Value added tax		
Refunds to:		
Northern Ireland government bodies of VAT incurred on non-business purchases under the Section 99 refund scheme	300	350
Local Authority-type bodies of VAT incurred on non-business purchases under the Section 33 refund scheme (includes national museums and galleries under the Section 33A refund scheme)	7,150	7,750
Central government, health authorities and NHS Trusts of VAT incurred on contracted-out services under the Section 41(3) refund scheme	3,900	4,750
RELIEFS WITH TAX EXPENDITURE AND STRUCTURAL COMPONENTS		
Income tax		
Age-related allowances	2,400	2,400
Reduced rate for savings	200	210
Exemption of:		
British Government securities where owner not ordinarily resident in the UK	1,230	1,230
Child Benefit (including one parent benefit)	1,090	1,130
Long-term incapacity benefit	220	230
Industrial disablement benefits	60	60
Attendance allowance	120	120
Disability living allowance	360	370
War disablement benefits	60	70
War widow's pension	30	30
Corporation tax		
Small companies' reduced corporation tax rate	3,970	4,500
Starting rate of corporation tax	430	0
Exemption for gains on substantial shareholdings	260	260
Income tax and corporation tax		
Capital allowances	18,200	19,400
Of which:		
First year allowances for SMEs	380	620
Enhanced capital allowances for energy saving technology	170	130
Accelerated capital allowances for Enterprise Zones	120	40
Capital gains tax		
Indexation allowance and rebasing to March 1982	300	280
Taper relief	4,620	6,020
Exemption of:		
Annual exempt amount (half of the individual's exemption for trustees)	2,000	2,300
Gains accrued but unrealised at death	690	710

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

	£ million	
	2005-06	2006-07
Petroleum revenue tax		
Uplift on qualifying expenditure	80	110
Oil allowance	790	860
Safeguard: a protection for return on capital cost	40	50
Tariff receipts allowance	80	50
Exemption for gas sold to British Gas under pre-July 1975 contracts	40	60
Inheritance tax		
Nil-rate band for chargeable transfers not exceeding the threshold	10,400	11,300
Exemption of transfers on death to surviving spouses	2,000	2,200
Stamp Duty Land Tax		
Exemption of transfers of land and property where the consideration does not exceed the £120,000 threshold in 2005-06 and the £125,000 threshold in 2006-07 and non-residential land and property where the consideration does not exceed the £150,000 threshold	520	580
Exemption of all residential transfers in designated disadvantaged wards where the consideration exceeds £120,000 in 2005-06, £125,000 in 2006-07 but does not exceed £150,000	50	50
Transfers to charities	120	120
Group relief	1,510	1,530
Transfers to registered social landlords	60	60
National insurance contributions		
Reduced contributions for self-employed not attributable to reduced benefit eligibility (constant cost basis)	1,700	1,800
Value Added Tax		
Exemption of:		
Rent on domestic dwellings	3,150	3,350
Supplies of commercial property	150	150
Private education	300	300
Health services	850	900
Postal services	500	500
Burial and cremation	100	100
Finance and insurance	3,950	4,200
Betting and gaming and lottery duties	1,250	1,350
Small traders below the turnover limit for VAT registration	900	950
Vehicle Excise Duty		
Exemption for disabled motorists	160	170

