

## **BUDGET 2001 - INVESTING FOR THE LONG TERM**

### **HM Treasury 1**

#### **7 March 2001**

New measures to build opportunity and prosperity for all are set out in the Budget delivered by Chancellor Gordon Brown today.

The Budget locks in continued economic stability and underpins the significant expansion of key public services planned over the next three years, while taking further steps to meet the Government's long-term economic goals.

The Budget includes targeted tax cuts to promote work and enterprise and to provide support for families, savers and pensioners. As a result of continued prudent management of the public finances, it is also able to allocate an additional £2? billion over the next three years for education, health and fighting drugs and drug-related crime.

As a result of personal tax and benefit measures in this Budget all households will on average be £150 a year better off compared with indexation.

As a result of personal tax and benefit measures taking effect this year:  
all households will on average be £240 a year better off compared with indexation; and families with children will on average be £420 a year better off compared with indexation.  
As a result of changes introduced over the Parliament as a whole:  
all households will on average be £590 a year better off compared with indexation; and families with children will be £1,000 a year better off compared with indexation.  
The direct tax burden on a single-earner family on average earnings with two children will be the lowest since 1972.

#### **Budget Measures**

Key measures in Budget 2001 are:

an additional £2? billion for key public services over the next three years, consisting of an extra £1 billion for education, £1 billion for health and £? billion for fighting drugs and drug-related crime;

a widening of the 10p income tax band by £300 over and above inflation benefiting 25 million taxpayers, and increasing the number of people only paying tax at 10p to nearly 3 million;

an increase in the Children's Tax Credit to £10 a week from its introduction in April 2001 and to £20 a week from April 2002 for families in the year of a child's birth;

a £5 a week increase in the basic credit in the Working Families' Tax Credit from June 2001;

major package on maternity pay and parental leave including an increase in Statutory Maternity Pay to £100 a week and an extension of the period of Statutory Maternity Pay from 18 to 26 weeks from April 2003, and the right to two weeks of paid paternity leave for working fathers from 2003;

an increase in the National Minimum Wage for workers aged 22 and over to £4.10 an hour from October 2001 and, subject to the economic conditions at the time, £4.20 an hour from October 2002, as announced on 5 March;

no change in alcohol duties and an increase in tobacco duties in line with inflation from 6pm on Budget day;

a 2p a litre duty cut on ultra-low sulphur petrol (matched by a cut in duty on unleaded petrol until 14 June 2001) and a 3p a litre duty cut on ultra-low sulphur diesel both from 6pm on Budget Day;

a freeze in all car and motorcycle VED rates and an extension of the small car threshold for VED for existing cars to 1,549cc including some Ford Escorts, Vauxhall Astras, Nissan Micras and Rover Metros, plus a major reform of lorry VED reducing UK rates to among the lowest in Europe for the cleanest lorries; and

consultation on proposals for a new tax credit to boost R&D by large firms.

### **Delivering Economic Stability**

Budget 2001 demonstrates the Government's continued commitment to delivering economic stability and avoiding a return to the boom and bust cycles of the past.

Pre-emptive action and tough choices under the new frameworks for both monetary and fiscal policy are delivering a stable economy, with unemployment at its lowest level since the 1970s and inflation at its lowest level for over 30 years. The number of people in work in Britain has risen to record levels.

The Government's prudent and responsible approach to fiscal policy has restored the public finances to a sustainable position while enabling new resources to be allocated to key priorities. Today's Budget:

reaffirms the target of 2½ per cent for the 12-month increase in the Retail Prices Index excluding mortgage interest payments (RPIX) which applies at all times;

ensures that the Government remains on track to meet its two strict fiscal rules;

locks in the tough fiscal stance set out in Budget 2000 and the Pre-Budget Report;

underpins the substantial investment in Britain's key public services over the next three years set out in the 2000 Spending Review; and

introduces a further package of targeted tax cuts to reward work and enterprise and help families, savers and pensioners, while allocating new resources for education, health and fighting drugs and drug-related crime.

#### **Providing Strong Public Services**

The Government's goal is to deliver the best public services that everyone can rely on. The 2000 Spending Review set out substantial increases in resources from this April focused on priority services including health, education, transport and tackling crime.

As a result of prudent management of the public finances, Budget 2001 is able to add to these resources by allocating an extra £2? billion over the next three years for key public service priorities:

an extra £1 billion for education (£290/330/380 million). In England, additions of £837 million<sup>[1]</sup> over three years will go to schools. £600 million over three years will go direct to head teachers to modernise buildings and equipment and improve pupil attainment. This will mean primary schools will receive additional direct payments of between £3,000 and £13,000 a year; and secondary schools will get additions of between £10,000 and £23,000 a year. A

further £200 million fund will help schools implement new recruitment and retention incentives for teachers;

an extra £1 billion for health (£360/350/290 million). In England, additions of £835 million over three years will go direct to the NHS. £450 million will go to frontline hospital investment to help pay for new equipment such as scanners, and to replace old Nightingale wards. Each of the acute hospital trusts will get between £½ million and £1 million a year. A further new fund for recruitment and retention will help to tackle shortages of key staff in the health service; and

an extra £0.3 billion to help tackle drugs (£70/110/155 million). In England and Wales, additions of £220 million over three years will go straight to Crime and Disorder Reduction Partnerships to help local communities drive out drugs and drug-related crime. Each of the 376 Partnerships will get up to £0.5 million over three years and those with larger areas and the worst problems to tackle, up to £1 million over three years. Further resources will also be provided to support voluntary action against drugs by leaders of the business and sporting worlds.

Further details of each of these packages will be announced shortly.

The Pre-Budget Report confirmed that the Chancellor was commissioning a long-term assessment of the technological, demographic and medical trends over the next two decades that will affect the health service. The review will be led by Derek Wanless, former Group Chief Executive of Nat West Bank, who will report to the Chancellor in time for the start of the next Spending Review in 2002.

## **Meeting the Productivity Challenge**

Raising Britain's productivity performance is a key route to higher prosperity and living standards.

The Government has set a goal of achieving a faster rise in productivity than in Britain's major competitor countries over the next decade to help close the productivity gap which currently exists with many other major economies.

Recognising that this productivity challenge is not one for Government alone, the Government last year invited the CBI and the TUC to work together on an agenda to improve productivity. The CBI and TUC have endorsed this approach. Four working groups have been set up focusing on: training, investment, innovation, and dissemination and application of best practice. They intend to come forward with proposals before the 2001 Pre-Budget Report concentrating on what employers, unions and the Government can do in each of these areas to boost productivity.

A separate paper published alongside the Budget, *Productivity in the UK: Progress towards a productive economy*, takes stock of the UK's productivity performance to date.

Building on a range of measures introduced by the Government so far, Budget 2001 takes further steps to meet the productivity challenge:

## **R&D and innovation**

consultation on proposals for a new tax credit to boost research and development (R&D) and innovation by large firms, to complement the R&D tax credit for small firms introduced in April 2000. A consultation document, *Increasing Innovation*, issued alongside the Budget seeks views on the main design issues of such a tax incentive (see REV 2 for further details);

the Government is also launching an independent study into the supply of highly-skilled scientists and engineers in the UK to ensure that the mechanisms linking business and higher education work as effectively as possible. The study will be led by Sir Gareth Roberts, latterly Vice Chancellor of Sheffield University, and should be completed by February 2002. Combined with new and existing tax incentives and an outstanding science base, this should ensure that the UK remains one of the best places in the world in which to innovate and do R&D;

the Chancellor and the Secretary of State for Trade and Industry have appointed Professor Martin Cave to conduct the review of the management of the radio spectrum which was announced in the Pre-Budget Report. The review will set out its interests for consultation more fully in the next couple of weeks;  
Small businesses

confirmation of proposals announced in the Pre-Budget Report to reduce the impact of VAT on small businesses, with a package of measures from April 2001 to allow them to manage their entry into the VAT system, reduce their VAT administration burden and improve their cash flow (see REV/C&E 1 for further details);

consultation on a proposal to help reduce the administrative burdens on business through a radical simplification of the way in which small businesses are required to calculate the tax due on their profits by aligning their profits for tax purposes much more closely with those reported in their accounts (see REV/C&E 1 for further details);

an expansion of Enterprise Management Incentives (EMIs) so that small businesses can make more flexible use of the benefits in a way best suited to their needs. The Government has decided to go further than the option set out for consultation in the Pre-Budget Report, and from April 2001 the 15 employee limit will be abolished and replaced by a £3 million per company limit on the total value of shares under EMI option – double the current £1.5 million per company limit (see REV/C&E 1 for further details);

### **Institutional investment**

The Government intends to take forward all the recommendations made by Paul Myners in his review of institutional investment in the UK which was published yesterday. In particular, the Government:

believes that the principles for institutional decision-making set out in the report are correct and agrees that, following short consultation on the detail of the principles, pension funds and in due course other institutions should set out publicly where they do not comply with any of these and why. The Government is willing to legislate if necessary to ensure that this happens;

will undertake a public assessment in two years' time of the effectiveness of the principles in bringing about behavioural change;

will legislate to require trustees to be familiar with the investment issues on which they are making decisions and to incorporate the principle of the US Department of Labor interpretative bulletin on shareholder activism into UK law;

will restore the differential between the rate of taxation on the withdrawal of pension fund surpluses and the rate of corporation tax to its original level, and change the taxation of insurance companies' limited partnership investments to taxation of the gains as distributed from the fund;

agrees that it would be helpful if the Law Commission were to examine whether legal change could clarify ownership of pension fund surpluses;

will consult on abolishing the 20-partner limit for limited partnerships, and will remove the requirement for pension funds to invest in limited partnerships through an FSA-authorized person; and

will commission an independent review of capital and information flows around personal investment products.

believes that the Minimum Funding Requirement (MFR) should be abolished and replaced by a long-term scheme-specific approach based on transparency. The Government also wishes to draw on a number of points from consultation responses including, in particular, useful suggestions from the National Association of Pension Funds. The Government will legislate to replace the MFR with a long-term scheme-specific funding standard, with additional protective measures, including a statutory duty of care for the scheme actuary, stricter rules on voluntary wind-up and extension of compensation for fraud. Details can be found in a document, Security for Occupational Pensions published today by the DSS and HM Treasury;

### **Skills**

examining the need for further action - including from Government - to address the low level of skills in the workforce;

### **Company tax**

publishing the details of the proposed new regime for providing relief to companies for the costs of intellectual property, goodwill and other intangible assets; and announcing further consultation on the options for introducing relief for companies on the disposal of substantial shareholdings (see REV 2 for further details);

an extension of film tax relief until 2005, worth up to £200 million to the British film industry over three years (see REV 4 for further details);

### **Competition**

the Government welcomes the Office of Fair Trading report on restrictions on competition in the professions which has been published today. The report makes a number of recommendations on how competition in these markets can be increased and restrictions on the way in which professional services are supplied could be lifted. These potentially provide significant savings and increased flexibility for consumers of these services. The Secretary of State for Trade and Industry will be announcing the Government's response;

### **Regional development**

building on the steps taken in the Pre-Budget Report to increase the budgetary flexibility of Regional Development Agencies (RDAs) and provide a new Strategy Fund for innovative schemes, Budget 2001 announces that the RDAs will be given full financial flexibility from 2002-03, including full end-year flexibility to carry over their resources from one year to the next. This increased flexibility will be matched with increased accountability through objectives and targets for meeting their strategic goals under the Single Budget. These objectives and targets will be announced by the Deputy Prime Minister shortly; and

the Government is taking forward all five recommendations which were made by Sir Ronald Cohen's Social Investment Taskforce in October 2000 and accepted in the Pre-Budget Report. The Government published a consultation document on 1 March on a new tax credit for community investment to encourage private investment in enterprises in disadvantaged

communities. Further measures to promote regeneration are set out in the section on Protecting the environment.

### **Increasing Employment Opportunity For All**

The Government is committed to creating employment opportunity for all – the modern definition of full employment – through a strategy to help people to move from welfare to work, ease the transition to work and make work pay. It has set a goal that, by the end of the decade, there will be a greater proportion of people in work than ever before.

Today's Budget takes further steps towards ensuring that every person in every region of the country who is able to work has the opportunity to do so:

widening the 10p income tax band by £300 over and above indexation to cover the first £1,880 of taxable income. This will benefit 25 million taxpayers and increase the number of these only paying tax at 10p to nearly 3 million;

working families will receive additional support through a £5 a week increase in the basic credit in the Working Families' Tax Credit (WFTC) from June 2001, on top of increases in line with indexation from April 2001. These increases will be matched in the Disabled Person's Tax Credit (DPTC);

the childcare tax credit within WFTC and DPTC is currently worth 70 per cent of eligible childcare costs up to £100 a week for a family with one child and £150 for a family with two or more children. To provide further help with childcare costs, the limits will be increased to £135 a week for childcare costs for one child and to £200 a week for two or more children from June 2001. The Government will also consider how to help families who need to use formal childcare in the home, for example by extending the childcare tax credit;

the National Minimum Wage underpins the Government's tax and benefit reforms. Volume I of the Low Pay Commission's Third Report was published on 5 March and the Government announced that it will increase the National Minimum Wage for workers aged 22 and over from its current £3.70 an hour to £4.10 an hour from October 2001 and, subject to the economic conditions prevailing at the time, £4.20 an hour from October 2002. Workers aged 18-21 and trainees are entitled to a rate of £3.20 an hour. The Low Pay Commission will report on these development rates in May 2001, at which point the Government will consider its recommendations for these groups;

within the New Deal for Lone Parents there will be further help with training, starting up in self employment and up-front childcare costs, and a new outreach service for lone parents and partners;

from April 2002, to ensure that lone parents are aware of the help available to them through the New Deal, all lone parents on Income Support will be required to attend work-focused interviews and an additional interview will be introduced at the six-month stage in the Income Support claim; and

resources will be allocated to enhance the New Deal and other programmes over the coming three years, focusing on employer needs, the hardest to help and the most disadvantaged areas. Additional resources will be invested to tackle the problems facing claimants whose drug problems may be hindering their job search.

### **Fairness For Families And Communities**

The Government is committed to building a fairer and more inclusive society in which everyone can benefit from rising prosperity. Budget 2001 includes new measures to tackle child poverty, provide security in old age and ensure a fair and efficient tax system.

### **Supporting families and tackling child poverty**

The Government has set a goal to halve child poverty in 10 years on the way to abolishing it within 20 years. The Government is already making significant progress. As a result of measures introduced in this and previous Budgets, over 1.2 million children will be lifted out of poverty.

By October 2001, as a result of personal tax and benefit measures introduced during this Parliament, including in this Budget:

all families with children will, on average, be £1,000 a year better off;

a family on average earnings of £25,400 a year with two children will be £520 a year better off and have the lowest direct tax burden since 1972; and

a family on half average earnings of £12,700 a year with two children will be £3,000 a year better off.

Budget 2001 takes significant further steps to support families and children and tackle child poverty:-

the value of the Children's Tax Credit will be increased from the previously announced £8.50 a week to £10 a week from its introduction in April 2001, making it worth up to £520 a year for around 5 million taxpaying families;

to recognise the additional costs of a new child in the first year, from April 2002 the Children's Tax Credit will be increased by a further £10 a week for families in the year of a child's birth. This means that it will be worth up to £20 a week, £1,040 a year, for some 500,000 families each year;

increases in the WFTC and DPTC basic credits by £5 a week from June 2001, as set out above;

an increase in the child premia in Income Support and Jobseeker's Allowance by £1.50 a week from October 2001 as recipients of these benefits will not benefit from the increase in the Children's Tax Credit; and

a £½ billion a year package of measures on maternity and paternity pay. These include:

an increase in the flat rate of Statutory Maternity Pay (SMP) and Maternity Allowance from its present £60.20 a week to £75 a week from April 2002 and £100 from April 2003;

an extension of the period of maternity pay at this enhanced rate from 18 weeks to 26 weeks from April 2003;

the right to two weeks of paid paternity leave for working fathers from 2003, paid at the same flat rate as SMP;

paid adoption leave when a child is first placed with a family, to allow one of the adoptive parents to take paid leave for the same period and at the same flat rate as SMP;

doubling of the threshold for Small Employer Relief to £40,000 from April 2002, so that around 60 per cent of all firms paying SMP each year can reclaim their costs in full, plus compensation; and

further increase in the Sure Start Maternity Grant from £300 to £500 in April 2002. As announced in the Pre-Budget Report, the £500 capital limit will be abolished from October 2001.

These measures complement the reforms to the Working Families' Tax Credit announced in Budget 2000 and which start this April. Taking the rise in maternity pay and the increased Children's Tax Credit together, there will be up to £2,200 extra in the first year for families with a new baby.

The Secretary of State for Trade and Industry will bring forward in due course further detailed proposals following the Green Paper Work and Parents: Competitiveness and Choice launched in December 2000.

### **Fairness for pensioners**

The November 2000 Pre-Budget Report announced a comprehensive set of reforms for pensioners - based around the principles of acting to end pensioner poverty, enabling today's workforce - tomorrow's pensioners - to plan ahead to make decent provision for their retirement, rewarding today's low and modest income pensioners, and treating pensioners in the tax system fairly.

The Pre-Budget Report set out the Government's proposals for a Pension Credit to be introduced from 2003. The Pension Credit will give extra support to around half of all pensioner households by rewarding low and modest retirement incomes above the level of the basic state pension. It will modernise the system by abolishing the capital rules and weekly means test, and act to end pensioner poverty by simplifying and increasing the Minimum Income Guarantee (MIG) and by linking this to the rise in earnings throughout the next Parliament.

However, the Pre-Budget Report made clear that the Government was determined to deliver benefits ahead of the introduction of the Pension Credit. The Budget:

confirms the Pre-Budget Report announcement that the basic state pension will rise by £5 to £72.50 a week in April 2001, and by a further £3 to £75.50 a week in April 2002 for single pensioners. For couples, there will be an increase of £8 to £115.90 a week in April 2001, and a further £4.80 to £120.70 a week in April 2002;

confirms that the lower rates of the MIG will be increased to its highest rate, raised by earnings and then further by the rise in the basic state pension, so that from April 2001 the new, simplified MIG will be £92.15 a week for single pensioners and £140.55 a week for couples; and

raises the age-related personal allowances by £240 over and above indexation from April 2003. On current forecasts, this would take the allowances to £6,510 for those aged 65-74 and £6,800 for those aged 75 and over. The Government has also decided to raise these allowances by reference to the rise in earnings rather than prices throughout the remainder of the next Parliament.

From April 2001, the average pensioner household will be £600 a year - over £11 a week - better off than in 1997 as a result of the personal tax and benefit changes introduced by this Government.

### **A fair and modern tax system**

the Budget freezes the duties on alcohol and increases tobacco duties in line with inflation (see C&E 2 for further details);

General Betting Duty will be replaced with a Gross Profits Tax by 1 January 2002. Under the new system, the current duty of 6.75 per cent on total stakes will be replaced with a 15 per cent tax on bookmakers' gross profits, defined as the difference between the stakes laid with them and the winnings they pay out. This reformed structure makes it possible for bookmakers to absorb the tax and to end the 9 per cent 'deduction' that they currently charge on stakes (see C&E 1 for further details);

series of reforms to VAT to promote fairness including a reduction in VAT on children's car seats to 5 per cent; widening the range of vehicles available to be purchased VAT free by people with disabilities; simplification and updating of the VAT zero rate on children's clothing and footwear to allow more children to benefit; and a new scheme that will refund national museums and galleries the VAT they incur on their purchases when they allow the public free admission (see C&E 3 for further details);

over the next few months the Government will consult on whether tax relief might help community amateur sports clubs that make a positive contribution to their local communities; and

proposals for a new tax credit for research and development on drugs and vaccines to tackle the major killer diseases of the developing world and a new incentive to encourage the pharmaceutical industry to raise the level of donations of drugs and vaccines to developing countries (see REV 2 for further details).

## **Protecting the Environment**

The Government is committed to taking action to tackle climate change and improve local air quality, including through the modernisation of road transport, regenerate Britain's towns and cities, and protect Britain's countryside.

Budget 2001 introduces a number of measures proposed in the Pre-Budget Report plus additional ones to help deliver the Government's environmental strategy.

Tackling climate change and improving air quality

The Government has already taken significant steps to tackle climate change:

the climate change levy package comes into effect on 1 April 2001. This will encourage energy efficiency and the use of renewables and "good quality Combined Heat and Power (CHP)", reducing carbon emissions by at least 5 million tonnes a year by 2010. Every penny of levy revenues will be recycled through a 0.3 percentage point reduction in employers' NICs and a package of support for energy efficiency;

independent research shows that the average firm could save around 15-20 per cent of energy costs and benefit the environment by improving their energy efficiency. The Government is investing £100 million over three years in the new Carbon Trust – which will provide free energy efficiency advice to businesses and promote low carbon technologies. £50 million of climate change levy revenues over three years will also be invested in developing renewable technologies;

firms can benefit from 100 per cent capital allowances on a range of energy saving technologies. The new Energy Technology List will be published by 1 April and will be

available at [www.eca.gov.uk](http://www.eca.gov.uk). Firms can further reduce their climate change levy liability by using 'levy-free' new renewables and CHP energy sources;

a £100 million package of measures announced yesterday to promote environmental technologies, including additional support for renewables such as off-shore wind and energy crops; and

the Government will consult during the summer on a Green Technology Challenge to make further use of accelerated first year capital allowances to encourage the development of environmentally-friendly technologies.

The transport measures described below are also designed to promote air quality.

### **Modernising road transport**

Following the various consultations announced in the Pre-Budget Report, the Budget sets out a package of measures aimed at encouraging cleaner road transport, improving access to cheaper motoring for people who need to use their cars and enhancing the efficiency and environmental sustainability of the UK haulage industry.

Taken together the package of measures is equivalent to reducing motorists' costs by 4 pence per litre in the price of petrol and cutting hauliers' costs by 7 pence per litre in the price of diesel.

Full details of the Budget road transport measures are provided in the separate press notice HMT/DETR 1.

The main road transport measures implemented in this Budget, in addition to the cash freeze in all road fuel and other oil duties announced in the Pre-Budget Report are:

a 2 pence per litre reduction in the duty on ultra-low sulphur petrol (ULSP) from 6pm today. From 6pm today until 14 June 2001, the duty on unleaded petrol will also be reduced by 2 pence per litre to guard against any disruption to the wholesale and retail markets in the final stages of transition to ULSP. In this way all consumers will benefit from the ULSP duty cut as soon as possible. By the end of this temporary period ULSP, which offers real benefits to local air quality, will be available to all petrol retailers – independent retailers as well as major oil companies – across the UK;

a 3 pence per litre reduction in duty on ultra-low sulphur diesel (ULSD) from 6pm today, to maintain the existing balance between the duty rates on the main forms of petrol and diesel;

abolition of the duty premium on lead replacement petrol and 'super-unleaded' petrol so that it will in future have duty levied according to the sulphur and aromatics content;

as part of the Government's Green Fuels Challenge to encourage environmentally-friendly alternative fuels, the duty on road fuel gases will be cut by the equivalent of 3 pence per litre and not increased in real terms until at least 2004, while Budget 2002 will introduce a new duty rate for biodiesel set at 20 pence per litre below the ULSD duty rate. The Government will also support a number of pilot projects for hydrogen, methanol, bioethanol and biogas through special duty reductions or exemptions;

a freeze in all car, motorcycle and bus vehicle excise duty (VED) rates until Budget 2002;

an extension of the small car VED threshold for cars registered before 1 March 2001 from 1,200cc to 1,549cc from 1 July 2001, backdated to November 2000, providing benefit to a further 5 million car owners;

as proposed in the Pre-Budget Report, a two-stage reform of authorised mileage rates from April 2001 to encourage the use of cleaner cars for business purposes and a range of measures to encourage the use of public transport and green travel plans at a total Exchequer cost of £40 million in 2001-02;

a major reform of lorry VED to be introduced from 1 December 2001, reducing the total burden that lorry VED imposes on the haulage industry and bringing UK rates down to among the lowest in Europe for the cleanest lorries. In the meantime, the transitional arrangements announced in the Pre-Budget Report remain in place, with rebates of up to 50 per cent for licences in force on 30 November 2000 and lorry VED rates reduced by up to 50 per cent from 1 December 2000;

initial allocations from the £100 million Haulage Modernisation Fund announced in the Pre-Budget Report; and

abolition of VED on tractors, similar agricultural vehicles and other vehicles which currently qualify for the special concessionary rate from 1 April 2001, saving farmers in total over £10 million a year. Rebates will be automatically paid out for outstanding months on current VED discs in May 2001, with the rebate backdated to 1 March 2001.

### **Regenerating towns and cities and protecting the countryside**

Budget 2001 fully implements the package of urban regeneration measures announced in the Pre-Budget Report. Combined with new announcements in the Budget, this takes the value of the urban regeneration package to over £1 billion over five years. The key elements of the package, to take effect shortly after Royal Assent, are:

complete stamp duty exemption for all property transactions in the most disadvantaged parts of the UK to encourage businesses and families to locate in these areas. The list of areas which will qualify for the relief from the exemption will be published in due course; a new 150 per cent accelerated payable tax credit to cover the costs of cleaning up contaminated land to help tackle the blight of the past – going further than the 100 per cent relief announced in the Pre-Budget Report;

100 per cent capital allowances to cover the costs of providing flats over commercial premises for letting to help bring life back in to Britain's high-streets; and reducing the rate of VAT to 5 per cent for the cost of converting residential properties into a different number of dwellings and an adjustment to the zero rate of VAT to provide relief for the sale of renovated houses which have been empty for 10 years or more.

### **Budget 2001 also announces:**

a reduction in the rate of VAT to 5 per cent on the costs of renovating homes which have been empty for three years or more; and

an extension of the reduced rate of VAT to cover conversions of residential property into residential communal homes such as care homes and homes with multiple occupation.

the Pre-Budget Report announced that the Government was attracted to the idea of a reduced rate of VAT for the repair and maintenance of listed buildings which are used as places of worship. The Commission has indicated that this will be considered in their general review of reduced rates of VAT in 2003. In the interim, the Government is introducing a UK-wide grant scheme, the effect of which will be to reduce the VAT cost to 5 per cent for new work undertaken from 1 April 2001. The Department for Culture, Media and Sport will be consulting on the details;

the Government welcomes the latest proposals from industry stakeholders to reduce the environmental impact of pesticides. It would like to see the package implemented on a UK wide basis as soon as possible. Progress will be reviewed in the run up to Budget 2002 to assess whether a voluntary approach is delivering significant environmental benefits, over and above those that would result from a pesticides tax;

the standard rate of landfill tax will be increased from £11 to £12 per tonne from 1 April 2001 as part of a five year programme of increases to encourage recycling and waste minimisation;

the Government is challenging the waste industry to meet demanding targets to channel a larger share of landfill tax credits to sustainable waste management projects – to help deliver the Government's recycling targets; and

the aggregates levy will be introduced in April 2002 to reflect the environmental costs of aggregates extraction and encourage recycling. The Government is attracted in principle to the idea of introducing a differential rate for aggregates with the lowest environmental costs and will continue to explore options with interested parties. The Government will be consulting in due course on proposals for the new £35 million aggregates Sustainability Fund which will aim to deliver environmental benefits to the areas affected by quarrying and complement the objectives of the levy itself.

### **How the Budget Affects UK Households**

The measures in this and previous Budgets support the Government's objectives of promoting and rewarding work, while giving extra support to pensioners and families with children.

By October 2001, as a result of personal tax and benefit measures, UK households will be, on average:

£150 a year better off from this Budget, compared to indexation;

£240 a year better off from all measures taking effect this year, compared to indexation; and

£590 a year better off from measures introduced over the Parliament as a whole<sup>[2]</sup>.

### **Families with children**

By October 2001, as a result of personal tax and benefit measures, UK families with children will be, on average:

£180 a year better off from this Budget, compared to indexation;

£420 a year better off from all measures taking effect this year, compared to indexation; and

£1,000 a year better off from measures introduced over the Parliament as a whole<sup>2</sup>.

### **Supporting working families**

The personal tax and benefit measures introduced over the Parliament mean that by October 2001:

a single-earner family on average earnings (£25,400 a year) and with two children will be £520 a year better off in real terms;

a single-earner family on half average earnings (£12,700 a year) and with two young children will be £3,000 a year better off in real terms;

the direct tax burden on a single-earner family on average earnings with two children will be the lowest since 1972; and

families with someone in full-time work will have a guaranteed minimum income of at least £225 a week, £11,700 a year.

### **Living standards**

for a single-earner family on average earnings and with two children, real living standards will have risen by 10 per cent over this Parliament;

for a single-earner family on half-average earnings and with two young children, real living standards will have risen by 28 per cent over the Parliament; and

for a single person on average earnings, real living standards will have risen by 9 per cent over the Parliament.

### **Tackling poverty**

By October 2001, as a result of the personal tax and benefit measures:

families with children in the poorest fifth of the population will on average be £1,700 a year better off<sup>2</sup>;

over 1.2 million children will be lifted out of poverty; and

around 2 million of the poorest pensioners will be at least £800 a year better off – a real terms rise in living standards of at least 17 per cent<sup>2</sup>.

<sup>2</sup> Compared to an indexed 1997-98 base.

### **NOTES FOR EDITORS**

1. Further details of the Budget 2001 announcements can be found on the Treasury's website: [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk). More details are also included in the separate press notices listed below. Copies of Inland Revenue Budget Notes and Customs and Excise Budget Notices can be found on their websites at [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk) and [www.hmce.gov.uk](http://www.hmce.gov.uk) respectively:

#### **HM Treasury:**

HMT 1 Budget 2001 - Investing for the long term: building opportunity and prosperity for all

HM Treasury/other department(s):

HMT/DETR 1 Protecting the environment and supporting Britain's road transport

Inland Revenue and Customs & Excise:

REV/C&E 1 Further help for small businesses

REV/C&E 2 Simplifying the tax system

REV/C&E 3 Support for families and children

**Inland Revenue:**

REV 1 Inland Revenue tax rates and allowances for 2001-02

REV 2 A competitive and modern tax system for multi-nationals and large business

REV 3 Tax boost to employee share ownership

REV 4 Extension of film tax relief

**Customs and Excise:**

C&E 1 General Betting Duty abolished

C&E 2 Alcohol and tobacco duties

C&E 3 Free admission to national museums and galleries

**HM TREASURY PRESS OFFICE**

Press enquiries: 020 7270 5238 Non-media enquiries: 020 7270 4558

[1] England education allocation: (£244/277/316 million).

[2] Compared to an indexed 1997-98 base.

**HM Treasury/DETR 1**

**7 March 2001**

Chancellor Gordon Brown announced today a package of measures aimed at encouraging cleaner road transport, improving access to cheaper motoring for people who need to use their cars and enhancing the efficiency and environmental sustainability of the UK haulage industry.

Taken together, the package of measures announced today is equivalent to a 4 pence per litre cut in fuel duty for motorists and a 7 pence per litre cut in fuel duty for hauliers.

The Deputy Prime Minister, John Prescott said:

"Today's Budget is good news for the environment and transport – good for motorists, good for road haulage and good for public transport. It takes further steps towards achieving the Government's environmental, social and economic objectives. We are "greening" Britain's road transport and mapping out a route for a more sustainable future, through the Green Fuels Challenge and other changes announced today."

The main measures implemented in this Budget, in addition to the cash freeze in all road fuel and non-road fuel oil duties announced in the Pre-Budget Report, are:

a 2 pence per litre reduction in the duty on ultra-low sulphur petrol (ULSP) from 6pm today. From 6pm today until 14 June 2001, the duty on unleaded petrol will also be reduced by 2 pence per litre to guard against any disruption to the wholesale and retail markets in the final stages of transition to ULSP. In this way, the Government ensures that all consumers benefit from the ULSP duty cut as soon as possible. By the end of this temporary period, ULSP will be available to all petrol retailers – independent as well as major oil companies – across the UK;

a 3 pence per litre reduction in duty on ultra-low sulphur diesel (ULSD) from 6pm today, to maintain the existing balance between the duty rates on the main forms of petrol and diesel;

abolition of the separate duty rate on lead replacement petrol and 'super-unleaded' petrol so that it will in future have duty levied according to its sulphur and aromatics content;

a package of measures in response to the Government's Green Fuel Challenge to encourage environmentally-friendly alternative fuels and to assist the move towards a hydrogen-based economy;

a freeze in all car, motorcycle and bus vehicle excise duty (VED) rates until Budget 2002;

an extension of the small car threshold for VED for cars registered before 1 March 2001 from 1,200cc to 1,549cc from 1 July 2001, backdated to November 2000, providing benefit to a further 5 million car owners, including some Ford Escorts, Vauxhall Astras, Nissan Micras and Rover Metros;

a two-stage reform of authorised mileage rates from April 2001 to encourage the use of cleaner cars for business purposes and a range of measures to encourage the use of public transport and green travel plans;

major reform of lorry VED to be introduced from 1 December 2001, bringing UK rates down to among the lowest in Europe for the cleanest lorries. In the meantime, the transitional arrangements announced in the Pre-Budget Report remain in place, with rebates of up to 50 per cent for licences in force on 30 November 2000 and lorry VED rates reduced by up to 50 per cent from 1 December 2000;

initial allocations from the £100 million Haulage Modernisation Fund announced in the Pre-Budget Report; and

abolition of VED on tractors, similar agricultural vehicles and other vehicles which currently qualify for the special concessionary rate from 1 April 2001, saving farmers in total over £10 million a year.

## **Details**

### **Promoting cleaner fuels**

Duty differentials have an important role to play in encouraging the use of more environmentally friendly fuels.

The 2 pence per litre reduction in duty on ULSP builds on the introduction of a 1 pence per litre duty differential between ULSP and ordinary unleaded petrol on 1 October last year. This will help reduce emissions of damaging air pollutants such as carbon monoxide and nitrogen oxides and so improve local air quality. This cleaner petrol can be used instead of ordinary unleaded petrol without any changes to car engines. In mid-November 2000, ULSP accounted

for only 42 per cent of the unleaded petrol market. By the end of March it will account for 93 per cent of total sales of unleaded petrol. By June, as a result of the Pre-Budget Report announcement of a possible duty cut, ULSP will be available to all petrol retailers – independent as well as major oil companies – across the UK. This duty cut will enable the UK market to convert to this cleaner fuel four years before it becomes the European Union standard petrol.

The 2 pence per litre reduction in duty on unleaded petrol for a temporary period until 14 June 2001, matching the cut on ULSP, will guard against any disruption to wholesale and retail markets in the final stages of transition to ULSP. In this way, the Government ensures that all consumers should benefit from the ULSP duty cut announced today as soon as possible. By the end of the temporary period, ULSP will be available to all petrol retailers - independent as well as major oil companies - across the UK.

The 3 pence per litre reduction in the duty on ULSD will maintain the balance between the duty rates on the most commonly used forms of petrol and diesel.

## **PROTECTING THE ENVIRONMENT AND BRITAIN'S ROAD TRANSPORT**

### **HM Treasury/DETR 1**

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The 3 pence per litre reduction in the duty on ULSD will maintain the balance between the duty rates on the most commonly used forms of petrol and diesel.

The abolition of the separate duty rate on higher-octane unleaded fuels will reduce the duty rate on Lead Replacement Petrol (LRP) and super-unleaded by up to 5 pence per litre. This follows from an environmental assessment that showed that higher-octane fuel such as LRP is generally no more polluting than ordinary unleaded. From 6pm today, duty on this petrol will be levied according to its sulphur and aromatics content. This will provide targeted assistance to those who need it: predominantly people driving older cars that are locked into buying LRP. It will also encourage oil companies to produce this fuel to the ultra-low sulphur specification.

The Government is also keen to stimulate the development of viable alternative fuels that offer environmental benefits over current conventional fuels. After considering responses to the Green Fuel Challenge, the Government has formulated a package of measures to provide short-term benefits from Liquefied Petroleum Gas (LPG), Compressed Natural Gas (CNG) and biodiesel; looks to the medium term with bioethanol and biogas; and paves the way for the future with pilot projects on the fuel-cell favourites methanol and, most significantly, hydrogen. The Government will:

maintain the duty differential between gaseous fuels (CNG and LPG) and the most commonly used forms of petrol and diesel by reducing the duty on road fuel gases by the equivalent of 3 pence per litre, to 9 pence per kilogramme. Furthermore, to provide the stability needed for the emerging road fuel gas market, duty on road fuel gases will not be increased in real terms until 2004 at the earliest;

introduce a new duty rate for biodiesel in Budget 2002, at 20 pence per litre below the ULSD duty rate;

support pilot projects for hydrogen, methanol, bioethanol and biogas with duty reductions or exemptions. In particular, the Government is keen to take further steps along the road towards a hydrogen-based economy; and

consult this summer on how the Government can further encourage the development, delivery and up-take of new alternative greener fuels and technologies.

The Chancellor today confirmed that the forthcoming tax year will be the fourth of a five year programme of annual increases announced in Budget 98 to discourage giving or receiving free fuel for private use in a company car. The annual VAT fuel scale charges will be adjusted in line with pump prices.

### **Modernising motor taxation**

Further reforms to motor taxation were announced today to provide a wider choice of cheaper motoring for those that need to use a car most.

For cars registered before 1 March 2001, the Chancellor announced that he would extend the small car engine £55 Vehicle Excise Duty (VED) discount to cars with engines up to the 1.5

litre threshold including some Ford Escorts, Vauxhall Astras, Nissan Micras and Rover Metros. This new lower VED rate for cars between 1200cc and 1549cc will come into force on 1 July 2001 and the Chancellor will backdate this extension to November 2000 and send out rebates to eligible motorists in July 2001.

To help reduce costs specifically for disabled motorists, the Chancellor announced today that the VAT zero rate on vehicles adapted for use by disabled people will be modernised to give disabled people a greater choice of VAT free vehicles.

VAT on children's car seats will be reduced to 5 per cent to cut the cost of buying an essential piece of safety equipment for families with cars.

From 1 March this year, all new cars registered in the UK will pay their vehicle excise duty (VED) according to the amount of carbon emissions that their car produces. These new car VED rates range from £90 to £160 and up to 70 per cent of cars registering under this new system will pay less VED than if they had registered under the old system.

The Chancellor announced today that all car and motorbike VED rates would be frozen until Budget 2002.

To encourage the use of cleaner cars for business purposes, the Chancellor today:

increased the two lower tax-free authorised mileage rates bands to 40 pence for the first 4,000 miles and 25 pence for further miles from April 2001. All other rates were frozen; and

as proposed in the Pre-Budget Report confirmed that in April 2002 the current system will be replaced with a single tax-free rate of 40 pence per mile for the first 10,000 miles and 25 pence per mile for any miles above the first 10,000.

### **A competitive and environmentally sustainable haulage industry**

Further steps were announced today to reform the system of lorry vehicle excise duty (VED).

The Government has paid out over £210m to over 120,000 hauliers in the form of lorry VED rebates since last December, reducing effective VED rates by up to 50 per cent for most hauliers.

As a transitional measure, hauliers renewing their VED disc have benefited from lorry VED rates reduced by up to 50 per cent since last December.

After consulting with the haulage industry, the Chancellor announced today that he was sweeping away the existing 100 or so different lorry VED rates and replacing them with a system of seven broad rate bands. This will improve the environmental signals and simplify the system for hauliers. Lorry VED will be cut by over £300m per year compared to Budget 2000 rates, bringing UK rates down to amongst the lowest in Europe for the cleanest lorries. These new rates will come into force on 1 December 2001. In the interim, the transitional lorry VED rates introduced on 1 December 2000 will continue.

The Chancellor also announced that he wanted to go further to improve the environmental signals from lorry VED. As a result, the Government plans to introduce lower VED rates for lorries meeting the latest euro-IV standards from around 2004, and will review the future of the current reduced pollution scheme in the run-up to that period to see if it still offers environmental benefits and to deal with transitional issues.

The Government will also review the current arrangements for paying for lorry VED, to see how it can be modernised to reduce the administrative cost of paying for lorry VED for hauliers.

The Government announced the creation of a £100 million Haulage Modernisation Fund in the Pre-Budget Report last November. The Government has discussed how to spend this fund most effectively with the Road Haulage Forum. As a result, the Government will, as a first step, make available in England up to:

£30 million for targeted support for retrofitting older lorries operating in areas of poor local air quality, such as Air Quality Management Areas, where nitrogen oxide and particulate emissions are most damaging. This will also enable hauliers to qualify for up to £500 lower VED rates;

£15 million for advice on fuel efficiency, which should deliver savings of around 5 to 10 per cent in carbon emissions and similar reductions in the typical haulier's fuel bill;

£5m for training initiatives for new drivers to help the industry meet new skills and manpower requirements;

£3 million for increasing Government enforcement of haulage industry regulations across the UK, at the industry's request; and

£2 million for various supporting measures, including funding a pilot scheme for the industry's own proposal to take responsibility for raising standards and improving business performance.

The remaining third of the Haulage Modernisation Fund in England will be allocated at a later date, when both the Government and the industry will have a clearer view of future requirements.

In the Pre-Budget Report last November, the Government announced its intention to establish a form of road user charging for lorries, such as a vignette, to ensure that foreign hauliers start to contribute towards the costs that they impose in the UK. The Government has consulted the haulage industry on these proposals and received broadly positive responses. The Government will continue to develop its plans to set up a vignette over the coming months.

### **Encouraging the use of public transport and green travel plans**

The Chancellor announced today a package of measures intended to encourage the use of public transport and to green Britain's travel to work.

The Government will:

remove VAT on the purchase of adult cycle helmets from 1 April to encourage people to cycle more and improve road safety, as announced in the Pre-Budget Report;

adjust the VAT zero rate on passenger transport to include smaller vehicles with 9 or more passenger seats from 1 April. This will help provide a greater choice of public transport, especially in rural and remote areas;

extend the threshold for works buses qualifying for tax exemptions from 12 to 9 passenger seats from April 2002, to assist and encourage employers in smaller companies to set up Travel Plans to help their employees to travel to work without using their cars;

increase the tax-free mileage rate employers can pay for cycle use for business trips to 20 pence per mile from April 2002;

introduce a new tax-free passenger rate of 5 pence per mile per passenger to encourage car-sharing on business trips in private cars from April 2002; and

freeze vehicle excise duty on buses until Budget 2002.

The Government will also be working with taxi companies, local authorities and other bodies to explore ways of encouraging the use of less-polluting taxis in our major cities.

### **Reducing costs for farmers**

Following consultations with the National Farmer's Union (NFU) and other agricultural representatives, the Chancellor announced today that:

VED on tractors and all vehicles in the special concessionary VED class will become free from 1 April 2001;

the Government will rebate the owners of these vehicles for the outstanding months on their applicable VED disc in May 2001, backdating the rebate to 1 March 2001; and

the Government recognises the need to confirm which vehicles will qualify for this concession, and will resolve some minor outstanding classification issues by the next Pre-Budget Report, with any necessary legislative changes in Budget 2002.

### **NOTES FOR EDITORS**

Fuel duty changes

1. The rates of duty on petrol and diesel from 6pm today are set out below, together with the effect of the tax decrease (duty plus VAT) on the price of a litre of fuel:

Fuel type	Old duty rate (ppl)	New duty rate (ppl)	Decrease in ppl (duty plus VAT)
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unleaded petrol	48.82	46.82	
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(see 2 below)	2.35		
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ultra-low sulphur petrol (ULSP)	47.82	45.82	2.35
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higher octane unleaded petrol	50.89	n/a	
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(see 3 below)

n/a

ultra-low sulphur diesel (ULSD)

48.82

45.82

3.52

road fuel gas (LPG and CNG)

15p per kg

9p per kg

7.05p per kg

2. The duty rate on unleaded petrol has been reduced by 2 pence per litre until 14 June 2001 only. After this date, the duty rate will return to 48.82ppl.

3. The duty rate on higher-octane unleaded petrol has been abolished. Duty on this fuel will now be levied according to its sulphur and aromatics content, as with standard unleaded petrol. In the short term, this will lead to a minimum decrease of 4.78ppl (duty plus VAT); in the long term, when all this fuel qualifies for the ULSP duty rate, this will lead to a decrease of 5.96ppl (duty plus VAT).

4. The Government will enter into discussions with biodiesel producers and car manufacturers to draw up a suitable specification for biodiesel by Budget 2002. The Government will finalise details for pilot projects for bioethanol, biogas, methanol and hydrogen during the year.

#### **VED for cars**

5. The small car engine VED reduced rate will be extended to include cars up to and including 1549cc from 1 July 2001. This will enable an additional 5 million car owners to benefit from the £55 discount.

6. The extension of the small car engine VED rate will be backdated to 1 November 2000. Owners of cars between 1200cc and 1549cc who have purchased or will purchase a VED disc between 1 November 2000 and 30 June 2001 will be eligible for a rebate of up to £55 for each annual licence purchased, or £27.50 for each six-month licence. The DVLA will contact eligible motorists in July 2001.

7. All other car, motorbike and bus VED rates are frozen in this Budget.

#### **VED for lorries**

8. Since the Pre-Budget Report, the Government has rebated hauliers for up to 50 per cent of their lorry VED disc in force on 30 November 2000. Since 1 December 2000, hauliers purchasing new lorry VED discs have paid up to 50 per cent less than the Budget 2000 lorry VED rates. Further details and these transitional lorry VED rates are set out in DETR news release 698 on 14 November 2000 ('VED for HGVs – cut').

9. Since the Pre-Budget Report, the Government has consulted on radical proposals to reform lorry VED set out in a consultation document published alongside the Pre-Budget Report – 'Consultation on reform of VED for lorries: a consultation paper' (HM Treasury, November 2000). The results of the consultation exercise and a Regulatory Impact Assessment are published today on the Treasury internet site.

10. The new lorry VED system announced today is based largely on the proposals set out in the Pre Budget Report. The new system will take effect from 1 December 2001. Until then, the transitional lorry VED rates will continue to apply. From 1 December 2001, the new lorry VED system will be:

### **Lorry VED rates**

£

Band

Standard VED rate

RPC VED rate

A

165

160

B

200

160

C

450

210

D

650

280

E

1,200

700

F

1,500

1,000

G

1,850

1,350

### **VED bands for rigid lorries**

Vehicle

2 axles

3 axles

4 or more axles

not over 7.5t

A

A

A

not over 15t

B

B  
B

not over 21t  
D  
B  
B

not over 23t  
-  
C  
B

not over 25t  
-  
D  
C

not over 27t  
-  
D  
D

not over 32t  
-  
-  
E

**VED bands for 2 axle tractive lorries**

Vehicle

1 or more axle trailer  
2 or more axle trailer  
3 or more axle trailer

not over 25t  
A  
A  
A

not over 28t  
C  
A  
A

not over 31t  
D  
D  
A

not over 34t  
E  
E  
C

not over 38t  
F

F  
E

not over 40t

G  
G  
G

### **VED bands for 3 axle tractive unit articulated lorries**

Vehicle

1 or more axle trailer

2 or more axle trailer

3 or more axle trailer

not over 28t

A  
A  
A

not over 31t

C  
A  
A

not over 33t

E  
C  
A

not over 34t

E  
D  
A

not over 36t

E  
D  
C

not over 38t

F  
E  
D

not over 44t

G  
G  
E

### **VED for tractors and other vehicles in the special concessionary VED class**

11. VED for tractors and all other vehicles in the special concessionary VED class and electric motorbikes will be abolished from 1 April 2001. The DVLA will reimburse people for all outstanding months on VED discs beyond this date in May 2001, and backdate this reimbursement to 1 March 2001.

## **VED on recovery vehicles and special types vehicles**

12. VED on recovery vehicles will be reduced from 1 December 2001 to £165 up to 25 tonnes instead of just 12 tonnes; and to £415 for recovery vehicles over 25 tonnes. VED on special types vehicles will be reduced from 1 December 2001 to £2585 without a reduced pollution certificate and £2085 with a reduced pollution certificate (the same as the transitional VED rates in force since 1 December 2000).

## **Minor VED changes**

13. From Royal Assent, mobile pumps will be reclassified as mobile cranes and become eligible for the special vehicles VED rate; the link between the payment of VED refunds and the Statutory Off-Road Notification (SORN) system will be abolished; and the Secretary of State for the Environment, Transport and the Regions will have the right to waive the requirement for the VED disc to be surrendered at the time of refund in certain circumstances.

## **Further Information**

Further details of the Budget 2001 transport announcements can be found on the Treasury's website: [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk). More details are also included in the separate Budget Notes listed below. Copies of Inland Revenue and Customs and Excise Budget Notes can be found on their websites at [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk) and [www.hmce.gov.uk](http://www.hmce.gov.uk) respectively:

## **Customs and Excise Budget notices**

- BN 19/01 VAT: Vehicles adapted for disabled persons
- BN 37/01 VAT: Zero-rating for pedal cycle helmets
- BN 56/01 VAT: Reduced rates for children's car seats
- BN 66/01 VAT: Zero-rating for passenger transport in 10-11 seater vehicles
- BN 72/01 VAT: Changes in fuel scale charges
- BN 107/01 Hydrocarbon oils: Changes in duty rates
- BN 14/01 Hydrocarbon oils: Reduced rates for authorised pilot projects

## **Inland Revenue Budget notes**

- REV BN 1 Works buses
- REV BN 2 New statutory mileage rates
- REV BN 3 Income tax: Changes in fuel scale charges

## **HM TREASURY PRESS OFFICE**

Press enquiries: 020 7270 5238

Non-media enquiries: 020 7270 4558

DETR PRESS OFFICE

Press enquiries: 020 7944 3066

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**FURTHER HELP FOR SMALL BUSINESSES**

**REV/C&E 1**

**7th March 2001**

A package of initiatives to help small businesses was announced by the Chancellor today.

There will be consultation on a radical new look at the tax treatment of small businesses – aimed at reducing regulatory burdens for small businesses through aligning their profits for tax purposes broadly with those reported in their accounts. This will provide scope to avoid dealing with the complexities of the tax system. The Government will consult with small businesses and their representatives to produce a regime that blends the twin aims of simplicity and fairness.

There is also help for certain small and medium sized enterprises (SMEs) in:

a package of measures which will be introduced to help small businesses as they develop and grow, allowing them to manage their entry into the VAT system, reduce burdens and improve their cash flow. The package includes:

increasing the VAT registration threshold;

greater availability of the cash and annual accounting schemes;

consultation on the flat rate and annual accounting schemes; and

better advice;

improvements to Enterprise Management Incentives (EMI) to make it easier for companies to operate, removing the limit on the number of employees in each company who can hold EMI options, doubling the limit on the total value of shares under EMI options to £3 million, and offering advance assurance on whether or not a company qualifies;

consultation on proposals to change the rules for life insurance companies that invest in venture capital limited partnerships. This proposal, which was recommended in the Myners review of institutional investment, should, by significantly reducing tax compliance costs for life companies, encourage more of them to provide equity finance to SMEs through the medium of limited partnerships;

relaxing some of the rules of the Enterprise Investment Scheme, Venture Capital Trust scheme and Corporate Venturing Scheme to make it easier for small entrepreneurial companies to raise equity and long term finance;

Details of other simplification measures for SMEs can be found in Press Notice REV/C&E 2.

## **Details**

The VAT SME package includes:

increasing the VAT registration threshold, in line with inflation, to £54,000, keeping the UK threshold the highest in Europe. This will keep another 8,000 of the smallest businesses out of the VAT net;

for businesses under a new consolidated small business taxable turnover level of £100,000, consulting in the summer on:

a new optional flat rate scheme under which they can avoid having to account internally for VAT on all of their purchases and sales. VAT would be calculated as a percentage of their taxable turnover; and

allowing them immediate entry to the annual accounting regime rather than having to wait until they have been registered for one year.

helping larger SMEs by introducing a new consolidated SME taxable turnover level of £600,000 which will:

extend the benefit of the cash accounting scheme by expanding the taxable turnover limit from £350,000 to the new SME consolidated level. This will allow an additional 40,000 traders to improve their cash flow; and

raise the entry threshold to the annual accounting scheme to £600,000 so that at least 100,000 more businesses are able to benefit from lower compliance costs through the ability to file VAT returns annually rather than quarterly.

providing better advice through a lifelong business support programme and a national contact centre for general enquiries.

## **NOTES FOR EDITORS**

1. Inland Revenue have today issued a technical Note A Review of Small Business Taxation. It is available from the Inland Revenue website or from:

David Easton

Inland Revenue

Business Tax

Room 335

22 Kingsway

London

WC2B 6NR

The closing date for replies is 31 May 2001.

2. The report by Paul Myners to the Chancellor includes a recommendation that Government should legislate to change the taxation of insurance companies' limited

partnership investments. Under the measure proposed in the Myners review, life insurance companies would pay tax on chargeable gains based on distributions rather than on their share of the gains from the partnership's underlying investments in companies. The Government proposes to consult with interested parties in the insurance and venture capital industries about the precise scope and detail of the change, with a view to publishing draft clauses for inclusion in a subsequent Finance Bill. The expectation is that any new legislation should apply for life assurance companies' accounting periods beginning on or after 1 January 2002.

3. Further information is contained in the following press releases, Inland Revenue Budget Notes and Customs & Excise Budget Notices:

#### **Press releases**

REV/C&E 2 Simplifying the tax and NICs systems

REV 3 Tax boost for employee share ownership

#### **IR Budget Notes**

REV BN 6 More flexibility for Enterprise Management Incentives

REV BN 11 Enhancements to the venture capital schemes

#### **C&E Budget Notices**

C&E BN 74/01 VAT: Annual Accounting

C&E BN 78/01 VAT: Cash Accounting

C&E BN 82/01 VAT: Increased turnover limits for registration and deregistration

Inland Revenue Budget Notes are available on the Department's website (see below).

Customs and Excise Budget Notices are available from the Department's website (see below) and from its Business Advice Centres.

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## **SIMPLYFYING THE TAX SYSTEM**

### **REV/C&E 2**

#### **7th March 2001**

A package of changes to simplify the operation of the tax system and to help and support small businesses in their dealings with Government was announced by the Chancellor today.

The Government keeps the whole tax system under review, acting where possible to change tax rules to minimise burdens on business whilst still meeting the Government's objectives for a fair and efficient tax system. In this Budget, the Chancellor announced consultation on:

a radical proposal to reduce regulatory burdens for small businesses through aligning their profits for tax purposes broadly with those reported in their accounts, providing scope to avoid dealing with the complexities of the tax system. The Government will consult with small businesses and their representatives to produce a regime that blends the twin aims of simplicity and fairness;

proposals to change the rules for life insurance companies that invest in venture capital limited partnerships, which will significantly reduce compliance costs; and

proposals to simplify and reduce the VAT burden for small VAT businesses by introducing an optional flat rate scheme and enhancing the annual accounting regime.

In addition to these consultations, the Chancellor announced that the Budget will modernise and simplify the tax system offering further help and support to small businesses.

### **Modernising and simplifying the system**

Proposals announced to help make the system easier for business to administer include:

package of measures to allow small firms to manage their entry into the VAT system, reduce burdens and improve their cash flow;

modernisation of the VAT zero rate on children's clothing and footwear to help families and make it easier for businesses to administer;

introduction of a simpler system allowing creative artists (authors, composers, etc) to average profits over two consecutive years, similar to the system already operated by farmers. Draft legislation is being published today by the Inland Revenue;

Aligning rules and making the system clearer

Proposals announced to make the law easier for business to understand include:

simplifying VAT reduced rate legislation to make it clearer and more consistent with other legislation on VAT reliefs, in response to requests from business and the accountancy sector;

making provision to pay compensatory interest to excise traders both where duty has been wrongly levied or where there is an undue delay in Customs repaying duty. This brings excise legislation in line with compensatory payment arrangements for VAT and other taxes and duties administered by Customs and Excise; and

increasing to £50 the de minimis limits within corporation tax, self-employed income tax and VAT for business expenditure on gifts, so that fewer minor items need to be reported and tracked by business.

### **Further help for small business**

The Chancellor also announced a package of further help to small business (see press release REV/C&E 1) and confirmed his continuing commitment to improving the support systems Government offers business to help them cope with regulatory burdens.

### **Details**

#### **Other measures**

Other measures announced today that help to simplify the tax system include:

measures to lift the requirement to withhold tax on most payments of interest, royalties and annual payments between companies within the charge to UK corporation tax on that income;

measures to make clearer the tax treatment when part of the rights in a life insurance policy is transferred, for example on marriage;

improvements to the information given by insurers to make it easier for taxpayers with a gain from a life policy to complete their SA return;

improvements to the new All-Employee Share Ownership Plan (AESOP), to make the plan easier for companies to administer. One change that will be particularly welcomed is a new exemption from Stamp Duty when employees buy shares from an AESOP trust;

improvements to Enterprise Management Incentives (EMI) to make it easier for companies to operate, removing the limit on the number of employees in each company who can hold EMI options, doubling the limit on the total value of shares under EMI option to £3 million, and offering advance assurance on whether or not a company qualifies;

draft legislation to implement the Stamp Duty Reserve Tax exemption for units in unit trusts and shares in open-ended investment companies held within Individual Pension Accounts; and

a package of measures to improve and clarify the legislation governing assessment, amendments, appeals and collection under Self Assessment.

### **Support for business**

Building on the substantial help and support Government provides small businesses/employers in dealing with their payroll and other obligations the Inland Revenue launched their new Starting up in Business guide on 10 January 2001 (<http://www.inlandrevenue.gov.uk/startingup>). Sent to anyone registering as self-employed, it contains all the information they need to know about tax (including VAT), NICs, record keeping and where to go for further help.

#### **NOTES FOR EDITORS**

1. Inland Revenue have today issued a technical Note " A Review of Small Business Taxation". It is available from the Inland Revenue website or from:

David Easton

Inland Revenue

Business Tax

Room 335

22 Kingsway

London

WC2B 6NR

The closing date for replies is 31 May 2001.

2. Details of these measures and further help to small business are in the following press notices, Inland Revenue Budget Notes and Customs and Excise Budget Notices:

Press notices

REV/C&E 1 Further help for Small businesses

REV 3 Tax boost for employee share ownership

#### **IR Budget Notes**

REV BN 6 More flexibility for Enterprise Management Incentives

REV BN 8 Stamp Duty Reserve Tax and Individual Pension

Accounts

REV BN 12 Profits averaging for authors and creative artists

REV BN 13 Withholding tax on intra-UK corporate interest etc.

REV BN 17 Business gifts: increase in de minimis threshold

REV BN 18 Machinery legislation for Self Assessment

REV BN 19 Life insurance: transfers of shares in life policies and information duties of insurers

#### **C&E Budget Notices**

C&E BN 63/01 VAT: Modernising relief for young children's clothing and footwear

C&E BN 73/01 VAT: simplification of the legislation on VAT reduced rates

C&E BN 74/01 VAT: Annual Accounting

C&E BN 78/01 VAT: Cash Accounting

C&E BN 82/01 VAT: Increased turnover limits for registration and deregistration

C&E BN 84/01 VAT: Increase in the cost limit for non-taxable business gifts

C&E BN 105/01 Excise: Provisions to pay compensatory interest and extend basis for refunding overpaid duty

3. The Inland Revenue Helpline number for the newly self-employed is: 08459 15 45 15.

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**SUPPORT FOR FAMILIES AND CHILDREN**

**REV/C&E 3**

**7 March 2001**

A package of measures announced today by the Chancellor will build on the commitment to focus resources on improving support for families with children - targeting the greatest help on those who need it most, when they need it most.

The package, which recognises the costs and responsibilities which come with parenthood, includes:

increasing the Children's Tax Credit (CTC) so it will be worth up to £520 a year, or £10 a week, when it is introduced in April 2001. This is £1.50 above the rate announced in Budget 2000 and represents a tax cut for about five million families with children under 16, worth the equivalent of nearly 3p off the basic rate of tax for a single earner family on average earnings;

to recognise the additional costs of a new child in the first year, from April 2002 the CTC will be increased by a further £10 a week, (£520 a year) for families in the year of a child's birth. This means that it will be worth up to £20 a week (£1,040 a year) for some 500,000 families

increasing the basic adult credit in Working Families' Tax Credit (WFTC) and Disabled Person's Tax Credit (DPTC) by £5 a week from June 2001. The new rates, combined with the increases in the National Minimum Wage, will mean that the minimum income guarantee, for a family on WFTC, will rise from £214 a week in April to £225 a week in October 2001;

ensuring that families getting Income Support and Job Seekers Allowance also see a rise in their income through a £1.50 increase in the child premia in Income Support and Job Seekers Allowance from the same date;

increasing the limits for eligible costs in the childcare tax credit component of Working Families' Tax Credit and Disabled Person's Tax Credit from June 2001 to £135 for families with childcare costs for one child and £200 for families with two or more children, and the Government will also consider how to help families who need to use formal childcare in the home, for example by extending the childcare tax credit;

an extension of the 10p income tax rate band by £300 over indexation, which will benefit 25 million taxpayers;

cutting the cost of safety equipment by reducing VAT on children's car seats from 17.5 per cent to 5 per cent and removing VAT on the purchase of adult cycle helmets in line with the current relief for children's cycle helmets;

helping families cut the cost of buying essential items for their children by modernising the VAT zero rate on clothing and footwear; and

there are other non-tax measures to support families with children which are outlined in Treasury press release HMT 1.

#### **NOTES FOR EDITORS**

The Government has made a firm commitment to help families with children through the tax and benefit system, based on the following principles:

recognising the costs and responsibilities which come with parenthood, by providing extra financial support for all families with children; and

targeting help on those who need it most, when they need it most. This includes families on lower incomes, and those with a new baby.

### **Children's Tax Credit**

The Children's Tax Credit was announced in Budget 99, to replace the Married Couple's Allowance. The new tax credit will be worth more than 2.5 times as much as the Married Couple's Allowance, and is targeted on families on low to middle incomes with children aged under 16: about 5 million families. Budget 2000 set the value of the allowance at up to £442 a year, and this Budget increases that to £520 a year, or £10 a week.

The allowance is reduced where the main earner in the family is a higher rate taxpayer.

From April 2002, the Chancellor announced that the credit for families in the year of their child's birth will be worth up to £1,040 a year, or £20 a week – over five times as much as the former Married Couple's Allowance. This recognises the extra costs associated with having a baby.

### **Working Families' Tax Credit and Disabled Person's Tax Credit**

Over 1.1 million low income working families and disabled people benefit from Working Families' Tax Credit (WFTC) and Disabled Person's Tax Credit (DPTC). Families on WFTC are on average £30 a week better off than they would have been under the previous system of Family Credit. The Chancellor has announced a further increase of £5 a week over inflation in the basic adult credits in WFTC and DPTC which will take effect from June 2001. These increases will further improve the incentives to move into work and the incomes of low income working families. In combination with the increases in the National Minimum Wage, these increases will mean that the minimum income guarantee, for a family on WFTC with one child, will rise from £214 a week in April to £225 a week in October 2001. The corresponding minimum income guarantee for a couple with one child on DPTC will increase from £246 a week in April to £257 in October 2001. (These figures are based on one earner in full-time work -working 35 hours a week - receiving the National Minimum Wage).

### **Childcare tax credit**

So far 124,000 families are currently receiving help with childcare costs through the childcare tax credit component of WFTC and DPTC. From June 2001, the limit of eligible childcare costs will increase from £100 to £135 for a family with childcare costs for one child and from £150 to £200 for a family paying for childcare for two or more children. These limits reflect recent evidence on the cost of childcare across the country, particularly for those with children under 5.

Some families, such as those with disabled children and those who work irregular hours, such as nurses, face particular childcare needs. The Government will consider how to help those families, who need to use formal childcare in the home, for example by extending the childcare tax credit.

### **VAT Measures**

The Chancellor also announced that adult pedal cycle helmets will be zero rated for VAT, child safety seats will be charged at a reduced rate of VAT and the VAT relief for children's clothing and footwear will be modernised.

Further information is contained in the following Customs & Excise Budget Notices:

C&E BN 37/01 VAT: Zero-rating of pedal cycle helmets

C&E BN 56/01 VAT: Reduced rate for children's car seats

C&E BN 63/01 VAT: Modernising relief for young children's clothing  
and footwear

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**PRESS RELEASE ANNEX**

Working Families' Tax Credit (WFTC)

£ per week  
£ per week  
£ per week

2000-01  
2001-02

from April  
2001-02

from June

Basic tax credit  
53.15  
54.00  
59.00

30-hour tax credit  
11.25  
11.45  
11.45

Child tax credits

Under 16(1)  
25.60  
26.00  
26.00

16-18

26.35  
26.75  
26.75

Disabled child tax credit (2)

22.25  
30.00  
30.00

Enhanced Disability Tax Credit (lone parent/couple)

N/A  
16.00  
16.00

Enhanced Disability Tax Credit (child)(3)

N/A  
41.05  
41.05

Maximum eligible childcare costs allowed(4) -1 child

100.00  
100.00  
135.00

Maximum eligible childcare costs allowed(4)- 2 or more children

150.00  
150.00  
200.00

Income threshold

91.45  
92.90  
92.90

- (1) For awards starting from June 2000 for 2000-01.
- (2) From October 2000
- (3) Includes the disabled child tax credit for relevant awards starting from April 2001.
- (4) Childcare tax credit is 70 per cent of eligible childcare costs allowed.

### **Disabled Person's Tax Credit (DPTC)**

£ per week  
£ per week  
£ per week

2000-01  
2001-02

from April  
2001-02

from June

Single person basic tax credit

55.15  
56.05  
61.05

Lone parent/couple basic tax credit

84.90  
86.25  
91.25

30-hour tax credit

11.25  
11.45  
11.45

Child tax credits

Under 16(1)

25.60  
26.00  
26.00

16-18

26.35  
26.75  
26.75

Disabled child tax credit

22.25  
30.00  
30.00

Enhanced Disability Tax Credit (lone parent/couple)

N/A  
16.00  
16.00

Enhanced Disability Tax Credit (single person)

N/A  
11.05  
11.05

Enhanced Disability Tax Credit (child)(2)

N/A  
41.05  
41.05

Maximum eligible childcare costs allowed(3) -1 child

100.00  
100.00  
135.00

Maximum eligible childcare costs allowed(3)- 2 or more children

150.00  
150.00  
200.00

Income threshold – single person

71.10  
72.25  
72.25

Income threshold – lone parent/couple

91.45  
92.90  
92.90

- (1) For awards starting from June 2000 for 2000-01.
- (2) Includes the disabled child tax credit for relevant awards starting from April 2001.
- (3) Childcare tax credit is 70 per cent of eligible childcare costs allowed.

### **PRESS RELEASE ANNEX**

Bands of taxable income 2001-021

2000-01  
£ a year  
2001-02  
£ a year

Starting rate 10 per cent

0- 1,520

Starting rate 10 per cent

0- 1,880

Basic rate 22 per cent

1,521-28,400

Basic rate 22 per cent

1,881-29,400

Higher rate 40 per cent

Over £28,400

Higher rate 40 per cent

Over £29,400

1. The rate of tax applicable to savings income in section 1A, ICTA 1988, other than dividends, is 20 per cent for income falling between the starting rate and basic rate limits. The rates of tax applicable to dividends are 10 per cent for income below the basic rate limit and 32.5 per cent above it.

Income tax allowances 2001-02

(£ a year)

2000-01  
2001-02

Increase Personal allowance

Age under 65

4,385  
4,535  
+150

Age 65-74

5,790  
5,990  
+200

Age 75 and over

6,050  
6,260  
+210

Married couple's allowance<sup>1</sup>

Age less than 75 and born before 6th April 1935

5,185  
5,365  
+180

Age 75 and over

5,255  
5,435  
+180

Minimum amount <sup>2</sup>

2,000  
2,070  
+70

Children's tax credit<sup>1</sup>

-

5,200

-

Income limit for age-related allowances

17,000  
17,600  
+600

Blind person's allowance

1,400  
1,450  
+50

<sup>1</sup> Tax relief for these allowances is restricted to 10 per cent.

<sup>2</sup> This is also the maximum relief for maintenance payments where at least one of the parties is born before 6 April 1935

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## **INLAND REVENUE TAX RATES AND ALLOWANCES FOR 2001-2**

### **REV 1**

#### **7 March 2001**

Rates and allowances for income tax, corporation tax, capital gains tax, inheritance tax and the pension schemes earnings cap are set out below.

2000-01 (£)

2001-02 (£)

Increase (£)

Income tax allowances

Personal allowance

Personal allowance for people aged 65-74

Personal allowance for people aged 75 and over

4 385

5 790

6 050

4 535

5 990

6 260

150

200

210

Income limit for age-related allowances

17 000

17 600

600

Married couple's allowance for people born before 6 April 1935

Married couple's allowance –aged 75 or more

Minimum amount of married couple's allowance

5 185

5 255

2 000

5 365

5 435

2 070  
180

180

70

Children's tax credit

-

5 200

-

Blind person's allowance

1 400

1 450

50

Capital gains tax annual exempt amount:

Individuals etc

Other trustees

7 200

3 600

7 500

3 750

300

150

Inheritance tax threshold

234 000

242 000

8 000

Pension schemes earnings cap

91 800

95 400

3 600

Taxable bands 2000-01 (£)

Taxable bands 2001-02 (£)

Starting rate 10 per cent

0 – 1 520

Starting rate 10 per cent

0 – 1 880

Basic rate 22 per cent

1 521 – 28 400

Basic rate 22 per cent

1 881 – 29 400

Higher rate 40 per cent  
Over 28 400  
Higher rate 40 per cent  
Over 29 400

Corporation tax profits 2000-01 (£)  
Corporation tax profits 2001-02 (£)

Starting rate 10 per cent  
0 – 10 000  
Starting rate 10 per cent  
0 – 10 000

Marginal relief  
10 001 –

50 000  
Marginal relief  
10 001 –

50 000

Small companies' rate 20 per cent  
50 001 – 300 000  
Small companies' rate 20 per cent  
50 001 – 300 000

Marginal relief  
300 001 –

1 500 000  
Marginal relief  
300 001 – 1 500 000

Main rate 30 per cent  
1 500 001

or more  
Main rate 30 per cent  
1 500 001 or more

The main rate of corporation tax for 2002-03 will be 30 per cent.

## **NOTES FOR EDITORS**

### **Income tax rates and allowances**

1. The rate of tax applicable to savings income in section 1A, ICTA 1988, other than dividends, is 20 per cent for income falling between the starting rate and basic rate limits. The rates of tax applicable to dividends are 10 per cent for income below the basic rate limit and 32.5 per cent above it.
2. The rate of relief for the continuing married couple's allowance and maintenance relief for people born before 6 April 1935, and for the children's tax credit, is 10 per cent.

3. As announced in the Pre-Budget Report, personal allowances for those aged 65 or over will be increased by £240 over indexation in 2003-04. The new levels will then be increased by reference to the rise in earnings for the rest of the next Parliament.

### **Capital gains tax (CGT)**

4. The annual exempt amount is increased to £7,500 for individuals, trustees of settlements for the disabled, and personal representatives of the estate of a deceased person, and £3,750 for other trustees. The amount chargeable to CGT is added onto the top of income liable to income tax for individuals and is charged to CGT at these rates: below the starting rate limit at 10 per cent, between the starting rate and basic rate limits at 20 per cent, and above the basic rate limit at 40 per cent.

### **Rates for trusts**

5. The rate applicable to trusts remains unchanged at 34 per cent for 2001-02 and the Schedule F trust rate remains unchanged at 25 per cent.

### **Inheritance tax**

6. The value of estates above the threshold is taxed at 40 per cent. The estimated number of taxpaying estates in 2001-02 will be about 23,000, broadly the same as the expected out-turn for 2000-01. This is around 4 in 100 of all deaths.

### **Pension schemes earnings cap**

7. The main effect of the cap is to set a ceiling on the contributions that can be paid to, and the benefits that can be paid by, tax approved pension schemes. It generally applies to people who contribute to a personal pension scheme, joined an occupational scheme set up since 14 March 1989, or joined any occupational scheme from 1 June 1989, which was set up before 14 March 1989. From 6 April 2001 the cap will apply to people who contribute to stakeholder pension schemes.

### **Corporation tax**

8. 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 for calculating this marginal relief will be one fortieth. Marginal relief also applies to companies with profits between £300,000 and £1,500,000. The fraction for calculating this marginal relief will also be one fortieth.

9. The starting rate and the small companies' rate do not apply to close investment holding companies.

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## **A COMPETITIVE AND MODERN TAX SYSTEM FOR MULTI-NATIONALS AND LARGE BUSINESS**

**REV 2**

**7 March 2001**

The Government is committed to further reform of the company tax system to ensure long-term stability and strengthen the competitiveness of business, the Chancellor confirmed today.

Three strands will be taken forward to secure a competitive environment for business that, with globalisation, can change very quickly:

A consultation paper will be published in June that will set in a broader context the current proposals for a relief on gains arising on the disposal of substantial shareholdings. Considerable progress has been made on developing this relief. The further consultation will allow consideration of detailed proposals. It will also provide the opportunity to consult business on possible associated reforms aimed at producing a flexible and competitive tax system for parent companies based in the UK;

A new technical note published today by the Inland Revenue gives details of a proposed new regime for providing relief to companies for the costs of intellectual property, goodwill and other intangible assets. The technical note builds on earlier detailed discussion with business on the design of a more up-to-date regime, and includes draft legislation. The changes to the regime for double taxation relief (DTR) announced in the Pre-Budget Report will be supplemented by further measures to make the system more flexible for UK-based parent companies. The Government has consulted further with business about the DTR regime over the last year and intends that this dialogue will continue, both on specific aspects and to ensure that the DTR regime fits with other elements of the system for taxing companies.

Commenting on these announcements, the Paymaster General, Dawn Primarolo, said

"These take forward the Government's reforms of the company tax system, and the consultation we now propose offers business an excellent opportunity to shape the outcome."

The Chancellor also announced a range of measures aimed at providing a more modern environment in which businesses can thrive:

A consultation document 'Increasing Innovation' examines the case for further measures to boost UK innovation and to seek views from businesses and others on the design of a new tax R&D tax credit aimed at encouraging innovation by larger companies.

Consultation on the design of a new, targeted tax credit and related measures to encourage development and distribution of vaccines and drugs and to tackle the major killer diseases of the developing world;

Abolition of out-dated requirements for the deduction of tax on most intra-UK payments between companies of interest, royalties, annuities and annual payments;

Measures to protect the tax base while facilitating business efficiency and promoting competitiveness.

## **DETAILS**

### **Substantial shareholdings**

1. The Inland Revenue's Technical Notes of June and November 2000 consulted on a deferral relief for gains realised by companies on substantial shareholdings in trading companies. A large number of helpful responses were received. In addition there have been many meetings between representatives of the business community and Inland Revenue and Treasury officials.
2. The deferral relief that has emerged would be much more flexible than that originally envisaged. The present form of the relief is outlined in the Budget Note (REV BN 23) which sets out the significant changes that have been adopted as a result of consultation.
3. The Government considers that the introduction of such a deferral relief would provide a significant advantage to UK companies. Multinationals with UK bases would then benefit from a parent company tax regime that provided: one of the lowest rates of corporation tax among major industrialised countries; generally, relief for interest expense on loans funding investment in the UK or overseas; a system for crediting overseas tax that can substantially relieve tax on foreign dividends; and the opportunity to defer the charge to tax on the disposal of a substantial shareholding in a trading company or group.
4. The consultation now announced will give a further period to assess the detailed deferral proposals and allow them to be considered in a broader context.
5. The UK today is a very attractive location for multinational business for tax and non-tax reasons. The Government is committed to ensuring that this remains the case and recognises that, with globalisation, the competitive environment can change very quickly. A reform package should therefore look beyond the immediate future and reflect the need for flexibility. In this context the Technical Note that was published in November floated the alternative of an exemption, rather than a deferral, for most company gains on substantial shareholdings in trading companies.
6. Many of those who responded to the Technical Note felt that an exemption for gains would be preferable, but recognised that this could have far-reaching implications. One of the main questions that arose was whether an exemption for gains on substantial shareholdings could be introduced without changes elsewhere in the system and this will be important in the further consultation.
7. For example, some felt that an exemption for gains might point to an exemption for foreign income as well. And some were concerned that, in evaluating the options, it should be clear whether the Government's view was that any wider changes might involve some restriction of interest relief where loans were funding investment overseas.
8. The introduction of an exemption for gains and foreign source dividends, together with some form of interest restriction, would bring the UK system closer to that of many other European countries and a reform of that sort could enhance the competitive position of UK companies. But while some UK based multinationals would welcome such changes, others more affected by an interest restriction would probably not. And for Government, the possibility of a new restriction on interest deductibility raises important practical issues.
9. These are important issues for the future direction of company taxation. Business has expressed considerable interest in a broader discussion of this nature and the Government considers that it is right that there should be a full and open discussion of the issues. The

Chancellor therefore proposes to publish a further consultation paper in June, which will launch a period of open discussion on the changes that should be introduced and the wider implications for the competitiveness of businesses based in the UK. Underpinning that consultation is a strong presumption in favour of introducing a major new relief for capital gains on the sale of substantial shareholdings in Finance Bill 2002.

### **Double Taxation Relief**

10. Two changes to double taxation relief were announced in the Pre-Budget Report (details in Inland Revenue Press Release REV5/2000).

11. In response to further consultations, further changes are to be made to the provisions in Finance Act 2000. Full details are in the Budget Note (REV BN 24).

12. Two matters in Finance Act 2000 were left to be dealt with by regulations. These were the detailed provisions for the mixing of dividends within a country and for surrendering eligible unrelieved foreign tax around a group. The regulations are now on the Inland revenue website, and business will have a brief opportunity to comment at them (until 19 March) shortly after which they will be made and laid before Parliament.

### **Increasing Innovation**

13. In the Pre-Budget Report, the Chancellor said that the Government would be looking at measures aimed at boosting investment in R&D across business. Last year, the Government introduced new R&D tax credits to encourage research and development by small and medium sized enterprises (SMEs). This provided SMEs with an additional deduction for qualifying current R&D spending over and above the amount deducted in the accounts by raising the effective rate of relief from 100 per cent to 150 per cent.

14. With the publication of "Increasing Innovation", the Government is seeking views on the design of a new tax incentive aimed at encouraging innovation by larger companies.

15. The consultation paper describes what would be involved in the design of an incremental R&D tax credit incentive. An incremental R&D tax incentive would reward businesses in proportion to their additional R&D expenditure above current levels.

16. The paper outlines the issues that would need to be considered, including eligibility criteria, base periods and amounts, how groups might be dealt with, the treatment of sub-contracted expenditure, and the interaction with the existing SME reliefs. Two main options are described, a CT incremental credit and a wages-based incremental scheme.

17. The Government invites views from businesses and other interested parties on the full range of issues that need to be resolved for such a tax incentive to be successfully introduced. The consultation paper can be found on the Internet at:

[www.inlandrevenue.gov.uk/budget2001](http://www.inlandrevenue.gov.uk/budget2001)

Views on the issues raised are sought by 7 June

### **Simplifying and Protecting the Tax Base**

18. The Government is aware that the requirements of the tax system can lower profitability and reduce competitiveness. Unnecessary and outdated tax rules that detract from business efficiency are to be cut. These include abolishing outdated requirements for the deduction of tax on intra-UK payments between companies of interest, royalties, annuities and annual payments. This will increase competitiveness and reduce administrative burdens for businesses.

19. The Government is grateful for the responses to the Technical Note issued at PBR about corporate debt, financial instruments and foreign exchange gains and losses. The reform and simplification proposals were broadly welcomed. Most respondents felt careful consideration of the details over a reasonable time scale was needed. The Government will therefore publish a consultation document in the summer that further develops the ideas raised in the Technical Note in light of the representations. The Government announced today that there will be legislation in a future Bill that will:

Abolish the separate legislation on foreign exchange gains and losses and merge the provisions, with appropriate amendments, into the legislation on corporate debt and financial instruments;

Extend the scope of the financial instruments legislation; and

Deal with the problem in the corporate debt legislation of connected party bad debt.

20. While facilitating business efficiency and promoting its competitiveness, the Government is determined that businesses operating in the UK should pay their fair share of tax.

21. Measures announced today reflect the Government's resolve to ensure that the rules that protect the tax base keep up to date with developments in the domestic and global economy. These include:

blocking artificial avoidance schemes, which exploit a loophole in one of the exemptions from the UK's Controlled Foreign Company regime;

closing Petroleum Revenue Tax loopholes relating to decommissioning expenditure;

changes to clarify the general tax rules, which ensure that Limited Liability Partnerships (LLPs) are taxed as partnerships and measures to prevent tax loss through LLPs.

22. In view of concerns about avoidance in relation to the foreign exchange, financial instruments and corporate debt legislation, consideration is being given to bringing forward targeted anti-avoidance measures in the Finance Bill to address schemes that are exploiting this legislation.

### **NOTES FOR EDITORS**

1. Further information on the measures outlined here and other measures affecting business are contained in the following Inland Revenue press releases and Budget Notes

#### **Press notices:**

REV3 Tax boost to employee share ownership

REV4 Extension of film tax relief

#### **Budget Notes:**

REV BN 16 New tax incentives for drugs and vaccines for killer diseases.

REV BN 13 Withholding tax on intra-UK company payments

REV BN 21 Loophole closed in controlled foreign company rules

REV BN 20 Petroleum revenue tax and decommissioning expenditure

REV BN 14 Limited liability partnerships.

REV BN 7 Minor amendments to the rules for chargeable gains of companies.

REV BN 5 Capital Gains of non- resident close companies.

REV BN 9 The proposed Capital Allowances Act 2001.

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## **TAX BOOST TO EMPLOYEE SHARE OWNERSHIP**

### **REV 3**

#### **7 March 2001**

The amount of share options that small, growing companies will be able to grant under Enterprise Management Incentives (EMI) is to be doubled to £3 million, the Chancellor announced today. And, to make EMI easier for companies to operate, the limit on the number of employees in each company who can hold options will be removed.

These measures, building on changes proposed in the Pre-Budget Report, will provide a welcome boost for small companies to help them attract and retain the highly skilled staff they need to grow.

Larger companies too will benefit from the other changes:

improvements are to be made to the new All-Employee Share Ownership Plan (AESOP), which has been widely welcomed by companies as a way of ensuring all employees have an interest in their company's success. A number of detailed changes will make the plan easier for companies to administer. One that will be particularly welcomed is a new exemption from stamp duty when employees buy shares from an AESOP trust; the generous capital gains tax taper relief treatment of business assets will be extended to employees of non-trading companies so long as they do not have a material interest of more than 10 per cent in the company; and the Social Security Contributions (Shares Options) Bill, currently going through Parliament, will allow companies to settle unpredictable national insurance liabilities on the growth in value of employee share options that were granted between 6 April 1999 and 19 May 2000. They will be able to do this by making a special employer contribution based on the value of their shares on 7 November 2000.

The Financial Secretary to the Treasury, Stephen Timms, said:

“Employee share ownership is increasingly being recognised as a major driver of improved productivity. Last year we introduced significant tax incentives to promote employee shareholdings. This included EMI and the new All-Employee Share Ownership Plan. These have been welcomed by business. We have listened to their suggestions to improve the measures and make them easier for companies to operate. The new features that the Chancellor has announced will help companies to extend employee share ownership even further. They will support the Government’s productivity drive by increasing employees’ commitment to the success and growth of the companies they work for.”

## **DETAILS**

### **Enterprise Management Incentives**

Share options are important for small companies who need to attract larger numbers of the highly skilled workers to help them grow and achieve their full potential.

At present, 15 key employees in small higher-risk companies can each be granted options over shares worth up to £100,000. So companies are allowed to grant EMI options over a maximum of £1.5 million of their shares at any one time. Under the changes announced today companies will be able to grant options over a maximum of £3 million worth of shares at any one time.

The Government is keen for smaller enterprises to be able to use EMI in the way that will best meet their business needs. During consultation, employers said that the limit of 15 employees is not flexible enough. The Government agrees with this and will remove this limit.

As a result of the consultation, the following changes will also be made:

extending the time limit for notification of the grant of EMI options from 30 days to 92 days;

removing the requirement for prior approval for alteration to share capital; and

offering advance assurance on whether or not a company qualifies.

#### **All-Employee Share Ownership Plan**

New enhancements will simplify the operation of All-Employee Share Ownership Plans (AESOPs) and ensure that stamp duty is not paid twice when firms grant shares to their employees. As AESOPs are run through a trust, there can be a stamp duty charge both when the trust buys shares and when these shares are subsequently bought by the employees. The changes announced today will remove the stamp duty charge when employees buy shares from an AESOP trust.

The Government will also remove the possibility of employees facing an income tax charge when an employer or trust meets the stamp duty liability. The possibility of employees facing an income tax charge when an employer or trust meets incidental costs of operating the plan will also be removed.

Another change will make the scheme both fairer and easier for groups of companies to use. Currently some people who have been employed by the group are excluded from participating in a plan, because they have moved around within the group. The changes announced today mean that an employee will satisfy a qualifying period of employment for AESOPs by having worked throughout that period in any company that was part of the group.

These measures will make the administration of the AESOP simpler and help reduce compliance costs.

### **Capital gains tax (CGT) taper relief**

The extension of the more generous business assets taper relief for capital gains tax to employees of non-trading companies will simplify the tax system and reduce compliance costs. Employee shareholders, including those working part-time, will no longer always have to consider whether the company where they work is trading. As a result, many companies, in particular listed companies, will no longer have to address this question on behalf of their employees. This change will apply from 6 April 2000, thus coinciding with the changes announced in Budget 2000.

Following the Pre-Budget Report announcement, the Government consulted on the revenue protection needed to prevent abuse. The Government has decided that an officer or employee will only be eligible for business assets taper relief on shares in a non-trading company if he or she does not have a material interest in the company. An example of a material interest is holding more than 10 per cent of the voting rights in the company.

### **National Insurance on Share Options**

Legislation has been introduced in the Social Security Contributions (Share Options) Bill to limit the amount of the NIC payable on options granted to employees between 6 April 1999 and 19 May 2000. The employer will be able to limit the liability to the gain attributable to the growth in company share price up to 7 November 2000.

This will allow companies to settle unpredictable national insurance liabilities on the growth in value of employee share options.

### **NOTES FOR EDITORS**

#### **Enterprise Management Incentives**

Enterprise Management Incentives (EMIs) were introduced in Finance Act 2000 after a successful period of consultation. The incentives are proving to be popular. The Inland Revenue has been notified that more than 480 companies have awarded EMI options to over 2600 employees up to the end of February.

EMI share options can be granted by trading companies, quoted or unquoted, with gross assets of no more than £15m. This size limit is the same as for tax incentives aimed at encouraging equity investment in small, higher-risk unquoted trading companies - the Enterprise Investment Scheme, Venture Capital Trusts, and the Corporate Venturing Scheme.

Currently under EMI, companies can grant up to £100,000 worth of share options to each of 15 key employees, effectively limiting the total value to £1.5 million per company. The options are normally free of Income Tax and National Insurance charges on grant and on exercise. When the shares are sold, capital gains tax taper relief normally starts from the date the options were granted.

The consultation period for the changes announced today ran from 8 November to 13 December 2000.

Further information on other changes to EMI is available in a separate Inland Revenue Budget Note, REV BN 6, 'More Flexibility for Enterprise Management Incentives'

#### **Capital gains tax taper relief**

Capital gains tax (CGT) taper relief was introduced in the Finance Act 1998. The relief reduces the amount of a capital gain that is charged to tax on the disposal of an asset; the reduction increases the longer the asset has been held after 5 April 1998. Taper relief applies

to the capital gains of individuals, trusts and the personal representatives of deceased persons, but not to the capital gains of companies.

Different tapers apply to business assets and non-business assets. The taper reduces the effective CGT rates for a higher rate CGT payer from 40 per cent to 10 per cent for business assets and from 40 per cent to 24 per cent for non-business assets.

The Finance Act 2000 broadened the range of assets that qualify as business assets with effect from 6 April 2000. That act extended business assets to include:

shares owned by employees and officers in a trading company where they work;  
shares in unlisted trading companies; and  
shares in listed trading companies provided that the individual controls not less than 5 per cent of the voting rights.

The November 2000 Pre-Budget Report announced the Government's intention to extend the definition of business assets to include employee shareholdings in non-trading companies, subject to consultation on the appropriate degree of revenue protection. Most businesses are treated as trading, but investment companies and property investment companies are not. Companies that are mainly trading, but that have more than an insubstantial amount of non-trading activities are also not treated as trading.

Further information on the changes to CGT taper relief is available in a separate Inland Revenue Budget Note, REV BN 4, 'Capital Gains Tax Business Assets Taper Relief'.

### **All-Employee Share Ownership Plan**

The All-Employee Share Ownership Plan (AESOP) was introduced in Finance Act 2000 after extensive consultation. AESOPs have been well received. Companies have been going live with their plans from as early as September last year. Over 280 companies have sent in plans to the Inland Revenue for approval. So far 187 plans are ready to be implemented.

Changes announced today will ease the operation of AESOPs, particularly for smaller companies where this can be a greater burden.

### **National Insurance Contributions**

Since 6 April 1999 National Insurance has been payable by both employer and employee on the gains arising when share options are exercised outside an Inland Revenue approved scheme and where the shares are readily convertible into cash.

Companies with very volatile share prices expressed concern that their exposure to an unpredictable NICs liability on unapproved share options could endanger their investment strategies and damage their future growth by deterring investors. Legislation was introduced on 28 July 2000 in the Child Support, Pensions and Social Security Act 2000 to allow the employee to bear the employer's NIC on share option gains. And changes in Finance Act 2000 gave employees tax relief for any of the employer's NICs that they paid against the taxable gain on the share option.

The new legislation in the Social Security Contributions (Share Options) Bill will limit the amount of the NIC payable on options granted between 6 April 1999 and 19 May 2000. The liability will be limited to the gain attributable to the growth in company share price up to 7 November 2000. It will come into effect when the Bill receives Royal Assent.

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## **EXTENSION OF FILM TAX RELIEF**

### **REV 4**

#### **7 March 2001**

The British film industry received a boost today - worth up to £200m over 3 years - as the Chancellor announced that film tax relief would be extended until 2005.

Paymaster General Dawn Primarolo said:

"The British film industry has achieved great commercial and critical success in recent years, attracting 46 Oscar nominations since 1997, including Billy Elliot and Chocolat, nominated for this year's Oscars on 25 March.

"There is emerging evidence that film tax relief is encouraging long term structural change in the British film industry. There is growing confidence in the industry and, with the emergence of sustainable investment packages and record inward investment – over £500 million in 2000 - UK studios are busier than ever.

"A three-year extension of the tax relief will give the industry sufficient time to build on these encouraging developments."

### **NOTES FOR EDITORS**

The UK currently has three tax reliefs for films. The most important allows for 100 per cent write-off for tax purposes, on completion, of the production and acquisition costs of "British qualifying" films whose budgets do not exceed £15 million. Films are certified as "British qualifying" by the Department for Culture, Media and Sport if they meet certain criteria, such as 70 per cent of the cost of the film being spent on film activity in the UK.

This relief was introduced in 1997 and was originally intended to run for three years, so that it would apply to expenditure incurred between 2 July 1997 and 1 July 2000 inclusive. The closing date was subsequently extended in the Finance (No.2) Act 1999 to 1 July 2002.

Legislation will be introduced in the Finance Bill to extend the end date by a further three years so that it will then apply to expenditure incurred between 2 July 1997 and 1 July 2005 inclusive.

### **How the scheme works**

Under the general scheme of taxation, expenditure on the production or acquisition costs of a film would normally become deductible over a considerable period of time. Each of the UK's three tax reliefs helps the film industry by advancing the time at which expenditure can be deducted for tax purposes.

The most generous relief allowing 100 per cent write-off of costs on completion of the film, commonly known as "Section 48 relief", was introduced in 1997. Its object was to promote growth, employment, investment and opportunities in the UK film industry. It was also intended to assist structural change in the UK film industry to assist it to compete in the global market.

British qualifying films with budgets in excess of £15million are entitled to deduct expenditure, on completion of the film, over three years – commonly known as "Section 42 relief " This relief applied to all British qualifying films before Section 48 relief was introduced.

The extension announced today means that relief for expenditure on British films costing less than £15m between 2 July 2002 and 1 July 2005 will be available earlier. This brings forward nearly £200m of relief.

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### **GENERAL BETTING DUTY ABOLISHED**

#### **C&E 1**

#### **7 March 2001**

A radical reform of betting duty, which will create the right competitive environment for British-based bookmakers to develop their business domestically and internationally, and give punters a better deal, was announced by the Chancellor today.

Under the new system, the current General Betting Duty of 6.75 per cent on total stakes will be replaced with a 15 per cent tax on bookmakers' gross profits, defined as the difference between the stakes laid with them and the winnings they pay out.

This reformed tax structure makes it possible for bookmakers to absorb the tax and to end the 9 per cent 'deduction' that they currently charge on stakes, which means that punters will pay no tax. It therefore makes it possible for UK bookmakers to develop their domestic and international business from an onshore base, competing from a position of strength in the growing global market for telephone and Internet betting.

As a result of the changes announced today, the largest UK bookmakers have said that they will relocate their offshore operations to the UK. They expect to take advantage of the new duty system, the UK's reputation as a centre of bookmaking integrity and expertise, and the skilled staff and IT infrastructure that is available from a UK base to grow their e-commerce businesses, bringing international business and increased employment opportunities to the UK. The extra domestic and international betting turnover the reform will generate should

enable both the betting and racing industries to prosper. Government revenues will share in the gain from increased turnover in the medium term.

Stephen Timms, the Treasury Minister responsible for betting duty, said:

“These reforms will provide a better deal for punters, and help UK bookmakers to compete internationally, while continuing to make their fair contribution to racing and to Government revenues. The reforms are fair to punters, bookmakers, racing and the taxpayer, and will provide the UK with a betting duty system and a competitive environment for bookmakers fit for the 21st century.”

Customs and Excise will be working with the bookmaking industry to put the new system in place, and the Government expects it to be introduced no later than

1 January 2002. By that time, the Government also expects that the biggest bookmakers will have brought their offshore operations back to the UK.

## **DETAILS**

### **Moving to a Gross Profits Tax**

In the 1999 Pre-Budget report, the Government announced that it would consider what measures it could introduce to maintain a thriving bookmaking and racing industry in the UK in response to the growth in offshore betting. In Budget 2000, the Government launched a consultation exercise and published a consultation document, “Our Stake in the Future”, looking at options for modernising the way betting is taxed, including the possibility of introducing a Gross Profits Tax.

Following the consultation the Government announced in the 2000 Pre-Budget report that it believed there was scope to reform the taxation of betting to meet the following specific objectives:

- to provide the right competitive environment for the UK betting industry to thrive, both domestically and internationally, and to take advantage of e-commerce opportunities;
- to give punters a better deal;
- to support racing through increased horseracing betting turnover; and
- to protect the long-term revenues from betting.

How the Gross Profits Tax will work

Under the current system, a punter placing a bet pays an additional charge of 9 per cent on his stake, representing:

- 6.75 per cent tax;
- approximately 1.25 - 1.5 per cent horse race levy (where appropriate);
- and a residual deduction for bookmakers’ administrative costs.

Under the new system the customer should pay no deductions when placing the same bet. The tax charge, horse race levy and administration charges should be absorbed by the bookmaker.

For example:

Old General Betting Duty

New Gross Profits Tax

Stake  
£10.00  
£10.00

Deduction  
£ 0.90  
£ 0.00

Return on a 2-1 bet  
£30.00  
£30.00

Net gain to punter  
£19.10  
£20.00

Basing the tax on gross profits allows bookmakers to offset winnings paid out against stakes received. It also recognises the commercial reality that margins are generally tighter on telephone and on-line betting than on cash betting in shops, thus giving a particular boost to these two growth areas.

The revenue cost of this measure is estimated to be £45 million in the first year and £145m in the year after. However, it is expected to generate significant growth in betting turnover in the medium term, probably future revenue streams.

This reform will remove any incentive for illicit gambling and should help eradicate the illegal untaxed market in betting, which is currently estimated to be worth approximately £500 million per year.

### **Spread betting**

The spread betting industry operates in a different way and is subject to different regulatory requirements from the fixed odds bookmakers. To reflect these differences and ensure a more level playing-field, spread betting firms will be subject to lower rates of Gross Profits Tax: 3 per cent for financial spread bets and 10 per cent for other spread bets, including sports bets.

### **On-course betting**

The Government recognises the importance of the duty exemption for on-course betting in attracting punters to attend racecourses and greyhound tracks, and in determining the 'Starting Prices' used extensively by off-course bookmakers. On-course betting at these venues will therefore continue to be exempt from duty under the Gross Profits Tax. The Government will be consulting on whether to retain the on-course exemption for betting at other sports venues, or to bring betting at these venues into the scope of the new system. In either case, the Government believes punters at these venues should not be charged deductions on their bets.

### **Other bets**

Bets placed with brokers, or with 'agents' who hold bookmaker's permits, will be brought within the scope of the Gross Profits Tax, although this will not apply to bookmakers who are acting as agents for the TOTE.

### **Casinos**

In line with its previous commitments, the Government also announced today that it would help casinos by up-rating the gaming duty bands in line with inflation for the third successive year. If the bands were not increased in this way, casinos would have to pay an extra £2 million per year in tax.

#### **NOTES FOR EDITORS**

1. An economic analysis of the options for taxing betting was carried out on behalf of HM Customs and Excise by Nottingham University. A copy of this document, and the responses to the consultation exercise, have been placed in the House of Commons library, and are available on request from the Gambling Policy Team, HM Customs and Excise, 3rd Floor, Ralli Quays, Stanley Street, Salford, M60 9LA.
2. Gaming duty is charged as a percentage of casinos' gross profits (the difference between stakes placed and winnings paid out), on the basis of a banded structure. The Government is committed to adjusting the duty bands in line with inflation for the lifetime of this Parliament. This protects the casinos against increases in their tax liability brought about by erosion of the value of the duty bands over time. The changes will prevent the industry from having to pay an extra £2 million per year in duty.
3. Details for businesses are published in Budget Notices BN 91/01 (betting duty) and BN 94/01 (gaming duty). These are available from Customs and Excise Business Advice Centres and from the Customs and Excise Internet site: <http://www.hmce.gov.uk>

HM Customs and Excise Press Office:

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#### **ALCOHOL AND TOBACCO DUTIES**

##### **C&E 2**

##### **7 March 2001**

Duties on spirits, beer and wine will be frozen and tobacco duties increased in line with inflation, the Chancellor announced today. The Government also underlined its commitment to crack down on criminal smuggling and fraud.

##### **Alcohol**

Spirits duty will be frozen to strengthen the international competitiveness and domestic base of the UK spirits industry. The Government has now frozen spirits duty for four Budgets in a row. Without those duty freezes, spirits would have been 60 pence a bottle more expensive than they are today.

Duties on beer, wine and other alcohol will also be frozen.

##### **Small breweries**

The Government also announced today that it is minded to introduce a reduced rate of duty on the beer produced by small breweries, and will be considering the scope for doing so over the coming year, to provide support to the nation's small brewing industry.

## **Tobacco**

Tobacco duties will rise in line with inflation to maintain the real cost of cigarettes and thereby support the Government's objectives to reduce smoking. Tax on a typical packet of 20 cigarettes will go up by 6 pence from today.

The Government also today published the latest encouraging results from its strategy to reverse the growth in tobacco smuggling over the next three years.

## **DETAILS**

### **Alcohol**

1. The duty on spirits has been frozen for the fourth consecutive year to strengthen both the international competitiveness and domestic base of the UK spirits industry. Duty on spirits is now 36 per cent lower in real terms than it was 20 years ago.
2. Duties on beer, wine, cider and other drinks will be frozen.
3. The Government has received proposals from the Society of Independent Brewers, supported by the Council for the Protection of Rural England, the Villages Retail Services Association and other groups, for a 'Progressive Beer Duty' scheme, which would reduce the duty payable by smaller brewers in line with the volumes of beer they produce. The Government is minded to introduce such a scheme and will be considering the scope to do so over the coming year.
4. The Government also announced that it would be tackling a tax avoidance practice where cider is diluted to decrease its strength and increase its volume, reducing the duty liability on the volume of finished product. Legislation will be introduced to outlaw this practice. This has the full support of the National Association of Cider Makers.
5. The estimated revenue cost of this alcohol package is £90 million against an indexed base in 2001/02. The RPI impact is estimated to be nil.

### **Tobacco**

6. Smoking is the single greatest cause of preventable illness and premature death in the UK, killing 120,000 people every year. The duty on cigarettes has so far risen by 30 per cent in real terms since May 1997, encouraging existing smokers to smoke less or quit, and discouraging children and young people from taking up the habit, thereby helping to prevent many more premature deaths. Maintaining the real price of cigarettes and tobacco supports these vital health objectives.

7. The tax on tobacco (including duty and VAT) is therefore increased in line with inflation from 6pm today by:

6 pence on a typical packet of 20 cigarettes;

2 pence on a pack of 5 small cigars;

5 pence on a 25 gram pack of hand-rolling tobacco; and

3 pence on a 25 gram pack of pipe tobacco

8. The estimated revenue cost of these changes is nil against an indexed base.

### **Smuggling**

9. Figures published today show that – while tobacco revenues for 2000-01 will exceed their forecast after several years of falling short – tobacco smuggling remains a serious threat to the revenue and to the Government's health objectives, and brings with it widespread and serious criminality. Last March, the Government announced its Tackling Tobacco Smuggling strategy, which is designed first to slow the growth in tobacco smuggling, which has been on a strong upward trend, and then to put it into decline within three years. The strategy provided £209 million for investment in extra staff and new equipment.

10. Over the past year, Customs have been increasing deployment of front-line staff and investigators. By the end of April, 650 extra staff will be in post, and a further 300 new staff will follow over the next year. Customs have also been putting in place X-ray scanners designed to detect bulk consignments of smuggled tobacco: three scanners are already in operation; two more will follow shortly; and a second series will be ordered over the next few months.

11. This strategy is at an early stage but is beginning to show results. In the first nine months of 2000-01, Customs have seized more than 2.1 billion cigarettes destined for the UK market: 1.4 billion in the UK itself; and 700 million through joint operations with overseas enforcement agencies. The X-ray scanners are also starting to pay dividends: in just a few weeks of operation, the first three scanners were responsible for the seizure of over 13 million cigarettes and over a tonne of hand-rolling tobacco.

12. Customs investigators have broken up 38 major organised crime gangs involved in the smuggling and supply of huge volumes of illicit cigarettes. Customs' tough policy on vehicle seizures is also having a powerful effect – making smugglers realise the cost of using their vehicles to transport illicit goods. In the first nine months of 2000-01, Customs seized almost 6,700 vehicles, up over 90 per cent on the same period last year.

13. As announced in Budget 2000, 'UK duty paid' marks are being introduced on packets of cigarettes and hand-rolling tobacco to help in the identification of smuggled goods. From 1 July 2001, it will be a criminal offence to transport, sell, offer for sale or allow the use of premises for the sale of unmarked cigarettes and tobacco. This will deter individuals and retailers from selling unmarked goods, and encourage owners of pubs and managers of workplaces to prevent sales taking place on their premises.

14. Smuggling is provisionally estimated to have accounted for 22 per cent of the UK cigarette market in 2000, close to Customs' target of 21 per cent. The strategy is in its first year, and as more front-line staff are put in place, new X-ray scanners come on line, and pack marks are introduced, Customs will be able to take even more effective action against the criminals involved in tobacco smuggling.

### **NOTES FOR EDITORS**

1. The duty on cigarettes has ad valorem (per cent of price) and specific (per cigarette) elements. Raising the specific duty by approximately 2 per cent and maintaining the ad valorem duty at 22 per cent increases the total duty by about 1.8 per cent in line with inflation. The duties on all other tobacco products are wholly specific.

2. Revalorisation is an uprating in line with inflation applied to keep duties, benefits and allowances constant in real terms. Excise duties use the forecast RPI figure for the September following the Budget. Allowances against tax use historic RPI to the September preceding the Budget. In Budget 2001 the forecast RPI, based on Q3 2000 to Q3 2001, used for excise duties is 1.8 per cent whereas the historic RPI to September 2000 is 3.3 per cent.

3. In Budget 2000 the Chancellor announced new three year spending plans for NHS spending. The proceeds from the 5 per cent real increase in tobacco duties in Budget 2000 contributed to the additional £2 billion health funding for 2000-01 and to the increased allocations for the NHS up to 2003-04.

4. Details for businesses are published in Budget Notices BN 90/01 (cider dilution) and BN 89/01 (tobacco duties). These are available from Customs and Excise Business Advice Centres and from the Customs and Excise Internet site.

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## **FREE ADMISSION TO NATIONAL MUSEUMS AND GALLERIES**

### **C&E 3**

#### **7 March 2001**

Britain's main national museums and galleries will receive refunds of VAT when they allow free admission to the public, the Chancellor announced today.

A new scheme will allow the main national museums and galleries to provide free admissions and still recover the VAT they incur on the things that they buy, removing this barrier to free entry. The Government hopes that national museums and galleries will take advantage of this scheme to move rapidly to free entry, opening up these great cultural institutions to the public.

Chris Smith, the Secretary of State for Culture, said:

"I am delighted with the Chancellor's announcement. The new scheme recognises the unique part our national museums and galleries play in British cultural life. I will now work with the museums to ensure that together we deliver the Government's objective that everyone should have free access to these main national museums and galleries."

The Government will be consulting museums and galleries on the detail of the scheme, which will be introduced by September 2001. However, eligible museums and galleries which do not currently charge will be able to recover the VAT they incur from 1 April 2001.

### **DETAILS**

1. The Government is committed to universal access to the main national museums and galleries. These include the British Museum, the National Gallery, the Natural History Museum, the Imperial War Museum, the National Portrait Gallery, Tate Britain and Tate Modern, the Victoria & Albert Museum, the Museum of London, the Museum of Science and Industry, the Wallace Collection, and national museums and galleries in the devolved regions.

2. The universal access policy already provides free entry for children and pensioners to the main national museums and galleries, and this was to have been extended in September 2001 with the "Quids In" scheme, allowing £1 entry for adults.

3. Organisations whose activities are undertaken for no charge are not considered 'in business' for VAT purposes, and any VAT they incur in relation to these activities cannot therefore be recovered. For many national museums and galleries, VAT therefore creates an incentive for them to charge for admissions, so that they can recover the VAT they incur on the things that they buy.

4. Under the new scheme announced today, all those main national museums and galleries that allow free admissions will be refunded the VAT they incur on their purchases. The Department for Culture, Media and Sport (DCMS) is confident this will mean that all the national museums and galleries it sponsors will move to free entry.

5. Museums policy is devolved, but this new VAT scheme applies across the UK, so museums in the devolved countries can also reclaim VAT without charging for entry.

6. The scheme will be introduced by legislation in the upcoming Finance Bill, with a list of eligible museums and galleries to be drawn up in parallel. The refunds will apply to all non-charging main national museums and galleries, at a cost of around £15 million per year, and will come into effect no later than September 2001. However, eligible museums and galleries which do not currently charge will be able to recover the VAT they incur from 1 April 2001. Customs will shortly be writing to these bodies and their sponsor departments to set out the details of the scheme.

#### **NOTES FOR EDITORS**

1. Many of the main national museums and galleries already allow universal free access, including the British Museum, the National Gallery, the National Portrait Gallery, the Wallace Collection, Tate Britain and Tate Modern.

2. Further information is contained in Budget Notice BN 70/01, available from Customs and Excise Business Advice Centres and the Customs and Excise Internet site.

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Media enquiries to: 020 7865 5471 / 5472 out of hours: 020 7620 1313.

HM Customs and Excise information is on the Internet: <http://www.hmce.gov.uk>

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