5 BUILDING A FAIRER SOCIETY

The Government is committed to promoting fairness alongside flexibility and enterprise, to ensure that everyone can take advantage of opportunities to fulfil their potential. The Government's reforms of the welfare state reflect its aims of eradicating child poverty, supporting families to balance their work and family lives, promoting saving and ensuring security for all in old age. The Government is also committed to a modern and fair tax system that ensures that everyone pays their fair share of tax. This Budget sets out the next steps the Government is taking to support these aims, including:

- announcing that **from April 2008 every pensioner and disabled person will have free off-peak bus travel in England;**
- building on progress in reducing the number of children in poverty, **a commitment to increase the child element of the Child Tax Credit at least in line with average earnings until the end of this Parliament;**
- enabling employers to support working parents with their childcare, by **raising the tax and national insurance contributions exemption for employer-supported childcare to £55 per week** and by making available **capital grants to help employers establish workplace nurseries;**
- **announcing that the payments into Child Trust Fund accounts at age seven will be £250 for all children, with £500 for children from lower-income families;**
- launching a review of policy for children and young people, supported **in this Budget by £10 million over two years to promote youth engagement in their communities, sports and local media;**
- **increasing the stamp duty land tax threshold to £125,000,** exempting an additional 40,000 homebuyers each year;
- **announcing that the inheritance tax threshold will rise to £312,000 in 2008-09 and £325,000 in 2009-10,** to continue to provide a fair and targeted system;
- **establishing this Government's largest ever consultation with the third sector,** to be overseen by a cross-departmental ministerial group; and
- further reforms to **modernise the tax system,** (including investing in high capacity online filing services), and a number of measures to clamp down on **tax fraud and avoidance.**

5.1 The Government's aim is to promote a fair and inclusive society in which everyone shares in rising national prosperity and no one is held back from achieving their potential by disadvantage or lack of opportunity. The Government is committed to advancing fairness and flexibility together, so that all people, at all stages of life, can benefit from the UK's modern and dynamic economy.

SUPPORT FOR FAMILIES AND CHILDREN

5.2 The Government believes that every child, irrespective of background or circumstances, deserves the best start in life. To achieve this, since 1997, the Government's strategy has been to reform financial support for families with children, help parents into work and provide better public services for children and their families.

Eradicating child poverty

5.3 In the 1980s and early 1990s, the number of children growing up in poor households more than doubled, so that the UK had the highest rate of relative child poverty in the EU. The Government has therefore made tackling child poverty one of its key priorities and, in 1999, committed to eradicating child poverty in a generation.

Progress to date

5.4 The Government has made significant progress across all of its child poverty measures. Since 1996-97, the Government has more than halved the number of children living in absolute poverty, lifting 1.8 million children out of absolute poverty before housing costs (BHC) and 2.4 million children after housing costs (AHC), by 2004-05. Absolute poverty is measured against a household income threshold that rises in line with inflation, so these reductions demonstrate the extent to which incomes of the poorest families are rising in real terms. Recent evidence shows that there have also been significant falls in the number of children living in material deprivation poverty. As incomes of the poorest families have risen, they have been able to spend more on their children's needs[1] and there are fewer families unable to afford key items such as new shoes and winter coats.[2]

Public Service Agreement

5.5 The Government set itself an ambitious Public Service Agreement (PSA) target to reduce child poverty on a relative low-income measure by a quarter between 1998-99 and 2004-05. The relative measure of poverty is the European standard and captures the extent to which incomes of the poorest families are keeping pace with the rising incomes of the population, so is the most challenging measure of child poverty. Outturn data for 2004-5, released on 9 March, shows that 700,000 children had been lifted out of relative poverty since 1998-99 on both a BHC and an AHC basis.[3] This represents a fall of 23 per cent and 17 per cent respectively. This decisively reverses the long-running trend, from the late 1970s to mid 1990s, of rising relative low-income poverty. While these reductions represent strong improvement, they are less than the Government's ambition.

Halving child poverty

5.6 The Government is firmly committed to eradicating child poverty by 2020. HM Treasury and the Department for Work and Pensions share a target to halve child poverty between 1998-99 and 2010-11 on both a relative low-income and material deprivation basis.[4] The *Child Poverty Review*,[5] published alongside the 2004 Spending Review, set out the Government's strategy to reach the 2010 target. **Budget 2006 announces that the Government will continue to increase the child element of the Child Tax Credit at least in line with earnings until the end of this Parliament.** This will provide a solid foundation for meeting the target to halve child poverty. In line with the Government's view that work is the best route out of poverty, Chapter 4 sets out further measures to help lone parents move into and stay in work.

Child poverty in London

5.7 In February the Greater London Authority and the Association of London Government launched the London Child Poverty Commission to investigate the reasons behind high child poverty levels in the capital and to identify policy solutions. The Government warmly welcomes the launch of the Commission and looks forward to considering the proposals it develops.

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[1] *That's where the money goes*, Gregg, Waldfogel and Washbrook, 2005.

[2] *Families and children study*, Department for Work and Pensions (DWP), 2005.

[3] *Households Below Average Income: an analysis of the income distribution 1994-5–2004-5*, DWP, 2006.

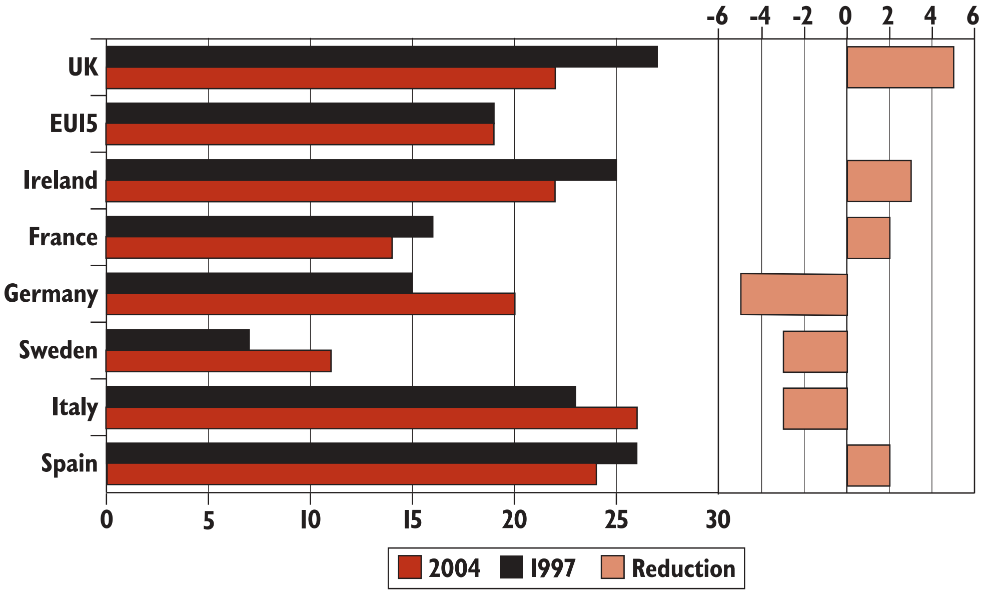
[4] Now that data is available on material deprivation, the Government will analyse that and other information and set a baseline and threshold for the material deprivation measure later in 2006.

[5] *Child Poverty Review*, HM Treasury, July 2004.

Box 5.1: Trends in child poverty

The fall in the number of children living in relative poverty since 1997 followed a period where child poverty in the UK rose significantly and was the highest in the EU. The chart below shows how, since 1997, the UK's reduction in child poverty has been the largest in Europe and the UK has more than halved the child poverty gap with the EU-15, where the rate of child poverty has remained stable overall. All this has been achieved against a background of strong economic growth in the UK, with median incomes growing by an average of 2.4 per cent in real terms each year.

Child poverty in Europe: at risk of poverty rate 1997 and 2004 (LHS) and reductions in child poverty (RHS)



Source: Eurostat.

Active labour market policies such as the New Deal for lone parents have made a significant impact and helped reduce the number of children in workless households by more than 350,000. Reforms to the tax and benefit system – to provide financial support for families and to make work pay – have also contributed. If the Government had simply indexed the 1997 tax and benefit system to prices, there would be over 1.5 million more children in poverty than is currently the case.

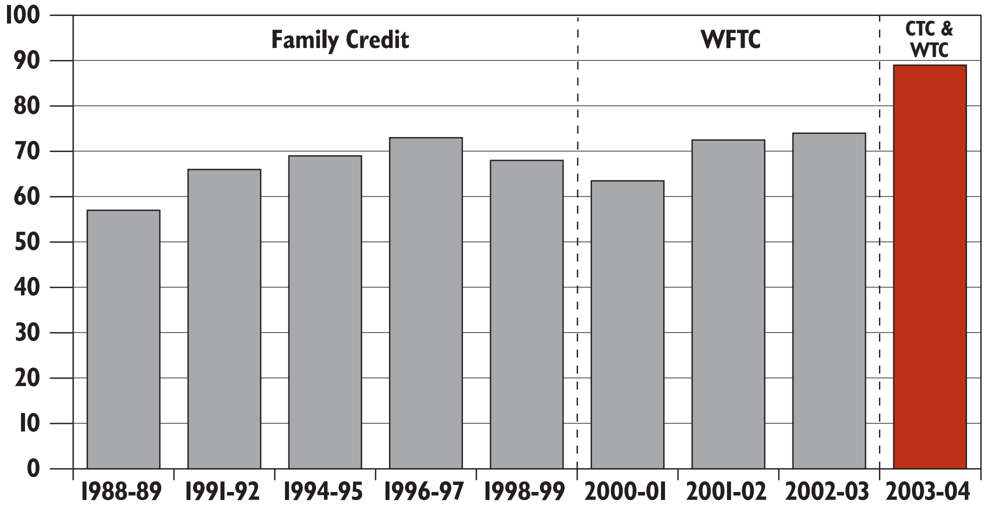
Financial support for families with children

5.8 Radical reform of the provision of financial support for families has been a key driver of the fall in the number of children in poverty. The Government's reforms have been underpinned by two principal objectives: support for all families with children and greatest support for those who need it most. This is delivered primarily through a combination of Child Tax Credit (CTC) and Child Benefit.

Increased support for families

5.9 Tax credits are reaching far more low- and moderate-income families than any previous system of income-related financial support, benefiting around six million families and ten million children. New figures published in March 2006 showed that in the first year of new tax credits (2003-04), 79 per cent of eligible families were claiming CTC, while the proportion of the money claimed was even higher, at 87 per cent. Some 89 per cent of low income working families claimed tax credits in 2003-04, a higher level of take-up than for Working Families' Tax Credit (WFTC) and significantly higher than for Family Credit, as shown in Chart 5.1 below. In their first year of operation, take-up was 65 and 57 per cent for WFTC and Family Credit respectively.

Chart 5.1: Caseload tax credit take-up rates for low income working families with children



Source: HM Treasury calculations based on HMRC, Child Tax Credit and Working Tax Credit Take-up rates, 2006, table 2.

5.10 The Pre-Budget Report announced that **from April 2006 the child element of CTC will increase by £75 to £1,765 a year.** This represents a total increase of £320 since its introduction in April 2003. As a result of the Government's continuing programme of reform, by this April a family with two young children and a full-time earner on £15,800, half male mean earnings, will receive over £105 per week in CTC and Child Benefit, more than double the equivalent support in 1997-98. Table 5.1 shows the levels of support that CTC and Child Benefit will provide for families from April 2006. In addition, CTC ensures that families are supported both in and out of work and therefore acts as a secure income bridge as parents move into employment.

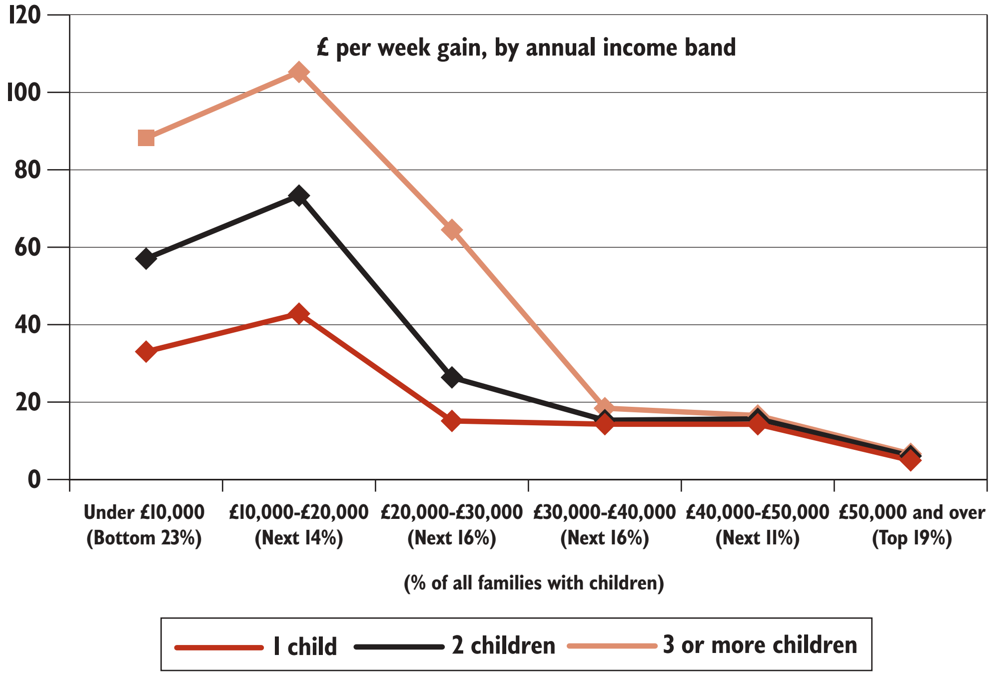
Table 5.1: Minimum annual levels of support for families from April 2006

Annual family income *Per cent of families*	up to £14,155 *29*	up to £50,000 *81*	all families *100*
1 child	£3,220	£1,455	£910
2 children	£5,595	£2,065	£1,520
3 children	£7,970	£2,675	£2,130

Making families better off

5.11 Chart 5.2 shows the impact of the Government's measures to support families since 1997. It shows that all families have benefited but the greatest benefit has gone to families with low to middle incomes. For example, families with two children and an income in the range £10,000 to £20,000 are on average over £70 a week better off.

Chart 5.2: Gains for families with children from tax credits and other children's measures by 2006-07



Source: HM Treasury.

5.12 As a result of the Government's reforms to the personal tax and benefit system and the National Minimum Wage, by October 2006 and in real terms:

- families with children will be on average £1,500 a year better off, while those in the poorest fifth of the population will be on average £3,400 a year better off;
- a single-earner family on half male mean earnings with two children will be £3,950 a year better off; and
- a single-earner family on male mean earnings with two children will be £235 a year better off.

Flexibility and certainty in the tax credit system

5.13 Tax credits are the central component of the Government's programme of financial support for families. The Government has carefully monitored the operation of the tax credit system during its first two years and in May 2005 announced that HM Revenue and Customs (HMRC) would improve the administration and communication of the system. Many of the measures announced as part of this improvement have already taken effect and others will do so shortly. For example, a new award notice and simplified guidance notes will be introduced in April 2006.

5.14 The Pre-Budget Report announced a further series of steps to give greater certainty to claimants while maintaining the flexibility to respond to changes. In particular, the income disregard was increased from £2,500 to £25,000. There are also new responsibilities for claimants to tell HMRC about changes in their circumstances promptly. In February the Government announced extra help for claimants, with more generous additional payments to people who may be caused financial hardship as a result of paying back overpaid tax credits. HMRC are now working – in partnership with the voluntary sector – to ensure that the implementation of these measures fully reflects the needs of claimants.

Support for children and young people

5.15 The *Child Poverty Review* and *Every Child Matters*[6] set the broad policy framework for supporting children and young people. In *Support for parents: the best start for children*, published at the Pre-Budget Report, HM Treasury and the Department for Education and Skills identified further steps to be taken to improve outcomes for children and young people. To take these conclusions forward, **this Budget launches a policy review of children and young people to inform the 2007 Comprehensive Spending Review.**

Box 5.2: Children and young people review

Building on *Support for Parents: the best start for children,* the policy review for children and young people will consider:

- **the role of universal services in providing access to protective and preventative support, risk assessment and referral;**
- **how to deliver effective early intervention by targeted and specialist services before problems become acute;**
- **how to sustain the impact of intervention to prevent children and young people with complex needs repeatedly moving in and out of contact with services; and**
- **how rights and responsibilities for individuals, families and communities can be integrated into services to improve the lives of children and young people.**

Under the umbrella of the children and young people review, there will be three sub-reviews, considering:

- **how services can provide greater support to families with disabled children to improve their life chances;**
- **what strategy should be adopted over the next ten years to deliver a step change in youth services and support for young people; and**
- **how services for families and children at risk of becoming locked into a cycle of low achievement, high harm and high cost can be reformed to deliver better outcomes.**

[6] *Every Child Matters*, HM Government, September 2003.

Budget-holding lead professionals

5.16 A key element of delivering better integrated services around the needs of children and families is the concept of the lead professional. This role can be enhanced by making the lead professional a single account holder, with a budget to commission services directly from providers. The Pre-Budget Report announced a series of Single Account Holder pathfinders and the Government can now announce **the expansion of the Single Account Holder pilot, so that 12-15 local authorities are able to trial the budget-holding role.**

Young people

5.17 The Government believes that young people should be given more choice and influence over services and facilities that are available to them. The Youth Opportunity Fund and Youth Capital Fund will provide for the improvement of facilities and allow young people to establish their own small-scale projects, for example renting space in a community centre to organise events and activities, establishing a neighbourhood council or youth cafe, or running sports leagues and tournaments. The Pre-Budget Report announced additional funding of £53 million over 2006-07 and 2007-08 to extend both Funds, bringing the total available over two years to £115 million. This will mean an average local authority receiving £500,000 over 2006-07 and 2007-08. **Budget 2006 announces an additional £2 million to fund a national competition in 2006-07 to recognise and reward innovative projects run by young people, for young people, from the two Funds**. The competition is intended to encourage, highlight and reward projects that are particularly innovative in their design and planning.

5.18 **A total of £2 million over two years is being made available to the Football Foundation** to fund programmes for young people that will involve football clubs working in partnership with local police forces and community groups. Similar projects, like Midnight Football, have proved successful in reducing crime and anti-social behaviour.

5.19 **Budget 2006 also announces a total of £6 million over two years to fund opportunities for disadvantaged young people to develop new skills in a range of media** and promote young people's involvement in producing programmes for television and radio.

Childcare and work-life balance

5.20 Flexible, affordable and high-quality childcare provision is an important element of the Government's strategy to both provide support to families and eradicate child poverty. *Choice for parents, the best start for children: a ten year strategy for childcare,* published alongside the 2004 Pre-Budget Report, set out the Government's long-term vision for childcare and early years services.

Choice and flexibility

5.21 The Government is committed to ensuring that parents have greater choice and flexibility in balancing work and family life. Legislation is now being considered by Parliament to extend paid maternity leave from six to nine months from April 2007, and the Government has an aim of 12 months paid maternity leave by the end of the Parliament. The Government will continue to examine the case for extending the right to request flexible working to parents of older children in the future. In addition, **from April 2006 the flat rate of Statutory Maternity, Paternity and Adoption Pay and Maternity Allowance will be increased to £108.85 a week.**

Availability of childcare and early years services

5.22 The Childcare Bill now before Parliament places new duties on local authorities to improve outcomes for young children and to secure a sufficient supply of childcare to meet the needs of working familes. Offering integrated services for young children and their families is a key component of the ten year strategy and the Government is committed to developing a nationwide network of 3,500 Sure Start Children's Centres by 2010. Some 700 of these have been established so far. Budget 2006 announces **new capital grants to help small- and medium-sized employers establish workplace nurseries**. Some £8 million for this will be made available in each of 2006-7 and 2007-8.

Affordability for families

5.23 The Government wants childcare to be affordable, as well as high-quality, flexible and appropriate to parents' needs. As announced in the 2004 Pre-Budget Report, to help improve affordability, from April 2005 the eligible cost limit of the childcare element of the Working Tax Credit (WTC) was increased to £300 a week (£175 for one child) and **from April 2006, the maximum proportion of costs that can be claimed will be increased to 80 per cent.** The Government continues to believe that WTC is the most effective way of delivering support for low- to moderate-income families. To engage employers and help working families with childcare costs, the Government offers an income tax and national insurance contributions exemption for good quality formal childcare contracted by the employer or paid for with childcare vouchers provided by the employer. To enhance this support, Budget 2006 announces that from April 2006 **the value of the exemption will be increased from £50 to £55 per week.**

High-quality provision

5.24 To ensure that childcare is of high quality, the Government is working with the Children's Workforce Development Council, the Training and Development Agency for Schools and other experts to draw up draft professional standards for a new graduate level Early Years Professional status. A prospectus outlining these standards and the different routes for achieving this status will be published in the summer. To ensure that the costs of reforming the childcare workforce are not passed on to parents, the Government has created the Transformation Fund, worth £250 million a year over 2006 to 2008. This funding will enable childcare providers to employ more staff at graduate level and train more childcare workers to achieve higher qualifications.

SUPPORTING YOUNG PEOPLE

5.25 The Government is committed to ensuring that all young people reach the age of 19 equipped to enter higher education or skilled employment and has an aim to raise participation in education and training from 75 per cent to at least 90 per cent at age 17 by 2015.

Review of financial support for 16-19s

5.26 The Government has a vision of a single, coherent system of financial support for 16-19 year olds that is focused on encouraging and supporting all young people to participate and achieve in education and training. Young people are engaged in a range of different activities and the system should respond to their individual circumstances, with simplified administration and improved accessibility. Chapter 3 sets out steps the Government is taking to reform further education colleges and training providers.

5.27 Budget 2005 announced important changes to the financial support offered to young people. **From April this year, entitlement to Child Benefit, Child Tax Credit and Income Support will be extended to 19 year olds** completing a course of non-advanced education or unwaged training that they started before their nineteenth birthday, until they reach age 20 or the end of their course. In addition, **entitlement to Child Benefit and Child Tax Credit will also be extended to unwaged trainees** on work-based learning programmes arranged by the Government from April 2006. These reforms will improve the financial support available to these learners and, with the extension of Education Maintenance Allowance in England, deliver parity in financial support for education and unwaged training.

Engaging the most disadvantaged young people

5.28 At any one time in the UK, around 150,000 16-17 year olds are not in education, employment or training. The Government has an ambition to ensure that no teenager faces long-term unemployment or inactivity and so will **from April 2006 introduce pilot Activity Agreements and an Activity Allowance targeted on the most disadvantaged 16 to 17 year olds.** This will extend conditional financial support to this group, setting a clear expectation that young people will progress into learning. It will also offer them the financial support and opportunity to progress to learning. The introduction of these measures in April represents a significant milestone for the review of financial support for 16-19 year olds. The Government is, however, determined to make further progress and will be seeking the views of stakeholders to inform the next phase of the review in the coming months.

FAIRNESS FOR DISABLED PEOPLE

5.29 The Government is committed to improving the rights of, and opportunities for, disabled people, to ensure that everyone has the opportunity to lead an independent and fulfilling life. The Disability Rights Commission, established by the Government in 2000, continues to work to create a society where all disabled people can participate fully as equal citizens. The Disability Discrimination Act (DDA), extended in 2005, now offers improved protection to more people. Under the DDA, from December 2006 all public sector organisations will have a statutory duty to promote equality of opportunity for disabled people. The Government is also improving support to help more disabled people move into employment. The Welfare Reform Green Paper,[7] described in Chapter 4, sets out a package of reforms.

Improving the life chances of disabled people

5.30 The Government's report, *Improving the life chances of disabled people*,[8] set out a 20-year strategy for supporting disabled people in four key areas. Government departments are collectively driving forward the strategy through the Office for Disability Issues, launched in December 2005. The first annual report on progress will be published this summer. Also in 2006, a Task Force for Independent Living will be created to provide expert advice to Government and a national forum will be established to ensure that individuals and disability organisations are involved on an ongoing basis.

Individual budgets

5.31 Thirteen local authorities have been selected to run individual budget pilots, from spring 2006, which aim to improve the ability of disabled people and older people to live independently. These bring together funding streams across government departments and give individuals control over the support that they need, offering the budget in the form of cash, public services, or a combination of the two.

PROMOTING SAVING, ASSET OWNERSHIP AND INCLUSION

5.32 The Government seeks to support saving and asset ownership for all, from childhood, through working life and into retirement, using the right combination of financial education, support through the tax and benefit system and the effective use of public spending. In aggregate, household sector net wealth is now higher than ever before, having grown by around 60 per cent in real terms since 1997.

Promoting saving and asset ownership for all

Child Trust Fund

5.33 The Child Trust Fund was introduced in April 2005. The scheme promotes saving and financial education and will ensure that in future all children have a financial asset at age 18, regardless of family background. Under the scheme, all children born on or after 1 September 2002 receive £250 to be invested in a long-term savings and investment account, and children from lower-income families receive £500. In the first year alone, nearly 1.5 million accounts have been opened and there are now over 110 official providers and distributors of Child Trust Funds.

5.34 In response to the consultation launched in the 2004 Pre-Budget Report, the Government can announce that **the payments into Child Trust Fund accounts at age seven will be £250 for all children, with children from lower-income families receiving £500.** The payments will be made on a similar basis to the initial endowments. As announced in Budget 2005, the Government continues to consult on whether further payments should be made into Child Trust Fund accounts at secondary school age.

[7] *A New Deal for Welfare: Empowering people to work*, DWP, January 2006.

[8] *Improving the life chances of disabled people*, Prime Minister's Strategy Unit, January 2005.

5.35 The Child Trust Fund and age-related payments will bring financial education in schools to life. The Government is working with financial education bodies and the devolved administrations to identify appropriate opportunities for learning and is **exploring a focused Schools Money Week, with tailored Child Trust Fund supporting materials** to link with children's learning through the school curriculum.

Individual Savings Accounts

5.36 Individual Savings Accounts (ISAs) have proved extremely popular. Over 16 million people – more than one in three adults – have an ISA, with nearly £190 billion subscribed since their launch in 1999. The Government remains committed to ISAs. ISA and Personal Equity Plan (PEP) savings are supported by an estimated £1.8 billion a year in tax relief. As announced in Budget 2005, **higher annual investment limits of £7,000, with a maximum of £3,000 in cash, will be extended until at least April 2010.** To build on the recent extension of the list of qualifying investments for ISAs to include all FSA-authorised retail investment schemes, **UK Real Estate Investment Trusts will, on their introduction, become qualifying investments for ISAs, PEPs and Child Trust Funds.**

Matching and the Saving Gateway

5.37 In addition to tax relief, the Government is exploring the use of matching to promote saving among those who do not usually save. Matching provides a simple, transparent and equitable framework of incentives for those on lower incomes. The second Saving Gateway pilot, which was launched in spring 2005, is testing the effect of alternative match rates and monthly contribution limits, an initial endowment and a range of financial education support for savers.

5.38 Around 22,000 Saving Gateway accounts are open and saving levels in all pilot areas are encouraging. Early findings from the interim evaluation show that so far nearly all participants have saved into their accounts and nearly half have contributed the maximum allowable each month. The evidence suggests that participants are overwhelmingly positive about the scheme and the matched payments they receive on their savings, and that participants intend to save regularly into their accounts. A report on the interim evaluation of the pilot will be published later this year.[9]

Stakeholder savings and investment products

5.39 Following the Sandler Review of the retail savings industry, the Government introduced in April 2005 a new range of simple, low cost, risk-controlled 'Stakeholder' savings and investment products.[10] There are two products designed to meet short and medium-term saving needs and to meet long-term saving needs there is a Child Trust Fund and revised Stakeholder pension. A campaign to raise awareness of the features and benefits of these products was launched in September 2005.

Capital limits in benefits

5.40 The Government is committed to ensuring that the benefit system encourages households, particularly those on lower incomes, to save appropriately. As announced in Budget 2004 and Budget 2005, **from April 2006 the lower and upper capital limits for Income Support, Jobseeker's Allowance, Housing Benefit and Council Tax Benefit are being raised to £6,000 and £16,000 respectively.**

[9] An independent evaluation of the second Saving Gateway pilot is being conducted by MORI and the Institute for Fiscal Studies.

[10] *Medium and Long-Term Retail Savings in the UK: A Review,* Ron Sandler, July 2002.

Promoting financial capability and inclusion

Financial capability

5.41 Many consumers are far from confident in the decisions they make about their finances and in response to this, the Financial Services Authority (FSA) has developed a National Strategy for Financial Capability.[11] The Government will play a full and active part in the delivery of the National Strategy and **will host, jointly with the FSA, a financial capability conference in the summer.** The FSA has also commissioned a financial capability survey to show the level of capability within the general UK population and will report on this shortly. In the Pre-Budget Report, the Government announced that it would embed financial capability more explicitly in the school curriculum by including it in the new functional mathematics component of GCSE maths. An important element of the National Strategy will be the provision of support, training and resources to teachers until financial education is incorporated into the curriculum.

Financial inclusion

5.42 Access to mainstream financial services can be restricted for many people on low incomes. *Promoting financial inclusion* outlined the Government's strategy to tackle financial exclusion, including the establishment of a Financial Inclusion Taskforce to oversee progress and a Financial Inclusion Fund of £120 million to support initiatives to tackle financial exclusion.[12] **£20 million of the Financial Inclusion Fund will now be made available for broader financial inclusion objectives,** including stimulating demand for mainstream financial services.

Access to banking

5.43 Lack of access to banking services imposes costs on those who can least afford them. In December 2004, the banks and the Government agreed to work together towards a goal of halving the number of adults in households without a bank account and of making significant progress within two years. The Financial Inclusion Taskforce was asked to monitor progress towards the goal. In its first annual report, the Taskforce concludes that steady progress has been made towards the goal but also encourages the banks to continue to address the difficulties faced in opening a bank account. In addition, the Taskforce wants to work with the Government, the banks and others to increase demand for banking services among those that remain unbanked.

Access to affordable credit

5.44 Many low-income households rely on credit products with interest rates of over 100 per cent. The Financial Inclusion Fund is being used to establish a 'growth fund' of £36 million to support third sector lenders providing alternative affordable credit and successful bidders to this fund will be announced in June. To give flexibility to better serve low-income groups, **the maximum rate of interest that credit unions can charge on loans will be increased from 1 per cent a month to 2 per cent a month.** This change will be implemented as soon as possible.

5.45 The Government has also consulted on extending Community Investment Tax Relief to the personal lending activities of community development finance institutions. Responses to the consultation indicated support for an extension and highlighted a range of practical issues that need to be addressed. As announced in the Pre-Budget Report, the Government will continue to consider the case for, and practicalities of, this extension. In order to reduce some of the increased risk and cost associated with lending to vulnerable groups, the Government **will implement, by December 2006, a scheme where, under certain circumstances, lenders can apply for repayment of arrears through deduction from benefits,** where normal repayment arrangements have broken down.

[11] *Building Financial Capability in the UK*, Financial Services Authority, May 2004.

[12] *Promoting financial inclusion*, HM Treasury, December 2004.

5.46 The Social Fund provides a safety net of grants and interest free loans for the most vulnerable in times of need. As announced in Pre-Budget Report 2004, **reforms to the Budgeting Loans scheme that amount to an increase of funding of £210m over the three years to 2008-09 will take effect from April 2006.** This will improve access to Budgeting Loans by changing the way existing debt is counted, reducing the normal repayment rate, introducing a simple method to calculate how much an applicant can borrow and increasing the capital limits to enable applicants to save appropriately. The treatment of capital in Community Care Grants is not changing at present and Crisis Loans do not have a capital limit.

Access to money advice

5.47 Credit is a useful tool for managing expenditure for most people but some have difficulty managing their borrowing and become over-indebted. The Government recognises that face-to-face money advice is an effective mechanism for tackling problem debt and is currently undertaking a competition to support increased provision, based on £45 million from the Financial Inclusion Fund. Bids for this element of the Fund have been received and successful bidders will be announced shortly. In addition, the Government has awarded £6 million to organisations across England and Wales to pilot debt advice outreach.

FAIRNESS FOR PENSIONERS

5.48 A fair society guarantees security in old age and ensures that pensioners can share in rising national prosperity, while making sure that older people are able to play a full and active role in society. The Government is committed to tackling pensioner poverty and rewarding saving, and to enabling people to meet their retirement income aspirations in an ageing society.

Fairness for today's pensioners

Support for all pensioners

5.49 The Government's strategy for pensioners is based on progressive universalism, providing support for all and more for those who need it most, through both financial support and access to services. The foundations upon which the Government provides support for all pensioners are the basic and additional state pensions. Beyond this the Government has:

- guaranteed that the April increase in the basic state pension will be in line with the Retail Prices Index for the previous September or 2.5 per cent, (whichever is higher), meaning that from April 2006 the basic state pension will rise to £84.25 for single pensioners and £134.75 for couples.
- announced the continuation of Winter Fuel Payments of £200 for households with someone aged 60 or over, rising to £300 for households with someone aged 80 or over, for the duration of this Parliament;
- introduced free television licences for the over 75s, and free prescriptions and eye tests for those aged 60 and over; and
- ensured that those entering hospital receive their full entitlement to Basic State Pension and some other benefits for the duration of their stay.

Free nationwide bus travel

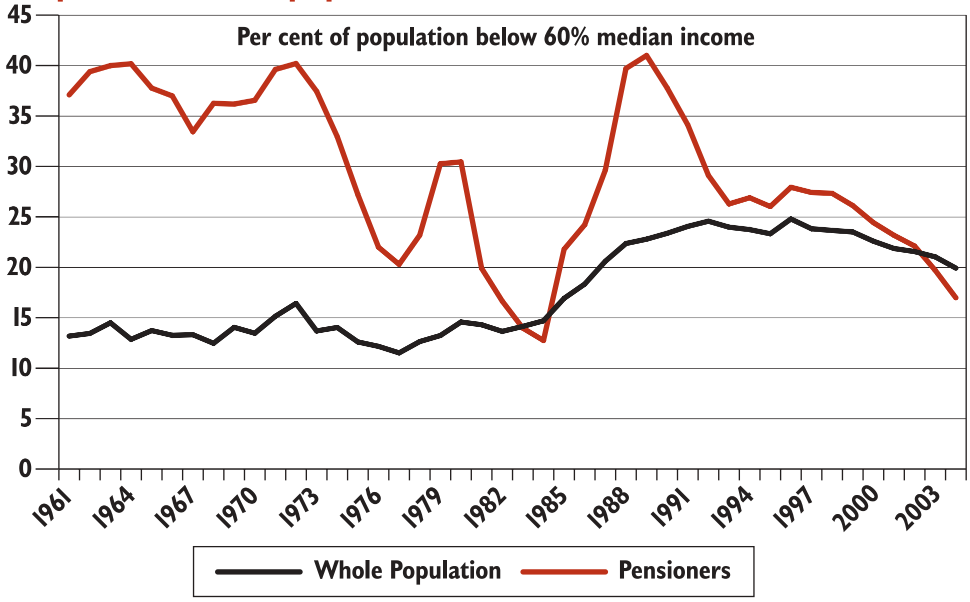
5.50 Budget 2005 announced free off-peak local area bus travel for those aged over 60, and all disabled people, in England from April 2006. Building on this and recognising the importance of public transport for older people and the role access to transport has to play in tackling social exclusion and maintaining well-being, **this Budget announces free off-peak bus travel for all pensioners and all disabled people, in England from April 2008,** at a cost of up to £250 million a year. The Government will consult with local authorities and other interested parties on the best framework for delivering this entitlement.

Support for the poorest pensioners

5.51 Pension Credit is key to providing more support for those pensioners who need it most. Since its launch in October 2003 over 2.7 million pensioner households have benefited from Pension Credit's guarantee element and/or reward for savings. 2.1 million pensioner households are receiving the element that guarantees a minimum income, a take-up level achieved a year ahead of target, while Savings Credit rewards 1.9 million pensioner households who saved for their retirement. From April 2006 the guarantee element of Pension Credit will rise to £114.05 for single pensioners and £174.05 for couples and from April 2006 the savings reward will rise to a maximum of £17.88 a week for single pensioners and £23.58 for couples.

5.52 Concentrating resources on the poorest pensioners has ensured that between 1996-97 and 2004-05 over one million pensioner households were lifted out of relative low-income poverty and 2.1 million pensioner households have been lifted out of absolute low-income poverty. Half a million pensioner households were lifted out of relative low income since the introduction of Pension Credit. As Chart 5.3 below shows, during periods of substantial economic growth the poorest pensioners have tended to see their incomes fall below those of the general population – between 1984 and 1990 the risk of a pensioner household being poor rose from 14 per cent to 40 per cent. As a result of the Government's reforms to support for the poorest pensioners the risk of a pensioner household being poor has fallen to 16 per cent – and, apart from 1984, it is for the first time since 1960 that a pensioner is no more likely to be poor than the population as a whole.

Chart 5.3: Comparison of risks of relative poverty: pensioners and population as a whole



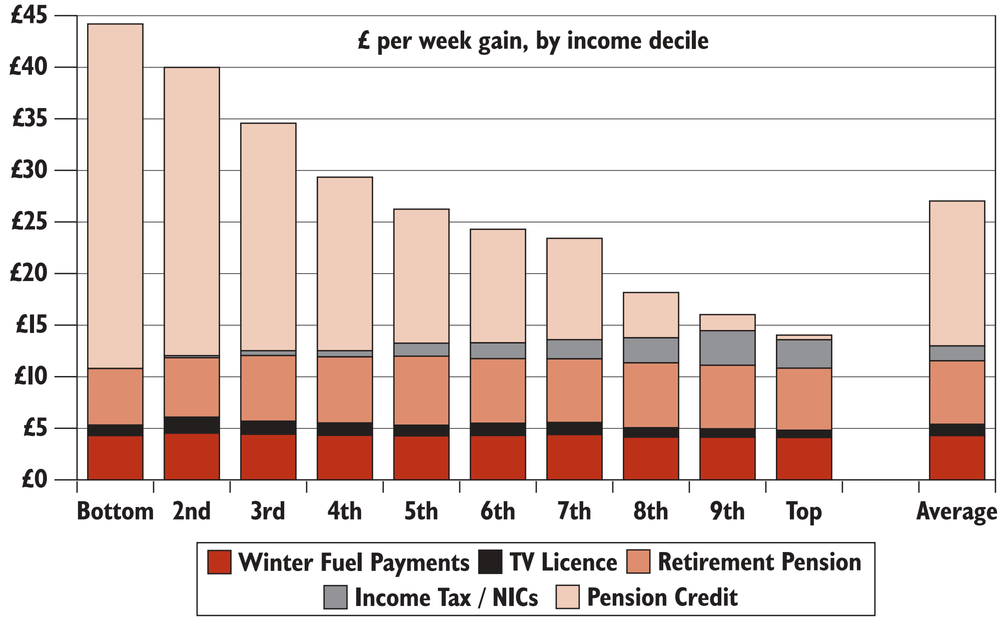
Source: Institute for Fiscal Studies and Department for Work and Pensions.

Warm Front **5.53** The Pre-Budget Report announced further help for the poorest pensioners, through an increase in funding for the Warm Front programme. This enables households in receipt of Pension Credit, who do not currently have central heating, to have it installed free of charge. Energy suppliers have also agreed to provide free cavity and loft insulation for Pension Credit households who need it and pensioner households not in receipt of Pension Credit will be able to access the same service at a £300 discount.

Support for pensioners who pay tax **5.54** The Government is committed to supporting pensioners who pay income tax. Increases in the age-related tax allowances will mean that in 2006-07 no one aged 65 or over need pay tax on an income of up to £140 a week. This will mean that 45 per cent of pensioners pay no tax on their income.

Effects of measures to support pensioners **5.55** As a result of measures implemented since 1997, the Government is spending around £11 billion a year more in real terms on pensioners. This is around £7.5 billion a year more than if the basic state pension had simply been linked to earnings over the same period. This approach has focused support on those who need it most. If the extra £11 billion had been spent on raising the basic state pension, the poorest third of pensioners would on average be £33 a week worse off than they are now. As a result of tax and benefit measures the Government has introduced, the poorest third of pensioner households will be on average £2,050 a year, or around £39 a week, better off. Chart 5.4 shows the distributional impact of the Government's measures to support pensioners.

Chart 5.4: Overall gains for pensioner families from pensioner tax and benefit policies



Source: Department for Work and Pensions.

Fairness for tomorrow's pensioners

Pensions Commission

5.56 The Government's 2002 Pensions Green Paper[13] established the Pensions Commission to examine the regime for private pensions and long-term saving and to consider whether the current level of compulsion within the UK pensions and retirement system is appropriate. The Commission's interim report was published in October 2004,[14] and a final report was published on 30 November 2005.[15]

5.57 The Government has welcomed the broad framework of the Commission's report and has set out the five principles on which its response will be based: the pension system must promote personal responsibility; it must be fair; it must be affordable; it must be simple; and it must be sustainable. The Government has said that the principle of affordability will be central. There will be no relaxation in fiscal discipline and the long-term sustainability of the public finances will not be put at risk. In preparation for the publication of a White Paper in Spring 2006, the Government has engaged in a major consultation exercise, and convened public debates in six cities across the UK in March 2006 to mark National Pensions Day.

Information

5.58 Empowering individuals to make informed choices about working and saving for retirement is fundamental to ensuring that future pensioners receive the income in retirement that they expect. During 2004-5, as part of the Government's informed choice strategy, 6.8 million automatically generated state pension forecasts and 2.6 million combined state and private pensions forecasts, were issued.

Security

5.59 The establishment of the Pension Protection Fund in April 2005 ensures that, for the first time in the UK, members of defined benefit pension schemes will receive a meaningful proportion of their expected pension income if their pension scheme is in deficit when the sponsoring employer becomes insolvent. The establishment of a proactive Pension Regulator further improves the security of occupational schemes, while its risk based approach to regulation minimises burdens on schemes which are appropriately funded and run.

Simplification

5.60 **Pensions tax simplification sweeps away the numerous existing tax regimes and replaces them from 6 April 2006 ('A-day')** with a single universal regime for tax-privileged pensions saving. The new regime will provide individuals with greater flexibility and choice over their retirement savings and will benefit both employers and pension providers through increased flexibility and reduced administration costs. A small package of supplementary measures providing additional flexibility for schemes and individuals, clarifying aspects of the new rules and smoothing the transition from old to new regime, is being introduced in this year's Finance Bill. The Government will keep all aspects of the pensions tax simplification regime under review and will where necessary take action to tackle any abuse of the flexibilities offered by the new regime.

5.61 The longstanding position of successive Governments is that pension assets should be converted into a secure income in retirement by age 75. For most people an annuity or scheme pension is the best means by which they can do this. The new pension rules introduce an additional option for achieving this – an alternatively secured pension (ASP). As the Government made clear during the development of the new pension tax provisions, ASPs are specifically designed for those who have a principled religious objection to annuitisation. It has become clear, however, that some advisors are intending to use the ASP provisions for a much wider purpose to enable individuals to pass on tax-privileged retirement savings to their dependants rather than to provide a pension in retirement.

[13] *Simplicity, security and choice: Working and saving for retirement*, Department for Work and Pensions, HM Treasury and Inland Revenue, December 2002.

[14] *Pensions: challenges and choices*, Pensions Commission, October 2004.

[15] *A new pension settlement for the twenty-first century*, Pensions Commission, November 2005.

5.62 In order to prevent this, the Government is examining how best to restrict ASPs to their original limited purpose. Following consultation, **legislation in Finance Bill 2006 will prevent ASPs being used to avoid inheritance tax by ensuring that appropriate inheritance tax charges apply.** The current inheritance tax position for all other pension schemes will also be confirmed in the Finance Bill.

SUPPORTING CHARITIES, COMMUNITIES AND GIVING

5.63 The Government recognises the vital role played by a vibrant third sector in our society, from bringing people together through voluntary action and advocacy, building social capital and strengthening communities, to the delivery of public services. That is why the Government has introduced such a wide range of support for the sector both through the tax system and new policy initiatives targeted on developing capacity. Building on these measures and going forward into the next phase of this relationship, the government now wants to ensure that the third sector is fully consulted and recognised through the Comprehensive Spending Review process.[16]

Third sector review

5.64 This Budget announces that **HM Treasury will undertake a review into the future role of the third sector in social and economic regeneration.** The review, overseen by a cross-departmental ministerial group, will take a cross-cutting approach to the long-term priorities for the sector, in the context of the future challenges that our society now faces. Campbell Robb, Director of Public Policy at the National Council for Voluntary Organisations, will play a leading advisory role in the review. In its first phase, the review will be informed by the largest consultation ever undertaken with the third sector, seeking views from a wide range of organisations. It will be launched at a conference in May and then taken to every region by the ministerial group. The results will feed into the Comprehensive Spending Review, as set out in Chapter 6, with initial conclusions available at the time of the Pre-Budget Report.

5.65 This Budget announces that working with the Active Communities Directorate in the Home Office, the DTI's Social Enterprise Unit and the HMRC Charities unit, **an Office of Charity and Third Sector Finance will be established in HM Treasury,** linking the work of HM Treasury across the range of third sector issues to provide strategic coordinated engagement. A third sector advisory panel will be established to advise the Office on third sector issues. The advisory panel will include young volunteers, representatives of third sector umbrella bodies and members of different faith communities and will report to the Chancellor.

Volunteering

5.66 The Year of the Volunteer 2005 successfully promoted active community participation across the country. Going forward, the Government will work with third sector and corporate partners to embed the achievements of the year, maximising participation of all age groups from a diverse range of backgrounds, as well as **encouraging corporate community involvement through a responsible business conference later this year.**

Youth action and engagement

5.67 The Russell Commission reported at Budget 2005 and set out recommendations to deliver a step change in the quality, quantity and diversity of young people's volunteering.[17] Budget 2005 announced public investment of up to £100 million, including a fund available to match contributions from business. This Budget announces that **over £10 million has been raised from 19 new corporate supporters**[18] and the seven Founding Partner companies.[19]

[16] The role of the third sector in delivering public services is detailed in Chapter 6.

[17] *A national framework for youth action and engagement,* Russell Commission, March 2005.

[18] GCap, Edge, Premier League, BT, Emap, The Vodafone UK Foundation, HSBC, BAA Communities Trust, ARK, RWE npower, Channel 4, Diageo, HBOS Foundation, Sainsbury's, Barclays, flextech television, JPMorgan*foundations,* Jack Petchey Foundation and Norwich Union General Insurance.

[19] T-Mobile, ITV, KPMG, MTV, Tesco, Sky and The Hunter Foundation pledged the first £3.5 million at the Pre-Budget Report.

5.68 A new independent charity, to be led by Rod Aldridge as chair and Terry Ryall as chief executive, has been established to take forward the recommendations of the Russell Commission. Board members of the new charity have been appointed and will be responsible for commissioning a series of taster, part-time and full-time volunteering opportunities for one million new volunteers over the next five years. A board of young people, V20, will advise the new charity, which will be formally launched in May. The first wave of opportunities will then be commissioned. **The Budget announces that, based on young people's priorities for action, these will include sport,**[20] **the arts, media and the environment.** Additional private sector support will be generated for environmental volunteering schemes by focusing the over £10 million increase in the value of the landfill tax credit scheme on such projects, as set out in Chapter 7.

Invest to Save

5.69 The Invest to Save Budget (ISB)[21] was launched following the 1998 Comprehensive Spending Review to create a 'venture capital fund' for public sector delivery with an emphasis on innovation and partnership working. Since it was created in 1998, the ISB has funded some 463 projects worth nearly £450 million. Of this, approximately £97 million has been allocated to projects relating to the third sector.

5.70 The eighth annual ISB bidding round has now been completed. The Government is today **announcing the allocation of £31 million from the ISB to fund 30 innovative projects** dedicated to delivering cash releasing efficiencies, improving energy efficiency and increasing access to arts and culture. The ISB continues to promote partnerships involving the third sector, with 12 of the successful partnership bids, totalling some £12.4 million, being sector-led. The Government can now also **announce a ninth bidding round for the ISB for 2007,** focused on the third sector's role in building fairer communities and delivering public services.

Memorial to victims of 7 July

5.71 There will be **a permanent memorial to those who lost their lives in the London bombings on 7 July 2005.** The Chancellor has already announced that the Government will make a contribution to the costs of any memorial chosen by the victims' families. The total Government contribution will depend on the level of donations that may be given in support of an appropriate memorial but the Budget confirms that up to £1 million will be available to underwrite the costs.

Terrorism Relief Fund

5.72 This Budget confirms that **the Government will support with an initial endowment of £1 million the creation of a new charitable Terrorism Relief Fund** to provide rapid relief to victims of terrorism at home and abroad.

Charitable giving

5.73 The Government continues to find ways to support the use of the tax reliefs for giving. HM Revenue and Customs has set up a Charities unit to provide an integrated service for charities and their donors, with improved web-based guidance and dedicated expert support.

5.74 The Home Office funded Payroll Giving Grant Scheme continues to increase the numbers of small- and medium-sized businesses offering Payroll Giving schemes. In January 2006, HM Treasury hosted the launch of the Quality Mark Award, recognising employers who achieve minimum employee participation rates in their schemes. Over 700 employers have received awards since the launch. The Government is keen to encourage greater use of tax reliefs for giving and wants to ensure these are used for the purposes intended – this chapter also announces measures to preserve the integrity of charitable reliefs.

[20] 47 per cent of young people's volunteering takes places in sport, Home Office Citizenship Survey 2003.

[21] For more information see www.isb.gov.uk.

5.75 In recognition of the importance of places of worship and memorials for local communities, the Government will **extend the period for which funding will be available for the listed places of worship and memorials VAT refund schemes for three further years until 2010-11.** Both schemes will now also cover the VAT costs incurred on professional fees and include fixtures and fittings for listed places of worship, such as bells, pews, clocks and organs.

Unclaimed assets

5.76 Following the announcement in the Pre-Budget Report, the banking industry has set in train work to develop a scheme to enable unclaimed assets to be reinvested in society. The Government continues to be clear that such a scheme should be introduced, on a basis consistent with retaining the rights of owners to reclaim assets at any time and with this in mind it is continuing to assess the legal and accounting issues involved. The industry's steering group will consider issues of reuniting, definition and operation and distribution. The Government welcomes this and the industry's commitment, building on existing work in this area, to launch a comprehensive new exercise to reunite owners and assets prior to such a scheme being launched.

5.77 Looking ahead, the industry will continue to work to establish a scheme that allows genuinely unclaimed assets to be reinvested in the community in a sustainable way and through a coordinated delivery mechanism, with a focus on youth services and encouraging more active community engagement among young people, and on financial education and exclusion. The industry will work in consultation with the Government and other key stakeholders, including voluntary and community sector organisations and social enterprises.

DELIVERING A MODERN AND FAIR TAX SYSTEM

5.78 A modern and fair tax system encourages work and saving, keeps pace with developments in business practices and the global economy and provides the foundation for building world-class public services. In order to ensure the tax system meets these objectives, the Government will continue to develop a modern tax administration to support taxpayers, modernise tax policies to keep pace with a changing world and ensure that the tax system does not provide unfair advantages for the non-compliant.

Modernising tax administration

5.79 Since the creation of HM Revenue and Customs (HMRC), the Government has introduced the short tax return, continued the successful withdrawal of payment via employer for tax credits and introduced a new online direct debit system for electronic VAT returns. Further simplification of tax administration to provide better support for compliant taxpayers remains a priority. Improved use of information and technology is enabling better risk assessment so that compliance work can be better targeted, thereby reducing audit and inspection burdens for the vast majority of compliant businesses and taxpayers. This work proceeds alongside simplification measures announced in Chapter 3.

Review of HMRC powers

5.80 In 2005 the Government launched a review of HMRC powers and safeguards, to develop a more integrated framework of law and practice to underpin the new department.[22] A further consultation document will be issued shortly. The specific areas it will consider for HMRC include how to intervene more quickly and with less cost for the compliant while tackling non-compliance more effectively, and how to develop a more responsive penalty framework.

[22] *HM Revenue and Customs and the Taxpayer: Modernising Powers, Deterrents and Safeguards*, HMRC, March 2005.

Carter Review of Online Services

5.81 Lord Carter's review of the use of HMRC's online services is published today. He has concluded that well-designed online filing services can bring benefits to taxpayers and the Government. The Government agrees with his aspirational goal of universal electronic delivery of HMRC tax returns from businesses and IT-literate individuals by 2012. **It accepts his recommendations,** which are summarised in Box 5.3. They are expected to deliver recurring benefits of over £175 million per year for businesses and taxpayers, and secure benefits of £84 million per year for the Government.

Box 5.3: Carter Review of online services

In July 2005, the Government asked Lord Carter of Coles to advise on measures to increase the use of HMRC's key online services, in order to ensure sustainable and efficient service delivery for taxpayers, while continuing to support compliance. The review consulted with stakeholders to consider measures to deliver the Government's aim of maximising the use of online services for a number of taxes. Lord Carter recommends that HMRC should continue to invest in its online infrastructure and supporting systems to deliver robust, high capacity services, which should be rigorously tested. Subject to these services being in place, his other key recommendations are to:

- **require businesses to file their VAT returns, company tax returns and pay as you earn in-year forms (the P45 and P46) online, in phases from April 2008;**
- **introduce new filing deadlines for income tax self assessment returns, of 30 September for paper forms, and 30 November for online returns, from 2008;**
- **promote online filing by tax agents and better-quality data by withdrawing computer-generated paper 'substitute' self assessment returns in 2008; and**
- **remove perceived barriers to early filing of self assessment and company tax returns by linking the period that HMRC has to query a return to the date it is filed.**

HMRC will work with businesses, taxpayers, software developers, agents and other intermediaries on the implementation of these changes.

Aligning company filing dates

5.82 HMRC and Companies House have also been consulting on aligning the dates for filing corporation tax returns and delivering accounts to Companies House. The consultation closed on 3 March 2006 having achieved a high level of engagement, with over 100 written responses received. Emerging findings indicate that there is a real opportunity to secure deregulatory gains for smaller companies. The Government will continue discussions with interested parties over the coming months on how best to achieve this without imposing unrealistic obligations on large companies.

Modernising the tax system

5.83 The Government believes that the tax system should ensure fairness between all taxpayers and support the Government's wider economic and social objectives. This Budget announces changes to the tax system to ensure that it remains modern and relevant in a changing world.

Tax-motivated incorporation

5.84 In the Pre-Budget Report the Government responded to increased tax-motivated incorporation by simplifying the corporation tax system with a new single small companies' rate of 19 per cent. It also announced that it would continue to review the tax and national insurance contributions (NICs) systems. Responses to the Pre-Budget Report indicated that business generally welcomed the single small companies' rate but wanted the Government to go further in simplifying the corporate tax system.

5.85 Since the Pre-Budget Report, further evidence has emerged that employment income is being disguised as dividends in order to take advantage of the small companies' tax rate, often encouraged by promoters of mass-marketed managed service company schemes. There is also evidence of some agencies, contractors and employers requiring workers to use corporate structures, thereby denying them employment rights as well as avoiding paying their fair share of tax and NICs.

5.86 The Government believes that all individuals and businesses must pay their fair share of NICs and tax, irrespective of legal form. **It will continue to review the tax and NICs systems to ensure that this is the case and will bring forward proposals for discussion** that are consistent with simplicity for compliant businesses, support for businesses in their aspirations to grow and maintaining the attractiveness of the UK as a business location. As the first stage of this review the Government will **consult on action to tackle disguised employment through managed service company schemes.**

Alignment of income tax and NICs

5.87 There is a case for building on previous work to align, for low paid workers, income tax and national insurance systems, in order to improve outcomes for the low paid and to reduce burdens on employers, especially smaller employers. While recognising that aligning two very different systems with very different purposes presents difficult challenges, the Government **will conduct a review in time for consultation after the Pre-Budget Report.**

Meeting global challenges

5.88 The Government is determined to maintain the overall competitiveness of the UK business tax system and will continue its constructive dialogue with business on international tax issues. The Government **will introduce a small extension to the group relief legislation for companies** which will, in some very limited circumstances, allow a UK company to claim relief for otherwise unrelievable foreign losses incurred in the European Economic Area.

5.89 The Government will continue to defend the tax system robustly against legal challenges under EU law.

Film tax reform

5.90 New and more generous tax incentives for the production of culturally British films were announced at the Pre-Budget Report. Final details of the new scheme are published today and the new regime will come into effect from 1 April 2006, subject to final state aids approval. **This Budget also announces that the minimum UK spend threshold will be set at 25 per cent, to allow a wider range of films to qualify.**

Capital allowances for cars

5.91 The Government today publishes a consultation document, *Modernising tax relief for business expenditure on cars.* This gives further consideration to modernising the capital allowance regime for business cars, including the existing 'expensive cars' rules. The proposed package would reduce compliance costs, while also creating a further incentive for business to purchase cleaner cars, bringing the regime in line with other vehicle taxes, such as vehicle excise duty and company car tax.

Leasing reform

5.92 The Government has welcomed the ongoing constructive relationship with industry over the past two years on reforms to the taxation of leased plant and machinery. **The new regime will take effect from 1 April 2006** and final details are announced today.

Shari'a finance **5.93** Building on the success of the measures introduced in 2005 and arising out of ongoing consultation with industry, the Government will introduce measures enabling Shari'a compliant business finance by ensuring that:

- wakala (agency), diminishing musharaka (partnership finance) and ijara wa'iqtina (hire purchase) will be **taxed similarly to their conventional equivalents;** and
- **the existing stamp duty land tax reliefs for alternative property finance products will be extended to all entities,** including companies.

General insurance **5.94** The Government will consult with industry about the need for and scope of changes to the rules dealing with general insurers' reserves for future claims by policyholders.

Life insurance **5.95** The Government will issue a consultation document shortly that will examine options for simplifying certain aspects of the taxation of life insurance companies. In addition, **legislation will be introduced to establish the 2005 apportionment rules in primary legislation** and to remove unintended tax charges where there is a business transfer, including a demutualisation.

North Sea oil tax **5.96** The Government recognises the importance of a positive climate for investment and of maximising economic recovery of the UK's oil and gas reserves. To support these objectives, the Government has given a commitment to no further increases in North Sea taxation for the lifetime of this Parliament. Discussions have also begun with the oil and gas industry to gather views on the current structure of the North Sea fiscal regime, in particular on issues that impact the stability of the regime as the basin continues to mature. These discussions are expected to continue until early autumn.

5.97 Building on the announcement in the Pre-Budget Report regarding changes to non-arm's length valuation of oil, **the Government will make changes to the nomination scheme and to the rules for allocating oil lifted from terminals.** This will take effect from 1 July 2006 and will ensure that the existing tax regime remains robust.

International Accounting Standards **5.98** The Government will continue to work with business to identify issues arising from the implementation of International Accounting Standards and will continue to monitor the impact on the corporate tax base.

Stamp duty land tax **5.99** Budget 2005 doubled the residential starting threshold for stamp duty on property to £120,000 to help first-time buyers and those on low incomes. **Budget 2006 increases the starting threshold to £125,000 with effect from 23 March 2006,** exempting an additional 40,000 homebuyers each year from stamp duty. Over 50 per cent of first-time and over 45 per cent of all buyers will not pay stamp duty. The threshold in 2,000 Enterprise Areas will remain at the higher level of £150,000.

Inheritance tax **5.100** At Budget 2005, the Government announced that **the inheritance tax threshold would rise to £285,000 in 2006-07 and £300,000 in 2007-08.** To continue to provide a fair and targeted system the Government can now announce that **the threshold will rise to £312,000 in 2008-09 and £325,000 in 2009-10.**

Unit trust seeding relief **5.101** The Budget today announces **the ending of stamp duty land tax relief for the initial transfer of property to trustees of a unit trust scheme.** This will remove a distortion in the tax system and prevent unit trusts being used to avoid stamp duty land tax.

Tax regime for trusts

5.102 Trusts have a positive role to play in assisting people to manage their affairs. Measures introduced by the Government in recent years have recognised this while continuing to ensure that trusts are not used to achieve an unfair tax advantage. As part of this ongoing package of reforms, the Government has announced that **the inheritance tax exemptions which presently apply to some types of trust will only be available in certain prescribed circumstances.** Where this is not the case, inheritance tax charges will apply in the same way as for all other trusts, preventing these trusts from being used to shelter wealth from inheritance tax. The new rules will take effect from today but there will be transitional arrangements for existing trusts.

5.103 The Government is also continuing to implement rules to make the system of trust taxation less burdensome for those not using trusts to gain an unfair tax advantage. The Government has today announced that it will **build on its previous reforms by doubling the standard rate band for trusts to £1,000,** reducing the tax bill for 66,000 trusts and meaning that a total of 30,000 trusts no longer have to submit a self assessment return every year. This will apply from 6 April 2006.

Residence and domicile

5.104 The Government is continuing to review the residence and domicile rules as they affect the taxation of individuals and in taking the review forward will proceed on the basis of evidence and in keeping with its principles.

Accrued income scheme

5.105 Following consultation on proposals to simplify the accrued income scheme and exempt more small investors, the Government will be publishing draft legislation for consultation over the summer.

Employer-provided equipment

5.106 Many employees have benefited from the tax exemption to get a computer into their homes, but the Government now wishes to focus support on groups with the poorest access to technology, to meet the goals set out in the Digital Strategy. As a result, the Govenment has decided **to remove the current tax exemptions for employer-provided computer equipment, from 6 April 2006**. The tax exemption for mobile phones is also **being refocused to ensure it delivers on its objectives.**

VAT

5.107 In 1984, a VAT-free threshold on imports of small commercial consignments from outside the EU was introduced at a level of £18, as an administrative relief. The Government is aware that this provision is currently being exploited and the relief now costs the Exchequer around £85 million per year. If the relief continues to be exploited by businesses using offshore locations, the Government will consider changes to prevent this type of behaviour.

5.108 The Government will in Finance Bill 2006 **implement the rewrite of the complex 'option-to-tax' legislation** to make it clearer and easier to use, following a consultation issued at the Pre-Budget Report. Following a consultation on certain VAT arrangements concerning land and property,[23] the Government has decided to make no changes in this area.

VAT on contraception

5.109 To support its strategy to improve sexual health, **the Government will reduce the rate of VAT chargeable on contraceptive products to 5 per cent.**

[23] *VAT: Disapplication of the option to tax*, HM Customs & Excise, March 2004. A summary of responses is published today.

Alcohol duty **5.110** The Government remains committed to creating a fairer balance of taxation on different alcoholic drinks. In order to continue these efforts, Budget 2006 announces the following duty changes, which will take effect from midnight on 26 March 2006:

- **spirits duties are again frozen,** for the ninth successive Budget, meaning that the total tax on a standard bottle of spirits will be £1.51 lower than if duty had risen in line with inflation since 1997;
- **duties on beer and wine will increase in line with inflation,** adding 1 penny to a pint of beer and 4 pence to a standard 75 centilitre bottle of wine; and
- **duty on sparkling wine and cider will be frozen.**

Tobacco duty **5.111** Smoking remains the greatest cause of preventable illness and premature death in the UK. Maintaining high levels of tax helps to reduce overall tobacco consumption. Budget 2006 announces that from 6pm on Budget day **tobacco duties will increase in line with inflation, adding 9 pence to the price of a packet of cigarettes.**

Gambling **5.112** Building on announcements on gambling taxation at the Pre-Budget Report, the Government today details **changes to amusement machine licence duty (AMLD) rates and categories.** Measures to simplify some aspects of the administration of AMLD will be introduced later in the year.

5.113 The Government has decided to defer announcements on the taxation of remote gaming until the tax regime is implemented in Budget 2007, so that the tax system can reflect detailed regulations for the sector being developed by the Gambling Commission. Following the conclusion of a periodic review, the Government has decided to continue the VAT registration scheme for racehorse owners.

International shopping **5.114** International travellers may currently bring certain goods (excluding cigarettes, wine, spirits and perfume) for personal use into the UK from outside the EU, up to a limit of £145, without paying tax or duty. To support travellers' freedom to shop outside the EU and following action taken by the Government at Budget 2005, the Commission has now issued a proposal to increase the limit to £340. The Government has written to the EU Presidency suggesting that the limit be raised to £1,000 by 2011.

Protecting tax revenues

5.115 The Government recognises that most taxpayers comply with their tax obligations. However, tax fraud and avoidance distort markets and add no value to the UK economy. They are also unfair on the majority who do pay their fair share and can undermine the funding of public services. The Government's approach to tackling non-compliance will continue to ensure actions are effectively tailored to the needs and behaviours of different taxpayers.

Tackling tax avoidance **5.116** The Government will continue to tackle avoidance using legislation and litigation, while ensuring that the competitiveness of the UK is maintained. In recent Budgets, the Government has built on this approach and introduced: disclosure rules to allow HMRC to take rapid, focused action; targeted anti-avoidance measures based on purposive tests; and legislation with effect from the date of announcement, as a proportionate response to those who seek to avoid paying their fair share.

5.117 After closing down a series of ever more complex and contrived schemes designed to avoid income tax and national insurance contributions on remuneration and bonuses, the Government announced in the 2004 Pre-Budget Report that it would counter any schemes of this type that were developed in the future, where necessary with effect from the date of that announcement. Despite this, a minority of employers are continuing to enter into schemes that use employment-related securities and which frustrate the Government's intention to prevent tax avoidance. Having considered the risks to the Exchequer, the Government has decided **to close down a number of schemes with effect from 2 December 2004,** so that those using these schemes will not succeed in obtaining an unfair advantage over the majority of employers and employees who do pay their fair share of tax and NICs.

5.118 Budget 2004 introduced a disclosure regime that has enabled the Government to respond to avoidance more swiftly and in a more targeted fashion. The Pre-Budget Report announced changes to this regime to ensure that it continues to function as intended. Following discussions with stakeholders, the Government can announce that:

- **the direct tax 'filters' will be replaced with 'hallmarks',** in line with the system used for VAT; and
- **individuals and small- and medium-sized businesses will be excluded from the requirement to make disclosures of in-house schemes.**

5.119 The Government will introduce further measures which will:

- **close down a number of avoidance schemes which use financial products;**
- **prevent charitable reliefs being exploited for tax avoidance purposes,** to preserve the integrity of the reliefs and protect the reputation of charities;
- **close a loophole in the controlled foreign companies legislation;**
- **combat VAT avoidance involving face-value vouchers,** such as phonecards; and
- **prevent avoidance of capital gains tax** by schemes exploiting the 'bed and breakfasting' identification rules.

VAT fraud

5.120 Missing Trader Intra-Community (MTIC) fraud is an EU-wide, criminal attack on the VAT system. In order to strengthen further the Government's strategy to combat VAT fraud, the Government announced in January that it had written to the European Commission for a derogation to **introduce a change of accounting procedure on certain goods.** Finance Bill 2006 will include an enabling clause for the introduction of this change.

5.121 In addition, the Government will introduce legislation to support HMRC in intensifying its operational activities in relation to MTIC fraud, including:

- **making explicit HMRC's powers to evidence the inspection of goods;** and
- **directing individual businesses to maintain relevant records.**

Tackling VAT losses

5.122 HMRC will consult informally on a **new requirement for businesses to declare the suitability of a proposed partial exemption special method** before HMRC gives approval for its use. This will speed up the approval process and further strengthen the partial exemption regime. Subject to this consultation, this will be introduced from April 2007.

5.123 The Government will make **changes to the VAT treatment of goods supplied under finance agreements.** These will remove a loophole that allows finance companies to account for VAT on less than the full proceeds they receive in relation to the goods sold in certain circumstances.

Tackling tobacco smuggling

5.124 Since its launch in March 2000, the Tackling Tobacco Smuggling Strategy has successfuly cut the illicit market share of cigarettes by a quarter and protected almost £6 billion in revenue. But smugglers are constantly changing their tactics and the Government needs to anticipate and adapt to new threats and challenges. Building on the measures announced in the Pre-Budget Report, and to clamp down further on smuggling, the Government today publishes a paper setting out how it is reinforcing its strategy.

5.125 Alongside HMRC's operational strategy, the Government has strengthened its agreements with tobacco manufacturers in line with the announcement in the Pre-Budget Report and will **introduce legislation to ensure tobacco manufacturers control their supply chains effectively,** with penalties of up to £5 million for those who fail to do so. A new communications strategy aims to raise awareness among smokers of the risks of smuggled products, especially counterfeit.

Oils fraud

5.126 The Government today announces an **increase in duty of 1.25 pence per litre for rebated oils,** maintaining the differential between main and rebated duty rates and supporting the oils strategy to prevent fraud. The Government also today publishes details of **changes to the categories of vehicles eligible to use rebated oil.** HMRC will continue to consult with industry over the next few months on ways to deter fraud in the aviation turbine fuel sector and will subsequently consult with the marine fuels sectors.

Identity fraud and the tax system

5.127 Identity fraud poses a serious threat to the private and public sector, including the tax system. The Government, working with the financial services industry, is taking a range of new measures to counter this threat, for example developing the work of public-private groups such as the Home Office-led Identity Fraud Steering Committee.

5.128 New industry guidance to be published shortly will strengthen the system of identity checks while reducing the inconvenience for the consumer. HMRC will carry out an assessment of the typical profile of frauds committed against it, to assist banks in identifying suspect payments and accounts, enabling them to make timely Suspicious Activity Reports to the National Criminal Intelligence Service (NCIS). HMRC will contact any firms that have been party to these frauds.

5.129 In December 2005, both the public e-portal for internet applications to tax credits and the DWP e-portal were closed due to new evidence that they had been used to make fraudulent claims. Following checks to ensure that safeguards against fraud are sufficiently robust, **the DWP e-portal for applications to tax credits will be reopened in April.** Other aspects of the internet service will be opened later, once HMRC have developed extra security measures and can be sure that the risk of fraud is minimised.

TACKLING GLOBAL POVERTY

5.130 2005 was a vital year for international development. The UN Millennium Development Goals (MDGs) and global poverty were at the heart of the UK Presidencies of the G7/8 and EU. The key challenge now is to ensure that the commitments made in 2005 are translated into concrete action to accelerate progress towards the MDGs.

Aid – delivering commitments

5.131 The aid commitments made by the EU and the G8 in 2005 are important steps towards helping the poorest countries achieve the MDGs. However, more needs to be done both to deliver and to bring forward these commitments, which is why the Government supports the use of innovative financing instruments including the International Finance Facility (IFF). This works by frontloading donors' existing long-term aid commitments through bond issuances on the international capital markets, to deliver immediately the additional and predictable funding needed to achieve the MDGs.

5.132 In September 2005, the UK launched the pilot International Finance Facility for Immunisation (IFFIm), in partnership with France, Italy, Spain and Sweden and alongside contributions from the Bill & Melinda Gates Foundation. In December 2005, Norway announced that it would contribute to the Facility and in March 2006 Brazil also committed to contribute. The IFFIm will use the frontloading principles of the IFF to provide $4 billion over ten years to support the efforts of the Global Alliance for Vaccines and Immunisation to tackle preventable diseases in the poorest countries all over the world. The IFFIm will demonstrate the technical feasibility of the IFF and the clear economic benefits of frontloading resources. At the Innovating Financing Mechanisms Conference in Paris in February 2006, France and the UK agreed to jointly establish a working group to consider the implementation of an IFF, partly funded by an air ticket levy. The UK will hypothecate part of its existing levy (air passenger duty) to this purpose.

Box 5.4: 2005 – Progress in 2005 for international development

Meeting the MDGs requires a fully-funded, comprehensive plan to eliminate poverty and put countries on a sustainable path to growth and eventual graduation from aid. 2005 saw significant progress on establishing such a plan:

- **EU development and Finance Ministers agreed to reach the long-standing UN target of spending 0.7 per cent of national income on aid by 2015. Combined with the financing commitments agreed by the G8 this is expected to lead to an additional $50 billion a year in development aid by 2010 compared with 2004, of which $25 billion will be for Africa;**
- **the multilateral debt relief proposal was agreed by G8 Finance Ministers in June 2005 and then endorsed at the annual meetings of the World Bank and IMF in September. In January 2006 the Multilateral Debt Relief Initiative was implemented by the IMF;**
- **in September 2005 the International Finance Facility for Immunisation was launched. By frontloading $4 billion over 10 years through the IFFIm mechanism, an estimated additional five million children's lives could be saved in the years to 2015; and**
- **at the Sixth World Trade Organisation Ministerial Conference in Hong Kong, agreement was reached to end all agricultural export subsidies by 2013. While progress was disappointing, it was agreed for all developed countries to grant duty-free and quota-free market access to Least Developed Countries on 97 per cent of tariff lines by 2008.**

Aid effectiveness

5.133 The G8 has agreed to focus aid on low-income countries that are committed to growth and poverty reduction, to democratic, accountable and transparent government and to sound public financial management – while acknowledging that aid is also important to respond to humanitarian crises and countries affected by or at risk of conflict. The UK and other donors will be monitored on commitments made in the OECD Development Assistance Committee's Paris Declaration on aid effectiveness. The Government remains committed to the principles of country ownership of policy, as set out in *Partnerships for poverty reduction: rethinking conditionality*,[24] Aid effectiveness and the particular challenges posed by fragile states are themes that the Government is exploring though the third White Paper on International Development. The Chancellor will also be considering these issues as a member of the UN Secretary General's 'High Level Panel of System Wide Coherence'. The Panel will develop recommendations over the following six months to improve the efficiency and effectiveness of the UN's development, humanitarian and environmental operations.

[24] *Partnerships for poverty reduction: rethinking conditionality,* Department for International Development (DfID),

Debt relief **5.134** The UK believes that no poor countries should have to choose between servicing their debt obligations and making the necessary investments in health, education and infrastructure necessary to meet the MDGs. The Government has been at the forefront of international efforts to cancel the debts of the most heavily indebted poor countries (HIPCs). This culminated in securing G8 agreement in June 2005 for 100 per cent cancellation of the debts owed by the HIPCs to the major international institutions. This Multilateral Debt Relief Initiative (MDRI), which will cover the cancellation of debts owed to the IMF and the concessional lending arms of the World Bank and African Development Bank, has already been implemented at the IMF. In January 2006, irrevocable debt relief from the IMF worth around $3.3 billion became effective for 19 countries.[25] Implementation of the MDRI by the World Bank and African Development Bank is expected later this year. When fully implemented the MDRI will provide $50 billion in debt relief for the 38 HIPCs.

5.135 The UK attaches great importance to extending multilateral debt relief to all of the poorest countries, not just those countries deemed eligible under the HIPC Initiative. The UK will therefore continue to pay its share of the debt service owed to the World Bank and African Development Bank by other low-income countries that meet criteria for ensuring that the debt service savings are used for poverty-reduction. The UK urges other donor countries to agree to deeper debt relief for all low-income countries.

Nigeria debt relief **5.136** The debt deal agreed through the Paris Club saw Nigeria's debt reduced by $30 billion, freeing up at least an additional $1 billion a year for Nigeria to spend on poverty reduction, helping to employ an extra 120,000 teachers and put 3.5 million children into school. The proposal was made by the Nigerian government, based on their wish to use their additional oil reserves in this way, and in support of their own economic reforms and development strategy. The UK was pleased to support the Nigerian Government in reaching an agreement with the Paris Club. The UK alone wrote down £4.5 billion of debt, and in exchange the Export Credit Guarantee Department received into its balance sheet a payment of £1.7 billion, providing debt relief to Nigeria of £2.8 billion. The debt was written off in two tranches in 2005 and 2006.

5.137 Because of the way the deal is structured, instead of being spread over several years, the OECD's Official Development Assistance (ODA) figures will score all the debt relief in 2005 and 2006. This will result in a short-term increase in the figures as reported by the OECD Development Assistance Committee (DAC) that does not reflect the underlying trend path of ODA, or the fact that the benefit to Nigeria is spread over several years. The Government will consider whether there is a more appropriate way to report Nigerian debt relief over several years to enable more accurate monitoring of trends in ODA to meet the targets committed to in 2005.

Universal free primary education **5.138** Education is one of the best investments that a person or country can make – not just for economic growth but also for wider societal reasons. Investment in education contributes not only to the MDGs on education and gender equality but also to MDGs on child mortality and combating disease. The Education for All Fast Track Initiative (FTI) exists as a platform for channelling donor funding for education to those countries with fully developed plans for universal primary education. At Gleneagles in July 2005, the G8 countries committed that every FTI-endorsed country should have sufficient resources to implement their education plans and in 2006 the UK will work to ensure that donors come together to make sure that this commitment is fulfilled.

[25] Further information at www.imf.org

5.139 User fees for education are sometimes as much as a quarter of the annual income of households in poor countries and are the single biggest barrier to increasing enrolment across sub-Saharan Africa. As outlined in *From commitment to action: education,*[26] the UK stands ready to assist countries that wish to eliminate user fees and make services free at the point of delivery. The UK will work to ensure that extra revenues committed in 2005 are transformed into concrete actions to provide long term predictable financing for universal free education. This requires the abolition of user fees for education but this alone is not enough. The bulk of finance is needed for teacher training, school buildings, school materials and targeted programmes to get girls and other disadvantaged groups into school.

5.140 The UK will also work to underline the importance of developing countries drawing up ambitious long term education plans. In order to do this, donors need to provide both assistance in drawing up ten-year plans and the assurance that they will finance their implementation. In the coming months the Government will work towards this end. The overall goal must be ten-year, comprehensive, ambitious, country-owned and fully financed plans to achieve all the MDGs by 2015.

Universal and free health services

5.141 Healthy populations are key to growth and poverty reduction. To underpin progress against all of the MDGs, donors need to support countries that wish to invest in strengthening health systems and making them responsive to poor people. As outlined in *From commitment to action: health,*[27] the UK stands ready to assist countries that wish to eliminate user fees and make services free at the point of delivery. The UK is also taking significant action on prevention and treatment for diseases that primarily affect poor countries and is working with the G8 to develop an Advance Market Commitment (AMC). At the February G8 meeting in Moscow it was agreed that Ministers would consider a specific proposal at their next meeting. The Gleneagles G8 communiqué also committed countries to supporting as close as possible to universal access to HIV treatment by 2010, through mechanisms such as the Global Fund for AIDS, TB and malaria.

Box *5.5*: Advanced market commitments (AMCs)

The UK is exploring the use of AMCs to stimulate the research and development of vaccines against diseases like malaria, HIV/AIDS, TB and pneumococcus, which kill millions in developing countries each year. At present the resources invested in finding vaccines against these diseases – especially by the private sector – are minimal when compared to the scale of the challenge because markets for vaccines in developing countries are too small to justify the huge investment required to bring an effective vaccine to the point of sale.

An AMC works by creating a market where one is currently missing. Rich countries underwrite a market for vaccines, subject to them meeting pre-defined standards of efficacy against a particular disease and subject to demand from developing countries. When the vaccine is in demand from developing countries, rich countries fulfil their commitment to buy, thereby ensuring that it is widely accessible. The UK is also a strong supporter of direct funding for research efforts being undertaken around the world, such as the Global HIV Vaccine Enterprise.

[26] *From commitment to action: education*, DFID and HM Treasury, November 2005.
[27] *From commitment to action: health*, DfID and HM Treasury, November 2005.

Trade

5.142 A fairer international trading system is key to development, poverty reduction and global growth. With the opportunity for all countries to benefit from what could be at least an extra $300 billion in world growth every year, the EU, US and other key WTO players must seize the opportunity to secure a new trade deal by the end of 2006. The Sixth World Trade Organisation Ministerial Conference took place in Hong Kong, China in December 2005 as part of the Doha Development Round. Agreement was reached to end all agricultural export subsidies by 2013. All developed countries will now grant duty-free and quota-free market access for at least 97 per cent of products originating from Least Developed Countries by 2008. However, progress made was disappointing and did not meet the UK's level of ambition.

5.143 Nevertheless there is basis for concerted effort to achieve the comprehensive deal to conclude the Doha Round. The UK Government continues to work with fellow EU and WTO Member States towards an ambitious and pro-development conclusion to the Doha Round, that would: substantially increase market access for developing countries; substantially reduce all trade-distorting domestic support; and provide effective special and differential treatment to enable developing countries to capture the gains from trade. All WTO members need to maintain committment to the Round so that we can deliver on the promises of Doha without lowering the level of ambition.

5.144 The need for a fairer global trading system was a key message of the UK Presidency reflected in the communiqués of the G7 Finance Ministers in June, the G8 Heads of State at Gleneagles in July 2005 and G7 Finance Ministers in December 2005. In the latter meeting a commitment was made to grant additional support for trade capacity building to help Least Developed Countries, particularly in Africa. G7 Finance Ministers stated that expenditure on aid for trade is expected to increase to $4 billion, including through enhancing the Integrated Framework. In the context of their shared commitment to double aid for Africa by 2010, agreement was reached to give priority to the infrastructure necessary to allow countries to take advantage of the improved opportunities to trade. The UK will contribute funds to an aid for trade fund that will help build in developing countries the infrastructure and capacity for them to trade with the world.

Peacekeeping and humanitarian assistance

5.145 Peace is the first condition for successful development. The Government will continue to support African-led peacekeeping operations and work to strengthen the African Standby Force. Since September 2003, the UK has committed £32 million to the African Union Mission in Darfur and provided over £92 million in humanitarian assistance. The Government has also provided £56 million to support peacebuilding and conflict prevention in the Democratic Republic of Congo and has provided the largest bilateral contribution, £22 million, toward the organisation of free and fair elections. The Government has set aside £12 million towards the new Peacebuliding Fund that will be established at the UN.

5.146 The UK is leading ongoing work with the international community to improve the international response to humanitarian disasters. The Government is the leading donor, providing £40 million each year, to the reformed UN Central Emergency Revolving Fund. The UK provided over £180 million to countries affected by the tsunami in the Indian Ocean and also responded quickly to other disasters such as the earthquake in Kashmir, contributing £58 million to the immediate relief effort and a further £70 million to longer-term reconstruction. The UK is at the forefront of the international response to the famine in the horn of Africa and has committed £35.9 million to the immediate relief effort in the worst affected countries. In addition, the Government will provide £70 million to tackle the underlying causes of the persistent food crises affecting the region and elsewhere in Africa.

Reconstruction in Iraq

5.147 The UK has worked alongside the Transitional Government of Iraq and its international partners to support reconstruction in Iraq. This work will continue with the new Iraqi Government to support the implementation of the December 2005 Stand-By Arrangement IMF programme. The UK and Iraq signed a bilateral debt agreement in January 2006, implementing the November 2004 Paris Club deal, which agreed to write off 80 per cent of Iraq's debt in three tranches. Upon signing, the UK retroactively cancelled 60 per cent of Iraq's £1.12 billion debt to the UK. The final 20 per cent tranche of debt cancellation will be implemented, as per the terms of the Paris Club deal, once Iraq has successfully followed three years of substantive IMF Programmes.

Terrorist financing

5.148 The Government will publish, later in 2006, a comprehensive progress report on countering money laundering and terrorist financing. This will set out the Government's strategy for the next five years to consolidate the UK's money laundering framework, based on the principles of effectiveness, proportionality and engagement with industry.