4 Fairness and opportunity for all

The Government is committed to employment opportunity for all. As well as ensuring that individuals can take advantage of the opportunities of an increasingly globalised world, it is also crucial to the ambition of eradicating child poverty and promoting saving. The Government's approach to delivering on this commitment is twofold: integrating the tax and welfare system, so that work always pays; and providing everyone with the support they need to find, retain and progress in work. The Government is also committed to providing better incentives for saving, including for old age. This complements the action the Government is taking to enhance financial security for today's pensioners.

The Government is committed to a modern and fair tax system that ensures everyone pays their fair share of tax to support public services and meet the fiscal rules.

This Budget sets out the next steps the Government is taking to support these aims, including:

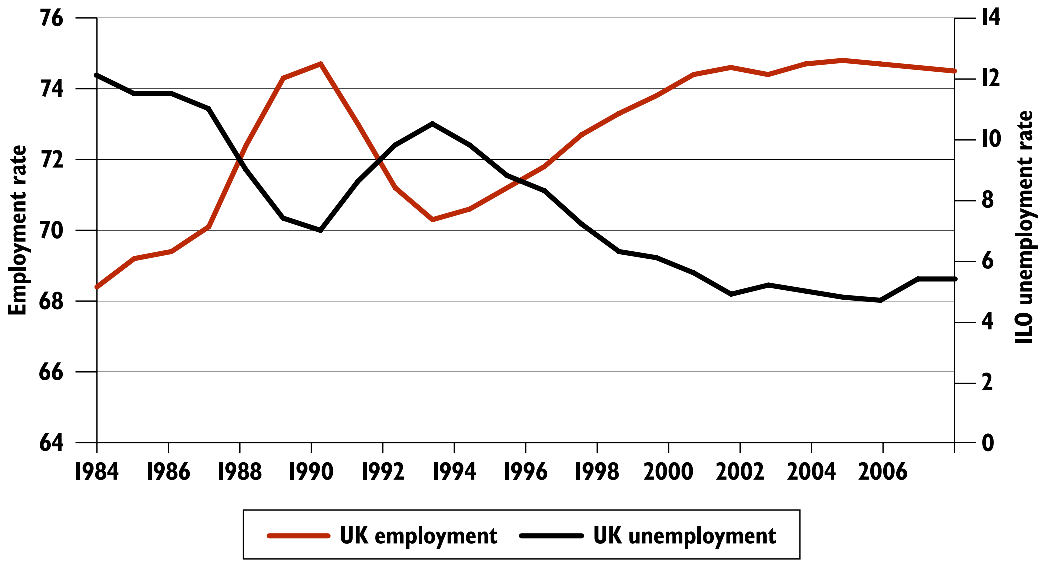
- **further financial support for children,** which will lift up to 250,000 children out of poverty;
- **Work Capability Assessments for all existing Incapacity Benefit claimants**, focusing on what people can do in work;
- **further action, with the energy companies and Ofgem, to help vulnerable groups deal with rising energy prices;**
- **alongside the Winter Fuel Payment, an additional one-off payment of £100 to over-80s households and £50 to over-60s households in 2008-09**. This will benefit around 9 million households;
- **the Saving Gateway**, which is a cash saving scheme for those on lower incomes, **will be introduced nationally, with the first accounts available to savers in 2010;**
- **increasing all alcohol duty rates by 6 per cent.** This will add 4 pence to the price of a pint of beer, 14 pence to the price of a bottle of wine and 55 pence to the price of a bottle of spirits;
- **increasing tobacco duty in line with inflation.** This will add 11 pence to the price of a packet of cigarettes; and
- **further reforms to modernise the tax system, modernise tax administration and protect tax revenues.**

Employment opportunity for all

Labour market performance

4.1 Since 1997, the number of people in employment in the UK has increased by almost 3 million to more than 29 million, while the number of unemployed people has fallen by around 400,000. As Chart 4.1 shows, the working age employment rate is now 74.7 per cent and the unemployment rate is 5.2 per cent. In January 2008, the Jobseeker's Allowance (JSA) claimant count fell to below 800,000 – the lowest figure since June 1975 and half the level in 1997. *The UK economy: analysis of long-term performance and strategic challenges* shows how greater flexibility and increased stability have contributed to this. The UK now has a higher proportion of people in work than the US, France, Germany, Italy or the average of the EU.

Chart 4.1: UK employment and unemployment rates



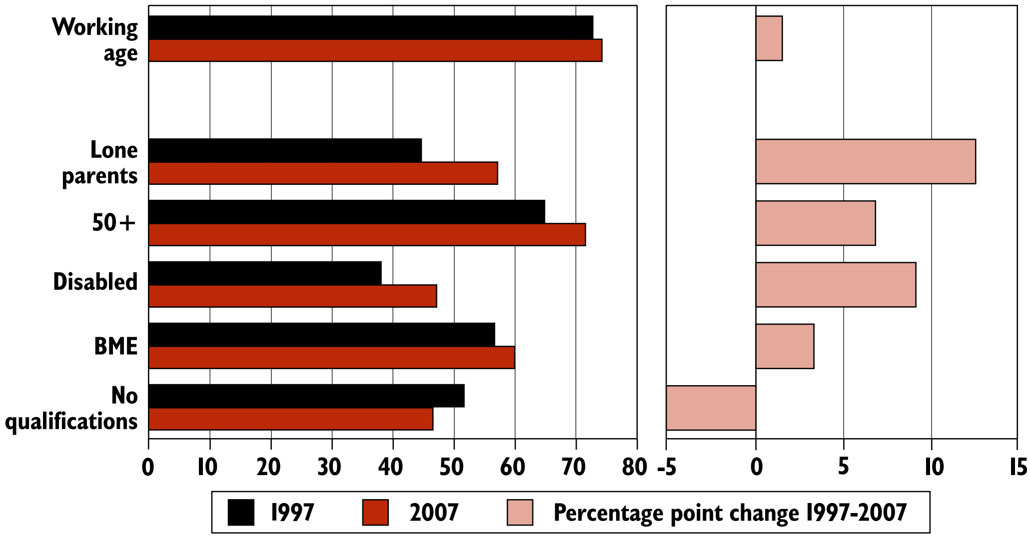
Source: Labour Force Survey, ONS

Active labour market policies

4.2 The improvements in employment have been of particular benefit to groups traditionally disadvantaged in the labour market, as Chart 4.2 illustrates. Compared with 1997, there are 335,000 more lone parents in work, 1.4 million more working age people over 50 in work and 885,000[1] more people with a health condition or disability in work. However, while the total number of people without qualifications is decreasing, the employment rate among this group has fallen and the employment rates of all the disadvantaged groups remain below the national average. Moving towards the Government's long-term aspiration of an employment rate equivalent to 80 per cent of the working age population will require more people in these groups to move into sustained employment.

[1] Change is since 1998 for figures for people with a health condition or disability, as the figures for 1997 are not comparable due to changes in definitions.

Chart 4.2: Employment rates of disadvantaged groups 1997 and 2007



Notes: 1997 disabled people value is from 1998, as data is available from spring 1998 only.
Minority ethnic group values are not directly comparable due to classification changes in 2001.
Data is from the spring quarter of the year shown.

Source: Labour Force Survey.

Principles of welfare reform

4.3 Building on the successful active labour market policies of the past decade, the Government's approach to welfare reform is based on five key principles:

- rights and responsibilities underpinning the welfare reform agenda;
- a personalised and responsive approach to meet individual needs;
- retention and progression, with employment support focused not just on job entry but also on helping people remain and progress in work;
- working in partnership to make the best use of expertise across the public, private and third sectors; and
- devolution and local empowerment, recognising the important role regions, cities and localities should play in strategy and delivery.

4.4 A successful labour market is dependent on a benefit system that supports these aims. The Government will be bringing forward radical reforms to the benefit system, to improve opportunities and incentives to work, to support those who cannot work, to make progress towards the child poverty targets, and to maintain sound public finances.

Reform of incapacity benefits

4.5 As many as 90 per cent of people expect to return to work when they start a claim for Incapacity Benefit (IB). Nearly half of working age disabled people are already in employment and for most IB claimants a move back into employment is possible and beneficial with appropriate support. **From late 2008, an integrated and simplified Employment and Support Allowance (ESA) will replace the current system of incapacity benefits for new claimants,** which will have a clearer balance of rights and responsibilities. It will be accompanied by a new Work Capability Assessment, which will focus on what a person can do in work, not what they cannot do. To ensure this increased work focus benefits current as well as future claimants, **from April 2010 all incapacity benefits claimants who started their claim before October 2008 will be required to take the Work Capability Assessment.** The introduction of ESA will also be supported by the national rollout of the successful Pathways to Work programme in 2008, delivered primarily by the private and third sectors. People with the most severe health conditions and disabilities will not be required to participate in Pathways to Work, although they will still be able to take up the support programme, should they wish.

4.6 The way the Government contracts with specialist providers to support existing IB customers is key to achieving results. *Ready for Work: full employment in our generation*, published in December 2007, outlined a welfare system aimed at supporting the most disadvantaged claimants into work. It set out the Government's intention to pilot a new approach where providers who are successful in moving people off benefits and into sustained employment are rewarded with increased funds to invest in further activity. **The Government will explore using a new funding mechanism to reward private and voluntary sector specialist providers for investing in helping long-term incapacity benefits claimants to return to work.**

Flexible New Deal

4.7 *Ready for Work* also announced that the **Flexible New Deal will be introduced for JSA claimants from October 2009,** replacing the current New Deals for the unemployed with more personalised, flexible support. All JSA claimants who fail to find work after 12 months of Jobcentre Plus support will be referred to an external provider for further specialist help.

Conditionality for lone parents

4.8 With comprehensive childcare and employment support in place, it is now reasonable that lone parents engage actively with the labour market. Following consultation, *Ready for Work* also announced that, from October 2008, **lone parents whose youngest child is aged 12 or over will lose eligibility to Income Support solely on the grounds of being a lone parent.** They will move onto JSA, where they will be expected to actively seek work, or onto another benefit if appropriate for their circumstances. To help lone parents moving into work, **there will be an additional package of in-work support from April 2008, including national roll-out of In Work Credit and the In Work Emergency Fund, and support from Personal Advisers for the first six months in work.**

Personalised integrated skills and employment support

4.9 Chapter 3 highlighted the importance of skills in preparing individuals to adapt to an increasingly flexible labour market. To tackle the rising unemployment rate for unskilled individuals, Jobcentre Plus and the Learning and Skills Council will work together on longer-term support, retention and advancement – delivering a seamless, personalised service that enables low-skilled benefit claimants to access the training they need to find, retain and progress in work.

Making work pay

4.10 The Government is committed to making work pay by improving incentives to participate and progress in the labour market. Through the Working Tax Credit (WTC) and the National Minimum Wage (NMW), the Government has boosted in-work incomes, thereby improving work incentives and tackling poverty among working people.

The Working Tax Credit

4.11 The WTC is a form of financial support designed to top up in-work income for the low-waged, thereby improving incentives to work. ***Working Tax Credit and labour supply: Treasury Economic Working Paper No.3* is published alongside Budget 2008.** It examines the impact of WTC on the labour supply of those without children through two different analytical approaches and shows that the policy has been effective in encouraging people into work.

The National Minimum Wage

4.12 The NMW ensures a fair minimum rate of pay, while retaining flexibility for employers. On 5 March 2008, the Low Pay Commission (LPC) presented its 2008 report to Government, making several recommendations, including on the new NMW rate. The Government's response included agreement to the new rates recommended by the LPC. These will come into effect from October 2008. **The adult rate of the NMW will increase to £5.73, the development rate for 18-21 year olds will increase to £4.77, and the youth rate for 16-17 year olds will increase to £3.53.**

Box 4.1: The tax credits system

The tax credits system is now working well, after some well-documented problems in the first year of operation. However the Government continues to look for opportunities to improve the experiences of the 6 million families benefiting from tax credits.

The 2005 Pre-Budget Report announced a package of improvements to the tax credits system. These were designed to provide more certainty around tax credit awards, while maintaining the flexibility to respond to falls in income and changes in circumstances. This has significantly improved the way in which the system operates, and the reforms are expected to reduce overpayments by around a third. In May 2008, HMRC will publish information on the 2006-07 finalised annual awards, which should therefore include a substantial fall in end-year adjustments leading to an overpayment.

Building on these reforms, and learning from the experiences of Australia and New Zealand, HMRC is improving its understanding of the needs and circumstances of the different people receiving tax credits. This is delivering real improvements. For example, when a household breaks up, HMRC now helps customers to make claims by telephone to ensure their payments continue.

HMRC has revised the Code of Practice used to decide whether to write-off an overpayment, in order to make decision-making more objective.

HMRC will also:

- **proactively contact vulnerable customers, during the 2008 renewals window, and offer them additional support to renew their claims. Where customers fail to renew in time and are still eligible, they will be helped to get back into payment quicker;**
- **roll out new services in November and December 2008 to make claiming tax credits easier and quicker. HMRC will also help customers keep their claims up to date to avoid overpayments, by proactively seeking information and making better use of the information already held;**
- **work with Children's Centres to pilot different ways and different locations for providing advice and services;**
- **by the end of 2008, introduce new ID authentication services to help reduce tax credits error and fraud**; and
- **support the introduction of these services with improved communications products**, to make sure that tax credit customers have the information they need, when they need it.

The Government is determined to build on these improvements and will be bringing forward further proposals by summer 2008.

Tackling the unemployment trap

4.13 The unemployment trap occurs when those without work find the difference between in-work and out-of-work incomes too small to provide an incentive to enter the labour market. Table 4.1 shows that, since the introduction of the NMW in April 1999, the Government has increased the minimum income that people can expect when moving into work, thereby reducing the unemployment trap.

Table 4.1: Weekly minimum income guarantees (MIGs)

	April 1999	October 2008	Percentage increase in real terms[2]
Family[1] with one child, full-time work	£182	£292	24%
Family[1] with one child, part-time work	£136	£229	30%
Single person, 25 or over, full-time work	£113	£189	30%
Couple, no children, 25 or over, full-time work	£117	£223	48%
Single disabled person in full-time work	£139	£235	31%
Single disabled person in part-time work	£109	£172	22%

Assumes the prevailing rate of NMW and that the family is eligible for Family Credit/Disability Working Allowance and Working Tax Credit/Child Tax Credit. Full-time work is assumed to be 35 hours. Part-time work is assumed to be 16 hours.
[1]Applies to lone parent families and couples with children alike.
[2]RPI growth is taken from HM Treasury's economic forecasts.

Reform of Housing Benefit

4.14 Over 4 million low-income tenants receive help with the cost of their rent through Housing Benefit (HB). The Government has made administrative and structural improvements in recent years, which has helped local authorities halve the time taken to process claims since 2002. It is also continuing to test process improvements, for example through the "In and Out of Work" pilots currently being tested in six local authority areas. And **the Local Housing Allowance (LHA), which replaces the current support for private sector tenancies with a flat rate allowance based on family size and area, is being introduced nationally from April 2008.** Despite HB being available both in and out of work, it is still seen by some as a disincentive to work. Expenditure is also rising, even though the number of people claiming is forecast to remain static. As the LHA is introduced, **the Government will therefore undertake a comprehensive review of the working age HB system,** to look at its effectiveness, particularly in promoting work incentives, efficiency and fairness, and to ensure that it represents value for money for the taxpayer.

The poverty trap

4.15 The poverty trap occurs when those in work have limited incentives to move up the earnings ladder because it may leave them little better off. Marginal deduction rates (MDRs) measure the extent of the poverty trap by showing how much of each additional pound of gross earnings is lost through higher taxes and withdrawn benefits or tax credits. Table 4.2 shows the progress that has been made in reducing the number of families facing very high MDRs since before Budget 1998. The increase in the number of households facing MDRs of between 60 and 70 per cent is primarily due to the introduction of tax credits, which has extended financial support so that far more families benefit, including low-income working people without children.

Table 4.2: The effect of the Government's reforms on high marginal deduction rates

Marginal deduction rate[1]	Before Budget 1998	2008-09 system of tax and benefits
Over 100 per cent	5,000	0
Over 90 per cent	130,000	30,000
Over 80 per cent	300,000	150,000
Over 70 per cent	740,000	200,000
Over 60 per cent	760,000	1,875,000

[1] Marginal deduction rates are for working heads of non-pensioner families in receipt of income-related benefits or tax credits where at least one person works 16 hours or more a week, and the head of the family is not receiving pensioner or disability premia.

Note: Figures are cumulative. Before Budget 1998 figures based on 1997-98 estimates of caseload and take-up rates; estimates for the 2008-09 system of tax and benefits are based on tax credits caseloads in April 2007, and earlier data for housing and council tax benefits.

GIVING EVERYONE THE BEST START IN LIFE

Tackling child poverty

4.16 The number of children in poverty rose sharply in the 1980s and 1990s and in 1998-99 some 3.4 million children were in relative low-income poverty: the UK had the highest child poverty rate in Europe. In light of this, the Government set itself ambitious targets to eradicate child poverty by 2020 and halve it by 2010. Considerable progress has already been made: some 600,000 children have been lifted out of relative poverty since 1998-99 and absolute poverty has more than halved from 3.4 million to 1.6 million. Had the Government done nothing other than simply uprate the tax and benefit system, there would likely have been around 1.7 million more children in poverty than there are today.

4.17 Budget 2008 sets out the next steps, including measures to make significant further progress towards the target of halving child poverty by 2010:

- **increasing the first child rate of Child Benefit to £20 a week from April 2009,** reinforcing the Government's commitment to Child Benefit as the foundation of financial support for all families;
- **increasing the child element of the Child Tax Credit by £50 a year above indexation from April 2009** to further help low to middle income families; and
- **disregarding Child Benefit in calculating income for Housing and Council Tax Benefit from October 2009,** improving work incentives for many of the lowest paid families and boosting their incomes. A working family with one child on the lowest incomes will gain up to £17 a week from this change.

4.18 Together these changes will lift up to a further 250,000 children out of poverty. Including the reforms announced in Budget 2007 and the 2007 Pre-Budget Report and Comprehensive Spending Review, measures announced in the last year will lift a total of over 500,000 children out of poverty.

4.19 To eradicate child poverty by 2020 requires a renewed drive on child poverty for the next decade. This needs to draw on new ideas and approaches to ensure sustainable progress is made, improving children's life chances for the longer term. *Ending child poverty: everybody's business*, published alongside the Budget, sets out the new approach the Government will pilot and further areas of work that will help develop the strategy for 2020. These new pilots will look at new approaches to increasing parental employment and raising incomes, to tackling deprivation in communities and to improving poor children's life chances. **The Government is therefore investing an additional £10 million in 2008-09, £35 million in 2009-10 and £80 million in 2010-11 across the UK to prepare for the next decade.**

4.20 The Government cannot achieve these objectives alone. Ending child poverty requires a sustained national, regional and local effort involving devolved administrations, across all agencies, service providers and professionals and including communities and business. Families need to be active participants in this process. *Ending child poverty: everybody's business* sets out the beginnings of a contract out of poverty: a pledge that all parts of society will do their bit to tackle this blight on children, communities and future prosperity. The Government is looking to families to make a commitment to improve their situations where they can and to take advantage of the opportunities on offer, for example by taking a job.

4.21 While good progress has been made nationally, child poverty in London has fallen by less than elsewhere in the UK. In recognition of this, **the Government is asking delivery agencies in London to identify better ways of working together to tackle child poverty and increase parental employment in the capital.** Stephen Timms, the Minister of State for Employment and Welfare Reform, will lead this work jointly with Beverley Hughes, the Minister for State for Children, Young People and Families. This will take forward specific recommendations from the London Child Poverty Commission's final report and support the strategic work of the London Skills and Employment Board.

A FAIR AND INCLUSIVE SOCIETY

Promoting saving, financial capability and inclusion

4.22 The Government seeks to support saving and asset ownership for all – from childhood, through working life and into retirement. The key challenges are to: equip people with the capability to make savings decisions; promote access to good savings opportunities; and make incentives to save more effective.

Saving Gateway

4.23 The Saving Gateway was first proposed in 2001 to explore matching (a government contribution for each pound saved) as an incentive to save for those on lower incomes. Two pilots have taken place confirming the success of matching as a saving incentive and the financial inclusion benefits of the scheme. As set out in Box 4.2, **the Government announces that the Saving Gateway will be introduced nationally with the first accounts available to savers in 2010.**

Box 4.2: The Saving Gateway

The Saving Gateway is a cash saving scheme for those on lower incomes. Following the success of the pilots in promoting saving and financial inclusion, **the Saving Gateway will be introduced nationally, with the first accounts available to savers in 2010.** Individuals in receipt of the following benefits and tax credits will be entitled to open an account: Working Tax Credits; Child Tax Credits paid at the maximum rate; Income Support; Jobseeker's Allowance; Incapacity Benefit; Employment and Support Allowance and Severe Disablement Allowance.

Accounts will be offered by financial institutions such as banks and building societies and will run for two years. At the end of the accounts, the Government will match (a contribution for each pound saved) money which people save into their Saving Gateway accounts. Third sector organisations such as credit unions, social housing providers and the Citizens Advice Bureau have expressed interest in providing information and support on the scheme. **A consultation document, *The Saving Gateway: operating a national scheme*, is published alongside Budget 2008.**

Child Trust Fund

4.24 The Child Trust Fund (CTF) was introduced in 2005 and will ensure that, in future, all young people have a financial asset at age 18. All newborn children receive a government contribution of £250 (£500 for children in lower income families), to be invested in a long-term savings or investment account. Government contributions will also be made to all children at age 7, and looked-after children will receive additional payments. Following consultation, and as outlined in Chapter 3, **the Government announces that, from April 2009, the requirement for providers to receive the CTF voucher from parents before opening an account will become voluntary rather than mandatory.** This will reduce administrative burdens and is designed to increase the number of accounts opened by parents.

Individual Savings Accounts

4.25 Individual Savings Accounts (ISAs) have been successful in developing and extending the saving habit and ensuring a fairer distribution of tax relief. As announced in Budget 2007, **from April 2008 ISAs will be simpler and more flexible.** The annual ISA allowance will rise to £7,200, up to £3,600 of which can be saved in cash with one provider. The remainder can be invested in stocks and shares with either the same or another provider. Savers will also be able to transfer money saved in cash ISAs into stocks and shares ISAs, and all Personal Equity Plans will automatically become stocks and shares ISAs.

Financial capability

4.26 Many consumers are not confident in making decisions about their money. The Government launched an independent review, led by Otto Thoresen, to develop a national approach to providing independent and preventative guidance on financial matters, tailored to an individual's specific needs. The final report, published on 3 March 2008, sets out a blueprint for a new service providing "Money Guidance". **The Government welcomed the review's final report and has announced that it will implement the central recommendation to launch a £12 million Money Guidance "pathfinder" scheme, in partnership with the Financial Services Authority.** The Government will provide further detail in its financial capability action plan later in the spring.

Financial inclusion

4.27 Financial inclusion is about ensuring everyone has the opportunity to access the financial services products needed to participate fully in modern-day society and the economy. On 6 December 2007, the Government set out its plans for the £130 million Financial Inclusion Fund over the next spending period. **The Government will announce new terms of reference for the Financial Inclusion Taskforce in 2008-11 and appoint new members to the Financial Inclusion Taskforce shortly.**

Supporting people in later life

4.28 The Government is committed to tackling pensioner poverty, promoting greater well-being in later life, encouraging and rewarding saving, and enabling people to meet their income aspirations in retirement.

Support for pensioners

4.29 Pensioners are now no more likely to be in poverty than the population as a whole. Since 1997, the Government has increased support for pensioners in line with the principle of progressive universalism – support for all with more for those who need it most. Over £11 billion more is being spent on pensioners in 2008-09 compared with 1997 policies, with half the extra spending going to the poorest third of pensioners. These policies have contributed to a three quarters fall in the number of pensioners living in absolute poverty since 1997 to 0.8 million, and the number in relative poverty has fallen by over one-third to 1.8 million. To benefit pensioners, the Government has:

- guaranteed that increases in the basic State Pension will be in line with the Retail Price Index or 2.5 per cent (whichever is higher);
- introduced Winter Fuel Payments and committed to pay them at their current rates (£200 for households with someone over 60, £300 if over 80) for the lifetime of this Parliament. Alongside the Winter Fuel Payments, **Budget 2008 announces an additional one-off payment of £100 to over-80s households and £50 to over-60s households in 2008-09;**
- introduced free television licences for the over 75s, free eye tests and local bus travel for the over 60s. Budget 2006 announced **free off-peak bus travel in England for the over 60s and disabled from April 2008;** and
- increased the age-related allowances to support pensioners who pay tax. **In April 2008, the age-related personal allowances will rise by £1,180 above indexation,** so that by April 2009 only 41 per cent of pensioners aged 65 or over will pay income tax.

Pension Credit

4.30 Pension Credit was introduced in 2003 to provide security in retirement through a minimum guaranteed income (worth £124 per week in 2008-09), while rewarding households who have made provision for their retirement. In December 2007, a package of measures was announced to simplify the claims process of income-related benefits for pensioners, including greater automation of HB and Council Tax Benefit applications for those eligible for Pension Credit, benefiting around 50,000 pensioners by 2010.

Encouraging retirement saving **4.31** The Government is committed to encouraging individuals to save for their retirement. The state pension reforms already legislated for, including the restoration of the earnings link to the basic State Pension, will provide a simpler and more generous state pension. **The Government recently announced it would further simplify the complex system of accruals for the State Second Pension for those reaching State Pension Age from 2020.** These changes will support the reforms to private pension saving in the Pensions Bill.

Incentives to save **4.32** The reforms will mean that the large majority can expect to benefit in their retirement from having saved. The Department for Work and Pensions is developing an information strategy to ensure that those auto-enrolled have the information they need, should they wish to consider whether to opt-out, and has recently set up a work programme to build a shared understanding around incentives to save in the context of pension reforms.

Pensions tax simplification **4.33** The Government provides generous tax reliefs to encourage and support pension saving, estimated to be worth £17.5 billion in 2007-08. In return, individuals are required to secure an income in retirement. As an exception, the Government allows individuals with "trivial" pension funds – that may not be economic for individuals or providers to turn into a pension – to be taken as a lump sum. **Following consultation, the Government announces changes to ease the administration of making certain trivial commutation payments and to help tackle the issue of small stranded pension pots.**

Helping vulnerable households heat their homes

4.34 The Government's Fuel Poverty Progress Report published in December 2007 outlines measures already in place to help tackle fuel poverty, including increasing energy efficiency. The Government believes further action is now needed to help vulnerable groups deal with rising energy prices. The Government welcomes the steps the energy companies have already taken to help vulnerable customers cope with higher prices. There is common agreement on the need to do more. Energy companies currently spend around £50 million a year on social tariffs; the Government would like to see that figure rising over the period ahead to at least £150 million a year. **Acting with the companies and Ofgem, the Government will draw up a plan for voluntary and statutory action to achieve that. To underpin this as necessary, the Government will legislate to require companies to make a fair contribution.**

4.35 Customers using prepayment meters typically pay around £55 more on their energy bill compared to standard credit, and £144 compared to direct debit. These differentials have increased since the Energy White Paper. It is not clear whether these simply reflect extra costs to the energy companies nor whether pre-payment customers are being given enugh information on the availability of other tariffs. The Government believes that the time is now right to tackle this issue and is looking to Ofgem and the suppliers to bring forward proposals for treating prepayment customers more fairly. However, if sufficient progress is not made by next winter, the Secretary of State for Business, Enterprise and Regulatory Reform is prepared to use his statutory powers with a view to reducing the differential between prepayment and other forms of payment.

Promoting equality and fairness for all

Equalities **4.36** The Government remains committed to reducing inequality in Britain. It believes that people should be treated equally and have the opportunity to progress in life irrespective of age, gender, race, disability, sexual orientation or religion/belief. To help make this vision a reality for Britain, the Government will publish its first Equality Strategy in the spring. This will focus on key areas such as education, employment, health and the criminal justice system. It will describe how the Government will measure the barriers to progress experienced by different groups in fulfilling their aspirations and potential. The Government has also committed to introducing a new Equality Bill by the end of this Parliament. This will bring together, modernise and strengthen the existing legislation prohibiting discrimination and promoting equality in Great Britain. Moreover, around a third of public spending goes on purchasing goods and services. **The Government will shortly publish a practical guide to demonstrate how social issues can be addressed in public procurement.**

A MODERN AND FAIR TAX SYSTEM

Modernising the tax system

4.37 A modern and fair tax system encourages work and saving, responds to business developments and globalisation, supports the provision of world-class public services and ensures that everyone makes a fair contribution.

Income tax and NICs

4.38 As announced at Budget 2007, **the Government will simplify the personal tax system by removing the 10 pence starting rate and cutting the basic rate of income tax from 22 pence to 20 pence from April 2008.** The Government will maintain the existing 10 pence rate for savings income. **There are no changes to the main rates for taxing dividends.** The 10 pence savings rate and the 20 pence basic rate bands will be raised in line with inflation.

4.39 The 2007 Pre-Budget Report confirmed that **the upper earnings and profits limits for national insurance will rise by £100 a week in April 2008, and from April 2009 they will be aligned with the increased level at which taxpayers begin to pay the 40 pence rate of income tax.** By 2009, the UK's tax and national insurance system will have the lowest basic rate of tax for over 75 years, and one of the simplest personal tax structures of any developed country.

4.40 To improve the present separate systems for collecting Class 2 and 4 national insurance contributions (NICs) from the self-employed, **the Government is publishing a consultation document, *Improving the collection of National Insurance Contributions from the self-employed*, alongside Budget 2008.**

Capital gains tax

4.41 A major reform of the capital gains tax (CGT) regime will deliver a system that is more sustainable and straightforward for taxpayers, while remaining internationally competitive. Reform will replace layers of complex legislation built up over many decades with an easy-to-understand personal allowance, a single headline rate of tax and a focused tax relief for entrepreneurs. This remains in line with the Government's objectives to support business and enterprise and to keep the tax system as simple and as fair as possible.

4.42 As announced at the 2007 Pre-Budget Report, **for disposals on or after 6 April 2008, CGT will be set at 18 per cent.** In addition, as announced on 24 January 2008, **a new entrepreneurs' relief will also be available on the disposal of a trading business or shares in a trading company,** provided the seller is an officer or employee of the company and has a minimum 5 per cent stake in the business. This will reduce the effective tax rate to 10 per cent for up to the first £1 million of gains made over a lifetime. Budget 2008 confirms that **the tax-free annual exempt amount for 2008-09 will rise to £9,600,** ensuring that individuals with gains below this amount in this year are not brought into tax. The Government will continue to monitor the CGT regime for any signs of avoidance or abuse and will not hesitate to act should such activity come to light. The Government does not see the need for any change to the taxation of life insurance bonds as a result of CGT reform.

Box 4.3: Residence and domicile consultation

The package of changes to the rules on residence and domicile announced in the 2007 Pre-Budget Report was intended to strike the right balance between fairness and competitiveness. The special remittance basis rules, which help to attract international talent and investment, are important to UK competitiveness, but can only be sustainable in the longer term if they are fair. It is right that people who decide to make their home in this country should pay their fair share of tax.

Having consulted on these proposals, **the Government intends to implement the following changes from April 2008:**

- **the special remittance basis of taxation will continue for non-domiciled UK residents;**
- **adults using the remittance basis of tax, who have been resident in the UK for longer than 7 out of the past 10 tax years, will be subject to an annual tax charge of £30,000 a year as regards the foreign income and gains they leave outside the UK, unless their unremitted foreign income and gains are less than £2,000 a year.** This means that adults who continue to benefit from the special remittance basis rules after 7 years in this country will make an additional contribution through the charge;
- **people using the remittance basis of taxation will no longer be entitled to personal allowances, unless they have unremitted foreign income and gains of less than £2,000 a year**. This means that people in this group will have a choice between tax free allowances (on the same basis as other UK taxpayers) or enjoying the special remittance basis rules which keep the foreign income and gains that they leave abroad outside the UK tax system;
- **the residence rules will be changed so that any day when a person spends midnight in the UK counts towards establishing UK residence**. This means that residents cannot opt out of paying their fair contribution by saying they are not resident in the UK; and
- **loopholes and anomalies in the remittance basis rules will be removed,** to ensure that the remittance basis works as originally intended and can no longer be used as a vehicle for avoiding UK tax. Income and gains of offshore trusts will be taxed only when they are remitted to the UK, even if these relate to UK assets.

The Government is grateful to all those who took part in the consultation and has addressed their concerns in finalising the changes, including about art.

The Government has decided that there is no case for considering further changes to increase the contribution of non-domiciles. Therefore the changes announced above mark the end of the residence and domicile review and offer a package of reforms that will both protect UK competitiveness and deliver greater fairness. They will not be revisited for the rest of this Parliament or the next.

Dividend tax credit

4.43 Budget 2007 announced a simplification of the tax system for UK individuals with foreign shares. From April 2008, the non-payable dividend tax credit will be extended to dividends from non-UK resident companies, provided the investor owns less than a 10 per cent shareholding. **Budget 2008 announces that, from April 2009, the non-payable dividend tax credit will be further extended to investors with a 10 per cent or greater shareholding in a non-UK resident company,** unless the source country does not levy a tax on corporate profits similar to corporation tax.

Gambling industry

4.44 Budget 2008 announces changes to gambling duties:

- **from 4pm on 14 March 2008, all rates of amusement machine licence duty (AMLD) will increase in line with inflation;** and
- **gaming duty bands will increase in line with inflation for accounting periods starting on or after 1 April 2008.**

4.45 The Government will continue to consider the case for moving to a Gross Profits Tax for the lottery and will announce its plans at Pre-Budget Report 2008.

Alcohol

4.46 As incomes have risen, alcohol has become increasingly more affordable. **A 6 per cent increase in all alcohol duty rates will come into effect on 17 March 2008.** This will add 4 pence to the price of a pint of beer, 55 pence to the price of a bottle of spirits and 14 pence to the price of a bottle of wine. In order to ensure that alcohol duties keep pace with rising incomes, **alcohol duty rates will increase by 2 per cent above the rate of inflation in future years.**

Tobacco

4.47 Maintaining high levels of tax on tobacco helps to reduce overall tobacco consumption. Therefore **Budget 2008 announces that, from 6pm on 12 March 2008, tobacco duties will increase in line with inflation,** adding 11 pence to the price of a packet of cigarettes.

VAT on smoking cessation products

4.48 The rate of VAT on smoking cessation products was reduced to 5 per cent on 1 July 2007. Since then retail prices of these items have dropped while sales have increased. To further support the Government's objective to reduce smoking prevalence, **this reduced rate will be continued beyond its original expiry date of 30 June 2008.**

Tobacco smuggling

4.49 To reinforce its efforts to prevent the supply of cheap illicit tobacco, **the Government announces that the UK Border Agency will develop a comprehensive strategy to exert further downward pressure on the volume of tobacco smuggling, with the intention that the agency will publish the strategy by the time of the 2008 Pre-Budget Report.**

Tax regime for trusts

4.50 Finance Act 2006 brought certain trusts into the mainstream inheritance tax regime for discretionary trusts, with a two-year transitional period for trusts set up before 22 March 2006. Following representations, **Finance Bill 2008 will clarify the position where a transitional serial interest is created for the same beneficiary within the transitional period.** This will ensure that the legislation delivers the original policy intention. In addition, in order to allow time for trustees to take account of this, **the transitional period will be extended by six months to 5 October 2008.**

VAT exemption for investment management

4.51 Following a ruling by the European Court of Justice, **the Government will extend the current VAT exemption for investment management to all collective investment funds available for direct investment by the general public, from 1 October 2008.**

Sale of lessors legislation

4.52 There are some circumstances where the sale of lessors legislation may not be working as expected and commercially driven transactions may be adversely affected. **The Government will consider this issue and make an announcement as soon as possible.**

Transfer to or from trading stock

4.53 **The Government will legislate existing law and practice for a transfer to or from trading stock which is not made in the course of trade.** In computing the profits of the trade, the transfer is treated as made at market value.

VAT: staff hire concession

4.54 **The staff hire concession, which currently allows employment businesses to charge VAT solely on the margin on their supplies, will be withdrawn by HMRC with effect from 1 April 2009.**

Further modernisation

4.55 As set out in Chapter A, the Government is making further changes to the tax system in the areas of:

- small and medium-size enterprise research and development tax credits and vaccines research relief, to obtain state aid approval;
- satisfying tax repayment claims where the tax was originally in the form of funding bonds; and
- pension schemes.

Modernising tax administration

4.56 A modern and efficient tax administration benefits the Government, taxpayers and businesses. New measures will further modernise HMRC, improve compliance and make it as easy as possible for those who want to pay the right amount of tax.

Taxpayers' charter

4.57 The Government is committed to ensuring that the tax system is useable and accessible for all taxpayers. A taxpayers' charter could play an important role in that relationship, setting out both rights and responsibilities in a single accessible document. The Government announced the start of work to develop a charter on 10 January 2008. **HMRC will launch a consultation with interested parties and directly with members of the public on the development of a taxpayers' charter.**

Review of HMRC powers, deterrents and safeguards

4.58 HMRC's review of powers, deterrents and safeguards is designed to provide greater consistency across taxes, a modern framework of law and practice for HMRC and strong safeguards for taxpayers. It aims to improve HMRC's effectiveness and reduce costs for compliant taxpayers by supporting those who seek to comply, while coming down harder on those who seek to avoid their responsibilities. Budget 2008 announces:

- **further modernisation and alignment of penalties, by extending a common approach to incorrect tax returns to all taxes and duties. A single framework of penalties for failing to notify a new taxable activity will also be introduced;**
- **a modernised approach to compliance checks and assessing errors across income tax, CGT, corporation tax, PAYE, VAT and NICs,** to provide better clarity and consistency and to allow flexible approaches that respond to the taxpayer's circumstances; and
- **changes to make it easier for taxpayers to pay what they owe on time and to support HMRC in effectively tackling those who pay late.** These involve accepting payment by credit card, setting off repayments of one tax against the debts of another, and aligning and modernising HMRC's civil debt enforcement powers.

Future consultations

4.59 The Government will continue to seek ways of improving tax administration, including modernising powers and taxpayer safeguards. **Budget 2008 announces future consultations in 2008 on:**

- **modernising and aligning penalties for late filing of tax returns and late payment of tax;** and
- **harmonising and simplifying the rules on interest on tax paid late and on repayments of tax overpaid.**

Tribunal reform

4.60 Following consultation, **the Government announces a streamlined and more consistent process across taxes for reviewing decisions and handling appeals before they come before a tribunal.** This will complement wider tribunal reform.

Amendments to HMRC powers

4.61 In addition to the above, the Government announces further amendments:

- **legislating to allow HMRC to waive interest and surcharges for those affected by the floods in summer 2007 and any future designated national disaster;**
- **providing powers to legislate, by Treasury Order, existing HMRC concessions in secondary legislation.** These powers are designed to provide an efficient way to legislate and so preserve, where appropriate, tax treatment currently allowed by existing concessions; and
- **clarifying powers under the Customs and Excise Management Act 1979 concerning the opening of containers and baggage for customs examination.**

Protecting tax revenues

4.62 Protecting tax revenues against fraud and artificial avoidance schemes is essential if the tax system is to support the Government's objectives. The vast majority of taxpayers seek to contribute their fair share towards funding public services. However the minority who do not put pressure on the public finances and impose costs on others, that undermine fairness and economic performance. The Government will also continue to defend the tax system robustly against legal challenges under EU law.

Strategy to protect tax revenues

4.63 The Government is committed to supporting those who want to comply and to deterring and challenging those who attempt to pay less than their fair share. The comprehensive action it has taken has already reduced underpayments of tax, as well as reducing costs for compliant tax payers. ***Protecting Tax Revenues*, published by HMRC alongside the Budget, sets out the progress made so far and how HMRC is responding to new challenges by further strengthening its strategy.**

Disclosure regime

4.64 The disclosure regime, introduced at Budget 2004, allows the Government to respond to avoidance swiftly and in a targeted fashion. Following announcements at the 2007 Pre-Budget Report and subsequent consultations, **the Government will legislate in Finance Bill 2008 to improve the existing system of identifying users of disclosed tax avoidance schemes, and will legislate later in 2008 to extend the stamp duty land tax (SDLT) disclosure rules to residential property worth £1 million or above. A formal response to this aspect of the consultation will be published in due course,** including the timetable for consulting on and introducing secondary legislation.

Tackling avoidance

4.65 The Government announces measures to address a number of avoidance schemes, many of which have been identified through the disclosure regime:

- **ending of the use of artificial arrangements by individuals to create trading losses to offset against other income through sideways loss relief;**
- **closure of a number of highly artificial avoidance schemes involving partnerships and trusts that seek to avoid a charge under the controlled foreign companies rules;**
- **measures to counter attempts to sell, and accelerate the availability of, capital allowances on plant or machinery;**

- **clarification that the application of the related party rules in the corporate intangible assets regime is unaffected by any insolvency arrangements in which any company or partnership may be involved;**

- **clarification of legislation relating to employment-related shares and securities,** to ensure rules to prevent double taxation are not exploited to reduce the amount of tax and national insurance paid on employment income;

- **confirmation that a company's relief on its pension contributions in a given year are limited to the actual contributions it has made in that year;**

- **clarification of SDLT anti-avoidance provisions introduced in Finance Act 2008,** to tackle SDLT avoidance which exploited legislation intended to help the transfer of property between different partners within an investment partnership; and

- **measures to counter two schemes designed to avoid payment of SDLT.** The first scheme misuses provisions intended to help financial institutions using alternative finance schemes. The second scheme misuses provisions to allow group relief from SDLT.

4.66 The Government is taking further action to close avoidance schemes identified since the 2007 Pre-Budget Report, by legislating:

- **to counter avoidance involving head leases and sub-leases of plant or machinery and the granting of leases for premium and similar arrangements,** as announced on 13 December 2007;

- **to prevent individuals obtaining tax relief for manufactured payments made as part of arrangements that intend to avoid tax,** as announced on 31 January 2008; and

- **to disallow the expenses of managing an investment business as a deduction against a company's ring-fence oil and gas profits.**

Modernising approaches to anti-avoidance

4.67 The Government is committed to modernising approaches to anti-avoidance where appropriate. The Government announces that it will:

- **continue to consult on a principles-based approach to financial products avoidance, with the intention of legislating in Finance Bill 2009. In the meantime, the Government will introduce targeted legislation in Finance Bill 2008 to counter known avoidance schemes involving both disguised interest and the transfer of income streams;** and

- **repeal outdated and complex anti-avoidance provisions and scrutinise the extent to which certain legislation might be repealed or redrafted in simpler ways,** as part of the anti-avoidance simplification review.

Double taxation treaties

4.68 **The Government announces, with retrospective effect from 12 March 2008, clarification of indefinitely retrospective legislation introduced in 1987 to counter double taxation treaty avoidance schemes,** so that the legislation applies as intended and is effective. This will ensure that, notwithstanding the wording of any double taxation treaty, UK residents pay UK tax on their profits from foreign partnerships. **Budget 2008 announces there will also be a further measure to prevent future tax avoidance through the misuse of double taxation treaties by UK residents.**

Income shifting

4.69 The Government firmly believes it is unfair that some individuals can arrange their affairs to gain a tax advantage by shifting part of their income to another person who is subject to a lower rate of tax. **The Government considered the responses received to the recent consultation and believes that a further period of consultation will ensure that the legislation in this area provides clarity and certainty for businesses and their advisers. The Government now intends to introduce legislation through Finance Bill 2009 and will not enact legislation effective from 6 April 2008.**

Travel expenses for temporary workers

4.70 The Government is concerned at the growing use of structures, such as "umbrella companies" or overarching contracts of employment with employment businesses, to obtain tax relief for travel expenses that would not be available to other workers. It will monitor the use of these structures and, if necessary, consider action in the future.

VED refunds

4.71 **Budget 2008 announces that vehicle excise duty (VED) refunds will be restricted to the registered keeper of a vehicle and applicable only when a vehicle has: been stolen, destroyed, sold or otherwise disposed of; become eligible for a nil licence; been declared as statutorily off-the-road; or been permanently exported.** This will help ensure that motorists cannot avoid paying a pre-announced rate of VED.

VAT repayment claims

4.72 **The Government will provide a transitional period to 1 April 2009, during which businesses can make VAT repayment claims for rights that accrued before the introduction of the three-year cap in 1996 and 1997. HMRC's powers of assessment will also be amended to ensure that assessments may be made to recover any amounts paid during the transitional period, which are subsequently found to have been incorrectly paid.**