

Financial Statement and Budget Report

A

BUDGET POLICY DECISIONS

A.1 The Economic and Fiscal Strategy Report (EFSR) explains how the measures and other decisions announced in Budget 2008 build on those already introduced to advance the Government's long-term goals. This chapter of the Financial Statement and Budget Report (FSBR) brings together in summary form all the measures and decisions that affect the Budget arithmetic that have been announced since Budget 2007 and gives their estimated effect on government revenues and spending to 2010-11. The chapter also includes a summary of the changes to the main rates and allowances for the personal tax and benefit system, the business tax system, value added tax (VAT), environmental taxes, and other indirect taxes.

A.2 The appendices to this chapter provide additional information on Budget measures:

- Appendix A1 provides details of tax changes and other policy decisions which were announced in Budget 2007 or earlier, but which take effect from or after April 2008;
- Appendix A2 explains in detail how the effects of the Budget measures on government revenues are calculated; and
- Appendix A3 provides estimates of the costs to the Government of some of the main tax allowances and reliefs.

A.3 In the text of this chapter, the number or letter in brackets after each measure refers to the line in Tables A1 and A2 where its costs or yield are shown. The symbol ‘-’ indicates that the proposal has no Exchequer effect until at least 2011-12. The symbol ‘*’ indicates that the effect is negligible, amounting to less than £3 million a year.

BUDGET POLICY DECISIONS

A.4 Table A1 summarises the Budget 2008 measures that affect government revenues and spending. These include tax measures, national insurance contributions (NICs) measures, measures that affect Annually Managed Expenditure (AME), and additions to Departmental Expenditure Limits (DEL). Measures that are financed from existing DEL provisions are not included.

Table A.1: Budget 2008 policy decisions

	(+ve is an Exchequer yield)			£ million
	2008-09 indexed	2009-10 indexed	2010-11 indexed	2008-09 non-indexed
Modernising the tax system				
1 Charities: gift aid transitional rate	-60	-105	-120	-60
2 Enterprise management incentive	-10	-10	-10	-10
3 Enterprise investment schemes: increase in investor limit	0	-5	-5	0
4 Remittance basis: foreign dividend tax rate	0	+15	+10	0
5 Extension of the dividend tax credit	0	*	-20	0
6 Corporation tax: treatment of unclaimed assets	+90	-15	-15	+90
7 North Sea fiscal regime modernisation	-25	-25	-20	-25
8 VAT: staff hire concession	0	+150	+125	0
9 VAT: reduce rate for smoking cessation products	-10	-15	-15	-10
10 Stamp duty land tax: removal of lease duty rule from residential property	-5	-5	-5	-5
11 Review of powers: penalties	0	0	+10	0
Simplification				
12 Corporation tax: reform of associated companies rules	0	*	-5	0
13 Capital allowances: write-off of small pools	0	-25	-15	0
14 VAT: revalorisation of registration and deregistration thresholds	0	0	0	-5
15 VAT: option to tax exempt land and property	-25	-5	-5	-25
16 VAT: extension of the exemption for fund management	+5	+15	+15	+10
Fairness and opportunity for all				
17 Increase in child element of Child Tax Credit by £50 a year	0	-340	-350	0
18 Increase first child rate of Child Benefit to £20 a week	0	-210	-170	0
19 Pilots of new approaches to tackling child poverty	-10	-35	-80	-10
20 Child Benefit disregard for Housing Benefit and Council Tax Benefit	0	-180	-350	0
21 Age related payments: to pensioner households	-575	0	0	-575
22 Reassessment of work capability of incapacity benefits claimants	0	0	-10	0
23 Income tax: indexation of savings and basic rate limit	0	0	0	-810
Duties changes				
24 Tobacco duties: indexation	0	0	0	+35
25 Alcohol duties: increase in rates	+400	+505	+625	+600
26 Amusement machine licence duty: indexation	0	0	0	+5
Protecting the environment				
27 Increase in value of landfill communities fund	*	*	*	-5
28 Landfill tax: reform of waste exemption	0	*	+20	0
29 Extension of land remediation relief	0	-10	-20	0
30 Extension of enhanced capital allowances	*	*	-5	*
31 Road fuel duties	-550	0	+270	-550
32 Rebated oils duties	-10	0	+5	-10
33 Biofuels: removal of the duty differential	0	0	+550	0
34 Biofuels: reduced rate for off-road biofuel use	*	+5	+10	*
35 Vehicle excise duty: new rates, bands and first year charge	0	+465	+735	0
36 Vehicle excise duty: reduced rate for cleanest vans	-5	-15	-15	-5
37 Company car tax thresholds	0	-5	+80	0
38 Fuel benefit charge: revalorisation	*	+10	+25	*
39 Fuel scale charge: revalorisation and realignment	*	*	*	+15
40 Capital allowances: business cars	-10	+40	+75	-10
41 Aviation duty	0	0	+40	0

Table A.1: Budget 2008 policy decisions (continued)

	(+ve is an Exchequer yield)			£ million
	2008-09 indexed	2009-10 indexed	2010-11 indexed	2008-09 non-indexed
Protecting tax revenues				
42 Disclosure regime: user identification	0	+10	+20	0
43 Disguising interest	+55	+120	+105	+55
44 Controlled foreign companies	+150	+150	+100	+150
45 Intangible assets regime	0	+10	+15	0
46 North Sea oil and gas: abuse of management expenses rules	+140	+175	+175	+140
47 Double taxation treaties	+200	+40	+30	+200
48 Life insurance: taxation of interest	+25	+35	+35	+25
49 Sideways loss relief	+25	+40	+15	+25
50 Unauthorised Unit Trusts: payments on account	+50	0	0	+50
51 Stamp duty land tax: alternative finance	+5	*	*	+5
52 Stamp duty land tax: group relief	+10	+10	+10	+10
TOTAL POLICY DECISIONS:	-140	+790	+1,865	-700

A.5 Table A2 summarises the impact on government revenues and spending of other measures introduced since Budget 2007, including those measures announced in the 2007 Pre-Budget Report and Comprehensive Spending Review.

Table A.2: Other measures announced since Budget 2007

	(+ve is an Exchequer yield)			£ million
	2008-09 indexed	2009-10 indexed	2010-11 indexed	2008-09 non-indexed
Sustainable growth and prosperity				
a † Tax simplification: increase income tax self assessment payment on account threshold	0	-90	0	0
b Removal of Enterprise Zone Allowances	0	-5	-25	0
c Extending capital allowances for thermal insulation	0	-5	-10	0
Fairness and opportunity for all				
d † Implementing the state second pension White Paper reforms	0	+320	+450	0
e † Modernisation of residence and domicile taxation	0	+700	+500	0
f † Indexation of the Working Tax Credit	0	0	0	-390
g † Indexation of the disabled child element and the severely disabled child element of the Child Tax Credit	0	0	0	-20
h † Increase child element of the Child Tax Credit by £25 in April 2008 and a further £25 in April 2010 ¹	-150	-160	-310	-690
i † Indexation of income tax allowances	0	0	0	-1,410
j † Indexation of national insurance rates and limits	0	0	0	-1,000
k † Transferable inheritance tax allowances for married couples and civil partners	-1,000	-1,200	-1,300	-1,100
l † Capital gains tax reform	+250	+300	+500	+250
m Increase in Savings Credit Threshold	+20	+20	+20	+20
Protecting revenues				
n † Removal of national insurance contributions exemption	+200	+200	+200	+200
o † Tackling income shifting	0	+25	+260	0
p † Life insurance companies avoidance	+20	+30	+30	+20
q † Countering interest relief exploitation by individuals	+10	0	0	+10
r † Vehicle excise duty enforcement	+10	+20	+25	+10
Protecting the environment				
s † Aviation duty ²	-60	+110	+520	0
t † Non-car vehicle excise duty rates for 2008-09	-5	-5	-10	-5
u † Fuel benefit charge: revalorisation since 2003	+80	+70	+65	+80
v † Extending the exemption for oils used in electricity generation	-5	-5	-5	-5
w † Enhanced capital allowances for biofuel plants	+30	+20	+35	+30
TOTAL POLICY DECISIONS	-600	+345	+945	-4,000

† Announced in the 2007 Pre-Budget Report and Comprehensive Spending Review.

¹ Negative tax costs. AME spending consequences are included within the Comprehensive Spending Review settlement.

² Intention to replace air passenger duty by per plane duty from November 2009.

PERSONAL TAX AND SPENDING MEASURES

Income Tax

Bands, rates and personal allowances **A.6** As announced in the 2007 Pre-Budget Report, all income tax personal allowances for the under 65s will rise in line with statutory indexation in 2008-09. (i)

A.7 The savings and basic rate limits are increased in line with statutory indexation. (23)

A.8 As announced in Budget 2004, the lifetime allowance for tax privileged pension schemes will be £1.65 million in 2008-09. The annual allowance will be £235,000 for 2008-09.

Table A.3: Bands of taxable income

2007-08	£ a year	2008-09	£ a year
Starting rate 10 per cent	0-2,230		
Basic ^{2,3} rate 22 per cent	2,231-34,600	Basic ^{1,3} rate 20 per cent	0-36,000
Higher ³ rate 40 per cent	over 34,600	Higher ³ rate 40 per cent	over 36,000

¹ From 2008-09 the general rule is that all income above personal allowances is taxable at the main rates of tax: the basic rate and the higher rate.

There is a 10p starting rate for savings income only. For 2008-09 the starting rate limit for savings will be £2,320. If an individual's non-savings taxable income exceeds the starting rate limit, then the 10p starting rate for savings will not be available for savings income.

² The rate of tax applicable to interest remains at 20 per cent for income between the starting and basic rate limits.

³ The rates applicable to dividends are 10 per cent for dividend income up to the basic rate limit and 32.5 per cent above that.

Table A.4: Income tax allowances

	2007-08	£ a year 2008-09	Increase
Personal allowance			
age under 65	5,225	5,435	210
age 65-74	7,550	9,030	1,480
age 75 and over	7,690	9,180	1,490
Married couple's allowance ¹			
aged less than 75 and born before 6th April 1935	6,285	6,535	250
aged 75 and over	6,365	6,625	260
minimum amount ²	2,440	2,540	100
Income limit for age-related allowances	20,900	21,800	900
Blind person's allowance	1,730	1,800	70

¹ Tax relief for these allowances is restricted to 10 per cent.

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

Effects on the Scottish Parliament's tax varying powers – statement regarding Section 76 of the Scotland Act 1998

A.9 A one penny change in the Scottish variable rate could be worth approximately plus or minus £380 million in 2008-09 and plus or minus £400 million in 2009-10. These figures do not include an estimate of the behavioural impacts of invoking the Scottish variable rate. In HM Treasury's view, an amendment to the Scottish Parliament's tax-varying powers is not required as a result of these changes.

National Insurance Contributions

A.10 As announced in the 2007 Pre-Budget Report, the national insurance contributions (NICs) thresholds, limits and flat rates will increase in line with statutory indexation for 2008-09, except the Upper Earnings and Upper Profit Limits (UEL/UPL), which will rise by £75 above indexation per week. There will be no changes to NICs rates for employers and employees, or to the rate of profit related NICs paid by the self-employed. (j)

Table A.5: Class I national insurance contribution rates 2008-09

Earnings ¹ £ per week	Employee (primary) NICs rate ² per cent	Employer (secondary) NICs rate ³ per cent
Below £90 (LEL)	0	0
£90 to £105 (PT/ST)	0 ⁴	0
£105 to £770 (UEL)	11	12.8
Above £770	1	12.8

¹ The limits are defined as LEL – lower earnings limit; PT – primary threshold, ST – secondary threshold; and UEL – upper earnings limit

² The contracted-out rebate for primary contributions in 2008-09 is 1.6 per cent of earnings between the LEL and UEL for contracted-out salary-related schemes (COSRS) and contracted-out money purchase schemes (COMPS).

³ The contracted-out rebate for secondary contributions is 3.7 per cent of earnings between the LEL and UEL for COSRS and 1.4 per cent for COMPS. For COMPS, an additional age-related rebate is paid direct to the scheme following the end of the tax year. For approved personal pensions, the employee and employer pay NICs at the standard, not contracted-out rate. An age and earnings related rebate is paid direct to the personal pension provider following the end of the tax year.

⁴ No NICs are actually payable but a notional Class I NIC will be deemed to have been paid in respect of earnings between LEL and PT to protect benefit entitlement.

Table A.6: Self-employed national insurance contribution rates 2008-09

Annual profits ¹ £ per year	Self-employed NICs	
	Class 2 £ per week	Class 4 per cent
Below £4,825 (SEE)	0 ²	0
£4,825 to £5,435 (LPL)	£2.30	0
£5,435 to £40,040 (UPL)		8
Above £40,040		1

¹ The limits are defined as LPL – lower profits limit and UPL – upper profits limit.

² The self-employed may apply for exemption from paying Class 2 contributions if their earnings are less than, or expected to be less than, the level of the Small Earnings Exception (SEE).

Tax credits, benefits and personal taxes

Tax credits **A.II** As announced in the 2007 Pre-Budget Report, all the elements of the Working Tax Credit, except for the childcare element, will rise in line with indexation from 6 April 2008 (f)

A.I2 As announced in the 2007 Pre-Budget Report, the disabled child element and the severely disabled child element of the Child Tax Credit will increase in line with indexation. (g)

A.I3 As announced in the 2007 Pre-Budget Report, from 6 April 2008, the child element of the Child Tax Credit will rise by £25 a year above earnings indexation. This is in addition to the Budget 2007 commitment to increase the child element by £150 from 6 April 2008. (h)

Child Poverty Financial Support **A.I4** With effect from 6 April 2009, the first rate of child benefit will increase to £20 per week. (18)

A.I5 New child poverty pilots will be introduced from April 2008. (19)

A.I6 A Child Benefit disregard will be introduced for Housing Benefit and Council Tax Benefit from October 2009. (20)

A.I7 With effect from 6 April 2009, the child element of the Child Tax Credit will be increased by £50 a year above indexation. (17)

Child Benefit A.18 As announced in the 2007 Pre-Budget Report, from April 2008 Child Benefit will increase in line with indexation to £18.80 and £12.55 for first and later children respectively, and the rate of Guardians Allowance will increase to £13.45. (-)

Child Trust Fund A.19 The requirement for Child Trust Fund (CTF) providers to receive a CTF voucher to open an account will be removed from 6 April 2009. (-)

A.20 In 2008-09, a one-off payment of £100 will be made to households containing someone aged over 80 and of £50 to households containing someone aged over 60. (21)

Table A.7: Working and Child Tax Credits rates and thresholds

	2008-09 £ a year
Working Tax Credit	
Basic element	1,800
Couples' and lone parent element	1,770
30 hour element	735
Disabled worker element	2,405
Severe disability element	1020
50+ Return to work payment (16-29 hours)	1,235
50+ Return to work payment (30+ hours)	1,840
Childcare element of the Working Tax Credit	
Maximum eligible cost for one child	£175 per week
Maximum eligible cost for two or more children	£300 per week
Per cent of eligible costs covered	80%
Child Tax Credit	
Family element	545
Family element, baby addition	545
Child element	2,085
Disabled child element	2,540
Severely disabled child element	1,020
Income thresholds and withdrawal rates	
First income threshold	6,420
First withdrawal rate (per cent)	39%
Second income threshold	50,000
Second withdrawal rate (per cent)	6.67%
First threshold for those entitled to Child Tax Credit only	15,575
Income disregard	25,000

Armed Forces Council Tax Relief A.21 As announced on 25 September 2007, a measure will be introduced, with effect from 1 April 2008, to ensure that payments under the new Armed Forces Council Tax Relief scheme will be tax-exempt. (-)

Incapacity benefit A.22 Starting in April 2010, the eligibility for incapacity benefits of all existing IB claimants will be reassessed using the new Employment Support Allowance Work Capability Assessment (22)

Savings credit A.23 As announced in the Benefit Up-rating Statement on 6 December 2007, from 6 April 2008 the maximum Savings Credit will rise to £19.71 for a single person and £26.13 for a couple. (m)

State Second Pension A.24 As announced in the 2007 Pre-Budget Report, the introduction of the Upper Accruals Point for the State Second Pension will now take effect from 6 April 2009. (d)

Pensions tax simplification **A.25** As announced in the 2007 Pre-Budget Report, the taxation of pension schemes will be simplified further. A package of measures will cut the administrative burdens arising from the lifetime allowance and anti-avoidance rules, and will simplify protected rights to pre-April 2006 lump sums. (*)

A.26 A measure will be introduced, with effect from Royal Assent, to expand and clarify the scope and tax treatment of authorised payments from pension funds. (-)

A.27 Changes will be made to simplify the rules governing the commutation of trivial pension pots. (*)

Enterprise Management Incentives (EMIs) **A.28** With effect from 6 April 2008, the individual option grant limit for EMIs will be increased to £120,000. Measures will also be introduced, with effect from Royal Assent, to bring EMIs, in line with the EU state aids rules by providing that firms with more than 249 employees, and those involved in shipbuilding, and coal and steel production, will no longer be able to issue qualifying EMI options. (2)

EIS **A.29** Subject to state aids approval, the annual investor limit for an Enterprise Investment Scheme (EIS) investor to claim income tax relief will be increased to £500,000. This increase will apply to investments made from 6 April 2008. (3)

Dividend tax credit **A.30** From 6 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. (5)

A.31 The definition of EEA member state with respect to entitlement to allowances and reliefs will be amended to encompass UK nationals. (-)

Individual Savings Accounts (ISAs) **A.32** As announced on 18 October 2007, savers who withdrew ISA funds from Northern Rock between 13 and 19 September 2007 will be allowed to return their funds to an ISA to restore their tax advantage. (-)

Residence and domicile taxation **A.33** As announced in the 2007 Pre-Budget Report, a package of changes to the rules on residence and domicile will take effect from 6 April 2008. It will introduce a new charge on remittance basis users, remove personal allowances from remittance basis users, close loopholes, correct anomalies in the remittance basis rules and change the rules on day counting for residence. (e)

A.34 From 6 April 2008, the rate of tax payable by remittance basis users in respect of foreign dividend income will be amended to 40 per cent from 32.5 per cent, correcting a Tax Law Rewrite oversight. (4)

A.35 As announced in the 2007 Pre-Budget Report, restrictions in the application of remittance-basis taxation to employment and investment income from the Irish Republic will be removed from 6 April 2008. (*)

Holiday homes owned abroad through companies **A.36** A retrospective exemption will be introduced to remove the tax charge that arises where individuals have private use of an overseas home bought through a company. (*)

Employer provided vans amending the fuel benefit rules **A.37** A measure will be introduced, with effect from Royal Assent, to ensure that the van fuel benefit legislation mirrors that for company cars. (-)

- GLA severance pay** **A.38** The tax treatment of payments under the new Greater London Authority (GLA) severance pay scheme will be brought into line with those under existing severance pay schemes for Westminster MPs and members of the Devolved Administrations. (-)

CHARITIES AND COMMUNITIES

- Gift Aid** **A.39** With effect from 6 April 2008, charities will be able to claim Gift Aid at a transitional rate, consistent with a basic rate of income tax of 22 per cent, for three years. (1)
- Unclaimed Assets** **A.40** A measure will be introduced, with effect from Royal Assent, to ensure that the Dormant Accounts and Unclaimed Assets Scheme does not increase tax or administrative burdens for either financial institutions or their customers. (-)

TAXES ON CHARGEABLE GAINS, INHERITANCE TAX, ASSETS AND PROPERTY

- Capital gains tax reform** **A.41** As announced in the 2007 Pre-Budget Report, for disposals on or after 6 April 2008 the capital gains tax rate will be set at 18 per cent. Alongside this change, both taper relief and indexation allowance will be withdrawn. As further announced on 24 January 2008, a new entrepreneurs' relief will be available in respect of certain disposals on or after 6 April 2008. This will reduce the effective tax rate to 10 per cent for up to the first £1 million of qualifying gains made over a lifetime. (l)
- A.42** From 6 April 2008 the capital gains tax annual exempt amount will be increased in line with statutory indexation to £9,600. (-)
- Inheritance tax** **A.43** As announced in the 2007 Pre-Budget Report, with effect from 9 October 2007, if an individual's inheritance tax nil-rate band is not used up on their death, the unused proportion can be transferred to their surviving spouse or civil partner. The measure also applies to all widows, widowers and bereaved civil partners alive on 9 October 2007. (k)
- A.44** A measure will be introduced, with effect from 22 March 2006, to ensure that the transitional provisions in the inheritance tax rules for trusts enacted in Finance Act 2006 apply as intended. In addition, provision will be made to extend the transitional period to end on 5 October 2008. (-)
- A.45** As announced in the 2007 Pre-Budget Report, measures will be introduced to ensure that scheme pensions and lifetime annuities are used solely to provide an income in retirement and not as a means of diverting tax relieved savings into inheritance. The measures will take effect for surrenders made on or after 10 October 2007 and for increases in pension rights attributable to the death of a member from 6 April 2008. (-)
- A.46** As announced in the 2007 Pre-Budget Report, a measure will be introduced, with effect from 6 April 2006, to restore protection from inheritance tax charges for savings in overseas pension schemes that are tax-recognised and regulated in their own country, or provide a pension income for life. (-)
- SDLT relief for new zero-carbon homes** **A.47** A measure will be introduced, with retrospective effect from 1 October 2007, to extend the Stamp Duty Land Tax (SDLT) relief for new zero-carbon homes to new flats. (-)
- SDLT simplification** **A.48** As announced in the 2007 Pre-Budget Report, a £40,000 notification threshold for SDLT will be introduced from 12 March 2008. SDLT transactions with lower values will no longer need to be notified to HMRC. From 12 March 2008, the SDLT lease duty rule threshold for commercial property will be increased from £600 to £1,000. (-)

A.49 From 12 March 2008, the SDLT lease duty rule will also no longer apply to residential property (10)

A.50 As announced in the 2007 Pre-Budget Report, a measure will be introduced to amend SDLT anti-avoidance provisions introduced in Finance Act 2007 to ensure that where there is a transfer of an interest in a property held within an investment partnership, there is no charge to SDLT. The amendment will apply retrospectively from 19 July 2007. (*)

Stamp Duty – administrative burden reduction **A.51** As announced in the 2007 Pre-Budget Report, and with effect from 13 March 2008, the requirement to stamp instruments transferring stock or marketable securities where the duty is only £5 will be removed. (*)

BUSINESS TAXES, TAXATION OF FINANCIAL SERVICES AND SPENDING MEASURES

A.52 The measures covered in paragraphs A.51 to A.56 apply to corporation tax from 1 April and to income tax from 6 April in the relevant year.

Enterprise Zone Allowance **A.53** As announced on 17 December 2007, Enterprise Zone Allowances will be withdrawn from April 2011 as a consequence of the withdrawal of Industrial Buildings Allowances (IBAs). (b)

Capital allowances **A.54** From April 2008 businesses with main or special rate capital allowances pools that fall to £1,000 or below will be able to write-off the remaining unrelieved expenditure. (13)

A.55 As announced on 7 December 2007, thermal insulation added to existing commercial buildings will be deemed to be plant and machinery and receive capital allowances at 10 per cent from April 2008. (c)

A.56 Expenditure on the replacement of integral features of a building, as defined by the new classification announced in Budget 2007, will be deemed to be capital for tax purposes and attract capital allowances rather than revenue deductions from April 2008. (-)

A.57 As announced in the 2007 Pre-Budget Report, the relief for alterations to buildings in response to a notice from a fire authority will be withdrawn for expenditure incurred from April 2008. (*)

R&D tax credits **A.58** A measure will be introduced in order to meet state aids requirements to prevent future claims for R&D tax credits or Vaccines Research Relief (VRR) from being made by companies in difficulties. It will also introduce a cap of 7.5 million euros on the future amount of aid that can be claimed and require large companies to make a declaration when making VRR claims confirming the incentive effect of the aid. (-)

Associated companies rules **A.59** A measure will be introduced, with effect from Royal Assent, to simplify the associated companies rules relating to the small companies rate of corporation tax. (12)

Tax-based venture capital schemes **A.60** A measure will be introduced, with effect from 6 April 2008, to add shipbuilding, and coal and steel production to the list of excluded activities for the Enterprise Investment Scheme, Venture Capital Trusts and the Corporate Venturing Scheme. (*)

North Sea oil taxation **A.61** A package of measures will be introduced to reform the North Sea Fiscal Regime. This will include changes to the treatment of corporation tax losses created by decommissioning and an extension of 100 per cent first-year capital allowances to long-life assets and mid-life decommissioning, both with effect from 12 March 2008, and reforms to Petroleum Revenue tax, with effect from 30 June 2008. (7)

- Property Authorised Investment Funds** **A.62** A new elective tax regime for Authorised Investment Funds investing in property will be launched, with effect from 6 April 2008. (*)
- Offshore funds** **A.63** A measure will be introduced to modernise the tax regime for investment into offshore funds. (*)
- Funds of Alternative Investment Funds** **A.64** A new elective tax regime for Authorised Investment Funds investing into certain offshore funds will be introduced to coincide with the commencement of the Financial Services Authority's proposed Funds of Alternative Investment Funds regime. (*)
- Islamic Finance** **A.65** A measure will be introduced, with effect from Royal Assent, to modify the stamp duty definition of loan capital for the purposes of alternative finance investment bonds. (-)
- Securitisation** **A.66** A measure will be introduced, with effect from Royal Assent, to amend legislation relating to securitisation companies to address anomalies in the rules on stamp duty. (*)
- Unclaimed assets** **A.67** As a result of the introduction of International Accounting Standards, a measure will be introduced, with effect from on or after 1 January 2008, to spread the repayment of tax to banks and buildings societies on dormant accounts. (6)
- Funding bonds** **A.68** With effect from 12 March 2008, new legislation will clarify that HMRC will satisfy tax reclamation claims using funding bonds, where the tax to be repaid was originally paid to HMRC in the form of funding bonds. (-)
- Insurance premium tax (IPT)** **A.69** With effect from Royal Assent, the requirement for overseas insurers to appoint jointly and severally liable IPT representatives will be removed and the rules under which tax due from overseas insurers can be recovered from an insured party in the UK will be modernised. (*)
- Life insurance simplification** **A.70** A package of measures will be introduced, generally with effect for periods beginning on or after 1 January 2008, to simplify the tax treatment of contingent loans and financial reinsurance, clarify the tax treatment of structural assets, facilitate the transfers of business between friendly societies, amend the rules on foreign currency assets plus other minor clarifications, corrections and consequential changes. (*)
- Community Investment Tax Relief (CITR)** **A.71** A measure will be introduced with retrospective effect, to ensure that where a bank invests in a Community Development Finance Institution (CDFI) under the CITR, any deposits that the CDFI makes with the bank in the course of its ordinary banking arrangements will not reduce the amount of tax relief available to the bank. (*)

VALUE ADDED TAX

- VAT registration** **A.72** From 1 April 2008, the VAT registration threshold will be increased from £64,000 to £67,000 and the deregistration threshold from £62,000 to £65,000. (14)
- VAT option to tax** **A.73** From 1 June 2008, revised legislation will be introduced to extend the cooling-off period to 6 months and relax the disapplication rules for commercial property sold for housing development. (15)
- VAT on fund management** **A.74** With effect from 1 October 2008, the VAT exemption for fund management will be extended to the management of listed closed-ended funds and certain overseas investment funds. (16)
- Staff hire concession** **A.75** 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. (8)

Smoking cessation products **A.76** The reduced VAT rate of 5 per cent for smoking cessation products, introduced on 1 July 2007 as a time-limited incentive, will continue to have effect beyond 30 June 2008. (9)

Empty homes **A.77** As announced in the 2007 Pre Budget Report, on 1 January 2008 the rate of VAT applied to the renovation and alteration of homes that have been unoccupied for between two and three years was reduced to 5 per cent. (*)

ENVIRONMENT AND TRANSPORT TAXES

Climate Change Levy **A.78** The rates of the Climate Change Levy will be indexed from 1 April 2009. (-)

A.79 As announced in the 2007 Pre-Budget Report, subject to EU state aids approval, Climate Change Agreement participants will continue to pay a reduced rate Climate Change Levy until 2017. (-)

Landfill communities fund **A.80** The value of the landfill communities fund for 2008-09 will increase to £70 million from 1 April 2008. (27)

Landfill tax: waste from contaminated land **A.81** A measure will be introduced later in 2008, with the precise date to be confirmed after consultation, to provide that waste from contaminated land disposed of to landfill on or after 1 April 2012 will not be entitled to the contaminated land exemption. (28)

Landfill tax: dredging exemption **A.82** As announced in the 2007 Pre-Budget Report, with effect from 30 October 2007, the landfill tax exemption was extended to include dredged waste that has been treated with additives. (*)

Land remediation relief **A.83** A measure will be introduced to extend land remediation relief to long-term derelict land and to the removal of Japanese knotweed excluding removal to landfill. These reforms will take effect from 1 April 2009. (29)

Capital allowances **A.84** The list of designated energy saving and water-efficient technologies qualifying for 100 per cent first-year capital allowances will be expanded during 2008, to include one new technology class and four sub-technologies. (30)

A.85 The existing enhanced capital allowances for combined heat and power (CHP) will be extended during 2008 to enable CHP facilities to use solid refused fuel. (*)

Aggregates Levy **A.86** The aggregates levy will increase to £2.00 per tonne from 1 April 2009. (*)

Microgeneration: business rates **A.87** As announced in the 2007 Pre-Budget Report, microgeneration investments will not be subject to ad hoc reassessments of business rates liability in England. This will be implemented from 1 October 2008, and such investments will now only be taken into account at the five-yearly revaluation of business rates. (-)

Fuel Duties **A.88** The increase in main road fuel duty rates of 2 pence per litre, due to take place on 1 April 2008, is to be deferred until 1 October 2008. Consequential changes will be made to road fuel gases and biofuel duty rates. Fuel duty rates will increase by 0.5 pence per litre above indexation on 1 April 2010. (31)

A.89 Rebated oil duties will also be frozen until 1 October 2008, and will then rise in proportion to main road fuel duties. They will do the same on 1 April 2009 and 1 April 2010. (32)

A.90 From 2010-11, the biofuels duty differential will cease and the Renewable Transport Fuel Obligation will provide the total support for biofuels. (33)

A.91 As announced in the 2007 Pre-Budget Report, the hydrocarbon oil duties legislation will be simplified from 1 April 2008 to reduce the number of duty rates and remove obstacles to the introduction of more environmentally friendly fuels. (*)

A.92 Following a pilot project for using biodiesel in rail, the duty payable for biofuels off road will be 9.69 pence per litre from 1 April 2008. (34)

A.93 The compressed natural gas differential will be maintained until 2010-11 and the liquefied petroleum gas differential will decrease by 1 pence per litre on each of 1 October 2008, 1 April 2009 and 1 April 2010. (*)

A.94 As announced in the 2007 Pre-Budget Report, with effect from 23 November 2007, biobutanol used as a road fuel in HMRC approved specific pilot projects to test the use of biofuels will be eligible to duty at 30.35 pence per litre. (-)

A.95 As announced in the 2007 Pre-Budget Report, the Government will not pursue state aids clearance for the introduction of an enhanced capital allowance for the cleanest biofuels plant. (w)

A.96 As announced on 26 July 2007, with effect from 1 September 2007, the scope of the existing relief on oils used for electricity generation was extended to include light oils, and to better align the relief with Climate Change Levy legislation. (v)

Vehicle Excise Duty (VED) **A.97** With effect from 1 April 2009, and as set out in Table 8a, VED for cars, registered on or after 1 March 2001, will be reformed to include six new bands. From 1 April 2010, a new first year VED rate will be introduced. With effect from 1 April 2009, and as set out in Table 8b, the lower rate of VED for cars and light good vehicles registered before 2001 is frozen and the higher rate will rise by £15. With effect from 1 April 2009, the VED rate for light goods vehicles registered after 2001 will rise by £15. With effect from 1 April 2010, the VED rate for cars and light goods vehicles registered before 2001 will be increased in line with indexation. (35)

A.98 As announced in the 2007 Pre-Budget Report, in 2008-09 only, the VED rates for motorbikes in the lower band will be frozen, with higher bands increased by £1-2; and rates for heavy goods vehicles, special types vehicles, combined transport vehicles and all vehicle categories linked to the basic goods rate will be frozen. Changes to VED rates for 2008-09 will take effect from 13 March 2008. (t)

A.99 A measure will be introduced, with effect from 1 January 2009, to define the circumstances under which a rebate may be paid on the unexpired portion of a registered vehicle keeper's licence. (*)

A.100 A measure will be introduced with effect from 1 January 2009, giving a VED incentive for early take-up of Euro V technology diesel vans ahead of mandatory introduction in 2011. The incentive will remain for the lifetime of the vans. (36)

A.101 As announced in the 2007 Pre-Budget Report, a measure will be introduced, with effect from 1 September 2008, to permit enforcement of VED on vehicles parked in public places that are not intrinsically part of a private dwelling, where a Statutory Off-Road Notification has not been made. (r)

Company car tax (CCT) **A.102** With effect from 5 April 2010, the lower threshold for the 15 per cent CCT band will be lowered from 135g to 130g of CO₂/km. (37)

Fuel benefit charge (FBC) **A.103** As announced in the 2007 Pre-Budget Report, the FBC multiplier will be increased from £14,400 to £16,900 from 6 April 2008. (u)

A.104 In addition, the Government announces that the FBC multiplier will increase at least in line with indexation from 6 April 2009. (38)

VAT: A.105 From 1 May 2008, the VAT fuel scale charges will be increased to reflect fuel price revalorisation of fuel scale charges inflation. In addition, the table of CO₂ bands will be amended slightly to maintain alignment with those used for direct tax purposes. (39)

Cars capital allowances A.106 With effect from 1 April 2009 for corporation tax purposes and 6 April 2009 for income tax the capital allowance treatment of business cars will be reformed. Expenditure on cars with CO₂ emissions above 160g/km will attract a 10 per cent writing-down allowance (WDA) and expenditure on cars with CO₂ emissions of 160g/km or below will attract a 20 per cent WDA. The rules disallowing a proportion of car lease rental payments will also be reformed in line with the new capital allowances rules. The 100 per cent first year allowance for qualifying expenditure on cars with very low CO₂ emissions will be extended until 31 March 2013, and the qualifying CO₂ emissions threshold will be lowered to 110g/km. The 100 per cent first year allowance for infrastructure expenditure on equipment for refuelling vehicles with natural gas or hydrogen will be extended to 31 March 2013. The scope will also be expanded to include biogas fuel. (40)

Table A.8a: VED bands and rates for cars registered after 1 March 2001 (graduated VED)

VED band	CO ₂ emissions (g/km)	2008-09 ¹	CO ₂ emissions (g/km)	2009-10	2010-11	
		standard rate		standard rate	first year rate	standard rate ⁴
A	Up to 100	0	Up to 100	0	0	0
B	101 – 120	35	101–110	20	0	20
C	121 – 150	120	111–120	30	0	35
D	151 – 165	145	121–130	90	0	95
E	166 – 185	170	131–140	110	115	115
F	Over 186 ²	210	141–150	120	125	125
G	Over 226 ³	400	151–160	150	155	155
H			161–170	175	250	180
I			171–180	205	300	210
J			181–200	260	425	270
K			201–225	300	550	310
L			226–255	415	750	430
M			Over 255	440	950	455

¹ 2008-09 rates take effect from 13 March 2008.

² Cars registered before 23 March 2006.

³ Cars registered on or after 23 March 2006.

⁴ Alternative fuel car discount: 2009-10 £20 bands A-I, £15 bands J-M; 2010-11 £10 all cars.

Table A.8b: VED bands and rates for private and light goods vehicles registered before 1 March 2001 (pre-graduated VED)

Engine size	2008-09 ¹	2009-10
1549cc and below	120	120
Above 1549cc	185	200

¹ Rates take effect from 22 March 2007.

New aviation duty A.107 As announced in the 2007 Pre-Budget Report, air passenger duty will be replaced on 1 November 2009 by a per plane rather than per passenger duty.(s)

A.108 Total revenue from the new per plane duty will be 10 per cent higher in the second full year of operation, 2011-12, than was forecast at the 2007 Pre-Budget Report. (41)

OTHER INDIRECT TAXES AND DUTIES

Tobacco duties A.109 From 6 pm on 12 March 2008, tobacco duty rates will be increased in line with indexation. (24)

Table A.9: Changes to tobacco duties

	Effect of tax ¹ on typical item (increase in pence)	Unit
Cigarettes	11	packet of 20
Cigars	4	packet of 5
Hand-rolling tobacco	11	25g
Pipe tobacco	6	25g

¹ Tax refers to duty plus VAT.

Alcohol duties A.110 Excise duties on alcohol will be increased by 6 per cent over indexation from 17 March 2008 and by 2 per cent above indexation in each subsequent year up to and including 2013. (25)

A.111 HM Revenue and Customs will introduce a common method of calculating the excise duty due on all categories of alcoholic drinks later in 2008. (-)

Table A.10: Changes to alcohol duties

	Effect of tax ¹ on typical item (increase in pence)Unit	Unit
Beer	4	Pint of beer @ 4.2% abv
Wine	3	175ml glass typical strength
Wine	14	75cl bottle typical strength
Sparkling Wine	18	75cl bottle typical strength
Spirits	55	70cl bottle @ 37.5% abv
Spirits-based RTDs	3	275ml bottle @ 5.4% abv
Cider	3	Litre bottle typical strength
Sparkling Cider	14	75cl bottle typical strength

¹ Tax refers to duty plus VAT.

Betting and gaming duties **A.II2** Gaming duty bands will increase in line with indexation for accounting periods starting on or after 1 April 2008. (*)

A.II3 From 4pm on 14 March all rates of Amusement Machine Licence Duty will increase in line with indexation. (26)

PROTECTING TAX REVENUES

Tax avoidance disclosure regime **A.II4** Legislation will be introduced to improve the system used to identify users of disclosed tax avoidance schemes through the Scheme Reference Number (SRN) system. In particular, the treatment of co-promoters and intermediaries will be changed to ensure that a user of a disclosed scheme is supplied with the SRN issued to the promoter who has disclosed it. The regulation making powers will come into effect on Royal Assent. The substantive provisions will come into effect on a day to be appointed by Order to coincide with the effective date of the regulations. (42)

Stamp Duty Land Tax (SDLT) **A.II5** A measure will be introduced later in 2008, with the precise date to be determined after further consultation, to extend the SDLT disclosure rules to residential property costing £1 million or more. (*)

A.II6 A measure will be introduced, with effect from 12 March 2008, to counter schemes designed to avoid SDLT by misusing reliefs for financial institutions that use alternative finance schemes to lease property. (51)

A.II7 A measure will be introduced, with effect from 13 March 2008, to counter schemes designed to avoid SDLT by misusing provisions for group relief. (52)

A.II8 A measure will be introduced, with effect from 12 March 2008, to counter avoidance involving the sale and acceleration of unclaimed capital allowances on plant or machinery. (-)

A.II9 A measure would also be introduced to prevent attempts to exploit rules, introduced in Finance Act 2007, to obtain multiple writing-down-allowances for industrial buildings. (-)

Leased plant or machinery **A.II20** As announced in the 2007 Pre-Budget Report and on 13 December 2007, measures were introduced, with effect from the respective dates of announcement, to counter avoidance involving the leasing of plant or machinery. (-)

- Intangibles** **A.121** Legislation will be introduced, with effect from 12 March 2008, to clarify that the application of the 'related party' rules in the corporate intangible assets regime is unaffected by any insolvency arrangements that any company or partnership may be involved in. (45)
- Financial products** **A.122** As announced in the 2007 Pre-Budget Report, legislation will be introduced, with effect from 9 October 2007, to counter certain schemes that seek to side step the disguised interest legislation. (-)
- A.123** Additional legislation will be introduced, with effect from 12 March 2008, to counter further schemes seeking to side step the disguised interest legislation. (43)
- A.124** Legislation will also be introduced, with effect from 12 March 2008, to counter schemes that seek to side step certain rules that apply to transfers of income streams. (-)
- A.125** For all these areas of financial products avoidance, the Government is consulting with the intention of introducing principles-based legislation in the Finance Bill 2009.
- North Sea management expenses** **A.126** A measure will be introduced, with effect from 12 March 2008, to prevent the offsetting of the expenses of managing an investment business against ring fence profits. (46)
- Controlled Foreign Companies (CFCs)** **A.127** A measure will be introduced, with effect from 12 March 2008, to close a number of artificial avoidance schemes involving partnerships and trusts that seek to avoid a charge under the CFC rules. (44)
- Transfers of trading stock** **A.128** A measure will be introduced, legislating existing practice, with effect from 12 March 2008, to ensure that goods appropriated to and from stock for non-trading purposes will be treated as being disposed of or acquired at their market value in computing trading profit. (-)
- Life insurance** **A.129** A measure will be introduced, with effect for periods beginning on or after 1 January 2008, and ending on or after 12 March 2008, to attribute interest paid on deposits received from reinsurers to the correct category of business for corporation tax purposes. (48)
- A.130** Existing regulatory powers will be used to ensure that in future waivers by the Financial Services Authority of their rules will not have an inappropriate corporation tax impact. However the Government will discuss specific types of waiver that are of concern with the insurance industry before regulations are made. (-)
- A.131** As announced in the 2007 Pre-Budget Report, a measure will be introduced for accounting periods ending on or after 9 October 2007 to prevent life insurance companies getting corporation tax relief for expenses relating to certain reinsurance arrangements where they have not borne the economic cost of those expenses. (p)
- Sideways loss relief** **A.132** A measure will be introduced on 12 March 2008, with immediate effect, to prevent the use of sideways loss relief by individuals for avoidance purposes. (49)
- Unauthorised Unit Trusts** **A.133** A measure will be introduced, with effect from Royal Assent, to reinstate payments on account for income tax deducted from distributions made by Unauthorised Unit Trusts for the tax year 2008-09 onwards. (50)
- Repeal of redundant anti-avoidance provisions** **A.134** As part of the anti-avoidance simplification review redundant provisions on bond washing, employment securities, and other transactions in securities will be repealed. This will take effect for accounting periods beginning on or after 1 April 2008 for corporation tax and from 6 April 2008 for income tax. (*)
- Employment-related securities** **A.135** Legislation will be introduced, with effect from 12 March 2008, to clarify the position relating to employment related shares and securities and to ensure rules to prevent double taxation are not exploited to reduce the amount of tax and National Insurance paid on employment income. (-)

- Double taxation: income tax** **A.136** Legislation will be introduced, with effect from 6 April 2008, to ensure that the credit for any foreign tax paid on trade or professional earnings is no more than the UK income tax due in respect of the same earnings. (*)
- Modernising trusts** **A.137** Legislation will be introduced, with effect from 6 April 2006, to rectify an omission in the 2006 Trusts Modernisation legislation whereby payments from settlor-interested trusts can result in beneficiaries' savings and dividend income being pushed into higher rates of tax. (*)
- Three year time limit for VAT claims** **A.138** Legislation will be introduced to make clear that from 1 April 2009 all claims for over-declared or under-claimed VAT will be subject to a three year time limit. (-)
- Employer contributions to pension schemes** **A.139** A measure will be introduced, with retrospective effect, to confirm that the amount a company was permitted to deduct in respect of approved occupational pension scheme contributions for accounting periods starting after 31 March 2004 and ending before 6 April 2006 is limited to the amount paid in that period. (-)
- Double taxation treaties** **A.140** A measure will be introduced, with effect from 12 March 2008, to clarify existing indefinitely retrospective legislation introduced in 1987 to counter double taxation treaty avoidance schemes. This will clarify that the wording of the UK's double taxation treaties does not allow UK residents to avoid paying UK tax on their profits from foreign partnerships. A further, more general, measure will be introduced, with effect from 12 March 2008, to prevent tax avoidance through the misuse of Double Taxation Treaties by UK residents. (47)
- Holiday pay exemption** **A.141** As announced in the 2007 Pre-Budget Report, the construction industry will maintain the holiday pay exemption until 30 October 2012. For all other sectors, the exemption was removed from 30 October 2007. (n)
- Income shifting** **A.142** As announced in the 2007 Pre-Budget Report, the Government intended to bring into effect from 6 April 2008 legislation to prevent a tax advantage being gained from income shifting. Following the recent consultation on this issue the Government has decided to undertake a further consultation and now intends to introduce legislation at Finance Bill 2009. (o)
- Interest relief exploitation** **A.143** As announced in the 2007 Pre-Budget Report, a measure will be introduced, with effect from 9 October 2007, to counter avoidance through the exploitation of interest relief. (q)
- Pension contributions** **A.144** As announced in the 2007 Pre-Budget Report, a measure to tackle deferral of corporation tax through structural management of employer contributions to pension schemes will be introduced, with effect from 10 October 2007. (-)
- A.145** A measure will be introduced ensuring UK tax relief and charges for overseas pension schemes equate with those for registered pension schemes. This measure will take effect from 12 March 2008 for non-UK money purchase pensions schemes and from 6 April 2008 for non-UK defined benefit pension schemes. (-)
- Tax and accountancy** **A.146** As announced in the 2007 Pre-Budget Report, regulations have been laid to amend, with effect from 1 January 2008, the tax rules relating to companies' hedging of investments in foreign operations. (*)
- Avoidance of income tax using manufactured payments** **A.147** As announced on 21 January 2008, a measure was introduced, with effect from 31 January 2008, to prevent individuals from obtaining income tax relief for manufactured payments under arrangements designed to avoid tax. (-)

Modernising tax administration

- HMRC tribunals** **A.148** Measures will be introduced, with effect from the introduction of Ministry of Justice tribunal reforms, to streamline the way appeals against HMRC decisions are handled, in particular to provide a right to an HMRC review of disputed decisions. (*)
- Incorrect and late tax returns** **A.149** A measure will be introduced, with effect from periods commencing on or after 1 July 2008, to increase the financial limits above which businesses must separately notify HMRC of errors on previously submitted VAT, insurance premium tax, air passenger duty, landfill tax, climate change levy and aggregates levy returns. [*]
- Penalties** **A.150** For return periods ending on or after 1 April 2009, where the filing date is after 1 April 2010, the new penalty regime for incorrect returns introduced in 2007 for income tax, capital gains tax, VAT, PAYE and NICs will be extended across all other taxes and duties. From 1 April 2009, the penalty regime for failure to notify HMRC of a new charge will be aligned across all taxes and duties. (11)
- Payment and repayment** **A.151** A package of measures will be introduced, with effect from Royal Assent, to make it easier for taxpayers to pay what they owe on time and effectively tackle those who seek to avoid their obligations by paying late. The measures 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. (*)
- Compliance checks** **A.152** New record keeping requirements, inspection and information powers, and assessing time limits will be introduced to align and simplify the way HMRC checks compliance for income tax, corporation tax, capital gains tax, PAYE, VAT and NICs. Information powers and penalties for failure to comply with these obligations will come into effect on 1 April 2009. Assessing time limits will need a transitional period and will not therefore become fully operative until 1 April 2010. (-)
- Income tax self-assessment** **A.153** As announced in the 2007 Pre-Budget Report, the payment on account threshold for income tax self-assessment will double from £500 to £1000 from 6 April 2009. (a)
- Excise: review and appeal rights** **A.154** As announced in the 2007 Pre-Budget Report, a measure will be introduced, with effect from Royal Assent, extending statutory rights to the independent review and appeal process to cover a wider range of decisions made by HMRC concerning excise duties. (-)
- Flooding and other disasters** **A.155** A measure will be introduced, with effect from Royal Assent, to help those adversely affected by national disasters. The measure allows for interest and surcharges to be waived on tax paid late in such situations and will be first used as announced, on 25 July 2007, in connection with last year's severe flooding across the UK. (*)

APPENDIX A1: MEASURES ANNOUNCED IN BUDGET 2007 OR EARLIER

A.1.1 This appendix sets out a number of tax, benefit and other changes which were announced in Budget 2007 or earlier and which will take effect from April 2008 or later. The revenue effects of these measures have been taken into account in previous economic and fiscal projections.

Table A.1.1: Measures announced in Budget 2007 or earlier which take effect from April 2008 or later

	(+ve is an Exchequer yield)			£ million
	2008-09 indexed	2009-10 indexed	2010-11 indexed	2008-09 non-indexed
<i>a</i> Main rate of Corporation Tax reduced to 28%	-1,390	-2,020	-2,220	-1,390
<i>b</i> General plant and machinery capital allowances at 20%	+1,490	+2,270	+1,815	+1,490
<i>c</i> Long-life plant and machinery capital allowances at 10%	-210	-380	-380	-210
<i>d</i> Integral fixtures capital allowance at 10%	+70	+200	+280	+70
<i>e</i> Industrial Buildings Allowance: phased abolition	+75	+225	+375	+75
<i>f</i> New Annual Investment Allowance at £50,000	-30	-920	-670	-30
<i>g</i> R&D tax credit increase to 130%	-50	-100	-100	-50
<i>h</i> SME R&D tax credit increase to 175%	-20	-40	-40	-20
<i>l</i> Payable Enhanced Capital Allowances	-10	-20	-20	-10
<i>j</i> Remove starting rate of Income Tax on non-savings income	+7,440	+8,840	+8,870	+9,750
<i>k</i> Increase Aged Allowances by £1,180 and raise for 75s and over to £10,000	-810	-940	-970	-850
<i>l</i> Increase Child Tax Credit by £150 above indexation	-910	-1,000	-1,050	-860
<i>m</i> Raising the threshold of the Working Tax Credit by £1,200	-970	-980	-990	-860
<i>n</i> Increasing the Tax Credit withdrawal rate by 2 per cent	+420	+490	+530	+370
<i>o</i> Income Tax and NICs: phased alignment of higher thresholds	+1,090	+1,560	+1,750	+1,220
<i>p</i> Income Tax and NICs: raising the higher rate threshold and upper earnings limit	0	-260	-490	0
<i>q</i> Basic rate of Income Tax reduced to 20 pence	-8,400	-10,050	-10,180	-8,440
<i>r</i> Raising the ISA cash limit by £600 and the overall limit by £200	-15	-50	-95	-15
<i>s</i> Inheritance tax: increase threshold to £350,000 in 2010-11 and indexation thereafter	0	0	-95	0
<i>t</i> Increasing travellers' allowance from outside the EU	-5	-15	-15	-5
<i>u</i> Extension of the dividend tax credit	-5	-40	-35	-5
<i>v</i> Energy Products Directive: expiry of derogation	+10	+30	+30	+10
<i>w</i> Rationalisation of Empty Property Relief	+950	+900	+900	+950
<i>x</i> Extension of the Landlords Energy Saving Allowance	*	-10	-10	*
<i>y</i> Aggregates Levy: encouraging the sustainable use of resources	+50	+50	+50	+60
<i>z</i> Landfill Tax: encouraging recycling	+170	+320	+440	+170
TOTAL POLICY DECISIONS	-1060	-1,940	-2,320	+1,420

Corporation tax rates **A.1.2** As announced in Budget 2007, the main rate of corporation tax will be set at 28 per cent for the financial year 2008-09. (a)

Capital allowances **A.1.3** The capital allowances measures set out in paragraphs A.1.4 to A.1.8 apply to corporation tax from 1 April and income tax from 6 April of the relevant year.

- A.1.4** As announced in Budget 2007, with effect from April 2008, capital allowances for general plant and machinery investment will be reduced from 25 per cent to 20 per cent. (b)
- A.1.5** As announced in Budget 2007, with effect from April 2008, capital allowances for long-life plant and machinery investment will be increased from 6 per cent to 10 per cent. (c)
- A.1.6** As announced in Budget 2007, with effect from April 2008, integral features of a building will be separately identified and will receive capital allowances at a rate of 10 per cent. (d)
- Industrial and agricultural buildings allowances** **A.1.7** As announced in Budget 2007, the industrial and agricultural buildings allowances will be removed in stages between 2008-2011. The allowances will be reduced to 3 per cent for the financial year 2008-09, 2 per cent for 2009-10, 1 per cent for 2010-11 and 0 per cent from April 2011. (e)
- Annual Investment Allowance** **A.1.8** As announced in Budget 2007, an Annual Investment Allowance of £50,000 a year for plant and machinery investment (excluding cars) will be introduced from April 2008. (f)
- R&D tax credits** **A.1.9** As announced in Budget 2007, the enhanced deduction element of the small and medium enterprise (SME) R&D tax credits will increase from 150 per cent to 175 per cent from April 2008. The value of the payable credit available will remain broadly at its current value of 24 per cent of qualifying expenditure. (h)
- A.1.10** The rate of large company R&D tax credit will increase from 125 per cent to 130 per cent from 1 April 2008. The rate of relief for the Vaccines Research Relief (VRR) will be reduced from 50 per cent to 40 per cent. Changes to the SME R&D tax credit and VRR are subject to approval from the European Commission. (g)
- Enhanced capital allowances** **A.1.11** As announced in Budget 2007, payable enhanced capital allowances for energy-efficient and water-efficient technology will be introduced from April 2008. Loss-making companies investing in energy and water efficient technology will be able to claim a payable cash credit of 19 per cent of the loss surrendered, subject to a cap of the higher of £250,000 or the PAYE/NICs liabilities of the company. (i)
- Personal tax, tax credits and National Insurance changes** **A.1.12** As announced in Budget 2007, from 6 April 2008, the 10 pence starting rate will be removed for earned income but will continue to be available for savings income. (j)
- A.1.13** As announced in Budget 2007, from 6 April 2008, the additional age-related income tax allowances for those aged 65 and over will rise by £1,180 above indexation. By April 2011, the age-related allowance for those aged 75 and over will increase to £10,000. (k)
- A.1.14** As announced in Budget 2007, from 6 April 2008, the child element of the Child Tax Credit will be increased by £150 a year above earnings indexation. (l)
- A.1.15** As announced in Budget 2007, from 6 April 2008, the income threshold at which the Working Tax Credit is received in full will be increased by £1,200 to £6,420 per year. (m)
- A.1.16** As announced in Budget 2007, from 6 April 2008, the rate at which tax credits are withdrawn will increase from 37 per cent to 39 per cent. (n)
- A.1.17** As announced in Budget 2007, from 6 April 2008, the threshold of earnings above which people pay 1 per cent NICs (the upper earnings limit, UEL) will increase by £75 per week above indexation. The following year the UEL will be aligned with the increased level at which the higher rate of tax becomes payable. The upper profits limit (UPL) rises with the UEL. (o)

- A.1.18** As announced in Budget 2007, from 6 April 2009, the higher rate threshold will be increased by £800 above indexation. (p)
- A.1.19** As announced in Budget 2007, from 6 April 2008, the basic rate of income tax will be reduced from 22 pence to 20 pence. (q)
- Individual Savings Accounts** **A.1.20** As announced in Budget 2007, from 6 April 2008, Individual Savings Accounts (ISAs) will be made simpler and more flexible, and the investment limit will rise to £7,200, of which £3,600 can be in cash. (r)
- Inheritance tax** **A.1.21** As announced in Budget 2007, the inheritance tax nil-rate band will increase to £350,000 in 2010-11. (s)
- EU travellers' allowances** **A.1.22** It has now been agreed in the EU that the increase in travellers' duty and tax-free allowances will come into force on 1 December 2008. The precise sterling value of the new limit will depend on exchange rates, but is expected to be approximately doubled to £290. (t)
- Dividend tax credit** **A.1.23** As announced in Budget 2007, from 6 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. (u)
- Energy products directive** **A.1.24** As announced in Budget 2007, following the non-renewal of derogations from the energy products directive, the Government will implement the required legislative changes for oil re-used as fuel and fuel used in private air navigation and boating. The measures will be implemented from 1 November 2008. (v)
- Empty property relief** **A.1.25** As announced in Budget 2007, empty property relief in national non-domestic rates is to be reformed from 1 April 2008 so that, when first falling empty, office and retail premises receive 100 per cent relief for three months and industrial and warehouse premises the same for six months. Relief will end for property remaining empty beyond these periods. Charities will be exempted from the effects of this reform. (w)
- Landlord's Energy Saving Allowance** **A.1.26** As announced in the 2006 Pre-Budget Report, the extension of the Landlord's Energy Saving Allowance to corporate landlords is subject to EU state aids approval. If approval is received, the allowance will be available to landlords on the acquisition and installation of energy saving items in residential properties. (x)
- Aggregates levy** **A.1.27** As announced in Budget 2007, the rate of aggregates levy will increase to £1.95 per tonne from 1 April 2008. (y)
- Landfill tax** **A.1.28** As announced in Budget 2007, from 1 April 2008, the standard rate of landfill tax will increase each year by £8 per tonne each year until at least 2010-11. The lower rate of landfill tax will also increase to £2.50 per tonne. (z)

APPENDIX A2: EXPLAINING THE COSTING

A.2.1 This appendix explains how the fiscal impact of the Budget and Pre-Budget Report policy decisions is calculated. In the context of these calculations, the net revenue effects for the measures may include amounts for taxes, national insurance contributions, social security benefits and other charges to the Exchequer, including penalties.

Calculating the costings

A.2.2 The net Exchequer effect of a Budget measure is generally calculated as the difference between applying the pre-Budget and post-Budget tax and benefit regimes to the levels of total income and spending at factor cost expected after the Budget. The estimates do not

therefore include any effect the tax changes themselves may have on overall levels of income and spending.

A.2.3 They do, however, take account of other effects on behaviour where they are likely to have a significant and quantifiable effect on the cost or yield and any consequential changes in revenue from related taxes and benefits. These may include estimated changes in the composition or timing of income, spending or other economic determinants. For example, the estimated yield from increasing the excise duty on spirits would include the change in the yield of VAT and other excise duties resulting from the new pattern of spending. The calculation of the expected effect of changes in duty rate on consumer demand for excise goods assumes that any change in duty is passed on in full to consumers. Where the effect of one tax change is affected by implementation of others, the measures are normally costed in the order in which they appear in Tables A1, A2 and A1.1.

A.2.4 The non-indexed base columns shown in Tables A1, A2 and A1.1 show the fiscal impact of changes in allowances, thresholds and rates of duty, including the effect of any measures previously announced but not yet implemented, from their pre-Budget level. The indexed base columns strip out the effects of indexation by increasing the allowances, thresholds and rates of duty in line with published levels of indexation or with their forecast assumptions.

A.2.5 Unless otherwise published the indexed base has been calculated on the assumption that:

- income tax and national insurance allowances and thresholds; the child element, the disabled child element and the severely disabled child element, of the Child Tax Credit; the single person, couple, lone parent and disabled worker elements of the Working Tax Credit; the inheritance tax nil-rate band allowance threshold; and the capital gains tax annual exempt amount all increase in line with RPI in the year to the September prior to the respective Budget;
- The climate change and aggregates levy and the vehicle excise, amusement machine licence, air passenger, fuel, tobacco and alcohol duties all rise in line with the projected annual change in the RPI in the year to the third quarter following the respective Budget; and
- VAT thresholds and gaming duty bands rise in line with the change in the RPI in the year to the December prior to the respective Budget.

A.2.6 Implementation dates are assumed to be: 12 March 2008 for fuel and tobacco duties; midnight on the day after the Budget for vehicle excise duty, midnight on the Monday following 12 March 2008 for alcohol duties; 1 May for amusement machine licence duty; 1 July for insurance premium tax, 6 April for income tax, capital gains tax, inheritance tax and tax credits and 1 April for all other taxes and duties.

A.2.7 The yields of measures that close tax avoidance loopholes or tackle tax fraud represent the estimated direct Exchequer effect of the measures with the existing level of avoidance activity.

A.2.8 These estimates are shown on a National Accounts basis. The National Accounts basis aims to recognise tax when the tax liability accrues irrespective of when the tax is received by the Exchequer. However, some taxes are accounted for when the Exchequer actually receives the tax, reflecting the difficulty in determining the period to which the tax liability relates. Examples of such taxes are corporation tax, self-assessment income tax, stamp duty land tax, inheritance tax and capital gains tax. This approach is consistent with other Government publications.

APPENDIX A3: TAX ALLOWANCES AND RELIEFS

A.3.1 This appendix provides the latest estimates of the revenue cost of some of the main reliefs against tax and national insurance contributions in 2007-08 and preliminary estimates for 2008-09. The figures are shown on a full-year accruals basis unless otherwise specified. The appendix covers only reliefs with estimated annual costs of at least £50 million. The costs of minor tax reliefs can be found on the HMRC website. More details on individual tax allowances and reliefs can be found in the HM Treasury publication, *Tax ready reckoner and tax reliefs*.

A.3.2 The full accrual presentation enables the total revenue effect to be shown in a single year for each measure. This presentation differs from that in the earlier tables in Chapter A which adopt the National Accounts basis used in the presentation of UK public finances.

A.3.3 Some allowances and reliefs are called 'tax expenditures'. This is because they are designed to help or encourage particular individuals, activities or products. So for example the exemption of the first £30,000 of payments on termination of employment helps people being made redundant; the R&D tax credits promote expenditure on research by businesses and the relief for Individual Savings Accounts promotes savings by individuals. Such reliefs are often an alternative to corresponding public expenditure payments that would generate similar effects – i.e. there could be a choice between giving a tax relief as an allowance or deduction against tax, or by an offsetting cash payment.

A.3.4 Other allowances and reliefs can reasonably be regarded (or partly regarded) as an integral part of the tax structure and have a universal or at least a more wide-ranging coverage. These are called 'structural reliefs' and the personal allowances are a good example. To the extent that income tax is based on ability to pay, it does not seek to collect tax from those with the smallest incomes. But, even with such structural reliefs, the Government has some discretion about the level at which the relief is set.

A.3.5 The split between structural reliefs and tax expenditures is inevitably broad-brush and the distinction is not always straightforward. Many reliefs combine both structural and discretionary components. Capital allowances, for example, provide relief for depreciation at a commercial rate as well as an element of accelerated relief. It is this latter element that represents additional help provided to business by the Government and is a 'tax expenditure'.

A.3.6 The figures should only be regarded as broad estimates. The loss of revenue associated with tax reliefs and allowances cannot be directly observed, and so the estimates are often based on simplified assumptions. The cost of a relief also depends on the tax base against which it is measured. Largely because of the difficulties of estimation, the published tables are not comprehensive, but do cover the major reliefs and allowances. This means that figures in Table A3.1 are not directly comparable with those of the main Budget measures shown earlier in this chapter.

A.3.7 It is important to note that each relief is costed separately. In some cases the combined cost of a number of reliefs will differ significantly from the sum of the figures for the individual reliefs. The figures do not allow for any behavioral changes as a result of the reliefs. In practice, if a relief was withdrawn, taxpayers' behavior would often alter so that the actual yield from ending the relief would be very different from, and often smaller than, that shown.

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

	£ million	
	2006-07	2007-08
TAX EXPENDITURES		
Income tax		
Relief for:		
Approved pension schemes	17,400	17,500
Share Incentive Plan	210	210
Approved savings-related share schemes	280	290
Enterprise Management Incentives	140	160
Approved Company Share Option Plans	170	170
Personal Equity Plans	475	450
Individual Savings Accounts	1,625	1,950
Venture Capital Trusts	105	90
Enterprise Investment Scheme	180	160
Professional subscriptions	85	80
Rent a room	110	120
Exemption of:		
First £30,000 of payments on termination of employment	800	800
Interest on National Savings Certificates including index-linked certificates	150	180
Premium Bond prizes	210	280
Income of charities	1,200	1,250
Foreign service allowance paid to Crown servants abroad	65	60
Personal Tax Credits	4,600	4,700
Corporation tax		
R&D tax credits	490	500
Income tax and corporation tax		
Small budget film tax relief	240	120
Large budget film tax relief	240	130
National insurance contributions		
Disregard for:		
Share Incentive Plan	140	150
Approved savings-related share schemes	190	200
Enterprise Management Initiatives	40	50
Approved company share option plans	50	50
Employer contributions to registered pension schemes	8,300	8,300

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

	£ million	
	2006-07	2007-08
TAX EXPENDITURES		
Capital gains tax		
Exemption of gains arising on disposal of only or main residence	15,800	16,300
Inheritance tax		
Relief for:		
Agricultural property	230	240
Business property	350	360
Exemption of transfers to charities on death	390	420
Value added tax		
Zero-rating of:		
Food	11,000	11,300
Construction of new dwellings (includes refunds to DIY builders)	7,600	8,200
Domestic passenger transport	2,400	2,500
International passenger transport (UK portion)	150	150
Books, newspapers and magazines	1,650	1,700
Children's clothing	1,300	1,350
Water and sewerage services	1,250	1,300
Drugs and supplies on prescription	1,300	1,350
Supplies to charities	200	200
Ships and aircraft above a certain size	650	700
Vehicles and other supplies to disabled people	300	350
Reduced rate for:		
Domestic fuel and power	2,800	2,950
Certain residential conversions and renovations	150	150
Energy-saving materials	50	50
Women's sanitary products	50	50
STRUCTURAL RELIEFS		
Income tax		
Personal allowance	42,800	45,100
Corporation tax		
Life companies reduced rate of corporation tax on policy holders' fraction of profit	600	750
Tonnage tax	90	110
Income tax and corporation tax		
Double taxation relief	15,000	15,000

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

	£ million	
	2006-07	2007-08
TAX EXPENDITURES		
Value added tax		
Refunds to:		
Northern Ireland Government bodies of VAT incurred on non-business purchases under the Section 99 refund scheme	300	300
Local Authority-type bodies of VAT incurred on non-business purchases under the Section 33 refund scheme (includes national museums and galleries under the Section 33A refund scheme)	7,200	7,650
Central Government, Health Authorities and NHS Trusts of VAT incurred on contracted-out services under the Section 41 (3) refund scheme	4,500	4,500
Hydrocarbon Oils Duty		
Tied Oils scheme (industrial reliefs scheme)	200	200
RELIEFS WITH TAX EXPENDITURE AND STRUCTURAL COMPONENTS		
Income tax		
Age-related allowances	2,400	2,500
Reduced rate for savings	220	290
Exemption of:		
British Government securities where owner not ordinarily resident in the UK	1,460	1,460
Child Benefit (including one parent benefit)	1,160	1,200
Long-term incapacity benefit	400	420
Industrial disablement benefits	40	50
Attendance allowance	130	140
Disability living allowance	410	420
War disablement benefits	360	370
Corporation tax		
Small companies' reduced corporation tax rate	4,500	4,500
Exemption for gains on substantial shareholdings	260	260
Income tax and corporation tax		
Capital allowances	19,400	19,650
Of which:		
First year allowances for SMEs	610	640
Enhanced capital allowances for energy saving technology	130	115
Accelerated capital allowances for Enterprise Zones	50	50
Capital gains tax		
Indexation allowance and rebasing to March 1982	310	250
Taper relief	6,300	7,200
Exemption of:		
Annual exempt amount (half of the individual's exemption for trustees)	2,300	2,400
Gains accrued but unrealised at death	590	570

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

	£ million	
	2006-07	2007-08
TAX EXPENDITURES		
Petroleum revenue tax		
Uplift on qualifying expenditure	100	80
Oil allowance	850	700
Safeguard: a protection for return on capital cost	50	30
Tariff receipts allowance	50	20
Exemption for gas sold to British Gas under pre-July 1975 contracts	80	40
Inheritance tax		
Nil rate band for chargeable transfers not exceeding the threshold	10,000	11,300
Exemption of transfers on death to surviving spouses and civil partners	1,900	2,100
Stamp duty land tax		
Exemption of transfers of land and property where the consideration does not exceed the £120,000 threshold in 2005-06 and the £125,000 threshold in 2006-07 and non-residential land and property where the consideration does not exceed the £150,000 threshold	570	520
Exemption of all residential transfers in designated disadvantaged wards where the consideration exceeds £120,000 in 2005-06 and £125,000 in 2006-07 but does not exceed £150,000	55	55
Transfers to charities	120	130
Group relief	1,570	1,500
Transfers to registered social landlords	65	95
Value added tax		
Exemption of:		
Rent on domestic dwellings	3,250	3,500
Supplies of commercial property	150	200
Private education	300	300
Health services	850	900
Postal services	200	200
Burial and cremation	100	100
Finance and insurance	4,200	4,500
Betting and gaming and lottery duties	1,250	1,350
Small traders below the turnover limit for VAT registration	1,100	1,150
Air Passenger Duty		
Non-passengers (e.g. cabin crew)	70	130
Vehicle Excise Duty		
Exemption for disabled motorists	170	170

