Budget 2006

PRESS NOTICES

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HM TREASURY

Budget 2006

A STRONG AND STRENGTHENING ECONOMY: INVESTING IN BRITAIN'S FUTURE

The Government's economic objective is to build a strong economy and a fair society, where there is opportunity and security for all.

The long-term decisions the Government has taken – giving independence to the Bank of England, new fiscal rules and a reduction in debt – have created a strong platform of economic stability. In recent years, the international community has been affected by geopolitical uncertainty, rising oil prices, and large current account imbalances and shifting exchange rates between the US, Asia and Europe. In the UK, with low and stable inflation, interest rates set by the Monetary Policy Committee to meet the Government's symmetric inflation target, and fiscal policy supporting monetary policy over the cycle, the UK economy is currently experiencing its longest unbroken expansion since quarterly records began, with GDP now having grown for 54 consecutive quarters.

The global economy is undergoing a major transformation, with far-reaching and fundamental changes in technology, production and trading patterns. Faster information flows and falling transport costs are breaking geographical barriers to economic activity. This fast pace of change, combined with emergence of rapidly industrialising economies such as China and India and their integration into the global economy presents new opportunities for the UK as well as new challenges.

The Government is committed to locking in stability and investing in the UK's future, enabling it to meet the challenges and rise to the opportunities of the global economy. To respond to these global challenges, this Budget sets out further reforms to create a world-class environment for scientific research and development; to improve the education and skills of the nation; to lock in the UK's track record of attracting high levels of inward investment; to invest in and reform public services; to tackle the global challenges of climate change; and to secure fairness and opportunity for all.

MAINTAINING MACROECONOMIC STABILITY

The Government's long-term economic goal is to maintain macroeconomic stability, ensuring the fiscal rules are met at all times and that inflation remains low.

The UK economy is currently experiencing its longest unbroken expansion on record, with GDP now having grown for 54 consecutive quarters. The domestic stability delivered by the Government's macroeconomic framework, with volatility in the UK economy at historically low levels and the lowest in the G7, puts the UK in a strong position to respond to the global economic challenges of the next decade.

Overall, economic developments since the 2005 Pre-Budget Report have been as forecast. Economic growth has gradually increased momentum through the latter stages of 2005 and into 2006. With the outturn for 2005 and the forecast for 2006 as expected at the time of the Pre-Budget Report, the UK economy remains well placed for a pick-up in growth to above trend rates later this year and into 2007, supported by the continuing domestic stability delivered by the Government's macroeconomic framework. GDP is forecast to grow by 2 to 2½ per cent in 2006, rising to above trend rates of 2¾ to 3¼ in both 2007 and 2008.

The Budget 2006 projections for the public finances are broadly in line with the 2005 Pre-Budget Report and show that the Government is meeting its strict fiscal rules:

- the current budget shows an average annual surplus as a percentage of GDP over the current economic cycle, even using cautious assumptions, ensuring the Government is meeting the golden rule. Beyond the end of the current cycle the current budget clearly moves into surplus; and

- public sector net debt is projected to remain low and stable over the forecast period, stabilising at a level below the 40 per cent ceiling set in the sustainable investment rule.

MEETING THE PRODUCTIVITY CHALLENGE

Productivity growth underpins strong economic performance and sustained increases in living standards. Raising productivity growth is critical to meeting the opportunities and challenges of globalisation. Budget 2006 sets out the next steps the Government is taking to strengthen the drivers of productivity growth, including:

- **advancing the goals of the ten-year Science and Innovation Investment framework to maximise the impact of science funding,** including an intention to create a single health research fund of at least £1 billion per year, to simplify radically institutional research funding; to expand R&D support for mid-sized companies and a package of measures to improve science teaching, raise the quality of science lessons and entitle able pupils to study three separate sciences at GCSE;

- **measures to reduce further burdens on business**, including new commitments from HM Revenue and Customs (HMRC) to reduce the administrative burden of the tax system; introducing the Hampton Review's principles into law and a review of how the experiences of large businesses can be taken into account in administering the tax system;

- **a comprehensive package of measures to enhance the UK's position as a leading location for inward investment, developing an ambitious strategy for marketing the UK**:
    - **promoting London as a world's international centre for financial and business services,** with a new strategy to be developed and implemented by a high level group representing the city's key interests by summer 2006;
    - establishing a new International Business Advisory Council comprising some of the world's leading business people;
    - **a programme of organisational changes to UK Trade and Investment**, with the aim of a fundamental transformation of its effectiveness in marketing the UK;
    - **strengthening the UK's reputation as one of the world's best locations for higher education,** by boosting support for international students to the UK, and establishing three new University Partnership Schemes;

- **building on the Government's commitment to raise skills levels** by investing in the reform of further education and training provision and asking the Leitch Review of Skills to report specifically on how skills and employment policy can better complement each other;

- **boosting access to finance to enable early-stage companies with real growth potential to bridge the equity gap and progress through to market,** announcing a further £50 million in 2006-07 and £50 million in 2007-08 for the Enterprise Capital Funds scheme; and

- **taking forward the Government's strategy for tackling the long-term lack of supply and responsiveness of housing and property** and introducing Real Estate Investment Trusts to create greater flexibility for investors.

Consultation on next steps for science and innovation

Science and innovation investment framework 2004-2014: next steps is published today. Key announcements include:

- to ensure the UK provides a world-class environment for health R&D, the Government intends to create a single health research fund of at least £1 billion;
- radically simplifying the system for allocating institutional research funding to universities;
- improving the supply of scientists through raising the profile of science in schools, improving the quality of science teachers and increasing progression rates to science A-levels;
- improving the efficiency of Research Councils, including consulting on merging support for large facilities such as telescopes and space programmes; and
- enhancing the role of the Technology Strategy Board in promoting business innovation, with plans for it to operate at arms length from Government.

Enhancing the SME Research and Development (R&D) tax credit

Following discussion with business, the Government wishes to support better the growth and R&D investment of firms with between 250 and 500 employees that are above the threshold for the SME tax credit. Recognising the evidence that there are lower levels of innovation in these mid-sized firms, compared to larger firms, the Chancellor announces today the Government's intention to pursue one of the key recommendations of the Cox review of creativity in business – to extend additional support to these firms.

Further details will be published by the end of the year, subject to the outcome of state aids discussions with the European Commission.

Reducing administrative burdens for business

Building on the 2001 Inland Revenue Review of Links with Business and establishment of the Business Tax Forum, the Chancellor has asked Sir David Varney to lead a review of HMRC's links with large business to foster stronger working relationships and greater understanding between large business and HMRC in today's global economy. Sir David Varney will lead the review, working with business representatives to identify opportunities to improve further the extent to which the views and experiences of large business are taken into account in the administration of the tax system.

Research undertaken by KPMG for HMRC shows that the burden of tax administration in the UK, at around 0.41 per cent of GDP, compares very favourably with the other countries - the Netherlands and Denmark - that have used the same methodology. This is because the UK already benefits from initiatives to reduce administrative burdens such as bringing together responsibility for tax and national insurance contributions into a single department, and having a high VAT threshold.

KPMG's research has shown that 85 obligations relating to dealing with forms and returns impose 85 per cent of total costs, but that there is a large 'tail' of another 2607 obligations that, although they only apply to a small number of businesses, collectively can cause irritation and contribute to an impression that the tax system is complex and difficult to understand. In line with the advice of businesses that sat on an advisory board to the KPMG research, HMRC will tackle both aspects of the burden on business, by:

- reducing the burden on businesses of dealing with HMRC's forms and returns by at least 10 per cent over five years;
- reducing the burden of dealing with HMRC's audits and inspections by 10 per cent over three years and at least 15 per cent over five years; and
- establishing a new Administrative Burden Advisory Board, chaired by Teresa Graham, non-executive director of four businesses and Deputy Chair of the Better Regulation Commission, to work with HMRC on dealing with the complexity of the tax system. This will bring a business perspective to analysis of the administrative burdens of tax on business.

Over the coming months, other Government departments will set out the ways in which they are implementing the Hampton Review and reducing regulatory burdens in their simplification plans. The Government will then set stretching but achievable targets for reducing each department's administrative burden over time. The Government is also publishing today an initial draft of a Code of Practice to entrench the Hampton enforcement principles in law.

Review of structure of UK Trade Investment (UKTI)

The Government announces its intention today to publish, before the summer, a new five year strategy for a step-change in the Government's drive to market the UK internationally.

In order to deliver this new strategy, UKTI will undertake a programme of organisational change to increase its effectiveness in marketing the UK. UKTI's steps towards implementing the strategy include building on the findings of the Asia Task Force, implementing an international R&D programme and coordinating the delivery of a single strategy to promote London as the world's leading centre for financial and business services.

Further Education reform

Today's Budget announces a programme of reform to prepare Further Education colleges and training providers in England for more stretching ambitions on skills. Further details of this reform programme will be published in a White Paper on 27 March 2006.

The Chancellor has also asked Lord Leitch, in the final phase of his review *Skills in the UK: the long term challenge*, to report specifically on how skills and employment policy can complement each other more effectively in supporting labour market flexibility, better employment outcomes and greater progression in work for those with skill needs.

Venture capital schemes

The Government today announces a package of changes to improve the effectiveness of the three tax-based venture capital schemes – the Venture Capital Trust (VCT) scheme, the Enterprise Investment Scheme (EIS) and the Corporate Venturing Scheme (CVS). This package includes a new rate of 30 per cent income tax relief for investments in VCTs, an increase on the 20 per cent rate to which the relief was due to return for the 2006-07 tax year.

Enterprise Capital Funds

The Budget announces that the first two Enterprise Capital Funds (ECFs) have been selected. ECFs will be commercially-managed funds and will invest a mix of private and public sector capital in potentially high growth small businesses affected by the equity gap. Government will finalise the full list of the first pathfinder ECFs in the next few months.

Based on the success of the first stage of the ECF pathfinder in attracting private sector involvement, the Government has decided to continue with the pathfinder and is making a further £100 million available for further ECFs over the next two years.

Real Estate Investment Trusts (UK-REITs)

The Government today announces that it will bring forward legislation to establish Real Estate Investment Trusts in the 2006 Finance Bill, improving access to UK commercial and residential property investment through more efficient and liquid markets.

Following consultation with industry on draft legislation published in December 2005, the Budget announces a number of key changes, including:

- a reduction in the required distribution rate to 90 per cent of net profits to provide greater flexibility for companies to operate within the regime; and

- a reduction of the interest cover test to 1.25 on a pre-capital allowances basis in line with industry's response.

To meet the Government's objectives for UK-REIT legislation to be introduced at no overall cost to the Exchequer, a conversion charge will be levied on companies electing to join the new regime at a rate of 2 per cent of the gross market value of investment properties.

The Government believes this package of measures, along with a significant number of technical amendments published on the HMRC's website, will enable the successful launch of Real Estate Investment Trusts from 1 January 2007.

PROMOTING REGIONAL ECONOMIC PERFORMANCE

Devolving decision making: 3 – Meeting the regional economic challenge: The importance of cities to regional growth, published today, sets out the Government's analysis of the role that cities play in enhancing regional economic performance and identifies the challenges for building on cities recent economic performance.

Following this analysis, Budget 2006 announces that the Government will review the effectiveness and efficiency of economic development and regeneration interventions across local areas, cities and regions. This will be done in preparation for the 2007 Comprehensive Spending Review. The review reflects the Government's commitment to enable cities and regions to improve their economic performance to deliver full employment and rising prosperity for all. It will be set within the context of further devolving decision making to the regional and local levels.

As an important contribution to delivering efficiency and devolving decision making, the Government has published today, *The Review of Government Offices*. This provides for a more strategic, streamlined role for the regional Government Office network.

The Regional Development Agencies (RDAs) provided policy advice to contribute to the development of Budget 2006. The Government is responding in full to the RDAs' advice, including by announcing that the Government will work with the RDAs to rationalise business support services. The regions have also provided advice on their priorities within long-term indicative funding allocations.

INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

The Government's long-term goal is employment opportunity for all – the modern definition of full employment. Delivering this requires that everyone should be provided with the support they need to enable them to find employment and develop skills. Budget 2006 sets out the further steps the Government is taking towards its aim of employment opportunity for all, including:

- **an extension of the support offered to lone parents** through ensuring that all lone parents who have claimed benefit for at least a year will be required to attend a Work Focused Interview at least every six months;

- **a strengthened, refocused, Fortnightly Job Review for Jobseeker's Allowance claimants, from June 2006**, to ensure that only those claimants who are able to demonstrate that they have undertaken their responsibilities to look for work are allowed to continue their claim;

- **measures to reduce anomalies in, and further simplify, housing benefit; and to tackle fraud and error in the housing benefit system;**

- **in response to the Women and Work Commission report, new funding to**:

- **double the number of existing Skills Coaching pilots to 16 Jobcentre Plus Districts** with a specific focus on helping low skilled women return to work;
- **increase, by 50 per cent, the number of pilots delivering level 3 skills,** with the additional pilot focused on women with low skills;
- **help Sector Skills Councils in industries with skills shortages test new recruitment, training and career pathways** for over 10,000 low skilled women;

- publication of *Employment opportunity for all: analysing labour market trends in London*, alongside this Budget, examining the underlying reasons why employment rates are lower in London compared to other parts of the country, as a basis for future policy action;

- publication of the Welfare Reform Green Paper announcing national roll out of the successful Pathways to Work pilot projects by 2008 for Incapacity Benefit claimants, and consulting on replacement of the current system of incapacity benefits with a new Employment and Support Allowance; and

- following the Low Pay Commission's recommendations, **the adult rate of the National Minimum Wage will rise to £5.35 from October 2006**.

Work Focused Interviews for lone parents

The Government today announces that all lone parents will receive the support offered through a Work Focused Interview (WFI) at least every 6 months. WFIs are one-to-one discussions delivered through Jobcentre Plus by skilled Personal Advisers, focusing on helping the lone parent into work. They ensure that lone parents are fully informed of the help and support available to them.

Independent evaluation shows that take up of the New Deal for Lone Parents (NDLP) rises by more than 14 percentage points among lone parents attending a WFI, and that participation in NDLP doubles the chances of employment compared to non-participants.

Women in Work Commission

The Women and Work Commission (WWC) was set up by the Prime Minister in September 2004 to consider how to close the gender pay gap and opportunities gap within a generation. The Commission's report *Shaping a* *fairer future* was published at the end of February, and the Government welcomes the broad range of recommendations and values the ambition of closing the pay gap within a generation.

The Budget announces tests for new incentives, advice and training to help close the gender pay gap:

- by doubling the number of existing Skills Coaching pilots to 16 Jobcentre Plus Districts with a specific focus on helping low skilled women return to work;
- increasing, by 50 per cent, the number of pilots delivering level 3 skills and focusing the additional pilot on women with low skills; and
- helping Sector Skills Councils in industries with skills shortages, to test new recruitment training and career pathways for over 10,000 low skilled women.

All these pilots will begin in 2006-07 and continue into 2007-08.

BUILDING A FAIRER SOCIETY

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

- announcing that **from April 2008, every pensioner and disabled person will have free off-peak national bus travel in England;**

- building on progress in reducing the number of children in poverty**, a commitment to increase the child element of the Child Tax Credit at least in line with average earnings until the end of the Parliament;**

- enabling employers to support working parents with their childcare, **by raising the tax and national insurance contributions exemption for employer-supported childcare to £55 per week and by making available capital grants to help employers establish workplace nurseries;**

- **announcing that the payments into the Child Trust Fund accounts at age seven will be £250 for all children, with £500 for children from lower-income families;**

- launching a review of policy for children and young people, supported in **this Budget by £10 million over two years to promote youth engagement in their communities, sports and local media;**

- **increasing the stamp duty land tax threshold to £125,000 from midnight tonight,** exempting an additional 40,000 home buyers each year;

- **increasing the inheritance tax threshold to £312,000 in 2008-09 and £325,000 in 2009-10**, to continue to provide a fair and targeted system;

- **establishing this Government's largest ever consultation with the third sector**, to be overseen by a cross-departmental ministerial group; and

- further reforms to **modernise the tax system**, (including investing in high capacity online filing services) and a number of measures to clamp down on **tax fraud and avoidance.**

Child tax credit uprating

The Government remains firmly committed to meeting its targets to reduce child poverty and eradicate it by 2020. Since 1997, the number of children in absolute poverty has more than halved, and over 1.8 million children have been lifted out of 'absolute' low income compared to 1996-97, on a before housing costs basis.

Budget 2005 announced a commitment to increase the child element of Child tax credit at least in line with average earnings up to and including 2007-08. Today the Chancellor announces that this commitment will be extended to the end of this Parliament, providing a solid foundation for meeting the target to halve child poverty by 2010.

The Child Trust Fund

Under the Child Trust Fund all children born since 1 September 2002 receive at least £250 to invest in a long-term savings and investment account, with children from families with lower incomes receiving £500. Children, parents, family and friends are together able to contribute up to £1,200 a year to each account and there is no tax for them to pay on any interest or gains made on this money.

To help build savings and wealth for every child in the country, the Chancellor announces in today's Budget that all children will receive a further payment at age 7 of £250 with children from lower-income families receiving £500. Eligibility will be similar to that for the initial endowments and will be based on the child living in the UK and being the subject of a Child Benefit award on the child's seventh birthday. Children in families who qualify for full Child Tax Credit with an income below the threshold on the child's seventh birthday will qualify for the higher payment at age seven.

Employer supported childcare

To encourage employers to engage with the important issue of childcare and enable them to support working parents with their childcare costs, the Government offers a tax and national insurance contributions exemption for good quality, formal childcare contracted by the employer, or paid for with childcare vouchers provided by the employer. To enhance this support, Budget 2006 announces that, from 6 April 2006, the tax and National Insurance Contributions exemption for employer-supported childcare will be increased by 10 per cent, from £50 to £55 per week.

Workplace nurseries

Budget 2006 announces capital grants worth £8 million in each of 2006-07 and 2007-08 to help small and medium sized employers establish workplace nurseries. The Government will be working with business groups to decide best how to allocate this funding.

The third sector

HM Treasury will undertake a review into the future role of the third sector in social and economic regeneration. The review, overseen by a cross-departmental ministerial group, will take a cross-cutting approach to the long-term priorities for the sector. Campbell Robb, Director of Public Policy at the National Council for Voluntary Organisations, will play a leading advisory role in the review. The review will be informed by the largest consultation ever undertaken with the third sector, to be launched at a conference in May and then taken to every region.

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

Youth volunteering

The Russell Commission report, published at Budget 2005, set out recommendations to deliver a step change in the diversity, quality and quantity of young people's volunteering, with an ambition of attracting one million more young volunteers over five years. Budget 2005 announced public investment for this work of up to £100 million, including a fund available to match contributions from business.

This Budget announces that over £10 million has been raised from 19 new corporate supporters – GCap, Edge, Premier League, BT, Emap, The Vodafone UK Foundation, HSBC, BAA Communities Trust, ARK, RWE npower, Channel 4, Diageo, HBOS Foundation, Sainsbury's, Barclays, flextech television, JPMorgan*foundations*, Jack Petchey Foundation and Norwich Union General Insurance – and the seven Founding Partner companies - T-Mobile, ITV, KPMG, MTV, Tesco, Sky and The Hunter Foundation.

Youth Opportunity Fund competition

The Budget announced today that there will be an additional £2 million available in 2006-07 for a national competition to celebrate innovative projects run by young people, for young people, as part of the Youth Opportunity Fund (YOF) and Youth Capital Fund (YCF). The competition is intended to encourage, highlight and reward projects which are particularly innovative in their design.

The YOF and YCF were announced in the Youth Green Paper, *Youth matters* in July 2005, and the 2005 Pre-Budget Report increased the funds available so that an average Local Authority will have £500,000 over 2006/07 and 2007/08.

Youth involvement in media

In addition there will be £6 million available over two years to support opportunities for disadvantaged young people to get first hand experience in a variety of media. The Government wants to encourage disadvantaged young people to engage with their communities and with issues that affect them, and through this measure will also give young people the opportunity to enhance their skills.

Free nationwide bus travel for pensioners

Building on the Budget 2005 announcement of free off peak local area bus travel for those aged over 60, and all disabled people, in England from April 2006, the Chancellor announced today the extension of this to free off peak nationwide bus travel for all pensioners and all disabled people, from April 2008.

Modernising the Tax System

Measures aimed at modernising the tax system to ensure it continues to keep pace with developments in business practice and the global economy were announced by the Chancellor today.

Film tax

Final details of the generous new film tax incentives announced in the Pre-Budget Report are published today. The new scheme will come into effect from 1 April, pending State Aid clearance. The Budget also announces a further extension to the scope of the new reliefs. The minimum UK spend threshold for qualifying films will be set at 25 per cent to allow a wider range of films, including bi-lateral and tri-lateral co-productions to benefit from the new reliefs.

Shari’a financing

In order to remove barriers to Muslims participating fully in the financial system, the Government has taken steps since 2003 to enable Shari'a compliant products across a number of areas including, for example, on home finance, ISAs, Child Trust Funds and Stamp Duty Land Tax. Building on the successful steps taken, the Government has today announced a package of measures that will extend a level playing field for tax to key forms of Shari'a compliant business finance. Key measures are:

- relief from multiple stamp duty land tax for all entities, including companies, utilising Shari'a compliant mortgages;
- enabling diminishing musharaka (partnership finance) and ijara wa' iqtina (hire purchase) products for asset purchases; and
- enabling wakala (agency) arrangements for investments and savings accounts.

These measures will ensure that London maintains its status as a leading centre of Islamic Finance excellence and consultation will continue to keep abreast of developments in this fast-developing market.

Tax exemptions for computers and mobile phones

Many employees have benefited from the tax exemption to get a computer into their homes, but the Government now wishes to focus support on groups with the poorest access to technology to meet the goals set out in the Digital Strategy. As a result, the Government has decided to remove the current tax exemptions for computers loaned to employees and the tax exemption for mobile phones is also refocused to ensure that it delivers on its objectives, by only allowing one mobile phone available for private use tax-free per employee.

The changes will take effect from 6 April and do not affect equipment provided to employees solely for business purposes, under which circumstances no tax or national insurance is due.

Stamp Duty Land Tax - ending of seeding relief for unit trusts

Stamp Duty Land Tax (SDLT) relief for seeding unit trusts with property will end, with effect from 2pm today. Unit trusts will now be treated for SDLT purposes the same as other collective investment vehicles. This will also prevent the relief being used to avoid SDLT on commercial property transactions.

North Sea Oil tax pricing

Changes to two areas of the existing oil valuation and pricing rules will be introduced, with effect from 1 July 2006. These technical changes will amend the existing rules, removing tax distortions that affect commercial behaviour, and will ensure a level playing field for all North Sea companies. The changes follow extensive discussions with industry and build on the 2005 Pre-Budget Report announcement on non-arms length transactions.

International shopping

To support travellers' freedom to shop outside the EU, and following action taken by the Government at Budget 2005, the Commission has now issued a proposal to increase the tax and duty free allowance on goods brought into the UK from outside the EU to £340 from £145. The Government has written to the EU Presidency suggesting that the limit be raised to £1000 by 2011.

Tax regime for trusts

Trusts have a positive role to play in assisting people to manage their affairs. Measures introduced by the Government over recent Budgets have recognised this while continuing to ensure that trusts are not used to achieve an unfair tax advantage. This Budget announces that:

- the inheritance tax exemptions that presently apply to some types of trust are to be available only in certain prescribed circumstances. This will prevent these trusts from being used to shelter wealth from inheritance tax. The new rules will take effect from today but there will be transitional arrangements for existing trusts.

- the standard rate band for trusts will be doubled to £1,000 reducing the tax bill for 66,000 trusts and meaning that a total of 30,000 trusts no longer have to submit tax returns each year. This will take effect from 6 April.

Reduced rate of VAT for contraceptive products

The rate of VAT for condoms and other contraceptive products will be reduced to 5 per cent, the lowest rate available under EU agreements, with effect from 1 July. This supports broader Government measures designed to improve sexual health.

DELIVERING HIGH QUALITY PUBLIC SERVICES

The Government's aim is to deliver world-class public services through sustained investment matched by far-reaching reform. The 2004 Spending Review set outcome-focused targets and spending plans to 2007-08 that built on the sustained increases in resources delivered in previous Spending Reviews.

The Government will be conducting a second Comprehensive Spending Review (CSR) reporting in 2007. A decade on from the first CSR, the Review will assess what further investments and reforms are needed to equip the UK to respond to the global challenges of the decade ahead. In preparation for the CSR, Budget 2006 announces:

- **plans for a national debate about how public services should respond to the long-term challenges facing the UK**;

- **a series of reviews that will inform the CSR** in areas where cross – departmental collaboration and innovative solutions are required to meet these challenges;

- **further details of the next phase of the Government's value for money programme**, including progress on asset disposals and a review of opportunities for transforming service delivery across government, looking at how the channels through which services are delivered can be made more efficient and responsive to the needs of users; and

- early spending settlements for the Department for Work and Pensions, HM Revenue and Customs, Cabinet Office and HM Treasury which see their Departmental Expenditure Limits fall by five per cent in real terms over the CSR period, releasing over £1.8 billion in total for re-investment in front-line public services.

The Budget outlines further measures directing resources towards the Government's priorities, including:

- £585 million of additional resources over 2006-07 and 2007-08 to provide further support for personalised learning in schools in England. Further, capital investment in schools will rise from £6.4 billion in 2007-08 to £8.0 billion by 2010–11, matching today's level of private sector per pupil capital investment;

- £100 million to accelerate the recruitment of Police Community Support Officers (PCSOs) together with firm spending plans for the Home Office over the CSR period, which lock in the large real increases in resources since 1999, providing the long term funding certainty needed to lead the fight against crime and terrorism and realise the benefits of police force restructuring and reform;

- a commitment of £200 million of exchequer funds to ensure elite athletes have the best chances of success in a British Olympics in 2012; and

- £800 million of provision for the Special Reserve in 2006-07 set aside from within existing public spending plans, to help meet the costs of Iraq, Afghanistan and other international commitments.

<u>2007 Comprehensive Spending Review</u>

Budget 2006 sets out further details of the Government's preparations for the 2007 Comprehensive Spending Review (CSR). The first CSR in 1998 laid the foundations for the incoming Government's public services vision, refocusing spending on its priorities in health, education, crime and transport. A decade on, the 2007 CSR will identify what further investments and reforms are needed to respond to the opportunities and challenges of the decade ahead, such as globalisation, climate change, an ageing society, global insecurity and technology.

Recognising that every citizen, business and charity has a major stake in this, the Budget announces plans for a national debate to inform the CSR, together with the largest ever consultation with the third sector on its role in the economic and social regeneration of Britain. The Government's response to the long-term challenges will also be informed by the reviews underway on key areas such as transport, skills and energy.

The CSR also marks the next phase of the Government's value for money programme. To release the resources needed to meet future challenges, the CSR will:

- build on the success of the Gershon efficiency programme, with greater engagement of front-line professionals to identify opportunities for service improvements;
- explore ways to transform the delivery of services across government to make them more efficient and responsive to the needs of users;
- undertake a zero-based review of existing spending to assess its effectiveness in the context of a rapidly changing world;and
- drive forward progress to meet the Government's target of £30 billion of asset sales by 2010. To this end, the Budget announces plans for the sale of the Government's stake in Westinghouse, the Tote and British Energy, together with proposals for the sale and release of public spectrum.

The Department for Work and Pensions, HM Revenue and Customs, Cabinet Office and HM Treasury have already identified ambitious value for money reforms over the CSR period that will enable them to continue improving services within budgets that will fall by five per cent per year in real terms in 2008-09, 2009-10 and 2010-11, releasing £1.8 billion in total over these years for re-investment in front-line services. To meet the transitional costs of transforming these departments, the Government is setting aside a modernisation fund of over £800 million. The Budget also announces firm spending plans for the Home Office over the CSR period, locking in the 75 per cent real terms increase in resources since 1997 and providing the long-term funding certainty needed to lead the fight against crime and terrorism. This settlement guarantees that the Home Office will be able to retain the efficiency gains from its ambitious value for money programme, including police reform, for reinvestment to deliver further improvements in front-line policing.

Measures to support the Olympics

The Chancellor today announced a package of measures that would ensure the benefits of London hosting the Olympics in 2012 are shared by all of the UK. He confirmed that:

- funding of £200 million between now and 2012 will be available in support of elite athletes, alongside an ambition to raise a further £100 million in commercial sponsorship. This is in addition to the £300 million already committed from the National Lottery. Elite Athletes will be fully funded in the run-up to Beijing 2008;
- an additional £7 million for the National Sports Foundation from April 2006 to fund an Olympic themed programme for children: *2012 Kids;*
- additional funding of £2 million will be made available to allow the Sporting Champions scheme to expand, from 2006-07; and
- £6 million for a series of national school sports festivals from 2006 until 2012.

Education

In recognition of the important role that personalisation can play in closing gaps in attainment Budget 2006 announces additional resources of £220 million in 2006-07 and £365 million in 2007-08 to provide further support for personalisation and steps towards the Government's ambition of increasing levels of funding in maintained schools towards today's private sector day school levels**.** A significant proportion of this funding will be targeted towards schools with low attainment and high levels of deprivation.

This funding will be paid directly to schools in England through a reformed School Standards Grant, increasing direct payments for an average primary school from £31,000 in 2005-06 to a total of £39,500 in 2006-07 and £44,000 in 2007-08, and for an average secondary school from £98,000 in 2005-06 to a total of £150,000 in 2006-07 and £190,000 in 2007-08. Budget 2006 also announces further specific measures to support more personalisation in schools:

- funding for a nationwide pilot of 250 after school science clubs for small groups of Key Stage 3 pupils with interest and potential in science, supplementing the school's science curriculum; and
- additional revenue funding of £10 million over the next two years to ensure that pupils in deprived areas benefiting from home access to Information and Communication Technology, through the scheme announced in Budget 2005, have access to the internet

Police Community Support Officers

The Chancellor today provided £100 million so that every area in England and Wales will benefit from neighbourhood policing by April 2007, a year ahead of the plan announced in the 2004 Spending Review. This will bring the total number of Police Community Support Officers in England and Wales to 16,000 by April 2007, and will fund the development of a new service to publish local crime and police performance data on a regular basis, building on the current review of crime statistics.

PROTECTING THE ENVIRONMENT

The Government is committed to delivering a strong economy based not just on high and stable levels of growth and employment but also on high standards of environmental care. This Budget sets out the next stage in the Government's strategy for tackling the global challenge of climate change including:

- encouraging energy efficiency in the business sector through an increase in **climate change levy (CCL) rate, in line with inflation, from 1 April 2007**;

- further measures to improve household energy efficiency, including **an extra 250,000 installations of subsidised home insulation over the next two years, funding for local authority-led publicity and incentive schemes, trialling the use of 'smart' energy meters and a new voluntary initiative with major retailers to reduce the energy use of consumer electronics;**

- the development of a **new National Institute of Energy Technologies with the private sector,** to better leverage the substantial public sector funding of energy research;

- further support for the development of alternative energy sources, including **an additional £50 million for microgeneration technologies and the launch of a consultation document on the barriers to large-scale commercial deployment in the UK of carbon capture and storage**;

- **detail on the Renewable Transport Fuel Obligation to increase the use of biofuels** - with the obligation set at 2.5 per cent in 2008-09 and 3.75 per cent in 2009-10, **and the biofuels duty incentive maintained at 20 pence per litre in 2008-09**;

- **reforms to vehicle excise duty (VED) to sharpen environmental incentives** including reducing the rate to zero for cars with the very lowest carbon emissions and introducing a new top band for the most polluting new cars. 50 per cent of cars will see their VED frozen or reduced; and

- **the deferral to 1 September 2006 of the inflation-only increase in main road fuel duties, reflecting continuing volatility in the oil market; and the same increase of 1.25 pence per litre, also from 1 September 2006, in duty for rebated fuels**, maintaining the differential with main fuel duty rates to support the Oils Strategy.

The Budget also reports on recent and forthcoming actions to tackle other environmental challenges, including:

- **confirmation that the standard rate of landfill tax will increase by £3 per tonne to £21 per tonne from 1 April 2006;**

- **an increase in the value of the landfill tax credit scheme to £60 million a year**, with a challenge to the private and voluntary sector partners in the scheme to provide additional opportunities for youth volunteering in environmental projects; and

- **a freeze in the rate of aggregates levy.**

Climate change and energy efficiency

The Chancellor today announces a range of measures aimed at helping every sector of the economy to achieve our climate change goals through improved energy efficiency.

<u>Energy:</u> the Government recognises the importance of energy policy in supporting sustainable growth. The Government believes that the UK has the capacity to be a world leader in energy technologies and today announces:

- a further £50 million to enable the installation of microgeneration technologies, including micro wind turbines and solar heating, in homes, schools, businesses, public buildings and, social and local authority housing. This could provide funding for installations in around 25,000 buildings;

- the launch of a consultation document on the barriers to wide-scale deployment of carbon capture and storage in the UK, and the potential role of economic incentives in addressing those barriers; and

- that the Energy Research Partnership, under the joint chairmanship of Paul Golby, CEO of E.On UK, and Sir David King, the Government's Chief Scientific Adviser, is today committing itself to raising substantial sums of private investment to develop a new National Institute of Energy Technology, which will be a 50:50 public:private partnership. BP, EDF Energy, E.On and Shell have already announced their intention to be involved.

Energy efficiency for business: improving energy efficiency is an effective way to lower emissions of carbon dioxide and can also help business reduce their energy costs. The Budget today announces that:

- Climate Change Levy (CCL) rates will increase in line with current inflation from 1 April 2007, to ensure the UK continues to make progress in tackling climate change. The Government is committed to returning CCL revenue to business, discussing with business the most effective way of supporting investment in energy efficiency and the environment.

Energy efficiency for households: households account for over a quarter of UK energy consumption and carbon emissions. Since 1997, the Government has introduced a package of measures to encourage investment in energy efficiency for homes. In further support of this the Chancellor today announces that British Gas, EDF, npower, PowerGen, and Scottish and Southern Energy have agreed with the Government to carry out between them an extra 250,000 subsidised installations of home insulation over the next two years. This will bring forward annual carbon savings of around 35,000 tonnes and annual household energy bill reductions of around £20 million.

Delivering a clean and efficient transport system

Main road fuel duties: in the 2005 Pre-Budget Report, the Government announced a continuation of the freeze on main fuel duty rates in response to continuing oil market volatility. This Budget announces an inflation based increase for main fuel duties but, because of continuing oil market volatility, the changes in rates will be deferred until 1 September 2006.

Biofuels and the Renewable Transport Fuel Obligation (RTFO): the Renewable Transport Fuel Obligation (RTFO) is a mechanism requiring transport fuel suppliers to ensure that a set percentage of their sales are from a renewable source. The RTFO will be introduced in 2008-09, with the obligation level set at 5 per cent in 2010-11.

The level of obligation under RTFO will be 2.5 per cent in 2008-09 and 3.75 per cent in 2009-10. This will ensure significant growth in biofuels prior to reaching 5 per cent in 2010/11. The Government intends that the target should rise beyond 5 per cent after 2010-11, so long as infrastructural requirements and fuel and vehicle technical standards allow, and subject to the costs being acceptable to the consumer.

Budget 2006 announces an extension of the duty incentive at 20ppl in 2008-09, offering further certainty to the industry.

In addition, the RTFO buy-out price – the price paid by parties who fail to meet their obligation – will be set at 15 pence per litre for 2008-09. The combination of duty incentive and buy-out price is also guaranteed at 35 pence per litre for 2009-10 but will reduce to 30 pence per litre in 2010-11.

Further consultations on aspects of the design of the RTFO will be taken forward by Department for Transport over the next 12 months.

Vehicle Excise Duty (VED): to strengthen environmental incentives, the Government announces further reforms to VED:

- the introduction of a new higher band of Graduated VED (band G) for the most polluting new cars (those above 225g of carbon dioxide emissions per kilometre), set at £210 for petrol cars;

- the VED rate for the small number of cars with the very lowest carbon emissions (band A) will be reduced to £0 to encourage take up and assist the development of the low carbon car market;

- VED rates will also be reduced for band B by £35 and C by £5, frozen for bands D and E, and increased by £25 for band F;

- rates for pre-2001 registered cars and light goods vehicles in the lower band will be frozen with the higher band increased by £5; and

- the reduced rate for alternative fuel cars will be extended to include those cars manufactured to run on high blend bioethanol (E85).

50 per cent of cars will see their VED rates frozen or reduced. The number of motorists paying £100 or less will rise from 300,000 to 3 million.

Motorbike rates and the standard rate for post-2001 light goods vehicles (LGV's) will increased in line with inflation (with LGV's rounded to the nearest £5), while HGV and bus VED will be frozen. All VED changes will take effect from 23 March 2006.

New rates of graduated VED can be found in PN 2 on rates and duties.

Company car tax: to further promote environmentally friendly vehicles, Budget 2006 announces that the threshold for the minimum charge rate for calculating benefit-in-kind from company cars will be reduced from 140g per kilometre to 135g per kilometre from 2008-09.

The Budget also announces a new lower 10 per cent band for company cars with CO_2 of 120g per kilometre or less from 2008-09.

Aviation and air passenger duty (APD): decisions on APD rates need to be considered in the context of social and economic factors, particularly the current volatile oil market. The Government today announces APD will be frozen for 2006-07.

The Government will continue to work to secure further progress in developing an ETS for aviation and recognises the need to build the evidence base further to inform development of the scheme. The Government therefore announces today funding for an international scientific conference to be held in the UK this summer that has a key focus on the impact of aviation on climate. In addition, the Government will be undertaking talks with other Member States to consider how best to assist the Commission in taking forward work at European level to inform the legislative proposal on aviation and climate expected from the Commission by end 2006.

Budget 2006

INCOME TAX ALLOWANCES, NATIONAL INSURANCE CONTRIBUTIONS, CHILD AND WORKING TAX CREDIT RATES 2006-07 AND OTHER RATES

Rates and allowances for Income Tax, National Insurance Contributions the Working and Child Tax Credits, Child Benefit/Guardian's Allowance, fuel duties, alcohol duties, vehicle excise duties and stamp duty land tax are set out below.

Income tax, capital gains tax, and inheritance tax

£ per year (unless stated)	2005-06	Change	2006-07
Income tax personal and age-related allowances			
Personal allowance (age under 65)	£4,895	+£140	£5,035
Personal allowance (age 65-74)	£7,090	+£190	£7,280
Personal allowance (age 75 and over)	£7,220	+£200	£7,420
Married couple's allowance* (aged less than 75 and born before 6th April 1935)	£5,905	+£160	£6,065
Married couple's allowance* (age 75 and over)	£5,975	+£160	£6,135
Married couple's allowance* - minimum amount	£2,280	+£70	£2,350
Income limit for age-related allowances	£19,500	+£600	£20,100
Blind person's allowance	£1,610	+£50	£1,660
Capital gains tax annual exempt amount			
Individuals etc.	£8,500	+£300	£8,800
Most trustees	£4,250	+£150	£4,400
Inheritance tax threshold	£275,000	+£10,000	£285,000
Pension schemes allowances			
Annual Allowance	N/A	N/A	£215,000
Lifetime Allowance	N/A	N/A	£1,500,000

*Married couple's allowance is given at the rate of 10 per cent.

Income tax: taxable bands

£ per year	2005-06	2006-07
Starting rate: 10%*	£0-£2,090	£0-£2,150
Basic rate: 22%*	£2,091-£32,400	£2,151-£33,300
Higher rate: 40%*	Over £32,400	Over £33,300

* The rate of tax applicable to savings income in Section 1A ICTA 1988 remains at 20 per cent for income between the starting and basic rate limits. The rates applicable to dividends are 10 per cent for income up to the basic rate limit and 32.5 per cent above that.

Corporation tax on profits

£ per year (unless stated)	2005-06	2006-07
Starting rate: 0%	£0 – £10,000	N/A*
Marginal relief	£10,001 – £50,000	N/A*
Small companies' rate: 19%	£50,001–£300,000	£0-£300,000
Marginal relief	£300,001–£1,500,000	£300,001 - £1,500,000
Main rate: 30%	£1,500,001 or more	£1,500,001 or more
Non-corporate distribution rate	19%	N/A*

*The 2005 Pre- Budget Report announced that the starting rate and non-corporate distribution rate would be replaced with a single banding for small companies set at the existing small companies' rate.

National insurance contributions

£ per week (unless stated)	2005-06	Change	2006-07
Lower earnings limit, primary Class 1	£82	+£2	£84
Upper earnings limit, primary Class 1	£630	+£15	£645
Primary threshold	£94	+£3	£97
Secondary threshold	£94	+£3	£97
Employees' primary class 1 rate between primary threshold and upper earnings limit	11%	-	11%
Employees' primary class 1 rate above upper earnings limit	1%	-	1%
Employees' contracted-out rebate	1.6%	-	1.6%
Married women's reduced rate between primary threshold and upper earnings limit	4.85%	-	4.85%
Married women's rate above upper earnings limit	1%	-	1%
Employers' secondary Class 1 rate above secondary threshold	12.8%	-	12.8%
Employers' contracted-out rebate, salary-related schemes	3.5%	-	3.5%
Employers' contracted-out rebate, money-purchase schemes	1%	-	1%
Class 2 rate	£2.10	-	£2.10
Class 2 small earnings exception	£4,345 per year	+£120 per year	£4,465 per year
Special Class 2 rate for share fishermen	£2.75	-	£2.75
Special Class 2 rate for volunteer development workers	£4.10	+£0.10	£4.20
Class 3 rate	£7.35	+£0.20	£7.55
Class 4 lower profits limit	£4,895 per year	+£140 per year	£5,035 per year
Class 4 upper profits limit	£32,760 per year	+£780 per year	£33,540 per year
Class 4 rate between lower profits limit and upper profits limit	8%	-	8%
Class 4 rate above upper profits limit	1%	-	1%

Working and Child Tax Credits rates

£ per year (unless stated)	2005-06	Change	2006-07
Working Tax Credit			
Basic element	£1,620	+£45	£1,665
Couple and lone parent element	£1,595	+£45	£1,640
30 hour element	£660	+£20	£680
Disabled worker element	£2,165	+£60	£2,225
Severe disability element	£920	+£25	£945
50+ Return to work payment (16-29 hours)	£1,110	+£30	£1,140
50+ Return to work payment (30+ hours)	£1,660	+£45	£1,705
Childcare element of the Working Tax Credit			
Maximum eligible cost for one child	£175 per week	-	£175 per week
Maximum eligible cost for two or more children	£300 per week	-	£300 per week
Percentage of eligible costs covered	70%	+10%	80%
Child Tax Credit			
Family element	£545	-	£545
Family element, baby addition	£545	-	£545
Child element	£1,690	+£75	£1,765
Disabled child element	£2,285	+£65	£2,350
Severely disabled child element	£920	+£25	£945
Income thresholds and withdrawal rates			
First income threshold	£5,220	-	£5,220
First withdrawal rate (per cent)	37%	-	37%
Second income threshold	£50,000	-	£50,000
Second withdrawal rate (per cent)	6.67%	-	6.67%
First threshold for those entitled to Child Tax Credit only	£13,910	+£245	£14,155
Income disregard	£2,500	+£22,500	£25,000

Child Benefit and Guardian's Allowance rates from 10 April 2006

£ per week	2005-06	Change	2006-07
Eldest/Only Child	£17.00	+£0.45	£17.45
Other Children	£11.40	+£0.30	£11.70
Eldest/Only Child (Lone Parent Rate)	£17.55	-	£17.55
Guardian's Allowance	£12.20	+£0.30	£12.50

Stamp taxes and duties
Transfers of land and buildings (consideration paid)

Rate	Residential in disadvantaged areas	Residential outside disadvantaged areas	Non-residential
	Total value of consideration		
Zero	£0 - £150,000	£0 - £125,000	£0 - £150,000
1%	Over £150,000 - £250,000	Over £125,000 - £250,000	Over £150,000 - £250,000
3%	Over £250,000 - £500,000	Over £250,000 - £500,000	Over £250,000 - £500,000
4%	Over £500,000	Over £500,000	Over £500,000

New leases (lease duty)
Duty on the premium is the same as for transfers of land (except that special rules apply for premium where rent exceeds £600 annually). Duty on the rent is charged on the Net Present Value (NPV). A per cent rate applies to the amount of NPV in excess of the threshold.

Rate	Net Present Value of rent	
	Residential	Non-residential
	Slice of NPV	
Zero	£0 - £125,000	£0 - £150,000
1%	Over £125,000	Over £150,000

The rate of stamp duty/stamp duty reserve tax on the transfer of shares and securities is unchanged at 0.5 per cent for 2006-07.

Tobacco duty rates

From 6pm on 22 March 2006, tobacco duty rates will be:

Product	Duty	Effect of tax* on typical item (increase in pence)	Typical unit
Cigarettes	22 per cent of the retail price plus £105.10 per thousand cigarettes	9p	packet of 20
Cigars	£153.07 per kilogram	3p	packet of 5
Hand-rolling tobacco	£110.02 per kilogram	8p	25g
Other smoking tobacco and chewing tobacco	£67.30 per kilogram	5p	25g of pipe tobacco

* Tax refers to duty plus VAT

Alcohol duty rates

From midnight on 26 March 2006, duties on alcohol will be:

Product	Effect of tax* on typical item (increase in pence)	Typical unit
Beer	1p	pint of beer
Wine	1p	175 ml glass
Wine	4p	75cl bottle
Sparkling wine	-	75cl bottle
Spirits	-	70cl bottle
Spirits-based RTDs	-	275ml bottle
Cider	-	litre
Sparkling cider	-	75cl bottle

* Tax refers to duty plus VAT

Product and basis of duty	Duty
Rate per litre of pure alcohol	
Spirits	£19.56
Spirits-based RTDs	£19.56
Wine and made-wine: exceeding 22% abv.	£19.56
Rate per hectolitre per cent of alcohol in the beer	
Beer	£13.26
Rate per hectolitre of product	
Still cider and perry: exceeding 1.2% - not exceeding 7.5% abv.	£25.61
Still cider and perry: exceeding 7.5% - less than 8.5% abv.	£38.43
Sparkling cider and perry: exceeding 1.2% - not exceeding 5.5% abv.	£25.61
Sparkling cider and perry: exceeding 5.5% - less than 8.5% abv.	£166.70
Wine and made-wine: exceeding 1.2% - not exceeding 4% abv.	£53.06
Wine and made-wine: exceeding 4% - not exceeding 5.5% abv.	£72.95
Still wine and made-wine: exceeding 5.5% - not exceeding 15% abv.	£172.17
Wine and made-wine: exceeding 15% - not exceeding 22% abv.	£229.55
Sparkling wine and made-wine: exceeding 5.5% - less than 8.5% abv.	£166.70
Sparkling wine and made-wine: 8.5% and above - not exceeding 15% abv.	£220.54

Fuel duties

All fuel duty rate changes will take effect from 1 September 2006.

Pence per litre (unless stated)	Old duty rate	Change	New duty rate
Sulphur-free petrol/diesel	47.1p	+1.25p	48.35p
Ultra low sulphur petrol/diesel	47.1p	+1.25p	48.35p
Biodiesel	27.1p	+1.25p	28.35p
Bioethanol	27.1p	+1.25p	28.35p
Road fuel gas other than natural gas (e.g. Liquefied petroleum gas LPG)	9p per kg	+ 3.21p per kg	12.21per kg
Natural gas used as road fuel	9p per kg	+ 1.81p per kg	10.81per kg
Rebated gas oil (red diesel)	6.44p	+1.25p	7.69p
Rebated fuel oil	6.04p	+1.25p	7.29p

Vehicle excise duty for Private and Light Goods Vehicles
Pre-graduated VED (registered before March 2001)

£ per year	Change	New rate
1549cc and below	-	£110
above 1549cc	+£5	£175

Graduated VED for Private Vehicles (registered from March 2001)

£ per year VED band	CO_2 (g/km)	Change	Petrol cars	Diesel cars
A	100 and below	-£65	£0	£0
B	101 to 120	-£35	£40	£50
C	121 to 150	-£5	£100	£110
D	151 to 165	0	£125	£135
E	166 to 185	0	£150	£160
F	186 to 225	+£25	£190	£195
G*	226 and above	+£45	£210	£215

*for new cars registered after 23 March 2006

DETAILS

Income tax rates and allowances

The Chancellor announced today that the income tax starting rate limit and basic rate limit are to increase in line with indexation to £2,150 and £33,300 respectively. The taxable bands are uprated each year by indexation unless legislation is passed to override this. A statutory instrument – the Income Tax (Indexation) Order 2006 – has been laid today to give effect to the indexation increases.

From 6 April 2006 the new simplified pensions tax regime comes into effect. This means that the pension schemes earnings cap ceases to exist. From April 2006 there will be two controls on an individual's tax-relieved pension savings: the Annual Allowance (starting at £215,000 for 2006-07) and the Lifetime Allowance (starting at £1,500,000 for 2006-07).

National insurance contributions

National insurance contribution (NIC) rates and thresholds for 2006-07 were announced in the 2005 Pre-Budget Report. The starting point for employers', employees' and self-employed NICs in 2006-07 will increase in line with inflation to £97 per week. NICs are not paid on earnings or profits below this amount. The upper earnings and profits limits for NICs will increase from April 2006 in line with inflation from £630 to £645 per week (£33,540 per year). For the self-employed, the rate of Class 2 contributions will be frozen at £2.10 per week.

Capital gains tax

The capital gains tax (CGT) annual exempt amount is increased in line with statutory indexation to £8,800 for the tax year 2006-07 for individuals, personal representatives of deceased persons and trustees of certain settlements for the disabled. The annual exempt amount for most other trustees is increased to £4,400.

Every husband, wife, civil partner and child has his or her own £8,800 annual exempt amount.

The amount chargeable to CGT is added to the individual's income liable to income tax and treated as the top part of that total. For 2006-2007, CGT up to the starting rate limit will be charged at 10 per cent, between the starting rate and basic rate limits at 20 per cent, and above the basic rate limit at 40 per cent.

Inheritance tax

As announced in Budget 2005, the inheritance tax threshold is increased by more than statutory indexation to £285,000 for the tax year 2006-07. The value of estates above the threshold is taxed at 40 per cent. The estimated number of taxpaying estates in 2006-07 will be about 37,000 - this is around 6 in 100 deaths. The threshold will be £300,000 in 2007-08. To continue to provide a fair and targeted system, with certainty for families, the Government will now increase the threshold by more than expected statutory indexation for the remainder of the Parliament, to £312,000 in 2008-09 and £325,000 in 2009-10.

Corporation tax

The corporation tax main rate remains at 30 per cent. As announced in the 2005 Pre-Budget Report, the non-corporate distribution and starting rates will be replaced with a new single banding for small companies set at the existing small companies' rate. The small companies' rate will therefore apply to companies with taxable profits between £0 and £300,000, and will be 19 per cent in 2006-07. The corporation tax main rate for 2007-08 will also be 30 per cent.

Marginal relief eases the transition from the small companies' rate to the main rate for companies with profits between £300,000 and £1,500,000. The fraction used in the calculation of this marginal relief will be 11/400.

The profits limit may be reduced for a company that is part of a group or has associated companies. The small companies' rate and marginal relief do not apply to close investment holding properties.

Child and Working Tax Credits rates and Child Benefit

As announced in the Pre-Budget Report, from 6 April 2006, the child element of the Child Tax Credit will be increased in line with average earnings. In addition, the disabled child elements of Child Tax Credit will be uprated in line with inflation. The elements of Working Tax Credit will also rise in line with inflation.

The child element of Child Tax Credit will increase at least in line with average earnings up to and including 2009-10.

The disregard in tax credits for increases in income between one tax year and the next rises from £2,500 to £25,000 from April 2006.

The rates of Child Benefit and the Guardian's Allowance will rise in line with inflation, except for the lone parent rate, which remains frozen, from 11 April 2006.

Childcare

The maximum eligible childcare costs remain at £175 per week for families with one child and £300 per week for those with two or more children. The percentage of eligible childcare costs covered increases from 70 per cent in 2005-06, to 80 per cent in 2006-07.

Stamp taxes and duty

The Chancellor announced today that the starting threshold for residential stamp duty is increased to £125,000 from 23 March 2006. Other rates and thresholds remain unchanged, including the £150,000 residential threshold in the 2,000 Enterprise Areas.

Tobacco duties

From 6pm on 22 March 2006, tobacco duty rates will rise in line with inflation, to maintain the real price of tobacco.

Alcohol duty

From midnight on 26 March 2006, duties on beer and wine will increase in line with inflation. Duties on spirits, cider and sparkling wine will not change.

Fuel duty

It is the Government's policy that fuel duty rates should rise each year at least in line with inflation as the UK seeks to meet its targets of reducing polluting emissions and funding public services.

In Budget 2005, the Government announced an inflation-based increase in fuel duty rates to take effect from 1 September. In July 2005, the Government announced that, because of the continuing volatility in the oil market, the increase would not go ahead. At the 2005 Pre-Budget Report, with continuing market volatility, the Government announced a continuation of the freeze on main fuel duty rates. Budget 2006 announces an inflation based increase in main fuel duties for 2006-07 but because of continuing oil market volatility the changes in rates will be deferred until 1 September 2006.

The duty differentials for biofuels will continue until 2008-09, consistent with the Government's alternative fuels framework.

Vehicle excise duty (VED)

To further strengthen environmental incentives, the Government announces the introduction of a new higher band of Graduated VED (band G) for the most polluting new vehicles (those above 225g of CO_2 per kilometre) registered after 22 March 2006, set at £210 for petrol cars, and the reduction of the VED rates for small number if cars with the very lowest carbon emission (band A) to £0 to assist the development of the low carbon car market.

VED rates will also be reduced for bands B and C by £35 and £5; frozen for bands D and E; and increased by £25 for band F. Rates for pre-2001 registered cars and light goods vehicles in the lower band will be frozen with the higher band increased by £5.

Fifty per cent of vehicles will see their VED frozen or reduced.

PROTECTING TAX REVENUES

Measures aimed at tackling tax fraud and avoidance were announced by the Chancellor today. By protecting the tax system from abuse, these measures will ensure that everybody pays their fair share of tax.

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

DETAILS

Modification and Extension of the Disclosure Regime

In addition to the announcements on the disclosure regime in the 2005 Pre-Budget Report, the following changes to the regime will be made:

- the direct tax filters will be replaced by hallmarks in line with the system for Value Added Tax (VAT); and

- a de minimis provision for schemes designed in-house is to be introduced which will ensure that individuals and small and medium enterprises (SMEs) will not have to disclose.

The changes will apply to schemes that are made available or implemented on or after 1 July 2006 and will allow HMRC to continue to respond swiftly and proportionately to tax avoidance. Draft regulations and a partial Regulatory Impact Assessment (RIA) will be published by HMRC alongside the Finance Bill.

Remuneration tax avoidance involving options

Schemes designed to avoid the payment of income tax and national insurance through the use of options over shares and securities will be closed, with effect from 2 December 2004.

This is in accordance with the Paymaster General's announcement in the 2004 Pre-Budget Report that, if further contrived arrangements involving the avoidance of tax and NICs on employment remuneration emerged, the Government would legislate to close them down, where necessary from that date.

Missing Trader Intra-Community (MTIC) VAT fraud

The Government remains determined to tackle MTIC fraud, and the criminals perpetrating it. Legislation will make explicit HMRC's powers to evidence the inspection of goods and will create the power to direct individual businesses to maintain relevant records will be introduced. These changes will improve HMRC's ability to identify and track those goods most susceptible to MTIC 'carousel' fraud, such as mobile phones and computer chips. Carousel fraud involves the repeated circulation of goods between the UK and other EU Member States, often via third countries outside the EU, with VAT being stolen on each circuit.

In addition, legislation is to be introduced to enable a further anti-fraud measure to be implemented once the European Commission agrees the derogation request announced in January.

VAT – Partial exemption 'special method'

In the coming months, HMRC will consult informally on a proposed change to the VAT partial exemption regime. Views will be sought on a new requirement for businesses to declare the suitability of proposed partial exemption 'special methods' before HMRC gives approval for their use. This change will strengthen the partial exemption regime and speed up the approval process.

VAT – Face - value vouchers

Measures to strengthen current legislation governing the VAT treatment of face-value vouchers, such as phonecards, will be introduced, with effect from Royal Assent of Finance Bill 2006. These changes will also ensure that Government is able to act quickly to tackle any future tax avoidance in this area.

Tax avoidance involving financial products

Measures targeting avoidance using financial products will be introduced, with effect from today. The measures, which were informed by disclosures, block avoidance involving:

- the exploitation of the group continuity rules for loan relationships and derivative contracts;
- contrived arrangements which cause profits on loan relationships to be de-recognised for accounting and hence tax purposes;
- contrived arrangements within groups of companies to avoid tax on interest; and
- attempts by companies to get around the ‘shares as debt’ rules.

In addition, the rules announced on 5 December 2005 which prevent avoidance of tax on interest on cash using stock lending arrangements will be extended to contrived arrangements which are similar to stock lending arrangements.

Preserving the integrity of charitable tax reliefs

Measures to protect charitable reliefs from misuse and protect the reputation of charities will be introduced that will:

- from today, restrict the scope for donors to place large sums of money into a charity and get the money out again after tax relief has been granted;
- from today, restrict tax relief where charitable funds are used for non-charitable purposes; and
- from 1 April, extend to all companies rules that restrict the benefits a company can receive in return for a donation to a charity.

These measures are in response to the increasing exploitation of these reliefs.

Capital gains tax avoidance

A measure to counter avoidance of capital gains tax will be introduced with effect from today. This measure ensures that individuals and trustees cannot exploit the 'bed and breakfasting rules' to avoid tax on disposals of shares and other securities.

Reinforcing the Tackling Tobacco Smuggling Strategy

Further details of how the Government is reinforcing its strategy to tackle tobacco smuggling are set out in a document *New Responses to new Challenges – Re-enforcing the Tackling Tobacco Smuggling Strategy*, published today. Since the launch of the Tackling Tobacco Smuggling Strategy in 2000, the illicit market share has been reduced to 16 per cent, protecting around £6 billion in revenue. The strategy is being reinforced to clamp down further on smuggling, and to tackle the persistent smuggling of hand-rolling tobacco and the growing threat from counterfeit products. A new communications strategy aims to raise awareness among smokers of the risks of smuggled products, especially counterfeit.

Further information will be published today on the HMRC website:
www.hmrc.gov.uk

Budget 2006

STRENGTHENING LONDON'S POSITION AS THE WORLD'S LEADING INTERNATIONAL FINANCIAL CENTRE

Key stakeholders in London's financial sector are joining forces with the Government to promote London as the world's leading international financial centre. Twelve leading London markets and financial sector industry bodies have endorsed plans to set up a high-level group to agree before the summer a strategy to consolidate London's position, recognising the opportunity that emerging markets such as China and India present and the strength of international competition from other financial centres.

Welcoming the news, Chancellor of the Exchequer, Gordon Brown said:

> "Britain's financial services sector, led by the international financial markets of London and other important financial clusters such as Edinburgh and Leeds, provides finance for global businesses and supports development in growing markets like India, China and the Middle East. Together with many business services that support it, including accountancy and law, it is a truly world-class industry and, as testified by its growth over the last ten years, is succeeding in rising to the challenge of globalisation. No other financial centre can match the international scope of Britain's financial markets, and the Government is committed to supporting and promoting these strengths around the world.
>
> "To realise the full benefit of these opportunities for Britain, the Government and financial services industry need to work together. The Government will join forces with a new financial services group to develop and support a coordinated strategy for promoting Britain's financial services sector around the world. London is the world's leading international financial centre, and working together we will achieve our ambition: for London to strengthen its position as the number one financial services centre around the world."

Notes for Editors

1. The Treasury will establish a high-level group to include key City stakeholders representing all London's financial market segments, the Lord Mayor and the Corporation of London, and the Mayor of London. The Financial Services Authority and the Bank of England will also participate in the high-level group as observers. The group will develop a coordinated strategy designed to help ensure London's future success.

2. Twelve leading London markets and financial sector industry bodies have endorsed the Chancellor's plans in the attached statement, along with the Lord Mayor and the City of London Corporation, the Mayor of London, and UK Trade & Investment, which will be responsible for executive delivery of the strategy.

3. The Treasury has also today published the document ***Financial services in London: Global opportunities and challenges***, which can be downloaded from the Budget 2006 website: www.hm-treasury.gov.uk.

London – The Leading Financial Centre

London is the world's leading international financial centre, and has great potential to be even more successful. We will work together to help ensure its further success, along with the rest of the UK-based financial sector.

The growth of emerging economies, including China and India, presents new opportunities for London, which it is well placed to grasp. Increasing competition between London, other established financial centres and new growing centres, linked to the increasing internationalisation of financial markets and technological change, means that future success can never be taken for granted.

London starts from a strong position, with three key strengths:

- its **scale** – the size of London's markets – which creates genuine liquidity, the cornerstone of an efficient market. Smaller centres can supply neither the liquidity nor the vast pool of talented and innovative individuals in one place that London can;

- its **scope** – London's range of services, from investment banking to commodities to asset management to insurance markets to wealth management, plus its mix of financial and business services such as legal and accounting services, is unique;

- its **internationalism** – no other financial centre can match the international nature of the UK's financial markets. London is the leading centre for international bonds and share-trading – with, for example, 70 per cent of international bonds traded on its financial markets and over 40 per cent of global trade in foreign-listed equities. It has a strong tradition of openness to foreign ownership and participation – with, for example, more foreign banks than any other financial centre, and a reputation for fair and non-discriminatory application of rules. Its openness extends to its culture too – which helps it attract the best personnel from all over the world. One quarter of its senior managers in financial and business services come from outside the UK. London is also able to boast a unique set of international linkages – the gateway between Europe and global markets, a strong transatlantic relationship, and historical links with emerging markets in Asia and Africa.

These strengths are based in turn on some critical advantages:

- **financial regulation** – the UK's proportionate regulatory regime for its wholesale financial markets is widely regarded as the best in the world. The previously fragmented regulatory framework has been streamlined into a single body, the Financial Services Authority. The FSA's principles-based approach to regulation supports innovation. By making it easier for firms locating to London to trade elsewhere in the EU, European financial regulation helps to consolidate London's position as a gateway to global markets;

- **business regulation and administration** – the UK's wider regulatory regime and its administration of tax and areas of business regulation is transparent and responsive, responding swiftly and flexibly to the development of new financial and market products and to the emergence of new business structures;

- **skills and immigration** – London's competitiveness as a financial centre relies on its continuing to attract highly-skilled workers, from within the UK and internationally. Continuous raising of standards of education and training of the domestic labour force as well as openness to inward migration will remain key to its success;

- **time zone** – London occupies a central location between the American and Asian time zones;

- **language** – English is the language of international finance, giving London a healthy advantage – and London's open culture also provides speakers of 300 other languages, including many working in the financial sector;

- **English law** – the law of choice for international contracts. Six of the world's ten largest international law firms headquartered in London and over 200 foreign law firms have established offices in London, providing essential services for the financial sector and its customers.

But we cannot be complacent about these strengths. We will all continually assess London's comparative position. It is important that the business environment, including the regulatory framework, continues to respond to the changing requirements of rapidly evolving and competitive markets.

London's success will also be important for the future of other financial clusters in the UK, such as Scotland and Leeds, with which it is closely connected and which in turn contribute to the attractiveness of London.

As part of our commitment to help achieve London's future success, we will develop and support a coordinated strategy, to work together, recognising the opportunity that new emerging markets like China and India have to offer and the strength of international competition.

The fact that one of London's strengths is the range of markets it has to offer makes it critical that the goal of ensuring its future success is shared across all of its markets:

- listings, offerings and trading of securities, for companies large and small;
- commercial, investment and corporate banking;
- financial derivatives, and non-financial commodities;
- insurance and reinsurance;
- asset management and global private wealth management;
- venture capital and private equity;
- business services such as law, accountancy, IT and financial training.

We will work together to produce and publish a joined-up strategy – identifying priorities and actions. This strategy will be supported by a high-level group representing the key interests in London's financial centre, involving:

- all business sectors represented in London's markets;
- HM Treasury;
- the Lord Mayor and the City of London Corporation;
- the Mayor of London;
- International Financial Services London.

The Bank of England and the Financial Services Authority will also participate in the high-level group as observers.

UK Trade and Investment will take on a new role coordinating the executive delivery of this strategy.

Endorsed by:

Association of British Insurers
Association of Private Client Investment Managers and Stockbrokers
British Bankers Association
Canary Wharf Group
Euronext-LIFFE
Futures and Options Association
HM Treasury
Investment Management Association
Lloyd's
London Investment Banking Association
London Metal Exchange
London Stock Exchange
Lord Mayor of London and the City of London Corporation
International Financial Services London
Mayor of London
UK Trade & Investment

Budget 2006

MEMORANDUM OF UNDERSTANDING FOR FINANCIAL STABILITY

HM Treasury, the Bank of England and the Financial Services Authority have today jointly published an updated Memorandum of Understanding for Financial Stability.

A framework for co-operation between the three authorities in this area was first set out in a Memorandum of Understanding in 1997. It has proved to be robust and effective as a basis for responding to financial stability risks. But financial markets and institutional roles have evolved over the past eight years and it is now appropriate to reflect those changes in the MoU itself. In particular, the response frameworks for managing both financial crises and major operational disruption have advanced significantly and this is spelled out in the new text.

NOTES FOR EDITORS

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1. The full MoU is available at: http://www.hm-treasury.gov.uk/budget2006

2. The Memorandum sets out a framework for monitoring and assessing, and coordinating the authorities' responses to, financial stability risks, including business continuity issues. The process is overseen by the Tripartite Standing Committee, comprising the Chancellor of the Exchequer, the Governor of the Bank of England and the Chairman of the Financial Services Authority. Normal practice has been for the Committee to meet at Deputies (official) level, on a monthly schedule but with provision for additional meetings, or upgrading to Principals level, as necessary. The Committee regularly reviews the key systemic risks to the UK's financial intermediaries and infrastructure and coordinates the three authorities' response and contingency planning.

3. The Memorandum also sets out the roles and responsibilities of each authority. The Bank of England contributes to the maintenance of the stability of the financial system as a whole, drawing on its macro-economic and financial analysis and on its operational involvement in markets, payment systems and other elements of market infrastructure. The Financial Services Authority is responsible for the authorisation and supervision of financial institutions, for supervising financial markets and securities clearing and settlement systems, and for regulatory policy in these areas. HM Treasury has responsibility for the overall institutional structure of regulation and the legislation that governs it.