



HM TREASURY

# BUDGET 2010: Press Notices

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# Budget 2010

## Press Notice 1

### Main Budget announcements

Today the Chancellor of the Exchequer George Osborne has set out his Budget with a comprehensive five-year plan to rebuild the British economy. The plan sets out tough but fair action to tackle the unprecedented budget deficit, introduce a fairer tax system, encourage enterprise and support long-term growth across the economy.

The Budget sets out action within these three areas, to help rebalance the economy and provide the conditions for sustainable growth. Each builds on the Coalition Government's core values of responsibility, freedom and fairness.

#### 1. Responsibility: Tackling the deficit & the fiscal mandate

The Chancellor has been clear that we need to tackle the deficit urgently. Reducing the deficit is a necessary precondition for sustained economic growth; today's plans will help to restore stability and balance to the economy, underpinning private sector confidence to support recovery.

The Government has therefore set:

- A fiscal mandate to achieve cyclically-adjusted current balance by the end of the rolling, five-year forecast period. At this Budget, the end of the forecast period is 2015-16;
- For this Parliament, the fiscal mandate will be supplemented by a target for debt as a share of GDP to be falling at a fixed date of 2015-16, ensuring that the public finances are restored to a sustainable path;
- By 2014-15, 80 per cent of the additional consolidation measures set out in this Budget will be delivered through spending restraint, with additional spending reductions of £31.9bn a year by 2014-15 and additional net tax increases of £8.2 billion. Taking the total consolidation measures delivered through spending restraint to 77 per cent;
- On spending, £29.8bn of the additional savings are from public sector current expenditure (PSCE) and £2.2bn from public sector gross investment (PSGI). There are no further reductions in public sector gross investment beyond the cuts already announced as part of the £6.2bn of savings in 2010-11;



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- The Government will increase the standard rate of Value Added Tax (VAT) to 20 per cent from 4 January 2011;
- The Government will increase the standard rate of Insurance Premium Tax (IPT) to 6 per cent and the higher rate to 20 per cent from 4 January 2011; and
- The Government will introduce a two year pay freeze for public sector workforces from 2011-12, except for those earning £21,000 or less, who will receive an increase of at least £250 in these years.

## 2. Freedom: Enterprise and growth agenda

This Budget will create the conditions for enterprise and sustainable growth. The Chancellor wants to support business and make the UK more competitive. This means giving businesses more freedom by reducing regulation and providing targeted tax breaks, while ensuring that the economic opportunities for businesses are shared more evenly throughout the UK's regions.

### Measures to support enterprise include:

- A major package of reforms to reduce corporation tax rates including a reduction in the main rate of corporation tax from 28 per cent to 24 per cent over the course of four financial years from April 2011 and reductions to the main and special rates of capital allowances from April 2012;
- A reduction in the small profits rate from 21 per cent to 20 per cent from April 2011;
- A National Insurance Contributions (NICs) holiday for new businesses which start-up in certain areas of the UK over the next three years;
- An increase in the Enterprise Finance Guarantee and the creation of a new Enterprise Capital Fund; and
- A Regional Growth Fund in 2010-11 and 2012-13 to support increases in business employment and growth, and a scheme in which new businesses in areas of the UK outside of the East, London and the South East will get a substantial reduction in their employer National Insurance Contributions (NICs).

## 3. Fairness: A fairer personal tax and benefit system.

The Government has been clear that the burden of deficit reduction will have to be shared. The changes announced today set out a vision for a refocusing of the tax and benefit framework, while



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protecting the most vulnerable in society. This Budget announces measures to encourage people to take personal responsibility for their actions by rewarding those who work hard and save responsibly for the future.

## Personal tax measures:

- Increasing the personal allowance for under 65s by £1,000 to £7,475 in 2011-12, taking 880,000 people out of income tax altogether;
- Capital gains tax will rise from 18 to 28 per cent for those liable to income tax at the higher and additional rates. The 10 per cent rate for entrepreneurial business activities will be extended from the first £2 million to the first £5 million of qualifying gains made over a lifetime;
- The Government will work in partnership with local authorities in England to implement a council tax freeze in 2011-12; and
- Introduction of a bank levy on banks balance sheets from January 2011.

## Welfare reforms:

As part of the welfare reforms, the Budget announces:

- Uprating the basic State Pension by a triple guarantee of earnings, prices or 2.5 per cent, whichever is highest, from April 2011;
- Reduction in tax credit eligibility for families with household income above £40,000 (down from £50,000) from April 2011;
- Intention to restrict the generosity of pensions tax relief by reducing the annual allowance from April 2011. The Government will ensure that this alternative approach raises no less revenue than has already been accounted for in the public finances; and
- Indexing benefits by the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI) from April 2011 - in order to provide a fairer reflection of benefit claimants' experiences.

The measures set out by the Chancellor today will pay for the past and plan for the future. This Budget represents the first important step in transforming the economy, rebalancing growth across the UK and paving the way for sustainable, private sector led growth in the years ahead.



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## NOTES FOR EDITORS

1. The Budget can be downloaded here: [http://www.hm-treasury.gov.uk/2010\\_june\\_budget.htm](http://www.hm-treasury.gov.uk/2010_june_budget.htm)

2. The first section of Chapter one describes the source of the imbalances in the UK economy and the scale of the economic and fiscal challenge the country faces. It sets out the actions Government will take to meet that fiscal challenge. The second section of Chapter one outlines the Budget announcements for enterprise and sustainable growth in more detail. The third section of Chapter one outlines the announcements made for the personal tax and benefit system in more detail.

3. Supplementary documents being published by HM Treasury include:

- Tax policy making: a new approach
- Budget 2010 policy costings
- Data sources
- Impact Assessments

These can be found here: [http://www.hm-treasury.gov.uk/2010\\_june\\_budget.htm](http://www.hm-treasury.gov.uk/2010_june_budget.htm)

4. Press Notice 2 (Rates and allowances) and 3 (Tackling tax avoidance) can be downloaded here: [http://www.hm-treasury.gov.uk/2010\\_june\\_budget.htm](http://www.hm-treasury.gov.uk/2010_june_budget.htm)

5. Further information on welfare changes can be found at <http://www.dwp.gov.uk>

6. Further information on tax credits can be found at <http://www.hmrc.gov.uk>

7. Non-media enquiries should be addressed to the Treasury Correspondence and Enquiry Unit on 020 7270 4558 or by e-mail to [public.enquiries@hmtreasury.gsi.gov.uk](mailto:public.enquiries@hmtreasury.gsi.gov.uk)

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Media enquiries should be addressed to the Treasury Press Office on 020 7270 5238.



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## Press Notice 2

### Rates and allowances

New Budget announcements of main changes to rates and allowances in the tax year 2010-11 and the tax year 2011-12.

Announced changes to 2010-11 and 2011-12 rates and allowances for Value Added Tax (VAT), Insurance Premium Tax, income tax, National Insurance Contributions (NICs), indexation of benefits and tax credits, State Pension, Child and Working Tax Credits, Child Benefit, corporation tax on profits, a new bank levy, capital gains tax, cider duty and landline duty are set out below.

#### INDIRECT TAX

##### Value Added Tax

With effect from 4 January 2011 the standard rate of Value Added Tax will increase to 20 per cent.

VAT	April 2010-11	4 January 2011
Standard rate	17.5%	20%
Reduced rate	5%	5%

Budget also announces that sectoral rates for the VAT Flat Rate Scheme (FRS) will be updated. Details of new sectoral rates will be available on the HMRC website.

##### Insurance Premium Tax

With effect from 4 January 2011 the standard rate of Insurance Premium Tax will increase to 6 per cent and the higher rate will increase to 20 per cent.

IPT	April 2010-11	4 January 2011
Standard rate	5%	6%
Higher rate	17.5%	20%

#### PERSONAL TAX AND BENEFITS

##### Income tax

Budget announces that in 2011-12, the income tax personal allowance for under 65s will be increased by £1,000 in cash terms, taking it from £6,475 in 2010-11 to £7,475 in 2011-12. To ensure that the majority of higher rate taxpayers will pay the same total level of income tax and National Insurance Contributions (NICs) as previously planned, the Government will also reduce the basic rate limit for tax by £2,500, and the upper earnings and profits limits for NICs by £1,650, based on current estimates of the Retail Prices Index (RPI). Exact figures for the basic rate limit and higher rate threshold will be confirmed in the autumn.



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## National Insurance Contributions

Budget announces that the level at which employers start to pay NICs will increase by £21 per week above indexation from April 2011. The value of indexation will be determined by data available in the autumn.

The Government will shortly announce a three-year scheme to exempt new businesses in targeted regions from up to £5,000 of class 1 employer NICs payments, for each of their first 10 employees hired in their first year of business. Subject to meeting the necessary legal requirements, the Government aims to have the scheme up and running by September, but any qualifying new business set up from today will also benefit.

The upper earnings limit and the upper profits limit will maintain alignment with the income tax higher rate threshold.

Employee and employer rates				
	Employee (Class 1 primary)		Employer (Class 1 secondary)	
Earnings per week	April 2010-11	April 2011-12	April 2010-11	April 2011-12
Below primary threshold / secondary threshold	Nil	Nil	Nil	Nil
Above primary threshold/ secondary threshold*	11%	12%	12.8%	13.8%
Above upper earnings limit	1%	2%	12.8%	13.8%

\*Reduced rate for married women between primary threshold and upper earnings limit is 4.85 per cent for 2010-11 and 5.85 per cent for 2011-12. The reduced rate applies to women married before 6 April 1977 who have elected to pay a reduced rate of class 1 contributions.

Self-employed rates				
	Class 2 (per week)*		Class 4	
Profits per year	April 2010-11	April 2011-12	April 2010-11	April 2011-12
Below small earnings exception	Nil	Nil	Nil	Nil
Small earnings exception to lower profits limit	£2.40	Not available **	Nil	Nil
Lower profits limit to upper profits limit	£2.40	Not available **	8%	9%
Above upper profits limit	£2.40	Not available **	1%	2%



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\*Class 2 NICs are paid at a weekly flat rate of £2.40 by all self-employed persons. Those with profits less than, or expected to be less than, the level of the small earnings exception may apply for exemption from paying Class 2 contributions.

\*\*The exact figure for Class 2 for 2011-12 will be determined by data available in the autumn.

## Indexation of benefits and tax credits

The Government will use the Consumer Prices Index (CPI) for the price indexation of benefits and tax credits from April 2011. This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues.

## State Pension

The Government will uprate the basic State Pension by a triple guarantee of the highest of earnings, prices or 2.5 per cent from April 2011. The CPI will be used as the measure of prices, consistent with the Government's decision to index all benefits and tax credits by the CPI, although the basic State Pension will increase by at least the equivalent of the Retail Prices Index (RPI) in April 2011 to ensure its value is at least as generous as under previous uprating rules. The standard minimum income guarantee in Pension Credit will increase in April 2011 by the cash rise in a full basic State Pension.

## Child and Working Tax Credit rates

Budget announces several changes to the Child and Working Tax Credit. Summarised below are the main changes coming into effect in April 2011. Full details of all changes are available in the Budget document.

The child element of the Child Tax Credit will increase by £150 above CPI in April 2011. The baby element of the Child Tax Credit will be removed from April 2011.

In addition, there will be changes to the thresholds and withdrawal rates as set out below.

Child and Working Tax Credits rates		
£ per year (unless stated)	April 2010-11	April 2011-12
<b>Income thresholds and withdrawal rates</b>		
First withdrawal rate	39%	41%
Second income threshold	50,000	40,000
Second withdrawal rate	6.67%	41%
Income disregard	25,000	10,000

## Child Benefit

From 2011-12, both rates of Child Benefit will be frozen for three years.



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## BUSINESS AND FINANCIAL SERVICES

### Corporation tax

Budget announces annual reductions to the main rate of corporation tax. The main rate of corporation tax will be reduced to 27 per cent in 2011-12, with further reductions to 26 per cent in 2012-13, 25 per cent in 2013-14 and 24 per cent in 2014-15.

Budget also announces a reduction in the small profits rate of corporation tax to 20 per cent from April 2011.

Corporation tax on profits	April 2010-2011	April 2011-12
£0 - £300,000	21%	20%*
£300,001 - £1,500,000	Marginal rate	Marginal rate
£1,500,001 or more	28%	27%

\* The small profits rate was due to rise to 22 per cent in 2011-12, as announced originally at Budget 2007 and deferred to 2011-12 at 2009 Pre-Budget Report.

### Bank levy

Budget announces that a bank levy based on banks' balance sheets will be introduced, effective from 1 January 2011. It is proposed that the levy will be set at a rate of 0.07 per cent, with a lower initial rate of 0.04 per cent in 2011.

## CAPITAL, ASSETS AND PROPERTY

### Capital gains tax

Budget announces that from 23 June 2010 capital gains tax will rise from 18 to 28 per cent for higher and additional rate taxpayers. The 10 per cent entrepreneurs' relief rate will be extended from the first £2 million to the first £5 million of gains made over a lifetime.

Capital gains tax	April 2010-11	23 June 2010-11
Standard rate	18%	18%
Higher rate*	n/a	28%
Entrepreneurs' relief rate	10%	10%
Annual Exempt Amount	£10,100	£10,100
Entrepreneurs' relief lifetime limit of gains	£2,000,000	£5,000,000

\*For higher and additional rate tax payers



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## EXCISE DUTIES

### Alcohol duty rates

From 30 June 2010, cider duty rates will be reduced as follows:

Alcohol duties	April 2010-11	30 June 2010-11
<b>Rate £ per hectolitre of product</b>		
Still cider and perry: exceeding 1.2% - not exceeding 7.5% abv.	36.01	33.46
Still cider and perry: exceeding 7.5% - less than 8.5% abv.	54.04	50.22
Sparkling cider and perry: exceeding 1.2% - not exceeding 5.5% abv.	36.01	33.46

### Landline duty

Landline duty will not be implemented.

Landline duty	As of April 2010, from 1 October 2010	As of June 2010, from 1 October 2010
Rate per fixed line	50 pence	N/A

## NOTES FOR EDITORS

Section 41 of the Tax Credits Act requires a report to be laid before Parliament each year reviewing the amounts of certain tax credit elements and thresholds. Section 145 of the Social Security Contributions and Benefits Act 1992 requires an annual review of Child Benefit rates. Section 150 of the Social Security Administration Act 1992 requires the weekly rate of Guardian's Allowance to be increased in line with price.



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## Press Notice 3

### Tackling tax avoidance

As set out in the Coalition Agreement, the Government is committed to making every effort to tackle tax avoidance. The Government will take a more strategic approach to the risk of avoidance to prevent increasing complexity and reduce the need for frequent legislative change. In this context, the Government is tackling long-standing avoidance risks in a way that makes it clear what result the legislation intends to achieve. The Government will continue to shut down avoidance schemes as they emerge.

#### Accounting derecognition

The Government today announces, with immediate effect, an extension to the rules dealing with “derecognition” of loan relationships and derivative contracts. These schemes involve profits arising to a company from a financial asset falling out of account for tax from the “derecognition” of a loan or derivative. The Government will also shortly publish a Technical Note setting out proposals to provide a more generic rule to counter avoidance schemes involving “derecognition”.

#### Avoidance involving Authorised Investment Funds

The Government today announces, with immediate effect, an anti-avoidance measure to prevent corporate investors using Authorised Investment Funds for avoidance schemes designed to create a credit for UK tax where no UK tax has been paid.

#### A General Anti-Avoidance Rule

As part of an approach to develop sustainable responses to avoidance risk, the Government intends to examine whether the option of a General Anti-Avoidance Rule should form one element of strengthened defences. This will be part of wider work on improvements to the tax policy-making process.<sup>1</sup>

#### The Disclosure of Tax Avoidance Schemes regime

The Government will consult over the summer on bringing inheritance tax on trusts within the Disclosure of Tax Avoidance Schemes regime.

#### Stamp duty land tax

The Government today announces that it will examine whether further changes to the rules on stamp duty land tax on high value property transactions are needed to prevent avoidance in this area.



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## Use of trusts to reward employees

The March 2010 Budget announced action to tackle arrangements using trusts and other vehicles to reward employees which seek to avoid, defer or reduce liabilities of employees and directors to income tax and National Insurance Contributions or to avoid restrictions on pensions tax relief. The Government confirms that Employer Financed Retirement Benefit Schemes are within the scope of this measure. Legislation will take effect from April 2011.

## Life insurance companies

The Government today confirms that, as announced at the March 2010 Budget with immediate effect, the anti-avoidance rule preventing the manipulation of previously unrecognised profits to avoid tax will also have effect where life insurance business is transferred to another company.

## Consortium relief

As announced at the March 2010 Budget the Government will introduce an anti-avoidance measure to counter the manipulation of the consortium relief rules. This measure will take effect from the date of the publication of draft legislation. This prevents consortium members accessing relief for a greater share of consortium losses than their actual involvement should entitle them to.

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<sup>i</sup> *Tax policy making: a new approach* was published alongside the Budget.



## HM TREASURY PRESS OFFICE

Press enquiries: 020 7270 5238

Non-media enquiries: 020 7270 4558

## HM REVENUE & CUSTOMS PRESS OFFICE

Press enquiries: **Personal tax:**  
020 7147 2318 / 0051 / 2331

**Business tax:**  
020 7147 0798 / 2328 / 2333

**Family and Law Enforcement:**  
020 7147 0052 / 0394  
(out of hours: 07860 359544)

## GOVERNMENT DEPARTMENT INTERNET SITES

Further information and all published documents relating to the Budget 2010 may be found on the Internet at the following addresses:

HM Treasury: [www.hm-treasury.gov.uk/2010\\_june\\_budget.htm](http://www.hm-treasury.gov.uk/2010_june_budget.htm)

HM Revenue & Customs: [www.hmrc.gov.uk](http://www.hmrc.gov.uk)