Financial Statement and Budget Report

A BUDGET POLICY DECISIONS

INTRODUCTION

The Economic and Fiscal Strategy Report (EFSR) explains how the measures and other policy decisions taken in the Budget build on those already introduced to advance the Government's long-term goals of:

- maintaining economic stability, ensuring that the fiscal rules are met, inflation remains low, and the UK has faster productivity growth than its main competitors;
- sustaining a higher proportion of people in employment than ever before, while seeking to ensure full employment in every UK region;
- eradicating child poverty and tackling pensioner poverty, extending opportunity for all children and providing security for all pensioners;
- establishing world-class public services, delivering investment to improve national healthcare for all, raise standards in education, modernise Britain's transport and tackle crime; and
- tackling global poverty and climate change, helping to achieve the international community's Millennium Development Goals by 2015, and achieving the UK's commitments under the Kyoto Protocol.

This chapter of the Financial Statement and Budget Report (FSBR) brings together in summary form all the measures and decisions announced in Budget 2002 that affect the Budget arithmetic, giving their estimated effect on government revenue or spending up to 2004-05[1]. It includes those measures announced since Budget 2001, including in the November 2001 Pre-Budget Report.

The chapter also sets out how the Budget measures affect the tax and benefit system and government spending. This includes a summary of the main rates and allowances for the personal tax and benefit system, the business tax system, Value Added Tax (VAT), environmental taxes, and other indirect taxes, following the Budget.

The appendices to this chapter provide background information on the Budget measures:

- Appendix A1 explains in detail how the effects of the Budget measures on Government revenues are calculated;
- Appendix A2 provides details of tax changes and other policy decisions which were announced in Budget 2001 or earlier, but which take effect from or after April 2002; and
- Appendix A3 provides estimates of the revenue costs to the Government of some of the main tax allowances and reliefs.

BUDGET POLICY DECISIONS

Table A.1 summarises the Budget measures and sets out their effects on government revenue and spending. These include tax measures, national insurance contribution measures, measures that affect Annually Managed Expenditure (AME), and additions to Departmental Expenditure Limits (DEL). Measures that are financed from existing DEL provisions are not included.

[1] The contents of the brackets after each measure in this chapter refer to the line in Tables A.1 and A.2 where its cost or yield is shown. The symbol '-' means that the proposal has no Exchequer effect. The symbol '*' means that the effect is negligible, amounting to less than £3 million a year.

Table A.1: Budget 2002 policy decisions

	(+ve is an Exchequer yield)			£ million
	2002-03 indexed	2003-04 indexed	2004-05 indexed	2002-03 non-indexed
MEETING THE FISCAL RULES AND FUNDING PUBLIC SERVICES				
1 Freeze in income tax personal allowance and national insurance thresholds	0	+700	+850	0
2 Additional class 1 primary national insurance contribution for employees	0	+3,550	+3,700	0
3 Additional class 1 secondary national insurance contribution for employers	0	+3,900	+4,100	0
4 Additional class 4 national insurance contribution for the self-employed	0	+450	+450	0
MEETING THE PRODUCTIVITY CHALLENGE				
Supporting small business				
5 Corporation tax: reduce small companies' rate to 19 per cent and starting rate to 0 per cent	–20	–265	–450	–20
6 Venture Capital Trusts – flexibility of rules	–5	–5	–5	–5
7 Revalorise thresholds for VAT registration and deregistration	0	0	0	–5
Enterprise and innovation				
8 Abolition of stamp duty on goodwill	–50	–50	–50	–50
9 Exemption for gains on substantial shareholdings	–70	–130	–150	–70
10 Capital gains tax: simplification	–10	–15	–15	–10
11 Relaxation of the rules on withholding tax for exempt bodies	–10	–45	*	–10
12 Introduction of Community Investment Tax Credit	*	–5	–5	*
13 Changes to the Construction Industry Scheme	–55	–10	*	–55
14 Reform of taxation of intellectual property	–70	–160	–190	–70
15 Research and development tax credit at 25% for larger companies	–200	–400	–400	–200
16 New rules on loan relationships, derivative contracts and foreign exchange	0	+230	+350	0
INCREASING EMPLOYMENT OPPORTUNITY FOR ALL				
17 Income tax: indexation of allowances and limits in 2002-03	0	0	0	–330
18 Working Tax Credit (WTC) for families without children	0	–250	–300	0
BUILDING A FAIRER SOCIETY				
Supporting families and communities				
19 Child Tax Credit and WTC for families with children and associated measures	–500	–2,450	–2,300	–500
20 Income tax: over-indexation of age related allowances for ages 65-74	0	–55	–75	0
21 Eligibility of home childcare for childcare tax credit	0	–10	–15	0
22 Income tax: indexation of pension schemes earnings cap	0	0	0	–5
23 Relief for community amateur sports clubs	*	–5	–10	*
24 Introduction of the Vaccines Tax Credit	*	–10	–20	*
25 Relief for gifts of real property to charities	*	–10	–20	*
26 VAT: reliefs for charity buildings	*	–10	–10	*
27 Measures to encourage charitable giving	*	–30	–20	*

Table A.1: Budget 2002 policy decisions

(+ve is an Exchequer yield) £ million

	2002-03 indexed	2003-04 indexed	2004-05 indexed	2002-03 non-indexed
A modern and fair tax system				
28 Tackling stamp duty avoidance	+150	+150	+450	+150
29 Film tax relief: restriction to feature films intended for cinema release	+15	+225	+295	+15
30 Manufactured payments: restriction of tax relief	0	+15	+10	0
31 North Sea taxation: introduction of 10 per cent supplementary charge and 100 per cent first year allowances	+100	+450	+600	+100
32 Modernise taxation of foreign company UK branches	0	+350	+650	0
33 VAT anti-avoidance: face-value vouchers	0	+120	+105	0
34 VAT anti-avoidance: hire purchase agreements	+40	+45	+45	+40
35 VAT anti-avoidance: partial exemption override	+195	+185	+170	+195
36 Oils fraud strategy	+100	+290	+550	+100
Duties and other tax changes				
37 Tobacco duties: revalorisation of rates	0	0	0	+135
38 Alcohol duties: beer duty relief for small brewers	–10	–15	–15	–10
39 Alcohol duties: 2 per cent cut for cider; freeze other rates	–95	–105	–105	–5
40 Alcohol duties: increase duty on coolers to spirits rate	+170	+195	+210	+170
41 Inheritance tax: over-index threshold to £250,000	–15	–25	–30	–40
42 Mutual Assistance in Recovery of Debts: implementation of provisions	+10	+10	+10	+10
PROTECTING THE ENVIRONMENT				
43 Enhanced capital allowances for green technologies	–20	–40	–40	–20
44 Climate change levy: freeze	–15	–20	–20	0
45 Climate change levy: tax incentives for combined heat and power	–15	–15	–15	–15
Transport and the environment				
46 Extension of tax exemption for employer subsidised bus services	–10	–15	–20	–10
47 Fuel duties: freeze rates	–395	–415	–420	0
48 Air passenger duty: freeze rates	–5	–20	–20	0
49 Air passenger duty: expansion of scope of lower rate	–25	–70	–75	–25
50 VED: freeze all rates	–80	–85	–90	0
51 VED: creation of new low CO_2 car band	*	*	–5	*
52 Reform of VED for motorbikes	–10	–10	–10	–10
53 Introduction of incentives for cleaner vans	*	*	–5	*
54 VAT simplification: annual adjustment of car fuel scale charges	0	0	0	–15
TOTAL BUDGET MEASURES	**–905**	**+6,115**	**+7,640**	**–565**

* *Negligible*.

ADDITIONAL BUDGET POLICY DECISIONS[1]		
Additions to DEL	0	–4,000
Resetting of AME margin	+180	–525

[1] *See Table 2.4 for details of the envelope for the 2002 Spending Review. Final decisions on the split between DEL and AME will be taken in the Spending Review.*

Table A.2 summarises the impact on government revenue and spending of other measures introduced since Budget 2001, including those announced in the November 2001 Pre-Budget Report. As required by the *Code for Fiscal Stability*, the November 2001 Pre-Budget Report economic and fiscal projections took account of the measures and other policy decisions presented in this table.

Table A.2: Other measures announced since Budget 2001

	(+ve is an Exchequer yield)			£ million
	2002-03 indexed	2003-04 indexed	2004-05 indexed	2002-03 non-indexed
MEETING THE PRODUCTIVITY CHALLENGE				
a Change capital gains tax business assets taper relief	–10	–20	–40	–10
b New rules on loan relationships, derivative contracts and foreign exchange	+160	+165	+160	+160
c Remove Crown's preferential right to recover unpaid taxes	-35	–70	–70	-35
d Increase limit for EMI to £30 million	–25	–30	-40	–25
e Implementation of VAT flat rate scheme for small business	–25	–25	-25	–25
INCREASING EMPLOYMENT OPPORTUNITY FOR ALL				
f Income tax: indexation of personal and age related allowances	0	0	0	–520
g Freeze of Class 2 national insurance rate	–5	–5	–5	0
h Indexation of national insurance limits	0	0	0	-300
FAIRNESS FOR FAMILIES AND COMMUNITIES				
i Indexation of Working Families' Tax Credit (WFTC) and Disabled Person's Tax Credit (DPTC)	0	0	0	–130
j WFTC/DPTC: Raise disabled child credit by £5 in April 2002 and April 2003	–10	–20	–20	–10
k Introduction of Pension Credit	0	–970	-2,015	0
l Guaranteed increase in basic state pension	0	–175	–185	0
m Winter fuel payments at £200 from 2002/03 for remainder of Parliament	–435	–440	–440	0
n Disability measures	–30	-65	–70	0
o Reform of Pools Betting Duty	–5	–5	–5	–5
PROTECTING THE ENVIRONMENT				
p Aggregates levy - special arrangements in Northern Ireland	–10	–10	–5	–10
TOTAL AME and TAX	**–430**	**–1,670**	**–2,760**	**–910**

Note: As required by the Code for Fiscal Stability, the November 2001 Pre-Budget Report economic and fiscal projections were based on and included the impact of all Government decisions and all other circumstances where the impact of these decisions and circumstances could be quantified with reasonable accuracy by the day the projections were finalised.

PERSONAL TAXES AND SPENDING MEASURES

Income tax 2002-03

Bands, rates and personal allowances

The personal allowance is increased to £4,615, as announced in the November 2001 Pre-Budget Report. The age-related personal allowance and income limit, the starting rate limit, basic rate limit, blind person's allowance and, where applicable, the married couple's allowance all rise in line with statutory indexation. (17, f)

The maximum earnings for which pension provision may be made with income tax relief (the "earnings cap") is increased in line with statutory indexation to £97,200. (22)

WFTC and DPTC

As announced on 28 November 2001, the Working Families' Tax Credit (WFTC) and Disabled Person's Tax Credit (DPTC) weekly rates and thresholds rose in line with the Rossi index from 9 April. (i)

In addition, the disabled child tax credit and enhanced disability tax credit for children in WFTC and DPTC were each increased by an extra £5 from the same date. (j)

From 4 June 2002, the basic credit in WFTC and the couples and lone parents basic credit in DPTC will be increased by a further £2.50. (19)

Table A.3: Bands of taxable income 2002-03

2001-02	£	2002-03	£ a year
Starting rate 10 per cent	0 - 1,880	Starting rate 10 per cent	0 - 1,920
Basic[1,2] rate 22 per cent	1,881 - 29,400	Basic[1,2] rate 22 per cent	1,921 - 29,900
Higher[2] rate 40 per cent	over - 29,400	Higher[2] rate 40 per cent	over 29,900

[1] *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.*
[2] *The rates applicable to dividends are 10 per cent for income up to the basic rate limit and 32.5 per cent above that.*

Table A.4: Income tax allowances 2002-03

		£ a year	
	2001-02	2002-03	Increase
Personal allowance			
age under 65	4,535	4,615	80
age 65-74	5,990	6,100	110
age 75 and over	6,260	6,370	110
Married couple's allowance[1]			
age 65 before 6 April 2000	5,365	5,465	100
age 75 and over	5,435	5,535	100
minimum amount [2]	2,070	2,110	40
Children's Tax Credit[1]	5,200	5,290	90
Children's Tax Credit - baby rate[1,3]	–	10,490	–
Income limit for age-related allowances	17,600	17,900	300
Blind person's allowance	1,450	1,480	30

[1] *Tax relief for these allowances is restricted to 10 per cent.*
[2] *This is also the maximum relief for maintenance payments where at least one of the parties is aged 65 before 6 April 2000.*
[3] *For babies born on or after 6 April 2002, in the first year of the child's life. Includes Children's Tax Credit.*

Table A.5: Working Families' Tax Credit and Disabled Person's Tax Credit

	£ per week		
	2001–02	2002–03	Increase
Basic tax credit (WFTC)	59.00[5]	62.50[8]	3.50
Basic tax credit (DPTC - lone parent or couple)	91.25[5]	95.30[8]	4.05
Basic tax credit (DPTC - single person)	61.05[5]	62.10	1.05
30-hour tax credit	11.45	11.65	0.20
Child tax credit - under 16	26.00	26.45	0.45
Child tax credit - 16-18[1]	26.75	27.20	0.45
Disabled child tax credit[2]	30.00	35.50	5.50
Enhanced disability tax credit - lone parent or couple	16.00	16.25	0.25
Enhanced disability tax credit (DPTC - single person)	11.05	11.25	0.20
Enhanced disability tax credit - child[3]	41.05	46.75	5.70
Maximum eligible childcare costs allowed[4] - 1 child	135.00[6]	135.00	0.00
Maximum eligible childcare costs allowed[4] - 2+ children	200.00[7]	200.00	0.00
Income threshold - lone parent or couple	92.90	94.50	1.60
Income threshold - (DPTC - single person)	72·25	73.50	1.25

[1] *The 16–18 rate applies to awards starting from the September following the 16th birthday.*
[2] *Payable in addition to the child tax credit.*
[3] *Payable instead of the disabled child tax credit.*
[4] *Childcare tax credit covers 70 per cent of eligible childcare costs allowed.*
[5] *For awards starting from June 2001. £5.00 lower for awards starting during April and May 2001.*
[6] *For awards starting from June 2001 £100 for awards starting during April and May 2001.*
[7] *For awards starting from June 2001. £150 for awards starting during April and May 2001.*
[8] *For awards starting from June 2002 £2.50 lower for awards starting during April and May 2002.*

Income tax 2003-04

Bands, rates and personal allowances

The income tax personal allowance for those aged under 65 will be frozen. (1)

The personal allowance for those aged 65 to 74 will be increased to £6,610, and for those aged 75 or over, it will be increased by £240 above statutory indexation. (20)

Other income tax allowances and limits will be set in Budget 2003. (-)

New tax credits

Two new tax credits will be introduced from April 2003.

The Child Tax Credit will replace the existing, income-related elements of support for children in the Working Families' Tax Credit, Disabled Person's Tax Credit, Children's Tax Credit, Income Support and income-based Jobseeker's Allowance. (19)

The Working Tax Credit will replace the existing elements of support for adults and their childcare costs in the Working Families' Tax Credit, Disabled Person's Tax Credit and the New Deal Employment Credit for those aged 50 or over. The Working Tax Credit will also provide support for working households without children where at least one adult is aged 25 or over. (18)

The new tax credits will be made up of a number of elements, listed in the table below, withdrawn at the rates shown for families with pre-tax incomes above the relevant income thresholds. The Working Tax Credit, including the childcare elements, will be withdrawn before the Child Tax Credit. The family element of the Child Tax Credit will be paid at a flat rate to those families with incomes below the second threshold, and withdrawn at the second withdrawal rate for those whose income is above the second threshold. Details on the arrangements for families receiving Income Support and Jobseeker's Allowance are provided in *The Child and Working Tax Credits*.

Table A.6: New tax credits rates and thresholds

	2003-04 £ a year	Weekly equivalents, £
Working Tax Credit		
Basic element	1,525.00	29.20
Couples' and lone parent element	1,500.00	28.80
30 hour element	620.00	11.90
Disabled worker element	2,040.00	39.15
Enhanced disabled adult element	865.00	16.60
50plus return to work payment, 16-30 hours	1,045.00	20.00
50plus return to work payment, 30 + hours	1,565.00	30.00
Childcare element		
– maximum eligible cost		*200.00*
– maximum eligible cost for 1 child		*135.00*
– per cent of eligible costs covered	*70*	
Child Tax Credit		
Family element	545.00	10.45
Family element, baby addition	545.00	10.45
Child element	1,445.00	27.75
Disabled child additional element	2,155.00	41.30
Enhanced disabled child additional element	865.00	16.60
Common features		
First income threshold	5,060.00	97.00
First withdrawal rate (per cent)	*37*	
Second income threshold	50,000.00	958.90
Second withdrawal rate	*1 in 15*	
First threshold for those entitled to Child Tax Credit only	13,230.00	253.76

Childcare tax credit From April 2003, eligibility for the childcare tax credit element of the Working Tax Credit will include those who use approved childcare in their own home. (21)

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

A one penny change in the Scottish variable rate in 2002-03 could be worth approximately plus or minus £230 million, broadly unaffected by these changes. In the Treasury's view, an amendment of the Scottish Parliament's tax-varying powers is not required as a result of these changes.

National insurance contributions 2002-03

As announced in the November 2001 Pre-Budget Report, the lower earnings limit is increased to £75 in line with the basic state retirement pension. The primary and secondary thresholds for class 1 national insurance contributions (NICs) for employers and employees are increased to £89 in line with the income tax personal allowance. The upper earnings limit is increased to £585 in line with inflation. The annual small earnings exception for class 2 NICs for the self-employed, the special rate of class 2 contributions for volunteer development workers and the rate of class 3 voluntary contributions are all increased in line with statutory indexation. (h)

The rate of class 2 NICs for the self-employed and the special Class 2 rate for share fishermen are frozen at £2 and £2.65 per week respectively. (g)

Table A.7: National insurance contribution rates 2002-03

Weekly earnings[1]	Employee (primary) NIC rate[2] (per cent)	Employer (secondary) NIC rate[3] (per cent)
£0 to £75 (LEL)	0	0
£75 to £89 (PT/ST)	0[4]	0
£89 to £585 (UEL)	10	11.8
Above £585	0	11.8

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

[2] The contracted-out rebate for primary contributions in 2002–03 is 1.6 per cent of earnings between the LEL and UEL for contracted-out salary-related schemes (COSRS), and contracted-out money purchase schemes (COMPS).

[3] The contracted-out rebate for secondary contributions is 3.5 per cent of earnings between the LEL and UEL for contracted-out salary-related schemes and 1.0 per cent for contracted-out money purchase schemes.For COMPs, an additional age related rebate is paid direct to the scheme following the end of the tax year. For appropriate personal pensions, the employee and employer pay NICs at the standard not contracted-out rate. An age and earnings related rebate is paid direct to the personal pension provider following the end of the tax year.

[4] No NICs are actually payable but a notional primary Class I NIC is treated as having been paid in respect of earnings between LEL and PT to protect benefit entitlement.

Table A.8: Self-employed national insurance contribution rates 2002-03

Annual profits[1]	Self-employed NICs Class 2	Class 4
Below £4,025 (SEE)	0[2]	0
£4,025 to £4,615 (LPL)	£2 a week	0
£4,615 to £30,420 (UPL)	£2 a week	7
Above £30,420	£2 a week	0

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

[2] The self-employed may apply for exception from paying Class 2 contributions if their earnings are less than, or expected to be less than, the level of the small earnings exception (SEE).

National insurance contributions 2003-04

Budget 2002 announces that from 2003–04:

- there will be an additional class 1 primary national insurance contribution (NIC) for employees of 1 per cent on all earnings above the primary threshold. This will mean that NICs are charged at a rate of 11 per cent on earnings between the primary threshold and the upper earnings limit, and at a rate of 1 per cent on earnings above the upper earnings limit; (2)
- there will be an additional class 1 secondary NIC for employers of 1 per cent on all earnings above the secondary threshold. This will mean that NICs are charged at a rate of 12.8 per cent on earnings above the secondary threshold; (3)
- there will be an additional class 4 NIC for the self-employed of 1 per cent on all earnings above the lower profits limit. This will mean that NICs are charged at a rate of 8 per cent on profits between the lower and the upper profits limits, and at a rate of 1 per cent on profits above the upper profits limit; (4) and
- the primary and secondary thresholds and the lower profits limit will be frozen at 2002-03 rates. The NICs upper earnings and profits limits will be increased in line with inflation. (1)

Other NICs rates and limits will be announced at the time of the Pre-Budget Report 2002.

Table A.9: National insurance contribution rates 2003-04

Weekly earnings[1]	Employee (primary) NIC rate[2] (per cent)	Employer (secondary) NIC rate[3] (per cent)
Below £77 (LEL)	0	0
£77 to £89 (PT/ST)	0[4]	0
£89 to UEL	11	12.8
Above UEL	1	12.8

For footnotes see Table A.7

Inheritance tax

Threshold The threshold is over-indexed to £250,000 for new tax charges arising on or after 6 April 2002. (41)

Excluded property trusts The Government is introducing legislation in Finance Bill 2002 to restore the widely held view that powers over assets in trust should not be regarded as property for inheritance tax purposes. (-)

Taxes on capital gains

Business assets taper As announced in the November 2001 Pre-Budget Report, the business assets taper is improved for disposals from 6 April 2002 so that maximum relief is reached after two years. (a)

Annual exempt amount The capital gains tax annual exempt amount is increased in line with statutory indexation to £7,700. (-)

Simplification There will be a range of measures to simplify capital gains tax, effective from various commencement dates, including broadening the coverage of debentures that are treated as securities for taper relief and making incorporation relief optional. (10)

Stamp duty

Tackling avoidance To discourage avoidance, measures will be introduced taking effect shortly after Budget day, to: discourage the use of companies to avoid stamp duty on UK property transactions; make stamp duty payable where a transfer artificially rests on contract; and strengthen the penalty regime for documents executed outside the UK. (28)

Building on this, a reform of stamp duty on land and buildings will be introduced in 2003: applying stamp duty fairly to all relevant transactions in UK land and buildings; and paving the way for electronic systems for conveyancing. (28)

Goodwill Stamp duty on transfers of goodwill will be abolished with effect from 23 April 2002. (8)

Administration of payroll

Carter Review

Following the recommendations of the Carter Review, powers will be introduced to require employers to file their end of year returns electronically. These requirements will be phased in over a number of years beginning for the year 2004-05 for businesses with 250 or more employees.

Incentives for small employers to switch to electronic filing will be introduced beginning for the year 2004-05.

BENEFITS

Benefits 2002-03

Income Support and Jobseeker's Allowance

The child premia within Income Support and Jobseeker's Allowance will be increased by £3.50 a week from October 2002. (19)

Basic state pension

The basic state pension increases to £75.50 a week for single pensioners and £120.70 for pensioner couples from 8 April 2002. (l)

Winter fuel payments

As announced in the November 2001 Pre-Budget Report, the winter fuel payment will remain at £200 for the lifetime of the Parliament. (m)

Disability measures

The Disabled Child Premium within Income Support is increased from 8 April 2002 by £5 a week to £35.50. From the same date, earnings of disabled people and their partners are disregarded and the capital limits raised to £18,500 within the Independent Living Fund. (n)

Statutory paternity and adoption pay

Small Employer Relief will apply to Statutory Paternity Pay (SPP) and Statutory Adoption Pay (SAP) from their introduction in April 2003 (*)

Access to Income Support will be extended to low-paid fathers on paternity leave, who are not entitled to SPP, and those who do receive SPP but are normally low paid. (*)

The tax treatment of the new SPP and SAP schemes is brought into line with that for Statutory Maternity Pay. (-)

Benefits 2003-04

Child Benefit

From April 2003, the rates of Child Benefit will rise in line with indexation to at least £16.05 and £10.75 respectively. (19)

Basic state pension

As announced in the November 2001 Pre-Budget Report, the full basic state pension will rise by at least £100 a year for a single pensioner and £160 for a pensioner couple from April 2003. Subsequently, the basic state pension will rise each year by 2.5 per cent or the increase in the September Retail Price Index, whichever is higher. (l)

Pension Credit

From October 2003, the Pension Credit will bring pensioners' income up to a guaranteed minimum entitlement whilst also rewarding pensioners whose savings, second pensions or earnings give them an income of up to around £135 a week for single pensioners and £200 a week for couples. (k)

Disability measures

The Disabled Child Premium within Income Support will increase by £5 above inflation from April 2003. (n)

BUSINESS TAXES AND SPENDING MEASURES

Tax on business profits

Corporation tax With effect from 1 April 2002, the corporation tax starting rate is reduced from 10 per cent to zero and the corporation tax small companies' rate is reduced from 20 to 19 per cent. (5)

The fraction for calculating marginal relief for companies whose taxable profits are between £10,000 and £50,000, is 19/400. For companies whose taxable profits are between £300,000 and £1,500,000, the fraction is 11/400.

Capital gains As announced on 26 March 2002, gains on disposals by companies of substantial shareholdings and share-related assets on or after 1 April 2002 are not chargeable and losses not allowable for corporation tax purposes, where certain conditions are met. Also, rollover relief and intra-group surrender have been introduced for the degrouping charge on companies leaving groups. (9)

Intellectual property As announced on 26 March 2002, a new regime for providing tax relief to companies for the costs of intellectual property, goodwill and other intangible assets is introduced with effect from 1 April 2002. (14)

Loan relationships, etc. A new regime will be introduced for the taxation of loan relationships, derivative contracts and foreign exchange gains and losses. This will clarify the tax treatment of a wider range of derivative contracts and extend relief for bad debts. It will apply to accounting periods commencing on or after 1 October 2002, or earlier where special rules apply. (16)

North Sea taxation From 17 April 2002, companies will pay a supplementary charge of 10 per cent on profits earned on their UK and UK Continental Shelf oil and gas production. Most capital expenditure in the North Sea will qualify for 100 per cent first year allowances. (31)

Foreign company UK branches For accounting periods beginning on or after 1 January 2003, the profits taxable to UK corporation tax of the UK branches of non-resident companies will be computed by treating them as if they were independent free-standing entities with the amount of capital that they would need to trade on that basis. (32)

Lloyd's underwriters-quota share policies From 17 April 2002, relief given to a Lloyd's member entering a quota share policy will be restricted to take into account relief already given for unpaid losses. In addition, members who have paid cash calls before entering a contract will not be disadvantaged. (*)

Life insurance companies Capital gains of life insurance companies who are limited partners in venture capital investment partnerships, will be calculated when distributions are made from the investment, by reference to the investment as a single asset. This applies for periods of partnership beginning on or after 1 January 2002. (*)

A measure will be introduced to correct two minor defects in legislation on the taxation of gains on life policies and contracts introduced in Finance Act 2001. One part has a retrospective effect from 6 April 2001 and the other from 6 April 2002. (*)

Withholding tax The rules requiring tax to be deducted at source from payments of interest, annual payments, annuities and royalties by companies and local authorities will be relaxed. From 1 October 2002, payments to many tax-exempt bodies will be paid gross. (11)

From 1 October 2002, the obligation on financial dealers to withhold tax on interest paid in the course of certain financial trading business will be removed.(*)

From 1 October 2002, companies will be able to pay cross border royalties at the treaty rate of deduction where they have a reasonable belief that the beneficial owner of the royalties would be entitled to relief from UK tax under a double tax treaty. (*)

Asset-linked securities Companies will be able to claim relief for interest payments made from 17 April 2002 on certain genuine commercial securities where the redemption amount is linked to the value of particular assets. (*)

Tax & accounting: change of basis As announced on 1 August 2001, a measure will be introduced to ensure that the tax liability will be assessed correctly when a change in tax or accounting basis occurs. It will apply to changes in basis occurring on or after the date of announcement. (-)

Construction industry scheme (CIS) From 6 April 2002, companies holding CIS4 registration cards which have deductions made from their income as subcontractors, are able to off set these deductions against the monthly or quarterly payments of PAYE and national insurance contributions and any CIS liabilities due from their employees and/or subcontractors. (13)

Capital allowances Expenditure on designated energy-efficient technologies, low emission cars and natural gas and hydrogen fuelling infrastructure will qualify for 100 per cent first year capital allowances. The scheme will apply to expenditure on cars and natural gas and hydrogen fuelling structure between 17 April 2002 and 31 March 2008, and on other technologies following agreement with the European Commission. The Government will extend 100 per cent first year capital allowances for energy-efficient technologies to include investments in assets for leasing from 17 April 2002. (43)

Deductibility of bribes Business expenditure incurred on or after 1 April 2002 on bribes paid overseas does not attract tax relief even where making the bribe does not constitute an offence in the UK. (*)

Crown's preferential right to unpaid taxes As announced on 18 June 2001, the Crown will no longer have preferential rights in insolvencies in England and Wales in respect of debts due to the Inland Revenue for PAYE and national insurance contributions and to HM Customs and Excise for VAT and certain excise duties. The measure was included in the Department of Trade and Industry Enterprise Bill, published on 26 March 2002. (c)

Incentives for investors, entrepreneurs and employees

R&D tax credit A new research and development (R&D) tax credit applying to expenditure by all companies that do not qualify for the small and medium enterprise (SME) tax credit, is introduced with effect from 1 April 2002. The credit allows these companies to deduct 125 per cent of qualifying, current R&D expenditure from taxable profits. (15)

Tax credit for R&D into drugs and vaccines A new tax credit will be introduced for research into prevention and treatment of malaria, tuberculosis and those forms of HIV/AIDS that primarily affect countries in the developing world. Companies will be able to deduct from taxable profits an additional 50 per cent of qualifying, current expenditure on research into these diseases. (24)

Humanitarian donations Donations of medical supplies and equipment to organisations other than UK charities for humanitarian purposes are not taxed with effect from 1 April 2002. (*)

Community Investment Tax Credit Individuals and companies will be able to obtain tax relief of up to 5 per cent a year for 5 years on amounts invested in an accredited Community Development Finance Institution (CDFI) with effect from 17 April 2002. CDFIs invest in enterprises in disadvantaged areas and communities. (12)

Venture Capital Trusts A measure will be introduced with effect from 17 April 2002 to provide for continuity of tax benefits where Venture Capital Trusts (VCTs) merge or a grace period where they wind up. (6)

Enterprise Management Incentives As announced in the November 2001 Pre-Budget Report, the gross asset limit for the Enterprise Management Incentive (EMI) scheme was doubled to £30 million, with effect from 1 January 2002. (d)

Securing the tax base

Film tax relief Film tax reliefs for British qualifying films are to be restricted to films intended for theatrical release at the commercial cinema. Subject to discussion with the industry on the details of implementation, films completed on or after 17 April 2002 that do not meet the criterion will not be eligible for relief. Those completed before 1 January 2002, but not certified as British qualifying by the Department of Culture, Media and Sport before 17 April 2002, will also not be eligible for relief. (29)

Service companies As announced on 15 March 2002, three small amendments to service company legislation took effect from 6 April 2002. These ensure correct interaction with the new deduction scheme for statutory mileage rates and tidy up two minor anomalies. (*)

Loan relationships, etc. As announced on 26 July 2001, 19 December 2001 and 26 March 2002, legislation will be introduced with effect from those dates to counter avoidance schemes involving premiums and discounts on currency contracts, convertible, exchangeable, and asset-linked securities, reset bonds and relevant discounted securities. (b)

Controlled foreign companies A measure will be introduced from Royal Assent to give the Treasury reserve powers to bring all controlled foreign companies (CFCs) located in overseas jurisdictions where harmful tax practices are prevalent, within the charge to tax under the CFC rules. These powers can be exercised only with the prior express approval of the House of Commons. (-)

Manufactured payments Tax relief for manufactured interest and manufactured dividends will be restricted to circumstances where actual interest will be relievable or where there is an equivalent amount charged to tax in respect of the same securities. The restriction will apply to manufactured payments made on or after 17 April 2002. (30)

Charities

Gifts of real property to charity Donors who make gifts to charities of real property are able to claim a deduction in computing their income or corporation tax liability on the market value of the property less any benefit received in return. The relief is available for gifts made by companies from 1 April 2002 and by individuals from 6 April 2002. (25)

Giving through the tax return From 6 April 2003, higher rate taxpayers will be able to carry back to the previous year their relief on Gift Aid donations and, from the following year, taxpayers will be able to nominate a charity to receive a tax repayment that is due to them. (27)

Community amateur sports clubs For accounting periods ending on or after 1 April 2002, a sports club, which meets the statutory definition of a ‘community amateur sports club’, will be able to benefit from tax reliefs on certain income and gains. Some tax incentives will also be available to individuals making donations to such a club on or after 6 April 2002. (23)

Other Measures

Modernising tax law As announced on 27 March 2002, Finance Bill 2002 will include legislation in preparation for the Tax Law Rewrite Project to rewrite the tax law governing income from employment, making it clearer and more certain. (-)

Extending double taxation agreements A measure will be introduced with effect from Royal Assent to enable implementation of double taxation agreements that cannot currently be made with the government of a territory, because that territory is not recognised by the UK Government. (*)

Mutual assistance The Mutual Assistance in Recovery of Debts (MARD) EC Directive, which improves the existing arrangements for co-operation between Member States in debt recovery and extends them to direct taxes and Insurance Premium Tax, is being implemented in UK legislation. (42)

VALUE ADDED TAX (VAT)

Easing the impact of VAT on SMEs

A package of measures aimed at easing the impact of VAT for small and medium-size enterprises (SMEs) will be introduced from 25 April 2002 as follows:

- the condition that a business has to be VAT registered for 12 months before using the annual accounting scheme will be removed for applicants with a turnover of up to £100,000. The calculation of interim payments will also be changed so that businesses will normally make nine interim payments throughout the year, with an option on agreement with HM Customs and Excise to make only three larger interim payments; (*)
- a new optional flat rate scheme will be introduced to allow traders with a turnover of up to £100,000 to calculate their VAT as a given percentage of their total taxable turnover; (e) and
- the VAT registration threshold will be increased broadly in line with inflation from £54,000 to £55,000 and the deregistration threshold will increase from £52,000 to £53,000. (7)

As announced in June 2001, the VAT penalties system has been reformed to ensure that small businesses late with their VAT payments do not face automatic fines. (*)

Modernising VAT

From 1 June 2002, the requirement for partly-exempt businesses to pay output tax when they produce printed matter for their own use will be abolished. (*)

From 1 June 2002, services supplied in Customs-controlled transit sheds outside ports and airports will become zero-rated, harmonising the treatment with that for similar sheds within the boundary of a port or airport. (*)

From Royal Assent, the same VAT reliefs will apply to goods coming into the UK, no matter whether they arrive from a place within or outside the European Union. (*)

Following Royal Assent, businesses seeking bad debt relief will no longer be required to send a letter to the debtor notifying them of the claim. The way that part-payments are attributed under hire purchase conditional sale agreements and credit sale agreements when bad debt relief is claimed, will also be altered to reflect current commercial practice. (*)

The Government will introduce a package of measures from 1 June 2002 to adjust the VAT rules governing, among others, charities and the use of their buildings (26) :

- introducing a new method for calculating the VAT due when a charity changes the use of its building from non-business to business use;
- adjusting the rules for the construction of new charity annexes so that parts of an annex used for non-business purposes can now be zero-rated, bringing the VAT treatment of new charity annexes in line with that of new charity buildings;
- introducing a 5 per cent reduced rate of VAT for the renovation of residential communal homes, such as care homes and homes with multiple occupation which have been empty for more than three years, and for the conversion of non-residential buildings into residential communal homes; and
- extending the 5 per cent reduced rate of VAT to the construction, renovation or conversion of a building into a garage as part of the renovation of a property that qualifies for the reduced rate.

From 1 June 2002, the 5 per cent reduced rate of VAT for certain grant-funded installations of heating equipment will be extended to include renewable energy heating systems, micro combined heat and power domestic systems and factory-insulated hot water tanks.(*)

Changes to VAT invoicing rules will be introduced from Royal Assent to implement EC wide standards for VAT invoicing. (-)

Securing the tax base

The Government will introduce a package of measures to tackle VAT avoidance schemes and secure the revenue base:

- from 18 April 2002, the VAT partial exemption rules will be amended to oblige the largest businesses using the standard method to satisfy themselves that the VAT they recover in relation to their purchases fairly reflects their use in making taxable supplies, thereby countering a number of abusive avoidance schemes currently being used to exploit the standard method; (35)
- from 1 July 2002, new rules concerning the VAT treatment of second hand goods will be introduced to combat an abusive tax avoidance scheme involving the sale of hire purchase agreements; (34) and
- following consultation with business, the Government will legislate at the earliest possible opportunity to stem current tax leakage and avoidance in the VAT treatment of face value vouchers. (33)

ENVIRONMENTAL AND TRANSPORT TAXES

Climate change levy

The rates of climate change levy (CCL) will be frozen in Budget 2002. (44)

Following Royal Assent, and on receipt of EU state aids approval, all electricity generated by Good Quality Combined Heat and Power and sold via the grid will be exempt from the CCL. (45)

Following Royal Assent, and on receipt of EU state aids approval, all electricity generated by coal mine methane will be exempt from the CCL. (*)

From 1 June 2002, businesses that have been registered for at least 12 months and with an annual liability not exceeding £2,000, will be able to submit one annual return and levy payment instead of complying with the normal three-monthly requirement. (*)

From 1 June 2002, businesses will be able to claim bad debt relief under a simplified procedure, using an average percentage calculation based on classes of customers, rather than on individual supplies. (*)

From 23 April 2002, the existing civil penalties regime will be amended to ensure that all incorrectly notified relieved supplies are subject to the same penalty regime. (*)

From Royal Assent, a recovery provision will also be introduced to prevent CCL being incorrectly charged. (*)

From 1 May 2002, a special concession will be introduced to allow relief not claimed in the levy's first year to be reclaimed over the second year. (*)

Aggregates levy The proposed relief for aggregates used in processed products in Northern Ireland will be backdated to 1 April 2002, on receipt of EU state aids approval, to ensure that no levy is paid on aggregate used to make these products in Northern Ireland in 2002-03. (p)

The legal definition of aggregate will be amended to include rock that has not been subject to an industrial crushing process, ensuring all rock commercially exploited as aggregate is subject to the levy. (*)

Aggregate arising from the removal of overburden during china clay and ball clay extraction will be subject to the levy, so that the aggregate content of overburden for all mineral extraction will be taxable. (*)

Following consultation with the industry, a number of technical amendments, plus some changes to exemptions, are being made. (*)

Aggregate arising from the processing of industrial minerals will be exempt from the levy. (*)

From Royal Assent, the application of the penalty regime will, in certain circumstances, be extended to the customer of a supply. (*)

Fuel duties Duty on road and non-road fuel oils will be frozen in Budget 2002. (47)

Oils fraud strategy The Government will introduce a package of measures designed to tackle oils fraud: (36)

- from 1 August 2002, rebated gas oils and kerosene will be marked with Solvent Yellow 124 as part of an EU wide effort to improve the marking of rebated fuels;
- from 1 September 2002, the majority of traders who distribute and use large quantities of duty relieved oils for industrial purposes other than as motor or heating fuel (known as the tied oils scheme) will have to be approved by HM Customs and Excise, reducing the risk of these oils being misused as road fuel; and
- from 1 January 2003, distributors of rebated gas oil (red diesel and kerosene) will have to be approved by HM Customs and Excise in order to deal in such fuels. Distributors will be required to take reasonable steps to ensure that they do not make sales of rebated fuels to customers where they have reason to believe that the fuel will be put to an illicit use.

Green Fuel Challenge As announced in the November 2001 Pre-Budget Report, the Government has selected three projects which will receive fuel duty reductions or exemptions. These relate to hydrogen fuelling infrastructure for fuel cell buses, capture, compression and use of biogas in a variety of vehicles, and testing the use of methanol in a variety of vehicles and in the refueling infrastructure. (*)

Air passenger duty Air passenger duty rates will be frozen in Budget 2002. (48)

From 1 November 2002, passengers flying to countries that have applied to join the EU, or to Switzerland, will be subject to the same rates of air passenger duty (APD) as those flying to European Economic Area (EEA) destinations. (49)

Vehicle excise duties

All vehicle excise duty (VED) rates will be frozen in Budget 2002. (50)

From May 2002, a new VED band will be introduced for cars that are first registered on or after 1 March 2001 and emit 120g/km of carbon dioxide (CO_2) or less. Within this band, the VED rate for cars using alternative fuels will be £60 a year, for petrol cars £70 a year, and for diesel cars £80 a year. (51)

From May 2002, the motorcycle VED structure and rates will change to those shown below. (52)

Table A.10: Bands and rates for motorcycle VED system

Engine size	VED rate (£)
Up to 150cc	15
151 – 400cc	30
401 – 600cc	45
Above 600cc	60

From May 2002, motorcycle VED trade licences will be £60 a year. (*)

From May 2002, the annual tricycle VED rates will change to £15 for tricycles with an engine size of 150cc or less and £60 for tricycles with an engine size above 150cc. (*)

From March 2003, new vans which meet the new euro-IV emissions standard will qualify for a reduced VED rate of £105 a year. (53)

From June 2002, all lorries registered on the islands of Harris and Lewis, and Orkney and Shetland, and which travel only 5 kilometres from their disembarkation point on the UK mainland, will have the option to pay the small islands goods vehicle VED rate of £165 a year. (*)

Finance Bill 2002 includes provisions to introduce a new offence to ensure that, in future, the registered keeper is liable for an unlicensed vehicle. (-)

From Royal Assent, the Driver and Vehicle Licensing Agency (DVLA) will be able to use information contained on the databases of the Department for Work and Pensions and the Ministry of Defence to enable the efficient licensing for those disabled motorists who qualify for a VED exemption. (-)

Finance Bill 2002 contains provisions to correct an anomaly in the Vehicle Excise Registration Act 1994 to ensure that the engine capacity for all vehicles is calculated on the correct basis. (-)

Following the abolition of VED on tractors and other vehicles in the special concessionary VED class from April 2001, the Government extended this exemption to vehicles designed for lifting and loading agricultural, horticultural and forestry materials, with effect from January 2002. (*)

Employer subsidised bus services

From 6 April 2002, the existing tax exemption allowing employers to support bus services is extended to allow employees to travel at a reduced cost or for free on those services. (46)

Car fuel scale charges

From 1 May 2002, the VAT car fuel scale charge for taxing private use of road fuel bought by businesses will be adjusted for the movement in pump prices between Budget 2001 and Budget 2002. (54)

From 6 April 2003, a new fuel scale charge linked directly to the carbon dioxide emissions of the company car will be introduced on a revenue neutral basis and used to calculate the benefit to employees, who have a company car and receive free fuel for private mileage. (*)

Lorry road-user charging

Finance Bill 2002 contains provisions for a new distance-based lorry road-user charge to enable the Government to spend preparatory monies. (-)

OTHER INDIRECT TAXES

Tobacco duties

From Budget day 2002, tobacco duty rates will be increased in line with inflation by 1.9 per cent to maintain the real cost of tobacco. (37)

Table A.11: Changes to tobacco duties

	Changes in duty (per cent)	Effect of tax[1] on typical item (increase in pence)	Unit
Cigarettes	1.9	6.3	packet of 20
Cigars	1.9	2.0	packet of 5
Hand-rolling tobacco	1.9	5.4	25g
Pipe tobacco	1.9	3.3	25g

[1] *Tax refers to duty plus VAT*

Alcohol duties

Excise duty rates on beer, wine and spirits will be frozen and, from 28 April 2002, the excise duty rate on cider will be cut by 2 per cent. (39)

Excise duty rates on spirit-based coolers will be increased to the spirits rate of £19.56 per litre of pure alcohol. (40)

From 1 June 2002, small brewers brewing less than 5,000 hectolitres per year will pay duty at 50 per cent of the standard duty rate. Brewers brewing more than 5,000 hectolitres but less than 30,000 hectolitres per year will pay duty at rates equivalent to a cut of 50 per cent on their first 5,000 hectolitres of production. (38)

Betting and gaming duties

The cost of category C and E gaming machine licences will be raised in line with increases in the price limits and turnover of these machines, and the threshold of the non-gaming machine exemption will also be raised. Both measures will be effective from 1 May 2002. (*)

Gaming duty bandings will be uprated to allow for inflation for accounting periods starting on or after 1 April 2002. (-)

Two new games ('sic bo' and 'three card poker') will become chargeable to gaming duty with effect from 24 April 2002, following regulatory changes allowing these games to be played in casinos. (*)

Pool betting duty was abolished from 1 April 2002 and replaced by a 15 per cent tax on pools companies' gross profits. (o)

The Betting and Gaming Duties Act 1981 will be updated to extend the scope of the ban on non-UK bookmakers advertising in the UK to include bet brokers and to amend the legal reference to spread betting. (-)

Drawback claims

From Royal Assent, claimants will no longer have to satisfy the Commissioners of HM Customs and Excise that excise duty has been paid and not already drawn back before repayment of drawback is made. Claimants will be given additional rights to require HM Customs and Excise to review their decisions regarding claims for drawback and, where a claimant is dissatisfied with the outcome of the review, to appeal to the VAT and Duties Tribunal. (-)

ADDITIONAL SPENDING DECISIONS

Spending in 2002–03

In order to accelerate delivery in the priority areas of education and crime reduction, the Government has:

- released £100 million from the Capital Modernisation Fund for 2002-03 to enhance the ability of schools across the UK to tackle past under-investment. This will enable additional direct capital payments worth almost £2,500 to a typical primary school and over £7,100 to a typical secondary school; and
- announced a package of £250 million, with an extra £110 million from the Reserve, for the Home Office in 2002-03 targeted on efforts to tackle street crime and associated pressures, and countering the threat of terrorism.

Spending over the 2002 Spending Review period

Budget 2002 sustains and increases the resources for public services already announced and adds £4 billion to Departmental Expenditure Limits (DEL) in 2003-04. £2.4 billion of this DEL addition has been immediately allocated to UK health spending and £0.4 billion to personal social services. The Budget also sets firm overall spending plans for the period of the 2002 Spending Review up to and including 2005-06, allowing:

- current spending, excluding spending on health, to increase by 2½ per cent a year in real terms in 2004-05 and 2005-06. Current spending will rise in total by an average of 3.3 per cent a year in real terms over the same period;
- public sector net investment to rise from its 2003-04 target of 1.8 per cent to 2 per cent of GDP by 2005-06.

AME margin

This Budget sets the Annually Managed Expenditure (AME) margin to £1 billion in 2002-03, and £2 billion in 2003-04, a reduction of £0.2 billion in 2002–03 and an increase of £0.5 billion in 2003–04 since the November 2001 Pre-Budget Report.

A APPENDICES

APPENDIX A1: EXPLAINING THE COSTINGS

This appendix explains how the Exchequer effects of the Budget measures are calculated. In the context of these calculations, the net Exchequer effects for measures may include amounts for taxes, national insurance contributions, social security benefits and other charges to the Exchequer and, for HM Customs and Excise, penalties.

Calculating the costings

The net Exchequer effect of a Budget measure is generally calculated as the difference between applying the pre-Budget and post-Budget tax and benefit regimes to the levels of total income and spending at factor cost expected after the Budget. The estimates do not therefore include any effect the tax changes themselves have on overall levels of income and spending. They do, however, take account of other effects on behaviour where they are likely to have a significant and quantifiable effect on the yield and any consequential changes in revenue from related taxes and benefits. These include estimated changes in the composition or timing of income, spending or other tax determinants. For example, the estimated yield from increasing the excise duty on petrol includes the change in the yield of VAT and other excise duties resulting from the new pattern of spending. The calculation of the expected effect of changes in duty rates on consumer demand for excise goods assumes that any change in duty is passed on in full to consumers. Where the effect of one tax change is affected by implementation of others, the measures are generally costed in the order in which they appear in tables A.1 and A.2.

The non-indexed base columns in Tables A.1 and A.2 show the revenue effect of changes in allowances, thresholds and rates of duty (including the effect of any measures, such as the VAT flat rate scheme for small business, previously announced but not yet implemented) from their pre-Budget level. The indexed base columns strip out the effects of inflation by increasing the allowances, thresholds and rates of duty in line with prices in this and future Budgets.

Where the Government has a policy, such as of the VAT flat rate scheme for small business, which has been previously announced but not yet implemented, this is also stripped out of the indexed numbers. Measures announced in this Budget are assumed to be indexed in the same way for future Budgets.

The indexed base has been calculated on the assumption that, each year:

- income tax and national insurance contribution allowances and thresholds and the Children's Tax Credit increase in line with the annual increase in the Retail Price Index (RPI) *to the September prior to the Budget*;
- Working Families' Tax Credit and Disabled Person's Tax Credit rise in line with the annual increase in the Rossi index *to the September prior to the Budget*;
- air passenger duty, climate change levy, vehicle excise duty and fuel, tobacco and alcohol duties all rise in line with the projected annual increase in the RPI *to the September following the Budget*; and
- VAT thresholds and gaming duty bands rise in line with the increase in the RPI *to the December prior to the Budget.*

Implementation dates are assumed to be: Budget day for fuel and tobacco duties; 10 days after Budget day for alcohol duties; May for amusement machine licence duty; July for insurance premium tax; November for air passenger duty; and April for all other taxes, duties and tax credits.

The yields of anti-avoidance measures represent the estimated direct effect of the measures with the existing level of activity. Without these measures, there could be a significant future loss of revenue currently included in the baseline.

These costings are shown on a National Accounts basis. The National Accounts basis aims to recognise tax when the tax liability accrues irrespective of when the tax is received by the Exchequer. However, some taxes are scored on a receipt basis, principally due to the difficulty in assessing the period to which the tax liability relates. Examples of such taxes are corporation tax, self assessment income tax, inheritance tax and capital gains tax. This approach is consistent with other Government publications.

APPENDIX A2: MEASURES ANNOUNCED IN BUDGET 2001 OR EARLIER

This appendix sets out a number of tax, national insurance contribution, social security benefit and other changes which were announced in Budget 2001 or earlier and which take effect from April 2002 or later. The revenue effects of these measures have been taken into account in previous economic and fiscal projections.

Table A2.1: Measures announced in Budget 2001 or earlier which take effect from April 2002 or later

		(+ve is an Exchequer yield)			£ million
		2002-03 indexed	2003-04 indexed	2004-05 indexed	2002-03 non-indexed
INLAND REVENUE TAXES					
1	Reduction of employer NIC rates by 0.1 percentage points from April 2002	-370	-400	-420	-370
2	Stamp duty: exemption for disadvantaged areas	-35	-35	-35	-35
3	Over index aged income allowances by £240 from April 2003	0	-120	-255	0
4	Increase Children's Tax Credit by a further £10 for families in the year of a child's birth from April 2002	-150	-220	-220	-150
5	Raise flat rate of Statutory Maternity Pay and Maternity Allowance to £75 from April 2002 and £100 from April 2003	-45	-140	-145	-45
6	Extend Statutory Maternity Pay and Maternity Allowance from 18 to 26 weeks from April 2003	0	-175	-225	0
7	Small Employer Relief: expand eligibility from April 2002	-5	-5	-5	-5
8	Increase Sure Start Maternity Grant by £200 from April 2002	-40	-40	-40	-40
9	Introduce two weeks paid paternity leave from April 2003	0	-65	-65	0
10	Introduce paid adoption leave for one parent from April 2003	0	-10	-10	0
11	Car fuel scale charge	+150	+150	+150	+150
12	Company car taxation	*	-25	-75	*
13	Authorised mileage rates	-5	-5	-5	-5
CUSTOM AND EXCISE TAXES					
14	Green Travel package	-5	-5	-5	-5
15	Biodiesel: cut duty by 20p from Royal Assent 2002	-10	-20	-25	-10
16	Aggregates levy	+315	+365	+380	+315
17	£1 per tonne increase in landfill tax each year	+90	+115	+140	+100
TOTAL		**-110**	**-635**	**-860**	**-100**

** Negligible*

Inland Revenue taxes

From April 2002, revenues from the introduction of the aggregates levy are re-cycled back to business through a 0.1 percentage point reduction in employer national insurance contributions from 11.9 to 11.8 per cent.

To increase investment in deprived areas, an exemption from stamp duty for all property transfers up to £150,000 has been available in the UK's most disadvantaged areas since 30 November 2001.

The age-related personal allowances will be raised at least in line with earnings rather than prices from April 2003 and for the remainder of the Parliament.

The Children's Tax Credit has been increased to £20.17 per week, up to £1,049 per year in the year of a child's birth for children born from 6 April 2002.

The flat rate of Maternity Allowance and Statutory Maternity Pay is increased to £75 a week from April 2002 and to £100 a week, or 90 percent of previous earnings if less, from April 2003.

The payment period for Statutory Maternity Pay and Maternity Allowance will be extended from 18 to 26 weeks from April 2003.

The qualifying threshold for Small Employer Relief, which allows small businesses to claim a higher rate of reimbursement for paying Statutory Maternity Pay, is increased to an annual national insurance liability of £40,000 from 8 April 2002.

The Sure Start Maternity Grant increases from £300 to £500 from April 2002.

From April 2003, paid paternity leave will be introduced for working fathers. It will be paid for two weeks, at the same flat rate as Statutory Maternity Pay.

From April 2003 paid adoption leave will be introduced, to allow one adoptive parent to claim paid leave at the same rate and for the same period as Statutory Maternity Pay.

The Chancellor announced in Budget 98 that fuel scale charges provided for private motoring in company cars would increase by 20 per cent above revalorisation from 6 April 1998 and in each of the following four years.

From April 2002, the tax and Class 1A NICs charge for company cars is linked to the CO_2 exhaust emissions.

From April 2002, there is a single statutory tax and NICs free rate of 40 pence per mile for the first 10,000 business miles per year for all sizes of car plus 25 pence for additional miles. The passenger rate for business trips is increased to 5 pence per mile and the cycle rate will be increased to 20 pence per mile.

Customs and Excise taxes

Measures taking effect from April 2002 include the removal of the 3 per cent diesel supplement for company cars achieving the euro-IV emission standard, discounts for alternatively-fuelled company cars and lowering the passenger seating threshold on works buses qualifying for tax exemptions from 12 to 9.

As announced in Budget 2000, a levy on the commercial exploitation of aggregates in the UK was introduced on 1 April 2002. The levy is charged at a rate of £1.60 per tonne.

As announced in Budget 2001, duty on biodiesel used as a road fuel will be reduced by 20 pence to 25.82 pence per litre with effect from Royal Assent.

The standard rate of landfill tax is increased from £12 per tonne to £13 per tonne with effect from 1 April 2002, in line with the Governments commitment to increase the rate by £1 per tonne each year until at least April 2004.

APPENDIX A3: TAX ALLOWANCES AND RELIEFS

This appendix provides estimates of the revenue cost of some of the main tax allowances and reliefs.

Tax reliefs can serve a number of purposes. In some cases they may be used to assist or encourage particular individuals, activities or products. They may thus be an alternative to public expenditure. In this case they are often termed "tax expenditures". There may, for instance, be a choice between giving tax relief as an allowance or deduction against tax, or by an offsetting cash payment.

Many allowances and reliefs can reasonably be regarded (or partly regarded) as an integral part of the tax structure – called "structural reliefs". Some do no more than recognise the expense incurred in obtaining income. Others reflect a more general concept of "taxable capacity. The personal allowances are a good example: to the extent that income tax is based on ability to pay, it does not seek to collect tax from those with the smallest incomes. But even with structural reliefs of the latter kind, the Government has some discretion about the level at which they are set.

Many other reliefs combine both structural and discretionary components. Capital allowances, for example, provide relief for depreciation at a commercial rate as well as an element of accelerated relief. It is the latter element that represents additional help provided to business by the Government and is a "tax expenditure".

The loss of revenue associated with tax reliefs and allowances cannot be directly observed, and estimates have to be made. This involves calculating the amount of tax that individuals or businesses would have had to pay if there were no exemptions or deductions for certain categories of income or expenditure, and comparing it with the actual amount of tax due. The Government regularly publishes estimates of tax expenditures and reliefs for both HM Customs and Excise and Inland Revenue taxes. Largely because of the difficulties of estimation, the published tables are not comprehensive but do cover the major reliefs and allowances.

The estimates in Table A3.1 below show the total cost of each relief. The classification of reliefs as tax expenditures, structural reliefs and those elements combining both is broad brush and the distinction between the expenditures and structural reliefs is not always straightforward. In many cases the estimated costs are extremely tentative and based on simplifying assumptions. The figures make no allowance for the fact that changes in tax reliefs may cause people to change their behaviour. This means that figures in Table A3.1 are not directly comparable with those of the main Budget measures.

Estimation of behavioural effects is notoriously difficult. The sizes of behavioural changes will obviously depend on the measure examined and possible alternative behaviours. For example, removing the tax privileges of one form of saving may just lead people to switch to another form of tax privileged saving.

Table A3.1 also gives details relating to VAT, which is collected by HM Customs and Excise. It shows the estimated yield forgone by not applying the standard rate of VAT (17.5 per cent) to goods and services which are currently zero-rated, reduced rated, exempt or outside the scope of VAT. Estimates of the scale of structural reliefs for local authorities and equivalent bodies are also shown. Again, the figures are estimates and must be treated with caution. In line with the treatment of Inland Revenue taxes, they make no allowance for changes in behaviour.

The estimated costs of reliefs and allowances given in Table A3.1 cannot be added up to give a meaningful total. The combined yield of withdrawing two related allowances could differ significantly from the sum of individual costs. Similarly the sum of the costs of component parts of reliefs may differ from the total shown.

More details on individual tax allowances and reliefs can be found in the HM Treasury publication *Tax Ready Reckoner and Tax Reliefs*, November 2001.

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

	£ million	
	2000-01	2001-02
TAX EXPENDITURES		
Income tax		
Relief for:		
Approved pension schemes	13,700	14,400
Approved profit sharing schemes	170	160
Share Incentive Plan	80	180
Approved discretionary/company share option schemes	50	30
Approved savings-related share option schemes	470	440
Personal Equity Plans	875	625
Individual Savings Accounts	420	650
Venture Capital Trusts	160	70
Enterprise Investment Scheme	360	340
Profit related pay	150	0
Professional subscriptions	45	50
Rent a room	100	100
Exemption of:		
First £30,000 of payments on termination of employment	850	850
Interest of National Savings Certificates including index-linked certificates	210	170
Tax Exempt Special Savings Account interest	400	150
Premium Bond prizes	120	110
SAYE	60	60
Income of charities	775	800
Foreign service allowance paid to Crown servants abroad	80	80
First £8,000 of reimbursed relocation packages provided by employers	300	300
Tax credits:		
Life assurance premiums (for contracts made prior to 14 March 1984)	100	95
Children's Tax Credit	0	2,100
Working Families' Tax Credit	4,550	5,400
Disabled Person's Tax Credit	100	120
Corporation tax		
Research and Development Tax Credit	15	70
Relief for clearing contaminated land	0	90
National insurance contributions		
Approved profit sharing schemes	120	110
Share Incentive Plan	50	100
Approved savings-related share option schemes	320	300

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

	£ million	
	2000-01	2001-02
Capital gains tax		
Exemption of gains arising on disposal of only or main residence	4,400	5,700
Retirement relief	190	80
Inheritance tax		
Relief for:		
Agricultural property	110	120
Business property	130	120
Exemption of transfers to charities on death	370	350
Value added tax		
Zero-rating of:		
Food	8,400	8,700
Construction of new dwellings (includes refunds to DIY builders)	3,050	3,250
Domestic passenger transport	1,650	1,700
International passenger transport (UK portion)	250	250
Books, newspapers and magazines	1,500	1,600
Children's clothing	950	950
Water and sewerage services	950	950
Drugs and supplies on prescription	700	750
Supplies to charities	150	150
Ships and aircraft above a certain size	500	550
Vehicles and other supplies to disabled people	300	300
Lower rate on domestic fuel and power	1,650	1,650
Lower rate for certain residential conversions	-	100
STRUCTURAL RELIEFS		
Income tax		
Personal allowance	32,100	32,800
Income tax and corporation tax		
Double taxation relief	6,500	6,500
Corporation tax		
Reduced rate of corporation tax on policy holders' fraction of profit	700	350
National insurance contributions		
Contracted-out rebate occupational schemes:		
Rebates deducted at source by employers	6,560	6,870
Rebates paid by the Contributions Agency direct to the scheme	120	120
Personal pensions	2,740	2,970
Value added tax		
Refunds to:		
Northern Ireland Government bodies of VAT incurred on non-business purchases under the Section 99 refund scheme	250	250
Local Authority-type bodies of VAT incurred on non-business purchases under the Section 33 refund scheme	4,150	4,350
Central Government, Health Authorities and NHS Trusts of VAT incurred on contracted-out services under the Section 41 (3) refund scheme	2,250	2,350

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

	£ million	
	2000-01	2001-02
RELIEFS WITH TAX EXPENDITURE AND STRUCTURAL COMPONENTS		
Income tax		
Age-related allowances	1,700	1,650
Exemption of:		
British Government securities where owner not ordinarily resident in the United Kingdom	850	850
Child Benefit (including one parent benefit)	880	880
Long-term incapacity benefit	150	140
Industrial disablement benefits	80	90
Attendance allowance	230	250
Disability living allowance	430	460
War disablement benefits	100	90
War widow's pensions	60	50
Income tax and corporation tax		
Capital allowances of which:	17,900	17,700
First year allowances for SMEs	220	230
First year allowances for small enterprises for information and communication technology	0	90
Enhanced capital allowances for energy saving technology	0	70
Accelerated captial allowances for Enterprise Zones	100	100
Corporation tax		
Small companies' reduced rate corporation rate	1,800	1,900
Starting rate of corporation tax	150	160
Capital gains tax		
Indexation allowance and rebasing to March 1982	475	350
Taper relief	360	570
Exemption of:		
Annual exempt amount (half of the individual's exemption for trustees)	1,500	850
Gains accrued but unrealised at death	1,000	700
Petroleum revenue tax		
Uplift of qualifying expenditure	300	160
Relief for exploration and appraisal expenditure	65	65
Oil allowance	575	600
Safeguard: a protection for return on capital cost	260	260
Tariff receipts allowance	75	85
Exemption for gas sold to British Gas under pre-July 1975 contracts	200	200
Inheritance tax		
Nil rate band for chargeable transfers not exceeding the threshold	6,100	6,800
Exemption of transfers on death to surviving spouses	1,300	1,200
Stamp duties		
Exemption of transfers of land and property where the consideration does not exceed the £60,000 threshold	200	160

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

	£ million	
	2000-01	2001-02
National insurance contributions		
Reduced contributions for self-employed not attributable to reduced benefit eligibility (constant cost basis)	2,200	2,400
Value added tax		
Exemption of:		
Rent on domestic dwellings	3,250	3,350
Rent on commercial property	500	500
Private education	250	250
Health services	500	500
Postal services	400	400
Burial and cremation	50	50
Finance and insurance	100	100
Betting, gaming and lottery duties	700	700
Small traders	100	100