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## Budget policy decisions

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**2.1** Chapter 1 explains how the measures announced in this Budget advance the Government's long-term goals. This chapter provides a brief description of all Budget policy decisions. These are decisions on tax measures, National Insurance Contributions (NICs) measures, measures that affect Annually Managed Expenditure (AME), and changes to Departmental Expenditure Limits (DEL). Measures that are financed from existing DEL provisions are not included. Unless stated otherwise, measures in this chapter are measures announced at this Budget.<sup>1</sup> The tables in this chapter set out the cost or yield of all Budget policy decisions with a fiscal impact in the years to 2015-16.<sup>2</sup>

### Fiscal impacts of Budget policy decisions

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**2.2** Alongside this Budget, the Office for Budget Responsibility (OBR) has published an independent forecast of the public finances and the economy, incorporating Budget policy decisions. To produce the Budget forecast, the OBR has scrutinised the Government's assessment of the direct costs or yield of Budget policy decisions that affect the economy and public finance forecasts and has made an assessment of the indirect effects of Budget measures on the economy.

**2.3** Table 2.1 shows the cost or yield of all new Budget policy decisions with a fiscal impact. This includes tax measures, NICs measures, measures affecting AME and additions to DEL. Table 2.2 shows the cost or yield of all measures with a fiscal impact announced at or before the publication of Spending Review 2010 which take effect from April 2011 or later. Consistent with its commitment to increase transparency in public life, the Government is following the approach taken at the June Budget 2010 in publishing the methodology underlying the calculation of the fiscal impact of each Budget policy decision. This is included in the supplementary document *Budget 2011 policy costings*, published alongside this Budget.<sup>3</sup> This document also explains in detail the underlying indexation assumption for each tax and benefit.

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<sup>1</sup>For the sake of clarity, all tax measures to be legislated for in Finance Bill 2011 are included in this chapter.

<sup>2</sup>The number or lower case letters in brackets after each measure refers to the line in Table 2.1 or Table 2.2 where its cost or yield is shown. For measures which will be legislated in future Finance Bills, the text in brackets after each measure indicates which Finance Bill will, under current plans, contain the legislation.

<sup>3</sup>*Budget 2011 policy costings*, HM Treasury and HM Revenue & Customs (HMRC), March 2011.

**Table 2.1: Budget policy decisions<sup>1</sup>**

		£ million					
		Head	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Growth and Enterprise</b>							
1	Corporation tax: decrease main rate to 26% in 2011-12, 25% in 2012-13, 24% in 2013-14 and 23% from 2014-15	Tax	-425	-810	-910	-1,000	-1,075
2	Corporation tax: interim improvements to Controlled Foreign Company rules	Tax	-55	-15	-25	-25	-25
3	Corporation tax: taxation of foreign branches reform	Tax	0	-30	-70	-80	-80
4	Corporation tax: corporate capital gains simplification	Tax	+5	-5	-15	-35	-55
5	Corporation tax: full reform to Controlled Foreign Company rules	Tax	0	-210	-540	-770	-840
6	Bank Levy: increase first year effective rate to 0.075% and rate to 0.078% from January 2012	Tax	+630	+285	+100	+105	+100
7	Enterprise Investment Scheme and Venture Capital Trusts: reform	Tax	0	-105	-115	-110	-120
8	R&D tax credits: increase SME rate to 200% from 2011-12 and to 225% from 2012-13	Spend	-20	-75	-105	-105	-
9	Capital allowances: extension of short life assets limit	Tax	-10	-40	-70	-100	-170
10	Capital allowances: extension of business premises renovation allowance	Tax	0	-5	-30	-25	-30
11	Business rates: Enterprise Zones	Tax	0	-20	-40	-65	-80
12	Business rates: one-year extension of relief for small business from October 2011	Tax	-190	-185	+5	0	0
13	Capital gains tax: increase Entrepreneurs' relief lifetime limit to £10 million	Tax	0	-50	-70	-90	-100
14	Science facilities: additional investment	Spend	-100	0	0	0	-
<b>Housing and Employment</b>							
15	Stamp Duty Land Tax: bulk purchasing	Tax	-70	-90	-120	-130	-150
16	Support for Mortgage Interest: one-year extension from January 2012	Spend	-10	-110	-15	0	-
17	FirstBuy: support for first-time buyers	Spend	-250	0	0	0	-
18	Enterprise Allowance: extension	Spend	-5	-15	-5	0	-
19	Work experience: 80,000 additional placements	Spend	-20	-20	0	0	-
20	University Technical Colleges: additional investment	Spend	-150	0	0	0	-
21	Apprenticeships: 50,000 additional places	Spend	-100	-60	-45	-5	-
<b>Personal tax</b>							
22	Personal allowance: increase by £630 in 2012-13, with adjustment to basic rate limit and no change to higher rate threshold	Tax	0	-1,050	-1,210	-1,200	-1,230
23	Direct taxes: switch the default indexation assumption to CPI from 2012-13	Tax	0	+105	+235	+630	+1,080
24	Direct taxes: over-index employer NICs threshold, age related allowances and other allowances <sup>2</sup>	Tax	0	0	0	0	0
25	NICs: implement Government Actuary's 'best estimate' approach on contracted-out rebates from 2012-13 <sup>3</sup>	Tax	0	+640	+630	+620	+610
26	Non-domicile taxation: reform	Tax	0	0	+110	+70	+50
<b>Motoring tax</b>							
27	Fuel duty: 1ppl reduction from 23 March 2011, removal of previously announced above-RPI increases and delay of RPI increases	Tax	-1,900	-1,600	-1,700	-2,100	-2,100
28	North Sea: increase in supplementary charge from 20% to 32% and restriction on decommissioning relief from 2011-12	Tax	+1,780	+2,240	+2,120	+2,090	+1,870
29	Fuel duty: rural rebate	Tax	*	-5	-5	-5	-5

30	Vehicle excise duty: freeze rates for Heavy Goods Vehicles in 2011-12	Tax	-15	-15	-15	-20	-20
31	Approved Mileage Allowance Payments: increase allowances from 2011-12	Tax	-35	-35	-35	-35	-35
<b>Environmental tax</b>							
32	Carbon price floor: introduce from 2013-14 with £30 per tonne of CO <sub>2</sub> target	Tax	0	0	+740	+1,070	+1,410
33	Climate Change Agreements: reform	Tax	0	0	-40	-50	-50
34	Climate change levy exemption: supplies of gas in Northern Ireland	Tax	*	*	+5	+5	+5
35	Company car tax: adjustment to rates for 2013-14	Tax	0	0	+125	+130	+135
36	Air passenger duty: defer RPI increase in 2011-12 to 2012-13	Tax	-145	0	0	0	0
37	Aggregates levy: postpone rate increase until 2012-13	Tax	-15	-15	-20	-20	-20
<b>Indirect tax</b>							
38	VAT: decrease low value consignment relief threshold to £15 from November 2011	Tax	+5	+10	+10	+10	+15
39	Tobacco duty: rebalance for cigarettes and increase for hand rolled tobacco from 2011-12	Tax	+80	+60	+65	+70	+80
<b>Avoidance, evasion and administration</b>							
40	Disguised remuneration: avoidance	Tax	+750	+760	+730	+770	+760
41	Currency for tax calculations: avoidance	Tax	+60	+60	+60	+60	+60
42	Sale of lessor companies: avoidance	Tax	+25	+20	+20	+15	+15
43	Leasing double allowances: avoidance	Tax	+80	+130	+130	+120	+120
44	Stamp Duty Land Tax: avoidance	Tax	+30	+30	+40	+40	+50
45	VAT: supply splitting using printed matter	Tax	+40	+50	+50	+50	+60
46	VAT: fraud on imported road vehicles	Tax	0	0	+125	+110	+105
47	Protection life insurance	Tax	0	0	+60	+90	+120
48	Qualifying Time Deposit accounts: change to tax treatment	Tax	0	*	+35	+40	+40
49	PAYE: holding security	Tax	*	+5	+5	+5	+5
<b>Philanthropy</b>							
50	Inheritance tax: reduce rate to 36% for estates with charitable donations of more than 10% from 2012-13	Tax	0	-25	-75	-125	-170
51	Gift Aid: small donations scheme	Spend	0	0	-50	-85	-
<b>Other spending measures</b>							
52	Housing Benefit: not introduce reductions for long term jobseekers	Spend	0	0	-105	-115	-
53	Disability Living Allowance: mobility components for claimants in residential care	Spend	0	-75	0	0	-
54	Local Housing Allowance: transitional protection for existing claimants	Spend	+30	-30	0	0	-
55	Employment and Support Allowance Youth: abolish National Insurance concession	Spend	0	+10	+10	+15	-
56	Benefit fraud: sanctions and debt recovery	Spend	0	+25	+45	+65	-
57	Coinage: delay implementation of reduction in metal cost	Spend	-10	0	0	0	-
<b>TOTAL POLICY DECISIONS</b>			<b>-10</b>	<b>-265</b>	<b>+25</b>	<b>-115</b>	<b>+335</b>

\* Negligible.

- Spending measures do not affect borrowing in 2015-16 as they fall within the Total Managed Expenditure assumption.

<sup>1</sup> Costings reflect the OBR's latest economic and fiscal determinants.

<sup>2</sup> The employer NICs threshold, starting rate limit of savings income, income tax age related allowances, age-related income limits, married couples allowance will continue to rise by the cash equivalent of RPI for the course of the Parliament. The personal allowance is assumed to increase from 2013-14 by at least the cash equivalent of RPI.

<sup>3</sup> Announced by DWP on 3 February 2011.

Table 2.2: Measures announced at Spending Review 2010 or earlier which take effect from April 2011 or later<sup>1</sup>

	Head	£ million					
		2011-12	2012-13	2013-14	2014-15	2015-16	
<b>Measures announced at Spending Review 2010</b>							
a	Contributory Employment and Support Allowance: time limit for those in the Work Related Activity Group to one year from 2012-13	Spend	0	+450	+815	+1,100	+1,180
b	Housing Benefit: increase age limit for shared room rate from 25 to 35 from January 2012	Spend	+10	+170	+230	+215	+205
c	Total household benefit payments capped on the basis of average take-home pay for working households from 2013-14	Spend	0	0	+225	+270	+270
d	Disability Living Allowance: remove mobility components for claimants in residential care from April 2013 <sup>2</sup>	Spend	0	0	+155	+160	+160
e	Savings Credit: freeze maximum award for four years from 2011-12	Spend	+225	+280	+330	+415	+425
f	Council Tax Benefit: 10 per cent reduction in expenditure and localisation	Tax	0	0	+490	+490	+490
g	Child Benefit: remove from families with a higher rate taxpayer from January 2013	Spend	0	+600	+2,435	+2,485	+2,530
h	Working Tax Credit: freeze in the basic and 30 hour elements for three years from 2011-12	Spend	+270	+750	+975	+1,030	+1,035
i	Working Tax Credit: reduce payable costs through childcare element from 80 per cent to 70 per cent restoring 2006 rate from 2011-12	Spend	+335	+350	+370	+390	+405
j	Child Tax Credit: increase the child element by £30 in 2011 and £50 in 2012	Spend	-270	-695	-690	-690	-655
k	Working Tax Credit: increase working hours requirement for couples with children to 24 hours	Spend	0	+515	+510	+505	+515
l	Child and Working Tax Credits: use real time information	Spend	0	0	0	+395	+355
m	Public service pensions: increase in employee contribution rates	Spend	0	+160	+1,270	+1,760	+1,850
n	Renewable Heat Incentives: efficiency savings from 2011-12	Spend	+5	+15	+45	+110	+180
o	Carbon Reduction Commitment: no recycling of revenues from 2011-12	Spend	+715	+735	+1,010	+1,040	+1,080
p	Coinage: reduction in metal cost	Spend	0	+10	+10	+10	+10
q	Equitable life payments	Spend	-520	-315	-210	-100	-70
r	Capitalisation: support for local authority restructuring	Spend	-240	0	0	0	0
s	Public Works Loan Board: interest rate increase	Spend	+165	+330	+400	+465	+525
t	TfL Metronet: replace borrowing with central government grant	Spend	+325	+300	+200	+185	0
u	Right to Buy: surrender full receipts to Exchequer receipts	Spend	+25	+30	+40	+40	+45
v	Housing Revenue Account System: reform	Spend	+25	+25	+25	+25	+5
w	Northern Ireland Reinvestment and Reform Initiative	Spend	-175	0	0	0	0
<b>Measures announced at the June Budget 2010</b>							
x	Corporation tax: decrease to 27 per cent in 2011-12, 26 per cent in 2012-13, 25 per cent in 2013-14 and 24 per cent from 2014-15	Tax	-430	-1,200	-2,150	-3,300	-4,100
y	Small Profits Rate: decrease to 20 per cent from 2011-12	Tax	-50	-800	-1,200	-1,300	-1,400
z	Capital allowances: decrease main rate to 18 per cent and special rate to 8 per cent from 2012-13	Tax	0	+600	+1,600	+1,700	+1,700
aa	Annual Investment Allowance: decrease to £25,000 from 2012-13	Tax	0	+200	+1,200	+1,000	+1,000
ab	Business rates: backdated bills in 2011-12	Tax	-70	-15	-15	-15	-15
ac	Employer NICs: increase threshold in 2011-12	Tax	-3,110	-3,270	-3,490	-3,690	-3,890
ad	Personal allowance: increase by £1,000 in 2011-12, with adjustments to basic rate limit and upper earnings limit	Tax	-3,340	-3,580	-3,620	-3,710	-3,820
ae	Basic rate limit: freeze in 2013-14	Tax	0	0	+370	+800	+760
af	Council Tax: reduction to receipts due to a one year freeze in 2011-12	Tax	-700	-740	-715	-775	-745

ag	Furnished holiday lettings: reverse plans to repeal existing rules	Tax	-20	+5	*	*	*
ah	Benefits, tax credits and public service pensions: switch to CPI indexation from 2011-12	Spend	+1,500	+3,050	+4,885	+7,555	+10,595
ai	Disability Living Allowance: reform gateway from 2013-14	Spend	0	0	+360	+1,070	+1,450
aj	Lone parent benefits: extend conditionality to those with children aged 5 and above from January 2012	Spend	0	+70	+210	+290	+320
ak	Sure Start Maternity Grant: apply to first child only from 2011-12	Spend	+75	+75	+75	+75	+75
al	Local Housing Allowance: set at the 30th percentile of local rents from April 2011 with transitional protection for existing claimants <sup>3</sup>	Spend	+130	+375	+445	+475	+505
am	Deductions for non-dependents: reverse previous freezes on uprating and maintaining link with prices from 2011-12	Spend	+70	+135	+195	+210	+215
an	Social sector: limit working age entitlements to reflect size of family from 2013-14	Spend	0	0	+490	+490	+490
ao	Switch to CPI indexation for Local Housing Allowance from 2013-14	Spend	0	+45	+140	+290	+465
ap	Additional bedroom for carers from 2011-12		-15	-15	-15	-15	-15
aq	Local Housing Allowance: caps on maximum rates for each property size, with 4-bed limit from 2011-12 with transitional protection for existing claimants <sup>3</sup>	Spend	+35	+115	+145	+165	+185
ar	Additional Discretionary Housing Payments from 2011-12	Spend	-10	-40	-40	-40	-40
as	Tax credits second income threshold: reduce to £40,000 from 2011-12	Spend	+130	+125	+125	+135	+145
at	Tax credits: first and second withdrawal rates: increase to 41 per cent from 2011-12	Spend	+645	+700	+730	+755	+780
au	Child Tax Credit: taper the family element immediately after the child element from 2012-13	Spend	0	+475	+445	+425	+400
av	Child Tax Credit: remove the baby element from 2011-12	Spend	+300	+275	+275	+275	+270
aw	Working Tax Credit: remove the 50 plus element from 2012-13	Spend	0	+45	+50	+50	+55
ax	Child Tax Credit: reverse the supplement for children aged one and two from 2012-13	Spend	0	+180	+180	+180	+180
ay	Tax credits: reduce the income disregard from £25,000 to £10,000 for 2 years in 2011-12 then to £5,000 from 2013-14	Spend	+130	+165	+455	+540	+605
az	Tax credits: introduce an income disregard of £2,500 for falls in income from 2012-13	Spend	0	+245	+510	+510	+520
ba	Tax credits: new claims and changes of circumstances: reduce backdating from 3 months to 1 month from 2012-13	Spend	0	+345	+355	+360	+360
bb	Child Tax Credit: increase the child element by £150 in 2011-12 and £60 in 2012-13 above indexation	Spend	-1,220	-1,865	-1,920	-1,940	-1,965
bc	Child Benefit: freeze rates for three years from 2011-12	Spend	+385	+930	+1,250	+1,285	+1,335
bd	Basic State Pension: introduce triple guarantee from 2011-12	Spend	0	-1,130	-1,450	-1,530	-1,620
be	Pension Credit Minimum Income guarantee: matching basic State Pension cash increase in 2011-12	Spend	-600	-630	-630	-650	-660

#### Measures announced before June Budget 2010

bf	Freeze higher rate threshold in 2012-13 (2009 Pre-Budget Report)	Tax	0	+590	+1,310	+1,260	+1,340
bg	Increase NICs primary threshold in 2011-12 (2009 Pre-Budget Report)	Tax	-1,340	-1,360	-1,380	-1,520	-1,660
bh	Increase main employee NICs rate by 1 per cent from 2011-12 (2009 Pre-Budget Report)	Tax	+3,580	+3,700	+3,890	+4,100	+4,330
bi	Increase additional employee NICs rate by 1 per cent from 2011-12 (2009 Pre-Budget Report)	Tax	+600	+600	+620	+660	+710
bj	Increase employer NICs rate by 1 per cent from 2011-12 (2009 Pre-Budget Report)	Tax	+4,580	+4,690	+4,930	+5,200	+5,490
bk	Increase main self-employed NICs rate by 1 per cent from 2011-12 (2009 Pre-Budget Report)	Tax	+220	+200	+200	+190	+180
bl	Increase additional self-employed NICs rate by 1 per cent from 2011-12 (2009 Pre-Budget Report)	Tax	+70	+70	+60	+50	+50
bm	Pensions tax: restrict tax relief <sup>4</sup>	Tax	+1,200	+2,300	+4,400	+4,400	+4,300
bn	Auto-enrolment: slower introduction (2009 Pre-Budget Report)	Tax	0	+100	+700	+1,700	+2,100

bo	Individual savings account: indexation from 2011-12 (March Budget 2010)	Tax	-5	-15	-40	-90	-175
bp	SDLT: properties over £1m from 2011-12 (March Budget 2010)	Tax	+50	+170	+210	+250	+290
bq	Inheritance tax: freeze threshold from 2011-12 to 2014-15 (March Budget 2010)	Tax	+50	+170	+295	+420	+505
br	Salary sacrifice: workplace canteens from 2011-12 (2009 Pre-Budget Report)	Tax	+110	+110	+110	+110	+110
bs	Seafarers' Earning Deduction (2009 Pre-Budget Report)	Tax	-5	-5	-5	-5	-5
bt	Alcohol duty: increase in rates in 2013-14 and 2014-15 (March Budget 2010)	Tax	0	0	+110	+215	+210
bu	Patent box from 2013-14 (2009 Pre-Budget Report)	Tax	0	0	-500	-800	-900
bv	Venture Capital Schemes: State Aid changes (2009 Pre-Budget Report)	Tax	-20	-30	-40	-40	-40
bw	Landfill tax: increase in 2014-15 (2009 Pre-Budget Report)	Tax	0	0	0	+70	+70
bx	Climate change levy: reduction of relief from 2011-12 (2009 Pre-Budget Report)	Tax	+40	+50	+50	+50	+55
by	Company car tax: extend bands from 2012-13 (Budget 2009)	Tax	0	+120	+120	+125	+125
bz	Company car tax: changes to bands and abolition of cap from 2011-12 (Budget 2009)	Tax	+85	+75	+70	+65	+65
ca	EU Emissions Trading Scheme auctions: amendments from 2011-12 (March Budget 2010)	Tax	-10	0	0	0	0
cb	Childcare: employer supported childcare tax relief from 2011-12 (2009 Pre-Budget Report)	Tax	+15	+40	+65	+85	+100
cc	Working tax credit: extend eligibility for over 60s from 2011-12 (March Budget 2010)	Spend	-20	-20	-20	-20	-20

\* Negligible.

<sup>1</sup> Costings reflect the OBR's latest economic and fiscal determinants.

<sup>2</sup> See table 2.1 and paragraph 2.63.

<sup>3</sup> See table 2.1 and paragraph 2.62.

<sup>4</sup> See paragraph 2.51.

**2.4** As part of its new approach to tax policy making, the Government committed to improving and rationalising the wide range of supporting documents that accompany tax changes, in order to improve the level of information provided to interested parties.<sup>4</sup> The supplementary document *Overview of tax legislation and rates*, published alongside this Budget, provides a more detailed explanation of tax measures included in this chapter and a summary of their impacts.<sup>5</sup>

**2.5** The Government has published *The Plan for Growth* alongside this Budget.<sup>6</sup> The main measures in that document are set out in Chapter 1 of this Budget. This chapter includes new measures from *The Plan for Growth* which will have a fiscal impact.<sup>7</sup>

## Public spending

### Total Managed Expenditure

**2.6** Table 2.3 sets out the path for Total Managed Expenditure (TME), Public Sector Current Expenditure (PSCE) and Public Sector Gross Investment (PSGI) to 2015-16. This reflects the Spending Review 2010 announcement of an increase in PSGI of £2.3 billion a year by 2014-15 relative to the spending envelopes set out at the June Budget 2010, to ensure that capital projects of high long term economic value are funded. It also reflects updated estimates of savings from AME policies as set out in Table 2.2. Budget 2011 confirms that TME in 2015-16 will increase in line with general inflation in the economy.

<sup>4</sup>*The new approach to tax policy making: a response to the consultation*, HM Treasury and HMRC, December 2010.

<sup>5</sup>*Overview of tax legislation and rates*, HM Treasury and HMRC, March 2011.

<sup>6</sup>*The Plan for Growth*, HM Treasury and Department for Business, Innovation and Skills, March 2011.

<sup>7</sup>Measures included in *The Plan for Growth* document are indicated in this chapter by the symbol (GR) after the text describing that measure.

**Table 2.3: Total Managed Expenditure**

	£ billion					
	Forecasts					
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
<b>CURRENT EXPENDITURE</b>						
Resource Annually Managed Expenditure	287.4	314.4	324.9	333.3	346.4	360.8
Resource Departmental Expenditure Limits <sup>1</sup>	345.4	342.3	344.7	349.1	348.2	352.5
<i>of which</i>						
<i>RDEL excluding depreciation</i> <sup>2</sup>	326.1	326.3	327.1	331.1	329.0	333.1
<b>Public sector current expenditure</b>	632.8	656.7	669.6	682.4	694.6	713.4
<b>CAPITAL EXPENDITURE</b>						
Capital Annually Managed Expenditure	11.5	9.2	8.0	8.5	8.8	7.7
Capital Departmental Expenditure Limits <sup>1</sup>	50.0	44.5	42.6	39.2	40.3	42.7
<b>Public sector gross investment</b>	61.6	53.7	50.7	47.7	49.1	50.4
<b>TOTAL MANAGED EXPENDITURE</b>	694.4	710.4	720.2	730.1	743.6	763.8
<i>Memo:</i>						
<i>TME if AME margin as set for Spending Review 2010 period is spent</i>		711.4	722.2	733.1	747.6	

<sup>1</sup> The Government has not set DEL for 2015-16. Implied DEL numbers for 2015-16 are calculated as the difference between Resource AME and PSCE for Resource DEL (RDEL) and the difference between Capital AME and PSGI in the case of Capital DEL.

<sup>2</sup> RDEL excluding ring-fenced non-cash depreciation is the Treasury's primary control within resource budgets and the basis on which Spending Review settlements were agreed.

## Departmental Expenditure Limits

**2.7** Spending Review 2010 announced departmental spending allocations for 2011-12 to 2014-15. The detailed allocation of DELs is shown in Table 2.4. In line with previous practice, DEL figures for 2010-11 reflect the latest available information and include the OBR's allowance for shortfall reflecting anticipated underspends against departmental provisions.

**2.8** The DEL budgets shown in Table 2.4 reflect:

- policy decisions contained in this Budget, which are set out in more detail later in this chapter;
- Wales and Northern Ireland taking their share of the £6.2 billion in-year savings in 2010-11. It had been assumed in the June Budget 2010 that these would be made in 2011-12;
- Reserve claims and drawdown of End Year Flexibility voted in 2010-11;
- Reserve claims expected to be voted in the Main Estimates for 2011-12, including £3.6 billion (excluding depreciation) for the Ministry of Defence with respect to the net additional cost of military operations; and
- other classification or budgetary changes, which have no impact on National Accounts definitions.

Table 2.4: Departmental Expenditure Limits

	£ billion				
	Estimate <sup>1</sup>	Plans			
	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Departmental Programme and Administration Budgets (Resource DEL excluding depreciation<sup>2</sup>)</b>					
Education	51.3	51.2	52.1	52.9	53.9
NHS (Health)	98.4	101.5	104.0	106.9	109.8
Personal Social Services (Health) <sup>3</sup>	1.6	0.0	0.0	0.0	0.0
Transport	5.2	5.3	5.0	5.0	4.4
CLG Communities	3.6	2.0	1.7	1.6	1.2
CLG Local Government	26.0	26.1	24.4	24.2	22.9
Business, Innovation and Skills	17.2	16.5	15.7	14.7	13.7
Home Office	8.9	8.9	8.5	8.1	7.8
Justice	8.6	8.2	7.8	7.4	7.1
Law Officers' Departments	0.7	0.6	0.6	0.6	0.6
Defence <sup>4</sup>	28.4	27.3	25.2	24.9	24.7
Foreign and Commonwealth Office	2.1	1.5	1.5	1.4	1.2
International Development	5.9	6.7	7.2	9.4	9.4
Energy and Climate Change	1.3	1.5	1.4	1.3	1.0
Environment, Food and Rural Affairs	2.2	2.2	2.1	2.0	1.8
Culture, Media and Sport <sup>5</sup>	1.5	1.4	1.9	1.2	1.1
Work and Pensions	8.7	7.6	7.4	7.4	7.6
Scotland	25.2	24.8	25.1	25.3	25.4
Wales	13.4	13.3	13.4	13.5	13.5
Northern Ireland	9.7	9.4	9.4	9.5	9.5
Chancellor's Departments	3.8	3.8	3.7	3.6	3.4
Cabinet Office	2.0	2.1	2.1	2.0	2.2
Small and Independent Bodies	1.6	1.7	1.5	1.5	1.4
Reserve	0.0	2.4	2.5	2.6	2.5
Special Reserve	0.0	0.1	3.1	3.0	2.8
Green Investment Bank	0.0	0.0	0.0	1.0	0.0
OBR allowance for shortfall	-1.1	0.0	0.0	0.0	0.0
<b>Total Resource DEL excluding depreciation<sup>2</sup></b>	<b>326.1</b>	<b>326.3</b>	<b>327.1</b>	<b>331.1</b>	<b>329.0</b>
<b>Capital DEL</b>					
Education	7.3	5.1	4.2	3.3	3.4
NHS (Health)	4.5	4.4	4.4	4.4	4.6
Transport	7.1	7.7	8.1	7.5	7.5
CLG Communities	6.4	3.5	2.3	1.8	2.0
CLG Local Government	0.0	0.0	0.0	0.0	0.0
Business, Innovation and Skills	2.1	1.3	1.1	0.8	1.0
Home Office	0.8	0.5	0.5	0.4	0.5
Justice	0.6	0.4	0.3	0.3	0.3
Law Officers' Departments	0.0	0.0	0.0	0.0	0.0
Defence <sup>4</sup>	9.6	10.0	9.1	9.2	8.7
Foreign and Commonwealth Office	0.2	0.1	0.1	0.1	0.1
International Development	1.6	1.4	1.6	1.9	2.0
Energy and Climate Change	2.0	1.5	2.0	2.2	2.7
Environment, Food and Rural Affairs	0.6	0.4	0.4	0.4	0.4
Culture, Media and Sport <sup>5</sup>	0.6	1.3	0.4	0.1	0.1
Work and Pensions	0.3	0.2	0.3	0.4	0.2
Scotland	3.3	2.5	2.5	2.2	2.3
Wales	1.8	1.3	1.2	1.1	1.1
Northern Ireland	1.2	0.9	0.9	0.8	0.8
Chancellor's Departments	0.2	0.3	0.2	0.1	0.1
Cabinet Office	0.4	0.4	0.4	0.4	0.4
Small and Independent Bodies	0.1	0.1	0.1	0.1	0.1
Reserve	0.0	0.9	1.0	1.0	1.1
Special Reserve	0.0	0.2	0.8	0.8	0.8
Green Investment Bank	0.0	0.0	0.8	0.0	0.0
OBR allowance for shortfall	-0.6	0.0	0.0	0.0	0.0
<b>Total Capital DEL</b>	<b>50.0</b>	<b>44.5</b>	<b>42.6</b>	<b>39.2</b>	<b>40.3</b>

<sup>1</sup> 2010-11 DEL estimated outturns are not necessarily comparable with Spending Review baselines, as baselines exclude one-off and time-limited expenditure and other changes.

<sup>2</sup> Resource DEL (RDEL) excluding ring-fenced non-cash depreciation is the Treasury's primary control within resource budgets and the basis on which Spending Review settlements were agreed. The limit for RDEL excluding depreciation for 2010-11 set at the time of the June 2010 Budget was £326.7bn.

<sup>3</sup> As set out in the 2010 Spending Review, Personal Social Services (PSS) resource grants form part of CLG Local Government RDEL from 2011-12 onwards. PSS Capital DEL has been moved into NHS (Health).

<sup>4</sup> The Defence budget for 2011-12 reflects the likely initial allocation of funding from the Special Reserve for the net additional cost of military operations. No such allocation has yet been made for 2012-13 onwards; the funding remains within the Special Reserve for these years.

<sup>5</sup> Includes the Olympics budget which falls to £0bn after 2012-13.

## The spending framework

**2.9 Replacement of End Year Flexibility** – The Government announces the introduction of a new Budget Exchange system from 2011-12 to replace the End Year Flexibility system which has now been abolished. This will provide departments with flexibility to deal with slippage in expenditure while strengthening spending control. Budget Exchange will allow departments to surrender an underspend in advance of the end of the financial year in return for a corresponding increase in their budget in the following year, subject to a prudent limit.

**2.10** The Government is introducing a new framework to control the levy-funded spending of the Department of Energy and Climate Change (DECC).

## Pay and pensions

**2.11 Response to the Hutton Review of Fair Pay in the Public Sector** – The final report of the Hutton Review of Fair Pay in the Public Sector was published on 15 March.<sup>8</sup> The Government welcomes this report as a basis for setting senior pay in the public sector. Departments will give consideration to these proposals and bring forward implementation plans for their sectors by July 2011.

**2.12 Response to the Independent Public Service Pensions Commission** – The Government accepts the recommendations of Lord Hutton's commission as a basis for consultation with public sector workers, trades unions and others, recognising that the position of the uniformed services will require particularly careful consideration.<sup>9</sup> The Government will in the autumn set out proposals that are affordable, sustainable and fair to both the public sector workforce and taxpayers.

**2.13 Discount rate for public service pensions** – Following a full public consultation, the Government has decided that the appropriate discount rate for calculating unfunded public service pension contribution rates should be based on the long term expectation of Gross Domestic Product (GDP) growth.<sup>10</sup> This will ensure that employment decisions made today take into account the costs passed to future taxpayers on a fair and sustainable basis. The latest OBR forecast for long-term GDP growth is 2.2 per cent above the assumed GDP deflator, equivalent to a discount rate of 2.9 per cent above the Consumer Prices Index (CPI).<sup>11</sup> Given the range of uncertainties inherent in these calculations, the Government believes that a rounded figure should be used. A discount rate of 3 per cent above CPI will therefore be adopted under this methodology for future valuations. The Government proposes to review the level of discount rate every five years, and the methodology every ten years. The Government has confirmed that this change in the discount rate will not lead to an increase in member contribution rates beyond those already announced at Spending Review 2010. (m)

**2.14 State pension reform** – The Government intends to reform the state pension system for future pensioners so that it provides simple, contributory, flat-rate support above the level of the means-tested Guarantee Credit. The Government will honour contributions to the current system. The Department for Work and Pensions (DWP) will shortly publish a Green Paper to consult on options for reform, which will include a proposal for moving towards a single tier pension. These reforms will be designed so as not to increase public spending dedicated to state

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<sup>8</sup>*Hutton Review of Fair Pay in the public sector: Final Report*, Hutton Review of Fair Pay, March 2011.

<sup>9</sup>*Independent Public Service Pension Commission: Final Report*, Independent Public Service Pensions Commission, March 2011.

<sup>10</sup>*Consultation on the discount rate used to set unfunded public service pension contributions*, HM Treasury, December 2010.

<sup>11</sup>The OBR's provisional projection for GDP growth for the period 2016-2050, set out in the *Economic and Fiscal Outlook November 2010*, taking into account the difference between the OBR's assumptions for CPI and for the GDP deflator of 0.7 percentage points.

pensions. Final proposals are subject to confirmation, including on affordability, and will reflect the projection set out in the OBR's Fiscal Sustainability Report.

**2.15 State pension age** – Given the continuing increases in life expectancy, the Government will bring forward proposals to manage future changes in the state pension age more automatically, including the option of a regular independent review of the implications of longevity changes.

## Government assets

**2.16** The Government will continue its policy of asset sales, where there is no longer a good case in public policy terms for continued public ownership of assets. As part of this, the Government:

- intends to realise value from its shareholding in NATS, subject to considering the views of key interested parties;
- intends to sell its stake in Actis, if the terms of a potential sale offer good value for taxpayers' money;
- will complete the final stages of the open market process to resolve the future of the Tote, and will announce the outcome later in the spring; and
- publish an implementation plan for the phased release of 500MHz of surplus spectrum from the public sector by 2020. In addition, Ofcom has recently published a consultation on awarding 800MHz and 2.6GHz spectrum, which is suitable for mobile broadband. This award will take place in early 2012.

**2.17** Following work on realisation of value from the student loan book, a decision on whether to proceed to a transaction will be made in the summer. Whether or not a transaction takes place, a number of measures have been identified which could make collection methods more efficient and effective.

**2.18** As part of the programme for the more efficient use and consolidation of its property holdings, the Government continues to look at property disposals, where the property is surplus and market conditions are right, and will provide updates when specific transactions are envisaged.

**2.19** The Government is considering the merits of machinery of government changes to facilitate the development of a Public Data Corporation (PDC) through a sponsoring department. If the Government decides to proceed, a first step would be to establish a PDC Shadow Board. It will also create an inventory of datasets from key data-holding organisations. The Government, through the Cabinet Office, will also put in place a policy statement on data by autumn 2011 covering access and licensing terms for public data.

## Other spending measures

**2.20 Local government capitalisation** – In March 2011, the Government published guidance for the 2011-12 capitalisation scheme which permits UK local authorities to treat revenue costs as capital costs. This will help councils to deliver efficiency savings early through organisational restructuring. The Government is not providing local authorities with extra funding for this purpose, but will allow some extension of their existing flexibilities to borrow, or to fund spending on redundancies from capital receipts. The upfront cost is met through a reduction in the Capital DEL Reserve.

**2.21 Delayed implementation of reduction in metal costs for coinage** – As announced on 16 February 2011, the Treasury has delayed the implementation of the change in metal composition of 5p and 10p coins. From 1 January 2012, 5p and 10p coins will be made from nickel-plated steel (rather than the current cupro-nickel alloy). This will deliver estimated savings of £7-8 million per year from 2012-13. (57)

**2.22 Green Investment Bank (GIB)** – The Government is committed to ensuring that the GIB has the resources to help the UK to move towards a low-carbon economy. This Budget announces that the initial capitalisation of the GIB will be £3 billion and that the GIB will begin operation in 2012-13, a year earlier than previously anticipated. Government investment alongside private finance should mean that there is in the region of an additional £18 billion of investment in green infrastructure by 2014-15, as a result of the GIB. Spending Review 2010 allocated £1 billion for the GIB, and the Government is aiming for the remaining £2 billion to be funded from the sale of assets. This will include the £775 million net proceeds already received from the sale of High Speed I, ensuring that funding is in place to allow GIB investments from 2012-13. The Government will enable the GIB to have borrowing powers from 2015-16 and once the target for debt to be falling as a percentage of GDP has been met. (GR)

**2.23 FirstBuy programme** – The Government will provide an equity investment, jointly funded with house builders, through a FirstBuy programme assisting over 10,000 first-time buyers to purchase a new-build property. (GR) (17)

**2.24 Apprenticeships and Higher Level Apprenticeships** – the Government will create 40,000 new apprenticeship places targeted on young people not in employment, education or training. The Government will also provide grant funding to stimulate the development of 10,000 new Higher Level Apprenticeship places in small and medium-sized enterprises (SMEs). (GR) (21)

**2.25 Support for unemployed young people** – The Government will fund an additional 80,000 work experience placements for young people, ensuring up to 100,000 places will be available over the next two years. (GR) (19)

**2.26 Science capital** – The Government will provide £100 million of new capital funding in 2011-12 for science and innovation campuses. (GR) (14)

**2.27 University Technical Colleges** – The Government will provide £150 million of new capital funding to support improved technical and vocational education, including an expansion of the University Technical Colleges programme, to establish at least 24 new colleges by 2014. (GR) (20)

**2.28 Funding for the devolved administrations** – All spending figures above include Barnett consequentials where appropriate. The Government is committed to fair and accountable funding for Wales, including taking forward discussions on all aspects of the final Holtham report. The Government is working with the Northern Ireland Executive to rebalance the Northern Ireland economy and will publish a consultation paper on 24 March 2011, including looking at mechanisms for devolving the rate of corporation tax to Northern Ireland. Through the Scotland Bill, which is currently going through Parliament, the Government will be increasing financial accountability in Scotland.

### Income tax and National Insurance Contributions

**2.29 Income tax rates and thresholds (including personal allowance)** – All income tax rates for 2011-12 will remain at their 2010-11 levels. As announced at the June Budget 2010, the income tax personal allowance for those aged under 65 will increase by £1,000 in cash terms to £7,475 in 2011-12. There will also be a £2,400 cash decrease in the basic rate limit, taking it to £35,000. This means that the income tax higher rate threshold, which equals the sum of the personal allowance and basic rate limit, will be £42,475. (Finance Bill 2011) (ad)

**2.30 NICs rates and thresholds** – Under inherited plans for 2011-12, the main and additional rates of NICs will increase by one per cent. The primary threshold will increase by £24 per week above the Retail Prices Index (RPI), or £29 in cash terms, to £139 per week. As announced at the June Budget 2010, the secondary threshold for employer NICs will increase by £21 per week above RPI indexation, or £26 in cash terms, to £136 per week. The upper earnings and profits limits for NICs will be reduced by £1,400 so that they remain aligned to the higher rate threshold. (bh-bl, bg, ac)

**2.31 Indexation of direct taxes** – From April 2012 the default indexation assumption for all direct taxes including income tax, NICs, inheritance tax, capital gains tax and ISAs will move from the RPI to the CPI. The change will apply for each year from 2012-13 except where there are specific policy commitments to increase these by a different amount. (23)

**2.32** From April 2012 the CPI will be used as the default indexation assumption for the employee NICs primary threshold, small earnings exception, lower earnings limit, lower profits limit; for Class 2 NICs and Class 3 NICs voluntary rate. The upper earnings limit and upper profits limit will remain aligned with the higher rate threshold. (23)

**2.33** The employer NICs secondary threshold, the starting rate limit for savings income, income tax age-related allowances, age-related income limits, married couples allowances and blind persons allowance will be over-indexed compared to the CPI and continue to rise by the equivalent of the RPI for the course of this Parliament. For forecast purposes this is assumed to be until April 2016. (24)

**2.34** In 2012-13, the personal allowance is assumed to increase for those aged under 65 by £630 in cash terms, taking it to £8,105. There will be a corresponding £630 decrease in the basic rate limit, taking it to £34,370. The higher rate threshold will therefore remain unchanged in 2012-13 at £42,475. The personal allowance will increase from 2013-14 by at least the equivalent of the RPI, until the Government's goal of increasing the personal allowance to £10,000 is achieved. (Future Finance Bills) (22) (bf)

**2.35 Income tax and NICs reform** – The Government will consult in 2011 on the options, stages and timing of reforms to integrate the operation of income tax and NICs.

**2.36 Personal tax administration review** – The Government will consult in 2011 on modernising the administration of the personal tax system to make it more transparent and accessible to taxpayers.

**2.37 Online tax calculator** – The Government will build an online personal tax calculator by 2012 to allow individuals to estimate how much income tax and NICs they pay.

**2.38 Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT)** – The Government will reform the EIS and VCT, raising the rate of EIS income tax relief to 30 per cent from April 2011. From April 2012 the Government will increase the annual EIS investment limit for individuals to £1 million, increase the qualifying company limits to 250 employees and gross

assets of £15 million (EIS and VCT), and increase the annual investment limit for qualifying companies to £10 million (EIS and VCT). The Government will consult on options to provide further support for seed investment, simplification of the EIS rules by removing some restrictions on qualifying shares and types of investor and refocusing both EIS and VCTs to ensure they are targeted at genuine risk capital investments. Feed in tariffs businesses will be added to the excluded activities list. All changes are subject to EU State aid clearance. (Finance Bill 2011 for rate increase in 2011, Finance Bill 2012 for other changes) (GR) (7)

**2.39 Future of the Community Investment Tax Relief (CITR)** – The Government will renotify CITR to the European Commission and consult in advance of renotification on how the scheme can be made more effective. (Finance Bill 2012)

**2.40 Review of non-domicile taxation** – Following the announcement in the June Budget 2010, the Government will consult in June 2011 on the detail of reforms to the taxation of resident non-domiciled individuals. Further details is set out in the Fairness section of Chapter 1. (Finance Bill 2012) (26)

**2.41 Statutory residence test** – The Government will consult in June 2011 on the introduction of a statutory tax residence test for individuals to give greater clarity and certainty for taxpayers. (Finance Bill 2012)

**2.42 Furnished holiday lettings (FHL)** – From April 2011, new tax rules for FHL will take effect, so that loss relief may only be offset against income from the same FHL business. Letting and availability thresholds will be increased from April 2012. (Finance Bill 2011) (ag)

**2.43 Employer supported childcare: relaxation of the open generally condition** – The Government will amend the qualifying condition for availability of employer-supported childcare schemes in respect of employees with earnings at or near the National Minimum Wage. The amended condition will apply from 6 April 2005. (Finance Bill 2011)

**2.44 Employer supported childcare: changes to tax reliefs** – From April 2011, the weekly amount that parents joining an employer-supported childcare scheme will be able to claim exempt of income tax and disregarded of NICs will remain at £55 for basic rate taxpayers, but will be reduced to £28 and £22 per week for higher and additional rate taxpayers respectively. All current users will continue to enjoy the same exemption and disregards beyond April 2011. (Finance Bill 2011) (cb)

**2.45 European Banking Authority and other EU agencies based in the UK** – As announced in a Written Ministerial Statement on 16 December 2010, the Government will introduce legislation to create an exemption from income tax for subsistence allowances paid to experts seconded to EU bodies located in the UK. These bodies are the European Banking Authority, the European Medicines Agency and the European Police College. The exemption will have effect from 1 January 2011. (Finance Bill 2011)

**2.46 Expenses paid to MPs** – As announced when draft Finance Bill legislation was published in December, the Government will introduce legislation to ensure that the existing tax treatment of MPs' accommodation expenses will continue to apply following a simplification made to the MPs' expenses scheme by the Independent Parliamentary Standards Authority. This legislation will have effect from 1 November 2010. (Finance Bill 2011)

**2.47 Protection of Vulnerable Groups Scheme** – As announced when draft Finance Bill legislation was published in December, the Government will introduce legislation to ensure that, following the introduction of the Protection of Vulnerable Groups Scheme in Scotland, an income tax charge does not arise on the fee for registering with the scheme. This legislation will have effect from 6 April 2010. (Finance Bill 2011)

## Taxation of savings

**2.48 ISA limits** – From April 2012, the CPI will be used as the default indexation assumption for ISA limits. (23)

**2.49 Junior ISAs** – The Government announced in October 2010 that it will introduce new tax-advantaged accounts for saving for children, called Junior ISAs. All UK resident children aged under 18 who do not have a Child Trust Fund will be eligible for Junior ISAs, and the accounts are expected to be available from autumn 2011. Draft Regulations setting out further detail will be published in the week commencing 28 March 2011, alongside the introduction of Finance Bill 2011. The Government is also working with charities and others to identify how children in care can be supported through Junior ISAs. (Finance Bill 2011)

**2.50 Qualifying Time Deposits (QTD)** – The Government will change the way in which the tax due on income from QTD accounts is collected, by bringing these accounts within the Tax Deduction Scheme for Interest from 2012-13. (Finance Bill 2012) (48)

## Taxation of pensions

**2.51 Restricting pensions tax relief** – On 14 October 2010 the Government announced that, from April 2011, the annual allowance for tax-privileged pension saving will be £50,000 and that, from April 2012, the lifetime allowance will be £1.5 million. On 3 March 2010, in response to an informal consultation, the Government announced that individuals with annual allowance charges over £2,000 will be able to meet these from their pension benefit, with schemes paying the tax at the point the charge arises. (Finance Bill 2011) (bm)

**2.52 Pensions annuitisation** – The June Budget 2010 announced that the effective requirement to annuitise by age 75 would be removed from April 2011. Draft clauses were published on 9 December 2010 following consultation on the details of the change during summer 2010. (Finance Bill 2011)

**2.53 Pensions taxation: enabling retirement savings programme** – As announced at the June Budget 2010 the Government will remove an unintended tax charge that would arise for the National Employment Savings Trust, and prevent other unintended pensions tax consequences that might arise due to the interaction of existing tax rules with the introduction of automatic enrolment duties from 2012. (Finance Bill 2011)

**2.54 Reduction in the contracting out rebate** – As announced by the Secretary of State for Work and Pensions in February, the level of the contracted out rebate for Defined Benefit pension schemes will be set at 4.8 per cent from April 2012. (25)

## Capital gains tax

**2.55 Capital gains tax: annual exempt amount** – The annual exempt amount for capital gains tax will increase in line with statutory indexation to £10,600, with effect from 6 April 2011. The Government will simplify the process for setting the exempt amount for years where indexation does not require an increase. From April 2012 the CPI will be used as the default indexation assumption for capital gains tax annual exempt amounts. (Finance Bill 2011 for 2011 increase, Finance Bill 2012 for other changes) (23)

**2.56 Entrepreneurs' relief** – From 6 April 2011, the Government will increase to £10 million the lifetime limit on capital gains qualifying for entrepreneurs' relief. (Finance Bill 2011) (GR) (13)

**2.57 Single payment scheme and capital gains tax roll-over relief** – Following changes to the underlying EU legislation, the Government will restore entitlements under the EU Single Payment Scheme to the list of assets that qualify for capital gains tax roll-over relief. (Finance Bill 2012)

## Inheritance tax

**2.58 Inheritance tax: thresholds** – The inheritance tax nil rate band is frozen until April 2015, after which point the CPI will be used as the default indexation assumption. (bq, 23)

## Tax credits and benefits

**2.59 New Enterprise Allowance** – As announced on 5 January 2011 by DWP, the New Enterprise Allowance scheme will be extended to provide support nationwide to individuals entering self-employment who have been unemployed for more than six months. Under the scheme, claimants will be able to access mentoring support, loans and an Allowance payment for up to six months. (18)

**2.60 Support for Mortgage Interest (SMI)** – The waiting period for new working-age SMI claimants will remain at 13 weeks for one year from January 2012. The limit on eligible mortgage capital for working age SMI claimants will remain at £200,000 for one year from January 2012. (16)

**2.61 Housing Benefit: amendment to ten per cent reduction for Jobseeker's Allowance (JSA) claimants** – As announced by DWP as part of the Welfare Reform Bill 2011, Government will not take forward the planned 10 per cent reduction in Housing Benefit for long-term JSA claimants. (52)

**2.62 Housing Benefit: transitional arrangements for Local Housing Allowance (LHA) claimants** – As announced in the June 2010 Budget, LHA rates will be set at the 30th percentile of local market rents and LHA rates will be capped at £250 per week for a one bedroom property, £290 per week for a two bedroom property, £340 per week for a three bedroom property and £400 per week for four bedrooms or more. As announced by DWP in November 2010, these measures will now come into effect from April 2011 for new claimants, and January 2012 for existing claimants. (al, aq, 54)

**2.63 Disability Living Allowance (DLA)** – As announced by DWP at the introduction of the Welfare Reform Bill 2011, the Government will no longer remove the mobility component of DLA for people in residential care in October 2012. Mobility provision for people in residential care will be reviewed as part of the wider reform of DLA to be introduced from 2013-14. (ai, 53)

**2.64 Strengthening the fraud sanctions regime in the benefits system and debt recovery** – As part of the wider package of measures announced in the Fraud and Error Strategy published in October 2010, the Government will introduce a tougher fraud sanctions regime for the benefits system from April 2012, together with new arrangements for recovering debt from overpaid benefits. (56)

**2.65 Employment Support Allowance (ESA)** – As set out in the Welfare Reform Bill 2011, DWP will remove the national insurance concession, which enabled those aged under 20 (or aged under 25 if in education or training) to access contributory ESA without meeting contribution conditions. The concession will be abolished for all new claims from April 2012. (55)

### Corporation tax

**2.66 Corporation tax: main rate** – The Government will reduce the main rate of corporation tax from 28 per cent to 26 per cent from April 2011. The rate will then be reduced by a further 1 per cent in each of the following three years, and as a result will be 23 per cent by 2014. (Finance Bill 2011 and future Finance Bills) (1, x)

**2.67 Corporation tax: small profits rate** – As announced in the June Budget 2010, from 1 April 2011 the small profits rate of corporation tax will fall from 21 per cent to 20 per cent. (Finance Bill 2011) (y)

**2.68 Taxation of foreign branches** – As announced in the June Budget 2010, the Government will legislate for the reform of the taxation of foreign branches. This will provide an opt-in exemption from corporation tax on the profits of foreign branches of UK companies. The new regime will be available for accounting periods beginning on or after the date Finance Bill 2011 receives Royal Assent. (Finance Bill 2011) (3)

**2.69 Interim improvements to Controlled Foreign Company (CFC) rules** – The Government will introduce a package of improvements to the current CFC rules for accounting periods beginning on or after 1 January 2011 to make the rules easier to operate. The proposals reflect the outcome of consultation and include extending the three-year temporary exemption so that it is also available to previously UK-headed groups if they return to the UK. (Finance Bill 2011) (2)

**2.70 Full CFC reform** – New CFC rules will be introduced in 2012. The new rules will include a finance company partial exemption that in broad terms will result in an effective UK tax rate of one quarter of the main rate on profits derived from overseas group financing arrangements (equivalent to 5.75 per cent by 2014). A consultation document with details on the new CFC rules will be published in May 2011. (Finance Bill 2012) (5)

**2.71 Patent Box** – As announced on 29 November 2010, the Government confirms that it will introduce a reduced 10 per cent rate of corporation tax for profits arising from patents, effective from 1 April 2013. A consultation document will be published in May 2011. (Finance Bill 2012) (bu)

**2.72 Capital allowances: writing down allowances** – As announced in the June Budget 2010, writing down allowances will be reduced to 18 per cent from April 2012. (Finance Bill 2011) (z)

**2.73 Capital allowances: annual investment allowance** – As announced in the June Budget 2010, the Annual Investment Allowance will be reduced to £25,000 from April 2012. (Finance Bill 2011) (aa)

**2.74 Capital allowances for Enterprise Zones** – The Government will consider, in a limited number of cases, the scope for introducing enhanced capital allowances to support Enterprise Zones in assisted areas, where there is a strong focus on high value manufacturing. (GR)

**2.75 Capital allowances: feed-in tariffs and Renewable Heat Incentives** – The Government will consult in May 2011 on the appropriate capital allowances treatment of expenditure on plant and machinery that attracts tariffs under the feed-in tariffs or Renewable Heating Incentives schemes. (Finance Bill 2012)

**2.76 Update of enhanced capital allowance scheme for energy saving technologies** – The list of designated energy saving technologies qualifying for enhanced capital allowances will be updated during summer 2011, subject to agreement with the European Commission.

**2.77 Capital allowances: short life assets** – The disposal time limit on the capital allowances short life assets election will be extended from four to eight years. (Finance Bill 2011) (GR) (9)

**2.78 Business premises renovation allowance** – The Government will extend the Business Premises Renovation Allowance for a further five years from 2012. (Finance Bill 2012) (10)

**2.79 Research and Development (R&D) tax credits** – Following consultation on the effectiveness of the schemes, the Government will increase the SME scheme rate of relief to 200 per cent from April 2011 and 225 per cent from April 2012, subject to EU State aid approval. It will simplify the schemes, including removing the Pay As You Earn (PAYE)/NICs cap on the amount of payable credit that can be claimed, removing the minimum expenditure rules and allowing relief through the large company scheme for subcontracted activity which forms part of a wider R&D project. The Government will publish a response to the consultation in May 2011, which will include a consultation on the detail of proposed changes. Vaccines Research Relief will be reduced to 20 per cent for SMEs from April 2011 and not available to SMEs from April 2012. (Finance Bill 2011 for April 2011 increase to the SME scheme rate of relief and April 2011 decrease to Vaccines Research Relief, Finance Bill 2012 for other changes) (8)

**2.80 Film tax relief: EU State aid renotification** – The Government will renotify film tax relief to the European Commission.

**2.81 Corporate capital gains simplification: capital losses** – This measure was announced on 9 December 2010, and will have effect in relation to the deduction of a 'pre-entry' capital loss on and after the date that Finance Bill 2011 receives Royal Assent. It will make it easier for a group to integrate an acquired business into its existing operations without losing relief for any capital losses incurred by the acquired business. The changes are also intended to reduce the overlap with an anti-avoidance rule that prevents capital loss buying. (Finance Bill 2011) (4)

**2.82 Corporate capital gains simplification: value shifting** – This measure, announced on 9 December 2010, provides a shorter and clearer value shifting rule, and restricts the scope of the rule to instances where companies have entered into tax-motivated arrangements intended to secure a reduction in a charge to corporation tax on chargeable gains. It also eliminates the need for companies to retain records of depreciatory transactions beyond six years. (Finance Bill 2011) (4)

**2.83 Corporate capital gains simplification: degrouping charges** – This measure was announced on 9 December 2010, and will have effect where companies leave a group on and after the date that Finance Bill 2011 receives Royal Assent. It will remove a potential degrouping charge where a gain on the disposal of the company is otherwise exempt from tax. It will also reduce the potential for double taxation. (Finance Bill 2011) (4)

**2.84 Associated companies** – The Government confirmed in the June Budget 2010 that it will proceed with the reform of the associated company rules for the small profits rate. From 1 April 2011 the rules will be simplified to ensure that companies can only be associated, through an attribution of rights between connected individuals, when substantial commercial interdependence exists between the companies concerned. (Finance Bill 2011)

## Business rates

**2.85 Business rate discount in Enterprise Zones** – The Government will offer up to 100 per cent discount on business rates to businesses located in Enterprise Zones for five years. (GR) (11)

**2.86 Small business rate relief holiday: extension** – The small business rate relief holiday will be extended by one year from 1 October 2011. (GR) (12)

## Taxation of the financial services sector

**2.87 Bank Levy** – The Government announced its intention to introduce the Bank Levy in the June Budget 2010. The levy came into effect on 1 January 2011. On 8 February 2011, the Government announced an increase in the levy rates. The full levy rates are 0.05 per cent from 1 January 2011 until 28 February 2011, 0.1 per cent from 1 March 2011 until 30 April 2011, 0.075 per cent from 1 May 2011 until 31 December 2011 and 0.078 per cent thereafter. (Finance Bill 2011) (6)

**2.88 New bank capital instruments** – The Government will set up an industry working group from April 2011 to explore any tax issues associated with the development of new bank capital instruments in light of the Basel III proposals and, if necessary, will legislate in 2012. (Finance Bill 2012)

**2.89 Tax transparent fund** – The Government will legislate to introduce a tax transparent fund vehicle from 2012. The Government will consult in June 2011 on the regulatory and tax aspects of the regime. (Finance Bill 2012)

**2.90 Undertakings for Collective Investments in Transferable Securities (UCITS) IV** – Following the consultation on transposing the UCITS IV Directive, the Government will introduce legislation to enable UCITS funds to be managed from the UK without adverse tax consequences. Regulations will also be introduced to amend the Genuine Diversity of Ownership conditions for Master/Feeder structures. (Finance Bill 2011)

**2.91 Offshore Funds amendments** – As announced on 28 February 2011, the Government is consulting on amendments to certain elements of the offshore funds regime.

**2.92 Protection life insurance** – The Government will introduce legislation to remove protection business from the 'income minus expenses (I-E)' life tax system designed to tax investment type business and align it with the tax treatment of other trading entities. The change will be effective from 1 January 2013. (Finance Bill 2012) (47)

**2.93 Solvency II and the taxation of life insurance companies** – The Government will legislate on the new post-Solvency II life insurance tax regime. The new regime will deal with essential adjustments arising from Solvency II and at the same time deliver significant changes to create a simpler and more stable tax basis better aligned with the taxation of companies generally. (Finance Bill 2012)

**2.94 General insurance Claims Equalisation Reserves (CERs)** – The Government will look to industry to give a robust justification for continuing the CERs tax relief. Dependent on this, the Government intends to legislate to retain the tax relief. The case for CERs will be reviewed again in the light of future insurance accounting developments currently expected in 2014. (Finance Bill 2012)

**2.95 Stop loss and quota share insurance** – The Government will consult with industry on proposals to amend the timing of the tax deduction for Lloyd's member-level stop-loss premiums. (Finance Bill 2012)

**2.96 Islamic finance** – The Government will make regulations to introduce direct tax rules for sharia-compliant variable loan arrangements and derivatives in 2011, following informal consultation with industry representatives.

**2.97 Tax consequences of the Financial Services and Markets Act (FSMA) 2000 (Regulated Activities)(Amendment) Order 2010** – The FSMA 2000 (Regulated Activities) (Amendment) Order 2010 which came into force on 24 February 2010 unintentionally created a number of potential adverse consequences for the tax and regulatory treatment of some types of debt securities. The Government will legislate to ensure that no unintended tax consequences arise for the potentially affected debt securities between 24 February 2010 and the date on which the remedying amendments came into force. (Finance Bill 2011)

**2.98 Modernisation of investment trust companies** – The Government will legislate to enable the implementation of a modernised regime for investment trust companies. (Finance Bill 2011)

**2.99 Life insurance apportionment rules** – The Government will introduce legislation to amend the current apportionment rules to modify their operation in certain circumstances. (Finance Bill 2011)

**2.100 Stamp Duty Reserve Tax (SDRT): changes to “Schedule 19”** – The Government will legislate to widen the current definition of when an investment in an underlying collective investment scheme is classed as an ‘exempt investment’ under the SDRT Schedule 19 rules. (Finance Bill 2011)

## Oil and gas taxes

**2.101 Supplementary Charge** – The rate of the Supplementary Charge levied on profits from UK oil and gas production will increase to 32 per cent from midnight on 24 March 2011. (Finance Bill 2011) (28)

**2.102** As part of the fair fuel stabiliser, if in future years the oil price falls below a set trigger price on a sustained basis, the Government commits to reduce the Supplementary Charge back towards 20 per cent on a staged and affordable basis while prices remain low. The Government considers that a trigger price of \$75 per barrel would be appropriate, and will set a final level and mechanism after seeking the views of oil companies and motoring groups. Recognising the importance of continued investment in the North Sea, including in marginal gas fields, the Government will also consider with the industry the case for introducing a new category of field that would qualify for field allowance.

**2.103 Oil and gas decommissioning tax relief** – The Government will introduce legislation to restrict tax relief for decommissioning expenditure to the 20 per cent rate of Supplementary Charge. There will be no restrictions to decommissioning relief below this level for the lifetime of this Parliament. The Government commits to work with the industry with the aim of announcing further, longer term, certainty on decommissioning at Budget 2012. (Finance Bill 2012) (28)

**2.104 Oil and gas technical measures** – The Government will introduce legislation to clarify the scope of the Intangible Fixed Asset Regime as it applies to oil and gas companies operating in the UK and on the UK Continental Shelf. (Finance Bill 2011)

**2.105 Oil and gas minor measures** – As announced when draft legislation was published in December 2010, the Government will introduce legislation to make minor changes to the tax regime for oil and gas companies that operate in the UK or on the UK continental shelf. (Finance Bill 2011)

## Other corporate taxes

**2.106 Distributions working party** – Legislation was introduced in Finance (No.3) Act 2010 covering the tax treatment of company distributions received in a narrow set of circumstances. An industry working group will assist HM Revenue & Customs (HMRC) in identifying and resolving the areas of difficulty. Issues will be addressed by publishing comprehensive guidance or enacting legislation. If legislation is required, the Government will consult on draft clauses in the autumn. (Finance Bill 2012)

**2.107 Amendments to the tax treatment of financing costs and income** – The consultation on the debt cap has identified practical issues with the application of the rules, such as the de minimis amount, that need to be addressed. Following further consultation in June 2011, the Government will introduce legislation to allow businesses to more easily apply the debt cap rules. (Finance Bill 2012)

**2.108 Amendments to the loan relationship and derivative contract disregard regulations** – The Government will introduce secondary legislation in 2011 to implement changes to the Disregard Regulations. These changes will align tax treatment with the economic position for companies which use loan relationships and derivative contracts to reduce their exposure to foreign exchange fluctuations in certain circumstances.

**2.109 Leasing into tonnage tax** – Draft legislation was published on 9 December 2010 to equalise, with effect from 1 January 2011, the rates of writing down allowances for capital allowance purposes for ships leased into UK Tonnage Tax with assets held outside Tonnage Tax. (Finance Bill 2011)

**2.110 Tax and accounting leases: changes to accounting standards** – As announced on 9 December 2010, the Government will introduce legislation to ensure that the rules governing the treatment of leases for tax purposes continue to apply as now in the event of the adoption of a new accounting standard. (Finance Bill 2011)

**2.111 Organisation for Economic Cooperation and Development (OECD) Transfer Pricing Guidelines** – As announced on 9 December 2010, the Government will introduce legislation, effective from 1 April 2011, which will update the definition of “transfer pricing guidelines” to refer to the most recent version of the OECD Transfer Pricing Guidelines. (Finance Bill 2011)

## Tax measures affecting charities

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### Gift Aid

**2.112 Gift Aid benefit limits** – The Gift Aid benefit limit will be increased from £500 to £2,500, subject to the existing 5 per cent limit, from April 2011. New guidance will be published to help clarify what constitutes a benefit. (Finance Bill 2011)

**2.113 Gift Aid small donations scheme** – From April 2013, the Government will introduce a new scheme to allow charities to claim Gift Aid on up to £5,000 of small donations without the need for Gift Aid declarations. (51)

**2.114 Gift Aid online filing** – The Government confirms that it will introduce an online system for charities to claim Gift Aid and as a first step will shortly be publishing ‘intelligent’ forms (which contain automatic checks) for charities to use to apply for and claim tax reliefs.

**2.115 Self Assessment (SA) Donate** – To help fund the introduction of Gift Aid online filing, the Government will withdraw SA Donate for tax returns for 2011-12 onwards. (Finance Bill 2012)

## Other tax measures affecting charities

**2.116 Inheritance tax: reduced rate for charitable donations** – From 6 April 2012, the Government will introduce a reduced rate of inheritance tax of 36 per cent for estates leaving 10 per cent or more to charity. (Finance Bill 2012) (50)

**2.117 Gifts of works of art** – The Government will consult in 2011 on proposals to encourage donations of pre-eminent works of art or historical objects to the nation in return for a tax reduction.

**2.118 In-year repayments on tax to charities** – The Government will legislate an extra statutory concession under which HMRC makes repayments of tax to certain charities without requiring a tax return to be completed. (Finance Bill 2012)

**2.119 Changes to the substantial donors rules** – In December 2010, the Government published draft clauses to replace the substantial donors to charities legislation. This anti-avoidance legislation denies relief where the donor enters into arrangements with the main purpose of obtaining a financial advantage from the charity. The new rules will commence from April 2011. (Finance Bill 2011)

## Indirect taxes

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### Alcohol duties

**2.120 Alcohol duty rates** – As first announced at Budget 2008, alcohol duty rates will increase by 2 per cent above the RPI on 28 March 2011. This will add 4 pence to the price of a pint of beer, 15 pence to the price of a bottle of wine, and 54 pence to the price of a bottle of spirits. (Finance Bill 2011)

**2.121 Changes to the beer duty regime** – The review of alcohol taxation in November 2010 announced measures to encourage the consumption of lower strength beers. The Government will introduce a new additional duty on beers over 7.5 per cent alcohol by volume (abv) in strength at a rate of 25 per cent of general beer duty. This will add 25 pence to the price of a can of “super strength” lager. A reduced rate of 50 per cent of general beer duty will be introduced for beers of 2.8 per cent abv or below and above 1.2 per cent abv in strength. This will reduce the price of a pint of beer at 2.8 per cent abv by 18 pence. These changes will come into effect from 1 October 2011. (Finance Bill 2011)

**2.122 Repeal of Alcoholic Liquor Duties Act 1979 (ALDA) section 22** – The Government will repeal the redundant legislation in section 22 of ALDA that allows for drawback on British compounds and spirits of wine. (Finance Bill 2012)

**2.123 Potential legislative measures to tackle alcohol fraud and duty avoidance** – The Government will explore potential legislative measures to tackle existing and emerging threats to alcohol duty receipts. (Finance Bill 2012)

## Tobacco duties

**2.124 Tobacco duty rates** – As announced in the March Budget 2010, tobacco duty rates will increase by 2 per cent above the RPI. Duty on hand rolling tobacco will increase by an additional 10 per cent. These changes will come into effect from 6pm on 23 March 2011. (Finance Bill 2011) (39)

**2.125 Changes to the tobacco duty regime** – The Government is also restructuring cigarette duty to support health objectives. As a result, ad valorem duty on cigarettes will decrease to 16.5 per cent, and specific duty will increase by 25 per cent above the RPI. This will target the duty increase on cheaper cigarettes, adding 50 pence to a packet of economy cigarettes and 33 pence to a packet of premium cigarettes. These changes will come into effect from 6pm on 23 March 2011. (Finance Bill 2011) (39)

**2.126 Tobacco: tackling fraud** – The Government is fully committed to tackling the illicit trade in tobacco to protect public finances and support health objectives. HMRC and the UK Border Agency will be introducing a renewed strategy to tackle this fraud from April 2011.

## Gambling duties

**2.127 Gaming duty revalorisation** – Gaming duty bands will increase in line with the RPI for accounting periods starting on or after 1 April 2011. (Finance Bill 2011)

**2.128 Amusement machine licence duty (AMLD) revalorisation** – All rates of amusement machine licence duty will be increased in line with the RPI from 4pm on 25 March 2011. (Finance Bill 2011)

**2.129 AMLD reform – paving legislation** – As announced in December 2010, the Government will reform the taxation of gaming machines and introduce a machine games duty. The Government intends to consult on the design of the new tax in May 2011. Subject to legislation in Finance Bill 2012, implementation will follow in early 2013. (Finance Bill 2011 for paving legislation, Finance Bill 2012 for other changes)

**2.130 Lottery taxation** – As announced in the June Budget 2010, the Government has reviewed the taxation of the National Lottery. It has concluded that no change will be made.

## Fuel duties

**2.131 Fuel duty** – The fuel duty escalator that was announced in Budget 2009 will be abolished and replaced by a fair fuel stabiliser. The main fuel duty rate will be cut by 1 penny per litre from 6pm on 23 March 2011. Fuel duty will increase by RPI (by 3.02 pence per litre) on 1 January 2012. As part of the fair fuel stabiliser, fuel duty will increase by RPI when oil prices are high. However, in years when the oil price falls below a set trigger price on a sustained basis, the Government will increase fuel duty by RPI plus 1 penny per litre. The Government believes that a trigger price of \$75 per barrel would be appropriate, and will set a final level and mechanism after seeking the views of oil companies and motoring groups. The 2012-13 increase will be implemented on 1 August 2012. (Finance Bill 2011 for March 2011 decrease and January 2012 increase, Finance Bill 2012 for August 2012 increase) (27)

**2.132 Minor fuel duties** From 6pm on 23 March 2011, and on 1 January 2012, the duty rate for leaded petrol and compressed natural gas will change by the same monetary amount as main fuel duty; and the duty rate for aviation gasoline and rebated oils will change in proportion to the main rate. The duty differential for liquefied petroleum gas will be maintained until 1 January 2012 when it will be reduced by 1 penny per litre. The duty differential for used cooking oil biofuel will end as intended on 31 March 2012. (Finance Bill 2011)

**2.133** On 1 August 2012 rebated oils will also rise in proportion to the main rate; and the duty differential for compressed natural gas will be maintained, but the differential for liquefied petroleum gas will be reduced by 1 penny per litre. (Finance Bill 2012)

**2.134 Rural fuel duty rebate** – On 23 March 2011, the Government formally submitted a derogation request to the European Commission for a rural fuel duty rebate pilot scheme. This is intended to deliver a 5 pence per litre duty discount on petrol and diesel across the Inner and Outer Hebrides, Northern Isles, the islands in the Clyde and the Isles of Scilly. (Finance Bill 2012) (29)

## Other transport taxes

**2.135 Vehicle excise duty (VED) uprating** – From 1 April 2011, VED rates will increase by the RPI as assumed in the forecast; apart from VED rates for Heavy Goods Vehicles which will be frozen in 2011-12. In addition, discount rates for Euro VI Reduced Pollution Certificates (RPCs) will remain the same as for previous Euro standards. RPCs will be available for Euro VI standard vehicles from 1 January 2012 until 31 December 2016, applying to vehicles purchased before the standard becomes mandatory. The RPC will be backdated for Euro VI vehicles purchased before 1 January 2012. All Euro VI vehicles will return to standard VED rates when their tax discount naturally expires from 31 December 2016. (Finance Bill 2011) (30)

**2.136 Approved Mileage Allowance Payments (AMAPs) rates from 2011-12** – From 6 April 2011, the AMAPs rates will rise to 45 pence per mile for the first 10,000 miles and 25 pence per mile thereafter. In addition to claiming AMAPs rates, an allowance for passenger payments currently in place for business employees, at 5 pence per passenger per mile, will be extended to volunteers. (Finance Bill 2011) (31)

**2.137 Company car tax rate 2013-14** – From April 2013, the appropriate percentages for all vehicles with carbon dioxide emissions between 95g and 220g per kilometre will be increased by 1 percentage point. This results in a freeze in rates for cars emitting less than 95g per kilometre. (Finance Bill 2011) (35)

**2.138 Fuel benefit charge 2011-12** – From 6 April 2011, the fuel benefit charge multiplier used to calculate the tax payable on free fuel for company cars will increase by indexation only from £18,000 to £18,800.

**2.139 Van fuel benefit charge 2011-12 and van benefit charge 2011-12** – The Government announces a freeze in the level of van fuel benefit charge at £550 for 2011-12. The van benefit charge will also be frozen at £3,000 in 2011-12.

**2.140 Aviation tax: rates** – Air Passenger Duty (APD) rates will be frozen for 2011-12. The RPI increase assumed in the forecast will be deferred and implemented alongside the April 2012 RPI increase. (Finance Bill 2012) (36)

**2.141 Aviation tax: consultation and business jets** – At the June Budget 2010, the Government announced it would explore changes to the aviation tax system and that major changes would be subject to consultation. A consultation on the structure of APD, launched on 23 March 2011, includes plans to extend the duty to flights taken aboard business jets. (Finance Bill 2012)

## Carbon taxes

**2.142 Carbon price floor** – The Government announces a floor price for carbon in the power sector from 1 April 2013 to target a price for carbon of £30 per tonne of carbon dioxide in 2020. The floor will start at around £16 per tonne of carbon dioxide and the carbon price

support rates for 2013-14 will be equivalent to £4.94 per tonne. The Government intends to introduce relief for carbon capture and storage and combined heat and power (CHP), and remove an existing exemption in the climate change levy for electricity CHP plants supply indirectly to an energy consumer. Anti-avoidance provisions will be introduced to prevent forestalling with effect from 23 March 2011. (Finance Bill 2011) (32)

**2.143 Climate change levy rates** – Climate change levy rates will increase in line with the RPI in 2012-13. (Finance Bill 2011)

**2.144 Reform of Climate Change Agreements (CCAs)** – CCAs will be extended to 2023. The climate change levy discount on electricity for CCA participants will be increased from 65 per cent to 80 per cent from April 2013. A consultation on proposals to simplify the agreements will be published by summer 2011. (Finance Bill 2012) (33)

**2.145 Climate change levy exemption: certain forms of transport** – The climate change levy exemption for taxable commodities used in rail freight will be suspended from 1 April 2011 pending EU State aid re-approval. The exemption will be re-instated upon receipt of the further approval, with retrospective effect if the approval allows. (Finance Bill 2011)

**2.146 Climate change levy exemption: recycling processes** – The climate change levy exemption for taxable commodities used in steel and aluminium recycling will be suspended from 1 April 2011 if EU State aid re-approval has not been received by then. The exemption will be re-instated upon receipt of the further approval, with retrospective effect if the approval allows. (Finance Bill 2011)

**2.147 Climate change levy exemption: gas in Northern Ireland** – The climate change levy exemption for supplies of gas in Northern Ireland will be replaced with a lower rate. This change is necessary to ensure compliance with EU State aid rules. From 1 April 2011 to 31 March 2012 the rate will be £0.00059 per kilowatt hour. From 1 April 2012 the rate will be £0.00062 per kilowatt hour. (Finance Bill 2011) (34)

**2.148 Carbon Reduction Commitment** – Allowances will be priced at £12 per tonne of carbon dioxide. The Government will publish draft regulations to implement allowance sales later in 2011.

**2.149 Funding for Carbon Capture and Storage (CCS) demonstration programme** – The Government remains committed to providing public funding for CCS demonstration plants. However, consistent with its objectives for tax simplification, it will not proceed with the CCS levy. It will instead fund its commitments to CCS demonstration from general taxation.

## Landfill taxes

**2.150 Landfill tax rates** – The Government is legislating for an increase in the standard rate of landfill tax by £8 per tonne to £64 per tonne on 1 April 2012, as announced in the June 2010 Budget, and will continue to freeze the lower rate of landfill tax at £2.50 per tonne in 2012-13. (Finance Bill 2011)

**2.151 Landfill communities fund: value of the fund** – The value of the landfill communities fund will rise in line with inflation in 2011-12 to £78.1 million. Future decisions on the value of the fund will take into account the success of environmental bodies in reducing the level of unspent funds that they hold.

## Aggregates levy

**2.152 Aggregates levy** – Following the suspension of the aggregates levy credit scheme in Northern Ireland, the increase in the aggregates levy rate from £2.00 to £2.10 scheduled for

1 April 2011 will not go ahead. The Government is legislating to enable the operation of the scheme until 2021, pending EU State aid approval. (Finance Bill 2011) (37)

**2.153** The Government intends that the aggregates levy rate will increase to £2.10 in April 2012. (Finance Bill 2012) (37)

## Water

**2.154 Water charging and water assistance** – The Government is committed to supporting households who face water affordability pressures and households in areas with particularly high water bills, such as the South West. The Government will consult shortly on proposals to address water affordability. This will include reforms to the existing WaterSure scheme, the approach to company social tariffs and options for additional government spending to provide further support.

## Property taxes

**2.155 Stamp Duty Land Tax (SDLT): reform of the rules for bulk purchases** – The Government will introduce changes to the SDLT rules for bulk purchases of residential properties. If the buyer chooses, the rate of SDLT on purchases of multiple residential properties will be determined by the mean value of the dwellings purchased (subject to a minimum rate of 1 per cent), rather than their aggregate value as is currently the case. (Finance Bill 2011) (GR) (15)

**2.156 SDLT: relief for first-time buyers** – The Government will announce in the autumn the outcome of its review of the SDLT relief for first-time buyers.

**2.157 Real Estate Investment Trusts (REITs)** – Subject to informal consultation, the Government will legislate in Finance Bill 2012 to support good business practices and remove barriers to entry, and investment in, the REITs regime, including removing the REITs 2 per cent conversion charge. (Finance Bill 2012) (GR)

## VAT measures

**2.158 VAT: low value consignment relief (LVCR)** – The Government will reduce the LVCR threshold from £18 to £15 from November 2011. The Government will also explore options with the European Commission to limit the scope of the relief so that it can no longer be exploited for a purpose it was not intended for, and will revisit the level of the LVCR in Budget 2012 if discussions with the European Commission do not produce a workable solution to the problem of exploitation of the relief. (Finance Bill 2011) (38)

**2.159 VAT: revalorisation of registration and deregistration thresholds** – From 1 April 2011, the VAT registration threshold will be increased from £70,000 to £73,000 and the deregistration threshold from £68,000 to £71,000.

**2.160 VAT: revalorisation of fuel scale charges** – The VAT fuel scale charges will be revalorised with effect from 1 May 2011. The VAT fuel scale charges scheme is a simplified means of taxing the private use of business fuel.

**2.161 VAT: diplomatic privilege** – The Government will introduce indirect tax reliefs to replace existing extra statutory concessions which need to be withdrawn for diplomatic missions, international bodies, NATO visiting forces, and introduce a relief for European Research Infrastructure Consortia. (Finance Bill 2012)

**2.162 VAT: grouping extra statutory concession** – Subject to consultation, the Government will legislate for an existing extra statutory concession in order to maintain its effect. The

concession ensures that VAT groups and businesses with overseas branches are treated equally in respect of services bought in from third parties. (Finance Bill 2012)

**2.163 Tackling VAT fraud on imported road vehicles** – The Government will introduce a new online notification system for road vehicles brought into the UK from 2013 in order to combat fraud in this area. This will be a joint HMRC and Driver and Vehicle Licensing Agency (DVLA) initiative. (Finance Bill 2012) (46)

**2.164 VAT: online registration and online filing** – Following the Minister for the Cabinet Office's statement of 23 November 2010 on the "Digital Agenda", subject to consultation on the detail, the Government will mandate online VAT registration, de-registration and variations, and make other changes, including removal of the UK VAT registration threshold for non-established businesses, with effect from 1 August 2012. The Government will also put forward regulations which, subject to consultation, will require all remaining VAT customers to file their VAT returns online and pay electronically from 1 April 2012. (Finance Bill 2012)

**2.165 VAT: business samples** – As announced on 9 December 2010, UK VAT legislation will be amended to reflect a judgment of the Court of Justice of the EU which extended the relief available to businesses providing samples for marketing purposes. Previously VAT relief applied only to the first sample in a series of identical samples given to any one individual. (Finance Bill 2011)

**2.166 VAT: status of public bodies** – The Government will amend UK law to ensure clear transposition of EU legislation relating to the VAT treatment of public bodies when carrying out their statutory duties and when in competition with the private sector. (Finance Bill 2012)

**2.167 VAT: refund scheme for academies** – As set out in the draft Finance Bill 2011 clauses published in autumn 2010, the Government is introducing a new VAT refund scheme with effect from 1 April 2011 to ensure that funding for academies' non-business VAT costs is consistent with that for local authority maintained schools. (Finance Bill 2011)

**2.168 VAT: cost sharing** – The Government will continue to consult on implementation of a VAT exemption for services shared by VAT-exempt bodies, including charities.

## Tax reliefs

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**2.169 Office of Tax Simplification (OTS) review of reliefs and Government response** – The Chancellor of the Exchequer commissioned the OTS to undertake a review into the reliefs and allowances available in the tax system. The OTS published their final report on 3 March 2011 in which they recommended that over 40 reliefs be abolished.<sup>12</sup> The Government welcomes the recommendations and, based on the findings of the OTS and ongoing work by HMRC, intends to abolish only those reliefs set out below.

**2.170** The Government will consider the other areas raised in the report within a wider programme of work for the OTS. The Exchequer Secretary to the Treasury will write to the OTS before the summer, providing greater detail on the Government's plans on tax simplification.

**2.171** The following reliefs are obsolete and so will be abolished in Finance Bill 2011:

- charities – transitional relief on distributions;
- Millennium Gift Aid;
- National Savings Bank ordinary account interest;
- payroll giving 10 per cent supplement;

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<sup>12</sup>*Review of Tax Reliefs: Final Report*, Office of Tax Simplification, March 2011.

- exemption for certain assignments by seamen;
- instruments relating to National Savings; and
- transfers in relation to ships and vessels.

**2.172** The Government intends to abolish the following reliefs in Finance Bill 2012 after a period of consultation:

- payments to mariners to be disregarded;
- grants for giving up agricultural land;
- pool betting duty payments related to safety improvement at football grounds or for the arts;
- mineral royalties;
- payments for the benefit of family members;
- cycle to work days – provision of meals;
- late night taxis;
- luncheon vouchers;
- Pools payment for football ground improvements;
- Pools payment for support for games;
- disregard for certain apprentices and students coming to the UK;
- assistance in identifying lost or stolen credit cards;
- nationalisation schemes; and
- tax reserve certificates issued by HM Treasury.

**2.173** The Government recognises that it would be desirable to provide a period of notice before the abolition of some reliefs. Therefore, the Government intends that the following reliefs will be abolished after 2012 in future Finance Bills or other legislative vehicles, with a final date set out after the consultation:

- Class 1A NICs – Exemption for prescribed general earnings;
- Class 4 NICs – Allows deduction in next tax year of losses incurred in 1989-90 or previous tax year where losses from income other than trade or profession or vocation;
- deeply discounted securities – incidental expenses;
- life assurance premium relief;
- life assurance premiums paid by employers under employer-financed retirement benefit schemes;
- capital allowances – flat conversion allowances;
- capital allowances – safety at sports grounds;
- certain leases granted by registered social landlords;
- disadvantaged area relief (Stamp Duty);
- exempt instruments;

- partial relief for company acquisitions;
- shared ownership transactions;
- transfers to registered social landlords;
- visiting forces and allied headquarters;
- disadvantaged area relief (SDLT);
- Angostura bitters;
- Black Beer;
- land remediation relief;
- compensation for mis-sold pensions;
- harbour authorities;
- harbour reorganisation schemes; and
- transfers in relation to harbour reorganisation schemes.

## Anti-avoidance

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**2.174 Corporate gains: degrouping charges** – The Government will introduce legislation, with effect from 23 March 2011 to amend the degrouping charge rules to ensure that they operate as intended. This change may affect companies that cease to be a member of a group on or after today. (Finance Bill 2011)

**2.175 Sale of lessor companies** – The Government will introduce legislation with effect from 23 March 2011 amends the sale of lessors anti-avoidance legislation to ensure it remains effective and withdraws the option to elect for alternative treatment. (Finance Bill 2011) (42)

**2.176 Loan relationships avoidance: derecognition** – As announced on 6 December 2010, the Government will introduce legislation to prevent avoidance of corporation tax by addressing schemes where a company derecognises certain amounts involving loans and derivatives in its accounts. Following publication of draft clauses, the legislation has been amended to require a company to recognise differences between the accounting and fair value of a derivative as a credit for the period in which tax avoidance arrangements are entered into. This change will have effect from 23 March 2011. (Finance Bill 2011)

**2.177 SDLT** – The Government will introduce legislation, with effect from 24 March 2011, to address three SDLT avoidance risks. The changes cover avoidance techniques that use the subsales rules, the Alternative Finance reliefs and the rules for exchanges of land. These techniques have been used to attempt to avoid tax on both residential and non-residential property transactions, including on high value property transactions. (Finance Bill 2011) (44)

**2.178 Programme of reviews of high risk areas** – The Government has today set out in the Budget document *Tackling Tax Avoidance* a programme of work to improve areas of legislation that have been subject to repeated attempts at tax avoidance.<sup>13</sup> The first areas for review will be income tax losses and Unauthorised Unit Trusts.

**2.179 Protocol on unscheduled announcements of changes to tax law** – The Government has today published in *Tackling Tax Avoidance* a Protocol on the circumstances in which it will be prepared to announce a change to tax law that has immediate effect, other than at the Budget.

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<sup>13</sup>*Tackling Tax Avoidance*, HM Treasury and HMRC, March 2011.

**2.180 Listed tax avoidance schemes** – The Government will consult in May 2011 on proposals to counter the continued marketing and use of highly aggressive and artificial tax avoidance schemes. Subject to consultation, the Disclosure of Tax Avoidance Schemes (DOTAS) regime will be extended to enable the listing of specific tax avoidance schemes for direct taxes so that the subsequent use of such schemes will carry consequences for the user. Options under consideration include a surcharge for late payment of the tax. (Finance Bill 2012)

**2.181 DOTAS: improvements** – A group of measures improving the DOTAS regime took effect on 1 January 2011 following consultation. The measures included some refinements to the hallmarks (the descriptions of schemes to be disclosed). The Government will hold further informal consultations with stakeholders over the summer on the remaining changes to the hallmarks. Subject to consultation changes will be implemented in 2011-12.

**2.182 DOTAS: inheritance tax** – Regulations have now been laid to bring inheritance tax, as it applies to transfers of property into trust, within DOTAS. They come into effect on 6 April 2011 and will require disclosure of new and innovative IHT avoidance schemes involving transfers into trust.

**2.183 Tax treaties** – The Government will introduce legislation that will ensure that relief from tax is not given where a claim is made under UK double taxation treaties and where tax avoidance arrangements have been made in relation to the claim. (Finance Bill 2012)

**2.184 Employer asset-backed pension contributions** – The Government will consult on changing tax rules to limit the amount of tax relief available to employers when they make asset-backed contributions to their defined benefit pension schemes so that the tax relief accurately reflects the increase in fair value of pension plan assets, while maintaining flexibility for employers and schemes. (Finance Bill 2012)

**2.185 Changes to capital allowances anti-avoidance legislation** – The Government will consult in May 2011 on replacing the existing test for the application of the capital allowances anti-avoidance rules with a new test to bring it in line with other anti-avoidance rules and on amendments to make the rules more effective. (Finance Bill 2012)

**2.186 Capital allowances: fixtures mandatory pooling** – The Government will consult in May 2011 on introducing a requirement that businesses pool their expenditure on fixtures within a short period after acquisition in order to qualify for capital allowances. (Finance Bill 2012)

**2.187 Leasing double allowances** – As announced on 9 March 2011, the Government will introduce legislation to counter avoidance involving the leasing of plant or machinery where taxpayers claim capital allowances twice on one amount of expenditure. (Finance Bill 2011) (43)

**2.188 Disguised remuneration** – As announced in the June 2010 Budget, the Government will introduce legislation to target arrangements intended to disguise remuneration or avoid restrictions on pensions tax relief. The measure ensures that where a reward or a loan is provided, via a third party, in connection with the employee's employment, an income tax charge arises and the employer is required to account for PAYE. (Finance Bill 2011) (40)

**2.189 UK resident investment companies: currency for tax calculations** – As announced on 6 December 2010, the Government will introduce legislation to counter avoidance involving investment companies retrospectively changing the functional currency they prepare their accounts in for tax purposes. It will also allow investment companies to elect, prospectively, for a different functional currency. (Finance Bill 2011) (41)

**2.190 Group mismatches** – As announced on 6 December 2010, the Government will introduce legislation to prevent tax avoidance involving groups of companies using intra-group loans or derivatives to reduce the group's tax bill. (Finance Bill 2011)

**2.191 VAT: prevention of supply-splitting using printed matter** – As announced on 6 December 2010 the Government will introduce legislation to withdraw zero-rating for ancillary printed matter where it is connected to the supply of a differently rated service. (Finance Bill 2011) (45)

## Tax administration

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**2.192 Amendment to the Provisional Collection of Taxes Act (PCTA) 1968** – The Government will make amendments to the PCTA 1968 to maintain the Government's ability to collect income tax and certain other taxes and duties on a provisional basis following changes to the parliamentary timetable. (Finance Bill 2011)

**2.193 Transposing the Mutual Assistance Recovery Directive** – The Government will legislate to transpose the EU Mutual Assistance Recovery Directive into UK law, providing for mutual assistance between Member States in the recovery of tax debts and related measures. (Finance Bill 2011)

**2.194 Provision for neutral taxation of CPI and RPI-linked gilts** – The Government will amend the taxation legislation to ensure that the taxation treatment of index-linked gilts is neutral with respect to the measure of inflation that is used to index the value of an index-linked gilt. (Finance Bill 2011)

**2.195 Incapacitated persons** – Following the Budget, HMRC will be consulting on how best to modernise the language used to define an incapacitated person for tax purposes. (Finance Bill 2012)

**2.196 Simplification of regulatory penalties** – Formal consultation will be published in June 2011 on options to simplify regulatory penalties.

**2.197 Dishonest tax agents** – Further consultation and draft legislation will be published in July 2011 on HMRC's approach to tackling dishonest tax agents. (Finance Bill 2012)

**2.198 Data gathering** – Following consultation, from 1 April 2012 HMRC data-gathering powers will be updated so that they can more effectively target non-compliant taxpayers. (Finance Bill 2011)

**2.199 Tax consultation framework** – Following consultation earlier in 2011, the Government will publish a finalised tax consultation framework shortly.

**2.200 Customer cost reduction announcement** – HMRC will expand the existing administrative burden reduction target to include wider taxpayer compliance costs. Over the Spending Review period any increase in administrative burdens must be met by equal reductions in other areas of the tax system.

**2.201 Time to pay** – HMRC will continue to offer time to pay agreements to viable businesses which are experiencing genuine but short term difficulties in paying their tax. (GR)

**2.202 OTS review of small business tax and next OTS reviews** – As part of the second stage of the OTS review of small business tax, the OTS will look at improving tax administration for small business, with recommendations to the Government for Budget 2012. Further detail on this work, the Government's response to OTS reviews, and future work of the OTS will be announced before the summer.

**2.203 IR35** – Following the publication of the OTS review of small business tax, the Government commits to making clear improvements in the way IR35 is administered. These improvements will include setting up a dedicated helpline staffed by specialists, publishing

guidance on those types of cases HMRC view as outside the scope of IR35, targeting compliance activity by restricting reviews to high risk cases and setting up an IR35 Forum which will monitor HMRC's new approach. The Government has decided to retain IR35, as abolition would put substantial revenue at risk.

**2.204 Digital by Default consultation** – Following the “Digital by Default” announcement by the Minister for the Cabinet Office on 23 November 2010, the Government will consult in the summer on the implementation of mandatory online registration for the main business taxes by 2012-13. (GR)

**2.205 Financial securities for PAYE and NICs** – Following consultation, HMRC will be able from April 2012 to require a security from employers where there is a serious risk that tax due under PAYE or Class 1 NICs will go unpaid. (Finance Bill 2011) (49)

## Banking measures

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**2.206 Lending commitments** – This Budget announces that both Lloyds Banking Group (LBG) and The Royal Bank of Scotland (RBS) met their year two lending commitments for business and mortgage lending. During the 12 months to February 2011, LBG provided £11.7 billion of gross lending to SMEs and £37 billion to larger businesses. This exceeded its business lending commitment by £4.7 billion. During the same period, RBS provided £30 billion of gross lending to SMEs and £26.9 billion to larger businesses, exceeding its business lending commitment by £6.9 billion. For mortgages, during the 12 months to February 2011, LBG delivered £23.5 billion in gross mortgage lending compared to its commitment of £23 billion, with RBS delivering £9.4 billion compared to a net commitment of £8 billion.

**2.207 Review of covered bonds** – The Government and the Financial Services Authority (FSA) will shortly publish a review of the UK's regulatory framework for covered bonds. The review will consult on measures to enhance the attractiveness of UK covered bonds to investors, making it easier for banks and building societies to raise funding in order to lend to households and businesses. (GR)

