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## Budget policy decisions

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**2.1** Chapter 1 explains how the measures and other decisions announced in this Budget advance the Government's long-term goals. This chapter summarises measures and decisions announced since the Government took office, with their estimated effect on government revenues and spending to 2014-15. This chapter has three sections:

- Section 2a sets out the cost or yield of all Budget decisions with a fiscal impact (Table 2.1) and provides a brief description of the main Budget measures<sup>1</sup>, including measures announced since 11 May 2010;
- Section 2b sets out measures that were announced in the March 2010 Budget or earlier that have not yet come into effect, and which the Government confirms will be implemented. The effect of these measures on the public finances is summarised in Table 2.4; and
- Section 2c sets out information on the Civil List.

### Section 2a – Budget policy decisions

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**2.2** Budget policy decisions are taken 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. Measures that impact on the next spending review period when departmental budgets have not been set will be absorbed within the Government's spending envelope for 2011-12 onwards.

**2.3** On 14 June 2010, the Office for Budget Responsibility (OBR) published an independent forecast of the public finances and the economy, incorporating all policy measures introduced or announced by the previous Government. Alongside the Budget, the OBR have published a further forecast incorporating policy measures announced at the Budget. To produce the Budget forecast, the OBR has scrutinised the Government's assessment of the direct cost 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.

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<sup>1</sup>The number in brackets after each measure refers to the line in Table 2.1 or Table 2.4 where its costs or yield is shown.

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

		£ million				
		2010-11	2011-12	2012-13	2013-14	2014-15
<b>Tax measures announced at this Budget</b>						
<b>1. Deficit Reduction</b>						
1	VAT: increase main rate to 20% from 4 January 2011	+2,850	+12,100	+12,500	+12,950	+13,450
2	Insurance Premium Tax: increase standard rate to 6% and higher rate to 20% from 4 January 2011	+115	+455	+445	+455	+455
<b>2. Enterprise and growth</b>						
3	Corporation Tax: decrease to 27% in 2011-12, 26% in 2012-13, 25% in 2013-14 and 24% from 2014-15 <sup>2</sup>	-10	-400	-1,200	-2,100	-2,700
4	Small Profits Rate: decrease to 20% from 2011-12	0	-100	-1,000	-1,300	-1,400
5	Capital allowances: decrease main rate to 18% and special rate to 8% from 2012-13	0	0	+1,000	+1,900	+1,800
6	Annual Investment Allowance: decrease to £25,000 from 2012-13	0	0	+100	+1,200	+1,000
7	Video games tax relief: not introduce	0	+40	+50	+50	+50
8	Bank Levy: introduce from January 2011	0	+1,150	+2,320	+2,500	+2,400
9	Business rates: backdated bills in 2011-12 <sup>3</sup>	+30	-70	-15	-15	-15
10	Employer NICs: relief for new businesses in targeted regions	-50	-320	-390	-180	0
11	Employer NICs: increase threshold in 2011-12	0	-3,130	-3,150	-3,510	-3,720
<b>3. Fair taxes</b>						
12	Personal allowance: increase by £1,000 in 2011-12, with adjustments to basic rate limit and upper earnings limit	0	-3,490	-3,700	-3,770	-3,910
13	Basic rate limit: freeze in 2013-14	0	0	0	+320	+740
14	Capital Gains Tax: increase rate for higher rate taxpayers to 28% and increase Entrepreneurs' Relief to £5 million from 23 June 2010	0	+725	+825	+850	+925
15	Council Tax: reduction to receipts due to a one year freeze in 2011-12 <sup>4</sup>	0	-625	-630	-635	-640
16	Landline duty: not introduce	-90	-175	-175	-175	-175
17	Cider duty: reverse increase	-10	-15	-15	-15	-20
18	Furnished holiday lettings: reverse plans to repeal existing rules	-5	-30	-15	-10	-10
19	Managed payment plans: not introduce	0	+140	0	0	0
<b>Total tax policy decisions</b>		<b>+2,830</b>	<b>+6,255</b>	<b>+6,950</b>	<b>+8,515</b>	<b>+8,230</b>
<b>Spending measures announced at this Budget<sup>5</sup></b>						
20	Changes to current spending	+3,465	+6,835	+15,230	+21,700	+29,780
21	Changes to capital spending	+1,780	+2,020	+2,070	+2,120	+2,160
<b>Total spending policy decisions</b>		<b>+5,245</b>	<b>+8,855</b>	<b>+17,300</b>	<b>+23,820</b>	<b>+31,940</b>
<b>Of which specific welfare measures</b>		<b>+385</b>	<b>+2,010</b>	<b>+4,710</b>	<b>+8,150</b>	<b>+11,040</b>
22	Benefits, tax credits and public service pensions: switch to CPI indexation from 2011-12 <sup>6</sup>	0	+1,170	+2,240	+3,900	+5,840
23	Disability Living Allowance: reform gateway from 2013-14	0	0	0	+360	+1,075
24	Lone parent benefits: extend conditionality to those with children aged 5 and above from October 2011	0	0	+50	+150	+180
25	Health in Pregnancy Grant: abolish	+40	+150	+150	+150	+150
26	Sure Start Maternity Grant: apply to first child only from 2011-12	0	+75	+75	+75	+75
27	Support for Mortgage Interest: set payments at the average mortgage rate from October 2010	+15	-75	-10	+40	+65
28	Saving Gateway: not introduce in July 2010	+10	0	+75	+110	+115
	Housing Benefit reforms:	0	+220	+600	+1,640	+1,765
29	Local Housing Allowance: set at the 30th percentile of local rents from 2011-12	0	+65	+365	+415	+425
30	Deductions for non-dependents: reverse previous freezes on uprating and maintaining link with prices from 2011-12	0	+125	+225	+320	+340
31	Social sector: limit working age entitlements to reflect size of family from 2013-14	0	0	0	+490	+490
32	Switch to CPI indexation for Local Housing Allowance from 2013-14	0	0	0	+300	+390
33	Reduce awards to 90% after 12 months for claimants of Jobseekers Allowance	0	0	0	+100	+110
34	Additional bedroom for carers from 2011-12	0	-15	-15	-15	-15
35	Local Housing Allowance: caps on maximum rates for each property size, with 4-bed limit from 2011-12	0	+55	+65	+70	+65
36	Additional Discretionary Housing Payments from 2011-12	0	-10	-40	-40	-40

Tax credit reforms:	0	+1,180	+2,860	+3,110	+3,220
37 Tax credits second income threshold: reduce to £40,000 from 2011-12	0	+140	+145	+155	+145
38 First and second withdrawal rates: increase to 41% from 2011-12	0	+640	+710	+730	+765
39 Child Tax Credit: taper the family element immediately after the child element from 2012-13	0	0	+510	+515	+480
40 Child Tax Credit: remove the baby element from 2011-12	0	+295	+275	+270	+275
41 Working Tax Credit: remove the 50 plus element from 2012-13	0	0	+35	+40	+40
42 Child Tax Credit: reverse the supplement for children aged one and two from 2012-13	0	0	+180	+180	+180
43 Reduce the income disregard from £25,000 to £10,000 for two years in 2011-12 then to £5,000 from 2013-14	0	+105	+140	+340	+420
44 Introduce an income disregard of £2,500 for falls in income from 2012-13	0	0	+550	+560	+585
45 New claims and changes of circumstances: reduce backdating from 3 months to 1 month from 2012-13	0	0	+315	+320	+330
46 Child Tax Credit: increase the child element by £150 in 2011-12 and £60 in 2012-13 above indexation	0	-1,200	-1,845	-1,930	-1,995
47 Child Benefit: freeze rates for three years from 2011-12	0	+365	+695	+940	+975
48 Basic State Pension: introduce triple guarantee from 2011-12	0	0	-195	-420	-450
49 Pension Credit Minimum Income guarantee: matching basic State Pension cash increase in 2011-12	0	-415	-535	-535	-535
50 Child Trust Funds: phased abolition of Government contributions from 2010-11	+320	+540	+550	+560	+560
<b>TOTAL POLICY DECISIONS</b>	<b>+8,075</b>	<b>+15,110</b>	<b>+24,250</b>	<b>+32,335</b>	<b>+40,170</b>
Memo: debt interest savings in the next Spending Review period as a result of policy decisions	–	–820	+1,030	+1,810	+3,020
Memo: total policy decisions excluding debt interest savings	+8,075	+15,930	+23,220	+30,525	+37,150

1 Costings reflect latest Budget 2010 economic forecast and assumptions.

2 In 2015-16 the cost will rise to £3.6 billion.

3 The 2010-11 figure results from reallocation of funding to the following year.

4 This costing is net of expected changes to council tax benefit.

5 These measures include the impact of the 2010-11 in-year savings, including capital savings from changes to Child Trust Funds. There are no further cuts to capital totals. Current savings include debt interest savings.

6 The Basic State Pension will be increased by the equivalent of RPI in 2011-12.

### Box 2.1 Transparency of policy costings

This Budget increases the level of transparency around the policy costings shown in Table 2.1 consistent with the Government's commitment to increase transparency in public life. The methodology underlying the calculation of the fiscal impact of each Budget policy decision is set out in detail in the supplementary document *Budget 2010 policy costings*, published alongside this Budget.

The number of years presented in Table 2.1 has been extended to show five full years through to 2014-15.

Annex A of the *Budget 2010 policy costings* supplementary document explains in detail the underlying indexation assumption for each tax and benefit, including pre-announcements.

## Public spending

### Comprehensive Spending Review 2007 Departmental Expenditure Limits

**2.4** The allocation of Departmental Expenditure Limits (DEL) for 2008-09, 2009-10 and 2010-11 is shown in Table 2.2. In line with previous practice, resource and capital DEL reflects the latest available information and includes an allowance for shortfall reflecting likely underspends against departmental provisions.

**2.5** The DEL budgets shown in Table 2.2 reflect:

- policy decisions contained in this Budget;
- reductions to 2010-11 DEL budgets as a result of the £6.2 billion savings package;
- technical classification changes arising from the implementation of the Alignment (or 'Clear Line of Sight') project. These classification changes, which are largely a consequence of removing transactions previously recorded as non-cash from the DEL boundary, have the effect of reducing DEL in all years. However, the adjustments have no impact on the purchasing power of departments or the planned level of expenditure, nor do they impact on the fiscal aggregates; and
- other classification or budgetary changes, which have no impact on National Accounts definitions.

### Waste and inefficiency

**£6.2billion savings** **2.6** The Government will deliver £6.2 billion of savings in 2010-11 to start to tackle the budget deficit and to bear down on waste and inefficiency across the public sector.

**Efficiency and Reform Group** **2.7** The Efficiency and Reform Group (ERG) has been set up within the Cabinet Office drawing on expertise within Government. It will support departments in renegotiating contracts and will oversee an immediate freeze on unnecessary spending on consultancy, advertising and new ICT spend over £1 million.

Table 2.2: Departmental Expenditure Limits - resource and capital budgets

	£ billion					
	Departmental Expenditure Limits			Impact of Alignment Project classification changes <sup>1</sup>		
	Outturn 2008-09	Estimate 2009-10	Plans 2010-11	Outturn 2008-09	Estimate 2009-10	Plans 2010-11
<b>Resource DEL</b>						
Education	46.8	49.6	50.9	0.0	0.1	0.0
Health	90.3	97.6	101.5	-2.0	-2.1	-2.6
<i>of which: NHS England</i>	88.8	96.0	99.5	-2.0	-2.1	-2.6
Transport	5.8	7.0	6.4	0.5	0.1	-0.4
CLG Communities	4.1	4.3	3.8	-0.1	-0.2	-0.1
CLG Local Government	24.7	25.5	26.0	0.0	0.0	0.0
Business, Innovation and Skills	17.9	19.2	19.2	-0.2	-0.3	-0.1
Home Office	9.2	9.5	9.4	0.0	0.0	0.0
Justice	9.2	9.6	9.1	0.1	-0.3	-0.3
Law Officers' Departments	0.7	0.7	0.7	0.0	0.0	0.0
Defence	32.6	35.2	36.0	-4.1	-3.9	-4.3
Foreign and Commonwealth Office	2.0	2.2	2.0	-0.1	-0.1	-0.1
International Development	4.8	5.3	6.1	0.0	-0.1	-0.1
Energy and Climate Change	0.3	1.2	1.2	-0.1	0.0	0.0
Environment, Food and Rural Affairs	2.4	2.5	2.4	-0.2	-0.1	-0.1
Culture, Media and Sport	1.5	1.6	1.5	-0.1	-0.2	-0.1
Work and Pensions	7.9	9.1	8.8	0.0	0.0	0.0
Scotland	24.1	25.1	25.7	-0.5	-0.5	-0.5
Wales	12.8	13.6	13.9	-0.1	-0.3	-0.2
Northern Ireland Executive	7.9	8.8	8.6	-0.1	-0.2	-0.1
Northern Ireland Office	1.2	1.1	1.2	-0.2	-0.1	0.0
Chancellor's Departments	4.5	4.5	4.1	0.0	-0.1	-0.1
Cabinet Office	2.0	2.2	2.3	-0.1	-0.1	-0.1
Independent Bodies	0.8	0.8	1.0	0.0	-0.1	0.0
Modernisation Funding	0.0	0.0	0.2	0.0	0.0	0.0
Reserve	0.0	0.0	0.6	0.0	0.0	0.0
Allowance for shortfall	0.0	-1.4	0.0	0.0	0.0	0.0
<b>Total resource DEL</b>	<b>313.5</b>	<b>334.8</b>	<b>342.7</b>	<b>-7.2</b>	<b>-8.4</b>	<b>-9.1</b>
<b>Capital DEL</b>						
Education	5.5	7.5	6.7	0.0	0.0	0.0
Health	4.4	5.4	4.9	0.0	0.0	0.0
<i>of which: NHS England</i>	4.2	5.2	4.7	0.0	0.0	0.0
Transport	7.3	8.3	7.2	0.0	0.0	0.0
CLG Communities	7.1	9.2	6.2	0.0	0.1	0.0
CLG Local Government	0.1	0.2	0.0	0.0	0.0	0.0
Business, Innovation and Skills	2.1	3.0	2.0	0.0	0.0	0.0
Home Office	0.8	1.0	0.8	0.0	0.0	0.0
Justice	0.9	0.9	0.6	0.0	0.0	0.0
Law Officers' Departments	0.0	0.0	0.0	0.0	0.0	0.0
Defence	9.0	9.2	10.1	0.3	0.0	0.0
Foreign and Commonwealth Office	0.2	0.2	0.2	0.0	0.0	0.0
International Development	0.9	1.3	1.6	0.0	0.0	0.0
Energy and Climate Change	1.7	1.9	1.9	0.0	0.0	0.0
Environment, Food and Rural Affairs	0.6	0.7	0.5	0.0	0.0	0.0
Culture, Media and Sport	0.8	0.6	0.5	0.0	0.0	0.0
Work and Pensions	0.1	0.3	0.2	0.0	0.0	0.0
Scotland	3.3	3.9	3.2	0.0	0.0	0.0
Wales	1.6	1.9	1.7	0.0	0.0	0.0
Northern Ireland Executive	1.2	1.2	1.1	0.0	0.0	0.0
Northern Ireland Office	0.1	0.1	0.1	0.0	0.0	0.0
Chancellor's Departments	0.3	0.4	0.3	0.0	0.0	0.0
Cabinet Office	0.4	0.5	0.3	0.0	0.0	0.0
Independent Bodies	0.0	0.0	0.1	0.0	0.0	0.0
Reserve	0.0	0.0	1.5	0.0	0.0	0.0
Allowance for shortfall	0.0	-1.2	0.0	0.0	0.0	0.0
<b>Total capital DEL</b>	<b>48.5</b>	<b>56.6</b>	<b>51.6</b>	<b>0.3</b>	<b>0.1</b>	<b>0.0</b>
Depreciation	11.6	13.3	14.3	0.0	0.0	-0.6
<b>Total Departmental Expenditure Limits</b>	<b>350.4</b>	<b>378.0</b>	<b>380.0</b>	<b>-6.9</b>	<b>-8.5</b>	<b>-8.4</b>

Note: The budgetary transfers from the Northern Ireland Office to the Northern Ireland Executive arising from the devolution of policing and justice powers are to be effected in Supplementary Estimates, and therefore are not reflected in this table.

<sup>1</sup> For further details on the Alignment (or "Clear Line of Sight") Project, please see paragraph 2.6.

## Review of spending commitments

**Spending re-approvals** **2.8** All significant items of spending inherited by the Government, which were agreed between 1 January 2010 and the election, have now been reviewed. Of these items, 12 have been cancelled, which carry a total lifetime cost of nearly £2 billion. A further 12, that would have cost £8.5 billion over their lifetime, have been suspended to be considered at the Spending Review.

**Review of EYF commitments and DEL Reserve** **2.9** The Government inherited very substantial commitments whose funding was dependent on underspending this year through the End of Year Flexibility system or additional funding from the Reserve. This level of underspending is not expected to materialise and the Government is reviewing EYF commitments.

## Asset sales

**Asset sales** **2.10** In addition to launching the sale of High Speed 1, as part of a wider programme of asset commercialisation over the next 12 months the Government will:

- facilitate a capital injection into the Royal Mail Group;
- resolve the future of the Tote in a way that secures value for the taxpayer while recognising the support the Tote currently provides the racing industry;
- announce its decision on selling part of the student loan portfolio, including looking at the options for early repayment for individuals, in light of Lord Browne's review of higher education finance;
- release the 800MHz and 2.6GHz spectrum to support super-fast mobile services. A decision on the approach will be made before recess; and
- explore with other shareholders the options for a potential sale process in NATS.

**2.11** At the conclusion of the Spending Review, decisions will be made on the future capacity at the Dartford Crossing, and the possibilities for letting out a concession.

## The Spending Envelope and Spending Review

**Path of spending** **2.12** 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. TME will fall in real terms by 4 per cent over the period; PSCE will fall by 1 per cent; and PSGI will fall by 31 per cent. (20) (21)

**Spending Review** **2.13** The Spending Review will be published on 20 October 2010 and will set out spending plans for the years 2011-12 to 2014-15.

**2.14** Table 2.3 shows the fixed envelopes for the current and capital spending included within the Spending Review. The final allocation between DEL and AME – and the allocation of DEL between departments – will be set at the Spending Review.

**2.15** As set out in the Spending Review Framework<sup>2</sup>, published on 8 June 2010, the Government will evaluate spending programmes against tough criteria on ensuring value for money. This will ensure a clear focus on prioritising resources to meet the Government's objectives within tighter budgets.

**2.16** Capital DEL allocations will be made on the basis of a fundamental review of spending plans, which will identify the areas of spending that will achieve the greatest economic returns.

**2.17** The Government's national engagement programme will give public sector workers and members of the public an opportunity to feed in their ideas for reducing spending. An online event will launch on the 24 June 2010 inviting public sector workers to submit their suggestions. Following this, members of the public will be asked to submit their ideas online. The Government will take forward the most promising ideas as part of the Spending Review process.

**Table 2.3: Total Managed Expenditure**

	£ billion							
	Outturn 2008-09	Estimate 2009-10	2010-11	2011-12	Forecasts			
					2012-13	2013-14	2014-15	2015-16
<b>CURRENT EXPENDITURE</b>								
Resource Annually Managed Expenditure	251.3	265.8	294.6	308.0	323.1	337.4	355.0	371.4
Implied Resource Departmental Expenditure Limits <sup>1,2</sup>	313.5	334.8	342.7	343.1	341.4	341.2	337.7	340.0
<b>Public sector current expenditure</b>	<b>564.7</b>	<b>600.6</b>	<b>637.3</b>	<b>651.1</b>	<b>664.5</b>	<b>678.6</b>	<b>692.7</b>	<b>711.4</b>
<b>CAPITAL EXPENDITURE</b>								
Capital Annually Managed Expenditure	16.6	12.1	7.8	7.3	6.9	6.3	6.2	5.2
Implied Capital Departmental Expenditure Limits <sup>1,2</sup>	48.5	56.6	51.6	41.4	39.6	37.0	38.7	40.8
<b>Public sector gross investment</b>	<b>65.1</b>	<b>68.7</b>	<b>59.5</b>	<b>48.7</b>	<b>46.5</b>	<b>43.3</b>	<b>44.9</b>	<b>46.1</b>
Less public sector depreciation	-18.7	-19.7	-20.6	-21.6	-22.5	-23.4	-24.3	-25.2
<b>Public sector net investment</b>	<b>46.4</b>	<b>49.0</b>	<b>38.9</b>	<b>27.2</b>	<b>24.0</b>	<b>19.9</b>	<b>20.6</b>	<b>20.9</b>
<b>TOTAL MANAGED EXPENDITURE<sup>3</sup></b>	<b>629.8</b>	<b>669.3</b>	<b>696.8</b>	<b>699.8</b>	<b>711.0</b>	<b>722.0</b>	<b>737.5</b>	<b>757.5</b>
Spending Envelope for Spending Review 2010				639.6	644.7	649.3	658.7	
Of which:								
Resource spending envelope				591.6	598.9	606.7	614.5	
Capital spending envelope				48.0	45.8	42.6	44.1	

<sup>1</sup> Incorporates changes from the Alignment (or "Clear Line of Sight") Project, please see paragraph 2.6.

<sup>2</sup> Implied DEL numbers from 2011-12 onwards. Calculated as the difference between Resource AME and PSCE in the case of Resource DEL, and between Capital AME and PSNI in the case of Capital DEL.

<sup>3</sup> TME is equal to the sum of PSCE and PSGI, on a basis which excludes temporary effects of financial interventions.

## Public sector pay and pensions

**Public sector pay** **2.18** A two year pay freeze will be introduced from 2011-12 for public sector workforces, except for those earning £21,000 or less, who will receive an increase of at least £250 a year. This will save £3.3 billion a year by 2014-15.

**2.19** Pay will also be frozen in 2010-11 for civil servants who are yet to agree a legally binding pay deal, except for those earning £21,000 or less, who will receive at least £250 a year. These civil servants will then exit the freeze ahead of other groups.

<sup>2</sup> The Spending Review framework (Cm 7872), June 2010, is available at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

**Public service pensions** **2.20** An independent commission chaired by John Hutton, formerly Secretary of State for Work and Pensions, will undertake a fundamental structural review of public service pension provision by Budget 2011 and consider the case for short-term savings in the Spending Review period by September 2010.

## **Other measures**

**Euro preparations** **2.21** The Government has clearly stated that it will not join or prepare to join the euro in this Parliament. Government departments have been instructed to cease all work relating to euro preparations and not to spend money on euro compatibility in procurement. Staff engaged in this work are being transferred to other duties.

## **Personal tax and benefits**

**Income tax personal allowances** **2.22** The personal allowance for under 65s will increase by £1,000 to £7,475 in 2011-12, with a corresponding decrease in the levels at which the 40 per cent higher rate of tax and the two per cent rate of NICs are paid, to ensure that the majority of higher rate taxpayers will pay the same total level of tax and National Insurance Contributions as previously planned. (12)

**Basic rate limit** **2.23** The basic rate limit for income tax will be frozen in 2013-14. (13)

**Employer NICs** **2.24** The secondary NICs threshold will be increased by £21 per week in addition to indexation from April 2011. (11)

**PAYE** **2.25** The Pay As You Earn (PAYE) system is a fundamental part of the UK tax system. The Government wishes to explore how it could be improved in order to reduce costs and make the system easier for employers and HMRC to administer. As an initial step, the Government intends to consult with employers and payroll providers on mechanisms that could support more frequent or real time PAYE data.

**Managed Payment Plans** **2.26** The Government will defer implementation of Managed Payment Plans, which would allow taxpayers to pay self-assessed income tax and corporation tax in a series of monthly instalments either side of the theoretical due date. (Budget 2009) (19)

**Pensions tax – annual allowance** **2.27** The Government will restrict the generosity of pensions tax relief. The Government is committed to protecting the public finances by introducing reforms that raise no less revenue than has already been accounted for in the public finances over the forecast period, and in steady-state in subsequent years. It believes an alternative approach to the high income excess relief charge legislated for in Finance Act 2010, involving reform of existing allowances, principally a significantly reduced annual allowance, might better meet the Government's objectives. Provisional analysis suggests that an annual allowance in the range of £30,000 to £45,000 would raise the necessary yield. The Government intends to introduce legislation in the Finance Bill after the Budget to bring in powers to repeal the measure legislated for in Finance Act 2010. (j) (k)

**Tax rules for foster carers** **2.28** The capital allowance rules for foster carers will be amended to ensure that they operate consistently and as intended for all carers. Legislation will be in the Finance Bill introduced in the autumn and will take effect from Royal Assent.



**Interest: deduction of tax** **2.29** Legislation will be in the Finance Bill introduced in the autumn to provide HMRC with a power to make regulations to amend the rules on the collection of income tax deducted at source from interest and similar payments.

**Non-domiciled individuals** **2.30** As announced in the Coalition Agreement, the Government will review the taxation of non-domiciled individuals.

**Expenses paid to MPs** **2.31** Legislation will be in the Finance Bill introduced after the Budget to address the tax and NICs consequences of the new expenses scheme for Members of Parliament. It will consolidate existing tax and NICs treatments following the introduction of the Parliamentary Standards Act 2009 and the provision in that act for expenses to be administered by the Independent Parliamentary Standards Authority rather than the House Authorities. The legislation will take effect for income tax purposes from 7 May 2010.

## **Tax credits and benefits**

**Benefits uprating** **2.32** From April 2011, the Consumer Prices Index (CPI) will be used for the indexation of all benefits, tax credits and public service pensions. (22)

**State Pension** **2.33** From April 2011, the basic State Pension will be uprated by a triple guarantee of earnings, prices or 2.5 per cent, whichever is highest. CPI will be used as the measure of prices in the triple guarantee but the basic State Pension will be uprated by the equivalent of RPI in April 2011. (48)

**2.34** The Government will review the date at which the State Pension Age rises to 66. This will be supported by a call for evidence.

**Default Retirement Age** **2.35** The Government will consult shortly on how it will quickly phase out the Default Retirement Age from April 2011.

**Pension Credit** **2.36** In April 2011, the standard minimum income guarantee in Pension Credit will increase by the cash rise in a full basic State Pension. (49)

**Tax credits** **2.37** From April 2011, the second income threshold for the family element of the Child Tax Credit will reduce from £50,000 to £40,000 and from April 2012, the family element of the Child Tax Credit will be withdrawn immediately after the child element. (37) (39)

**2.38** From April 2011, the first and second withdrawal rates for tax credits will increase to 41 per cent. (38)

**2.39** From April 2011, the baby element will be removed from the Child Tax Credit and from April 2012, the 50 plus element will be removed from the Working Tax Credit. (40) (41)

**2.40** In April 2011, the child element of the Child Tax Credit will increase by £150 above CPI indexation and in April 2012 it will increase by £60 above indexation. (46)

**2.41** The Government will not introduce the £4 supplement in the Child Tax Credit for each child aged one and two from April 2012, which was announced at the March 2010 Budget. (42)

**2.42** From April 2011, the level of in-year rises of income that will be disregarded from calculations of tax credit entitlement will decrease from £25,000 to £10,000 and from April 2013, this will be decreased further to £5,000. (43)

**2.43** From April 2012, the period for which a tax credit claim and certain changes of circumstances can be backdated will be reduced from three months to one month. (45)

**2.44** From April 2012, a disregard of £2,500 will be introduced in the tax credits system for in-year falls in income. (44)

**Maternity payments** **2.45** From January 2011, the Health in Pregnancy Grant will be abolished. (25)

**2.46** From April 2011, payment of a SureStart Maternity Grant will be restricted to a first child (or children where the first is a multiple birth). (26)

**Child Benefit** **2.47** The rates of Child Benefit for the first and subsequent children will be frozen for three years from April 2011. (47)

**Child Trust Funds** **2.48** As announced on 24 May 2010, the Government will reduce and then stop Government contributions to Child Trust Funds. (50)

**Support for Mortgage Interest** **2.49** From October 2010, the standard interest rate used to calculate Support for Mortgage Interest payments will be set at a level equal to the Bank of England's published monthly Average Mortgage Rate. (27)

**Housing Benefit** **2.50** From October 2011, Local Housing Allowance rates will be set at the 30th percentile of local rents. (29)

**2.51** Deductions for non-dependents will be uprated in April 2011 on the basis of prices. This will reverse the freeze in these rates since 2001-02. (30)

**2.52** From 2013-14, Local Housing Allowance rates will be uprated in line with CPI. (32)

**2.53** From April 2013, housing entitlements for working age people in the social sector will reflect family size. (31)

**2.54** Housing Benefit awards will be reduced to 90 per cent of the initial award after 12 months for claimants receiving Jobseekers Allowance. This will be introduced in April 2013. (33)

**2.55** From April 2011, Housing Benefit claimants with a disability and a non-resident carer will be entitled to funding for an extra bedroom. (34)

**2.56** From April 2011, Local Housing Allowance 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. (35)

**2.57** The Government contribution to Discretionary Housing Payments will be increased by £10 million in 2011-12 and £40 million in each year from 2012-13. (36)

**Disability benefits** **2.58** From 2013-14, an objective medical assessment will be introduced for Disability Living Allowance. (23)

**Lone parents** **2.59** From October 2011, lone parents whose youngest child is aged 5 or above will be eligible for Jobseekers Allowance rather than Income Support, and existing customers will be transferred from Income Support to Jobseekers Allowance from April 2012. (24)

### Other measures

**Annuity by age 75** **2.60** The existing rules that create an effective obligation to purchase an annuity by age 75 will end from April 2011. A consultation on the detail of this change will be launched shortly. Legislation for transitional arrangements will be in the Finance Bill introduced after the Budget for those yet to secure an income who will reach 75 in the meantime.

**Saving Gateway** **2.61** The Government will not introduce the Saving Gateway in July 2010. (28)

**Annual family financial healthcheck** **2.62** The Government has asked the Consumer Financial Education Body to develop an annual family financial healthcheck, which will be delivered as part of the new national financial advice service. The healthcheck will be launched in spring 2011.

### Capital, assets and property

**Capital gains tax reform** **2.63** Effective from 23 June 2010, capital gains tax will rise from 18 to 28 per cent for those with total taxable gains and income above the higher rate threshold. Basic rate taxpayers will continue to pay an 18 per cent rate on their gains. Legislation will be in the Finance Bill introduced after the Budget. (14)

**2.64** Effective from 23 June 2010, the lifetime limit for entrepreneurs relief will be extended from £2 million to £5 million. Legislation will be in the Finance Bill introduced after the Budget. (14)

**2.65** The Annual Exempt Amount for capital gains tax will remain at £10,100 for 2010-11 and will continue to rise in line with inflation.

**Stamp duty land tax** **2.66** The Government will review the effectiveness of the stamp duty land tax relief for first time buyers.

### Business and financial services

**Corporate tax reform** **2.67** The Government has set out the roadmap for corporate tax reform, with further details to follow in the autumn.

**2.68** The main rate of corporation tax will be reduced from 28 per cent to 24 per cent over four years. A one per cent reduction will be implemented from 1 April 2011. Legislation will be in the Finance Bill introduced after the Budget, with further reductions in subsequent Finance Bills. (3)

**2.69** The small profits rate of corporation tax will be reduced from 21 per cent to 20 per cent with effect from 1 April 2011, rather than rising to 22 per cent as inherited by the Government. (4)

**2.70** The Government will move to a more territorial basis for taxing the profits of foreign branches, and will consult in summer on options for retaining foreign branch loss relief as part of this. The Government plans to reform the rules in Finance Bill 2011.

**2.71** The Government is committed to reforming the Controlled Foreign Company (CFC) rules and will consult on interim improvements to the current rules to be introduced in Finance Bill 2011.

**2.72** The Government will consult with business in autumn 2010 to review the taxation of Intellectual Property and the support R&D tax credits provide for innovation. (t)

**2.73** The Government is committed to simplifying the capital gains rules for groups of companies to a Finance Bill 2011 timetable.

**Small business tax review** **2.74** The Government remains committed to a review of IR35 and small business tax and will release further details shortly.

**Capital allowances** **2.75** From April 2012, the rate of capital allowances on the general pool of plant and machinery will be reduced from 20 per cent to 18 per cent, and the rate of allowance on the special rate pool of plant and machinery will be reduced from 10 per cent to 8 per cent. (5)

**2.76** The Annual Investment Allowance will be reduced from £100,000 to £25,000 from April 2012. (6)

**Video games tax relief** **2.77** The Government will not introduce the tax relief for the UK video games industry. (7)

**Bank levy** **2.78** A bank levy based on banks' balance sheets will be introduced, following consultation, effective from 1 January 2011. It is proposed that the levy will be set at a rate of 0.07 per cent, with a lower initial rate of 0.04 per cent in 2011. (8)

**Bank remuneration** **2.79** The Government will explore the costs and benefits of a Financial Activities Tax. The Government has asked the FSA to consider a number of factors in its forthcoming review of its Remuneration Code. Alongside this the Government will consult on a remuneration disclosure regime.

**Independent commission on banking** **2.80** As announced on 16 June 2010, the Government has established an independent commission on banking, chaired by Sir John Vickers.

**Asset management** **2.81** The Government will hold discussions with industry and formal consultations on a range of issues concerning the asset management sector, including UCITS IV<sup>3</sup> implementation, introducing a tax transparent contractual fund vehicle, taxation of Investment Trust Companies and Funds Investing in Non-Reporting Funds (FINROF) regulations, and Stamp Duty Reserve Tax (SDRT) Schedule 19 in the context of investments in underlying funds.

**Backdated business rates** **2.82** Legislation will be introduced to cancel backdated business rates bills eligible for the 8-year schedule of payments scheme, for newly assessed properties that were split from a larger rateable property. (9)

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<sup>3</sup>Undertakings for Collective Trusts in Transferrable Securities directive.

**Insurance Premium Tax** **2.83** With effect from 4 January 2011, the standard rate of Insurance Premium Tax (IPT) will increase to 6 per cent and the higher rate of IPT will increase to 20 per cent. Legislation will be in the Finance Bill introduced after the Budget. (2)

**Life insurance – deficiency relief** **2.84** The Government will not extend life insurance deficiency relief to the additional rates of tax. Instead the deficiency relief rules will continue as at present and will reduce tax due on income subject to the higher rate and dividend upper rate of tax only.

**Furnished holiday lettings** **2.85** The proposal inherited by the Government to repeal the special tax rules for furnished holiday lettings will not be implemented. Instead, the Government will consult over the summer on a proposal to ensure the tax rules meet EU legal requirements in a fiscally responsible way, by changing the eligibility thresholds and restricting the use of loss relief. Any changes will take effect from April 2011, and in the meantime the current rules continue to apply for the 2010-11 tax year. (18)

**Better regulation** **2.86** Regulation previously scheduled for introduction over the coming year will not be introduced unless it has been reviewed and re-agreed by the Reducing Regulation Committee. Sunset clauses will be applied to new regulation so they end after seven years unless Parliament has confirmed they are still necessary. Budget announces that departments will immediately start to review employment law as committed to in the coalition agreement. The Government will influence the EU to adopt its new approach.

**Business finance** **2.87** A new Enterprise Capital Fund of £37.5 million will be introduced to provide additional equity finance for small businesses.

**2.88** The Enterprise Finance Guarantee will be increased to provide £200m in additional lending for small businesses until 31 March 2011.

**2.89** The Government will publish a Green Paper on business finance before the summer recess.

## Value Added Tax

**Value Added Tax** **2.90** The standard rate of VAT will increase from 17.5 per cent to 20 per cent with effect from 4 January 2011 and anti-forestalling legislation will be introduced, effective from 22 June 2010. Legislation will be in the Finance Bill introduced after the Budget. (1)

**2.91** Rates under the flat rate scheme for small businesses will be increased from 4 January 2011, to reflect this change in the standard rate.

**2.92** The threshold for businesses to be obliged to make VAT payments on account (currently an annual VAT liability of £2million) will be increased to maintain the status quo of the scheme. The Government will legislate for this next year.

**2.93** The effective rate of five per cent for imported works of art, certain antiques, collections and collectors pieces will be maintained by changing the percentage of the value on which standard rate VAT is payable.

**Shared services** **2.94** Recognising the efficiencies that can be achieved by organisations such as charities sharing services and the potential VAT barrier that exists, the Government has started discussions with charities and other affected sectors to consider options for implementing the EU cost sharing exemption. It will continue those discussions and launch a formal consultation in the autumn.

## Excise duties

**Alcohol duty** **2.95** The Government will reverse the increase in cider rates of 10 per cent above inflation, from 30 June 2010, which was previously announced in the March 2010 Budget. This will bring it in line with increases to other alcohol rates. (17)

**2.96** The Government will review the taxation and pricing of alcohol to ensure it tackles binge drinking without unfairly penalising responsible drinkers, pubs and important local industries.

**Tobacco duty** **2.97** Technical changes will be made in the Finance Bill introduced in the autumn to the definition of cigarettes to take account of the recently revised EU tobacco directive.

**Landline duty** **2.98** The proposal inherited by the Government for a landline duty will not be implemented. (16)

**National Lottery** **2.99** As announced in the Coalition Agreement, the Government will review the taxation of the National Lottery.

## Environment and transport

**Fair fuel stabiliser** **2.100** The Chancellor has asked the Office for Budget Responsibility to undertake an assessment over the summer of the effect of oil price fluctuations on the public finances. Informed by this assessment, the Government will examine options for the design of a fair fuel stabiliser.

**Rural fuel duty** **2.101** Reflecting the coalition commitment to investigate measures to help with fuel costs in remote rural areas, the Government is considering the case for introducing a fuel duty discount in remote rural areas. This includes possible pilot schemes in Scotland.

**Carbon price** **2.102** In the autumn, the Government will publish proposals to reform the climate change levy in order to provide more certainty and support to the carbon price. Subject to consultation, the Government intends to bring forward relevant legislation in Finance Bill 2011.

## Charities

**Charitable giving** **2.103** The Government will continue to explore with voluntary sector representatives ways to improve the Gift Aid system and encourage charitable giving.

**Substantial donors** **2.104** The Government will replace the current rules on substantial charity donors and HMRC will consult informally on draft clauses in the summer, with a view to publishing final legislation in the autumn.

## Local, regional and devolved administrations

- Council tax** **2.105** The Government will work in partnership with local authorities to implement a freeze in council tax in England in 2011-12. The Government will clarify in due course the terms under which local authorities that commit to freeze or reduce their council tax will be compensated. (15)
- Local authority prudential borrowing** **2.106** To ensure the fiscal risks around local authority borrowing decisions are better understood, the Government will monitor lending from the Public Works Loans Board more closely, and consider the approach taken in Scotland to increase transparency around borrowing undertaken more than two years in advance of expenditure.
- Scotland** **2.107** The Government reaffirms its commitment to implement the proposals of the Calman Commission in Scotland. The Government will also review the control and use of accumulated and future revenues from the Fossil Fuel Levy in Scotland.
- Northern Ireland** **2.108** The Government will publish a consultation paper in autumn 2010, on rebalancing the Northern Ireland economy. This will include options to promote enterprise in Northern Ireland and will examine mechanisms for changing the corporation tax rate as well as economic and public service reform.
- Regional growth** **2.109** To support private sector enterprise and investment in those regions that are particularly reliant on the public sector Government will:
- announce a three year scheme to exempt new businesses in targeted areas from up to £5,000 of class 1 employer National Insurance Contributions payments, for each of their first ten employees hired in their first year of business. Subject to meeting the necessary legal requirements, the Government aims to have the scheme established by September 2010. Any qualifying new business set up from today will also benefit; (10)
  - create a Regional Growth Fund to fund regional capital projects in 2011-12 and 2012-13; and
  - the Government will publish a White Paper later in the summer setting out its plans for a new approach to sub-national growth.

## Tax compliance

- Accounting derecognition** **2.110** Legislation will be in the Finance Bill introduced after the Budget, with effect from Budget day, to prevent avoidance of corporation tax using accounting 'derecognition' rules in relation to loans and derivatives.
- Alternative Investment Funds** **2.111** Legislation will be introduced, with effect from Budget day, to prevent tax avoidance involving the creation for corporate investors of a credit for UK tax where no UK tax has been paid.
- Financial securities** **2.112** The Government will now consult on introducing a power for HMRC to require financial security where PAYE & NICs are at serious risk of non payment, rather than legislate in the upcoming Finance Bill as announced at the March 2010 Budget. (ac)



- Life insurance** **2.113** An anti-avoidance rule that applies when a transfer of business sidesteps the rules for non-profit funds with unrecognised profits will be legislated for in the Finance Bill introduced after the Budget. Additionally, legislation will be in the Finance Bill introduced in the autumn to modify the tax rules that apply to Overseas Life Insurance Companies and the application of the transfer of business rules when non-profit business is transferred to a non-EEA country.
- GAAR** **2.114** The Government will engage informally with interested parties to explore whether there is a case for developing a General Anti-Avoidance Rule (GAAR). This will be part of wider work on improvements to the tax policy making process.<sup>4</sup>
- IHT on trusts** **2.115** The Government will consult on bringing Inheritance tax (IHT) on trusts within the Disclosure of Tax Avoidance Schemes regime.
- Stamp duty land tax** **2.116** The Government will examine whether changes to the rules on stamp duty land tax on high value property transactions are needed to prevent avoidance in this area.

## Section 2b – Measures announced at the March 2010 Budget or earlier

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**2.117** This section sets out measures announced by the previous Government at the March 2010 Budget or earlier that have not yet come into effect, and which the Government confirms will be implemented and legislated for. The fiscal event at which each policy was initially announced is in brackets.

**2.118** The Government will publish a Finance Bill after the Budget to ensure swift Royal Assent for its key priorities. Given the exceptional circumstances this year, and in order to clear inherited measures in a manner consistent with proper Parliamentary scrutiny, a further Finance Bill will be introduced in the autumn. This Bill will be published in draft for comment in July and will contain those measures as specified in this chapter.

**2.119** Table 2.4 shows the cost or yield of all measures announced at the March 2010 Budget or earlier which take effect from April 2011 or later. These numbers were incorporated into the pre-Budget forecast published by the OBR on 14 June 2010. Where the Government is not proceeding with a previous announcement, Table 2.1 shows the impact on the public finances.

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<sup>4</sup> *Tax policy making: a new approach*, HM Treasury June 2010.



Table 2.4: Measures announced in the March 2010 Budget or earlier which take effect from April 2011 or later<sup>1</sup>

		(+ve is an Exchequer yield)			
	Head	2011-12	2012-13	2013-14	2014-15
<b>Measures announced in the March 2010 Budget or earlier</b>					
a Freeze higher rate threshold in 2012-13	Tax	0	+380	+850	+800
b Freeze basic rate limit in 2011-12	Tax	+410	+850	+870	+960
c Align the NICs primary threshold with baseline personal allowance from 2011-12	Tax	-1,510	-1,650	-1,800	-1,830
d Increase NICs primary threshold in 2011-12	Tax	-1,420	-1,440	-1,590	-1,610
e Increase main employee NICs rate by 1% from 2011-12	Tax	+3,660	+3,780	+3,990	+4,210
f Increase additional employee NICs rate by 1% from 2011-12	Tax	+580	+610	+640	+680
g Increase employer NICs rate by 1% from 2011-12	Tax	+4,500	+4,670	+4,940	+5,210
h Increase main self-employed NICs rate by 1% from 2011-12	Tax	+240	+250	+250	+270
i Increase additional self-employed NICs rate by 1% from 2011-12	Tax	+40	+40	+40	+40
j Freeze pensions lifetime and annual allowance from 2011-12 for 5 years	Tax	+400	+450	+500	+500
k Pensions tax: restrict tax relief <sup>2</sup>	Tax	+200	+3,500	+3,600	+4,600
l Auto-enrolment: slower introduction	Tax	0	+100	+700	+1,600
m Individual savings account: indexation from 2011-12	Tax	*	-5	-20	-50
n SDLT: properties over £1m from 2011-12	Tax	+60	+220	+270	+310
o Inheritance tax: freeze threshold from 2011-12 to 2014-15	Tax	+45	+135	+235	+345
p Salary sacrifice: workplace canteens from 2011-12	Tax	+110	+110	+110	+110
q Seafarers' Earning Deduction	Tax	-5	-5	-5	-5
r Alcohol duty: increase in rates in 2013-14 and 2014-15	Tax	0	0	+205	+425
s Fuel duty: increase in rates in 2014-15	Tax	0	0	0	+425
t Patent Box from 2013-14 <sup>3</sup>	Tax	0	0	-500	-800
u Venture Capital Schemes: State Aid changes	Tax	-20	-30	-40	-40
v Landfill tax: increase in 2014-15	Tax	0	0	0	+65
w Climate change levy: reduction of relief from 2011-12	Tax	+50	+50	+50	+50
x Company car tax: extend bands from 2012-13	Tax	0	+120	+120	+125
y Company car tax: changes to bands and abolition of cap from 2011-12	Tax	+85	+75	+70	+65
z Vehicle excise duty: additional exceptional rates from 2011-12	Tax	*	*	*	*
aa EU Emissions Trading Scheme auctions: amendments from 2011-12	Tax	-10	0	0	0
ab Aggregates levy rate: increase from 2011-12	Tax	+5	+5	+5	+5
ac Extend financial securities from 2011-12	Tax	*	+5	+5	+5
ad Childcare: employer supported childcare tax relief from 2011-12 <sup>4</sup>	Tax/Spend	0	0	0	0
ae Working tax credit: extend eligibility for over 60's from 2011-12	Spend	-20	-20	-20	-20

\*Negligible

<sup>1</sup> Costings reflect latest Budget 2010 economic forecast and assumptions.

<sup>2</sup> See chapter one for further details on the Governments plans for restricting pensions tax relief.

<sup>3</sup> The costs of this measure will rise to £1.1 billion in steady state.

<sup>4</sup> Employer supported childcare tax relief measure used to fund expansion of free childcare for 2 year olds.

- Income tax and NICs** **2.120** The Government has inherited a number of measures which made changes to income tax and NICs rates and thresholds in 2011-12 and 2012-13. In 2011-12, these would have increased the personal allowance for under 65s by £130 below indexation and frozen the basic rate limit. The measures announced in this Budget now supercede these decisions (see paragraphs 2.22 and 2.23). In addition, as previously announced in 2011-12, the NICs primary threshold will increase and NICs rates will be increased by one per cent (2009 Pre-Budget Report). In 2012-13 the higher rate threshold (the level at which 40 per cent tax begins to be paid) will be frozen (2009 Pre-Budget Report). (a-i)
- Working Tax Credit** **2.121** From April 2011, people aged over 60 will qualify for Working Tax Credit if they work at least 16 hours a week, rather than 30 as currently. (March 2010 Budget) (ae)
- Workplace canteens** **2.122** Legislation was included in Finance Act 2010 to restrict the tax exemption for workplace canteens by removing the exemption when used in conjunction with salary sacrifice or flexible benefit arrangements. This will take effect from April 2011. (2009 Pre-Budget Report) (p)
- Employer-Supported Childcare** **2.123** 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. (2009 Pre-Budget Report) (ad)
- Auto-enrolment** **2.124** The Government is supportive of auto-enrolment. It has committed to reviewing private pension reforms and will be announcing details of a review shortly. (l)
- Stamp duty land tax** **2.125** An additional five per cent rate of stamp duty land tax will take effect for residential transactions worth over £1 million from 6 April 2011. (March 2010 Budget) (n)
- Inheritance tax** **2.126** The inheritance tax allowance will be frozen at its 2010-11 level of £325,000 until 2014-15. (March 2010 Budget). (o)
- EU Emission Trading System** **2.127** The Government intends to include nitrous oxide gases from nitric acid production in the EU Emission Trading System from 2011. (March 2010 Budget) (aa)
- Landfill tax** **2.128** The standard rate of landfill tax will increase by £8 per tonne each year from 1 April 2011 until at least 2014. There will be a floor under the standard rate at £80 per tonne, so that the rate will not fall below £80 per tonne from April 2014 until at least 2020. (March 2010 Budget) (v)
- 2.129** New qualifying criteria for lower rated wastes will be legislated in the Finance Bill introduced in the autumn, to come into effect on 1 April 2011. (March 2010 Budget)
- Aggregates levy** **2.130** The rate of aggregates levy will increase from £2.00 per tonne to £2.10 per tonne on 1 April 2011. (March 2010 Budget) (ab)

- 2.131** The Government is seeking EU State aid approval to extend the Aggregates Levy Credit Scheme in Northern Ireland for a further ten years from 31 March 2011. Legislation will be in the Finance Bill introduced in the autumn. (March 2010 Budget)
- Climate change levy** **2.132** From 1 April 2011, the discount from the climate change levy obtained by participating in a climate change agreement will be reduced from 80 to 65 per cent. (2009 Pre-Budget Report) (v)
- 2.133** The rates of climate change levy will be raised in line with inflation on 1 April 2011. (March 2010 Budget)
- Fuel duty** **2.134** Under plans the Government has inherited, fuel duty is scheduled to rise by one pence per litre above indexation in April 2014. (s)
- Company car tax** **2.135** The Government will reform company tax so that it continues to provide an incentive to purchase the lowest emitting vehicles on the market. From April 2011, the basic threshold for the 15 per cent band of company car tax will be reduced by 5 grams of carbon dioxide emitted per kilometre (g CO<sub>2</sub> per km), so that this band applies to cars emitting between 121 and 129g CO<sub>2</sub> per km. The percentage of list price subject to tax will continue to increase by one percentage point with every 5g CO<sub>2</sub> per km increase in emissions, to a maximum of 35 per cent. The cap on car list prices used to calculate the taxable benefit arising from company cars will also be abolished on this date, as will discounts for early uptake Euro 4-standard diesel cars, higher-emitting hybrid cars and alternative fuel company cars. (Budget 2009) (x)
- 2.136** From April 2012, the 10 per cent band for cars emitting 120g CO<sub>2</sub> per km or less will be removed, and the system of bands will be extended so that they increase by one percentage point with every 5g CO<sub>2</sub> per km increase in emissions, from 10 per cent. This 10 per cent band will apply to cars that emit 99g of CO<sub>2</sub> per km or less. (2009 Pre-Budget Report) (w)
- Zero-carbon goods vehicles** **2.137** Legislation will be in the Finance Bill introduced in the autumn for an enhanced capital allowance for zero-carbon goods vehicles. This will apply to vehicles purchased from April 2010, and will be in place for five years. (March 2010 Budget)
- HGV VED** **2.138** From April 2011, exceptional rates of vehicle excise duty will be introduced for certain heavy goods vehicles, to ensure consistency with EU regulations. The number and value of exceptional rates will be announced after the necessary exchange rate data becomes available in October. Legislation will be in the Finance Bill introduced in the autumn. (March 2010 Budget) (y)
- Alcohol duty** **2.139** The Government will continue with the plans it inherited to increase alcohol duty rates by two per cent above inflation each year to 2014-15. (r)
- R&D tax credits IP conditions** **2.140** Legislation will be in the Finance Bill introduced in the autumn to abolish the condition requiring that any intellectual property (IP) deriving from the R&D undertaken by a company which is a small or medium enterprise (SME) be owned by the company making the claim. Legislation will be effective for any expenditure incurred in an accounting period ending on or after 9 December 2009. (2009 Pre-Budget Report)

<b>Seafarers earnings deduction</b>	<b>2.141</b> Seafarers earnings deduction will be extended to EU/EEA resident seafarers from April 2011. Legislation will be in the Finance Bill introduced in the autumn. (2009 Pre-Budget Report) (q)
<b>Venture Capital Schemes</b>	<b>2.142</b> Legislation will be in the Finance Bill introduced in the autumn to implement changes required as a condition for the State aid approval of the Enterprise Investment Scheme (EIS), Venture Capital Trusts (VCTs) and Enterprise Management Incentives (EMI). The changes will generally have effect from a date to be appointed, with the exception of the eligible shares changes for VCTs, which will not affect monies raised by the VCT before that date. (2009 Pre-Budget Report) (u)
<b>UK oil and gas fiscal regime</b>	<p><b>2.143</b> Secondary legislation will be introduced as soon as possible to extend the scope of the Ultra High Pressure High Temperature field allowance. (2009 Pre Budget Report)</p> <p><b>2.144</b> Legislation will be in the Finance Bill introduced in the autumn to enable chargeable gains reinvestment relief to apply when a group company makes the reinvestment. (March 2010 Budget)</p> <p><b>2.145</b> Other changes to the UK oil and gas fiscal regime previously announced will be legislated for in 2011. (2009 Pre Budget Report)</p>
<b>Consortium relief</b>	<b>2.146</b> Those aspects of corporation tax group relief rules that cover consortium relief will be amended to allow EU and EEA-resident companies engaged in UK consortia to pass on relief for the losses of those consortia to their UK-resident group companies. At the same time, the Government is strengthening rules designed to ensure that access to consortium relief is given only in proper proportion to the member company's involvement in the consortium. Legislation will be in the Finance Bill introduced in the autumn and both changes will have effect from the day on which draft legislation is published. (March 2010 Budget)
<b>Capital distributions</b>	<b>2.147</b> Legislation will be in the Finance Bill introduced in the autumn to end uncertainty over the treatment of certain company distributions. Following a detailed review of distributions law, it was found that the prevailing practice of treating most distributions as income for corporation tax purposes (and not subject to the chargeable gains rules) was not correct. The legislation will restore previous expectations about the way distributions are taxed.
<b>Shared lives carers</b>	<b>2.148</b> Legislation will be in the Finance Bill introduced in the autumn to extend foster care relief to shared lives carers, and to extend the income tax exemption for adopters to guardians, with effect from April 2010. This legislation will also ensure that from 9 December 2009, there will have been no loss of capital gains tax private residence relief where adult placement carers use part of their home exclusively for the accommodation of an adult in care. (2009 Pre-Budget Report and March 2010 Budget)
<b>Associated company rules</b>	<b>2.149</b> With effect from 1 April 2011, legislation will be introduced in Finance Bill 2011 to reform and simplify the associated company rules as they apply to the small profits rate of corporation tax. (March 2010 Budget)
<b>Small business rate relief</b>	<b>2.150</b> The level of small business rate relief in England will be temporarily increased for one year, from 1 October 2010, giving full relief for eligible businesses occupying premises with a rateable value of up to £6,000 and tapering relief to £12,000. (March 2010 Budget)

- Savings and assets** **2.151** From 2011-12 the Individual Savings Account (ISA) subscription limits will be indexed. (March 2010 Budget) (m)
- 2.152** Changes will be made to pensions tax legislation in the Finance Bill introduced in the autumn to enable the National Employment Savings Trust (NEST) to register as a pension scheme for tax purposes. Further legislation will be introduced in Finance Bill 2011 to remove tax charges on late contributions following auto-enrolment and to amend the tax rules on unauthorised borrowing by registered pension schemes. (March 2010 Budget)
- Trusts** **2.153** From 6 April 2010, where a settlor is liable to income tax on trust income at a lower rate of tax than that paid by the trustees, the settlor must pay this refund back to the trustees. These repayments will be disregarded for inheritance tax purposes. Legislation will be in the Finance Bill introduced in the autumn. (March 2010 Budget)
- 2.154** Legislation will be in the Finance Bill introduced in the autumn, which will apply retrospectively to 6 April 2006, to help trusts specifically set up to compensate asbestos victims, but which have been unable to access tax efficient structures for the benefit of victims. (March 2010 Budget)
- Debt cap** **2.155** Legislation will be in the Finance Bill introduced in the autumn to make changes to the worldwide debt cap. (March 2010 Budget)
- UK-REITs** **2.156** Changes will be made in the Finance Bill introduced in the autumn to allow UK-REITs to issue optional stock dividends as part of their property income distribution requirement. (March 2010 Budget)
- Film tax credit** **2.157** Legislation will be in the Finance Bill introduced in the autumn to correct an unintended anomaly affecting the amount of tax credit claimable where films are produced over more than one accounting period. Legislation will be effective for accounting periods ending on or after 9 December 2009. (2009 Pre-Budget Report)
- Growth Capital Fund** **2.158** The Government confirms that it will proceed with the establishment of a Growth Capital Fund to provide growth capital in the £2-10 million range to fast-growing SMEs currently not served by the market. (2009 Pre-Budget Report)
- VAT measures** **2.159** From 31 January 2011, VAT will be applied at the standard rate to certain postal services provided by the Universal Service Provider (Royal Mail), restricting the exemption to those services which Royal Mail is obliged to provide. The zero rating for passenger transport services will also be updated to reflect the status of the provider of a passenger transport service made in conjunction with postal services. Legislation will be in the Finance Bill introduced in the autumn. (March 2010 Budget)
- 2.160** The scope of the zero rate for aircraft will be amended in the Finance Bill introduced in the autumn, from one based on the aircraft's weight and usage to one based on the status of the customer, with the zero rate applying to aircraft bought by airlines operating for reward chiefly on international routes. As a minor change from the previous announcement, this will now take place from 1 January 2011. (March 2010 Budget)

**2.161** From 1 January 2011, the scope of the VAT special rules for natural gas (which simplify the VAT treatment for businesses making wholesale supplies of gas) will be adjusted, and the rules (which also apply to electricity) will be extended to include heating and cooling networks. Legislation will be in the Finance Bill introduced in the autumn. (March 2010 Budget)

**2.162** Legislation will be in the Finance Bill introduced in the autumn to protect revenues tied up in “Lennartz” schemes in existence at 22 January 2010, where the assets are used partly for business and partly for non-business purposes. From 1 January 2011, the use of Lennartz arrangements for certain assets (land and property, ships and aircraft) used partly for business and partly for private purposes will be withdrawn. (March 2010 Budget)

**Tax compliance 2.163** Legislation will be in the Finance Bill introduced in the autumn to complete the harmonisation of interest charged by HMRC across different tax regimes. (March 2010 Budget)

**2.164** Legislation will be in the Finance Bill introduced in the autumn to modernise compliance checking powers for excise duties. (March 2010 Budget)

**2.165** Legislation will be in the Finance Bill introduced in the autumn to complete the modernisation of HMRC’s late filing and late payment penalty regimes. (March 2010 Budget)

**2.166** Legislation will be in the Finance Bill introduced in the autumn to deal with claims to recover overpaid stamp duty land tax and petroleum revenue tax. (March 2010 Budget)

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

## Section 2c – The Civil List

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**2.168** The Civil List is paid from the Consolidated Fund each year to enable The Queen to discharge Her duties as Head of State. It meets the central staff costs and running expenses of Her Majesty’s official Household.

**2.169** Under the Civil List Act 1972, the Royal Trustees – that is, the Prime Minister, the Chancellor and the Queen’s Treasurer – must report on Civil List expenditure at least every ten years (see HC140). In addition, the Royal Household now publishes annual accounts, professionally audited for the Treasury.

**2.170** The report shows that the Royal Household has been a careful housekeeper since the last report of 2000. That report left the annual payments of the Civil List unchanged at £7.9 million a year and envisaged that these would be supplemented by drawings from the Civil List Reserve which had been built up since 1990. The Civil List Reserve will be down to £8 million by the end of 2010.

**2.171** The Royal Trustees' Report details the expenditure of Civil List funds over the decade since 2000. It also shows the plans for 2011, as below. Expenditure will be slightly lower with no change in Civil List funding.

Table 2.5: Civil list (estimated and planned)

	2010 <sup>1</sup>	2011 <sup>2</sup>
<b>Costs</b>		
Basic expenditure	14.5	14.5
Net capital expenditure	0.2	0.2
Pension lump sum payment <sup>3</sup>	0.4	–
Transfers of expenditure now planned	–	0.2
	<b>15.1</b>	<b>14.9</b>
<b>Financed by</b>		
Civil List	7.9	7.9
Drawing from Civil List Reserve	7.2	7.0
	<b>15.1</b>	<b>14.9</b>
Civil List Reserve at the end of the year	<b>8.0</b>	<b>1.0</b>

<sup>1</sup> Figures for 2010 are actuals to April 2010 and reforecasts for the remainder of the year

<sup>2</sup> Estimates

<sup>3</sup> The pension lump sum payment is to accelerate funding of the pension scheme deficit

**2.172** Beyond 2011, the Government intends to develop a new consolidated means of supporting The Queen in Her public duties. The current arrangements for supporting the Royal Household, established in 1972, need to be replaced. There will be a simple modern means to provide consolidated finance for The Queen's future expenses as head of state in an efficient, dignified and accountable fashion.

**2.173** The Government also intends a significant improvement in accountability. At the moment, the Permanent Secretary to the Treasury has responsibility for the audit of the Civil List. These accounts are already published. From 2012, the Comptroller and Auditor General will operate as audit contractor and the accounts will be laid before the House. Civil List expenditure will be subject to the same audit scrutiny as any Government department – including, if it so decides, by the Public Accounts Committee.

