5 Achieving fairness and providing opportunity

The Government has taken swift and wide-ranging steps to support the UK economy in response to the global downturn, which helped to ensure that growth returned at the end of 2009. Unemployment has risen far less than many external forecasters expected at the beginning of the downturn, and 47,000 fewer people are claiming Jobseeker's Allowance now than in October 2009. As the UK emerges from the downturn, the Government will continue to work to foster recovery by providing targeted support to those who need it most. In particular, the Government announces the following measures to help households through the recovery:

- **extending the Young Person's Guarantee after March 2011** to ensure that young people adversely affected by the recession continue to be guaranteed a Future Jobs Fund job, training or work experience if they cannot find work within six months;
- **increased support through tax credits for families with children aged one and two;**
- **continuing to provide an additional payment alongside the Winter Fuel Payment in 2010-11**, worth £100 to households with someone aged over 80, or £50 if someone is over the female State Pension Age;
- **extending the temporary freeze in the Standard Interest Rate applied to the Support for Mortgage Interest scheme until December 2010;** and
- **a two-year stamp duty land tax relief for first-time buyers, for residential property purchases up to £250,000.**

Alongside the substantial support provided, the Government is setting policy to create the right economic environment to promote stability and growth in the medium term. Key actions include:

- a comprehensive strategy to promote savings, including **the launch of the Saving Gateway in July 2010** and the **indexation of ISA limits over the next Parliament;** and
- **publishing *Ending Child Poverty: Mapping the Route to 2020*** alongside Budget 2010, setting out ways that child poverty could be reduced in line with the 2020 target.

The Government is also ensuring that it lives within its means in a way that is fair and responsible. On the back of previously announced fiscal consolidation measures, Budget 2010 announces:

- **the introduction of an additional 5 per cent rate of stamp duty land tax for residential property over £1 million from 2011-12;**
- **an extension of the freeze in the inheritance tax allowance of £325,000 until 2014-15;**
- **details of the operation of the restriction of pensions tax relief for those on high incomes.**

Tobacco duty rates will increase by 1 per cent above inflation from today and by 2 per cent above inflation for the next four years. Cider duty rates will increase by 10 per cent above inflation. Other alcohol duty rates will increase by 2 per cent above inflation as announced at Budget 2008. In addition, all alcohol duty rates will increase by 2 per cent above inflation for two further years, until 2014-15.

5.1 Households have inevitably felt the impact of the deepest global recession since the Great Depression. Employment and consumption have fallen and uncertainty still remains. Responding to the exceptional risks posed by the downturn, the Government has moved swiftly to deliver a coherent and comprehensive package of support to the economy and households within it. This action has helped reduce the severity of the impact of the downturn:

- the rise in unemployment has been far lower than many independent forecasters expected at the beginning of the downturn, and well below those of previous recessions, despite a deeper fall in output. For every 1 per cent decline in output, employment has fallen by just $^1/_3$ per cent; in comparison, in the 1990s recession, employment fell by $1^1/_3$ per cent for every 1 per cent decline in output. Similarly, despite falls in working hours and pay restraint, disposable income did not fall, with low interest rates benefiting mortgage holders in particular;
- tax credits continue to help households through the downturn by delivering additional support when they need it most. So far in 2009-10, 440,000 families have experienced an increased tax credit award, worth on average £38 per week, as a result of a decrease in income;[1] and
- repossessions in 2009 totalled 46,000, 39 per cent fewer than forecast by the Council of Mortgage Lenders at the beginning of the year.[2]

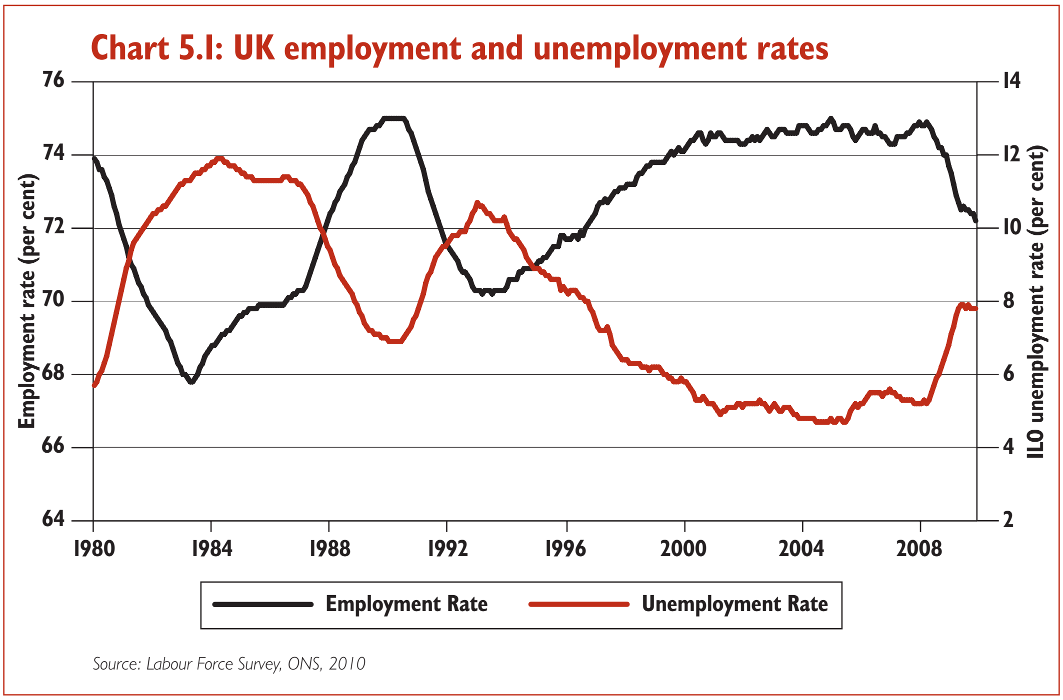
5.2 However, the Government is not complacent and this chapter sets out further action the Government will take, firstly to foster recovery and then to provide the conditions for future growth and stability.

Labour market performance

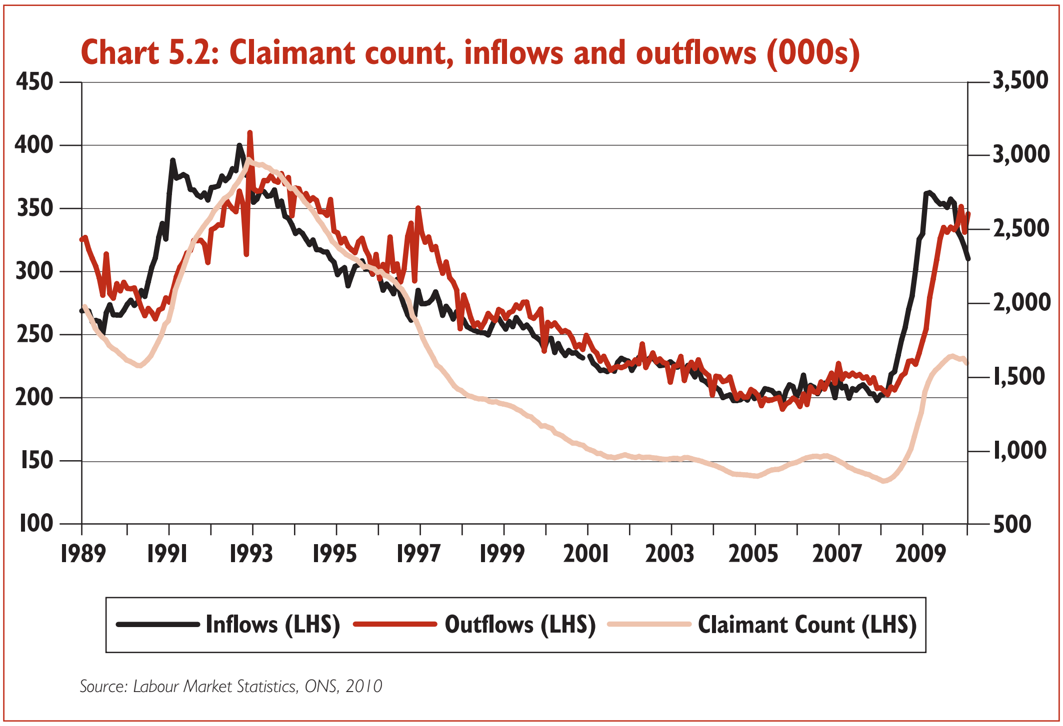
5.3 The labour market has proved more resilient than many independent forecasters expected at the beginning of the downturn. Unemployment is far below the levels of the 1980s and 1990s recessions (see Chart 5.1), despite a comparatively deeper fall in output. ILO unemployment has been broadly constant at just under 2.5 million since the middle of 2009, and 47,000 fewer people are now claiming Jobseeker's Allowance (JSA) than in October 2009.[3]

5.4 The vast majority of people that have become unemployed have moved back into work quickly. More than seven in ten jobseekers leave JSA within six months,[4] and over 4.6 million people have moved off JSA since November 2008 (see Chart 5.2).[3] Furthermore, the increases in inactivity observed in previous recessions have not occurred. The number of people claiming incapacity and lone parent benefits has remained broadly constant, despite the recession. Between 1990 and 1995, the number of people claiming these benefits increased by a million.[5]

[1] HM Revenue & Customs estimates based on tax credits administrative data from April 2009 to March 2010.
[2] *Press Release*, Council of Mortgage Lenders, 2009, http://www.cml.org.uk
[3] *Labour Market Statistics*, Office for National Statistics, 2010.
[4] Office for National Statistics and the Department for Work and Pensions, 2010.
[5] Department for Work and Pensions administrative data.



5.5 This resilience of the labour market has been underpinned by the Government's reforms over the last decade, which have helped build a flexible and dynamic labour market, and a robust and effective system of back-to-work support. The combination of flexible hours and pay restraint, and the use of part-time employment, has helped support total employment. While the rate of employment has continued to fall, it has done so at a much slower rate than in the first half of last year.[6]



[6] *Labour Market Statistics*, Office for National Statistics, 2010.

Providing support and employment opportunities

5.6 To strengthen the labour market response to the recession, the Government took immediate and decisive action by putting in place additional employment support. This support is helping those who become unemployed to move back into work quickly, preventing short-term unemployment turning into long-term detachment from the labour market (see Box 5.1).

Box 5.1: Government employment support through the downturn

- The Young Person's Guarantee is providing a job, work experience or training place for any young jobseeker unemployed for six months or more, ensuring short term unemployment does not become long term inactivity. From April, participation will be mandatory from 10 months of unemployment.
- The Young Person's Guarantee includes the Future Jobs Fund. This is providing up to 120,000 paid jobs for young people and a further 50,000 jobs for those aged 25 and over in areas hardest hit by the downturn.
- As a result of £3 billion set aside at the 2008 Pre-Budget Report and Budget 2009, 15,000 extra frontline staff in Jobcentre Plus are maintaining high-quality, personalised support to help those that become unemployed move into work quickly, as well as continued, intensive support for those most at risk of long-term unemployment.[a]
- Nearly 40,000 jobseekers have taken up additional support available from six months unemployment, to help them move into work.[b] This includes up to £1,000 for employers that recruit and train those in receipt of JSA for six months or more, as well as additional training places and financial support for those wanting to set up their own business.
- Employees in over 4,000 firms have used the Rapid Response Service since its expansion in November 2008. This service is providing on-site support for both small- and large-scale redundancies, to help employees find a new job even before they become unemployed.[a]
- Jobcentre Plus is working closely with over 70,000 large and small employers through Local Employment Partnerships, which to date have helped over 565,000 jobseekers into work,[a] across a range of sectors such as manufacturing, care, transport, retail and banking.
- Through the Backing Young Britain campaign, over 1,000 organisations have committed to provide work experience, internships, apprenticeships and mentoring support to young people out of work.[a]
- Through the September Guarantee, all 16 and 17 year olds are guaranteed a place in education or training. The 2009 Pre-Budget Report provided an additional £200 million in 2010-11 to ensure that this Guarantee would be met in full. The Government has also provided every 16 and 17 year old who was not in education, employment or training in January 2010 with an offer of an Entry to Employment place and Education Maintenance Allowance to go with this.

[a] Department for Work and Pensions administrative data.
[b] *Six Month Offer Official Statistics*, Office of National Statistics, January 2010. Figures are for Great Britain and up to October 2009.

5.7 The Government announced in the 2009 Pre-Budget Report that it would re-invest resources from lower-than-forecast unemployment to provide further support to key groups hit by the recession. This included bringing forward the Young Person's Guarantee of a job, work experience or training to six months of unemployment.

Employment support

5.8 Building on the success of the Young Person's Guarantee, it is essential that the Government continues to provide support as the labour market recovers. **The Government therefore announces that it will extend the Young Person's Guarantee after March 2011, to ensure young people continue to be guaranteed a job, training or work experience placement if they cannot find work within six months. Participation will be mandatory for those young people who are unemployed for 10 months, preventing long-term detachment from the labour market.**

Welfare reform

5.9 The Government's response to the recession builds on its commitment to welfare reform, so that no one who is capable of work is written off for a life on inactive benefits. Under the new Employment and Support Allowance, medical experts assess what work an individual can do rather than what they cannot do. Already, more people are accessing support to help them move into work. As this programme is extended to existing Incapacity Benefit claimants, based on the success of the programme to date, even more people are expected to move into work, further reducing the benefits bill by an estimated £300 million over the next five years.

5.10 **From April 2011, people moving into work from the Employment and Support Allowance with a limited capability for work will be automatically eligible for the disability element in the Working Tax Credit (WTC).** The Government will also consider whether to review the criteria used in the "disadvantage test" of the WTC in the longer term in order to improve reassurance of gains to work.

SUPPORTING HOUSEHOLDS TO SUSTAIN THE RECOVERY

5.11 Support for households has a key part to play in sustaining the recovery. Indeed, Government fiscal support, delivered through automatic stabilisers such as benefits and tax credits, worth almost 4 per cent of GDP in 2010-11, has helped stabilise the economy and limit the impact of the recession on families. Alongside this, Government intervention since the 2008 Pre-Budget Report has provided additional support expected to leave the vast majority of households better off in 2010-11,[7] with targeted support for those who need it most.

5.12 Alongside financial support, the Government is taking forward wider interventions to help households contribute to the recovery and reap its benefits. Budget 2010 therefore announces further steps to enhance work incentives and promote entry into the labour market, and measures to help people get on to, and stay on, the housing ladder.

Promoting work and supporting working families

5.13 Work is the best route out of poverty and is central to providing stability and financial security for households. The Government is committed to making work pay, and has worked to ensure that, for those in full-time work, it will leave them in a better financial position than out of work support.

Housing Benefit reform

5.14 The Government is considering responses to the recent Housing Benefit consultation and the emerging findings from the low-income working households research before setting out reforms to improve fairness, address affordability, and strengthen work incentives. Meanwhile, the Government recognises concerns that the current approach to calculating Local Housing Allowance rates has resulted in very high payments to a small number of tenants in the most expensive areas. As a prelude to further reform, **Budget 2010 therefore announces that, from October 2011, the highest rents across the country, including the**

[7] Estimates calculated using HM Treasury's tax and benefit microsimulation model.

most expensive 8 per cent of properties in London, will be excluded from the calculation of the Local Housing Allowance in each area.

National Minimum Wage

5.15 This week, the Government will publish its full response to the recommendations from the Low Pay Commission on the National Minimum Wage (NMW). **Budget 2010 announces that, in line with these recommendations, the headline rate of the NMW will rise by 2.2 per cent to £5.93 in October 2010.** This increase strikes a balance between helping low paid workers and families, and ensuring that the rise does not damage their employment chances. When increased in October 2010, the NMW will have risen by over 22 per cent in real terms since the Government introduced it in 1999.[8]

5.16 Through tax credits and the NMW, the Government has improved financial incentives to work for low income households. As Table 5.1 shows, in October 2010, the minimum income for a family with one child and one person working 35 hours a week will have increased by an estimated 27 per cent in real terms since 1999.

Table 5.1: Weekly minimum income guarantees (MIGs)

	April 1999	October 2010	Percentage increase in real terms[1]
Family[2] 1 child, full-time work	£182	£310	27%
Family[2] 1 child, part-time work	£136	£242	33%
Single person, no children, 25 or over, full time work	£113	£199	31%
Couple, no children, 25 or over, full-time work	£117	£235	50%
Disabled person (single), working full-time	£139	£248	33%
Disabled person (single), working part-time	£109	£181	24%

Assumes the rate of NMW and that the family is eligible for Family Credit/Disability Working Allowance in 1999 and for Working Tax Credit/Child Tax Credit in 2010. Full-time work is assumed to be 35 hours. Part-time work is assumed to be 16 hours. See Data Sources Document for details.

[1] RPI growth is taken from ONS historical series and HM Treasury's economic forecast.

[2] Applies to lone parent families and couples with children alike.

Tax credits

5.17 Take up of existing tax credits is already high. However, following recommendations of the Take-Up Taskforce, the Government is launching today an online resource that brings together advice on the range of financial support available to working age families. This will assist a range of intermediaries and local advisers to promote take-up at a national and local level.

Helping families with young children

5.18 To support families with young children and to continue to drive progress in tackling child poverty, **the Government announces that, from April 2012, it will provide additional support by increasing the child element of the Child Tax Credit for each child aged one and two by £4 per week.**

Additional support

5.19 The Government also announces a package of measures to further support parents, and help individuals enter and progress in work, including:

- **from April 2010, HMRC will simplify the system for working parents who claim the childcare element of the Working Tax Credit (WTC) for short periods of time**, for example during school holidays. This ensures that parents receive support with childcare costs when they need it most;
- **from April 2011, guardians who receive special guardianship payments will not see their Housing Benefit or Council Tax Benefit reduced to take these**

[8] Estimated using Retail Prices Index (RPI) data from the Office for National Statistics and HM Treasury assumptions on how the series will evolve between February and October 2010 (see Table C.1).

payments into account, bringing these payments into line with the treatment of child maintenance; and

- to increase the flexibility of the Government's support for older people, **Budget 2010 announces that, from April 2011, people aged over 60 will qualify for the WTC if they work at least 16 hours a week**, rather than 30 as currently.

Smarter government

5.20 In December 2009, the Government published *Putting the Frontline first: smarter government* on accelerating the delivery of digitised public services. HMRC is aiming to pilot a service for tax credit renewals in 2011 and intends to introduce a full on-line service for Child Benefit claimants as part of its on-line tax credit service. HMRC will also establish an electronic link with the General Register Offices, which are responsible for registering UK births, meaning that families who claim Child Benefit will no longer have to submit original UK birth certificates from 2011-12.

The poverty trap

5.21 Alongside ensuring that work pays, the Government is committed to ensuring that individuals have an incentive to progress when in work. The poverty trap occurs when those in work have limited incentives to move up the earnings ladder because it may leave them little better off. Marginal deduction rates (MDRs) are one way of measuring this, by showing how much of each additional pound of earnings is lost due to taxes and the withdrawal of benefits or tax credits. Table 5.2 shows that the number of families facing MDRs in excess of 70 per cent has more than halved since 1997. The increased numbers facing MDRs between 60 and 70 per cent reflect the introduction and increased generosity of tax credits, which has extended financial support to many more households including, for the first time, those without children.

Table 5.2: Marginal deduction rates

	Before Budget 1998	2010-11 system of tax and benefits
Over 100 per cent	5,000	0
Over 90 per cent	130,000	70,000
Over 80 per cent	300,000	270,000
Over 70 per cent	740,000	330,000
Over 60 per cent	760,000	1,895,000

Marginal deduction rates are for working heads of families in receipt of income-related benefits or tax credits where at least one person works 16 hours or more a week, and the head of the family is not receiving pensioner or disability premia. These figures are estimates derived from HM Treasury's tax and benefit microsimulation model. See Data Sources Document for more details.

Note: Figures are cumulative. Estimates for the 2010-11 system of taxes and benefits are calibrated to tax credits statistics for April 2009, and earlier data for Housing and Council Tax Benefits. The estimates make explicit allowance for families newly entitled to Housing and Council Tax Benefits from October 2009, but any such estimates are subject to significant uncertainties, in particular concerning likely take-up.

Supporting people in later life

5.22 The Government is committed to tackling pensioner poverty and promoting independence and well-being in later life. Spending on pensioners has risen, on average, by an estimated 3.5 per cent a year in real terms between 1997-98 and 2009-10, and over £13 billion a year more is expected to be spent on pensioners in 2009-10 than if the 1997 system had continued (see Box 5.2).

Help with fuel bills

5.23 Older households are more vulnerable to the effects of the cold. Winter Fuel Payments, worth £300 to households with someone over 80 or £200 if someone is over the female State Pension Age, help with energy bills. Last winter, pensioner households received an additional payment alongside their Winter Fuel Payment, worth £100 to households with someone over 80 or £50 if someone is over the female State Pension Age. **Budget 2010 announces this additional payment will be repeated in 2010-11.** Low-income, vulnerable households also benefit from Cold Weather Payments and efficiency measures, such as Warm Front, permanently reduce pensioners' energy bills.

Box 5.2 Supporting people in later life

Since 1997, the income of the poorest fifth of pensioners has increased as fast as that of the richest[a] and 900,000[b] pensioners have been lifted out of relative poverty. A pensioner is now no more likely to be in poverty than someone from the population as a whole.[b]

The basic State Pension is the foundation of the pensions system, on which private pension savings decisions can be based. The Government has committed to increase the basic State Pension by the higher of 2.5 per cent or the Retail Prices Index and has legislated to restore the link with earnings. The Government's aim is to do this in 2012 subject to affordability and the fiscal position. A full basic State Pension will be £97.65 a week in 2010-11, or £156.15 for couples, an increase in real terms of 12 per cent since 1997.[a] Changes in 2002 made the additional earnings-related State Pension more generous to those on low incomes and expanded its coverage, and are expected to result in one million more people accruing State Second Pension from 2010. There is free access to certain services for all pensioners and everyone over the female State Pension Age benefits from free prescriptions, eye tests and off-peak bus travel. Television licences are free for the over 75s.

Additional resources are targeted at those with greatest need. Pension Credit, introduced in 2003 and received by 2.7 million households,[c] tackles pensioner poverty without undermining savings incentives. No single pensioner need live on under £132.60 a week in 2010-11, compared with around £69 in 1997, and no couple on under £202.40. The Government has legislated to increase these rates by average earnings while ensuring that means-tested provision stays focused on those with low savings. The Government continues to take steps to increase Pension Credit take up by running targeted campaigns and contacting those potentially eligible to receive it. A streamlined process now allows new Pension Credit claimants to claim Housing and Council Tax Benefit simultaneously.

Only 40 per cent of pensioners pay income tax. Age-related allowances mean no one aged between 65 and 74 pays tax on income below £9,490, or £9,640 if aged over 75. By April 2011, no pensioner aged over 75 will pay any tax on income below £10,000 a year.

[a] *Pensioner Income Series*, Department for Work and Pensions, 2007-08, and Data Sources Document.
[b] *Households Below Average Income*, Department for Work and Pensions, 2007-08.
[c] http://research.dwp.gov.uk/

Extending working lives

5.24 Currently employers have the legal right to require individuals to retire at 65. The Government's Ageing Strategy, *Building a Society for All Ages*, published in summer 2009, announced that the Government's planned review of this legislation would be brought forward. Following the evidence submitted to this review, **the Government intends shortly to launch a formal consultation on reforms to the Default Retirement Age,** including considering options for: removing it; increasing it; and reforming the legislative framework to strengthen the position of the employee. No changes will be made before April 2011.

Helping first time buyers and homeowners in difficulty

Real help for homeowners

5.25 As part of its decisive action to help the UK economy through the global downturn, the Government has taken a number of steps to support homeowners. This has had a real impact in helping people stay in their homes, with repossessions 39 per cent lower than the Council of Mortgage Lenders' forecast at the beginning of 2009.[9] In addition, the number of households accepted as homeless by local authorities is continuing to fall and is down by 72 per cent since 2003.[10] However, the housing market recovery is not yet locked in and the risk of repossession continues to be a challenge. The temporary freeze in the Standard Interest Rate used to calculate Support for Mortgage Interest payments has helped homeowners who have experienced a fall in income to remain in their homes. **Budget 2010 announces that the Standard Interest Rate will be maintained at 6.08 per cent for a further six months until December 2010**, benefiting around 220,000 homeowners. In addition, targeted help via the Mortgage Rescue Scheme and Homeowner Mortgage Support will continue into 2011.

Helping homebuyers

5.26 The Government is committed to ensuring everyone has access to a decent home at a price they can afford. It has helped homebuyers through policies such as the stamp duty land tax holiday and funding of shared equity schemes such as HomeBuy Direct. Property transactions were up by over 50 per cent in the second half of 2009 compared to the first half.[11]

Stamp duty land tax

5.27 However, despite signs of a housing market recovery, affordability remains a real issue for first-time buyers. **Budget 2010 therefore announces a two-year stamp duty land tax relief for first-time buyers for residential property purchases up to £250,000** to help reduce the upfront transaction cost faced by this group. In order to offset the cost of this relief and to sustain the public finances in the longer term, **Budget 2010 also announces the introduction of an additional 5 per cent rate of stamp duty land tax for residential property over £1 million from 2011-12.**

SECURING GROWTH AND STABILITY

5.28 As the economy emerges from the downturn, the Government has an important role to play in setting policy to create the right economic environment to promote stability and growth. This will be essential to ensuring a prosperous future for the UK, which in turn will help enable the Government to achieve its commitment to eradicate child poverty by 2020 and foster growing and dynamic housing and third sectors. Setting a credible path for fiscal consolidation to ensure sound public finances is essential for economic stability. As set out in Chapter 2, the Government has set out plans to more than halve borrowing over four years. The Government's strategy to promote savings across the life cycle, and to enhance the fairness and efficiency of the tax and pensions systems will also continue to support economic growth in the long term.

A fair and responsible strategy for fiscal consolidation

5.29 Since the 2008 Pre-Budget Report, the Government has set out fair and responsible plans for fiscal consolidation, with those with the highest incomes making the greatest contribution. Estimates indicate that around 60 per cent of the impact of fiscal consolidation announced since the 2008 Pre-Budget Report will be borne by the top 5 per cent of earners when fully implemented in 2012-13.[12]

[9] *Press Release*, Council of Mortgage Lenders, 2009, http://www.cml.org.uk
[10] *Statutory Homelessness: October to December 2009 England*, CLG, 2009, http://www.communities.gov.uk
[11] *Monthly Property Transactions in the United Kingdom*, HMRC, 2009, http://www.hmrc.gov.uk
[12] HM Treasury estimate.

5.30 Budget 2010 confirms:

- a 1 per cent increase in national insurance contributions (NICs) rates from April 2011, alongside adjustments to the NICs primary threshold to protect those on low incomes;
- a 50 per cent additional rate of tax on those with incomes above £150,000 and the gradual withdrawal of the personal allowance from those with incomes above £100,000 from April 2010;
- freezing the point at which individuals start to pay the higher rate of tax in 2012-13;
- restricting pensions tax relief from April 2011 for individuals with gross incomes of £150,000 and over (where gross income incorporates all pension contributions, including benefits provided by an employer). This restriction is subject to an income floor, so that individuals with pre-tax incomes (excluding employer pension contributions) of less than £130,000 will be unaffected; and
- a freeze in the inheritance tax (IHT) allowance of £325,000 in 2010-11.

5.31 In addition, **Budget 2010 announces that the freeze in the IHT allowance will be extended until 2014-15.**

Promoting savings across the life cycle

5.32 Sound household finances also contribute to a stable economy. Having a stock of savings provides individuals with stability and financial security throughout their lives. As set out in Box 5.3, the Government's savings strategy has focused on developing well-targeted incentives for saving across the life cycle; and ensuring individuals have access to appropriate savings opportunities and the capability to make financial decisions.

Box 5.3 Encouraging people to save

The Government seeks to support saving and asset ownership for all across the life cycle: from childhood, through working life and into retirement.

- To encourage saving for children, the Government introduced the Child Trust Fund (CTF) in 2005. Almost five million children[a] have a CTF account with around £2 billion held.[b] Through the CTF, the Government provides support to all children through a £250 contribution at birth and age seven. It provides further support to those who need it most through additional Government contributions to children in low-income families, looked-after children, and from April 2010, disabled children. At maturity, 18 year olds will be able to roll over their funds into an Individual Savings Account (ISA).
- The Government introduced ISAs in 1999 to offer adults across the income scale a simple, flexible and accessible tax-advantaged opportunity to save. These have proved extremely successful: over 19 million adults hold almost £275 billion in ISAs.[a]
- To provide additional support to save to working age adults on the lowest incomes, the Government is introducing the Saving Gateway in 2010. The Saving Gateway will offer an estimated eight million[c] people the opportunity to receive 50 pence from the Government for each £1 they save. The pilots have shown that "matching" is a simple and transparent incentive to save.
- As people move through the life cycle, they are also encouraged to save towards retirement through the provision of generous tax relief on pension contributions. The cost of pensions tax relief, net of income tax collected on pensions in payment, is estimated to be worth £18.9 billion in 2008-09.[a] Reforms to private pensions, including automatic enrolment into qualifying schemes and the introduction of the National Employment Savings Trust (NEST) scheme will ensure more people have the opportunity to save for their retirement in a pension, and take advantage of available tax relief.

[a] http://www.hmrc.gov.uk
[b] HM Revenue & Customs administrative data.
[c] HM Revenue & Customs estimate based on published Department for Work and Pensions and HM Revenue & Customs statistics.

ISA limits **5.33** From October 2009, ISA limits for people aged 50 and over were increased to £10,200, up to £5,100 of which can be held in cash; this additional scope for tax-advantaged saving has been widely taken up by older savers. From April 2010, all savers will be able to benefit from these higher ISA limits, including those who are saving towards their first home. **Budget 2010 announces that, from April 2011 and over the course of the next Parliament, ISA limits will be indexed annually in line with the Retail Prices Index (RPI).**

5.34 ISAs are a simple, flexible and accessible tax-advantaged savings vehicle. The Government remains committed to these objectives, and also to supporting small and growing businesses. In this context, it intends to consult on allowing Alternative Investment Market (AIM) shares to be eligible as a tax-advantaged investment for retail savers.

Saving Gateway **5.35** **Budget 2010 also announces that the first Saving Gateway accounts will be available in July 2010**, and that Lloyds Banking Group, the Post Office and Royal Bank of Scotland Group intend to offer Saving Gateway accounts in 2010. The Government also expects that a significant number of credit unions will offer the accounts, and is continuing to discuss the Saving Gateway with other potential providers.

Matched saving **5.36** The key feature of the Saving Gateway is "matching": the Government offering a contribution for each £1 saved. The pilots have shown that this provides a simple, transparent and easily understood incentive to save. Building on this, and recognising the need for a wider section of society to develop a savings habit earlier in life, **Budget 2010 announces that the Government will explore options for widening access to matched savings accounts, with the intention of introducing additional support by the end of the next Parliament.**

5.37 The Government will consider the implications for potential account providers, including exploring ways of ensuring that demand is manageable, and the administrative impacts minimised. An account targeted at basic-rate taxpayers aged 18-30 that provided half the government matching available in the Saving Gateway would cost around £30 million per annum in steady state. Final implementation, including eligibility criteria and match rates, would be subject to affordability, and to taking into account lessons from the Saving Gateway pilots and the rollout of the Saving Gateway nationally.

Helping people manage their finances

5.38 The Government wants to ensure that consumers have the support, information and confidence to make good financial decisions (as set out in more detail in Chapter 3). To this end, the Government has launched a national rollout of the Money Guidance service, is establishing a new independent consumer financial education body and making financial capability a statutory component of the curriculum in England. Chapter 3 also sets out the Government's next steps on improving financial inclusion.

Achieving a fair and efficient pensions system

Pensions reform

5.39 The Government is committed to helping people meet their income aspirations in retirement, while recognising the challenges of an ageing population. The implementation of a package of state and private pension reforms, including the introduction both of employer duties to auto-enrol employees into a qualifying pension scheme and the National Employment Savings Trust (NEST) scheme, is underway.

5.40 The Government is making the State Pension fairer and more widely available. For those reaching State Pension Age from 6 April 2010, 30 years will be needed to qualify for a full basic State Pension instead of 44 years for men and 39 years for women. Changes to National Insurance credits mean carers will have improved opportunities to build their State Pension entitlement. As a result, around 75 per cent of women reaching State Pension Age in 2010 will be entitled to a full basic State Pension, compared with around 50 per cent without reform. Ninety per cent of men and women reaching State Pension Age are expected to obtain this entitlement by 2025.[13] The female State Pension Age will gradually increase to 65 from April 2010 to April 2020. To reflect increased longevity and to ensure that the State Pension reforms are affordable, the State Pension Age will gradually rise from 65 in 2024 to 68 in 2046.

Pensions tax relief

5.41 At the 2009 Pre-Budget Report the Government announced that, from April 2011, tax relief on pension contributions will be restricted for individuals on gross incomes of £150,000 and over (where gross income incorporates all pension contributions, including benefits provided by an employer), subject to an income floor of £130,000 (excluding employer pension contributions). Following a formal consultation, **Budget 2010 confirms decisions on how the restriction of relief will be applied and delivered, and that deemed contributions to defined benefit pension schemes will be valued using the age-related factors method.** Further details are set out in the document *Implementing the restriction of pensions tax relief: A summary of consultation responses*, published alongside Budget 2010. The Government intends to bring forward legislation on the core elements of the restriction in Finance Bill 2010, including provisions for tackling avoidance. The Government will continue to monitor areas of abuse and will act to develop further, targeted anti-avoidance provisions as necessary.

[13] Department for Work and Pensions estimate.

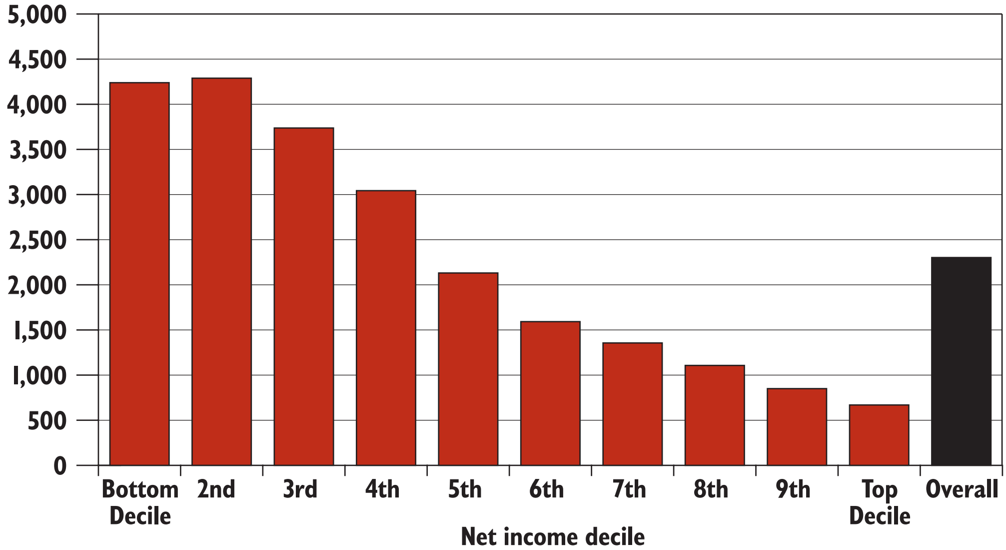
Small pension pots **5.42** Budget 2008 announced changes to the tax rules to enable small occupational pension pots to be taken as a lump sum. The same flexibility was not extended to non-occupational pension schemes to minimise avoidance. The Government remains open to proposals for further simplification provided they would not increase Exchequer costs or add significant costs for HMRC, and would not be open to manipulation. The Government is also open to proposals consistent with these principles for couples to pool small pension pots to achieve better value by purchasing a joint life annuity.

Risk sharing **5.43** The Government has taken steps to simplify pensions regulation, through the deregulatory review of private pensions, and remains committed to supporting innovation in the development of risk sharing arrangements between employers and employees. **In order to inform choices about future pension provision, the Government will shortly publish an Information Note to help employers understand available risk sharing options.** The Government will continue to work with industry to explore further facilitation of risk sharing between employers and employees, in both defined benefit and defined contribution pension schemes.

Eradicating child poverty by 2020

5.44 As a result of significant levels of investment across the UK, considerable progress has been made in tackling child poverty. In line with projections by the Institute for Fiscal Studies the Government projects that the number of children in relative poverty will decline to 2.3 million children in 2010-11, a reduction of around one million since 1998-99.[14] This includes the impact of measures coming into effect from April 2010, such as moving to a full disregard for child maintenance in income-related benefits, the extension of Free School Meals and over-indexation of tax credits. In total, these are expected to lift around 100,000 children out of poverty.[15] As shown by Chart 5.3, radical reforms to the system of financial support for families mean that the poorest households with children have seen the greatest real terms increase in support of over £4,000 a year since 1997. Building on this progress to date and eradicating child poverty will require sustained growth and stability across the economy.

Chart 5.3: Average annual gain (£) from 1997 to 2010



Source: Estimated using HM Treasury's tax and benefit microsimulation model. See Data Sources Document for details.

[14] See Data Sources Document.

[15] Estimate based on HM Treasury and Child Poverty Unit analysis.

The Child Poverty Bill

5.45 The Government is committed to tackling child poverty. That is why the Government is taking forward the Child Poverty Bill that enshrines in legislation its historic pledge to eradicate child poverty in a generation. The Bill provides a clear definition of success as well as a transparent accountability framework. It also creates duties for local authorities to work together with delivery partners to tackle child poverty and set out the contribution they can make in their local areas.

Ending Child Poverty: Mapping the Route to 2020

5.46 *Ending Child Poverty: Mapping the Route to 2020*, published today, sets out the Government's strategic direction to inform the first national strategy to be published within 12 months of Royal Assent of the Child Poverty Bill. In particular, the document sets out ways in which child poverty could be reduced in line with the targets and the potential impact achieving various outcomes could have on relative poverty. The modelling shows that increases in parental employment and reductions in in-work poverty have the potential to significantly reduce child poverty by 2020 and that sustainable eradication will depend on this being complemented by improvements in life chances through support for all families and early intervention.

Supporting second earners

5.47 Paid employment is the single most important factor in reducing the risk of poverty. Children in families with at least one parent in work are much less likely to live in poverty than children in workless families. While work is the best route out of poverty it is not a guarantee: the risk of experiencing in-work poverty falls dramatically when potential second earners move into the labour market. Supporting additional earners to move into work is a vital part of the strategy to eradicate child poverty. **The Government will therefore consider options to improve the work incentives and support for second earners moving into and progressing in the labour market**, including initiatives such as the School Gates Employment Support Initiative and other outreach work which is providing help for parents to go back to work as their children get older.

Supporting a growing housing sector

Support for the house building industry

5.48 The Government has provided significant support to the house building and construction industries through the economic downturn to maintain economic activity, jobs and capacity and help stimulate wider economic recovery. In total, the Government has now committed £7.5 billion over two years to deliver up to 112,000 affordable homes, and around 15,000 private sector new homes.[16] The Government's investment in affordable housing has been key to sustaining delivery of much-needed homes during the downturn and recovery. As set out in *Building Britain's Future*,[17] more affordable homes are being built this year and next than before the recession. The Local Authority New Build programme of over 4,000 new council houses is the largest council house building programme in nearly two decades. Following Budget 2010, the Government will consult on detailed plans to replace the council housing finance system with a self-financing system.

Unlocking future housing growth

5.49 As the economy recovers, the Government is taking action to promote a strong long term recovery in the house building industry and to help maintain affordability by addressing the long term housing supply challenge. The Government has undertaken a study into the drivers of housing growth and the key challenges facing the industry and identified these as: supply of viable land, the regulatory cost on the industry and the skills and innovation within the industry. The Government will work jointly with industry through a ministerially sponsored action group to address these challenges and develop proposals for action. Similarly, the recent Government consultation, *Investment in the UK private rented sector*,[18]

[16] *Growth funds*. CLG, 2009, http://www.communities.gov.uk

[17] *Building's Britain's Future*, HMG, 2009, http://www.hmg.gov.uk

[18] *Investment in the UK Private Rented Sector*, HMT, 2009, http://www.hm-treasury.gov.uk

invites industry to work with the Government to consider the contribution the private rented sector could make to addressing demand, housing supply and any barriers to investment. The Government is also taking forward a package of reforms to drive up quality and professionalism in the sector.

Land supply **5.50** Ensuring local authorities bring forward a sufficient supply of viable land is essential to a recovery in the house building industry. The Government is publishing results from comprehensive checks of local land supply strategies alongside the Budget. **Budget 2010 announces the Planning Inspectorate will continue to report on the position across the country, and from 2010-11 the Government will withhold the relevant elements of the Housing and Planning Delivery Grant from local authorities that fail to produce satisfactory five-year land supply assessments.** Building on the success of the Public Land Initiative, the Government will lead the way by bringing forward more surplus public sector land and will consider further measures in this area such as introducing targets across government for the number of homes that will be built on public land.

Regulation **5.51** Regulation needs to be proportionate, transparent and predictable. The Government is working closely with industry to finalise a national baseline of regulatory costs, which will enable better management of the cumulative impact of regulation. **The Government will reduce the regulatory costs on the house building industry as part of the indicative £1 to £1.25 billion savings to be achieved through the Built Environment theme of the 2010-2015 Simplification Target, and intends to set out progress at Budget 2011.** Furthermore, the Government will limit the consideration of new regulations to fixed intervals. The Government will work with local authorities to ensure that local requirements are proportionate, respond flexibly to economic conditions and do not unduly constrain development. The Government will shortly consult on how a scaled back Section 106 will operate. The Government has prioritised zero carbon homes and will continue to work with industry on the best way of delivering the policy.

Charity taxation

5.52 The Government is committed to increasing the role of the third sector in helping to deliver socially beneficial outcomes. Detail of the Government's proposals can be found in Chapter 6.

Gift Aid **5.53** Gift Aid continues to be a very successful tax relief, with total claims from charities since 2000 now exceeding £5.7 billion.[19] In February, the Government set up a Gift Aid forum to consider possible reforms and simplifications, informed by the Gift Aid donor research published in December 2009. The forum will make recommendations by the autumn.

Charity tax relief **5.54** Following a decision in the European Court of Justice in January 2009,[20] **Budget 2010 announces that the UK's tax reliefs for charities and charitable giving will be extended to certain EU charities. Alongside this, a new definition of charity for tax purposes is being introduced and a number of other consequential changes are being made to the existing compliance regime and Gift Aid process.**

Substantial donors **5.55** The Government is committed to replacing the anti-avoidance rules relating to substantial donors to charities and will continue to explore the details of the proposed new purpose test with interested parties.

[19] http://www.hmrc.gov.uk

[20] Hein Persche v Finanzamt Lüdenscheid (C-318/07).

Charity pooled funds

5.56 The Government will continue to consider stakeholder views and responses to last year's consultation on charity pooled funds, along with the proposed EU directive on alternative investment fund managers before responding in the autumn.

A MODERN AND FAIR TAX SYSTEM

Protecting tax revenues

5.57 The global economic crisis and the response to it have been catalysts for concerted domestic and international action in areas such as tax transparency, and tackling avoidance and evasion. The Government is taking further action to change the game for those who seek to bend or break the rules on tax, which will promote long-term sustainable growth.

5.58 **Budget 2010 announces a package of measures to protect tax revenues of £4 billion and which yield £1.5 billion by 2012-13.**

Disclosure regime

5.59 The disclosure regime has transformed the way in which the Government tackles avoidance, providing early information that has led to the closure of over £12 billion in avoidance opportunities since 2004. Following the consultation announced in the 2009 Pre-Budget Report, **Budget 2010 announces a significant package of measures to strengthen and enhance the regime to:**

- **bring forward the time when the disclosure of a scheme is required;**
- **increase penalties to tackle those who do not comply with the disclosure rules;**
- **introduce a requirement for third party introducers to identify scheme promoters;**
- **introduce a requirement for promoters to provide lists of clients to whom they have provided schemes; and**
- **extend and enhance the hallmarks that require the disclosure of avoidance schemes, including schemes involving employee remuneration and those designed to convert income into capital.**

5.60 Furthermore, following discussions with industry, the Government is exploring how inheritance tax charges applying to trusts can be brought within the disclosure regime.

Personal tax avoidance

5.61 There has been active marketing of avoidance schemes to high-income individuals in response to the new additional rate of income tax and other changes such as the restriction of relief for pension contributions. Although there is increased take-up of existing schemes, intelligence from the disclosure regime and elsewhere suggests that few new schemes are being devised. Nevertheless, the Government has demonstrated that, when new threats do arise, it acts swiftly to counter them. Moreover, improvements to the disclosure regime set out above will help HMRC to detect new threats more quickly.

5.62 HMRC has used its *Spotlights* publication[21] to make taxpayers and their agents aware of the risks of taking up avoidance schemes. It will continue to use litigation as a tool to tackle avoidance and has recently been successful in the areas of residence and the use of arrangements to reward employees through intermediaries to avoid tax. In addition, HMRC is strengthening its focus on the risks presented by the wealthiest individuals through its creation of the High Net Worth Unit.

[21] http://www.hmrc.gov.uk

5.63 **Budget 2010 announces action on the use of geared growth arrangements within the company share option plan (CSOP) and consultation in summer 2010 on taxing other returns from geared growth, following the increased use of tax-motivated arrangements involving employment-related securities. The Government also announces future action to tackle the use of arrangements to reward employees through the use of trusts or other intermediaries, with the purpose of avoiding, deferring or reducing liabilities to income tax and NICs or avoiding restrictions on pensions tax relief. The Government will consider options for tackling these avoidance arrangements with the intention of introducing any necessary legislation to take effect from April 2011.**

Principles-based legislation

5.64 Budget 2009 introduced, for the first time, principles-based legislation in areas that have experienced sustained attempts at avoidance. This makes the intention of the legislation clear and provides a robust defence against avoidance in the longer term. Budget 2010 builds on this success by **announcing a discussion document on a principles-based approach to tackle avoidance schemes arising from the differing tax treatments of financial products within a group of companies. Budget 2010 also announces principles-based legislation, alongside targeted fixes, to stop companies claiming excessive relief in the UK for foreign taxes through abuse of the double tax relief rules.**

5.65 Since the 2009 Pre-Budget Report, the Government has acted quickly in response to emerging avoidance threats by announcing immediate action to:

- block the abuse of tax relief on the donation of certain investments to charities including potential retrospective action against further abuse in this area;
- stop unjustified capital losses where non-domiciled individuals remit overseas income from foreign currency bank accounts;
- close a loophole to prevent corporate tax avoidance when trade assets are transferred out of an overseas branch of a UK company; and
- prevent the exploitation of the rules concerning sale and repurchase transactions to exclude income receipts from tax.

5.66 Furthermore, **Budget 2010 announces action to ensure that both individuals and companies pay their fair share of tax by:**

- **closing a loophole through which the remittance basis rules can be circumvented;**
- **countering avoidance using loans to participators;**
- **stopping corporate tax avoidance involving share incentive plans;**
- **applying stamp duty land tax anti-avoidance rules to certain partnership transactions;**
- **closing a loophole through which the sale of lessor companies election can be exploited;**
- **simplifying the legislation on transactions in securities while better targeting the transactions involving avoidance;**
- **revising the draft legislation to close a loophole through which fees are artificially carved out of a taxable insurance contract to avoid insurance premium tax;** and

- **introducing a targeted anti-avoidance rule to ensure that the increase in the Annual Investment Allowance (see Chapter 4) is focused on support for genuine business investment.**

Overhedging / underhedging

5.67 The Government will introduce a power to enable the overhedging/underhedging provisions announced in the 2009 Pre-Budget Report to be extended in the case of banks and other financial traders to instruments other than loans and derivatives.

Code of Practice on Taxation for banks

5.68 The 2009 Pre-Budget Report announced the introduction of a *Code of Practice on Taxation for banks*. Banks have begun to inform HMRC that they have adopted the Code. Many banks that have not yet adopted it have largely completed their internal processes; HMRC expects these banks to adopt the Code in the next few weeks. The Government is pleased with the progress to date and will publish statistics on adoption in HMRC's Annual Report.

International action

5.69 Last year, as G20 President, the UK led international action to improve tax transparency and to ensure that developing countries are able to share in the benefits of this new openness. The UK strongly supports these developments, and has committed to launch a multilateral instrument to increase international tax transparency by the end of 2010. The Government has written to a cross-section of developing countries to invite them to join the UK in exploring how best to take this work forward.

5.70 The UK also recognises the importance of capacity building to open up tax information to developing countries and stands ready to host a conference focused on the technical work of tax administrations in developing countries later this year. In addition, the UK has led efforts to place Country-by-Country reporting on the international agenda and fully supports the OECD in its work to develop guidelines in this area.

Offshore evasion

5.71 Tax evaders hold their money offshore in order to try to hide it beyond the reach of HMRC's information powers. Following the consultation launched at the 2009 Pre-Budget Report, the Government will legislate to ensure that those who fail to declare income and gains from jurisdictions that do not exchange information automatically with the UK will face tougher penalties of up to 200 per cent of the tax due. HMRC will also look further at what information it needs to collect on offshore assets, including offshore bank accounts.

Liechtenstein disclosure facility

5.72 The Liechtenstein Disclosure Facility (LDF) was set up following a ground-breaking agreement between the UK and Liechtenstein in August 2009. The LDF, which runs until 31 March 2015, allows people with unpaid taxes linked to investments or assets in Liechtenstein to settle their tax liability, including interest and penalties. It is estimated that, over the lifetime of the LDF, this will bring in £940 million. In addition, the LDF will enable certain people with untaxed money in other jurisdictions to take advantage of the facility to make a disclosure.

Emissions allowances trading

5.73 The Government is committed to fighting VAT missing trader intra-community fraud, and **intends to legislate in Finance Bill 2010 to replace the temporary zero rate, introduced in July 2009 to combat fraud in emissions allowances, with a reverse charge as the agreed EU counter-measure.**

Hidden Economy Advisory Group

5.74 The 2009 Pre-Budget Report announced the formation of the group to consider what actions HMRC can take on the hidden economy. The group has identified that there is currently no clear route for those with undeclared tax to establish their position and disclose their liabilities. HMRC will improve this process. The group has highlighted several key areas for further work and detailed analysis:

- to build on the success of HMRC's current and past disclosure opportunities in offering mechanisms for leaving the hidden economy;
- to consider how HMRC can better link access to work opportunities to operating in the formal economy; and
- to educate people as to the unacceptability of evading tax and the dangers of working informally.

5.75 The group will continue to meet over the coming months to work up more detailed proposals and the Government intends to launch a consultation later in the year.

Compliance powers

5.76 April 2010 will see the implementation of a range of measures announced last year, which will deliver further tools with which HMRC can ensure that the correct amount of tax is paid by taxpayers:

- the power to publish names of serious tax evaders;
- introduction of new late-payment penalties for some taxes; and
- the extension of new compliance checking powers to further taxes.

Financial securities

5.77 Financial securities are currently required for VAT from some non-compliant businesses. They have proved a successful tool in protecting tax revenues. **The Government announces the extension of the power to require financial securities to cover PAYE and NICs at serious risk of non-payment.**

HMRC powers, deterrents and safeguards

5.78 The 2009 Pre-Budget Report announced a number of consultations that closed earlier this month. **Budget 2010 announces the publication of response documents and an intention to legislate as soon as possible in the next Parliament on the following:**

- **modernising the excise compliance checking regime;** and
- **completing the modernisation of the penalty and interest regimes.**

Working with tax agents

5.79 The 2009 Pre-Budget Report announced a second consultation on how HMRC should work with agents to ensure that fewer inaccurate returns are submitted. Consultation on the accompanying draft legislation continues and **HMRC will publish an overall response document once this has closed.**

Tax debt target

5.80 The Government is committed to tackling tax debt robustly. **Budget 2010 announces a new target on debt collection for 2010-11, which will challenge HMRC to collect significantly more debt within one and three months of it arising.** The details will be published in HMRC's forthcoming Business Plan.

Error & mistake

5.81 The Government will modernise the regime governing claims to recover overpaid stamp taxes and petroleum revenue tax to provide a simpler and more consistent approach with enhanced taxpayer safeguards. The Government intends to introduce legislation as soon as possible in the next Parliament.

A modern and fair tax system

Capital gains tax

5.82 The annual exempt amount for capital gains tax will be held at £10,100 for 2010-11 in line with statutory indexation.

Cider duty

5.83 Cider duty rates will increase by 10 per cent above inflation on 29 March 2010 to bring them more into line with the duty rates on other alcohol products. From 1 September 2010, the technical definition of cider will be changed to ensure products that more closely resemble made-wines are taxed appropriately. No changes will be made to the structure of cider duty but this will be kept under review.

Alcohol duty 5.84 As announced at Budget 2008, alcohol duty rates on beer, wine and spirits will increase by 2 per cent above inflation on 29 March 2010. This will add 2 pence to the price of a pint of beer, 10 pence to the price of a bottle of wine, and 36 pence to the price of a bottle of spirits. **In addition, alcohol duty rates on all products will increase by 2 per cent above inflation each year to 2014-15.**

Tobacco duty 5.85 The Government is committed to maintaining high tobacco duty rates to support health policy on smoking. **The Government announces that today tobacco duty rates will increase by 1 per cent above inflation each year, adding 15 pence to a packet of cigarettes. Budget 2010 also announces that tobacco duty rates will increase by 2 per cent above inflation each year to 2014-15.**

Bingo duty 5.86 As first announced at the 2009 Pre-Budget Report, the rate of bingo duty will reduce to 20 per cent for accounting periods starting on or after 29 March 2010.

Gambling duties 5.87 From 4pm on 26 March 2010, **all rates of amusement machine licence duty will be increased in line with inflation. Gaming duty bands will increase in line with inflation for accounting periods starting on or after 1 April 2010.**

Changes to VAT rules 5.88 **The Government intends to amend VAT legislation as soon as possible in the next Parliament to:**

- **restrict the exemption for postal services to those services which Royal Mail is obliged to provide;**
- **amend the scope of the zero rate for aircraft supplies from one based on the aircraft's weight and usage to one based on the status of the customer;**
- **comply with a new VAT directive which requires changes to arrangements whereby businesses pay VAT over time to reflect the private use of capital assets, and to the rules relating to natural gas, and heat and cooling, in networks;** and
- **protect revenues associated with current arrangements relating to the non-business use of capital assets.**

VAT shared services 5.89 The Government recognises the efficiencies that can be achieved by organisations such as charities sharing services and the potential VAT barrier that exists. **The Government will work with charities and other affected sectors to consider options for implementing the EU cost sharing exemption.**

Stamp taxes on shares 5.90 **The Government announces that the clearing relief rules for stamp taxes on shares will be clarified by explicitly including members of clearing houses and their nominees.** The Government intends to legislate this in Finance Bill 2010.

Life insurance 5.91 **The Government intends to modify the transfer of business rules for life insurance companies as soon as possible in the next Parliament.** Although the three-year programme to improve the tax regime for life insurers came to a close last year, HMRC continues to work closely with the industry to ensure that, where beneficial, additional changes will be made.

Cushion gas 5.92 **The Government announces that, from 1 April 2010, plant and machinery capital allowances for cushion gas will be given at the special rate of 10 per cent. In addition, all leases of cushion gas will be deemed to be long funding leases, allowing the lessee to claim the capital allowances.**

Deficiency relief 5.93 Following the introduction of the new additional rates of income tax effective from 6 April 2010, **the Government will introduce legislation, as soon as possible in the next Parliament, to allow life insurance deficiency relief at the dividend additional rate and the additional rate.**

False self-employment 5.94 The Government published a summary of responses to the consultation on false self-employment in construction on 9 March 2010. The Government is committed to addressing this problem and will continue to work with stakeholders to develop a legislative solution.

Interest: deduction of tax 5.95 The Government launched a consultation on 5 March 2010 on possible changes to the rules on the collection of income tax deducted at source from interest and similar payments. The consultation will close on 28 May 2010.

Settlor trusts 5.96 **The Government announces that, with effect from 6 April 2010, where settlors are liable to income tax on trust income at a lower rate of tax than paid by the trustees, they will be required to pay the difference to the trustees, and these resulting payments will be disregarded for inheritance tax purposes.** The Government intends to legislate this measure as soon as possible in the next Parliament.

Special Guardians 5.97 **The Government intends to extend the income tax exemption for adopters to those caring for children under a Special Guardianship order or certain Residence Orders. The Government intends to legislate this measure as soon as possible in the next Parliament, with effect from 6 April 2010.**

Asbestos trust taxation 5.98 **The Government is today announcing measures, which it intends to legislate as soon as possible in the next Parliament, to help trusts specifically set up to compensate asbestos victims, but which have been unable to access tax efficient structures for the benefit of those victims.**